



CURRENT ISSUES IN GENERAL INSURANCE: LLOYD'S UPDATE

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20 May 2014

AGENDA

- ▶ Year-end 2013 results
- ▶ Reserves
- ▶ Capital
- ▶ Capital Setting
- ▶ Solvency II
- ▶ Summary & Questions



YEAR-END 2013

RESULTS: KEY MESSAGES

- ▶ Outstanding profit of £3.2bn (2012: £2.8bn)
- ▶ Strong underwriting result driven by surplus on prior years' reserves and limited major claims
- ▶ Outperformed peers
- ▶ Limited premium growth
- ▶ Lower investment income reflecting low interest rate environment
- ▶ Strong and efficient capital delivering return of 16.2%



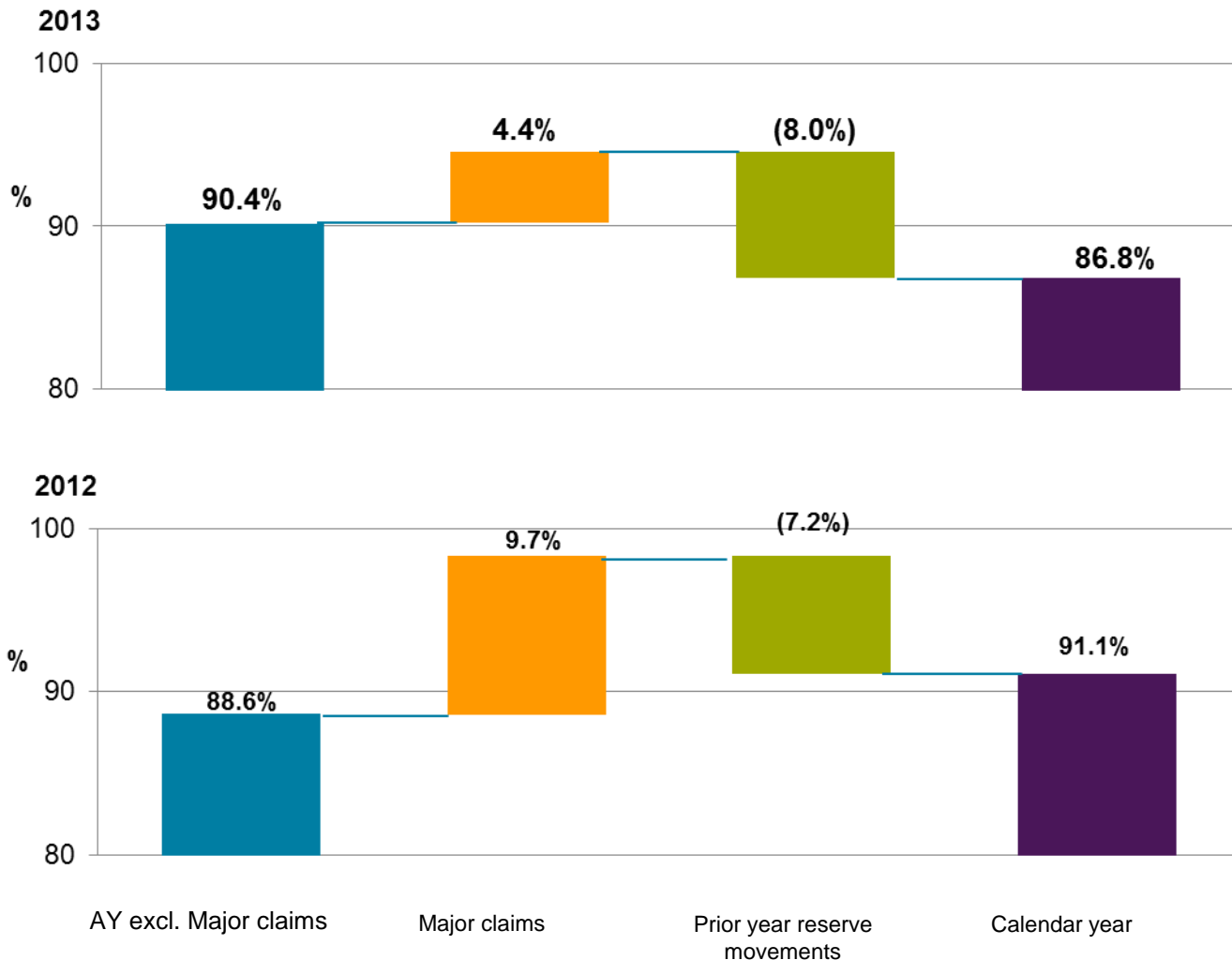
STRONG UNDERWRITING RESULT MODERATED BY LOW INVESTMENT RETURNS...

£m	2011	2012	2013	% Change
Gross written premium	23,477	25,500	26,106	2
Net earned premium	18,100	18,685	19,725	6
Net incurred claims	(12,900)	(10,098)	(9,581)	(5)
Net operating expenses ¹	(6,437)	(6,926)	(7,539)	9
Underwriting result	(1,237)	1,661	2,605	57
Investment return ²	955	1,311	839	(36)
Other income/expenses ³	(234)	(201)	(239)	19
Profit/(loss) before tax	(516)	2,771	3,205	16
Combined ratio%	106.8	91.1	86.8	

Source: Lloyd's pro forma financial statements, ¹ Technical account, ² Return on syndicates' assets, members' funds at Lloyd's and central assets, ³ Non-technical account

