



Lloyd's of London Overview
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November 2017

Southeastern Actuaries Conference

Lloyd's?

Learning Objectives

- What does Lloyd's do?
- Who is Lloyd's?
- Organizational structure
- Brief history
- Capital security
- Financial performance
- Interesting facts / unique risks

What is Lloyd's?

- Lloyd's is a specialist insurance and reinsurance marketplace.
- Lloyd's operates as a mutualized insurance organization.
- Businesses across the globe engage the Lloyd's market to buy and sell insurance.
- Capital is provided by Lloyd's members.
- Lloyd's members are composed of some of the world's major insurance companies as well as individuals and limited partnerships.

What is Lloyd's?

- The Corporation of Lloyd's oversees and manages its insurance markets and provides infrastructure while protecting and maintaining its reputation.
- Business written at Lloyd's is brought to specialist syndicates, who price and underwrite risk via brokers and coverholders.
- Lloyd's underwriters join together as syndicates and syndicates can join together to underwrite large and complex risks.

What is Lloyd's?

Governance

- Lloyd's was originally created as a non-incorporated association of subscribing members.
- Lloyds was incorporated by the Lloyd's Act 1871 and is currently governed under the Lloyd's Acts of 1871 through to 1982.
- The Lloyd's Act 1982 established the Council of Lloyd's.

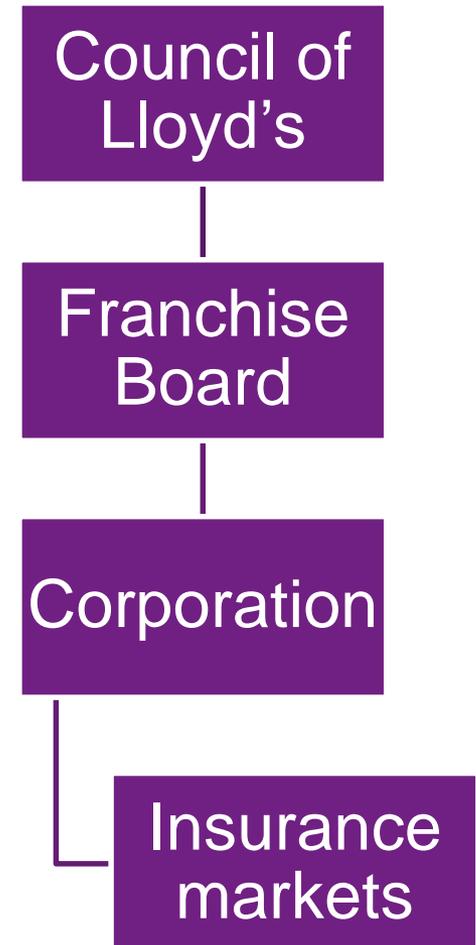
What is Lloyd's?

Governance

- The Council of Lloyd's is responsible for the management and supervision of the its insurance markets.
- The Council is regulated by the Prudential Regulation Authority and the Financial Conduct Authority.
- The Council delegates most of its daily oversight roles, particularly relating to market operations to the Franchise Board.
- The Franchise Board oversees the Corporation of Lloyd's.

Lloyd's Organizational Structure

- The Council normally has six working, six external and six nominated members.
- The appointment of nominated members, including the CEO, is confirmed by the Governor of the Bank of England.
- Similar to a US Board of Directors, Lloyd's Franchise Board has multiple subcommittees:
 - Audit
 - Risk
 - Nominations
 - Remuneration
 - Market supervision



Lloyd's History

From 1688 to 1800s

- 1688:** Edward Lloyd's Coffee House on Tower Street was recognized as the place for obtaining marine insurance and intelligence.
- 1730s:** Lloyd's emerged as the location for marine underwriting, dominating the shipping industry on a global scale. The concept of 'lead underwriter' was established at Lloyds - the lead underwriter would set rates which others would then follow.
- 1850-60s:** Financial security began to be taken much more seriously with members forced to resign if they became bankrupt and new candidates required to put up a deposit/guarantee to support their underwriting.
- 1877:** Non-marine policies were introduced.

Lloyd's History

From 1900s to 1980s

- 1906:** Lloyd's syndicates suffered significant losses due to the San Francisco earthquake. Prompt and full claim payments helped establish Lloyd's reputation for reliable claims payments.
- 1923:** Creation of the Central Fund – providing policyholders added security of knowing that should an underwriter or syndicate fail or be unable to pay its claims, the central fund is available.
- 1982:** Lloyd's Act passed to modernize governance structure. The main purpose was to separate ownership of managing agents of syndicates from ownership of brokers – removing conflicts of interest.

