

DOCUMENTATION & FINAL APPLICATION WORKSHOP

Agenda

- Review & ratings to end 2012
- Evidence Templates & Agent Status Reports
- Onsite Walkthroughs
- Final Sign off submission
- BAU Operating Model

Table discussions

- Next steps

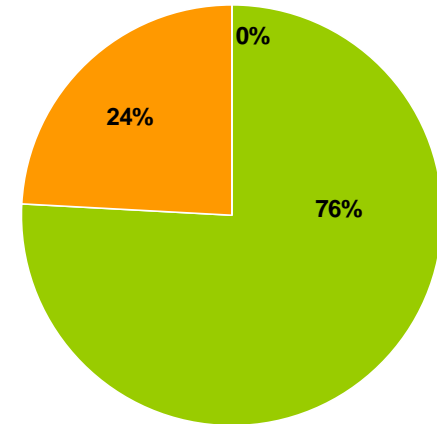
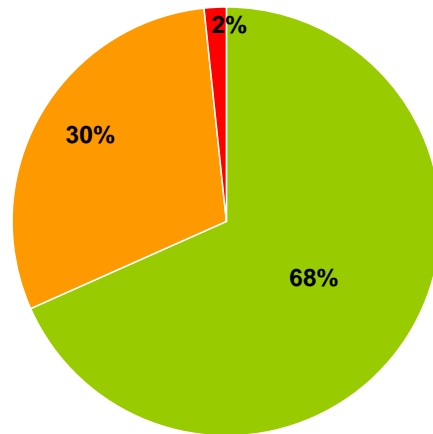
REVIEW & RATINGS TO END 2012

Agent Ratings reflect progress post Final Application Pack (FAP) reviews

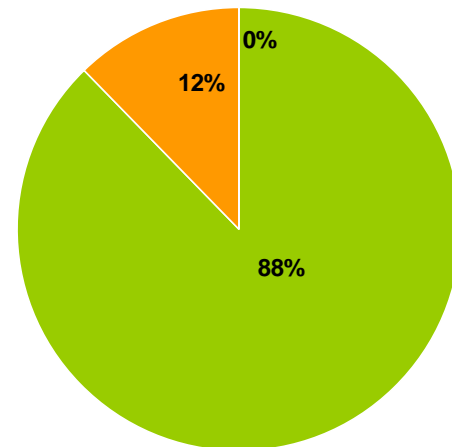
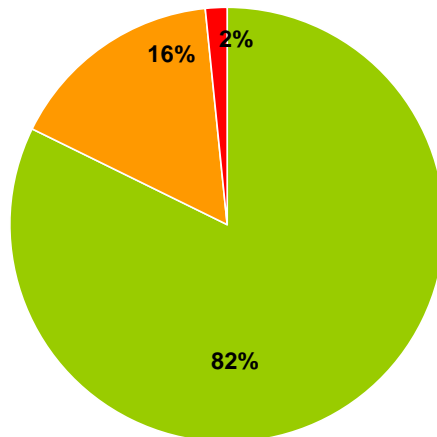
FAP – Q1 2012

Q2 2012

BY AGENT



BY MATERIALITY
(2012 ICA)



FAP ratings reflected 30 June deadline for gap closures...

- FAP rating was a point in time assessment and has been kept under review via DROP
- Rating reflects reported and evidenced progress:
 - submission of Agent Status Reports (ASRs) and self assessment scores
 - review of resubmitted Evidence Templates (ETs) and documents
 - any issues arising from subsequent review work

...but need to be re-defined now looking ahead to 5 October final sign off

- Principles of 3 tier ratings remain the same
 - **GREEN** – on track
 - **AMBER** – some concerns but material remediation not required
 - **RED** – material concerns remaining / substantial (re)work required
- Lloyd's IMAP submission portrays agent status as at 31 May 2012
- Final attestation required for FSA as at 31 December 2012
 - binary outcome – tests & standards have been met **YES** or **NO**
 - no room for nearly there
- Based on evidence and affirmation as at 5 October – additional agent submissions by exception

Updated rating definitions to end 2012

| | FAP RATING | UPDATED DESCRIPTION |
|--|---|---|
| | <ul style="list-style-type: none"> Confident that agent is on track to close gaps identified in FAP by 30 June provided work plan for gap closures is adhered to | <ul style="list-style-type: none"> No evidence that agent does not meet tests and standards based on work completed to date Timetabled review work on-going but no reason to conclude this will uncover gaps against Tests & Standards beyond development points Agent has reported no gaps or only immaterial size/number of gaps remaining beyond 30 June |
| | <ul style="list-style-type: none"> Not confident that agent can complete work required to close all gaps identified in FAP by end June | <ul style="list-style-type: none"> No evidence of material gaps against tests and standards but some further Lloyd's review and follow up work needed to provide assurance Timetabled review work on-going may raise additional gaps against Test & Standards Agent has reported a number of gaps remaining beyond 30 June OR Agent has reported gaps complete but Lloyd's review findings do not agree |
| | <ul style="list-style-type: none"> Agent has critical/material gaps which will not be closed by end June | <ul style="list-style-type: none"> Evidence that agent does not currently meet tests and standards based on work completed to date Significant risk that further work areas will find additional gaps Agent has reported significant work outstanding |

What happens next?

