LLOYD’S VISION FOR 2025

To be the global centre for specialist insurance and reinsurance

WHAT WILL LLOYD’S BE?

– Lloyd’s will be an international, London-based market, built on trusted relationships and focused on specialist property and casualty business requiring bespoke underwriting and broking.
– Lloyd’s will be a mutual supported by a Central Fund, so it will always be more capital efficient to trade inside Lloyd’s than outside.
– Lloyd’s will be able to access all major overseas territories, including developing markets, through its global licence network.
– Lloyd’s will be a subscription market, with efficient central services providing seamless support face-to-face trading and world-class claims management.
– Lloyd’s will be a market where entrepreneurialism and innovation will thrive, underpinned by robust risk and performance management.
– Lloyd’s ratings will be at a level capable of attracting the specialist business it will write.
– Lloyd’s will be larger than today, predicated on sustainable, profitable growth after allowing for movements in the underwriting cycle. Its performance will outstrip that of its peers. The increase in premium income in developed markets will track or slightly exceed increases in GDP by region. In developing markets, at times we would expect growth to exceed GDP as the specialist risk sector develops.
– Lloyd’s will be a “risk selector” rather than a capital provider to a commoditised market and Lloyd’s does not envisage trading in “risk indices” or insurance derivatives.

MANAGING AGENTS

– Managing agents will actively attract business to Lloyd’s through brokers. The number of large managing agents will increase but smaller managing agents should continue to flourish. Any broker owned managing agents will be subject to the existing 20% related party business restriction.
– New entrants (particularly overseas trade capital providers with a franchise) will be encouraged.
– There will be no minimum size threshold for managing agents but the maximum size will remain at 15% of capacity.

DISTRIBUTION

– Lloyd’s will be a broker market and will build on its relationships with the larger brokers, as well as encouraging other specialist brokers. Coverholders and service companies will provide efficient access to local markets.
– Lloyd’s distribution chain will be optimised through the efficient use of technology.
– Lloyd’s will have a small number of powerful overseas hubs in certain major overseas markets.

CAPITAL

– Lloyd’s capital base will be globally diverse. There will be overseas trade capital bringing in new specialist business and people to Lloyd’s from territories where Lloyd’s needs to increase its market share.
– Private ‘Names’ capital will continue but new ‘Names’ capital will be provided on a more flexible basis and more efficiently, mainly via Special Purpose Syndicates.

PEOPLE

– Lloyd’s will attract the best talent and will provide an accelerated career path for the progression of high achievers. Lloyd’s will be a diverse market by gender, age and ethnicity. Its people will increasingly mirror the geographic origin of the market’s business and capital.
CHAIRMAN’S MESSAGE

“Over the last ten years, the Lloyd’s market has strengthened its capital base, broadened its licence network, materially enhanced its brand and reputation and fully implemented a system of market oversight that aims to balance prudence with underwriting flair and innovation.

With these fundamentals in place, Vision 2025 sets out a new strategic direction for Lloyd’s with profitable, sustainable growth, particularly from the developing economies, at its heart. To reinforce its position as the global centre for specialist insurance and reinsurance, Lloyd’s must take advantage of the opportunities presented by the developing economies. We must also continue to put great emphasis on efficient and effective market processes.

This document explains the steps that need to be taken over the next three years towards achieving our vision. This will require energy and enterprise from us all.”

JOHN NELSON
Chairman

CONTENTS

02 Chief Executive Officer’s introduction
02 Benefits of Lloyd’s
03 Market oversight
04 International growth and diversification
06 Streamlining and enhancing distribution
07 Efficient central processes & infrastructure: market modernisation
08 Attracting and promoting talent
09 More efficient delivery of private ‘names’ capital
10 Appendix one: Lloyd’s key attributes
12 Appendix two: External environment
In May 2012, the Prime Minister launched the long-term strategy for Lloyd’s in the Underwriting Room. Vision 2025 is dynamic, it will respond as the world changes, but at its heart is a simple idea – if the Lloyd’s market is to be the global hub for specialist insurance and reinsurance in 2025, it will need to attract business, people and capital from the fast growing and developing economies.

This plan was developed by and for the market and its publication marks the start of a period of delivery. It sets out goals for the market and actions for the Corporation to start to achieve this vision. The latter are our one-year plan.

Much of the work involved in realising the vision will fall to the market, and it is the managing agents’ appetite for growing Lloyd’s into new markets which, ultimately, will govern the success of the plan. However, the Corporation will do all it can to assist, whether through market development activities, the improvement of back office processes or through attracting high performing and diverse professionals to work in the market. We will also work to promote the benefits of Lloyd’s to brokers, risk managers and capital providers.

Market oversight will continue to be a central function of the Corporation. Preserving underwriting discipline to take us through what remains a challenging environment remains a key priority. The economic and regulatory uncertainty which characterised 2012 is likely to continue into 2013 and beyond. Lloyd’s reputation is strong across the world, and we must work hard to ensure that the culture and ethics of the market remain safe, strong and responsive to client needs.

