

In 2019 we set a new strategic direction for the Lloyd's market, the Future at Lloyd's, to build the most advanced insurance marketplace in the world and provide more value to our customers.

Strategic Report

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Lloyd's – an overview

Who we are

Lloyd's is the world's leading insurance and reinsurance marketplace. Throughout our 332-year history, the Lloyd's market has innovated pioneering coverage for different risks, responding to the needs of its customers. From the first motor and satellite policies to today's cover for cyber and sharing economy risks, the Lloyd's market has always provided, and continues to provide, the confidence to help our customers thrive in a changing world.

Lloyd's business model

With our trading rights and distribution network of international hubs, brokers, coverholders and service companies, the market underwrites risks from around the world through Lloyd's syndicates. Members (capital providers) put up their capital and share in the risks and rewards of the syndicates they support.

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 brokered market in which strong business relationships, backed by deep risk 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.

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 write insurance for members of the associated syndicate.

The Lloyd's market is supported by the Society through its remit of performance management oversight and regulation, maintaining the licence network, promoting the brand globally, and providing common infrastructure and shared services.

Our purpose

Lloyd's strategy is underpinned by our purpose: **Sharing risk to create a braver world.** The purpose speaks to the impact and aspiration of the market and is as true today as it was when Edward Lloyd started what became Lloyd's in a coffee shop in 1688.

How we deliver on our purpose

Lloyd's began with a few courageous entrepreneurs in a coffee shop. Three centuries later, we are continuing that proud tradition, sharing risk in order to protect, build resilience and inspire courage everywhere.

Today, Lloyd's offers customers a unique value proposition. We provide insurance and reinsurance in more than 200 countries and territories worldwide through our global licence network. Customers have access to unrivalled broking and underwriting expertise with a reputation for solving difficult risk transfer problems in one marketplace. The market is built on trusted relationships and mutual respect to best serve our customers.

Lloyd's insight, experience and judgment continue to inform decision-making across the industry. The 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.

We pay billions of pounds in claims each year, which gives customers confidence to place their business with us. All of this is supported by a flow of capital providers and large, multiplatform insurance carriers, that are attracted by specialist risk capabilities and opportunities in the Lloyd's market.

As a marketplace, Lloyd's provides consistent standards and shared services that improve performance and unlock new opportunities.

Business flow		The market	Capital flow												
Customers – transferring risk <ul style="list-style-type: none"> – Global commercial organisations, such as FTSE 250 and Fortune 500 companies – Small and medium-sized enterprises – Individuals – Other insurance groups 	Distribution channels <ul style="list-style-type: none"> – 335 brokers: distributing business – 366 service company locations – 3,950 coverholder locations: offering local access to Lloyd's 	54 managing agents – managing syndicates 80 syndicates – writing insurance and reinsurance directly 13 special purpose arrangements – set up solely to write a quota share of another syndicate Gross written premiums: <table border="1"> <tr> <td>2019</td> <td>£35.9bn</td> </tr> <tr> <td>2018</td> <td>£35.5bn</td> </tr> <tr> <td>2017</td> <td>£33.6bn</td> </tr> </table> Capital and reserves: <table border="1"> <tr> <td>2019</td> <td>£30.6bn</td> </tr> <tr> <td>2018</td> <td>£28.2bn</td> </tr> <tr> <td>2017</td> <td>£27.6bn</td> </tr> </table>	2019	£35.9bn	2018	£35.5bn	2017	£33.6bn	2019	£30.6bn	2018	£28.2bn	2017	£27.6bn	Members (capital providers) <ul style="list-style-type: none"> – 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
2019	£35.9bn														
2018	£35.5bn														
2017	£33.6bn														
2019	£30.6bn														
2018	£28.2bn														
2017	£27.6bn														
The Society – supporting the market															

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

Note: All figures are as at 31 December 2019. Capital and reserves of £30.6bn comprised members' assets held severally of £27.3bn, mutual assets of £2.5bn and subordinated debt of £0.8bn.

Lloyd's has a globally recognisable brand and is proud of its reputation for paying all valid claims in a timely and efficient manner. The society is committed to being an inclusive global market that treats its people and customers with dignity and respect while promoting an entrepreneurial and innovative culture.

How we benefit our stakeholders

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

- **Customers**, ensuring we provide them with the products and services they need, and being there when claims arise;
- **Distributors**, offering the capacity to place specialist risks on behalf of their clients;
- **Managing agents**, providing access to insurance risk from around the world; and
- **Capital providers**, giving the opportunity to invest in different types of insurance risk.

How we benefit society

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

Lloyd's also wants to be known as a responsible business leader, operating in a way that makes those who work in the Lloyd's market feel proud of their contribution. Our approach underpins our goals to support global economic growth, and help nations, businesses and communities improve resilience to, and recover faster from, disasters.

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 is a founding member of the ClimateWise initiative, a collaborative endeavour by insurers to drive action on climate change. In 2020 we will be reporting against the United Nations Global Compact and sustainability development goals for the first time allowing us to align our vision, culture and operations with the world's largest corporate responsible business initiative.

