

Project Rio Technical Briefing Sessions

Pricing (Underwriting Profitability)

26 January 2022

Lyndsay Deeves, Laurence Loughnane and Kathy Staff

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 Pricing?	25 mins 20 mins
2. Case studies – bringing the framework to life	20 mins
3. Next steps	5 mins
4. Q&A	20 mins

Oversight Framework:

Overview of broader framework

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

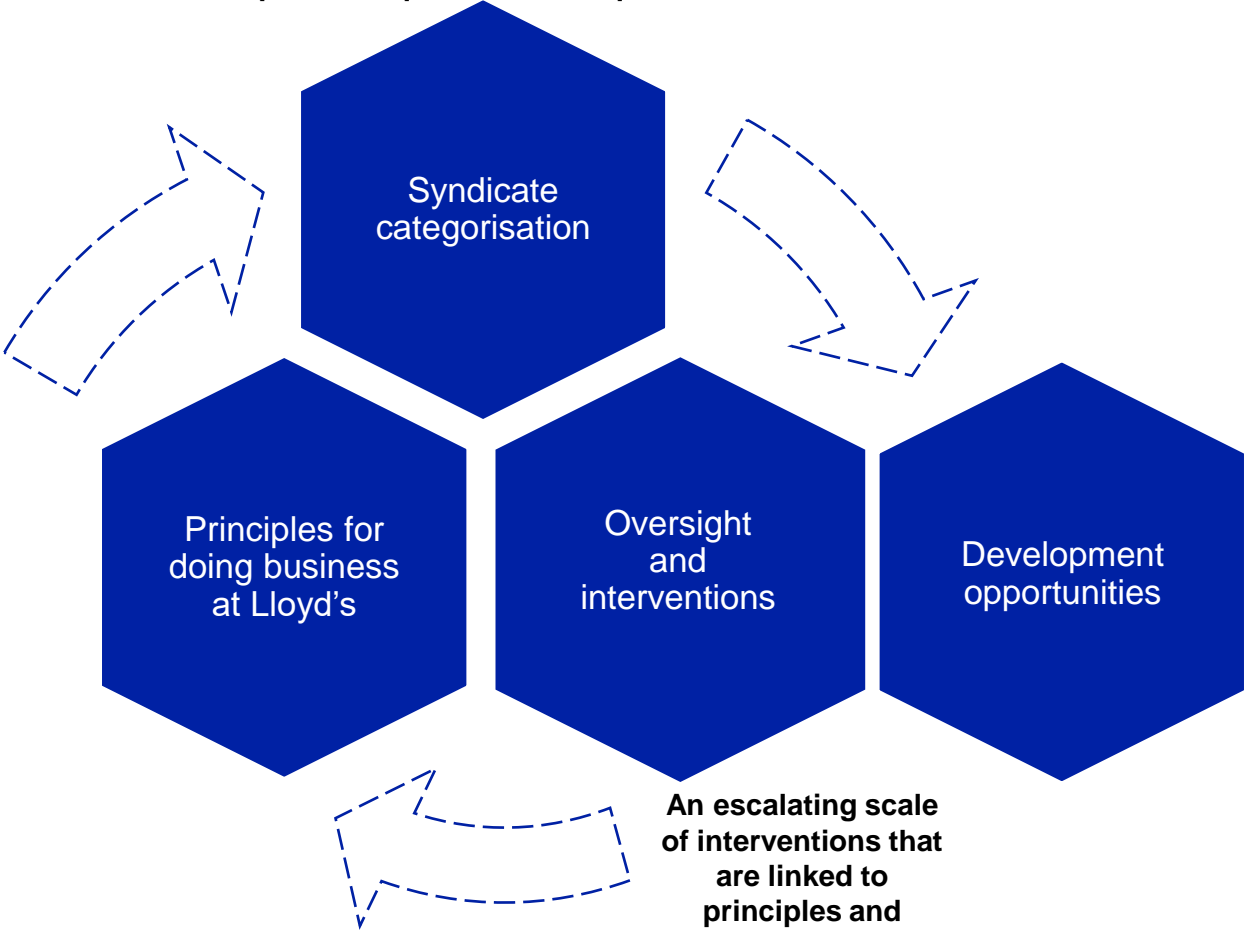
Oversight Framework

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

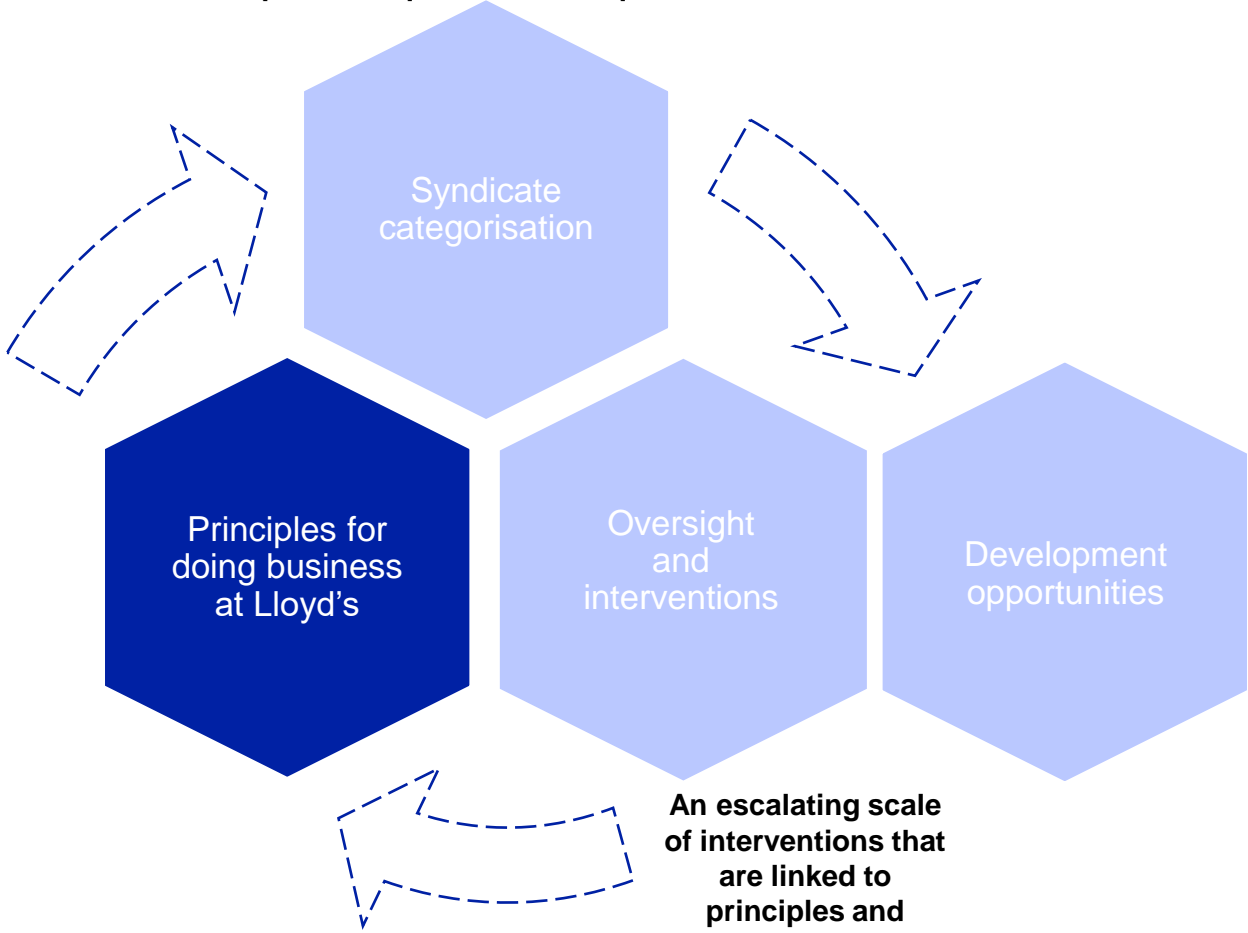
Oversight Framework

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

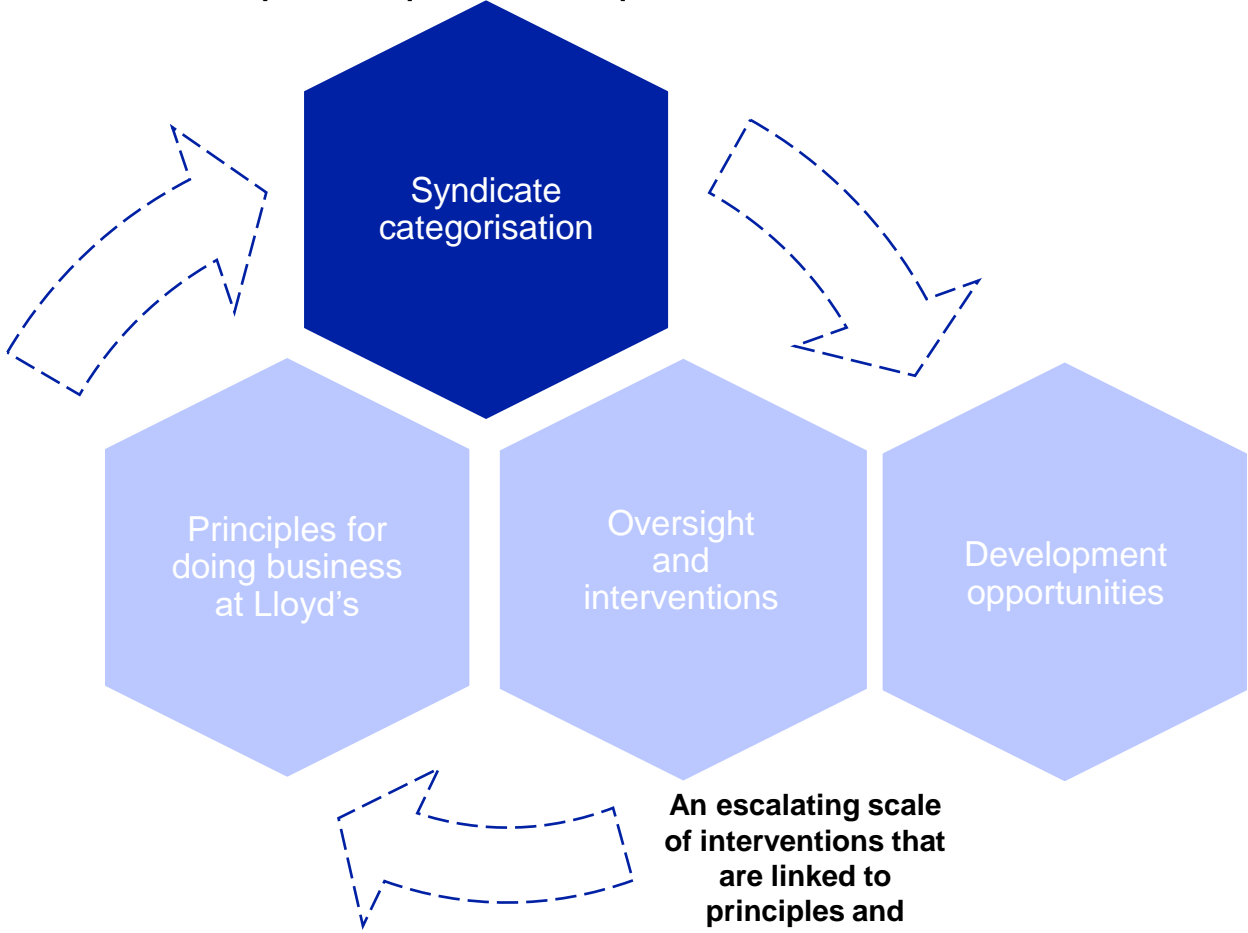
Oversight Framework

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

