LLOYD'S

# Lloyd’s Minimum Standards MS15 – Investment Management

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# Contents

# MS15 – Investment Management

# Minimum Standards and Requirements

These are statements of business conduct required by Lloyd's. The Minimum Standards are established under relevant Lloyd's Byelaws relating to business conduct. All managing agents are required to meet the Minimum Standards. The Requirements represent the minimum level of performance required of any organisation within the Lloyd's market to meet the Minimum Standards.

Within this document the standards and supporting requirements (the "must dos" to meet the standard) are set out in the blue box at the beginning of each section. The remainder of each section consists of guidance which explains the standards and requirements in more detail and gives examples of approaches that managing agents may adopt to meet them.

# Guidance

This guidance provides a more detailed explanation of the general level of performance expected. They are a starting point against which each managing agent can compare its current practices to assist in understanding relative levels of performance. This guidance is intended to provide reassurance to managing agents as to approaches which would certainly meet the Minimum Standards and comply with the Requirements. However, it is appreciated that there are other options which could deliver performance at or above the minimum level and it is fully acceptable for managing agents to adopt alternative procedures as long as they can demonstrate the Requirements to meet the Minimum Standards.

Please note that the Investment Management Minimum Standards do not apply in relation to trust funds managed centrally by Lloyd's (i.e. the joint asset trust funds and the Australian, South African and Illinois trust funds).

# Definitions

**EIOPA** – The European Insurance and Occupational Pensions Authority

**SBF** – Syndicate Business Forecast

**The Board** - Where reference is made to the Board in the standards, managing agents should read this as Board or appropriately authorised committee. In line with this, each agent should consider the matters reserved for the Board under the Governance Standard in order to evidence appropriate full Board discussion and challenge on the material items.

# Section 1: Investment Strategy, Governance and Use

## INV 1.1 Investment risk documentation

Managing agents shall establish and maintain comprehensive investment risk documentation.

The investment risk documentation shall:

- include an investment risk policy;
- describe the investment objectives;
- define comprehensive limits for investment risk;
- set out the responsibilities for the management of the investment of syndicate assets;
- describe the processes and procedures which will operate to ensure compliance with the policy;
- allocate responsibility for maintenance and implementation of investment strategy;
- incorporate the requirements of the “prudent person” principle; and
- describe the processes and controls to ensure compliance with all relevant UK and overseas statutory, regulatory and trustee requirements.

Lloyd’s expects all managing agents to have appropriate documentation to effectively manage investment risk. There is no specific set list of documentation titles that an agent should hold but there are a number of areas that an agent will be expected to cover in their investment risk documentation as discussed below. The level of detail in which the agent will address these areas should be proportionate to the risk involved. The only exception to this is the investment risk policy. Under the requirements of Articles 44 and 132 of Solvency II Directive, a managing agent’s risk management policy should cover certain considerations with regard to investments. Lloyd’s consider these to be more conveniently contained within a separate investment risk policy.

Managing agents shall set out the limits of acceptability for any assets to be held as syndicate assets, consider the appropriate mix of assets, overall risk tolerance levels, concentration limits and counterparty exposure limits. Managing agents shall describe the procedure for the identification and assessment of mismatches between assets and liabilities, at least with regard to terms and currency and any limits on such exposure.

Managing agents shall state how the appropriate level of liquidity for the syndicate's business is determined and how this is related to cash flows and realistic disaster scenarios. The managing agent must ensure that the trust funds are sufficiently liquid and secure so that the syndicate is able to meet liabilities as they fall due.

More detail regarding the Solvency II requirements can be found in EIOPA-BoS-14/253 EN, “Guidelines on System of Governance” ([1]), guidelines 24 to 26 (which cover asset-liability management, investment risk management and liquidity management). Guidance is also contained in the supervisory statement from the PRA, “Liquidity risk management for insurers.” SS 5/19. ([2])

Managing agents shall state the investment objectives, which is a statement of what level of risk and profitability is being aimed for on the entire portfolio of assets and how it is planned for this to be achieved.

The investment risk documentation shall include appropriate processes and procedures to enable the managing agent to assess, manage, monitor, control and report the risks to which syndicate assets are exposed.

In accordance with Article 132 of Solvency II Directive, the managing agent shall develop a system of governance over the risks arising from its investment of syndicate assets which incorporate the “prudent person” principle. More details can be found in EIOPA-BoS-14/253 EN, “Guidelines on System of Governance”([1]), guidelines 27 to 35.

The managing agent must invest the trust funds with due regard to any appropriate UK or overseas statutory or regulatory requirements. The managing agent must comply with trust law and the terms of Lloyd's trust deeds. In exercising its powers under the trust deeds, the managing agent has fiduciary duties and duties of skill and care.

