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## Other Information

Lloyd's is the world's specialist insurance and reinsurance market. Led by expert brokers and underwriters operating in more than 200 territories, the Lloyd's market develops and distributes complex and critical insurance to help underwrite human progress.

## The Lloyd's Market

The business written at Lloyd's is brought to specialist syndicates, who price and underwrite risk, via brokers and coverholders. As at 31 December 2017, the Lloyd's market consisted of 95 syndicates managed by 56 managing agents.





MSF Pritchard  
Syndicate 318  
Underwriters at Lloyd's



S A Meacock & Company Limited



## Alternative Performance Measures (APMs)

The following metrics, which are consistently used to analyse financial performance in the Lloyd's Market Results and/or in the Society Report, are considered to be Alternative Performance Measures (APMs) as defined in the European Securities and Markets Authority Guidelines (ESMA Guidelines) on Alternative Performance Measures.

Metric	Applicable part of the Annual Report	Definition	Reason for use
<b>Combined ratio</b>	Market results	Combined ratio is a measure of the profitability of an insurer's underwriting activity. It is the ratio of net operating expenses plus claims incurred net of reinsurance to earned premiums net of reinsurance.	Combined ratio is used to measure the profitability of the underwriting activity across the Lloyd's market. It also serves as a comparator of Lloyd's market underwriting profitability to its peers.
<b>Underwriting result</b>	Market results	Underwriting result is a measure of the profitability of an insurer's underwriting activity. It is earned premiums net of reinsurance less net operating expenses and claims incurred net of reinsurance.	Underwriting result is used to measure the profitability of the underwriting activity across the Lloyd's market.
<b>Accident year ratio</b>	Market results	Accident year ratio is a measure of the profitability of the underwriting activity attributable to the current financial year. It is the ratio of net operating expenses plus claims incurred net of reinsurance and prior year releases to earned premium net of reinsurance.	Accident year ratio is used to measure the profitability of the underwriting activity of the Lloyd's market attributable to the current financial year.
<b>Return on capital</b>	Market results	Return on capital is a measure of overall profitability. It is the ratio of result for the year before tax to the average of opening and closing total capital and reserves.	Return on capital ratio is used to measure the overall profitability and value creating potential of the Lloyd's market.
<b>Investment return</b>	Market results and Society Report	Investment return is a measure of performance of an insurer's investing activity. It is the ratio of total investment return to the average of opening and closing financial investments and cash at bank and in hand.	Investment return ratio is used to measure the performance of the portfolio of investments and cash balances held across the Lloyd's market.
<b>Budgeted operating expenses</b>	Society Report	Operating expenses are budgeted on an annual basis as part of a Corporation-wide exercise. These are calculated on an IFRS basis using a bottom up approach, consolidating figures across the different countries and departments within the Corporation.	The annual budget is a key part of the financial control process within the Corporation and provides an estimate of expected future cost levels.
<b>Free cash balances</b>	Society Report	Free cash represents the amounts, both at bank and on deposit, held in the UK and overseas, excluding any balances held in respect of insurance and arbitration activities.	Provides a measure of the cash resources available to the Corporation to meet operating expenses.
<b>Operating surplus</b>	Society Report	The operating surplus is calculated as income from members (including subscriptions, Central Fund contributions and the overseas levy), less any operating expenses. It excludes investment returns and related costs.	The operating surplus provides an indication of how the Society's income covers its cost base. This also provides a comparison of whether Central Fund contributions cover the cost of claims arising on the fund.

# Glossary of Terms and Useful Links

Set out below is a guide to insurance and Lloyd's-related terms. These are not precise definitions but are included to provide assistance to readers as to the general meaning of terms commonly used in the Lloyd's market. Formal definitions are set out in the Definitions Byelaw.

**Accident year ratio** A measure of the profitability of the underwriting activity attributable to the current financial year. The accident year ratio is calculated as net operating expenses and net incurred losses (paid and reserves) for claims occurring in the year as a proportion of net premiums earned during the year. It excludes movements during the calendar year on claims, expenses and premium estimates for previous years.

**Active underwriter** A person employed by a managing agent with principal authority to accept insurance and reinsurance risks on behalf of the members of a syndicate.

**Binding authority** An agreement between a Lloyd's managing agent and a coverholder under which the Lloyd's managing agent delegates its authority to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate.

**Budgeted operating expenses** Operating expenses are budgeted on an annual basis as part of a Corporation-wide exercise. These are calculated on an IFRS basis using a bottom up approach, consolidating figures across the different countries and departments within the Corporation.

**Callable layer** Central Fund assets may be supplemented by a 'callable layer' of up to 3% of members' overall premium limits in any one calendar year. These funds would be drawn from premium trust funds.

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

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

**Central SCR** The Lloyd's Central Solvency Capital Ratio is calculated to cover all of the risks facing the Society and the Central Fund at a 99.5% confidence level over a one year time horizon.

**Combined ratio** A measure of an insurer's underwriting profitability based on the ratio of net incurred claims plus net operating expenses to net earned premiums. A combined ratio of 100% is break even (before taking into account investment returns). A ratio less than 100% is an underwriting profit.

**Corporate member** A company incorporated with limited liability, a Scottish limited partnership or a limited liability partnership, admitted to membership of the Society.

**Corporation** The Corporation of Lloyd's provides the licences and other facilities that enable business to be underwritten on a worldwide basis by managing agents acting on behalf of members.