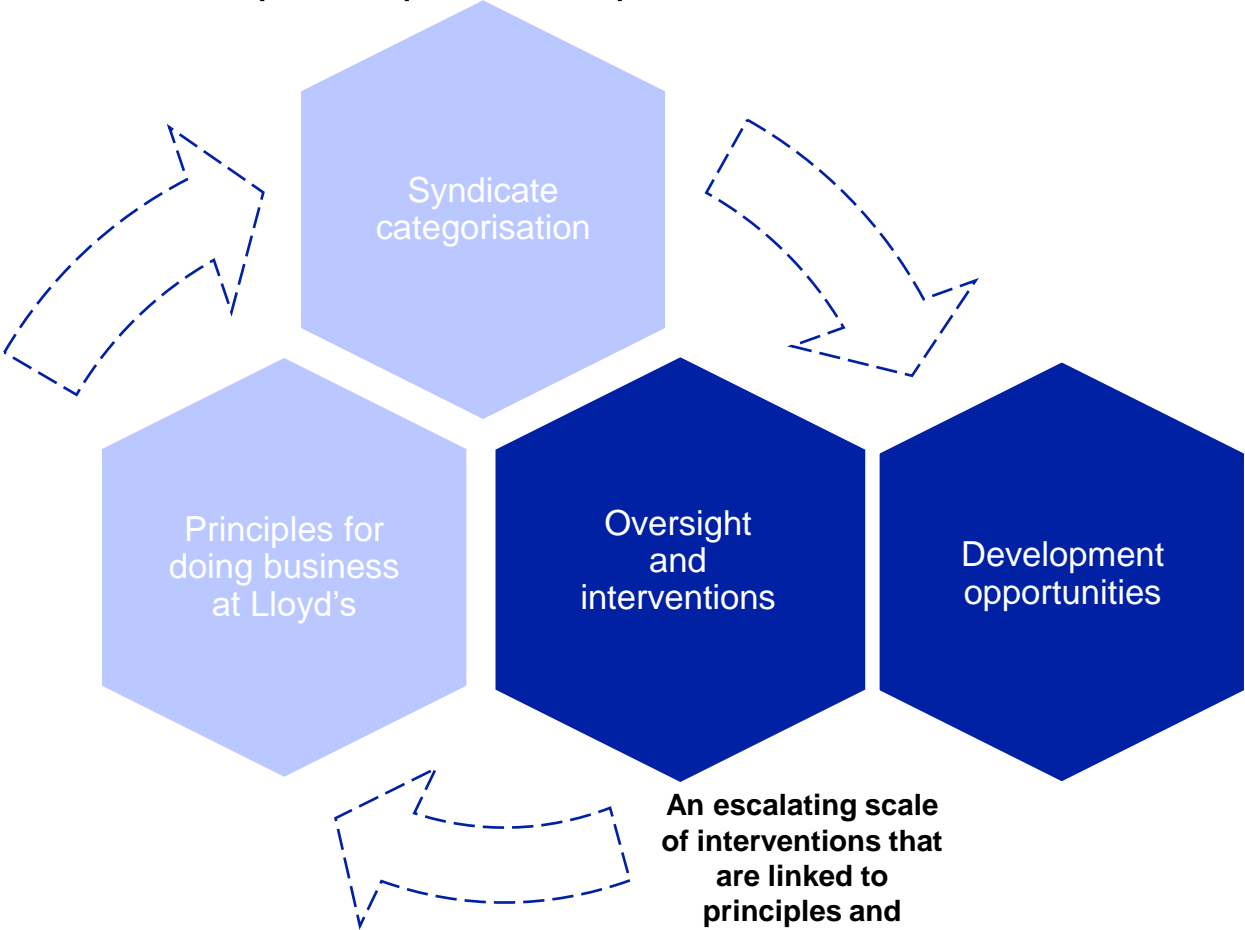
Oversight Framework

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

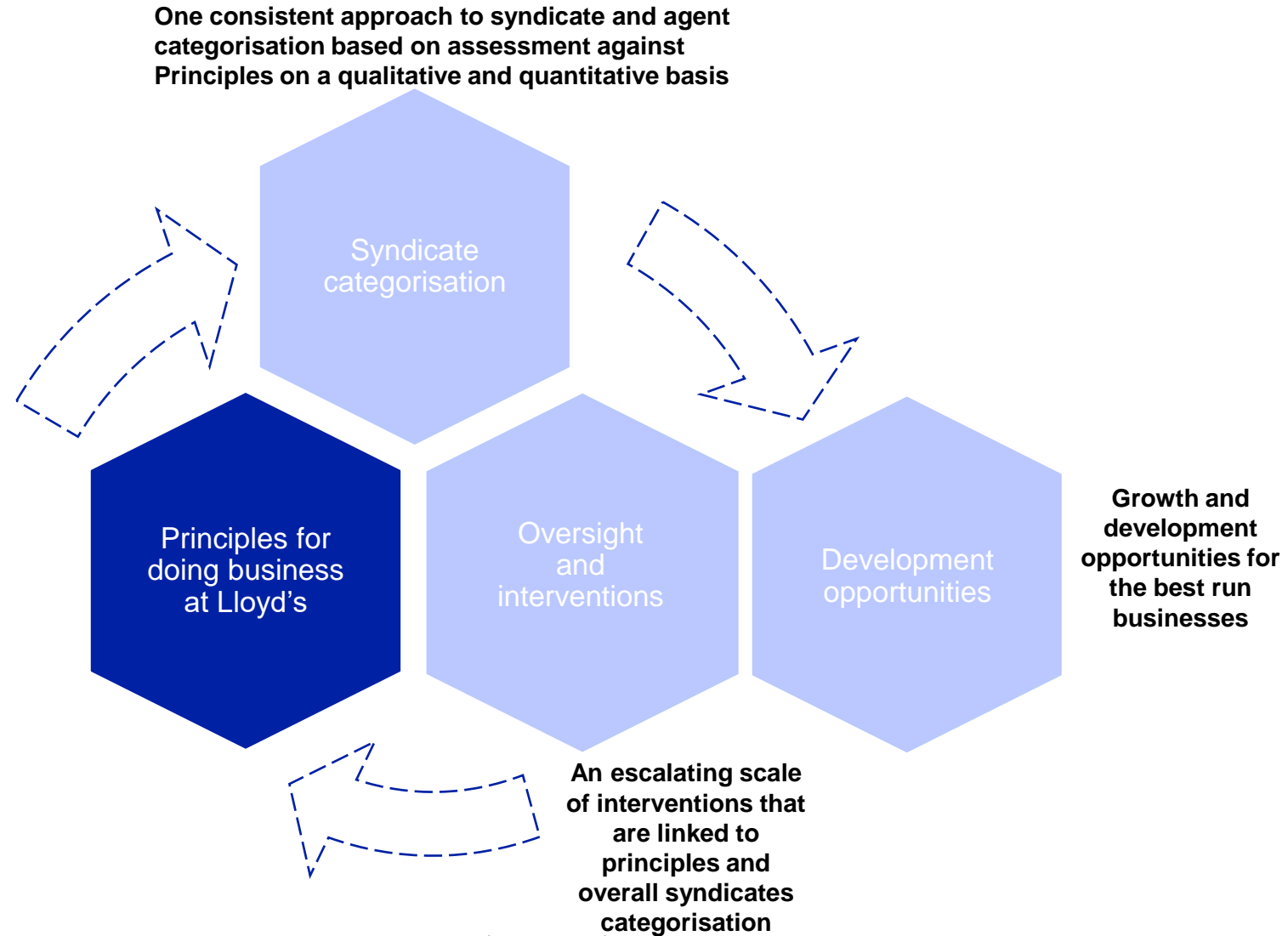


Growth and development opportunities for the best run businesses

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

Oversight Framework

The Lloyd's Principles



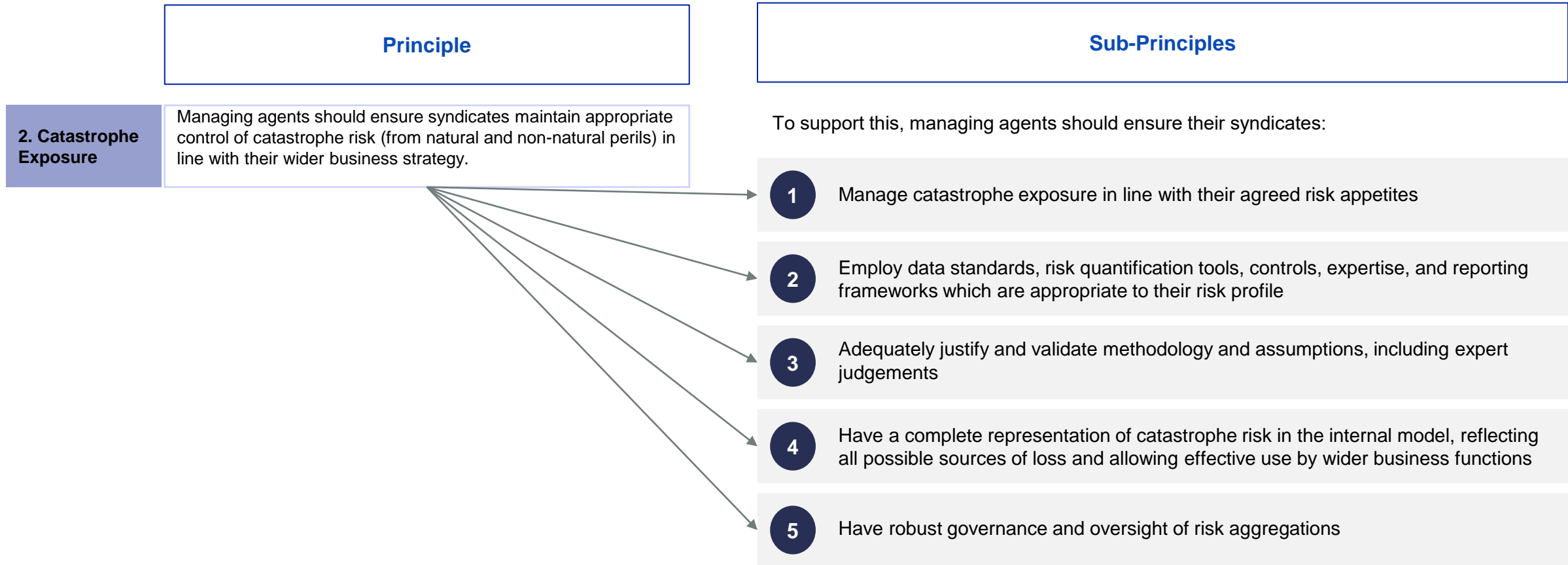
Oversight Framework

The 13 Lloyd's Principles

PERFORMANCE	1. Underwriting Profitability	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	7. Capital	Managing agents should ensure syndicates' Solvency Capital Requirement (SCR) appropriately reflects their risk profile and is calculated using a Solvency II compliant internal model.
	2. Catastrophe Exposure	Managing agents should ensure syndicates maintain appropriate control of catastrophe risk (from natural and non-natural perils) in line with their wider business strategy.		8. Investment	Managing agents should ensure syndicate investment risk is effectively controlled, informed by wider business strategy and adheres to the Prudent Person Principle (PPP) requirements.
	3. Outwards Reinsurance	Managing agents should define and execute syndicate outwards reinsurance strategy and purchasing plans which effectively support the wider syndicate business strategy and objectives.		9. Liquidity	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.
	4. Claims Management	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	10. Governance, Risk Management and Reporting	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.
	5. Customer Outcomes	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.		11. Regulatory and Financial Crime	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.
	6. Reserving	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.		12. Operational resilience	Managing agents should maintain robust and resilient operations, embedding cyber resilience and effective third-party risk management.
		13. Culture		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"> Catastrophe risk appetite statements are in place; exposures are monitored against appetite and reported to senior management and the board. Business plans reflect catastrophe risk appetites 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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.

