

A person is silhouetted against a vibrant sunset sky, juggling several red balls. The scene is set on a beach with waves in the background. The sky is filled with orange and yellow clouds, and a rainbow is visible in the upper left. The person is standing on the sand, and their shadow is cast on the beach.

**The Actuarial Profession**  
making financial sense of the future

**GIRO Conference and Exhibition 2012**  
Juggling uncertainty the actuary's part to play

20 September 2012

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The logo consists of a small dark blue square.

**The Actuarial Profession**  
making financial sense of the future

**GIRO Conference and Exhibition 2012**  
**Workshops D5 & E8**

**Lloyd's Update**

Henry Johnson  
Jerome Kirk  
Matthew Gold

**20 September 2012**

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## Agenda

- ~~Half Year Results~~
- Vision 2025
- Solvency II
  - Corporation
  - LIM Operating Model
  - Syndicate requirements
  - Actuarial Function / SII TPs
- BAU
  - Capital
  - Reserving

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## Vision 2025

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# LLOYD'S

## VISION 2025

**THOUSANDS OF RELATIONSHIPS  
IN EC3M 7HA**

- Initiative has come from the top of the organisation
- Chairman and CEO have consulted directly with the market
- Vision requires both corporation and market to look forward
- Need to turn ideas into practical things

## Lloyd's and the Future – V2025

- Broker subscription market
- “Lloyd's business”
- Global diversity – business, businesses, people
- Face to face
- Same capital structure
- Need to be proactive to achieve this – same size market will not be same market, as different regions grow

## Solvency II

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## Solvency II Corporation

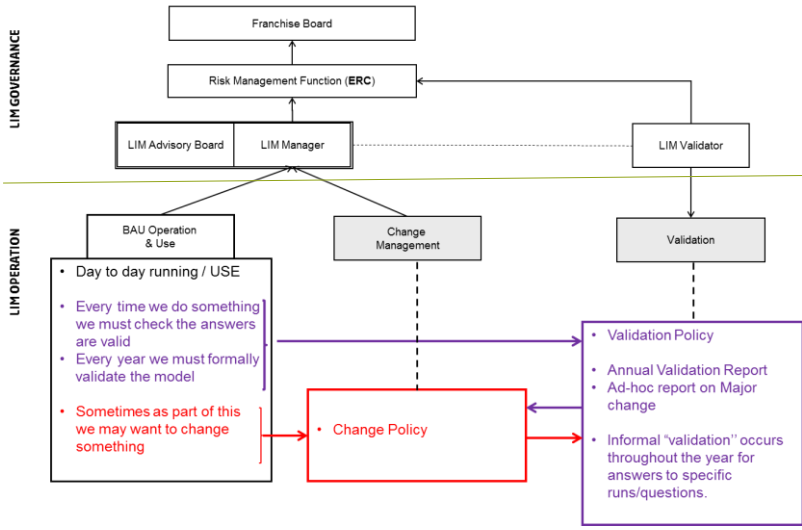
- Internal Model submission made 27 July 2012
- Currently in review phase of FSA workplan
- Expect interim findings end 2013Q2
- Attest to FSA at end of December on syndicate compliance
- Collaborative model validation work
  - CAT
  - ESG
- Syndicate BAU



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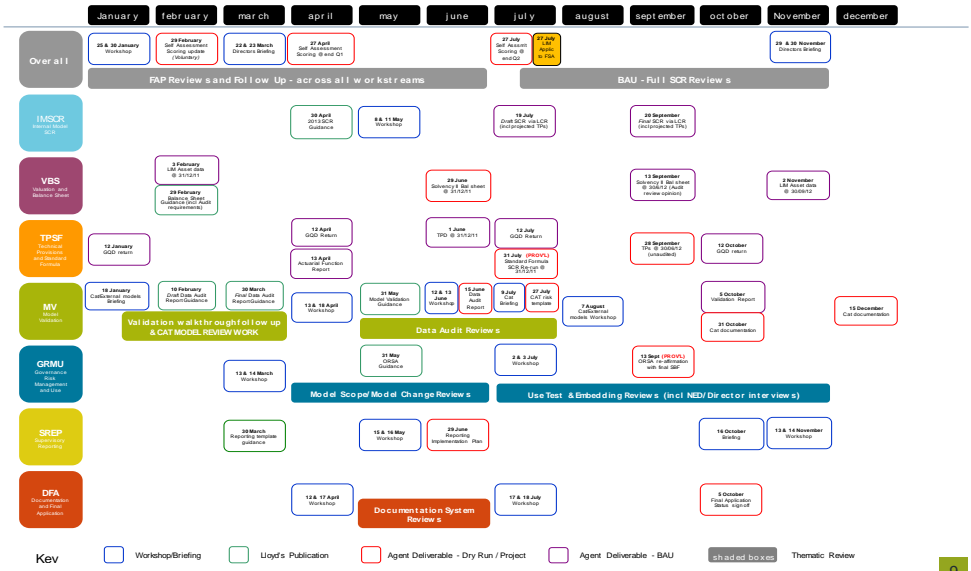
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# Solvency II LIM Operating Model