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

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

**Economic Capital Assessment** The level of capital required to meet Lloyd's financial strength, license and rating objectives.

**Financial Conduct Authority (FCA)** The FCA supervises the conduct of the UK financial services industry. Lloyd's, managing agents, members' agents and Lloyd's brokers are regulated by the FCA.

**Board** The Board established by the Council with responsibility for creating and maintaining a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised. This includes setting the Risk Management Framework and profitability targets for the market.

**Free cash balances** Free cash represents the amounts, both at bank and on deposit, held in the UK and overseas, excluding any balances held in respect of insurance and arbitration activities.

**Funds at Lloyd's (FAL)** Capital lodged and held in trust at Lloyd's as security for the policyholders and to support a member's overall underwriting business.

**Integrated Lloyd's Vehicle (ILV)** An arrangement in which a syndicate's capital is wholly provided by corporate members that are under the same ownership and control as the syndicate's managing agent.

**Investment return** Investment return is a measure of performance of an insurer's investing activity. It is the ratio of total investment return to the average financial investments and cash at bank and in hand.

**Managing agent** An underwriting agent responsible for managing a syndicate, or multiple syndicates.

**Market wide SCR** The Market Wide Solvency Capital Ratio is calculated to cover all of the risks arising on the syndicate activity, members' capital provided at Lloyd's and the Society taken together at a 99.5% confidence level over a one year time horizon.

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

**Name** A member of the Society who is an individual and who trades on an unlimited basis.

**New Central Fund** The New Central Fund constituted by and governed by the New Central Fund Byelaw (No. 23 of 1996).

## Glossary of Terms and Useful Links

**Non-technical account** Under UK GAAP the profit and loss account must be divided between the technical account and the non-technical account. Reported in the latter is all investment return, although an element will be reanalysed to the technical account, and any income and expenses that do not arise directly from the entity's underwriting activity.

**Operating surplus** The operating surplus is calculated as income from members (including subscriptions, central fund contributions and the overseas levy), less any operating expenses. It excludes investment returns and related costs.

**Premiums trust funds (PTF)** The premiums and other monies that members receive in respect of their underwriting at Lloyd's are held by their managing agents in trust for them subject to the discharge of their underwriting liabilities.

The premiums trust funds comprise a sterling fund, Lloyd's American Trust Fund, Lloyd's Dollar Trust Funds, Lloyd's Canadian Trust Fund and the Lloyd's Asia trust funds (which cover general business written through coverholders in Singapore). These premiums trust funds are available to fund overseas regulatory deposits, claims, return premiums, underwriting expenses and any profit that is payable to the member after providing for all future liabilities.

**Prior years' reserve movements** This is calculated as movements in reserves established for claims that occurred in previous accident years.

**Prudential Regulation Authority (PRA)** The PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. Lloyd's and managing agents are regulated by the PRA.

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

**Reinsurance to close (RITC)** A reinsurance agreement under which members of a syndicate for a year of account to be closed are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate.

**Reinsurance to close (RITC) syndicate** A syndicate set up solely to underwrite the Reinsurance to Close of other syndicates.

**Return on capital** Return on capital is a measure of overall profitability. It is the ratio of result for the year before tax to the average of opening and closing total capital and reserves.

**Service company** A wholly owned subsidiary of either a managing agent or of a managing agent's holding company and which is authorised to enter into contracts of insurance for members of its associated syndicate and/or associated insurance companies.

**Solvency ratio** The measure of an insurer's solvency based on the ratio by which the net assets for solvency purposes exceed the solvency requirement.

**Special Purpose Arrangement (SPA)** A syndicate set up solely to underwrite a quota share reinsurance of another syndicate's business for a year of account.

**Spread syndicate** A syndicate whose capital is provided by a number of different members, including those that have separate ownership and control, to the syndicate's managing agent.

**Spread vehicle** A corporate member underwriting on a number of different syndicates.

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

**Syndicate allocated capacity** In relation to a syndicate the aggregate of the member's syndicated premium limits of all the members for the time being of the syndicate.

**Technical account** Under UK GAAP the profit and loss account must be divided between the technical account and the non-technical account. The technical account reports the results of the underwriting activity, premiums less claims, less expenses and also includes an element of the investment return reanalysed from the non-technical account.

**Traditional syndicate** A syndicate whose members underwrite insurance business at Lloyd's for the current year of account and which is neither an SPA syndicate nor an RITC syndicate.

**Underwriting result** Underwriting result is a measure of the profitability of an insurer's underwriting activity. It is earned premiums net of reinsurance less net operating expenses and claims incurred net of reinsurance.

**Year of account** The year to which a risk is allocated and to which all premiums and claims in respect of that risk are attributed. The year of account of a risk is usually determined by the calendar year in which the risk incepts. A year of account is normally closed by reinsurance to close at the end of 36 months.

### Useful Links

To find out more information on Lloyd's, visit:

- What is Lloyd's [lloyds.com/whatislloyds](https://lloyds.com/whatislloyds)
- Lloyd's market structure [lloyds.com/thelloydsmarket](https://lloyds.com/thelloydsmarket)
- Lloyd's Corporation [lloyds.com/corporation](https://lloyds.com/corporation)
- Lloyd's capital structure and chain of security [lloyds.com/capitalstructure](https://lloyds.com/capitalstructure)
- Lloyd's market governance [lloyds.com/governance](https://lloyds.com/governance)
- Full glossary of terms [lloyds.com/glossary](https://lloyds.com/glossary)

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