

LLOYD'S  
**THREE-YEAR  
PLAN**  
2012-2014

## **LLOYD'S VISION**

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**TO BE THE MARKET OF CHOICE FOR  
INSURANCE AND REINSURANCE  
BUYERS AND SELLERS TO ACCESS  
AND TRADE SPECIALIST PROPERTY  
AND CASUALTY RISKS**

## **MARKET PRIORITIES FOR PLAN PERIOD**

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- > A RESOLUTE FOCUS ON UNDERWRITING  
DISCIPLINE AND RISK MANAGEMENT**
- > MAINTAINING AND DEVELOPING THE  
ATTRACTIVENESS OF THE LLOYD'S MARKET**

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## CHAIRMAN'S INTRODUCTION

# WE MUST TAKE STEPS TO ENSURE THAT LLOYD'S REMAINS THE MARKET OF CHOICE OVER THE NEXT 15 YEARS



It was a great honour to take up my appointment as Chairman of Lloyd's in October. I look forward to working closely with the Corporation, managing agents, capital providers and brokers during my tenure. This plan is a good place to start.

There are three aspects which I would single out. First – and foremost – the strong focus on underwriting discipline. The insurance industry is experiencing difficult conditions, with a combination of a harsh economic climate, low investment returns and, despite a number of natural catastrophes earlier this year, flat rates in many lines of business. During this period, the Corporation will need to maintain strong market oversight. This is an important part of Lloyd's reputation as a highly secure insurance market.

Second, I intend to promote strongly the focus on market modernisation and applaud the steps set out in this plan to raise the levels of efficiency in the market. Linked to this, we have identified cost savings in the Corporation and this will continue to be a priority.

Third, I want to increase the level of international engagement in the market. Many of the brokers operating in the Lloyd's market have excellent distribution models and I would like to explore how we can maximise these to our advantage.

I would also like to broaden the international diversity of underwriters and capital in Lloyd's, while building on the culture of trusted relationships and face-to-face trading which has served the market so well.

This third point will be an important element of a longer term strategic vision for Lloyd's which extends beyond the three-year confines of this plan. While this is an excellent tool to manage the projects in the Corporation over the short term, I see value in looking beyond three years, and identifying the steps we must take now to ensure that Lloyd's remains the market of choice for specialist global insurance and reinsurance business over the next 15 years. I know that this is important to the market and I look forward to discussing this with you in the months ahead.

**JOHN NELSON**  
Chairman

December 2011

## CHIEF EXECUTIVE OFFICER'S INTRODUCTION

# WRITING FOR PROFIT WHILE EFFECTIVELY MANAGING COSTS WILL BE KEY



### CORPORATION'S KEY PRIORITIES FOR 2012

- > Market oversight
  - A resolute focus on underwriting discipline and risk management
- > Solvency II
  - Implement and embed Solvency II to protect and, where possible, enhance Lloyd's capital structure and efficiency
- > Claims Transformation Programme
  - Transform the way the Lloyd's market handles claims to enhance the experience of the customer
- > Market Operations Review
  - Agree and implement an evolutionary roadmap that renews the current back office processes and technology to prepare Lloyd's for the future

We are coming to the end of an exceptionally turbulent year; economically, politically and in terms of the number and severity of natural catastrophes. Despite these events, market rates remain soft in many lines of business, and the weak investment environment is unlikely to improve in the foreseeable future.

It will therefore be no surprise that our main priority remains performance management. We will continue to focus on effective market oversight, underwriting practices that focus on profit and seek further ways to attract new and profitable business to Lloyd's. The new Risk Appetite Framework is an important part of our ongoing oversight regime.

We will also continue to coordinate and lead Lloyd's implementation of Solvency II to protect and, where possible, improve our capital structure. Despite the uncertainty over full implementation dates, our position as an industry leader requires a total market response to give regulators complete confidence in our ability to meet these requirements.

Our ability to pay valid claims swiftly will also be improved. The Claims Transformation Programme is entering its next phase and will include establishing new performance targets and better management information and reporting.

We will work closely with managing agents and Xchanging Claims Services (XCS) to ensure the market is properly resourced to meet the new requirements. Assessing the feasibility of a Volume Claims Service is an integral part of this programme.

In an increasingly competitive industry, the Market Operations Review will be central to achieving market modernisation. Working with the market to deliver and implement an evolutionary roadmap towards the Future Processing Model will be the review's first priority. We will also drive forward increased use of both ACORD standards and the Exchange, which are vital to making the efficiency gains required in today's market and to speed up processing.

In delivering these priorities, we have to be especially aware of costs. We have recently announced steps to reduce Corporation costs and will continue to scrutinise expenditure in all areas of our business, without compromising on delivery.

This plan helps prepare Lloyd's for what is likely to be an ongoing period of challenging underwriting conditions. While the plan includes a number of actions we will be taking to make sure we are ready for any market upturn, we must also recognise that current conditions could continue

for some time. Writing for profit while effectively managing costs will therefore be key. That said, we must also build on our undoubted strengths, including the subscription model which benefits both policyholders and market participants as well as encouraging market diversity.

As always, I am grateful to the Lloyd's Market Association (LMA) and the London & International Insurance Brokers' Association (LIIBA) in helping develop this plan and reflect market priorities. The plan not only covers the major areas of activity for the next three years but also includes specific Corporation actions for 2012 (our one-year plan).

Building on the market's recent performance and the strength of our brand, this plan helps to demonstrate why Lloyd's remains a resilient place to do business during challenging times, while underlining our ability to make the most of evolving global business opportunities.

**RICHARD WARD**  
Chief Executive Officer

December 2011

# COMPETITIVE ENVIRONMENT

# A CHALLENGING ECONOMIC AND UNDERWRITING ENVIRONMENT WILL REQUIRE DISCIPLINED UNDERWRITING AND ROBUST RISK MANAGEMENT

## OVERVIEW OF LLOYD'S COMPETITIVE ENVIRONMENT

### GLOBAL ECONOMY

Global economic growth for the first half of 2011 was below initial forecasts and growth forecasts for 2012 have been revised downwards. There continues to be a disparity in growth prospects between developed and emerging economies. A heightened risk of a 'double-dip' recession remains in many advanced economies.

The fiscal austerity measures and expansionary monetary policies being pursued in many developed countries in response to economic uncertainty may lead to a prolonged period of economic stagnation. Returns from highly-rated government bonds and investments are expected to remain below pre-financial crisis levels. The risk of Eurozone member default and the associated financial and political instability continue to contribute to economic uncertainty.

Overall, there remains a lack of confidence in the future of the economy and currently there appear to be few signs of an end to the Eurozone uncertainty or the sustained growth needed to restore this confidence.

### INSURANCE INDUSTRY

A number of factors continue to challenge the global insurance industry.

#### IMPACT OF ECONOMIC CONDITIONS

Looking ahead, the insurance market may be negatively impacted by a prolonged period of suppressed demand driven by economic uncertainty. The full impact of recession-related claims from 2008-2009 is still unknown. However, the numbers of attritional claims and claims notifications in some classes of business have increased.

The risk of a Eurozone sovereign default coupled with the potential detrimental effect on the value of other financial sector assets could negatively impact insurers. Should one of the weaker Eurozone members default, the resulting economic downturn could reduce demand for insurance and adversely impact insurers' balance sheets.

Increasing inflation continues to erode insurer profitability as claims increase at a greater rate than investment income. A prolonged period of low investment returns in an environment of increasing inflation and soft rates reinforces the need to underwrite for profit.

#### IMPACT OF UNDERWRITING CONDITIONS

Underwriting conditions remain soft, with prior year reserve releases continuing to mask the deteriorating results of more recent underwriting years. The catastrophes in the first half of 2011 resulted in the costliest first six months on record for the insurance industry, with 2011 already likely to be the second most expensive year ever for insurers. These losses have not yet led to market-wide rate increases, although increases are being seen in directly affected lines of business.

A key driver of soft rates continues to be the amount of excess capital in insurance markets. Insurers continue to return capital to shareholders and pursue merger and acquisition opportunities to improve their return on capital. However, absent an event that materially erodes industry capital, rates are unlikely to increase significantly.

#### REGULATORY CHANGE

The insurance industry is facing major changes in the structure and substance of regulation. At a global level, regulatory regimes are being created for the identification and supervision of Systemically Important Financial Institutions and Internationally Active Insurance Groups. Insurers falling under these regimes could face an increased regulatory burden, possibly including higher capital requirements.

The EU institutions continue to discuss the legislative rules for the Solvency II regime. The regime will reform the capital setting process, governance, risk management, supervision and disclosure requirements of (re)insurers in the EU. Lobbying efforts continue with a view to ensuring that regulatory requirements remain appropriate and proportionate.

Proposals for changes to the UK architecture for financial supervision are currently being considered by Parliament. These include disbanding the FSA and replacing it with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). There is a risk that the UK's new regulatory structure will increase the costs and burden of regulation.

Lloyd's and the industry more generally continue to lobby to influence the evolution of the UK, European and global regulatory frameworks to ensure that the competitive position of the UK insurance sector is protected and promoted.

### CHANGING BUSINESS FLOWS

The insurance expertise and capability in established and emerging regional insurance hubs continues to develop. While business from many of the markets served by these hubs flows into London on a cross-border basis, the emergence and/or changing nature of local and regional markets and hubs may reduce London's share of this business in the future.

Stronger economic growth in emerging markets, among other factors, is fuelling quicker premium growth in these markets compared to advanced economies. In some countries, access to these growth opportunities requires local regulatory approval and sometimes the establishment of a local presence.

Insurers and brokers are reacting to these changes by expanding their global reach to protect existing business flows and increase the amount of business to which they have access.

### INSURERS' BUSINESS MODELS

The multiplatform model is well established as the standard business model for global speciality insurers. The roles of different platforms vary depending on their ability to access business and their attractiveness as a location of domicile. Platform selection decisions are primarily driven by client choice, which platform is the most economically efficient for the insurer and its trading and processing infrastructure.