Our capital structure

Lloyd's capital structure, often referred to as the chain of security, gives excellent financial security to policyholders and capital efficiency for members. Our capital structure provides the financial strength that backs all insurance policies written at Lloyd's and the common security that underpins the market's strong ratings and global licence network.

Lloyd's central assets, which include the Central Fund, are available, at the discretion of the Council, to meet any policyholder's valid claim that cannot be met from the resources of any member. The chain of security is designed to ensure the Lloyd's market remains well capitalised even after losses caused by extreme events.

Lloyd's ratings as at 31 December 2019

A+	Standard & Poor's: A+ (Strong)
AA-	Fitch Ratings: AA- (Very Strong)
A	A.M. Best: A (Excellent)

For further information visit: lloyds.com/investor-relations

Our priorities in 2019

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

- Performance: continuing our work to deliver first-class underwriting;
- Strategy: we developed the Future at Lloyd's strategy to build the world's most advanced insurance marketplace and deliver the widest range of products and services to our customers; and
- Culture: we continue to build a diverse and inclusive culture in the Society and the market in which everyone feels safe, valued and respected, and that reflects our global customer base.

Further details on these priorities can be found on pages 15 and 16.

Good progress was made in each of these areas in 2019, but more work is necessary. This is why they continue to be our main focus in 2020.

Non-financial information statement

The Society 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
Business model	10
Key risks	13-14
Environmental and social matters	17-18
Anti-corruption and anti-bribery matters	17
Human rights	18
Employees	18
Non-financial KPIs	20

Lloyd's chain of security

Several assets		
First Link	Syndicate level assets £52,849m	
Second Link	Members' funds at Lloyd's £27,595m	
Mutual assets		
Third Link	Central Fund £2,483m	Callable layer £977m
	Corporation £118m	
	Subordinated debt/securities £794m	

External Environment

The insurance sector as a whole is facing the same set of opportunities and challenges.

Today, customers' insurance needs are changing faster than ever. They face new threats to new types of tangible and intangible assets in new geographies. Customers tell us we need to develop new products and services that can keep pace with their needs and protect their businesses.

This changing demand is set against the backdrop of the march of technology and data analytics that are disrupting traditional insurance business models.

This is an opportunity for our industry, but one we will only grasp if we develop new business models, embrace new technology and foster innovation to give customers the products and services they need.

The insurance gap

Despite the increasing threat of new risks such as cyber attacks, and traditional perils such as windstorms, insurance buying is not keeping pace. Less than half of the world's exposure to natural disasters in 2019 was covered by insurance. In 2017, Lloyd's estimated total economic losses from a mass cyber attack would cost more than US\$50bn, yet the value insured was less than one-fifth of that.

Across the industry, we see a similar story. We estimate that over the past decade, commercial insurance penetration as a percentage of global GDP has hardly changed, going from 1% in 2008 to 0.9% in 2019. Intangible assets account for an increasing proportion of an organisation's value and are vulnerable to new risks such as cyber attack and reputation damage, which require fundamentally different insurance products.

The fast-changing risk landscape makes it difficult for businesses to track and make decisions about their risk exposures. Even when they are aware of their exposure, customers cannot always find the insurance products and services they need: one 2019 annual risk survey shows that of the top 20 risks identified by risk managers only two are considered fully insurable.

Closing this insurance gap means protecting our customers better from these threats. The challenge our sector faces is that although people need more cover, they are not buying it. Insurance has always followed risk but as threats emerge faster, insurance must react more quickly to ensure customers get the protection they need.

An expensive industry

Our industry needs to get closer to end customers and reduce costs across the distribution chain in areas where it is not adding value. Acquisition and administration costs are high and are reducing more slowly than those in other sectors.

While many complex products are inherently costly to transact, the sector has not stripped out other costs by modernising systems and processes quickly enough. Acquisition costs can also be high even for more commoditised products. Slow modernisation of internal systems and legacy IT infrastructure mean administration costs remain high.

Large corporations are increasingly retaining risk on their own balance sheets because it is more efficient. And often when corporations do want to transfer risk, they cannot always do so. Uncertainty around risk exposure and aggregation, pricing and risk appetite impact the coverage that insurers are willing to offer.

An influx of capital

In recent years new capital has become increasingly attracted to the insurance market, drawn by the relatively high, uncorrelated returns in a low interest rate environment. Third-party (alternative) capital makes up about 15% of reinsurance capital.

New capital has increased price competition over the past few years, which is good news for our customers, and a great opportunity for insurers to better serve their customers and offer more coverage. As a capital-dependent industry, insurers must make it easier for new forms of capital to attach to risk, thereby offering customers better value.

Talent

The demographics in our industry have been changing and we are facing a talent shortage. The average age of the insurance workforce in 2019 was 39, an increase of 2.5 years on 2015, while the proportion under 30 has fallen to 13%. Firms must begin recruiting and developing the next generation of individuals, who will become the leaders and experts of the future. Unfortunately, research has shown that only 4% of younger job seekers have a desire to work in the insurance industry.