There will, inevitably, be a tension between expanding internationally whilst maintaining high levels of underwriting discipline. However, these two aims can, and should, co-exist as part of the realisation of Vision 2025. Market oversight has one central goal: to ensure that the market has a reasonable expectation of making a profit. Sustainable growth means profitable business and it is this which the highly skilled underwriters in the market will need to pursue over the next three years, and beyond.

RICHARD WARD
Chief Executive Officer

**BENEFITS OF LLOYD’S TO MARKET PARTICIPANTS**

**MANAGING AGENTS AND CAPITAL PROVIDERS**

- **Market access**
  - Access to major insurance markets supported by a global brand and licensing network.

- **Security and ratings**
  - Financial security and strong ratings capable of attracting specialist insurance business.

- **Capital advantages**
  - Capital efficient framework driven by the benefits of mutuality.

- **Market Oversight**
  - A proportionate but robust market oversight regime consistent with an innovative and entrepreneurial culture.

- **Central processes and services**
  - Infrastructure supporting the subscription market and the provision of tax and regulatory reporting. Other central services (eg lobbying) and the ability to benefit from a Solvency II ready environment.

**BROKERS AND RISK MANAGERS**

- **Product offering**
  - Access to a wide range of specialist and bespoke (re)insurance solutions.

- **Claims payment**
  - A reputation for paying all valid claims in a timely and efficient manner.

- **Chain of Security**
  - Excellent financial security for policyholders which supports Lloyd’s ratings.

- **Underwriting expertise**
  - Access to specialist underwriting expertise and innovation.
This plan focuses on the key elements of Vision 2025 which will reinforce Lloyd’s position as the global centre for specialist insurance and reinsurance. Some are well established, such as the market oversight regime; others are new, for example the focus on international growth from the faster growing economies. Each will be considered in turn and will include, among other matters, a reference to the respective roles of the Corporation, managing agents and brokers in the delivery process.

**MARKET OVERSIGHT**

Market oversight has been, and remains, a key priority. Lloyd’s approach is ‘three pronged’: performance management (the supervision of underwriting, reserving and claims activities); capital oversight (capital setting); and risk management (setting Corporation and market risk appetites and operating the risk management framework). This regime must be balanced with Lloyd’s innovative and entrepreneurial strengths.

The market oversight regime details what is required of managing agents and seeks to raise standards across the market. Lloyd’s does not operate a zero failure regime. Market oversight aims to increase Lloyd’s attractiveness as a market for brokers, capital providers and policyholders. The objectives of Lloyd’s market oversight activity are to:

1) Ensure there is a reasonable expectation of making a gross underwriting profit on each line of business each year; and
2) Keep any losses to the Central Fund within Lloyd’s risk appetite.

**Roles**

**Corporation’s role**
- To manage the tension between the Corporation’s role in helping to attract new business/capital to Lloyd’s and its market oversight role.
- To maintain the performance management framework, built upon a set of standards across underwriting, claims and risk management, and to ensure it remains aligned with the market’s strategy and with regulatory changes. These standards represent the minimum level of competence and performance above which all managing agents are required to operate.
- To identify and share suggested practice guidance in priority areas.
- To conduct the business plan approval and monitoring processes and 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.
- To review syndicate capital requirements and set member capital.

**Managing agents’ role**
- As independent businesses, to operate in a professional and profitable manner. Provided they operate in accordance with an agreed business plan, the freedom to participate in whichever type of business they choose.
- 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 maintaining the highest ethical standards.
- The board of the managing agent is responsible for embedding its own internal capital model.

**Brokers’ role**
- On behalf of their clients, to work with managing agents and the Corporation to help deliver innovative risk management solutions, within Lloyd’s risk and performance management framework.

**Vision 2025 – once delivered, success will look like:**
- Lloyd’s will be a market where entrepreneurialism and innovation will thrive, underpinned by robust risk and performance management.

**The market’s goal at the end of this three-year plan period is that:**
- Lloyd’s average combined ratio should be favourable to Lloyd’s peer group over a five year period and losses to the Central Fund should be within the market’s risk appetite.

**Specific Corporation actions for 2013:**
- Work in this area is business as usual:
  - Monitor the performance of syndicates against approved 2013 business plans and franchise standards.
  - Review, challenge and approve 2014 syndicate business plans, including any dispensations.
  - Conduct thematic class of business reviews (including marine hull and onshore energy).
  - Work with the market to monitor and enhance claims performance against market standards.
  - Review & agree 2014 syndicate capital.
  - Benchmark market reserves and evaluate market level reserve risk.
  - Maintain the risk appetite framework; monitor and manage key risks at market, syndicate and managing agent level and across the Chain of Security.

**Solvency II**
Lloyd’s continues to be supportive of Solvency II and is keen that the uncertainty over the start date be resolved as soon as possible. From 2013, Lloyd’s will be able to meet its existing regulatory capital requirements and set member capital using Solvency II calibrated internal models.
INTERNATIONAL GROWTH AND DIVERSIFICATION

In recent decades, and for understandable reasons, Lloyd’s has not kept pace with the growth in global GDP. Today, however, improved underwriting discipline coupled with the market oversight regime mean that Lloyd’s is now well positioned to take advantage of profitable growth opportunities.

