

LLOYD'S STRATEGIC PLAN

THREE-YEAR 2009–2011
AND 2009 ANNUAL PLAN

INTRODUCTION

The strategic plan sets out Lloyd's direction for the period 2009–2011, the key priorities for the next three years and the activities for 2009 that will deliver the strategy. It combines Lloyd's Three-Year Plan for 2009–2011 with the 2009 annual plan.

Lloyd's has a rolling three-year plan, reviewed and tested on an annual basis aimed at achieving our vision: to be the platform of choice for insurance and reinsurance buyers and sellers to access and trade specialist property and casualty risks. The vision is being delivered through the five principal benefits of operating at Lloyd's.

This plan outlines the environmental landscape in which Lloyd's operates and shows how this has shaped our key priorities.

It also describes each of the five principal benefits, highlights the progress made during 2008 and sets out the priorities for 2009–2011. In addition, the plan lays out in more detail the activities and key milestones for 2009 to maintain and improve the benefits.

The final section of the plan highlights how the Corporation will work in partnership with market participants. In addition to the work supporting the five benefits, the Corporation will continue to provide additional services to stakeholders that will add value to their participation in the Lloyd's market.

OUR STRATEGIC DIRECTION AND KEY PRIORITIES FOR THE NEXT THREE YEARS.

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CHIEF EXECUTIVE OFFICER'S STATEMENT

“OVER THE LAST 12 MONTHS LLOYD’S RESOLVE HAS BEEN TESTED BUT OUR DISCIPLINED APPROACH TO UNDERWRITING AND OUR CONSERVATIVE INVESTMENT STRATEGY MEANS THAT WE REMAIN IN A STRONG POSITION.”



As uncertainty continues in the global financial markets and the difficulties of the underwriting cycle persist, it will be businesses with a clear vision, purpose and strategy that succeed.

Our plan

Lloyd's operates a rolling three-year plan, reviewed and tested on an annual basis. The Franchise Board also produces an annual Franchise Business Plan, detailing activities for the year in support of the strategy. This year, the two documents have been combined to provide market participants with a more coherent and complete summary of the major activities to deliver Lloyd's strategic vision.

Lloyd's vision remains to be the platform of choice for insurance and reinsurance buyers and sellers to access and trade specialist property and casualty risks. We aim to deliver the vision by building on the five principal benefits of operating at Lloyd's, which are:



Progress and priorities

The plan summarises the current position for each benefit and highlights the major priorities for the next three years with a particular emphasis on 2009 activities. While the first three benefits are largely delivered, the importance of maintaining and improving our performance framework as well as our financial strength and capital flexibility remain central to the strategy.

In the last year, good progress has been made to enhance market access and improve the efficiency of our operating environment but there is still more to do. We must continue to improve the attractiveness of the Lloyd's market and its ability to access profitable specialist insurance business from around the world via a range of distribution mechanisms.

Lloyd's is well placed to capitalise on market opportunities if conditions change and the plan recognises the importance of reacting swiftly to changing events.

Strength and flexibility must remain the hallmarks of our marketplace as we face the uncertain times ahead. We have shown that we can meet difficult challenges and I have no doubt that in partnership with the market we can continue to do so in the future.

Richard Ward
Chief Executive Officer
December 2008

MONITORING THE COMPETITIVE ENVIRONMENT

THIS SECTION BRIEFLY HIGHLIGHTS THE MAIN ISSUES AFFECTING THE GLOBAL ECONOMY AND WIDER ENVIRONMENT.

GLOBAL ECONOMIC AND ENVIRONMENTAL TRENDS

The most visible difference in the external environment compared to recent years is the rapid deterioration in global economic and financial conditions. The crisis that started as a credit crunch has led to a string of high profile failures in the financial sector and a tightening of the money and credit markets around the globe.

The severity of the financial crisis and its impact on the wider economy has prompted governments from the largest economies to fund rescue and stabilisation measures on an unprecedented scale. In addition, efforts to stimulate economic activity and avoid a prolonged recession are leading to higher levels of public spending and intervention in economies around the world.

A global economic slow down, in conjunction with higher inflation levels during 2008, has already increased claims frequency and costs. Also, recession in key developed economies and slower growth in emerging economies could reduce demand for insurance. Volatile investment returns will also impact performance, further emphasising the need for prudent underwriting discipline.

The world is also becoming a riskier place and poses an ever-growing challenge for the insurance industry. This manifests itself in a number of different ways:

- The effects of climate change are already being observed. There is evidence of rising sea levels in many areas of the planet and coastal flooding is an increasing threat.
- The increased frequency and severity of natural and man-made events.
- The more litigious environment which is creating a greater risk of liability exposure.
- Technological developments and innovation occurring at such a rapid pace that companies may find it difficult to keep up with the legal implications. For example nanotechnology and the risks it creates remain largely unseen and unquantifiable.

These developments present threats but also opportunities for the Lloyd's market, eg an increased risk from more frequent natural and man-made disasters highlights the importance of insurance and reinforces Lloyd's role as a specialist insurance provider.

GLOBAL INSURANCE TRENDS

EMERGING MARKETS AND INTERNATIONAL AND REGIONAL TRADING CENTRES

DISTRIBUTION

TAX

ONGOING REGULATORY CHANGE

CONVERGENCE OF CAPITAL MARKETS AND INSURANCE MARKETS

EMERGING MARKETS AND INTERNATIONAL AND REGIONAL TRADING CENTRES

In 1998, the GDP of the G7 countries represented 50% of world GDP but by 2008 this had fallen to 42%. If the current trend continues over the next five years this could reduce to 38%. It is clear that emerging markets present new opportunities for the insurance industry and challenges as to how best to access them. To this end, the Corporation continues to work closely with the market to examine how Lloyd's can best develop a presence in the Middle East, South America and Eastern Europe.

DISTRIBUTION

As local insurance markets develop and cost pressures drive brokers and insurers to seek more cost-effective distribution channels, complex commercial insurance business will increasingly tend to remain in local markets that are able to develop their underwriting capabilities. This, together with changes in brokers' business models, for example through consolidation or the development of regional insurance hubs, could change the way in which business flows to the Lloyd's market.

In addition, changes to the Lloyd's Act through the Legislative Reform Order (LRO) will enable non-Lloyd's brokers to deal directly with managing agents if they so wish, making it necessary for requirements to be in place which ensure the same standards apply to all brokers placing business directly in the market.

The Franchise Board has agreed a distribution strategy that seeks to address these trends and which will enable the Lloyd's market to adapt and continue to conduct business through a diversity of distribution channels. The London market and the close

relationships between managing agents and Lloyd's brokers will continue to be at the core of a distribution strategy that will focus on the following:

- Delivering simple, cost-effective controlled access to the Lloyd's market.
- Applying the same minimum prudential standards for both Lloyd's and non-Lloyd's brokers dealing directly with the market.
- Identifying market development opportunities in cooperation with managing agents and brokers.
- Relationship management support for brokers and coverholders.
- Enhancing the attractiveness of Lloyd's overseas trading centres.

TAX

The UK tax regime is making it increasingly difficult for the Lloyd's market to compete with insurers and reinsurers located in other jurisdictions. The Corporation has been discussing tax deductible claims equalisation reserves with the Government for some time and in his Pre-Budget Report the Chancellor of the Exchequer announced the Government's intention to introduce a claims equalisation reserve for Lloyd's members. Lloyd's welcomes the move as it enhances our ability to compete globally. The Corporation is now in discussions with the Treasury on the details. The Corporation also continues to lobby on other issues which will help to improve the competitiveness of the UK tax regime including support for a reduction in the rate of corporation tax.

ONGOING REGULATORY CHANGE

The insurance industry will experience significant regulatory change in the coming years as a result of legislative initiatives at global, regional and national level.

At a global level, the International Association of Insurance Supervisors (IAIS) continues to produce global standards, principles and guidance on a wide range of regulatory issues such as reinsurance, solvency, mutual recognition of different regulatory regimes and corporate governance. These initiatives should lead to greater convergence of national regulatory rules and a reduction in conflicting and duplicative laws for insurers and reinsurers trading internationally.

The EU continues to be very active in considering initiatives affecting insurance, the most significant being the proposed Solvency II Directive. This seeks to create a harmonised, risk-based approach to supervision and capital requirements within the EU. It is likely that the IAIS's work on global standards will be substantially influenced by Solvency II.

The detailed content of the Solvency II regime, which is scheduled to be implemented throughout the EU by October 2012, is still being developed and discussed. The Franchise Board supports the Solvency II objectives, and the Corporation is investing substantial time and resources, working closely with the market, the FSA and within Europe to influence the outcome of the directive and to ensure that the market is ready for implementation. Increased market engagement on the detail of Solvency II is a key priority.

In the United States, the National Association of Insurance Commissioners (NAIC) has advanced for full adoption of its Reinsurance Regulatory Modernisation Framework Proposal. Although not ideal, this would bring significant relief to the current onerous collateral requirements applying to non-US reinsurers. Assuming final adoption by the NAIC in December 2008, the NAIC is likely to seek a federal mechanism to ensure uniform implementation across all States. Lloyd's continues to lobby for regulatory reform both at the NAIC and in Washington.