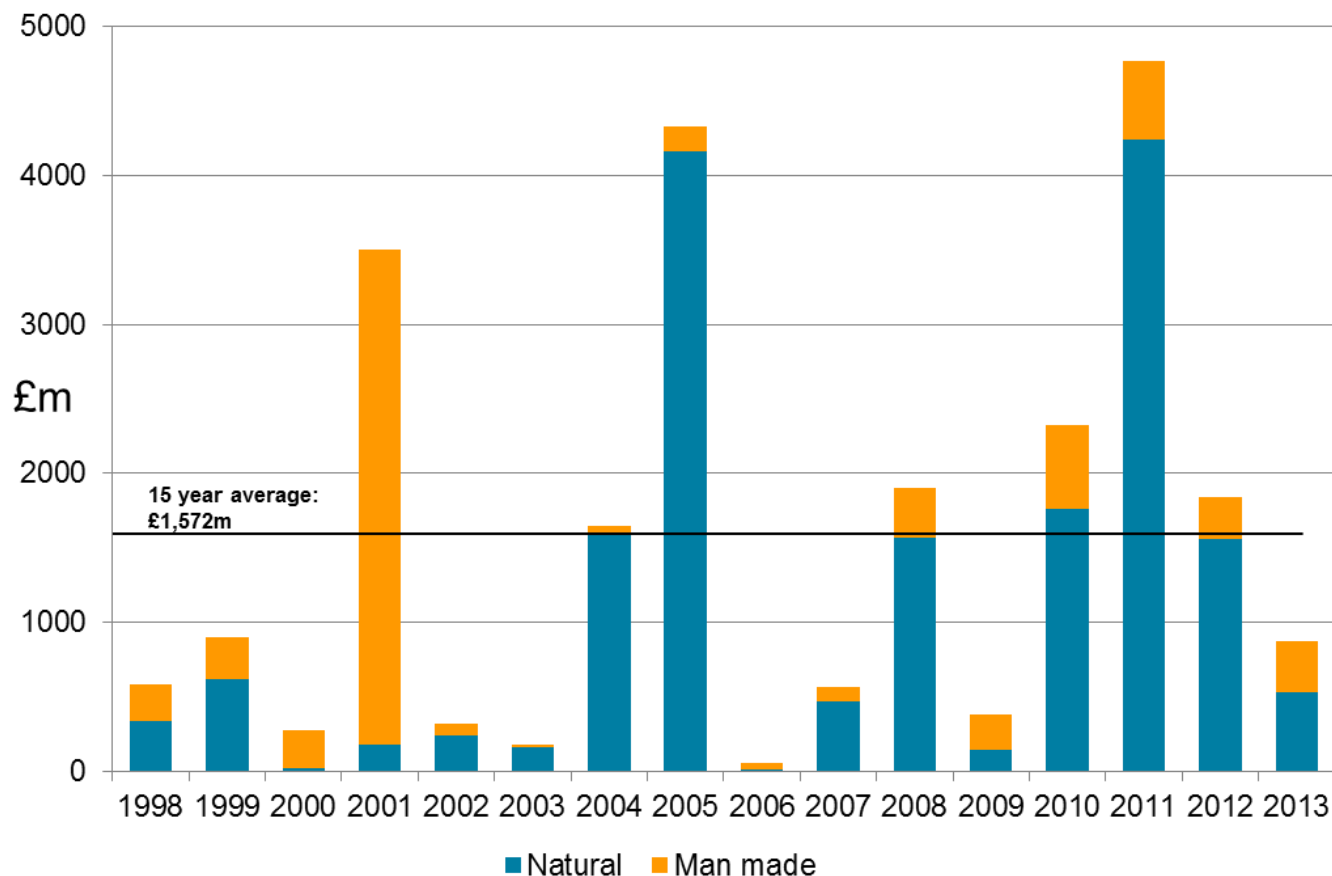
...DRIVEN BY LIMITED MAJOR CLAIMS AND FAVOURABLE PRIOR YEARS DEVELOPMENT

COMBINED RATIOS



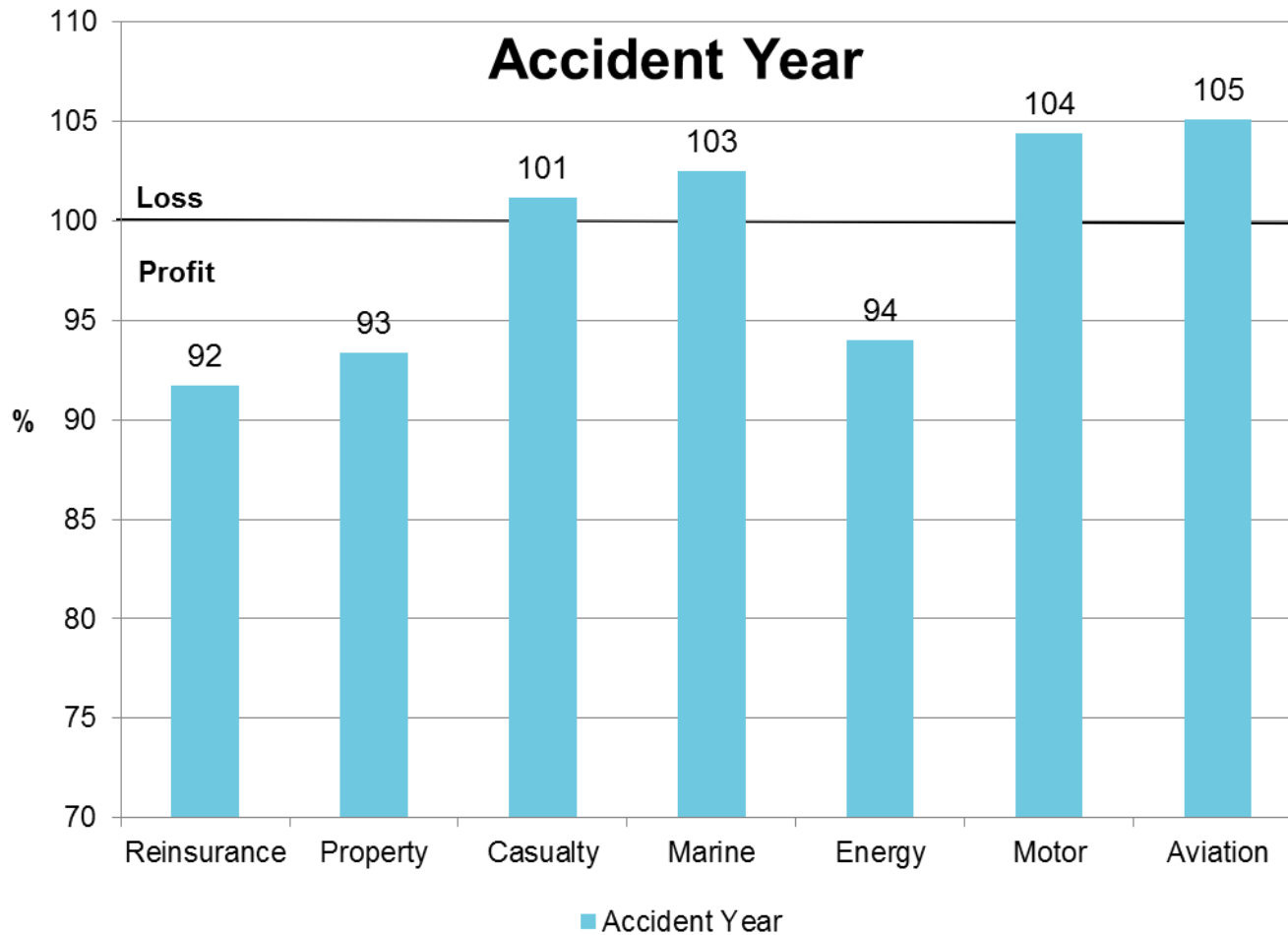
2013 MAJOR CLAIMS SIGNIFICANTLY BELOW LONG TERM AVERAGE

NET ULTIMATE CLAIMS



Source: Lloyd's pro forma basis. Indexed to December 2013
Claims in foreign currency translated at the exchange rate prevailing at the date of loss

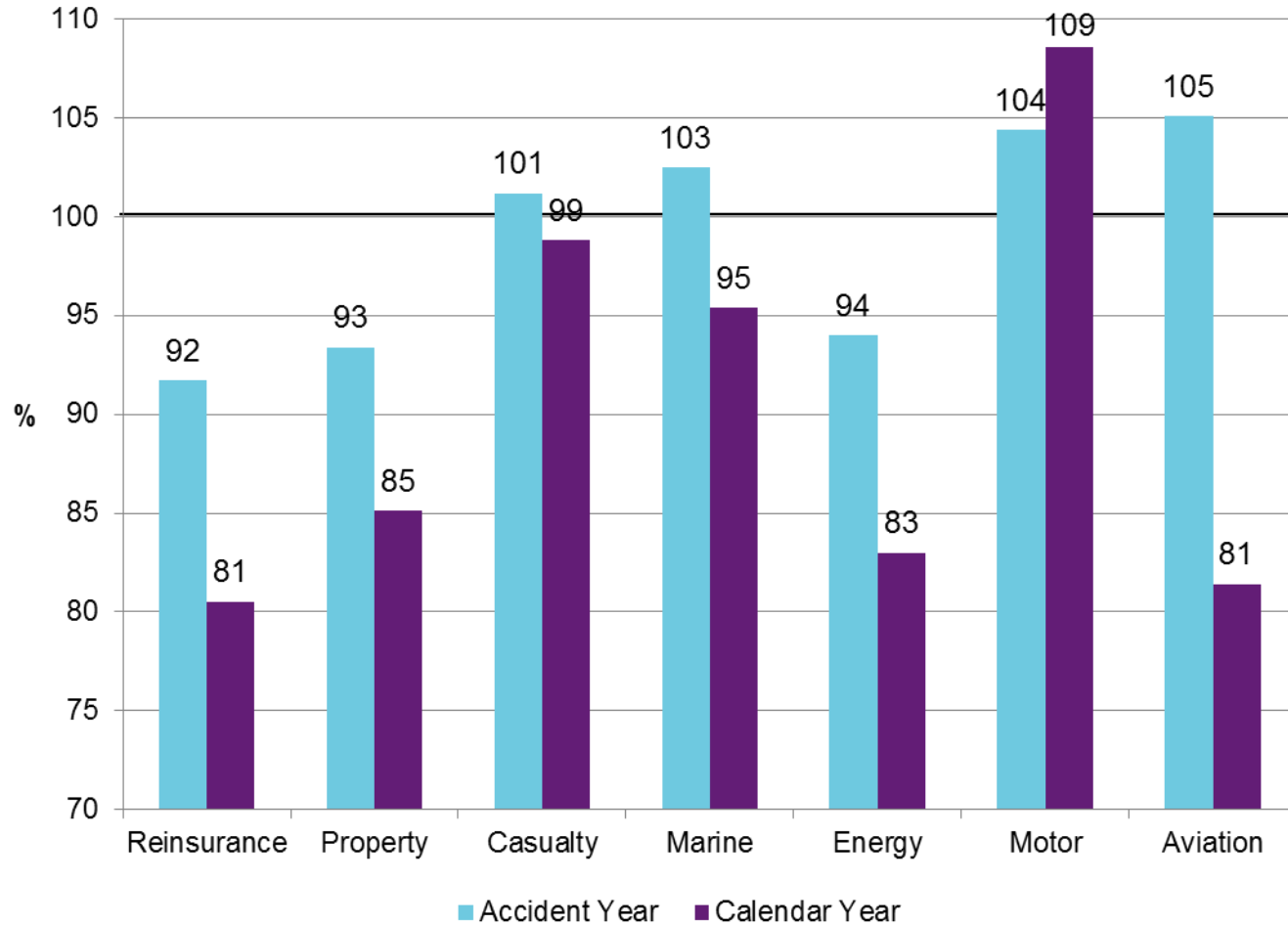
CURRENT YEAR PROFITS MAINLY FROM CATASTROPHE EXPOSED CLASSES...



NEP:	£6.8bn	£4.6bn	£3.8bn	£1.8bn	£1.2bn	£1bn	£0.5bn
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Source: Lloyd's pro forma basis at syndicate level, Dec 2013
 NEP: Net Earned Premium

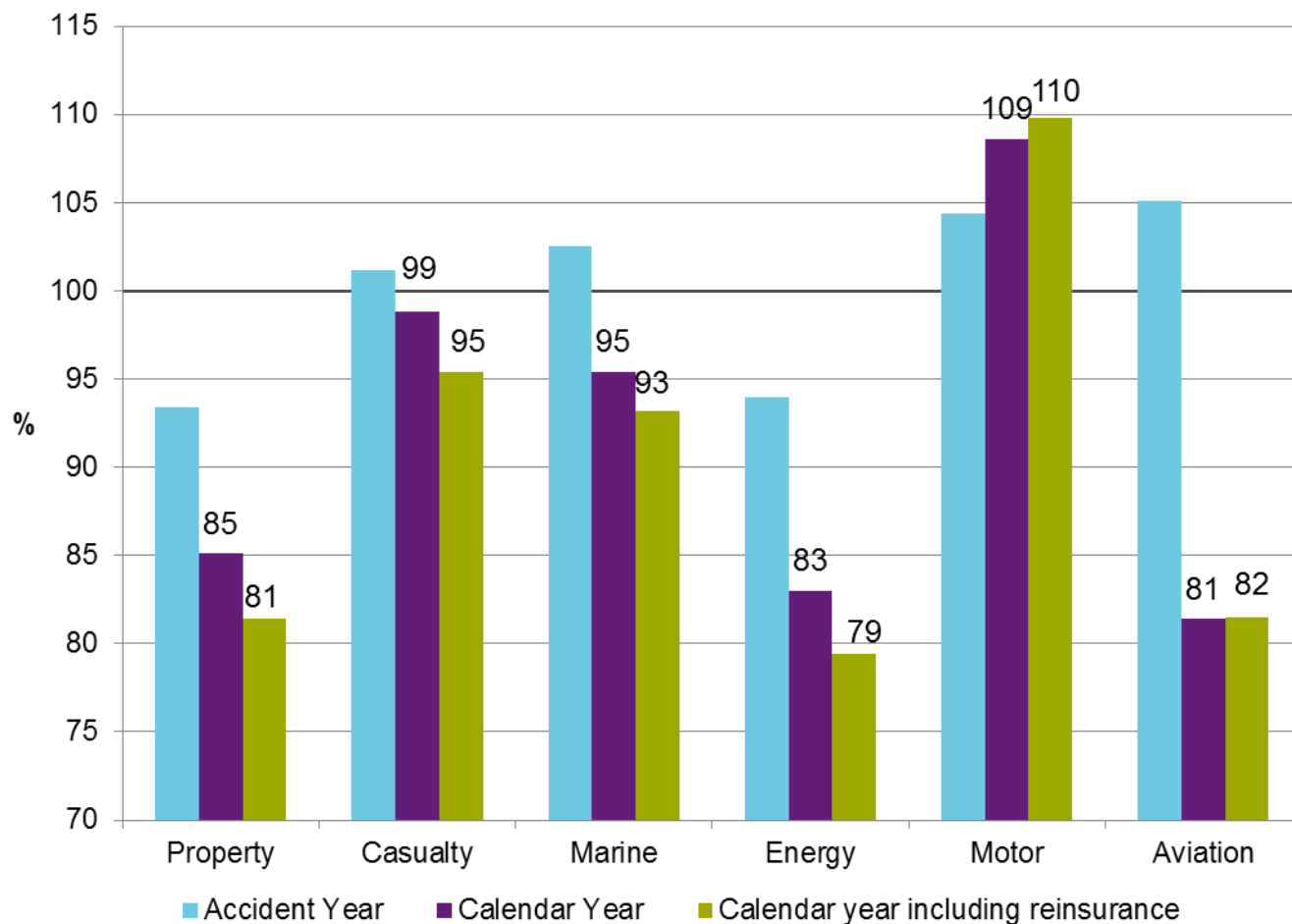
...WITH PRIOR YEARS RELEASES BRINGING ALL CLASSES EXCEPT MOTOR INTO OVERALL PROFIT...



