LLOYD'S

Principles for doing business at Lloyd's

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Introduction

Lloyd's has made fundamental changes to the Oversight Framework to create a more efficient and joined-up approach, providing the conditions for the best businesses to thrive and driving decisive interventions for underperforming businesses. These changes will:

- allow more focus on the oversight outcomes we seek to achieve, as opposed to the processes conducted;
- provide a way of differentiating managing agent approaches based on their materiality;
- allow managing agent senior management to interpret and apply Lloyd's expectations in the way most appropriate to their business;
- create clarity, transparency and efficiency across the market for all participants;
- be resilient to change over time by moving away from prescriptive detail;
- focus on the most important key areas of operating at Lloyd's.

Lloyd's Oversight Objectives

In order to deliver effective, consistent and risk-based oversight, the Lloyd's Oversight Objectives underpin the Oversight Framework. Our differentiated approach to oversight plays a key role in providing the best run syndicates the space to grow, whilst at the same time ensuring appropriate and proportionate oversight across the 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

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Lloyd's Oversight Framework

The Lloyd's Oversight Framework has three interlinking elements that work together to support more differentiated and impactful oversight:

1. The Principles for doing business at Lloyd's
2. Syndicate Categorisation
3. Interventions and Incentives

The Principles

The Principles articulate the fundamental responsibilities expected of all managing agents in order to support the market's overall performance, capital strength, financial and reputational credibility. The suite of 13 Principles are outcomes based and allow for more differentiation according to syndicate materiality. These replace the minimum standards and are the basis against which we view and categorise all syndicates and managing agents in terms of both their capability and performance.

Syndicate Categorisation

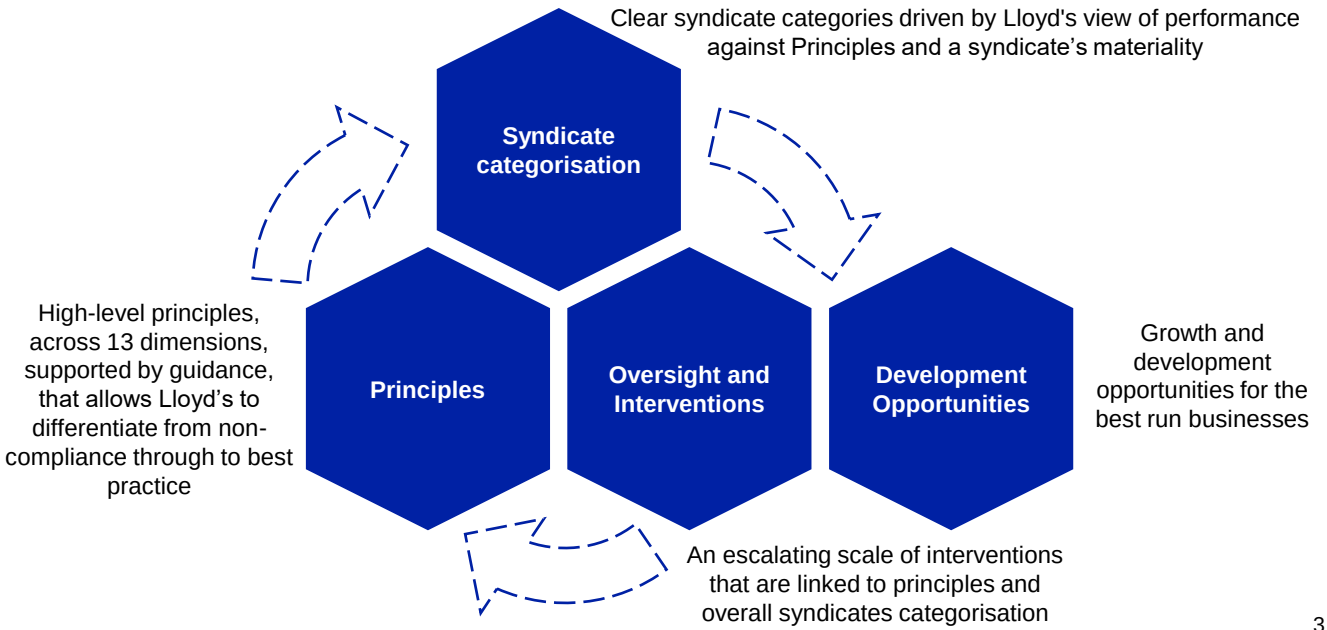
One consistent approach to syndicate and agent categorisation based on assessment against the Principles, both on a qualitative and quantitative basis, across the 13 Principles. Under the framework, there are five different categories:

OUTPERFORMING | GOOD | MODERATE | UNDERPERFORMING | UNACCEPTABLE

Whilst all Principles contribute to the syndicate and agent category, the overall category will only ever be as high as the lowest of the four fundamental Principles of UNDERWRITING PROFITABILITY, RESERVING, GOVERNANCE, RISK MANAGEMENT AND REPORTING and CULTURE.

Interventions and Incentives

Oversight and the application of interventions are directly informed by a syndicate's categorisation. For businesses on the lower end of the scale, a range of interventions can be applied to remediate and ensure they return to expected financial and non-financial performance. For those businesses at the top end of scale, there will continue to be a range of incentives to support growth and development to help those businesses thrive, including the File and Use business plan approach, Cat Risk Appetite Flex, and proactive support of new syndicates/ SPAs/ Syndicate in a Box.



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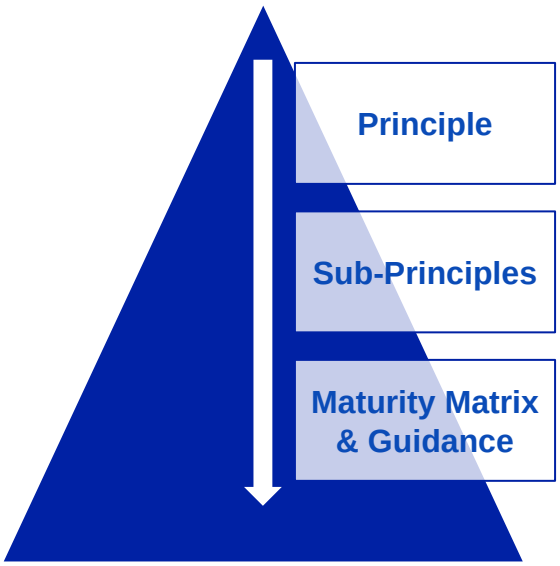
The Principles

The Principles are at the heart of our Oversight Framework and set out the fundamental responsibilities expected of all managing agents. The Principles provide a clear and consistent articulation of the outcomes expected by all Lloyd's syndicates and managing agents, and also recognise that different syndicates and managing agents will deliver against the Principles in many different ways.

The suite of 13 Principles are supported by guidance in the form of a Maturity Matrix.



A brief statement setting out the fundamental expectation expected of all managing agents and articulated at the highest level

A number of statements that set out the key areas supporting the Principle

Technical level guidance setting out indicators and examples of different ways that the Principles and Sub-Principles could be met across a spectrum ranging from the lowest to the highest materiality. The guidance is expressed in terms of outcomes, capabilities and processes but is not prescriptive

Applicable regulation and requirements

Adherence to regulation and other relevant requirements by managing agents is assumed to be in place, and the Principles do not replicate local and international regulation, or guidance and requirements from relevant professional bodies. Where appropriate some specific regulation is referred to within the Principles, for example Solvency II.

Application of proportionality

Whilst the guidance contained within the Maturity Matrices sets out indicators and examples of different ways that the Principles and Sub-Principles could be met, the concept of proportionality always applies and should be taken into account when forming an assessment against the Principles.

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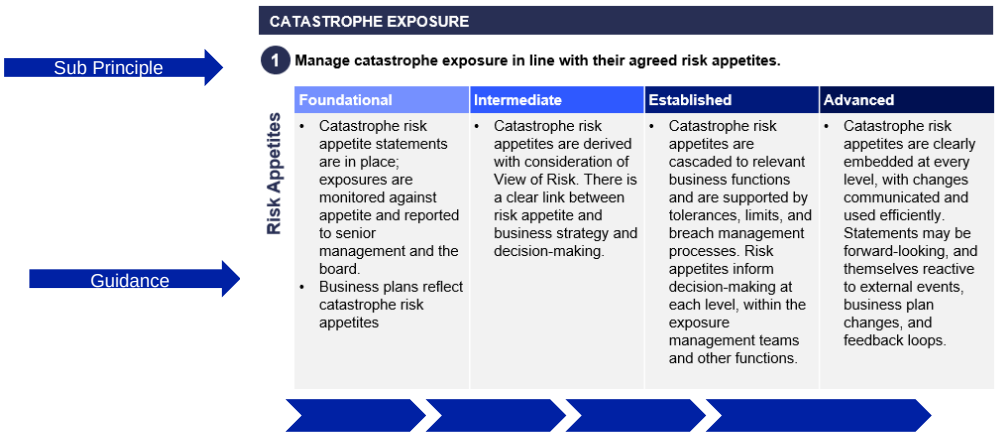
Understanding the Maturity Matrix

Across the large number of syndicates and managing agents in the market, we recognise that there will be many different ways to deliver against the Principles and the main differentiator is materiality: the more material a syndicate is to a particular Principle, the more sophisticated we would expect the syndicates' capabilities to be, in order to meet that Principle, with what determines materiality varying by dimension. These different levels of sophistication are described as a Maturity Matrix, from FOUNDATIONAL level applying to the least material syndicates through to ADVANCED level applying to the most material.

FOUNDATIONAL level is calibrated to be the baseline which all syndicates are expected to be able to meet. The new approach does not represent a lowering of standards and as such FOUNDATIONAL level broadly aligns with the expectations from the previous minimum standards, although in line with the move to a Principles based regime, it is outcomes focused and does not prescribe the required approach.

The content of the Maturity Matrices should be read from left to right, as the guidance at one level can be understood as the starting point for the next. An example of this is shown below:



While the Maturity Matrices for each of the Principles and Sub-Principles set out examples and indicators relevant to each technical area, these are not exhaustive and there are also some generic guidelines that are useful to describe the different maturity levels from FOUNDATIONAL through to ADVANCED.

FOUNDATIONAL *(Low materiality)*	INTERMEDIATE *(Moderate materiality)*	ESTABLISHED *(High materiality)*	ADVANCED *(Highest materiality)*
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

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There are some Principles and Sub-Principles where the guidance does not differentiate. This is because for some cases we do not consider that there would be tangible and visible differences in approach from the least to the most material syndicates. Where this is the case, the guidance would apply to all syndicates regardless of their materiality and would be expressed in the Maturity Matrix at only the Foundational level.

Similarly, there are some cases where there may be differences in approach across only two or three maturity levels, and in these cases the guidance reflects this by setting out less than four levels of maturity.

Where we believe that there is no differentiation between different maturity levels the Maturity Matrix specifies "no incremental guidance".

Examples of this are shown below:

Guidance applies to all syndicates, regardless of materiality

CULTURE

1 Demonstrate leadership focus on fostering an inclusive, high-performance culture.

Foundational
• Culture is considered a priority for the Board and senior management and is proactively communicated across the business. • The desired organisational culture is identified and incorporates the themes of leadership, ethics, trust, respect and motivation. • The Board and senior management understand the priorities to focus on to achieve their desired culture. • A leadership behavioural framework or expectations are in place, measured and referred to in decision making • There is visible support for an inclusive culture from the Board and senior management with policies, processes and practices in place.

Guidance only differentiates across two levels of materiality

CUSTOMER OUTCOMES

4 Deliver fair and prompt claims and complaints handling services in line with a clear servicing commitment.

Foundational	Intermediate	Advanced
• There are no barriers to making a claim or complaint. Claims and complaints handling services are delivered in line with a clear servicing commitment.	• Claims services are suitable for the product and the target market, promoting good customer outcomes at all times. • Progress updates on claims and/or complaints are readily provided to appropriate parties.	• *No incremental guidance*

Over time, we expect the content of the Maturity Matrices to flex and evolve, whether in response to changes in market practices, new and emerging initiatives, or as we gain deeper insights into newer areas of oversight.

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Additional notes on the Principles and Maturity Matrices

For some of the more recent areas of oversight, there are additional features of the Principles and Maturity Matrices that will assist in interpreting them

CULTURE

Whilst the CULTURE Principle sets out outcomes expected of all managing agents, we recognise that many managing agents will not yet be in a position to be fully meeting those expectations at this stage. For example, many managing agents are not yet able to capture a comprehensive set of their employee demographic data to fully understand their employee population. Another example is that many managing agents do not yet have diverse representation within their workforce and leadership population. In both of these examples, our expectation at this stage is that managing agents can demonstrate that they have considered what needs to be addressed in order to meet these expectations and that they can show credible progress towards this.

CULTURE is a new area of oversight and while the high-level outcomes are clear, the processes across the market to achieve those outcomes are not yet fully developed. The Maturity Matrix therefore contains a lower level of detail, but will be developed over time as Lloyd's gains a deeper understanding of the processes and practices in place.

PRICING (Sub-Principle 6 under UNDERWRITING PROFITABILITY)

The guidance as set out in the Maturity Matrix supporting the PRICING Sub Principle of the UNDERWRITING PROFITABILITY Principle is reflective of current pricing practice in the market. As the market is currently in the phase of building out processes and frameworks, there is relatively large amount of detail in the Maturity Matrix to assist managing agents. As pricing practice evolves and develops and as market standards increase, we expect to update the guidance in the Maturity Matrix accordingly.

OPERATIONAL RESILIENCE

For 2022, the expectation of the market in respect of OPERATIONAL RESILIENCE is that managing agents are able to meet the new Operational Resilience requirements that come into force in March 2022. The guidance as set out the Maturity Matrix is aligned with this expectation, and all managing agents are expected to be at the FOUNDATIONAL level.

ESG (as part of UNDERWRTING PROFITABILITY and INVESTMENTS)

The ESG Sub Principles under UNDERWRTING PROFITABILITY and INVESTMENTS set out the expectation for managing agents to integrate ESG into underwriting decision making and to develop and embed a Responsible Investment Policy. For 2022, as managing agents start to develop their ESG strategies and frameworks, we recognise that managing agents will not yet be in position to be meeting these expectations.

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Forming an assessment against the Principles

Moving away from a prescriptive, rules-based oversight approach to a more outcomes-based approach requires a different mindset to be adopted. Ticking off a list of prescriptive requirements takes a "bottom up" approach and can potentially result in the misleading conclusion that as long as all the underlying requirements are met, then the overall intention must also be met. However, this is often not the case. An assessment conducted under an outcomes-based approach takes an entirely different approach, requiring a "top down" view to be formed and a larger degree of judgement needs to be applied. This requires teams to draw on their expertise in identifying important oversight considerations, considering the relative importance of these considerations, and gaining comfort with their assessment by considering a range of inputs.

Principles focus on the *outcome*, rather than the *requirements* and it is against this outcome that an assessment should be made. This requires a different type of questioning and discussion to be had in forming an assessment. Boards and senior management will need to engage with the Principles and the outcomes that they set out to achieve at the highest level, and not regard them as activities that can be delegated to compliance.

Examples of how the shift from forming an assessment under a rules-based approach, to a Principles based approach are shown below:

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?

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Principles

The 13 Principles set out the fundamental responsibilities expected of all managing agents in order to support the markets' overall performance, capital strength, financial and reputational credibility

	DIMENSION	PRINCIPLE
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.
	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.
	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.
	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.
	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.
	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.
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.
	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.
	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.
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.
	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.
	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.

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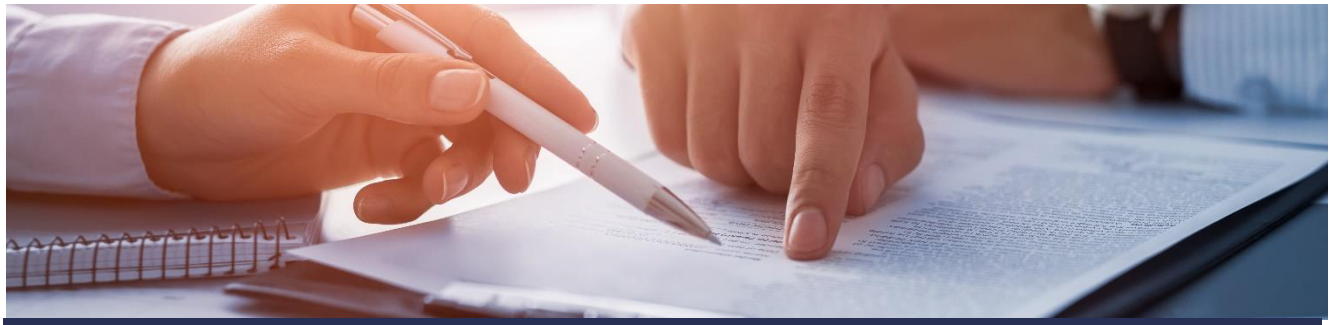
PERFORMANCE

Principle 1: Underwriting Profitability



Principle

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:

1. Have a clear and robust medium to long term business strategy with clearly defined and understood underwriting risk appetite
2. Develop and execute annual business plans which align with their business strategy
3. Have underwriting controls, monitoring and reporting in place which are appropriate to their risk profile in order to deliver the agreed business plan
4. Manage and control expenses in order to ensure they are appropriate for the business written
5. Have robust portfolio management in place in order to deliver the agreed business plan
6. Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit
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
8. Have processes in place to support decision making in relation to ESG integration into underwriting

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PERFORMANCE

Principle 2: Catastrophe Exposure

Principle

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:

1. Manage catastrophe exposure in line with their agreed risk appetites
2. Employ data standards, risk quantification tools, controls, expertise, and reporting frameworks which are appropriate to their risk profile
3. Adequately justify and validate methodology and assumptions, including expert judgements
4. Have a complete representation of catastrophe risk in the internal model, reflecting all possible sources of loss and allowing effective use by wider business functions
5. Have robust governance and oversight of risk aggregations

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PERFORMANCE

Principle 3: Outwards Reinsurance

Principle

Managing agents should define and execute syndicate outwards reinsurance strategy and purchasing plans which effectively support the wider syndicate business strategy and objectives.

To support this, managing agents should ensure their syndicates:

1. Have outwards reinsurance strategies and purchasing plans which are robust and reflect the underwriting, exposure and capital management appetites of each individual syndicate, and the best interests of the members of the syndicate

2. Have appropriate systems, controls, procedures and expertise to enable the effective management of outwards reinsurance purchasing and recoveries

3. Identify, monitor, evaluate and mitigate live and potential financial, operational, counterparty, contract and liquidity risks arising from their outwards reinsurance arrangements

4. Have robust and effective monitoring, reporting and governance frameworks employed over their outwards reinsurance arrangements

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PERFORMANCE

Principle 4: Claims Management

Principle

Managing agents should ensure that they have a claims commitment in place 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.

To support this, managing agents should ensure:

1. Claims related information and knowledge is available and used pre-emptively in business planning and wider syndicate performance management
2. The claims environment and infrastructure enables effective servicing at an appropriate level of sophistication, through the retention of adequately and suitably skilled resource, underpinned by a strong claims culture and continuous education
3. Claims are handled efficiently and effectively, ensuring active claims and lifecycle management remains appropriate combined with a framework designed to facilitate continuous improvement
4. Delivery of accurate and timely case reserving through robust reserving processes and practices
5. Claims management through third-party service providers and third-party experts delivers the claims commitment and supports syndicate performance
6. Claims performance, customer experience and opportunities for improvement are regularly assessed using both data and qualitative assessment

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PERFORMANCE

Principle 5: Customer Outcomes

Principle

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.

To support this, managing agents should:

1. Ensure the conduct culture set by the board promotes good customer outcomes throughout the product lifecycle and supports the protection of Lloyd's brand, reputation and regulatory standing worldwide
2. Design and oversee products through suitable governance structures that meet the expectations of the target market
3. Ensure there are no barriers to easily accessing clear and fair sales and post sales services
4. Deliver fair and prompt claims and complaints handling services in line with a clear servicing commitment
5. Engage, manage and oversee third-party service providers in accordance with the outsourcing strategy and the standard of service set by the managing agent
6. Ensure regular and robust oversight of customer outcomes is achieved, using data and qualitative assessment

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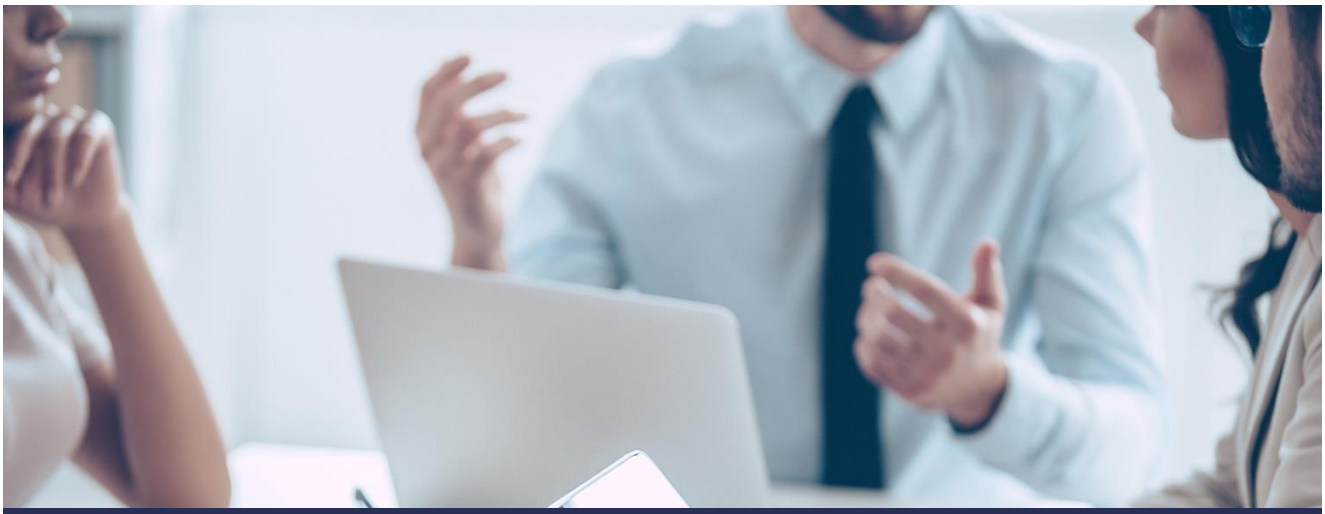
PERFORMANCE

Principle 6: Reserving



Principle

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.

