Lloyd's

AMB #: 085202 **| AIIN #:** AA-1122000
Ultimate Parent: AMB # 051215 - Society of Lloyd's

Best's Credit Ratings - for the Rating Unit Members

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
A+	**aa-**
Superior	**Superior**
Outlook: **Stable**	Outlook: **Stable**
Action: **Upgraded**	Action: **Upgraded**

Assessment Descriptors

Balance Sheet Strength	**Very Strong**
Operating Performance	**Strong**
Business Profile	**Very Favorable**
Enterprise Risk Management	**Appropriate**

Rating Unit - Members

Rating Unit: Lloyd's | AMB #: 085202

AMB #	Rating Unit Members	AMB #	Rating Unit Members
078649	Lloyd's Ins Co (China) Ltd	095926	Lloyd's Insurance Co. S.A.

Best's Credit Rating Effective Date

August 07, 2024

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Information

Best's Credit Rating Methodology

Guide to Best's Credit Ratings

Market Segment Outlooks

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: Best's Financial Report.

Rating Rationale

Balance Sheet Strength: Very Strong

- The market has the strongest level of risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR).
- A robust capital-setting regime, which incorporates a risk-based approach to setting member-level capital, helps protect risk-adjusted capitalisation from volatility.
- Member-level capital is subject to fungibility constraints as it is held on a several rather than joint basis.
- Balance sheet strength is underpinned by a strong Central Fund that is available, at the discretion of the Council of Lloyd's, to meet the policyholder obligations of all Lloyd's members.
- An offsetting factor is the market's significant exposure to catastrophe risk and its dependence on reinsurance to manage this risk.

Operating Performance: Strong

- Lloyd's is expected to report strong operating performance across the underwriting cycle, taking into account potential volatility due to its catastrophe exposure.
- Improved market conditions, as well as the robust performance oversight by the Corporation, materialised in measurable improvements in underwriting performance, as evidenced by combined ratios of 84% and 92% in 2023 and 2022, respectively.
- The market's expense ratio has historically been considered relatively high compared to that of peers. However, this has decreased over the medium term largely due to top-line growth, specific actions taken by syndicates to reduce costs and changing business mix.
- The market's consolidated operating performance cannot be viewed as a leading indicator of its future balance sheet strength to the same extent as it is for other insurers. Earnings generated by the market do not directly build or erode Lloyd's capital base, as profits and losses are distributed to the market's capital providers when a year of account is closed. Lloyd's continues to demonstrate that it is able to retain and attract capital to the market.

Business Profile: Very Favorable

- Lloyd's has an excellent position in the global general insurance and reinsurance markets as a leading writer of specialty property and casualty risks. Although Lloyd's syndicates operate as individual businesses, the collective size of the market allows them to compete with international groups under the Lloyd's brand.
- Unique business proposition given the market’s ability to provide access to insurance business globally through its multitude of reinsurance and direct insurance licences.
- The portfolio is well diversified by geography and line of business and positions Lloyd’s well to benefit from current market conditions and rate improvements.
- Product risk is moderate to high; however, it is mitigated through robust underwriting expertise and good exposure management practices. Higher-risk lines include reinsurance, energy, aviation, some marine business and a high proportion of the casualty and property business written. The majority of small commercial and consumer business, as well as some of the business written through coverholders, is typically of lower risk.

Enterprise Risk Management: Appropriate

- Lloyd’s enterprise risk management framework is well developed and appropriate for the size and complexity of the market.
- Risk management capabilities are aligned with the market's risk profile.
- The Corporation's risk management function works closely across other functional areas of the Corporation to provide the market additional oversight.
- An internal capital model, in place since 2012, is used to calculate the solvency capital requirement under the Solvency II regime as well as to stress test the market's risk-adjusted capitalisation. In AM Best's opinion, the internal capital model strongly supports the Corporation's ability to assess the capital adequacy of the market.

Outlook

- The stable outlooks reflect AM Best's expectation that risk-adjusted capitalisation will remain at the strongest level, supported by Lloyd's capital and catastrophe management strategy, the continued availability of the Central Fund insurance, and the requirement for members to replenish their Funds at Lloyd's following losses. Operating performance is expected to remain strong over the underwriting cycle given the ongoing oversight. The successful execution of Blueprint 2 is expected to support Lloyd's ability to remain competitive.

Rating Drivers

- Negative rating actions could arise should Lloyd's fail to maintain underlying performance in line with expectations.
- Negative rating actions could arise following a material deterioration in the market's risk-adjusted capitalisation, for instance, due to a substantial loss to the Central Fund or a reduction in member-level capital requirements set by Lloyd's.
- Positive rating pressure could arise following the successful execution of Lloyd's strategy, which leads to improvements in the resilience of the market's balance sheet and enhances its competitiveness against peers.

Key Financial Indicators

AM Best may recategorize company-reported data to reflect broader international reporting standards and increase global comparability.

