

GOVERNANCE, RISK MANAGEMENT & USE WORKSHOP

1 & 3 March 2011

INTRODUCTION AND DRY RUN UPDATE

Agenda

- Introduction and dry run update
- Overview of review programme
- Overall approach and documentation request
- Questions arising from Group discussion
- 'Model syndicate' and next steps

2011 plan is now finalised

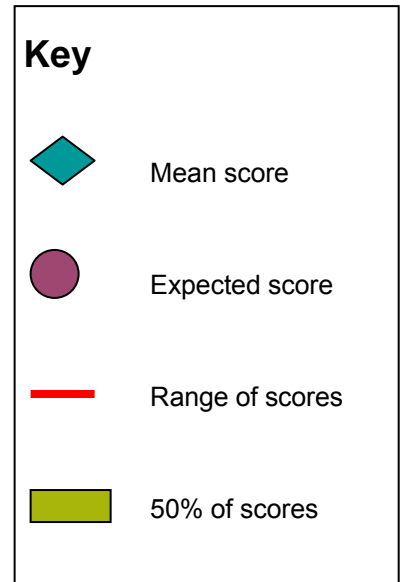
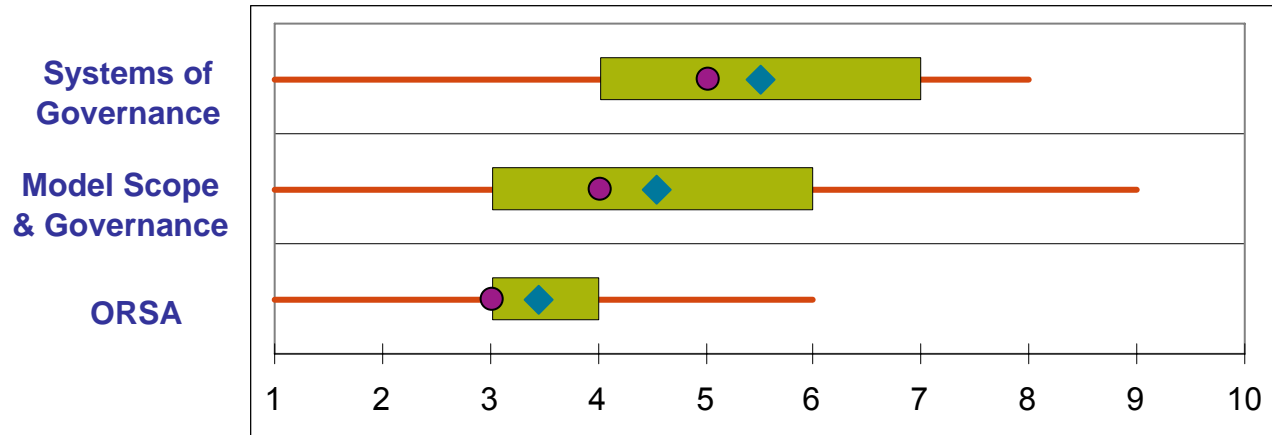
- Final guidance and details issued on 18 February following initial workshops
 - Minor changes to workshop dates and FSA mapping
- Additional templates and material for specific workstreams
- Deadlines & deliverables spreadsheet will be updated as we progress
 - Evidence template for governance, risk management & use issued 28 February
 - Self assessment score sheet issued 23 February - first submission due from agents 4 March
- Expect frequent communication and updates
- Heavy schedule of workshops – please ensure appropriate attendees

Today we kick off first stage of 2011 review activity

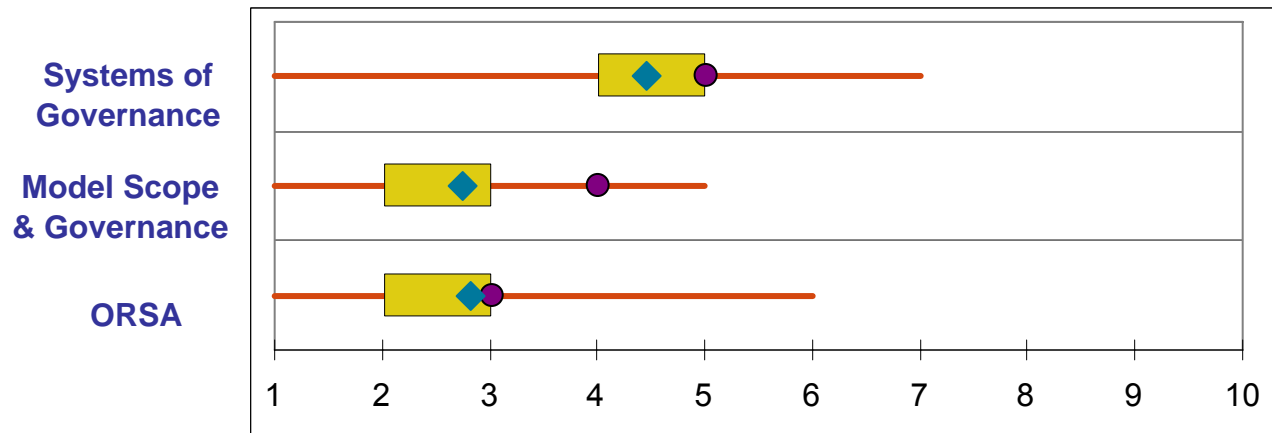
- Present more detailed plan for Governance, Risk Management and Use workstream to build on guidance issued 18 February
- Obtain market views via facilitated group discussions
 - round up and play back issues and questions
- Answer questions where possible
 - take away any we can't answer today
- Introduce our “average syndicate”
- Audience participation to keep you alert and interested!

We expect to see significant progress

Agent self assessment



Lloyd's post review scores



Expected Scores – March 2011

Dry run element	Expected score March 2011
Systems of Governance	
General governance requirements	5-7
Fit and proper requirements	6-7
Risk Management	5-7
Internal Control	5-7
Internal Audit	6-7
Actuarial Function	5-7
Outsourcing	6-7

Dry run element	Expected score March 2011
Model Scope and Governance	
Risk Coverage	5-7
Use Test	5-7
Model Governance	5-7
Model Change Policy	5-7
Own Risk and Solvency Assessment	
Process	4
Documentation	4
Outcomes	4

1. What main approach are you adopting for independent assurance of your self assessment submission?

- A. Non-Executive Director Review
- B. Qualified third party
- C. Programme level cross validation
- D. Internal Audit or Audit committee
- E. Other

2. The average system of governance score assigned by Lloyd's was 4, where have you now ranked yourselves?

A. 2-4

B. 5-7

C. 8-9

D. 10

E. None of the above!

Key:	2-4	Design/Evidence
	5-7	Evidence/Build
	8-9	Testing/Sign-off
	10	Fully in use/BAU

3. The average model scope and governance score assigned by Lloyd's was 3, where have you now ranked yourselves?

A. 2-4

B. 5-7

C. 8-9

D. 10

E. None of the above!

Key:	2-4	Design/Evidence
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4. The average ORSA score assigned by Lloyd's was 3, where have you now ranked yourselves?

