



FINAL NOTICE

To: MS Amlin Underwriting Limited (Firm Reference Number: 204918)

Date: 18 October 2022

1. ACTION

1.1. For the reasons set out in this Notice, the PRA imposes a financial penalty on MS Amlin Underwriting Limited (“**MSAUL**” or the “**Firm**”) of £9,695,000 for breaching:

- a) PRA Fundamental Rule 5 (a firm must have effective risk strategies and risk management systems); and
- b) PRA Fundamental Rule 6 (a firm must organise and control its affairs responsibly and effectively),

between 1 September 2014 to 31 December 2019 (the “**Relevant Period**”).

1.2. MSAUL agreed to settle during the Discount Stage of the PRA’s investigation. As a result, MSAUL qualified for a 30% settlement discount under the PRA Settlement Policy. Were it not for this discount, the PRA would have imposed a financial penalty of £13,850,000 on MSAUL.

2. SUMMARY OF REASONS FOR ACTION

The Firm

2.1. MSAUL is authorised and regulated by the PRA and regulated by the FCA. It is designated as a mixed activity insurance holding company for the purposes of Solvency II. It is, and was throughout the Relevant Period, designated by the PRA as a Category 2 insurer, *i.e.* a firm whose size (including the number of policyholders) and type of business means that it has significant capacity to cause disruption to the interests of a substantial number of

policyholders.

- 2.2. Throughout the Relevant Period, MSAUL was part of a group structure under MS Amlin plc (the “**Group**”). In 2016, Mitsui Sumitomo Insurance Company Limited (“**MSI**”) acquired the Group.¹ On 1 January 2020, the Group was restructured and the Firm has been a wholly owned subsidiary of MSI since this time.
- 2.3. Throughout the Relevant Period MSAUL operated as managing agent of Lloyd’s Syndicate 2001 and, following MSI’s acquisition of the Group in 2016, Lloyd’s Syndicate 3210 (together, the “**Syndicates**”).
- 2.4. The PRA recognises that, since the end of the Relevant Period, the Firm has undergone substantial restructuring and significant strengthening of its board and executive team, with the support of the Firm’s parent company, MSI.

Growth and changes to the Firm’s governance structure

- 2.5. Prior to and during the early years of the Relevant Period, following a strategy set at Group level, MSAUL embarked on a period of significant growth and diversification effected by means of the underwriting of new classes of business in new jurisdictions, including expansion into new markets.
- 2.6. During these years, the Firm expanded into new long-tail lines of business, principally casualty (liability insurance encompassing a broad category of products, for example, financial lines and professional indemnity and accident and health).
- 2.7. In parallel with its growth strategy, from September 2014, the Group reorganised its underwriting business into three segments or strategic business units (“**SBU**s”) focused on property & casualty (“**P&C SBU**”), marine & aviation (“**M&A SBU**”) and reinsurance (“**RI SBU**”). The Firm, in effect, delegated underwriting activities to the SBUs and operational and support services to certain centralised functions within the Group. The Firm retained regulatory responsibility for the business written on its behalf by the SBUs.

2017 losses

- 2.8. MSAUL experienced significant losses in 2017, reporting a loss of £45.332m for Syndicate 3210 and a loss of £499.7m for Syndicate 2001, with total losses therefore of £545.032m

¹ Prior to this acquisition, MS Amlin Underwriting Limited and MS Amlin plc were named Amlin Underwriting Limited and Amlin plc respectively. In this Notice, references to “MSAUL” or the “Firm” (i) in the period until 29 April 2016 are to Amlin Underwriting Limited; and (ii) in the period from 29 April 2016 are to MS Amlin Underwriting Limited. References to “MS Amlin plc” (i) in the period until 29 February 2016 are to Amlin plc; and (ii) in the period from 29 February 2016 to 3 December 2019 are to MS Amlin plc.

(the “**2017 Losses**”).

- 2.9. Minutes of a meeting of the MSAUL board (the “**Board**”) in February 2018 recorded the 2017 Losses as having been primarily driven by: (i) high levels of net catastrophe losses; (ii) prior year claims deterioration; and (iii) poor underwriting performance for the 2017 calendar year.
- 2.10. The 2017 Losses significantly eroded the Syndicates’ Solvency Capital Requirement (“**SCR**”) and were sufficiently large as to require a series of capital injections to be made within the Group.

Internal and Third Party Reviews

- 2.11. As set out in Annex A to this Notice, in the period following the 2017 Losses, the PRA required the Firm to engage in a number of internal and external reviews. These included an internal “lessons learned” review into underwriting strategy and performance oversight in the period between 2014 and 2017, a section 166 Financial Services and Markets Act 2000 (“**FSMA**” or “**the Act**”) skilled person review concerning ‘reserving’ practices, and a section 166 FSMA skilled person review which considered underwriting and pricing controls, systems and data, reporting and management information (“**MI**”), and governance and oversight. A number of the reports identified weaknesses, for example in strategy, business planning and governance and oversight of underwriting performance, and made a number of recommendations, with later reports assessing the effectiveness of remedial actions.
- 2.12. In the course of its investigation, the PRA has had regard to each of these reports together with several additional reports which the Firm produced to the PRA in the course of the PRA’s investigation. The PRA has undertaken further enquiries into the matters which form the subject of its investigation.

3. BREACHES AND FAILINGS

- 3.1. For the reasons detailed at Annex A and Annex B to this Notice, the PRA considers that the Firm failed to comply with its regulatory obligations in respect of its governance and oversight of underwriting, its controls over underwriting, MI and data quality, its risk management strategies and systems and its remediation of failings in relation to the same.
- 3.2. The PRA considers that, during the Relevant Period, MSAUL breached PRA Fundamental Rule 5 and PRA Fundamental Rule 6.

PRA Fundamental Rule 5

- 3.3. During the Relevant Period, MSAUL breached PRA Fundamental Rule 5 because there were deficiencies in its approach to risk management, including that:
- a) the Firm did not embed a strong or effective risk culture within the business;
 - b) the Firm did not clearly delineate responsibilities between the second line Risk Function and first line functions, resulting in a blurring of roles between the first and second lines of defence. In addition, there was confusion within MSAUL over accountabilities and responsibilities in relation to the three lines of defence; and
 - c) the Firm failed to put in place appropriate and/or effective risk mitigation strategies to mitigate identified risks, with the Risk Function identifying and/or being aware of deficiencies within certain key risk mitigation strategies, with such deficiencies not being sufficiently addressed in a timely or effective manner over the Relevant Period.

PRA Fundamental Rule 6

- 3.4. During the Relevant Period, MSAUL breached PRA Fundamental Rule 6 because it failed to organise and control its affairs responsibly and effectively. These failings related to: (i) governance and oversight; (ii) MI and data; (iii) controls over underwriting; and (iv) remediation.

Governance and Oversight

- 3.5. The Firm's governance and oversight of underwriting was deficient because it did not provide an effective system of governance and an adequate and transparent organisational structure to enable sound and prudent management of the Firm's business:
- a) the underwriting governance structure was fragmented across several different committees and functions with unclear allocation and segregation of responsibilities for underwriting performance and control, and ineffective decision-making;
 - b) the Firm, acting through the Board, retained regulatory responsibility but had limited practical ability to challenge and influence underwriting decision-making, and performance;
 - c) the setting and implementation of underwriting strategy and business planning was primarily devised and led by the SBUs and reviewed within the Group with limited reference to the Board. It was presented to the Board only at a high level such that

the Board was not able to provide meaningful challenge of the Firm's strategy and business plan;

- d) the Firm was not able to form a coherent view of the business that was written on its behalf such that the nature and scale of the 2017 Losses came as a surprise to underwriting management and the Board; and
- e) the Firm's matrix governance structure was not an effective system for ensuring the transmission of information, having materially worsened access to underwriting MI.

MI and Data

- 3.6. The PRA's investigation has found that there were deficiencies in the Firm's Board MI which were part of Group-wide difficulties in producing and obtaining adequate MI. In particular, the Board was not supported with meaningful and well-targeted MI with which to inform its discussions and Board MI was not of an appropriate quality to provide a reliable basis for decision-making.
- 3.7. The Firm's failures in relation to MI were compounded by broader systemic deficiencies relating to data quality and data handling. In particular, the Firm operated a large number of data source systems and data repositories which resulted in variation and inconsistency in the data available across the business, had ineffective data quality assurance controls and failed to take sufficient or timely steps to address documented issues.

Incomplete and ineffective controls over underwriting

- 3.8. The Firm did not have sufficiently effective controls over underwriting. The PRA's investigation has identified that the Firm and its management enabled a culture within the Firm where underwriters had a high degree of autonomy in relation to writing business (an "underwriter-led" culture) without ensuring there were sufficiently robust controls to mitigate the risks inherent in its business. The Firm had inconsistent and insufficiently embedded pre-bind controls and deficient technical pricing controls which led to breaches of underwriting controls. Accountability for inadequate underwriter discipline was insufficiently robust.

Failure to remediate in a timely fashion

- 3.9. The PRA expects that, when it issues communications, regulated firms will act on their content in an appropriate and timely way and that they will address any identified weaknesses promptly.

3.10. Whilst the Firm's current management has substantively remediated the failings identified in this Notice, the Firm failed to remediate in an effective or timely manner during the Relevant Period, notwithstanding its own assessment of its failings and the PRA's warnings. The Firm's remediation of the issues identified in this Notice during the Relevant Period was therefore deficient.

4. REASONS THE PRA IS PROPOSING TO TAKE ACTION

4.1. Proper governance and oversight, MI and data, controls and risk management are essential for the PRA to advance its primary objective to promote the safety and soundness of PRA-authorized firms and its additional insurance objective of contributing to the securing of an appropriate degree of protection for those who are or may become policyholders.

4.2. During the Relevant Period, the PRA raised concerns in relation to the matters set out in this Notice with the Firm. In particular, following its annual Periodic Summary Meetings ("**PSMs**"), the PRA raised with MSAUL a number of concerns, including the quality of MI, the complexity of the Firm's decision-making structure, weaknesses in the Firm's internal control framework, and concerns in relation to several of its operational functions.

