

OUTSOURCING: LLOYD'S PERSPECTIVE

25 November 2011

Neil Griffiths, Senior Manager, Operational Risk

Agenda

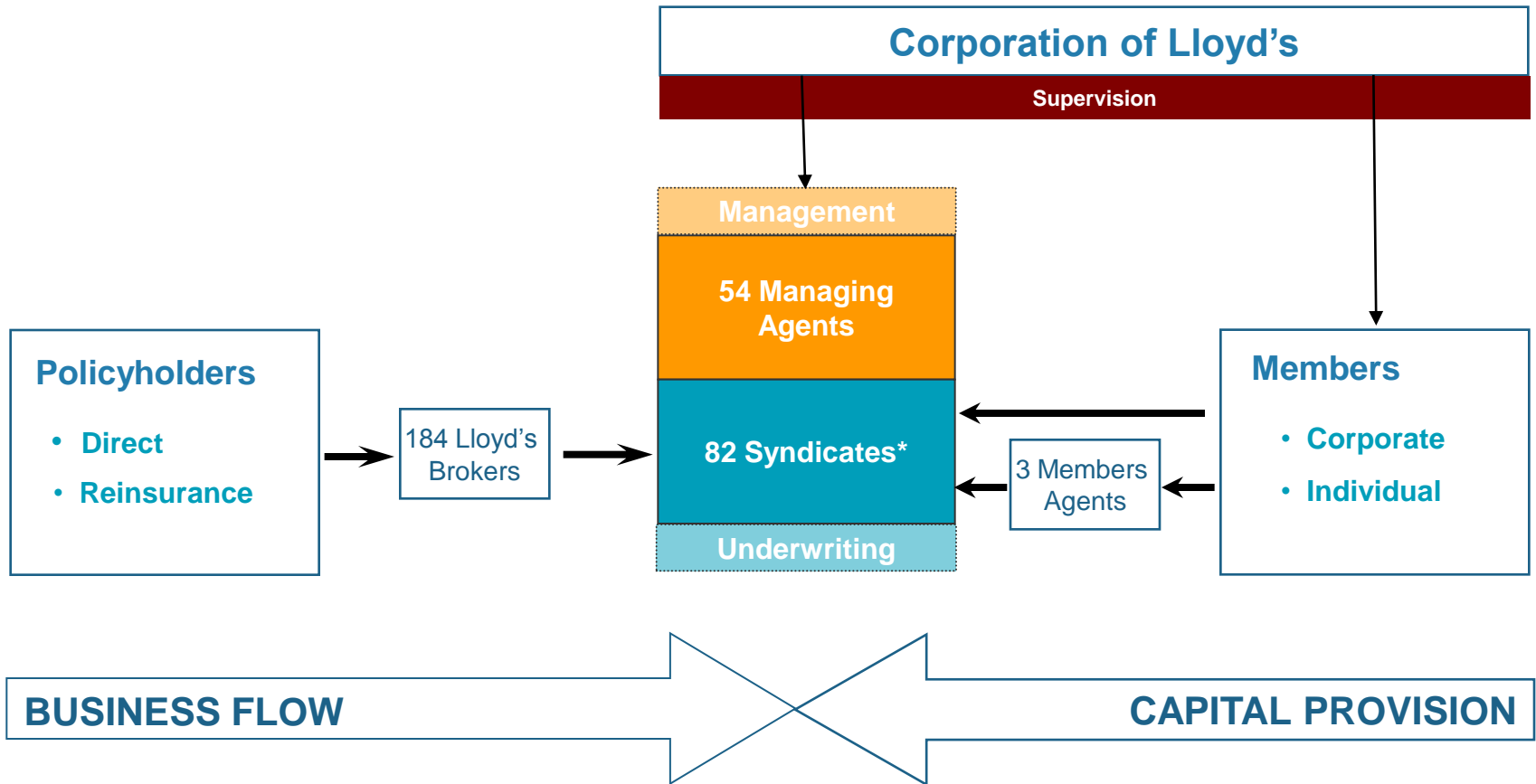
- Supervision at Lloyd's
- How have we approached Outsourcing for Solvency II?
- Outsourcing reviews
- Feedback from reviews
- Ongoing supervision of Outsourcing
- Questions