Developments in national, EU and global regulation (particularly Solvency II) could have an impact on insurers' multiplatform strategies. This may result in consolidations, additions and/or relocations of platforms in order to gain access to a wide range of business as efficiently as possible.

### BROKERS' BUSINESS MODELS

Soft market conditions and cost conscious clients are putting downward pressure on brokers' revenues. In response, brokers are pursuing strategies to reduce costs and increase revenue. Such strategies include mergers and acquisitions; insurer panel rationalisation; increased participation in the insurance value chain (ie delegated authorities, claims); and a number of other initiatives designed to raise revenue from insurers.

### CHANGING RISKS AND PRODUCTS

Insurers face changes in the underlying risk landscape, with the average cost of claims continuing to increase. The increasing severity of both natural and man-made catastrophe events is mainly attributable to factors such as climate change, economic development and increasing risk aggregation in catastrophe-prone areas. New categories of risk exposure and insurance claims are emerging, especially those connected with globalisation and new technologies. A more litigious culture is also increasing the cost of claims associated with more traditional risks.

The insurance risk securitisation market remains active with new catastrophe bond issuance figures for 2011 expected to exceed those for 2010. Catastrophe bonds continue to be used primarily in relation to extreme natural catastrophe risks such as windstorms and earthquakes in the US and Europe. Further significant growth in this sector will likely be driven by interest from mainstream investors, governments and increased demand for cover for other geographies or risk types.

### CHALLENGES FACING THE LLOYD'S MARKET

#### LLOYD'S POSITION

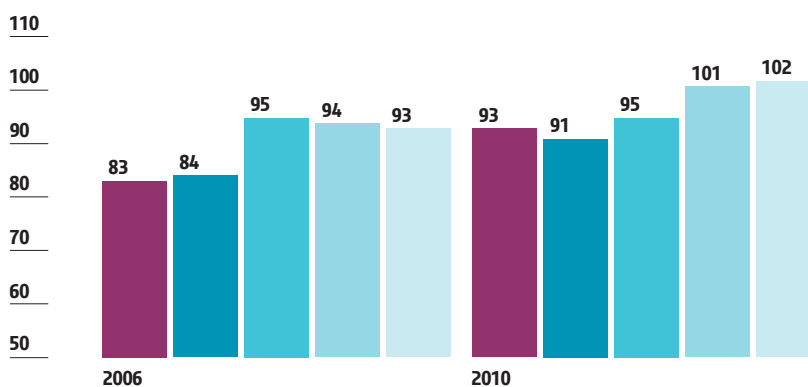
The high cost of claims during 2011 reinforces the importance of underwriting for profit. However, Lloyd's position remains robust due to its healthy balance sheet, conservative investment strategy and a business model that focuses on underwriting discipline.

Notwithstanding Lloyd's position, the market faces a number of challenges in its competitive environment. The five principal challenges, as identified in last year's strategic plan, remain broadly the same, albeit with even greater focus on the economic environment and a recognition that the attractiveness of London is impacted by a combination of regulatory and business environment factors (see Table 1, opposite).

Figure 1

#### INDUSTRY COMBINED RATIOS

%



■ Lloyd's\*  
 ■ Bermuda Reinsurers†  
 ■ US Reinsurers‡  
 ■ European Reinsurers†  
 ■ US P&C Industry•

Sources:

\* Statistics Relating to Lloyd's 2011 Edition

† Company data (8 European and 18 Bermudian companies)

‡ Reinsurance Association of America

• Insurance Institute of America Estimate

## MARKET'S PRIORITIES

At a high level, these challenges are being addressed through the market's priorities for the plan period, which remain the same as last year, namely:

- > A resolute focus on underwriting discipline and risk management
- > To maintain and develop the attractiveness of the Lloyd's market

More specific responses on the part of market participants and the Corporation are outlined in Table 1.

Consideration has also been given to the market's key attributes and the likely influences on them over the plan period. Some attributes are strengths and work will concentrate on further improving them while others require more focus and investment. This is illustrated in Table 2 overleaf.

TABLE 1

CHALLENGES	RESPONSES
<b>MAINTAINING MARKET PERFORMANCE GIVEN INDUSTRY CONDITIONS</b> <ul style="list-style-type: none"> <li>&gt; Challenging rating environment</li> <li>&gt; Excess capital within the industry</li> <li>&gt; Increasing claims severity and inflation</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Managing agents: demonstrate appropriate discipline across all aspects of their insurance operations</li> <li>&gt; Corporation: maintain challenging business partner role and embed Lloyd's Risk Appetite Framework</li> </ul>
<b>MAINTAINING MARKET PERFORMANCE GIVEN WIDER ECONOMIC CONDITIONS</b> <ul style="list-style-type: none"> <li>&gt; Protracted global economic uncertainty</li> <li>&gt; Decreased demand for insurance in developed markets</li> <li>&gt; Low investment return and higher inflation environment</li> <li>&gt; Risk of sovereign default and resulting impact on insurer balance sheets</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Managing agents and Corporation: maintain underwriting discipline while managing the impact of economic uncertainty on rates, claims and investments and apply robust risk management standards</li> <li>&gt; Corporation: continue to embed Lloyd's Risk Appetite Framework</li> </ul>
<b>A CHANGING SUPERVISORY AND BUSINESS ENVIRONMENT</b> <ul style="list-style-type: none"> <li>&gt; Uncertainty around global financial services regulatory reform</li> <li>&gt; Changes to the UK architecture of financial supervision and regulation</li> <li>&gt; Operational and strategic implications of Solvency II and uncertainty around the implementation timetable</li> <li>&gt; Impact of regulatory reform and the tax environment on the attractiveness of London as a domicile of choice</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Managing agents and Corporation: continued commitment to implementation of Solvency II</li> <li>&gt; Market and Corporation: continue to work together and with other stakeholders to promote the competitiveness of London as a financial services centre</li> <li>&gt; Corporation: continue lobbying activities to influence the design of domestic and international regulatory frameworks</li> </ul>
<b>MAINTAINING THE ATTRACTIVENESS OF LLOYD'S</b> <ul style="list-style-type: none"> <li>&gt; Ensuring brand strength is not undermined</li> <li>&gt; Maintaining market cohesion</li> <li>&gt; Changing nature of market participants</li> <li>&gt; Ensuring any new entrants, including through acquisition of an existing managing agent or syndicate, are of an appropriate quality</li> <li>&gt; Addressing the length and complexity of the Lloyd's distribution chain</li> <li>&gt; Maintaining a vibrant subscription market</li> <li>&gt; Continuing to modernise the market's operating environment</li> <li>&gt; Attracting and developing talent</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Market: active participation in market modernisation initiatives by brokers and managing agents; managing agents to continue to operate in line with franchise standards and guidelines</li> <li>&gt; Market and Corporation: continue to work to develop and implement strategies to attract and retain high quality insurance talent</li> <li>&gt; Corporation: enhance Lloyd's existing strengths; continue to co-ordinate, lead and resource market modernisation initiatives; defend and explain the pro-competitive nature and benefits of the subscription market</li> </ul>
<b>MAINTAINING ACCESS TO CHANGING BUSINESS FLOWS AND DISTRIBUTION</b> <ul style="list-style-type: none"> <li>&gt; Consolidation of brokers; dominance of the largest three brokers</li> <li>&gt; Lloyd's platform increasingly used to write more 'volatile' business</li> <li>&gt; Choice of locations for accessing insurance business flows</li> <li>&gt; Regionalisation of specialist insurance business</li> <li>&gt; Growth of 'Lloyd's type' business in emerging markets</li> <li>&gt; Leveraging position in established markets</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Managing agents and Corporation: continue to develop effective relationship management programmes with brokers to deliver reciprocal benefits; encourage insurance industry capital from countries that would improve Lloyd's geographic diversification and potentially provide access to new sources of business and broaden the market's pool of intellectual capital</li> <li>&gt; Corporation: maintain Lloyd's licence network and, subject to market demand, pursue market development opportunities</li> </ul>

TABLE 2 – LLOYD'S KEY ATTRIBUTES

ATTRIBUTES		DESCRIPTION
STRENGTHS	MARKET OVERSIGHT	> A framework to maintain underwriting and claims discipline and to help manage the performance of Lloyd's businesses
	BRAND AND REPUTATION	> Lloyd's brand is recognised for being traditional, entrepreneurial and dependable with excellent financial security
	ACCESS TO BUSINESS	> The ability to access specialist property and casualty (re)insurance through Lloyd's international licence network and London location
	CAPITAL EFFICIENCY AND THE CHAIN OF SECURITY	> Lloyd's capital structure provides financial security to policyholders and capital efficiency for members
	MUTUALITY AND MARKET COHESION	> The Central Fund underpins Lloyd's capital strength, licences and ratings and helps bind market participants together through a common interest
	SUBSCRIPTION MARKET	> Subscription placement benefits policyholders and market participants, allowing competitive quotes and diversification of risk placement
	DIVERSITY IN MARKET COMPOSITION	> Diversity across market participants and capital providers underpins Lloyd's offer to its clients and is desirable from a risk management perspective
	UNDERWRITING EXPERTISE AND INNOVATION	> A reputation for specialist underwriting expertise and product innovation
	RATINGS	> Lloyd's financial strength ratings attract the specialist (re)insurance business in which the market is interested
AREAS OF FOCUS	MARKET PORTFOLIO DIVERSIFICATION (PRODUCT & GEOGRAPHY)	> Lloyd's, as a specialist (re)insurance market, has a business portfolio concentrated on North America and the UK, particularly catastrophe exposed business
	DISTRIBUTION MODEL	> Lloyd's is a broker market and this model serves the market well. Delegated authority arrangements are an important part of the distribution model
	MARKET MODERNISATION	> Lloyd's provides a common processing infrastructure to support the operation of the subscription market and to meet tax and regulatory reporting requirements
	MARKET TALENT	> Lloyd's success comes in no small part from the strength of the market's intellectual capital and talent base