4.3. Furthermore, certain issues set out by the PRA in external publications during the Relevant Period were directly relevant to MSAUL and the matters set out in this Notice, including:

a) the PRA's policy and supervisory statements, such as:

- i. the Approach to Insurance Supervision document, which sets out the PRA's expectations of insurance firms;
- ii. Supervisory Statement SS5/16, *Corporate Governance: Board responsibilities* (March 2016) which identifies the aspects of governance to which the PRA attaches particular importance;

b) periodic communications with regulated firms on specific matters. It is relevant to this matter that, in addition to communicating with the Firm through the PSM process:

- i. in December 2015, the PRA wrote to general insurance firms regarding the prevailing soft market conditions and emphasising that underwriting controls were the first line of defence in identifying the extent and impact of soft market conditions and that, as such, the PRA expected comprehensive board engagement on matters such as pricing trends, any conflict between

business plan objectives, profitability and adequate pricing and the robustness of governance and expansion into new products and markets; and

- ii. in May 2018, the PRA sent a “Dear CEO” letter to specialist general insurance firms, including MSAUL, identifying the areas in which the PRA had found weaknesses in firms’ oversight of underwriting and associated controls. A number of these observations were relevant to MSAUL.

4.4. The PRA expects that when it issues communications such as these that regulated firms act on their content in an appropriate and timely way, and promptly address any identified weaknesses. The Firm failed to do so in this case.

4.5. As a result of the breaches identified in this Notice, and in circumstances whereby the matters underpinning those breaches were identified by both the PRA and the Firm itself and yet subsisted for a number of years, the PRA considers that the Firm failed to put in place an appropriate system of governance and controls over underwriting and to properly manage the risks associated with the business written to its balance sheet. These failings were particularly serious because they had the potential to adversely impact the Firm’s safety and soundness and to put policyholders at risk, and the PRA therefore considers that it is appropriate to take action.

5. SANCTION

5.1. Taking into account the facts and matters in Annex A and the relevant factors set out in the PRA Penalty Policy, the PRA has concluded that MSAUL’s breaches of PRA Fundamental Rules 5 and 6 justified the imposition of a financial penalty of £13,850,000.

5.2. The PRA and MSAUL reached an agreement to settle during the Discount Stage, therefore this sum is reduced to figure of £9,695,000.

5.3. The PRA does not make any criticism, findings of misconduct or other adverse findings of fact in relation to any of the third parties referred to in this Notice.

6. ANNEXES/APPENDICES AND PROCEDURAL MATTERS

6.1. The full particulars of the facts and matters relied on by the PRA in its decision-making process regarding MSAUL can be found in **Annex A**. MSAUL’s breaches and failings are detailed in **Annex B** and the basis for the sanction the PRA imposed is set out in **Annex C**. Relevant procedural matters are set out in **Annex D**. The definitions used in this Notice

are set out in **Appendix 1** and the relevant statutory, regulatory and policy provisions are set out in **Appendix 2**.

Oliver Dearie

Head of Legal, Enforcement and Litigation Division
for and on behalf of the PRA

ANNEX A: FACTS AND MATTERS RELIED UPON

1. BACKGROUND

- 1.1 The Firm is a Category 2 insurance company authorised and regulated by the PRA and regulated by the FCA. It is designated as a mixed activity insurance holding company for the purposes of Solvency II.
- 1.2 Throughout the Relevant Period, MSAUL was part of the Group under MS Amlin plc (being a wholly owned subsidiary of MS Amlin plc, via an intermediate holding company). On 1 February 2016, MSI acquired the Group. The Firm has been a wholly owned subsidiary of MSI since 1 January 2020, when MS Amlin plc was removed from the structure.
- 1.3 During the Relevant Period MSAUL operated as managing agent of Lloyd's Syndicate 2001 and, following MSI's acquisition of the Group in 2016, Lloyd's Syndicate 3210, with responsibility for the management, conduct of the underwriting function and all aspects of administration of the syndicates that it managed. Syndicate 3210 went into run-off as of 1 January 2017, meaning all new and renewal business was underwritten into Syndicate 2001 thereafter.

2. SIGNIFICANT GROWTH, REORGANISATION AND LOSSES

Growth and expansion

- 2.1 Prior to and during the early years of the Relevant Period, following a strategy set at Group level, MSAUL embarked on a period of significant growth and diversification effected by means of the underwriting of new classes of business in new jurisdictions, including expansion into new markets.
- 2.2 During these years, the Firm expanded into new long-tail lines of business, principally casualty (liability insurance encompassing a broad category of products, for example, financial lines and professional indemnity and accident and health). MSAUL's growing casualty exposure brought heightened risk, for example, as a result of casualty books being exposed to risk factors which may be inherent but unknown at the time of writing, although there was also potential for heightened return and potential benefits from diversification.

Governance structure

- 2.3 In parallel with its growth strategy, from September 2014, the Group reorganised its underwriting business into three segments or SBUs, focused on property & casualty, marine & aviation and reinsurance:
- a) the Firm, in effect, delegated underwriting activities to the SBUs and operational and support services to certain centralised functions within the Group;
 - b) each SBU wrote business on the Firm's behalf;
 - c) the SBUs operated as profit centres with management teams, but had no legal personality; and
 - d) the Firm retained regulatory responsibility for the business written on its behalf by the SBUs.
- 2.4 As a June 2016 Internal Audit report explained, this structure created a *"critical need for the framework to facilitate the [Board] being able to exercise oversight and control over the business being written on [its] behalf"*. The Firm therefore recognised that it was essential for it to have in place appropriate governance to ensure adequate monitoring, management, challenge and direction of its affairs in relation to the business written on its behalf by the SBUs and the services provided to it by Group functions. The Firm sought to achieve this through the composition of the Board (as to which, see paragraph 3.3(c) of Annex A below).

2017 Losses

- 2.5 MSAUL experienced significant losses in 2017 (the 2017 Losses), reporting a loss of £45.332m for Syndicate 3210 in 2017 and a loss of £499.7m for Syndicate 2001, with total losses therefore of £545.032m.
- 2.6 Minutes of a meeting of the Board in February 2018 recorded the 2017 Losses as having been primarily driven by: (i) high levels of net catastrophe losses; (ii) prior year claims deterioration; and (iii) poor underwriting performance for the 2017 calendar year.
- 2.7 The 2017 Losses significantly eroded the Syndicates' SCR and were sufficiently large as to require a series of capital injections to be made within the Group.

PRA communications with the Firm

- 2.8 During the Relevant Period, the PRA raised concerns in relation to the matters set out in

this Notice with the Firm and more broadly to relevant firms in the insurance industry. As to that:

- a) having been informed of the reorganisation of the business into SBUs in advance of implementation, the PRA wrote to MS Amlin plc in December 2014, in the context of its ongoing supervision at both Firm and Group level, setting out its assessment of operational and transactional risks represented by the organisational changes that were being put in place (the “**2014 Letter**”):
 - i. the Board and management of MSAUL had undergone significant change over the previous two years, which left a far more inexperienced executive, many of whom were occupying their first board roles;
 - ii. the PRA had observed, in its supervisory meetings with members of the Board, divergence in the depth of understanding and articulation of key information in comparison with the PRA’s dealings with the MS Amlin plc Board (the “**Group Board**”). The PRA stated that it would expect a better articulation of strategy, use of internal model MI and more detailed and credible responses on business planning and risk appetite, both collectively and individually for key members of the Board. The PRA said that this was an important concern, given MSAUL’s materiality to the Group, and the increasing importance of the Board in potentially protecting the interests of the regulated entity against the needs of the SBUs or Group;
 - iii. the Firm’s internal re-organisation would consume significant resource and management time at a point when the Firm was expanding into unfamiliar markets and against the backdrop of a soft market. The Firm, and the Group, needed to demonstrate that it had adequate resources to execute the reorganisation along with key business as usual activities, given the lack of experience on the Board; and
 - iv. there had been additional changes to Board MI as result of the reorganisation from entity to business unit reporting and these changes could impact management’s ability to spot negative trends in performance. The PRA wrote that transitioning from one set of MI to another carried certain risks and that it expected the Board to ensure that there was a full understanding of how management accountabilities were affected by these

organisational changes, and to ensure that the Group's systems and MI were able to adapt accordingly;

- b) in December 2015, the PRA wrote to general insurance firms regarding the prevailing soft market conditions, emphasising that underwriting controls were the first line of defence in identifying the extent and impact of soft market conditions and that, as such, the PRA expected comprehensive board engagement on matters such as pricing trends, any conflict between business plan objectives, profitability and adequate pricing and the robustness of governance and expansion into new products and markets;
- c) in July 2016, the PRA wrote to MS Amlin plc setting out its concerns regarding weaknesses in MSAUL's governance. Those concerns included:
 - i. that the prevailing decision making process was overly complex and confusing, and that it had had a negative impact on the Board's ability to form a coherent view of the business being written onto MSAUL's balance sheet, and to monitor and ensure that centralised support functions within the Group were providing the necessary services in a timely and effective manner;
 - ii. serious concerns about the ability of the Board to maintain sufficient oversight of the business and risks written onto MSAUL's balance sheet in line with the PRA's expectations. Considerable improvements were required in order for the Board to meet its responsibilities;
 - iii. a significant level of Group influence at the MSAUL level. The PRA considered that this hindered the Board and its ability to maintain the appropriate level of independence, oversight and responsibility within the business;
 - iv. issues with the quality of Board packs and MI. Board packs were overly long and unfocussed with a lack of timely and appropriate MI to allow the Board to make decisions;
- d) in response to the PRA's letter of July 2016, the Firm submitted a governance improvement plan to the PRA. An external advisor reviewed the execution of this plan in May 2017. On the basis of the assurances set out in this review, the PRA recognised "*the strengthening of legal entity governance over the last year*" in a

letter dated August 2017. In that letter, the PRA also set out its expectation that the recommendations of the external report would be implemented and embedded, and highlighted operational risks the PRA saw over the coming year in relation to the Firm. Those risks included the significant challenges presented by the continuing soft market conditions that had potential implications for firms' safety and soundness, control framework weaknesses and the current IT structures and the sustained pressure from the changes to management and governance structures;

- e) in March 2018, the PRA wrote to the Board and the Group Board regarding the root causes of the 2017 Losses, in respect of which management had been open with the PRA. The root causes included, in particular: (i) inadequate oversight of underwriting performance, particularly given the decision to diversify into long-tail classes of business; (ii) limitations in data quality, hampering management reporting capabilities; and (iii) lack of clear accountability arising from the changes in matrix reporting structures within the Group, particularly the legal entity and SBU structures; and
- f) in December 2018, the PRA wrote to the Board and the Group Board with its assessment of the key risks posed by the Firm in a number of areas including underwriting performance and controls, management and governance and its control environment. In this letter, the PRA set out that the Firm had accepted that the scale and nature of the 2017 Losses had come as a surprise to its management and to the Board.

