

GOVERNANCE, RISK MANAGEMENT & USE WORKSHOP

7 & 10 November 2011

Agenda

- Introduction
- What does a 2012 Risk Management Framework look like?
- Lloyd's approach to 'Risk Culture'

Table discussions

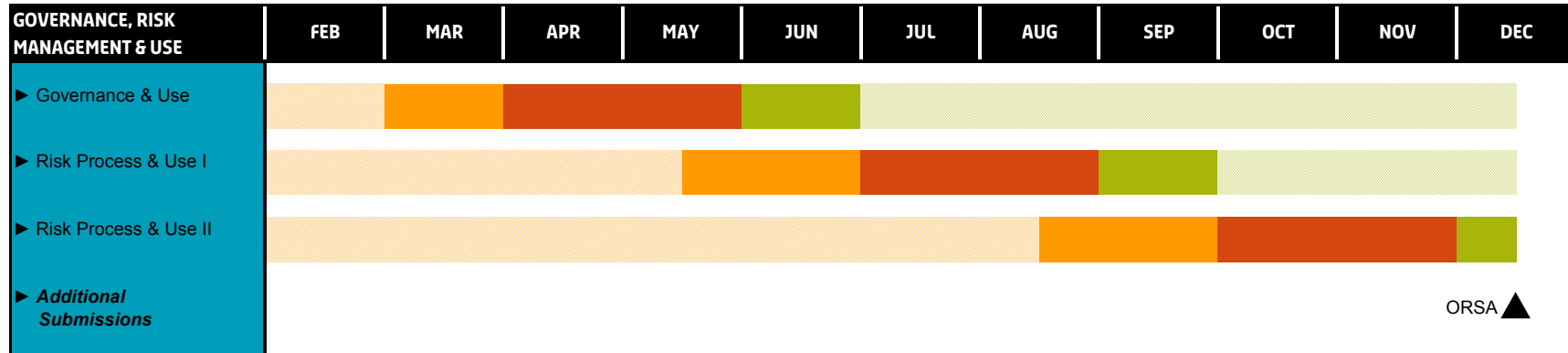
- Feedback from reviews
 - Risk Appetite
 - Internal Audit
- Remaining review activity

