

SOLVENCY II TP, STANDARD FORMULA & IMSCR WORKSHOP

8 & 23 August 2011

Agenda

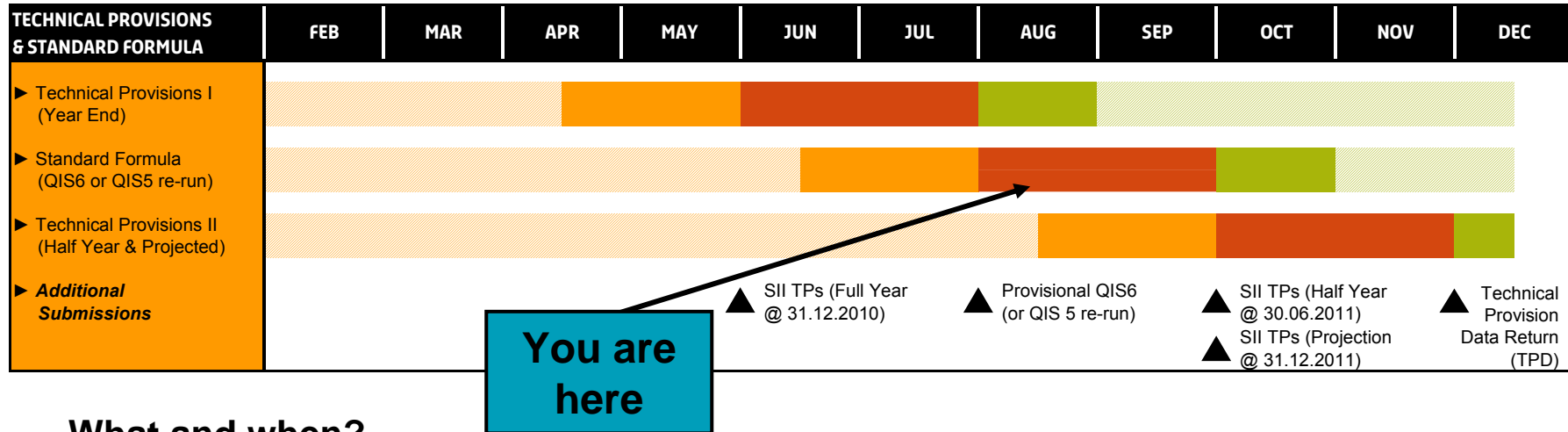
- Introduction
- Technical Provisions and Standard Formula SCR
- Internal Model SCR

Table discussions

- Next steps and feedback

INTRODUCTION

TP and Standard Formula workstream plan

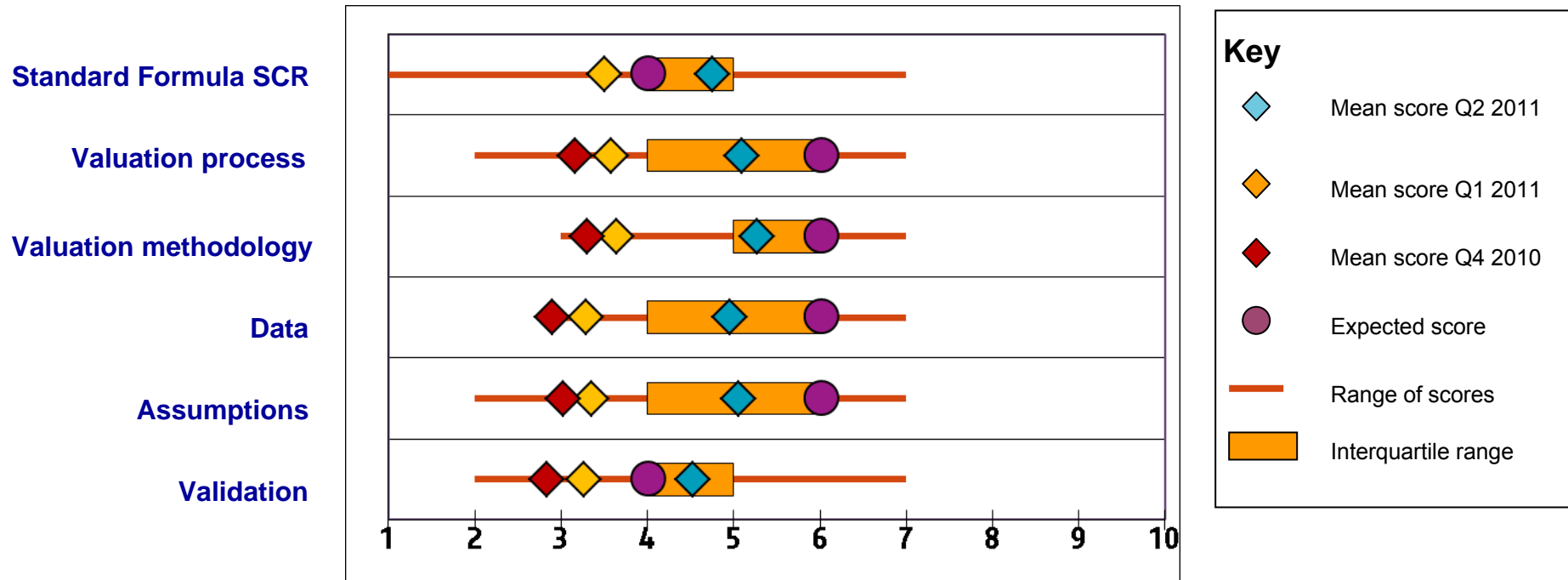


What and when?

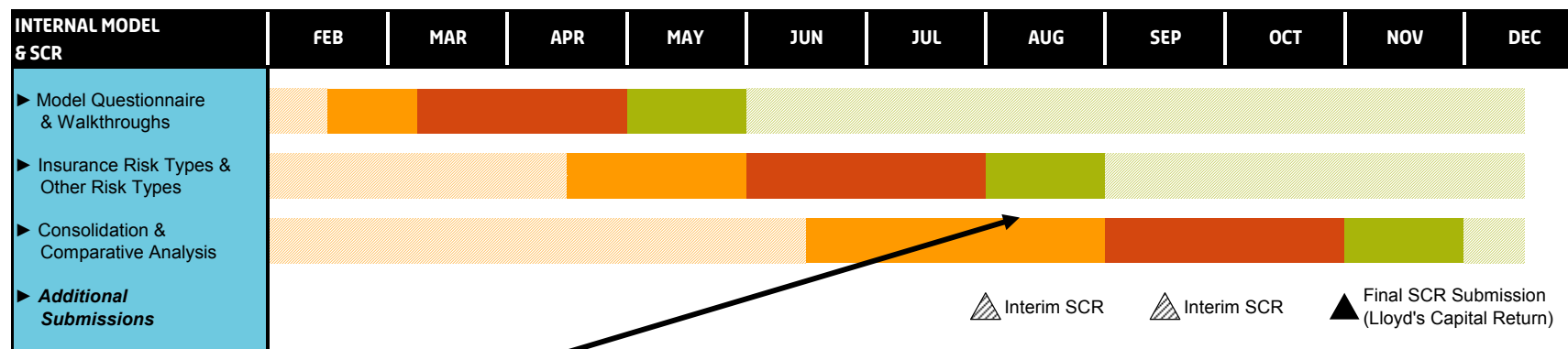
- Year-end 2010 TPs submitted on 27 May – full feedback packs in August
- Evidence template submission on 27 May – reviews and feedback completed
- Year-end full Standard formula recalculation received 29 July – preliminary results today with agent specific feedback packs in September
- Evidence template submission on 26 July – reviews commence this week with feedback in September
- Half-year 2011 and projected 2011 year-end TPs by 30 September
- ⁴ TPD and GQD data due by 30 November (test return 22 July)

