Strategic Report

In 2018 we made good progress on our priority areas: focusing our oversight to improve performance; implementing our Brexit solution; ramping up adoption of the London Market Target Operating Model; and embracing technology to pilot new initiatives.

For 2019 we are focused on cementing our future success to ensure Lloyd's remains the top choice for commercial and specialty insurance. To do that we will be working to understand and design Lloyd's collective vision for the future, underpinned by our refreshed purpose of "sharing risk to create a braver world".

Contents

Lloyd's Purpose and Business

Lloyd's purpose

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". The purpose speaks to the impact and aspiration of the market and is as true as it was in Edward Lloyd's coffee shop in 1688.

How Lloyd's delivers on its purpose

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.

Lloyd's business model

With our trading rights and distribution network of international hubs, brokers, coverholders and service companies, the market is able to underwrite risks from around the world through Lloyd's syndicates. Members (the capital providers) put up their capital and share in the risks and rewards of the syndicates they support. All insurance policies are underpinned by Lloyd's central assets of over £3bn, including the Central Fund, which is designed to ensure that the market remains well capitalised even under extreme events and helps Lloyd's to maintain its reputation for paying all valid claims.

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 business lines across multiple areas of expertise. Each syndicate sets its own appetite for risk, develops a business plan, arranges its reinsurance protection and manages its exposures and claims.

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

Lloyd's is a broker market in which strong business relationships, backed by deep expertise, play a crucial part. Brokers facilitate the risk transfer process between customers and underwriters. Much of this business involves face to face negotiation, supported by electronic placement.

Business flow

Customers – transferring risk
- Global commercial organisations, such as FTSE 250 and Fortune 500 companies
- Small and medium-sized enterprises
- Individuals
- Other insurance groups

Distribution channels
- 303 brokers: distributing business
- 378 service company locations
- 3,936 coverholder locations: offering local access to Lloyd's

The market

55 managing agents – managing syndicates

84 syndicates – writing insurance and reinsurance directly

15 special purpose arrangements set up solely to write a quota share of another syndicate

Gross written premiums:		Capital and reserves:	
2018	£35.5bn	2018	£28.2bn
2017	£33.6bn	2017	£27.6bn
2016	£29.9bn	2016	£28.6bn

Capital flow

Members (the capital providers)
- Trade capital: insurance companies from around the world
- Institutional capital: such as pension funds and private equity
- Private capital (via members' agents): such as small companies and individuals

The Corporation – supporting the market

For further information on the Lloyd's market visit: lloyds.com/thelloydsmarket

Note: All figures are as at 31 December 2018. Capital and reserves of £28.2bn was split among members' assets held severally of £25.0bn, mutual assets of £2.4bn and subordinated debt of £0.8bn.

Syndicates can also authorise third parties, known as coverholders to underwrite business on their behalf locally around the world. Service companies are wholly owned by a managing agent or a related group company and are authorised to enter into contracts of insurance for members of the associated syndicate.

Value generation

Lloyd's strategy is to maintain and enhance the value it offers to its many stakeholders:

— **Customers,** ensuring that their needs are met;
— **Distributors** that bring business to the Lloyd's market;
— **Managing agents,** carrying out the underwriting and paying claims; and
— **Capital providers** backing the risks written at Lloyd's.

Lloyd's generates value by creating for its stakeholders:

— **Choice:** Lloyd's is the world's largest insurance marketplace and global distribution network, competing and collaborating to share risks no matter what the size, location, industry or complexity;
— **Confidence:** we take pride in doing what's right, paying all valid claims. For over three centuries the security of Lloyd's has protected what matters most to people, businesses and communities and helped them recover in times of need;
— **Partnership:** the trusted relationships which underpin our marketplace are one of our greatest strengths. Our community of experts bring a collaborative culture of mutual respect to best serve our customers, enabling us to share risk;
— **Expertise:** with an unrivalled depth and breadth of insurance expertise, new ground is familiar territory to Lloyd's. We bring together the best minds in the industry, and together our underwriters and brokers create innovative, responsive solutions;
— **Insight:** Lloyd's has always been an intelligence network and continues to lead the industry. Our insight, experience and judgement inform decision-making, enable innovation and ensure our customers stay resilient and ahead; and
— **Ecosystem:** as a marketplace, Lloyd's provides access to economies of scale through consistent standards and shared business services. Our competitive environment and capital efficiencies improve performance and unlock new opportunities.

Lloyd's has a globally recognisable brand and is proud of its reputation for paying all valid claims in a timely and efficient manner. Lloyd's is committed to being an inclusive global market that treats its people and customers with dignity and respect. The Corporation seeks to improve performance in the market and to help maintain Lloyd's reputation, for the benefit of all stakeholders. The Corporation carries out this responsibility through a proportionate and robust market oversight regime consistent with an entrepreneurial and innovative culture.