Agents

- Q2 self assessed scores and ASR due by end July
- Address issues arising from on-going reviews
- Address FSA feedback where relevant

Lloyd's

- Review and feedback on re-submissions and onsite reviews
- Finalise and issue Level 2 mapping
 - being signed off internally and will be shared with LMA by end July
- Develop framework for BAU

Key themes arising from FSA review of agents...

- External Catastrophe models – validation, documentation & treatment of non peak perils
- Validation – expert judgement and stress testing
- Use test – evidence of model use in decision making
- Policies not reflecting reality
- Model change – parameter updates and backtesting of triggers
- Outsourcing – cat modelling and group services
- **All feedback to be addressed by end 2012**
 - The FSA will reach a view on each agent in early Q1 2013

... and common concerns arising from Lloyd's own review work

- Quality of validation vs quantity
- Moving from project into BAU – handing over the reins
- Self reliance and sustainability
- Quantitative – tying figures together

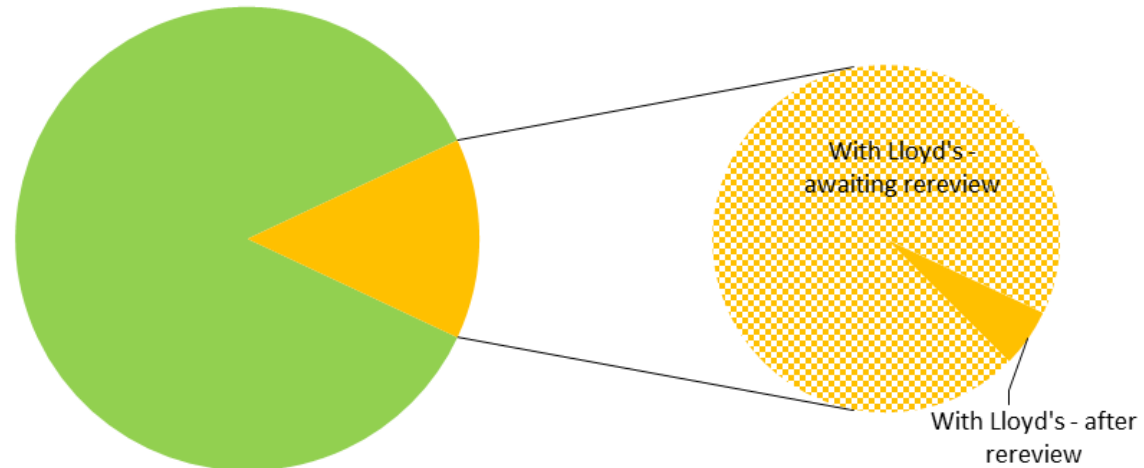
EVIDENCE TEMPLATES & AGENT STATUS REPORTS

86% of ETs now rated Green ...