A. 2-4

B. 5-7

C. 8-9

D. 10

E. None of the above!

Key:	2-4	Design/Evidence
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2011 REVIEW PROGRAMME

Key areas of focus from dry run

- Committee and organisational structures
 - Overall responsibilities for risk
 - Terms of Reference for all committees
 - Clear allocation of all risks
- Process for review of system of governance
- Clarity of definition of the scope of the internal model
 - including areas 'out of scope'
- Governance framework supporting the internal model and training

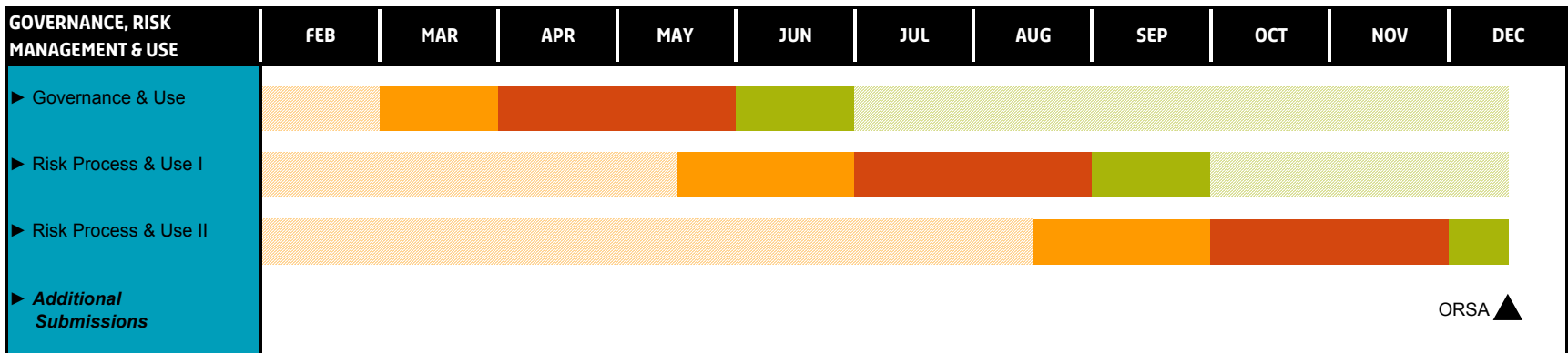
Governance, Risk Management & Use

Why?

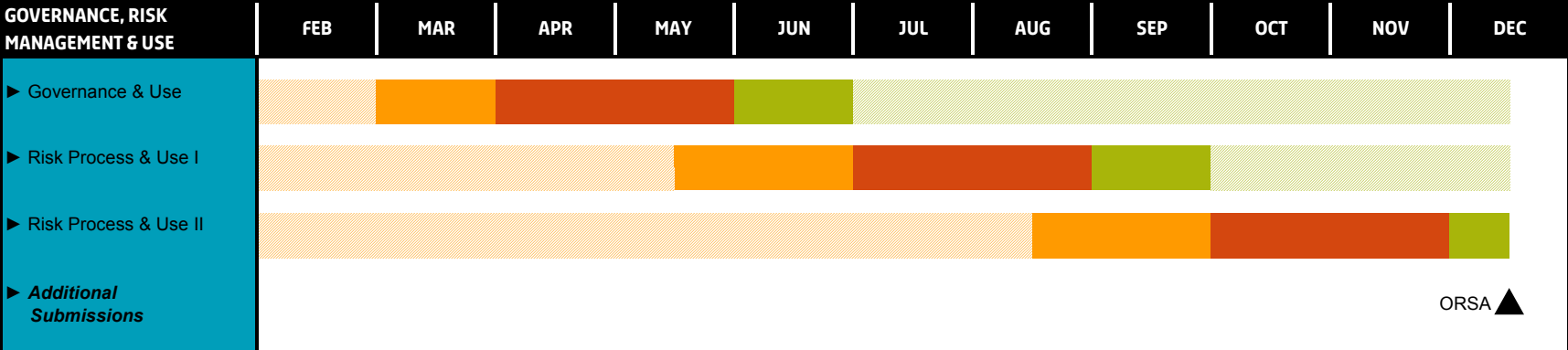
- Agents must demonstrate that systems of governance are adequate and meet the standards
- Test that agents can demonstrate use of the model
- Ensure appropriate model governance is in place

When?

- ORSA required by 16 December

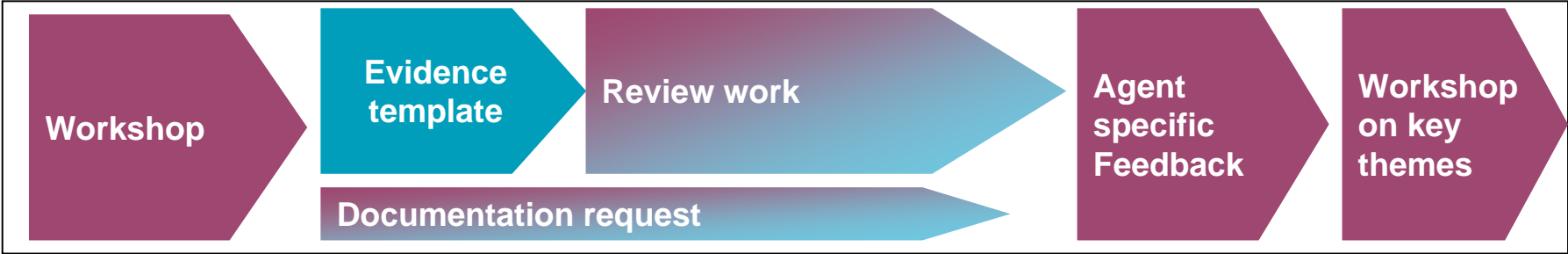


What is being covered and when?



