LLOYD'S

Lloyd’s Market Oversight Plan

2024

Contents

Foreword

Strategic and risk-based oversight

The focus for Lloyd’s oversight as we move into 2024 is on continuing to build upon progress in underwriting portfolio management, whilst ensuring the market remains resilient in the face of increasing external challenges. We must also ensure we meet all regulatory expectations, both in the UK and internationally, as we deliver for our customers and continue to work together to grow our market in a sustainable and responsible way.

Our Principles Based Oversight continues to embed across the market, and to evolve in line with the shifting risk environment. Examples of how the Principles have adapted include the legacy specific Underwriting Profitability Principle, which will apply from 2024, as well as our increased expectation through differing maturity levels within the Operational Resilience Principle. In 2024, we will expand the Culture Principle to additional levels of maturity to showcase those who are leading the way in helping to build a more diverse and inclusive market. We will also be engaging on our vision to make Claims Management the fifth hurdle Principle – putting superior claims service front and centre as a core attribute of our market.

There are a number of external challenges facing our policyholders and our market as we head into 2024. Our planned oversight work outlined below reflects this. As we look to maintain our strong position of profitability, we will take a multi-disciplinary approach to the review of casualty classes, due to pressure on these classes from legal and inflationary impacts. We will focus on prior year development impacting on plan and look to gain assurance on how current underwriting conditions and remediation actions have been considered in setting initial loss ratios for long tail classes. Pricing KPIs and price adequacy will also continue to be an area of scrutiny and engagement.

We will, develop and implement our Delegated Authority Strategy, ensuring that we can be risk based and proportionate in our oversight and utilise data to performance manage this segment of the market. This will enable us to have greater insight and to actively support delegated authority businesses who deliver sustainable profit across the cycle and consistently demonstrate mature capabilities across their business.

Cyber continues to be a growth class for Lloyd’s and in 2024 we will be implementing our Cyber Market Management Strategy, a three-year plan to strengthen oversight of cyber risk whilst supporting syndicates’ risk appetites in the class. This will be an example of us leveraging our oversight to support those who show good capability in cyber risk management – with multi-disciplinary capability assessments informing our view for 2025 business planning, alongside a development of insights and tools using the data we hold to continue to make Lloyd’s a market place of choice for cyber cover.

Managing volatility within the portfolio from external challenges such as geo-political risk, persistently high inflation and a changing climate will be critical for managing agents during 2024. Our oversight will respond to these challenges in a risk-based and proportionate way. For example, we will conduct an exposure management deep dive in Political Violence and Terrorism, to better understand agent capability for managing exposures in this class. Engagement on inflation will continue, with particular focus on how agents are managing this risk as it manifests in claims and how they are evolving their forward-looking view in line with economic developments.

As part of our recently published Sustainability Three-Year Roadmap on Insuring The Transition, we will work with the market to seek to develop a climate litigation scenario, and a key performance indicator for physical climate risk. Alongside this, we will scope a questionnaire on allowance in capital and reserving to be collected during 2025. We will continue to engage on, and request, sustainability strategies and responsible investment policies, to ensure that Lloyd’s is on track with this strategic priority and better able to support clients as they transition to net zero.

Resilience also extends to our own operations, and in 2024 we will continue to engage with managing agents on their readiness for the March 2025 deadline for operational resilience regulations. In addition, with the BluePrint 2 cutover taking place in July, we will be liaising with you on any foreseeable challenges, to ensure the market’s operational efficiency continues.

Our Customer Oversight Team will be conducting assurance work over 2024 on the embeddedness of Consumer Duty expectations within your business, as well as looking to understand how you monitor vulnerable customers. We will continue to seek to ensure the products sold in the Lloyd’s market offer the customer fair value and will focus especially on cyber products aimed at SMEs. We will conduct financial crime assurance work, especially with regards to sanctions screening and delegated authority business.

Lastly, and most importantly, we will continue to push for a more inclusive and diverse culture within our market, recognising that this drives innovation and high performance. Who we are as a market is critical to not only our brand but also our attractiveness for talent. At Lloyd’s we know our value and our values, and there is no place in our market for inappropriate behaviour. We are keen to engage with you further on progress across all of our cultural aims, following our MP&P return and Culture Survey. We will also be looking to engage on our Inclusive Futures initiative, as we seek to attract Black and ethnically diverse talent into the market and at the most senior levels of our organisations.

I look forward to working with you and your businesses in 2024, as we build upon progress in sustainable profitability, resilience and making Lloyd’s the market of choice for clients and talent.

Peter Montanaro, Market Oversight Director

Sustainable Market Performance

Performance Management - Managing the cycle with continued focus on sustainable underwriting

Lloyd's has experienced two years of underwriting profitability and has made clear progress with maintaining discipline and managing portfolios in a sustainable way. As we move into 2024, Lloyd's oversight will reflect this progress and will target the areas of greatest uncertainty, from an underwriting performance perspective.