NEP: £6.8bn £4.6bn £3.8bn £1.8bn £1.2bn £1bn £0.5bn

Source: Lloyd's pro forma basis at syndicate level, Dec 2013
NEP : Net Earned Premium

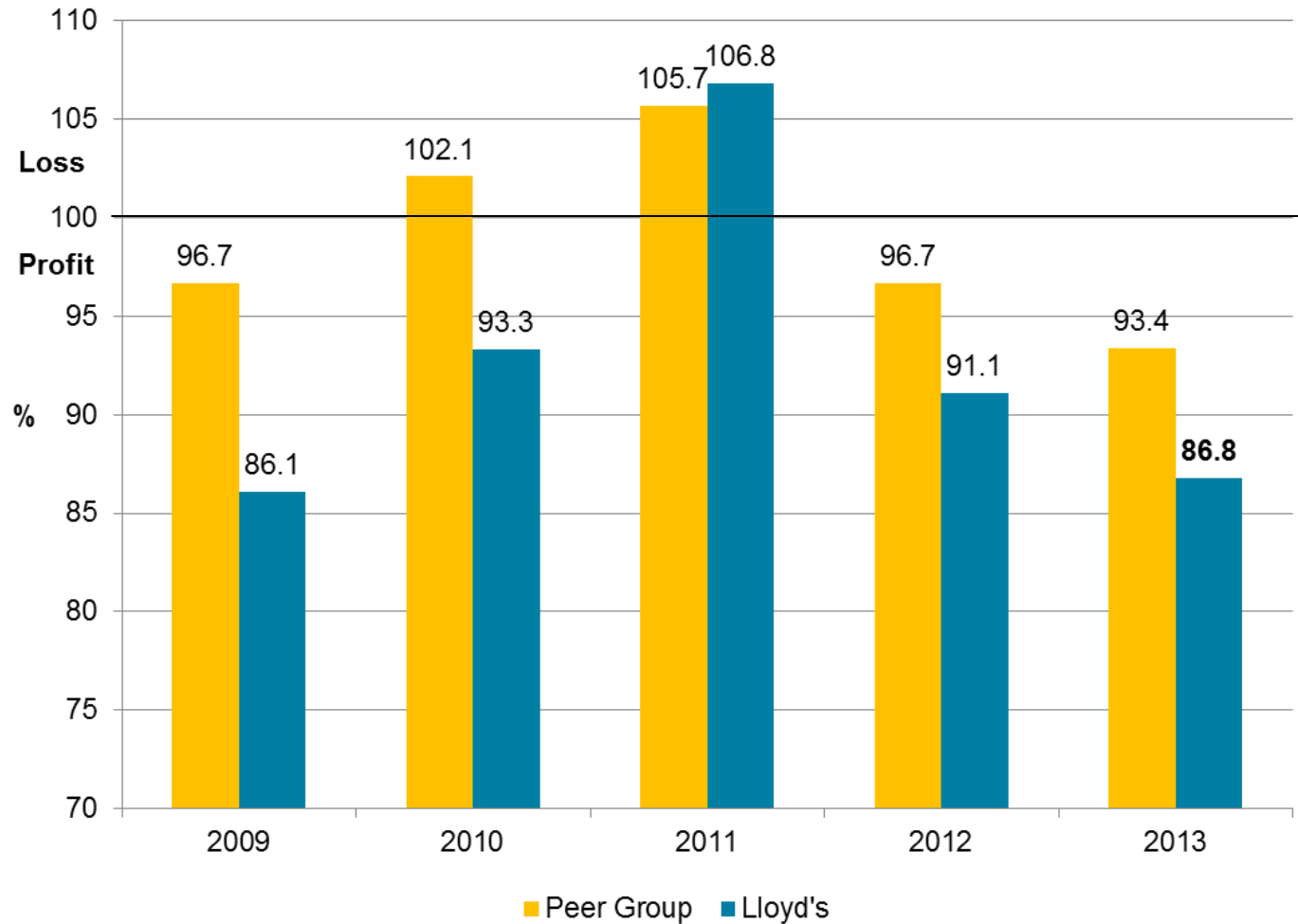
...WITH SIMILAR NET RESULTS AFTER REINSURANCE ANALYSED BY UNDERLYING CLASS



NEP:	£8.3bn	£5.1bn	£2.7bn	£1.7bn	£1.1bn	£0.8bn
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Source: Lloyd's pro forma basis at syndicate level, Dec 2013
NEP: Net Earned Premium

LLOYD'S OUTPERFORMS PEERS



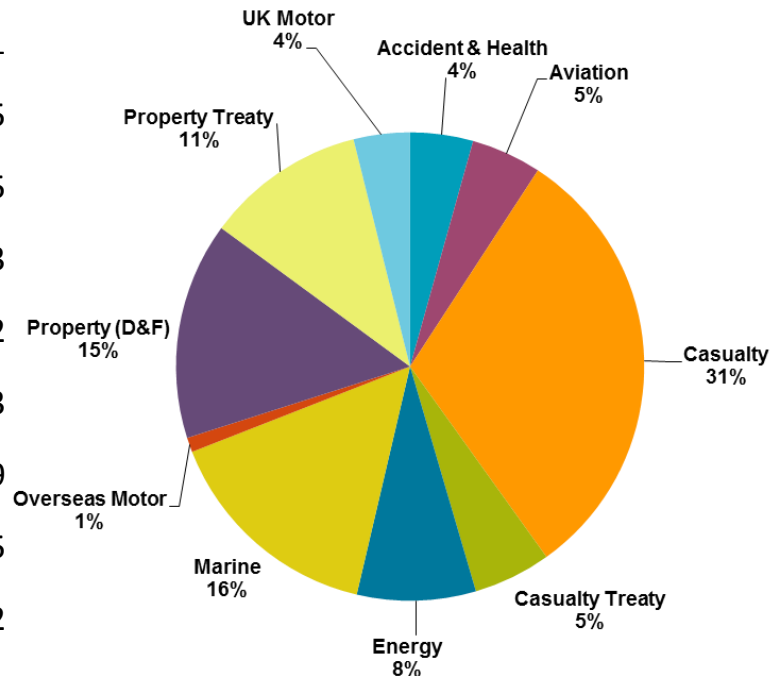
Source: Lloyd's pro forma financial statements, Dec 2013
Peer group formed of 11 companies operating in the US, European and Bermudan markets



RESERVES

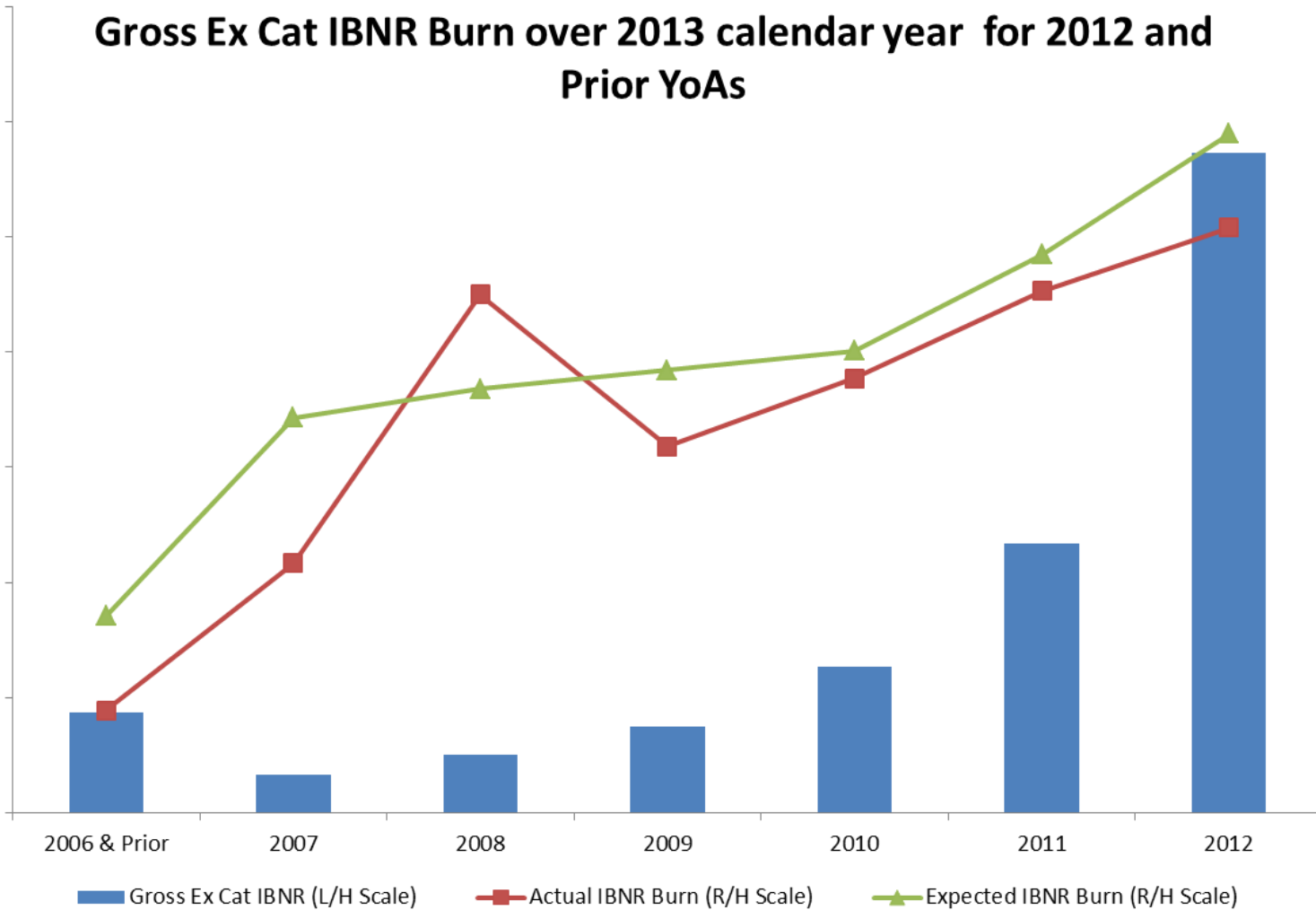
EARNED RESERVES ARE SLIGHTLY LOWER AT YEAR-END 2013

High level COB	Net of Reinsurance excl. ULAE	
	£m Earned Reserves	£m Unearned Reserves (net of DAC)
Casualty	9,457	1,301
Property (D&F)	3,446	1,775
Marine	4,126	1,235
Property Treaty	3,190	653
Energy	2,124	732
Aviation	1,375	313
Casualty Treaty	1,696	169
Accident & Health	1,095	415
UK Motor	960	392
Overseas Motor	248	101
Total	27,717	7,087
<i>Total as at 2012 year-end</i>	<i>28,157</i>	<i>6,764</i>



THE BETTER THAN EXPECTED EXPERIENCE IS ACROSS ALL YEARS OF ACCOUNT....

