

# **Project Rio Technical Briefing Sessions**

## **Reserving**

**25 January 2022**

**Lyndsay Deeves and Nikhil Shah**

# 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 Reserving?	25 mins 15mins
2. Case studies – bringing the framework to life	25 mins
3. Self Assessments	5 mins
4. Next steps	5 mins
5. Q&A	15 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

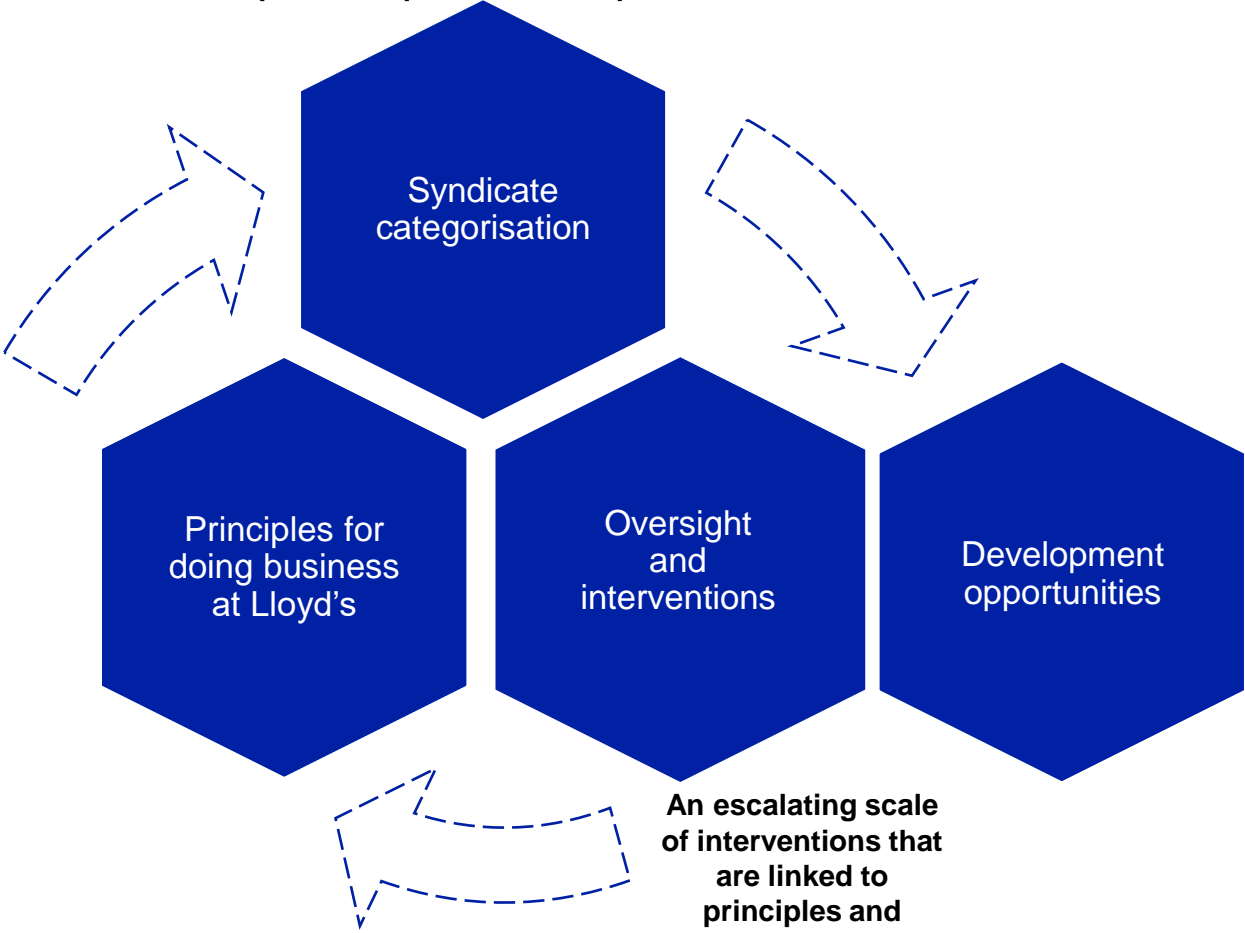
# Oversight Framework

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

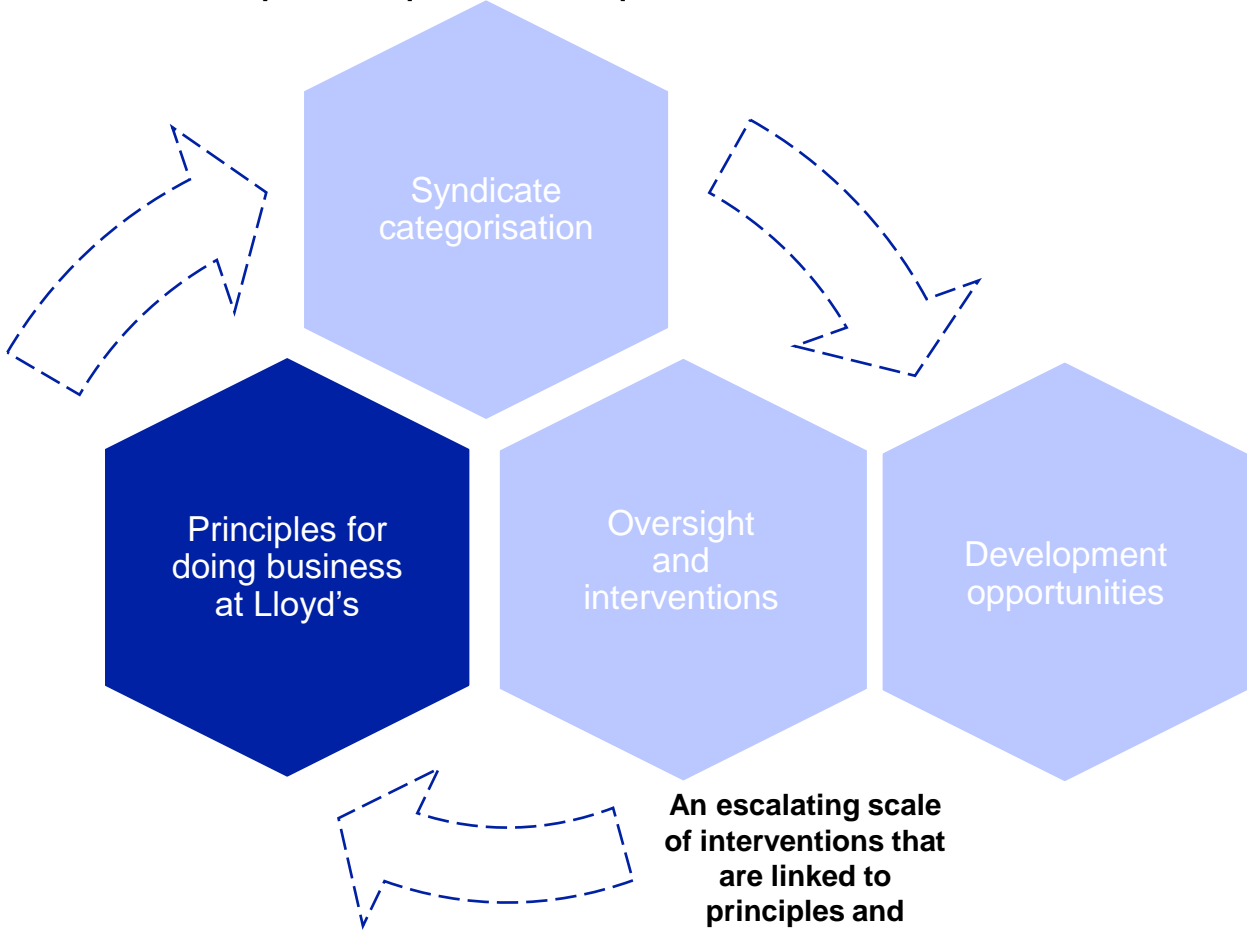
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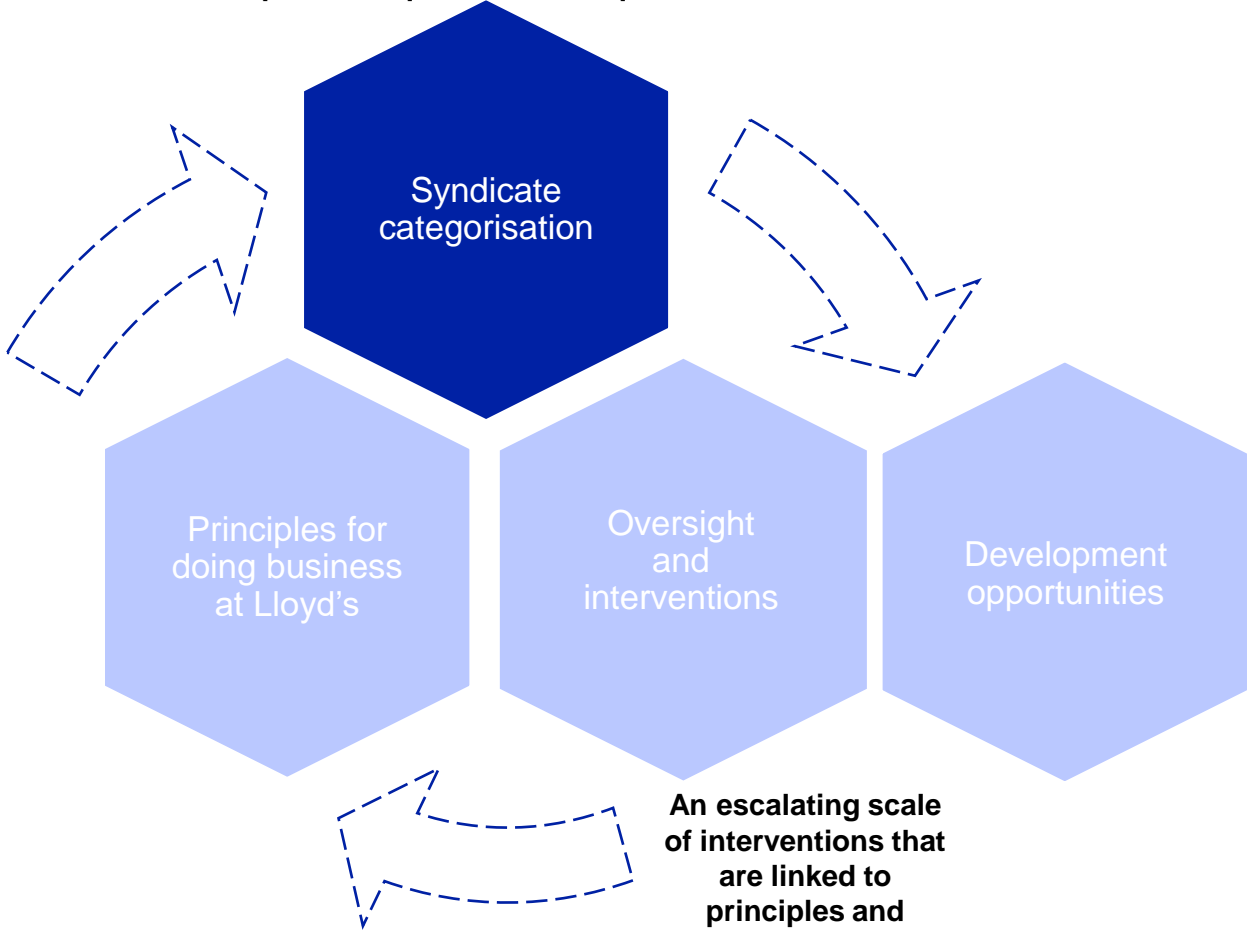
