

Project Rio Technical Briefing Sessions

Regulatory & Financial Crime

31 January 2022

Lyndsay Deeves, Melissa Aitken, Adrian Underwood and Peter Dale-Skinner

Agenda

Agenda Item		Timings
1.	Oversight framework overview – <i>what is it and how will it work?</i>	
	- Overview of the broader framework	25 mins
	- How will it work for Regulatory and Financial Crime?	15mins
2.	Case studies – bringing the framework to life	20 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

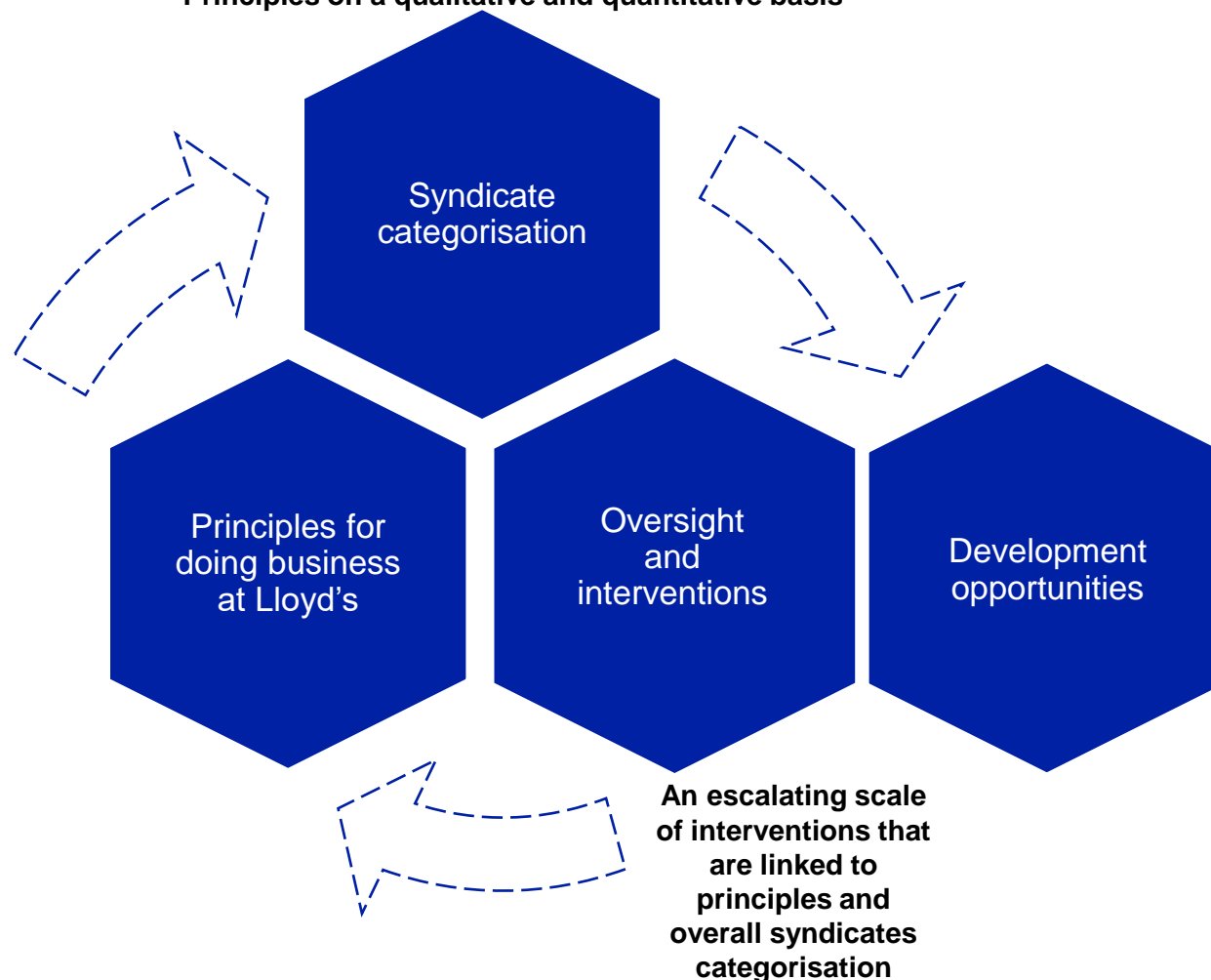
Oversight Framework

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



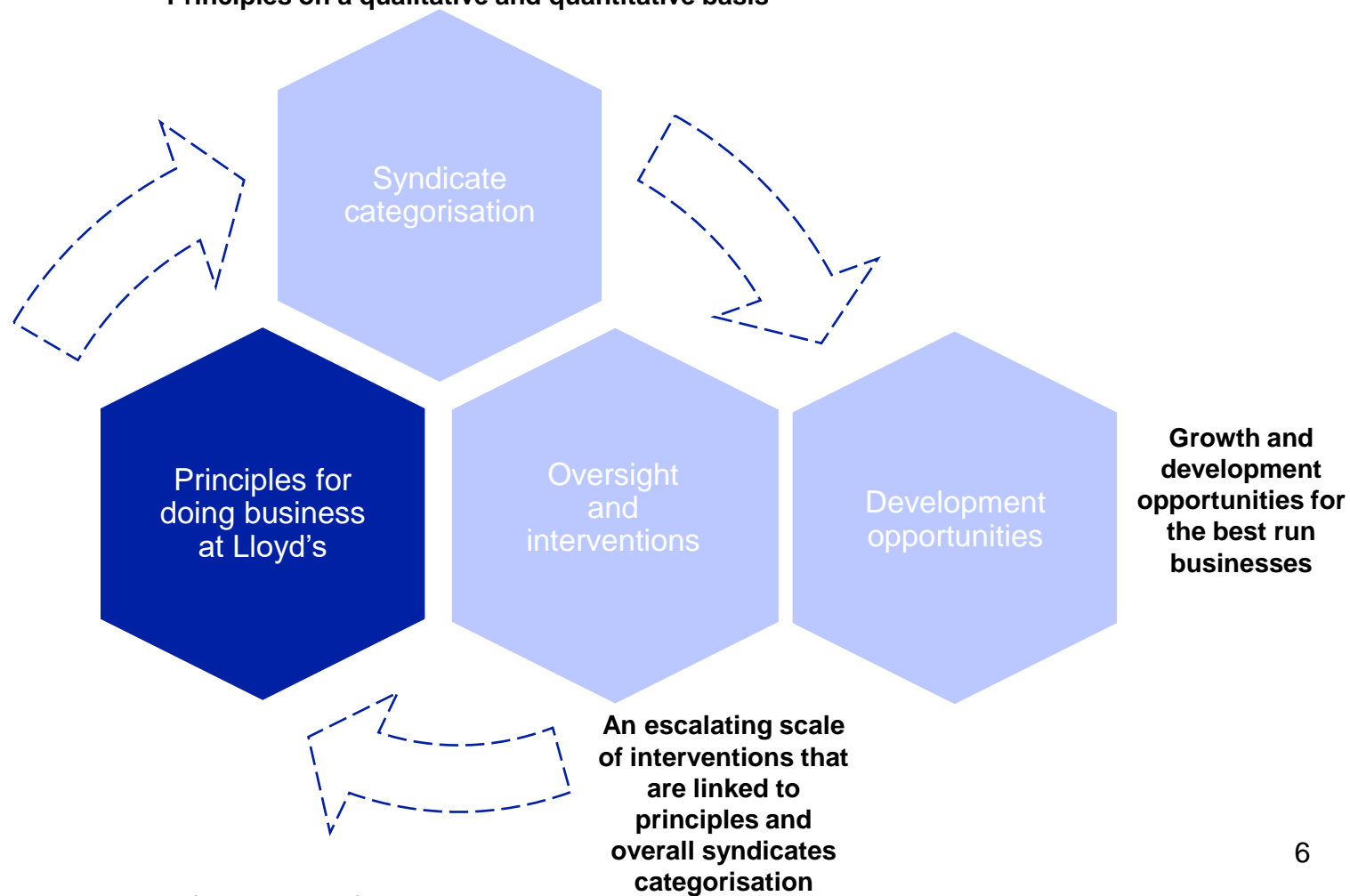
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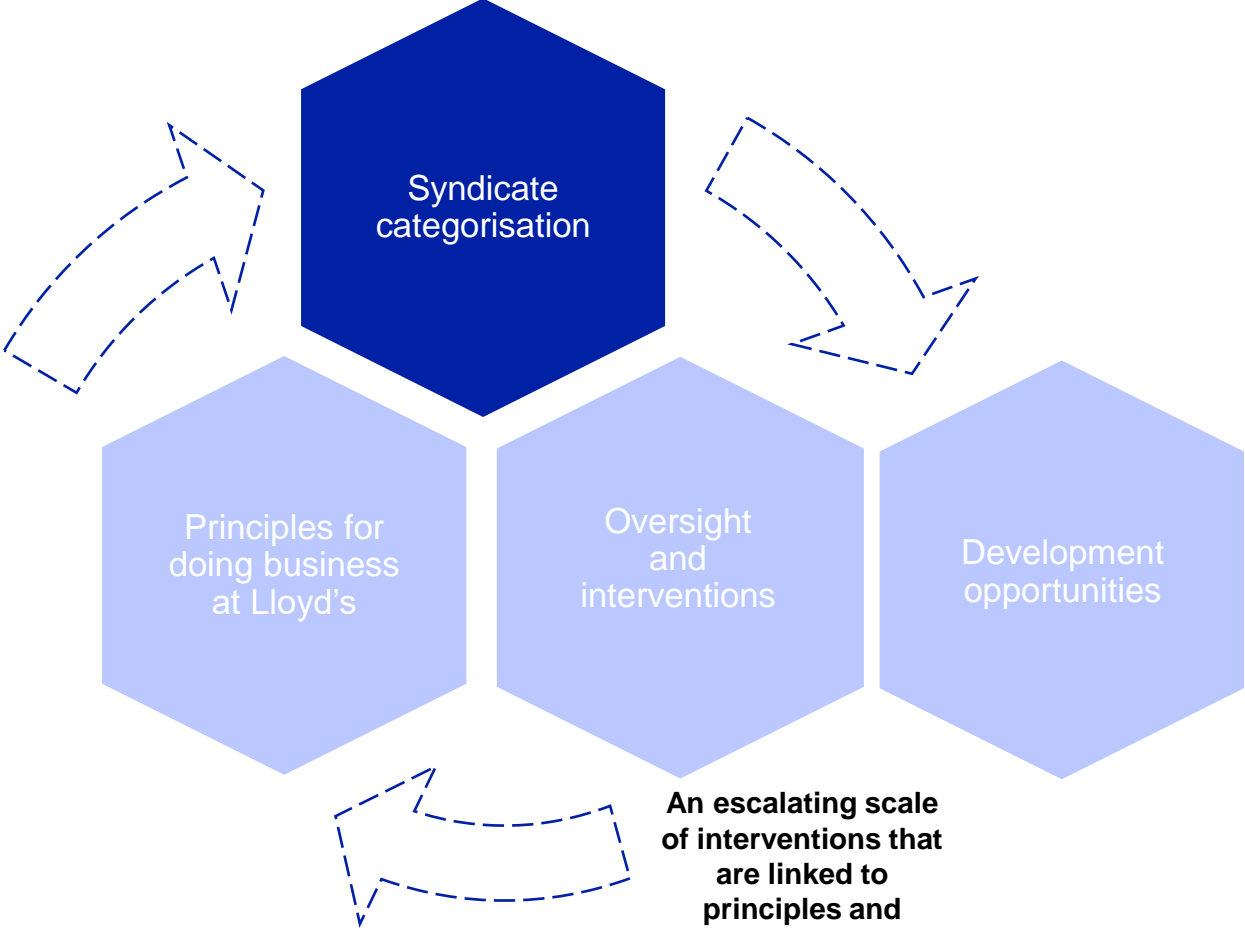
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One consistent approach to syndicate and agent categorisation based on assessment against Principles on a qualitative and quantitative basis