Lloyd's History

From 1980s to Present

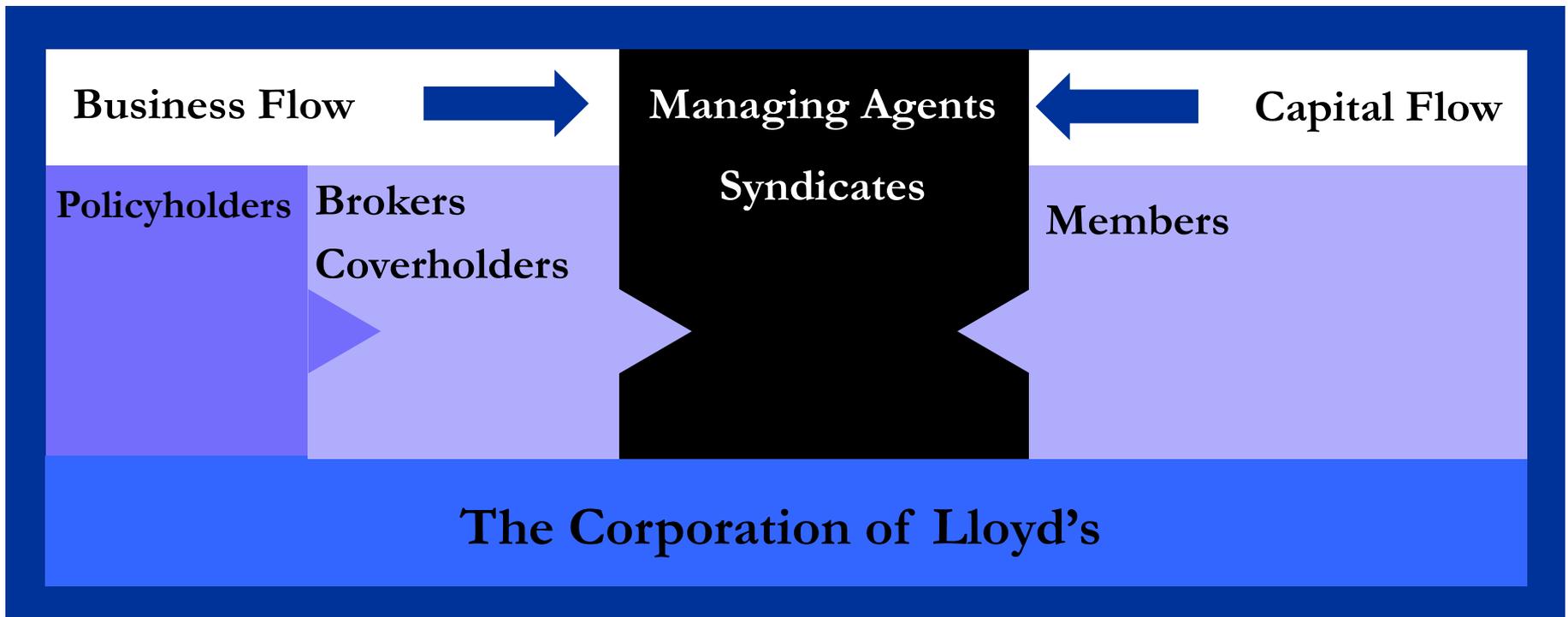
- 1980s:** Being an underwriter at Lloyd's involved unlimited liability for the risk they underwrote – unexpectedly, large legal awards made in US courts on asbestos, pollution and health hazard claims (some dating back 40+ years) resulted in huge losses, threatening Lloyd's collapse.
- 1996:** Equitas was established, which was a special finance vehicle into which all pre-1993 business was transferred by reinsurance to close at a cost of over \$21bn. This transaction allowed Lloyd's to survive.
- 2001:** Lloyd's became subject to oversight by the Financial Services Authority.
- 2007:** Contract Certainty introduced – ending the market's “deal now, detail later” culture.

Lloyd's – Who's Who

Brokers (258) are the liaison between risk seeking individuals or entities and Lloyd's insurance markets.

Coverholders (~4000)

- They work on behalf of a syndicate and are authorized by a managing agent to write a certain amount of international business for the syndicate.
- Syndicates may delegate their underwriting authority to the coverholder.

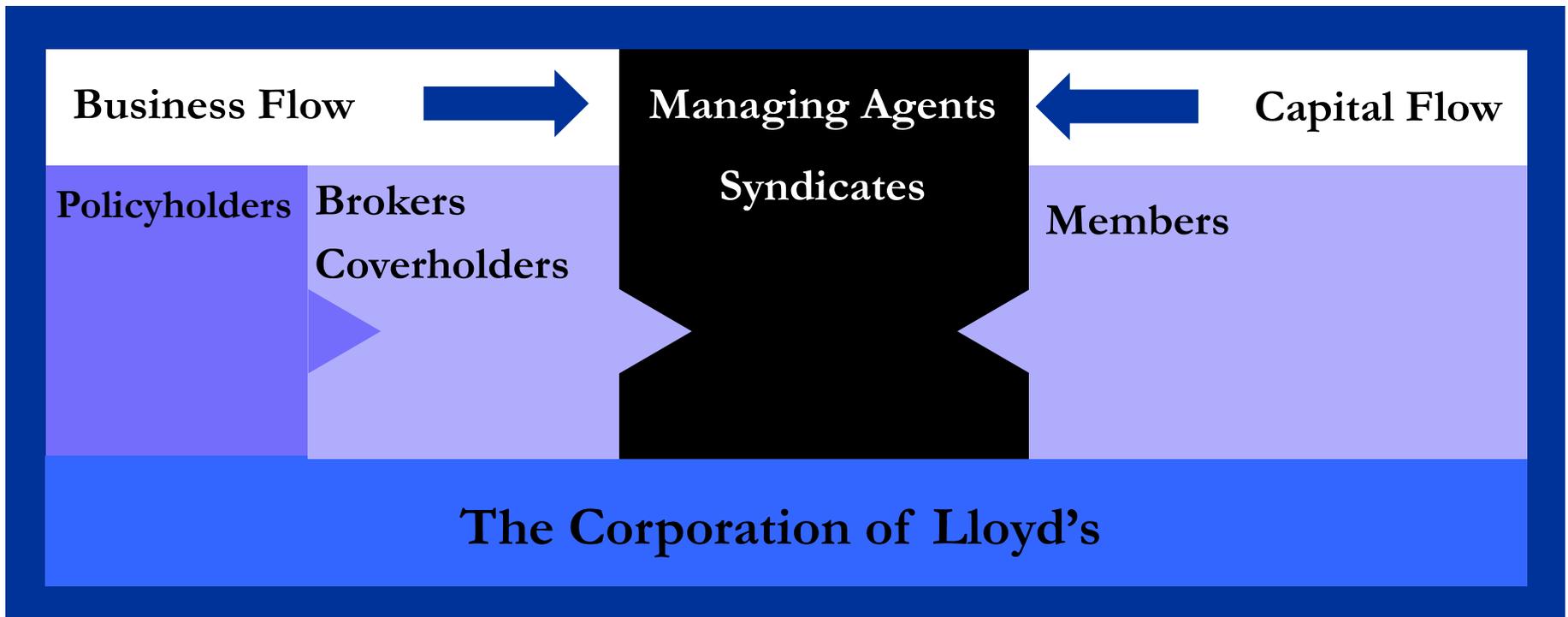


Lloyd's – Who's Who

Syndicates (99) are composed of underwriters and price and write insurance risks. They accept risks on behalf of members.