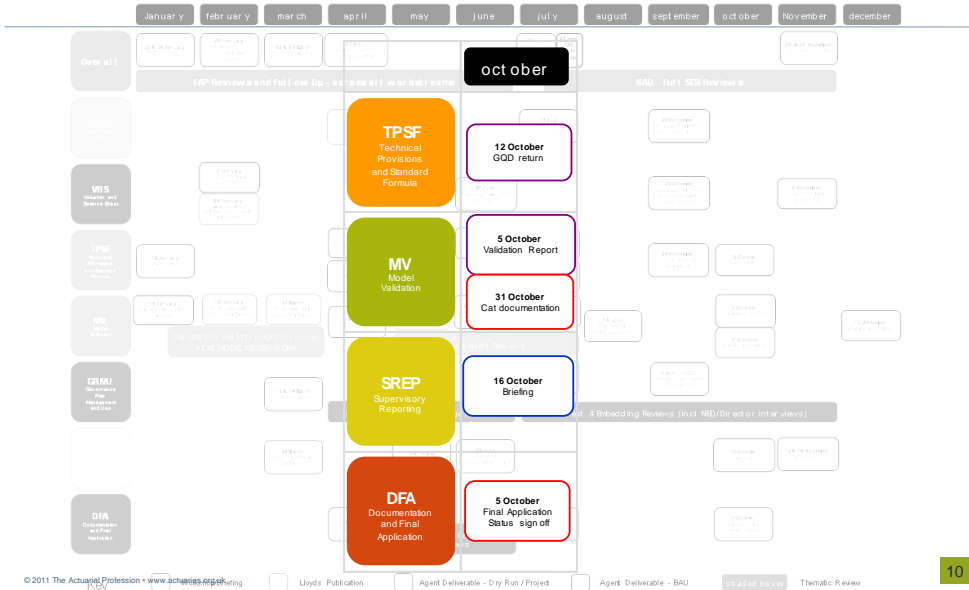
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# 2012 syndicate requirements



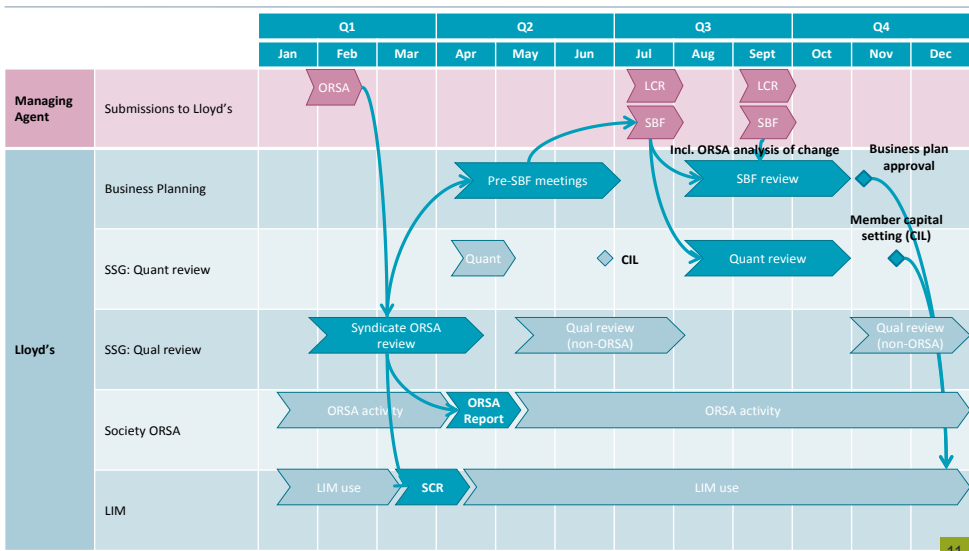
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# There are some important dates in October 2012...



