

Current Issues in General Insurance
Jerome Kirk – Lloyd's

Lloyd's Update

10 May 2012

© 2010 The Actuarial Profession • www.actuaries.org.uk

Agenda

- **Year-end 2011**
 - results
 - reserves
- **2013 Capital Setting**
- **Quick Solvency II update**
 - LIM
 - syndicates
- **Summary & Questions**



© 2010 The Actuarial Profession • www.actuaries.org.uk

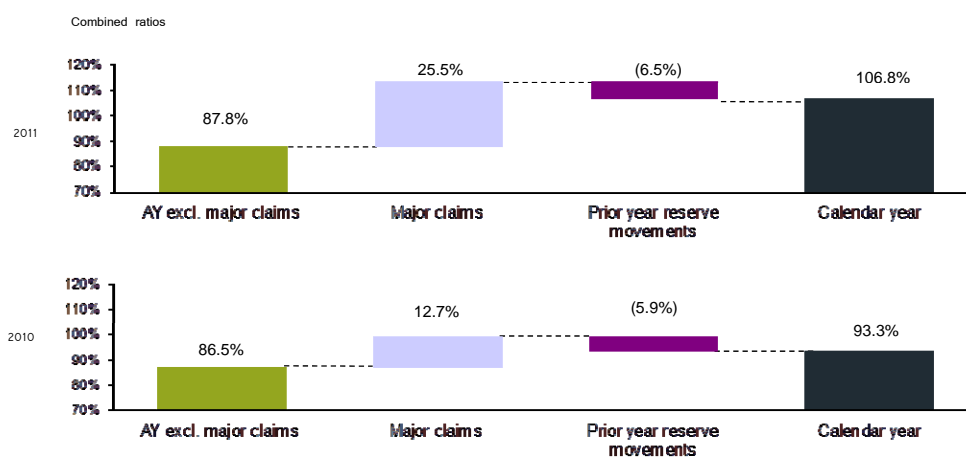
Catastrophes drive loss for the year...

£m	2010	2011
Gross written premiums	22,592	23,477
Combined ratio	93.3%	106.8%
Investment return	1,258	955
Profit before tax	2,195	(516)
Return on capital (pre-tax)	12.1%	(2.8%)