Table discussions and play back/Q&A

- Wrap up

INTRODUCTION

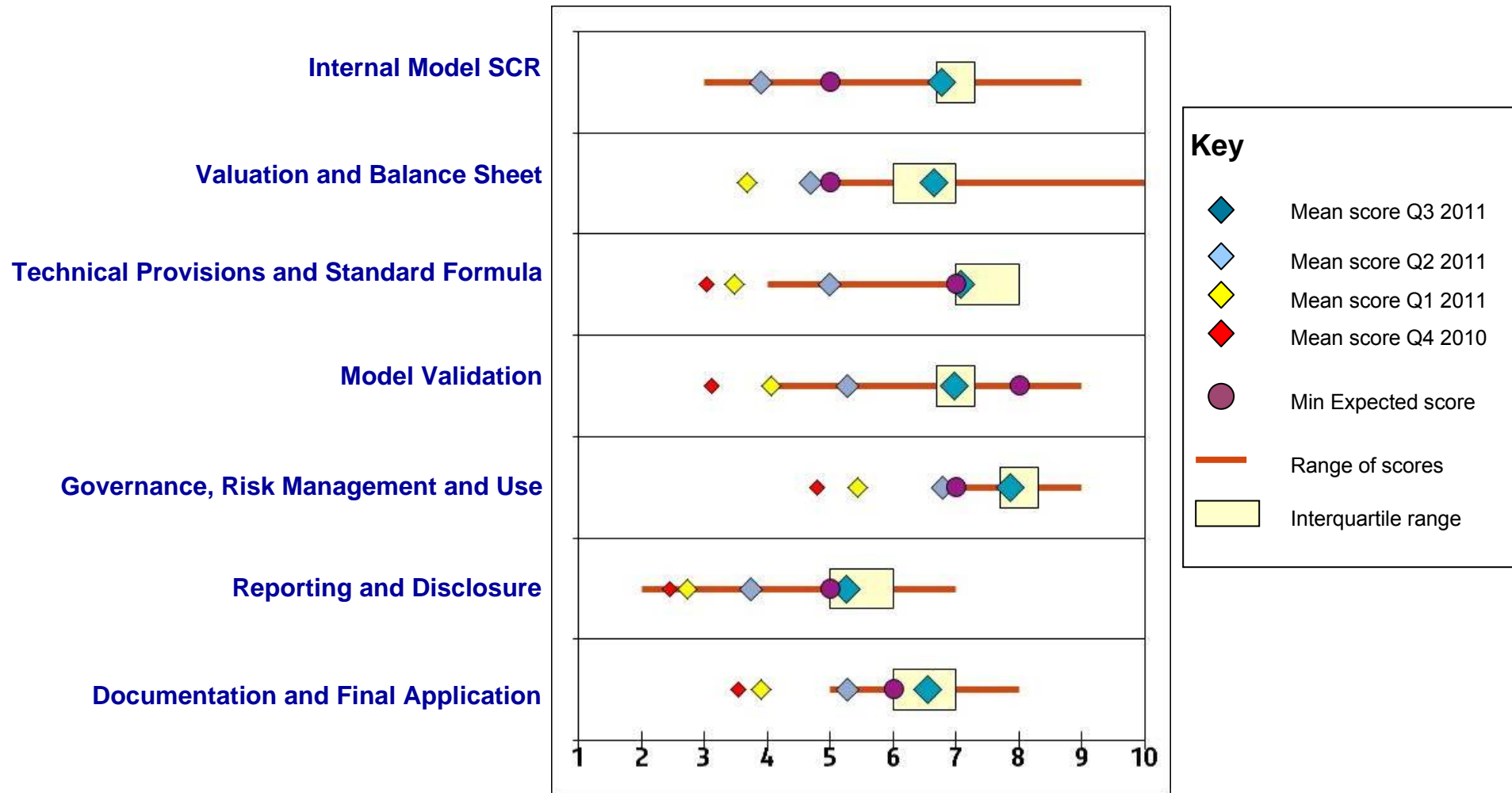
Update on GRMU workstream



Progress in Q3/Q4 2011

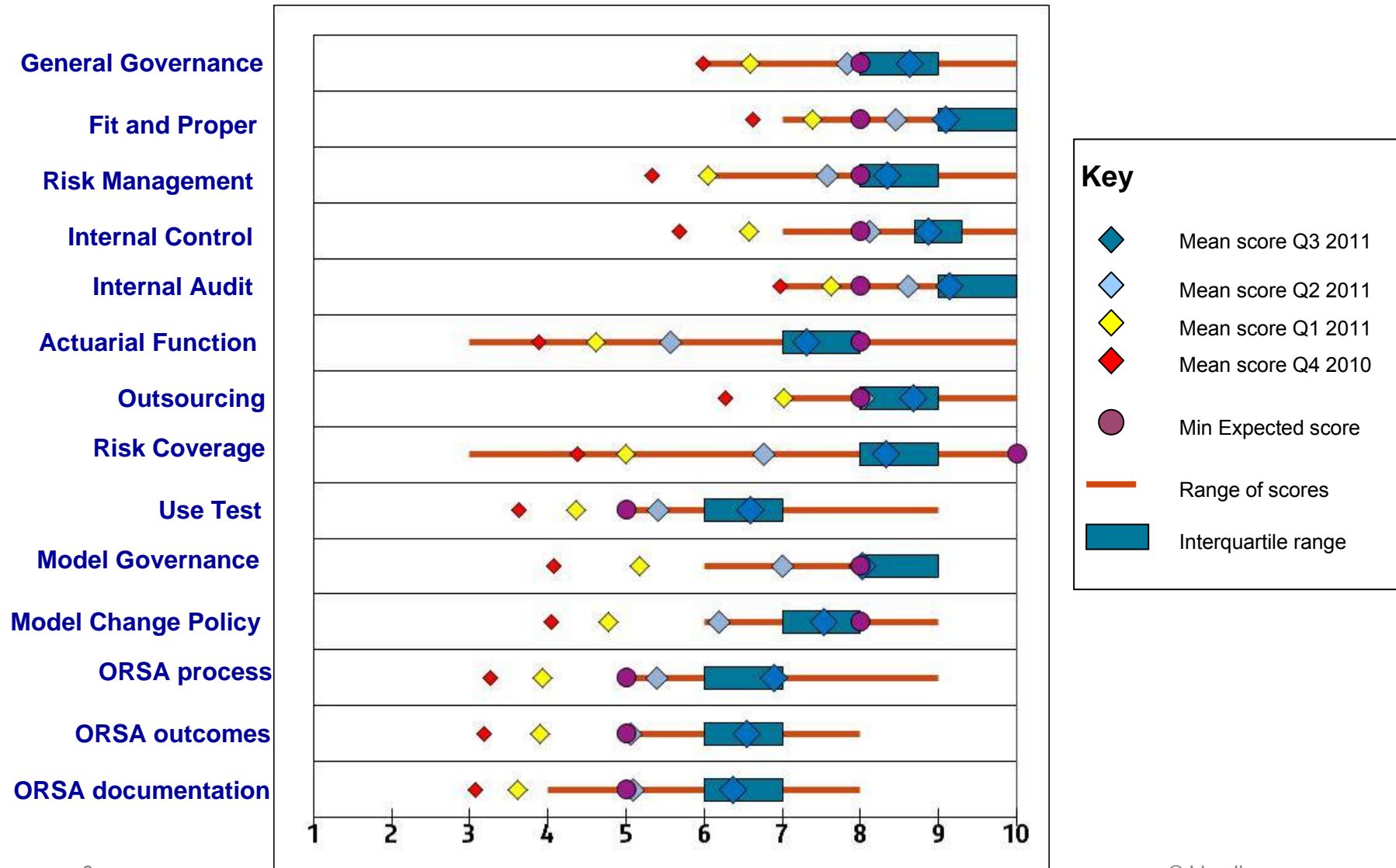
- Evidence templates (v3) reviews and feedback completed
- Current walkthroughs on Risk Appetite and Internal Audit:
 - Meetings almost complete - reports should be issued by mid November
 - Review work on Risk process elements underway
- Model scope elements being planned for 2012 together with use test and embedding
- FAP submission in December to include v4 of GRMU ET and ORSA
 - Reviews in Q1 2012

