Lloyd’s 2022 Market Oversight Plan

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Foreword

The purpose of the Corporation of Lloyd’s is to manage and maintain a competitive and secure marketplace where insurance and reinsurance business can be transacted. The Lloyd’s Market Oversight Plan is a key component to achieving just that and enables us to share our priorities for the coming year and how we will work with you to deliver our oversight.

For the most part of the past two years much of our oversight activity was driven by the uncertain environment arising from the COVID pandemic. Now with greater certainty around COVID loss estimates we are able to incorporate our continued monitoring of COVID losses into our core oversight returns and activities.

A return to profit in the Lloyd’s 2021 half year results is testament to the focus on improving underwriting performance in recent years. Through 2022 we will continue our robust challenge on all identified underperforming classes to support a return to sustainable profitability.

One of our key focus areas for 2022 is on Fair Value to the customer, and much of our oversight will be informed by assessing how fair value is established and maintained in Lloyd’s policies. This also aligns with both UK and international regulatory priorities.

With the current momentum behind ESG, another key area for Lloyd’s is around improvements to market culture and in addition, following the October publication of the 2021 ESG Market Guidance, we will start to assess managing agent ESG strategies that support the global transition towards net zero.

I look forward to working with you and your businesses throughout 2022 as we collectively ensure the ongoing stability and sustainability of our market.

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Executive Summary

This Market Oversight Plan provides stakeholders with Lloyd's view of the key risks and issues currently facing the market and gives transparency over the Corporation's planned oversight activity to manage those risks. Individual managing agent risk profiles are taken into account in determining the level at which each managing agent is exposed to the key risks and issues and individual managing agent oversight is planned and conducted accordingly.

Topics for 2022 oversight:

Conduct – Fair Value

Our focus will very much be on providing fair value to the customer, and we will be looking at this through a number of different lenses: firstly, how the market is implementing the FCA's Fair Value and Product Governance rules. We will also be looking at how Fair Value is achieved through Pricing frameworks, and also how potential poor customer outcomes are mitigated as a result of portfolio closures. In this regard, we will also continue our oversight of the closure of COVID BI claims.

Culture

Over recent years this has been a key priority for Lloyd's. In 2022 we will be implementing Culture as a new area of oversight, by clearly setting out our expectations of market firms on culture in the new Principles. This includes gender and ethnicity representation, leadership approach to promoting a high performing culture, and a zero tolerance approach to inappropriate behaviour. This will form a focus area during 2022, supported by key information collected through the annual Markets Policies and Practices return and the annual Culture Survey including data on female and ethnic minority representation at Board and senior management levels. Lloyd's will focus on bottom quartile performers, including those managing agents who are not proactively addressing gender and ethnicity representation.

ESG

We will be asking all managing agents to submit ESG strategies as part of your 2023YOA business plans to help us understand how sustainability is to be embedded across underwriting and investments.

Cyber underwriting

Following the thematic review conducted this year, we will be following up on a number of actions outlined in the report across underwriting, wordings, claims management, remediation strategies, portfolio management, risk selection, pricing approach and reinsurance.

Underwriting Performance

We continue our oversight of poorer performers with robust challenge on all identified underperforming classes. In 2022 we will also focus on the oversight of acquisition costs and the performance of Delegated Authority books.

Non-nat cat

We will be looking at the incorporation of non-nat cat into exposure management frameworks and how it flows through into capital modelling. Lloyd's must be confident that the exposure figures for non-nat cat are a true reflection of exposure within the market and as the nature of non-nat cat risk evolves, the breadth and complexity of RDS must evolve alongside this. Lloyd's will continue to review the types and volumes of stress test scenarios in the market, to ensure catastrophe-exposed business can be monitored with certainty.

Outwards Reinsurance

Throughout 2022 Lloyd's oversight will continue to be informed by potential risks arising from asset and liability stress in the reinsurance market.

Operational Resilience

With the new Operational Resilience requirements coming into force in 2022, we will be following up any gaps in managing agent readiness as identified through the 2021 Operational Resilience Survey. The survey also highlighted some of the challenges that exist in the market, for example when considering potential outages of Market Shared Service Providers (MSSP) such as DXC. As a result of this, and due to the need to more fully understand the level of resilience across the market, Lloyd's will work with the LMA and the market to agree and undertake a market-wide scenario exercise designed to assess the impact of a significant failure at an MSSP.

Governance and Risk Management

Lloyd's will explore the quality of risk management frameworks across the market as part of quarterly conversations with managing agents. Risk management frameworks will be reviewed, to provide enhanced understanding of procedures in place across the market.

Investments

The investment environment continues to present unique risks and opportunities, when considering the adjustment to a post-pandemic environment, the necessary focus on the ESG agenda and recognition of the link between the market's profitability and Investment success. Lloyd's will apply increased focus in this area.

Liquidity

Lloyd's will work with syndicates with the most material Liquidity risk in the market, to understand the implementation of the PRA Supervisory Statement SS5/19 on their Liquidity Risk Management Framework.

Reserve Deterioration

Inflation continues to be an evolving risk area for the market, further amplified by the response to the pandemic and supply-side issues. The rise of inflation across a 12-month period increased beyond historic expectations. Reserving oversight in 2022 will focus on inflation assumptions made in syndicate best estimate reserves as a result of the changing claims environment, to ensure they remain appropriate.

Financial Crime

Follow on work from thematic reviews conducted between 2019-2021 is planned in 2022. As each financial crime pillar has now been reviewed Lloyd's will look to address the primary gaps across Bribery and Corruption, Fraud, Money Laundering and Kidnap and Ransomware. In addition, Lloyd's will conduct a market-wide exercise on Sanctions screening (to understand if sanctions tools are appropriately calibrated, to identify sanctioned locations).

Conduct – Fair Value

Primary focus on fair value in Lloyd's products and services

Designing products and services that meet our policyholders' needs and deliver fair value is central to protecting Lloyd's policyholders. Over recent years Regulators have increasingly focused on the ability of the financial services sector to evidence demonstrable value propositions across their products and services. Since 2019 Lloyd's has conducted oversight work understanding and assessing how fair value is established and maintained in Lloyd's policies sold to consumers and micro-enterprise businesses. This work led to Lloyd's publishing Fair Value Principles and setting risk indicators and product referral criteria. The degree of alignment between these Principles and the recently implemented FCA product governance rules that became effective in October 2021 on assessing fair value is reassuring and offers us a level of confidence that underpins our continued programme of work.

During 2022 Lloyd's will continue to focus primarily on fair value in Lloyd's products and services as we continue to develop our oversight of the market. Our work will extend to consider market solutions for meeting the FCA fair value and product governance rules.

Areas of focus in 2022:

Fair value in consumer products

Lloyd's will undertake a thematic review to examine managing agent product governance arrangements in the context of FCA rules and Lloyd's expectations. Centred around the establishment and ongoing monitoring and reassessment of product value this review will also explore the effectiveness of the London market initiative for capturing and sharing distribution chain information and how that information is taken into account in establishing fair value.

