

# **Project Rio Technical Briefing Sessions**

## **Underwriting Profitability**

**27 January 2022**

**Lyndsay Deeves and Clive Rutterford**

# 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 Underwriting Profitability?	20 mins 20 mins
2. Case studies – bringing the framework to life	20 mins
3. Self Assessments	5 mins
4. Next steps	5 mins
5. Q&A	20 mins

# Oversight Framework:

## *Overview of broader framework*

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Lyndsay Deeves

*Pre-recorded*

# Oversight Framework

Focussing on what matters

**Providing the best run syndicates the space to grow, whilst ensuring appropriate and proportionate oversight across businesses performing poorly against Lloyd's financial and non-financial expectations**

Oversight Objectives		
1. Lloyd's oversight supports the delivery of the Lloyd's strategy	2. Lloyd's oversight is aligned with the Risk Appetite set by the Council	3. Lloyd's oversight instils confidence in regulators and rating agencies
4. Lloyd's oversight creates the conditions for good business to thrive	5. Lloyd's oversight is decisive and impactful for substandard managing agents	6. Lloyd's places primary responsibility for oversight on managing agents' boards and management
7. Lloyd's oversight is risk-based and proportionate	8. Lloyd's oversight is holistic and joined up	9. Lloyd's oversight is objective and data driven

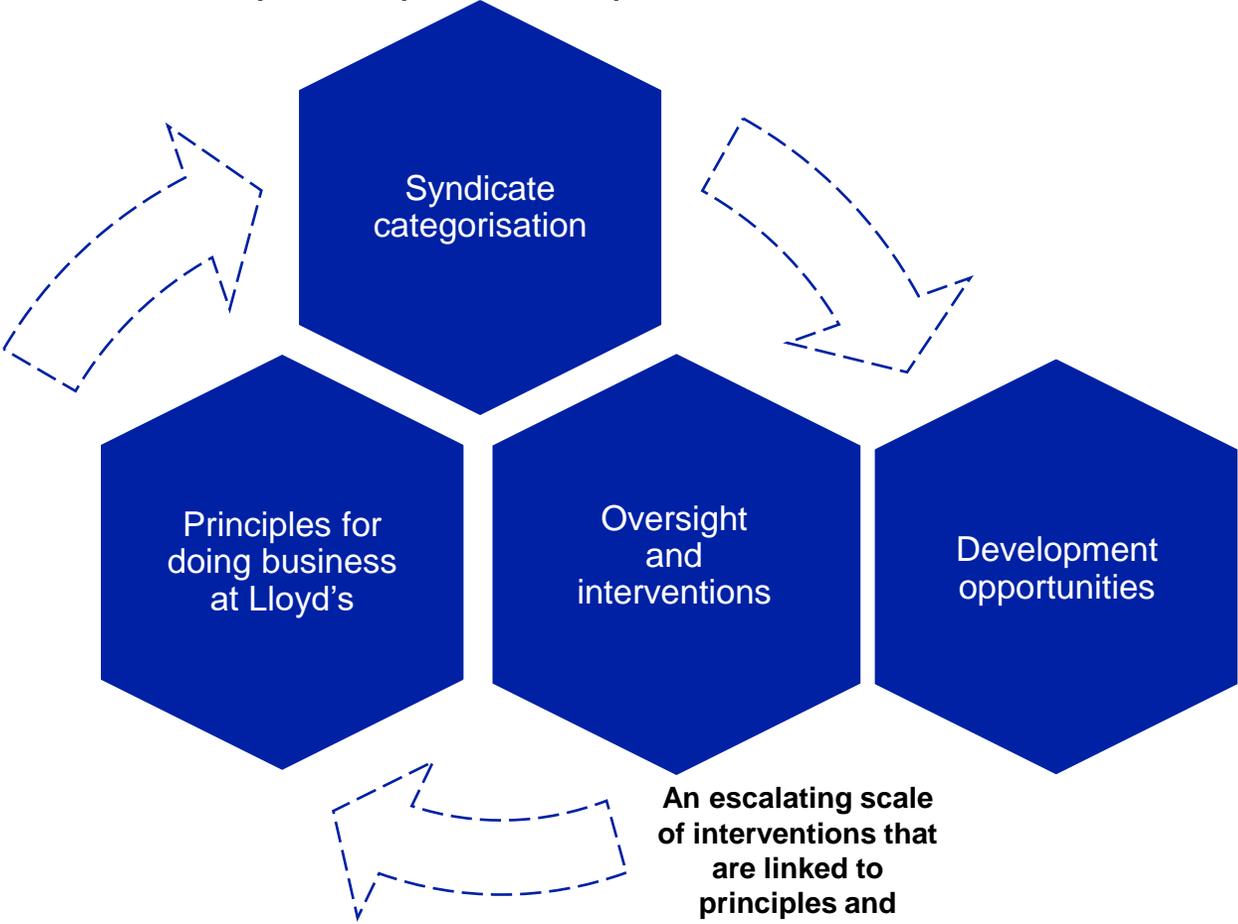
# Oversight Framework

Three interlinking elements that work together to support more differentiated and impactful oversight

Principles defined across all oversight areas

PERFORMANCE	1. Underwriting Profitability
	2. Catastrophe Exposure
	3. Outwards Reinsurance
	4. Claims Management
	5. Customer Outcomes
	6. Reserving
SOLVENCY	7. Capital
	8. Investment
	9. Liquidity
OPERATIONAL	10. Governance, Risk Management and Reporting
	11. Regulatory and Financial Crime
	12. Operational resilience
	13. Culture