Low materiality → Moderate materiality → High materiality → Highest materiality

Oversight Framework

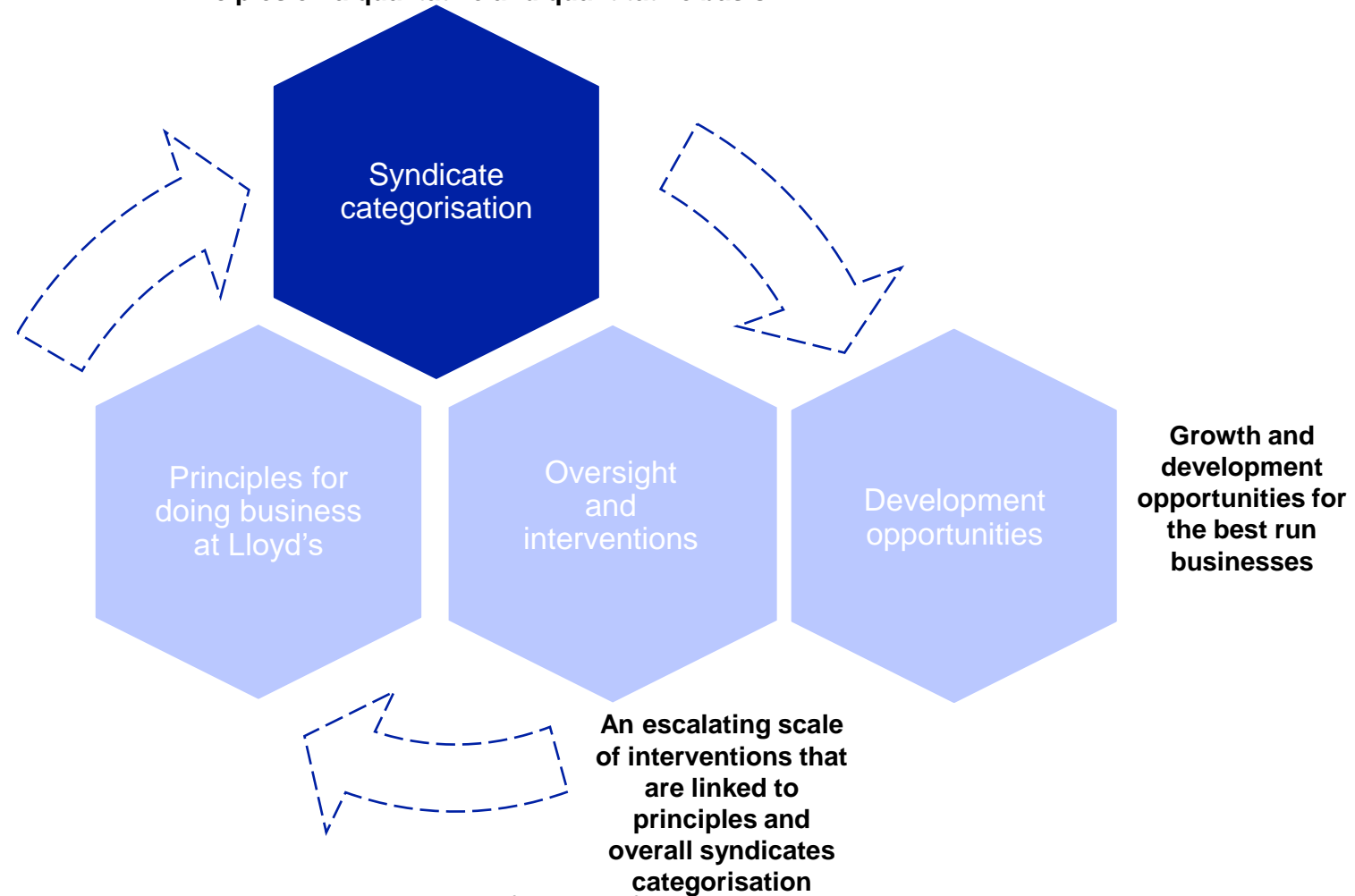
Levels of maturity – generic definitions

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

Dimension Rating

Meets expectation

Marginally below expectation

Below expectation

Well below expectation

Oversight Framework

Syndicate categorisation

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	Syndicate Category
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	

