LLOYD’S STRATEGY

2011 YEAR-END PROGRESS UPDATE
PROGRESS AGAINST LLOYD’S STRATEGY

Lloyd’s Strategy 2011-2013 was issued in December 2010. It identified five challenges facing the Lloyd’s market. These were:

<table>
<thead>
<tr>
<th>CHALLENGES FACING THE LLOYD’S MARKET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintaining market performance</td>
</tr>
<tr>
<td>Maintaining the attractiveness of London</td>
</tr>
<tr>
<td>Maintaining the attractiveness of Lloyd’s</td>
</tr>
<tr>
<td>Maintaining access to changing business flows and distribution</td>
</tr>
<tr>
<td>A changing supervisory and regulatory environment</td>
</tr>
</tbody>
</table>

The Corporation’s 2011 priorities were linked to these challenges:

<table>
<thead>
<tr>
<th>CORPORATION PRIORITIES FOR 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Oversight</td>
</tr>
<tr>
<td>Solvency II</td>
</tr>
<tr>
<td>The Exchange</td>
</tr>
<tr>
<td>Claims Transformation</td>
</tr>
<tr>
<td>Access to business</td>
</tr>
</tbody>
</table>

This year-end update reports on progress against the five challenges and Corporation priorities.

CORPORATION PRIORITIES: HIGHLIGHTS

- **Market Oversight** - Remained the key priority. 2012 syndicate business plans were closely scrutinized against the backdrop of challenging trading conditions. Much work was undertaken to ensure a coordinated and constructive Lloyd’s response to the major catastrophes during 2011.

- **Solvency II** – Lloyd’s remains on track to make its Internal Model Approval Process (IMAP) submission to FSA by 30 April 2012. Discussion continues with FSA over the basis of capital setting for 2013 should, as expected, Solvency II implementation be delayed.

- **The Exchange** - The focus was on increasing use, post the endorsement pilot. Nearly 700,000 messages have passed over The Exchange.

- **Claims Transformation** - The new claims agreement process continued to be extended to additional business lines. Refinements to Lloyd’s Claims Scheme have been introduced from January 2012.

- **Access to business** - Lloyd’s implemented its direct licence in China. Improvements were made to the coverholder distribution channel. In the current regulatory climate, significant work is being undertaken to protect Lloyd’s international trading rights.
MAINTAINING MARKET PERFORMANCE

The performance management framework details requirements of businesses operating at Lloyd’s and seeks to raise standards across the market. While it is not – and is not intended to be – a zero failure regime, it aims to increase Lloyd’s attractiveness as a market for brokers, managing agents and capital providers.

As predicted, market conditions continued to be challenging during 2011 and the Corporation’s responsibilities for market oversight and performance management remained our main priorities.

MARKET OVERSIGHT

- Underwriting conditions - A series of discussions with managing agents took place to obtain their views on the 1 January renewal season. While some lines of business are seeing small rate increases (especially those affected by the recent catastrophes), overall the rating environment still shows little change in pricing. As a result, Performance Management will continue to work with the market to ensure that Business Plans remain realistic and achievable.

- Major claims – 2011 saw an unprecedented number of major claims. In April managing agents were asked to submit a major claims return. This formed the basis for estimates to be made for the 2011 disasters in Japan, New Zealand and Australia, which together total US$3.8bn.

- Lloyd’s representatives visited Japan in November. The objectives of the visit were to capitalise on the speed of Lloyd’s support to date, to promote the market, to better understand the remaining claims situation and to understand what areas of development may exist in cedant loss estimates. Various meetings were held with cedants and local loss adjusters. Lloyd’s response to earthquake claims is having a positive effect on our brand in the region.

- A Lloyd’s market working group was established and has been working with Lloyd’s representatives to provide a co-ordinated market response where necessary.

- In the wake of the flooding in Thailand, the Catastrophe Response Team met regularly to coordinate Lloyd’s activity. A major claims return was requested from managing agents and submissions, received in January 2012, are being analysed.

- Thematic reviews - An offshore energy class of business review, involving meetings with offshore energy liability underwriters, was conducted. The main purpose of the review was to understand the action taken by syndicates to address issues arising out of the Deepwater Horizon disaster in 2010. As a result of the review, Performance Management issued best practice guidance and the market were asked to submit Business Plans that addressed the issues identified.

- A market bulletin was issued in April setting out new procedures for syndicates wishing to underwrite War, Civil War, and related perils.

- In September, Lloyd’s published a report Drilling in Extreme Environments: Challenges and Implications for the Energy Insurance Industry.
• A review is being conducted into Casualty business at Lloyd’s. Specifically, the review will examine the reasons for the deterioration in performance on prior years of account. The results will be shared with the FSA.

• **Syndicate pricing review** – Phase one of a review of syndicate pricing methodologies against a set of “good practices” prepared by Lloyd’s was completed and discussed with managing agents. Feedback was also provided to CEOs and Chief Underwriting Officers at a market meeting in May. Phase two of the review will be conducted in 2012 with further visits to each managing agent to ensure that recently written risks are being priced in line with the syndicate’s documented approach.

• **Syndicate 2012 business plans** - The 2012 business planning process was completed with all syndicate plans approved by the target date.

• **Claims standards** – Following extensive consultation with the market, new minimum claims standards were issued in March which will come into effect on 1 January 2012. These are being brought up to date so as to be compatible with Solvency II requirements.

• **Delegated authorities** - Lloyd’s completed its first reviews of managing agents’ delegated authority procedures against the new standards. Enhancements were made to agents’ processes to bring them into line with Lloyd’s standards.

• **Lloyd’s Risk Appetite Framework** - The Franchise Board enhanced Lloyd’s existing risk management framework and continued to embed the formal Risk Appetite Framework. The Framework, which is monitored through the risk governance structure, consists of 14 risk appetite statements covering both Corporation and market risks. It is a key tool used by Lloyd’s to monitor risk taking and is a critical element of the Solvency II risk management framework.

• **Risk management** - Lloyd’s has embedded its new risk governance structure. Regular risk reports are provided to the Executive Risk Committee (ERC) and the Franchise Board, which cover all syndicate, market and Corporation level risks facing Lloyd’s. A key element of this is a dashboard which provides an assessment of Lloyd’s performance against metrics set within the Risk Appetite Framework.