Latest workstream scores – Q3 2011

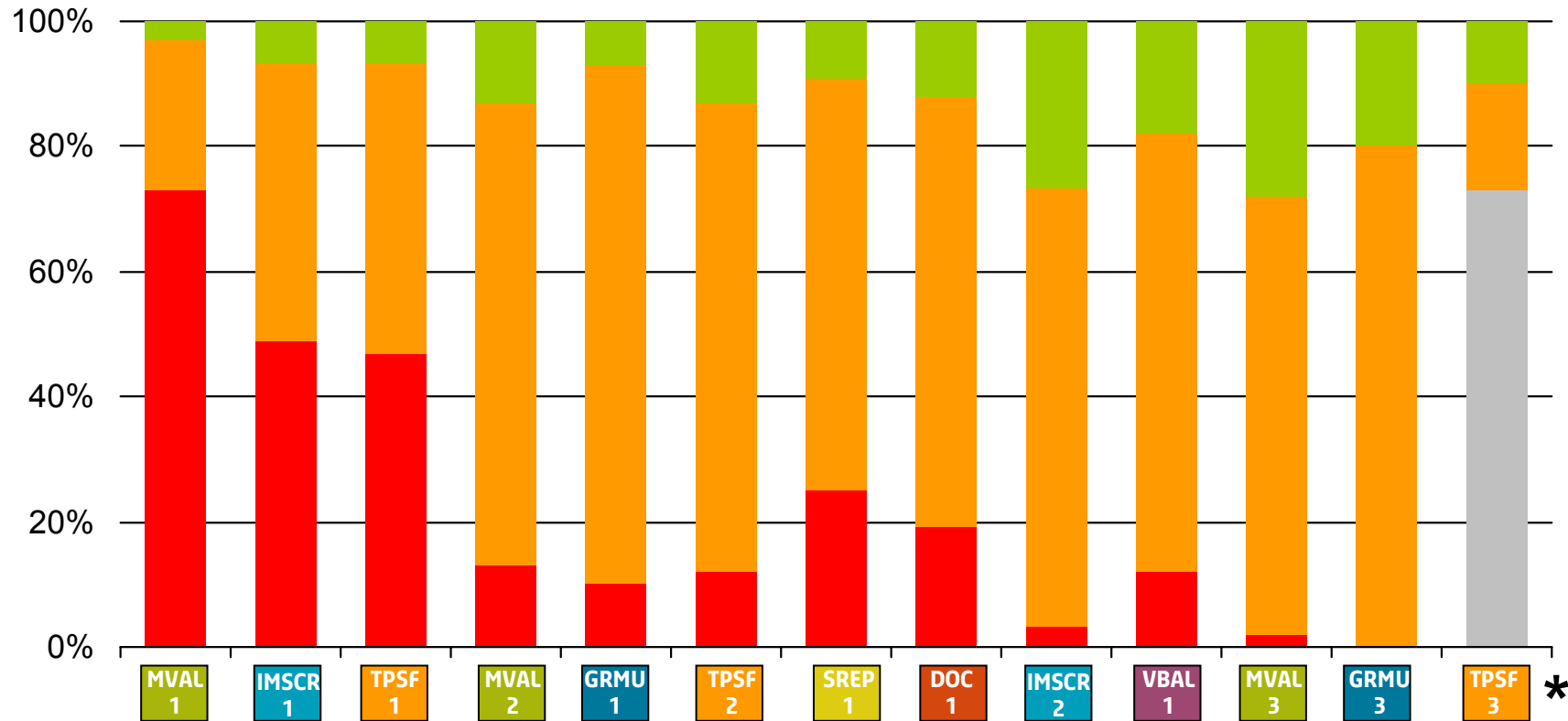


GRMU self assessment scores – Q3

Self assessment scores as at Q3 2011



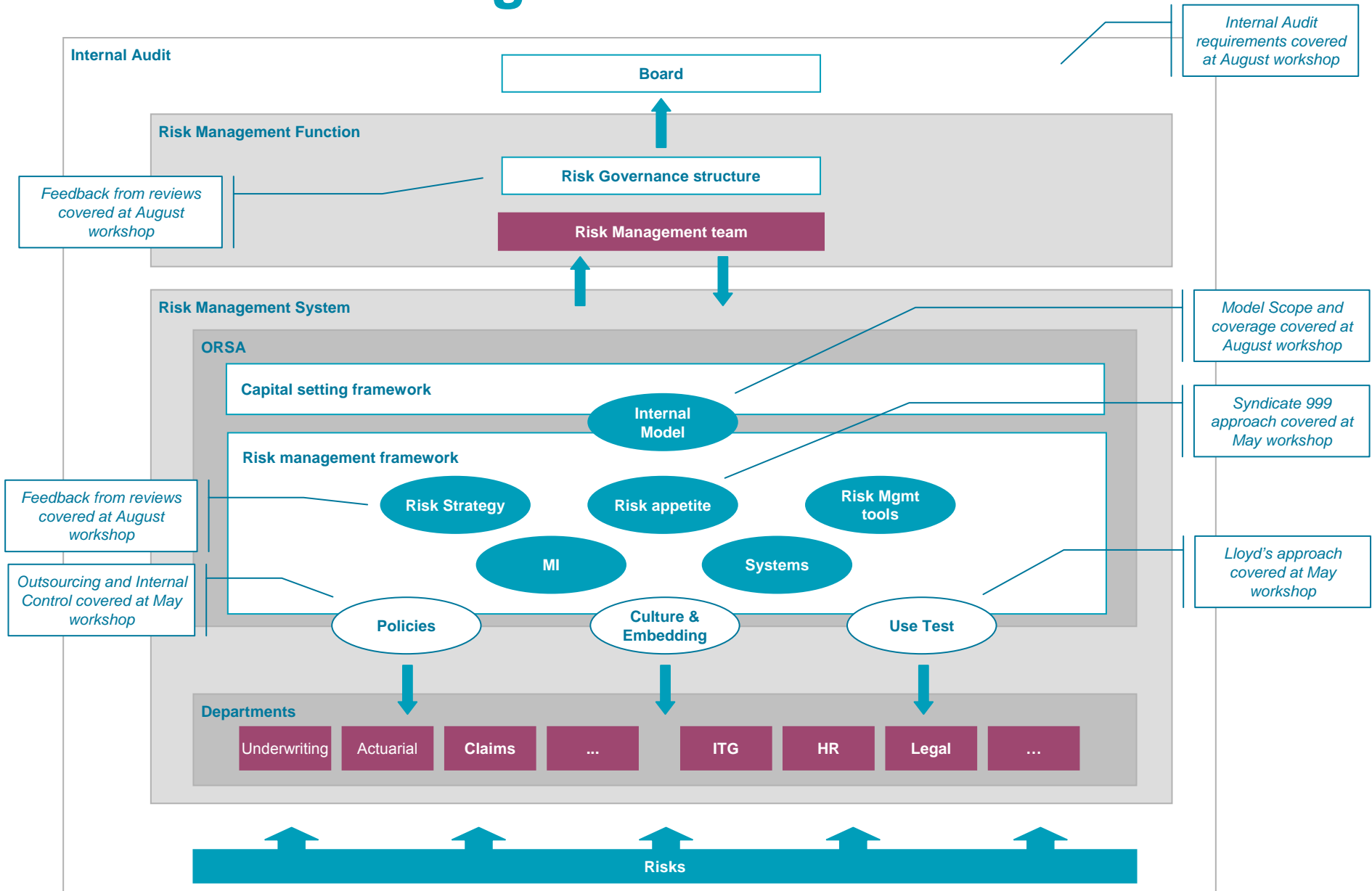
Evidence template ratings continue to reflect feedback



* = subject to consistency review

**WHAT DOES A 2012
RISK MANAGEMENT
FRAMEWORK LOOK
LIKE?**

2012 Risk Management Framework



LLOYD'S APPROACH TO RISK CULTURE

SII and culture

“That risk management system shall be effective and well integrated into the organisation structure and in the decision-making processes of the insurance or reinsurance undertaking with proper consideration of the persons who effectively run the undertaking or have other key functions”

Article 44 (1) Solvency II Directive

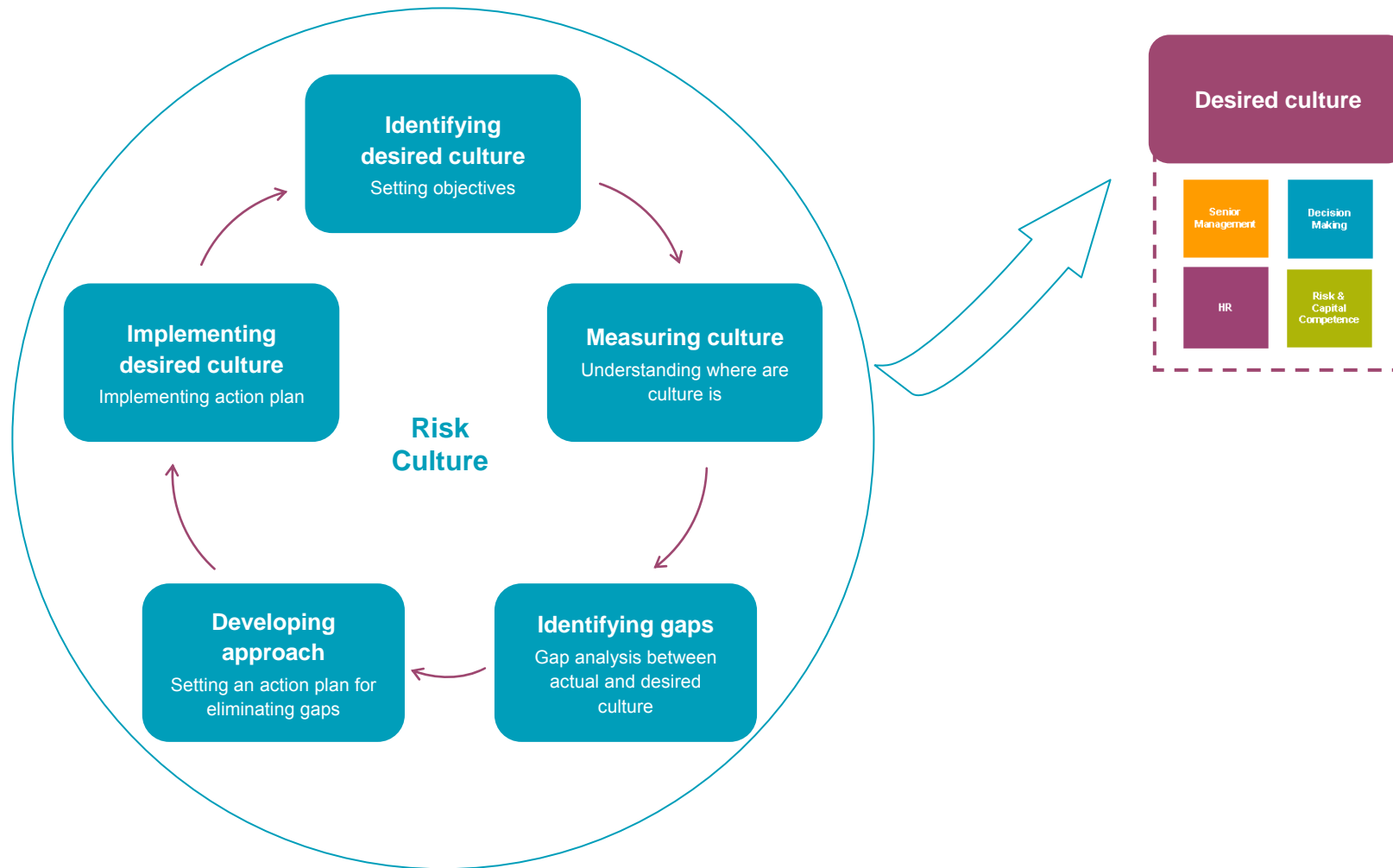
“The matching of the own funds to the risk profile should help promote a strong culture of risk management, which in turn is a key underlying feature of the ORSA process and, more widely, in soundly running the business.”

