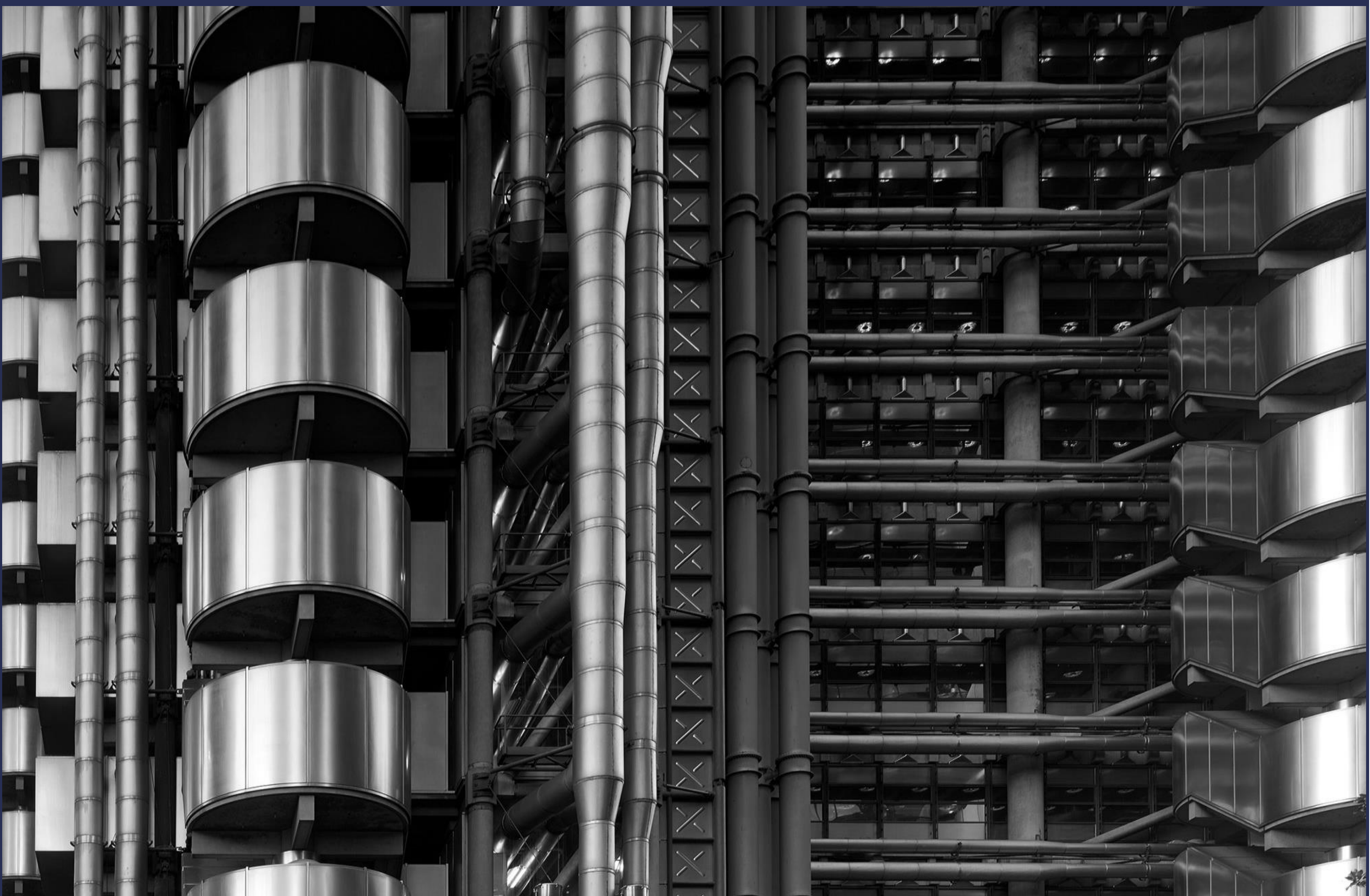
LLOYD'S

Market Oversight Plan

2025



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Foreword

We are pleased to provide our 2025 Market Oversight Plan which sets out the key areas of focus for Lloyd’s oversight and our engagement with the market next year.

