

# **Project Rio Technical Briefing Sessions**

## **Capital**

**27 January 2022**

**Lyndsay Deeves and Rebecca Soraghan**

# 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 capital?	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*

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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

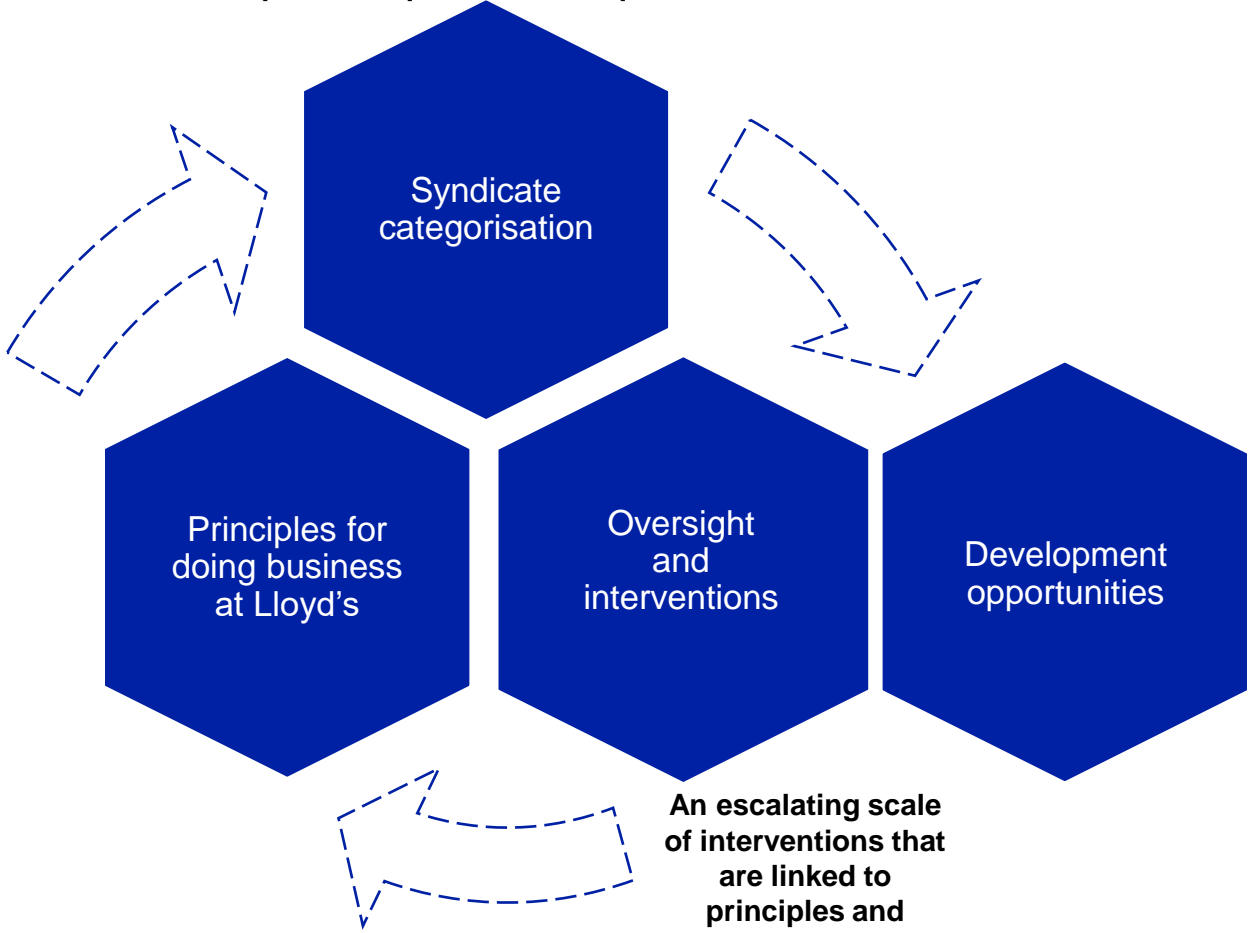