Our approach to oversight will be multi-disciplined and risk-based, focussing especially on the casualty class and how performance is being managed across the cycle. As part of ensuring sustainable performance through the distribution chain, Lloyd's will also be making progress with our Delegated Authority Strategy and continuing with our oversight enhancements of legacy reinsurance transactions, where syndicates are acquiring reserves for risks which they did not underwrite.

Underwriting Focus Classes

While ongoing performance management means Lloyd's will review execution of syndicate plans in all classes of business, there are three classes where Lloyd's oversight will be enhanced:

– D&O
– U.S. General Liability
– Cyber

In the case of D&O, Lloyd's will continue to review prior year development to identify any trends which might affect planning assumptions for 2024. We will also be working with a number of syndicates to monitor 2024 RARC and rate-on-line to better understand rate adequacy in this market.

For U.S. General Liability, Lloyd's will undertake a review of prior year development and will engage with any syndicates whose outwards reinsurance purchase differs from their plan, including how these changes will be addressed on inwards business.

For cyber, Lloyd's will maintain a clear focus on the approach of syndicates to systemic risks, including state backed cyber-attacks.

AI/Augmented Underwriting

Lloyd's recognises the potential from technological advancement and this is reflected in our Commercial Strategy. During 2024 we will therefore consult with the LMA to develop a proportionate oversight framework for Artificial Intelligence/Augmented Underwriting. This will take into account both risk and opportunity.

Syndicate Performance

Key areas of interest for all syndicates during 2024 include price adequacy and RARC and how these KPIs interact with GULR and GWP. This will be overseen through a combination of data from market returns and ongoing engagement.

Lloyd’s expects syndicates to articulate risk appetites for volatility and for the business to perform in line with these. Where there are variances, we will engage with you to understand the drivers and this may feed into our assessments of capability under the Underwriting Profitability Principle.

Performance Improvement Plan (“PIP”) classes will no longer be driven by decile 10 across the portfolio, but will instead be more flexible and reflective of the market’s current position of profitability. Lloyd’s expects syndicates to have methodology in place to assess which classes would benefit from remediation and improvement, as well as which it is appropriate to hold and grow – based on performance as well as strategy. Going forwards, PIP will be used wherever Lloyd’s deems it appropriate and classes can move into PIP at any time.

We would remind syndicates that the Mid Year Change process should be utilised for any changes to the approved Syndicate Business Forecast.

Pricing

Lloyd’s will undertake Pricing Maturity Matrix (PMM) assessments with the dual outcome of oversight and capability improvement. The assessment outputs will feed into our view of syndicates against Underwriting Profitability Sub Principle 6. Additionally, in 2024 we would like to gain better insight into the pricing metrics reported to Lloyd’s. This will be carried out through a review of these metrics, supplemented by enquiries and workshops to ensure a common understanding.

Reserving

During 2024 Lloyd’s oversight will focus on Casualty reserving. In particular, how current underwriting conditions and remediation actions have been taken into account in setting initial loss ratios for long tail classes (with a direct impact on planning and model loss ratios).

This is partially a follow-up from the U.S. D&O case study performed during 2023, where allowances for credit for remediation actions within reserve setting exercises were identified as the main driver for the difference in view between Lloyd's and the market for this class following Lloyd's market-wide reserving exercise. However, given continued strain on the casualty market in terms of underwriting cycle, legal developments and inflationary pressures, our oversight will be expanded to a risk-based sample of material casualty writers.

Capital

Lloyd’s has noted an increase in the profit allowance in capital models, reducing the capital requirement for syndicates. In order to gain further assurance on the appropriateness of this trend, we will be focusing on the following during 2024:

Underwriting profit – at a market level, there has been a reduction in both plan loss ratio and the model uplift. Where material at syndicate level, these were assessed during CPG. We will evaluate whether our framework for assessing modelled loss ratio remains appropriate.

Investment profit – there is an increase in expected investment returns in capital models at 2024 YOA. We have assessed the appropriateness of this during CPG but will continue to monitor actual investment returns against expected during 2024.

Delegated Authority Strategy

In 2024 Lloyd’s will focus on developing and delivering our Delegated Authority Strategy. This will enable us to actively support delegated authority businesses who deliver sustainable profit across the cycle, uphold the Lloyd’s brand, and provide good value for policyholders. Our strategy will provide greater focus on delegated underwriting performance, centred on capability, alignment of interest of total remuneration levels and developing a framework that supports the evolving delegated models in our market. We will also deliver a more enhanced risk-based approach to oversight and support greater clarity over parties' roles and responsibilities, to ensure all relevant regulatory requirements are met.

Lloyd's will be:

- Implementing delegated authority specific planning requirements for 2025 Syndicate Business Forecasts.
- Developing a more risk based and segmented oversight approach, underpinned by Principles Based Oversight.
- Consulting via the LMA to define more clearly parties' roles and responsibilities for delegated authority business, especially in terms of compliance and processing.

