LLOYD'S

2020

Aggregate Accounts

Aggregate Accounts 2020

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External Environment

A year like no other

2020 brought more changes than many could have imagined: from the global public health crisis and its heavy toll on communities, businesses and mental health, to the increasing imperative to address climate change and a defining moment in social justice. For the insurance industry, supporting our colleagues, clients and communities to rebuild our economies and businesses and get back to growth was a key area of focus. The challenges of 2020 prove that helping to create a fairer, more resilient society is more important than ever.

The world economy

COVID-19 has resulted in the sharpest and deepest contraction in economic activity since the Great Depression of the 1930s. National lockdowns, travel and sanitary restrictions have led to entire sectors of the economy being forced to close. Global GDP is estimated to have declined by around 3.5% in 2020, a significantly larger contraction than the global financial crisis in 2009. It is notable that, with the exception of China, emerging economies have been impacted harder than developed economies – underscoring the impact of the pandemic on the poorest.

Although global growth is showing signs of recovery, it is very dependent on minimising potential future pandemic outbreaks.. The IMF predicts global growth of 5.5% in 2021. Any forecast is bound to be uncertain: delays in vaccine roll outs, new viral strains and renewed lockdowns are significant risks. However, faster than expected vaccination programmes and/or improved treatments would allow economies to recover much more quickly.

Fiscal and monetary policies around the world have been deployed to cushion the effects of the pandemic and will continue to adjust to reflect its impact on economies. Global fiscal stimulus resulted in government debt increasing by $12tn in 2020 to over 100% of GDP, the highest since World War II.

Geopolitical trends

Geopolitics will remain a key feature impacting the overall business environment and growth. Under the Biden presidency, the United States is likely to be more interventionist, including in health and climate change. Upcoming elections in 2021 and 2022, particularly in Germany and France, could have far-reaching consequences for the future of Europe post-Brexit.

Diversity and equality

The pandemic has notably caused most economic hardship to the poorest in society and has had a particular impact on the wellbeing and mental health of people. There is increasing concern that people from Black, Asian and Minority Ethnic backgrounds are being disproportionately impacted by COVID-19. Alongside this, the killings of George Floyd and Breonna Taylor among others gave rise to social unrest across the United States and led to communities around the world rallying for social and racial justice. This resulted in government, industry and public figures taking fresh steps to respond to these concerns and create an environment free from injustice.

The global insurance industry has been actively pursuing policies to promote diversity and inclusion, but more work is still needed.

Climate

The challenges of climate change were brought into sharp focus in 2020, which recorded an average temperature 1.92 degrees Celsius above the 1951-1980 baseline, the joint warmest on record.

COVID-19 has resulted in the postponement of the 26th session of the Conference of the Parties (COP26) to the United Nations Framework Convention on Climate Change until November 2021, when leaders from around the world will be reporting back on progress since the 2015 Paris Agreement – with an aspiration that new decisions will be taken on how to deliver lower carbon emissions.

The global insurance industry recognises its key role in the climate challenge and facilitating the carbon transition through the phasing out of fossil fuels, more rapid adoption of renewables and moving to clean transport – as well as through its investment in green energy and clean industries.

Accelerating digital transformation

Digitalisation, the use of data, and data-driven insights have played a key role in driving the modernisation of the industry and reducing administration costs. COVID-19 presented significant challenges to insurer operations, prompting an overnight shift to remote working and virtual customer engagement. The sudden imperative was to accelerate digitalisation and enhance virtual operations, delivering transformation in one year that originally might have taken three to five years. These changes, which required digital connectivity and ease of remote access, have generated new exposures for the industry and our policyholders, particularly in terms of cyber risk and business interruption.

Changing customer needs

COVID-19 has shifted customers' perceptions and demand for insurance. Research carried out by Lloyd's in 2020 showed that some customer attitudes towards insurance had deteriorated, with the perception that some business interruption policies have not performed as expected during the pandemic. This has been highlighted by legal challenges seen in a number of countries.

Customers expressed short-term priorities around ensuring clarity of insurance cover and business resilience to future waves of the pandemic and safeguarding their employees and customers. In the long term, customers want more flexible insurance, greater protection for their global supply chains and rising cyber risk exposures, and advice on how to mitigate and protect against future systemic risks. Some larger companies said they were increasingly self-insuring through captives.

In 2021, it will be important for insurers to rebuild customers' trust in insurance through simplification of products. Customers will also be looking for assurances that the new risks they face are considered by insurers.

External Environment continued

The insurance industry response to COVID-19

Following COVID-19 the global insurance industry has been undergoing a process of adjustment and modernisation, driven by the overriding need for sustainable and profitable growth.

Pricing in the London market continues to harden in response to changes in risk exposures and increased casualty losses. Despite this, there are a number of important challenges including the uncertainty over the ultimate costs of COVID-19 related claims, the pandemic's recessionary impact on the sector, and ultra-low investment yields.

We estimate that the global insurance industry will pay around US$203bn in claims as a result of COVID-19. Although this is a significant figure, providing cover for systemic risks such as pandemics, global cyber attacks or destructive solar storm ultimately requires financial resources far in excess of the global non-life (re)insurance industry's US$2tn asset pool. Insurers will therefore need to find solutions in partnership with governments to ensure that customers and society are better protected against future systemic shocks.

2020 Highlights

Gross written premium

£36,243m

(2019: £37,514m)

Combined ratio*

111.9%

(2019: 103.7%)

Combined ratio (exc COVID-19)

98.7%

(2019: 103.7%)

Market-wide solvency coverage ratio

147%

(2019: 156%)

Loss before tax

(£1,876m)

(2019: profit of £697m)

Overall surplus on prior years

£461m

(2019: £232m)

Underwriting profit (exc COVID-19)

£343m

(2019: Underwriting loss of £971m)

Total investment return

£1,240m

(2019: £1,670m)

* The combined ratio for the market is the ratio of net incurred claims and net operating expenses to net earned premiums. The prior year reserve movement represents the ratio of the surplus/deficit arising on reserves set at December 2019 to overall net earned premiums in calendar year 2020.

The underwriting results and combined ratio by line of business (pages 9 – 14) include the results of all life and non-life syndicates transacting business during 2020. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business have been reported in the segmental analysis table on page 38.

Market Performance

Market results

The Lloyd's market reported an overall loss of £1,876m in 2020 (2019: profit of £697m). The result is comprised of net investment income of £1,240m and underwriting losses of £3,090m, which has been driven by £3,433m of claims arising from the COVID-19 pandemic. The reported combined ratio is 111.9%, however, excluding losses from the COVID-19 pandemic the combined ratio is 98.7%, which is an improvement on 2019 – 103.7%.

Underwriting Result

While the Lloyd's market has reported underwriting losses for 2020, the impact of COVID-19 overshadows the improvement in underlying performance.

Major claims have contributed 23.0% to the combined ratio (2019: 6.8%), with COVID-19 related claims accounting for a significant portion at 13.2%. The Lloyd's market also continued its trend of prior year releases, contributing positively to the combined ratio with a benefit of 1.8% (2019: 0.9%). There have been prior year releases across all lines of business, except the casualty line, which reported strengthening.

Adjusting the combined ratio for the contributions from major claims, the Lloyd's market reported an underlying accident year ratio of 88.9%; an improvement on the 96.9% for the 2019 financial year. The 2020 accident year ratio is now in line with the target for the Lloyd's market.

The main contributor to the improvement in the underlying accident year ratio is the reduction in the attritional loss ratio that stands at 52.1%, representing a 6.5 percentage point reduction from the ratio reported for 2019. The improvement in the attritional loss ratio is the result of sustained risk adjusted rate increases on renewal business and the market's actions to drive sustainable profitable performance. There has also been an improvement in the market's expense ratio, which has reduced to 38.6% from 39.2% in 2019.

The Lloyd's market gross written premiums have decreased 3.4% when compared with 2019. While the market has seen a period of sustained risk adjusted rate increases on renewal business – which stood at 10.8% for 2020 – foreign exchange and volume reductions in the period of 14.2% have offset this benefit. Volume reductions reflect the continued focus on driving sustainable profitable performance which has resulted in several syndicates exiting or re-underwriting certain lines of business and curbing risk appetites in poor performing lines. Risk adjusted rate increases on renewal business have been experienced across all major lines and geographies.

Investment review

2020 was an overall positive year for investments despite the losses incurred in the first quarter. Most equity markets generated a strong level of return for the calendar year, with large gains coming over the last three quarters of the year. In fixed interest markets, the aggressive easing of monetary policy drove a reduction in risk-free yields resulting in capital gains for government bonds. Corporate bonds, along with risk markets, suffered large losses early in the year but ended 2020 with above average returns.