CEIOPS ORSA Issues Paper May 2008

“I would particularly encourage boards to have a structured process for reviewing their firm’s culture”

Hector Sants CEO, FSA (Source: PwC)

Implementing the desired culture



Project objectives – desired culture

Senior
Management

Setting an appropriate “Tone at the Top”

Risk &
Capital
Competence

Adequate awareness of risk and capital management

Decision
Making

Consideration of risk and capital in business decisions

HR

Formalising responsibilities within objectives & creating a link to performance appraisals

Measuring culture
Understanding where are
culture is

+

Identifying gaps
Gap analysis between
actual and desired
culture

Is our current culture sufficient?

- Understanding where our current culture is?
- Use of recognised Culture Indicators (CIs) as a benchmark
- Identify gaps between current and desired culture

Measuring culture
Understanding where are culture is

+

Identifying gaps
Gap analysis between actual and desired culture

Culture Indicators

Sample of indicators used at Lloyd's

	Least favourable	Lloyd's performance against CIs	Most favourable	Existing activity
Senior Management	RM has a purely advisory role, is solely a response to regulatory requirements, or is nonexistent as a discipline. Little Board access.	1 2 3 4 5 ↓	Governance structure supports effective risk and capital management through Board access, authority, and management reporting	<ul style="list-style-type: none"> Board involvement and sign-off of the RMF e.g. new risk governance structure and risk appetite Enhanced risk governance structure, which reports and is challenged by the Board
Risk & Capital Competence	Employees don't understand the meaning of risk and capital management	1 2 3 4 5 ↓	Employees can identify risks and know what and when to escalate. Capital mgt reports are known and used	<ul style="list-style-type: none"> Established risk identification and assessment processes A number of presentations on key RM tools have been provided to stakeholders on an ongoing basis Existing online risk management training module
Decision Making	Risk and capital are not considered in business decisions	1 2 3 4 5 ↓	Key business decisions are not undertaken without consideration of risk and capital MI	<ul style="list-style-type: none"> Processes have been designed and implemented in conjunction with key stakeholders Risk MI is a key input into the strategic planning process Risk assessments used to determine adequacy of the control environment Risk and capital are key considerations of market oversight
HR	Risk and capital is not part of an individual's remuneration and performance rating	1 2 3 4 5 ↓	Objectives setting align to risk & capital mgt responsibilities and there is a clear link to an individual's remuneration & performance	<ul style="list-style-type: none"> Director's role profiles detail risk responsibility Market oversight roles are clearly linked to risk management objectives

Initial Action Plan

4 workstreams geared towards the desired culture

	Communications	Awareness	Senior Management	HR Initiatives
Activity	<ul style="list-style-type: none"> • Internal communications • Intranet 	<ul style="list-style-type: none"> • Awareness matrix • Awareness presentations • Online training module 	<ul style="list-style-type: none"> • Setting the tone at the top • Board and Executive awareness and coaching sessions 	<ul style="list-style-type: none"> • Risk accountabilities matrix • Terms of reference, objectives and assessment in performance appraisals

Communications

Dedicated Risk Management site sharing information

The image displays two screenshots of the MyLloyd's website, specifically the Risk Management section. The top navigation bar includes 'MYLLOYD'S', 'ABOUT LLOYD'S', 'YOUR LLOYD'S', 'LLOYD'S NETWORK', and 'LIVEWIRE'. Below this is a secondary navigation bar with 'DIRECTORATES', 'GOVERNANCE', 'NEWS', 'STRATEGY AND PRIORITIES', 'BROKERS', 'MANAGING AGENTS', and 'CORPORATE SOCIAL RESPONSIBILITY'. A search bar and 'GO TO LLOYD'S.COM' link are also present.

The left screenshot shows the 'RISK MANAGEMENT' section with a sidebar menu for 'STRATEGY AND PRIORITIES' containing links like 'Strategy 2011 - 2013', 'Market Oversight', 'Solvency II', 'About Solvency II', 'The Exchange', 'Claims Transformation', and 'Access to Business'. The main content area lists:

- Pillar 2 Workstream Update
- RM Systems (PRD and ERA Kairos)
- Risk Policies
- RM Basics

 A note mentions 'Olga Rakhmanina provides the content for this page' and 'Edited on 13/10/2011 by content manager Lefteris Kazazis'. There are 'Print' and 'Email' icons at the bottom.

The right screenshot shows the 'Pillar 2 Workstream Update' page. It includes a 'SEE ALSO' section with links to 'Solvency II' and 'Contact us'. A 'LLOYD'S STRATEGY 2011 - 2013' section is also visible, along with a 'Download here' link and several small images of people. The main text area contains detailed information about the risk strategy, risk appetite, and the use test framework.

Awareness

Example awareness matrix – identify risk & capital awareness needs

Awareness Matrix

	Awareness			Risk Management Processes								
	Online training	RM attend team meetings	Corporation Induction	Risk Governance Inc.Policies	Risk Appetite	Risk Universe & Assessments	LIM	ORSA	SST/RST	Use Test	Overall Risk Strategy/ Framework	
Committees & Board	Council	•		Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions
	Audit Committee	•		Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions
	Franchise Board	•		Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions
	ERC	•		Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions
	SRC	•		Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions
	FRC	•		Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions
	CRC	•		Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions	Briefing sessions
Management	Senior Managers	•		Detailed	Detailed	Detailed	Detailed	Detailed	Detailed	Detailed	Detailed	Detailed
Risk Owners	Market Finance	•	•	Detailed	Moderate	Summary	Moderate	Detailed	Moderate	Moderate	Moderate	Moderate
	Communications	•	•	Summary	Moderate	Summary	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
	Council Secretariat	•	•	Summary	Summary	Summary	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
	International Markets	•	•	Summary	Summary	Summary	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
	Relationship Management	•	•	Detailed	Summary	Summary	Moderate	Detailed	Moderate	Moderate	Moderate	Moderate
	PMD - Open Years & Data Mgt	•	•	Summary	Summary	Summary	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
	PMD - Agency	•	•	Summary	Summary	Summary	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
	Treasury	•	•	Summary	Summary	Summary	Detailed	Moderate	Moderate	Moderate	Moderate	Moderate
	IRA	•	•	Summary	Summary	Summary	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
	Legal	•	•	Summary	Summary	Summary	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
	Market Operations	•	•	Summary	Summary	Summary	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
	Market Services	•	•	Summary	Summary	Summary	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Comp. Staff	All staff	•		Detailed	Detailed	Detailed	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
	New Joiners	•		Detailed	Detailed	Detailed	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Overseas	Country Managers	•		Moderate	Moderate	Moderate	Summary	Summary	Summary	Summary	Summary	Summary
	Assistants/ERA Kairos Users	•		Moderate	Moderate	Moderate	Summary	Summary	Summary	Summary	Summary	Summary
Other	Risk Reps	•		Moderate	Detailed	Detailed	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate

Awareness

Awareness presentations – based on the awareness matrix

- From basic RM awareness



- To more technical subjects



Awareness

E-learning module

RISK MANAGEMENT E-LEARNING MODULE

AN INTRODUCTION TO RISK MANAGEMENT



Back Next

RISK MANAGEMENT E-LEARNING MODULE

THE LLOYD'S RISK & CONTROL ASSESSMENT

Please select each tab in the diagram below (or select the forward button at the top of the diagram), before proceeding onto the next page.

