

# Business Review 2018

Sharing  
risk to  
create  
a braver  
world



Lloyd's is the world's leading insurance and reinsurance marketplace. Through the collective intelligence and risk-sharing expertise of the market's underwriters and brokers, Lloyd's helps to create a braver world.

The Lloyd's market provides the leadership and insight to anticipate and understand risk, and the knowledge to develop relevant, new and innovative forms of insurance for customers globally.

It offers the efficiencies of shared resources and services in a marketplace that covers and shares risks from more than 200 territories, in any industry, at any scale.

And it promises a trusted, enduring partnership built on the confidence that Lloyd's protects what matters most: helping people, businesses and communities to recover in times of need.

Lloyd's began with a few courageous entrepreneurs in a coffee shop. Three centuries later, the Lloyd's market continues that proud tradition, sharing risk in order to protect, build resilience and inspire courage everywhere.

# Contents

- 02 A Year in Review
- 06 Key Financial Highlights 2018
- 08 Chairman's Statement
- 10 Chief Executive's Statement
- 12 Sharing Economy
- 14 Our Claims Expertise



- 16 Lloyd's Brussels
- 18 Managing Market Performance
- 20 The Mega-City is Coming
- 22 Championing Diversity and Inclusion
- 24 Closing the Insurance Gap
- 26 Pioneering Innovation
- 28 Promoting Responsible Business
- 30 Technology in Progress
- 32 The Lloyd's Market



# A Year in Review

Welcome to this review about Lloyd's in 2018. As the global insurance industry faces tough challenges in supporting a rapidly changing world, Lloyd's is continuing to evolve with a renewed purpose of "sharing risk to create a braver world."



Lloyd's was voted a Superbrand for the 12th year running in the annual study celebrating the UK's leading brands

Throughout this review, you can read about the work Lloyd's is doing to support this purpose and take in several of the year's highlights.

## A new CEO

The Council of Lloyd's appointed John Neal as Chief Executive Officer, a role he began in October 2018. John has been associated with the Lloyd's market throughout his career, first as an underwriter and later as CEO of the Ensign Managing Agency. He was most recently Group CEO of QBE, a global insurance and reinsurance business with a significant Lloyd's footprint, and more than 14,000 employees in 37 countries. On his appointment, John said: "I look forward to playing my part to ensure this unique marketplace remains at the forefront of global commercial corporate and specialty insurance and reinsurance." We publish John's annual report statement on page 10.

**£19.7bn** **2,487**

Paid out in claims

Volunteers on the Lloyd's Community Programme

**203**

Market engagement events

**100+**

Market presentations

**22**

New graduates joined Lloyd's

**11**

Emerging risk reports

**2**

New offices, Brussels and Casablanca

**1**

New innovation lab

## Establishing our base in Europe

We've opened an insurance company in Belgium to make sure our partners across the European Economic Area (EEA) can maintain access to the Lloyd's market after the UK leaves the EU. Writing business since 1 January 2019, Lloyd's Brussels also meets a growing demand for specialist insurance products as the European risk landscape evolves.

Our first Europe-wide operation, Lloyd's Brussels offers a locally staffed and regulated insurer that brings the scale, expertise, services and capacity of the Lloyd's market closer to customers in Europe. In January 2018, we were honoured that the Belgian Ambassador to the UK, Rudolf Huygelen, visited Lloyd's in London ahead of the launch, taking the opportunity to see exactly how Lloyd's operates, and to meet some of the market's specialist underwriters.



John Neal presenting at the opening of the Lloyd's Brussels office

## A Year in Review *continued*



10,000 poppies were dropped from the ceiling of the Lloyd's building to mark the centenary of the end of World War One

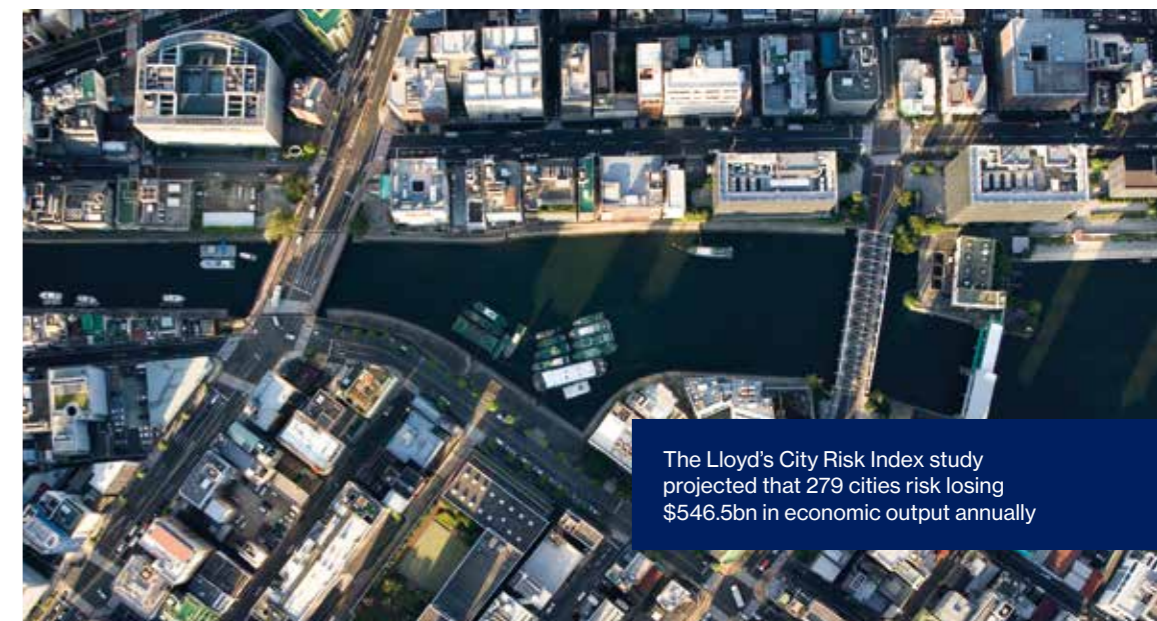
### Acceleration of market transformation

Significant progress was made to accelerate the transformation of the market during 2018. With the support of the Lloyd's Market Association (LMA), the London & International Insurance Brokers' Association (LIIBA) and the International Underwriting Association (IUA), we focused on wider adoption of electronic risk placement to make faster progress in the move from paper to digital trading. Syndicates were asked by the end of the year to write no less than 30% of their risks electronically. With tremendous support from the market, by the end of 2018, almost 40% of in-scope contracts were placed electronically.

An independent survey of managing agents applauded the introduction of the Lloyd's Market Coverholder Audit Scope (LMCAS), which aims to further improve the quality of coverholder audits and make it even easier for them to conduct delegated authority business with the market. As a result of this new approach, the total number of audits has reduced by approximately 1,500 a year, saving in the region of 20 years' worth of audit time for those involved in the process annually.

### Gender Pay Gap

In 2018, the Corporation published our gender pay gap and announced actions that we would take to further improve the gender and broader diversity balance across the Corporation at all levels. Throughout the year we made progress on these actions, which included mandating all external



The Lloyd's City Risk Index study projected that 279 cities risk losing \$546.5bn in economic output annually

recruitment long lists to include a 50/50 gender split of potential candidates; review of succession plans to ensure they are fully representative of all talent across the Corporation; strengthening the pipeline of future talent through the development of a bespoke female development programme; and conducting a full review of our family care policies and continuing our work on further improving flexible working for all employees.