SUPERVISION AT LLOYD'S

Regulation of the Lloyd's market

- The Society of Lloyd's is regulated by the UK Financial Services Authority (FSA), under the Financial Services and Markets Act 2000
- The FSA is the primary regulator of Lloyd's managing agents, members' agents, Lloyd's brokers and the Corporation of Lloyd's
- The FSA and Lloyd's continue to coordinate activities under cooperation arrangements – ensures duplication is minimised
- The FSA and Lloyd's hold regular meetings and have open dialogue as and when needed
- Council of Lloyd's responsible for the management and supervision of the Lloyd's market:
 - Day-to-day operation through Franchise Board and Executive Team

Lloyd's market structure



Market Supervision: Lloyd's Minimum Standards

<p>LLOYD'S MINIMUM STANDARDS</p>	<p align="center">GOVERNANCE</p>
	<ul style="list-style-type: none"> • AN EFFECTIVE BOARD • CLEAR RESPONSIBILITIES • BALANCE OF EXECUTIVE AND NON-EXECUTIVE MEMBERSHIP • BOARD APPOINTMENTS • INFORMATION SUPPLIED TO THE BOARD • BOARD TO EVALUATE ITS OWN PERFORMANCE
	<p align="center">RISK MANAGEMENT</p>
	<ul style="list-style-type: none"> • RISK GOVERNANCE • RISK MANAGEMENT PROCESSES: IDENTIFICATION, ASSESSMENT & MITIGATION • RISK MANAGEMENT PROCESSES: REPORTING & ASSURANCE • CAPITAL ALLOCATION
<ul style="list-style-type: none"> • UNDERWRITING • CLAIMS • RISK MANAGEMENT • GOVERNANCE • OPERATIONAL PROCESSES • PROTECTING LLOYD'S REPUTATION AND BRAND 	<p align="center">OPERATIONAL PROCESSES</p>
	<ul style="list-style-type: none"> • OUTSOURCING • BUSINESS CONTINUITY • CREDIT CONTROL • RECORDS • RESOURCES
	<p align="center">PROTECTING LLOYD'S REPUTATION & BRAND</p>
	<ul style="list-style-type: none"> • CODE OF BUSINESS ETHICS • MANAGE OF FINANCIAL CRIME • TREATING POLICYHOLDERS FAIRLY • USE OF LLOYD'S NAME AND BRAND • DEAL WITH LLOYD'S AND REGULATORS IN AN OPEN AND COOPERATIVE WAY