<ul style="list-style-type: none"> • Fit and Proper • Internal Control • Outsourcing • Governance and Board operations • Risk Governance (including Model Governance) • Use Test 	<ul style="list-style-type: none"> • Internal Audit • Risk Appetite • Model Change Policy • Model Scope/Coverage • Use Test 	<ul style="list-style-type: none"> • Identification, assessment, control & mitigation • Monitoring & Reporting • Actuarial Function • Use Test
<p>ORSA</p>		

Governance, Risk Management & Use - Process



Area	Key Messages	Key Findings	Key Recommendations	Key Actions	Key Dates	Key Status
Board	Board members should have a clear understanding of the company's risk profile and the role of the risk function.	Board members do not have sufficient knowledge of the company's risk profile.	Board members should receive regular updates on the company's risk profile.	Board members should attend a risk management training course.	15 March 2011	Not Started
Risk Function	The risk function should have a clear mandate and authority to manage the company's risk profile.	The risk function does not have a clear mandate and authority.	The risk function should have a clear mandate and authority.	The risk function should have a clear mandate and authority.	15 March 2011	Not Started

BOARD PACK CONTENTS
From the [Operational Review](#)
"THE BOARD SHOULD BE SUPPLIED IN A TIMELY MANNER WITH INFORMATION IN A FORM AND OF A QUALITY APPROPRIATE TO ENABLE IT TO DOCUMENT ITS DECISIONS."

Adequacy of Systems of Governance
GOVERNANCE CRITERIA

Criteria	Current State	Target State	Recommendations	Timeline
1. Board members should have a clear understanding of the company's risk profile and the role of the risk function.	Not sufficient	Clear understanding	Board members should receive regular updates on the company's risk profile.	15 March 2011
2. Board members should have sufficient knowledge of the company's risk profile.	Not sufficient	Sufficient knowledge	Board members should attend a risk management training course.	15 March 2011

OPERATIONAL RISK DEPARTMENT THEME REVIEW 2011. PRELIMINARY ADVICE ON DOCUMENTATION AND TIMING
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Metric	Type	Documentation to be submitted	Submission Date	Review Date
1. Board members should have a clear understanding of the company's risk profile and the role of the risk function.	Board	Board members should have a clear understanding of the company's risk profile and the role of the risk function.	15 March 2011	15 March 2011
2. Board members should have sufficient knowledge of the company's risk profile.	Board	Board members should have sufficient knowledge of the company's risk profile.	15 March 2011	15 March 2011
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6. The risk function should have sufficient knowledge of the company's risk profile.	Risk Function	The risk function should have sufficient knowledge of the company's risk profile.	15 March 2011	15 March 2011



FOLLOW-UP SCHEDULE

No.	Priority	Responsible Party	Agent Specific Comments, Action Required, and Date Reported to Board	Area/Level of Risk of Failure to Implement and Mitigation Strategy	Reporting Date
1.	High	Board			
2.	Medium	Risk Function			
3.	Low	Risk Function			

Key: Lloyd's responsibility Agent responsibility Lloyd's and agent

Output from review process

- Specific feedback and recommendations for each managing agent
- Kick off workshop for next phase will include a summary of key themes from the reviews completed
- Updates via the Evidence templates and self Scoring submissions
- Lloyd's will follow up if there has been a significant movement in the score or other cause for scrutiny.
- Consultation via the LMA on the impact on the Lloyd's minimum standards.

5. Which element of the risk management framework implementation is currently causing most issues?

- A. Governance Framework.
- B. Risk appetite.
- C. Committee Reporting.
- D. ORSA.
- E. Other.

6. At what stage would you describe the governance and ownership of the internal model at your agent?

- A. Fully defined and embedded.
- B. Pretty much well defined, but still needs finalisation and approval.
- C. Drafted, but still subject to significant debate.
- D. Not well defined and a lot of work is still to be completed.
- E. None of the above!

7. What is the current biggest challenge with regard to Governance and the Risk Management Framework?

- A. Resources.
- B. Documentation.
- C. Senior management engagement.
- D. Lack of clarity on the final requirements.
- E. Amount of review work being undertaken by Lloyd's and the FSA.

8. Have you been informed of your invitation to enter the FSA review process?

A. Yes.

B. No.

**GROUP
DISCUSSIONS**

OVERALL APPROACH

Evidence and timing

Module	Topic	Supporting evidence	Prepared by	Noted in Evidence template
Governance & Use	Fit & Proper	1. Commentary on progress following Lloyd's feedback from SOG Dry-Run review of June 2010	TBA (Feb 2011)	31 March 2011
	Internal Control	1. Commentary regarding relevant matters arising from Lloyd's feedback from SOG Dry-Run review of June 2010 2. Compliance Plan 3. Compliance Officer's or Compliance Function Terms of Reference	14 March 2011	31 March 2011
	Outsourcing	1. Commentary and supporting documentation regarding relevant matters arising from Lloyd's feedback from SOG Dry-Run review of June 2010 2. Outsourcing policy and procedures 3. Outsource agreement template or, a copy of an actual material outsource agreement 4. Confirmation of the outsourcing arrangements that exist and written agreements are in place for each	21 March 2011	31 March 2011
	Governance and Board Operations	1. Self assessment elements of the work programme completed by the relevant agent 2. Commentary and supporting documentation regarding progress on relevant matters arising from Lloyd's feedback from SOG Dry-Run review of June 2010 3. Board reporting pack 4. Board minutes 5. Management structure chart showing sub-committees, responsibilities of directors and key function heads 6. Board evaluation document 7. Schedule of items reserved for board approval 8. Fit and Proper Policy and Procedure documents and confirmation of last review date 9. Conflicts of Interest policy and confirmation of last review date 10. Remuneration Policy and confirmation of last review date 11. Succession Plan and confirmation of last review date	26 April 2011	31 March 2011