### Our new innovation lab

The Lloyd's Lab initiative strengthens our position as the global centre for insurance innovation. We received over 220 applications from 36 countries and in October 2018 welcomed 10 teams who successfully pitched ideas that could help transform Lloyd's into an increasingly technology-driven market.

Now, the Lloyd's Lab is choosing its second cohort, looking worldwide for exceptional ideas across four areas of focus, chosen after consultation with the market:

- New insights to power data-driven underwriting
- Enhancing customer experience
- Enabling back-office efficiency
- Creating next-generation insurance products or services

### Superbrand status

Research demonstrates that the Lloyd's brand is a key reason why stakeholders trust and do business with Lloyd's. In 2018, Lloyd's was awarded Superbrand status for the 12th consecutive year, securing a position in the top 50 brands. The annual survey has been celebrating the UK's leading business-to-business brands since 2001 and identifies those that have

established the finest reputation in their field, and offer customers significant advantages over competitors.

### City Risk Index

In June we launched the second *Lloyd's City Risk Index*, a unique study that measures the impact of 22 different natural and man-made threats on the projected economic output of 279 major cities. It found an estimated \$546.5bn of economic output at risk annually worldwide. While no city will ever be completely risk-free, the Index helps cities around the world identify, understand and quantify their exposure to risk and take action to improve resilience and speed up recovery. Read more on page 20.

### Remembrance Day

This year, Lloyd's joined the world in marking the centenary of the end of World War One. The Lutine Bell was struck at 11.00am, and thousands of employees and guests fell silent for two minutes. In a moving tribute, thousands of poppies were dropped from high within the Lloyd's building, scattering among those gathered below.

### FIFA World Cup Campaign

Lloyd's successfully predicted the winner of the FIFA World Cup, for the second successive time. The correct prediction, that France would win, was based on an economic model assessing the insurable value of all the squads competing in the tournament. The campaign led to significant press and social media coverage and boosted Lloyd's brand awareness worldwide.

# Key Financial Highlights 2018

Our excellent capital strength reaffirms that Lloyd's remains in robust financial shape. Lloyd's entered 2019 in a secure position following 2018's result, which reflects ongoing challenging underwriting and investment market conditions

## Operating highlights

- The Lloyd's market paid out £19.7bn of gross claims in 2018 and has once again been more than able to meet these substantial commitments without any impact on our total resources, which remain strong at £28.2bn.
- Lloyd's Insurance Company, in Brussels, commenced trading to allow the market to continue to support customers on the continent of Europe in a post-Brexit world.

**(£1,001m)**

Loss before tax  
(2017: loss of £2,001m)

**£35,527m**

Gross written premium  
(2017: £33,591m)

**104.5%**

Combined ratio  
(2017: 114.0%)

**£504m**

Investment return  
(2017: £1,800m)

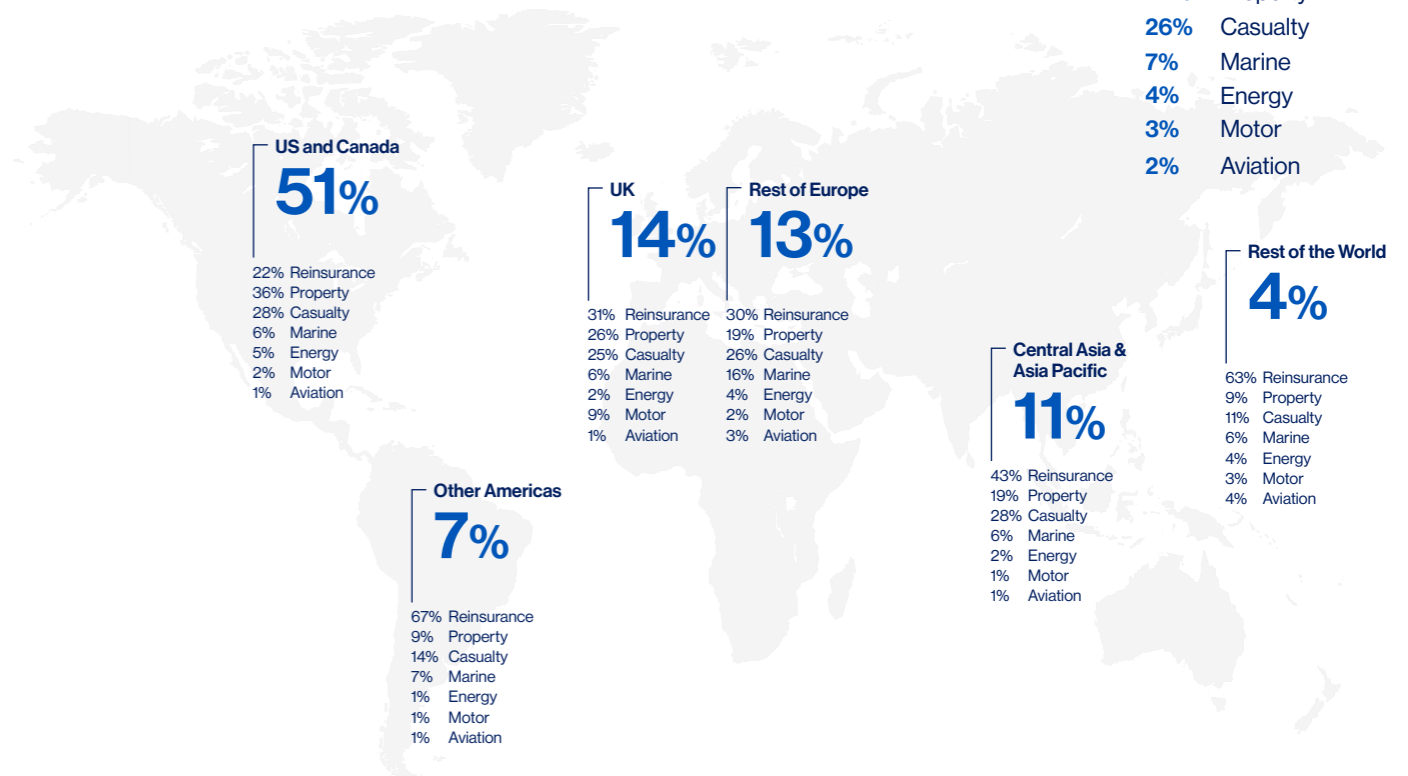
**(3.7%)**

Pre-tax return on capital  
(2017: (7.3%))

