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Strategic Report

The purpose of insurance is to provide individuals and organisations with the confidence to undertake endeavours they might otherwise avoid. Our vision for Lloyd's is to be the market for specialist insurance and reinsurance, where the world takes its risk.

Over the coming year we will focus on using risk-based market oversight to help achieve sustainable growth, on modernising operations and services, and on exploring new ways in which we can use technology to improve access to Lloyd's.

Lloyd's Purpose and Vision

Purpose and vision

Throughout history, human progress has gone hand in hand with risk taking. From the smallest idea to the largest expedition, risk is an ever-present factor. Properly quantified and managed, risk should not be a barrier to success.

The role of insurance is to transfer risk, providing individuals and organisations with the confidence to undertake endeavours that might otherwise be avoided. The Lloyd's market achieves this by offering innovative, bespoke insurance products for our customers that allow them to grow their business in the knowledge that they are protected from the uncertainties of the world. In this way, **Lloyd's enables human progress.**

We have a vision for Lloyd's to be the market for specialist insurance and reinsurance, where the world takes its risk.

The Lloyd's market enables its policyholders, whether individuals, companies or governments, to take risks with the confidence that their insurance policies have sound financial backing, and that their claims will be dealt with fairly and quickly.

Lloyd's market is supported by the Corporation whose purpose is to create and maintain a competitive, innovative and secure market. Its dedicated people serve to protect and promote the interests of the market and its policyholders, provide valued services to market participants and advance the interests of capital providers over the long term.

Lloyd's business model

With our trading rights and distribution network of international hubs, brokers, coverholders and service companies, the market is able to underwrite risks from around the world through Lloyd's syndicates. Members (the capital providers) put up their capital and share in the risks and rewards of the syndicates they support. All insurance policies are underpinned by Lloyd's central assets including the Central Fund, which is designed to ensure that the market remains well capitalised even under extreme events and helps Lloyd's to maintain its reputation for paying all valid claims.

A Lloyd's syndicate is formed by one or more members joining together to provide capital and accept insurance risks. Most syndicates write a range of business lines across multiple areas of expertise. Each syndicate sets its own appetite for risk, develops a business plan, arranges its reinsurance protection and manages its exposures and claims.

A managing agent is a company set up to run one or more syndicates on behalf of the members. They have responsibility for employing underwriters, overseeing their underwriting and managing the infrastructure and day to day operations.

Lloyd's is a broker market in which strong business relationships, backed by deep expertise, play a crucial part. Brokers facilitate the risk transfer process between policyholders and underwriters. Much of this business involves face to face negotiation.

Syndicates can also authorise third parties, known as coverholders to underwrite business on their behalf locally around the world. Service companies are wholly owned by a managing agent or a related group company and are authorised to enter into contracts of insurance for members of the associated syndicate.

Lloyd's business model

Business flow

Policyholders – transferring risk
- Global commercial organisations, such as FTSE 250 and Fortune 500 companies
- Small and medium-sized enterprises
- Individuals
- Other insurance groups

Distribution channels
- 287 Brokers: distributing business
- 381 Service Company locations
- 3,797 Coverholder locations: offering local access to Lloyd's

The market

56 Managing Agents – managing syndicates

83 Syndicates – writing insurance and reinsurance directly

12 Special Purpose Arrangements set up solely to write a quota share of another syndicate

Gross written premiums:	
2017	£34bn
2016	£30bn
2015	£27bn

Capital and reserves:	
2017	£28bn
2016	£29bn
2015	£25bn

Capital flow

Members (the capital providers)
- Trade capital: insurance companies from around the world
- Institutional capital: such as pension funds and private equity
- Private capital (via members' agents): such as small companies and individuals

The Corporation – supporting the market

For further information on the Lloyd's market visit: lloyds.com/thelloydsmarket

Note: All figures are as at 31 December 2017. Capital and reserves of £27.6bn was split among Members' assets held severally of £24.6bn, mutual assets of £2.2bn and subordinated debt and securities of £0.8bn.

Value generation

Lloyd's strategy is to maintain and enhance the benefits of placing business and operating at Lloyd's, thereby ensuring Lloyd's policyholders are provided with valued products and services. As such these benefits are also our strategic priorities. They are summarised below.

Customers and Distribution – Lloyd's takes its duty to its policyholders very seriously. We connect to them in more than 200 territories through our distribution network and international hubs, supported by a global network of representatives with extensive local knowledge.

Operations and Services – Centrally provided services means the Lloyd's market benefits from economies of scale, while a single infrastructure supports its efficient operation. For example, the Corporation provides central cash settlement to market participants and advises of regulatory changes that may have an impact on underwriting decisions.

Capital – Lloyd's capital framework, under which insurance commitments are underpinned by a Central Fund, is efficient and flexible. It enables a single market financial strength rating for all policies issued from Lloyd's – from Standard & Poor's, Fitch Ratings and A.M. Best.

Brand – Lloyd's has a globally recognisable brand and is proud of its reputation for paying all valid claims in a timely and efficient manner.

Talent – The Lloyd's market is a recognised centre of specialist underwriting, claims and analytics expertise. This expertise supports a wide range of insurance and reinsurance products, often developed to meet complex and challenging customer needs.

Market Oversight – The Corporation monitors individual managing agents and syndicates, and aggregate market exposures, to improve performance at Lloyd's and to help ensure all valid claims will be paid. We do this through a proportionate and robust market oversight regime consistent with an entrepreneurial and innovative culture.

Benefits to society

Lloyd's is part of the broader London insurance market, which employs more than 50,000 people and represents over a quarter of the City of London's gross domestic product.