Source: Lloyd's pro forma financial statements, 31 Dec 2011

2

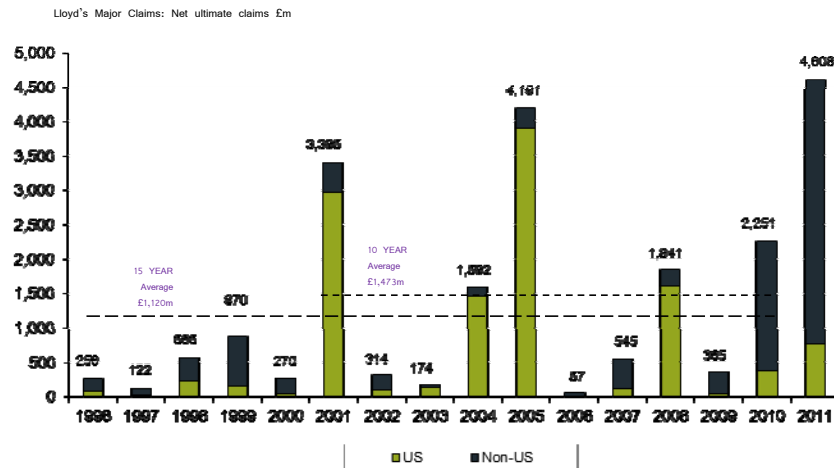
... adding 25.5% to combined ratio



Source: Lloyd's pro forma basis

3

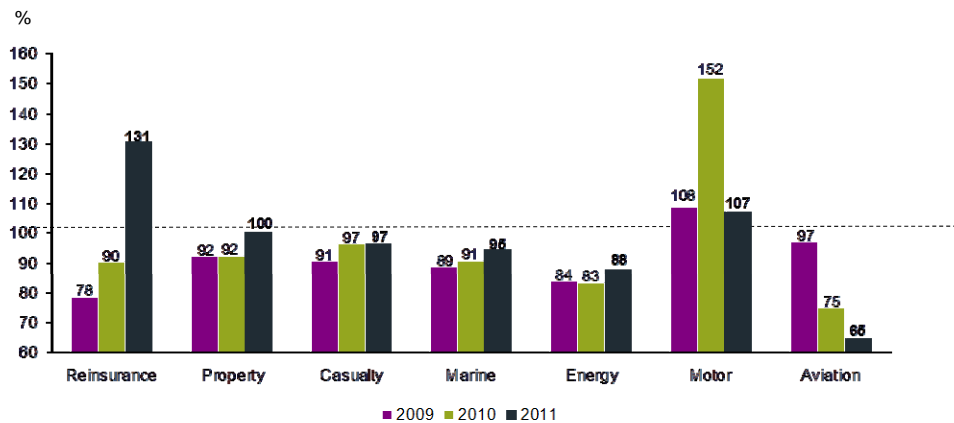
And non-US events have become more prominent



4

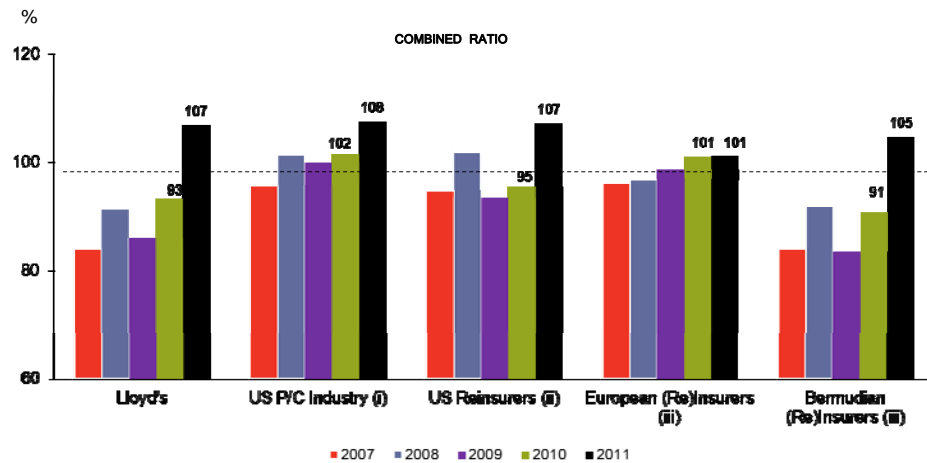
Most classes have seen a profitable year but reinsurance did suffer from catastrophe claims

CALENDAR YEAR COMBINED RATIO



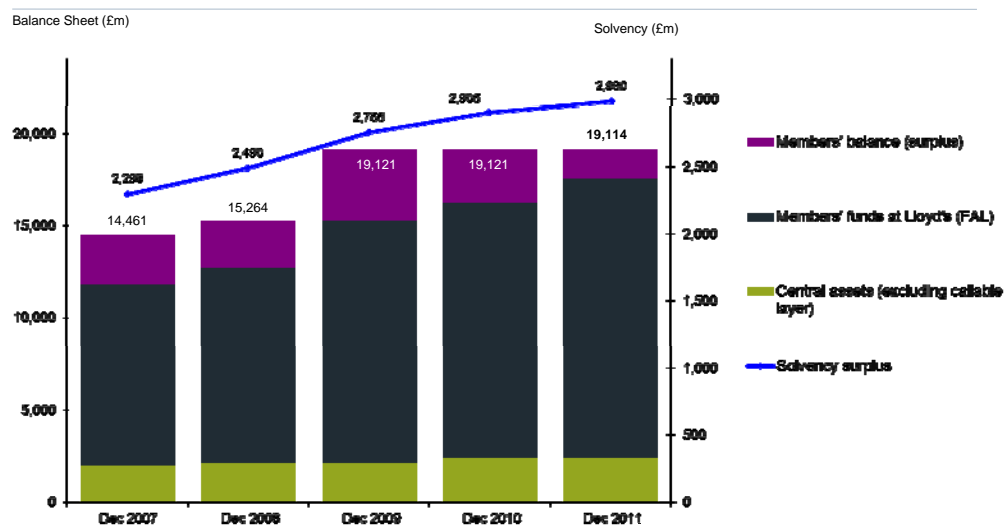
5

Overall Lloyd's performance is in line with peers...



