

Project Rio Technical Briefing Sessions

Liquidity

31 January 2022

Lyndsay Deeves, Steve Jules and Tim Culshaw

Agenda

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

Oversight Framework:

Overview of broader framework

Lyndsay Deeves

Pre-recorded

Oversight Framework

Focussing on what matters

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

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

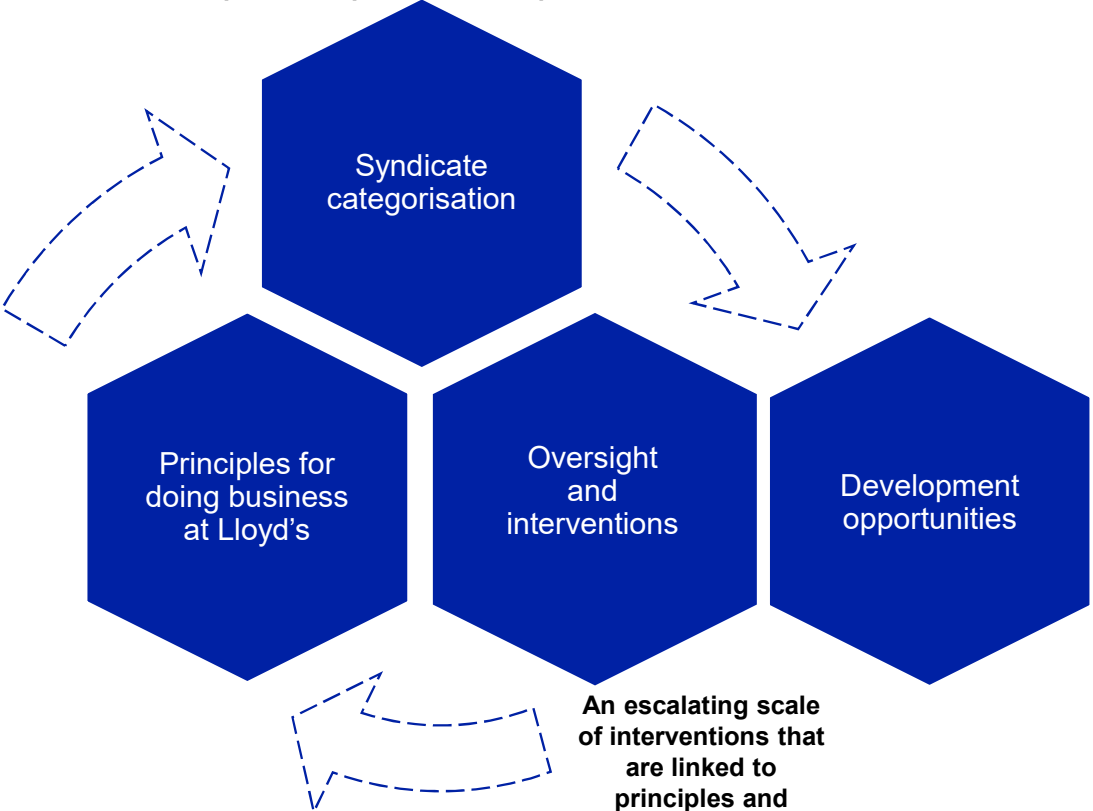
Oversight Framework

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

Principles defined across all oversight areas

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

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



Growth and development opportunities for the best run businesses

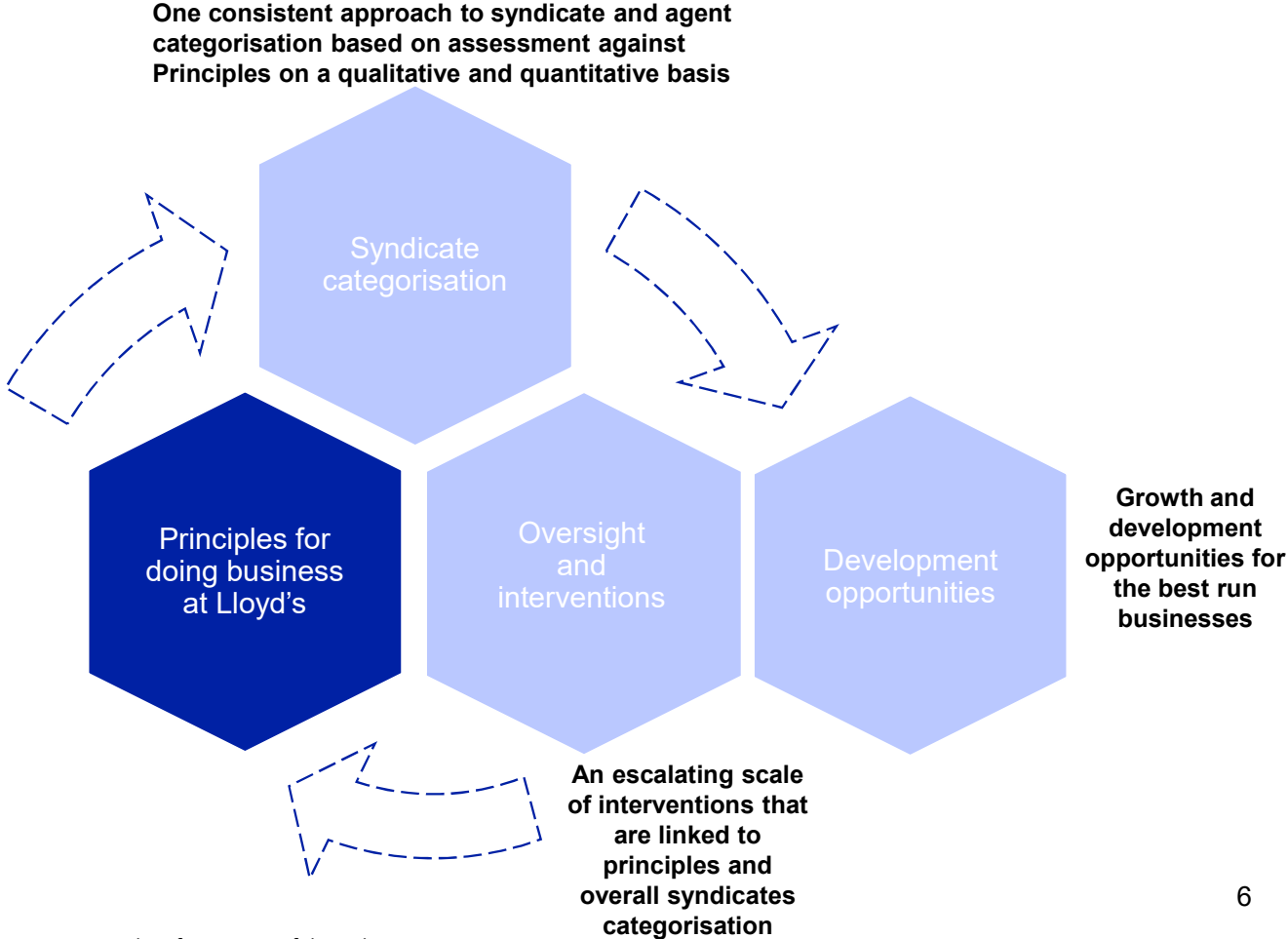
An escalating scale of interventions that are linked to principles and overall syndicates categorisation