Lloyd's also plays its part globally in supporting the communities in which it operates and in taking a lead on wider social and environmental issues. For example, Lloyd's continues to be an active member of the ClimateWise initiative, a collaborative endeavour by insurers to drive action on climate change.

The challenges facing the Lloyd's market

Each year the Corporation assesses how to refine Lloyd's strategy given the external environment and current market conditions – what can be done centrally for the benefit of the market as a whole. There are a number of challenges to which we must respond in the short term to ensure the long term profitability of the Lloyd's market:

- Lloyd's market share has remained steady in recent years, but emerging market premium growth has been slower than anticipated due to challenging market conditions;
- Market oversight is often viewed as overly burdensome and not sufficiently supportive of profitable business opportunities;
- The Lloyd's market's expense ratio is higher than that of its competitors; and
- Modernisation and use of technology and data are coming late.

Our response

In the following sections we have outlined our plans for meeting these challenges, together with our annual key performance indicators (KPIs) and medium term targets, to further enhance the value we generate. In brief, our focus for 2018 will be on:

- Making market oversight more risk based;
- Finishing delivery of phase 1 of the London Market Target Operating Model and encouraging adoption of services by the market that yield business process efficiencies;
- Making our new EU subsidiary in Brussels operational by the end of 2018; and
- Launching pilot initiatives to make it cheaper and easier for customers to reach Lloyd's, and developing ways to encourage innovation across the Lloyd's market.

External Environment and Risk

We cannot ignore the challenges the market is facing – we must embrace change.

Hilary Weaver
Chief Risk Officer

Our strategy responds to the challenges posed by macroeconomic and industry conditions. Our response is outlined in the following sections, looking at each of our strategic priorities in turn.

The world economy in 2017

Demand for insurance tends to follow global gross domestic product growth trends, and the global economy continued to strengthen in 2017 with emerging markets leading the way. Developed economies also showed signs of improvement, with growth estimates for both the US and the Euro area rising to 2.3%, while the growth estimate for the UK is 1.7%. This trend has positive implications for insurance demand.

World inflationary pressure remained relatively stable as oil price rises in 2016 were not repeated through most of 2017. The UK bucked this trend as the pound depreciated following the 2016 Brexit vote, resulting in higher consumer prices. World interest rates remained low, perpetuating the low investment returns we have come to expect and the drive to decrease operating costs.

An uncertain world

We are in an era of heightened geopolitical risk and uncertainty, with growing trends towards re-examining the benefits of globalisation. This has resulted in democratic shocks, military tensions and social unrest. These trends may increase the likelihood of conflicts and civil disorder and there are signs of increasing awareness and demand for political risk coverage.

Following the financial crisis, many voters in Europe and the US blamed free trade and the global economy for falling living standards, leading to more protectionist policies. Some aspects of US tax reform may be viewed as an example of this, with the US government introducing policies to protect home industries from foreign competition.

Protectionism will ultimately slow global growth, impacting all countries, although developing economies will be the most vulnerable. Lloyd's is not immune from this and the recent US tax reform could make reinsuring US risks more expensive for some carriers.

The UK's Brexit vote left many businesses with a decision to make about how they will do business outside the single market after March 2019. At Lloyd's we took the decision to act early and transparently to ensure that our market had certainty, announcing our intention to establish our Lloyd's Brussels subsidiary. Since then we have been actively negotiating the practicalities that this entails for a market of independent businesses.

Environment

Industrialisation combined with a growing population has resulted in rising levels of CO_2 and other greenhouse gas emissions that cause global warming. Global risks are changing and the potential consequences are severe. Increased frequency and severity of major weather events mean that climate change has increased the risks and costs of insurance.

Climate change leads to increases in precipitation variability, giving rise to more extreme cycles of flooding and drought in semi-arid and arid regions. Many of the world's large cities are located on coasts, and sea level rises threaten a significant proportion of the world's population. Water scarcity and related food insecurity are already a major global geopolitical risk aggravated by climate change, and could lead to further instability.

In the second half of 2017 hurricanes Harvey, Irma and Maria, along with other catastrophes, caused tragic destruction and loss of life. Lloyd's is proud to have already paid insured losses in the region of $3.5bn and expects to pay more to help alleviate some of this devastation. As a result, 2017 was above the Lloyd's long term average for claims from major losses. While this has affected profitability, the market is well prepared for such losses and there is no indication that they have affected our solvency. As at year end the market was capitalised at 144% of its solvency capital requirement, which was well within risk appetite.

Technology

Consumer behaviours and the ways in which businesses operate are changing rapidly. In other industries businesses are delivering their products and services through online platforms. We need to keep pace with these changes. While the most complex risks will continue to benefit from face-to-face negotiation, simpler risks can already be written digitally.

Regulation

The regulatory landscape continues to evolve rapidly as a result of national, regional and global debates. The UK regulatory authorities propose the application of the Senior Managers and Certification Regime to insurance firms by the end of this year. EU legislation, in the forms of the General Data Protection Regulation and the Insurance Distribution Directive, are also both due to enter into force in 2018, and will necessitate significant operational changes. The EU's 2018 review of the Solvency II regime, in which the industry has been very active during the last two years, will likely result in European Commission proposals to reform aspects of the regime, including reforms to component parts of the standard formula for the calculation of the Solvency Capital Requirement.

At global level, the International Association of Insurance Supervisors continues to take forward its work on a Common Framework for Internationally Active Groups, on a global insurance capital standard and on how insurance risks to the global financial system should be identified and countered. Meantime, individual countries continue to effect changes to their own prudential and conduct regimes. Lloyd's follows all relevant debates that can materially impact the Lloyd's market and contributes its views.

