

Project Rio Technical Briefing Sessions

Catastrophe exposure

24 January 2022

Lyndsay Deeves and Emma Watkins

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 catastrophe exposure? | 25 mins 15mins |
| 2. Case studies – bringing the framework to life | 25 mins |
| 3. Self-Assessments | 5 mins |
| 4. Next steps | 10 mins |
| 5. Q&A | 15 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 |

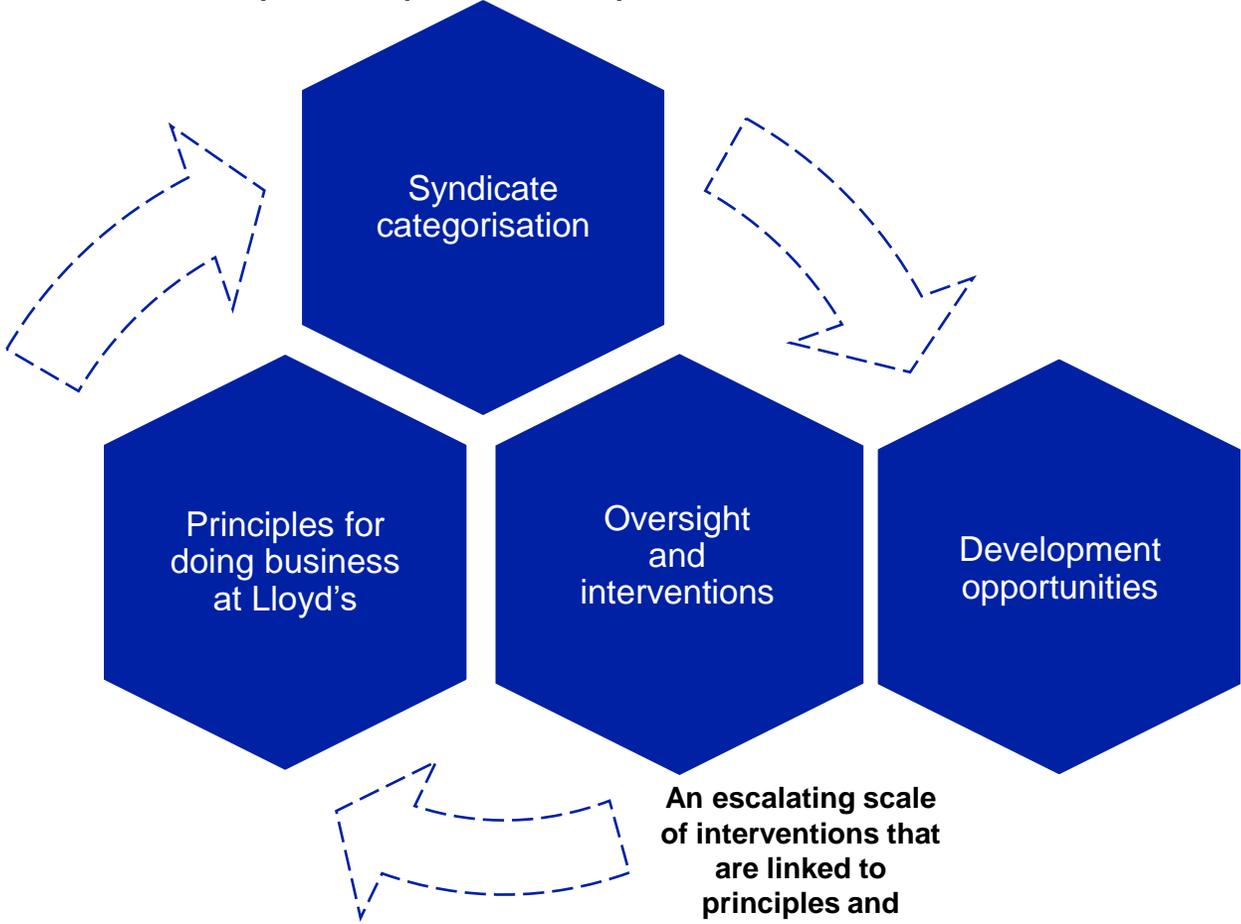
Oversight Framework

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

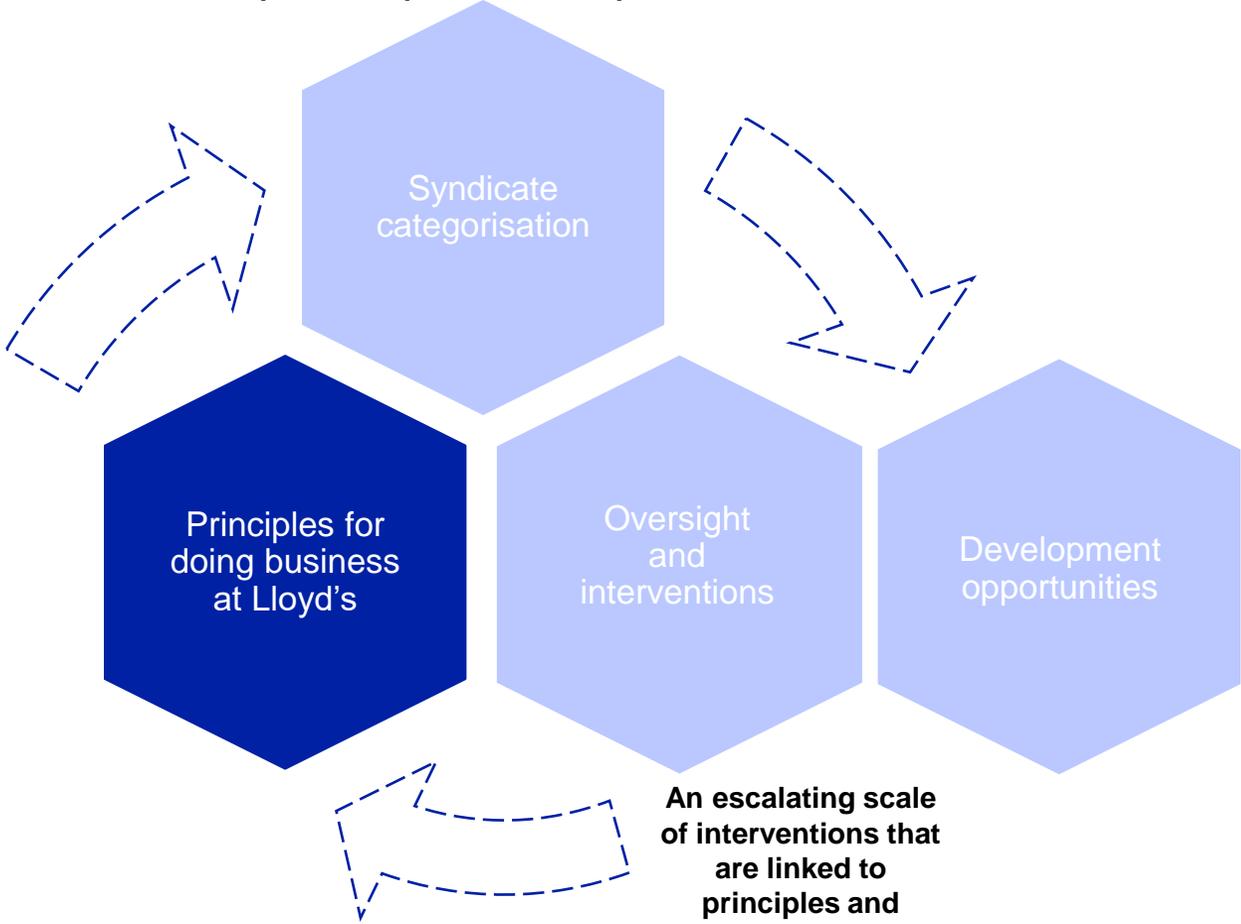
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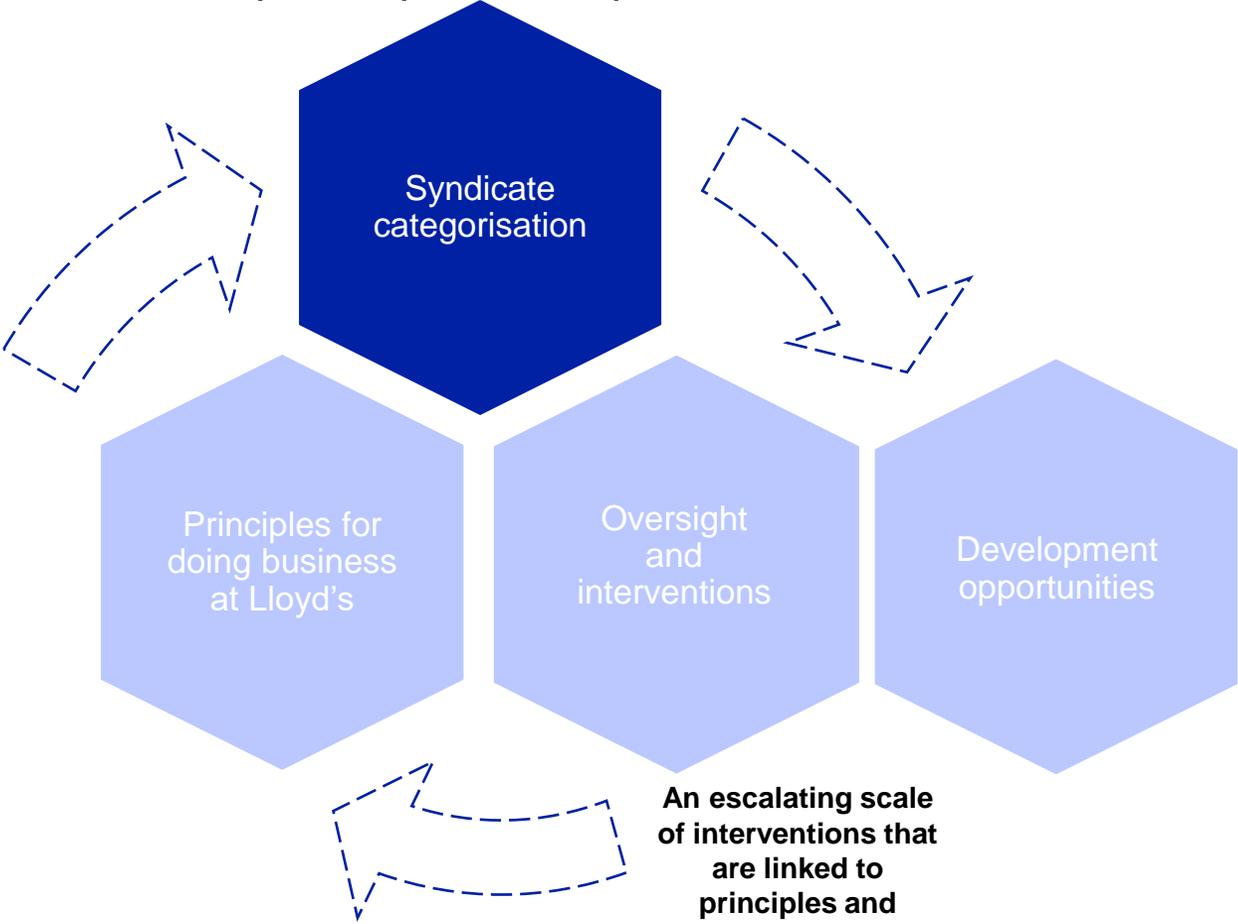
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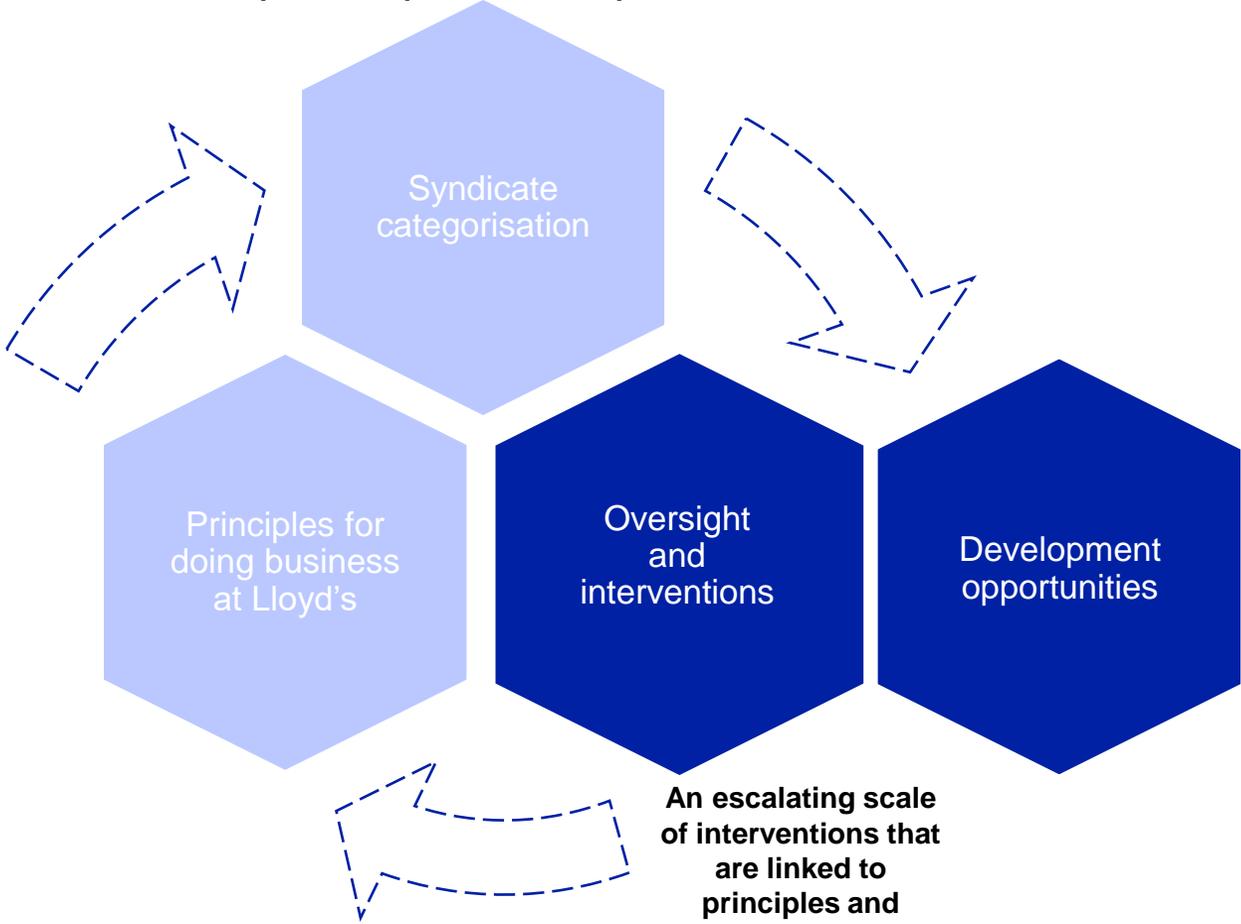
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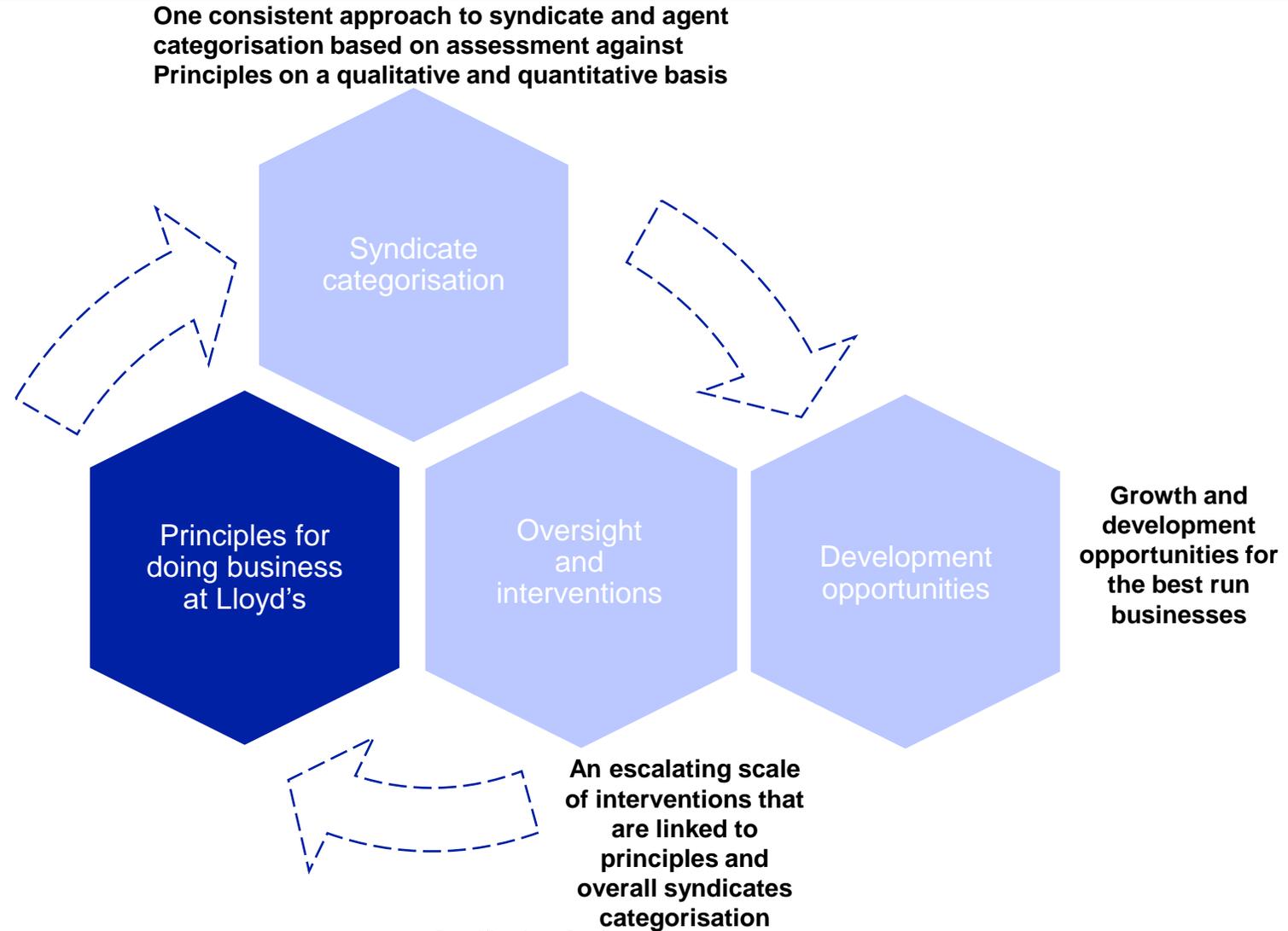