# Oversight Framework

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

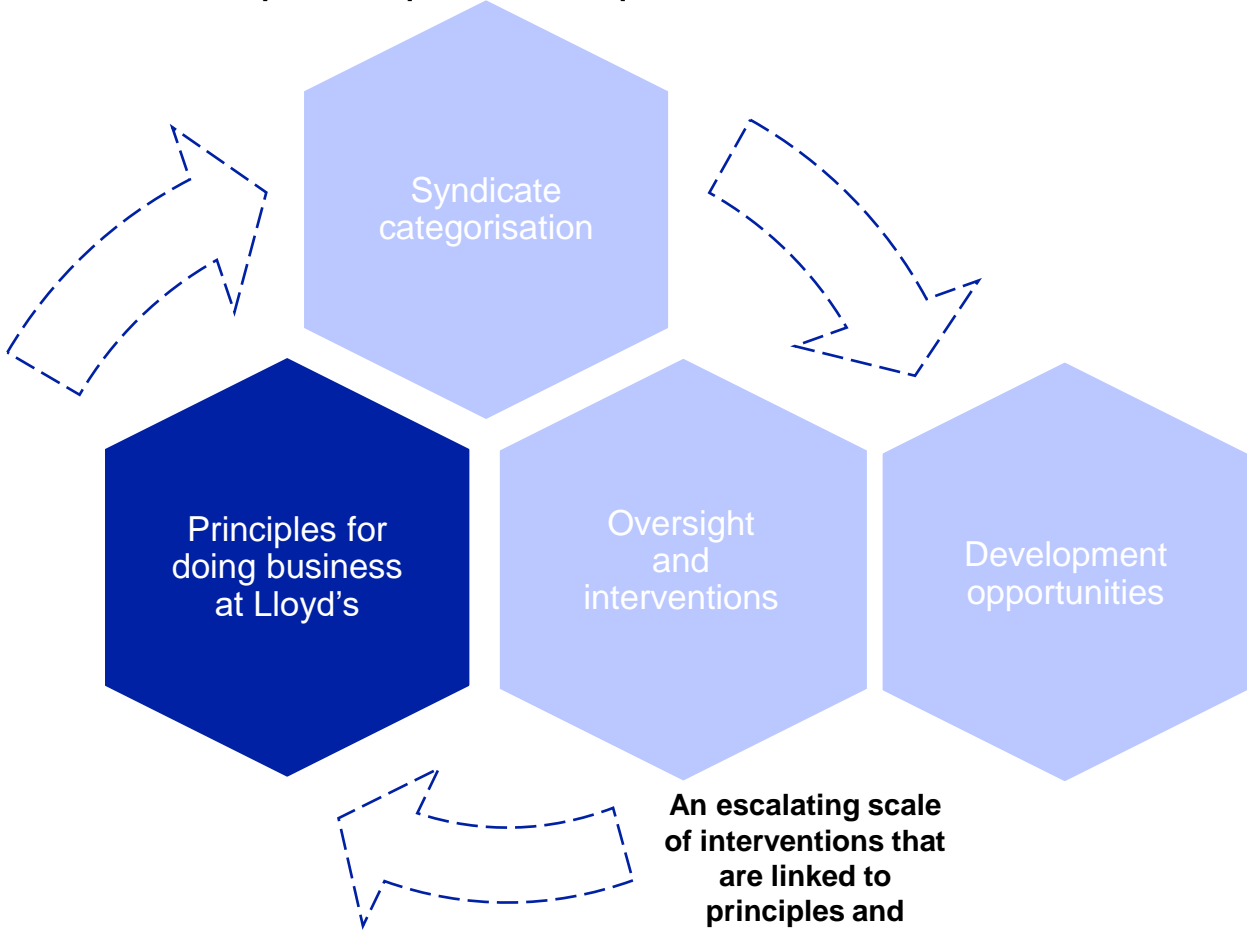
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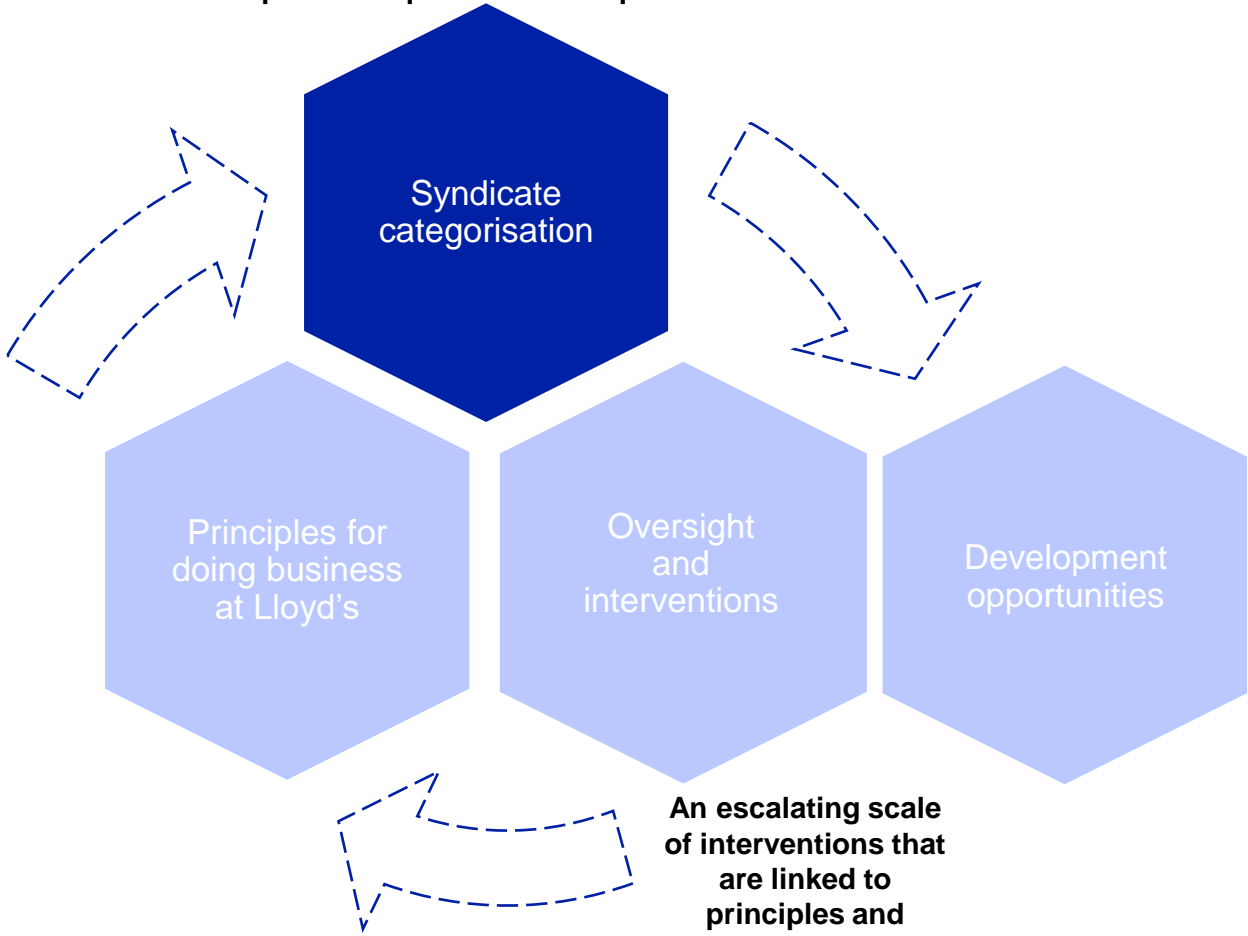
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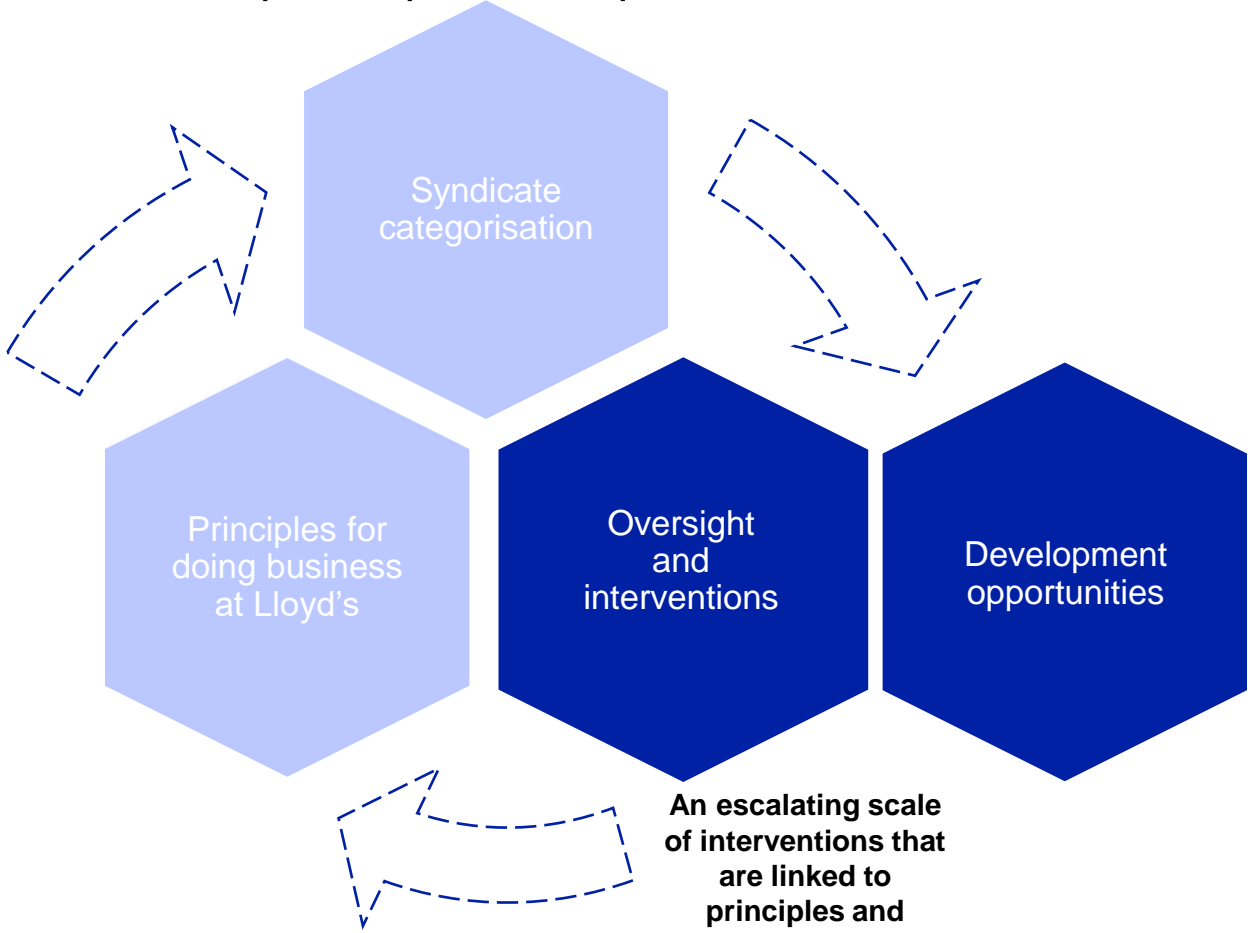
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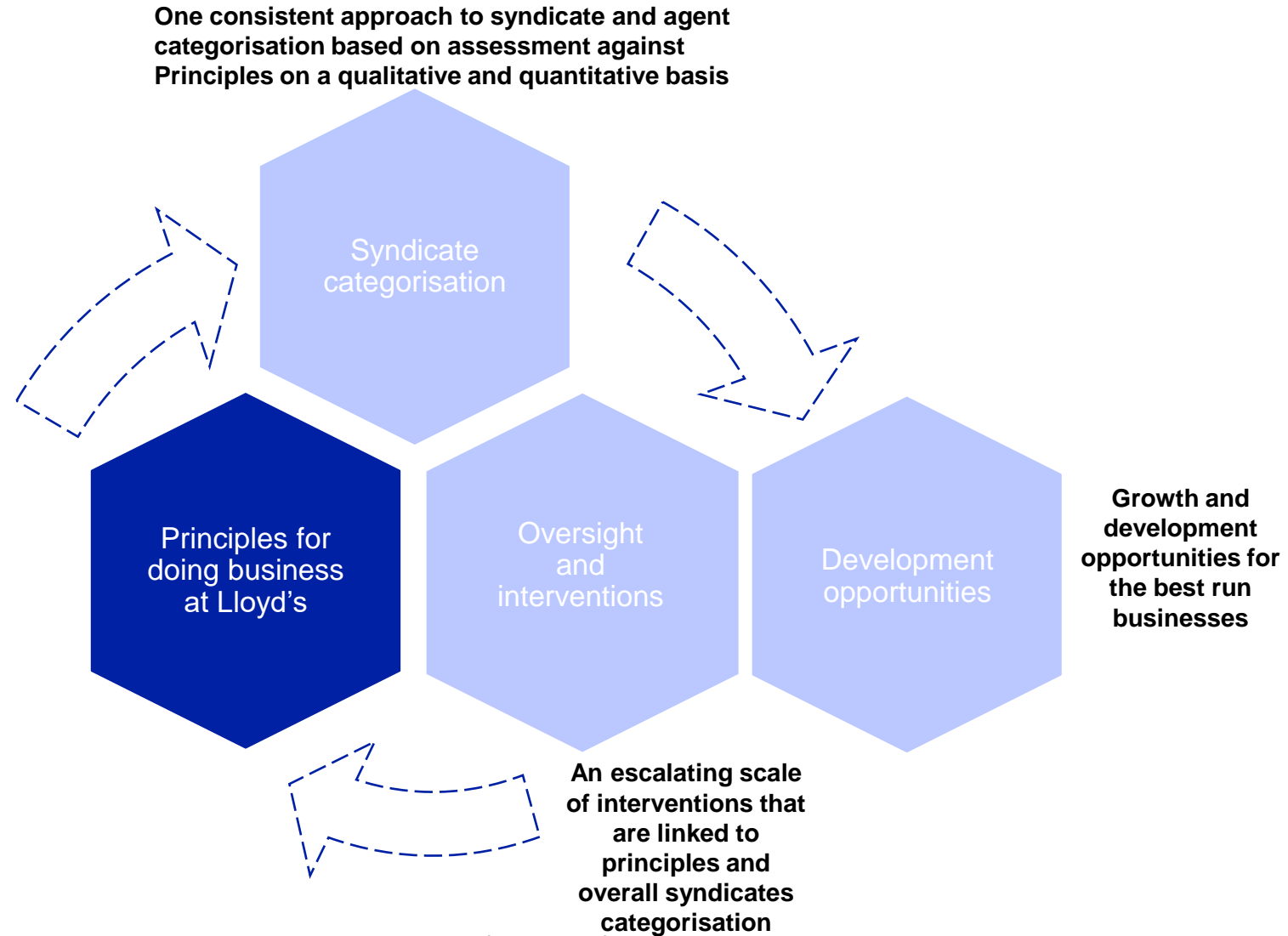
Growth and development opportunities for the best run businesses

