LLOYD'S

Market Oversight Plan 2017

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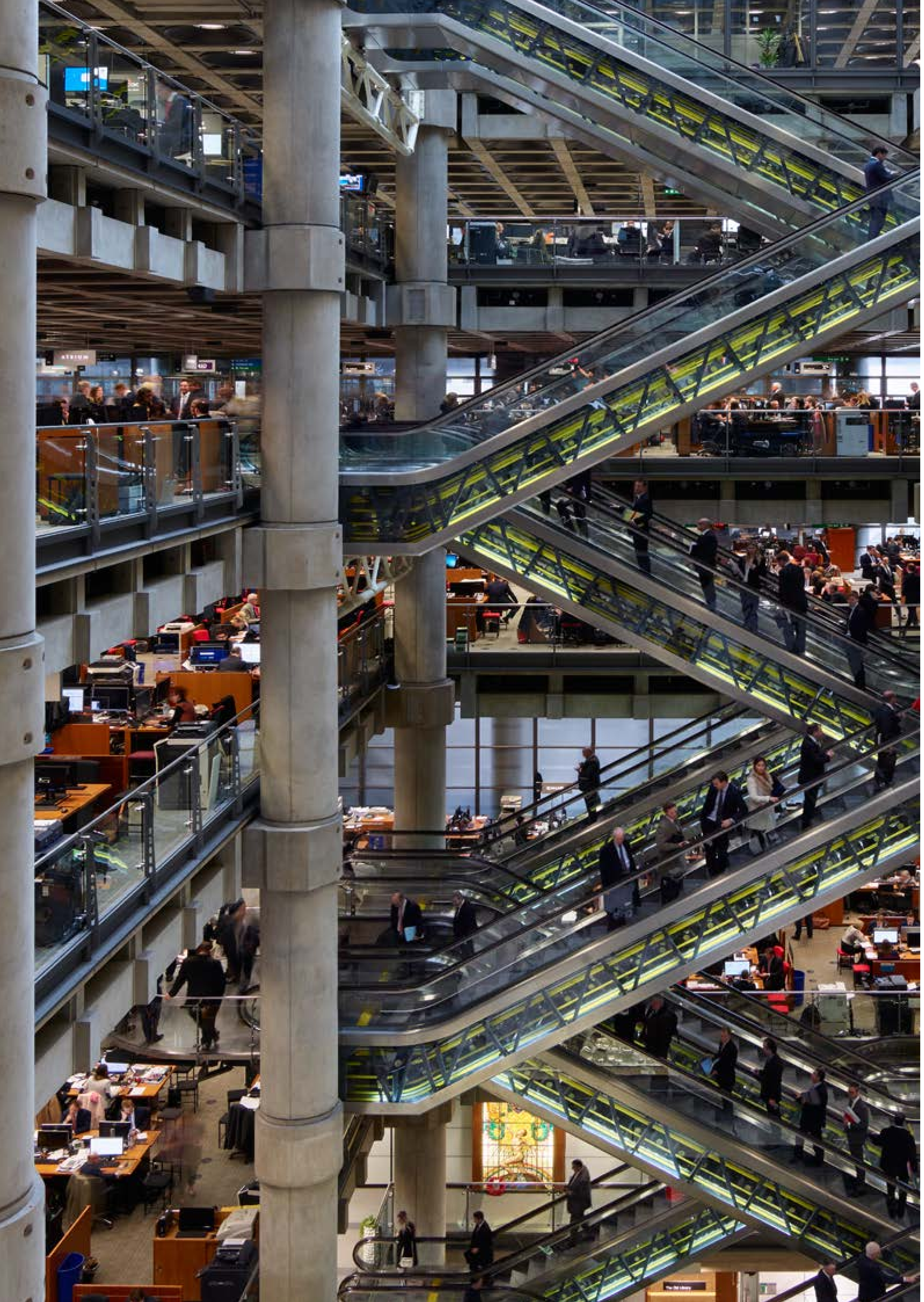

Introduction

Oversight of the Lloyd's market is one of the key roles undertaken by the Corporation

"Lloyd's market oversight will be supportive of sustainable profitable growth and will be valued by all stakeholders"

Vision 2025

The nature of Lloyd's, as a market of independent businesses backed by the Central Fund, requires the Corporation to play an active supervisory role. This role covers performance management, capital setting and risk management. In addition to these supervisory activities, it is important that Lloyd's market oversight is supportive of sustainable profitable growth, innovation and is valued by all stakeholders.

The Corporation needs to ensure that supervision of the market is effective and we are accountable to both the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) in this regard. It is, however, a key objective for us to minimise duplication with work undertaken by the PRA and the FCA.

Managing Agency Boards are critical to ensuring sustainable profitable performance and the management of risk. We therefore expect Boards to ensure that business strategy and key risks are subject to appropriate levels of oversight and challenge.

2017 Oversight Plan & CEO Letters

Bespoke letters were sent to each managing agent in November outlining specific priorities for supervision in 2017

Market oversight remains a priority for the Corporation and market participants alike. Ensuring that oversight is appropriately calibrated between protection and growth is an ongoing task, requiring dialogue between all parties.