Legacy Reinsurance Oversight

Over the course of 2023 Lloyd's engaged with legacy syndicates on proposals to ensure greater alignment with our oversight of the live market. During 2024 Lloyd's will continue with these oversight enhancements and legacy syndicates can expect continued engagement on further changes.

These will include:

- Building out a pre-transaction approval process, in consultation with the market, to ensure Lloyd's is sighted on reserving, asset performance and operational efficiency assumptions which have fed into pricing.
- Assessing RITC syndicates against the adapted Legacy Reinsurance Underwriting Profitability Principle, utilising performance management data and KPIs, with a direct impact on overall Syndicate Category, and clear interventions for RITC syndicates who are not pricing and servicing liabilities in line with Lloyd's expectations.
- Developing reserve stress scenarios, in consultation with the market, to assess reserve concentration risk within an individual syndicate. Once the format of these stresses is confirmed, we will update Franchise Guidelines to ensure legacy syndicates' capital reflects this risk as additional reserve portfolios are acquired.

Managing Volatility

Measuring and allowing for volatility in portfolios to build resilience

As Lloyd's is at the forefront of underwriting complex and rapidly evolving risks, it is important that syndicates are able to measure, monitor and mitigate against any potential catastrophes, geo-political shifts, or cross-class accumulations. During 2024 Lloyd's will seek to assist the market on developing areas, such as in cyber, whilst also looking to ensure that our exposure management oversight keeps pace with the risk profile of the market in growth areas such as LCM5 perils. Outwards reinsurance oversight will focus especially on syndicates' management of counterparty risk, and in particular collateralised security.

Cyber

Lloyd's planned approach to Cyber oversight will be linked to the Cyber Market Management Strategy, a three-year plan to strengthen oversight of cyber risk whilst supporting syndicates' risk appetites in the class. Our oversight will be driven by the following four pillars of this strategy, and we will engage with syndicates throughout 2024 as we implement these:

- **Assessing Capability** – explicit cross-functional evaluation of cyber capability, similar to the assessment of natural catastrophe capability but across multiple disciplines, with clear input from multiple teams.
- **Understanding Exposure** – explicit collection of Cyber exposure aggregates by peril; review of the RDSs for cyber; development of a probabilistic modelling framework; clarification of the definition of events and clarification of wordings.
- **Preparing for a Major Event** – application of market turning event principles; design of rules to allow early identification of cyber catastrophes.
- **Developing insights and market intelligence** – provision of research, education and tools so that Lloyd's remains at the forefront of cyber risk.

In addition, Lloyd's will continue to ensure syndicates are adequately capitalised for cyber exposures.

Geo-political Risk

In light of the ongoing volatility within the performance of the Political Violence and Terrorism class, Lloyd's will perform a deep dive on exposure management capabilities for these exposures in 2024.

Lloyd's collected data on syndicates' allowance within capital for geopolitical risk within the 2024 YOA LCR submissions. This has been reviewed for syndicates with material geopolitical exposures during CPG, but a more holistic analysis will be carried out in Q1 2024.

Cross-class Accumulation

Clash scenarios – Extreme stresses across multiple classes.

Over 2024 the Emerging Risks team will work with the LMA on developing these, with a view to collecting data from syndicates later in the year.

Natural Catastrophe

Increasing exposure to non LCM5 regions and perils.

Due to this increasing exposure, Exposure Management will develop granular oversight of “Rest of World” natural catastrophe with the potential expansion of LCM5. This will involve liaising with the LMA through the Exposure Management Working Group, following which Lloyd’s will determine the preferred framework.

Outwards Reinsurance

Collateralised reinsurance oversight

Lloyd’s will conduct an investigation of managing agent controls over collateralised reinsurances (focussing on agents using collateralised reinsurance with more material risk features, such as the use of letters of credit). Interventions will be applied if and as required and we may issue best practice guidance should this prove valuable.

Reinsurance counterparty risk

Counterparty risk continues to be a focus area for oversight, to ensure potential risks are recognised (including in capital) and are monitored, reported and managed. Lloyd’s focus is heightened by:

- Changes in reinsurance programme structures reflecting reinsurance market conditions over recent years, including the potential for misalignment of cover
- Potential for aged debt and dispute in wake of market events over recent years.
- Specifically, the scale of reinsurance reserves and proportion of recovery that is not yet advised/requested in respect of the war in Ukraine.

Reinsurance reporting

Lloyd’s Outwards Reinsurance Team will be working with the market around changes to the SRS return in light of the PRA's Solvency II related reforms. We will also be reviewing market returns and Lloyd's reporting approach to meet incoming OFSI requirements in Canada.