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	75.4	62.8	57.3	55.4

Source: Best's Capital Adequacy Ratio Model - Global

Key Financial Indicators	2023 GBP (000)	2022 GBP (000)	2021 GBP (000)	2020 GBP (000)	2019 GBP (000)
Net Premiums Written:					
Non-Life	39,351,000	34,570,000	28,439,000	25,826,000	25,659,000
Composite	39,351,000	34,570,000	28,439,000	25,826,000	25,659,000
Net Income	10,663,000	-769,000	2,277,000	-887,000	2,532,000
Total Assets	165,095,000	161,530,000	138,155,000	128,304,000	119,878,000
Total Capital and Surplus	44,665,000	39,602,000	35,757,000	33,146,000	29,844,000

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2023 GBP (000)	2022 GBP (000)	2021 GBP (000)	2020 GBP (000)	2019 GBP (000)	Weighted 5-Year Average
Profitability:						
Balance on Non-Life Technical Account	5,910,000	2,641,000	1,741,000	-2,676,000	-538,000	...
Net Income Return on Revenue (%)	26.2	-2.4	8.1	-3.2	8.9	8.8
Net Income Return on Capital and Surplus (%)	25.3	-2.0	6.6	-2.8	8.8	7.9
Non-Life Combined Ratio (%)	84.0	91.9	93.5	110.3	102.1	95.2
Net Investment Yield (%)	3.9	-0.5	1.8	2.2	3.5	2.2
Leverage:						
Net Premiums Written to Capital and Surplus (%)	88.1	87.3	79.5	77.9	86.0	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Lloyd's very strong balance sheet strength assessment is underpinned by risk-adjusted capitalisation at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR), as well as its strong financial flexibility. The market has significant potential exposure to catastrophe losses and is dependent on reinsurance to manage this risk. However, a robust market-wide capital-setting

Balance Sheet Strength (Continued...)

regime, which incorporates a risk-based approach to setting member-level capital, and the requirement for members to replenish their Funds at Lloyd's (FAL) after a loss, helps protect risk-adjusted capitalisation against volatility.

Lloyd’s balance sheet strength is supported by a strong Central Fund that is available, at the discretion of the Council of Lloyd's, to meet the policyholder obligations of all Lloyd's members. It is the existence of this partially mutualising link that is the basis for a market-level rating. The protection afforded to members through the Central Fund is enhanced by Central Fund insurance, which was renewed in 2024 for a period of five years.

The market's member-level capital is held on a several rather than joint basis and is only available to meet the liabilities of the providing member. The resulting fungibility constraints on capital, as well as the market’s elevated exposure to catastrophe risk, are considered offsetting factors for the balance sheet strength assessment.

Capitalisation

The BCAR scores shown in this report are based on the 2023 year-end figures published in the Lloyd's annual report, which contains the audited financial results of Lloyd's and its members in proforma financial statements and includes the financial statements of the Society of Lloyd's (referred to in this report as the Society or the Corporation). The proforma financial statements include the aggregated accounts, which are based on the accounts of each Lloyd's syndicate, members' FAL, and the Society's financial statements.

The Society was formed in 1871, when the then existing association of underwriters at Lloyd's was incorporated by the Lloyd's Act. The Society produces consolidated financial statements that cover Lloyd's activities outside the underwriting market and Lloyd's central resources (the Central Fund).

Lloyd's benefits from risk-adjusted capitalisation at the strongest level, as measured by BCAR. This assessment takes into account capital resources available at member level, in the form of Members' FAL, and centrally in the form of the Central Fund and net assets of the Corporation. Capital credit is given in BCAR for FAL provided through LOCs, as if drawn these LOCs will turn into Tier 1 capital for Lloyd's. Nonetheless, the use of LOCs as FAL reduces somewhat the quality of available capital. AM Best does not give explicit credit for contingent capital in the 'callable layer', which is the ability of the Corporation to supplement central assets by calling funds from members of up to 5% of their overall premium limits.

Any assessment of Lloyd's capital strength is complicated by the compartmentalisation of capital at member level. Member-level capital in the form of FAL and members' balances are held on a several rather than joint basis, meaning that any member need meet only its share of claims. However, Lloyd's central assets are available, at the discretion of the Council of Lloyd's, to meet policyholder liabilities that any member is unable to meet in full. This link in the Chain of Security comprises of the Central Fund and other central assets, as well as subordinated debt. These central assets can be supplemented by funds called from members of up to 5% of their overall premium limits. It is the existence of this partially mutualising third link, and the high liquidity of the Central Fund in particular, that is the basis for a market-level rating.

During 2021, Lloyd's secured insurance for the Central Fund through a five-year, multi-layered cover, which was renewed in 2024 for another five years. The Central Fund insurance provides protection to the Central Fund, and therefore the market, against severe tail events. The cover will reimburse aggregate payments from the Central Fund that are in excess of USD 1 billion and is provided by international reinsurers of excellent credit quality.

Lloyd's Internal Model (LIM) captures Lloyd's unique capital structure and takes into account fungibility constraints on member-level capital and the mutual nature of central assets. If a severe market loss led to the exhaustion of some members' FAL, central assets would be exposed to any further losses faced by these members. The model captures this mutualised exposure, so that, at different return periods, the exposure of both member-level capital and central capital is demonstrated.

