

DOCUMENTATION, FINAL APPLICATION PACK AND ORSA WORKSHOP

3 & 4 October

Agenda

- Introduction
- Documentation
- FAP

Table discussions

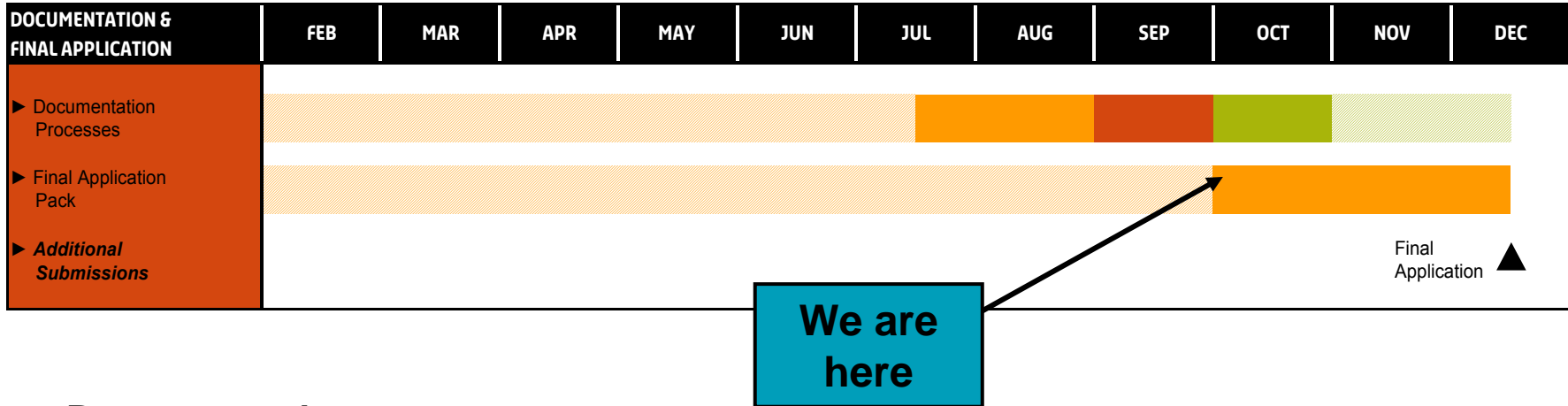
- ORSA

Table discussions

- Next steps & feedback

INTRODUCTION

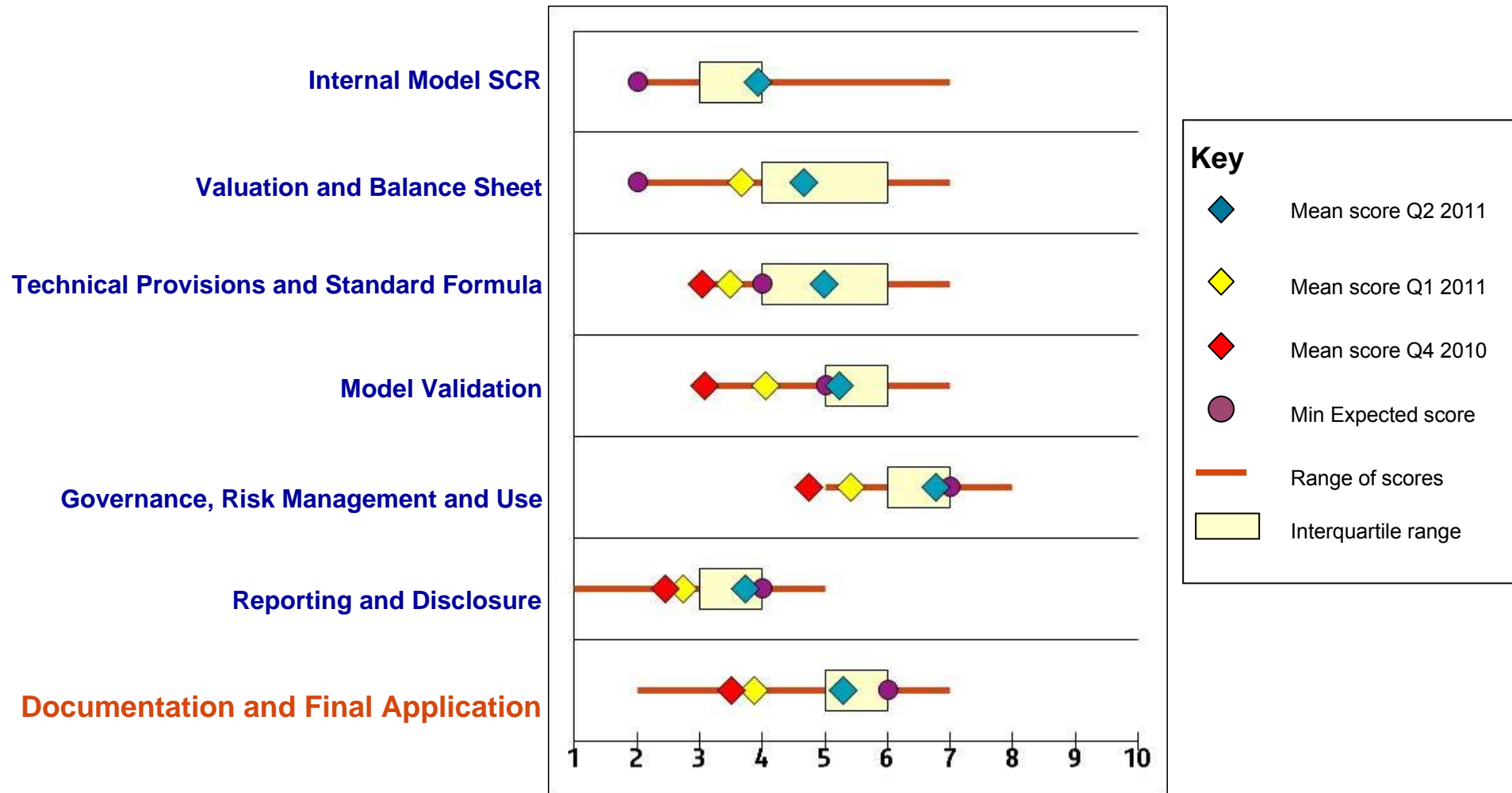
Documentation & Final Application workstream