To support this, managing agents should ensure their syndicates:

1. Have clear governance and ownership of the reserves
2. Make appropriate allowance for uncertainties when setting reserves
3. Use assumptions to set reserves which are realistic, transparent and consider historical experience
4. Identify, understand and justify any differences in assumptions between reserving and other functions
5. Periodically and objectively challenge the reserving processes and assumptions
6. Set best estimate reserves in line with Solvency II principles, with any allowance for UK GAAP margins set explicitly in addition

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SOLVENCY

Principle 7: Capital

Principle

Managing agents should ensure syndicates Solvency Capital Requirement (SCR) appropriately reflects their risk profile and is calculated using a SII compliant internal model.

To support this, managing agents should ensure their syndicates:

1. Maintain an internal model which captures all material risks that the syndicate is exposed to
2. Use modelling assumptions which are realistic and justifiable, methodology which is adequate, and all material limitations are understood
3. Have strong feedback loops joining the business and the model
4. Demonstrate robust governance and understanding of the model. This includes adequate understanding and challenge at senior management level.
5. Implement changes to the model which are reasonable and justified and their impact on the SCR adequately explained
6. Conduct objective challenge of the internal model through independent validation

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SOLVENCY

Principle 8: Investment

Principle

Managing agents should ensure syndicate investment risk is effectively controlled, informed by wider business strategy and adheres to the Prudent Person Principle (PPP) requirements.

To support this, managing agents should ensure their syndicates:

1. Have a clear articulation of investment objectives and risk appetites, with rationale having regard to high level business or solvency strategy
2. Have clear investment parameters and guidelines with robust processes to monitor and report positioning against limits
3. Integrate investment stress testing into investment management
4. Ensure investment performance and risk, including that of outsourced arrangements, are effectively overseen through monitoring and reporting
5. Develop and embed a Responsible Investment Policy
6. Have Asset-Liability Modelling (ALM) capabilities consistent with Use Test Principles
7. Have robust investment governance

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SOLVENCY

Principle 9: Liquidity

Principle

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.

To support this, managing agents should ensure their syndicates:

1. Identify and assess their key sources of liquidity risk and have appropriate monitoring and reporting in place
2. Conduct and consider the outcomes of stress tests, including Lloyd's defined stress test and syndicates' own 1:200 stress test
3. Have clearly defined liquidity risk appetites
4. Conduct regular assessment of liquidity buffers above expected cashflow projections
5. Have thorough liquidity contingency plans in place including articulation of what management actions and steps are open to alleviate liquidity strain
6. Have robust governance over liquidity risk

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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.

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OPERATIONAL

Principle 11: Regulatory and Financial Crime

Principle

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.

To support this, managing agents should:

1. Embed a culture of transparency, regulatory and financial crime compliance, and an understanding of the benefits of this across their managed businesses
2. Have a robust understanding of their regulatory and financial crime risk exposure and appetite, which is subject to appropriate challenge
3. Have appropriate systems and controls, including training, in place to manage regulatory responsibilities and financial crime risk

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OPERATIONAL

Principle 12: Operational Resilience

Principle

Managing agents should maintain robust and resilient operations, embedding cyber resilience and effective third-party risk management.

To support this, managing agents should:

1. Prioritise resilience of the most important services; embedding appropriate governance for operational resilience into their businesses and prioritising recovery of Important Business Services within identified and tested impact tolerances

2. Invest in their operational resilience, including their control environments, so that the risk of a future event causing harm to customers or threatening the business' viability is mitigated

3. Embed cyber resilience into operations; protecting their information systems, processes, people and data from external or internal compromise to prevent harm to customers, loss of data, contagion and/or reputational damage to the wider Lloyd's market

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OPERATIONAL

Principle 13: Culture

Principle

Managing agents should be diverse, creating an inclusive and high-performance culture.

In order to support this, managing agents should:

1. Demonstrate leadership focus on fostering an inclusive, high-performance culture
2. Ensure behaviour expectations are clear and there is zero tolerance for inappropriate behaviour
3. Encourage speaking up, ensuring there are appropriate tools for employees to do so, and the tone is set from the top
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
5. Understand their employee population, collect appropriate data and take action to create an inclusive employee experience

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1.

Underwriting Profitability

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Principle 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.

UNDERWRITING PROFITABILITY

1 Have a clear and robust medium to long term business strategy with clearly defined and understood risk appetite.

	Foundational	Intermediate	Established	Advanced
Strategy	• Underwriting strategy is set collaboratively with engagement and feedback loops between the relevant stakeholders. • Underwriting strategy articulates, at class of business level, appetite for: i. Lead vs follow business ii. Open market vs Delegated Authority iii. Line size deployment	• Underwriting strategy identifies key elements such as sub-class, industry sector, geography, distribution channel / placement strategy.	• Underwriting strategy outlines a forward-looking plan concerning the key target contracts to be won / renewed.	• Regular horizon scanning towards emerging risks is considered and reflected within the Underwriting strategy. • Underwriting strategy is forward looking allowing agile management across the underwriting cycle.
Risk Appetite	• The board has defined underwriting risk appetite statements. These are linked to and contained within the syndicate business plan. • Underwriting risk appetite statements are articulated at portfolio level and cascaded to each class of business. They are defined on a gross and net basis. • Risk appetite statements reflect market level feedback from Lloyd's and regulatory concerns. • Underwriting staff understand the concepts of risk appetite and how it links to strategy.	• Underwriting risk appetite is aligned to strategic thinking, with linkage to operating limits. • Underwriting staff understand how risk appetite influences their everyday underwriting decisions. • Controls and breach escalation are defined, including accountabilities for operating within appetite. • Performance assessment for senior management considers adherence to risk appetite.	• Underwriting appetites are coded into underwriting systems for automated controls and monitoring. • Training in place for underwriting staff on the significance of the risk appetite framework for running the business. • Performance assessment for senior management, and underwriting staff, considers adherence to risk appetite.	• There is real time monitoring of underwriting risk appetite / exposure with breaches escalated immediately. • Managing agent is leading the way in responding to market level and regulatory concerns; • Reward and remuneration metrics are consistently linked to underwriting risk appetite at all levels.

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UNDERWRITING PROFITABILITY

2 Develop and execute annual business plans which align with their business strategy.

	Foundational	Intermediate	Established	Advanced

Business Planning	• Business plan aligns to the syndicate's medium to long term underwriting strategy and risk appetite.
	• Board has responsibility for developing, challenging, and approving the annual business plan.
	• Business planning process engages, and allows for challenge from, all key stakeholders .
	• Business plan includes assessment of both prior year performance and current prevailing market conditions.
	• Assumptions and key risks in the business plan are clearly articulated and understood by all Key stakeholders.
		• Consideration is clearly evident of defining optimum business mix aligned to the agreed strategy.
		• There is an annual review of the syndicate business planning process with feedback and recommendations made to the board.
			• Business planning and review process considers output from stress and scenario testing.
			• Underwriters bring their understanding of renewal book and target market contracts and competitor initiatives to help formulate Logical, Realistic and Achievable business plans.
			• Data direct from pricing models is used to derive realistic and achievable targets in the business plan such as the level of new business, mix of business and rate change.
				• Underwriting proactively develops a strategic business plan concerning:
				  • Key contracts to be won / renewed
				  • Distribution strategies
				  • Competitors
				  • Brokers
				  • Relationships
				..with clear linkage to the longer-term strategic view.
				• The planning framework involves challenge to underwriters and to management to remove biases and ensure the business plan is on a best estimate basis.

KPI monitoring	• Syndicate business plan is kept under review, with KPIs monitored and reported to the board at an appropriate frequency • KPIs align to the metrics required in the returns to Lloyd's and are supported by narrative which validates performance against KPIs . • Timely actions are taken to address variances to business plan, and root cause analysis conducted to fully understand underlying drivers.	• Extensive suite of KPIs used to review p rogress against business plan - coverage at an aggre gated and individual risk level. • Granularity allows for review of KPIs at different time interval (e.g. month-to-date or year-to-date). • Monitoring allows for identification of both positive and adverse variation to plan. • Regular review of business plan and KPIs incorporates latest analysis from other functions and promotes consistency	• Suite of KPIs includes underwriting operational KPIs to monitor completion of qualitative checks and controls, e.g. Pre-Bind Quality Assurance (PBQA). • Suite of KPIs are kept under review to consider if any changes are required to the metrics themselves or any additions to ensure early detection of issues.	• Thematic findings are drawn out from underwriting operational KPI monitoring, with training in place to address gaps.

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UNDERWRITING PROFITABILITY

3 **Have underwriting controls, monitoring and reporting in place which are appropriate to their risk profile in order to deliver the agreed business plan.**

Underwriting authority

Foundational	Intermediate	Established	Advanced
• Underwriting systems and controls include a range of prevention and detection controls. • The systems and controls framework is aligned to syndicate business plan. • Underwriting authorities are in place, properly authorised, signed and subject to annual review. • Underwriting authorities are directly linked to experience, knowledge and expertise of the individual. • Underwriting authority and escalation procedures are clear and consistent, including the effective period of the licence • Breaches against underwriting authorities are escalated and reported upwards, as well as to Compliance. • Underwriters have the appropriate experience and capabilities to write and manage policies profitably in line with business plan. • Deviation from technical price is controlled via underwriting authority or escalated in line with procedures.	• Capacity deployment rules clearly articulated and regularly reported to demonstrate compliance. • Underwriters analyse and record the difference between technical price and market price. • Process and controls in place for approval of any delegated authority. Approved persons with power to delegate must be recorded within underwriting au thorities.	• Authority matrices are in place. They are tracked and controlled within limits. Deviations are robustly monitored and governed. Key licence holders are identified, recorded and reviewed regularly. • There is regular technical training to underwriters from different departments e.g. wordings, claims, reserving, cat modelling teams, etc.	• Automated tracking and reporting against underwriting limits, aggregate exposures and pricing adequacy. • A process is in place to regularly monitor underwriter capabilities and performance that directly feeds into regular review and update of authority levels. Documented outcomes are used to evolve authority framework. • There is monitoring of the underwriter judgement where adjustments are made to claims and non-claims cost pricing. Oversight in place to identify, challenge and mitigate biases.

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UNDERWRITING PROFITABILITY

3 **Have underwriting controls, monitoring and reporting in place which are appropriate to their risk profile in order to deliver the agreed business plan.**

Pre-and Post-bind analysis

Foundational	Intermediate	Established	Advanced
• Where leading, pre-bind contract reviews, on a risk-based approach, are conducted on all contracts (risks or portfolios) with suitable amendment c ontrols in place • For follow business – a suitable range of pre-bind analysis and controls are utilised and recorded. • Up to date user guides for all models are available for all stakeholders and these are suitably refreshed.	• Detailed pre-bind analysis is conducted and recorded with structured rationale for all lead business. • Pre-bind usage statistics form part of regular MI and monitored through governance. • There is regular training for underwriters on operating models, applying judgement, and identifying areas for improvement. • Specialist wordings / legal personnel are engaged for production of product or contract wordings with suitable amendment controls.	• Operation of comprehensive pre-bind modelling across all underwriting teams. Exceptions are limited in nature and clearly justified. • There is analysis of pre-bind trends in new and renewed business. This is granular enough to pick up relationship trends between particular underwriters and brokers. • The analysis performed pre-bind includes verifying that predicted gross loss ratio, net of reinsurance positions, exposures, and capital positions are consistent with risk appetite. • Underwriters consider and document the impact of changes to policy terms and conditions. This should include expected claims cost, associated risk and quoted premium impacts. • Consideration given to financial security of prospective clients or new binder authorities.	• Underwriters have clear pre-quote positions on key contracts both for renewal and new business books. This includes a clear understanding of economic, minimum and appropriate rates well in advance of associated renewal date when using quick quote models. • Clear evidence of training, development and horizon scanning of future risks by senior underwriters.

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UNDERWRITING PROFITABILITY

3 Have underwriting controls, monitoring and reporting in place which are appropriate to their risk profile in order to deliver the agreed business plan.

Delegated Underwriting Authority (DUA) Business

Foundational	Intermediate	Established	Advanced

The expectations below relate to all business written where there is delegation to a third-party and should be proportionate to the amount of DA business written by the syndicate:

- Third parties are able to provide relevant, timely and sufficient information.
- DUA reporting information is provided at a frequency that allows for effective challenge of business written.
- Level of information provided is at a level of granularity which aligns with that used by the syndicate.
- Validation of information provided with sample checking undertaken by underwriters.
- Robust segmental performance analysis is conducted to assess binder against expectations.
- When leading, strong feedback loops with training provided back to Delegated Authorities to improve data quality.
- Business written on syndicates' behalf aligns with risk appetite and approved business plan.
- When leading, proactive engagement with coverholder / brokers to ensure performance issues are addressed quickly and underwriting philosophies remain aligned.
- When leading, regular and detailed reviews of coverholder underwriting guidelines, wordings, models and controls are conducted with timely action taken where required.
- Referral processes are in place for any potential breaches of delegated authority rules.
- Steps are taken to identify and address conflicts of interests.
- Binding Authority Agreement should include sufficient underwriting controls and referral requirements, and be subject to annual review.

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UNDERWRITING PROFITABILITY

3 **Have underwriting controls, monitoring and reporting in place which are appropriate to their risk profile in order to deliver the agreed business plan.**

	Foundational	Intermediate	Established	Advanced
Reporting	• Provision of robust and relevant management information to the board and senior management, with uncertainties and limitations clearly explained in relation to the intended audience. • Granularity of internal reports and supporting analysis relates to whole account and syndicate class of business. • Regular exception reporting identifies potential variances or control failures, including risk appetites, and these are investigated, reported and escalated. • External reporting is an extension of internal reporting. It is well-governed and reviewed by multiple levels of management.	• Regular internal reporting to a greater level of granularity (e.g. including peril-region), consistent with risk appetite framework and considering suitability to audience.	• *No incremental guidance*	• Automated internal reporting and notification to management. • The output is informative, well thought out and interactive. There is a range of regular and ad-hoc reporting tools as well as visualisation capabilities, dashboards and scorecards that leverage data consistently across the enterprise.

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4 Manage and control expenses in order to ensure they are appropriate for the business written.

Foundational	Intermediate	Established	Advanced
• Medium to Long-term Strategy in place to control overall Net Operating Expense (Net OPEX). • Clear strategy within the annual business plan for both Acquisition and Administration expense management which ensures Net OPEX is in line with Lloyd's Market Message expectations. • Internal expense policy in place with appropriate thresholds and referral points, e.g. around travel and entertainment. • Recognition of how both Gross and Net Operational Expenses (Acquisition & Administration) impacts P&L. • Granularity of analysis evident down to individual Syndicate Class of Business level. • Quarterly data and MI in place to track position against expected and actions taken to remediate where required. • Administration Expenses are proportionate and are forecast in line with planned underwriting strategy / business to be written.	• Clear strategy for Net OPEX which reflects the fixed cost vs variable and link to GWP growth. To include cost saving initiatives within reasonable associated timeframes, where appropriate. • All aspects of OPEX (including dependencies on non-UW functions) are understood and considered as part of syndicate's underwriting strategy. • Ability to identify and validate any one-off investment costs which might impact the short-term P&L and demonstrate how P&L will benefit in mid-term. • Net OPEX identifiable down to SCOB Level. • Monthly data and MI in place to track position against expected and actions taken to remediate where required.	• Forward looking identification of potential expenses necessary to support strategic decision making. Proactive action taken to manage expenses over medium to longer term. • Ability to flex underwriting strategy in year to reflect any changes driven by adverse Net OPEX performance, e.g. higher than planned ORI cost, Open Market vs Binder growth not to plan.	• Clear strategy for identifying optimal time to invest, e.g. staff / systems. • 'What if' analysis which demonstrates the ability to understand trends on Net OPEX & subsequent impacts on P&L. This should be at both syndicate and market level. • Real time tracking in place to assess position of OPEX against expected with proactive measures adopted to address.

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UNDERWRITING PROFITABILITY

4 Manage and control expenses in order to ensure they are appropriate for the business written.

Foundational	Intermediate	Established	Advanced
• Clear itemised breakdown of Administration Expenses, both Fixed and Variable expenses. • Clear identification of any Managing Agent Profit Commission elements within the Administration expense costs. • Acquisition Costs are proportionate to the business written and Placement Method with a clearly documented strategy for the remuneration of brokers, third parties, coverholders and overseas levies though acquisition costs. • When delegating to third parties, costs charged are assessed as being commensurate with the work transferred and/or the services delivered. • Demonstrable understanding of how the portfolio mix can change Acquisition Costs, specifically between Open Market and Binders. • Demonstrable understanding of how ORI purchase can impact both the Net Acquisition cost through the receipt of ORI Commissions, and also how actual ORI expense will impact NWP.	• *See previous page*	• *See previous page*	• *See previous page*

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5 Have robust portfolio management in place in order to deliver the agreed business plan.

Foundational	Intermediate	Established	Advanced
• Portfolio Management Framework in place and supported by repeatable process to analyse portfolio mix and drivers of performance. • Quantitative analysis focused on strategic decisions within business planning process and quarterly business reporting. • Portfolio management framework is cascaded consistently and operates effectively across the business. • Success of actions taken are monitored at an appropriate frequency against expected performance. • Action plans are produced to remediate portfolio where required, e.g. Performance Improvement Plans and Whole Account remediation plans. • The progress and impact of any remediation plans are monitored with sufficient frequency. • Employee with responsibility for Portfolio Management is a senior, experienced individual with relevant skills and experience and clear mandate and authority to implement the Framework.	• Greater level of granularity to allow more specific identification of drivers of performance. • Results from the analysis informs all aspects of P&L management. • The outcomes from ongoing assessments of Framework effectiveness are cascaded to all relevant teams and the board where required. • Performance Improvement Processes are embedded and an integral part of Portfolio Management, allowing timely action to be taken. • There is an annual review of the Portfolio Management Framework with feedback and recommendations made to the board • Employee responsible for Portfolio Management is able to influence and implement portfolio management framework across all applicable areas.	• The framework identifies opportunities as well as issues within the portfolio. Once identified, issues and opportunities are understood, analysed and response implemented. • The framework is extended to include element of qualitative assessment to support quantitative assessment of KPIs. • The framework includes elements of research and development to conduct horizon scanning and understand emerging risks. • There is a robust framework in place which is able to readily adapt and change when testing a range of assumptions. The framework is supported by technology and analytical tools which themselves are reviewed and updated as appropriate. • Strong feedback loop in place with ability to change, amend and improve the process. • Portfolio management resource scaled to reflect size and complexity of portfolio. • Performance Management is driven by lead indicators provided regularly which highlight potential underperformance in advance of actual deterioration.	• Portfolio Management analysis is embedded into business decisions • Analysis is produced at a high level of granularity, and on a frequent basis, including analysis being undertaken at point of risk selection. • The framework includes comprehensive scenario modelling to test a range of assumptions, including consideration of the wider macroeconomic environment. • Sufficiently flexible to allow frequent analysis of effectiveness.

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UNDERWRITING PROFITABILITY

5 Have robust portfolio management in place in order to deliver the agreed business plan.

Foundational	Intermediate	Established	Advanced
• Action plans are produced to remediate portfolio where required. Can include but not limited to Performance Improvement Plans, Whole Account remediation plans. • The progress and impact of any remediation plans are monitored quarterly.	• The progress and impact of any remediation plans are monitored monthly. • There is an annual review of the Portfolio Management Framework with feedback and recommendations made to the board.	• Performance Management is driven by lead indicators provided regularly which highlight potential underperformance in advance of actual deterioration.	• *See previous page*

6 Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit.

Pricing coverage

Foundational	Intermediate	Established	Advanced
• There is a Technical Price for all lines, territories, and segments. • For a large proportion of risks Technical Price may be calculated at portfolio level and not individually modelled.	• There is a Technical Price for all lines, territories, and segments. • There is modelling of the material risks within segments and Technical Price may be calculated at portfolio level for a small proportion of risks.	• There is a Technical Price for all lines, territories, and segments. • There are models for a high portion of the total business.	• There is a Technical Price for all lines, territories, and segments. • Risks are always modelled where there is sufficient data and it is proportionate to do so. • Technical Price is consistently applied across all the business.

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6 **Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit.**

Claims Pricing Model Methodology

Foundational	Intermediate	Established	Advanced
• In setting price, attritional, large, and cat claims are allowed for. • There is limited consideration of heads of damage/perils. • Pricing is informed by some use of experience or exposure data (as applicable) and not only benchmarks / judgements. • There is limited justification of expert judgement in pricing model parametrisation focused only on the most material judgements. • For individual cases pricing decisions are captured but rationale captured for the most significant decisions only. • External data is not considered. • While consistency is considered in the management and approach to pricing models, it is not well demonstrated. • There is validation of selected pricing models: actual versus modelled, analysis using historical data, and/or benchmarking. • Peer reviews of risk models takes place but at high level or limited number of models.	• Attritional, large, and cat claims are explicitly allowed for in pricing. In setting price, consideration is given to the full distribution of expected losses. • Heads of damage /perils are modelled using separate approaches, but split is not explicitly shown to user in the rating model. • Experience or exposure-based pricing approaches are used. • Expert judgement used in pricing model parametrisation has well documented justification. • For individual cases, rationale is captured for all pricing decisions. • The use of external models and data is considered, but with limited own analysis. • Differences between pricing models are understood and acknowledged in the decision-making process, although there are siloed approaches to development.	• The relationship between pricing and planning views of attritional, large, and cat loss ratios is well understood. Consider ation is given to the full distribution of expected losses. • Modelling segmentation is split into granular perils allowing for appropriate techniques to model frequency and severity characteristics. Perils are explicitly shown to the user in the rating model. • Blends of experience and exposure approaches may be used as applicable. There is a range of sophisticated, granular modelling approaches. • There is an agreed expert judgement governance process in place around pricing model parameterisation. There is a good understanding of the material expert judgements and reasons behind these by relevant stakeholders. • Pricing decisions and rationales for individual cases are captured and analysed for common adjustments.	• The relationship between pricing and planning views of attritional, large, and cat loss ratios are well understood and there is a process in place to easily reconcile the two. The full distribution of expected losses is well understood. • There are appropriate sub-models for all perils and there are appropriate tools to combine perils into the final risk premium. Perils are explicitly shown to the user in the rating model. • The use of both experience and exposure approaches evolves with regular feedback over time. Model toolkit extensive and easily adaptable to data available: from basic ratios to machine learning. • The governance process ensures judgements are challenged, monitored against actual experience, and observations drive decision making in pricing models. • Pricing decisions on individual cases are well documented and feed into re-parameterisation of underlying model.

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6 Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit.