TP & SF scores have jumped at Q2 2010

Self assessment scores as at Q2 2011



Internal Model & SCR Workstream plan

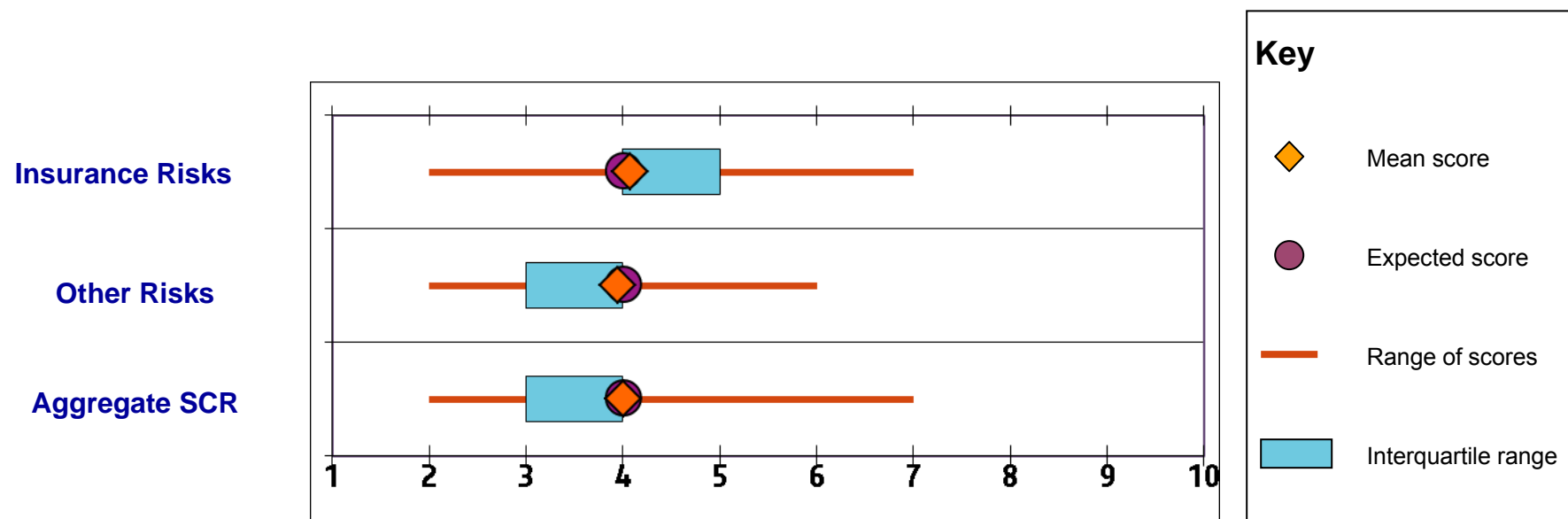


You are here

What and when?

- Phase 1 walkthroughs completed and model questionnaires played back to agents
 - issues used to drive Phase 2 agendas under Validation workstream
- First Evidence Templates submitted 27 May and feedback completed
 - due again 26 August
- First interim SCR submissions received and high level analysis and testing of CMR system and LIM

Q2 self assessed scores reflect expected progress on delivery of SCRs



**TECHNICAL
PROVISIONS
& STANDARD
FORMULA**

Agenda - Technical Provisions and Standard Formula

- **Findings from May Technical Provisions submission**
- September Technical Provisions submission
- Data
- Standard Formula Rerun – Preliminary results

At an aggregate level Solvency II TPs remain consistent

- Results are relatively close to held provisions
 - When considering DAC / future premium adjustments
- Also relatively consistent with QIS5 results.

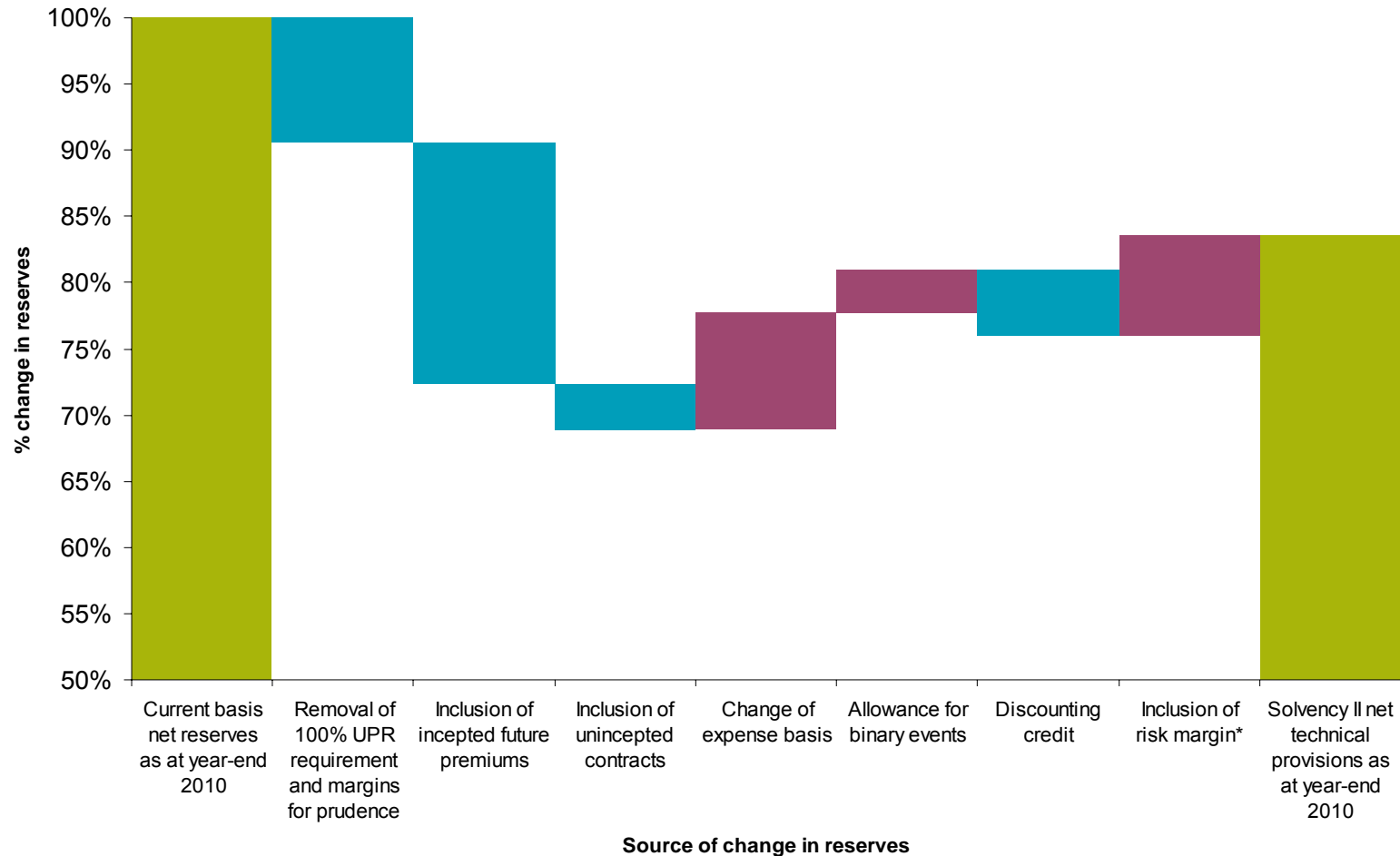
(£m)	YE 2009	YE 2010	% movement
Current basis net reserves	30,343	32,637	8%
Solvency II basis net TPs	25,692	27,278	6%
% movement	(15)%	(16)%	

Source: Lloyd's QIS5 returns, y/e 2010 SRD and May 2010 TP submissions

Note: excludes some syndicates so a like for like comparison can be made

Note: Solvency II TPs include estimated risk margin of 10%

Can now give the finalised waterfall chart...

