

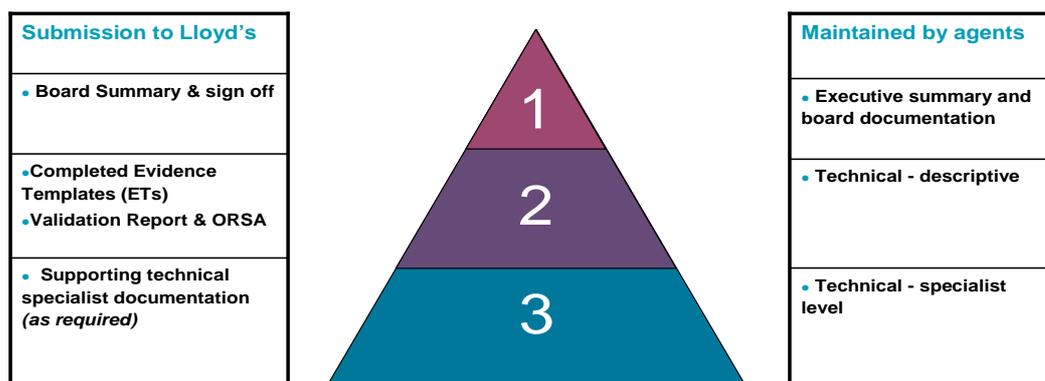
LLOYD'S REVIEW AND RATING OF EVIDENCE TEMPLATES

General

Agents should note that the RAG rating being applied following review of the evidence templates (ET) relates solely to the ET and its role in summarising the supporting documentation, processes, systems and people to evidence Solvency II compliance as part of the final Application Pack due on 16 December 2011 from all agents. The ET should also be able to demonstrate reasonable understanding of the Solvency II requirements and provide rationale as to why the underlying evidence is appropriate to demonstrate compliance. Robust explanations do not have to be comprehensive but typically would include some descriptions of the approaches undertaken to meet the central requirements.

The rating applied to the ET does not refer to the overall programme and agent progress against deliverables during the Dry Run process – rather it is the ET as a stand alone document. As set out in the diagram below, the ET serves as the second layer in the documentation pyramid and when taken together with the range of supporting evidence in place (third layer), it should enable the first layer, the summary Board paper, to be produced. Combined, these layers of documentation should demonstrate compliance with Solvency II requirements.

Differing levels of documentation



The rating applied has not been used to substantiate or comment on the self assessed scores included in the ET as these will be reviewed separately in conjunction with underlying evidence as appropriate. Consequently, the rating applied to the ET is related to the ultimate required position rather than a measure of progress expected at the time of submission and Lloyd's would expect that the vast majority would score amber or red at the first submission, improving over the coming months to support the final application as set out above. Lloyd's expects this to be an iterative process and no immediate action is required by agents. However, Lloyd's will expect agents to address feedback provided in subsequent submissions

Ratings Descriptions

A guide to the review criteria used to determine the ratings is set out overleaf and the following pages contain an example ET section for each of these ratings

Green

- Each element of the requirements is addressed with bespoke wording and generic references to documentation, which cover multiple areas, expanded to cover the detail on each point and provide sectional references within large supporting papers.
- For many elements, the supporting evidence may be signposted to a number of different papers or processes.
- Clear and concise explanations on relevance of supporting evidence and how it demonstrates compliance
- Includes references to the relevant committee or to the Board and states where the supporting material has been reviewed and signed off.
- Clear statements where drafts are available and timelines provided for their revision and completeness.
- Full coverage of all areas, even though some may be work in progress.
- For the reviewer, it is clear what supporting evidence is available to be sampled and explanation gives confidence that the evidence shown, combined with explanation in the ET, will cover the requirements in full without recourse to other work.

As a guide, Lloyd's considers that approximately 90% of the work required to fulfil the role of the ET within the Application Pack has been completed

Amber

- Most elements of the requirements are addressed with bespoke wording although generic references to documentation appear against a number of different areas and more specific references to each point and clearer mapping to sections within papers are required.
- Main supporting document is referenced although there are some points that fall within other papers or processes that are not drawn out in the ET and need to be included to demonstrate completeness.
- Limited references to status of supporting evidence and sign-off and requires clearer explanation where further work is ongoing and supporting evidence is being updated.
- Reasons for inclusion of evidence can be inferred after additional explanations but are not clearly demonstrable in the ET.
- For the reviewer, significant time would be utilised in tracking the relevant sections of documentation and expect other areas of work would need to be brought into consideration to demonstrate compliance for each element.

As a guide, Lloyd's considers that between 50 - 90% of the work required to fulfil the role of the ET within the Application Pack has been completed.