Claims Pricing Model Methodology

Foundational	Intermediate	Established	Advanced
• *See previous page*	• There is validation of all material pricing models: actual versus modelled, analysis using historical data, benchmarking, and/or scenario generated outcomes. There is some validation of extreme outcomes and the impact on the pricing model. Ad hoc comparison of prices and models to the market. • Peer reviews of all risk models take place.	• There is use of both internal and external data in pricing models. There is a process of critiquing third-party model outputs and data, with reference to own internal data and models and applicable expert judgement, to ensure fit for purpose. • Processes are in place to identify and address modelling inconsistencies across the business. Where inconsistencies are accepted, they are documented and understood. • Regularly scheduled validation reviews are conducted on all models, integrated with rating/return on capital reviews and incorporating underwriting input. As-if analysis and stress testing performed to understand pricing assumption sensitivity. Quote data is used for validation. • Peer reviews of all risk models are undertaken, and actions noted for future models.	• Critical internal and external data is incorporated directly into the pricing tool on a real-time basis, and technical pricing can be rapidly refreshed. There is active use of broader market data. • There is a regular validation cycle that verifies applicability of models. AI and machine-based learning tools are available to support model validation. Comprehensive assessment against the competitive landscape is performed using in depth quote analysis. • Peer reviews of risk models are undertaken and are timely enough for adjustment to be made to models as result of the current review.

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6 Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit.

Non-claims costs model methodology

Foundational	Intermediate	Established	Advanced
• There is allocation of loadings applied at the class level and the aggregate view reconciles to business planning. • The view of risk is incorporated into pricing at syndicate level, e.g. return on capital.	• There are explicit loadings for internal expenses, acquisition costs and reinsurance applied through attribution analysis. This is reconciled to the aggregate view to business planning. • The class of business view of risk is incorporated into pricing, e.g. return on capital.	• Full attribution allocation of loadings to classes taking account of underlying risk and expense at policy level. • The view of risk (e.g. return on capital) is allocated to policies taking into account underlying risk of similar policies. • Actual non-claim costs are monitored against business plan and pricing models recalibrated when required.	• Loadings calculated by cost area (for example internal expenses, acquisition costs and reinsurance) on a per policy basis. • The view of risk (e.g. return on capital) is allocated to policies taking into account underlying risk of similar policies and individual policy characteristics where appropriate. • Systems monitor costs associated with specific policy loadings (actual vs expected), which are tracked over time and enable associated models to be reviewed and updated.

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6 Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit.

	Foundational	Intermediate	Established	Advanced
Delegated Authority Pricing	• The syndicate understands the pricing approach, philosophy, and expected performance of any third-party arrangement ensuring this aligns to their pricing policy, risk appetite, and business plan before entering any delegated authority agreement. • All delegated authority contracts stipulate the appropriate granularity and frequency of performance and pricing information. • Actual performance, risk-adjusted rate change, and price adequacy is kept regularly under review with any material variances reflected in revised performance forecasts.	• The syndicate understands the pricing approach, philosophy, and expected performance of any third-party arrangement ensuring this aligns to their pricing policy, risk appetite, and business plan before entering any delegated authority agreement and this is reviewed periodically. • Pricing information is timely and accurate but requires manipulation before it can be used. • Actual performance, risk-adjusted rate change, and price adequacy is kept regularly under review. Changes are made to manage performance and address material variances.	• There is ongoing discussion between the syndicate and the DA/MGA around the pricing approach, philosophy, and expected performance ensuring continued alignment with pricing policy, risk appetite, and business plan. • Data feeds provide timely performance and pricing information that is accurate and easy to use. • Actual performance, risk-adjusted rate change, and price adequacy is kept regularly under review. Regular changes are made to manage performance and address variances. • Underlying risk-by-risk rate change and price adequacy can be tied to overall performance and linked to business plan.	• The syndicate has a high degree of control over delegation including understanding and ownership of pricing. Strong data feeds in place for monitoring and controls. Non-claims costs are part of this strategy. • Real-time data feeds provide timely performance data and the ability for ad hoc analysis. • There are strong feedback loops around actual performance, risk-adjusted rate change, and price adequacy to ensure performance is in line with expectations and non-DA portfolio. Rapid changes can be made to address adverse performance. • Underlying risk-by-risk rate change and price adequacy can be challenged to ensure calculation in line with syndicate expectations.
Calibration of Models	• Models reviewed and recalibration considered annually. • Annual alignment with new planning assumptions.	• Model is recalibrated at least annually, supported by actual versus expected monitoring and is updated with experience. • Annual alignment with new planning assumptions.	• There is an established feedback loop around pricing model development and assumption setting to ensure they are updated regularly to reflect the most recent relevant experience and business plan assumptions.	• The pricing model development cycle has dedicated ownership committed to regular updates/reviews. • The feedback loop for model development and recalibration is informed by different data sources, internal and third-party, and informed by horizon scanning. Underwriters and SMEs contribute to this feedback loop.

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6 Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit.

Price Adequacy and Rate Monitoring

Foundational	Intermediate	Established	Advanced

• There is a nominated director with responsibility for assessing and calculating the impact that pricing movements of all business (renewed, new, and non-renewed) may have on the syndicate loss ratios.
• The syndicate measures:
  • Price adequacy - the difference between the actual premium charged and the Benchmark and Technical Premiums
  • Renewal business pricing movements from the previous year in accordance with Lloyd's requirements (RARC)
• This covers all sources of business including open market and delegated business at regular intervals throughout the life of the contract.
• Calculation of rate changes, Benchmark Premium and Technical Premium may be a manual process.
	• Senior management regularly review the impact that pricing movements have on the syndicate loss ratios.
	• Price adequacy and rate movements are seen to be key metrics to understand the profitability of open market and delegated authority business written by the syndicate.
	• The impact of terms and conditions are included in the policy database in a structured manner.
	• Automation of calculation of rate changes and Benchmark and Technical premiums.
		• There is a regular process and structure to ensure the correct senior stakeholders review pricing MI, the impact on profitability and challenge the process.
		• The syndicate is actively managing its portfolio using rate movements and price adequacy as lead indicators.
		• There is an understanding of the impact of changing terms and conditions, which are incorporated in rate change calculations using judgement. This is well governed.
			• There is a regular process and structure to ensure the correct senior stakeholders have review pricing MI and the impact on profitability. This informs executive decisions on pricing strategy.
			• The syndicate is actively managing its portfolio using rate movements and price adequacy as lead indicators across all business written by the syndicate. There is visibility of pricing metrics at board level.
			• These measures are considered alongside on-levelling trends such as claims inflation and informed by insights from changes in business mix.
			• Robust studies are carried out regularly on underwriting judgement in order to ensure accuracy and consistency of pricing MI.

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6 Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit.

	Foundational	Intermediate	Established	Advanced
Technology and Systems Architecture	• Internal solutions are typically manual. There is no central design for technology and systems architecture. There is a siloed approach to managing tools. • There are security controls in place for tools and organisational data. • Understanding user experience is ad hoc and model changes are low priority.	• Solutions include a range of tools for the purposes of different stakeholders across different business functions. While there is central systems management, there is some overlap of functionality of tools created internally by different departments. • Well-established security controls are in place for tools and organisational data. • User experience is captured but systems development is ad hoc when resource is available.	• There is a well-documented technology design and strategy around data for pricing and performance management, with implemented solutions that significantly reduce or replace areas of manual processing. • There are strong security controls in place for tools and organisational data. • There are feedback loops, capturing user experience, to support the prioritisation of systems development.	• The syndicate considers advanced technology solutions to enhance their pricing and MI capabilities. • There are strong security controls in place for tools and organisational data. • Current and potential future systems requirements and the resultant priorities are well understood and delivered.
Data governance and processes	• Policies and procedures are in place covering data accuracy, appropriateness, and completeness. • Data owners are defined, and some data controls are in place to ensure accuracy and completeness. • All data procedures cover SII requirements. Data quality is, however, inconsistent. There are not consistent standards in place for database infrastructure and data storage. • Compliance monitoring is in place, but control issues are addressed on an ad hoc basis.	• Data policies, standards, and procedures are comprehensive and detailed. • Data quality tools and controls are in place. These are well governed, including oversight forums/committees, ongoing controls testing, and training to ensure correct implementation. • There is an understanding of the impacts of data quality issues on modelling and applications.	• Data considerations are comprehensively supported throughout the syndicate, including how to address data limitations across applications by each business function. • Data is managed closely, including a complete audit trail for data. Data quality is governed by both the business and IT. • There is regular data MI and built-in data validations. Regular audits of data accuracy are conducted.	• Comprehensive and proactive data processes are in place from slip input to analysis and across all business applications. This may be supported by an advanced data quality toolkit and real-time MI. • AI and machine-based learning tools are available to support data validation. • There is automated data MI and built-in data validations. There are automated processes to fix errors and improve data quality.

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6 Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit.

Data collection and storage

Foundational	Intermediate	Established	Advanced
• Standard data definitions are not always utilised. • Data collection is primarily manual in nature and may require re-entry into multiple systems. • Significant data cleansing is required before data can be used for modelling purposes. • Use of third-party data is limited in nature and it is challenging to map this data to internal data. • Unstructured data is not captured. • Quote data is not captured.	• Source data conforms to pre-defined templates and data definitions. There is an organisational data dictionary with consistent data definitions utilised across sources. • Some automated data collection and uploads in place. • Data requires some cleansing before it can be used for modelling purposes. • There is some use of third-party data at portfolio level (e.g. analytics). • Some unstructured data is captured. • Some quote data is captured.	• Source data conforms to pre-defined templates and data definitions. Joining multiple data sources is straight-forward. • There is granular and automated data capture with governance controls built in. • There are underwriting and claims processes in place that mitigate need for significant data cleansing before modelling. • There is investment in third-party data to better understand risk profiles at a granular level. • Unstructured data is captured and there is some capability to transform and use it. • Quote data is retained on system and there is some capability to use it.	• Multiple data sources are automatically reconciled (across internal and third-party sets). • There is, granular, automated, and rich data capture with strong governance controls built in. • Data cleansing is automated using machine learning tools and is done in real time. • There is investment in third-party data to better understand and price individual risks. • Integrated systems are in place to ingest unstructured data which is automatically linked into business tools. • Quote data is systematically retained and used.

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6 Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit.

Resourcing of Pricing Function

Foundational	Intermediate	Established	Advanced
• Staff have limited experience, or activities are performed by staff whose primary role is not pricing. • Resourcing is inadequate. • There is limited interaction between pricing and underwriting teams leading to a siloed approach to pricing. • There is limited pricing training support available.	• Team members major focus is pricing and they demonstrate a good understanding of relevant pricing techniques. • Resourcing is adequate to meet deadlines, but there may be insufficient resource for longer-term or strategic projects. • There is some ad hoc interaction between pricing and underwriting teams and a desire to share knowledge between teams. • There is training material available to support development of pricing skills.	• Pricing team/s include strong quantitative and data-oriented personnel. Dedicated model development resource in place for continuous model development. • Team is well resourced for existing and future projects, and there is a good mix of skills. There are clearly defined roles and responsibilities, and key person dependencies have been identified. • Mechanisms are in place to reduce team silos and to share knowledge between teams. • Internal and external training is available and actively used by the pricing team to keep skills up to date.	• The syndicate demonstrates investment in attracting, retaining, and continuously developing high quality pricing teams. • Team/s is/are sufficiently and effectively resourced to allow research and development as well as efficient day-to-day activities; key person risks are identified and mitigated, and succession planning is in place. • There is regular, structured communication between teams to share knowledge and reduce silos. • Team members take responsibility for their continued professional development with support from the syndicate.

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6 Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit.

Claims and Reserving

Foundational	Intermediate	Established	Advanced
• Pricing, underwriting, and reserving teams operate independently.	• Pricing and underwriting teams meet with claims and reserving teams to share knowledge and to contribute to the reserving process. • Pricing and underwriting consider reserving assumptions and output in pricing.	• Pricing and underwriting teams regularly feed technical pricing assumptions and underwriting knowledge to the reserving team for use within the reserving process. • Pricing and underwriting explicitly consider of reserving assumptions and output in pricing where appropriate. • Where there are different views between pricing, underwriting, and reserving the rationale is clear and documented.	• There is a collaborative approach between pricing, underwriting, and reserving teams in the reserving process around technical price assumptions and changes in written portfolio etc. • Pricing and underwriting teams actively engage with reserving to raise emerging issues and challenge assumptions. • Underwriters proactively use output from claims and reserving exercises to challenge pricing assumptions. • Where consensus cannot be reached, the rationale is clear and well documented. The impact of differences is well understood. A process exists to minimise these differences over time.

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6 Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit.

	Foundational	Intermediate	Established	Advanced
Other (Risk Transfer, Exposure Controls, Capital Modelling and allocation)	• Pricing operates independently from other technical modelling teams such as capital, reinsurance, and exposure management.	• Pricing and underwriting teams intermittently meet with other functions, for knowledge transfer and to support selection of assumptions in non-pricing models. • There is some consideration of reinsurance, exposure, and capital in pricing.	• Pricing and underwriting teams feeds technical pricing assumptions and underwriting knowledge to other teams for use in their modelling processes. • Pricing and underwriting teams make explicit considerations for reinsurance, exposure, and capital in pricing decisions. • Where there are different views between pricing, underwriting and other teams, the rationale is clear and documented.	• Pricing and underwriting teams actively engage other modelling teams to raise emerging issues and challenge assumptions used by other teams. • Underwriters proactively use output from capital, exposure, and reinsurance exercises to challenge pricing assumptions. Underwriters understand capital intensity of business written. • Where consensus on assumptions between pricing, underwriting and other teams cannot be reached, the rationale is clear and documented. The impact of differences is well understood. A process exists to minimise these differences over time.
Pricing Training	• Training needs are not well defined. Communication around pricing is limited.	• Generic training is offered to all relevant staff covering the pricing policy and technical pricing.	• There is on-demand pricing training for all relevant employees, tailored by role level, leading to a strong understanding across the syndicate.	• Pricing training forms a part of annual pricing development cycle. Gaps are identified and training is well supported.

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UNDERWRITING PROFITABILITY

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

Foundational	Intermediate	Established	Advanced
• Underwriting governance framework is in place with reporting lines and committee framework defined. • Governance framework ensures regular internal audit, peer review, and independent peer review takes place, supported by effective systems and controls. • Results of reviews include clear recommendations reported to senior management, and escalated to the board where relevant. • Scope and output of peer reviews, and independent peer reviews is consistent and covers representative share of risks underwritten • Governance and change control procedures relating to underwriting strategy, risk appetite and pricing models are in place. • Underwriting decision making including the underwriting strategy, business planning and KPI monitoring processes engages all key stakeholders (including reinsurance, exposure management, claims, reserving and capital). • Within the governance framework, underwriters are actively held to account for their decision making.	• Governance and change control procedures include decision on whether review of individual pricing models and underwriting guides are required. • Senior management understand the underwriting approach and its limitations and can challenge key decisions. • All classes of business are covered within the review framework. There are demonstrable actions to address review findings within a reasonable timescale.	• The board and senior management have established a culture of accountability at all levels of the syndicate, including clear risk and control expectations and a no blame culture for reporting underwriting issues . This is linked to performance appraisals. • Underwriting committees have comprehensive and forward-looking coverage, and upwards reporting needs well defined. • Performance management utilises strong feedback loops between the wider functions that incorporates latest analysis and improves consistency.	• The board and senior management challenge and actively promote the development of underwriting practices (incl. the underwriting and pricing frameworks), and their consistent use by underwriters. • Expectations on risks and controls, including the impact on everyday behaviours around underwriting decisions, are clear and consistent across the syndicate. Staff have clearly defined avenue to express concerns upwards. • There is a cycle of targeted deep-dive reviews taking place, with regular follow-up of all relevant findings to ensure recommendations and improvement points are adopted.

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UNDERWRITING PROFITABILITY

8 Have processes in place to support decision making in relation to ESG integration into underwriting.

Foundational	Intermediate	Established	Advanced
• Board approved ESG Strategy covers approach to sustainable underwriting. • ESG Strategy focuses on the most material areas of sustainable underwriting operations and how ESG can be integrated into these areas. • Underwriting Governance Framework is aligned with broader ESG governance. • Data requirements needed to aid decision making have been identified and efforts are underway to gather the necessary data to understand, monitor and report on ESG exposures.	• Board approved ESG Strategy and approach to sustainable underwriting is cascaded throughout the managing agent through ESG targets. • Analysis of existing portfolios carried out to identify incumbent exposures/client relationships that may not be supportable going forward based on syndicates' ESG Strategy.	• Board approved ESG strategy fully embedded and aligned with overall underwriting strategy, annual business plan process and risk appetites. • Additional qualitative ESG considerations are included as part of business planning. • Full awareness of which exposures in existing portfolio are not aligned with syndicates' sustainable insurances framework; either elected to non-renew or are working with the insured and supporting their transition.	• Additional focus on ESG and product innovation through new business. • Written guidance is provided articulating ESG approach alongside any delegated authority. • Protocol for examining data through established systems. • Granularity of data used is appropriate for the needs and business profile. • Pricing underwriting systems in place to review whether assumptions / data are appropriate from a sustainability perspective. • Policyholder engagement strategy established. • Work underway to develop credible transition plans with policyholders which pose the most material ESG risks based on syndicates' ESG strategy.

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Catastrophe Exposure

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Principle 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.

CATASTROPHE EXPOSURE

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

Risk Appetites

Foundational	Intermediate	Established	Advanced
• 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	• 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.	• 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.	• 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.

2 Employ data standards, risk quantification tools, controls, expertise, and reporting frameworks which are appropriate to their risk profile.

Data and Tools

Foundational	Intermediate	Established	Advanced
• Policies and procedures cover all aspects of data standards. Data owners are defined, and controls are in place. • Appropriate data is captured and used in exposure management activities.	• Data quality tools and controls are in place. The impact of data quality on modelling is understood. • Functions use consistent tools and data.	• Data considerations and limitations are comprehensively understood across business functions. • There is a well documented technology architecture design and strategy, and limited manual processing.	• Comprehensive and proactive data processes are in place across business applications • Advanced technology solutions for modelling, data and MI are considered. • Frequent review and improvement of data and tools.

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CATASTROPHE EXPOSURE

2 **Employ data standards, risk quantification tools, controls, expertise, and reporting frameworks which are appropriate to their risk profile.**

	Foundational	Intermediate	Established	Advanced
Exposure Monitoring and Reporting	• Procedures for risk recording, loss estimation, exposure controls and limits monitoring are clearly documented • Exposure is measured against limits on a regular basis • Simple, high-level reporting in place • Stress and scenario tests conducted in accordance with Solvency II requirements, including consideration of Lloyd's RDSs. • Regulators are informed in advance of issues or missed deadlines.	• Well defined monitoring framework, with exposure controls linked to risk appetite and underwriting. • Appropriate regular internal reporting consistent with the risk appetite framework. • External reporting is efficient, timely and accurate with some internal review applied. • Additional stress and scenario tests (beyond Solvency II requirements) design ed around defined risk appetites.	• Defined governance around the identification, escalation and response to risk appetite breaches. • Regular, granular, comprehensive, timely and well-governed reporting. • Clear consideration of data and modelling uncertainties. • Stress and scenario tests reflect risk appetites and own view of risk. Implication of results well understood and acted upon. Set of SSTs regularly reviewed.	• Controls (including stress and scenario tests) are forward-looking and consider risk budgets, a comprehensive view of perils covered as well as emerging risks. • Real time internal reporting, which is interactive and may include alternative views or methodologies and future projections. • Stress and scenario tests incorporate input from other business functions and senior management, promoting appropriate exposure management across the business.
Resourcing	• Staff responsible for exposure management have sufficient experience to perform their role. • Resourcing is adequate to meet regulatory deadlines. • Where operations are outsourced, responsibility for understanding the risk remains with the managing agent.	• Staff responsible for exposure management demons trate good understanding of models and their limitations; external resource is available to support longer-term or strategic projects where required	• Staff responsible for exposure management are well resourced for existing and some future projects, and there is a wide mix of skills. Key person dependencies have been identified.	• Staff responsible for exposure management are sufficiently and effectively resourced to allow research and development as well as efficient day-to-day activities; key person risks are mitigated, and succession planning considered such that changes in staffing do not impact delivery.

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CATASTROPHE EXPOSURE

3 **Adequately justify and validate methodology and assumptions, including expert judgements.**

	Foundational	Intermediate	Established	Advanced
Model methodology	• View of risk based on simple actuarial methods, or derived from an external model with high-level internal validation and/or adjustment. • If the view of risk is determined by another entity within the group, applicability to the syndicate is understood and challenged appropriately. • Where used, material expert judgement is documented and governed in accordance with SII standards, including the consideration of falsification criteria.	• Where view of risk is external model-driven, it is additionally informed by some analysis of syndicate risk profile and loss history. • Expert judgements are reviewed at an appropriate frequency and a wide range of suitable experts are consulted.	• View of risk informed by comprehensive analysis of own portfolio, and assumptions and methodology are well-understood. View of risk develops with loss experience and emerging market and portfolio issues. • Use of expert judgement is comprehensively governed, with appropriate justification and challenge. There is a clear understanding by model users of where expert judgement is relied upon.	• View of risk develops continuously, with a programme of work linked to material model limitations, emerging issues and new research. • Expert judgements are regularly assessed for accuracy and appropriateness, considering sensitivity tests, past accuracy and forward-looking issues. Expert judgements are focus areas for future modelling improvements.
Model Validation	• Validation of external model(s) is conducted as required under SII standards and requirements • Model validation process is clearly documented	• The use of alternative models and assumptions is regularly considered, and model choice decisions are demonstrably validated.	• Programme of model change frequently updated, driven by validation work, and material progress made. Areas of uncertainty and sensitivities of the model(s) used are well understood.	• Feedback from validation is linked back to other parts of business such as pricing/reserving/risk management to help with decision making

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CATASTROPHE EXPOSURE

4 **Have a complete representation of catastrophe risk in the internal model, reflecting all possible sources of loss and allowing effective use by wider business functions.**

	Foundational	Intermediate	Established	Advanced
Model completeness	• Representation of catastrophe risk in the internal model is materially complete. • Definition of 'materiality' is clearly articulated • Methodology and assumptions meet Solvency II standards. • View of catastrophe risk reflects current (and near-future, appropriate to the period of risk underwritten) climate conditions	• Modelling of catastrophe risk in the internal model is materially complete. Adjustments or supplemental modelling are applied for key perils, with simpler approaches in other instances. Approaches are documented. • Frequent review of appropriateness of methodologies, with resulting development	• Modelling or adjustment takes place using exposure management data for all key perils to address internal model completeness, supported by robust justification (including of materiality). • Capital implications considered in decision-making. Impacts of alternative representations of catastrophe risk are modelled before changes are made.	• Comprehensive, forward-looking process to address data and internal model completeness. • Regular review of modelled perils considering changing risk profile, emerging risks and developing issues. • Longer-term changes to the risk landscape (including climate-related) are considered
Model change	• Exposure management and catastrophe model change managed through general internal model change process.	• Specific exposure management and catastrophe model change processes feed into and complement the wider internal model change process. • Model changes, timelines, and effects are communicated ahead of release.	• Exposure management and catastrophe model changes and their impacts are comprehensively documented and discussed in a timely manner with underwriters and management. • View of Risk is considered across the business before making decisions.	• Holistic view of impact of model change on different areas. Any decisions that are made that could be impacted are reasoned with a detailed understanding of the potential impacts, the uncertainty of the changes and the limitations of any associated calculations.