Syndicate premium trust funds account for the majority of the market's investment income. Overall, syndicate investments generated income of £1,240m, a return of 2.8% (2019: £1,670m, 4.0%). The return was driven by the strong performance on corporate bonds and equity and growth assets.

Balance Sheet strength

The Lloyds market's solvency ratio continues to be above risk appetite and regulatory requirements. The market-wide solvency ratio was 147% at 31 December 2020. These reflect increases in members assets, including their Funds at Lloyd's as members injected additional capital to cover their funding shortfalls and losses arising from COVID-19 offset by increases in capital requirements driven by responses to COVID-19 across all key risk drivers.

2020 Performance

Premium

Gross written premium for the year was £36,243m, compared with £37,514m in 2019.

The overall price change (taking into account terms and conditions) on renewal business was an increase of approximately 10.8%, which was above planning assumptions for the year and better than 2019. Positive price movements have been experienced for the past 13 consecutive quarters and across the majority of lines of business.

Despite the pricing momentum, the market experienced volume reductions following some syndicates exiting certain lines of business, or curbing risk appetites in poor performing lines of business and portfolios heavily impacted by COVID-19. These volume reductions have led to an overall decrease in premium of 3.4%, compared with 2019.

US dollar denominated business continues to account for the majority of business written in the Lloyd's market. However, a stable US dollar to GBP average rate of exchange has led to minimal impact of foreign exchange on the change in reported premiums.

Market Performance continued

Accident year ratio

The accident year ratio*, has continued to improve, reducing to 88.9% (2019: 96.9%). Within this there has been a significant improvement in the attritional loss ratio, coupled with an improvement in the expense ratio. Prior year movements have had a more beneficial impact on the results than in 2019.

Attritional loss ratio: the attritional loss ratio continued to improve in 2020, reducing to 52.1% (2019: 58.6%). The sustained period of rate increases on renewal business and continued focus on strengthening underwriting discipline across the market have been the key drivers of this continued improvement. While lower claims frequencies have been evident across certain lines as a result of the COVID-19 pandemic, this has not had a material impact on the business written in the Lloyd's market.

Prior year development: this was the 16th consecutive year of prior year releases. The current year result has seen greater benefit from prior year releases at 1.8% of net earned premium (2019: 0.9%). There have been releases against all lines of business other than casualty, which saw a strengthening of £0.3bn.

Within the net prior year release there has been some strengthening against estimates for previous years' catastrophe events: Hurricane Irma, the 2019 Typhoons Hagibis and Faxai and Typhoon Jebi.

In 2021, Lloyd's will continue to monitor reserves closely and act to ensure that adequate market discipline is being maintained in current challenging market conditions. Particularly on the longer-tailed lines, such as casualty, where there has been continued focus in recent years exacerbated by growing concerns over areas such as social inflation.

Expense ratio*: Total operating expenses have reduced both in sterling amounts and as a percentage of net earned premium, to 38.6% (2019: 39.2%). Acquisition costs have accounted for the majority of the decrease, reducing to 26.2% of net earned premium from 26.7% in 2019; this is attributed to changes in business mix. Administrative expenses, while reporting a slight increase in sterling, has remained stable as a percentage of net earned premium. The extended period of lockdown due to the ongoing COVID-19 pandemic has led to savings across a number of expense lines; however, these have been offset by a number of one-off items in the year, including the costs of preparing offices for reoccupation.

Major claims

Major claims for the market were £5,967m in 2020 (2019: £1,806m), net of reinsurance and including reinstatements payable and receivable.

COVID-19 losses of £3,433m accounted for nearly 60% of the major claims, with the remainder mostly attributed to losses from catastrophe events in 2020.

COVID-19 related losses have impacted a number of lines of business across the market. The majority of the losses are concentrated in four lines of business – contingency, property (D&F), property treaty and political risk, credit & financial guarantee – and originate from the US, which accounts for approximately 44% of the estimate by geographical location. The COVID-19 loss estimate includes amounts which are directly attributable to individual contracts as well as allowances for the impact of the wider economic conditions which have been caused by the pandemic. The incurred losses reported in 2020 are approximately 94% of the current estimates of the total expected losses to the Lloyd's market from the pandemic.

* The accident year ratio and expense ratio are metrics that are consistently used to analyse financial performance in the Lloyd's market results. These metrics (wherever used in the Aggregate Accounts) are Alternative Performance Measures (APMs), with further information available in the Lloyd's Annual Report.

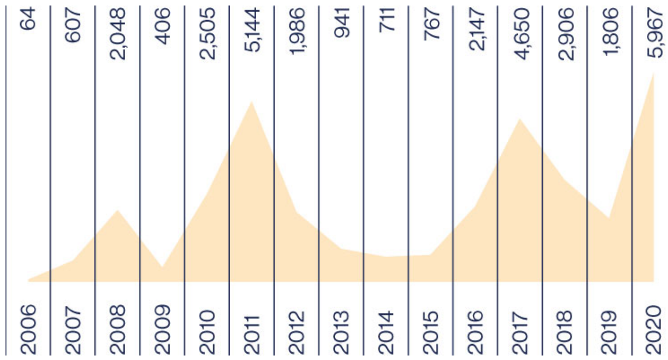
Catastrophe losses accounted for the majority of £2,534m in other major claims. 2020 saw an increase in the frequency of catastrophe loss activity with the Lloyd's market suffering insured losses from more than 40 events. The largest losses related to Hurricanes Laura, Sally, Zeta, Delta and Isaias; Iowa derecho; the tornadoes in Tennessee; the explosion in the Port of Beirut; and the worldwide protests against racial injustice.

Major claims	% of net earned premium
2016	9.0
2017	18.5
2018	11.1
2019	6.8
2020	**23.0**
Five year average[1]	10.0
Ten year average[1]	10.4

Accident year ratio excl. prior year releases	%
2016	95.6
2017	100.2
2018	98.8
2019	97.8
2020	**90.7**
Five year average[1]	97.7
Ten year average[1]	95.0

1. Weighted by net earned premium.

Lloyd's major losses: net ultimate claims (£m)



Five year average: £2,514m; 15 year average: £2,142m. Indexed for inflation to 2020. Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

Prior year reserve movement	% of net earned premium
2016	(5.1)
2017	(2.9)
2018	(3.9)
2019	(0.9)
2020	**(1.8)**

Years of account in run-off	Number of years
2016	6
2017	5
2018	0
2019	3
2020	**9**

Reinsurance protection

The credit quality of the Lloyd's market's reinsurance protections remains extremely high, with 98% of all recoveries and reinsurance premium ceded being with reinsurers rated 'A-' and above or supported by high-quality collateral assets.

Reinsurers' share of claims outstanding remains a material consideration for Lloyd's, equivalent to 61.6% of gross written premium (2019: 55.4%). There has been an increase in the overall reinsurance recoverables due to the catastrophe and COVID-19 losses experienced during 2020 and due to the continued use of retrospective reinsurance protections. This increase reflects the reinsurance risk transfer strategy of the Lloyd's market, the nature of loss events experienced during 2020 and risk mitigation actions being taken to assist in the management of legacy exposures. No negative settlement trends have been witnessed to date.

Lloyd's outward reinsurance premium spend for both the 2020 financial and underwriting year of account was 28.4% (2019: 29.4%) of gross written premium, which reflects a relatively stable overall position in regard to the scale of reinsurance purchased. This level of reinsurance transfer remains within risk appetite.

Result for the closed year and run-off years of account

Under Lloyd's three-year accounting policy for final distribution of each underwriting year of account, the 2018 underwriting year of account reached closure at 31 December 2020. The 2018 pure underwriting year suffered losses from a number of catastrophic events, including Hurricanes Florence and Michael; California wildfires and Typhoon Jebi.

The 2018 pure underwriting year of account reported an underwriting loss that was partially offset by releases from 2017 and prior years, which were reinsured to close at the end of 2019. These releases amounted to £311m. Investment return on the 2018 underwriting year meant the total result was an overall loss of £1,914m (2017 underwriting year loss: £2,414m).

At the beginning of 2020, there were three syndicates whose 2017 underwriting years remained open. These run-off years reported an aggregate loss of £2m, including investment return, in 2020 (2019: no run-off years). There were six syndicates whose 2018 underwriting years remained open post 31 December 2020 taking the total number of open underwriting years at 1 January 2021 to nine.

The following line of business commentary is as disclosed in the 2020 Annual Report.

Line of business:

Reinsurance – Property

Property catastrophe excess of loss represents the largest sector in this line. Other key sectors are property facultative, property risk excess, property pro rata and agriculture and hail.

2020 performance

Lloyd's gross written premium for 2020 was £6,627m (2019: £6,405m), an increase of 3.5%. Syndicates have shown greater focus on client selection and aggregate deployment, given higher frequency and severity of loss activity in recent years. The Lloyd's reinsurance property line reported an accident year ratio of 112.8% (2019: 106.5%).