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



Growth and development opportunities for the best run businesses

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

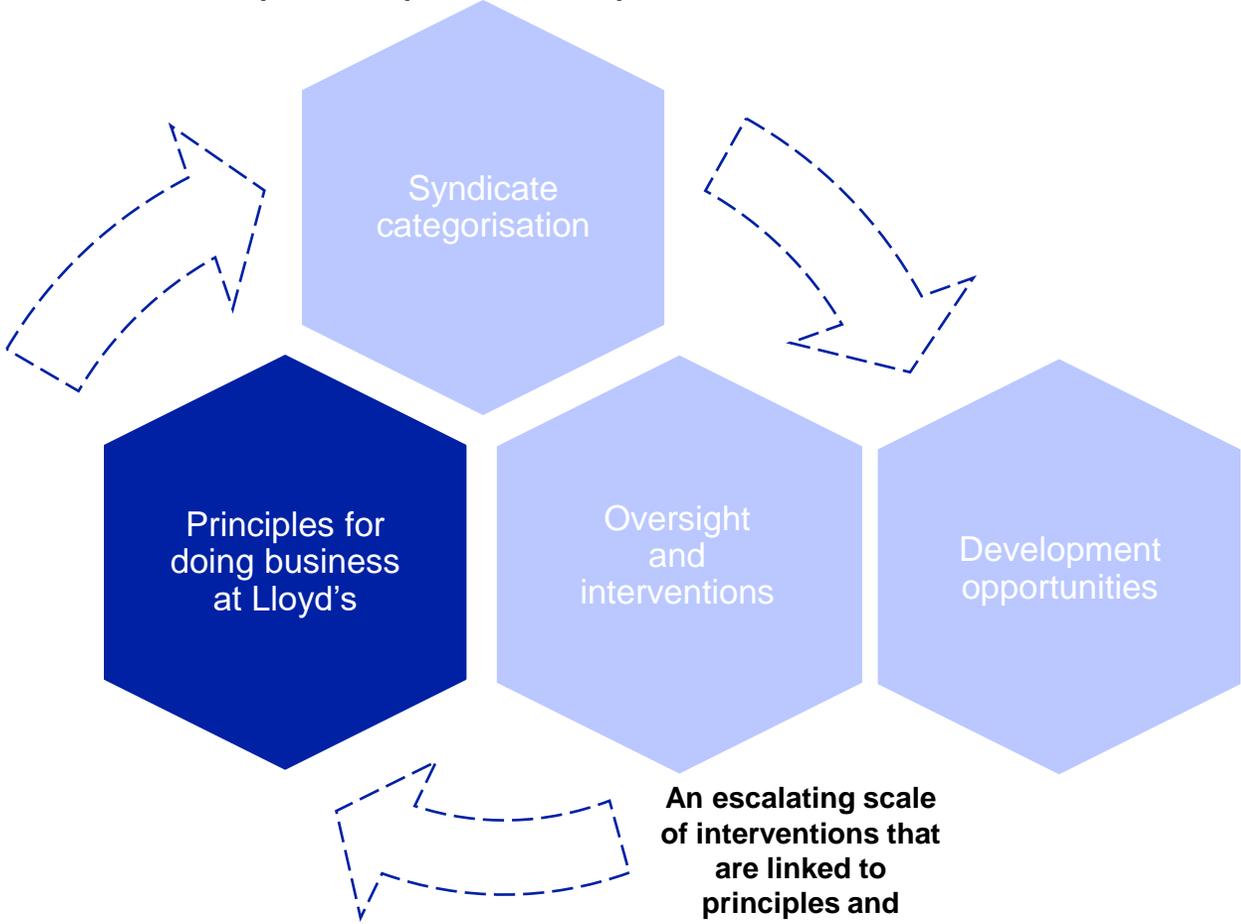
