Minimum Standards
Launch 1 & 2 July
Agenda

► Introduction
► What has changed?
► Where are they?
► Update on Market Oversight Framework
► Table Discussion
► Compliance with Standards
► Questions
Where have we got to……..

► New standards have gone ‘live’ on lloyds.com overnight

► Email to all managing agent CEOs

► Email to all Compliance officers and other contacts

► News article on lloyds.com
Before we get into the detail……..

► Thank you to all those who took the time to assist in the compilation and/or consultation on the minimum standards
  – 18 months in the preparation
  – 12 months of Market involvement
  – Over 40 market participants involved
  – Over 50 sub-group meetings held to discuss content of standards
► Key role played by the LMA Risk Assurance Committee
► All Corporation market oversight teams involved
► Coordinated through Risk Assurance team
► Generic feedback has been posted on lloyds.com
The overall objective is one set of standards covering all requirements for Managing Agents:

- A clear framework within which all Managing Agents are expected to operate
- Consistency in interpretation, presentation and publication
- Alignment to Solvency II

Solvency II
Internal model tests & standards & Pillars 1,2 & 3
...remember some of the debating points......

► How many groups of standards should we have?

► What should they be called?

► Are we implementing Solvency II early?

► Should we repeat all of the Solvency II requirements?

► Isn’t this just Lloyd’s introducing new standards?

► How prescriptive should the standards be?

► What’s the difference between the standard, requirements and guidance?

► Do you need to meet all the requirements to be compliant with the standard overall?
The process we have been through......

► LMA Risk Assurance Committee (RAC) formed
► Lloyd’s produced an initial draft of the revised standards and guidance
► A small sub-group formed to review and challenge the detail
► Revised draft produced incorporating the sub-group feedback
► Final review and agreement by the full RAC
► RAC agreed draft shared with the market for review and feedback
► Review of finalised minimum standards by Lloyd’s Risk Committee
► Sign off of the minimum standards by Franchise Board
► E&Y mapping to the IMAP application criteria undertaken
...and this is how it looks now

<table>
<thead>
<tr>
<th>CODE</th>
<th>NAME</th>
</tr>
</thead>
<tbody>
<tr>
<td>MS1</td>
<td>Underwriting Management</td>
</tr>
<tr>
<td>MS2</td>
<td>Claims Management</td>
</tr>
<tr>
<td>MS3</td>
<td>Governance</td>
</tr>
<tr>
<td>MS4</td>
<td>Risk Management</td>
</tr>
<tr>
<td>MS5</td>
<td>Scope, Change and Use</td>
</tr>
<tr>
<td>MS6</td>
<td>Modelling, Design and Implementation</td>
</tr>
<tr>
<td>MS7</td>
<td>Validation</td>
</tr>
<tr>
<td>MS8</td>
<td>Investment Management</td>
</tr>
<tr>
<td>MS9</td>
<td>Reserving</td>
</tr>
<tr>
<td>MS10</td>
<td>Regulatory</td>
</tr>
<tr>
<td>MS11</td>
<td>Conduct Risk</td>
</tr>
<tr>
<td>MS12</td>
<td>Operating at Lloyd’s</td>
</tr>
</tbody>
</table>
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What has changed……

► Clear definitions for each element have been adopted as follows:

<table>
<thead>
<tr>
<th>Element</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Group</td>
<td>Groups of standards, generally aligned to Lloyd’s technical review teams.</td>
</tr>
<tr>
<td>Standard</td>
<td>A brief statement of capability or level of conduct required.</td>
</tr>
<tr>
<td>Requirement</td>
<td>A sub-set of requirements that specifies key areas that must be addressed in meeting the standard. Lloyd’s will seek positive assurance that each requirement has been met.</td>
</tr>
<tr>
<td>Guidance</td>
<td>Explanation of how Lloyd’s will assess whether standards have been met as well as potential ways of achieving this.</td>
</tr>
</tbody>
</table>

► These definitions have enabled consistency in presentation and interpretation within each standard and made very clear which of the elements above are mandatory and which are purely guidance.

► A user friendly and consistent format and structure has also been adopted across all standards.
What has changed......

► Though, overall number of standards has not materially increased

<table>
<thead>
<tr>
<th>Standard Group</th>
<th>Number of standards</th>
<th>Number of standards before refresh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting Management</td>
<td>25</td>
<td>32</td>
</tr>
<tr>
<td>Claims Management</td>
<td>15</td>
<td>51</td>
</tr>
<tr>
<td>Governance</td>
<td>31</td>
<td>10</td>
</tr>
<tr>
<td>Risk Management</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Scope, Change &amp; Use</td>
<td>15</td>
<td>0</td>
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<tr>
<td>Modelling Design &amp; Implementation</td>
<td>15</td>
<td>0</td>
</tr>
<tr>
<td>Validation</td>
<td>11</td>
<td>0</td>
</tr>
<tr>
<td>Investment Management</td>
<td>6</td>
<td>14</td>
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<tr>
<td>Reserving</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>UK &amp; International Regulatory Compliance</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Conduct Risk</td>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td>Operating at Lloyd’s</td>
<td>6</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>163</strong></td>
<td><strong>144</strong></td>
</tr>
</tbody>
</table>
# Existing standards that have been refreshed