The industry will struggle to recruit top talent unless we can define and communicate more appealing employee value propositions to candidates and create an inclusive culture in which everyone is respected and valued.

Responding to the challenges

The issue is clear: either carry on with business as usual and risk becoming less relevant, as customers see decreasing value in what insurance offers, or change and realise the multiple opportunities afforded by the new risk landscape. Building greater trust with customers, supercharging innovation to deliver products and services more closely aligned to their needs and reducing policy costs will go a long way towards achieving this ambition.

The Lloyd's market is exposed to the same challenges as the rest of the insurance and reinsurance industry. As a marketplace of competing businesses which in partnership are focused on providing an outstanding service for our customers, we are uniquely placed to seize the opportunity to make a powerful collective response through our Future at Lloyd's strategy.

Lloyd's Key Risks and Risk Appetite

The Society identifies and assesses key risks which could have a significant impact on the Lloyd's business. The Board manages exposure to these risks 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, the Society 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 the Society 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 Society acts to create and maintain a competitive, innovative and secure market.		
	Pillar: Sustainability Underwriting profitability; Reserving; Catastrophe exposure; Reinsurance; Syndicate capability; Attractiveness of the Lloyd's market	Pillar: Solvency Investment; Liquidity; Capital	Pillar: Operational Regulatory, legal and tax compliance; Operational effectiveness; Financial crime and sanctions; Cyber resilience and data loss protection; Conduct
Risk appetite statements:	Risk objective: Lloyd's strategy must deliver a sustainable business model over the medium term	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	Risk objective: Risk of operational and other events is managed to ensure Lloyd's maintains its strong reputation

COVID-19

The COVID-19 pandemic is a post-balance sheet event causing global economic uncertainty and social restrictions which are directly impacting the Lloyd's market. Until further notice, the majority of the Society's employees are working remotely, the Underwriting Room has been closed and the emergency trading protocols have been successfully implemented. This is having a direct impact on risks within all three pillars of the Society's risk objectives.

All the impacts on the Lloyd's risk profile from the pandemic are being regularly monitored, which includes an assessment of whether the controls currently in place are adequate to mitigate the evolving risks. Controls in place to manage the increased risk include:

- Lloyd's has set up a dedicated contact point to provide our policyholders with assistance and to help them find the right person to process a claim;
- Daily Catastrophe Group and Executive Committee meetings held to consider development of the global pandemic and implement business continuity actions in line with government advice;
- Emergency trading protocols have been invoked in conjunction with the wider market including the closure of the Underwriting Room and with Society personnel working remotely;
- Ongoing monitoring of the impact on Lloyd's assets and liabilities, claims, and solvency position with planned management actions in place to respond; and
- Regular engagement with the market and regulators via several forums.

Lloyd's Key Risks and Risk Appetite *continued*

Other key risks under management are:

Key risk and impact on Lloyd's	Mitigation
<p>Market performance Risk that Lloyd's businesses suffer losses or erode their capital base due to a failure to respond to changing market conditions.</p>	<ul style="list-style-type: none"> – Action to address the underlying market profitability following years of below average underwriting profitability. – Close monitoring and challenge of syndicates' performance against approved business plans. – Ensuring syndicates writing newer lines of business, such as cyber, can demonstrate they have the skills and expertise to do so. – Continue to closely monitor and respond to the market risk appetite measures.
<p>Executing the Future at Lloyd's strategy Risk that 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.</p>	<ul style="list-style-type: none"> – Publication of the Blueprint One: Update in February 2020, following an intensive period of consultation, design, and planning, setting out the Future at Lloyd's key priorities and foundational activities. – Strong central governance to manage delivery risks associated with the Future at Lloyd's, including the Technology and Transformation Committee, overseen by Lloyd's Board and Council. – A robust risk and assurance framework in place, including the role of an independent Quality Assurance partner.
<p>Creating a more inclusive culture Risk of failure to deliver a culture of integrity, respect and inclusion, across the Lloyd's market.</p>	<ul style="list-style-type: none"> – Lloyd's first market-wide culture survey conducted. Activity underway to deliver the resultant action plan that will address the four key themes which emerged from the survey: gender balance; speaking up; wellbeing; and leadership. – Independent Culture Advisory Group established consisting of market participants and leading culture transformation experts to deliver long-term culture change in the Lloyd's market by ensuring that we are taking the right actions to effect sustainable and measurable progress.

There are other current and emerging risks considered to be heightened for 2020, including:

- Cyber risk: Enhancements made to the control environment to mitigate the risk of loss as a result of a direct malicious electronic attack or through exposure to aggregations of risk via the policies written by Lloyd's businesses.
- Operational resilience: Response to regulatory consultation and project established to validate Lloyd's operational resilience framework and identify areas requiring improvement. The Society's oversight of the third parties who provide services to the market is an area of focus.
- Brexit: While the impact of Brexit has been significantly mitigated by the establishment of the Lloyd's Brussels insurance company, there continue to be a number of projects underway to minimise the impact of Brexit on Lloyd's customers, including the programme to deliver the Part VII transfer.
- Interest rate environment: The low levels of interest rates will reduce the forward-looking expected returns on assets invested across the Chain of Security, potentially reducing the return available to capital providers. The Society's oversight of investment strategies across the market will be an area of focus.
- Climate change: Alongside other environmental, social and governance topics, assessing the impact of climate change on the Society and the market is a focus for 2020, with specific risk appetite metrics and stress tests in development.

