
Guidance for 2022 Principles Self-Assessment

December 2021

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Introduction

During 2021, Lloyd's has introduced significant change to the Lloyd's oversight framework which will create a more efficient and joined-up approach, providing the conditions for the best businesses to thrive and driving decisive interventions for underperforming businesses.

A key element of the new framework is the Lloyd's Principles for Doing Business ("the Principles"). The suite of 13 Principles replace the minimum standards and allow for more differentiation according to syndicate materiality. They are the basis against which Lloyd's will view and categorise all syndicates and managing agents in terms of both their capability and performance.

Following input and discussion with the market throughout 2021, the Principles and the underlying guidance (the Maturity Matrices) were published in December 2021, representing a key milestone in the implementation of the enhanced framework. For more information on the framework, the Principles and the supporting guidance please see the [Principles for Doing Business page](#).

As part of the "soft launch" of the framework, the new Principles will not inform our oversight work until we approach the 2023 YoA capital and business planning period next summer. We will use the first six months of 2022 to familiarise the market with the new framework and to get comfortable with assessments against the new Principles.

During the early part of 2022 Lloyd's oversight teams will conduct their own assessments of syndicates and managing agents against the new Principles based on their current knowledge and utilising any existing documentation where possible. Where there are significant gaps in oversight teams visibility for a syndicate or managing agent additional documentation may be requested but this will be by exception. During this time, we will share our assessments of your business with you for feedback and discussion which will be led by your Account Manager and supported by our oversight teams.

The market is not required to submit the usual minimum standards attestation in 2022. Instead, we are requesting a "best efforts" self-assessment from managing agents against the new Principles – to be submitted by the **end of April 2022**. These will not require formal Board sign off, but we would expect the self-assessment to be discussed with the Board as part of familiarising all key stakeholders with the new framework.

The Principles Self-Assessment

Moving away from a prescriptive, rules-based approach to a more outcomes-based approach under the Principles requires a different mindset to be adopted. Ticking off a list of prescriptive requirements takes a "bottom up" approach and can potentially result in the misleading conclusion that as long as all the underlying requirements are met, then the overall intention must also be met. However, this is often not the case. An assessment conducted under an outcomes-based approach takes an entirely different approach, requiring a "top down" view to be formed and a higher level of judgement needs to be applied.

The Principles focus on the outcomes, rather than the requirements and it is against the outcomes that an assessment should be made. This requires a different type of questioning and discussion to be had in forming the self-assessment. Boards and senior management will need to engage with the Principles and the outcomes that they set out to achieve at the highest level, and not regard them as activities that can be delegated to compliance.

Examples of how the shift from forming an assessment under a rules-based approach, to a Principles based approach are shown below:

Rules based approach “Bottom up”	Outcomes based approach “Top down”
<ul style="list-style-type: none"> ▪ 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? 	<ul style="list-style-type: none"> ▪ 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?

Managing agents should conduct a full exercise to assess themselves against the Principles, taking into account not only their qualitative view but also what quantitative data they have available to support the assessment. Managing agents will need to decide the level of detail required for them to conduct the self-assessments. This will be unique to each managing agent and we would expect more consideration and discussion to be required on the areas which are most material to the syndicate or managing agent.

It is expected that managing agents may well have questions around the application or interpretation of the Maturity Matrices and these can be discussed with you during our ongoing and iterative engagement in the first half of 2022. Whilst we transition over to the new Framework, we would value any feedback which will continue to strengthen our oversight – particularly on the detail in the Maturity Matrices.

Maturity assessment and commentary

The maturity expectations as set out in the self-assessment template mirror the maturity levels in the Maturity Matrices:

- Foundational (reflects the maturity expectations for the lowest materiality)
- Intermediate
- Established
- Advanced (reflects maturity expectations for the highest materiality)

Managing agents should record their view of their assessed maturity against the overall Principle as well as the Sub-Principles and the assessments should be supported by rationale. The rationale can make reference to the guidance as set out in the Maturity Matrices. However, it is important to note that the guidance only sets out suggestions or examples of how a particular maturity level is met, but these are not requirements.

Where the self-assessment has concluded that the expected maturity has not been met, the commentary should include narrative setting out the planned remediation and appropriate timescales.

Where we believe that there is no differentiation between different maturity levels the Maturity Matrix specifies “no incremental guidance”. Where this is the case, the managing agent should nevertheless confirm that they meet their expected maturity. For example, in the case of a managing agent with an expected maturity of

“Advanced” a confirmed assessed maturity of “Advanced” should be provided on the self-assessment even if the Maturity Matrix only sets out guidance up to the “Established” level.