6

...and saw the solvency surplus continue to increase



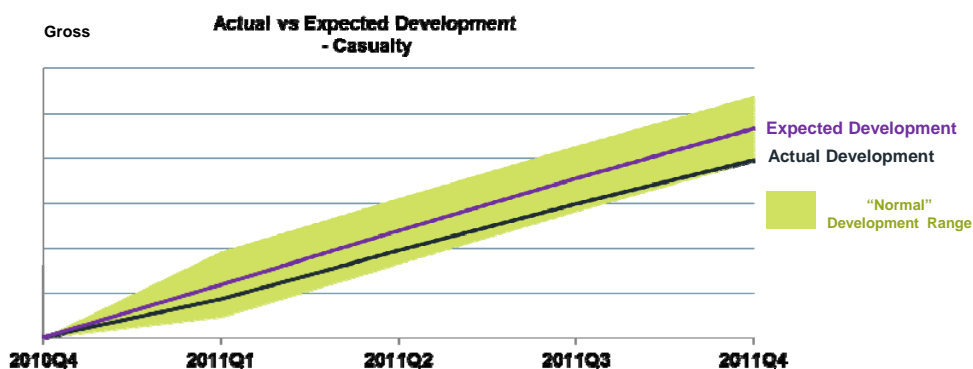
7

The results are bolstered by further reserve releases...

- Seventh year in a row for reserve releases
 - last 5 years have been significant
- Releases have been seen over
 - most “back” years of account...
 - and most classes
 - especially property and reinsurance
- Surpluses have been generated by favourable experience
 - consistent with Lloyd’s “Early Warning” results....
 - and based on our own analysis we are comfortable

8

...including releases from the casualty class...

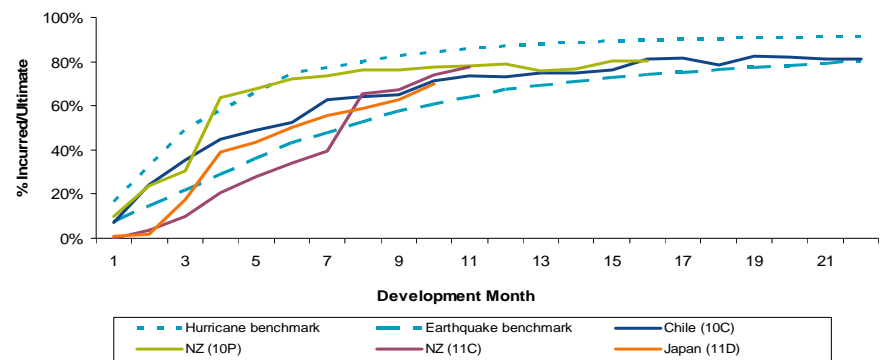


Source: MRC Early Warning exercise. MRC projections vs MRRQ incurred data converted at y/e 2010 exchange rates. Figures are gross of reinsurance
Excludes 2011 year of account

9

...and stability in catastrophe estimates

Earthquake Development (Gross)



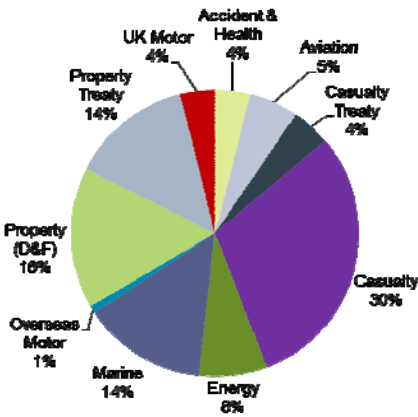
Source: Lloyd's QMR and Xchanging data. Analysis is gross of reinsurance.

10

The Cat events have led to an increase in the overall reserves...

High level COB	Net of Reinsurance £m	
	Earned Reserves	Unearned Reserves (net of DAC)
Casualty	10,010	1,114
Property (D&F)	4,144	1,668
Marine	4,002	1,089
Property Treaty	4,317	707
Energy	2,106	679
Aviation	1,620	404
Casualty Treaty	1,478	124
Accident & Health	1,086	361
UK Motor	1,047	398
Overseas Motor	252	67
Total	30,063	6,612

Source: Lloyd's provisional SRD database.