At a national level, the UK Law Commission's work on the modernisation of insurance contract law will have an impact on the industry. The Corporation, working with the London Market Association (LMA) will continue to review and comment on the Law Commission's proposals.

The turmoil in the financial markets may result in some politicians and regulators making a case for more national, protectionist policies. This could threaten the trend towards greater harmony of insurance regulation. Lloyd's will continue to argue in favour of close cooperation between regulators to foster a common, global approach to match the global nature of the insurance industry.

CONVERGENCE OF CAPITAL MARKETS AND INSURANCE MARKETS

Prior to the dislocation in the financial markets, there was some strategic interest from banks to develop insurance risk as an asset class. There was also the possibility that significant players in the capital markets could seek to participate in the (re)insurance markets.

While recent events have probably brought about a reappraisal on the part of the capital markets, the Corporation will continue to monitor financial institutions' strategies for the (re)insurance markets.

The use of capital market risk transfer products continues to attract interest from specialist capital market investors and reinsurers alike, including some Lloyd's businesses. The combination of low reinsurance rates and the financial difficulties of the past year, however, have not been conducive to a more significant uptake in risk transfer mechanisms such as insurance linked securities. The Corporation will continue to evaluate both the risks and opportunities on behalf of the market.

LLOYD'S MARKET TRENDS

MARKET PARTICIPATION

BROKER SUBSCRIPTION MARKET

THE MARKET OPERATING ENVIRONMENT

SKILLS AND TALENT

GOVERNANCE

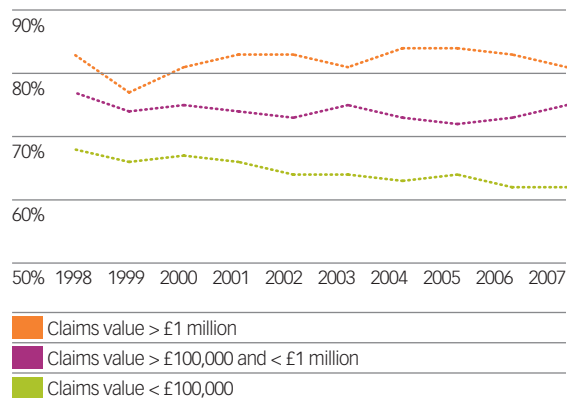
MARKET PARTICIPATION

There is clear evidence that Lloyd's remains an attractive platform for conducting business. In 2008, a number of managing agents were acquired by non-Lloyd's insurance groups attracted by the benefits of operating in the Lloyd's market. The number of syndicates has increased from 66 at the beginning of 2007 to 76 in September 2008.

BROKER SUBSCRIPTION MARKET

The Franchise Board continues to view the operation of the broker subscription market as a core characteristic of the Lloyd's market. The graph below shows that while the number of participants on risks producing lower value claims has seen a marginal reduction, risks with higher value claims still tend to have two or more syndicates participating. This suggests that the broker subscription model continues to be attractive and recent industry events may further increase its appeal as risk managers seek greater diversification in the placement of their risks.

Percentage of risks with two or more participating syndicates by claims segment



Source: Lloyd's

THE MARKET OPERATING ENVIRONMENT

As part of a global industry, the Lloyd's market must be comparable to other markets in terms of the ease with which business is conducted, in relation to both time and cost. Progress has been made to improve process efficiency and work will continue to build on the market's achievements to deliver a streamlined, flexible operating model, supported by technology, that encourages business to come to Lloyd's.

The Corporation is sponsoring a new pilot service to be introduced in 2009 called the Lloyd's Exchange which, subject to demand, will be rolled out to the market. It will allow market participants to transfer risk information to each other using electronic messaging standards. The initiative has the support of the LMA, the London broker community and the International Underwriting Association. Market-wide adoption of this facility is regarded as an important building block to achieve further process efficiencies for Lloyd's and the London market.

Work is also ongoing to improve claims settlement. The current focus is on claims segmentation and the development of a more tailored approach for handling claims depending on their complexity. The Corporation and the LMA are working together to undertake a review of the market's future business requirements for claims that will result in a better understanding of the necessary processes and IT support needed in the long term.

Currently many of the market's support functions are provided by a single outsource provider, Xchanging. The Corporation recognises that technological advances provide an opportunity to rethink processes and introduce greater choice. Consultation with the market will continue so that an agreed approach can be found.

The Corporation will work with the LMA, the London and International Insurance and Reinsurance Brokers Association (LIIBA), the Market Reform Group (MRG), ACORD and other stakeholders to ensure that the market as a whole continues to move forward and embrace change. More details around these initiatives can be found in the Operating Environment section of the plan.

SKILLS AND TALENT

In recognition of the need to recruit and train the best people, the Corporation has implemented a number of initiatives both internally and in cooperation with the market. These include the Graduate Programme and the Leadership Programme, which are joint initiatives with the market. The former is aimed at improving the quality of new recruits into the Corporation and the market, and the latter, which is run in conjunction with London Business School, is looking to develop leaders of the future. Each leadership programme contains a similar number of Corporation and market participants, reflecting one of its principal aims of developing strong networks between the Corporation and the market. The Corporation will continue to identify opportunities to protect and enhance its and the London market's talent base.

GOVERNANCE

Lloyd's governance arrangements have been reviewed and modernised. Following a consultation exercise, Government proposals to amend Lloyd's Act 1982 by way of a Legislative Reform Order (LRO) were overwhelmingly supported by the members at an Extraordinary General Meeting held in May 2008. Parliament approved the LRO in November 2008.

MANAGING THE CYCLE

TO WORK WITH MANAGING AGENTS TO MAINTAIN PRUDENT UNDERWRITING DISCIPLINE.

MARKET CONDITIONS

THE FRANCHISE MODEL

MANAGING PERFORMANCE

PREPARING FOR THE NEXT HARD MARKET

NEW ENTRANTS

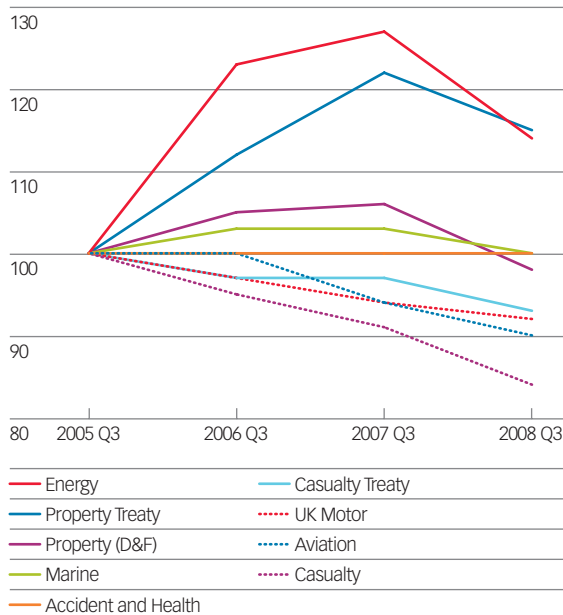
In its plan last year, the Franchise Board set out its major priority as working with managing agents to maintain prudent underwriting discipline during a period of changing market conditions.

At the time of writing, it is too early to judge the extent to which the combined impact of hurricanes Gustav and Ike and the turmoil in the financial markets will materially impact underwriting conditions. A number of market participants have reported an improved outlook for rates in some lines of business, although the market-wide picture remains unclear. That said, improving underwriting conditions do not change the need for disciplined underwriting to be maintained.

Managing the cycle therefore remains the Franchise Board's major priority for this three-year plan period.

Risk adjusted rate movement by business class

Q3 2005 rate level = 100



Source: Lloyd's

MANAGING AGENTS ARE RESPONSIBLE FOR RUNNING THEIR BUSINESSES IN A PROPER AND PROFITABLE MANNER AND THE CORPORATION WILL WORK WITH AGENTS TO RAISE PERFORMANCE LEVELS.

THE FRANCHISE MODEL

Managing agents have the primary responsibility for running their businesses in a proper and profitable manner. They are independent businesses with freedom to participate in whichever types of business they choose, provided they operate in accordance with an agreed business plan.

The Corporation's role is to protect the franchise, safeguard Lloyd's brand and reputation, and maintain the Central Fund and market ratings.

Notwithstanding the best efforts of both managing agents and the Corporation, the Franchise Board recognises that under the franchise model, as part of the balance between security and capital efficiency, losses to the Central Fund may arise. However, the market and the Corporation must work together so that any impact on the Central Fund is kept within predefined limits.

MANAGING PERFORMANCE

The Corporation monitors managing agents against the Franchise Standards and Franchise Guidelines. It will continue to work with agents to raise performance levels. Specifically, the Corporation will continue to review and critique syndicate business plans and monitor managing agents' performance against these plans. In addition, managing agent or syndicate specific reviews will be undertaken where underperformance has been identified. Thematic reviews impacting more than one managing agent will also continue.