2.9 Furthermore, the PRA issued a number of external publications during the Relevant Period which were directly relevant to MSAUL and the matters set out in this Notice, including policy and supervisory statements, such as:

- a) the Approach to Insurance Supervision document, which sets out the PRA's expectations of insurance firms; and
- b) Supervisory Statement SS5/16, *Corporate Governance: Board responsibilities* (March 2016) which identifies aspects of governance to which the PRA attaches particular importance.

2.10 The PRA therefore raised the matters that form the subject matter of this Notice with the Firm on a number of occasions and over a number of years both with MSAUL and through its public communications.

Internal and Third Party Reviews

2.11 In the period following the 2017 Losses, the PRA required the Firm to undertake a number of reviews regarding its strategy, governance, reserving and underwriting processes and procedures. These included:

- a) an internal “lessons learned” review into underwriting strategy and performance oversight in the period between 2014 and 2017 which completed in July 2018 (the “**Lessons Learned Report**”). This report identified above forecast losses and weaknesses in strategy, business planning, governance and underwriting performance, and oversight as drivers for the underperformance in 2017;
- b) a section 166 FSMA skilled person review of the Firm’s reserving practices (the process of evaluating, reviewing and estimating unpaid claims) (the “**First Skilled Person Report**”); and
- c) a section 166 FSMA skilled person review which considered underwriting and pricing controls, systems and data, reporting and MI, and governance and oversight. This review, commissioned in 2019, was split into two phases:
 - i. a phase 1 review, completed in October 2019, which considered the adequacy of the root cause analysis conducted by the Firm in relation to the 2017 Losses, the likely effectiveness of the proposed remediation plan and the current position of the underwriting and pricing framework. This report made 25 RAG rated recommendations of which 14 were rated red, 10 rated amber and one rated green (the “**Second Skilled Person Report – Phase 1**”). A number of these findings related to the matters set out in this Notice;
 - ii. a phase 2 review which assessed the design and implementation of the Firm’s management actions to address the recommendations identified in the Second Skilled Person Report – Phase 1, which completed in November 2020 (the “**Second Skilled Person Report – Phase 2a**”). This review was followed by an assessment of the operating effectiveness and embeddedness of the required management actions, which was completed in January 2022 (the “**Second Skilled Person Report – Phase 2b**”). The latter report

concluded that the Firm had sufficiently implemented activities to address the findings and uncontrolled risks identified in the Second Skilled Person Report – Phase 1.

2.12 In the course of its investigation, the PRA has had regard to each of these reports together with several additional reports which the Firm produced to the PRA in the course of its investigation. The PRA has undertaken further enquiries into the matters which form the subject of its investigation.

3. **GOVERNANCE AND OVERSIGHT**

Fragmented organisational structure and unclear allocation and segregation of responsibilities

3.1 As set out in Section 2 above, the PRA wrote to the Group (and the Firm) on more than one occasion expressing concerns regarding its governance, including that its decision-making process was having a negative impact on its ability to form a coherent view of the business being written onto its balance sheet and that the Board must be clear on where its responsibilities lay and ensure that underwriting was effectively controlled.

3.2 After performance worsened during 2017, MSAUL recognised problems with the oversight of underwriting that arose from its governance structure. For example, a November 2017 report to the Board summarised the Firm's governance structure as *"currently over-engineered for a business of our size creating duplication and complexity. The implications of this are twofold: 1) inefficiency which adds cost and compromises agile decision-making, and 2) muddled accountability due to the volume of governance fora and, in particular, the overlap between SBU and legal entity management structures"*.

3.3 Subsequently, the Lessons Learned Report and the Second Skilled Person Report – Phase 1 identified that the underwriting governance structure was fragmented across several different governance committees and functions including in relation to the oversight of underwriting performance and control in respect of which allocation of responsibility and accountability was unclear. Further:

- a) the fragmented structure created the risk that monitoring of underwriting was not properly performed;
- b) oversight of neither underwriting performance nor underwriting controls was a matter reserved to the Board and there was no identifiable link between the Firm's non-

executive management and oversight of underwriting performance and strategy;
and

- c) in principle, this was mitigated to some extent by senior underwriting SBU executives being directors on the MSAUL board. However, whilst the Firm had a standing invitation to attend the SBU Review Committees as a non-voting member and the Board included three active underwriters as directors, in practice, the Board's ability to directly challenge and influence underwriting decision-making and performance was limited.

- 3.4 In November 2019, the Firm wrote to the PRA and explained that, while remediation activity had been undertaken, management would have liked to see swifter progress made, and that delays in operational remediation work had been exacerbated by the complexity of its operating model and a lack of clarity over the apportionment of accountability between the Group and Firm management.

Inadequate oversight of Firm business planning and strategy

- 3.5 In the 2014 Letter, the PRA raised the lack of clarity that it had received from the Firm's management as to the Firm's strategy, business planning and risk appetite. The PRA observed that it expected a better articulation of the strategy, use of internal model MI and more detailed and credible responses on business planning and risk appetite, both collectively and individually for key members of the Board. The PRA explained that this was an important concern given the materiality of the Firm to the Group and the importance of the Board in protecting the interests of the regulated entity against the needs of the SBUs and Group within the matrix structure.

- 3.6 Whilst the approval of the Firm's annual business plan was a matter reserved for the Board, in practice, business planning and strategy was set at a Group level by SBU management and the Group executive with limited reference to the Board which was ultimately responsible for the business underwritten in accordance with the concluded strategy and business plan.

- 3.7 Until later in the Relevant Period, the Board was presented with proposals only after they had been devised and approved at a Group level. Further, SBU strategy was presented to the Board only at a high level, as to which:

- a) those presentations covered the SBU strategic focus, market conditions, key priorities and forecast business plans but were highly aspirational and, in effect,

amounted to multi-year plans;

- b) limited detail was therefore provided as to the underwriting strategy at a class or line of business level, but the information provided instead summarised the broad underwriting philosophy to be followed; and
- c) in some instances, the Risk Function did not have the opportunity to properly scrutinise aspects of the proposals prior to the Board's review.

3.8 The Board's ability to provide meaningful challenge to the Firm's strategy and business plans was therefore limited.

Inadequate ongoing oversight of underwriting

3.9 Whilst the Board included members of the SBU management teams, management of underwriting was, in effect, delegated to the SBUs which operated at Group level. Consequently, it was important for the Firm to ensure that it properly oversaw underwriting performance on an ongoing basis. In this regard it is relevant that:

- a) in practice, the Board did not always receive information that allowed it to develop a complete picture of the execution of the underwriting strategy and performance;
- b) after the 2017 Losses, Board members expressed their concerns that the time given over to underwriting performance at Board meetings was limited considering the critical importance and complexity of the subject matter;
- c) while the Board received detailed underwriting reports, those reports did not include certain Key Performance Indicator ("KPI") information and were lengthy which made it difficult to digest and draw out salient points in the time that was available to consider underwriting performance; and
- d) prior to the 2017 Losses, underwriting performance was not clear to the Board, with the result that the Board was unsighted and the Firm was slow to identify emerging performance issues. The nature and scale of the 2017 Losses therefore came as a surprise to the Board which had not expected such a substantial pre-tax loss and had anticipated that performance was "*on track*".

3.10 The Firm's governance failings described in this Notice and the digestibility and accessibility of pertinent information negatively impacted the Board's ability to provide

appropriate challenge and oversight of underwriting performance. The Firm was aware of these issues during the Relevant Period.

4. **MI AND DATA**

Inadequate data systems and poor data quality

4.1 The Firm's data systems and data quality created a significant impediment to the effective running of its business and the preparation of proper MI. In that regard, it is relevant that:

- a) under the matrix governance structure, the Firm relied on the Group for the operation of certain core functions, including the operation of data management systems;
- b) the Group Data Quality and Controls Framework (the "**Data Framework**"), which was applicable to MSAUL, defined metrics and guidelines against which data quality should be measured: for example, data was to be accurate, complete, appropriate and timely;
- c) however, the Data Framework did not extend to the whole data lifecycle and was not consistently applied in practice. Controls operated in silos within their respective functions and only at the point at which data was utilised, not when it was collected and processed. As at June 2015, data produced was confirmed to be of a suitable quality, but the Data Framework itself was identified as being insufficiently robust to ensure, for example, that the data produced was sufficiently accurate to model potential losses;
- d) the technology structure was complex and comprised multiple systems, which had created a fragmented data landscape and a large number of data sources and repositories, resulting in inconsistencies in the available data. In September 2016, the Board recognised that the contemporaneous technology landscape was unfit for purpose because it was comprised of 17 core underwriting systems with limited control and supporting MI;
- e) the Second Skilled Person Report – Phase 1 identified that there were over 25 different systems across the Group and numerous data repositories that were relevant to underwriting;

- f) the complexity and fragmentation of the technology structure, coupled with the lack of timely consolidation in source systems, meant there were multiple data warehouses in operation, creating data gaps between the systems and insufficiently precise data, as a result of which the MI produced was inconsistent, making it difficult to carry out appropriate analysis of business performance;
- g) by Q4 2017, multiple source systems remained unconnected to the Central Data System (“CDS”) which meant that data was not available in its entirety to all of the SBUs;
- h) manual workarounds or legacy processes were required in order to input data into particular pricing models, due to a lack of automation in this process and the fragmented data landscape. The use of such manual workarounds increased operational risk, the impact of human error and, consequently, the likelihood of data errors; and
- i) from at least May 2016, the Firm’s Risk Function identified issues around data, for example, concerning data quality.

