LLOYD'S

Lloyd's Response: Financial Stability Board (FSB) Consultation Paper- Enhancing Third-Party Risk Management and Oversight: A toolkit for financial institutions and financial authorities

To whom it may concern,

I am responding to your Discussion Paper on behalf of the Society of Lloyd's ("Lloyd's").

Lloyd's is a Society of Members incorporated under the Lloyd's Acts 1871-1982, which operates as an insurance and reinsurance market based in London. Lloyd's (formally, the Council of Lloyd's) is responsible for managing the affairs of the Society and has powers to regulate the business of insurance at Lloyd's.

All insurance business in the Lloyd's market is underwritten by Lloyd's members, organized into 77 active syndicates, managed by 52 managing agents. In 2022, the Lloyd's market's aggregate gross written premiums totalled £46.7bn. The business underwritten in the Lloyd's market is primarily non-life insurance and reinsurance.

We welcome the opportunity to provide feedback to the Consultation Paper on Enhancing Third-Party Risk Management and Oversight. We have set out our core reflections on the FSB's proposals below.

Lloyd's views on FSB proposals

The financial services industry's reliance on third parties has grown in recent years. Increasing levels of concentration enhance potential threats to financial stability and the soundness of individual institutions as well as wider financial markets.

In this context, we strongly support the FSB's work on developing a toolkit for financial institutions and financial authorities.

Lloyd's has previously shared the view with UK regulators, in response to a 2022 Discussion Paper, that international co-ordination in the development and implementation of operational resilience regulation is essential to reflect the cross-border nature of the financial services industry and the third parties that support it.

We support the development of international resilience standards for critical third parties as this will help introduce substantial efficiencies in the engagement and oversight of third-party arrangements. As such, Lloyd's welcomes, and is very supportive of, the FSB's aims to i) promote comparable and interoperable approaches across jurisdictions and ii) reduce fragmentation in regulatory and supervisory approaches.

We would like to take this opportunity to highlight a few key points that we believe the FSB should continue to consider and refine ahead of publication of the finalised toolkit.

- **Clarification of critical [N]th-party definitions.**
    - We note that the FSB does not provide much detail on how to define critical parties that are more distant from financial entities than critical third parties –

these parties are described in the Consultation Paper as “critical nth-parties”. Various FSB member jurisdictions are developing more prescriptive directions on what constitutes a critical nth-party. As the FSB considers the definition of critical nth-parties, we would encourage it to have due regard to the already existing, and currently emerging, guidance of its member jurisdictions on this issue, to ensure that whatever principles it does suggest are not incompatible or inconsistent with standards in, say, the EU’s DORA framework, or India’s emerging operational resilience framework.
  - The FSB should also strive to ensure that any new international standards or best practice principles avoid introducing additional prescriptive guidelines on how critical nth-parties are defined.

- **The FSB should encourage interoperability between jurisdictions' Operational Resilience frameworks.**
  - Although the global aim of emerging guidance and regulation is broadly aligned, variations in reporting and control requirements present the risk of imposing additional financial burdens on organisations conducting thematic and compliance reporting. As such, the FSB should use its position to urge jurisdictions to adopt consistent and aligned frameworks to ease the challenges currently being placed on firms.
  - We also encourage the harmonisation of international standards to enable a more consistent international approach to the oversight of services provided by critical third parties. This is especially important in areas such as resilience testing and incident reporting frameworks.
  - In addition to reducing the burden on firms, having consistent and aligned frameworks will increase compatibility and comparability, and thus the potential for effective coordination across borders, thereby increasing the effectiveness of the system for promoting global financial stability.

- **We support the FSB’s efforts to embed proportionality as a core principle for Operational Resilience regulation**
  - The principle of proportionality should be part of all supervisors’ requests: adopting a proportional and risk-based approach is key when considering any supervisory request. Supervisors’ requests must be proportionate to the type, size and financial profile of a relevant legal entity, but also to the digital (including cyber) risks to which that entity is exposed.
  - The FSB should also urge national regulators to monitor the unintended consequences at every stage of the new toolkit’s implementation and seek efficiencies where possible. For example, regulators should be encouraged to avoid scenarios whereby third parties have to respond to multiple regulatory queries of broadly similar nature which could be managed through better supervisory coordination. Regulators’ toolkits should always ensure consistency in definitions and requirements to the extent possible to avoid any unnecessary duplication of oversight activity. Additionally, financial regulators should be urged to work with other authorities to avoid situations whereby third parties are subject to similar but not identical assessment criteria or rules in the context of different industries to which they provide services. Otherwise, critical third parties may need to ring-fence their

provision to different industries in order to ensure compliance with overlapping rules, leading to less efficiency and higher cost.

- Proportionate approaches such as the above are vital. In their absence, overly strenuous regulation and control requirements for third parties might lead to increased market concentration risk if suppliers opt to withdraw their services from financial firms due to increased compliance costs.

We hope that these reflections assist the FSB in preparing its final toolkit. We would be delighted to discuss our views with FSB stakeholders in more detail if this would be helpful.

Kind regards,

Cameron Murray,
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