11

...and movements in SAO large loss wording

- SAO large loss wordings gauge the size/sources of reserve uncertainty
- Year-end 2011 saw:
 - reduction in wordings relating to previous events ...
 - ... with new wordings introduced for the 2011 events, as expected

Event	2010	2011	Comparison
WTC	3	4	1
2005 Hurricanes	1	0	(1)
2008 Hurricanes	3	0	(3)
Subprime/ Credit Crunch	9	5	(4)
Chile Earthquake	8	0	(8)
Deepwater Horizon	8	3	(5)
2010 New Zealand Earthquake	9	0	(9)
Australia Floods 2010/11	17	0	(17)
2011 New Zealand Earthquake	N/A	4	4
Japanese Earthquake and Tsunami	N/A	8	8
US Tornadoes	N/A	1	1
Thai Floods	N/A	12	12
Aggregated Wording	N/A	6	6
Other	12	13	1
Total	70	56	(4)

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

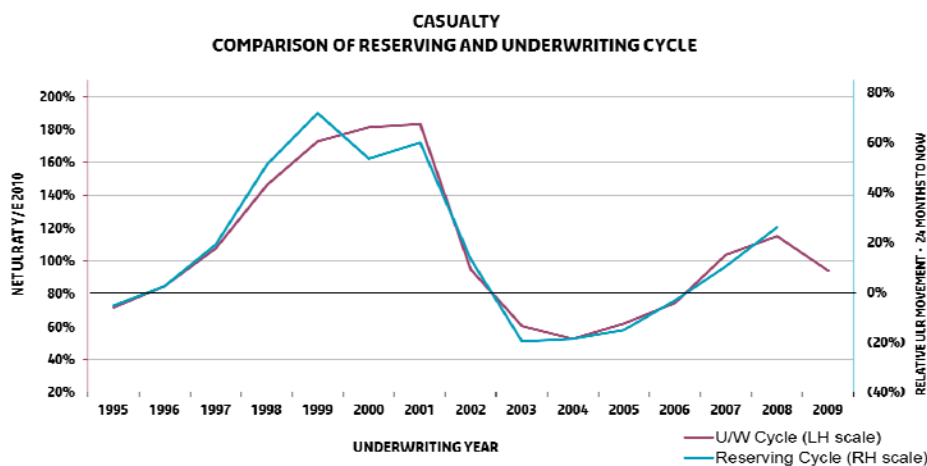
12

Reserving focus for 2012 will mainly be a continuation of 2011

- Continued benign development on the back years
 - and the associated impact on surplus
- “Old issues” remain
 - Motor (including looking at PPOs)
 - Italian Med Mal
- Large Cat loss reserves
 - but no real “new” reserving issues
- More emphasis on recent years of account, including....

13

...maintaining a focus on the reserving cycle....



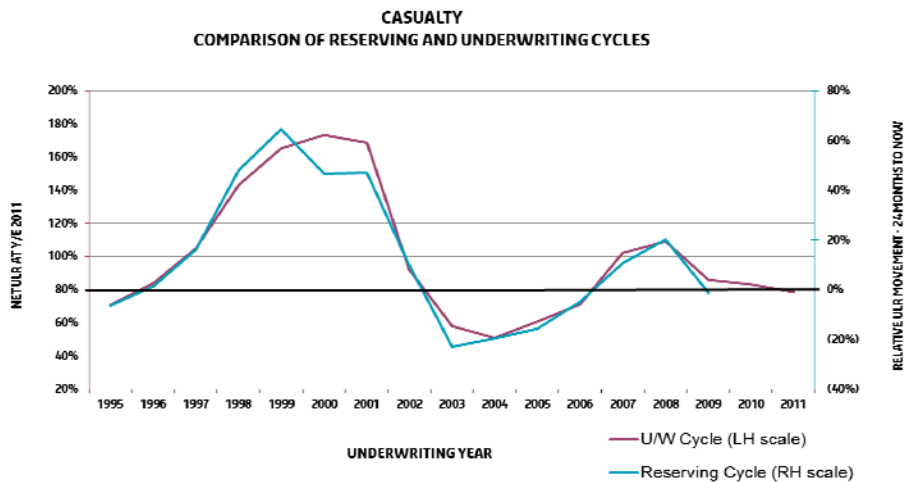
14

...we did write (again) to CFOs about reserving...