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# ...with one eye already on the BAU timetable



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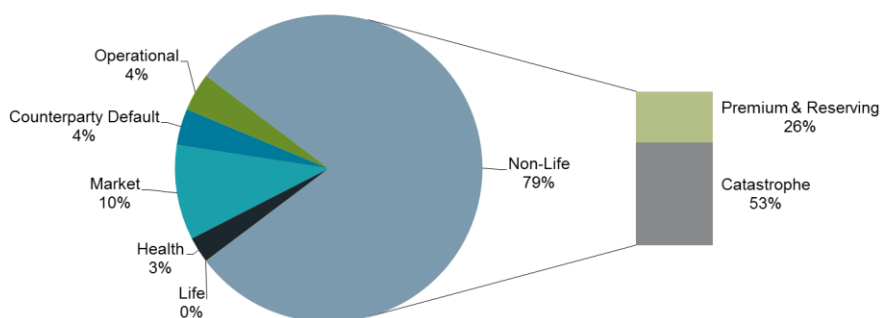
## Solvency II Standard Formula at Lloyd's

- IMAP requires a comparison of Internal Model and Standard Formula results
- QIS5 basis no longer appropriate
- Lloyd's produced data collection templates for completion by agents; and
- A calculation template to derive the standard formula results
  - based as closely as possible on the Level 2 text
  - key change was the new non-life catastrophe risk requirements

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## The QIS5 specification overstated Catastrophe and Currency risk...



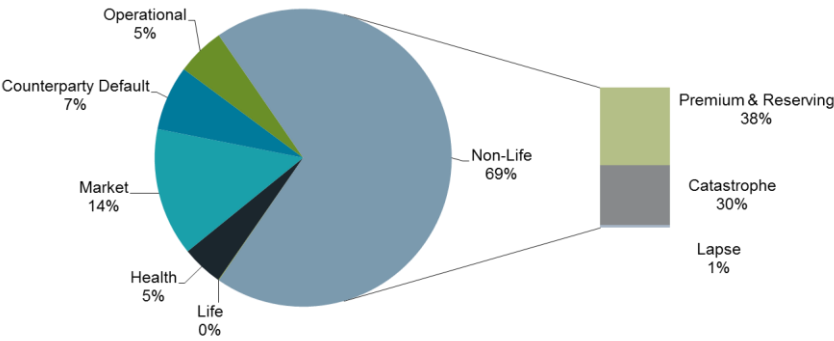
Source: 2010 Year-End QIS5 Re-Run,  
Syndicate Aggregate Results (i.e. PTF)

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# ...but the Level 2 insurance risk mix (not quantum) does seem more appropriate

But the currency risk charge is still high.



Source: Preliminary Results from the 2011 Year-End Standard Formula Exercise on a Level 2 basis, Syndicate Aggregate Results (i.e. PTF)

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# Actuarial Function / SII TPs

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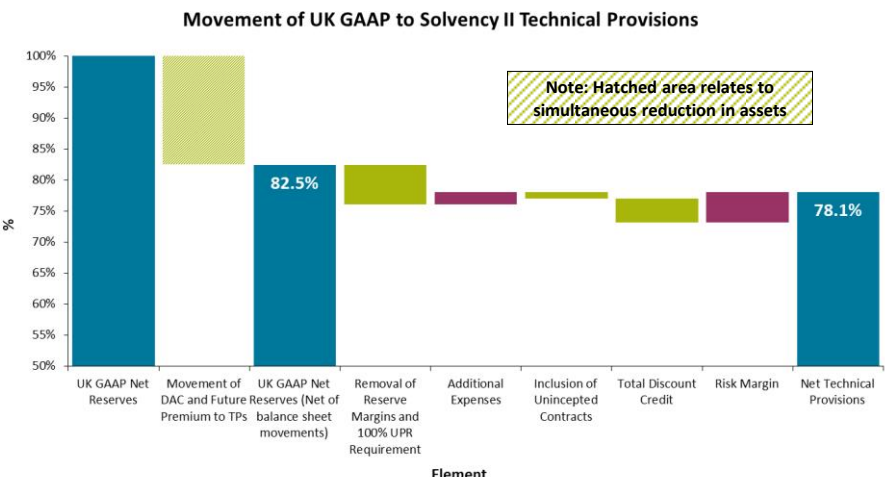
# Lloyd's collected draft Actuarial Function Reports from the market in 2012

- Reviewed against draft level 2 requirements
  - not “for real” - could have placeholders
  - looking for up to three separate reports
- Feedback produced for agents
  - wide range of approaches and formats
- There were good examples against each requirement
  - experience tells us standards will be high in time
  - not all included the solvency provision results (GAAP focussed)
  - not seen as “document everything done during the year”
  - dry run important step to get process correct
  - TAS compliance will be needed in live environment

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# Technical Provisions on a Solvency II basis are being produced and used...