Ensuring consistent customer outcomes through the product lifecycle

Following on from the publication of our Portfolio Closure Management review and guidance on the early cancellation of binders, we will be examining the market's adoption of our expectations through regular and/or specific engagement with managing agents. We will be looking to establish where binders, products and/or portfolios are put into run-off, that adequate steps are introduced to ensure that the risks of poor outcomes for customer and coverholders are identified and mitigated. In addition, when engaging in new business and on renewal of existing business where appropriate, that careful consideration is given to developing a suitable exit and run off strategy.

Risk-based oversight focus on product management and oversight

Lloyd's will supplement our usual risk-based oversight and engagement with managing agents by increasing our focus on product approval and ongoing review processes. This is expected to take the shape of a process walk-through and review of the processes and information used to establish fair value in selected products and to monitor the service provided to customers and the performance of products.

Conduct MI

Drawing on the insights we gain through the Fair Value in Consumer Products thematic review and product approval process reviews we will evaluate the scope and completeness of the Conduct MI most widely used across the market. Referring back to the 2016 Lloyd's Conduct MI thematic review we will consider whether our minimum high product risk data expectations are still appropriate, and/or if they require revision, as well as consider and publish what current best practice looks like.

Fair value referral criteria remains in place

Lloyd's fair value oversight referral criteria will remain in place at least until the end of Q2 2022, at which time we will reassess the referral criteria and process. The referral criteria currently cover all consumer and SME products, new and renewing and include indicators covering high acquisition costs, secondary sales, low loss ratios and high claim declinature rates.

Product Information Request Questionnaire

Fair value will be a focus through Lloyd's global networks and managing agents will be asked to complete a Product Information Request (PIR) Questionnaire. The purpose is to understand how fair value and conduct risk is ensured, through products manufactured and distributed on behalf of Lloyd's Europe. Managing agents will be asked to submit information on this twice annually.

Claims focus through 2022:

COVID BI Claims oversight

We will continue to oversee the management and closure of COVID BI claims, promoting a pragmatic approach to the management of these claims and closely monitoring the outcome of legal cases currently in process. We have and will continue to reflect on the challenges the market experienced in the management of COVID claims and draw on these experiences to help inform where changes to products and services would help to close the expectation gap.

Claims experience

Lloyd's will continue to challenge the length of the claims lifecycle through focussed engagement on the importance of claims lifecycle management, in addition to the adequacy and capability of resource in place to deliver a high-quality claims service, both in terms of the behaviours and technical skill required. In this regard, we will concentrate on those managing agents with a high proportion of lead claims with heightened responsibilities as per the Claims Scheme. Where managing agent claims performance and claims lifecycle management does not meet Lloyd's expectations, Lloyd's will take necessary and appropriate intervention steps.

Claims performance data and advanced insights will be used to facilitate oversight of claims performance, both on the entirety of the claims lifecycle and also at key points in the life of a claim. With support from managing agents, KPIs will be developed in 2022 to provide an enhanced view of performance against peers. We would like to share these insights, as appropriate, with the claims community to recognise best performers and importantly identify opportunities to improve claims performance, recognising the need to improve both customer experience, and also the impact on wider syndicate performance.

Environmental, Social and Governance

Implementing Culture as a new area of oversight

Bold leadership and the proactive promotion of culture across the market will help deliver a competitive, empowered and futureproofed Lloyd's. With the launch of the new Lloyd's Principles for Doing Business in December 2021, Lloyd's has explicitly set out its expectations of managing agents in the new Culture Principle, covering gender and ethnicity representation, leadership approach to promoting a high performing culture, and a zero tolerance approach to inappropriate behaviour.

In 2019 Lloyd's launched its first annual Market Policies & Practices return, designed to provide a consistent baseline to measure managing agent practices. The return includes key information such as female and ethnic minority representation across organisations and in leadership positions. To ensure we improve our data analytical ability as a market, this survey will be mandated and collected annually from managing agents in Q1 every year. In addition, Lloyd's will continue to distribute the annual Culture Survey to every employee across the market, the results of which provide key insights both at managing agent, and market-wide level. This will be conducted for the third time in March 2022 after which managing agent results will be played back individually, allowing agents to use this data to continue their progress around culture.

Lloyd's will work with those managing agents in the bottom quartile for key culture measurements to understand their plans to address gaps both in the short and longer term.

Becoming a truly sustainable marketplace

Environmental, Social and Governance

Lloyd's first Environmental, Social and Governance (ESG) report was published in December 2020, outlining our ambition to become a truly sustainable marketplace and supporting the global transition towards net zero. To support that ambition, the 2021 ESG Market Guidance (ESG Guidance), published in October provides directional guidance and best practice to support managing agents as they look to put in place ESG governance frameworks, including sustainable underwriting and responsible investment strategies.

The ESG Guidance provides further context around our goals and reinforces our message that Lloyd's is committed to supporting government policy in achieving net-zero greenhouse gas emissions by 2050. Beyond corporate responsibility, moving away from carbon makes good business sense as continuing to provide re(insurance) for carbon intensive businesses or projects will become increasingly unsustainable as the world moves to the 2050 net zero goal. In support of this, Lloyd's ambition is to become the commercial and specialty market of choice for insuring the transition to net zero

Committing towards the 2050 goal and clarifying our social purpose does not alter our previous recommendations. As outlined in our 2020 ESG Report, we believe that ceasing the underwriting of new cover or investments for thermal coal-fired plants, thermal coal mines, oil sands and Arctic energy exploration activity on 1 January 2022 and phasing out existing coverage by 2030 remains a sensible and pragmatic ambition. However, we are not mandating this approach and each managing agent should consider their risk appetite against this.

Broadly, expectations on managing agents for 2022 relate to improving data collection and identifying clear ESG strategies across the market, to support Lloyd's overall social purpose and environmental goals. Managing agents can expect engagement across four key areas:

1. **Climate transition measurement framework (the measurement framework)** - to deliver against our leadership objectives set out within the HRH The Prince of Wales' Sustainable markets Initiative Insurance Task Force (SMI taskforce), we will work with the market to deliver a measurement framework. This has three key objectives:
    - Identify current carbon intensity hotspots in underwriting portfolios, incorporating both a point-in-time assessment and forward-looking metrics on the rate of green transition.
    - Encourage insurers and reinsurers to reduce their contribution over time to carbon intensive activities and increase support for climate solutions, thereby insuring the transition.
    - Enable the insurance industry to collectively measure progress as it transitions its underwriting portfolios in support of decarbonisation.

    The first version of the framework will be run as a market pilot in 2022 to further refine and iterate the framework to ensure it is fit for purpose before wider implementation of the Sustainability Transparency and Reporting regime from 2023 onwards.