Oversight Framework

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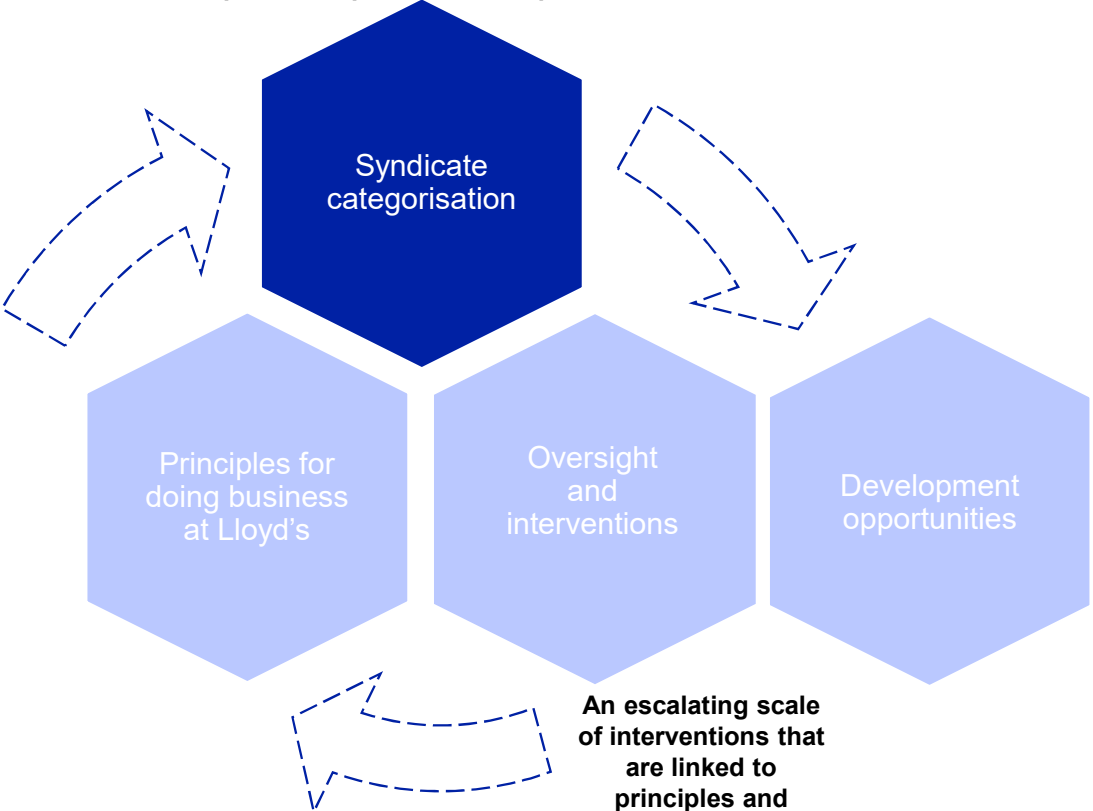
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Growth and development opportunities for the best run businesses