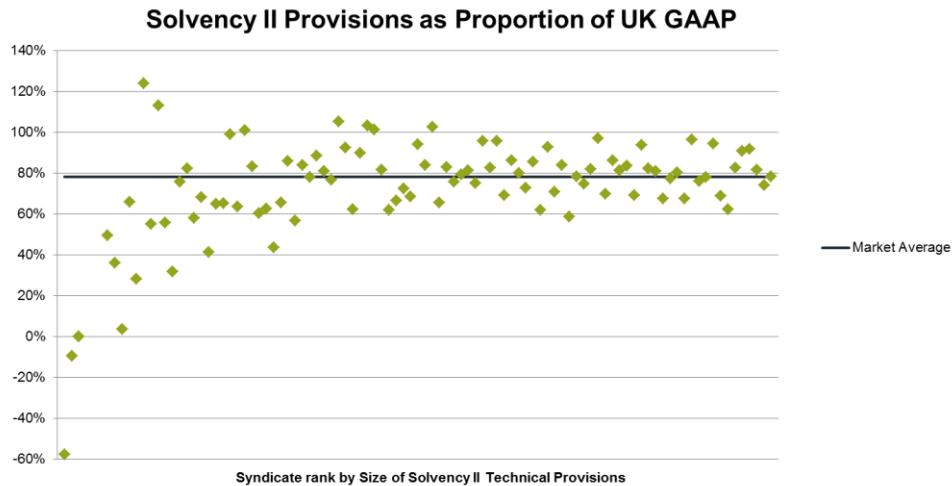


Source: 2011 year-end Technical Provisions Data Return

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...but results continue to vary by syndicate



Source: 2011 year-end Technical Provisions Data Return

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**BAU Capital Setting**

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# How will 2013 member capital be set?

## Approach and timetable

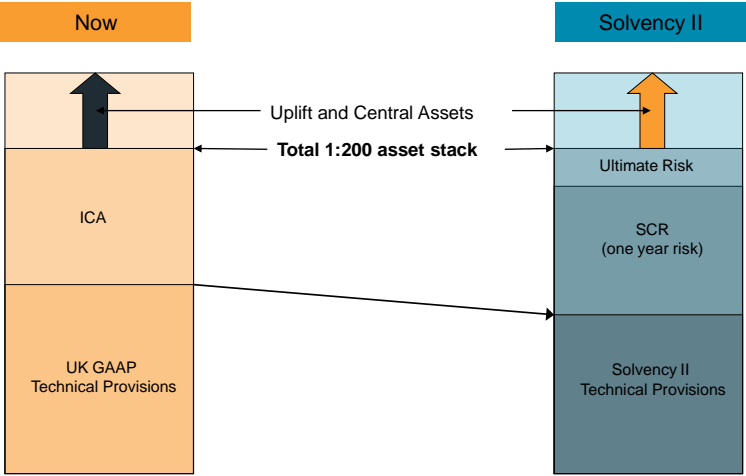
- Using Solvency II models to meet ICAS requirements
  - equivalence is key

	Non-Aligned	Aligned
Initial LCR (SBF 12 July)	19 July	19 July
Final SBF	13 September	13 September
Final LCR	20 September	20 September
Coming into Line	29 November	29 November

# Lloyd’s capital review during 2012

- Full quantitative review by Lloyd’s
  - similar to old ICA reviews (not “light” version)
  - dedicated cross departmental team led by MRC staff
  - SCR documentation and on-site walkthroughs
- LCR return is vital and informative
  - input into Lloyd’s benchmark model
  - updated specification on Lloyds.com
- Qualitative reviews continue throughout the rest of the year