Growth and development opportunities for the best run businesses

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

Oversight Framework

The Lloyd's Principles



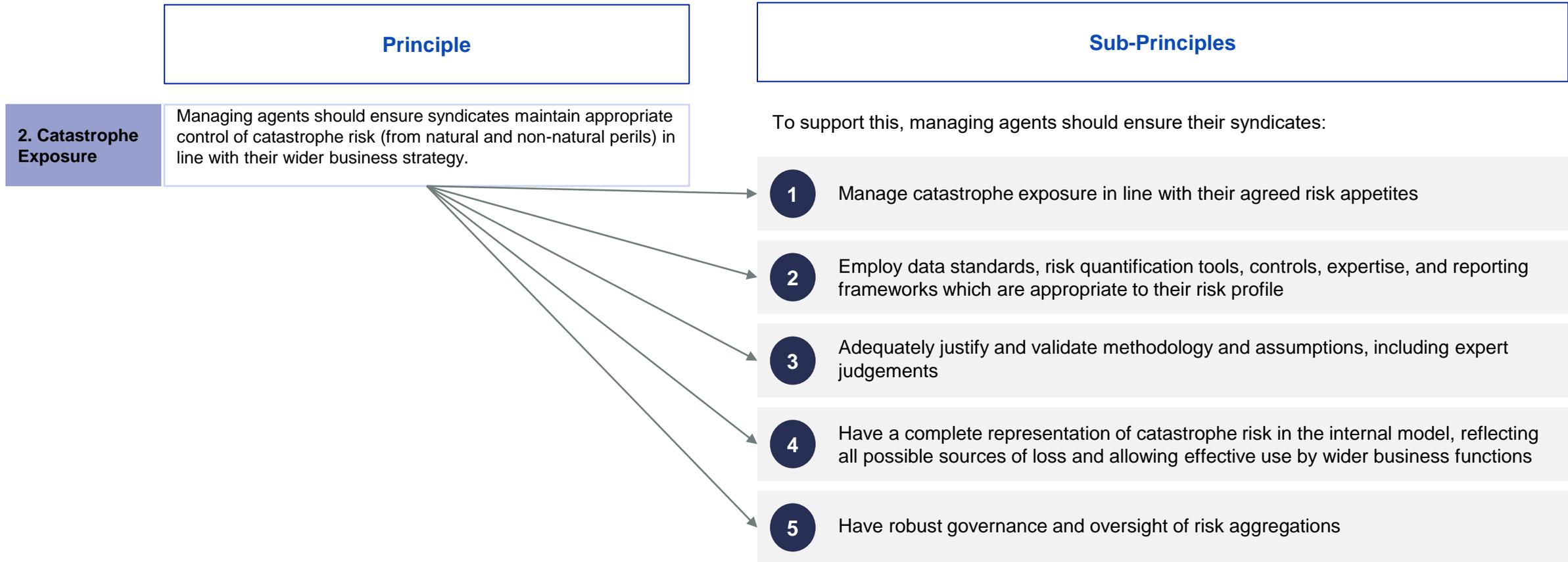
Oversight Framework

The 13 Lloyd's Principles

| | | | | | |
|-------------|--------------------------------------|--|-------------|--|--|
| PERFORMANCE | 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

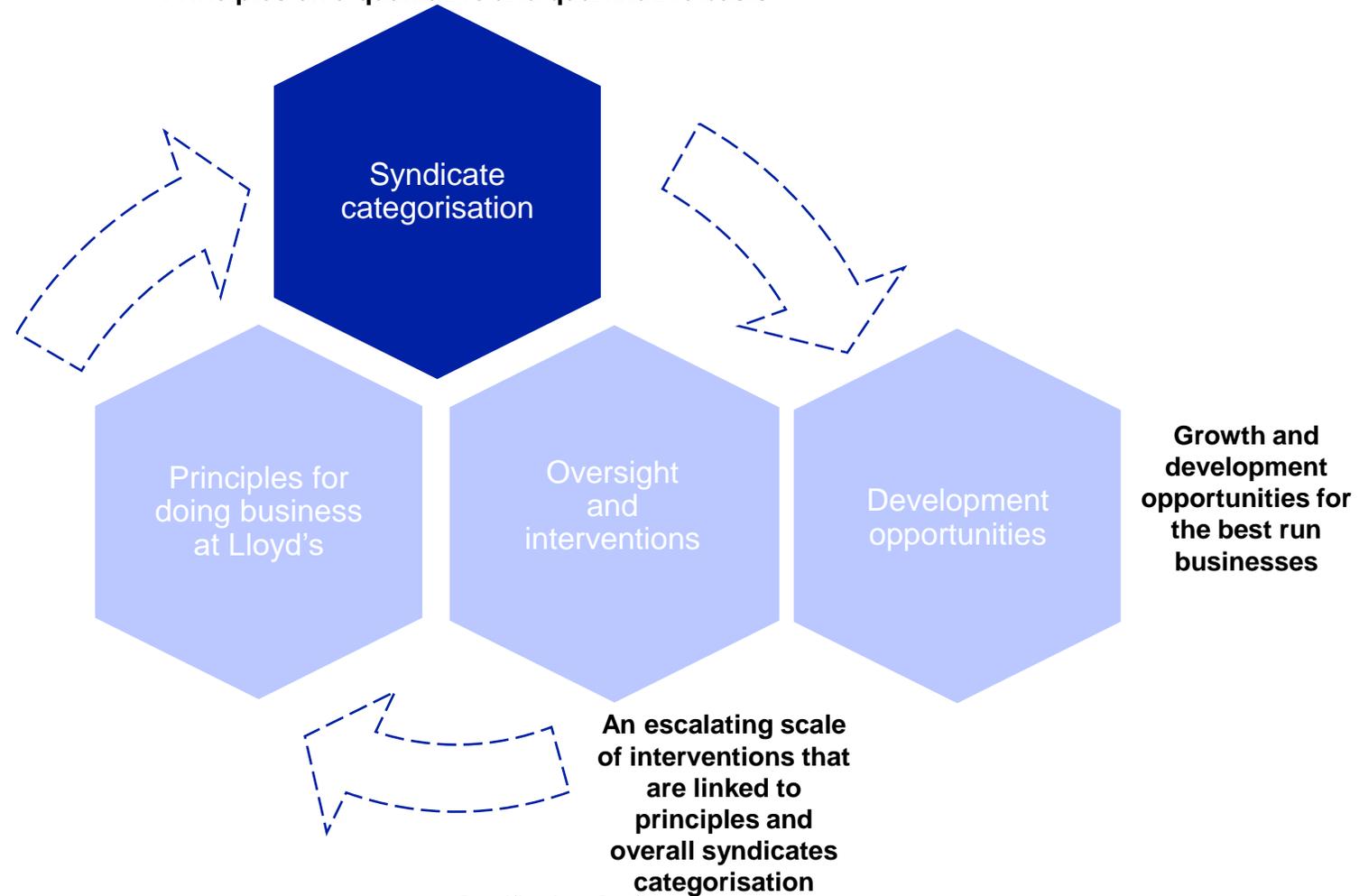
Levels of maturity – generic definitions

| 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 |

Oversight Framework

Syndicate categorisation

| Dimension Rating |
|------------------------------|
| Meets expectation |
| Marginally below expectation |
| Below expectation |
| Well below expectation |

| Oversight Dimensions | | Expected Maturity | Actual Maturity | Dimension Rating |
|----------------------|---|-------------------|-----------------|-------------------------------|
| Performance | Underwriting Profitability | Advanced | Intermediate | Below expectations |
| | Catastrophe Exposure | Established | Established | Meets expectations |
| | Outwards Reinsurance | Foundational | Foundational | Meets expectations |
| | Claims Management | Intermediate | Foundational | Marginally below expectations |
| | Customer Outcomes | Intermediate | Foundational | Marginally below expectations |
| | Reserving | Advanced | Advanced | Meets expectations |
| Solvency | Capital | Established | Foundational | Below expectations |
| | Investments | Established | Established | Meets expectations |
| | Liquidity | Foundational | Foundational | Meets expectations |
| Operational | Governance, Risk Management and Reporting | Established | Foundational | Below expectations |
| | Regulatory and Financial Crime | Intermediate | Intermediate | Meets expectations |
| | Operational Resilience | Foundational | Foundational | Meets expectations |
| | Culture | Foundational | Foundational | Meets expectations |