2020 was a record-breaking year for natural disasters, with more storms in the North Atlantic than ever before, as well as many other catastrophic events occurring globally. While individually the insured losses from 2020 natural disasters were less severe than some experienced in prior years, reinsurers have still accrued meaningful losses. Additionally, COVID-19 losses are expected to impact this line of business, although there are several primary policy and reinsurance treaty wording issues to be resolved.

Prior year movement

The prior year movement was a release of 2.8% (2019: 0.3%). Releases are generally expected for more recent years as claims estimates for losses become more certain. This occurs when margin being held for potential catastrophes is not utilised and as claims estimates for losses become more certain. Experience on prior years has been favourable overall, partially offset by deteriorations on some historical catastrophe events. Hurricane Irma (2017), Typhoon Jebi (2018), Hurricane Michael (2018), Storm Dorian (2019), Typhoon Faxai (2019) and Typhoon Hagibis (2019) have all been subject to deteriorations in ultimate losses during 2020. However, some syndicates have seen favourable movements on these losses and the market has made releases for the 2017 Californian wildfires.

Looking ahead

Despite the numerous catastrophe losses in the past four years, there remains a surplus of capacity in the reinsurance market. Initial indications suggest that pricing levels at January 2021 were generally below market expectations, but loss affected business pricing was at or above expected levels. Pricing adequacy may improve as 2021 progresses, with a large proportion of loss affected business still to renew, but it seems unlikely that any pricing changes related to COVID-19 will be fully incorporated for some time in this sector.

Cyber clauses and communicable disease clauses have been widely adopted by the market during the second half of 2020, providing enhanced clarity. This trend is expected to continue into 2021.

Reinsurance – Casualty

The largest sectors of the casualty treaty market at Lloyd's are non-marine liability excess of loss and US Workers' Compensation.

2020 performance

Lloyd's gross written premium for 2020 was £3,321m (2019: £2,960m), an increase of 12.2%. The Lloyd's reinsurance casualty line reported an accident year ratio of 113.0% (2019: 102.4%).

The casualty treaty market in 2020 saw an acceleration of the trends of the previous year as the market experienced reducing capacity, tightening policy coverage and significant price strengthening in distressed and high exposure accounts across most lines of business. While US Workers' Compensation remained competitive, concerns are emerging over the COVID-19 impact and in particular presumption laws being brought in some states of the US.

Motor excess of loss business continues to perform below expectations and the sought after relief from a winding back of the Ogden rate to -0.25% in 2019, which was maintained in 2020 (from the previous level of -0.75%), has not had as significant an impact as hoped.

Prior year movement

The prior year movement was a release 2.3% (2019: strengthening of 1.7%). Despite 2020 being a year of relatively benign prior year claims experience for casualty reinsurance business, emerging trends such as social inflation are driving increased uncertainty on this line. The US casualty treaty business has performed slightly better than expected, whereas non-US casualty has been in line with expectations. Personal accident excess of loss has also been broadly in line with expectations.

Lloyd's continues to monitor casualty lines to ensure adequate provisions remain over all prior years. There is an increased level of oversight and the additional work being done by the market to monitor the robustness of reserves for this line. Given the high level of margin held to cover the uncertain, long-term nature of the underlying policies, we would generally expect some releases to come through on the older years.

Looking ahead

As we look ahead to 2021, Lloyd's will be specifically and closely monitoring social inflation to develop better market understanding of the trend to ensure adequate and robust pricing and reserving in the market. A tranche of that work will explore how the trend might develop in future years and whether social inflationary trends can be anticipated.

While new capacity coming to the market during 2020 has been observed, the expectation is that positive pricing will continue and that the availability of capital for poorer or more exposed accounts will remain constrained. Overall concerns with pricing maintaining parity with claims inflation will likely persist, and prudent risk selection and terms setting will remain fundamental to profitability in the coming year.

Reinsurance – Specialty

Marine reinsurance is the largest sector of the Lloyd's specialty reinsurance business, followed by energy and aviation.

2020 performance

Gross written premium overall was £2,211m (2019: £2,053m), an increase of 7.7%. Gross written premium by sector within this specialty business was: Marine, Aviation and Transport £1,506m (2019: £1,414m), Energy £702m (2019: £633m), Life £3m (2019: £6m). The Lloyd's reinsurance specialty line reported an accident year ratio of 101.1% (2019: 108.6%).

Despite general hardening of the marine market, the pricing increase has been more modest in marine reinsurance. Anecdotal evidence suggests that there is an expectation that larger increases were attained during the end of year reinsurance renewal season. However, the capacity remained relatively unchanged, therefore, price increases might be less than expected.

Prior year movement

The prior year movement was a release of 6.0% (2019: release of 2.8%). The claims experience for this line has performed broadly in line with expectations over 2020. This line is predominantly marine, aviation and motor business, written on an excess of loss basis. Given that claims experience is largely driven by isolated claim events, prudent reserves tend to be held and released in years with less claims activity.

Marine reinsurance has seen mixed experience on prior years, with favourable movements within this line of business for Hurricane Irma (2017), Hurricane Sandy (2011) and World Trade Centre (2001) offset by deteriorations on Typhoon Jebi on the 2018 year and Storm Dorian on the 2019 year. Likewise, aviation has seen increased large loss activity on more recent years over 2020 with major losses arising from the grounding of the Boeing 737 MAX fleet and within the space account, thereby impacting the reinsurance market. Motor reinsurance has generally performed favourably against expectations, although there have been increases in losses on the 2019 Storm Dorian event, impacting motor excess of loss lines.

Looking ahead

There are signs of price strengthening in the sector in 2021, following a challenging 2020 result, which further compounded the losses made in the catastrophe impacted 2018 and 2019 results. There may also be additional impetus following Lloyd's performance improvement planning – the effects of which may fall beyond the lines immediately included in that review.

Catastrophic incidents involving the Boeing 737 MAX, which led to the worldwide grounding of the fleet, experienced a material increase in reserve late in 2020 and that has further reinforced the Aviation XL pricing environment for 2021.

Property

The property line consists of a broad range of risks written worldwide. It is made up of predominantly excess and surplus lines business with a weighting in favour of the industrial and commercial sectors, binding authority business comprising non-standard commercial and residential risks and specialist sectors, including terrorism, power (electricity) generation, engineering and nuclear risks.

Business is written through the broker network, with a significant proportion using the framework of coverholders (or managing general agencies) and other similar delegated authority arrangements.

2020 performance

Lloyd's gross written premium for 2020 was £9,227m (2019: £9,586m), a decrease of 3.7%. The Lloyd's property line reported an accident year ratio of 135.4% (2019: 101.5%).

2020 has been characterised by the impact of COVID-19 on business interruption covers. In addition, we have seen an abnormally high frequency of natural weather catastrophe events. Hurricanes Laura, Delta, Sally and Zeta particularly impacting the various lines. Beyond these, we have also seen significant severe storm activity, hailstorms and US wildfire events to further challenge overall performance.

Additionally, social unrest observed within the USA during 2020 and globally impacted some syndicates' results more than others. This has caused some underwriters to review their appetite and approach to writing such perils going forward.

Despite the high frequency of events, individual losses often meant reinsurance recoveries fell below expected levels. Such losses largely falling within syndicates' own retentions and impacting overall performance.

More positively, early signs suggest underwriting actions in tackling attritional losses in recent years are starting to deliver material benefits. These improvements are expected to continue in 2021.

Deal flow remained strong in 2020 despite the challenges brought about by COVID-19 from an operational perspective.

Prior year movement

The prior year movement was a release of 3.5% (2019: release of 1.7%). Recent years of account have seen elevated levels of catastrophe losses worldwide, with most impact seen for the direct and facultative lines of business. As a result of COVID-19, business interruption cover losses have impacted prior years, with 2020 calendar year exposure on property direct and facultative open market and binder business, in both US and non-US lines.

There has been further deterioration on prior year catastrophe events during 2020. In particular, Hurricane Irma (2017), Hurricane Michael (2018) and Storm Dorian (2019) have been subject to adverse movements, partially offset by favourable movements on Californian wildfire events in the 2017 year. In contrast to the increased catastrophe losses, attritional and large loss experience on property accounts have generally performed better than expected. This is particularly evident on direct and facultative US binder business and also, but to a lesser extent, on non-US binder and open market business. Difference in conditions and power generation lines are also performing favourably to expectations.

Terrorism business continues to be prudently reserved across the market, with favourable experience on most prior years and particularly on 2018 and 2019 underwriting years.

Looking ahead

Pricing levels for 2021 are expected to show further material movement and continue to build on actions taken during 2020 and prior by the market. Higher reinsurance costs in 2021 are also likely to further support continued momentum in pricing levels. Movement in terms and conditions are also anticipated to be a feature of 2021, as underwriters continue to remediate poorer performing accounts or as part of pricing negotiations. Underwriting discipline remains critical for syndicates to successfully execute and deliver upon their approved 2021 plans, given the anticipated levels of available business in 2021.