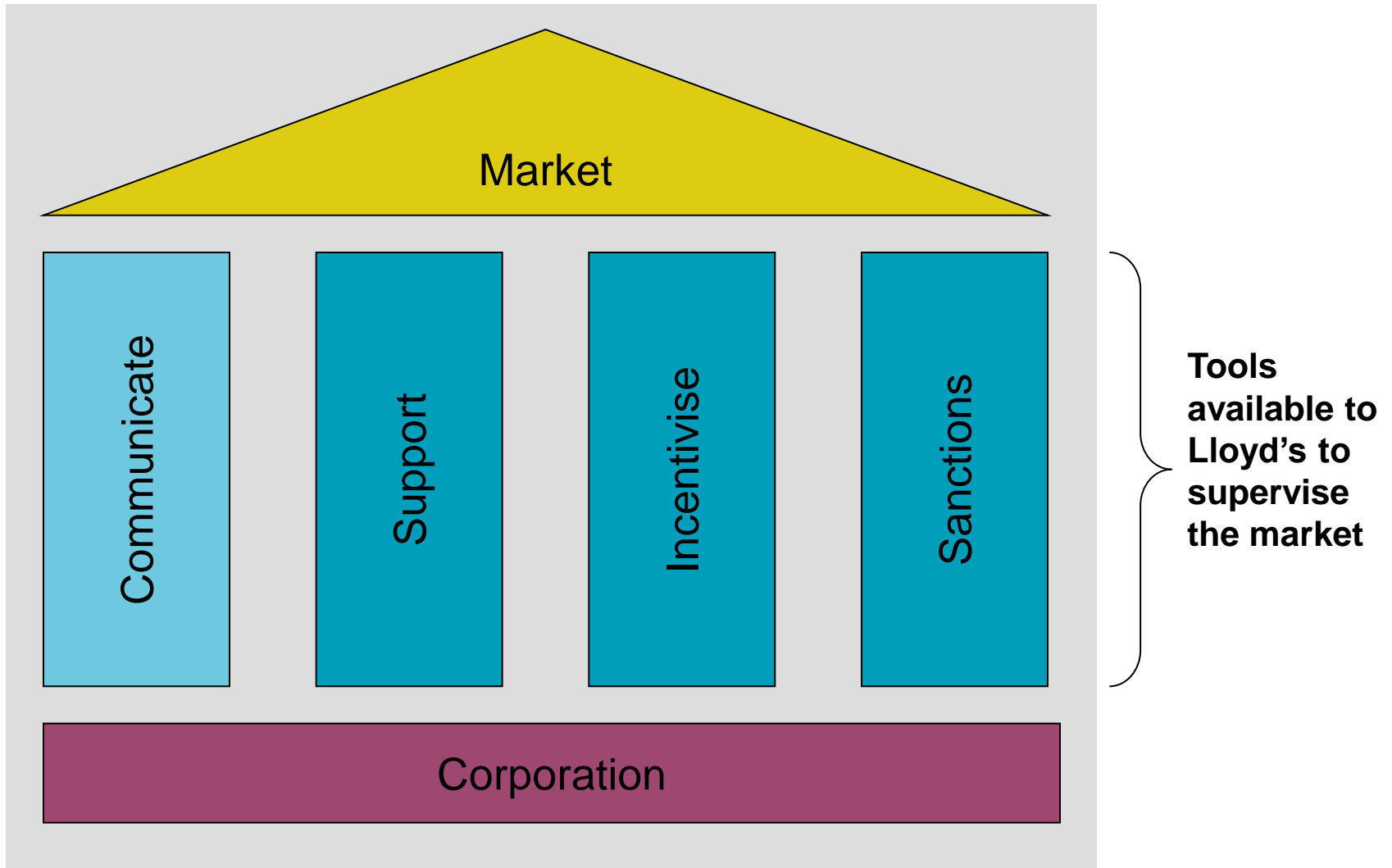
Operational Processes Minimum Standard

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

The managing agent can demonstrate that –

- key operational and business processes are properly documented.
 - directors and staff clearly understand all the operational and business processes relevant to their role.
 - 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 controlled.**
 - appropriate business continuity plans are in place.
 - appropriate credit control and management procedures are in place, especially for the collection of premium.
 - 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 processes.⁶
 - adequate board attention and focus is given to the operational and business processes.

Market Supervision: How?



Market Supervision: How?

- Examples of tools available:
 - Capital
 - Business Planning
 - Reviews
 - Advisory
 - etc