Lloyd's is subject to the Solvency II regulatory regime. As agreed with the UK regulator, the Prudential Regulation Authority (PRA), Lloyd's calculates two separate Solvency Capital Requirements (SCRs) and two separate SCR coverage ratios: a market-wide SCR (MWSCR) and a central SCR (CSCR). The MWSCR calculates the total capital consumed at a 99.5% value at risk (VaR) confidence level over a one-year period for the Lloyd's market as a whole (including the exposure of both member-level and central assets).

The CSCR is calculated at a 99.5% VaR confidence level over a one-year period in respect of risks facing the Society and its Central Fund. It captures exposure to losses that may not affect the majority of syndicates (and so would not erode capital at overall member level) but would have an impact on central assets. Calculating a CSCR addresses the fact that a 1-in-200 year loss to central assets

Balance Sheet Strength (Continued...)

could be bigger than the loss to central assets in a 1-in-200 year market loss event. By calculating both figures, Lloyd's has a better view of the likelihood that central and market level assets are sufficient.

Lloyd's has approval from the PRA to use existing LOCs, in the form that they are provided as FAL, as Tier 2 capital for Solvency II purposes. However, any new LOCs provided as FAL need to be individually approved. Under Solvency II, at least 50% of the solvency capital requirement must be met by Tier 1 capital.

Since 2018 Lloyd’s has been implementing a phased reduction in the proportion of FAL that can be provided via LOCs, and, since December 2020 members' Tier 2 capital is not allowed to exceed 50% of their economic capital assessment (ECA) in order to minimise assets ineligible for regulatory capital credit. As at 31 December 2023, LOCs accounted for approximately 17% (2022:21%) of total FAL and all Lloyd's Tier 2 assets were eligible to meet the MWSCR.

The MWSCR coverage ratio stood at 207% at year-end 2023 (2022: 181%) and the CSCR coverage ratio at 503% (2022: 412%). Lloyd's risk appetite for MWSCR coverage is a minimum of 140% and the CSCR coverage is a minimum of 200%. The MWSCR target is low relative to peers, but this should be seen in light of Lloyd's good financial flexibility and capital-setting process. The Lloyd's CSCR has improved materially in recent years, reflecting the reductions in the SCR primarily driven by the modelled benefits of the Central Fund insurance.

Lloyd's employs strict capital-setting criteria both at member level and centrally. Individual syndicates are required to calculate a SCR at a 99.5% confidence level over both a one-year and an ultimate horizon for each underwriting year. The ultimate basis drives the determination of member level capital. A 35% uplift is applied to the ultimate SCR to arrive at the FAL requirement. The stability in the market's solvency levels, as a result of the capital-setting process, is considered to be a strength for the balance sheet assessment.

Lloyd's members are required to replenish their FAL to meet their current underwriting liabilities as part of the "coming into line" process each year. However, Lloyd's can require a member to recapitalise outside of this process if deemed necessary. Most members underwrite with limited liability. However, if FAL are eroded due to losses, affected members will have to provide additional funds to support any outstanding underwriting obligations to continue to underwrite at Lloyd's. This requirement in effect provides the market with access to funds beyond those reflected in its capital structure.

Member contributions to the Central Fund reduced in 2016 to 0.35% of gross written premiums (from 0.50% of capacity) per annum. The contribution rate can be increased to strengthen the Central Fund at any time.

Lloyd's good financial flexibility is enhanced by the diversity of its capital providers, which include corporate and individual investors. Traditional Lloyd's businesses remain committed to the market. In addition, Lloyd's continues to attract new investors, drawn by its capital efficient structure and global licences. As the capital to support underwriting at Lloyd's is supplied by members on an annual basis, an important factor in AM Best's analysis of the market is its ability to retain and attract the capital required for continued trading.

To this end, as detailed in the Future at Lloyd's prospectus, one of the objectives of Lloyd’s is to improve the ease of doing business and, specifically, make it easier for capital to enter the marketplace. This included reinventing the way that capital comes into the market and making it flexible to access a diverse set of insurance risks on the Lloyd's platform.

In 2021, Lloyd's sponsored a new multi Insurance Special Purpose Vehicle, London Bridge Risk PCC Ltd., to act as a reinsurance risk transformation vehicle onshore in the UK and facilitate the participation of institutional investors. Lloyd's sponsored a second transformation vehicle in 2022, London Bridge 2 PCC Ltd (LB2), which allows the issuance of both preference and/or debt securities to fund reinsurance obligations. By the end of 2023, the London Bridge vehicles had raised over USD 750 million in capital to support underwriting at Lloyd’s, and in early 2024, LB2 issued its first catastrophe bond to provide multi-year protection for named storm and earthquake events affecting the United States, Canada and parts of the Caribbean.

Liquidity Analysis (%)	2023	2022	2021	2020	2019
Liquid Assets to Total Liabilities	73.3	68.1	69.8	70.7	69.9
Total Investments to Total Liabilities	83.6	78.6	82.0	84.0	81.3

Source: BestLink® - Best's Financial Suite

Balance Sheet Strength (Continued...)