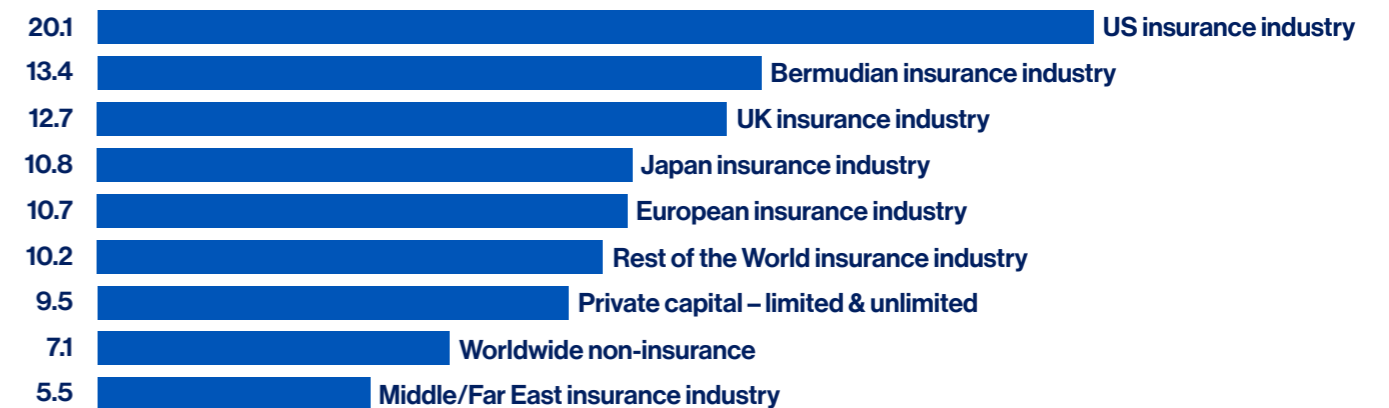
**£28,222m**

Net resources  
(2017: £27,560m)

## Lloyd's lines of business breakdown by region



## Lloyd's capital providers by source and location (%)



## Underwriting result by line of business

Reinsurance	(£456m)
Property	(£700m)
Casualty	(£183m)
Marine	(£343m)
Energy	£113m
Motor	£12m
Aviation	(£49m)
Life	£16m

## Combined ratio by line of business

Reinsurance	106.0%
Property	110.4%
Casualty	102.9%
Marine	116.0%
Energy	87.4%
Motor	98.7%
Aviation	112.0%
Life	77.8%

# Chairman's Statement

**Against a backdrop of global macro-economic instability, performance in the insurance sector continued to be affected by the tough underwriting and investment market conditions.**



These were reflected in the Lloyd's market's 2018 results, which were impacted by above-average major claims activity, and the low return and volatile investment environment. However, the result was underpinned by continued strengthening of the Lloyd's market's capital position and signs of improvement in underwriting performance.

During the year, Lloyd's put in place a series of measures to improve the market's competitiveness and relevance in the short, medium and long term.

Most importantly, this took the form of a rigorous performance management process to make sure business written in the Lloyd's market is profitable and sustainable. We continued to invest in our digital future, mandating electronic placement and piloting new ways of connecting with our clients, coverholders and brokers around the world to make Lloyd's easier to do business with. We enhanced our reputation for innovation by launching the Lloyd's Lab, which connects new products and services with capital providers. We also made Lloyd's Brexit-ready by opening our new subsidiary, Lloyd's Brussels.

I am delighted that in 2018 Lloyd's donated £1.4m to nearly 200 charitable organisations and activities, supporting more than 13,000 people. We also celebrated almost 3,000 volunteers from across the Lloyd's market giving 22,000 hours of their time to charitable causes.

Much of the work we did last year was set in motion by our former CEO Dame Inga Beale who stepped down from her role after five years at Lloyd's. During her tenure, Inga drove a series of changes aimed at modernising the market, and making it more efficient and inclusive. The market owes her a debt of gratitude for her courage and persistence and we are committed to continuing her work on inclusion in the market.

As we said goodbye to Inga, so we welcomed John Neal as our new CEO. John, who took up the post in October, brings great energy, enthusiasm and passion to the role, and I am sure Lloyd's will thrive under his leadership.

At the Board, we welcomed Mike Bracken, Nigel Hinshelwood and Fiona Luck, who were all appointed in March 2018. In February 2019, Neil Maidment was appointed to the Board, having left Council in January. At Council, we said goodbye to

Matthew Fosh, Julian James and Philip Swatman who all stepped down after completing their terms of office. All of them have provided great service to Council. They have been succeeded by Christian Noyer, who joined Council in November 2018, and Albert Benchimol, Victoria Carter and John Sununu who joined in February 2019. All our new appointments bring a wealth of expertise and experience from different sectors that will help guide Lloyd's as it evolves over the next few years.

On 18 February 2019, Lloyd's learned of the death of Sir David Rowland, former Chairman of Lloyd's, who in a time of crisis in the 1990s introduced a series of reforms to the market which restored the financial strength and reputation of Lloyd's. Sir David was awarded a Gold Medal for Services to Lloyd's in recognition of his critical contribution, and will be remembered as a wonderful man and a great leader of the Lloyd's market.

While 2018 was a challenging year, it was also one in which the insurance sector once again demonstrated its value to society, paying billions of pounds in claims globally to help nations, businesses and communities recover post disaster.

The continuing challenge for all insurers is to create new products and services to help our customers manage and mitigate the rapidly evolving risks they face, to reduce our costs to remain competitive, and to adopt new ways of working to meet our clients' changing needs and expectations. It is incumbent upon Lloyd's, as the world's leading specialist, commercial and corporate insurance and reinsurance market, to play our part in this transformation of our industry.

Lloyd's succeeds when the market works together towards a common purpose and I am very grateful to all market participants for their support of Lloyd's in 2018 and I look forward to earning their support again in 2019.

I am confident the work we began in 2018, and are continuing into 2019, positions Lloyd's for success in the years ahead.

**Bruce Carnegie-Brown**  
Chairman

# Chief Executive's Statement

**During 2018, the Lloyd's market and Corporation worked together to address performance challenges with positive and thoughtful action, following a difficult 2017 result.**



The Corporation undertook a thorough and robust evaluation of future plans to support the market in delivering sustainable, profitable growth in the years to come.

With continuing uncertainty around the UK's exit from the European Union, we tackled the challenges of a post-Brexit world by setting up Lloyd's Insurance Company in Brussels, which will allow the market to continue to support customers in the continent of Europe.

We also made significant progress in our efforts to modernise the market, collaborating with managing agents, coverholders and brokers, as well as the company market. 2018 focused on adoption for electronic risk placement, and by the end of the year almost 40% of in scope contracts were placed electronically.

During 2018 the Lloyd's market paid £19.7bn in claims, in response to a number of severe natural catastrophes that struck around the world, including Hurricanes Florence and Michael, Typhoon Jebi in Japan, as well as the Californian wildfires.

On the back of a second higher than average catastrophe claims year, Lloyd's 2018 aggregated results have shown green shoots of improvement. The pricing environment saw strengthening by 3.2% on renewal business and the beginnings of improvement in the attritional loss ratio is evident with a reduction of 1.3% on the previous year.

Lloyd's financial credentials and quality of our balance sheet go from strength to strength. Total assets grew by 9% to £118.0bn, with net resources up by 2% to £28.2bn. Central assets, the final link in Lloyd's chain of security, also increased by 8% to £3.2bn. Nevertheless, the market's aggregated 2018 results report a combined ratio of 104.5%, and a £1.0bn loss. This performance is not of the standard that we would expect of a market that has both the heritage and quality of Lloyd's and we are taking further actions. In particular, we have implemented stronger performance management measures which will remain an enduring feature of how we go about our business.

2019 business plans have been constructed on a more rigorous basis, with almost £3bn of poorly performing business removed from the market. The 2018 performance review process has now been integrated into the regular planning process, allowing continuous oversight of inadequately performing syndicates and classes of business. We expect these actions to deliver progressive performance improvement across the market in 2019 and 2020.