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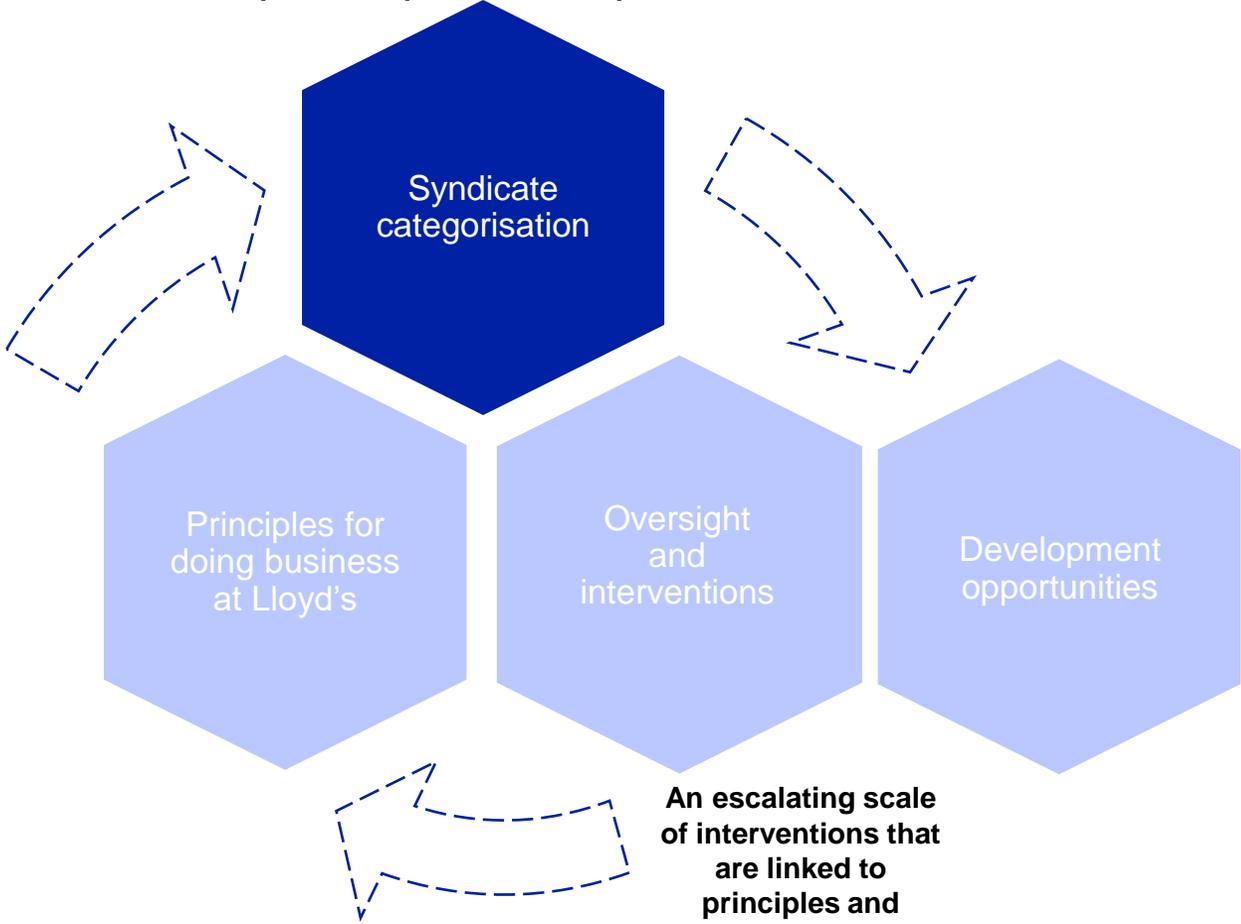
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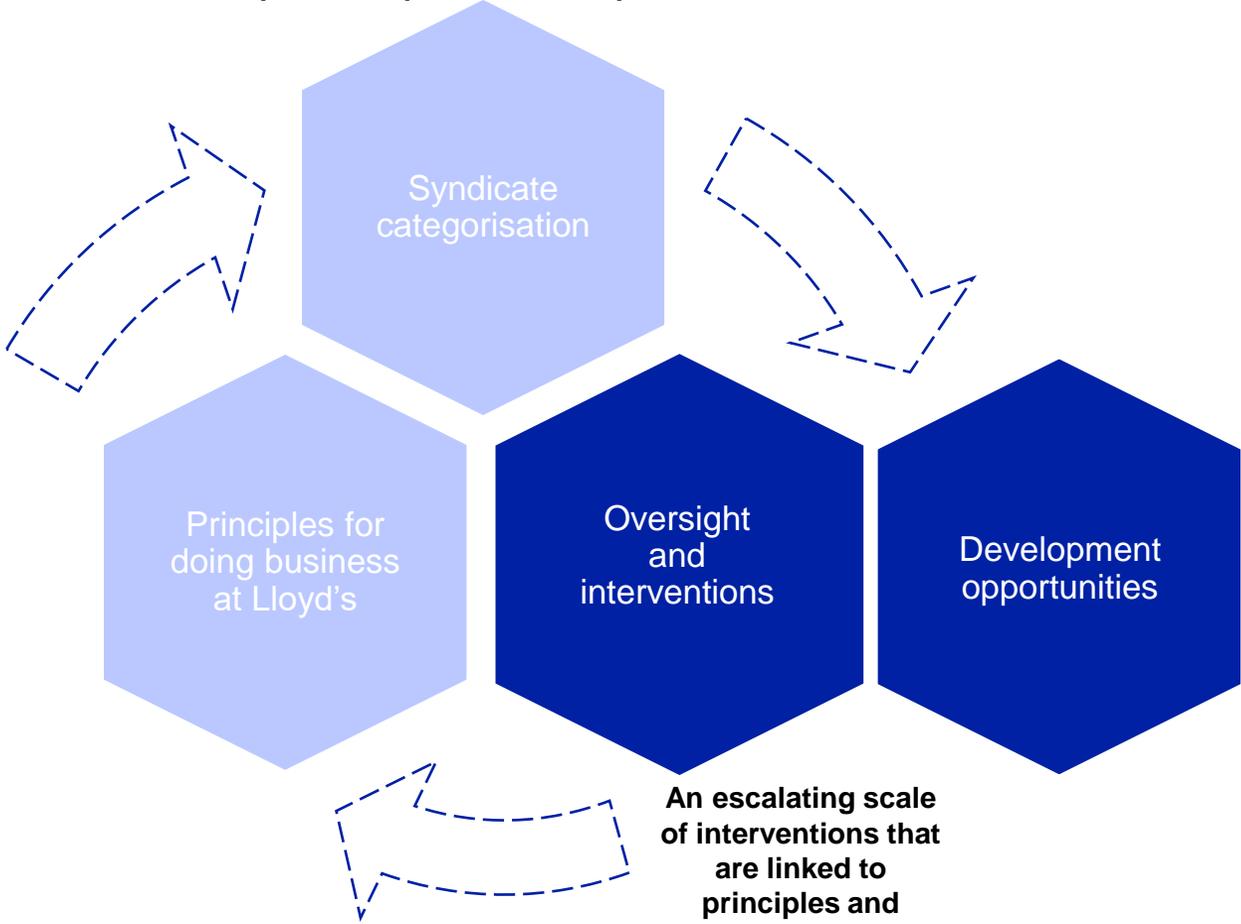
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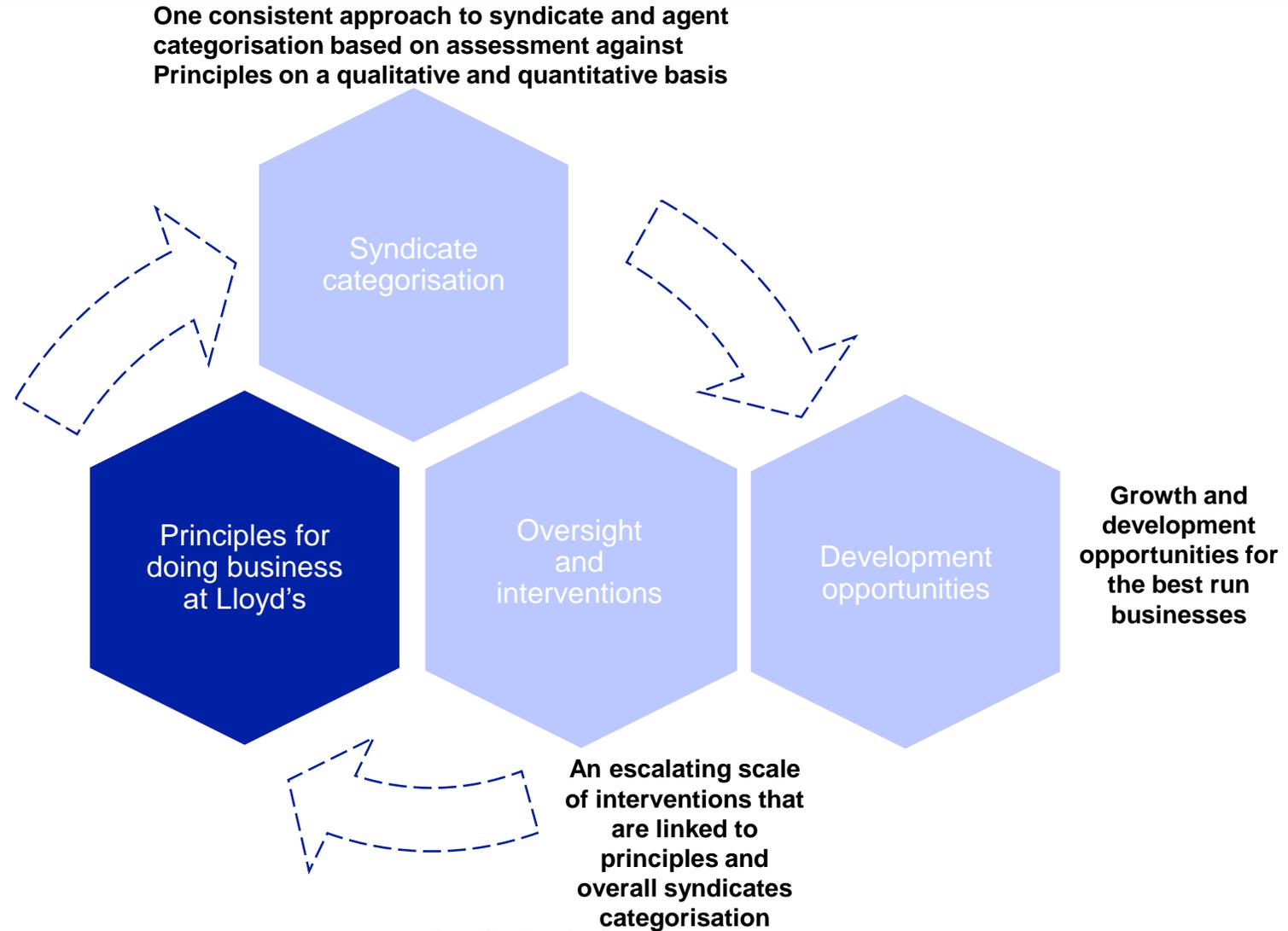