Managing Agents (57) manage the syndicates.

- Employ the underwriting staff.
- Handle day-to-day running of a syndicate.

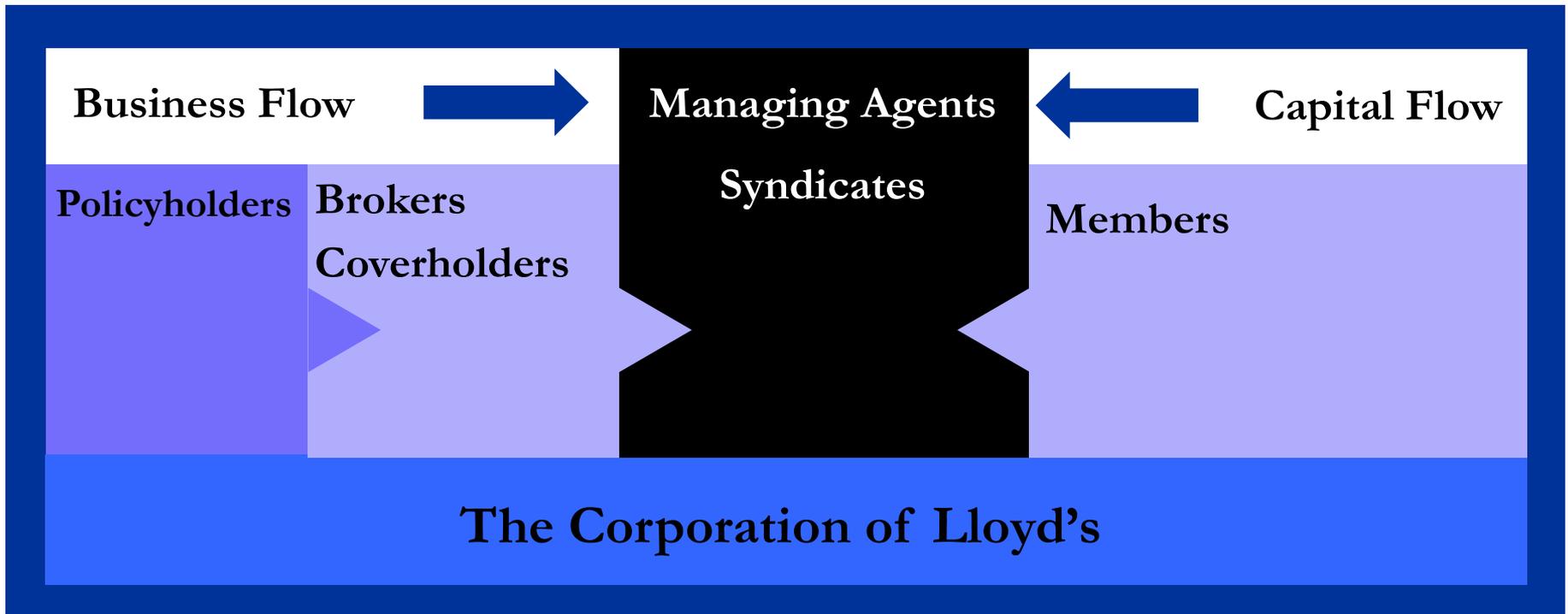


Lloyd's – Who's Who

Corporation of Lloyd's supports the market

- Owns the Lloyd's brand, provides infrastructure and licenses.
- Reviews and approves business plans.
- Manages the Central Fund (capital that provides that all claims can be paid).

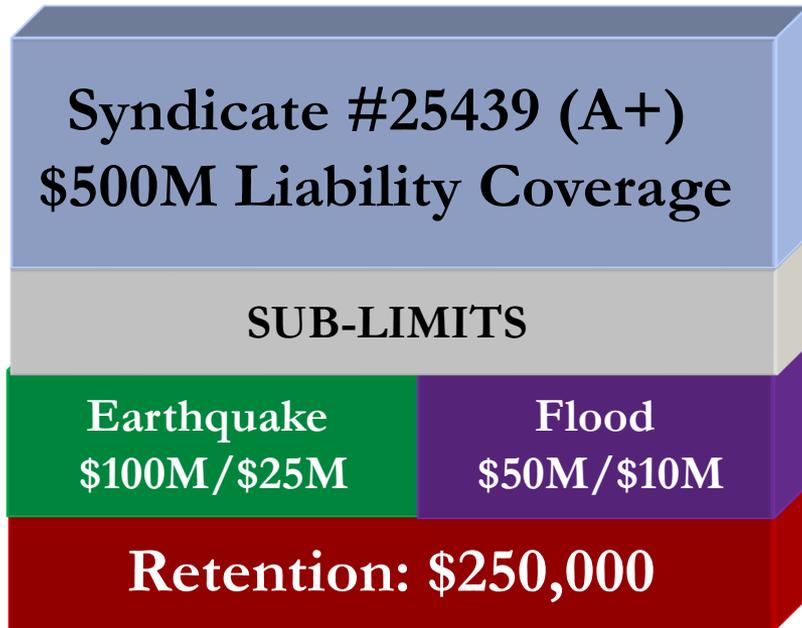
Members provide capital (they include some of the world's largest insurance companies, individuals and limited partnerships)