Progress to date

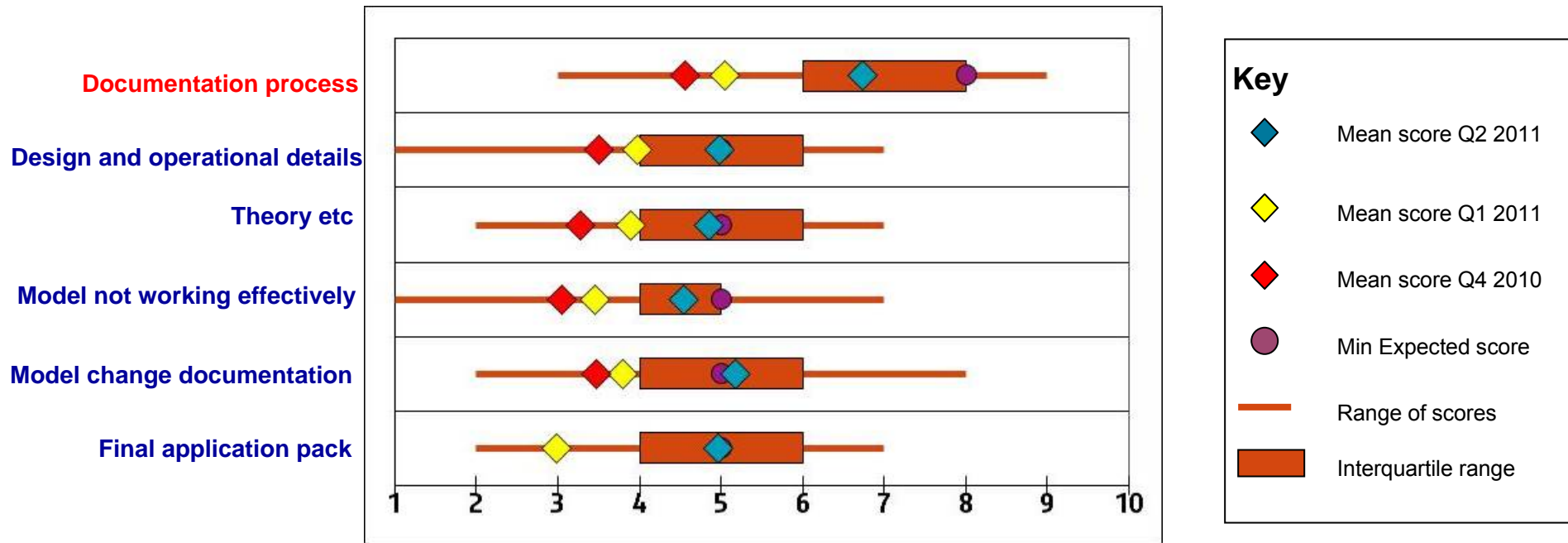
- Final FAP guidance issued 31 August – still subject to ongoing discussion with the FSA
 - how does syndicate application process link to Lloyd’s own IMAP and E-N
 - what is to be submitted to the FSA vs supporting evidence
- Evidence templates (v1) submitted end August – review and feedback completed

Documentation scores are only area behind expectations overall at Q2 ...

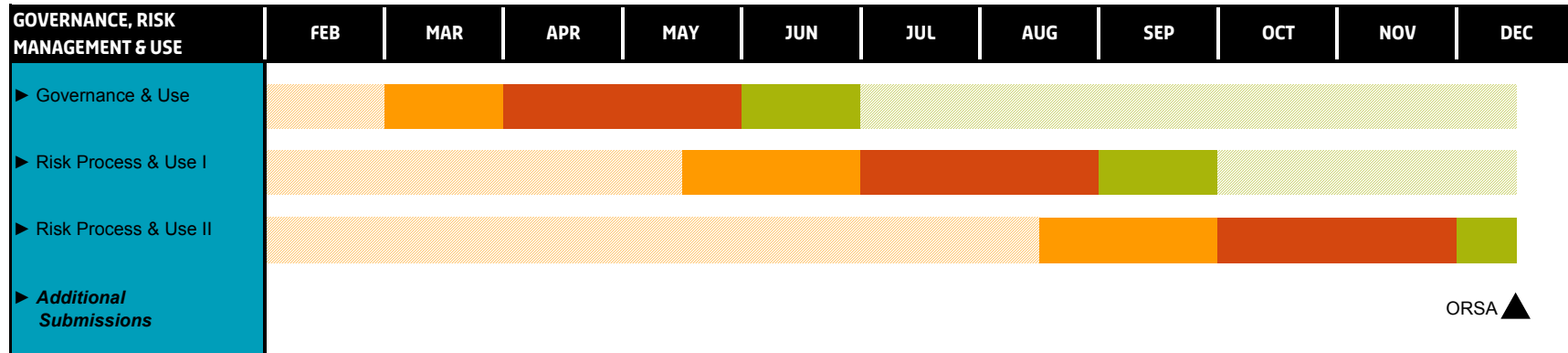


... and main area for focus appears to be process and controls around documentation

Self assessment scores as at Q2 2011



ORSA is part of GRMU workstream but is also a key element of the FAP

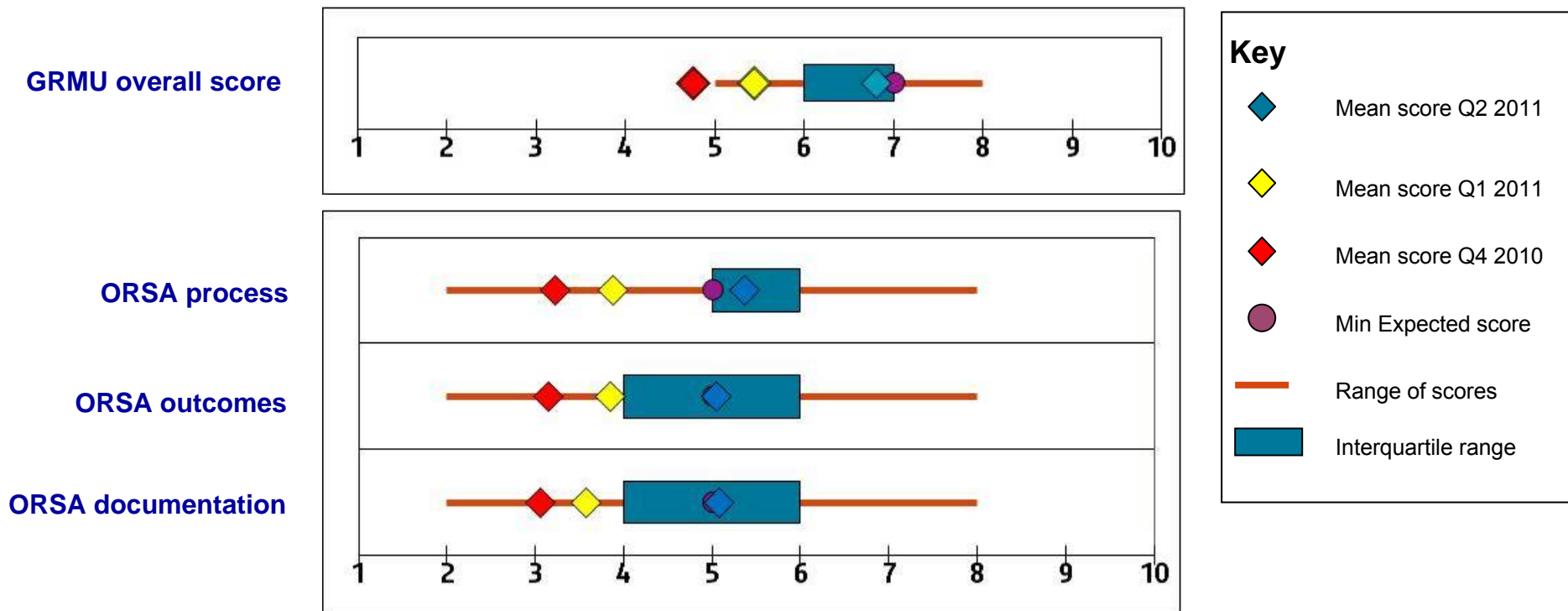


Progress to date (*focus on ORSA only*)