Growth and development opportunities for the best run businesses

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

# Oversight Framework

## The Lloyd's Principles



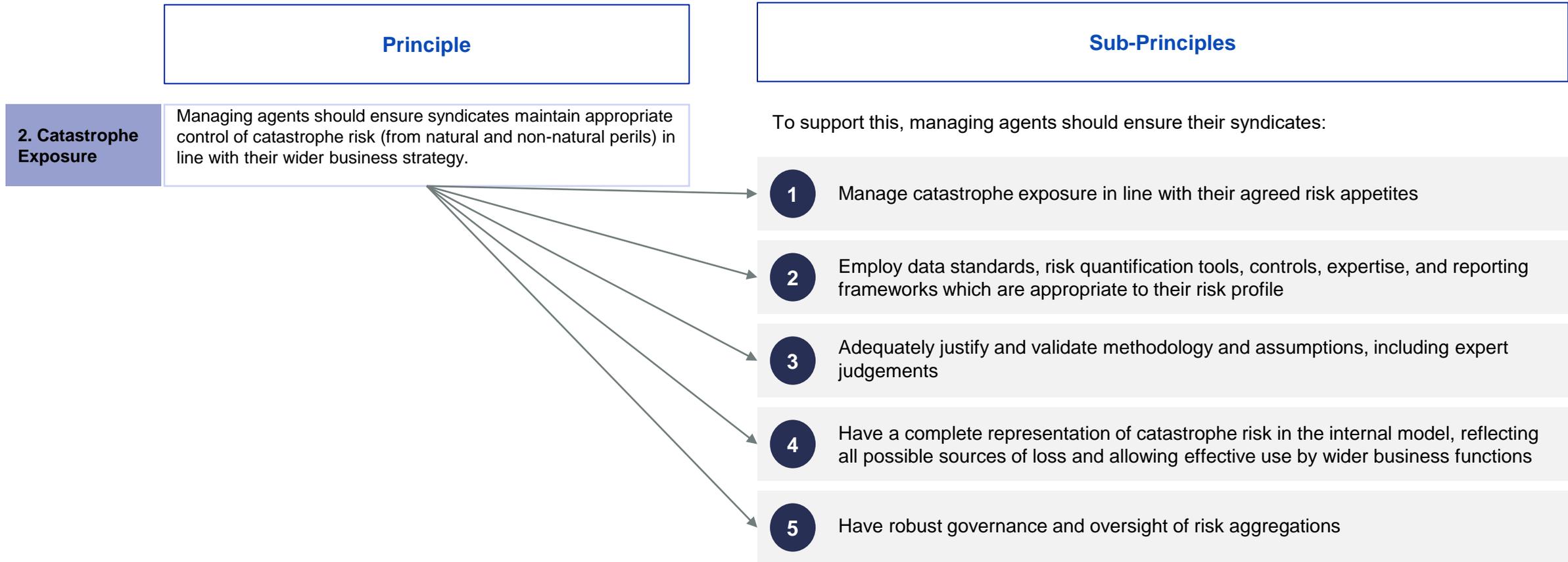
# Oversight Framework

## The 13 Lloyd's Principles

PERFORMANCE	<b>1. Underwriting Profitability</b>	Managing agents should produce and execute syndicate business plans which are logical, realistic and achievable, and ensure the delivery of a sustainable profit including expense management.	SOLVENCY	<b>7. Capital</b>	Managing agents should ensure syndicates' Solvency Capital Requirement (SCR) appropriately reflects their risk profile and is calculated using a Solvency II compliant internal model.
	<b>2. Catastrophe Exposure</b>	Managing agents should ensure syndicates maintain appropriate control of catastrophe risk (from natural and non-natural perils) in line with their wider business strategy.		<b>8. Investment</b>	Managing agents should ensure syndicate investment risk is effectively controlled, informed by wider business strategy and adheres to the Prudent Person Principle (PPP) requirements.
	<b>3. Outwards Reinsurance</b>	Managing agents should define and execute syndicate outwards reinsurance strategy and purchasing plans which effectively support the wider syndicate business strategy and objectives.		<b>9. Liquidity</b>	Managing agents should ensure syndicates have contractual access to sufficient liquidity in order to withstand a severe liquidity event (defined by Lloyd's), underpinned by a robust liquidity risk management framework.
	<b>4. Claims Management</b>	Managing agents should ensure that they have a claims commitment in place which is designed to deliver a high-quality claims service which includes a prompt and fair customer service, efficient and effective claims handling, and compliance with legal and regulatory obligations.	OPERATIONAL	<b>10. Governance, Risk Management and Reporting</b>	Managing agents should have governance structures and internal risk management and control frameworks in place which align to Solvency II requirements, enable sound and prudent management of the business and support delivery of the business strategy.
	<b>5. Customer Outcomes</b>	Managing agents should embed a culture and associated behaviours throughout their business to ensure that they consistently focus on good customer outcomes and that products provide fair value.		<b>11. Regulatory and Financial Crime</b>	Managing agents should have robust frameworks in place to assess and address regulatory and financial crime risks arising from their UK and international businesses. Frameworks should support compliance with law, regulation and guidance, and allow for well informed, transparent relationships with Lloyd's and applicable regulators.
	<b>6. Reserving</b>	Managing agents should ensure syndicates set reserves which are underpinned by a robust reserving process. All Actuarial Function requirements should be met in line with Solvency II.		<b>12. Operational resilience</b>	Managing agents should maintain robust and resilient operations, embedding cyber resilience and effective third-party risk management.
		<b>13. Culture</b>		Managing agents should be diverse, creating an inclusive and high-performance culture.	

# Oversight Framework

## Principles and Sub-Principles



# Oversight Framework

## The Maturity Matrices

**Materiality to the Principles** informs expected sophistication

**Indicators & suggestions** – *not* requirements

**Foundational broadly aligns** with the expectations from the **previous minimum standards**

**Read from left to right**, as the guidance at one level can be understood as the starting point for the next.

Sub Principle →

Guidance →

Maturity Matrix

**CATASTROPHE EXPOSURE**

**1 Manage catastrophe exposure in line with their agreed risk appetites.**

	Foundational	Intermediate	Established	Advanced
Risk Appetites	<ul style="list-style-type: none"> <li>Catastrophe risk appetite statements are in place; exposures are monitored against appetite and reported to senior management and the board.</li> <li>Business plans reflect catastrophe risk appetites</li> </ul>	<ul style="list-style-type: none"> <li>Catastrophe risk appetites are derived with consideration of View of Risk. There is a clear link between risk appetite and business strategy and decision-making.</li> </ul>	<ul style="list-style-type: none"> <li>Catastrophe risk appetites are cascaded to relevant business functions and are supported by tolerances, limits, and breach management processes. Risk appetites inform decision-making at each level, within the exposure management teams and other functions.</li> </ul>	<ul style="list-style-type: none"> <li>Catastrophe risk appetites are clearly embedded at every level, with changes communicated and used efficiently. Statements may be forward-looking, and themselves reactive to external events, business plan changes, and feedback loops.</li> </ul>

Low materiality → Moderate materiality → High materiality → Highest materiality

# Oversight Framework

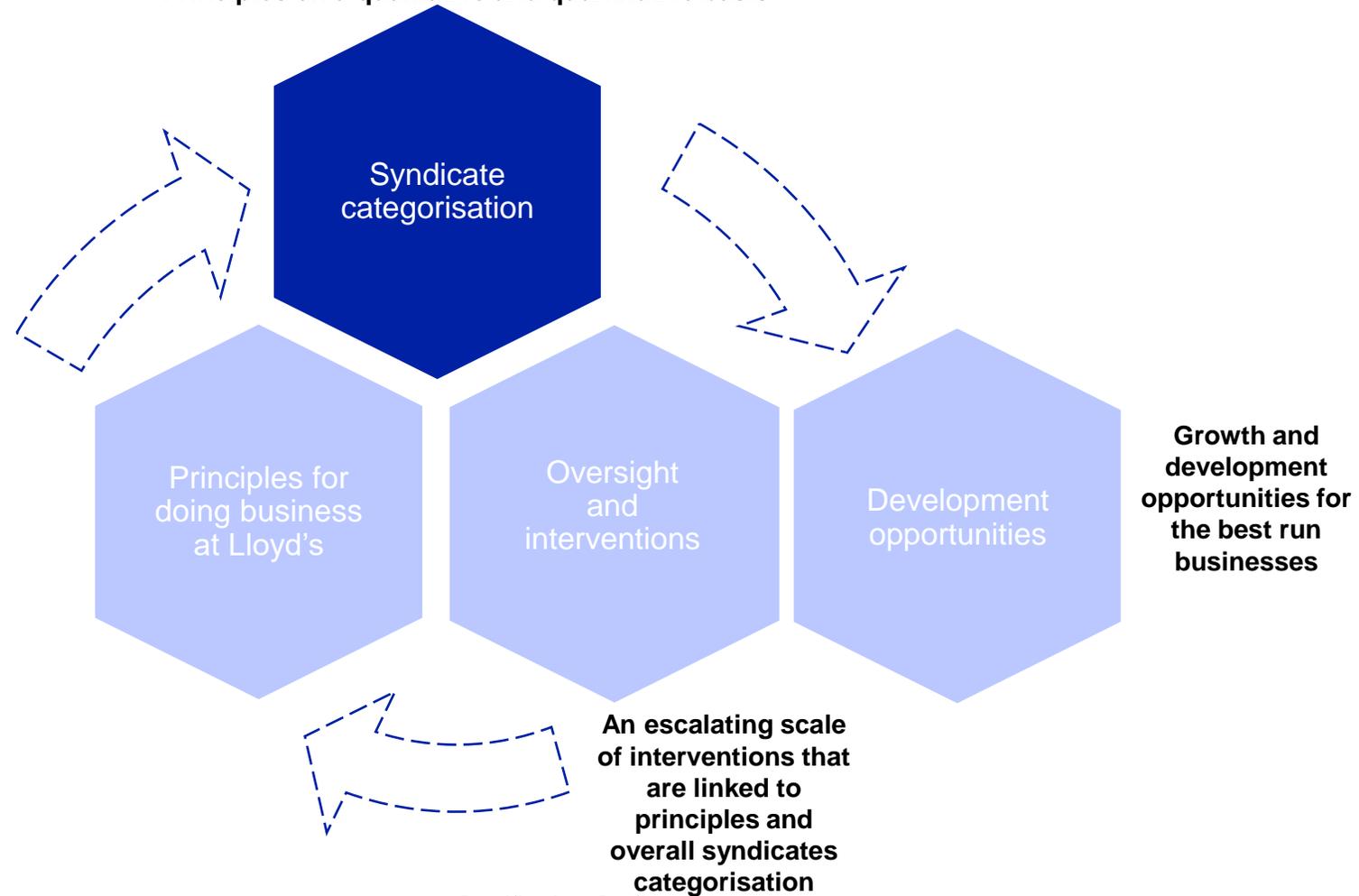
## Levels of maturity – generic definitions