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CATASTROPHE EXPOSURE

4 **Have a complete representation of catastrophe risk in the internal model, reflecting all possible sources of loss and allowing effective use by wider business functions.**

Model use and capital modelling

Foundational	Intermediate	Established	Advanced
• Simple modelled output is used in various ways across the business • Any differences between business models are understood and acknowledged. • Catastrophe risk portfolio management reflects strategic decisions. • Risk transfer decisions made with reference to impact on catastrophe risk appetite • Capital re-assessed when required. • Simple event-response plan in place, including exposure analysis	• Catastrophe risk analysed pre-underwriting for all material exposures and underwriters have a basic understanding of model uncertainty. • Detailed catastrophe model outputs available across business functions and on an ad hoc basis. • Catastrophe risk portfolio management informs underwriting, risk appetites, capital allocation and reinsurance purchase. • Internal model results are reviewed regularly and always when there are changes in risk profile. • Event-response loss estimates consider model limitations and are compared to view of risk.	• Comprehensive catastrophe risk analysis integrated with underwriting; underwriters feed back their own views and/or commercial factors. • Senior management actively use exposure management output to facilitate portfolio optimisation. • Culture of considering catastrophe risk before making any decisions. • Processes in place to identify and address inconsistencies across the business. • Active feedback loops between exposure management, risk appetite and reinsurance strategy. • Event response plan integrates claims, underwriting and exposure management. • Lessons learnt implemented within view of risk • View of risk is consistent and well-integrated; feedback loops apply across all areas and use cases.	• Event-response considers uncertainties and a range of outcomes. • Catastrophe models are back-tested against claims; feedback loops extend to other perils, regions or coverages. • Detailed, consistent exposure management and catastrophe modelling facilitates all aspects of risk selection, portfolio optimisation, capital setting and business planning. • Capital implications of catastrophe risk are widely understood and can be modelled ad-hoc and expediently, supporting integration with other applications. • Catastrophe risk within the internal model reacts on a forward-looking basis to changes in underwriting strategy.

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CATASTROPHE EXPOSURE

5 Have robust governance and oversight of risk aggregations.

Foundational	Intermediate	Established	Advanced
• There is an established risk framework, which includes catastrophe risk and exposure management. • Board and senior management regularly discuss material issues. • High-level independent and internal review occurs. • Exposures and model output are regularly reviewed against Lloyd's thresholds and Lloyd's approval is sought for any actual or foreseeable exceedances.	• There is an established and specific exposure management framework, with reporting to senior management and the board. • Regular reviews are supported by second or third line. Results of reviews include clear suggested changes.	• Senior management and board demonstrably understand the model and its limitations, providing challenge when making key decisions. Exposure management committ ees meet regularly, have comprehensive coverage of regions perils and relevant lines of business. • Reporting is high quality and regular committees include forward-looking considerations. • Reviews are risk-focused and supported by strong independent review from the second and third line, and suggested actions are completed in a timely manner.	• The modelled view of risk is widely used in senior management and board decision-making. Senior management and the board understands, challenges, and actively promotes the development of the view and management of catastrophe risk. • The development of exposure management and the view of risk is actively promoted. • There is a cycle of targeted, forward looking, deep-dive reviews, with regular follow-ups of relevant findings to ensure recommendations and improvement points are adopted.

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Outwards Reinsurance

To follow in January – revisions underway to accommodate feedback received from the LMA working group

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Claims Management

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Principle 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.

CLAIMS MANAGEMENT

1 Claims related information and knowledge is available and used pre-emptively in business planning and wider syndicate performance management.

Foundational	Intermediate	Established	Advanced
• Managing agents can demonstrate how the claims function ("Claims") supports syndicate performance/ preparation and delivery of the syndicate business plan.	• The syndicate business plan is carefully assessed to determine the impact on Claims, including consideration of resourcing requirements and the impact on processes and systems. • Claims planning is synchronised to the syndicate business plan with clear associated objectives and targets, and with detail of how claims may contribute to overall syndicate performance.	• Claims management is fully embedded within all layers of management activity and the involvement of the claims function in the business planning process and syndicate perform ance is proactively sought, formalised and appropriately governed . • Regular review of progress against business plan(s) is conducted with the claims function and suitable claims related remedial actions are taken swiftly where necessary.	• *No incremental guidance*

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CLAIMS MANAGEMENT

2 The claims environment and infrastructure enables effective servicing at an appropriate level of sophistication, through the retention of adequately and suitably skilled resource, underpinned by a strong claims culture and continuous education.

Foundational	Intermediate	Established	Advanced
• A simple resource model is established which supports delivery of the claims commitment and considers resource and skills. A review of the model is completed periodically. Provision is made for adequate contingency, surge and succession planning as appropriate for the portfolio composition. • Adequate training to allow claims handlers to fulfil their responsibilities which will include mandatory training on relevant laws, regulations and market protocols. • Identification and simple manual segmentation and routing of claims is in place (e.g. by complexity, class of business) and is supported by associated basic management reporting.	• A developed resource model is in place and regularly measured and monitored. The model assesses actual vs planned resource and makes adequate provision for servicing all aspects of the claims function, which may include non-core claims handling activities. • Training and development is reviewed and assessed on a regular basis which includes gap analysis to identify and address training and development needs. • Identification and routing of claims based on a defined segmentation model, with workflow and associated management reporting.	• A dynamic resource model is informed by in-depth analysis, and suitably stress-tested. The model facilitates planning using both historical information and trending analysis to forecast for anticipated resource needs – mitigating against potential volatility. • Training and development pro gramme is continually assessed and delivered to ensure handlers have the requisite skillsets and behaviours to deliver against the claims commitment. • Refined workflow model facilitates the streamlined handli ng/management of claims and related tasks to ensure the task is being handled by the right person, in the right place at the right time.	• *No incremental guidance*

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CLAIMS MANAGEMENT

3 Claims are handled efficiently and effectively, ensuring active claims and lifecycle management remains appropriate combined with a framework designed to facilitate continuous improvement.

Foundational	Intermediate	Established	Advanced
• A framework covering processes, procedures and controls to support delivery of an effective and appropriately customer focused claims service. • Core documented processes and procedures are revisited periodically, with adherence to procedures monitored using exception reporting. A level of quality assurance programme (e.g. peer review and claims audit) is in place to provide qualitative oversight. • Documented processes address Lloyd's Claims Scheme, local regulatory requirements and market protocols as appropriate for the composition of the portfolio. • Claims processes, controls and tools are appropriate for the portfolio composition, and may be manual.	• Processes, procedures and controls support lifecycle claims management. • There is regular assessment of end-to-end processes, procedures and controls to help identify opportunities for improvement in claims service. • A wider level of quality assurance programme is in place to provide qualitative oversight including adherence to the Lloyd's Claims Scheme.	• Processes, procedures and controls advance policyholder experience, shorten claims lifecycle and/or manage operational costs. • Reporting output is monitored for meaningful insights into opportunities for improving the claims service. • Target driven claims lifecycle oversight with a clear focus on ensuring meaningful touchpoints of a claim to deliver against the claims commitment.	• *No incremental guidance*

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CLAIMS MANAGEMENT

4 Delivery of accurate and timely case reserving through robust reserving processes and practices.

Foundational	Intermediate	Established	Advanced
• A case reserving philosophy and supporting case reserving procedures are in place, outlining broad expectations around reserve timeliness and accuracy. • Case reserving data provides insights into the accuracy and timeliness of reserves at an aggregate level. • Systems and controls in place to monitor large losses, use of additional case level reserves (i.e. IBNR and IBNER) and adherence to authority levels. On lead claims, followers are advised of relevant reserve information on a timely basis. • Regular communicati on between underwriters, actuarie s and claims occurs to identify case reserving risks, with mitigating actions implemented effectively.	• Case reserves are proactively managed with regular assessment of their appropriateness through informative case reserve measures and a quality assurance programme. • Case reserving rationale which adheres to the case reserving philosophy is clearly ascertainable on claims files. • Controls extend to include a claims watchlist which is maintained and regularly monitored and shared for large claims and other claims of interest.	• Detailed case reserving measures are utilised and monitored including accuracy, timeliness and consistency (supported by a comprehensive qualitative programme) and are overseen by relevant committees. • These allow for targeted insights into trends, themes, benchmarking and systemic issues which are shared within the business on a cross functional basis with appropriate action taken.	• A relevant global view of reserving trends and themes is sought and utilised, through available external and relevant industry data.

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CLAIMS MANAGEMENT

5 Claims management through third-party service providers and third-party experts delivers the claims commitment and supports syndicate performance.

Foundational	Intermediate	Established	Advanced
• Third-party service providers (e.g. third parties handling claims on behalf of the managing agent) and third-party experts are only used where this aligns to the managing agent outsourcing strategy, with documented rationale. The outsourcing strategy is informed by the wider business strategy and is kept under review. • Claims are involved appropriately in the due diligence (pre-placement), the agreement of contract terms and service standards, performance oversight against service expectations as well as remediation, regular audit and termination decisions. • Key claims expectations around the appointment and management of experts are documented and understood by impacted parties. Composition of the expert panel is aligned to the business needs and regularly reviewed.	• Robust oversight framework monitoring of third-party service providers' performance against clear and agreed service levels, with timely actions taken. • Effective audit programme utilised to monitor quality of service delivered (and any actions identified quickly remediated). • Experts' performance against expectations and budget is actively monitored with swift action taken where expectations are not met.	• A clear and considered outsourcing appetite and strategy which sets out the quality required of any assigned third-party service providers and experts. • Detailed management information reporting from third-party service providers allows regular assessment of performance against agreed service levels and utilises comprehensive KPIs and qualitative insights. Evidence of swift and proactive performance intervention if required. • Regular reporting on third-party service provider costs and legal costs with regular assessment and reporting of relative value delivered by third-party service providers and third-party experts.	• Evidence of a clear culture where third-party service providers and experts are considered and treated as an extension of the claims function; with the providers mirroring the claims commitment of the business, with commensurate onboarding and oversight processes.

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CLAIMS MANAGEMENT

6 Claims performance, customer experience and opportunities for improvement are regularly assessed using both data and qualitative assessment.

Foundational	Intermediate	Established	Advanced
• Performance assessment and identification of improvement opportunities is based on high-level data points and qualitative insights. • High-level monitoring measures applied to third-party service providers typically focus on volumes and values of claims and incurred development. • Performance assessment and outcomes are measured quarterly with resulting actions taken within the Claims function.	• Wider data points and more detailed qualitative insights are used for performance assessment and identification of improvement opportunities. • Third-party measures extend to include a base line set of performance oriented metrics and qualitative insights linked to clear and agreed service levels. • Outcomes from performance assessment are distributed via feedback loops that exist within the business with appropriate action taken.	• Comprehensive resources are used for performance assessment and identification of improvement opportunities utilising access to extensive data points and deep qualitative insights. • Measures applied to third-party providers include comprehensive KPIs and qualitative insights. • Performance is measured at least every thirty days via a clear programme consisting of regular, structured and demonstrable feedback loops with all relevant disciplines (including product development) and clear ownership exists within the business at management level to implement the required actions both for continuous improvement opportunities and addressing outlying performance.	• External sources of feedback and insights are used to inform targeted and measured improvement strategies. • A direct connection exists between the claims commitment of the business and the KPIs and qualitative insights utilised to measure performance both within the business and assigned third-party service providers. • Evidence of a clear culture that supports and drives continuous improvement from assessment and outcomes with a frequent review and application of learnings by executive leadership to help drive business decisions.

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Customer Outcomes

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Principle 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.

CUSTOMER OUTCOMES

1 Ensure the conduct culture set by the board promotes good customer outcomes throughout the product lifecycle and supports the protection of Lloyd's brand, reputation and regulatory standing worldwide.

Foundational	Intermediate	Advanced
• Members of the board demonstrate their commitment to the defined conduct culture through their decision taking, and this is also promoted in appropriate presentations and communications both internally and with third parties. • There is strong customer challenge in connection with business planning and strategy. • Suitable information is made available to the board to enable them to assess whether the conduct culture is embedded throughout the business.	• *No incremental guidance*	• *No incremental guidance*

CUSTOMER OUTCOMES

2 Design and oversee products through suitable governance structures that meet the expectations of the target market.

Foundational	Intermediate	Advanced
• All products and services are overseen through a suitable governance structure which facilitates appropriate levels of review and reporting. • Product and service design/assessment is driven by the underwriting of larger commercial risks using and/or based around standard market wordings.	The oversight and design / assessment of a product and / or services follows an established, structured process which ensures that the product/services provide good customer outcomes. Where products/services are delivered to consumers, micro enterprises and/or SMEs, procedures are suitably designed and include adequate levels of customer challenge. Generally, this will be through a product oversight group. Oversight of products/services provides challenge, covering but not limited to assessment of; • fair value • the target market • product wording (easily understood and suitable for the target market) • the pricing structure including rates and associated distribution charges • the suitability of entities in the distribution chain • sales process • posts sales services • the end-to-end customer journey.	• Product/service oversight is achieved through a formal Product Oversight Group (POG) with responsibilities assigned by and reporting to the board. All appropriate business areas are represented, with suitably broad responsibilities and authority. • Thorough and robust customer challenge is consistently demonstrated which may include for example more regular review of detailed MI by the board and a culture of continuous improvement is supported.

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CUSTOMER OUTCOMES

3 Ensure there are no barriers to easily accessing clear and fair sales and post sales services.

Foundational	Intermediate	Advanced
• Processes are in place to ensure that all customers and distributors receive information at the right time.	Sales and post sales services are overseen through an established, structured process which ensures that: • the product and services provide good customer outcomes • sales and post sales processes are suitable for the target market • products are only sold to the target market • clear and understandable appropriate information is provided to policyholders in a timely fashion • marketing and financial promotions are clear, fair and not misleading • incentivised selling schemes are suitably controlled (e.g. incentives should promote quality/customer value not volume)	• *No incremental guidance*

4 Deliver fair and prompt claims and complaints handling services in line with a clear servicing commitment.

Foundational	Intermediate	Advanced
• There are no barriers to making a claim or complaint. Claims and complaints handling services are delivered in line with a clear servicing commitment.	• Claims services are suitable for the product and the target market, promoting good customer outcomes at all times. • Progress updates on claims and/or complaints are readily provided to appropriate parties. • Complaints are handled in accordance with Lloyd's complaints handling rules and requirements.	• *No incremental guidance*

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CUSTOMER OUTCOMES

5 Engage, manage and oversee third-party service providers in accordance with the outsourcing strategy and the standard of service set by the managing agent

Foundational	Intermediate	Advanced
• Processes are in place to ensure that appropriate due diligence is completed and performance is suitably monitored. • Terms of delegation and applicable service standards, reporting and audit obligations and termination provisions are established and clearly communicated to third-party service providers.	• Pre-engagement assessments used to establish that third-party service providers have the capabilities to sell and service the specific products to the identified target market and to meet the service standards expected both in relation to operational performance and customer outcomes. • Suitable quality control programmes are in place to ensure that product and service specific goals and performance targets for operational and qualitative outcomes are met.	• Frequent engagement with third-party service providers to, for example, share information and provide training to improve services and ensure more consistent decision making.

6 Ensure regular and robust oversight of customer outcomes is achieved, using data and qualitative assessment

Foundational	Intermediate	Advanced
• Regular qualitative and quantitative MI and insights relating to products and services are available to the business and used to inform customer focused business decisions. • A risk-based approach should be adopted to the frequency and scope of audits of third-party service providers. • There is an effective conduct training programme in place. • Underperformance is escalated through established channels and corrective action is taken in a timely manner.	• Regular monitoring of qualitative and quantitative sales and post sales, claims and complaints MI is conducted covering the end to end product lifecycle. This includes analysis of the performance of products/services whether provided in house or by third-party service providers with a particular focus on customer outcomes. • Effective feedback loops are used to inform relevant areas of the business and to ensure that improvements are made to products and services where appropriate. • For high product risk business audits should generally be conducted on a least an annual basis. • Conduct training is tailored to the specific requirements of the individual's role.	• Quality assurance programme is in place to facilitate process improvement at all stages of the product lifecycle. • Managing agents are able to analyse MI in a sophisticated way including being able to drill down into specific activities, third party service providers, products, services and/or risks. • Focused external audits to ensure independent challenge of processes.

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Reserving

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Principle 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.

RESERVING

1 Have clear governance and ownership of the reserves.

Governance

Foundational	Intermediate	Established	Advanced
• Roles and responsibilities in reserving process are defined with sufficient time built into process for senior review and challenge. • Documentation of approach exists, is up to date and covers all material aspects. • Recommendations from the actuarial function are clearly presented, enabling the board to prioritise the recommendations under consideration of other organisational needs.	• There is a clear review framework for setting reserves with owners of each review stage highlighted at each stage of the process and sufficient time allocated for review. • Key assumptions and methodology are well documented and there is evidence of challenge from internal review. • Documentation of approach covers all aspects and is clearly signposted.	• The owners of each stage of the process are regularly reviewed to ensure sufficient subject matter expertise and challenge is being provided. • Review time with key stakeholders including those outside of the reserving function is set in advance with sufficient time to allow for feedback loops. • Review of previous challenges is considered as part of the next reserve setting process. • Comprehensive documentation exists for key assumptions, selections and responses to review points.	• There is discussion of reserve estimates with senior stakeholders prior to (and post) committee meetings. • Documentation is well structured, intuitive and easy to follow. Key actuarial judgements are justified appropriately and there is clear signposting of material considerations, review points and subsequent actions.

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RESERVING

1 Have clear governance and ownership of the reserves.

Ownership of reserves

Foundational	Intermediate	Established	Advanced
• There is ownership of reserves by the board for financial accounting and solvency. • The board takes direct action given movements in historical reserves, in particular seeking assurance on reserve adequacy following any material movements. Where appropriate this extends to lessons learned and changes to the reserving process and governance. • The board and other functions use reserving estimates to assist with strategic business decisions.	• Timely and decisive action is taken by the board in response to concerns raised about the adequacy of reserves or allowing for potential uncertainty.	• Actions taken by the board are sufficient in depth to prevent similar issues from reoccurrence. • Decisive action is taken or planned by the board to help maintain a level of reserve strength in line with the syndicate's risk appetite.	• The board demands cross functional deep dives on areas of concern prompted by material movements or significant uncertainties. • There are well defined feedback loops to allow for findings raised as part of ownership of reserves being applied more broadly to drive improvements in other business functions.

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RESERVING

1 Have clear governance and ownership of the reserves.

Board challenge

Foundational	Intermediate	Established	Advanced
• The board understands reasoning behind level of reserves set, drivers of deteriorations/ reserve releases and key uncertainties including linkages between reserving and other parts of the business. • There is appropriate challenge on the appropriateness of the reserves set. • There is good understanding of the methodology and assumptions in the technical teams. • Training is provided to the board to understand regulatory requirements and requests are raised for training where there is an identified need. • The board understands the material uncertainties and potential impact on reserves. • Where there are material differences between the internal and external estimates these are understood and changes in view are considered.	• The board has a wide range of experience and is able to understand technical concepts presented to them. • The board is able to provide strong challenge on information presented in committees which improves reserve adequacy and considers relevant historical and external information. • The board is adept in picking up on emerging issues. The board understands how these impact the uncertainty of the reserves and how these have been allowed for in the reserve setting process. • The board engages a third-party (external or internal) to independently review the reserve estimates. • Where there are material differences between the internal and external estimates, NEDs consider if a further conversation with the external provider is required.	• The board has a clear understanding of the reserving process, key actuarial techniques and market issues. Limitations are understood and targeted challenge is provided on assumptions, methodology and overall results to help make key decisions. • The board is proactive in requesting additional information or exhibits to help their understanding. • The board is able to provide additional insight based on wider views of the business and the market. • The board understand the less material uncertainties and potential impact on reserves.	• Pre-committee challenge is clearly documented and any material changes are highlighted to the main committee. • The board is able to provide guidance on future deep dive exercises to help improve the reserve setting process or better understand potential uncertainty. • Training is proactively requested and provided to ensure the board can provide effective challenge on a broad range of risks including both emerging and less material risks. • NEDs undertake closed conversations/sessions with internal actuaries.

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RESERVING

1 Have clear governance and ownership of the reserves.

Reporting

Foundational	Intermediate	Established	Advanced
• Committees are scheduled regularly with an appropriate mix of attendees to ensure sufficiently senior oversight and technical experience. • Reporting to the board on reserving is accurate and provided regularly; accompanied by analysis which includes some discussion in broad terms of emerging experience, key assumptions, uncertainties and market conditions; and includes relevant external information.	• Reporting is efficient and key metrics are reviewed regularly and adapted in line with feedback to ensure sufficient coverage and insight. • Quality of management information enables issues to be identified quickly.	• Reporting to the board includes sufficiently detailed, appropriate and tailored information on emerging experience, key assumptions, uncertainties, market conditions and external information, in order for key messages to be highlighted effectively and facilitate board challenge.	• Advanced visualisation techniques are used to highlight key messages to the board and focus attention on most material issues as well as allow flexibility for the board to understand more of the detailed results. • Board information includes how analysis has been impacted by key metrics from other functions.

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RESERVING

2 Make appropriate allowance for uncertainties when setting reserves.

Uncertainties

Foundational	Intermediate	Established	Advanced
• Actuarial Function produce a reasoned analysis on the reliability and adequacy of the calculation of the Technical Provisions (TPs) and on the sources and degree of uncertainty in the TPs. This includes parameter uncertainty and process uncertainty. • Explanation is provided as to why actual results may differ from point estimates. This will include market conditions, general uncertainties as well as specific class uncertainties. • The drivers of difference between syndicate view of reserves and Statement of Actuarial Opinion (SAO) actuary/external view are clearly understood by the Actuarial team with material drivers communicated to the board. • Distribution analysis is carried out at appropriately regular intervals and is used to understand the shape of the reserve distribution and what percentiles the held and best estimate reserves sit at.	• A range of reasonable best estimates or additional high and low point estimates are produced at appropriate intervals with high level discussion of this analysis between the board and the actuarial function. • The calculation of the range of estimates considers the most material uncertainties. • The syndicate's held and best estimate reserve relative to the range is clearly communicated to the board as well as what any 'high' and 'low' estimate represents in percentile terms. • Additional distribution analysis is carried out after predefined triggers are activated (such as after a shock event).	• Detailed analysis is performed to understand a wide range of uncertainties and where material, distribution analysis is used to give context around this. • Key expert judgements used in setting the range are clearly documented and justified. • Input from other functions is used to help determine relevant uncertainty analysis, e.g. claims team view on potential downside on existing claims or insights from any watchlist analysis. • The board understands limitations in the approach to setting the range and which scenarios are not captured within the range. • Operational uncertainties within reserving process are set out with additional focus placed on those which could cause systemic process risk across reserve classes.	• Processes are in place to identify future potential risks and analysis is performed to understand and quantify exposure to these risks. A view of the likelihood and severity of these risks are formed and this is used to help feed into uncertainty analysis. • Progressive techniques (such as machine learning) are considered to efficiently analyse data and provide a deeper understanding of key risks that should be incorporated into uncertainty analysis.