Sustainability Including Climate Risk

Insuring the Transition

Lloyd's Three-Year Roadmap

Lloyd's remains committed to supporting a swift and orderly transition to net zero and is aligned with government and regulatory expectations. Lloyd's continues to focus on making progress in a way that supports clients, is bold and brave, and harnesses opportunity as well as manages risk.

During November 2023 Lloyd's published its Three-Year Roadmap for Insuring the Transition and the market is encouraged to participate in the consultation period to end of Q1 2024, so that we can incorporate the market's views into our planned oversight approach.

The Three-Year Roadmap ensures we can:

– Better articulate what we mean when we state we want Lloyd's to be the specialty marketplace to insure the transition.
– Outline all sustainability related oversight and activity over the next three years across underwriting, investments, exposure management and capital.
– Provide open-source transition frameworks, both for managing agents to structure their own transition plans, as well as a framework to aid the assessment of client's transition plans.
– Highlight several frameworks and sources of further information to support the market with developments to their strategy and maturity across sustainability.

Planned 2024 Oversight Activities

Underwriting

Sustainability strategies should cover how managing agents are managing their transition and climate risk, and should consider what tools, processes and activities are needed to understand underwriting in impacted territories and sectors. Following thematic feedback published in April 2023 and the final three-year roadmap published in Q1 2024, Lloyd's will request updated sustainability strategies from managing agents. These will be reviewed to gain insight into developments across the market to embed sustainability into managing agents' businesses, and to identify areas where further work is needed. The review of strategies will feed into our assessment of managing agents for Sub-Principle 8 of the Underwriting Profitability Principle.

Investments

Risks arising from climate change could adversely affect the value and/or liquidity of assets. As a result, Responsible Investment Policies could highlight how sustainability issues, including climate, are being incorporated into investment analysis, decision-making processes and ownership practices. Lloyd's reviewed managing agents' policies during 2023 and will provide good practice guidance to the market during Q1 2024. Lloyd's expects agents to review their policies regularly and for these to be reflective of their own sustainability strategy and investment risk appetite. We will start to collect updated policies during Q4 2024 to ensure that Lloyd's feedback has been appropriately incorporated, and that the policies themselves are developed, clear and provide us with assurance on how managing agents are managing the transition. This review will feed into our assessment of agents for Sub-Principle 5 of the Investments Principle.

Portfolio Risk Management

Lloyd’s Emerging Risk and Exposure Management functions will be focussing on how managing agents assess and monitor their exposure to climate related risk during 2024. This is to assist managing agents in advancing the measurement of climate related exposures within their underwriting portfolio, and to enhance Lloyd’s understanding of exposure at an overall market level.

Climate related litigation risk - thought-leadership scenario to be developed during 2024. This work is still in the process of being scoped with further information to be shared with the market when available.

Physical climate risk – Lloyd's will scope and develop a KRI for monitoring changes in physical risk (rising sea levels) from climate change over the course of 2024.

Capital

Lloyd's will seek to understand syndicates’ modelling approaches and allowances in capital for climate change, spanning physical, litigation and transition risks. Throughout 2024, we will seek input to the design of a questionnaire to obtain market data, which will be analysed to help understand the current approaches to climate change modelling and begin to develop a good practice approach.

Macroeconomic Uncertainty

Managing inflation and investment risk in a challenging global economic environment

The global economic landscape continues to be challenging and uncertain. Persistent higher inflation has resulted in continued interest rate pressures, which is combined with ongoing geo-political uncertainty. Lloyd's focus in 2024 will be to ensure managing agents are monitoring and mitigating these risks and are allowing for inflation manifesting in claims, whilst stressing the impact of any downgrade on their asset portfolio and continuing to ensure they manage their own liquidity risk in line with their risk profile.

Inflation

Inflation has moved into "phase 2" - where central allowances in reserves/capital/plans are less important and inflation is coming through in claims data. Lloyd's will adjust oversight to allow for this.

Lloyd's will continue monitoring the allowance for inflation in reserves, capital and plans - albeit generally would expect this to become less onerous than in the last two years. Reserving oversight in 2024 will next focus on syndicates' inflation allowances for year-end 2023 reserving and how their assumptions have changed in light of the changing inflationary environment over 2023 calendar year, with potential manifestation of heightened claims inflation within the case reserves/paid claims as opposed to only IBNR.

Lloyd's published best practice guidance around risk management and claims in 2023. In 2024 Lloyd's will engage with the market to reassess the evolving maturity of the work done by managing agents in respect of inflation risk and more broadly looking at how other systemic risks are incorporated into risk management processes. We also plan to review the degree of governance around the assessment of inflation and other systemic risks, the involvement of Executive Committee and Board at integrating those assessments into strategic decision making and how this is incorporated in ORSAs.

We plan to review managing agents 2024 ORSAs to assess the extent to which guidance on inflation risk has been incorporated. We will follow-up with managing agents who have not done this sufficiently.