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	

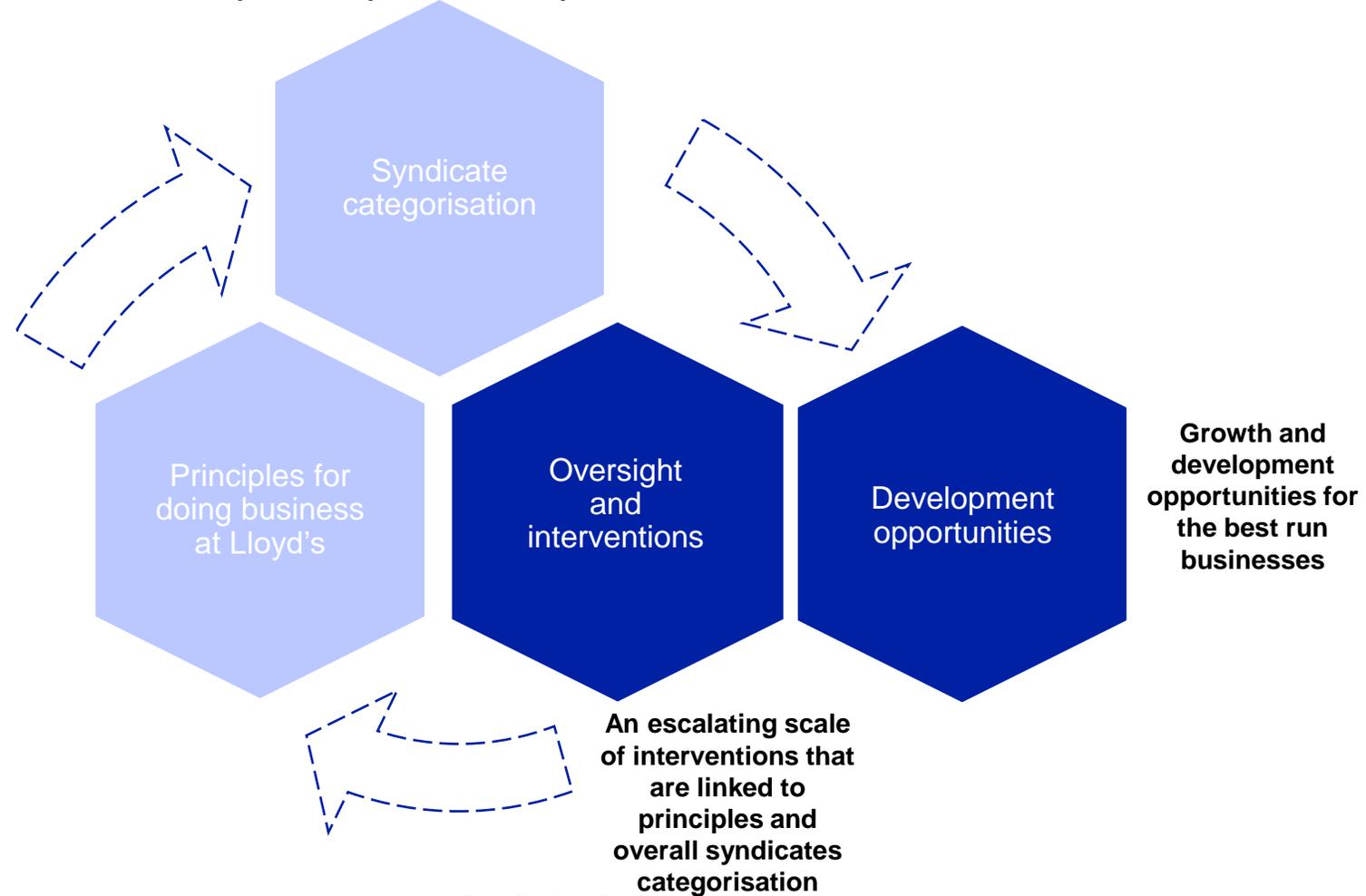
OUTPERFORMING
GOOD
MODERATE
UNDERPERFORMING
UNACCEPTABLE

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

# Oversight Framework:

*How will it work for Underwriting Profitability?*

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Clive Rutterford

# Oversight Framework – Underwriting Profitability

## What risk are we managing?

- The aim of Lloyd’s, and Performance Management team, is to ensure syndicates are delivering a sustainable profit aligned to their Plan
- Actively seeking to ensure any individual syndicate or class of business adds value to the overall market performance
- Protect Lloyd’s Financial Strength Rating & reputation as a pre-eminent market for specialist insurance
- In consideration of the above, we have identified the key building blocks we believe will ensure a path to sustainable profit – these drive the eight Underwriting Profitability sub-principles

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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

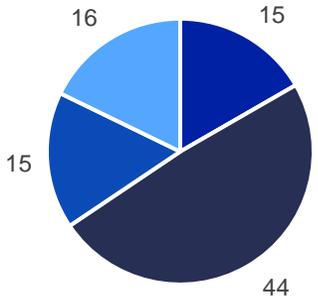
# Oversight Framework – Underwriting Profitability

## Defining expected maturity

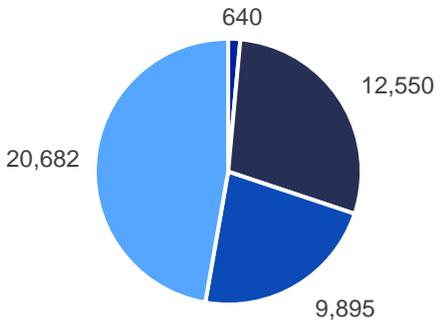
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Dimension	Materiality measure	Low Foundational	Moderate Intermediate	High Established	Highest Advanced
Principle 7: Underwriting Profitability	Gross Written Premium	< £100m	£100m - £500m	£500m - £1bn	> £1bn

Market distribution, by number



Market distribution, by GWP



■ Foundation ■ Intermediate ■ Established ■ Advanced ■ Foundation ■ Intermediate ■ Established ■ Advanced

**1 Have a clear and robust medium to long term business strategy with clearly defined and understood risk appetite.**

	Foundational	Intermediate	Established	Advanced
<b>Strategy</b>	<ul style="list-style-type: none"> <li>Underwriting strategy is set collaboratively with engagement and feedback loops between the relevant stakeholders.</li> <li>Underwriting strategy articulates, at class of business level, appetite for:                             <ol style="list-style-type: none"> <li>Lead vs follow business</li> <li>Open market vs Delegated Authority</li> <li>Line size deployment</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>Underwriting strategy identifies key elements such as sub-class, industry sector, geography, distribution channel / placement strategy.</li> </ul>	<ul style="list-style-type: none"> <li>Underwriting strategy outlines a forward-looking plan concerning the key target contracts to be won / renewed.</li> </ul>	<ul style="list-style-type: none"> <li>Regular horizon scanning towards emerging risks is considered and reflected within the Underwriting strategy.</li> <li>Underwriting strategy is forward looking allowing agile management across the underwriting cycle.</li> </ul>

# Oversight Framework – Underwriting Profitability

How to assess performance against the Principles?

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Assessment against Principles will be through combination of quantitative and qualitative

## 1) Quantitative - P&L Actual Performance (Lag)

- Quantitative measure of performance will be fundamental to assessing against Principles
- Focus will be on two measures (over three year period):
  - Are you profitable?
  - Are you meeting plan?
- Combination of these determine initial position against the Principles (Meeting Expectations -> Well Below Expectations)
- Quantitative assessments are inherently lagging indicators, hence we will also use Qualitative assessment

## 2) Qualitative - Subjective Assessment (Lead)

- Leading / forward looking assessment of capabilities
- Takes into consideration factors which may not be evident in the Quantitative, i.e. new or pending M&A activity / Impact of remediation plans
- Qualitative will primarily be used to calibrate/ support the Quantitative initial assessment
- Intended that no additional work will be required by syndicates at this stage – this will be completed internally wherever possible
- Syndicate Self-Assessments – will be using these to highlight where there are differences in views and follow-up