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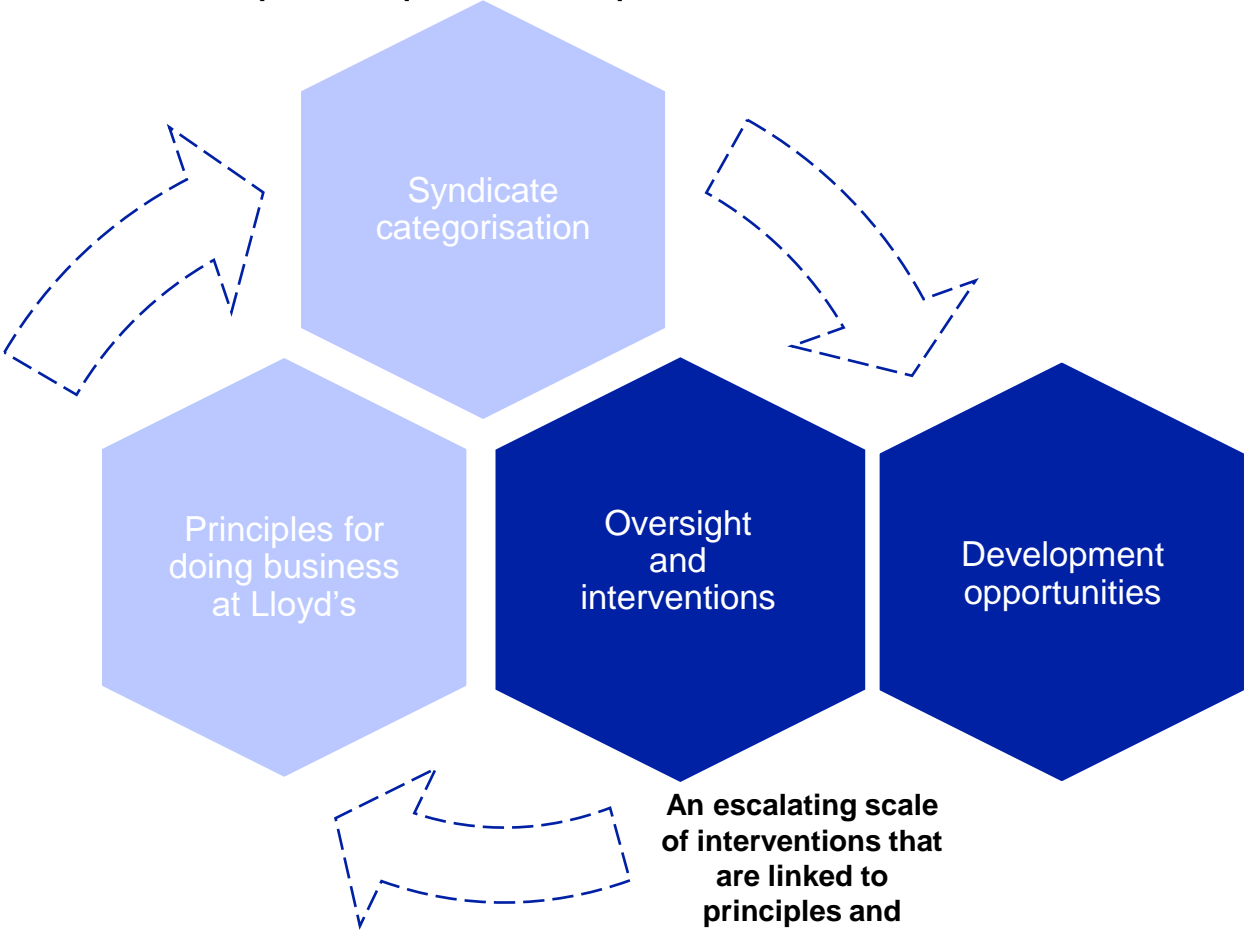
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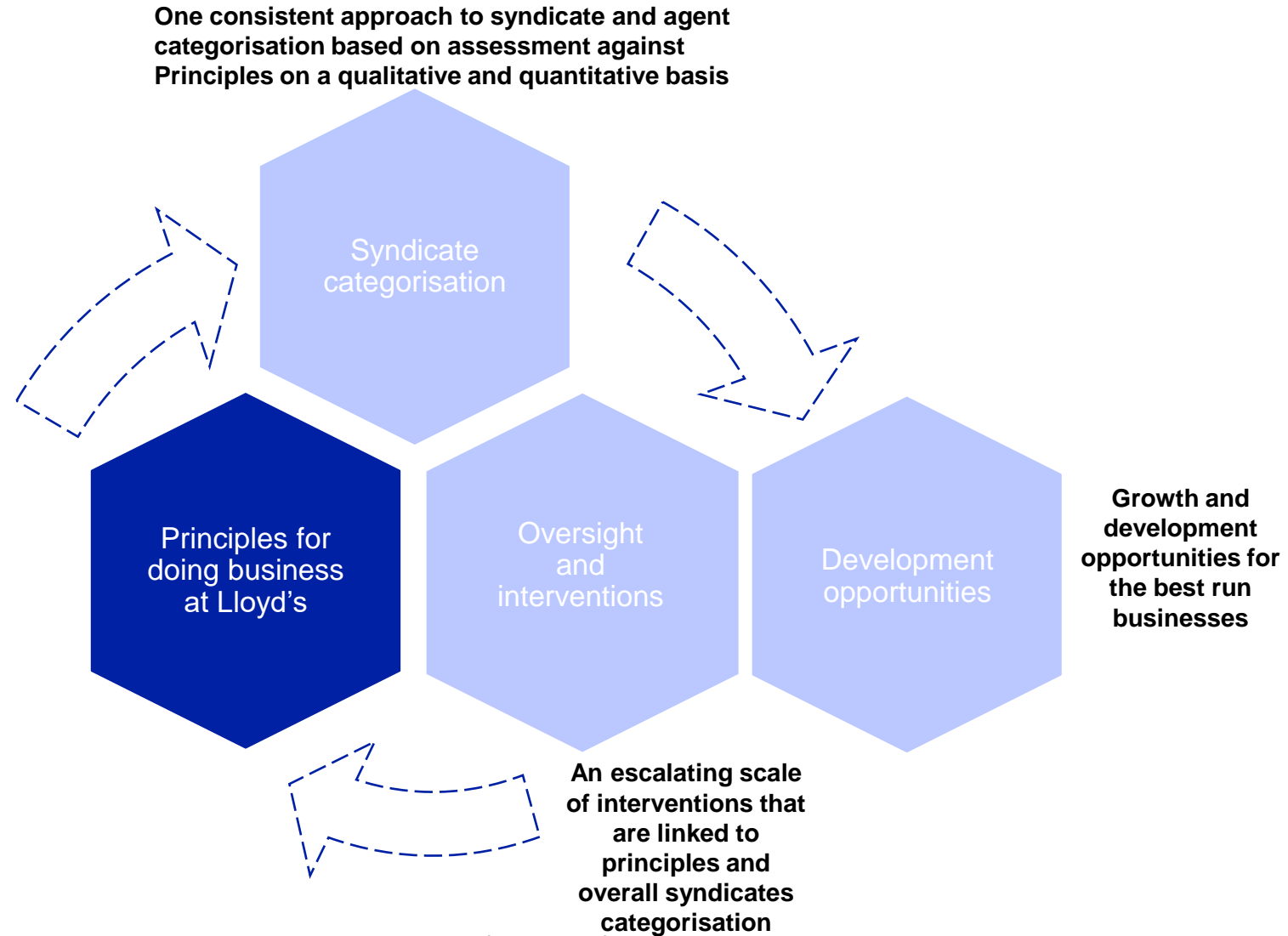
An escalating scale of interventions that are linked to principles and overall syndicates categorisation