Casualty

Lloyd's casualty market encompasses a number of lines of business. Principally general liability and professional lines. In addition, shorter tail lines such as cyber and accident & health represent a significant component of the total casualty book. The US remains the largest single market for Lloyd's casualty business followed by the UK, Canada and Australia.

2020 performance

Lloyd's gross written premium for 2020 was £9,067m (2019: £9,459m), a decrease of 4.1%. This was despite significant pricing change in almost all lines of business, particularly directors' and officers' liability. Lloyd's casualty line reported an accident year ratio of 105.2% (2019: 103.8%).

During 2020, the market began to accelerate prior years hardening while capacity remained stable overall. There has been a pronounced shift away from certain lines, exposures and occupations. In particular D&O saw significant repricing, with capacity also becoming more restricted for certain sectors. Across most lines there has also been a marked decrease in average line sizes across most segments as carriers have sought to reduce volatility. While the market correction is significant, with some lines seeing double-digit pricing increases, the prevailing sentiment is that pricing adequacy remains in question, as the protracted soft market cycle has meant price changes starting from a low base and having to make up substantial ground on claims inflation during that period.

The growth in cyber insurance products continued into 2020, with the market outside the US expanding and also representing an increasing share of the overall market. Across other lines there was premium growth during the year as a result of price hardening towards the end of the year, particularly in some of the professional lines.

As anticipated, due to the impact of COVID-19, contingency has suffered unprecedented losses because of subsequent event cancellations. It is expected that losses will continue to be incurred as the pandemic continues.

Prior year movement

The prior year movement was a strengthening of 5.1% (2019: a strengthening of 1.9%).

During 2020, Lloyd's have shared market level insights and views of casualty lines with the market. In response, syndicates appear to have shifted their views in line with this by strengthening their casualty reserves. Despite the market strengthening, at an aggregate level casualty loss experience has been favourable to Lloyd's expectations. However, a number of lines have performed adverse to expectations driven by large losses including on directors' and officers' non-US, non-US financial institutions and professional indemnity US business. US medical malpractice continues to perform adversely, further compounded by increases in losses with regard to medicare beneficiaries.

In addition to the above lines, cyber has also seen a rise in claims in recent years. In particular, the 2019 year of account has been materially adverse against expectations. The key area of concern for this line of business is the emergence of ransomware claims impacting cyber writers in the market, the prediction of which is hampered by the lack of experience for those accounts. This will continue to be a key focus for Lloyd's given the limited experience available for this line.

Given the long-term nature of the underlying policies and macro view on concerns such as social inflation, we would generally expect a greater level of uncertainty in this line being factored the reserves.

Looking ahead

As with casualty reinsurance, there has been a growing focus on social inflation. While a lot of the focus has been in the US, other territories such as Australia and Canada are starting to see similar trends across all casualty lines. These territories and jurisdictions have all seen trends of increasingly active regulation and litigation. This has been accompanied by increased capacity for litigation funding driven to a large extent by persistent low interest rates. A general public desensitisation to litigation and jury awards has also led to ever increasing severity of claims. While the primary market has already started to see restrictions in appetite and demand for increased deductibles, in 2021 there is likely to be an increased focus on the structure and pricing of excess placements.

Marine, Aviation and Transport

Marine business encompasses a wide variety of sub-lines where Lloyd's continues to be regarded as an industry leader, including hull, various marine war perils, marine liabilities, and specie and fine art; with cargo being the largest individual lines. Further, more niche products are also written including satellite pre-launch risks and construction related cargo perils including delay in start-up.

In aviation, Lloyd's writes across all main business sectors including airline, aerospace, general aviation, space and war. Airline (hull and liability) is the largest sector but Lloyd's is also actively involved in the underwriting of general aviation (eg privately owned light aircraft, helicopters and large private corporate jets), airport liability, aviation product manufacturers' liability, aviation, war/terrorism and satellite launch and in-orbit risks.

2020 performance

Lloyd's gross written premium for 2020 was £2,976m (2019: £2,802m), an increase of 6.3%. The Lloyd's marine, aviation and transport line reported an accident year ratio of 98.2% (2019: 113.3%).

Following long-term sub-optimal performance, marine continues to go through an extensive remediation process, which has included several significant market participants reducing book sizes, and others choosing to withdraw completely, yacht, for example, has reduced in terms of gross written premium by over 50% since 2018. Through these measures and the resulting contraction in capacity, a significant pricing improvement has been seen across the portfolio, but most notably in the two largest lines of cargo and hull.

Attritional claims in hull have reduced, but it is yet to be seen if this is due to a hardening market, a decrease in voyages owing to COVID-19, or a combination of the two factors.

War breach premiums have meaningfully increased due to increased tensions in the Middle East, however, annual war premium remains one of the most competitive sub-lines within the marine portfolio. With a new US regime, it remains to be seen how international sanctions will evolve and the subsequent effects this may have on war breach premiums.

Aviation experienced a year outside of expectation given the impact of the global pandemic on travel and tourism. Reduced activity in airline and general aviation, with a bulk of aircraft fleets grounded for extended periods, led to significantly less loss activity in comparison to prior years.

Unprofitable prior year performance drove a corrective pricing environment across all aviation product lines throughout 2020. Business placed and renewed in the second half of 2020 saw reduced exposure compared with previous years, given the limited air travel and reduced passenger footfall.

In order to lessen the impact of this reduced exposure, in the face of unaltered policy limits, the market in many cases installed minimum premiums in 2020 placements.

Prior year movement

The prior year movement was a release of 8.5% (2019: release of 4.8%).

On marine lines, there is a tendency for the view of claims to be held for a number of years to allow for any uncertainty and so releases are common. Overall, these lines of business have performed favourably against expectations over 2020, despite heightened large loss activity impacting both property damage and liability within this line. Recent years have seen higher than average catastrophe losses, which are known to drive property damage claims. However, some of the historical catastrophe losses have improved over 2020. In particular there has been reductions on overall losses due to Hurricanes Harvey, Irma and Maria (2017), especially with respect to cargo business. In contrast, Storm Dorian (2019) losses have increased, particularly impacting marine hull. Favourable experience has been evident on marine cargo and hull, with many carriers reporting benign claims experience on prior years.

Market Performance continued

On aviation lines, recent history has seen heavier large loss experience, arising mostly from losses relating to the grounding of the Boeing 737 MAX fleet and increased space losses in 2019 year of account. The Boeing loss has increased over 2020, impacting general aviation and aviation products/airport liabilities. Given the heightened uncertainty on recent years, larger margins are generally being held and reserving estimates increased to cover these emerging claims.

Looking ahead

Marine underwriters are not reporting any expectation of the hardening market to slow. There has been a substantial shift away from lineslip and binder driven portfolios in the marine market, which has led to greater underwriting oversight. This trend looks set to continue throughout 2021.

The immediate future is rather unsettled in the aviation sector in light of the ongoing pandemic and financial impact on the client base. A return to pre-pandemic levels of activity and exposure is not expected in 2021.

Lloyd's aviation underwriters endeavour to support Lloyd's policyholders throughout this difficult period while maintaining strict underwriting discipline, corrective pricing and improved risk selection in an attempt to drive profitable underwriting results.

Regarding the client base and inherent exposures, it is anticipated greater consolidation given financial pressures on airlines, which could lead to greater concentration of client exposures.

Energy

The Lloyd's energy line includes a variety of onshore and offshore property and liability products; ranging from construction to exploration, production, refining and distribution. This incorporates both the oil and gas industry and the growing energy renewables sector.

2020 performance

Gross written premium for the Lloyd's energy line in 2020 was £1,265m (2019: £1,500m), a decrease of 15.7%. The Lloyd's energy line reported an accident year ratio of 99.2% (2019: 107.5%).

The direction of travel in the pricing environment across all energy lines has been positive throughout 2020. Downstream product lines continue to benefit the most, fuelled by the high frequency of large loss activity globally in the downstream lines in prior years. This has been further reinforced by industry losses in Asia in 2020. From a whole account perspective this has been balanced somewhat by continued benign large and catastrophic loss activity in upstream lines. Upstream being the largest part of the overall energy account in terms of risk count, written premium and exposure.

Prior year movement

The prior year movement was a release of 8.2% (2019: 10.2%). The energy line of business has seen continued prior year reserve releases over 2020. This line contains a mix of contracts that give rise to claims that are settled on both a short-term and long-term time horizon. Both the short-term and long-term lines have performed broadly in line with expectations, with the short-term lines benefiting from releases on older catastrophe losses, such as on Hurricanes Harvey, Irma and Maria (2017). However, some historical catastrophe losses have deteriorated since year-end 2019, with large adverse movements on the Transocean Deepwater Horizon (2010) and Petrobras (2001) explosion events. There have also been a number of releases due to reductions in other large losses or lower claims activity than expected. Given that the energy line is also exposed to isolated large losses, large margins for uncertainty tend to be held and released in benign years. For long-term contracts, these margins can be held for a number of years. Reductions in claims estimates for these large losses and the release of unused margin is expected to drive releases at a market level.

