



Lloyd's Update: The Year at Lloyd's

GIRO – October 2015

TIMELINE



What happened at year end 2014



What else we did in the first half of the year



Mid year results



Activities in the third quarter



The fourth quarter and beyond...

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Mid year results



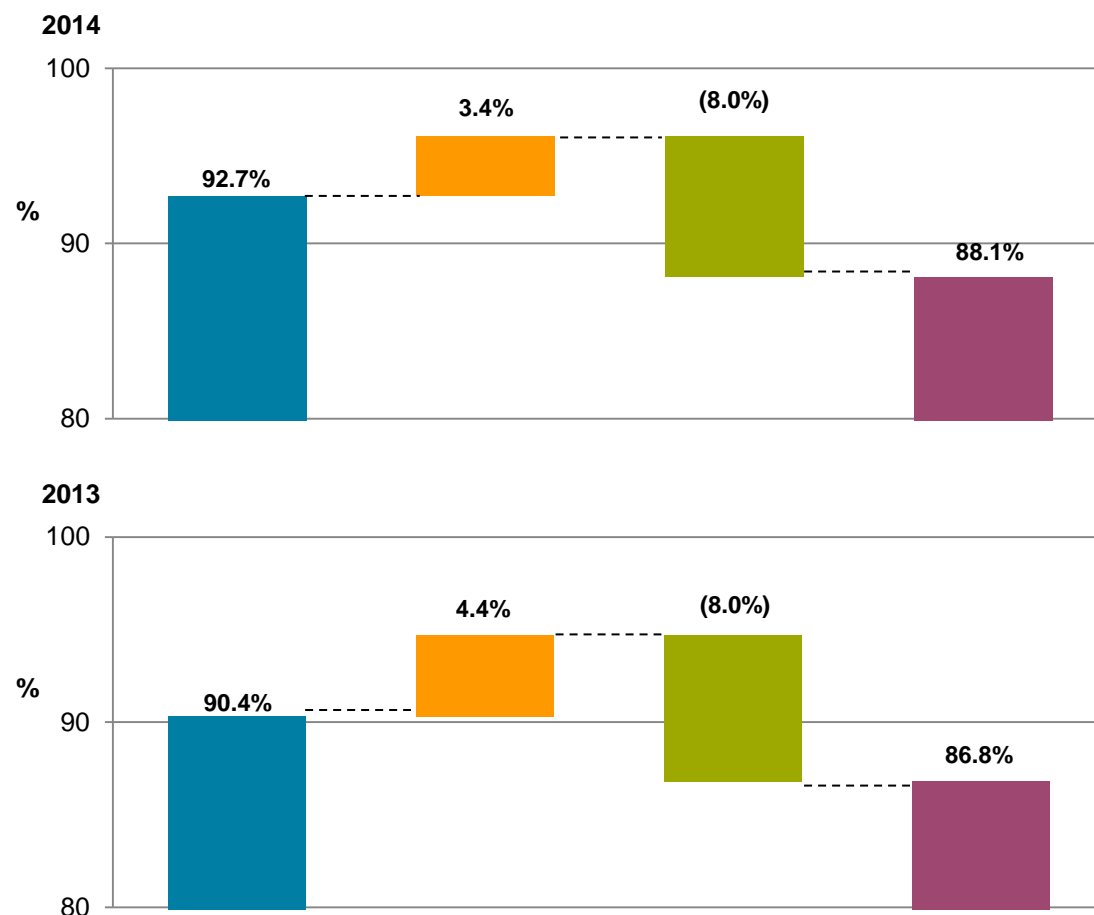
Activities in the third quarter



The fourth quarter and beyond...

UNDERWRITING PROFIT DRIVEN BY LOW LEVEL OF MAJOR CLAIMS AND RESERVE RELEASES

Combined Ratios

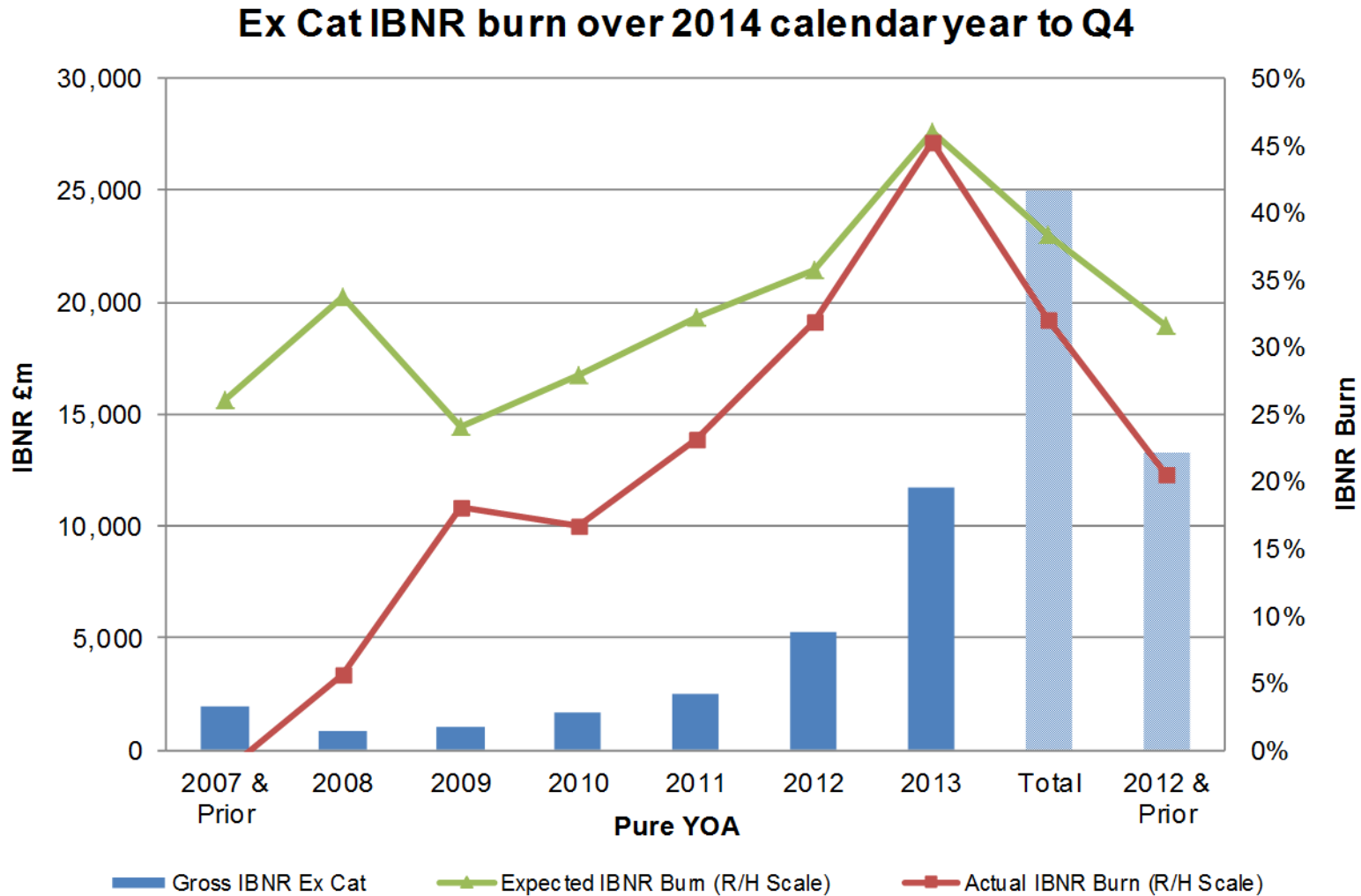


Analysis of accident year ratio excl major claims (%)		
	2013	2014
Loss ratio	52.9	54.0
Expense ratio	37.1	39.1
FX	0.4	(0.4)
Total	90.4	92.7

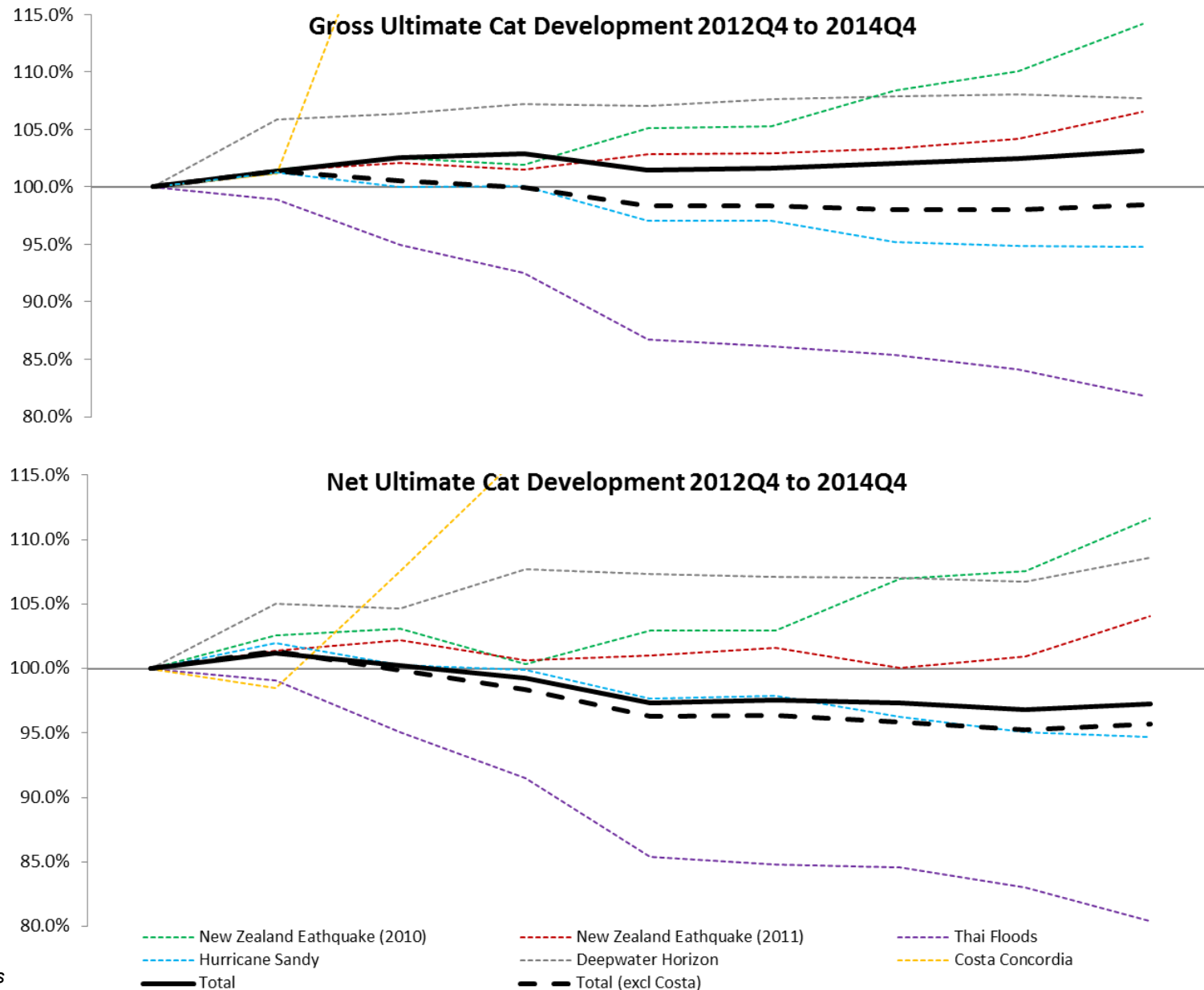
Major claims (£'m)		
	2013	2014
Hurricane Odile (California)	-	153
Tripoli airport attacks	-	153
Other (largest £79m; 2013 largest £120m)	873	364
Total	873	670

Reserve release (£'bn)		
	2013	2014
Net earned reserves b/fwd	29.5	28.4
Release	1.6	1.6
Release % of reserves	5.3	5.5

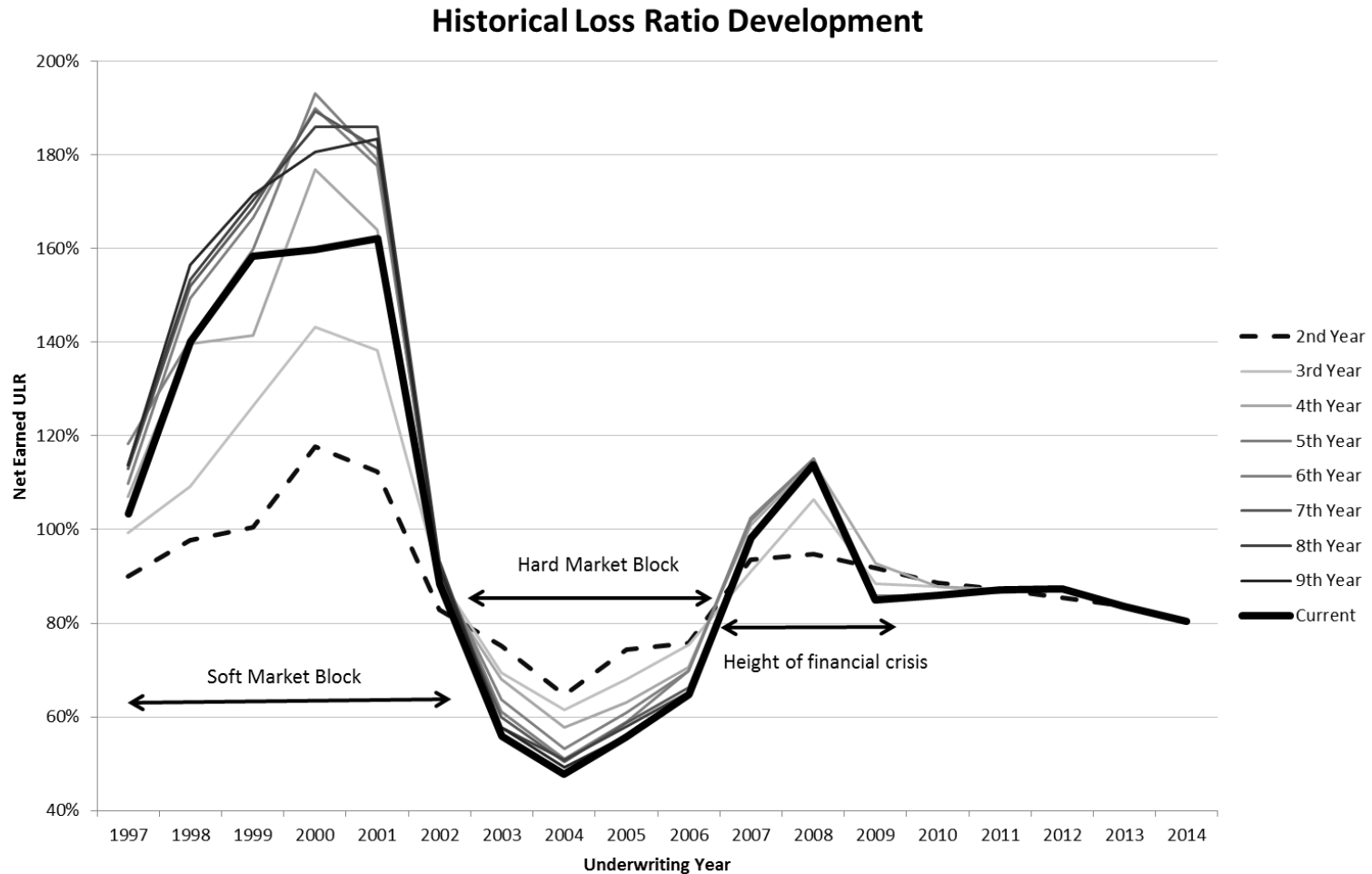
OVERALL EXPERIENCE WAS GOOD



HISTORIC CATS REDUCING OVER TIME...