Gross Ex Cat IBNR Burn over 2013 calendar year for 2012 and Prior YoAs

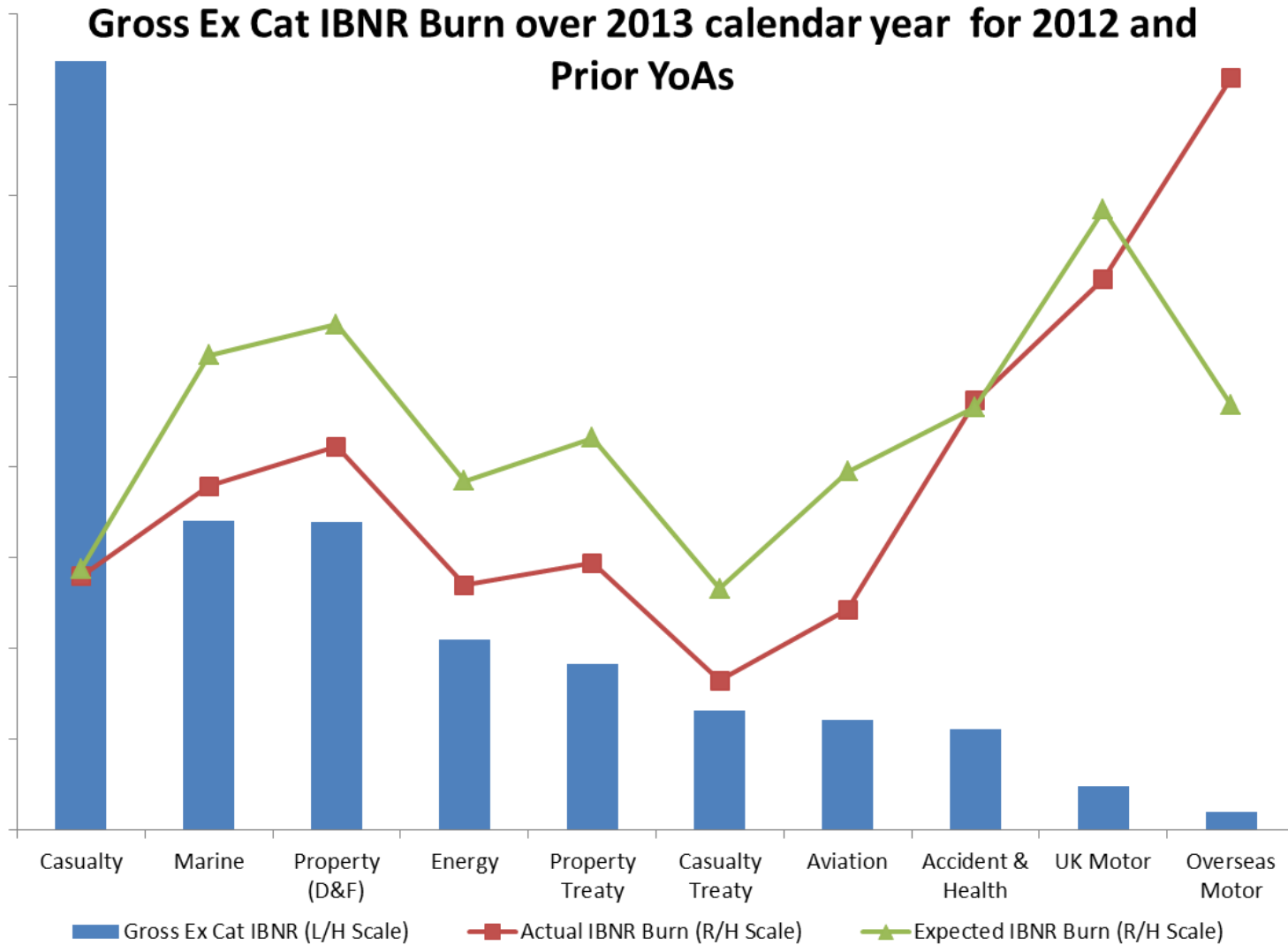


Note: Gross of reinsurance

Source: 2012YE TPD (Technical Provisions Data) and Q1-Q4 2013 GQD (Gross Quarterly Data)



....AND ACROSS MOST CLASSES ...



Note: Gross of reinsurance

Source: 2012YE TPD (Technical Provisions Data) and Q1-Q4 2013 GQD (Gross Quarterly Data)



....AND RESERVE MOVEMENTS COME FROM THE SYNDICATES WE WOULD EXPECT...

► Prior year Result :

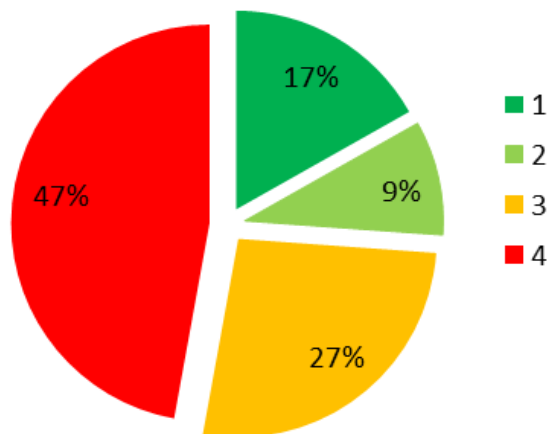
74% of reserve deteriorations from quartiles 3 or 4

VS

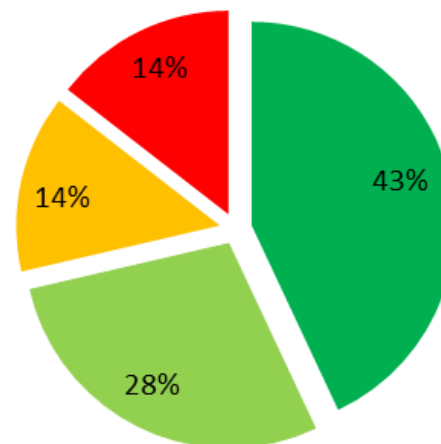
£1.575bn

71% of reserve releases from quartiles 1 or 2

Deteriorations (only) split by RBI quartile

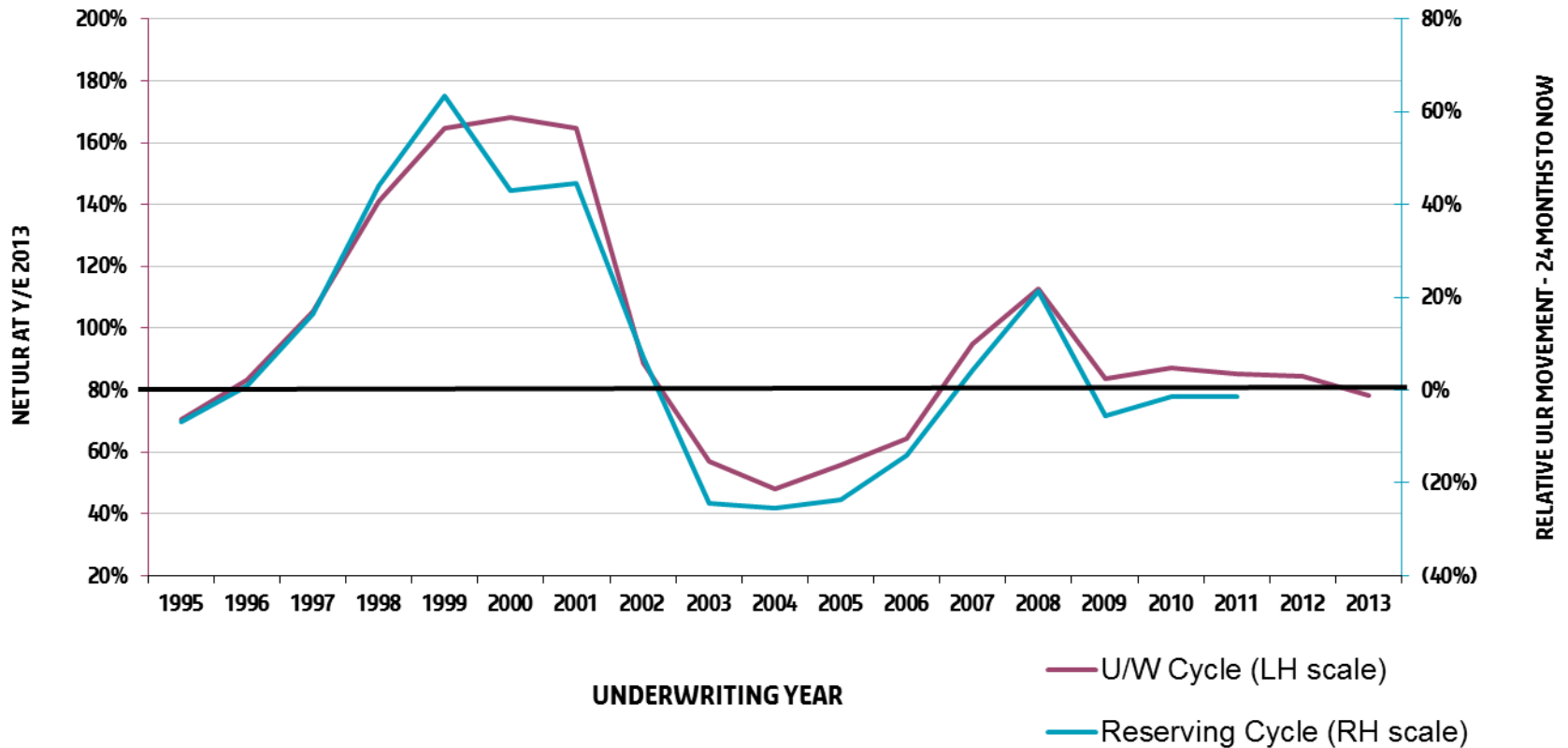


Releases (only) split by RBI quartile



..AND THE CASUALTY RESERVING CYCLE REMAINS TO PROVIDE ASSURANCE ...

