

MARKET BULLETIN

REF: Y4074

Title	Performance Framework
Purpose	To publish the final part of the Performance Framework
Type	Event
From	Sean McGovern, General Counsel Contact details: 0207 327 6142, sean.mcgovern@lloyds.com
Date	6 November 2007
Deadline	The final part of the Performance Framework comes into operation on 1 January 2008
Related links	http://www.lloyds.com/Lloyds_Market/Performance_management_framework/Franchise_Standards/

The current Performance Framework comprises standards relating to underwriting management, claims management and risk management. Following consultation with the LMA Regulatory Committee and the LMA Board these will be supplemented by three additional sections relating to effective operational processes, governance and protecting Lloyd's reputation and brand. These sections complete the Performance Framework, one of the deliverables of the Three Year Plan.

The additional sections of the framework, which are attached to this bulletin, are necessary to provide Lloyd's with all of the tools to maintain and enhance the Lloyd's platform, in particular, with regard to new entrants and where a managing agent is found to be failing. They are simple, short (comprising only five pages) and straightforward whilst covering areas of critical importance to Lloyd's but not covered elsewhere within its requirements. The additional elements are also cross referenced with the FSA's rules to aid navigation and avoid duplication.

The additional elements come into operation on 1 January 2008 and, on that date, will replace and revoke all of Lloyd's Codes of Practice (other than the Code for Members' Agents and the Code for Syndicate Expenses) published in the Codes Handbook. In short, the principles and standards set out in the attached 5 pages replace 150 pages of codes of practice.

The new sections of the framework will not generally involve any additional material compliance or reporting burden and Lloyd's will not generally conduct reviews to ensure compliance with them. Instead, each managing agent must take appropriate steps to satisfy themselves that they comply with the additional sections. It is for each managing agent to determine how best to do that having regard to the size and characteristics of their own business and their own risk management arrangements.

One area that is worthy of particular mention is the new requirement for each managing agent to ensure that it has an appropriate code of business ethics with which it complies. A model code is attached which may be adopted. However, managing agents are free to use any existing code or to develop or adopt any code of ethics appropriate to their business.

The finalisation of the performance framework is a key step in our continued drive to modernise, simplify and rationalise the requirements for operating at Lloyd's.

- We have now revoked 53 byelaws and 150 pages of redundant codes and requirements.
- We have removed around 5,500 redundant market bulletins from the website and are now seeking to reduce the volume of market bulletins that are issued to the market.
- We have provided the market with quick and easy access to key global trading information including international regulatory and taxation requirements through 'Crystal' available on Lloyds.com.

During the first quarter of 2008, all of Lloyd's Performance Framework will be accessible in one place on Lloyds.com which will be the single and easily accessible source of such materials for managing agents and we will seek to continually improve accessibility and navigation of all materials that managing agents need to have regard to.

If you have any questions with regard to this bulletin, please contact Paul Thornton (telephone 0207 327 6281, e-mail paul.thornton@lloyds.com).

Sean McGovern
General Counsel

EFFECTIVE OPERATIONAL PROCESSES

1. Principle – Effective business processes and procedures

The managing agent has effective operational and business processes which enable it to meet its strategic aims.

Standards

The managing agent can demonstrate that –

- key operational and business processes are properly documented¹.
- directors and staff clearly understand all the operational and business processes relevant to their role².
- operational and business processes make good use of appropriate technology and industry and market standards.
- where possible, key systems are compatible with one another and with counterparties systems.
- outsourced operations and processes are properly controlled³.
- appropriate business continuity plans are in place⁴.
- appropriate credit control and management procedures are in place, especially for the collection of premium⁵.
- appropriate operational targets and key performance indicators are set and performance is reviewed and, where necessary, acted upon.
- adequate records have been kept.
- adequate resources, including human resources, are available to operate, maintain and improve operational and business processes⁶.
- adequate board attention and focus is given to the operational and business processes.

Toolkit

¹ See also, the FSA's Handbook - Senior Management Arrangements (SYSC 13.7) <http://fsahandbook.info/FSA/html/handbook/SYSC/13/7>

² See also, the CII's Job Role and Competency Framework <http://www.cii.co.uk/app/competency/default.aspx>

³ See also, the FSA's Handbook - Senior Management Arrangements (SYSC 8.1) <http://fsahandbook.info/FSA/html/handbook/SYSC/8/1>

⁴ See also, the FSA's Business Continuity Management Toolkit <http://www.fsa.gov.uk/Pages/About/Teams/Stability/Current/guide/index.shtml>

⁵ See also, the FSA's Handbook - Senior Management Arrangements (SYSC 15.1) <http://fsahandbook.info/FSA/html/handbook/SYSC/15/1>

⁶ See also, the FSA's Handbook - Senior Management Arrangements (SYSC 5.1) <http://fsahandbook.info/FSA/html/handbook/SYSC/5/1>

GOVERNANCE

Note: The following principles and standards are extracts from the Combined Code on Corporate Governance⁷. Managing agents which already comply with the full Code will therefore comply with these principles and standards and need not consider them further.