Priorities in 2019

The Future at Lloyd's

2019 was an exciting time as we began our journey to create a new vision for Lloyd's: **to be the most customer-obsessed and advanced insurance marketplace, with the widest range of products and services.**

Stakeholder consultation

On 1 May we published our prospectus on the Future at Lloyd's. This marked the beginning of a formal consultation exercise on our ambitions for the Lloyd's market. These are to:

- Offer even better solutions for our customers' risks;
- Simplify the process of accessing products and services at Lloyd's;
- Reduce the cost of doing business; and
- Build an inclusive and innovative culture that attracts leading talent to Lloyd's.

During the consultation process we received thousands of responses. We received feedback from our online survey, and we held more than 300 interviews and other events, which helped us identify six transformative solutions to achieve our vision.

Blueprint One

Feedback received from the consultation shaped the contents of our first blueprint which we published on 30 September 2019. This set out:

- Our strategic intent, describing how the Lloyd's market of the future will look;
- Our current thinking on the six solutions, and the foundations needed to support them, informed by our consultation; and
- Details of the delivery plans for each solution.

The six solutions are:

- Complex risk platform: a digital, end to end platform that complements face to face negotiation to submit, quote, bind, issue, endorse and renew complex risks for insurance and reinsurance business;
- Lloyd's risk exchange: a Lloyd's digital exchange that connects to existing systems or provides a new user interface and enables instant search, quote, bind and issue for less complex risks, improving the speed of placement and customer experience;
- Claims solution: a digital solution that triages and routes claims, automates decision-making for the simplest claims, and assists complex claim handling, underpinned by a new claims orchestration platform, that together deliver an improved customer experience;
- Capital solution: a new end to end journey for investing at Lloyd's with simpler, nimbler rules and processes and new structured investment opportunities, supported by a new capital platform, improving the experience of existing members and attracting new alternative capital providers;
- Syndicate in a box: a new way to bring innovative new syndicates into the Lloyd's market and give them the best chance of success; and
- Services hub: the services hub is at the centre of Lloyd's future value proposition, building on existing capabilities and providing new, innovative services that offer value to market participants, customers and competitive advantage for Lloyd's.

Transition

After the publication of Blueprint One, we spent six months preparing for the first delivery phase of the Future at Lloyd's. Achievements during the transition period included setting up the Future at Lloyd's governance structure, putting in place the resources to deliver the various workstreams and securing the finance for the strategy.

Into 2020 – Phase 1 delivery

This year the hard work of building the Future at Lloyd's solutions begins. In our Blueprint One: Update, launched online in February 2020, we have set ourselves clear delivery goals. We will measure our success against our progress towards these goals and adapt our plans as necessary along the way.

Changing the way the Lloyd's market operates is a challenging undertaking. The Future at Lloyd's is an ambitious strategy that will make us more efficient, more diverse and more valuable to our customers, so we can continue to fulfil our purpose: **Sharing risk to create a braver world.**

Creating our future culture

Lloyd's is committed to creating an inclusive marketplace that attracts the most talented people in the world, within and beyond the insurance industry. To achieve this, in 2019 we set out a comprehensive programme of actions to drive long-term culture change in the Lloyd's market.

In March 2019, we announced an action plan developed in collaboration with the managing agent and broker associations, LMA and LIIBA, in response to reports of inappropriate behaviour in our marketplace. This initial five-point action plan included a wide-ranging set of actions aimed at ensuring a safe and inclusive working environment in the marketplace. The actions included:

- Provision of an independent bullying and harassment support line set up to provide confidential advice and support for those experiencing inappropriate behaviour at work, helping them decide on their next steps;
- Strengthening Lloyd's sanctions for any individuals found to have behaved inappropriately, including fixed period and life bans;
- A comprehensive review of policies and practices across the Lloyd's market, with a view to identifying and sharing best practice;
- Provision of training focused on prevention, as well as reporting and supporting those who have been subjected to inappropriate behaviour; and
- Commissioning the Banking Standards Board (BSB) to conduct an independent, market-wide annual culture survey to help understand the working cultures that exist across the Lloyd's market, including standards of behaviour and conduct, and to inform further action.

The BSB survey took place in May 2019 and was the largest culture survey ever conducted in the insurance sector. The findings of that survey painted a more complex picture of the culture challenges that exist in the Lloyd's market, informing a targeted set of signature actions to address the key themes that emerged and further accelerate culture change across the marketplace. The measures include:

Priorities in 2019 *continued*

- Setting up an independent Culture Advisory Group comprised of leading experts with experience of successful cultural transformation, to provide expert advice and robust challenge to help ensure that Lloyd's is taking the right actions to effect sustainable and measurable change;
- A Gender Balance Plan: setting clear and measurable targets for improving the representation of women at senior levels within the Lloyd's market;
- Setting Standards of Business Conduct: requiring every person and every organisation operating in the Lloyd's market to act with integrity, be respectful and always speak up;
- Introducing a Culture Dashboard: to closely monitor progress in the Lloyd's market against key indicators of a healthy culture;
- Launching a campaign to encourage more people to speak up against unacceptable behaviour; and
- An enhanced focus on wellbeing with a market-wide campaign in 2020 to raise awareness of personal resilience and mental health, with an expanded programme of workshops, events and resources.