Benefits to society

Lloyd's is part of the broader London insurance market, writing more than half of its total premium. The London insurance market employs over 50,000 people and represents more than a quarter of the City of London's gross domestic product.

Lloyd's also plays its part globally in supporting the communities in which it operates and in taking a lead on wider social and environmental issues. Lloyd's was a founding member of the ClimateWise initiative, a collaborative endeavour by insurers to drive action on climate change.

Areas of focus in 2018

Lloyd's strategy has concentrated on meeting the most pressing challenges facing the market to ensure the long term profitability of the Lloyd's market. These were:

— To return Lloyd's to sustainable profitable performance through risk-based market oversight and a rigorous performance review process;
— Finishing delivery of phase 1 of the London Market Target Operating Model and encouraging adoption of services by the market that yield business process efficiencies;
— Making the new Lloyd's Brussels subsidiary operational by the end of 2018 and to grow our business in Europe; and
— 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.

Future direction

The focus in 2019 is on finishing what we have started; getting the Corporation ready to deliver future changes; developing a shared market vision; and delivering a blueprint for Lloyd's future development that will sustain the market over the longer term.

Non-financial information statement

The Corporation aims to comply with the requirements contained in sections 414CA and 414CB of the Companies Act 2006 and related guidance on the Strategic Report issued by The Financial Reporting Council Limited.

Reporting requirement	Page reference to our approach
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Key risks	14
Non-financial KPIs	16-18
Environmental and social matters	19
Anti-corruption and anti-bribery matters	19
Human rights	19
Employees	20

External Environment

The world economy

2018 GDP growth of 3.7% suggests that while the world continues to recover from the 2008 global financial crisis, we are still living with the consequences. Growth has still not reached pre-2008 levels and it is forecast to slow down. US GDP growth improved to 2.9% while the EU28 area showed a reduction to 1.9%.

The slow recovery has had a number of implications for the wider economy and the insurance industry in particular. As a marketplace of competing and collaborating businesses, the Lloyd's market has different opportunities to respond collectively.

Geopolitical trends

Slower global growth can often result in trends of nationalism and protectionism. Across the globe, geopolitical tensions have been increasing. Trade tensions between the US and China may increase trade tariffs in 2019 with the danger that in an extreme scenario it could have a dampening effect on world GDP and on global insurance premiums.

Politics among western democracies is becoming more polarised on the back of the growth in populism. From the impending exit of the United Kingdom from the EU, unilateral actions taken by the US, to instability in the Middle East – the impacts of this instability are affecting people and businesses around the world.

Sustainability

At the same time there is growing recognition that businesses must do more to promote a sustainable future. The threats posed by climate change, unclean air, water scarcity and related food insecurity are already well documented. For example, disruptions to the production and delivery of goods and services due to environmental disasters are up by 29% since 2012.

Business leaders have a responsibility to align their commercial interests with these challenges. Evidence suggests that more than two-thirds of economic losses from natural disasters remain uninsured. More needs to be done to close this protection gap and mitigate the wider damage caused by climate-related disasters.

The Corporation is proud to take a lead role in addressing wider social and environmental issues, and has signed up to the United Nations Global Compact. In so doing, the Corporation agrees to align strategy, culture and day to day operations with universal principles on human rights, labour, the environment and anti-corruption, and to take actions that advance societal goals.

Insurance industry

Responses to the global financial crisis have led to a period of quantitative easing and low interest rates, with only moderate inflationary pressure so far. This pressure is expected to increase as some economies show signs of overheating. The US Federal Reserve increased interest rates on four occasions in 2018, although the prospect of further rises is uncertain.

This has led to a search for returns from the capital markets, including from insurance risk which has enjoyed historically attractive returns to capital. This in turn has driven down the price of risk transfer with what seems to be a less volatile supply of insurance capital. While this has resulted in good outcomes for customers in terms of the price and capacity of insurance coverage, it has challenged insurers' and reinsurers' profitability.

The relatively benign claims environment before 2017 masked some of these issues, but they have increasingly come to the fore as the incidence of major claims in the last two years has increased. Despite the increased claims, price increases have been modest, and it remains uncertain whether this trend will be sustained.

Many insurers and reinsurers have responded in a similar fashion by getting closer to the customer, making better use of data and analytics to ensure the price more closely reflects the risk and seeking operating and cost efficiencies – including through acquisition.

We have seen similar developments within the London and Specialty markets – notable transactions in 2018 included AXA's takeover of XL Group, Marsh's purchase of JLT, Markel's acquisition of Nephila – the industry's largest ILS fund manager – and Hanover Insurance Group's sale of the Chaucer Group to China Re.