We have a series of activities underway aimed at improving the Corporation's systems, processes and technology, and the way we go about our day jobs, to ensure we are supporting the market in an effective and efficient way. In that regard I want to thank all of our employees for their commitment and hard work as we invest in setting ourselves up for success. In parallel, I am completing the reset of our Executive Team with the key appointments

of Burkhard Keese as Chief Financial Officer, and Dave Duclos, Non-Executive Chairman of Lloyd's Global Networks, with further announcements on the important roles of Chief Risk Officer and Chief Operations Officer to follow. I would like to take the opportunity to thank John Parry, Shirine Khoury-Haq, and Hilary Weaver for their time and contributions to Lloyd's.

As I reflect on the Corporation's gender pay gap of 19.9% (mean), I am acutely conscious that there is much more work to be done to achieve the broadest opportunities that a diverse and inclusive workplace brings. I am committed to taking decisive and thoughtful action now, and in the months ahead, to ensure that lasting, meaningful change is achieved.

Since I joined the Corporation in October last year, I have focused on what the market must do to ensure we can thrive today, tomorrow and in the insurance ecosystem of the future. Over the past five months my team and I have been listening to the views and insights from our diverse range of stakeholders to better understand what we are doing well, and where we can improve.

The top line is that everyone we have spoken to sees immense value in Lloyd's and its key role at the heart of global insurance and reinsurance for commercial, corporate and specialty business. With that support came honest feedback on where we need to focus – on performance, on people, and on the market's long-term future and the opportunities ahead of it.

To cement our future success, and to remain the top choice for commercial and specialty insurance, Lloyd's strategy and direction will be underpinned by a refreshed purpose of "sharing risk to create a braver world".

This purpose speaks to the impact and aspiration of the market and is as true today as it was in Edward Lloyd's coffee shop in 1688. Lloyd's collective expertise and insight continues to provide unparalleled choice, giving customers confidence in an uncertain world by protecting what matters most to them – helping create a braver world.

The global insurance industry faces real challenges in supporting the changing world, and this can herald a new chapter in Lloyd's history. Our market has huge untapped potential and with its leadership, innovation, and deep expertise, policyholders and clients can face the future with renewed optimism and confidence.

In 2019 and beyond, the market and Corporation will work together to understand, design and build our collective vision for the future and I am honoured and excited to be part of it.

**John Neal**  
Chief Executive Officer

**In six key world markets, more than a quarter of the population has either bought services or rented possessions from their peers via shared platforms in the past three years.**

That's approximately 500 million people sharing assets or services and close to 680 million people using them – a figure set to grow.

This 'sharing' economy creates new opportunities but also new risks, both for those who share their resources, such as accommodation and transport, and also those who pay for them. These risks are complicated by the new multi-party relationships between consumers, providers and shared platforms. To grow sustainably, these shared platforms need insurance solutions for their unique, rapidly-changing business models.

As part of our series of reports focused on understanding emerging risks, new research from Lloyd's *Sharing risk, sharing rewards* was published in April. The report systematically analysed the sharing economy, aiming to understand where insurance can support growth and opportunity in this booming sector.

The study showed that an overwhelming 97% of consumers expect protection when they use shared services and 70% would consider sharing if insurance was offered.

A second study from Lloyd's and Deloitte, *Squaring risk in the sharing age*, found China and the UAE outpacing economies like the USA and the UK in sharing economy participation.

Lloyd's Head of Innovation, Trevor Maynard, says: "Sharing economy platforms have transformed entire industries by rejecting the status quo. To effectively serve the sharing economy, insurers must follow that example and rethink traditional insurance products."

Lloyd's research highlights that insurers must continue working to adapt traditional coverages to fit the unique needs of this sector. And as insurers are still in the very early stages of developing the flexible solutions this sector needs, there are exciting opportunities for growth.



For more information visit:  
[lloyds.com/sharingeconomy](http://lloyds.com/sharingeconomy)

Sharing risk to create a braver world

# Sharing Economy





# Claims Service, Support and Security our Policyholders can Trust

The Lloyd's network operates around the world, with thousands of specialists, local partners and experts in every type of claim: giving our policyholders the confidence they have the very best support and service available, when they need it.

During 2018, the Lloyd's market paid £19.7bn in claims, gross of reinsurance. In fact, since the year 2000, we have exceeded £200bn in claims paid, helping millions of policyholders in more than 200 territories around the world to recover when things go wrong, getting their lives and businesses back on track.

## Response to catastrophes

Behind the numbers are stories about people, businesses and communities getting back on their feet. Every claim needs action, prompt decisions and expert support, in addition to any financial settlement. And every claim represents a test of our service, brand and reputation. The most visible example was in 2018 and the market response to global catastrophe events, most notably in the second half of the year. These included hurricanes Florence and Michael, the typhoons in Japan and China, and the California wildfires.

When these devastating events happen the Lloyd's market mobilises its collective response, drawing on well established plans to help policyholders recover.

**£76bn**

Paid gross claims 2013-2018

**£0.97bn\***

Lloyd's paid claims for natural disaster situations occurring in 2018

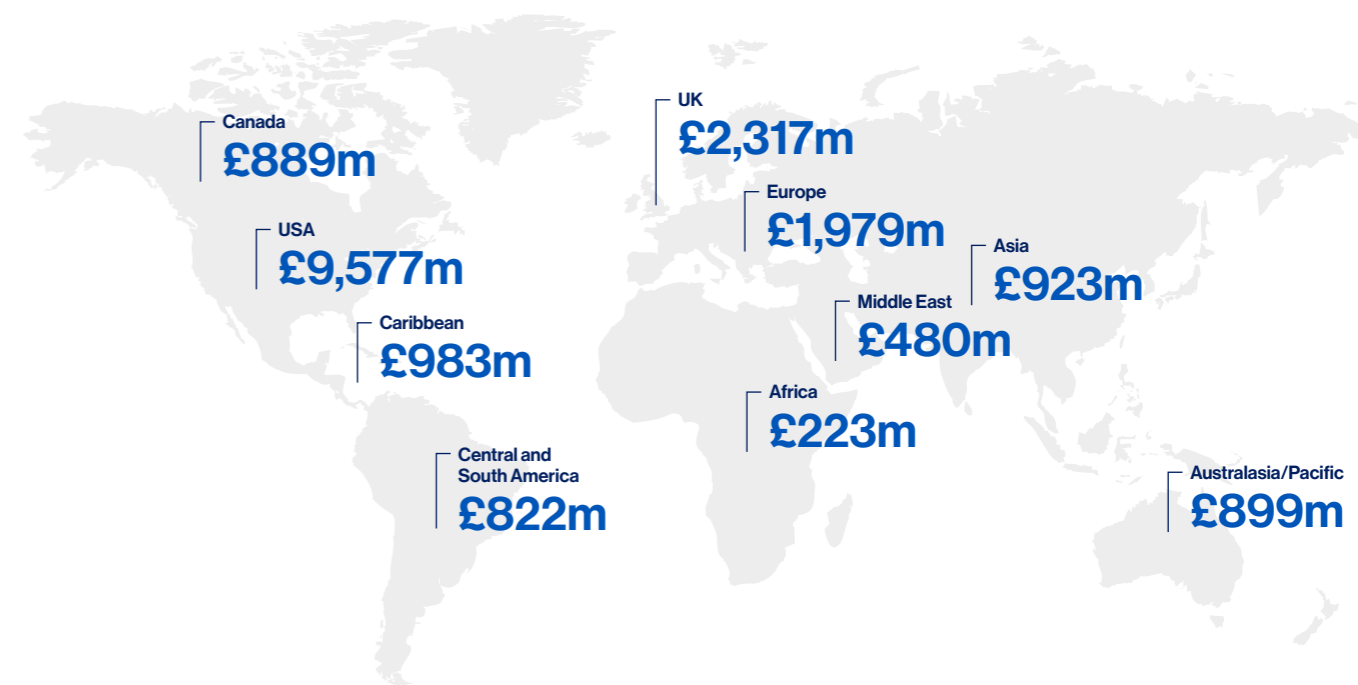
**£1.6bn**

on average paid in claims every month in 2018



Hurricane Florence moving closer to the coast of the Southeastern United States

## Claims processed by Lloyd's central settlement in 2018\*



## Wide-ranging cover

While major events hit the headlines, we also respond to a wide range of other claims. These can include casualty, property, engineering, cyber, marine and aviation. For example:

- Cyber breach incidents affecting both small and large businesses, where we deployed expert claims support within hours of the incident alert
- Aviation hull losses where owners have received rapid reimbursement of the hull value alongside the necessary incident response
- Rapid salvage and support for marine vessels and their crew grounded or distressed
- Advance reinsurance payments to mutual insurance companies to support their fast claims-paying ability.

## Fast response

Whatever the incident, we know it's important to get our claims response right. For example, in the Lion Air aviation disaster in October 2018 – involving the sad loss of the crew and passengers as well as the Boeing 737 Max aircraft in the Java Sea – we covered one of the major Indonesian insurers, and processed the claim on the day the incident occurred. The claim payment was then available to policy beneficiaries within four days.

## Financial strength and security

Despite the high-level of natural catastrophe related claims in 2018, Lloyd's financial credentials and the quality of our balance sheet grew stronger. This provides our policyholders with peace of mind that we will be there to support them, when it matters most. Our total assets grew by 9% to £118.0bn, with net resources up by 2% to £28.2bn. And our Central Fund assets, the final link in our chain of security, also increased by 8% to £3.2bn.

## Opportunities in new technology

As we continue to innovate to better serve policyholders, we now use satellite imagery to help make claims settlement decisions remotely, without having to see damage first-hand, which could be thousands of miles away, often in catastrophe-affected areas. This allows us to make even faster claims decisions to benefit policyholders while maintaining the safety and security of those involved in claims assessment.

## The value of our history

The diverse range of claims-related situations the Lloyd's market has managed over many years provides us with an extensive resource and an expert network – which we call upon as we respond to claims today, and prepare for those in the future.

\* The data provided relates to where the policy is subject to a country's insurance legislation. Values are gross without consideration of reinsurance recoveries, and do not include payments made outside of the Lloyd's market claim processing service (e.g. some Lloyd's service company business)



# Lloyd's Brussels: Our Base in the Heart of Europe

Lloyd's has been working for nearly three years to make sure its partners across the European Economic Area (EEA) maintain access to the specialist policies and financial security of the Lloyd's market after the UK leaves the EU, regardless of the outcome of political negotiations. We have achieved this by opening an insurance company in Belgium.



Our new Brussels subsidiary was opened in November 2018 and has been writing business since January 2019

Lloyd's Brussels (officially Lloyd's Insurance Company SA) is a subsidiary of Lloyd's, with 19 European branches, working with over 400 coverholders and 40 Lloyd's brokers across Europe. It is licensed to provide tailored insurance and reinsurance for a variety of non-life risks, including liability; property; marine, aviation and transportation (MAT); cyber; political; and credit insurance.

Regulated by the National Bank of Belgium and fully Solvency II compliant, Lloyd's Brussels has been assigned the same financial ratings as Lloyd's by ratings agencies, A.M. Best, (A: excellent), Standard & Poor's (A+: strong) and Fitch (AA-: very strong).

We have appointed Sonja Rottiers as Lloyd's Brussels CEO and the Lloyd's Regional Director for Europe, Middle East and Africa.



Lloyd's Brussels is a subsidiary of Lloyd's with 19 branches across Europe

**400**

Coverholders located throughout Europe

**60**

Lines of insurance written across the EU

**40**

Brokers across Europe

**€7bn**

Paid in claims in EAA over the past five years (Excluding the UK)

Launched in November and writing business from 1 January 2019, Lloyd's Brussels is fully operational and successfully accepting and processing risks from the EEA and, through its outsourcing and reinsurance agreements with the market, ensures policyholders continue to have access to Lloyd's specialist underwriters and can benefit from the market's financial strength.

In order to bring certainty to our EEA customers and to make sure we can service existing policies and pay any valid claims after the UK leaves the EU, we are undertaking a process to transfer all relevant non-life EEA insurance and reinsurance business written between 1993 and 2018 to Lloyd's Brussels under a Part VII transfer, with a target completion date at the end of 2020.



To find out more on the work we are doing in Europe visit: [lloydsbrussels.com](http://lloydsbrussels.com)



# Managing Market Performance

The Lloyd's market has faced challenging conditions over the past few years, so 2018 was all about improving market performance and planning for long-term profitability.

## The recent picture

2017 and 2018 were tough years for the Lloyd's market – and for the broader industry in general. Yet in many ways, they were not exceptional, because the challenges faced have been the very same challenges we've faced for the last six or seven years. Since 2012, the Lloyd's market has seen a bounty of capital, with fierce competition keeping prices low. In these conditions, some firms have been tempted to continue reducing prices to retain business or to underwrite risks they hope will be profitable, in anticipation of the market getting better; when the reality is in fact somewhat different.

Between 2013 and 2016, Lloyd's grew premiums by around 14% and in a very competitive market; but there was a worrying trend of declining profits. Despite this, many syndicates and classes were (and are) performing and will undoubtedly continue to do so. However, the poor performance of the most unprofitable syndicates was eroding 87% of the market's profit, and the most unprofitable classes of business eroding 46% of profits. This was putting far too much strain on those syndicates and classes who are performing well. These results are not where Lloyd's wants to be – or should be. It was clear that this position was unsustainable and that something had to be done to get Lloyd's back on track. "Things weren't

going to fix themselves," observes Jon Hancock, Performance Management Director at Lloyd's. "So, in 2018, we took a particularly robust approach to business planning."

