

SOLVENCY II 2011 GUIDANCE NOTES

DRY RUN REVIEW PROCESS

FEBRUARY 2011



CONTENTS

Section 1	Page
Introduction	
Purpose	5
2010 Dry Run Guidance	5
Omnibus II Directive	6
Overall Approach	
Link with 2010 process	7
Approach for 2011	8
Self assessment scoring	8
Evidence templates	8
Workshops	9
Independent assurance	9
Continued progress and follow up	9
Sanctions	10
Member Level Capital	10
Timetable and Key Deliverables	
Internal model SCR	11
Technical provisions	11
Validation report	12
ORSA	12
Final application pack	12
Next steps	12
Appendices	
1. Overall plan for 2011	13
2. Dry run requirements mapping	15
3. Self assessment scoring template	21
4. Expected progress timeline and scoring	23
5. Evidence template submission timetable	25
6. Workshop timetable	27
7. 2011 Deadlines and deliverables	29
Section 2	
Internal Model SCR	35
Valuation & Balance Sheet	37
Technical Provisions & Standard Formula	39
Model Validation	41
Governance, Risk Management & Use	43
Reporting & Disclosure	45
Documentation & Final Application	47

INTRODUCTION

As previously advised, all syndicates are expected to have an internal model which meets Solvency II standards. The internal model under Solvency II is significantly broader than the capital calculation kernel alone and it will not be sufficient just to have a sophisticated capital model. Lloyd's review of syndicate models will need to demonstrate that the three core requirements for internal models are being met:

- Article 101 – the model must be able to calculate a Solvency Capital Requirement (SCR)
- Article 112(5) – there are adequate systems in place for identifying, measuring, managing and reporting risk
- Articles 120-126 – the model meets the tests and standards on use, statistical quality, profit & loss attribution, calibration, validation, documentation and external models & data

Purpose

This guidance document sets out the high level plan for 2011 in respect of the requirements for managing agents' preparation for Solvency II at syndicate level. The 2011 plan is a continuation of the 2010 dry run process and is designed to deliver the following key objectives:

- All syndicates deliver a robust SCR by 31 October 2011
- All agents deliver adequate evidence and explanation to support final application packs confirming status of Solvency II compliance by 16 December 2011
- Lloyd's completes sufficient review and assessment to enable the Lloyd's Internal Model (LIM) to place reliance on each syndicate's SCR by 16 December 2011
- Lloyd's delivers sufficient evidence of review and assessment of syndicate models to support the initial LIM application by 31 January 2012

This document sets out the stages and timings of the 2011 plan and is intended to give as clear a view as possible on the likely requirements. Appendix 1 sets out the overall plan split by workstreams and identifies the key deliverables due in 2011.

Lloyd's has consulted with both the FSA and the LMA Solvency II Committee regarding this plan and their feedback has been taken into account in finalising the guidance.

This plan and any further guidance issued is subject to ongoing discussion and change as the European Commission (EC), European Insurance and Occupational Pensions Authority (EIOPA) and FSA requirements become clearer.

2010 Dry run guidance

Agents should note that this document provides an overview of the 2011 process and does not seek to set out any detailed guidance on Solvency II requirements.

Lloyd's Detailed Guidance Notes for Dry Run Process issued in March 2010 continues to be valid and it is not Lloyd's current intention to re-issue this guidance as requirements are unchanged. An updated mapping of dry run requirements linking the 2011 process to the 2010 dry run elements and Level 1 and Level 2 text is included as Appendix 2.

As and when further details or changes emerge on Level 2 or Level 3 implementing measures, Lloyd's will issue updates to the detailed 2010 dry run guidance as appropriate.

Omnibus II Directive

We are aware of the draft Omnibus II Directive that was issued on 19 January, and which contains provision for the European Commission (EC) to enact transitional arrangements on a broad range of the Solvency II requirements. It is currently far from clear whether these proposals will be adopted and, if they are, to what extent they will be applied. It is anticipated that detailed proposals will not be published for consultation until the summer, with the intention to finalise these by the end of the year. Accordingly, this plan has been drawn up based on the existing timetable, particularly as the draft Directive confirmed the start date as 1 January 2013.

Lloyd's has also discussed this with agents via the LMA and the consensus view is that Lloyd's should continue to press forward under the current timetable, in the absence of further information on transitional arrangements.

OVERALL APPROACH

Link with 2010 process

We consider that 2010 was a successful year and saw significant progress for both Lloyd's and the market in our preparation for Solvency II and the base approach adopted will continue into 2011. Accordingly, each agent will continue to have a dedicated account manager at Lloyd's as their primary contact. The account managers will continue to be supported by actuarial and risk management expertise deployed as required for each technical area.

Whilst the 2010 process focused almost entirely on the qualitative elements, the 2011 process will extend to cover quantitative reviews as well as following up on the qualitative requirements.

In addition to the nine dry run elements that were in place last year, three new elements will be added. All these areas will be covered in 2011 via seven individual workstreams as set out below:

2011 Workstream	2010 Element
1. Internal Model & SCR	New for 2011
2. Valuation & Balance Sheet	QIS5 and new for 2011
3. Technical Provisions & Standard Formula	TP and QIS5
4. Model Validation	SQS, CVP & EMD
5. Governance, Risk Management & Use	SOG, MSG & ORSA
6. Reporting & Disclosure	SREP
7. Documentation & Final Application	DOC and new for 2011

Each of these workstreams has been further broken down to facilitate a spread of work across the year. More detail on the individual workstreams is set out in Section 2 of this document. As a reminder, the 2010 elements are set out below and are also included in the mapping in Appendix 2:

Stage 1

- Systems of governance (SOG)
- Model scope, governance & use (MSG)
- Documentation (DOC)

Stage 2

- Statistical quality standards (SQS)
- Calibration, validation and profit & loss attribution (CVP)
- External models & data (EMD)

Stage 3

- Technical provisions (TP)
- Supervisory reporting & disclosure (SREP)
- ORSA (ORSA)

Link with FSA's self assessment ('E-N' process)

As part of the FSA's Internal Model approval process (IMAP), firms are required to complete self assessment templates. These are based on the FSA's Contents of Application document supplied to firms in the IMAP process and are known as 'E-N'.

As set out above, Lloyd's will continue to base its review process around the 2010 dry run elements rather than changing to the FSA's 'E-N' process. We have maintained this segmentation to ensure continuity for both Lloyd's and agents. Whilst we appreciate the issues this may raise where agents are part of a UK group and need to address the FSA requirements in their format, we consider that for the majority of the market the proposed approach is beneficial. As Lloyd's final documentation requirements will not require submission of material in the 'E-N' format we do not consider this will cause a major problem for agents.

Lloyd's has, however, mapped the dry run elements against the FSA's 'E-N' template and confirmed that each area is covered either under the existing 2010 elements or the new 2011 elements. This mapping is included in the schedule of dry run requirements attached at Appendix 2.

Approach for 2011

In 2010, considerable documentation was provided to Lloyd's by agents to support the self assessment scoring templates. Lloyd's resources were directed principally to the review of this documentation and re-assessment of agents' scoring of progress.

For 2011, the key focus will change enabling Lloyd's to redirect its resources more towards assisting managing agents in better understanding the requirements and associated tests. This will allow Lloyd's to increase the time it spends on-site with agents conducting model walk-throughs, reviews of processes and interviews to build evidence beyond that solely provided by way of documentation. It does not, however, reduce the level of documentary evidence that will be required from agents to demonstrate compliance with Solvency II requirements.

Lloyd's will only require follow up submission of underlying documentary evidence on a risk based sample basis. The extent of follow up submissions will take into account Lloyd's assessment of each agent's progress towards demonstrating compliance with Solvency II requirements as well as both the materiality of an individual syndicate to the LIM overall and our assessment of the risk that the agent represents to LIM approval. This will, therefore, not be a 'one size fits all' approach but rather a direction of Lloyd's resources where required.

Self Assessment Scoring

This change in approach leads to the onus being placed on agents to provide summary evidence and to realistically self-assess their own progress. Accordingly, Lloyd's will provide a revised scoring template sheets and evidence templates to accompany our scoring guides for each element. Agents will be expected to complete self scoring assessments on a quarterly basis and the format for this is included at Appendix 3.

Evidence Templates

In addition to the scoring self assessments, evidence templates will act as a summary of an agent's evidence, and will provide a basis not only for review throughout the year, but will also form part of the final application pack to be delivered at the end of the year. These evidence templates should therefore be completed and kept up to date throughout the process. The 2011 timetable includes staggered dates for submitting these evidence templates and this is set out in Appendix 5. Lloyd's will require agents to map their underlying evidence to each element within the templates. Agents

should note that evidence may be demonstrated through documentation, systems, processes and people.

Workshops

Following feedback from agents, Lloyd's will be holding more workshop sessions in 2011 and these will be aligned to individual workstreams within the plan. A schedule of all workshops to be held is included at Appendix 6 and invites will be issued approximately one month before each workshop specifying the details and the relevant audience.

Agents are requested to ensure that they respond to these invites and allocate places to the appropriate individuals within their firm working on these areas. Whilst Lloyd's will issue material from these workshops, we will not be able to re-run these sessions for individual agents who do not attend.

Independent assurance

As part of the process of self assessment and summarising evidence set out above, Lloyd's requires agents to provide independent assurance over their progress as reported to Lloyd's. This assurance relates specifically to the self-assessed scoring and progress reporting and is not linked to the requirement for independent validation of the model which will be required under Solvency II.

For the avoidance of doubt this need not necessitate the use of resources entirely independent of the managing agent, simply by resources independent of the Solvency II workstream being assessed. Lloyd's considers that much of this process should already be in place as part of agents' project governance and reporting of progress internally and should not present a significant additional burden to agents.

This assurance could be provided in a number of ways, for example:

- internal audit review
- audit committee review
- a Non Executive Director reviewing progress reported by the Programme Manager
- programme level cross validation of each others' progress by workstream leaders
- review by a suitably qualified external third party

This is not an exhaustive list and Lloyd's will not mandate a prescribed approach. It is for agents to develop their own process that will provide evidence both to Lloyd's and to the agent's Board and senior management that the self assessment is a true and fair representation of the progress being made and the current status of each workstream. Line management with responsibility for implementing Solvency II should have been subject to independent challenge at all levels.

We will, however, require all agents to set out how they propose to achieve this independent assurance over their progress reporting and Lloyd's will challenge agents if we do not consider this process will provide adequate assurance.

We will also require agents to submit to us on a regular basis the progress tracking reports which are produced internally for the Board and senior management.