Whenever the Corporation engages with a managing agent, whether in discussion regarding a syndicate's business plan or investigating areas of underperformance, the Corporation will seek to obtain a common understanding of an issue and an agreed approach for its resolution. However, where consensus cannot be reached, the Corporation has other options available should it consider that the managing agent poses a threat to the Lloyd's franchise, policyholders or other market participants. These range from imposing constraints on business written, through to refusing to agree a business plan and, ultimately, seeking the Franchise Board's approval to suspend or deregister a managing agent.

Going forward, the Corporation will be better able to work with the market as a result of the improved management information which should be available in 2009 as a result of the Performance Management Data project.

PREPARING FOR THE NEXT HARD MARKET

While the Franchise Board is focused on working with managing agents to manage the soft cycle, it recognises that the market must be ready to respond to a market turning event. To this end, the Corporation is in the process of identifying and agreeing a set of measures to assist the market to react quickly. These measures could include fast-track approval of revised business plans and the associated changes to capital requirements.

NEW ENTRANTS

The Franchise Board considers it important that Lloyd's remains a dynamic marketplace. It believes that the admission of new businesses into Lloyd's is necessary for the future health of a competitive marketplace and should be welcomed. Any new entrant, however, must demonstrate that it has a sound and realistic business plan, can meet Lloyd's rigorous admission criteria and will comply with the standards applicable to all managing agents in the market.

DELIVERING THE PLATFORM OF CHOICE

LLOYD'S VISION IS TO BE THE PLATFORM OF CHOICE.

VISION

The vision for Lloyd's is:

To be the platform of choice for insurance and reinsurance buyers and sellers to access and trade specialist property and casualty risks.

Lloyd's strategic direction and aspiration to be the platform of choice remains unchanged. The Franchise Board's business focus continues to be to make Lloyd's the preferred market for specialist insurance and reinsurance business, irrespective of size or nature.

BENEFITS

The Franchise Board believes the five principal benefits of operating at Lloyd's remain as listed on the right.

The first three benefits are broadly delivered. Although progress has been made in market access and the operating environment, more still needs to be done, as described in this plan.

1. PERFORMANCE FRAMEWORK
→ An overarching, consistent performance management framework across all key aspects of a managing agent's business, that supports the achievement of superior operating returns as part of an effective enterprise risk model.

2. CAPITAL ADVANTAGES
→ A capital framework in which the benefits of mutuality demonstrably outweigh the costs and which cannot readily be duplicated outside Lloyd's.

3. SECURITY AND RATINGS
→ Stable insurer financial strength ratings (currently at least 'A') necessary to attract specialist property and casualty business.

4. MARKET ACCESS
→ Cost-effective, easy access to the major markets supported by a global brand and licence network.

5. OPERATING ENVIRONMENT
→ An efficient, cost-effective operating environment that allows managing agents and brokers, irrespective of their location, to deliver excellent service to customers.

THE FRANCHISE BOARD HAS DEFINED A NUMBER OF KEY CHARACTERISTICS OF THE LLOYD'S MARKET FOR THE NEXT THREE YEARS.

CHARACTERISTICS DEFINING LLOYD'S

The Franchise Board's view of the key characteristics of the Lloyd's market for 2009–2011 are:

- Lloyd's is a specialist property and casualty subscription market. Other types of business can be written, but the broker subscription market is at Lloyd's core. This model serves Lloyd's market and its customers well, and there are no plans to move away from it.
- Mutuality is central to Lloyd's – it helps Lloyd's market to be more capital efficient than many of our peers and underpins our licences and ratings – and will remain.
- The overall ownership structure of Lloyd's will remain unchanged, although efforts are being made to modernise our governance arrangements.
- Lloyd's markets' success will be seen in profitable cross-cycle growth. This does not necessarily translate into year-on-year growth as it may be necessary to contract at certain points in the underwriting cycle.
- Lloyd's is a disciplined marketplace where the standards of the best businesses will become those of the market as a whole.
- Lloyd's market derives strength from the range of managing agents who currently choose to operate here. Lloyd's will continue to welcome all types of managing agent where they meet rigorous admissions standards.
- Lloyd's will continue to welcome diverse sources of capital, including third-party capital on the right terms.
- The Underwriting Room is central to the operation of an effective broker subscription market and will continue.

- While continuing to be centred in London, Lloyd's intends to be open to all specialist insurance brokers, underwriters and providers of capital, irrespective of their physical location.
- The not-for-profit business model of the Corporation will remain. Its main function is to lead or support changes to ensure the market operates in the most commercially attractive and efficient manner.
- Lloyd's offers a range of distribution channels which allow managing agents to access specialist business. These include brokers, coverholders, service companies and Lloyd's trading centres in local (re)insurance markets.

OFFER TO MANAGING AGENTS, BROKERS AND CAPITAL PROVIDERS

Taken as a whole, the attractions of operating at Lloyd's for market participants will be:

- **Managing agents** – a core central offer of security, market access and standards, plus the provision of flexible tools and services which can be used as appropriate to execute individual strategies.
- **Brokers** – a secure market with diverse participants with differing strategies and risk appetites, where policyholders benefit from Lloyd's reputation and service quality.
- **Capital providers** – an opportunity to invest, within a capital efficient framework, in businesses with the ability to maximise their performance in the specialist insurance market.

DELIVERING THE PLATFORM OF CHOICE PROGRESS AND FUTURE PRIORITIES

1. PERFORMANCE FRAMEWORK

An overarching, consistent performance management framework across all key aspects of a managing agent's business, that supports the achievement of superior operating returns as part of an effective enterprise risk model.

FEATURES

- A performance framework that recognises, reacts to and rewards the relative performance of individual managing agents and raises standards across the market.
- The provision of differentiated levels of support and intervention by the Corporation, depending on the capabilities of each managing agent.
- Business planning tools that enable managing agents, their capital providers and the Corporation to better understand the risks and performance potential of individual businesses.
- The provision of appropriate data and analysis which allows managing agents to benchmark, plan, measure and manage their business.
- A framework for the expert management of complex and subscription claims in order to further enhance the claims handling capability of the market.

WHAT WILL THIS MEAN FOR MARKET PARTICIPANTS?

MANAGING AGENTS

- A framework of minimum standards which make clear what is required of businesses operating at Lloyd's.
- The framework is differential in its application; rewarding better performing businesses (eg with lower capital, more flexibility in the application of the Franchise Guidelines and a generally lighter touch from the Corporation) and taking action against underperforming businesses or those which pose a threat to the interests of policyholders and other market participants.

BROKERS

- More efficient, transparent and consistent market performance which strengthens Lloyd's attractiveness as a place for brokers to bring business.

CAPITAL PROVIDERS

- The confidence that managing agents are meeting minimum standards and consequently reducing the volatility of their performance.

	PROGRESS	PRIORITIES FOR 2009–2011
PERFORMANCE MANAGEMENT	<ul style="list-style-type: none"> → Improved approval, oversight and monitoring of delegated authorities at market and individual syndicate level. → Improved and enhanced the Realistic Disaster Scenario return. → Provision of tools to managing agents (eg UK flood risk assessment tool). 	<ul style="list-style-type: none"> → Work with the market to improve underwriting discipline. → Identify options to support managing agents to respond quickly to a market turning event.
STANDARDS FRAMEWORK	<ul style="list-style-type: none"> → Standards framework embedded within business as usual activities and performance monitored against standards throughout 2008. 	<ul style="list-style-type: none"> → Ongoing evaluation of standards framework to ensure it remains relevant and adds value. → Review claims and underwriting protocols that apply to overseas trading centres (eg Singapore).
MANAGEMENT INFORMATION	<ul style="list-style-type: none"> → Completed the pilot version of the Performance Management Data project (PMD) to improve understanding of underwriting conditions. → Enhancements to business information tools which enable better review of syndicate business plans are nearing completion. 	<ul style="list-style-type: none"> → Deliver PMD to ensure information is available for the 2010 business planning exercise. → Complete enhancements to business information tools and their migration to a more robust IT platform. → Provide management information to the market as a value-added business planning tool.
CLAIMS	<ul style="list-style-type: none"> → A number of key projects (the Claims Change Programme), including proposals to introduce a segmented claims model for the market, have been progressed. → Long-term options for managing the claims process are being identified. 	<ul style="list-style-type: none"> → Complete implementation of the Claims Change Programme. → Agree and implement the long-term priorities to improve the claims process.

2009 ACTIVITIES

PERFORMANCE FRAMEWORK

DELIVERING THE THREE-YEAR PLAN

PERFORMANCE MANAGEMENT

Work with the market to improve underwriting discipline applying a flexible approach to cycle management.

- Discuss and take action with managing agents when corrective measures are required to address performance issues or adherence to the Franchise Standards. (Ongoing)
- Communicate view of current and expected market conditions to managing agents. (Ongoing)

STANDARDS FRAMEWORK

Evaluate standards framework to ensure it remains relevant and adds value. (Ongoing)

Ensure effective procedures are in place for assessing and monitoring performance in Lloyd's trading centres and in managing agents' service companies (within UK and overseas).