Oversight Framework

Syndicate categorisation

| Dimension Rating |
|------------------------------|
| Meets expectation |
| Marginally below expectation |
| Below expectation |
| Well below expectation |

| Oversight Dimensions | | Expected Maturity | Actual Maturity | Dimension Rating | 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 | |

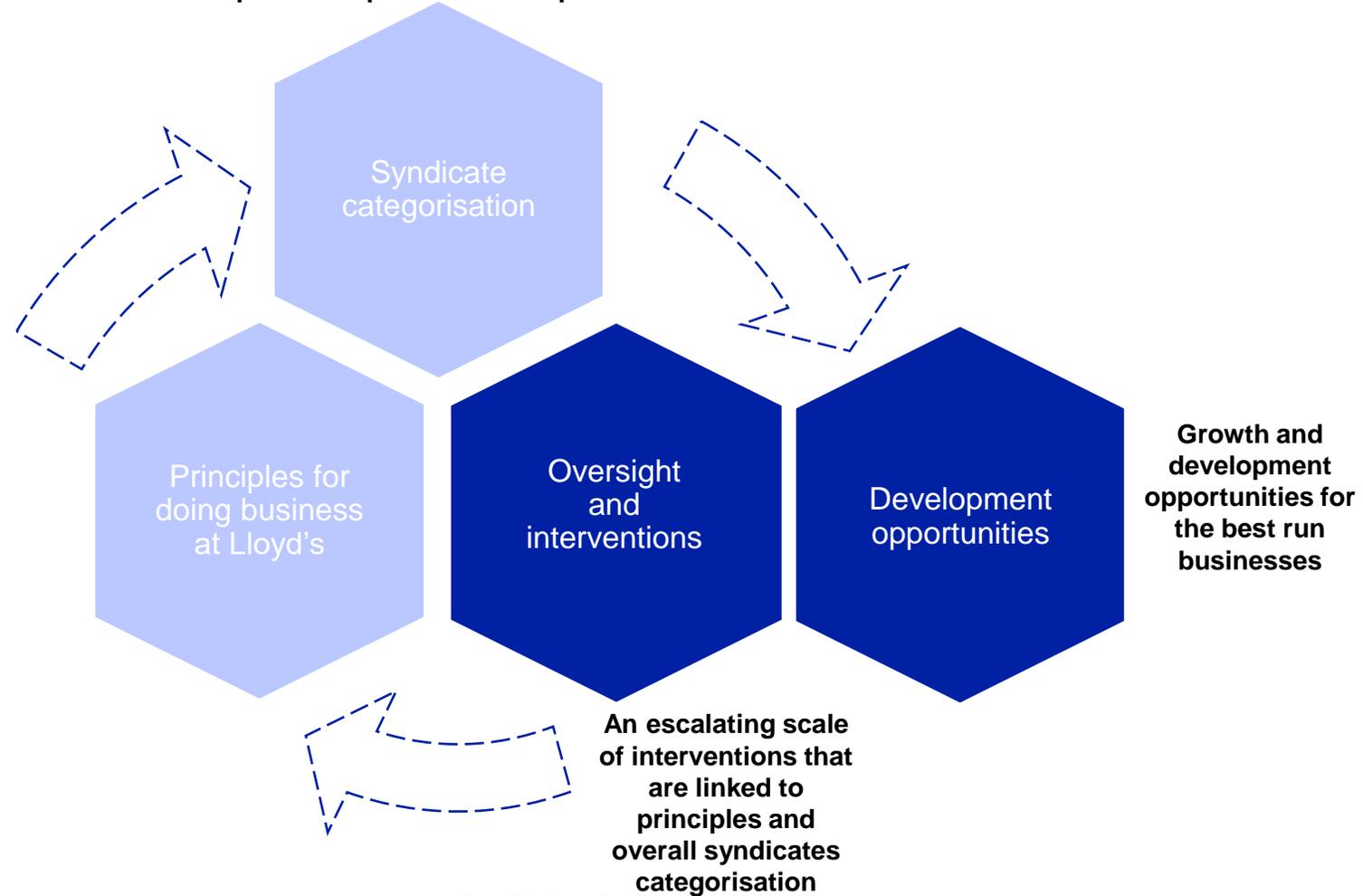
| |
|-----------------|
| OUTPERFORMING |
| GOOD |
| MODERATE |
| UNDERPERFORMING |
| UNACCEPTABLE |

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 catastrophe exposure?

Emma Watkins

Oversight Framework – Catastrophe exposure

| Oversight Objectives | | |
|---|--|--|
| 1. Lloyd's oversight supports the delivery of the Lloyd's strategy | 2. Lloyd's oversight is aligned with the Risk Appetite set by the Council | 3. Lloyd's oversight instils confidence in regulators and rating agencies |
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What risk are we managing?

- Aim of Lloyd's, and Exposure Management team, is to ensure syndicates are managing catastrophe risk effectively, within risk appetites
- Want to avoid any surprise market losses, and to avoid any individual syndicate posing undue risk to the Central Fund
- Considered what the key building blocks are in order to ensure risk is appropriately understood and managed – leads to five sub-principles
- The existing CROF components have been aggregated up and mapped to the sub-principles – all elements of CROF have been carried forward
- The Principles apply to management of both natural catastrophes and non-natural catastrophes

Managing agents should ensure syndicates maintain appropriate control of catastrophe risk (from natural and non-natural perils) in line with business strategy.

To support this, managing agents should ensure their syndicates:

- 1 Manage catastrophe exposure in line with their agreed risk appetites
- 2 Employ data standards, risk quantification tools, controls, expertise, and reporting frameworks which are appropriate to their risk profile
- 3 Adequately justify and validate methodology and assumptions, including expert judgements
- 4 Have a complete representation of catastrophe risk in the internal model, reflecting all possible sources of loss and allowing effective use by wider business functions
- 5 Have robust governance and oversight of risk aggregations

Oversight Framework – Catastrophe exposure

Mapping from existing CROF components

| Sub-Principles | CROF Maturity Components | Aggregating the CROF Components into 10 areas |
|--|--|--|
| 1 Manage catastrophe exposure in line with their agreed risk appetites. | <ul style="list-style-type: none"> Risk Appetite | <ul style="list-style-type: none"> Risk Appetite |
| 2 Employ data standards, risk quantification tools, controls, expertise, and reporting frameworks which are appropriate to their risk profile. | <ul style="list-style-type: none"> Data Technology Stress and scenario tests Exposure Controls Reporting Resourcing | <ul style="list-style-type: none"> Data and Tools Exposure Monitoring and Reporting (including SSTs) Resourcing |
| 3 Adequately justify and validate methodology and assumptions, including expert judgements. | <ul style="list-style-type: none"> View of Risk - Approach and calculation Use of expert judgement Model validation including sensitivity testing | <ul style="list-style-type: none"> Model methodology (incl. approach, calculation and expert judgement) Model validation |
| 4 Have a complete representation of catastrophe risk in the internal model, reflecting all possible sources of loss and allowing effective use by wider business functions | <ul style="list-style-type: none"> View of Risk – Completeness (EM and IM models) Capital modelling Post event processes Risk selection and pricing Portfolio management and optimisation Risk Transfer / Outwards RI Consistent model usage within the organization Governance around change management and planning (model change) | <ul style="list-style-type: none"> Model completeness Model change Model use and capital modelling |
| 5 Have robust governance and oversight of risk aggregations. | <ul style="list-style-type: none"> Role and oversight provided by the Board and Senior Management Internal and independent review | <ul style="list-style-type: none"> Governance and Oversight |

Oversight Framework – Catastrophe exposure

Defining expected maturity

| Oversight Objectives | | |
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| Dimension | Materiality measure | Low Foundational | Moderate Intermediate | High Established | Highest Advanced |
|--|---|------------------|--------------------------|--------------------------|------------------|
| Principle 2: Catastrophe exposure | <ul style="list-style-type: none"> - Level of Gross catastrophe risk (Gross WorldWide All Perils TVaR 1:200) - Importance of catastrophe risk to the Syndicate SCR (LCR Ultimate All LCM cat claims as a proportion of diversified ultimate SCR, multiplied by Net WorldWide All Perils TVaR 1:200) | Bottom quartile | 3 rd quartile | 2 nd quartile | Top quartile |

- **No change to materiality assessment – same approach used as under CROF**
- **In line with risk based approach, more time will be spent with the higher materiality syndicates**
- **Note – a separate measure of materiality will be used for non-nat cat**

| CATASTROPHE EXPOSURE | | | | |
|--|---|---|---|---|
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| | 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. |

Oversight Framework – Catastrophe exposure

How to assess performance against the Principles?