Growth and development opportunities for the best run businesses

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

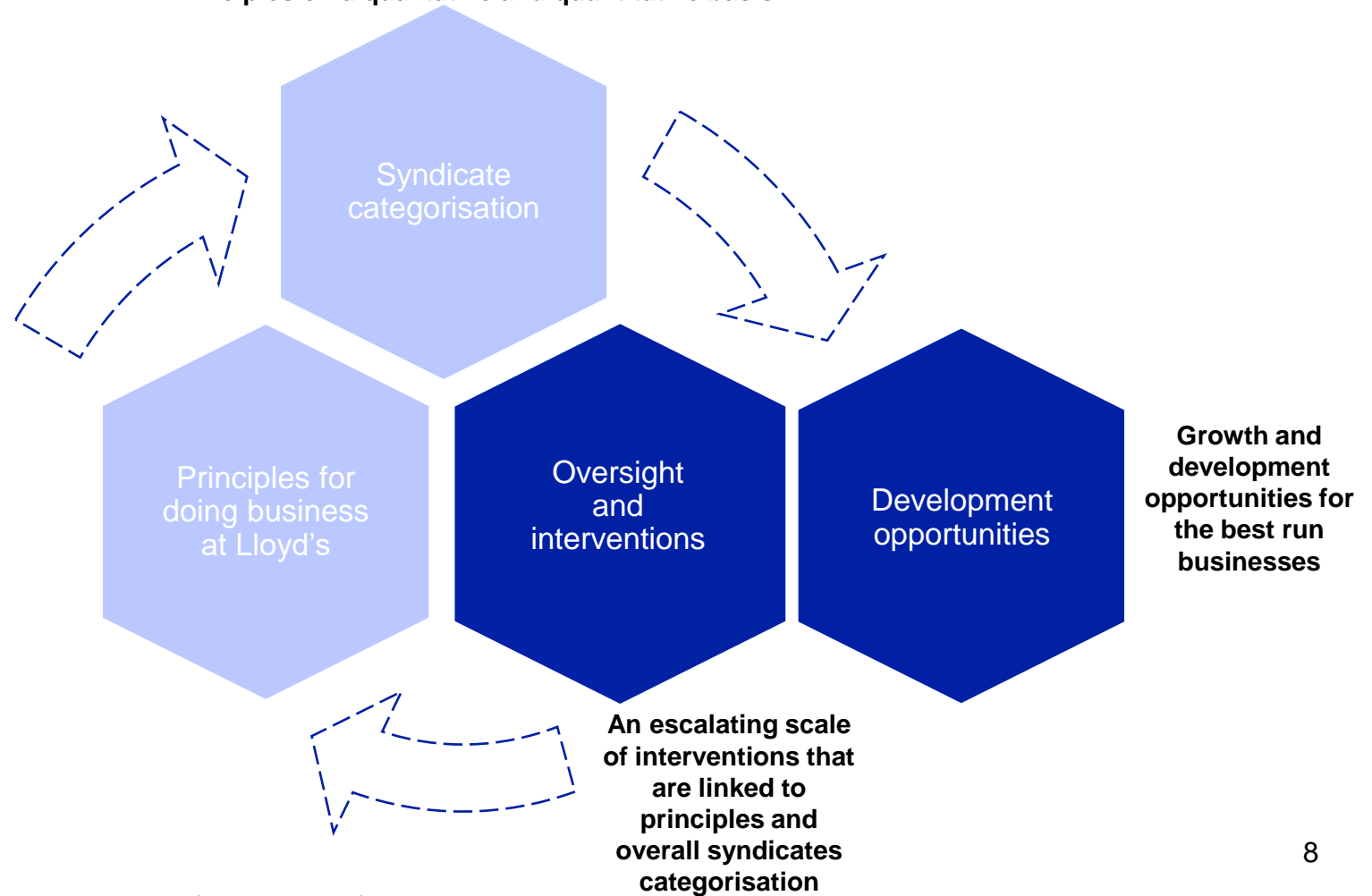
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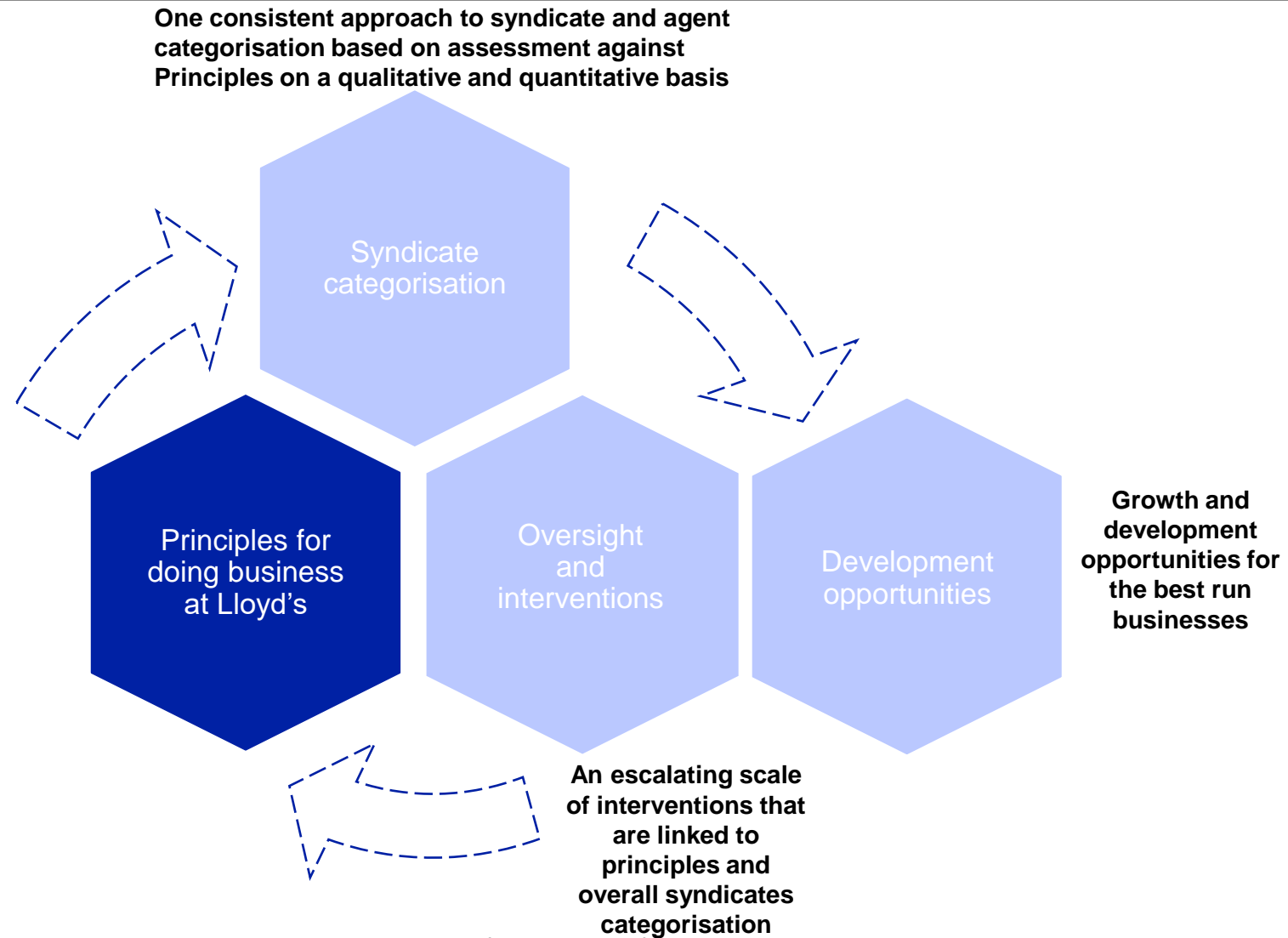
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Oversight Framework