EVEN THE BAD CASUALTY YEARS WERE GETTING BETTER... BUT...



LOSS RATIOS FOR RECENT YEARS PUSHED OUT

ULR RELATIVE TO 2014 YOA

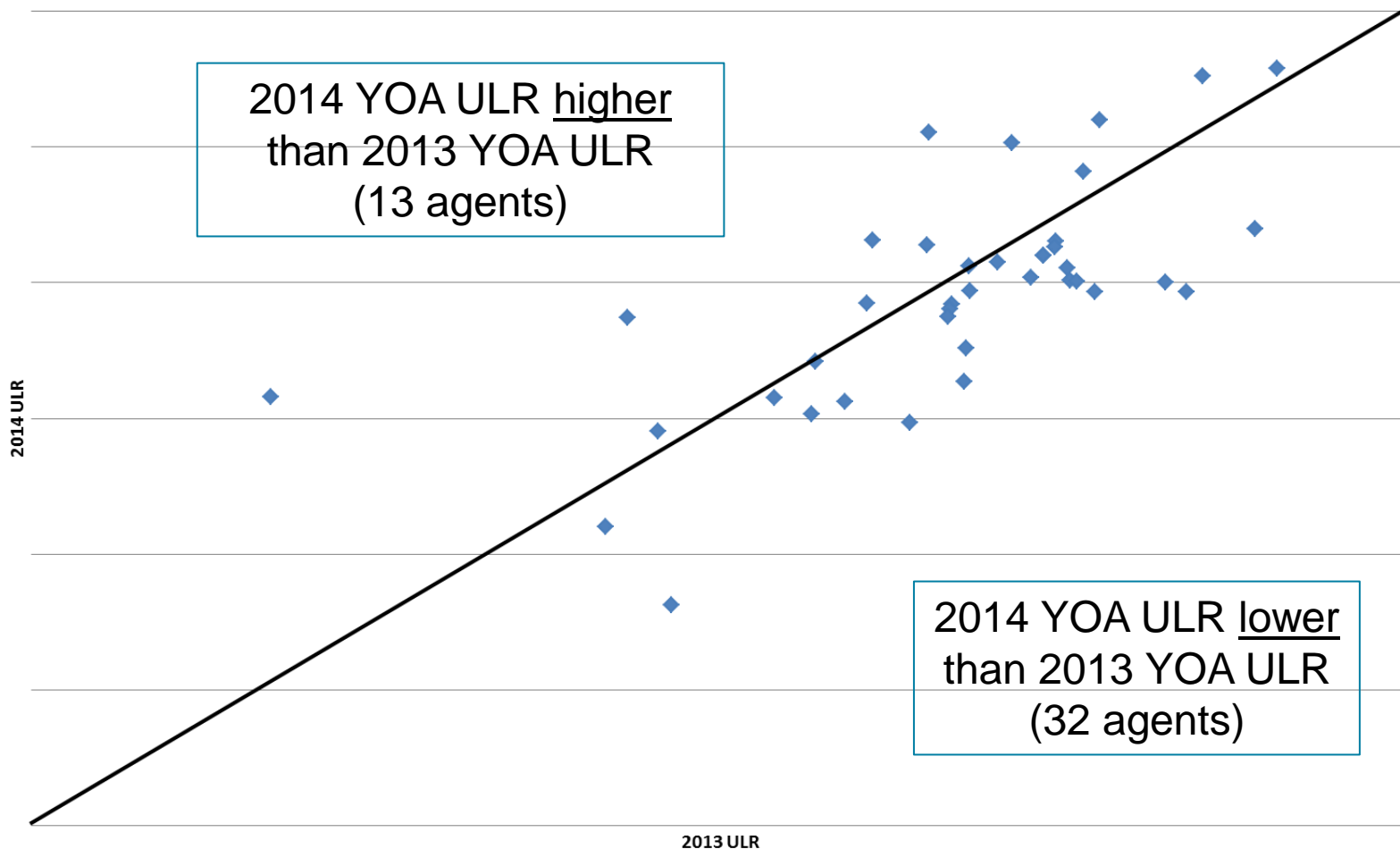
Net Earned ULRs	2008	2009	2010	2011	2012	2013	2014
At 12 months	12%	4%	9%	2%	1%	-3%	0%
At 24 months	14%	11%	8%	7%	5%	3%	
At 36 months	26%	8%	7%	6%	7%		
At 48 months	34%	12%	7%	7%			
At 60 months	35%	5%	5%				
At 72 months	35%	4%					
At 84 months	33%						

Source: Lloyd's TPD database

THIS WAS SPREAD ACROSS MANAGING AGENTS..

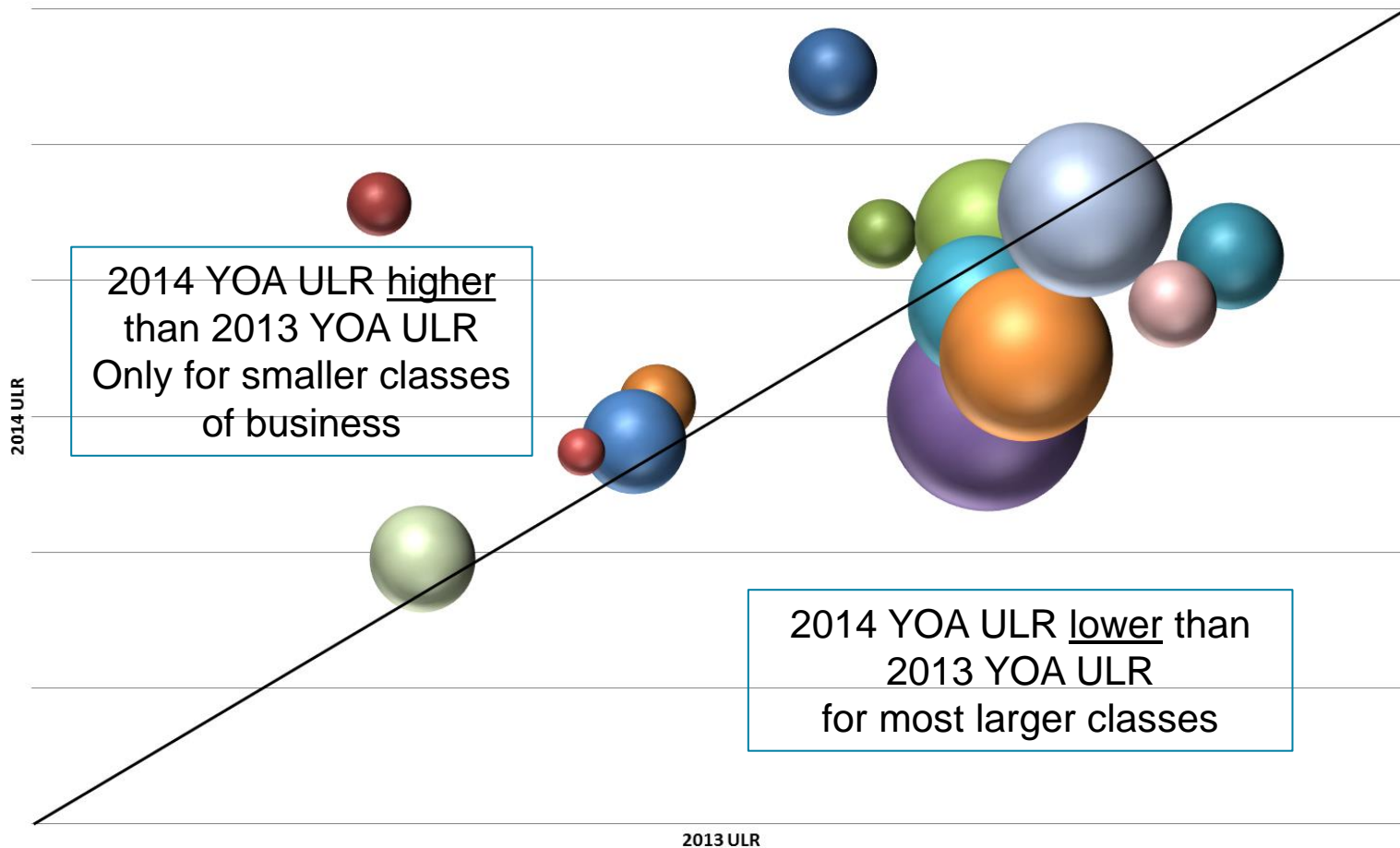
(PREMIUM IN EXCESS OF £10M FOR CASUALTY)

2013 vs 2014 held ULR



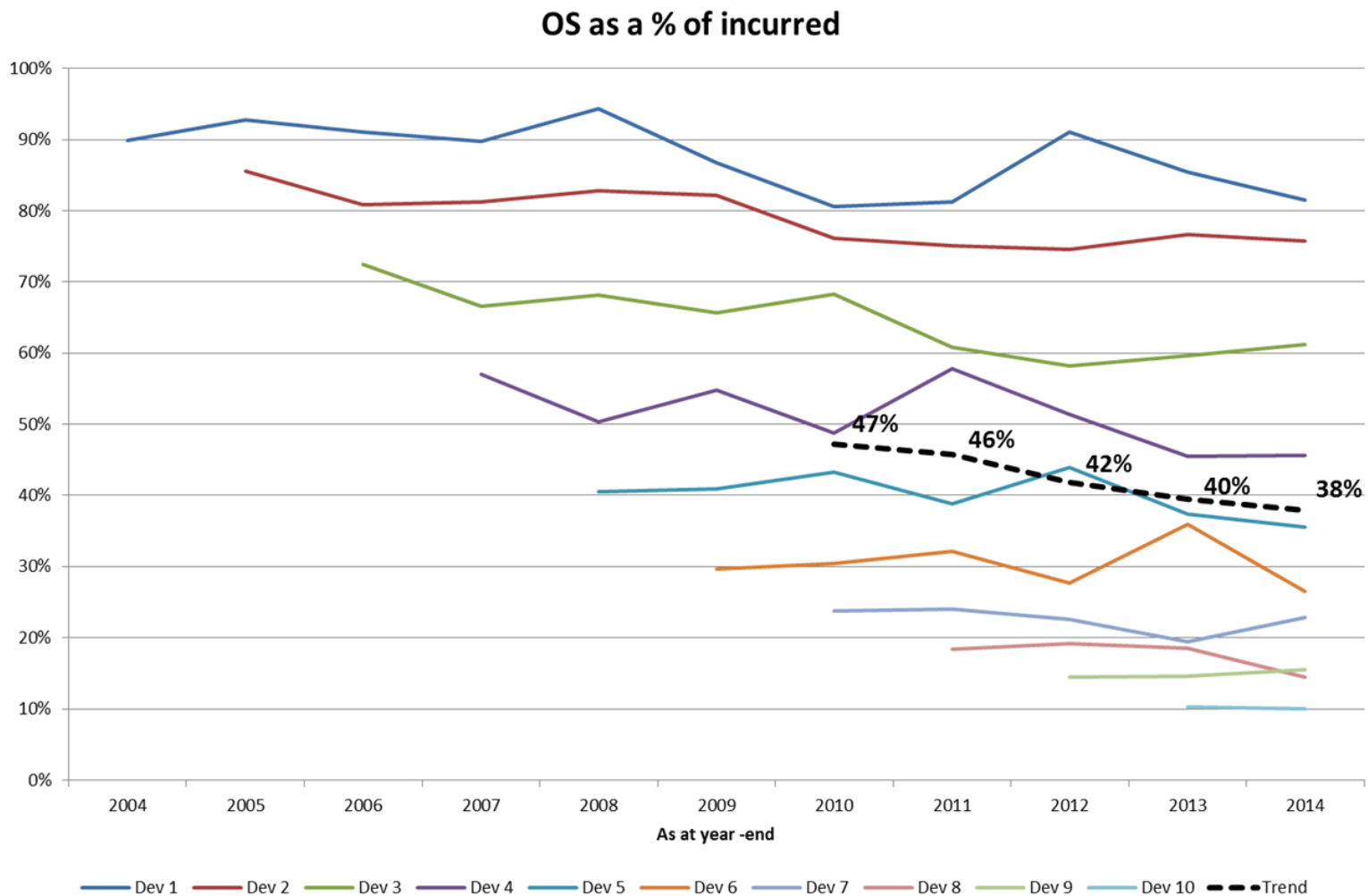
AND CLASS OF BUSINESS...