The publication of this oversight plan provides managing agents with greater transparency over the Corporation's work, in particular our view of the key risks facing the market in 2017 and the additional activities we anticipate being undertaken by our market oversight teams throughout the year.

In addition to the oversight plan, each managing agent will have received a bespoke letter from their CEO liaison outlining how the Corporation will focus its supervision of them over the course of 2017. The intention of these letters is to ensure that oversight planned by the Corporation is risk based, proportionate, effective and efficient.

We welcome your feedback on this plan as we continue to improve and enhance our Market Oversight Framework.

Hilary Weaver
Chief Risk Officer

Please send any feedback or questions you may have on to risk.assurance@lloyds.com

The 2017 Market Oversight Plan is also available online at www.lloyds.com

Context: Overall Market Conditions

Soft market conditions continue to prevail

There is little sign of material change to the current prolonged soft market conditions; the low rate environment continues to dominate the risks facing general insurers. Underwriting discipline and active cycle management are a prerequisite and Managing Agency Boards should be relentless in their challenge of the business.

Competition within the insurance industry has intensified with capital, including from alternative sources such as hedge funds and institutional investors, gravitating to (re)insurance industry in the search for returns: continued consolidation is expected during 2017. M&A and broker initiatives are expected to remain features of the industry as participants pursue scale / relevance and cost / capital efficiencies.

As previously noted by Lloyd's, broker remuneration arrangements in the London market continue to evolve. The changing cost of distribution is a potential challenge for underwriters and whilst Lloyd's does not seek to interfere with the agreement of such commercial arrangements, managing agents should continue to monitor the structure and terms of such arrangements for the benefit of Lloyd's policyholders.

Interest rates continue to be low, with no immediate sign of changing

Despite investment return for the first half of 2016 being up, financial markets have remained particularly volatile during the course of 2016. Uncertainty over Brexit has impacted investment income with sterling depreciating to record low levels against the US Dollar and continuing to fluctuate against the Euro. The initial impact of the recent US election result appears to be more contained.

Lloyd's overall exposure to risk assets remains conservative and strong performance during 2016 has been driven by high quality fixed interest assets which account for a major share of investments at Lloyd's. Exposure by managing agent is varied and specific oversight activity will continue to be conducted using a risk-based approach.

Brexit

At the beginning of October 2016, the British Government announced that it will trigger Article 50, formally notifying the European Union (EU) of the United Kingdom's (UK) intention to leave the EU, between January and March 2017, beginning the process of formal negotiations over the terms of exit.

The referendum result has no immediate impact on the UK's ability to continue trading with the EU: the UK continues to be a full and active member of the EU with access to the single market until the point that negotiations on its departure are concluded and an exit formally occurs. This means that we continue to trade under the current passporting regime.

However, we are advancing our plans for how Lloyd's will continue trading with EU countries when the UK's membership of the EU ends. Continental Europe will continue to be an important market for Lloyd's, as it accounts for 11% of gross written premium, with 4% being directly affected, and we fully expect to maintain our position in the new post-Brexit landscape.

Keeping pace with a changing regulatory landscape

Lloyd's and the wider insurance industry continue to experience significant regulatory change across multiple jurisdictions with UK and international policy makers being committed to implementing a regulatory system that promotes financial stability.

The Corporation seeks, through its monitoring of regulatory change and its close engagement with international regulators, to maintain access in all Lloyd's markets, on as flexible a basis as possible, and to minimise the additional regulatory, prudential or compliance burdens placed on the market by managing those processes and interfaces directly.

In all countries, Lloyd's seeks to provide international regulators with confidence in Lloyd's security, compliance culture and standards.

Key risk areas affecting the Lloyd's market

In light of the above market conditions the Corporation has identified the following key risk areas which it considers are likely to impact the Lloyd's market during the course of 2017 and onwards. Each of these risk areas will be covered in more detail on the following pages, together with the oversight activities that the Corporation has planned for the next year to mitigate them.

Risk Area	Impact on Lloyd's	Projection
Catastrophe Risk	Lloyd's businesses suffer losses or erode their capital base through material aggregations of risks or insufficient monitoring processes.	**Stable** >
Cyber Risk	Lloyd's suffers a systemic loss as a result of a malicious electronic attack or through exposure to both known and silent aggregations of risk via the policies written by its businesses.	**Worsening** ∨
Market Conditions	Lloyd's businesses suffer losses or erode their capital base due to inappropriate underwriting in challenging market conditions or failure in management controls.	**Worsening** ∨
Ongoing Compliance with SII	Lloyd's sees its competitive position weaken and its businesses suffer as failure to comply with SII requirements results in capital being set by the more onerous Standard Formula.	**Improving** ∧
Regulatory Environment	Lloyd's sees its competitive position weaken, suffers regulatory penalties or disadvantageous capital position in new and existing territories.	**Stable** >

http://www.lloyds.com/the-market/business-timetable

http://www.lloyds.com/the-market/operating-at-lloyds/resources/core-market-returns-guidebook

A summary of oversight activity across these five risk areas can be found at Appendix 1.