While these activities are affecting individual market participants, what sets the Lloyd's market apart is its ability to act collectively as a marketplace. This has been most notable recently in the market's growing adoption of the London Market Target Operating Model initiatives that will deliver efficiencies. These continue to be a focus for the market in 2019 and, through its oversight role, the Corporation has a heightened focus on expense management in the market.

Technology and innovation

As the pace of technological change has increased in past decades, it has changed the way we live and the risks to which we are exposed. The development of new insurance solutions has often lagged behind the emergence of risks, even more so as the pace of change has increased. Lloyd's was a pioneer of cyber insurance which started to appear in the late 1990s. Lloyd's continues to foster product development to address the unique dynamic exposures, currently writing approximately a quarter of global cyber premiums. Nevertheless, most cyber risks are still uninsured – and more are emerging all the time. It will likely remain a growth area for years to come.

The Corporation carried out a thematic review of cyber security in 2018 with a report provided to the market highlighting good practice. Further guidance will be provided in 2019.

The advent of the Internet of Things has the potential to increase complexity and amplify risk, but it could also enable more innovation throughout the insurance industry, including the way claims are settled in future. It has been estimated that by 2020, some 25 billion devices will be connected to the internet.

Interconnectivity will create new business models where more is known about insureds, policies are generated in real time and are bespoke, and fraudulent claims are recognised quicker. The ability to create personalised policies will also enable insurers to more accurately predict and mitigate risks.

New types of threats will emerge, which will increase the need for insurers to develop new products and services that better serve their customers' risk profile. The scale and variability of the type of disruption that could occur will affect multiple sectors and lines of business. Businesses are moving away from concentration in tangible assets towards intangible assets such as networks, data and client relationships and intellectual property. These assets lead to new types of exposures like earnings and cash flow losses, business interruption absent property damage, cyber and product recall risks. Successful insurers will be alive to the challenge and embrace these new risks with innovative products.

As the world changes, Lloyd's reputation for being at the forefront of insuring progress remains firm. But we are not complacent, and we will build on our reputation to ensure that the Lloyd's market continues to be the place to take on new risks.

Regulatory environment

The insurance industry is operating in an increasingly complex global regulatory environment. As well as the ongoing cost of complying with regulation there remains uncertainty in some emerging areas, with significant implications for insurers.

The withdrawal of the US from the nuclear agreement with Iran in May 2018 has caused a divergence in foreign policy in relation to Iran, between the EU and the US. Insurers are now caught between directly conflicting regulations and lawful business from the EU will now be potentially exposed to US secondary sanctions.

The Insurance Distribution Directive became mandatory in October 2018. It is an EU-wide directive aimed at ensuring minimum harmonisation of insurance distribution regulation across the EU, creating a "level playing field" for insurance intermediaries and insurance distribution, regardless of the channel customers use to purchase their products. The aim is to ensure consistent prudential standards for intermediaries as well as significantly raising conduct standards, improving consumer protection and effective competition. The Corporation will continue to assess its impact and identify best practice to ensure managing agents are meeting the new requirements.

The tax environment is becoming increasingly difficult. The US has introduced an anti-abuse rule that significantly limits non-US insurance groups' ability to efficiently consolidate and manage their group risk in a single location. The OECD, European Commission, UK and others are actively looking at the challenges of appropriately taxing the digital economy which, while not specifically aimed at the insurance industry, is a concern as the line between digital businesses and business that operates on a digital platform is not an easy one to draw.

The first review of the Solvency II framework took place and focused on the standard formula used to calculate the Solvency Capital Requirement. A second review is scheduled for 2020 and is expected to allow for more fundamental change.

The impact of European regulatory developments on the UK will be affected by any form of withdrawal from the EU. Following a UK departure from the EU, UK insurers' and reinsurers' continued access to the EU single market will depend on the extent to which the UK maintains regulatory alignment. The establishment of an insurance subsidiary in Brussels ensures that Lloyd's will continue to have access to European markets.

In the UK, the Senior Managers and Certification Regime came into effect for insurers in December. This aims to strengthen the regulatory regime to ensure that there is an effective governance system with a clear allocation of responsibilities within firms and to raise standards of conduct.

Outlook

The prevailing conditions give rise to risks and challenges that shape our strategy. The most critical risks are highlighted for focus through Lloyd's risk framework. A summary of these risks is provided with an overview of the mitigating actions currently in place.

Lloyd's Key Risks and Risk Appetite

Each year the Corporation identifies the key risks which could have a significant impact on Lloyd's business, and the mitigating actions required to reduce or eliminate the risk.