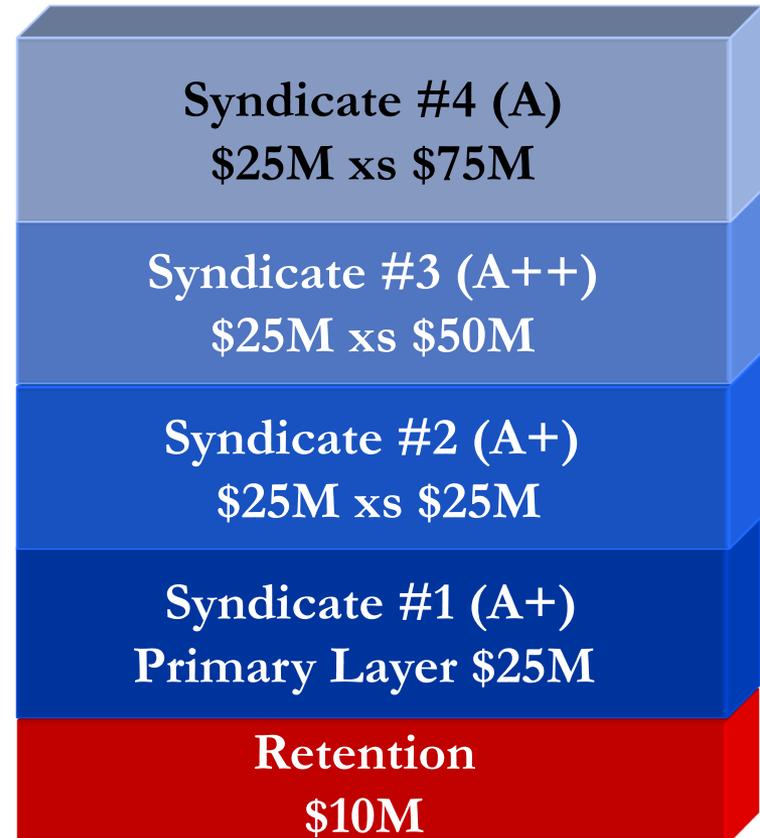
Illustrative Insurance Towers

How Syndicates Work Together

Illustrative Property Coverage:



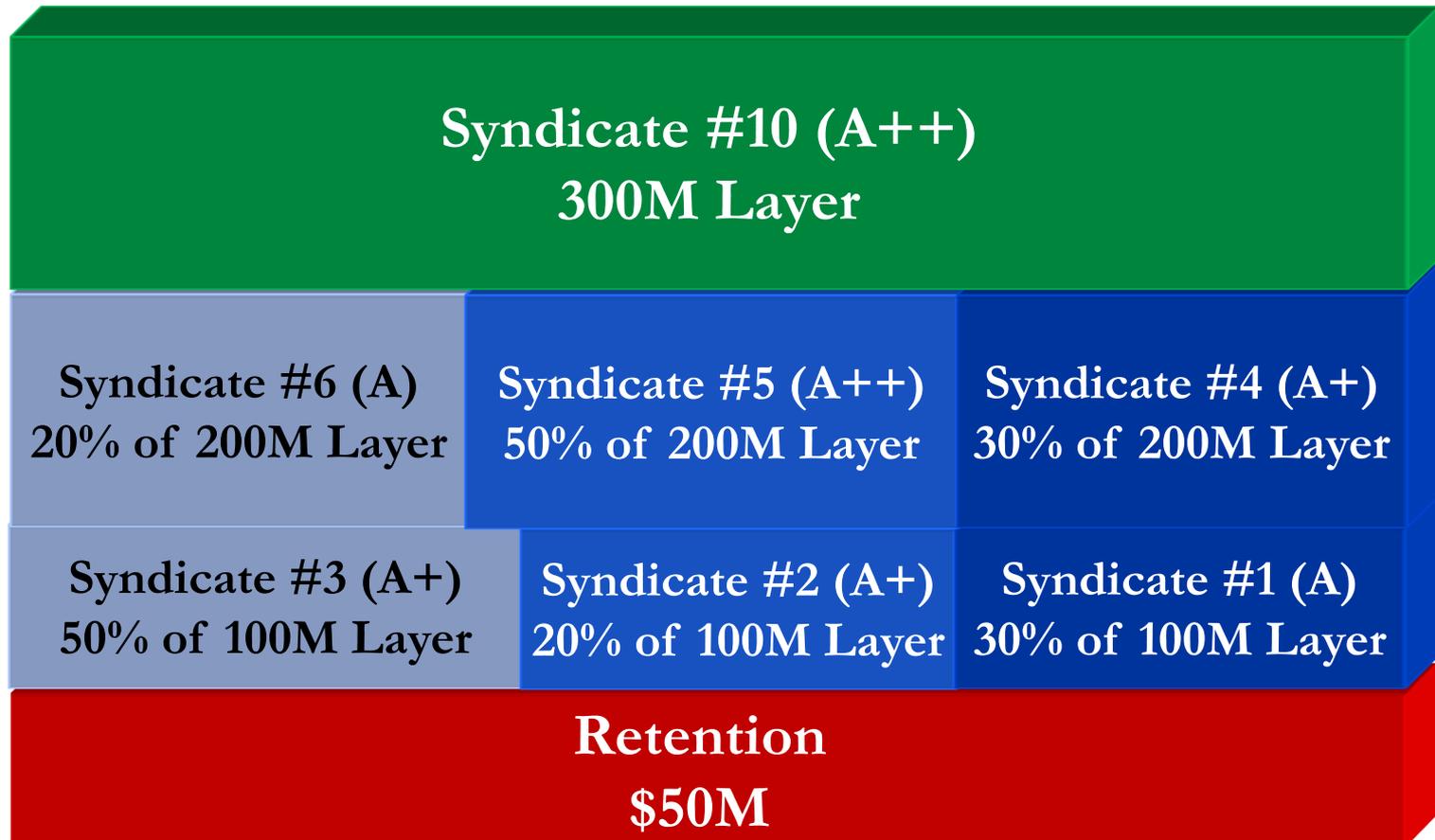
Illustrative Cyber Coverage:



Illustrative Insurance Towers

How Syndicates Work Together

Illustrative Marine Coverage:



Lloyd's Capital Structure

Syndicate assets (members' working capital)

- Premiums received are held in trust by the managing agents as the first resource for paying policyholders' claims and fund regulatory deposits.
- Until all liabilities have been provided for, no profits can be released.
- Every year, each syndicate's reserves for future liabilities are independently audited and receive an actuarial review.