Continued progress and follow up

Whilst this plan identifies specific themes and topics of focus for Lloyd's throughout the year, agents will be required to continue to address and evidence requirements on all areas on an ongoing basis. Agents should not wait until a "review phase" has begun but should continue to make progress

against all requirements both before and after this phase and should update all evidence templates on a regular basis to reflect current progress.

Lloyd's Detailed Guidance Notes for Dry Run Process issued in March 2010 remain valid and agents should continue to refer to these, in addition to the scoring sheets and specific feedback provided by Lloyd's on the 2010 submissions, to ensure that they are progressing in line with expectations.

Sanctions

We recognise that the successful implementation of Solvency II and approval of the Lloyd's Internal Model (LIM) remains critical to maintaining Lloyd's competitive advantage and Solvency II remains a strategic priority for 2011. It is in the interest of the market as a whole that no one syndicate, or group of syndicates in aggregate, prejudice Lloyd's obtaining that approval.

Accordingly, while proportionality based on risk profile, syndicate size, risk types and market segments will be considered by both Lloyd's and the FSA during reviews and when evaluating internal models to ensure they meet Solvency II requirements, the aim is for all agents to achieve the objectives set out in this plan.

If necessary, sanctions will be applied for non-compliance, including capital loadings and underwriting restrictions. The assessment of progress for each syndicate will be ongoing during 2011 and sanctions may be applied at any time if it appears key deliverables will not be met.

Member Level Capital

The current ICAS regime remains in place until the end of 2012 and capital will be set for the 2012 underwriting year of account based on ICAs. Lloyd's, however, recognises that the resources required for Solvency II will often be those also key to the preparation and review of ICAs for managing agents and Lloyd's. A lighter review approach was adopted for the 2011 year of account and the results show that capital continued to respond as expected to changes in risk profile. Also, this is expected to be the last underwriting year for which capital is set under the ICAS regime.

Accordingly, the light approach for submission and review of ICAs has been retained for this year. Agents should note that whilst this will reduce the workload for some agents on the preparation of full ICA documents for submission to Lloyd's, it does not exempt agents from the need to keep the ICA under continuous review, as required under ICAS. Please see the separate Market Bulletin Y4467 issued 2 February 2011.

With respect to capital setting for the 2013 underwriting year of account, agents should plan on Lloyd's setting capital utilising technical provisions on a Solvency II basis and requiring from agents both a one year balance sheet to balance sheet SCR and an SCR on an ultimate basis. We expect to apply a proportional uplift to the SCR (one year or ultimate), as currently applied to ICAs, although the size of the uplift and the details of how it will operate are under review. Lloyd's intends to consult with the LMA during Q2 2011 on this and to finalise its plans and advise the market by the end of June 2011.

TIMETABLE AND KEY DELIVERABLES

As already set out, the preparation for Solvency II has been split into seven workstreams. These now amalgamate the nine dry run elements that were progressed in 2010 with the three new elements for 2011: Internal Model SCR, the Balance Sheet valuation and the Final Application pack.

Appendix 1 sets out the overall plan split by workstreams and section 2 of this document sets out the key contents of each workstream and the critical deadlines. It is intended that the approach adopted for each module across the workstreams will follow a similar pattern:

- Lloyd's will hold an opening workshop / issue guidance
- Agents will be expected to work towards completion of evidence templates for submission by the required date
- Lloyd's will review evidence templates and agree risk based follow up with agents
- Lloyd's will conduct on-site walkthroughs, interviews and the review of any supporting documentation requested
- Lloyd's will hold a debrief workshop to highlight general themes and follow up with specific agent feedback
- Lloyd's will continue to monitor progress and action required via risk based follow up

Whilst Section 2 of this document covers all workstream deadlines, this section provides more detail on the key deliverables.

Internal Model SCR

The provision of a robust SCR by 31 October must be supported by sufficient information to calibrate the LIM appropriately. This data will be collected via the Lloyd's Capital Return (LCR), which has been the subject of consultation with both the LMA Solvency II committee and CALM. The LCR will be used to collect both the interim and final SCRs and is available on lloyds.com.

Agents should note that the return includes provision of modelled overall surpluses / deficits at the mean, the 99.5th percentile and intervening points on the distribution. This will also apply to modelled insurance surpluses / deficits. We also require analysis of the SCR by Solvency II risk group. Additional information will be required on both a one year Solvency II balance sheet to balance sheet basis for the LIM and on a one year to ultimate basis.

The SCR provided on 31 October should be as at 31 December 2011 and be based on the SBF submitted to Lloyd's on 9 September. We will not require or expect agents to update SCRs as business plans are finalised and approved. The final SCR submission will require board sign off.

Agents should also note that Lloyd's will require interim LCR submissions on 31 July and 16 September. These interim submissions will require agents to submit only certain components of the LCR although they will include an overall SCR at the mean and 99.5th percentile on a best efforts basis. However, those able to submit a complete LCR should do so, as the additional information will be of value to the LIM team. Lloyd's will not mandate to agents which SBF these interim returns should be based on and the as at date can be either 31 December 2010 or 2011.

Technical Provisions

Technical provisions as at year-end 2010 will be required to be submitted by end of May. A half year update of the technical provisions, including the projected technical provisions as at December 2011 must be submitted by 30 September. This return will form a key input to the LIM. The detail is expected to be by underlying pure year, Solvency II class of business and include analysis by

segment beyond the claims/premiums provisions e.g. binary events and unincurred premium analysis will be required separately.

By the end of November, full completion of the more granular Technical Provisions Data (TPD) return will be required. The TPD return will be as at year-end 2010 and will require director level sign off.

Validation Report

A Validation Report is required to be submitted by 31 October to support the SCR submission. This report should address all the tests and standards applying to the internal model. Lloyd's will provide further guidance on the required content of the Validation Report but will not mandate the format. Please note that this is *not* the same as the independent assurance around the programme which is discussed above.

As a key deliverable, Lloyd's will expect a properly constituted sub-committee of the board to approve this with onward reporting to the full board.

ORSA

An ORSA submission will be required for all syndicates by 16 December. This later timing recognises that the ORSA sits outside the internal model application process, but is required to support the overall conclusion regarding Solvency II compliance. The ORSA will require board sign off.

Final Application Pack

The format and required content of the final application pack are being developed and are subject to discussion and agreement with the FSA. It is intended that they will be available for consultation via the LMA Solvency II Committee by the end of May and finalised by the end of June 2011.

Initial discussions with the FSA have confirmed that they will not require submission of all documentation which Lloyd's has received from agents. They do, however, expect Lloyd's to have reviewed sufficient evidence to give assurance that agents have met the requirements.

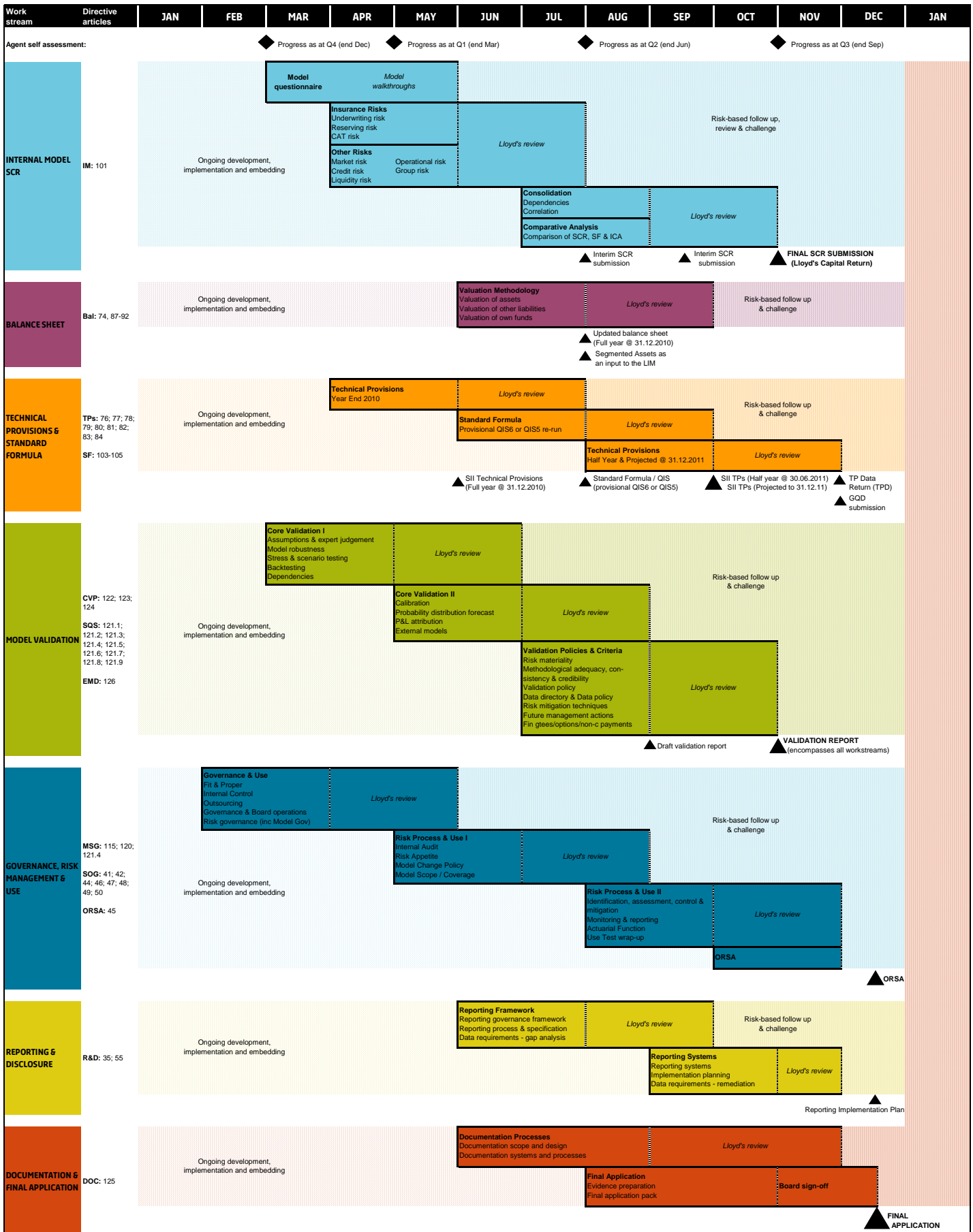
Lloyd's current expectation is that completed evidence templates in respect of each workstream will be submitted by all agents as part of the final application together with a summary report. The templates should confirm that detailed documentation is available to support all areas, whilst the report should focus mainly on any weaknesses or limitations in the model identified in the validation process. The final pack will require full managing agent board sign off, which must also confirm that the internal model is adequate for the purpose of calculating the SCR under Solvency II.

