

Strategy update

Purpose

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 insurance products for its customers that allow them to operate and grow their business in the knowledge that they are protected from the uncertainties of the world. In this way, Lloyd's enables human progress.

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.

The 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.

Areas of focus

The Corporation has prioritised four areas to respond to some immediate challenges that the market is facing today:

- **Market Oversight:** improving market performance and making oversight more risk based;
- **Customers and Distribution:** making Lloyd's new subsidiary in Brussels operational by the end of 2018; 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;
- **Operations and Services:** finishing delivery of phase 1 of the London Market Target Operating Model (LM TOM) and encouraging adoption of services by the market that yield business process efficiencies; and
- **Capital:** maintaining a secure and efficient capital base with strong financial strength ratings.

The Corporation will build on this work and is planning the next phases to ensure that the Lloyd's market continues to be competitive in the future.

Strategic priority

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. The Corporation does this through a proportionate and robust market oversight regime consistent with an entrepreneurial and innovative culture.

Customers and Distribution

Lloyd's will build on its reputation for meeting customers' various needs through innovation, new technology and more efficient distribution. Lloyd's connects to customers in more than 200 territories through its 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.

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.

Progress

The Corporation has made further steps towards a truly risk-based approach by continuing to reduce the number of oversight tasks while increasing the impact of its managing agent oversight activity. It wants to enable the market to thrive and achieve superior operating returns through risk-based oversight. Long-term unprofitable areas need to be addressed and the Corporation is helping managing agents close the performance gap by identifying the worst performing syndicates and classes, and by ensuring that they either have viable remediation plans in place to return to profit or do not continue to underwrite.

The Corporation is offering differentiated oversight, supporting innovative growth and taking decisive action on loss-making areas. It expects the market to respond to challenging market conditions by managing expenses and presenting realistic plans for 2019.

Lloyd's Brussels: Since the UK voted to leave the European Union, the Corporation has sought to provide a solution to retain a comparable level of access for the Lloyd's market to that enjoyed today. The structures being put in place for Brexit also provide the market with an opportunity to enhance its profile and customer choice in the EU.

The new insurance subsidiary, Lloyd's Brussels received regulatory approval from the National Bank of Belgium in May. It will be operational to write business in the European Economic Area from 1 January 2019.

Coverholder pilots: Lloyd's Bridge is an online platform matching Lloyd's syndicates with insurance businesses to enable them to write policies as a coverholder. The pilot launched in July in three countries: the UK, Australia and New Zealand. If successful, it will be rolled out more widely in 2019.

Lloyd's Coverholder Workbench is an underwriting system through which coverholders can input risks under a binder with improved controls and information for the managing agent. The pilot is due to launch shortly with three coverholders in the UK and Australia and, if successful, will be rolled out more widely in 2019.

Encouraging innovation: Lloyd's Lab launched in September and the first cohort of teams will start on 8 October. There will be four cohorts over the next two years. Lloyd's Lab aims to enable new ideas to be tested in a fast-track, fast-fail environment. It will be a centre of InsurTech excellence to attract creative talent across the market and support innovation in an increasingly digital, data-driven world.

Selected start-ups will be given the opportunity to work with Lloyd's market experts to shape the future of Lloyd's.

The London Market Target Operating Model: LM TOM was developed to make the London Market more competitive, more efficient and more attractive around the world. It has delivered multiple solutions and has made more progress than any previous modernisation initiative, and is now focusing on adoption.

In March Lloyd's announced targets for electronic placement of risks. Syndicates accepted 16.3% of in-scope risks through electronic placement in Q2 with 63% of syndicates meeting or exceeding the Q2 mandate target of 10%. 24% did not reach the target and 13% reported that they had no in-scope risks in the period. More syndicates are expected to meet or exceed the Q4 target of 30%.

The new solution for submission, access and transformation of delegated authority bordereaux, which makes reporting by coverholders to the market easier and more efficient, is on track for launch in September 2018. This solution is important to the success of Lloyd's Brussels.

Through the LM TOM claims workstream the London Market has defined the claims service and quality of the claims product needed to strengthen its position. Claims and Straight Through Processing are the focus of the final phase of LM TOM.

While 2017 was one of the largest loss-making years for the market in recent times, it is a testament to Lloyd's strong capital framework that the losses did not result in any calls on the Central Fund. All three Lloyd's financial strength ratings were reaffirmed by the rating agencies.

Building on Lloyd's strong capital base, the Corporation is considering a number of options for further enhancing central resources.

Next steps

The Corporation wants the Lloyd's market to have efficient, competitive models for underwriting large, specialist and commoditised risks and it will work with the market to develop them.

The Corporation wants Lloyd's to be easily accessible to commercial customers from around the world, meeting their insurance needs. Lloyd's has a global customer base. The pilot initiatives are a first step in expanding the market's distribution options and making it easier for customers. The Corporation continues to look at options that offer easier and cheaper ways for customers to access the market.

The Corporation wants its infrastructure, underpinned by data, to efficiently support the market. The Corporation is considering how its infrastructure can best meet this ambition.

The Corporation wants a market accessible to a broad range of capital providers for trading insurance risk. Lloyd's capital framework has a number of advantages for capital providers but there are some constraints. The Corporation is looking at options for transforming the capital framework.