In a small number of cases a Principle may not apply to a specific syndicate. This is only likely to be relevant for certain Principles (for example, the Outwards Reinsurance Principle may not apply where a syndicate does not buy reinsurance), for RITC or run-off syndicates and other rare exceptions. Where this is the case the self-assessment template will be pre-populated by Lloyd’s. Managing agents will not be required to complete any rating or commentary against Non-Applicable Principles.

Once the self-assessments are received, any uncertainties from either Lloyd’s or managing agents will be clarified, after which an agreed position against each Principle will be confirmed ahead of the 2023 YoA CPG process commencing. Discussions will include consideration of the adequacy of any plans provided to address identified gaps.

Note – for the self-assessment conducted in 2022, two of the Sub-Principles within Underwriting Profitability will be optional:

- Sub-Principle 6 (Pricing) – Lloyd’s will be undertaking self-assessments during H1-2022 in conjunction with syndicates as part of the roll-out of the Pricing Maturity Matrix (formerly referred to as the Best Practice Pricing Framework)
- Sub-Principle 8 (ESG) – assessments by Lloyd’s will only commence once managing agents have submitted their ESG strategies as part of the 2023 YOA SBF submission.

Syndicate level

A separate submission is required for each syndicate, whether active, in run-off, SPA (Special Purpose Arrangement), RITC (Reinsurance to Close) or SIAB (Syndicate-in-a-box). The requirement for separate submissions will assist Lloyd’s market-level analysis. Where comments apply at managing agent, rather than syndicate level, they should be copied into each syndicate’s submission.

The Self-Assessment submission process

A template for the self-assessment for each syndicate will be uploaded by Lloyd’s to every managing agent’s SecureShare within the section **Market Oversight Documents**. This template will be uploaded by **Friday 14 January 2022**. The template will set out the maturity expectations against each of the Principles as determined by the level of materiality of the syndicate and managing agent. This will be consistent with what has been communicated to each syndicate in their 2022 Oversight Letters. If the levels of expected maturity do not align with your expectations this should be discussed with your Account Manager.

A sample of the template is included in the Appendix.

Managing agents are required to download this template from SecureShare and upload a completed version for each syndicate by close of business on **Friday 29 April 2022**.

Further information about SecureShare is available on Lloyd’s website: [Go to the SecureShare page on lloyds.com](https://www.lloyds.com/secureshare).

Contact

Any questions should be sent to: oversight.framework@lloyds.com

Appendix – Sample of the Principles Self-Assessment template (extract)

Principles for Doing Business Self-Assessment

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	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.
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.		Intermediate	[DROP DOWN OPTIONS]	
Sub Principle 1	Have a clear and robust medium to long term business strategy with clearly defined and understood underwriting risk appetite	Intermediate		
Sub Principle 2	Develop and execute annual business plans which align with their business strategy	Intermediate		
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	Intermediate		
Sub Principle 4	Manage and control expenses in order to ensure they are appropriate for the business written	Intermediate		
Sub Principle 5	Have robust portfolio management in place in order to deliver the agreed business plan	Intermediate		
Sub Principle 6	Have an effective pricing framework in place in order to evaluate sustainable technical price, rate adequacy and deliver sustainable profit	Intermediate		
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	Intermediate		
Sub Principle 8	Have processes in place to support underwriting decision making in relation to ESG integration into underwriting	Intermediate		
Catastrophe Exposure Managing agents should ensure syndicates maintain appropriate control of catastrophe risk (from natural and non-natural perils) in line with business strategy.		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 business functions	Established		
Sub Principle 5	Have robust governance and oversight of risk aggregations	Established		
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.		Advanced		
Sub Principle 1	Have outwards reinsurance strategies and purchasing plans which are robust and reflect the underwriting, exposure and capital management appetites of each individual syndicate, and the best interests of the members of the syndicate	Advanced		
Sub Principle 2	Have appropriate systems, controls, procedures and expertise to enable the effective management of outwards reinsurance purchasing and recoveries	Advanced		
Sub Principle 3	Identify, monitor, evaluate and mitigate live and potential financial, operational, counterparty, contract and liquidity risks arising from their outwards reinsurance arrangements	Advanced		
Sub Principle 4	Have robust and effective monitoring, reporting and governance frameworks employed over their outwards reinsurance arrangements	Advanced		