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# Lloyd's Principles Based Oversight Framework

Materiality Measures for setting Maturity Expectations

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## Materiality Measures for setting Expected Maturity

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- The guidance supporting Lloyd's Principles for Doing Business is expressed across four levels of maturity.
- The expected maturity level for each syndicate or managing agent is determined by materiality metrics, which are specific to each Principle (or Dimension).
- The following slides provide high-level detail of the materiality metrics and their thresholds.
- Materiality metrics drive expected maturity in most cases. However, Lloyd's may also, in exceptional circumstances, choose to override the data-led expected maturity, where the risk for a specific syndicate is not adequately captured by this.

## Materiality measures and thresholds (1 of 4)

Dimension	Materiality measure	Low Foundational	Moderate Intermediate	High Established	Highest Advanced
<b>Principle 1: Underwriting Profitability</b>	Gross Written Premium (current year SBF)	< £100m	>= £100m	>= £500m	> £1bn
<b>Principle 1: Legacy Reinsurance Underwriting Profitability</b> <i>(RITC syndicates only)</i>	Gross Booked Reserves (Technical Provisions)	<= £1bn	N/A	> £1bn	> £2bn
<b>Principle 2a: Catastrophe Exposure</b>	<i>Either / Or:</i> <ul style="list-style-type: none"> <li>Level of the Gross Catastrophe risk (Gross WW All Perils TVaR 1:200)</li> </ul>	Bottom quartile	3rd quartile	2nd quartile	Top quartile
<i>(Natural Catastrophe)</i>	<ul style="list-style-type: none"> <li>Importance of Catastrophe risk to Syndicate SCR (LCR Ultimate All LCM Cat claims as a proportion of diversified ultimate SCR, multiplied by Net WW All perils TVaR 1:200)</li> </ul>	Bottom quartile	3rd quartile	2nd quartile	Top quartile
<b>Principle 2b: Catastrophe Exposure</b>	<i>Either / Or:</i> <ul style="list-style-type: none"> <li>Exposure to non-nat cat exposed classes of business in absolute terms (GWP)</li> </ul>	< £50m	>= £50m	>= £250m	> £1bn
<i>(Non-Natural Catastrophe)</i>	<ul style="list-style-type: none"> <li>Proportion of non-nat cat exposed business written relative to total business written (GWP) / Materiality to syndicate</li> </ul>	-	-	-	> 99.5% AND GWP > £100m
	<ul style="list-style-type: none"> <li>Exposure to potential major non-nat cat losses (RDS analysis)</li> </ul>	-	-	-	> £500m

## Materiality measures and thresholds (2 of 4)

Dimension	Materiality measure	Low Foundational	Moderate Intermediate	High Established	Highest Advanced
<b>Principle 3: Outwards Reinsurance</b>	• YOA Gross RI Premium (£m)	< £90m	>= £90m	>= £225m	>= £600m
	• YOA Gross RI Premium as % of GWP		>=40%		
	• LCM5 1:200 AEP RI Recovery (£m)	< £200m	>= £200m	>= £600m	>= £1,500m
	• Balance Sheet RI Recoverables (£m)	< £400m	>= £400m	>= £850m	>= £1,400m
	• Balance Sheet RI Recoverables as % of ECA		>=150%		
<b>Principle 4: Claims Management</b>	<i>Aggregated, to form an average. 'Volume of open claims – lead' is double weighted:</i> • Volume of open claims – lead (Absolute number)	<4,000	>= 4,000	>= 9,000	> 24,000
	• Proportion of delegated lead claims (%)	< 31%	>= 31%	>= 45%	> 60%
	• Proportion of lead vs follow claims (%)	< 20%	>= 20%	>= 30%	> 40%
<b>Principle 5: Customer Outcomes</b>	<i>Eligible Complainants drives overall materiality:</i> • Eligible complainants (Absolute number)	0	<= 250,000	>250,000	
	<i>Informs materiality of sub-principle 5 only (relating to DA business).</i> • Active Lead Binders (Absolute number)	0	-	>100	

## Materiality measures and thresholds (3 of 4)

Dimension	Materiality measure	Low Foundational	Moderate Intermediate	High Established	Highest Advanced
<b>Principle 6: Reserving</b>	<i>Combination of:</i>				
	<ul style="list-style-type: none"> <li>Syndicate Net Best Estimate Reserves</li> </ul>	< £200m	>= £200m	>= £1bn	> £2bn
	<ul style="list-style-type: none"> <li>Casualty classes as % of Syndicate Net Best Estimate Reserve Total (subject to minimum £100m net casualty reserve threshold)</li> </ul>	< 40%	>= 40%	>= 70%	> 90%
<b>Principle 7: Capital</b>	<i>Either / Or:</i>				
	<ul style="list-style-type: none"> <li>Ultimate SCR (latest approved current year, excluding RICB)</li> </ul>	< £100m	>= £100m	>= £250m	> £500m
	<ul style="list-style-type: none"> <li>Syndicate Tail Risk - 99.8 % to 99.5% Claims Ratio Thresholds (subject to minimum £250m uSCR materiality threshold)</li> </ul>	-	-	>=6%	>10%
<b>Principle 8: Investments</b>	<i>Asset allocation:</i> <ul style="list-style-type: none"> <li>Allocation to cash and government bonds; and/or</li> <li>Allocation to alternative assets</li> </ul>	<ul style="list-style-type: none"> <li>&gt; 90%; and</li> <li>0%</li> </ul>	N/A	<ul style="list-style-type: none"> <li>&lt; 90%; or</li> <li>&gt;0%</li> </ul>	N/A
<b>Principle 9: Liquidity</b>	Currently N/A – Expected Maturity for all syndicates set to Foundational				
<b>Principle 10: Governance, Risk Management and Reporting</b>	<i>Either / Or:</i>				
	<ul style="list-style-type: none"> <li>Gross Written Premium (current year SBF)</li> </ul>	< £250m	>= £250m	>= £750m	> £1.5bn
	<ul style="list-style-type: none"> <li>For MAs with only RITC / Run-off business - Total Size of Net Reserves</li> </ul>	< £200m	>= £200m	>= £1bn	> £2bn

## Materiality measures and thresholds (4 of 4)

Dimension	Materiality measure	Low Foundational	Moderate Intermediate	High Established	Highest Advanced
<b>Principle 11: Regulatory and Financial Crime</b>	<i>Either / Or:</i>				
	<ul style="list-style-type: none"> <li>Amount of premium from high-risk territories</li> <li>Amount of premium from sanctioned territories</li> </ul>	<40% <0.5%	>=40% >=0.5%	>=60% >=1%	>70% >=2%
	<ul style="list-style-type: none"> <li>Method of placement - number of coverholders domiciled in high-risk territories</li> <li>Method of placement - number of coverholders domiciled in sanctioned territories</li> </ul>	<40% <0.5%	>=40% >=0.5%	>=60% >=1%	>70% >=2%
	<ul style="list-style-type: none"> <li>Amount of premium in high-risk classes of business</li> </ul>	<10%	>=10%	>=20%	>30%
<b>Principle 12: Operational Resilience</b>	<i>Either / Or:</i>				
	<ul style="list-style-type: none"> <li>Number of eligible complainants</li> </ul>	<100,000	>=100,000	>=250,000	>750,000
	<ul style="list-style-type: none"> <li>Total Size of Net Reserves</li> </ul>	<£750m	>= £750m	>= £1.5bn	>£2bn
<b>Principle 13: Culture</b>	Currently N/A – Expected Maturity for all managing agents set to Foundational				