2017 saw the introduction in the UK of a new regulatory and tax framework for insurance linked securities (ILS). This includes the ability to establish protected cell company structures, enabling a streamlined approach for the arrangement of multiple ILS deals, allowing the UK insurance industry to compete more effectively with other jurisdictions that offer this capability. ILS is already an established form of risk transfer. We welcome the Government's efforts to make the UK more competitive in issuing ILS and look forward to helping it develop at Lloyd's.

Outlook for 2018

The new UK ILS regulation will, if anything, increase the already abundant supply of insurance capital. This is likely to mean that prices remain low for many risks, so we need to remain vigilant to ensure that the prices charged for them are proportionate to the risk.

We expect this price pressure to result in a continued effort to cut costs. The current environment creates an impetus to evolve and do things differently that is not always there during profitable periods.

We have already begun implementing changes to help the market grow more efficiently through the London Market Target Operating Model, which should see a reduction in the cost of writing business at Lloyd's. That said there are challenges – and the risk for us in 2018 is in adoption of the new technology by the market.

Intangible assets have never been more highly valued. Reputation and brand can result in huge profit margins, but in an age of instant communication they can very quickly be damaged. We expect to see more products seeking to protect these risks. At Lloyd's our range of cyber insurance products is one example of cover for such risks as reputational harm arising from a cyber incident.

The way firms conduct their business, and ultimately how they protect their policyholders, will come under increased scrutiny as customer and social expectations evolve. Lloyd's sets standards for conduct and monitors the market to ensure policyholders are treated fairly at all times. This will need to be a continued focus.

The prevailing conditions give rise to a number of risks and challenges that shape our plans, described later in this report, to deliver our strategy. The most critical risks are highlighted for focus through Lloyd's risk framework. A summary of these risks is provided with an overview of the mitigating actions currently in place.

Lloyd's Key Risks and Risk Appetite

Lloyd's key risks

Each year the Corporation identifies the key risks which could have a significant impact on Lloyd's business, and the mitigating actions required to reduce or eliminate the risk.

Key risk and impact on Lloyd's	Mitigation
Market conditions Lloyd's businesses suffer losses or erode their capital base due to inappropriate underwriting in challenging market conditions or failure in management controls.	— Syndicate business plan and capital approval processes enable consistent and robust challenge to premium growth and ensure loss ratios are realistic given the market underwriting conditions and managing agents' capabilities. — Close monitoring of syndicates' performance against approved business plans to ensure they do not materially deviate from approved plans or, where they do, that the changes are acceptable. — Market oversight framework detailing annual review activity includes reserve adequacy and performance reviews of selected lines of business. — Continue to closely monitor and respond to the market risk appetite measures.
Catastrophe risk Lloyd's businesses suffer losses or erode their capital base through material aggregations of risks or insufficient monitoring processes.	— Continue to closely monitor and respond to the market risk appetite measures. — Managing agents constantly monitor exposures around the world in accordance with Lloyd's minimum standards. — Monitoring and identification of emerging risks. — Market oversight framework detailing annual review activity includes exposure management processes and reinsurance arrangements.
Brexit A loss of passporting rights to the European Single Market could lead to a reduction in business written or business written at Lloyd's from the single market will be more expensive.	— Continue to lobby government and actively participate with other insurance and City organisations. — Operationalise the Brussels subsidiary to ensure customers based in the European Union are able to access the Lloyd's market as seamlessly as possible. — Regular communications issued to the market and wider industry.
Supervision of the Lloyd's market Lloyd's businesses fail to comply with relevant laws and regulations, suffer losses or erode their capital base due to a failure in the Corporation's oversight of the market.	— Market oversight framework with risk based categorisation of agents and account management structure. — Minimum standards set and monitored across the market for prudential and conduct risks.
Major change programmes Failure to deliver the desired process, technology and organisational change or maintain operational resilience at a Corporation and market level could mean that placing business in the Lloyd's market is inefficient, costly and no longer attractive.	— Strong central governance to manage delivery risks associated with change programmes in the Corporation and for the market. — Detailed project risk assessments. — Contingency plans for the failure of key processes or outsource providers to ensure a recovery of services or workaround processes at the Corporation and in the market.
Cyber risk Lloyd's suffers a systemic loss as a result of a malicious electronic attack or through exposure to both known and silent aggregations of risk via the policies written by its businesses.	— Cyber Essentials accreditation obtained by the Corporation and managing agents. — Ongoing participation with industry bodies to maintain awareness of changing cyber risks and thought leadership reports on cyber scenarios. — Monitoring of risks against Lloyd's cyber risk appetite. — Market oversight framework detailing annual review activity to include exposure/ aggregation and reserve/capital adequacy.

Key risk and impact on Lloyd's	Mitigation
Significant regulatory and tax changes and compliance Lloyd's sees its competitive position weaken, suffers regulatory penalties or disadvantageous capital position in achieving new territories or maintaining existing territories.	— Continue to lobby to influence the evolution of UK, European and global regulatory and tax frameworks to maintain the competitive position of the market. — Ongoing assurance programme for the conduct risk minimum standard. — Monitoring Solvency II compliance at Lloyd's, with programme for delivering major model change. — Monitoring and preparing for global data regulatory requirements.
Threats to the business model Lloyd's sees its long term profitability suffer by failing to respond to emerging issues such as the cost of distribution and the application of rapidly evolving technology to insurance.	— Lloyd's strategy responds to business model threats. — Market modernisation programme. — Investment in innovation.

Risk appetite

At Lloyd's, the Board manages exposure to risk by setting and monitoring a risk appetite framework. In 2017, the Board enhanced this framework to simplify and focus on the key risks to the strategy. The framework starts with the Corporation's overall purpose: to create and maintain a competitive, innovative and secure market.