Next Steps

A schedule of all deadlines and deliverables expected in 2011 from both Lloyd's and agents is attached at Appendix 7 and more detail on each of the workstreams is included in Section 2 of this document.

Agents should contact their Solvency II account manager in the first instance with queries or email solvency2@loyds.com.

APPENDIX 1: OVERALL PLAN FOR 2011



APPENDIX 2: DRY RUN REQUIREMENTS MAPPING

	FSA's Content of Application reference (E-N)	Level 1	Level 2	
		Article	CEIOPS advice (CP reference)	Paragraph
INTERNAL MODEL SCR (2010 DRY RUN REFERENCE: N/A)				
Insurance risks				
• Underwriting risk	H.3	101 121 - 123	(Reference to the relevant Level 2 advice applicable to this section is covered under the model validation section)	
• Reserving risk	H.4			
• CAT risk	H.7			
	H.8			
	H.9			
Other risks	H.11			
• Market risk	H.15			
• Credit risk	N.1			
• Operational risk				
Consolidation				
• Dependencies	G.4			
• Correlation	H.12 H.14			
Comparative analysis				
• Comparison of SCR, SF, and ICA	N.1 N.3			
VALUATION & BALANCE SHEET (2010 DRY RUN REFERENCE: N/A)				
Valuation of assets				3.31-3.44
• Valuation methodology	H.1	75	31/09 (35)	
• Investment property	H.3			3.80-3.82
• Financial assets	H.5			3.115
• Contingent assets & liabilities				3.12
Valuation of other liabilities				
• Liabilities other than insurance liabilities	H.1			3.157-3.160
• Post employment benefits	H.4 H.6 N.2			3.174-3.176
Valuation of own funds				
• Classification and eligibility	N.2	87-97	39/09 (46)	3.186-3.237
TECHNICAL PROVISIONS & STANDARD FORMULA (2010 DRY RUN REFERENCE: TP & QIS5)				
Technical provisions (TPs)				
Valuation process				
• documentation of process for valuing technical provisions		76	33/09 (39)	3.32-3.37
• feedback loop				
• demonstration of robustness, appropriateness, relevance and adequacy		84	33/09 (39)	3.37, 3.360
• justification of selected valuation methods		76	72/10 (76)	3.88-3.120
Valuation methodology				
• segmentation basis		80	22/09 (27)	3.35-3.52
• identification and valuation of underwriting cash-flows		77	33/09 (39) 25/09 (30)	3.79-3.87 3.105-3.117 3.32-3.38
• identification and valuation of reinsurance and counterparty default exposures	H.1 H.2 H.4 H.6 H.10 N.2	81	33/09 (39) 38/09 (44) 72/10 (76)	3.210-3.223 3.18-3.27 3.434-3.443
• identification, valuation and allocation of expense cash-flows		78		3.88-3.104
• identification and valuation of guarantees and options		79	33/09 (39)	3.138-3.146, 3.159-3.165
• actuarial and statistical methodologies		77	21/09 (26)	3.28-3.38
• use of simplified methods		82	72/10 (76)	3.247-3.255
• risk margin		77	36/09 (42) 72/10 (76)	3.130-3.137 3.366-3.372 3.459-3.461
Data				
• data quality criteria and thresholds		82	37/09 (43)	3.56-3.90
• data quality management and review process				
• process for dealing with data deficiencies				

	FSA's Content of Application reference (E-N)	Level 1	Level 2	
		Article	CEIOPS advice (CP reference)	Paragraph
Assumptions	H.1 H.2 H.4 H.6 H.8 H.10	76	33/09 (39)	3.265-3.279
• process for identifying and justifying assumptions				
• identification of assumptions				
• justification of assumptions vs alternatives				
• backtesting of assumptions				
• demonstration of consistency with financial markets				
• demonstration of consistency with generally available (re)insurance data		77	33/09 (39)	3.286-3.290
• use expert judgement			33/09 (39)	3.166
• future management actions			33/09 (39)	3.183-3.189
			27/09 (32)	3.23-3.38
Validation	83	33/09 (39)	3.343-3.355	
• validation process				
<i>For Actuarial Function, please see Governance, Risk Management and Use section below</i>				
Standard formula (2010 Dry Run reference: QIS 5)				
Standard formula	N.1	103-111	23/09 (28) (51)	3.172-3.251
• Counterparty default risk			44/09 (52)	3.37-3.61
• Reinsurance mitigation			26/09 (31)	3.48-3.104
• Financial mitigation techniques			40/09 (47)	4.9
• Market risk				4.14-4.16
				4.30-4.33
				4.50-4.54
				4.77-4.87
				4.99-4.103
			4.141-4.177	
• Non-life underwriting risk			41/09 (48)	3.72-3.134
• Health underwriting risk			43/09 (50)	3.139-3.225
• Life underwriting risk			42/09 (49)	3.4-3.7
• Operational risk				3.23-3.28
				3.49-3.54
				3.75-3.78
				3.92-3.94
	3.105-3.107			
	3.165-3.180			
• Loss absorbing capacity of technical provisions	45/09 (53)	3.47-3.53		
• Simplification for SCR	46/09 (54)	3.82-3.104		
• MCR calculation	73/10 (77)	3.126-3.149		
	130	47/09 (55)	3.59-3.87	
MODEL VALIDATION (2010 DRY RUN REFERENCE: SQS, CVP & EMD)				
Statistical quality standards (SQS)				
Probability distribution forecast	G.3 G.11	121.1	48/09 (56)	5.8, 5.47-5.57
• number of points modelled				
• reasons for selection				
Risk ranking	F.6 G.10	121.4	5.220-5.221	
• risk ranking methodology	G.3 H.7	121.2	5.101-5.103	
Methodological adequacy				
• process used to determine distributions and estimate parameters				
• selected distributions and parameters				
• reasons for selections (suitability, relevance, simplicity etc)				
• shortcomings in methodology and how dealt with				

	FSA's Content of Application reference (E-N)	Level 1	Level 2		
		Article	CEIOPS advice (CP reference)	Paragraph	
Methodological consistency and credibility	G.3 H.10	121.2	48/09 (56)	5.104-5.108	
• process for ensuring methodological consistency					
• consistency with calculation of technical provisions					
• consistency with business plan					
• justification for any inconsistencies in methods or assumptions					
• process for reviewing methodology to ensure current and credible				5.109-5.114	
• link between model validation and model methodology review					
Assumptions	G.3 H.8				5.115-5.118
• process for identifying and justifying assumptions					
• identification of assumptions					
• justification of assumptions vs. alternatives	G.9 G.17	121.3			5.174-5.176
Data directory and data policy					
• source characteristics and usage of all data (internal and external)					
• data quality criteria and thresholds					
• data quality review process					
• process for use and validation of expert judgment to complement or substitute data			5.177-5.187		
• process and standards for data updates					
Dependencies	G.4 H.14	121.5		5.252-5.257	
• process for identifying, quantifying, challenging and reviewing dependencies					
• selected dependencies					
• reasons for selections	G.5	121.6		5.264-5.266	
Risk mitigation techniques					
• risk mitigation techniques included in model					
• validation against criteria for inclusion	G.7 G.8	121.7		5.273-5.275	
Financial guarantees, contractual options and non-contractual payments					
• identification of financial guarantees and contractual options					
• modelling methodology for each		121.9		5.305-5.306	
• identification of expected non-contractual payments					
• modelling methodology for each	G.6 J.8	121.8		5.294-5.302	
Future management actions					
• identification of future management actions					
• governance arrangements for each					
• modelling methodology for each	Calibration, validation and profit & loss attribution (CVP)				
Calibration	G.11	122	48/09 (56)	6.50-6.60	
• process for ensuring appropriate calibration					
Validation policy	F.5 G.13 K.1 K.2 K.3	124			8.127-8.149
• purpose and scope of validation					
• validation tools used					
• frequency of validation process					
• governance of validation results					
• limitations and future developments					
• documentation					
• independent review	G.12	123			7.19-7.21
Profit and loss attribution					
• profit and loss attribution methodology					
• application of profit and loss attribution results to model validation and business decisions	F.7 H.16 H.17 H.18	124		8.174-8.175	
• governance process over profit and loss attribution output					
Backtesting					
• backtesting process				8.150-8.157	
• trigger events					
Model robustness	F.7 H.16 H.17 H.18	124		8.158-8.165	
• process to establish robustness					
• governance process over robustness testing output					
Stress and scenario testing	F.7 H.16 H.17 H.18	124		8.166-8.173	
• stress and scenario testing process					
• governance process over stress and scenario testing output					

	FSA's Content of Application reference (E-N)	Level 1	Level 2		
		Article	CEIOPS advice (CP reference)	Paragraph	
External models and data (EMD)					
<ul style="list-style-type: none"> identification of external models and data used in the internal model reasons why used and alternatives considered extent of any non-compliance with articles 118-123 identification of risks associated with the use of external models and data allowance for risks in internal model 	I.1 I.2 I.3	126	48/09 (56)	10.34-10.40	
GOVERNANCE, RISK MANAGEMENT & USE (2010 DRY RUN REFERENCE: SOG, MSG & ORSA)					
System of governance (SOG)					
General governance requirements					
<ul style="list-style-type: none"> governance framework 	J.5 J.9	41	29/09 (33)	3.29-3.36	
<ul style="list-style-type: none"> organisation structure and lines of responsibility 	F.4 G.1, G.2 J.2, J.5 J.12, J.13				
<ul style="list-style-type: none"> adequacy of skills and experience of board and staff 	J.1 J.7				
<ul style="list-style-type: none"> procedures for activities 					
<ul style="list-style-type: none"> procedures for decision-making 	F.1 F.7				
<ul style="list-style-type: none"> adequacy of information systems 					
<ul style="list-style-type: none"> adequacy of records and security of information 	J.3				
<ul style="list-style-type: none"> contingency plans 					
<ul style="list-style-type: none"> conflicts of interest 					
<ul style="list-style-type: none"> review system of governance 	J.7				
<ul style="list-style-type: none"> remuneration policy 		50	51/09 (59)	3.53-3.62	
Fit and proper requirements					
<ul style="list-style-type: none"> fit and proper policies and procedures for directors and senior staff identification of business managers and key function holders 	J.1	42	29/09 (33)	3.56-3.62	
Risk Management					
<ul style="list-style-type: none"> risk management strategy risk management policy risk appetite 	F.1	44		29/09 (33)	3.72
<ul style="list-style-type: none"> risk management processes and procedures 	F.6				
<ul style="list-style-type: none"> risk management reporting 	F.4 F.6				
<ul style="list-style-type: none"> underwriting procedures 					
<ul style="list-style-type: none"> reserving procedures 					
<ul style="list-style-type: none"> claims management procedures 					
<ul style="list-style-type: none"> ALM policies 					
<ul style="list-style-type: none"> investment policy 					
<ul style="list-style-type: none"> investment procedures 	F.2 F.3				
<ul style="list-style-type: none"> liquidity contingency plan 					
<ul style="list-style-type: none"> concentration risk procedures 					
<ul style="list-style-type: none"> operational risk procedures 					
<ul style="list-style-type: none"> reinsurance strategy 					
<ul style="list-style-type: none"> reinsurance procedures 					
<ul style="list-style-type: none"> financial risk mitigation 					
<ul style="list-style-type: none"> credit risk procedures 					
<ul style="list-style-type: none"> risk management function 	F.5, G.2 J.9, J.11			3.220-3.222	
Internal control					
<ul style="list-style-type: none"> internal control policy compliance plan 	J.2 J.4 J.9	46		3.254-3.258	
Internal audit					
<ul style="list-style-type: none"> internal audit policy internal audit report 	J.2 J.9 K.3	47		3.276-3.279	
Actuarial function					
<ul style="list-style-type: none"> technical provisions underwriting policy reinsurance arrangements report to board 	J.1 J.9 J.11	48		3.328-3.343	

