LLOYD'S

Lloyd's Minimum Standards MS1 – Business Planning and Portfolio Management

January 2021

Contents

MS1 – Business Planning and Portfolio Management 3

Minimum Standards and Requirements 3

Guidance 3

Definitions 3

BPM 1.1 Business Planning Process 5

BPM 1.2 Business Plan Implementation and Monitoring 7

BPM 2.1 Dedicated Portfolio Manager 9

BPM 2.2 Portfolio Management Framework 10

BPM 2.3 Portfolio Optimisation and Remediation 13

MS1 – Business Planning and Portfolio Management

Minimum Standards and Requirements

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

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

Guidance

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

Definitions

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

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

KPIs: Key Performance Indicators

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.

Follower – a syndicate participating on a risk other than the Lloyd's Leader.

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.

RARC: Risk Adjusted Rate Change

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

SBF: Syndicate Business Forecast

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

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.

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

MS1 – Business Planning and Portfolio Management

BPM 1.1 Business Planning Process

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

Managing Agents shall ensure that:

- the Board has responsibility for the Syndicate Business Planning process and approval of the Syndicate Business Plan;
- a nominated director is responsible for managing the process;
- development of the Syndicate Business Plan involves elements which are both appropriate and consistent year on year;
- the business planning process engages all key stakeholders (including underwriters and the pricing function) with the strategy being set collaboratively. The process includes strong feedback loops throughout;
- the Syndicate Business Plan is subject to rigorous challenge by appropriate staff with significant issues documented, prior to being submitted to the Managing Agent's Board;
- the effectiveness of the Syndicate Business Planning process, which should consider the performance of previous years versus plan, should be kept under review with recommendations made to the Managing Agent's Board regarding any changes;
- the Syndicate Business Plan should align to the Syndicate's Underwriting Strategy and, by class of business, should specifically explain their appetite to lead or follow business.

Ownership of the Business Planning Process

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

The process of business planning shall itself be subject to continuous review and improvement. The effectiveness of the process should be kept under review by the nominated director, with recommendations made to the Managing Agent's Board regarding any required changes. The process will not be considered effective if the syndicate consistently performs adversely to plan. Major deviations from plan will be reviewed by Lloyd's as part of the effectiveness of the planning standard and may impact future business planning approvals by Lloyd's.

Developing the Managing Agent's Syndicate Business Plan

Instructions for completion of the Syndicate Business Plan are issued annually. The latest version is available via Lloyd's 'Market Data Collection' (MDC).

Lloyd’s would also expect that Managing Agents’ strategic and business plans take account of the latest published ‘Performance Management – Supplemental Requirements and Guidance’ which includes Franchise Guidelines. These can be found by clicking on the link: http://www.lloyds.com/supplementalrequirements

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

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

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

Challenge and Approval

An effective process will ensure that the Managing Agent’s Board actively tests the key assumptions and targets in the annual business plan, keeps the plan under review at least quarterly and approves any material amendment. The Syndicate Business Plan should undergo rigorous challenge by appropriate staff before being submitted to the Managing Agent’s Board. This will allow the reasonableness of the business plan to be checked at many stages of its development, so that issues are identified and addressed early. These feedback loops involving all teams related to the planning process will strengthen the final plan and should be an inherent part of all syndicates’ planning.

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

Potential Evidence

- Governance structure including committees, their terms of reference and how they relate to each other and the Managing Agency Board
- Minutes of committees and the Managing Agency Board;
- Information provided to the Managing Agency Board and committees;
- Strategy & business plan documentation as seen by the Managing Agency Board;
- Risk Appetite

BPM 1.2 Business Plan Implementation and Monitoring

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

Managing Agents shall ensure that:

- any amendments to the Syndicate Business Plan are approved by the Board nominated executive(s);
- approval is requested in advance from Lloyd's for any material deviations from the Syndicate Business Plan and revised SBF / capital returns are submitted to Lloyd's as required;
- gross written premium does not exceed plan without prior approval from Lloyd’s;
- appropriate KPIs are identified and adherence to the Syndicate Business Plan is reviewed at least quarterly, with actions taken where appropriate to address variances from the Syndicate Business Plan; and
- there are strong feedback loops in place between functions that incorporate latest analysis and promote consistency.

Implementation and Review

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

Managing Agents should ensure that there are strong feedback loops between functions (e.g. Underwriting, Actuarial, Claims, Finance) that incorporate latest analysis and promote consistency.