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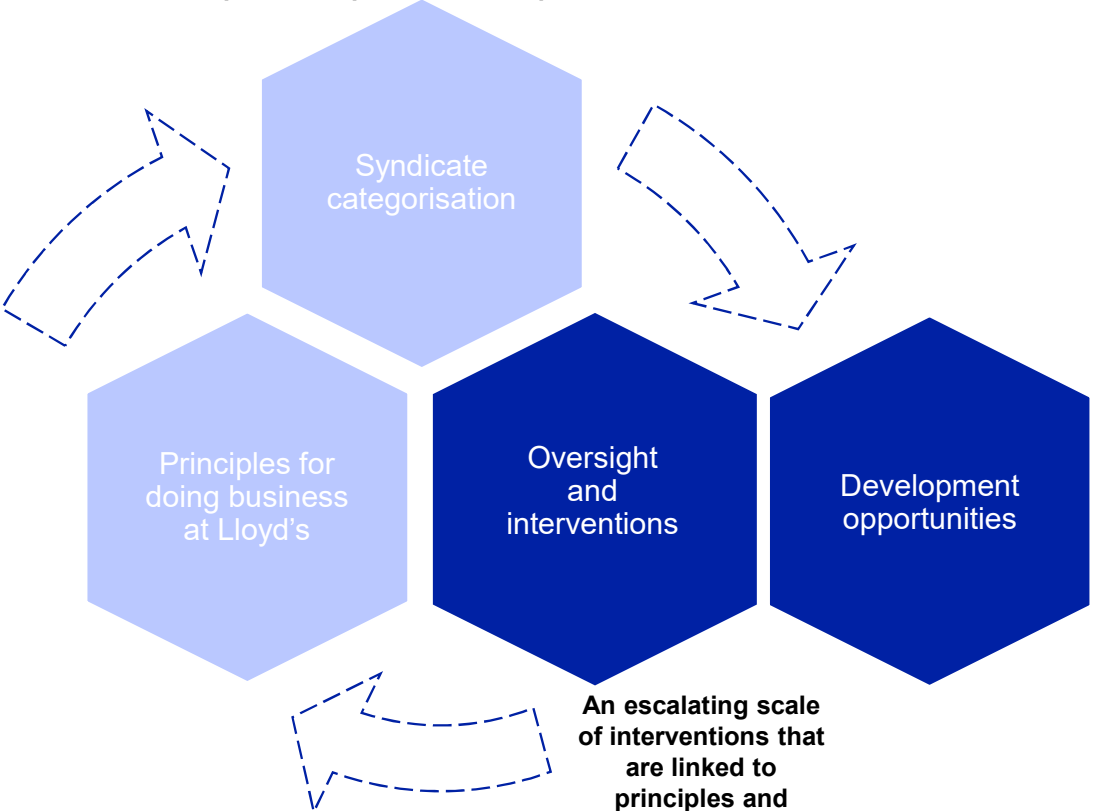
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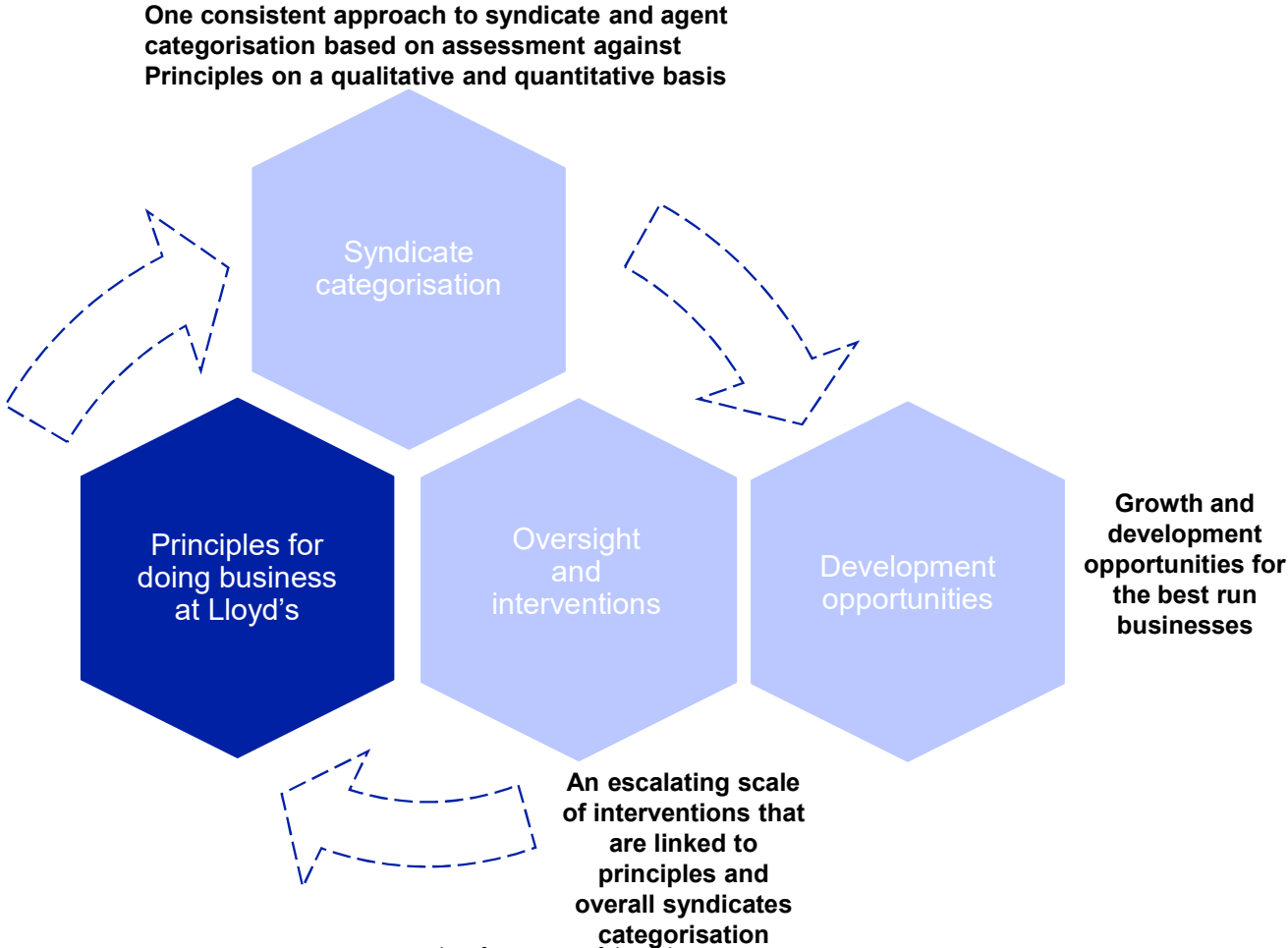