2. **ESG framework** – Managing agents will be expected to consider their ESG strategy and submit this as part of the 2023 business planning process, with further discussion as part of the Strategic Business Discussions.
    Each managing agent should consider how they may develop and incorporate an ESG framework that is suitable for their business and may want to consider the below key features for their ESG framework:

    - A governance structure that embeds ESG in decision making
    - Sustainability is embedded across underwriting and investments
    - A risk management system that responds to ESG risks, including the financial risks of climate change in line with PRA supervisory statement SS3/19
    - Data and reporting is used to monitor and disclose on ESG

3. **Establishing a policy on sustainable insurance –** Managing agents are encouraged to identify an appropriate policy on sustainable insurance that considers ESG integration and which supports Lloyd's ambition for the market's overall transition towards net zero. In practice, this means identifying the sustainability and ESG factors they wish to consider as part of underwriting decisions. Managing agents are advised to use a risk-based approach, focusing on their most material areas of underwriting (including areas related to high carbon-intensity business) in the first instance and how ESG can be integrated into these. Managing agents can partner with direct and indirect policyholders to support them in their approach to transitioning operations and activities that present the most material ESG risks to their business, and to their insurer. This includes looking at whether a credible transition plan is incorporated into the business' framework, to help managing agents' track a policyholder's progress and alignment with technological, policy and legal changes.

4. **Setting a responsible investment policy –** Managing agents should consider their own responsible investment policy and governance frameworks appropriate for their size, scale and ambition. To come to this decision managing agents should reflect on and understand their current status, whilst developing a robust understanding of ESG trends and their global impact.

    Whilst setting an appropriate investment policy, managing agents should consider additional factors, such as internal governance responsibilities and methods for selecting and working with external investment managers, to ensure ESG criteria are met. Ultimately, Lloyd's considers successful ESG integration as embedding ESG factors into investment analysis and decisions; Lloyd's will wish to see this reflected in portfolios over the coming year(s).

Governance of climate risk

In 2019 the PRA issued SS3/19 *"Enhancing banks' and insurers' approaches to managing the financial risks from climate change".* The publication brought market-wide regulatory focus to climate and in July 2020 the PRA highlighted the guidance should be embedded "as fully as possible" by the end of 2021.

To test the extent to which this is embedded at managing agents, Lloyd's will conduct a market-wide survey in Q1 2022. We will ensure close alignment with the PRA, with the intention of joining the dots across managing agents' internal structures to meet compliance requirements against physical and transition risks (as outlined in the PRA's supervisory statement). Lloyd's will work with managing agents to close any identified gaps.

Cyber

A focus on Cyber

Follow up to the 2021 Cyber thematic review

In 2021 Lloyd's conducted a Cyber thematic review to address the deterioration in results by further investigating the dynamics of the cyber class and key drivers of performance. The findings cut across underwriting, claims management, pricing and rating, reinsurance, portfolio management and exposure management. The findings of the review were published in December 2021.

During 2022, much of Lloyd's oversight of Cyber will be informed by the findings of the thematic review and in addition some specific Cyber oversight will be undertaken across a number of technical areas as set out below.

Cyber attestation exposures

As set out in Lloyd's guidance (Market Bulletins Y5258 and Y5277) we expect the market to provide clarity for Lloyd's customers on coverage for cyber exposures. To monitor progress Lloyd's will continue the Cyber Attestation process in 2022, with submissions required from syndicates in January and July 2022. For classes which do not meet Lloyd's guidance, Lloyd's may constrain underwriting until necessary assurance is received. In cases of serious failure to take action in response to our requirements, syndicates may be required to cease writing the class.

Outwards Reinsurance – Cyber Profile analysis

Further analysis into the outwards reinsurance profile will be carried out to identify syndicates purchasing Cyber protection and the extent, nature and structure of these outwards reinsurances and key reinsurer counterparty dependencies. Lloyd's will conduct an initial assessment against the RDL and SBF returns, with additional information collected on a syndicate level where gaps in knowledge are found.

Insurance Stress Test 2022

In 2022 Lloyd's will support the PRA in completing the next insurance stress test (IST), building on the learnings identified through the 2019 scenario exercise.

As confirmed in the PRA's "Dear CEO" letter ('Insurance Stress Test 2022') issued in August 2021 for general insurers, the stress tests will assess exposure to natural catastrophe perils and Cyber underwriting risk. Lloyd's has worked with the PRA to identify syndicates considered most material and valuable to take part in the exercise; syndicates included have been notified in December 2021.

The scenario test will enable the PRA and Lloyd's to understand the impact of real-world scenarios on syndicate balance sheets, providing enhanced insights into the market's financial resilience.

Feedback from syndicates included in the 2019 IST exercise was requested by 30 November, with a second round of consultation planned between January-March 2022. The IST exercise will be launched in May 2022, with submissions provided to Lloyd's in September 2022.

Reserve deterioration – Cyber as a focus class for 2022

Cyber has been identified as a reserving focus class for 2022, based on the 2020 year-end reserving exercise. During annual reserve meetings with managing agents Lloyd's intends to focus on understanding the reserving methodology used for cyber and how the chosen methodology and assumptions are validated.

Underwriting Profitability

Continued focus on underwriting performance

Lloyd's aggregated half year results saw the market return to profitability. Whilst being a milestone for the market, only continued focus and dedication on underwriting performance, business planning, and portfolio management will ensure continued success. In recent quarters Lloyd's has noted risk adjusted rate change increases slowing in pace. Lloyd's will expect syndicates to evidence continued focus on performance management through regular performance returns and contribution to workstreams as outlined below.

Pricing Maturity Matrix (formally Best Practice Pricing Framework)

Ensuring strong pricing capability across all syndicates is fundamentally important to the long-term success of the market. Pricing capability continues to be a key risk which requires exploration and understanding across Lloyd's. Lloyd's needs to ensure the accuracy of existing pricing metrics (price adequacy and rate change) and their relation to performance. In addition, Lloyd's will focus more on Technical Price. As part of the transition to Principles, Lloyd's will work with all syndicates to complete a structured assessment against the Pricing Maturity Matrix. The aim is to understand syndicate methodologies across all lines of business. The assessment output will be used to agree the syndicate's rating against the Lloyd's Principles. These assessments will take place in the first six months of 2022. In light of the structured assessments against the Pricing Maturity Matrix, pricing will be excluded from the Principles self-assessment due in April 2022.

Casualty – Inflation including Social Inflation

The impact of social inflation on underwriting exposures remains a risk area for Lloyd's, and in order to better understand and analyse the effects of social of social inflation on casualty classes Lloyd's will seek to improve the consistency and quality of inflation data submitted through the 2023YOA SBF submissions.

Acquisition Costs

We have done a lot of work in recent years to focus on ensuring that managing agents have an appropriate level and oversight and governance of acquisitions costs. In 2022 our focus will be on improving the transparency and consistency of reporting of acquisitions costs across the market, through all distribution channels. Lloyd's will consult with a group of volunteer managing agents, to understand current market practice and the best way to achieve this objective.

Performance Improvement Process

In 2022, the Performance Improvement Process (PIP) will remain one of Lloyd’s key underwriting oversight activities, with continued robust challenge on all identified underperforming classes during 2022. Managing agents are expected to take all necessary remediation actions to return all underperforming classes to sustainable profitability or to consider whether the class remains viable in their portfolio.