Our market faces a continually changing risk environment, so our oversight activities need to adapt to reflect those risks and challenges. The activities set out in this Plan are therefore specifically designed to address key market facing risks and ensure our oversight activities are impactful and proportionate. We have included a clear articulation of the expected benefits and outcomes from these planned activities. The activities we have set out here supplement our core oversight activities that ensure managing agents are meeting the expectation in our Principles for Doing Business.

The key areas of oversight focus for 2025 are –

> **Sustainable Market Performance** – our Plan details how we will focus on ensuring appropriate allowance for profit within underwriting and capital including targeted oversight over areas of heightened risk. This will include increasing our focus on syndicates' cycle management capability and delegated underwriting performance as part of our ongoing core engagement.
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> Our approach to delegated underwriting performance will continue to evolve during 2025 reflecting the materiality of this distribution route to Lloyd’s as well as the need to understand the associated risks and opportunities from new forms of delegated underwriting such as the use of technology, AI and the use of “follow” facilities.
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> **Operational Resilience** – we need to ensure the market can meet the regulatory challenges around Operational Resilience leading up to the March 2025 regulatory deadline. But we also need to ensure that managing agents are able to continue to assess their resilience against existing, legacy and future operating systems. Our Plan includes targeted activities to support the market’s ability to not only meet the regulatory deadlines but to ensure continued compliance.
>
> **Regulatory Change** – this will include a focus on the implementation of Solvency UK such as considering the taxonomy changes and opportunities to rationalise Lloyd’s specific reporting burdens. The implementation of the Consumer Duty and the delivery of good customer outcomes will also remain a targeted oversight activity.
>
> **Culture** - during 2024 we have, in consultation with the market, defined and implemented further maturity levels for managing agents as we continue to evolve our expectations on culture to move the market forward in line with Lloyd’s Culture Strategy to transform the culture across the market and be a destination of choice for talent. Our focus will be on embedding the new maturity

levels within the Culture Principle as well as embedding a new oversight led Misconduct Framework following the outcome of our 2024 market consultation. That Misconduct Framework will include providing greater protections for those who report or are subject to inappropriate behaviours. This will be rolled out next year aligned to the FCA's own work on non-financial misconduct.

The Plan also references our focus on the emerging risks of climate and technology – making sure our oversight processes and engagement with the market puts us on the front foot to allow us to respond (for instance through better understanding of climate litigation).

More broadly the Plan also has regard to the wider external factors that may impact our market such as geopolitical and macroeconomic interdependencies. We need to be ready to adjust our oversight in line with changing economic conditions.

But as well as addressing market facing risks, we also need to support the continued evolvement of our oversight framework to deliver and support continued improvements. For that reason, the Plan references our intention to elevate Claims to a "hurdle principle". This is intended to help raise the profile of claims and is a first stage of a claims strategy that seeks to deliver a superior claims service to customers and contribute positively to the overall market financial performance through tangible improvements in claims cost management and business retention.

The other key area where we are enhancing our PBO framework is our approach for oversight of Governance, Risk Management and Reporting. We will be adjusting the way we conduct ongoing oversight to better inform our understanding of the governance structures, frameworks and operational context of each individual managing agent. This will help us to take a more forward-looking approach to identifying the specific oversight required at agent level and will include having a structured engagement programme with Board Chairs, independent non-executives and CROs. Our risk-based approach means that we will look to engage annually with the highest materiality managing agents (those with an expected maturity of Advanced for Principle 10) and with all other managing agents at least once every other year. Managing agents of any category which do not meet expectations for Principle 10 will, as now, received targeted oversight focussed on the material issues, which may include elevated levels of non-executive engagement.

We look forward to working with our managing agents to promote the ongoing sustainability and integrity of our market and hope that this Plan will help shape our engagement with firms.