Inadequate MI

4.2 The reorganisation from entity to SBU reporting also led to changes to Board MI. In the 2014 Letter, the PRA warned that:

“[The implementation of the matrix structure] could impact management’s ability to spot negative trends in performance. Transitioning from one set of MI to another carries certain risks. We expect the Board to ensure that there is a full understanding of how management accountabilities are affected by these changes, and to ensure that the group’s systems and MI are able to adapt accordingly.”

4.3 By 2016, significant deficiencies in the quality of Board MI were identified by both the Firm and the PRA. The PRA has identified the following issues in relation to Board MI:

- a) Board packs were lengthy (typically 350 pages with some packs more than 700 pages long) and were presented in narrative form. Although packs followed a consistent order reflecting the agenda provided for the particular meeting, the

amalgamation of reports from a number of sources within the Group presented a challenge in maintaining an appropriate level of summarisation;

- b) the challenges surrounding MI and the underlying data were reported to impede the delivery of timely MI that would support decision-making;
- c) the limitations in relation to Board MI were part of a Group-wide difficulty in obtaining adequate MI. For example:
 - i. in May 2017 the P&C SBU reported particular concerns relating to MI, stating that this SBU was “*flying blind*” in relation to its UK business;
 - ii. whilst the Firm had sought to improve the availability and quality of MI prior to the 2017 losses, a report to the Board in November 2017 identified that: “*There is often a lack of centralised and timely ‘one version of the truth’ information, with Underwriting Managers and Group Underwriting frequently lacking the desired visibility of underwriting performance and exposure. ... management and leadership are often left relying on gut instinct or expert judgement to make business decisions. This lack of available information also undermines confidence around the appropriateness and robustness of MS Amlin’s underwriting controls*”;
- d) after the 2017 Losses, a lessons learned report prepared for the P&C SBU identified the creation of the matrix structure as a root cause of these failings because, following its implementation, “*access to underwriting MI*” had “*materially worsened*”, thereby “*reducing the ability of underwriting and management to track changing business mix in the 2001 book*”.

Remediation of data and MI issues

- 4.4 MSAUL was aware of the complications arising from the complexities of both its technology systems and that the implementation of the matrix structure had impacted its ability to collate data and, in turn, to produce adequate and timely MI.
- 4.5 While the Firm and current management has since remediated these issues, during the Relevant Period, remediation of these data issues was slow. For example, in early 2017, of 18 individual actions raised in relation to data quality in a June 2016 Internal Audit

report, 10 were identified as being overdue. Progress had been made by November 2017 with 86% of the controls “*operating effectively*”, however it was still reported that 24 controls remained deficient, either in their design or operation. Full remediation was not achieved until some time later.

5. UNDERWRITING CONTROLS

5.1 During the Relevant Period, the Firm had in place an overarching “Underwriting Policy & Philosophy” document which set out the ‘core tenets’ of the underwriting framework. Below that document sat sixteen “Underwriting Standards” which each set out the approach and controls in relation to specific areas of underwriting. There were also ‘How To’ guides for each legal entity which set out the compliance steps to be taken by underwriters.

5.2 Some of these documents were not reviewed in line with the agreed annual review process and many were not prescriptive in relation to controls. For example, although the Underwriting Policy and Philosophy document provided that all MSAUL staff must adhere to the various written Standards, the Technical Pricing Standard was described as “*more aspirational than prescriptive*” given that “*some classes of business are more complex than others*”. The ‘How To’ Guides, whilst setting out key controls in relation to line guides, also stated that controls (for example, the management referral procedure) should never impact on Amlin’s ability to compete for and win target business and where a referral is time pressured underwriters should instead apply ‘*common sense*’ to ensure that the Firm’s position was not compromised by a referral.

5.3 Further, the Firm had not documented its end-to-end underwriting process. This was despite the Firm recognising that this was critical to ensuring the drivers of underwriting performance risk were adequately identified and mitigated.

Technical pricing and pre-bind controls

5.4 In 2015 technical pricing was listed as an “ineffective” control in the 2015 Own Risk and Solvency Assessment (“**ORSA**”) and a technical pricing framework was in development in order to achieve a “*consistent approach to technical pricing and estimated loss cost*”. By 2016 the Firm’s quarterly risk reports highlighted broader and more detailed concerns in relation to underwriting controls and these were discussed at several MSAUL Risk Committee meetings during that year. Concerns were raised in connection with the consistency of use of technical pricing models and breaches of procedure.

- 5.5 A number of issues in relation to technical pricing were identified by MSAUL, as noted at a March 2016 Risk Committee meeting, including that the Firm was rated “Amber” in relation to Lloyd's Minimum Standards in respect of pricing and rate monitoring because five Standards had not been met. Technical pricing models had been identified as inconsistent and, in some cases, lacking at all, leading to a management action “*to develop the technical pricing infrastructure across the group*”, including a two year plan to ensure that technical pricing compliant prototypes of pricing models were produced for each relevant class of business across all SBUs.
- 5.6 Although the ongoing project to review technical pricing models made some improvements within the control environment including in relation to the pricing process within the M&A SBU, a pricing and rate monitoring review conducted by Internal Audit, which reported in August 2017, found that while there were good levels of collaboration between underwriters, underwriting management and actuaries in pricing, the control environment continued to need improvement. In particular, the report found that underwriters did not always operate in line with the technical pricing standard, underwriters were not always recording the technical price in the underwriting system; rationales were not always provided for pricing variations and, where they were provided, they were not sufficient in many cases. In addition, technical pricing models were not being reviewed annually and not all were supported by documented user guides. The inherent risk to the Group was therefore recorded as “*High.*”
- 5.7 A Technical Pricing Deep Dive which reported in January 2018 said that overall, the underlying premise of the framework appeared sound but various aspects of its implementation needed attention. Further, in light of business performance and continued soft market conditions, the application and use of technical pricing should be given immediate attention, and the completeness and adequacy of pricing controls were identified as priority issues. It noted anecdotal evidence that the whole technical pricing framework was seen as optional, and that it was difficult to enforce accountability with the framework.
- 5.8 Alongside improvements required to ensure the consistency of use of technical pricing models, the Second Skilled Person Report – Phase 1 observed that documentation in relation to technical pricing did not fully capture the methodology and rationale in the build of the technical pricing models, which prevented underwriters from understanding the implications of the technical price on the business. There was also no process for

monitoring the adequacy of pricing models over time and no set frequency for reviews. Further, there was no formalised systematic feedback loop to review technical pricing models based on underwriting performance reports and MI reports, although in at least one instance a review was conducted as a direct response to feedback, suggesting there may have been an informal process in place. The Second Skilled Person Report – Phase 1 noted that, although pre-bind requirements had been rolled out in some SBUs, pre-bind controls were not consistently and sufficiently embedded across the Firm.

Culture and accountability for breaches of controls

- 5.9 During the Relevant Period the Firm's culture was 'underwriter-led', which meant that the Firm's underwriters had a high degree of autonomy when writing business. Whilst an underwriter-led culture can have benefits given underwriters can be closest to the risks of the underlying products, it is vital that the risks associated with such a culture (and, in particular, the incentive to underplay risks to generate more business) are mitigated by effective controls. The controls in place at the Firm were not sufficiently effective to fully mitigate that risk.
- 5.10 In 2014, Internal Audit raised concerns that there was not appropriate oversight by underwriting management over line guide exceptions and breaches. The lack of a strong risk culture amongst the Firm's underwriters contributed to poor underwriter discipline, including breaches of underwriting authority and instances of underwriters writing business without following the correct procedures. The Firm's management failed to ensure the importance of adherence to the controls was clearly understood. The Firm recognised in 2018 that its underwriters required further training to ensure that they were clear on the parameters of authority in relation to technical pricing, rating, line size constraints, underwriting controls and Selected Target Loss Ratios ("**STLRs**").
- 5.11 In 2016 and 2018 the Firm recognised that there were line guide breaches which generally related to a lack of underwriter discipline and accountability needed to improve. Reminders were issued that any line guide breaches which demonstrated "*clear disregard to company policy or procedures*" needed to be reported to the Remuneration Committee and action taken. Underwriting line guide breaches were generally treated as administrative errors and no evidence was identified of disciplinary action being taken by the Firm in relation to any line guide breaches.

6. RISK MANAGEMENT

Approach to Risk Management and Group Risk Appetite

- 6.1 When the matrix structure was implemented in the latter half of 2014, the risk management framework applicable to the SBUs was still in the process of being developed.
- 6.2 There were various changes throughout the Relevant Period to the Group's approach to risk management but, broadly, risks were measured and reported against defined tolerance levels, with a procedure for 'risk alerts' aligned to the ORSA process to inform management when a risk was close to approaching its tolerance level. In addition to annual and quarterly ORSA reports produced on a legal entity basis, which included detail pertaining to entity risk and solvency profiles, an annual Group ORSA report was produced from 2015 onwards.
- 6.3 The Group's risk appetite and tolerances were set out in a risk appetite statement. Historically, entities within the Group replicated the Group risk appetite statement within their own documentation; this approach changed in December 2015, such that there was one risk appetite statement for the Group as a whole, with entities able to adjust their positions through the translation of the appetites into entity tolerance schedules. Tolerances would be presented to the MS Amlin plc Risk & Solvency Committee and Board and, once agreed, cascaded to the entities for approval, with the legal entity boards being responsible for approving risk tolerances in respect of their legal entity.
- 6.4 The Group documented its appetite for various types of risk, for example, market risk, credit risk and liquidity risk, within the aforementioned Group risk appetite statement. MSAUL, like the Group, had "*significant*" appetite for underwriting risk (which comprised catastrophe, attritional and reserving risk) "*in those market segments where it believes it has demonstrable in-house expertise, and where sufficient business opportunities exist which meet [the Group's] requirements from a risk-return perspective.*"
- 6.5 The November 2015 Risk Appetite Statement recognised the exposure to attritional losses caused by "*unexpected claims frequency as well as systemic change in the nature of claims*". The Group's attitude towards attritional risk was described as "*positive*", with its appetite for attritional risk governed by the amount of business that met its pricing

requirements but also by the risk bearing capacity determined by its capital base and reinsurance arrangements.