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RESERVING

3 Use assumptions to set reserves which are realistic, transparent and consider historical experience.

	Foundational	Intermediate	Established	Advanced
Assumption setting	• Assumptions are clearly documented and justified with consideration to historical experience. • Assumptions are realistic and do not rely solely on pricing analysis / planning. • Validation is performed where assumptions are not derived from own data. • Where selected assumptions deviate from what is implied by historical experience, this is clearly justified.	• Experience analysis or comparison to benchmarks is used to help understand if assumptions are reasonable. • Deep dives are scheduled in advance and consist of mixed discipline teams. • Sensitivity testing is performed on key assumptions with clear documentation on materiality of assumption on reserves and validation for point estimate selection. • Reserving team is able to categorise/ rank assumptions used relative to materiality of impact to the technical provisions calculation.	• A range of factors are considered when setting assumptions including historical experience, emerging experience compared to expectations, market benchmarks, pricing information and external data sources. • Third-party views are sought out for lines of business where there is particular uncertainty. • Assumptions are appropriately tailored to the syndicate's mix of business and 'as-if' analysis is carried out to derive assumptions where there has been a change in mix of business or remediation actions. • Input from the different functions is sought to ensure consistency in views across the business (or understand differences in view) and to ensure that emerging risks are appropriately allowed for (e.g inflation assumptions).	• A range of diagnostics is used to assess the reasonableness of selected assumptions, making use of advanced visualisation techniques, for example, to identify trends in the historical data or changes in the mix of business. • There is a deep understanding of the changes in the portfolio over time. Detailed portfolio analysis is performed to support assumption setting where appropriate. • Wide range of external opinions are sought, in particular for lines where Initial Expected Loss Ratios (IELRs) are highly uncertain or there is material uncertainty over certain assumptions. This may include benchmarks, broker/reinsurer view and/or an external consultancy view.

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RESERVING

3 Use assumptions to set reserves which are realistic, transparent and consider historical experience.

	Foundational	Intermediate	Established	Advanced
Emerging Risks	• The actuarial team considers emerging risks when selecting reserve estimates. • Allowance is made for emerging risks based on market information, exposures and work within the business.	• Emerging risks are regularly monitored and any new developments are considered as part of the reserving process.	• Cross functional working parties are set up to better understand material emerging risks and also viewpoints when selecting assumptions. A chair is appointed with clear actions and follow up. • External views on emerging risks are considered to assist with selecting reserves. • Where casualty is material to the syndicate, the actuarial team considers cross functional deep dives on a regular basis to investigate known or new emerging areas of risk.	• Material developments and findings in relation to emerging risks are discussed at committee level ensuring the cross functional view and differences are considered when setting reserve estimates. • Summary of the working party findings on emerging risks are presented to the board. • The key emerging risks and uncertainties identified by the syndicate are considered as part of the reserving process. This is used to help support best estimate assumptions, uncertainty analysis and Events Not In Data (ENID) allowances. Justification is provided for treatment of emerging risks in estimates and why the approach adopted is appropriate.

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RESERVING

4 Identify, understand and justify any differences in assumptions between reserving and other functions.

Consistency of assumptions

Foundational	Intermediate	Established	Advanced
• Feedback loops are scheduled occasionally and there is some documentation around the justification for differences in view. • Early insights of trends or experience not in line with expectations being seen by other functions are considered by the reserving team when setting their assumptions (e.g. an increase in claims notifications or not writing business in line with expectations). • Material assumptions and differences between cross functional views of relevant assumptions are discussed and justified at committee level.	• Feedback loops are scheduled regularly with sufficient time embedded to allow meaningful discussion. • The differences in assumptions used between different functions across the business is documented and validated with a clear owner, updated annually.	• The reasons for any divergence in assumptions between reserving and other functions[2] are clearly justified and is evidenced by data. • Where appropriate, additional data is requested from other functions to help supplement the reserving analysis.	• There is a continuous feedback loop between reserving and other functions*2 to highlight key trends that may impact assumption setting. • Differences in assumptions used between functions are clearly documented, justified and assessed as part of the uncertainty quantification. • The board is able to understand and accept these key differences and provide challenge to them.

2. Functions" may include, but are not limited to, Capital, Pricing, Planning, Underwriting, Claims, Reinsurance and Exposure Management teams.

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RESERVING

5 Periodically and objectively challenge the reserving processes and assumptions.

Experience Analysis

Foundational	Intermediate	Established	Advanced
• An actual versus expected and ultimate loss ratio development analysis are undertaken as part of the validation of technical provisions at the appropriate level of granularity (which takes into account the heterogeneity of data within class groups). • The breakdown of the change in ultimate claims compared to prior analysis is clearly understood and the actuarial function is able to coherently describe drivers of experience over the period and other contributors to the change. • Changes in assumptions compared to prior analysis are clearly understood, documented and communicated by the actuarial function.	• Triggers are set at class and aggregate level to flag areas which potentially require investigation into the appropriateness of assumptions. For example, when the actual vs expected analysis falls outside of an acceptable range, an investigation is considered.	• Periodically, analysis of actual versus expected movements over a longer period of time are considered to understand whether there is systemic over or under-estimation of reserves. Similarly, this is performed for catastrophe estimates. • Review of specific IBNR provisions compared to claims watchlists movements help identify whether exposure to potentially large claims is appropriately allowed for.	• Diagnostic tools are used to efficiently analyse data in a consistent way such that emerging trends are identified in advance of reserve setting. • Additional analytical insight into reserve movements is obtained from having strong link ups between the actuarial function and the claims and underwriting teams.

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RESERVING

5 Periodically and objectively challenge the reserving processes and assumptions.

Process challenge

Foundational	Intermediate	Established	Advanced
• Reserving process is periodically reviewed as part of external audit with recommendations/findings presented to the board, with clear actions, owners, timeline and priority categorisation for each recommendation to be addressed. • Internal audit have a plan to periodically test the reserving process and controls. • A clear action plan is put in place to address any external or internal audit findings with proposed due dates. • The board periodically seeks a self-assessment by the Actuarial Function of the reserving process with clear findings included within the Actuarial Function Report. • An independent peer review of the reserves is undertaken as per APS X2. • Appropriate training requirement for the process reviewer to enable consistent results and adequate process challenge.	• Feedback is collated after each full reserving cycle to understand where the process is performing well and where further improvements could be made. This covers the full scope of the reserving process from planning to final reporting. • Feedback is collected from the reserving team as well as users of reserving output and those inputting to the reserving process.	• Reserving processes are regularly reviewed and challenged holistically, i.e. all aspects of the process are reviewed beyond identification of process improvements as part of the quarterly/annual process. • There is a comprehensive understanding of process limitations and strengths which is clearly documented along with potential resolutions. Where possible, the impact of any process limitations are quantified. • An action plan is in place to address process limitations and improve process efficiency (where appropriate).	• The board engages a third-party (external or internal) to independently review the syndicate's reserving process. The scope of review covers process, controls and governance with sufficient time allowed for the review and engagement with key stakeholders facilitated. • Recommendations and key findings are discussed and management actions set. Each recommendation is assigned a priority level and proposed due date. • The frequency of this third-party review is outlined as part of the syndicate's risk management process; including conditions which would trigger more frequent review. It is expected that the frequency of these reviews would be higher where there have been continual deteriorations or where there have been material findings from previous reviews or by Lloyd's.

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RESERVING

5 Periodically and objectively challenge the reserving processes and assumptions.

Assumptions challenge

Foundational	Intermediate	Established	Advanced
• Reserving team can clearly articulate changes to assumptions and / or reserving methodology and this is clearly signposted along with impact shown in management information supplied to the board. • Assumptions are challenged at each stage of review and cover the most material aspects relating to the estimation of reserves.	• Diagnostics are produced to help senior management understand and challenge the appropriateness of assumptions. • Sensitivity testing is undertaken to assess the appropriateness and materiality of assumptions.	• Estimates and key assumptions are compared to those of the independent reviewer and reasons for differences understood and clearly articulated. • There is comprehensive challenge of all assumptions relevant to the reserve setting process.	• Assumptions underlying classes where there are material differences in view of reserves to third-party are reviewed in detail and are a consideration when selecting future deep dives. • There is a continuous process of monitoring the reasonableness of assumptions as new information becomes available with regularly scheduled touchpoints for a deep dive on assumptions review.

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RESERVING

5 Periodically and objectively challenge the reserving processes and assumptions.

	Foundational	Intermediate	Established	Advanced
Validation	• A robust procedure is in place for the validation of reserves. Assumptions are clearly justified with limitations and uncertainties clearly outlined. • Objective challenge is provided considering material movements and key reserving outputs (including the Statement of Actuarial Opinion and Actuarial Function Report).	• There is a clearly defined set of procedures to assess the appropriateness of the reserving process and assumptions. This includes but is not limited to experience analysis, review of key diagnostics and consideration of market/emerging issues. • Reserve risk limits/tolerances (such as AvE thresholds) are in place and where these are materially breached, there is discussion and swift action by the authorised committee to remediate. • The outcome of the independent reserve review is discussed at audit committee. Any material differences between the managing agent and the independent reserve review are communicated to the board with sufficient information supporting why their selected reserves remain appropriate.	• The outcome of the independent reserve review leads to further discussion of key findings and uncertainties within the risk function.	• There is an extensive framework in place for validating reserves including structured internal review as well as independent external review. The scope of validation covers process, controls, governance and estimates. • Key thresholds to the validation metrics are documented which may drive changes in assumptions. • The outcome of the independent reserve review is discussed at the audit and risk committees with a clear action plan to further investigate or address any key findings. • Risk committee chairs are briefed in advance by CRO enabling constructive challenge during Risk committee meetings.

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RESERVING

6 Set best estimate reserves in line with Solvency II principles, with any allowance for UK GAAP margins set explicitly in addition.

Foundational	Intermediate	Established	Advanced
• Held estimates are no less than the Statement of Actuarial Opinion (SAO) provider's estimated reserves for each open year of account. • Approaches to assess explicit margin and margin requirements are high level. There is some further analysis performed to link explicit margin to potential downsides in the reserves. • The allocation of margin (where held) to class of business and year of account level is reasonable and appropriately reflects the risk profile of the reserves. • Margin is regularly monitored against the syndicate's margin policy and pre-emptive action is taken to prevent a breach of the syndicate's risk appetite/limits.	• There is a well-defined policy for assessing margin requirements and syndicates are able to monitor against this policy and take action as needed. • Assessment of margin takes into account material uncertainties with both qualitative and quantitative methods (e.g. scenarios) used to assess this.	• There is a structured, and coherent approach to assessing margin which takes into account both general and specific uncertainties.	• Reserving team undertakes a range of stress and scenario tests. These can help assess whether margin is considered adequate and allow management to understand where scenarios sit on reserve risk modelled distribution. • Extensive analysis is performed to understand uncertainty in the reserves at a range of different granularities (e.g. class of business, division, events, gross/net). • There are strong feedback loops between different parts of the business to help inform the actuarial function's view of potential downside in the reserves. • Margin policy clearly links to syndicate's risk appetite. • Changes in the level of margin held are well justified and consistent with the syndicate's margin policy.

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7.

Capital

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Principle 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.

CAPITAL

1 Maintain an internal model which captures all material risks that the syndicate is exposed to.

Model Scope

Foundational	Intermediate	Established	Advanced
• Both the one-year and ultimate SCRs are calculated using a full internal model. • The scope of the model is documented and covers all quantifiable material risks which the syndicate is exposed to. At a minimum the SCR needs to cover insurance risk, market risk, credit risk and operational risk. • Documentation of the design and operational details of the internal models is complete, well-structured and up-to-date. It is also sufficient to ensure that any knowledgeable third-party would be able to understand it and form a view of Solvency II compliance. • The internal model makes allowance for future management actions where appropriate. They need to be realistic and consistent with each other and the syndicate's current business practice and strategy. Any risk mitigation techniques are documented and secondary risks considered.	• Risks included in the syndicate's risk register (or emerging from its risk assessment process) are listed and individually identified as being included within the internal model or not. Clear justification is provided if risks are not captured.	• Process established to ensure regular review of modelled risks including risk profile considerations, emerging risks and developing issues.	• There is a clear connection between emerging risk processes in other functions of the business and the internal model. The capital team is integrated into risk management and into any working parties around emerging risks. • There is clear and documented justification of the approach to emerging risks (on the horizon) – including which risks are explicitly modelled with a specific quantifiable allowance. For risks where that is not the case it is clearly justified that the model nevertheless captures the emerging risk. The data required to parameterise models for the emerging risks will be identified and, if necessary, captured. • The Syndicate clearly assesses and evaluates non-modelled risks (not limited to natural catastrophe risks). This includes use of scenario testing to evaluate materiality of risks not captured in the internal model.

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CAPITAL

1 Maintain an internal model which captures all material risks that the syndicate is exposed to.

Risk Drivers

Foundational	Intermediate	Established	Advanced
• The internal model captures the relevant characteristics of the risk profile of the syndicate. Capital is driven by the key risks of the syndicate. The main dependencies are modelled. • Risk analysis enables identification of the most material risks in the business – these are aligned with the risk drivers of the model and are in the focus of risk management actions as well as the independent validation exercise. • Self loads / manage-ment adjustments are proposed by the syndicate where material risks have been identified which cannot be captured by the internal model at that point in time. • The methodology to allow for diversifica-tion is justified and documented with key variables driving dependencies identified which take into account non-linear dependencies as well as the potential lack of diversification under extreme scenarios. Post-diversified outputs from the model, as reported to Lloyd's, are reasonable when allowing for the dependencies, following the principle that risk needs to contribute to capital. • Profit & Loss (P&L) attribution is documented. It is used to understand the key drivers of profit (or loss) and the reasons for deviation from expectations.	• A clear development plan is in place to incorporate any capital add-ons and these are only a temporary measure. • P&L attribution process is well designed and can identify risks through actual experience that had not been captured by the internal model.	• Dependencies between risks are modelled in a way that the output of the model reflects actual risk drivers (e.g. Social inflation, recession, UW cycle etc.) The connections between risks are underpinned by risk analysis and/or a robust expert judgement process.	• Internal model captures all material risks. In situations where material risk has only recently emerged (e.g. Covid-19 pandemic) capital modellers should show agility in prioritising the risk for model development. • The dependencies in the model consider systemic risks and secondary effects. Tools have been developed to assess or directly model risk drivers with allowance for secondary impacts. • All material risks can be quantified and explained - even if they are implicitly modelled (such as non-natural cats, claims inflation, cyber risks).

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CAPITAL

2 **Use modelling assumptions which are realistic and justifiable, methodology which is adequate, and material limitations are understood.**

Data and Tools

Foundational	Intermediate	Established	Advanced
• Data and assumptions are consistent between internal model and technical provisions. • Material limitations with the data are understood and documented. • The documentation of the internal model should include a description of the IT utlised and any contingency plans. • Where data is limited or not appropriate to use, expert judgements/approximations are used to overcome these. External data is used to supplement own data (e.g. credit ratings).	• Software/tools are used to analyse model outputs (e.g. to illustrate dependencies) and help communication to stakeholders. • Where data is not representative of the future, adjustments are made in line with expert judgement guidance	• Data sources used are regularly reviewed. Syndicate actively seeks external data studies/sources to supplement own data (i.e. beyond those readily available). • Modelling classes are used consistently with other teams in order to ensure that data is representative of the risk. • Model runs relatively quickly and efficiently to enable model use and ad-hoc runs.	• Data sources are not only considered for larger risk types, but also for minor ones. For parameterisation that is uncertain and/or needs trend adjustment a variety of data sources are used and trends are projected/articulated. Different options for adjustments are considered. • Software tools are used to break data down in a sophisticated way e.g. using joined up views with other teams to spot risk profile changes in classes. • Model platform and code are able to accommodate bespoke risks (e.g. PPO modelling, complex RI contracts, desired dependency structure) with bespoke code being used where necessary. • Model run time enables model to be truly used across the business and the capital modelling can respond to ad-hoc requests quickly and efficiently.

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CAPITAL

2 **Use modelling assumptions which are realistic and justifiable, methodology which is adequate, and material limitations are understood.**

External Models and Data

Foundational	Intermediate	Established	Advanced
• The role of external models and/or external data in the internal model (including materiality) is explained including how the board and senior management obtains comfort over its limitations. Where external vendor models have a material impact on the capital requirement, key limitations of the external vendor models are identified and communicated to the board. • The reasons for the use of an external model and/or external data are clear. Senior management have considered alternatives, explained their decision and are able to demonstrate understanding of the external model. • The syndicate uses the external model as parameterised with no changes. However, they validate and review the suitability of the models and monitor the limitations regularly. • External models or data do not compromise the compliance of the internal model and need to pass the use test, be validated and fully documented. Model changes are governed in line with the model change policy using a look-through approach.	• The syndicate uses the external model vendors as parameterised with no changes. However, they validate and review the suitability of the models and monitor the limitations regularly, considering alternative views and parameters.	• Syndicate makes (or considers) adjustments to external vendor models to reflect their own view of risk. External models are adjusted where necessary for loss experience and emerging market issues.	• Syndicate has its own view of risk which is consistent across the subject matter expert teams (exposure management/investment teams) and capital. • Views of risk that the syndicate takes in other areas of the business (e.g. with regards to inflation or investment risk) are reflected in the internal model. • The syndicate is resourced with the appropriate expertise to carry out the validation and governance required for adjusting external models to their own view of risk. • The utilisation of external models and data within the internal model is monitored regularly, and models are adapted in new areas for material exposures and if appropriate a number of different views are considered (e.g. through blending or comparative approaches).

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2 Use modelling assumptions which are realistic and justifiable, methodology which is adequate, and material limitations are understood.

Assumption Setting

Foundational	Intermediate	Established	Advanced
• Assumptions are realistic and justifiable, as demonstrated through an understanding of circumstances when the assumption could be considered false. They consider historical experience where available. They are challenged at each stage of the review. They are documented. • Where assumptions are not derived from own data then a clear approach is laid out with data sources used, adjustments made and where expert judgement was necessary. Where selected assumptions deviate from what is implied by historical experience, this is clearly justified. Comprehensive data, including most recent, is used for material risk areas. • Sensitivity testing is performed on key assumptions with clear documentation of the materiality of assumption for model and validation. • There is a documented process outlining the approach to re-parameterisation of assumptions.	• Historical analysis or comparison to benchmarks is used to help understand if assumptions are reasonable. They are documented so as to be readily understood by third parties. • Materiality, reasonable range and uncertainty/sensitivity of assumptions is clearly set out and justified. The impact of alternative assumptions has been tested via type 2 sensitivity tests. This is communicated appropriately, including to the board (for material assumptions). • Assumptions are parameterised using most recent data for the majority of modelled risk areas.	• A range of factors are considered when setting assumptions including historical experience, emerging experience compared to expectations, market benchmarks, pricing information and external data sources. • Assumptions are appropriately tailored to the syndicate's mix of business and 'as-if' analysis is carried out to derive assumptions where there has been a change in mix of business or remediation actions. • Parameterisation follows a regular cycle, but some (real-world) triggers are defined that drive re-parameterisations. The parameterisation cycle has comprehensive coverage of all material assumptions.	• Data is used to set or validate assumptions even when it is not readily available (e.g. lack of internal loss data for new classes or areas like operational risk or areas like dependencies, where data might have to be derived/adjusted). • Consideration of external data and opinions, particularly for lines where parameterisation is highly uncertain or there is material uncertainty over certain assumptions. Where data is used that is not representative and adjustments are necessary these are carried out in an understandable way (e.g. volume adjustments). Emerging trends are taken into account and assumptions adjusted where appropriate. • There is a process of monitoring the reasonableness of assumptions as new information becomes available. A comprehensive list of clear (real-world) triggers are defined that drive re-parameterisations of assumptions. • Materiality is not only considered for individual assumptions but also accumulations of assumptions and type 2 sensitivity tests consider a combination of alternative assumptions as well as individual ones.

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CAPITAL

2 Use modelling assumptions which are realistic and justifiable, methodology which is adequate, and material limitations are understood.

	Foundational	Intermediate	Established	Advanced
Methodology	• Methodology is documented and employed based on techniques that reflect the risk, up-to-date and generally accepted market practice and is suitable for data used. • Any out of model adjustments are documented and governed in line with the calculation kernel.	• Methodology employed is generally accepted market practice (widely adopted) with some adaptations where the risk profile suggests.	• Methodologies employed follow the evolution of market practice. Subject matter experts use the most up to date market knowledge to inform the methodology employed for all material risk areas. Alternatively, the syndicate justification for using generally accepted market practice is strong and the syndicate can demonstrate it has explored/tested other methods. Regular review of appropriateness of methodologies, with resulting development. • A robust methodology which is aligned to the risk profile of the syndicate is employed across all risk areas.	• Regular first line investigations into alternative methodologies to ensure existing methods remain most appropriate for the syndicate. There is demonstration of internal model development, or continued appropriateness of methodology as a result of these reviews. • Alternative methodologies are modelled and tested and the model is flexible enough to enable methodology changes be made efficiently keeping the model up to date and aligned to changes in risk profile.
Model Limitations	• Identification and documentation of model limitations and uncertainties. Material model limitations relevant to the model use are communicated are communicated to model users. • Syndicate quantifies limitations where possible and action is taken when material • Limitations are monitored regularly.	• Areas of uncertainty and sensitivities of the model(s) are well understood with communication of these to relevant stakeholders at all levels. • Uncertainty is appropriately allowed for with respect to limitations.	• There is a formal process to communicate uncertainties to stakeholders, including the board. • There is a clear process for monitoring and quantifying limitations where possible. • The accumulation of immaterial limitations is monitored and communicated.	• Model issues or limitations raised by users of the internal model are fed through to the Capital Modelling team. These will then be added to the model development log to be prioritised for model enhancements or risk accepted by the syndicate with justification and having followed the appropriate governance/ escalation process.