2013 ULR vs 2014 ULR by LLCOB (Casualty + Casualty treaty)



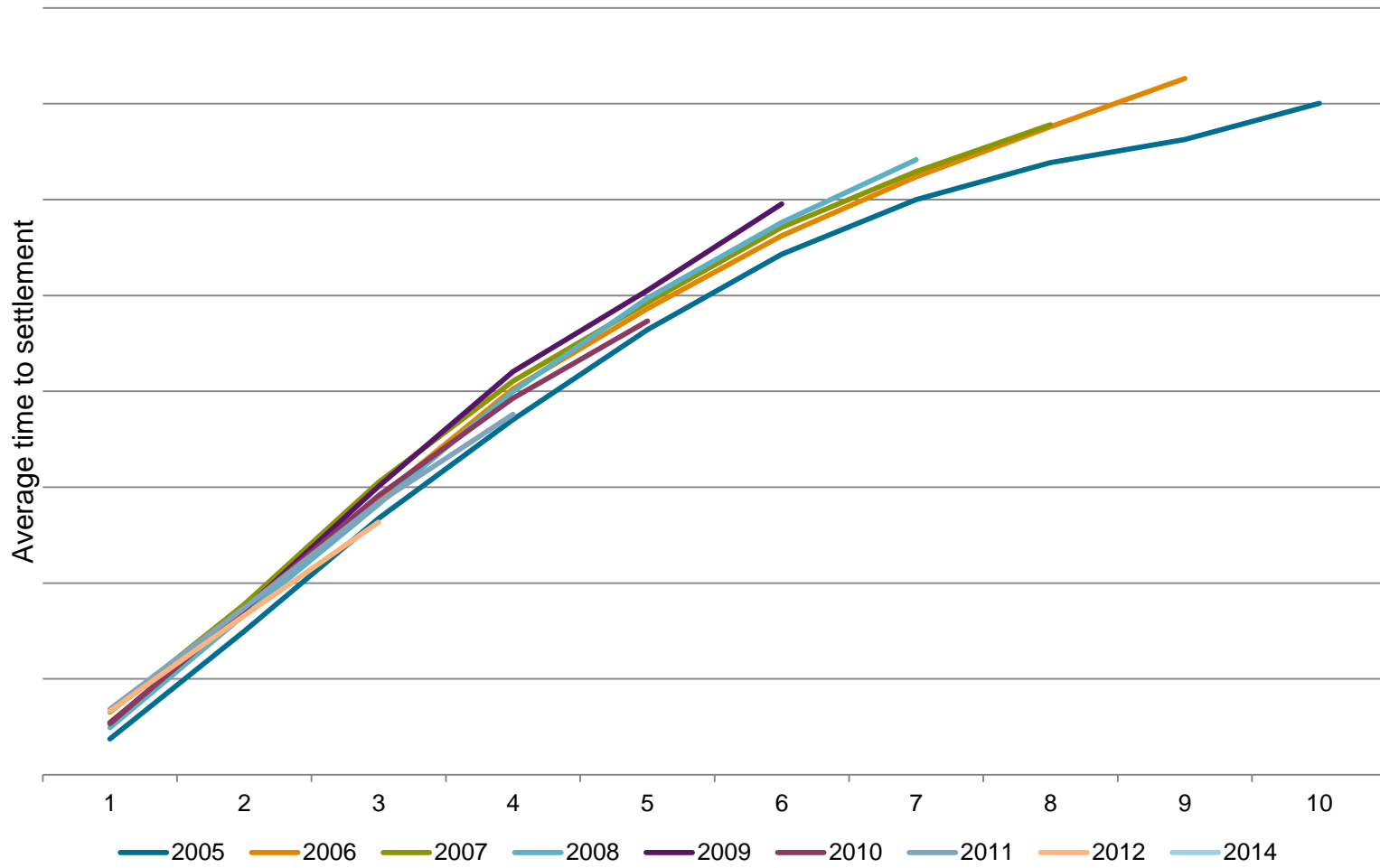
TRENDS ALSO SEEN...

OS: INC RATIO WEAKENING (CASUALTY)



TRENDS ALSO SEEN...

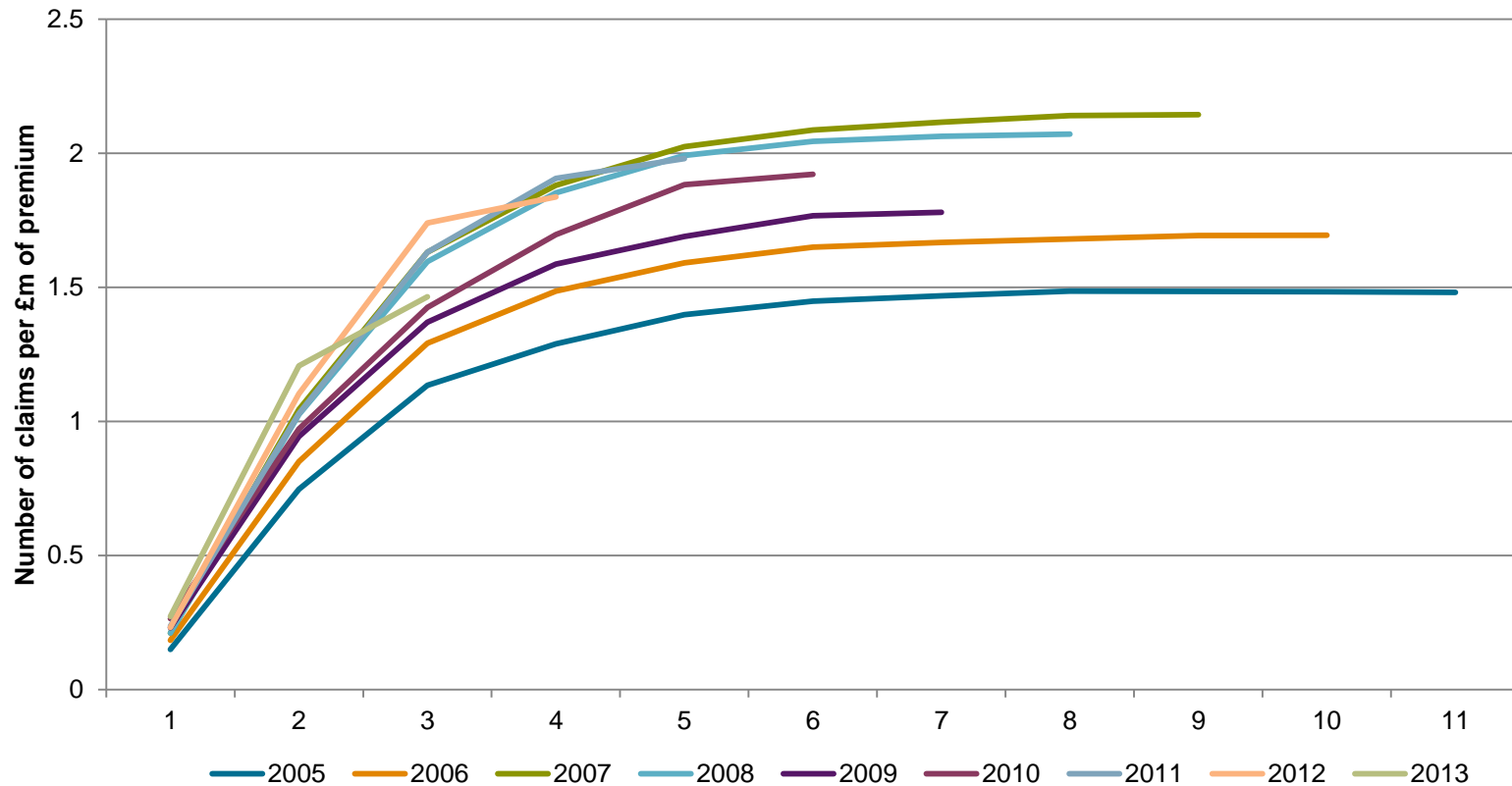
NO SPEED UP IN SETTLEMENT PATTERNS



Source: Xchanging data

TRENDS ALSO SEEN...

CLAIM NUMBERS STABLE



Source: Xchanging data

TRENDS ALSO SEEN...

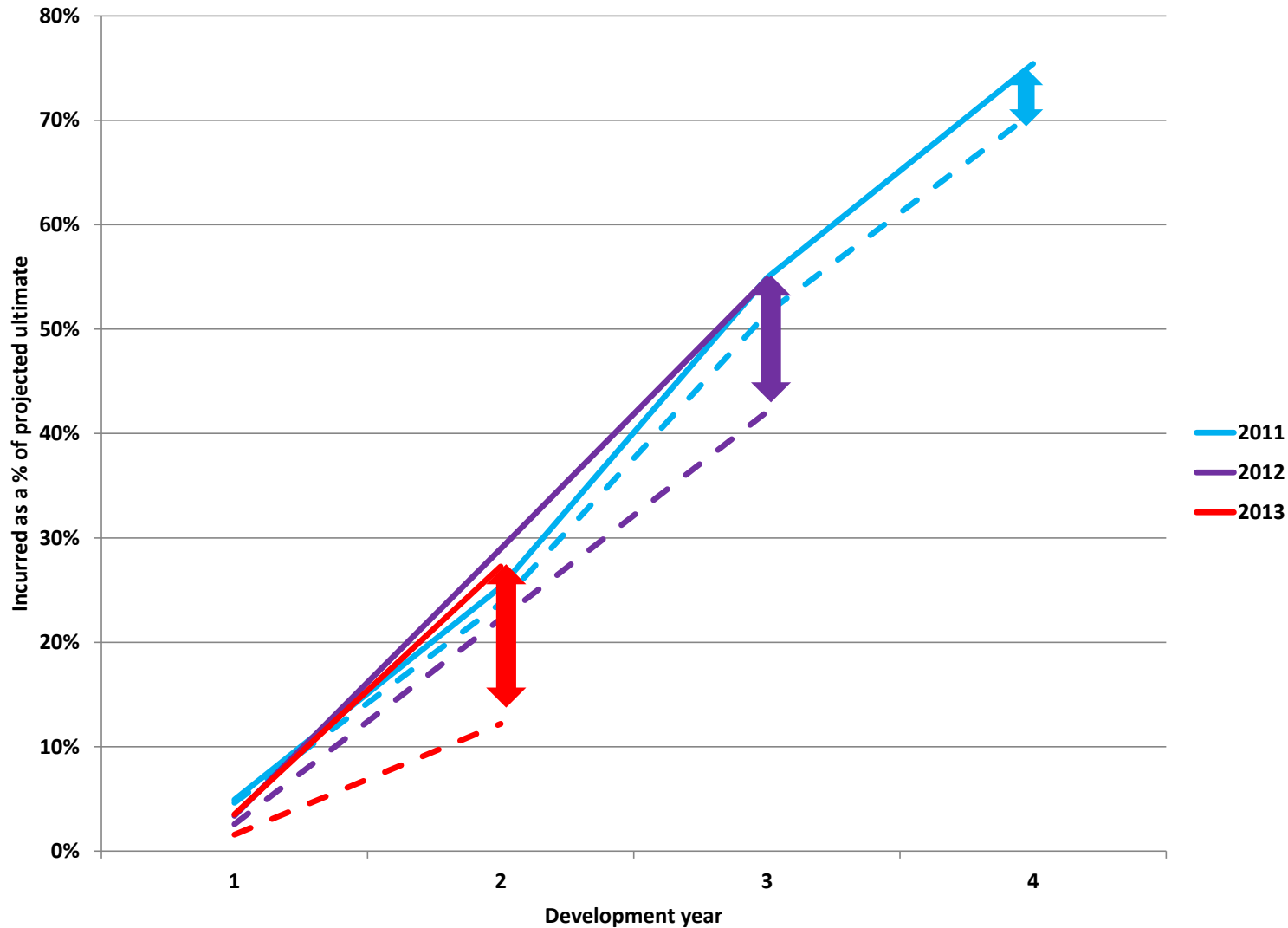
A SHIFT TO BINDERS (CASUALTY)

PYOA	BINDERS %	BINDERS (ILR)	NON BINDERS (ILR)
2009	30%	42%	33%
2010	34%	45%	26%
2011	34%	36%	26%
2012	37%	29%	14%
2013	42%	20%	11%
2014	43%	7%	2%

Source: Xchanging data

TRENDS ALSO SEEN...

A SHIFT TO BINDERS CAN IMPACT RESERVES



Source: Xchanging data

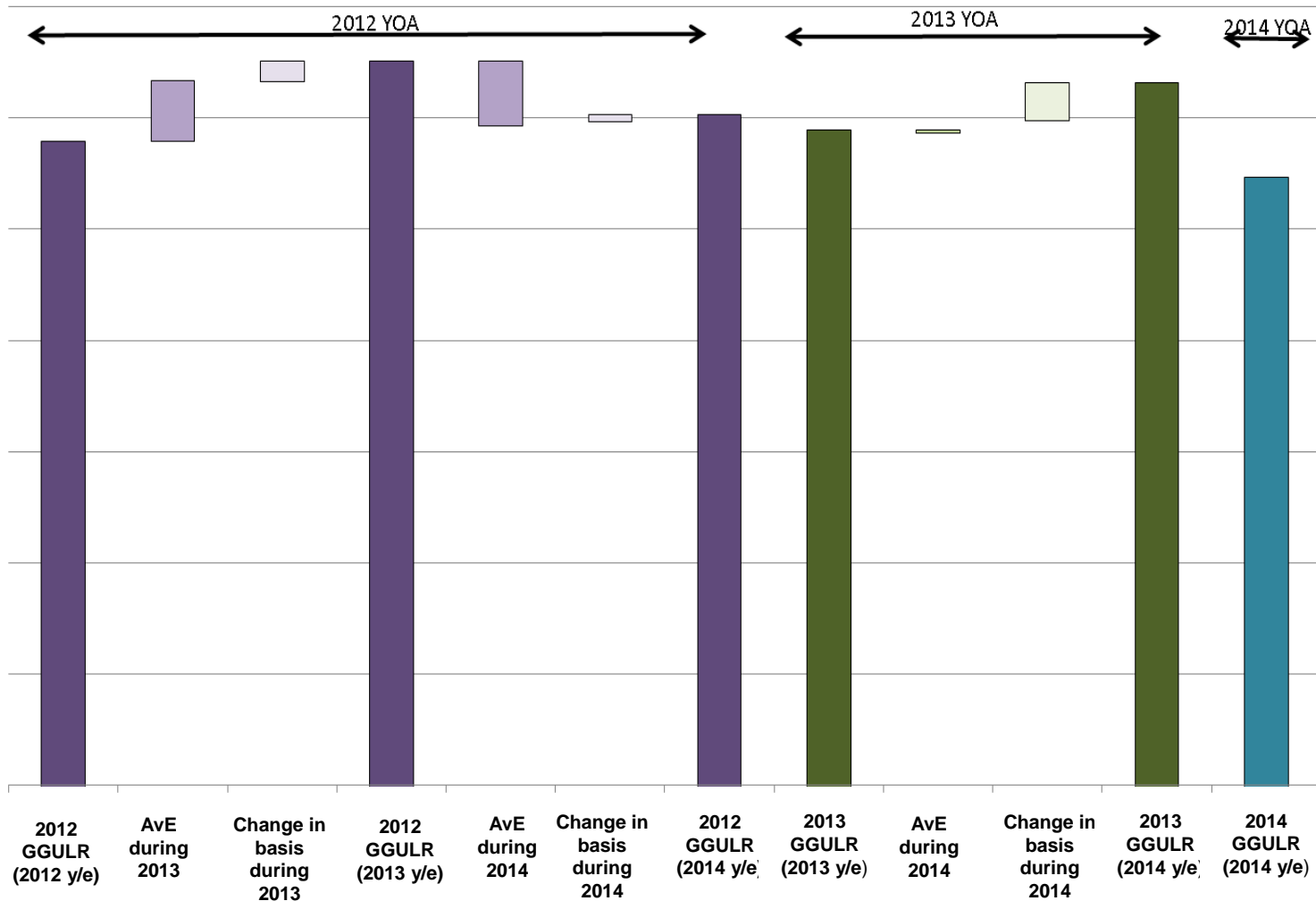
MARKET WAS ASKED TO BE AWARE..

