Lloyd’s 2023
Market Oversight Plan

Contents

Foreword

The Lloyd's Market Oversight Plan outlines our priorities for the coming year, ensuring all market participants can plan ahead by setting clear expectations for our oversight activities and our engagement with you.

The continuing economic uncertainty, with high inflation across developed economies and ongoing geo-political concerns, has the potential to impact on syndicates' financial results. The ensuing impact on capital availability, particularly within the reinsurance market is an area of focus for Lloyd's, and we will continue to engage closely with syndicates throughout the critical months ahead, to ensure business plans are achievable in the current environment. As economic uncertainty continues into 2023, we will engage across all elements of your business, from underwriting to investments, liquidity, outwards reinsurance, capital and reserving.

As part of our continued focus on sustainable underwriting profitability, we will maintain scrutiny on cyber and review systemic risk. For cyber, we will conduct a "pre-mortem" exercise, to quantify the impact of a major cyber claims event on the market. We will also be reintroducing our cyber attestation process and utilising our ongoing Pricing Maturity Matrix work to focus on pricing of cyber risks. Furthermore, systemic risk at a strategic and class level will be considered and we will continue our work to improve the management of non-natural catastrophe risk across the market.

Our approach to delegated authority oversight will evolve in 2023 to align more with our Principles-based oversight approach. Where a managing agent is meeting expectations for the Customer Outcomes Principle, they will be able to onboard new coverholders without requiring Lloyd's prior approval. We will supplement this with a cycle of assurance checks, but see this as a positive example of a reduced burden for the market as a result of the new oversight approach.

Climate change and its evolving effects will continue to be a focus, with clear regulatory expectations on understanding the financial risks to your businesses. During 2023 we will engage with the market to scope work that will deepen our understanding of how syndicates are managing this risk and its impact on exposures, reserving assumptions and capital.

ESG and insuring the transition to a low carbon environment are of ongoing importance in both the Lloyd's and wider London market. You can expect us to continue to engage with you on steps you are taking to understand your own exposures and your ESG strategies. We will issue further ESG guidance in Q1 2023 and we will look to see how you are incorporating this within your business, across both underwriting and investments.

It is vital that the Lloyd's market, with its unique history and importance to the wider global economy, continues to attract and retain the best talent. To do this we need to foster a diverse and inclusive culture and continue to enhance representation of female and ethnic minority colleagues as leaders in our market. You can expect continued engagement from us on this important topic. We will be looking to understand steps taken within your business to progress this and ensure an inclusive, sustainable market.

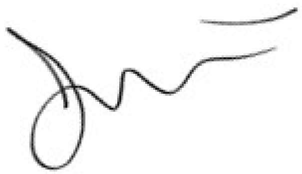
Classification: Unclassified

Customer focus will be maintained by Lloyd’s in 2023, as we will look to gain assurance that the market is compliant with the newly implemented FCA rules on Fair Value and is preparing adequately for Consumer Duty requirements.

We will be enhancing our claims performance data and streamlining the Lloyd’s Claims Scheme, both of which will allow us to work with the market to drive more efficient and timely claims lifecycle management.

Regulatory priorities such as operational resilience (including cyber resilience), overseas legislative changes, and the Lloyd’s Insurance Company operating model requirements, will continue to shape some of our planned oversight work during the year.

I look forward to working with you and your businesses in 2023 to further these aims, along with those explored in more detail below.



Peter Montanaro

Market Oversight Director

Economic Uncertainty

Maintaining resilience in an uncertain economic environment

Impact of rising inflation

Oversight on syndicates' approaches to the impact of rising inflation will be undertaken across all areas, including specific feedback for individual syndicates to address any weaknesses identified following review of their 2023 plan and capital submissions, as well as their reserve setting process in 2022.

Additional data will be required from syndicates for Lloyd's to be able to understand the impact of inflation on our business and the adequacy of the response to this risk. This is expected to be collected through the additional QMA reporting established in 2022.

Availability of capital and reinsurance capacity pressures

In the current economic environment, there is increased uncertainty around the availability of capital, including from the ILS market, to support (re)insurance. This restriction of supply is projected to impact availability of reinsurance and may result in shortages of capacity for catastrophe reinsurance, and retrocession in particular, which could add further capital pressures. Material variance between planned and actual 2023 reinsurance placements, including retro placements, will prompt particular focus this year, given the challenging conditions expected. Lloyd's will engage with syndicates after the 1 January renewal period to understand whether their reinsurance programme structure differs or is expected to differ materially from 2023 plan. Any ensuing impacts on business plans and/or capital will be considered by the relevant teams. This will include ensuring that any resultant net exposure increases are adequately captured and capitalised.

Market volatility and investment returns

Increased uncertainty in the global economy and geopolitical landscape are seen as the biggest risks to investment performance. Should uncertainty and volatility in markets continue into 2023, there is the potential for negative movements in markets, which could impact syndicate profitability. We note that interest rate increases put in place over 2022 by central banks are projected to lead to increased investment income in 2023. Nevertheless, the economic outlook remains uncertain and the combination of high interest rates, rising inflation and recession over the medium-term horizon provide a challenge for syndicate investment functions and boards to navigate.

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The investment risk oversight function will continue to focus on both current and forward-looking risks by engaging with market participants and investment managers, with a view to understanding performance drivers and how syndicates are mitigating risk through ongoing economic uncertainty. This will allow Lloyd's to better understand risks as they develop and have the tools to act where necessary, either on an individual syndicate level or market level.

Liquidity strain and risk management

Liquidity risk has been a focus for Lloyd's over 2022, with the introduction of the Liquidity Principle, and the expectation that syndicates have in place a robust liquidity risk framework to mitigate the risk of liquidity strain on a forward-looking basis. This is of increasing importance in the context of a global economic downturn and investment volatility, which could put strain on the availability of syndicates' liquid assets.