- 6.6 In 2017, the Group (including the Firm) implemented a risk management system which included a register of risks, risk drivers and controls. Risk drivers were identified for all risks, and associated controls (defined as 'preventative' or 'detective') were attested to by control owners as "effective" or "ineffective". Risk owners, control operators, control owners and escalation routes for breaches were recorded on this system. However, while the Second Skilled Person Report – Phase 1 recognised that the implementation of an enterprise risk management system was in line with good market practice, it found that not all controls were captured by MSAUL within the system, for example, with only one of eight key controls in relation to technical pricing being recorded in the system. This issue had been raised in 2018, for example, by the Lessons Learned Report which found that the population of underwriting controls on this system was incomplete, and also identified that there had been instances of inaccurate attestations on control effectiveness.

Risk culture

- 6.7 During the Relevant Period, a strong or effective risk culture was not embedded in the Firm, as demonstrated by a number of factors including:
- a) There was an 'underwriter-led' culture, with management aiming for a culture of underwriter 'empowerment', and, as set out in paragraphs 5.9 to 5.11 Annex A, there were insufficiently effective controls to manage the risks associated with this culture. The Lessons Learned Report found that Risk reported on self-assessment from the business but did not challenge the outcome. Also, in addition to finding that there was a lack of action by management to emphasise the importance of adherence to the line guides and controls in place, the Second Skilled Person Report – Phase 1 recommended that the Firm consider the introduction of a balanced scorecard approach to assessing underwriters' performance to incentivise positive risk behaviours, as well as introducing punitive measures for breaches;
 - b) Risk had insufficient support from executive management. In 2015, lack of executive sponsorship impacted on the Risk Function's ability to deliver its role

without being drawn-in to first line activities, particularly in relation to the MSAUL Risk Function which was identified as requiring stronger MSAUL executive management sponsorship in order for the team to remain “*viable and operational*”. Also in 2015, Internal Audit identified the level of management challenge and oversight as a root cause of continuing control framework weaknesses and prevailing risks;

- c) MSAUL had identified a need for further resources in its Risk Function at various times over the Relevant Period (despite efforts to offset this through further recruitment). For example, in November 2014, it was identified that there was a need for more resources in the MSAUL Risk Function. In 2015, MSAUL had only an interim Chief Risk Officer and second line resources across the Group were described as “*scarce*”. Headcount in Risk and Compliance was again raised as a concern in 2018, with staff turnover of 30%; and
- d) There was lack of clarity over the split of responsibilities for oversight of underwriting performance and controls between the Risk Function, SBU underwriting management and Group underwriting management under the matrix management structure, resulting in a ‘blurring’ of the three lines of defence.

Blurring of the three lines of defence

6.8 The Firm sought to put in place a “three lines of defence” model. However, in June 2015 Internal Audit noted that issues around clarity of roles and responsibilities and the blurring of lines of defence were affecting the control framework. The blurring of lines between the first and second lines of defence in certain areas was again raised as an issue by Internal Audit in December 2015, an example being the assurance activities in the underwriting framework.

6.9 In 2018, MSAUL conducted a review of its three lines of defence, consisting of interviews with key stakeholders and a survey responded to by 1,017 permanent employees. The opening page of the survey provided a brief description of the Firm’s three lines of defence as follows:

“1st LoD: business units and functions which own and manage risk, Risk Owners and Managers

2nd LoD: functions which oversee or specialise in risk management and compliance

3rd LoD: functions which provide independent assurance, above all internal audit.”

6.10 This review indicated a need for “(1) *better definition of the three lines model; (2) strengthening of responsibilities and accountabilities across all three lines; and (3) a realignment of activities in the second line*”. Issues identified during the review included:

- a) informal and formal ‘delegation’ of 1st line activity to a line “1B” or 2nd line of defence;
- b) 1st line (underwriting) roles were not explicit around accountabilities and responsibilities in terms of risk and controls;
- c) roles had been created in the business which did not need to exist if the 1st line undertook its responsibilities more effectively; and
- d) historically no consequence for the 1st line not fulfilling their responsibilities in terms of control.

6.11 There was confusion amongst those surveyed as to what each line of defence was accountable for, and responses demonstrated that there was “*a significant misunderstanding in terms of whether individuals are merely responsible for ‘understanding’ the Amlin risk management processes or responsible for ‘actively managing’ risk*”.

6.12 In October 2019, the Second Skilled Person Report – Phase 1 noted a lack of challenge from the (second line) MSAUL Risk Function of the (first line) Group underwriting management team’s activities, and a need for a clear distinction between the business and Risk’s responsibilities and reporting in relation to underwriting controls. In addition, the Risk Function gave less attention to the monitoring of attritional risk, as such areas were considered to be covered by Group underwriting.

Risk warnings

6.13 At various times during the Relevant Period, there is evidence of the Risk Function reporting on the risks identified. For instance:

- a) In relation to the 5-year strategic plans for the three SBUs, a paper produced to the June 2015 MSAUL Risk Committee observed that there were a number of challenges and risks which needed to be considered in turning an “*aspirational set of strategic aims into specific plans*”. These risks and challenges were said to include:
- i. weakening market conditions “*making growth at best difficult and at worst hazardous*”;
 - ii. the SBU strategic plans, particularly property & casualty, required substantial resource and investment. This was considered to be particularly challenging when combined with the prevailing projected portfolio which was already ambitious;
 - iii. the expense strain of the investment in people and systems was harder to bear against declining underwriting profitability and weak investment returns; and
 - iv. key operational controls needed to assist in management oversight of growth were not fully embedded, most notably technical pricing and coverholder controls.
- b) From at least August 2014, and on multiple occasions over the period leading to the 2017 Losses, at both a Firm and Group level, Risk identified challenges and risks to achieving business plans. For example:
- i. repeatedly recognising soft market conditions, attritional losses and pricing as a risk;
 - ii. identifying, in 2015, the level of profitability from underwriting as a concern, noting at Group level that the experience of 2014 and 2015 showed that good catastrophe loss experience was being diluted by increasing large losses and attritional claims;
 - iii. stating in a February 2016 report that with regards to underwriting risk and market conditions, there was a risk that the Group 2016 business plan would be a “*stretch*” to achieve unless there was another benign year for catastrophe experience. Among the factors affecting this were ongoing softening of prices and

- increases in attrition and large loss claims;
- iv. highlighting in August 2016 that there was a “*significant residual risk*” of being unable to deliver the 2016 business plan for Syndicate 2001, due to the “*extremely challenging underwriting conditions and impact of integration*” (with a consequential expense risk);
 - v. in November 2016, warning at both Group and Firm level of key risks to the 2017 business plan, including: the catastrophe loss budget could be eroded by worse than forecast attritional and large losses which were insufficiently provided for in the business plan, leaving insufficient budget to absorb losses following a major catastrophe; large claim deterioration or greater attritional claims could mean that prior period reserve releases may not be achieved again; expenses used for technical loss ratio calculations were generally lower than those assumed in the plan;
 - vi. in February 2017, Risk detailed in a paper to the Group Board that there was an “*enhanced material risk that business plans will not be met*” and that the “*challenge of meeting business plan targets remains bleak*”. MSAUL’s ORSA also warned of risks to the 2017 business plan, including concerns over the consistent use of technical pricing models;
 - vii. in May 2017, Risk identified in the quarterly risk report presented to the MSAUL Risk Committee that, in relation to insurance risk, continued soft market conditions heightened the risk of not meeting the 2017 business plan; and
 - viii. when the 2017 Losses began to emerge, the “*main areas of concern*” identified by MSAUL’s Risk Function were non-catastrophe losses which had arisen from prior period write downs; deteriorating attritional loss ratios driven by challenges around pricing adequacy; and STLRs which had not factored in current expense levels.

6.14 Despite previous and concurrent reporting by the Risk Function regarding the challenges and risks to achieving business plans, and recognition that the 2017 business plan would be challenging to achieve, in February 2017 the Group Board approved a refreshed 2017 business plan for the Group, showing an expected profit before tax and exceptional items of £234 million for the Group, an increase of £33 million from the original business plan. £17.2 million of this increase was allocated to the MSAUL 2017 Business Plan, increasing MSAUL's profit forecast for 2017 from £77.8 million to £95 million.

Risk mitigation strategies

6.15 Key risk mitigation strategies identified by the Risk Function, including those relating to risks concerning the SBU strategies, MSAUL business plans and market conditions, included business planning, technical pricing, line guide monitoring and 'data quality control assessment'. However, the Risk Function contemporaneously highlighted deficiencies and/or risks relating to MSAUL's risk mitigation strategies, for example:

- a) Business planning was named as one of the key risk mitigation strategies in relation to a diverse range of risks. However:
 - i. as identified by Internal Audit, business planning could only act as a directive control and therefore did not justify being rated as a "Strong Mitigation";
 - ii. MSAUL acknowledged in hindsight that the business planning process had contributed to the 2017 Losses by capturing over-optimistic loss ratios in the underwriting plan. The Lessons Learned Report concluded that the 2017 business plan was optimistic, and "*failed to adequately take account of indicators of the soft market conditions and known challenges with particular classes that were noted at the time*";
- b) Technical pricing and rate monitoring: one of the key risk mitigation strategies for addressing inadequate prices and the risk of attritional losses exceeding expectation was for rate movements and prices to be tracked against technical prices and business to be declined if it was inadequately priced. As set out in section 5 Annex A, there were known deficiencies in the Firm's operational controls, including the technical pricing framework. The Risk Function reported

on these deficiencies, but they were not remediated in a timely or effective manner over the Relevant Period;

- c) Line guides and monitoring: “line guide and monitoring” was identified as one of the key risk mitigation strategies in relation to the attritional losses risk. However, in 2014 Internal Audit deemed this to be “*Medium Mitigation*’ (*not Strong*)”, being undermined by the weaknesses in underwriter discipline and controls as set out in paragraphs 5.10 and 5.11 Annex A; and
- d) ‘Data quality control assessment’: ‘Data quality control assessment’ was named as a key risk mitigation strategy for the risk of data quality or process failure in 2015. However, there were deficiencies with its implementation which were not remediated in a timely or effective manner, as set out in section 4 of Annex A.

