

LLOYD'S

# 2018 Annual Results

Analyst Presentation

27 March 2019

© Lloyd's



# Overview of 2018

**John Neal**  
Chief Executive Officer



Financial  
Highlights



Operational  
Highlights



# 2018 Financial Highlights

Gross written premium



**£35.5bn**

2017: £33.6bn

Result before tax



**(£1.0bn)**

2017: (£2.0bn)

Combined ratio



**104.5%**

2017: 114.0%

Investment return



**0.7%**

2017: 2.7%

Net resources



**£28.2bn**

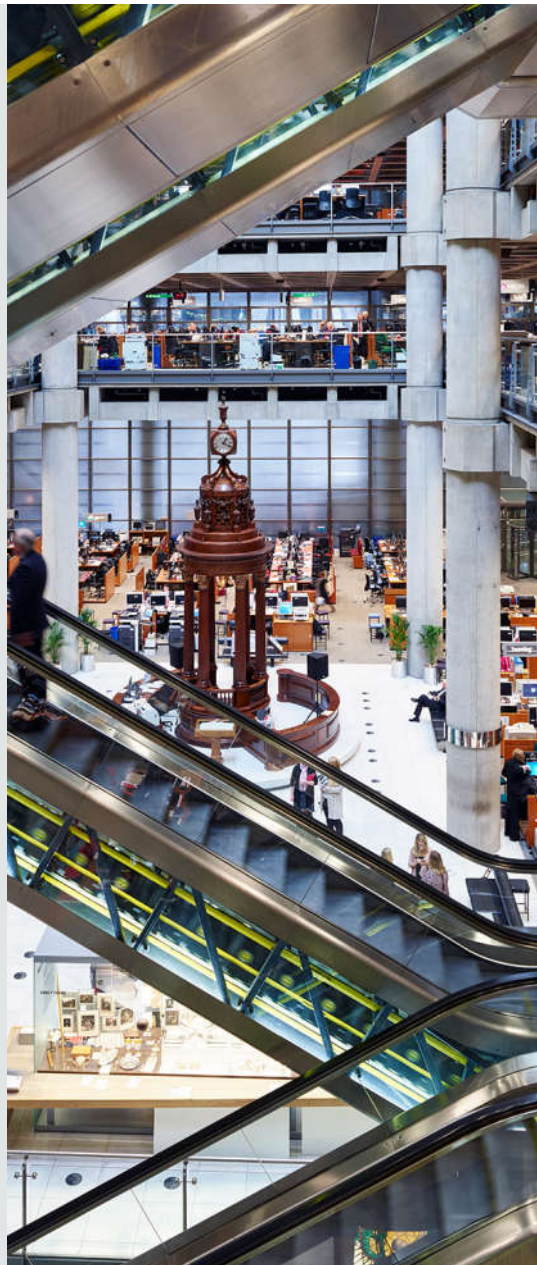
2017: £27.6bn

Central solvency coverage ratio



**250%**

2017: 215%



# Operational Highlights



Closing the performance gap



Market modernisation



Lloyd's Brussels

LLOYD'S

# Financials

John Parry  
Chief Financial Officer

© Lloyd's



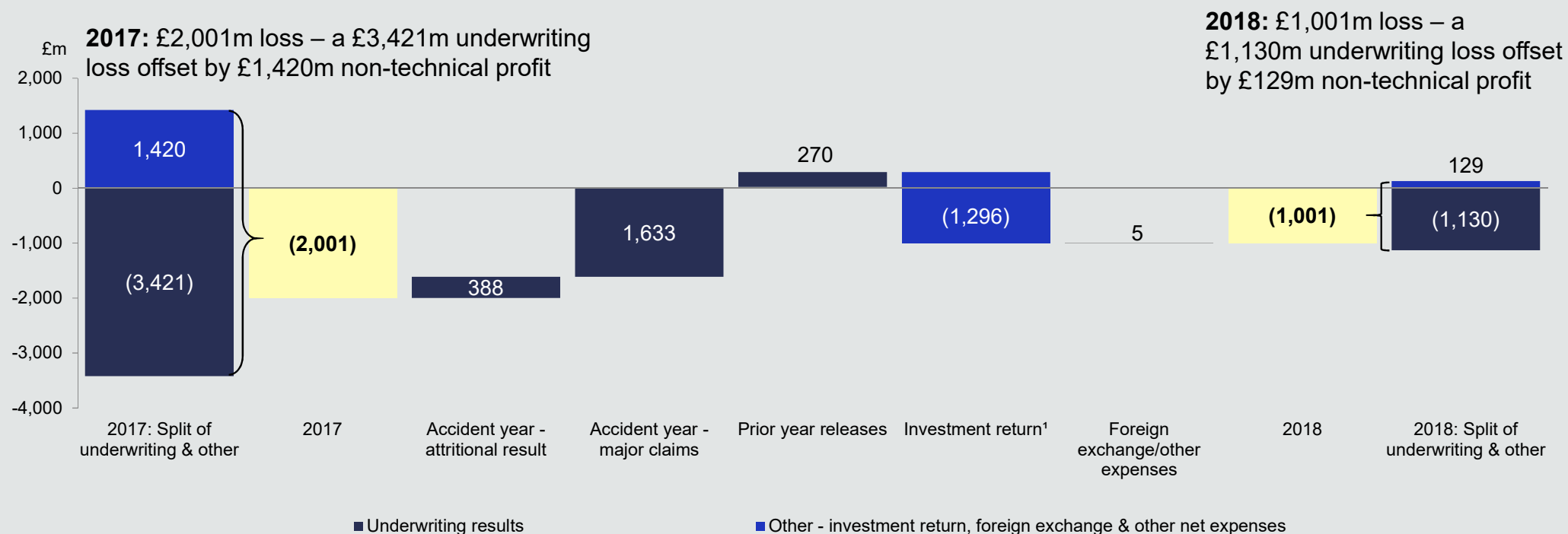
# Reduced underwriting loss offset by challenging investment markets

Lloyd's aggregated results			
£M	Dec 2017	Dec 2018	Change from 2017
Gross written premium	33,591	35,527	↑ 6%
Net earned premium	24,498	25,178	↑ 3%
Net incurred claims	(18,250)	(16,438)	↓ 10%
Operating expenses <sup>1</sup>	(9,669)	(9,870)	↑ 2%
Underwriting result	(3,421)	(1,130)	↓ 67%
Net investment income <sup>2</sup>	1,800	504	↓ 72%
Foreign exchange gains/(losses)	(62)	(8)	↓ 87%
Other expenses	(318)	(367)	↑ 15%
<b>Profit / (loss) before tax</b>	<b>(2,001)</b>	<b>(1,001)</b>	<b>↓ 50%</b>
<b>Combined ratio</b>	<b>114.0%</b>	<b>104.5%</b>	

Source: Lloyd's market results, 31 December 2018. <sup>1</sup>Technical account. <sup>2</sup>Return on syndicates' assets, notional investment return on members' funds at Lloyd's and return on central assets.