Quarterly Business Review

Lloyd's will introduce a Quarterly Business Review (QBR) process in 2022. QBR will be a key oversight activity of syndicate performance. This review will focus on forecast against business plans on a quarterly basis to understand variances and, on a risk-based basis, Lloyd's will actively engage with syndicates to understand the drivers of adverse variances. Managing agents will be expected to agree and then take necessary remediation actions to return performance to plan. Further information on this will follow in H1 2022.

Catastrophe Exposure

Focus on model completeness and volatility through 2022

Lloyd's will maintain tight understanding and control of catastrophe risk. For 2022, this will include evolving techniques used to identify exposures across non-natural catastrophes, and ensuring models remain complete for rest of world exposures. Lloyd's will also be increasing focus on volatility and placing a greater focus on cat exposure's impact on profitability as well as solvency. Lloyd's will continue to monitor in-force and planned levels of catastrophe risk to ensure that syndicates remain within their agreed forecasts.

Demonstrating model completeness for non-peak nat cat

Model completeness remains a critical topic for the market and a primary focus of Lloyd's. In 2022, Lloyd's will turn its focus from LCM5 to "rest of world" completeness, through conducting a market-wide questionnaire. The questionnaire will involve a risk ranking approach to understanding rest of world completeness and approaches to modelling all peril regions outside of LCM5. This will help to inform future measures to improve model completeness across the market.

Non-Natural Catastrophe ("Non-Nat Cat") risk

Through 2022 the Lloyd's Capital and Exposure Management teams will work together assessing syndicate non-nat cat modelling techniques and how this informs capital setting, with Capital conducting a thematic review with a particular focus on cyber. A key element of this is the Realistic Disaster Scenarios (RDS) used by syndicates. In considering market-wide risk Lloyd's must be confident that the figures are a true reflection of exposure within the market. As the nature of non-natural catastrophe risk evolves, the breadth and complexity of RDS must evolve alongside this. As such, Lloyd's will continue to review the types and volumes of stress test scenarios in the market, to ensure catastrophe-exposed business can be monitored with certainty.

To support this, as part of the transition to Lloyd's Principles for Business all syndicates will be reviewed against the non-nat cat Maturity framework. Assessments will take place in Q2.

Understanding volatility

"Willingness to lose" framework

Catastrophe events affect profitability as well as solvency. The amount syndicates are prepared to lose and with what frequency is often not explicitly and comprehensively articulated. As such, Lloyd's will explore the relationship between profitability and probability with syndicates in the market to gain an understanding of risk appetites at lower return periods as well as at 1:200.

Planned Cat Loss Ratios

The level of accepted catastrophe risk exposure across the market varies, based on strategic syndicate goals. Whilst this model is endorsed by Lloyd's, we will look to explore those syndicates considered highly profitable in one year, with extreme losses experienced in the next. There will be increasing focus on the consistency between the modelling and the cat loss ratios used in planning.

Tail risk

Disproportionately high tail risk impacts Lloyd's central capital requirements. Lloyd's will be examining tail risk in the context of capital to ensure that undue risk is not posed to the Central Fund.

Reinsurance Failure

A focus on material variances, exposure and exploring the outwards reinsurance profile, through 2022

Throughout 2022 Lloyd’s oversight will continue to be informed by potential risks arising from asset and liability stress in the reinsurance market.

Oversight will be targeted at syndicates demonstrating a higher level of outwards reinsurance risk to Lloyd’s, including where there are material variances in their reported returns (against plan or COVID associated recoveries). Syndicates with a material reliance on outwards reinsurance or those more materially exposed to reinsurers vulnerable to, or experiencing, financial strain can expect more detailed conversations with Lloyd’s. A targeted approach to oversight will be taken to respond to these potential or live risks, with financial strength, debt and dispute positions at both syndicate and market aggregate level continuing to form the basis of our oversight.

Due to the level of reinsurance transfer across the market and the aggregate value of recoveries and balance sheet recoverables, oversight of managing agents’ counterparty management and credit control processes remains a key focus area, to ensure potential risks arising from these are being recognised, monitored, reported and managed appropriately.

Governance, Risk Management and Reporting

Risk management frameworks

Risk management frameworks are essential for managing agents to identify, assess and manage risks across their organisation. Touching on all areas of the business, it is imperative for managing agents to have robust and clear risk management frameworks.

During 2022, Lloyd's will develop its understanding of risk management across the market. Lloyd's will work with a sample of agents, requesting limited documentation in Q1. Lloyd's will provide agent-specific feedback and may seek to engage further where exceptional examples of risk management are found. The aim of this work is to drive a better understanding of how risk management is being conducted across the market and help Lloyd's get a clearer picture of the challenges faced and the innovations being employed.

Investments

Flexing our oversight to respond to the current investment environment

The investment environment continues to present unique risks and opportunities, when considering the adjustment to a post-pandemic environment, the necessary focus on the ESG agenda and recognition of the link between the market's profitability and Investment success. All are key reasons for Lloyd's increased focus in this area which is underlined by the appointment of Lloyd's first Chief Investment Officer.

A key workstream of member portfolios through 2021 has enhanced Lloyd's ability to identify red flags of investments with increased certainty, when considering asset allocations and trends. The market can expect similar Investment analysis through core oversight in 2022 to ensure that risks are identified through:

- Closer monitoring of 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
- Additional focus on any losses and gains that appear to be out of the ordinary

Deep-dive activity across managing agents is also planned. The output will inform Lloyd's approach to Investments oversight from H2 2022 and enable an enhanced and more structured approach for engagement with the market. The market's approach to Investments following Lloyd's 2020 ESG Report and "Dear CEO" letter issued in October 2021 will be key factors. Lloyd's will continue to recognise levels of sophistication towards "green" assets will be dependent on exposure in this area. Deep dives will consider:

- The Board's understanding and oversight of their investment portfolio and risk exposure.
- 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 continued 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 and the ESG space.
- The management of exposures and explanation of how managing agents expect to reduce their exposures, where considered prudent.
- At a market level, the link between "green" investments and profitability, particularly 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,
  - Issuer or issuers that belong to the same group,
  - Geographic area; and
  - Excessive accumulation of risk in the portfolio as a whole

Lloyd’s will expect managing agents to continue to monitor changes in regulation and are asked to consider the impact of the London Interbank Offered Rate (LIBOR) ceasing on 31 December 2021, following the Solvency II “Call to Evidence” publication.

Liquidity

Futureproofing our response to Liquidity risk

In recent years the importance of effective and robust management of liquidity risk has increased. This has arisen from volatility in natural catastrophe risk and increasing liquidity demands anticipated from evolving risks, such as cyber and climate. Regulators are also taking an increasing interest in liquidity risk management.

As part of Lloyd's transition in 2022 to a Principles based regime, liquidity risk will be introduced as a standalone Principle, setting out the expectation that syndicates have contractual access to sufficient liquidity in order to withstand a severe liquidity event, underpinned by a robust liquidity risk management framework.

