

2016 Risk Assurance Approach

Market Workshop

9 & 10 December 2015

Agenda

- ▶ **General Update**
- ▶ **2016 Market Oversight Plan**
- ▶ **March 2016 Standards attestation**
- ▶ **Model Change**
- ▶ **Discussion**
- ▶ **ORSA Guidance**
- ▶ **Next steps**



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IMAP approval over the weekend...

“Lloyd’s has now received formal approval from the PRA for its Internal Model Application, as required under Solvency II regulations”

... with sincere thanks from all involved in the syndicate workstream



2016 YOA capital setting process

- ▶ Review of syndicate SCR submissions is a key process to assess ongoing syndicate Solvency II compliance
- ▶ Capital agreed for November Coming-into-line
- ▶ SCR review incorporated some review of validation reports
- ▶ SII limitations identified across a number of syndicates
 - Ongoing discussions to resolve issues through November
 - SAG rating decisions for affected syndicates in first 2 weeks of December
 - Red ratings = 20% capital load applied at mid-year CIL
- ▶ Capital briefing 26 January 2016
- ▶ Aiming for a more efficient & risk based approach in 2016
- ▶ Validation reports to be fully reviewed in December and January
 - Validation report feedback to be addressed by March CiL
 - Validation report reviews may impact on SII ratings

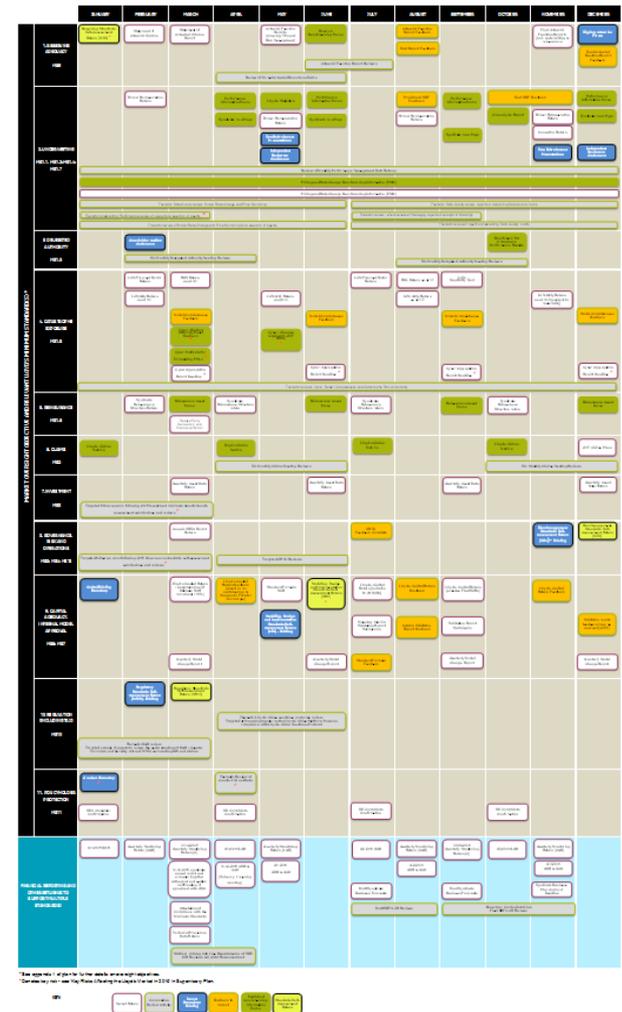
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The 2016 Market Oversight Plan

- ▶ 2016 plan and timetable will be issued 8 January 2016
- ▶ Replaces previous Solvency II and Risk Assurance plans
- ▶ Covers all market oversight activities and submissions through 2016...
- ▶ ...across 11 Market Oversight Objectives
- ▶ ... and also Financial Reporting
- ▶ Business timetable on lloyds.com for specific submission dates and instructions



The 2016 Market Oversight Plan

- ▶ Individual agent oversight letters to be sent by end January 2016
 - Letters will set out how the oversight plan will apply to individual agents
 - Specific review work planned for 2016 across the market oversight objectives
 - Risk based approach



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March attestation

- ▶ Moved from end of 2015 process to beginning of 2016 process
 - In the lead up to 2017 YOA planning process
- ▶ Guidance will be issued
- ▶ Schedule of Lloyd's view of an agent's compliance against each Minimum Standard Group will be issued to each agent



Ongoing SII Compliance

- ▶ PRA Solvency II approval based on IMAP application
- ▶ 2014 Minimum Standards mapped to IMAP and draft Solvency II directives
- ▶ H1 2016 mapping to the finalised Solvency II directives and implementing measures
- ▶ Changes to minimum standards will be incorporated into the 2016 review and published Q4 2016



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Model Change

- ▶ Recap on Model Change approach
- ▶ Reflections on 2015 Dry Run
- ▶ Ideas for 2016 approach
- ▶ Discussion



Simple in theory...

