LLOYD'S

Lloyd's Minimum Standards MS1 – Underwriting Strategy and Planning

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MS1 – Underwriting Strategy and Planning

Minimum Standards and Requirements

These are statements of business conduct required by Lloyd's. The Minimum Standards are established under relevant Lloyd's Byelaws relating to business conduct. All managing agents are required to meet the Minimum Standards. The Requirements represent the minimum level of performance required of any organisation within the Lloyd's market to meet the Minimum Standards.

Within this document the standards and supporting requirements (the "must dos" to meet the standard) are set out in the blue box at the beginning of each section. The remainder of each section consists of guidance which explains the standards and requirements in more detail and gives examples of approaches that managing agents may adopt to meet them.

Guidance

This guidance provides a more detailed explanation of the general level of performance expected. They are a starting point against which each managing agent can compare its current practices to assist in understanding relative levels of performance. This guidance is intended to provide reassurance to managing agents as to approaches which would certainly meet the Minimum Standards and comply with the requirements. However, it is appreciated that there are other options which could deliver performance at or above the minimum level and it is fully acceptable for managing agents to adopt alternative procedures as long as they can demonstrate the requirements to meet the Minimum Standards.

Definitions

Benchmark Premium: The price for each risk at which the managing agent is expected to deliver their required results, in line with the approved Syndicate Business Plan.

Catastrophe Modelling: (also known as cat modelling) is the process of using computer-assisted calculations to estimate the losses that could be sustained due to a catastrophic event such as a hurricane or earthquake.

Delegated Authority: all forms of business where underwriting and claims authority has been delegated to another entity (e.g. binding authorities, consortia, lineslips etc.).

ERM: Enterprise Risk Management

ILW: Industry Loss Warranty

KPIs: Key Performance Indicators

LCM: Lloyd's Catastrophe Model

LCR: Lloyd's Capital Return

LITA: Lloyd's Internal Trading Advice

Lloyd's Returns: this will include, but not be limited to: Broker Remuneration Return; LCM Submissions; PMDR; QMB; RDL; RDS; Related Parties Return; SBF; Self-Assessment of Compliance versus Lloyd's Underwriting and Claims Standards; Syndicate Business Plan; Syndicate Reinsurance Programme Return; Xchanging Claims

ORSA: Own Risk and Solvency Assessment

PBQA: pre-bind quality assurance

PMDR: performance management data return

QMA: Quarterly Monitoring Return – Part A

QMB: Quarterly Monitoring Return – Part B

RARC: Risk Adjusted Rate Change

RDL: Realistic Disaster Scenario (Light)

RDS: Realistic Disaster Scenario

Related Party: A related party shall mean:
1. Any company within the same group as the managing agent
2. Another syndicate managed by the same managing agent or a service company coverholder that is part of the managing agent's group.
3. Any company which has two or more directors in common with the managing agent
4. Any company within the same group as a corporate member of the syndicate which has a member's syndicate premium limit of more than 10% of the syndicate allocated capacity

Risk Appetite: Is the level of risk that an organisation is prepared to accept, before action is deemed necessary to reduce it.

ROC: return on capital

SBF: Syndicate Business Forecast

SRP: Syndicate Reinsurance Programme

Syndicate Business Plan: means a business plan prepared by a managing agent in accordance with paragraph 14A of the Underwriting Byelaw.

The Board: Where reference is made to the Board in the standards, managing agents should read this as Board or appropriately authorised committee. In line with this, each agent should consider the matters reserved for the Board under the Governance Standard in order to evidence appropriate full Board discussion and challenge on the material items. .

Ultimate Net Loss: The Reinsurer's gross loss less any recoveries from other reinsurance which reduces the loss to the reinsurance contract.

Underwriting Data: this will include, but not be limited to all data which the managing agent, Lloyd's or other appropriate regulators require to monitor the business with regard to underwriting activities.

