
Lloyd's Update: GIRO 2016

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Hot off the press: Lloyd's results 2016H1



Highlights

- Profit of £1.5bn (2015: £1.2bn) with a combined ratio of 98.0% (2015: 89.5%)
- Underwriting result reflects difficult industry conditions
- Investment return of 1.8% (2015: 0.6%)
- Net resources £26.6bn (Dec 2015: £25.1bn)
- Annualised return on capital remains strong at 11.7% (2015: 10.7%)

Strategic highlights

- New entrants and licences continue to expand the global reach of the market
 - First anniversary of the Dubai platform
 - Opening of a new office in Bogota, Colombia
 - Applied for an Indian reinsurance branch based in Mumbai
 - Applied for Malaysian reinsurance licence
- Brexit has led to re-prioritisation of work within the corporation
- Launched Placement Platform Limited, the market's electronic placing platform – a significant landmark towards market modernisation

Financial Results

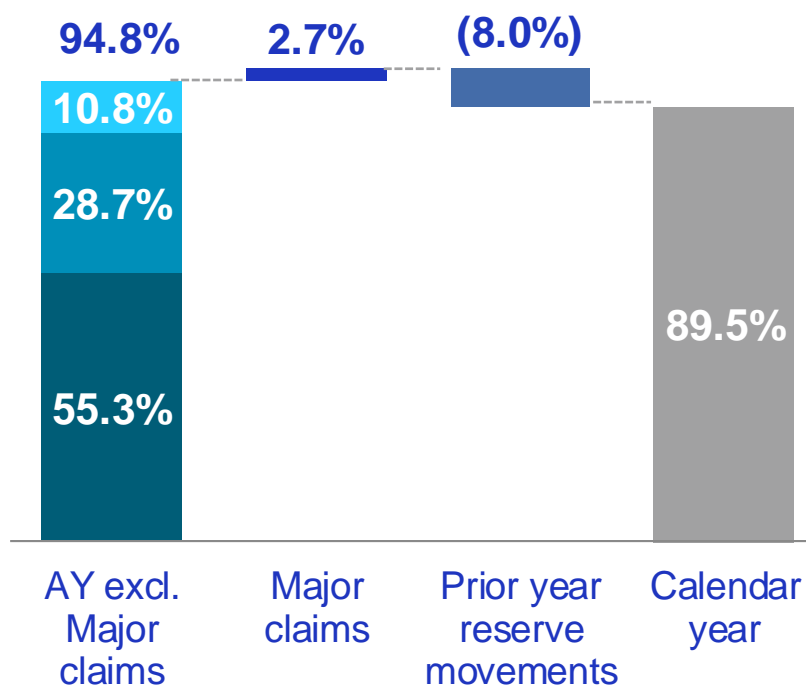
Underwriting result offset by improved investment return and FX gains

Lloyd's aggregated results				
£m	Jun 2014	Jun 2015	Jun 2016	Change YoY
Gross written premium	14,481	15,513	16,307	+5%
Net earned premium	9,511	10,037	10,533	+5%
Net incurred claims	(4,693)	(5,018)	(6,048)	+21%
Operating expenses ¹	(3,619)	(3,966)	(4,279)	+8%
Underwriting result	1,199	1,053	206	-80%
Net investment income ²	647	339	1,087	221%
Foreign exchange gains/(losses) ³	(99)	(85)	301	-
Other expenses	(95)	(113)	(133)	+18%
Profit before tax	1,652	1,194	1,461	+22%
Return on capital (pre-tax)	16.3%	10.7%	11.7%	
Combined ratio	87.4%	89.5%	98.0	

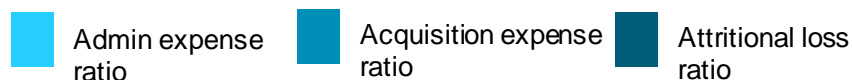
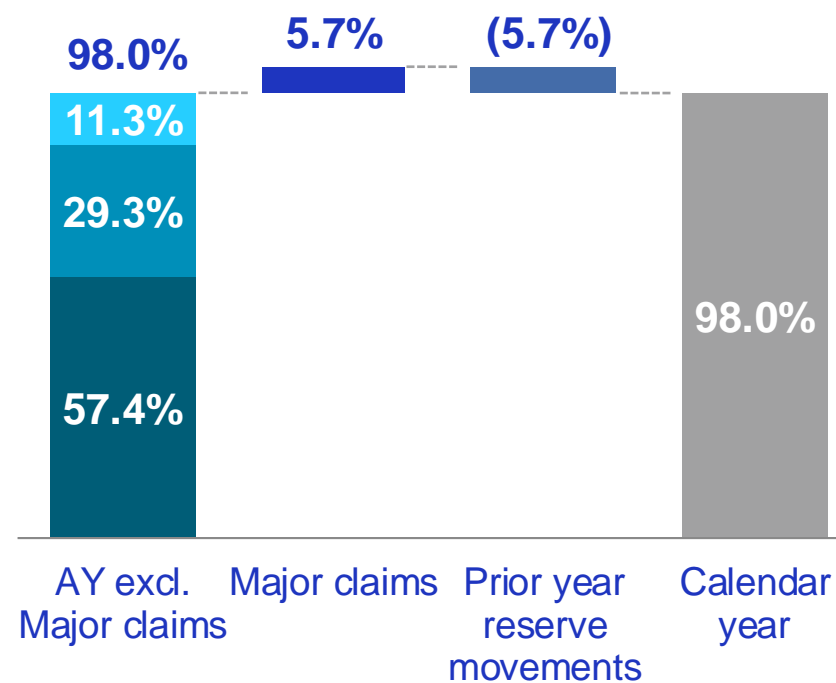
Source: Lloyd's pro forma financial statements, 30 June 2016, ¹Technical account, ²Return on syndicates' assets, members' funds at Lloyd's and central assets, ³Non-technical account, includes foreign exchange gains or losses.

Deterioration in accident year result with major claims costs offset by prior year releases

H1 2015 Combined ratio %



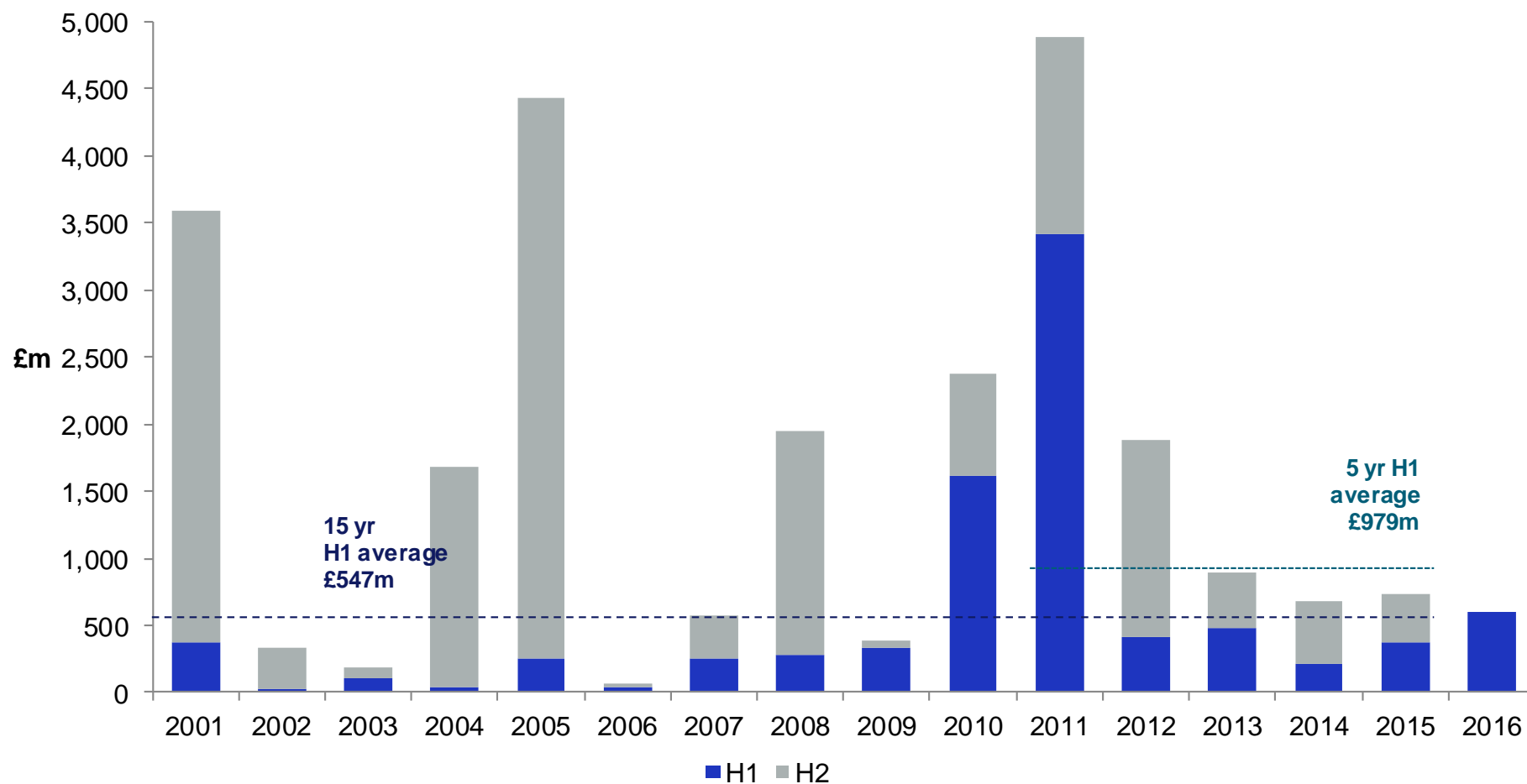
H1 2016 Combined ratio %



Source: Lloyd's pro forma financial statements, 30 June 2016, AY: accident year, Premium refers to net earned premium.