Core to Vision 2025 is the need for Lloyd’s to be larger than today, predicated on targeting profitable growth from both existing developed markets and from the developing* economies. The latter currently account for only 12% of Lloyd’s business. It is particularly important that the Lloyd’s market is able to respond to the ongoing shift in global economic activity towards developing economies and is able to attract new business, capital and/or people from these markets.

Growth will be achieved primarily through making the most of Lloyd’s preferred model ie to write cross-border reinsurance and insurance from London, using brokers to access business in local markets. In addition, coverholders and service companies will continue to be an important means of accessing local markets. Where this model does not provide the market with access to the profitable, attractive business it would like to see, other measures will be considered (eg licence enhancements). While Lloyd’s has a small number of overseas hubs in major international markets (ie Singapore, China and Japan), there is no current intention to increase their number unless there is a regulatory or commercial necessity and/or market demand.

The opportunities presented by the larger faster growing economies have been considered. These countries have been prioritised taking into account a number of factors including: managing agent appetite; local business environment; insurance penetration; broker penetration; business mix; and catastrophe exposure. This analysis suggested that China, Brazil, Mexico, India and Turkey are the current larger priority countries.

Subject to market demand, the initial focus will therefore be on the priority countries. However, this does not lessen the importance of large developed markets to Lloyd’s (eg US, UK, Canada, Australia, Europe and Japan). In addition, other smaller developing economies (eg Colombia, Vietnam and Poland) may present attractive opportunities which will be addressed within relevant country and regional development plans.

Vision 2025 – once delivered, success will look like:

– The increase in premium income in developed markets will track or slightly exceed increases in GDP by region. In developing markets, at times, we would expect growth to exceed GDP as the specialist risk sector develops.
– Lloyd’s will have a small number of powerful overseas hubs in certain major overseas markets.

The market’s goal is that:

– By 2025 the proportion of Lloyd’s business from developing economies will be in excess of a quarter of Lloyd’s gross written premiums.
– No specific goal for the market has been established for the end of this three-year plan period bearing in mind broader economic conditions and the current underwriting environment, although Lloyd’s will be better known and understood in the priority countries.

Specific Corporation actions for 2013:

Market development:

– Develop and execute market development plans and activities, built upon enhanced local market insight, focused in particular (but not exclusively) on the priority countries. This enhanced insight will be made available to market participants.
– Develop and execute an international communications strategy, including PR activities and broker facing communications in these priority countries.

Licence enhancements:

– Undertake activity to improve market access in specific markets (Turkey; India).

Structured relationship management:

– Undertake a structured programme to strengthen and manage relationships with multiplatform managing agents, parent companies of brokers and target capital providers.

*Developing countries are those countries that are not one of the 34 ‘advanced economies’ as categorised by the International Monetary Fund as at 1 November 2012 or a British Overseas Territory (eg Bermuda, Gibraltar), British Crown Dependency (eg Channel Islands), European Principality (eg Monaco, Liechtenstein), or overseas protectorate/territory/region of an advanced economy (eg Puerto Rico, Greenland).
Activities to be undertaken over the plan period

Four streams of activity have been identified to support the delivery of Vision 2025’s international growth aspiration:

1) Market development – maximising flows of profitable business through existing cross-border (re)insurance channels. This will include education, profile-raising and brand building activities as well as developing a better understanding of local buyers and distributors in key markets.

2) Licence enhancements – Lloyd’s already has cross-border reinsurance access to the priority countries and many other developing economies and the focus will be on maximising the opportunities to acquire business through this channel (mainly through market development). That said, where opportunities exist to extend Lloyd’s licence network cost effectively, activity will be initiated/continued. Lloyd’s will also continue to defend the market’s existing trading rights to ensure that access to markets remains competitive.

3) Attraction of business and capital from new trade capital providers (particularly from developing economies or markets where Lloyd’s is underweight) – attracting overseas trade capital providers into Lloyd’s, particularly (but not exclusively) from the developing economies where they can bring capital, new business and people.

4) Attraction of incremental new business from the parent companies of managing agents and brokers – working with the parent groups and London-based executives of multiplatform managing agents where Lloyd’s is, or could be, more attractive compared to their other platforms and with the parent groups and London-based executives of the larger brokers so Lloyd’s can capture more of their business both globally and in London.

Roles

Corporation’s role
- To manage the tension between the Corporation’s role in helping to attract new business/capital to Lloyd’s and its market oversight role.
- To undertake market development, communications and licence enhancement activities, where there is market demand, in the developing and developed economies.
- To make available data and insight to managing agents where opportunities are believed to exist in the developing and developed economies.
- To continue to defend existing licence arrangements and access to markets to ensure these channels remain competitive.
- To undertake a programme of on-going, structured interactions at a senior level with relevant stakeholders with the potential to bring incremental attractive business to the market.
- To engage with managing agents to understand their international development strategies and priorities.

Managing agents’ role
- To make decisions on underwriting new business.
- To pursue opportunities in developed and developing economies where aligned with their own strategies.
- To engage with the Corporation to share their international development strategies and priorities.