The Liquidity Principle is closely aligned with the PRA Supervisory Statement SS5/19. Lloyd's has undertaken a review of its approach to liquidity risk management and refreshed our risk appetites, including reaffirming that there is no appetite for the Central Fund to be used as a source of liquidity in order to preserve its use to protect policyholders against solvency events. Lloyd's will also move to monitoring cash flow strain on a forward-looking rather than backward-looking basis.

Through 2022 the market can expect three key pieces of oversight:

- As part of the managing agent Principles self-assessment submission in April, managing agents deemed by Lloyd's to be most material in respect of liquidity risk must provide copies of the liquidity risk management frameworks for each of their managed syndicates. Lloyd's will then work with these syndicates to understand how they have implemented the new Principles and the PRA Supervisory Statement SS5/19. Lloyd's will also consider whether the frameworks of syndicates deemed to be less material should be reviewed later in the year. This will be a one-off requirement to baseline our understanding of liquidity risk management in the market and to ensure compliance with the Supervisory Statement. We don't expect to perform the same extent of review in subsequent years.
- All managing agents will be asked to complete a liquidity stress test for all managed syndicates (excluding SPAs). This will be designed to understand 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, or other scenario if more appropriate. Collateral expectations for international networks, including Lloyd's Insurance Company will be included in the stress test.
- 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.

  The relationship between managing agents' stress test severity and influence on risk appetite is a key factor for Lloyd's in ensuring appropriate calibration of its own risk appetites. Lloyd's therefore expects syndicates to apply an objective approach to the stress test. Understanding managing agents' contingency arrangements will form a key part of this assessment.

The review of syndicate liquidity risk management frameworks combined with the liquidity stress test results will supplement information already received by Lloyd’s and provide Lloyd’s with a clear baseline of current standing and progress.

Finally, as liquidity risk is a new dimension in the oversight regime, managing agents should expect Lloyd’s approach to evolve as we build our understanding of different approaches to liquidity risk management taken across the market.

Reserve Deterioration

Maintaining adequate reserves in a changing environment

Allowing for Inflation (including social inflation) in reserves

Inflation continues to be an evolving risk area for the market, further amplified by the response to the pandemic and supply-side issues. The rise of inflation across a 12-month period increased beyond historic expectations. Whilst this steep rise may be a temporary effect, the influence of rising inflation on the market is expected to be a continuing trend.

As part of the 2021 Market Oversight Plan a multi-dimensional review of Inflation was planned across underwriting, reserving and capital setting. The latter workstream was completed, with further oversight anticipated against reserving for 2022.

The Reserving thematic review in 2022 will focus on inflation assumptions made in syndicate best estimate reserves as a result of the changing claims environment, to ensure they remain appropriate. In particular, the review will focus on where historic inflation is not representative of future inflation, and how reserving processes, methodologies and feedback loops with pricing and capital need to change in light of this.

Reserving focus classes

Based on the 2020 year-end reserving exercise, Lloyd's has identified the following focus areas due to trends identified at market level. During annual reserve meetings with managing agents Lloyd’s intends to understand whether the market level findings are relevant to syndicate reserves and gain more insight into the market’s reserve setting for these classes:

- Cyber – with focus on understanding the reserving methodology used and how the chosen methodology and assumptions are validated.
- Casualty FinPro – specifically on how allowance is made in the reserving process on the most recent years of account for the ways in which future experience is expected to differ from the past.
- Marine – on the approaches to reserving this class, including how specific IBNR estimates are included and how reserves are released over time.

Operational Resilience

Improving the Operational Resilience framework across Lloyd’s

Lloyd’s has explored managing agents’ readiness for regulatory requirement changes, going live in Q1 2022 and will repeat the 2021 Operational Resilience Survey in 2022, using similar questions to benchmark managing agent progress.

The survey illustrated the progress made by the market in addressing the Operational Resilience requirements, it also highlighted some of the challenges that exist in the market, for example when considering potential outages of Market Shared Service Providers (MSSP) such as DXC. As a result of this, and due to the need to more fully understand the level of resilience across the market, Lloyd’s will work with the LMA and the market to agree and undertake a market-wide scenario exercise designed to assess the impact of a significant failure at an MSSP. The scenario exercise, once agreed, would be likely to produce an electronic social simulation, mimicking a failure at an MSSP and consequential impact at individual managing agent level and across the market. In addition, Lloyd’s will be engaging with a small number of managing agents whose responses to the survey suggested they may be facing difficulty in being ready for the March 2022 deadline for meeting the requirements. We will also follow up with those agents who are ahead of their peers in terms of readiness to understand whether there are any best practice elements which can be shared.

Maintaining cyber resilience and data protection

Cyber resilience and data protection remains a headline risk for the market. Ensuring robust and prudent framework and controls are in place to prevent cyber incidents has become increasingly important, particularly given the evolving threat landscape.

Lloyd’s Cyber Resilience Survey undertaken in 2021 has provided detail on the cyber maturity of managing agents across the market and the strength of measures put in place to address the current cyber risks. For 2022 Lloyd’s will drill down further into the key areas of current cyber threats, including ransomware, targeting those managing agents considered material and with identified cyber security control gaps. This is particularly important given the important link between a material organisation’s cyber resilience and the wider market operational resilience.

In addition, Lloyd’s will follow-up with a small number of managing agents where a potential gap or concern regarding their Cyber Resilience framework has been identified.

Lloyd’s Europe

The 2021 Market Oversight Plan highlighted data inconsistencies between the various systems that are used by Lloyd’s European platform (Lloyd’s Europe PAS system, PMDr, QMB, and SBF). This continues to pose a risk to Lloyd’s data and as such, syndicates considered material to Lloyd’s Europe or those with material growth since 2021 have been selected for high-level review. Lloyd’s will assess how European Plans are constructed, to identify potential data limitations or inconsistencies.

Regulatory & Financial Crime

Regulatory environment

The regulatory landscape is changing with increased regulatory requirements, protectionist measures and expectations across the globe. Alongside this, Insurance legislative changes are expected or have gone live across South Africa, Australia and Switzerland.

Lloyd’s expects managing agents to take stock of the impact of key regulatory changes on their business as a whole. The noticeable shift towards overseas bespoke regulation places continued pressure on managing agents to tailor their processes across international networks. Lloyd’s expects the market to be compliant with UK and international regulatory requirements and will expect managing agents to amend their frameworks in this regard, to respond to regulatory changes.

Lloyd’s acknowledges the impact on managing agents and will continue to provide support through regulatory interpretation and horizon scanning, as it aims to minimise the additional regulatory, prudential or compliance burden placed on the market.

In addition to overseas regulatory shifts, there is increasing focus on ESG, climate, operational resilience and cyber, as regulators turn their focus back to pre-pandemic agendas. Whilst the immediate impact of this could influence regulatory reporting requirements, on a longer-term basis this could necessitate changes to how we underwrite or regulate.