Following on from work undertaken in 2022, all managing agents will again be asked to complete a liquidity stress test for all managed syndicates (excluding SPAs). As before, this will consider managing agents' forecasted cash flow for a business-as-usual forward-looking assessment as well as a severe stress test scenario. Managing agents will be asked to apply a 1:200 wind/storm stress test and associated funding requirements. There will be some slightly more prescriptive assumptions applied within the guidance to the template to ensure syndicates are applying the stress in a consistent manner. There may be additional follow-up work conducted with individual syndicates.

Lloyd's will continue to expect that all syndicates maintain a liquidity risk management framework in line with the Liquidity Sub-Principles. Although it is intended that all syndicate frameworks will have been reviewed during 2022, certain syndicates may be requested to provide updated documents over the course of 2023.

Quarterly monitoring of the forecast cash flows per the QMA350u will also continue. For all syndicates, Lloyd's will monitor the ratio of free funds to net forecast operating cash flows over 3, 6, 9 and 12 months from the most recent quarterly balance sheet date. Where this coverage ratio appears low, managing agents will be asked to explain any on-going liquidity strain, including how it will be resolved.

Reinsurance counterparty risk

Aggregate value of recoveries and balance sheet recoverables are at a significant level and continue to increase. In light of market events of recent years, current reinsurance market conditions, and increasing pressures on financial strength and potential for aged debt and dispute, this remains a key area of focus for the Outwards Reinsurance team. This is to ensure potential risks arising are being recognised (including in capital) and are monitored, reported, and managed appropriately.

Maintaining Underwriting Profitability – Systemic, Cyber, Geo-political, and Non-Nat Cat Risk

Sustainable underwriting and exposure management in a challenging global environment

Systemic risk

Lloyd's will be doing more throughout 2023 to understand how systemic risk is managed at a strategic and class level and will consider appropriate follow up actions. This work is in the process of being scoped and we will communicate further during 2023.

From an exposure management perspective, we will work with the LMA to develop extreme clash scenarios across multiple classes. This will be with a view to collecting data from syndicates in 2024.

Cyber

Cyber is a growing class within the Lloyd's market and our ongoing support of growth in this class is underpinned by the following:

- Growth is expected to be with syndicates who invest in this class and possess the necessary proven expertise
- As above, we will be reviewing systemic risk within the cyber class and developing the structure for the cyber insurance market to be resilient and profitable over the underwriting cycle
- Cross departmental work across Lloyd's will ensure a holistic approach to oversight. Underwriting Performance will work with Pricing, Exposure Management, Claims, Reserving, Futureset and the recently appointed Head of Emerging Risks to increase cyber expertise within the Corporation

Further to the publication of Lloyd's Market Bulletin Y5381 – *'State backed cyber-attack exclusions'*, Lloyd's will be reintroducing the cyber attestation process to ensure compliance with the content of the bulletin. The cyber attestation requirements come into effect from the end of Q1 2023 and attestations will therefore be collected on a quarterly basis thereafter, with the first return due on 30 June.

Lloyd’s will utilise elements of the PRA’s General Insurance Stress Test completed by the market during 2022, with a view to assessing the impact of a large cyber claims event on the market. We will be working with a sub-set of syndicates most exposed to cyber underwriting risk to understand how prepared the market is for a significant cyber event. The results of this exercise will inform future oversight focus areas.

Geo-political tensions

During 2022 there has been an increase in geo-political tensions, epitomised by Russia’s invasion of Ukraine and a ramping up of rhetoric from China on Taiwan. Further escalation could have material impact, with the risk of introduction of economic sanctions on China, supply chain issues and financial market impacts.

Exposure Management – Southeast Asia data collection

Lloyd’s will develop a set of scenarios for a data collection covering risks arising from the political situation between China and Taiwan, and the ensuing impact on U.S. relations. Data will be collected alongside the 1.1.23 RDS, with potential follow-on engagement with a sub-set of syndicates.

Regulatory & Financial Crime – Sanctions screening

Lloyd’s will conduct a follow up review to the full market review which took place in 2022. The purpose will be to test implementation of agreed remediation work defined as a result of the review, with a view to evidencing improvement in this critical area. This will take place in Q2 and will include all syndicates who were required to undertake remedial action, as well as those that experienced technical issues that prevented their participation in the 2022 exercise.

Non-natural catastrophe

Lloyd's continues to assess the market’s ability to manage exposure to catastrophes arising from non-natural perils. This is especially important in the context of growth in market share of cyber and other casualty classes. Following on from work conducted in 2022, oversight will continue to focus on improving the management of non-natural catastrophe risk across the market. Lloyd’s will publish best practice guidance during 2023. The capital thematic review on non-natural catastrophes planned for 2022 was deferred to 2023. The aim is to establish the current practices of non-natural catastrophe modelling and gain an understanding of best practice in this critical area. This work is now expected to complete during the first half of 2023.

Exposure Management – other areas of ongoing focus

Model completeness – There will be a continued focus on model completeness, ensuring syndicates have addressed findings from review work over 2021 and 2022.

Understanding volatility – Lloyd's will continue to work with a subset of syndicates on “Willingness to Lose” frameworks including how syndicates articulate their appetite for volatility as part of planning.

