ILS Underwriting in Lloyd’s - taking the long view

Nigel Williamson
Lloyd’s
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Agenda

- Lloyd’s market structure
- Underwriting components
- ‘Passive’ participation
- ‘Active’ underwriting
- Implications of Lloyd’s underwriting
- Harnessing the future
- An insatiable rise?
Lloyd’s Market structure
Lloyd’s underwriting components
The building blocks of the Market

• Members
  • the risk carriers
  • year of account participation
  • delegate underwriting authority to a managing agent

• Syndicate
  • comprises one or more members
  • annual venture – year of account runs for three years
Lloyd’s participation (1)

- Equity investment
  - Short-long term
  - CoB diversified
  - Limited opportunity for ‘pure’ Lloyd’s investment

- Reinsurance - Collateralised / cat bond
  - Likely to be short tail
  - Option of class specific / whole account (diversified) – may be longer tail

- Underwriting member on a (third party) syndicate / SPA
  - Long term
  - No risk selection
Lloyd’s participation (2)

- Established syndicate 2357 in 2013
- Capital entirely provided by investors
- Initially offered bespoke ‘CWIL’ product
- Offering broadened to traditional reinsurance

- Established Special Purpose Syndicate 6120 for 2015 yoa
- Set up syndicate 1856 for the 2016 yoa
- Writing traditional products and Lloyd’s proportional reinsurance
Lloyd’s underwriting implications - the long view

- Lloyd’s accounting – 1 yoa underwriting is 3.5 - 4 years capital commitment
- Fund diversification – lower / non-correlating asset class
- Diversification in the (insurance) class
- Lower capital requirement than risk-by-risk collateralisation
- Lloyd’s rating
- Mutual Central Fund
Lloyd’s and Alternative Capital: Harnessing the Future

- September 2013: Lloyd’s Chairman warns of the systemic problems that alternative capital could bring to the Market

- December 2015: Lloyd’s announces launch of Risk Index “could have significant applications in ILS for risk transfer purposes

- 11 September 2016: UK Treasury targets 2017 for ILS legislation

- 14 September 2016: Lloyd’s CEO: “If we can get a framework up and running early next year for an ILS market, London will be competing with Bermuda and any other markets out there....”
ILS flooding Lloyd’s?

- Not yet – 3 of top 10 ILS funds underwrite 1.3% of Lloyd’s 2016 yoa capacity
- Groups with a Lloyd’s business have developed own ILS funds:
  - Hiscox - Hiscox Re ILS
  - Validus – Alphacat
  - Markel – CatCo
- Is it a broader capital question?
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