• The ERC and its three sub committees have met regularly throughout 2011. The Syndicate Risk Committee’s (SRC) remit includes the determination of the level of co-ordinated oversight for each managing agent. Lloyd’s continues to develop and enhance its management information in order to establish an accurate holistic view of each managing agent’s performance. Market level thematic issues are also considered by the risk governance structure e.g. throughout 2011 the Financial Risk Committee (FRC) has monitored and assessed the impacts of the Eurozone crisis.
MAINTAINING THE ATTRACTIVENESS OF LLOYD’S AND LONDON

As well as improving efficiencies and reducing costs, market modernisation initiatives are important to maintain and improve flows of speciality business into the Lloyd’s and wider London markets.

THE EXCHANGE

- Following agreement between Lloyd’s and the London Market Group (LMG), responsibility for The Exchange was transferred to The Message Exchange Limited (TMEL), a new company jointly owned by Lloyd’s, the LMA, the IUA and LIIBA so that the service can be governed and operated for the benefit of the whole London market. This transfer has not changed the day-to-day operations of The Exchange.

- Message volumes across The Exchange have grown to around 700,000 (as at end-December 2011) made up of 125,000 endorsement messages, 4,000 placing messages and 565,000 support messages and 700 accounting messages.

- During 2011, the focus was on increasing use of The Exchange following the roll out of the Endorsement Pilot. The Pilot focused on endorsements for direct Marine classes of business (Hull, Cargo, War and Liability). Market feedback on the Pilot showed that the electronic submission process was particularly suitable for those endorsements not requiring negotiation between brokers and managing agents.

- A number of changes to support improvements to the endorsement process went live during October. Work is continuing to improve the process for more complex endorsements while ensuring that the face-to-face negotiation that is a strength of the Lloyd’s market is not impacted. This work is due to complete by end-Q1 2012.

- The LMG produced a ‘roadmap’ to roll out the endorsement initiative to all other classes of business by 5 March 2012.

- An Exchange support portal has been launched enabling users to update their Exchange contacts online.

- Other work included connecting The Exchange to other technology platforms e.g. FAConnect (Aon Benfield), Ri3K and TiW.

FUTURE PROCESSING MODEL

- Lloyd’s is committed to the LMG’s vision of moving towards a new processing model for the London market. A joint LMA and Lloyd’s programme was initiated during 2011, with the aim to review pragmatic options to move towards this.

- As part of this work, Boston Consulting Group (BCG) was appointed to review existing back-office processes and technology against these requirements in order to assess options as to the most appropriate way forward. BCG’s findings and implementation options will be reviewed by both the Franchise Board and the LMA Board.
**DATA STANDARDS**

- Lloyd’s continues to develop and introduce ACORD standard messaging where appropriate.

*Data Standards Control framework*

- Regulatory and tax authority scrutiny of the data that Lloyd’s uses in its regulatory and tax reports is increasing. As such, it is even more important to implement data standards to ensure Lloyd’s can satisfy the authorities that reporting requirements have been met. A Data Standards Control Framework has been developed by Lloyd’s, with assistance from PwC, to ensure that any future requests for such evidence can be satisfied.

- In addition, as a result of the increased sophistication (cross-border) of the business being written through the service company channel, the regulatory risks associated with this type of business are increasing.

- Implementation of the Data Standards Control Framework with all managing agents that write service company business, will be delivered by end-Q2 2013. Work is also underway to determine how the framework will be implemented across Lloyd’s coverholder community.

*Risk Location – Regulatory and tax information*

- Lloyd’s continues to work with key stakeholders in response to market requests for more assistance in correctly identifying the location of a risk for both tax and regulatory reporting purposes.

- A new on-line, risk locator tool has been developed to complement the Risk Locator guidance notes on lloyds.com in order to further assist the market. The tool will be launched during the first half of 2012 and will be freely available to all registered Crystal users.

**ELECTRONIC DISTRIBUTION**

- The Electronic Distribution team was put in place in March to assess options. Work has progressed in several areas including a Technology Library now live on lloyds.com to help the market identify opportunities for electronic distribution globally. The team has also begun assisting brokers and managing agents wishing to connect to e-trading platforms globally, ensuring that operational barriers are removed and central infrastructure is connected where required.

- An iPad pilot has run throughout 2011 enabling brokers and underwriters to trade electronically and face-to-face in the Underwriting Room. The pilot identified benefits, improvements, and efficiencies that the technology could bring to the quotation and placing process and will be expanded further in 2012.

- A new free to use proprietary Wi-Fi network has been installed throughout all underwriting areas in the Underwriting Room following feedback received from the market early in 2011.

- A new Electronic Slip Builder tool is being developed to help brokers capture structured data as part of the placement process, improving data quality, accuracy and reducing re-keying costs as well as supporting the strategic ambitions of The Exchange and e-trading generally.
CLAIMS TRANSFORMATION

Claims handling is a core aspect of the competitive position of the Lloyd’s market and a major programme of work has been in progress to enhance the market’s claims performance. The work will improve customer experience in terms of speed and quality of settlement, while providing more choice for managing agents in how they handle claims.

Claims Transformation Programme

- **Claims Agreement Framework** – The pilot of new claims agreement practices concluded successfully in February 2011 having exceeded the success criteria of at least a 25% improvement in speed with no deterioration in quality or market perception and no increase in cost.

- A 40% improvement in average end-to-end transaction time continues to be observed on in-scope claims and the quality of claim categorisation and file-keeping has been found to have increased during the Programme.

- Implementation of the new agreement practices to all classes of business has therefore commenced, with the addition of new claims on policies incepting on or after 1 July 2011 with Energy risk codes and the remaining Property and Marine risk codes not already in scope. This was accompanied by face-to-face training and an eLearning package for managing agent claims staff in September. The framework will be further extended in January 2012 to include Professional Indemnity, Financial Institutions and Medical Malpractice Treaty risk codes.