Growth and development opportunities for the best run businesses



# Oversight Framework

## The Lloyd's Principles



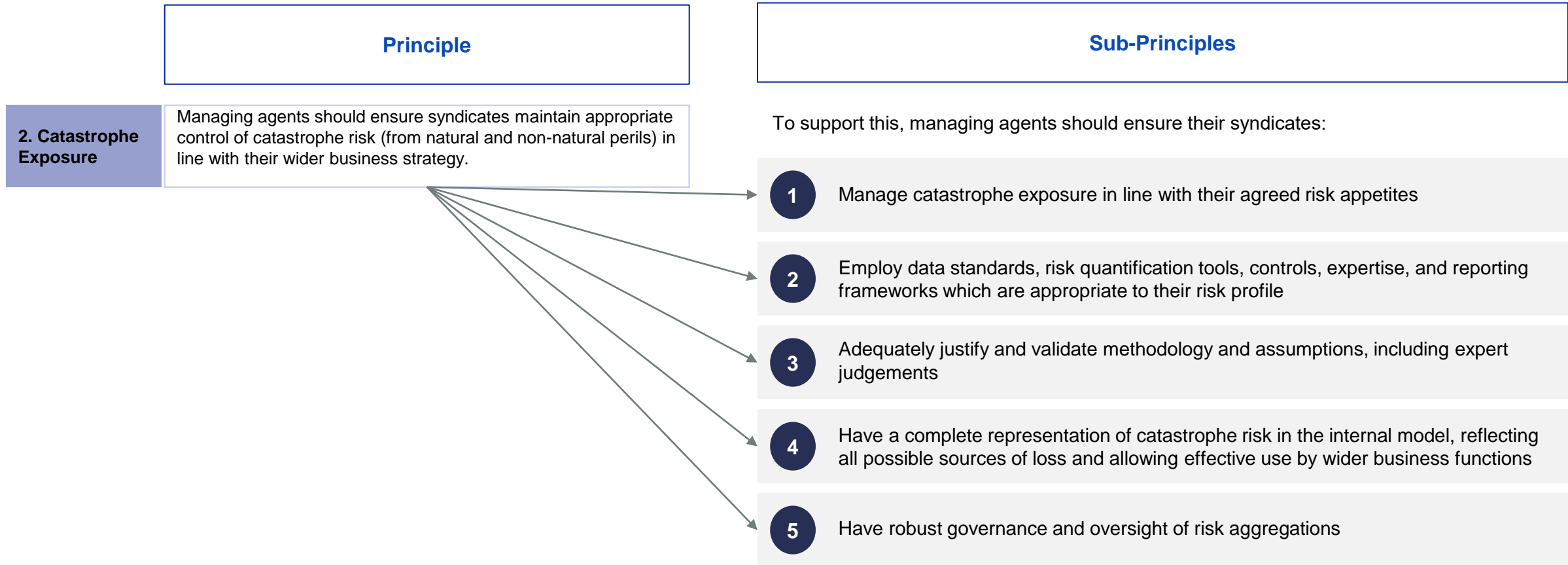
# Oversight Framework

## 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

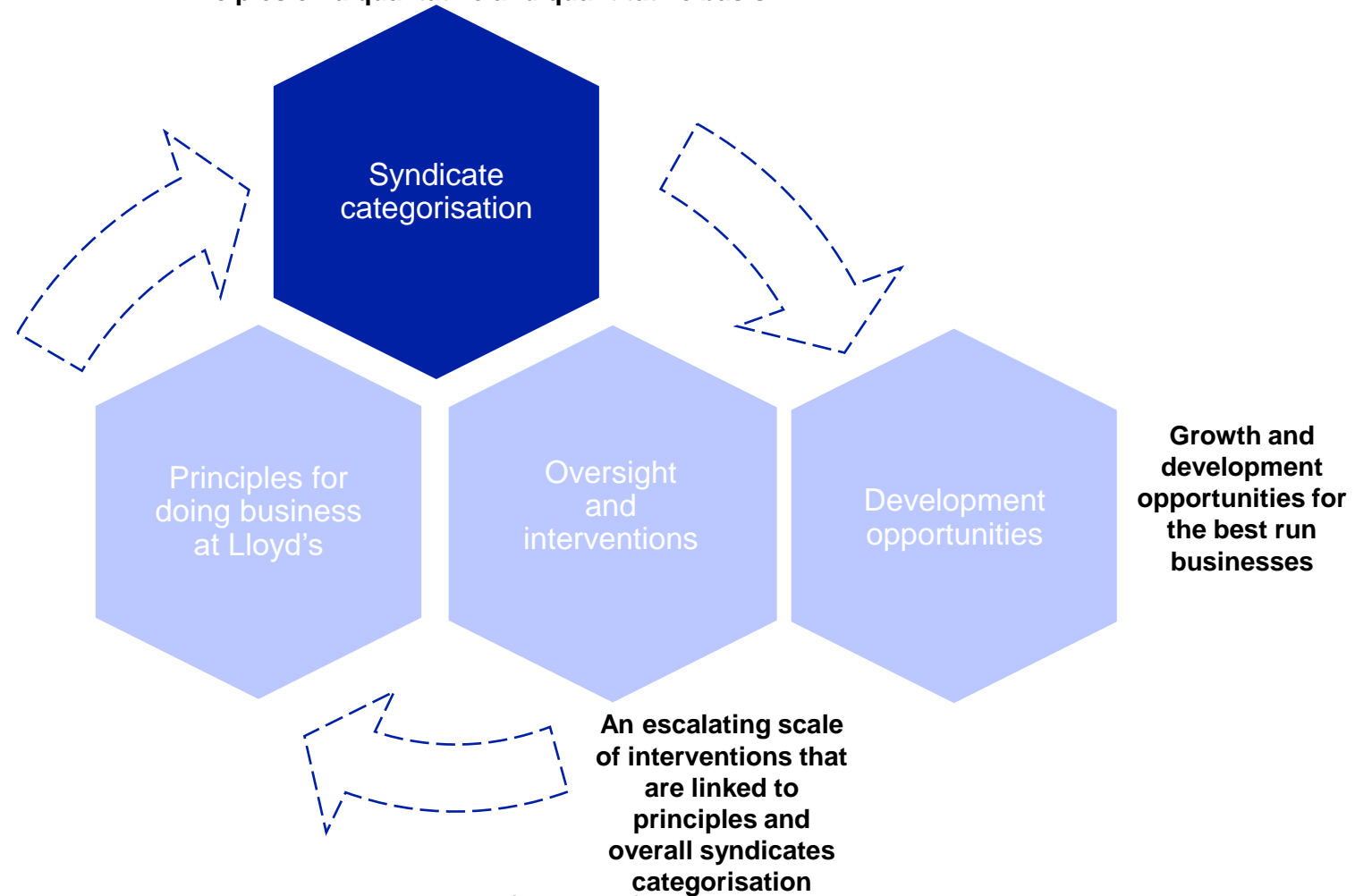
## Levels of maturity – generic definitions

<b>FOUNDATIONAL</b> <i>(Low materiality)</i>	<b>INTERMEDIATE</b> <i>(Moderate materiality)</i>	<b>ESTABLISHED</b> <i>(High materiality)</i>	<b>ADVANCED</b> <i>(Highest materiality)</i>
Syndicate with foundational capabilities.	Syndicate with intermediate capabilities.	Syndicate with established capabilities.	Syndicate with advanced capabilities.
Core competencies and processes in place to effectively manage lower materiality risk exposure	Consistent with good market practice observed at Lloyd's, demonstrating comprehensive, well embedded processes to effectively manage moderate materiality risk exposure	Consistent with strong practice observed at Lloyd's and globally, demonstrating sophisticated processes and strong capabilities to effectively manage high materiality risk exposure	Consistent with Lloyd's and global best practice, showing leadership on emerging techniques, and proactively supporting Lloyd's in improving standards across the market

# Oversight Framework

## Syndicate categorisation

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



# Oversight Framework

## Syndicate categorisation

Oversight Dimensions		Expected Maturity
Performance	Underwriting Profitability	Advanced
	Catastrophe Exposure	Established
	Outwards Reinsurance	Foundational
	Claims Management	Intermediate
	Customer Outcomes	Intermediate
	Reserving	Advanced
Solvency	Capital	Established
	Investments	Established
	Liquidity	Foundational
Operational	Governance, Risk Management and Reporting	Established
	Regulatory and Financial Crime	Intermediate
	Operational Resilience	Foundational
	Culture	Foundational