(1) https://eiopa.europa.eu/GuidelinesSII/EIOPA-BoS-14-253_GL%20on%20system%20of%20governance.pdf
(2) https://www.bankofengland.co.uk/prudential-regulation/publication/2019/liquidity-risk-management-for-insurers-ss

## INV 1.2 Investment strategy

Managing agents shall operate an investment strategy which is consistent with the investment risk policy.

The investment strategy shall:

- be consistent with the Syndicate Business Forecast (SBF); and
- be approved and reviewed regularly by the Board, or an appropriate sub-committee.

Managing agents shall establish an investment strategy for investments within the parameters of its investment risk policy which shall be consistent with the Syndicate Business Forecast (SBF). Lloyd's acknowledges that there can be an extended time between original submission of the SBF and the finalisation of Syndicate's capital submission. Lloyd's also acknowledges how rapidly investment conditions change, so that actual investment dispositions may diverge from the SBF. Managing agents should consider when such circumstances may be material enough to trigger a resubmission, although this is unlikely for the majority of syndicates where market risk is not a material risk driver.

Managing agents shall clearly establish responsibility for the implementation of the investment strategy and provide for accurate, informative and timely reporting to management.

The strategy shall be communicated to the Board or an appropriate sub-committee and be reviewed regularly and as business or market circumstances change.

## INV 1.3 Governance

Managing agents shall maintain an effective governance and control framework for the management of syndicate investment assets.

Managing agents shall ensure that:

- syndicate investments are properly recorded, monitored and controlled;
- investment activity shall be monitored against defined parameters;
- processes will be maintained to address any exceptions;
- the authority and reporting lines of the investment staff are clearly delineated and documented; and
- there is a process providing monitoring and challenge of investment activity.

Managing agents shall ensure that it has adequate controls to ensure that syndicate investments are properly recorded, monitored and controlled and that the investment activity remains within the parameters that it has set. There shall also be a process to identify when these parameters are breached, an escalation of such breaches to the appropriate body (the Board or an appropriate sub-committee) and a mechanism for correcting such breaches within a reasonable timeframe.

Managing agents shall ensure that the authority and reporting lines of the investment staff are clearly delineated and documented so that each relevant member of staff has an adequate understanding of the extent of their investment authority. This applies whether the function is outsourced or not.

Managing agents shall have a process for providing monitoring and challenge for investment activity. This should be performed by individuals other than those making the day to day or operational investment decisions. This provides the necessary independence without having to be a separate function within the managing agent or an external third party.

### INV 1.4 Use test

Managing agents shall comply with Solvency II use test requirements.

Managing agents shall:

- demonstrate that their internal model is consistent with their investment governance, risk management and decision-making processes.

As part of the use test (Article 120), managing agents are responsible for ensuring the ongoing appropriateness of the design and operation of their internal model, and that their internal model continues to reflect appropriately the risk profile of the insurer. Lloyd’s therefore expects that managing agents will be able to demonstrate that the risks incurred by their investment activity should be consistent with and properly reflected in their internal model.

The above should not limit managing agents in the other uses to which the internal model may be applied in the management of investment risk. These uses may for example include risk appetite monitoring or strategic asset allocation decision making, but Lloyd’s does not consider them to be part of the minimum standard when applying the use test to the management of investment risk.

# Section 2: Outsourcing

## INV 2.1 Outsourcing

Where investment functions are delegated to third parties, managing agents shall maintain appropriate oversight and control.

Managing agents shall:

- ensure that outsourced investment arrangements are fully documented (i.e. an investment management agreement as a minimum) and regularly reviewed; and
- retain overall responsibility for the management of syndicate assets.

Where managing agents delegate investment management to a third party investment manager, it shall ensure that the appointment is subject to a written investment management agreement and that it regularly reviews the investment manager's performance and compliance with the agreed investment mandate.

Lloyd’s requires managing agents to be able to demonstrate that it has followed the managing agent’s own internal policies on outsourcing.

Notwithstanding any such delegation, managing agent retain overall responsibility for the management and investment of the syndicate assets.

More details in respect of outsourcing arrangements can be found in Article 274 of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138

[1] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2015:012:FULL&from=EN

# Section 3: Valuation and Reporting

### INV 3.1 Valuation and reporting

Managing agents shall comply with the requirements of the Solvency II Framework Directive regarding valuation and reporting of assets.

Managing agents shall:

- ensure that all asset valuations and calculations of own funds comply with the Solvency II directive; and
- provide Lloyd's with asset disposition returns which are timely, accurate and complete.

Relevant articles to the calculation of own funds include Articles, 87 to 91, 93 to 96 and 98 among others.

Lloyd’s asset disposition return requirements will continue to be published to the market by the usual market bulletins and are available on Lloyd’s.com.