Investment Risk

Deep dive enhanced oversight - in addition to ongoing oversight of investment risk via review of quarterly asset data returns, the Investment Team will be continuing to conduct market deep dives across a sample of Managing Agents. Building on work completed during 2023, the team will review the investment risk management capability of syndicates covering c.35% of total syndicate assets under management. Over a 3 year cycle the whole market will have been reviewed which will enable benchmarking across the Sub-Principles and shared best practice.

Heightened default/downgrade risk – Lloyd's will conduct a market wide stress testing exercise - assessing market wide exposure to heightened US default / downgrade risk, which may investigate the exposure to specific sectors, e.g. financial sector. This is likely to be based on QADs as opposed to creating further data requests from the market.

Liquidity Risk Management

For 2024 liquidity oversight will take the form of increased reliance on syndicates to manage their own liquidity risk through effective, and syndicate specific, liquidity risk management frameworks.

There will be no stress test exercise in 2024 and this will be move to a 3 year cycle, based on the level of resilience shown by the market to the 2023 stress test.

Quarterly cashflow monitoring will continue and we will engage with syndicates as and when key KPIs are triggered and require follow-up discussion.

Claims Strategy

Putting claims service front and centre

An efficient and effective claims service is critical to the ongoing attractiveness of the Lloyd's market and our brand. In line with our focus on maintaining sustainable growth and profitability, it is essential that the claims service offered by managing agents keeps pace and responds to customer needs. Developments in our claims handling capabilities over recent years have positioned the market well and during 2024 our oversight activity will be focussed on building upon this progress.

Claims Strategy

In 2024 Lloyd's will continue with our focussed engagement in respect of the Claims Management Principle to monitor delivery of the outcomes aligned to the Principle and delivery against managing agents' claims commitments. We will also look for opportunities to elevate the profile of the Claims Management Principle as part of the Oversight Framework. This is to ensure that claims capability and service is front and centre as a core attribute of the Lloyd's market. As part of this we will be working with the market to develop the Claims Management Principle to be a fifth "hurdle" principle.

Claims Oversight Dashboard

Following the release of the Claims Outcomes and Actions Dashboard ("COAD") in 2023, Lloyd's will be using these contemporary data views on lifecycle performance, case reserves and expert management to better understand the outcomes aligned to managing agent's own claims commitments, and so capability against the Claims Management Principle. Lloyd's will draw upon these enriched data insights to inform oversight discussions in 2024.

Claims Lead Arrangement

During 2023 changes were made to the Lloyd's Claims Scheme designed to better streamline the framework by which Lloyd's subscription claims can be determined. This was to aid consistency to deliver the best service to the customer, most efficient use of managing agent resources and also to ensure adequate protection is afforded to all Lloyd's syndicates on the risk in the way that claims are determined. Following these changes to the Claims Lead Arrangements ("CLA") Lloyd's has noted a reduction in the number of complex claims and we expect there is more to be done to secure the maximum benefits from these changes, such as increased use of dynamic triaging, and Watchlist Codes. In 2024 Lloyd's will be monitoring the progress and developments following these changes. These insights will be shared with the claims community through the CLA dashboard, which is available on the Lloyd's Insights Hub.

Operational Resilience & Blueprint 2 Cutover

Ensuring readiness for UK regulation & Blueprint 2 cutover

Operational Resilience Oversight

In 2022 the PRA (SS1/21) and FCA's (PS21/3) regulation on operational resilience came into force and businesses were given until March 2025 to be fully compliant with all aspects of the regulation.

Lloyd's has played a role in helping managing agents prepare for the 2025 deadline through review and challenge of self-assessments and providing a report highlighting good practice, as well as showing common Important Business Services and Impact Tolerances. We have also supported by running market wide scenario exercises, as well as working with the market to create the Market Operational Resilience Framework and revising the Urgent Settlement Guidance. During November 2023 we engaged with a third-party company to continue to offer support to the market, with training to managing agents and other market participants on the challenges of operational resilience.

With the 2025 deadline approaching Lloyd's has updated the Operational Resilience Principle to have four different maturity levels. Managing agents' new expected maturity was advised at the end of 2023 and agents will need to attest to their capability against their new maturity in March 2024. As a result of this, Lloyd's engagement with managing agents will shift more toward oversight and challenge, though we will still look to provide support and guidance, through our self-assessments review and market feedback or by continuing the market wide scenario exercises.

In Q4 2024 we will also be issuing another Operational Resilience Survey to focus on the areas of development we have identified through our additional oversight, allowing us to fully understand the overall resilience of managing agents ahead of the March 2025 regulatory deadline.

Blueprint 2 cutover

With the planned Blueprint 2 cutover due to take place on 1st July 2024, it is essential that managing agents are ready. This is critical for managing agents' ongoing ability to transact business at Lloyd's. We will work with the market to ensure a successful Blueprint 2 cutover, with a particular focus on operational resilience. All agents must ensure that they therefore had a suitable internal readiness plan in place and Lloyd's will wish to discuss that plan with agents.