First submissions across all workstreams in 2011



ET ratings as at end Q2

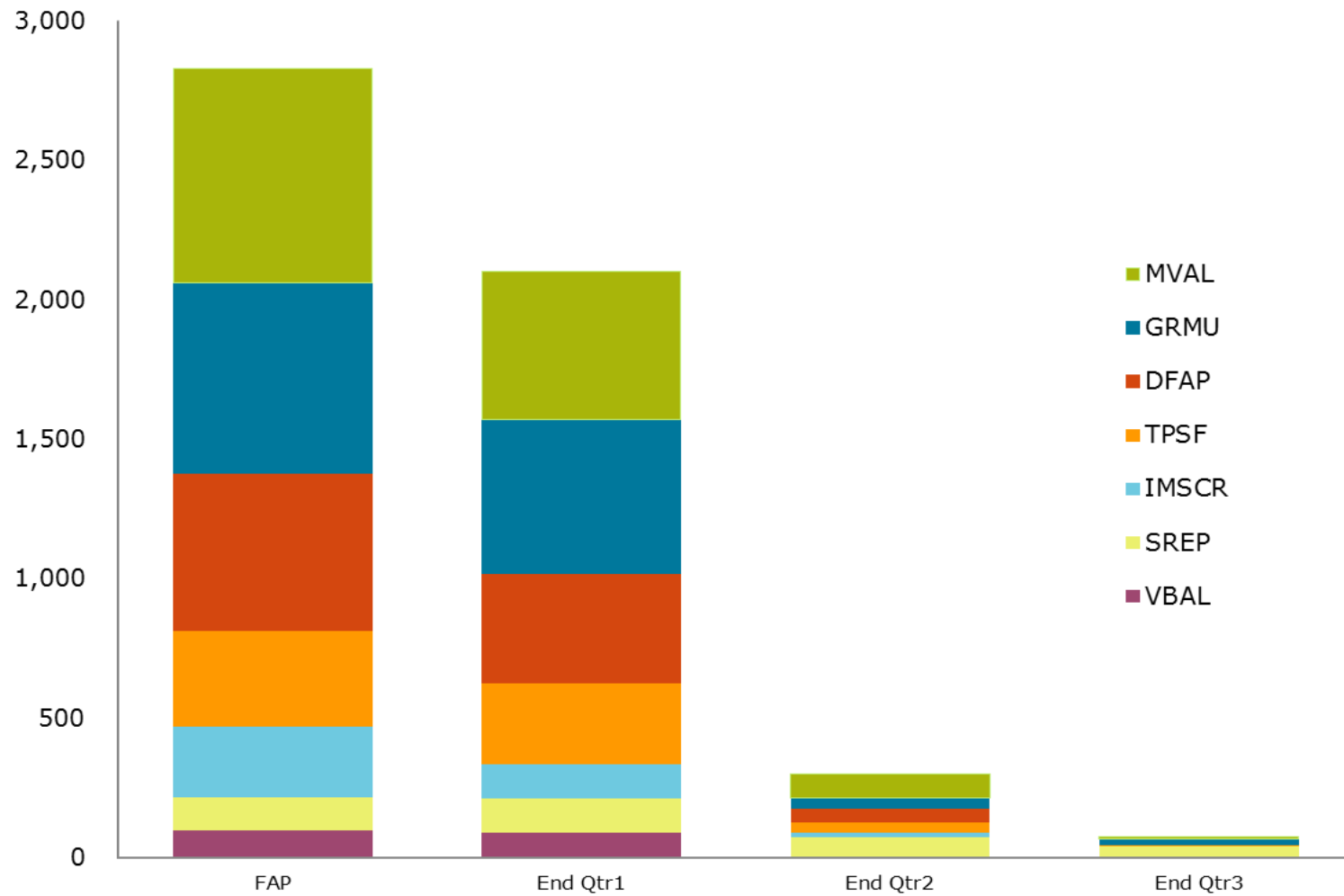


... which is a key criteria for overall green rating

ETs or similar required in BAU

- We will not be revisiting Green ETs in current format
- Keep up to date to reflect any changes in approach or process as you settle into BAU
 - should be available on request as should supporting evidence cited
- Update required when final Level 2 and 3 text is agreed
- Structure may change to align more closely with BAU divisions rather than project workstreams
 - market consultation on format and layout via LMA

ASR status reported and projected by agents



Agent Status Reports are required until all gaps closed and feedback addressed

- ASR should reflect all outstanding work needed to confirm tests and standards have been met
- Needs to reflect both Lloyd's **AND** FSA feedback
 - all outstanding work set out in one place
- May mean re-opening gaps
- Justify our view of agent status with FSA
 - need complete and consistent picture
- Credibility of self assessment and assurance process impacts rating and Lloyd's sampling of evidence

What does a 10 score/closed gap mean?

Does mean

- ✓ Process is fully designed, documented, signed off and ready to use
- ✓ All feedback to date has been addressed/reflected

eg: Model change policy finalised with all feedback addressed, triggers backtested, signed off by board and process ready for first change

Does not mean

- ✗ Process must be fully embedded and full cycle of use can be demonstrated at this time
- ✗ Perfection - we expect developments and enhancements once fully operational

Must be good enough to be able to say “yes” to meeting Tests & Standards

ONSITE WALKTHROUGHS

Documentation System walkthroughs focused on 4 key areas

| | |
|-----------------------------------|--|
| DOCUMENTATION STORAGE | <ul style="list-style-type: none">• What system is being used?• What structure, controls and maintenance are in place |
| ACCESSIBILITY OF DOCUMENTS | <ul style="list-style-type: none">• Test that structure and controls are applied in practice• Ensure Indexed documents can be tracked through |
| ADDRESSING FEEDBACK | <ul style="list-style-type: none">• Documentation Index and Evidence Template |
| CONSISTENCY | <ul style="list-style-type: none">• Does demonstration of system and controls in place tie up with explanations given in ET? |