- Updated ORSA guidance issued 2 September 2011
 - principles unchanged from September 2010 guidance but more detail on Lloyd's ORSA
- Draft ORSA report template issued – not mandatory
- Workshop combined with FAP and brought forward following market request

ORSA, as planned, needs greater work now compared to other GRMU workstreams

Self assessment scores as at Q2 2011

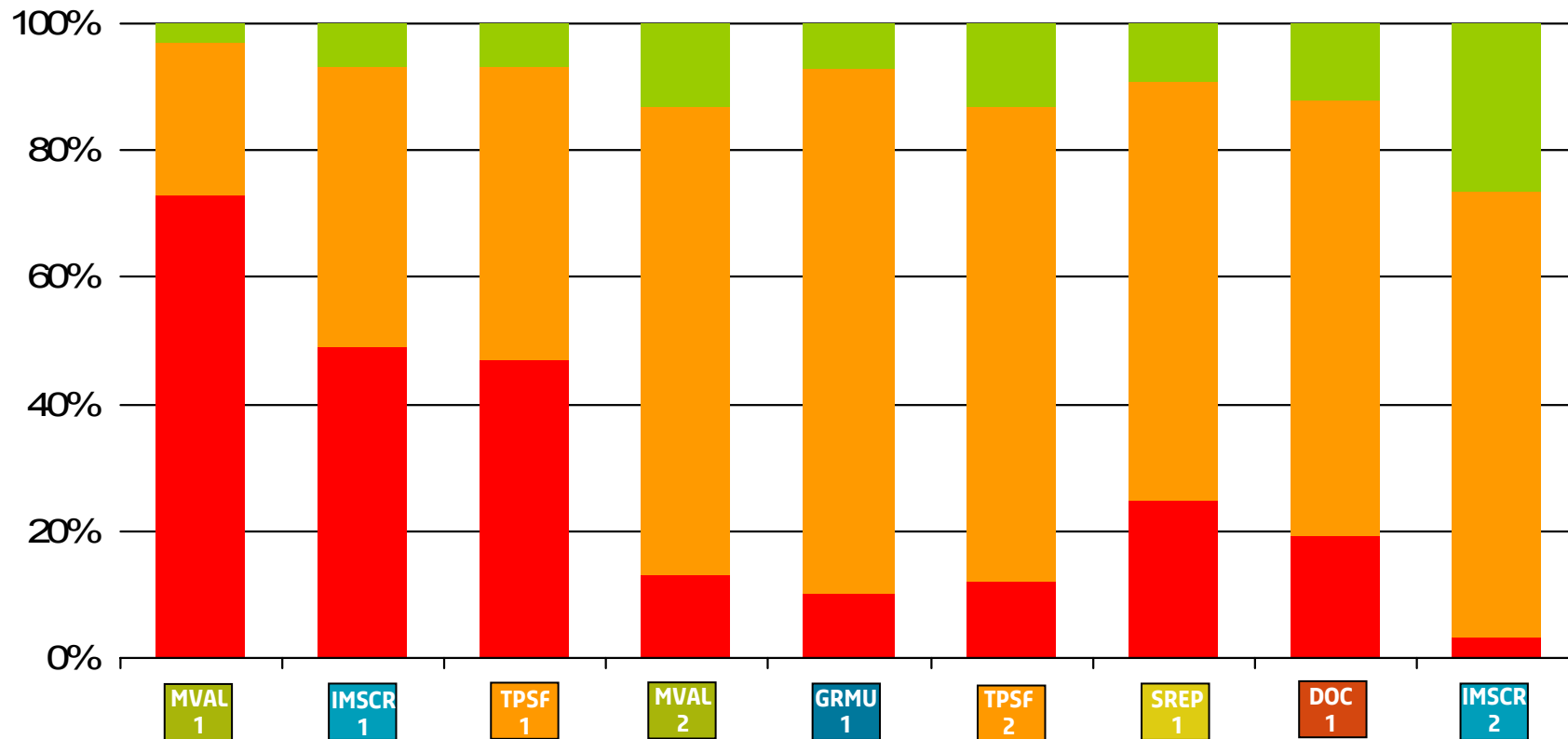


DOCUMENTATION

What we have seen in Documentation Evidence Templates ?

- ✓ Targeted and concise explanations
- ✓ Evidence clearly labelled and relevant
- ✓ Next steps set out if not yet fully addressed
- ✓ Documentation controls explained
- ✓ Structured index which is driving documents
- ✓ BAU processes addressed
- ✗ Lengthy explanations with no clear relevance to question
- ✗ Same answer or list of evidence repeated even where not relevant
- ✗ Questions ignored or “not yet BAU” used
- ✗ Poor presentation
- ✗ Index lists current documents with no structure or mapping

Evidence templates are key link to supporting documentation ...



...and are reflecting feedback

FINAL APPLICATION PACK (FAP)

FAP Agenda

- **Recap on requirements**
- Definition of gaps
- Level of sign off
- Lloyd's review process and next steps

Table discussions

What is the purpose of the FAP?

- Lloyd's has agreed with the FSA that each agent must submit an application for model authorisation
 - in line with E-N process for firms – but not the same
- Lloyd's and agents will need to demonstrate that all relevant Solvency II standards have been addressed and met ahead of implementation
- A summary of Lloyd's review of the FAP and resulting recommendation will be included in Lloyd's application to the FSA
 - Agent FAPs will be “supporting evidence” for application and may be reviewed by the FSA as such
- Culmination of 2 years of dry run – make it count!

Contents of the FAP

Application document

Formal application to Lloyd's to use the model for calculation of regulatory and member level capital requirements confirming status of compliance with all relevant Solvency II requirements – supported by other FAP documents

Self assessment scores

Up to date set of self assessment scores which accurately represent the progress made at the point of application

Evidence templates

Complete set of evidence templates which summarise how requirements have been met and identify the supporting documentation, processes, systems and people to evidence Solvency II compliance

Validation Report

“Final” Validation Report demonstrating that the internal model is fit for purpose

ORSA

Own risk and solvency assessment for the syndicate. Agents need to demonstrate that the process aligns risks with solvency requirements

Lloyd's Capital Return

Numerical output from an agent's internal model to demonstrate calculation of the SCR

Changes made to final FAP guidance following feedback from last workshop

- “Exceptions” and “failures” combined and now to be listed as “gaps”
- Definition of gaps and material gaps provided
- All application document templates now published – use is mandatory
- Submission format clarified
- No change to timetable
- FSA have reviewed
 - no impact on guidance or submission requirements
 - process for Lloyd’s review and evidence to be agreed

FAP must present true status and properly represent all evidence available

- Refer to all evidence available (but not to be submitted)
 - this has been a long process - reflect your efforts and work done
- Be consistent across elements and across templates
 - ensure one section does not contradict another
- Be clear and transparent on gaps
 - serve as a gap analysis and will help both Lloyd's and agents prioritise work ahead of go live date
- **Don't paper over the cracks**
 - better to have a properly completed and assessed FAP with gaps clearly identified and plans to close set out that one which does not stand up to scrutiny and is not supported by evidence available

Where should your key focus be from now until 16 December?