Lloyd's Risk Categories

Liquidity

Regulatory & Legal

Insurance

Credit

Operational

Financial Markets

Business Strategy

Capital

Examples of Risk

Operational

The risk of loss arising from...

... inadequate or failed internal processes, people or systems, or external events

Back Next

Senior Management

Senior management awareness sessions on risk and capital

LLOYDS

HOW RISK AND CAPITAL WILL BE MANAGED AT LLOYD'S IN A SOLVENCY II WORLD

Franchise Board and Council briefing: 7 September 2011

Strictly Confidential

Agenda

- Board oversight under Solvency II
- Risk and capital framework
- Day-to-day risk management
- Awareness plan
- Questions

2 September 2011

HOW RISK IS MANAGED AT LLOYD'S...

Day-to-day risk management

Worked example: catastrophe risk management

Corporate departments	Risk Management Function
<p>Director (UK) (D&C)</p> <ul style="list-style-type: none"> Responsible for oversight, monitoring and challenge of underwriting decisions taken in the market. Terms of Reference: "to review and manage a commercial and prudent underwriting environment at Lloyd's", "to ensure each agent's business plan" 	<ul style="list-style-type: none"> Ongoing assessment of the effectiveness of the BAU processes via secondary monitoring Review of management information packs with key metrics, including risk appetite Provide coordination across risk types for a given syndicate or across the market, where cross function review work is agreed Additional, ad hoc analysis (e.g. scenario analysis) as may be considered necessary Escalation of material issues to the ER/CFB
<p>Decision Forum (Business Plan Steering Group) (DFSG)</p> <ul style="list-style-type: none"> Approval of a planned level of catastrophe risk exposure for each syndicate (as part of overall size approval) Cross-functional team to ensure comprehensive view of syndicate considered 	<p>Risk Committee (RC)</p> <ul style="list-style-type: none"> Responsibility for providing assurance that... risks are being properly and proportionately considered at both individual syndicate level and at a market aggregated level - ... that a co-ordinated risk management approach is adopted ... "ensure that there are effective risk management processes"
<p>Team (Technical Services) (Economic Management)</p> <ul style="list-style-type: none"> Responsible for understanding and managing market aggregation risks and running the Lloyd's Catastrophe Model (CCM) Creation of the Realistic Disaster Scenario (RDS) Provide input into the DFSG as well as ongoing monitoring of catastrophe risk exposure 	

19 September 2011 © Lloyd's

HR Initiatives

- Risk management to feature in the induction programme
- Risk and capital processes and responsibilities to be reflected in department plans
- Risk and capital management responsibilities to exist in all relevant role profiles and/or objectives
- Ensure that risk and capital management objectives are formally considered during the appraisal process

Timeframe – Aug onwards

	August	September	October	November	December	Q1 2012	Q2 2012
Communications	MyLloyds – development and ongoing update of RM page		▲ Initial Comms re Awareness presentations				▲ Comms re Online Training Module
Awareness	Develop material	Awareness Presentations			Develop on-line training material		▲ Online training module roll out
Senior Management	Develop material	Senior management awareness sessions				Senior management mock IMAP interviews	
HR Initiatives		▲ Agree approach with HR	Develop material with HR				▲ Implementation of HR Initiatives

GROUP DISCUSSIONS

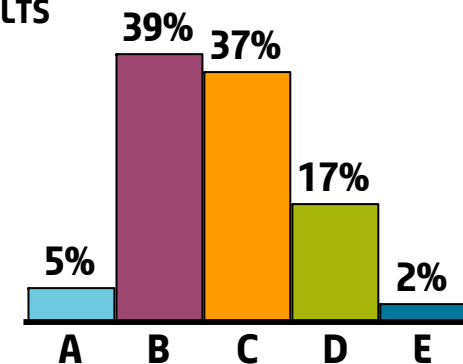
Suggested topics for discussion

- Have you started work on evidencing your risk culture?
- What approach have you undertaken to risk culture?
 - Are there alternative approaches to the Lloyd's approach
 - How well progressed is this work?
- What do you regard as being the constituent elements of a good risk culture?
- What are your plans for further embedding of risk culture during 2012?
- What guidance would be useful from Lloyd's in developing your risk culture?

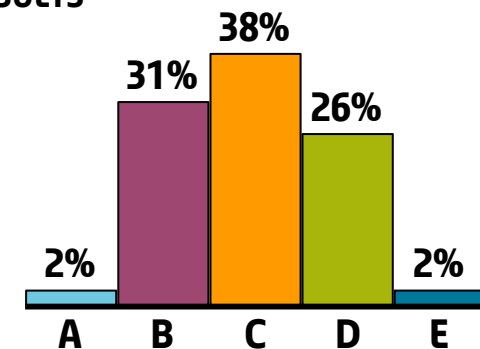
What work have you currently completed on defining and evidencing your risk culture?

- A. Fully completed
- B. We have a good risk culture, we just need to evidence it
- C. We need to add some elements to our risk culture but broadly it is in place
- D. The basics are there, but we still need to do a lot of work
- E. Not really thought about it

7 NOVEMBER RESULTS

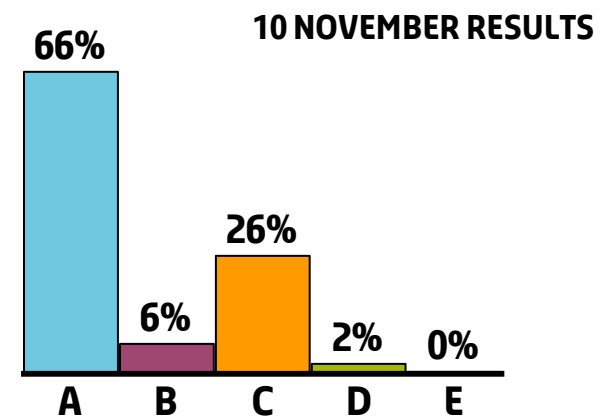
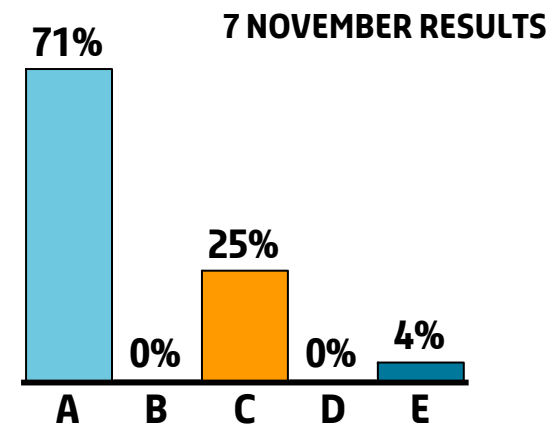


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What do you regard as being the key element of a strong risk culture?