- Other changes to the framework, to be introduced from January 2012 via the issuance of the Lloyd’s Claims Scheme (Combined), include the removal of the Mid-Tranche claims segment. Claims will now be either Standard or Complex. As a consequence, a review of the financial and non-financial guidelines for allocating a claim to one of the two segments was carried out and the results set out in a market bulletin Y4531 issued on 10 November 2011.

- **Shared Services** – Work has also been progressing on the feasibility of the provision of new shared services for the market: an improved interface for brokers to advise the market of claims and a volume claims service (VCS) to handle high volume, low complexity claims on behalf of managing agents. Market workshops have been held with Xchanging to assess the broker interface proposal and the Claims Implementation Board (CIB) will decide how to proceed in early 2012. A Request for Information was issued to possible providers of the VCS and seven responses were received. The CIB will consider a vision for the service in February 2012 before concluding how to proceed.

- **Enhanced Governance** – Revised Minimum Standards for claims were published in April 2011 and came into effect at 1 January 2012. The new standards emphasise the importance of customer service and proactivity. Lloyd’s has produced a suite of Lloyd’s Claims Metrics to assist in the quantitative assessment of managing agents’ performance in certain matters of claims processing. A pilot has been conducted and the metrics have now been agreed for general roll out to the market, with the first quarterly completion to take place during Q1 2012.

- **Management Information** – In consultation with the market, a number of data gaps have been identified and filled. Projects have been commenced for the development of a management information portal for managing agents.
Claims Talent Programme

- Following selection for the Market Practitioner intake, six people entered the Programme in April and are due to complete in March 2012. Nine graduates joined the Claims Graduate Scheme in September and undertook a 10 week placement with participating Lloyd’s brokers.

OTHER INITIATIVES TO ENHANCE LLOYD’S AND LONDON’S POSITION

In addition to the market modernisation initiatives outlined above, lobbying on UK regulatory architecture and other international regulation (pages 16-19), and international promotion events (pages 10-11) activity is continuing to protect, promote and enhance London’s position as a centre for specialist (re)insurance business.

Working to promote London as an insurance centre

- Lloyd’s continued to work closely with other parts of the financial services industry to promote the importance of the sector to the UK economy. Lloyd’s is a founding sponsor of TheCityUK, a practitioner led organisation established to promote the competitiveness of UK financial services and also works with the City Corporation and the Lord Mayor.

- Lloyd’s has continued to engage directly with Government Ministers, Members of Parliament and senior civil servants and policymakers to reinforce the importance of London as an insurance centre, to explain how insurance differs from banking and to promote the strengths of the Lloyd’s market. This process has increased understanding and awareness and has supported our work seeking to ensure that government policy and regulatory changes do not put London or Lloyd’s at a competitive disadvantage.

Tax

- Keeping London as a tax competitive place to write (re)insurance business remains an important objective for Lloyd’s. Lloyd’s has worked closely with HM Treasury and HMRC on the branch exemption and Controlled Foreign Companies regimes to seek to ensure that the Government fully understands their impact on Lloyd’s competitive position and to press the case for tax measures to enhance that position. The insurance industry was unable to make the robust case for Claims Equalisation Reserves to continue post Solvency II, so the legislation will be repealed. Conversations with Government will continue regarding the impact that volatility of returns can have on the tax result.

Developing Talent

- London’s success as a centre for (re)insurance comes in no small part from the strength of its intellectual capital and talent base. Lloyd’s continues to work with the LMA, LIIBA and other industry groups to pursue initiatives to attract and develop talent in the face of increasing competition from other financial sectors.

- The LLMIT Education Committee reviewed the LLMIT syllabus which has been updated to reflect recent legislative changes but also includes new materials on Solvency II, claims practices and delegated underwriting.

Branding

- To help ensure consistent and effective use of the Lloyd’s brand, Lloyd’s has worked with market participants to refresh and enhance its brand guidelines. Revised guidelines for coverholders, including a new visual identity, were launched in October and guidelines for Lloyd’s underwriters and brokers were launched in January 2012.
ACCESS TO BUSINESS

The ability to access specialist property and casualty business continues to be one of Lloyd’s principal strengths. It is necessary to make it as efficient as possible to attract business to London and to provide access to those regional insurance centres where there is sufficient demand from market participants.

LICENCE DEVELOPMENT

- **China Direct Licence** – In 2010, the China Insurance Regulatory Commission granted Lloyd’s a licence to conduct direct insurance business in China.

- During 2011, the Board of Lloyd’s Insurance Company China Limited oversaw work to make the licence operational. The work included establishing new business processes and controls, and implementing a new underwriting system. Lloyd’s wrote the first direct business in September 2011. Work is continuing to augment ‘Day one’ direct licence products and supporting documentation.

- Information on the performance framework through which Lloyd’s China will be monitored and syndicates’ plans challenged has been shared with managing agents.

- **India** - Lloyd’s has continued to lobby the Indian authorities, both directly and indirectly, to introduce reforms that will facilitate Lloyd’s entry into the Indian market via a reinsurance branch arrangement. However, hopes for a positive outcome in the short term rest on the Indian government pushing through the uncontroversial elements – which include Lloyd’s – of an otherwise highly contentious set of reforms. Lloyd’s is working closely with the insurance regulator to ensure that the provisions put in place to regulate Lloyd’s once the requisite legislation is passed are workable for our market.

INTERNATIONAL OFFICE DEVELOPMENT

- **Benelux office** - Lloyd’s opened a new representative office in Rotterdam in March headed by Ralph Van Helden, Lloyd’s Benelux Regional Manager.

- **Lloyd’s France** - The Paris office relocated to Rue Lamennais within the business triangle area of Paris.

- **Lloyd’s Asia** – Lloyd’s Asia office relocated to One Asia Square in Singapore. A significant rent reduction was achieved. Kent Chaplin was appointed as new Regional Manager for the Asia region.

- **Lloyd’s America: Atlanta office** - Lloyd’s appointed a representative, Rodney Smith, in Atlanta, Georgia, to facilitate education and outreach to the many Lloyd’s stakeholders in the South-Eastern US region.

- **Lloyd’s Japan** – Focus was on the development of a new IT underwriting system to support the new business model in Japan. Implementation is at an advanced stage, although significant delays occurred following the earthquake and tsunami. The new underwriting administration system is expected to be in place during Q1 2012.