INFLUENCING FACTORS	RESPONSE
<ul style="list-style-type: none"> <li>&gt; Continued soft market conditions in most lines of business</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Primary oversight responsibility rests with the boards of managing agents</li> <li>&gt; The Corporation will emphasise its challenging business partner role</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Risk of contagion from negative perceptions of wider financial services industry</li> <li>&gt; Potential dilution from actions of managing agents as they develop their own brands</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Continue activities to differentiate insurance from banking</li> <li>&gt; Encourage, but not mandate, co-branding</li> <li>&gt; Continue work to ensure that managing agents' non-Lloyd's operations are delineated from their Lloyd's operations</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Changing (re)insurance business flows driven by the growth of new markets, regional insurance hubs and specialist insurance capacity in local markets</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Continued market development activity, driven by the business development needs of market participants</li> </ul>
<ul style="list-style-type: none"> <li>&gt; The requirements of Solvency II present a number of challenges for Lloyd's and require significant effort on the part of the market and the Corporation</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Continue to implement Solvency II in a way that protects and, where possible, enhances Lloyd's capital structure and efficiency</li> </ul>
<ul style="list-style-type: none"> <li>&gt; The security of a market backed by a Central Fund is attractive in the current economic climate</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Continued robust market oversight to protect the Central Fund</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Demand for diversified risk placement</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Continue to improve the operational efficiency of the subscription market</li> <li>&gt; Maintain the diversity of market participants</li> </ul>
<ul style="list-style-type: none"> <li>&gt; An increasing number of multiplatform participants</li> <li>&gt; Continued growth in the size of managing agents</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Maintain diversity of market participants while retaining robust standards for new entrants</li> </ul>
<ul style="list-style-type: none"> <li>&gt; The need to balance underwriting discipline with innovative and bespoke solutions for complex risks</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Marry an innovative and entrepreneurial culture with proportionate, but robust, market oversight</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Successful market oversight and Solvency II compliance are key to the ongoing strength of Lloyd's ratings</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Continued robust market oversight</li> <li>&gt; Continue to focus on the implementation and embedding of Solvency II by managing agents and the Corporation</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Lloyd's plays an increasingly specific role in multiplatform insurers' strategies</li> <li>&gt; Growth of insurance markets in emerging economies</li> <li>&gt; Limited share of mainstream commercial (re)insurance business in some established markets</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Managing agents will continue to decide the type of business they write, in line with an approved business plan</li> <li>&gt; The Corporation will continue to support managing agents' and brokers' business development activities to improve geographic reach and product diversification</li> <li>&gt; Encourage industry capital from countries that would improve Lloyd's geographic diversification and potentially provide access to new sources of business and broaden the market's pool of intellectual capital</li> <li>&gt; Affirmation that any diversity will come from the application of the market's existing strengths and expertise to new territories and market segments which require specialist insurance expertise</li> </ul>
<ul style="list-style-type: none"> <li>&gt; The consolidation of brokers continues, concentrating Lloyd's business flows into a smaller number of distributors</li> <li>&gt; Pressure on brokers' business models leading to a number of initiatives by some brokers to raise revenues from insurers</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Focus broker relationship management on London brokers and local producing brokers</li> <li>&gt; Enhance and promote the coverholder channel</li> <li>&gt; Continue to increase the efficiency of placing business at Lloyd's</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Complexities and inefficiencies remain in the existing market processing infrastructure</li> <li>&gt; Competition from other technology-driven trading and processing initiatives</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Working with the market, deliver and embed the London market modernisation programme, including the Future Processing Model</li> <li>&gt; Continue the Claims Transformation Programme to enhance the market's claims performance</li> </ul>
<ul style="list-style-type: none"> <li>&gt; Medium to long-term challenges arising from the increasing competition for talent driven by the perceived unattractiveness of careers in insurance</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Working with industry groups and market participants, continue to pursue initiatives to attract and develop talent</li> </ul>

# VISION

## KEY CHARACTERISTICS

# LLOYD'S VISION IS TO BE THE MARKET OF CHOICE

Lloyd's vision and key characteristics are unchanged from last year.

### VISION

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

### KEY CHARACTERISTICS

- > Lloyd's model – **a subscription market backed by a layer of mutual security** – is one which positions the market well over the plan period
- > Lloyd's is **a broker market** – brokers continuing to access the market on behalf of their clients is critical to the market's ongoing success
- > Lloyd's is **a London-based international business** – it is a major role of the Corporation to maintain and enhance market access and to ease the flow of business into the market
- > **Diversity** underpins the market's attractiveness – this includes diversity in the market portfolio (product and geographic balance) and in the size and structure of market participants and capital providers

### THE ROLE OF THE CORPORATION

The role of the Corporation is fundamentally unchanged from previous years. The Corporation's market oversight responsibilities remain prominent given current market conditions.

The Corporation's role is as follows:

- > To undertake the overall risk and performance management of the market
- > To maintain and develop the attractiveness of the market for capital providers, distributors and clients while preserving Lloyd's diversity and London-based business model

As in previous years, this plan is built around the needs of Lloyd's market participants and expresses what the Corporation can do to support their business aims. The Corporation will take action where necessary in the long-term interests of the market, but in general its actions are guided by market need and demand.

# STRENGTHS

## LLOYD'S STRENGTHS

# LLOYD'S STRENGTHS MUST BE MAINTAINED AND ENHANCED TO SECURE THE MARKET'S FUTURE SUCCESS

## LLOYD'S RISK APPETITE FRAMEWORK

Lloyd's risk appetite is an articulation of the level of risk-taking which the Franchise Board believes to be acceptable for Lloyd's. The framework is the key tool used by the Franchise Board to monitor Lloyd's risk profile. Risk appetite statements have been defined for each material risk area and are split according to whether they are market or Corporation risks.

Market metrics are intended to be 'appetites' and operated as guidelines. If the market is operating outside a guideline, this would prompt further investigation and assessment. This is appropriate as Lloyd's has oversight responsibilities for the market but not direct control over risk-taking.

The Corporation metrics are intended to be 'tolerances' and operated as hard limits. If a Corporation metric is breached, action would be required to bring the risk profile back within this tolerance. This is appropriate as Lloyd's has direct control over risk-taking within the Corporation.

Primary operational oversight of the Risk Appetite Framework comes through Lloyd's risk governance structure, with the Franchise Board retaining ultimate ownership. The Franchise Board monitors risk appetite on a regular basis and is responsible for ensuring appropriate action is taken where a metric has been breached.

This section lists Lloyd's strengths and any actions needed to maintain them or support their further development.

## MARKET OVERSIGHT

The primary responsibility for the management of Lloyd's businesses rests with the board of each managing agent. This includes the determination and monitoring of underwriting strategy, reserving philosophy, claims management, risk appetite and other aspects of oversight.

Lloyd's performance management framework details what is required of businesses operating at Lloyd's and seeks to raise standards across the market. While Lloyd's is not a zero failure regime, the framework aims to increase Lloyd's attractiveness as a market for brokers, capital providers and policyholders. The Franchise Board and Corporation have embedded the processes needed to perform their market oversight roles within the performance management framework.

## RESPONSE OVER THE PLAN PERIOD

The Franchise Board's oversight role is wider than underwriting and claims; it takes in all aspects of risk management, governance and capital management. Its priority remains to oversee the performance of Lloyd's businesses over the insurance cycle. Given current market conditions, the Corporation's role as a challenging business partner will continue to be emphasised.

The Corporation will continue to monitor managing agents' compliance with the franchise guidelines. Specifically, the Corporation will continue to work with managing agents to:

- > Ensure there is a reasonable expectation of making a gross underwriting profit on each line of business every year (the existing franchise guideline)
- > Keep any losses to the Central Fund within Lloyd's risk appetite

However, consistent with current practice, if a managing agent can explain and agree its position with the Corporation in advance, it will be able to operate outside a guideline.

The Corporation will continue to support managing agents' boards to ensure that they have systems and controls in place to allow access to the information needed to challenge their executive management.

To improve the performance of the Lloyd's market and help manage risk, the Corporation will continue to identify and share good practice across the market. While respecting the competitive advantage of individual managing agents, this will include issuing 'suggested practice' guidance in priority areas and addressing performance-related risks with individual managing agents.

The Franchise Board will continue to embed the recently enhanced risk management framework. This includes the formal Risk Appetite Framework, which is monitored through the risk governance structure. Monitoring managing agents' performance against the Risk Appetite Framework is one of the mechanisms through which closer intervention from the Corporation may be triggered. The risk management framework is designed to allow each managing agent to operate within its own risk appetite. Primary responsibility for ensuring that a managing agent operates within its own risk appetite rests with its board.

The market oversight regime described above will support disciplined underwriting and enhanced risk management at Lloyd's. This will help preserve capital which, in turn, should ensure that market participants are in a position to take advantage of opportunities when market conditions are more favourable.