- Ensure suitable placement protocols are implemented for the Lloyd's Asia platform. (Q1–Q4)
- Agree and implement Lloyd's Asia Claims Handling Protocol and ensure existing claims management processes are operating effectively. (Q1–Q2)

MANAGEMENT INFORMATION

Deliver new Performance Management Data (PMD) project. (Q2)

- Design and develop PMD production system infrastructure. (Q1)
- Conduct user acceptance testing. (Q1–Q2)
- Develop FPD management information pack for market, based on PMD. (Q2)

Complete the redevelopment of the current suite of internal analysis tools to improve the syndicate review process. (Q2)

Value-added business planning tools provided to the market.

- Develop and deliver a suite of external analysis tools to managing agents. (Q2–Q4)

CLAIMS

Implement improvements to claims performance as part of the Claims Change Programme.

- Define best practice claims management information and provide guidance to the market. (Q1–Q2)
- Revise XCS service agreement (Q1), to include claims segmentation provisions, and monitor performance. (Q1–Q4)
- Investigate opportunities and market demand for shared services, tools or guidance. (Q1–Q2)

Set claims priorities for the long term.

- Work with the market to set the vision and agree the business case for a new claims business model. (Q1)
- Consider changes to Lloyd's Claims Scheme in light of the new business model. (Q2–Q4)

BUSINESS AS USUAL

UNDERWRITING PERFORMANCE

Review, challenge and agree 2010 business plans.

- Review, analyse and challenge managing agents' draft business plans (including business to be conducted via Lloyd's overseas trading centres). (Q3)
- Analyse and validate final business plans. (Q3–Q4)

STANDARDS FRAMEWORK

Monitor market performance and respond to significant issues.

- Maintain a Corporation-wide performance oversight process. (Ongoing)
- Identify significant performance issues at managing agent, sector and regional levels (including Lloyd's trading centres), agree priorities and initiate the appropriate escalation procedure. (Ongoing)
- Ensure that targeted reviews result in stated requirements (and if applicable, recommendations) to address under performance or non-compliance with the Franchise Standards. (As required)

Support the market by providing tools and guidance which help participants meet the Franchise Standards. (Ongoing)

THE PERFORMANCE FRAMEWORK RECOGNISES THE RELATIVE PERFORMANCE OF MANAGING AGENTS AND RAISES STANDARDS ACROSS THE MARKET.

CLAIMS PERFORMANCE

Work with managing agents and Xchanging Claims Services (XCS) to monitor and enhance claims performance against standards. (Ongoing)

- Identify and monitor key risk areas through claims measurement reports, benchmarking activity and specific reviews. (Ongoing)
- Discuss and take action with managing agents and XCS when corrective action is required to address issues. (As required)

Measure and enforce the application of the Claims Scheme. (Ongoing)

Articulate and communicate claims best practice targets for the market. (Ongoing)

Ensure good Electronic Claims Files (EFC) operating performance through monthly reporting and account management follow up. (Ongoing)

Provide the market and the Corporation with leadership, coordination and support in respect of major market-wide and other significant or contentious losses. (As required)

Improve claims data for the market through data cleansing and applying data standards at source. (Q1–Q4)

Implement appropriate claims benchmarking plans to allow common reporting of Lloyd's market performance and comparison against peers. (Q1–Q4)

COVERHOLDER PERFORMANCE

Work with managing agents to improve delegated underwriting authorities in line with Franchise Standards.

- Provide benchmarking analysis to managing agents of the performance of their delegated authorities. (Ongoing)
- Undertake reviews of managing agents' existing delegated authority agreements. (Ongoing)
- Process new coverholder applications and permission changes. (Ongoing)

REINSURANCE PERFORMANCE

Enhance, collect and analyse Syndicate Reinsurance Programme (SRP) returns. (Ongoing)

Provide benchmarking analysis to managing agents of the performance of their reinsurance asset. (Ongoing)

Assist the market with the collection of balances from problem insurers and help resolve disputes. (Ongoing)

Improve premium credit control in the market at broker and syndicate level. (Ongoing)

Support the market in identifying opportunities and achieving timely inwards commutations. (Ongoing)

RISK MANAGEMENT

Provide a robust risk framework to identify, assess and effectively manage the key risks to Lloyd's at both a syndicate and market level. (Ongoing)

Carry out a benchmarking review of Money Laundering and Sanctions controls. (Q1)

EXPOSURE MANAGEMENT

Work with managing agents to improve exposure management capabilities in line with Franchise Standards. (Ongoing)

Enhance, collect and analyse Realistic Disaster Scenarios (RDS) returns.

- Collect 2009 RDS returns, RDS Lite returns, analyse results and report findings to key stakeholders. (Q2–Q4)
- Develop 2010 RDS returns via consultation with market and modelling agencies. (Q2)
- Draft and publish 2010 RDS guidance and documentation. (Q3–Q4)

Provision of exposure management tools to managing agents.

- Support and maintain UK Flood Risk Assessment Tool. (Ongoing)
- Research and develop analytical and visualisation tools to improve management of market exposures. (Ongoing)

NEW ENTRANTS

Review, agree and monitor new managing agents and syndicates.

- Ensure applications meet Lloyd's rigorous admissions criteria and comply with Franchise Standards. (As required)
- Ensure application process is transparent and orderly. (Ongoing)

OPEN YEARS MANAGEMENT

Oversee and stabilise the management of syndicates in run-off.

- Review cash flow positions for Central Fund dependent syndicates. (Q1)
- Agree 2009 financial planning packs. (Q2)
- Agree 2010 closure plans. (Q4)
- Consider appropriateness of closure risk premium for the Central Fund. (As required)

MANAGEMENT INFORMATION

Analyse current and anticipated class of business conditions and provide relevant management information and thought leadership. (Ongoing)

Provide performance reports and benchmark analysis to managing agents. (Ongoing)

DELIVERING THE PLATFORM OF CHOICE PROGRESS AND FUTURE PRIORITIES

2. CAPITAL ADVANTAGES

A capital framework in which the benefits of mutuality demonstrably outweigh the costs and which cannot readily be duplicated outside Lloyd's.

FEATURES

- A risk-adjusted capital-setting process, based on the FSA's ICAS regime, that reflects the level of exposure of the mutual assets to an individual business and 'commercially prices' this accordingly, taking into account the market's ratings requirements and each managing agent's enterprise risk management capability.
- Capital structures, including mutual assets, that can be tailored and give managing agents the opportunity to benefit from strong ratings and obtain increased returns for their capital providers, compared to trading on a stand-alone basis.
- The cost of maintaining Lloyd's mutual assets targeted to be on average less than 1% of gross written premiums across the insurance cycle.
- A capital framework that actively assists managing agents in accessing flexible sources of capital at a competitive cost.
- Managing agents able to increase their capital resources expeditiously to take advantage of business opportunities as they arise.
- Managing agents able to pay out excess funds through bi-annual release of profit from their syndicates and capital providers able to reduce their commitment where surplus capital exists.
- Asset admissibility criteria that allow flexibility in how capital is provided, which enhances potential investment returns.

WHAT WILL THIS MEAN FOR MARKET PARTICIPANTS?

MANAGING AGENTS

- The ability to respond quickly and flexibly to changing market conditions, attracting capital for both new and existing businesses with the prospect of producing higher returns than could be achieved elsewhere.

BROKERS

- The ability to offer risks to a number of diverse businesses with different risk:reward appetites that share a common rating.

CAPITAL PROVIDERS

- The ability to achieve higher returns compared to those in other insurance markets through the exploitation of an efficient mutual layer of capital that supports the business of the whole market, yielding a diversification credit to capital providers.
- Greater choice available to capital providers in how they provide capital to support their underwriting.

PROGRESS

PRIORITIES FOR 2009–2011

**CAPITAL
SETTING
FRAMEWORK**

- The ICA review process and timetable is now more flexible and tailored to the performance and characteristics of individual businesses.
- A new syndicate ICA benchmarking tool has been developed as part of the Capital Systems Upgrade project.

- Complete the new Society ICA model and Market Capital Allocation Tool systems.

**CAPITAL
FLEXIBILITY**

- Given market conditions, the 35% economic capital uplift (the amount members must provide in excess of their ICA) and the 40% minimum capital requirements have been retained for the 2009 year of account.
- The decision was taken to maintain the Central Fund at its current level so that Lloyd's remains well-placed during a period of softening market conditions.

- Review the level of capital flexibility afforded by the current strong Central Fund.
- Consider options to sustain and enhance Lloyd's capital advantages in light of the Solvency II proposals.

SOLVENCY II

- The Corporation and a number of managing agents participated in the European Commission's Quantitative Impact Study (QIS4) exercise.
- The Corporation has maintained an ongoing dialogue with HM Government, the European Commission and the European Parliament to promote the market's views on key issues, including letters of credit.

- Maintain dialogue with the FSA and the EU to influence the outcome of Solvency II.
- Review and assess the draft 'implementation measures'.
- Work with the FSA, LMA and managing agents to ensure internal solvency capital models are in place.
- Conduct a Solvency II 'soft test' with respect to the 2011 year of account.

2009 ACTIVITIES

CAPITAL ADVANTAGES

DELIVERING THE THREE-YEAR PLAN

CAPITAL SETTING FRAMEWORK

Capital Systems Upgrade (CSU) project – deliver new Lloyd's Society ICA tool.