This summary does not include details of market returns, financial reporting or other returns. These returns are detailed in the Core Market Returns Guidebook and are scheduled within the Lloyd's Business Timetable: both documents can be found on Lloyds.com via the following links.

Key risks outside of the Market Oversight Plan

Two key risks to Lloyd's which are not included in the plan are the Brexit risk and the risk associated with the Market TOM programme.

Whilst both of these risks are critical to the long term viability of Lloyd's, they do not fall within the remit of market oversight. The Corporation will continue to manage these risks, reporting to the market as appropriate.

Catastrophe Risk

Ability of insurers to maintain a robust process for exposure management is vital

Given the nature of Lloyd's business, the effective management of catastrophe risk remains an oversight priority. The low incidence of catastrophic events in recent years should not detract from the need for prudent and comprehensive assessment of this risk.

During 2017 Corporation oversight activity will focus on the following:

i. Robustness of catastrophe management processes

ii. Reinsurance arrangements, notably the appropriateness of processes and controls over cashflow & liquidity management

Oversight Area	Oversight Activity	Scope	Timing
Catastrophe Exposure	Collect "uncertainty communication" practices from the market through formal structured return	All	Q1 2017
	Work with the market to identify good practices and/or develop additional methodologies. Consider working with model Vendors and/or academia to ensure modern statistical methods are employed.	Selected MA	Q2 2017
	Revise guidance for minimum standards (if necessary) following market consultation	All	Q4 2017
Reinsurance	Identify and inform managing agents to be involved in thematic review of liquidity management	Selected MA	Q1 2017
	Carry out thematic project to explore methods, good practices, identify any issues and seek resolution	Selected MA	Q2 2017
	Revise guidance for minimum standards (if necessary) following market consultation	All	Q4 2017

Commentary

Lloyd's protects the world from a wide variety of catastrophe risks including hurricanes, earthquakes, flooding and wildfires. The Lloyd's market routinely models these and submits information to Lloyd's to form a comprehensive view of catastrophe risk within the market. This feeds into the calculation of the necessary size of the Central Fund and also to member capital calculations.

The Catastrophe and other models used in this process help the market assess risk levels based on strong scientific and engineering principles in a statistically sound manner. The models contain many key parameters and assumptions; they also rely heavily on the quality of the exposure data to which they are applied. Therefore the calculated values are subject to uncertainty. Lloyd's minimum standards require illustrations of this uncertainty be communicated to the Managing Agency Boards to ensure that they and capital providers appreciate the potential for mis-estimation.

The Lloyd's market reinsures many cedants around the world, but also makes material use of reinsurance particularly to cover potential catastrophic losses. There is always the possibility of dispute or delay in payment and this can lead to a requirement to carefully manage liquidity after a major catastrophe, particularly in the light of local regulatory funding requirements. Whilst we are of the view that such requirements are unhelpful in the context of global reinsurance protection (because they break the pooling principle) they nevertheless require appropriate processes and controls over cashflow. We anticipate carrying out activities for both oversight and liquidity management in 2017.

Cyber Risk

Lloyd's views cyber as one of the most complex, current and critical risks to face today's businesses

The PRA have recently issued a consultation paper (CP) proposing a new supervisory statement setting out its expectations for the prudent management of cyber underwriting risk, in particular both affirmative and 'silent' cover. The proposals in the CP are based on thematic work carried out by the PRA between October 2015 and June 2016. The results of this thematic work highlighted several risks faced by the insurance industry which are summarised in a "Dear CEO" letter dated 14 November 2016 entitled "Cyber underwriting risk".

During 2017 Corporation oversight activity will focus on the following:

i. Exposure and aggregation of cyber risk, both affirmative and "silent" cover

ii. Reserve and capital adequacy for cyber risk

Oversight Area	Oversight Activity	Scope	Timing
Catastrophe Exposure / Underwriting / Capital Adequacy	Develop a structured understanding of cyber-attack accumulation risk, including metrics to measure loss-potential including silent cyber	All	Q4 2017
	Establish good practice for representing cyber-attack risk (including catastrophe risk) in syndicates' capital models and in the Lloyd's Internal Model	All	Q4 2017
	Proactively engage the market to encourage the development and use of appropriate exclusions and/or sub-limits for cyber-attack	All	Q4 2017
Reserving	Cyber risks will be monitored via the same oversight activities as for other classes: any increase in concern however may lead to a thematic review	All	Quarterly
Operations	Enhanced market oversight activity for selected managing agents to test operational resilience to cyber risk following review of accreditations to Cyber Essentials	Selected MA	As required

Commentary

The world in general and commerce in particular are making increasing use of the internet and other digital processes. Consequently there is a growing reliance on those methods which, if interrupted or compromised, can lead to material adverse consequences to profitability and can even lead to physical damages and bodily injury.

The Lloyd's market has continued to innovate in this space. Nevertheless the potential for risk aggregations caused by cyber continue to be challenging to assess and Lloyd's has been working with the market since 2015 to develop our approach.