## LLOYD'S STRENGTHS CONTINUED

### MARKET OVERSIGHT

#### MANAGING AGENTS' ROLE

- > As independent businesses, to operate in a proper and profitable manner, with freedom to participate in whichever type of business they choose, provided they operate in accordance with an agreed business plan
- > The board of the managing agent is responsible for the overall governance of its business, including underwriting strategy, reserving philosophy, claims management, risk appetite and other aspects of oversight
- > The board of the managing agent is also responsible for embedding its own internal capital model

#### CORPORATION'S ROLE

- > To maintain the performance management framework, built upon a set of franchise standards across underwriting, claims and risk management. These standards represent the minimum level of competence and performance at which all managing agents are required to operate. This includes identifying and sharing 'suggested practice' guidance in priority areas
- > To monitor and enforce the performance management regime in a manner which is tailored to the relative risk posed by each business and which takes economic conditions into account where appropriate

### SPECIFIC CORPORATION ACTIONS FOR 2012

#### STANDARDS AND GUIDELINES

- > Continue to monitor managing agents to enhance performance levels. Multidisciplinary reviews of specific managing agents will also continue
- > Provide feedback to managing agents on claims frequency and severity, based on internal analysis of the market. Where possible, collect and distribute analysis on claims inflation experienced in Lloyd's largest geographic markets and by class of business
- > Continue the programme of presentations to the market and other stakeholders on key elements of Lloyd's performance management framework
- > Continue to review Lloyd's minimum standards to ensure their ongoing applicability and appropriateness, particularly once Solvency II is implemented, and issue 'suggested practice' guidance for the benefit of the market

#### THEMATIC REVIEWS

- > The following thematic reviews are planned for 2012: offshore energy (concludes Q2); political risks/trade credit (concludes Q2); terrorism (concludes Q2); casualty (concludes by Q4); syndicate pricing review (concludes by Q4); and remote underwriting (concludes by Q4)

#### RISK MANAGEMENT

- > Provide more transparency to the market regarding Lloyd's Risk Appetite Framework, while continuing to work to identify and implement processes to ensure the market remains within the defined risk appetites

#### OTHER

- > Conduct a review to assess the market's exposure to contingent business interruption and how the associated risks are managed

**BRAND AND REPUTATION**

Lloyd’s brand remains in a strong position. Its core attributes are that it is seen as traditional, entrepreneurial and dependable, with excellent financial security. In addition to the risk of harm arising from a major market loss, it is important that the brand is protected from the risk of:

- > Contagion – stemming from negative perceptions of the wider financial services industry
- > Dilution – arising from the actions of managing agents as they seek to grow and develop their own brands

**RESPONSE OVER THE PLAN PERIOD**

To address the risk of contagion, the Corporation will continue to undertake a wide range of activities to differentiate insurance from banking and to distinguish Lloyd’s explicitly. This will include

lobbying at UK and EU levels on unnecessary, increased or inappropriate regulation of the insurance sector; participation in industry studies; and the alignment of messaging across all media and communication activity.

As many managing agents expand and develop their operations outside the Lloyd’s market, the risk of dilution of the Lloyd’s brand increases. Efforts will therefore continue to ensure that managing agents’ non-Lloyd’s operations are delineated from their Lloyd’s operations.

Inconsistent use of the Lloyd’s brand and a focus on promoting managing agents’ own brands may cause confusion and inconsistency across the market and between geographical areas. Lloyd’s current strategy is that co-branding should be encouraged – but not mandated – where aligned with both parties’ needs. This remains valid and appropriate.



Lloyd’s benefits from an excellent position in the global insurance and reinsurance markets. The collective size of the market and its unique capital structure enable syndicates to compete effectively with large international insurance groups under the well recognised Lloyd’s brand.

A.M. Best  
Best’s Rating of Lloyd’s  
August, 2011



**MANAGING AGENTS’ ROLE**

- > When using Lloyd’s brand in their own promotional and marketing activities managing agents should do so in accordance with Lloyd’s brand guidelines so as to ensure consistency and maintain the strength and integrity of the core brand message and characteristics

**CORPORATION’S ROLE**

- > The Corporation will work with the market to ensure consistent application of Lloyd’s brand guidelines and will encourage, but not mandate, co-branding where aligned with both parties’ needs

**SPECIFIC CORPORATION ACTIONS FOR 2012**

**CONTAGION**

- > Continue with efforts to monitor and influence relevant debates on the structure of UK financial services regulation, as well as the substance of that regulation, to ensure that the distinction between insurance and banking is recognised
- > Work with the Association of British Insurers (ABI), the International Underwriting Association (IUA) and other organisations to promote an understanding of the importance of the UK’s insurance industry to the UK economy

- Monitor how market participants are currently using the Lloyd’s brand and work in partnership with them to protect it
- Regular meetings between the Corporation and managing agents to provide guidance on using the Lloyd’s brand, share communications expertise and identify areas for collaboration

**OTHER**

**DILUTION**

- > Continue work to ensure that managing agents’ non-Lloyd’s operations are clearly delineated from their Lloyd’s operations
- > Work with the market to ensure the consistent and effective communication and use of the Lloyd’s brand, including:

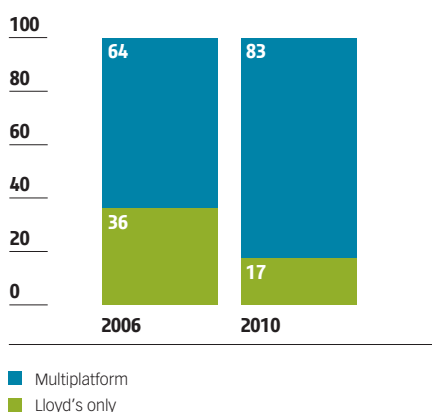
- > Make Lloyd’s a leading voice and opinion former on risk, and ensure that Lloyd’s is a first point for media queries on risk
- > Refresh and enhance Lloyd’s digital presence
- > Implement the Corporation’s new Corporate Social Responsibility strategy

## LLOYD'S STRENGTHS CONTINUED

Figure 2

### LLOYD'S MULTIPLATFORM MANAGING AGENTS

Managing agents with access to non-Lloyd's platforms by % of capacity



Source: Lloyd's Data Warehouse

Note: Data excludes Special Purpose Syndicates and RITC syndicates, based on capacity of syndicates

### ACCESS TO BUSINESS

Access to specialist property and casualty (re)insurance business remains one of Lloyd's major strengths. Lloyd's international licence network and London location provide access to substantial flows of specialist (re)insurance business for market participants, although the pattern of global insurance business flows is changing for a number of reasons:

- > The development of regional insurance markets, including those which are now relatively well established such as Singapore, and emerging hubs vying for primacy within a region, such as the Middle East
- > The ongoing development of capability and capacity for less complex specialist risks to be written in local markets
- > Development of new insurance markets, for example in the BRIC (Brazil, Russia, India and China) economies
- > Increasing use of the multiplatform model by insurance businesses
- > Evolving broker business models and broker consolidation

### RESPONSE OVER THE PLAN PERIOD

#### LICENCES

The Corporation's market development activity is guided by market participants' business development strategies (see Market Portfolio Diversification, page 23, for more information).

### LONDON

London is the world's largest international (re)insurance market and the main skill centre for global (re)insurance. The clustering of insurance and correlated talent within London is one of Lloyd's major attractions. Market participants and the Corporation need to continue to work collectively and individually to protect London's position. This includes promoting the market internationally, lobbying the government on ways to improve London's competitive position and lobbying UK and European regulators to ensure new regulatory frameworks are appropriate.

#### MULTIPLATFORM MODEL

As managing agents increasingly grow and develop their business outside Lloyd's, the role of their Lloyd's operations may change. With the increasing importance of multiplatform managing agents, the Corporation will work to better understand how these businesses use multiple platforms.

The Corporation's approach to all Lloyd's businesses is to facilitate the placement of profitable business at Lloyd's by (i) working to reduce the costs and administrative burden of writing business in Lloyd's; (ii) ensuring that the capital, tax, rating and licensing benefits of Lloyd's remain; and (iii) enhancing Lloyd's licensing position in markets where there is justified demand. In addition, the Corporation works to ensure that strong relationships are in place with multiplatform managing agents at parent level, as well as with their London management teams. This helps protect Lloyd's position and enables Lloyd's to better understand the rationale behind the placing policy of multiplatform managing agents.

### SPECIFIC CORPORATION ACTIONS FOR 2012

#### REGULATORY ENVIRONMENT

- > Seek to maintain the attractiveness of London's position as a specialist (re)insurance centre by lobbying at UK, EU and international levels to ensure that the evolving national and international regulatory framework and reforms to financial services regulation do not disadvantage or inappropriately affect the Lloyd's market; and to ensure that the distinction between banking and insurance continues to be appropriately recognised in such reforms
- > Develop and enhance Lloyd's relationships with policymakers in existing and prospective national and international regulatory agencies

#### RELATIONSHIP MANAGEMENT

- > A focused relationship management programme will be developed to enhance relationships with multiplatform agents. This will enable the Corporation to better understand their needs so that Lloyd's remains attractive to them for the placement of a balanced portfolio of profitable specialist (re)insurance business. This will include:
  - Discussions with multiplatform agents to identify opportunities to attract suitable business from their non-Lloyd's platforms
  - Multiplatform agents to submit protocols outlining how they use Lloyd's versus their other platforms to enable the Corporation to review evidence of adherence to these protocols on an ad-hoc basis as required

## CAPITAL EFFICIENCY AND THE CHAIN OF SECURITY

Lloyd's capital structure provides a high level of financial security for policyholders and capital efficiencies for members. Lloyd's central assets, including the Central Fund, currently stand at the record level of £2.5bn<sup>1</sup>. Members' ability to use letters of credit as capital, the capital efficiency that the Central Fund provides to members and the diversity of the market's capital base – both in form and geographic origin – are seen as particular strengths.

### RESPONSE OVER THE PLAN PERIOD

The implementation of Solvency II continues to present a number of challenges. Maintaining the competitive strength derived from Lloyd's capital structure remains a priority. There are no plans to change the structure of the chain of security, and maintaining the market's capital advantages is business as usual.

<sup>1</sup> Lloyd's Interim Report 2011, net central assets excluding subordinated debt liabilities.

### SPECIFIC CORPORATION ACTIONS FOR 2012

- > Continue to respond to the impact of low investment returns and the risk of sovereign default via the Investment Committee and the relevant risk committees and reinforce the importance of underwriting for profit
- > Should significant investment losses occur (eg collapse of the Eurozone and the subsequent impact on the EU financial sector), require managing agents to quickly submit an assessment of the impact of the loss on their investment portfolios and solvency positions

## SOLVENCY II

Solvency II remains a priority and its implementation underpins many of Lloyd's strengths.