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Assessment against Principles will be through combination of qualitative and quantitative

1) Qualitative assessment

- **Baseline** - current CROF assessment has been mapped into Rio sub-principles
- The process is the same as with CROF – incremental and reflects any changes.
- **Self-assessments** – will be using these to highlight where there are differences and follow-up.
- **Documentation review / deep dives** - replacing MS reviews.

2) Quantitative assessment

- **Lagging indicators** (so only used to supplement the qualitative assessment)
- **Metrics:**
 - Reporting of actual losses against modelled curve
 - Reserving accuracy
- Will be used as indicators for further conversations

Oversight Framework – Catastrophe exposure

Interventions specific to catastrophe exposure

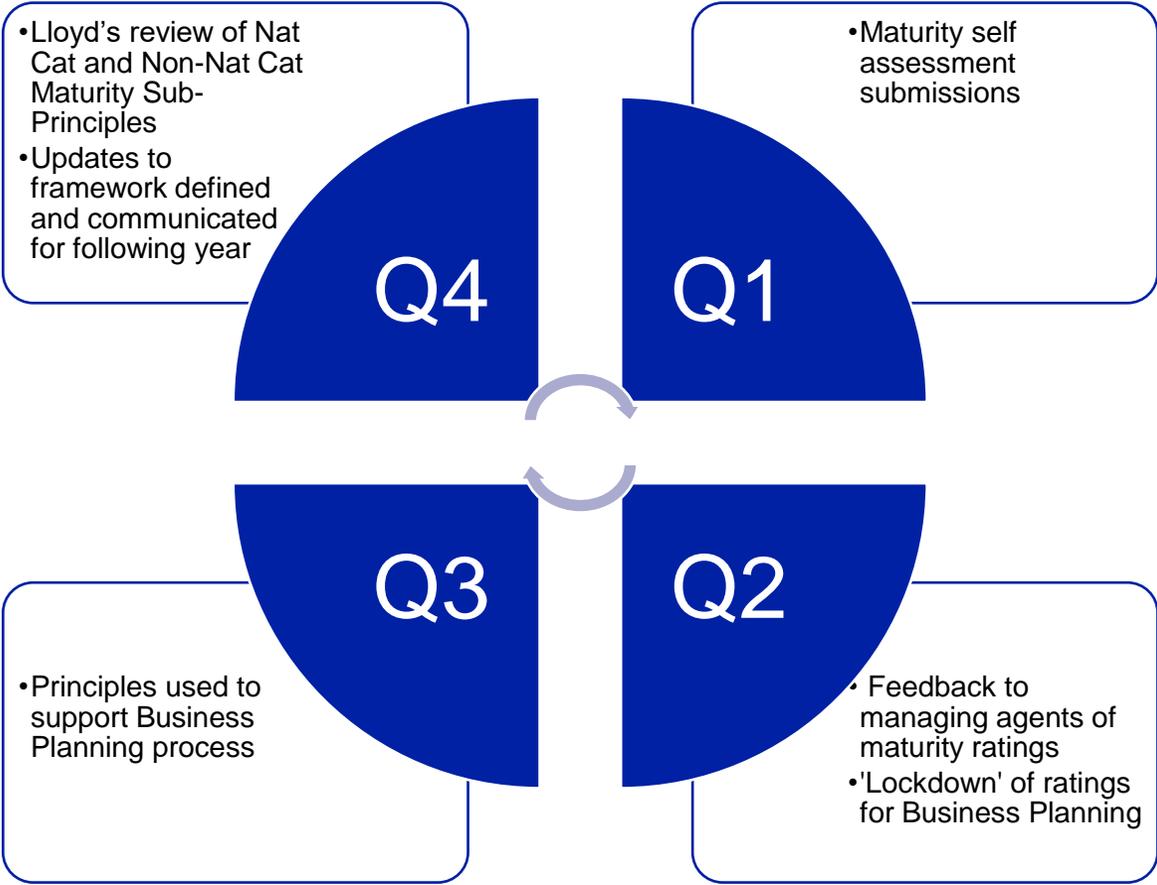
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| Dimension | Well below expectations | Below expectations | Marginally below expectations | Meeting expectations |
|---|---|--|--|---|
| SOLVENCY Catastrophe Exposure | <ul style="list-style-type: none"> Remove permission to underwrite cat exposed classes | <ul style="list-style-type: none"> Capital loads applied Restrict underwriting of cat exposed classes Remediation plan in place and approved by Lloyd's Requirement to undertake detailed Principles review (either internally, e.g. Internal Audit, or externally) Franchise Guidelines - no dispensation will be allowed No growth in LCM5 permitted | <ul style="list-style-type: none"> Capital loads applied Targeted remediation Additional reporting Attract a more penal capitalisation rate in terms of any LCM5 year-on-year growth | <ul style="list-style-type: none"> Franchise Guidelines dispensations permitted, with rationale Standard capitalisation rate in terms of any LCM5 year-on-year growth (but will of course be required to comply with overall CPG strategy and market messaging) |

Oversight Framework – Catastrophe exposure

Annual cycle of activity

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There will be continuous assessment of maturity under the sub-principles throughout the year, based on Lloyd's interactions with managing agents, syndicate returns and document review. For Business Planning, scores will be locked down in Q2.

Case studies:

Bringing the Framework to life

Emma Watkins

Case Study 1: Sub-Principle assessment

Sub-Principle 1: Risk Appetites

| CATASTROPHE EXPOSURE | |
|--|---|
| 1 Manage catastrophe exposure in line with their agreed risk appetites. | |
| Risk Appetites | |
| Foundational <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 | Intermediate <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. |
| Established <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. | Advanced <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. |



Perceived outcomes

Catastrophe risk appetite is clearly articulated at group level and cascaded down to syndicate / managing agent.

The catastrophe risk appetite is embedded in the underwriting process such that each deal is compared against appetite before a decision to commit. Forward-looking plans are updated whenever a deal is bound.

Catastrophe risk appetite is regularly reviewed to reflect change in market conditions.

How do we know this?

- Risk appetite framework
- Regular MI on exposure vs appetite
- Syndicate Business Discussions
- Board papers

Managing Agent rating

Expected maturity: **Established**

Assessed maturity: **Advanced**

Case Study 1: Sub-Principle assessment

Sub-Principle 2 – Data standards, risk quantification tools, controls, expertise, and reporting frameworks

| | | | | |
|------------|--|--|--|---|
| Resourcing | <ul style="list-style-type: none"> Staff responsible for exposure management have sufficient experience to perform their role. Resourcing is adequate to meet regulatory deadlines. Where operations are outsourced, responsibility for understanding the risk remains with the managing agent. | <ul style="list-style-type: none"> Staff responsible for exposure management demonstrate good understanding of models and their limitations; external resource is available to support longer-term or strategic projects where required | <ul style="list-style-type: none"> Staff responsible for exposure management are well resourced for existing and some future projects, and there is a wide mix of skills. Key person dependencies have been identified. | <ul style="list-style-type: none"> Staff responsible for exposure management are sufficiently and effectively resourced to allow research and development as well as efficient day-to-day activities; key person risks are mitigated, and succession planning considered such that changes in staffing do not impact delivery. |
|------------|--|--|--|---|



Perceived outcomes

Syndicate shows appropriate levels of resourcing for a syndicate with a high materiality to cat.

There is a large team of catastrophe modellers across multiple offices (some of which are group resources but can be leveraged by the managing agent). A detailed description of team roles and experience can be found in the Catastrophe Modelling Policy document.

Modellers tend to be embedded with the underwriting teams, and where appropriate, will be involved in renewal discussion with brokers. This allows modellers to develop a better understanding of the business written.

Although often dedicated to, and sitting alongside specific underwriting teams, the modellers report to the Head of Underwriting Risk who reports into the Chief Underwriting Officer.

The modelling team has an embedded IT development and support team consisting of highly skilled software developers.

Clearly defined roles and responsibilities across the individual teams

How do we know this?