Multiple Asset Levels		
First Tier	Syndicate level assets £53,890M	
Second Tier	Members' funds at Lloyd's £21,703M	
Mutual Assets		
Third Tier	Central Fund £1,952M Corporation £44M	Callable layer £903M
	Subordinated debt £883M	

Lloyd's Capital Structure

Funds at Lloyd's (members capital deposited at Lloyd's)

- Each member must provide sufficient capital to support their underwriting.
- Managing agents are required to assess the Solvency Capital Requirement (SCR) for each syndicate that they manage.
- The amount of capital set aside by a syndicate to cover underlying business liability risks is at the 99.5% confidence level.
- Each member's capital is held in trust by the Corporation for the benefit of the policyholders but is not available for the liabilities of other members.

Multiple Asset Levels		
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Lloyd's Capital Structure

Central Assets

- Lloyd's central fund assets are available to meet any valid claim that cannot be met from the resources of any member.
- Lloyd's central capital provides further financial support to ensure valid claims are paid.
- The Corporation calculates the central fund Solvency Capital Requirement, which is independently validated and overseen by the PRA.
- The Board sets the level of economic capital needed above the regulatory minimum to meet its risk appetite and support the credit ratings.

Multiple Asset Levels		
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Lloyd's Financial Highlights

H1 2017

LLOYD'S

H1 2017 Financial Highlights

Profit before tax

£1.2bn

(H1 2016: £1.5bn)

Profit excl. fx

£1.2bn

(H1 2016: £1.2bn)

Underwriting profit

£0.4bn

(H1 2016: £0.2bn)

Return on capital

8.9%

(H1 2016: 11.7%)

Combined ratio

96.9%

(H1 2016: 98.0%)

Investment return

1.5%

(H1 2016: 1.8%)

Net resources

£28.0bn

(H1 2016: £26.6bn)

Gross written premium

£18.9bn

(H1 2016: £16.3bn)

Source: Lloyd's pro forma financial statements, 30 June 2017. The metrics referred to in this presentation are defined in section 3.11 of the 2017 Interim Report, which includes details on financial metrics considered by Lloyd's to be Alternative Performance Measures (APMs).

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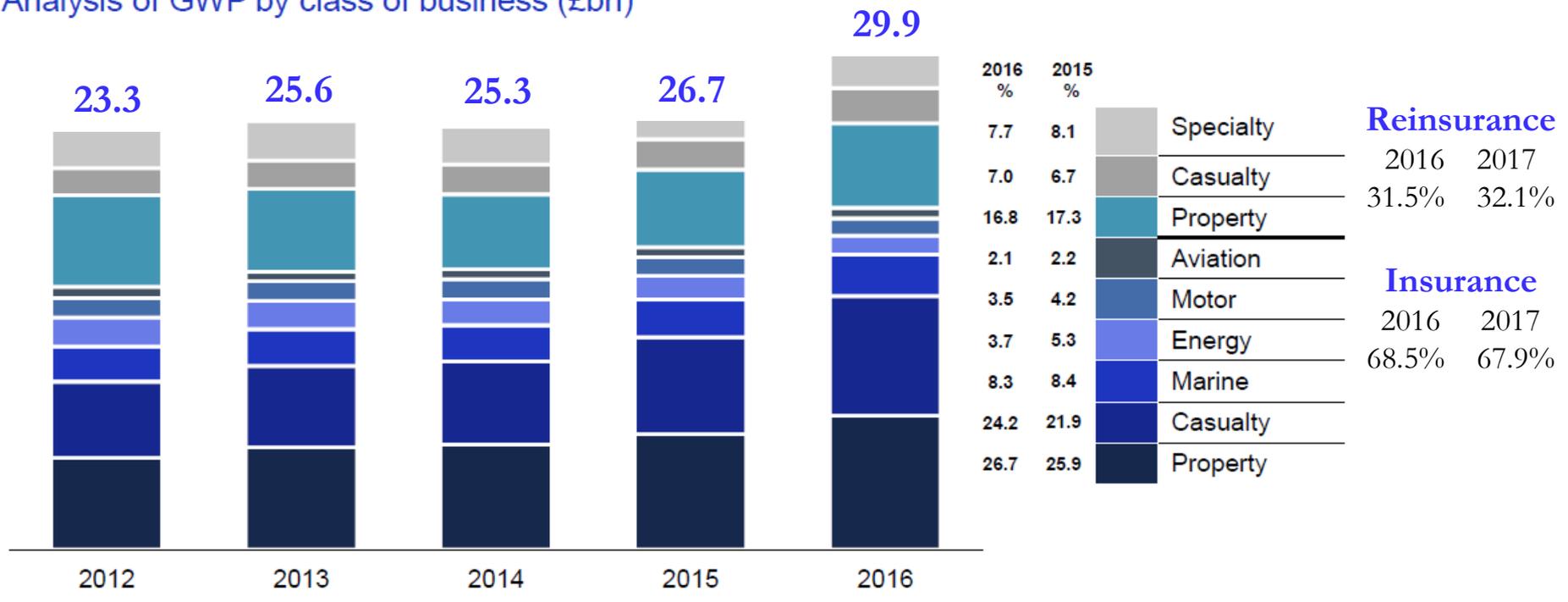
Combined ratio is the sum of loss ratio and expense ratio

Combined ratio = $[(\text{incurred losses} + \text{expenses}) / \text{earned premium}]$