- **Single Global Network** - All key Lloyd’s overseas offices are now connected to the Lloyd’s IT network.
INTERNATIONAL MARKET DEVELOPMENT AND EVENTS

International Market Development

- **Mexico** - Following discussions with the LMA Market Development Strategy Group on the future of Lloyd’s in Mexico, it was decided not to open an office in Mexico. Instead, it was agreed that London based help should be offered to managing agents and brokers wishing to develop their business in Mexico. Lloyd’s established a ‘Mexico Desk’ in London supported by quarterly trips to Mexico.

- **Turkey Market Development Trip** - The Chairman led a market development trip during July to raise Lloyd’s profile in the Turkish insurance market; to help Turkish insurers and brokers understand how to access Lloyd’s; and, to help managing agents and brokers explore opportunities and understand the region.

- **Following discussions with the LMA Market Development Strategy Group**, Lloyd’s has agreed that a ‘light touch’ country desk in London (similar to the Mexico desk) should be the next step in supporting market development without adding significantly to resource requirements at this stage.

- **Middle East** - Following recent unrest in the Middle East, the proposed Market Development Trip planned for late October did not take place. Lloyd’s will re-assess the situation in 2012.

- **US Class Review** - During September, Lloyd’s launched a new US Class Review report that, for the first time, offered benchmarking analysis comparing Lloyd’s business with its competitors, broken down by class of business and key individual states.

- **Market Presentations** - A number of country manager market presentations took place at Lloyd’s during the year. Countries covered included the UK, US and Canada, Mexico, China, Singapore, Brazil and South Africa.

International Events

- A significant number of international events took place throughout 2011 with the aim of improving Lloyd’s position and profile overseas and interaction with the local markets. Details of events which took place during the first half of the year were included in the 2011 Mid-Year Update. Events during the second half of 2011 included the following:
  
  - **CIAB** - The 98th annual meeting of The Council of Insurance Agents & Brokers and The Council of Insurance Company Executives (CICE), took place in Colorado Springs. Lloyd’s hosted a cocktail reception and dinner for insurance brokers, insurers and industry vendors. The Chairman, CEO and Sean McGovern also met with wholesale and retail brokers and other industry leaders.
  
  - **ILLCA** - This is the flagship Italian insurance industry event. This year’s event, part sponsored by the LMA, attracted over 600 insurance professionals including many Lloyd’s market participants.
  
  - **FERMA** - Lloyd’s in cooperation with FERMA (European Risk Managers’ association), launched the “Professional Development Initiative”. This programme will host and sponsor a talent development programme within the risk management community.
Lloyd's Strategy: 2011 Year-End Progress Update

- **Class of Business Event, Political Risk, Zurich** - Recognising this market has long been an important source of Political Risks business, Lloyd's hosted its first Class of Business event in Zurich. Fifty brokers, underwriters and specialists from Switzerland, Germany and Austria attended.

- **Class of Business Event, Renewable Energy, Frankfurt** - In light of the German government’s recent decision to replace nuclear power generation with renewable energy, the Lloyd's German office organised and hosted a Class of Business Event to promote Lloyd's as a platform of choice for energy risks. More than 60 brokers, underwriters and specialists attended the event.

- **Baden Baden** – Tom Bolt led the Lloyd’s delegation at Baden Baden, the main European reinsurance event of the year. Lloyd’s hosted a reception at the event.

- **Singapore** – Lloyd’s had a significant presence at the Singapore International Reinsurance Conference (SIRC) from 30 October to 2 November. Jose Ribeiro and Kent Chaplin were involved in panel discussions.

- **Brazil meet the market event** - More than 200 representatives from the Brazilian insurance and reinsurance industry attended Lloyd’s ‘meet the market’ event in Rio de Janeiro in October. Jose Ribeiro and Marco Castro led the Lloyd’s presentations. 14 syndicates were represented in a mock-up Underwriting Room.

**BROKER RELATIONSHIP MANAGEMENT**

Lloyd’s is a broker market. The need for mutually beneficial relationships between brokers, managing agents and the Corporation remains unchanged and the Corporation continues to deepen relationships with brokers.

- **Broker Premium Profile Pack** – This new management information tool provides brokers with an overview of the premium they place at Lloyd's and how their portfolio compares to the overall market in terms of class of business, method of placement and geography. The pack was delivered to, and discussed with, brokers representing more than 90% of the premium underwritten in the market. Brokers report that they view this pack as a valuable tool to better understand the portfolio of business they place with Lloyd's.

- **Broker Development** - A local broker ‘roadmap’ was created to help local brokers understand the options available to them to access the Lloyd’s market. The feedback from users is that the roadmap provided a useful guide to the routes into the market and helped dispel the myth that Lloyd’s was difficult to access.
ENHANCING THE COVERHOLDER CHANNEL

The development of the coverholder channel, subject to proper and appropriate controls, to improve both the awareness and the efficiency of this distribution channel remains an important component of Lloyd’s strategy.

The 2011 coverholder programme had two main workstreams. Progress on key initiatives is set out below:

*Improve Coverholder routes to market and experience of Lloyd’s: Education and Marketing / Communications and Events*

- Country Managers continue to work with local coverholders to form and support country coverholder networks and associations.
- A number of coverholder events took place throughout 2011 including an EU coverholder event; a coverholder audit conference; and Lloyd’s second coverholder technology forum, where 20 vendors demonstrated their products and the market discussed ways to make the coverholder model more efficient.
- Work progressed to update existing coverholder marketing materials to provide targeted communication and an easier way for coverholders to find information on Lloyd’s. A new website and e-Bulletin / newsletter were launched to update coverholders on developments at Lloyd’s.
- October saw the launch of a new sub-brand that allows coverholders to identify themselves as such, enabling them to promote their specific relationship with Lloyd’s to clients and other stakeholders through the use of a bespoke logo and title.
- A Coverholder Toolkit was delivered in response to feedback from coverholders that Lloyd’s is difficult to understand and that information is not readily available. The Toolkit provides simple step by step guidance on the key topics relevant to coverholders, with a ‘one stop shop’ for guidance on how to do business with Lloyd’s. This can be found at www.lloyds.com/coverholder toolkit