# Oversight Framework – Underwriting Profitability

## Interventions specific to Underwriting Profitability

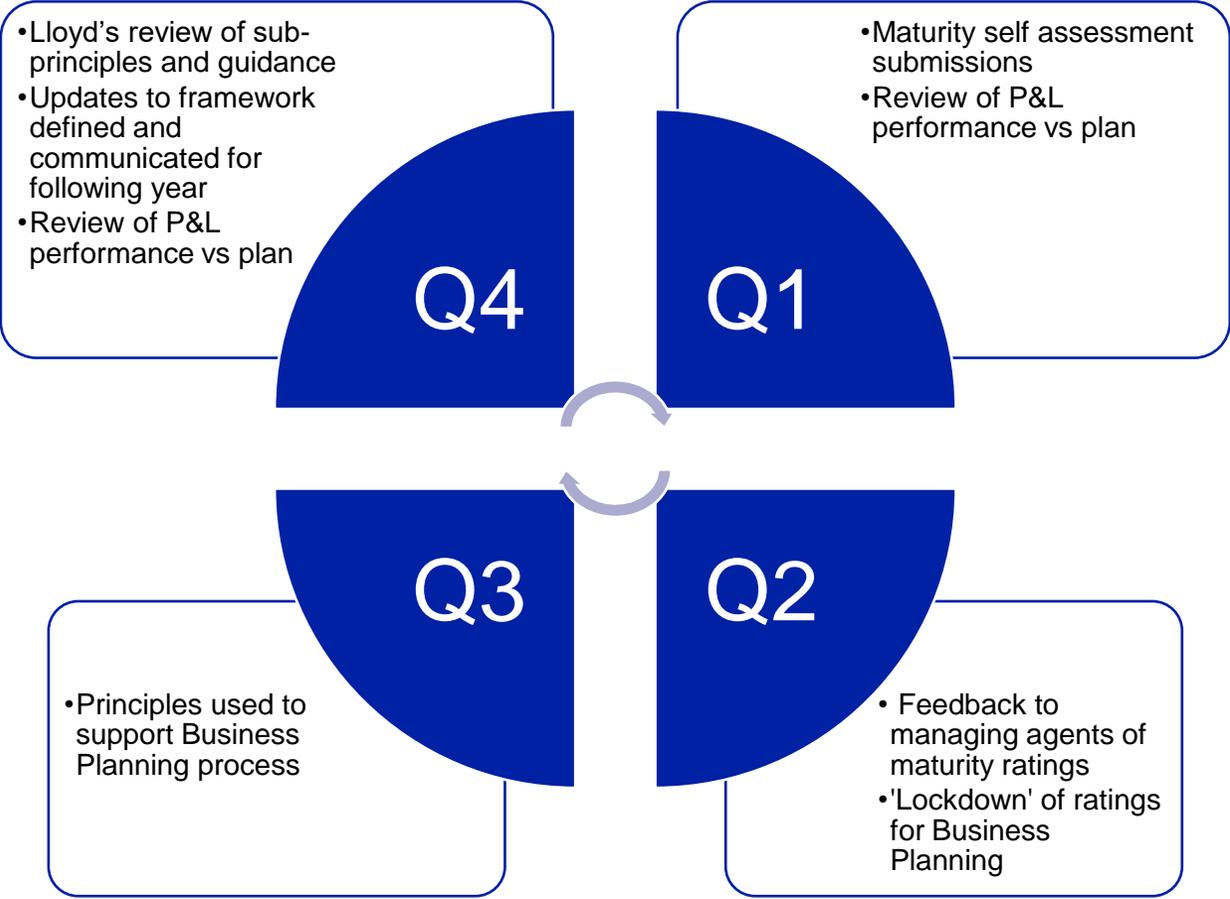
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Dimension	Well below expectations	Below expectations	Marginally below expectations	Meeting expectations
<p><b>PERFORMANCE</b></p> <p>Underwriting Profitability</p>	<ul style="list-style-type: none"> <li>Remove permission to underwrite, 'minded to close' advised</li> </ul>	<ul style="list-style-type: none"> <li>Managing Agent to produce holistic account level remediation plan to be approved by Lloyd's</li> <li>Apply Syndicate Business plan / underwriting restrictions (SBF)</li> <li>Requirement to undertake detailed Principles review (either internally, e.g. Internal Audit, or externally)</li> <li>Refuse / de-register a coverholder</li> <li>Managing Agent to produce contingent run-off plan approved by Board</li> </ul>	<ul style="list-style-type: none"> <li>Targeted remediation of underperforming classes through portfolio management</li> <li>Syndicate Class of Business(SCOB) level restrictions/closures</li> <li>Growth (e.g SCOB or territory) must be LAR and reflect capability to deliver ('right to win')</li> <li>Restrict MYC requests</li> <li>Lloyd's involved in ad-hoc contentious issues – e.g. Enforces the removal of an exclusion from a syndicate's policy wording</li> <li>Gross/Net Line size dispensations re-reviewed</li> </ul>	<ul style="list-style-type: none"> <li>For outperforming syndicates there will be a differentiated approach to business planning</li> <li>Plans must be Logical, Realistic and Achievable</li> <li>Encourage &amp; support of profitable growth, both at SBF and MYC</li> </ul>

# Oversight Framework – Underwriting

Annual cycle of activity

Oversight Objectives		
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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*

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Clive Rutterford

# Case Study 1: Syndicate X

## UNDERWRITING PROFITABILITY

5 Have robust portfolio management in place in order to deliver the agreed business plan.

Foundational	Intermediate	Established	Advanced
<ul style="list-style-type: none"> <li>Portfolio Management Framework in place and supported by repeatable process to analyse portfolio mix and drivers of performance.</li> <li>Quantitative analysis focused on strategic decisions within business planning process and quarterly business reporting.</li> <li>Portfolio management framework is cascaded consistently and operates effectively across the business.</li> <li>Success of actions taken are monitored at an appropriate frequency against expected performance.</li> <li>Action plans are produced to remediate portfolio where required, e.g. Performance Improvement Plans and Whole Account remediation plans.</li> <li>The progress and impact of any</li> </ul>	<ul style="list-style-type: none"> <li>Greater level of granularity to allow more specific identification of drivers of performance.</li> <li>Results from the analysis informs all aspects of P&amp;L management.</li> <li>The outcomes from ongoing assessments of Framework effectiveness are cascaded to all relevant teams and the board where required.</li> <li>Performance Improvement Processes are embedded and an integral part of Portfolio Management, allowing timely action to be taken.</li> <li>There is an annual review of the Portfolio Management Framework with feedback and recommendations made to the board</li> </ul>	<ul style="list-style-type: none"> <li>The framework identifies opportunities as well as issues within the portfolio. Once identified, issues and opportunities are understood, analysed and response implemented.</li> <li>The framework is extended to include element of qualitative assessment to support quantitative assessment of KPIs.</li> <li>The framework includes elements of research and development to conduct horizon scanning and understand emerging risks.</li> <li>There is a robust framework in place which is able to readily adapt and change when testing a range of assumptions. The framework is supported by technology and analytical tools which themselves are reviewed and updated as appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>Portfolio Management analysis is embedded into business decisions</li> <li>Analysis is produced at a high level of granularity, and on a frequent basis, including analysis being undertaken at point of risk selection</li> <li>The framework includes comprehensive scenario modelling to test a range of assumptions, including consideration of the wider macroeconomic environment.</li> <li>Sufficiently flexible to allow frequent analysis of effectiveness.</li> </ul>



## Managing Agent X

GWP based Overall Maturity Level: Established

### Quantitative:

Syndicate has delivered both Profit and hitting Plan

### Qualitative:

Reviewing each sub-principle in turn we can identify that they can support the criteria for Established

In particular for SP 5: Portfolio Management, they have a strong team and have engaged closely with Lloyd's over the last 18 months.

Reporting is comprehensive, timely, and accurate, with additional requests for information provided where appropriate and to a high standard – particularly with regards to their PIP SCOB. They have been particularly effective in modelling their COVID exposure, with links to their wider parent exposure.

