

Project Rio Technical Briefing Sessions

Governance, Risk Management and Reporting

25 January 2022

Lyndsay Deeves and Craig James

Agenda

| Agenda Item | Timings |
|---|---------|
| 1. Oversight framework overview – <i>what is it and how will it work?</i> | |
| - Overview of the broader framework | 20 mins |
| - How will it work for Governance, Risk Management and Reporting? | 20 mins |
| 2. Case studies – bringing the framework to life | 25 mins |
| 3. Self- Assessments | 5 mins |
| 4. Next steps | 5 mins |
| 5. Q&A | 15 mins |

Oversight Framework:

Overview of broader framework

Lyndsay Deeves

Pre-recorded

Oversight Framework

Focussing on what matters

Providing the best run syndicates the space to grow, whilst ensuring appropriate and proportionate oversight across businesses performing poorly against Lloyd's financial and non-financial expectations

| Oversight Objectives | | |
|---|--|--|
| 1. Lloyd's oversight supports the delivery of the Lloyd's strategy | 2. Lloyd's oversight is aligned with the Risk Appetite set by the Council | 3. Lloyd's oversight instils confidence in regulators and rating agencies |
| 4. Lloyd's oversight creates the conditions for good business to thrive | 5. Lloyd's oversight is decisive and impactful for substandard managing agents | 6. Lloyd's places primary responsibility for oversight on managing agents' boards and management |
| 7. Lloyd's oversight is risk-based and proportionate | 8. Lloyd's oversight is holistic and joined up | 9. Lloyd's oversight is objective and data driven |

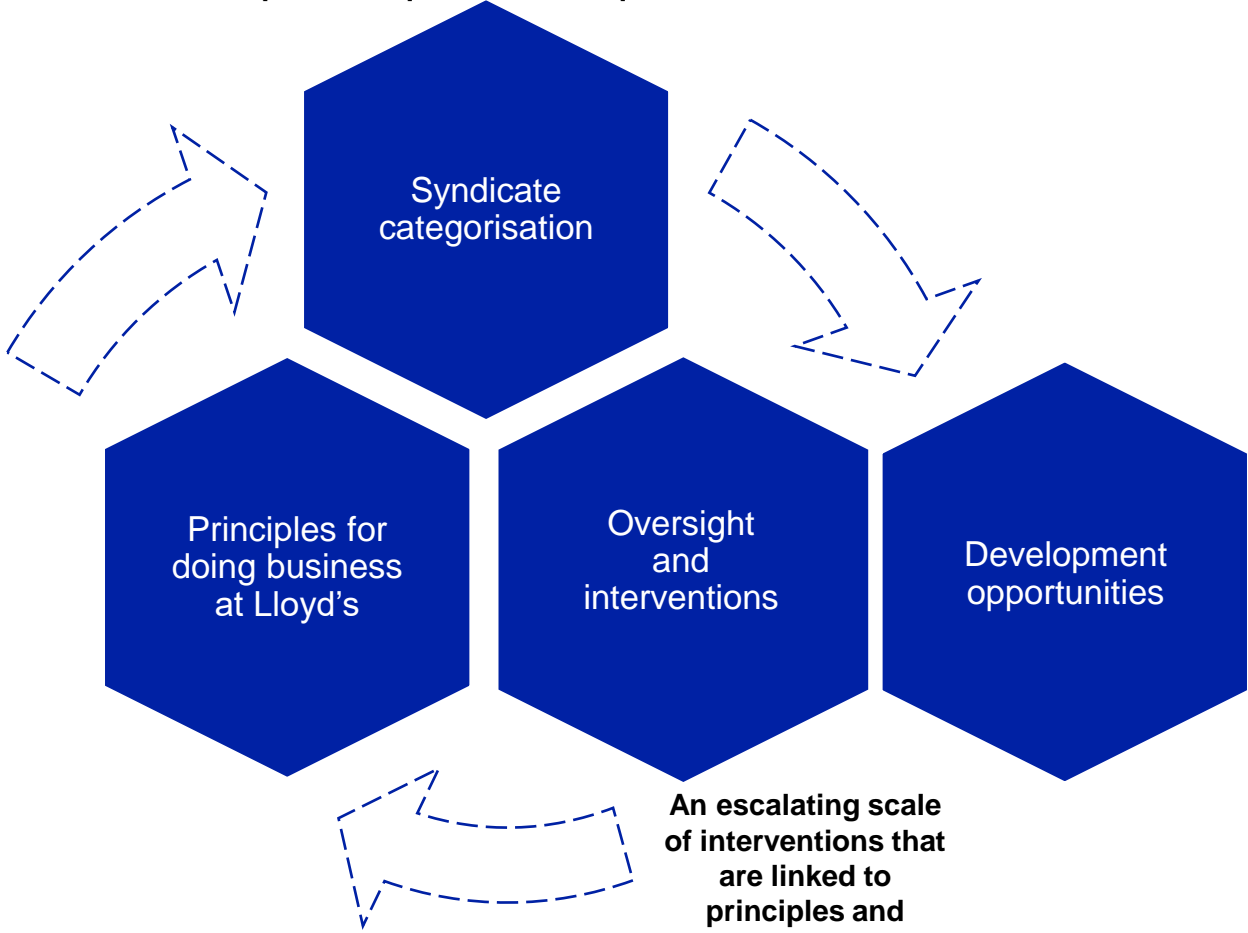
Oversight Framework

Three interlinking elements that work together to support more differentiated and impactful oversight

Principles defined across all oversight areas

| | |
|-------------|---|
| PERFORMANCE | 1. Underwriting Profitability |
| | 2. Catastrophe Exposure |
| | 3. Outwards Reinsurance |
| | 4. Claims Management |
| | 5. Customer Outcomes |
| | 6. Reserving |
| SOLVENCY | 7. Capital |
| | 8. Investment |
| | 9. Liquidity |
| OPERATIONAL | 10. Governance, Risk Management and Reporting |
| | 11. Regulatory and Financial Crime |
| | 12. Operational resilience |
| | 13. Culture |

One consistent approach to syndicate and agent categorisation based on assessment against Principles on a qualitative and quantitative basis



Growth and development opportunities for the best run businesses

An escalating scale of interventions that are linked to principles and overall syndicates categorisation