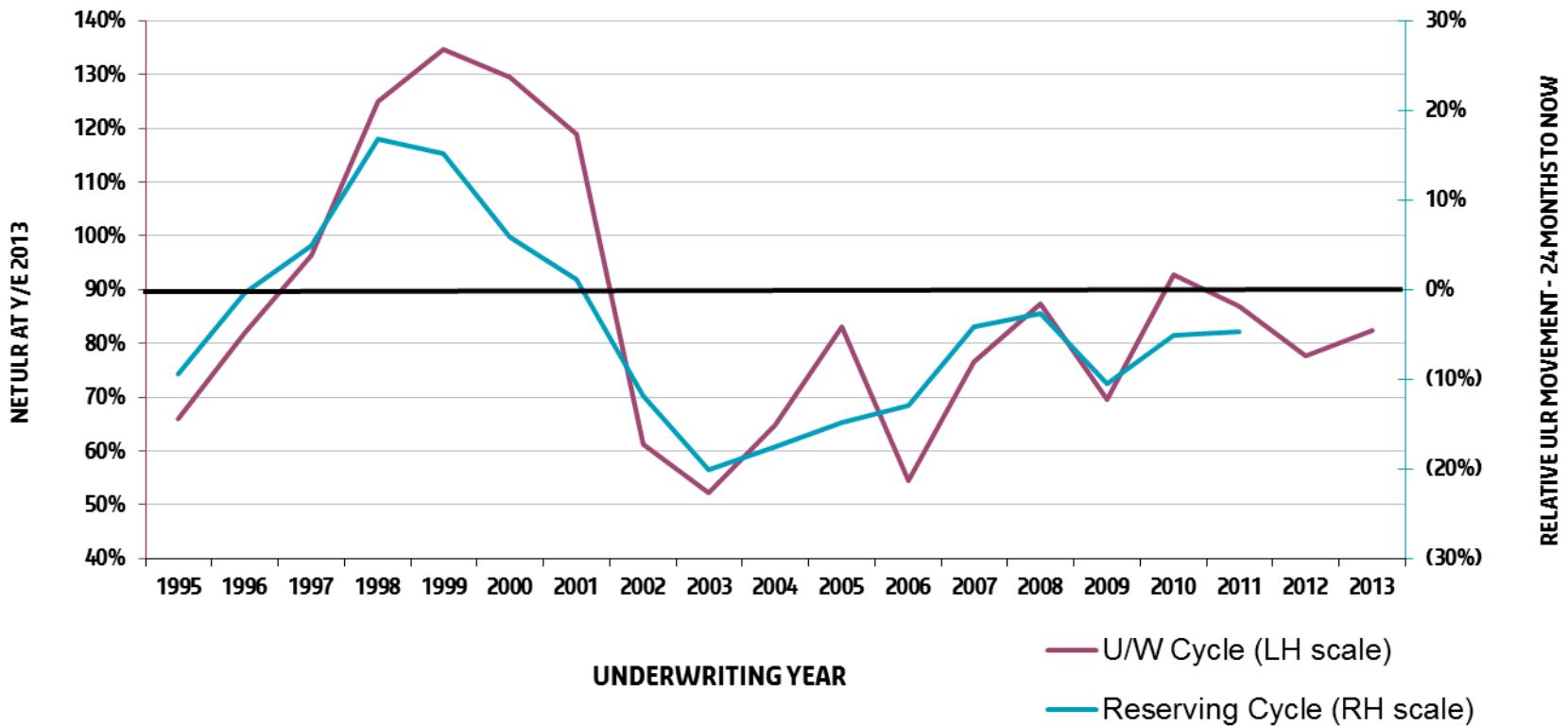
**CASUALTY
COMPARISON OF RESERVING AND UNDERWRITING CYCLES**



Source: Lloyd's provisional TPD database – Excludes one syndicate. Net of reinsurance

...WITH THE PICTURE LESS DEFINED (BUT STILL POSITIVE) AT A WHOLE ACCOUNT LEVEL

**WHOLE ACCOUNT
COMPARISON OF RESERVING AND UNDERWRITING CYCLES**



Source: Lloyd's provisional TPD database – Excludes one syndicate. Net of reinsurance

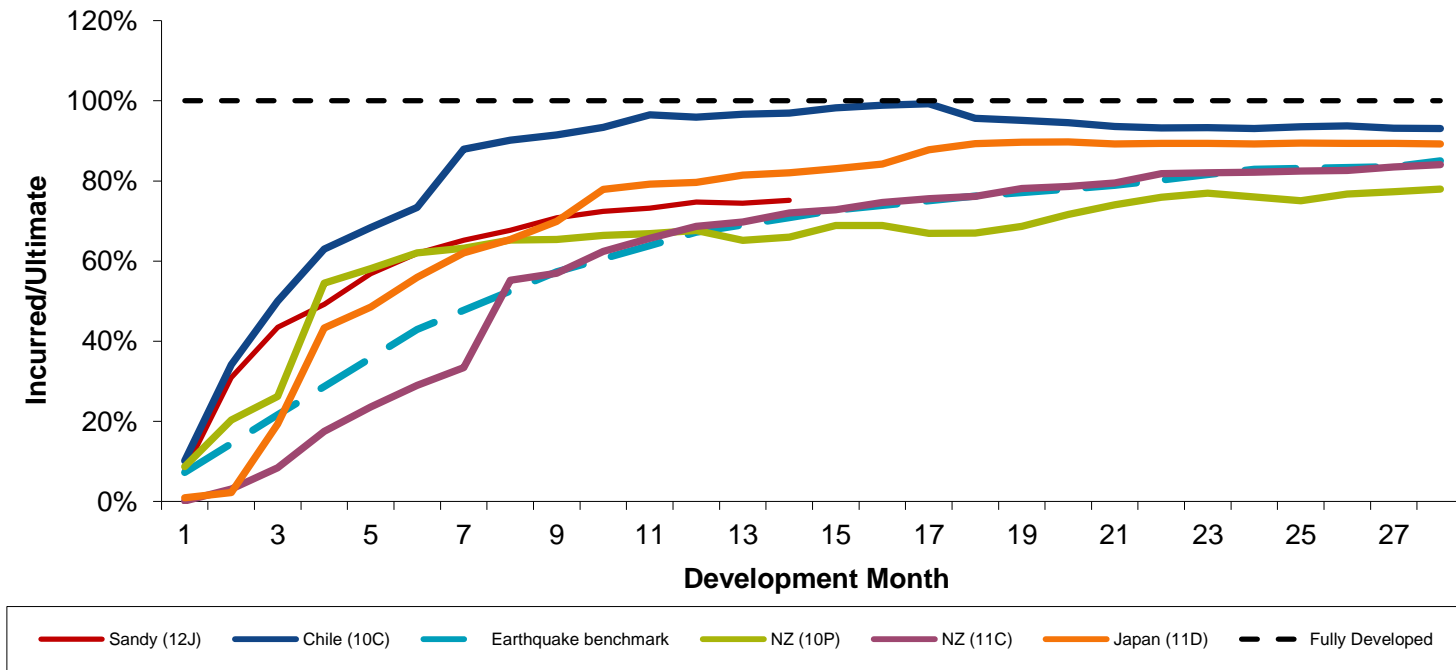
EMPHASIS REMAINS ON REFINING RATHER THAN OVERHAULING BOOKS

- ▶ Some key principles:
 - controlled growth
 - focus on “good performance”
 - or genuine new opportunities
 - removing underperforming elements
 - or re-underwriting
 - review of reinsurance efficiency
 - keeping an eye on T&Cs and costs



WE HAVE ALSO SEEN A CONTINUED STABLE RUN OFF OF LARGE CLAIMS...

Earthquake Development (Gross)



Source: Lloyd's QMR and Xchanging data. Analysis is gross of reinsurance.

...WHICH IS CONSISTENT WITH MOVEMENTS IN SAO LARGE LOSS WORDING

- ▶ SAO large loss wordings gauge the size/sources of reserve uncertainty
- ▶ Year-end 2013 saw a reduction in wordings relating to previous events, particularly for Hurricane Sandy.
- ▶ There were no new major events during 2013

Event	2012	2013	Comparison
Hurricane Sandy	32	5	(27)
Other	16	7	(9)
Subprime / Credit Crunch	4	2	(2)
Aggregated Wording	3	3	0
WTC	1	1	0
Total	56	18	(38)

Source: Lloyd's SAO analyses – Wordings of severity 3 or 4

OVERALL THERE REMAINS COMFORT IN THE WAY RESERVES ARE DEVELOPING...

- ▶ Non-cat loss development in calendar-year 2013 has performed better than expected
 - this is a continuation from recent calendar years
 - and is across most classes and underwriting years
- ▶ There are no “new” non-cat reserving issues on top of:
- ▶ There are always a few syndicate specific and general issues but currently they are all minor
 - so we did carry out a number of thematic investigations
 - None resulted in any concern
- ▶ No reviews of an individual syndicates
 - i.e. there were no syndicate that merited that level of action





CAPITAL

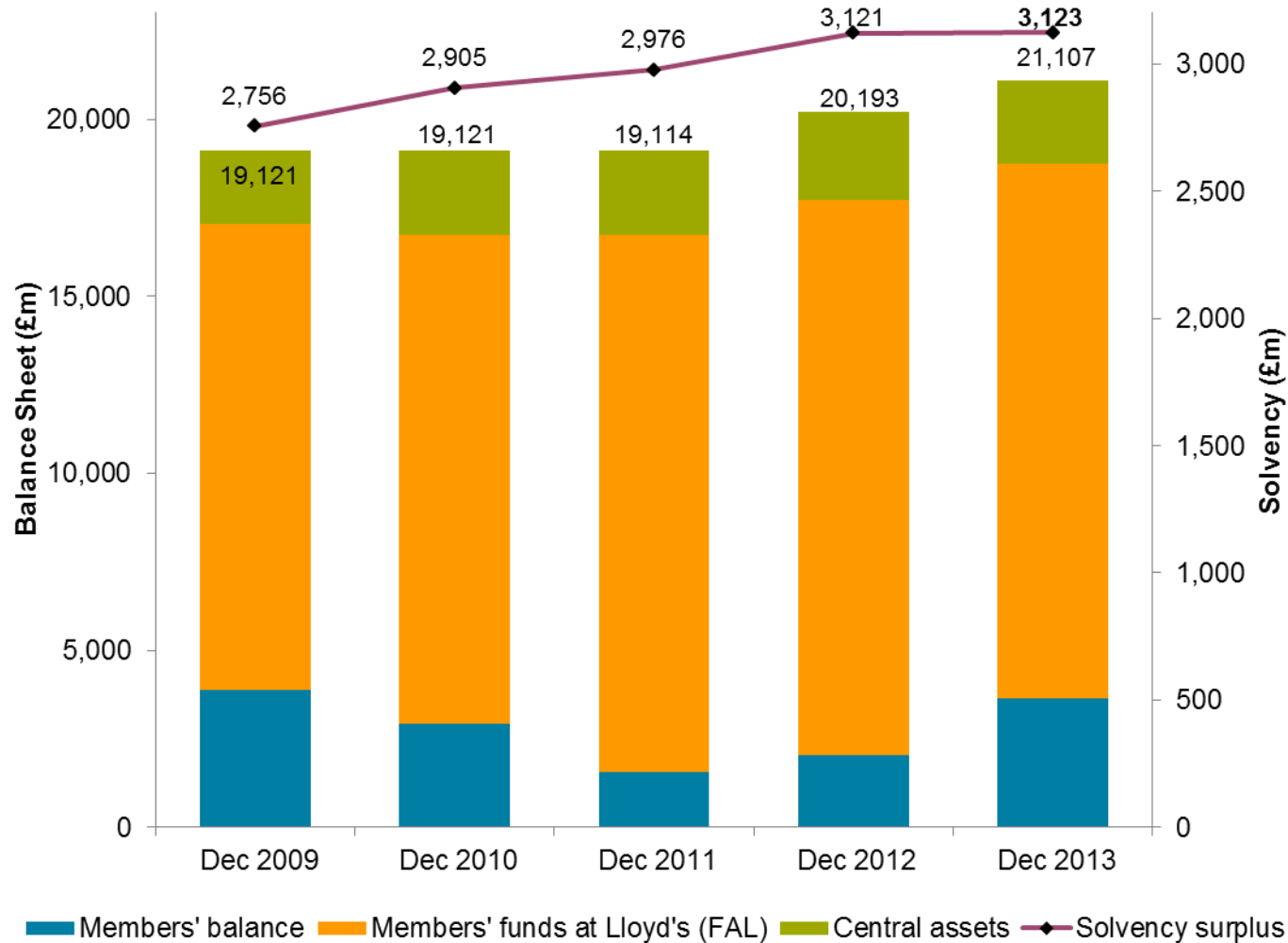
THE POSITIVE RESULTS HAVE SEEN NET RESOURCES INCREASE AGAIN TO OVER £21BN ...

