

Franchise Performance Directorate

Rob Humphreys
Head of Operations
Franchise Performance Directorate

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Agenda

- Franchise concept
- Role of FPD
- Performance management
- Reinsurance
- Claims
- Open Years
- Summary

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Franchise Vision & Goal

"To create and maintain a commercial environment in which the long term return to all capital providers is maximized"

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The Franchise concept

- Transform Lloyd's into a modern, transparent and profitable marketplace of choice
- Improve & sustain performance and profitability
- Attractive to capital providers
- A disciplined marketplace of distinct independent businesses
- Standards of best practice become the standards of the market as a whole

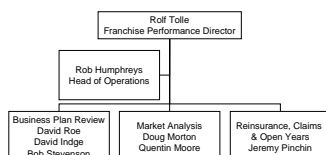
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FPD Strategic objectives

- To challenge the volume of business underwritten by franchisees in order to achieve the optimum level, taking account of both premium and exposure, to support the Board's objective of a 7% cross-cycle underwriting return in excess of the risk free rate
- Improve and develop underwriting across the Franchisor through promoting best practice
- To improve and develop Management Information across the Franchisor to enable effective performance management
- To help franchisees improve the management of the market's reinsurance asset and gain a fuller understanding of franchisees' reinsurance programmes
- To improve the effectiveness and efficiency of the market's claims management ability through the promotion of best practice
- To oversee syndicates in run-off to minimise the impact on capital providers

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FPD Structure



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What is Performance Management?

- Management capability – past/present/cycle management/reserving
- Business Plan
- Strategy/Class of Business outlook
- Underwriting management
- Reinsurance management
- Claims management

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Assessment of franchisees historical performance

- Assessment based on gross SRD data (1997-2003)
- Some subjective assessment necessary due to data issues / constraints
- Assessment approach centred around:
 - Historical results using peer group benchmarking
 - Cycle management track record
 - Subsequent known changes to historical business model
 - Vulnerability to classes under most pressure
 - FPD's current assessment of franchisees

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Review of performance issues & underwriting processes

- Involves assessing whether performance issues still relevant
- Underwriting processes include:
 - Monitoring of pricing movements
 - Management control of underwriters
 - Use of pricing tools
 - Line size management
 - Management of catastrophe exposures
- Degree of scrutiny linked to FPD's current assessment

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Franchise Guidelines

- Profitability/Performance
- Catastrophe exposure
- Re-insurer selection
- Gross line size
- Reinsurance leverage
- Multi-year policies
- Overall market dominance by a franchisee
- Dealings with brokers
- Service standards

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Business Plan approval

- SBF (incl. ICA) submitted 23rd June 2005
- Business plans submitted by 22 September, 2005
- All business plans reviewed in depth before approval/conditional approval/rejection
- Principal areas of focus
 - "Cycle management"
 - Historical and projected performance by line of business
 - Price / exposure monitoring
 - Outwards reinsurance
 - Franchise guidelines compliance
- All business plans approved by 28 October, 2005

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Reinsurance management

- Development of MI to better understand and manage reinsurance asset
- Assess concentration of prospective reinsurance
- Materially improve market's reinsurance risk management
- Raise market standards
- Analysis of 2005 reinsurance programmes

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Claims management

- Recognition of need to improve Claims capability
- Lloyd's Claims Strategy
 - Introduction of Claims management principles supported by targeted minimum standards
 - Effective peer review with significant investment in XCS claims management and measurement of performance
 - Improved management of external experts
- Claims management is an integral part of performance management – focus on bottom line profitability

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Open Years

- Consolidation of current team
- Improve and develop management reporting structure
- Need for well-resourced and professional team

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Summary

- Strong progress made to date
- Active cycle management by franchisees is crucial to the delivery of stable earnings
- Need for a bespoke approach to franchisees and lines of business
- Improve standards
- Change culture & approach of the market
- A lot of work still to be done to make the Franchise work

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