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CAPITAL

3 Have strong feedback loops joining the business and the model.

Expert Judgements/ Consistency of Assumptions

Foundational	Intermediate	Established	Advanced
• Material expert judgements are justified, documented, include falsifiability criteria and are regularly reviewed. Those making the judgements have the requisite skills, knowledge and expertise. • Feedback loops between the model inputs and subject matter experts exist with documentation of the justification for differences in view. • An expert judgement log exists which outlines the materiality, underlying rationale, justification, uncertainty and owner of each judgement.	• Expert judgements are justified and documented and are reviewed at an appropriate frequency with suitable experts being consulted. • List of individuals providing expert judgements is regularly reviewed to ensure continued appropriateness. • Feedback loops are scheduled regularly with sufficient time embedded to allow meaningful discussion. • Expert judgement policy and log exist and are up to date.	• Use of expert judgement is comprehensively governed, with clear justification, documentation, and falsifiability criteria. Type 2 sensitivity testing is carried out and documented, where possible. Challenge and inputs to expert judgements from a range of subject matter experts. Cross-functional working parties are set up to better understand the risks and viewpoints which underpin expert judgements and model assumptions. • Actuarial teams collaborate to understand any issues or concerns. Senior underwriting personnel have established lines of communication with the modelling team and the impact of underwriting decisions on the model is understood. • Input from the different functions is sought with clear feedback loops into the model to ensure consistency in views across the business (or understand differences in view) and to ensure that emerging risks are appropriately allowed for (e.g. inflation assumptions). The reasons for any divergence in assumptions between capital and other functions can be clearly justified and is evidenced by data. • There is a clear understanding by model users of where Expert judgement is relied upon.	• Expert judgements are regularly assessed for accuracy and appropriateness, considering sensitivity tests, testing against experience and forward-looking issues. • Communication of expert judgements and the uncertainty around them includes the ranges, presented e.g. visually to stakeholder for clarification of the impact. • Expert Judgements are focus areas for future modelling improvements. There is evidence of expert judgement assumptions responding to falsifiability criteria triggers. Expert Judgement log covers all areas of the internal model. • Capital modelling team and validation teams are joined up with other parts of the business and experts from all areas feed into the parameterisation and challenge of the model. • There is an established feedback loop between capital and other functions to highlight key trends that may impact assumption setting. Working groups are set up to discuss trends and model development.

CAPITAL

3 Have strong feedback loops joining the business and the model.

Model Use

Foundational	Intermediate	Established	Advanced
• The internal model uses include calculation of economic capital; capital allocation (at least at risk category level); and use in the ORSA. Uses of the model are tracked and documented. • Use of the internal model in senior management and board decision-making can be evidenced.	• The model is used to underpin relevant business decisions and robust justification is provided where use of the model is not considered to be appropriate. • Model uses are not just focused on the regulatory capital impact level (i.e. the 99.5th percentile), but also other parts of the distribution (e.g. in the case of reinsurance purchasing).	• In addition to SCR, the internal model is used widely and regularly throughout the business e.g. for assessing returns on capital, risk appetite, investment allocation and reinsurance purchasing decisions. • Model is used when exploring potential new classes of business or closing existing classes of business. • Boards regularly discuss model outputs when making strategic business decisions (e.g. M&A). • The model uses are reviewed and appropriateness of the model for the use in question is considered and reported.	• New model uses are linked to the development plan of the model. Where the model has limitations in a use those are understood and clearly communicated.

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4 **Demonstrate robust governance and understanding of the model. This includes adequate understanding and challenge at senior management level.**

Ownership and Challenge, Governance

Foundational	Intermediate	Established	Advanced
• Syndicate can demonstrate clear governance around the internal model, including definition of roles and responsibilities with clear accountability for decisions. • Documentation of the model governance process exists, is comprehensive and regularly reviewed. • The board own the model and must sign off any Lloyd's Capital Return (LCR) submissions and major model changes. • Sufficient time is made available for board challenge after SCR outputs are produced. • Board training around the major modelled risks and assumptions as well as model limitations has been given. All new board members are enrolled in training.	• Clear articulation of roles and responsibilities. There is transparency around any delegation of responsibilities. Owners of each stage of the process are highlighted and sufficient time allocated for review. Internal reviews of assumptions, expert judgements and model changes are documented. • A model inventory of documentation exists which covers all aspects of the internal model. Documentation is clearly signposted. . • Board has non-executive members with relevant experience to allow them to provide detailed challenge to model outputs and methodologies. • Board training is regularly conducted. It includes new and emerging issues relevant to the syndicate risk profile. • Senior management's understanding of the model and the board's awareness of key assumptions and limitations of the model is regularly assessed.	• The model governance process involves regular meetings of model governance committee which includes a range of actuarial skills and subject matter experts to enable challenge of assumptions at a technical level. Previous challenges are reviewed as part of the next capital setting process and responses are documented. • Senior management and board demonstrably understand the model and its limitations, providing challenge when making key decisions. There is a formal process to communicate uncertainties to board.	• Robust sign off process exists by risk owners and subject matter experts for key assumptions and methodologies. Clear ownership and sign-off of modelled risks (methodology and assumptions). Decisions are being made at the right level of the organisation. Time for discussion with stakeholder is made pre- and post-committee meetings and all feedback is documented and addressed. • The internal model is regularly reviewed and discussed at board level outside of Lloyd's / regulatory approval periods. • Documentation is well structured, clear, intuitive and easy to follow, with clear sign-posting and audit trail. Key actuarial judgements are justified appropriately and there is clear signposting of material considerations, review points and subsequent actions.

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4 **Demonstrate robust governance and understanding of the model. This includes adequate understanding and challenge at senior management level.**

Ownership and Challenge, Governance

Foundational	Intermediate	Established	Advanced
• *See previous page*	• *See previous page*	• *See previous page*	• Senior management and the board understands, challenges, and actively promotes the development of the internal model. In particular, senior management has sufficient understanding of the working of the internal model to anticipate how changes in strategy would likely impact modelled risk profile. Senior management provides sufficient challenge if output differs from expectation and model enhancements as result of senior management involvement can be evidenced. • Board effectiveness reviews consider the board's understanding of the model. • The board is active in requesting specific issues to receive training on based on their view of risk. This is then set up and followed up on. Formal assessment of training to identify knowledge gaps and improve training effectiveness.

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4 Demonstrate robust governance and understanding of the model. This includes adequate understanding and challenge at senior management level.

	Foundational	Intermediate	Established	Advanced
Resourcing	• The capital team is resourced to meet the regulatory requirements and delivers reporting with no material errors. The capital team may draw on other teams for parameterisation and/or outsources parts of the model/parameterisation to external parties. • Technical challenge of the model is regularly supplemented by external resource. • Staff demonstrate understanding and knowledge of the model and justification of assumptions (and methods).	• Resourcing is adequate to meet regulatory requirements with some contingency resource when required. • If the capital team carries out parameterisation processes (e.g. for reserve risk) it is adequately resourced and skilled for these additional processes.	• Team is well resourced for existing and future projects including scope for strategic work such as extending the uses of the model or difficult development projects. There is an appropriate mix of skills. Key person dependencies have been identified. • The mix of senior and junior resource is regularly reviewed and sufficient training opportunities are provided to staff. • Capital team can draw on additional resource if required. • Actuarial resource is sufficient to ensure robust challenge of the model on a technical level.	• Team is sufficiently and effectively resourced to allow research and development as well as efficient day-to-day activities; key person risks are mitigated, and succession planning considered. The team can respond to short notice queries and requirements from the business and regulators.

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CAPITAL

5 Implement changes to the model which are reasonable and justified and their impact on the SCR adequately explained.

Reporting

Foundational	Intermediate	Established	Advanced
• External and regulatory reporting is comprehensive, timely and materially accurate. • Committees are scheduled regularly with an appropriate mix of attendees to ensure sufficiently senior oversight and technical experience. • Board information is accurate and provided regularly; accompanied by analysis which includes discussion of change in risk profile and the model, key assumptions, uncertainties and market conditions. • The analysis of change of the model output is materially complete and covers the movements in one-year and ultimate capital, including movements in key metrics, contributions to capital and key class movements. It is aligned to the model change template. Queries on other movements can be answered. • The syndicate is responsive to Lloyd's feedback and shows the ability to understand and prioritise feedback, integrating it into their own development plans.	• Reporting is efficient and the content of reports is reviewed regularly and adapted in line with feedback to ensure sufficient coverage and insight. It is adapted in light of market conditions and recent developments. • External and regulatory reporting is critically reviewed within the appropriate forums and consistent with internal reporting (with clear bridges for e.g. currency differences). • Diagnostics are produced to help senior management understand and challenge the appropriateness of assumptions. Key messages are clearly communicated and supported by exhibits. • The analysis of change of the model includes a clear top-down perspective which links model changes back to risk-profile and shows the ability to step back from the model itself. Movements are explained also in terms of the reasonability of the magnitude, not just giving a reason for the movement.	• Regular, granular, comprehensive, timely and well-governed reporting. Appropriate level of reporting is provided for different stakeholders. Signposting is clear in reporting (e.g. to address previous feedback from regulators/validation) and more technical detail is available. Processes automated to minimise manual intervention and scope for errors. • Model output forms part of regular management information which is utilised and challenged in technical working groups and by the board. • Regulatory dealings are pro-active. • The analysis of change includes more detailed validation in each area. Additional metrics are monitored to be able to analyse movements in detail and have good model outputs/reports in order to help explain movements. Bespoke analysis and validation is carried out for each model change template step and for all material class movements.	• Appropriate tools (e.g. visualisation tools) are flexible and tailored to allow the board to focus attention on material issues and to form clear opinions based on the analysis/results presented.

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5 Implement changes to the model which are reasonable and justified and their impact on the SCR adequately explained.

Model Change

Foundational	Intermediate	Established	Advanced
• Model change is managed through the model change process which is set out in a Model Change Policy. Model changes are documented. Major model changes are signed off by the board. • Model change categorisation when applied is in line with Lloyd's guidance (e.g. identifying parameter and data changes appropriately). • Model changes are suitably validated, with reason for the change and justification of adequacy of impact on capital. • Model changes undertaken to address validation findings/regulator feedback and risk profile changes.	• Sign-off process is clear for both major and minor model changes, with sign-off by committees with ability to challenge at the appropriate level. • Model changes, including the reason for model changes and the impacts, are communicated clearly and at the sufficient level of granularity to the various committees. Any uncertainties and limitations are drawn out.	• Model changes are driven by risk profile changes and improving the use/accuracy of the model, including consideration of the materiality of known limitations of the model. They are set out in a clearly articulated development plan integrating validation findings/regulator feedback and other model developments with the model change process. • Appropriate contingency plans for model changes exist and several models can be run in parallel if necessary (development and production model). • Timelines set out for (major) model changes are generally adhered to and the process is well managed. • Validation of model changes takes place hand in hand with the model change, allowing sufficient time for validation challenge and the resolution of findings where necessary before the finalisation of changes.	• Model changes are driven by a longer-term model strategy. The annual development plan aligns to the longer-term strategy and there is a clear framework for the prioritisation of model change. • Further development and enhancements of the model are actively promoted with a continuous drive for model improvements in order to make methodology/parameterisations best market practice. Technical working groups are set up to challenge and discuss model development incorporating expertise from relevant functions.

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CAPITAL

6 Conduct objective challenge of the internal model through independent validation

Validation

Foundational	Intermediate	Established	Advanced
• Independent model validation is carried out for LCR submissions and major model change applications and covers all relevant components of the internal model - complying with Solvency II requirements. Results of the model and key assumptions are tested at least annually and are tested after major model changes as identified under the model change policy. In order to ensure that the material, quantifiable risks are validated, the internal model needs to be able to rank the risks within the internal model scope. • Minimum requirements on validation tools and validation tests in line with Solvency II are fulfilled (more details in Lloyd's Validation Guidance). Reverse stress tests are developed which are aligned to syndicate's view of risk. • Validation tools are well designed- e.g. using pass/fail criteria that are robust. • The validation covers the full scope of the internal model (not just the calculation kernel) and is carried out in line with the validation policy, which sets out how the model is validated and explains why the approach is appropriate.	• A 3-year validation cycle is adopted with good coverage of the model through regular deep dives. The testing schedule is reviewed every year - and is adopted in a way to remove irrelevant tests and add new ones for specific deep dives/focus areas of the validation. • Independence generally extends to reporting lines of validation results and the governance framework facilitates escalation of validation findings without any material conflicts of interest. Where reporting lines are not independent (e.g. capital team and validator reporting into the CRO) measures are in place to ensure independence (e.g. periodic external validation, involvement of another director etc.). • Clear escalation path to the board/risk committee for material model issues raised. In the case of (material) validation findings action is taken and the findings are resolved or a capital add-on is applied in the short-term with resolution planned in the longer-term. • Where validation findings lead to agreed actions, these are closed off in a timely manner.	• The validation process is integrated into the model change process with the programme of model change continuously updated driven by the validation work and progress made. • Sufficient time is allowed for validation and material findings are addressed before LCR submission (by capital add-ons when necessary). • Use of validation tools at a level of granularity that yields useful insights (e.g. on RST, P&L attribution). Deep dives show depth of review and are of good quality. • The line between first and second line validation is drawn carefully with efficiency of the process in mind, but also giving validators enough scope to provide technical challenge. • Recommendations and key findings are discussed and actions are set, directly impacting the model development plan and the limitations log. Each recommendation is assigned a priority level and proposed due date. Actions taken in case of validation findings and/or regulatory feedback consider wider issues and how to prevent re-occurrence.	• Validation plans take into account emerging risks, areas of focus and potential risk profile changes. Areas of focus are discussed with the wider business (e.g. in working groups) and specific testing is carried out. • Feedback from validation is linked back to other parts of business such as pricing/reserving/risk management to help with decision making. The validation process is integrated in a value-adding way - i.e. validators are used to investigate e.g. emerging risks or specific model limitations, driven by the board. • Validation tools are used in an agile and dynamic way. E.g. stress and scenario tests incorporate input from other business functions and senior management. • The independence and effectiveness of the validation process is reviewed regularly. This will include whether a turnover of validators is necessary, and whether the balance between internal and external validation is appropriate.

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CAIPTAL

6 Conduct objective challenge of the internal model through independent validation

Validation

Foundational	Intermediate	Established	Advanced
• The validation process is independent from the development and operation of the internal model and subject to objective challenge. The risk management function has the responsibility for testing and validating the internal model. • Validation results are documented in the validation report, to be submitted to Lloyd's in line with the LCR submission timetable. Confirmation statements are signed off by the board.	• The board (or board delegated sub-committee) input into the reverse stress test. • Limitations of the validation process are highlighted and their materiality assessed, individually and in aggregate. • The validation report is structured in a way that is fit for purpose - with an executive summary for the board but more technical underlying documentation for other stakeholders. Signposting is clear and easy to follow. • Board reviews validation report prior to signing off the SCR.	• *See previous page*	• *See previous page*

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8.

Investment

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Principle 8: Investments

Managing agents should ensure syndicate investment risk is effectively controlled, informed by wider business strategy and adheres to the Prudent Person Principle (PPP) requirements.

INVESTMENTS

1 Have a clear articulation of investment objectives and risk appetites, with rationale having regard to high level business or solvency strategy .

Foundational	Established
• High level articulation of investment objective(s) consistent with syndicate business plans • Link between objective and strategy formally articulated and documented • Risk appetite statements are in place; position against appetite monitored and reported to senior management and the board.	• Clear justification of investment objective(s) with regard to business and/or solvency strategy • Clear investment objective(s) relating to quantitative risk targets and appetites, which may be supplemented by return objectives • Investment risk analysis is embedded within investment strategy and allocation decisions • Describe clear selection criteria for the successful inclusion of alternative assets and demonstrate that assets/strategy/fund managers have met this criteria

2 Have clear investment parameters and guidelines with robust processes to monitor and report positioning against limits.

Foundational	Established
• Constraints and limits around portfolio concentrations allocation for broad asset categories and key risk factors (e.g. rating, issuer, sector) • Process for identifying, correcting and escalating breaches of any specified limits • Outsourced arrangements fully documented • Periodic review of all the above	• Limits around portfolio concentrations (e.g. rating, geography, sector, single name counterparty/issuer) linked to broader syndicate risk exposures e.g. underwriting • Strategic Asset Allocation (SAA) and if appropriate Tactical Asset Allocation (TAA) limits and allowances defined in relation to overarching portfolio constraints • Limits around mismatches between assets and liabilities in respect of duration and currency

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INVESTMENTS

3 Integrate investment stress testing into investment management .

Foundational	Established
• Stress and scenario testing carried out covering impact of 'what if' scenarios on material exposures	• Suite of stress and scenario tests (including but not limited to investment, liquidity and capital) covering range of different scenarios (e.g. interest rate shocks, credit spread movements, equity market drawdowns, climate) by severity and direction • Integration of testing in risk management framework with clear actions in response to results • Ongoing review of suite of testing with changes in the external risk environment

4 Ensure investment performance and risk, including that of outsourced arrangements, are effectively overseen through monitoring and reporting.

Foundational	Established
• Monitoring of investment performance and risk indicators reported to governance committees • Syndicate investments are properly recorded, monitored and controlled in line with Solvency II requirements • Asset valuations and calculations of own funds comply with the Solvency II directive	• A range of clear and logical performance benchmarks used to assess performance • Robust framework for the selection, monitoring and oversight of external fund or investment managers, retaining overall responsibility • Monitoring of mismatches between assets and liabilities in respect of duration and currency • Performance and risk indicators reported to senior management and governance committees

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INVESTMENTS

5 Develop and embed a Responsible Investment Policy.

Foundational	Established
• Consideration of non-financial risk factors in some investment decision making (e.g. exclusion-based integration) • High level Responsible Investment strategy in place with application focussed on key areas of the portfolio • Efforts are underway to gather necessary data to understand, monitor and report on ESG exposures.	• Responsible Investment strategy in place with targeted application • Clear integration of non-financial risk factors (e.g. climate risk) in key investment decision making (e.g. exclusions and positive screening) • External fund managers' integration of ESG factors is assessed and monitored in some asset classes (e.g. private market credit and equity mandates).

6 Have Asset-Liability Modelling (ALM) capabilities consistent with Use Test Principles.

Foundational	Established
• High level appreciation for interaction between assets, liabilities and liquidity risk management incorporated in investment strategy • Internal model has some applications for investment related uses and complies with SII standards and Use Test Principles • Assumptions used largely derived from an external model with minimal internal, syndicate-specific adjustment, • If the assumptions used are determined by another entity within the group, applicability to the syndicate is understood and challenged appropriately	• Internal model is fully integrated with investment governance, risk management and decision-making processes • Investment strategy integrated into liquidity and solvency management • Assumptions used largely driven from external model but use of alternative assumptions is regularly considered, and model choice decisions are robust

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INVESTMENTS

7 Have robust investment governance

Foundational	Established
• Investment strategy approved and reviewed by board including evidence of board responsibility for investment management decisions • Senior management and board demonstrably understand the investment strategy and risks, providing challenge when making key decisions • Clearly defined investment management responsibilities • Periodic review and challenge of investment strategy • Processes in place to ensure compliance with Investment related policies	• Regular investment strategy reviews are supported by second or third line • Process and evidence of providing challenge to key investment decisions e.g. fund manager selection, changes to SAA • Demonstrate that their internal model is consistent with their investment governance, risk management and decision-making processes. • Demonstrate that management and/or decision makers (e.g. committee members) have undertaken recent training specific to relevant asset classes (where this is not their area of expertise) • Demonstrate that management and/or decision makers have sufficient knowledge/expertise and understanding of the relevant asset classes

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9.

Liquidity

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Principle 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.

LIQUIDITY

1 Identify and assess their key sources of liquidity risk and have appropriate monitoring and reporting in place.

Foundational

- Clear identification of all sources of risk and events which can cause risks to crystalise
- Liquidity team consider implications of these risks in both normal and stressed conditions
- Defined risk metrics relevant to own circumstances and risk profile with clear links to risk appetite and stress tests
- Metrics are monitored over long and short term time horizons
- There are early warning indicators of key sources of risk tracked
- Regular reports are provided to senior management and board/board committee
- Frequency of reporting is appropriate to allow the effective identification, measurement and management of liquidity risks

2 Conduct and consider the outcomes of stress tests, including Lloyd's defined stress test and syndicates' own 1:200 stress test.

Foundational

- Suite of stress and scenario testing covering all relevant, material risks drivers
- Teams consider varying degrees of stressed conditions
- Teams consider separate and combined impacts of liquidity stresses
- Stress tests cover events occurring over different time horizons
- Justification for methods and assumptions are included in liquidity management policy
- Results are integrated into monitoring and risk appetite framework

3 Have clearly defined risk appetites.

Foundational

- Syndicate level risk appetite linked to key source of risk and key business objectives and goals
- Teams consider time horizons over which risks may crystalise
- Liquidity risk appetites are embedded in other activities (e.g. reinsurance, investment)
- Teams consider minimum level of liquidity buffer to hold relative to liquidity needs over considered time horizons
- Risk appetites are eviewed at least annually

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LIQUIDITY

4 Conduct regular assessment of liquidity buffers above expected cashflow projections.

Foundational

- Liquidity buffers are designed to withstand chosen strain or event, i.e. linked to stress testing
- The make up of the buffer is considered (nature, diversification of assets, appropriateness of haircuts, accessibility to liquidity management function)
- There is periodic testing of access to market for liquid assets
- Robust assumptions in cashflow forecasting

5 Have thorough liquidity contingency plans in place including articulation of what management actions and steps are open to alleviate liquidity strain.

Foundational

- Clear step-by-step plan of actions taken including consideration of time period for implementation, decision making process, roles and responsibilities, costs involved and applicability to different scenarios
- Set out process to invoke plan including links to risk appetite and early warning indicators
- Separation of contractual and aspirational actions
- Credible assessment of robustness of management actions in systemic liquidity scenario
- Periodic testing of key assumptions and accessibility of committed facilities

6 Have robust governance of liquidity.

Foundational

- Risk appetite and all metrics (including frequency, timeliness and distribution) to be owned and approved by the board
- All metrics are regularly reported to senior management and the risk committee
- Approach to stress testing regularly reviewed and approved by senior management and Risk Committee
- Stress testing results are reported to senior management and risk committee

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10.
Governance, Risk Management and Reporting

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Principle 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.