Brokers’ role
- Consistent with their clients’ needs, to bring profitable business to Lloyd’s from the developed and developing economies which is in line with market demand and market underwriting capabilities and expertise.
- To continue to offer an efficient and effective distribution channel.
STREAMLINING AND ENHANCING DISTRIBUTION

Lloyd’s is a broker market. Strong relationships with both large brokers and smaller specialist brokers remain key to Lloyd’s success. In addition, coverholders and service companies provide efficient access to local markets. As with any other business, it is vital that the distribution model is as cost effective and efficient as possible.

Technology has an important role to play in increasing the efficiency of the distribution and placement processes. This will bring a number of benefits, including more streamlined processes for distributors and policyholders and the opportunity to make the distribution chain more cost efficient.

It is also important to ensure that the market is prepared for any changes in distribution brought about by the adoption of new technology. In particular, there is a need to be aware of the growth and development of any electronic distribution platforms which are focused on the type of risks of interest to market participants. Where such platforms participate in the type of (re)insurance business that could, or used to, come to Lloyd’s, efforts will be made to raise market awareness of such platforms and to ensure that Lloyd’s systems and processes are compatible. There has been some success in recent years where the market has accessed business in London being placed remotely via platforms in Germany and the US.

Activities to be undertaken over the plan period
The work falls into three main areas:
1) Making face-to-face trading and negotiation as effective as possible through the use of technology.
2) Facilitating access to technology or initiatives which allow the market to access attractive business being placed remotely.
3) Continuing to improve the efficiency of the coverholder model.

Roles

Corporation’s role
- To work closely with the market to make placing business into Lloyd’s as efficient as possible.
- To ensure any operational barriers to new ways of working are removed.
- To undertake promotional and educational activities aimed at existing and potential brokers, coverholders and risk managers.

Managing agents’ role
- To negotiate their own business and trading arrangements with brokers.
- To work with the Corporation and brokers to improve operational and processing arrangements in support of placement activities.
- Conduct business in line with agreed market process standards (e.g. ACORD), wherever appropriate.

Brokers’ role
- To identify attractive new market segments and risks and to develop new products.
- To work with the Corporation and managing agents to improve operational and processing arrangements in support of placement activities.
- Conduct business in line with agreed market process standards (e.g. ACORD), wherever appropriate.

Vision 2025 – once delivered, success will look like:
- Lloyd’s will be a broker market and will build on its relationships with the larger brokers, as well as encouraging other specialist brokers. Coverholders and service companies will provide efficient access to local markets.
- Lloyd’s distribution chain will be optimised through the efficient use of technology.

The market’s goal at the end of this three-year plan period is that:
- Brokers will find placing business at Lloyd’s easier and more efficient than today and managing agents will be able to access a wider range of business (as measured through periodic surveys).

Specific Corporation actions for 2013:
- Work alongside brokers and managing agents on proposals for electronic placement support.
- Gather intelligence on third party distribution platforms worldwide and share that knowledge with the market.
- Research and trial appropriate emerging technology and ideas to assess benefits and determine longer term electronic distribution plans.
- Continue the coverholder programme, specifically in the areas of education, communication and marketing and in showcasing system solutions for delegated authority business.
- Continue to develop and maintain an understanding of the strategy, performance and business focus of Lloyd’s 40 largest brokers (representing 94% of premiums (excluding services companies and coverholders) placed at Lloyd’s).
EFFICIENT CENTRAL PROCESSES AND INFRASTRUCTURE:
MARKET MODERNISATION

As part of good business practice it is important that Lloyd's processes and infrastructure are refreshed to ensure they are as efficient and cost effective as possible. While both are operating effectively at present, they will need to be improved over time to continue to meet the evolving needs of market participants. Any delays will inevitably increase both the cost and risk of future change. The Lloyd’s market has made progress in recent years (eg the introduction of Electronic Claims Files, e-accounting and The Exchange). This change has been smart evolution not revolution and this approach will continue.

The focus of the market modernisation agenda is on post-bind market reform ie the re-platforming and re-engineering, where appropriate, of central processes and services (Project Darwin, The Exchange and the Claims Transformation Programme (CTP)).

In order for market modernisation to be successful, it must be market led and in response to market demand, relying on the cooperation and alignment between Lloyd’s, the wider London market and the broking community.

Activities to be undertaken over the plan period

1) Project Darwin – the current focus is on design and consensus building. Until this is achieved, it is not possible to be specific about activities or timelines. As this work progresses it must take into account the business attributes required to support Lloyd’s in the future. These include: building in flexibility and the ability to re-engineer business processes; turning data into knowledge (ie unstructured data into structured data); and making it easier for managing agents and brokers to evolve their own processes at a pace that suits them. 2013 is about design and 2014 and beyond will be about execution.

2) Claims Transformation Programme – having implemented new processes for both standard and complex claims, the focus is on: designing and embedding tactical solutions to continue to improve the effectiveness and efficiency of the market’s claims handling; and determining the most appropriate solution for legacy claims.