Growth and development opportunities for the best run businesses

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

Oversight Framework

The Lloyd's Principles



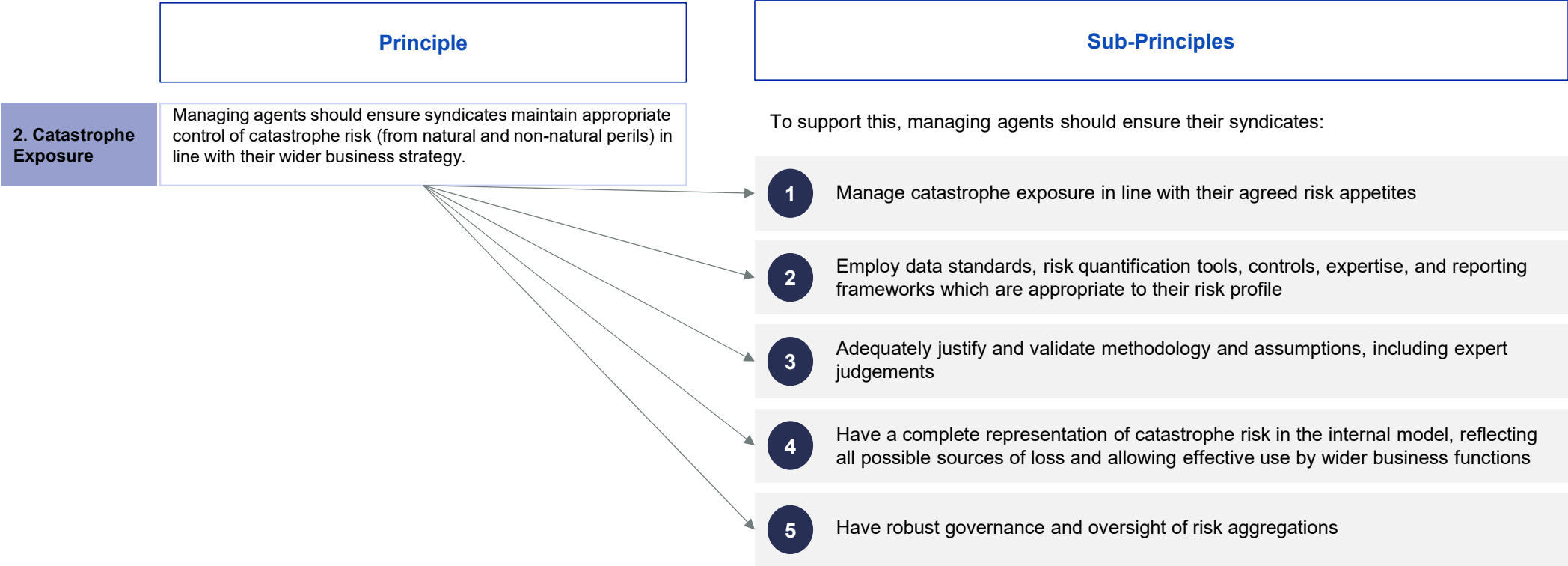
Oversight Framework

The 13 Lloyd's Principles

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

Oversight Framework

Principles and Sub-Principles



Oversight Framework

The Maturity Matrices

Materiality to the Principles
informs expected sophistication

Indicators & suggestions –
not requirements

Foundational broadly aligns
with the expectations from the
previous minimum standards

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

Sub Principle →

Guidance →

Maturity Matrix

CATASTROPHE EXPOSURE				
	1 Manage catastrophe exposure in line with their agreed risk appetites.			
Risk Appetites	Foundational	Intermediate	Established	Advanced
		<ul style="list-style-type: none"> Catastrophe risk appetite statements are in place; exposures are monitored against appetite and reported to senior management and the board. Business plans reflect catastrophe risk appetites 	<ul style="list-style-type: none"> Catastrophe risk appetites are derived with consideration of View of Risk. There is a clear link between risk appetite and business strategy and decision-making. 	<ul style="list-style-type: none"> Catastrophe risk appetites are cascaded to relevant business functions and are supported by tolerances, limits, and breach management processes. Risk appetites inform decision-making at each level, within the exposure management teams and other functions.
	Low materiality	Moderate materiality	High materiality	Highest materiality

Oversight Framework

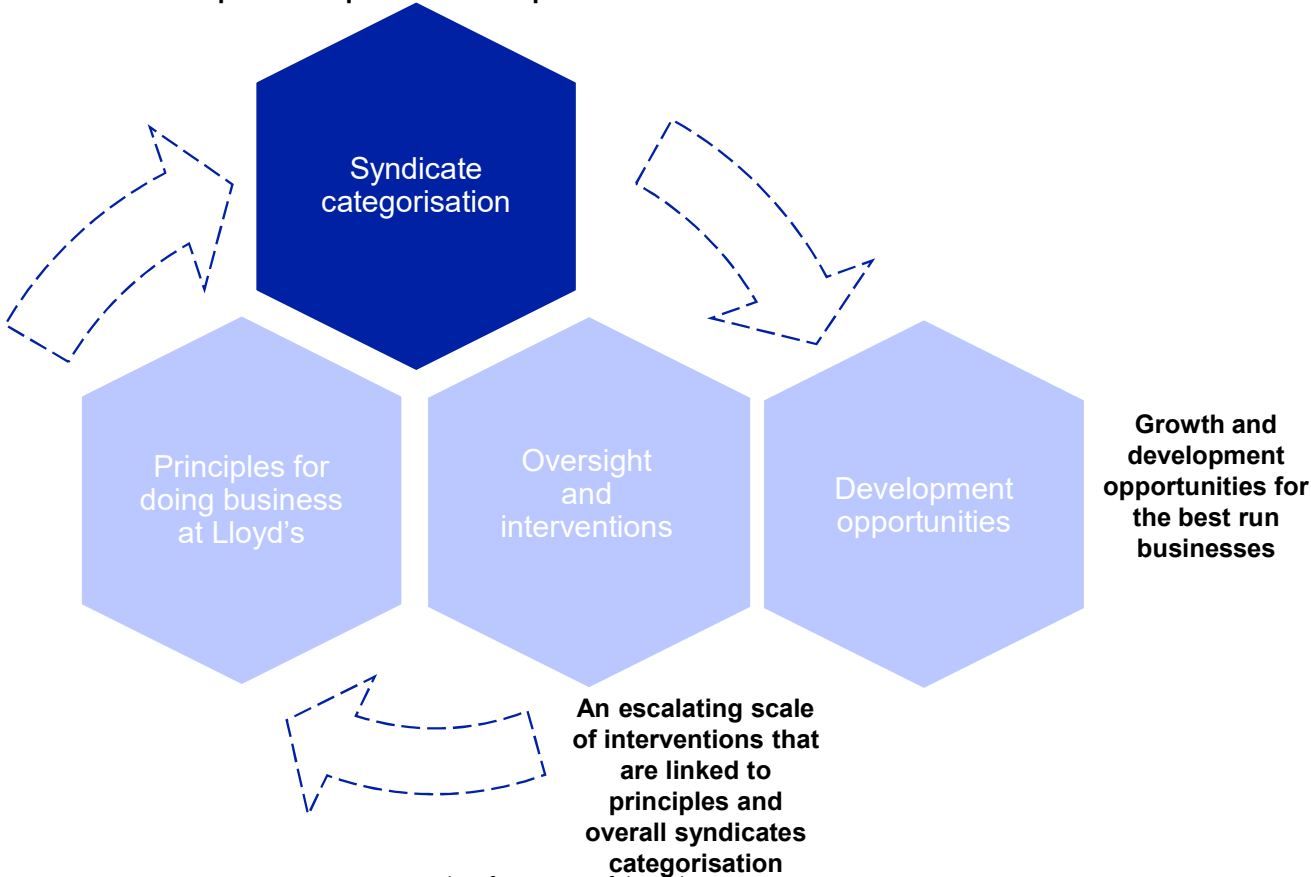
Levels of maturity – generic definitions