- Clear assessment and explanation of gaps
 - we expect gaps
 - focus on what they are and how they will be closed
 - identifying all gaps preferable to filling / missing some
- Evidence templates – make them count
 - address feedback you have received from Lloyd's
 - clear and concise explanations as to **how** requirements are being met and ensure all evidence is properly covered and mapped
- Ensure independent assurance can be relied upon for FAP sign off
 - it must stand up to review and probing by Lloyd's and the FSA

FAP Agenda

- Recap on requirements
- **Definition of gaps**
- Level of sign off
- Lloyd's review process and next steps

Table discussions

Illustrative example - gaps and material gaps

AREA	DEFINITION OF A GAP	DEFINITION OF A MATERIAL GAP
<p>Self assessed scoring</p>	<p>Any score which at the point of completing the FAP is not at a “10” <i>(ignore expected scores – assessment should be against final requirements)</i></p>	<p>Any score which is 3 or more below expected score at Q4 2011</p>
<p>Evidence Templates</p>	<p>Any evidence template which has not been rated as GREEN by Lloyd’s <i>or</i> where sufficient work has not yet been completed to address feedback from last Lloyd’s assessment of template.</p>	<p>Any evidence template which was rated RED at last Lloyd’s assessment and where material work has not yet been completed to address feedback given.</p>

How much detail is required?

- Each gap and material gap should be identified separately
- Include explanation and work required to close with timeframe
 - should be sufficient to drive 2012 Lloyd's review focus and progress updates
- All material gaps must aim for closure by 31 March
 - i.e. they should be at least down to a “gap” by then
 - nothing outstanding that prevents agent certifying compliance
- All other gaps must aim for closure in 2012
 - ongoing discussion required on timing and “number”

Example gap explanation

DETAILS OF GAP	IS GAP MATERIAL (YES/NO)	DEVELOPMENT PLAN	TIMETABLE
GRMU evidence template was rated AMBER at last Lloyd's review and feedback not yet addressed	No	Template to be updated in line with Lloyd's feedback achieve 'Green' status.	End Jan 2012
Risk Management score is 8 as Risk Appetite measures are not fully monitored across the Committee structure. All appetite measures and tolerances are defined but MI still need to be finalised. A full training and education plan has been completed in relation to the new approach to risk appetite.	No <i>(2 gap in score)</i>	All defined risk appetite measures need to be fully approved, defined and monitored across the Risk Governance structure.	End March 2012
Use test score is a 6 as model uses not yet fully agreed and signed off by the board. MI therefore not fully designed and model not in use for decision making.	No <i>(2 gap in score)</i>	Full draft list of uses available and due to be signed off at board meeting on 26/1/12. Model output design will be progressed based on outcome and draft MI due at March board meeting. Process expected to be fully embedded during Q2 2012	End June 2012
ORSA Process score is a 5 as whilst a draft process has been defined, it is not complete or finalised as there are significant dependencies on other aspects of the programme e.g. calculation kernel, risk appetite definition etc. Whilst an ORSA report is being submitted to Lloyd's it does not have the depth of coverage required to fully meet the requirements.	Yes <i>(3 gap in score)</i>	ORSA process to be finalised and approved by the Board together with an updated, complete and fully approved ORSA report submitted to Lloyd's.	End June 2012

FAP Agenda

- Recap on requirements
- Definition of gaps
- **Level of sign off**
- Lloyd's review process and next steps

Table discussions

Board sign off is a “positive affirmation”

- Application must be “complete in every respect” and subject to full board approval
- Board are not signing to say all requirements are met but are signing off on the fact that application properly represents current status
- Does not mean the board have to review all supporting documents but they will need to have sufficient comfort to make relevant statements
 - Independent assurance process
 - Board sub committees
 - Check on feedback given by Lloyd’s and overall rating
- FAP sign off must include as a minimum statements published in Section 1 of the guidance
- Separate sign off may apply to other individual FAP components

Full board sign off not needed on each element but sufficient awareness needed to sign off that application is “complete”

FAP ELEMENT	FULL BOARD SIGN OFF REQUIRED	COMMENT
Application document	✓	In line with board responsibilities statements
Self Assessment Scores	✗	Board awareness expected - reliance on independent assurance process
Evidence templates	✗	Board awareness expected - ensure aware of Lloyd’s feedback as well as own view
Validation Report	✗	Report <i>to</i> the Board – understand content and limitations
ORSA	✗	Board involvement and awareness expected
LCR	✓	Similar to current ICA

Validation Report is a key element

- This is a report to **Agent Boards**
 - Should contain enough information for Boards to get comfort...
 - ...but will necessarily summarise underlying detail
 - The detail is still needed – it should be referenced in the report and available for review if requested
- This is to allow Agent Boards to discharge their **responsibilities in applying for authorisation** for the internal model
 - Model output needs to be fit for purpose
 - Model needs to meet regulatory standards (in all areas - e.g. around assumptions, methods, data, use, governance etc)

Contents of the Validation Report

- These aims set out in “Example Validation Report Contents” in the guidance
- Lloyd’s and FSA will expect Board members to have a understanding of models and the Validation Report
 - Boards should expect challenge from Lloyd’s over the key themes
 - Confirmation statements are an important part of Validation Reports
 - Lloyd’s is looking for evidence that Boards have considered whether the scope and extent of validation work is sufficient...
 - ...so a level of positive assurance is required...

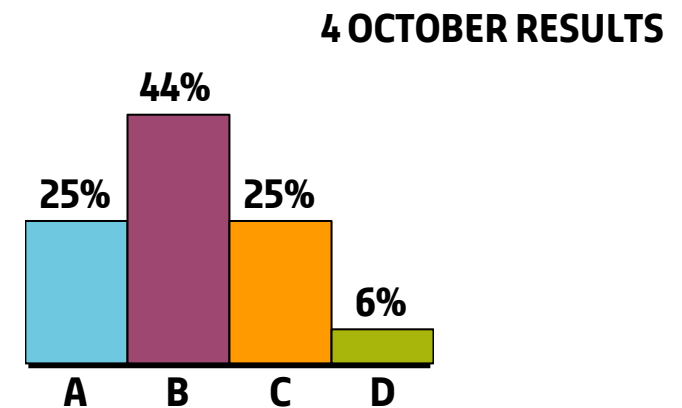
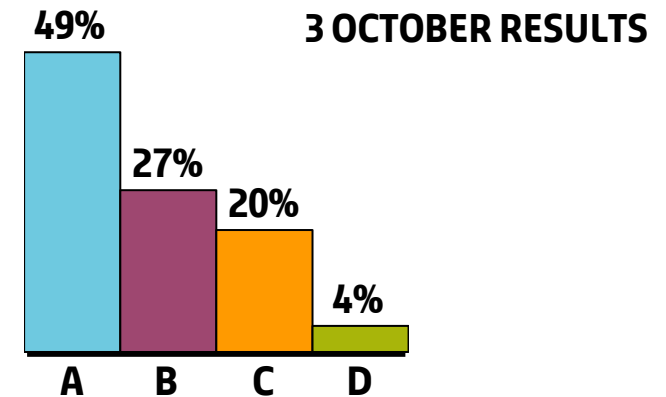
...to support Board sign-off that agent is Solvency II compliant