- Lloyd's meet with range of people regularly to discuss EM issues
- Lloyd's returns always submitted on time and to a high standard – no evidence of key man issues

Managing Agent rating

Expected maturity: **Established**
 Assessment maturity: **Established**

Case Study 1: Sub-Principle assessment

Sub-Principle 4 – Model Completeness

4 Have a complete representation of catastrophe risk in the internal model, reflecting all possible sources of loss and allowing effective use by wider business functions.

| | Foundational | Intermediate | Established | Advanced |
|--------------------|---|---|---|---|
| Model completeness | <ul style="list-style-type: none"> Representation of catastrophe risk in the internal model is materially complete. Definition of 'materiality' is clearly articulated Methodology and assumptions meet Solvency II standards. View of catastrophe risk reflects current (and near-future, appropriate to the period of risk underwritten) climate conditions | <ul style="list-style-type: none"> Modelling of catastrophe risk in the internal model is materially complete. Adjustments or supplemental modelling are applied for key perils, with simpler approaches in other instances. Approaches are documented. Frequent review of appropriateness of methodologies, with resulting development | <ul style="list-style-type: none"> Modelling or adjustment takes place using exposure management data for all key perils to address internal model completeness, supported by robust justification (including of materiality). Capital implications considered in decision-making. Impacts of alternative representations of catastrophe risk are modelled before changes are made. | <ul style="list-style-type: none"> Comprehensive, forward-looking process to address data and internal model completeness. Regular review of modelled perils considering changing risk profile, emerging risks and developing issues. Longer-term changes to the risk landscape (including climate-related) are considered |



Perceived outcomes

Model completeness loading applied for minor component of UC EQ risk which has yet to be implemented but is being worked on and will be included in the future.

Various documents have been provided which outline the approach to model completeness.

Among this are model completeness deep dive and model completeness validation templates. These outline the framework and governance around the model completeness process.

There is also a document which explains the creation of non-modelled risk Event Loss Tables. A further document outlines adjustments made to ensure completeness.

In general there is a holistic, detailed and forward-looking approach to ensuring the View of Risk is as up to date and complete as possible.

How do we know this?

- Model completeness reviews
- Documentation and discussion

Managing Agent rating

Expected maturity: **Established**
 Assessment maturity: **Established**

Case Study 1: Rating

| Principle | | Expected Maturity | Assessed level of Maturity |
|---|--|--------------------|----------------------------|
| 2. Catastrophe Exposure Managing agents should ensure syndicates maintain appropriate control of catastrophe risk (from natural and non-natural perils) in line with business strategy. To support this, managing agents should ensure their syndicates: | | Established | Established |
| Sub Principle 1 | Manage catastrophe exposure in line with their agreed risk appetites | Established | Advanced |
| Sub Principle 2 | Employ data standards, risk quantification tools, controls, expertise, and reporting frameworks which are appropriate to their risk profile | Established | Established |
| Sub Principle 3 | Adequately justify and validate methodology and assumptions, including expert judgements | Established | Established |
| Sub Principle 4 | Have a complete representation of catastrophe risk in the internal model, reflecting all possible sources of loss and allowing effective use by wider business functions | Established | Established |
| Sub Principle 5 | Have robust governance and oversight of risk aggregations | Established | Established |

Overall rationale

Syndicate has strong capabilities and sophisticated processes, exhibiting best practice in some areas

Case Study 2: Sub-Principle assessment

Sub-Principle 1: Risk Appetites

| 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. |



Perceived outcomes

Cat exposure is not being managed in line with risk appetites

The measure for core capital is fixed at the start of the year and each of the proportional appetites is then translated into a fixed quantitative limit for the year. Risk limits are set based upon the proportion of core capital that the Board is willing to risk when making a related strategy or business plan decision. Risk tolerances are set 20% above the risk limit and represent the maximum risk threshold that the Board does not want to exceed. Board Proposed Risk Limits document outlines risk appetites at a more granular level. However no specific cat related appetites are included (although cat will be included in Underwriting Risk appetites). Lloyd's EM metrics are monitored against plan. More granular cat appetites cascaded down from the UW Risk level appetites would be required to improve the component and confidence score.

How do we know this?

- Risk appetite framework
- Regular MI on exposure vs appetite
- Syndicate Business Discussions
- Board papers
- ORSA

Managing Agent rating

Expected maturity: **Established**
 Assessment maturity: **Foundational**

Case Study 2: Sub-Principle assessment

Sub-Principle 2 – Data standards, risk quantification tools, controls, expertise, and reporting frameworks

| | | | | |
|------------|--|--|--|---|
| Resourcing | <ul style="list-style-type: none"> • Staff responsible for exposure management have sufficient experience to perform their role. • Resourcing is adequate to meet regulatory deadlines. • Where operations are outsourced, responsibility for understanding the risk remains with the managing agent. | <ul style="list-style-type: none"> • Staff responsible for exposure management demonstrate good understanding of models and their limitations; external resource is available to support longer-term or strategic projects where required | <ul style="list-style-type: none"> • Staff responsible for exposure management are well resourced for existing and some future projects, and there is a wide mix of skills. Key person dependencies have been identified. | <ul style="list-style-type: none"> • Staff responsible for exposure management are sufficiently and effectively resourced to allow research and development as well as efficient day-to-day activities; key person risks are mitigated, and succession planning considered such that changes in staffing do not impact delivery. |
|------------|--|--|--|---|



Perceived outcomes

Resourcing is not sufficient for a syndicate with high exposure to cat

Small actuarial team are also responsible for Exposure Management with no specific Exposure Management experience. Lack of understanding of catastrophe modelling concepts. Lack of dedicated resourcing resulting in crystallisation of issues e.g. no link between Exposure Management and Underwriting.

Clear key person dependency risk.

Actuarial team also dealing with a number of other issues at hand which further detracts from exposure management.

How do we know this?

- LCM reporting often delayed, with errors or with parts of the return missing, due to other priorities
- Discussions with team show lack of comprehensive understanding

Managing Agent rating

Expected maturity: **Established**
 Assessment maturity: **Below Foundational**

Case Study 2: Sub-Principle assessment

Sub-Principle 4 – Model Completeness

4 Have a complete representation of catastrophe risk in the internal model, reflecting all possible sources of loss and allowing effective use by wider business functions.

| | Foundational | Intermediate | Established | Advanced |
|--------------------|---|---|---|---|
| Model completeness | <ul style="list-style-type: none"> Representation of catastrophe risk in the internal model is materially complete. Definition of 'materiality' is clearly articulated Methodology and assumptions meet Solvency II standards. View of catastrophe risk reflects current (and near-future, appropriate to the period of risk underwritten) climate conditions | <ul style="list-style-type: none"> Modelling of catastrophe risk in the internal model is materially complete. Adjustments or supplemental modelling are applied for key perils, with simpler approaches in other instances. Approaches are documented. Frequent review of appropriateness of methodologies, with resulting development | <ul style="list-style-type: none"> Modelling or adjustment takes place using exposure management data for all key perils to address internal model completeness, supported by robust justification (including of materiality). Capital implications considered in decision-making. Impacts of alternative representations of catastrophe risk are modelled before changes are made. | <ul style="list-style-type: none"> Comprehensive, forward-looking process to address data and internal model completeness. Regular review of modelled perils considering changing risk profile, emerging risks and developing issues. Longer-term changes to the risk landscape (including climate-related) are considered |

Perceived outcomes

Non-modelled material sub-perils – earthquake driven tsunami, TCIP flood
 High level process in place to consider and address non-modelled risk
 Basic analysis of materiality of perils – able to evidence that the most material are complete. However, unable to demonstrate that the lower materiality perils are complete.

How do we know this?

- Model completeness reviews
- Documentation and discussion

Managing Agent rating

Expected maturity: **Established**
 Assessment maturity: **Foundational**



Case Study 2: Rating

| Principle | | Expected Maturity | Assessed level of Maturity |
|---|--|--------------------|----------------------------|
| 2. Catastrophe Exposure Managing agents should ensure syndicates maintain appropriate control of catastrophe risk (from natural and non-natural perils) in line with business strategy. To support this, managing agents should ensure their syndicates: | | Established | Foundational |
| Sub Principle 1 | Manage catastrophe exposure in line with their agreed risk appetites | Established | Foundational |
| Sub Principle 2 | Employ data standards, risk quantification tools, controls, expertise, and reporting frameworks which are appropriate to their risk profile | Established | Below Foundational |
| Sub Principle 3 | Adequately justify and validate methodology and assumptions, including expert judgements | Established | Intermediate |
| Sub Principle 4 | Have a complete representation of catastrophe risk in the internal model, reflecting all possible sources of loss and allowing effective use by wider business functions | Established | Foundational |
| Sub Principle 5 | Have robust governance and oversight of risk aggregations | Established | Foundational |

Overall rationale

Syndicate has basic, core capabilities mostly in place but requires urgent remediation in order to meet expectations

Self-assessment submissions

Lyndsay Deeves

Principles self-assessments

Moving from prescription to outcomes focussed

Rules based approach “Bottom up”

- Have we checked all the requirements?
- Do we have the required processes/ policies/ procedures in place?
- Have we checked the performance of our controls through a control assessment?
- Have we done an audit of our controls?
- Do we have the required documentation?