Outwards Reinsurance Recoveries

Lloyd’s Outwards Reinsurance team will continue to focus on specific areas of recovery risk arising from:

- Reinsurance application to losses arising from the war in Ukraine
- Covid-19 related recoveries
- Other events with material reinsurance impact

Pricing

Lloyd’s will continue to undertake pricing maturity matrix (PMM) assessments with a view to assessing all syndicates over a 2-year cycle, with the dual outcome of oversight and capability improvement. As part of our assessment schedule, we will include themed assessments to improve our understanding of specific pricing issues. For 2023 the themed assessments will be targeted at cyber and reinsurance, to focus on these growing classes. We will publish best practice guidance to the market and all assessment outputs will feed into the Principle assessment framework.

Reserve Deterioration

Maintaining adequate reserves in a changing environment

Lloyd’s primary reserving oversight focus in 2023 will be to ensure syndicates adequately allow for inflation in reserves. In 2022 the thematic review on inflation was published and Lloyd’s carried out quarterly ad-hoc oversight on the additional QMA reporting on inflation. This will continue in 2023 and Lloyd’s will continue to monitor any changes and adjust oversight where necessary.

Additionally, Lloyd’s will continue to focus on syndicates appropriately reserving for major events, in particular where there is material uncertainty around the level of reserves, such as those arising from the conflict in Ukraine.

Lloyd’s regular reserving meetings with syndicates in 2023 will focus on our ongoing assessment of syndicates against the Reserving Principle, as well as understanding reserving processes including governance, methodologies, and assumptions, especially for classes where Lloyd’s perceives a risk of under-reserving when comparing to Lloyd’s own central reserving exercise, the wider market and Lloyd’s reserving diagnostics.

Further, Lloyd’s has identified the following focus areas due to trends at market level and will engage with the material writers of these classes:

• **Casualty FinPro**

The market continues to have a much more favourable outlook than Lloyd’s in relation to the recent years of account. Casualty FinPro classes have been a focus area for the last few years where market reserves have been lower than the Lloyd’s central view, however this gap has increased since 2020 year-end. The focus of our review in 2023 will be to understand, at individual syndicate level, material drivers of differences in view to Lloyd’s Central Reserving. This will primarily focus on differences that have not been investigated in recent years.

• **Energy Onshore Liability**

This class has been loss making since 2011 and the potential deficit between Lloyd’s independent view and the market has widened significantly at 2021 year-end. Lloyd’s will be providing further information on trends seen at a market level to aid syndicates where these may not be apparent at individual syndicate level.

Classification: Unclassified

Finally, the Technical Provisions Data (TPD) return redesign will be a key area that the reserving oversight team will support in refining. Changes to the return will be targeted at reducing the reporting burden for the market as well as improving the data quality and changing the granularity of this return which is expected to culminate in future reserving oversight framework enhancements.

Classification: Unclassified

Investments

Flexing our oversight to respond to the current investment environment

Recognising the link between the market's profitability and investment success, Lloyd's is increasing its focus on investments, supported by the launch of the Lloyd's investment platform. Lloyd's investment analysis through core oversight in 2023 will ensure that risks are identified through:

- Closer monitoring of managing agents with higher-than-average investment risk appetites
- Analysis of trends emerging at the aggregate level for investments
- Monitoring of investment risk through the collection and review of Quarterly Asset Data
- Monitoring losses and gains that appear to be out of the ordinary
- Increased one-to-one engagement with managing agents
- Event-driven market oversight
- Review of responsible investment policies and success of ESG integration
- Deep-dive activity across managing agents

Deep dives will consider:

- The Board's understanding and oversight of their investment portfolio and risk exposure
- Response to market volatility and suitability of portfolio asset allocations
- Stress testing undertaken in line with the Prudent Person Principle
- The selection process for hiring external managers and consequent oversight in this space
- Appetite and response to the changing investment landscape when considering ESG responsibilities, alongside the need to succeed against agreed investment return objectives
- Portfolio selection, analysis, and segmentation at managing agents, with a particular focus on investment decisions related to responsible investing
- At a market level, the link between "green" investments and profitability, giving consideration to investment saturation in this space
- Compliance with the Prudent Person Principle, including diversification of assets to avoid excessive reliance on any particular:
    - Asset
    - Sector, with a focus on financials
    - Issuer or issuers that belong to the same group
    - Geographic area; and
    - Excessive accumulation of risk in the portfolio as a whole.

Legacy Reinsurance

Enhancing our oversight of legacy reinsurance syndicates

Over recent years Lloyd's has seen the number of legacy reinsurance transactions increase, with legacy syndicates representing a bigger proportion of the overall market. Reinsurance To Close ("RITC") transactions are a unique feature of the Lloyd's market. Since 2003 dedicated syndicates have been established to undertake third party RITC to assume the liabilities of discontinued syndicates. These transactions are now increasingly used by active syndicates to divest themselves of back year liabilities, in order to maximise the capital available for current underwriting. In 2018 the permissions for RITC syndicates were expanded to include reinsurance products for discontinued portfolios such as Loss Portfolio Transfer ("LPT") and Adverse Development Cover ("ADC").

Legacy reinsurance syndicates have a different risk profile from active syndicates, given that they have no premium income other than that received on unexpired policies. Instead, there is reliance on the assets transferred as part of the transaction to cover ongoing liabilities. This reduces their ability to offset any unforeseen losses. Consequently, legacy reinsurance transactions which are inadequately priced or managed post transaction, or those acquired by syndicates with insufficient expertise, operational resilience, and controls, pose an elevated risk to the Central Fund. Given that many legacy reinsurance portfolios include predominantly long tail classes, there is additional exposure to systemic risk such as inflation or latent claims. As more syndicates and insurers seek to purchase reinsurance products for legacy business, we are also mindful of an increase in concentration risk at both a market and individual syndicate level.