- Complete Lloyd's Society ICA tool. (Q4)
- Carry out an independent quality assurance exercise on the CSU tools.

CAPITAL FLEXIBILITY

In light of the current strong Central Fund, review the level of capital flexibility to take advantage of changed market conditions. (Q1)

Demonstrate the capital advantages of operating at Lloyd's.

- Define and calculate metrics and communicate advantages to stakeholders. (Q2)

Assess the impact of Solvency II on Lloyd's capital advantages and consider options to sustain and enhance them. (Ongoing)

SOLVENCY II

Sustain the dialogue with the FSA and the EU to influence the outcome of Solvency II and keep market participants up to date with progress and fully aware of its impact.

- Assess impact of the Framework Directive on Lloyd's and member level capital requirements and lead negotiations with HM Treasury and FSA. (Ongoing)
- Participate in meetings of the HM Treasury Solvency II Working Group, the FSA Insurance Standing Group and technical sub-groups. (Ongoing)
- Participate on CEA Solvency II sub-committee to review proposals from the European Commission. (Ongoing)
- Examine the possible tax consequences of Solvency II. (Ongoing)

Establish a framework for ensuring timely compliance with, and embedding of, the Solvency II regime at Lloyd's.

Lead the implementation (including assessment of the impact) of the Solvency II proposals, to enable an orderly move to Solvency II for the market.

- Analyse 'Level 2' proposals and obtain input from managing agents and influence the final outcome via FSA and the Committee of European Insurance and Occupational Pensions Supervisors. (Ongoing)
- Managing agents, which have not already done so, to complete QIS4 and submit the results to Lloyd's by end Q2.
- Lead a possible QIS5 exercise (including market participation). Lloyd's and syndicate QIS returns to be submitted to FSA. (When required)
- Facilitate the development of Lloyd's and syndicate internal models which meet Solvency II requirements, working closely with the FSA and the market. (Ongoing)

PREPARING FOR SOLVENCY II WILL BE A MAJOR ISSUE FOR THE MARKET OVER THE NEXT THREE YEARS.

BUSINESS AS USUAL

CAPITAL SETTING

Continue to embed 'ICA lite' approach during 2010 capital setting process.

- Agree any additional agents qualifying for 'ICA lite' status based on quality of 2009 submissions. (Q2–Q4)

Maintain and enhance syndicate ICA review process to provide confidence in managing agents' ICA calculations.

- In consultation with managing agents, review the 2009 ICA process. (Q1)
- Redesign 2010 ICA process as necessary and communicate to market. (Q1–Q2)

Carry out market ICA review process.

- Assess appropriateness and drive sophistication of ICA methodologies used by managing agents. (Ongoing)

- Review and agree syndicate ICAs. (Q2–Q4)
- Provide member capital requirements. (Q2–Q4)

Conduct Lloyd's Society ICA.

- Amend/construct model and set timetable. (Q1)
- Test and run model to carry out required capital assessments. (Q1–Q2)
- ICA approved by Franchise Board and submitted to FSA. (Q2)

DELIVERING THE PLATFORM OF CHOICE PROGRESS AND FUTURE PRIORITIES

3. SECURITY AND RATINGS

Stable insurer financial strength ratings (currently at least 'A') necessary to attract specialist property and casualty business.

FEATURES

- Within reasonable bounds of expectation, Lloyd's maintains its necessary ratings across the insurance cycle.
- Lloyd's has the capability to survive a '1 in 200' industry-level event and enable managing agents to trade forward with a secure rating.

PROGRESS

- A.M. Best, Fitch and Standard & Poor's affirmed their Lloyd's ratings of 'A', 'A+' and 'A+' respectively, during 2008.
- A review in 2008 confirmed that Lloyd's ratings are at the appropriate level.

WHAT WILL THIS MEAN FOR MARKET PARTICIPANTS?

MANAGING AGENTS

- Access to the security ratings necessary to attract specialist insurance and reinsurance business.
- A far more stable rating than could be achieved individually due to the benefits of market diversification.
- No need to commit the substantial human and financial resources necessary to obtain their own rating.

BROKERS

- The ability to access significant capacity with the rating required by their clients.
- The ability to place risks with many businesses without having to put each through a separate due diligence process.

CAPITAL PROVIDERS

- The ability to earn improved returns on capital as a result of the ratings and the better quality business that they attract.

PRIORITIES FOR 2009–2011

- Periodically review the appropriate level for the Lloyd's rating and maintain the rating at that level, further enhancing Lloyd's reputation as a secure and stable market to place (re)insurance business.
- Ensure the rating agencies are fully conversant with the Lloyd's market's enterprise risk management framework.

2009 ACTIVITIES

SECURITY AND RATINGS

DELIVERING THE THREE-YEAR PLAN

RATING AGENCY RELATIONS

Manage Lloyd's relationship with the rating agencies and coordinate the Lloyd's ratings review process.

- Ensure Lloyd's ratings are maintained at appropriate level. (Ongoing)
- Coordinate and manage annual (Q2–Q3) and quarterly reviews with rating agencies.
- Ensure Lloyd's key messages are effectively communicated to the rating agencies. (Ongoing)
- Ensure the rating agencies are fully conversant with the Lloyd's market enterprise risk management framework. (Q1–Q2)
- Communicate rating messages internally and to the market. (Ongoing)

BUSINESS AS USUAL

SOLVENCY

Conduct member level solvency calculations including calculation of the members' capital resources requirement.

- Issue solvency statements to the market. (Q1)
- Conduct LATF solvency test and allow release of LATF US\$ profits where appropriate. (Q1–Q2)
- Calculate Central Fund undertakings for 'insolvent' corporate members. (Ongoing)

Monitor members' and Society's capital and solvency position.

- Complete annual and quarterly solvency tests and going concern reviews. (Ongoing)
- Conduct bi-annual coming into line exercise. (Q2 and Q4)
- Review member capitalisation following major events. (As required)
- Accelerate the release of profits for capital providers holding sufficient Funds at Lloyd's. (Q1–Q2)

SYNDICATE RESERVING

Benchmark market reserves for consistency and accuracy.

- Run benchmarking model. (Q2–Q3)
- Produce managing agent benchmarking packs and circulate. (Q2–Q3)

Review Statements of Actuarial Opinion and accompanying reports.

- Feedback findings to market and individual managing agents. (Q3)
- Review and update market guidance. (Q3–Q4)

Evaluation of Reserve Risk.

- Conduct independent projections of market reserves and estimate reserve variability by class. (Ongoing)
- Conduct Quarterly Monitoring Returns and track large loss development. (Ongoing)

CAPITAL ADEQUACY

Review Lloyd's capital base using models developed by the rating agencies as part of the annual review process. (Ongoing)

LLOYD'S FINANCIAL STRENGTH, EVIDENCED BY THE CURRENT SIZE OF THE CENTRAL FUND, MAKES IT WELL-POSITIONED TO ATTRACT SPECIALIST INSURANCE BUSINESS.

DELIVERING THE PLATFORM OF CHOICE PROGRESS AND FUTURE PRIORITIES

4. MARKET ACCESS

Cost-effective, easy access to the major markets supported by a global brand and licence network.

FEATURES

TRADING RIGHTS

- A turnkey licence structure that offers access to the major markets in specialist property and casualty risks.
- Coordinated relationship management and reporting by the Corporation to regulatory and tax authorities, and proactive government relations, to protect the licences and reduce the burden on individual managing agents.

ACCESS

- Managing agents have access to a variety of distribution channels, and brokers are able to place risks with Lloyd's in a simple, cost-effective manner.
- Lloyd's trading centres in international markets open to local capital providers as well as existing capital providers.

MARKET SUPPORT

- Proactive market development in partnership with managing agents, and a network of international offices that provide support services.
- Access to world class market intelligence on major international markets.

BRAND

- A leading global brand and reputation, which helps managing agents to win and retain preferred business.

WHAT WILL THIS MEAN FOR MARKET PARTICIPANTS?

MANAGING AGENTS

- The ability to utilise Lloyd's trading rights, allowing access to a broad range of business from the world's major markets, with the majority of the compliance burden being met by the Corporation.
- Access will be possible through a variety of distribution channels.
- Managing agents can use, as required, the most recognised and renowned global insurance brand.
- The Corporation will provide lobbying services on the market's behalf and ready access to advice and expertise on international compliance and the regulatory environment.

BROKERS

- Easy access to, and speed of decision making by, underwriters who are able to provide global insurance coverage for a broker's clients.
- Coverholders to have simple, efficient and controlled access to the Lloyd's market.
- A tailored relationship management approach (this will also include key local brokers and coverholders).

CAPITAL PROVIDERS

- The opportunity to obtain attractive returns from an investment in a bespoke portfolio of global insurance risks.

PROGRESS

PRIORITIES FOR 2009–2011

TRADING RIGHTS

- Official regulatory approval as an admitted reinsurer in Brazil.
- New establishment licences in Poland and Austria and applications made in Czech Republic and Portugal.
- A new Lloyd's International Trading Advice desk has been set up in the Underwriting Room.