# Lower incidence of major claims and steps to improve underwriting performance, with lower investment return

## Drivers of market result – change from 2017 to 2018

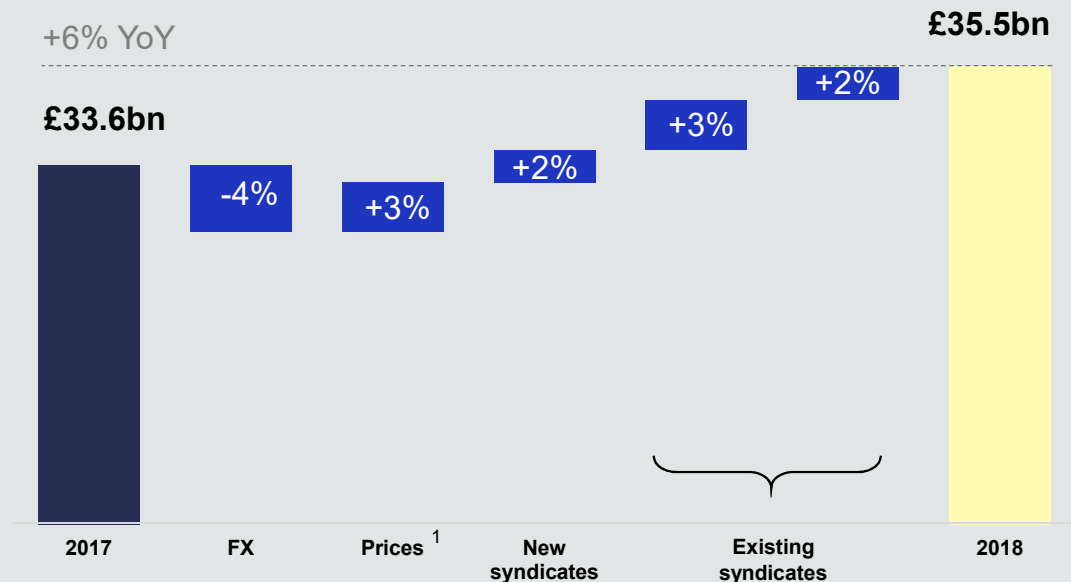


Source: Lloyd's market results, 31 December 2018. <sup>1</sup>Return on syndicates' assets, notional investment return on members' funds at Lloyd's and central assets.

# Price increases and previous years premiums contribute to growth within approved plans

- **Prices:** increases experienced across most lines on renewal business
- **FX:** on average sterling has strengthened against USD in comparison to 2017
- **New syndicates:** 4 new (non SPA) syndicates commenced trading in 2018
- **Existing syndicates:**
  - Increased contribution from development premium on profitable binder business, contributing 3% growth.
  - New products/opportunities (e.g. cyber, warranty & indemnity, sharing economy) and growth in profitable lines of business/territories, contributing 2% growth.

## Analysis of GWP YoY % movement

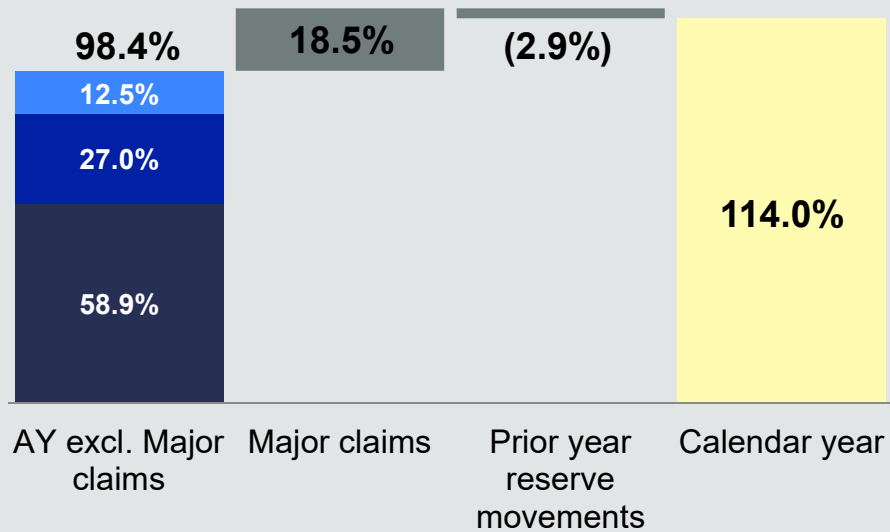


Source: Lloyd's market results, 31 December 2018. GWP: Gross written premium. Premium is for market facing syndicates and excludes Special Purpose Arrangements. <sup>1</sup>Performance Management Directorate Reporting, risk adjusted rate change on renewal business.