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



# Oversight Framework

## The Lloyd's Principles



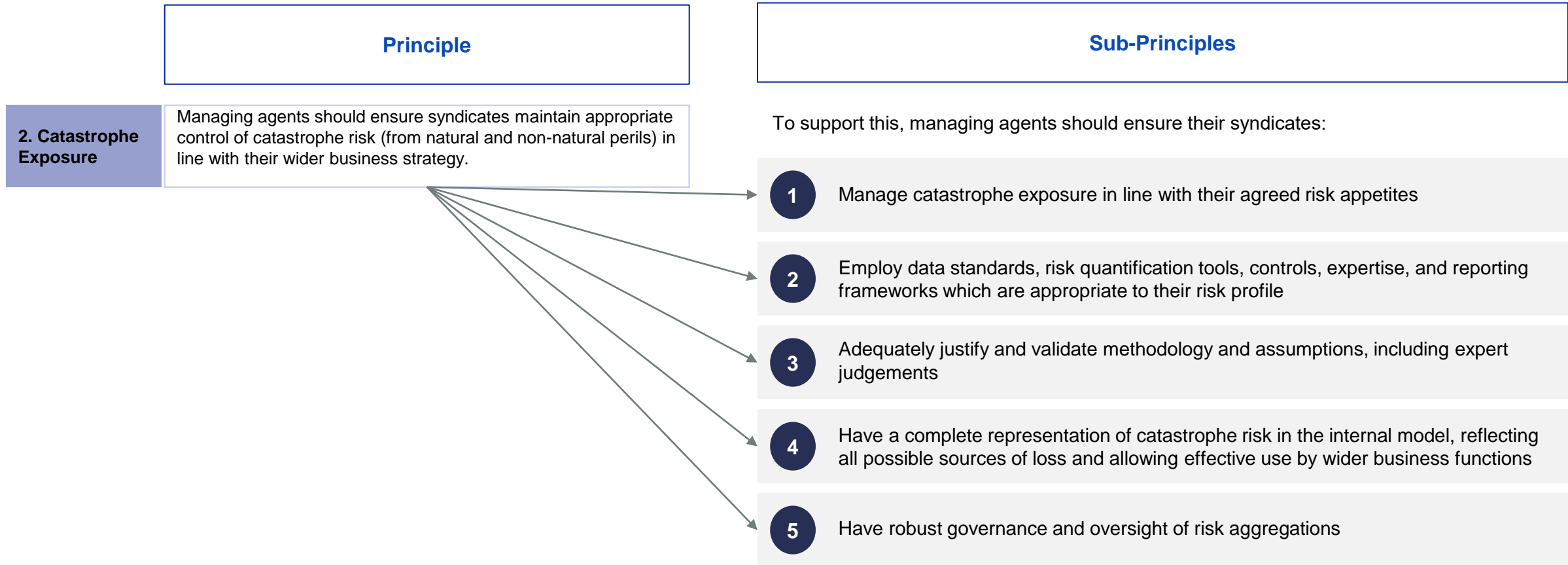
# Oversight Framework

## The 13 Lloyd's Principles

PERFORMANCE	<b>1. Underwriting Profitability</b>	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	<b>7. Capital</b>	Managing agents should ensure syndicates' Solvency Capital Requirement (SCR) appropriately reflects their risk profile and is calculated using a Solvency II compliant internal model.
	<b>2. Catastrophe Exposure</b>	Managing agents should ensure syndicates maintain appropriate control of catastrophe risk (from natural and non-natural perils) in line with their wider business strategy.		<b>8. Investment</b>	Managing agents should ensure syndicate investment risk is effectively controlled, informed by wider business strategy and adheres to the Prudent Person Principle (PPP) requirements.
	<b>3. Outwards Reinsurance</b>	Managing agents should define and execute syndicate outwards reinsurance strategy and purchasing plans which effectively support the wider syndicate business strategy and objectives.		<b>9. Liquidity</b>	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.
	<b>4. Claims Management</b>	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	<b>10. Governance, Risk Management and Reporting</b>	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.
	<b>5. Customer Outcomes</b>	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.		<b>11. Regulatory and Financial Crime</b>	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.
	<b>6. Reserving</b>	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.		<b>12. Operational resilience</b>	Managing agents should maintain robust and resilient operations, embedding cyber resilience and effective third-party risk management.
		<b>13. Culture</b>		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.

	Foundational	Intermediate	Established	Advanced
Risk Appetites	<ul style="list-style-type: none"> <li>Catastrophe risk appetite statements are in place; exposures are monitored against appetite and reported to senior management and the board.</li> <li>Business plans reflect catastrophe risk appetites</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Catastrophe risk appetites are clearly embedded at every level, with changes communicated and used efficiently. Statements may be forward-looking, and themselves reactive to external events, business plan changes, and feedback loops.</li> </ul>