We will continue to build on these actions throughout 2020, including running the second market-wide culture survey to inform and guide our actions, to ensure we continue to drive long-lasting cultural transformation.

In tandem, we are also focused on building an increasingly diverse range of skills and experiences to develop customer-centric solutions as we build the Future at Lloyd's. This includes a strategic workforce plan to support the people and capability requirements across the priorities and solutions set out in Blueprint One, together with implementing new ways of working including a mix of agile and traditional approaches.

Managing market performance

Market oversight remains a strategic priority for the Society. In 2019 we focused on our journey to return the market to a position of sustainable, profitable performance including consideration of Lloyd's solvency; operational risk; and our brand and reputation. The Society adopts a risk-based approach to managing the market, which means our oversight is balanced and is proportionate to risks faced.

The Society aims to minimise any duplication of work undertaken by the Prudential Regulation Authority and the Financial Conduct Authority, and for the regulators to take comfort from the oversight undertaken at Lloyd's. The Society also considers managing agents' own group oversight activities, with a view to ensuring the right risks are receiving attention from the right people.

Strong oversight is about establishing a framework that enhances the ability of syndicates to do business, while ensuring good customer outcomes. We continue to evolve our risk-based approach, focusing efforts on matters of greatest concern and where our intervention can really make a difference.

By adopting this approach, the Society recognises the diversity and complexity of the many different practitioners in the Lloyd's market. Our account management structure also ensures that engagement with managing agents is structured, cohesive and commercially effective.

Developments in 2019

Through the 2018 and 2019 business planning cycles, the Society's priority was the need to address underwriting performance across the market. Performance improvement plans were requested from all managing agents that had to demonstrate a logical, realistic route to sustainable profit. Plans were required for specific lines of business and, in some cases, whole syndicates. In addition, all syndicates had to identify their poorest performing portfolios of business, known as Decile 10, and demonstrate plans to return the portfolio to profit.

Further developments were made for the 2020 planning cycle, including the refinement of the process itself. The high level plan submission was removed in favour of strategic business discussions with managing agents, and a phased approach to plans was adopted, resulting in a slicker process. This also had the benefit of reducing the length of the planning season by two months.

The Society piloted its Light Touch oversight approach for the best performing syndicates.

The 2020 planning objective continued our focus on delivering sustainable profit, by improving or removing the poorest performing lines of business (Decile 10) while encouraging growth in the most profitable lines (Deciles 1 and 2).

Although the action taken over the last three planning cycles is delivering performance improvements, there is still more to do and we continue to maintain our focus of delivering sustainable, profitable growth across the market. The Society and the market will continue to build on the successes through 2020 as we strive to achieve world class underwriting performance at Lloyd's for the benefit of our customers.

Responsible Business

The Society 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. In 2018 Lloyd's signed up to the United Nations Global Compact, the world's largest corporate sustainability initiative.

Community

The Society 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 2019 through the Society and our charities we donated nearly £1m supporting 184 organisations. We launched strategic long-term charity partnerships and completed our partnerships with RedR, Build Change and Wizz-Kidz. For example, since 2012 Lloyd's Charities Trust has supported RedR UK, which specialises in building the capacity of individuals and organisations working in humanitarian response. Through our partnership, we have been able to impact 3,383 aid workers responding to humanitarian crises, increasing their professionalism and effectiveness in their life saving roles. In addition, 3,000 volunteers from across the market gave their time to support people in our local communities through Lloyd's Community Programme.

Environment

The Society recognises that its global operations have an environmental impact and we are committed to monitoring and reducing our emissions year on year. In 2019, we have continued to reduce our emissions on a total global basis from 9,732 tCO₂e in 2018 to 8,363 tCO₂e in 2019 – a reduction of 14%. We have reduced our total global emissions per full time employee (FTE) by 23% from 9.4 tCO₂e/FTE in 2018 to 7.3 tCO₂e/FTE in 2019.

Given the majority (91%) of our emissions are from the UK, our energy and carbon reduction activities are focused on our London headquarters. We have: replaced heat pumps and variable speed drives in the air handling units in our building conditioning systems; commissioned LED lighting replacements as part of our Better Working Environment project; installed eco-friendly urinals producing water savings of over 50% since installation; and switched our petrol car for hybrid in our post room operations.