Solvency II will reform the capital setting process; governance and risk management; and supervision and disclosure requirements of (re)insurers in the EU. The objective of the regime is to ensure that firms' balance sheets accurately reflect the risks they face and to improve and harmonise the quality of prudential supervision across the EU. Lloyd's is implementing Solvency II in a way that protects, and where possible, enhances Lloyd's capital structure and efficiency.

Draft legislation produced by the European Parliament and Council of the European Union proposes that full implementation of the requirements of Solvency II for insurers should be delayed until 1 January 2014. The FSA has advised UK insurers to plan on that basis. Lloyd's has stated its preference that Solvency II be implemented on 1 January 2013 and continues to work towards this. The Corporation is following developments in Europe closely and has opened discussions with the FSA as to the potential impact of an implementation deferral to 2014. In this context, the FSA has recently announced that with their prior agreement, insurers may use appropriately calibrated Solvency II internal models to meet Individual Capital Assessment (ICA) requirements for 2013.

Implementing Solvency II requires significant ongoing effort and co-operation by the Corporation and managing agents. In line with the requirements of Solvency II, both are enhancing internal models, including enterprise risk management and risk governance frameworks. Securing regulatory approval of Lloyd's Internal Model (LIM) is essential to retaining Lloyd's capital advantages, with syndicate-level internal models an integral component of the LIM.

The Corporation works in close co-operation with the LMA's Solvency II groups to progress its Solvency II programme. To support managing agents in achieving Solvency II compliance, the Corporation will continue to provide tools, guidance and forums for ongoing market dialogue.

The Corporation has advised managing agents that they are individually responsible for their own contingency plans in relation to Solvency II compliance. If managing agents fall behind in their preparations, the Corporation may consider business plan restrictions or other prudential measures (ie capital loadings or additional Central Fund contributions). The status of the Solvency II implementation date discussions in Europe and the UK will be taken into account in applying any prudential measures.

### SPECIFIC CORPORATION ACTIONS FOR 2012

#### LOBBYING

- > Continue discussions with the FSA as to the potential impact on the Lloyd's market of an implementation deferral until 2014
- > Undertake effective lobbying within Europe and the UK to ensure that future EU rules, including those specifically related to Solvency II and to supervisory application, are proportionate and appropriately reflect Lloyd's structure and operation
- > Monitor the response of international regulators to develop a better understanding of the impact of Solvency II on Lloyd's international licences

#### IMPLEMENTATION

- > Publish 'suggested practice' guidance to assist managing agents in meeting performance expectations
- > Continue to play a key role in ensuring that managing agents have Solvency II compliant risk management and internal models in place and that all syndicates meet the required standards for Solvency II implementation, including formal assessment of agent compliance prior to Internal Model Approval Process (IMAP) application, and ongoing work with agents that do not meet standards
- > Examine the impact of Solvency II on new entrants and Special Purpose Syndicates – both during implementation and in the post-implementation environment
- > Finalise preparations for and submit Lloyd's IMAP to the FSA in accordance with agreed timelines
- > Prepare for implementation of Pillar 3 (Supervisory Reporting and Disclosure) requirements within both the Corporation and the market

## LLOYD'S STRENGTHS CONTINUED



The subscription market, which is a key feature of Lloyd's, has proved attractive to insurance buyers as it has the advantage of spreading risk across different counterparties.

A.M. Best  
Best's Rating of Lloyd's  
August, 2011



### MUTUALITY AND MARKET COHESION

The layer of mutuality represented by the Central Fund underpins Lloyd's capital strength, reputation for claims payment, licences and ratings. It remains at the heart of the Lloyd's operating model and also provides market participants with a common interest, helping to make the market more influential than the sum of its parts.

The cohesiveness of the market is supported and enhanced by the work of the principal market associations (LMA and LIIBA) and their technical committees; market-wide community work; and membership of various Lloyd's clubs and societies.

Work in this area is business as usual and no specific Corporation actions have been identified for 2012.

### SUBSCRIPTION MARKET

The subscription model, which remains a key characteristic of the Lloyd's market, benefits both market participants and policyholders. Subscription placement remains attractive to insurance buyers, with approximately four-fifths<sup>2</sup> of the market's business being written on a subscription basis.

Subscription placement offers a number of advantages to policyholders, including:

- > A competitive quote stage to seek out the best price on the best terms, conditions and security available
- > Risks to be spread over a number of insurers quickly and efficiently
- > Existing and new insurers to participate in a much wider range of business than they otherwise might, thereby stimulating competition and innovation and reducing volatility

The Corporation and the market continue to endorse the European Federation of Insurance Intermediaries' (BIPAR) high level principles for the placement of risks in the subscription market. These principles ensure that brokers can place business in a competitive and efficient manner, as they see fit, delivering real benefits to policyholders.

### RESPONSE OVER THE PLAN PERIOD

Lloyd's continues to derive significant strength from being a subscription market. The market modernisation initiatives of recent years have driven improvements to the supporting infrastructure and reduced the complexity of the subscription market. Efforts to make Lloyd's an easier place to do business will continue, focusing on initiatives to improve efficiency, choice and standards of service. Face-to-face trading and the co-location of underwriters in the Underwriting Room are fundamental to the operation of the subscription market and, for the avoidance of doubt, will remain.

Work in this area is business as usual but see Market Modernisation, page 28, for actions in support of initiatives which will improve the efficiency of the subscription market.

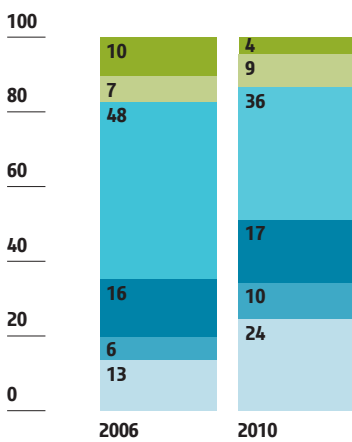
<sup>2</sup> Measured by share of Lloyd's Gross Net Premium Written in 2010 on a subscription basis. Previous plans have reported that two-thirds of Lloyd's business is subscription. This previous analysis was an estimate based on the number of incurred claims with more than one syndicate participating.

### SPECIFIC CORPORATION ACTIONS FOR 2012

- > Continue to work with relevant EU authorities to explain the pro-competitive nature and the benefits of the subscription market for both policyholders and market participants

Figure 3

**LLOYD'S CAPACITY BY TYPE AND LOCATION**  
% of total capacity

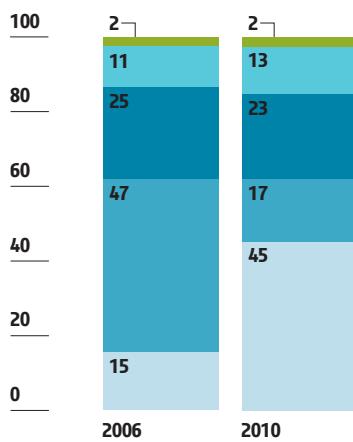


- Individual members (unlimited liability)
- Individual members (limited liability)
- UK listed and other corporate
- US insurance industry
- Bermudian insurance industry
- Worldwide insurance industry

Source: Lloyd's Annual Reports

Figure 4

**LLOYD'S PREMIUM BY MANAGING AGENT SIZE**  
% contribution to Lloyd's premium by managing agent premium volume



- <£100m – (8 managing agents/8 syndicates)  
(2006: 5 managing agents/6 syndicates)
- £101m – £250m (17 managing agents/26 syndicates)  
(2006: 11 managing agents/16 syndicates)
- £251m – £500m (16 managing agents/22 syndicates)  
(2006: 11 managing agents/13 syndicates)
- £501m – £1bn (6 managing agents/7 syndicates)  
(2006: 9 managing agents/17 syndicates)
- >£1bn (8 managing agents/24 syndicates)  
(2006: 2 managing agents/3 syndicates)

Source: Statistics relating to Lloyd's 2011 Edition  
Note: Based on actual Gross Written Premium in 2010, data includes all syndicates

**DIVERSITY IN MARKET COMPOSITION**

Diversity is an important characteristic across all aspects of the Lloyd's market and is desirable both from a risk management perspective and in underpinning Lloyd's offering to brokers, capital providers and policyholders. The importance of product and geographic diversity is discussed later in this plan.

**MANAGING AGENTS**

To maintain the market's attractiveness to policyholders and brokers, it is important that it continues to comprise a diverse range of managing agents and syndicates. This diversity includes the ownership of managing agents (ranging from large international insurance operations to niche Lloyd's-only specialists), class of business and geographic focus, as well as size.

In recent years there have been a number of merger and acquisition transactions in the market and speculation around future deals is ongoing. This transaction activity has contributed to a trend of managing agents increasing in size and a rising number of multiplatform participants. These trends are expected to continue, with Solvency II potentially providing an additional impetus for consolidation and also impacting multiplatform strategies. That said, even after allowing for the trend towards larger managing agents, the Lloyd's environment will allow businesses to start up and operate at sizes that are unlikely to be viable outside Lloyd's.

**CAPITAL PROVIDERS**

Diversity in the forms of capital participating at Lloyd's is an important strength, reinforcing the security of the market and providing flexibility for both the providers and users of capital.

**REGENERATION OF THE MARKET**

Good quality new entrants are important as they help to regenerate and diversify the market. Lloyd's policy in respect of new entrants is that they must be accretive to the market and managed by high calibre individuals. The quickest, most efficient and preferred route to establish a new business at Lloyd's is by contracting with an existing managing agent which will provide management of, and a full range of management services to, the new syndicate (ie the turnkey model). An alternative to establishing a new business is to buy an existing participant, bringing new sources of capital, talent and premium to the market.

## LLOYD'S STRENGTHS CONTINUED

### DIVERSITY IN MARKET COMPOSITION

#### MARKET TURNING EVENT

It is important that Lloyd's is well positioned so that market participants can take full advantage of improved conditions if and when they occur. In the past, market turning events have generally been the catalyst for changes in the underwriting environment. Lloyd's position as the 'market of choice' in a post-event or upturn environment will be determined by the continuing attractiveness of the Lloyd's platform and the speed of Lloyd's response in agreeing and implementing new and/or revised business plans.

