

Financial Condition Report - Switzerland

31 December 2017

Lloyd's Financial Condition Report, 31 December 2017

Overview

Lloyd's Financial Condition Report (FCR) as at 31 December 2017 has been prepared in accordance with FINMA Circular 2016/2 "Disclosure – insurers".

The FCR is prepared in respect of the Swiss branch of 'the Association of Underwriters known as Lloyd's ('Lloyd's Swiss branch'). Further information on the structure of Lloyd's and the basis of preparation of the FCR is set out in the Summary.

Lloyd's Swiss FCR contains the narrative disclosures necessary to comply with marginal notes 12 to 34 incl. of FINMA Circular 2016/2, in particular marginal note 17, which sets out those provisions which do not apply to insurers domiciled outside Switzerland.

Further information

Additional information regarding Lloyd's may be found within [Lloyd's Annual Report 2017](#) and [Aggregate Accounts 2017](#).

The Lloyd's Annual Report includes the Pro Forma Financial Statements (PFFS), which are prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared as closely as possible with general insurance companies. The Lloyd's Annual Report also includes the financial statements of the Society of Lloyd's, comprising the financial position and performance of the Corporation of Lloyd's and Central Fund.

The Aggregate Accounts set out an aggregation of all audited syndicate annual accounts including the audited results for calendar year 2017 and the financial position as at 31 December 2017 of all syndicates which transacted business during 2017.

Where relevant, references to these documents are made in the FCR.

Additional information on Lloyd's may be found in the [2017 Solvency and Financial Condition Report](#) for Lloyd's as a whole.

General Representative's statement in respect of the FCR

In accordance with the meaning of FINMA Circular 2016/2 "Disclosure - insurers", marginal note 105 and in my capacity as Lloyd's General Representative for Switzerland I acknowledge my responsibility for preparing the financial condition report (FCR) of Lloyd's Swiss branch as at 31 December 2017 and sign off the FCR.



Graham West
Lloyd's General Representative for Switzerland
Seefeldstrasse 7
8008 Zurich

Contents

Section	Content	Page
	Summary	5
A	Business activities	9
B	Performance	11
B.1	- Underwriting performance	11
B.2	- Investment performance	12
B.3	- Performance of other activities	12
B.4	- Other information	12
Appendix 1	Quantitative reporting templates (separate document)	

Summary

What Lloyd's is

Lloyd's Swiss branch is the authorised branch of 'the Association of Underwriters known as Lloyd's'. Lloyd's is the world's specialist insurance and reinsurance market.

The business written at Lloyd's is brought to specialist syndicates who price and underwrite risk via brokers and coverholders.

Under its globally recognised name, the Society of Lloyd's acts both as the market's custodian and promoter and is backed by diverse global resources and a capital structure designed to ensure financial security. Lloyd's works with an international distribution network to increase the use of insurance, building the resilience of local communities and supporting global economic growth.

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.

Lloyd's is an influential force in the insurance industry. Our vision is for Lloyd's to remain the market for specialist insurance and reinsurance. Lloyd's writes a wide range of classes of business in a variety of geographical areas, including Switzerland. Lloyd's Swiss branch does not actively underwrite business. This and other functions, such as the preparation of policy documentation and the management of claims, are performed by managing agents which manage syndicates.

Lloyd's Market Structure

Members – providing the capital

The capital to underwrite policies is provided by members of Lloyd's. This capital is backed by many of the world's major insurance groups, listed companies, individuals and limited partnerships, with corporate groups providing the majority of the capital for the Lloyd's market.

Syndicates – writing the insurance

A Lloyd's syndicate is formed by one or more members joining together to provide capital and accept insurance risks. Most syndicates write a range of classes of business but many will have areas of specific expertise. Syndicates are, technically, set up on an annual basis. In practice, they usually operate from year to year with members having the right, but not the obligation, to participate in syndicates the following year. This continuity of capital backing the syndicates means they function like permanent insurance operations. Each syndicate sets its own appetite for risk, develops a business plan, arranges its reinsurance protection and manages its exposures and claims.

At 31 December 2017 there were 95 active syndicates at Lloyd's.

Managing agents – managing the syndicates

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

At 31 December 2017 there were 56 managing agents at Lloyd's.