Looking ahead

In downstream energy, both property and liability, it is expected that the market in 2021 will continue to build upon the underwriting discipline and price increases implemented in 2019 and 2020.

Upstream energy remains in a state of relative stability in terms of pricing, conditions and underwriting appetite. This is driven by the continued absence of large operational losses, coupled with a benign wind season in areas of high energy asset exposure accumulations, such as in the Gulf of Mexico, despite the significant increase in named windstorms experienced in 2020.

Given the pandemic impact on the oil and gas sector client retentions are increasing and business interruption values (based on production estimates annually) are down on prior years. Thereby decreasing the exposures and premium in the product lines.

Energy renewables, predominantly offshore wind, experienced an increase in submissions at Lloyd's through 2020 and given the global energy transition this trend is expected to continue in 2021, with the support of the corporation, as outlined in our ESG report.

Motor

Lloyd's motor market primarily covers international motor with a large proportion written in North America and with an increasing focus on property damage over liability risks.

Lloyd's commercial and fleet business is diverse, ranging from light commercial vehicles and taxis to buses and heavy haulage.

2020 performance

Gross written premium in 2020 was £720m (2019: £1,053m), a decrease of 31.6%. The Lloyd's motor line reported an accident year ratio of 95.5% (2019: 100.6%).

Following a number of years of competitive pricing, international motor has continued to see positive trends with more price strengthening during 2020, as well as a focus on increased deductibles and tightening of terms and conditions.

In the UK, it remains unclear whether pricing levels achieved during 2020 will be sufficient to address challenging underwriting conditions brought about by the change in the Ogden discount rate during 2019.

However, during 2020 the impact of COVID-19 has resulted in a significant shift in exposure, particularly for standard comprehensive motor policies, where the number of vehicles on the road has decreased during the various lockdown measures both in the UK, but also in other territories where standard third-party liability cover is provided.

Market Performance continued

Prior year movement

The prior year movement was a release of 2.2% of net earned premium (2019: 1.8%). This is driven by favourable claims experience against expectation for both UK and overseas motor.

Looking ahead

While current indications have shown recent improvements in the performance of international motor, there remains uncertainty as to whether current pricing levels are sufficient and whether enough consideration has been given to further development of longer tail risks. While there has been a general shift away from liability risks towards property damage only, particularly in North America, there is still some exposure which could cause further deterioration.

In the UK, the reforms relating to whiplash claims, as outlined in the Civil Liability Act 2018, have been delayed further from 2020 until May 2021 so any impact this will have on loss ratios will not be understood for some time.

COVID-19 has significantly reduced claims numbers, although this has fluctuated within the various lockdowns. How this aligns with the reduction in income (following policy cancellations and rebates on premium etc) remains to be seen.

Market Performance continued

Reinsurance

Property		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2016	5,022	101.2	(9.4)	91.8	299
	2017	5,991	134.3	(4.0)	130.3	(1,260)
	2018	6,440	121.1	(4.9)	116.2	(672)
	2019	6,405	106.5	(0.3)	106.2	(258)
	2020	**6,627**	**112.8**	**(2.8)**	**110.0**	**(441)**

Casualty		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2016	2,096	105.2	(7.1)	98.1	33
	2017	2,223	103.9	(1.8)	102.1	(39)
	2018	2,541	99.7	(3.6)	96.1	78
	2019	2,960	102.4	1.7	104.1	(94)
	2020	**3,321**	**113.0**	**(2.3)**	**110.7**	**(288)**

Specialty		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2016	2,290	101.9	(14.2)	87.7	216
	2017	2,346	110.3	(8.5)	101.8	(31)
	2018	2,089	101.9	(11.0)	90.9	138
	2019	2,053	108.6	(2.8)	105.8	(82)
	2020	**2,211**	**101.1**	**(6.0)**	**95.1**	**73**

Market Performance continued

Insurance

Property		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2016	7,988	106.6	(3.2)	103.4	(202)
	2017	8,965	131.5	(3.9)	127.6	(1,757)
	2018	9,687	114.0	(3.6)	110.4	(700)
	2019	9,586	101.5	(1.7)	99.8	12
	2020	**9,227**	**135.4**	**(3.5)**	**131.9**	**(2,104)**

Casualty		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2016	7,131	102.9	(0.2)	102.7	(146)
	2017	8,464	103.7	(0.6)	103.1	(189)
	2018	9,094	103.9	(1.0)	102.9	(183)
	2019	9,459	103.8	1.9	105.7	(390)
	2020	**9,067**	**105.2**	**5.1**	**110.3**	**(688)**

Marine, Aviation and Transport		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2016	3,097	108.2	(5.9)	102.3	(58)
	2017	3,193	117.7	0.8	118.5	(480)
	2018	3,152	116.2	(0.9)	115.3	(392)
	2019	2,802	113.3	(4.8)	108.5	(199)
	2020	**2,976**	**98.2**	**(8.5)**	**89.7**	**239**

Energy		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2016	1,110	106.4	(13.8)	92.6	59
	2017	1,253	107.7	(21.1)	86.6	105
	2018	1,404	105.6	(18.2)	87.4	113
	2019	1,500	107.5	(10.2)	97.3	27
	2020	**1,265**	**99.2**	**(8.2)**	**91.0**	**79**

Motor		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	2016	1,047	108.8	2.6	111.5	(103)
	2017	1,057	114.4	7.9	122.3	(188)
	2018	1,037	101.8	(3.1)	98.7	12
	2019	1,053	100.6	(1.8)	98.8	11
	2020	**720**	**95.5**	**(2.2)**	**93.3**	**48**

Council

The following were members of the Council of Lloyd's during 2020:

Bruce Carnegie-Brown	**Karen Green**
John Neal	**Andy Haste**
Burkhard Keese (appointed 1 June 2020)	**Hiscox Dedicated Corporate Member Limited** (represented by Robert Childs) (term expired 31 May 2020)
Axis Corporate Capital UK Limited (represented by Albert Benchimol) (term expired 30 November 2020)	**Fiona Luck** (appointed 1 June 2020)
Andrew Brooks	**Neil Maidment** (appointed 1 June 2020)
Victoria Carter	**Munich Re Capital Limited** (represented by Dominick Hoare) (term expired 30 November 2020)
Dominic Christian (appointed as deputy chairman 5 February 2020)	**Nameco (No 1249) Limited** (represented by Jeffery Barratt)
Angela Crawford-Ingle (appointed 1 June 2020)	**Christian Noyer** (term expired 31 May 2020)
Flectat Limited (represented by Michael Watson)	**John Sununu**

Statement as to disclosure of information to auditors

Having made enquiries of fellow Council members and of the Society's auditors, the Council of Lloyd's confirms that:

To the best of each Council member's knowledge and belief there is no information relevant to the preparation of the Aggregate Accounts of which the auditors are unaware;

Each Council member has taken all the steps a Council member might reasonably be expected to have taken to be aware of relevant audit information and to establish that the auditors are aware of that information.

Statement of Council's responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2018 ('the Regulations') require the Council of Lloyd's to prepare Aggregate Accounts in respect of the financial year by totalling all the syndicate annual accounts prepared in accordance with Part 3 of the Regulations.

The Regulations also require the Council to prepare an Annual Report on the insurance business carried on by the members of Lloyd's during the financial year. The Annual Report is set out in the external environment, market performance and governance sections on pages 1 to 16.

The maintenance and integrity of the Lloyd's website is the responsibility of the Council of Lloyd's; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Annual Report

The Annual Report required under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, comprising the strategic review, market performance and governance sections on pages 1 to 16, was approved by the Council of Lloyd's on 30 March 2021.

Bruce Carnegie-Brown
Chairman

Independent Reasonable Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's

Independent Reasonable Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2020 Lloyd's Aggregate Accounts

Opinion

In our opinion:

- the Aggregate Accounts for the financial year ended 31 December 2020 have, in all material respects, been properly prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by the Statutory Auditors and Third Country Auditors Regulations 2017 (the 'Regulations') and the basis set out in note 1, and have been correctly aggregated; and
- the Annual Report of the Council of Lloyd's (as defined in the Regulations and set out on pages 1-16) for the financial year ended 31 December 2020 is, in all material respects, consistent with the Aggregate Accounts for the same financial year and has been prepared in accordance with the requirements of the Regulations.