- Maintain access and improve trading rights in key territories (eg US funding arrangements, Canada, Australia and China).
- Monitor regulatory developments in the US, Europe and other territories, responding to recent financial events and engage with policy makers to optimise Lloyd's trading position and interests.
- Explore options to obtain new licences in territories where there is a clear opportunity and market support.
- Monitor Indian market for potential changes to government regulations to enable reinsurance licence to be obtained.
- Review coverholder licences (in particular for reinsurance business) in Latin America and evaluate options to provide the market with effective market access.

ACCESS

- Lloyd's Reinsurance Company (China) Limited has five syndicates operating from China and a further 10 are to participate from London.
- The number of participating syndicates in Lloyd's Singapore stands at 14.
- The Corporation is seeking to implement a more flexible operating model for Lloyd's Japan Inc.
- Agreement from the Monetary Authority of Singapore (MAS) to a significant streamlining in reporting and compliance burdens for syndicate trading in Singapore.

- Explore options to develop Lloyd's presence and improve business flows in key markets where there is a clear business case.
- Facilitate discussions for managing agents interested in establishing strategic partnerships with local reinsurers.
- Enhance the attractiveness of Lloyd's trading centres in Singapore, China and Japan.
- Improve delegated authority business processes and systems.

MARKET SUPPORT

- New Heads of North America and China have been appointed. New Country Managers in Brazil, Canada, Ireland and Poland have also been appointed.
- Market development working groups under the LMA are being run for China and Brazil.
- Publication on lloyds.com of Global Opportunities and Regional Watch information sources for managing agents.

- As part of the distribution strategy, develop effective and tailored relationships with managing agents and brokers for international and market development issues, including with the LMA and LIIBA.
- Enhance Lloyd's suite of market information and promotional material for agents and brokers.

BRAND

- Lloyd's continues to position itself as an industry thought leader. A key part of this is the 360 risk project.
- Local language versions of lloyds.com have been developed and improvements made to the Crystal database.

- Continue with 360 risk project to raise awareness of emerging industry issues.
- Review current branding guidelines for coverholders.

2009 ACTIVITIES MARKET ACCESS

DELIVERING THE THREE-YEAR PLAN

OPTIMISE EXISTING TRADING RIGHTS

US – monitor developments in the US so that any regulatory reform takes into account Lloyd's interests and continue negotiations with US regulators to improve the trading position for reinsurance business.

- Influence development of federal initiatives to optimise benefits to Lloyd's. (Q4)
- Influence developments at NAIC and State level to be as consistent as possible with Lloyd's strategy. (Q4)

Canada – renegotiate Lloyd's regulatory agreement. (Ongoing)

Maintain, and seek improvements to, Lloyd's trading position in other key territories.

- Maintain access and optimise trading rights in response to legislative changes in China and New Zealand. (Ongoing)
- Explore opportunity to amend basis of funding and reporting requirements in Australia in negotiation with APRA. (Q1–Q4)
- Explore and seek to amend the basis of funding and reporting requirements in other key territories. (Ongoing)

EXPAND LLOYD'S TRADING RIGHTS

Explore options to obtain new trading licences.

- Conduct detailed feasibility studies to assess market appetite and opportunity to obtain new trading licences in Vietnam, South Korea, Turkey and Russia. (Q1–Q4)
- Perform high level analysis on Hungary and Romania as part of considering whether to obtain establishment licences in 2010.

Monitor Indian market for potential changes to government regulations to enable a reinsurance licence to be obtained.

- Maintain relationships with Indian authorities and influence development of legislation to support Lloyd's future trading rights. (Ongoing)

Review of global coverholder licences

- Review and identify opportunities to obtain licences for coverholders to write reinsurance business in Latin America. (Ongoing)

Obtain establishment licences in Czech Republic and Portugal. (Q2)

ACCESS – DEVELOP LLOYD'S PRESENCE IN KEY MARKETS

Identify emerging and existing territories as potential locations for new Lloyd's trading centres.

- Review reinsurance centres that attract international or regional business flows and research broker and reinsurer clustering at these centres. (Q1–Q2)
- Identify candidate territories for future Lloyd's trading centres. (Q2)

North America – enhance organisation, processes and office structure to support market development strategy.

- Implement marketing and communications strategy. (Q1)
- Work with the market to agree distribution strategy and propose way forward. (Q2)
- Assess high level operating model and costs to support licensing proposals. (Q1–Q2)

- Agree and document operational procedures in Canada, Illinois and Kentucky. (Q1)

Brazil – establish Lloyd's office with co-location potential for participating managing agents.

- Support Market Working Group for managing agents interested in developing business opportunities in Brazil. (Ongoing)
- Optimise Lloyd's trading position and ensure regulatory control requirements are met. (Ongoing)

Middle East – taking into account economic conditions, and working closely with managing agents, continue to assess the potential for establishing a local presence in the region when the time is right. (Ongoing)

Develop and publish operating model options for use of local strategic partnerships, consortiums and lineslips. Communicate to managing agents. (Q3–Q4)

ACCESS – ENHANCE EXISTING LLOYD'S TRADING CENTRES

Establish participation agreements, a transparent charging basis, entry guides (and other guidance manuals) (Q1–Q4) and assess and define back office protocols for existing Lloyd's trading centres. (Q1–Q3)

Japan – new operating model developed to enable individual syndicates to establish local underwriting presence and operate alongside the existing binding authority arrangement.

- Define and implement procedures, controls and IT system for new operating model. (Q1–Q3)
- Promote trading centre to interested managing agents. (Q4 09–2010)

Singapore – define and identify options for providing centralised services for accounting and settlement and claims processing.

- Define, agree and implement an appropriate operating model with managing agents. (Q1–Q3)
- Ensure appropriate regulatory controls and business processes are in place to support centralised regulatory reporting and funding. (Ongoing)
- Review existing trust fund structure. (Q3–Q4)

WORKING WITH MARKET PARTICIPANTS, DEVELOPING LLOYD'S PRESENCE IN KEY MARKETS IS A MAJOR PRIORITY.

China – review current operating model and underwriting processes.

- Ensure all operational and underwriting procedures and roles are defined, implemented and tested. (Q3)
- Complete implementation of Genius Underwriting system including tested delivery of management information reports. (Q3)
- Review underwriting model including the use of RI3K and participation by London-based underwriters. (Q1–Q3)

ACCESS – COVERHOLDER IMPROVEMENTS

Improve delegated authority business processes and systems.

- Support pilot project for standardised risk bordereau for North American Property business. (Ongoing)
- Review Canadian coverholder requirements, and potential development requirements for Lineage. (Q1–2010)
- Streamline approval process and reduce coverholder application turnaround time. (Ongoing)
- Coordinate audits of existing coverholders. (Ongoing)

MARKET SUPPORT

Develop relationship management with key external and internal stakeholders.

- Biannual market development updates to the LMA and LIIBA. (Ongoing)
- Establish effective working relationships with all relevant governmental bodies and organisations representing and promoting the City of London overseas. (Ongoing)
- Develop and enhance relationship management for coverholders. (Ongoing)

Develop market intelligence information and publications for managing agents and Lloyd's brokers.

- Discuss with managing agents the key information they need to assist them to develop their business internationally. (Q1)
- Develop and enhance market intelligence toolkit for managing agents. (Q2–Q3)
- Consult with Lloyd's brokers to establish key information requirements. (Q1)
- Develop appropriate market intelligence toolkit for Lloyd's brokers. (Q2–Q4)

Complete local website initiative and translation of key Lloyd's promotional documents into foreign languages. (Q1)

BRAND – PROMOTION

360 risk project.

- Manage Lloyd's website and deliver research project(s) and branded reports on emerging risk issues. (Ongoing)
- Deliver keynote 360 events in UK, US and Asia. (Q2–Q4)
- Build media campaigns and promote to target audiences. (Ongoing)

Review current coverholder branding guidance. (Q1–Q4)

BUSINESS AS USUAL

MARKET SUPPORT

Provide high level support and assistance to new Lloyd's offices opened in 2008 (Ireland, Brazil, Poland and Scandinavia).

- Conduct an operational review of each office to ensure working model and business practices have been fully implemented. (Q1–Q3)

Support business operations in Lloyd's America and Lloyd's Canada.

- Protect and promote the Lloyd's brand in North America through marketing and public relations activities. (Ongoing)
- Support local brokers, coverholders and Lloyd's North American customers. (Ongoing)

Market development support.

- Provide managing agents with timely market intelligence on key territories through Regional Watch and bespoke briefs where appropriate.
- Provide managing agents and brokers with a comprehensive and up to date overview on key information sources for market developments.
- Update country plans and communicate forthcoming activities and events to key stakeholders. (Ongoing)

Establish mutually productive commercial relationships with brokers. (Ongoing)

- Broker presentations and biannual LIIBA presentation.
- Consult with brokers on licensing opportunities.

BRAND PROMOTION AND PROTECTION

Monitor managing agents' compliance with the requirement to apply the same prudential standards required of Lloyd's brokers to any non-Lloyd's brokers with whom they directly deal. (Ongoing)

Maintain proper usage of Lloyd's brand by the Corporation, market companies and third parties. (Ongoing)

Investigate and resolve any instances of external fraud, market disputes and other problem issues to protect Lloyd's reputation. (Ongoing)

Support market's compliance with money laundering and international sanctions legislation, resolving any issues and protecting Lloyd's reputation. (Ongoing)

OVERSEAS REGULATORY REPORTING

Overseas regulatory returns, funding requirements and audits.