	FSA's Content of Application reference (E-N)	Level 1	Level 2	
		Article	CEIOPS advice (CP reference)	Paragraph
Outsourcing	J.10	49	29/09 (33)	3.376-3.382
• outsourcing policy				
• outsourcing agreements				
Model scope and governance (MSG)				
Risk and business coverage	E.1 G.16 M.1	121.4	48/09 (56)	5.222-5.229
• scope of internal model				
• mapping of modelled risks to the risk register	F.4, G.15			
• explanation regarding all risks not captured	F.3			
Use test	E.1 E.3 G.1 G.2 J.6 J.8	120	48/09 (56)	3.102-3.127
• how the model is used in decision making				
• how senior management demonstrate understanding of the model (including any external models)				
• how the model is integrated into the risk management system				
• triggers for full or partial reruns of the internal model				
Model governance	E.3 J.1, J.2 J.3, J.4 J.5, J.6	120	48/09 (56)	4.46-4.53
• system of governance for internal model				
Model change policy	G.20 J.2 L.1	115	28/09 (37)	3.94-3.98
• categorisation into major and minor changes				
• sub-categorisation into different components of the internal model				
• internal governance process for model changes				
• submission process for major and minor changes				
ORSA				
• ORSA scope and process	N/A	45	n/a	n/a
• report structure				
• governance framework				
REPORTING & DISCLOSURE (2010 DRY RUN REFERENCE: SREP)				
• reporting framework		35 55	50/09 (58)	3.33-3.37
• reporting systems				3.546-3.551
• reporting process				3.565-3.566
• data requirements				3.571
				3.588-3.589
	3.73-3.77			
DOCUMENTATION & FINAL APPLICATION (2010 DRY RUN REFERENCE: DOC)				
Documentation process	G.14			9.55-9.67
• control framework				
• documentation database				
• consistency with Solvency II standards				
Design and operational details	F.5 G.14, G.15 G.16, G.17 J.11	125	48/09 (56)	9.68-9.72
• historical development of model				
Theory, assumptions, mathematical and empirical basis				
• methods and techniques used	G.18			9.73-9.74
• assumptions, data and parameters used				
• expert judgement used				
• reasons for selections				
Circumstances where model does not work effectively	G.19 J.6 M.1			9.75-9.76
• design and operational limitations				
• methodological and data-related limitations				
• lack of compliance with Solvency II standards				
Model change documentation	G.20			9.75-9.76
• compliance checking				
• quantification process				

APPENDIX 3: SELF ASSESSMENT SCORING TEMPLATE

AGENT

SYNDICATE

Dry Run Reference		2010		2011				2012		
		Q4		Q1	Q2	Q3	Q4	Q1	Q2	
		LLOYD'S LATEST AGREED SCORE	Syndicate Self-Assessment score	Lloyd's Expected Score	Syndicate self-assessment score	Lloyd's Expected Score	Syndicate self-assessment score	Lloyd's Expected Score	Syndicate Self-Assessment Score	Lloyd's Expected Scores
INTERNAL MODEL SCR										
IMSCR	Insurance risks									
IMSCR	Other risks									
IMSCR	Aggregate SCR									
VALUATION AND BALANCE SHEET										
VBS	Valuation of assets & liabilities (excluding technical provisions)									
TECHNICAL PROVISIONS AND STANDARD FORMULA										
SFSCR	Standard formula SCR									
TP	Valuation process		4	4	5-7	8-9	8-9	10	10	10
TP	Valuation methodology		4	4	5-7	8-9	8-9	10	10	10
TP	Data		4	4	5-7	8-9	8-9	10	10	10
TP	TP Assumptions		4	4	5-7	8-9	8-9	10	10	10
TP	Validation		4	4	4	5-7	8-9	10	10	10
MODEL VALIDATION										
SQS	Probability distribution forecast and risk ranking		4	5-7	5-7	8-9	10	10	10	10
SQS	Methodological adequacy		4	5-7	5-7	8-9	10	10	10	10
SQS	Methodological consistency and credibility		4	5-7	5-7	8-9	10	10	10	10
SQS	Assumptions		4	5-7	5-7	8-9	10	10	10	10
SQS	Data directory and data policy		4	5-7	5-7	8-9	10	10	10	10
SQS	Dependencies		4	5-7	5-7	8-9	10	10	10	10
SQS	Risk mitigation techniques		4	5-7	5-7	8-9	10	10	10	10
SQS	Financial guarantees and options, future management actions and non contractual payments		4	5-7	5-7	8-9	10	10	10	10
CVP	Calibration		4	5-7	5-7	8-9	10	10	10	10
CVP	Validation policy		4	5-7	5-7	8-9	10	10	10	10
CVP	Profit and loss attribution and backtesting		4	5-7	5-7	8-9	10	10	10	10
CVP	Model robustness and stress and scenario testing		4	5-7	5-7	8-9	10	10	10	10
EMD	External models and data		3	5-7	5-7	8-9	10	10	10	10
GOVERNANCE, RISK MANAGEMENT AND USE										
SOG	General governance requirements		5	5-7	8-9	8-9	10	10	10	10
SOG	Fit and proper		6	5-7	8-9	8-9	10	10	10	10
SOG	Risk management		5-7	5-7	8-9	8-9	10	10	10	10
SOG	Internal control		5	5-7	8-9	8-9	10	10	10	10
SOG	Internal audit		6	5-7	8-9	8-9	10	10	10	10
SOG	Actuarial function		4	5-7	5-7	8-9	10	10	10	10
SOG	Outsourcing		6	5-7	8-9	8-9	10	10	10	10
MSG	Risk coverage		5-7	5-7	8-9	10	10	10	10	10
MSG	Use test		4	5-7	5-7	5-7	8-9	10	10	10
MSG	Model governance		5-7	5-7	8-9	8-9	10	10	10	10
MSG	Model change policy		3	5-7	5-7	8-9	8-9	10	10	10
ORSA	ORSA process		3	4	5-7	5-7	8-9	10	10	10
ORSA	ORSA documentation		3	4	5-7	5-7	8-9	10	10	10
ORSA	ORSA outcomes		3	4	5-7	5-7	8-9	10	10	10
REPORTING AND DISCLOSURE										
SREP	Supervisory reporting and disclosure		3	3	4	5-7	8-9	8-9	10	10
DOCUMENTATION AND FINAL APPLICATION										
DOC	Documentation process		5-7	5-7	8-9	8-9	8-9	10	10	10
DOC	Design and operational details		4	4	5-7	5-7	8-9	10	10	10
DOC	Theory, assumptions, mathematical and empirical basis		4	4	5-7	5-7	8-9	10	10	10
DOC	Circumstances where the model does not work effectively		4	4	5-7	5-7	8-9	10	10	10
DOC	Model change documentation		4	4	5-7	5-7	8-9	10	10	10
APP	Final application pack									

DECLARATION

I can confirm that the scores supplied above are in line with Lloyd's scoring sheets and properly represent the progress being made. Sufficient evidence is available to substantiate this assessment.






Name

Position

Date

APPENDIX 4: EXPECTED PROGRESS - TIMELINE & SCORING

2010 Dry Run Ref		2010	2011				2012	
		Q4	Q1	Q2	Q3	Q4	Q1	Q2
INTERNAL MODEL SCR								
N/A	Insurance risks							
N/A	Other risks							
N/A	Aggregate SCR							
VALUATION AND BALANCE SHEET								
N/A	Valuation of assets & liabilities (excluding technical provisions)							
TECHNICAL PROVISIONS AND STANDARD FORMULA								
N/A	Standard formula SCR							
TP	Valuation process	4						
TP	Valuation methodology	4						
TP	Data	4						
TP	TP Assumptions	4						
TP	Validation	4						
MODEL VALIDATION								
SQS	Probability distribution forecast and risk ranking	4						
SQS	Methodological adequacy	4						
SQS	Methodological consistency and credibility	4						
SQS	Assumptions	4						
SQS	Data directory and data policy	4						
SQS	Dependencies	4						
SQS	Risk mitigation techniques	4						
SQS	Financial guarantees and options, future management actions and non contractual payments	4						
CVP	Calibration	4						
CVP	Validation policy	4						
CVP	Profit and loss attribution and backtesting	4						
CVP	Model robustness and stress and scenario testing	4						
EMD	External models and data	3						
GOVERNANCE, RISK MANAGEMENT AND USE								
SOG	General governance requirements	5						
SOG	Fit and proper	6						
SOG	Risk management	5-7						
SOG	Internal control	5						
SOG	Internal audit	6						
SOG	Actuarial function	4						
SOG	Outsourcing	6						
MSG	Risk coverage	5-7						
MSG	Use test	4						
MSG	Model governance	5-7						
MSG	Model change policy	3						
ORSA	ORSA process	3						
ORSA	ORSA documentation	3						
ORSA	ORSA outcomes	3						
REPORTING AND DISCLOSURE								
SREP	Supervisory reporting and disclosure	3						
DOCUMENTATION AND FINAL APPLICATION								
DOC	Documentation process	5-7						
DOC	Design and operational details	4						
DOC	Theory, assumptions, mathematical and empirical basis	4						
DOC	Circumstances where the model does not work effectively	4						
DOC	Model change documentation	4						
N/A	Final application pack							