Evidence and timing

Module	Topic	Supporting evidence	Prepared by	Noted in Evidence template
Governance & Use	Risk Governance	<ol style="list-style-type: none"> 1. Commentary regarding progress on relevant matters arising from Lloyd's feedback from SOG Dry-Run review of June 2010 2. Management and organisational structure charts showing sub-committees, reporting lines of directors and key function heads 3. Risk Management Policy and/ or Risk Strategy documents 4. Risk Committee terms of reference 5. Risk Committee minutes and reporting pack 6. Board Risk Report 	26 April 2011	31 March 2011
Risk Process & Use I	Risk Appetite	<ol style="list-style-type: none"> 1. Commentary regarding progress on relevant matters arising from Lloyd's feedback from SOG Dry-Run review of June 2010 2. Risk Management Policy and/ or Risk Strategy documents 3. Risk appetite statements 	18 July 2011	30 June 2011
	Internal Audit	<ol style="list-style-type: none"> 1. Commentary regarding progress on relevant matters arising from Lloyd's feedback from SOG Dry-Run review of June 2010 2. Current annual plan and methodology for its preparation 3. Internal Audit Charter (if available) 4. Audit Committee Terms of Reference 5. Audit Committee Reporting pack 6. Progress report on audits completed to date against plan and progress on action points monitored 	18 July 2011	30 June 2011

Evidence and timing

Module	Topic	Supporting evidence	Prepared by	Noted in Evidence template
Risk Process & Use II	Risk Management Identification, assessment, Control and Mitigation	<ol style="list-style-type: none"> 1. Commentary regarding progress on relevant matters arising from Lloyd's feedback from SOG Dry-Run review of June 2010 2. Risk register 3. Risk Policy 4. Risk assessment (risk scoring) methodology (may be in the Risk Policy) 5. Risk and control reports to Risk Committee and / or Board 	19 September 2011	30 June 2011
	Risk Management Monitoring and Reporting	<ol style="list-style-type: none"> 1. Commentary regarding progress on relevant matters arising from Lloyd's feedback from SOG Dry-Run review of June 2010 2. Risk Management Policy and/ or Risk Strategy documents 3. Risk register 4. Risk reporting and escalation process. 5. Methodology document for preparation of risk reporting (may be in the Risk Policy) 	19 September 2011	30 June 2011

ROUND UP AND QUESTIONS

'SYNDICATE 999'

GOVERNANCE & USE

'Model' Syndicate

- Let's consider an example of how the requirements could be satisfied by a syndicate.
- The example will begin with a description of a hypothetical Syndicate 999.
- We will illustrate how some key issues arising from the Dry Run and draft Level 3 requirements **could be met** for Syndicate 999.
- The point of the example is **not** to show a best practice system of governance.
- The purpose **is** to illustrate how an approach can be shown to be realistic and how this can be documented.

Syndicate 999 - Characteristics

- Gross premium income = £350m,
- ICA = £200m
- Net claims reserves = £500m
- Four main classes of business
- Newly formed Risk Committee, meeting since October 2010, reporting to the Board, chaired by the CEO.
- Board consisting of 4 Execs, 2 INEDs, 1 Group NED.
- Risk Management Function reports via the CRO, a Board member.
- Co-source arrangement for Internal Audit
- Managing agency of Syndicate 999 has an overseas parent and a mix of corporate and private capital providers.
- Dry run RAG status = Amber, On Track

Topical questions for Syndicate 999

- Overall approach to Outsourcing
- Development of risk appetite and associated reporting
- Ongoing review of the system of governance

Syndicate 999 Outsourcing

Self Assessment score:

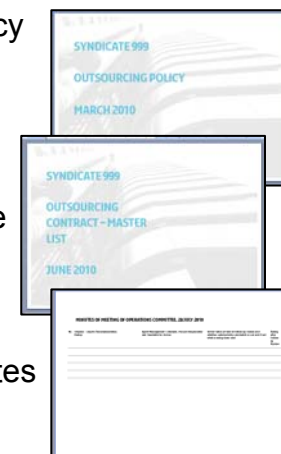
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APPROACH

- Outsource of a number of key functions, including internal audit, provided by one of the Big 4 professional services firms.
- Head of Internal Audit is an agent employee, who manages this co-source contract.
- Policy document which sets out the specific steps to be followed when considering outsource arrangements including:
 - Key functions not considered appropriate to be outsourced.
 - Selection criteria with associated approved limits.
 - Governance requirements concerning the approval of new outsource contracts and a defined template for outsource contracts.
 - Ongoing monitoring arrangements for existing outsource contracts including review of system of governance.
- Review of the performance of outsourcing contracts is undertaken at the Operations Committee, chaired by the COO who also reports to and sits on the Board.

EVIDENCE

- Lloyd's evidence template
- Outsourcing policy
- Fit and proper checks
- Outsourcing contract template
- Committee reporting
- Committee minutes
- Master list of outsource contracts



OUTSTANDING ISSUES/ACTIONS

- At present, relies on the fit and proper checks undertaken by its third party provider to ensure the appropriateness of staff undertaking the work. The lead partner on this work undertakes fit and proper checks for his own staff. Waiting confirmation of the final requirements in this area.
- Number of delegated authority arrangements which, at present, are not regarded as an outsource contract. Waiting confirmation of the final requirements in this area.

Syndicate 999 Risk appetite and reporting

Self Assessment score:

7

APPROACH

- Syndicate 999 write the following four classes of business:
 - Property per risk XL
 - Professional indemnity
 - Employer Liability
 - Specie
- The Managing Agency Board approved an initial risk appetite statement, broken down by risk category, in June 2010.
- The approved risk appetite statement has subsequently been supported by appropriate KRI's and tolerance levels with red, amber, green statuses for each KRI. These measures build on risks and measures already existing in the business.
- Struggling to develop committee reporting to provide ongoing monitoring of the risk profile against risk appetite. A new reporting suite has been sent to the Board since the beginning of 2011.

EVIDENCE

- Lloyd's evidence template
- Risk appetite statements with:
 - Mapping to demonstrate risk category coverage.
 - Metric(s) defined for the measurement of risk appetite for each category.
 - Tolerances set for each key metric.
- Committee Reporting
- Committee minutes

Category	Risk Area	Key Metric
Solvency	1. Asset risk	Capital fund investment risk
	2. Capital risk	State of portfolio assets
	3. Operational risk	Operational risk
Operational risk	4. Regulatory risk	Regulatory risk
	5. Legal and compliance risk	Legal and compliance risk
Reputation	6. Reputational risk	Reputational risk
	7. Regulatory risk	Regulatory risk

Market	Risk Area	Key Metric	Value	Color
Solvency	1. Asset risk	Capital fund investment risk	100%	Green
	2. Capital risk	State of portfolio assets	100%	Green
	3. Operational risk	Operational risk	100%	Green
Operational risk	4. Regulatory risk	Regulatory risk	100%	Green
	5. Legal and compliance risk	Legal and compliance risk	100%	Green
Reputation	6. Reputational risk	Reputational risk	100%	Green
	7. Regulatory risk	Regulatory risk	100%	Green

OUTSTANDING ISSUES/ACTIONS

- Agreement of all risk tolerance levels.
- Agreement of risk profile reporting to the Board and all sub-committees.
- Revisit reporting at the end of March 2011 to ensure ongoing appropriateness of risk metrics and tolerances.