In order to deliver on this purpose, there are considered to be three risk objectives which need to be continuously met:

- Sustainability – Lloyd's strategy must deliver a sustainable business model over the medium term;
- Solvency – Management of financial risks ensures that Lloyd's is able to withstand an extreme event and trade forward; and
- Operational – The risk of operational and other events is managed to ensure Lloyd's maintains its strong reputation.

These risk objectives reflect the Board's view of the acceptable risk faced by Lloyd's and provide the three pillars of the risk appetite framework. Within each pillar, a small number of metrics define the amount of risk that Lloyd's is willing to take. These metrics represent the key elements that could result in the risk objectives not being achieved for that pillar. The metrics are monitored on an ongoing basis and reported to the Board each quarter alongside any 'get to green' actions if a threshold has been breached.

Corporation purpose:	Under our trusted name, the Corporation acts to create and maintain a competitive, innovative and secure market. Our dedicated people serve to protect and promote the interests of the market and its policyholders, provide valued services to market participants and advance the interests of capital providers over the long term.		
	Pillar: Sustainability Strategic, Group, Insurance, Credit	**Pillar: Solvency** Market, Liquidity	**Pillar: Operational** Reputation, Legal, Regulatory, Conduct
Risk appetite statements:	**Risk objective:** Lloyd's strategy must deliver a sustainable business model over the medium term **Statement:** The rolling average five year combined ratio should be less than the five year target	**Risk objective:** Management of financial risks ensures that Lloyd's is not exposed to undue concentration and is able to withstand an extreme event and trade forward **Statement:** Losses under a 1-in-200 event should not erode the Central Fund to below the Solvency Capital Requirement	**Risk objective:** Risk of operational and other events is managed to ensure Lloyd's maintains its strong reputation **Statement:** Activities from the market and at the Corporation should be managed to avoid significant reputational damage

Market Oversight

We are enabling syndicates to achieve the best returns they can for their capital providers.

Jon Hancock
Performance Management Director

Rationale and approach

The nature of Lloyd's, as a market of independent businesses backed by the Central Fund, requires the Corporation to play an active oversight role. This role covers performance management, capital setting and risk management. It is important that market oversight is valued by all stakeholders and is supportive of sustainable profitable growth and innovation, while managing the risk of impact on the Central Fund and protecting policyholders' interests. The Corporation must act in the best interests of Lloyd's as a whole, which requires us to be robust and thorough in challenging managing agents' business plans and operations to ensure they meet our expectations. The Corporation achieves this by not only monitoring individual syndicate and aggregate market performance and exposure, but also through approval and oversight of coverholders.

The principles underpinning the Corporation's oversight role are that:

- It should be risk based, with focus on poor performers and those that represent material risk to the Society;
- It is built on minimum standards to which managing agents adhere;
- It must be clear and transparent so that all stakeholders understand what we do, why we do it and the reasons behind the decisions taken; and
- It must be proportionate, neither too light touch nor unduly burdensome.

The Corporation recognises that supervision activity takes place by other parties: the firms themselves, their parent companies (in many cases), and by the Prudential Regulation Authority and the Financial Conduct Authority as well as by regulators in overseas jurisdictions. It remains a key objective for us to be as efficient as possible in our oversight and to minimise duplication with work undertaken by these parties.

2017 developments

Market conditions remained challenging in 2017. In what was one of the heaviest natural catastrophe loss years in recent times, the Lloyd's market incurred relatively high major claims, as would be expected given the portfolio written.

Higher attritional loss ratio and continued high acquisition costs reinforce our relentless focus on all component parts of the combined ratio and our drive to improve underlying performance.

Following the industry 'market turning event' dry run exercise in 2016, we issued guiding principles to the market in early 2017, setting out a framework on both crisis management and the business opportunities that would likely follow. Many syndicates took the opportunity to resubmit their 2018 business plans after the Q3 catastrophes, in the expectation that market conditions would improve.

We introduced a new account management approach for both oversight and development activity, that we anticipate will lead to more structured, cohesive and commercially intelligent outcomes for our managing agents.

Performance against 2017 KPIs

2017 KPI	Outcome
No new Central Fund dependent members other than as a result of a significant event.	Achieved
Lloyd's 2017 combined ratio was better than that of its competitor group.	Not achieved due to claims from natural disasters in Q3

Direction for 2018

We will continue with our plans to reinforce our risk based approach to market oversight, ensuring that we spend our time in the right places.

We will seek to remove duplication of effort experienced by our managing agents where this is feasible, without compromising Lloyd's security. We will also seek to make the syndicate capital and planning process more efficient and more focused on poor performers and high risk businesses.

We will continue to focus on any areas of underperformance, ensuring the underlying business performance is robust.

2018 plans

- Undertake ongoing oversight responsibilities including:
  - Carry out the 2019 Syndicate Business Planning and Capital Setting process, ensuring robust review and challenge;
  - Undertake the targeted portfolio reviews of underperforming classes and segments;
  - Deliver a range of thematic reviews to identify cross-market risks and opportunities; and
  - Monitor performance of managing agents and syndicates against plans and Lloyd's minimum standards.
- Embed the new oversight manager function into the Corporation's interactions with managing agents.
- Clarify with all stakeholders, including regulators and group companies, how we can improve effectiveness and reduce duplication of effort.
- Further enhance the syndicate capital and planning process to make it more efficient and transparent.

2018 KPIs

- No new Central Fund dependent members other than as a result of a significant event.
- No managing agent issues resulted in a financial or reputational loss to Lloyd's that should have been prevented or mitigated through the market oversight framework.

End 2020 target

- Lloyd's oversight is effective in managing risk in the market.