Key	Expected scoring range
	2-4 (design/evidence)
	8-9 (testing/sign off)
	5-7 (evidence/build)
	10 (completed and fully in use/BAU)
	Expected scores to be determined by end of March

Notes

- 1 These timings reflect Lloyd's views of the order in which things could be addressed and the basis of scoring - the order is not prescriptive and agents should ensure they continue to maintain their own plans and timings for achieving Solvency II compliance.
- 2 Timelines and scores set out above are at a broad category level and there may be an expectation that some elements are further progressed at a point in time which is not directly reflected in the overall timing for the category and this is set out in individual scoring sheets attached.
- 3 Where not explicitly stated, the expectation is that each agent can provide documentary evidence to support any element of each score

APPENDIX 5: EVIDENCE TEMPLATE SUBMISSION TIMETABLE

TEMPLATE SUBMISSION TIMETABLE		END FEB	END MAR	END APR	END MAY	END JUN	END JUL	END AUG	END SEP	END OCT	END NOV	MID DEC
INTERNAL MODEL SCR	Model Questionnaire		■									■
	Submission #1				■							■
	Submission #2							■				■
VALUATION & BALANCE SHEET	Submission #1						■			■		■
	Submission #2				■		■		■			■
	Submission #3								■			■
MODEL VALIDATION	Submission #1			■						■		■
	Submission #2					■				■		■
	Submission #3							■		■		■
GOVERNANCE, RISK MANAGEMENT & USE	Submission #1		■									■
	Submission #2					■						■
	Submission #3								■			■
REPORTING & DISCLOSURE	Submission #1						■			■		■
	Submission #2									■		■
DOCUMENTATION & FINAL APPLICATION	Submission #1							■				■
	Final Application Pack											■
Number of template submissions per month:		1	2	2	2	2	3	3	2	1		(all)

KEY	
■	Formal submission date for evidence templates to be completed and submitted to Lloyd's for detailed review and risk-based follow up of evidence.
■	Agreed sections of previously submitted evidence templates to be updated and made available upon request for follow up review & challenge.

APPENDIX 6: WORKSHOP TIMETABLE

WORKSHOP TIMETABLE							
Dates	Workstream	Format	Topic	Dates	Workstream	Format	Topic
07 Feb 2011 11 Feb 2011	ALL	Briefing / Workshops:	2011 Planning Workshops	08 Aug 2011 09 Aug 2011	TECHNICAL PROVISIONS & STANDARD FORMULA	Debrief: Introduce	Technical Provisions I (Year End) TPs II (Half Year & Projected)
01 Mar 2011 03 Mar 2011	GOVERNANCE, RISK MANAGEMENT & USE	Introduce:	Governance & Use		INTERNAL MODEL SCR	Debrief: Debrief:	Model Walkthroughs Insurance Risks & Other Risks
15 Mar 2011 16 Mar 2011	MODEL VALIDATION	Introduce:	Core Validation I	23 Aug 2011 24 Aug 2011	GOVERNANCE, RISK MANAGEMENT & USE	Debrief: Introduce:	Governance & Use; Risk Process & Use I Risk Process & Use II
04 Apr 2011 06 Apr 2011	TECHNICAL PROVISIONS & STANDARD FORMULA	Introduce:	Technical Provisions I (Year End)	01 Sep 2011 02 Sep 2011	MODEL VALIDATION	Follow up: Debrief:	Core Validation I Core Validation II
	INTERNAL MODEL SCR	Debrief: Introduce:	Model Questionnaire Insurance Risks & Other Risks	14 Sep 2011 15 Sep 2011	VALUATION & BALANCE SHEET REPORTING & DISCLOSURE	Debrief: Introduce:	Valuation Methodology Reporting Framework Reporting Systems
09 May 2011 10 May 2011	MODEL VALIDATION	Introduce:	Core Validation II	03 Oct 2011 04 Oct 2011	GOVERNANCE, RISK MANAGEMENT & USE	Introduce:	ORSA
17 May 2011 18 May 2011	GOVERNANCE, RISK MANAGEMENT & USE	Introduce:	Risk Process & Use I		DOCUMENTATION & FINAL APPLICATION	Debrief: Follow up:	Documentation Process Final Application Process
13 Jun 2011 17 Jun 2011	TECHNICAL PROVISIONS & STANDARD FORMULA	Introduce:	Standard Formula (QIS6 or QIS5)	19 Oct 2011 20 Oct 2011	FREE SESSION		
	INTERNAL MODEL SCR	Introduce:	Consolidation & Comparative Analysis	07 Nov 2011 10 Nov 2011	GOVERNANCE, RISK MANAGEMENT & USE	Debrief: Follow up:	Risk Process & Use II ORSA
22 Jun 2011 23 Jun 2011	VALUATION & BALANCE SHEET REPORTING & DISCLOSURE	Introduce:	Valuation Methodology Reporting Framework	23 Nov 2011 24 Nov 2011	FREE SESSION		
04 Jul 2011 05 Jul 2011	MODEL VALIDATION	Debrief: Introduce:	Core Validation I Validation Policies & Criteria	05 Dec 2011 08 Dec 2011	FREE SESSION		
19 Jul 2011 20 Jul 2011	DOCUMENTATION & FINAL APPLICATION	Introduce: Introduce:	Documentation Process Final Application Process	15 Dec 2011 16 Dec 2011	FREE SESSION		

APPENDIX 7: 2011 DEADLINES & DELIVERABLES











DELIVERABLE	DESCRIPTION	FROM	DATE
OVERALL			
Guidance	Final 2011 plan and guidance notes	Lloyd's	February 18
Guidance	2011 Dry run mapping to FSA 'E-N' contents	Lloyd's	February 18
Template	Self assessment scoring sheet (blank template)	Lloyd's	February 18
Template	Self assessment scoring sheet (pre-populated with Lloyd's latest scores as at Q4 2011)	Lloyd's	February 23
Submission	Self assessment scoring sheet @ Q4 2010	Agents	March 4
Guidance	Scoring sheets (updated) for all elements	Lloyd's	March 31
Submission	Self assessment scoring sheet @ Q1 2011	Agents	April 28
Submission	Self assessment scoring sheet @ Q2 2011	Agents	July 29
Submission	Self assessment scoring sheet @ Q3 2011	Agents	October 31
INTERNAL MODEL SCR			
Template	Lloyd's Capital Return	Lloyd's	February 18
Questionnaire	Model questionnaire (high level)	Lloyd's	March 4
Submission	Model questionnaire (high level)	Agents	March 18
Template	SCR evidence template	Lloyd's	March 31
Workshop	Debrief: Model questionnaire Introduce: Insurance risks & other risks	Lloyd's	April 4 & 6
Submission	Evidence template (current status)	Agents	May 27
Workshop	Introduce: Consolidation & comparative analysis	Lloyd's	June 13 & 17
Submission	Interim SCR 1	Agents	July 29
Workshop	Debrief: Model walkthroughs Debrief: Insurance risks & other risks	Lloyd's	August 8 & 9
Submission	Evidence template (current status)	Agents	August 26
Submission	Interim SCR 2	Agents	September 16
Submission	Final SCR (as at 31.12.11)	Agents	October 31
Submission	Evidence template (final version)	Agents	December 16
VALUATION AND BALANCE SHEET			
Template	Valuation and balance sheet evidence template	Lloyd's	March 31
Guidance	Segmented assets as an input to the LIM. For investment analysis within the Lloyd's Internal Model	Lloyd's	April 28
Workshop	Introduce: Valuation methodology	Lloyd's	June 22 & 23
Submission	Evidence Template (current status)	Agents	July 29
Submission	Balance sheet as at 31 December 2010 in line with standard formula calculation.	Agents	July 29
Submission	Segmented assets as an input to the LIM. For investment analysis within the Lloyd's Internal Model	Agents	July 29
Workshop	Debrief: Valuation methodology	Lloyd's	September 14 & 15
Submission	Evidence template (final version)	Agents	December 16
TECHNICAL PROVISIONS AND STANDARD FORMULA			
Template	Technical provisions @ 31.12.2010 submission template and instructions	Lloyd's	February 18
Template	Technical provisions data return (TPD) and gross quarterly data return (GQD) Instructions and specification	Lloyd's	February 18
Template	Technical provisions and standard formula evidence template	Lloyd's	March 31
Guidance	Technical provisions guidance	Lloyd's	March 31
Workshop	Introduce: Technical provisions I (year end)	Lloyd's	April 4 & 6
Submission	Evidence template (current status)	Agents	May 27
Submission	Full year SII technical provisions @ 31.12.2010	Agents	May 27
Workshop	Introduce: Standard formula (QIS6 or QIS5)	Lloyd's	June 13 & 17
Template	Technical provisions @ 30.6.2011 submission template and instructions	Lloyd's	June 30
Template	Technical provisions @ 31.12.11 submission template and instructions	Lloyd's	June 30
Submission	Evidence template (current status)	Agents	July 29
Submission	Standard formula SCR on a provisional QIS6/QIS5 re-run basis.	Agents	July 29
Workshop	Debrief: Technical provisions I (year end) Introduce: TPs II (half year & projected)	Lloyd's	August 8 & 9
Submission	Evidence template (current status)	Agents	September 30
Submission	Half-year SII technical provisions @ 30.06.2011 on a Solvency II basis.	Agents	September 30
Submission	Projected SII technical provisions @ 31.12.2011 on a Solvency II basis.	Agents	September 30
Submission	Technical provisions data return (TPD) @Q4 2010 Full submission of new TPD return (the Solvency II equivalent of the SRD).	Agents	November 30
Submission	Gross quarterly data return (GQD) @ Q3 2011	Agents	November 30
Submission	Evidence template submission (final version)	Agents	December 16