Low materiality → Moderate materiality → High materiality → Highest materiality

# Oversight Framework

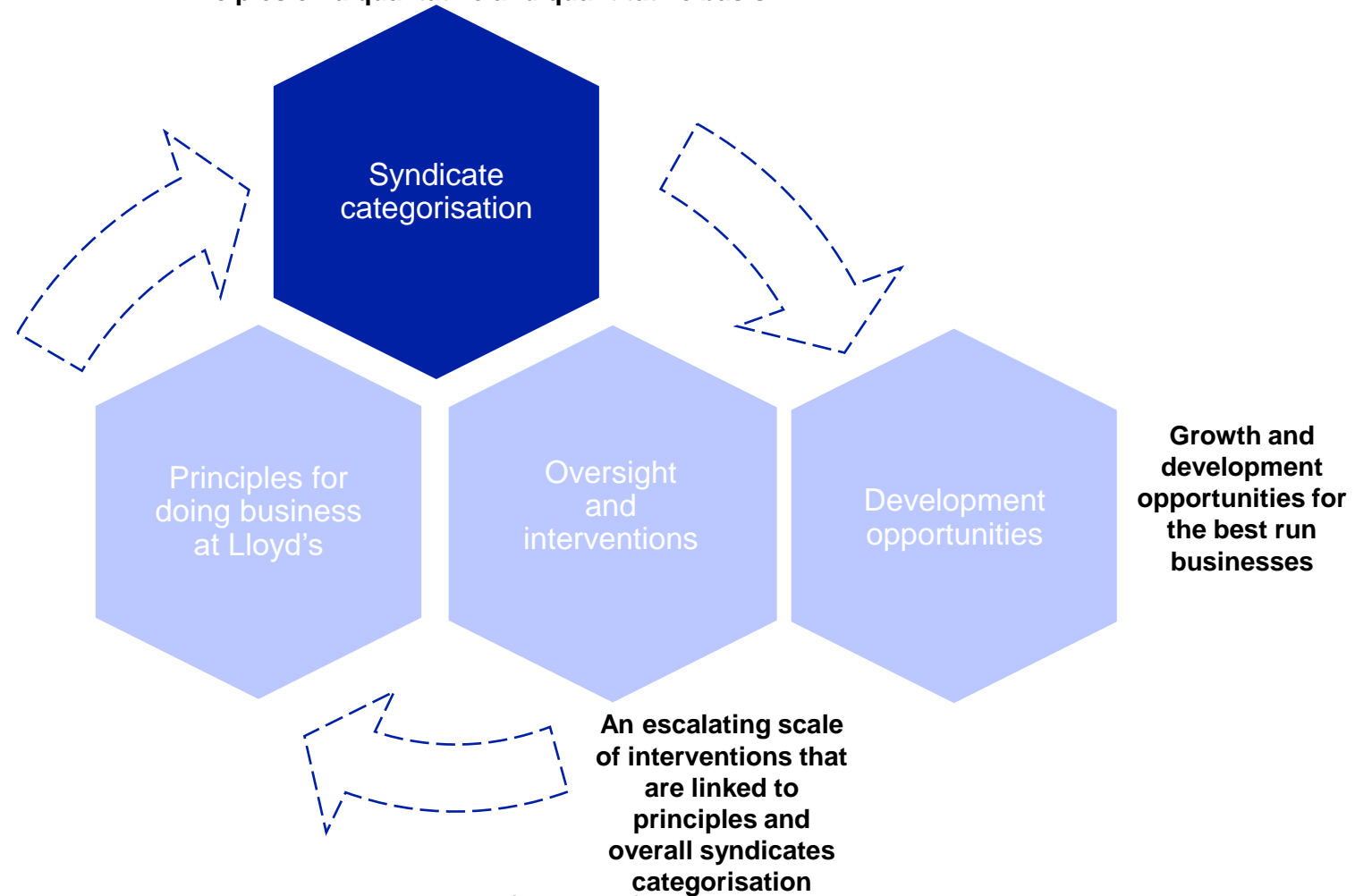
## Levels of maturity – generic definitions

<b>FOUNDATIONAL</b> <i>(Low materiality)</i>	<b>INTERMEDIATE</b> <i>(Moderate materiality)</i>	<b>ESTABLISHED</b> <i>(High materiality)</i>	<b>ADVANCED</b> <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

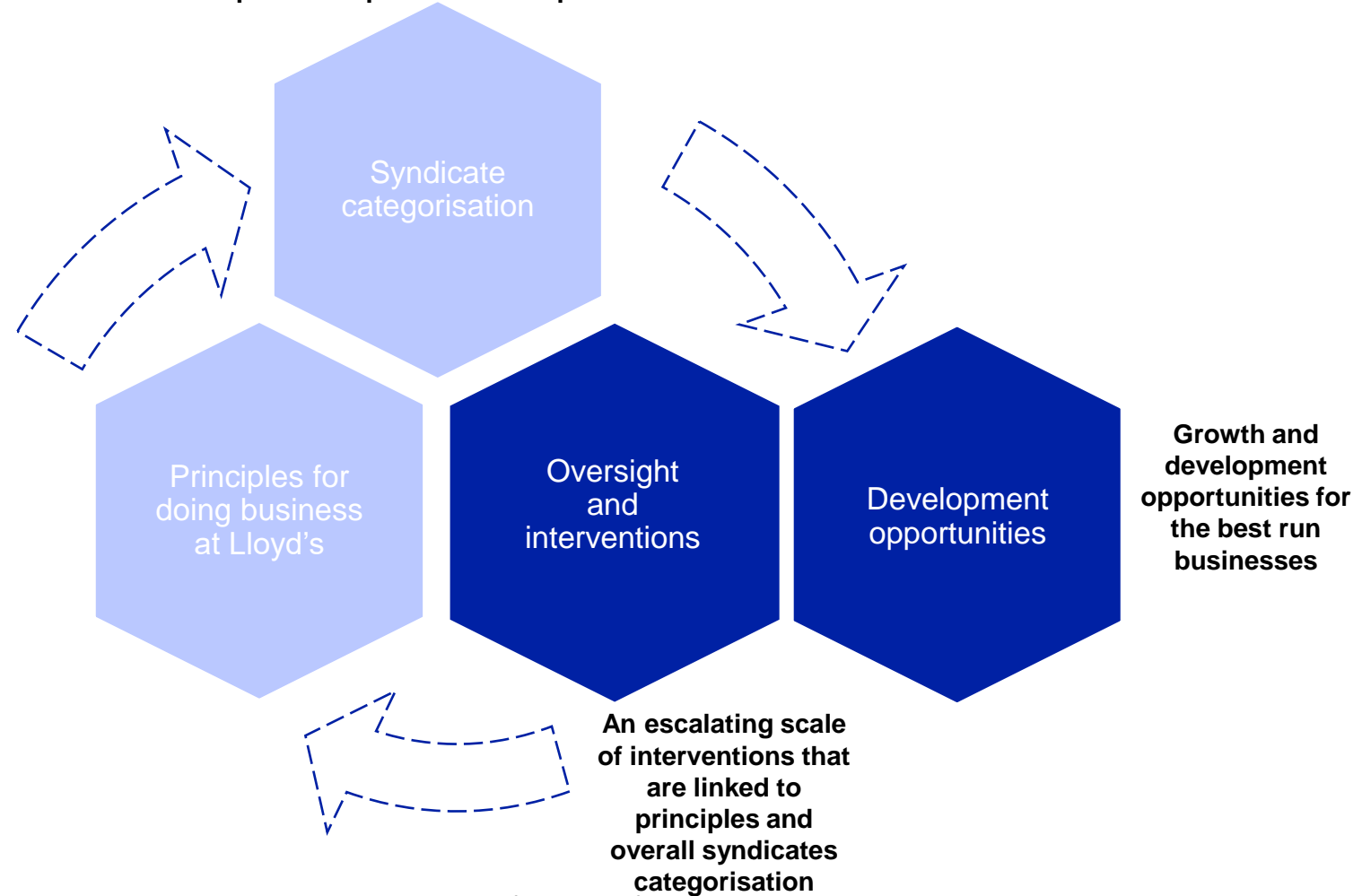
Oversight Dimensions		Expected Maturity	Actual Maturity	Dimension Rating	UNDERPERFORMING
Performance	Underwriting Profitability	Advanced	Intermediate	Below expectations	
	Catastrophe Exposure	Established	Established	Meets expectations	
	Outwards Reinsurance	Foundational	Foundational	Meets expectations	
	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	

OUTPERFORMING
GOOD
MODERATE
UNDERPERFORMING
UNACCEPTABLE

# Oversight Framework

## Oversight / Interventions and Development Opportunities

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



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

# Oversight Framework:

*How will it work for capital?*

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Rebecca Soraghan

# Oversight Framework – Capital

## What risk are we managing?

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
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**The oversight framework is designed to manage the risk of inadequate syndicate capital and in particular that syndicate losses hit the central fund.**

The sub-principles focus on ensuring syndicates have a complete and fully embedded capital model with robust governance around it to be able to adequately calculate the capital requirement associated with the risks they are exposed to.

Managing agents should ensure syndicates Solvency Capital Requirement (SCR) appropriately reflects their risk profile and is calculated using a SII compliant internal model.