## A focus on sustainable profit

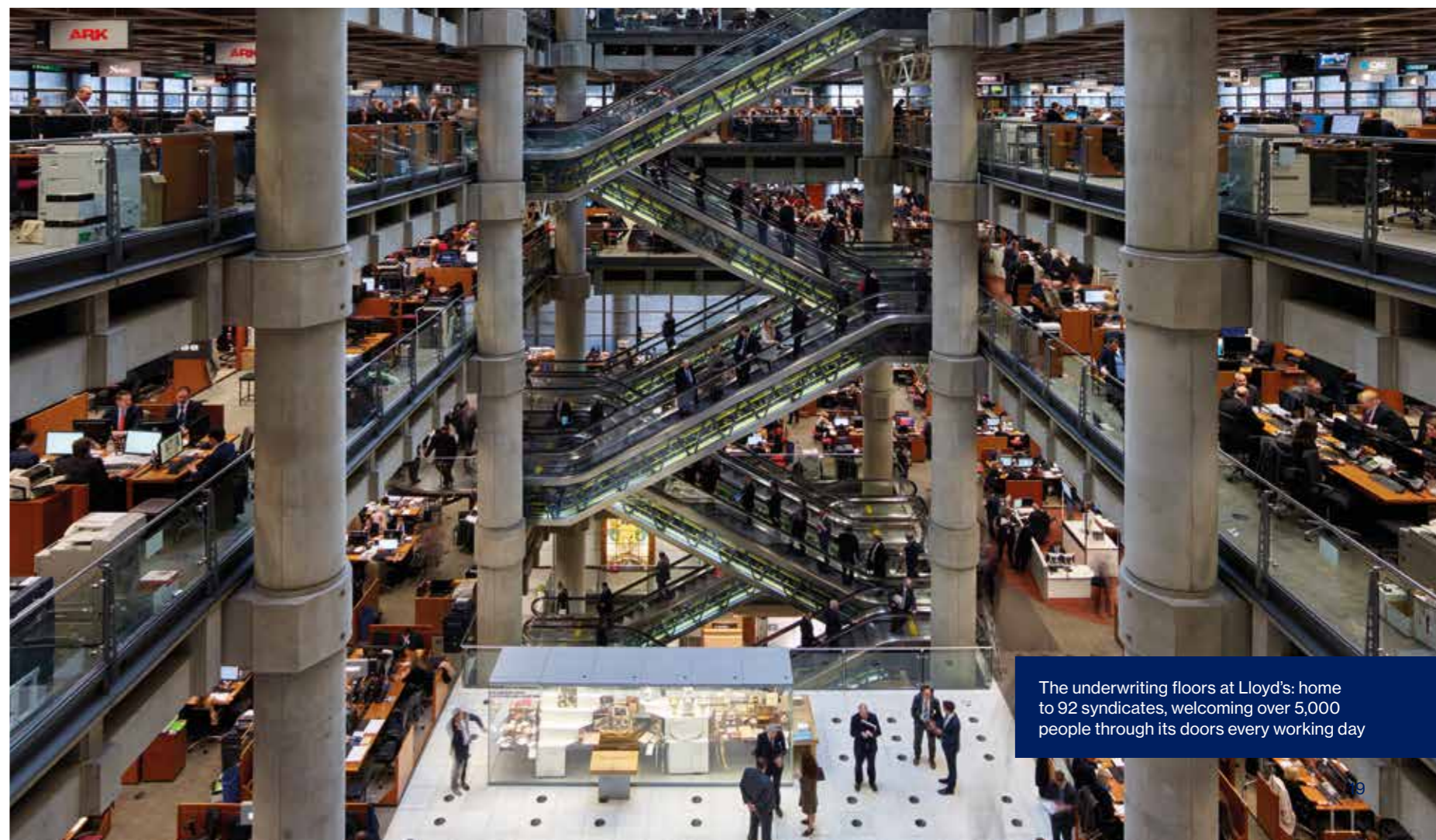
Each year, the Corporation reviews and approves each individual syndicate business plan, to ensure plans are realistic and achievable, and to agree the amount of capital needed to support the business to be written. In 2018, we reviewed around 110 plans. Given the current market performance challenges, we enhanced the usual process by introducing performance reviews, with an increased emphasis on closing that performance gap. Jon explains further: "This was where we identified those perennially poor performers – syndicates and individual portfolios – that had been eroding profits. Their underperformance was disproportionately affecting the overall Lloyd's market, so it was important to review them and take action. We ensured that every one of these syndicates and portfolios demonstrated a route to sustainable, profitable performance. That didn't mean fixing everything all at once, because businesses and portfolios are at different stages of evolution, with different challenges and opportunities – but it did mean having defined plans for change."

## Encouraging outcomes

Our strategy of targeting the poorest performers is starting to pay off, with £3bn of unprofitable business removed from the market, and syndicates and portfolios demonstrating signs of sustainable, profitable performance. It's also important to remember that plenty of syndicates are in good shape, and approved plans include more than £7bn of new and innovative business in 2019, to replace the naturally occurring lapses and to grow those better performing areas. "The action everyone has taken is really changing the shape and make-up of the overall Lloyd's portfolio," continues Jon. "From 2013 to 2017, we saw the most profitable classes grow by 15%, which was brilliant. But unprofitable classes were also growing by the same amount. Bad growth is going to eradicate any benefit you get from good, profitable growth, so our new planning process really aimed to attack this. We're now in a position where most of the unprofitable business is shrinking, while the better business continues to grow." Lloyd's remains open and ready to do business. No class of business was closed as a result of the performance reviews. And with each syndicate addressing its poorest performing business and maximising its best, many will profitably grow in 2019.

## Looking to 2019

The focus for 2018 was getting Lloyd's performance back on track – and 2019 is about maintaining that progress. As Jon says, "We're going to focus much more on continuous improvement, instead of one big annual exercise. That means regular portfolio and ongoing management by the syndicates, which is a natural part of good underwriting practice. Alongside this, our oversight activity for 2019 is aimed at delivering the plans and getting back to profitable growth." We'll also keep fulfilling our modernisation commitments to ensure we're set up to achieve our long-term goals. We'll focus our attention on the places that offer the most value and opportunity – such as the US and Europe in a post-Brexit environment, and the emerging markets where we see the best returns on investment. In the recent past, Lloyd's has been at the top of the pedestal in terms of profit, growth, service and innovation. In order to get back there, the market needs to deliver on its plans to return Lloyd's to that position of sustainable profitability. That's how Lloyd's will guarantee success long into the future.



The underwriting floors at Lloyd's: home to 92 syndicates, welcoming over 5,000 people through its doors every working day

Sharing risk to create a braver world

# The Mega-City is Coming

Huge cities are now built for efficiency with interdependent systems, but how will we keep these connected systems safe, when major disruption such as a cyber attack or extreme weather can lead to city-wide paralysis? We need ambitious and expert insurers to help not only recover from such events but, wherever possible, improve resilience to them or prevent them from happening at all.

This year, we worked with Cambridge University to create the latest *Lloyd's City Risk Index*. It is a unique study that measures the impact of 22 different threats on the projected economic output of 279 major cities worldwide. We estimated that these cities risk losing on average \$546.5bn in economic output annually from these threats. This is made up of \$320.1bn to man-made risks such as cyber-crime, interstate conflict or market crash, and \$226.4bn to natural catastrophes such as hurricanes, floods, earthquakes and volcanoes.

While no city will ever be completely risk free, and disruptions will always occur, the Index helps cities around the world identify, understand and quantify their exposure to risk. This helps them prioritise investments and build resilience. The index highlights how investing in resilience, such as flood defences or enhanced cyber security, combined with insurance, can help significantly reduce the impact of extreme events on cities – which will improve economic stability and enhance prosperity for all.



For more information visit:  
[cityriskindex.lloyds.com](http://cityriskindex.lloyds.com)



# Championing Diversity and Inclusion

To embrace diversity and inclusion, the Corporation and the market work in partnership through Inclusion@Lloyd's, which is comprised of a group of senior executives representing the companies and membership organisations within Lloyd's and the wider insurance market.

Inclusion@Lloyd's also publish a charter which is backed by a significant number of firms across the market. The Corporation produces a number of resources including best practice research guides and toolkits to support firms across the market achieve their individual and collective diversity and inclusion goals.