Asset Liability Management - Investments

The majority of Lloyd's investments are managed independently by the individual syndicates' managing agents, while the assets in the Lloyd's Central Fund are managed centrally by the Corporation. Although syndicates are able to define their own investment strategy, asset risk is generally low, with more than three quarters of the market's total investments held in bonds and cash/deposits. Exposure to shares and other variable yield securities accounted for circa 10% of invested assets in 2023.

In AM Best's opinion, Lloyd's maintains good overall liquidity. Managing agents are responsible for the investment of syndicate premium trust funds, although Lloyd's monitors liquidity levels at individual syndicates as part of its capital adequacy review. Overall, these funds exhibit a high level of liquidity, as most syndicate investment portfolios tend to consist primarily of cash and high-quality fixed-income securities of relatively short duration. Lloyd's also monitors projected liquidity for its central assets, which are tailored to meet the disbursement requirements of the Central Fund and the Corporation (including its debt obligations).

An investment platform to pool assets across the market was launched in the second half of 2022. The initial platform funds, Lloyd's Private Impact Fund and Lloyd’s Private Credit Fund, were launched 2023. In 2024, two additional funds, USD Enhanced Yield Liquidity Fund and CAD Core Fixed Income Fund were launched. Should participation in the investment platform be in line with the Corporation's expectations this could lead to some meaningful enhancements in non-technical returns for members, particularly smaller managing agents.

Composition of Cash and Invested Assets	2023 GBP (000)	2022 GBP (000)	2021 GBP (000)	2020 GBP (000)	2019 GBP (000)
Total Cash and Invested Assets	100,686,000	95,872,000	83,998,000	79,951,000	73,193,000
Cash (%)	11.3	12.8	13.0	13.1	13.2
Bonds (%)	65.9	63.7	60.6	59.7	60.4
Equity Securities (%)	10.4	10.1	11.4	11.3	12.4
Real Estate, Mortgages and Loans (%)	8.8	10.3	11.0	12.1	10.4
Other Invested Assets (%)	3.6	3.1	3.9	3.8	3.6
Total Cash and Unaffiliated Invested Assets (%)	100.0	100.0	100.0	100.0	100.0
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Reserve Adequacy

Robust oversight of reserves is provided by the Corporation. In AM Best's opinion, reserving in the Lloyd's market tends to be prudent, with the majority of market participants incorporating an explicit margin in reserves above actuarial best estimates. Reserve surpluses, which are not fungible across the market, vary significantly between syndicates.

Total prior-year reserve releases benefited the combined ratio by 2.2 percentage points in 2023, compared to a benefit of 3.6 percentage points in the previous year. Releases were reported across all lines of business except for aviation, due to strengthening of loss estimates pertaining to the Russia/Ukraine conflict.

Over the 2024 calendar year, a subset of Casualty classes, in particular US General Liability, will be subject to further additional oversight by Lloyd’s. There will be a review of the appropriateness of reserves due to the changing inflationary environment with consideration of social inflation allowances and monitoring.

Lloyd’s exposure to open run-off years has significantly reduced over the past decade, principally due to better management of these years. At the beginning of 2023, there were seven syndicates whose 2017, 2018 and 2019 underwriting years remained open. In 2023, these run-off years reported an aggregate loss of GBP 7 million (2022: loss of GBP 15 million), including investment return. There were five syndicates whose 2017/2018/2019 underwriting years remained open post 31 December 2023. The total number of open underwriting years at 1 January 2024 is five.

Operating Performance

Lloyd's is expected to report strong operating performance across the underwriting cycle, taking into account potential volatility due to its catastrophe exposure.

In 2023, the market reported a net profit of GBP 10.6 billion. This resulted from an underwriting profit of GBP 5.9 billion and investment profit of GBP 5.3 billion. These results translated into a robust return-on-equity ratio of 25%, which was the highest return reported by Lloyd's in a decade and significantly exceeded its 10-year weighted average return-on-equity ratio of 6%.

The market's operating performance assessment is based on analysis of the overall consolidated performance of Lloyd's, considering the stability, diversity, and sustainability of the market's sources of earnings. The assessment also incorporates analysis of the performance of individual syndicates, including the spread between the strongest and worst performers, with a particular focus on the potential exposure of central capital resources to losses from individual members.

The Lloyd's market's consolidated operating performance cannot be viewed as a leading indicator of its future balance sheet strength to the same extent as it is for other insurers. Earnings generated by the market do not directly build or erode Lloyd's capital base. The capital to support underwriting at Lloyd's is instead supplied by capital providers. Therefore, AM Best considers the impact of the market's results on its ability to retain and attract the capital required for continued trading.

Despite volatility in performance over the longer term, the market has continued to attract new capital, with several new participants in 2023. AM Best notes that there have been also a number of syndicate closures since 2018, coinciding with the Lloyd's Decile 10 review and the winnowing out of weaker performing syndicates from the market as part of the Corporation's Performance Management Directorate (PMD) strategy.