- Generally positive response from original letter
 - and FSA sent similar themed letter in April 2011
- Letter sent to CFOs again in early December 2011
 - a general letter to all this time (not just about cycles)
 - as ever, we will be in touch separately on any “specifics”
- Aim to give some support to the reserving functions in the Market
 - not designed to be critical
 - part of our reserve oversight

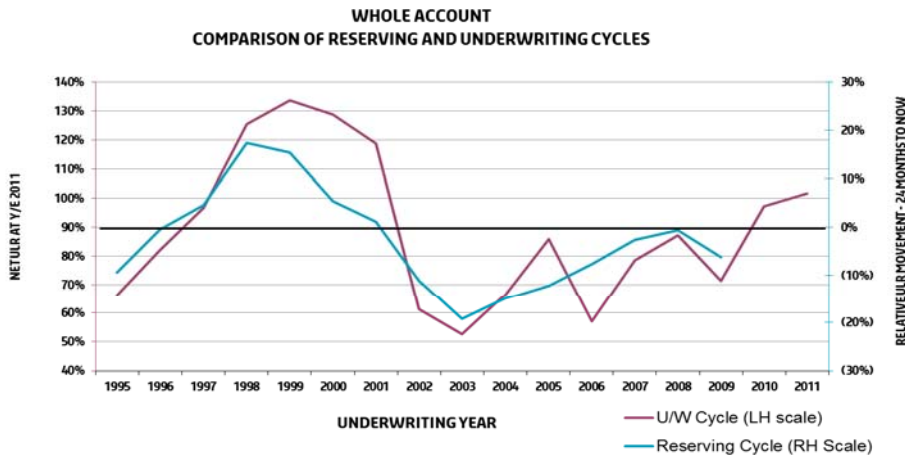
15

...and the early signs at year-end 2011 are positive



16

The recent Cat events do make the picture less defined at a whole account level



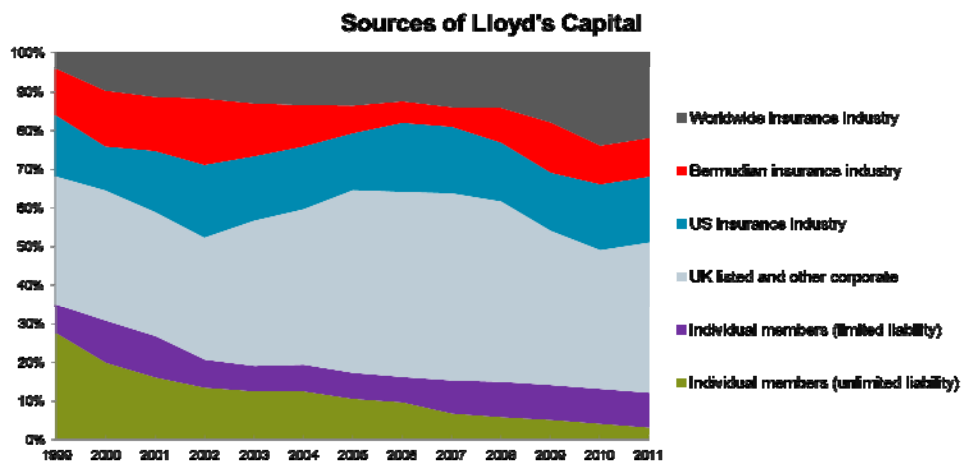
17

Agenda

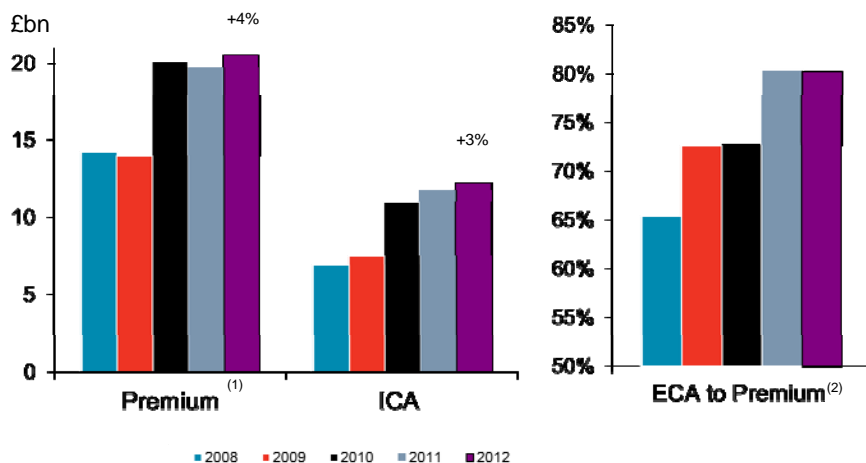
- Year-end 2011
 - results
 - reserves
- **2013 Capital Setting**
- Quick Solvency II update
 - LIM
 - syndicates
- Summary & Questions



Who provides Lloyd's Capital?



How did it move during 2011?



20

How will 2013 member capital be set?

Approach

- Will utilise Solvency II models to meet ICAS requirements
