Market Bulletin

Ref: Y5232

Title	2018 PMD Performance Review initiative – follow up process for 2019
Purpose	To inform the market of the process PMD will follow to monitor 2018 Performance Review classes and additional data requirements
Type	Event
From	Caroline Dunn, Head of Class of Business and Tony Chaudhry, Head of Syndicate Business Performance, Performance Management (PMD)
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In 2018 Lloyd's made clear that its prudential oversight priority is the need for the market to address performance and to 'Close the Performance Gap'. This resulted in three areas of focus, where targeted performance improvement was required:

- Syndicates that had not been profitable for each of the last three years of account
- Syndicate classes that were the material drivers of underperformance in each of the eight 'Portfolio Review' classes
- The worst performing 10% of premium for each syndicate, which managing agents were asked to identify through our 'Decile 10' review

These three areas of focus constitute 'Performance Review' activities for the purposes of this bulletin. In all cases syndicates were asked to provide detailed 'performance improvement' plans to return the classes or syndicate to a sustainable profit over the near term and to agree those plans with us. We are now following up to ensure that agreed actions are being taken.

Objective

Lloyd's is introducing risk-based oversight for the continuous review of performance. The scope includes the Performance Review activities detailed above, where we have approved plans for 2019. This process will be integrated into Lloyd's existing oversight and timetable.

The approach will focus on:

- Actual verses planned performance for in-scope syndicates and classes in 2019
- Ensuring that performance review actions taken in 2019 are then embedded in 2020 business plans

What does this mean for managing agents?

We will require:

- Additional information and narrative for Performance Review syndicate classes to ensure that Lloyd's has greater visibility of performance and that managing agents are delivering their 2019 plans
- Increased engagement where syndicate performance is not aligned with agreed business and performance improvement plans
- The first return with the Q4 2018 QMB, due 14 February 2019. Further submissions will be aligned to the QMB return schedule

Performance Review syndicates that provided performance improvement plans for the whole syndicate will not need to provide any additional information beyond that required for in-scope syndicate classes of business.

Lloyd's will provide feedback and challenge to syndicates following receipt of the information, which will be at least quarterly. Where, following engagement with managing agents, we do not see a credible path to achieving a sustainable profit in the near-term Lloyd's may require the syndicate or syndicate class to cease underwriting.

Additional information requirements

Managing agents will be required to provide the following additional data for in-scope syndicate classes of business:

- Gross ultimate claims split by attritional, large and catastrophe bandings
- The components of the net claims ratio and net combined ratio

Lloyd's will also collect narrative in a structured format to support the understanding of progress against performance improvement plans and to explain variances from agreed plans.

Managing agents are reminded that we also require syndicates to actively reforecast YOA ultimate positions on a quarterly basis which means that we will be expecting QMB returns to reflect both actual performance compared to plan and its impact on the projection for the rest of the year.

Next steps

Active Underwriters of syndicates who have in-scope classes will receive instructions in a follow up email. We will also share the KPIs that Lloyd's will be looking at when assessing performance against agreed plans.

Further guidance on Lloyd's expectations for portfolio management and how it links to the Decile approach for 2019 will be provided later in the quarter.

Further information

For further information please contact your Syndicate Business Performance Manager.