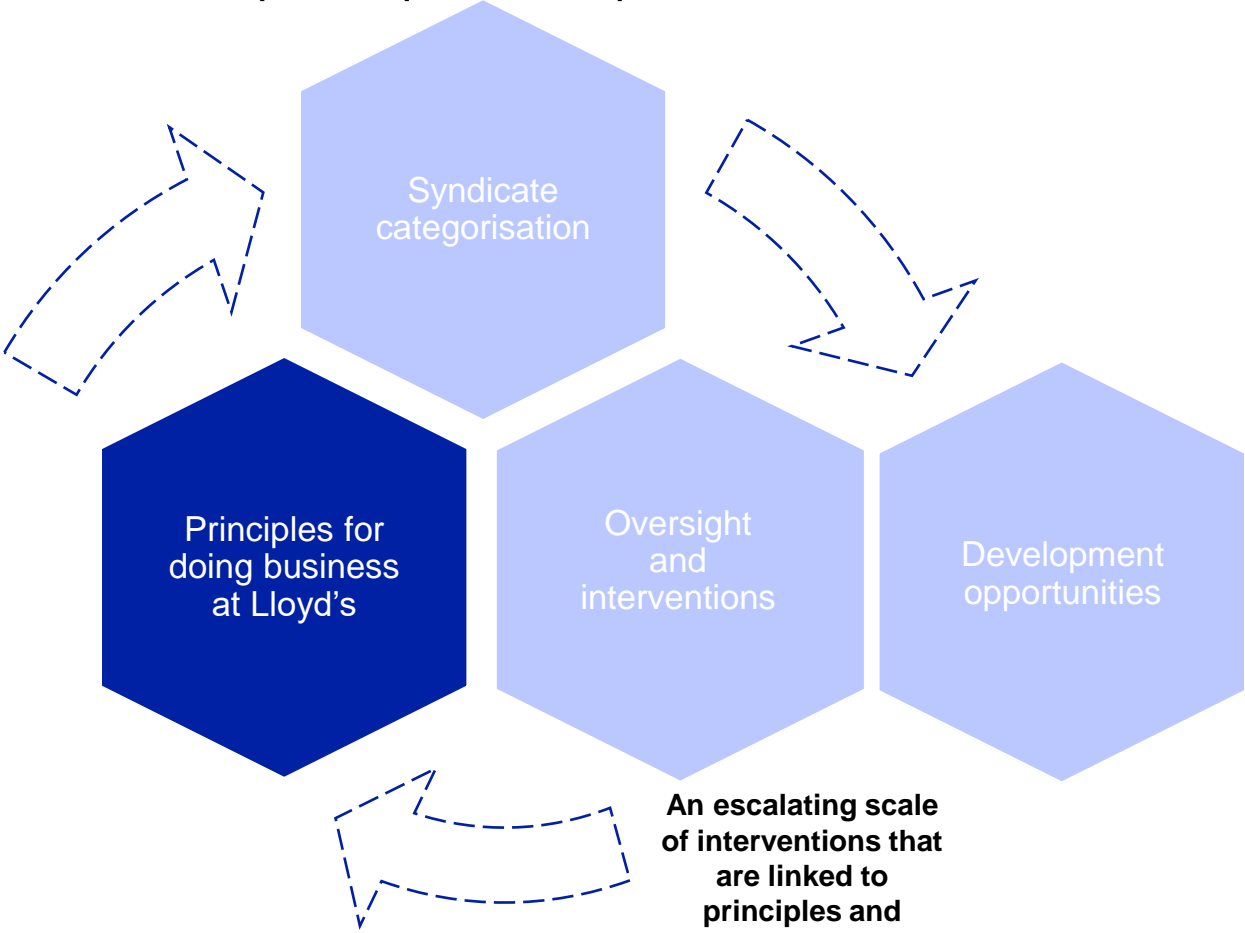
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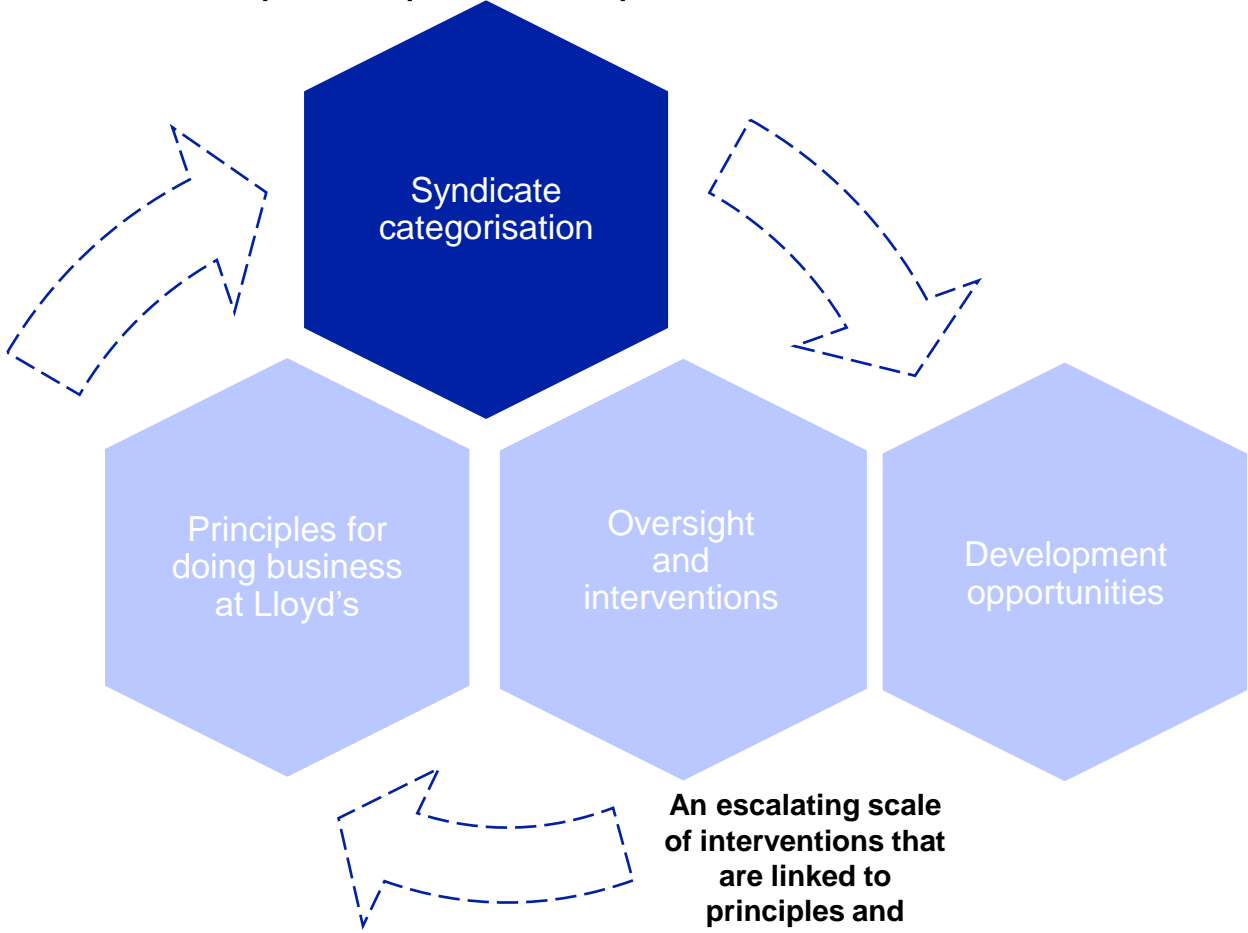
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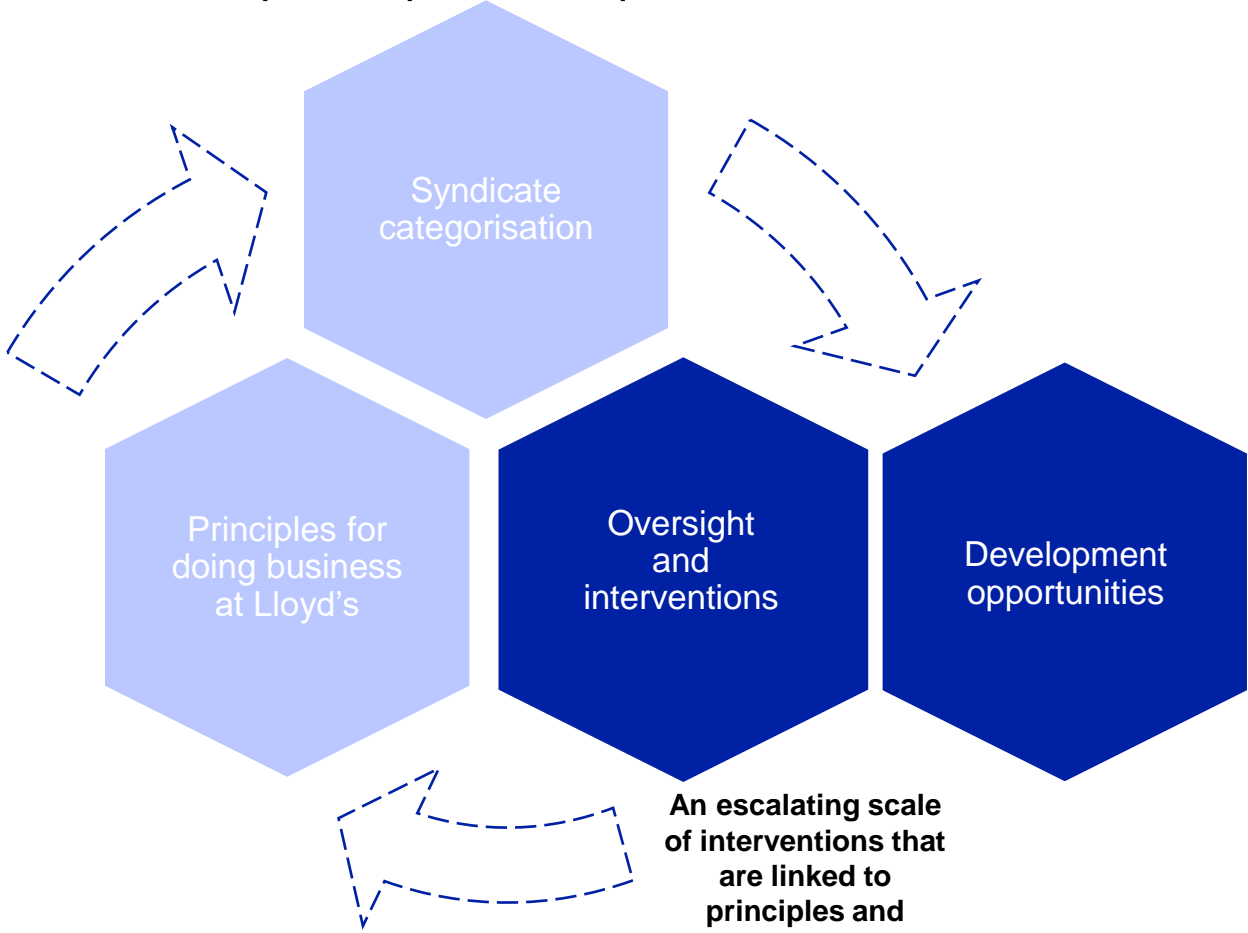
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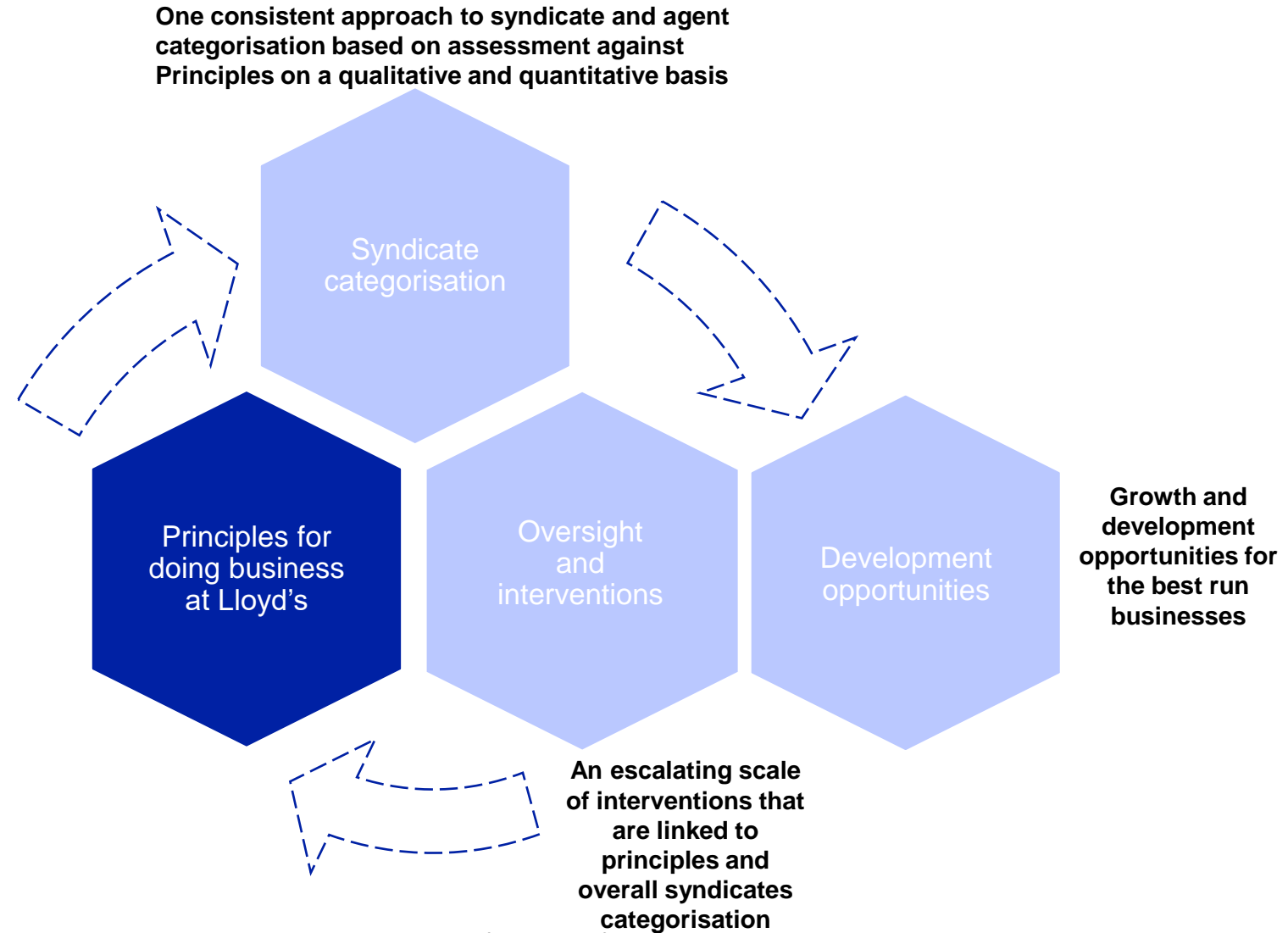


