

codereview@frc.org.uk

09 October 2009

Dear Sir

**FRC Review of the Effectiveness of The Combined Code
Progress Report and Second Consultation**

Lloyd's welcomes the opportunity to submit comments on the "Review of the Effectiveness of The Combined Code" published July 2009.

Lloyd's is the world's leading specialist insurance and reinsurance market, which accepts business from over 200 countries worldwide. It is the fifth largest provider of reinsurance in the world and wrote £18 billion of insurance and reinsurance business in 2008.

The views expressed here are those of the Corporation of Lloyd's, which has oversight of the activities and operation of the Lloyd's market.

General Comments

The Corporation of Lloyd's firmly believes in the importance of good corporate governance and the benefits it can bring to an organisation. Lloyd's 2008 annual report states that:

"The Council of Lloyd's is committed to the principle of good corporate governance and supports the application of the principles of the Combined Code on Corporate Governance, as far as they can be applied to the governance of a Society of members and a market of separate competing entities."

Lloyd's is broadly supportive of the Report's proposals to raise corporate governance standards. However, Lloyd's legal structure and organisation and its function as an insurance market (rather than an insurance company) mean that some of the issues raised by the Review are not relevant to it.

We believe that any amendments made to the Combined Code should clearly distinguish between those financial institutions where excessive risk taking can take place and threaten the institution's financial stability and those institutions where it does not. Many of the proposals in the Walker Report, for example, are aimed at governance and remuneration arrangements to curb excessive risk taking. The Corporation of Lloyd's main role is to oversee and manage the Lloyd's market. Proposals to deal with problems of excessive risk are not therefore relevant to the Corporation, despite its aim of complying with the Combined Code wherever possible.

The recent financial crisis has led to a wave of proposals for regulatory change, nationally and at international level. It is important that these proposals are proportionate and properly targeted. In particular, they should take account of differences between different financial sectors and not seek to legislate on a "one size suits all" basis.

Requirements that appear appropriate for the banking industry should not be applied indiscriminately to other sectors that do not face the same challenges. The Walker Review was originally established to examine corporate governance in the UK banking industry. Nevertheless many of its recommendations are explicitly worded to apply to "banks and other financial institutions", which gives rise to concerns that insufficient regard has been paid to differentiating banks from financial institutions that were not the cause of the financial crisis.

We firmly believe that any new requirements for corporate governance and remuneration practices in the insurance sector should take account of the sector's characteristics. An important consideration is that account should be taken of rules under Solvency II, the EU's reform of insurance supervision, and not be part of separate regulatory rules.

Our specific comments are set out below.

The responsibilities of the chairman and the non-executive directors

We do not believe that it would be appropriate or helpful for Lloyd's if the Code further clarified the role and responsibilities of the chairman, SID and/or non-executive directors. We also do not support the suggestion that it would be helpful for the Code to provide guidance on the time commitment expected of the chairman, SID, and/or non-executive directors.

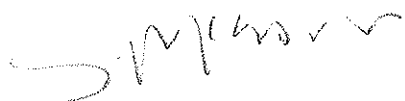
A minimum expected time commitment by NEDs may make sense for major bank Boards but it is not necessary in all circumstances and should not be accepted as a universal norm. The key requirement should be that the time commitment is sufficient to enable NEDs to discharge their duties effectively.

Remuneration

We are not convinced that Walker's 13 steps on remuneration are either proportionate or appropriate to either the financial services sector or to the wider corporate environment. We understand why such arrangements may be appropriate in the case of banks but believe that other remuneration frameworks should be permitted where appropriate to the nature of the organisation.

We thank you for the opportunity to comment on this Review. Please let us know if you have any questions arising from this letter.

Yours faithfully



Sean McGovern
Director and General Counsel