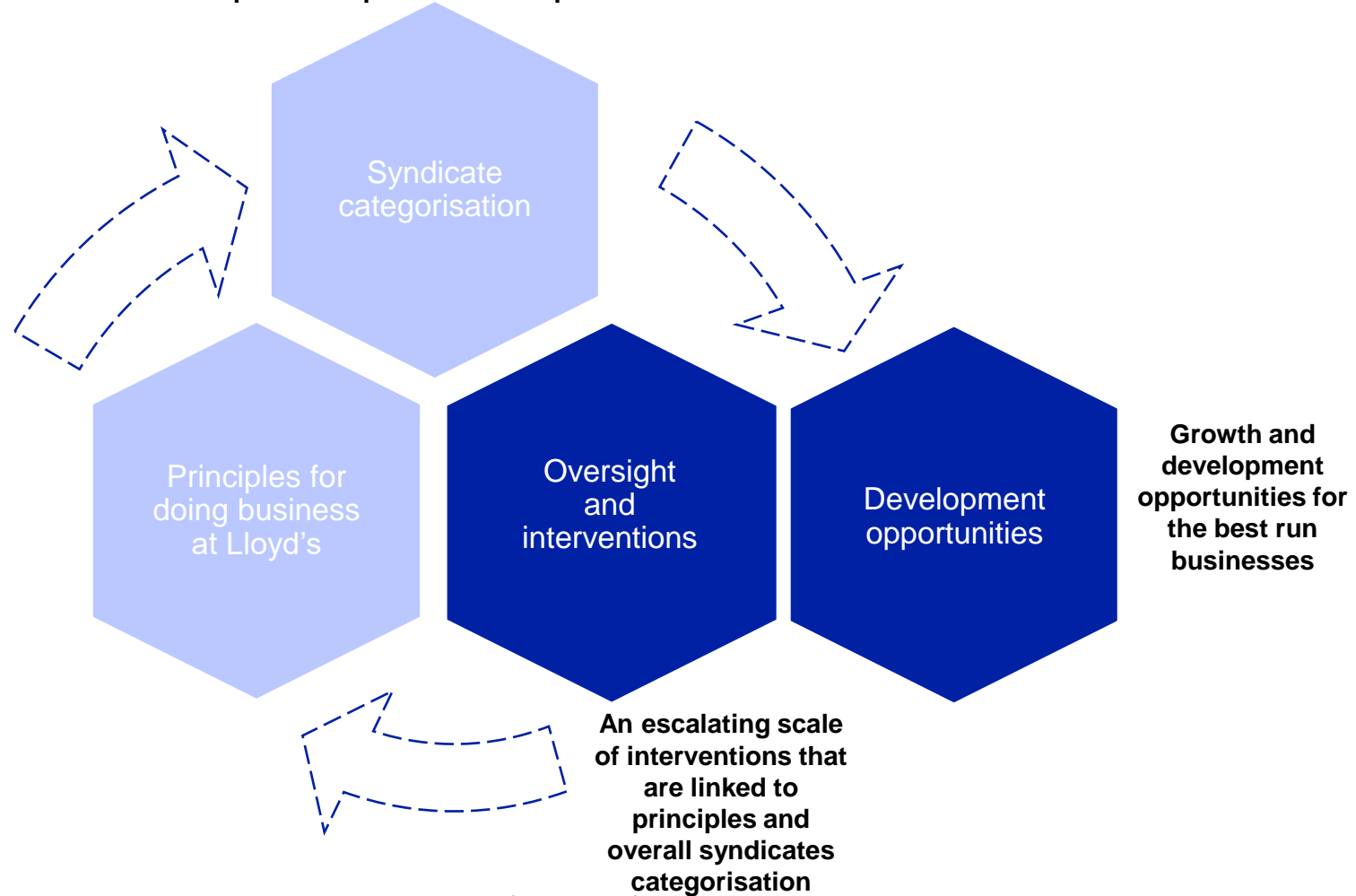
OUTPERFORMING
GOOD
MODERATE
UNDERPERFORMING
UNACCEPTABLE

UNDERPERFORMING

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

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

Oversight Framework:

How will it work for Pricing?

Laurence Loughnane

Oversight Framework – Pricing

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
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

- Aim of Lloyds, and the Pricing team, is to raise market standards across technical pricing and portfolio management, in order to improve profitability across the cycle.
- Ensuring Lloyd's and its key stakeholders are confident that syndicates have in place appropriate, proportionate and well understood pricing processes.
- The Pricing Maturity Matrix (*previously known as the Best Practice Pricing Matrix*) has the dual objectives of protecting and developing the market.
- In line with overall aim of Rio, to improve transparency around Lloyd's pricing oversight.
- Alignment to RIO has made Pricing Maturity Matrix sharper and more focused on technical pricing.

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:

1. Have a clear and robust medium to long term business strategy with clearly defined and understood underwriting risk appetite
2. Develop and execute annual business plans which align with their business strategy
3. Have underwriting controls, monitoring and reporting in place which are appropriate to their risk profile *in order to* deliver the agreed business plan
4. Manage and control expenses *in order to* ensure they are appropriate for the business written
5. Have robust portfolio management in place *in order to* deliver the agreed business plan
6. Have an effective pricing framework in place *in order to* evaluate sustainable technical price, rate adequacy and deliver sustainable profit
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
8. Have processes in place to support decision making in relation to ESG integration into underwriting

Oversight Framework – Pricing

Defining expected maturity

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

Dimension	Materiality measure	Low Foundational	Moderate Intermediate	High Established	Highest Advanced
Principle 1: Underwriting Profitability	Gross Written Premium	< £100m	£100m - £500m	£500m - £1bn	> £1bn

- Starting point is the same materiality as Underwriting Profitability
- As part of the PMM assessment process – refine materiality based on the types of business written by a syndicate (not size of syndicate)
- Maturity assessment based on three broad areas of 1) Data & Infrastructure, 2) Technical and 3) Application
- Significant effort to get all syndicates baselined – ongoing oversight will be risk based and proportionate
- Maturity expectations will change over time to respond to advances in pricing techniques

6 Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit.

	Foundational	Intermediate	Established	Advanced
Pricing coverage	<ul style="list-style-type: none"> There is a Technical Price for all lines, territories, and segments. For a large proportion of risks Technical Price may be calculated at portfolio level and not individually modelled. 	<ul style="list-style-type: none"> There is a Technical Price for all lines, territories, and segments. There is modelling of the material risks within segments and Technical Price may be calculated at portfolio level for a small proportion of risks. 	<ul style="list-style-type: none"> There is a Technical Price for all lines, territories, and segments. There are models for a high portion of the total business. 	<ul style="list-style-type: none"> There is a Technical Price for all lines, territories, and segments. Risks are always modelled where there is sufficient data and it is proportionate to do so. Technical Price is consistently applied across all the business.