To support this, managing agents should ensure their syndicates:

1. Maintain an internal model which captures all material risks that the syndicate is exposed to
2. Use modelling assumptions which are realistic and justifiable, methodology which is adequate, and all material limitations are understood
3. Have strong feedback loops joining the business and the model
4. Demonstrate robust governance and understanding of the model. This includes adequate understanding and challenge at senior management level.
5. Implement changes to the model which are reasonable and justified and their impact on the SCR adequately explained
6. Conduct objective challenge of the internal model through independent validation

# Oversight Framework – Capital

## Defining expected maturity

Oversight Objectives		
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Dimension	Materiality measure	Low Foundational	Moderate Intermediate	High Established	Highest Advanced
Principle 7: Capital	<p><b>Either:</b></p> <p>1. £ultimate SCR (latest approved); or</p> <p>2. Syndicate 1 year tail risk ratio (99.8<sup>th</sup> vs 99.5<sup>th</sup> net claims<sup>*1</sup>) - with a £250m materiality threshold applied</p>	<uSCR £100m	uSCR £100m	uSCR £250m	>uSCR £500m
		-	-	6%	>10%

\*1 Tail risk net claims information taken from the LCR form 311

	uSCR				
	> £500m	> £250m, ≤ £500m	> £100m, ≤ £250m	≤ £100m	
Syndicate Tail Risk *2	>10%	Highest	Highest	Moderate	Low
	6% - 10%	Highest	High	Moderate	Low
	<6%	Highest	High	Moderate	Low

\*2 Application of metric is subject to minimum uSCR of £250m

### 3 Have strong feedback loops joining the business and the model.

	Foundational	Intermediate	Established	Advanced
Model Use	<ul style="list-style-type: none"> <li>The internal model uses include calculation of economic capital; capital allocation (at least <u>at risk</u> category level); and use in the ORSA. Uses of the model are tracked and documented.</li> <li>Use of the internal model in senior management and board decision-making can be evidenced.</li> </ul>	<ul style="list-style-type: none"> <li>The model is used to underpin relevant business decisions and robust justification is provided where use of the model is not considered to be appropriate.</li> <li>Model uses are not just focused on the regulatory capital impact level (<u>see</u> the 99.5th percentile), but also other parts of the distribution (<u>see</u> in the case of reinsurance purchasing).</li> </ul>	<ul style="list-style-type: none"> <li>In addition to SCR, the internal model is used widely and regularly throughout the business <u>and</u> for assessing returns on capital, risk appetite, investment allocation and reinsurance purchasing decisions.</li> <li>Model is used when exploring potential new classes of business or closing existing classes of business.</li> <li>Boards regularly discuss model outputs when making strategic business decisions (<u>see</u> M&amp;A).</li> </ul>	<ul style="list-style-type: none"> <li>New model uses are linked to the development plan of the model. Where the model has limitations in a use those are understood and clearly communicated.</li> </ul>

- The Materiality rating informs expected maturity

# Oversight Framework – Capital

How to assess performance against the Principles?

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Assessment against Principles will be through combination of qualitative and quantitative

## 1) Quantitative assessment

- **Performance Metrics:**
  - Assessment will be based on approved loadings
- Other metrics will be considered (e.g. model drift, losses vs. ECA, feedback points from reviews over the year, risk vs. Exposure metrics), which might trigger additional oversight
- **Lagging**
  - Loadings are updated quarterly after the QCT process

## 2) Qualitative – subjective assessment (Lead)

- Deep dives
- LCR reviews
- Model change reviews
- Validation report reviews
- Combination of thematic oversight and syndicate specific oversight

• Limited change vs today

• Self-assessments – will be using these to highlight where there are differences and follow-up



# Oversight Framework – Capital

## Interventions specific to Capital

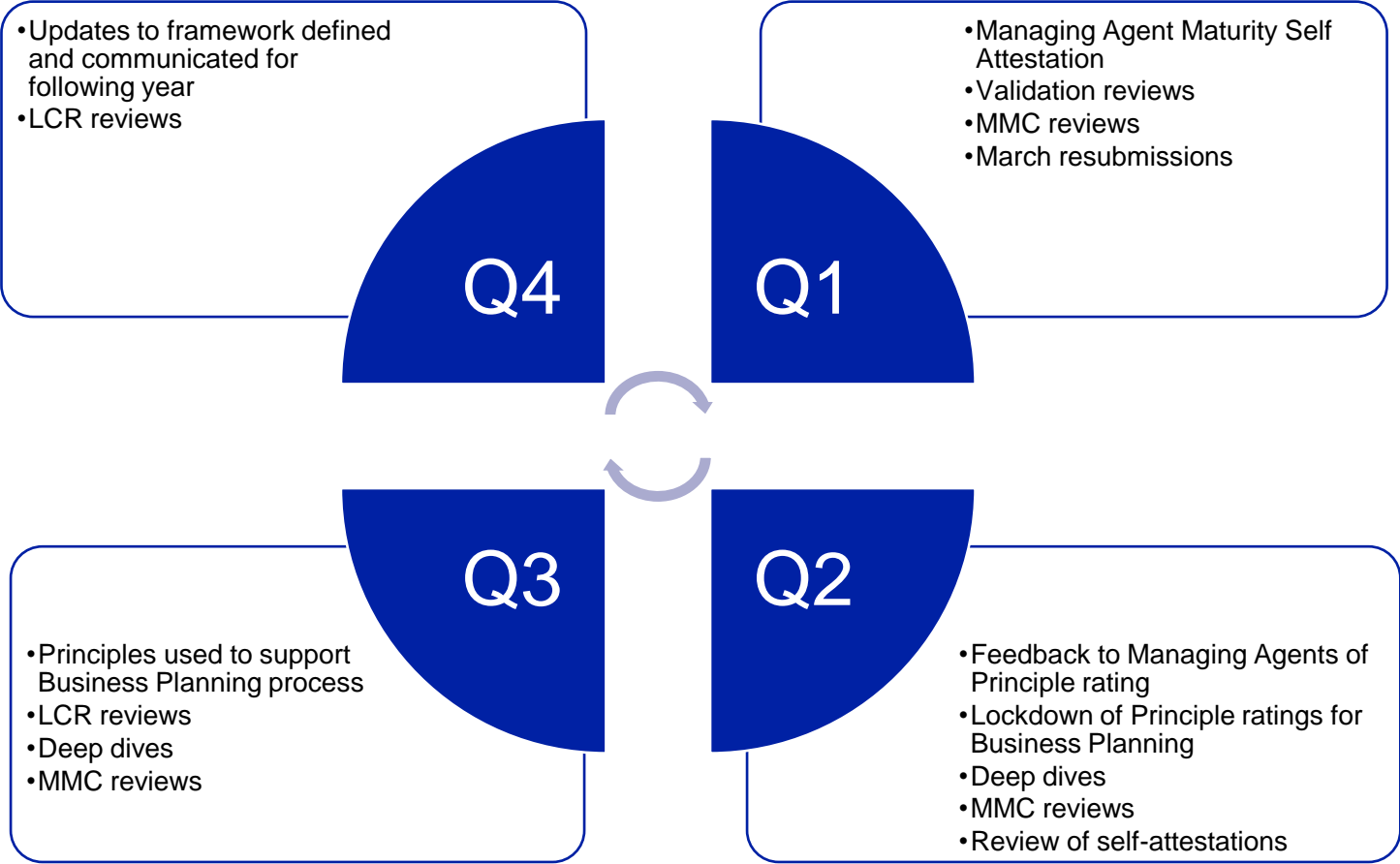
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Dimension	Well below expectations	Below expectations	Marginally below expectations	Meeting expectations
SOLVENCY Capital	<ul style="list-style-type: none"> <li>Use of Benchmark Model to set capital</li> <li>Solvency II load</li> </ul>	<ul style="list-style-type: none"> <li>Capital loadings, including Solvency II loadings</li> <li>Full deep dive review</li> <li>Independent validation review</li> <li>Managing Agent to produce remediation plan to be approved by Lloyd's</li> <li>Requirement to undertake detailed Principles review (either internally, e.g. Internal Audit, or externally)</li> </ul>	<ul style="list-style-type: none"> <li>Capital loadings</li> <li>A deep-dive review of the noted issues.</li> <li>Capital feedback given and the Managing Agent required to submit a plan to address that feedback</li> </ul>	<ul style="list-style-type: none"> <li>Routine risk-based oversight</li> </ul>

# Oversight Framework – Capital

## Annual cycle of activity

Oversight Objectives		
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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.