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

Oversight Framework

Syndicate categorisation

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



Oversight Framework

Syndicate categorisation

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

Oversight Framework

Syndicate categorisation

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

Oversight Framework

Syndicate categorisation

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

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

Oversight Framework

Syndicate categorisation

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

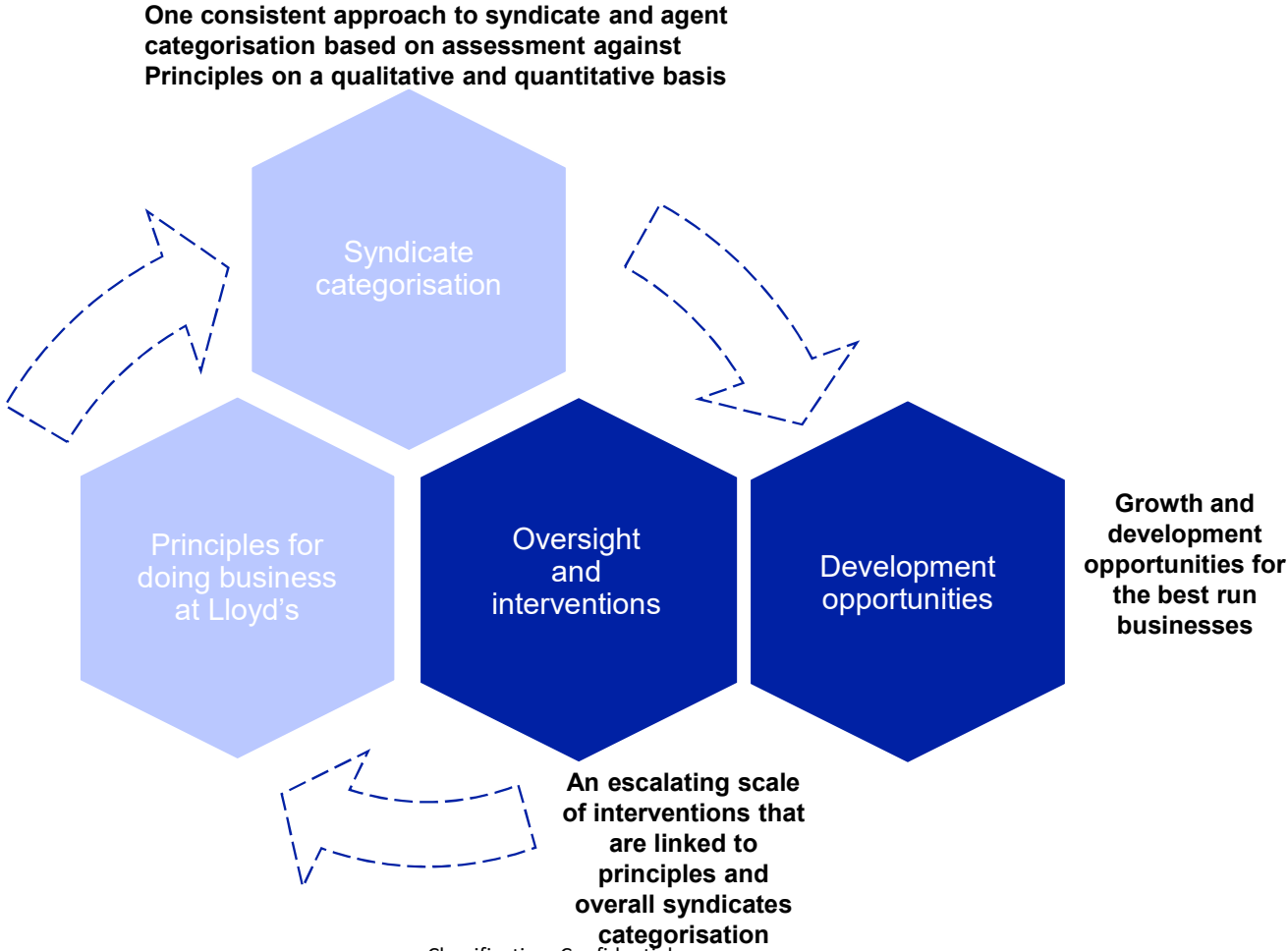
Oversight Dimensions		Expected Maturity	Actual Maturity	Dimension Rating	Syndicate Category
Performance	Underwriting Profitability	Advanced	Intermediate	Below expectations	
	Catastrophe Exposure	Established	Established	Meets expectations	
	Outwards Reinsurance	Foundational	Foundational	Meets expectations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

OUTPERFORMING
GOOD
MODERATE
UNDERPERFORMING
UNACCEPTABLE

UNDERPERFORMING

Oversight Framework

Oversight / Interventions and Development Opportunities



Oversight Framework

Interventions Playbook

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

LLOYD'S

Oversight Framework:

How will it work for liquidity?

Steve Jules & Tim Culshaw

Oversight Framework – Liquidity

What risk are we managing

Oversight Objectives		
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Lloyd's has no appetite for the Central Fund to be used as a liquidity resource for the market

Lloyd's therefore expects syndicates to manage liquidity risk such that Central Fund support is not required

This will help Lloyd's:

- Maintain its ability to ensure policyholder claims are paid;
- Protect its financial strength ratings; and
- Ensure it meets regulatory expectations

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

Oversight Framework – Liquidity

Defining expected maturity

Oversight Objectives		
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- For 2022, materiality will not be used to set an expectation of syndicate maturity – all syndicates are expected to meet the single "foundational" level of the maturity matrix
- Lloyd's will use materiality internally to prioritise its reviews in order to focus on what Lloyd's deems to be the syndicates most at risk of liquidity strain
- The maturity matrix will be developed to include more levels once we have a more in depth understanding of how the market manages liquidity

Oversight Framework – Liquidity

How will Lloyd's assess performance against the Principles?

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Qualitative assessment

- Lloyd's will initially collect liquidity risk management frameworks from the more material syndicates. These syndicates will be contacted to provide input around the end of February.
- For less material syndicates, Lloyd's will initially rely more on self-assessments but expects to review their frameworks later in the year
- The frameworks will be reviewed to confirm whether they satisfy the requirements of the liquidity sub-principles
- If further information is required Lloyd's may request a meeting with the managing agent to gain a better understanding of their framework
- Feedback will be provided to the managing agents on completion of the review

Oversight Framework – Liquidity

How will Lloyd's assess performance against the Principles?