# Oversight Framework

## Syndicate categorisation

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



## Dimension Rating

Meets expectation

Marginally below expectation

Below expectation

Well below expectation

# Oversight Framework

## Syndicate categorisation

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

# Oversight Framework

## Syndicate categorisation

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

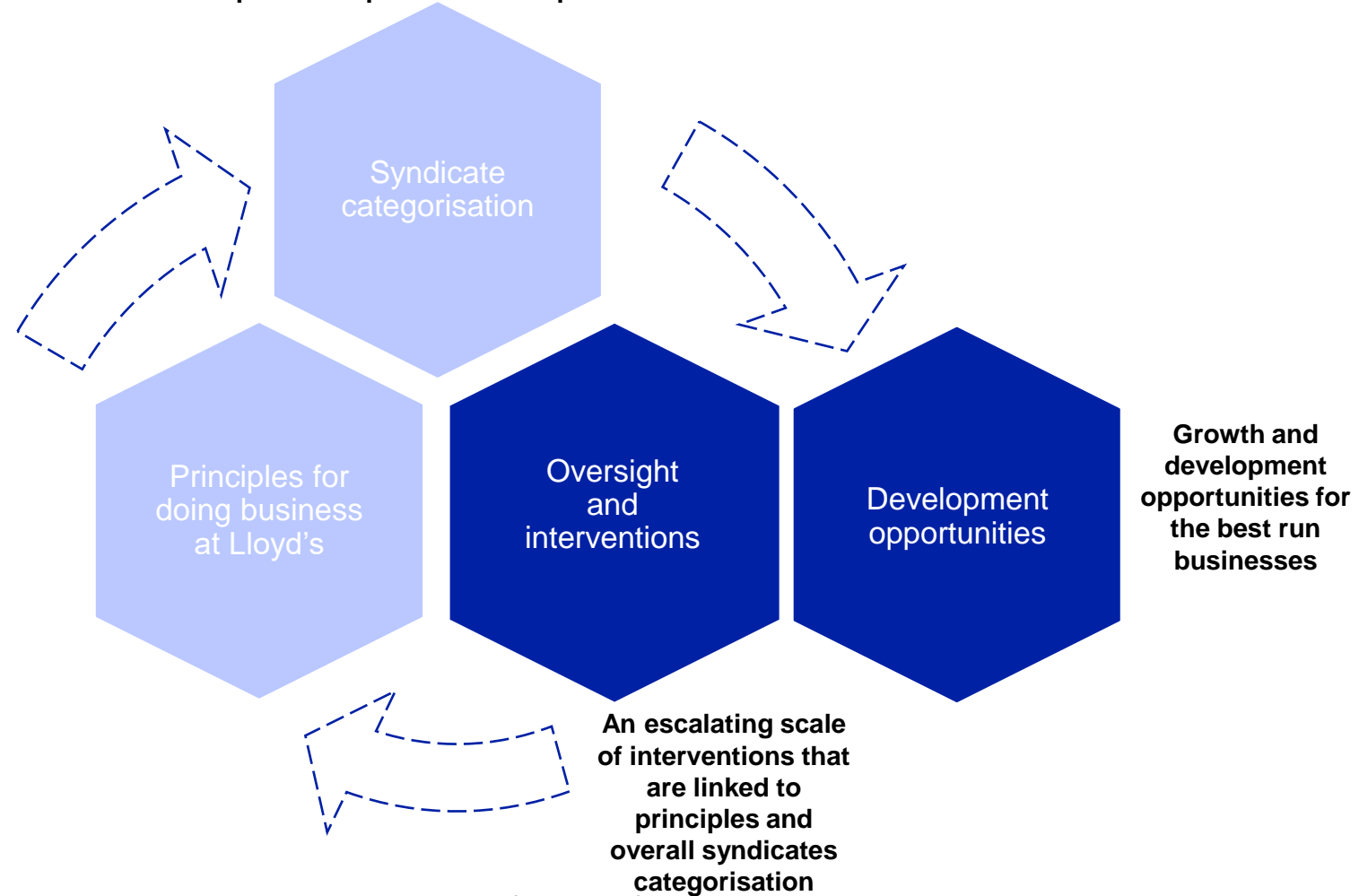
Oversight Dimensions		Expected Maturity	Actual Maturity	Dimension Rating	UNDERPERFORMING
Performance	Underwriting Profitability	Advanced	Intermediate	Below expectations	
	Catastrophe Exposure	Established	Established	Meets expectations	
	Outwards Reinsurance	Foundational	Foundational	Meets expectations	
	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

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 Reserving?*

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Nikhil Shah

# Oversight Framework – Reserving

## What risk are we managing?

Oversight Objectives		
1. Lloyd's oversight supports the delivery of the Lloyd's strategy	2. Lloyd's oversight is aligned with the Risk Appetite set by the Council	3. Lloyd's oversight builds 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' business and management
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- **Aim of Lloyd's, and the Reserving team, is to manage the risk of inadequate syndicate reserves.**
- **We want to minimise likelihood of future best estimate reserve deteriorations and to avoid any undue risk to Lloyd's performance and solvency position.**
- **Considered what the key bedrocks are to support robust reserving practices. This has led to the six sub-principles.**

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.

To support this, managing agents should ensure their syndicates:

- 1 Have clear governance and ownership of the reserves
- 2 Make appropriate allowance for uncertainties when setting reserves
- 3 Use assumptions to set reserves which are realistic, transparent and consider historical experience
- 4 Identify, understand and justify any differences in assumptions between reserving and other functions
- 5 Periodically and objectively challenge the reserving processes and assumptions
- 6 Set best estimate reserves in line with Solvency II principles, with any allowance for UK GAAP margins set explicitly in addition

# Oversight Framework – Reserving

## Defining expected maturity

Oversight Objectives		
1. Lloyd's oversight supports the delivery of the Lloyd's strategy	2. Lloyd's oversight is aligned with the Risk Appetite set by the Council	3. Lloyd's oversight instils confidence in regulators and rating agencies
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Dimension	Materiality measure	Low Foundational	Moderate Intermediate	High Established	Highest Advanced
Principle 6: Reserving	Size of <b>net best estimate reserves*</b> combined with <b>proportion of casualty reserves</b> (subject to min casualty reserve cap).	< £0.2bn < 40%	£0.2bn to <£1bn 40% to <70%	£1bn to <£2bn 70% to <90%	>= £2bn >= 90%

\*Net Best Estimate Reserves from TPD Return

Size of Net Reserves

Casualty Proportion\*1

	> £2bn	£1bn to <£2bn	£0.2bn to <£1bn	<= £0.2bn
>= 90%	Highest	Highest	High	Moderate
70% to <90%	Highest	Highest	High	Moderate
40% to <70%	Highest	High	Moderate	Moderate
<40%	High	Moderate	Moderate	Low

\*1 Subject to minimum casualty reserve of £0.1bn  
Casualty classes defined as Lloyd's HL10 classes: Casualty Treaty, Casualty Other, Casualty Fin Pro

- Materiality rating informs expected maturity. For example, a materiality rating of 'high' leads to expected maturity of 'established'.