# Case studies:

## *Bringing the Framework to life*

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Rebecca Soraghan

# Case Study 1: Sub-principle assessment (Syndicate X)

## Sub-principle 1: Maintain an internal model which captures all material risks that the syndicate is exposed to

CAPITAL

1 Maintain an internal model which captures all material risks that the syndicate is exposed to.

	Foundational	Intermediate	Established	Advanced
Model Scope	<ul style="list-style-type: none"> <li>Both the one-year and ultimate SCRs are calculated using a full internal model.</li> <li>The scope of the model is documented and covers all quantifiable material risks which the syndicate is exposed to. At a minimum the SCR needs to cover insurance risk, market risk, credit risk and operational risk.</li> <li>Documentation of the design and operational details of the internal models is complete, well-structured and up-to-date. It is also sufficient to ensure that any knowledgeable third-party would be able to understand it and form a view of Solvency II compliance.</li> <li>The internal model makes allowance for future management actions where appropriate. They need to be realistic and consistent with each other and the syndicate's current business practice and strategy. Any risk mitigation techniques are documented and secondary risks considered.</li> </ul>	<ul style="list-style-type: none"> <li>Risks included in the syndicate's risk register (or emerging from its risk assessment process) are listed and individually identified as being included within the internal model or not. Clear justification is provided if risks are not captured.</li> </ul>	<ul style="list-style-type: none"> <li>Process established to ensure regular review of modelled risks including risk profile considerations, emerging risks and developing issues.</li> </ul>	<ul style="list-style-type: none"> <li>There is a clear connection between emerging risk processes in other functions of the business and the internal model. The capital team is integrated into risk management and into any working parties around emerging risks.</li> <li>There is clear and documented justification of the approach to emerging risks (on the horizon) – including which risks are explicitly modelled with a specific quantifiable allowance. For risks where that is not the case it is clearly justified that the model nevertheless captures the emerging risk. The data required to parameterise models for the emerging risks will be identified and, if necessary, captured.</li> <li>The Syndicate clearly assesses and evaluates non-modelled risks (not limited to natural catastrophe risks). This includes use of scenario testing to evaluate materiality of risks not captured in the internal model.</li> </ul>

**Managing agent X**  
Expected maturity - Established

The agent described its approach to capturing emerging risks in the capital model:

“We set up working groups specific to emerging risks that the business is concerned about. For example, we currently have groups covering climate change, pandemic and cyber risks. These groups use technical and non-technical representation from across the organisation (underwriting, claims, pricing and actuarial teams). They consider the latest internal and external information and how it could impact the syndicate risk profile. Part of the process is to evaluate a range of these emerging risk losses and the associated likelihoods using the internal model. This includes isolating allowances that are already being made in the model parameterisation. There is a documented process in place which describes when an emerging risk should require more detailed and/or explicit coverage in the internal model and this is linked to the model development plan.”

# Case Study 1: Sub-principle assessment (Syndicate X)

Sub-principle 1: Maintain an internal model which captures all material risks that the syndicate is exposed to

## CAPITAL

### 1 Maintain an internal model which captures all material risks that the syndicate is exposed to.

	Foundational	Intermediate	Established	Advanced
Model Scope	<ul style="list-style-type: none"> <li>Both the one-year and ultimate SCRs are calculated using a full internal model.</li> <li>The scope of the model is documented and covers all quantifiable material risks which the syndicate is exposed to. At a minimum the SCR needs to cover insurance risk, market risk, credit risk and operational risk.</li> <li>Documentation of the design and operational details of the internal models is complete, well-structured and up-to-date. It is also sufficient to ensure that any knowledgeable third-party would be able to understand it and form a view of Solvency II compliance.</li> <li>The internal model makes allowance for future management actions where appropriate. They need to be realistic and consistent with each other and the syndicate's current business practice and strategy. Any risk mitigation techniques are documented and secondary risks considered.</li> </ul>	<ul style="list-style-type: none"> <li>Risks included in the syndicate's risk register (or emerging from its risk assessment process) are listed and individually identified as being included within the internal model or not. Clear justification is provided if risks are not captured.</li> </ul>	<ul style="list-style-type: none"> <li>Process established to ensure regular review of modelled risks including risk profile considerations, emerging risks and developing issues.</li> </ul>	<ul style="list-style-type: none"> <li>There is a clear connection between emerging risk processes in other functions of the business and the internal model. The capital team is integrated into risk management and into any working parties around emerging risks.</li> <li>There is clear and documented justification of the approach to emerging risks (on the horizon) – including which risks are explicitly modelled with a specific quantifiable allowance. For risks where that is not the case it is clearly justified that the model nevertheless captures the emerging risk. The data required to parameterise models for the emerging risks will be identified and, if necessary, captured.</li> </ul>



### Managing agent X

*Expected maturity - Established*

The agent described its approach to capturing emerging risks in the capital model:

“We set up working groups specific to emerging risks that the business is concerned about. For example we currently have groups covering climate change, pandemic and cyber risks. These groups use technical and non-technical representation from across the organisation (underwriting, claims, pricing and actuarial teams). They consider the latest internal and external information and how it could impact the syndicate risk profile. Part of the process is to evaluate a range of these emerging risk losses and the associated likelihoods using the internal model. This includes isolating allowances that are already being made in the model parameterisation. There is a documented process in place which describes when an emerging risk should require more detailed and/or explicit coverage in the internal model and this is linked to the model development plan.”

### Managing agent rating

Expected maturity: **Established**

Where does evidence sit on the maturity scale? This element of the sub-principle suggests an actual maturity of **Advanced**

# Case Study 1: Dimension rating (Syndicate X)

Principle		Expected Maturity	Assessment of Maturity
<b>7. Capital</b> Managing agents should ensure syndicates' Solvency Capital Requirement (SCR) appropriately reflects their risk profile and is calculated using a Solvency II compliant internal model.		Established	Established
Sub Principle 1	Maintain an internal model which captures all material risks that the syndicate is exposed to	Established	Advanced
Sub Principle 2	Use modelling assumptions which are realistic and justifiable, methodology which is adequate, and all material limitations are understood	Established	Intermediate
Sub Principle 3	Have strong feedback loops joining the business and the model	Established	Established
Sub Principle 4	Demonstrate robust governance and understanding of the model. This includes adequate understanding and challenge at senior management level.	Established	Established
Sub Principle 5	Implement changes to the model which are reasonable and justified and their impact on the SCR adequately explained	Established	Intermediate
Sub Principle 6	Conduct objective challenge of the internal model through independent validation	Established	Established

**Overall Lloyd's assessment of Syndicate on maturity scale was Established and, as a result overall dimension rating for Capital was Meeting Expectations**

**Expected Maturity: Established  
Actual Maturity: Established**

# Case Study 2: Sub-principle assessment (Syndicate Y)

## Sub-principle 6: Conduct objective challenge of the internal model through independent validation

CAIPTAL

6 Conduct objective challenge of the internal model through independent validation

	Foundational	Intermediate	Established	Advanced
Validation	<ul style="list-style-type: none"> <li>The validation process is independent from the development and operation of the internal model and subject to objective challenge. The risk management function has the responsibility for testing and validating the internal model.</li> <li>Validation results are documented in the validation report, to be submitted to Lloyd's in line with the LCR submission timetable. Confirmation statements are signed off by the board.</li> </ul>	<ul style="list-style-type: none"> <li>The board (or board delegated sub-committee) input into the reverse stress test.</li> <li>Limitations of the validation process are highlighted and their materiality assessed, individually and in aggregate.</li> <li>The validation report is structured in a way that is fit for purpose - with an executive summary for the board but more technical underlying documentation for other stakeholders. Signposting is clear and easy to follow.</li> <li>Board reviews validation report prior to signing off the SCR.</li> </ul>	<ul style="list-style-type: none"> <li>See previous page</li> </ul>	<ul style="list-style-type: none"> <li>See previous page</li> </ul>

### Managing agent Y

*Expected maturity - Foundational*

Lloyd's is engaged with a managing agent to review the validation process for its syndicate. In the course of review, we discover that a member of the validation team is involved in updating the internal model when the capital team has resource constraints. In this case there appears to be a conflict of interest in the validation process which could impact objectivity of the work.