In addition, in light of the knowledge and understanding of the syndicates and their environment obtained in the course of performing our assurance procedures, we are required to report if we have identified material misstatements in the Annual Report of the Council of Lloyd's prior to the date of this assurance report. We have nothing to report in this respect.

Our opinion is to be read in the context of what we say in the remainder of this report.

What we have assured

The Aggregate Accounts, which are prepared by the Council of Lloyd's, comprise: the aggregate balance sheet as at 31 December 2020; the aggregate profit and loss account, the aggregate statement of comprehensive income, the aggregate statement of changes in members' balances and the aggregate statement of cash flows for the year then ended; and the notes to the Aggregate Accounts.

The financial reporting framework that has been applied in their preparation is the Regulations and the basis set out in note 1 (the "basis of preparation").

Our assurance does not extend to information in respect of earlier periods.

What a reasonable assurance engagement involves

We performed a reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – 'Assurance Engagements other than Audits or Reviews of Historical Financial Information', issued by the International Auditing and Assurance Standards Board.

We complied with the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour that are at least as demanding as the applicable provisions of the IESBA Code of Ethics. We apply International Standard on Quality Control (UK) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The Aggregate Accounts have been compiled from an aggregate of financial information extracted from the corresponding information included in the syndicate annual returns and accounts by the managing agent of each syndicate, which have been submitted to the Council of Lloyd's and on which the auditors of each syndicate have reported. Our work did not involve assessing the quality of those audits or performing any audit procedures over the financial or other information of the syndicates or provided by the managing agents of the syndicates.

Our examination of the preparation of the Aggregate Accounts consisted principally of:

- obtaining an understanding of how the Council of Lloyd's has compiled the Aggregate Accounts from the audited syndicate annual returns and accounts;
- checking on a sample basis that the financial information included in the Aggregate Accounts was correctly extracted from the syndicate annual returns and accounts and evaluating the evidence supporting the adjustments made;
- obtaining evidence as to how the Council of Lloyd's has ensured that the Aggregate Accounts have been prepared in accordance with the requirements of the Regulations; and
- reading the Annual Report, on pages 1-16, for consistency with the Aggregate Accounts.

In addition we obtained an understanding of how the Council of Lloyd's ensured that the Annual Report and the Aggregate Accounts are prepared in accordance with the Regulations, how they ensured the consistency of the Annual Report with the Aggregate Accounts, and read the Annual Report to assess that consistency.

Independent Reasonable Assurance Report of PricewaterhouseCoopers LLP to the Council of Lloyd's continued

The responsibilities of the Council of Lloyd's and our responsibilities

As described in the Statement of Council's Responsibilities, the Council of Lloyd's is responsible for the preparation and approval of the Aggregate Accounts and the Annual Report in accordance with the Regulations and the basis of preparation, and for ensuring that the Annual Report is consistent with the Aggregate Accounts for the same financial year.

Our responsibility is to examine the preparation of the Aggregate Accounts and to report whether the Aggregate Accounts have been properly prepared and correctly aggregated in accordance with the Regulations and the basis of preparation. We also report to you if the Aggregate Accounts are not consistent with the syndicate information which has been aggregated to prepare the Aggregate Accounts, if the Annual Report is not consistent with the Aggregate Accounts or if we have not received all the information and explanations we require for the purposes of our work.

We read the Annual Report and consider whether it is consistent with the Aggregate Accounts. We consider the implications for our report if we become aware of any misstatements or material inconsistencies with the Aggregate Accounts.

This report is made solely to the Council of Lloyd's in accordance with the Regulations and our letter of engagement dated 4 September 2020. Our work has been undertaken so that we might state to the Council of Lloyd's those matters which we are required to state in this report in accordance with the Regulations and for no other purpose. To the fullest extent permitted by law we do not, in giving our opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Paul Pannell
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
London

31 March 2021

Aggregate Profit and Loss Account

For the year ended 31 December 2020

	Note	2020 £m	2020 £m	Restated 2019 £m	Restated 2019 £m
Technical account					
Gross written premiums	4	36,243		37,514	
Outward reinsurance premiums		(10,302)		(11,029)	
Written premiums, net of reinsurance			25,941		26,485
Change in the provision for unearned premiums					
Gross amount		(4)		16	
Reinsurers' share		33		(25)	
Change in the net provision for unearned premiums			29		(9)
Earned premiums, net of reinsurance			25,970		26,476
Allocated investment return transferred from the non-technical account			1,051		1,374
Other technical income, net of reinsurance			12		21
			27,033		27,871
Claims paid					
Gross amount		21,855		23,566	
Reinsurers' share		(6,871)		(7,657)	
			14,984		15,909
Change in provision for claims					
Gross amount		6,218		2,312	
Reinsurers' share		(2,175)		(1,126)	
			4,043		1,186
Claims incurred, net of reinsurance			19,027		17,095
Net operating expenses	7		10,045		10,366
Balance on the technical account for general business			(2,039)		410
Non–technical account					
Balance on the technical account for general business			(2,039)		410
Investment return	8	1,240		1,670	
Allocated investment return transferred to the technical account		(1,051)		(1,374)	
Investment return retained in non-technical account		189		296	
Foreign exchange (losses)/gains		(19)		8	
Other expenses		(7)		(17)	
Balance on the non-technical account			163		287
Result for the financial year before tax			**(1,876)**		697

All operations relate to continuing activities.

Aggregate Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 £m	Restated 2019 £m
Other comprehensive income		
Result for the financial year before tax	(1,876)	697
Exchange differences on translating foreign operations	32	45
Other recognised gains per syndicate annual accounts	12	14
Total comprehensive (loss)/income for the year	**(1,832)**	756

Aggregate Statement of Changes in Members' Balances

For the year ended 31 December 2020

	2020 £m	Restated 2019 £m
Members' balances brought forward at 1 January	(178)	(1,467)
Result for the financial year	(1,876)	697
Net losses collected from members' personal reserve	1,461	964
Capital transferred into/(out of) syndicate premium trust funds	333	(405)
Exchange (losses)/gains	(1)	36
Other movements	(15)	(3)
Members' balances carried forward at 31 December	**(276)**	(178)

Aggregate Balance Sheet

As at 31 December 2020

	Note	£m	2020 £m	£m	Restated 2019 £m
Financial investments	9		38,561		36,645
Deposits with ceding undertakings			71		38
Reinsurers' share of technical provisions					
Unearned premiums	12	3,874		3,933	
Claims outstanding	12	22,331		20,773	
			26,205		24,706
Debtors					
Debtors arising out of direct insurance operations	10	8,949		9,166	
Debtors arising out of reinsurance operations	11	9,357		8,821	
Other debtors		1,307		1,085	
			19,613		19,072
Other assets					
Cash at bank and in hand	16	2,713		2,283	
Other		3,148		2,954	
			5,861		5,237
Prepayments and accrued income					
Accrued interest and rent		106		113	
Deferred acquisition costs	12	4,148		4,435	
Other prepayments and accrued income		172		171	
			4,426		4,719
Total assets			**94,737**		90,417
Capital and reserves					
Members' balances			(276)		(178)
Technical provisions					
Provision for unearned premiums	12	17,029		17,375	
Claims outstanding	12	65,210		60,546	
			82,239		77,921
Deposits received from reinsurers			727		880
Creditors					
Creditors arising out of direct insurance operations	14	1,423		1,402	
Creditors arising out of reinsurance operations	15	7,533		7,334	
Other creditors		2,128		2,131	
			11,084		10,867
Accruals and deferred income			963		927
Total liabilities			**94,737**		90,417

Approved by the Council of Lloyd's on 30 March 2021 and signed on its behalf by

Bruce Carnegie-Brown
Chairman

John Neal
Chief Executive Officer

Aggregate Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 £m	Restated 2019 £m
Result for the financial year before tax		(1,876)	697
Increase/(decrease) in gross technical provisions		4,805	(1,048)
Increase in reinsurers' share of technical provisions		(1,610)	(232)
Increase in debtors		(513)	(13)
Increase in creditors		447	229
Movement in other assets/liabilities		(170)	584
Foreign exchange		207	515
Investment return	8	(1,240)	(1,670)
Other		–	104
Net cash flows from/(used in) operating activities		50	(834)
Investing activities			
Purchase of equity and debt instruments		(29,440)	(35,742)
Proceeds from sale of equity and debt instruments		28,121	35,013
Purchase of derivatives		(621)	(721)
Proceeds from sale of derivatives		608	736
Investment income received		850	981
Other		(135)	40
Net cash (outflow)/inflow from investing activities		(617)	307
Financing activities			
Net funds received from members		1,461	963
Net capital transferred into/(out of) syndicate premium trust funds		333	(405)
Other		(25)	(1)
Net cash inflow from financing activities		1,769	557
Net increase in cash and cash equivalents		1,202	30
Cash and cash equivalents at 1 January		3,772	3,795
Exchange differences on opening cash and cash equivalents		–	(53)
Cash and cash equivalents at 31 December	16	**4,974**	3,772

1. Basis of preparation

Basis of reporting

The Aggregate Accounts as at 31 December 2020 have been prepared by totalling the annual accounts of the 110 syndicates reporting as at 31 December 2020. This includes reporting of the audited results for calendar year 2020 and the financial position at 31 December 2020 for all life and non-life syndicates that transacted business during the year. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 4).