Red

- Most elements are addressed with short general wordings (one sentence).
- References to two or three main documents appear against a number of different areas and require more specific wordings to each point and mapping to sections within papers.
- Where other papers, systems, processes or people are relevant but less critical than one main paper, they are omitted and the ET does not stand alone as the summary of all supporting evidence.
- Some elements yet to be addressed. Limited references to status of supporting evidence and sign-off and requires clear statements regarding outstanding areas.
- For the reviewer, it is unclear whether the supporting evidence exists or is simply not stated within the ET.

As a guide, Lloyd's considers that less than 50% of the work required to fulfil the role of the ET within the Application Pack has been completed.

EXAMPLE 1 - "GREEN" EVIDENCE TEMPLATE

				Overall Status of Evidence Template	Good ET	
1. PROBABILITY DISTRIBUTION FORECAST AND RISK RANKING				Latest self-assessment score	RAG	
				4		
CEIOPS' Advice 48/09	CEIOPS' Advice Requirement	Has requirement been met	Explain how the final requirement has been met / progress to date	Evidence available & Type	Date available	Person responsible for making evidence available
5.8, 5.47-5.57	Number of points modelled					
	The probability distribution forecast ("PDF") should be based on all relevant information available	Partially	<p>The syndicate will produce a continuous PDF aggregated for the risk categories under Solvency II.</p> <p>For insurance risk the syndicate uses experience based modelling for those classes of business where we have significant data to produce credible results. Our assessment of credible data is applied from our criteria of complete and appropriate that is detailed in the Data Quality Review document under section 7 (assessment of data quality of insurance risk). For those classes where we have limited data we supplement with expert judgement from underwriters and external sources such as the LMA (this is covered in detail under section 2.4 of Syndicate 999 PDF & Risk ranking.doc).</p> <p>For market risk the syndicate uses an ESG with relevant adjustments (particularly to our material exposures of government and high yield bonds); applying common practice methods that produce a distribution forecast. The ESG is populated with our market data supplied by our custodian (see section 4 of Syndicate 999 PDF & Risk ranking.doc).</p> <p>For credit risk the syndicate uses an internal credit model based on transition matrices and default probabilities. The parameterisation is supplemented by external data sources and adjustments from our historical assessment of reinsurance credit risk (see section 5 of Syndicate 999 PDF & Risk ranking.doc).</p> <p>For operational risk the syndicate applies a frequency and severity approach from our risk register. Due to limited internal data this process is supplemented with expert judgement around parameterisation and stress & scenario testing (see section 6 of Syndicate 999 PDF & Risk ranking.doc).</p>	<p>Data Quality Review (section 7) (ref:G:SI/DQR/v1_May11) (Document)</p> <p>Syndicate 999 PDF & Risk ranking.doc (sections 2.4, 4, 5 and 6) Data Quality Review (section 7) (ref:G:SI/IMD/v1_May11) (Document)</p> <p>Minutes of meetings with underwriters reviewed by Internal Model Risk committee. All parameterisation, expert judgements captured and agreed at Internal Model Authorisation committee - minutes available (Process)</p>	06/05/2011 Expected completion 29/07/2011 - available as draft version now	Capital Actuary (John Smith)
	The internal model needs to consider the entire probability distribution of outcomes, not just the 99.5th percentile over one year outcome.	Partially	The syndicate's internal model runs simulations at 50,000 and 100,000 with different seeds where a full probability distribution is produced outputting risk metrics across all percentiles. Convergence is assessed and the threshold for deviation of risk metrics is determined in line with the risk tolerances set by the risk committee.	<p>Syndicate 999 PDF & Risk ranking.doc (section 1.9) (ref:G:SI/DQR/v1_May11) (Document)</p> <p>Risk Committee - Risk Tolerances agreements (Process). This process has been detailed in the above document.</p> <p>Regular discussions held between UW Team, Pricing Team & Capital Team (see opposite) at our monthly meetings, to ensure latest Underwriting information is captured. (People)</p>	Expected completion 29/07/2011 - available as draft version now	Capital Actuary (John Smith) UW Team - David Smith (Syndicate Actuary) Pricing Team - Joe Smith (Pricing Actuary) Capital Team - John Smith (Capital Actuary)
	Probability distribution forecasts need to be produced at syndicate level, with all risk types aggregated.	Partially	The syndicate's model is a stand alone model and for each risk category the model produces a full probability distribution as mentioned above.	Syndicate 999 PDF & Risk ranking.doc (sections 2.4, 4, 5 and 6) (ref:G:SI/DQR/v1_May11) (document)	Expected completion 29/07/2011 - available as draft version now	Capital Actuary (John Smith)
	Identify and compensate for shortcomings arising from distributions with key points only at either the component level or the IM as a whole	Yes	Not applicable as the syndicate is modelling a full probability distribution. However we recognise that for operational risk point estimates will be based on expert judgement and short comings will be addressed by expert judgement of parameters and validation via stress & scenario testing (see section 6 of Syndicate 999 PDF & Risk ranking.doc).	Not applicable	Not applicable	Not applicable
	The PDF is presented as conditional on assumptions made in order to enrich it, e.g., by interpolation, extrapolation or fitting	Yes	Not applicable as the syndicate is modelling a full probability distribution.	Not applicable	Not applicable	Not applicable