As part of the Statement of Intent signed by the Lloyd's Chairman, the UK government and the Monetary Authority of Singapore (MAS), Lloyd's has joined the CyRim consortium with other insurers, reinsurers and brokers along with Nanyang Technology University and the MAS. CyRim seeks to better understand cyber risks through data collection, scenario development and other means.

Lloyd's remains particularly focussed on understanding and discouraging "silent" cyber risks. These are risks where policies may cover losses arising from cyber by virtue of the terms and conditions not specifically mentioning if cyber is covered or excluded. There are strong links with the innovation work stream here where we expect several thought leadership reports on cyber scenarios to be progressed during 2017. We will continue our oversight in this area working with the market and LMA through 2017.

Lloyd's continues to collect cyber reserving data from the market under specific cyber risk codes which allows separate monitoring of this class of business. Cyber risks will be monitored using the same reserving oversight activities as for other classes, with more emphasis placed on those oversight tools which are less dependent on historical data e.g. IBNR burn, material strengthening of IBNR, movement in case reserves and number of advices. Consideration of 'silent cyber' and how best to monitor reserving over time, will be undertaken in conjunction with PMD.

Lloyd's actively participates in a number of financial services forums, collaboration groups and working groups which seek to disseminate and implement guidance from the Bank of England and PRA. The LMA Cross Market Cyber Forum has considered that Cyber Essentials or Cyber Essentials Plus is an appropriate level of accreditation to reduce the risk of a cyber-attack. Such accreditation is a requirement of Minimum Standard 12: Operating at Lloyd's. Managing agents may attend the cross market forum or join the group's mailing list by contacting Lloyd's Digital Risk Management & Compliance team.

During the course of 2017 Lloyd's intends to review managing agents' accreditation to Cyber Essentials and where necessary, conduct oversight activity to gauge operational resilience against cyber risk.

Market Conditions

Underwriting controls are the first line of defence in identifying the extent and potential impact of continuing soft market conditions

The current low rate environment continues to dominate the array of risks facing general insurers: coupled with low investment returns, managing agents must seek to underwrite profitably and ensure underwriting discipline and active cycle management are a priority.

During 2017 Corporation oversight activity will focus on the following:

i. Reserve adequacy

ii. Performance reviews of selected classes of business

iii. Consideration of a number of underwriting practices, notably line-sizes, performance of large Market facilities, comparison of risk adjusted rate changes

Oversight Area	Oversight Activity	Scope	Timing
Reserving	Supervision will be increased via monitoring of market and individual syndicate reserves: syndicates should expect regular challenge from Lloyd's	All	Quarterly
	Thematic reviews will be considered as a result of the 2016 year-end data analysis as necessary	All	Q3 2017
Underwriting	Thematic underwriting performance review of Casualty Treaty	Selected MA	Q1 /Q2 2017
	Targeted reviews of the Contingency, Onshore Energy, Commercial D&O, Space and Property Pro Rata Treaty classes	Selected MA	Q1 /Q2 2017
	Reconsider line size restrictions in light of changing market composition in time for 2018 planning; consider greater flexibility of maximum line sizes and requisite safeguards when outside of Lloyd's requirements. Consider extending the line size definitions to other classes and producing an aggregated maximum line-size view at market level.	Selected MA	Q1 /Q2 2017
	Targeted review of large Market facilities (i.e. the placing of largely homogeneous risks into a single contract) to consider their effectiveness and premium targets	Selected MA	Q1 /Q2 2017
	Conduct an audit of risk adjusted rate change being reported on a selection of risks to identify the cause of the differences between managing agents, and between leaders and followers.	Selected MA	Q1 /Q2 2017
Delegated Authority	Line Slip and Consortium Review Work	All	Q4 2017
Claims	Delegated Claims Management Thematic Review, covering management and performance oversight of TPAs and Coverholders with delegated claims authority	Selected MA	Q2 2017
	Claims Management Minimum Standards Effectiveness Reviews	Selected MA	Quarterly

Commentary

Prices in most classes remain under pressure, challenging profitability in an environment of reduced investment income. While the industry has seen a relatively benign insured catastrophe experience recently the long term trend is for an increasing frequency and severity of catastrophe claims and rising underwriting exposures. Aside from the wildfire that struck Fort McMurray in Canada in May 2016, reinsurance and property segments have experienced a number of attritional natural perils events including earthquakes in Japan and Ecuador, and losses from several storms in the southern states of the US. The US hurricane season, to date, is still below normalised frequency levels with only Hurricane Matthew being of note.

Maintaining underwriting discipline remains vital as the industry continues to experience soft market conditions. The prevailing environment means managing agents must be agile and flexible, showing a willingness to withdraw from lines of business, innovate in terms of distribution, new markets and products. Cycle management, underwriting discipline and strict control over Board approved risk appetites remain critical.

Lloyd's mix of business contains a high inherent level of reserve risk and reserve adequacy is monitored continuously. Despite the current stage of the insurance cycle which would inherently increase reserve risk, reserving risk in aggregate remains stable with a strong estimated surplus held within syndicate accounts.