Impact of major losses in first half of 2016 higher than previous years other than the exceptional 2010/11

Lloyd's major claims: net ultimate claims

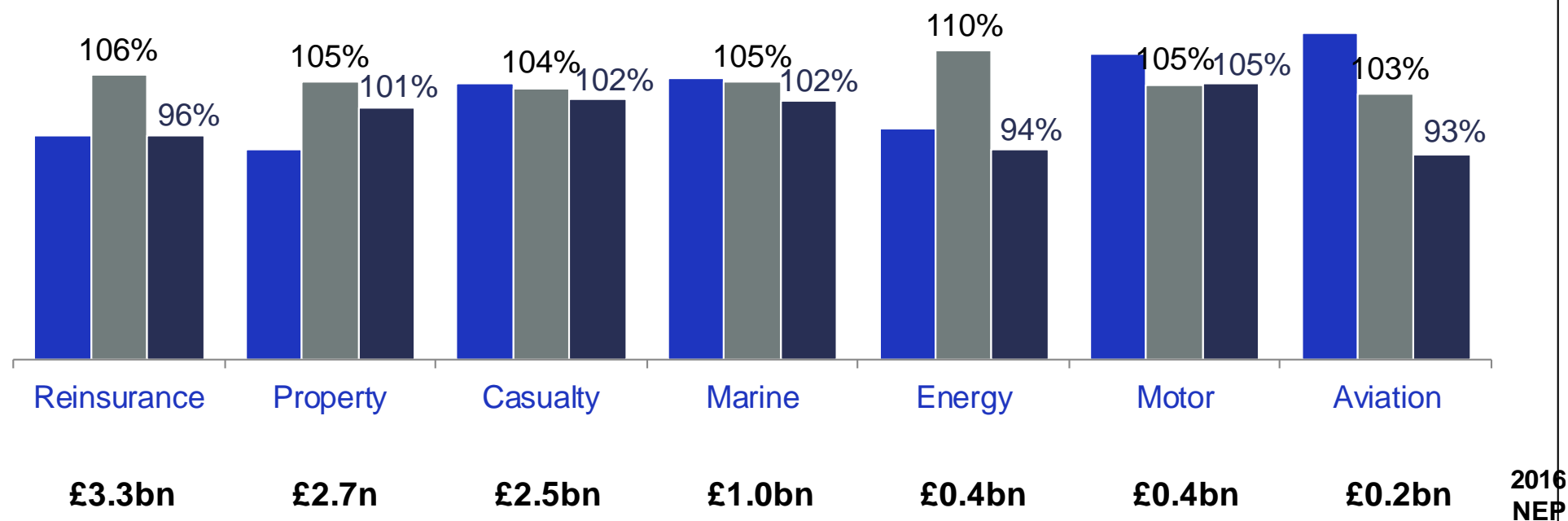


Indexed to June 2016. Claims in other currencies translated at the exchange rate prevailing at the date of loss. Excl 2016 15 year H1 average £547m.; 5 year H1 average £979m

Accident year ratios remain under pressure

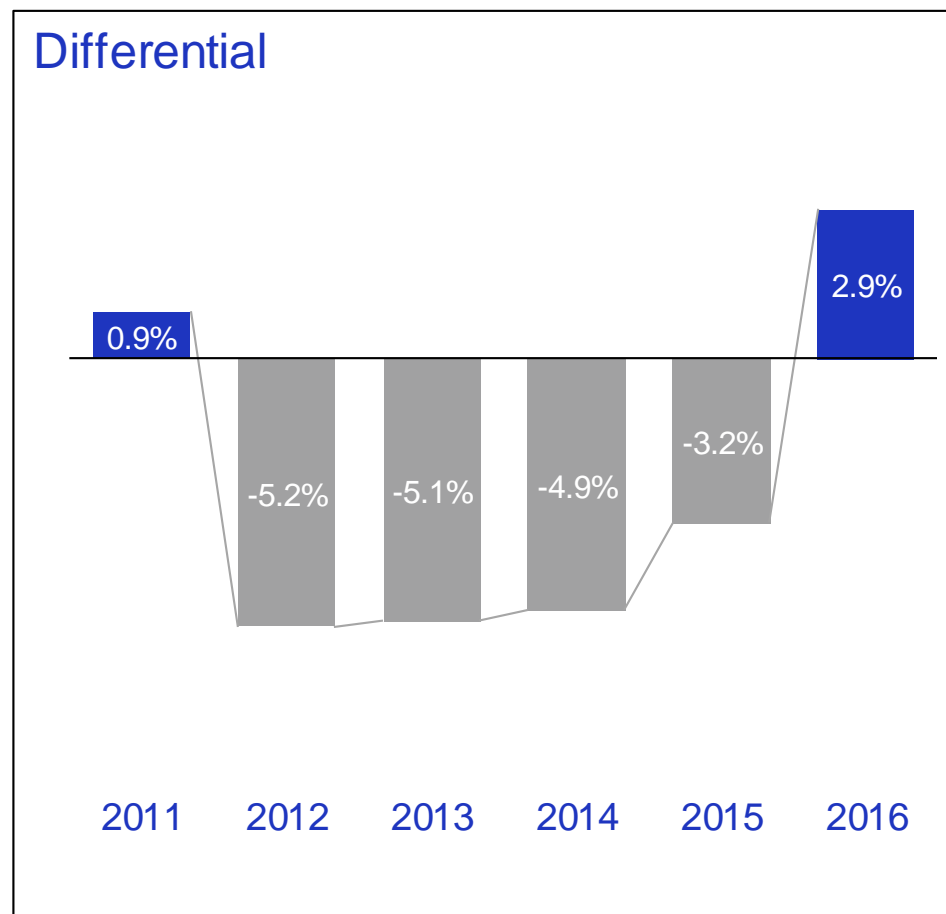
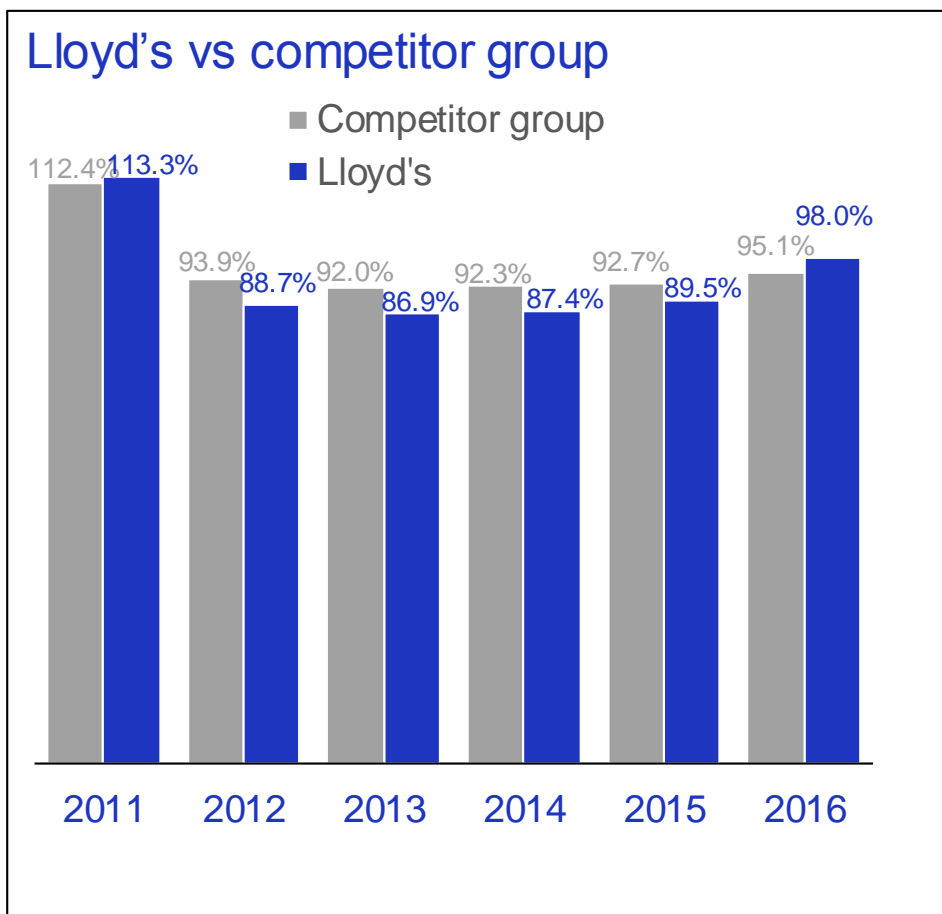
Combined ratios by class of business

- AY 15 incl. major claims
- AY 16 incl. major claims
- CY 16 post prior year releases



Source: Lloyd's pro forma financial statements, 30 June 2016, NEP: net earned premium, AY: accident year., CY: calendar year.