Peter Montanaro, Market Oversight Director, Lloyd's

Market Oversight Plan

Plan Approach – Risk Based

Lloyd's Strategy

Performance	Digitalisation	Purpose	Culture
Sustainable profitable growth, strong financial strength and solvency position	Delivery of Blueprint 2, reporting simplification	Promoting innovation, sustainability and thought leadership	Progressing diversity and inclusion within the market

Key Risks

Principal Risks	Emerging Risks	Framework Enhancements
Key risks expected to face the Lloyd's market over the next 12 months	New or evolving risks that have a high degree of uncertainty and potentially significant impacts	Developing the PBO framework to support its ongoing effectiveness

Market Oversight Plan

1. Sustainable Market Performance

Risk	2025 Oversight Actions	Key Expected Outputs and Benefits
Risk that syndicates do not have sufficient capability to manage the impacts relating to changing market conditions.	**Key 2025 Oversight Focus - We will focus on ensuring appropriate allowance for profit within underwriting and capital including targeted oversight over areas of heightened risk including business written through delegated authorities.**	
Changing market conditions can lead to heightened risk across multiple areas particularly where top-line growth and market share is chased at the expense of profitability. Potential impacts include decreased underwriting discipline, broadening coverages and expansion in terms and conditions. Heightened risks may relate to worsening underwriting profitability, unexpected accumulations, optimistic reserving, inappropriate capital setting / model drift and general weakening of risk management controls, processes and culture. Specific risk relating to delegated authorities. There is a risk that poorer visibility and understanding of risk selection processes for this business makes performance management and exposure management more challenging.	Focus classes for 2025 will include US GL, Political Violence & Terror and Energy with market engagement around targeted oversight of high-risk classes including Cyber. Market-wide review of syndicates' approach to validating model loss ratios and enhanced engagement over syndicates with the lowest capital to exposure metrics relative to the market. Refresh of Cyber RDS with estimates to be collected from the market from 1/1/26. Review DA elements of the PBO framework including a review of the DA Code of Practice. Deep dive review on how Exposure Management data is considered for binders, including assessment of data lags and data quality. Focus on delegated claims data (timeliness and accuracy) and how that data is utilised to drive performance. To include targeted engagement with sample managing agents on their use of delegated claims data. For legacy syndicates, additional guidance on the refreshed liquidity stress test (stressing liability in addition to assets) reporting in Q1 2026. In addition to the above targeted activities, for 2025 we will be increasing our focus on syndicates' cycle management capability and DA performance as part of our core engagement.	Lloyd's will have better understanding of syndicate underwriting management capability across the market setting the ground for targeted oversight and intervention as required in support of sustainable profitability of the market. Ensure PBO framework supports proportional oversight of DA business.

2. Operational Resilience

Risk	2025 Oversight Actions	Key Expected Outputs and Benefits
Risk that managing agents do not maintain appropriately robust and resilient operations in line with changes in the risk environment	**Key 2025 Oversight Focus - Our focus will be on assessing compliance with the PRA and FCA's regulatory requirements and assessing managing agents against the recently expanded maturity matrix.**	
Operational resilience has been in focus as a result of changing regulatory requirements that require improvements in capability (PRA requirements due March 2025 and DORA requirements set by the EU). The changing cyber risk environment (with the proliferation of AI) also emphasises the importance of appropriate digital resilience.	Review of managing agents' self-assessments against PRA's requirements with prioritisation of managing agents with most material gaps ahead of March 2025 deadline and remainder to be reviewed over Q2/Q3. Market wide scenario exercise will be repeated in 2025 which will focus on impact and suitability of selected IBSs. Cyber resilience survey will be published in 2025 to support understanding of capability, trends, challenges. Market wide engagement to consider internal governance and readiness relating to resilience risks for legacy, current, BP2 and future operating systems.	Targeted engagement will help us to better understand what activities managing agents are undertaking to address the gaps/vulnerabilities in their operational resilience framework. Provide feedback to managing agents and share insight into good practice The Market Wide Scenario exercise will feed into all MAs' testing cycles, enabling them to carry out testing in accordance with requirements set out by UK Regulators and sharing/learning from others in the market on areas of good practice. To be followed up by a subsequent report drawing out any key themes/trends. Lloyd's will have better understanding of cyber resilience maturity across the market, and identify which MAs may require further targeted oversight in relation to sub principle 3 (cyber resilience).