 - equivalence is key
- Full review by Lloyd's
 - similar to old ICA reviews (not "light" version)
 - dedicated cross departmental team
 - SCR documentation and on-site walkthroughs
- LCR return will be vital
 - input into Lloyd's benchmark model
 - updated specification on Lloyds.com

21

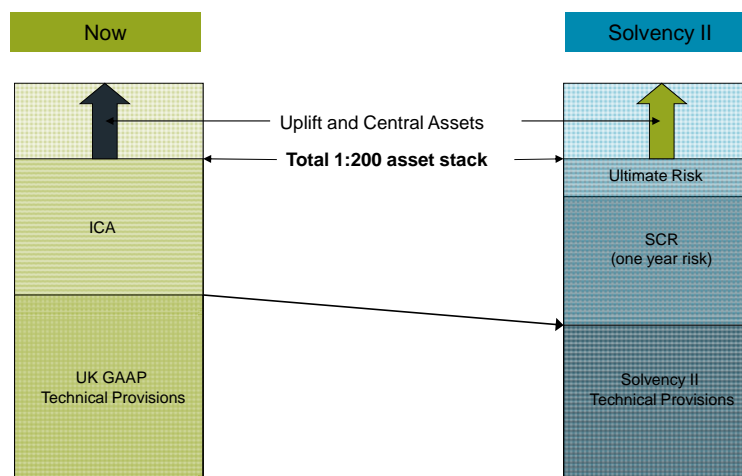
And with the following timetable

Date	Non-Aligned	Aligned
Initial LCR	19 July	19 July
Final SBF	13 September	13 September
Final LCR	20 September	20 September
Coming into Line	29 November	29 November

- Initial LCR should be consistent with the initial SBF submitted on the 12 July

22

Ultimate SCR plus SII balance sheet provides equivalent policyholder protection as ICAS



23

Agenda

- Year-end 2011
 - results
 - reserves
- 2013 Capital Setting
- Quick Solvency II update
 - LIM
 - syndicates
- Summary & Questions



What is the Lloyd's Internal Model?

Main model:



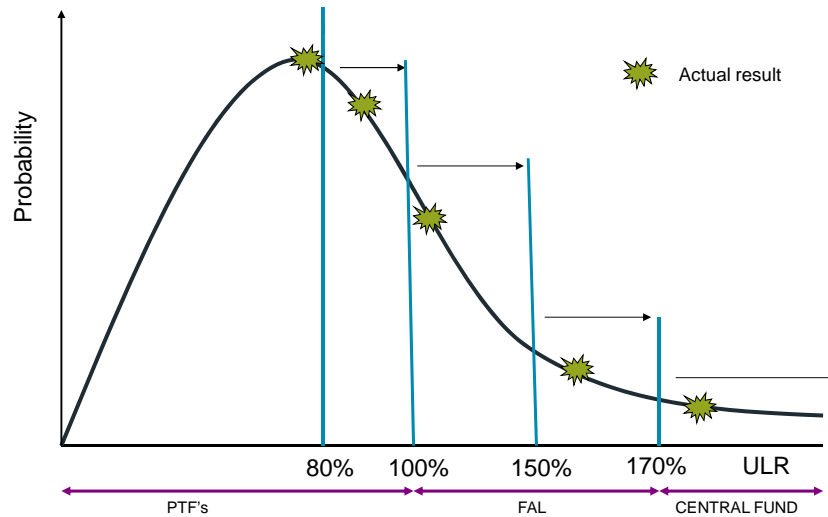
Feeder models:



4

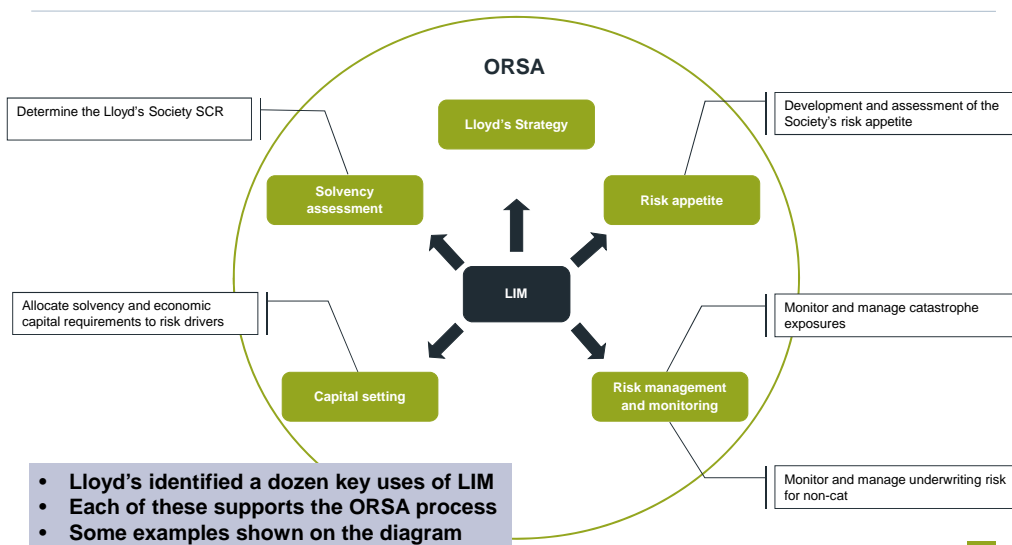
Syndicate
Benchmark
Model

The CCK covers the entire Chain of Security...



26

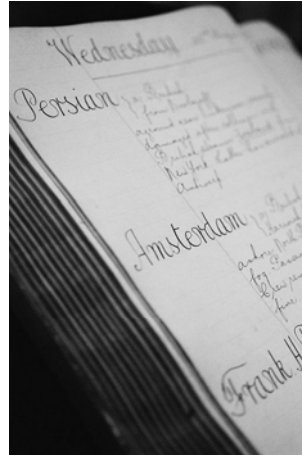
...and is being embedded into business decisions



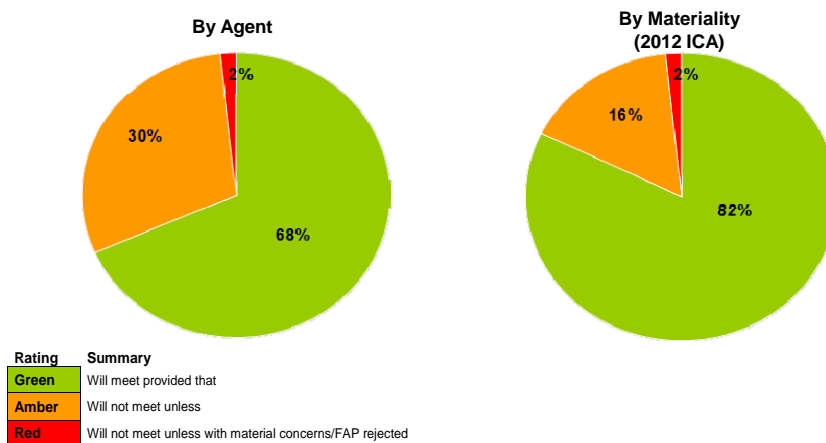
27

Agenda

- Year-end 2011
 - results
 - reserves
- 2013 Capital Setting
- Quick Solvency II update
 - LIM
 - syndicates
- Summary & Questions