## The Inclusive Behaviours Pledge

Established to set the standard for inclusion in our industry, Inclusive Behaviours in Insurance is led by Lloyd's CEO John Neal and Zurich UK CEO Tulsi Naidu. A major part of the initiative is to invite CEOs in UK insurance to sign a pledge, demonstrating their commitment to a culture where inclusive behaviour is the norm and where everyone accepts diversity. We were pleased to have the opportunity not only to sign the pledge, but also to help lead this important step towards making insurance inclusive and tolerant of all our differences.

## Dive In Festival

Last year was our fourth consecutive year of running the Dive In Festival. The theme was Time4Inclusion, reflecting feedback from CEOs that they see time as the biggest barrier to achieving inclusive cultures in their organisations. It was the biggest Dive In Festival yet: events took place in more than 50 cities in 27 countries. Events included a number in the Middle East region for the first time, including Riyadh, which tied into Saudi Arabia's Vision 2030 culture programme. In 2019, Dive In will continue its global success under the theme of Impact. For more information visit [diveinfestival.com](http://diveinfestival.com)

## Employee resource groups

At Lloyd's we recognise that diversity and inclusion is important at all levels of the Corporation. To support and drive change we have six inclusion employee resource groups that help champion diversity and inclusion.

Each network is unique in its approach and open to all colleagues across the Corporation and also works in collaboration with other networks across the market.

 For more information visit: [inclusionatlloyds.com](http://inclusionatlloyds.com)



Bruce Carnegie-Brown speaking at Mind the Diversity Gap session

 **Lloyd's Inclusion**  
Cultural Awareness Network

 **Lloyd's Inclusion**  
Inspire

 **Lloyd's Inclusion**  
Pride and Allies

 **Lloyd's Inclusion**  
Families Network

 **Lloyd's Inclusion**  
PA Network

 **Lloyd's Inclusion**  
Workability

## Developing future female leaders

Like many financial services firms, we hold a good gender balance at entry level, but this representation doesn't extend to senior levels. To help redress the balance, we launched a new programme, Lloyd's Advance, aimed at developing future female leaders within the Corporation and the market. For female employees identified as future leaders, the programme provides targeted development, access to experts, mentoring & sponsorship and ongoing networking opportunities. The programme began in January 2019 and will run for six months with an initial cohort of 15 women.

## Someone to talk to about mental health

Talking openly about mental health, stress, worries and anxiety is now widely recognised as important to wellbeing. In a workplace that promotes diversity and inclusion, having someone to confide in about work-related or personal concerns is essential. To help make this easier, we've trained over 100 market-wide Wellbeing Champions to raise awareness of mental wellbeing, support their colleagues and to sign post to additional support.

## Family-friendly guide for employers

With the 'typical family' firmly in the past, employers need policies designed for a range of scenarios – from single parent families and same-sex couples to adoption, surrogacy and step kids. We also need to consider the growing numbers of older parents with the dual caring responsibilities of young children and their own ageing parents. As part of our commitment to creating the best conditions for all our employees – whatever their circumstances – we collaborated with Working Families, the leading UK-based work-life balance organisation, to publish a best-practice guide for employers. Also the Corporation is reviewing its family-friendly policies in light of the guide.

## Listed in Stonewall's top 100 employers

We were proud to be named as one of the Top 100 most inclusive employers in Britain by lesbian, gay, bi and trans (LGBT) equality charity Stonewall in its Workplace Equality Index for 2019. Having leapt more than 100 places from our 2018 ranking, making us number one in the insurance sector. This is the result of a huge amount of work, especially by members of our Pride and Allies network, one of a number of Lloyd's Inclusion employee resource groups, who have supported both LGBT and non-LGBT people through a programme of market events throughout the year.



# Closing the Insurance Gap

Last year, we published our second underinsurance report: *A world at risk\**. It found that, in 2018, there was a gap of \$162.5bn between the insurance coverage in place to cover global risks, and the expected cost of rebuilding and recovering from major natural catastrophes.



Bangladesh continues to be prone to flooding, and has an expected annual loss of 0.8% of GDP from natural catastrophes, the highest of any of the countries studied

## Financial relief when disaster strikes

Insurance is a major contributor to disaster recovery, often providing the quickest financial crisis relief and liquidity available. If insurance is not available, catastrophes can have a far worse impact on economies, communities and lives. By understanding the state of global insurance and underinsurance, governments, business leaders and insurers can identify where insurance gaps exist and work together to close them.

## The exposure gap

The 2018 report includes all the latest non-life underinsurance data for natural catastrophes for 43 countries. The exposure gap of \$162.5bn poses a significant threat to livelihoods and global prosperity. We found that countries with the lowest levels of insurance are among the most exposed to climate change risks and least able to fund recovery. The average insurance penetration rate (premiums as a percentage of GDP) in developed markets is twice as high as in emerging, or lower income countries, which account for almost all (\$160bn) of the global insurance protection gap.

# \$162.5bn

The gap between expected global losses and insurance coverage

# 96%

Of the total insurance gap accounted for by emerging economies

## Key risks

- Bangladesh, Egypt, India, Indonesia, Nigeria, Philippines and Vietnam each have an insurance penetration rate of less than 1%.
- China is the most underinsured country in absolute dollar values, with a gap of \$76bn, due to being a large economy with a still-developing insurance market.
- Bangladesh has the highest expected annual loss from natural disasters and the largest insurance gap relative to GDP (2.1%).

## What's changed since 2012?

We published our first underinsurance report in 2012. This time we analysed flood insurance in more detail and looked more closely at cyber insurance, with cyber attack being one of the fastest-growing emerging risks. Back in 2012, we revealed that \$168bn in assets globally were underinsured, meaning the gap has only closed by less than 3% since.

## The way forward

We can reduce the impact of disasters on economies, communities, business and individuals by investing in greater resilience – and the benefits of this can outweigh the costs significantly. If countries can't afford to invest in resilience, they are even less likely to be able to afford to rebuild after a disaster. In October, we published a further report: *Innovative finance for resilient infrastructure\*\** which set out four potential new financial instruments which could be used to incentivise investment in resilience. The aims are to reduce the initial costs of building resiliently and then to finance the residual risk. In this way, the countries that need it most can gain from the benefits of insurance.

\* *A world at risk: Closing the insurance gap*. Published in conjunction with the Centre for Economics and Business Research (CEBR).

\*\* *Innovative finance for resilient infrastructure*: Produced in association with the Centre for Global Disaster Protection, Risk Management Solutions (RMS) and Vivid Economics.



# Pioneering Innovation

Our Lloyd's Lab initiative, launched in September 2018, saw start-ups and entrepreneurs pitching their ideas for products, platforms and processes to help transform Lloyd's into an increasingly technology-driven market. This is an important part of our strategy to further strengthen our position as the global centre for insurance innovation.

**New look for Lloyd's**  
The Lloyd's Lab has created a modern and dynamic space for the start-ups to create new ideas

### A taste of things to come

Six market syndicates have signed up to use Parsyl, a supply chain data platform that utilises Internet of Things (IoT) technology. The Parsyl team, from Colorado in the US, was one of ten start-ups chosen for the initial Lloyd's Lab. Parsyl is designed to provide data on specialist transport and storage, such as temperature-controlled foods, biological pharmaceuticals, and sensitive life-science and high-tech products. It does this through IoT sensors placed alongside the cargo, providing insights into a product's journey through the entire supply chain. The syndicates supporting Parsyl lead a large proportion of the marine cargo business underwritten at Lloyd's.