MS1 – Underwriting Strategy and Planning

UW 1.1 Business Planning Process

Managing agents shall have an effective process for developing, challenging and approving the annual Syndicate Business Plan for each managed syndicate.

Managing agents shall ensure that:

- the Board has responsibility for the Syndicate Business Planning process and approval of the Syndicate Business Plan;
- a nominated director is responsible for managing the process;
- development of the Syndicate Business Plan involves elements which are both appropriate and consistent year on year;
- the Syndicate Business Plan is subject to rigorous challenge by appropriate staff with significant issues documented, prior to being submitted to the managing agent's Board; and
- the effectiveness of the Syndicate Business Planning process is kept under review by a nominated director with recommendations made to the managing agent's Board regarding any required changes.

Ownership of the Business Planning Process

The managing agent's Board is responsible for the business planning process and approval of the Syndicate Business Plan. Lloyd’s expect a director to be nominated by the Board to take responsibility for implementation and operation, ensuring that both the director and supporting staff have adequate time and the requisite skills and experience to manage and execute the process effectively. The managing agent's assessment of the adequacy of existing resources and its plans to address any resource shortfalls are likely to include people, processes, systems, skills, operating 'culture' and networks.

The process of business planning shall itself be subject to continuous review and improvement. The effectiveness of the process shall be kept under review by the nominated director with recommendations made to the managing agent's Board regarding any required changes.

Developing the Managing Agent’s Syndicate Business Plan

The managing agent’s Syndicate Business Plan will typically contain the following elements:

- A defined risk appetite, both gross and net of reinsurance;
- Each syndicate's risk accumulations, as included within the LCR. These risk accumulations should be within the existing Franchise Guidelines issued by Lloyd's, other than where exceptions have been previously granted by Lloyd's;
- A projected percentage return on capital (ROC) that is reasonable, both gross and net of reinsurance, for each syndicate class of business - capital projections should be on the same basis as the relevant LCR;
- The forecast ultimate loss ratios at an appropriate level of detail. (Ideally, defining the attritional, large and catastrophe loss components);
- A proposed reinsurance programme defined in terms of limit, cost and reinstatement. (Ideally, also setting out, security by rating tier, recoveries assumed and any other features deemed to be material by the managing agent);
- All material assumptions by each major category of underwriting;
- An explicit consideration of the resources required to execute the plan.

- The content may include the following, depending on the categories of underwriting:-
    - Renewal ratio in terms of both policy count and premium;
    - Anticipated risk-adjusted premium and exposure volume change:
    - New business volume written with both policy count and premium, with the rate adequacy assumed to apply;
    - Anticipated changes in loss experience, including claims inflation;
    - For each major category of underwriting, attritional, large and catastrophe loss definition and allocation, together with associated reinstatement premiums inwards and outwards, as well as profit commissions and other loss sensitive acquisition expenses;
    - A review of historical data for each syndicate class of business; and
    - Underwriting year expectations, based on quarterly progressions.

Instructions for completion of the Syndicate Business Plan are issued annually. The latest version can be found by clicking on the attached link:

[A link to the CMR business plan instructions can be found in the Appendix at the end of this document]

Lloyd's would also expect that managing agents' strategic and business plans take account of the latest published Franchise Guidelines. These can be found by clicking on the attached link:

[Link to the Franchise Guidelines can be found in the Appendix at the end of this document]

The Syndicate Business Plan and its output, both initially and on an on-going basis, shall take account of and be integral with other processes operated by the managing agent including:-

- Financial Reporting;
- LCR Review;
- Exposure Management;
- Reinsurance Purchase;
- Reserving;
- Underwriting and Claims Management; and
- Syndicate Business Planning Process.

This will allow the Syndicate Business Plan to be part of the managing agent's whole business process, so that any consequent effects of plan changes are considered within all of the related processes above.