- List the limitations...
- ...detail the further work required...
-subject to the above...
-**Model is appropriate...**
-**to provide reasonable assurance...**

...that the SCR is not materially misstated

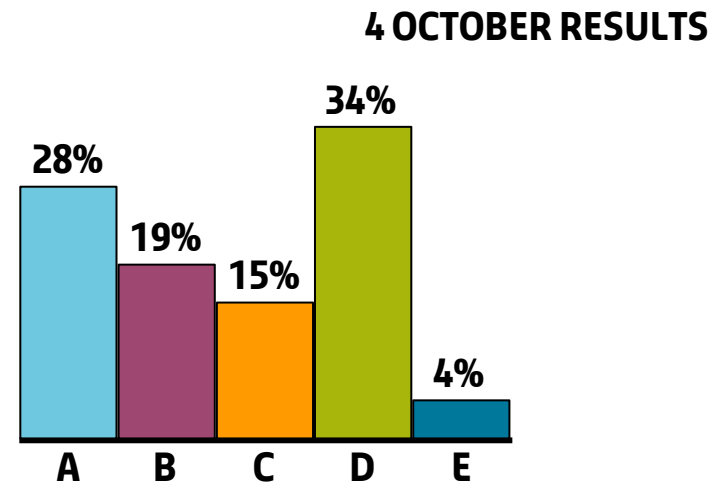
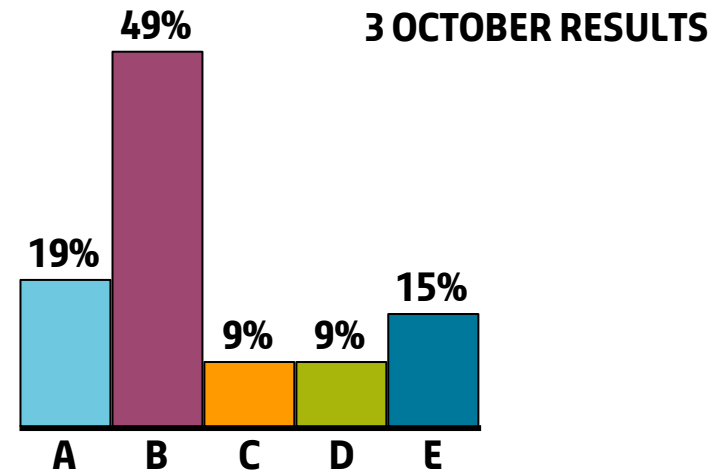
Lloyd’s requirement that the Validation Report states, with caveats, “that the model is appropriate and provides reasonable assurance that the SCR is not materially misstated” is:

- A. My understanding of the Directive and achievable
- B. Achievable
- C. My understanding of the Directive but unrealistic
- D. In excess of the Directive requirements and unrealistic



The Directive requirement of the Validation Report can be met, with caveats, by stating: “that the model is appropriate and...”:

- A. Nothing more needed: all requirements can be implicit from this alone
- B. ...not materially mis-estimated
- C. ...free from error
- D. ...not materially under-stated
- E. Other



Level of sign off required on LCR return

- Agents must provide sufficient evidence of a robust process to allow LIM to place reliance on syndicate SCRs
- Interim submissions have provided partial / real data to test the LIM
- Full SCR via LCR return required by 31 October to calibrate the LIM

Return	Level of sign off	Provided by
July SCR	Best efforts	Capital/Risk committee
September SCR	Negative Assurance	Capital/Risk committee
Final SCR (October)	Positive Assurance	Board

- SCR submitted at 31/10 must be consistent with projected TP's to 31.12.11 submitted on 30/9

FAP Agenda

- Recap on requirements
- Definition of gaps
- Level of sign off
- **Lloyd's review process and next steps**

Table discussions

Lloyd's will review FAPs during Q1 2012

- We will not review all supporting documents and evidence
- Review will focus on statements made and level of gaps declared
 - Is this consistent throughout pack?
 - Does it tie in with our view of agent progress?
 - Do evidence templates and mapping to underlying evidence support the statements made?
- FSA may also review agent FAPs
- We will be more convinced by a credible assessment of gaps and a robust plan to address them than “no gaps”

Any views can only be “conditional” at this stage

- Final requirements are not yet known
 - L2 and L3 not now due until late 2012
- This is still a dry run and will not be the last assessment
- Outcome of review process will be
 - Minded to authorise provided that...
 - or*
 - Minded not to authorise unless ...
- Further discussion with FSA on our process in Q4 2011 and Q1 2012
 - FSA syndicate review work over same period

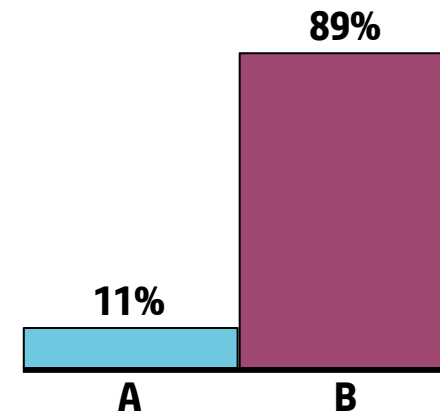
What happens after FAP submission and review?

- Agents must continue to work on closing gaps during Q1
- Quarterly updates as a minimum in 2012 on status of gaps and progress being made
- Some market wide submissions will be needed in 2012 from all agents
 - Updates as above but also quantitative returns – TP/SCR etc
- Plan for 2012 currently under discussion internally
 - We will need to follow up on evidence templates and do further reviews of underlying documentation
 - Walkthroughs and discussions to see processes in operation
- **Business as usual!**

On what basis do you think Lloyd's should develop its 2012 plan?

- A. Market wide plan which applies to all agents with regular updates, scheduled evidence template submissions and thematic reviews
- B. Agent specific workplans with targeted updates and evidence template submissions supported by some market wide thematic reviews

3 OCTOBER RESULTS



4 OCTOBER RESULTS

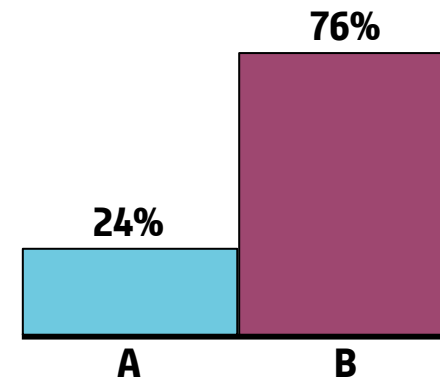


TABLE DISCUSSIONS

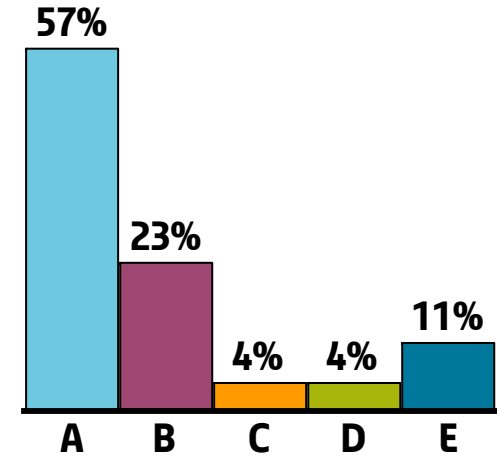
Discussion - how many gaps / material gaps would you report?