Key risk and impact on Lloyd's	Mitigation
Market performance Lloyd's businesses suffer losses or erode their capital base due to a failure to respond to changing market conditions.	— Increased oversight of Lloyd's poorly performing classes. — Monitoring syndicate remediation/performance improvement plans. — Close monitoring of syndicates' performance against 2019 approved business plans to ensure they do not materially deviate from them, or where they do, that the changes are acceptable. — Continue to closely monitor and respond to the market risk appetite measures.
Attractiveness of Lloyd's market Lloyd's sees its long term attractiveness suffer by failing to respond to emerging issues such as the rising cost of distribution and rapidly evolving technologies such as AI and robotics.	— Continue to review and adapt Lloyd's strategy in response to new and evolving business model threats. — Establishing the capabilities to ensure we can deliver valued services for our different stakeholders. — Enhancing and building on the services provided through the London Market Target Operating Model programme to yield further business processing efficiencies. — Increased investment in innovation and technology. — Launching pilot initiatives to make it cheaper and easier for customers to reach Lloyd's.
Brexit A loss of passporting rights to the European Single Market could lead to a reduction in business written, or business written at Lloyd's from the single market will be more expensive.	— Lloyd's new European insurance company, located in Brussels, has gone live and is writing risks. This ensures customers based in the EEA are able to access the Lloyd's market after the UK has left the EU. — Preparations to minimise disruption from a potential no-deal Brexit are underway.
Operational resilience Failure to deliver the desired process, technology and organisational change or maintain operational resilience could mean that operating in the Lloyd's market is inefficient, costly and no longer attractive.	— As Lloyd's invests in new technologies, we will assess the approach taken to ensure adequate operational resilience, its effectiveness and any gaps in the technology being implemented. — Strong central governance to manage delivery risks associated with change programmes at Lloyd's, including detailed project risk assessments. — Contingency plans for the failure of key services, processes or outsource providers to ensure recovery of services or workaround processes at Lloyd's.
Cyber risk Lloyd's suffers a loss as a result of a direct malicious electronic attack or through exposure to aggregations of risk via the policies written by its businesses.	— Refreshing the Data Management Minimum Standard and development of Cyber Security guidance for the market. — Ongoing participation with industry bodies to maintain awareness of changing cyber risks and thought leadership reports on cyber scenarios. — Monitoring of risks against Lloyd's cyber risk appetite. — Market oversight framework detailing annual review activity to include exposure/aggregation monitoring.
Significant regulatory and tax changes Lloyd's sees its competitive position weaken, suffers regulatory penalties or disadvantageous capital position in an era of heightened geopolitical risk and uncertainty.	— Continue to lobby to influence the evolution of UK, European and global regulatory and tax frameworks to maintain the competitive position of the market. — Monitoring Solvency II compliance at Lloyd's. — Responding to regulatory consultations/regulatory liaison on topics such as climate change.
Financial crime Lloyd's fails to align with current and emerging global regulation around financial crime and sanctions.	— Further development of the financial crime risk management framework to better reflect the relevant risks faced by Lloyd's. — Ongoing monitoring of sanctions and issuing guidance to the market. — Increased resource dedicated to financial crime risk oversight.

Risk appetite

At Lloyd's, the Board manages exposure to risk by setting and monitoring a risk appetite framework. The framework starts with Lloyd's purpose – **sharing risk to create a braver world.**

To deliver on this purpose, Lloyd's sets three risk objectives to be continuously met:

- Sustainability – Lloyd's strategy must deliver a sustainable business model over the medium term;
- Solvency – Management of financial risks ensures that Lloyd's is able to withstand an extreme event and trade forward; and
- Operational – The risk of operational and other events is managed to ensure Lloyd's maintains its strong reputation.

These risk objectives reflect the Board's view of the acceptable risk faced by Lloyd's and provide the three pillars of the risk appetite framework. Within each pillar, a number of metrics define the amount of risk that Lloyd's is willing to take. These metrics represent the key elements that could result in the risk objectives not being achieved for that pillar. The metrics are monitored on an ongoing basis and reported to the Board each quarter alongside any "get to green" actions if a threshold has been breached.

Lloyd's purpose:	Lloyd's purpose is sharing risk to create a braver world. The Corporation acts to create and maintain a competitive, innovative and secure market.		
	Pillar: Sustainability Strategic, Group, Insurance, Credit	**Pillar: Solvency** Market, Liquidity	**Pillar: Operational** Reputation, Legal, Regulatory, Conduct
Risk appetite statements:	**Risk objective:** Lloyd's strategy must deliver a sustainable business model over the medium term **Statement:** The rolling average five year combined ratio should be less than the five year target	**Risk objective:** Management of financial risks ensures that Lloyd's is not exposed to undue concentration and is able to withstand an extreme event and trade forward **Statement:** Losses under a 1-in-200 event should not erode the Central Fund to below the Solvency Capital Requirement	**Risk objective:** Risk of operational and other events is managed to ensure Lloyd's maintains its strong reputation **Statement:** Activities in the market and the Corporation should be managed to avoid significant reputational damage

Areas of Focus in 2018

Managing market performance

Rationale and approach

The purpose of the Corporation is to create and maintain a competitive, innovative and secure marketplace, where insurance and reinsurance business can be transacted. Through this, Lloyd's protects and promotes the interests of the market and its customers, with oversight of both prudential and conduct risks across the market. To do this effectively, the Corporation must challenge syndicates and managing agents when business and operational performance does not meet the required standards. It is important that the Corporation's market oversight is valued by all stakeholders and is supportive of sustainable, profitable growth while safeguarding customer interests and Lloyd's financial strength ratings.