Underwriting Performance

For several years the market's underwriting performance was below AM Best's expectations for a strong assessment. However, remedial work undertaken by the market and robust performance oversight by the Corporation, as well as improving market conditions in more recent years, have supported measurable improvements in underlying performance, with the accident-year combined ratio (excluding major claims) falling in each year since 2017. In 2023, the overall combined ratio improved to 84.0% (2022: 91.9%), resulting in an improved 5-year average (2019-2023) combined ratio of 95%.

Underwriting performance is subject to volatility due to the nature of business underwritten; however, the 2023 year was benign for Lloyd's in terms of natural catastrophe experience. As a result, major claims contribution to the combined ratio reduced to 3.5% as compared to 12.7% in 2022. Major claims for 2023 comprised natural catastrophe losses such as Hurricane Idalia, Maui Wildfire, Hurricane Otis and the Middle East Earthquake. The 2023 events were less severe as compared to 2022 events such as Hurricane Ian, Hurricane Fiona, Australian Floods and non-natural catastrophe losses such as the Ukraine conflict.

The attritional loss ratio remained relatively stable at 48.3% in 2023 (2022: 48.4%) and is reflective of the positive rate environment and emphasis on underwriting discipline across the market. Prior year reserve releases benefitted the combined ratio by 2.2 percentage points (2022: 3.6 percentage points).

In terms of line of business performance, property reinsurance outperformed the rest with a combined ratio of 72.8% in 2023 (2022: 95.6%), largely driven by a strong rating environment and favourable prior year movement. Aviation and motor business were the only lines that reported higher combined ratios in 2023 compared to 2022. Whilst aviation results were weakened by strengthening of loss estimates for the Russia/Ukraine conflict, motor business experienced lower prior year releases in 2023 compared to 2022. Nonetheless, both lines reported underwriting profits in 2023.

The market's operating expense ratio is high compared to that of peers, often in the mid-to-high 30% range. However, the ratio has decreased from 39.2% in 2018 to 34.4% in 2023, in part due to a change in business mix. Actions are being taken through the Future at Lloyd's initiative to reduce the cost of placing business at Lloyd's, although any benefits will likely take time to materialise.

After experiencing rate strengthening in 2023, there are signs of moderating pressures in certain lines in 2024. However, good overall rate adequacy is expected to persist, and the market continues to focus on prudent risk selection. Underwriting results for 2024 are likely to remain strong, although will be subject to natural catastrophe claims experience in the remainder of the year.

Performance on a Year of Account (YOA) Basis:

The 2021 YOA closed at the end of 2023 with an overall profit of GBP 2.8 billion (2020 underwriting year profit: GBP 290 million). Despite major claims events such as COVID-19, Hurricane Ida, European Floods and US Winter storm Uri, the 2021 pure underwriting

Operating Performance (Continued...)

YOA reported an underwriting result that was boosted by the addition of releases from 2020 and prior years, which were reinsured to close at the end of 2022.

Investment Performance

Investment returns (including gains/losses) for the market were on average 2.1% in the period 2019-2023, ranging from -3.5% (2022) and 5.4% (2023). In 2022, interest rates rose rapidly as central banks sought to contain higher levels of inflation. Higher yields pushed down the price of bonds, and the consequent unrealised losses underpinned the market's investment losses of GBP 3.1 billion. In 2023, the market reported significant investment profit of GBP 5.3 billion driven by the strong performance of the fixed income portfolio in a high interest rate environment and the unwind of unrealised fair value losses on the bond portfolio that were reported in 2022.

Financial Performance Summary	**2023 GBP (000)**	**2022 GBP (000)**	**2021 GBP (000)**	**2020 GBP (000)**	**2019 GBP (000)**
Pre-Tax Income	10,663,000	-769,000	2,277,000	-887,000	2,532,000
Net Income after Non-Controlling Interests	10,663,000	-769,000	2,277,000	-887,000	2,532,000

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	**2023**	**2022**	**2021**	**2020**	**2019**
Overall Performance:					
Return on Assets	6.5	-0.5	1.7	-0.7	2.1
Return on Capital and Surplus	25.3	-2.0	6.6	-2.8	8.8
Non-Life Performance:					
Loss and LAE Ratio	49.6	57.5	57.9	73.2	63.4
Expense Ratio	34.4	34.4	35.5	37.2	38.7
Non-Life Combined Ratio	84.0	91.9	93.5	110.3	102.1

Source: BestLink® - Best's Financial Suite

Business Profile

Lloyd's very favourable business profile assessment reflects its excellent position in the global general insurance and reinsurance markets as a leading writer of specialty property and casualty risks. The market's ability to provide access to insurance business globally through its multitude of reinsurance and direct insurance licences is a key competitive strength. In addition, the growing size of the market demonstrates its ability to attract and retain investors due to its unique business proposition that offers a capital efficient structure.

Market Position:

Lloyd's occupies an excellent position in the global general insurance and reinsurance markets as a leading writer of specialty property and casualty risks. The market's position is particularly strong in non-life reinsurance, where Lloyd's was ranked as the 4th largest global non-life reinsurer based on 2022 gross written premiums (GWP). Lloyd's is also a market leader in marine insurance, and has a strong position in aviation, energy, and specialty property and casualty insurance.