Having assessed the principal risks, the Council considered it appropriate to adopt the going concern basis of accounting in preparing the Aggregate Accounts.

The Aggregate Accounts have been prepared in compliance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by the Statutory Auditors and Third Country Auditors Regulations 2017, and where practicable in accordance with United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice (UK GAAP)), including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102) and Financial Reporting Standard 103 'Insurance Contracts' (FRS 103), except for the following items:

– Aggregation;

– Taxation;

– Related party transactions; and

– Restatements.

(a) Aggregation

The Aggregate Accounts have not been prepared in accordance with full consolidation principles and do not present a consolidated view of the results of the Lloyd's business taken as a single entity, due to some of the reasons outlined further below.

The syndicates' financial information included in the Aggregate Accounts has been prepared in accordance with the recognition and measurement requirements of UK GAAP by reference to the accounting policies that are deemed most appropriate by the managing agents. Where different accounting policies have been selected by managing agents in preparing syndicate annual accounts, no adjustments are made to align the bases of recognition and measurement in the Aggregate Accounts.

(b) Taxation

The Aggregate Accounts report the combined syndicates' result before tax. Members are responsible for tax payable on their syndicate results.

(c) Related party transactions

Individual syndicates or their members do not disclose details of insurance and/or reinsurance transactions with other (non-related) syndicates or members within the market. Therefore, analysis and/or disclosure of these transactions within the Lloyd's market in the Aggregate Accounts is not possible. The annual accounts of each syndicate or member provide, where appropriate, the required disclosures on related parties.

(d) Restatement of prior year

During 2020, several syndicates made restatements to the comparative figures for 2019 within their annual accounts and the Aggregate Accounts have been restated accordingly. The restatements increased the original reported profit of £690m by £7m and increased the original members' balances of £(209m) by £31m.

The full financial effect of the restatements and the nature of those restatements have not been disclosed as required by FRS 102. It is not practicable to provide additional details in respect of the nature of these restatements.

2. Accounting policies

General

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by the Statutory Auditors and Third Country Auditors Regulations 2017, managing agents must prepare the syndicate annual accounts under UK GAAP. However, where UK GAAP permits different accounting treatments, each managing agent is able to adopt the accounting policies it considers most appropriate to its syndicate. The following are, therefore, an overview of the sources of significant accounting judgements and estimation uncertainty and other accounting policies of all syndicates.

Sources of significant accounting judgements and estimation uncertainty

The preparation of the individual annual accounts of the syndicates requires managing agents to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Aggregate Accounts are described in the following accounting policies:

– Claims provisions and related recoveries are the most significant accounting estimate in preparing the Aggregate Accounts. In particular for losses incurred but not reported. Variances between the estimated and actual cost of settling claims incurred, net of reinsurance and the balance on the technical account for general Insurance (see note 2 and note 12);

– Estimated premiums income, in particular estimates for premiums written under delegated authority agreements, is a significant estimate. Variances between the estimated premium income and actual received impact Gross written premiums and provisions for unearned premium (see below and note 4);

– Valuation of Investments requires a degree of estimation, in particular for valuations based on models and other than those observable in the market ('level 3' of the fair value hierarchy). The estimation uncertainty impacts the carrying value of financial investments, which is the largest asset class, however, a relatively small proportion Is valued at 'level 3' of the fair value hierarchy (see note 2 and note 9).

2. Accounting policies continued

The most critical accounting estimate included within the balance sheet is the estimate for outstanding claims. The total estimate, on a gross basis, as at 31 December 2020 is £65,210m (2019: £60,546m). The total estimate, net of reinsurers' share, as at 31 December 2020 is £42,879m (2019: £39,773m) and is included within the aggregate balance sheet.

Premiums written

Written premiums represent premiums on business incepting during the year, including estimates of pipeline premiums written under delegated authority agreements, together with adjustments for premiums written in previous accounting periods. Written premiums are stated before deduction of commissions but net of taxes, duties levied on premiums and other deductions.

Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportioned as appropriate.

Outward reinsurance premiums

Outward reinsurance premiums comprise the cost of reinsurance arrangements placed and are accounted for in the same accounting period as the related insurance contracts. The provision for reinsurers' share of unearned premiums represents that part of reinsurance premiums ceded that is estimated to be earned in following financial years.

Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the line of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Statistical techniques are used to assist in making these estimates. The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of future claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors of each syndicate's managing agent consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events, which may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Additional information on insurance risk is included in note 3.

Discounted claims provisions

Due to the long delay between the date of an incurred claim and the final settlement of the claim, the outstanding claims provisions are discounted to take account of the expected investment income receivable between claim event and settlement dates on the assets held to cover the provisions. This is only applicable to the syndicates that discount their claims provisions.

Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated at syndicate level by reference to lines of business that are managed together, and may take into account relevant investment return.

Acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

2. Accounting policies continued

Foreign currencies

The Council considers that the functional currency and the presentational currency of the Aggregate Accounts is sterling. In the context of the Aggregate Accounts the Council views this to be the equivalent of a group which has different operating units with a mix of functional currencies.

Foreign currency transactions are translated into the functional currency using the spot exchange rates prevailing at the dates of the transactions, or the average rate may be used when this is a reasonable approximation.

At each period end foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non-technical account.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of non-monetary assets and liabilities denominated in foreign currencies are recognised in other comprehensive income for those items where the gain or loss is required to be recognised within other comprehensive income, and in the non-technical account where the gain or loss is required to be recognised within profit or loss.

Investments

Investments are stated at fair value at the balance sheet date. For this purpose listed investments are stated at their bid price market value, and deposits with credit institutions and overseas deposits are stated at cost, less any provision for impairment.

Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and the valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account where the investments generating the return relate to insurance business.

Taxation

The Aggregate Accounts report the market's result before tax because it is the members rather than the syndicates that are responsible for tax payable on their syndicate results. No provision has therefore been made in the Aggregate Accounts for income tax payable by members. Any payments on account of members' tax liabilities made on their behalf by a syndicate during the year are included in the balance sheet within other debtors or other creditors including taxation.

Operating expenses

Operating expenses have been charged to the syndicates in accordance with the policies adopted by the managing agents.

Profit commission

Where profit commission is charged by the managing agent it will normally be fully paid once the appropriate year of account closes, normally at 36 months. The profit commission is accrued in the profit and loss account in accordance with the earned profit.

Managing agents may make payments on account of their anticipated profit commission from the syndicate premiums trust funds prior to the closure of a year of account where they have transferred open year surpluses (interim profits) from the syndicate level premiums trust funds to the members' personal reserve fund. Any payments on account of such commission are restricted to the profit commission expensed in the profit and loss account in striking the level of interim profits declared and subsequently released.

Cash at bank and in hand

Cash at bank and in hand includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

Part VII transfer of EEA Lloyd's market business

On 30 December 2020, Lloyd's Insurance Company S.A (Lloyd's Brussels) assumed the EEA non-life insurance business written in Lloyd's market between 1993 and 2020 which were transferred pursuant to Part VII of the Financial Services and Markets Act 2000 (Part VII). The value of the liabilities transferred was £3,831m. Lloyd's Brussels received a cash consideration of the same amount from the syndicates.

These liabilities were subsequently reinsured by 100% quota share to syndicates on the same day. The reinsurance premium paid was of the same amount of £3,831m. Consequently, there was no gain or loss arising on the transaction.

3. Risk management

Governance framework

The following governance structure relates to the Society as a whole, as the preparer of the Aggregate Accounts. Individual syndicates will report, in their syndicate annual accounts, the governance structure applied to them by their managing agents.

An Act of Parliament, the Lloyd's Act 1982, defines the governance structure and rules under which Lloyd's operates. Under the Act, the Council of Lloyd's is responsible for the management and supervision of the market. Lloyd's is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000.

The Council currently has three working, three external and eight nominated members. The working and external members are elected by Lloyd's members. The Chairman and Deputy Chairmen are elected annually by the Council from among its members. All members are approved by the PRA.

3. Risk management continued

The Council is responsible for the day-to-day management of the Lloyd's market. It lays down guidelines for all syndicates and operates a business planning and monitoring process to safeguard high standards of underwriting and risk management, thereby improving sustainable profitability and enhancing the financial strength of the market.

The principal committees of the Council are the Nominations & Governance Committee, the Remuneration Committee, the Technology and Transformation Committee, the Audit Committee, the Risk Committee, the Market Supervision and Review Committee, the Capacity Transfer Panel and the Investment Committee.