Lloyd's energy and carbon disclosures 2019

		Total scope 1	Total scope 2	Total scope 1 + 2 (location based)	Total scope 3	Grand total scope 1, 2, 3 (location based)	Carbon intensity location based (tCO ₂ e/FTE)	Total energy usage (kWh)
2019 (tCO ₂ e)	UK emissions	1,312	4,578	5,890	1,739	7,629	8.4	26,248,211
	Global emissions (ex. UK)	–	642	642	92	734	3.0	1,511,863
2018 (tCO ₂ e)	UK emissions	1,702	5,253	6,955	1,886	8,841	11.0	28,339,592
	Global emissions (ex. UK)	17	768	785	106	891	3.9	1,933,550

We are aware of the reporting obligations under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. As such, this year we have upgraded our energy and carbon reporting to meet these new requirements and increase the transparency with which we communicate about our environmental impact to our stakeholders. We report on all material global emissions in scope 1 and 2, plus selected scope 3 emissions, using an operational control approach. The methodology used to compile our (Greenhouse Gas) GHG emissions inventory is in accordance with the requirements of the following standards: the WRI GHG Protocol Corporate Standard (revised version) and Defra's Environmental Reporting Guidelines: including Streamlined Energy and Carbon Reporting requirements (March 2019). 2019 performance refers to reported location-based totals, which are the summation of the UK emissions and Global emissions (ex UK) displayed. Scope 1 emissions includes natural gas, company cars, other fuels, refrigerants; Scope 2 includes electricity; Scope 3 includes employee cars, flights, public transport, commute, paper, waste, water, data centres, and transmission and distribution. Energy reporting includes kWh from scope 1, scope 2 and scope 3 employee cars only.

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

Financial crime

The Society is committed to ensuring the market it oversees, any associated parties, and the Society itself have robust systems, policies and controls in place to minimise the risk of any acts of financial crime. The Financial Crime policy ensures that the Society, including all jurisdictions in which it operates, is aware of the "6 Pillars" of financial crime risk, namely money laundering/terrorist financing, sanctions, bribery and corruption, tax evasion facilitation, fraud and market abuse/insider dealing.

Through its oversight of the market, the Society lays down financial crime-related minimum standards, which it expects the market to implement accordingly. The Society also supports the market in its compliance with financial crime prevention requirements and tests the effectiveness of both the Society and the market's management of financial crime risks.

Whistleblowing

The Society continues to strengthen the whistleblowing arrangements it uses, through the development of procedures to ensure that employees are suitably equipped to handle reported concerns and through increasing the range of communication methods available to make disclosures. These methods include a web-based reporting system and a reporting app which may be used on a smart phone or tablet. More than 1,000 employees completed whistleblowing training during the year with others completing more specialised training.

The Prudential Regulation Authority (PRA) published a Voluntary Notice of Requirements relating to the Society's whistleblowing systems and controls on 23 December 2019. This Notice related to shortfalls in the Society's whistleblowing systems and controls resulting in a failure, communicated to the PRA on 15 February 2019, to provide an anonymous whistleblowing channel for Society employees between 1 October 2017 and 25 February 2019. It is noted that other whistleblowing avenues were available for Society employees over this period. Set out in this notice, the PRA requires the Whistleblowers' Champion to attest to the soundness of the systems and controls on an annual basis for each of the calendar years 2020, 2021 and 2022.

Three concerns were reported to the Society during 2019. These included concerns about data usage and employee conduct. The investigations undertaken resulted in further actions being agreed and taken to strengthen the Society's procedures.

Responsible Business *continued*

Responsible procurement

The Society's procurement mission is to deliver an effective and sustainable approach to all third-party sourcing and supplier management, while achieving maximum value, minimising risk and driving efficiencies to invest in the future.

We are committed to the highest professional standards and ethics, and we expect the same high standards from the suppliers and any third-party sub-contractors that we work with. Our aim is to work collaboratively with our supply chain partners towards a responsible business approach. As part of our tender vetting process, suppliers are asked questions to assess their position on human rights, environmental and social issues. Suppliers are also asked to sign up to Lloyd's Supplier Code of Conduct.

Responsible investment strategy

The Society'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.

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.

In 2019 our approach has included the implementation of a supplier performance and risk management framework and spot-check audits on some of our critical suppliers to ascertain their compliance with the modern slavery legislation.

Employee policies

The Society 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. We have a code of conduct, human rights policy and speaking up policy, which are available to employees.

The Society is proud of its market-leading family care policies which are designed to provide employees with the support they need to enjoy happy and healthy working and home lives, whatever that looks

like for them. Further enhancements will include additional rights to bereavement leave and entitlement as per changes to statutory law.

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, the Society is part of the Living Wage campaign. Our commitment to the initiative means that all Society 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, ethnicity, sexual orientation, age, ability or disability, background and religion, the Society and the market work in partnership through the Inclusion@Lloyd's steering group and other diversity and inclusion networks. In 2019 two market guides were launched to support organisations, on diversity data collection and on supporting Trans and Non-Binary Inclusion.

2019 was our fifth year of sponsoring the Dive In Festival for diversity and inclusion in insurance. Spread across three days, events took place in 32 countries and more than 60 cities. This year's theme was #InclusionImpact. Its mission is to enable people to achieve their potential by raising awareness of the business case, and promoting positive action, for diversity in all its forms.