Growth and development opportunities for the best run businesses

An escalating scale of interventions that are linked to principles and overall syndicates categorisation

Oversight Framework

The Lloyd's Principles



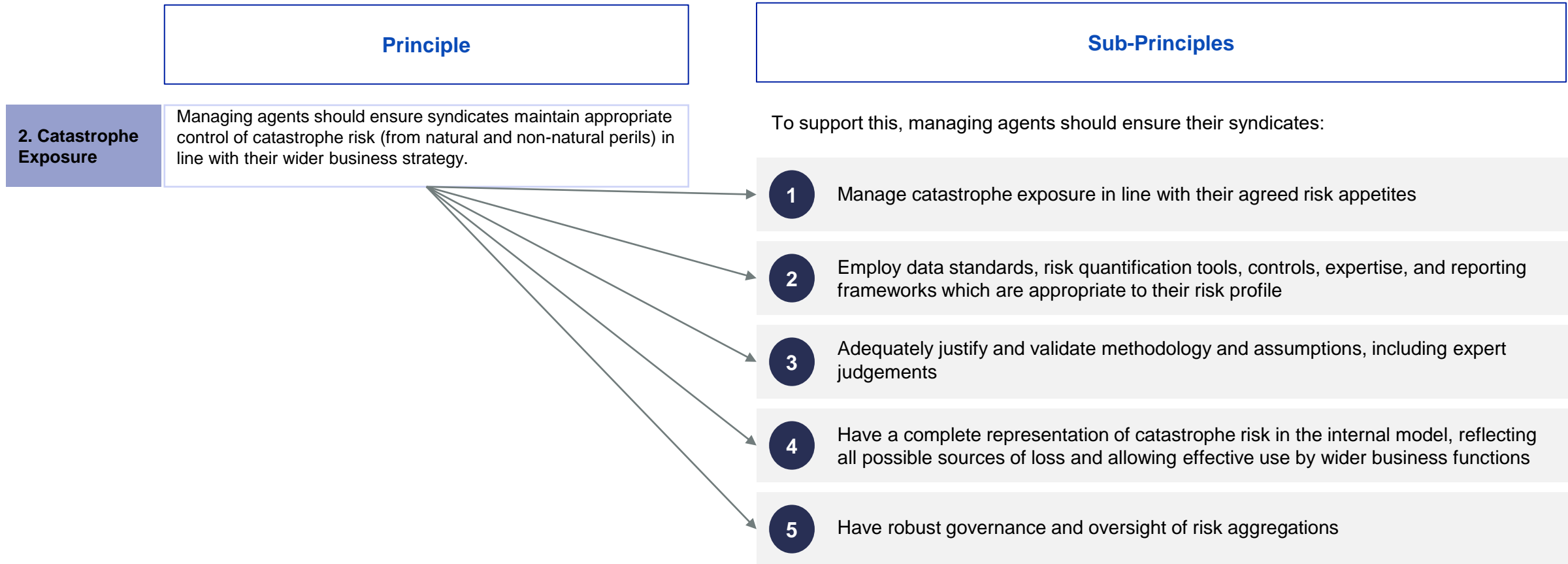
Oversight Framework

The 13 Lloyd's Principles

| | | | | | |
|-------------|--------------------------------------|--|-------------|--|--|
| PERFORMANCE | 1. Underwriting Profitability | Managing agents should produce and execute syndicate business plans which are logical, realistic and achievable, and ensure the delivery of a sustainable profit including expense management. | SOLVENCY | 7. Capital | Managing agents should ensure syndicates' Solvency Capital Requirement (SCR) appropriately reflects their risk profile and is calculated using a Solvency II compliant internal model. |
| | 2. Catastrophe Exposure | Managing agents should ensure syndicates maintain appropriate control of catastrophe risk (from natural and non-natural perils) in line with their wider business strategy. | | 8. Investment | Managing agents should ensure syndicate investment risk is effectively controlled, informed by wider business strategy and adheres to the Prudent Person Principle (PPP) requirements. |
| | 3. Outwards Reinsurance | Managing agents should define and execute syndicate outwards reinsurance strategy and purchasing plans which effectively support the wider syndicate business strategy and objectives. | | 9. Liquidity | Managing agents should ensure syndicates have contractual access to sufficient liquidity in order to withstand a severe liquidity event (defined by Lloyd's), underpinned by a robust liquidity risk management framework. |
| | 4. Claims Management | Managing agents should ensure that they have a claims commitment in place which is designed to deliver a high-quality claims service which includes a prompt and fair customer service, efficient and effective claims handling, and compliance with legal and regulatory obligations. | OPERATIONAL | 10. Governance, Risk Management and Reporting | Managing agents should have governance structures and internal risk management and control frameworks in place which align to Solvency II requirements, enable sound and prudent management of the business and support delivery of the business strategy. |
| | 5. Customer Outcomes | Managing agents should embed a culture and associated behaviours throughout their business to ensure that they consistently focus on good customer outcomes and that products provide fair value. | | 11. Regulatory and Financial Crime | Managing agents should have robust frameworks in place to assess and address regulatory and financial crime risks arising from their UK and international businesses. Frameworks should support compliance with law, regulation and guidance, and allow for well informed, transparent relationships with Lloyd's and applicable regulators. |
| | 6. Reserving | Managing agents should ensure syndicates set reserves which are underpinned by a robust reserving process. All Actuarial Function requirements should be met in line with Solvency II. | | 12. Operational resilience | Managing agents should maintain robust and resilient operations, embedding cyber resilience and effective third-party risk management. |
| | | 13. Culture | | Managing agents should be diverse, creating an inclusive and high-performance culture. | |

Oversight Framework

Principles and Sub-Principles



Oversight Framework

The Maturity Matrices

Materiality to the Principles informs expected sophistication

Indicators & suggestions – *not* requirements

Foundational broadly aligns with the expectations from the **previous minimum standards**

Read from left to right, as the guidance at one level can be understood as the starting point for the next.

Sub Principle →

Guidance →

Maturity Matrix

CATASTROPHE EXPOSURE

1 Manage catastrophe exposure in line with their agreed risk appetites.

| | Foundational | Intermediate | Established | Advanced |
|----------------|---|---|---|---|
| Risk Appetites | <ul style="list-style-type: none"> Catastrophe risk appetite statements are in place; exposures are monitored against appetite and reported to senior management and the board. Business plans reflect catastrophe risk appetites | <ul style="list-style-type: none"> Catastrophe risk appetites are derived with consideration of View of Risk. There is a clear link between risk appetite and business strategy and decision-making. | <ul style="list-style-type: none"> Catastrophe risk appetites are cascaded to relevant business functions and are supported by tolerances, limits, and breach management processes. Risk appetites inform decision-making at each level, within the exposure management teams and other functions. | <ul style="list-style-type: none"> Catastrophe risk appetites are clearly embedded at every level, with changes communicated and used efficiently. Statements may be forward-looking, and themselves reactive to external events, business plan changes, and feedback loops. |