Policyholders – transferring risk

Policyholders include businesses, organisations, other insurers and individuals from around the world who seek to mitigate the impact of potential risks. Policyholders may access the Lloyd's market via a broker, coverholder or service company.

Brokers – distributing business

Lloyd's is a broker market in which strong relationships, backed by deep expertise, play a crucial part. Brokers facilitate the risk transfer process between policyholders and underwriters. Much of this business involves face-to-face negotiations between brokers and underwriters. In addition, local Swiss intermediaries are accredited by Lloyd's and by Lloyd's Swiss branch.

Coverholders – offering local access to Lloyd's

A managing agent may also authorise third parties to accept insurance risks directly on behalf of its syndicates. These businesses, known as coverholders, form a vital distribution channel offering a local route to Lloyd's in many territories around the world. In addition, local Swiss coverholders are accredited by Lloyd's and by Lloyd's Swiss branch.

Service companies

A service company operates like a coverholder but is 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.

Members' agents – supporting the members

Members' agents provide advice and administrative services to members, including assisting with syndicate selection.

Corporation of Lloyd's – supporting the market

The Corporation oversees the Lloyd's market. It provides the market's infrastructure, including services to support its efficient running, and protects and maintains its reputation.

The Corporation's role includes:

- managing and protecting Lloyd's network of international licences;
- agreeing syndicates' business plans and evaluating performance against those plans. Syndicates are required to underwrite only in accordance with their agreed business plans. If they fail to do so, Lloyd's can take a range of actions including, as a last resort, stopping a syndicate underwriting;
- monitoring syndicates' compliance with Lloyd's minimum standards and
- continuing to raise standards and improve performance across two main areas:
 - overall risk and performance management of the market and
 - maintaining and developing the market's attractiveness to capital providers, distributors and clients, while preserving its diversity.

The Corporation's Executive Committee exercises the day-to-day powers and functions of the Council of Lloyd's and the Franchise Board ('the Board').

At 31 December 2017 the Corporation and its subsidiaries had 994 staff, including 4 members of staff working for Lloyd's Swiss branch.

Financial highlights

Lloyd's Swiss branch generated a profit to the Lloyd's market as follows:

	2017	2016
	CHF '000	CHF '000
Gross written premiums	320'860	222'618
Net earned premiums	219'363	140'265
Net claims incurred	(94'117)	(156'517)
Acquisition and other operating expenses	(60'121)	(32'825)
Underwriting result	65'125	(32'825)
Investment return	(3'178)	(2'243)
Profit/(loss) on exchange	0	0
Other income	95	25
Expenses other than operating expenses	(1'480)	(1'451)
Result	60'562	52'747

Total gross written and net earned premiums grew significantly in the course of 2017. Large year-on-year percentage increases were made in the FINMA reporting classes Miscellaneous Financial Losses (B16) and General Liability. These developments were the result of higher demand or, in the latter case, the conclusion of a small number of significant new, multi-year contracts with multinational insureds. Higher demand was also noted in the premium growth for Group Accident insurances (B1) and Marine Hull (B6). Other branches such as Goods in Transit (B7) or Professional Liability (B13) showed a modest decline in gross written premiums.

As at 31 December 2017, the net total resources of the Society of Lloyd's – capital, reserves and subordinated loan notes – amounted to £27,560 mn. (31 December 2016: £28,597 mn.). Lloyd's ratings remain at A+ (strong) with Standard and Poor's, AA- (very strong) with Fitch Ratings, and A (excellent) with A.M. Best.

As at 31 December 2017, Lloyd's bound assets held in Switzerland in accordance with Swiss insurance supervisory law amounted to CHF 463'114'562. Those assets provide all Swiss insurance policyholders with a further layer of protection in addition to those assets of the Society held elsewhere.