As market conditions continue to soften there is increased pressure on reserves. Further to this for long tailed classes of business where there is limited known experience any projection of IBNR is heavily dependent on the assumptions set by the syndicate, their view of the business being written by the underwriters and the rates being achieved.

Whilst Lloyd's have a large number of monitoring tools in place, syndicates can expect increased scrutiny by Lloyd's as to the quantum and approach taken to setting reserves, both on a GAAP and Solvency II basis.

Ongoing Compliance with SII

Lloyd's, through its minimum standards, requires all managing agents to adhere to all the relevant Solvency II requirements

Lloyd's received Solvency II Internal Model Approval in December 2015: adherence to the Solvency II requirements is an ongoing regulatory requirement for both Lloyd's and the market.

The PRA have recently issued a number of final supervisory statements which should be considered in conjunction with the existing SII requirements.

During 2017 Corporation oversight activity will focus on the following:

i. Model drift

ii. Data quality assurance

iii. Documentation

iv. Remuneration

Oversight Area	Oversight Activity	Scope	Timing
Capital Adequacy: Model Drift	SCR reviews for year-end and mid-year Coming-Into-Line mitigate against the model drift risk: reviews range from assessment of modelling methodology, comparison with previous year's model to comparison of the parameters and results against the risk profile	All	Q2 / Q4 2017
	Enhanced market oversight activity for selected managing agents with issues, identified in the capital reviews	Selected MA	As required
	Validation report review ensures the validation standards are maintained and robust validation activity is carried out by managing agents to prevent model drift	All	Q1 (& onwards)
Data Quality Assurance	For the 2016 year-end TPD (due March 2017) Lloyd's have created a sign-off tool which will encourage syndicates to validate data prior to submitting and require additional sign-off from the Head of Actuarial/ Head of Reserving: dependent on its success, this will become BAU	All	Q2 2016
	Continued validation of syndicate quarterly Solvency II returns; enhanced electronic validation within the CMR and by a separate set of review checks conducted by Market Finance	All	Quarterly
	Validation of syndicate annual Solvency II returns (first collection due 31/12/2016) both electronically within CMR as well as a separate set of review checks conducted by Market Finance	All	Q1 2017
Governance, Risk & Operations	Thematic review of documentation policy and framework. Review of key Solvency II documentation including latest Validation Report, ORSA Report and model change.	All	Q1 / Q2
	Thematic review of remuneration policies and Remuneration Committee (or managing agent's relevant committee) terms of reference	All	Q1

Commentary

Model Drift
As Solvency II becomes part of BAU activity it is imperative that the market continues to have capital models, systems, processes and validation in place that continue to be Solvency II compliant. Lloyd's are aware that as models evolve over time there is the potential risk that capital levels will reduce and could fail to adequately reflect the level of risk in the system: this was also an area highlighted in a Consultation Paper by the PRA in May 2016.

Lloyd's expects the market to continue to have Solvency II compliant capital models subject to full validation. Changes to either the model and/or the parameters from one submission to the next will continue to be subject to scrutiny by Lloyd's as part the SCR review process.

Data
Data quality is integral to Lloyd's maintaining Solvency II compliance and a robust oversight framework. There is the potential risk that the introduction of Solvency II, which has led to a number of new returns being required from the market in addition to adjustments to returns already in place, will reduce the accuracy and completeness of information received from the market.

As raised by John Parry (Chief Financial Officer) in his letter to the market dated 15 August 2016 saw a noticeable increase in the number of resubmissions required by syndicates across several returns. Over the course of 2017 Lloyd's will continue to validate data returns from the market, and will introduce further enhancements to this validation. Syndicates who persistently fail to comply with Lloyd's standards will be subject to additional oversight.

Documentation
As part of the Solvency II implementation project, Lloyd's reviewed all managing agent documentation policies / frameworks in 2012. Since 2012, adherence to these requirements has been measured through the documentation submissions to Lloyd's as part of our ongoing review activity e.g. ORSA, Validation Reports, Actuarial Function Reports.

Given the time lapsed since the initial review of documentation frameworks, Lloyd's will conduct a further thematic review of documentation frameworks and check the ongoing adherence of managing agents to the relevant minimum standards requirements.

Remuneration
All managing agents were required to submit a self-assessment against the Governance Minimum Standards on 31 December 2015. The review of these submissions highlighted weaker explanations against the Remuneration Policy requirements. Whilst the Risk Management & Governance Oversight Team followed up with managing agents, the PRA have since issued a final supervisory statement on the Solvency II remuneration requirements dated August 2016.

The supervisory statement is relevant to all UK insurance (reinsurance firms and groups) within the scope of Solvency II and provides guidance for significant (PRA Category 1 and 2) Solvency II firms. The supervisory statement is to be used as a guide for smaller firms when reviewing their remuneration policies and practices against the Solvency II requirements.

A review of a small sample of managing agent remuneration policies has identified weaknesses and gaps against the supervisory statement.