Through regulatory change monitoring and close local and international regulatory engagement, Lloyd’s will continue to provide regulators with a robust view of Lloyd's global networks - and thereby enabling confidence in our security, culture and standards.

Continued focus on financial crime and compliance controls in 2022

Non-financial risk remains a central focus for Lloyd’s and continues to be closely monitored in the local and international regulatory space. The relatively new risk environment brings with it emerging risk and places Lloyd’s in a unique position to develop mitigation techniques in response to this, such as in respect of Ransomware and sanctions obligations. With a wide variety of products, customers and distribution channels exposed to financial crime and compliance risks, continued focus on improved sophistication and development of financial crime and compliance controls is essential.

Lloyd’s structured evaluation of the market’s Financial Crime risk began in 2019, reviewing each pillar of financial crime in turn. With a developed understanding of Financial Crime risks and market practice for mitigating these risks now in place, Lloyd’s is able to further focus upon higher risk areas and specific topics within the six pillars of financial crime.

Sanctions screening

Lloyd's considers Sanctions risk as the most prominent in the financial crime space, given its influence across a variety of products, global reach and the necessity to constantly flex and adapt screening tools to appropriately mitigate the risk.

The previous market-wide exercise on sanctions screening tools took place in 2017. Since this point Lloyd's has monitored managing agent screening capabilities through reviewing a representative managing agent sample annually. In light of the time elapsed since the market-wide exercise in 2017, Lloyd's intends to repeat the process in 2022. This will provide a reliable and refreshed baseline of market-wide sanctions screening performance information.

This exercise will test the efficacy of managing agents' sanctions control frameworks. Pre-bind and ad hoc controls will be assessed via a questionnaire, whilst post-bind risk will be assessed using a "test file" to evaluate the performance standards of sanctions screening systems. The intention is to receive a rounded view on sanctions screening, both in how sanctions screening tools respond to a mimicked request and to understand how systems and controls are utilised to mitigate sanctions risk. Consideration will be given to tools used across managing agents' businesses, including at a Lloyd's Europe level when placed on the Lloyd's Insurance Company platform.

Bribery and corruption

The market's exposure to Bribery and Corruption risk has been identified as a high risk issue. This is particularly driven by Lloyd's high reliance on distribution channel relationships and the relatively frequent opportunities for managing agent/syndicate acquisitions. To mitigate this risk Lloyd's conducted a thematic review in 2020 and identified a specific Bribery and Corruption risk between managing agents and brokers. Lloyd's will conduct follow-up work in 2022 to understand how the risk presents itself and any mitigations utilised by managing agents. Managing agents considered material to this risk area have been selected to take part.

Fraud

Fraud continues to be a key risk area for Lloyd's, with techniques used continually evolving. In 2020 Lloyd's conducted a thematic review on the topic, identifying social engineering fraud and phishing attacks as a high risk issue, particularly through the managing agent distribution chain. The review also concluded that fraud mitigation at a market level required improvement. In response to these gaps, Lloyd's will conduct follow-up work to the 2020 thematic with a representative agent sample. This will consider the mitigations and controls being developed by managing agents. In addition, managing agents will be asked to confirm their experience of fraudulent activity since COVID, to consider if the general increase in fraud across the wider economy has had any impact on the market.

Kidnap and Ransom (K&R) and Ransomware anti-money laundering (AML) / CTF Obligations

Lloyd's 2020 thematic review of Anti Money Laundering controls identified that the settlement of both Kidnap and Ransom and Ransomware claims are made more complex by the need to adhere to UK money laundering legislation. The review was unable to investigate this issue in detail as few managing agents in the sample offered K&R or Ransomware products. As such in 2022 Lloyd's will investigate further how managing agents are mitigating these legislative complexities when settling claims.

Lloyd's Insurance Company

Additional financial crime controls relating to risks through Lloyd's Insurance Company have been set out in the LIC Financial Crime Requirements Guide for Underwriters and in 2022 managing agents' embedding of the guidance will be assessed.

Appendix

Summary of 2022 Oversight

Appendix: Summary of Lloyd’s 2022 Oversight

Area of oversight	2022 Oversight
Conduct – Fair Value	**Fair value in consumer products – Thematic Review (start date September 2022)** Lloyd’s will undertake a thematic review to examine managing agent product governance arrangements. This review will also explore the effectiveness of the London market initiative for capturing and sharing distribution chain information and how that information is taken into account in establishing fair value.
	Ensuring consistent customer outcomes through the product lifecycle Examining the market’s adoption of our Portfolio Closure Management review and guidance. Consideration will also be given to engaging in new business and on the renewal of existing business to ensure careful consideration is given to developing a suitable exit and run off strategy.
	Risk-based oversight focus on product management and oversight Increased focus on product approval and ongoing review processes. This is expected to take the shape of a process walk-through and review of the processes and information used to establish fair value in selected products and to monitor the service provided to customers and the performance of products.
	Conduct MI Lloyd’s will evaluate the scope and completeness of the Conduct MI most widely used across the market. We will consider whether our minimum high product risk data expectations (outlined following the 2016 Lloyd’s Conduct MI thematic review) are still appropriate, and/or if they require revision, as well as consider and publish what current best practice looks like.
	Fair value referral criteria remains in place Lloyd’s fair value oversight referral criteria will remain in place at least until the end of Q2 2022, at which time we will reassess the referral criteria and process.

	Product Information Request Questionnaire Fair value will be a focus through Lloyd's global networks and managing agents will be asked to complete a Product Information Request (PIR) Questionnaire. The purpose is to understand how fair value and conduct risk is ensured, through products manufactured and distributed on behalf of Lloyd's Europe. Managing agents will be asked to submit information on this twice annually.
	COVID BI Claims oversight We will continue to oversee the management and closure of COVID BI claims, including the outcome of legal cases currently in process. Where Lloyd's identifies opportunities to help to close the expectation gap these will be shared with the market.
	Claims experience Focus on the length and management of the claims lifecycle, including the adequacy and capability of resource in place to deliver a high-quality claims service. Managing agents with a high proportion of lead claims will be targeted. Lloyd's will take necessary and appropriate intervention steps where expectations of claims performance and claims lifecycle management are not met. Claims performance data will be used to consider claims performance, for the claims lifecycle and at key points in the life of a claim. With support from managing agents, KPIs will be developed in 2022 to provide an enhanced view of performance against peers. Insights will be shared as appropriate.
Environmental, social and governance	**Becoming a truly sustainable marketplace:** *Climate transition measurement framework (the measurement framework)* To deliver against our leadership objectives set out within the HRH The Prince of Wales' Sustainable markets Initiative Insurance Task Force (SMI taskforce), we will work with the market to deliver a measurement framework. The first version of the framework will be run as a market pilot in 2022 to further refine and iterate the framework to ensure it is fit for purpose before wider implementation of the Sustainability Transparency and Reporting regime from 2023 onwards. *ESG framework* Managing agents will be expected to consider their ESG strategy and submit this as part of the 2023 business planning process, with further discussion as part of the Strategic Business Discussions. *Establishing a policy on sustainable insurance* Managing agents are encouraged to identify an appropriate policy on sustainable insurance that considers ESG integration and which supports Lloyd's ambition for the market's overall transition towards net zero.