The agent goes on to demonstrate that the process for escalating test results and findings is designed to ensure sufficient objective challenge via the participation of independent experts in the various governance committees. The agent provides evidence of other controls used to ensure independence. These include regular review of the validation process by an external actuary, using internal audit as a "third line of defence" and including a formal validation test on independence in the test plan, which is carried out by a director who is independent from the model and validation processes.

# Case Study 2: Sub-principle assessment (Syndicate Y)

## Sub-principle 6: Conduct objective challenge of the internal model through independent validation

CAIPTAL				
6 Conduct objective challenge of the internal model through independent validation				
	Foundational	Intermediate	Established	Advanced
Validation	<p>The validation process is independent from the development and operation of the internal model and subject to objective challenge. The risk management function has the responsibility for testing and validating the internal model.</p> <p>Validation results are documented in the validation report, to be submitted to Lloyd's in line with the LCR submission timetable. Confirmation statements are signed off by the board.</p>	<ul style="list-style-type: none"> <li>The board (or board delegated sub-committee) input into the reverse stress test.</li> <li>Limitations of the validation process are highlighted and their materiality assessed, individually and in aggregate.</li> <li>The validation report is structured in a way that is fit for purpose - with an executive summary for the board but more technical underlying documentation for other stakeholders. Signposting is clear and easy to follow.</li> <li>Board reviews validation report prior to signing off the SCR.</li> </ul>	<ul style="list-style-type: none"> <li>See previous page</li> </ul>	<ul style="list-style-type: none"> <li>See previous page</li> </ul>



### Managing agent Y

*Expected maturity - Foundational*

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### Managing agent rating

Expected maturity: **Foundational**

Where does evidence sit on the maturity scale? This element of the sub-principle suggests an actual maturity of **Foundational**



# Case Study 3: Sub-principle assessment (Syndicate Z)

Sub-principle 2: Use modelling assumptions which are realistic and justifiable, methodology which is adequate...

## CAPITAL

2 Use modelling assumptions which are realistic and justifiable, methodology which is adequate, and material limitations are understood.

	Foundational	Intermediate	Established	Advanced
Methodology	<ul style="list-style-type: none"> <li>Methodology is documented and employed based on techniques that reflect the risk, up-to-date and generally accepted market practice and is suitable for data used.</li> <li>Any out of model adjustments are documented and governed in line with the calculation kernel.</li> </ul>	<ul style="list-style-type: none"> <li>Methodology employed is generally accepted market practice (widely adopted) with some adaptations where the risk profile suggests.</li> </ul>	<ul style="list-style-type: none"> <li>Methodologies employed follow the evolution of market practice. Subject matter experts use the most up to date market knowledge to inform the methodology employed for all material risk areas. Alternatively, the syndicate justification for using generally accepted market practice is strong and the syndicate can demonstrate it has explored/tested other methods. Regular review of appropriateness of methodologies, with resulting development.</li> <li>A robust methodology which is aligned to the risk profile of the syndicate is employed across all risk areas.</li> </ul>	<ul style="list-style-type: none"> <li>Regular first line investigations into alternative methodologies to ensure existing methods remain most appropriate for the syndicate. There is demonstration of internal model development, or continued appropriateness of methodology as a result of these reviews.</li> <li>Alternative methodologies are modelled and tested and the model is flexible enough to enable methodology changes be made efficiently keeping the model up to date and aligned to changes in risk profile.</li> </ul>

### Managing agent Z *Expected maturity - Established*

Lloyd's is reviewing the capital submission for a syndicate's new business plan. The syndicate plan would result in the amount of cyber exposure more than doubling in terms of premium volume and the syndicate becoming one of Lloyd's larger writers of the risk. The syndicate previously relied on reflecting this risk in the model through the use of Lloyd's cyber RDS. This approach has not been changed and the submission does not outline why this is appropriate.

Lloyd's provides feedback that given the change in risk profile the syndicate should have considered alternative methodologies, such as a bespoke cyber model, external model or bottom-up parameterisation of the risk and these should have been considered and compared against the existing methodology. The chosen methodology may be appropriate but the syndicate did not justify this adequately or demonstrate that it had tested other approaches for this material risk area.

# Case Study 3: Sub-principle assessment (Syndicate Z)

Sub-principle 2: Use modelling assumptions which are realistic and justifiable, methodology which is adequate...

## CAPITAL

2 Use modelling assumptions which are realistic and justifiable, methodology which is adequate, and material limitations are understood.

	Foundational	Intermediate	Established	Advanced
Methodology	<p>Methodology is documented and employed based on techniques that reflect the risk, up-to-date and generally accepted market practice and is suitable for data used.</p> <p>Any out of model adjustments are documented and governed in line with the calculation kernel.</p>	<p>Methodology employed is generally accepted market practice (widely adopted) with some adaptations where the risk profile suggests.</p>	<p>Methodologies employed follow the evolution of market practice. Subject matter experts use the most up to date market knowledge to inform the methodology employed for all material risk areas. Alternatively, the syndicate justification for using generally accepted market practice is strong and the syndicate can demonstrate it has explored/tested other methods. Regular review of appropriateness of methodologies, with resulting development.</p> <p>A robust methodology which is aligned to the risk profile of the syndicate is employed across all risk areas.</p>	<p>Regular first line investigations into alternative methodologies to ensure existing methods remain most appropriate for the syndicate. There is demonstration of internal model development, or continued appropriateness of methodology as a result of these reviews.</p> <p>Alternative methodologies are modelled and tested and the model is flexible enough to enable methodology changes be made efficiently keeping the model up to date and aligned to changes in risk profile.</p>

### Managing agent Z

*Expected maturity - Established*

Lloyd's is reviewing the capital submission for a syndicate's new business plan. The syndicate plan would result in the amount of cyber exposure more than doubling in terms of premium volume and the syndicate becoming one of Lloyd's larger writers of the risk. The syndicate previously relied on reflecting this risk in the model through the use of Lloyd's cyber RDS. This approach has not been changed and the submission does not outline why this is appropriate.

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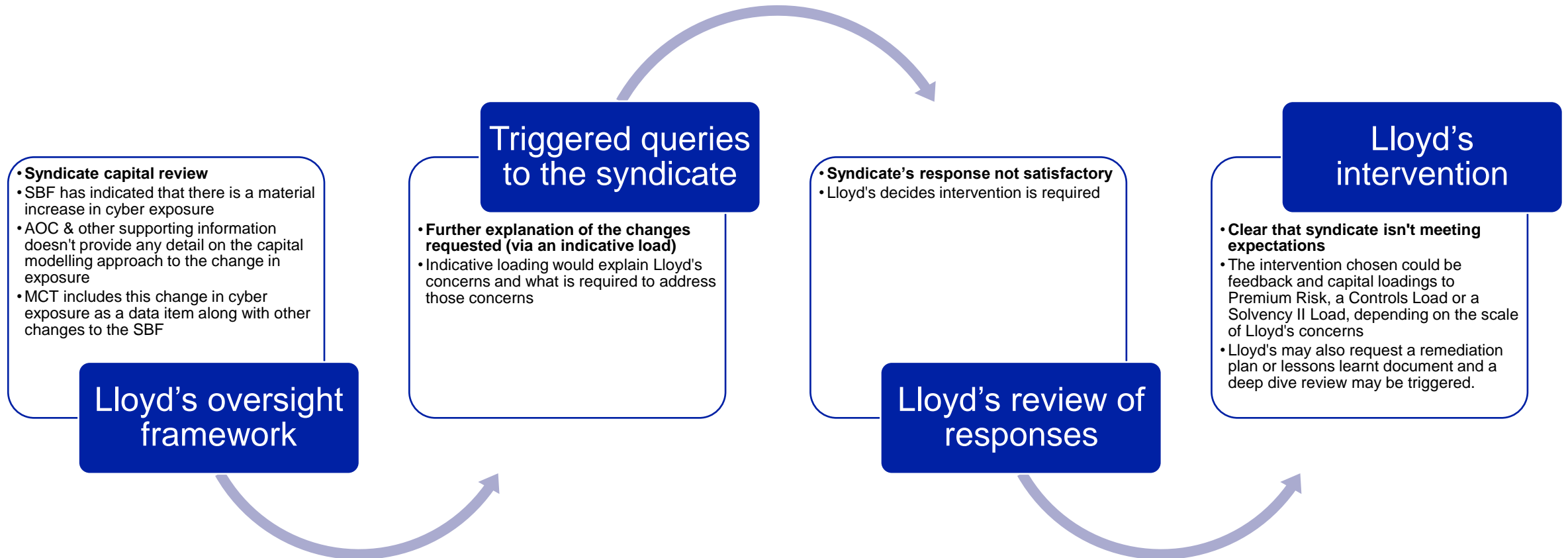
### Managing agent rating