- ▶ Letter sent to the market on 24th June 2015 reminding boards to consider:
 - **Sensitivities** in own technical provisions
 - How the **reserving cycle** is being addressed
 - **Reserve Benchmarking** comparisons
 - Appropriate level of **challenge**
- ▶ Lloyd's actions (in conjunction with Claims and Class of Business):
 - Analysis of **casualty bridging** information requested from the market
 - **Thematic reviews**
 - Strength of **case reserves**
 - Changes in **settlement patterns**

BRIDGING ANALYSIS REQUEST

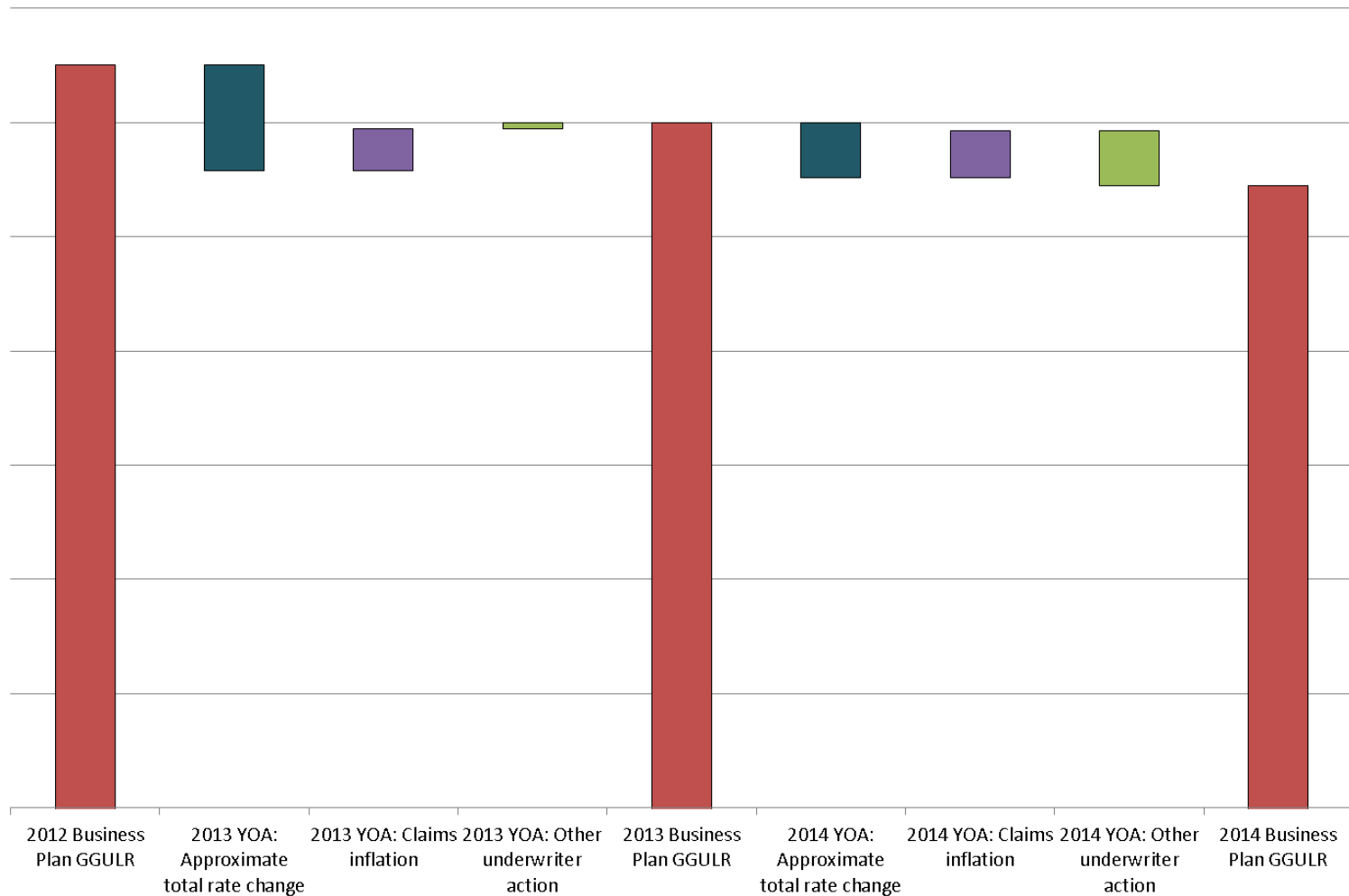
- ▶ Requested from market
 - Aim to demonstrate movement in ULRs for reserving and comparative ULRs for business planning
 - Reviewed and emails requesting clarification have been sent
 - Follow up data is in the process of being collected
 - Aim to feedback to market end of November

BRIDGING ANALYSIS FOR MARKET – SHOWS LOWER 2014 ULR...



DRAFT

...EXPLAINED BY RATE IMPROVEMENTS AND UNDERWRITER ACTIONS



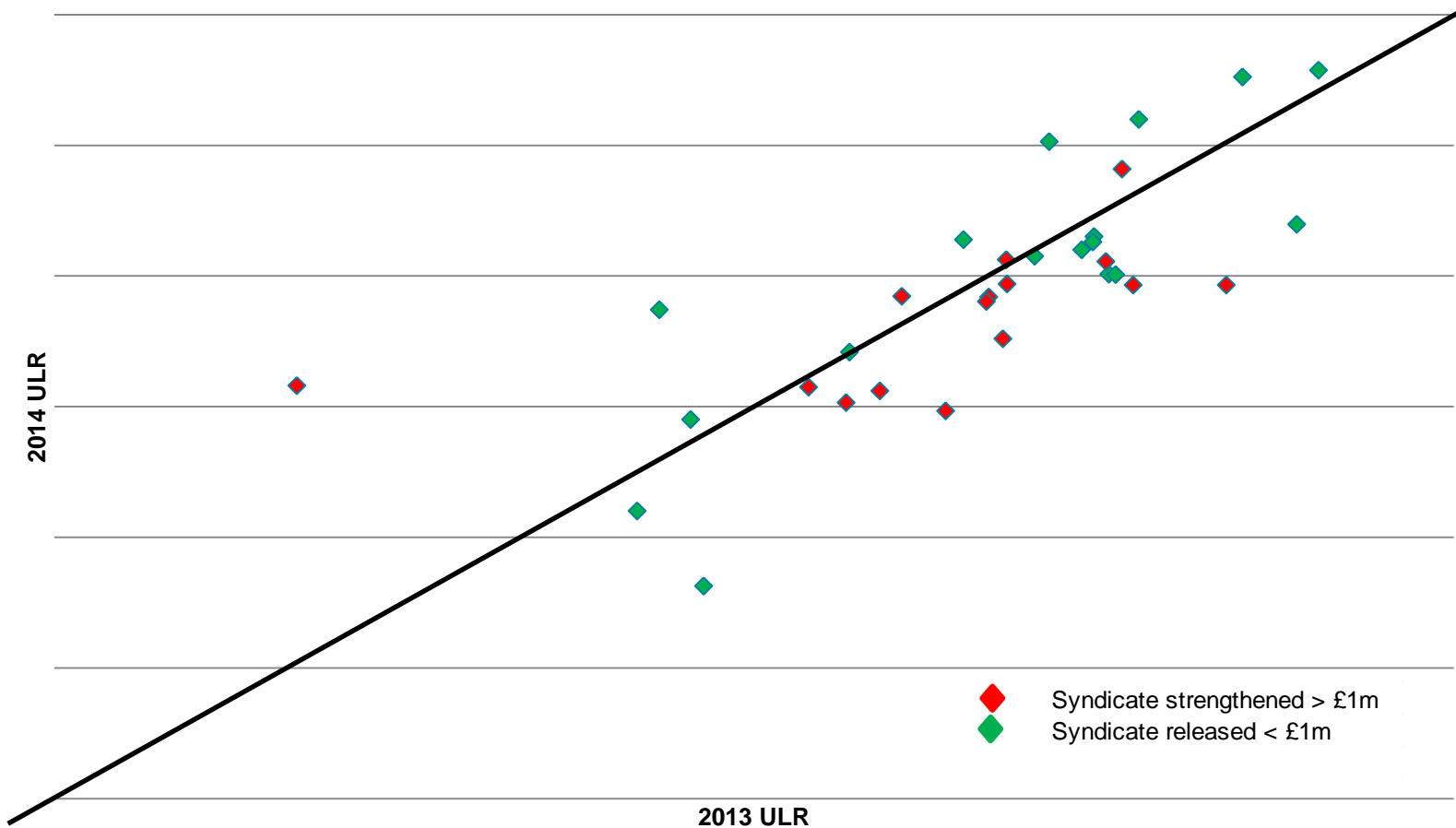
DRAFT

THEMATIC REVIEW

- ▶ 5 Casualty classes reviewed:
 - NM General Liability (non-US)
 - Professional Indemnity (non-US and US)
 - Financial Institutions (non-US and US)
- ▶ Selection based on Lloyd's market level projections
- ▶ Metrics included:
 - OS:Inc
 - IBNR:OS
 - Reserve:Ult
 - ULR development
 - Speed of development
- ▶ Any potential concerns highlighted will be fed back to market/syndicate

MID-YEAR RESULTS - TPL

2013 vs 2014 held ULR





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The fourth quarter and beyond...

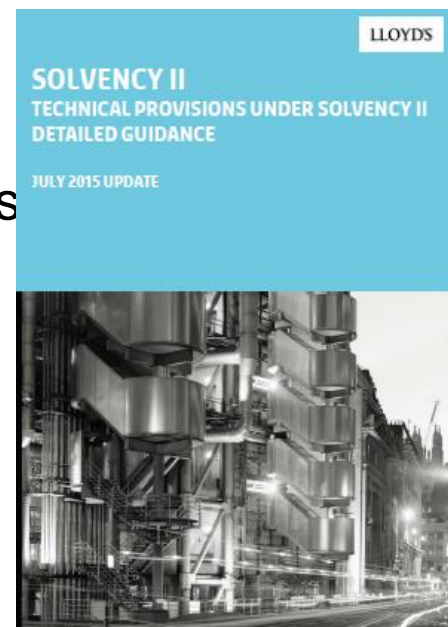
IMAP

- ▶ Submitted in June
- ▶ Around 20 IMAP firms understood to still be in the process
- ▶ Following up on any queries as they arise
- ▶ PRA will advise all IMAP firms of outcome in December



TECHNICAL PROVISIONS GUIDANCE

- ▶ EIOPA requirements now finalised
- ▶ Guidance update published on Lloyds.com
- ▶ Compliance expected from 2015Q2 onwards
- ▶ A number of areas have seen changes/clarifications:
 - **Contract boundaries**
 - Risk margin calculation
 - Look through on binders business
 - Matching and volatility adjustments
 - Relabelling of Binary Events as ENIDs