*Improve Coverholder operational efficiency; reporting standards; claims process; data process review*

- Lloyd’s published a new standard for coverholders to report claims information in February. The standard covers the minimum information coverholders need to provide when reporting claims to the market.
- A new version of Lloyd’s Coverholder Reporting Standards was released in October. In addition to US Property, the latest version covers US surplus lines and UK employer’s liability. An updated version of the user guide covering all the live coverholder standards (premium, claims and risk) was published and is available on lloyds.com.
- Following feedback from the market concerning poor settlement time for coverholder claims referred to London, a new process to enable more claims to be loaded on to ECF has been piloted with the aim of significantly reducing settlement times.
- Lloyd’s continues to work on the development and roll out of ACORD XML standards for delegated authority business and is working with managing agents and brokers to understand the approaches being taken.
- Further enhancements to Atlas (Lloyd’s coverholder management database) have been delivered following work with the market user group.
- Working closely with the LMA, work was undertaken on a pilot translation of German model wording and selected policy wordings. The LMA has committed to review and update the model binding authority contracts.
SUPervisory and REGulatory ENVIRONMENT

Maintaining Lloyd’s global licences and protecting the brand is a challenging task in the rapidly changing supervisory and regulatory environment, and under the current political scrutiny of global financial services. Over the last few years Lloyd’s has stepped up its activity at UK, EU and International levels to ensure that reforms to regulations in the UK and abroad do not disadvantage or inappropriately affect the Lloyd’s market.

Solvency II

Preparing for Solvency II remains a major priority for the Corporation and the market. Lloyd’s is implementing Solvency II in a way that protects, and where possible, enhances Lloyd’s capital structure and efficiency.

The Corporation’s Solvency II implementation programme works in close co-operation with the LMA’s Solvency II groups. It is split into six main workstreams.

Ensuring that Lloyd’s structure is appropriately reflected in the Solvency II framework and in its application

- Lobbying of EU institutions (European Commission, European Parliament and EIOPA) has been undertaken both directly and in liaison with other European insurers and reinsurers, and also via various other bodies including The European Insurance and Reinsurance Federation (CEA), HM Treasury and the FSA.
- Lloyd’s has responded to the European Commission on its draft Level 2 implementing measures. These measures included changes intended to reduce the burden of compliance / evidence required and are welcomed.
- Lloyd’s has led industry efforts to promote recognition of geographical diversification in the non-life catastrophe risk sub-module of the Standard Formula, to be used to set capital in the absence of approved internal models. Both EIOPA and the European Commission accepted the validity of this approach and the Commission’s latest draft Level 2 implementing measures include the concept of geographical diversification for such risks. The effect of this proposal is to reduce substantially the capital charge for the Lloyd’s market as compared to QIS5.
- Lloyd’s, together with the CEA, continues to monitor and respond to unwelcome proposals to amend the draft Omnibus II Directive. This draft Directive is currently before the European Parliament and Lloyd’s is in contact with key MEPs on relevant issues.
- Lloyd’s continues to review and give feedback on Level 3 (Guidance) pre-consultation material. Material is being reviewed by Lloyd’s and the LMA working groups, and input to EIOPA provided by Lloyd’s via the CEA.
- It is expected that the EU Institutions will agree the content of the Omnibus II Directive in April 2012, following which the Commission will formally table its Level 2 implementing measures for discussion. The complete package of Level 1 and Level 2 Solvency II measures should have been finalised by the end of 2012.
• It seems increasingly likely that the Solvency II regime will not apply in full to insurers until 2014 although it is anticipated that, during 2013, the FSA will allow UK firms with approved internal models to use such models for capital-setting and reporting purposes. Further details are awaited.

**Capital set at right level: ensuring the standard formula for the solvency capital requirement (SCR) and minimum capital requirement (MCR) is set appropriately**

• Lloyd’s and the FSA are making good progress towards agreeing the definition of Lloyd’s SCR. Working with the FSA Lloyd’s is setting out how it would ensure capital is of the appropriate quality and in the right place, and how intervention would work.

• Lloyd’s proposals for setting member level capital were agreed by the Franchise Board in June.

• Lloyd’s issued updated detailed guidance on Solvency II technical provisions and the specification for the agents’ technical provisions and gross quarterly data submissions. Lloyd’s provided feedback to managing agents on their technical provisions submissions as at 31 December 2010, 30 June 2011 and projected to 31 December 2011, as well as updated QIS5 submissions as at 30 December 2010.

• Lloyd’s has prepared a proposal on the future role of syndicate actuarial reports under Solvency II and is consulting on this with the LMA.

**Syndicate level: ensuring managing agents have Solvency II compliant risk management frameworks and internal models in place**

• During 2011 Lloyd’s continued to assess managing agents’ readiness for Solvency II. The majority of managing agents are judged to be ‘on track’.

• In September, Lloyd’s advised certain managing agents of prudential measures which may be applied to them for the 2012 year of account as they were deemed to be making insufficient progress on implementing Solvency II. These measures include a capital loading of up to 20% combined, where appropriate, with business plan restrictions and/or additional Central Fund contributions. Discussions were held with individual agents to agree the remedial action they need to take to avoid the measures, which may otherwise be applied following a reassessment in Q1 2012.

• The detailed 2011 dry run plan and guidance was issued to managing agents in February. As part of the plan sixteen sets of market workshops were held during the year, covering such topics as risk management, model validation, technical provisions, and ORSA. In addition, Lloyd’s also conducted four sets of Solvency II managing agent director briefings.

• Initial internal model walkthroughs with managing agents were completed and feedback provided. Meetings were also attended by FSA staff, where possible, to minimise duplication.

• The culmination of the 2011 ‘dry run’ process was the submission of Final Application Packs by all managing agents in December. These will be reviewed by Lloyd’s in Q1 2012 to assess whether, and to what extent, agents are meeting Solvency II requirements and their internal models are Solvency II compliant. The outcome will form an important part of Lloyd’s IMAP submission in April.
Secure FSA approval of the Lloyd’s Internal Model (LIM) and ensure interface with syndicates’ own models (Pillar 1)

- The LIM will calculate the capital requirement for the Society under Solvency II. Output from syndicates’ internal models will be a key input to the LIM.