Although Lloyd's syndicates operate as individual businesses, the collective size of the market allows them to compete with major international groups under the Lloyd's brand. The market's competitive strength stems from its strong brand, licences, and reputation for innovative and flexible underwriting, supported by the pool of underwriting expertise in London.

In 2024, notable players like Aviva and Fidelis Insurance entered the market. In addition, more recent initiatives such as the London Bridge vehicles and the Investment Platform are contributing towards the attractiveness of the market.

Product Diversification and Product Risk:

Total GWP grew by 12% in 2023 to GBP 52 billion (2022: GBP 47 billion) due to a combination of risk-adjusted rate change and exposure growth, which was largely from the better performing syndicates. Insurance business accounted for 67% of premium revenue in 2023 and reinsurance for the balance. This split has been relatively stable in recent years.

Business Profile (Continued...)

The market is well diversified by line of business with a focus towards commercial lines business over personal lines. The current portfolio mix positions Lloyd's well to benefit from current market conditions and rate improvements.

Product risk is moderate-to-high, as the business that comes to Lloyd's is predominantly specialty business that requires expert underwriting. High product risk lines include reinsurance, energy, aviation, most marine business, and a high proportion of the casualty and property business written (although some of the property and casualty business written through coverholders is lower risk).

Reinsurance is the market's largest segment and accounted for 33% of GWP in 2023. Reinsurance business comprises of property, casualty and specialty reinsurance (primarily marine, aviation and energy reinsurance).

Property insurance business is Lloyd's second largest segment, which accounted for 28% of GWP in 2023. The property book is a global book but with some concentration towards US excess and surplus lines business. There is also a bias towards commercial risks with residential risks written being mainly non-standard risks. The book also includes terrorism, power generation, engineering and nuclear risks.

Casualty business is Lloyd's third largest segment and in 2023 accounted for 25% of GWP. The book has a focus towards the US, but the UK, Canada, and Australia are also significant markets. The main products written are general liability and professional indemnity. Accident and health business is also accounted for within this segment.

The remaining lines of marine, aviation, and transport (8%), energy (3%), motor (2%), and life (<0.1%) together accounted for approximately 13% of GWP in 2023. Lloyd's writes a diversified marine book, including cargo, hull, marine liability, specie and fine art. The energy book consists of onshore and offshore property and liability risks. The motor book is focused on the UK, covering commercial and personal motor business, with a focus on niche personal risks. An international book is also written, with a focus on North America. Aviation business includes airlines, general aviation, space and war.

Geographical Diversification:

Lloyd's writes a global portfolio, albeit with some bias to North America, which accounted for nearly half of the premium in 2023. The remainder was split across the rest of Europe, UK, Central Asia and Asia Pacific, Other Americas and rest of the world.

Over the past 20 years, Lloyd's has built out its licence network considerably, to be able to write insurance and/or reinsurance business in Brazil, Mexico, Colombia, Dubai, China, Singapore, and India, as well as a number of smaller markets. This work was undertaken in response to the growth of local and regional (re)insurance hubs and the preference of clients to place business locally. The market's network of licences provides syndicates with access to a wide international client base, which is of benefit in particular to the syndicates that are not part of global insurance groups.

Distribution Channels:

The distribution of Lloyd's business is dominated by insurance brokers, and in particular by the top three largest global brokers. Lloyd's brokers play an active part in the placement of risks and in providing access to regional markets.

In addition, a significant part of Lloyd's business is distributed via coverholders (accounting for circa 30% of GWP), which write business on behalf of syndicates under the terms of a binding authority. Coverholders are important in bringing regional business to Lloyd's and providing the market with access to small and medium-sized risks.

The Lloyd's distribution model is expensive, with business often passing through several distribution links before arriving at Lloyd's. The market's reliance on brokers also makes it vulnerable to price based competition. Although in overall terms, Lloyd's is important to the large global brokers (as well as to the specialised London market brokers), the importance of individual syndicates is less so.

Modernisation Programme:

In May 2019, Lloyd's management team unveiled a modernisation plan called the Future at Lloyd's. The proposed reforms include plans to radically reduce the cost of doing business and creating new digital platforms for placing insurance risk and streamlining claims services. If the plan is successfully implemented, cost reductions are likely to support profitability. In AM Best's view, the Future at Lloyd's programme is making important progress towards modernising the market's operations.

Business Profile (Continued...)

The latest areas of focus highlighted in Blueprint Two (published in November 2020) sets out a vision for the end-to-end modernisation of business models, practices, and systems within Lloyd's - this is to overhaul paper-based processes and implement a more digital, data-led and automated approach.

Some of the Blueprint's features are the use of a core data record (CDR) for consistent data standards and an intelligent market reform contract (IMRC). Moreover, the recently established London Market Data Council agreed the scope and approach of the CDR and IMRC to standardise the data used across the Lloyd’s market. Successful delivery of these much-needed modernisation initiatives should support the market to become better-equipped to meet evolving customer needs and realise future cost savings.