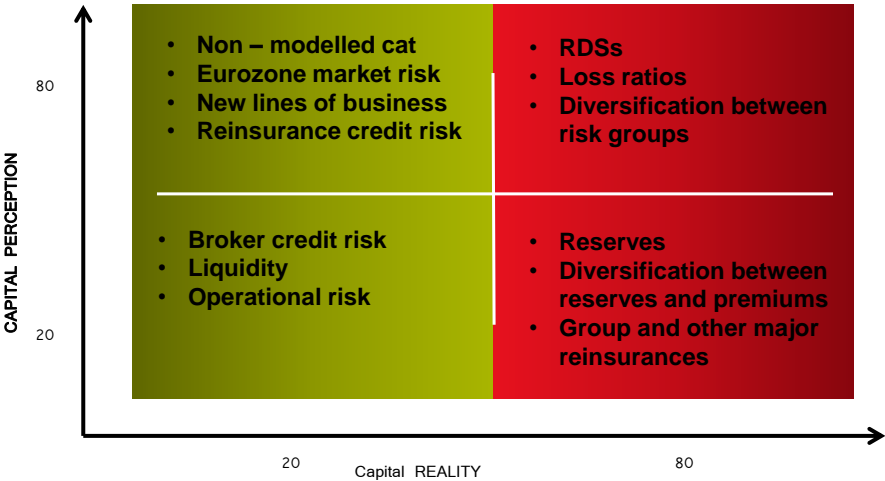
# Ultimate SCR plus SII balance sheet provides equivalent policyholder protection as ICAS



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# What drives the review of the number?



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## Our review will apply Professional scepticism...

- Auditors' code of conduct
- Goodwill and good intent
- Challenge management assertions
- Factual agreement before conclusions
- Alert to inconsistent responses
- Persistence to reach a conclusion
- Justification of conclusions

## ...to test credibility and transparency

- |  |   |
|--|---|
| ✓ LCR and validation / documentation joined up                             | ✗ Inconsistent documents and / or model outputs       |
| ✓ Actuals and projections are consistent with explanations for differences | ✗ History dismissed ....“We don't write that anymore” |
| ✓ Reasoned and persuasive responses  | ✗ Improbably thin tailed risk distributions           |
| ✓ Realistic assessment of 1:200 at risk level                              |   |
| ✓ Prompt supply of available evidence                                      | ✗ Jumble of emails and meeting notes                  |

## BAU Reserving

## We have issued updated reserve guidance

The key principles are

- The **Board** of the Managing Agent are **responsible** for setting the reserves of the syndicates.
- The Board should be supplied with **sufficient information**, and especially surrounding key issues and uncertainties, to ensure that they can make an informed decision when setting reserves.
- Managing Agents should have a **robust procedure** for the setting of reserves. This includes ensuring those conducting technical and regulatory aspects of reserving have **appropriate skills and knowledge**.
- Processes surrounding **data** that fits into any reserving exercise should be clear, well-documented and fit for purpose.
- All aspects of the reserving process should be **documented** to a standard such that a suitably skilled third-party person could understand the underlying assumptions and decisions made.
- Lloyd's oversight of reserves includes regular reviews and analyses such as the relative reserve benchmarking exercise. Lloyd's will **actively engage** with syndicates in the market and will provide regular communications on reserving topics.
- Where Lloyd's perceives that a syndicate may have an inadequate reserving process or practice then Lloyd's may **impose some actions** against the syndicate such as explicit capital loads or more stringent reporting. However such actions would be expected in the extreme.

## And will be updating the VoLs

- Executive summaries in reports worked well
- New Valuation of Liabilities rules will be issued within the next few weeks
  - no major changes expected
  - do read the FAQs
  - Signing Actuaries forum on 5 December
    - any topics let us know
  - Do want to see explicit mention of items such as PPOs and discounting
- Peer review is important
  - we may want to talk to the peer reviewers

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## Looking forward to year-end

- Catastrophe losses will impact the year-end
- No new reserving “hot topics” have emerged ...
- .... but last year’s do remain
  - UK Motor
  - Italian Hospitals
  - Casualty and the cycle
- Monitoring and understanding reserving remains vital
  - at the same time as transitioning to the new regime

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# Planned year-end submission dates

Submission	Deadline
US Trust Fund SAOs	12 February 2013
Worldwide SAOs	21 February 2013
SAO Reports	29 March 2013 or earlier

- Please submit two copies of the SAO report
  - one of which must be a hard copy, electronic copies are encouraged
  - reports to Jerome Kirk, Market Reserving & Capital, G5, Lloyd's, One Lime Street, EC3M 7HA,
  - submit electronic copies via email to [SAOReports@lloyds.com](mailto:SAOReports@lloyds.com)

# Questions or comments?

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