

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 distance.

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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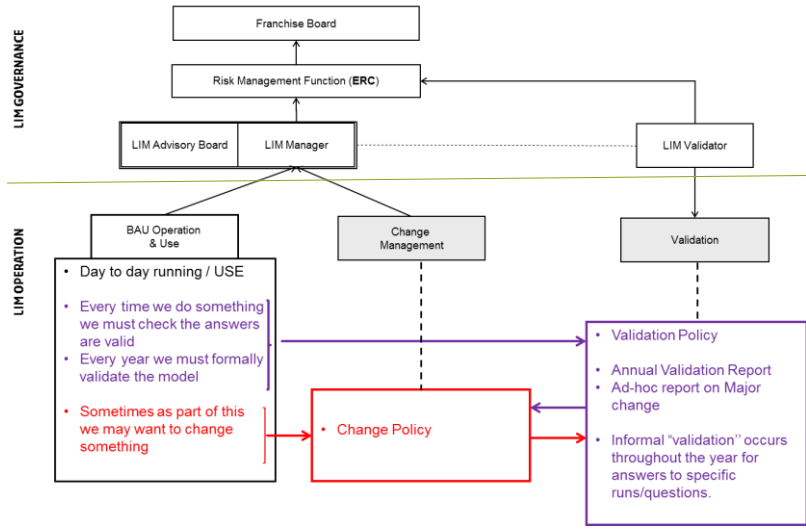
Solvency II Corporation

- 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



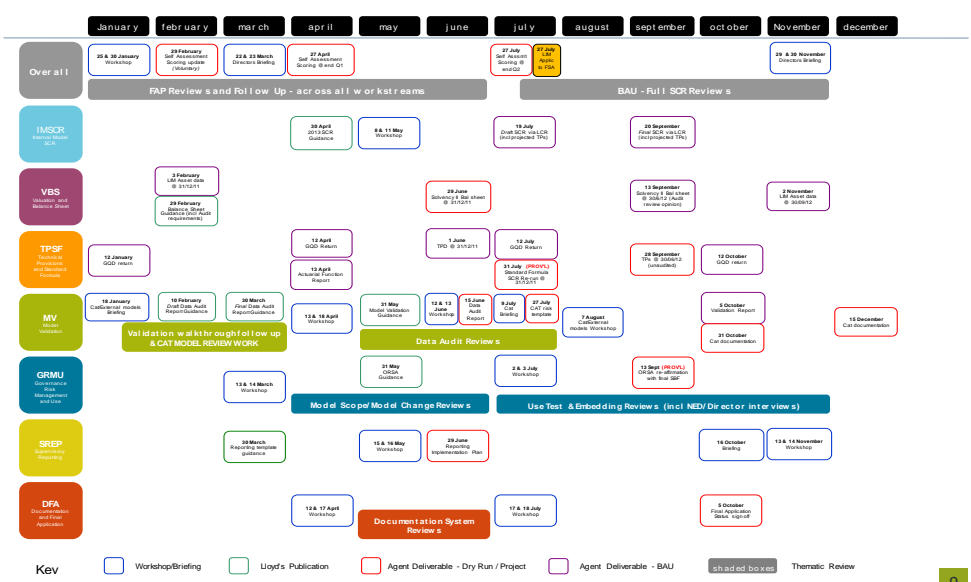
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Solvency II LIM Operating Model



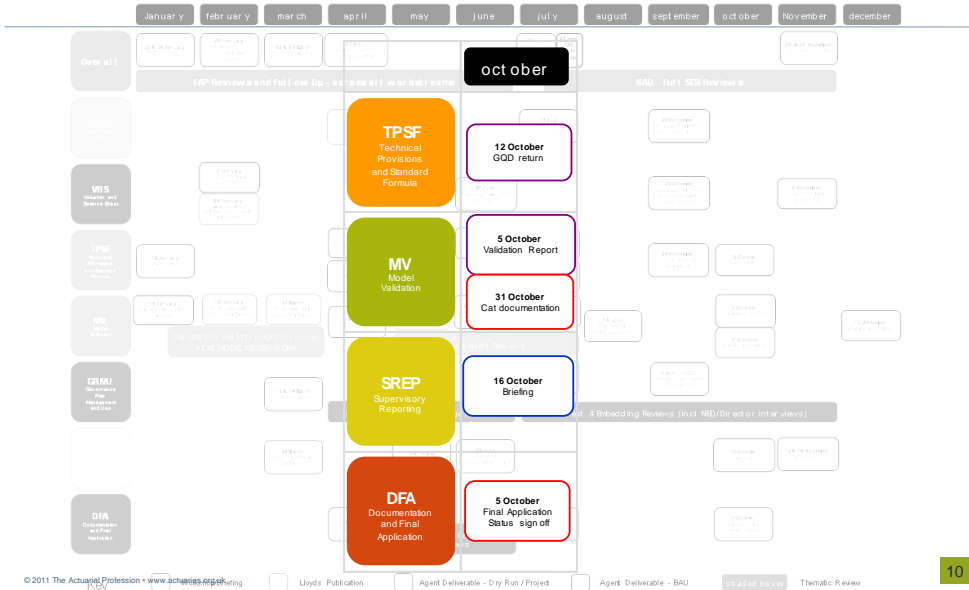
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2012 syndicate requirements