£m	Dec 2011	Dec 2012	Dec 2013	YTD %
Cash and investments	51,415	51,767	51,494	(1)
Reinsurers' share of unearned premium	1,557	1,759	1,909	9
Reinsurers' share of claims outstanding	10,597	10,680	9,557	(11)
Other assets	12,979	13,885	13,619	(2)
Total assets	76,548	78,091	76,579	(2)
Gross unearned premiums	(10,605)	(11,314)	(11,838)	5
Gross claims outstanding	(41,313)	(40,203)	(37,983)	(6)
Other liabilities	(5,516)	(6,381)	(5,651)	(11)
Net resources	19,114	20,193	21,107	5
Represented by:				
Members' assets	16,726	17,708	18,723	6
Central assets	2,388	2,485	2,384	(4)
	19,114	20,193	21,107	5

Source: Lloyd's pro forma financial statements, 31 Dec 2013



... WITH SOLVENCY SURPLUS STABLE AT OVER £3.1BN



Source: Lloyd's pro forma financial statements, 31 Dec 2013,

WHICH WE CAN LOOK AT IN TERMS OF THE “CHAIN OF SECURITY”

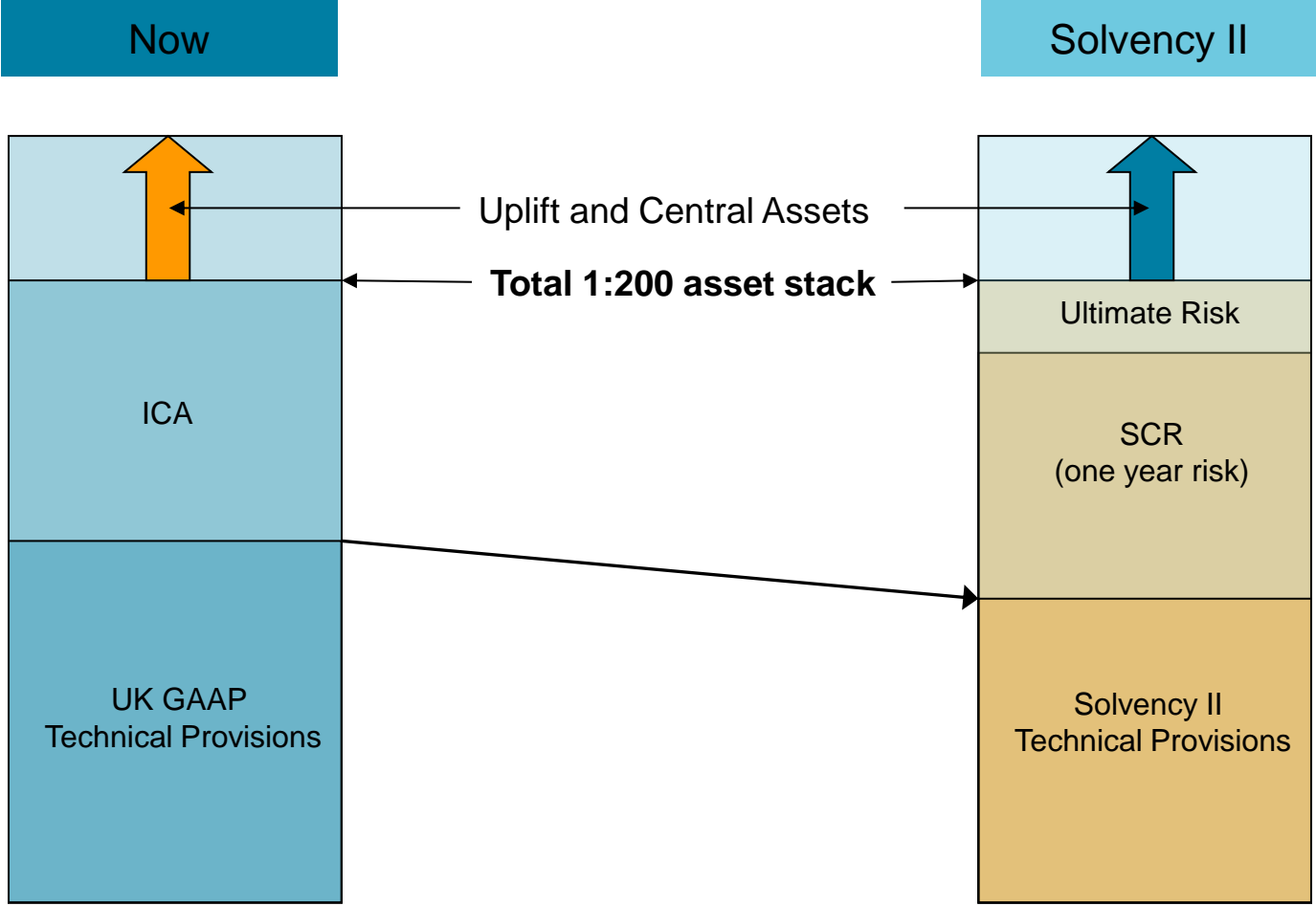
SEVERAL ASSETS	FIRST LINK	SYNDICATE LEVEL ASSETS £ 41,990m		All premiums received by a syndicate are held in its premium trust funds and are the first resource for paying policyholder claims from that syndicate.	1
	SECOND LINK	MEMBERS FUNDS AT LLOYD'S £15,088m		Each member provides Capital to support its underwriting at Lloyd's. Each managing agent produces an Individual Capital Assessment stating how much capital it requires to cover its underlying business risks at a 99.5% confidence level.	2
MUTUAL ASSETS	THIRD LINK	CENTRAL FUND £1,513m CORPORATION £150m	CALLABLE LAYER (≤ 3%) £788m	The Central Fund is available at the discretion of the Council of Lloyd's to meet any valid claim that cannot be met by the resources of any member. It is funded by members' annual contributions and subordinated debt issued by the Corporation in 2004 and 2007.	3
		SUBORDINATED DEBT / SECURITIES £721m			

Source: Lloyd's pro forma financial statements, 31 December 2013



CAPITAL SETTING

CAPITAL NOW SET USING A “SOLVENCY II” BASIS WHILST ENSURING EQUIVALENCE TO ICAS

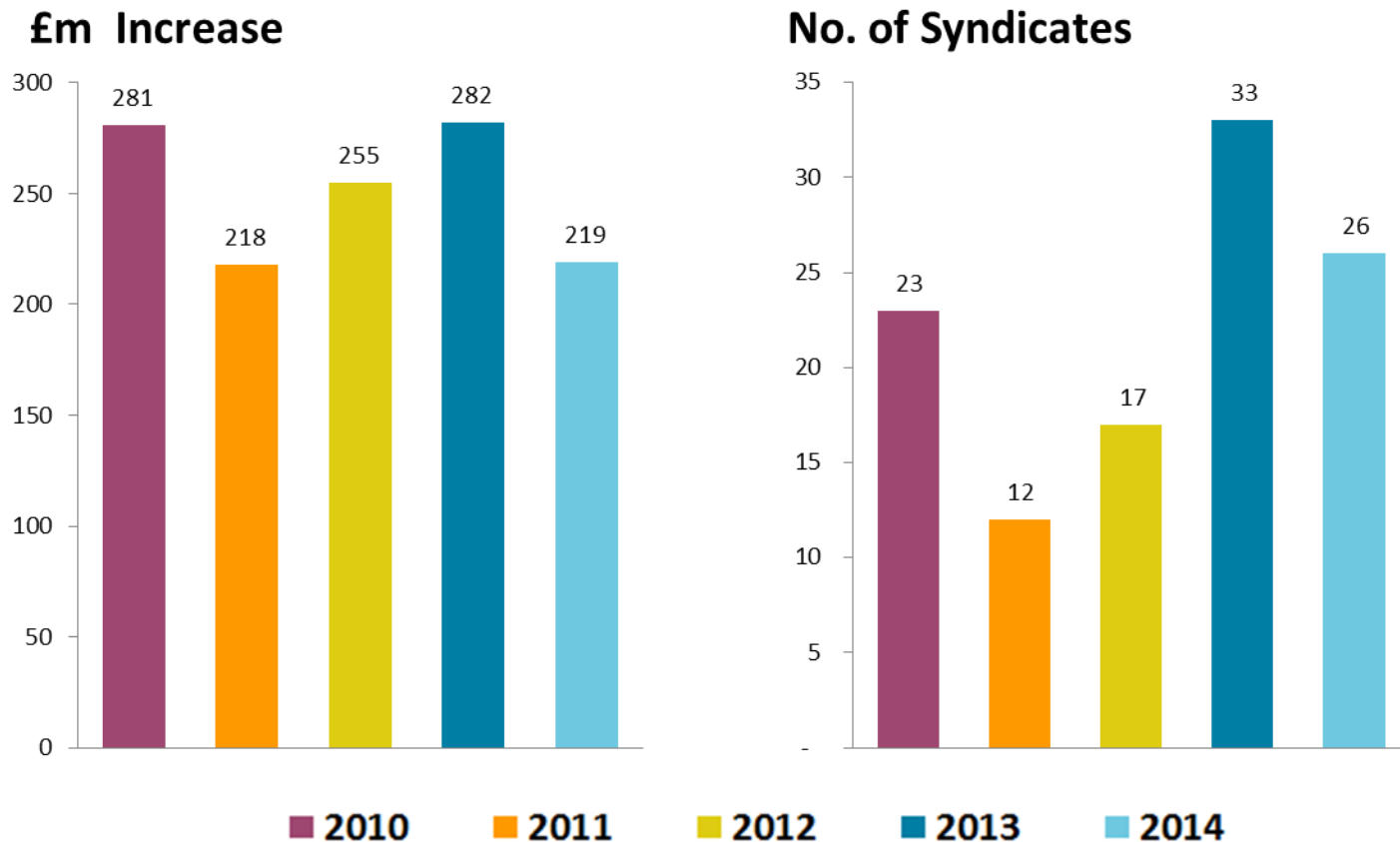


EARLY FEEDBACK – WAS EFFECTIVE

- ▶ Aimed to give the market earlier feedback
- ▶ Two goals of early feedback / engagement was to:
 - avoid late shocks
 - reduce the number of syndicate loadings
- ▶ This has been broadly successful
 - probably never going completely remove
 - we won't agree on everything
 - things can emerge after the first submission
- ▶ One possible exception may have been “ULRs”