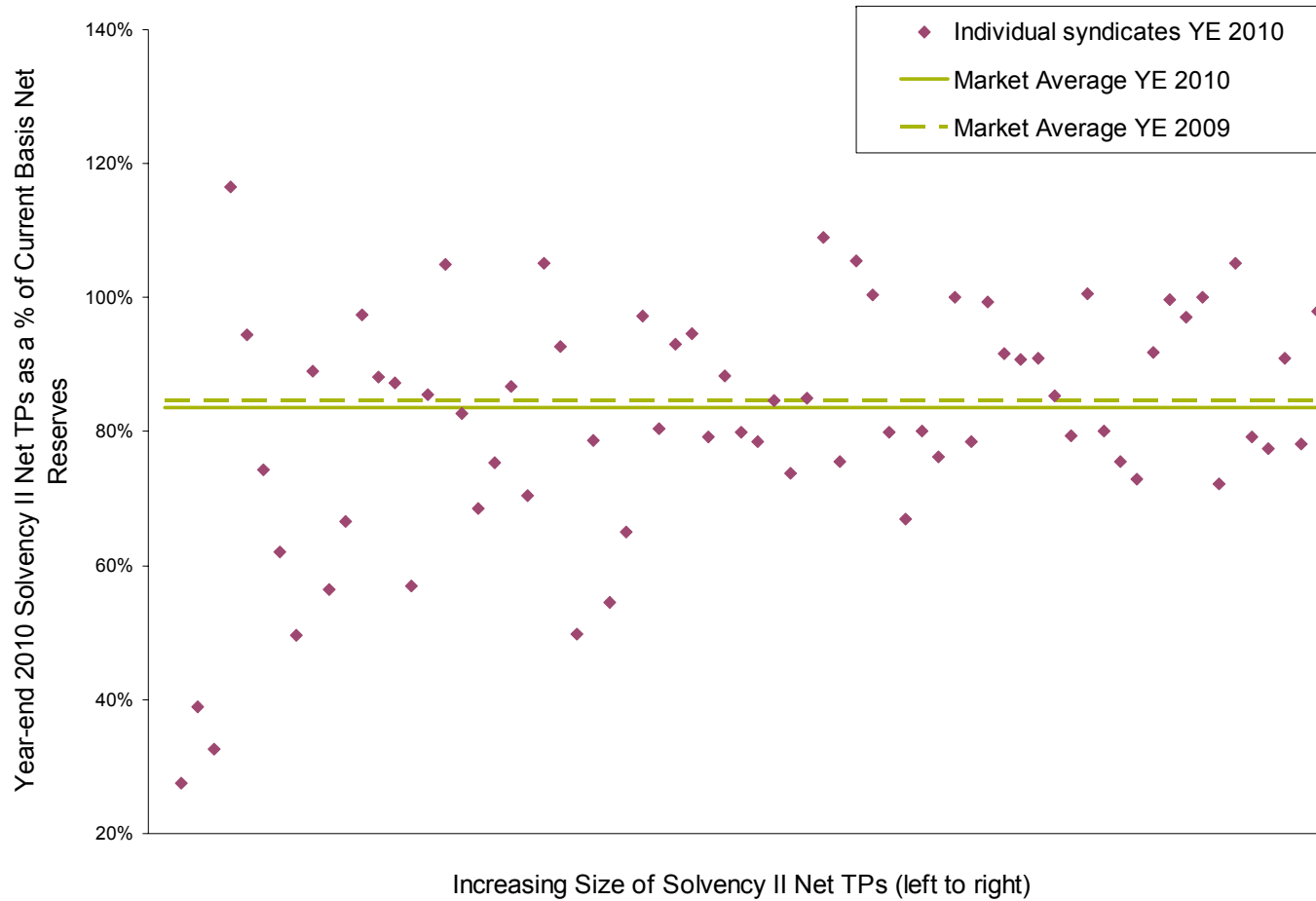


Source: y/e 2010 SRD and May 2010 TP submissions

Note: excludes some syndicates so that a like for like comparison can be made

Note: Solvency II TPs include estimated risk margin of 10%

...but level of results did vary by syndicate

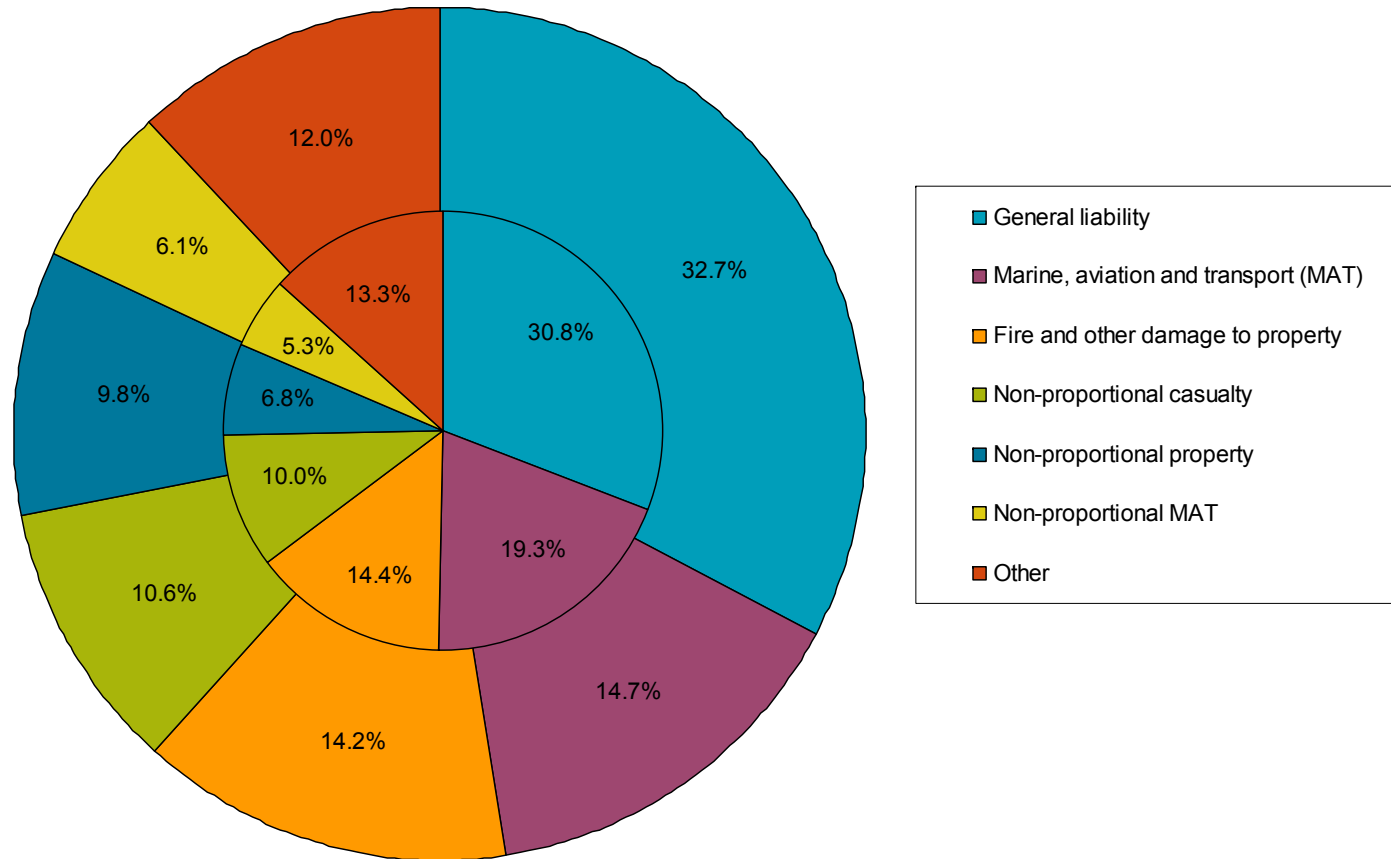


Source: Lloyds QIS5 returns, y/e 2010 SRD and May 2010 TP submissions

Note: excludes some syndicates for illustration purposes

Note: Solvency II TPs include estimated risk margin of 10%

Can confirm little change in split by class



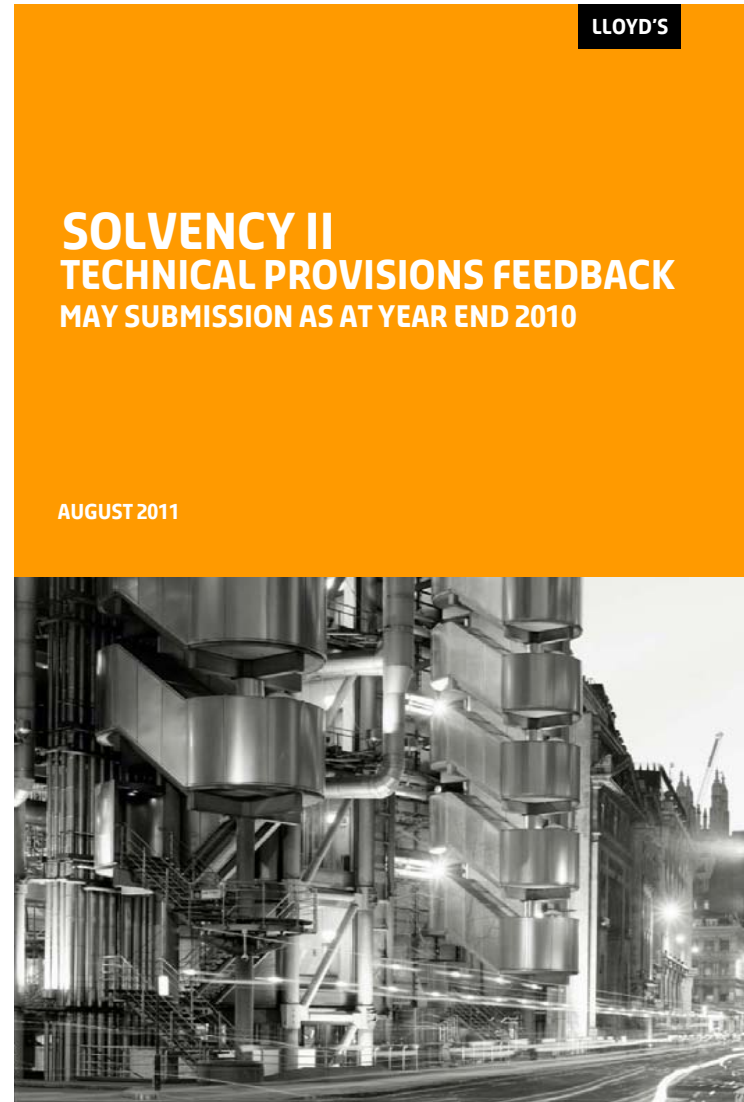
Outer = 2010YE, Inner = 2009YE on a Solvency II basis

Source: Lloyds QIS5 returns and provisional May 2010 TP submissions

Note: excludes small number of syndicates so that a like for like comparison can be made

Feedback Packs

- Feedback packs on the 2010 year end technical provision submissions have been sent out
- Compares syndicate results against peer groups and market
- Covers areas such as
 - Claims Provisions
 - Premium Provisions
 - Binary Events
 - Discounting
 - Expenses
 - Segmentation



Agenda - Technical Provisions and Standard Formula

- Findings from May Technical Provisions submission
- **September Technical Provisions submission**
- Data
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September TP submission.....

- Two elements to the September return
 - Half-year TPs as at 30 June 2011; and
 - Projected TPs as at 31 December 2011
- More granular requirements for the September submission....
- ...and both returns will introduce new challenges
 - would expect that approaches and methodologies to be further developed
- Template and guidance available on lloyds.com
 - includes indicative half year yield curves to be used for both elements

What might the waterfall chart look like at half year?

Element	Compared to year end
Margins + 100% UPR	Higher
Future Premiums	Higher
Unincepted business	Lower
Expenses	Lower (less Acq. costs)
Binary events	Similar
Discounting	Similar
Risk Margin	Similar

- So will SII TPs will be even lower at half year than year end?

Projected TPs