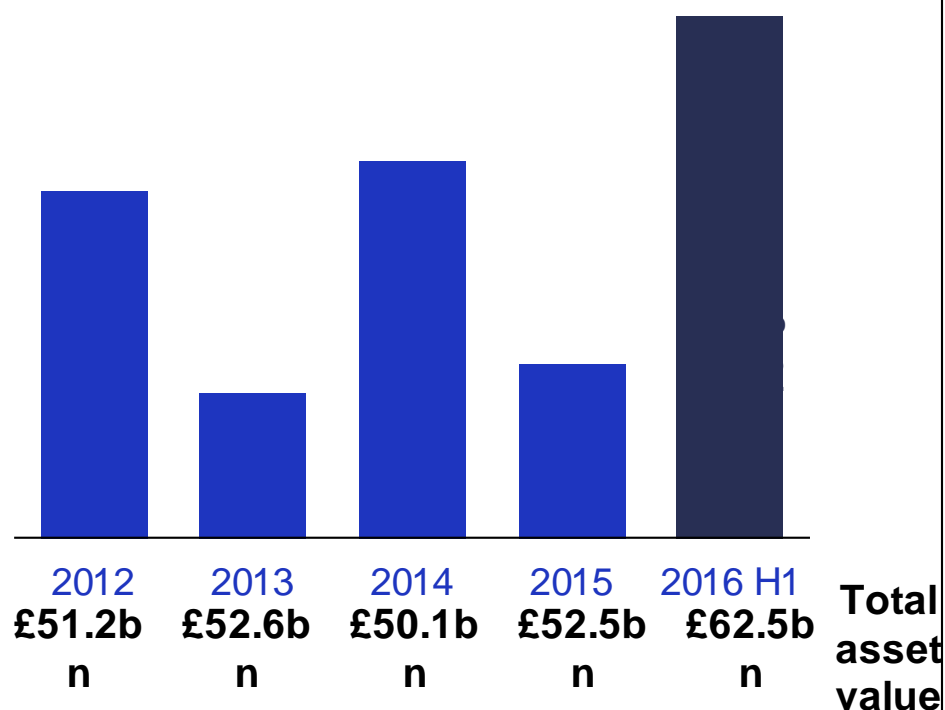
Rise in attritional loss and expenses push Lloyd's above its competitors for the first time since 2011



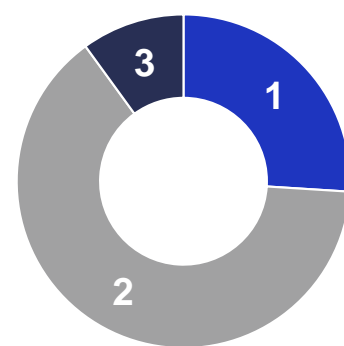
Competitor group comprises 11 companies operating in US, European & Bermudan markets: Ace, AIG, Arch, Everest Re, Hannover Re, Mapfre, Munich Re, Partner Re, SCOR, Swiss Re & XL

Mark to market gains from falling bond yields led to increased investment return

Investment return¹: H1 results



Investment disposition



1 Cash & equivalent	26%
2 Investment grade bonds	64%
3 Equity & risk assets	10%

- **Cash & equivalent:** includes letters of credit;
- **Investment grade bonds:** includes debt issued by sovereign, supranational, agency and corporate entities rated BBB or better;
- **Equity & risk assets:** includes all other exposures

Source: Lloyd's pro forma financial statements, 30 June 2016, ¹Return on syndicates' assets, members' funds at Lloyd's and central assets, central assets are the gross invested assets of the Society, stated on IFRS basis.

Strong capital base with net resources increasing to c.£27bn

Balance sheet				
£m	June 2015	Dec 2015	June 2016	Change since Dec 2015
Cash and investments	52,537	56,900	62,529	+10%
Reinsurers' share of unearned premiums	3,264	2,368	3,792	+60%
Reinsurers' share of claims outstanding	8,676	8,610	10,413	+21%
Other assets	17,586	15,751	20,931	+33%
Total assets	82,063	83,629	97,665	+17%
Gross unearned premiums	(15,258)	(13,723)	(17,957)	+31%
Gross claims outstanding	(37,258)	(38,833)	(44,069)	+13%
Other liabilities	(6,703)	(5,975)	(9,022)	+51%
Net resources	22,844	25,098	26,617	+6%
Member assets	20,189	22,453	23,872	+6%
Central assets ¹	2,655	2,645	2,745	+4%

Source: Lloyd's pro forma financial statements, 30 June 2016 , ¹Central assets are the net assets of the Society including the Central Fund, excluding subordinated debt liabilities and the callable layer

Looking ahead

- Challenging underwriting conditions and pressure on premium rates remain
 - Maintaining Lloyd's position in the new post-Brexit landscape
 - Market modernisation will continue to be critical for Lloyd's
 - Corporation processes are being reviewed to make it as efficient as possible and better able to deliver Vision 2025
-

Some Updates, Results and Reminders

Subheading
01/01/2016

Brexit: Work is under way

Lloyd's are:

- Engaging with the UK government at all levels to push for similar passporting arrangements
- Entering into discussions with regulators across the continent
- Maintaining a dialogue with the market, industry, coverholders and customers
- Conducting further analysis of the EEA territories and their impact on Lloyd's

In the meantime...

Treasury Committee launches inquiry into EU Insurance Regulation



13 September 2016

The Treasury Committee has agreed the terms of reference for its inquiry into Solvency II, a harmonised EU-wide insurance regulatory scheme.

- Inquiry: EU Insurance Regulation
- Terms of Reference: EU Insurance Regulation
- Treasury Committee

Chair's comments

Commenting on the inquiry, Rt Hon Andrew Tyrie MP, Chairman of the Treasury Committee, said:

"Brexit provides an opportunity for the UK to assume greater control of insurance regulation.

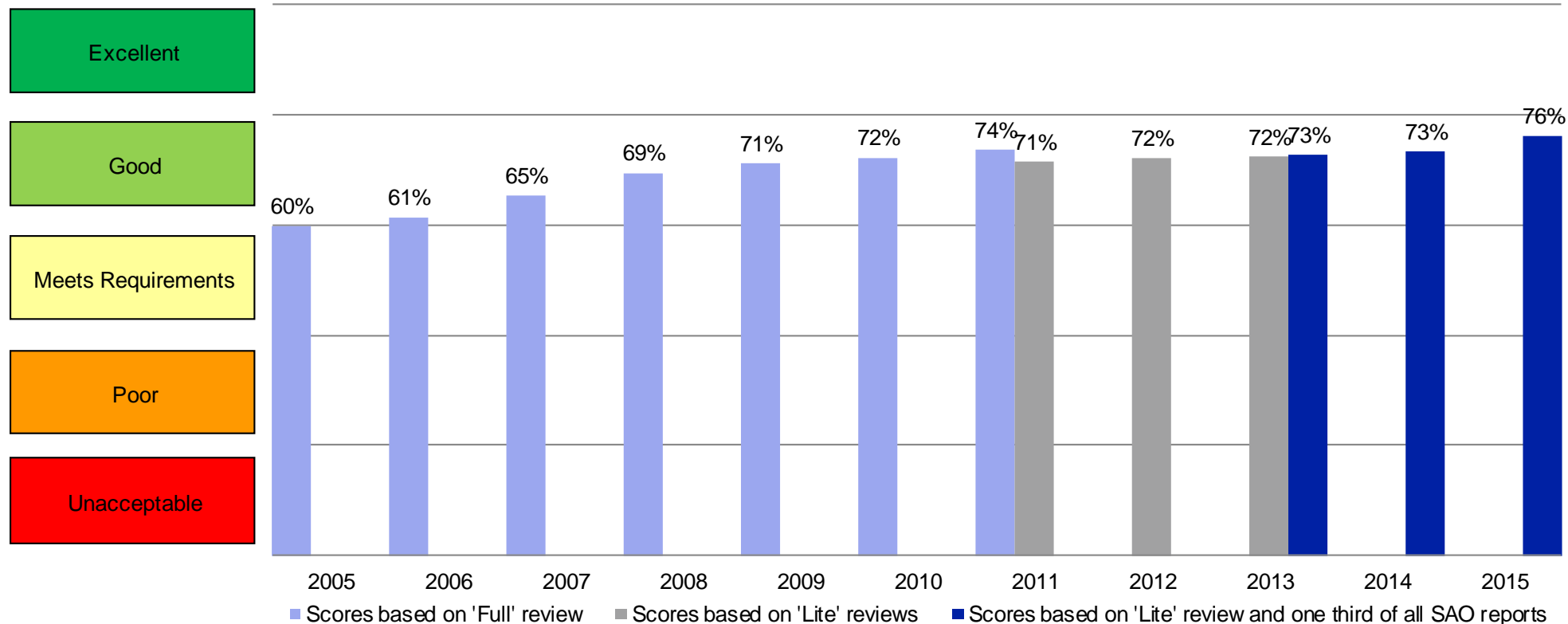
The Solvency II Directive came into force in January, only after a heap of concerns had been expressed about it. Among its manifest shortcomings was the failure to secure value for money over its implementation.

The Treasury Committee will now take a look at the Brexit inheritance on insurance to see what improvements can be made in the interests of the consumer."

SAOs – 2015 year-end

Start in the usual place...

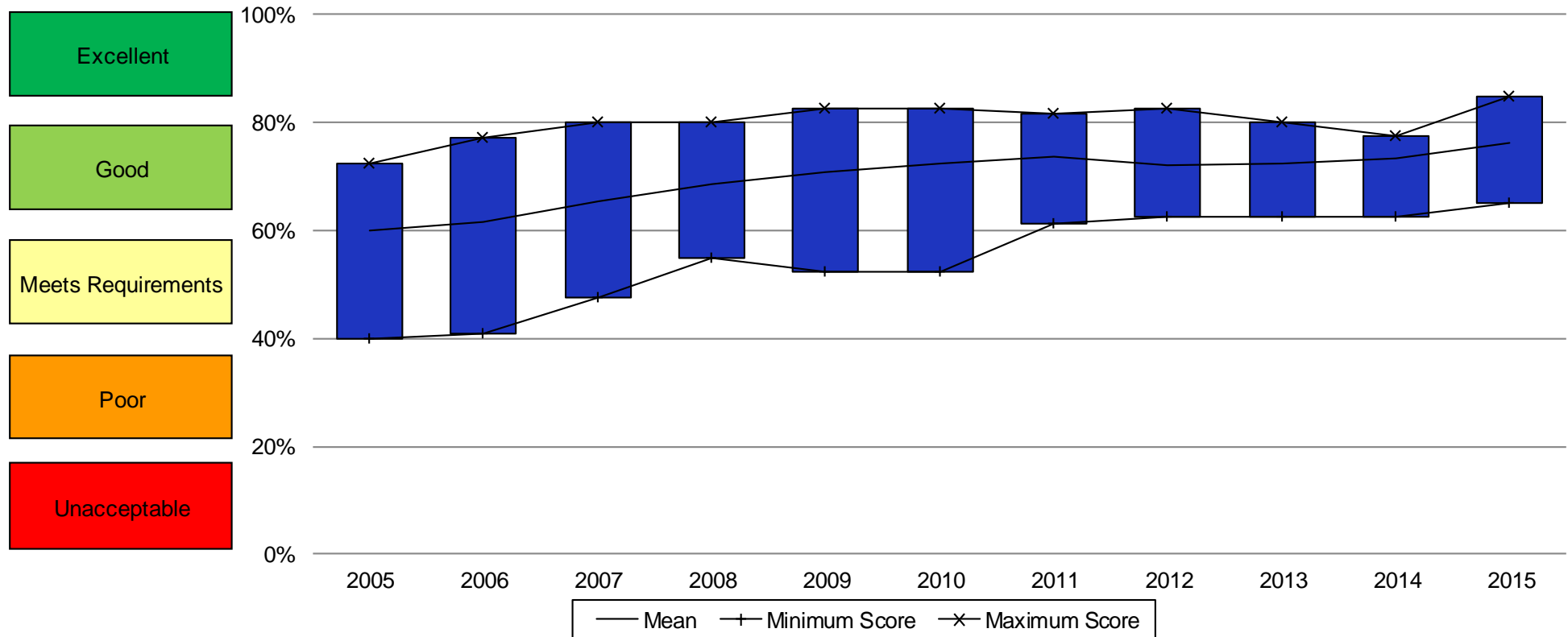
OVERALL PERFORMANCE FOR ALL PRODUCERS BY YEAR-END