WE DID SEE A REDUCTION IN LOADINGS – BOTH IN TERMS OF NUMBERS & AMOUNTS



Increases to final submitted ICA / uSCR following Lloyd's review

For 2014, this includes increases associated with "ULRs for capital setting" differences

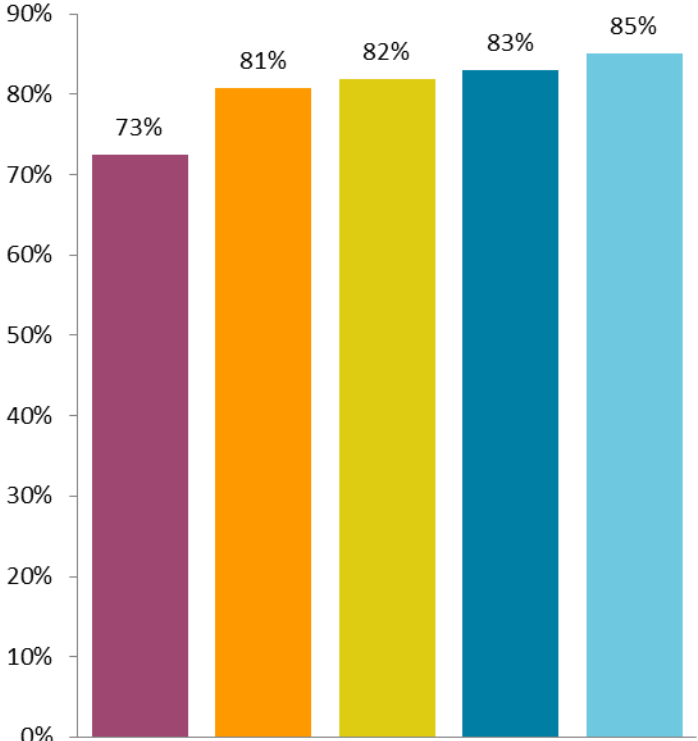


...AND THAT THE CAPITAL REQUIREMENTS DID INCREASE DURING THE REVIEW

- ▶ Reserve margins restricted to independent SAO view
- ▶ Business plan assumptions
 - ULR increases in a few cases for capital setting purposes only
- ▶ Parameters challenged. Most common were:
 - diversification
 - credit risk
 - market risk; and
 - operational risk
- ▶ We will continue to focus on all key themes going forwards
- ▶ Remember the impact of new syndicates is limited in scale



OVERALL CAPITAL HAS INCREASED SLIGHTLY TO 85% OF GROSS PREMIUM



ECA to Premium (2)

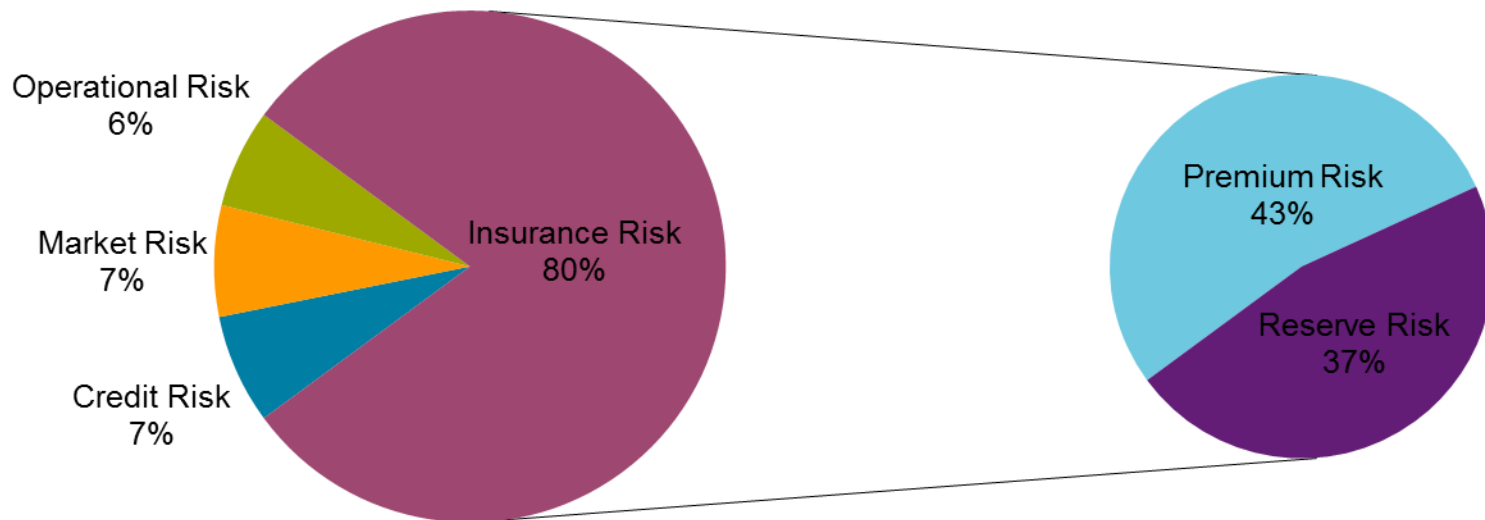
2010 2011 2012 2013 2014

(1) Gross premium, net of acquisition costs; at date that ICA/SCRs approved for year-end CIL

(2) Excludes reserve margin credit



AS EXPECTED, INSURANCE RISK DOMINATES SYNDICATE ULTIMATE SCR_s



Note: Insurance diversification apportioned between Reserving and Underwriting Risks

Source: Lloyd's Capital Return pro-forma

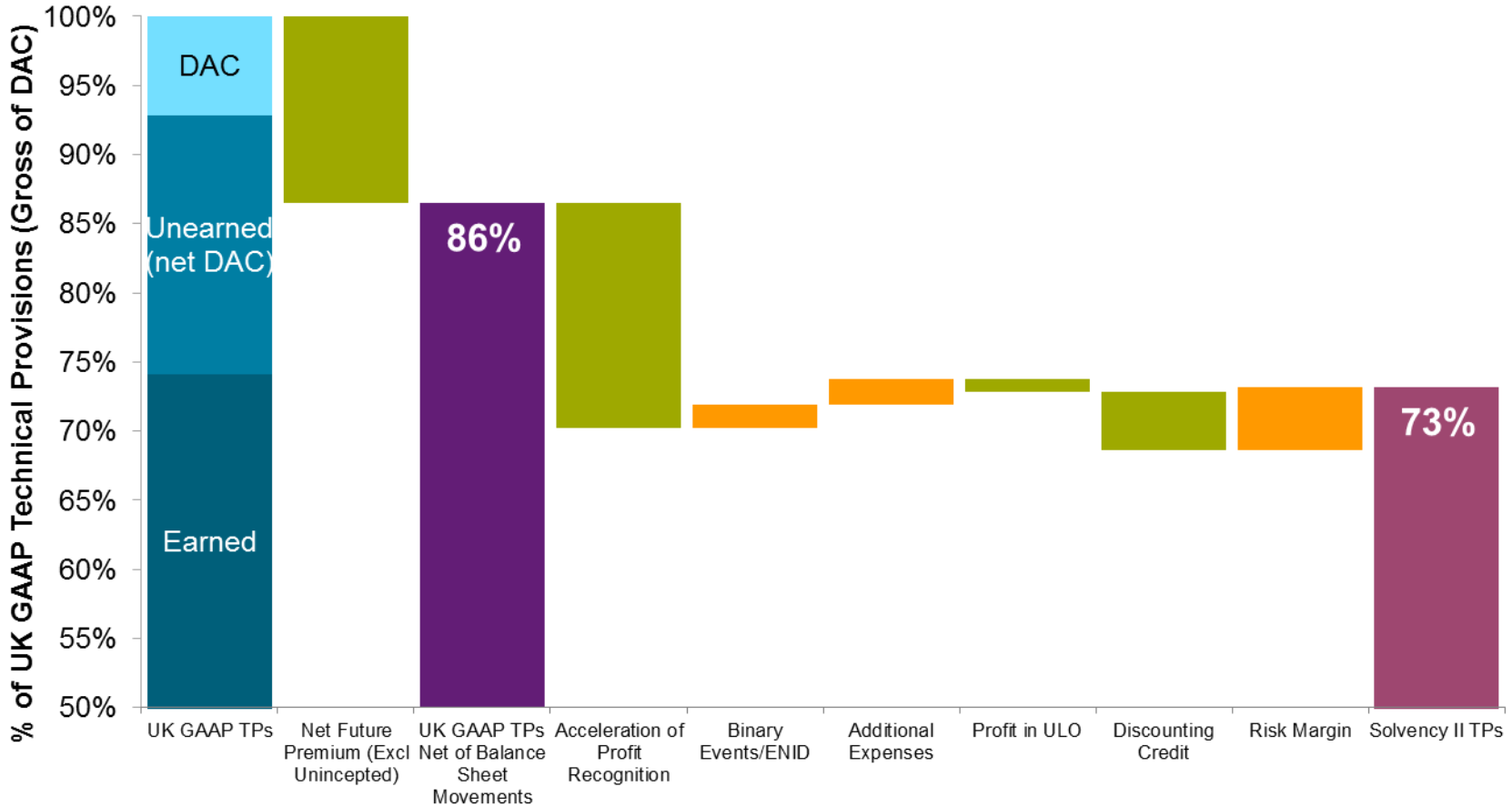
REMINDER OF KEY DATES FOR THIS YEARS REVIEW

Submission / approval dates	SBF and LCR	Required submissions
3 JULY	<ul style="list-style-type: none"> Provisional 2015 SBF Draft 2015 LCR Supplementary Questionnaire 	<ul style="list-style-type: none"> Aligned and non-aligned syndicates
3 JULY	<ul style="list-style-type: none"> Provisional Validation Report (optional but strongly encouraged) 	
18 JULY	<ul style="list-style-type: none"> Lloyd's SBF Feedback deadline for Non-aligned syndicates 	
16 SEPTEMBER	<ul style="list-style-type: none"> Final 2014 SBF 	<ul style="list-style-type: none"> All syndicates
	<ul style="list-style-type: none"> Final 2014 LCR Supplementary Questionnaire 	<ul style="list-style-type: none"> All syndicates
23 SEPTEMBER	<ul style="list-style-type: none"> Final Validation Report 	<ul style="list-style-type: none"> All syndicates
24 OCTOBER	<ul style="list-style-type: none"> Lloyd's non-aligned approval deadline 	
21 NOVEMBER	<ul style="list-style-type: none"> Lloyd's aligned approval deadline 	
26 NOVEMBER	<ul style="list-style-type: none"> Coming into Line 	



SOLVENCY II

THE IMPACT ON TPS IS STILL SIGNIFICANT – AND WILL IMPACT CAPITAL



Source: 2013YE Lloyd's QMC/ TPD returns

LLOYD'S EXPECTS EACH AGENT TO MEET THE FULL TESTS AND STANDARDS BY END 2014...