Material Deviations from the Syndicate Business Plan

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

[**Link to the Supplemental Requirements]** http://www.lloyds.com/supplementalrequirements

Key Performance Indicators (KPIs)

KPIs identifying whether business performance is progressing in line with the Syndicate’s business plan should be identified. These should include KPIs that align to the metrics required in the returns to Lloyd’s (e.g. QMB and PMDR) to monitor performance. The PMDR and Performance Information Packs, which are essential tools for Lloyd’s monitoring of premium, pricing and performance, may be used by the Managing Agent as part of their review of KPIs. It is expected that a written record will be kept of performance against these criteria and this will be reviewed at least quarterly by the Board, with actions taken where appropriate to address variances from plan.

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

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

- Premium Volume
- Loss Ratio
- Aggregate Exposures
- Benchmark Premium vs Actual Premium
- Actual RARC
- Actual Expenses
- Acquisition Costs
- Brokerage/Commissions
- Combined Operating Ratio

In addition, Managing Agents could consider the following:

- Reinsurance Spend, Costs and Recovery Ratios
- Changes in Reserving
- Benchmark Premium vs Technical Premium
- Comparison Across Distribution Channels
- Acceptances Outside of Risk Appetite
- Change in Staff Resources

Potential Evidence

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

BPM 2.1 Dedicated Portfolio Manager

Managing Agents shall ensure that responsibility for the implementation of the Portfolio Management framework within the Managing Agent is explicitly delegated to an appropriate individual (e.g. Active Underwriter).

Managing Agents shall ensure that:

- the Portfolio Manager will have the necessary experience and authority to bring together all functional areas within the Managing Agency;
- Portfolio Management is cascaded throughout appropriate functional areas to maintain a coherent approach; and
- governance and controls to support the Portfolio Management framework is put in place.

Dedicated Portfolio Manager

Managing Agents need to consider what is the most appropriate way to assign responsibility for implementing the Portfolio Management Framework across portfolios taking into account the nature of the business being written.

In order to be effective, it is essential that the responsibility comes with the authority for bringing the necessary resources together and the appropriate operating structure to support it. The Portfolio Manager role would therefore be expected to be built around a senior, experienced individual who has the right skills, experience and motivation to join the various business functions together (e.g. the Active Underwriter). Bringing together the right expertise – business and market knowledge, strategy and planning, technical pricing, risk selection, exposure control and accumulation management, underwriting, reinsurance, claims, , reserving, and capital allocation for example – is critical for the successful implementation of the Portfolio Management Framework and driving effective actions across a set of portfolios through the spectrum of functions.

It is just as important to have an analytical framework and repeatable process in place. This process shouldn't be dependent on a single person; rather, it should be an iterative process into which any individual with the right mindset and skills can fit.

Implementing the Portfolio Management Framework may require:

- The capacity and insight to bring together a wide brief;
- The ability to understand the technical elements and performance drivers of the portfolio in question;
- Cross-functional engagement and influencing capabilities;
- A highly collaborative approach;
- The skills to be able to get the best out of the analytical support functions;
- The ability to execute against an operational plan (and show track record of profitable underwriting);
- An understanding of how technology can deliver first-class portfolio management (the more complex the Managing Agent, the more technology needs to operate at scale); and
- Experience of the appropriate governance required for these processes, especially to avoid the risk of selective use of data to support a position, which can be a systemic issue if not appropriately managed.

Whilst there must be a dedicated Portfolio Manager, Portfolio Management is a shared responsibility; the Portfolio Management Framework should be cascaded consistently throughout the Managing Agent, whereby the Portfolio Management actions are not dependent on the Portfolio Manager to operate; processes are executed and monitored

within functions, and brought together by the Portfolio Manager to ensure effectiveness and coherence of approach across the Managing Agent.

Portfolio Management is effective when it is embedded in culture of the Managing Agent, and undertaken regularly, holistically and consistently. This is often achieved with strong buy-in from the Board, and by the dedicated Portfolio Manager being able to cascade portfolio management philosophies, practices and responsibilities within the Managing Agent, as well as having a clear mandate and authority to implement the Portfolio Management Framework.

BPM 2.2 Portfolio Management Framework

Managing Agents shall have a robust Portfolio Management framework in place to ensure that the underwriting strategy aligns to the business plan and risk appetite.

Managing Agents shall implement a Portfolio Management framework that:

- includes a mechanism to quickly analyse the portfolio mix and the drivers of performance, for attritional, large and catastrophe claims, and at an appropriate level of granularity (e.g. by geography, segment, channel, peril, attachment point etc);
- facilitates the management of business mix at segment level, including actual and expected performance and quantifiable impact assessment of material changes in business mix, performance and the external environment;
- enables timely review processes for Actual vs Plan, including early detection and effective remediation of issues;
- supports longer term return on capital objectives as well as the one year syndicate business plan objectives, allowing management of market cycle and conditions;
- enables the reporting of robust and relevant management information to the Board as appropriate; and
- is subject to a robust and regular review.