Regulatory Risk

This past year has seen a steady increase in regulatory initiatives

Lloyd's expects the market to be compliant with international regulatory requirements, and has processes in place to assist the market with these obligations. Lloyd's continues to experience significant regulatory change across multiple jurisdictions with UK and international policy makers being committed to implementing a regulatory system that promotes financial stability.

Two key areas will be considered by the Corporation during the course of 2017:

i. Financial crime

ii. Policyholder protection

Oversight Area	Oversight Activity	Scope	Timing
Financial Crime	Themed review of managing agents on the Lloyd's China platform (Sanctions Protocol)	Selected MA	Q4 2016/ Q1 2017
	Thematic sanctions market review, focussing specifically on compliance, delegated authorities and claims risk controls	All	Q4 2017/ Q3 2018
Policyholder Protection	Continued managing agent specific reviews	Selected MA	All year
	Continued follow-up review activity for all managing agents reviewed to date (20 managing agents in 2015 and 16 in 2016)	All	All year
	Disseminate best practice and market guidance through workshops, seminars and newsletters: the topics for newsletters and seminars will in part be driven through ongoing reviews	All	Periodic
	Follow-up to 2016 MI thematic review	All	Q1 2017

Commentary

Financial Crime
The financial crime landscape continues to evolve and in particular, the application of international sanctions has never been more complex or dynamic as highlighted by the compliance challenges of trading with Iran.

The threat of enforcement by international regulators against financial institutions for wrongdoing, and inadequate systems and controls, remains significant and compliance challenges continue into 2017:

- Implementation Day with Iran has shown a divergence in risk appetites amongst the market due to the diversity of capital (US and non-US), as primary US sanctions will remain in place.
- HM Treasury's newly created Office of Financial Sanctions Implementation (OFSI) will maintain the integrity of and confidence in the UK financial services sector through the proposed Policing and Crime Bill.
- The UK's National Risk Assessment on money laundering / terrorist financing, combined with the 4th Money Laundering Directive and imminent Criminal Finances Bill continues to require the market to maintain controls to prevent all forms of financial crime.

The above environment has driven a need to revisit the financial crime review of 2012-2014 to ensure managing agents' controls reflect their individual risk appetites and best practice guidance issued by Lloyd's (Y4861).

Policyholder Protection
Lloyd's will continue its conduct assurance programme throughout 2017. This will involve undertaking assurance reviews of a further 23 Lloyd's managing agents as well as conducting follow-up reviews of the 36 managing agents that were reviewed in 2015 and 2016. The review activity will continue to ensure that managing agents are taking an effective approach to managing conduct.

We will also undertake follow-up reviews of our 2016 themed review into the market's compliance with the conduct Management Information standard (CR13) which came into force on 1 January 2016. Lloyd's will also continue its programme of disseminating best practice through the use of seminars, workshops and newsletters.

Finally, processes for handling international complaints will continue to be introduced. This includes the notification of all complaints to Lloyd's to ensure that all complaints are handled in accordance with international regulations, whilst satisfying the requirements of the FCA. This includes reporting complaints data to the FCA on a six monthly basis as well as providing data to international regulators, where applicable.

Appendix 1: Summary of 2017 Oversight Activity

Risk	Oversight activity	Scope / impact	2017				2018
			Q1	Q2	Q3	Q4	
Catastrophe Risk							
Catastrophe Exposure	Collect “uncertainty communication” practices from the market through formal structured return	All	●				
	Work with the market to identify good practices and/or develop additional methodologies. Consider working with model Vendors and/or academia to ensure modern statistical methods are employed	Selected MA		●			
	Revise guidance for minimum standards (if necessary) following market consultation	All				●	
Reinsurance	Identify and inform managing agents to be involved in thematic review of liquidity management	Selected MA	●				
	Carry out thematic project to explore methods, good practices, identify any issues and seek resolution	Selected MA		●			
	Revise guidance for minimum standards (if necessary) following market consultation	All				●	
Cyber Risk							
Catastrophe Exposure/ Underwriting/ Capital Adequacy	Develop a structured understanding of cyber-attack accumulation risk, including metrics to measure loss-potential including silent cyber	All				●	
	Establish good practice for representing cyber-attack risk (including catastrophe risk) in syndicates' capital models and in the Lloyd's Internal Model	All				●	
	Proactively engage the market to encourage the development and use of appropriate exclusions and/or sub-limits for cyber-attack	All				●	
Reserving	Cyber risks will be monitored via the same oversight activities as for other classes: any increase in concern however may lead to a thematic review	All	●	●	●	●	
Operations	Enhanced market oversight activity for selected managing agents to test operational resilience to cyber risk following review of accreditations to Cyber Essentials	Selected MA			●	●	