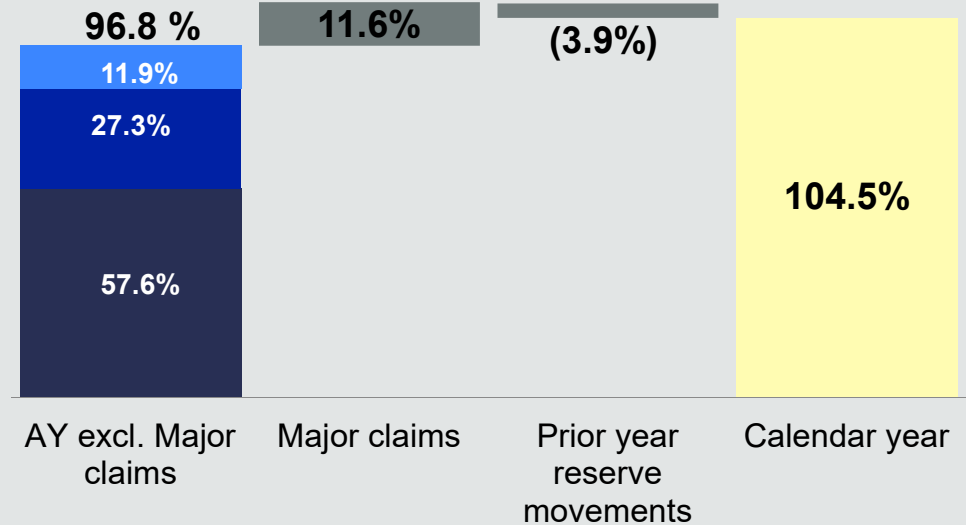


# Improvement in current accident year ratio and prior years however major claims push combined ratio over 100%

2017 Combined ratio %



2018 Combined ratio%

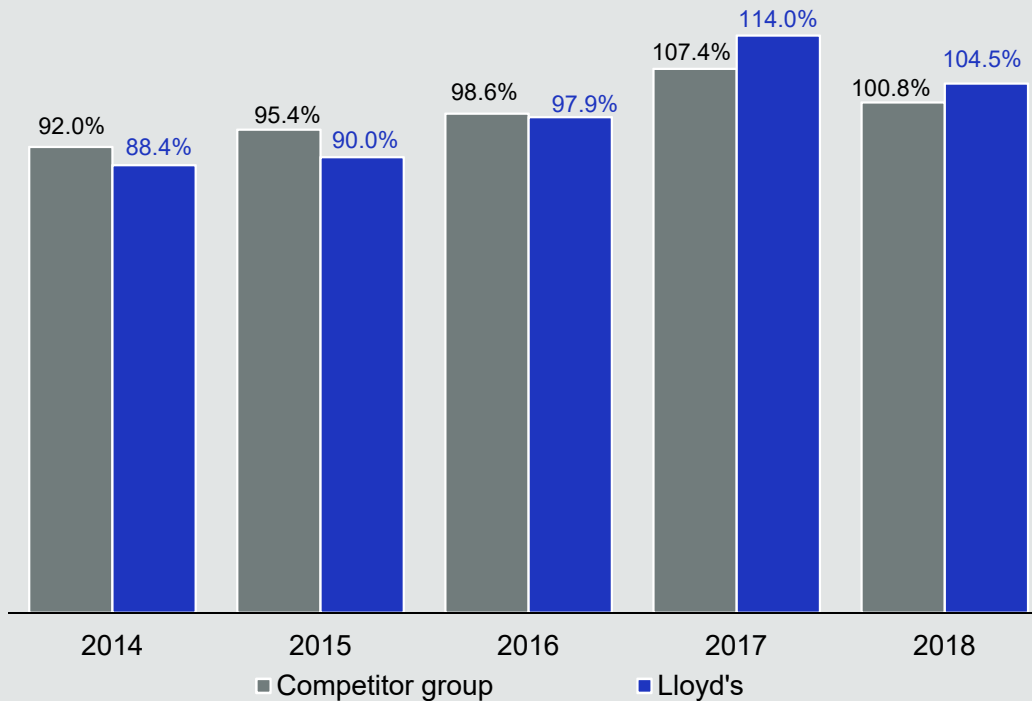


Attritional loss ratio    Acquisition expense ratio    Admin expense ratio

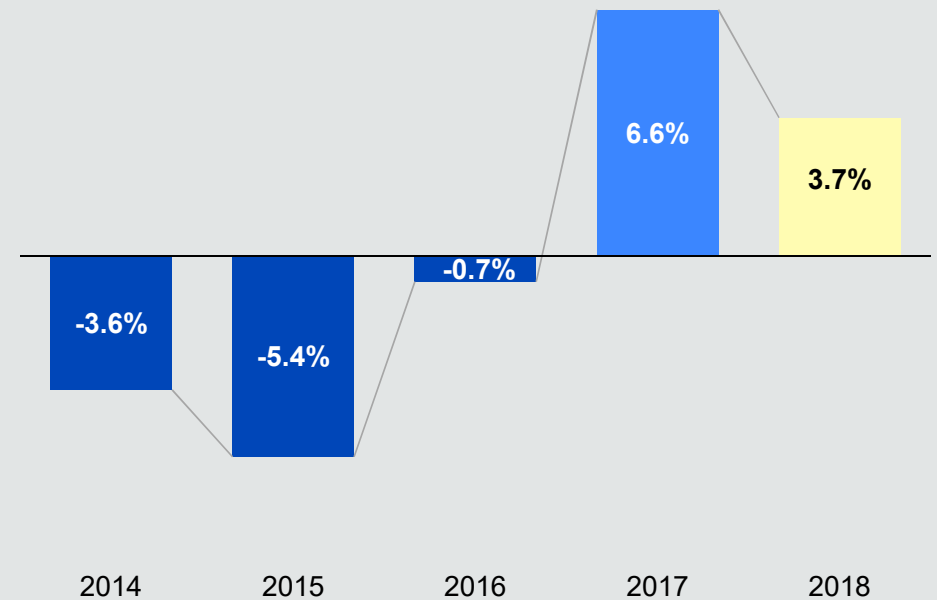
Source: Lloyd's market results, 31 December 2018. AY: current accident year. Major claims for the market results are defined as events which result in a net market-wide loss of £20m or more.