SAOs – 2015 year-end

Average and range increasing in score

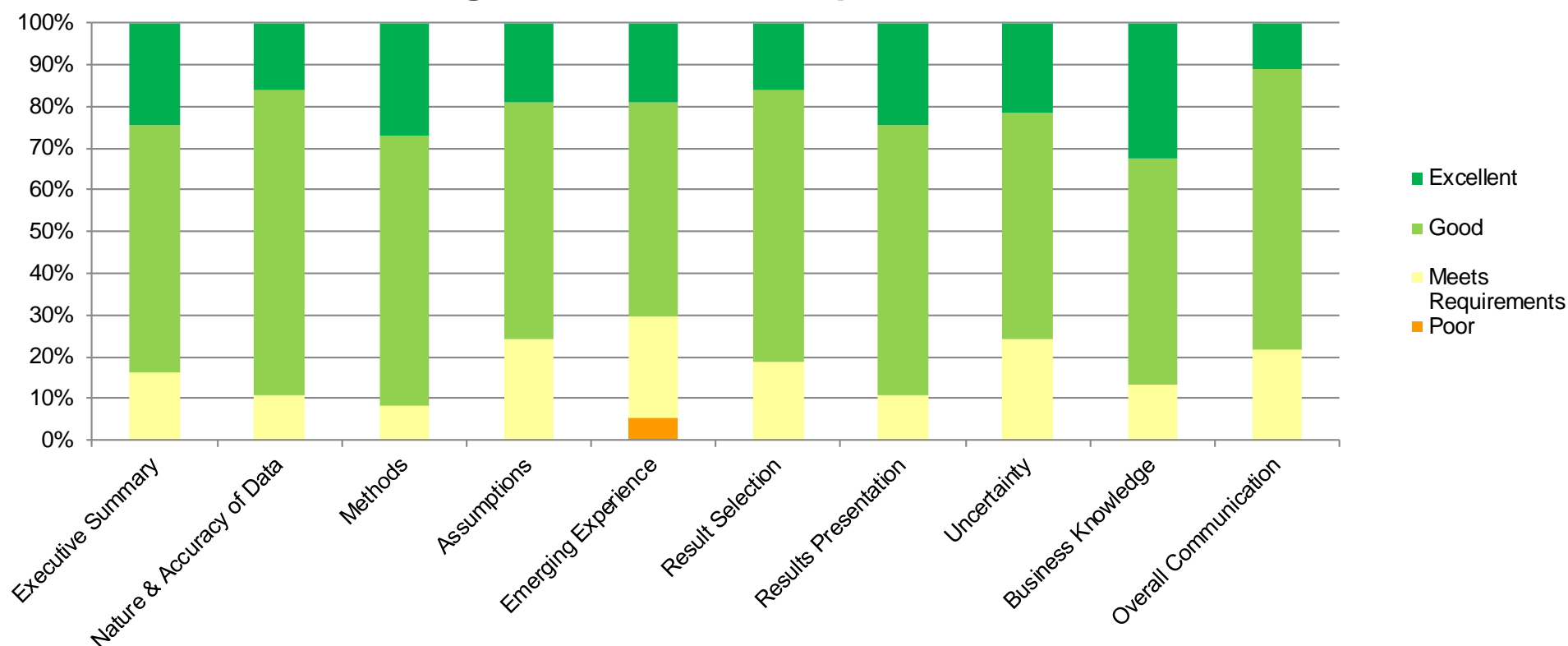
RANGE OF RESULTS FOR ALL PRODUCERS



SAOs – 2015 year-end

However...

Range of Results for all producers 2015YE



- More excellent scores than last year-end
- Poor scores will be addressed with the relevant signing actuaries

SAOs – Feedback, 2016 year-end and beyond

- Score is based on gradings questions
- Format of the feedback now focuses more on content
- Key points:
 - Certain content is required, include it
 - Some uncertainty is inherent, some is specific
 - Key assumptions should be highlighted, shouldn't have to dig
 - AvE analysis should be comprehensive, and linked to the current estimates
- 2016 year-end
 - Valuation basis as per 2015 year-end
 - Template to be submitted with SAOs
- And beyond
 - Basis of opinion under review
 - Intention to maintain focus on claims reserves



Standard Formula

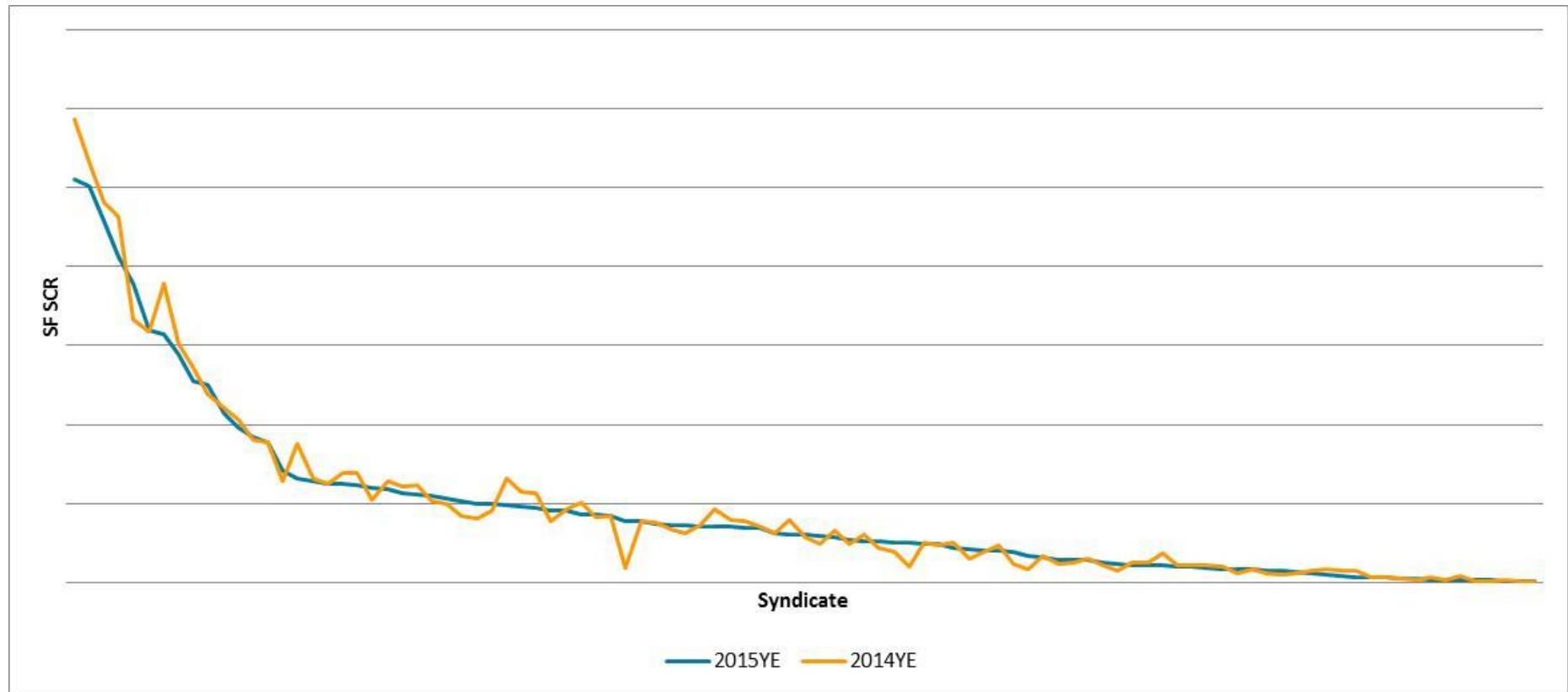
Timetable change

- 2016 year-end template being prepared
 - Publication later this month
- Prospective balance sheet
 - Should be consistent with the SCR
 - Incorporates the PRA IM firm SF reporting template (populated automatically)
 - No other material changes to template
- Submission deadline 25th November
- 2015 year-end feedback coming soon...
 - Same pack for all agents
 - Benchmarks for consideration in ORSA