### 5 Periodically and objectively challenge the reserving processes and assumptions.

	Foundational	Intermediate	Established	Advanced
Assumptions challenge	<ul style="list-style-type: none"> <li>Reserving team can clearly articulate changes to assumptions and / or reserving methodology and this is clearly signposted along with impact shown in management information supplied to the board.</li> <li>Assumptions are challenged at each stage of review and cover the most material aspects relating to the estimation of reserves.</li> </ul>	<ul style="list-style-type: none"> <li>Diagnostics are produced to help senior management understand and challenge the appropriateness of assumptions.</li> <li>Sensitivity testing is undertaken to assess the appropriateness and materiality of assumptions.</li> </ul>	<ul style="list-style-type: none"> <li>Estimates and key assumptions are compared to those of the independent reviewer and reasons for differences understood and clearly articulated.</li> <li>There is comprehensive challenge of all assumptions relevant to the reserve setting process.</li> </ul>	<ul style="list-style-type: none"> <li>Assumptions underlying classes where there are material differences in view of reserves to third-party are reviewed in detail and are a consideration when selecting future deep dives.</li> <li>There is a continuous process of monitoring the reasonableness of assumptions as new information becomes available with regularly scheduled touchpoints for a deep dive on assumptions review.</li> </ul>

# Oversight Framework – Reserving

How to assess performance against the Principles?

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Assessment against Principles will be through combination of qualitative and quantitative

## 1) Quantitative assessment – performance

- **Performance Metrics:**  
*Illustrative* metrics considered:
  - Capital Loadings from Reserving Tests of Uncertainty
  - Reserve stability over time
  - Reserve deteriorations
  - Actual Loss Ratio performance against plan
- **Lagging**
  - Metrics generally lag due to reporting timetable as well as frequency of calculation.
- **How will we be using them?**
  - Utilised as part of overall Syndicate assessment
  - Indicators for further discussion

## 2) Qualitative assessment

- Discussion of key areas relating to sub principles in the Annual Reserve Meetings
- Documentation review / deep dives (replacing MS reviews)
- Self-assessments – will be using these to highlight where there are differences and follow-up
- In general - limited change vs today



# Oversight Framework – Reserving

## Interventions specific to Reserving

Oversight Objectives		
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Dimension	Well below expectations	Below expectations	Marginally below expectations	Meeting expectations
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">PERFORMANCE</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Reserving</p>	<ul style="list-style-type: none"> <li>Removal of Chief Actuary and/or CFO</li> <li>Reserves set by Lloyd's Chief Actuary</li> </ul>	<ul style="list-style-type: none"> <li>Capital loadings</li> <li>A deep-dive review into multiple classes of business.</li> <li>Requirement to strengthen syndicate reserves</li> <li>Restricting writing long tail business unless defined hurdles met</li> <li>Request for an independent review of reserves</li> <li>Managing Agent to produce remediation plan to be approved by Lloyd's</li> <li>Requirement to undertake detailed Principles review (either internally, e.g. Internal Audit, or externally)</li> </ul>	<ul style="list-style-type: none"> <li>Capital loadings</li> <li>Close monitoring of the business, including periodic monitoring of reserve reports where appropriate</li> <li>A deep-dive review of the noted issues. In exceptional circumstances a desktop review can be performed with data extracts from the Syndicate. Potential for Lloyd's to strengthen syndicate reserves.</li> </ul>	<ul style="list-style-type: none"> <li>Routine risk-based oversight</li> <li>Less Board engagement required</li> </ul>

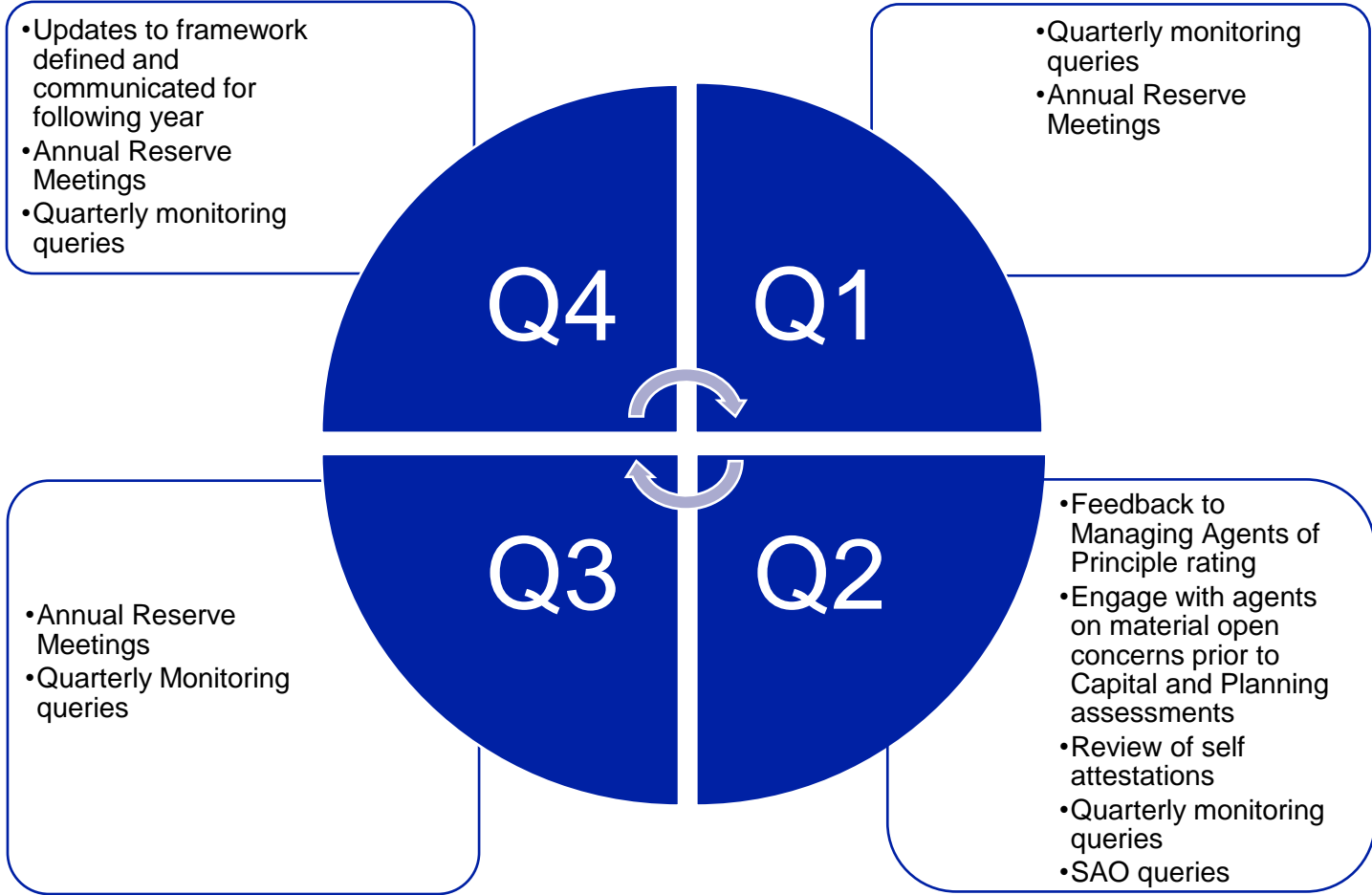
# Oversight Framework – Reserving

Annual cycle of activity

Oversight Objectives		
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There will be continuous assessment of sub-principles through the year based on Lloyd's interactions with Managing Agents, syndicate returns, documentation review.