As a result, Lloyd's will engage with legacy reinsurance writers over 2023, to enhance Lloyd's oversight in this critical area. This may result in additions to Lloyd's financial reporting, to ensure transactions are reported in a consistent way in P&L and to enable monitoring of reserve performance post transaction. Greater visibility of the post transaction performance of RITC, LPT and ADC transactions will ensure responsibility for the financial result sits with the legacy reinsurance syndicate. We will also be reviewing the oversight framework encapsulated within the Principles for Doing Business at Lloyd's, across all dimensions, to ensure it sufficiently captures legacy reinsurance risk.

Classification: Unclassified

Delegated Authority

Evolving our assurance approach and focussing on sustainable underwriting performance

At around 40% of market GWP, delegated authority business continues to be a significant proportion of our market and so it remains important that Lloyd's has sufficient sight of managing agents' strategies, oversight, and controls. The rollout of the new oversight framework, and the work completed by our Customer Outcomes team over 2022 has enabled us to take a more proportionate and outcomes-based approach to the onboarding of new coverholders. Nevertheless, we remain committed to sustainable performance across all business written at Lloyd's and so during 2023 we will look to enhance our oversight of delegated authority underwriting performance.

Principle based oversight with quality assurance checks

In line with the new Principles-based oversight framework, Lloyd's is evolving its approach to oversight of coverholder approvals. Managing agents that meet their expected maturity against the Customer Outcomes Principle will be trusted to appoint their own coverholders without Lloyd's prior approval. Those managing agents will provide an attestation to Lloyd's, but no other checks of their due diligence will take place. Although, it should be noted, that some coverholders with high-risk features would still need to be referred to Lloyd's. Lloyd's will carry out quality assurance sample checks of managing agents' coverholder due diligence. The outcome of these periodic checks will contribute to the managing agent's rating against the Customer Outcome Principle. Managing agents who are not meeting their expected maturity for the Principle will follow the current decision-making process and will require Lloyd's to approve coverholder application

Sustainable underwriting performance

Lloyd's will be focusing on its delegated underwriting portfolio with the objective of developing a Delegated Underwriting Performance Management Framework in Q1 2023.

We will be looking to engage the market as we develop the framework with these key areas of focus:

- DA Underwriting performance & strategies
- Alignment of interest
- DA Data Strategy
- Delegated underwriting models
- Syndicate business planning expectations

Climate Change

Ensuring financial risk management keeps pace with our changing climate

Climate risk

The impact of a changing climate on the insurance business conducted within the Lloyd’s market remains a focus area. In line with the PRA’s Supervisory Statement SS3/19 *‘Enhancing banks’ and insurers’ approaches to managing the financial risks from climate change’,* Lloyd’s expects managing agents to incorporate the financial risks from climate change into their financial risk management. As a fast-evolving risk, it is critical that the market remains committed to effective identification and mitigation of both present and future financial impacts arising from a changing global climate.

Lloyd's will seek to understand further the modelling capabilities of syndicates when it comes to climate change – including potential gaps. Lloyd's would also like to ensure that syndicates are taking appropriate approaches when reserving for climate change. This will include consideration of allowances for potential liability claims arising from climate change, as well as for more frequent and severe catastrophe losses in the future. Lloyd's is planning a thematic review into capital and reserving for 2024, with preparation starting in 2023, designing a market survey on the capabilities and current approaches.

Alongside the work on capital and reserving, we will also be developing a key risk indicator for monitoring potential changes in physical risk resulting from climate change, with a view to collecting data from the market in 2024.

ESG

Embedding sustainability across the Lloyd's market

Lloyd's continues to progress its sustainability ambitions, as recently highlighted in our 2021 ESG Report. These ambitions are led by Lloyd's strategic purpose and will see Lloyd's build a more resilient, sustainable, and inclusive market.

As part of this, we remain committed to be the insurer of the transition, which will support global decarbonisation and protect the long-term sustainability of the Lloyd's market, whilst also balancing complex client needs on that journey. We know that this will be a difficult balance to achieve globally, in particular with energy security concerns front and centre for so many communities. However, over the long-term we know that this is the right direction to be heading in and are committed to get there.

Lloyd's will progress our sustainability agenda over 2023 through the following three ambitions:

- **Continuing with our clear net-zero commitment for the Corporation and a commitment to lead the market to a net-zero underwriting position** – these long-term net-zero ambitions are a critical element of doing business at Lloyd's and one which we will only put more scrutiny on over time, through an annual review of managing agent sustainability strategies

- **Providing clear guidance to the market on how they can support clients, even in harder-to-abate sectors, who have credible transition plans and are aligned to our net-zero targets** – measurement of emissions and transition plans will be key to understanding this journey and it will be important to understand the nuances around transition plans and sectoral decarbonisation pathways

- **Continuing to champion new products and services which accelerate these targets**, including promoting risk management solutions for green innovation and expanding renewable energy investment

Insuring the transition at this time will not see Lloyd's mandating or restricting the underwriting decisions of the market, in any sector, and it will continue to be up to managing agents to design a strategy that works for their business.

Lloyd’s will be providing more specific guidance with respect to sustainability in Q1 2023, however broadly, the expectations on managing agents for 2023 relate to embedding sustainability strategies across the market, in support of Lloyd’s overall social purpose and environmental goals. Managing agents can expect engagement across three key areas:

1. **Climate transition measurement framework** – Lloyd’s will outline our three-year plan towards the measurement of emissions, including insurance-associated emissions, across the market in further guidance in Q1 2023. This will enable the market to plan their own data processes and readiness in meeting regulatory reporting standards as well as insuring the transition

2. **Embedding of sustainability strategies across the market** – Managing agents’ sustainability strategies will form a key part of Lloyd’s oversight of the market. To help the market, Lloyd’s will provide thematic feedback on 2022 ESG strategies as well as a view on what a ‘best-in-class’ strategy looks like, that will still be flexible enough to suit each business

3. **Meeting existing oversight Sub-Principles with respect to ESG** – this covers the existing Sub-Principles for Underwriting Profitability and Investments: *Have processes in place to support decision making in relation to ESG integration into underwriting*; and *Develop a Responsible Investment Policy*

The further guidance with respect to sustainability will be provided in Q1 2023 which will include articulation around what it means to insure the transition, the thematic feedback on managing agent 2022 ESG strategies and a view on ‘best-in-class’ as well as a long-term roadmap for sustainability oversight, including expectation on carbon measurement. This long-term roadmap will include a view on what tools Lloyd’s will provide to ensure a centrally credible and consistent process.