# Lloyd's ranking improves relative to comparators but combined ratio above comparators' weighted average

Combined ratios by class of business



Differential

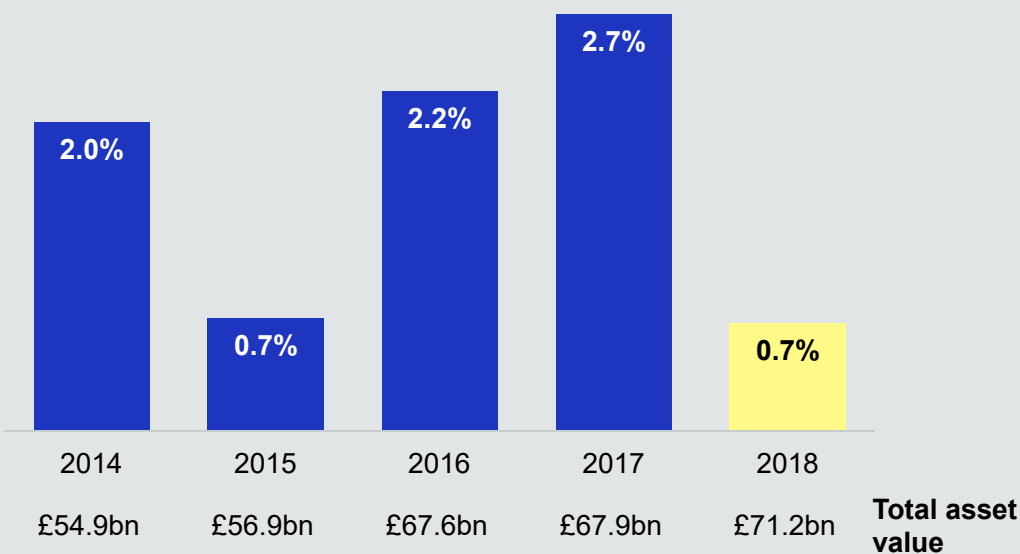


Source: Competitor financial statements and Lloyd's market results, 31 December 2018. The competitor group comprises 13 companies operating in the US, European & Bermudan markets: AIG, Allianz, Arch, Chubb, CNA Corp, Everest Re, Hannover Re, Munich Re, Partner Re, SCOR, Swiss Re, XL Catlin and Zurich. \*Trading syndicates only.

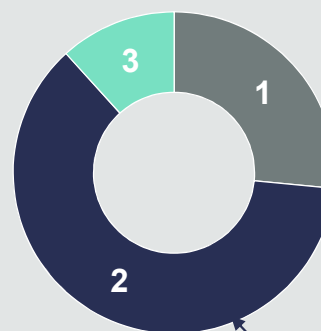
# Market volatility leads to significant reduction in investment return

## Investment return<sup>1</sup>

Syndicates	£333m	0.8%
FAL	£178m	0.7%
Central assets	(£7m)	(0.2%)



## Investment disposition



1	Cash & equivalent	19% (2017: 22%)
2	Investment grade bonds	68% (2017: 64%)
3	Equity & other risk assets	13% (2017: 14%)

- **Cash & equivalent:** includes letters of credit;
- **Investment grade bonds:** includes debt issued by sovereign, supranational, agency and corporate entities rated BBB or better;
- **Equity & risk assets:** includes all other exposures

### Split of investment grade bonds by credit rating

Government	AAA	AA	A	BBB	Total
40%	10%	15%	23%	12%	100%

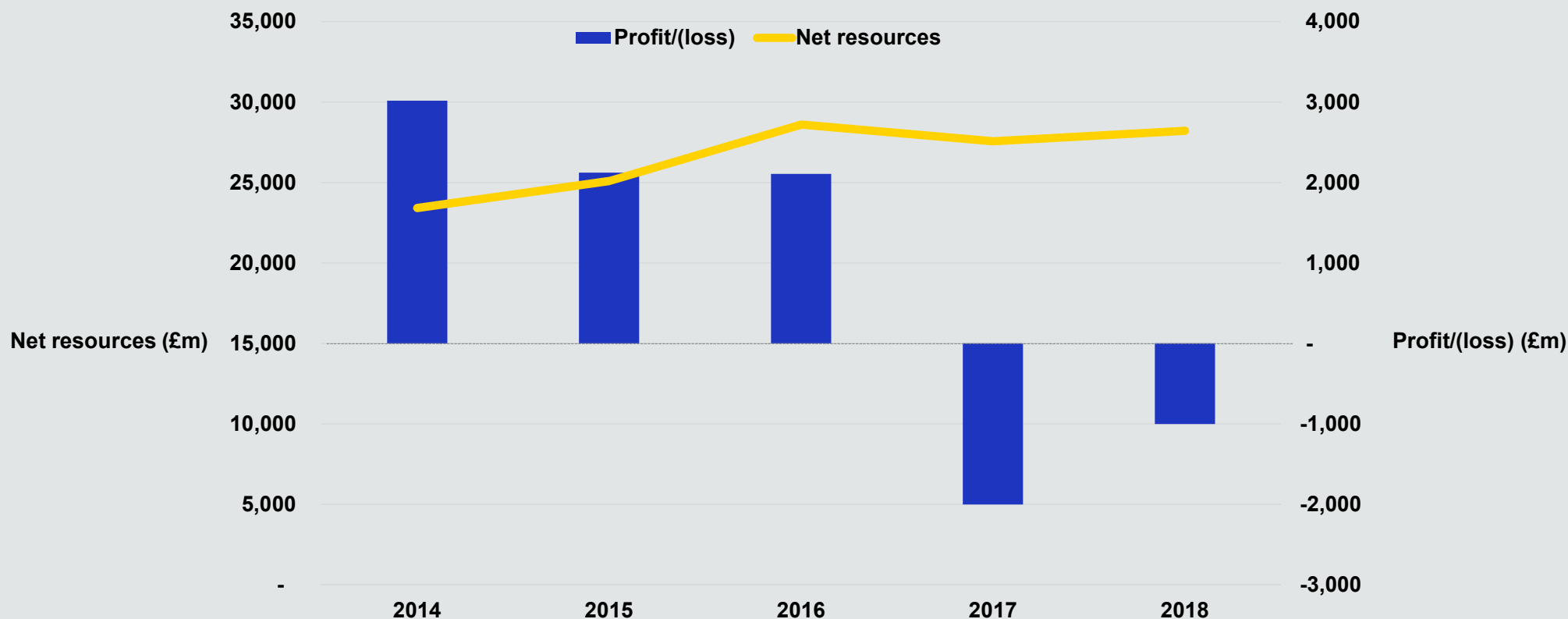
Source: Lloyd's market results, 31 December 2018. <sup>1</sup>Return on syndicates' assets, notional return on members' funds at Lloyd's (FAL) and return on central assets. Central assets are the gross invested assets of the Society, stated on IFRS basis.