For Business Planning, assessments will be locked down in Q2



# Case studies:

*Bringing the Framework to life*

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Nikhil Shah

# Case Study 1: Sub-Principle assessment

## Sub-principle 5: Periodically and objectively challenge the reserving processes and assumptions

	Foundational	Intermediate	Established	Advanced
Experience Analysis	<ul style="list-style-type: none"> <li>An actual versus expected and ultimate loss ratio development analysis are undertaken as part of the validation of technical provisions at the appropriate level of granularity (which takes into account the heterogeneity of data within class groups).</li> <li>The breakdown of the change in ultimate claims compared to prior analysis is clearly understood and the actuarial function is able to coherently describe drivers of experience over the period and other contributors to the change.</li> <li>Changes in assumptions compared to prior analysis are clearly understood, documented and communicated by the actuarial function.</li> </ul>	<ul style="list-style-type: none"> <li>Triggers are set at class and aggregate level to flag areas which potentially require investigation into the appropriateness of assumptions. For example, when the actual vs expected analysis falls outside of an acceptable range, an investigation is considered.</li> </ul>	<ul style="list-style-type: none"> <li>Periodically, analysis of actual versus expected movements over a longer period of time are considered to understand whether there is systemic over or under-estimation of reserves. Similarly, this is performed for catastrophe estimates.</li> <li>Review of specific IBNR provisions compared to claims watchlists movements help identify whether exposure to potentially large claims is appropriately allowed for.</li> </ul>	<ul style="list-style-type: none"> <li>Diagnostic tools are used to efficiently analyse data in a consistent way such that emerging trends are identified in advance of reserve setting.</li> <li>Additional analytical insight into reserve movements is obtained from having strong link ups between the actuarial function and the claims and underwriting teams.</li> </ul>

### Managing Agent

#### *Expected Maturity - Intermediate*

As part of an Annual Reserve Meeting the Syndicate described their reserve validation exercise.

***“We perform a quarterly incurred claims actual vs expected exercise as part of the reserving process by reserving class of business and that directly informs whether changes to assumptions are required, in particular to the reserving claims development patterns. We monitor the results of the actual vs expected exercise on a quarterly basis throughout the year and we may perform deeper dives into classes where experience has been worse than expected but this is based on judgement rather than set KPIs.”***

# Case Study 1: Sub-Principle assessment

## Sub-principle 5: Periodically and objectively challenge the reserving processes and assumptions

	Foundational	Intermediate	Established	Advanced
Experience Analysis	<ul style="list-style-type: none"> <li>An actual versus expected and ultimate loss ratio development analysis are undertaken as part of the validation of technical provisions at the appropriate level of granularity (which takes into account the heterogeneity of data within class groups).</li> <li>The breakdown of the change in ultimate claims compared to prior analysis is clearly understood and the actuarial function is able to coherently describe drivers of experience over the period and other contributors to the change.</li> <li>Changes in assumptions compared to prior analysis are clearly understood, documented and communicated by the actuarial function.</li> </ul>	<ul style="list-style-type: none"> <li>Triggers are set at class and aggregate level to flag areas which potentially require investigation into the appropriateness of assumptions. For example, when the actual vs expected analysis falls outside of an acceptable range, an investigation is considered.</li> </ul>	<ul style="list-style-type: none"> <li>Periodically, analysis of actual versus expected movements over a longer period of time are considered to understand whether there is systemic over or under-estimation of reserves. Similarly, this is performed for catastrophe estimates.</li> <li>Review of specific IBNR provisions compared to claims watchlists movements help identify whether exposure to potentially large claims is appropriately allowed for.</li> </ul>	<ul style="list-style-type: none"> <li>Diagnostic tools are used to efficiently analyse data in a consistent way such that emerging trends are identified in advance of reserve setting.</li> <li>Additional analytical insight into reserve movements is obtained from having strong link ups between the actuarial function and the claims and underwriting teams.</li> </ul>



**Managing Agent**  
*Expected Maturity - Intermediate*

*"We perform a quarterly incurred claims actual vs expected exercise as part of the reserving process by reserving class of business and that directly informs whether changes to assumptions are required, in particular to the reserving claims development patterns. We monitor the results of the actual vs expected exercise on a quarterly basis throughout the year and we may perform deeper dives into classes where experience has been worse than expected but this is based on judgement rather than set thresholds."*

Where does this response sit on the maturity scale?

**FOUNDATIONAL**

# Case Study 1: Dimension Rating

Principle		Expected Maturity	Assessed Level of Maturity
<b>Principle 6: Reserving</b> <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> To support this, managing agents should ensure their syndicates:		Intermediate	Intermediate
Sub Principle 1	Have clear governance and ownership of the reserves	Intermediate	Intermediate
Sub Principle 2	Make appropriate allowance for uncertainties when setting reserves	Intermediate	Intermediate
Sub Principle 3	Use assumptions to set reserves which are realistic, transparent and consider historical experience	Intermediate	Intermediate
Sub Principle 4	Identify, understand and justify any differences in assumptions between reserving and other functions	Intermediate	Intermediate
Sub Principle 5	Periodically and objectively challenge the reserving processes and assumptions	Intermediate	Foundational
Sub Principle 6	Set best estimate reserves in line with Solvency II principles, with any allowance for UK GAAP margins set explicitly in addition	Intermediate	Intermediate

**Overall Lloyd's assessment of Syndicate on maturity scale was intermediate and, as a result overall dimension rating for Reserving was Meeting Expectations**

# Case Study 2: Sub-Principle assessment

## Sub-principle 4: Identify, understand and justify differences in assumptions between reserving and other functions

	Foundational	Intermediate	Established	Advanced
Consistency of assumptions	<ul style="list-style-type: none"> <li>Feedback loops are scheduled occasionally and there is some documentation around the justification for differences in view.</li> <li>Early insights of trends or experience not in line with expectations being seen by other functions are considered by the reserving team when setting their assumptions (e.g. an increase in claims notifications or not writing business in line with expectations).</li> <li>Material assumptions and differences between cross functional views of relevant assumptions are discussed and justified at committee level.</li> </ul>	<ul style="list-style-type: none"> <li>Feedback loops are scheduled regularly with sufficient time embedded to allow meaningful discussion.</li> <li>The differences in assumptions used between different functions across the business is documented and validated with a clear owner, updated annually.</li> </ul>	<ul style="list-style-type: none"> <li>The reasons for any divergence in assumptions between reserving and other functions<sup>2</sup> are clearly justified and is evidenced by data.</li> <li>Where appropriate, additional data is requested from other functions to help supplement the reserving analysis.</li> </ul>	<ul style="list-style-type: none"> <li>There is a continuous feedback loop between reserving and other functions<sup>2</sup> to highlight key trends that may impact assumption setting.</li> <li>Differences in assumptions used between functions are clearly documented, justified and assessed as part of the uncertainty quantification.</li> <li>The board is able to understand and accept these key differences and provide challenge to them.</li> </ul>

### Managing Agent

*Expected Maturity - Established*

As part of our management information review with the Annual Reserve Meeting process Syndicate Y demonstrated why the Reserving Initial Expected Loss Ratio was divergent to Plan Loss Ratio on a class which had undergone underwriting action in recent years.