The Lloyd's Principles



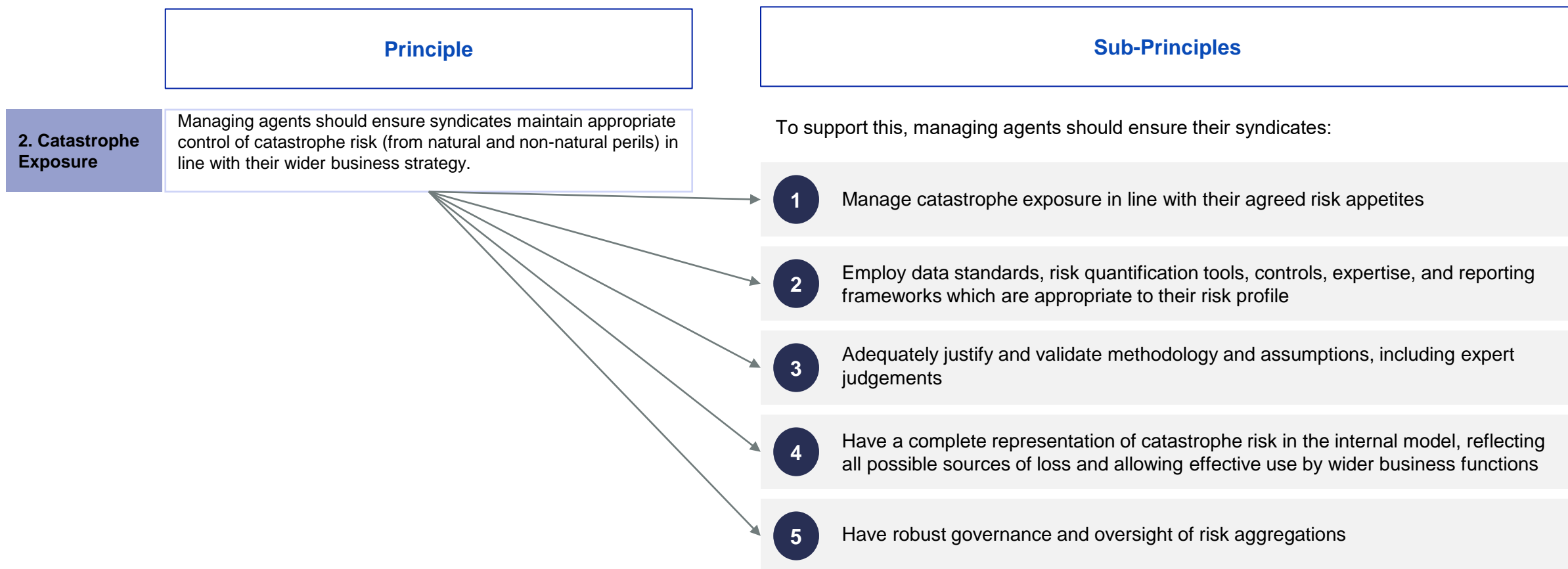
Oversight Framework

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

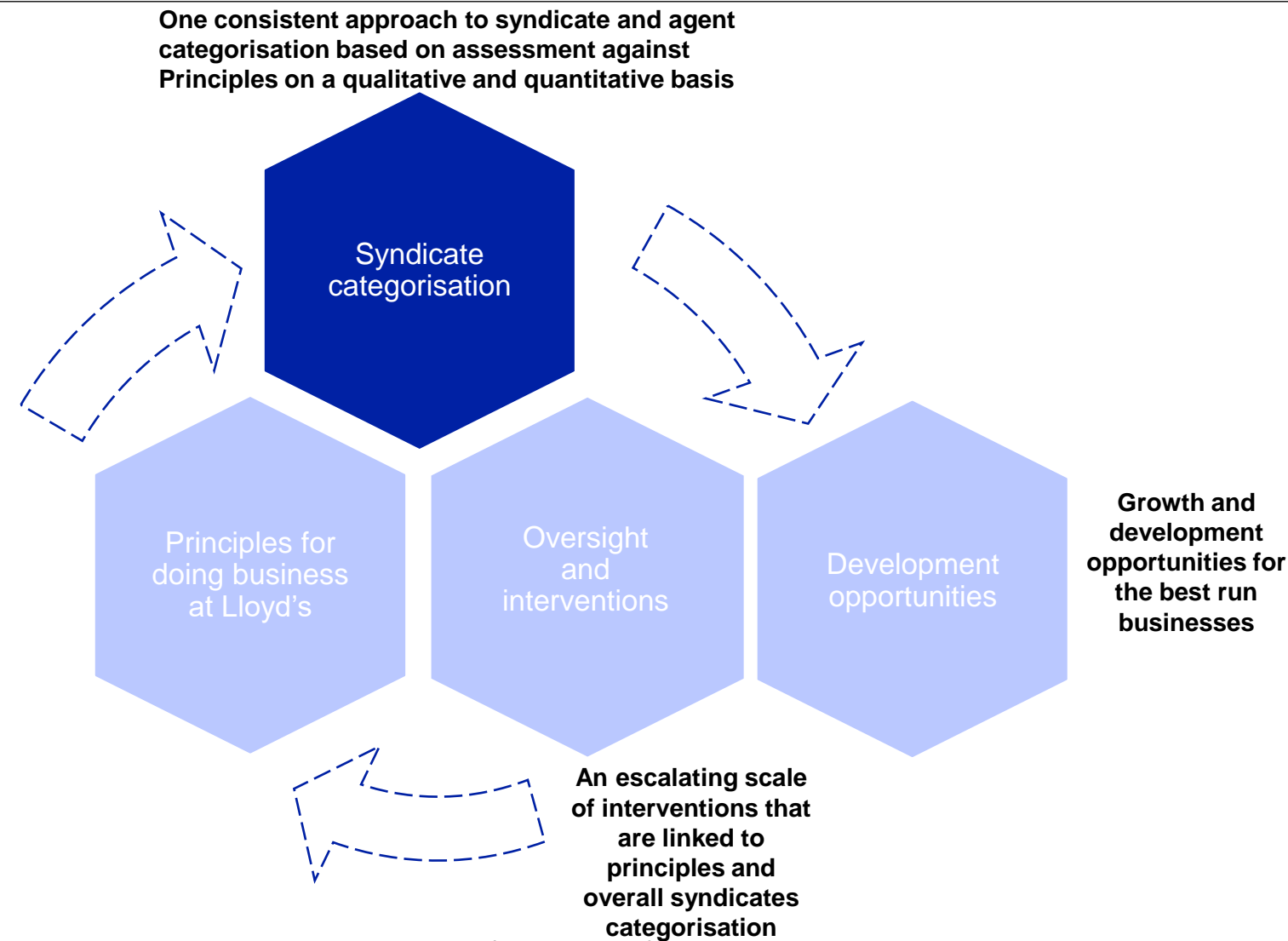
Oversight Framework

Levels of maturity – generic definitions

FOUNDATIONAL (Low materiality)	INTERMEDIATE (Moderate materiality)	ESTABLISHED (High materiality)	ADVANCED (Highest materiality)
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