3) The Exchange – The Exchange is now operational and established as a market utility. It is now necessary to increase usage across the Lloyd’s and wider London markets and to investigate how best to widen the reach of The Exchange (eg placing support messages).

Roles

Corporation’s role
- To act as a catalyst for change and provide market leadership (including programme governance), mandating change if and when required.
- To engage with market participants in the case for change and in the governance, design and implementation of modernised systems and processes.

Managing agents’ and brokers’ role
- Active engagement in the case for change and in the governance, design and implementation of modernised systems and processes.

Vision 2025 – once delivered, success will look like:
- Lloyd’s will be a subscription market, with efficient central services providing seamless processing to support face-to-face trading and world-class claims management.

The market’s goal at the end of this three-year plan period is that:
- Project Darwin:
  - Key elements of the re-engineering and re-platforming of central processes and services (as agreed in the 2013 design phase) will have been completed.
  - Other parts will have begun.

- Claims Transformation Programme:
  - The improvements in speed, market perception and quality set out in the CTP will continue to be met or exceeded.

- The Exchange:
  - The Exchange will be embedded as the way of moving ACORD standard messages across the Lloyd’s market.

Specific Corporation actions for 2013:
- Project Darwin:
  - Working with the market, design and validate the approach to delivering new central processes and services.

- Claims Transformation Programme:
  - Develop technology to collect and report claims information (Broker portal; Claims Reporting Suite).
  - Create and implement a plan for the migration of pre 2010 Claims Scheme legacy claims.
  - Subject to market demand, establish a Volume Claims Service for standard claims.

- The Exchange:
  - Work with managing agents and brokers to drive up adoption of the Exchange with particular focus on electronic endorsements and placing support messages.
  - Explore new technologies and initiatives and continue to roll out electronic back office transactions to embed the Exchange further and drive up message volumes.
ATTRACTING AND PROMOTING TALENT

The Corporation and the market need to attract talent and provide accelerated career paths for high achievers. The market needs to work together to retain, attract and develop the best talent from the widest possible talent pool. A key element to the success of this work is the need to continue to improve perceptions of insurance, and of Lloyd’s in particular, as an attractive career choice.

Broadening the diversity of the people in the market is an important part of attracting talent. As well as providing access to a greater pool of talent, diversity will also bring more varied knowledge and expertise to support the market’s international growth and development aspirations.

Activities to be undertaken over the plan period

Initiatives in this area fall into three main categories:

1) Recruitment initiatives to attract diverse, high calibre individuals at the start of their careers.
2) Development initiatives to retain and develop individuals with leadership and specialist skill sets.
3) Diversity initiatives capable of attracting and retaining the best talent, leading to a more diverse and inclusive market.

Roles

Corporation’s role

– Where appropriate, to coordinate the design and operation of market talent and diversity initiatives.
– To attract, develop and retain a diverse range of talent with the appropriate skills and expertise to allow the Corporation to deliver its role effectively.

Managing agents’ and brokers’ role

– To attract, develop and retain the best talent from a diverse range of backgrounds required for their current and future success.

Vision 2025 – once delivered, success will look like:

– Lloyd’s will attract the best talent and will provide an accelerated career path for the progression of high achievers.
– Lloyd’s will be a diverse market by gender, age and ethnicity. Its people will increasingly mirror the geographic origin of the market’s business and capital.

The market’s goal at the end of this three-year plan period is that:

– The market’s workforce will be more diverse, including by nationality, and have a higher proportion of professionally qualified staff, when measured against the baseline data to be collected in Q1 2013.

Specific Corporation actions for 2013:

– Establish two new initiatives: an apprenticeship programme and a mentoring programme.
– Expand two existing schemes: the Generalist Graduate programme and the Summer Internship programme.
– Continue existing schemes: Claims Talent programme and Developing Leaders at Lloyd’s programme.
– Sign up to three leading UK diversity initiatives: Opportunity Now, Stonewall and Race for Opportunity.
– Establish a market-wide diversity forum to support the co-ordination and sharing of best practice and to develop initiatives which would benefit from market-wide co-ordination (including the collection of diversity statistics from the market so a benchmark can be established to assess progress).
MORE EFFICIENT DELIVERY OF PRIVATE ‘NAMES’ CAPITAL

The diversity of capital able to support underwriting is one of the strengths of the Lloyd’s market. The market benefits from the ability to access a range of capital providers, including private capital.

In order for private capital to continue to participate at Lloyd’s in a meaningful way, some change is required to make private capital more attractive to managing agents. Improving the outlook for private capital in the long-term will require both innovation to ease the supply of new private capital into the market and to create demand for that capital from both new and existing syndicates.

That said, considerable flexibility already exists within the current arrangements for private capital – in particular, through the use of Special Purpose Syndicates (SPS). This structure can provide more targeted participation for capital providers (e.g., specific lines of business, specific years of account) and may increase the attractiveness of private capital to managing agents. There are currently seven private capital backed SPSS. This structure may also prove to be an appropriate vehicle for the provision of contingent capital in the event of a market upturn.