Strategic objective

- Enable market participants to thrive and achieve superior operating returns through a risk based performance framework.

Customers and Distribution

We will make it cheaper and easier to write business at Lloyd's, enabling profitable growth.

Vincent Vandendael
Chief Commercial Officer

Rationale and approach

The global market access priority has been renamed "Customers and Distribution" to reflect a change in focus from new licence development towards enhancing access to policyholders through a range of means. Trading rights are often an important first step in finding new customers, but we will also look to maximise those markets where we already have a customer base. Meanwhile, defending our access in key markets remains important and our plans for Brexit will continue to be a major focus in 2018. New markets may be considered where market demand exists and the timing is appropriate.

Achieving true global access to markets requires a strengthening of our distribution channels and ensuring that these are cost-effective in accessing Lloyd's customers. This involves building excellent relations with our distribution partners and ensuring that Lloyd's is the place where they want to do business. As part of this, we will explore new ways in which we can use technology to improve access to Lloyd's.

Lloyd's will build on its reputation for meeting customers' various, and sometimes unique, needs through continuous efforts to provide new innovative products. However, innovation does not stop there, and Lloyd's will seek opportunities to capitalise on advances in technology that will improve efficiencies in the market and add value for its customers.

2017 developments

Following approval in January for onshore reinsurance underwriting capability in India, we completed our registration of Lloyd's India office in time for the April renewal season.

In March, Board and Council approved the business case for a Lloyd's European subsidiary in our preferred jurisdiction. We submitted a regulatory application for Lloyd's Brussels with the National Bank of Belgium in October.

Approval was given for Lloyd's to trade from the Casablanca Finance City in Morocco, via coverholders and service companies.

Coverholder strategy work began with the focus in 2017 on the US. Also a Consortia guide was developed and shared on lloyds.com.

Performance against 2017 KPIs

2017 KPI	Outcome
Gained at least one new licence/trading right.	Achieved
Alternative market access strategy for the EU developed and implementation underway.	Achieved
Delivered key insights on the broker distribution channel.	Achieved
Delivered innovation process which covers the product life cycle.	Achieved

Direction for 2018

Completing our readiness for Brexit will be our priority in 2018.

In addition, as part of our focus on distribution, we shall begin to explore new ways in which we can use technology to improve access to Lloyd's.

2018 plans

- Obtain Lloyd's Brussels licence and establish passporting licences for all EEA member states and branch licences.
- Lloyd's Brussels to be made operational by July 2018 and supported by a marketing campaign.
- Establish the Lloyd's Innovation Lab.
- Develop the business cases and launch pilots that will offer improved access to the Lloyd's market.

2018 KPIs

- Lloyd's Brussels is ready to write business from 1 January 2019.
- Three ideas developed through the Innovation Lab, one of which is suitable to be taken forward for implementation for the benefit of the Lloyd's market.

End 2020 targets

- Lloyd's share of the combined global reinsurance and commercial insurance markets is at least 4.5%.
- Lloyd's has explored differing distribution channel options that lead to a reduction in the market's overall expense ratio.
- Lloyd's reputation for innovation is demonstrably enhanced and ranks at least as high as that of 'best in class' (re)insurance companies in the 2020 Lloyd's brand reputation index.

Strategic objective

- Maximise business opportunities by developing our licences and distribution channels and by delivering innovative solutions that meet the needs of customers.

Operations and Services

The London Market Target Operating Model is delivering what the market said it needed. Now we need further adoption.

Shirine Khoury-Haq
Chief Operating Officer

Rationale and approach

While technological change and automation is disrupting the insurance industry generally, Lloyd's also faces distinct challenges as its expense ratio remains materially higher than that of its competitors. We must adapt in order to remain relevant. Placing and processing business must be made easier and more efficient in order to make Lloyd's more attractive; both in London and in local markets.

I am proud to say that the London Market Target Operating Model (LM TOM) programme was designed and delivered by our market for our market. This involved working collaboratively with managing agents, brokers, company market carriers and the Corporation to build an industry leading infrastructure and service proposition covering London, Lloyd's international operations and delegated authority business.

Economies of scale by providing services centrally for the benefit of the Lloyd's market is a common theme, not just for the LM TOM programme but also for the services that the Corporation offers to the Lloyd's market. Enhancing and building on these services is important for delivering a successful market within which participants can not only compete for business, but also compete collectively as the world's leading (re)insurance market.

2017 developments

Implementation and adoption of key parts of the LM TOM was a major feature of 2017. Placing Platform Ltd (PPL), the electronic trading platform, was rolled out to Marine, Property and Casualty business lines during the year. A major upgrade to the platform's software went live in October.

Central Services Refresh Programme (CSRP), another key pillar of the LM TOM with the aim of eliminating London specific accounting and settlement processes, has delivered premiums and claims processing capability.

In the Delegated Authorities workstream, coverholders were generally audited just once, which resulted in 1,500 fewer audits in 2017. 96% of managing agents adopted our audit management tool. We implemented data standards for the first time ever in our market and centralised compliance gathering. All of this serves to make our market easier to do business with. In addition, work has commenced on a service (DA SATS) to eliminate unnecessary bordereaux transmission work for coverholders. This will be delivered in 2018.

We delivered a structured data capture capability to enable automated extraction of risk data for all lines of business and implemented a data glossary for coverholders. Both initiatives have realised rapid adoption across our market.

We also embraced new ideas. We carried out a blockchain pilot around the claims process to understand how this technology could be applied to the London market.

While the technical delivery has been effective, our 2018 goals are to focus on adoption, particularly for electronic trading and CSRP.