Failure to deliver these successfully could reduce the confidence and support of the market in the Corporation's wider Future at Lloyd's ambitions in the short-term.

Corporate Overview:

Lloyd's is the London-based market where approximately 100 individual syndicates underwrite all types of insurance and reinsurance business, apart from long term life insurance. Each syndicate is formed by one or more members of Lloyd's, who join together to provide capital and accept insurance risks. Lloyd's members are mainly corporate members although a small proportion of Lloyd's underwriting capacity continues to be provided by private individuals.

In 1871, the then existing association of underwriters at Lloyd's was incorporated by the Lloyd's Act as the Society and Corporation of Lloyd's (referred to in this report as the Society or the Corporation), making the Society the legal entity which oversees the Lloyd's market. Its purpose is to facilitate the underwriting of insurance business by Lloyd's members, to protect members' interests in this context and to maintain Lloyd's Central Fund. The Society is also the holding company for Lloyd's Insurance Company S.A. and Lloyd's Insurance Company (China) Limited.

Enterprise Risk Management

The enterprise risk management (ERM) of Lloyd's is assessed as appropriate. The market's enterprise risk framework is considered to be developed and risk management capabilities are aligned to the risk profile.

Lloyd's ERM is designed to manage risks arising from the market and the Society. It provides an extra layer of oversight over the market's risks that are also managed through the risk functions of individual managing agents. Nonetheless, there are limitations on the ability of the Corporation to actively manage the market's risks, as it is supervising individual and competing syndicates each with their own risk appetites and commercial strategies.

Under the Lloyd's Act 1982, the Council of Lloyd's (the Council) is responsible for the management and supervision of the market as the governing body of the Society. The key committees of the Council are the Audit Committee, the Market Supervision and Review Committee and the Risk Committee. The Risk Committee is responsible for the identification and management of Lloyd's key risks.

The Council manages risks by setting and monitoring a risk appetite framework. The risk appetites are reviewed on a regular basis and may be updated as required. The framework includes key risks and a number of underlying monitoring metrics. The risk appetites are structured under the three risk objective pillars of sustainability, solvency, and operational.

Over the past several years, there has been a much tougher tone and more active approach taken by the Corporation's oversight functions to managing under-performing syndicates as well as the under-performing lines of generally well performing syndicates. The enhanced oversight has led to some syndicates being put into run-off as well as others exiting certain loss-making lines of business. This additional scrutiny has led to meaningful improvements in underlying performance over the last several years.

The Society of Lloyd's and its managing agents are regulated by The Bank of England, acting through the PRA, as well as by the Financial Conduct Authority (FCA). Lloyd's remains subject to the Solvency II regulatory and capital regime, which came into force on 1 January 2016. It applies to the "association of underwriters known as Lloyd's" as a collective entity.

Lloyd's uses an internal capital model to calculate its SCR and SCR coverage ratios, with approval from the PRA. An internal model has been in use since 2012, although the current model has undergone radical change since then. In AM Best's opinion, the Corporation's ability to assess the capital adequacy of the market has been strongly improved by its capital modelling work.

Enterprise Risk Management (Continued...)

Lloyd's recognises that one of the greatest risks to the Central Fund is the market's exposure to natural catastrophes, albeit risks from non-natural catastrophe losses, such as cyber and liability, are growing. The catastrophe model component of Lloyd's internal capital model allows the Corporation to assess catastrophe risk across return periods and, in AM Best's opinion, has improved its ability to monitor the market's aggregate catastrophe exposure against a defined risk appetite. An enhancement noted in 2020, was the introduction of the Catastrophe Risk Oversight Framework, now a Principle within the Principles Based Oversight framework, which enables Lloyd's to apply more stringent minimum capital requirements to exposure growth in syndicates with poor performance track records and catastrophe risk management capabilities. In 2024, recognizing the increased frequency of secondary perils, Lloyd's began requiring syndicates with material exposures for such perils to report more granular data, ensuring they are appropriately captured in the syndicates' models and in the Lloyd's Catastrophe Model. Due to the nature of business written, Lloyd's has significant exposure to catastrophe losses, making this aspect of risk management particularly important.

Lloyd's Realistic Disaster Scenarios (RDSs) continue to play a critical role in exposure management at Lloyd's, both as benchmark stress tests validating the internal model output and as a source of data. The scenarios are defined in detail annually by Lloyd's and are used to evaluate aggregate market exposures as well as the exposure of each syndicate to certain major events. Syndicate-level scenarios are prepared by each managing agent, reflecting the particular characteristics of the business that each syndicate writes. In addition, Lloyd's asks for syndicates' aggregate exceedance probability (AEP) loss at a 1-in-30-year and 1-in-200 return period for various regional perils. As the Lloyd's RDSs represent different return periods for different syndicates, collecting this additional data helps to ensure a uniform treatment of syndicates' exposure to large losses.