Dry Run Reference		2011					2012				LATEST EVIDENCE TEMPLATE RATING ASSESSED BY LLOYD'S /SELF ASSESSED
		Q3		FAP	Q4		Q1		Q2		
		Syndicate self-assessment score	Lloyd's Expected Score	FAP self assessed score	Syndicate self-assessment score	Lloyd's Expected Score	Syndicate Self-Assessment Score	Lloyd's Expected Scores	Syndicate Self-Assessment Score	Lloyd's Expected Scores	
GOVERNANCE, RISK MANAGEMENT AND USE											
SOG	General governance requirements	8	8-9	9		10		10		10	
SOG	Fit and proper	10	8-9	10		10		10		10	
SOG	Risk management	8	8-9	8		10		10		10	
SOG	Internal control	8	8-9	10		10		10		10	
SOG	Internal audit	9	8-9	9		10		10		10	
SOG	Actuarial function	4	8-9	5		10		10		10	
SOG	Outsourcing	10	8-9	10		10		10		10	
MSG	Risk coverage	9	10	10		10		10		10	
MSG	Use test	5	5-7	6		8-9		10		10	
MSG	Model governance	8	8-9	8		10		10		10	
MSG	Model change policy	7	8-9	8		8-9		10		10	
ORSA	ORSA process	4	5-7	5		8-9		10		10	
ORSA	ORSA documentation	4	5-7	5		8-9		10		10	
ORSA	ORSA outcomes	4	5-7	5		8-9		10		10	
REPORTING AND DISCLOSURE											
SREP	Supervisory reporting and disclosure	4	5-7	4		8-9		8-9		10	
DOCUMENTATION AND FINAL APPLICATION											
DOC	Documentation process	6	8-9	8		8-9		10		10	
DOC	Design and operational details	7	5-7	7		8-9		10		10	
DOC	Theory, assumptions, mathematical and empirical basis	5	5-7	5		8-9		10		10	
DOC	Circumstances where the model does not work effectively	6	5-7	7		8-9		10		10	
DOC	Model change documentation	7	5-7	8		8-9		10		10	
APP	Final application pack	5	5-7	9		8-9		10		10	

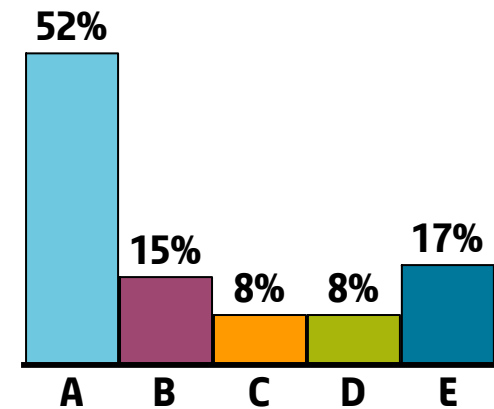
How many “gaps” did you identify in total?

- A. 19
- B. 17
- C. 15
- D. 13
- E. None of the above!

3 OCTOBER RESULTS



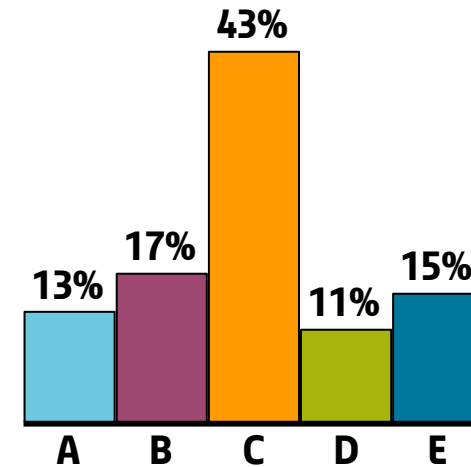
4 OCTOBER RESULTS



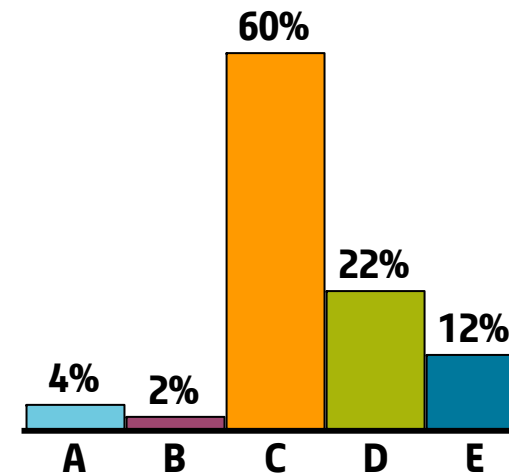
How many of these were material gaps?

- A. 10
- B. 9
- C. 7
- D. 6
- E. None of the above!

3 OCTOBER RESULTS



4 OCTOBER RESULTS



Did you agree?

Dry Run Reference		2011					2012			
		Q3		FAP	Q4		Q1		Q2	
		Syndicate self-assessment score	Lloyd's Expected Score	FAP self assessed score	Syndicate self-assessment score	Lloyd's Expected Score	Syndicate Self-Assessment Score	Lloyd's Expected Scores	Syndicate Self-Assessment Score	Lloyd's Expected Scores
GOVERNANCE, RISK MANAGEMENT AND USE										
SOG	General governance requirements	8	8-9	9		10		10		10
SOG	Fit and proper	10	8-9	10		10		10		10
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SOG	Internal control	8	8-9	10		10		10		10
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APP	Final application pack	5	5-7	9		8-9		10		10

LATEST EVIDENCE TEMPLATE RATING ASSESSED BY LLOYD'S /SELF ASSESSED

Gap
 Gap
 No gap
 Gap
 No gap
 Gap
 Material Gap
 No gap
 No gap
 Gap
 Gap
 Gap
 Material Gap
 Material Gap
 Material Gap

No gap
 Material Gap
 Material Gap
 Gap
 Gap
 Material Gap
 Gap
 Gap
 Gap

TOTAL NO OF GAPS	19
MATERIAL GAPS	7

ORSA

Agenda - ORSA

- **Recap on ORSA guidance**
- Expectations for December submission
- Issues for discussion