Lloyd's has a risk-based approach to oversight. This means that our approach to each syndicate and managing agent is appropriate, and oversight teams spend their time appropriately; with more effort focused on the most material risks. There are a number of principles that underpin the Lloyd's approach:

— It is built on minimum standards, to which managing agents must adhere;
— It must be clear and transparent to ensure managing agents understand what the Corporation does, and the reasons behind decisions taken; and
— It must not be unduly burdensome on managing agents.

The Corporation is mindful that supervisory activities are undertaken by other parties: the managing agents themselves, their parent companies (in many cases), and by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), as well as regulators in many overseas jurisdictions. Lloyd's aims to minimise any duplication of work undertaken by these parties.

Developments in 2018

Both 2017 and 2018 were challenging years for the Lloyd's market, and for the broader industry in general. While heavy catastrophe losses have impacted results, the market has faced a number of other, historical challenges.

Since 2012, a bounty of capital and fierce competition have helped keep prices low. In these conditions, some carriers have continued to reduce prices to retain business or have continued underwriting risks which were unlikely to deliver sustainable, profitable performance. This is not sustainable in the long term, so the Corporation had to take decisive action to help the market improve performance.

Alongside the annual business planning process, the Corporation introduced performance reviews to look at perennially unprofitable syndicates and classes of business, and asked syndicates to identify their poorest performing business, known as "Decile 10". The reviews required syndicates to produce plans that demonstrated a realistic route to sustainable, profitable performance, and improve or withdraw from poorly performing business.

The outcome of this process saw around £3bn of the poorest performing business exited by the market. More importantly, syndicates experiencing poor performance agreed business plans that showed a clear route back to sustainable profitability.

While strong action was taken to address unprofitable areas, no class of business was closed at Lloyd's and capacity is still deployed in all classes previously written. Around £7bn of new business is contained within the plans approved for 2019, with many syndicates planning to grow through strong value propositions and innovative growth such as cyber and the sharing economy.

Several initiatives were introduced in 2018 to develop and improve the way the Corporation works with the market. One example is the oversight managers, who are integral to the oversight approach. Oversight managers have responsibility for ensuring the Corporation is fully conversant with the operations and ambitions of the managing agents and their stakeholders. They ensure the level of oversight applied to each managing agent is reflective of the risk posed and provide structured communications and commercially-driven outcomes for managing agents.

Market oversight remains a key priority for the Corporation in 2019, with a strong focus on active portfolio management, through an approach of continuous improvement and risk-based oversight. This means focusing more on poorly performing syndicates and less on the good performers. The Corporation will maintain the decile approach, continuously monitoring the worst performing "Decile 10", while also analysing the best performing portfolios (Deciles 1 and 2) to identify areas of future strong growth.

The robust action taken in 2018 and strong business plans in place for 2019 provide the Corporation with confidence that the Lloyd's market will be set up for a sustainable, profitable and successful future.

Key performance indicators

KPI	Outcome
No new Central Fund dependent members other than as a result of a significant event.	Achieved
No managing agent issues resulted in a financial or reputational loss that should have been prevented or mitigated through the market oversight framework.	Achieved
Lloyd's Solvency II internal model "major model change" application approved by the PRA.	Achieved
Reduce the amount of Tier 2 assets that are ineligible for meeting our solvency capital requirement.	Achieved
For first party claimants on open market business, reduced average time taken between first notification of loss and settlement by 5%.	Achieved
The percentage of decisions on policyholder complaints upheld by the Financial Ombudsman Service over 2018 was at least 0.5ppts lower than the industry average.	Not achieved. Percentage impacted by complaints from two coverholder schemes that have now exited Lloyd's. Changes implemented in 2018 should improve performance

Market modernisation

Rationale and approach

The London Market Target Operating Model programme is designed and delivered by our market for our market. This involves working collaboratively with managing agents, brokers, company market carriers and the Corporation to deliver industry-wide infrastructure and an enhanced service proposition covering London, Lloyd's international operations and delegated authority business.

This is critical to ensuring the continued success for the market within which participants can not only compete for business, but also compete collectively as the world's leading (re)insurance market to provide the best services and solutions to our customers.