Portfolio Management Framework

The Portfolio Management framework is the construct within which a Managing Agent’s Portfolio Management activity is undertaken. There should be congruence between a Managing Agent’s Syndicate Business Plan, Risk Appetite and portfolio strategy, and the capabilities within a Managing Agent to deliver against these. A cohesive, coherent approach should be facilitated by the Portfolio Management Framework.

General oversight of this framework should be conducted by the Portfolio Manager, who must ensure that the framework is relevant, current and appropriate, and that the framework is adhered to throughout the Managing Agent. They must ensure that the framework is regularly audited and reviewed, and is able to provide consistent, relevant management information to the Board.

The Portfolio Management framework may include processes that are embedded across a Managing Agent’s internal control and strategic frameworks, in some cases owned by other senior members of staff. It would be appropriate for the Portfolio Management framework to be documented (in a manner consistent with the Agent's own internal control framework) and for the portfolio manager to be responsible for the application of such processes to the Managing Agent's business portfolio.

Although not exhaustive, a robust Portfolio Management Framework should consider:

- the portfolio strategy and how the framework will support the management of the key strategic drivers to deliver the Syndicate Business Plan within Risk Appetite.
- how the Syndicate Business Plan will deliver required return on capital over the medium to long term
- portfolio management and how it is implemented within the Managing Agent.
- how their assessment of each class of business is aligned to Lloyd's decile approach.
- the key portfolio management processes. These may include (for example):
  - Strategy development and Syndicate Business Planning (annually);
  - Quarterly portfolio reviews and/or remediation;
  - Business as usual monitoring (weekly/monthly);
  - Deep-dive reviews; and
  - Strategic projects
- the Data and MI environment. This may include (for example):
  - The sources of information for portfolio management and the data flow within the Managing Agent;
  - How the data and information captured by the Managing Agents supports key capabilities, including business planning, underwriting, pricing and reserving; and
  - How the MI environment enables delivery of insightful information to decision makers at an appropriate level of granularity to identify and understand issues and opportunities, and without undue delay.
- how key decisions are supported by relevant information and monitored post-implementation. This may include (for example):
  - Quantitative scenario testing and impact analysis supporting business planning and material underwriting and pricing decisions;
  - Cross-functional workstreams to understand the wider impact of decisions beyond underwriting; and
  - Assessments of the practicality of portfolio level decisions by working through impact at segment or case level (e.g. for renewal rate planning)
- the level at which portfolios are segmented and monitored. This may include (for example):
  - The ability to monitor business mix to at least the level at which drivers of performance have been identified;
  - How segmentation is considered consistently across functions (e.g. Underwriting, Claims, Pricing);
  - An articulation of how the segmentation supports necessary analysis to support key use cases (e.g. business planning, pricing, remediation planning).
- how horizon scanning and emerging risks are considered within the framework. This may include (for example):
  - Processes for monitoring insurance industry and broader economic development; and
  - Approach to horizon scanning for emerging risks.
- how the framework supports management of Risk Appetite. This may include (for example):
  - The role of reinsurance and exposure management across the portfolio, how this is controlled and managed within the Managing Agent
  - Linkages with the Risk function and Capital Management

Portfolio Management actions should be tested regularly and robustly for contradictions and weaknesses in assumptions, such as:

- rate versus retention;
- top vs bottom line;
- acquisition versus administration/operating expenses;
- loss development versus price adequacy;
- reinsurance utilisation; and
- across pricing, reserving and capital modelling.

The framework should provide for comprehensive “what-if” testing and scenario modelling, to test a wide range of assumptions. These analyses are more impactful when testing a combination of assumptions, rather than flexing single assumptions in isolation. When a change to one assumption flows coherently to other parts of the plan (including any likely impact on other assumptions), with all relevant parties aware of and agreeing to the change, a Managing Agent can be more confident that the holistic robustness of the plan has been adequately tested. For an extra level of confidence, the plan should also be set with regard to, tested against, and monitored within the context of the wider macroeconomic environment.

In addition to overarching coherence, the framework should enable detailed analysis of the portfolio at an appropriate level of granularity which is at least aligned to a level of detail at which key drivers of performance can be identified and monitored (e.g. sub-class, industry sector, geography, channel). This may require a suite of data analysis skills, tools and techniques, a clear data strategy, and the pre-requisite capability of capturing data at a level at least as granular as the desired analysis.