- ▶ Lloyd's wrote to agents in January setting out its view as to where agent stood against tests and standards
- ▶ Agents submitted final 'action plans' by end February
- ▶ Review by the Standards Assurance Group (SAG) and assign initial ratings against full tests and standards
- ▶ Lloyd's will continue to work with agents during the remainder of 2014 to help them close the remaining gaps...
- ▶ ...leading up to final agent Board attestation in December

...and has set out a clear plan to achieve this

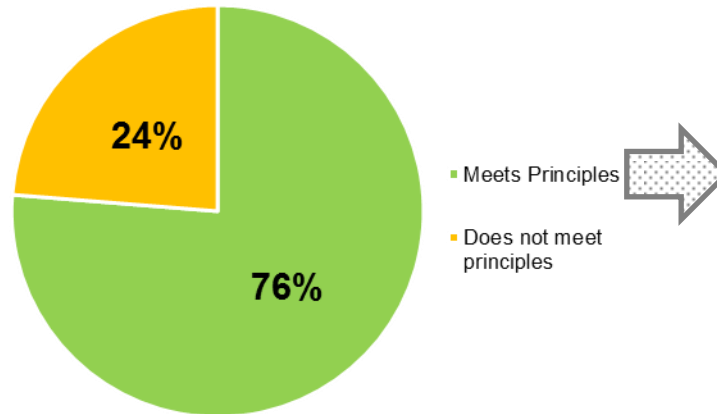


Recap on SAG process

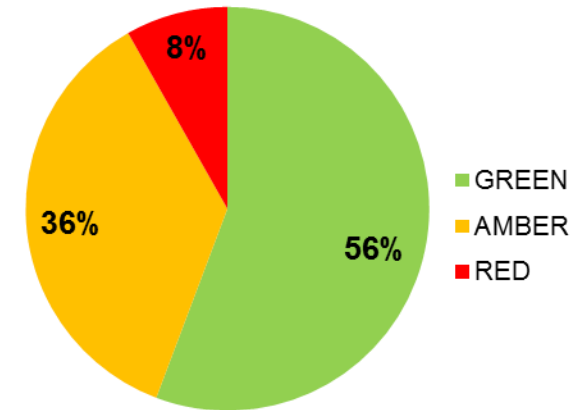
- ▶ Agent action plans received and reviewed
- ▶ SAG meetings throughout March
 - Account Manager's view on
 - a) Number of gaps
 - b) Materiality of gaps
 - c) Credibility of plan
 - Overall ratings agreed based on these 3 criteria
- ▶ Consistency meeting early April
 - Resulting in a number of rating changes
- ▶ Outcome now communicated to all agents

Outcome of SAG reviews

**RAG ratings by Agent
Dec 2013
(Principles)**



**SAG Agreed Rating
April 2014
(Full t&s)**



COMMON ISSUES DRIVING "FAILS"

December 2013 (Principles)

ORSA

Validation

Use Test

April 2014 (Full tests)

ORSA

Validation

Actuarial Function Report

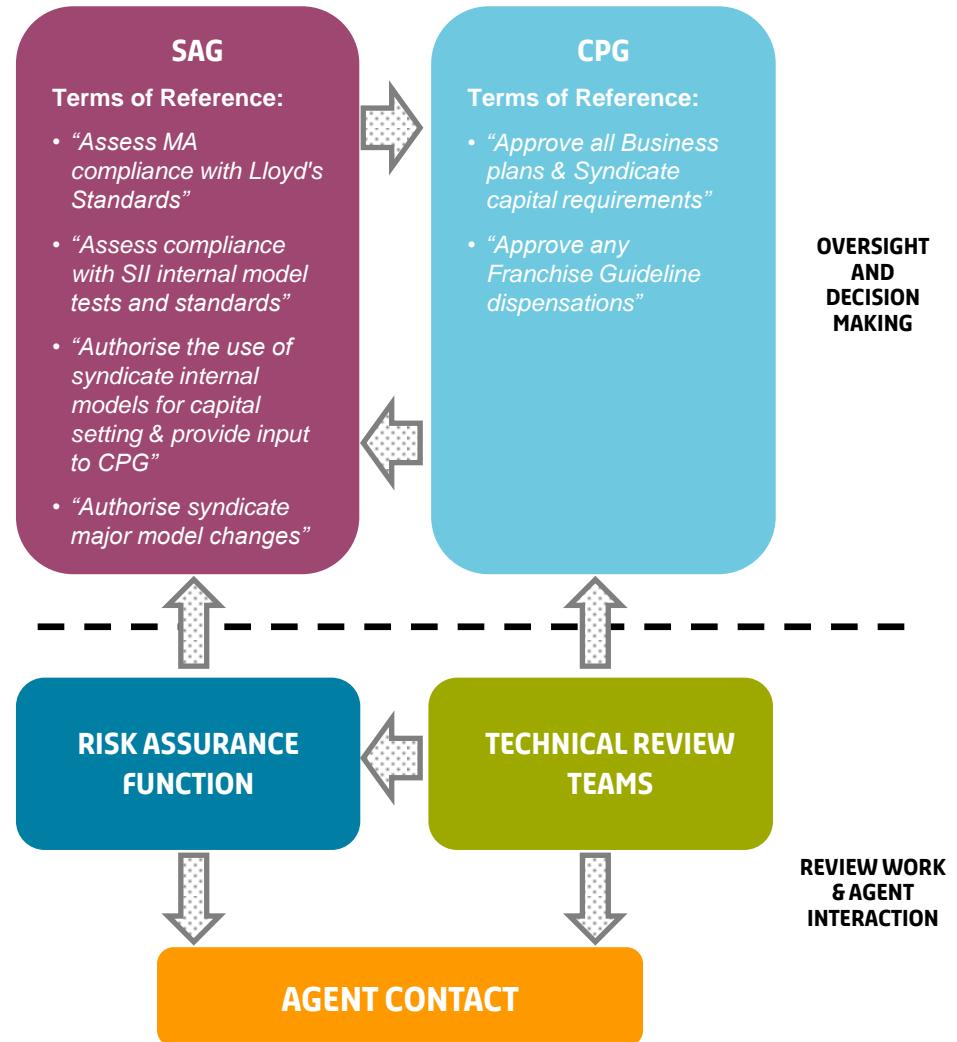
Model Change

Reporting & Disclosure

The bar has been raised with agents needing to comply with the full tests with some areas not tested before e.g. Reporting

OUR REVIEW OF AGENT PROGRESS IN 2014 WILL FEED INTO THE CAPITAL SETTING EXERCISE FOR 2015

- ▶ **Standards Assurance Group (SAG)** assesses agents' progress towards Solvency II compliance
- ▶ **Capital and Planning Group (CPG)** oversees Lloyd's capital setting and syndicate business planning processes
- ▶ CPG will make decision on prudential measures based on SAG input:
 - Capital loadings
 - Business plan restrictions

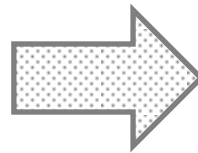


WHY ARE ALSO REFRESHING THE STANDARDS?

- ▶ One set of standards covering all requirements for Managing Agents
 - A clear framework within which all Managing Agents are expected to operate
 - Consistency in interpretation, presentation and publication
 - Alignment to Solvency II and PRA requirements

CURRENT STANDARDS

Claims Management
Risk Management
Underwriting
Reinsurance
Delegated Authorities
Exposure Management
Effective operational processes
Governance
Management of investment risk
Reputation & Brand



REVISED STANDARDS

Underwriting Management
Claims Management
Reserving
Governance
Risk Management
Scope, Use & Change
Modelling Design & Implementation
Validation
Investment Management
International Regulatory
Compliance
Conduct Risk
Operating at Lloyd's



SOLVENCY II

THE UPDATED 2014 TIMETABLE IS NOW LIGHTER THAN PREVIOUS EDITIONS

KEY DATES FOR 2014											APPENDIX 1	
	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
SOLVENCY II QUANTITATIVE SUBMISSIONS	14 January Q4 2013 GQD return		6 March SII Balance Sheet @31/12/13 6 March 2014 SCR Re- assessment 20 March LIM Asset Data @31/12/13	3 April TPD @ 31/12/13 10 April Q1 2014 GQD Return	30 May Standard Formula SCR		3 July Draft SCR via LCR 10 July Q2 2014 GQD Return		4 Sept SII Balance Sheet @30/6/14 16 Sept Final SCR via LCR 25 Sept SREP Pillar 3 Dry Run	9 October Q3 2014 GQD return 30 October LIM Asset Data @30/09/14		
SOLVENCY II QUALITATIVE SUBMISSIONS			27 March ORSA Submission	1 April to 30 May Actuarial Function Report		27 June Evidence Template Submissions	3 July Voluntary Interim Validation Report 3 July Model Change Policy & Report		23 Sept Validation Report 16 Sept Model Change Report			12 Dec Board confirmation of SII status
SOLVENCY II THEMATIC REVIEW		P&L Attribution & Backtesting								Use test review		
RISK ASSURANCE/ MINIMUM STANDARDS										PMD Underwriting & Claims Standards Self Assessment		
WORKSHOPS/ BRIEFINGS	21 January Capital briefing	25 February SNP briefing		1 & 2 April Director briefing	6 & 7 May Validation/ Capital 13 & 14 May	3 & 4 June VBAL/ SREP 24 & 25 June GRMU workshop	1 & 2 July Standards launch & self- assessment guidance		9 & 10 Sept GRMU workshop - Model change feedback	13 & 14 October Director briefing	24 & 25 Nov VBAL/ SREP 11 & 12 Nov	15 & 16 Dec 2015 planning 10 December



SUMMARY AND QUESTIONS

SUMMARY

- ▶ Results showed a very strong profit
 - Lack of major claims activity
 - includes continued trend of reserve releases
 - but leaving reserves in strong position
- ▶ Current underwriting is a challenge
- ▶ Capital set using SII approach
 - ultimate SCRs plus SII TPs
 - maintain equivalence to ICAs
- ▶ Move to the “final push” in SII implementation
 - now assess against full “test and standards”
 - work to do but confident of result



ANY QUESTIONS?