#### RESPONSE OVER THE PLAN PERIOD

A range of options is available to market participants to capitalise on a market upturn, and a communication outlining those options was published in 2009 ('Options for Mid-Year Underwriting Increases'). It is important for the Corporation to be aware of the plans that individual managing agents have to respond to a market upturn so that it is able to support managing agents wherever possible. It is also important for regulatory authorities to understand the range of potential responses available to the market and the Corporation in the aftermath of a market turning event.

The Corporation will retain its robust standards for the assessment of new entrant applications (see opposite). The approach to new entrants will continue to focus on disciplined underwriting and managing risk. With a focus on business plan profitability, the entry criteria may mean that potential new entrants will find it more challenging to demonstrate that they have a sustainable and profitable business plan, given current market conditions. The Corporation will continue to promote the use of turnkey managing agents as a means of entering the Lloyd's market.

Should a major event lead to a significant market upturn, proposals to modify business plans from existing market participants will be prioritised ahead of applications from new entrants. Lloyd's performance management principles will remain important. Lloyd's success should be measured by the ability of existing businesses to attract new capital and grow premiums, rather than the number of new entrants, post a market turning event.

### SPECIFIC CORPORATION ACTIONS FOR 2012

- > Continue to assess the performance of new entrants against their original business plan submissions and the market's overall performance
- > The Corporation will undertake a cross-Directorate project, with input from market bodies, to publish market guidance setting out how the Corporation would support the market to respond quickly to an upturn. This may include:
  - Exploring options for giving syndicates credit in their capital requirements where business plans are amended primarily due to rate and not exposure increases
  - Understanding how Lloyd's ratings could be impacted by a reduction in the 35% economic uplift under various scenarios
  - Conducting an assessment of how key stakeholders would be impacted by, and respond to, a market turning event and identify any challenges and/or bottlenecks to that response, including the syndicate business planning process
  - Establishing processes for the Corporation to quickly obtain loss estimates from managing agents following a market turning event, to facilitate a rating affirmation for the Lloyd's market
- Establishing a mechanism, as part of the syndicate business planning process, to request information to enable the Corporation to understand how managing agents would take advantage of a market upturn (including ready access to capital) and what they would need from the Corporation in order to respond
- Establishing mechanisms for provisionally agreeing 'contingent' business plans in advance of a significant market upturn
- Communicating with the FSA and the shadow teams of the PRA and FCA to ensure that they understand the range of potential responses available to the Corporation and managing agents following an upturn
- > Promote the use of turnkey managing agents as a means of entering the Lloyd's market and encourage new turnkey managing agent capacity to enter the market

### PRINCIPAL ENTRY CRITERIA FOR NEW ENTRANTS

- > An alignment between Lloyd's and the applicant's strategies
- > The introduction of a substantial element of business new to Lloyd's
- > A realistic business plan and a demonstrable track record
- > A business portfolio sourced from a balanced range of producers
- > Capable, respected principals with appropriate remuneration policies
- > Long-term commitment of capital
- > An understanding of, and commitment to, the Society of Lloyd's and the performance management framework
- > An understanding of, and preparedness for, Solvency II

## UNDERWRITING EXPERTISE AND INNOVATION

The Lloyd's market has a reputation for underwriting expertise and product innovation. Lloyd's is at the forefront of insuring new and complex risks. Managing agents work with brokers to apply their expertise to devise innovative and often bespoke solutions for complex risks. The Corporation supports market participants through education and research into emerging risks. This facilitates the development of strategies to reduce the risk to market participants that may arise from new and complex risks.

The Lloyd's market has one of the broadest and deepest pools of underwriting expertise in the world. The development of trainee underwriters at the box and face-to-face trading in the Underwriting Room, along with an increased focus on professional development and graduate recruitment, help to ensure that skills, knowledge and an innovative culture are retained within the Lloyd's market.

Work in this area is business as usual and no specific Corporation actions have been identified for 2012.

## MANAGING AGENTS' & BROKERS' ROLE

- > To identify attractive market segments and risks and to develop new products
- > To continue to develop the skills and capabilities required to ensure high levels of expertise and innovation
- > To deploy underwriting expertise and innovation within a robust risk management framework

## CORPORATION'S ROLE

- > The Corporation does not develop new products itself but will assist market participants where it can and give scope within business plans for this wherever appropriate
- > To continue to provide detailed market insight for managing agents and brokers, including analysis of new and emerging risks (such as the threats and opportunities of urbanisation and globalisation)

## RATINGS

Lloyd's ratings – independent opinions of Lloyd's financial strength and ability to meet ongoing insurance policy and contract obligations – remain at the market's target level. This level is determined by the ratings needed to attract the specialist (re)insurance business in which market participants are interested. Industry conditions have the ability to influence ratings, but what is important is Lloyd's position relative to its peers.

Enterprise risk management is an important component of ratings' assessments. Improvements in the risk management capabilities of managing agents and the Corporation arising from the introduction of Solvency II should therefore benefit Lloyd's rating strength. Standard & Poor's have previously recognised Lloyd's work on improving risk management and upgraded Lloyd's Enterprise Risk Management (ERM) rating by one notch as a result.

Work in this area is business as usual and no specific Corporation actions have been identified for 2012.

## LLOYD'S RATINGS

# A<sup>+</sup>

**STANDARD & POOR'S A+ (STRONG)**  
**FITCH RATINGS A+ (STRONG)**

# A

**A.M. BEST A (EXCELLENT)**

As at 13 December 2011

# AREAS OF FOCUS

AREAS OF FOCUS

# TO SECURE LLOYD'S FUTURE SUCCESS, ADDITIONAL FOCUS AND INVESTMENT ARE REQUIRED IN SOME AREAS

**MARKET PORTFOLIO DIVERSIFICATION**

**PRODUCT**

Lloyd's three largest classes of business (reinsurance, property and casualty) accounted for 79% of Lloyd's business in 2010, a level that has not materially changed since 2005. As discussed in previous years' plans, the market has a significant amount of catastrophe exposed business, especially property and energy business in the US. Lloyd's product mix has not changed substantially during 2011.

The shift towards catastrophe business is driven by two main factors:

- > Businesses at Lloyd's responding to profit opportunities
- > The relative capital efficiencies of the Lloyd's market, which position it as the most attractive option for writing specialist and complex insurance risks within the multiplatform model

**GEOGRAPHY**

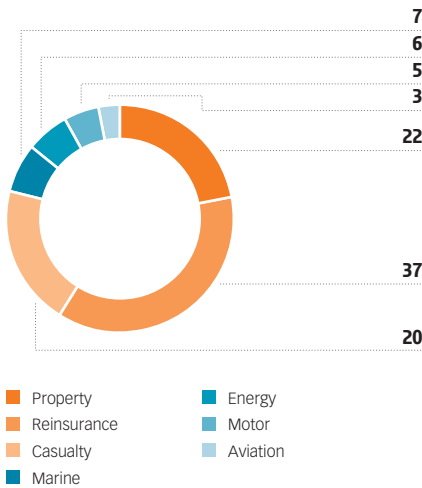
Lloyd's market portfolio is concentrated in North America and the UK, with a more limited penetration in the large developed continental European and smaller developing insurance markets. This has not materially changed during 2011.

The reasons for this generally relate to the underlying characteristics of the relevant markets:

- > Continental European markets are very competitive and well served by domestic insurers. Lloyd's tends to write smaller, specialist risks within these markets
- > Developing markets tend to grow initially in insurance lines outside Lloyd's focus. There is also pressure to place business locally. However, should specialist (re)insurance be required, Lloyd's is well positioned to respond via its network of international licences

Figure 5

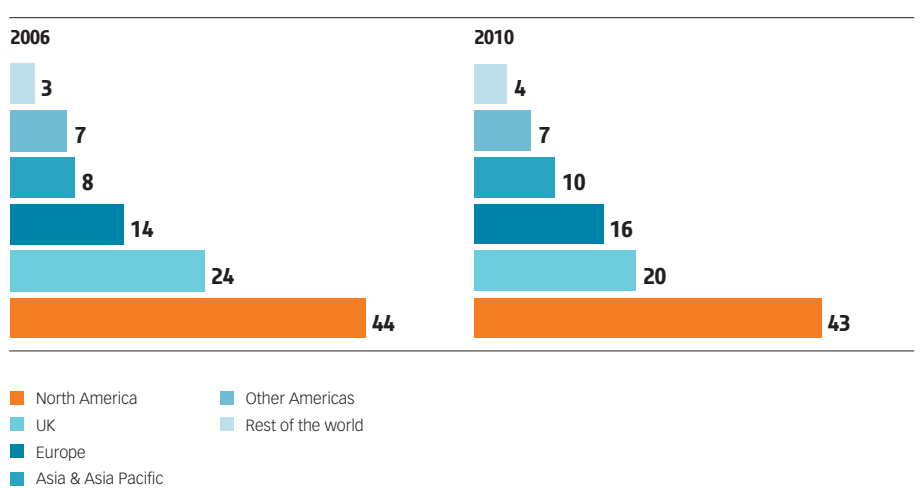
**LLOYD'S TOTAL BUSINESS BY CLASS**  
% of Lloyd's 2010 premium by class



Source: Lloyd's Annual Report 2010  
Note: Based on Gross Written Premium

Figure 6

**LLOYD'S TOTAL BUSINESS BY REGION**  
% of Lloyd's premium by region



Source: Lloyd's Annual Report 2010 and Lloyd's Data Warehouse  
Note: Based on Gross Written Premium

## AREAS OF FOCUS CONTINUED

### MARKET PORTFOLIO DIVERSIFICATION

#### RESPONSE OVER THE PLAN PERIOD

Ongoing activities focused on product and geographic diversification are detailed below. In addition to this work, the Franchise Board believes that over the longer term, effort should be directed to encouraging insurance industry capital into Lloyd's from overseas territories where Lloyd's is currently underweight (for example, the Asia Pacific region). This will potentially bring new diversifying business into the market as well as improving its geographical spread. Importantly, it will also deepen and diversify the market's pool of intellectual capital.