There is a role for private capital in supporting new entrepreneurial start-up syndicates. Given the current regulatory landscape, it is easier for a new insurance operation to start within Lloyd’s rather than outside, providing it can meet Lloyd’s new entrant criteria. The fact that a new entrant proposal is supported by private capital would be a positive, although not determinative, factor in its approval.

The work in invigorating third-party capital will be led by members’ agents, collectively or individually, and will be supported, as appropriate, by the Corporation. Particular areas of focus include: contingent capital arrangements and the enhancement or simplification of structures and contractual arrangements.

Roles

Corporation’s role
- To help facilitate members’ agents’ activities.

Members’ agents’ role
- To engage with managing agents on their proposals for introducing private capital.

Managing agents’ role
- To work with members’ agents on any proposals.

Principal entry criteria for new managing agents
- An alignment between Lloyd’s and the applicant’s strategies.
- The introduction of a substantial element of new business 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.

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. Work is underway to determine how the Corporation would support the market in responding to a market turning event. In early 2013 the Corporation plans to communicate:
- The principles that would underpin its response to a major market changing event;
- Guidance for managing agents including consideration of an upturn scenario within managing agents’ ORSAs.

Vision 2025 – once delivered, success will look like:
- Private names capital will continue but new names capital will be provided on a more flexible basis and more efficiently, mainly via Special Purpose Syndicates.

The market’s goal at the end of this three-year plan period is that:
- Private capital will increase in absolute terms, even if it falls as a percentage of total capital as the market grows pursuant to Vision 2025.
- There will be more syndicates open to private capital (whether on a direct participation basis or via the SPS route) than today.

Introduction

Achieving Vision 2025

Appendices

Lloyd’s Three-year plan 2013 – 2015
APPENDIX ONE – LLOYD’S KEY ATTRIBUTES

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<thead>
<tr>
<th>ATTRIBUTES</th>
<th>DESCRIPTION</th>
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<tbody>
<tr>
<td><strong>STRENGTHS</strong></td>
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<tr>
<td>MARKET OVERSIGHT</td>
<td>An oversight regime consisting of performance management (the supervision</td>
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<td>of underwriting, reserving and claims activities), capital oversight and</td>
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<td>risk management.</td>
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<td>BRAND AND REPUTION</td>
<td>Lloyd’s brand is recognised for being traditional, entrepreneurial and</td>
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<td></td>
<td>dependable with excellent financial security.</td>
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<tr>
<td>ACCESS TO BUSINESS</td>
<td>The ability to access specialist property and casualty (re)insurance through</td>
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<td></td>
<td>Lloyd’s international licence network and London location.</td>
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<tr>
<td>DISTRIBUTION MODEL</td>
<td>Lloyd’s is a broker market and this model serves the market well; delegated</td>
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<td></td>
<td>authority arrangements are an important part of the distribution model.</td>
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<td>CAPITAL EFFICIENCY AND THE CHAIN</td>
<td>Lloyd’s capital structure provides financial security to policyholders and</td>
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<tr>
<td>OF SECURITY</td>
<td>capital efficiency for members.</td>
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<tr>
<td>MUTUALITY AND MARKET COHESION</td>
<td>The Central Fund underpins Lloyd’s capital strength, licences and ratings</td>
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<td></td>
<td>and helps bind market participants together through a common interest.</td>
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<td>SUBSCRIPTION MARKET</td>
<td>Subscription placement benefits policyholders and market participants,</td>
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<td>allowing competitive quotes and diversification of risk placement.</td>
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<td>DIVERSITY IN MARKET COMPOSITION</td>
<td>Diversity across market participants and capital providers underpins Lloyd’</td>
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<td>s offer to its clients and is desirable from a risk management perspective.</td>
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<tr>
<td>UNDERWRITING EXPERTISE AND</td>
<td>A reputation for specialist underwriting expertise and innovation.</td>
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<tr>
<td>INNOVATION</td>
<td></td>
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<tr>
<td>BREADTH OF PRODUCTS</td>
<td>A range of specialist insurance products, backed by relevant underwriting</td>
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<td></td>
<td>and claims expertise.</td>
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<tr>
<td>RATINGS</td>
<td>Lloyd’s financial strength ratings attract the specialist (re)insurance</td>
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<td></td>
<td>business in which the market is interested.</td>
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<td><strong>AREAS OF FOCUS</strong></td>
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<tr>
<td>MARKET PORTFOLIO DIVERSIFICATION</td>
<td>Lloyd’s, as a specialist (re)insurance market, has a business portfolio</td>
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<td></td>
<td>concentrated on North America and the UK, particularly on catastrophe</td>
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<tr>
<td></td>
<td>exposed business.</td>
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<tr>
<td>CENTRAL PROCESSES &amp; INFRASTRUCTURE</td>
<td>Lloyd’s provides a common processing infrastructure to support the</td>
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<td>operation of the subscription market and to meet tax and regulatory</td>
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<td></td>
<td>reporting requirements.</td>
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<td>MARKET TALENT</td>
<td>Lloyd’s success comes in no small part from the strength of the market’s</td>
</tr>
<tr>
<td></td>
<td>intellectual capital and talent base.</td>
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## INFLUENCING FACTORS