7. REMEDIATION

- 7.1 During the Relevant Period, the Firm and Group (supported by MSI), undertook certain initiatives and reviews which were aimed at improving MSAUL’s governance and risk management capabilities, to address issues raised by the PRA, Firm and Group management, the Risk Function and Internal Audit.
- 7.2 Having incurred the 2017 Losses, the Firm did not conduct a single analysis to identify their root cause, but rather the Group (including on behalf of the Firm and supported by MSI) undertook various reviews to examine the causes of the 2017 Losses and to identify remedial actions.
- 7.3 The Second Skilled Person Report – Phase 1 concluded that because management had not performed a single root cause analysis or consolidated the identified causes and resultant remedial actions, there was a risk that gaps in the causes and remediation activities would not be identified and that required activities would not be tracked to closure in a timely manner. In relation to root causes, it was identified that management had considered all of the causal factors through these reviews.
- 7.4 In Q1 2018, the Group implemented the Enhance Programme, which set out the Group’s key strategic plans to improve performance and action remediation requirements identified. The Underwriting Performance workstream was divided into four areas of focus: (1) Review Classes of Concern; (2) Reserving Focus; (3) Technical Pricing; and (4) Underwriting Controls.

- 7.5 Whilst it resulted in some improvements to the matters within its scope (for example the formation of the Underwriting Oversight Committee in December 2018), the Second Skilled Person Report – Phase 1 concluded that the Enhance Programme was closed without clear evidence of, and justification for, points being closed. The programme broadly failed to remediate the matters identified in this Notice, in part because a number of the remediation requirements articulated in it were not sufficiently specific and measurable and had not been centrally collated or tracked. This was particularly evident in the lack of specific identified failures in data and underwriting controls.
- 7.6 Following the closure of the Enhance Programme at the end of 2018, MSAUL established an MSAUL Enhance SteerCo to action remediation activities specific to MSAUL.
- 7.7 After production of the Second Skilled Person Report – Phase 1, the Firm created its own remediation programme to consolidate all remediation initiatives, including remediation of the issues identified in the Lessons Learned Report which remained outstanding when the Enhance Programme was closed.
- 7.8 As described at paragraph 3.4 of Annex A above, in November 2019, the Firm wrote to the PRA regarding delays in operational remediation work. In response, the PRA expressed its disappointment at the Firm’s lack of progress during the Relevant Period in addressing a number of control failings.
- 7.9 In January 2020, the UK holding company, MS Amlin plc, was removed and the SBU structure dissolved, returning to a legal entity structure in the UK, with MSAUL an immediate subsidiary of MSI. Strengthening governance (including by clarifying the responsibilities of legal entity boards and increasing their level of transparency and accountability) was a key objective of the restructuring project.
- 7.10 In January 2022, the Second Skilled Person Report – Phase 2b concluded that the Skilled Person was satisfied that the Firm had sufficiently implemented activities to address the findings and uncontrolled risks that had been identified in the Phase 1 report, such that an underwriting and pricing control framework effective for the Firm’s nature, scale and complexity had been embedded.

ANNEX B: BREACHES AND FAILINGS

1. BREACHES

- 1.1. During the Relevant Period, as a result of the facts and matters set out in Annex A to this Notice, the Firm breached the PRA's Fundamental Rules. In particular, the Firm breached:
- a) PRA Fundamental Rule 5 (a firm must have effective risk strategies and risk management systems); and
 - b) PRA Fundamental Rule 6 (a firm must organise and control its affairs responsibly and effectively).
- 1.2. These rules are set out at **Appendix 2**.

2. THE PRA'S EXPECTATIONS

- 2.1. Proper governance and oversight, MI and data, controls and risk management are essential for the PRA to advance its primary objective to promote the safety and soundness of PRA-authorized firms and its additional insurance objective of contributing to the securing of an appropriate degree of protection for those who are or may become policyholders.
- 2.2. The senior management of a firm and the PRA need to be able to form a clear view of the safety and soundness of the insurer and how policyholders are protected. Insurers should have robust frameworks for risk management and financial and operational control, commensurate with the nature, scale and complexity of their business. Competent and, where appropriate, independent control functions should oversee these frameworks.

Governance and oversight

- 2.3. The PRA expects that firms will have in place an effective system of governance which is underpinned by an adequate and transparent organisational structure and which provides for sound and prudent management of its business. That governance system must have clear allocation and appropriate segregation of responsibilities, effective transmission of information and effective decision-making.
- 2.4. Boards and senior management of authorised entities should take responsibility for ensuring that business is conducted in a prudent manner, including in circumstances where a regulated entity operates within a larger group structure, and should be able to

form a coherent view of the business being written on their balance sheets. Boards cannot delegate this responsibility. The PRA expects management to be open and transparent with the board to ensure that the board is adequately apprised of all significant matters about which it should be made aware.

- 2.5. The PRA expects to see evidence that the board has established, and takes decisions consistent with, a sustainable business model, ensures that the firm is managed to a clear and prudent strategy and risk appetite, and ensures that the firm meets its regulatory obligations. The PRA expects board engagement on the effective management of conflicts between business plan objectives of growth, profitability and adequate pricing, taking into account reasonably foreseeable market conditions.
- 2.6. Boards of regulated entities operating within group structures must retain an appropriate level of independence, oversight and responsibility within the business.

MI and data

- 2.7. The PRA also expects that firms will have in place an effective system for ensuring the transmission of information. Firms must therefore ensure that the board and its relevant sub-committees exercise effective oversight of risk management and controls, supported with meaningful and well-targeted MI which is used to inform board discussions. As to that:
 - a) it is the responsibility of the board to ensure that it has the MI that it needs. The nature, specific content and frequency of the MI provided to the board and its committees should therefore be actively managed by the Chair and Non-Executives, taking into account their particular needs. The Chair and Non-Executives should also actively guard against the risk that they are provided with such extensive and volumes of information so as to render it unusable;
 - b) MI should be of an appropriate quality, integrity and completeness to provide a reliable basis for making decisions and so to control the business within agreed tolerances;
 - c) MI should be produced in a sufficiently timely manner and should be able to be accessed and analysed in aggregate for the business as a whole, across the group, and for each business line and legal entity within it, to facilitate understanding and swift management of the risks to which the insurer is exposed; and

- d) data should be complete, appropriate (whether obtained from internal or external sources) and capable of independent review and verification to ensure its quality.

Controls over underwriting

- 2.8. The PRA expects an insurer's control framework to be comprehensive in its coverage of the whole firm and all classes of risk, commensurate with the nature, scale and complexity of the insurer's business and to deliver a properly controlled operating environment (including, for example, through proper segregation of duties, effective reconciliations and adequate processes to report and act on any breaches of limits).
- 2.9. In its December 2015 Dear CEO letter to insurance firms, the PRA stressed that, in the prevailing soft market conditions, firms should focus in particular on their underwriting controls, which are the first line of defence in identifying both the extent and the potential impact of soft market conditions.
- 2.10. Management must ensure that there is robust ongoing focus on underwriting discipline to ensure that underwriting is controlled effectively.

Risk management

- 2.11. The PRA expects firms to have effective risk strategies and risk management systems. The PRA attaches particular importance to insurers managing risk effectively because it is the crystallisation of risk, or concerns about risks crystallising in the future, which causes problems for insurers' safety and soundness and so policyholders and the stability of the financial system.
- 2.12. A firm's risk-management system must be well integrated into the organisational structure and decision-making processes of the firm. A firm must provide for a risk management function that is structured in such a way as to facilitate the implementation of the risk-management system.
- 2.13. Firms are required to ensure that the persons who effectively run the undertaking or hold other key functions take into account the information reported as part of the risk management system in their decision making process. As emphasised in its Dear CEO letter of December 2015, the PRA expects comprehensive board engagement regarding the effective management of the conflict between business plan objectives of growth, profitability and adequate pricing.

- 2.14. The PRA expects insurers to be able to articulate for themselves the amount of risk they are willing to take across their different business lines to achieve their strategic objectives. A firm's risk appetite should be consistent with the PRA's objectives, and the insurer should pay appropriate attention to identifying, measuring and controlling risks, including those arising in unlikely but very severe scenarios. Firms are required to assess and manage the risk of loss resulting from inadequate pricing and provisioning assumptions.
- 2.15. To be effective, a firm's risk management framework should be consistently implemented throughout the organisation. Members of staff in both business and control functions should manage risks as a central part of their role: responsibility for risk should not be solely delegated to risk management and control functions. This is a key aspect of a culture which supports the prudent management of the insurer.
- 2.16. The board should articulate and maintain a culture of risk awareness for the entire organisation to follow in pursuit of its business goals. The PRA expects the culture to be embedded with the use of appropriate incentives, including but not limited to remuneration, to encourage, and where necessary require, the behaviours the board wishes to see, and for this to be actively overseen by the board.

3. FAILINGS

- 3.1. The Firm breached certain of the PRA's Fundamental Rules during the Relevant Period. In particular, the Firm breached PRA Fundamental Rule 5 and PRA Fundamental Rule 6 as they applied at the time.