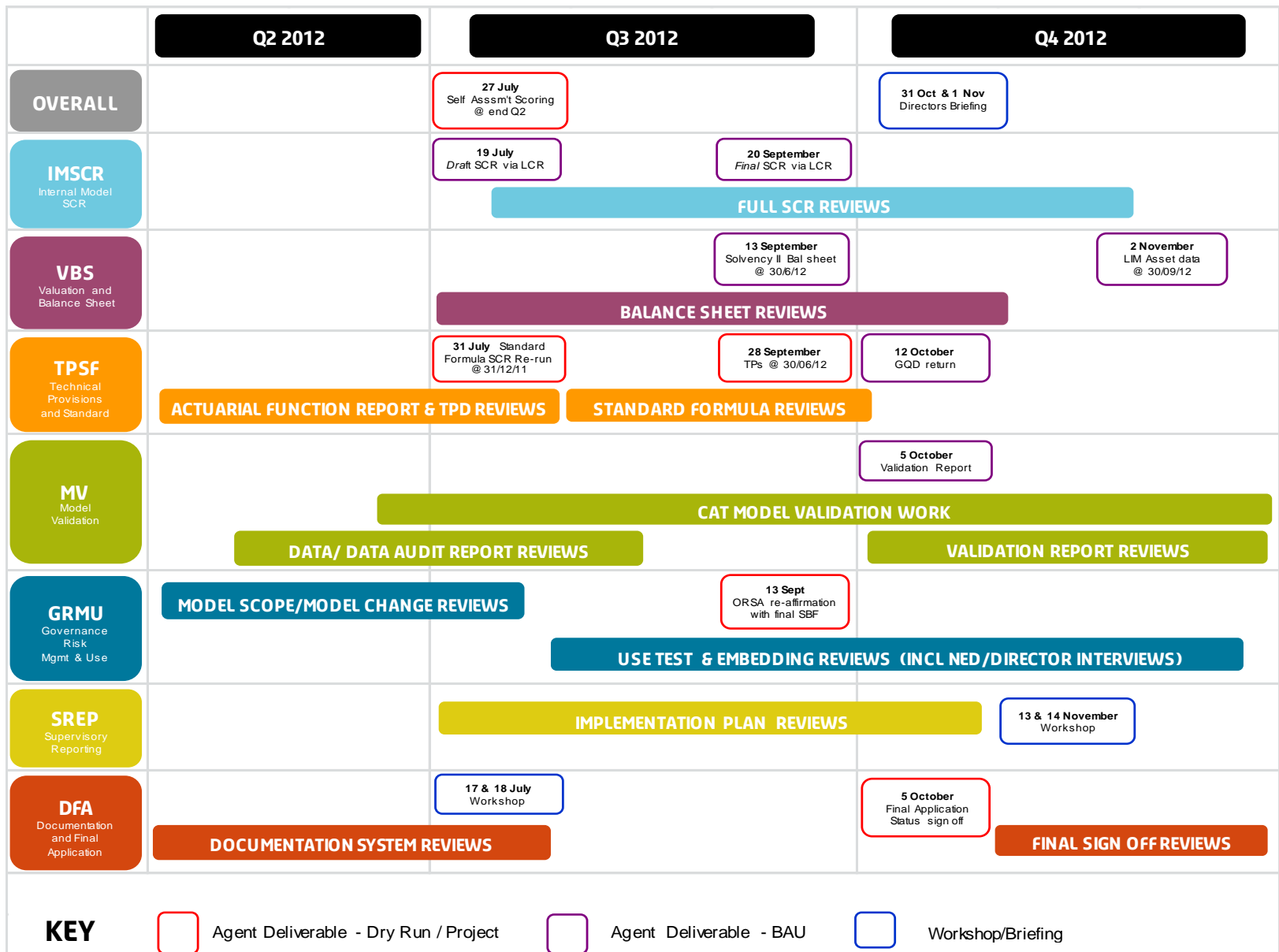
What were the key themes arising?