#### PRODUCT

Managing agents decide the type of business they write, in line with an approved business plan, and manage their own business development activities. The Corporation's role is to support managing agents through its market development activities – maintaining and securing licences; pursuing distribution initiatives; developing and maintaining representative offices; and organising market development trips – based on the needs and goals of managing agents.

Any new business flows will be subject to the same rigorous underwriting discipline and oversight as existing business. It remains likely that diversity will come from the application of the market's existing strengths and expertise to new territories and market segments which require underwriting expertise, not from targeting mainstream commercial and personal lines insurance risks.

The Corporation will also continue to manage the market's aggregate exposures. Activity in this area will increasingly be driven by Lloyd's Risk Appetite Framework which, for example, specifically covers catastrophe risk. This framework recognises that while the classes of business in which Lloyd's has a competitive edge are inherently volatile and that it is for syndicates to decide the type of business that they write, the Corporation has a responsibility to protect the Central Fund and to avoid inappropriate risk concentrations.

#### GEOGRAPHY

The Lloyd's market's approach in different geographic markets remains as follows:

In developed/established markets (eg North America, the UK):

- > A London-based model making use of established broker distribution to access reinsurance and specialist insurance business
- > Accessing small specialist business primarily, but not exclusively, through coverholders/service companies

In developing/less established markets:

- > Making use of pre-existing Lloyd's operations in China, Singapore and Japan. These are important as they offer access to territories and regions which are expected to grow over the long term. These operations will be improved as and when required so that they continue to meet market needs
- > For other countries the preferred model is to be a London-based (re)insurer (or writer of specialist offshore insurance business) based on broker distribution unless:
  - Local establishment is a regulatory necessity; and/or
  - The existing distribution channels are not adequate and there is a strong market demand for a local presence

The Corporation has an agreed market development framework that is used to consider the business case for any new geographic development opportunities. This ensures that any opportunities are assessed and prioritised in line with market demand.

Lloyd's London-based model, supported by its strong international licensing position, has significant advantages as a distribution centre. Efforts will continue with market participants to ensure the market can be accessed as easily as possible and make it more attractive to incremental, profitable and diversifying flows of business. For further information see Routes to Market, page 26.

**MANAGING AGENTS' & BROKERS' ROLE**

- > Decisions on business mix are for individual managing agents to make. They have primary responsibility to manage their businesses profitably and should use their underwriting expertise and flair for product innovation to identify and respond to new opportunities and attractive market segments
- > Brokers identify attractive potential risks and help develop new products and support efforts to create or ease flows of business into Lloyd's

**CORPORATION'S ROLE**

The Corporation will continue to support the business development activities of managing agents and brokers through:

- > Market development – promoting Lloyd's in local markets, securing regulatory access where required and ensuring Lloyd's is well positioned to capitalise on growth opportunities in emerging economies. Lloyd's country manager network will continue to provide local knowledge, expertise and access to key relationships
- > Streamlining and simplifying access to Lloyd's – making it as easy to transact business with Lloyd's as with other specialist insurers

**SPECIFIC CORPORATION ACTIONS FOR 2012****INDIA**

- > Explore how Lloyd's may be better able to capitalise on opportunities including a market development trip in 2012
- > Lobby to improve the market's understanding of Lloyd's and continue to seek an onshore reinsurance licence

**CHINA**

- > Promote awareness of market access provided by the China Direct Licence through engaging with Lloyd's and local markets
- > Support syndicates with underwriters in Shanghai in developing direct insurance products for the local market

**LATIN AMERICA**

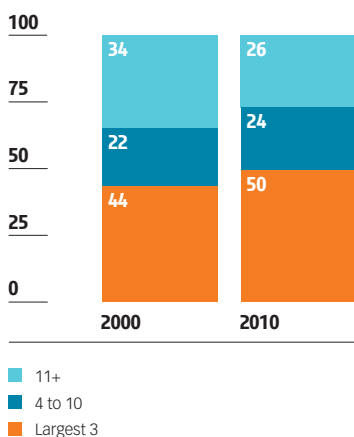
- > Implement a strategy for the Latin American region and support brokers in the region to enhance market access

## AREAS OF FOCUS CONTINUED

Figure 7

### LLOYD'S SOURCES OF BUSINESS

% of Lloyd's premium by broker size



Source: Statistics relating to Lloyd's 2011 Edition  
Note: % of Gross Net Premium placed in Lloyd's on a whole account basis, by year of account

### DISTRIBUTION MODEL

Lloyd's is a broker market and the importance of maintaining mutually beneficial relationships between Lloyd's and brokers is unchanged. Whether business is placed on a delegated authority basis in a local market or via face-to-face negotiations in the Underwriting Room, brokers play a key role in the market, in particular around the identification of business and the structuring of risk placement. This model is a key benefit for Lloyd's businesses, reducing the need for direct sales forces or large customer service units.

Broker consolidation continues both globally and in the London market. Lloyd's continues to rely on the largest three brokers, who produce approximately half of its premium flow. This reinforces the need for managing agents and the Corporation to maintain close and constructive relationships with the largest three brokers.

Market pressures continue to drive changes to broker business models, with brokers looking to increase efficiencies, expand their global presence, enhance revenues and articulate their value proposition. Specifically, these pressures have led to the development of a number of 'insurer-facing' initiatives by the larger brokers, focusing on creating additional revenue streams through the introduction of enhanced commissions, rationalisation of their carrier networks and the launch of fee-based management information and business development services.

The response to these initiatives rests with individual managing agents. Should any action of a broker give cause for prudential concern, the Corporation's response is likely to be via managing agents. The importance of compensation arrangements between managing agents and brokers being transparent and disclosed to clients will continue to be reinforced by the Corporation.

The coverholder channel allows managing agents to access local markets without the cost of establishing a local presence, making use of local brokers' and agents' existing expertise and relationships. Well-governed delegated authority arrangements with coverholders and service companies remain important to Lloyd's. Significant progress has been made in developing, enhancing and promoting the coverholder channel, and that work will continue.

### RESPONSE OVER THE PLAN PERIOD

#### BROKER RELATIONSHIPS

Recognising that Lloyd's is fundamentally a broker market, the Corporation will continue to work closely with the London & International Insurance Brokers' Association (LIIBA). While the largest three global brokers continue to be important by virtue of the volume of business they bring to Lloyd's, time and resource will continue to be invested in developing relationships with those brokers outside the largest three, including London wholesale brokers.

#### COVERHOLDERS

The Corporation will continue with its programme to improve the operational efficiency of the coverholder model, for example through improved information standards and e-trading opportunities. It will also work to ensure that existing coverholders' experience of dealing with Lloyd's is as good as it can be, and to make the route to market for new coverholder business as simple and transparent as possible. Efforts will also continue to raise awareness of the opportunities associated with the coverholder route with existing and potential new coverholders.

#### ROUTES TO MARKET

Initiatives aimed at increasing, promoting and simplifying the routes to market are ongoing. Specific work includes promoting Lloyd's in local markets via Lloyd's country manager network.

Work is also underway to support smaller brokers, making it more efficient for them to do business with Lloyd's and increase their understanding of the Lloyd's market so they can take advantage of UK and international opportunities. Efforts to improve the operational and processing efficiency of Lloyd's continue to be important as global distribution models evolve.

**MANAGING AGENTS' ROLE**

- > To negotiate their own business arrangements with brokers
- > To work with potential coverholders and producing brokers

**BROKERS' ROLE**

- > To identify attractive market segments and risks and to develop new products
- > Correct first-time submission of documentation to limit levels of rework
- > Active engagement with market development initiatives where aligned with brokers' own business development priorities
- > Ensure that compensation for the value added by brokers is transparent and disclosed to their clients

**CORPORATION'S ROLE**

- > To make placing business into the Lloyd's market efficient and to support smaller brokers as they develop and grow
- > To undertake promotional and educational activities aimed at existing and potential brokers and coverholders
- > To ensure robust oversight of business written via coverholders, service companies and overseas trading centres

**SPECIFIC CORPORATION ACTIONS FOR 2012****BROKER INITIATIVES**

- > Create a lloyds.com page outlining Lloyd's position on transparency and disclosure of broker remuneration with links to the various market-led initiatives in this area
- > Develop an online 'broker toolkit' containing training and educational material to support international market access at Lloyd's
- > Extend the broker relationship management programme which aims to support business production through developing relationships with the top 30 brokers, including activities focused on broker education

**COVERHOLDER INITIATIVES**

- > Implement consistent country and local office reporting to streamline coverholder reporting
- > Improve the operational efficiency of the coverholder model through information standards while taking advantage of e-trading opportunities
- > Drive take-up of coverholder reporting standards across existing coverholder contracts
- > Hold annual UK & European coverholder event in London

**ROUTES TO MARKET**

- > Complete the translation of key German policy wordings into English and, subject to demand, translate English policy wordings into German
- > Promote the development of the new UK MGA Association and maximise the value to Lloyd's
- > Raise Lloyd's profile in local markets through the use of various coverholder conferences and broker roadshows in key regions

## AREAS OF FOCUS CONTINUED

### MARKET MODERNISATION

To maintain London's position as the world's leading international (re)insurance centre, the market's operating environment needs to be improved to be competitive and efficient.

The guiding principles for market modernisation are:

- > To improve market efficiency by automating manual processes where appropriate, reusing data across the risk lifecycle and performing data validation at the point of creation
- > To improve data quality through the imposition of ACORD standards and policing the use of these standards via a control framework
- > To improve customer service and the Lloyd's market's ability to respond to changing market trends by allowing flexibility in the provision of non-core back office functions, while maintaining the provision of core central services in a modern environment
- > To work on modernisation initiatives in conjunction with the market

There is a significant degree of overlap between the guiding principles – for example, allowing managing agents to choose from a range of competing third party service providers for non-core back office services will not only give choice and increase service provision due to competition between providers, but will also improve customer service and the market's ability to respond to changes.