Developments in 2018

2018 has been focused on adoption. In March, Lloyd's published new mandatory targets for the placing of contracts into the market through a recognised electronic system. For Q4 2018, the target was set at 30% of in scope contracts and the market achieved 39.17%. New targets for both quotes and placements have been set for 2019 and, in addition, Lloyd's brokers will be required to connect to a recognised electronic placement platform by 1 June 2019. By the end of 2019 we expect the market will be placing at least 70% of its contracts electronically.

A key part of making Lloyd's more attractive to coverholders was the delivery in September 2018 of the delegated authority submission, access and transformation service (DA SATS). DA SATS combines a single set of market-approved reporting standards with a central repository to facilitate the collection of data in line with the standards. It is supported by a centrally manned service for automated submission, collection, validation, processing and distribution of delegated authority data. All managing agents with delegated authority business have signed up to the service and over 1,250 people have been trained in the London market.

The services to co-ordinate coverholder audit and compliance checks are now 100% adopted. In addition, we have begun to make improvements to the coverholder approval process.

The Central Services Refresh Programme has developed a post bind submission channel that enables brokers to submit accounting and claims movement data in a consistent format in line with global insurance messaging standards. We are working to improve take up and onboard brokers that have expressed an interest in adoption.

The market objective to drive "straight through processing" efficiencies was furthered by the deliveries of Structured Data Capture and Common Services. The former is a simple online service that converts the content of various market documents into consistent, electronic data during the risk placement process; while Common Services is a live system that makes it easier to access, integrate and share data across the London market.

Structured Data Capture delivers enhanced functionality for carriers to send digitised documents to DA SATS and provides the solution to support Lloyd's insurance subsidiary in Brussels.

The 2019 focus is to continue progress on adoption with emphasis on integration and business benefits.

Key performance indicators

KPI	Outcome
London Market Target Operating Model adoption targets in Q4 2018 achieved:	
— 30% of open market risks per managing agent bound through PPL;	Achieved
— 12 market firms on-boarded to the CSRP service;	Not achieved. We are working to improve take up
— 20% of binders processed through Delegated Authority Data Submission, Access and Transformation Service;	Achieved
— 97% of coverholder audits coordinated through the audit system;	Achieved
— All coverholders subject to the compliance oversight service; and	Achieved
— 15% of Market Reform Contracts and additional documents processed through the Structured Data Capture service.	Achieved

Lloyd's innovation lab

In September 2018, Lloyd's launched its innovation lab. Lloyd's Lab, located in the Lloyd's Building, is a space where new concepts, ideas and products can be developed with the support and active involvement of the market. It will focus predominantly on designing new technology-driven solutions for Lloyd's and should also help to promote new more agile ways of working and a more innovative culture.

The first cohort of 10 teams started in Lloyd's Lab in October and presented their outputs at demonstration day in December – a number have ongoing discussions with the market and possible next steps are being considered by Lloyd's. A second cohort is due to start in April 2019.

Key performance indicator

KPI	Outcome
Three ideas developed through the Lloyd's Lab, one of which is suitable to be taken forward for implementation for the benefit of the Lloyd's market.	Achieved

Areas of Focus in 2018 *continued*

Delegated authority business

Lloyd's is working toward providing user friendly and integrated systems to support delegated authority business, harnessing new technologies and modernising our processes.

Lloyd's Workbench

Lloyd's Workbench is a digital platform that will support the full coverholder placement life cycle – including submission, policy management and cash handling – while also supporting claims recording and payments. It is being developed for coverholders placing business on behalf of Lloyd's syndicates, and is aimed at making Lloyd's an easier and more attractive market for delegated authority business.

Workbench is expected to be of particular benefit to new coverholders and small to medium sized existing coverholders who may not be able to source their own systems cost-effectively, or who need to replace their legacy systems.

The Workbench pilot began in September in the UK and Australia with a small number of coverholders and it is being rolled out further during 2019.

Lloyd's Bridge

In July, Lloyd's commenced a pilot online digital platform seeking to introduce new binding authority propositions for the market.

New business partners and existing coverholders are able to upload new business opportunities onto the platform that are then matched against "live" business appetites and expertise of participating carriers and brokers. The pilot is currently being trialled in the UK, Australia and New Zealand.

Key performance indicators

KPI	Outcome
Coverholder underwriting portal (Lloyd's Workbench) pilot completed.	Achieved
Managing general agent matching portal (Lloyd's Bridge) pilot developed and launched with three new coverholders introduced via the portal.	Not achieved. Although only one new binding authority was completed by the year end, further opportunities are being progressed

Brexit

Lloyd's starts a new chapter in Europe

Although uncertainty remains around the United Kingdom's exit from the European Union, Lloyd's will continue to pay all valid claims regardless. We will be moving all legacy EEA business to Lloyd's Brussels before the end of 2020, through an insurance business transfer under Part VII of the Financial Services and Markets Act 2000.