Lloyd's Financial Highlights

Gross Written Premium through 2016

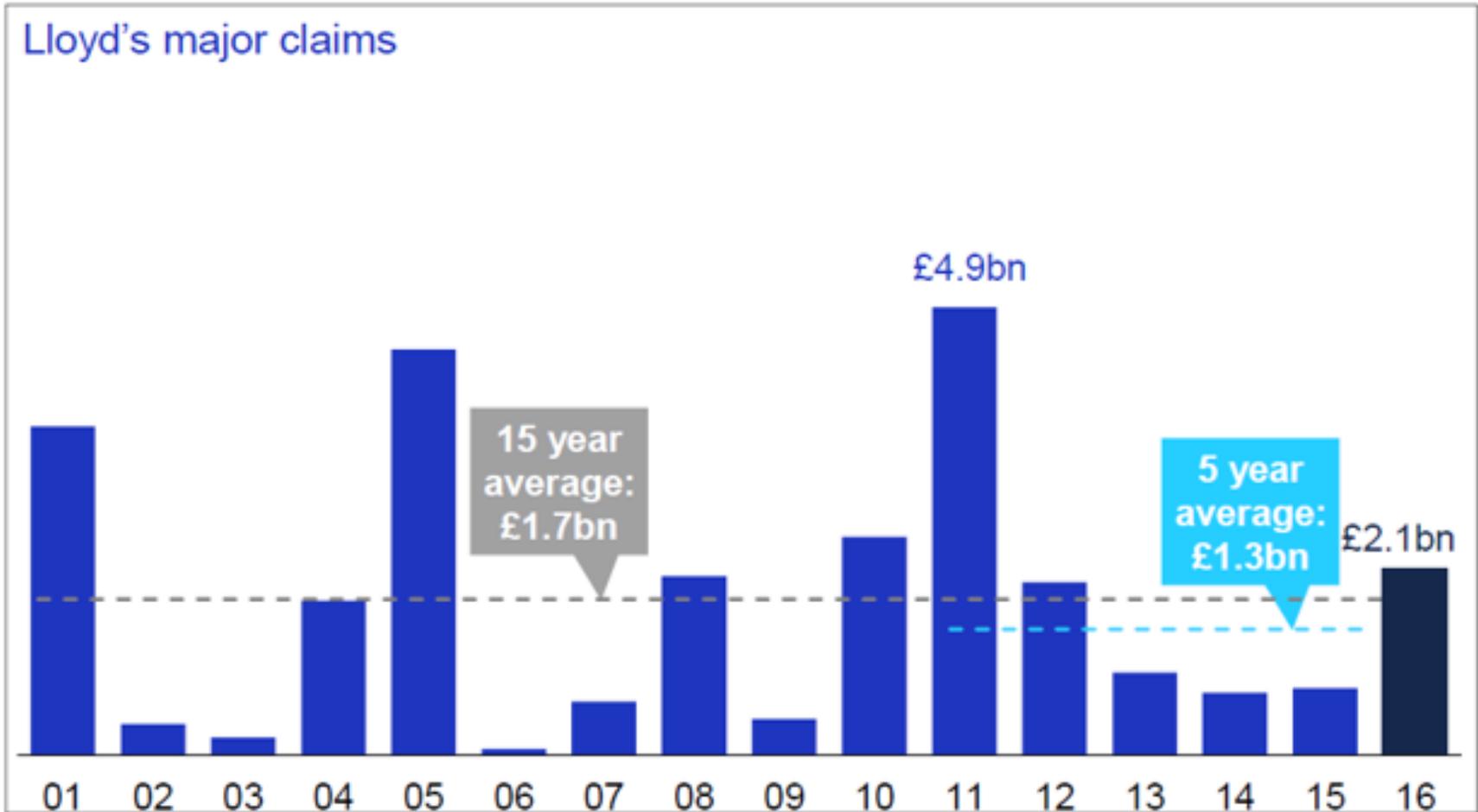
Analysis of GWP by class of business (£bn)



Source: Lloyd's pro forma financial statements, 31 December 2016. GWP: Gross written premium. Specialty Reinsurance includes aviation, energy & marine.

Lloyd's Financial Highlights

Claims History



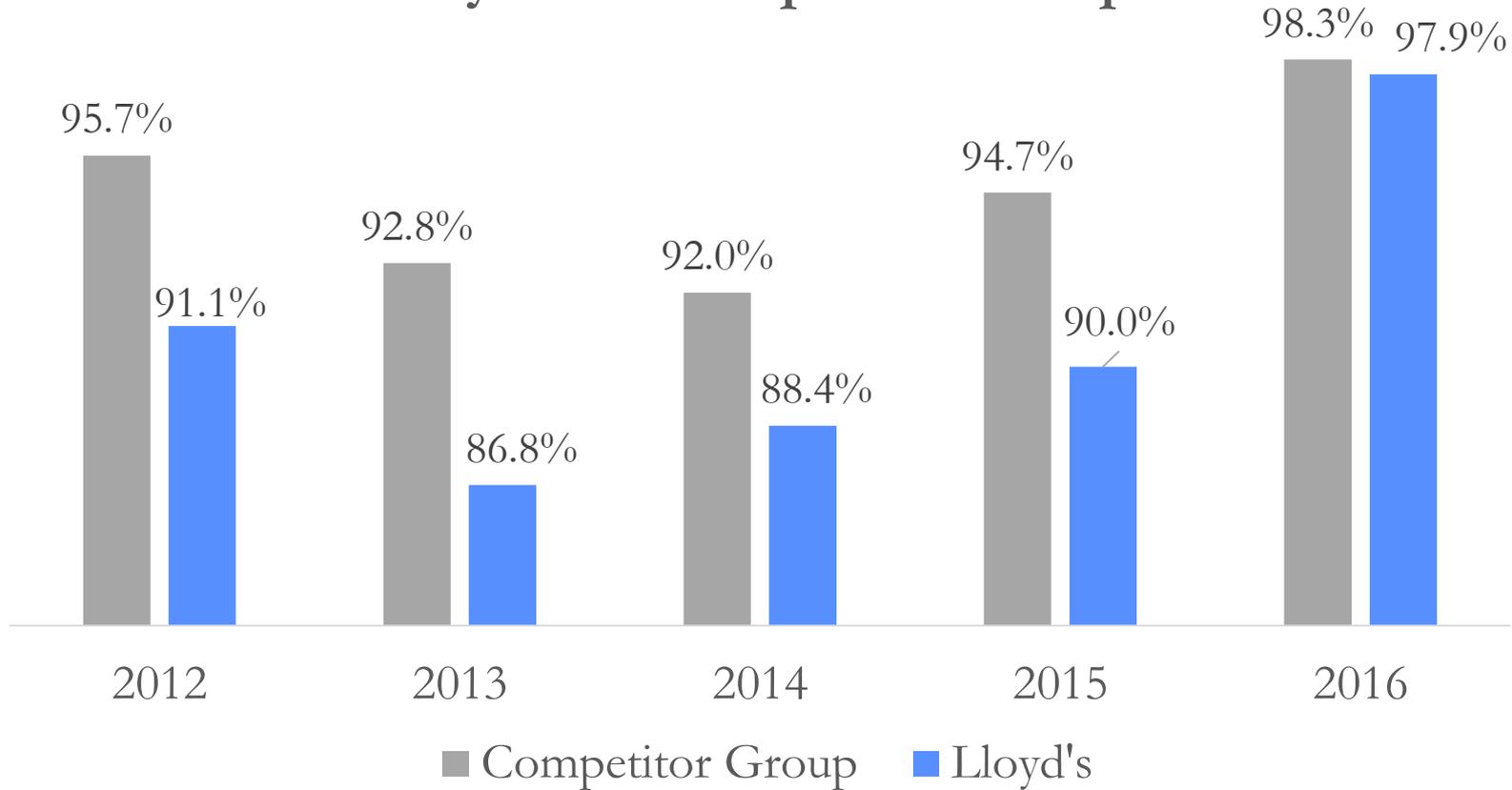
Source: Lloyd's financial statements, 31 December 2016. Claims in other currencies translated at the exchange rate prevailing at the data of loss.