Low materiality → Moderate materiality → High materiality → Highest materiality

Oversight Framework

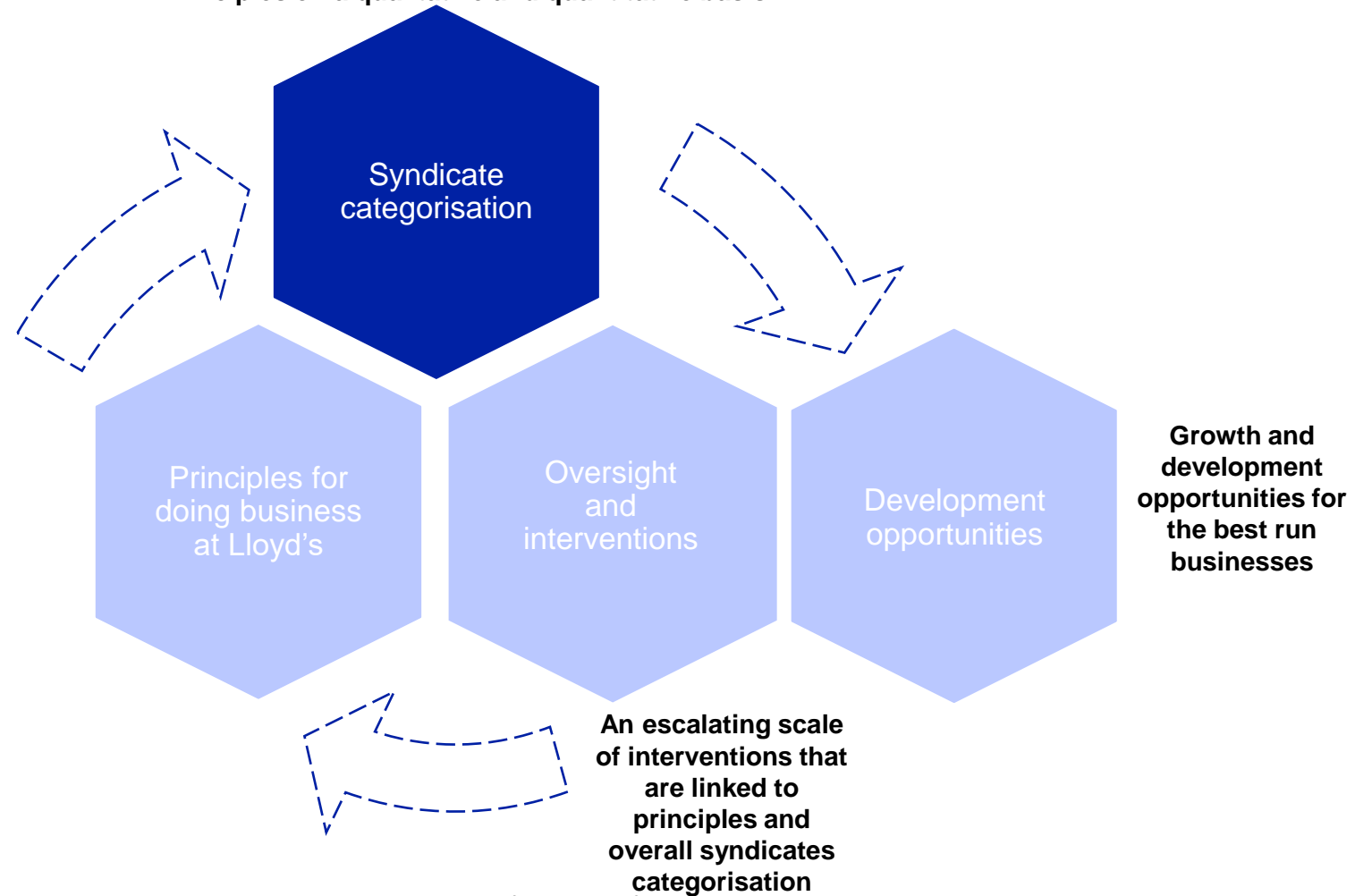
Levels of maturity – generic definitions

| FOUNDATIONAL <i>(Low materiality)</i> | INTERMEDIATE <i>(Moderate materiality)</i> | ESTABLISHED <i>(High materiality)</i> | ADVANCED <i>(Highest materiality)</i> |
|--|---|--|--|
| Syndicate with foundational capabilities. | Syndicate with intermediate capabilities. | Syndicate with established capabilities. | Syndicate with advanced capabilities. |
| Core competencies and processes in place to effectively manage lower materiality risk exposure | Consistent with good market practice observed at Lloyd's, demonstrating comprehensive, well embedded processes to effectively manage moderate materiality risk exposure | Consistent with strong practice observed at Lloyd's and globally, demonstrating sophisticated processes and strong capabilities to effectively manage high materiality risk exposure | Consistent with Lloyd's and global best practice, showing leadership on emerging techniques, and proactively supporting Lloyd's in improving standards across the market |

Oversight Framework

Syndicate categorisation

One consistent approach to syndicate and agent categorisation based on assessment against Principles on a qualitative and quantitative basis



Oversight Framework

Syndicate categorisation

| Oversight Dimensions | | Expected Maturity |
|----------------------|---|-------------------|
| Performance | Underwriting Profitability | Advanced |
| | Catastrophe Exposure | Established |
| | Outwards Reinsurance | Foundational |
| | Claims Management | Intermediate |
| | Customer Outcomes | Intermediate |
| | Reserving | Advanced |
| Solvency | Capital | Established |
| | Investments | Established |
| | Liquidity | Foundational |
| Operational | Governance, Risk Management and Reporting | Established |
| | Regulatory and Financial Crime | Intermediate |
| | Operational Resilience | Foundational |
| | Culture | Foundational |

Oversight Framework

Syndicate categorisation

| Oversight Dimensions | | Expected Maturity | Actual Maturity |
|----------------------|---|-------------------|-----------------|
| Performance | Underwriting Profitability | Advanced | Intermediate |
| | Catastrophe Exposure | Established | Established |
| | Outwards Reinsurance | Foundational | Foundational |
| | Claims Management | Intermediate | Foundational |
| | Customer Outcomes | Intermediate | Foundational |
| | Reserving | Advanced | Advanced |
| Solvency | Capital | Established | Foundational |
| | Investments | Established | Established |
| | Liquidity | Foundational | Foundational |
| Operational | Governance, Risk Management and Reporting | Established | Foundational |
| | Regulatory and Financial Crime | Intermediate | Intermediate |
| | Operational Resilience | Foundational | Foundational |
| | Culture | Foundational | Foundational |

Oversight Framework

Syndicate categorisation

Dimension Rating

Meets expectation

Marginally below expectation

Below expectation

Well below expectation

| Oversight Dimensions | | Expected Maturity | Actual Maturity | Dimension Rating |
|----------------------|---|-------------------|-----------------|-------------------------------|
| Performance | Underwriting Profitability | Advanced | Intermediate | Below expectations |
| | Catastrophe Exposure | Established | Established | Meets expectations |
| | Outwards Reinsurance | Foundational | Foundational | Meets expectations |
| | Claims Management | Intermediate | Foundational | Marginally below expectations |
| | Customer Outcomes | Intermediate | Foundational | Marginally below expectations |
| | Reserving | Advanced | Advanced | Meets expectations |
| Solvency | Capital | Established | Foundational | Below expectations |
| | Investments | Established | Established | Meets expectations |
| | Liquidity | Foundational | Foundational | Meets expectations |
| Operational | Governance, Risk Management and Reporting | Established | Foundational | Below expectations |
| | Regulatory and Financial Crime | Intermediate | Intermediate | Meets expectations |
| | Operational Resilience | Foundational | Foundational | Meets expectations |
| | Culture | Foundational | Foundational | Meets expectations |

Oversight Framework

Syndicate categorisation

| Dimension Rating |
|------------------------------|
| Meets expectation |
| Marginally below expectation |
| Below expectation |
| Well below expectation |

| Oversight Dimensions | | Expected Maturity | Actual Maturity | Dimension Rating | Syndicate Category |
|----------------------|---|-------------------|-----------------|-------------------------------|--------------------|
| Performance | Underwriting Profitability | Advanced | Intermediate | Below expectations | |
| | Catastrophe Exposure | Established | Established | Meets expectations | |
| | Outwards Reinsurance | Foundational | Foundational | Meets expectations | |
| | Claims Management | Intermediate | Foundational | Marginally below expectations | |
| | Customer Outcomes | Intermediate | Foundational | Marginally below expectations | |
| | Reserving | Advanced | Advanced | Meets expectations | |
| Solvency | Capital | Established | Foundational | Below expectations | |
| | Investments | Established | Established | Meets expectations | |
| | Liquidity | Foundational | Foundational | Meets expectations | |
| Operational | Governance, Risk Management and Reporting | Established | Foundational | Below expectations | |
| | Regulatory and Financial Crime | Intermediate | Intermediate | Meets expectations | |
| | Operational Resilience | Foundational | Foundational | Meets expectations | |
| | Culture | Foundational | Foundational | Meets expectations | |