### How do we know this?

- Quantitative – meets metric
- Qualitative – delivers effective portfolio oversight in a timely manner and can demonstrate an ability to both establish an effective underwriting plan and then execute on it through the application of robust PM. COVID management has also been highly effective

### Managing Agent rating

SP5 Maturity – Advanced (ie better than Expected)

# Case Study 2: Syndicate Y

## UNDERWRITING PROFITABILITY

### 2 Develop and execute annual business plans which align with their business strategy.

	Foundational	Intermediate	Established	Advanced
<b>Business Planning</b>	<ul style="list-style-type: none"> <li>Business plan aligns to the syndicate's medium to long term underwriting strategy and risk appetite.</li> <li>Board has responsibility for developing, challenging, and approving the annual business plan.</li> <li>Business planning process engages, and allows for challenge from, all key stakeholders .</li> <li>Business plan includes assessment of both prior year performance and current prevailing market conditions.</li> <li>Assumptions and key risks in the business plan are clearly articulated and understood by all Key stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>Consideration is clearly evident of defining optimum business mix aligned to the agreed strategy.</li> <li>There is an annual review of the syndicate business planning process with feedback and recommendations made to the board.</li> </ul>	<ul style="list-style-type: none"> <li>Business planning and review process considers output from stress and scenario testing.</li> <li>Underwriters bring their understanding of renewal book and target market contracts and competitor initiatives to help formulate Logical, Realistic and Achievable business plans.</li> <li>Data direct from pricing models is used to derive realistic and achievable targets in the business plan such as the level of new business, mix of business and rate change.</li> </ul>	<ul style="list-style-type: none"> <li>Underwriting proactively develops a strategic business plan concerning:                             <ul style="list-style-type: none"> <li>Key contracts to be won / renewed</li> <li>Distribution strategies</li> <li>Competitors</li> <li>Brokers</li> <li>Relationships</li> </ul> </li> <li>..with clear linkage to the longer-term strategic view.</li> <li>The planning framework involves challenge to underwriters and to management to remove biases and ensure the business plan is on a best estimate basis.</li> </ul>
<b>KPI monitoring</b>	<ul style="list-style-type: none"> <li>Syndicate business plan is kept under review, with KPIs monitored and reported to the board at an appropriate frequency</li> <li>KPIs align to the metrics required in the returns to Lloyd's and are supported by narrative which validates performance against KPIs .</li> <li>Timely actions are taken to address variances to business plan, and root cause analysis conducted to fully understand underlying drivers.</li> </ul>	<ul style="list-style-type: none"> <li>Extensive suite of KPIs used to review progress against business plan - coverage at an aggregated and individual risk level.</li> <li>Granularity allows for review of KPIs at different time interval (e.g. month-to-date or year-to-date).</li> <li>Monitoring allows for identification of both positive and adverse variation to plan.</li> <li>Regular review of business plan and KPIs incorporates latest analysis from other functions and promotes consistency</li> </ul>	<ul style="list-style-type: none"> <li>Suite of KPIs includes underwriting operational KPIs to monitor completion of qualitative checks and controls, e.g. Pre-Bind Quality Assurance (PBQA).</li> <li>Suite of KPIs are kept under review to consider if any changes are required to the metrics themselves or any additions to ensure early detection of issues.</li> </ul>	<ul style="list-style-type: none"> <li>Thematic findings are drawn out from underwriting operational KPI monitoring, with training in place to address gaps.</li> </ul>



## Managing Agent Y

**GWP based Overall Maturity Level: Intermediate**

### Quantitative:

Syndicate has not delivered a Profit and has not hit Plan

### Qualitative:

Reviewing each sub-principle in turn we can identify that they cannot support the criteria for Intermediate based on SP2 (Develop/Execute Business Plans). We would also review the effectiveness of SP5 (Portfolio Management). This would require some additional oversight .

The portfolio mix initially chosen at SBF was not established and mid-year requests to change were not aligned with stated strategy

### How do we know this?

- Quantitative – does not meet metric for Maturity level
- Qualitative – review of sub-principles clearly identifies SP2 & 5 as areas of focus – execution of the Plan and then effective management of the portfolio during the cycle

### Managing Agent rating

SP2 Maturity – Foundation

This element of the sub-principle suggests an Actual Maturity of Foundation, which is below Maturity Expectation (Intermediate)

# Principles Rating: Syndicate X

Principle		Expected Maturity Level	Lloyd's Assessment of Maturity
<b>1: UNDERWRITING PROFITABILITY</b>			
<b>Managing agents should produce and execute syndicate business plans which are logical, realistic and achievable and ensure the delivery of a sustainable profit, including expense management</b>		Established	Established
SP.1	Have a clear and robust medium to long term business strategy with clearly defined and understood underwriting risk appetite	Established	Established
SP.2	Develop and execute annual business plans which align with their business strategy	Established	Established
SP.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	Established
SP.4	Manage and control expenses in order to ensure they are appropriate for the business written	Established	Established
SP.5	Have robust portfolio management in place in order to deliver the agreed business plan	Established	Advanced
SP.6	Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit	Established	Established
SP.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	Established
SP.8	Have processes in place to support decision making in relation to ESG integration into underwriting		

Syndicate overall rating is Established, based on the Quantitative and Qualitative assessment.

They are assessed at a level higher level with regards to SP5. PM - rated Advanced; as part of wider Group, syndicate benefits from access to enhanced PM capability, which is demonstrated in their ability to be deliver profit across the cycle

# Principles Rating: Syndicate Y

Principle		Expected Maturity Level	Lloyd's Assessment of Maturity
<b>1: UNDERWRITING PROFITABILITY</b>			
<b>Managing agents should produce and execute syndicate business plans which are logical, realistic and achievable and ensure the delivery of a sustainable profit, including expense management</b>		Intermediate	Foundation
SP.1	Have a clear and robust medium to long term business strategy with clearly defined and understood underwriting risk appetite	Intermediate	Intermediate
SP.2	Develop and execute annual business plans which align with their business strategy	Intermediate	Foundation
SP.3	Have underwriting controls, monitoring and reporting in place which are appropriate to their risk profile in order to deliver the agreed business plan	Intermediate	Intermediate
SP.4	Manage and control expenses in order to ensure they are appropriate for the business written	Intermediate	Intermediate
SP.5	Have robust portfolio management in place in order to deliver the agreed business plan	Intermediate	Intermediate ?
SP.6	Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit	Intermediate	Intermediate
SP.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	Intermediate	Intermediate
SP.8	Have processes in place to support decision making in relation to ESG integration into underwriting		

Initial Quantitative assessment flags as potentially underperforming

Subsequent Qualitative assessment validates that SP 2 (Execute Plan), and potentially SP5 (PM) is not at the level expected).

This drives an overall Maturity Assessment of Foundation, a level below the Expected Maturity of Intermediate.

Level/extent of intervention would need to be agreed to improve performance

# Self-assessment submissions

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Lyndsay Deeves

# Principles self-assessments

## Moving from prescription to outcomes focussed

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### Rules based approach “Bottom up”

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

### Outcomes based approach “Top down”

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

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

## Self-assessment, not Attestation

Submitting on a “best efforts” basis.

Formal Board sign off not required.

However, we would expect discussion at the Board

## Working level

We understand Principles will not be fully embedded.

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

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

## Best efforts basis

Will highlight any gaps in understanding the Principles.

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

## Lloyd's Principles for Doing Business - Self-Assessment

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

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

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

Principle	Expected Maturity	Managing Agent Assessment of Maturity	Commentary
			To include: - Rationale, where expected maturity level is met - Commentary, where expected maturity is not met, including detail on gaps, planned remedial actions, timescales and owners - Questions for clarification with Lloyd's, for example to check the meaning or interpretation of the Principles guidance
<b>1. Underwriting Profitability</b> Managing agents should produce and execute syndicate business plans which are logical, realistic and achievable and ensure the delivery of a sustainable profit including expense management.  To support this, managing agents should ensure their syndicates:	<b>Established</b>		
Sub Principle 1 Have a clear and robust medium to long term business strategy with clearly defined and understood underwriting risk appetite	<b>Established</b>		
Sub Principle 2 Develop and execute annual business plans which align with their business strategy	<b>Established</b>		
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	<b>Established</b>		
Sub Principle 4 Manage and control expenses in order to ensure they are appropriate for the business written	<b>Established</b>		
Sub Principle 5 Have robust portfolio management in place in order to deliver the agreed business plan	<b>Established</b>		
Sub Principle 6 Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit	<b>Established</b>		
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	<b>Established</b>		
Sub Principle 8 Have processes in place to support underwriting decision making in relation to ESG integration into underwriting	<b>Established</b>		
<b>2. Catastrophe Exposure</b> Managing agents should ensure syndicates maintain appropriate control of catastrophe risk (from natural and non-natural perils) in line with business strategy.  To support this, managing agents should ensure their syndicates:	<b>Established</b>		
Sub Principle 1 Manage catastrophe exposure in line with their agreed risk appetites	<b>Established</b>		
Sub Principle 2 Employ data standards, risk quantification tools, controls, expertise, and reporting frameworks which are appropriate to their risk profile	<b>Established</b>		
Sub Principle 3 Adequately justify and validate methodology and assumptions, including expert judgements	<b>Established</b>		
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	<b>Established</b>		