Customer Focus

Continued focus on fair and consistent customer outcomes

Lloyd's expects managing agents to continue to focus on the needs of their customers in 2024. We will be engaging with the market to ensure that the expectations of Consumer Duty are embedded within each managing agent's business, that the products you sell offer fair value and are overseen with sufficiently robust governance, and that eligible complainants data submitted to Lloyd's is of good integrity.

Consumer Duty Embedding

The Consumer Duty came into force for live insurance business from July 2023 and will become effective for run-off business in July 2024. During 2024, Lloyd's will conduct a review of the market's approach to adhering to the requirements of this key piece of regulation. This is to ensure that managing agents are embedding the expectations of the regulation into their business as appropriate. Our assurance work will include a review conducted with specific managing agents, as well as a market wide questionnaire and discussion through regular engagement with the Customer Oversight team. We will include a particular focus on the market's adoption of the FCA's expectations in relation to vulnerable customers and we will also look to understand the market's implementation of the Consumer Duty in relation to run-off business. Following this work, Lloyd's will look to issue guidance to the market where appropriate and will use the review to inform further work as required.

Fair Value and Product Governance

Lloyd's continues to expect managing agents to ensure the products that they offer ensure fair value to customers. During 2024 we will continue to focus on this through our Product Lifecycle Reviews, including a focus on managing agents' oversight of master policies as we have seen recent instances of managing agents not applying suitable governance controls over these arrangements or not following existing guidance. As cyber insurance products have seen growth in recent years, we will also focus on fair value in cyber products aimed at SMEs, to ensure that managing agents are ensuring they offer fair value to this customer base.

Complaints

Lloyd's is required to submit an eligible complainants return to the FCA which outlines volumes of policyholders eligible to make a complaint to the Financial Ombudsman Service, or their local dispute resolution service. This information is a vital element of our ability to monitor our customer base, contextualise the number of actual complaints received and ensure that we can continue to provide the best customer outcomes. In order to submit the Society level return we rely upon accurate data being provided to us by each managing agent. Unfortunately, during 2023 there were resubmissions required to the FCA, due to data errors within managing agents' submissions received by us. During 2024 we will issue additional guidance setting out our expectations in relation to the reporting of this information to Lloyd's. In addition, managing agents that continue to make avoidable errors in their reporting will receive enhanced compliance charges. Consideration will also be given as to whether repeated errors in this regulatory reporting is indicative of a wider governance issue, which if determined would be reflected accordingly in our assessment of managing agent maturity for the Governance, Risk Management and Resilience Principle.

Culture

Building upon progress to attract and retain diverse talent

The Lloyd's market needs to be a destination of choice for global talent. As a result, Lloyd's expects managing agents to be diverse, building an inclusive and high-performance culture which fosters innovation and reflects society and the customers we serve. We have made progress in our drive to achieve this, and the Lloyd's Culture Team will continue its oversight of the market to build on that during 2024.

In support of our ambition to be a destination of choice for talent, we will be encouraging managing agents to participate in market-wide, collective action to attract diverse talent to our market through early careers programmes and outreach to schools and universities. In addition, via 'Inclusive Futures', a range of initiatives to help Black and ethnically diverse individuals participate, progress and prospect from the classroom to the boardroom.

In addition to this, managing agents can expect continued regular engagement on culture throughout 2024. This will include, but is not limited to the following key oversight activities:

- Further development of the Culture Principle, including defining maturity levels beyond the current Foundational level. This will involve consultation, both internally and externally through the LMA. Our intention is to differentiate further between managing agents, create more ambition on culture for agents to aim towards, and recognise leading agents in the market. As part of this work, we are considering the FCA and PRA Diversity and Inclusion policy proposals and how we align with that. Our timeframe for launching the updated Culture Principle is during Q2 2024, giving managing agents a year before assessment against them in 2025.
- Continuing to collect data and share insights from our annual Market Policies and Practices return (MP&P). Submission is due by 31 January 2024, and managing agents will receive a comprehensive report providing market benchmarks and a summary of areas to focus upon.
- Understanding culture within each managing agent via the next Culture Survey, which will be run during Q1 2024. Lloyd's will expect good participation in the survey by managing agents, having made improvements in the format following a market consultation in October 2023. This will maximise the insights we are able to provide to managing agents. While the previous survey in March 2022 provided a baseline for Lloyd's oversight, the 2024 survey will enable managing agents to understand their progress and market comparisons. Feedback from the survey is expected to inform firm action and drive progress in building a diverse and inclusive culture and will also enable specific follow-up engagement and oversight with agents as needed.
- Our Culture Upskilling programme will be extended into 2024, with a series of workshops, round tables, training and events to share good practice and support the market to continue to make progress. The Culture team will use insights from the Culture Survey, MP&P and their engagement with the market to develop the programme.
- In December 2023 we launched a 'Speak Up' campaign, designed to enhance awareness of how to raise concerns about inappropriate behaviour in the market. The campaign will increase understanding of Lloyd's Advice Line and we encourage managing agents to make use of a Toolkit to promote their internal reporting processes and reinforce the campaign. Lloyd's expects managing agents to set clear behaviour expectations, have zero tolerance of inappropriate behaviour and encourage speaking up. Lloyd's takes seriously any instances of non-financial misconduct and will take action to protect the integrity of the market and ensure a foundation of respect and inclusion is maintained.