In order to guarantee our ability to accept business from customers within the European Economic Area, Lloyd's has established a separate insurance subsidiary in Brussels. In June we obtained licence approval from the National Bank of Belgium for the Lloyd's subsidiary and it began processing business in November.

As well as its headquarters in Brussels, the new insurer has 19 European branches and is working with over 400 coverholders and 40 Lloyd's brokers spread across Europe.

In December, we appointed Sonja Rottiers as our new Lloyd's Brussels Chief Executive Officer. She has over 30 years' experience in the Belgian financial services industry. Sonja took up her position in February 2019.

Now that Lloyd's Brussels is operational, we are looking forward to the new opportunities that we will have to grow our business with European customers through a locally employed, locally regulated and locally capitalised insurer. By using electronic placement and digital data capture, Lloyd's Brussels offers its partners in Europe the very best that Lloyd's has to offer in an easily accessible and cost-effective way.

Key performance indicator

KPI	Outcome
Lloyd's Brussels is ready to write business from 1 January 2019.	Achieved

Responsible Business

Environment

Lloyd's continues to be an active member of the ClimateWise initiative, a collaborative endeavour by insurers to drive action on climate change. The total reported greenhouse gas emissions from the Corporation's business activities in 2018 were 9,732 tonnes of CO_2e, a decrease of 11% since 2017 and our fourth consecutive year of emission reductions.

Community

Lloyd's plays its part globally in supporting the communities in which it operates and in taking a lead on wider social and environmental issues. 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 to what we do and how we do it.

Our responsible business approach underpins the Lloyd's market in supporting global economic growth, and helping people, businesses and communities recover after disasters. To this end, in 2018 Lloyd's signed up to the United Nations Global Compact, the world's largest corporate sustainability initiative.

The Corporation not only has its own responsible business initiatives but also manages three independent charities and a community volunteer programme supported by the Lloyd's market in London. All three charities have their own trustees made up from professionals across the Lloyd's market and academia: Lloyd's Charities Trust, Lloyd's Patriotic Fund and Lloyd's Tercentenary Research Foundation. In 2018 the Corporation donated £1.4m and supported nearly 3,000 volunteers from across the market to help people in our local communities through Lloyd's Community Programme.

Anti-bribery and corruption

The Corporation is committed to ensuring it, any associated parties, and the market it oversees has robust systems, policies and controls in place to minimise the risk of any acts of bribery and corruption. The Corporation has its own policies and procedures covering anti-bribery and corruption (including gifts, entertainment and whistleblowing policies).

Through its oversight of the market, the Corporation also lays down financial crime-related minimum standards, which it expects the market to implement accordingly.

Responsible investment strategy

The Corporation's investment philosophy focuses on generating long term, sustainable capital growth for Central Fund assets. The approach to responsible investment is built upon three core pillars;

- Protecting the Central Fund assets by considering environmental, social and governance risks;
- Promoting responsible business practices in companies through activities such as corporate engagement and shareholder action; and
- Providing capital to support a sustainable future, through investments in green and social impact bonds and by excluding investments in coal focused companies.

Human rights and modern slavery

We fully support the principles set out in the United Nations Universal Declaration of Human Rights and the International Labour Organisation core labour standards. We respect the dignity and rights of each individual who works for us and with us.

Lloyd's greenhouse gas (GHG) emissions 2018

	Scope 1 (tonnes CO_2e)	Scope 2 (tonnes CO_2e)	Scope 3 (tonnes CO_2e)	Lloyd's total 2018 GHG emissions (tonnes CO_2e)	Lloyd's total 2017 GHG emissions (tonnes CO_2e)*
UK	1,702	5,253	1,886	**8,841**	10,170
International offices	17	768	106	**891**	825
Lloyd's 2018 total GHG reported emissions				**9,732**	**10,995**

Lloyd's UK operations, which accounts for 91% of our overall electricity consumption, benefitted from a 19% reduction in the average carbon intensity of purchased electricity. This trend continues to be driven by the decarbonisation of the UK's electricity grid. Despite increased demand for heating in 2018, consumption of natural gas and gas oil across our UK offices reduced by 2% and 26% respectively. Further emission reductions have been offset by a 24% increase in emissions associated with business travel, however travel emissions have reduced by 42% since 2016, and we continue to offset our air travel emissions by buying carbon credits for renewable energy projects. Whilst emissions from our international offices have risen by 8% since 2017, this is in the context of a 12% increase in headcount across our global offices, contributing to Lloyd's overall 10% reduction in emissions intensity (tonnes of CO_2e per employee) in 2018.