	Setting a responsible investment policy Managing agents should consider their own responsible investment policy and governance frameworks appropriate for their size, scale and ambition. To come to this decision managing agents should reflect on and understand their current status, whilst developing a robust understanding of ESG trends and their global impact.
	Governance of climate risk Further to the PRA supervisory statement SS3/19 *"Enhancing banks' and insurers' approaches to managing the financial risks from climate change"* Lloyd's will conduct a market-wide survey in Q1 2022 to test the extent to which this is embedded at managing agents.
Cyber	**Follow up to the 2021 Cyber thematic review** Lloyd's will conduct follow-up work to the Cyber thematic review, which looked to address deteriorating results by investigating the cyber class and key performance drivers. This will cut across underwriting, claims management, pricing and rating, reinsurance, portfolio management and exposure management. Findings were published in December 2021.
	Cyber attestation exposures Cyber Attestation submissions are required from syndicates in January and July 2022. For classes which do not meet Lloyd's guidance, Lloyd's may constrain underwriting until necessary assurance is received. In cases of serious failure to take action in response to our requirements, syndicates may be required to cease writing the class.
	Outwards Reinsurance – Cyber Profile Analysis Analysis of the outwards reinsurance profile to identify syndicates purchasing Cyber protection and the extent, nature, structure of these and key reinsurer counterparty dependencies. Initial assessments will be based on RDL and SBF returns with gaps found addressed with specific syndicates.
	Insurance Stress Test 2022 Lloyd's will support the PRA in completing the next insurance stress test (IST). Stress tests will assess exposure to natural catastrophe perils and Cyber underwriting risk for general insurers. The IST exercise will be launched in May 2022, with submissions provided to Lloyd's in September 2022.
Underwriting Profitability	**Pricing Maturity Matrix (formally Best Practice Pricing Framework)** As part of the transition to Principles, Lloyd's will work with all syndicates to complete a structured assessment against the Pricing Maturity Matrix. The aim is to understand syndicate methodologies across all lines of business. The assessment output will be used to agree the syndicate's rating against the Lloyd's Principles. These assessments will take place in the first six months of 2022. In light of the structured assessments against the Pricing Maturity Matrix, pricing will be excluded from the Principles self-assessment due in April 2022.

	Casualty – Inflation including Social Inflation Lloyd's will seek to improve the consistency and quality of inflation data submitted through the 2023YOA SBF submissions.
	Acquisition Costs In 2022 our focus will be on improving the transparency and consistency of reporting of acquisitions costs across the market, through all distribution channels. Lloyd's will consult with a group of volunteer managing agents, to understand current market practice and the best way to achieve this objective.
	Performance Improvement Process In 2022, the Performance Improvement Process (PIP) will remain one of Lloyd's key underwriting oversight activities, with continued robust challenge on all identified underperforming classes during 2022. Managing agents are expected to take all necessary remediation actions to return all underperforming classes to sustainable profitability or to consider whether the class remains viable in their portfolio.
	Quarterly Business Review Lloyd's will introduce a Quarterly Business Review (QBR) process in 2022. QBR will focus on forecast against business plans on a quarterly basis to understand variances and, on a risk-based basis, Lloyd's will actively engage with syndicates to understand the drivers of adverse variances. Managing agents will be expected to agree and then take necessary remediation actions to return performance to plan. Further information on this will follow in H1 2022.
Catastrophe Exposure	**Demonstrating model completeness for non-peak nat cat** In 2022, Lloyd's will turn its focus from LCM5 to "rest of world" completeness, through conducting a market-wide questionnaire. The questionnaire will involve a risk ranking approach to understanding rest of world completeness and approaches to modelling all peril regions outside of LCM5. This will help to inform future measures to improve model completeness across the market.
	Non-Natural Catastrophe ("Non-Nat Cat") risk – Thematic Review (start date February 2022) Through 2022 the Lloyd's Capital and Exposure Management teams will work together assessing syndicate non-nat cat modelling techniques and how this informs capital setting, with Capital conducting a thematic review. A key element of this is the Realistic Disaster Scenarios (RDS) used by syndicates. As part of the transition to Lloyd's Principles for Business all syndicates will be reviewed against the non-nat cat Maturity framework. Assessments will take place in Q2.

	Understanding volatility - "Willingness to lose" framework Catastrophe events affect profitability as well as solvency. The amount syndicates are prepared to lose and with what frequency is often not explicitly and comprehensively articulated. As such, Lloyd's will explore the relationship between profitability and probability with syndicates in the market to gain an understanding of risk appetites at lower return periods as well as at 1:200.
	Understanding volatility - Planned Cat Loss Ratios The level of accepted catastrophe risk exposure across the market varies, based on strategic syndicate goals. Whilst this model is endorsed by Lloyd's, we will look to explore those syndicates considered highly profitable in one year, with extreme losses experienced in the next. There will be increasing focus on the consistency between the modelling and the cat loss ratios used in planning.
	Understanding volatility - Tail risk Disproportionately high tail risk impacts Lloyd's central capital requirements. Lloyd's will be examining tail risk in the context of capital to ensure that undue risk is not posed to the Central Fund.
Reinsurance Failure	**A focus on material variances, exposure and exploring the outwards reinsurance profile, through 2022** Throughout 2022 Lloyd's oversight will continue to be informed by potential risks arising from asset and liability stress in the reinsurance market. Oversight will be targeted at syndicates demonstrating a higher level of outwards reinsurance risk to Lloyd's, including where there are material variances in their reported returns (against plan or COVID associated recoveries). A targeted approach to oversight will be taken to respond to these potential or live risks, with financial strength, debt and dispute positions at both syndicate and market aggregate level continuing to form the basis of our oversight. Oversight of managing agents' counterparty management and credit control processes remains a key focus area, to ensure potential risks arising from these are being recognised, monitored, reported and managed appropriately.
Governance and Risk Management	**Risk management frameworks** During 2022, Lloyd's will develop its understanding of risk management across the market, including challenges faced and innovations employed. Lloyd's will work with a sample of agents, requesting limited documentation in Q1. Lloyd's will provide agent-specific feedback and may seek to engage further where exceptional examples of risk management are found.
Investments	**Flexing our oversight to respond to the current investment environment** Increased focus on investments following the adjustment to a post-pandemic environment, the necessary focus on the ESG agenda and recognition of the link between the market's profitability and Investment success. This is underlined by the appointment of Lloyd's first Chief Investment Officer. A key workstream of member portfolios through 2021 enhanced Lloyd's ability to identify red flags of investments with increased certainty, when considering asset allocations and trends. Similar Investment analysis will take place in 2022 through monitoring agents with higher than average investment risk appetites; considering emerging trends; investment risk through the Quarterly Asset Data and focus on unusual losses/gains.

