
ILS Underwriting in Lloyd's - taking the long view

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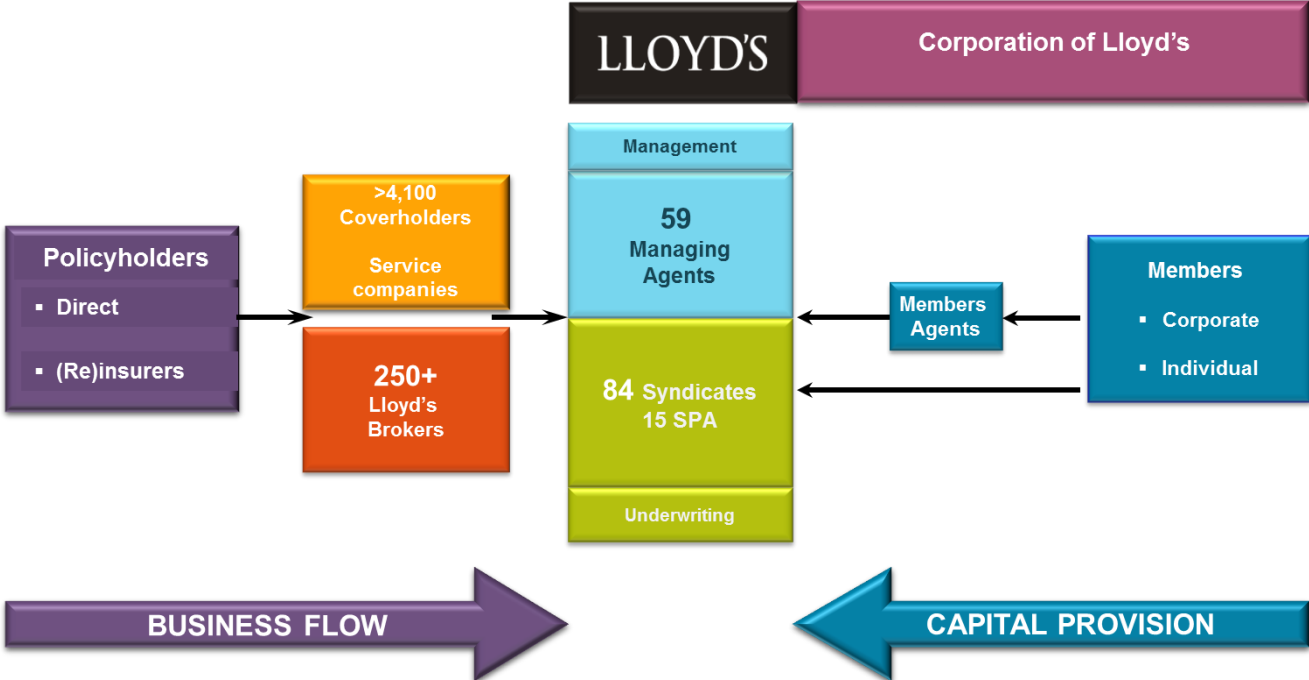
Lloyd's

22 September 2016

Agenda

- Lloyd's market structure
 - Underwriting components
 - 'Passive' participation
 - 'Active' underwriting
 - Implications of Lloyd's underwriting
 - Harnessing the future
 - An insatiable rise?
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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
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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
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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....”
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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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