Gender pay gap

The Society reported a gender pay gap of 23.6% (mean) in its 2019 Gender Pay Gap Report, an increase from the 2018 figure of 19.9%. This gap represents the difference between the average pay for a man in the Society, 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, and which we review on an annual basis as part of our compensation review process. The Society does not believe it has an equal pay issue, however we recognise that changes within our executive team during the reporting period will have had a direct impact on our 2019 figures.

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. Addressing the gender pay gap requires commitment at both the senior levels and investment in our future generation of leaders. To help redress the balance, in addition to expanding our family care policies, our Lloyd's Advance development programme for women aims to develop future women leaders through targeted development, mentoring, sponsorship and networking. In 2019 we saw two cohorts of women successfully complete the Advance programme with additional cohorts announced for 2020. Our commitment is to an enhanced gender balanced plan to meaningfully close the gender pay gap.

2019 Society employee segmentation figures

UK							905
Non-UK							242
	Executive Team	Head of Function	Manager	Professional/Technician	Administrative	Total	
Female	2	13	166	209	221	611	
Male	5	35	215	190	91	536	
Total	7	48	381	399	312	1,147	

Key Performance Indicators

The Council uses a number of metrics, financial and non-financial, to measure the performance of the Lloyd's market as indicators of sustainability and progress against our strategy. Some of these measures are used on a recurring basis while some are specific to activities undertaken in that year.

Market performance

<p>Result before tax</p> <p>Includes an aggregation of syndicate results, the result of the Society and notional investment return on members' funds at Lloyd's.</p>	<p>2019: £2.5bn</p> <p>2018: (£1.0bn) 2017: (£2.0bn)</p>								
<p>Combined ratio¹</p> <p>Combined ratio is a measure of the profitability of an insurer's underwriting activity. It is the ratio of net operating expenses plus claims incurred net of reinsurance to earned premiums net of reinsurance.</p>	<p>2019: 102.1%</p> <p>2018: 104.5% 2017: 114.0%</p>								
<p>Expense ratio¹</p> <p>The ratio of net operating expenses to earned premiums net of reinsurance. Reducing the cost of doing business at Lloyd's is one of our strategic aims.</p>	<p>2019: 38.7%</p> <p>2018: 39.2% 2017: 39.5%</p>								
<p>Return on capital¹</p> <p>The ratio is used to measure the overall profitability and value creating potential of the Lloyd's market.</p>	<p>2019: 8.8%</p> <p>2018: (3.7%) 2017: (7.3%)</p>								
<p>Solvency Capital Requirement (MWSCR and CSCR)²</p> <p>Under the Solvency II regime Lloyd's monitors the amount of eligible assets available to cover its market wide SCR (MWSCR) and central SCR (CSCR). These amounts are expressed as a percentage of the requirements.</p>	<table border="1"> <thead> <tr> <th>MWSCR</th> <th>CSCR</th> </tr> </thead> <tbody> <tr> <td>2019: 156%</td> <td>2019: 238%</td> </tr> <tr> <td>2018: 149%</td> <td>2018: 249%</td> </tr> <tr> <td>2017: 144%</td> <td>2017: 215%</td> </tr> </tbody> </table>	MWSCR	CSCR	2019: 156%	2019: 238%	2018: 149%	2018: 249%	2017: 144%	2017: 215%
MWSCR	CSCR								
2019: 156%	2019: 238%								
2018: 149%	2018: 249%								
2017: 144%	2017: 215%								

1. The combined ratio, the expense ratio and the return on capital are metrics that are consistently used to analyse financial performance in the Lloyd's Market Results and/or in the Society Report. These metrics (wherever used in this Annual Report) are Alternative Performance Measures (APMs), with further information available on page 176.

2. Please see note 4 on pages 49 and 50 for further details regarding Lloyd's solvency position.

Key Performance Indicators *continued*

Market strategy

Strategic direction

A new strategic direction is set for Lloyd's supported by market participants.

A prospectus was issued setting out Lloyd's aims, followed by Blueprint One. 70% of respondents to our online survey believe the proposals will deliver the Future at Lloyd's aims.

Customer net promoter score

A net promoter score, as well as other metrics, will be used to assess the impact of the strategy, and Lloyd's performance generally, for our customers.

A benchmark score will be set in 2020 as a base from which to track Lloyd's performance during the implementation of the Future at Lloyd's strategy.

Offering better customer solutions

Lloyd's will improve its capability to write innovative products.

The Lloyd's market has established the product innovation facility designed to: speed up (re)insurance product development; test new technologies and methods of distribution; and provide cover for today's new and emerging risks.

Culture

Conduct a market-wide culture survey

In collaboration with the Lloyd's Market Association and the London & International Insurance Brokers Association, undertake an independent and market-wide survey informing further action in building an inclusive culture for the Lloyd's market.

Lloyd's undertook a market-wide survey receiving 6,003 responses from across the market. Results, along with the introduction of Standards of Business Conduct, were published to address the key themes arising from the Lloyd's culture survey.

Introduce a plan to improve the culture of the Lloyd's market

Building on the existing inclusion activity and oversight responsibilities, introduce a robust action plan addressing the key themes from the Lloyd's culture survey and introduce clear and robust metrics to measure and monitor future progress.