PRA Fundamental Rule 5

- 3.2. PRA Fundamental Rule 5 requires a firm to have effective risk strategies and risk management systems.
- 3.3. During the Relevant Period, MSAUL breached PRA Fundamental Rule 5 as there were deficiencies in MSAUL's approach to risk management including:
 - a) the Firm did not embed a strong or effective risk culture within the business. Encouraging underwriter empowerment, MSAUL enabled an underwriter-led culture without putting in place sufficiently effective controls to mitigate the risks associated with this culture. In addition, the Risk Function had inadequate executive sponsorship, was insufficiently resourced at various times during the Relevant

Period, and there was lack of clarity over the split of responsibilities for oversight of underwriting performance and controls;

- b) the Firm did not clearly delineate responsibilities between the second line Risk Function and first line functions, such as SBU underwriting management and Group underwriting management, resulting in a blurring of the roles between the first and second lines of defence including, for example, in relation to assurance activities. In addition, there was confusion within MSAUL over what each line of defence was accountable for, and whether individuals were responsible for actively managing risk; and
- c) the Firm failed to put in place appropriate and/or effective risk mitigation strategies to mitigate identified risks, with the Risk Function identifying and/or being aware of deficiencies within certain key risk mitigation strategies such as business planning, 'data quality control assessment', technical pricing and line guides and monitoring, with such deficiencies not being sufficiently addressed in a timely or effective manner over the Relevant Period.

PRA Fundamental Rule 6

- 3.4. PRA Fundamental Rule 6 requires that a firm organises and controls its affairs responsibly and effectively.
- 3.5. During the Relevant Period, MSAUL breached PRA Fundamental Rule 6 because it failed to organise and control its affairs responsibly and effectively in relation to: (i) governance and oversight; (ii) MI and data; (iii) controls over underwriting; and (iv) remediation.

Governance and Oversight

- 3.6. The Firm's governance and oversight of underwriting was deficient because it did not provide an effective system of governance and was not underpinned by an adequate and transparent organisational structure. It did not therefore enable sound and prudent management of the Firm's business:
 - a) the underwriting governance structure was fragmented across several different committees and functions with unclear allocation and segregation of responsibilities for underwriting performance and control, and ineffective decision-making;
 - b) the Firm, acting through the Board, retained regulatory responsibility for underwriting but, having in-effect delegated oversight and management of

underwriting performance to the Group, had limited practical ability to challenge and influence underwriting decision-making and performance. This was the Board's critical role to ensure prudent management of the Firm's business;

- c) the setting and implementation of underwriting strategy and business planning was primarily devised and led by the SBUs and reviewed within the Group with limited reference to the Board. Business plans and strategies were presented to the Board only at a high level such that the Board was not able to properly understand the risks to which the Firm was, and would be, exposed. The Board's ability to provide meaningful challenge of the Firm's strategy and business plan was therefore limited;
- d) the Firm was not able to form a coherent view of the business that was written on its behalf:
 - i. the time given over to, and the prominence of, underwriting performance at Board meetings was insufficient given the critical importance and complexity of the subject matter;
 - ii. underwriting performance was not clear to the Board. For example, the Board was not provided with certain KPI metrics and was provided with underwriting performance information from which it was difficult to form a coherent picture in the available time because the salient points were not apparent;
 - iii. the Board was unsighted as to the Firm's performance such that the nature and scale of the 2017 Losses came as a surprise to underwriting management and the Board, which described them as unexpected "*after a performance that had seemed on track for a better result*"; and
- e) the Firm's matrix governance structure was not an effective system for ensuring the transmission of information, having materially worsened access to underwriting MI.

MI and Data

- 3.7. The PRA's investigation has found that there were deficiencies in the Firm's Board MI which were part of a Group-wide difficulty in producing and obtaining adequate MI:
- a) the Board was not supported with meaningful and well-targeted MI of an appropriate quality with which to inform its discussions and to form a reliable basis for decision-making;

- b) Group-level MI was inadequate such that a report to the Property and Casualty Review Committee in May 2017 described that SBU as “*flying blind*” in relation to its UK business;
- c) key information was often not available to decision-makers because of a lack of “*centralised and timely ‘one version of the truth’ information*” with underwriting managers and Group underwriting “*frequently lacking the desired visibility of underwriting performance and exposure*” so that management and leadership were “*often left relying on gut instinct or expert judgement to make business decisions*”; and
- d) information provided to the Board and other committees was too voluminous and key performance metrics and issues were inadequately summarised and identified. It was therefore difficult for the Board to review underwriting performance information in a way that would allow it to be properly analysed and to facilitate appropriate challenge of SBU management.

3.8. Underlying the Firm’s failures in relation to MI were systemic deficiencies relating to data, data quality and data handling:

- a) the Firm operated a large number of data source systems and data repositories which were integrated on a piecemeal basis resulting in:
 - i. variation and inconsistency in the data available across the business;
 - ii. an increased requirement for manual input and therefore an increased risk of human error; and
 - iii. difficulties in comparing information, including information relating to claims for the same line of business where information was recorded, stored and extracted using different systems with differing capabilities;
- b) the Firm’s data quality assurance controls were ineffective:
 - i. data quality controls operated inconsistently and were not applied across the data lifecycle;
 - ii. material portions of the data handled by the Firm did not meet the standard set out in the Data Framework;
 - iii. data controls, data flow and data process charts were inaccurately documented; and

- c) the Firm failed to take sufficient or timely steps taken to address documented issues despite them being raised at multiple forums.

3.9. These failings in relation to MI and data made it difficult for the Firm to carry out appropriate analysis of business performance and to produce meaningful and well-targeted MI which could be used to effectively inform Board discussions. These failings both contributed to and compounded the failings in governance detailed in this Notice.

Incomplete and ineffective controls over underwriting

3.10. The Firm did not have sufficiently effective controls over underwriting. The PRA's investigation has identified that the Firm and its management:

- a) enabled an underwriter-led culture without ensuring there were sufficiently robust controls to mitigate the risks inherent in that approach to its business;
- b) had inconsistent and insufficiently embedded pre-bind controls;
- c) had in place deficient technical pricing controls, including:
 - i. documentation in relation to technical pricing that was not fully adequate, both in relation to the technical pricing framework itself and sufficient explanation of the rationale underpinning the methodology and design of the technical pricing models to underwriters;
 - ii. there was no formalised process for pricing actuaries to monitor the adequacy of pricing models over time and no set frequency for reviews;
 - iii. there was no formal systematic feedback loop to review technical pricing models based on underwriting performance reports and MI reports;
 - iv. there was a lack of clear understanding regarding how STLRs should be used as a benchmark for assessing the desirability of business, meaning that actual expense levels were not taken into account in pricing; and
- d) failed to embed a risk culture amongst the Firm's underwriters. This, together with the control weaknesses identified above, resulted in breaches of underwriting authority and numerous instances of underwriters writing business without following the correct procedures. Accountability for inadequate underwriter discipline was insufficiently robust.

Failure to remediate in a timely fashion

- 3.11. The PRA expects that when it issues communications, including Dear CEO letters and bi-lateral communications, regulated firms will act on their content in an appropriate and timely way and that they will address any identified weaknesses promptly.
- 3.12. Whilst the Firm's current management has substantively remediated the failings identified in this Notice, the Firm failed to remediate in an effective or timely manner during the Relevant Period, notwithstanding its own assessment of its failings and the PRA's warnings (as detailed in Section 2 of Annex A). The Firm's remediation of the issues identified in this Notice during the Relevant Period was therefore deficient.
- 3.13. The length of time taken to remediate and the fundamental changes that were required is in-and-of-itself an indication of the seriousness of the issues identified in this Notice.

ANNEX C: PENALTY ANALYSIS

1. FINANCIAL PENALTY

- 1.1. The PRA's policy for imposing a financial penalty is set out in '*The PRA's approach to enforcement: statutory statements of policy and procedure September 2021*', in particular *Statement of the PRA's policy on the imposition and amount of financial penalties under the Act* (the "**PRA Penalty Policy**"). Pursuant to paragraphs 12 to 36 of the PRA Penalty Policy, the PRA applies a five-step framework to determine the appropriate level of financial penalty.

Step 1: Disgorgement

- 1.2. Pursuant to paragraph 17 of the PRA Penalty Policy, at Step 1 the PRA seeks to deprive a person of any economic benefits derived from or attributable to the breach of its regulatory requirements, where it is practicable to ascertain and quantify them.
- 1.3. The PRA has not identified any economic benefit that MSAUL derived from the breaches, including any profit made or loss avoided. The PRA therefore does not require the disgorgement of any sum from MSAUL.
- 1.4. The Step 1 figure is therefore **£0**.

Step 2: The seriousness of the breach

- 1.5. Pursuant to paragraph 18 of the PRA Penalty Policy, at Step 2 the PRA determines a starting point figure for a financial penalty having regard to the seriousness of the breach by the firm – including any threat it posed or continues to pose to the advancement of the PRA's statutory objectives – and the size and financial position of the firm.
- 1.6. Paragraph 19(a) of the PRA Penalty Policy sets out that a suitable indicator of the size and financial position of the firm may include, but is not limited to, the firm's total revenue or its revenue in respect of one or more areas of its business.
- 1.7. The starting point figure at Step 2 is £32,408,000, being MSAUL's revenue for financial year 2019.
- 1.8. Pursuant to paragraph 19(c) of the PRA Penalty Policy, the PRA applies an appropriate percentage rate (the "**Seriousness Percentage**") to the starting point figure to produce a figure that properly reflects the nature, extent, scale and gravity of the breaches.

- 1.9. Pursuant to paragraphs 21 to 23 of the PRA Penalty Policy, the PRA has taken the following factors into account to determine the Step 2 Seriousness Percentage:
- a) the breaches reveal serious and systemic weaknesses in MSAUL's business model including in relation to its governance, risk or other management systems and/or internal controls which were fundamental to the operation of MSAUL's business;
 - b) the breaches persisted for a number of years; and
 - c) the PRA, both in correspondence with the Firm and by way of external publications including Dear CEO letters, raised concerns with the Firm regarding the matters underlying these breaches. MSAUL was on notice of the PRA's concerns but did not undertake timely or adequate remedial actions to address them during the Relevant Period.
- 1.10. The PRA has also had regard to the matters set out in Annexes A and B to this Notice.
- 1.11. Taking all of these factors into account, the PRA considers the seriousness of the conduct to be such that the appropriate Seriousness Percentage is 20%.
- 1.12. The Step 2 figure is therefore $20\% \times \text{£}32,408,000 = \text{£}6,481,600$.