- ✓ Wide usage of documentation management systems
- ✓ Evidence of controls being applied in practice
- ✓ Test documents located and adhering to control principles
- ✓ Documentation indexes and ETs updated to reflect feedback
- ✓ Explanations provided previously align with systems and controls in place
- ✗ Not fully utilising DMS capabilities (eg reports, dashboards, customised views)
- ✗ Roles and responsibilities going forward not identified/clear
- ✗ BAU structure not clear – currently driven by project/workstreams
- ✗ Tiering of documentation to audiences not addressed
- ✗ Mapping to L1/L2 not completed in all cases

Timetable for current review work

| Review | Feedback due |
|--|------------------|
| Onsite Documentation System reviews complete | end July |
| Onsite Data reviews complete | end July |
| Onsite Model Scope & Change reviews complete | end July |
| Actuarial Function Report reviews complete | end July |
| Data Audit Report reviews on-going | end August |
| Reporting Implementation Plans under review | end Sept |
| Solvency II Balance Sheet @31.12.11 under review | on-going queries |

Remaining review work in H2 2012



KEY



Agent Deliverable - Dry Run / Project



Agent Deliverable - BAU



Workshop/Briefing

FINAL SIGN OFF

Sign off in October that you meet or do not meet tests and standards

- Attestation required as at 31 December 2012
 - timetable needs to work back from that date
 - submission 5 October aligns with Validation Report
- Reduction from 2011 FAP submission requirements
 - status based on regular updates and ASRs
 - by exception Lloyd's may require supporting evidence
- Board will, however, need sufficient evidence to sign off that gaps are closed and tests & standards are met
 - *will exclude Supervisory Reporting workstream which continues into 2013*

Article 203 requirements

“In the application for using an internal model to calculate the Solvency Capital Requirement, insurance and reinsurance undertakings shall submit, as a minimum, documentary evidence that the internal model fulfils the requirements set out in Articles 101, 112 and 120 to 126 of Directive 2009/138/EC, including:

- (a)** a cover letter requesting the use of an internal model to calculate the Solvency Capital Requirement. The cover letter shall be signed by the administrative, management or supervisory body of the insurance or reinsurance undertaking and include:
 - (i)** *a request for approval to use an internal model to calculate the Solvency Capital Requirement starting from a specified date and a general explanation of the internal model including a brief description of the structure and the scope of the model;*
 - (ii)** *a confirmation of the period prior to the application for which the internal model has been used in their risk management system and decision making processes in accordance with the requirements set out in Article 120 of Directive 2009/138/EC;*
 - (iii)** *a confirmation that the application is complete and includes an accurate description of the internal model and that no relevant facts have been omitted;*

Sign off – what's needed

- ✓ Letter of application to Lloyd's to “authorise” model
 - ✓ Positive affirmation that tests and standards are met
 - ✓ Any exceptions (gaps) clearly stated and an ASR to support work outstanding
 - ✓ Set out operating model for ensuring ongoing compliance with Tests & Standards
 - ✗ Evidence templates and supporting documents not required
-
- Lloyd's will issue templates to be used for letter and laying out BAU process as soon as possible
 - in line with Art 203 of draft Level 2 and FSA process

BAU OPERATING MODEL

Lloyd's BAU review process

- Proposal is part of our IMAP submission to the FSA
 - discussed at high level – subject to further discussion and agreement over coming months
- Approach will be Qualitative **THEN** Quantitative
- Meeting all Tests & Standards condition precedent to consider modelled SCR
- Duty to set capital equitably for all members
 - retain a quantum review for authorised models

Transition to BAU through 2013

- Not as intrusive as dry run process but wider in scope than previous ICA reviews
- Account Manager relationships maintained
- Reviews will rely on existing processes...
 - *SBF reviews, TP reviews, SAOs, Minimum Standards reviews*
-supplemented by Solvency II specific additions
 - *eg: model change process, qualitative assessment against T&S*
- Solvency II Steering Group (SSG) will replace DROP and ICA SG
 - separate chairs for qualitative and quantitative aspects

Operating Model – what needs to be considered?

- Organisational structure
 - Roles and responsibilities
- Processes and procedures - sustainability
 - Key controls and KPIs
- Board comfort
 - Assurance
 - Independence
- Demonstration (to Lloyd's/FSA)

DISCUSSION TIME

Suggested discussion points

What further information is required on:

- Ratings and status reporting to 5 October?
- 5 October final sign off requirements?

Have you designed BAU operating model for:

- Demonstration of compliance to Board and Lloyd's/FSA?

Has implementing BAU operating model led to changes in design of:

- Organisational structure and/or roles & responsibilities?
- Processes and procedures – sustainability?

NEXT STEPS

What happens next?

- Slides will be made available on lloyds.com after both workshops
- Lloyd's will continue to follow up on 29/6 re-submissions and ASRs
- Updated self assessed scoring as at end Q2 due 27 July
 - ensure we have an ASR as at end June by same date
- Guidance on final sign off to be published by mid August
 - submission by 5 October
- Next workshops:
 - Directors Briefings – 31 October & 1 November
 - Supervisory Reporting workshops – 13 & 14 November