3. External Environment

Risk	2025 Oversight Actions	Key Expected Outputs and Benefits
Risk that syndicates are not appropriately considering the impact of the external environment (geopolitical and macroeconomic) on their business	**Key 2025 Oversight Focus - Geopolitical risk will continue to be an area of focused oversight but with less activity planned in respect of macroeconomic conditions commensurate with level of risk**	
Geopolitical and macroeconomic interdependencies have been brought into sharp focus with a push towards deglobalization by key players. The Russia/Ukraine conflict shows no signs of abating and tensions in the Middle East triggered by the Israel/Gaza crisis. Whilst macroeconomic uncertainty has reduced, supply chain complexity may quickly link geopolitical events to a return to high inflation and potential global economic downturn. We therefore need to be ready to adjust our oversight in line with changing economic conditions.	Sanctions screening thematic will be undertaken with a representative market sample with good practice guidance to be shared with the market. Underwriting focus classes in 2025 will include Political Violence and Terror (with geopolitical focus). An Extreme Disaster Scenario (EDS) relating to a very extreme nat cat with SRCC losses will be designed and published to the market in 2025. A date for collection of this data from the market will be agreed as part of this work.	Support a Market-wide standard of approach to testing screening systems and ensuring that related systems/controls are fit for purpose. Test the Lloyd's market's resilience to extreme loss scenarios and test the market's ability to capture and understand its SRCC exposure.

4. Culture

Risk	2025 Oversight Actions	Key Expected Outputs and Benefits
Risk that managing agents do not operate within a diverse, inclusive and high-performing culture.	**Key 2025 Oversight Focus - Our focus will be on embedding the new maturity levels within the Culture Principle and embedding a new oversight led Misconduct Framework in light of our market consultation**	
The risk of failing to attract and retain diverse and skilled talent poses a longer-term risk to the strength of the Lloyd's market. Culture remains one of the key pillars of the Lloyd's strategy and requires ongoing focus to ensure insurance is an attractive destination for future leaders.	Following the 2025 attestations we will identify thematic gaps and opportunities that will enable us to target support to market to meet the new Culture Principle expected maturity levels. We will provide themes and insight to market based on the 2025 MP&P and Culture Surveys including firm specific reports and feedback. Undertake a review of MA grievance, investigation and internal disciplinary processes aligned to the new Misconduct Framework.	Provide market benchmarks and assess progress on developing an inclusive and high performance culture. Including indicators that inform oversight, firm level and market-wide action. Understand and share trends, observations and learnings around the effectiveness of grievance, investigation and disciplinary processes in market firms.

5. Regulatory Change

Risk	2025 Oversight Actions	Key Expected Outputs and Benefits
Risk that managing agents are not compliant with changing and high impact regulatory requirements and expectations	**Key 2025 Oversight Focus - The key focus for 2025 will be to support the proper implementation of Solvency UK. We will also engage with managing agents on other key international regulatory change**	
Regulatory requirements are changing in a number of areas including digital and resilience, consumer duty, sustainability and climate and capital setting (through Solvency UK).	Solvency UK – The principal ways in which the review of Solvency II in the UK will impact Lloyd's and the market are through changes to internal model and reporting. We are currently planning the implementation - considering both the taxonomy changes and opportunities to rationalise and reduce Lloyd's specific reporting burdens. Continued oversight on managing agents' embedding of FCA's Consumer Duty to include targeted oversight over quality and suitability of the regulatory mandated board reports on Consumer Duty. Additional exposure management data collection may be required to support compliance with regulations B2, B3 and B15 set by Canadian regulator, OSFI. Review of managing agents' compliance with IDD regulation set by the NBB. The PRA's Dynamic General Insurance Stress Test (DyGIST) exercise intended to be run across the UK insurance industry from May 2025. Loss estimates will be collected by Lloyd's through the issuance of "simulated" Major Claims Returns from all managing agents. Qualitative questionnaires will be required for syndicates with an expected maturity of Advanced and Established on the Underwriting Performance dimension and syndicates with material exposure to the adverse scenario.	Solvency UK – support implementation of Solvency UK. These are the regulatory requirements for insurance firms and groups, covering financial resources, governance and accountability, risk assessment and management, supervision, reporting and public disclosure. Consumer Duty – enable assurance that the market's product processes and ability to meet customer outcomes is now embedded as the Duty will have been live for 2 years by 2025. Will include a report on good practice including the quality of reporting to managing agents' Boards. DyGIST - test the market's ability to respond to a significant catastrophe event and ensure market complies with PRA expectations.