The modernisation programme is about changing the way business is processed. Core central services will remain but the introduction of new technology is required. However, new technology is a means to an end, not an end in itself. Encouraging market participants to embrace modernisation is critical to the programme's success and requires that all initiatives be market-led.

### RESPONSE OVER THE PLAN PERIOD

The ongoing market modernisation programme comprises four key initiatives that will help deliver major parts of Lloyd's future operating environment (see Figure 8). Good progress has been made – for example, well over 600,000 messages have been processed via the Exchange. Work is also underway, jointly with the LMA, to identify the steps that must be taken that ultimately lead to the LMG's Future Processing Model (FPM). This model covers all elements of the risk lifecycle, and builds on common ACORD standards. The Claims Business Systems Options also feed into this piece of work.

The four key projects are as follows:

- > Tax & Regulatory Reporting Programme – a project to ensure that the collection, processing and management of the minimum data needed for tax and regulatory reporting is carried out in the most efficient, flexible and transparent manner. It will enable direct reporting by breaking the link between information provision and the processing of premiums and claims
- > The Exchange – this is a market-owned (Lloyd's, the LMA, LIIBA and The International Underwriting Association of London (IUA)) messaging service to enable brokers, underwriters and system providers to have a single connection point from which they can send and receive information securely and to agreed standards between multiple parties. The imposition of a single standard for the information carried around the market makes it easier for suppliers and users of back office services
- > Market Operations Review – a joint LMA and Lloyd's programme to design and agree an evolutionary roadmap that moves us towards the LMG's Future Processing Model, renews current back office processes and technology and prepares Lloyd's for the next 3 – 5 years
- > Claims Business Systems Options – an initiative to articulate the future Lloyd's and London market claims infrastructure requirements, which forms part of the Market Operations Review

The key changes from the current operating environment will be:

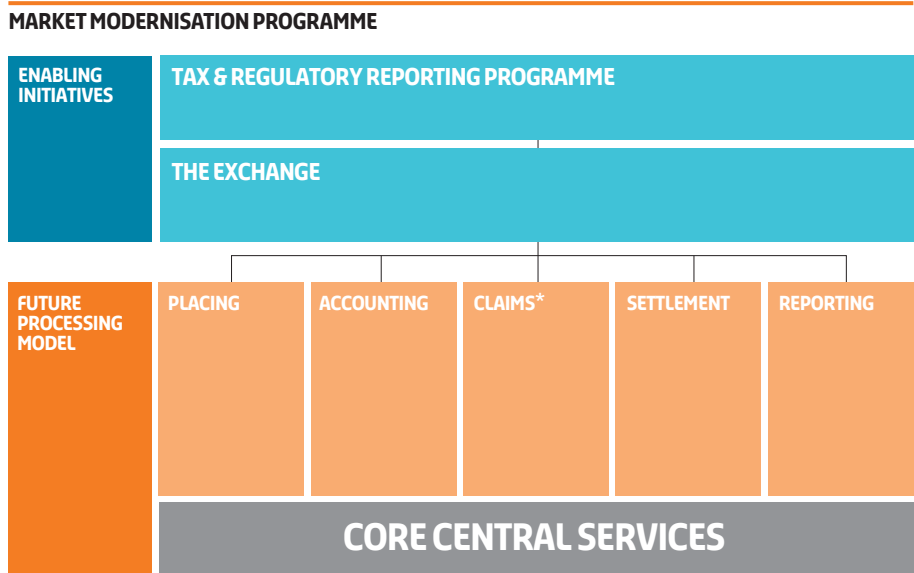
- > Services will be split between those that are core and those that are optional, with core services (those which reduce cost and improve market efficiency; are needed because of tax or regulatory requirements; or are services which reduce risk) continuing to be offered centrally
- > The carrying of information will be standardised and split from the provision of services ensuring that it is easy for suppliers and users of back office services to deal with a subscription market
- > Managing agents will have choice in whether to perform more non-core activities in-house or contract with competing third party suppliers (including Xchanging)
- > Market infrastructure will be renewed to ensure it is fit for purpose, efficient, improves customer service and can respond well to changing market trends

**Claims**

A major Claims Transformation Programme is underway with the aim of significantly improving claims performance across the market. This work aims to increase the market's competitive advantage through enhancing the segmentation of claims; introducing choice in whether to manage claims in-house or outsource; increasing flexibility in claims notification and settlement processes; and strengthening the claims governance framework.

This programme will increase the speed and quality of settlement and bring flexibility to managing agents' claims operating models, with benefits to policyholders. Lloyd's technical claims adjustment and volume claims handling capabilities as well as the London market's claims infrastructure will also be strengthened (the latter through the Claims Business Systems Options, as outlined above).

Figure 8



\* Driven by Claims Business Systems Options

## AREAS OF FOCUS CONTINUED

### MARKET MODERNISATION

#### MANAGING AGENTS' & BROKERS' ROLE

- > Participation in working groups and wider consultations to agree the design of market modernisation initiatives
- > To adopt and embed initiatives throughout their organisations
- > Any changes to the commercial relationships between managing agents and brokers as a consequence of process efficiency improvements will be for those parties to agree

#### CORPORATION'S ROLE

- > To act as a catalyst for change and provide leadership
- > To own small technology and manage service level agreements on behalf of the market for large technology/ infrastructure developments as appropriate
- > To drive the adoption of change, mandating it if and when required

#### ROLE OF XCHANGING

- > The provision of core central services is essential to the operation of the Lloyd's subscription market. Lloyd's is a shareholder in two Xchanging subsidiary companies – Xchanging Ins-sure Services (XIS) and Xchanging Claims Services (XCS) – which provide services to the market in two main areas:
  - XIS – provides the core services to support accounting and settlement and is delivering the market infrastructure to support market modernisation
  - XCS – provides technical claims handling and processing services, including capturing and checking claims data, and continues to support the Claims Transformation Programme through the development of certain services
- > Xchanging is also working actively with the Corporation and the LMA to determine how best to renew the market's operational structure

### SPECIFIC CORPORATION ACTIONS FOR 2012

#### FUTURE PROCESSING MODEL

- > Ensure the Market Operations Review continues to fit with the LMG's 'blue sky' Future Processing Model
- > Working with the LMA, develop and prioritise initiatives to renew central services
- > Publish and begin implementation of the roadmap for the Market Operations Review

#### CLAIMS TRANSFORMATION PROGRAMME

- > Implement Lloyd's enhanced governance framework to support the programme, including new performance targets (enhanced minimum standards and Lloyd's claims metrics) and enhanced management information collection and reporting
- > Work with managing agents and XCS to ensure the market is adequately resourced to meet requirements
- > Monitor performance of managing agents, brokers and XCS and address underperformance
- > The development of proposals for a Volume Claims Service

#### THE EXCHANGE

- > Work with the LMG to roll out electronic endorsements over the Exchange for all classes of business by March 2012
- > Maintain operational support for the Exchange

## MARKET TALENT

The depth and quality of the talent pool in London is central to the ongoing success of the Lloyd's market. Recruiting and developing talent in the insurance industry remains a challenge and it is of particular concern that insurance does not feature strongly as a career choice at entry level or for mid-career role changes.

International careers are increasingly common in insurance, with opportunities across various insurance centres. The continuing ability to attract and retain top talent will be a key factor in the market's future success.

### RESPONSE OVER THE PLAN PERIOD

Lloyd's and the wider insurance industry have developed a number of initiatives focused on attracting and developing talented individuals. These initiatives address specific talent concerns and while they are not organised into an overarching programme of activity, they are not in conflict with each other.

### SPECIFIC CORPORATION ACTIONS FOR 2012

- > Analyse the costs and benefits of the Corporation signing up to the Chartered Insurance Institute sponsored Aldermanbury Declaration
- > Deliver the Lloyd's Claims Talent Programme, ensuring the programme meets all of its requirements in relation to both experienced practitioners and graduates
- > In co-operation with the Federation of European Risk Management Associations (FERMA), launch the Professional Development Initiative for European risk managers

## MANAGING AGENTS' & BROKERS' ROLE

- > To attract, develop and retain the talent required for their current and future success

## CORPORATION'S ROLE

- > Working in conjunction with the LMA, LIIBA and other industry groups, pursue initiatives to promote the industry, and specifically Lloyd's, to potential employees
- > Where appropriate, to lead initiatives to attract and develop talent for the benefit of the market as a whole
- > To attract and develop the appropriate skills and expertise to allow the Corporation to deliver its role effectively

## MAJOR INITIATIVES

### ATTRACTING TALENT

#### CHARTERED INSURANCE INSTITUTE

Insurance Profession Task Force – Aldermanbury Declaration; Discover Risk Campaign

#### CORPORATION

Generalist Graduate Programme; Claims Graduate Programme; Summer Internship and MBA placement programmes

#### LMA

Graduate Portal

### DEVELOPING TALENT

#### CHARTERED INSURANCE INSTITUTE

Broker Academy, working with the British Insurance Brokers' Association (BIBA); New Generation Groups; Faculties for claims, underwriting, broking, and the London market

#### CORPORATION

Developing Leaders at Lloyd's Programme with London Business School; Claims Talent Programme; Lloyd's Management Programme

#### LMA

Seminars and Master Classes; Training and Competence Toolkit; LMA Lloyd's Market Academy

## KEY CONTACTS AND WEBSITES

### CONTACTS

If you have any queries or feedback regarding Lloyd's Three-Year Plan, please contact:

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### USEFUL WEBSITES

#### **LLOYD'S**

[www.lloyds.com](http://www.lloyds.com)

#### **LLOYD'S STRATEGY**

[www.lloyds.com/strategy](http://www.lloyds.com/strategy)

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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.