GOVERNANCE, RISK MANAGEMENT AND REPORTING

1 Manage a suitable board and committee structure which enables well informed, timely and accountable decision making.

Foundational	Intermediate	Established	Advanced
• An appropriate governance structure is in place with clear reporting lines to ensure accountable decision making. Where managing agents are part of a wider group, appropriate governance structures and reporting lines are in place to ensure managing agent accountability. • The board sets and monitors the delivery of a well-articulated business strategy, which includes the importance of the social, environmental and ethical impacts of the business. The activities of all functions within the business are aligned to the delivery of the strategy. • Board and committee composition allows for effective independent challenge. The chair of the board is responsible for leadership of the board and ensuring its effectiveness in all aspects. • The composition, Terms of Reference and efficacy of the board and committee structures are regularly assessed through, for example, board evaluation or effectiveness reviews to identify gaps or areas for development. Fundamental changes in the business also result in a formal review of governance structures to consider their continued appropriateness, taking into account the size and complexity of the managing agent. To maximise the effectiveness of such reviews, the use of external resource may be considered where relevant or on a periodic cycle (e.g. every three years). • Compliance, risk management and audit functions are well integrated into decision making processes throughout the organisational structure. • Potential conflicts of interest are identified, appropriately addressed and regularly reviewed by the board. • Policies are in place in line with Solvency II requirements and other relevant key processes within the business and reviewed and updated at appropriate frequencies.	• *No incremental guidance*	• *No incremental guidance*	• All technical areas have distinct board or executive level committees with authority to make recommend ations to the board.

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GOVERNANCE, RISK MANAGEMENT AND REPORTING

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

Culture, strategy and risk appetite

Foundational	Intermediate	Established	Advanced
• 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.	• The risk culture has undergone development beyond the identification of the desired future state. Improvement plans are in place which are regularly monitored.	• 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.	• 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.

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GOVERNANCE, RISK MANAGEMENT AND REPORTING

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

Risk Management framework

Foundational	Intermediate	Established	Advanced
• 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 is in place and is appropriate to the business. Risk and control assessments include qualitative and quantitative measures and are conducted at a sufficient frequency to identify any significant changes to the impact and probability of risks crystallising. • The internal and external risk environment is monitored on an ongoing basis and any changes are reflected in the risk management framework. • Business-wide emerging risks are monitored on a qualitative basis. The operation of the emerging risk processes may fall to risk management teams with limited involvement from technical front line business functions. • Managing agents' own assessment of the risks and associated economic capital required to meet their strategic objectives are captured within the ORSA report in line with Solvency II requirements. • A clear and accessible risk incident reporting process enables accurate and timely reporting of relevant risk incidents.	• 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 framework should be undertaken and the outcomes reflected in the risk management framework. • Some quantification of emerging risks is achieved with input from front line business functions. • Awareness and understanding of core aspects of the risk framework throughout the business is enhanced through training or other methods of communication.	• 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. • Front line business functions are embedded in emerging risk identification and monitoring which may including setting triggers for further action. Quantification and investigation of emerging risks is undertaken. • Ongoing monitoring of the internal and external risk environment is forward looking to facilitate a proactive approach in dealing with any changes. • Risks are identified outside of formal risk management processes which are then included in further risk assessment discussions.	• 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 to ensure consistency and support a holistic view of risk across the business. • Risk appetite metrics and control assessments are comprehensive and driven by qualitative assessments and/or quantitative data. • Risk incident reporting includes feedback loops to inform a better view of risk and evolution of monitoring metrics and processes. • Emerging risk monitoring is a fully realised, regular process with trigger points for action and clear owners for monitoring. • Control frameworks are developed through activities such as cyclical, targeted, forward looking, deep-dive reviews with regular follow-ups of findings to ensure recommendations and improvement points are adopted.

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GOVERNANCE, RISK MANAGEMENT AND REPORTING

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

Oversight and challenge

Foundational	Intermediate	Established	Advanced
• 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 articulated and controlled. • Additional objective and fully independent challenge of business functions and processes including risk management and compliance is provided by the Internal Audit function, which maintains a risk-based approach to audit planning. • Compliance and Risk Management functions must be able to communicate directly with any staff member on its own initiative and be able to access any records necessary to fulfil their roles. • Management actions in response to internal audit findings are fully implemented within reasonable timescales. • Relevant internal audits are undertaken following any significant changes to the governance structure or risk framework.	• *No incremental guidance*	• Interaction between independent assurance and oversight functions is frequent and well considered, avoiding overlap through a coordinated approach.	• *No incremental guidance*

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GOVERNANCE, RISK MANAGEMENT AND REPORTING

3 Maintain appropriate oversight of operational processes for effective management of the business.

Foundational	Intermediate	Established	Advanced
The board should oversee a robust operational environment through the monitoring of key operational processes against regularly reviewed performance indicators. Oversight of the appropriateness of the operational environment should include (but is not limited to) consideration of: • The level of investment in operational processes and architecture that is required to ensure the business operates at a high level of efficiency. • Whether any proposed outsourcing arrangement will unduly increase operational risk • Staffing levels under normal and stressed conditions to ensure the business is appropriately r esourced. • The frequency and efficacy of interaction between business functions when using key operational processes. • The efficacy of change management processes and change portfolio management. • The appropriateness of business continuity and disaster recovery planning	• *No incremental guidance*	• *No incremental guidance*	• *No incremental guidance*

Classification: Confidential

GOVERNANCE, RISK MANAGEMENT AND REPORTING

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

Foundational	Intermediate	Established	Advanced
• 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 resour ced. • All regulatory requirements under the FCA and PRA's Senior Managers and Certification Regime are met. • Where managing agents are part of a group, any reliance on the group for resource is understood and appropriately overseen. • Board and senior positions cover all technical areas, with an appropriate level of diversity of knowledge and experience which is continually developed through personal and board training. • Duties are clearly allocated and appropriately segregated across the business. • Senior management promote an open and transparent culture where employees understand how their work feeds into the strategic objectives and overall success of the business. Employees feel secure in developing ideas for continuous improvement of the business. • Succession planning for board and senior management is in place to mitigate potential instability in times of change. • Appropriate due diligence is undertaken with outsourced service providers to ensure their financial stability and operational capability.	• *No incremental guidance*	• *No incremental guidance*	• 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.

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GOVERNANCE, RISK MANAGEMENT AND REPORTING

5 Ensure decision making is supported by appropriate data and qualitative assessment.

Foundational	Intermediate	Established	Advanced
• Internal reporting includes basic qualitative asse ssment and analysis of high-level data from front li ne business functions. • Executive summaries or other analyses are presented in a consistent and relevant format for the audience, promoting ease of use to inform challenge or decision making. • Internal reporting is consistent with risk appetite. • Independent reporting from Risk Management, Compliance and Audit functions feeds into all relevant board and committee discussions.	• Granular data supports internal reporting. • Board and committee packs are clearly suitable to the audience with summary analysis from front line business functions identifying points of focus for discussion or decision making.	• Processes are in place to regularly review and improve internal reporting to continually evolve the availability and understanding of management information.	• Complex data is analysed and presented in a manner which facilitates robust decision making. • This is supported by real time reporting, which can be refreshed and manipulated easily for different purposes.

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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	• High quality financial reporting is of upmost 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. • Managing agents are transparent in meeting their reporting requirements, supplying necessary information about their business. • Reporting and regulatory deadlines are met, in line with UK and International reporting regulations.	• *No incremental guidance*	• *No incremental guidance*	• *No incremental guidance*
Communication	• Expected delays in meeting deadlines or errors are communicated to Lloyd's / regulators immediately. Causes of reporting delays and/or errors should be investigated and resolved, in a timely manner, to prevent further instances. • Robust processes are in place to identify, assess and communicate with Lloyd's regarding any issue which may impact on the completeness, accuracy or timeliness of reporting. • Managing agents are responsive to reporting communications, subsequent queries or requests for the submission of further information.	• *No incremental guidance*	• *No incremental guidance*	• *No incremental guidance*
Funding requirements	• Appropriate processes, systems and controls are in place to ensure that regulatory reporting accurately reflects local funding and asset requirements in each of the jurisdictions where capital funds are required to be held. • Managing agents monitor any changes that may occur in these requirements from funding period to funding period.	• *No incremental guidance*	• *No incremental guidance*	• *No incremental guidance*

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11.

Regulatory and Financial Crime

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Principle 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.

REGULATORY AND FINANCIAL CRIME

1 Embed a culture of transparency, regulatory and financial crime compliance, and an understanding of the benefits of this across their managed businesses.

Foundational	Intermediate	Established	Advanced
• Managing agents are open, transparent, and cooperative with Lloyd's and regulators, whilst recognising the need for Lloyd's to lead such relationships with international regulators on matters related to licensing, conduct, data, funding, and reporting. • Managing agents notify Lloyd's of significant and/or non-routine engagements with UK regulators and have a clear understanding of the types of issues that should be reported to Lloyd's. This includes issues which may generate complaints, receive regulatory or significant press attention, concern the misuse or potential misuse of Lloyd's name or brand or undermine the confidence in and/or integrity of the Lloyd's Market. Issues are promptly identified and shared with Lloyd's. • Managing agents respond to regulatory issues and/or requests within a reasonable timeframe and support Lloyd's in its regulator relationship management. Relevant data requests are responded to positively, to ensure Lloyd's regulatory obligations on behalf of the market are met. • Managing agents take responsibility for fostering a culture of compliance, with clear commitment from senior management and evidence of proactive engagement in the management of financial crime risk.	• *No incremental guidance*	• *No incremental guidance*	• *No incremental guidance*

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REGULATORY AND FINANCIAL CRIME

2 **Have a robust understanding of their regulatory and financial crime risk exposure and appetite, which is subject to appropriate challenge.**

Financial Crime - Risk Assessment

Foundational	Intermediate	Established	Advanced
Risk Assessment - Processes are deployed that allow a managing agent to determine its inherent and residual risk levels in key areas of financial crime risk in compliance with all applicable financial crime legislation and regulatory guidance.			
• There are processes to establish a managing agent's risk profile in accordance with applicable financial crime legislation and regulation. This risk assessment process should be an annual exercise, be appropriately scoped, resourced and mapped to and compared against pre-existing risk appetite statement(s). • Risk assessment should identify inherent and residual risk generated from services, jurisdictions, customer types, complexity and volume of transactions and distribution channels and establish, through a variety of tools, risk levels and business functions which present the managing agent's greatest risks for each area of financial crime. • Risk assessment informs the systems and controls that are most appropriate to mitigate risk.	• Risk Assessment is supported by documented methodology, covers all six risk types defined by Lloyd's (see glossary) with inherent and residual risk levels mapped into specific business Functions / Teams and or activities. • Associated Persons are identified and risk rated.	• A financial crime control library is documented and includes appropriate Associated Person controls. • Regulator thematics or other appropriate sources are identified and reviewed. Any required improvements identified are tracked to completion. • Independent financial crime testing is undertaken periodically and required remediation work is tracked to completion and receives senior management oversight.	• Financial crime controls form part of a wider Risk and Control Self-Assessment (RCSA) exercise on at least an annual basis. • Specific risk metric monitoring is undertaken on identified high risk activities, relationships and or business types.

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REGULATORY AND FINANCIAL CRIME

2 Have a robust understanding of their regulatory and financial crime risk exposure and appetite, which is subject to appropriate challenge.

Financial Crime - Governance

Foundational	Intermediate	Established	Advanced
Governance - Financial crime risk management is appropriately documented and the effectiveness of the framework is visible to senior management and includes individual or team accountability.			
• The financial crime risk management framework should be supported and endorsed by the board or a committee with the required delegation of authority. • Board (or delegate committee) involvement in Financial crime risk management is evidenced and the framework should have documented escalation criteria and reporting lines. Financial crime risk management responsibility is clearly defined in line with Senior Managers and Certification Regime (SMCR) requirements and other relevant regulation. • Senior management should demonstrate a clear commitment and proactive engagement in the management of financial crime risk (e.g. setting of risk appetite statements) and ensure that the compliance function has sufficient authority, autonomy and appropriately skilled resources. • Financial Crime related escalation processes should ensure effective Suspicious Activity Reporting to include staff who possess the appropriate seniority and experience.	• *No incremental guidance*	• Financial Crime is regularly discussed at risk committee or other appropriate equivalent Committees.	• The managing agent has a dedicated Financial Crime role with overall financial crime responsibility and is able to produce regular MI (prepared for appropriate senior committee e.g. ExCo. or Risk Co). • Additionally the managing agent has a stand-alone committee for oversight of financial crime and compliance, through which a strategy exists for self improvement on financial crime matters. • Senior management set the right tone and demonstrate leadership on financial crime issues.

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REGULATORY AND FINANCIAL CRIME

2 **Have a robust understanding of their regulatory and financial crime risk exposure and appetite, which is subject to appropriate challenge.**

Financial Crime - Monitoring and Assurance

Foundational	Intermediate	Established	Advanced
Monitoring and Assurance – Periodic monitoring and testing, possibly independent, provides assurance as to control effectiveness and effective risk mitigation activity.			
• The financial crime risk framework is subject to an independent and objective audit. Where a deficiency or weakness is identified, action to implement compensating controls is taken. The root cause of the issue is determined and remediated as appropriate • Risk framework is subject to routine tests which assess and document the appropriateness and effectiveness of financial crime systems and controls. • Systems and controls implemented by coverholders to deliver contracted activities, are at an appropriate standard	• Financial crime control reviews and risk framework audits are reported to the audit committee or similar committee of the board. • Outsourced arrangements are subject to regular monitoring with associated internal reporting. These include those regarding sanctions compliance and those classified as Associated Persons for the facilitation of tax evasion and bribery and corruption purposes.	• Monitoring and assurance testing is risk-based • In addition to a regular scheduled Audit, financial crime controls are subject to independent testing by e.g. a monitoring and assurance team or within an appropriate framework. • Any findings from independent testing or self-disclosed control failures are fully remediated. • All actions arising from financial crime audits in delegated authority entities are tracked to completion with regular senior management reporting and supervision.	• Self-testing and evaluation of business controls is evident on a routine basis. This may or may not form part of a wider self-assessment process. Any such self-assessment is appropriately challenged by an independent resource.

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REGULATORY AND FINANCIAL CRIME

2 Have a robust understanding of their regulatory and financial crime risk exposure and appetite, which is subject to appropriate challenge.

Regulatory

Foundational	Intermediate	Established	Advanced
• Regulatory risk is considered and monitored through risk appetite and reported with evidence to board or committee level. • Managing agents recognise different levels of regulatory risk which they are exposed to, across their managed businesses. High risk regulatory jurisdictions are identified and are given focussed attention through greater monitoring or escalation internally. • Periodic Internal Audits or independent testing (where deemed relevant) is used as an opportunity to increase understanding and improve against areas of regulatory exposure. • Actions identified through Internal Audits, independent testing or self-disclosed control failures are tracked to ensure full remediation.	• *No incremental guidance*	• *No incremental guidance*	• *No incremental guidance*

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REGULATORY AND FINANCIAL CRIME

3 **Have appropriate systems and controls, including training, in place to manage regulatory responsibilities and financial crime risk.**

Financial Crime – Reporting and MI

Foundational	Intermediate	Established	Advanced
Reporting and MI – Senior Executives and other stakeholders are routinely informed of financial crime risk levels, incidents and other appropriate management information to allow for meaningful oversight and input into the financial crime risk framework.			
• Managing agents should have procedures in place to promptly report incidents to Lloyd's and the relevant UK competent authorities • Managing agents should have a process in place to report to the Office of Financial Sanctions Implementation (OFSI) immediately if there is a target match with an individual or entity on the UK Consolidated List. • Managing agents should notify Lloyd's of any suspected, potential or actual violations and incidents of financial crime (including Suspicious Activity Reports (SARs) made to any regulator) • An annual report on financial crime is prepared for the board and/or risk committee. The report details risks, control effectiveness and an overall assessment of the financial crime risk framework at the managing agent.	• The annual report prepared considers risks posed by any delegated authority arrangements and the local and oversight controls that mitigate the risk. • Regular MI of a detailed nature is gathered and reported from within the managing agent e.g. Politically Exposed Persons, Customers from high risk jurisdictions, numbers of sanctions alerts etc.	• KRIs are reviewed and considered as part of wider tracking to stated risk appetite. Significant deltas are investigated and resolved with, if appropriate, risk acceptance being provided by an accountable executive.	• Detailed MI forms part of a regular reporting pack for senior management • Regular MI is gathered from the delegated authority entities in respect of financial crime.

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REGULATORY AND FINANCIAL CRIME

3 Have appropriate systems and controls, including training, in place to manage regulatory responsibilities and financial crime risk.

Financial Crime – Training

Foundational	Intermediate	Established	Advanced
Training – Staff with exposure to financial crime risk are trained at an appropriate level to identify and mitigate financial crime risk.			
• Managing agents should ensure that policies and procedures are embedded through internal and external communication and training, proportionate to the risks it faces. • There should be clear accountability for regular and accessible training which has been tailored to the managing agent's risk profile. The training outlines responsibilities employees have for compliance and should clearly set out procedures for escalation and reporting risk matters. • The training program should adequately consider content, the audience, requirements for role-specific training, the frequency and the achieved completion rates. • The training program should be assessed for effectiveness on a regular basis.	• The program should comprise of annual mandatory specific financial crime training provided to all staff. • Training content is reviewed and refreshed annually and completion rates are tracked and outstanding items followed up. • Training should cover the six risk areas of Fraud, AML, Sanctions, Market Abuse, Bribery & Corruption and Facilitation of Tax Evasion and detail industry specific risk scenarios.	• Additional appropriate financial crime training is delivered to identified populations e.g. senior management etc. and high risk roles.	• Training materials are provided to entities within any delegated authority model and the managing agent maintains oversight of completion of this. • The managing agent also reviews and inputs into any training implemented or developed by the delegated authority.

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REGULATORY AND FINANCIAL CRIME

3 Have appropriate systems and controls, including training, in place to manage regulatory responsibilities and financial crime risk.

Financial Crime – Systems and Controls

Foundational	Intermediate	Established	Advanced
Systems and controls Documented policies, procedures, systems and controls allow for a managing agent to identify and mitigate financial crime risk appropriately, including from delegated underwriting			
• Managing agents should have proportionate and risk-based systems and controls to meet regulatory requirements and effectively manage risks. This will include, on a risk-based approach and in line with policies and procedures, appropriate levels of Customer Due-Diligence (CDD) when establishing or renewing a business relationship. The extent of CDD will depend on applicable legal requirements and the level of risk posed, as informed by a risk assessment. • All contributary policies and procedures should be documented and enhanced as required and financial crime risk management, issue escalation and reporting and remediation are demonstrably embedded in the managing agent's operations. • The financial crime risk management framework meets the test of 'reasonable procedures' under applicable UK legislation. Where relying on a third-party to perform services, managing agents should ensure that the third-party performs to a high standard and is accountable. Managing agents remain accountable for adherence to applicable financial crime obligations and should evidence oversight over their third parties and relevant financial crime controls.	• The six risk types identified by Lloyd's are incorporated into policies and procedures and supported by documented guidance. Additionally, high level supporting financial crime guidance for employees e.g. Reporting Suspicious Activity, is provided and housed in non-specific materials e.g. employee handbooks.	• A developed financial crime policy exists with periodic refresh and approval framework. This Policy is supported by detailed guidance for all staff and, where required, specific guidance for high risk areas or activities. • All relevant procedures reflect different responsibilities as a lead/follow syndicate.	• A comprehensive Financial Crime Policy exists with periodic refresh and approval framework and is supported by detailed Risk Frameworks, Standards or Procedures, covering specific risk typologies and associated controls. • Policies and procedures include all points of the insurance policy lifecycle - from pre-bind, post-bind including claims. • Localised business function procedures detail control, ownership, evidence, frequency, roles and responsibilities etc in control execution.

REGULATORY AND FINANCIAL CRIME

3 Have appropriate systems and controls, including training, in place to manage regulatory responsibilities and financial crime risk.

Regulatory

Foundational	Intermediate	Established	Advanced
• Set and review regularly, clear underwriting guidance as to what and how business can be written in accordance with Lloyd's licensing, with reference to Lloyd's regulatory tools. • Establish and regularly review clear escalation procedures and criteria, for use in underwriting decisions or where a potential breach is identified once a risk is bound. • Conduct horizon scanning to anticipate and respond to changes in regulatory guidance and legislation. • Ensure regulatory compliance training is provided to all staff and on a regular basis for underwriting and compliance staff • Regulatory training is part of new employee onboarding process • Ensure all those carrying out insurance business should do so equipped with appropriate levels of regulatory knowledge. • Ensure training covers Crystal and QA Tool (DCOM) and the Risk Locator tool for international risks • Regularly assess staff training requirements are regularly assessed • Ensure training modules are regularly reviewed and updated to reflect regulatory changes • Regulatory compliance training recognises any additional international regulatory risk arising from exposures to multiple territories and classes and provides underwriters with knowledge of license requirements in exposed territories and classes • Regulatory compliance training recognises the additional international regulatory risk arising from exposures to highly regulated territories and classes • Tailor training to provide underwriters with relevant knowledge of regulations and license requirements in highly regulated territories and classes • Underwriting and Compliance staff champion the use of Lloyd's regulatory tools within the business	• *No incremental guidance*	• *No incremental guidance*	• *No incremental guidance*

LIC

THIS SECTION IS APPLICABLE FOR ALL BUSINESS WRITTEN THROUGH THE LIC PLATFORM

- Systems and controls are in place to reflect the requirements as set out in the LIC Financial Crime Requirements Guide for Underwriters (see Lloyds.com) to manage the financial crime risk arising from underwriting through the LIC platform.

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12.

Operational Resilience

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Principle 12: Operational Resilience

Managing agents should maintain robust and resilient operations, embedding cyber resilience and effective third-party risk management.

OPERATIONAL RESILIENCE

1 Prioritise resilience of the most important services; embedding appropriate governance for operational resilience into their businesses and prioritising recovery of Important Business Services within identified and tested impact tolerances.