Risk	Oversight activity	Scope / impact	2017				2018
			Q1	Q2	Q3	Q4	
Market Conditions							
Reserving	Supervision will be increased via monitoring of market and individual syndicate reserves: syndicates should expect regular challenge from Lloyd's	All	●	●	●	●	
	Thematic reviews will be considered as a result of the 2016 year-end data analysis as necessary	All			●		
Underwriting	Thematic underwriting performance review of Casualty Treaty	Selected MA	●	●			
	Targeted reviews of the Contingency, Onshore Energy, Commercial D&O, Space and Property Pro Rata Treaty classes	Selected MA	●	●			
	Reconsider line size restrictions in light of changing market composition in time for 2018 planning; consider greater flexibility of maximum line sizes and requisite safeguards when outside of Lloyd's requirements. Consider extending the line size definitions to other classes and producing an aggregated maximum line-size view at market level.	Selected MA	●	●			
	Targeted review of large Market facilities (i.e. the placing of largely homogeneous risks into a single contract) to consider their effectiveness and premium targets	Selected MA	●	●			
	Conduct an audit of risk adjusted rate change being reported on a selection of risks to identify the cause of the differences between managing agents, and between leaders and followers.	Selected MA	●	●			
Delegated Authority	Line Slip and Consortium Review Work	All				●	
Claims	Delegated Claims Management Thematic Review, covering management and performance oversight of TPAs and Coverholders with delegated claims authority	Selected MA		●			
	Claims Management Minimum Standards Effectiveness Reviews	Selected MA	●	●	●	●	

Risk	Oversight activity	Scope / impact	2017				2018
			Q1	Q2	Q3	Q4	
Ongoing Compliance with SII							
Capital Adequacy: Model Drift	SCR reviews for year-end and mid-year Coming-Into-Line mitigate against the model drift risk: reviews range from assessment of modelling methodology, comparison with previous year's model to comparison of the parameters and results against the risk profile	All		●		●	
	Enhanced market oversight activity for selected managing agents with issues, identified in the capital reviews	Selected MA	●	●	●	●	
	Validation report review ensures the validation standards are maintained and robust validation activity is carried out by managing agents to prevent model drift	All	●	●	●	●	
Data Quality Assurance	For the 2016 year-end TPD (due March 2017) Lloyd's have created a sign-off tool which will encourage syndicates to validate data prior to submitting and require additional sign-off from the Head of Actuarial/ Head of Reserving: dependent on its success, this will become BAU	All		●			
	Continued validation of syndicate quarterly Solvency II returns; enhanced electronic validation within the CMR and by a separate set of review checks conducted by Market Finance	All	●	●	●	●	
	Validation of syndicate annual Solvency II returns (first collection due 31/12/2016) both electronically within CMR as well as a separate set of review checks conducted by Market Finance	All	●				
Governance, Risk & Operations	Thematic review of documentation policy and framework. Review of key Solvency II documentation including latest Validation Report, ORSA Report and model change.	All	●	●			
	Thematic review of remuneration policies and Remuneration Committee (or managing agent's relevant committee) terms of reference	All	●				

Risk	Oversight activity	Scope / impact	2017				2018
			Q1	Q2	Q3	Q4	
Regulatory Risk							
Financial Crime	Themed review of managing agents on the Lloyd's China platform (Sanctions Protocol)	Selected MA	●				
	Thematic sanctions market review, focussing specifically on compliance, delegated authorities and claims risk controls	All				●	●
Policyholder Protection	Continued managing agent specific reviews	Selected MA	●	●	●	●	
	Continued follow-up review activity for all managing agents reviewed to date (20 managing agents in 2015 and 16 in 2016)	All	●	●	●	●	
	Disseminate best practice and market guidance through workshops, seminars and newsletters: the topics for Newsletters and Seminars will in part be driven through ongoing reviews	All	●	●	●	●	
	Follow-up to 2016 MI thematic review	All	●				

Appendix 2: Market Oversight Objectives

Oversight Objective	Minimum Standard	Core Processes	Reporting from/to Market
1. Reserve Adequacy • To ensure adequate reserving processes and limit significant reserving deficits	• MS9 - Reserving Standards	• Reserve Surplus Analysis • Incurred But Not Reported (IBNR) Burn Analysis • Reserve Early Warning Exercise • Statement of Actuarial Opinion (SAO) Review – Valuation of Liabilities Rules	• Syndicate feedback meetings • Quarterly Monitoring Return reviews • Technical Provisions Data return analysis • Gross Quarterly Data return analysis
2. Underwriting • To ensure market performance is better than that of our peers, recognising that as a specialist P&C market, we have appetite for volatile risk classes • To ensure a reasonable expectation of making a gross underwriting profit on each Line Of Business every year • To ensure effective systems and controls for managing, recording and reporting underwriting data to management and to Lloyd's	• MS1.1 - Underwriting Strategy and Planning Standards • MS1.2 - Underwriting and Controls Standards • MS1.4 - Pricing and Rate Monitoring Standards • MS1.7 - Underwriting Data Quality	• Syndicate Business Forecast (SBF) review as input to the Capital & Planning Group (CPG) process • Quarterly Monitoring Return B (QMB) review • Monthly Performance Management Data Return (PMDr) review • Review of new Syndicate and Agency proposals • BAU/quarterly/monthly meetings • Broker Remuneration analysis	• Syndicate Business Forecast (SBF) • Quarterly Monitoring Return B (QMB) / Performance Information packs • Monthly Performance Management Data Return (PMDr) • Broker Remuneration Return
3. Delegated Authority • To ensure that delegation of underwriting is properly managed and controlled	• MS1.3 - Delegated Authority Standards	• Coverholder approval • Regional and Class of Business (COB) extension approvals • Coverholder audit co-ordination • Query system/task log • 6 monthly meeting reviews • Targeted reviews	• Monthly Atlas exceptions