DELIVERABLE	DESCRIPTION	FROM	DATE
MODEL VALIDATION			
Workshop	Introduce: Core validation I	Lloyd's	March 15 & 16
Template	Model validation evidence template	Lloyd's	March 31
Submission	Evidence template (current status)	Agents	April 28
Guidance	Validation Report	Lloyd's	April 28
Workshop	Introduce: Core validation II	Lloyd's	May 9 & 10
Submission	Evidence template (current status)	Agents	June 30
Workshop	Debrief: Core validation I Introduce: Validation policies & criteria	Lloyd's	July 4 & 5
Submission	Evidence template (current status)	Agents	August 26
Submission	Draft validation report	Agents	August 26
Workshop	Follow up: Core validation I Debrief: Core validation II	Lloyd's	September 1 & 2
Submission	Final validation report	Agents	October 31
Submission	Evidence template (final version)	Agents	December 16
GOVERNANCE, RISK MANAGEMENT AND USE			
Template	Governance, risk management and use evidence template	Lloyd's	February 28
Workshop	Introduce: Governance & use	Lloyd's	March 1 & 3
Submission	Evidence template (current status)	Agents	March 31
Workshop	Introduce: Risk process & use I	Lloyd's	May 17 & 18
Submission	Evidence template (current status)	Agents	June 30
Guidance	ORSA contents guidance	Lloyd's	July 29
Workshop	Debrief: Governance & use and Risk process & use I Introduce: Risk process & use II	Lloyd's	August 23 & 24
Submission	Evidence template (current status)	Agents	September 30
Workshop	Introduce: ORSA	Lloyd's	October 3 & 4
Workshop	Debrief: Risk process & use II Follow up: ORSA	Lloyd's	November 7 & 10
Submission	Evidence template (final version)	Agents	December 16
Submission	Own risk and solvency assessment (ORSA)	Agents	December 16
REPORTING AND DISCLOSURE			
Template	Reporting and disclosure evidence template	Lloyd's	April 28
Workshop	Introduce: Reporting framework	Lloyd's	June 22 & 23
Submission	Evidence template (current status)	Agents	July 29
Guidance	Reporting implementation plan	Lloyd's	August 26
Workshop	Debrief: Reporting framework Introduce: Reporting systems	Lloyd's	September 14 & 15
Submission	Evidence template (current status)	Agents	October 31
Submission	Evidence template (final version)	Agents	December 16
Submission	Reporting implementation plan	Agents	December 16
DOCUMENTATION AND FINAL APPLICATION			
Template	Documentation and final application evidence template	Lloyd's	March 31
Guidance	Final application pack	Lloyd's	June 30
Workshop	Introduce: Documentation process Introduce: Final application process	Lloyd's	July 19 & 20
Submission	Evidence template (current status)	Agents	August 26
Workshop	Debrief: Documentation processes Follow up: Final application process	Lloyd's	October 3 & 4
Submission	Evidence template (final version)	Agents	December 16
Submission	Final application pack	Agents	December 16

WORKSTREAM DETAILS

SECTION 2

- 1 Internal Model SCR
- 2 Valuation & Balance Sheet
- 3 Technical Provisions & Standard Formula
- 4 Model Validation
- 5 Governance, Risk Management & Use
- 6 Reporting & Disclosure
- 7 Documentation & Final Application

KEY	
Activities / Responsibilities:	Milestones / Events:
 Agents: Ongoing development & embedding Preparation of supporting evidence	 Workshop / briefing
 Agents: Collate & complete evidence templates Preparation for walkthroughs	 Evidence template submission
 Lloyd's: Review & assess evidence templates Walkthroughs, interviews, documentation	 Draft or interim deliverable / return
 Both: One-on-one feedback & debrief Agreeing follow up actions	 Final or major deliverable / return
 Both: Risk-based follow up & challenge	 Focus topic of workshop / submission

1. INTERNAL MODEL SCR

Workstream overview

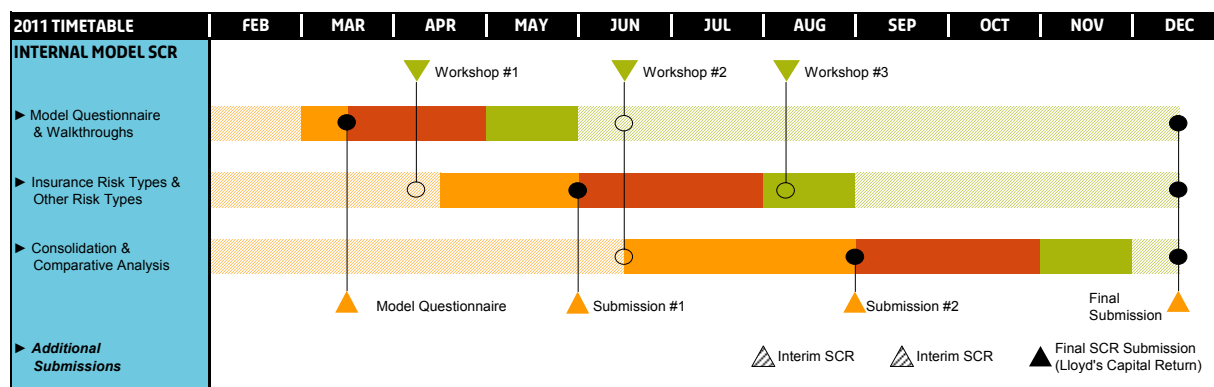
The Internal Model & SCR workstream is being introduced in 2011 as a dedicated quantitative review of syndicate models and outputs as a key input to the Lloyd's Internal Model (LIM). The main objective of this workstream is to ensure submission of robust SCR numbers supported by adequate processes, together with sufficient information to calibrate the LIM, and there will be a strong link to Model Validation.

The key workstream deliverable for syndicates will be a full SCR submission by 31 October 2011 in the form of a data return (Lloyd's Capital Return), together with interim submissions. The final SCR submission will require board sign off.

Primary Audience: Risk Management Function / Actuarial Function / Capital modelling actuaries

Objectives	2010 Dry Run:	Directive Article(s):	
<ul style="list-style-type: none"> • Demonstrate that agents have built operational, robust and methodologically sound models capable of producing SCRs in advance of the submission deadline. • Ensure that all syndicates deliver a full and robust SCR by the submission deadline of 31 October 2011, including delivery of interim submissions. • Undertake sufficient review and assessment to enable the Lloyd's Internal Model to place reliance on each syndicate's SCR by 16 December 2011. 	Not covered	101	
Core modules & indicative topics			Review techniques:
Model Questionnaire & Walkthroughs <ul style="list-style-type: none"> • Model implementation plans; progress; milestones • Model platforms; systems; architecture 	Model walkthroughs, interviews		
Insurance Risk Types <ul style="list-style-type: none"> • Underwriting risk • Reserving risk • Catastrophe risk 	Interview, agent presentations, quantitative analysis		
Other Risk Types <ul style="list-style-type: none"> • Market risk • Credit risk • Liquidity risk • Operational risk • Group risk 			
Consolidation <ul style="list-style-type: none"> • Dependencies • Correlations 	Benchmarking, quantitative analysis		
Comparative Analysis <ul style="list-style-type: none"> • Comparison of SCR with Standard Formula • Comparison of SCR with ICA 			

Workstream timetable



Workshops	Dates:
Workshop #1	4 & 6 April 2011
Workshop #2	13 & 17 June 2011
Workshop #3	8 & 9 August 2011
Evidence template submissions	Dates:
Model Questionnaire (high level)	18 March 2011
Submission #1	27 May 2011
Submission #2	26 August 2011
Final Submission	16 December 2011

Additional submissions	Description:	Dates:
Interim SCR Submissions	Lloyd's will be asking for interim SCR submissions on 31 July and 16 September. These are not full returns but do include an overall SCR at the mean and 99.5 th percentile on a best efforts basis. Interim SCRs can be run as at 31.12.10 or 31.12.11 and Lloyd's will not mandate SBF to be used.	29 July 2011 16 September 2011
Final SCR Submission (Lloyd's Capital Return)	The provision of a robust SCR by 31 October must be supported by sufficient information to calibrate the LIM appropriately. The final SCR should be as at 31.12.11 and be based on the SBF submitted to Lloyd's on 9 September 2011. This data is set out in the Lloyd's Capital Return (LCR), which has been provided in a separate document.	31 October 2011

2. VALUATION & BALANCE SHEET

Workstream overview

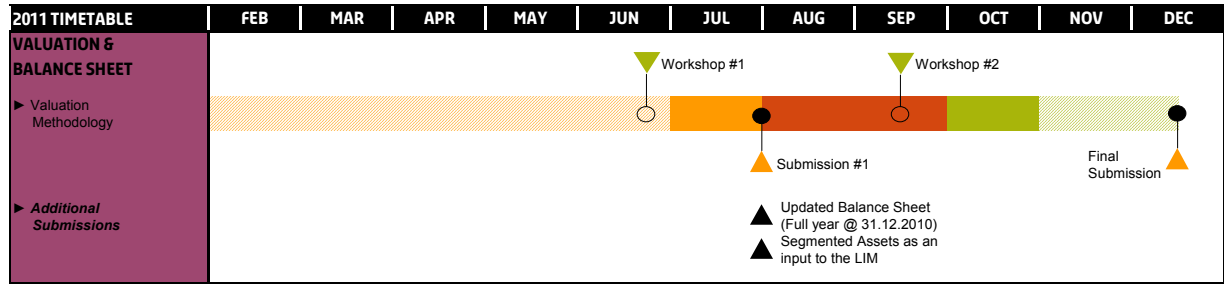
The Valuation & Balance Sheet workstream will focus primarily on the valuation of assets and liabilities, excluding technical provisions, which are addressed separately. The workstream will also consider valuation of own funds, to the extent that this is applicable in the Lloyd's context.

The key workstream deliverable for agents will be the Solvency II Balance Sheet due 31 July 2011, in line with the Standard Formula calculation. Agents will also be asked to produce segmented asset information for the purpose of investment analysis within the LIM.