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Quantitative assessment:

Annual Stress Test

Lloyd's has asked the market to complete a liquidity stress test (issued on 17th December)

- This will be used to determine the impact of a severe stress event on the market and identify any residual Central Fund strain. The key features of the stress include:
 - Claims: 1-in-200 (gross) US windstorm (or the syndicate's most severe RDS if US windstorm is not appropriate)
 - Funding: US funding requirement for estimated ultimate gross loss due by 60 days following the end of the quarter in which the loss event occurred
 - Reinsurance: Three reinsurers with the largest financial shares of total RI recoveries dispute their liability. Two of these take 60 days to resolve and the third takes 90 days to resolve
 - Investments: Also assume the syndicate's investment portfolio is impacted by a repeat of the 2008 financial crisis
 - FAL: should not be considered a source of liquidity when calculating the syndicate level impact
- A key focus of Lloyd's review of the completed stress tests will be understanding where syndicates plan to rely on credit facilities and the extent to which these facilities are contractually enforceable
- If there are material changes in a syndicate's business plan during the year, the managing agent should re-perform the stress test if it deems liquidity risk has changed materially

Oversight Framework – Liquidity

How will Lloyd's assess performance against the Principles?

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Quantitative assessment:

Business as usual monitoring

- On a quarterly basis Lloyd's will also monitor the level of unrestricted assets to forecast cash outflows reported in the QMA 350u – over all time horizons
- Where coverage of cash outflows is less than 150% Lloyd's will contact the agent to understand whether there are any liquidity concerns and the steps being taken to resolve them

Interventions

Oversight Objectives		
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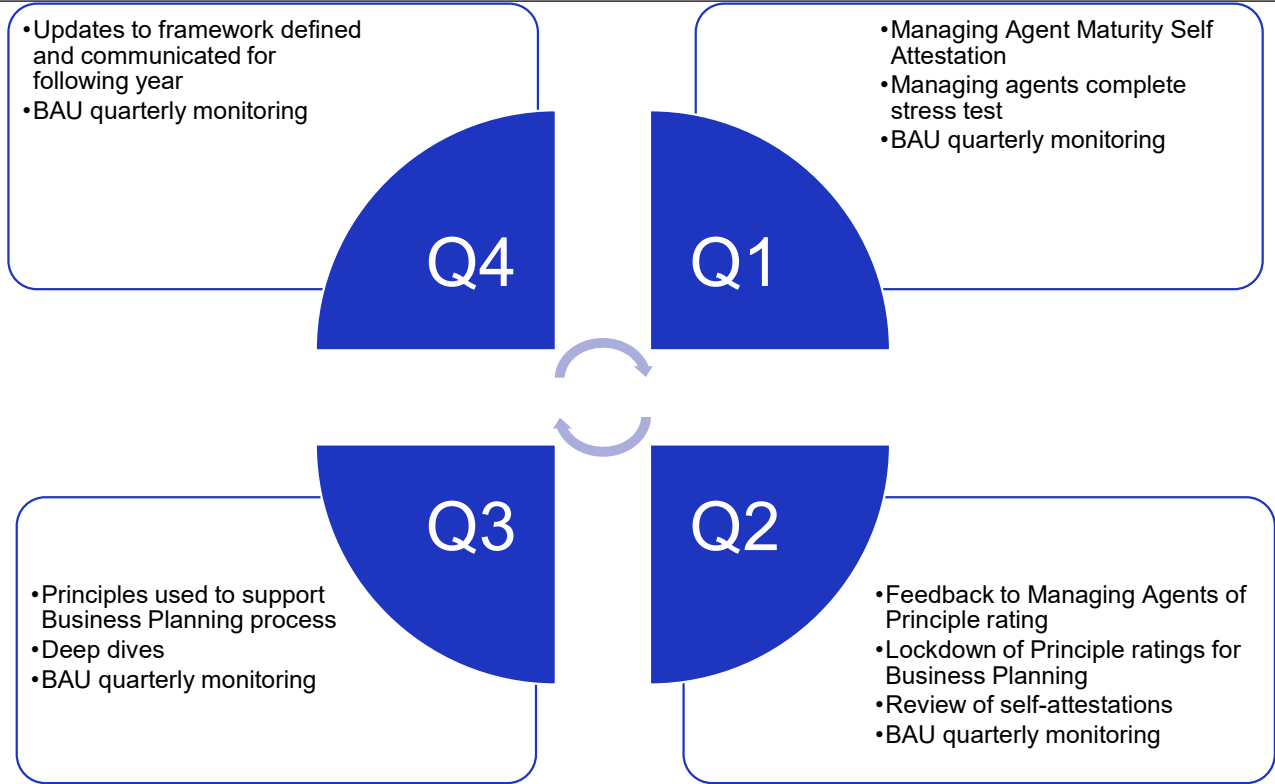
		Robust intervention for underperformers			Development encouraged for the best		
		UNACCEPTABLE	UNDERPERFORMING	MODERATE	GOOD	OUTPERFORMING	
Future Framework	Generic interventions based on aggregate categorisation across dimensions	<p><i>Syndicate poses an unacceptable risk to Lloyd's objectives</i></p> <ul style="list-style-type: none"> Minded to close Immediate action required 	<p><i>Capability and performance below expectations</i></p> <ul style="list-style-type: none"> Very robust intervention Rapid remediation No development 	<p><i>Capability and performance marginally below</i></p> <ul style="list-style-type: none"> Routine monitoring Targeted intervention Development support 	<p><i>Capability and performance in line with expectations</i></p> <ul style="list-style-type: none"> Targeted monitoring Minimal intervention Development proactive 	<p><i>Capability in line with expectations and support by best in class performance</i></p> <ul style="list-style-type: none"> Reduced oversight Minimum intervention Development encouraged 	
	Liquidity oversight						
	Intervention in oversight area		<ul style="list-style-type: none"> Engage a third party to review their liquidity risk management framework and polices and develop a remediation plan, at the MAs cost Require an injection of liquid resources/contractual commitment to source of addition liquid resources Mandate FAL draw down Capital loads 				
Intervention in other oversight areas		<ul style="list-style-type: none"> Ensure remediation is aligned with any remediation arising from outward reinsurance oversight Mandate change in investment strategy (PTF and FAL) to improve liquidity Limit underwriting in certain classes that are most likely to lead to liquidity strain 					

*See next page

Oversight Framework – Liquidity

Annual cycle of activity

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There will be continuous assessment of sub-principles through the year based on Lloyd's interactions with Managing Agents, syndicate returns, document review. For Business Planning, scores will be locked down in Q2.