- ▶ Aim of Lloyd's model change process is to ensure that authorised internal models remain Solvency II compliant
- ▶ General consensus achieved by end of 2014 in terms of approaches to Model Change policies
- ▶ Dry run of model change process commenced 1 January 2015:
 - Quarterly reporting of all model changes undertaken, both major and minor
 - Submission of pre-approval applications for major model changes
- ▶ Agent models used for 2016 capital setting



.....NOT SO EASY IN PRACTICE

Positives

- ✓ Major changes now being submitted for pre-approval
- ✓ Quarterly submissions a useful checkpoint and information source for Lloyd's
- ✓ Profile of major changes risen significantly
- ✓ SAG review and approval beneficial and increasing ongoing knowledge of agent models
- ✓ Clear alignment between consideration of major changes and overall Solvency II considerations and ratings

Development

- ✗ Clarity and guidance on how SCR approval process will integrate with Model Change process
- ✗ Treatment of aggregation of minor changes
- ✗ Lloyd's review process
- ✗ Lloyd's formal communications
- ✗ Treatment of data changes



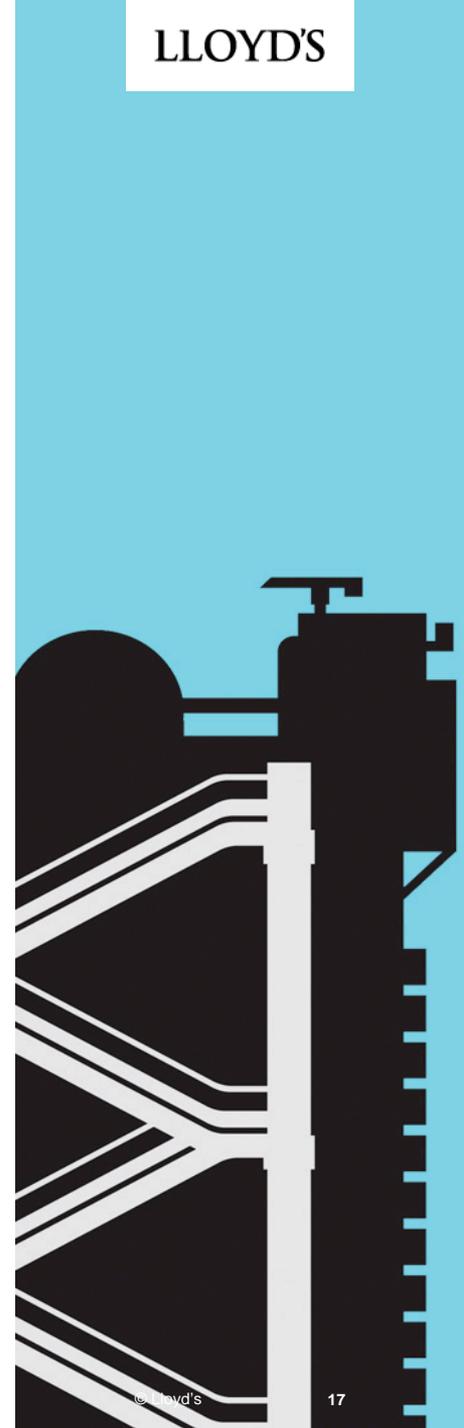
During 2015...

- ▶ **210** Major Model Change requests received
- ▶ ...across 49 Managing Agents
- ▶ Spread across all change types but the **majority** were driven by data updates and model parameterisation (eg SBF changes, updated reserves)
- ▶ Fewer changes driven by model methodology, model design or qualitative changes

Examples: data updates, parameter changes, accumulation of minor changes	Examples: changes to model methodology, model design, governance changes
Discussed and agreed as part of the CPG process	Partly reviewed as part of CPG process
No impact on SII compliance so additional SAG discussions <u>not required</u>	Potential impact on SII compliance so additional SAG discussion <u>required</u>
Process unchanged from previous years	New process for 2015

Looking forward into 2016

- ▶ Issues we are already thinking about:
 - the overlap of the model change process with the existing SCR approval process
 - how to ensure we focus on model changes which may have a SII impact (as opposed to those that have no SII impact)
 - timing of major model change requests
 - the requirement to submit major model requests in addition to quarterly model change submissions
 - the format of the quarterly submissions
 - holding meetings with agents early in 2016 to understand plans for model changes and the driver behind these
 - Approval of major model changes
- ▶ PRA engagement



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Discussion on Model Change

15 – 20 minutes on your table to discuss the model change process, will be interesting to get feedback on the following topics:

- ▶ Experience of the Lloyd's process?
 - What did you expect at 1/1/2015
 - What actually happened?
- ▶ How can we make it better for you?



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ORSA guidance

- ▶ ORSA guidance for agents to be issued by end of the year
- ▶ Previous Lloyd's ORSA guidance remains relevant, this additional guidance will cover:
 - Common areas identified by PRA's themed review work on ORSAs
 - Observations and feedback based on Lloyd's 2015 ORSA reviews and follow up discussions with agents
- ▶ Lloyd's has consulted with the PRA on the guidance



ORSA guidance topics

- ▶ ORSA guidance will cover the following areas:
 - Board sign off and embedding
 - Business strategy
 - Risks
 - Capital and solvency
 - Stress and scenario testing
 - ORSA record
- ▶ Lloyd's recognises that work on March 2016 ORSA submissions may already be well advanced
- ▶ Agents should ensure that they take account of the guidance in the ORSA process and the next iteration of the ORSA report (either March 2016 or later)



What happens next ?

- ▶ Slides will be made available on lloyds.com after both sessions
- ▶ MS3 governance self-assessment due 31 December 2015
- ▶ Lloyd's feedback in December on:
 - MS12 – Operating at Lloyd's
 - Pillar 3 status report
 - MS5 – Scope, Change & Use
 - Validation 1.1.6 & 1.1.7
- ▶ Next scheduled workshop/ briefings or key dates in January:
 - Capital Briefing 26 January
 - Follow up workshop 21 January
 - MS9 Reserving self assessment 28 January