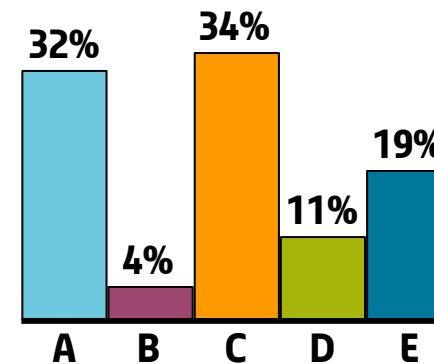
- A. Senior management buy in
- B. Training programme
- C. Integration of risk and capital in business decisions
- D. HR involvement
- E. Risk integral to performance appraisals



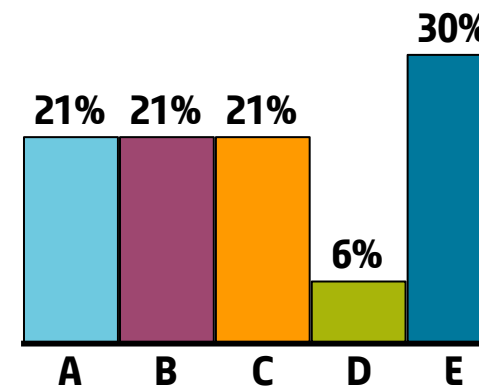
How best can we help you develop your risk culture?

- A. Share more information on our approach
- B. Produce more training material e.g. Solvency II tutorial
- C. Convey its importance to Board members
- D. None of the above
- E. All of the above

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FEEDBACK FROM REVIEWS

Internal Audit feedback

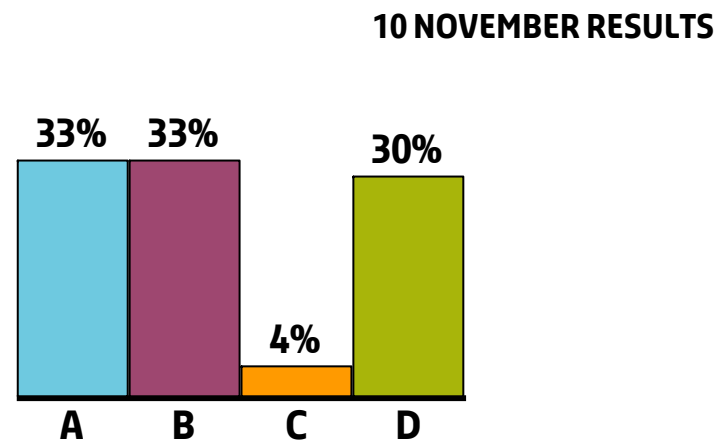
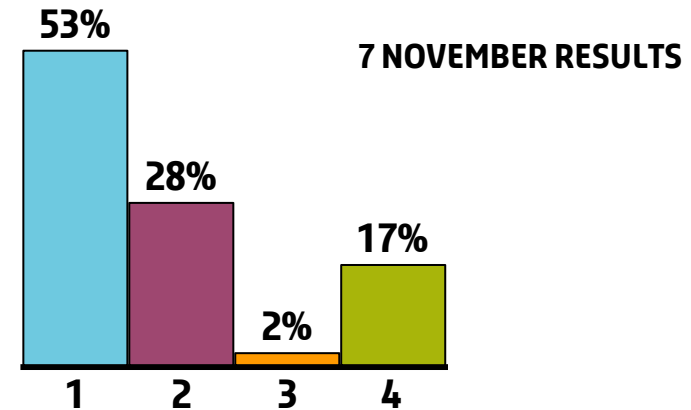
- Very few issues with independence or conflicts of interest.
- Overall approach to documentation is strong.
- Strong working papers and reporting.
- Frequently, Internal Audit are playing a key role in Solvency II projects.
- Generally, Audit Committees are composed solely of NEDs.
- Quality of audit reporting is high.
- Strong follow up of audit recommendations.

Internal Audit feedback - development

- Fine line between Solvency II project involvement and independent review.
- Quality of planning process and how well the process is demonstrated and documented.
- Links to risk management.
- Solvency II audit planning.
- Routine attendance at Audit Committees of non committee members.
- Annual audit reports to the Board varied in quality and content.

Have your Internal Audit functions been involved in the independent assurance of Lloyd's submissions (scores, ETs, etc.)?

- A. Yes – heavily involved
- B. Yes – partially involved
- C. No, but will be for the FAP
- D. No – other independent assurance



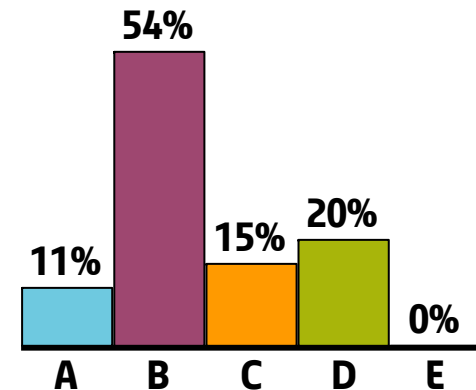
What's new for Internal Audit under Solvency II? - Reminder

- Internal Model.
- Overall documentation of the risk management framework.
- Approach and complexity of risk appetite framework.
- Own Risk and Solvency Assessment.
- Volume and complexity of risk related committee reporting.
- Measurement of the embedding of a risk management culture.
- Risk function.
- Actuarial function.
- Level of regulatory scrutiny of audit activities.
- Level of reporting undertaken to the regulator and the market.

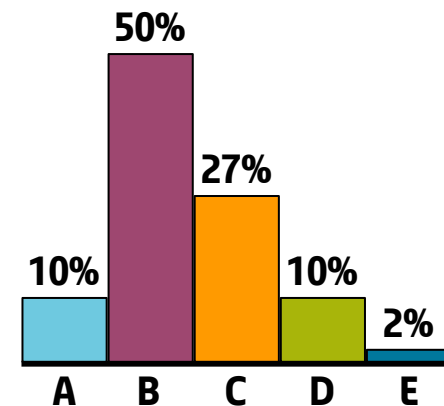
How well developed are your Internal Audit plans for Solvency II elements?

- A. Fully planned
- B. Most are in the plan but additions will be included once the project is complete
- C. We know what we need to do but it is not reflected in the plan
- D. We are incorporating the new approaches into existing audits
- E. Not planned at all

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Risk appetite – 3 key areas

- An articulation of the target level of risk for the business
- Each key risk area has a defined level of risk appetite
- Monitored through regular management information, with clarity around how that fits into the overall governance framework.

Risk appetite

- Varying approaches across the market.
- Clear links with business strategy and planning process.
- Significant progress in defining risk appetite statements.
- Most approaches build on existing metrics.
- Alignment of risk appetites and metrics to committees and Board members *but further development needed.*

Risk appetite – development

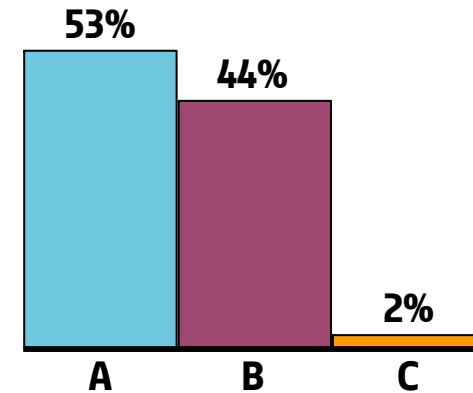
- Risk appetite approach often not fully embedded.
- Further training, particularly at Board level, required.
- Rationale for Board metrics not always clear.
- Ability to demonstrably link the chosen risk indicators to the risk appetite statements.
- Linking the inputs and outputs of the capital model to risk appetite and the wider risk management framework.
- Management information still waiting on model output.
- Focus for 2012 needs to be embedding and refining approach.