LLOYD'S

Case studies:

Bringing the Framework to life

Steve Jules & Tim Culshaw

Case Study

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



Syndicate X

Syndicate X is a large syndicate writing a range of property and casualty business in many territories around the world. In particular it has very material US nat-cat exposure.

It has a defined liquidity risk management framework, which is reviewed by the managing agent Risk Committee and Board on an annual basis. The framework is syndicate specific and is integrated within a wider group-wide framework. As part of that review the key sources of liquidity risk are discussed and updated where necessary. The most material liquidity risk is considered to be US nat-cat risk due to the US situs trust funding requirements. Margin requirements for FX hedges were also identified as a material risk.

The framework defines the syndicate's liquidity risk appetite as being able to withstand a 1-in-250-year natural catastrophe, plus a repeat of the 2008 financial crisis.

Stress testing is carried out twice per year. The stress test assumes a in-250 year natural catastrophe plus a repeat of the 2008 financial crisis occurs in addition to BAU cash flow forecasts.

The net cash position is projected over the next 3, 6, 9 and 12 months and the resulting liquidity strain is compared to the syndicate's high-quality liquid assets to determine the size of the liquidity buffer required.

The results of the stress test are reported to the Risk Committee, including details of any action to be taken, such as increasing the size of the buffer to cover the impact of the stress.

In addition, the framework details a series of liquidity contingency measures, which include a syndicate specific rolling LOC facility with a highly rated bank and a contractual agreement with its group holding company to obtain short term borrowing. The amount of funding available through these facilities is reviewed against the results of the stress test twice per year.

Through its regular liquidity risk monitoring and cash flow forecasting the syndicate identified that the 2017 HIM losses would lead to a material liquidity strain and had early discussions with its bankers. It was able to draw on the LOC facility to fund these losses, eventually repaying funds the following year.

Principles rating

Syndicate X

Principle		Expected Maturity	Agent assessment of Maturity
9. Liquidity Managing agents should ensure syndicates (and their members) 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.		Foundational	Foundational
Sub Principle 1	Key sources of liquidity risk identified, assessed and details of how these key risks are monitored and reported	Foundational	Foundational
Sub Principle 2	Outcome of stress testing, including Lloyd's defined stress test and syndicates' 1:200 stress test	Foundational	Foundational
Sub Principle 3	Clearly defined risk appetites.	Foundational	Foundational
Sub Principle 4	Regular assessment of liquidity buffers above expected cashflow projections.	Foundational	Foundational
Sub Principle 5	Thorough liquidity contingency plans including articulation of what management actions and steps are open to alleviate liquidity strain including separation into those that are 'contractual' in nature and which are aspirational	Foundational	Foundational
Sub Principle 6	Have robust governance over liquidity risk	Foundational	Foundational

Overall rationale

- Comprehensive liquidity framework specific to the syndicate
- All material sources of risk identified
- Risk appetite linked to main sources of risk
- Stress testing and liquidity buffer clearly linked to risk appetite resulting in dynamic buffer
- Adequate and enforceable contingency plans that are regularly reviewed
- Contingency plans responded well to an actual liquidity stress
- **Dimension level:** meets expectations

Case Study

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



Syndicate Y

Syndicate Y is a smaller syndicate writing a range of property and casualty business in many territories around the world. It also has material US nat-cat exposure and buys a large amount of outwards reinsurance protection on the cat book.

It applies a group-wide liquidity risk management framework, which is reviewed by the managing agent Risk Committee and Board on an annual basis. As part of that review the key sources of liquidity risk are discussed and updated where necessary. The syndicate holds all its investments in cash and cash equivalents and therefore does not consider liquidity risk to be a particularly high risk.

Its liquidity risk appetite is defined as being able to withstand a £150m loss. A liquidity buffer of high-quality liquid assets sufficient to cover this is maintained on the syndicate's balance sheet.

Stress testing is carried out once per year and covers a range of losses of different severity. The resulting liquidity strain of each event is compared to the available liquid resources and the severity of the event that can be withstood vs what can't is reported to the Risk Committee.

The main contingency measure identified by this syndicate is short-term borrowing from the group parent company. However, there is no contractual arrangement in place between the syndicate and parent company to provide this support.

Following the 2017 HIM losses a dispute arose with the syndicate's largest reinsurer, which led to a liquidity strain. This was mitigated by borrowing from its group parent company on an informal basis.

Principles rating

Syndicate Y

Principle		Expected Maturity	Agent assessment of Maturity
9. Liquidity Managing agents should ensure syndicates (and their members) 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.		Foundation	Below foundational
Sub Principle 1	Key sources of liquidity risk identified, assessed and details of how these key risks are monitored and reported	Foundation	Below foundational
Sub Principle 2	Outcome of stress testing, including Lloyd's defined stress test and syndicates' 1:200 stress test	Foundation	Foundational
Sub Principle 3	Clearly defined risk appetites.	Foundation	Below foundational
Sub Principle 4	Regular assessment of liquidity buffers above expected cashflow projections.	Foundation	Below foundational
Sub Principle 5	Thorough liquidity contingency plans including articulation of what management actions and steps are open to alleviate liquidity strain including separation into those that are 'contractual' in nature and which are aspirational	Foundation	Below foundational
Sub Principle 6	Have robust governance over liquidity risk	Foundation	Foundational

Overall rationale

- Liquidity risk frameworks is not specific to the syndicate
- Failed to identify reinsurance as a potential source of risk
- Risk appetite is an arbitrary figure not linked to stress testing
- Size of liquidity buffer is set with respect to risk appetite but is not linked to results of stress testing and therefore may not be sufficient
- Contingency plans are not enforceable as there is no contractual arrangement. May not be a reliable source of funding in a severe market event
- **Dimension level:** well below expectations

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Self-assessment submissions

Lyndsay Deeves

Principles self-assessments

Moving from prescription to outcomes focussed

Rules based approach “Bottom up”

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

Outcomes based approach “Top down”

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

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

Self-assessment, not Attestation

Submitting on a “best efforts” basis.