Classification: Unclassified

Culture, Diversity, and Inclusion

Lloyd’s expects businesses to be diverse and inclusive, with a culture of integrity, to attract talent to our market

The Lloyd’s Market needs to be a destination of choice for global talent. As a result, Lloyd’s expects managing agents to be diverse, building an inclusive and high-performance culture. Whilst we have made progress, we need to accelerate the pace of cultural change. Lloyd's will not tolerate lack of diversity in leadership nor inappropriate behaviour.

In 2022, through RIO, we introduced the Culture Principle as part of our market oversight. We made clear the importance of culture to Lloyd’s by making it a hurdle Principle. As a result of our review work in 2022, we provided specific feedback to syndicates on areas to improve. We expect to see improvements in these areas in order to meet expectations going forward and we will be following up with managing agents during 2023.

Where progress is not made, particularly where behaviour issues are identified, Lloyd’s will introduce key interventions in order to stop and correct those behaviours. These interventions will usually take the form of skilled person reviews, followed by a clear timetable of actions. If Lloyd’s is of the opinion that the behaviours demonstrated by one of our businesses is not consistent with the culture expected within the market, then that business may be asked to refrain from writing any new business or employing new staff until remedy has been demonstrated. In the most serious cases, a contingent run-off plan will be requested in case actions are not satisfactorily resolved.

The 2022 Culture Survey demonstrated an incrementally improving picture on D&I across the market with common areas of challenge. During 2023 Lloyd’s Culture team will run a series of upskilling workshops, round tables, training and events, sharing good practice and case studies. The focus will be on inclusive hiring, talent management and succession practice, speaking up, using diversity data, inclusive leadership behaviours and accessibility.

In 2023 the Market Policies and Practices return will be enhanced to include more granular data on female representation in leadership roles and talent pipelines for key roles such as CUO, as well as early careers hiring. This will enable measurement of improvements to diversity, policies, and practices, as well as some collective market-wide approaches to early years talent attraction and selection. We have also expanded our understanding of other types of diversity across the market, e.g., disability, and will continue to support broader diversity data collection, which is a key area to improve. We will be providing firms with insights from the return to help identify gaps, opportunities, and strengths.

Customer Focus

Focussing on fair value and claims performance for customers

During 2022, through our Product Lifecycle review work and regular engagement with syndicates, Lloyd's continued to focus on ensuring the products and services sold within the market offer fair value to policyholders. As we look ahead to 2023, we will continue this work, as well as focussing on the Consumer Duty requirements published by the FCA, which require firms to act to deliver good outcomes for retail customers. Alongside this, we will look to enhance processes and performance reporting for claims, to drive efficiency and benefit both the market and Lloyd's customers.

Product Governance and Fair Value

Lloyd's will continue its focus on Fair Value during 2023. Following on from the Fair Value market questionnaire sent out by Lloyd's in September 2022, Lloyd's will look to understand managing agents' compliance with the newly implemented FCA rules requiring the Fair Value assessment of insurance products. Lloyd's will also continue to follow up on the reviews conducted in 2022 of managing agents' product governance frameworks and where appropriate may carry out further assessment work.

Consumer Duty

The FCA published its new Consumer Duty in July 2022, heightening the standards expected of financial services firms dealing with retail customers. Lloyd's will look to understand managing agents' approach to adoption of the Consumer Duty through appropriate oversight activity including, for example, the use of market questionnaire(s) and individual managing agent engagement. Lloyd's will liaise with LMA (and other market associations as appropriate) to identify the challenges faced by the market and the areas where Lloyd's can provide it with support and guidance.

Claims Performance

Lloyd's will share with managing agents a contemporary view of their claims performance data, including an enriched view of trends and outliers. As part of our approach, we will share relevant benchmark views of lifecycle data points with managing agents, to identify opportunities for improvement in the claims process and drive targeted data driven engagements with the claims community. Proactive lifecycle management, effective management of claims operating costs and achieving relative value across adjusting, legal and delegated claims aspects will also be areas of focus for Lloyd's oversight in 2023.

Claims Scheme

During 2023 changes will be made to the Lloyd's Claims Scheme. This will be designed to streamline the process where two Lloyd's agreement parties are involved and to enhance transparency and communication of decisions by leaders. Lloyd's will establish a relevant framework for overseeing the performance of leaders against their new requirements. Changes will also be made to ensure that there is a clear and understood process for dealing with conflicts of interest.

Classification: Unclassified

Operational & Cyber Resilience

Understanding concentration risk and cyber resilience capabilities

In the context of an ever-changing and challenging global environment, it is crucial that Lloyd's participants maintain a robust and resilient operational environment. To continue to provide a service to customers, to share in their risk and enable their businesses to be resilient, we as a market must continue to scrutinise the overall resilience of our own businesses on a forward-looking basis. As regulators across the globe increasingly focus on this area of risk, Lloyd's is committed to deepening our understanding of how managing agents are identifying, mitigating, and future-proofing their own operational and cyber resilience risk.