As of Oct 12, 2017, the Lloyd's market has paid approximately \$738M in response to hurricane Harvey.

Lloyd's Financial Highlights

Lloyd's historical combined ratio performance vs peer group

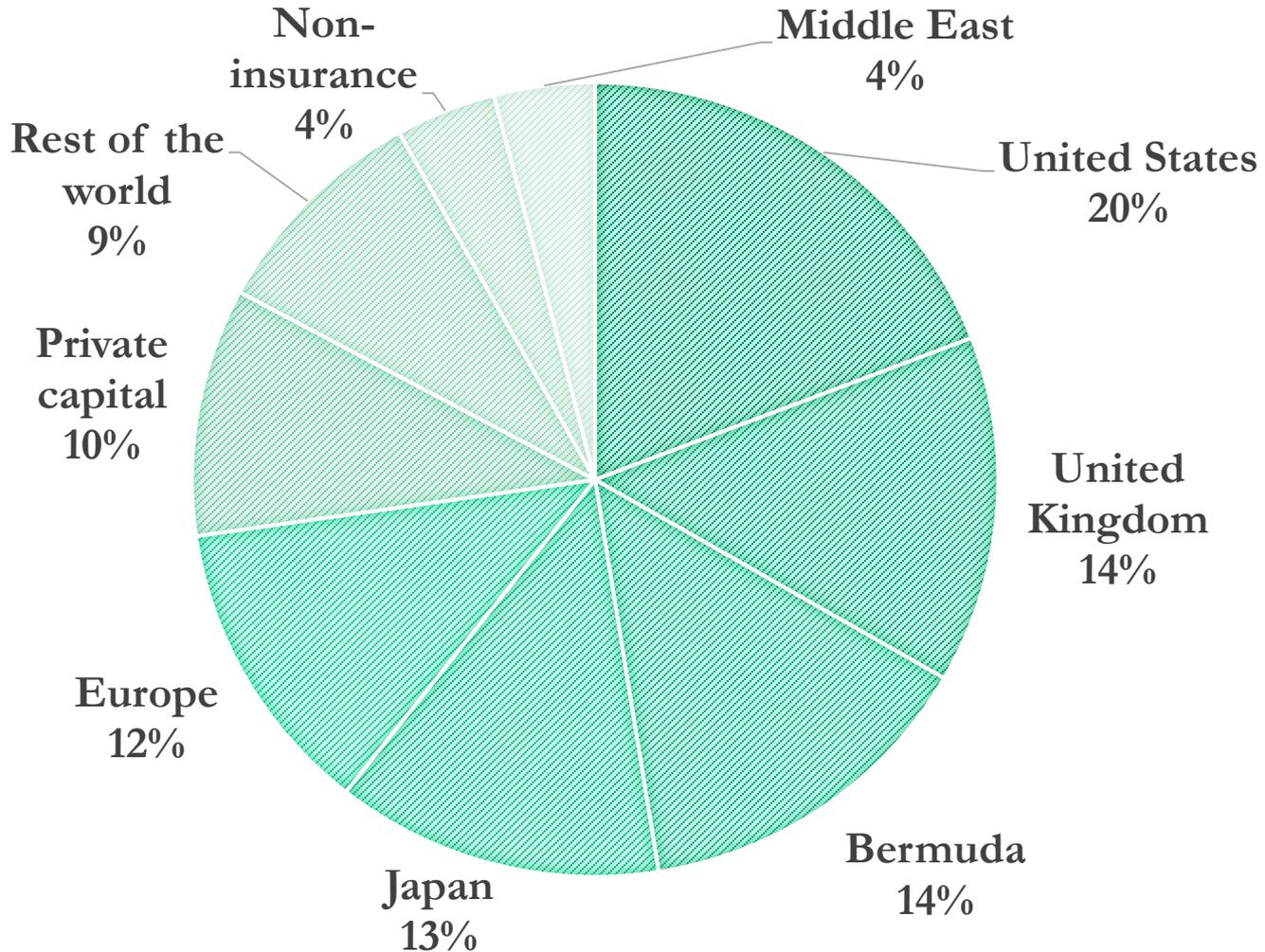
Historical Combined Ratio Performance Lloyd's vs Competitor Group