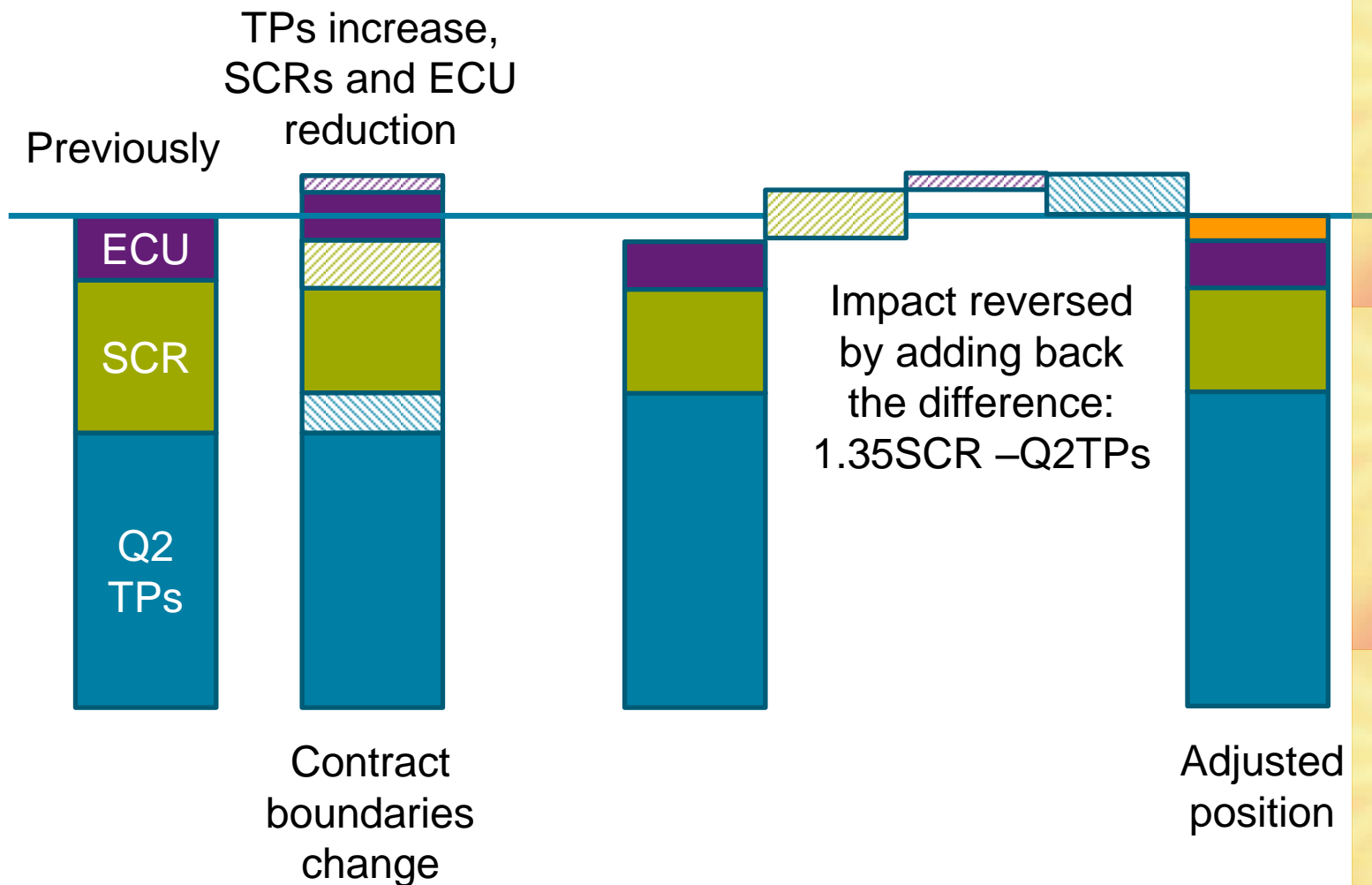


TECHNICAL PROVISIONS GUIDANCE – CONTRACT BOUNDARIES

- ▶ Focus on:
 - Whether the contract is legally obliged
 - Contractual terms
- ▶ **We expect this change to increase net technical provisions**
 - Quantum of change will depend on annual pattern of RI purchase and contract terms
- ▶ **The increase to liabilities will have an impact on SII member's balances**



CONTRACT BOUNDARY ADJUSTMENT



- If the change is not made to the SCR the Q2 TP impact is removed from the ECA

RESERVE BENCHMARKING

- ▶ Packs sent to the market in June and discussed with agents in Q3
- ▶ Continue to calculate an index on two bases:
 - **held reserves**
 - best estimate reserves
- ▶ Minimal changes since the 2013 YE exercise
 - Risk code mappings/classes
 - IBNR burn and Premium realisation
 - Analysis of acquisition costs
- ▶ Produces a 'reserving risk league table'
- ▶ Continues to be a good predictor of reserve movements, with correlation between the two bases



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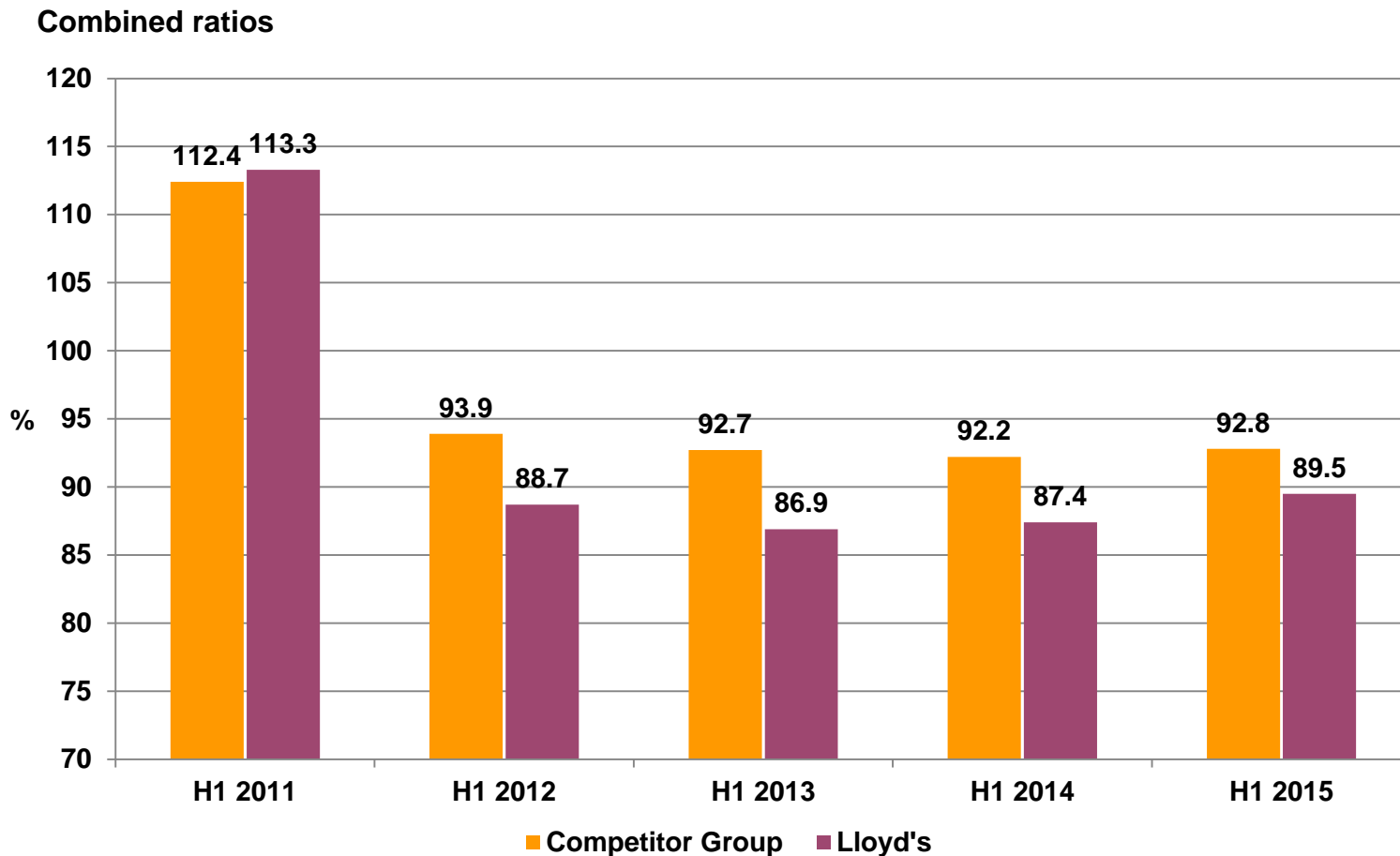
RESULTS AT A GLANCE

	Jun 2014	Jun 2015
Gross written premiums £m	14,481	15,513
Combined ratio (%)	87.4	89.5
Investment return (%)	1.3	0.6
Profit before tax £m	1,652	1,194
Return on Capital ¹ (pre-tax) (%)	16.3	10.7

Source: Lloyd's pro forma financial statements, 30 June 2015

¹Annualised basis

LLLOYD'S OUTPERFORMS COMPETITOR GROUP



Source: Lloyd's pro forma financial statements, 30 June 2015; competitor group formed of 11 companies operating in US, European and Bermudan markets. These companies are Ace, AIG, Arch, Everest Re, Hannover Re, Mapfre, Munich Re, Partner Re, SCOR, Swiss Re, XL.

PROFIT REDUCED THROUGH LOWER INVESTMENT RETURNS ...

£'m	Jun 2013	Jun 2014	Jun 2015	YTD % change
Gross written premium ¹	15,496	14,481	15,513	+7
Net earned premium	9,592	9,511	10,037	+6
Net earned claims	(4,853)	(4,693)	(5,018)	+7
Net operating expenses ²	(3,478)	(3,619)	(3,966)	+10
Underwriting result	1,261	1,199	1,053	-12
Investment return ³	247	647	339	-48
FX gain / (loss)	-	(99)	(85)	-14
Other income/(expenses) ⁴	(129)	(95)	(113)	+19
Profit before tax	1,379	1,652	1,194	-28

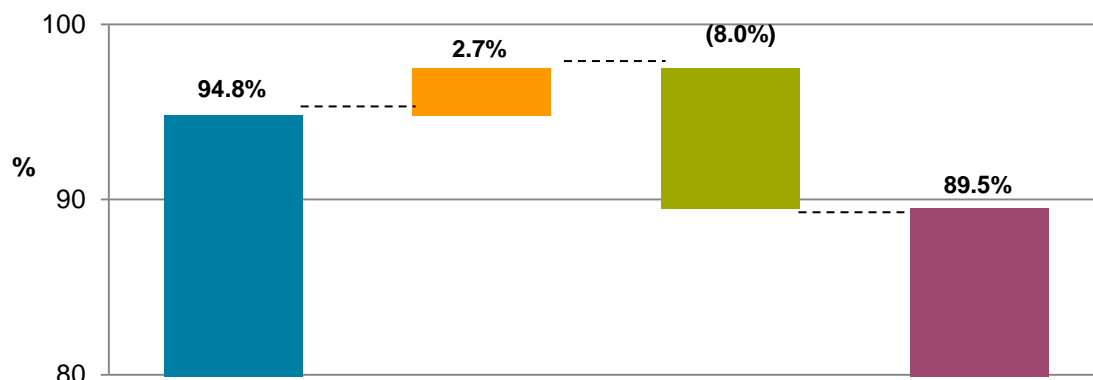
GWP	%
Prices ⁵	-5
Currency movements	+6
New syndicates ⁶	+1
Existing syndicates	+5
Total	+7

Investment return %		
2013	2014	2015
0.5	1.3	0.6

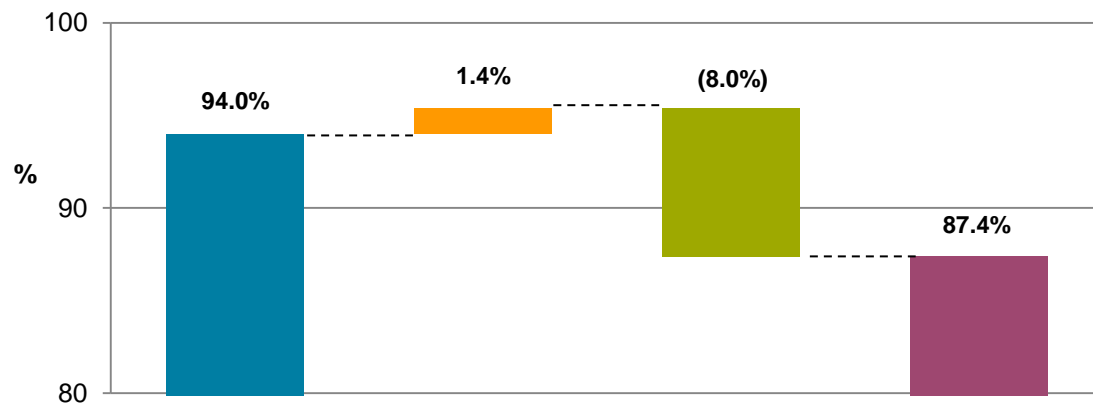
Source: Lloyd's pro forma basis, ¹ GWP restated for Special Purpose Syndicates (see glossary in Annual Report), ² Technical account, ³ Return on syndicates' assets, members' funds at Lloyd's and central assets, ⁴ Non-technical account, ⁵ Prices = Risk adjusted rate ⁶ Syndicates that started trading in 2013-15

... AND PRESSURE ON CURRENT PRICES AND EXPENSES

HY 2015



HY 2014



Analysis of accident year ratio excl major claims (%)

	2014	2015
Loss ratio	55.9	55.3
Expense ratio	38.1	39.5
Total	94.0	94.8

Major claims (£'m)

	2014	2015
Pemex		173
Other (largest £39m; 2014: largest £75m)	134	95
Total	134	268

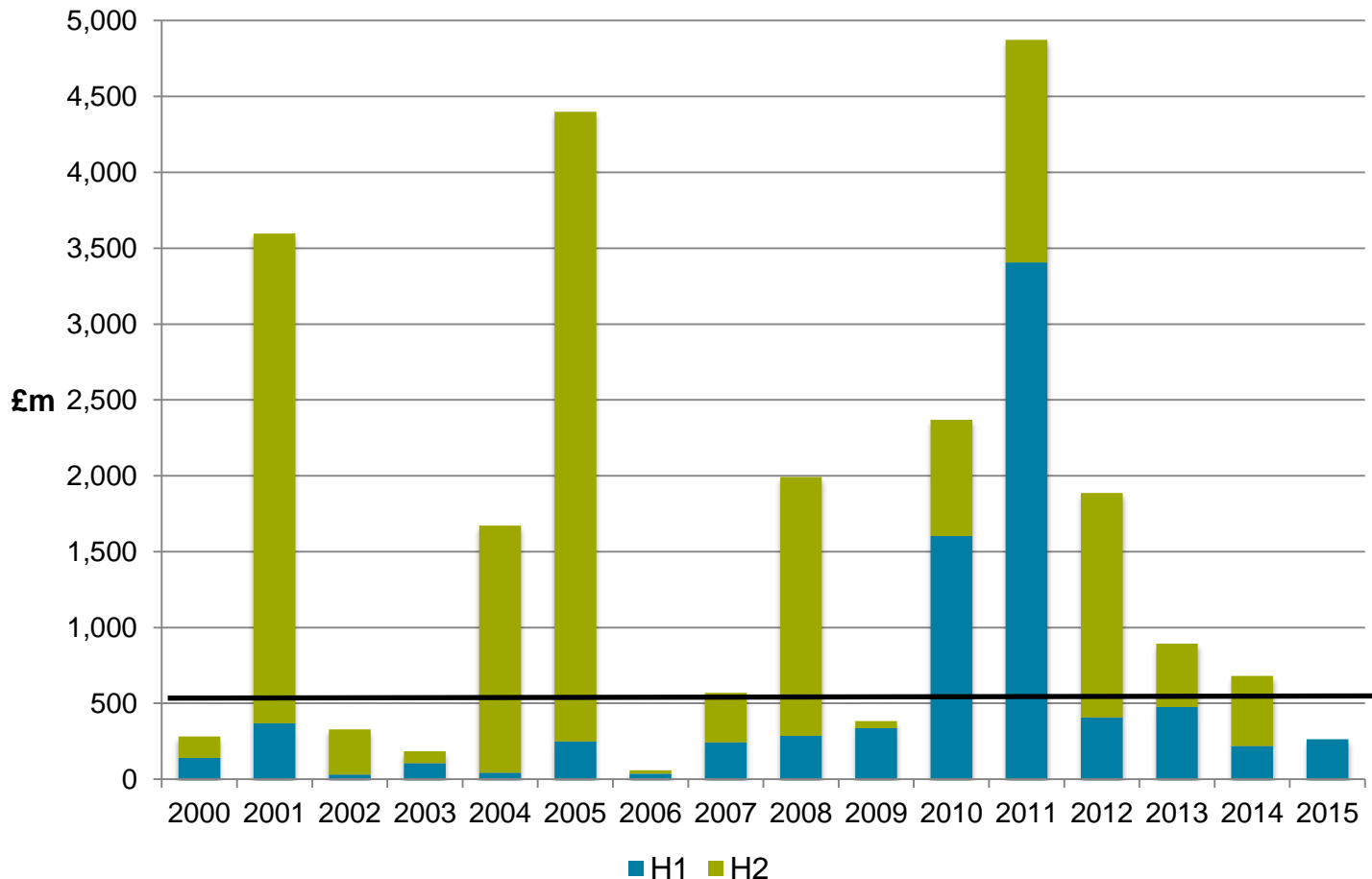
Reserve release (£'bn)