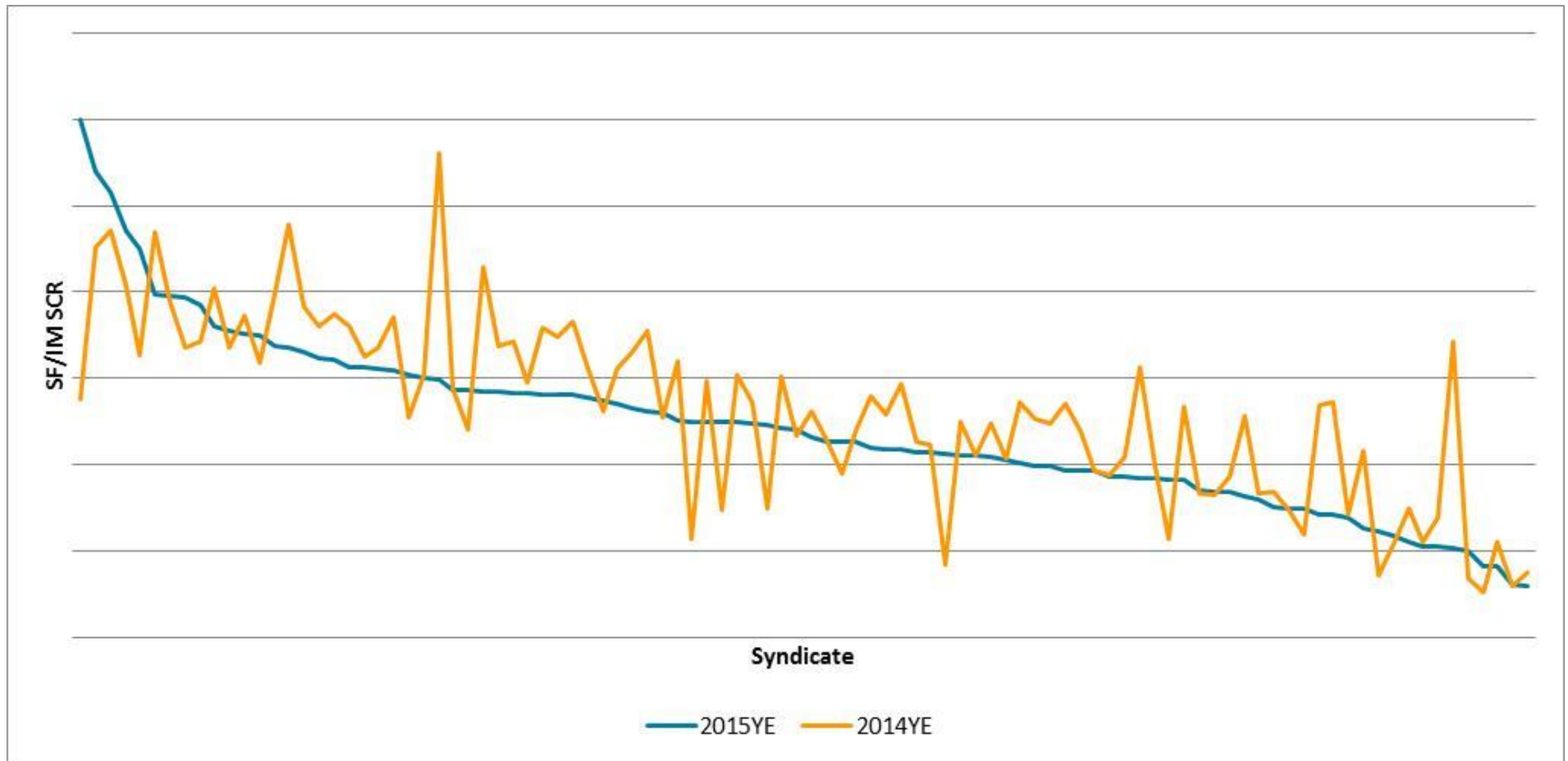
Standard Formula

Model drift measure



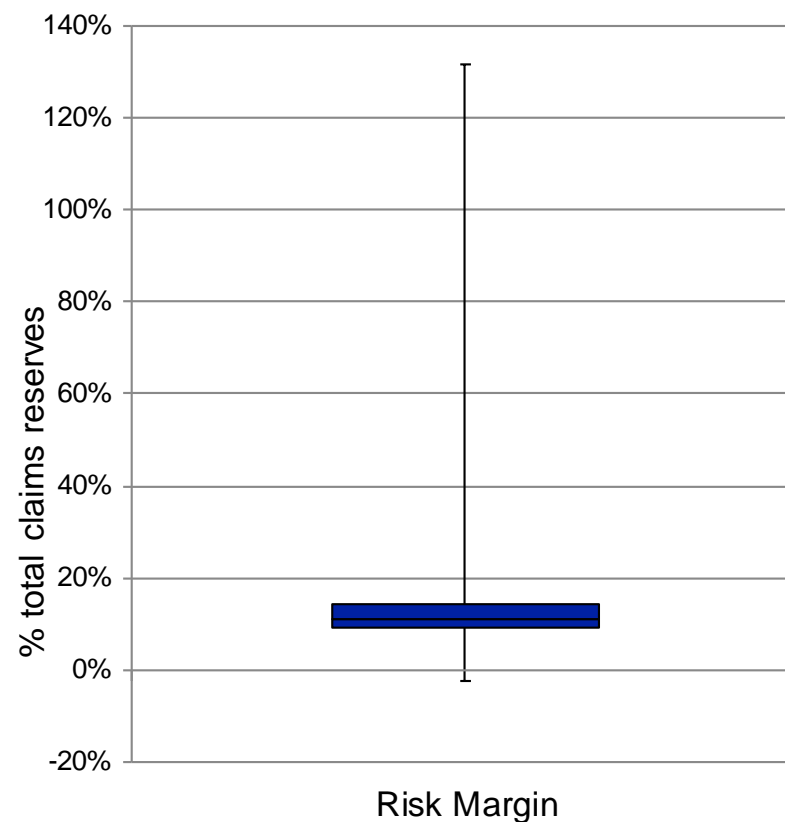
Standard Formula

Model drift measure



Technical Provisions

- **Contract boundaries**
 - Same adjusted basis as last year
 - Needs to be in models next year
 - Intention to continue with adjustment
- **QS Contracts**
 - Clarification in 2016Q2 QMC instructions
 - A QS contract is one of (re)insurance
 - No look-through
 - Includes SPAs (SPSs)
- **Risk margin**
 - Thematic review in Q4
 - Initial conclusion...



Capital



Capital Setting at Lloyd's

No July submission

- Positive feedback from the market

Risk based reviews

- Level of detail will vary for different categories
- Peer review of every CPG paper
- CPG will delegate a sample of syndicates to MRC

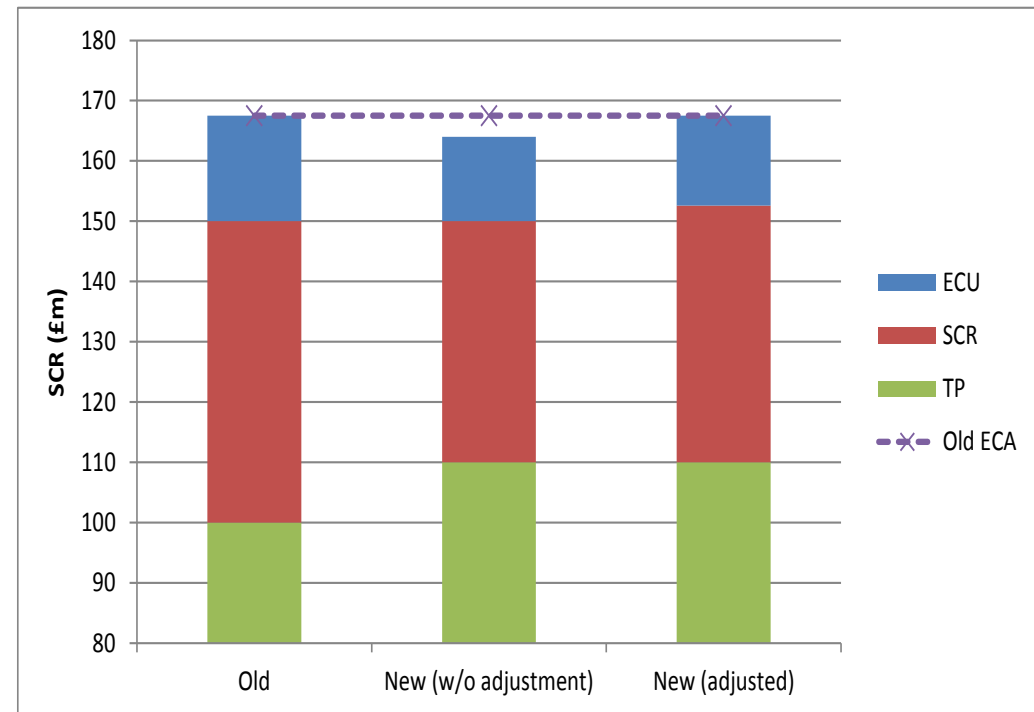
Areas of focus

- Reinsurance...more cover to counter soft market
- Reserve risk...deterioration and bad claims experience
- Reinsurance contract boundaries...lack of clarity
- Cyber...emerging risks
- Uncertainties under current market conditions...effect of soft market
- LIM validation...SII compliance

Capital Setting at Lloyd's - RI Contract Boundaries

It's a Q2 adjustment!

It's a Q4 adjustment!