Lloyd's has identified gender, speaking up, wellbeing and leadership as four key priority areas to focus on improving the culture of the Lloyd's market. Lloyd's has put in place a wide-ranging set of actions to address these priority areas and created an advisory group comprising market and specialist practitioners to guide the programme.

Council Statement

Statement by the members of the Council in relation to paragraph 3.2 of the Constitutional Arrangements Byelaw, equivalent to s.172(1) of the Companies Act 2006 (the Act)

While not subject to the Act, the Council seeks to comply with best practice with regard to Lloyd's Annual Report. Accordingly, the Council has elected to include a statement in this Strategic Report describing how the Council has had regard to the matters set out in paragraph 3.2 of the Constitutional Arrangements Byelaw, which is the Lloyd's counterpart of section 172(1) of the Act.

The Council has a duty to act in the interests of its members. All decisions have been taken in this clear and certain knowledge that the Council must take material action to ensure the long-term interests of the market's members are protected.

During the year the Council focused on three areas that will have a long-term impact on the Lloyd's market and which were our priorities in 2019. These were:

1. Define and initiate a new strategy for the market, the Future at Lloyd's;
2. Enhance the market's culture; and
3. Continue our activity to deliver first-class underwriting.

The Future at Lloyd's strategy is a consequence of two consultations of unprecedented scale, covering insurance carriers, distributors, capital providers, Society employees, and most importantly the market's customers. This was essential for Council to understand both what is valued, and how the market should evolve. The first consultation was instrumental in setting our new purpose, **Sharing risk to create a braver world**, and in shaping the prospectus, issued in May, which set out our aims for improving the value we provide to our different stakeholders. The second consultation on the prospectus document was successful in building consensus around these aims and the things we should do to achieve our vision for building the most advanced insurance marketplace in the world. We issued Blueprint One in September, the first blueprint of several that will set out our plans for delivering our vision.

The Council is encouraged that the new strategy has received overwhelming support from the Lloyd's market. We believe it will provide a more attractive future for market firms and employees, enable new investment opportunities for members and provide customers with more choice of insurance products and services that can meet their changing risk needs. Further details on the Future at Lloyd's can be found on page 15.

The Council is aware of the challenges which embarking on this journey presents for the market. 2019 saw us make a good start, setting out what needs to be done and laying the groundwork to get ourselves ready to begin delivering. This has included resourcing the different workstreams and raising £300m of senior debt to fund the transformation. Execution of the strategy will be dependent on many factors, and especially the continuing support of market participants and key suppliers, both existing and new. We are maintaining our programme of engagement to ensure that the views of our many different stakeholders are heard and are accommodated into our plans wherever possible.

The Council believes Lloyd's purpose and strategy supports the wider society and the environment through the development and offering of products that meet the emerging risks facing the world, including from technological and environmental change.

Lloyd's wants to be known as a responsible business leader, operating in a way that makes those who work for us feel proud of their contribution. Our approach underpins our goals to support global economic growth, and help nations, businesses and communities improve resilience to, and recover faster from, disasters. Please refer to page 17 for further details of the Society's approach in the community.

Lloyd's reputation is built on expertise. The employees working in the Lloyd's market and Society are its most important asset. It is therefore vital that they are able to operate in a safe, secure and inclusive environment that attracts the best talent and allows it to develop and contribute. Creating an inclusive marketplace is a priority for us and crucial to Lloyd's long-term success.

In March, we announced an action plan developed in collaboration with the managing agent and broker associations, Lloyd's Market Association and London & International Insurance Brokers' Association, to ensure a safe and inclusive working environment in the marketplace. We carried out the largest culture survey ever conducted in the insurance sector to understand employees' views. The independent market-wide survey was commissioned in the wake of reports of sexual harassment in the Lloyd's market, and following the results of the survey a further series of measures were put in place to accelerate culture change across the marketplace. Further details on the actions taken can be found on pages 15 and 16.

The Council believes that the actions we are taking will address the issues that have surfaced. Improving our culture and creating a more diverse marketplace will help us to maintain our reputation for insurance expertise and ensure that we attract the right skills and capabilities to deliver the Future at Lloyd's.

We aspire to world-class underwriting performance and strong performance management. We will maintain the highest standards to protect customers and the market's reputation. During 2019 we continued to take action through our robust market oversight regime to improve the underwriting performance, in the wake of prior year below average performance. Many in the market, and wider insurance industry recognised and were supportive of the leading position we took to instil a more prudent and measured approach to underwriting. Further details of our oversight approach are set out on page 16.

It is gratifying to see that our efforts to improve performance are beginning to have effect. And the good work is continuing in 2020 to put the market on a firmer footing, which will be in the long-term interest of our members.

To help deliver success, the Council took the decision, following consultation with the membership and across the market, to amend Lloyd's governance framework. This will involve the merging of the Council and Board from June 2020, to create a single governing body. This will assist with efficient and swift decision-making, necessary to meet the challenges of a fast-changing world. Further information on this new framework can be found on page 75.