	Deep-dive activity across managing agents is also planned, which will look to improve the structure of Investment engagement with the market, in addition to understanding managing agents' approach to Investments following Lloyd's 2020 ESG Report and "Dear CEO" letter issued in October 2021. Deep-dives will consider investment portfolio/exposure, stress testing, selection process for hiring external managers, rationale for reducing exposures when considered prudent and the compliance with the Prudent Person Principle. ESG responsibilities will be considered through the lens of risk appetite, return on investment, portfolio selection/analysis/segmentation and the link between "green" investments and profitability, when considering potential market saturation.
	Lloyd's will expect managing agents to continue to monitor changes in regulation and are asked to consider the impact of the London Interbank Offered Rate (LIBOR) ceasing on 31 December 2021, following the Solvency II "Call to Evidence" publication.
Liquidity	**Futureproofing our response to Liquidity risk** • Risk management frameworks - Following the self-assessment submission in April managing agents considered material to Lloyd's for liquidity must provide copies of the liquidity risk management frameworks for each of their managed syndicates. Lloyd's will consider how they have implemented the new Principles and the PRA Supervisory Statement SS5/19. This is not intended to be an annual exercise and will be completed in 2022 purely to baseline our understanding of liquidity risk management • All managing agents will be asked to complete a liquidity stress test for all managed syndicates (excluding SPAs). 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, or other scenario if more appropriate. Collateral expectations for international networks, including Lloyd's Insurance Company will be included in the stress test. • 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. Lloyd's expects syndicates to apply an objective approach to the stress test. Understanding managing agents' contingency arrangements will form a key part of this assessment.
Reserve Deterioration	**Allowing for Inflation (including social inflation) in reserves – Thematic Review (start date March 2022)** A Reserving thematic review in 2022 will focus on inflation assumptions made in syndicate best estimate reserves as a result of the changing claims environment, to ensure they remain appropriate. In particular, the review will focus on where historic inflation is not representative of future inflation, and how reserving processes, methodologies and feedback loops with pricing and capital need to change in light of this.
	Reserving focus classes Based on the 2020 year-end reserving exercise, Lloyd's has identified the following focus areas due to trends identified at market level. During annual reserve meetings with managing agents Lloyd's intends to understand whether the market level findings are relevant to syndicate reserves and gain more insight into the market's reserve setting for these classes: • **Cyber** – with focus on understanding the reserving methodology used and how the chosen methodology and assumptions are validated. • **Casualty FinPro** – specifically on how allowance is made in the reserving process on the most recent years of account for the ways in which future experience is expected to differ from the past.

	• **Marine** – on the approaches to reserving this class, including how specific IBNR estimates are included and how reserves are released over time.
Operational Resilience	**Improving the Operational Resilience framework across Lloyd's** The Operational Resilience Survey conducted in 2021 will be repeated in 2022, using similar questions to benchmark managing agent progress. Managing agents identified as having potential gaps in compliance from the 2021 survey (in preparation for the March 2022 deadline) will receive Lloyd's engagement. In addition, Lloyd's will work with the LMA and the market to agree and undertake a market-wide scenario exercise designed to assess the impact of a significant failure at an MSSP, to address feedback from the 2021 Operational Resilience Survey. The scenario exercise, once agreed, would be likely to produce an electronic social simulation, mimicking a failure at an MSSP and consequential impact at individual managing agent level and across the market.
	Maintaining cyber resilience and data protection Following the Cyber Resilience Survey undertaken in 2021 Lloyd's will drill down into the key areas of current cyber threats, including ransomware, targeting those managing agents considered material and with identified cyber security control gaps. In addition, Lloyd's will follow-up with a small number of managing agents where a potential gap or concern regarding their Cyber Resilience framework has been identified.
	Lloyd's Europe The 2021 Market Oversight Plan highlighted data inconsistencies between the various systems that are used by Lloyd's European platform (Lloyd's Europe PAS system, PMDr, QMB, and SBF). This continues to pose a risk to Lloyd's data and as such, syndicates considered material to Lloyd's Europe or those with material growth since 2021 have been selected for high-level review. Lloyd's will explore how European Plans are constructed, to identify potential data limitations or inconsistencies.
Regulatory & Financial Crime	**Regulatory environment** Lloyd's expects managing agents to take stock of the impact of key regulatory changes on their business as a whole, given increased regulatory requirements, protectionist measures and the noticeable shift towards overseas bespoke regulation. Insurance legislative changes across South Africa, Australia and Switzerland are specifically highlighted, given changes are expected or have gone recently. Lloyd's expects the market to be compliant with UK and international regulatory requirements and will expect managing agents to amend their frameworks in this regard, to respond to regulatory changes. In addition to overseas regulatory shifts, there is increasing focus on ESG, climate, operational resilience and cyber, as regulators turn their focus back to pre-pandemic agendas. Whilst the immediate impact of this could influence regulatory reporting requirements, on a longer-term basis this could necessitate changes to how we underwrite or regulate.

	Sanctions screening The first market-wide screening of Sanctions screening tools since 2017 will take place in 2022. This will provide a reliable and refreshed baseline of market-wide sanctions screening performance information. This exercise will test the efficacy of managing agents' sanctions control frameworks. Pre-bind and ad hoc controls will be assessed via a questionnaire, whilst post-bind risk will be assessed using a "test file" to evaluate the performance standards of sanctions screening systems. The intention is to receive a rounded view on sanctions screening, both in how sanctions screening tools respond to a mimicked request and to understand how your systems and controls are utilised to mitigate sanctions risk. Consideration will be given to tools used across managing agents' businesses, including at a Lloyd's Europe level when placed on the Lloyd's Insurance Company platform.
	Bribery and corruption Lloyd's will conduct follow-up work in 2022 to the 2020 thematic review on Bribery and Corruption risk. The purpose is to understand how the risk presents itself and in particular, how managing agents mitigate the risk between the managing agent and broker relationship.
	Fraud In 2020 Lloyd's conducted a Fraud thematic review identifying social engineering fraud and phishing attacks as a high risk issue, particularly through the managing agent distribution chain. The review also concluded that fraud mitigation at a market level required improvement. In response to these gaps, Lloyd's will conduct follow-up work to the 2020 thematic with a representative agent sample, to consider mitigations and controls being developed. Managing agents will also be asked to confirm their experience of fraudulent activity since COVID, to consider if the general increase in fraud across the wider economy has had any impact on the market.
	Kidnap and Ransom (K&R) and Ransomware anti-money laundering (AML) / CTF Obligations Lloyd's 2020 thematic review of Anti Money Laundering controls identified that the settlement of both Kidnap and Ransom and Ransomware claims are made complex by the need to adhere to UK money laundering legislation. The review was unable to investigate this issue in detail as few managing agents in the sample offered K&R or Ransomware products. As such in 2022 Lloyd's will investigate further how managing agents are mitigating these legislative complexities when settling claims.
	Lloyd's Insurance Company Additional financial crime controls relating to risks through Lloyd's Insurance Company have been set out in the LIC Financial Crime Requirements Guide for Underwriters and in 2022 managing agents' embedding of the guidance will be assessed.