Being able to view the portfolio through any business mix combination and to draw upon standardised data assets should be fundamental to the design of the data architecture. Portfolios should be analysed to identify dynamic, meaningful groupings and segments. Risk groupings may include (but are not limited to):

- Line of Business
- Product
- Geography
- Sector
- Size
- Primary / excess (and within excess, different attachment point / limits)
- Risk profile
- Distribution channel
- Whether or not there is a delegation of authority
- Lead or follow
- Single risk vs treaty

The framework should enable a Managing Agent to identify both opportunities, as well as issues (such as deviations from plan) within the portfolio, and to react with appropriate pace. Issues and opportunities, once identified, should be understood and analysed quickly and effectively. This should include uniting quantitative analysis of performance data and qualitative feedback from across the business.

Once the issues or opportunities have been identified, understood and analysed, the dedicated Portfolio Manager should bring together relevant and suitably competent individuals to plan and implement a response (whether remedial or opportunistic). The success of this response should be monitored against expected performance and lead indicators, including operational indicators which may be able to give an initial view of the impact of a response far more quickly than waiting for this to earn through to lag indicators (e.g. Loss Ratios).

Reviewing Portfolio Management Framework

Managing Agents are expected to test and record the effectiveness of the Portfolio Management framework regularly, with any variances or control failures highlighted and addressed. The findings should be shared with the dedicated Portfolio Manager in the first instance, who may then choose to cascade to relevant teams within the Managing Agent (Underwriting, Pricing, Exposure Management, Reserving, Claims, Reinsurance, Operations etc), or may escalate to the Board. Actions to address issues or opportunities identified in the review should be implemented across an appropriate timeframe and monitored to assess the actual impact.

The Portfolio Management Framework itself should be subject to regular internal review by an independent function within the business. This would typically be expected to be internal audit but may differ depending upon the structure of the Managing Agent. At a minimum, the review should cover:

- The availability of data for portfolio management within the syndicate;
- The use of data in the Portfolio Management framework including if it would be appropriate to use alternative data sources
- The appropriateness of granularity of any analysis;
- The sophistication of the analysis being performed and the use of technology;
- The ability of the Portfolio Manager to effect change following identification of issues or opportunities;
- The impact of any changes implemented;
- The extent to which the Portfolio Framework aligns with the Syndicate Business Plan and Risk appetite;
- Evidence of the interaction between the various teams (e.g. UW, Claims. Finance, Actuarial) such as minutes from meetings; and
- Gaps/ failures, and the process by which changes are then absorbed into revised business as usual activity.

Potential Evidence

- Potential evidence of this review could include internal peer review report(s);
- Any external independent Reviewer(s) reports (if applicable); and/or
- Information provided to the Managing Agency Board and committees, amongst others

BPM 2.3 Portfolio Optimisation and Remediation

Managing Agents shall actively monitor their portfolios to understand and quantify the main drivers of performance and put in time-bound measures to optimise or remediate their plans where necessary.

Managing Agents shall:

- undertake regular review of Actual performance vs Plan KPIs, including early detection and of issues and opportunities;
- where opportunities or material deviations from the business plan have been identified, consider necessary actions and implement where appropriate;
- where it is necessary to remediate a portfolio, produce an appropriate action plan; and
- monitor the progress and impact of any remediation plan in place.

Portfolio Monitoring

KPIs identifying whether business performance is progressing in line with the business plan should be identified. Monitoring and reporting against these indicators should feed into the business plan monitoring processes.

Managing Agents are also expected to select measures of performance (KPI’s) which will allow them to monitor progress at a more granular level across portfolios which enable the monitoring of assumptions and drivers of performance underpinning the portfolio strategy. The measures might relate to any element of performance (e.g. financial, operational, customer, compliance) as relevant to the portfolio.

Where a variance from plan has been identified, and remediation or opportunistic action is deemed appropriate, Managing Agents should consider appropriate actions and implement them. In particular, where this action involves remediation, an appropriate action plan should include:

- A description and quantification of the drivers of the adverse performance, including any information gleaned during the process of identifying, investigating, understanding and analysing the issue(s);
- Clearly articulated remediation actions, including the rationale and expectations of the quantum and timing of any impact they will have on the portfolio. This will include the nature of any lead or lag indicators, the extent to which the remediation actions will impact them, and when this impact is expected to take effect on the indicators;
- Evidence that due consideration has been paid to any secondary impacts that these actions may have, across all classes and functions within the Managing Agent; and
- A holistic view of the suitability, practicality and appropriateness of the remediation actions and expected impacts, taking into account at least all of the above, and with regard to the wider macroeconomic context.

Progress against the action plan should be monitored within the Portfolio Management Framework and reviewed at appropriate intervals for deviations and changes in key assumptions.