1. Principle – An effective board

Every managing agent should be headed by an effective board, which is collectively responsible for the success of the managing agent.

Standards

- The board's role is to provide entrepreneurial leadership of the managing agent within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should set the managing agent's strategic aims⁸, ensure that the necessary financial and human resources are in place for the managing agent to meet its objectives and review management performance.
- All directors must take decisions objectively in the interests of the managing agent.
- As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy. Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.

2. Principle - Clear division of responsibilities⁹

There should be a clear division of responsibilities at the head of the managing agent between the running of the board and the executive responsibility for the running of the managing agent's business. No one individual should have unfettered powers of decision.

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⁷ For the full text of the Combined Code on Corporate Governance see http://www.fsa.gov.uk/pubs/ukla/lr_comcode2003.pdf

⁸ Where relevant, the board may have regard to the strategic aims of the managing agent's holding company and group

⁹ See also, the FSA's Handbook - Senior Management Arrangements (SYSC 2) <http://fsahandbook.info/FSA/html/handbook/SYSC/2/1>

3. Principle - Balance of executive and non-executive directors

The board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking.

Standards

- The board should not be so large as to be unwieldy. The board should be of sufficient size that the balance of skills and experience is appropriate for the requirements of the business and that changes to the board's composition can be managed without undue disruption.
- To ensure that power and information are not concentrated in one or two individuals, there should be a strong presence on the board of both executive and non-executive directors.

4. Principle - Board appointments

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

Standard

- Appointments to the board should be made on merit and against objective criteria. Care should be taken to ensure that appointees have enough time available to devote to the job. This is particularly important in the case of chairmanships.

5. Principle - Information supplied to the board

The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

6. Principle - Board to evaluate its own performance

The board should undertake a formal and rigorous annual evaluation of its own performance.

PROTECTING LLOYD'S REPUTATION & BRAND

1. The managing agent has effective arrangements to protect Lloyd's reputation and brand.

Standards

The managing agent can demonstrate that –

- it has an appropriate code of business ethics with which it complies¹⁰.
- it has appropriate arrangements and processes in place to properly manage the risk that financial crime may pose to it, to any syndicates it manages and to Lloyd's generally.
- it treats policyholders fairly¹¹.
- it (and its agents) use Lloyd's name and brand in accordance with the relevant guidelines and requirements issued by Lloyd's¹².
- it deals with Lloyd's and with regulators in an open and cooperative way¹³.
- it informs Lloyd's in good time of material issues of which it would reasonably expect notice. That includes –
 - material issues relating to the managing agent or to the syndicates it manages that may generate complaints or receive regulatory or significant press attention.
 - issues relating to the misuse or potential misuse of Lloyd's name or brand.

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¹⁰ See overleaf for a model code
See also, for example, the Institute of Business Ethics <http://www.ibe.org.uk>
See in particular, examples <http://www.ibe.org.uk/examples.html>

¹¹ See also, the FSA Handbook – The Principles (Prin 2.1 Principle 6)
<http://fsahandbook.info/FSA/html/handbook/PRIN/2/1>
and see also, the FSA's website
<http://www.fsa.gov.uk/Pages/Doing/Regulated/tcf/index.shtml>

¹² See Lloyds.com
http://www.lloyds.com/Lloyds_Market/Tools_and_reference/Lloyds_brand_2/Brand_Guidelines.htm

¹³ See also, the FSA Handbook – The Principles (Prin 2.1 Principle 11)
<http://fsahandbook.info/FSA/html/handbook/PRIN/2/1>

MODEL CODE OF ETHICS

Note: This code is only a model code. Whilst it may be adopted by managing agents they are free to develop or adopt any form of code of ethics appropriate to their business.

“Ethical behaviour underpins the way we behave, do business and treat one another. Our values determine our behaviour and we must support and uphold them so that they are an integral part of day to day life. This code aims to guide our actions and those of people with whom we work closely, encouraging a way of working which is honest, responsible and respectful, generating trust. We ensure that the standards in this code are communicated to and understood by them.

Conduct

- We are open and honest and try to act fairly;
- We comply with legal, regulatory and licence requirements;
- We do not tolerate corruption in any form, whether direct or indirect;
- We compete vigorously, but honestly, observing proper standards of market conduct;
- We respect the confidentiality of information disclosed to us in confidence;
- High standards of corporate governance are integral to the way we manage our business.

People

- We treat people with fairness, respect and decency;
- We help employees to develop their potential;
- We do not discriminate on any grounds other than the ability to work effectively;
- We provide healthy, safe and secure work environments.

Environment and community

- We contribute to the social and economic well-being of those communities where we are an employer;
- We listen to neighbouring communities and take account of their interests;
- We work to minimise the adverse environmental impact of our business operations.”