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## REGULATORY EXPECTATIONS FOR GOOD GOVERNANCE AND CULTURE UNDERPIN LLOYD'S TRANSFORMATION

*The drive for innovation must go hand in hand with strong oversight and a healthy culture*

**By Imogen Ainsworth (Senior Associate)**

The past 10 days have seen the publication not only of Blueprint Two, the second phase of the implementation of the Future at Lloyd's transformational programme, but also the Financial Conduct Authority's (FCA) Dear CEO letter setting out the FCA's supervision strategy for Lloyd's and London market intermediaries and managing general agents.

While Blueprint Two seeks to herald an exciting new "digital ecosystem, powered by data and technology", the FCA's Dear CEO letter serves as a reminder the benefits that can be achieved through innovation and digitisation also need to be underpinned by a governance framework and culture that is alive to the corresponding changes in business model.

The FCA and Prudential Regulation Authority continue to support and recognise the advantages of the drive towards the greater use of digital technology to respond to customer and market needs, something that has undoubtedly been accelerated by the impact of Covid-19. The FCA has repeatedly acknowledged the benefits of modernisation across the insurance sector and for intermediaries and managing general agents in particular. In the recent Dear CEO letter the FCA says it believes "firms need to innovate, both individually and collaboratively, to create and maintain healthy competition, efficient distribution chains, good claims services and better use of data".

The implementation of Blueprint Two is, as a result, acknowledged by the FCA as an example of such an attempt at modernisation and innovation, which is designed to ultimately benefit customers by delivering better value at a lower cost.

Blueprint Two itself sets out an ambitious redesign of the entire insurance lifecycle process at Lloyd's, providing a digital service from start to finish. A broader aim of this plan is to deliver operational efficiencies with a reduction in operating costs for brokers, underwriters and partners estimated to total £800m (\$1.06bn).

## **Good Governance**

Notwithstanding regulatory support for progress in the digital sphere, the FCA's Dear CEO Letter, which was published on November 3, maintains the regulator's clear focus on the importance of good governance and culture in modernising the sector, emphasising "improvements must be underpinned by a healthy culture in the marketplace" and that a firm's culture and governance is expected to drive good behaviours and is "central to the effective running of any financial institution".

While the implementation of Blueprint Two will take place over the coming years, firms should, in moving to the adoption of the new model and changes to distribution processes generally, continue to ensure they are able to demonstrate they have a good governance regime in place with clear oversight and escalation and a robust risk framework in order to identify, monitor and mitigate key risks, which will continue to change and develop as firm's distribution models and operations similarly advance.

Blueprint Two is designed to usher in a new modern and digital future, which stands alongside wide-ranging steps we are seeing being taken across the insurance sector.

Given the regulators' continued environmental, social and corporate governance focus that sits alongside this modernisation, firms will benefit from ensuring they continue to have governance arrangements and firm culture front of mind when implementing new, innovative and technology-driven enhancements to deliver products to customers.

**C L I F F O R D**

**C H A N C E**

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