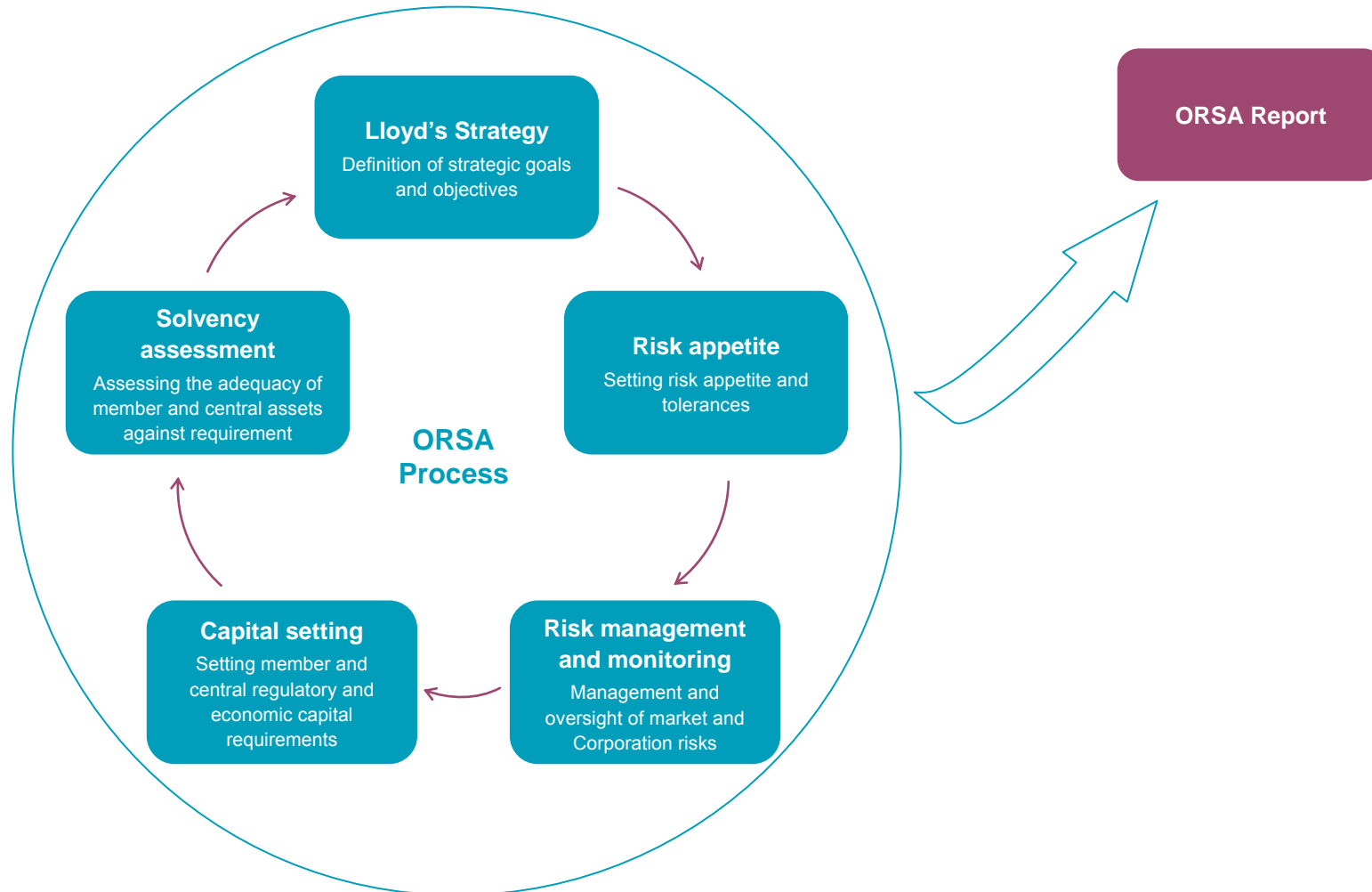
Guidance summary

- **Updated ORSA guidance issued in September**
 - Includes LMA feedback and direct comments from agents
 - FSA feedback included but ongoing discussion
- **Deliberately not prescriptive**
 - ORSA should be tailored to each agent
 - Intended to allow flexibility...
 - ...whilst maintaining consistent standards across the market

Key expectations of agent ORSAs

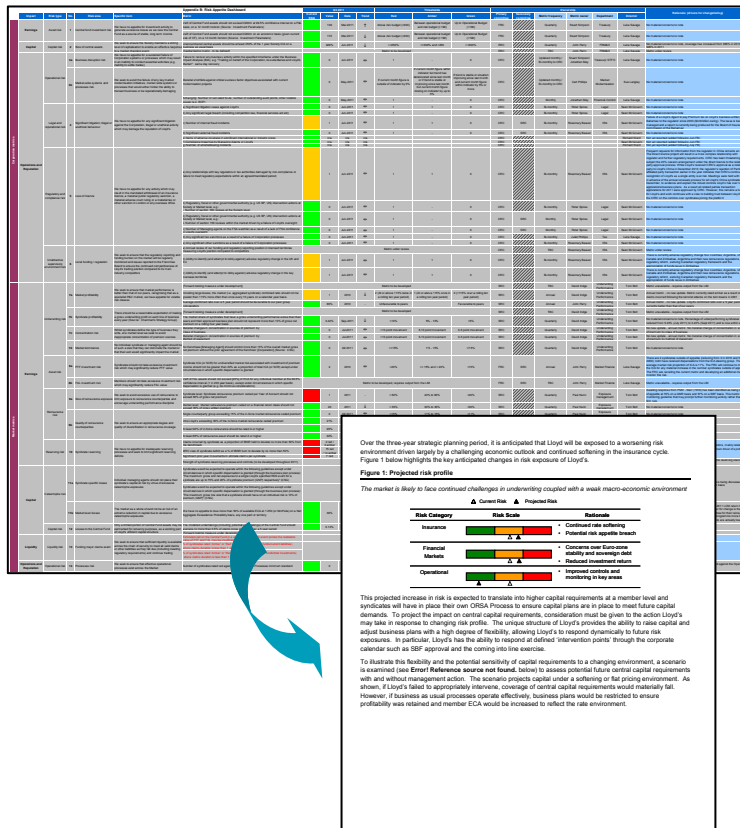
- **A clear, documented process for assessing solvency needs**
 - Link between business strategy, risk appetite, capital and solvency
 - Likely to build on existing processes and the links between them
- **Output and key decisions within report**
 - Process should operate 'continuously'...
 - ...but formally documented at least annually
 - Differentiate between reference documents and 'dynamic' output
- **Evidence of the outcomes shown in guidance**
 - *How* these are achieved will differ across the market
 - We will look for evidence of each aspect within the ORSA report

Lloyd's Society approach



Lloyd's ORSA examples: Risk appetite

Risk appetite dashboard



- Lloyd's risk appetite framework
 - 14 statements
 - 50 metrics
- Monitored 'continuously' by owners and reported to Executive Risk Committee quarterly
- Documented in ORSA Report
 - Focus on consistent 'reds'
 - Consider strategic solutions