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Underwriting Management** | • General update to reflect current practice.  
  • Relevant Solvency II requirements included. |
| **Claims Management**     | • One of the more recent sets of standards to be published.  
  • Very few changes in relation to market practice or Solvency II.  
  • More clearly linked to other relevant standards e.g. Governance. |
| **Risk Management**       | • Significant Solvency II requirements added.  
  • A number of additional Solvency II sections added e.g. ORSA. |
| **Governance**            | • Relevant Solvency II requirements added.  
  • Formalisation of a number of areas of general market practice e.g. requirement for two independent non-executive directors. |
| **Investment Management** | • Standards only recently published.  
  • Update to reflect relevant Solvency II requirements e.g. Use Test. |
| **Reserving**             | • Standards had previously been through extensive consultation process through LMA CALM.  
  • Refresh has involved re-formatting of existing standards into a consistent format with the others. |
Standards driven by Solvency II requirements

**Modelling, Design & Implementation**
- Technical modelling standards of Solvency II:
  - Statistical Quality Methodology
  - Calibration
- Actuarial aspects which form a critical element of internal model approval.

**Scope, change and use**
- Qualitative aspects of internal model covering:
  - Internal Model Scope
  - Model change
  - Use of the model

**Validation**
- Covers the process and activity to validate the output of the internal model.
- Governance and reporting of validation to support the use of the model to make key business decisions.

- Standards derived from the SII level 2 text
- Allows managing agents to use as part of their continuous compliance with SII
- Mapping of IMAP to standards by E&Y
Other new standards

- **Operating at Lloyd’s**
  - Replaces the previous Operational Processes standard.
  - Covers any organisational element of a Managing Agent which are not covered by other Lloyd’s standard e.g. HR, IT etc.

- **Regulatory**
  - Reflect the need to meet all regulatory requirements within areas in which Lloyd’s operates.
  - A number of these elements were previously included at a high level in the Operational Processes standard.
  - Increasing importance as we deliver Vision 2025.

- **Conduct Risk**
  - Developed to meet the regulatory requirements as issued by the Financial Conduct Authority.

- Whilst feel new they were previously included but at a higher level
- Reflect both current regulatory and ethical behaviours
- Alignment with Vision 2025
Conduct Risk

► New conduct Risk standards issued for consultation in June
► Consultation ends 18 July
► “The FCA has considered the conduct standards and believes that these standards are a practical initiative in enhancing conduct standards within the Lloyd’s Market”……and……
► “if the operation of these conduct standards is effective in promoting conduct standards and enhancing consumer protection within the Lloyd’s Market the FCA will take them into account when considering its supervisory approach to Lloyd’s managing agents.”
► Strongly recommend that agent’s take up the offer of 1-2-1 meeting to discuss any feedback
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Where can you find them?

Step 1 – The Market

Step 2 – Operating at Lloyd’s

Step 3 – Minimum Standards
Where can you find them?

All twelve Minimum Standards will be available on this section of the page, or alternatively on the sidebar on the left.
Where can you find them?

Clicking onto a given Minimum Standard will bring you onto this page which highlights the Key Areas within the Standard. They will be located in the middle and on the side bar to the left.
Where can you find them?

Clicking onto a given Key Area will bring you onto this page which highlights the Sub Groups showing the specific Minimum Standards. They are located in the middle and on the side bar to the left.
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Where are we on the Market oversight framework and timetable?

► Oversight teams assurance work from 1\textsuperscript{st} July 14 will be based on the refreshed standards BUT.....

► It will not be mandatory for agents to comply with \textit{completely new} standards or requirements till the end of 2014

► Agents to advise Lloyd’s of any gaps in compliance with new standards or requirements on an \textit{exceptions only} basis by end of 2014

► Exceptions to be notified by SNP to Risk Assurance contact with input to/from oversight teams as relevant. (not applicable to standards with a self-assessment submitted between now and end of year)

► Self-assessments planned in 2014 include Underwriting, Claims and Conduct Risk
The outline of the framework

► Lloyd’s views self-assessments as the starting point for standards assurance

► Agents required to complete a self-assessment for all groups of standards over a staggered timetable between now and end 2016.

► Draft timetable being prepared for consultation

► Propose to include self-assessments for internal model standards as part of the annual capital return.

► Oversight teams will supplement self-assessments with BAU testing through analysis of returns, effectiveness and thematic reviews and day to day interactions
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Discussion

► How should the self-assessments be timetabled

► Which aspects of Lloyd’s oversight do you think brings the most value to the market?

– Regular and ad hoc approvals e.g. business plan, capital, new entrants etc.

– Benchmarking e.g. underwriting, claims, reserving

– Performance Monitoring e.g. analysis of quant and qual reviews, feedback and trigger for further review

– Agent Standards Reviews

– Thematic Reviews e.g. Class of business, ORSA, financial crime

– External Analysis e.g. emerging risks, regulatory
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Compliance with standards

► Launch 1 July 2014 vs 1 January 2015 compliance
► No change in the requirement to meet those standards which has just been updated
► What does failure to meet a standard mean?
  – Regulatory vs Solvency II
  – Regular review by SAG
► Isn’t there a benefit for an agent to take an optimistic view of themselves through self assessment?
Timetable

► 1 July 2014 - launch of new standards
► 18 July - completion of Conduct Risk consultation
► End July – launch of conduct risk standards
► September – issue of excel self assessment templates for all standards
► 24 October – latest submission of agent self assessment templates for underwriting and claims standards
► 1 January 2015 – compliance with all minimum standards
Questions...