Formal Board sign off not required.

However, we would expect discussion at the Board

Working level

We understand Principles will not be fully embedded.

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

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

Best efforts basis

Will highlight any gaps in understanding the Principles.

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

Lloyd's Principles for Doing Business - Self-Assessment

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

Managing Agent	
Syndicate Number	
Date shared with Board	

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

Principle	Expected Maturity	Managing Agent Assessment of Maturity	Commentary
<p>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.</p> <p>To support this, managing agents should ensure their syndicates:</p>			
Sub Principle 1	Established		
Sub Principle 2	Established		
Sub Principle 3	Established		
Sub Principle 4	Established		
Sub Principle 5	Established		
Sub Principle 6	Established		
Sub Principle 7	Established		
Sub Principle 8	Established		
<p>2. Catastrophe Exposure Managing agents should ensure syndicates maintain appropriate control of catastrophe risk (from natural and non-natural perils) in line with business strategy.</p> <p>To support this, managing agents should ensure their syndicates:</p>			
Sub Principle 1	Established		
Sub Principle 2	Established		
Sub Principle 3	Established		
Sub Principle 4	Established		

To include:
 - Rationale, where expected maturity level is met
 - Commentary, where expected maturity is not met, including detail on gaps, planned remedial actions, timescales and owners
 - Questions for clarification with Lloyd's, for example to check the meaning or interpretation of the Principles guidance

Self-assessment Principles rating

Principle 13: Culture

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

Self-assessment Principles rating

Principle 10: Governance, Risk Management and Reporting

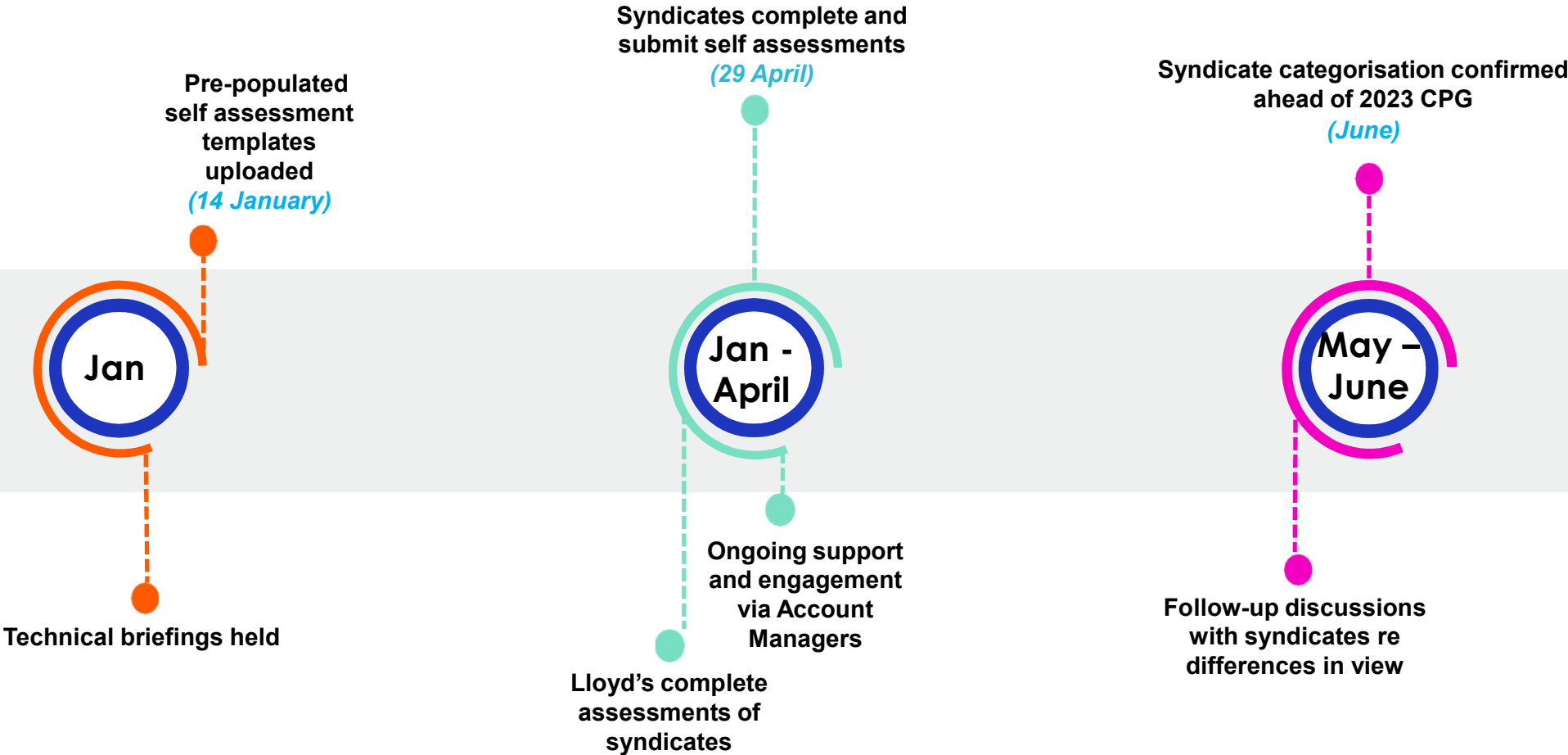
Expected Maturity: Advanced
Actual Maturity: Advanced

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

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Next steps

Next Steps and Timeline



What should you be doing?

- **Familiarise yourself with the Principles and guidance**
- **Consider any upskilling required to successfully adopt the new Principles based regime**
- **Assess your liquidity risk management framework against the liquidity sub-principles**
- Identify and gaps and plan any remediation activity needed
- **Conduct the self-assessment by end of April – be open, transparent and thorough**
 - Guidance and templates are now on SecureShare
 - Oversight Framework team available to answer any questions
- Complete liquidity stress test template by end of April 2022
- **Questions on the new framework should be directed to your Account Manager or oversight.framework@lloyds.com in the first instance**

Do use the support available from Lloyd's!

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Q&A