	2014	2015
Net earned reserves b/fwd	28.4	29.3
Release	0.8	0.8
Release % of reserves	2.7	2.8

Source: Lloyd's pro forma financial statements, 30 Jun 2015

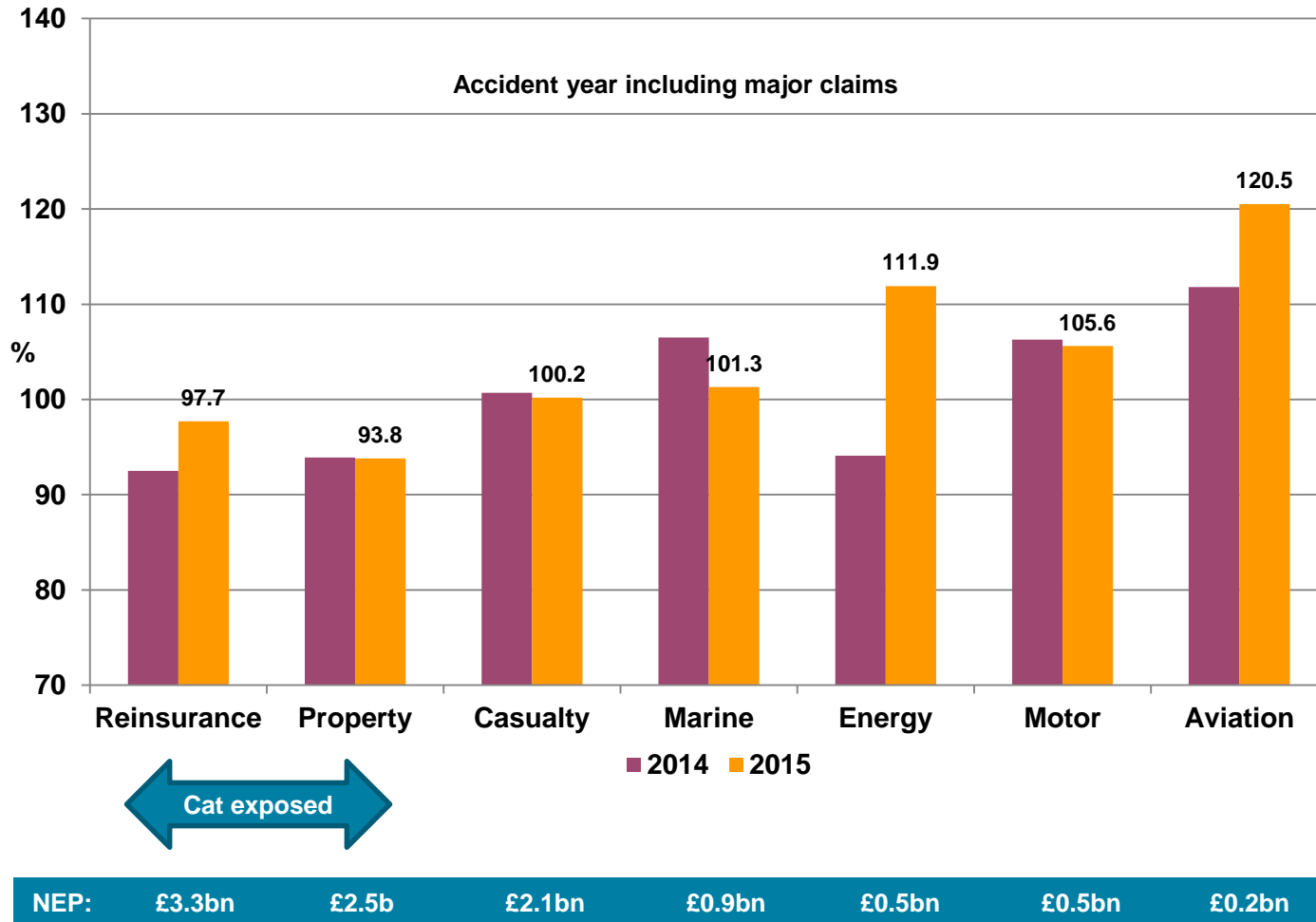
H1 MAJOR CLAIMS BELOW THE LONG TERM AVERAGE, THOUGH MODESTLY HIGHER THAN 2014

LLOYD'S MAJOR CLAIMS: NET ULTIMATE CLAIMS



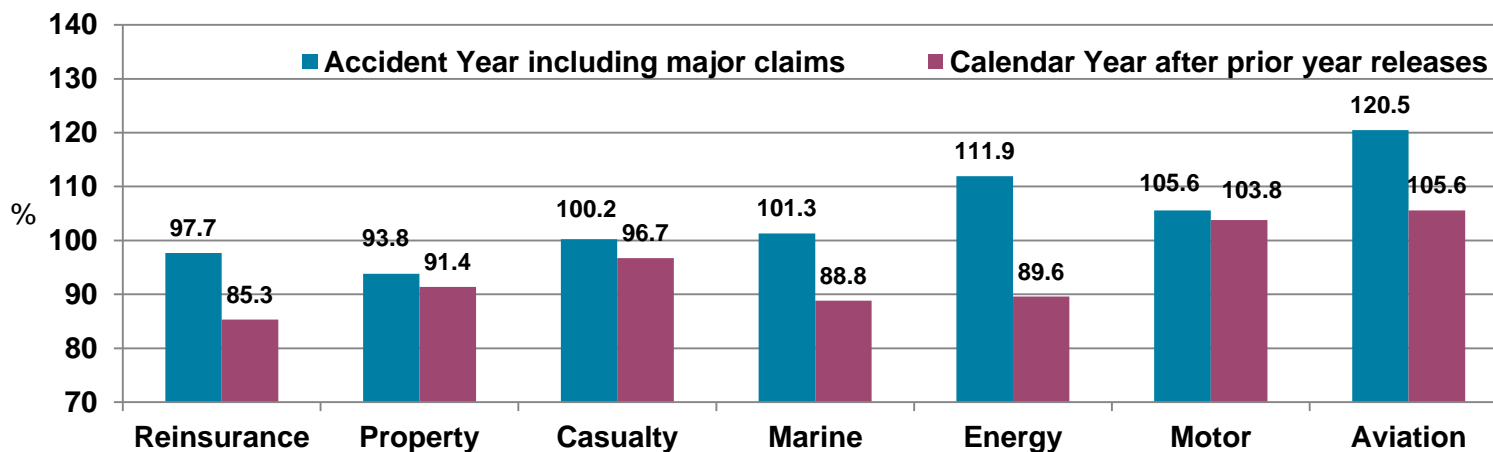
Indexed to June 2015. Claims in other currencies translated at the exchange rate prevailing at the date of loss. Excl 2015 year H1 average £530m.; 5 year H1 average £1,222m

ACCIDENT YEAR RATIOS ACROSS ALL CLASSES IMPACTED BY PRESSURE ON RATES

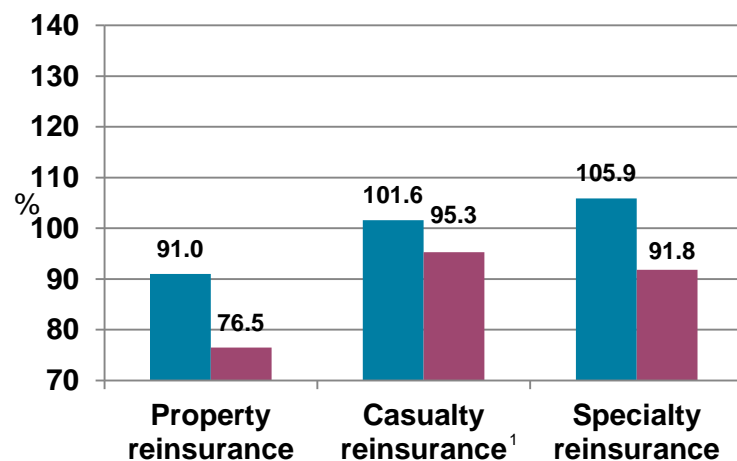


Source: Lloyd's pro forma financial statements, June 2015; NEP: Net Earned Premium

ALL CLASSES EXPERIENCING CONTINUED PRIOR YEAR RELEASES



NEP:	£3.3bn	£2.5bn	£2.1bn	£0.9bn	£0.5bn	£0.5bn	£0.2bn



NEP:	£1.6bn	£0.8bn	£0.9bn

Source: Lloyd's pro forma financial statements, June 2015; NEP: Net Earned Premium; ¹ Includes Motor

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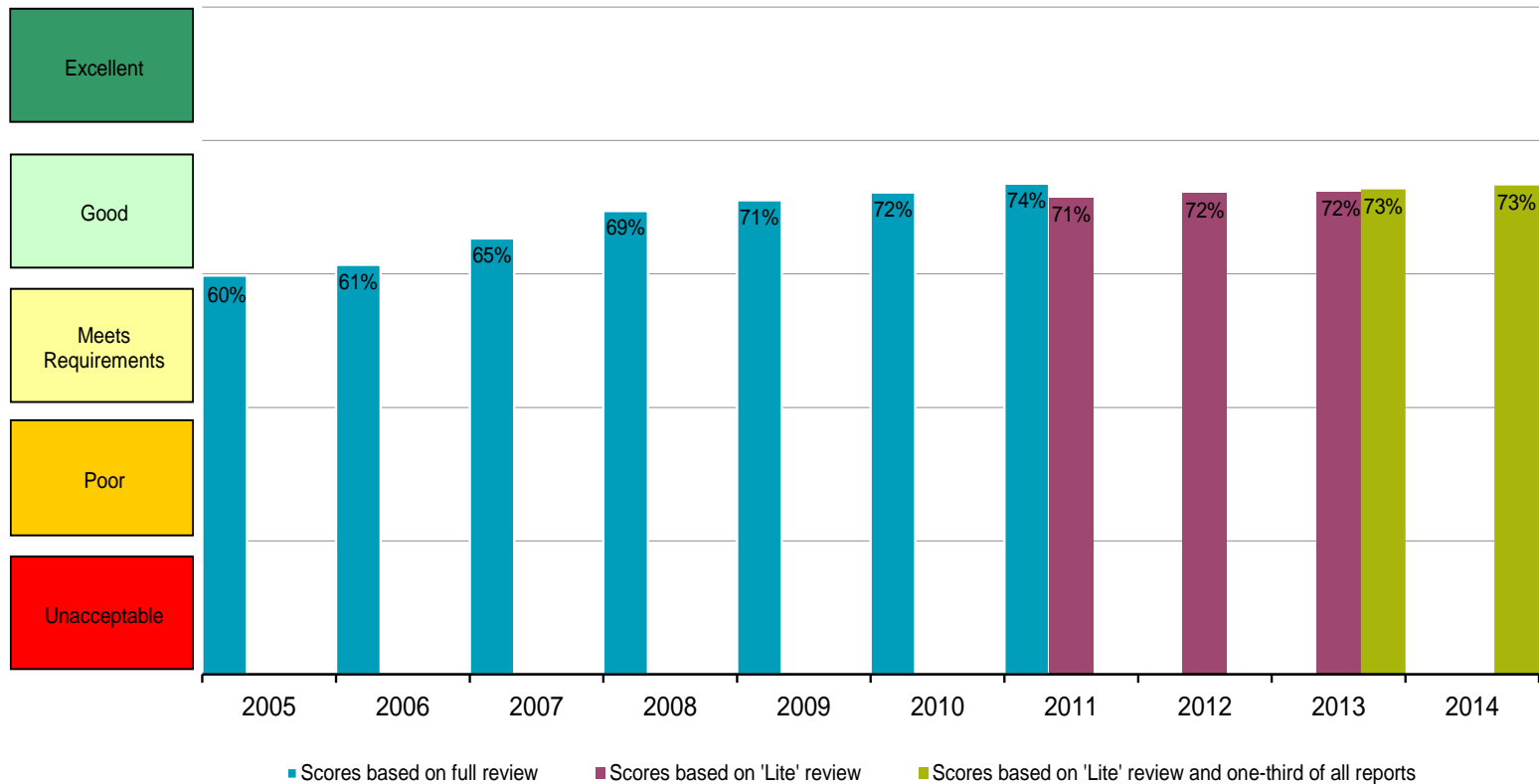
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SAO REPORT FEEDBACK PROVIDED