Regulatory Change & Compliance

Responding to regulatory change and protecting the Lloyd's brand across the globe

Lloyd's brand and global standing requires us all to continue to ensure we comply with regulatory expectations, both in the UK and internationally. As the external environment in which Lloyd's operates becomes increasingly complex, our regulators expectations continue to evolve accordingly and we must maintain effective compliance risk and control frameworks to meet that challenge.

Regulatory Change

Lloyd's expects managing agents to look carefully at the impact of key regulatory changes on their business, given increased regulatory requirements, protectionist measures and the noticeable shift towards overseas bespoke regulation. Insurance legislative changes across South Africa, Canada, New Zealand, and Switzerland are specifically highlighted, given changes have taken place recently, or are expected. Lloyd's expects the market to be compliant with UK and international regulatory requirements and will expect managing agents to amend their frameworks in this regard to respond to regulatory changes, liaising with the Lloyd's International Regulatory Affairs team as appropriate.

Solvency UK

Following Brexit, the PRA has been consulting throughout 2023 on reforms to the Solvency II regime, to be named Solvency UK. Lloyd's has engaged with the PRA and HMT throughout this process to advocate for the most proportionate regulatory approach possible and will continue to work with the regulators on Solvency II reform in 2024. The majority of the reforms are expected to come into force at the end of 2024, where we will likely see changes to reporting, internal model and capital add-on requirements. HMT has confirmed that reforms to the risk margin will come into force early at the end of 2023. Lloyd's will continue to engage with the market as we implement Solvency UK and is committed to passing on any simplification in requirements to syndicates.

International Regulatory Compliance

Over 2023 Lloyd's has noticed specific failings within the market's international regulatory frameworks and thus, managing agents are reminded of the importance:

– to not have direct contact with international regulators, but instead ensure all contact is managed through Lloyd's centrally
– to not obtain international trading licences/rights for Lloyd's business
– to ensure business is written through the most appropriate Lloyd's platform e.g. LICCL, LIC

Appropriate interventions will be applied if non-compliance persists.

Financial Crime

Sanctions screening - It is critical that managing agents have effective sanctions screening in place which keeps pace with the shifting external environment. Lloyd's will therefore continue with its annual exercise with a sample of agents to assess the effectiveness of sanctions screening and controls. Any findings will be reflected in our assessment of managing agents under the Regulatory and Financial Crime Principle.

AI - In recognition of the increasing use of artificial intelligence in tools, Lloyd’s plans to conduct an initial review into how managing agents have addressed the risks AI capability poses from a compliance and financial crime perspective. This will be with a representative sample of agents and will feed into wider AI work within Lloyd’s as we look to consider how we manage this risk more broadly.

Oversight of financial crime controls – Within each managing agent there should be periodic monitoring and testing to provide assurance that the financial crime and wider compliance controls are effective and adequate. As such Lloyd’s Financial Crime and Compliance Monitoring and Assurance function will be conducting a review of a representative sample of agents, looking at the approach of each to implementing this monitoring and testing activity.

Oversight of financial crime controls in delegated authority business – the Lloyd’s Financial Crime and Compliance Monitoring and Assurance function will be conducting a review of how a representative sample of agents are seeking to mitigate and monitor financial crime issues within their coverholder and delegated authority network. This review will look specifically at how this is done with respect to agents who have delegated claims authority.

Summary of 2024 Oversight

<table>
<tr><td rowspan="6">Sustainable Market Performance</td><td>Underwriting</td><td>Focus classes: D&O, U.S. General Liability, Cyber

AI/Augmented Underwriting

Syndicate Performance: Focus on price adequacy/RARC, changes to PIP, reminder on Mid-Year Change process</td></tr>
<tr><td>Pricing</td><td>Pricing Maturity Matrix, Pricing KPIs</td></tr>
<tr><td>Reserving</td><td>Focus on U.S. D&O, material Casualty writers</td></tr>
<tr><td>Capital</td><td>Profit allowances in internal models</td></tr>
<tr><td>Delegated Authority</td><td>Delegated Authority Strategy:

– 2025 Planning KPIs for delegated authority business
– Enhancements to oversight using Principles Based Oversight
– Engagement with LMA to gain clarity on roles and responsibilities</td></tr>
<tr><td>Legacy Reinsurance</td><td>Oversight Enhancements:

– Developing pre-transaction approval process
– Assessing syndicates against Legacy Reinsurance Underwriting Profitability Principle
– Review of concentration risk; potential changes to Franchise Guidelines</td></tr>
<tr><td rowspan="5">Managing Volatility</td><td>Cyber</td><td>Cyber Market Management Strategy:

– Assessing Capability – cross-functional evaluation by Lloyd’s
– Understanding Exposure – collection of cyber exposure by peril, review of RDSs, clarification of event definition and wordings
– Preparing for a Major Event – application of market turning event principles, design of rules for early identification of cyber catastrophes
– Insights & Market Intelligence - research, education and tools</td></tr>
<tr><td>Geo-political Risk</td><td>– Exposure management deep dive - Political Violence & Terrorism class
– Analysis of syndicates’ allowances for geo-political risk in capital</td></tr>
<tr><td>Clash Scenarios</td><td>Emerging Risks team to work with LMA to develop with a view to Exposure Management collecting data later in 2024</td></tr>
<tr><td>Natural Catastrophe</td><td>Exposure Management will develop granular oversight of “Rest of World” natural catastrophe and may expand LCM5, following engagement with LMA</td></tr>
<tr><td>Outwards Reinsurance</td><td>– Investigation of managing agent controls over collateralised reinsurance
– A focus on counterparty risk – especially with regards to Ukraine</td></tr>
</table>

		– Working with the market on changes to SRS return in light of Solvency II reforms/incoming OFSI requirements in Canada
Sustainability Including Climate Risk	**Sustainability**	Consulting on 3 Year Road Map for Insuring the Transition (Q1)
	Underwriting	Lloyd's will request updated Sustainability Strategies to feed into assessment against Underwriting Profitability Sub-Principle 8
	Investments	Lloyd's will request updated Responsible Investment Policies during Q4 which will feed into assessment against Investments Sub-Principle 5
	Portfolio Risk Management	– Climate litigation – thought leadership scenario to be developed – Physical climate risk (rising sea levels) KRI – to be scoped and developed
	Capital	Seeking market input into a questionnaire to better understand syndicates' modelling approaches for climate change – spanning physical, litigation and climate risks
Macroeconomic Uncertainty	**Inflation**	Lloyd's will continue monitoring allowance for inflation in reserves, capital, and plans. – Reserving oversight to focus on syndicates' allowance for inflation for Year End 23 and allowance made for changing inflationary environment over 2023 – Lloyd's will review governance of inflation assessments and how these are integrated into decision making, reflected in the ORSA
	Investment Risk	– Deep dive enhanced oversight – with selected managing agents – Market wide stress testing exercise (likely using QAD data) to assess exposure to heightened US default/downgrade risk
	Liquidity Risk	– Increased reliance on managing agents to manage their own liquidity risk – No stress test in 2024 as this will be moving to a 3-year cycle – Ongoing monitoring of quarterly cashflows will continue
Claims Strategy	**Claims Strategy**	Working with the market towards making Claims the fifth hurdle Principle of the Oversight Framework
	Claims Oversight Dashboard	Utilising Claims Oversight and Actions Dashboard to feed into our assessment of capability against the Claims Management Principle
	Claims Lead Arrangement	Monitoring progress with changes to Claims Scheme and ensuring leaders are performing as expected. CLA performance to be made available through Insights Hub

Op Res / BluePrint 2 Cutover	**Operational Resilience**	– Assessing syndicates against 4 levels of maturity for Operational Resilience Principle – Continuing to provide feedback from self-assessments and run Market Wide Scenario Exercises – Running Operational Resilience survey in Q4
	Blueprint 2 Cutover	Lloyd's will work with the market to ensure a successful Blueprint 2 cutover, with a focus on operational resilience
Customer Focus	**Embedding Consumer Duty**	– Review of market's approach to compliance, with sample of agents – Market wide questionnaire to gain assurance – Particular focus on how agents monitor vulnerable customers and on run-off business
	Fair Value & Product Governance	– Product Lifecycle Reviews will continue with a focus on Master Policies – Fair value assessment to be undertaken on cyber products offered to SMEs
	Complaints	Lloyd's will issue guidance on expectations for the Eligible Complainants return
Culture	**Culture**	– A focus on Inclusive Futures and encouraging engagement from agents – Further development of the Culture Principle to include additional levels of maturity – Sharing insights from Market Policies and Practices Return and Culture Survey to be run Q1 – Continuation of Culture Upskilling Programme – workshops, training and events – Engagement on the Speak Up campaign and use of toolkit to promote internal reporting on inappropriate behaviour
Regulatory Change and Compliance	**Financial Crime**	– Sanctions screening – continuation of annual exercise with sample of agents – Artificial Intelligence – initial review into the use of AI to understand how agents have addressed risks posed from compliance and financial crime perspective – Financial crime controls – assurance review of monitoring and testing – Financial crime controls in delegated authority business – review with sample of agents who have delegated claims authority –