**HOW HAVE WE
APPROACHED
OUTSOURCING FOR
SII?**

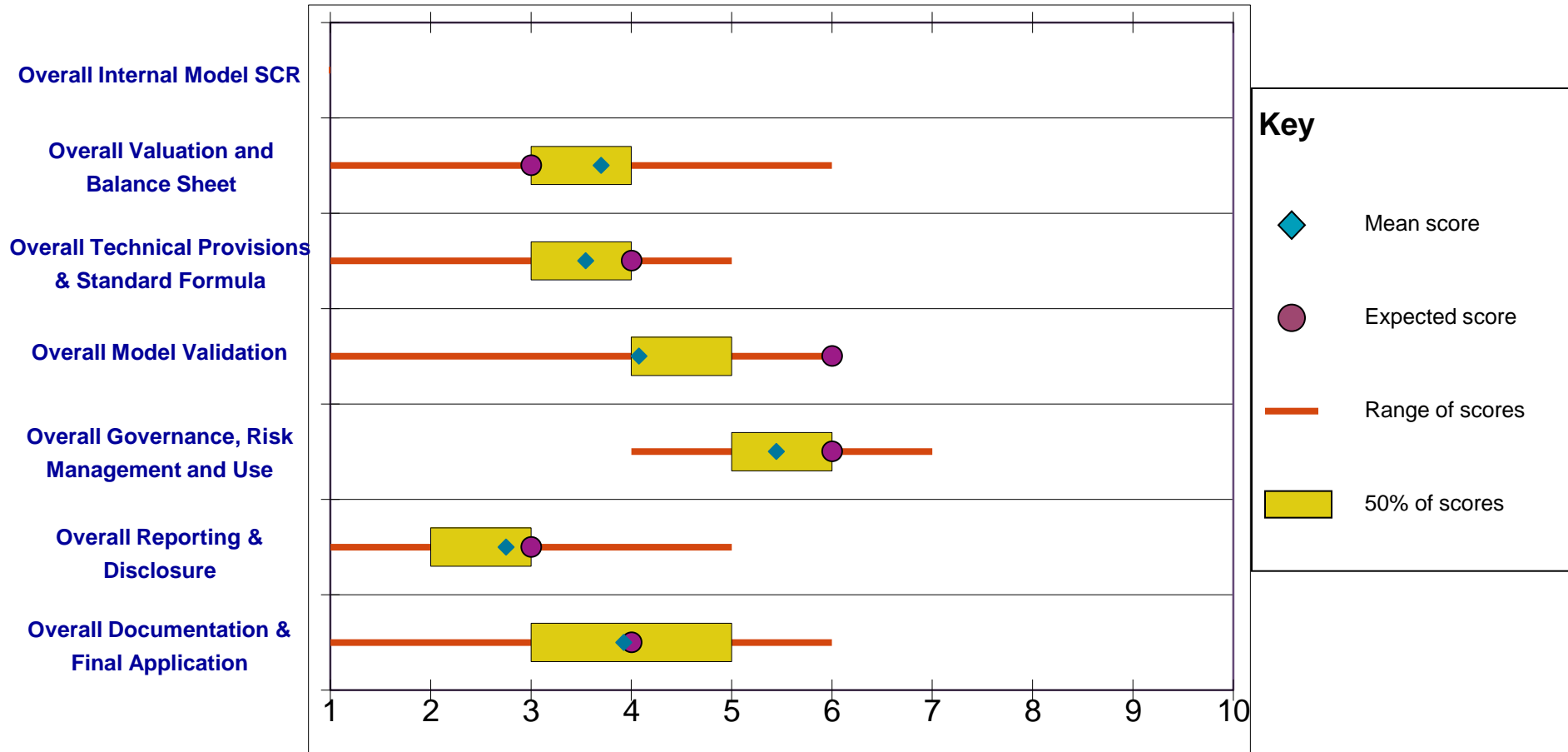
SYNDICATE TIMELINE KEY DATES

2011	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
Overall	7 and 11 February Workshop February 18 2011 Plan and Guidance	March 4 Q4 2010 Self-assessment scoring sheet March 31 Updated scoring sheets for all elements		May 6 Q1 Self-assessment scoring sheet		July 29 Q2 self-assessment scoring sheet	1 and 2 August Director's Briefing		October 31 Q3 self-assessment scoring sheet	23 and 24 November Director's Briefing	
IMSCR Internal Model SCR	February 18 LCR template	March 4 High-level model questionnaire March 18 High-level model questionnaire	4 and 6 April Workshop	May 27 Evidence template	13 and 17 June Workshop	July 29 Interim SCR 1 submission	8 and 23 August Workshop August 28 Evidence template	September 16 Interim SCR Submission	October 31 Final SCR submission		December 16 Final Evidence template
VBS Valuation and Balance Sheet				May 6 Segmented assets guidance	22 and 23 June Workshop	July 29 Balance Sheet and Segmented assets submission July 29 Evidence template		14 and 15 September Workshop			December 16 Final Evidence template
TPSF Technical Provisions and Standard Formula	February 18 TP template and instructions	March 31 Technical Provisions guidance	4 and 6 April Workshop	May 27 Full year TP submission as at 31/12/10 May 27 Evidence template submission	13 and 17 June Workshop June 30 Templates and Instructions	July 29 Standard Formula SCR July 29 Evidence template	8 and 23 August Workshop	September 30 Half year and projected TP submissions September 30 Evidence template		November 30 TPD and GGD submission	December 16 Final Evidence template