# Growth in net resources and solvency coverage demonstrate financial strength of the Lloyd's market

Lloyd's aggregated results			
£M	Dec 2017	Dec 2018	Change from 2017
Cash and investments	67,902	71,240	↑ 5%
Reinsurers' share of (re)insurance liabilities and other assets	40,494	46,768	↑ 15%
<b>Total assets</b>	<b>108,396</b>	<b>118,008</b>	<b>↑ 9%</b>
Gross (re)insurance liabilities and other liabilities	(80,836)	(89,786)	↑ 11%
<b>Net resources</b>	<b>27,560</b>	<b>28,222</b>	<b>↑ 2%</b>
Member assets	24,579	25,011	↑ 2%
Central assets <sup>1</sup>	2,981	3,211	↑ 8%
<b>Central SCR coverage</b>	<b>215%</b>	<b>250%</b>	
<b>Market wide SCR coverage</b>	<b>144%</b>	<b>149%</b>	

Source: Lloyd's market results, 31 December 2018. <sup>1</sup>Central assets are the net assets of the Society including the Central Fund, excluding subordinated debt liabilities and the callable layer.

# Lloyd's market maintains a strong capital position despite material losses for two consecutive years



Source: Lloyd's market results, 31 December 2018.

# Managing Market Performance

Jon Hancock  
Performance Management Director



2019 Plans



Renewals

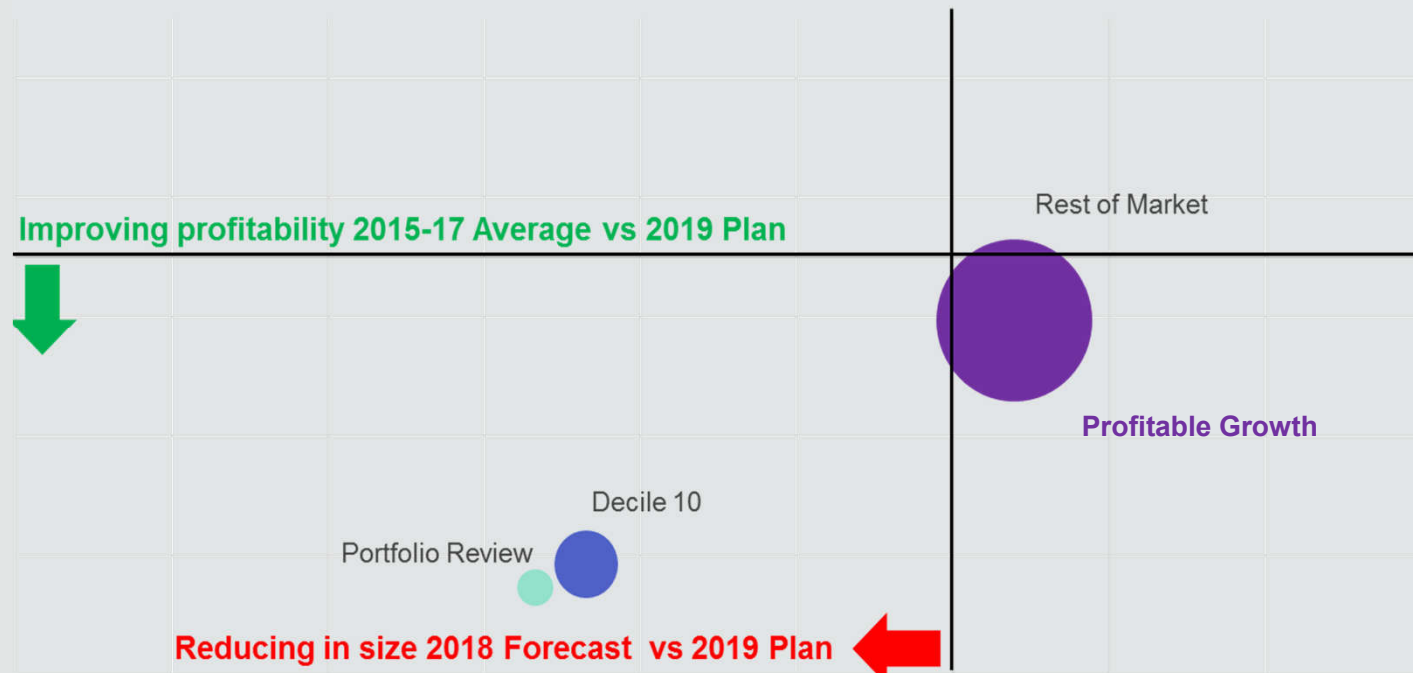


Areas of focus



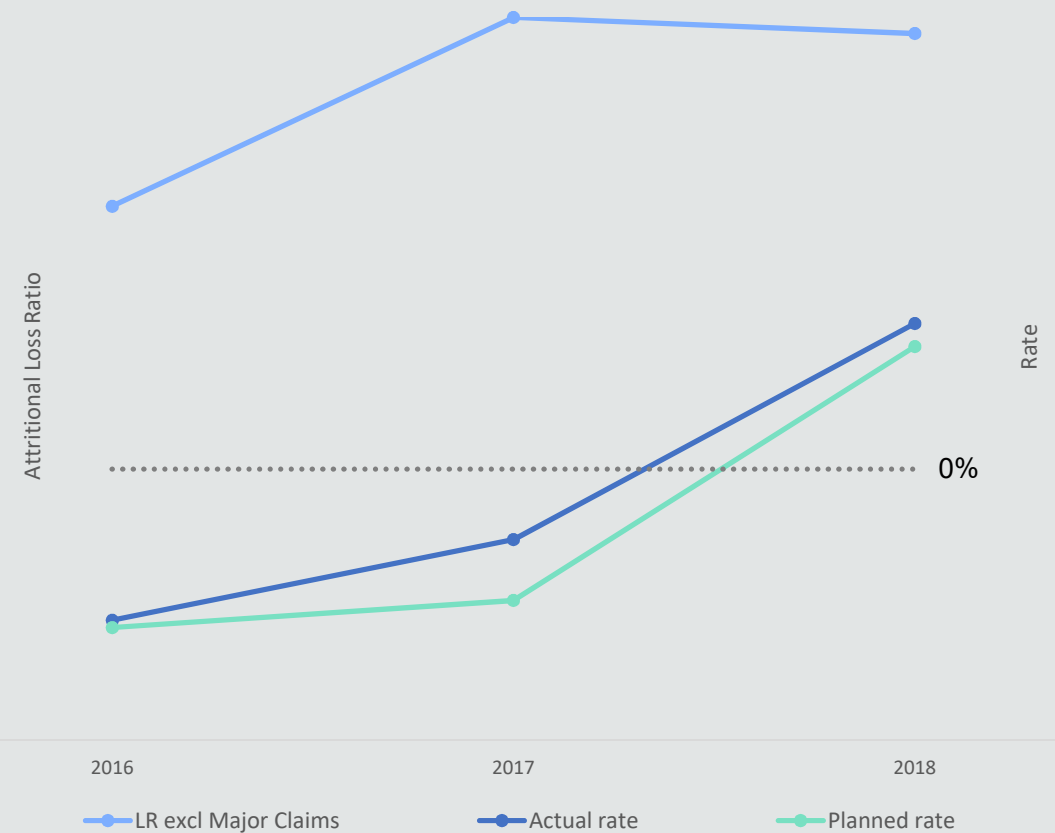
# Targeted business planning delivers an improvement in performance across the market in 2019