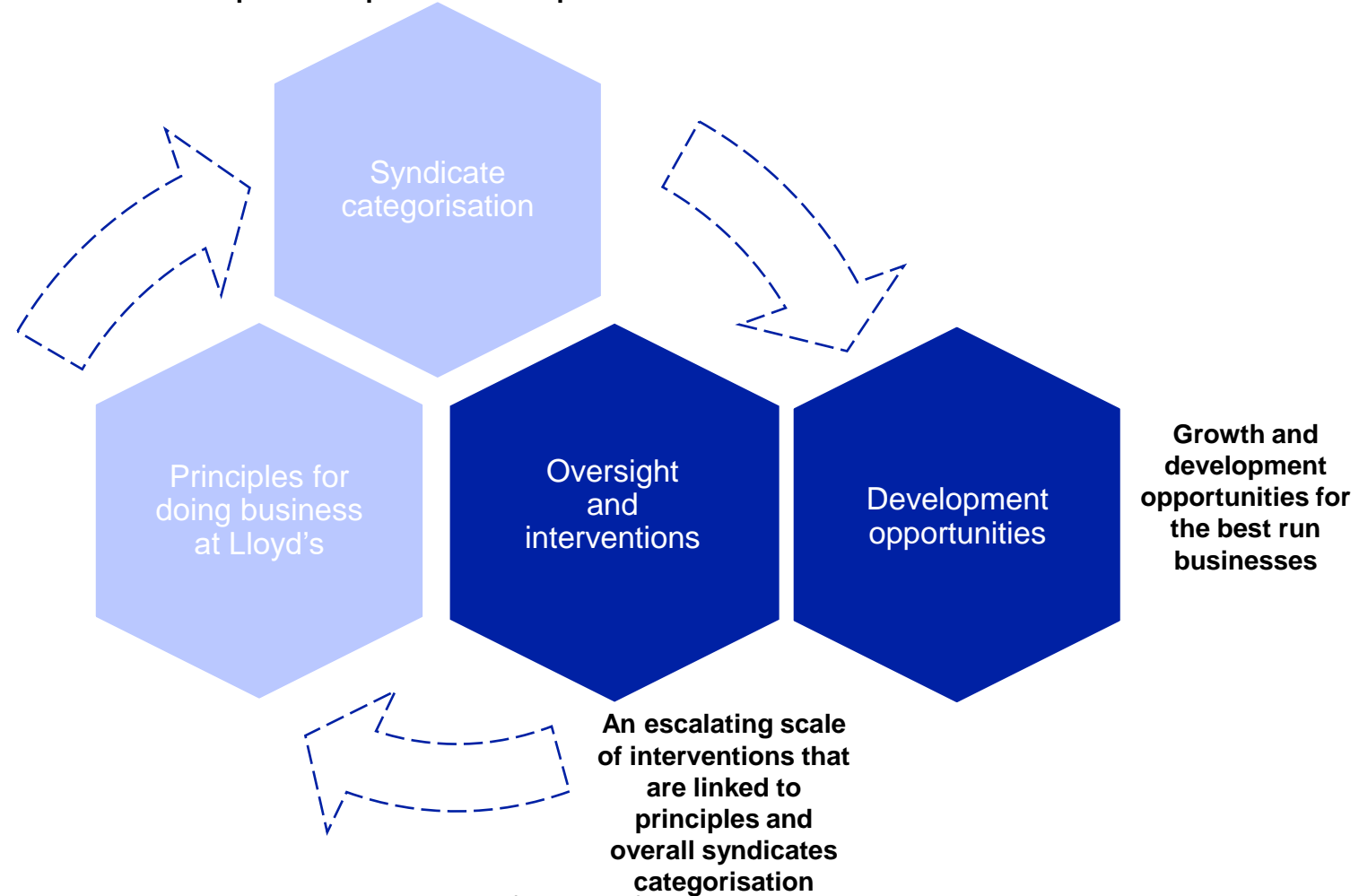
UNDERPERFORMING

| |
|-----------------|
| OUTPERFORMING |
| GOOD |
| MODERATE |
| UNDERPERFORMING |
| UNACCEPTABLE |

Oversight Framework

Oversight / Interventions and Development Opportunities

One consistent approach to syndicate and agent categorisation based on assessment against Principles on a qualitative and quantitative basis



Oversight Framework

Interventions Playbook

| | | ← Robust intervention for underperformers | | | Development encouraged for the best → | |
|----------------------------------|---|--|---|--|---|--|
| Overall syndicate categorisation | Unacceptable | Underperforming | Moderate | Good | Outperforming | |
| | <p>Capability and performance well below expectations with all avenues to remediate exhausted</p> <ul style="list-style-type: none"> Immediate action required Full range of Interventions used | <p>Capability and performance below expectations</p> <ul style="list-style-type: none"> Robust intervention taken Rapid remediation with close monitoring and escalation | <p>Capability and performance marginally below expectations</p> <ul style="list-style-type: none"> Targeted oversight into higher risk areas Moderate Interventions in place | <p>Capability and performance in line with expectations</p> <ul style="list-style-type: none"> Targeted monitoring / oversight Minimal intervention | <p>Capability in line with expectations and supported by Best in class performance</p> <ul style="list-style-type: none"> Highly targeted / reduced oversight Interventions by exception | |
| Overall Interventions | <ul style="list-style-type: none"> Execute approved run off plan Appoint new Managing Agent | <ul style="list-style-type: none"> Instruct independent reviews Remediation plan in place, with senior management Quarterly check-in with Board on progress against remediation plan Regulators notified Restrict development, subject to completion of remedial actions Increased frequency of Principles attestations Increased reporting and escalation to governance Committees Contingent run-off plan in place | <ul style="list-style-type: none"> Increased Account Manager and ELG engagement to ensure higher risk areas being remediated Development only supported in areas where justified New syndicates not supported until higher risk areas remediated | <ul style="list-style-type: none"> Option for file and use plan if demonstrated to be Logical, Realistic and Achievable Proactive Development support and Account Management, including supporting establishing new syndicates/SPA/SIAB Engagement more weighted towards development than oversight | <ul style="list-style-type: none"> File and Use business plans (subject to safeguards) Light capital reviews (subject to safeguards) No New Syndicate Load applied Proactive Development support and Account Management, including supporting establishing new syndicates/SPA/SIAB Cat Risk Appetite "Flex" permitted – more generous capitalisation rates in terms of any LCM5 CRA year-on-year growth Reduced involvement in thematic review except where best practice view is desired Inclusion of managing agents in key working groups which shape the market Promote in external campaigns | |

Case studies:

Bringing the Framework to life

Governance, Risk Management and Reporting

Oversight Framework – Governance, Risk Management and Reporting

What risk are we managing for Governance, Risk Management and Reporting?

Ongoing sustainability of the market relies on the participants making sound decisions and understanding their potential exposures to risk



Governance & decision making



Risk and control environment



Operational environment



People



Data and analytics



Internal / external reporting

Principle

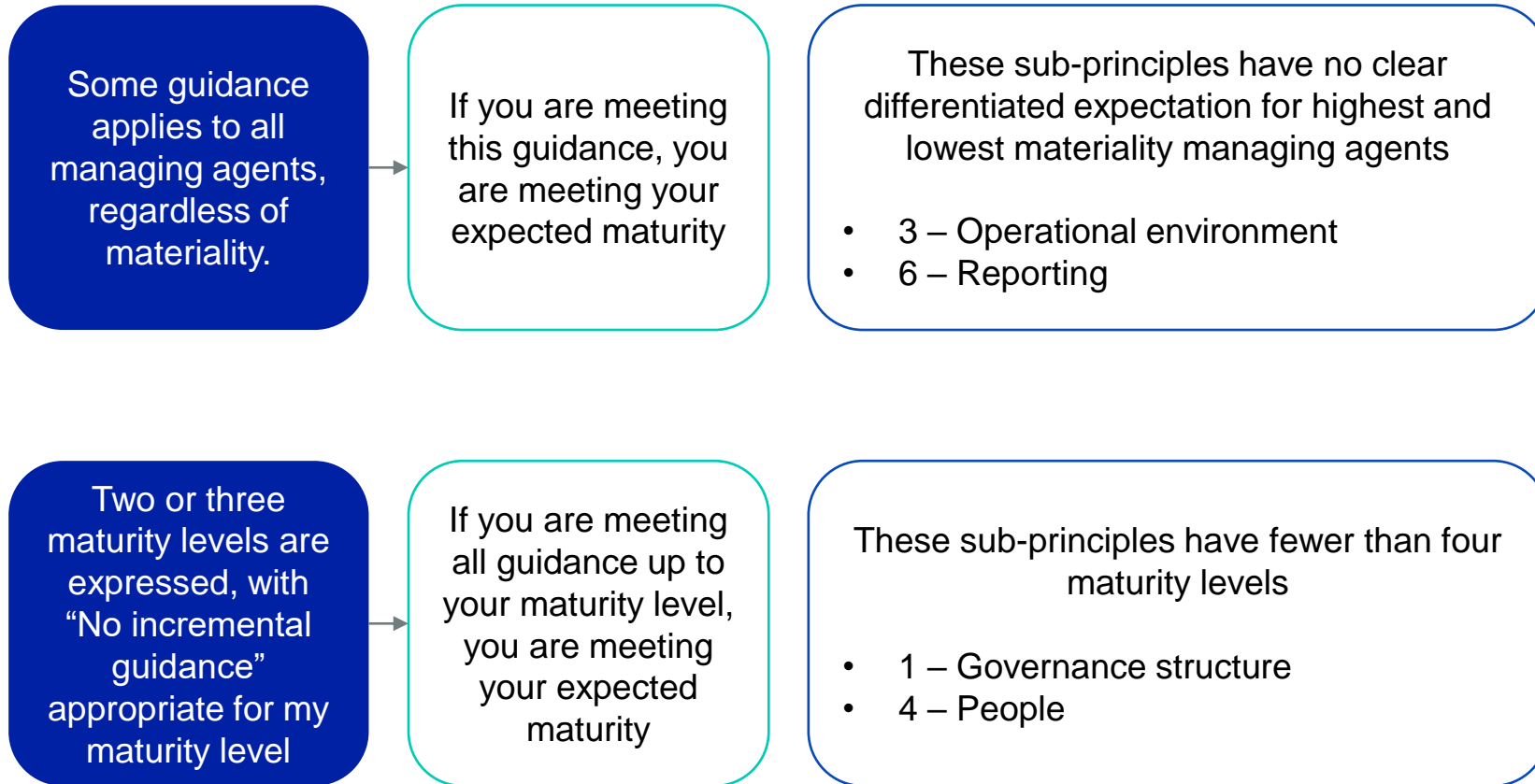
Managing agents should have governance structures and internal risk management and control frameworks in place which align to Solvency II requirements, enable sound and prudent management of the business and support delivery of the business strategy.

To support this, managing agents should:

- 1 Manage a suitable board and committee structure which enables well informed, timely and accountable decision making
- 2 Operate a strong risk and control environment which allows for appropriate challenge
- 3 Maintain appropriate oversight of operational processes for effective management of the business
- 4 Employ and develop people with appropriate skillsets and ensure the business is appropriately resourced
- 5 Ensure decision making is supported by appropriate data and qualitative assessment
- 6 Maintain reporting, including all financial reporting, of a high quality and submit all reports in a timely, accurate and complete manner to Lloyd's and to applicable regulators.

Oversight Framework – Governance, Risk Management and Reporting

What should managing agents do when different levels of maturity are in play?