Performance against 2017 KPIs

2017 KPI	Outcome
Delivered 2017 LM TOM milestones for all major workstreams.	Largely achieved, but CSRP and PPL adoption fell below targets
Corporation Operating Model implemented and actual savings in the Corporation's like for like activities of at least £10m achieved.	Achieved

Direction for 2018

Finishing the current set of LM TOM initiatives and securing further market adoption remains the key priority. Adoption of the enhanced services provided by the LM TOM is not happening fast enough. Unless the market moves together it will not reap the benefits and reduce costs. Without higher levels of adoption throughout the market we put our investment to date at risk and we are in danger of seeing administration costs rise further.

It is for this reason, and at the request of the Lloyd's managing agents, company market and brokers, that Lloyd's is proposing to mandate the use of electronic placement on a phased basis over time. That mandate is still a work in progress and the rest of the market is working with the Lloyd's Market Association and Lloyd's to ensure that it will drive the behaviours we want.

Building on the savings made in 2017, the Corporation will continue to explore ways to improve its own efficiency, while clarifying the services that it offers to the market. The Corporation will also embed the new account manager model for the way it interacts with managing agents.

2018 plans

- Work with software providers to integrate market firms into the Central Services Refresh Programme.
- Complete Placement Platform Limited roll-out.
- Work with market firms to ensure adoption of the LM TOM.
- Revise the Corporation's service offering to the market following customer feedback.

2018 KPIs

- LM TOM adoption targets in Q4 2018:
  - 30% of open market risks per managing agent bound through PPL;
  - 12 market firms on-boarded to the CSRP service;
  - 20% of binders processed through Delegated Authority Data Submission, Access and Transformation Service;
  - 97% of coverholder audits coordinated through the audit system;
  - All coverholders subject to the compliance oversight service; and
  - 15% of Market Reform Contracts and additional documents processed through the Structured Data Capture service.
- Revised Lloyd's Service Catalogue, incorporating market feedback, made available to managing agents under a suitable financial and service management framework.

End 2020 target

- LM TOM phase 1 has reduced Lloyd's market expenses by £145m cumulatively by 2020 (assessed by estimated savings based on take-up from the LM TOM blueprint business case).

Strategic objective

- Use data and technology effectively, enabling easy market access and superior service for customers.

Capital

The capital advantages of operating at Lloyd's remain a competitive differentiator and the model has been proven again in 2017.

John Parry
Chief Financial Officer

Rationale and approach

Lloyd's capital structure offers three key advantages

- Efficiency – because there is a mutual layer of capital backing all policies written at Lloyd's, less capital needs to be held by businesses themselves for a given portfolio of risks than would be the case if they wrote that portfolio outside Lloyd's. Capital held centrally is also used to support business written in other countries.
- Sufficiency – Lloyd's capital is maintained at a level that demonstrates Lloyd's ability to absorb the impact of a market-changing event. This is reflected in our financial strength ratings and our capital sufficiency supports the flow of business into the market.
- Flexibility – some funds can be posted at Lloyd's through letters of credit, meaning that companies can deploy group capital efficiently.

Lloyd's strategy is to maintain these advantages and ensure that Lloyd's continues to be attractive to all types of capital provider, including non-traditional insurance capital, providing them with excellent returns.

2017 developments

Lloyd's successfully issued £300m of subordinated debt to further strengthen its central assets. Assets available to cover Central Solvency Capital requirement (CSCR) remain in excess of our risk appetite (200% of CSCR).

An intensive piece of work to prepare our Solvency II major model change application took place during the first half of the year. The application was submitted at the end of May and approval was received from the Prudential Regulation Authority (PRA) in December.

A major multi-year project has begun to re-platform our internal model. A vendor was chosen to build the new platform and work is underway.

Approximately £3bn of additional capital was provided to restore capital resources to the level before the Q3 2017 loss events and to cover changes in capital requirements for 2018 underwriting. No syndicate has ceased trading due to the natural catastrophes and there was zero impact on the Central Fund.

All three rating agencies affirmed their rating, although both Standard & Poor's and Fitch's outlook is currently negative based on loss estimates for the Q3 catastrophes and Lloyd's sustainable operating performance. We are also looking at the quality of capital we hold and announced transitional arrangements on letters of credit that are Tier 2 capital under Solvency II.

Performance against 2017 KPIs

2017 KPI	Outcome
Lloyd's Solvency II internal model 'major model change' application approved by the PRA.	Achieved
Lloyd's financial strength ratings remained on a par with its competitor group.	Achieved

Direction for 2018

It has been two years since the introduction of Solvency II. While this is now a business as usual reality, ensuring that our Internal Model continues to accurately reflect Lloyd's risks and maintaining regulatory approval are major tasks, and will involve another major model change application in 2018. In addition, under Solvency II there is a limit on the amount of Tier 2 capital that insurers may count towards their solvency requirement and we shall be considering measures to increase the proportion of Lloyd's capital assets that are eligible for solvency.

Although the losses suffered by the market as a result of the major events during Q3 2017 had no impact on the Central Fund, we cannot be complacent. In 2018 we shall be looking at ways in which we can make the market even more secure for the protection of our customers.

2018 plans

— Determine and model options for structuring a new layer of protection for the Central Fund.

— Consider measures to increase the proportion of Lloyd's capital assets that are eligible for solvency.

— Deliver Lloyd's 2018 major model change application.

— Review long term capital deployment and balance of mutual versus several assets.

2018 KPIs

— Lloyd's Solvency II internal model 'major model change' application approved by the PRA.

— Reduce the amount of Tier 2 assets that are ineligible for meeting our solvency capital requirement.

End 2020 target

— Lloyd's insurer financial strength ratings remained competitive.

Strategic objective

— Protect customers with efficient and flexible capital, strong solvency coverage and ratings, while providing excellent returns to investors.