Lloyd's risk profile

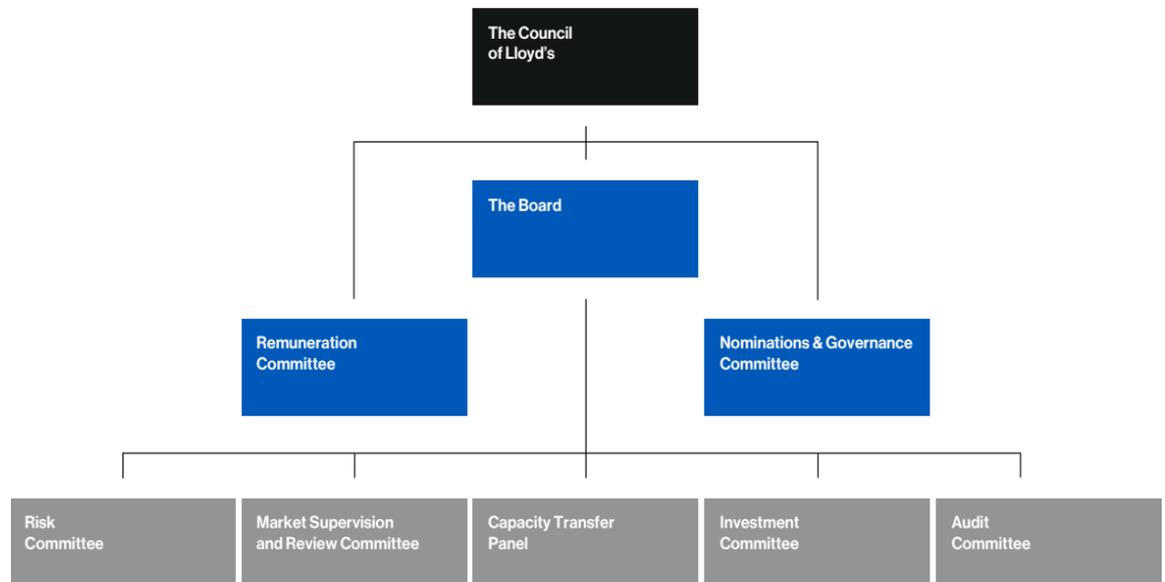
At Lloyd's, the risk profile originates from both syndicates and at central level.

Syndicates are the source of the majority of risks. They source all of the insurance business, manage the bulk of the asset portfolios, hold the majority of the counterparty exposures and conduct most of the day-to-day operational activity. The syndicate risks include: insurance risk (underwriting, reserving and catastrophe risk); market risk on central assets; market risk on syndicate assets (including credit risk on Premiums Trust Funds (PTF)); reinsurance and other credit risk; and syndicate operational risk.

At the central level, additional risks arise from central operational risk and pension fund risk.

Lloyd's governance structure

The structure of the principal governing bodies of Lloyd's is summarised in the chart below:



The Council of Lloyd's

Under Lloyd's Act 1982, the Council of Lloyd's undertakes the management and superintendence of the affairs of the Society and has the power to regulate and direct the business of insurance at Lloyd's.

The Board

The Council established the Board as from 1 January 2003. The Board develops strategies to meet the Corporation Purpose of creating and maintaining a competitive, innovative and secure market. The Board is responsible for the day-to-day oversight of Lloyd's

A Business activities

Name and legal form of undertaking

Lloyd's Swiss branch is a branch of the Corporation of Lloyd's, as entered in the Trade Register of the Canton of Zurich. Its principal place of business is Seefeldstrasse 7, 8008 Zurich, Switzerland.

Supervisory authority responsible for financial supervision

The supervisory authority of Lloyd's Swiss branch is the Swiss Financial Market Supervisory Authority, FINMA. The registered office of FINMA is as follows:

Swiss Financial Market Supervisory Authority
Laupenstrasse 27
3003 - Berne

External auditor of the undertaking

The independent auditors of Lloyd's Swiss branch are:
PricewaterhouseCoopers AG
Birchstrasse 150
Postfach
8050 Zurich

Material lines of business

Lloyd's underwriters source a wide range of classes of business from Switzerland. This is highlighted in the table below, which provides a class breakdown of gross written premium in the reporting year 2017:

Accident	11.5%
Illness	0.0%
Motor vehicle	1.9%
Transport	10.9%
Fire and Property	17.4%
General third-party liability	33.6%
Other branches	24.7%

Significant events during the reporting period

The Lloyd's market as a whole experienced an exceptionally difficult year in 2017, driven by challenging market conditions and a significant impact from natural catastrophes. These factors mean that for the first time in six years Lloyd's reported a loss – the aggregated 2017 market result is a loss of £2,001m. The result reflects the market facing one of the costliest years for natural catastrophes in the past decade.