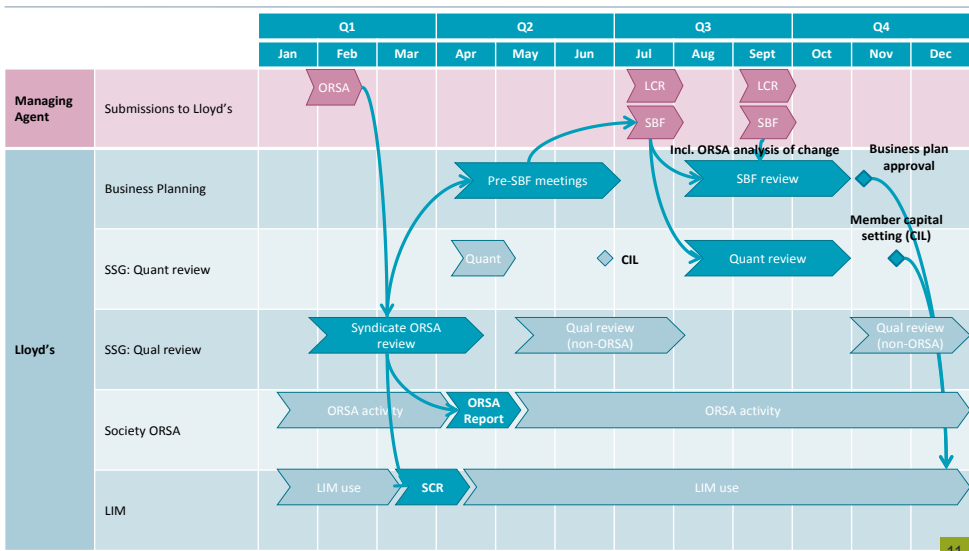
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There are some important dates in October 2012...



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...with one eye already on the BAU timetable



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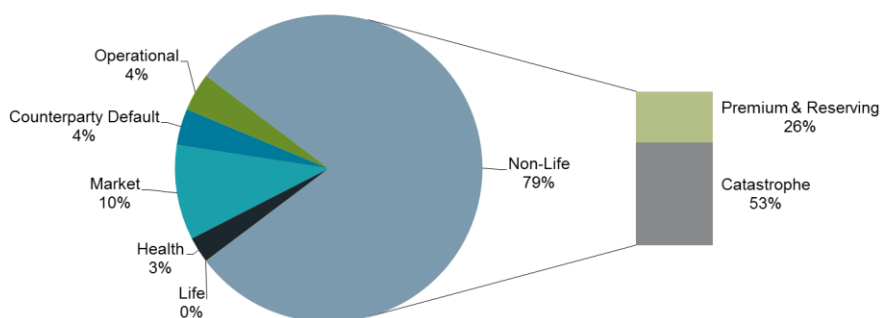
Solvency II Standard Formula at Lloyd's

- 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...



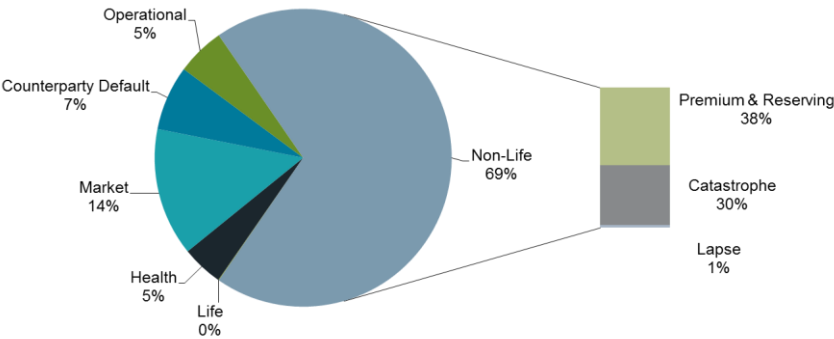
Source: 2010 Year-End QIS5 Re-Run,
Syndicate Aggregate Results (i.e. PTF)

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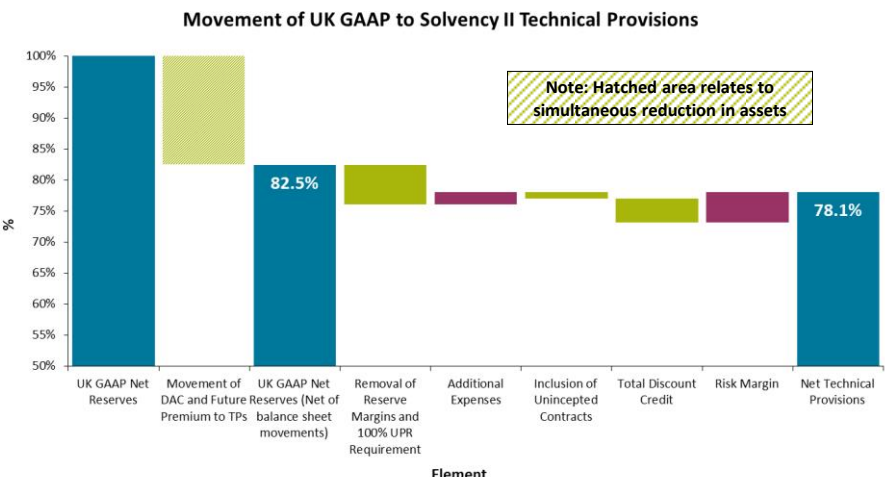
Lloyd's collected draft Actuarial Function Reports from the market in 2012

- 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...