- Projected TPs as at 31 December 2011
 - the TPs the Internal Model SCR sits on top of
 - similar to current ICA approach
- Can assume latest yield curves will apply
- Will need to allow for:
 - Run off of existing business to year end
 - New business being written to year end
 - Unincepted contracts as at 31 Dec 2011 (i.e. 2012 YoAs)
- Question for tables: what are common methods for estimating the new business over the second half of the year?

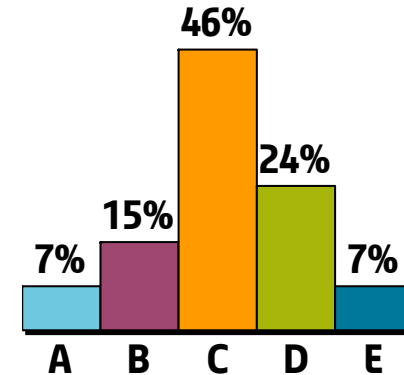
Projected TPs and Consistency with Internal Models

- Need to consider consistency between the Solvency II technical provisions and the SCR
 - most notably for reserving risk
- Considerations of consistency may include:
 - Cashflows/Discounting and use of ESG vs. EIOPA yield curves
 - Allowance for Binary Events at the mean and 1:200
 - Inclusion of unaccepted business
 - Methods, processes and people used to estimate both
- Considerations of inconsistencies may be more important however.
- Question for tables: How do you ensure consistency of approach and assumptions between your technical provisions and SCR?

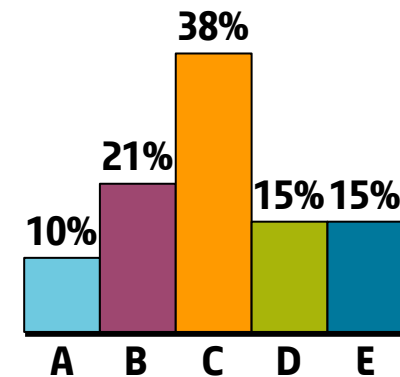
Who calculates the projected TPs for ICA submissions?

- A. Capital team in isolation
- B. Reserve team in isolation
- C. Reserve team with some help from capital team
- D. Capital team with some help from reserving team
- E. Other

8 AUGUST RESULTS



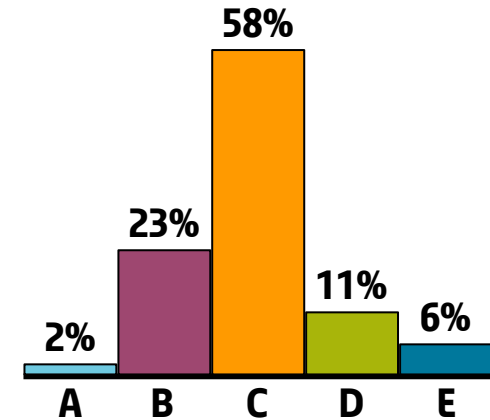
23 AUGUST RESULTS



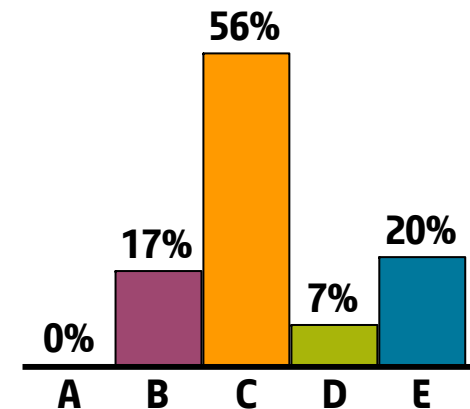
Who is calculating the projected TPs for September?

- A. Capital team in isolation
- B. Reserve team in isolation
- C. Reserve team with some help from capital team
- D. Capital team with some help from reserving team
- E. Other

8 AUGUST RESULTS



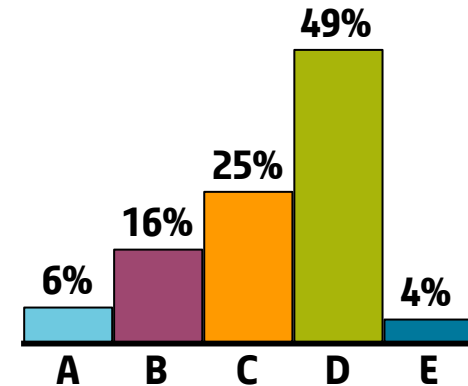
23 AUGUST RESULTS



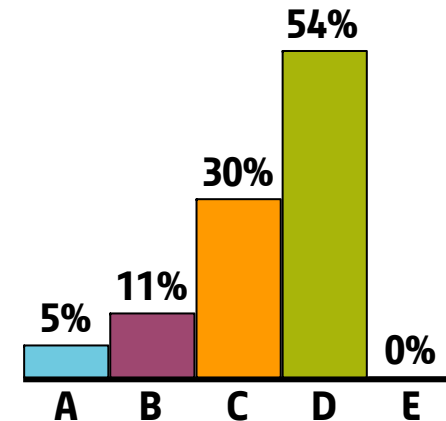
Which SCR are you planning on using to calculate the risk margin?

- A. Current Standard Formula
(2010 year end)
- B. Revised Standard Formula
(2011 year end)
- C. Current Internal Model SCR
(2010 year end)
- D. Revised Internal Model SCR
(2011 year end)
- E. Something Else?