6. Climate

Risk	2025 Oversight Actions	Key Expected Outputs and Benefits
Climate change poses significant risks, with the potential to impact over uncertain time horizons and across the risk profile.	Key Oversight Focus - We will work with the market to support developing good practice in managing physical, transition and litigation risks.	
Climate change may lead to risks emerging over different time horizons with impacts across the risk profile. Physical risk impacts need regular monitoring in respect of underwriting risk, positions on ESG matters may lead to brand implications and there is increasing compliance risk due to focus on regulating climate and sustainability. Over the longer-term, there is capital, reserving and investments risk as we transition to a “greener” economy and climate litigation develops.	Syndicates will be required to provide validation evidence for 4 new perils as a result of the expansion of the LCM perils (in response to a changing risk profile). This will only be required for the most material syndicates (c.5 syndicates per peril in 2025). Review of syndicate responses to the 2024 climate change capital modelling questionnaire and provision of Lloyd’s market feedback. Lloyd’s to track climate litigation claims codes and work collaboratively with the LMA and the market to improve understanding of climate litigation.	Ensure models for the "new" peril regions to be explicitly included within the LCM and LIM are appropriately validated by syndicates with material exposures. Improved climate litigation data to enable greater analysis and playback to market.

7. Technology

Risk	2025 Oversight Actions	Key Expected Outputs and Benefits
The evolving technological landscape presents financial and operational risks that require careful consideration, particularly in respect of the impact of AI.	Key Oversight Focus - We will continue core oversight relating to technology risks and are developing an AI strategy to support understanding and management of AI/augmented underwriting related risks.	
Technology risks have increased over the last year, particularly with the proliferation of artificial intelligence and increased reliance on big tech. This may change the nature of cyber underwriting risk with the likelihood and severity of cyber attacks and service outages due to concentration risk of service providers making it more challenging to appropriately maintain digital and operational resilience. The spread of misinformation as a result of evolving technology may also exacerbate social fragmentation risks.	Development of Lloyd's AI strategy, including consideration of use of technology by managing agents, how risks are evolving as a result of AI and any resultant oversight framework changes. Review of how syndicate ORSAs have considered risks posed by AI.	Lloyd's will have understanding of use of AI and augmented underwriting to enable design of appropriate language and framework for core and targeted oversight and intervention as required in support of sustainable profitability of the market.

Framework enhancements

In addition to addressing the Risks above, in order to support the ongoing effectiveness of the framework and alignment to the Lloyd's strategy, the following changes were approved in 2024.

- **Implementation of Claims as hurdle Principle** – the Claims maturity matrix, materiality metrics and oversight approach have all been refreshed to facilitate this change. We expect proportionately more focus on Claims as a Principle compared to previous years as we assess whether managing agents are appropriately meeting their expected maturities.

- **Development of Governance, Risk Management & Reporting oversight approach -** our oversight approach to this Principle has been developed over 2024 and we expect to embed this approach over 2025 with the implementation of a structured and risk-based approach for engagement with managing agency NEDs, joined up oversight through the sharing of insights via the Governance Indicators Framework, and more detailed review of and feedback to managing agents of risk and governance reporting, specifically syndicate ORSAs.