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

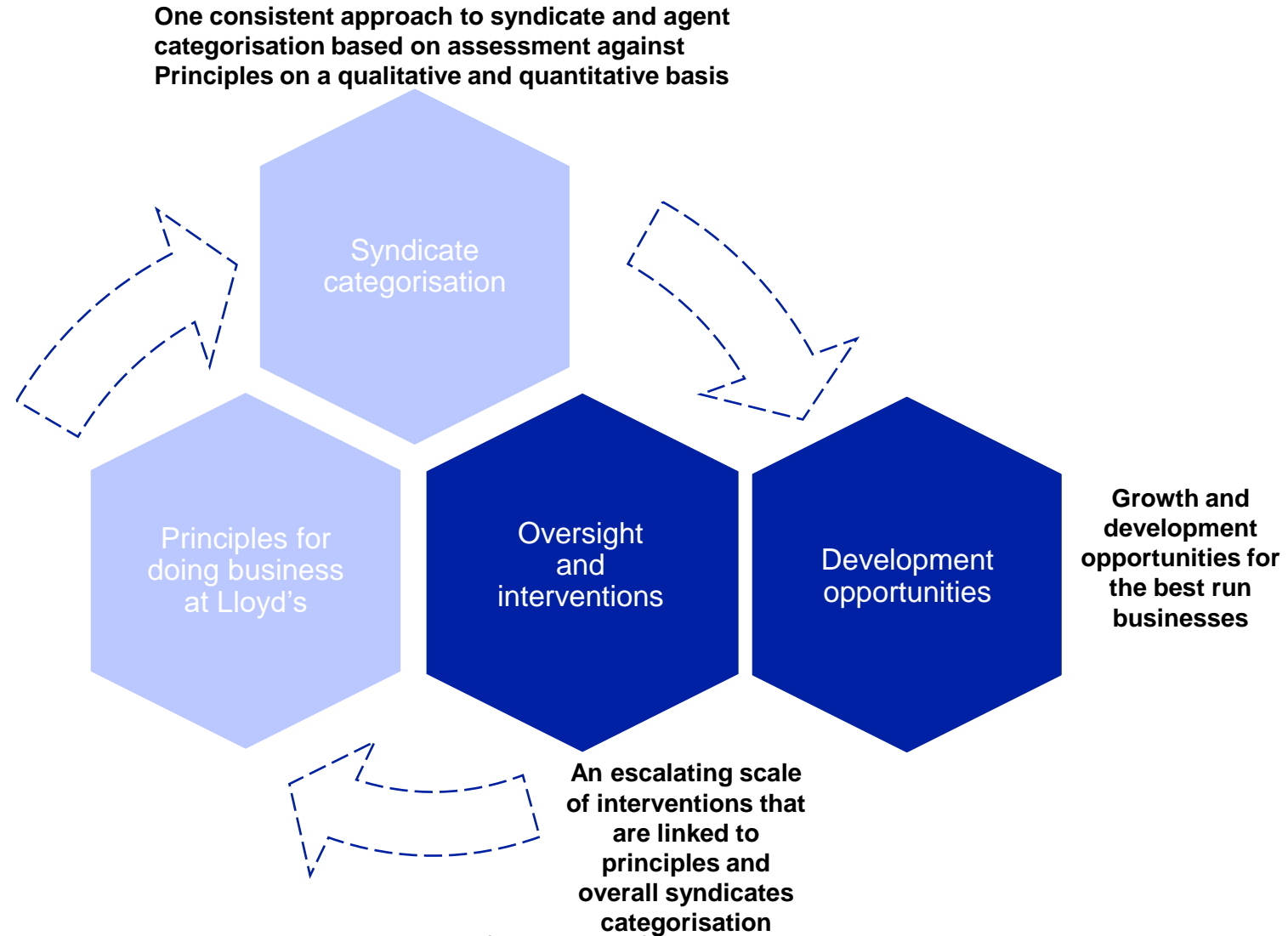
Dimension Rating
Meets expectation
Marginally below expectation
Below expectation
Well below expectation

Oversight Dimensions		Expected Maturity	Actual Maturity	Dimension Rating	UNDERPERFORMING
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

Oversight Framework

Oversight / Interventions and Development Opportunities



Oversight Framework

Interventions Playbook

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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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

Robust intervention for underperformers			Development encouraged for the best		
Overall syndicate categorisation	Unacceptable	Underperforming	Moderate	Good	Outperforming
	<p>Capability and performance well below expectations with all avenues to remediate exhausted</p> <ul style="list-style-type: none"> Immediate action required Full range of Interventions used 	<p>Capability and performance below expectations</p> <ul style="list-style-type: none"> Robust intervention taken Rapid remediation with close monitoring and escalation 	<p>Capability and performance marginally below expectations</p> <ul style="list-style-type: none"> Targeted oversight into higher risk areas Moderate Interventions in place 	<p>Capability and performance in line with expectations</p> <ul style="list-style-type: none"> Targeted monitoring / oversight Minimal intervention 	<p>Capability in line with expectations and supported by Best in class performance</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 Regulatory
and Financial Crime?*

Adrian Underwood, Peter Dale-Skinner and Melissa Aitken

Oversight Framework – Regulatory & Financial Crime

What is the Regulatory and Financial Crime Principle seeking to achieve?

Oversight Objectives		
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The ongoing success of the Lloyd's market relies on managing agents adapting their frameworks to the evolving financial crime and regulatory landscape with increased international regulatory requirements, protectionist measures and expectations across the globe.



Mitigate against financial crime breaches, across the six risk types



Ensure that the managing agents are compliant with international regulatory requirements in order to protect international licences.



The sub-principles underpin the proper operating of a robust framework to assess and address regulatory and financial crime risk arising from UK and international business.



The Principle is structured in a way that outlines expectations whilst providing managing agents with the freedom and flexibility, noting that there are a number of different models and options to fulfil the intent that sits behind the principles.

Principle

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.

To support this, managing agents should:

- 1 Embed a culture of transparency, regulatory and financial crime compliance, and an understanding of the benefits of this across their managed businesses
- 2 Have a robust understanding of their regulatory and financial crime risk exposure and appetite, which is subject to appropriate challenge
- 3 Have appropriate systems and controls, including training, in place to manage regulatory responsibilities and financial crime risk

Oversight Objectives		
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Oversight Framework – Regulatory & Financial Crime

Defining expected maturity

Dimension	Materiality measure	Low Foundational	Moderate Intermediate	High Established	Highest Advanced
Principle 11: Regulatory and Financial Crime	Either / Or: <ul style="list-style-type: none"> Amount of premium from high-risk territories Amount of premium from sanctioned territories 	<40% <0.5%	>=40% >=0.5%	>=60% >=1%	>70% >=2%
	<ul style="list-style-type: none"> Method of placement - number of coverholders domiciled in high-risk territories Method of placement - number of coverholders domiciled in sanctioned territories 	<40% <0.5%	>=40% >=0.5%	>=60% >=1%	>70% >=2%
	<ul style="list-style-type: none"> Amount of premium in high-risk classes of business 	<10%	>=10%	>=20%	>30%

Regulatory

All managing agents will be placed at Foundational for the regulatory sub principles. To achieve full compliance with local laws and regulations we do not consider there would be a visible or tangible difference in approach across managing agents.

These expectations are **not differentiated based on size or risk**. If you are meeting this guidance you are meeting your expected maturity. An example of this is found on the next slide.

As we work through the soft launch and we review managing agents self assessments **this approach could develop over time** and in the future managing agent materiality to Lloyd's could become a measure.

Financial Crime

A number of key data points have been used to determine a managing agent's expected maturity level. This provides an **objective view on the financial crime risk** presented by the operations undertaken by a managing agent.

The materiality metrics chosen reflect the various ways in which financial crime risk might present itself.

The approach will be **refined over time**, as we begin to understand its limitations and any mitigations to this.

Oversight Framework

What should managing agents do when different levels of maturity are in play?

Some guidance applies to all managing agents, regardless of materiality.

If you are meeting this guidance, you are meeting your expected maturity

Two or three maturity levels are expressed, with “No incremental guidance” appropriate for my maturity level

If you are meeting all guidance up to your maturity level, you are meeting your expected maturity

REGULATORY AND FINANCIAL CRIME

- 1** Embed a culture of transparency, regulatory and financial crime compliance, and an understanding of the benefits of this across their managed businesses.

Foundational	Intermediate	Established	Advanced
<ul style="list-style-type: none"> Managing agents are open, transparent, and cooperative with Lloyd's and regulators, whilst recognising the need for Lloyd's to lead such relationships with international regulators on matters related to licensing, conduct, data, funding, and reporting. Managing agents notify Lloyd's of significant and/or non-routine engagements with UK regulators and have a clear understanding of the types of issues that should be reported to Lloyd's. This includes issues which may 	<ul style="list-style-type: none"> No incremental guidance 	<ul style="list-style-type: none"> No incremental guidance 	<ul style="list-style-type: none"> No incremental guidance

REGULATORY AND FINANCIAL CRIME

- 2** Have a robust understanding of their regulatory and financial crime risk exposure and appetite, which is subject to appropriate challenge.