GOVERNANCE, RISK MANAGEMENT AND REPORTING

6 Maintain reporting, including all financial reporting, of a high quality and submit all reports in a timely, accurate and complete manner to Lloyd's and to applicable regulators.

| | Foundational | Intermediate | Established | Advanced |
|------------------|--|---|---|---|
| Reporting | <ul style="list-style-type: none"> High quality financial reporting is of utmost importance for every successful business. The controls around financial reporting must be robust and form the base for the overall control environment. Timely, accurate and complete business data is collected by the business and provided to Lloyd's and regulators, in order to meet Lloyd's and managing agent prudential and regulatory obligations. | <ul style="list-style-type: none"> No incremental guidance | <ul style="list-style-type: none"> No incremental guidance | <ul style="list-style-type: none"> No incremental guidance |

GOVERNANCE, RISK MANAGEMENT AND REPORTING

4 Employ and develop people with appropriate skillsets and ensure the business is appropriately resourced.

| | Foundational | Intermediate | Established | Advanced |
|--|--|---|---|---|
| | <ul style="list-style-type: none"> The board is ultimately responsible for ensuring that all individuals within the business maintain appropriate knowledge and skillsets for their roles and operate with integrity. The resource model is regularly reviewed and gives consideration to staffing levels under normal and stressed conditions to ensure the business is appropriately resourced. All regulatory requirements under the FCA and PRA's Senior Managers and Certification Regime are met. | <ul style="list-style-type: none"> No incremental guidance | <ul style="list-style-type: none"> No incremental guidance | <ul style="list-style-type: none"> Resource planning anticipates medium to long term strategic aims and considers the outputs of the risk management framework, for example emerging risks. Succession planning may be extended beyond board level with consideration of training/mentoring for future leaders. |

Oversight Framework – Governance, Risk Management and Reporting

Defining expected maturity

| Dimension | Materiality measure | Low Foundational | Moderate Intermediate | High Established | Highest Advanced |
|--|--|------------------|-----------------------|------------------|------------------|
| Principle 10: Governance, Risk Management and Reporting | <i>Either / Or:</i> | | | | |
| | <ul style="list-style-type: none"> Gross Written Premium (current year SBF) | <£250m | >= £250m | >= £750m | >£1.5bn |
| | <ul style="list-style-type: none"> For MAs with only RITC / Run-off business - Total Size of Net Reserves | <£500m | >= £500m | >= £750m | >£1bn |

GOVERNANCE, RISK MANAGEMENT AND REPORTING

2 Operate a strong risk and control environment subject to appropriate challenge.

| | Foundational | Intermediate | Established | Advanced |
|--|---|---|--|--|
| Culture, strategy and risk appetite | <ul style="list-style-type: none"> A clearly articulated risk management framework is in place, including board approved risk appetites and tolerances which guide risk acceptance and decision-making throughout the business. A desired risk culture is identified with a plan in place to bridge any gaps between current and desired state. | <ul style="list-style-type: none"> The risk culture has undergone development beyond the identification of the desired future state. Improvement plans are in place which are regularly monitored. | <ul style="list-style-type: none"> Evidence of a no blame risk culture which encourages the reporting of incidents. Frequent proactive engagement with oversight functions by front line business teams, for example involving risk management in key strategic projects from the outset and throughout. | <ul style="list-style-type: none"> Highly embedded risk culture which leads to continuous improvement, for example where front-line business functions engage freely and frequently with oversight functions to provide feedback on processes or share ideas for improvements to the framework. |

Oversight Framework – Governance, Risk Management and Reporting

How to assess performance against the Principles?

1) Qualitative assessment

Routine and/or ad hoc engagement with managing agents

Documentation review / deep dives (replacing MS reviews)

Output of external Board/governance/risk reviews

Self-assessments – will be using these to highlight where there are differences and follow-up

2) Quantitative assessment – performance indicators

Significant turnover of senior leaders in a short period of time

Repeated failures to meet reporting requirements, either timeliness or quality

Repeated control failings, breaches of license, capacity limits exceeded, data breaches etc

Oversight Framework – Governance, Risk Management and Reporting

Interventions specific to Governance, Risk Management and Reporting

| Dimension | Well below expectations | Below expectations | Marginally below expectations | Meeting expectations |
|---|---|---|--|---|
| OPERATIONAL Governance, Risk Management & Reporting | <ul style="list-style-type: none"> Mandated change in Board or other key individuals | <ul style="list-style-type: none"> Control loadings applied Managing Agent to produce remediation plan (with Board sign-off) to be approved by Lloyd's Requirement to undertake detailed Principles review (either internally, e.g. Internal Audit, or externally) Additional oversight from Lloyd's including regular updates on the progress of remediation of gaps. Restrict expansion into new classes/territories | <ul style="list-style-type: none"> Additional engagement with Lloyd's until gaps are remediated and expectations met. | <ul style="list-style-type: none"> Looked at more favourably to expand into other territories and classes of business. |

| Oversight Objectives | | |
|---|--|--|
| 1. Lloyd's oversight supports the delivery of the Lloyd's strategy | 2. Lloyd's oversight is aligned with the Risk Appetite set by the Council | 3. Lloyd's oversight instils confidence in regulators and rating agencies |
| 4. Lloyd's oversight creates the conditions for good business to thrive | 5. Lloyd's oversight is decisive and impactful for substandard managing agents | 6. Lloyd's places primary responsibility for oversight on managing agents' boards and management |
| 7. Lloyd's oversight is risk-based and proportionate | 8. Lloyd's oversight is holistic and joined up | 9. Lloyd's oversight is objective and data driven |

Case studies

Bringing the Framework to life

OPERATIONAL

Principle 10: Governance, Risk Management and Reporting



Principle

Managing agents should have governance structures and internal risk management and control frameworks in place which align to Solvency II requirements, enable sound and prudent management of the business and support delivery of the business strategy.

To support this, managing agents should:

- 1 Manage a suitable board and committee structure which enables well informed, timely and accountable decision making
- 2 Operate a strong risk and control environment which allows for appropriate challenge
- 3 Maintain appropriate oversight of operational processes for effective management of the business
- 4 Employ and develop people with appropriate skillsets and ensure the business is appropriately resourced
- 5 Ensure decision making is supported by appropriate data and qualitative assessment
- 6 Maintain reporting, including all financial reporting, of a high quality and submit all reports in a timely, accurate and complete manner to Lloyd's and to applicable regulators.

Case Study

Principle 10 – Governance, Risk Management and Reporting

Expected Maturity: Advanced
Actual Maturity: Advanced

Sub-Principle 2: Operate a strong risk and control environment which allows for appropriate challenge.

Culture, strategy and risk appetite

All functions clearly understand the benefits of not only engaging with risk but also taking ownership of the relevant parts of the risk framework. There is no lack of appetite from teams to get involved with and work with risk management on any particular topic. This enables risk management across the business to be highly effective as a result of the positive and proactive engagement. The risk function is considered to add value to the business. The conclusion is that the agent has a highly embedded risk culture where front line business functions engage freely and frequently with oversight functions and provide feedback on processes.

Risk Management framework

Risk reporting and risk mitigation actions are driven through front line business functions with a strong sense of ownership by those functions. The risk metrics are supported by a combination of qualitative and quantitative assessment that link to risk appetite and business objectives. Business functions clearly understand their responsibilities in terms of monitoring controls and continually improving them. This is evidenced across the organisation rather than in isolated pockets. This all helps to ensure that risk management is robust and appropriate across the business

Oversight and challenge

The assurance and oversight functions frequently interact and have a combined approach where appropriate to their oversight. Risk management and compliance are actively engaged in the monitoring of any remediation planned following issues or concerns. At the same time audit are engaged and where appropriate internal audits are planned for a pragmatic date to follow-up. This is another example of the robust nature of the internal control framework, where oversight functions are routinely and appropriately engaged in business activities.



2 Operate a strong risk and control environment subject to appropriate challenge.

| | Foundational | Intermediate | Established | Advanced |
|-------------------------------------|---|---|--|--|
| Culture, strategy and risk appetite | <ul style="list-style-type: none"> A clearly articulated risk management framework is in place, including board approved risk appetites and tolerances which guide risk acceptance and decision-making throughout the business. A desired risk culture is identified with a plan in place to bridge any gaps between current and desired state. | <ul style="list-style-type: none"> The risk culture has undergone development beyond the identification of the desired future state. Improvement plans are in place which are regularly monitored. | <ul style="list-style-type: none"> Evidence of a no blame risk culture which encourages the reporting of incidents. Frequent proactive engagement with oversight functions by front line business teams, for example involving risk management in key strategic projects from the outset and throughout. | <ul style="list-style-type: none"> Highly embedded risk culture which leads to continuous improvement, for example where front-line business functions engage freely and frequently with oversight functions to provide feedback on processes or share ideas for improvements to the framework. |

2 Operate a strong risk and control environment subject to appropriate challenge.

| | Foundational | Intermediate | Established | Advanced |
|---------------------------|--|--|---|---|
| Risk Management framework | <ul style="list-style-type: none"> Risks to the business are identified and recorded through a risk register, risk universe or similar. Owners are in place for all risks and controls. Risks are assessed, monitored and appropriately mitigated, or there is clear rationale for their acceptance. Monitoring may be led centrally by the risk management team. A framework to quantify impact and probability of | <ul style="list-style-type: none"> Risk and control assessment and risk appetite monitoring is facilitated by the risk management team but with ownership and engagement from front line business functions. To ensure consistency in the materiality assessments of risks, a high-level comparison between modelled risks and risks captured in the | <ul style="list-style-type: none"> More complex analysis and use of data is applied in risk and control assessment processes enabling a more meaningful and comprehensive view of risk. Metrics to quantify impact and probability of risks consider risk appetite, modelled risk and strategic business objectives | <ul style="list-style-type: none"> Risk and control monitoring, risk appetite reporting and actions to manage risks are driven through front line business functions with strong risk ownership. A detailed comparison between material risks captured in the risk management framework, the ORSA report and modelled risks takes |

2 Operate a strong risk and control environment subject to appropriate challenge.

| | Foundational | Intermediate | Established | Advanced |
|-------------------------|---|---|---|---|
| Oversight and challenge | <ul style="list-style-type: none"> A clear separation exists between front line business functions and the independent assurance and oversight functions. Risk Management, Compliance and Audit functions are centralised with any outsourcing of these functions | <ul style="list-style-type: none"> No incremental guidance | <ul style="list-style-type: none"> Interaction between independent assurance and oversight functions is frequent and well considered, avoiding overlap through a coordinated approach. | <ul style="list-style-type: none"> No incremental guidance |