Oversight Framework – Pricing

How to assess performance against the Principles?

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

Assessment will be solely qualitative

- No requirement to complete self-assessment by April as per other Principles
- Facilitated assessment with Lloyd's for all syndicates throughout H1 2022
 - Document review – outlined in scope letter shared 4 weeks ahead of each facilitated assessment
 - Syndicates conduct self-assessment
 - Workshops with Lloyd's and syndicates to agree current maturity level and target maturity level
 - Workshops include a discussion about materiality
 - Action plan to bridge gaps between current and target maturity level
 - Some actions may be related to Oversight
 - Some actions related to Capability Improvement
- Going forwards, self-assessment to be completed each year in line with all other Principles

Oversight Framework – Pricing

Interventions specific to Pricing

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

Dimension	Well below expectations	Below expectations	Marginally below expectations	Meeting expectations
PERFORMANCE Pricing (Underwriting Profitability)	<ul style="list-style-type: none"> Remove permission to underwrite 	<ul style="list-style-type: none"> Managing Agent to produce holistic account level remediation plan (with Board sign-off) to be approved by Lloyd's Apply Business plan / underwriting restrictions Requirement to undertake detailed Principles review (either internally, e.g. Internal Audit, or externally) Refuse / de-register a coverholder Managing Agent to produce contingent run-off plan approved by Board 	<ul style="list-style-type: none"> Targeted remediation of underperforming classes through portfolio management Class of Business level restrictions/closures Growth (e.g COB or territory) must be justifiable Lloyd's involved in ad-hoc contentious issues – e.g. Enforces the removal of an exclusion from a syndicate's policy wording Line size dispensations 	<ul style="list-style-type: none"> Fast track process to extend capacity of current syndicate Option for file and use plan if demonstrated to be Logical, Realistic and Achievable Encourage & support of growth

- Pricing as a subprinciple of underwriting feeds into underwriting interventions
- Both Oversight remediation actions and capability improvement plans to be agreed with CUO

Case studies:

Bringing the Framework to life

Kathy Staff

Case Study

Pricing Materiality - Syndicate £1.5b GWP

Underwriting Profitability Principle (overall)

- **Due to size of syndicate Y, expected maturity – Advanced**

Pricing Sub-principle

- **During the assessment process, agree materiality with the syndicate based on the types of business they write**
 - **Relatively homogeneous types of business**
 - **Reasonable data**
 - **Generally lead business**
 - **Underwriter judgement still an important part of process**
 - **Established but not advanced pricing techniques generally used for this type of business**
- **Expected Maturity - Established**

Case Study

Component DI3 – Data Capture and Storage

Intermediate	Established
<p>Source data conforms to pre-defined templates and data definitions. There is an organisational data dictionary with consistent data definitions utilised across sources.</p> <p>Some automated data collection and uploads in place.</p> <p>Data requires some cleansing before it can be used for modelling purposes.</p>	<p>Source data conforms to pre-defined templates and data definitions. Joining multiple data sources is straight-forward.</p> <p>There is granular and automated data capture with governance controls built in.</p> <p>There are underwriting and claims processes in place that mitigate need for significant data cleansing before modelling.</p>
<p>There is some use of third-party data at portfolio level (e.g. analytics).</p> <p>Some unstructured data is captured.</p> <p>Some quote data is captured.</p>	<p>There is investment in third-party data to better understand risk profiles at a granular level.</p> <p>Unstructured data is captured and there is some capability to transform and use it.</p> <p>Quote data is retained on system and there is some capability to use it.</p>



Managing Agent X

Perceived outcomes

The capture of existing data is streamlined, accurate and processes are in place to ensure claims and exposure files match. This makes it easier to do better quality pricing reviews.

Alternative data sources are not well utilised – potentially prices are not as granular and accurate as competitors in similar classes of business. Capturing the right type / quantity of data will improve profitability and understanding of the market.

How do we know this?

Assessment workshops with the pricing and underwriting teams.
 Documented data policies including audit and validation.

Managing Agent rating

Expected Maturity – Established
 Assessed Maturity – Intermediate

Oversight Remediation Plan

Projects underway to explore investment in third-party data and unstructured data that is currently captured but not used.

Case Study

Component T2 – Claims Pricing Model Methodology.

Established	Advanced
Modelling segmentation is split into granular perils allowing for appropriate techniques to model frequency and severity characteristics.	There are appropriate sub-models for all perils and there are appropriate tools to combine perils into the final risk premium.
Blends of experience and exposure approaches may be used as applicable.	The use of both experience and exposure approaches evolves with regular feedback over time.
There is a range of sophisticated, granular modelling approaches.	Model toolkit extensive and easily adaptable to data available: from basic ratios to machine learning.
Pricing decisions and rationales for individual cases are captured and analysed for common adjustments.	Pricing decisions on individual cases are well documented and feed into re-parameterisation of underlying model.
Regularly scheduled validation reviews are conducted on all models, integrated with rating/return on capital reviews and incorporating underwriting input.	There is a regular validation cycle that verifies applicability of models.
As-if analysis and stress testing performed to understand pricing assumption sensitivity.	AI and machine-based learning tools are available to support model validation.



Managing Agent X

Perceived outcomes

Pricing is as sophisticated as it needs to be given quality of data available and market capability – all data rich classes have GLMs in place for granular perils.

Expert judgement is captured via underwriters and risk engineers and is a key part of feedback loop to improve pricing accuracy.

Pricing models are validated at least annually. The validation covers all elements which drives claims costs and incorporates input from other parts of the business.

How do we know this?