Lloyd's ORSA examples: Stress testing

Euro-zone crisis scenario Impact on asset value across CoS

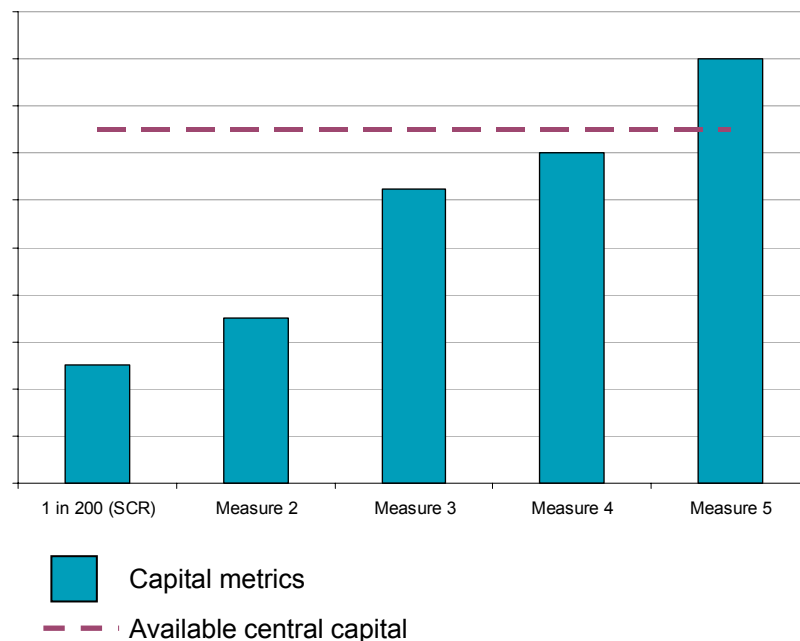


NB: CHART SANITISED

- 'Flexible' stress testing section in ORSA Report
 - Populated based on current concerns
- Euro-zone analysis considered in Lloyd's pilot ORSA
 - Change risk appetite?
 - Change asset mix?
 - Need to increase capital?

Lloyd's ORSA examples: Central capital setting

Size of the central fund



NB: CHART SANITISED

- Process already in place to set level of central assets
- Formalised and documented Board discussion in ORSA
- This chart is one of many metrics used to support Board decision on central assets

Agenda - ORSA

- Recap on ORSA guidance
- **Expectations for December submission**
- Issues for discussion

December submission – Objectives

- **To ensure all agents are well progressed and have a good understanding of how the ORSA will work for them**
 - Constituent elements of the ORSA sufficiently developed
 - Feedback on critical areas incorporated ahead of April 2012 application
- **To ensure tangible evidence is available that we can submit within the Lloyd's application**
 - Demonstrate clear Board involvement and engagement in the process
 - Provide sufficient evidence of the culmination of Solvency II compliance to support the final application pack
- **To support prioritisation of 2012 review work**

December submission – Documents

Document	Key content	Expected status
ORSA Policy	<ul style="list-style-type: none"> • Description of the overall ORSA process • Role of the Board and senior management • May reference supporting documentation 	<ul style="list-style-type: none"> • Complete document • Evidence of Board consideration... • ...Not necessarily signed off by Board
ORSA Report	<ul style="list-style-type: none"> • Results of latest ORSA <ul style="list-style-type: none"> ◦ Economic capital ◦ Forward-looking risk and capital • Reference all 'expected outcomes' in guidance 	<ul style="list-style-type: none"> • 'Good' draft of all elements... • ...Not necessarily "polished" • Evidence of Board involvement... • ...Not necessarily full approval

Agenda - ORSA

- Recap on ORSA guidance
- Expectations for December submission
- **Issues for discussion**

Proposed agent issues for discussion

1

Forward-looking assessment

Issue: Requirement for forward-looking assessment of capital goes further than traditional one-year capital setting horizon

Question: How are you achieving a multi-year solvency assessment that is sufficiently quantified?

2

Independent assurance

Issue: Requirement for independent review of the ORSA (NB: not required for December submission)

Question: How developed is your independent review approach? What is the scope? How will the review be performed?

3

Solvency assessment

Issue: The ORSA requires a continuous assessment of solvency against required capital – may not be possible for all syndicates

Question: How are you ensuring continuous compliance with solvency requirements? Does this differ for non-aligned syndicate?

NEXT STEPS & FEEDBACK

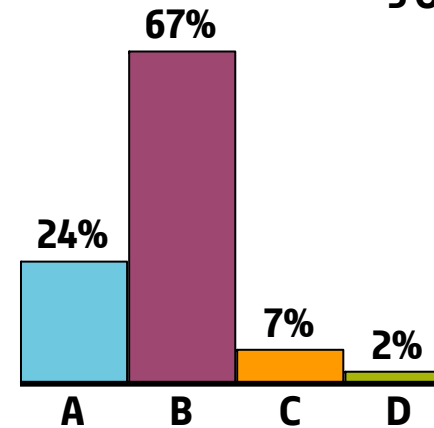
What happens next?

- Slides will be made available on lloyds.com after both workshops
- Evidence template reviews and feedback will continue ahead of FAP submission
- FAP scoring sheets will be provided to all agents
- Next workshops (last scheduled for 2011)
 - Governance, Risk Management & use – 7 & 10 November
 - Directors briefing – 23 & 24 November
- Lloyd's will develop plan for 2012 and aim to issue for feedback by end November
- Finally, before you go, a request for feedback on today's session ...

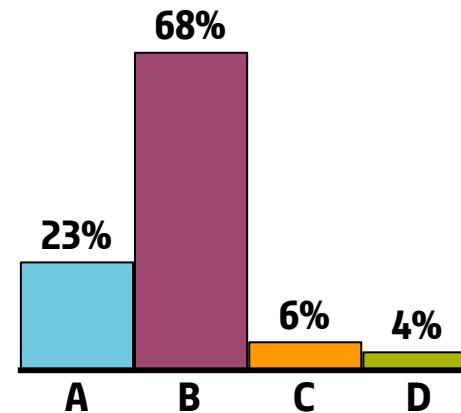
How useful have you found today's session?

- A. Very useful and I have learnt something
- B. Useful and we will use the slides for reference
- C. Useful, but greater technical guidance would have been beneficial
- D. Not very useful

3 OCTOBER RESULTS



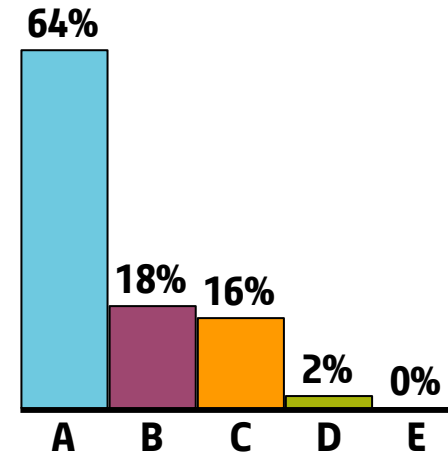
4 OCTOBER RESULTS



How have you found format of today's workshop?

- A. I liked having 2 discussion sessions and balance was good
- B. I liked having 2 discussion sessions but they should be shorter
- C. I would prefer to have only one table discussion
- D. Would prefer less discussion and more presentation
- E. Other

3 OCTOBER RESULTS



4 OCTOBER RESULTS