- **Performance Reviews** targeted the poorest performing portfolios:
  - Top-down Portfolio Reviews; 8 classes of business identified as poor performers market-wide
  - Bottom-up Decile 10; each syndicate identified their bottom 10% of GWP
- **Material improvements made** across all review classes
- **Rest of market grows and improves profitability**



# January 2019 renewals showed good momentum, but continued discipline is required

- **Positive momentum continues at 1<sup>st</sup> January:**
  - Building on actions delivered in 2018
  - Still more to do
- **2019 rate** in line with, or better than plan
- **6<sup>th</sup> consecutive quarter** of positive rate movement
- **Majority of classes are showing positive rate**
  - 49 out of 61 classes of business
- **Positive rate** achieved on all 8 portfolio review classes
- **2018 attritional loss ratio reduced**
  - Expected to continue in 2019
- **Premium volumes broadly in line with plans**
  - Evidence of underwriting discipline





# 2019 Oversight

- Moving from 'minimum standards' to 'best practice'
- Embedding performance reviews through **continuous improvement**

## Oversight Activity

Continuing with Lloyd's risk-based approach

- 1 Market best practice**
  - Cat risk underwriting
  - Pricing
- 2 Outwards reinsurance optimisation**
  - Ensuring reinsurance programmes are optimal
- 3 Modernising delegated authority oversight**
  - New platform and process is making it easier to do business
- 4 Expenses**
  - Acquisition costs
  - Administration costs
- 5 Light Touch Oversight**
  - Risk-based approach
- 6 Continuous improvement**
  - Ongoing portfolio management

LLOYD'S

# Setting Lloyd's up for success

John Neal  
Chief Executive Officer

© Lloyd's



# Sharing risk to create a braver world




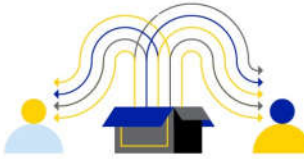


## You told us we need to:

- Offer better solutions for our customers' risks, in terms of the breadth of cover, the capacity available from the Lloyd's market and the quality of protection
- Simplify the process of accessing products and services at Lloyd's
- Reduce the cost of doing business at Lloyd's
- Build an inclusive and innovative culture that attracts leading talent to Lloyd's

## Building our response Asking the questions

- 1 How can we supercharge innovation to provide more relevant solutions for our customers?
- 2 How can we strengthen trust and transparency for our customers?
- 3 How can we create a more dynamic capital environment?
- 4 How can we reduce the cost of doing business?
- 5 How can we improve the culture of the Lloyd's market to make it more inclusive and innovative?

## Some options for the future at Lloyd's

<p><b>Complex risk platform</b> A culture, process and structure that supercharges innovation in response to customer needs</p> 	<p><b>Standardised risk exchange</b> A risk exchange through which your risks can be placed in minutes at a fraction of today's cost</p> 	<p><b>Capital platform</b> A structure that enables new sources of capital to simply and effectively access a diverse set of insurance risks on the Lloyd's platform</p> 
<p><b>Syndicate in a box</b> A streamlined system for syndicates to bring new products and business into the market</p> 	<p><b>Claims solution</b> An automated claims process that speeds up settlement to improve customer experience and increase trust in the market</p> 	<p><b>Ecosystem of services</b> Access for all market participants to an ecosystem of products and services that help them develop new business and provide outstanding customer service</p> 