Outcomes based approach “Top down”

- How successful have we been in achieving the outcome?
- Are there times when we have not been successful? What should/ could we have done differently?
- How are we satisfied that we are achieving the outcome in a way that's appropriate to our business?
- Do we know what our peers are doing?
- What can we conclude about the results of second and third line independent reviews?
- What performance data do we have to support our assessment?
- Based on our assessment what actions do we need to take?

What are the key differences between the “Attestation” and “self-assessment”?

Self-assessment, not Attestation

Submitting on a “best efforts” basis.

Formal Board sign off not required.

However, we would expect discussion at the Board

Working level

We understand Principles will not be fully embedded.

Self-assessments will be an initial tool for your teams.

Boards should step back to consider if your teams have embraced the move away from “tickboxes” to an outcomes based approach

Best efforts basis

Will highlight any gaps in understanding the Principles.

Will provide a basis for discussion with Lloyd's to “compare and contrast” managing agent vs Lloyd's views against the Principles

Lloyd's Principles for Doing Business - Self-Assessment

Full guidance on the Principles and the Self-Assessment process is available on the [Lloyds.com Market Oversight webpage via this link](#)

| | |
|-------------------------------|--|
| Managing Agent | |
| Syndicate Number | |
| Date shared with Board | |

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

| Principle | Expected Maturity | Managing Agent Assessment of Maturity | Commentary |
|---|-------------------|---------------------------------------|--|
| | | | To include: - Rationale, where expected maturity level is met - Commentary, where expected maturity is not met, including detail on gaps, planned remedial actions, timescales and owners - Questions for clarification with Lloyd's, for example to check the meaning or interpretation of the Principles guidance |
| 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. To support this, managing agents should ensure their syndicates: | Established | | |
| Sub Principle 1: Have a clear and robust medium to long term business strategy with clearly defined and understood underwriting risk appetite | Established | | |
| Sub Principle 2: Develop and execute annual business plans which align with their business strategy | Established | | |
| Sub Principle 3: Have underwriting controls, monitoring and reporting in place which are appropriate to their risk profile in order to deliver the agreed business plan | Established | | |
| Sub Principle 4: Manage and control expenses in order to ensure they are appropriate for the business written | Established | | |
| Sub Principle 5: Have robust portfolio management in place in order to deliver the agreed business plan | Established | | |
| Sub Principle 6: Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit | Established | | |
| Sub Principle 7: Have robust governance processes in place to support underwriting decision making, with underwriting assumptions clearly articulated and understood by stakeholders supported by proactive involvement and sufficient challenge by the wider functions | Established | | |
| Sub Principle 8: Have processes in place to support underwriting decision making in relation to ESG integration into underwriting | Established | | |
| 2. Catastrophe Exposure Managing agents should ensure syndicates maintain appropriate control of catastrophe risk (from natural and non-natural perils) in line with business strategy. To support this, managing agents should ensure their syndicates: | Established | | |
| Sub Principle 1: Manage catastrophe exposure in line with their agreed risk appetites | Established | | |
| Sub Principle 2: Employ data standards, risk quantification tools, controls, expertise, and reporting frameworks which are appropriate to their risk profile | Established | | |
| Sub Principle 3: Adequately justify and validate methodology and assumptions, including expert judgements | Established | | |
| Sub Principle 4: Have a complete representation of catastrophe risk in the internal model, reflecting all possible sources of loss and allowing effective use by wider | Established | | |

Self-assessment Principles rating

Principle 13: Culture

| Principle | | Expected Maturity | Managing Agent Assessment of Maturity | Commentary |
|---|---|---------------------|---------------------------------------|---|
| | | | | To include: - Rationale, where expected maturity level is met - Commentary, where expected maturity is not met, including detail on gaps, planned remedial actions, timescales and owners - Questions for clarification with Lloyd's, for example to check the meaning or interpretation of the Principles guidance. |
| 13. Culture Managing agents should be inclusive, creating a diverse and high-performance culture. | | FOUNDATIONAL | BELOW FOUNDATIONAL | Overall Culture is currently Below Foundational. Plans are in place to address the gaps, starting with data, and strengthening how speaking up is managed. The Culture and Inclusion Advisory Group will take a lead role in reviewing firm culture and developing a culture plan, as a pillar of our strategy. |
| Sub Principle 1 | Demonstrate leadership focus on fostering an inclusive, high-performance culture | Foundational | Foundational | A Culture and Inclusion Advisory Group is being set up, led by Member of ExCo, who will undertake a culture review in 2022 and develop a culture plan, involving employees. The Advisory Group will report to the Board on progress |
| Sub Principle 2 | Ensure behaviour expectations are clear and there is zero tolerance for inappropriate behaviour | Foundational | Foundational | In Q4 2021 the code of conduct, which outlines behavioural expectations was communicated to all employees. It is also included in employee induction and forms part of annual mandatory training, along with mandatory diversity and inclusion training for all employees. |
| Sub Principle 3 | Encourage speaking up, ensuring there are appropriate tools for employees to do so, and the tone is set from the top | Foundational | Below Foundational | In 2021 a grievance related to sexual harassment was not handled well, resulting in the victim leaving the organisation. A review of how we manage grievances was undertaken by a law firm, who have provided recommendations that we started to implement in Q3 2021 which is ongoing. The case with the individual has been settled, with the perpetrator dismissed. We have run training for all employees and managers on how to raise concerns and how to respond when these matters are raised. We expect employee feedback on confidence to speak up and that management take concerns seriously to have improved in upcoming employee surveys |
| Sub Principle 4 | Ensure diverse representation within their workforce and their leadership population. Be inclusive in how they hire and retain talent and ensure they reflect society and their customers | Foundational | Foundational | % women in leadership is 22%, and we are quartile 2 against Lloyd's market. Representation of ethnic minorities is unknown as we do not yet collect this data, but indications are it is also low. Our actions start with collecting data in H1 2022, which will be reviewed by the Culture and Inclusion Advisory Group to develop an action plan to improve diversity and inclusion. |
| Sub Principle 5 | Understand their employee population, collect appropriate data and take action to create an inclusive employee experience | Foundational | Foundational | Currently only gender data is collected. No other diversity data. HR system being upgraded and diversity data campaign to be run in H1 to collect broad diversity data including ethnicity, disability, sexual orientation, age . |

Self-assessment Principles rating

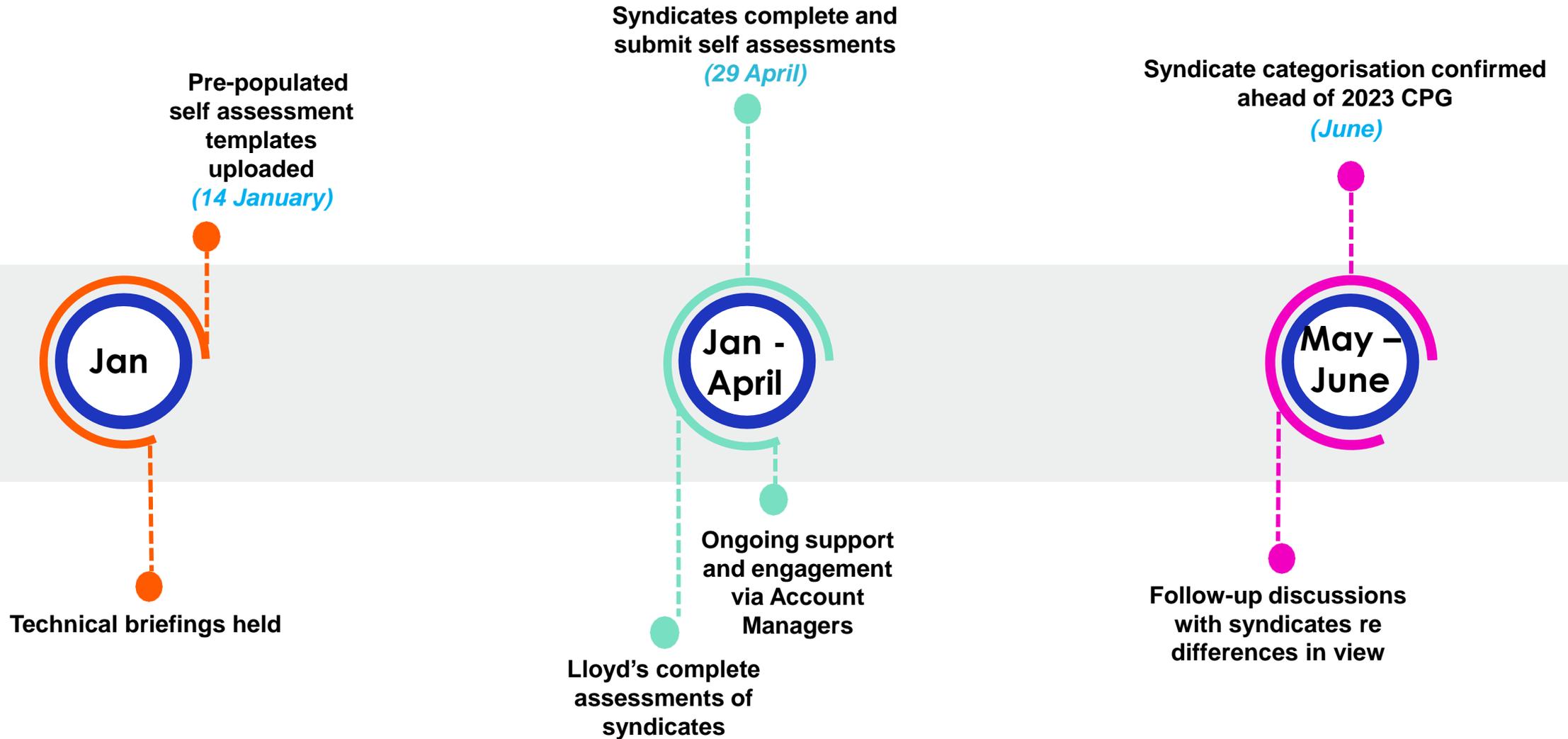
Principle 10: Governance, Risk Management and Reporting