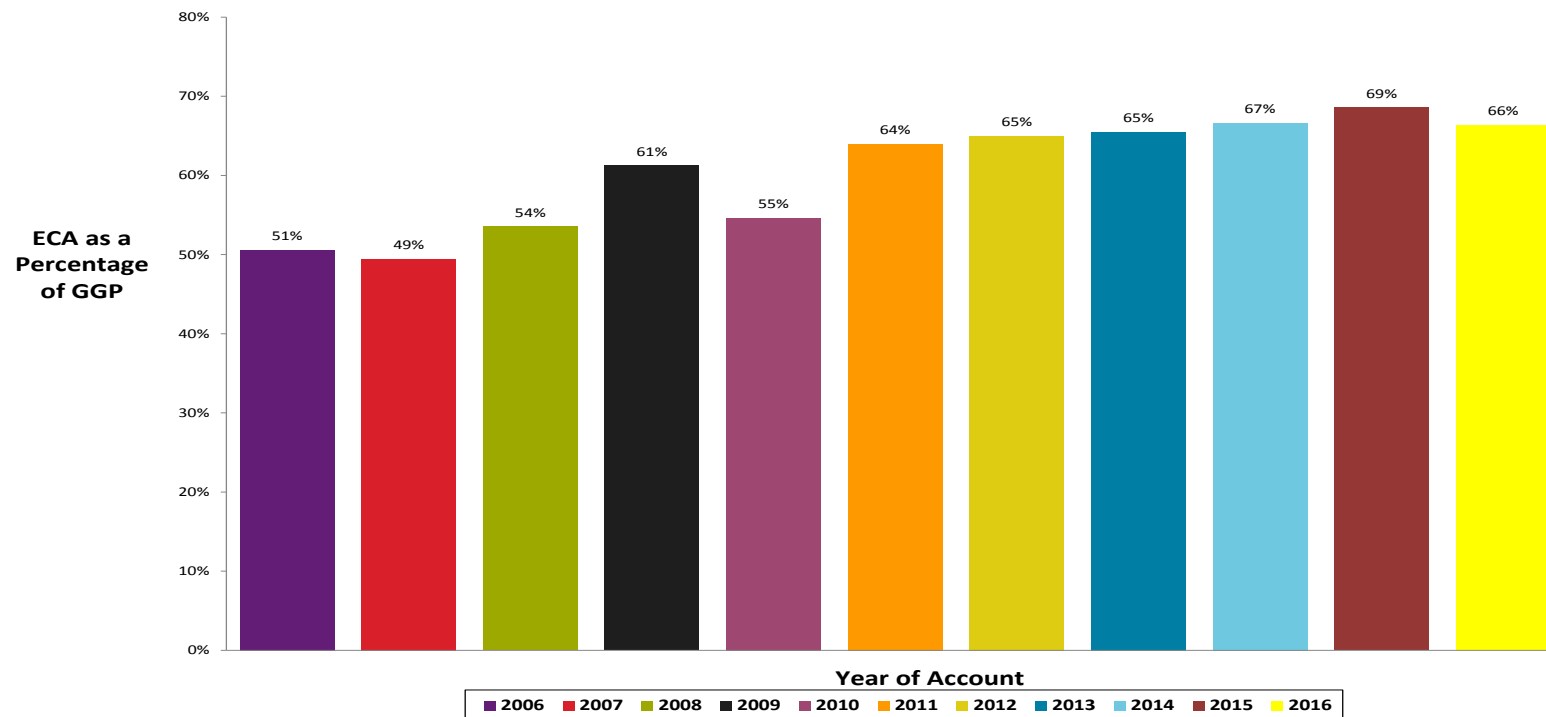


No, wait...it's BOTH Q2 and Q4!

Capital Setting at Lloyd's – RI Contract Boundaries

...Difficult to explain movements and concept to different stakeholders

Economic Capital Assessment vs Gross Premium



Notes:

For Active Syndicates ONLY

GPP: Gross Written Premium net of Special Purpose Syndicate premium.

ECA: Excludes the reserve margin credits allowed in 2010/2011/2012.

2009 / 2015/ 2016 YOA: GPP & ECA is as at mid-year coming into line (CIL)

2016 YOA: Includes a proxy adjustment for risk margins, to take account of a change in basis as per updated PRA guidance.

Achievements in Validation



Improvements made in validation

1. A structured validation process has been implemented and assists model change
2. Model assumptions and methodologies have become more robust (and there is a deeper understanding of external models)
3. Validation results are communicated to the board, management and the wider organisation
4. Better and effective use of validation tools
5. Improved validation of one-year risks and expert judgement

...in other words, validation is being embedded across the market

Top 3 areas for improvement

1. The operation of the validation cycle needs to be clarified – what constitutes an unacceptable result, and what happens when one occurs?
2. Communication (including the Validation Report) should use risk-based as well as statistical language
3. Validation tools need to be applied in line with guidance and the purpose of the tests should be clarified explicitly

Don't do the bare minimum!

Capital Setting at Lloyd's – What's new for 2017?

Major model change

- Process improved in 2016...submissions at any time of the year
- It will be reviewed and refined for 2017

Review process

- Feedback will again be taken on board for further refinement

Validation and capital setting process

- Move towards a BAU process? Dependent on
 - The 2016 review process
 - Regulatory approval
- **Any other ideas?**

Casualty review

Market-wide issue

LLOYD'S



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

24 June 2015

Dear Sirs

Re: Reserve Adequacy

I am writing to you to make you aware of Lloyd's benchmarking and market level views on reserve levels, particularly for the more recent years of account in Casualty lines.

Chris Moulder
Director, General Insurance
Prudential Regulation Authority
T 020 3461 7885
chris.moulder@bankofengland.co.uk

4 December 2015

Dear CEO

Continued soft market conditions in the UK general insurance sector

Whilst the PRA and the industry prepares for the implementation of Solvency II on 1 January 2016, we are mindful that several sectors in the general insurance market are continuing to experience soft market conditions. Continued low interest rates and another year absent of significant natural catastrophes are increasing the competitive pressures in many areas. For instance, in several lines premium rates are continuing to fall, and extended terms and conditions are being accepted. There is also an abundance of (re)insurance capacity, which in part is driven by capital market structures that allow a wider range of investors easy access to specific insurable risks.

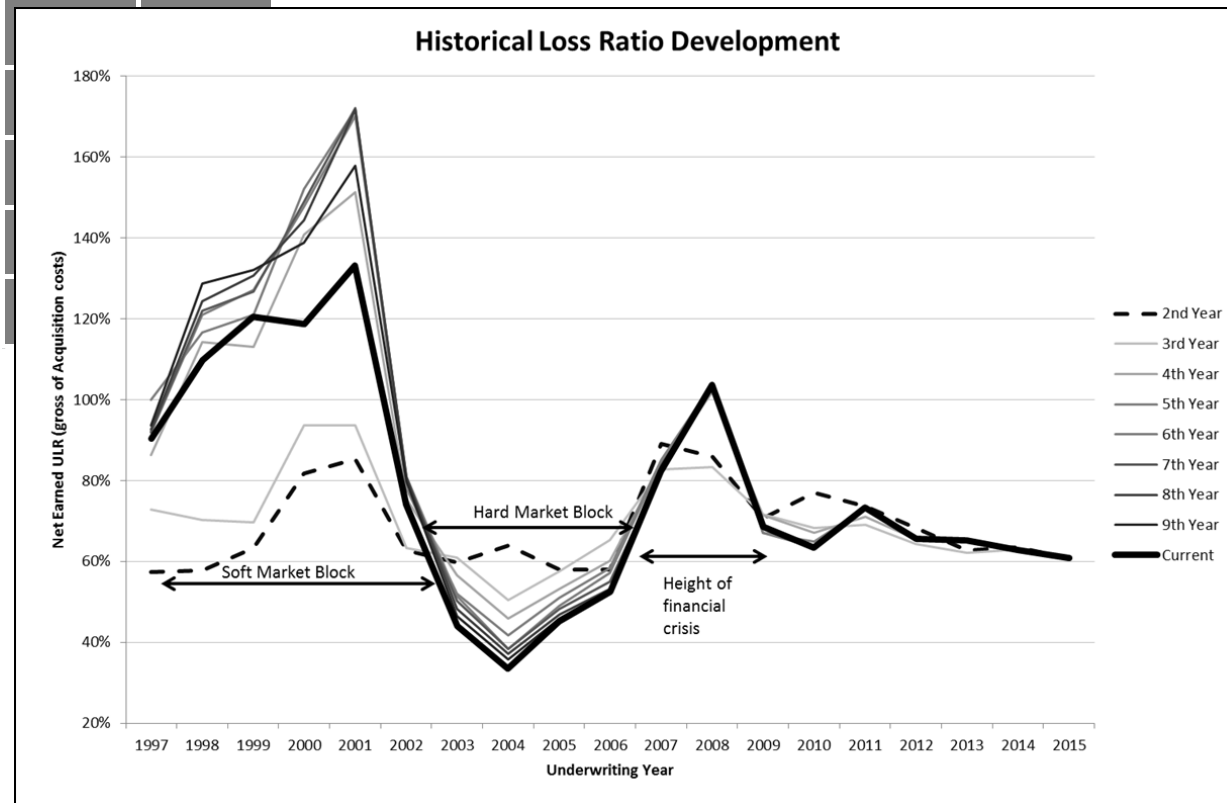
RISK ALERT General Insurance Reserving

KEY MESSAGE

Fluctuating market conditions, not just of Brexit, but also the underlying trend and pricing pressures, increase the risk that reserves are understated. General Insurance reserving actuaries should be aware of the cyclical nature of market conditions, the current position within this cycle and the need to take this into account when advising those making decisions on reserves.

And continues to be a concern at Lloyd's

Gross Earned ULRs	2009	2010	2011	2012	2013	2014	2015
At 12 months	6%	11%	5%	4%	2%	3%	0%
At 24 months	10%	8%	5%	5%	2%	5%	
At 36 months	7%	7%	5%	6%	5%		
At 48 months	9%	7%	7%	7%			
At 60 months	4%	6%	9%				
At 72 months	3%	7%					
At 84 months	5%						



Action being taken over Q3 (and onto Q4)

In line with the recent Business Plan actions announced, be more stringent on divergence in Casualty accounts from the market benchmark.