Primary Audience: Finance Function, Investment Managers

Objectives	2010 Dry Run:	Directive Article(s):
<ul style="list-style-type: none"> Demonstrate that agents meet the requirements in Articles 74; 87-92 regarding the valuation of assets and liabilities, excluding technical provisions. 	SREP, QIS5	74; 87-92
<ul style="list-style-type: none"> Demonstrate that agents have systems that will produce the required detail within the prescribed timetables. 		
<ul style="list-style-type: none"> Demonstrate that agents have a reasonable method for valuing assets and liabilities to calculate the standard formula. 		
<ul style="list-style-type: none"> Demonstrate that agents have systems that can produce the segmented information required for analysing investments as categorised to populate the Lloyd's Internal Model. 		
Core modules & indicative topics	Review techniques:	
<p>Valuation Methodology</p> <ul style="list-style-type: none"> Valuation of assets Valuation of liabilities (excluding technical provisions) Valuation of own funds 	<ul style="list-style-type: none"> Desk top review of documents including balance sheet On site system reviews and walkthroughs Interviews Review of QIS6 or QIS5 re-run as at Dec 2010 	

Workstream timetable



Workshops	Dates:
Workshop #1	22 & 23 June 2011
Workshop #2	14 & 15 September 2011
Evidence template submissions	Dates:
Submission #1	29 July 2011
Final Submission	16 December 2011

Additional submissions	Description:	Dates:
Balance Sheet as at 31 December 2010	In line with Standard Formula calculation.	29 July 2011
Segmented Assets as an input to the LIM	For investment analysis within the Lloyd's Internal Model as at 31 December 2010 (categories to be advised).	29 July 2011

3. TECHNICAL PROVISIONS & STANDARD FORMULA

Workstream overview

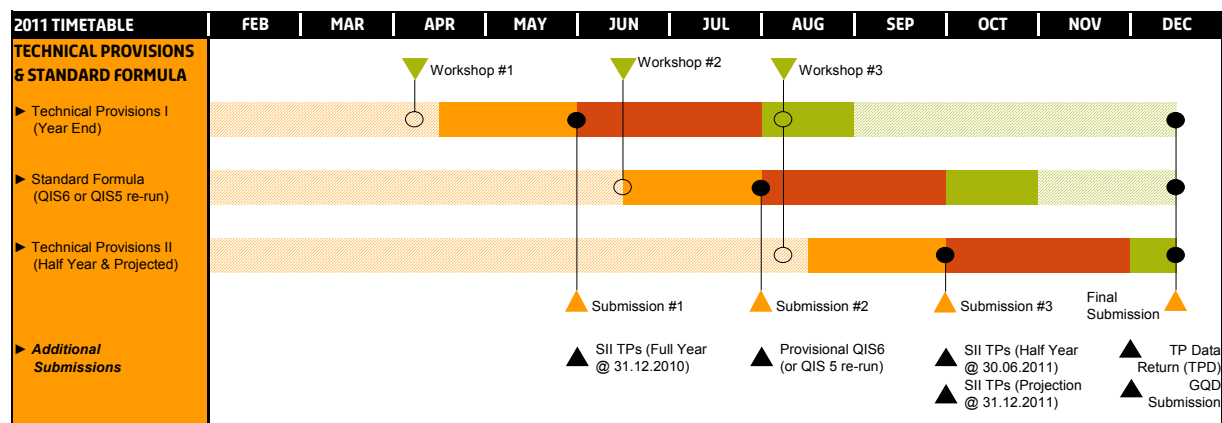
The Technical Provisions & Standard Formula workstream is a continuation of the Technical Provisions element covered in the 2010 Dry Run. Although the 2010 process focused predominantly on the valuation process and methodology, the work activity this year will be more quantitative in nature as we focus on the calculation of Technical Provisions (TPs) and the Standard Formula SCR.

There are a number of specific Solvency II deliverables for agents including year end, half year and projected Technical Provisions on a Solvency II basis as well as Standard Formula SCR on a provisional QIS6 or QIS5 re-run basis.

Primary Audience: Actuarial Function, Finance Function

Objectives	2010 Dry Run:	Directive Article(s):
<ul style="list-style-type: none"> Show that agents can calculate Standard Formula to an acceptable regulatory standard. 	QIS5	103-105
<ul style="list-style-type: none"> Show that agents can calculate Technical Provisions on a Solvency II basis at year-end and mid-year. 	TPs	76-84
<ul style="list-style-type: none"> Show that agents can calculate projected Technical Provisions to year-end that underlie SCR for the Lloyd's Internal Model and capital setting. 		
<ul style="list-style-type: none"> Show that agents can produce and collate data according to specified data standards (e.g. using automated validations). 	SOG (Actuarial Function), SREP	48
<ul style="list-style-type: none"> Demonstrate consistency between syndicate Solvency II Technical Provisions and internal model SCR input. 	SOG (Actuarial Function), SQS	121
<ul style="list-style-type: none"> Establish the ongoing process of Technical Provision returns on a Solvency II basis. 	SOG (Actuarial Function), SREP	48
Core modules & indicative topics		Review techniques:
Technical Provisions I <ul style="list-style-type: none"> Full year @ 31.12.2010 	Review of quantitative submissions (calculations) and tests Benchmark and feedback.	
Standard Formula <ul style="list-style-type: none"> Provisional QIS6 or QIS5 re-run 		
Technical Provisions II <ul style="list-style-type: none"> Half year @ 30.06.2011 Projection @ 31.12.2011 Technical provision data return (TPD) 		

Provisional workstream timetable



Workshops	Dates:
Workshop #1	4 & 6 April 2011
Workshop #2	13 & 17 June 2011
Workshop #3	8 & 9 August 2011
Evidence template submissions	Dates:
Submission #1	27 May 2011
Submission #2	29 July 2011
Submission #3	30 September 2011
Final Submission	16 December 2011

Additional submissions	Description:	Dates:
SII Technical Provisions	Full year technical provisions @ 31.12.2010 on a Solvency II basis.	27 May 2011
Standard Formula SCR	Standard Formula SCR on a provisional QIS6 or QIS5 re-run basis (timing may move if QIS6 deadline is different)	29 July 2011
SII Technical Provisions	Half-year technical provisions @ 30.06.2011 on a Solvency II basis.	30 September 2011
SII Technical Provisions	Projected technical provisions @ 31.12.2011 on a Solvency II basis.	30 September 2011
Technical Provision Data Return (TPD)	Full submission of new TPD return (the Solvency II equivalent of the SRD).	30 November 2011
Gross Quarterly Data Return (GQD)	Full submission of new GQD return	30 November 2011

4. MODEL VALIDATION

Workstream overview

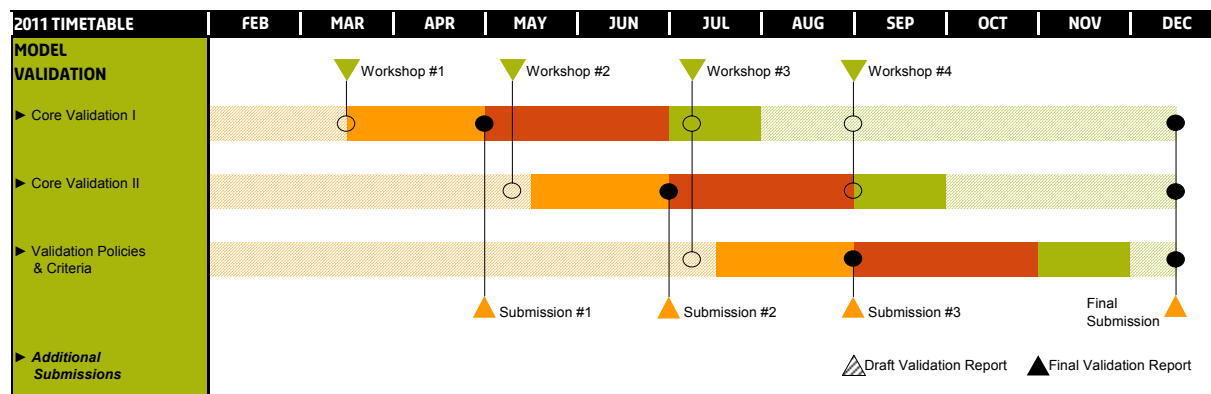
The Model Validation workstream is a continuation of the Statistical Quality Standards (SQS), Calibration, Validation and Profit & Loss Attribution (CVP) and External Models & Data (EMD) elements covered in the 2010 Dry Run. The focus of the workstream will be to ensure that syndicate models produce an appropriately calibrated SCR and that models are demonstrably compliant with the relevant tests and standards of the Directive.

The key workstream deliverable for agents will be a validation report due in draft on 26 August and final version on 31 October 2011.

Primary Audience: Risk Management Function, Actuarial Function, Capital modelling actuaries, IT Department

Objectives	2010 Dry Run	Directive Article(s):
<ul style="list-style-type: none"> Demonstrate that syndicate models meet the tests and standards set out in Articles 121 to 124 and 126. 	CVP, SQS & EMD	121-124; 126
<ul style="list-style-type: none"> Ensure that agents provide a validation report to verify appropriate calibration of the SCR and substantiate compliance with the tests and standards set out in Articles 121 to 124 and 126. 		
<ul style="list-style-type: none"> Demonstrate that syndicate internal models have been validated to a standard that is sufficient for the purposes of the Lloyd's Internal Model and capital setting. 		
Core modules & indicative topics		Review techniques:
<p>Core Validation I</p> <ul style="list-style-type: none"> Assumptions & expert judgement Model robustness Stress & scenario testing Back-testing Calibration 	<p>Walkthroughs of model inputs, calculations and outputs (including controls for each stage)</p> <p>Quantitative scenarios</p> <p>Interviews</p>	
<p>Core Validation II</p> <ul style="list-style-type: none"> Dependencies Probability distribution forecast P&L attribution External models 	<p>Board sign off documentation</p> <p>Follow up evidence referenced in validation reports</p>	
<p>Validation Policies & Criteria</p> <ul style="list-style-type: none"> Risk materiality Methodological adequacy, consistency & credibility Validation policy Data directory & Data policy Risk mitigation techniques Future management actions Financial guarantees; contractual options; non-contractual payments 		

Workstream timetable



Workshops	Dates:
Workshop #1	15 & 16 March 2011
Workshop #2	9 & 10 May 2011
Workshop #3	4 & 5 July 2011
Workshop #4	1 & 2 September 2011
Evidence template submissions	Dates:
Submission #1	28 April 2011
Submission #2	30 June 2011
Submission #3	26 August 2011
Final Submission	16 December 2011

Additional submissions	Description:	Dates:
Draft Validation Report	The Draft Validation Report is an interim deliverable intended to document an agent's planned validation processes and initial results, as a basis for discussion and feedback with Lloyd's prior to the final report.	26 August 2011
Final Validation Report	The Final Validation Report will be expected to document the set of activities and results of independent assurance undertaken or commissioned by a syndicate to confirm that the model complies with the tests and standards of the Directive. Lloyd's will provide further guidance on the required content of the Validation Report but will not mandate the format.	31 October 2011

5. GOVERNANCE, RISK MANAGEMENT & USE

Workstream overview

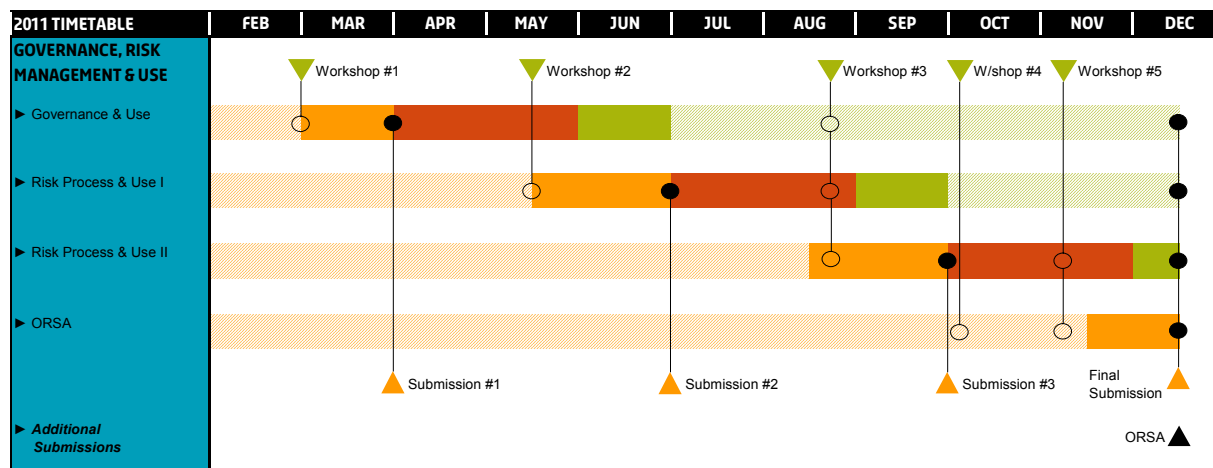
The Governance, Risk Management & Use workstream is a continuation of the Systems of Governance (SOG), Model, Scope & Governance (MSG) and Own Risk and Solvency Assessment (ORSA) elements covered in the 2010 Dry Run. The focus of the workstream is to ensure that the Internal Model is adequately controlled, and that robust processes and governance structures are in place to support ongoing and appropriate use of model outputs throughout the business.