Foundational	Intermediate	Established	Advanced
Governance - Financial crime risk management is appropriately documented and the effectiveness of the framework is visible to senior management and includes individual or team accountability.			
<ul style="list-style-type: none"> The financial crime risk management framework should be supported and endorsed by the board or a committee with the required delegation of authority. Board (or delegate committee) involvement in Financial crime risk management is evidenced and the 	<ul style="list-style-type: none"> No incremental guidance 	<ul style="list-style-type: none"> Financial Crime is regularly discussed at risk committee or other appropriate equivalent Committees. 	<ul style="list-style-type: none"> The managing agent has a dedicated Financial Crime role with overall financial crime responsibility and is able to produce regular MI (prepared for appropriate senior committee e.g. ExCo. or Risk Co). Additionally the managing agent has a stand-alone committee for oversight of financial

Oversight Framework – Regulatory & Financial Crime

How to assess performance against the Principles?

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Qualitative assessment – Principles

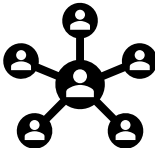
Managing agent transparency and discussion with Lloyd’s imperative

Based on those considerations follow up demonstrations of compliance may be required as well as recommended enhancements.

Information taken from deep dives, issue specific follow up and thematic reviews

Self assessments will be used to understand gaps in managing agents financial crime or regulatory framework.

Lloyd's internal risk reporting records issues of non-compliance which are dealt with on a case-by-case basis. If the risk reports present a trend or systemic concern, the regulatory team will act accordingly involving the relevant market participants and other Lloyd's teams.



Quantitative assessment – performance

Repeated controls failings resulting in breaches of Lloyd’s licences, local regulations and Lloyd’s rules monitored.

Link to the Governance dimension, through Regulatory reporting monitoring



Oversight Framework

Interventions specific to Regulatory & Financial Crime

Oversight Objectives		
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Robust intervention for underperformers		Development encouraged for the best		
Dimension	Well below expectations	Below expectations	Marginally below expectations	Meeting expectations
OPERATIONAL Regulatory and Financial Crime	<ul style="list-style-type: none"> Remove permission to underwrite 	<ul style="list-style-type: none"> Restrict new Coverholder approvals, until concerns brought back into tolerance Consider the restriction of high financial crime risk classes of business Limit geographical remit e.g. EEA business and not global. Managing Agent to produce remediation plan (with Board sign-off) to be approved by Lloyd's Requirement to undertake detailed Principles review (either internally, e.g. Internal Audit, or externally) Restrict or suspend the writing of a particular class of business 	<ul style="list-style-type: none"> Targeted financial crime reviews. Consider more stringent checks of a managing agent's use of Financial Crime tools (such as checking of Sanctions lists) before a managing agent is approved to write business/more business outside of the UK Engage in regular dialogue to ensure the regulatory function is satisfied that the managing agent processes and controls are meeting compliance Demand teams to engage in Lloyd's regulatory tools training as appropriate 	<ul style="list-style-type: none"> Feature positive Financial Crime steps taken in Lloyd's and playback to the market. "what good looks like". Use on cross-market working groups/task forces/planning boards

Regulatory and Financial Crime have the ability to recommend interventions or encouragement through Lloyd's governance framework and we are working with other oversight teams to develop our strategy. Interventions will typically be recommended in cases of systemic/continued non-compliance and in extreme cases if the incident results in jeopardising the Lloyd's licence.

Case studies:

Bringing the Framework to life

Adrian Underwood, Peter Dale-Skinner and Melissa Aitken

Case Study

Principle 11 – Regulatory and Financial Crime

OPERATIONAL

Principle 11: Regulatory and Financial Crime



Principle

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.

To support this, managing agents should:

- 1 Embed a culture of transparency, regulatory and financial crime compliance, and an understanding of the benefits of this across their managed businesses
- 2 Have a robust understanding of their regulatory and financial crime risk exposure and appetite, which is subject to appropriate challenge
- 3 Have appropriate systems and controls, including training, in place to manage regulatory responsibilities and financial crime risk

Case Study focused on Sub-Principle 2:

Have a robust understanding of their regulatory and financial crime risk exposure and appetite, which is subject to appropriate challenge.

The guidance in the Maturity Matrix for this Sub-Principle is split into four components:

- Risk Assessment
- Governance
- Monitoring and Assurance
- Regulatory

The following slides provide:

- An example of a Managing Agent assessed by Lloyd's as meeting the expected maturity of Foundational, linking to the relevant sections of the maturity matrix
- An example of a Managing Agent that Lloyd's assessed as having an expected Advanced rating but that has not met the relevant sections of the maturity matrix

The example does not cover all components within the maturity matrix as the guidance for this sub-principle is substantial.

Case Study 1

Principle 11 – Regulatory and Financial Crime

REGULATORY AND FINANCIAL CRIME

2 Have a robust understanding of their regulatory and financial crime risk exposure and appetite, which is subject to appropriate challenge.

Financial Crime - Risk Assessment	Foundational	Intermediate	Established	Advanced
	Risk Assessment - Processes are deployed that allow a managing agent to determine its inherent and residual risk levels in key areas of financial crime risk in compliance with all applicable financial crime legislation and regulatory guidance.			
	<ul style="list-style-type: none">There are processes to establish a managing agent's risk profile in accordance with applicable financial crime legislation and regulation. This risk assessment process should be an annual exercise, be appropriately scoped, resourced and mapped to and compared against pre-existing risk appetite statement(s).Risk assessment should identify inherent and residual risk generated from services, jurisdictions, customer types, complexity and volume of transactions and distribution channels and establish, through a variety of tools, risk levels and business functions which present the managing agent's greatest risks for each area of financial crime.Risk assessment informs the systems and controls that are most appropriate to mitigate risk.	<ul style="list-style-type: none">Risk Assessment is supported by documented methodology, covers all six risk types defined by Lloyd's (see glossary) with inherent and residual risk levels mapped into specific business Functions / Teams and or activities. Associated Persons are identified and risk rated.	<ul style="list-style-type: none">A financial crime control library is documented and includes appropriate Associated Person controls.Regulator thematic or other appropriate sources are identified and reviewed. Any required improvements identified are tracked to completion.Independent financial crime testing is undertaken periodically and required remediation work is tracked to completion and receives senior management oversight.	<ul style="list-style-type: none">Financial crime controls form part of a wider Risk and Control Self-Assessment (RCSA) exercise on at least an annual basis.Specific risk metric monitoring is undertaken on identified high risk activities, relationships and or business types.

Observed outcomes:

- The managing agent **truly understands the inherent and residual risk** that it is subject to and is **able to articulate this to Lloyd's**
- The MA maintains an **overall risk appetite statement**.
- The managing agent's response to the risk **continually evolves** through exploratory work:
 - A **risk assessment** which clearly identifies the sources of financial crime risk
 - This risk assessment **informs the controls and mitigants** of the risk
 - The annual risk assessment exercise is **evidenced by documentation**, producing **reliable conclusions**.
- There is a **body of analysis** that establishes what financial crime legislation the managing agent is subject to and assesses what the risk is that is posed to their business by these financial crime risks

Proportionate to the risk!