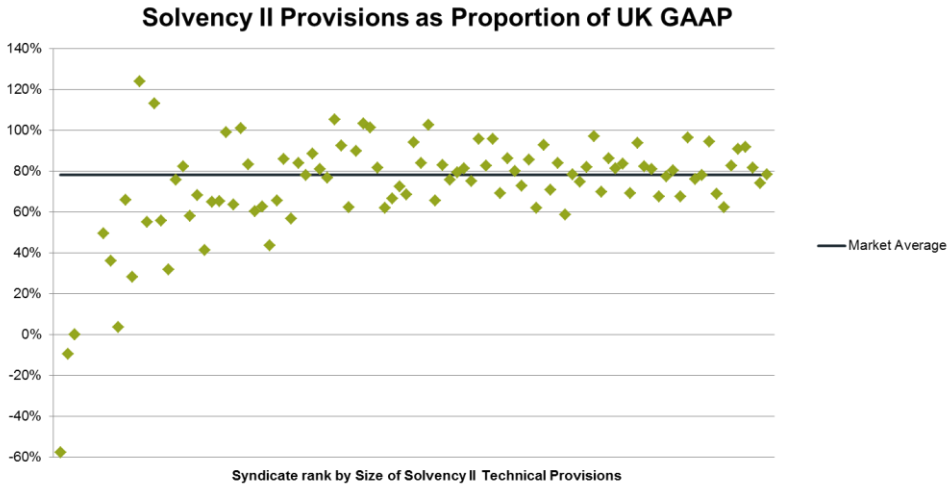


Source: 2011 year-end Technical Provisions Data Return

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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

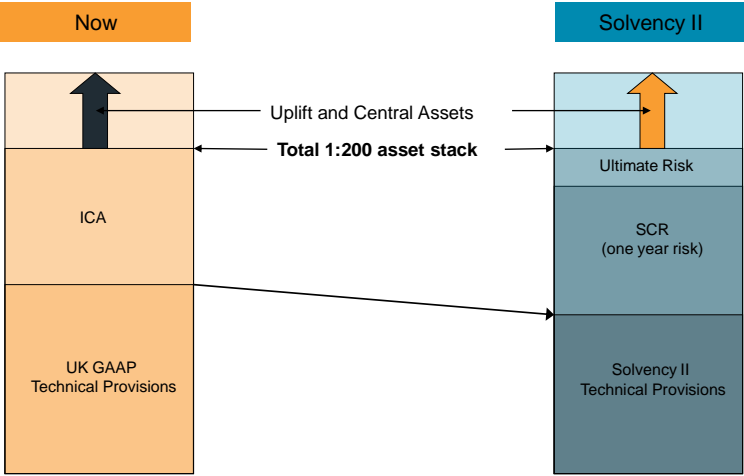
- Using Solvency II models to meet ICAS requirements
 - equivalence is key

	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

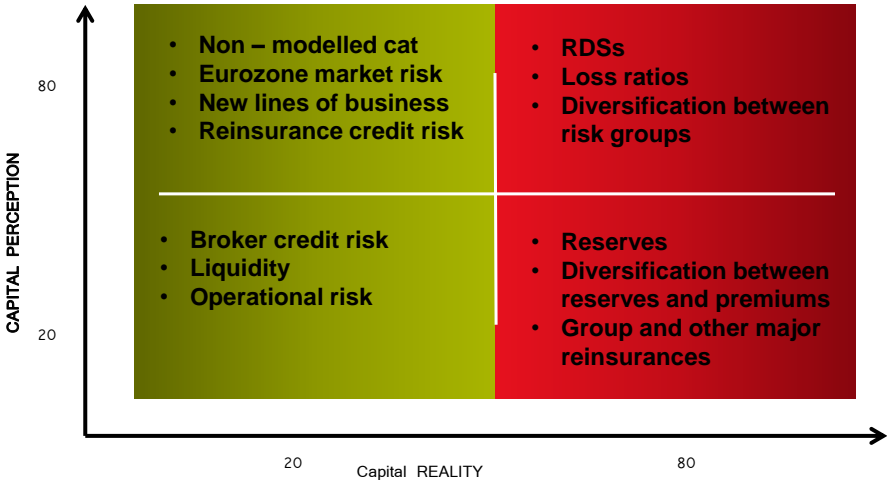
Ultimate SCR plus SII balance sheet provides equivalent policyholder protection as ICAS



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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

Questions or comments?

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