# Q&A

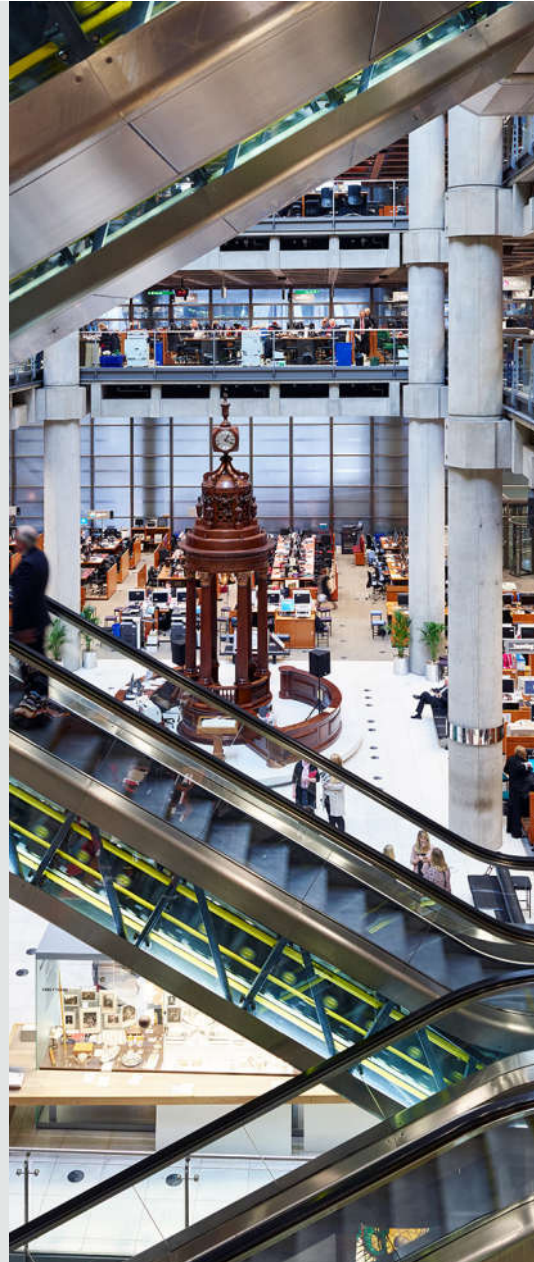


**John Neal**  
Chief Executive Officer

**John Parry**  
Chief Financial Officer

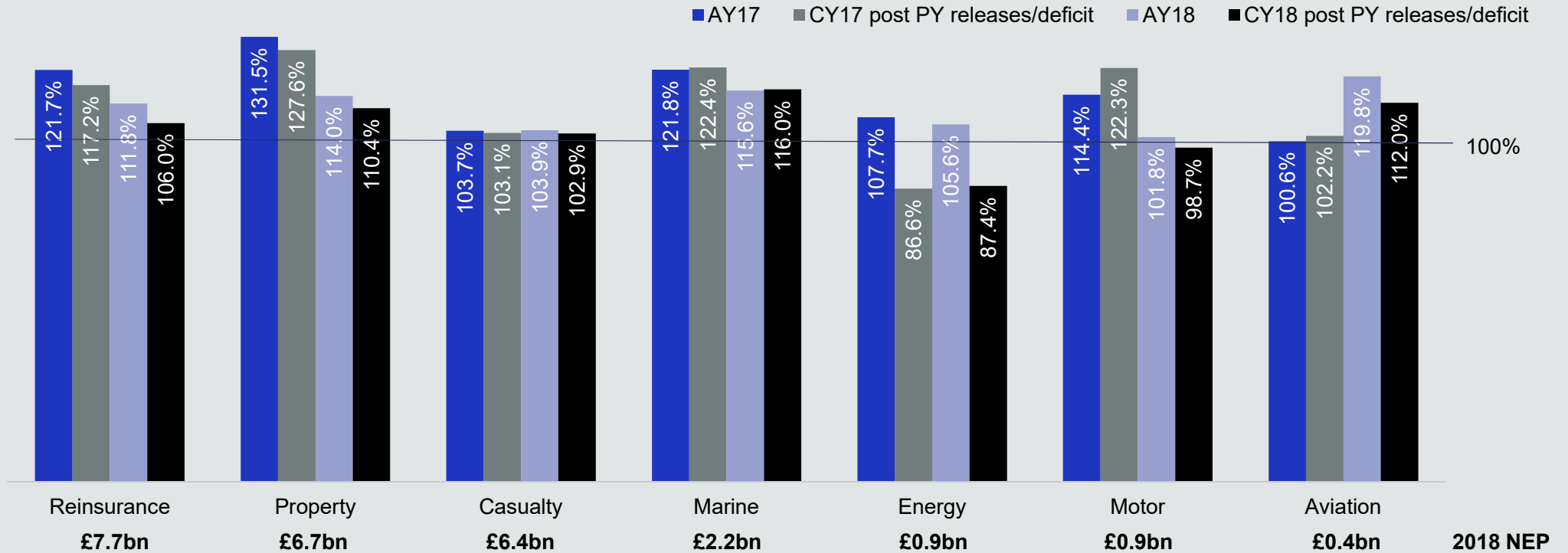
**Jon Hancock**  
Performance Management Director

# Appendix



# Signs of improvement across most classes but more needs to be done

## Combined ratios by class of business

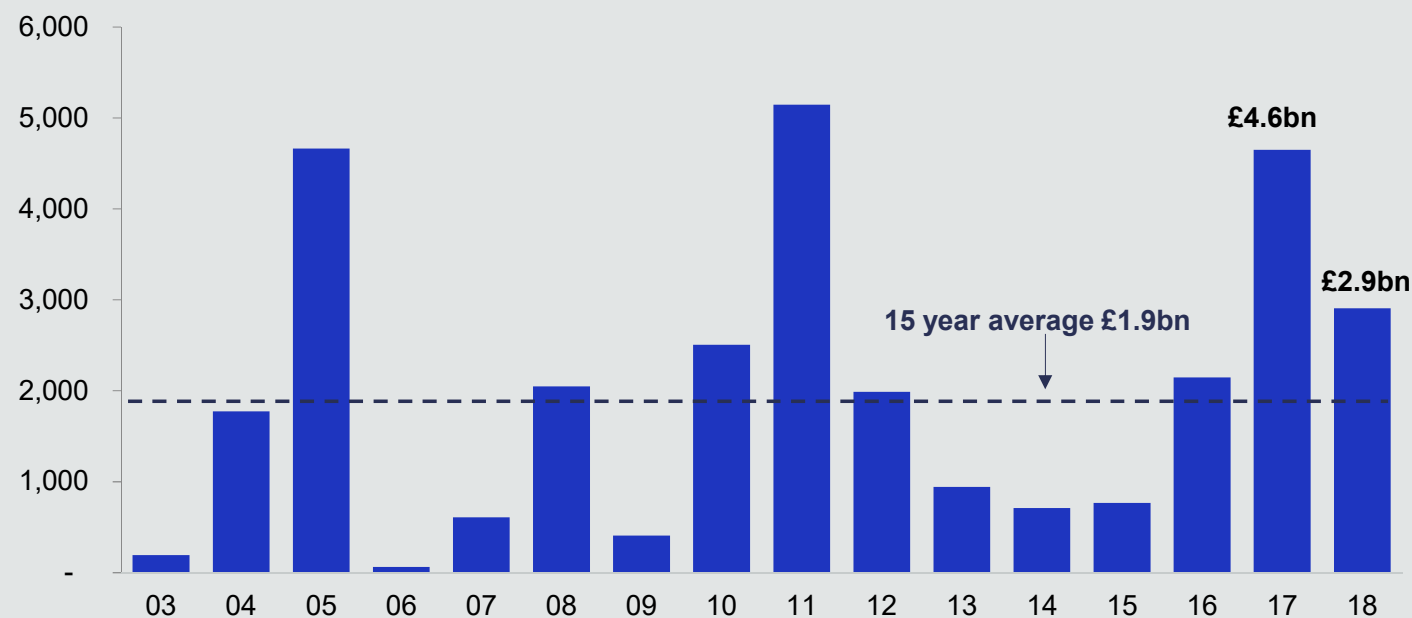


Source: Lloyd's market results, 31 December 2018. NEP: net earned premium, AY: accident year, CY: calendar year.