- File approximately 400 international regulatory returns on behalf of the market. (Ongoing)
- Ensure overseas funding arrangements and deposits are in place to comply with overseas trust fund obligations. (Ongoing)

DELIVERING THE PLATFORM OF CHOICE PROGRESS AND FUTURE PRIORITIES

5. OPERATING ENVIRONMENT

An efficient, cost-effective operating environment that allows managing agents and brokers, irrespective of their location, to deliver excellent service to customers.

FEATURES

SERVICE AND COST

- Fast, expert service from quotation through to claims settlement.
- Brokers and other producers are able to deal easily with Lloyd's underwriters, using simple, streamlined processes with costs comparable to other markets.
- Flexible operational support underpinning the range of distribution channels.
- Easy access to Lloyd's underwriting expertise and range of insurance products irrespective of location.

STANDARDS AND TOOLS

- Operational and data standards that ensure the efficient conduct of business in the market.
- Centrally sponsored, value-added services and tools which support high quality, efficient transaction of business.

WHAT WILL THIS MEAN FOR MARKET PARTICIPANTS?

MANAGING AGENTS

- Any burden associated with the processes and operation of a broker subscription market will be minimised, strengthening the competitive position of all managing agents.
- Information will be sourced once and used many times to support managing agents in planning, measuring and managing their business.
- Managing agents (and brokers) may need to modify systems, processes and behaviours to benefit fully from the planned changes.

BROKERS

- An interface with the Lloyd's market that will be comparable to other markets in terms of time and cost to conduct business.
- Brokers will be able to use simple processes when dealing with Lloyd's, while continuing to derive the benefit from a subscription market. They will be able to carry out some activities without the need for face-to-face interaction.

CAPITAL PROVIDERS

- More transparent, automated processes, supported by improved management information will reduce managing agents' operational risk, making Lloyd's market more attractive.

PROGRESS

PRIORITIES FOR 2009–2011

SERVICE AND COST

- Increased market use of the Accounting and Settlement (A&S) and Electronic Claims File (ECF) repositories. 90% of in-scope claims and 93% of original premiums were processed using the Insurers' Market Repository (as at October 2008).
- A preferred supplier will shortly be engaged to provide a messaging hub service (the Lloyd's Exchange) which may be used by market participants to send risk information using ACORD standard electronic messages.
- A&S functionality added to Lineage coverholder system in Canada.
- Tactical changes and recommendations made for other delegated authority systems and processes.

- Ensure the ECF and A&S repositories are embedded in day-to-day market operations and deliver improvements as required.
- Simplify market trading relationships through the implementation of a pilot for the Lloyd's Exchange and if successful roll out across the market and encourage take-up.
- Review the means by which Lloyd's gathers information and ensure there is no duplication or redundancy. Simplify and design options for future information collection and offer to the market.
- Working with the market, review the central servicing model and by clearly splitting out Lloyd's information reporting requirements, design and agree a new operating model that can be used on a worldwide basis.

STANDARDS AND TOOLS

- Recommendations agreed for the implementation of ACORD standards in the market.
- A segmented approach to claims handling has been agreed with managing agents and XCS, and is being implemented.
- By the end of 2008, seven of Lloyd's international offices will be fully connected to the Lloyd's network.

- Ensure the correct ACORD governance framework is in place and drive forward the implementation of ACORD standards.
- Develop lloyds.com as the single market interface for Lloyd's information, services and reporting.
- Implement a dual data centre environment for the Corporation to ensure a robust IT platform that supports services to the market.
- Complete implementation of a single 'global IT network' connecting remaining key international offices.

2009 ACTIVITIES

OPERATING ENVIRONMENT

DELIVERING THE THREE-YEAR PLAN

SERVICE AND COST – PREMIUM ACCOUNTING AND CLAIMS

Complete phased roll-out of system improvements to Electronic Claims File (ECF) and Accounting and Settlement (A&S).

- Support upgrade of infrastructure. (Q1–Q3)
- A&S – Complete further changes as agreed. (Q1–Q3)
- ECF – Complete further changes as agreed. (Q1–Q3)
- Refocus on new claims and increase 'in-scope' percentage to 80%. (Q1–Q4)
- Agree an approach to legacy claims in order to bring a substantial proportion in scope. (Q1–Q4)
- Continue to address market concerns and implement changes as necessary. (Ongoing)

SERVICE AND COST – LLOYD'S EXCHANGE

Implement a pilot for the Lloyd's Exchange (messaging service) and, if successful, roll out across the market to suit demand, ensuring all market participants that require access can do so.

- Commence pilot with key managing agents. (Q1)
- Develop the service with managing agents and brokers. (Ongoing)
- If successful, ramp up the service across London market participants. (Q2–Q4)

SERVICE AND COST – LLOYD'S INFORMATION REQUIREMENTS

Define and publish Lloyd's minimum information requirements and make recommendations on how information can be collected, processed and managed in the most efficient, flexible and transparent manner removing duplication and 'Londonisms'.

- Identify, document and define all the information received, processed and output from the Corporation on one database. (Q1)
- Identify and implement any savings in report requests and remove all duplication and redundancy. (Q2)
- Challenge and validate core tax and regulatory information required and publish minimum information set. (Q2)
- Challenge and validate core monitoring information required and publish minimum information set. (Q3)
- Propose short-term options for more cost-efficient management of information within Lloyd's (eg rationalising files from Xchanging Insurance Services (XIS)). (Q2)
- Propose and agree new options for long-term capture and internal management of information. (Q4)

Service Company – direct information.

- Review pilot and lessons learned. (Q1)
- Identify delivery options and costs for direct receipt of information. Determine managing agent appetite for new service and agree delivery schedule. (Q1)
- Implement and test service option. (Q1–Q3)
- Roll out service to the market. (Q3–Q4)

LLOYD'S WILL CONTINUE TO LEAD OR SUPPORT INITIATIVES TO IMPROVE THE OPERATING EFFICIENCY OF THE LONDON MARKET.

SERVICE AND COST – OPERATING MODEL REVIEW

Design and agree with the market a new central servicing operating model that can be used on a worldwide basis and identify options for delivery.

- Working with the market, propose and agree central service processes for placing and endorsements, settlement and credit control, and claims. (Q1–Q3)
- Validate the end-to-end operating model with the market, incorporating revised approach to 'Londonisms'. (Q3–Q4)
- Validate proposed model against all geographies and for all business types. (Q4)
- Working with the market, propose options for adoption. (Q4–2010)
- If required by the new claims business model (see Performance Framework benefit), select business partners to design and build new claims infrastructure. (Q2–Q4)

ACORD STANDARDS

Drive the implementation of ACORD standards in the Lloyd's market through agreement and publication of London market data and validation rules to support full risk life cycle.

- Develop plan including processes for maintenance and upgrade of standards implementation. (Q1)
- Agree and put in place governance structure. (Q1)

→ Agree data and validation rules to support:

- Placing and endorsements. (Q1)
- Exchange of risk management and other information. (Q2–Q4)
- Accounting and Settlement processes. (Q2–Q3)
- Claims processes. (Q3–Q1 2010)

MODERNISING THE CORPORATION'S IT PLATFORM

Develop Lloyds.com website to provide an easy to use, common and secure interface to Lloyd's information, services and applications. (Q1–2010)

- Redesign of Lloyds.com to enhance user experience and strengthen brand. (Q1–Q2)
- Further migration of externally facing services to the single entry point. (Q3–2010)

Implement a dual data centre environment for hosting Lloyd's IT services and for the provision of appropriate service resilience.

- Construct new build data centre. (Q1–2010)

Complete a single 'global IT network' connecting key overseas offices. (Q3)

WORKING WITH THE MARKET

Delivering success requires the Corporation and market participants to work together, especially in managing the cycle, improving the operating environment and addressing the challenges and opportunities of a changing distribution landscape.

Close liaison and collaboration with the market, particularly through the LMA and LIIBA, will continue to be key features in the delivery of the targets set out in this plan. Consultation with members' agents and capital providers, through their representative organisations, will also continue where appropriate.

THE ROLE OF THE CORPORATION

There are a number of elements to the Corporation's role, but its main function is to lead or support changes to ensure the market operates in the most commercially attractive and efficient manner. The Corporation strives to:

- Maintain the Central Fund and Lloyd's ratings at their appropriate levels.
- Safeguard Lloyd's brand, reputation and licence network.
- Work with the market to raise performance, for example by ensuring that minimum standards are met.
- Protect and advance the interests of Lloyd's generally, for example through its lobbying activities with governments and regulatory bodies around the world.
- Provide support to market participants, for example in the form of business information and business tools, that enables them to manage their business and conduct insurance at Lloyd's more effectively.
- Continue to seek ways to improve and streamline the requirements of operating at Lloyd's.

In carrying out its role, the Corporation will engage with market participants through consultation and collaboration. However, where it is considered to be in the best interests of the market as a whole, the Corporation will be prepared to mandate changes or impose conditions on the way business is carried out.