Syndicate 999 Review of the system of governance

Self Assessment score:

5

APPROACH

- Significant changes to their governance structure made during 2010. This included:
 - Establishment of a Risk Committee
 - Development of new terms of reference including revisiting each committee membership
 - Development of revised MI for each committee
- This new structure was fully operational from the start of 2011.
- Syndicate 999 have considered the review activity in three key areas:
 - Day to day review activity e.g. self-assessment by the risk management function
 - Annual Activity e.g. Board effectiveness review
 - Independent review e.g. Internal Audit or qualified third party

EVIDENCE

- Lloyd's evidence template
- Risk Management Policy Statement
- Committee minutes
- Review activity schedule
- Review reporting



OUTSTANDING ISSUES/ACTIONS

- Development of a schedule of review activity detailing the frequency and responsibility for each element.
- Documentation of the overall approach as part of the Risk Management Policy Statement.
- Approval of the overall approach by the Board as part of the Risk Management Policy statement refresh.
- Completion of initial cycle of review activity.

NEXT STEPS

Next Steps

- Hope today's session has been useful
- Slides will be made available on lloyds.com
- We will look to incorporate views and challenges where possible
 - however end objectives and dates are fixed so only so much we can do!
- All ideas welcome via your account manager, risk executive or via solvency2@lloyds.com
- Worth noting the recent FSA presentation on NED training:
<http://www.fsa.gov.uk/pages/About/What/International/pdf/neds.pdf>
- And also recent FSA paper on themes from the IMAP:
http://www.fsa.gov.uk/pubs/international/imap_final.pdf

9. Which area would you most like to see further detailed guidance published by Lloyd's?

- A. Risk appetite.
- B. ORSA.
- C. Use Test.
- D. Definition of risk and actuarial functions.
- E. Other.

10. How useful have you found today's session?

- A. Very useful and we have clear expectations for the next 3 months.
- B. Useful, but greater technical guidance would have been beneficial.
- C. Useful, but greater detail on exact timing of reviews needed.
- D. Not very useful.
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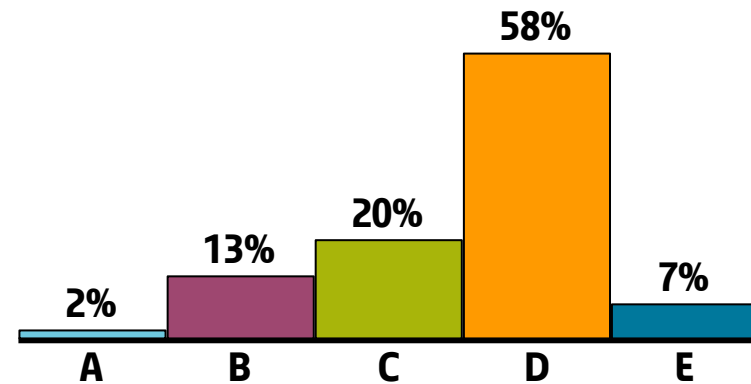


VOTING RESULTS

**1 MARCH
WORKSHOP**

1. What main approach are you adopting for independent assurance of your self assessment submission?

- A. Non-Executive Director Review
- B. Qualified third party
- C. Programme level cross validation
- D. Internal Audit or Audit committee
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2. The average system of governance score assigned by Lloyd's was 4, where have you now ranked yourselves?

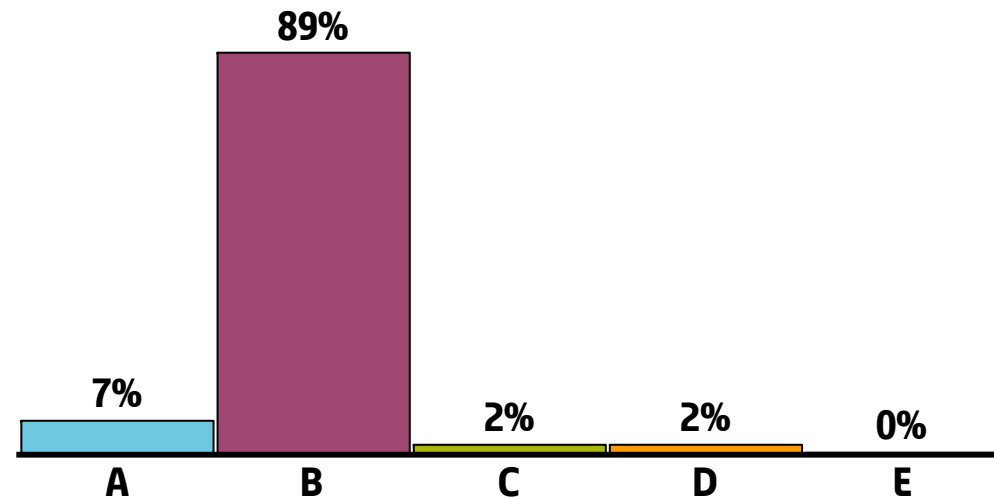
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E. None of the above!



Key:	2-4	Design/Evidence
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3. The average model scope and governance score assigned by Lloyd's was 3, where have you now ranked yourselves?

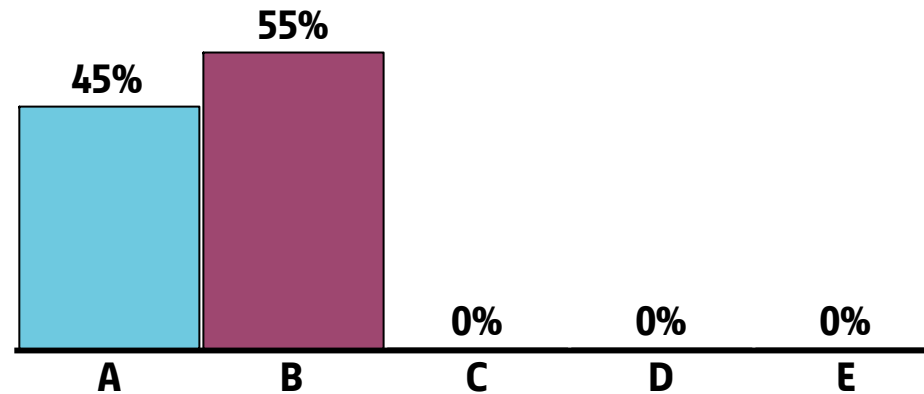
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4. The average ORSA score assigned by Lloyd's was 3, where have you now ranked yourselves?