Oversight Objective	Minimum Standard	Core Processes	Reporting from/to Market
4. Catastrophe Exposure • To understand and manage Lloyd's catastrophe-risk, at the level of individual syndicates and Lloyd's as a whole	• MS1.5 - Exposure Management Standards	• Scheduled and ad hoc Minimum Standards Effectiveness Reviews • Syndicate Business Forecast (SBF) and Lloyd's Capital Return (LCR) reviews • Lloyd's Catastrophe Model (LCM) process • Realistic Disaster Scenarios framework and reporting • Cyber aggregation review • Validation of catastrophe-risk, including external cat models • Emerging Risks	• Syndicate Business Forecast (SBF) • Lloyd's Catastrophe Model (LCM) • Realistic Disaster Scenarios (RDS) • Realistic Disaster "Light" (RDL) • Ad hoc Major /Rapid Claims Return • Cyber Risk Reporting
5. Reinsurance • To ensure an appropriate degree and quality of diversification in reinsurance coverage • To avoid excessive use of reinsurance to limit exposure to reinsurance counterparties and encourage underwriting performance discipline	• MS1.6 - Reinsurance Standards	• Syndicate Business Forecasts (SBF) review • Lloyd's Capital Return (LCR) review • Syndicate Reinsurance Structure (SRS) review • Quarterly Monitoring Return (A) review • Quarterly Monitoring Return (B) review • Own Risk Self-Assessment (ORSA) review • Realistic Disaster Scenario (RDS) review • Realistic Disaster Scenario "Light" (RDL) review • Related Party Declaration and Disclosure Return review	• Syndicate Business Forecast (SBF) • Lloyd's Capital Return (LCR) • Syndicate Reinsurance Structure (SRS) • Quarterly Monitoring Return A (QMA) • Quarterly Monitoring Return B (QMB) • Own Risk Self-Assessment (ORSA) • Realistic Disaster Scenario (RDS) • Realistic Disaster Scenario "Light" (RDL) • Reinsurance Asset Pack • Related Party Declaration & Disclosure Return • Ad hoc Major/Rapid Claims Return
6. Claims • To ensure managing agents manage and adjust claims to meet or exceed Lloyd's Claims Management Principles and Minimum Standards	• MS2 - Claims Management Standards	• Claims Business Plans review • Lloyd's Claims Management Summary (LCMS) • 6 monthly relationship meetings	• Annual Claims Business Plans • Half yearly Lloyd's Claims Management Summary (LCMS) • Ad hoc Major/Rapid Claims Return

Oversight Objective	Minimum Standard	Core Processes	Reporting from/to Market
7. Investment • To ensure syndicates do not take excessive investment risk • To ensure members do not take excessive investment risk	• MS8 - Investment Management Standards	• Market Risk element of LCR • Investment Risk (Quarterly Asset Data - QAD)/ Lloyd's Asset Database (LAD)	• Quarterly Market Risk Review • Quarterly asset holdings
8. Governance, Risk & Operations • To ensure that effective operational and governance processes exist across the market	• MS3 - Governance • MS4 - Risk Management • MS12 - Operating at Lloyd's Standards	• Board appointments and departures • Change of control • ORSA Report and Board management information • Annual Board Minimum Standards Attestation	• Notification of Appointments/ Departures - may result in exit interviews • Notification of Change of Control • Submission of ORSA Report (31 March 2017) • Annual Board Minimum Standards Attestation
9. Capital Adequacy/ Internal Model Approval • To ensure Central Fund exposures are managed within risk appetite	• MS6 - Modelling, Design and Implementation • MS5 - Scope, Change and Use • MS7 - Validation Standards	• Capital Approval • Solvency II model sign off • ORSA • Use Test interviews	• Validation Report • Actuarial Function Report • Model Change Report
10. Regulation • To ensure effective market wide systems or processes that enable the transaction of business • To ensure managing agents comply with relevant laws and regulations	• MS10 - Regulatory Standards;	• Guidance & advice to the market • Issue resolution and post event assurance	• Engagement with any targeted thematic financial crime and non-compliance reviews • Information requests from managing agents subject to assurance reviews
11. Policyholder Protection • To ensure managing agents pay due regard to the interests of Lloyd's customers and treat them fairly at all times	• MS11 - Conduct Risk Standards	• Complaints Reporting • Conduct risk assurance reviews and follow-up reviews (including following up the MI Thematic Review of MI) • Disseminate best practice and market guidance through workshops, seminars and newsletters. • Reacting to any alert of potential mis-selling or failure to ensure good customer outcomes.	• Eligible Complainant returns sought from the market twice a year • Information requests from managing agents subject to assurance reviews • Review reports to managing agents to set out all review feedback • Newsletters to market (topics for newsletters & seminars will be driven through ongoing reviews and BAU activity)

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