## Second consecutive year of major claims above the Lloyd's market long-term average

Largest major claims, net (£bn)	2017	2018
Hurricane Florence	-	0.5
Typhoon Jebi	-	0.4
Hurricane Michael	-	0.8
California wildfires	0.5	0.7
Hurricane Harvey	1.2	-
Hurricane Irma	1.6	-
Hurricane Maria	0.8	-
Mexico earthquakes	0.3	-
All other	0.2	0.5
<b>Total</b>	<b>4.6</b>	<b>2.9</b>

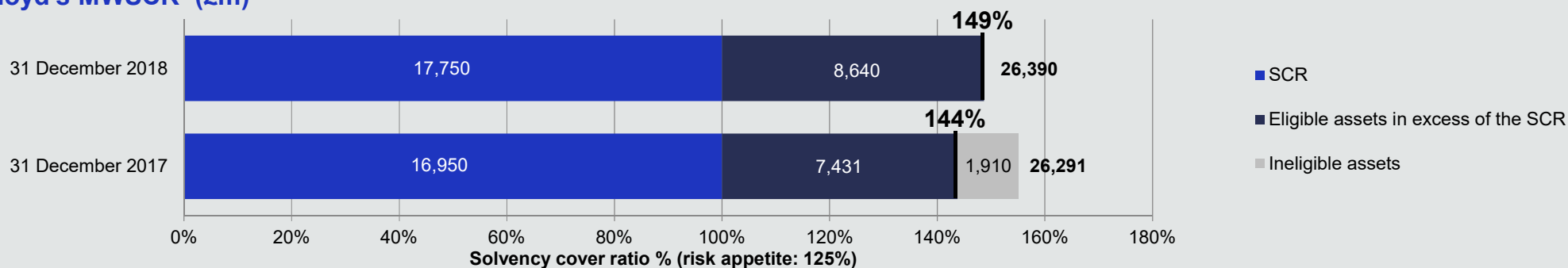
Lloyd's major claims (£)



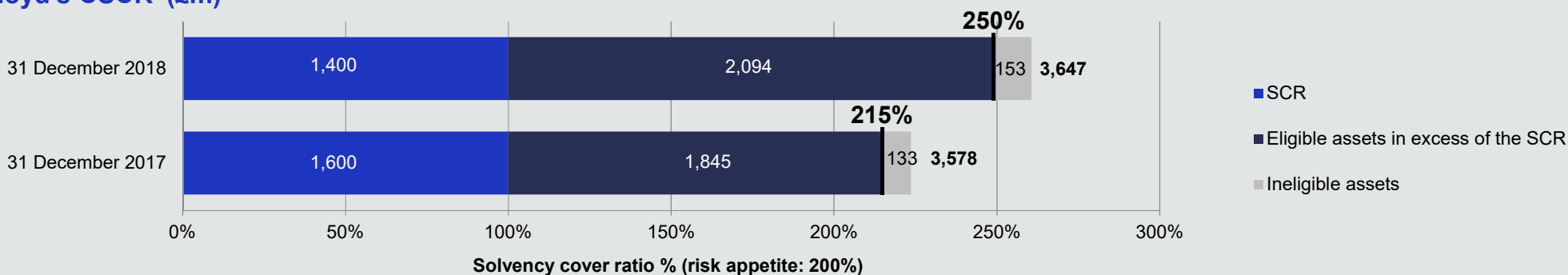
Source: Lloyd's market results, 31 December 2018 (previous losses indexed); claims in other currencies translated at the exchange rate prevailing at the date of loss. CR: combined ratio.

# Improvement in solvency ratios reflects quantity and quality of capital at Lloyd's

## Lloyd's MWSCR<sup>1</sup> (£m)



## Lloyd's CSCR<sup>2</sup> (£m)



<sup>1</sup> MWSCR: Market Wide SCR, calculated to cover all of the risks of 'the association of underwriters known as Lloyd's'; <sup>2</sup>CSCR: Central SCR, calculated in respect only of the risks facing the Society and the Central Fund. After allowing for ring fenced funds and distributable profits. RFF: ring fenced funds AOF: ancillary own funds.



## Recent losses have an adverse impact on return on capital

Return on capital					
	2014	2015	2016	2017	2018
Pre-tax result (£bn)	3.0	2.1	2.1	(2.0)	(1.0)
Combined ratio	88.4%	90.0%	97.9%	114.0%	104.5
Investment return	2.0%	0.7%	2.2%	2.7%	0.7%
Gross written premiums (£bn)	25.3	26.7	29.9	33.6	35.5
Net resources <sup>1</sup> (£bn)	23.4	25.1	28.6	27.6	28.2
Pre-tax ROC	14.1%	9.1%	8.1%	(7.3%)	(3.7%)
				<b>5 year average</b>	<b>3.4%</b>
				<b>10 year average</b>	<b>7.3%</b>

Source: Lloyd's market results, 31 December 2018, <sup>1</sup> Net resources: capital, reserves & subordinated loan notes and securities.

# Disclaimer

This information is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. It is the responsibility of any person publishing or communicating the contents of this document or communication, or any part thereof, to ensure compliance with all applicable legal and regulatory requirements.

The content of this presentation does not represent a prospectus or invitation in connection with any solicitation of capital. Nor does it constitute an offer to sell securities or insurance, a solicitation or an offer to buy securities or insurance, or a distribution of securities in the United States or to a U.S. person, or in any other jurisdiction where it is contrary to local law. Such persons should inform themselves about and observe any applicable legal requirement.

LLOYD'S