Step 3: Adjustment for any aggravating, mitigating or other relevant factors

- 1.13. Pursuant to paragraph 24 of the PRA Penalty Policy, the PRA may increase or decrease the Step 2 figure to take account of any factors which may aggravate or mitigate the breaches. Any such adjustment will normally be made by way of a percentage adjustment to the figure determined at Step 2.
- 1.14. The PRA does not consider that an adjustment for aggravating or mitigating factors is necessary in this particular matter.
- 1.15. The Step 3 figure is therefore **£6,481,600**.

Step 4: Adjustment for deterrence

- 1.16. Pursuant to paragraph 27 of the PRA Penalty Policy, if the PRA considers the penalty determined following Steps 2 and Step 3 is insufficiently effective to deter the firm that committed the breach, or others, from committing further or similar breaches, then the PRA may increase the penalty at Step 4 by making an appropriate deterrence adjustment to it.
- 1.17. As a managing agent, MSAUL's own financial resources do not reflect its status as a Category 2 insurance company whose size (including the number of policyholders) and

type of business mean that there is significant capacity to cause disruption to the interests of a substantial number of policyholders. The Gross Written Premium written by MSAUL during the Relevant Period exceeded £1,300,000,000. As such, the PRA considers that the Step 3 figure of £6,481,600 should be increased in order to achieve an effective deterrence to MSAUL or other firms from committing similar breaches. Therefore, the PRA considers that it is appropriate to increase the Step 3 figure to £13,850,000.

1.18. The Step 4 figure is therefore **£13,850,000**.

Step 5: Reduction for settlement and the Firm's financial position

1.19. Pursuant to paragraph 29 of the PRA Penalty Policy, if the PRA and the firm upon whom a financial penalty is to be imposed agree the amount of the financial penalty and any other appropriate settlement terms, the PRA Settlement Policy provides that the amount of the penalty which would otherwise have been payable may be reduced.

1.20. The PRA and MSAUL reached an agreement to settle during the Discount Stage, therefore a 30% settlement discount applies to the Step 4 figure.

1.21. The Step 5 figure is therefore **£9,695,000**.

Conclusion

1.22. The PRA has therefore imposed a financial penalty of **£9,695,000** on MSAUL for breaching PRA Fundamental Rule 5 and PRA Fundamental Rule 6.

ANNEX D: PROCEDURAL MATTERS

1. DECISION MAKER

- 1.1. The settlement decision makers made the decision which gave rise to the obligation to give this Notice.
- 1.2. This Notice is given under and in accordance with section 390 of the Act.

2. MANNER AND TIME FOR PAYMENT

- 2.1. MSAUL must pay the financial penalty in full to the PRA by no later than 9 November.
- 2.2. If all or any of the financial penalty is outstanding on 10 November, the day after the due date for payment, the PRA may recover the outstanding amount as a debt owed by MSAUL and due to the PRA.

3. PUBLICITY

- 3.1. Sections 391(4), 391(6A) and 391(7) of the Act apply to the publication of information about the matter to which this Notice relates. Under those provisions, the PRA must publish such information about the matter to which this Notice relates as the PRA considers appropriate. However, the PRA may not publish information if such publication would, in the opinion of the PRA, be unfair to the persons with respect to whom the action was taken or prejudicial to the safety and soundness of PRA-authorized persons or prejudicial to securing an appropriate degree of protection to policyholders.

4. PRA CONTACTS

- 4.1. For more information concerning this matter generally, contact Press Office (press@bankofengland.co.uk).

APPENDIX 1: DEFINITIONS

THE DEFINITIONS BELOW ARE USED IN THIS NOTICE:

1. “2014 Letter” means the letter from the PRA to MS Amlin plc in December 2014 in the context of its ongoing supervision at both Firm and Group level setting out the PRA’s assessment of operational and transactional risks represented by the organisational changes that were being put in place at the time;
2. “2017 Losses” means the Firm’s losses totalling £545.032 million (comprising a loss of £499.7 million for Syndicate 2001 and £45.332 million for Syndicate 3210) in 2017;
3. “Board” means the MSAUL Board of Directors;
4. “CDS” means Central Data System, which was the Group’s central data repository;
5. “Data Framework” means the Group Data Quality and Controls Framework, applicable to MSAUL, which defined metrics and guidelines against which data quality should be measured;
6. “Discount Stage” means the period from the commencement of an enforcement investigation by the PRA until the PRA has: (a) communicated to the subject of its investigation the essential nature of the case against the subject and allowed the subject what it considers to be a reasonable opportunity to understand it; and (b) allowed what it considers to be a reasonable opportunity for the parties to reach a settlement agreement;
7. “Enhance Programme” means a Group-wide remediation programme which set out the Group’s key strategic plans to improve performance and action remediation requirements identified;
8. “FCA” means the Financial Conduct Authority;
9. “First Skilled Person Report” means the section 166 FSMA skilled person review of the Firm’s reserving practices issued in September 2018;
10. “FSMA” or “the Act” means the Financial Services and Markets Act 2000 (as amended);
11. “Group” means the MS Amlin plc group;
12. “Group Board” means the MS Amlin plc Board of Directors;
13. “Internal Audit” means the Group’s Internal Audit function;

14. "KPI" means Key Performance Indicator, being a measure of performance;
15. "Lessons Learned Report" means the internal "lessons learned" review, completed in July 2018, into underwriting strategy and performance oversight in the period between 2014 and 2017;
16. "Lloyd's" means Lloyd's of London;
17. "Lloyd's Minimum Standards" means statements of business conduct with which managing agents are expected to comply in order to operate at Lloyd's;
18. "M&A SBU" means the marine & aviation strategic business unit;
19. "MI" means management information;
20. "MS Amlin plc" means (i) in the period until 29 February 2016, Amlin plc; and (ii) in the period from 29 February 2016 to 3 December 2019, MS Amlin plc.
21. "MSAUL" or the "Firm" means (i) in the period until 29 April 2016, Amlin Underwriting Limited; and (ii) in the period from 29 April 2016, MS Amlin Underwriting Limited;
22. "MSI" means Mitsui Sumitomo Insurance Company Limited;
23. "Notice" means this Final Notice, together with its Annexes and Appendices;
24. "ORSA" means the Own Risk & Solvency Assessment process;
25. "P&C SBU" means the property & casualty strategic business unit;
26. "Periodic Summary Meeting" or "PSM" means the annual meeting held between the Firm and the PRA;
27. "PRA" means the Prudential Regulation Authority;
28. "PRA Penalty Policy" means the *Statement of the PRA's policy on the imposition and amount of financial penalties under the Act as set out in 'The PRA's approach to enforcement: statutory statements of policy and procedure September 2021'*;
29. "PRA Settlement Policy" means the *Statement of the PRA's settlement-decision-making procedure and policy for the determination of the amount of penalties and the period of suspensions or restrictions in settled cases*;
30. "Relevant Period" means the period between 1 September 2014 to 31 December 2019;
31. "RI SBU" means the reinsurance strategic business unit;

32. "Risk" or "Risk Function" means the Group and/or MSAUL risk functions, as the context requires;
33. "SBU" means strategic business unit;
34. "SCR" means Solvency Capital Requirement;
35. "Second Skilled Person Report – Phase 1" means the section 166 FSMA skilled person Phase 1 review report which completed in October 2019 and which considered the adequacy of the root cause analysis conducted by the Firm in relation to the 2017 Losses;
36. "Second Skilled Person Report – Phase 2a" means the section 166 FSMA skilled person Phase 2 review which completed in November 2020 and which assessed the design and implementation of the Firm's management actions to address the recommendations identified in the Second Skilled Person Report – Phase 1;
37. "Second Skilled Person Report – Phase 2b" means the section 166 FSMA skilled person Phase 2 review which completed in January 2022 and which assessed the operating effectiveness and embeddedness of the required management actions;
38. "STLR" means Selected Target Loss Ratio; and
39. "Syndicates" means Lloyd's Syndicate 2001 together with Lloyd's Syndicate 3210.

APPENDIX 2: RELEVANT STATUTORY AND REGULATORY PROVISIONS

1. RELEVANT STATUTORY PROVISIONS

The PRA's objectives

- 1.1. The PRA has a general objective, set out in section 2B(2) of the Act, to promote the safety and soundness of PRA-authorized persons. Section 2B(3) of the Act provides that the PRA's general objective is to be advanced primarily by:
 - (a) seeking to ensure that the business of PRA-authorized persons is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and
 - (b) seeking to minimise the adverse effect that the failure of a PRA-authorized person could be expected to have on the stability of the UK financial system.
- 1.2. The PRA has an insurance objective, set out in section 2C(2) of the Act, to contribute to the securing of an appropriate degree of protection to those who are or may become policyholders.

Section 206 – Disciplinary powers

- 1.3. Section 206 of the Act provides that: *“If the appropriate regulator considers that an authorised person has contravened a relevant requirement imposed on the person, it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate.”*
- 1.4. MSAUL is an authorised person for the purposes of section 206 of the Act. Relevant requirements imposed on authorised persons include rules made under the PRA Rulebook, including the PRA's Fundamental Rules.

2. RELEVANT REGULATORY PROVISIONS

PRA's Fundamental Rules

- 2.1. PRA Fundamental Rule 5: A firm must have effective risk strategies and risk management systems
- 2.2. PRA Fundamental Rule 6: A firm must organise and control its affairs responsibly and effectively.

3. RELEVANT POLICY

Approach to insurance supervision

- 3.1. *The Prudential Regulation Authority's approach to insurance supervision*, dated October 2018, sets out how the PRA carries out its role in respect of insurers.

Approach to Enforcement

- 3.2. *The Prudential Regulation Authority's approach to enforcement: statutory statements of policy and procedure, April 2013* (as updated in September 2021) sets out the PRA's approach to exercising its primary enforcement powers under the Act.
- 3.3. In particular, the PRA's approach to the imposition of penalties is outlined at Annex 2 - *Statement of the PRA's policy on the imposition and amount of financial penalties under the Act*; and the PRA's approach to settlement is outlined at Annex 4 - *Statement of the PRA's settlement decision-making procedure and policy for the determination of the amount of penalties and the period of suspensions or restrictions in settled cases*.