MV Model Validation		15 and 16 March Workshop		May 6 Evidence template May 6 Validation Report guidance 9 and 10 May Workshop	June 30 Evidence template	4 and 5 July Workshop	August 26 Evidence template	1 and 2 September Workshop September 30 Draft Validation report			December 16 Final Evidence template December 16 Final Validation Report submission
GRMU Government Risk Management and Use		1 and 3 March Workshop March 31 Evidence template		17 and 18 May Workshop	June 30 Evidence template	July 29 ORSA contents guidance	9 and 24 August Workshop	September 30 Evidence template	3 and 4 October Workshop	7 and 10 November Workshop	December 16 ORSA submission December 16 Final Evidence template
RD Reporting and Disclosure					22 and 23 June Workshop	July 29 Evidence template	August 26 Reporting and Implementation plan guidance	14 and 15 September Workshop	October 31 Evidence template		December 16 Reporting Implementation plan December 16 Final Evidence template
DFA Documentation and Final Application					June 30 Final application pack Guidance	19 and 20 July Workshop ⁹	August 26 Evidence template		3 and 4 October Workshop		December 16 Final application pack December 16 Final Evidence template

KEY Workshops Key Deliverable Lloyd's Publication Submission Due

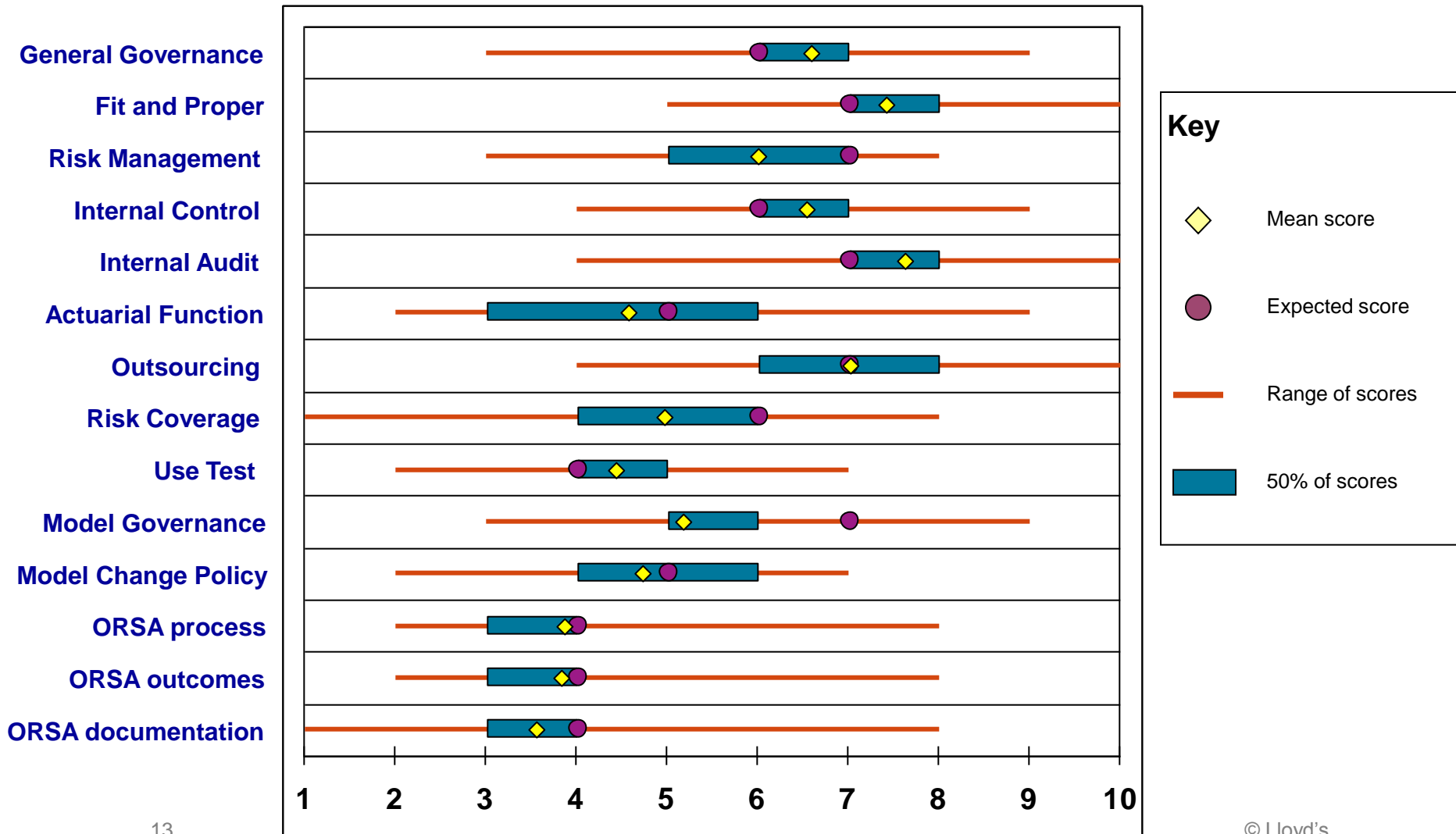
Current self assessment progress.....