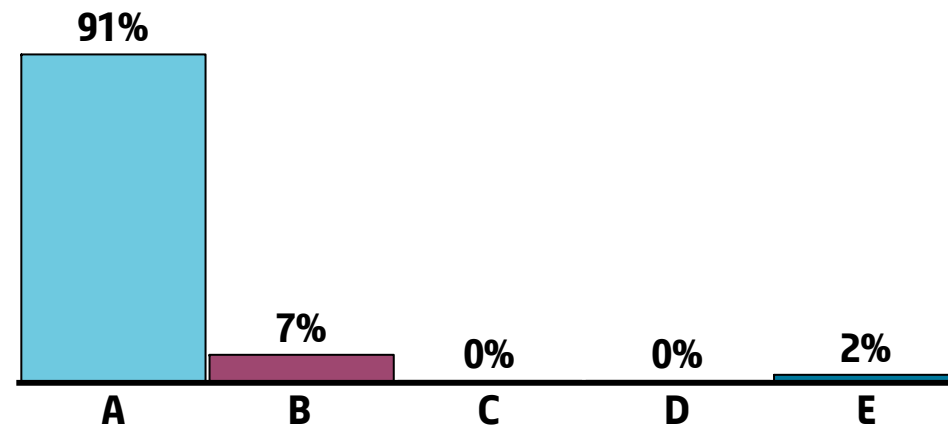
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E. None of the above!



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5. Which element of the risk management framework implementation is currently causing most issues?

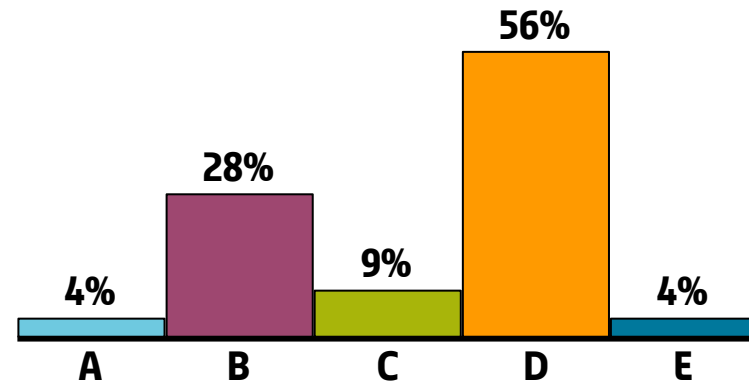
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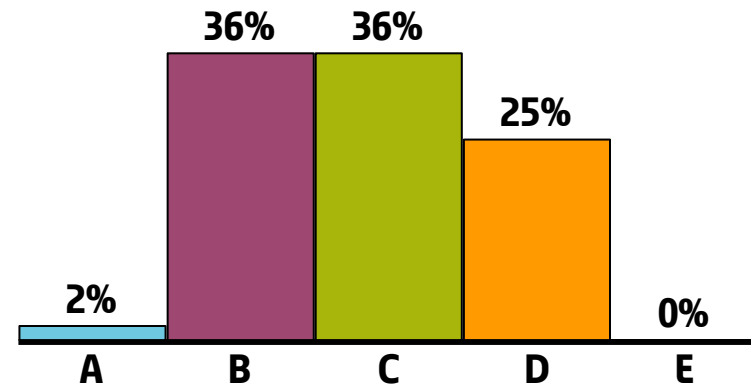
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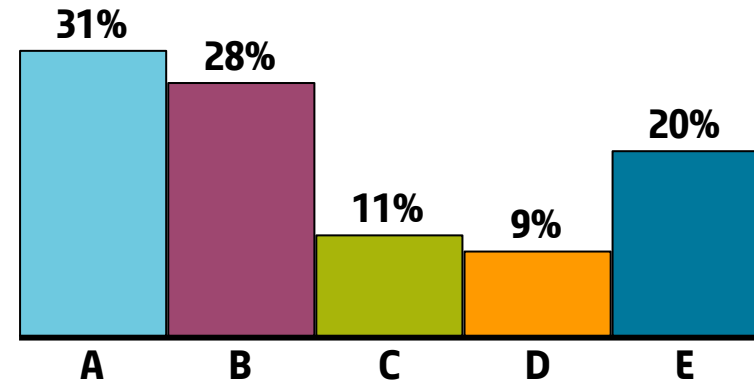
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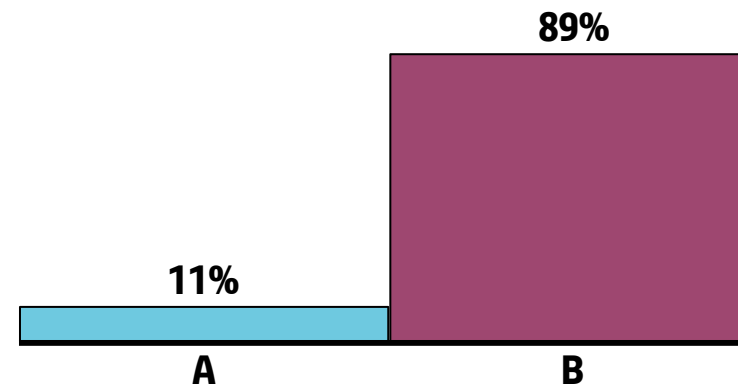
E. Amount of review work being undertaken by Lloyd's and the FSA.