Lloyd's chain of security

Several assets		
First Link	Syndicate level assets £51,086m	
Second Link	Members' funds at Lloyd's £24,579m	
Mutual assets		
Third Link	Central Fund £2,043m Corporation £145m Subordinated debt/securities £793m	Callable layer £963m

Lloyd's ratings as at 31 December 2017

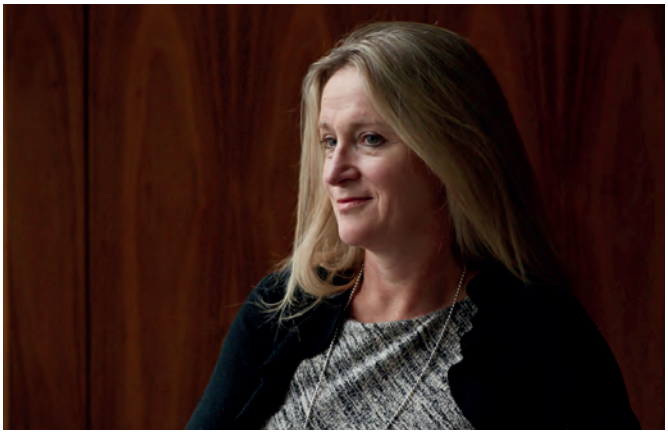
A+	Standard & Poor's: A+ (Strong)
AA-	Fitch Ratings: AA- (Very Strong)
A	A.M. Best: A (Excellent)

Responsible investment strategy

The insurance sector has an important role to play helping the world transition to a low carbon economy. That is why the Corporation has implemented a coal exclusion policy as part of its responsible investment strategy for the Central Fund. We will be divesting of, and screening out, investments in companies heavily associated with coal for those assets that we hold in segregated portfolios.

For further information on Lloyd's ratings and the chain of security visit; lloyds.com/investorrelations

Talent



The wealth of talented individuals is a key enabler of business in Lloyd's. We will continue to focus on enhancing the diversity and skills of this talent pool.

Annette Andrews
Human Resources Director

Rationale and approach

Big and complicated risks are drawn to Lloyd's, attracting the world's best insurance talent, which in turn attracts big and complicated risks – Lloyd's perpetuates this virtuous circle. This arises in part through the clustering benefits of the London insurance market. The whole market has an interest in ensuring that relevant skills, knowledge and experience are acquired and developed in order to reinforce this differentiator.

We need to attract the best talent from all backgrounds. Inclusion is good for business and remains a priority. We take an inclusive approach to attracting, developing and retaining talent for the market. The Corporation and market continue to work in partnership on a number of initiatives, including Inclusion@Lloyd's, Learning Week and Wellbeing. The objective is to widen perspectives, enhance the profile of the market and to share best practice.

2017 developments

During 2017, the Corporation has continued to build the content and usage of Lloyd's online development portal (Lloyd's University), and to make the content available to the market. This has included using it for the first time as the vehicle by which complaints handling training was successfully completed for the market online.

The fifth annual Learning Week at Lloyd's (where the Corporation hosts speakers on a range of topics for the market) took place in June and, for the second year running, we collaborated with the Lloyd's Market Association to design a comprehensive programme. Nearly 1,800 people attended sessions across London, Chatham and via Webinar.

The 2017 Dive In festival (where Lloyd's celebrates diversity in all its forms) took place in September. Events were held across the world, in 17 countries. The festival continues to grow in terms of remit and profile.

Succession plans have been put in place for all the Corporation's Senior Insurance Manager Regime roles.

Performance against 2017 KPIs

2017 KPI	Outcome
The percentage of female senior employees in the Corporation increased by 2 percentage points in 2017.	Not achieved. An increase of 1.6ppts was attained.

Direction for 2018

Focus will be placed on the following:

- Continue to grow the content and usage of the Lloyd's University, including the launch of the Lloyd's University Career Management Centre to support employees' focus on their personal development and to plan career paths;
- Development of the executive leadership population, including piloting a leadership programme;
- A refreshed future leaders programme for the market;
- Dive In festival;
- A global learning week, in conjunction with the Lloyd's Market Association; and
- Wellbeing events for the market throughout the year.

2018 plans

- Career path modelling introduced and piloted.
- Continue to support and coordinate the Inclusion@Lloyd's group.
- Launch a diversity and inclusion scorecard.

2018 KPIs

- The percentage of female senior employees in the Corporation increased by two percentage points.
- Lloyd's University usage is expanded to a further ten companies.
- Adoption by at least 25% of Inclusion@Lloyd's charter signatories of the diversity and inclusion scorecard.

End 2020 target

- The Lloyd's market is recognised as 'best-in-class' for its talent and underwriting expertise in the 2020 Lloyd's brand reputation index.

Strategic objective

- Attract talented people to a global market renowned for its professionalism, expertise and inclusion.

Gender pay gap

The Corporation reported a gender pay gap of 27.7% (mean) in its 2017 Gender Pay Gap Report. This gap represents the difference between the average pay for a man in the Corporation, compared with the average pay for a woman. The gender pay gap is different to equal pay which is men and women being paid the same for the same work or work of equal value. The Corporation does not believe it has an equal pay issue. However, we review this on an annual basis as part of our compensation review process.

The Corporation's gender pay gap is driven by two key factors:

– A higher proportion of men in senior roles; and

– A higher proportion of women who work part-time.

Lloyd's is committed to redressing the gender imbalance, and this will take a long term approach. That is why we have a well-established programme of initiatives aimed at attracting more women, and enabling them to develop and thrive at each stage of their career.

Please visit lloyds.com/genderpaygap for more information on our commitments and action towards closing the Corporation's gender pay gap.