VALUE ADDED SERVICES

Support services are provided to the market either for the benefit of a specific stakeholder group – for example providing tax advices to assist capital providers completing their UK tax returns – or to make the transaction of insurance at Lloyd's more efficient, such as the central settlement of insurance transactions between market participants.

The services to be carried out by the Corporation in 2009, together with any proposed improvements, are set out below. The Corporation keeps these services under review as well as the potential for new services, where there is a sound commercial case and market demand.

2009 ACTIVITIES

MARKET WIDE SERVICES

SKILLS AND TALENT

Promote Lloyd's as an attractive employer by fostering relationships with relevant external groups eg universities, business schools both in the UK and overseas. (Ongoing)

Working with the market, increase the talent coming into Lloyd's through the Graduate Programme and develop existing management and leadership skills through the Leadership Programme. (Ongoing)

CENTRAL SETTLEMENT

Oversee the operation of the Settlement and Trust Fund Office.

- Coordinate the movement of insurance transaction monies through the settlement system between market participants. (Ongoing)

LOBBYING

Regulatory

Monitor and influence regulatory and legislative debates in the EU, OECD, IAIS and other relevant national and international organisations. (Ongoing)

- Continue to influence the outcome of Solvency II (see also the Capital Advantages Section). (Ongoing)
- Review proposals and lobby for changes to safeguard and promote Lloyd's interests. (As required)
- Provide information and guidance to the market. (As required)

Tax

- Ensure HM Treasury fully understands the challenges faced by Lloyd's and other insurers which increase the tax burden and make competing with non-UK insurers increasingly difficult. (Ongoing)
- Complete discussions with HM Treasury on the detail of the proposals to introduce claims equalisation reserves for Lloyd's members. (Q1)

Accounting Reform

- IFRS: Work with Lloyd's/LMA IFRS technical working group, market professionals and other industry participants to monitor and influence development of IFRS Phase II. (Ongoing)

DELIVERING SUCCESS REQUIRES THE CORPORATION AND THE MARKET TO WORK TOGETHER.

BUILDING INFRASTRUCTURE

Manage and maintain the Underwriting Room services. (Ongoing)

Manage the relocation of the Company Market to Gallery 3 to enable the expansion of the Lloyd's market on Gallery 2. (Q1–Q2)

PROVISION OF IT SERVICES

Maintain, protect and enhance day-to-day operational IT services eg providing Lloyd's Insurance Network infrastructure; audio-visual services (including telephony); and an internet web-hosting service. (Ongoing)

BUSINESS CONTINUITY PLANNING

Ensure adequate business continuity planning is in place across the market.

- Provide a workshop/forum to facilitate communication and raise market awareness. (Ongoing)
- Maintain contingency site and investigate alternative continuity standards for the Underwriting Room. (Q1–Q4)
- Review managing agents' business continuity planning capability and ensure effective plans in place. (Ongoing)

POLICYHOLDER SUPPORT

Provide support to policyholders and the market in resolving policy or claims disputes. (Ongoing)

EQUITAS/BERKSHIRE HATHAWAY TRANSACTION

Support phase II of the Equitas/Berkshire Hathaway transaction to novate reinsured members' liabilities. (Q1–Q4)

MANAGING AGENT SERVICES

EMERGING RISKS

Explore insurance implications of emerging risks with Market Special Interests Group and agree practical escalation of emerging risks. (Ongoing)

Produce ad-hoc research reports on specific emerging risks. (As required)

TREASURY, BANKING AND TAX

Investment management of market assets.

- Provide investment management services to managing agents for syndicate funds. (Ongoing)

- Manage Lloyd's central assets, maximising investment returns within agreed risks limits. (Ongoing)

Review and negotiate Corporation and market banking arrangements and manage banking relationships on behalf of managing agents.

- Conduct pricing structure reviews of current banking arrangements. (Q3)
- Review and monitor service level agreements with external service providers. (Ongoing)

Review existing US Situs trustee and custodian arrangements to ensure best value for syndicates and implement new arrangements if required. (Q3 09–2010)

Operate and manage Lloyd's currency conversion service. (Ongoing)

- Introduce two new settlement currencies – New Zealand Dollar and Singapore Dollar. (Q1)

Provide a cost-effective, on-demand foreign exchange dealing service for managing agents and provide advice on effective currency hedging. (Ongoing)

Tax operating systems

- Provide operating systems to prepare returns and pay tax on behalf of the market, notably UK and overseas premium taxes. (Ongoing)

AGENCY NETWORK

Oversee, manage and improve performance of Lloyd's agency network.

- Inspect Lloyd's Agents and, if appropriate, change appointments to improve the network. (Ongoing)
- Carry out four regional training sessions in various locations. (Ongoing)
- Market and promote agency network to Lloyd's managing agents in order to increase use. (Ongoing)

Improve and develop Lloyd's certificate function. (Q1–Q4)

- Improve current processes and increase functionality of product, eg First Notice of Loss. (Ongoing)
- Market and promote electronic certificates to Lloyd's and overseas markets in order to increase use. (Ongoing)

Manage and improve the Lloyd's Open Form scheme. (Q1–Q4)

RATINGS AND INVESTOR RELATIONS

Investigate potential for developing value-adding aligned support activities with managing agents. (Ongoing)

CAPITAL PROVIDER SERVICES

TAX ADVICE

Produce tax information and assistance for capital providers enabling the filing of certain tax returns to HM Revenue and Customs and other overseas tax authorities. (Ongoing)

FUNDS AT LLOYD'S

Manage the distribution of profits/collection of losses and releases of surplus Funds at Lloyd's. (Ongoing)

Provide facilities and services for the management of Funds at Lloyd's. (Ongoing)

- Investigate potential for enhancing corporate action notifications. (Q4)

CAPACITY AUCTIONS

Manage Lloyd's capacity auctions and commence work on a replacement capacity auction system for 2010. (Q3 09–2010)

MEMBERS' AGENT BACK-OFFICE SERVICES

Where requested, provide operational back-office services to members' agents under outsourcing contract. (Ongoing)

SERVICES PROVIDED BY LLOYD'S SUBSIDIARIES

Lloyd's Members Agency Services: act as a members' agent for members in run-off. (Ongoing)

Centrewrite: Offer reinsurance to close for members, manage Exeat and Estate Protection Plan policies. (Ongoing)

Where appropriate, offer reinsurance to close for certain syndicates in run-off. (Ongoing)

GLOSSARY OF TERMS

The following is a guide to insurance and Lloyd's-related terms. These are not precise definitions but are included to provide assistance to readers as to the general meaning of terms commonly used in the Lloyd's market.

ACORD (Association for Cooperative Operations Research and Development) Messaging data standards for the insurance industry.

Capacity In relation to a member, the maximum amount of insurance premiums (gross of reinsurance but net of brokerage) which a member can accept. In relation to a syndicate it is the aggregate of each member's capacity allocated to that syndicate.

CEA Comité Européen des Assurances (European Insurance and Reinsurance Federation).

Central assets The net assets of the Society including the Central Fund, but excluding the subordinated debt liability and the callable layer.

Central Fund The fund financed by (among other things) contributions from Lloyd's members and administered by the Council primarily as a fund for the protection of policyholders and includes both the 'Old' Central Fund and the New Central Fund.

Council Created by Lloyd's Act 1982, the Council has the management and superintendence of the affairs of the Society and the power to regulate and direct the business of insurance at Lloyd's.

Coverholder A firm either in the United Kingdom or overseas that is authorised by a managing agent under the terms of a binding authority to enter into contracts of insurance to be underwritten by members of a syndicate managed by the managing agent. A Lloyd's broker may act as a coverholder.

Franchise The arrangements that permit managing agents and members to conduct business in the Lloyd's market, and maximise the benefits from the Lloyd's brand, a common rating, mutual security and licences to conduct business around the world.

Franchise Board The board established by the Council, which is responsible for managing the Franchise.

Global Opportunities A tool aimed at managing agents for scanning insurance markets and their potential for future licence development.

ICA Individual capital assessment carried out by an insurer in accordance with the framework set by the FSA.

IFRS International Financial Reporting Standards.

LATF Lloyd's American Trust Fund.

Managing agent An underwriting agent responsible for managing a syndicate.

Market Reform Group A dedicated working group of London Market participants focusing on market process reforms.

Member (of the Society) A person admitted to membership of the Society.

NAIC National Association of Insurance Commissioners, the organisation of US state insurance regulators.

Realistic Disaster Scenarios (RDS) A series of scenarios, both natural and man-made, which are used to model the market's exposure to a variety of different catastrophes to enable better risk management practices within Lloyd's.

Regional Watch An information tool for managing agents for monitoring insurance environments and Lloyd's premiums in over 50 insurance markets.

Syndicate A member, or group of members, underwriting insurance business at Lloyd's through the agency of a managing agent.



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Since merchants first met to insure their ships at Edward Lloyd's coffee shop over 300 years ago, nearly every aspect of the way we do business has changed. But one constant is the bold confidence proclaimed by our motto, reflected in both our unique appetite for risk and our worldwide reputation for settling valid claims.