8. Have you been informed of your invitation to enter the FSA review process?

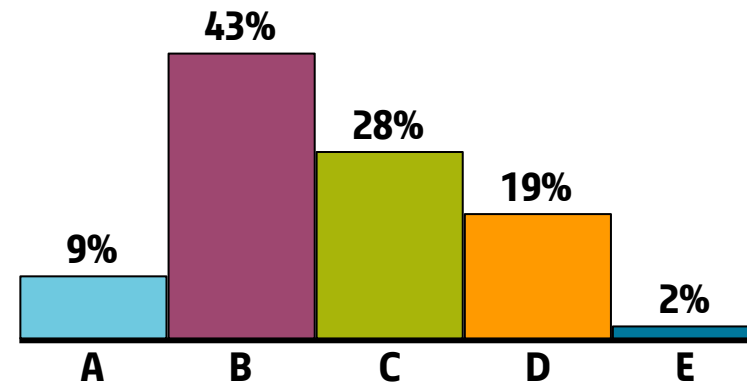
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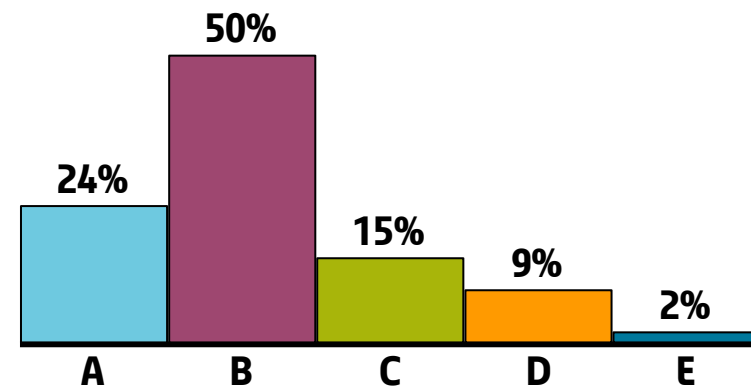
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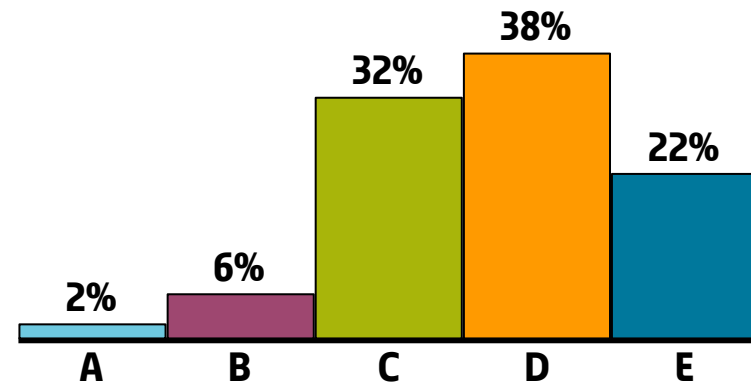


VOTING RESULTS

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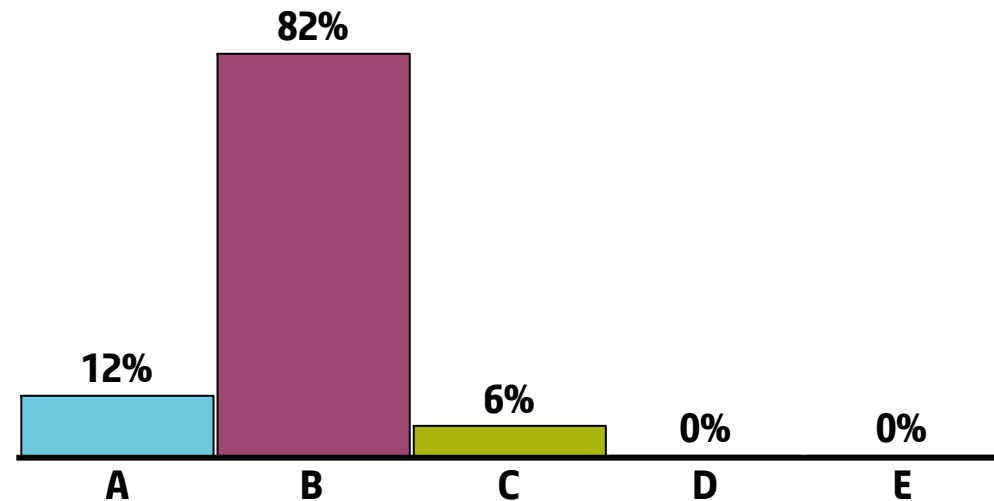
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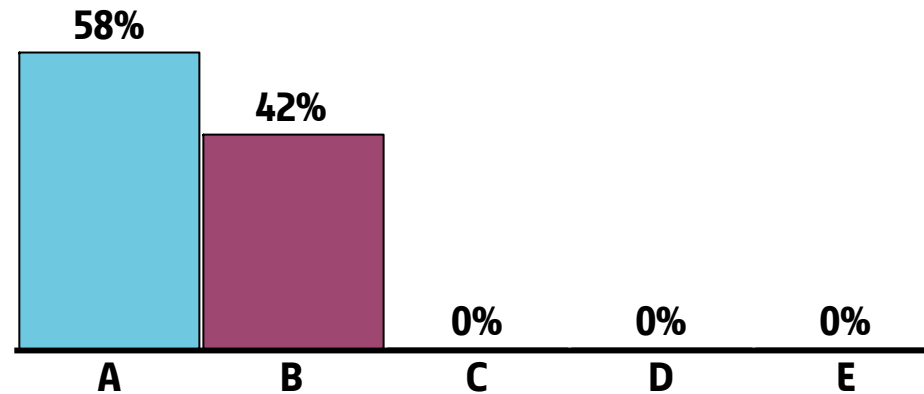
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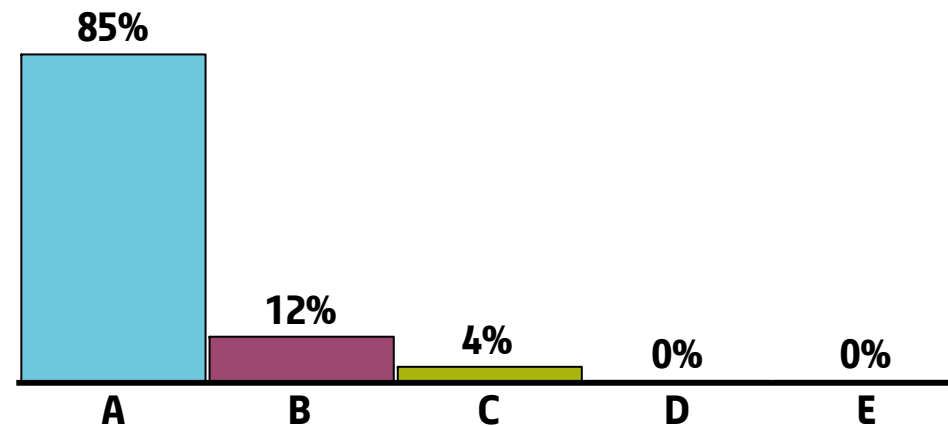
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	10	Fully in use/BAU