Expected Maturity: Advanced
Actual Maturity: Advanced

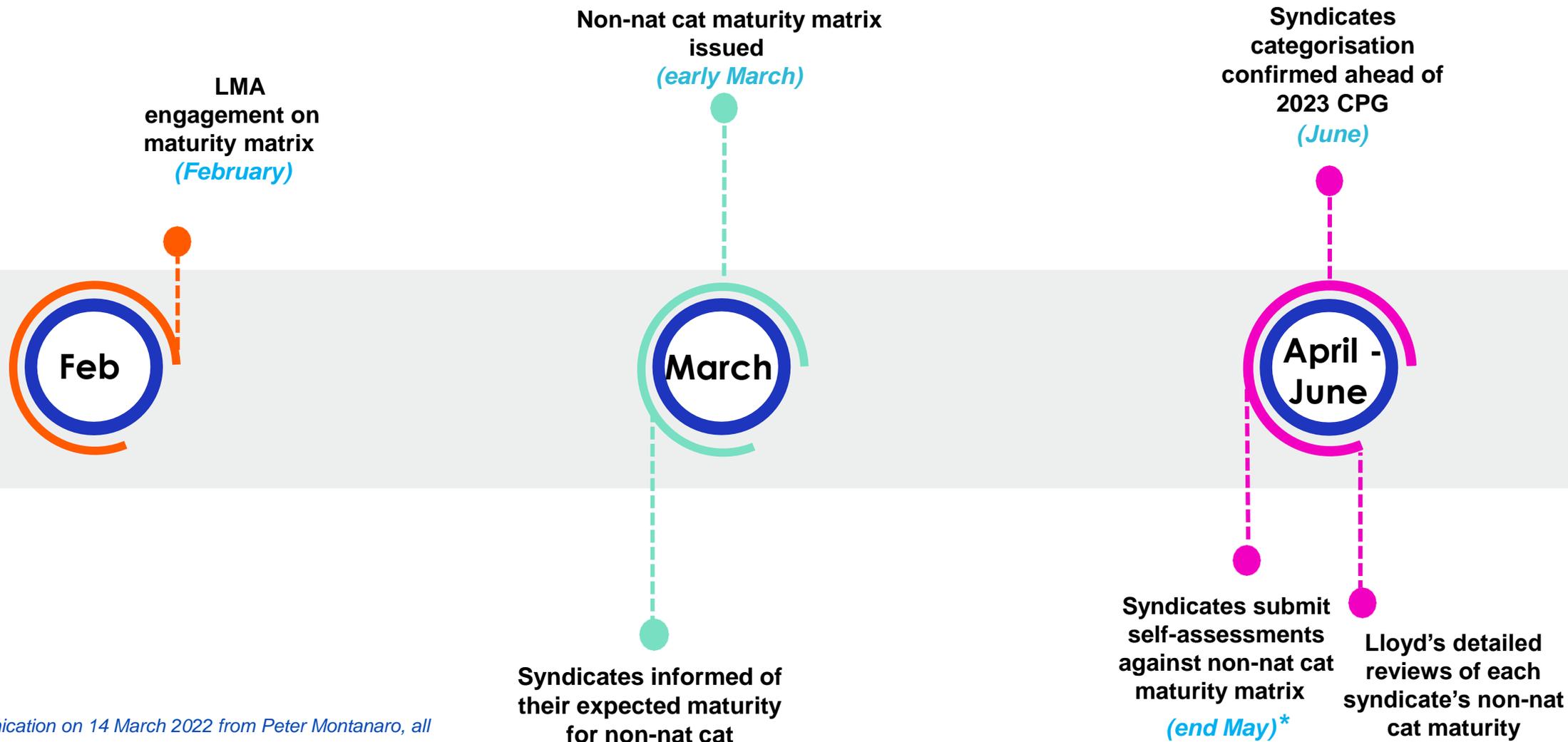
| Principle | | Expected Maturity | Agent assessment of Maturity | Commentary |
|---|--|-------------------|------------------------------|--|
| | | | | To include: - Rationale, where expected maturity level is met - Commentary, where expected maturity is not met, including detail on gaps, planned remedial actions, timescales and owners - Questions for clarification with Lloyd's, for example to check the meaning or interpretation of the Principles guidance. |
| 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 | | ADVANCED | ADVANCED | As evidenced below, we have an appropriate and effective governance structure in place to ensure sound management of the business and compliance with all relevant requirements. A strong culture of good governance, effective risk management and independent challenge permeates throughout the business. The strategy and view from the top flows through all functions to enable their aims to align to the overall objectives of the business. Data, qualitative assessment and reporting is of high-quality, meaning decisions are built on strong foundations. |
| Sub Principle 1 | Manage a suitable board and committee structure which enables well informed, timely and accountable decision making | Advanced | Advanced | We have a well established and effective Board and committee structure, with track record of acting on independent advice and challenge. Strategy is routinely discussed and updated with input and ownership across the business. The effectiveness of Board and committees is regularly reviewed including periodic use of independent third parties. Our committee structure ensures that all business functions have appropriate Board or executive level committees with suitable reporting lines into the Board. |
| Sub Principle 2 | Operate a strong risk and control environment which allows for appropriate challenge | Advanced | Advanced | Risk culture is well embedded and demonstrated throughout the business. Risk Management views are clearly sought and help to drive decision making. All functions take active ownership for risk management activities and contribute to a continuous improvement process. This is lead top-down. Risk appetite is set by the Board and cascades throughout all risk metrics and monitoring activities, ensuring a link between functional level risk strategy/activities and the agreed appetites of the Board. A forward looking view of risk is considered highly important for how we assess, manage and discuss risk. |
| Sub Principle 3 | Maintain appropriate oversight of operational processes for effective management of the business | Advanced | Advanced | The Board has regular sight of KPI reporting on key operational processes and resourcing. This is routinely challenged and the KPIs and SLAs are reviewed and changed where necessary. We are confident in the overall operational infrastructure and efficacy, through the assurance as evidenced by the ongoing cycle of internal audits with timely follow-up of findings. |
| Sub Principle 4 | Employ and develop people with appropriate skillsets and ensure the business is appropriately resourced | Advanced | Advanced | We take development seriously with regular review of succession planning. Training, coaching and mentoring is actively provided to those identified as future leaders or key function holders. Staff engagement survey has consistently high scores for employee training and development. We promote an open and inclusive culture with a track record of acting on employee ideas. |
| Sub Principle 5 | Ensure decision making is supported by appropriate data and qualitative assessment | Advanced | Advanced | Information presented to the Board is consistent, accessible and highly informative. The manner in which information is presented is under a constant cycle of review and development. Complex data supports analyses and is presented in a format which supports effective decision making. |
| Sub Principle 6 | Maintain reporting, including all financial reporting, of a high quality and submit all reports in a timely, accurate and complete manner to Lloyd's and to applicable regulators. | Advanced | Advanced | All reporting was submitted to Lloyd's on time with a high accuracy. This has been verified by an internal monitoring process. |

Next steps

Next Steps and Timeline (Nat cat)



Next Steps and Timeline (Non-nat cat)



**As per the communication on 14 March 2022 from Peter Montanaro, all syndicates are requested to return their non-nat cat assessment by the end of April, in line with all other Principles. If this is an issue for any syndicate please get in touch with the Exposure Management team*

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**
 - Speak to your Account Manager if you have any questions
- **Conduct the self-assessment – be open, transparent and thorough**
 - Guidance and templates are now on SecureShare
 - Oversight Framework team available to answer any questions
- **Consider what actions can be taken to close any gaps before mid-year**
- **Questions on the new framework should be directed to your Account Manager or oversight.framework@lloyds.com in the first instance**

Do use the support available from Lloyd's!

Q&A