Challenge and Approval

An effective process will ensure that the managing agent's Board actively tests the key assumptions and targets in the annual business plan, keeps the plan under review at least quarterly and approves any material amendment. The Syndicate Business Plan should undergo rigorous challenge by appropriate staff before being submitted to the managing agent's Board. This will allow the reasonableness of the business plan to be checked at many stages of its development, so that issues are identified and addressed early.

Challenges would typically include stress and scenario testing. The managing agent's Board will normally consider the content and outcome of the challenges as part of their review process, prior to considering approval of their business plan.

Potential Evidence

- Governance structure including committees, their terms of reference and how they relate to each other and the managing agency Board
- Minutes of committees and the managing agency Board;

- Information provided to the managing agency Board and committees;
- Strategy & business plan documentation as seen by the managing agency Board;
- Risk Appetite

UW 1.2 Business Plan Implementation & Monitoring

Managing agents shall ensure that the annual Syndicate Business Plan is implemented, followed and kept under regular review for each managed syndicate.

Managing agents shall ensure that:

- any amendments to the Syndicate Business Plan are approved by the Board nominated executive(s);
- approval is requested in advance from Lloyd's for any material deviations from the Syndicate Business Plan and revised SBF / capital returns are submitted to Lloyd's as required;
- KPIs are identified and monitored at least quarterly, including review by the managing agency Board, with actions taken where appropriate to address variances from the Syndicate Business Plan.

Implementation and Review

Lloyd’s expect that progress against the business plan will be regularly reviewed by relevant senior personnel and, at least, quarterly by the managing agent’s Board to ensure that the business plan objectives remain reasonable, progress is monitored against plan and that significant variances are followed up. It is envisaged that there will be a clear process for all relevant staff to be advised of agreed business plan targets including income.

Material Deviations from the Syndicate Business Plan

All material deviations from the Syndicate Business Plan shall be advised to Lloyd's for approval prior to being implemented. A revised SBF and LCR may be required to be submitted to Lloyd's to reflect the deviation. Material deviations may vary from managing agent to managing agent, however there is some guidance for managing agents within the Supplemental Requirements & Guidance, as per the link below, on the areas where managing agents must inform Lloyd’s. It is recommended that managing agents speak to the Syndicate Business Performance (SBP) team executive whenever changes are being considered to determine whether this constitutes a material deviation.

Key Performance Indicators (KPIs)

KPIs identifying whether business performance is progressing in line with the business plan should be identified. It is expected that a written record will be kept of performance against these criteria and this will be reviewed at least quarterly by the Board, with actions taken where appropriate to address variances from plan.

Managing agents are expected to select measures of performance which will allow them to assess progress against their strategy and business plan. In selecting these measures, consideration should be given to KPIs which assess progress at an aggregated level (e.g. current vs. prior year loss ratios at portfolio level - using techniques such as 'Bridge Analysis') and at an individual risk level (e.g. weighted average premium rate adequacy for year to date).

Other examples of KPIs which could be monitored and reviewed against the business plan include:

- Premium Volume
- Loss Ratio
- Aggregate Exposures

- Benchmark Premium vs Actual Premium
- Actual RARC
- Actual Expenses
- Acquisition Costs
- Brokerage/Commissions
- Combined Operating Ratio

In addition, Managing agents could consider the following:

- Reinsurance Spend and Costs
- Changes in Reserving
- Comparison Across Distribution Channels
- Acceptances Outside of Risk Appetite
- Change in Staff Resources

The PMDR and Performance Information Packs are essential tools for Lloyd's review of agent's ratings of risk and market movements. This may be used by the agent as part of their review of KPIs.

Potential Evidence

- Minutes of committees and the managing agency Board;
- Correspondence with Lloyd's re any material deviations;
- Monthly reports reviewed by the nominated director;
- Quarterly reports to the Board of relevant KPIs; and
- Relevant reports made to Lloyd's.

Appendix – Links

Performance Management – Supplemental Requirements & Guidance:

http://www.lloyds.com/supplementalrequirements