Lloyd's market participants collectively fared much better in Switzerland in 2017, as demonstrated by the results set out in the summary. There was an absence of significant natural catastrophes. There was also largely an absence of significant new claims in the classes of business Credit and Professional Liability. Some large claims in those branches from earlier underwriting years of account were settled and case reserves dissolved.

Lloyd's, together with the relevant Lloyd's underwriters decided, in the course of 2017, to withdraw from statutory accident insurance ("UVG"). The relevant discussions were held and agreements made with FINMA and with the Federal Ministry of Health ("BAG") to this end. No such new or renewal business will be underwritten in 2018. The remaining in-force UVG contracts will all expire by the end of 2018 at the latest. Lloyd's underwriters will continue to service all their obligations from this class of business.

Lloyd's underwriters' licensing position and operations in Switzerland have not been affected by the referendum decision on Brexit nor by the decision to establish a Brussels-based insurance company to provide access for EEA-based clients and brokers following the United Kingdom's withdrawal from the European Union (EU).

The Lloyd's market has been more than able to meet its commitments without any significant impact on its total resources, which remain strong. Lloyd's financial ratings remain at A (Excellent) from A.M. Best, A+ (Strong) from Standard & Poor's and AA- (Very Strong) from Fitch.

B Performance

B.1 Underwriting performance

The Lloyd's Swiss branch result for 2017 is reported to FINMA in its FIRST reporting tool. The financial statements of the branch (balance sheet, income statement and management report) were audited and filed with FINMA.

The overall underwriting result is summarised below:

	2017	2016
	CHF '000	CHF '000
Gross written premiums	320'860	222'618
Net earned premiums	219,363	140'265
Net claims incurred	(94'117)	(156'517)
Acquisition costs and other operating expenses	(60'120)	(32'825)
Underwriting result	60'562	(52'747)

Gross technical reserves increased from CHF 458.7 mn. at end-2016 to CHF 542.6 mn at end-2017. This was the result of significant increases in the reserves for unearned premiums (itself a result of the significant year-on-year premium growth) and in case reserves. Actuarial decisions were taken to strengthen the provisions and/or to lengthen the timeframe for the run-off of certain long-tail risks.

The volatility reserve in the Credit insurance branch rose by the end of 2017 by a further CHF 2.8 mn. to reach CHF 28.3 mn, albeit that gross written premiums booked in the reporting year itself declined slightly by CHF 2.2 mn. to CHF 34.1 mn.

In general it can be stated that private client business, which is mostly underwritten by Swiss coverholders, has remained stable whereas corporate client business has demonstrated a high level of volatility year-on-year.

Other items contributing to the net result of CHF 60.562 mn. profit in 2017 were the increase in acquisition costs from CHF 32.8 mn. to CHF 60.1 mn. This is largely attributable to the effect of a large, multi-year contract, which also affected the reported future gross premiums. Administrative expenses for the maintenance of the Zurich branch office were essentially unchanged at CHF 1.48 mn. whilst the branch made recoveries of CHF 95,000 for the recovery of costs from certain syndicates for the provision of specific "user pays" services.

Syndicates underwriting Swiss business continue to be reliant upon continued interest from new intermediary co-operations. There remains a steady flow of such interest from Swiss broking companies seeking access to the Lloyd's market, notably for special products not offered by the local market as well as from Lloyd's brokers seeking to service clients' international programmes to include operations in Switzerland.

B.2 Investment Performance

Lloyd's Swiss branch is required to maintain Bound Assets in Switzerland to collateralise its liabilities from its Swiss insurance business. This is performed in accordance with Swiss insurance supervisory law, including FINMA Circular 2016/5 "Investment Guidelines - insurers".

Lloyd's bound assets are invested in registered money market claims of the Swiss Confederation or in similar short-term instruments or cash deposits. State or corporate bonds form no part of the portfolio, nor do any equity investments. Lloyd's investment policy is conservative and based on the security of the underlying assets.

The investment environment remained difficult in the course of 2017, with only negative interest rates on offer in the asset classes noted. Hence an investment loss of CHF 3.178 mn. was booked (2016: CHF – 2.243 mn.).

As at 31 December 2017 the bound assets were spread among four Swiss banks with high or the highest credit ratings. The general supervisory principles concerning the security of the assets and their retention were observed at all times.

B.3 Performance of other activities

There is no material information to report.

B.4 Other information

There is no other material information to report.