How do we know this?

The managing agent has submitted their risk assessment documentation to us and outlined their framework in various interactions.

Interventions:

Interventions are not required, as the managing agent is meeting its expected maturity.

Expected Maturity: Foundational
Actual Maturity: Foundational



Case Study 1

Principle 11 – Regulatory and Financial Crime

Principle	Expected Maturity	Assessed Maturity
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.	Foundational	Foundational
To support this, managing agents should:		
1 Embed a culture of transparency, regulatory and financial crime compliance, and an understanding of the benefits of this across their managed businesses	Foundational	Foundational
2 Have a robust understanding of their regulatory and financial crime risk exposure and appetite, which is subject to appropriate challenge	Foundational	Foundational
3 Have appropriate systems and controls, including training, in place to manage regulatory responsibilities and financial crime risk	Foundational	Foundational

Principle level assessment:

- At an overall level MA 1 is considered to be Foundational.
- Whilst there are specific elements of sub principle two that are foundational and some elements that are lacking from this sub principle the overall assessment is that MA 1 is Foundational.

Case Study 2

Principle 11 – Regulatory and Financial Crime

REGULATORY AND FINANCIAL CRIME			
2 Have a robust understanding of their regulatory and financial crime risk exposure and appetite, which is subject to appropriate challenge.			
Financial Crime - Governance	Foundational	Intermediate	Established
	Governance - Financial crime risk management is appropriately documented and the effectiveness of the framework is visible to senior management and includes individual or team accountability.		
	<ul style="list-style-type: none">The financial crime risk management framework should be supported and endorsed by the board or a committee with the required delegation of authority.Board (or delegate committee) involvement in Financial crime risk management is evidenced and the framework should have documented escalation criteria and reporting lines.Financial crime risk management responsibility is clearly defined in line with Senior Managers and Certification Regime (SMCR) requirements and other relevant regulation.Senior management should demonstrate a clear commitment and proactive engagement in the management of financial crime risk (e.g. setting of risk appetite statements) and ensure that the compliance function has sufficient authority, autonomy and appropriately skilled resources.Financial Crime related escalation processes should ensure effective Suspicious Activity Reporting to include staff who possess the appropriate seniority and experience.	<ul style="list-style-type: none">No incremental guidance	<ul style="list-style-type: none">Financial Crime is regularly discussed at risk committee or other appropriate equivalent Committees.
			<ul style="list-style-type: none">The managing agent has a dedicated Financial Crime role with overall financial crime responsibility and is able to produce regular MI (prepared for appropriate senior committee e.g. ExCo. or Risk Co).Additionally the managing agent has a stand-alone committee for oversight of financial crime and compliance, through which a strategy exists for self improvement on financial crime matters.Senior management set the right tone and demonstrate leadership on financial crime issues.

Observed outcomes:

Some behaviours envisaged for an Advanced level **demonstrated** – such as dedicated Financial Crime role with overall financial crime responsibility.

However, the overall spirit of the sub-principle is still not met:

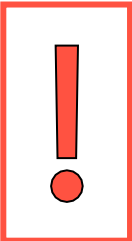
- No indication that senior management set the right tone or demonstrate leadership on financial crime issues.
- Some evidence suggests financial crime is not being shown appropriate consideration by senior management
- Additionally, the managing agent has provided little evidence that financial crime risk is considered to be important by senior staff when we have engaged with the managing agent on this issue specifically.
- The managing agent does not have a stand-alone committee for the oversight of financial crime and compliance issues

How do we know this?

Evidence provided as part of financial crime review and through continued conversations with the managing agent.

Interventions:

Managing Agent to produce remediation plan (with Board sign-off) to be approved by Lloyd's



Expected Maturity:	Advanced
Actual Maturity:	Below Foundational

Likely impact to overall Dimension Rating

Case Study

Principle 11 – Regulatory and Financial Crime

Principle	Expected Maturity	Assessed Maturity
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.	ADVANCED	BELOW FOUNDATIONAL
To support this, managing agents should:		
1 Embed a culture of transparency, regulatory and financial crime compliance, and an understanding of the benefits of this across their managed businesses	Advanced	Advanced
2 Have a robust understanding of their regulatory and financial crime risk exposure and appetite, which is subject to appropriate challenge	Advanced	Below Foundational
3 Have appropriate systems and controls, including training, in place to manage regulatory responsibilities and financial crime risk	Advanced	Advanced

Principle level assessment:

- Although the managing agent meets the criteria against sub-principles 1 and 3 the position against sub-principle 2 highlights significant concerns.
- This greatly reduces the maturity assessment to below foundational.

Case Study

Principle 11 – Regulatory and Financial Crime

Principle 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.

REGULATORY AND FINANCIAL CRIME			
1 Embed a culture of transparency, regulatory and financial crime compliance, and an understanding of the benefits of this across their managed businesses.			
Foundational	Intermediate	Established	Advanced
<ul style="list-style-type: none">Managing agents are open, transparent, and cooperative with Lloyd's and regulators, whilst recognising the need for Lloyd's to lead such relationships with international regulators on matters related to licensing, conduct, data, funding, and reporting.Managing agents notify Lloyd's of significant and/or non-routine engagements with UK regulators and have a clear understanding of the types of issues that should be reported to Lloyd's. This includes issues which may generate complaints, receive regulatory or significant press attention, concern the misuse or potential misuse of Lloyd's name or brand or undermine the confidence in and/or integrity of the Lloyd's Market. Issues are promptly identified and shared with Lloyd's.Managing agents respond to regulatory issues and/or requests within a reasonable timeframe and support Lloyd's in its regulator relationship management. Relevant data requests are responded to positively, to ensure Lloyd's regulatory obligations on behalf of the market are met.Managing agents take responsibility for fostering a culture of compliance, with clear commitment from senior management and evidence of proactive engagement in the management of financial crime risk.	<ul style="list-style-type: none">No incremental guidance	<ul style="list-style-type: none">No incremental guidance	<ul style="list-style-type: none">No incremental guidance

Case Study focused on Sub-Principle 1:

Embed a culture of transparency, regulatory and financial crime compliance, and an understanding of the benefits of this across their managed businesses.

The following slide provides:

- An example of a managing agent not meeting expectations, the impact of not meeting expectations and how Lloyd's would work with a managing agent to bring them back to meeting expectations.

Case Study

Principle 11 – Regulatory and Financial Crime

REGULATORY AND FINANCIAL CRIME

- 1 Embed a culture of transparency, regulatory and financial crime compliance, and an understanding of the benefits of this across their managed businesses.