FAP reviews completed for all agents and revised agent ratings issued (via formal letter)



.....ratings will be kept under review and actions followed up

High level findings on FAP submissions

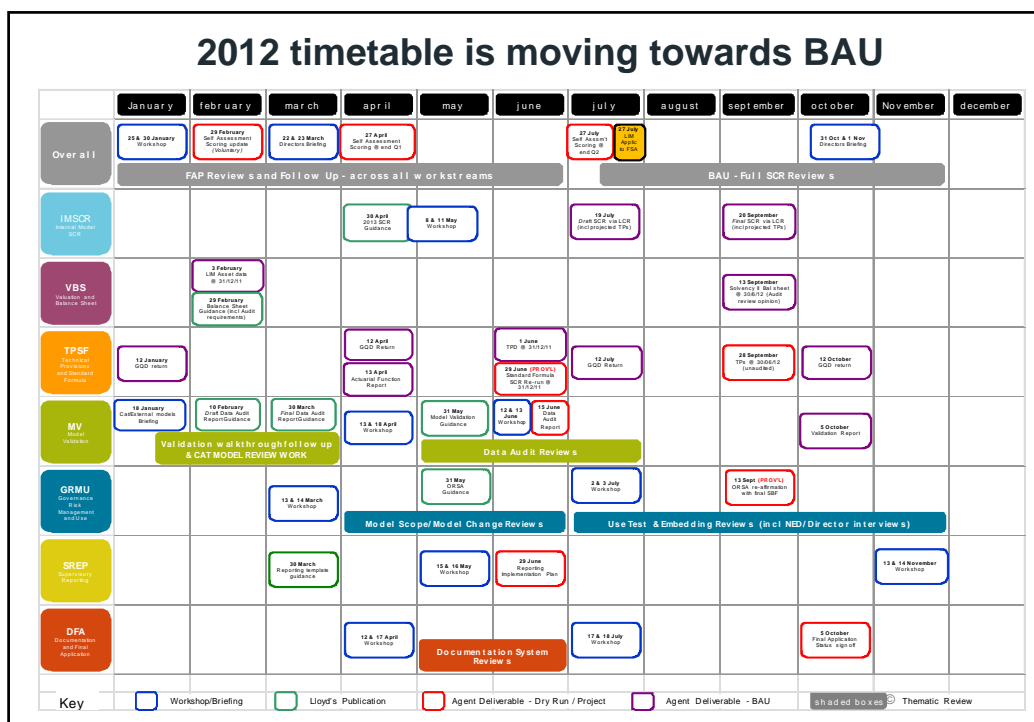
- | | |
|--|--|
| ✓ FAP of good quality with all supporting documents completed | ✗ Explanation on gaps does not clearly set out further work required to close |
| ✓ Clear analysis of gaps with detailed dates for completion and resources allocated to tasks | ✗ Additional gaps uncovered by Lloyd's review |
| ✓ Significant progress made by agents in Q4 | ✗ Underlying documents do not always support scores and do justice to processes in place |
| ✓ Only 2% material gaps across market on reported scores | ✗ Previous feedback not always clearly addressed |

30

Some common issues and gaps arising from detailed reviews

- **Profit & Loss attribution** – cycle not yet completed for many agents
- **Validation** - independence needs to be clearly explained
- **Model scope** – Catastrophe and ESG models out of scope
- **Model Change** – quantitative trigger and aggregation of minor changes
- **ORSA** – forward looking assessment

31



Agenda

- Year-end 2011
 - results
 - reserves
- 2013 Capital Setting
- Quick Solvency II update
 - LIM
 - syndicates
- Summary & Questions



Summary

Year-end 2011 Results

- Loss driven by catastrophe losses offset by continued reserve releases
- Capital base remains strong

2012

- Focus will remain on reserving
- 2013 capital will be set using SII models and a full review

Solvency II

- FAP reviews on-going whilst moving to a BAU environment
- LIM now “in use”

34

Questions or comments?



The views expressed in this presentation are those of the presenter.