5. Which element of the risk management framework implementation is currently causing most issues?

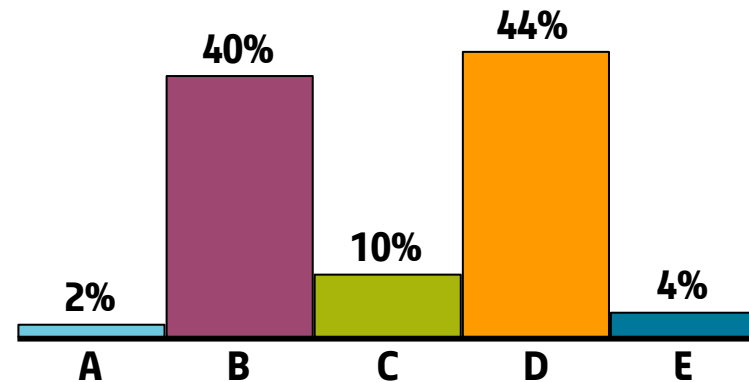
A. Governance Framework.

B. Risk appetite.

C. Committee Reporting.

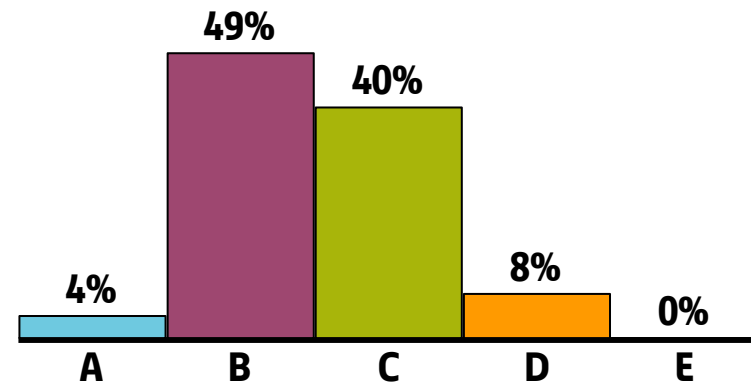
D. ORSA.

E. Other.



6. At what stage would you describe the governance and ownership of the internal model at your agent?

- A. Fully defined and embedded.
- B. Pretty much well defined, but still needs finalisation and approval.
- C. Drafted, but still subject to significant debate.
- D. Not well defined and a lot of work is still to be completed.
- E. None of the above!



7. What is the current biggest challenge with regard to Governance and the Risk Management Framework?

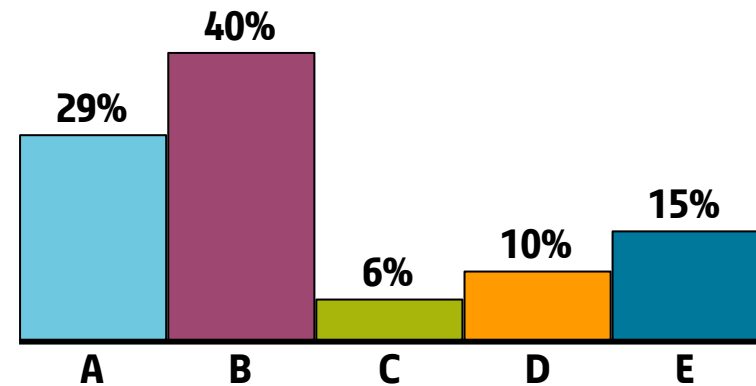
A. Resources.

B. Documentation.

C. Senior management engagement.

D. Lack of clarity on the final requirements.

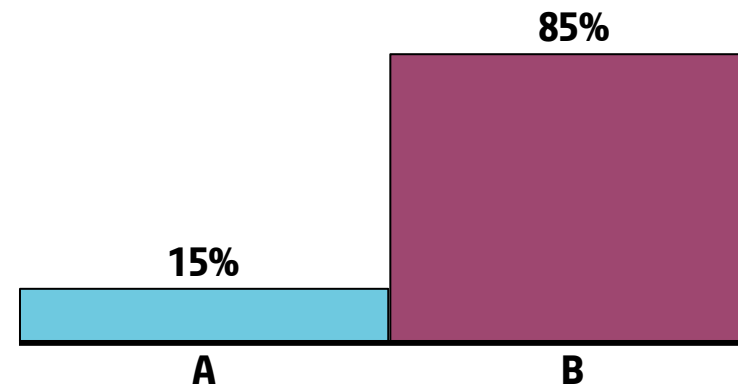
E. Amount of review work being undertaken by Lloyd's and the FSA.



8. Have you been informed of your invitation to enter the FSA review process?

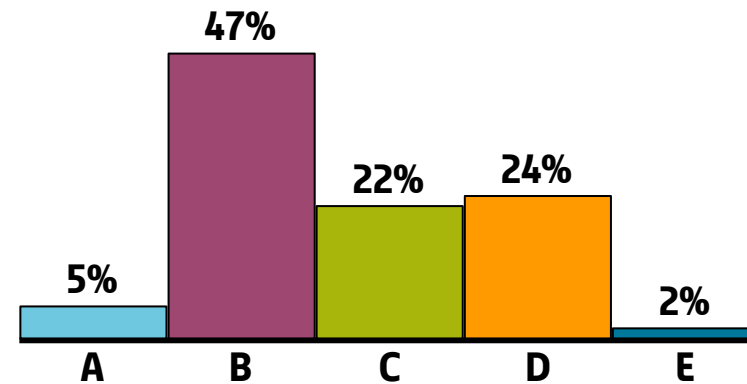
A. Yes.

B. No.



9. Which area would you most like to see further detailed guidance published by Lloyd's?

- A. Risk appetite.
- B. ORSA.
- C. Use Test.
- D. Definition of risk and actuarial functions.
- E. Other.



10. How useful have you found today's session?

- A. Very useful and we have clear expectations for the next 3 months.
- B. Useful, but greater technical guidance would have been beneficial.
- C. Useful, but greater detail on exact timing of reviews needed.
- D. Not very useful.
- E. I'm too polite to say!