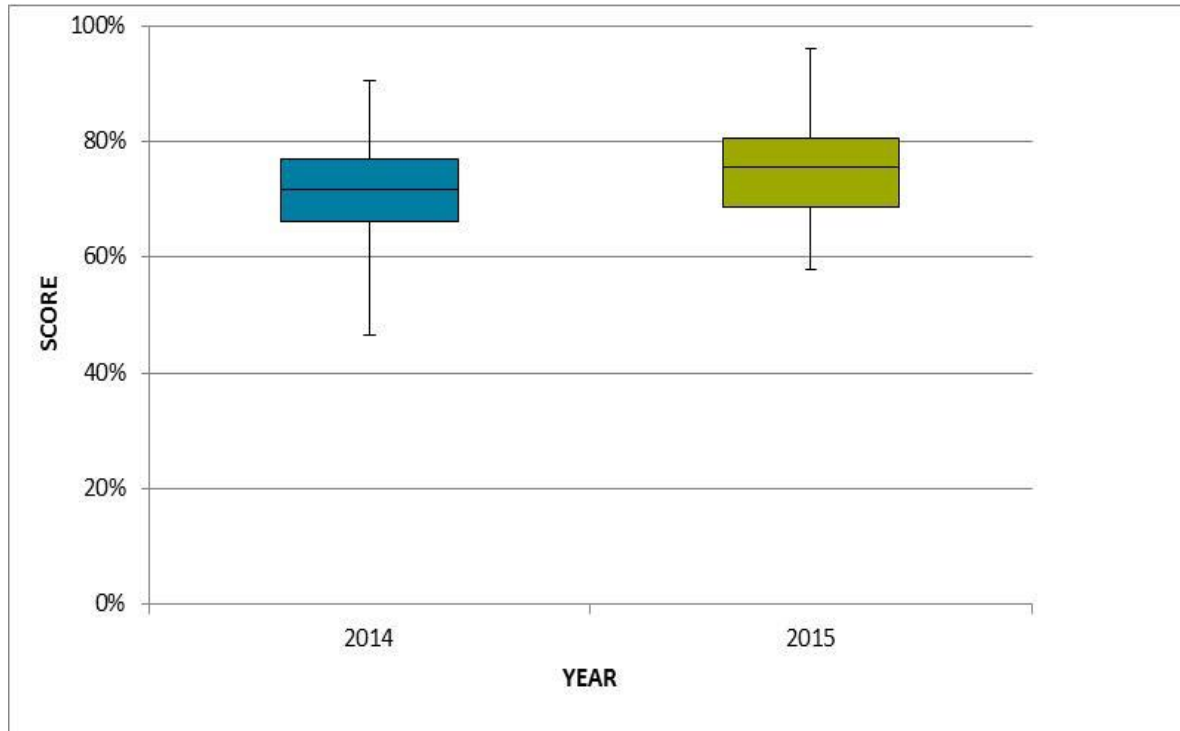
OVERALL PERFORMANCE FOR ALL PRODUCERS BY YEAR-END



Note:

For comparison purposes, the 2011 score is also shown rebased to represent 'Lite' review. The 2013 score is also shown rebased to show the average of the 2013 scores for the reports which have been reviewed at 2014 year-end.

AFRS – IMPROVEMENT IN ‘SCORE’



- Improvement in range and consistency

QUARTERLY INFO TO CALM

	Accident & Health	Aviation	Casualty	Casualty Treaty	Energy	Marine	Overseas Motor	Property D&F	Property Treaty
2006 & Prior	↓	●	●	↓	↓	↑	●	●	●
2007	↓	●	↓	●	↓	●	●	●	●
2008	↑	●	●	●	●	●	●	●	●
2009	●	●	↓	↓	●	●	●	●	↓
2010	●	●	↓	↑	●	●	●	●	↓
2011	↓	●	↓	↓	●	↑	●	↓	●
2012	↓	●	↓	↓	●	↓	●	●	●
2012 & Prior	↓	●	↓	↓	●	●	●	●	●
2013	↓	●	↓	↓	●	↓	↑	●	●
2014	↓	↓	↓	↓	●	↓	●	●	●
2014 Prior	↓	↓	↓	↓	●	↓	↓	●	●

- ▶ Compares AvE analysis based on market level projections to level of IBNR held
- ▶ **Green** shows AvE is less than 10% of market held IBNR
- ▶ **Red** shows AvE is greater than 10% of market held IBNR
- ▶ **Amber** is in the middle with the arrows suggesting direction (up pointing towards red and down towards green)

SCR REVIEWS IN 2015

- ▶ Lloyd's action:
 - Light reviews in July
 - Share “Analysis of Change” with Agents
 - More transparency with market
 - Avoids iterations of review process
- ▶ Agents to complete as part of submission
 - “Analysis of Change” template in September
 - “Supplementary Questionnaire” in September
- ▶ No issues identified ⇒ Fast track review
- ▶ Examples of “issues”:
 - Changes vs. exposure without reasons (e.g. RI change)
 - Failed test(s) or reconciliations
 - Late submission / incorrectly completed forms

Note : for active syndicates only

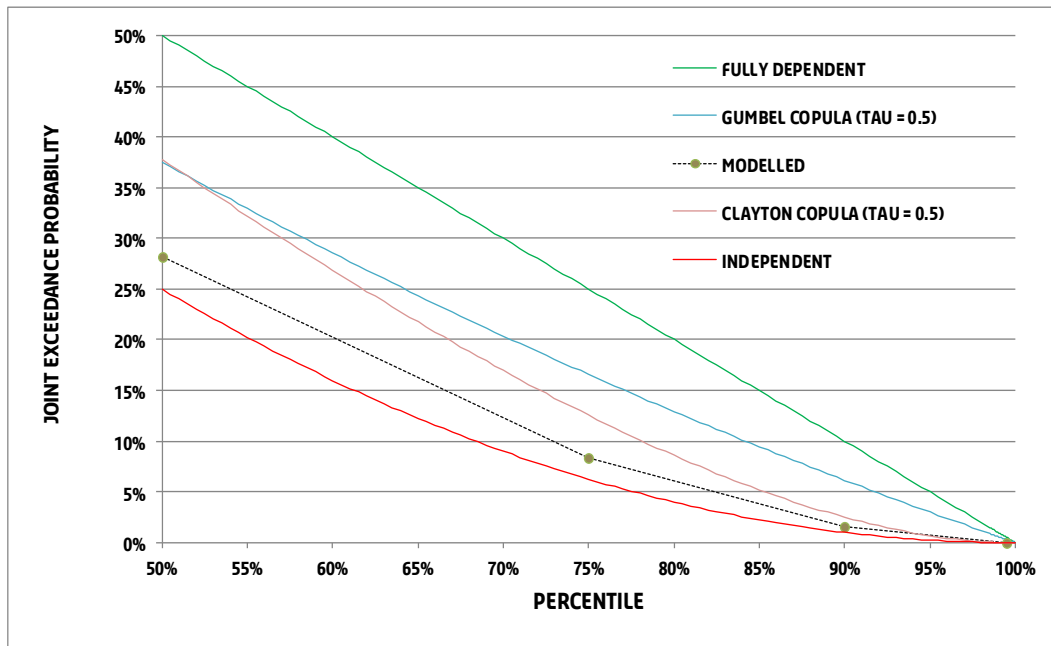
SCR 2015 REVIEW DATES

Submission / approval dates	SBF and LCR	Required submissions
3 JULY	<ul style="list-style-type: none"> Provisional 2016 SBF <ul style="list-style-type: none"> Draft 2016 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 	
MID-AUGUST (15TH)	<ul style="list-style-type: none"> Lloyd's Capital feedback deadline for all syndicates (as last year will aim to be sooner in most cases) 	
16 SEPTEMBER	<ul style="list-style-type: none"> Final 2016 SBF 	<ul style="list-style-type: none"> All syndicates
	<ul style="list-style-type: none"> Final 2016 LCR Supplementary Questionnaire 	<ul style="list-style-type: none"> All syndicates
16 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 	

SUBMISSION OF LCR

- ▶ Additional analysis on additional supplementary questionnaire carried out
 - Correlations

PREMIUM RISK AND RESERVE RISK



- Simulation error

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LOOKING AHEAD: Q4

- ▶ AF opinions
- ▶ QSR as at 30th September – due 5th November
- ▶ November CIL
- ▶ Lloyd's forum – 6th November
 - Emerging risks
 - Cat model stability/model updates
 - Reserving Minimum Standards
 - ORSA
- ▶ Signing actuaries forum – 4th December

SYNDICATE SOLVENCY II READINESS

- ▶ An intensive round of reviews of syndicate readiness took place in Q1
- ▶ Remaining red agents reviewed again during Q2
 - remediation plans agreed with agents
- ▶ At mid-year a very small number of red agents remain
- ▶ **Red rating** = 20% capital loading for mid-year Coming into Line
- ▶ Discussions with the PRA over syndicate readiness
 - Challenge of Lloyd's views on agent status
 - A large amount of detailed evidence expected to justify our views

RESERVING MINIMUM STANDARDS

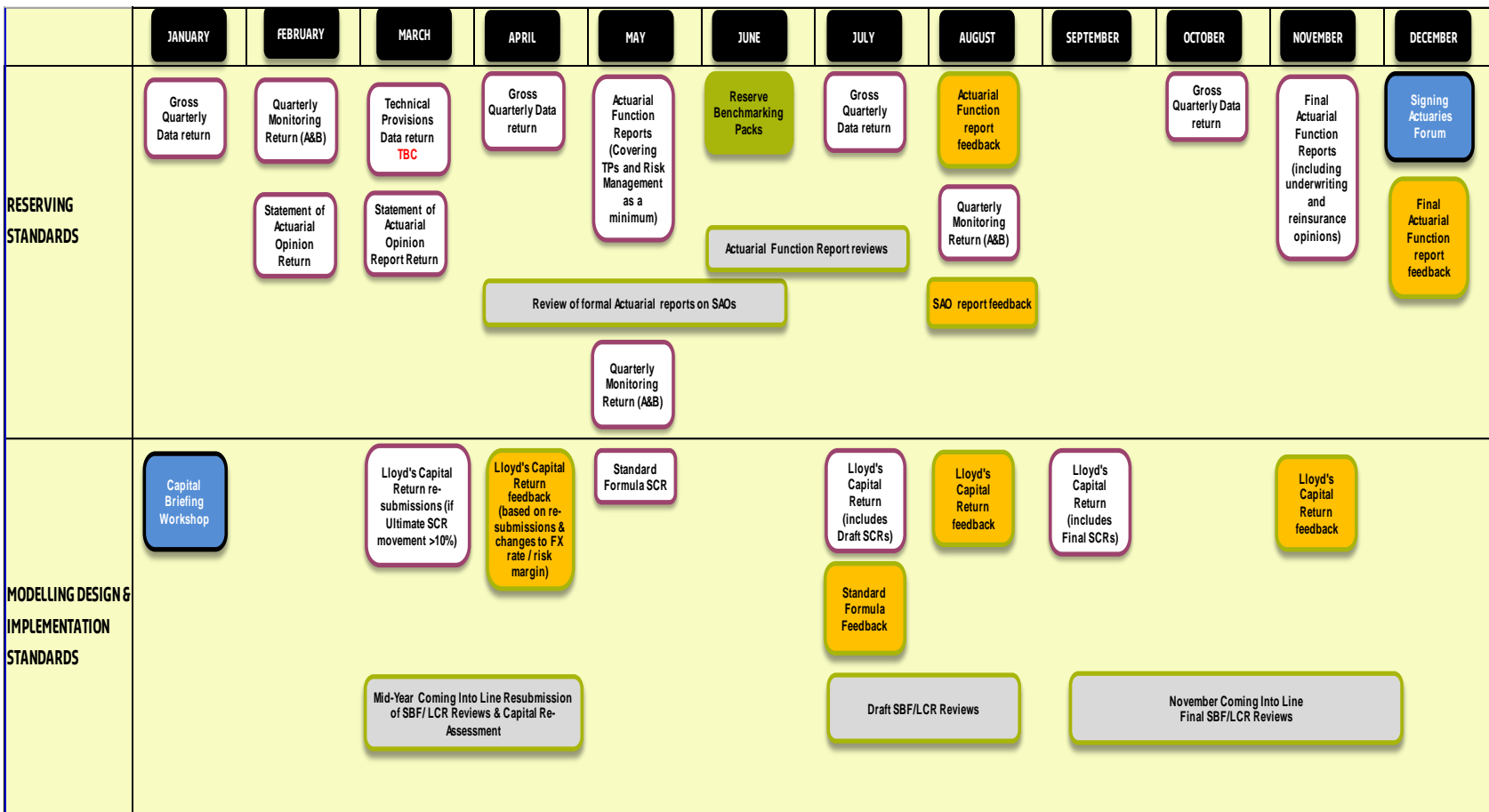
- ▶ Covers the following:
 - Board Responsibility
 - Statement of Actuarial Opinion
 - Actuarial Function
 - Board Information
 - Reserving Procedure
 - Documentation
 - Reserving Data
- ▶ Lloyd's will be reviewing self assessment of compliance in Q1 2016
- ▶ This will be tested in conjunction with risk management



INTERNATIONAL REGULATORY ACTIVITY



ALL ALONG WITH BAU



DRAFT

AND OF COURSE...

- Farewell to Henry!



A word cloud featuring various farewell phrases in different colors and sizes. The words are arranged in a cluster, with 'goodbye' and 'thank you' being the largest. Other words include 'regards', 'sayonara', 'ciao', 'farewell', 'cheers', 'adieu', 'see ya', 'toodle-oo', 'cheerio', 'so long', 'adios', 'Au revoir', 'Arrivederci', 'Auf Wiedersehen', 'by-bye', 'coda', 'envoi', 'godspeed', 'conclusion', 'leave-taking', and 'culmination'.

goodbye
thank you
regards
sayonara
ciao
farewell
cheers
adieu
see ya
toodle-oo
cheerio
so long
adios
Au revoir
Arrivederci
Auf Wiedersehen
by-bye
coda
envoi
godspeed
conclusion
leave-taking
culmination



INTERESTING TIMES

GIRO Oct 2015

Henry Johnson, Lloyd's

DEFINITELY NOT A CURSE!