- The LIM consists of a number of elements including the Capital Calculation Kernel (CCK), Lloyd’s Catastrophe Risk Model (LCM), Lloyd’s Investment Risk Model (LIRM) and Integrated Capital Platform (ICP). Each part of the LIM provides input into the calculation of the Society’s capital requirements under Solvency II.

- The separate elements of the LIM have been developed to the point where a fully integrated LIM has undergone model testing during the latter part of 2011. The data outputs have been undergoing analysis so that the model can be refined and generate appropriate management information on a consistent basis, which will form part of Lloyd’s IMAP submission.

- A new Lloyd’s Capital Return was developed which was used to collect syndicate data including Solvency II capital requirements produced by managing agents’ internal models. The syndicate SCR submissions are being reviewed against Lloyd’s enhanced ICP benchmark model.

- As part of Lloyd’s dry run, documentary evidence has been submitted to the FSA which will demonstrate that Lloyd’s meets all of the standards required to achieve internal model approval. These documents will form part of Lloyd’s IMAP submission.

- The FSA conducted an in-depth review of the LCM element of the LIM during September. Feedback was provided by FSA and Lloyd’s is considering appropriate model enhancements.

Society level: developing a risk management system for the Corporation and embedding Lloyd’s own risk and solvency assessment (ORSA) and governance structure (Pillar 2)

- Lloyd’s new risk governance structure was ‘bedded in’ during 2011. For more information see the Risk Management section on page 4.

- Detailed management information requirements for ten LIM uses have been defined. A timetable for delivery of uses is progressing with the remaining delivery planned for Q1 2012.

- Lloyd’s ORSA Policy has been drafted and reviewed by ERC and Franchise Board. Lloyd’s pilot ORSA report was approved by Franchise Board in late 2011. The first ‘live’ ORSA report will be considered by the Franchise Board in March 2012, ahead of the IMAP submission to the FSA in April 2012.

- Progress has been made to embed the appropriate risk culture within the Corporation and Lloyd’s governing bodies. This work will continue with an on-line tutorial in risk management for the market and the Corporation in 2012.

Ensure supervisory and reporting requirements are implemented in a way that reflects Lloyd’s structure and keeps the burden on agents to a minimum (pillar 3)

- The FSA has agreed in principle that Pillar 3 reporting at Lloyd’s will continue to operate on a similar basis to today with Lloyd’s reporting to the FSA based on an aggregate of syndicate level returns augmented by Lloyd’s central data. Within this framework, the FSA are expected to consult in Summer 2012 on the specifics about how Pillar 3 reporting will
operate at Lloyd’s, as part of its work to transpose Solvency II requirements into UK law.

- To help managing agents prepare for Pillar 3, Lloyd’s provided guidance to agents on the preparation of supervisory reporting and disclosure implementation plans in September and updated guidance on Pillar 3 quantitative and qualitative reporting requirements in December, based on EIOPA’s consultation paper.

- Good progress is being made with Lloyd’s ITG in analysing and developing the reporting formats which will be built into the syndicates’ Core Market Returns system in 2012.

**UK REGULATORY OVERSIGHT**

- Under current Government proposals, the FSA will be abolished and its tasks split between the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) which will look after prudential and business conduct regulation respectively. Macro-prudential regulation will be undertaken by the Financial Policy Committee (FPC) within the Bank of England. The Society of Lloyd’s and Lloyd’s managing agents will be prudentially regulated by the PRA which will be the lead regulator. The FCA will take responsibility for Lloyd’s brokers, members’ agents and conduct issues. Lloyd’s focus is to ensure that Lloyd’s is subject to an efficient supervisory regime that takes account of Lloyd’s structure.

- Lloyd’s responded to a number of consultation papers last year relating to the proposed structure and operation of the PRA and FCA and welcomed various changes made by the Government in response to previous representations made by Lloyd’s.

- The Government’s consultation paper in June 2011 recognised that the PRA, FCA and the Society of Lloyd’s would enter into new co-operation arrangements to ensure that the new regulators’ interfaces with Lloyd’s are suitably clear. The PRA-FCA Memorandum of Understanding will cover issues relating to the supervision of Lloyd’s.

- Lloyd’s will continue to build relationships with relevant senior personnel in the new regulatory authorities.

- **UK Bribery Act** - The Corporation issued guidance to the market (Market Bulletin Y4492) on The Bribery Act which came into effect on 1 July 2011, having previously reviewed and reported on managing agents’ preparedness for compliance with the Act. Lloyd’s also issued a financial crime endorsement (including anti-bribery) to attach to all model binding authority wordings, amended the Delegated Underwriting Code of Practice, and developed on-line anti-financial crime training for coverholders. Training for all Corporation staff on compliance with the Bribery Act has been completed.

**OTHER REGULATORY DEVELOPMENTS**

Systemic risk regulation

- The risk remains that governments and other institutions will not distinguish appropriately between insurance and banking when developing and applying further remedial measures in response to the global financial crisis. Lloyd’s continued to play a very active role, both directly and via international insurer organisations e.g. The Geneva Association, in emphasising the key differences between the two industries and in demonstrating that core insurance and reinsurance activities do not represent a systemic risk to the global financial system.
Lloyd’s contributed, primarily via The Geneva Association, to the Financial Stability Board/International Association of Insurance Supervisors debate on the development of a methodology to identify systemically important insurers, stressing that core insurance activities do not threaten global financial stability. There is evidence that this view is increasingly being accepted by supervisors.

**Internationally Active Insurance Groups**

- Lloyd’s continued to monitor and respond to an initiative by the International Association of Insurance Supervisors (IAIS) to establish a Common Framework for Internationally Active Insurance Groups (ComFrame). A consultation paper on ComFrame proposes to address the gaps in supervision and proposes a College of Supervisors to intensify the supervision and requirements for such groups. Lloyd’s responded to the paper, arguing that the regime should not be extended to cover solo entities trading internationally on a cross border and branch basis such as Lloyd’s.