* 2017 emissions have been restated from the originally reported figure of 11,007 tonnes CO_2e to account for the discovery of non-material errors within Lloyd's 2017 emission figures associated with paper consumption and taxi hires.

A more detailed statement on Lloyd's GHG emissions is available at: lloyds.com/ghgemissions

Responsible Business *continued*

As a global business, we recognise that respect for human rights is fundamental. We are committed to ensuring that there is no modern slavery or human trafficking taking place in our supply chains or in any part of our business. We continue to implement appropriate policies to support our commitment to act ethically and with integrity in all our business relationships.

Employee policies

The Corporation has a number of policies, standards and practices to ensure we treat all colleagues with fairness, respect and consistency, and provide them with the necessary support to be the best they can be at work. Our Diversity and Inclusion policy is designed to ensure that all employees understand the importance of equality and diversity. A Reasonable Adjustment policy sets out the general principles and procedures for all employees to follow and discuss reasonable adjustments, so that employees with disabilities are not disadvantaged compared with people who are not disabled.

Living Wage employer

As part of our commitment to being a responsible business, Lloyd's is part of the Living Wage campaign. Our commitment to the initiative means that all Corporation employees, including those working for our sub-contractors, are guaranteed a fair wage that accurately reflects the cost of living.

Diversity and inclusion

To embrace diversity in gender, gender identity, race, sexual orientation, age, ability or disability, background and religion, the Corporation and the market work in partnership through our employee resource group, Inclusion@Lloyd's. A significant and growing number of market firms have signed up to Lloyd's Diversity and Inclusion Charter, and there is a range of resources to help everyone involved achieve its aims.

2018 was our fourth year of sponsoring the Dive In Festival for diversity and inclusion in insurance. Spread across three days, events took place in 27 countries and more than 50 cities. This year's theme was #time4inclusion, in response to last year's finding that CEOs see time as the biggest barrier to achieving inclusive cultures in their organisations.

Stonewall equality index

Each year organisations take part in the Stonewall Workplace Equality Index, looking to assess their achievements and progress on LGBT inclusion in the workplace. For the first time, the Corporation has been placed in the Top 100 of the Index. We were ranked 95th compared with 199th in 2017. This result highlights our work and strategy in the diversity and inclusion space for our employees.

Gender pay gap

The Corporation reported a gender pay gap of 19.9% (mean) in its 2018 Gender Pay Gap Report, a reduction from the 2017 figure of 27.7%. This gap represents the difference between the average pay for a man in the Corporation, compared with the average pay for a woman. The gender pay gap is different to equal pay which is men and women being paid the same for the same work or work of equal value. The Corporation does not believe it has an equal pay issue. However, we review this on an annual basis as part of our compensation review process.

Like many financial services firms, we employ fairly equal numbers of men and women at the entry levels, but this representation does not extend to senior levels. To help redress the balance, we launched a new pilot programme, Lloyd's Advance, aimed at developing future female leaders within the Corporation and the Lloyd's market.

2018 Corporation employee segmentation figures

UK	819
Non-UK	225

	Executive Team	Head of Function	Manager	Professional/ Technician	Administrative	Total
Female	3	14	153	170	216	556
Male	4	37	198	160	89	488
Total	**7**	**51**	**351**	**330**	**305**	**1,044**

Future Direction

The future

Today, Lloyd's approaches a critical juncture that requires both a bold vision and the collective will of the marketplace to ensure it continues to thrive for years to come. Over three centuries of change Lloyd's has evolved as a market to develop new ways of sharing risk to better protect its customers and we need to do so again.

While Lloyd's remains the world's insurance and reinsurance market for commercial and specialty risk, to grow profitably in the future we must become the world's most technologically advanced marketplace that delivers outstanding value and products for our customers. Enhancing the value Lloyd's provides to its customers must be the compass that guides our future development.

A blueprint for change

To start this process, and to seize the enormous opportunity before us, we have renewed Lloyd's purpose: to create a braver world by sharing the risks of people, businesses and communities, and by helping them recover in times of need.

We are also articulating what makes the Lloyd's market unique and valued by each of our stakeholders. To do this we are asking the opinion of a wide cross section of stakeholders globally, including brokers, carriers, capital providers, coverholders, managing agents and, importantly, our customers.

Their feedback is informing our work to develop a strategy for building the Lloyd's of the future. We are publishing a full prospectus in May 2019 which outlines the vision of what this might look like and what steps we might need to take to get there. All stakeholders will be invited for their feedback, and this will be used to create a blueprint for change that will deliver Lloyd's vision.

In parallel Lloyd's, through the London Market Target Operating Model, is continuing to invest in the market to ensure it has the platforms in place to support future change. It is also making sure the Corporation has the right capabilities to support the market in delivering its value proposition.

The work we are carrying out this year and beyond is essential for securing Lloyd's future – and that of our customers.