- ▶ I started six months before 9/11 – a “market changing event” and no mistake!
- ▶ Lloyd’s has built up capital including the Central Fund subordinated debt...
- ▶ ...and following the Chairman’s Strategy Group, set up Franchise Performance
- ▶ I’ve seen the FSA take over regulation of Lloyd’s, then be replaced by the PRA
 - I’m sympathetic with their job; is ours easier?
- ▶ I’ve had tremendous support from the market and from CALM – Gary Budinger and the Chairs...
 - David Lang 2001/2
 - Mark Graham 2003/4/5
 - Julian Ross 2006/7
 - Anthony Williams 2008/9/10
 - Nick Line 2011/12/13
 - Gary McNally 2014
 - Ben Canagaretna 2015 -----
- ▶ I’ve had three excellent bosses in Moss, Savage and Parry
- ▶ I’ve had great people in my team, many of whom have gone on to top jobs – I’ll come back to that
- ▶ Now **[I hope]** we have introduced Solvency II successfully, it’s time for a fresh pair of eyes
 - ...looking at the same issues
- ▶ “Insights” at Awayday: “should take life more seriously”

THIS IS A PERSONAL VIEW

“An eminent philosopher ... has shown me this pregnant little fact. Your pier-glass or extensive surface of polished steel made to be rubbed by a housemaid, will be minutely and multitudinously scratched in all directions; but place now against it a lighted candle as a centre of illumination, and lo! the scratches will seem to arrange themselves in a fine series of concentric circles round that little sun. It is demonstrable that the scratches are going everywhere impartially and it is only your candle which produces the flattering illusion of a concentric arrangement, its light falling with an exclusive optical selection.”

[George Eliot, Middlemarch]

**BEFORE I
STARTED**



PRA



LIBERTY



RBC DAYS

- ▶ James Orr's May 2001 Monthly activity report:
 - RBC model signed off by PSC and ready for release
 - Preparing for the Glass Test in June
 - Carrying out a change analysis
 - Peter Tavner is to start as RBC actuary in August

AMLIN



- ▶ August 2001 activity report:
 - “JBO met with David Simmons of the FSA to draft a response to the EU’s consultation paper on the supervision of reinsurers”
- ▶ October 2001 GIRO presentation, JBO and Andreas Tsanakas:
 - “Risk of Ruin”
- ▶ October 2002: “Stochastic Model” (JBO and SDC)
- ▶ October 2003: Peter Tavner and Ian Shires attended in Cardiff (I came for a day, to hear the Watsons talk on ECR)

**BEFORE HE
GOT THE
TWEED
JACKET...**



TRAVELERS



CHAIRMAN'S STRATEGY GROUP

- ▶ I was fortunate that Andrew Moss asked me to represent him at the CSG workstream looking at market oversight
- ▶ Led by Edward Creasy
- ▶ Recommended that there should be a “Franchise Board”, later “Franchise Performance Directorate”



BE AFRAID!



**BE VERY
AFRAID!**





**ROLLING
FORWARD TO
2008...**

Agenda [GIRO 2008, Sorrento]

- Introduction & PMDP – Henry
- Capital & ICAs - Veekash
- Claims, Reserving & Solvency II – Jerome
- Lloyd's Interim Results (25th September)

YOUNG VEEKASH



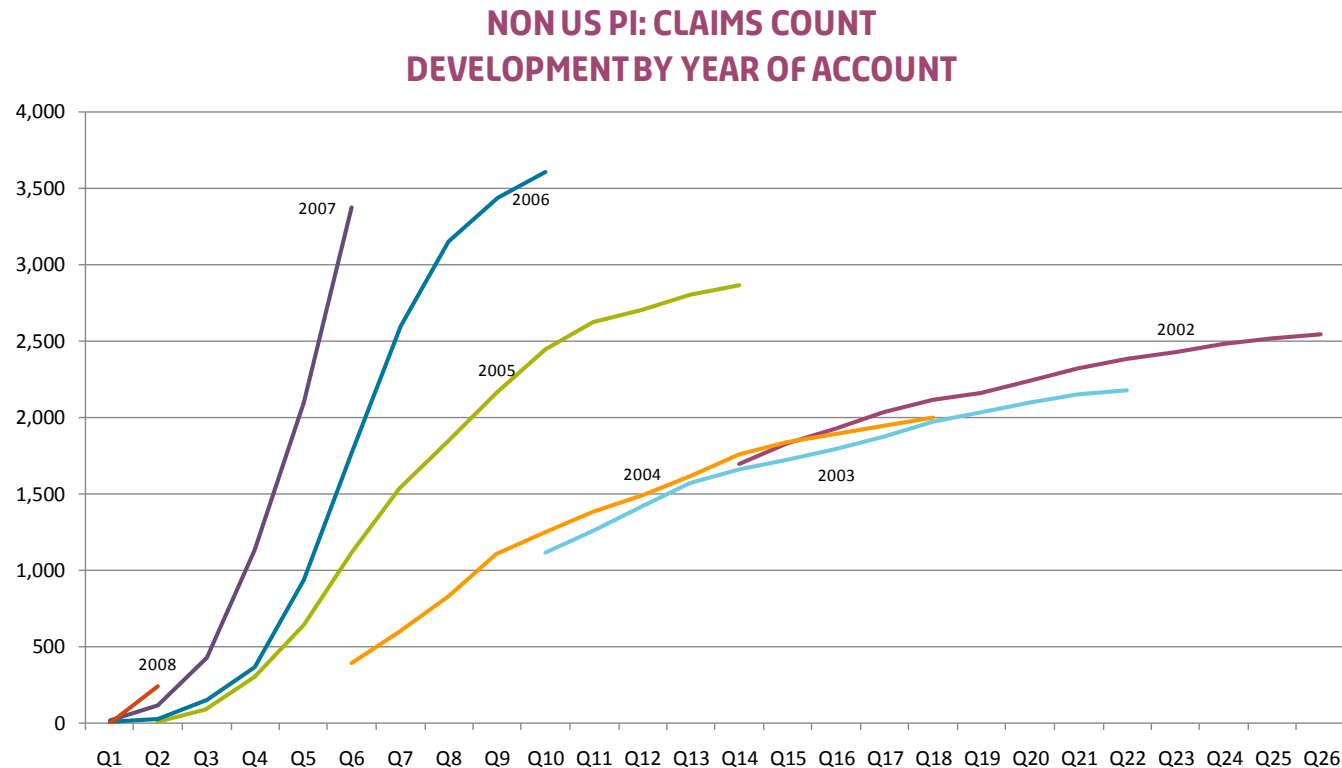
**YOUNG
JEROME**





Claims

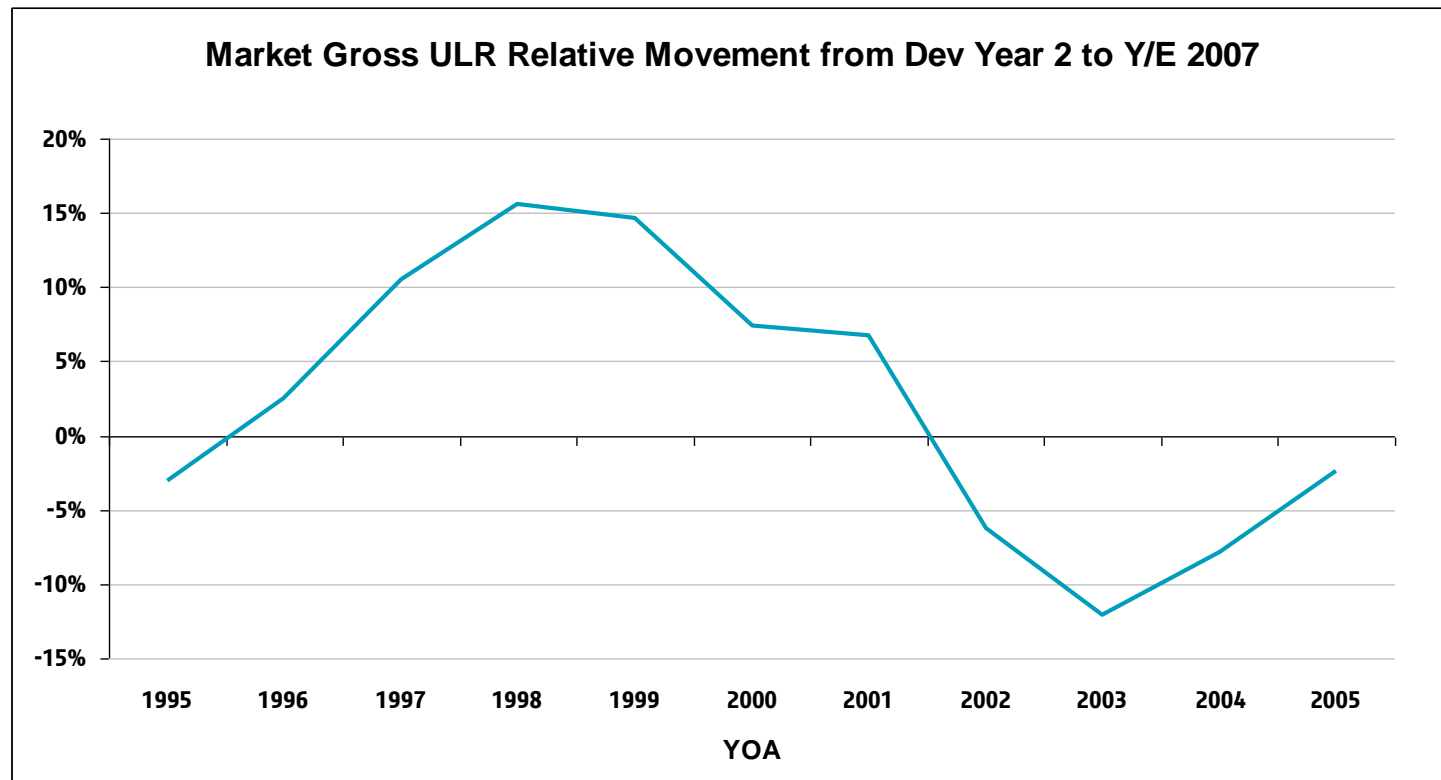
- sub-prime/credit crunch/liability (2)



Source: Lloyd's FPD Claims. Note this will be effected by ECF and is therefore for illustration only

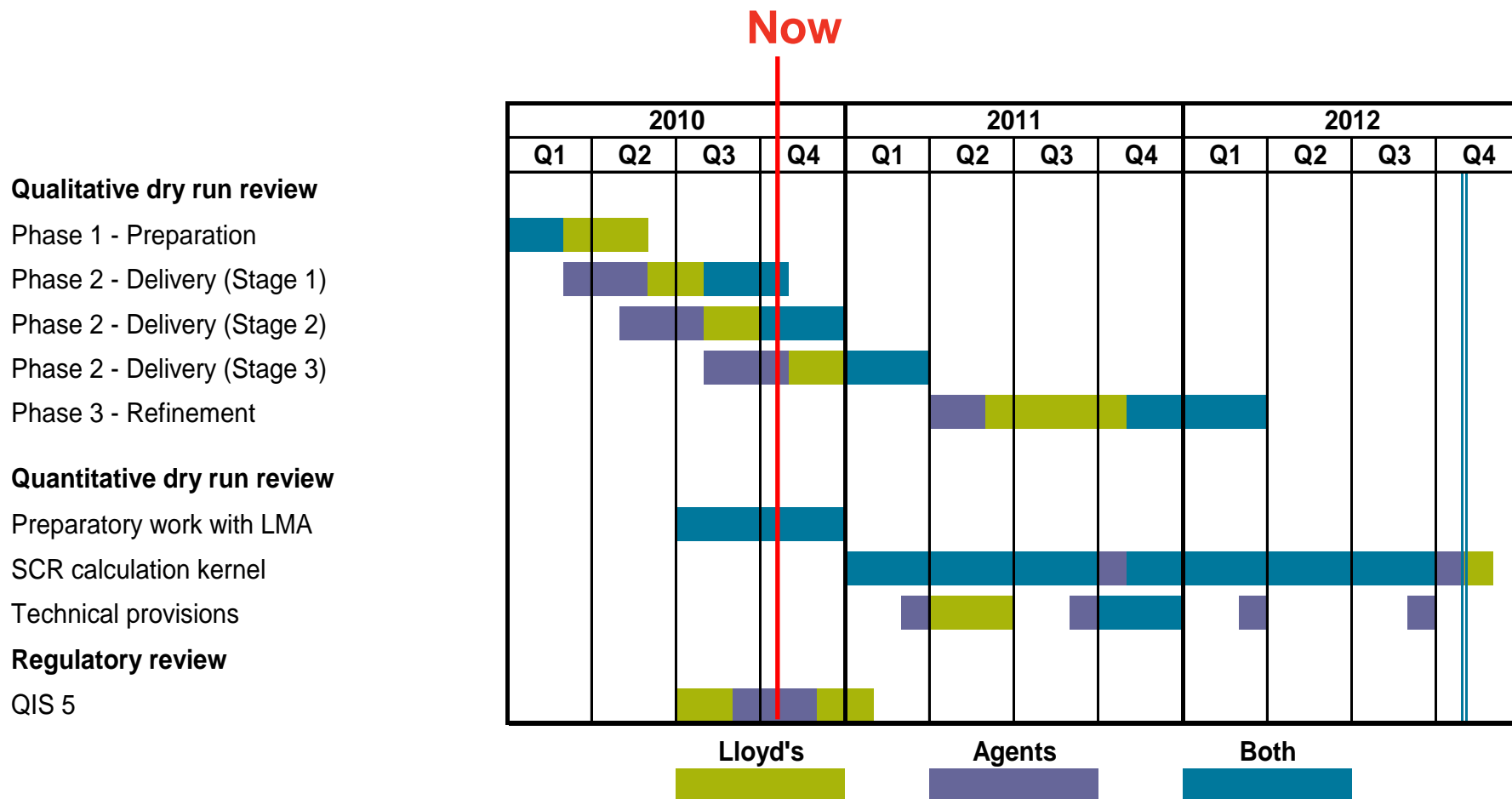
Reserving Cycles – they exist

We can track the movement in ULRs set after 2 years to the current position:



Source: Lloyd's SRD Database

Solvency II dry run timetable - reminder



MORE RECENT HISTORY

- ▶ You've heard what we are up to these days
- ▶ The team is always busy
- ▶ We have submitted our SII model and await, confident and nervous, the verdict
- ▶ The reserve cycle is real, is in full swing and is a concern – but we have effective oversight now
- ▶ Capital strategy looks at how to help investors and participants in the market work efficiently
 - Constant theme of my time at Lloyd's

**CAN'T FINISH
WITHOUT A
SPECIAL
THANK YOU
TO JEROME,
WHO LEFT
EARLIER THIS
YEAR**

PWC'S GAIN!