Operational resilience – concentration risk

It is key that all managing agents understand the resilience of their critical third parties. Concentration risk for mandated third parties such as DXL, PPL etc is captured within the Lloyd's operational risk framework. However, there is concentration risk associated with the use of third parties outside of these central services and there is less visibility on the extent of this risk. During 2023 Lloyd's will therefore engage with the market to gather information on which third parties are being used and the associated concentration risk for those used by a significant portion of managing agents.

Cyber resilience

The cyber threat landscape continues to evolve in line with external geo-political and economic shifts, as well as rapid technological development, and it remains a heightened risk to managing agents' overall resilience.

During 2022 we deepened our understanding of cyber resilience capabilities across the market, building on our existing knowledge through review of syndicates self-assessment returns for the Cyber Resilience Sub-Principle. In Q1 2023 Lloyd's will be asking managing agents to complete the Cyber Resilience survey, as an update to the survey undertaken in 2021. This is crucial in enabling Lloyd's to build a complete picture of the level of maturity and sophistication in place across managing agents in respect of cyber resilience, and in tracking the progress that has been made in developing the market's capabilities.

Regulatory, Financial Crime and Compliance

Ensuring alignment with regulatory expectations and gaining assurance on compliance controls

Regulatory environment

Lloyd's expects managing agents to remain aware of key regulatory changes, understand the impact on their businesses, and be compliant with these at all times.

Internationally, there is a continuation of protectionist measures and bespoke overseas regulation. Legislative changes across South Africa, Canada, Switzerland, China, and India are specifically highlighted, given changes that have taken place recently or are expected. In particular, we expect to see regulatory changes in respect of data privacy and security (e.g., Canada, Switzerland, and China), conduct (e.g., Canada, South Africa, and New Zealand) and reform of other local requirements (e.g., Quebec's French language requirements in Canada, Order of Preference in India, potential funding requirement changes in certain countries, etc).

Alongside overseas legislative changes, both UK and international regulators continue to focus on ESG, climate, operational resilience, cyber and customer outcomes. Regulatory developments in these areas could result in changes to regulatory reporting requirements, or longer term to how the market underwrites or is supervised.

Financial crime

Financial crime controls in run-off syndicates

During Q1 2023, Lloyd's will conduct a thematic review to assess the design and effectiveness of controls over financial crime risks amongst syndicates that are in run-off. Our review will include a representative sample of managing agents. Individual feedback on findings will be provided to these agents, and a report issued to the wider market with best practice guidance.

Classification: Unclassified

Compliance assurance

Conflicts of Interest

As part of our ongoing compliance monitoring and assurance, Lloyd's will conduct a thematic review to assess how managing agents are managing conflicts of interest and identify good practice. The output of this review will be a report with recommendations for the market. The review will include a representative sample of managing agents and will take place during Q3.

Whistleblowing

Whistleblowing systems and controls will be the focus of a thematic review during Q4, building upon work undertaken in 2021. This is a critical area of regulatory compliance and forms part of our ongoing compliance monitoring and assurance work. The review will result in best practice guidance being shared with the market and will include a representative sample of managing agents.

Lloyd's Insurance Company ("LIC")

LIC will focus on managing agents' compliance with the LIC operating model requirements, including solution 4 (own service company) compliance.

In line with the Insurance Distribution Directive, LIC should demonstrate oversight of activities it outsources. LIC needs to gain assurance over the key processes and controls operating within its UK branch. All managing agents were requested to include a placeholder in their 2023 Internal Audit Plan. Over 2023, LIC will develop a dedicated assurance plan to assess compliance.

In addition, LIC Compliance will undertake the following assurance work over 2023:

- Gifts and hospitality monitoring – review process and policy
- Conflicts of interest (in conjunction with Corporation team above)
- Whistleblowing (in conjunction with Corporation team above)
- Cloud service providers – via a questionnaire to understand compliance with NBB Circular (2020 018) on cloud outsourcing
- Delegated Claims Administrators - assess the design and effectiveness of controls regarding DCA oversight by managing agents (in conjunction with the Corporation Team as part of its wider work regarding DA oversight controls)

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Appendix – Summary of 2023 Oversight

Economic Uncertainty	**Impact of rising inflation** Lloyd's will continue to oversee syndicates' approach to the impact of rising inflation across all areas, including specific feedback for individual syndicates to address weaknesses identified following review of 2023 plan and capital submissions, as well as the reserve setting process in 2022. Additional data will be collected through the enhanced QMA reporting established in 2022. **Availability of capital and reinsurance capacity pressures** As there is increased uncertainty around availability of capital to support reinsurance, including retrocession, Lloyd's will engage with syndicates pre and post 1st January renewal period to understand whether their reinsurance structure differs materially from 2023 plan. Any ensuing impacts on business plans and/or capital will be considered by the relevant teams. This will include ensuring that any resultant net exposure increases are adequately captured and capitalised. **Market volatility and investment returns** Lloyd's investment risk oversight function will engage with syndicates and investment managers on a forward-looking basis to understand how syndicates are mitigating risk through ongoing economic uncertainty. **Liquidity strain and risk management** Following on from work undertaken in 2022, all managing agents will be asked to complete a liquidity stress test. This will consider forecasted cash flow for a business-as-usual forward-looking assessment, as well as a severe stress. Managing agents will be asked to apply a 1:200 wind/storm stress and associated funding requirements. There will be slightly more prescriptive assumptions applied to ensure syndicates are applying the stress in a consistent manner. Quarterly monitoring of forecasted cash flows via QMA350u will also continue. **Reinsurance counterparty risk** Lloyd's outwards reinsurance team will continue to focus on reinsurance counterparty risk. In light of market events of recent years, current reinsurance market conditions and increasing pressures on financial strength and potential for aged debt and dispute, this remains a key area of focus for Lloyd's oversight. This focus is needed to ensure potential risks are being recognised (including in capital) and are monitored, reported, and managed.