- **International Sanctions** - The Corporation has consulted with the market and HM Treasury on guidance setting out due diligence requirements to ensure compliance with international sanctions. The guidance will be finalised and issued in Q1 2012. The Corporation has also continued to support the market by handling their sanctions enquiries and by liaising with the EU, HM Government and OFAC (US Treasury) to ensure developing sanctions regimes (e.g. Iran, Syria and the Export Control Order) remain workable and proportionate in their scope for the insurance industry.

**North America**

- **US Regulatory Reform: Federal Insurance Office** - The Wall Street Reform and Consumer Protection Act 2010 (“the Dodd Frank Act”) established a Federal Insurance Office to formulate national insurance policy in the US and to represent the US on international insurance issues. Lloyd’s General Counsel, Sean McGovern, has been appointed to the first Federal Advisory Committee on Insurance, which will advise the FIO on its policymaking. Lloyd’s has also provided extensive comments to the FIO in readiness for the publication of its first report in January 2012.

- **US Regulatory Reform: Surplus Lines** - New measures were introduced by the Dodd Frank Act to provide more uniformity and consistency in existing state surplus lines laws. Lloyd’s is closely monitoring the significant state legislative activity to implement these reforms and has provided initial guidance to the market on both the compliance and the business placement process changes that will be required. A market working group has been formed to guide these changes and there is close liaison with the IUA and LIIBA to ensure that the London market is aligned.

- **US Regulatory Reform: Reinsurance** – After a long lobbying campaign by Lloyd’s and other reinsurers against the requirement for foreign reinsurers to post 100% collateral in the US, New York and Florida have lowered their collateral requirements for well-rated non-US reinsurers and Lloyd’s has secured approval to post reduced collateral (currently 20% of gross liabilities) for relevant contracts in these states. Separately, the National Association of Insurance Commissioners has issued a new model reinsurance law which provides for some relief in collateral requirements, but in Lloyd’s view does not provide a level playing field nor basis for equivalence between the US and the EU. Lloyd’s will continue to lobby bodies in the EU and US to secure more fundamental reform.
**US: Medicare** - US legislation passed in 2009 requires insurers to reimburse the US federal government for the cost of providing free Medicare medical treatment to US citizens covered by insurance, and to meet complex reporting requirements. The Lloyd’s market began reporting live claims data to the responsible US federal authority, the Centres for Medicare and Medicaid Services on 15 April 2011. A single market solution was developed with the support of the LMA claims group, which included the appointment of Gould & Lamb as Lloyd’s Vendor. Ongoing monitoring of the market’s Medicare claims exposure, handling and reporting will continue in 2012 and the performance of the Vendor will also be kept under review.

**US: Affordable Care Act (ACA)** - Lloyd’s has provided comprehensive advice to the market on the implementation of the ACA and its likely implications for the market’s personal accident and medical expenses business.

**Canada** - Lloyd’s has introduced an Attorney in Fact signing process for Canadian open market business and reinsurance for all risks renewing for 1 January 2012. The process has required significant business process change for managing agents and intermediaries alike and ensures that this business is considered “insure a risk in Canada” under the provisions of the Canadian Insurance Companies Act. Constructive conversations continue with the Canadian Federal Regulator, OSFI, on changes to Lloyd’s Canadian prudential assets, audit and GAAP reporting requirements.

**Europe**

**EU: Financial Transaction Tax** – The European Commission has proposed a financial transaction tax to be levied on certain financial transactions carried out by EU institutions, including insurance firms. Lloyd’s responded to a House of Lords call for evidence on the issue, setting out why the proposal would be damaging to the UK financial services and insurance sectors.

**EU: Insurance Mediation Directive (IMD)** - Lloyd’s, in conjunction with the LMA, responded to consultation by the European Commission on revisions to the IMD. The European Commission is expected to release legislative proposals amending the IMD by the end of February 2012.

**Asia Pacific**

**Australia: Flood insurance** - On 4 March 2011 the Australian Treasury announced an independent review into disaster insurance in the country, following the widespread floods in January 2011. Lloyd’s submitted comments in July, emphasising the need for government intervention in private insurance markets to be kept to a minimum and warning that creating insurance programmes or pools can both limit the effectiveness of the insurance industry and be hugely costly for governments. The report was released on 14 November 2011 and has since been supplemented by a further public consultation on measures that are less radical than initially proposed but will introduce a standard definition of “flood” and mandate the offering of flood cover to homeowners and small businesses.

**Hong Kong** - The Hong Kong Office of the Commissioner of Insurance (OCI) has mandated that Lloyd’s amend its reporting basis to allow comparability with local insurers - in effect, presenting financial statements on a Hong Kong basis. Lloyd’s has developed a new process to enable data collection from local coverholders/service companies on a quarterly and annual basis to meet the new reporting requirements by 1 January 2012.
• **New Zealand** – The Insurance (Prudential Supervision) Act 2010 introduced a new legislative framework for the supervision of the insurance sector, to be administered by a new regulator in the form of the Reserve Bank of New Zealand (RBNZ). Lloyd’s has been in contact with the RBNZ throughout 2011 with a view to obtaining a licence under the Act. Discussions have been very positive and Lloyd’s expects to be granted a provisional licence to continue to conduct business in New Zealand in early 2012, to be followed by a full and permanent licence later in the year under realistic and achievable compliance arrangements.

• **Singapore** – The Monetary Authority of Singapore is keen to see much more of Lloyd’s Singapore business that has hitherto come into London being underwritten instead in Lloyd’s Asia. This presents a potential threat to Lloyd’s longstanding cross-border trading rights from Singapore (the ‘Lloyd’s Scheme’) and we have therefore lobbied the regulator extensively throughout 2011 for the maintenance of the status quo, highlighting the importance – not least to Lloyd’s Singapore clients - of keeping the London route open.

*Latin America*

• **Argentina** – In February, the Argentine regulator issued new draft reinsurance regulations requiring foreign reinsurers to establish a locally capitalised branch, with effect from 1 September. Lloyd’s has received confirmation that it is registered as a foreign admitted reinsurer under the new reinsurance regime. Although Lloyd’s new position as an admitted reinsurer (second tier) represents a deterioration in trading rights, Lloyd’s was able to secure permission to write certain exempt classes on a first tier basis and is not required to establish a locally capitalised branch.