It will be an iterative process!

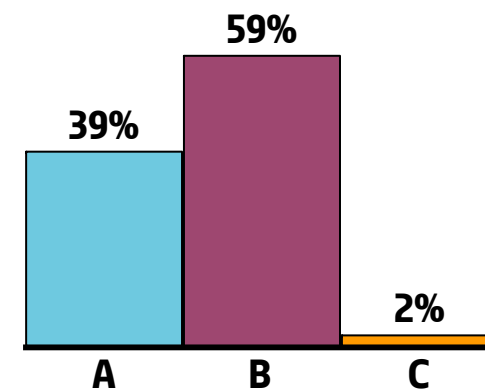
How are you going to rate yourselves on risk appetite in the FAP submission?

- A. No gap
- B. Gap
- C. Material gap

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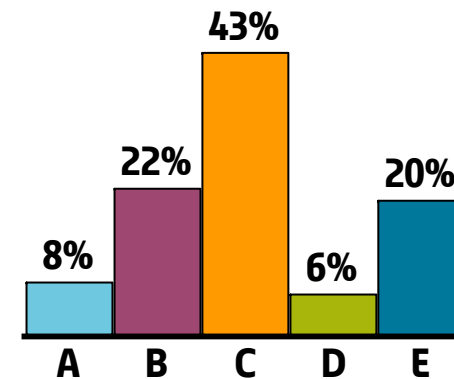
10 NOVEMBER RESULTS



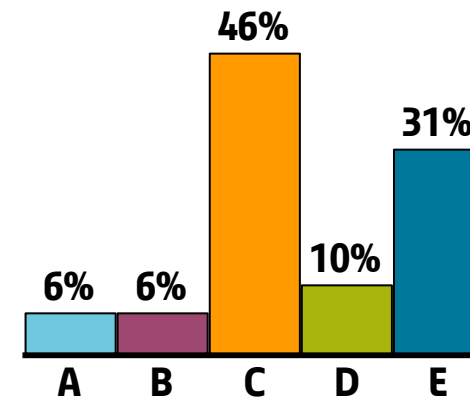
Which element of the risk appetite framework implementation is causing most issues?

- A. Defining an overall risk appetite statement
- B. Defining the associated key risk indicators
- C. Linking the risk appetite framework to the capital model
- D. Developing robust committee reporting
- E. Getting it all done in time!

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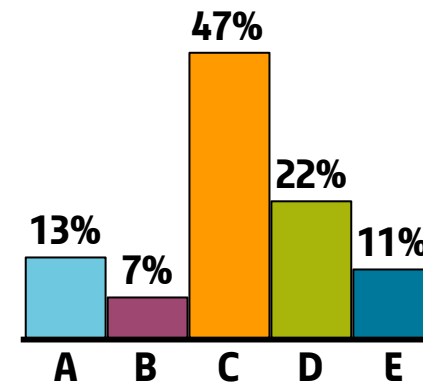
10 NOVEMBER RESULTS



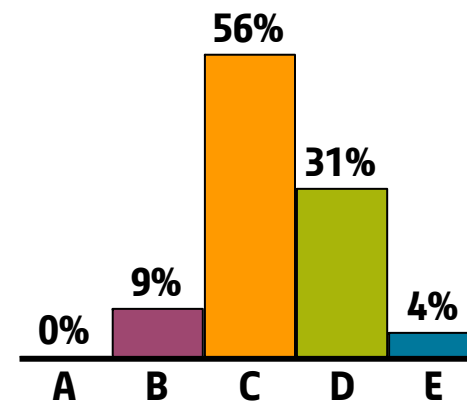
How many risk appetite metrics are you currently proposing that your Board actively monitors?

- A. 0 - 3
- B. 3 - 5
- C. 5 - 10
- D. Greater than 10
- E. We are not sufficiently progressed to identify a number.

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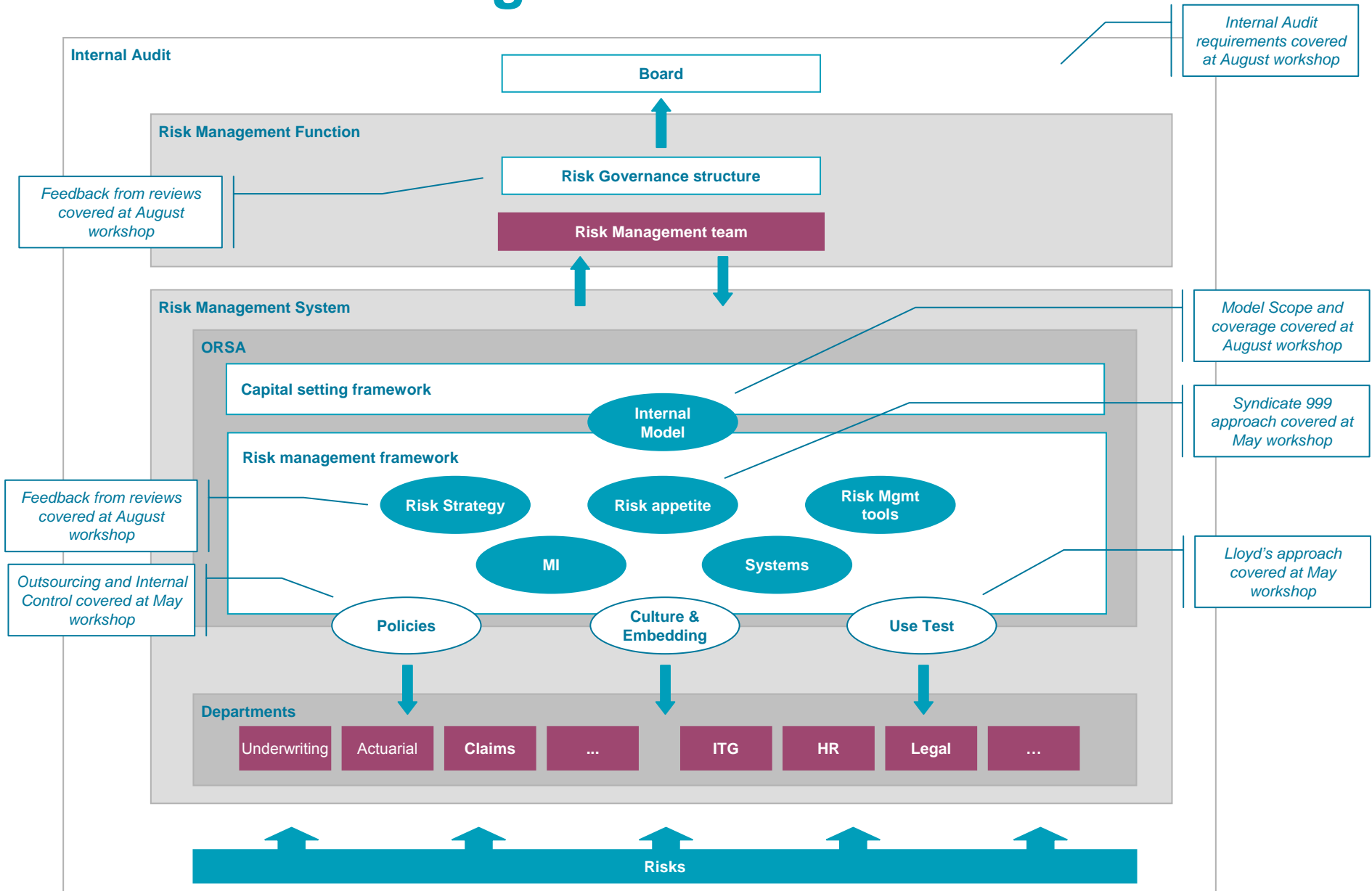
REMAINING REVIEW ACTIVITY

What next?