Maintaining Underwriting Profitability	**<u>Systemic Risk</u>** **Underwriting Performance** – Lloyd's will be doing more through 2023 to understand how systemic risk is managed at a strategic and class level and consider appropriate follow up actions. This work is in the process of being scoped and we will communicate further during 2023. **Portfolio Risk Management** – Lloyd's will work with the LMA to develop extreme clash scenarios across multiple classes. This will be with a view to collecting this data from syndicates in 2024. **<u>Cyber</u>** **Underwriting Performance** – Further to the publication of Lloyd's Market Bulletin Y5381 – *'State backed cyber-attack exclusions'*, Lloyd's will be reintroducing the cyber attestation process to ensure compliance with the content of the bulletin. The requirements will come into effect from end of Q1 2023, and attestations will be collected on a quarterly basis, with the first return due 30.06.23. **Portfolio Risk Management – cyber pre-mortem exercise** – Lloyd's will utilise elements of the PRA's General Insurance Stress Test completed by the market during 2022, with a view to assessing the impact of a large cyber claims event to the market. We will be working with a sub-set of syndicates most exposed to cyber underwriting risk to understand how prepared the market is for a significant cyber event. **<u>Geo-political tensions</u>** **Exposure Management – Southeast Asia data collection** – Lloyd's will develop a set of scenarios for a data collection covering risks arising from the political situation between China and Taiwan, and the ensuing impact on U.S. relations. Data will be collected alongside the 1.1.23 RDS with potential follow-on engagement with a sub-set of syndicates. **Reg & Fin Crime – Sanctions screening** – Lloyd's will conduct a follow up review to the full market review which took place in 2022, to test the implementation of agreed remediation work defined as a result of the review. This will include all syndicates who were required to undertake remedial action and will take place in Q2. **<u>Non-Natural Catastrophe</u>** **Capital –** the capital thematic review on non-natural catastrophe planned for 2022 was deferred to 2023. The aim is to establish the current practices of non-natural catastrophe modelling and gain an understanding of best practice in this area. This work is now expected to complete during the first half of 2023. **Exposure Management** – following on from work conducted in 2022, oversight will continue to focus on improving the management of non-natural catastrophe risk across the market. Lloyd's will publish best practice guidance during 2023. **Exposure Management – other areas of focus** include model completeness and understanding volatility

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	Outwards Reinsurance Recoveries – focus on areas of recovery risk including COVID-19 and conflict in Ukraine, or other material events. **Pricing** – continuation of Pricing Maturity Matrix assessments over a 2 year cycle, with 2023 thematic lens of cyber and reinsurance, with a view to providing best practice guidance.
Reserve Deterioration	**Maintaining adequate reserves in a changing environment** Lloyd's main focus for reserving oversight in 2023 will be on syndicates allowing for inflation in reserves. In 2022 the thematic review on inflation was published and Lloyd's carried out quarterly ad-hoc oversight on additional QMA reporting on inflation. This will continue in 2023 and Lloyd's will continue to monitor any changes and adjust oversight as needed. Lloyd's will continue to focus on reserving for major events, in particular those with material uncertainty around the level of reserves, such as those arising from the conflict in Ukraine. **Reserve focus classes** – Casualty FinPro and Energy Onshore Liability are the reserving focus classes for 2023, as the market continues to have a more favourable outlook than Lloyd's for these classes. For Energy Onshore Liability, Lloyd's will be providing further information on trends seen at a market level.
Investments	**Flexing our oversight to respond to the current investment environment** Lloyd's will increase its focus on investments over 2023, as we recognise the link between profitability and investment success. This will be supported by the launch of the Lloyd's investment platform. Core oversight will include increased one to one engagement with managing agents and deep dive activities. Deep dives will consider: investment governance, responses to market volatility, selection process for external managers, ESG and responsible investing, stress testing and diversification of assets in line with Prudent Person Principle.
Legacy Reinsurance	**Enhancing our oversight of performance management** Lloyd's will be engaging with legacy reinsurance syndicates over 2023 and will enhance financial reporting of transactions to ensure greater visibility of performance post transaction. We will review the oversight framework to ensure it sufficiently captures legacy reinsurance risk and will ensure that responsibility for the financial result sits with the legacy syndicate.

Delegated Authority	**Customer oversight – Principle-based oversight with quality assurance checks** In line with the new Principles-based oversight framework, Lloyd's is evolving its approach to oversight of coverholder approvals. Managing agents that meet their expected maturity against the Customer Outcomes Princple will be trusted to appoint their own coverholders without Lloyd's prior approval. We will supplement this by carrying out quality assurance sample audits of managing agents' coverholder applications and ongoing compliance checks. For those managing agents who do not meet their expected maturity for the Customer Outcomes Principle, Lloyd's may continue to require full applications to be submitted for approval. **Sustainable underwriting performance** Lloyd's will be focussing on its delegated underwriting portfolio with the objective of developing a Delegated Underwriting Performance Management Framework in Q1 2023. We will engage with the market as we develop this framework. Areas of focus will include delegated authority performance and strategy, alignment of interest, data strategy, underwriting models and business planning expectations.
Climate Change	**Ensuring financial risk management keeps pace with changing climate** **Capital and reserving -** Lloyd's will seek to understand syndicates' modelling capabilities and reserving approaches for climate change, including for potential liability claims as well as more severe catastrophes. During 2023 we will scope a capital and reserving thematic review to be completed in 2024. **Portfolio risk management -** Portfolio Risk Management will also be working to develop a key risk indicator for monitoring potential changes in physical risk arising from climate change, with a view to collecting data from the market in 2024.
ESG	**Embedding ESG strategies across the market** Expectations on managing agents for 2023 relate to embedding ESG strategies across the market. Managing agents can expect engagement across three key areas: • Climate transition measurement framework • Embedding of ESG strategy • Meeting existing oversight Sub-Principles with respect to ESG Further guidance will be provided by Lloyd's in Q1 following review of managing agents' ESG strategies. This will include thematic feedback as well as guidance on building a best-in-class ESG strategy, as well as a long-term roadmap for sustainability oversight, including expectation on carbon measurement.