<table>
<thead>
<tr>
<th>INFLUENCING FACTORS</th>
<th>RESPONSE</th>
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<tbody>
<tr>
<td>Challenging market conditions in many lines of business.</td>
<td>Primary oversight responsibility rests with the boards of managing agents; the Corporation will emphasise its challenging business partner role.</td>
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<tr>
<td>Risk of contagion from negative perceptions of wider financial services industry; potential dilution from managing agents as they grow and develop their own brands.</td>
<td>Continue activities to differentiate insurance from banking; encourage, but not mandate, co-branding; continue to work to ensure that managing agents’ non-Lloyd’s operations are delineated from their Lloyd’s operations.</td>
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<tr>
<td>Changing (re)insurance business flows driven by the growth of new markets, regional insurance hubs and specialist insurance capacity in local markets.</td>
<td>Increasing market development and licence enhancement activity, particularly, but not exclusively, in the faster growing economies (a core element of Vision 2025).</td>
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<tr>
<td>Much of Lloyd’s business comes from a small number of large brokers, reflecting their market shares in the wider insurance industry; brokers continue to develop initiatives to generate additional revenue from insurers.</td>
<td>Focus broker relationship management on London brokers, local producing brokers and parent companies of broking groups; enhance and promote the coverholder channel; continue to increase the efficiency of placing business at Lloyd’s; continue to ensure that the compensation for the value added by brokers is transparent and disclosed to clients.</td>
</tr>
<tr>
<td>The impact of operating in accordance with Solvency II requirements.</td>
<td>Continue to embed Solvency II in a way that protects and, where possible, enhances Lloyd’s capital structure and efficiency.</td>
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<tr>
<td>The security of a market backed by a Central Fund is attractive in the current economic climate.</td>
<td>Continued robust market oversight to protect the Central Fund; the work of the principal market bodies (LMA &amp; LiIBA); market community work (Lloyd’s Community Programme).</td>
</tr>
<tr>
<td>Demand for diversified risk placement.</td>
<td>Continue to improve the operational efficiency of the subscription market; maintain the diversity of market participants.</td>
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<tr>
<td>An increasing number of multiplatform managing agents; growth in the size of managing agents.</td>
<td>Maintain diversity of market participants while retaining robust standards for new entrants.</td>
</tr>
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<td>The need to balance underwriting discipline with innovative and bespoke solutions for complex risks.</td>
<td>Marry an innovative and entrepreneurial culture with proportionate, but robust, market oversight.</td>
</tr>
<tr>
<td>Increasing competition in less complex specialist products from developing local markets and in more complex risks from capital markets and insurance derivatives.</td>
<td>Continue to develop new products and to raise awareness of Lloyd’s current product offering and areas of expertise; pursue initiatives to attract, develop and retain talent.</td>
</tr>
<tr>
<td>Lloyd’s strong competitive position has been recognised in its ratings outlook. Ongoing strength depends, in part, on embedding Lloyd’s internal model and on the delivery of Vision 2025.</td>
<td>Delivery by both the market and the Corporation of key Vision 2025 initiatives; respond as appropriate to the outputs from Lloyd’s internal model.</td>
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<tr>
<td>Growth of insurance markets in developing economies.</td>
<td>Vision 2025 recognises the ongoing importance of developed insurance markets, but increases the focus on other international markets (the faster growing economies) through market development, licence enhancements and structured relationship management activity (targeted at new trade capital providers and the parent companies of brokers and multiplatform managing agents).</td>
</tr>
<tr>
<td>Complexities and inefficiencies remain in the existing market processing infrastructure; competition from technology-driven trading and processing initiatives.</td>
<td>Vision 2025 requires the Corporation and market to work together to design, deliver and embed the market modernisation agenda and continue the Claims Transformation Programme to enhance the market’s claims performance.</td>
</tr>
<tr>
<td>Increasing internationalisation of the commercial environment requires more a more diversified talent base; increasing competition for talent driven by the perceived unattractiveness of careers in insurance.</td>
<td>Pursue Vision 2025 talent initiatives in conjunction with market participants and other relevant activities with wider industry groups.</td>
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ECONOMIC ENVIRONMENT

The global economic environment remains characterised by uncertainty with, broadly speaking, an on-going divide between the health of developed and developing economies. Low economic growth is expected to continue in developed markets and the outcome of the Eurozone crisis is still not clear. While growth in developing economies is expected to be stronger than in developed economies, a reduction in domestic demand and exports has resulted in many growth forecasts being revised downwards. Some commentators fear that these factors mean that the world economy will not have stabilised and returned to sustainable growth until 2018, at the earliest.

Inflation forecasts remain low in developed economies, given their weak economic growth prospects. However, given the size of the monetary stimulus provided by central banks in many of these economies over recent years, the risk of rising inflation remains. Economies with recent high inflation (some South American countries) or with uncertain inflation environments continue to provide a challenge for insurers’ pricing and reserving accuracy.