Case Study

Principle 10 – Governance, Risk Management and Reporting

Expected Maturity: Advanced
Actual Maturity: Advanced

| Principle | Expected Maturity | Assessed Maturity |
|--|-------------------|-------------------|
| <p>Managing agents should have governance structures and internal risk management and control frameworks in place which align to Solvency II requirements, enable sound and prudent management of the business and support delivery of the business strategy.</p> <p>To support this, managing agents should:</p> | ADVANCED | ADVANCED |
| <p>1 Manage a suitable board and committee structure which enables well informed, timely and accountable decision making</p> | Advanced | Advanced |
| <p>2 Operate a strong risk and control environment which allows for appropriate challenge</p> | Advanced | Advanced |
| <p>3 Maintain appropriate oversight of operational processes for effective management of the business</p> | Advanced | Advanced |
| <p>4 Employ and develop people with appropriate skillsets and ensure the business is appropriately resourced</p> | Advanced | Advanced |
| <p>5 Ensure decision making is supported by appropriate data and qualitative assessment</p> | Advanced | Advanced |
| <p>6 Maintain reporting, including all financial reporting, of a high quality and submit all reports in a timely, accurate and complete manner to Lloyd's and to applicable regulators.</p> | Advanced | Advanced |

Principle level assessment

Appropriate and effective governance structure in place.

A strong culture of good governance, effective risk management and independent challenge permeates throughout the business.

The strategy and risk culture from the top flows through all functions resulting in their aims being clearly aligned to the overall objectives of the business.

Data, qualitative assessment and reporting is of high-quality, meaning decisions are built on strong foundations.

Case Study

Principle 10 – Governance, Risk Management and Reporting

Expected Maturity: Established
Actual Maturity: Intermediate

Sub-Principle 2: Operate a strong risk and control environment which allows for appropriate challenge.

Culture, strategy and risk appetite
 The benefits of engaging with risk management and taking ownership for risk are not well understood or embraced across the business.
 Most of the impetus for technical teams to work with risk management comes from the risk management function.
 As a result, risk management across the business is not fully effective. The risk function is considered to be a regulatory obligation.
 Whilst the managing agent is making headway, they have not achieved Established yet.

Risk Management framework
 Routine risk assessment is sometimes conducted without adequate discussion or challenge to the perceived current status.
 There is a lack of proactive ownership of risks or engagement with risk management by technical functions. Engagement with risk management is often seen as an obligation rather than a key part of ensuring objectives will be met.
 This means that risk management may not be sufficiently robust or might not be appropriate.

Oversight and challenge
 There are cases where Risk Management and Compliance have not been actively engaged in the monitoring of any remediation planned following issues or concerns.
 The link between internal audit, risk management and compliance is not well established, such that appropriate follow-ups do not always take place.



| | Foundational | Intermediate | Established | Advanced |
|--|---|---|---|---|
| 2 Operate a strong risk and control environment subject to appropriate challenge. | | | | |
| Culture, strategy and risk appetite | <ul style="list-style-type: none"> A clearly articulated risk management framework is in place, including board approved risk appetites and tolerances which guide risk acceptance and decision-making throughout the business. A desired risk culture is identified with a plan in place to bridge any gaps between current and desired state. | <ul style="list-style-type: none"> The risk culture has undergone development beyond the identification of the desired future state. Improvement plans are in place which are regularly monitored. | <ul style="list-style-type: none"> Evidence of a no blame risk culture which encourages the reporting of incidents. Frequent proactive engagement with oversight functions by front line business teams, for example involving risk management in key strategic projects from the outset and throughout. | <ul style="list-style-type: none"> Highly embedded risk culture which leads to continuous improvement, for example where front-line business functions engage freely and frequently with oversight functions to provide feedback on processes or share ideas for improvements to the framework. |
| 2 Operate a strong risk and control environment subject to appropriate challenge. | | | | |
| Risk Management framework | <ul style="list-style-type: none"> Risks to the business are identified and recorded through a risk register, risk universe or similar. Owners are in place for all risks and controls. Risks are assessed, monitored and appropriately mitigated, or there is clear rationale for their acceptance. Monitoring may be led centrally by the risk management team. A framework to quantify impact and probability of risks. | <ul style="list-style-type: none"> Risk and control assessment and risk appetite monitoring is facilitated by the risk management team but with ownership and engagement from front line business functions. To ensure consistency in the materiality assessments of risks, a high-level comparison between modelled risks and risks captured in the risk register. | <ul style="list-style-type: none"> More complex analysis and use of data is applied in risk and control assessment processes enabling a more meaningful and comprehensive view of risk. Metrics to quantify impact and probability of risks consider risk appetite, modelled risk and strategic business objectives. | <ul style="list-style-type: none"> Risk and control monitoring, risk appetite reporting and actions to manage risks are driven through front line business functions with strong risk ownership. A detailed comparison between material risks captured in the risk management framework, the ORSA report and modelled risks takes place. |
| 2 Operate a strong risk and control environment subject to appropriate challenge. | | | | |
| Oversight and challenge | <ul style="list-style-type: none"> A clear separation exists between front line business functions and the independent assurance and oversight functions. Risk Management, Compliance and Audit functions are centralised with any outsourcing of these functions. | <ul style="list-style-type: none"> No incremental guidance | <ul style="list-style-type: none"> Interaction between independent assurance and oversight functions is frequent and well considered, avoiding overlap through a coordinated approach. | <ul style="list-style-type: none"> No incremental guidance |

Case Study

Principle 10 – Governance, Risk Management and Reporting

Expected Maturity: Established
Actual Maturity: Intermediate

| Principle | Expected Maturity | Assessed Maturity |
|--|-------------------|-------------------|
| <p>Managing agents should have governance structures and internal risk management and control frameworks in place which align to Solvency II requirements, enable sound and prudent management of the business and support delivery of the business strategy.</p> <p>To support this, managing agents should:</p> | ESTABLISHED | INTERMEDIATE |
| <p>1 Manage a suitable board and committee structure which enables well informed, timely and accountable decision making</p> | Established | Established |
| <p>2 Operate a strong risk and control environment which allows for appropriate challenge</p> | Established | Intermediate |
| <p>3 Maintain appropriate oversight of operational processes for effective management of the business</p> | Established | Established |
| <p>4 Employ and develop people with appropriate skillsets and ensure the business is appropriately resourced</p> | Established | Intermediate |
| <p>5 Ensure decision making is supported by appropriate data and qualitative assessment</p> | Established | Established |
| <p>6 Maintain reporting, including all financial reporting, of a high quality and submit all reports in a timely, accurate and complete manner to Lloyd's and to applicable regulators.</p> | Established | Established |

Principle level assessment

The governance structure appears to allow for appropriate decision making

The core activities of the risk management function are broadly effective.

However, changes in the business have resulted in the need to review the governance structure which has been acknowledged by the managing agent.

Additionally, the requirement to continue build out and development of the risk culture has also been identified.

In all other areas our view is that the outcomes of the Principle are met.

Self-assessment submissions

Lyndsay Deeves

Principles self-assessments

Moving from prescription to outcomes focussed

Rules based approach “Bottom up”

- Have we checked all the requirements?
- Do we have the required processes/ policies/ procedures in place?
- Have we checked the performance of our controls through a control assessment?
- Have we done an audit of our controls?
- Do we have the required documentation?

Outcomes based approach “Top down”

- How successful have we been in achieving the outcome?
- Are there times when we have not been successful? What should/ could we have done differently?
- How are we satisfied that we are achieving the outcome in a way that's appropriate to our business?
- Do we know what our peers are doing?
- What can we conclude about the results of second and third line independent reviews?
- What performance data do we have to support our assessment?
- Based on our assessment what actions do we need to take?

What are the key differences between the “Attestation” and “self-assessment”?

Self-assessment, not Attestation

Submitting on a “best efforts” basis.

Formal Board sign off not required.

However, we would expect discussion at the Board

Working level

We understand Principles will not be fully embedded.

Self-assessments will be an initial tool for your teams.

Boards should step back to consider if your teams have embraced the move away from “tickboxes” to an outcomes based approach

Best efforts basis

Will highlight any gaps in understanding the Principles.