Stonewall equality index

Each year organisations take part in the Stonewall Workplace Equality Index, looking to assess their achievements and progress on LGBT inclusion in the workplace. We are proud to announce that the Corporation scores have again increased in 2018, placing us at 199 out of 434 (up from 236 out of 439 in 2017). This demonstrates our commitment to having a diverse and inclusive culture.

2017 Corporation employee segmentation figures

UK	797
Non-UK	197

	Executive Team	Head of Function	Manager	Professional/ Technician	Administrative	Total
Female	4	10	125	229	157	525
Male	4	29	196	170	70	469
Total	**8**	**39**	**321**	**399**	**227**	**994**

Brand

Lloyd's brand is built on paying claims. To maintain the brand, we will keep paying all valid claims as quickly and efficiently as possible.

Jo Scott
Head, Brand & Communications

Rationale and approach

Lloyd's brand is globally recognised and highly valued both within the insurance industry and broader society. The Lloyd's market is renowned for working with nations, businesses and communities to help them reduce risk before disasters strike and for paying billions in claims to help them recover after catastrophes. In 2017 we paid out £18.3bn in claims, gross of reinsurance, worldwide.

A strong global brand and positive reputation make Lloyd's more attractive to policyholders and brokers, attracting new business into the market, and make Lloyd's more appealing for investors and the best talent.

In today's competitive global market it is incumbent upon the Corporation to seek opportunities to promote and protect the brand for the benefit of the market.

2017 developments

In May, the Corporation updated its brand guidelines for use by Corporation employees and market firms including underwriters, service companies, brokers, coverholders and Lloyd's agencies around the world. This has ensured a more consistent brand experience for all stakeholders.

The Corporation's innovation team published a number of emerging risk reports to help the market better understand the implications of new risks and to drive Lloyd's reputation for thought leadership.

The marketing and communications team published a cyber white paper, 'Counting the Cost', that gained widespread media coverage and made a compelling case for insurance to be part of businesses' cyber risk mitigation strategies.

The claims campaign was launched. This campaign provided marketing materials for brokers and information for policyholders on the Lloyd's market claims operation, using case studies to bring the process to life and making the case for the social value of insurance.

Lloyds.com was overhauled including an improved navigational structure that makes information on our global network more visible.

The Corporation was heavily involved in 'London Makes it Possible', the market-wide campaign to promote London as the leading global hub for insurance.

Performance against 2017 KPIs

2017 KPI	Outcome
Thought leadership content downloads increased by 5% and achieved average click through rate of 6% for e-marketing.	Achieved
Number of international visitors to lloyds.com and other campaign related sites increased by 10%.	Not achieved. A 3% increase over 2016 was attained
Published a Responsible Business Framework for the Lloyd's market and Corporation.	Not achieved
Reduced the Corporation's total reported greenhouse gas emissions.	Achieved

Direction for 2018

We will continue to run targeted campaigns, including a further one on claims, which promote the market to policyholders and influencers in key territories. We will carry out another global brand survey to monitor the health of the Lloyd's brand.

We will publish further thought leadership in the form of emerging risk reports and an updated City Risk Index, which quantifies the risk to gross domestic product from 22 threats to more than 250 cities around the world.

We will create the Corporation's first ever responsible business strategy and report on progress against a series of responsible business targets. We will also work with the Lloyd's Market Association to create a responsible business framework for the market.

2018 plans

- Deliver a campaign to promote the market's ability to process and pay claims quickly and easily.
- Effective investigation of complaints to achieve appropriate outcomes for policyholders.
- Education of managing agents and coverholders to improve complaint handling within the market.

2018 KPIs

- For first party claimants on open market business, reduced average time taken between first notification of loss and settlement by 5%.
- The percentage of decisions on policyholder complaints upheld by the Financial Ombudsman Service over 2018 was at least 0.5ppts lower than the industry average.

End 2020 targets

- Lloyd's brand is globally admired and is attractive to all stakeholders. The Lloyd's brand reputation index will be at least equal to that of 'best-in-class' (re)insurance companies.
- Lloyd's combined ratio is better than that of its competitor group over the three year period to end 2020.

Strategic objective

- Be a marketplace that is attractive to global customers and market participants, respected for its approach to business.

Lloyd's greenhouse gas (GHG) emissions 2017

	Scope 1 (tonnes CO_2e)	Scope 2 (tonnes CO_2e)	Scope 3 (tonnes CO_2e)	Out of scopes (tonnes CO_2e)	Lloyd's total 2017 GHG emissions (tonnes CO_2e)	Lloyd's total 2016 GHG emissions (tonnes CO_2e)
UK	1,756	6,498	2,916	<1	10,170	12,392
International offices	17	703	118	–	837	1,186
Lloyd's 2017 total GHG reported emissions					**11,007**	**13,578**

Lloyd's total reported GHG emissions from our business activities in 2017 were 11,007 tonnes of CO_2e, a decrease of 19% against 2016, which were driven by reductions in electricity and air travel emissions. In the UK a 5% fall in electricity consumption, plus continued decarbonisation of the UK grid electricity reflecting in a lower conversion factor issued by Defra, saw electricity emissions fall 19% overall. Total mileage flown by Lloyd's staff fell by 59% in 2017, we continue to offset our air travel emissions by buying carbon credits for renewable energy projects through Natural Capital Partners. Scope 1 emissions rose by 11%, caused largely by increases in natural gas and fuel oil usage in the UK. We also continued to improve the accuracy of our international reporting, with 75% of employees outside the UK now included within reporting offices, up from 69% in 2016.

A more detailed statement on Lloyd's GHG emissions is available at: lloyds.com/ghgemissions