Reinsurance Summary

Lloyd's has moderate dependence on reinsurance. This is due to the nature of the market, which consists of small-to-medium sized business that independently purchase reinsurance. The market as a whole ceded 25% of its GWP in 2023. This amount includes reinsurance from syndicates to their related groups as well as reinsurance between individual Lloyd's syndicates.

Lloyd's oversight function monitors individual syndicates' reinsurance placements to ensure the appropriateness and credit quality of the market's overall use of reinsurance.

Environmental, Social & Governance

As a writer of global commercial property policies, Lloyd's is exposed to the impacts of changing climate trends, namely the increased severity and frequency of natural catastrophe losses. In AM Best's view the market uses reinsurance to manage climate risk and has applied more stringent minimum capital requirements for syndicates approved to write catastrophe-exposed business (based on their past performance). Catastrophe modelling and accumulations are managed to ensure that the market's exposure to natural catastrophes is maintained within its risk appetite.

Furthermore, to actively support the transition to a low carbon economy, the Corporation published guidance to the market on how they can manage the risks of transition alongside the growth opportunities spurred on by new economic activities. This guidance provided information on how Lloyd's will engage with the market on reviewing their own sustainability strategies, as well as toolkits for use by the market in setting transition plans. In addition, Lloyd's in collaboration with Moody's has developed a proof of concept solution to measure insurance-associated carbon emissions across the market.

Lloyd's has a large book of US casualty business that is susceptible to adverse social inflation trends. AM Best defines social inflation as the rise in cost of current and future claims caused by higher court awards and legislated rises in claims payments driven by changing social behaviour. This has contributed to reserve strengthening of casualty provisions over several years and has been an area of additional oversight and focus by the Corporation's actuarial team.

In terms of investment strategy, Lloyd's currently allocates 5% of Central Fund assets to impact investments and has committed to increasing this to 10% by 2025. Impact investments are made with an aim of generating positive, measurable social and environmental impact alongside a financial return.

In recent years, Lloyd's has strengthened its position in the sector in terms of ESG leadership by becoming the leader of the SMI Insurance Task Force. The Corporation also established the Sustainability Committee, which is responsible for driving action and providing robust challenge across its environmental and social priorities and commitments.

Financial Statements

Balance Sheet	12/31/2023 GBP (000)	%	12/31/2023 USD (000)
Cash and Short Term Investments	11,408,000	6.9	14,525,122
Bonds	66,366,000	40.2	84,499,846
Equity Securities	10,446,000	6.3	13,300,265
Other Invested Assets	12,466,000	7.6	15,872,210
Total Cash and Invested Assets	100,686,000	61.0	128,197,443
Reinsurers' Share of Reserves	31,804,000	19.3	40,494,125
Debtors / Amounts Receivable	25,501,000	15.4	32,468,893
Other Assets	7,104,000	4.3	9,045,097
Total Assets	165,095,000	100.0	210,205,558
Unearned Premiums	25,065,000	15.2	31,913,761
Non-Life - Outstanding Claims	78,774,000	47.7	100,298,208
Total Gross Technical Reserves	103,839,000	62.9	132,211,968
Debt / Borrowings	907,000	0.5	1,154,829
Other Liabilities	15,684,000	9.5	19,969,496
Total Liabilities	120,430,000	72.9	153,336,293
Retained Earnings	10,663,000	6.5	13,576,558
Other Capital and Surplus	34,002,000	20.6	43,292,706
Total Capital and Surplus	44,665,000	27.1	56,869,265
Total Liabilities and Surplus	165,095,000	100.0	210,205,558

Source: BestLink® - Best's Financial Suite

Income Statement	Non-Life GBP (000)	Life GBP (000)	Other GBP (000)	12/31/2023 Total GBP (000)	12/31/2023 Total USD (000)
Gross Premiums Written	52,149,000	...	...	52,149,000	66,398,193
Net Premiums Earned	36,925,000	...	...	36,925,000	47,014,387
Net Investment Income	...	...	3,850,000	3,850,000	4,901,974
Realized capital gains/(losses)	...	...	-215,000	-215,000	-273,747
Unrealized capital gains/(losses)	...	...	1,675,000	1,675,000	2,132,677
Total Revenue	36,925,000	...	5,310,000	42,235,000	53,775,291
Benefits And Claims	18,302,000	...	...	18,302,000	23,302,838
Net Operating And Other Expenses	12,713,000	...	557,000	13,270,000	16,895,895
Total Benefits, Claims And Expenses	31,015,000	...	557,000	31,572,000	40,198,733
Pre-Tax Income	5,910,000	...	4,753,000	10,663,000	13,576,558
Net Income before Non-Controlling Interests	...	...	...	10,663,000	13,576,558
Net Income/(loss)	...	...	...	10,663,000	13,576,558

Source: BestLink® - Best's Financial Suite

Related Methodology and Criteria

Best's Credit Rating Methodology, 01/18/2024

Catastrophe Analysis in AM Best Ratings, 02/08/2024

Available Capital and Insurance Holding Company Analysis, 08/15/2024

Rating Lloyd's Operations, 03/21/2024

Scoring and Assessing Innovation, 02/27/2023

Understanding Global BCAR, 08/01/2024