The investment environment remains suppressed with interest rates forecast to remain low over the short to medium term. While investment opportunities exist in some emerging markets, insurers’ ability to capture them may be limited by regulation and their investment policies. The strategic imperative to focus on underwriting for profit remains.

For the insurance industry, lower levels of economic growth, trade and/or investment, may result in a falling demand for insurance. Profitable growth opportunities in Lloyd’s largest and traditional markets (US, UK, Canada, Europe) will potentially be suppressed or at best, remain stable. These opportunities are more likely to come from territories outside these markets (in particular Central Asia and Asia-Pacific, driven by China and India), with premium growth generated from increasing insurance penetration in these territories and increased demand for specialist insurance as a result of strong economic growth.

POLITICAL & REGULATORY ENVIRONMENT

Although the 2008/9 financial crisis has led to a tightening up of financial services regulation in various jurisdictions, a significant rise in protectionism is not expected. There are isolated examples of restrictions being applied, but there are no signs that market access will be materially restricted in the future. In fact, the development of free trade areas, in emerging markets in particular, presents opportunities for insurers as the levels of trade increase and internal markets liberalise.

The implementation of the new UK financial services regulatory regime under the auspices of the Bank of England continues. A more intrusive oversight regime is anticipated which will result in regulatory overlap. Lloyd’s is working closely with the new regulatory bodies to enhance their knowledge of the Lloyd’s market and the role the Corporation plays in market oversight.

Work continues in the EU on the finalisation of the Solvency II regime. At the time of writing, the implementation date remains uncertain, but Lloyd’s remains on track to use Solvency II internal models to set capital for 2013 and beyond. As a result of substantial industry lobbying, the non-life regime appears satisfactory, although improvements are still being pursued in some areas. A critical aspect is the proportionate and sensible incorporation of the Solvency II regime within the new UK regulatory framework.

The development of the regulatory framework for Global Systemically Important Financial Institutions continues. The aim is to identify firms whose collapse would pose a serious risk to the global economy. These firms may have to meet higher capital standards and develop contingency plans for potential future failures. Lloyd’s is actively engaged in this debate to ensure that traditional (re)insurance activities are not deemed a systemically risky activity.

INSURANCE MARKET

Until a broad-based global economic recovery becomes sustained, strong non-life premium growth may be less likely due to suppressed demand. Lower demand combined with near record levels of reinsurance capital suggests that the soft rating environment may continue. In a soft rating environment, with low investment income, delivering strong profits will be challenging for many firms. Given the level of capital in the market and on-going economic uncertainty, it is unlikely that a broad-based, significant and quick hardening of rates will occur in the near future, without a significant catastrophe or investment write-down (eg, sovereign default) impacting the industry.

There is an ongoing trend towards more frequent and larger claims influenced by a number of factors including climate change, urbanisation and increased economic development in catastrophe-prone areas. This trend has the potential to impact the profitability and volatility of insurers’ results. The industry’s focus on risk modelling, exposure data collection, exposure management and pricing adequacy must be maintained. With disaster-related losses on an upward trend over the past twenty years, the vulnerability of people, governments and businesses to severe losses is increasing, particularly in those regions with low insurance penetration. Insurers may be able to develop their business by working to increase insurance penetration in less developed economies by educating individuals, governments and businesses about the benefits of insurance.

Merger and acquisition activity in the insurance sector is expected to continue, driven by the desire for growth, portfolio diversification, Solvency II capital efficiencies and private equity investors seeking an exit. However, valuations remain low mainly because of concerns about the prolonged soft market, reserve adequacy and the challenging macro-economic environment. This is reducing the number of ‘willing’ sellers in the market.

Future losses may arise from a range of emerging risks including: climate related catastrophes and potential litigation against ‘polluters’; space weather; supply chain disruption; and cyber risk. Understanding the potential nature and impact of these risks is a key future activity for the industry.

LLOYD’S MARKET

Lloyd’s is in a robust financial position, as evidenced by its ability to withstand 2011’s record level of natural catastrophes. Although the international mix of Lloyd’s business has increased in recent years, the market portfolio is skewed towards developed insurance and reinsurance markets, particularly those with high catastrophe exposure. With the developed markets continuing to account for the vast majority of global non-life premium, Lloyd’s must work to maintain and grow its position in the large developed markets, while growing more quickly in the emerging and faster growing economies as they increase their share of global economic activity. This forms a significant element of Lloyd’s Vision 2025.

The vast majority of today’s Lloyd’s businesses are parts of larger insurance groups. This presents both threats and opportunities, reinforcing the need for Lloyd’s to continue to strengthen its attractiveness compared to other specialist (re)insurance platforms.

The largest three brokers remain the largest source of Lloyd’s business, reflecting their market shares in the wider insurance industry. Brokers continue to develop and implement initiatives to generate additional revenue from insurers. Where such arrangements may impact on the financial performance of a managing agent, it is important that all parties have clarity on the potential costs and benefits.
CONTACTS
If you have any queries or feedback regarding Lloyd’s Three-Year Plan, please contact:

GAVIN STEELE
Secretary to Council and Franchise Board
Tel: +44 (0)20 7327 6032
gavin.steele@lloyds.com

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