Foundational	Established	Advanced
• Managing agents can evidence a roadmap for embedding operational resilience into the business within regulatory timelines • A system of governance and reporting to the board is in place to monitor managing agents' operational resilience. • Self-assessment documented for all Important Business Services of the business, and approved by board by 31 Mar 2022 and annually thereafter or when there is a material change to an Important Business Service. • Severe but plausible scenarios identified, recovery plans and workarounds are in place • Managing agents can evidence an approach for mapping that gives the business a reasonable level of confidence that all critical resources are identified • Managing agents have developed policy and processes for managing risks associated with key suppliers and outsource providers, and consider substitution	• Identified Important Business Services and tested that they can recover within impact tolerances • Scenario libraries consider contagion in testing the impact on multiple Important Business Services • Managing agents can evidence an approach for mapping that gives the business a granular level of detail that all critical resources are identified	• *No incremental guidance*

Principles

2 **Invest in their operational resilience, including their control environments, so that the risk of a future event causing harm to customers or threatening the managing agent's viability is mitigated.**

Foundational	Established	Advanced
• Managing agents learn lessons from incidents and tests. • Managing agents prioritise lessons learned in their investment plans.	• Managing agents can evidence prioritisation of their change programmes to embed operational resilience by design within their Important Business Services • Participate in market wide scenario exercises and invest in vulnerabilities • Managing agents evidence a wider range of testing approaches embedded into their businesses to identify vulnerabilities	• *No incremental guidance*

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Principles

3 **Embed cyber resilience into operations: Managing agents must protect their information systems, processes, people and data from external or internal compromise to prevent harm to customers, loss of data, contagion and/or reputational damage to the wider Lloyd's market.**

	Foundational	Established	Advanced
Cyber Information Systems & Reporting	• Establish and implement an approach to safeguarding the availability, integrity and confidentiality of information which considers the nature of the information in question • Notwithstanding any requirement to report a Cyber Incident to comply with any law or regulation, Material Cyber incidents must be reported to Lloyd's via their designated Account Manager as soon as they become aware of the same • Following reporting, managing agents shall engage in constructive discussions with their designated Account Manager and take such steps as are reasonable both to mitigate the effects of the Cyber Incident and to reduce the chances of its reoccurrence.	• *No incremental guidance*	• Information systems should be fully documented and set out which information is to be shared, by whom, and when. Documentation allows for information to flow up and down hierarchy levels as well as horizontally between different business units where appropriate. • Demonstrate there is clear understanding of how all information systems are linked, with controls addressing data integrity issues. • There is clarity and transparency over staff access to information systems for providing input from and to their areas of responsibility. In addition, there is clarity on who the relevant personnel are that need to have passive access to the system as to retrieve data for the proper discharge of their duties.
Data Protection and Governance	• Notwithstanding any regulatory requirement to report a Personal Data Breach, Personal Data Breaches must be reported to Lloyd's via the designated Account Manager as soon as they become aware of the same and within 72 hours at the latest. • Engage in constructive discussions with the Lloyd's Account Manager on Personal Data Breaches and take reasonable steps to mitigate effects and reduce chances of a reoccurrence. • Director in place with accountability for oversight of the data governance framework with an appropriate data governance policy in place. • Clear roles and responsibilities are in place for data management. • Appropriate policies and procedures in place to allow timely recording and production of data to ensure data returns are appropriate, accurate, complete and submitted on time.	• *No incremental guidance*	• *No incremental guidance*

Principles

3 **Embed cyber resilience into operations: Managing agents must protect their information systems, processes, people and data from external or internal compromise to prevent harm to customers, loss of data, contagion and/or reputational damage to the wider Lloyd's market.**

Cyber Governance & Identification

Foundational	Established	Advanced
• Establish and maintain a cybersecurity strategy and framework tailored to specific cyber risks and appropriately informed by international, national and industry standards and guidelines • Ensure that the board is accountable for the cybersecurity strategy, endorses the cybersecurity framework and sets the tolerance for cyber risk • Conduct regular reviews of cyber resilience capability to highlight any material gaps and/or areas for improvement • Identify key services, processes and underlying systems (networks, applications and data) including third-party dependencies, prioritise in order of importance and assess respective cyber risks. • Taking a risk-based approach in identifying those services, processes and underlying systems (networks, applications and data) that are critical • Assessment of the current internal and external threats, followed by determination of the likelihood and impact of a cyber compromise or data breach on those critical services, and then development of a set of holistic controls in a proportionate and cost-effective way.	• *No incremental guidance*	• Deep dives on specific cybersecurity related topics (e.g. undertaken by risk/ second-line functions in conjunction with operational/ first-line departments to improve general awareness & understanding of cyber across the business) • Conduct regular reviews, at least annually, of the cybersecurity framework against industry standards to highlight any material gaps/areas for improvement and to use the output to formulate the IT strategic plan • Assurance activities are visibly joined up across the three lines of defence • A good level of awareness and understanding of the work being undertaken across the other lines of defence • An understanding of the cyber skills/resourcing within the other lines of defence. • Comprehensive program of oversight by the third line of defence, including: IT audits to oversee areas with heightened cyber risk; specific proportion of IT audit resource dedicated to undertaking cyber security related reviews or, alternatively, a dedicated team of external support/experts • Representation at forums responsible for oversight of cyber.

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Principles

3 **Embed cyber resilience into operations: Managing agents must protect their information systems, processes, people and data from external or internal compromise to prevent harm to customers, loss of data, contagion and/or reputational damage to the wider Lloyd's market.**

Cyber Protection

Foundational	Established	Advanced

• Obtain Cyber Essentials accreditation on an annual basis to reduce the operational risk of common cyber-attacks
• Implement regulatory mandatory cyber security and data protection training, at least annually, for all staff and have a cyber security and data protection awareness programme in place
• Ensure appropriate security testing takes place on all new systems and any findings are remediated in line with the risk appetite
• Have other appropriate technic al and non-technical controls in place to protect key services, processes and underlying systems
	• *No incremental guidance*	• Obtain Cyber Essentials Plus accreditation which offers a higher level of assurance through the external testing of the cyber security approach. Findings from such security testing are remediated in line with risk appetite and resolved before the 'Go-Live' of the system in question.
		• Comprehensive technical and non-technical controls are in place to protect their all services, processes, systems and data. These could include but are not limited to:
		  • Robust identity, authentication and access management controls to ensure that privilege access to systems are more tightly controlled, principles of least privilege and segregation of duties are applied and multi-factor authentication is deployed
		  • Security requirements are embedded into business process and system design
		  • Vulnerability management controls to identify and remediate vulnerability in systems and applications.

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Principles

3 **Embed cyber resilience into operations: Managing agents must protect their information systems, processes, people and data from external or internal compromise to prevent harm to customers, loss of data, contagion and/or reputational damage to the wider Lloyd's market.**

	Foundational	Established	Advanced

Cyber third-party management	• Policy and processes in place for managing cyber risks associated with key suppliers, outsource providers, coverholders and TPAs.	• *No incremental guidance*	• Documented process for managing the cyber resilience risks associated with all external suppliers which is incorporated into the broader procurement led supplier management process and involves inputs from information security, data protection and business continuity teams/functions at key stages. Typical activities could include:
			  • Categorising third parties and suppliers in order of importance or risk profile, for example: providers of key business services, processors of sensitive data
			  • Agreeing security arrangements with third parties and suppliers and assessing their security capabilities, using a risk-based approach
			  • Assessing changes to the information risk profile, that may result from the onboarding of a new third parties or suppliers.

Cyber detection	• Appropriate controls to identify the occurrence of a cybersecurity event in a timely manner (e.g. through identifying anomalies and events, implementing security continuous monitoring and detection processes). • Monitoring is performed on both incoming (e.g. web, email or USB) traffic and out-going channels to ensure the risk of a successful attack is minimised.	• *No incremental guidance*	• The ability to detect an intrusion early and take a defence-in-depth approach by instituting multi-layered detection controls covering people, processes, and technology, with each layer serving as a safety net for preceding layers. • Monitoring and detection capabilities in place to facilitate its incident response process and support information collection for the forensic investigation process.

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Principles

3 **Embed cyber resilience into operations: Managing agents must protect their information systems, processes, people and data from external or internal compromise to prevent harm to customers, loss of data, contagion and/or reputational damage to the wider Lloyd's market.**

	Foundational	Established	Advanced
Cyber response and recovery	• Response and communication plans for use in the event of a Cyber Incident, with these plans subject to review and improvement as appropriate • Plans and procedures in place to recover from a Cyber Incident, with such recovery arrangements designed to enable that operations are safely resumed with a minimum of disruptions to policyholders and business operations • Test and exercise response and recovery plans and procedures at appropriate intervals.	• *No incremental guidance*	• *No incremental guidance*
Cyber information sharing	• Engage in the timely sharing of reliable, actionable cybersecurity information (which could include threats, vulnerabilities, incident response, recovery and lessons learnt) with internal and external stakeholders • Attacks and threat intelligence are used to broaden understanding of the cyber threat within the business.	• *No incremental guidance*	• Active members of the LMA CISO Community and potentially have a seat at the CISO committee. • Intelligence from threats, incidents and breaches is actively shared with Lloyd's and across the population of other managing agents (in a secure way) potentially via the LMA CISO Community.

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13.

Culture

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Principle 13: Culture

Managing agents should be diverse, creating an inclusive and high-performance culture

CULTURE

1 Demonstrate leadership focus on fostering an inclusive, high-performance culture.

Foundational

- Culture is considered a priority for the Board and senior management and is proactively communicated across the business.
- The desired organisational culture is identified and incorporates the themes of leadership, ethics, trust, respect and motivation.
- The Board and senior management understand the priorities to focus on to achieve their desired culture.
- A leadership behavioural framework or expectations are in place, measured and referred to in decision making
- There is visible support for an inclusive culture from the Board and senior management with policies, processes and practices in place.

2 Ensure behaviour expectations are clear and there is zero tolerance for inappropriate behaviour.

Foundational

- Appropriate policies are evidenced and enforced, with training provided to employees (e.g. Grievance, Bullying and Harassment, Drugs and Alcohol)
- Behavioural expectations are clearly communicated to employees (e.g. code of conduct / employee handbook)
- Leaders demonstrate a 'zero tolerance' approach to inappropriate behaviour and role model the behavioural expectations.
- Employees have confidence that leaders will address inappropriate behaviour in their business, no matter how small
- Compensation is linked to performance against behaviours and business results
- Syndicates can demonstrate methodology for supporting employees, taking seriously all concerns raised in appropriate manner.
- Appropriate due diligence is carried out on new hires.
- Diversity and inclusion training opportunities are on offer for all employees

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CULTURE

3 Encourage speaking up, ensuring there are appropriate tools for employees to do so, and the tone is set from the top.

Foundational

- Policies and processes for speaking up are in place at the business (e.g. Grievance, Whistleblowing) and employees are trained where appropriate.
- Whether informal or formal, there is a culture of action to address concerns and feedback raised by employees. Managing agents take concerns seriously.
- Appropriate tools are available to employees to report issues
- Multiple channels are available for employees to communicate any concerns.
- Speaking up is positioned as foundation of a healthy culture, where employees are comfortable to put forward ideas, suggestions, ask questions and challenge, not just report inappropriate behaviour.

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

- Managing agents can demonstrate how they will support Lloyd's Gender and Ethnicity targets
- Policies, processes and practices are in place which support inclusive hiring for all roles
- Steps are taken to attract diverse and under-represented talent
- Proactive talent management of diverse talent through the business, e.g. development roles and programmes, mentoring
- Succession planning is carried out to identify future leaders, based on behaviours and skills, with diversity of the workforce considered
- Employee Network Groups are encouraged and promoted either within the managing agent or wider industry, with senior managers take a leading role.

5 Understand their employee population, collect appropriate data and take action to create an inclusive employee experience.

Foundational

- Diversity demographic data is collected by each syndicate (including Gender, Ethnicity at a minimum, where local requirements allow)
- The business has a culture where employees feel comfortable disclosing diversity data
- Disclosure of diversity data is increasing or high (gender c. 90%, ethnicity 60%+)
- Analysis of the data considers trends and there is evidence of discussion and interest at board and ExCo driving action
- The employee experience is reviewed through an inclusion lens, and action is taken to remove bias eg from performance, promotion, development, reward

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Glossary

Approved person	An individual who has been approved by the Financial Conduct Authority (FCA) to perform a FCA controlled function for an authorised person.
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.
Binding Authority	An agreement between a managing agent and a coverholder under which the managing agent delegates its authority to enter into a contract(s) of insurance (to be underwritten by the members of a syndicate managed by it) to the coverholder in accordance with the terms of the agreement.
Case Reserves	Contingent financial provisions based on available information, which do not necessarily indicate a coverage position or expected outcome unless and until the managing agent(s) accepts coverage without reservation.
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.
Coverholder	A company or partnership authorised by a managing agent to enter into a contract(s) of insurance (to be underwritten by the members of a syndicate managed by it) in accordance with the terms of a Binding Authority.
Customer Challenge	Fair and proportionate challenge and input from the perspective of the customer.
Customer Due Diligence (CCD)	The act of assessing your customers' background to determine their identity and the level of risk they possess.
Cyber Incident	Refers to an event that threatens the confidentiality, availability or integrity of networks, information systems or data of managing agents. It includes a cyber-attack (for example: DDoS, ransomware, website defacement), any Personal Data Breach or a similar breach of non-personal (commercial) data which includes underwriting data.
Data Protection Supervisory Authority	An independent public authority which is established by a Member State pursuant to Article 51; (as defined in GDPR Article 4(21))
Delegated Underwriting Authority (DUA)	Delegated underwriting refers to an arrangement under which a managing agent of a syndicate delegates its authority to a coverholder to enter into contracts of insurance on behalf of the syndicate.
Delegated Authority	All forms of business where underwriting and claims authority has been delegated to another entity (e.g. binding authorities, consortia, lineslips etc.).

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Environmental Social Governance (ESG)	Environmental, Social, and Corporate Governance is an evaluation of a firm's collective conscientiousness for social and environmental factors.
Expert judgement (EJ)	Where insurance and reinsurance undertakings make assumptions about rules relating to the valuation of assets and liabilities, technical provisions, own funds, solvency capital requirements, minimum capital requirements and investment rules based on the expertise of persons with relevant knowledge, experience and understanding of the risks inherent in the insurance or reinsurance business.
Financial Conduct Authority (FCA)	Financial regulatory body in the United Kingdom with the operational objectives of protecting customers and financial markets, and promoting competition.
Follower	A syndicate participating on a risk other than the Lloyd's Leader.
General Data Protection Regulation (GDPR)	Regulation in the EU and UK (through the Data Protection Act 2018) controlling how personal data is used by organisations, businesses or governments.
Incentives	Oversight activity used for businesses that have been categorised at the top end of the performance scale. There are a range of incentives that can be applied to support growth and development to help the better performing businesses thrive.
Incurred But Not Enough Reported (IBNER)	Amount set aside in respect of the expected cost of claims in excess of the case estimate held. It is to meet the development on case estimates as further information becomes known on open claims.
Incurred But Not Reported (IBNR)	Incurred but not reported (IBNR) is a type of reserve account used as the provision for claims and/or events that have transpired but have not yet been reported.
Interventions	Remediation activity used within Lloyd's Oversight for businesses that have been categorised on the lower end of the performance scale. There are a range of interventions that can be applied to remediate businesses and ensure they return to expected financial and non-financial performance.
Key Performance Indicators (KPIs)	Qualitative and quantitative measures that support the managing agent in assessing their business performance and progress against its objectives. Each measure includes documented success criteria and performance thresholds.
Lloyd's Claim Scheme (LCS)	A set of principles and arrangements for the determination of every claim made on policies underwritten by two or more syndicates (with some limited exceptions).
Lloyd's leader (underwriting)	The first or only Lloyd's syndicate on a slip/contract and/or a syndicate that has authority to bind other syndicates to a risk.
Logical, Realistic, Achievable (LRA)	Criteria against which all business plans are assessed.
Management Information (MI)	Information compiled by a managing agent and reported upwards through governance
Managing agent (MA)	An underwriting agent which has permission from Lloyd's to manage a syndicate and carry on underwriting and other functions for a member.

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Material Cyber Incident	Material Cyber incident refers to a Cyber Incident which may be material if it: • results in significant loss of data, or the availability or control of your IT systems • affects a large number of customers • results in unauthorised access to, or malicious software present on, your information and communication systems.
Maturity Matrix	Technical level guidance setting out indicators and examples of different ways that the Principles and Sub-Principles could be met across a spectrum ranging from the lowest to the highest materiality.
National Cyber Security Centre (NCSC)	Organisation of the United Kingdom Government that provides cyber security guidance and support. Part of Government Communications Headquarters (GCHQ)
Non-Natural Catastrophe Risk	All risks which are not classified as natural catastrophe risks; also referred to as man-made risks. Includes, but is not limited to, Cyber and Liability exposures.
Operating Expense (OPEX)	An expense a business incurs through its normal business operations.
Own Risk and Solvency Assessment (ORSA)	Internal process undertaken to assess the adequacy of an insurer or insurance groups risk management and current and prospective solvency positions under normal and severe stress scenarios.
Personal Data Breach	A breach of security leading to the accidental or unlawful destruction, loss, alteration, unauthorised disclosure of, or access to, personal data transmitted, stored or otherwise processed. (As defined in GDPR Article 4(12))
Portfolio Management	Portfolio management is the optimisation and control of a managing agent's activities and capabilities to ensure that portfolios deliver performance in line with its business plan and strategic objectives. Active portfolio management involves bringing the different functional areas of the business together in a coherent way, implementing a suitably granular framework for proactively looking for opportunities as well as issues, translating the strategy into a detailed action plan, and then executing against it quickly.
Portfolio Manager	An individual responsible for overseeing the Portfolio Management framework across the organisation.
Pre-Bind Quality Assurance (PBQA)	Assessing the completeness and quality of contracts before they are entered into.
Principles for Doing Business ("The Principles")	Brief statements setting out the fundamental expectation expected of all managing agents in order to support the market's overall performance, capital strength financial and reputational credibility. The suite of 13 Principles replace the minimum standards, are outcomes based and allow for more differentiation according to syndicate materiality.
Product Oversight Group (POG)	A group or committee established or designated by the board of a managing agent responsible for the delivery of appropriate Customer Challenge, the analysis and reporting of conduct Management Information (MI) and the review of regulatory developments with regard to Conduct Risk.

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Prudent Person Principle (PPP)	Prudent person principle (PPP) is based on Article 132 of the Solvency II Framework Directive, that sets out the requirements to investments and the associated risk management of primary insurers and reinsurers subject to Solvency II.
Prudential Regulation Authority (PRA)	UK financial services regulatory body, responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
Reinsurance (RI)	A contract under which a reinsurer agrees to pay specified types and amounts of underwriting loss incurred by an insurer or another reinsurer in return for a premium.
Risk Appetite	The level of risk that an organisation is prepared to accept, before action is deemed necessary to reduce it.
Six Risk Types	Fraud, Anti Money Laundering (AML), Sanctions, Market Abuse, Bribery & Corruption and Facilitation of Tax Evasion.
Solvency Capital Requirement (SCR)	Solvency Capital Requirement is the amount of funds that insurance and reinsurance undertakings are required to hold as defined under Solvency II regulation.
Solvency II (SII)	Solvency II is an EU legislative programme implemented in all 28 Member States, including the UK, by 1 January 2016. It sets out regulatory requirements for insurance firms and groups, covering financial resources, governance and accountability, risk assessment and management, supervision, reporting and public disclosure.
Standard of Service	The standard of service which a managing agent commits to deliver to each of its Customers. Other commonly known terms include: service standards, customer promise, customer charter, claims philosophy.
Stress and Scenario Testing (SST)	The process of evaluating the impact of specified scenarios on the company's financial position.
Sub-Principle	A number of statements that set out the key areas supporting the overarching **Principle**.
Syndicate Business Forecast (SBF)	Information provided by syndicates to enable Lloyd's to support the business plan approval and capital processes. The SBF Return collects data that is common to each syndicate.
Syndicate Business Plan (SBP)	A business plan prepared by a managing agent for each active syndicate in accordance with paragraph 14A of the Lloyd's Underwriting Byelaw.
Syndicate Categorisation	The process of allocating syndicates to one of five categories based on consistent approach to assessment against the Principles, both on a qualitative and quantitative basis, across the 13 Principles.
Technical Price	The price for each risk at which the managing agent expects to deliver the long term required return on allocated capital. The Technical Price should take into account all costs associated with writing a risk (including cost of claims, expenses, commission, reinsurance) and be independent of the underwriting cycle and market conditions.

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Acronyms:

AML	Anti-Money Laundering
APS	Actuarial Profession Standard
CCD	Customer Due Diligence
CISO	Chief Information Security Officer
CRO	Chief Risk Officer
CUO	Chief Underwriting Officer
DA	Delegated Authority
DCOM	Delegated Contract and Oversight Manager
DUA	Delegated Underwriting Authority
EJ	Expert Judgement
EM	Exposure Management
ENID	Events Not In Data
ESG	Environmental Social Governance
ExCo	Executive Committee
FCA	Financial Conduct Authority
GAAP	Generally Accepted Accounting Principles
GDPR	General Data Protection Regulation
GWP	Gross Written Premium
IBNER	Incurred But Not Enough Reported
IBNR	Incurred But Not Reported
IEULR	Initial Expected Ultimate Loss Ratio
IT	Information Technology
KPI	Key Performance Indicators
KRI	Key Risk Indicators
LCM	Lloyd's Catastrophe Model
LCS	Lloyd's Claim Scheme
LCR	Lloyd's Capital Return
LIC	Lloyd's Insurance Company
LMA	Lloyd's Market Association
LRA	Logical Reaalistic Achievable
MA	Managing gent
MCR	Minimum Capital Requirement
MGA	Managing General Agent
MI	Management Information
NCSC	National Cyber Security Centre
NED	Non-Executive Director
NWP	Net Written Premium
OFSI	Office of Financial Sanctions Implementation

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OPEX	Operating Expense
ORI	Outwards Reinsurance
ORSA	Own Risk and Solvency Assessment
P&L	Profit & Loss
PEP	Politically Exposed Persons
PBQA	Pre-Bind Quality Assurance
POG	Product Oversight Group
PPP	Prudent Person Principle
PRA	Prudential Regulation Authority
RARC	Risk Adjusted Rate Change
RCSA	Risk and Control Self-Assessment
RI	Reinsurance
SAA	Strategic Asset Allocation
SAO	Statement of Actuarial Opinion
SAR	Suspicious Activity Reports
SBF	Syndicate Business Forecast
SBP	Syndicate Business Plan
SCOB	Syndicate Class of Business
SCR	Solvency Capital Requirement
SII	Solvency II
SM&CR	Senior Managers and Certification Regime
SME	Subject Mater Expert
SST	Stress and Scenario Testing
TAA	Tactical Asset Allocation
TPA	Third-Party Administrator
UW	Underwriting

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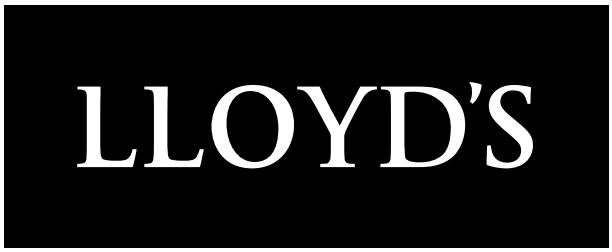
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