8 AUGUST RESULTS



23 AUGUST RESULTS



For the September TP submission can we please avoid

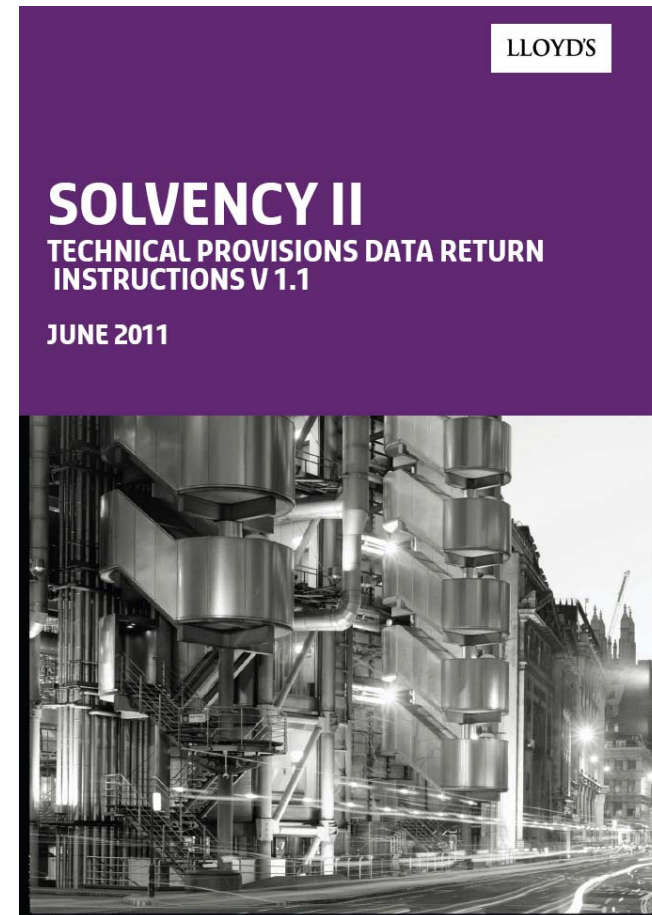


Agenda - Technical Provisions and Standard Formula

- Findings from May Technical Provisions submission
- September Technical Provisions submission
- **Data**
- Standard Formula Rerun – Preliminary results

Don't forget the TPD return

- Ultimate replacement for SRD
 - at a risk code level
- Due November 2011
 - as at year end 2010
- Currencies are 6 + 1
 - unless prior agreement from Lloyd's
 - number of request remains low
- Allocation guidance also on Lloyds.com



Data issues?

- Items that are new requirements and may cause data issues?
 - All expenses
 - Unincepted at half year
 - Binary events
 - Cashflows and Discounting
 - Currencies
 - Segmentation

- Question for tables: which areas are causing most concern and what have been the solutions?

Agenda - Technical Provisions and Standard Formula

- Findings from May Technical Provisions submission
- September Technical Provisions submission
- Data
- **Standard Formula Rerun – Preliminary results**

Standard Formula Rerun

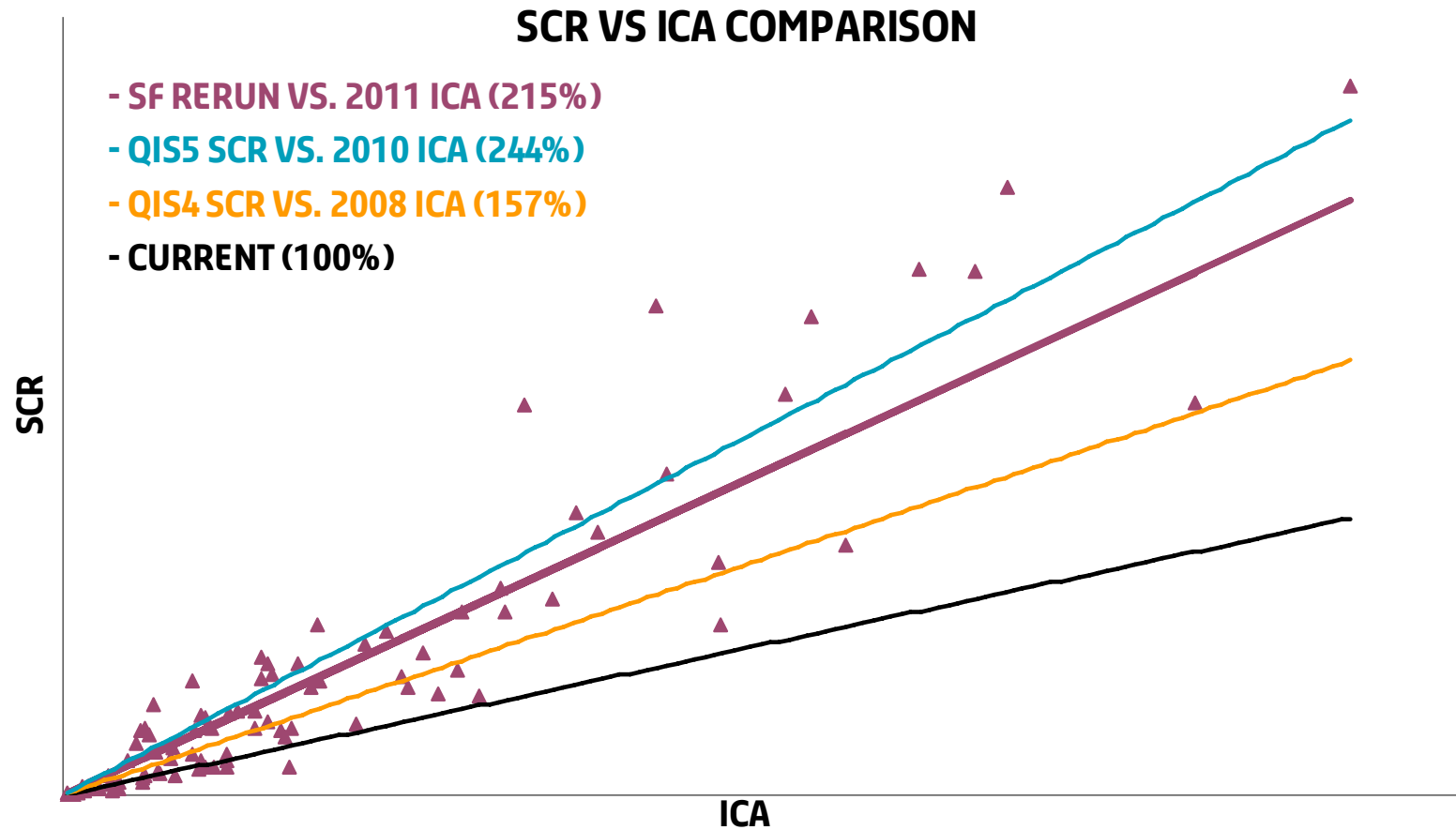
– Overview of Requirements

- Completed as at year end 2010 and submitted to Lloyd's on 29th July 2011.
- Based heavily on the original QIS5 submission from CEIOPS with some exclusions (Lapse Risk, EPIFP, Current Situation, USPs and Qualitative Questionnaires).

Health Warning: The figures presented are preliminary and are still being challenged or questioned. Submission checking is being carried out during August.