Appendix: Plan at Principle Level

Areas of Focus by Principle

Principle	Overview of Oversight Activity / Focus and Key Changes from Last Year
1. Underwriting Profitability	Focus on ensuing appropriate allowance for profit within underwriting and capital including targeted oversight over areas of heightened risk including business written through delegated authorities. Focus classes for 2025 will include US GL, Political Violence & Terror and Energy with cross-functional capability assessments to assess capability across “high-risk” classes including Cyber.
2. Catastrophe Exposure	Core oversight processes relating to cat risk appetite, LCM5 and RDS exposure monitoring will continue with planned refresh of Cyber RDS and development of SRCC extreme disaster scenario.
3. Outwards Reinsurance	Additional targeted oversight to inform view of systemic reinsurance risk potential at market level in respect of shared reinsurance, reinsurance dispute risk modelling, aged debt and recovery uncertainty. Technical guidance to be updated on concentration risk and collateralised reinsurance in credit risk modelling.
4. Claims Management	Implementation of Claims as a hurdle Principle. Identification of good practice in forward-looking case reserve management, specificially as it relates to aspects that may be influenced/impacted by emerging risks.
5. Customer Outcomes	Focus will be on ensuring managing agents are appropriately embedding Consumer Duty requirements as part of close and continuous engagement with targeted oversight over quality and suitability of mandatory board reports on Consumer Duty. Targeted oversight over complaints handling for building warranty to include targeted work on impacted managing agents.
6. Reserving	Implementation of new reserving oversight model with new TPD return to be collected for the first time in 2025. Continued focus on adequacy of casualty reserves including allowance for social inflation and changes in the macroeconomic environment.
7. Capital	Core oversight processes, particularly relating to LCR and MMC reviews are largely unchanged however there will be increased focus on modelled loss ratio appropriateness.

Areas of Focus by Principle

Principle	Overview of Oversight Activity / Focus and Key Changes from Last Year
8. Investments	Over 2025, we will continue our 3-year cycle to form a baseline view of investments capability across the market but will also be reviewing our holistic approach to investments oversight to ensure appropriate management of market and syndicate level investment risk on a forward-looking basis. Implement the new Advanced level of expected maturity such that managing agents with higher allocations of illiquid assets can expect increased oversight and engagement.
9. Liquidity	During 2025 we will be revising the Lloyd's defined stress test, ahead of the next three year cycle of reporting for the 2025 year end in 2026. This will include consultation with the market and other teams within Lloyd's.
10. Governance, Risk Management and Reporting	The oversight approach to this Principle has been developed over 2024 and we expect to embed this approach over 2025 with the implementation of a structured and risk-based approach for engagement with managing agency NEDs, joined up oversight via the Governance Indicators Framework, and a 3-year cycle for reviewing risk and governance reporting. Deep dive and thematic review of 2025 syndicate ORSAs to identify trends and examples of best practice both generally and in respect of priority areas, including assessment of inflation risk, with feedback to be shared with the market to support high quality risk management practices and support impactful NED engagement.
11. Regulatory and Financial Crime	Over 2025, oversight will focus on sanctions screening and monitoring of regulatory breaches (as in prior years). However, we will be conducting a more detailed review of the full Principle in 2025 with a view to better articulating the risk being managed and adapting the oversight approach for future years accordingly. This will require extensive internal and market engagement and further details will be shared over 2025.
12. Operational Resilience	Focus will be on reviewing managing agents' self-assessments against PRA's requirements ahead of March 2025 deadline. Market wide scenario exercise will be repeated in 2025 which will focus on impact and suitability of selected IBSs. Cyber resilience survey will be published in 2025 to support understanding of capability, trends, challenges.
13. Culture	Implementation of new maturity levels for Culture. MP&P survey due by end of Jan 2025, Culture survey to be run in late 2025. Review of MA grievance, investigation and internal disciplinary processes to support new Misconduct Framework.