Foundational	Intermediate	Established	Advanced
<ul style="list-style-type: none"> Managing agents are open, transparent, and cooperative with Lloyd's and regulators, whilst recognising the need for Lloyd's to lead such relationships with international regulators on matters related to licensing, conduct, data, funding, and reporting. Managing agents notify Lloyd's of significant and/or non-routine engagements with UK regulators and have a clear understanding of the types of issues that should be reported to Lloyd's. This includes issues which may generate complaints, receive regulatory or significant press attention, concern the misuse or potential misuse of Lloyd's name or brand or undermine the confidence in and/or integrity of the Lloyd's Market. Issues are promptly identified and shared with Lloyd's. Managing agents respond to regulatory issues and/or requests within a reasonable timeframe and support Lloyd's in its regulator relationship management. Relevant data requests are responded to positively, to ensure Lloyd's regulatory obligations on behalf of the market are met. Managing agents take responsibility for fostering a culture of compliance, with clear commitment from senior management and evidence of proactive engagement in the management of financial crime risk. 	No incremental guidance	No incremental guidance	No incremental guidance



Expected Maturity: Foundational
Actual Maturity: Below Foundational

Likely impact to overall Dimension Rating

Observed outcome:

- A local broker reaches out to a five managing agent to assist them with registering as a foreign reinsurer in an overseas territory following the introduction of a new regulation.
- The managing agent registers their syndicates with the local regulator, pays a registration fee and is now individually listed as an approved foreign reinsurer.
- The sixth managing agent decides to reach out to Lloyd's to discuss this strategy.
- The managing agent has **overlooked a fundamental building block** of maintaining regulatory compliance in an international space – **Lloyd's is responsible for this relationship**, to maintain compliance.

How do we know this?

- Through conversations with the managing agent, after this was flagged by another managing agent contacted by the same broker.

Interventions:

Managing Agent must produce a remediation plan (with Board sign-off) to be approved by Lloyd's.

Continued engagement with Lloyd's until we are satisfied that there will not be a repeat incident and their regulatory and underwriting controls are adequate.

Also consider:

- De-registering the individual syndicates and apply for a Lloyd's single licence registration.
- Lloyd's & managing agent to manage consequences / penalties from the regulator e.g., 6-month suspension of licence due to inconvenience.

Case Study

Principle 11 – Regulatory and Financial Crime

Principle	Expected Maturity	Assessed Maturity
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.	FOUNDATIONAL	BELOW FOUNDATIONAL
To support this, managing agents should:		
1 Embed a culture of transparency, regulatory and financial crime compliance, and an understanding of the benefits of this across their managed businesses	Foundational	Below Foundational
2 Have a robust understanding of their regulatory and financial crime risk exposure and appetite, which is subject to appropriate challenge	Foundational	Foundational
3 Have appropriate systems and controls, including training, in place to manage regulatory responsibilities and financial crime risk	Foundational	Foundational

Principle level assessment:

Overall, this is a material issue. We cannot say that the managing agent has robust frameworks in place to manage their regulatory and financial crime risk. They have overlooked fundamental elements of regulatory compliance.

Case Study

Principle 11 – Regulatory and Financial Crime

Expected Maturity: Advanced

Actual Maturity: Foundational



REGULATORY AND FINANCIAL CRIME				
3 Have appropriate systems and controls, including training, in place to manage regulatory responsibilities and financial crime risk.				
Regulatory	Foundational	Intermediate	Established	Advanced
	<ul style="list-style-type: none">Set and review regularly, clear underwriting guidance as to what and how business can be written in accordance with Lloyd's licensing, with reference to Lloyd's regulatory tools.Establish and regularly review clear escalation procedures and criteria, for use in underwriting decisions or where a potential breach is identified once a risk is bound.Conduct horizon scanning to anticipate and respond to changes in regulatory guidance and legislation.Ensure regulatory compliance training is provided to all staff and on a regular basis for underwriting and compliance staffRegulatory training is part of new employee onboarding processEnsure all those carrying out insurance business should do so equipped with appropriate levels of regulatory knowledge.Ensure training covers Crystal and QA Tool (DCOM) and the Risk Locator tool for international risksRegularly assess staff training requirements are regularly assessedEnsure training modules are regularly reviewed and updated to reflect regulatory changesRegulatory compliance training recognises any additional international regulatory risk arising from exposures to multiple territories and classes and provides underwriters with knowledge of license requirements in exposed territories and classesRegulatory compliance training recognises the additional international regulatory risk arising from exposures to highly regulated territories and classesTailor training to provide underwriters with relevant knowledge of regulations and license requirements in highly regulated territories and classesUnderwriting and Compliance staff champion the use of Lloyd's regulatory tools within the business	<ul style="list-style-type: none">No incremental guidance	<ul style="list-style-type: none">No incremental guidance	<ul style="list-style-type: none">No incremental guidance

Observed outcome:

- A territory enforces specific local regulations in respect to premium payments. Regulation mandates that premium payments must be paid to the insurer within set prescribed timelines.
- The managing agent uses Lloyd's tools and identifies that they should not continue with placing business at a particular intermediary.
- The **spirit of the sub-principle has been met.**

How do we know this?

We won't hear of all these great examples – and where that it the case, that's good news! However, we will always retain the ability to ask for evidence of how this is being managed at your business.

Interventions:

None – the managing agent has done all it should to manage its regulatory responsibility, through its internal processes and use of Lloyd's systems.

Case Study

Principle 11 – Regulatory and Financial Crime

Principle	Expected Maturity	Assessed Maturity
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.	ADVANCED	ADVANCED
To support this, managing agents should:		
1 Embed a culture of transparency, regulatory and financial crime compliance, and an understanding of the benefits of this across their managed businesses	Advanced	Advanced
2 Have a robust understanding of their regulatory and financial crime risk exposure and appetite, which is subject to appropriate challenge	Advanced	Advanced
3 Have appropriate systems and controls, including training, in place to manage regulatory responsibilities and financial crime risk	Advanced	Advanced

Principle level assessment:

The managing agent has an overall assessment of Advanced. They are meeting the regulatory component expectations of Foundational, as well as the financial crime elements.

As such, overall, they would be meeting their expectation of Advanced.

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

Lyndsay Deeves

Next Steps and Timeline

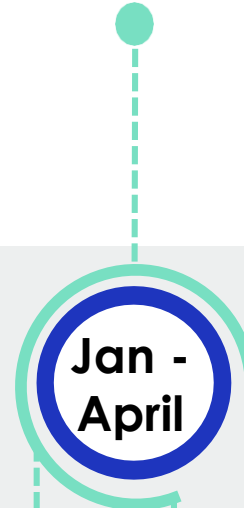
Pre-populated
self assessment
templates
uploaded
(14 January)

Board
and NED
briefings held



Technical
briefings held

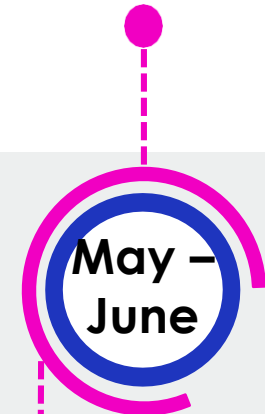
Syndicates complete and
submit self assessments
(29 April)



Ongoing support
and engagement
via Account
Managers

Lloyd's complete
assessments of
syndicates

Syndicate categorisation confirmed
ahead of 2023 CPG
(June)



Follow-up discussions
with syndicates re
differences in view

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 on SecureShare
 - Oversight Framework team available to answer any questions
- **Consider what actions can be taken to close gaps before mid-year**
- **Questions on the new framework should be directed to your Account Manager or oversightframework@lloyds.com in the first instance**

Do use the support available from Lloyd's!

Q&A