# Self-assessment Principles rating

## Principle 13: Culture

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

# Self-assessment Principles rating

## Principle 10: Governance, Risk Management and Reporting

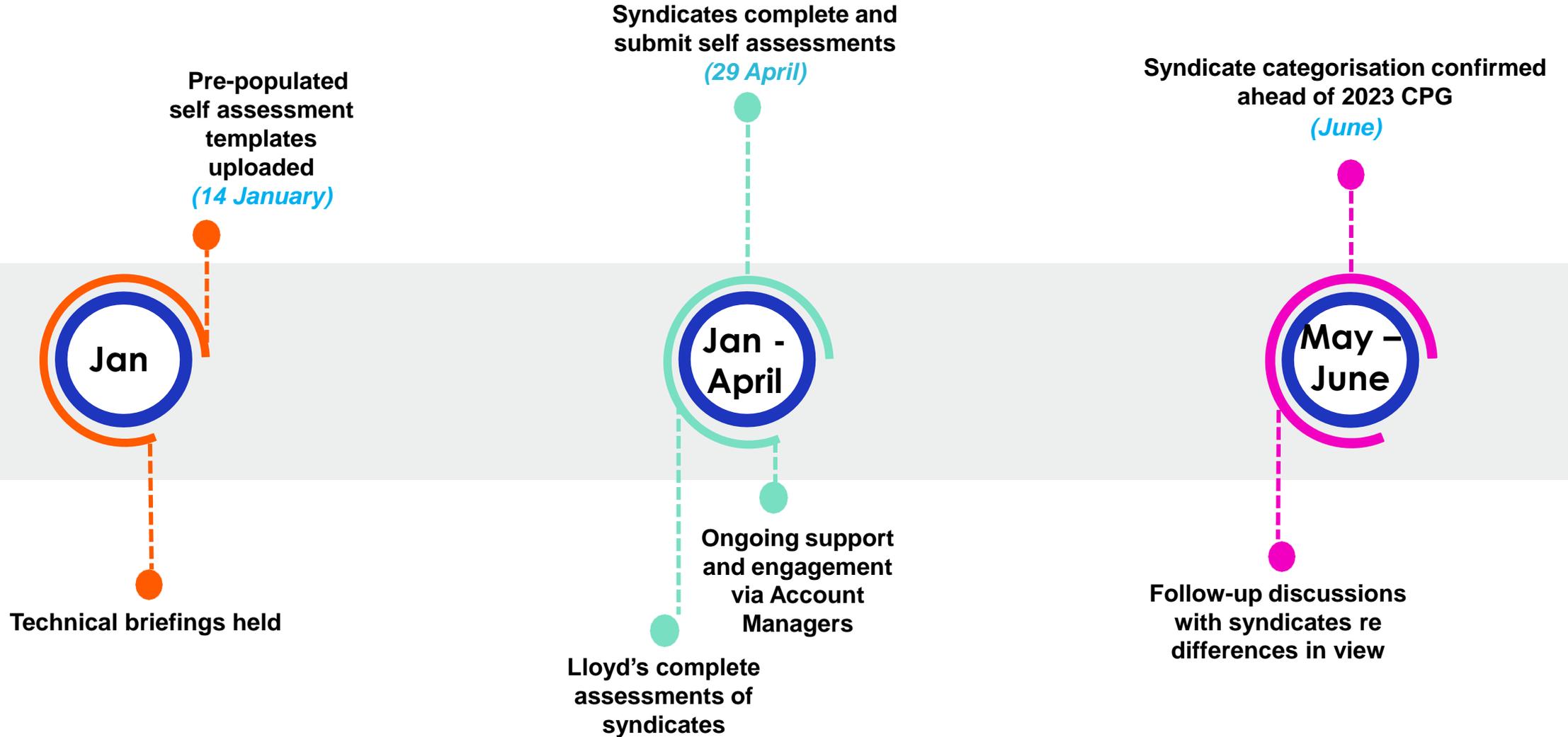
Expected Maturity: Advanced  
Actual Maturity: Advanced

Principle		Expected Maturity	Agent assessment of Maturity	Commentary
				To include: - Rationale, where expected maturity level is met - Commentary, where expected maturity is not met, including detail on gaps, planned remedial actions, timescales and owners - Questions for clarification with Lloyd's, for example to check the meaning or interpretation of the Principles guidance.
<b>10. Governance, Risk Management and Reporting</b> Managing agents should have governance structures and internal risk management and control frameworks in place which align to Solvency II requirements, enable sound and prudent management of the business and support delivery of the business strategy		<b>ADVANCED</b>	<b>ADVANCED</b>	As evidenced below, we have an appropriate and effective governance structure in place to ensure sound management of the business and compliance with all relevant requirements. A strong culture of good governance, effective risk management and independent challenge permeates throughout the business. The strategy and view from the top flows through all functions to enable their aims to align to the overall objectives of the business. Data, qualitative assessment and reporting is of high-quality, meaning decisions are built on strong foundations.
Sub Principle 1	Manage a suitable board and committee structure which enables well informed, timely and accountable decision making	<b>Advanced</b>	<b>Advanced</b>	We have a well established and effective Board and committee structure, with track record of acting on independent advice and challenge. Strategy is routinely discussed and updated with input and ownership across the business. The effectiveness of Board and committees is regularly reviewed including periodic use of independent third parties. Our committee structure ensures that all business functions have appropriate Board or executive level committees with suitable reporting lines into the Board.
Sub Principle 2	Operate a strong risk and control environment which allows for appropriate challenge	<b>Advanced</b>	<b>Advanced</b>	Risk culture is well embedded and demonstrated throughout the business. Risk Management views are clearly sought and help to drive decision making. All functions take active ownership for risk management activities and contribute to a continuous improvement process. This is lead top-down. Risk appetite is set by the Board and cascades throughout all risk metrics and monitoring activities, ensuring a link between functional level risk strategy/activities and the agreed appetites of the Board. A forward looking view of risk is considered highly important for how we assess, manage and discuss risk.
Sub Principle 3	Maintain appropriate oversight of operational processes for effective management of the business	<b>Advanced</b>	<b>Advanced</b>	The Board has regular sight of KPI reporting on key operational processes and resourcing. This is routinely challenged and the KPIs and SLAs are reviewed and changed where necessary. We are confident in the overall operational infrastructure and efficacy, through the assurance as evidenced by the ongoing cycle of internal audits with timely follow-up of findings.
Sub Principle 4	Employ and develop people with appropriate skillsets and ensure the business is appropriately resourced	<b>Advanced</b>	<b>Advanced</b>	We take development seriously with regular review of succession planning. Training, coaching and mentoring is actively provided to those identified as future leaders or key function holders. Staff engagement survey has consistently high scores for employee training and development. We promote an open and inclusive culture with a track record of acting on employee ideas.
Sub Principle 5	Ensure decision making is supported by appropriate data and qualitative assessment	<b>Advanced</b>	<b>Advanced</b>	Information presented to the Board is consistent, accessible and highly informative. The manner in which information is presented is under a constant cycle of review and development. Complex data supports analyses and is presented in a format which supports effective decision making.
Sub Principle 6	Maintain reporting, including all financial reporting, of a high quality and submit all reports in a timely, accurate and complete manner to Lloyd's and to applicable regulators.	<b>Advanced</b>	<b>Advanced</b>	All reporting was submitted to Lloyd's on time with a high accuracy. This has been verified by an internal monitoring process.

# Next steps

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# Next Steps and Timeline



# What should you be doing?

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

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

# Q&A

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