- Feedback on Internal Audit and Risk Appetite will be completed over next 2/3 weeks.
- We are aiming to complete Risk process elements before year end.
- ORSA will be reviewed as part of FAP activity in Q1.
- Follow up activity on recommendations from 2011 will be undertaken in Q1 2012.
- Model scope and governance related elements will be picked up in Q2 2012.
- Other activity in 2012 will look at Use test and how the risk management framework has been embedded.

GROUP DISCUSSION

2012 Risk Management Framework



Suggested topics for discussion

- Based on the 2012 Risk Management Framework:
 - What are the key development areas for Q1 2012?
 - What areas are in place but need significant refinement in 2012?
 - What are the difficult areas for 2012 development?
 - When do you envisage the project moving to business as usual?

NEXT STEPS

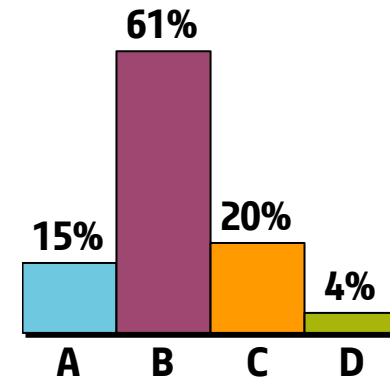
Next Steps

- Slides will be made available on lloyds.com after both workshops
- Updated Q3 scores will be reviewed and questions raised with agents together with any request for supporting evidence/rationale
- Focus is in FAP submission in December
- Next Governance, Risk Management & Use workshops – 2012!
- Other upcoming sessions:
 - Director Briefings – 23 & 24 November
- Finally, before you go, a request for feedback ...

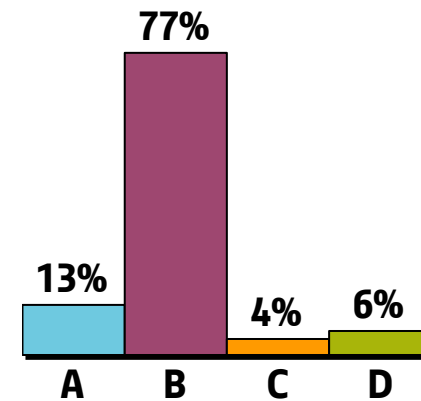
How useful have you found today's session?

- 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

7 NOVEMBER RESULTS



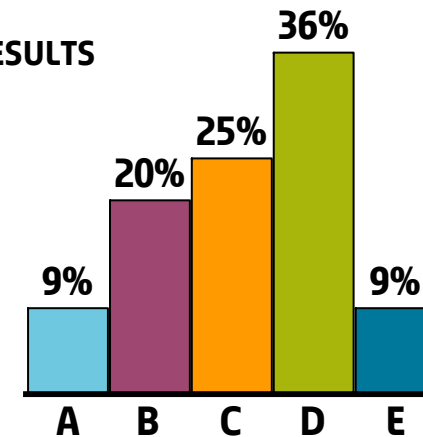
10 NOVEMBER RESULTS



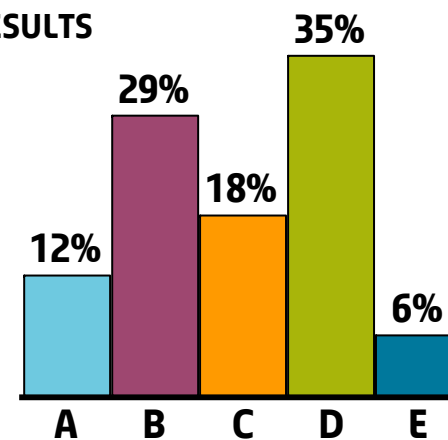
When would you like the technical workshops to start in 2012?

- A. January
- B. February
- C. March
- D. Q2
- E. Do they have to start?

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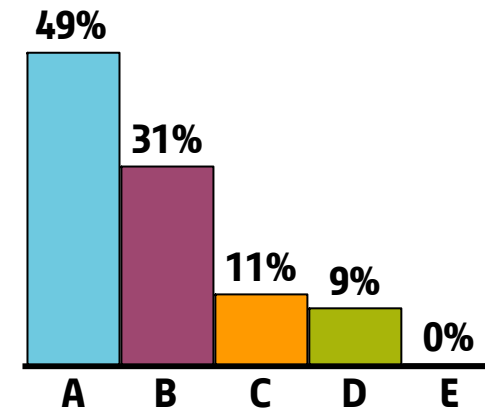
10 NOVEMBER RESULTS



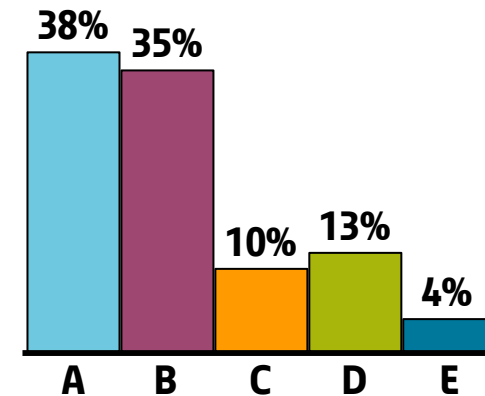
What topic would you like covered as part of the first 2012 GRMU workshop?

- A. ORSA
- B. Use Test
- C. Model scope and change
- D. Risk Monitoring and Reporting
- E. Other

7 NOVEMBER RESULTS



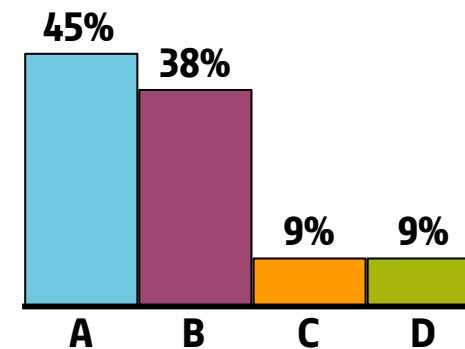
10 NOVEMBER RESULTS



How useful have you found the 2011 workshops?

- A. Life wouldn't have been the same without them!
- B. Useful but more technical presentation needed
- C. Useful but more discussion would have been beneficial
- D. We have only come because they are mandatory!

7 NOVEMBER RESULTS



10 NOVEMBER RESULTS