Source: Lloyds 2016 annual report. Competitor group comprises of 11 companies operating in US, European, & Bermudan markets: AIG, Arch, Chubb, Everest Re, Hannover Re, Mapfre, Munich Re, Partner Re, SCOR, Swiss Re, & XL Catlin

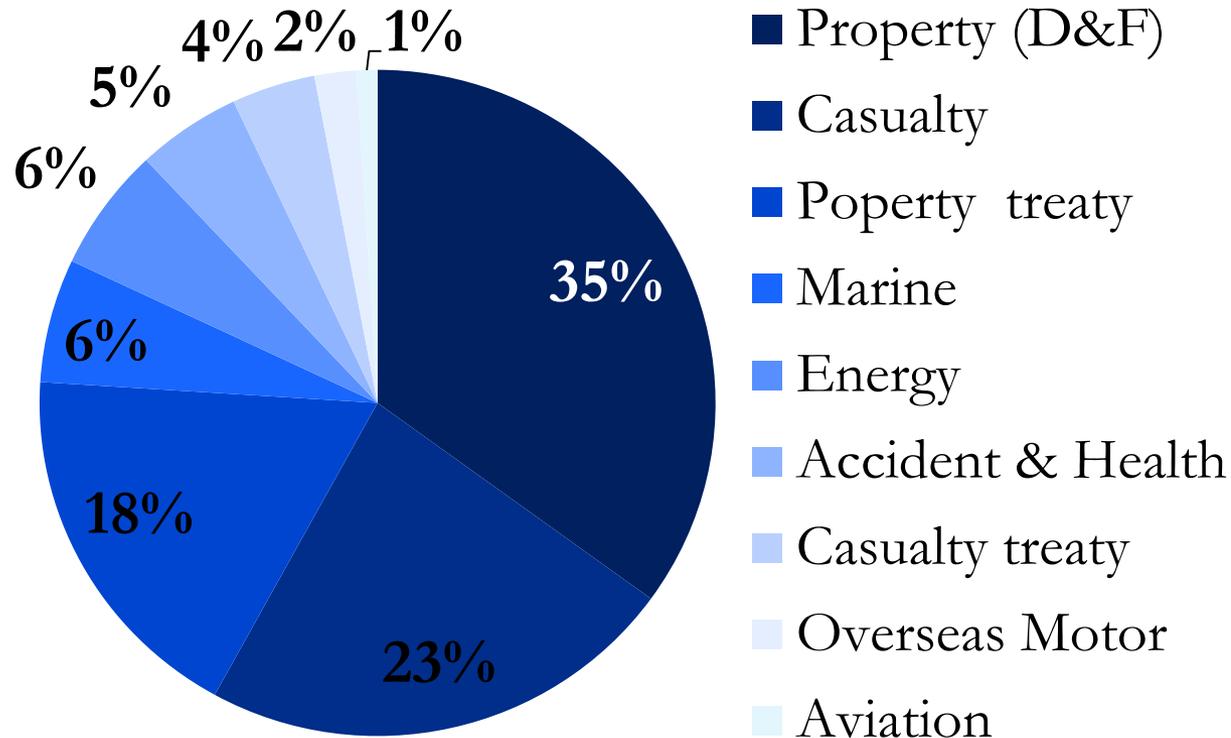
Lloyd's Financial Highlights

2016 LLOYD'S GEOGRAPHIC SOURCE PREMIUM



Lloyd's in the US

- Lloyd's is the largest surplus lines insurer and largest non-US domiciled reinsurer.
- More than 40% of Lloyd's global business is generated in the US Market with \$15B of premium in 2015 comprised of the following classes:



- More than \$30B of claims paid in the US over the past 5 years.

Lloyd's Unique Risks

- First motor policy issued in 1904 – policy was produced by marine underwriters describing the auto as a “ship navigating on land”
- First aviation policy issued in 1911 - program ceased in 1921 as “there was no immediate future in aviation insurance and no business to be had”
- First space satellite insurance placed in 1965

Lloyd's Unique Risks

- Entertainment risks:
 - \$140k policy issued on Jimmy Durante's nose
 - £3M.5 policy issued on Bruce Springsteen's voice
 - \$28k policy issued on Bette Davis' tiny waist (against weight gain)
 - \$1M policy issued on Betty Grable's legs
 - £100M policy issued on David Beckham's legs
 - \$1.6M policy issued on Keith Richard's hands
- Odd risks insured by Lloyd's:
 - 40 members of Derby Whiskers Club insured their beards against fire and theft
 - A homeowner's policy from 1914 covered damage from aeroplanes, airships, riots, strikes & suffragists

Questions?

Appendix

Global Market Snapshot

Lloyd's Today

99

Syndicates

258

Brokers

~4000

Coverholders

\$97 Billion

Claims paid by
Lloyd's over the last
5 years

\$30 Billion

Gross Written
Premium

A (Excellent)

A.M. Best

A+ (Strong)

S&P

AA- (Very Strong)

Fitch

Lloyd's Financial Highlights

2016 Full Year Results

LLOYD'S

2016 Financial highlights

- Profit of £2.1bn (2015: £2.1bn) with a return on capital of 8.1% (2015: 9.1%)
- Combined ratio of 97.9% (2015: 90.0%)
- Investment return of 2.2% (2015: 0.7%)
- Net resources of £28.6bn (2015: £25.1bn)
- Central solvency coverage ratio of 217% (1 Jan 2016: 218%)

Source: Lloyd's pro forma financial statements, 31 December 2016. The metrics referred to in this presentation are defined in sections 5.7 and 5.8 of the 2016 Annual Report, which includes details on financial metrics considered by Lloyd's to be Alternative Performance Measures (APMs).

Sources of capital

% Bermudian
Insurance
industry

13

% Worldwide
non-Insurance

3

% US
Insurance
industry

21

% Middle East /
Asia Insurance
industry

17

% Private
Capital-Limited
& Unlimited

10

% UK
Insurance
industry

13

% European
Insurance
industry

13

% Rest of the
World Insurance
industry

10