THIS IS A DRAFT VERSION HIGHLIGHTING LLOYD'S EXPECTATIONS FOR COMPLETING EVIDENCE TEMPLATES

EXAMPLE 2 - "AMBER" EVIDENCE TEMPLATE

Overall Status of Evidence Template	ET reasonable - work in progress
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1. PROBABILITY DISTRIBUTION FORECAST AND RISK RANKING				Latest self-assessment score	RAG	
				4		
CEIOPS' Advice 48/09	CEIOPS' Advice Requirement	Has requirement been met	Explain how the final requirement has been met / progress to date	Evidence available & Type	Date available	Person responsible for making evidence available
5.8, 5.47-5.57	Number of points modelled					
	The probability distribution forecast ("PDF") should be based on all relevant information available	Partially	The syndicate will produce a continuous PDF aggregated for the risk categories under Solvency II. For insurance risk the syndicate uses experience based modelling for those classes of businesses where we have significant data to produce credible results. For market risk the syndicate uses an ESG. For credit risk the syndicate uses an internal credit model. For operational risk the syndicate applies a frequency and severity approach.	Data Quality Review (section 7) Internal Model Documentation	July	Capital Actuary
	The internal model needs to consider the entire probability distribution of outcomes, not just the 99.5th percentile over one year outcome.	Partially	The syndicate's internal model runs simulations at 50,000 and 100,000 with different seeds where a full probability distribution is produced outputting risk metrics across all percentiles.	Internal Model Documentation	July	Capital Actuary
	Probability distribution forecasts need to be produced at syndicate level, with all risk types aggregated.	Partially	See above	Internal Model Documentation	July	Capital Actuary
	Identify and compensate for shortcomings arising from distributions with key points only at either the component level or the IM as a whole	Yes	N/A	Not applicable	Not applicable	Not applicable
	The PDF is presented as conditional on assumptions made in order to enrich it, e.g., by interpolation, extrapolation or fitting	Yes	N/A	Not applicable	Not applicable	Not applicable

Lloyd's Reasoning for ET status of Amber
No mention of risk group details, only documentation mentioned as evidence type (specific sections not provided throughout). Dates and responsible person lack specifics.
No mention of convergence or risk appetite. Dates and responsible person lack specifics.
Need for each element to be addressed without cross-reference.
No explanation of why.
No explanation of why.

THIS IS A DRAFT VERSION HIGHLIGHTING LLOYD'S EXPECTATIONS FOR COMPLETING EVIDENCE TEMPLATES

EXAMPLE 3 - "RED" EVIDENCE TEMPLATE

Overall Status of Evidence Template	ET requires significant work
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1. PROBABILITY DISTRIBUTION FORECAST AND RISK RANKING				Latest self-assessment score	RAG	
				4		
CEIOPS' Advice 48/09	CEIOPS' Advice Requirement	Has requirement been met	Explain how the final requirement has been met / progress to date	Evidence available & Type	Date available	Person responsible for making evidence available
5.8, 5.47-5.57	Number of points modelled					
	The probability distribution forecast ("PDF") should be based on all relevant information available	Partially	The syndicate will produce a continuous PDF aggregated for the risk categories under Solvency II. This will cover Insurance, Market and Credit and Operation Risk.	Internal Model Document	Q2 2011	GRAC Dept.
	The internal model needs to consider the entire probability distribution of outcomes, not just the 99.5th percentile over one year outcome.	Partially	The syndicate's internal model has been designed to produce a full probability distribution. The internal model scope documentation has been agreed & signed off by all internal stakeholders.	Internal Model Scope Documentation	Q2 2011	GRAC Dept.
	Probability distribution forecasts need to be produced at syndicate level, with all risk types aggregated.	Partially				GRAC Dept.
	Identify and compensate for shortcomings arising from distributions with key points only at either the component level or the IM as a whole	Yes	N/A	Not applicable	Not applicable	Not applicable
	The PDF is presented as conditional on assumptions made in order to enrich it, e.g., by interpolation, extrapolation or fitting	Yes	N/A	Not applicable	Not applicable	Not applicable

Lloyd's Reasoning for ET status of Red
No mention of any detail, no specific sections of large documents. Dates and responsible person are vague.
Irrelevant. Dates and responsible person are vague.
Blanks
No explanation of why.
No explanation of why.

THIS IS A DRAFT VERSION HIGHLIGHTING LLOYD'S EXPECTATIONS FOR COMPLETING EVIDENCE TEMPLATES