As part of the business planning process we have visited agents who write the following classes:

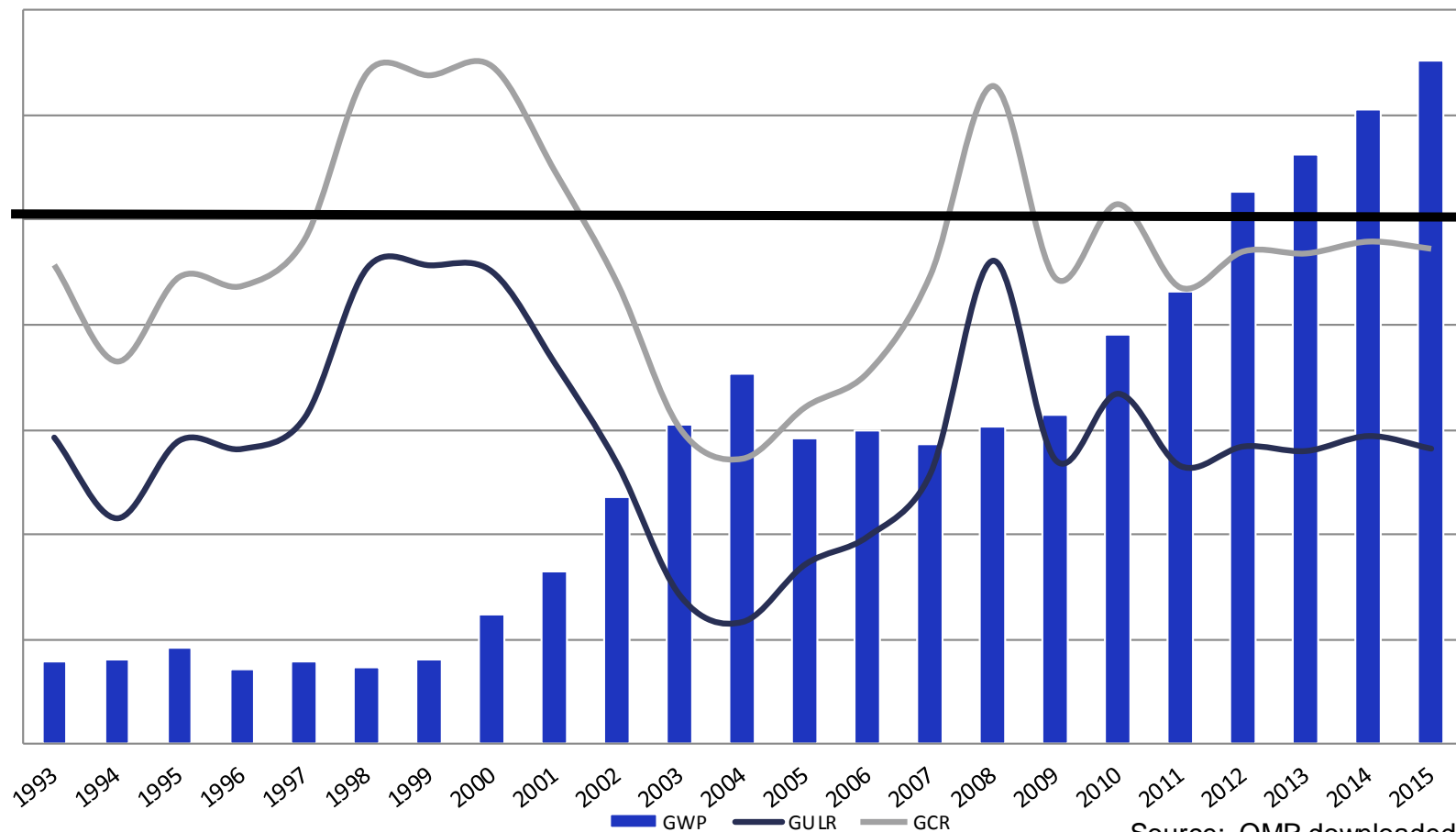
- NM General Liability (Non-US)
- Professional Indemnity (Non-US)
- (and other classes as required)

Actions to take as part of this review are currently under consideration, however:

- They are likely to be market rather than syndicate specific actions
- Mostly internal to Lloyd's rather than direct actions for the market