Standard Formula SCR vs. ICA

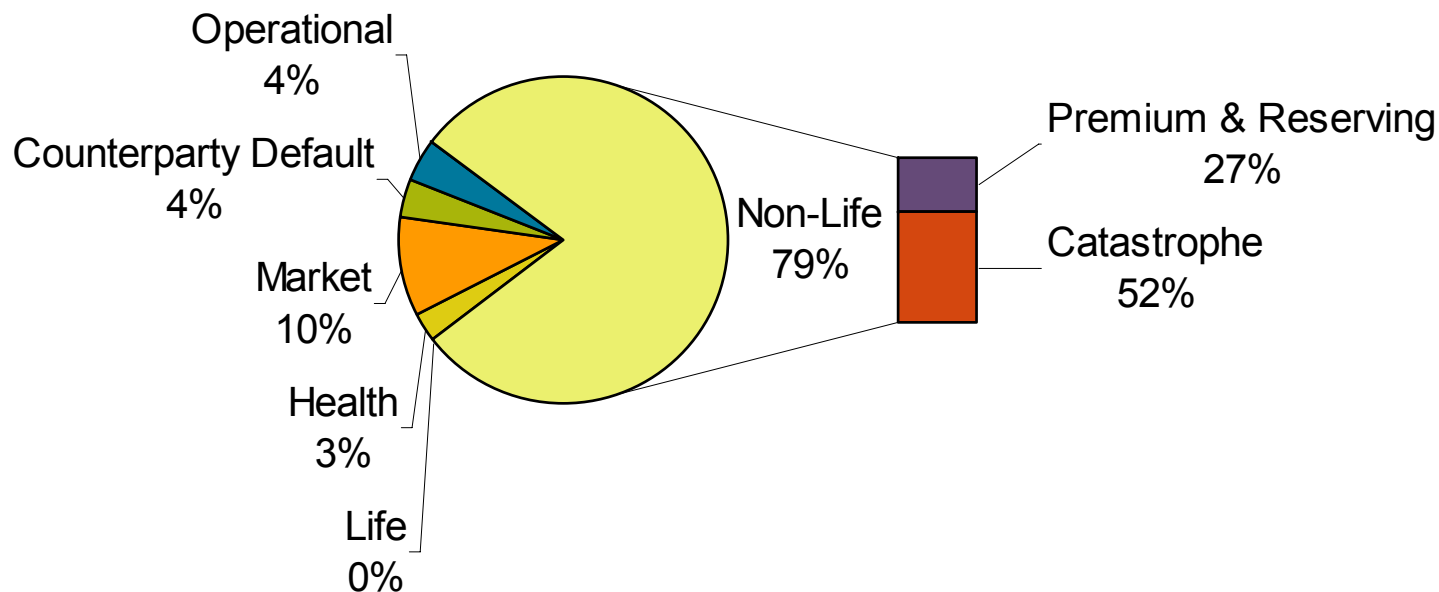
- The change from QIS4 is still significant, however the increase from ICA has reduced since the 2010 QIS5 exercise.



Split of SF Rerun SCR Risk Components

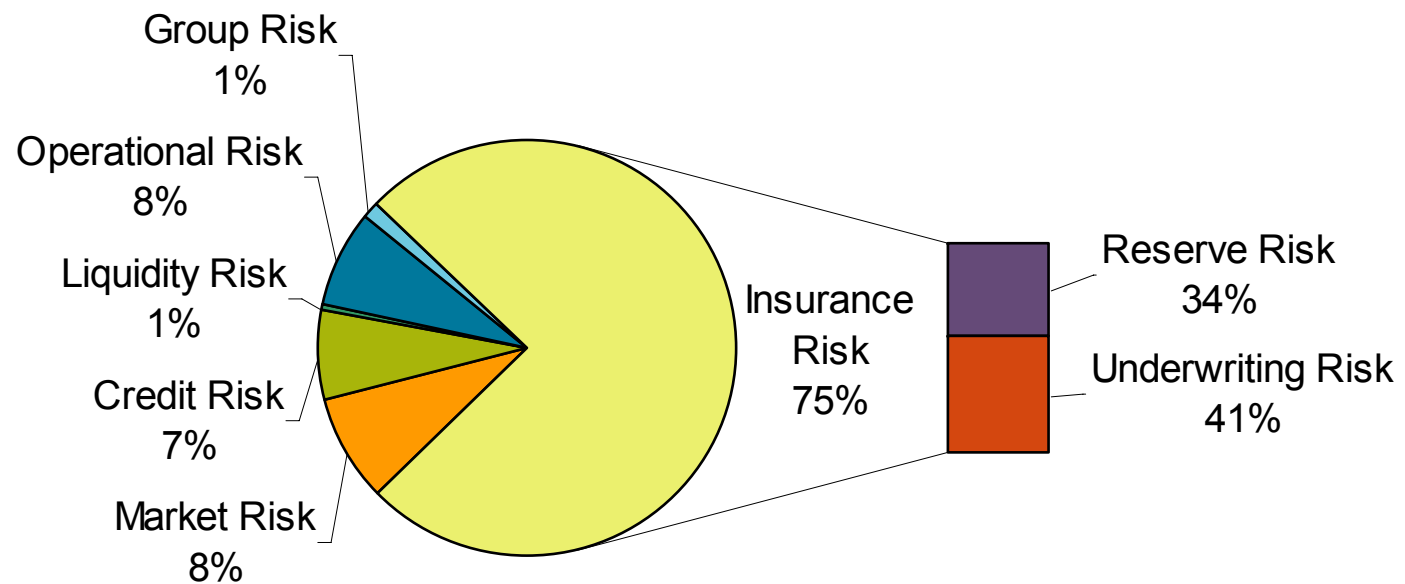
- Split of SCR has remained relatively stable since the 2010 submission but from ICA focus has increased on Non-Life Risk driven by the increase in catastrophe risk.

SPLIT OF UNDIVERSIFIED SCR RISK COMPONENTS



Split of 2011 ICA Risk Components

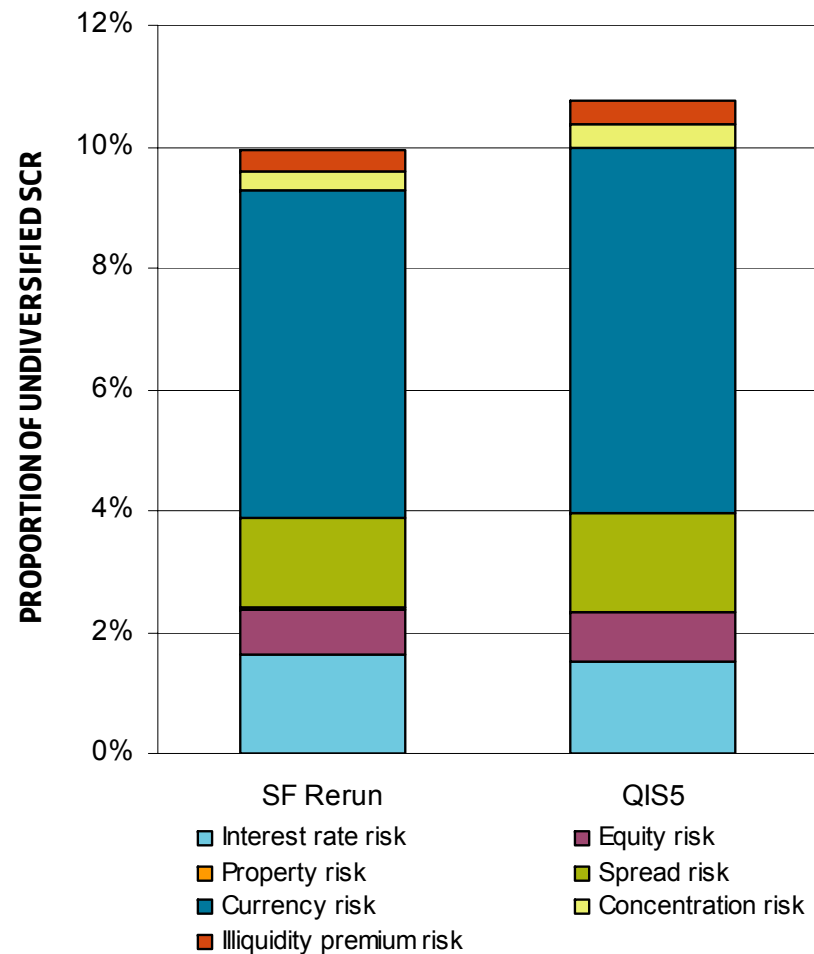
SPLIT OF UNDIVERSIFIED ICA RISK COMPONENTS



Market Risk

- Original QIS5 submission included modelling of market risk on FAL...
 - ...this was excluded for the 2011 rerun
- Impact is clear for currency risk where there was a charge for non-domestic held own funds
- Other market risk elements appear unchanged as a proportion of respective SCRs, but the movement from QIS5 shows a reduction...

COMPARISON OF MARKET RISK



Note: Market risk components have been scaled down to reflect the diversification within Market Risk, all else is undiversified.