Assessment workshops with the pricing and underwriting teams.

Run-through of pricing tools

Peer review and audit reports

Regular MI packs

Managing Agent rating

Expected Maturity – Established

Assessed Maturity – Established

Capability Improvement Plan

Investigating use of machine-based learning tools to support model validation on classes that are more data rich

Case Study

Component T5 – Calibration of Models.

Intermediate	Established
<p>Model is recalibrated at least annually, supported by actual versus expected monitoring and is updated with experience.</p> <p>Annual alignment with new planning assumptions.</p>	<p>There is an established feedback loop around pricing model development and assumption setting to ensure they are updated regularly to reflect the most recent relevant</p>



Managing Agent X

Perceived outcomes

Currently there is an annual AvE process that does a high level view of actual versus expected loss ratios. Other assumptions are updated to latest plan.

How do we know this?

Assessment workshops with the pricing and underwriting teams.
Model update documents – centred around update of planning assumptions.

Managing Agent rating

Expected Maturity – Established
Assessed Maturity – Intermediate

Oversight Remediation Plan

There would be additional value in capturing feedback from users of the models, maybe looking into areas where there is less experience or AvE at a more granular level.

Create regular feedback loops where areas of concern / development raised by users are investigated and results communicated

Case Study

Component A1 – Claims and Reserving.

Established	Advanced
<p>Pricing and underwriting teams regularly feed technical pricing assumptions and underwriting knowledge to the reserving team for use within the reserving process.</p> <p>Pricing and underwriting explicitly consider of reserving assumptions and output in pricing where appropriate.</p> <p>Where there are different views between pricing, underwriting, and reserving the rationale is clear and documented.</p>	<p>There is a collaborative approach between pricing, underwriting, and reserving teams in the reserving process around technical price assumptions and changes in written portfolio etc.</p> <p>Underwriters proactively use output from claims and reserving exercises to challenge pricing assumptions.</p> <p>Where consensus cannot be reached, the rationale is clear and well documented. The impact of differences is well understood. A process exists to minimise these differences over time.</p>



Managing Agent X

Perceived outcomes

Reserving team use underwriting rate assumptions in setting ultimate loss ratios with adjustments made for confidence in measurement of rate.

Pricing loss ratios are based off latest reserve ultimate estimates with full allowance for future rate and underwriting actions going forward.

There is a bridge between the reserving and pricing loss ratios and differences are documented and well understood.

How do we know this?

Assessment workshops with the pricing and underwriting teams.
Minutes from reserving meetings.

Managing Agent rating

Expected Maturity – Established
Assessed Maturity – Established

Capability Improvement Plan

Want to ensure confidence in areas where there are differences in assumptions between functions. Should there be a process to minimise these differences going forward

Syndicate rating

Syndicate Pricing Components

Pricing assessment (Sub-principle 6)

Component	Description	Current Maturity Score
D11	Technology and systems architecture	3
D12	Data Governance and Processes	3
D13	Data Capture and Storage	2
D14	Resourcing	3
T1	Pricing Coverage	2
T2	Claims Pricing Model Methodology	3
T3	Non-claims Costs Model Methodology (e.g. Expenses, RI, etc)	3
T4	Delegated Authority Pricing	2
T5	Calibration of Models	2
T6	Price Adequacy and Rate Monitoring	3
A1	Claims and Reserving	3
A2	Other (Risk Transfer, Exposure Controls, Capital Modelling and Allocation)	2
A3	Training	2
Total		3

Underwriting Profitability assessment (Principle 1)

Sub-Principle	Expected Maturity Level	Assessed Maturity Level - Lloyd's	Rating
1	Advanced	Advanced	Meets expectations
2	Advanced	Advanced	Meets expectations
3	Advanced	Advanced	Meets expectations
4	Advanced	Established	Marginally below expectations
5	Advanced	Established	Meets expectations
6	Established	Established	Meets expectations
7	Advanced	Advanced	Marginally below expectations
8			

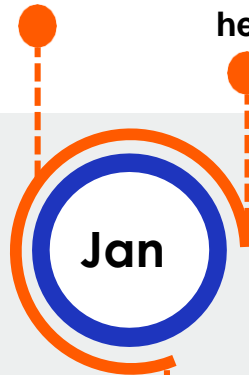
Underwriting Profitability Rating: Meets expectations

Next Steps

Next Steps and Timeline

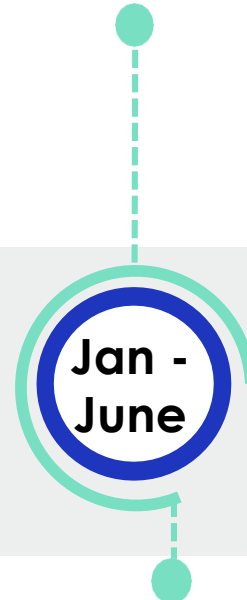
Pre-populated self-assessment templates uploaded
(14 January)

Board and NED briefings held



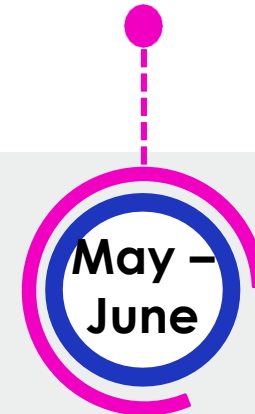
Technical briefings held

Syndicates complete and submit self-assessments



Ongoing support and engagement via Pricing team at Lloyd's

Syndicate categorisation confirmed ahead of 2023 CPG
(June)



What should you be doing?

- **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**
 - Pricing sub-principle will be considered as part of assessment process
 - Speak to your Account Manager if you have any questions
- **Participate in facilitated self-assessment**
 - Scope of reviews will be sent at least 4 weeks before process starts
 - Pricing team will be 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 in the first instance**

Do use the support available from Lloyd's!

Q&A