Culture, Diversity, and Inclusion	**Culture Principle – closing the gap for managing agents below our expectations** As a result of our review work in 2022, we provided specific feedback to managing agents on areas to improve. We expect to see improvements in order to meet expectations going forwards and will be following up with these managing agents during 2023. Where progress is not made, particularly where behaviour issues are identified, Lloyd's will introduce key interventions, including restricting writing new business or employing new staff until remedy has been demonstrated and, in extremis, a contingent run-off plan will be requested. **D&I – Culture Survey follow up & enhanced Market Policies & Practices return** Lloyd's will host upskilling workshops, round tables, training, and events, to share good practice. Focus will be on inclusive hiring, talent management and succession practice, speaking up, using diversity data, inclusive leadership behaviours and accessibility. Enhancements to MP&P in 2023 include more granular data on female representation in leadership roles and talent pipelines for key roles such as CUO, as well as early careers hiring. Lloyd's will provide the market with insights to help identify gaps, opportunities, and strengths.
Customer	**Fair value** Following on from our Fair Value market questionnaire sent in September 2022, Lloyd's will look to understand managing agents' compliance with the newly implemented FCA rules requiring the Fair Value assessment of insurance products. Lloyd's will continue to follow up on reviews conducted over 2022 of managing agents' product governance frameworks. **Consumer Duty** Lloyd's will look to understand managing agents' approach to adoption of the Consumer Duty through appropriate oversight activity, such as questionnaires and individual managing agent engagement. We will liaise with the LMA (and other market associations as appropriate) to identify the challenges faced by the market and areas where Lloyd's can provide support and guidance.
Claims	**Claims performance** During 2023 Lloyd's will share claims performance data with agents, including an enhanced view of trends and outliers. We will share benchmark views of lifecycle data points, to identify opportunities for claims process improvement. Proactive lifecycle management, effective management of claims operating costs and achieving relative value across adjusting, legal and delegated claims will all be areas of focus. **Claims scheme** Lloyd's Claims Scheme will be changed to streamline the process where two Lloyd's agreement parties are involved and enhance transparency and communication of decisions by leaders. Lloyd's will establish a framework for overseeing performance of leaders against their new requirements. Changes will also be made to ensure there is a clear and understood process for dealing with conflicts of interest,

Operational Resilience	**Concentration risk – third party service providers** During 2023 Lloyd's will engage with the market to gather information on which third party providers are being used within their business operations, in order to understand concentration risk within the Lloyd's market and the ensuing potential impact on operational resilience.
Cyber Resilience	**Cyber Resilience survey** In Q1 Lloyd's will be asking managing agents to complete the Cyber Resilience Survey, a biannual survey to strengthen our understanding of managing agents' capabilities in this critical area. There will be follow-up engagement with individual managing agents as needed.
Regulatory, Financial Crime & Compliance	**Regulatory environment – ensuring alignment with regulatory expectations** Lloyd's expects managing agents to take stock of the impact of key regulatory changes on their business as a whole. Insurance legislative changes across South Africa, Canada, Switzerland, China, and India are specifically highlighted, given changes have taken place recently or are expected. In particular, we expect to see regulatory changes regarding data privacy and security (e.g., Canada, Switzerland, China), conduct (e.g., Canada, South Africa, and New Zealand) and reform of other local requirements (e.g., Quebec's French language requirements in Canada, Order of Preference in India, potential funding requirement changes in certain countries etc). Lloyd's expects the market to be compliant with UK and international regulatory requirements.
	Financial crime controls in run-off syndicates During Q1, Lloyd's will conduct a thematic review of financial crime controls in run-off syndicates with a representative sample of syndicates. Individual findings will be shared with syndicates and best practice guidance shared with the wider market. **Conflicts of interest** During Q3, Lloyd's will conduct a thematic review to assess how managing agents are managing conflicts in their firms, and whether there is good practice that can be shared with the wider market. This will be with a representative sample of managing agents. **Whistleblowing** During Q4, Lloyd's will conduct a follow-up to the 2021 thematic review, to assess managing agents' development of Whistleblowing systems and controls. This will be with a representative sample of managing agents and we will share best practice guidance with the market.

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	Lloyd's Insurance Company ("LIC") LIC will focus on managing agents' compliance with the LIC operating model requirements, including solution 4 (own service company) compliance. In line with the Insurance Distribution Directive, LIC needs to gain assurance over the key processes and controls operating within its UK branch. All managing agents were requested to include a placeholder in their 2023 Internal Audit Plan. Over 2023 LIC will develop a dedicated assurance plan to assess compliance. In addition, LIC Compliance will undertake following assurance work over 2023: • Gifts and hospitality monitoring –review process and policy for the first time to gain assurance. • Conflicts of interest (in conjunction with Corporation team above) • Whistleblowing (in conjunction with Corporation team above) • Cloud service providers – via a questionnaire to understand compliance with NBB Circular (2020 018) on cloud outsourcing. • Delegated Claims Administrators - assess the design and effectiveness of controls regarding DCA oversight by managing agents (in conjunction with the Corporation Team as part of its wider work regarding DA oversight controls).