The key workstream deliverable for agents will be an ORSA due on 16 December 2011.

Primary Audience: Risk Management Function, risk managers, compliance managers, Internal Audit

Objectives	2010 Dry Run:	Directive Article(s):
<ul style="list-style-type: none"> Demonstrate that there is appropriate governance and process surrounding each syndicate's internal model. 	MSG	115; 120; 121.4
<ul style="list-style-type: none"> Show that each agent meets the system of governance requirements. 	SOG	41; 42; 44; 46; 47; 48; 49; 50
<ul style="list-style-type: none"> Show that risk appetite is an integral part of each syndicate's business. 		
<ul style="list-style-type: none"> Demonstrate that adequate processes are in place for each syndicate to meet the Use Test requirements. 		
<ul style="list-style-type: none"> Demonstrate that agents are able to prepare the Own Risk and Solvency Assessment (ORSA), supported by appropriate processes to use the ORSA in management of the business. 	ORSA	45
Core modules & indicative topics		Review techniques:
Governance & Use <ul style="list-style-type: none"> Fit & Proper Internal Control Outsourcing Governance & Board operations Risk governance (including Model Governance) 	Interviews with key personnel Process walkthroughs Desktop review of documents. Review and feedback	
Risk Process & Use I <ul style="list-style-type: none"> Internal Audit Risk Appetite Model Change Policy Model Scope / Coverage 		
Risk Process & Use II <ul style="list-style-type: none"> Identification, assessment, control & mitigation Monitoring & reporting Actuarial Function Use Test wrap-up 		
<ul style="list-style-type: none"> ORSA Framework, process & format 		

Workstream timetable



Workshops	Dates:
Workshop #1	1 & 3 March 2011
Workshop #2	17 & 18 May 2011
Workshop #3	23 & 24 August 2011
Workshop #4	3 & 4 October 2011
Workshop #5	7 & 10 November 2011
Evidence template submissions	Dates:
Submission #1	31 March 2011
Submission #2	30 June 2011
Submission #3	30 September 2011
Final Submission	16 December 2011

Additional submissions	Description:	Dates:
Own Risk and Solvency Assessment (ORSA)	Agents will be required to submit an initial ORSA. Although the final format will not be prescribed, Lloyd's will issue an indicative template, a content checklist and further guidance by end July 2011. The ORSA will require board-level sign off.	16 December 2011

6. REPORTING & DISCLOSURE

Workstream overview

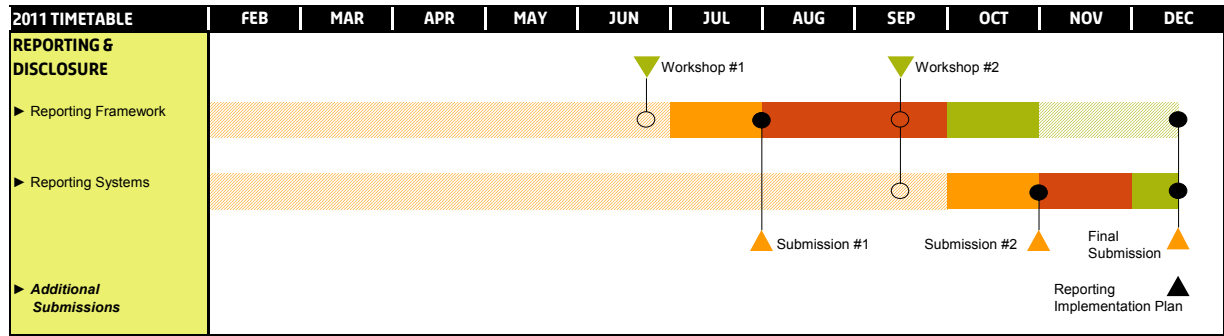
The Reporting and Disclosure workstream is a continuation of the Phase 2.3 Supervisory Reporting and Disclosure (SREP) element covered in the 2010 Dry Run. The main emphasis of this workstream is the framework, process and systems that agents need to have in place to meet the relevant requirements. Additionally, this workstream focuses on determination of data requirements to meet regulatory reporting. The main areas of change under Solvency II are; investment reporting, accident year vs. underwriting year calculations and reporting in currencies.

The key workstream deliverable for agents is a Reporting Implementation Plan specifying the requirements and schedule of any outstanding development, due by 16 December 2011.

Primary Audience: Finance Function

Objectives	2010 Dry Run:	Directive Article(s):
<ul style="list-style-type: none"> Consider issues and develop ideas and solutions relating to implementation of the Solvency II Reporting and Disclosure Requirements for Lloyd's Syndicates. 	SREP	35; 55
<ul style="list-style-type: none"> Co-ordinate information, processes and systems required for efficient and effective implementation of the Solvency II Reporting and Disclosure requirements. 		
<ul style="list-style-type: none"> Agents to be able to submit quantitative reporting templates in time with complete, accurate and quality data to enable Lloyd's to produce an aggregate SFCR and RSR. 		
Core modules & indicative topics		Review techniques:
Reporting Framework <ul style="list-style-type: none"> Reporting governance framework Reporting process & specification Data requirements – gap analysis 	Desk top review of documents	
Reporting Systems <ul style="list-style-type: none"> Reporting systems Implementation planning Data requirements – remediation 		

Workstream timetable



Workshops	Dates:
Workshop #1	22 & 23 June 2011
Workshop #2	14 & 15 September 2011
Evidence template submissions	Dates:
Submission #1	29 July 2011
Submission #2	31 October 2011
Final Submission	16 December 2011

Additional submissions	Description:	Dates:
Reporting Implementation Plan	The plan should specify both the requirements and schedule of any outstanding development.	16 December 2011

7. DOCUMENTATION & FINAL APPLICATION

Workstream overview

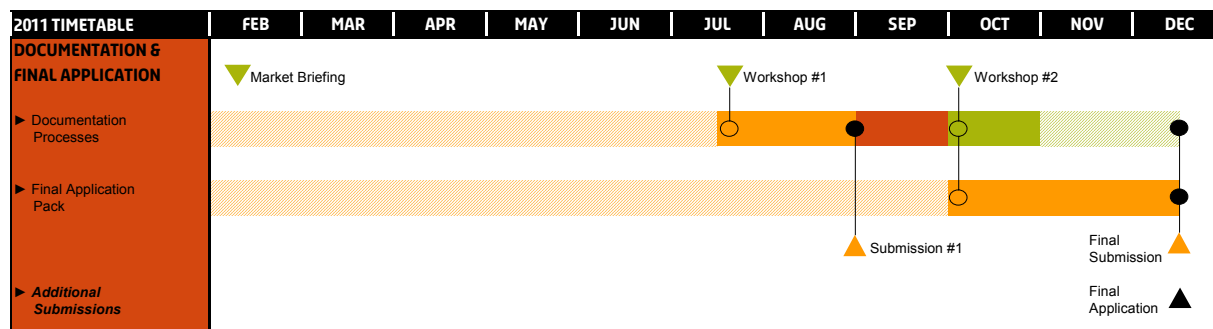
The Documentation & Final Application Pack workstream is a continuation of the Documentation (DOC) element covered in the 2010 Dry Run, with the addition of a formal process of application by each syndicate for inclusion within the Lloyd's Internal Model. The focus of the workstream is to ensure the quality and integrity of the overall LIM application by ensuring that all agents prepare sufficient and appropriate evidence, and that Lloyd's can demonstrate adequate review and oversight, to confirm that syndicates have met the tests and standards for compliance.

The key workstream deliverable for agents will be a final application pack, composed primarily of Evidence Templates completed throughout the year, due on 16 December 2011. Agreed content and format of the application pack will be advised to agents by end June 2011.

Primary Audience: Programme Managers, Senior Nominated Persons

Objectives	2010 Dry Run:	Directive Article(s):
<ul style="list-style-type: none"> Agents prepare adequate evidence and explanation to support final application packs confirming status of Solvency II compliance by 16 December 2011. 	DOC	125
<ul style="list-style-type: none"> Lloyd's completes sufficient review and assessment to enable the Lloyd's Internal Model to place reliance on each syndicate's SCR by 16 December 2011 		
<ul style="list-style-type: none"> Lloyd's reaches a decision to include each syndicate in the Lloyd's Internal Model final application (together with any qualifications) by 31 January 2012. 		
Core modules & indicative topics		Review techniques:
Documentation Processes <ul style="list-style-type: none"> Documentation scope and design Documentation systems and processes 	On site documentation system walkthroughs	
Final Application <ul style="list-style-type: none"> Ongoing production and delivery of evidence Collation of final application pack Participation in the final application process 	Desk top review of documents Risk-based follow up & challenge Review of final application pack	

Workstream timetable



Workshops	Dates:
Workshop #1	19 & 20 July 2011
Workshop #2	3 & 4 October 2011
Evidence template submissions	Dates:
Submission #1	26 August 2011
Final Submission	16 December 2011

Additional submissions	Description:	Dates:
Final Application Pack	<p>The Final Application Pack should include an executive summary and board level sign off of an agent's Solvency II readiness.</p> <p>Agents will not be required to submit all available evidence. However they will be expected to explain why the evidence is appropriate and sufficient, and be prepared to produce any evidence upon request. A full index and mapping of supporting evidence will be required.</p> <p>Content and format of the application pack will be advised to agents by the end of June 2011.</p>	16 December 2011