Note: excludes some syndicates for illustration purposes

Overall SF SCR remains stable

Risk Component	% of QIS5
Total SCR	100%
Market risk	90%
Counterparty default risk	92%
Life underwriting risk	127%
Health underwriting risk	89%
Non-life underwriting risk	97%
Operational risk	113%
Market Risk	
	90%
Interest rate risk	105%
Equity risk	86%
Property risk	Reduced to zero
Spread risk	87%
Currency risk	84%
Concentration risk	82%
Illiquidity premium risk	91%

Note: Some syndicates have been excluded to show QIS5 v SF Rerun on a comparable basis

- ICAs have increased by an average of 13% from 2010 to 2011 year of account.
- The Standard Formula appears insensitive to changes in market environment

INTERNAL MODEL SCR

Internal Model SCR : Agenda

- **Lloyd's Capital Return submission of initial SCRs July**
 - **Initial feedback**
 - **Changes for September**
- **Aggregate capital stack at 1:200 (ultimate risk basis)**

High level initial feedback

- All SCRs expected have been received
- Limited FAQs raised
- Several agents have same SCR for one year and for ultimate basis
- First cut of aggregate figures shows 11% reduction v ICA
 - Deeper analysis required
 - movement in Technical Provisions
 - Review as at date (2012 v 2011)

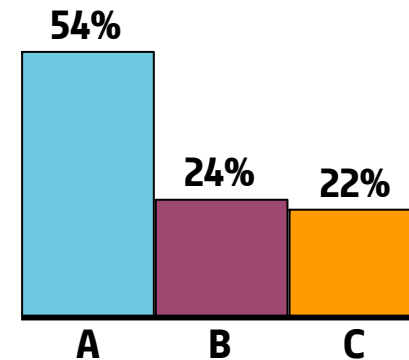
Changes for September

- Relax validations
 - e.g permit deficit at mean
- All future returns are in CMR – need to set up authorisations
- Lloyd's will issue more detailed instructions
 - cover any common questions

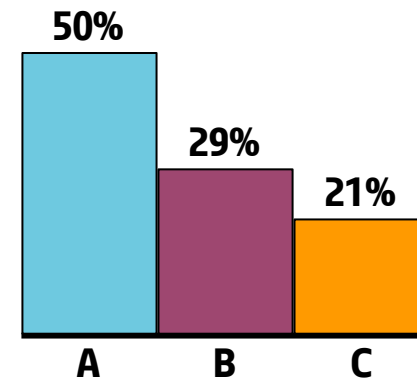
Comparing the ICA with ultimate SCR and adjusting for difference in TPs,

- A. SCR expected to be higher
- B. ICA expected to be higher
- C. They are the same

8 AUGUST RESULTS

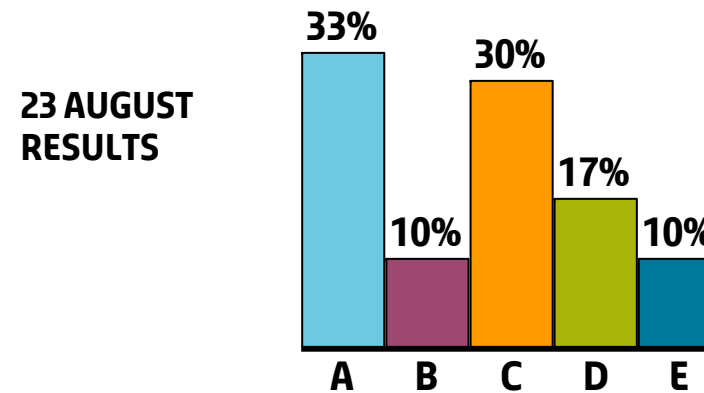
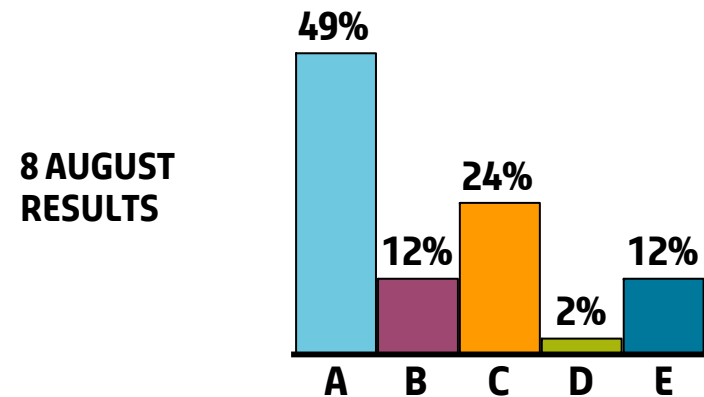


23 AUGUST RESULTS

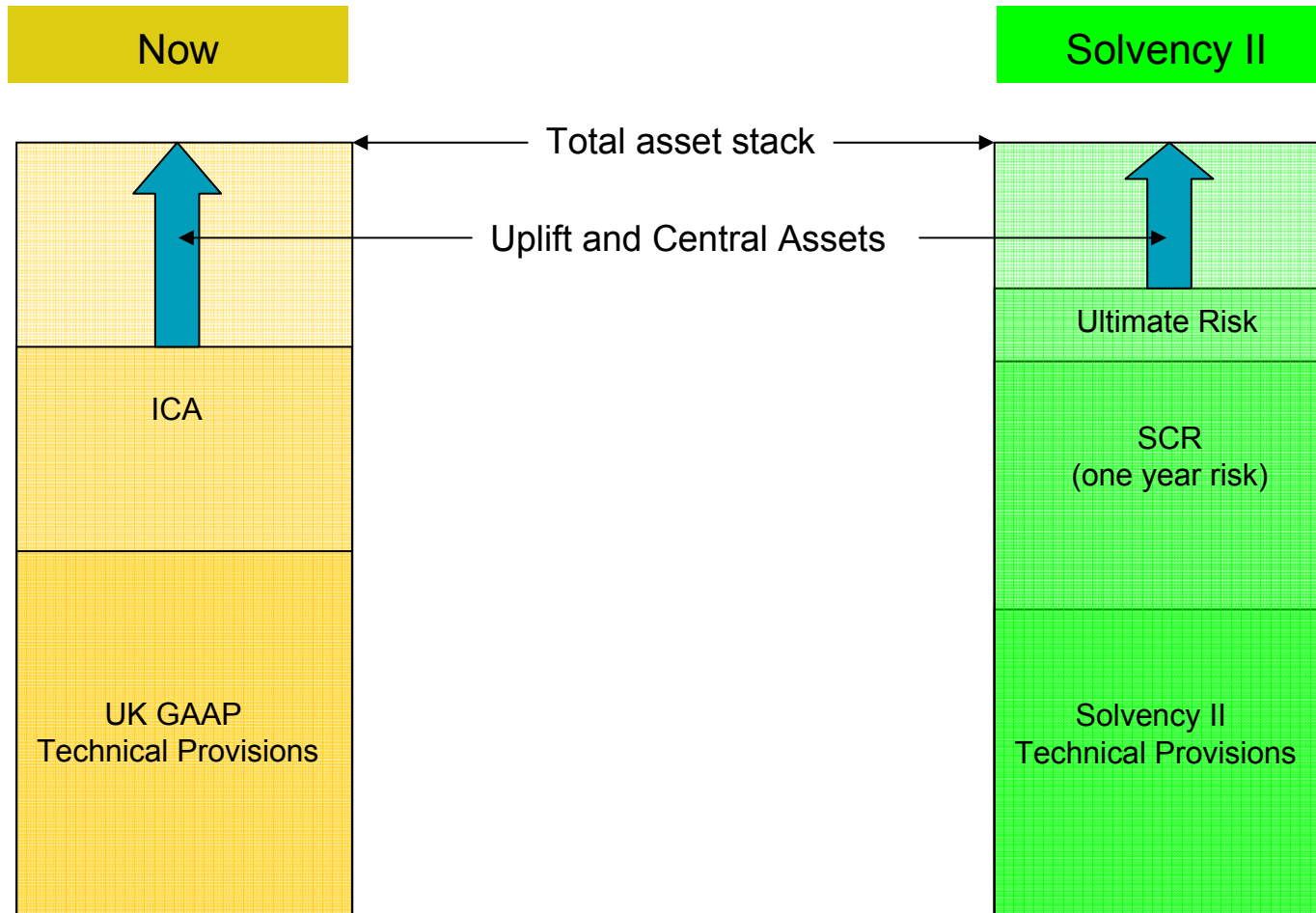


Comparing the ICA with the July ultimate SCR and adjusting for difference in TPs,