Will provide a basis for discussion with Lloyd's to “compare and contrast” managing agent vs Lloyd's views against the Principles

Lloyd's Principles for Doing Business - Self-Assessment

Full guidance on the Principles and the Self-Assessment process is available on the [Lloyds.com Market Oversight webpage via this link](#)

| | |
|-------------------------------|--|
| Managing Agent | |
| Syndicate Number | |
| Date shared with Board | |

A separate submission is required for each syndicate managed, whether active, in run-off, SPA (Special Purpose Arrangement), RITC (Reinsurance to Close) or SIAB (Syndicate-in-a-box).

| Principle | Expected Maturity | Managing Agent Assessment of Maturity | Commentary |
|---|--------------------|---------------------------------------|--|
| | | | To include: - Rationale, where expected maturity level is met - Commentary, where expected maturity is not met, including detail on gaps, planned remedial actions, timescales and owners - Questions for clarification with Lloyd's, for example to check the meaning or interpretation of the Principles guidance |
| 1. Underwriting Profitability Managing agents should produce and execute syndicate business plans which are logical, realistic and achievable and ensure the delivery of a sustainable profit including expense management. To support this, managing agents should ensure their syndicates: | Established | | |
| Sub Principle 1 Have a clear and robust medium to long term business strategy with clearly defined and understood underwriting risk appetite | Established | | |
| Sub Principle 2 Develop and execute annual business plans which align with their business strategy | Established | | |
| Sub Principle 3 Have underwriting controls, monitoring and reporting in place which are appropriate to their risk profile in order to deliver the agreed business plan | Established | | |
| Sub Principle 4 Manage and control expenses in order to ensure they are appropriate for the business written | Established | | |
| Sub Principle 5 Have robust portfolio management in place in order to deliver the agreed business plan | Established | | |
| Sub Principle 6 Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit | Established | | |
| Sub Principle 7 Have robust governance processes in place to support underwriting decision making, with underwriting assumptions clearly articulated and understood by stakeholders supported by proactive involvement and sufficient challenge by the wider functions | Established | | |
| Sub Principle 8 Have processes in place to support underwriting decision making in relation to ESG integration into underwriting | Established | | |
| 2. Catastrophe Exposure Managing agents should ensure syndicates maintain appropriate control of catastrophe risk (from natural and non-natural perils) in line with business strategy. To support this, managing agents should ensure their syndicates: | Established | | |
| Sub Principle 1 Manage catastrophe exposure in line with their agreed risk appetites | Established | | |
| Sub Principle 2 Employ data standards, risk quantification tools, controls, expertise, and reporting frameworks which are appropriate to their risk profile | Established | | |
| Sub Principle 3 Adequately justify and validate methodology and assumptions, including expert judgements | Established | | |
| Sub Principle 4 Have a complete representation of catastrophe risk in the internal model, reflecting all possible sources of loss and allowing effective use by wider | Established | | |

Self-assessment Principles rating

Principle 13: Culture

| Principle | | Expected Maturity | Managing Agent Assessment of Maturity | Commentary |
|---|---|---------------------|---------------------------------------|---|
| | | | | To include: - Rationale, where expected maturity level is met - Commentary, where expected maturity is not met, including detail on gaps, planned remedial actions, timescales and owners - Questions for clarification with Lloyd's, for example to check the meaning or interpretation of the Principles guidance. |
| 13. Culture Managing agents should be inclusive, creating a diverse and high-performance culture. | | FOUNDATIONAL | BELOW FOUNDATIONAL | Overall Culture is currently Below Foundational. Plans are in place to address the gaps, starting with data, and strengthening how speaking up is managed. The Culture and Inclusion Advisory Group will take a lead role in reviewing firm culture and developing a culture plan, as a pillar of our strategy. |
| Sub Principle 1 | Demonstrate leadership focus on fostering an inclusive, high-performance culture | Foundational | Foundational | A Culture and Inclusion Advisory Group is being set up, led by Member of ExCo, who will undertake a culture review in 2022 and develop a culture plan, involving employees. The Advisory Group will report to the Board on progress |
| Sub Principle 2 | Ensure behaviour expectations are clear and there is zero tolerance for inappropriate behaviour | Foundational | Foundational | In Q4 2021 the code of conduct, which outlines behavioural expectations was communicated to all employees. It is also included in employee induction and forms part of annual mandatory training, along with mandatory diversity and inclusion training for all employees. |
| Sub Principle 3 | Encourage speaking up, ensuring there are appropriate tools for employees to do so, and the tone is set from the top | Foundational | Below Foundational | In 2021 a grievance related to sexual harassment was not handled well, resulting in the victim leaving the organisation. A review of how we manage grievances was undertaken by a law firm, who have provided recommendations that we started to implement in Q3 2021 which is ongoing. The case with the individual has been settled, with the perpetrator dismissed. We have run training for all employees and managers on how to raise concerns and how to respond when these matters are raised. We expect employee feedback on confidence to speak up and that management take concerns seriously to have improved in upcoming employee surveys |
| Sub Principle 4 | Ensure diverse representation within their workforce and their leadership population. Be inclusive in how they hire and retain talent and ensure they reflect society and their customers | Foundational | Foundational | % women in leadership is 22%, and we are quartile 2 against Lloyd's market. Representation of ethnic minorities is unknown as we do not yet collect this data, but indications are it is also low. Our actions start with collecting data in H1 2022, which will be reviewed by the Culture and Inclusion Advisory Group to develop an action plan to improve diversity and inclusion. |
| Sub Principle 5 | Understand their employee population, collect appropriate data and take action to create an inclusive employee experience | Foundational | Foundational | Currently only gender data is collected. No other diversity data. HR system being upgraded and diversity data campaign to be run in H1 to collect broad diversity data including ethnicity, disability, sexual orientation, age . |

Self-assessment Principles rating

Principle 10: Governance, Risk Management and Reporting

Expected Maturity: Advanced
Actual Maturity: Advanced

| Principle | | Expected Maturity | Agent assessment of Maturity | Commentary |
|---|--|-------------------|------------------------------|--|
| | | | | To include: - Rationale, where expected maturity level is met - Commentary, where expected maturity is not met, including detail on gaps, planned remedial actions, timescales and owners - Questions for clarification with Lloyd's, for example to check the meaning or interpretation of the Principles guidance. |
| 10. Governance, Risk Management and Reporting Managing agents should have governance structures and internal risk management and control frameworks in place which align to Solvency II requirements, enable sound and prudent management of the business and support delivery of the business strategy | | ADVANCED | ADVANCED | As evidenced below, we have an appropriate and effective governance structure in place to ensure sound management of the business and compliance with all relevant requirements. A strong culture of good governance, effective risk management and independent challenge permeates throughout the business. The strategy and view from the top flows through all functions to enable their aims to align to the overall objectives of the business. Data, qualitative assessment and reporting is of high-quality, meaning decisions are built on strong foundations. |
| Sub Principle 1 | Manage a suitable board and committee structure which enables well informed, timely and accountable decision making | Advanced | Advanced | We have a well established and effective Board and committee structure, with track record of acting on independent advice and challenge. Strategy is routinely discussed and updated with input and ownership across the business. The effectiveness of Board and committees is regularly reviewed including periodic use of independent third parties. Our committee structure ensures that all business functions have appropriate Board or executive level committees with suitable reporting lines into the Board. |
| Sub Principle 2 | Operate a strong risk and control environment which allows for appropriate challenge | Advanced | Advanced | Risk culture is well embedded and demonstrated throughout the business. Risk Management views are clearly sought and help to drive decision making. All functions take active ownership for risk management activities and contribute to a continuous improvement process. This is lead top-down. Risk appetite is set by the Board and cascades throughout all risk metrics and monitoring activities, ensuring a link between functional level risk strategy/activities and the agreed appetites of the Board. A forward looking view of risk is considered highly important for how we assess, manage and discuss risk. |
| Sub Principle 3 | Maintain appropriate oversight of operational processes for effective management of the business | Advanced | Advanced | The Board has regular sight of KPI reporting on key operational processes and resourcing. This is routinely challenged and the KPIs and SLAs are reviewed and changed where necessary. We are confident in the overall operational infrastructure and efficacy, through the assurance as evidenced by the ongoing cycle of internal audits with timely follow-up of findings. |
| Sub Principle 4 | Employ and develop people with appropriate skillsets and ensure the business is appropriately resourced | Advanced | Advanced | We take development seriously with regular review of succession planning. Training, coaching and mentoring is actively provided to those identified as future leaders or key function holders. Staff engagement survey has consistently high scores for employee training and development. We promote an open and inclusive culture with a track record of acting on employee ideas. |
| Sub Principle 5 | Ensure decision making is supported by appropriate data and qualitative assessment | Advanced | Advanced | Information presented to the Board is consistent, accessible and highly informative. The manner in which information is presented is under a constant cycle of review and development. Complex data supports analyses and is presented in a format which supports effective decision making. |
| Sub Principle 6 | Maintain reporting, including all financial reporting, of a high quality and submit all reports in a timely, accurate and complete manner to Lloyd's and to applicable regulators. | Advanced | Advanced | All reporting was submitted to Lloyd's on time with a high accuracy. This has been verified by an internal monitoring process. |

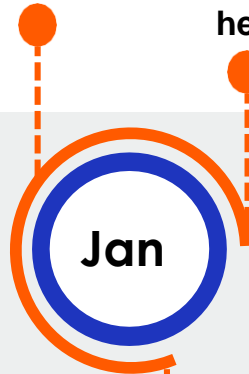
Next Steps

Lyndsay Deeves

Next Steps and Timeline

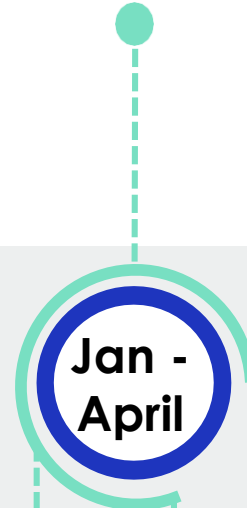
Pre-populated self assessment templates uploaded
(14 January)

Board and NED briefings held



Technical briefings held

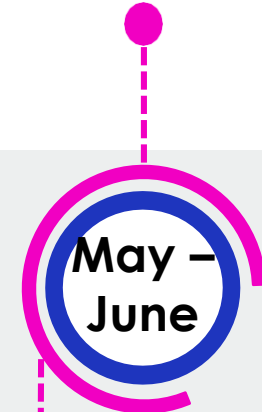
Syndicates complete and submit self assessments
(29 April)



Ongoing support and engagement via Account Managers

Lloyd's complete assessments of syndicates

Syndicate categorisation confirmed ahead of 2023 CPG
(June)



Follow-up discussions with syndicates re differences in view

What should you be doing?

- **Familiarise yourself with the Principles and guidance**
- **Consider any upskilling required to successfully adopt the new Principles based regime**
- **Review expected maturity as communicated in Oversight Letters**
 - Speak to your Account Manager if you have any questions
- **Conduct the self-assessment – be open, transparent and thorough**
 - Guidance and templates are now on SecureShare
 - Oversight Framework team available to answer any questions
- **Consider what actions can be taken to close any gaps before mid-year**
- **Questions on the new framework should be directed to your Account Manager or oversight.framework@lloyds.com in the first instance**

Do use the support available from Lloyd's!

Q&A