Combination of growth and experience triggered review

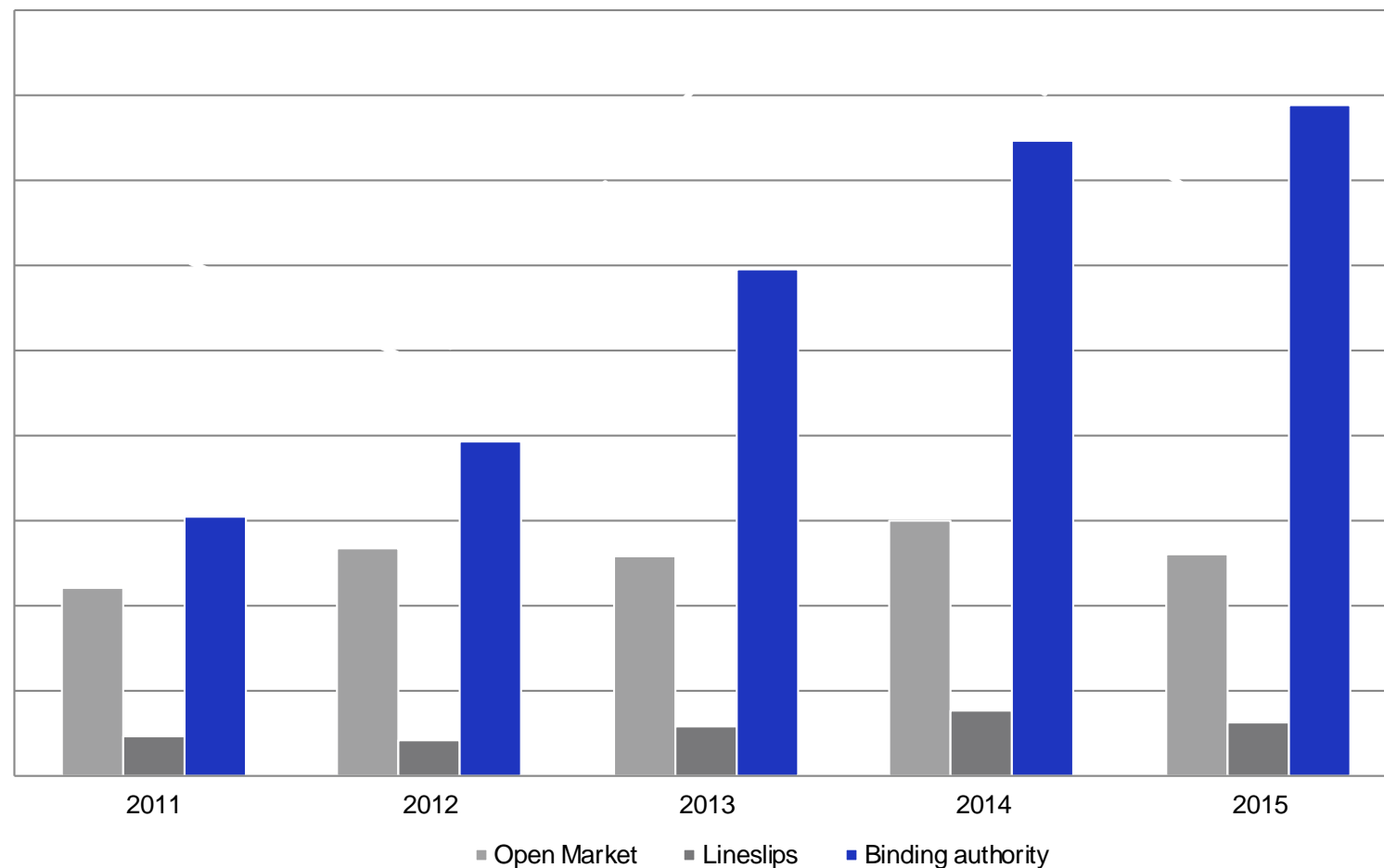
Class Overview



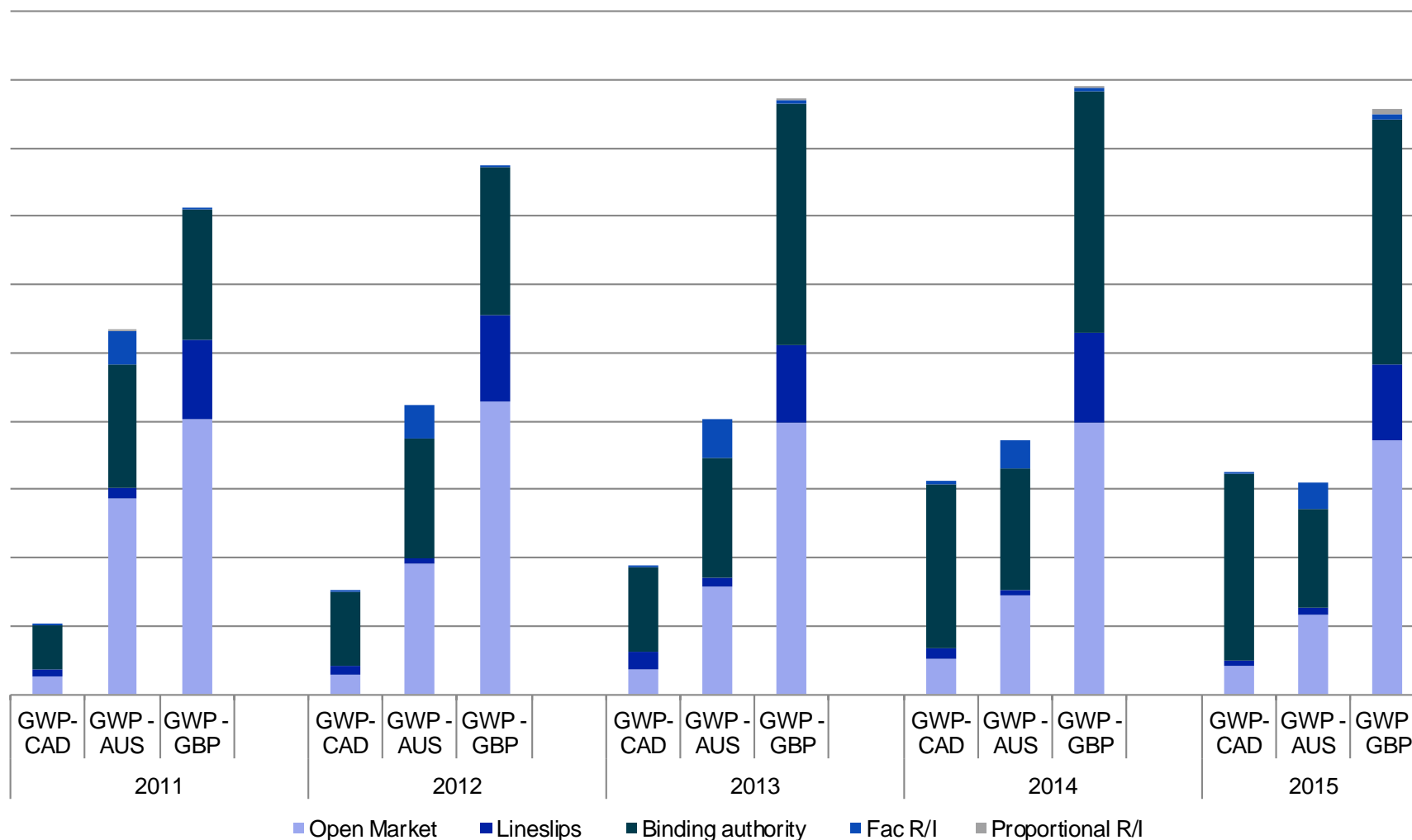
Source: QMR downloaded 5th May

Results of GL (non-US) review: By distribution channel

Distribution Channel GWP vs Ultimate Claims Ratio

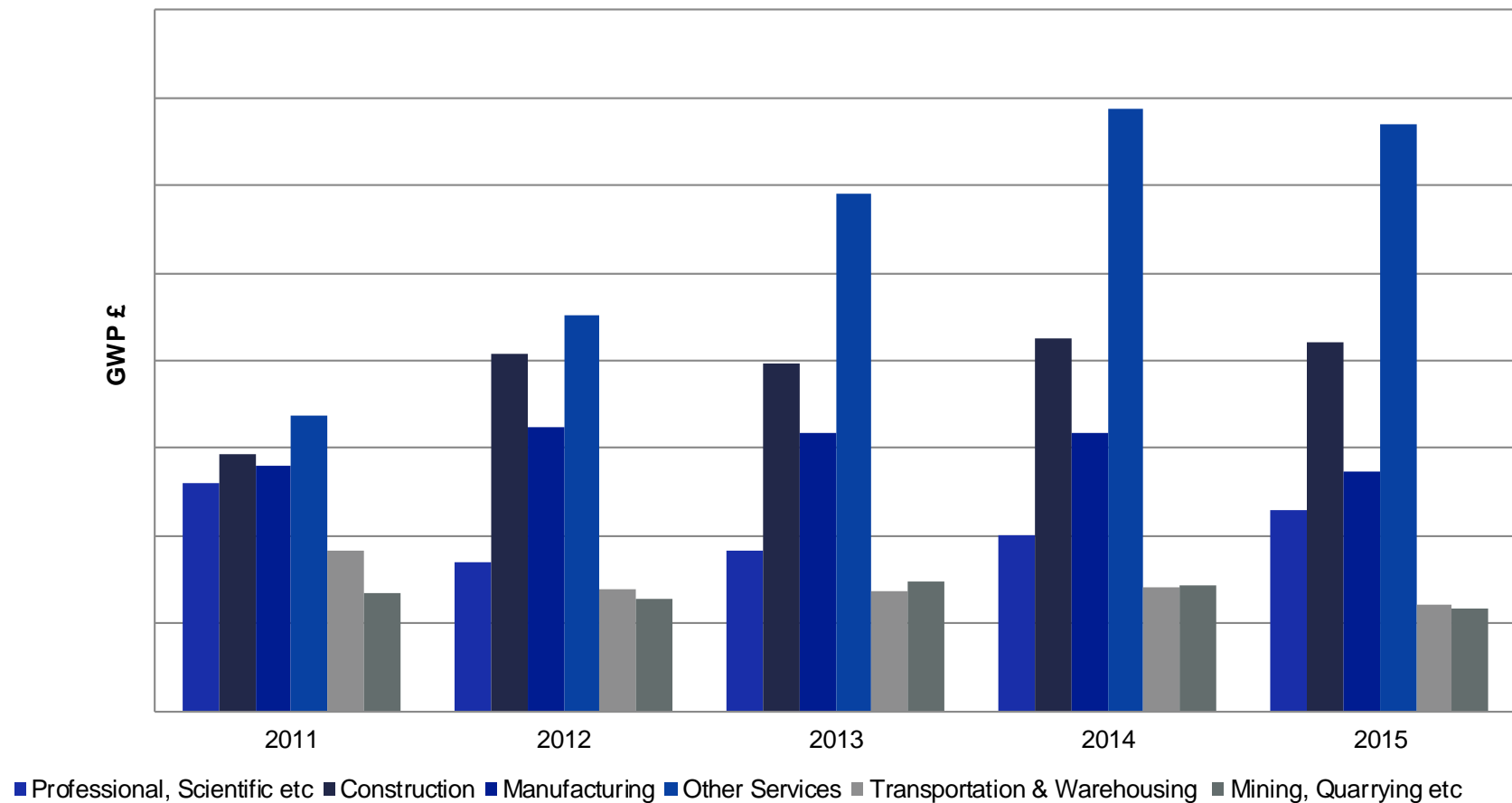


Results of GL (non-US) review: By territory



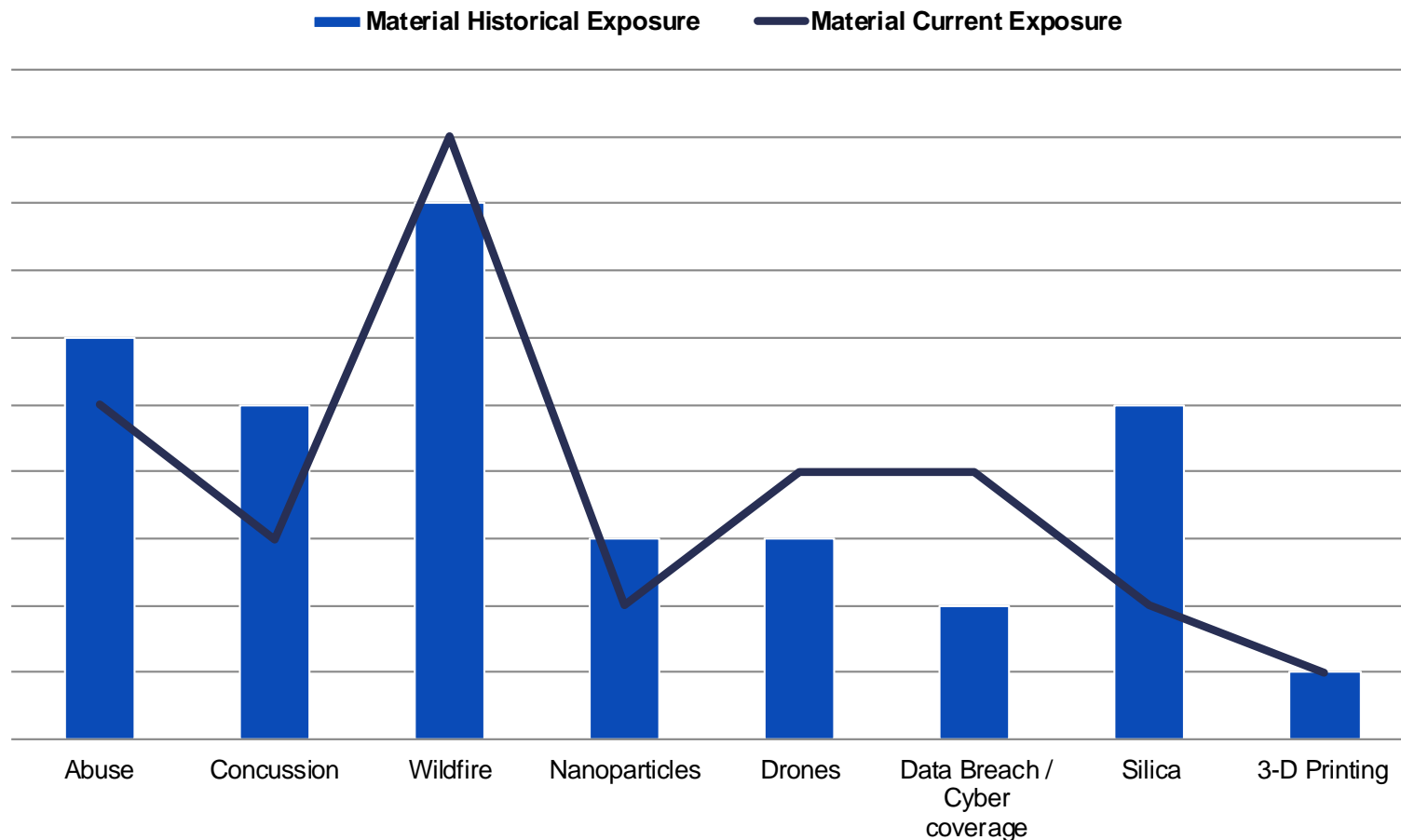
Results of GL (non-US) review: By trade

Total GWP for Trades



Results of GL (non-US) review: Emerging risks

Count of historical and current material exposure to emerging risks



Provisional Findings – market observations

Positives

- ✓ Not all gloom and doom!!
- ✓ Strict underwriter discipline
- ✓ Proactive steps to resolve poor performing business including pulling out of classes
- ✓ Realistic loss ratios constantly monitored
 - including allowance for rates/ claims inflation
- ✓ Actuarial input from the reserving team into business planning

Areas for development

- Churn
- Realism regarding potential exposures to risks – concussions/ abuse etc..
- Writing to gain a market share – or in the belief *‘it can be turned around’*
- Reserving team unable to explain trends/ high level results
- Use of business plan ULR *blindly* as the ULR

Provisional Findings – Lloyd's actions



Questions



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