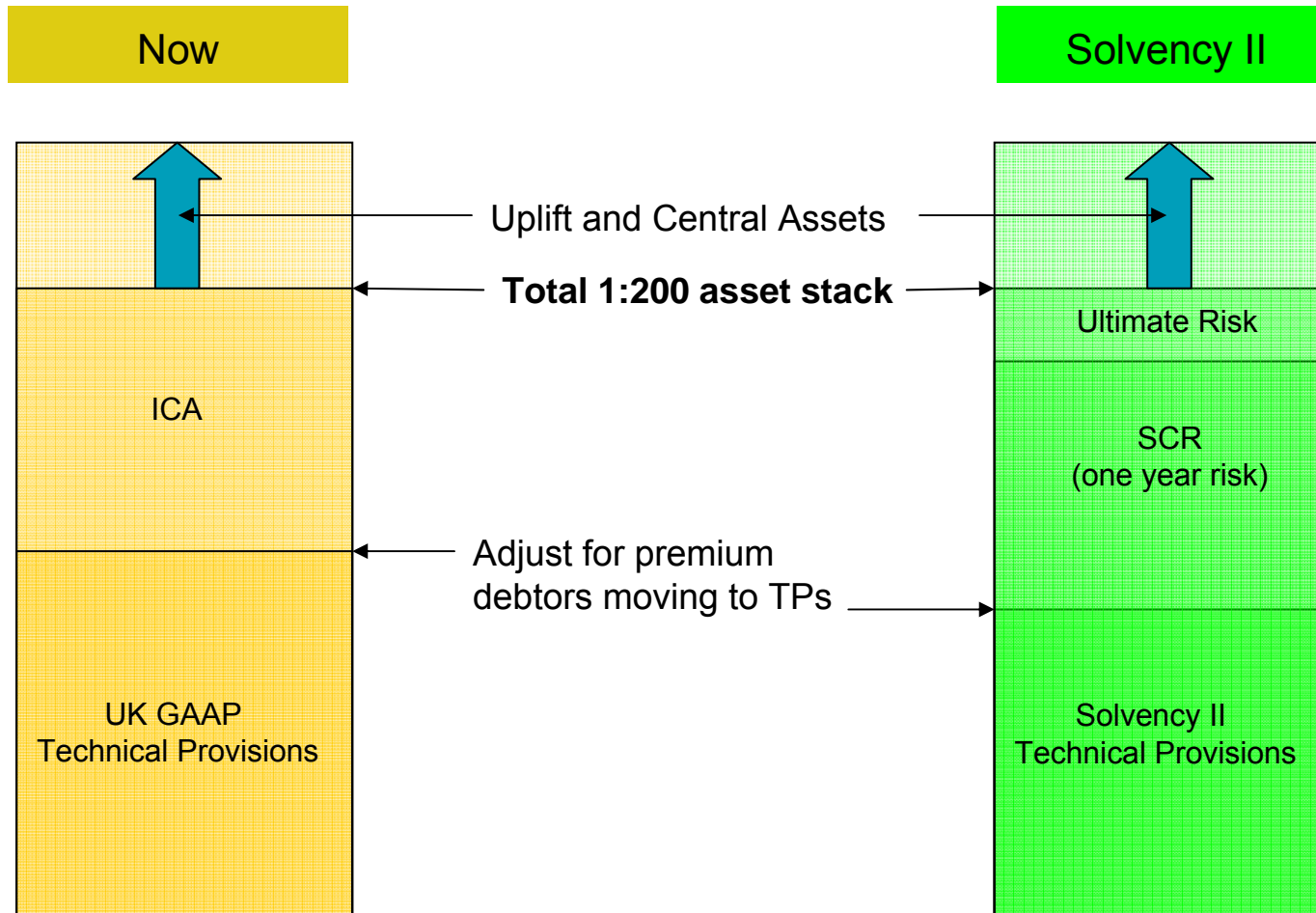
- A. SCR is higher
- B. SCR was higher then re-calibrated SCR to ICA
- C. ICA is higher
- D. ICA was higher then re-calibrated SCR to ICA
- E. They are the same



Lloyd's planning for total assets to be similar under Solvency II to now...



...but is it the same at the 1:200 point PRE Uplift?



DISCUSSION TIME

Suggested discussion points

- **Half year TPs** - what are common methods for estimating the new business over the second half of the year?
- **Projected TPs** - how do you ensure consistency of approach and assumptions between your technical provisions and SCR?
- **TP Data** - which areas are causing most concern and what have been the solutions?
- **IMSCR** - difference in TPs but not at 1:200 on ultimate basis?
 - Treatment of binders and unaccepted obligations
 - Binary events
 - Risk margin
 - Expenses
 - Discounting / future profits

ROUNDUP AND QUESTIONS

NEXT STEPS

Next Steps

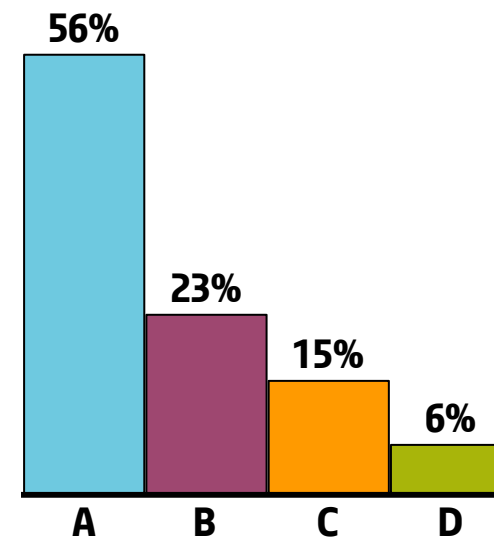
- Slides will be made available on lloyds.com after both workshops
- Updated Q2 scores will be reviewed and questions raised with agents together with any request for supporting evidence/rationale
- Third iteration of Governance, Risk Management & Use evidence templates due end September
- Next IMSCR & TP workshops – 3 & 4 October
- Other upcoming sessions:
 - Model Validation – 1 & 2 September
 - Reporting & Disclosure – 14 & 15 September
 - Valuation & Balance Sheet – 14 & 15 September
- Finally, before you go, a request for feedback ...

Would you like another TP/IMSCR workshop to be arranged?

- A. Yes – there are more areas that I would like to be covered on one or both of these subjects
- B. Yes as I can't imagine a life without workshops
- C. No – I don't require any further information on either of these subjects
- D. No as I just couldn't take the excitement of more!

8 AUGUST RESULTS

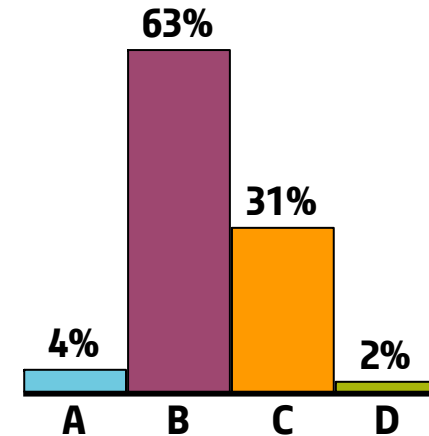
(question not included on 23 August)



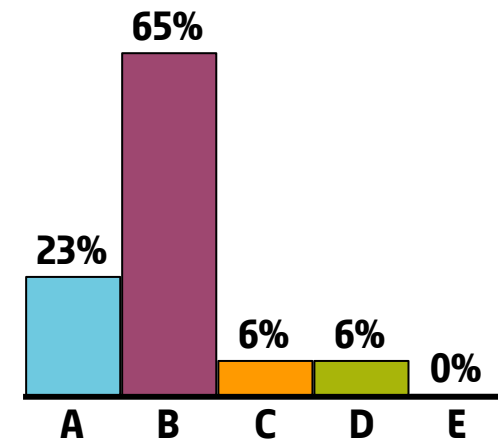
How useful have you found today's session?

- 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

8 AUGUST RESULTS



23 AUGUST RESULTS



How have you found format of today's workshop?

- A. It was a good balance between presentation and discussion
- B. Would prefer less presentation and more discussion
- C. Would prefer less discussion and more presentation
- D. Other