***“Class A has undergone material re-underwriting following internal review and discussions with the Markets Performance team at Lloyd’s. This has resulted in the following changes to the class: non-renewal of all business from a particular geographical territory, a new subclass to be underwritten and a significant rate increase on the remaining renewal business.*”**

***On the reserving side credit has been given to the exit of geographical territory. We were able to segment the data and analyse excluding that territory. No credit has been given for the new subclass underwritten, we will look to give credit for this over time as the evidence for better performance comes through in the claims data. Partial credit has been given to the allowance for rate change; the credit was based on the findings from an analysis of historical achieved vs planned rate change.”***

# Case Study 2: Sub-Principle assessment

## Sub-principle 4: Identify, understand and justify differences in assumptions between reserving and other functions

	Foundational	Intermediate	Established	Advanced
Consistency of assumptions	<ul style="list-style-type: none"> <li>Feedback loops are scheduled occasionally and there is some documentation around the justification for differences in view.</li> <li>Early insights of trends or experience not in line with expectations being seen by other functions are considered by the reserving team when setting their assumptions (e.g. an increase in claims notifications or not writing business in line with expectations).</li> <li>Material assumptions and differences between cross functional views of relevant assumptions are discussed and justified at committee level.</li> </ul>	<ul style="list-style-type: none"> <li>Feedback loops are scheduled regularly with sufficient time embedded to allow meaningful discussion.</li> <li>The differences in assumptions used between different functions across the business is documented and validated with a clear owner, updated annually.</li> </ul>	<ul style="list-style-type: none"> <li>The reasons for any divergence in assumptions between reserving and other functions<sup>2</sup> are clearly justified and is evidenced by data.</li> <li>Where appropriate, additional data is requested from other functions to help supplement the reserving analysis.</li> </ul>	<ul style="list-style-type: none"> <li>There is a continuous feedback loop between reserving and other functions<sup>2</sup> to highlight key trends that may impact assumption setting.</li> <li>Differences in assumptions used between functions are clearly documented, justified and assessed as part of the uncertainty quantification.</li> <li>The board is able to understand and accept these key differences and provide challenge to them.</li> </ul>



**Managing Agent**  
Expected Maturity - Established

*“Class A has undergone material re-underwriting following internal review and discussions with the Markets Performance team at Lloyd’s. This has resulted in the following changes to the class: non-renewal of all business from a particular geographical territory, a new subclass to be underwritten and a significant rate increase on the remaining renewal business.*

*On the reserving side credit has been given to the exit of geographical territory. We were able to segment the data and analyse excluding that territory. No credit has been given for the new subclass underwritten, we will look to give credit for this over time as the evidence for better performance comes through in the claims data. Partial credit has been given to the allowance for rate change; the credit was based on the findings from an analysis of historical achieved vs planned rate change.”*

**Where does this response sit on the maturity scale?**

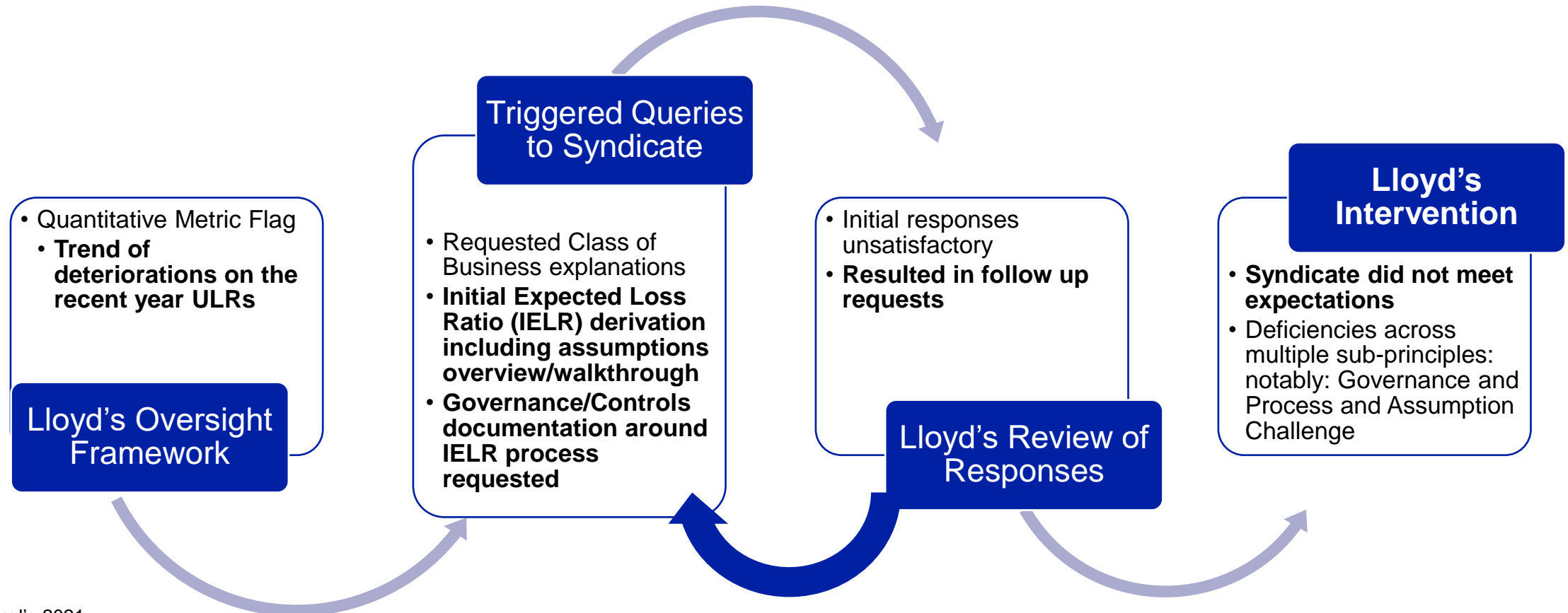
**ESTABLISHED**



# Case Study 3

## Example of Syndicate not meeting expectations

Expected Maturity: Established



# 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:	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		
<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:	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.
<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	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

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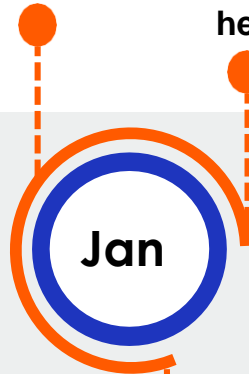
Lyndsay Deeves



# Next Steps and Timeline

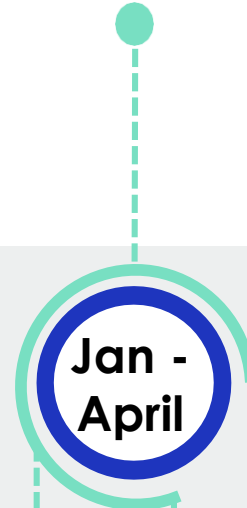
Pre-populated self assessment templates uploaded  
*(14 January)*

Board and NED briefings held



Technical briefings held

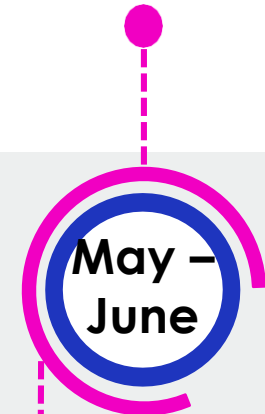
Syndicates complete and submit self assessments  
*(29 April)*



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?

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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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