"The fact that Lloyd's can attract such a high calibre of tech talent and ideas shows we are well placed to lead the way in insurance innovation. We are excited to see what the next cohort will bring us."

Trevor Maynard, Head of Innovation, Lloyd's

### Lloyd's Lab cohort two

In December 2018, we launched the search for our second cohort of InsurTech innovators. Applications closed in February 2019, and the chosen innovators will start their ten-week programme at the end of April 2019. This time, the Lab is looking for exceptional ideas in four areas of focus: Data-driven underwriting; customer experience; back-office efficiencies; and next-generation insurance products or services.

### A hub for 'InsurTech'

We offered ten teams a place in our initial Lloyd's Lab cohort following a global call for technology talent. Our search drew applications from more than 220 start-ups, entrepreneurs and businesses in 36 different countries. The idea of our new innovation accelerator is to establish Lloyd's as a hub for global InsurTech excellence, helping us harness the opportunities advanced technology can offer.

"InsurTech is booming. We're doing everything we can to cultivate innovation in the sector. But, ultimately, it is down to firms like Lloyd's to take the lead, and that's exactly what they're doing with their Lab."

John Glen, Economic Secretary to the Treasury

### Creating new ways of working

To support our digital evolution, the teams joining our Lab set about developing new solutions to some of our key challenges. For ten weeks, they were based in a dynamic co-working space in the Lloyd's building. Here, they gained unparalleled access to Lloyd's, with market mentors and subject experts on hand to offer insight and experience to help them refine their ideas.

The ideas our finalists worked on include: live-streaming drones for fast risk and disaster assessment; live cargo tracking using the Internet of Things; on-demand insurance for the gig economy; an efficient claims support platform based on blockchain; an AI-powered insurance platform for small businesses; a digital solution for individuals to design their own insurance; and a cloud-based platform to arrange insurance cover for multinational corporations across borders.

# 220 teams

from 36 countries applied to be part of the Lloyd's Lab cohort one

# £540m

of InsurTech funding made available in just one quarter of 2018

Visit the Lloyd's Lab on the 4th floor of the Lloyd's building or visit [lloydslab.com](http://lloydslab.com)



Above: Packed room on the first pitch day in the Lloyd's Lab



# Promoting Responsible Business

At Lloyd's, we want to be known as a responsible business leader, operating in a way that makes those who work for us feel proud of their contribution. Our responsible business approach underpins our goals to support global economic growth and help nations, businesses and communities improve resilience to, and recover faster from, disasters.

Above: Financial literacy volunteer

Our initiatives focus on innovation, managing risk, building resilient communities and empowering individuals to reach their potential. In addition to the Corporation's responsible business initiatives, we manage three independent charities and a volunteer programme led by the Lloyd's market in London.

### Lloyd's Charities Trust

We believe that insurance plays a valuable role in creating a more confident and secure world, and for over 60 years Lloyd's Charities Trust has been providing charitable support on behalf of the Lloyd's market. Lloyd's Charities Trust is currently working in partnership with three charities that fit our strategy until October 2019.

They are:

- Build Change, whose aim is to reduce loss from disasters in emerging nations. Our funding enables retrofitting vulnerable homes in slum areas of Medellín, Colombia and Manila, Philippines.
- RedRUK, who respond to disasters globally. Our funding has upskilled 5,153 humanitarians and aid workers, better equipping them to respond to disasters.
- Whizz-Kidz, who provide disabled children with essential wheelchairs and mobility equipment. Our funding supports a mobility therapist in the UK.

Lloyd's Charities Trust also funds the annual Lloyd's Market Charity Awards which recognises the voluntary and fundraising work of individuals from across the Lloyd's market in London. In 2018, the donation for each charity was doubled to £4,000, supporting 30 charities.

### Lloyd's Patriotic Fund

Providing support to the Armed Forces community on behalf of the Lloyd's market for over two hundred years. In the last ten years, it has made grants of more than £3.6 million to support serving and ex-service personnel. In 2018, it has supported 12 organisations working to meet the complex needs of veterans and their families today.

### Lloyd's Tercentenary Research Foundation

Funding research in the fields of medicine, science, safety, the environment, engineering and business. In 2018, it continued funding the two year Agua Salud project with the Smithsonian Tropical Research Institute. The research aims to highlight the long-term implications of land-use choices throughout the tropics, shape decision-making and minimise environmental impacts.

The Foundation also funds British academics wishing to conduct research in areas related to risk to study in the US in collaboration with Fulbright.

### Lloyd's Community Programme

The programme is one of the longest-running business volunteering initiatives in the City. In 2018, 2,487 colleagues from across the Lloyd's market volunteered with more than 5,000 people. The programme aims to develop young people's key life and employability skills, build aspirations and give opportunities in the market to help bring new diverse talent to the sector. There are a wide range of volunteering opportunities from financial literacy and employability workshops, mentoring and summer work placements, as well as practical team challenges.

### Environment

Lloyd's is committed to reducing its carbon footprint year on year. The total reported greenhouse gas emissions from Corporation business activities in 2018 were 9,732 tonnes of CO<sub>2</sub>, a decrease of 11% over 2017 and our fourth successive year of emission reductions. We also continue to be an active member of the ClimateWise initiative, a collaborative endeavour by insurers to drive action on climate change.

### The United Nations Global Compact

In June 2018, we signed up to the UN Global Compact, the world's largest corporate responsible business initiative. This enables us to align our vision, culture and operations with the United Nations Sustainable Development Goals.

### Looking ahead

The Corporation will monitor, measure and report on our performance against the UN Global Compact and Sustainable Development Goals for the first time. Our report will be published on the UN Global Compact website in July 2019. This reporting only applies to the Corporation's activities, and will not apply to any Lloyd's market activities or any market oversight activities that the Corporation carries out with the market.

 Find out more on how we take business responsibly at: [lloyds.com/responsiblebusiness](http://lloyds.com/responsiblebusiness)

# £1.4m donated

To 198 charitable organisations in 2018 worldwide

# 80 internships

Offered to young people in 2018



In our new digital era, billions of once 'unintelligent' household objects will be smart and connected to what's known as the Internet of Things (IoT). But how will we protect ourselves from cyber criminals seeking to exploit this? To protect our digital futures we need to resist and recover from breaches.

By 2020, around 25 billion devices will be connected to the internet, and some studies estimate this will rise to 125 billion by 2030. Our report, *Networked world*, analyses the opportunities and risks of this IoT world. Its aim is to help insurers understand potential exposures in a range of key sectors – marine, smart homes, water infrastructure and agriculture – so risk managers can assess how the IoT could affect their businesses. The report also highlights the opportunities and implications for insurance product development so we can continue to innovate to meet the evolving needs of our customers as the world around them changes.

Another Lloyd's report, *New realities*, looks at how augmented, virtual and mixed-reality technologies are being rapidly adopted for commercial use, in areas such as remote surgical procedures and simulated engineering. As these technologies become more mainstream, new risks are emerging that could cost businesses an estimated £20bn annually.

For more information visit:  
[lloyds.com/networkedworld](http://lloyds.com/networkedworld)  
[lloyds.com/newrealities](http://lloyds.com/newrealities)

Sharing risk to create a braver world

# Technology in 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 2018, the Lloyd's market consisted of 99 syndicates managed by 55 managing agents.



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