Expected maturity: **Established**

Where does evidence sit on the maturity scale? This element of the sub-principle suggests an actual maturity of **Foundational (or possibly below Foundational depending on the circumstances!)**

# Case Study 3: Syndicate Z

## Syndicate not meeting expectations



# Self-assessment submissions

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Lyndsay Deeves

# Principles self-assessments

## Moving from prescription to outcomes focussed

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### 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](#)

<b>Managing Agent</b>	
<b>Syndicate Number</b>	
<b>Date shared with Board</b>	

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

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
<b>1. Underwriting Profitability</b> 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.  To support this, managing agents should ensure their syndicates:	Established		
Sub Principle 1 Have a clear and robust medium to long term business strategy with clearly defined and understood underwriting risk appetite	Established		
Sub Principle 2 Develop and execute annual business plans which align with their business strategy	Established		
Sub Principle 3 Have underwriting controls, monitoring and reporting in place which are appropriate to their risk profile in order to deliver the agreed business plan	Established		
Sub Principle 4 Manage and control expenses in order to ensure they are appropriate for the business written	Established		
Sub Principle 5 Have robust portfolio management in place in order to deliver the agreed business plan	Established		
Sub Principle 6 Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit	Established		
Sub Principle 7 Have robust governance processes in place to support underwriting decision making, with underwriting assumptions clearly articulated and understood by stakeholders supported by proactive involvement and sufficient challenge by the wider functions	Established		
Sub Principle 8 Have processes in place to support underwriting decision making in relation to ESG integration into underwriting	Established		
<b>2. Catastrophe Exposure</b> Managing agents should ensure syndicates maintain appropriate control of catastrophe risk (from natural and non-natural perils) in line with business strategy.  To support this, managing agents should ensure their syndicates:	Established		
Sub Principle 1 Manage catastrophe exposure in line with their agreed risk appetites	Established		
Sub Principle 2 Employ data standards, risk quantification tools, controls, expertise, and reporting frameworks which are appropriate to their risk profile	Established		
Sub Principle 3 Adequately justify and validate methodology and assumptions, including expert judgements	Established		
Sub Principle 4 Have a complete representation of catastrophe risk in the internal model, reflecting all possible sources of loss and allowing effective use by wider	Established		

# 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.
<b>13. Culture</b> Managing agents should be inclusive, creating a diverse and high-performance culture.		<b>FOUNDATIONAL</b>	<b>BELOW FOUNDATIONAL</b>	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	<b>Foundational</b>	<b>Foundational</b>	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	<b>Foundational</b>	<b>Foundational</b>	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	<b>Foundational</b>	<b>Below Foundational</b>	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	<b>Foundational</b>	<b>Foundational</b>	% 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	<b>Foundational</b>	<b>Foundational</b>	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

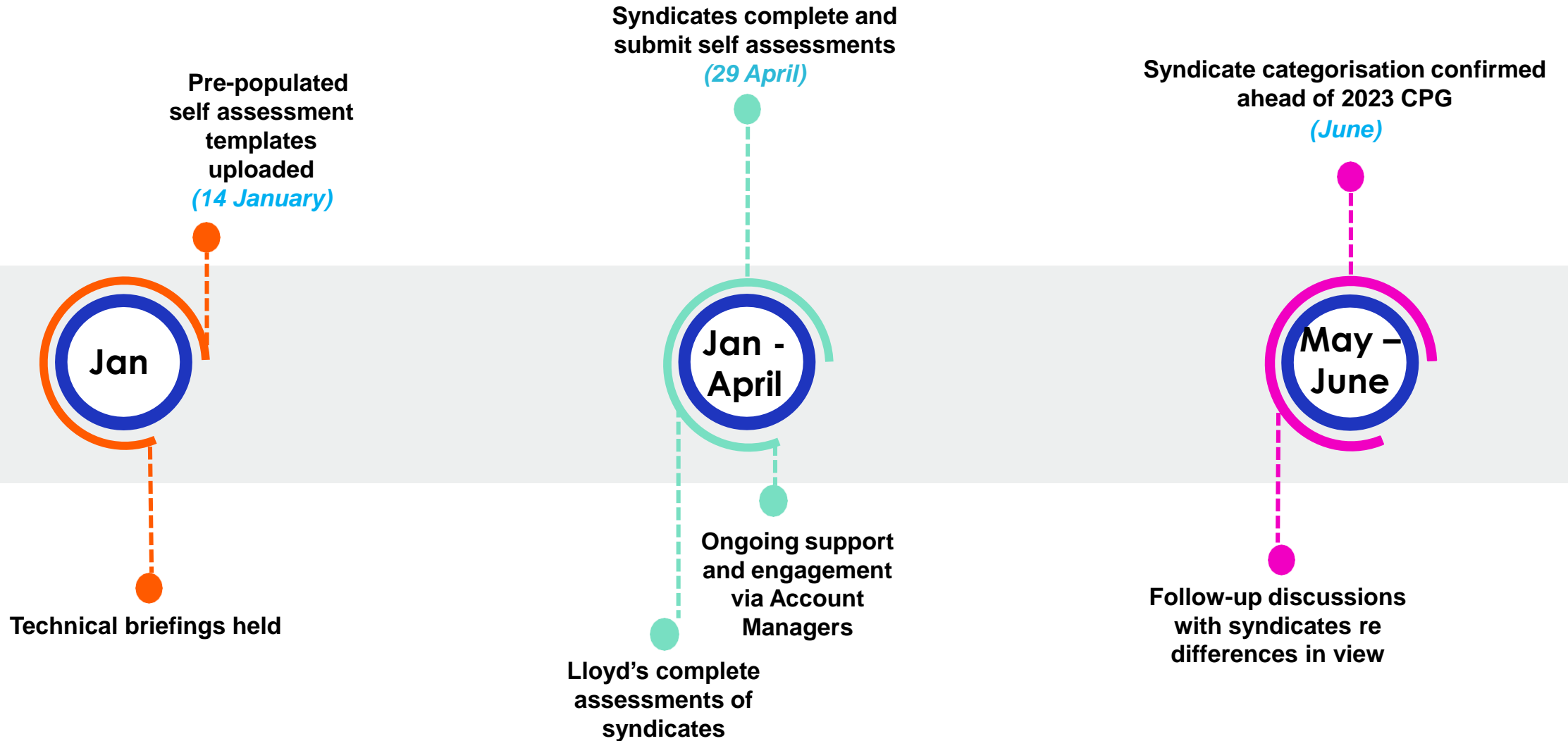
Expected Maturity: Advanced  
Actual Maturity: Advanced

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.
<b>10. Governance, Risk Management and Reporting</b> 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		<b>ADVANCED</b>	<b>ADVANCED</b>	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	<b>Advanced</b>	<b>Advanced</b>	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	<b>Advanced</b>	<b>Advanced</b>	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	<b>Advanced</b>	<b>Advanced</b>	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	<b>Advanced</b>	<b>Advanced</b>	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	<b>Advanced</b>	<b>Advanced</b>	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.	<b>Advanced</b>	<b>Advanced</b>	All reporting was submitted to Lloyd's on time with a high accuracy. This has been verified by an internal monitoring process.

# Next steps

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# Next Steps and Timeline



# What should you be doing?

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- **Familiarise yourself with the Principles and guidance**
- **Consider any upskilling required to successfully adopt the new Principles based regime**
- **Review expected maturity as communicated in Oversight Letters**
  - Speak to your Account Manager if you have any questions
- **Conduct the self-assessment – be open, transparent and thorough**
  - Guidance and templates are now on SecureShare
  - Oversight Framework team available to answer any questions
- **Consider what actions can be taken to close any gaps before mid-year**
- **Questions on the new framework should be directed to your Account Manager or [oversight.framework@lloyds.com](mailto:oversight.framework@lloyds.com) in the first instance**

**Do use the support available from Lloyd's!**

# Q&A

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