*Coverholders*

• **Spain** - Following long-standing dialogue between Lloyd’s and the Spanish authorities, revised Spanish regulations came into force on 6 March 2011. The new regime makes some improvements to the regulatory framework for Lloyd’s Spanish coverholders by ensuring that they are properly regulated. However, further dialogue is needed between the Spanish regulator and its other EU counterparts to ensure that the newly regulated coverholders are able to passport freely across Europe.

• **Switzerland** – The Federal Department of Finance’s revised Insurance Contract Act proposes banning the appointment of brokers as coverholders and the payment of commissions. The proposed Bill was gazetted in October 2011 and, despite broad opposition from Lloyd’s and the rest of the industry, remains committed to both concepts. The Bill will be discussed before Parliament early in 2012.
OTHER ACTIVITIES

RATINGS UPDATE

- Lloyd's conducted annual rating review meetings with AM Best, Fitch, and Standard & Poor's. The principal focus was on the implementation of the 2011-2013 Strategic Plan and key Corporation priorities during 2011. All three agencies reaffirmed Lloyd's financial strength ratings: A (Excellent) from AM Best and A+ (Strong) from Fitch and Standard & Poor's, all with stable outlooks.

- Standard & Poor's confirmed Lloyd's Enterprise Risk Management rating of "adequate with strong risk controls".

COMMUNITY AND CHARITIES

- Corporate Social Responsibility - The Franchise Board approved a new CSR strategy for the Corporation. The strategy will be launched during 2012.

- Financial Literacy - Lloyd's Community Programme continued to roll out financial literacy materials for primary school pupils in Tower Hamlets. The financial literacy sessions on insurance are delivered in schools and at Lloyd's by Lloyd's Community Programme volunteers and are supported by Tower Hamlets Education Business Partnership.

- Lord Mayor's Dragon award - Lloyd's Community Programme was celebrated at the Lord Mayor's Dragon Awards at the Mansion House on 20 September as one of the shortlisted companies for this prestigious award which recognises City companies with long-standing and extensive community involvement programmes.

- Lloyd's University Bursary - Lloyd's launched a University Bursary programme. The programme encourages students from the inner city to experience university life outside London. It provides financial assistance to students from low income families in east London who want to attend a leading university outside the capital.

- Aim 2 Attain Programme - Lloyd's Community Programme's new programme to encourage young people in Tower Hamlets to aspire to higher education and develop the skills for independent learning commenced during October working with 30 talented students from Cambridge Heath Sixth Form.

- Hackney Schools Mentoring Programme - The 2011/12 Mentoring Programme for students in Hackney began in October. Over 40 mentors from nine companies (Antares, Aon, BMS, Hampden, Hiscox, Jubilee, Lloyd's, Mazars, Miller) are participating in the programme this year.

- Lloyd's Charities Trust 'Brighter Futures for Londoners' - Lloyd's Charities Trust approved funding for the second year (of a three year partnership) for charity partners Bromley by Bow Centre and the Prince's Trust. In the first year more than 250 unemployed, disadvantaged, Londoners have benefitted from training, job coaching and intensive mentoring through the 'Brighter Futures' programme.

- Lloyd's Patriotic Fund – Lloyd's Patriotic Fund made a major donation to BLESMA – the limbless veterans' charity - to fund a 2012 programme of sporting rehabilitation activities for wounded serving and ex-servicemen. Volunteers from the Lloyd's market will assist with activities such as cycling, skiing and diving.

LLOYD’S RATINGS REMAIN STRONG

DEVELOPING SKILLS IN THE LOCAL COMMUNITY

Lloyd’s ratings remain strong
EMPLOYER OF CHOICE

- **Sunday Times Top 100 Best Companies to Work For** - Lloyd’s has been recognised in The Sunday Times Top 100 Best Companies to Work for in the UK, receiving a ranking of 91. A total of 1,165 companies entered in 2011. This is the first year Lloyd’s entered for the award.

- **Developing Leaders at Lloyd’s** - there continues to be a strong interest from across the market and the Corporation in the London Business School Leadership Development Programme. 24 candidates have been selected to participate in cohort 7 during 2012.

OTHER EVENTS

- **New York City Dinner** – On 28 July Lloyd’s held its annual New York City Dinner. The dinner was hosted by the Chairman and the guest speaker was Brian Duperreault, President and CEO of Marsh.

- **London City Dinner** – On 6 September Lloyd's held its annual London City Dinner. The Chancellor of the Exchequer, George Osborne, was guest speaker. The event was attended by almost 300 people.

- **Science of Risk Prize** - The second annual Lloyd’s Science of Risk prize conference took place on 24 November. Five leading research scientists were awarded a prize and the best overall paper was awarded to Klaus Wunderlich for his paper on behavioural risk.

ONE LIME STREET

- **25 Year Anniversary** – On 18 November, Lloyd’s commemorated the 25th Anniversary of the opening of the One Lime Street building. Events included a seminar by the original architects of the building, Lord Rogers and Mr Mike Davies attended by over 150 people.

- **Building Improvements** - A project is underway to partially re-glaze the One Lime Street building. Work will complete during 2012.

- **Building Listing** - Discussions with English Heritage over the terms of an expected Grade 1 listing progressed well and the building was formally listed on 19 December. It is expected that a management agreement will be put in place that enables the building to continue to operate effectively from day to day without having to request listed buildings consent for minor, business as usual, changes.

- **Open house** - Record numbers visited Lloyd’s for Open House London on Saturday 17 September. 6470 people toured the building as part of the capital’s biggest architectural celebration.

STRATEGY

- **Strategic Plan** – In December, Lloyd’s published its latest Three-Year Plan covering 2012-2014 (including specific Corporation activities for 2012). The Plan is available to download at www.lloyds.com/strategy.

- **2025 Vision for Lloyd’s** - Work commenced on a longer-term strategic vision for Lloyd’s looking out to 2025. Input is being sought from key market stakeholders.
Further information on the above initiatives can be found by visiting: www.lloyds.com. Alternatively, please contact:

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