Agent self assessment averages – Q1 2011



Latest self assessment scores

Agent self assessment – Q1 2011



OUTSOURCING REVIEWS

CEIOPS requirements

Outsourcing policy

Outsourcing policy includes considerations of the impact of outsourcing on business and the reporting and monitoring arrangements to be implemented in case of outsourcing. The policy is regularly assessed and updated with any necessary changes implemented

Outsourcing agreements

- Ability and capacity to deliver the required functions
- Conflict of interests
- Specific requirements of written agreements
- Clear supervisory body approval
- Data protection
- Retention of skills to challenge third parties
- Contingency Planning

Review activity

- Review of Outsourcing arrangements in each managing agent
- Focus of reviews was on the following:
 - Content and structure of outsourcing policy
 - Format and content of contractual arrangements
 - Due diligence, approval and challenge of arrangement
 - Ongoing monitoring
 - In house expertise to challenge outsource arrangement
 - Contingency planning
 - Risk management and internal control
 - How IT issues are considered
 - Internal audit of outsource arrangements

FEEDBACK FROM REVIEWS

Outsourcing – Review findings

- Explicit definition of Outsourcing, a definition provided by the FSA is:
"an arrangement of any form between a firm and a service provider by which that service provider performs a process, a service or an activity which would otherwise be undertaken by the firm itself."
- Group arrangements:
 - Written agreements must be in place.
 - Ability to choose service provider.
- Further definition could also be included within the policy statement on:
 - Due diligence assessment process.
 - Performance reporting.
 - Sufficient in house competence.
 - Auditing outsource activities.

Delegated underwriting

- Important to use existing documentation on these arrangements.
- Reference in outsourcing policy to existing documentation.
- However, it may prove necessary for those procedures and policies for delegated underwriting to be amended in light of Solvency II requirements. Certain market wordings may also need amendment.

ONGOING SUPERVISION OF OUTSOURCING

Ongoing supervision

- Incorporation of Solvency II requirements into Lloyd's minimum standards.
- Early engagement in any Managing agent outsourcing plans.
- Periodic review of Outsourcing arrangements across the market.
- Review of governance around outsource arrangements as part of wider governance considerations.
- Reliance on Internal Audit functions to perform the necessary reviews on an ongoing basis.

QUESTIONS?