Capital management objectives, policies and approach

Capital framework at Lloyd's

The Society is a regulated undertaking and subject to the supervision of the Prudential Regulation Authority (PRA) under the Financial Services and Markets Act 2000. Within this supervisory framework, The Society applies capital requirements at member level and centrally to ensure that the Lloyd's market complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at an overall and member level only, not at a syndicate level. Accordingly, the capital requirements in respect of individual syndicates are not disclosed in these financial statements.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The SCRs of each syndicate are subject to review by the Society and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a several basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR that reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, the Society applies a capital uplift to the member's capital requirement to determine the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2020 was 35% (2019: 35%) of the member's SCR 'to ultimate'.

Solvency Capital Requirement (Solvency II basis)

The SCR represents the amount of capital required to withstand a 1 in 200 year loss event over a one year horizon. Given Lloyd's unique structure there are two SCRs that are monitored under the Solvency II regime:

The Lloyd's market-wide SCR (MWSCR) is calculated to cover all of the risks of 'the association of underwriters known as Lloyd's', ie those arising on syndicate activity, members' capital provided at Lloyd's and the Society taken together, at a 99.5% confidence level over a one year time horizon as provided for in Solvency II legislation. All of the capital of the component parts of the market taken together are available to meet the MWSCR.

Individual syndicates are also required to calculate a SCR, at a 99.5% confidence level over a one year horizon, for each underwriting year; this drives the determination of member level SCRs. Each member's SCR is derived as the sum of the member's share of the syndicate's one year SCR. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk.

The MWSCR is derived from the Lloyd's Internal Model (LIM), which has been approved by the PRA. Individual syndicates also derive SCRs from their own internal models that are subject to approval by the Society's Capital and Planning Group. The appropriateness of each syndicate's internal model, including changes thereto and the reasonableness of the key assumptions are assessed as part of the Society's oversight of the Lloyd's market.

3. Risk management continued

The Lloyd's Internal Model

The LIM is a purpose-built model designed to calculate the MWSCR for Solvency as required under Solvency II. It covers all risk types and all material risks for the aggregation of syndicates as well as for the Society, allowing for the unique capital structure of Lloyd's. The LIM consists of three main components: the Lloyd's Investment Risk Model (LIRM), which simulates economic variables and total assets returns; the Lloyd's Catastrophe Model (LCM), which models catastrophe risk using syndicates' views of risk; and the Capital Calculation Kernel (CCK), which is the main element of the LIM where all other risks are simulated and all risks are combined.

Syndicates calculate their own SCR. However, the market-wide capital requirements are derived from the Society's parameterisation at a whole market level to build a view of total market capital requirements from the ground up using market level assumptions. The LIM uses a methodology whereby losses from insurance and other risks are simulated by line of business, allocated to syndicates and through to members to assess the level of capital required by the market to meet 1 in 200 year losses over the one year time horizon.

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

Details of the major risk components are set out below.

Insurance risk

The dominant category of risk faced by Lloyd's syndicates is insurance risk. This is the risk arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. In practice, insurance risk can be subdivided into:

(i) underwriting risk;
(ii) reserving risk;
(iii) credit risk; and
(iv) catastrophe risk.

Underwriting risk

This includes the risk that a policy will be written for too low a premium, provide inappropriate cover, or that the frequency or severity of insured events will be higher than expected.

Underwriting strategy is agreed by the Board of each managing agent and set out in the syndicate business plan that is submitted to the Society for approval each year. Approval of business plans – and setting the capital requirements needed to support these plans – is the key control the Society uses to manage underwriting risk.

The Society reviews each syndicate business plan to ensure it meets Lloyd's standards and is consistent with the capabilities of the managing agent. Once a plan is agreed, the Society uses performance management data to identify whether each syndicate's business performance is progressing in line with the business plan or that variations are understood and accepted.

The managing agents' underwriting controls should ensure that underwriting is aligned with their strategy, agreed business plan and underwriting policy.

Managing agents are expected to have controls in place to ensure that regulatory requirements and the scope of Lloyd's market licences are clearly understood and that risks are written within those requirements.

Managing agents need to have clear processes for pricing business and an audit trail to show how pricing will deliver the projected results within the approved business plan and how pricing will be managed over the relevant underwriting cycle.

Reserving risk

Reserving risk arises where the reserves established in the balance sheet are not adequate to meet eventual claims arising. The level of uncertainty varies significantly from line to line of business but can arise from inadequate reserves for known or incurred but not reported (IBNR) claims. These shortfalls can arise from inadequate reserving processes or from the naturally uncertain progress of insurance events.

Lloyd's current level of aggregate market reserves remains robust and the continued level of overall reserve releases are supported by underlying claims experience being more favourable than expected. This will not necessarily translate to all syndicates. There are currently few specific reserving issues and the main perceived risks relate to macro influences such as inflation or changes in legislation. The Society analyses reserve developments at line of business and syndicate levels quarterly; and briefs the market on issues it considers need to be taken into account.

Case-specific claim reserves should make financial provision at reported loss levels, without prejudice to coverage. Legal advisers', underwriters' and loss adjusters' judgement are used to set the estimated case reserves.

Reserving processes use a variety of statistical analyses such as projections of historical loss development patterns, with results adjusted for expert judgement. Lloyd's syndicates have significant exposure to volatile lines of business that carry material inherent risk that the ultimate claims settlement will vary from previous assessments of reserves.

Syndicates' reserves are annually subject to a formal independent actuarial opinion and are monitored by the Society. The actuarial opinions are covered by a combination of formal Actuarial Professional Standards and specific Lloyd's guidance and rules.

Credit risk

The market's principal credit risk is that the reinsurance purchased to protect the syndicates' gross losses does not respond as expected. This can occur because the reinsurer is unable to settle its liabilities. Managing agents are expected to have a clear and comprehensive plan for the reinsurance of each syndicate. This takes into account risk appetite for retained insurance risk and the potential for the accumulation of risk.

The managing agent should monitor and assess the security of, and exposure to, each reinsurer and intermediary. Reinsurance credit risk is subject to quarterly review by Lloyd's.

3. Risk management continued

Catastrophe risk

Catastrophe risk is the risk of loss occurring across all lines of business from worldwide natural catastrophe events. Managing agents may use catastrophe modelling software, where appropriate, to monitor aggregate exposure to catastrophe losses. The Society has developed a suite of Realistic Disaster Scenarios to measure syndicate level and aggregate market exposure to both natural catastrophes and man-made losses. These are monitored frequently and syndicates supply projected probabilistic exceedance forecasts for Lloyd's key exposures with their capital and business plans. Further enhancements to the monitoring and oversight of aggregate market catastrophe risk exposure have been implemented within the approved model under Solvency II.

Solvency Capital Requirement coverage

Coverage of the MWSCR is an ongoing and continuous requirement and the Society reports the results of its solvency test – ie the amount of the MWSCR, eligible assets to cover it and the solvency ratio – on a quarterly basis to the PRA. In addition to the quarterly reporting to the PRA, internal risk appetites have been set to monitor the coverage of the MWSCR as part of the risk management framework in place at the Society of Lloyd's. During 2020, the solvency coverage ratio was in excess of the internal risk appetite of 125% and regulatory requirements.

The Society aims to hold market capital sufficient to provide financial security to policyholders and capital efficiency to members. Members are required to put up funds to meet their ECA, which is set as their SCR (on an ultimate view of risk) plus an uplift of 35%. The Society does not require excess capital to be held above this level and considers that the risk appetite of 125% of SCR gives an appropriate buffer following diversification benefits. In the event that the capital put up by a member falls below their ECA through losses incurred or an increase in their risk profile, additional funds must be deposited. If members do not recapitalise, their authority to continue to trade is restricted to the level of their available capital or ultimately fully withdrawn and they cease trading. Such action would then reduce their risk and the aggregate MWSCR.

Assets eligible for solvency

The assets of the syndicates contribute towards coverage of the MWSCR, after adjustments to value items in accordance with Solvency II valuation principles.

The eligibility of assets to cover the SCR under Solvency II is determined by a tiering test. Tier 1 assets are fully available to cover the SCR while Tier 2 and Tier 3 assets in aggregate can cover up to 50% of the SCR. The majority of the assets available to cover the MWSCR are Tier 1.

3. Risk management continued

Claims development table

The tables below illustrate the development of the estimates of earned ultimate cumulative claims for syndicates in aggregate after the end of the underwriting year, illustrating how amounts estimated have changed from the first estimates made. Non-sterling balances have been converted using 2020 year end exchange rates to aid comparability. As these tables are on an underwriting year basis there is an apparent jump from figures for the end of the underwriting year to one year later as a large proportion of premiums are earned in the year of account's second year of development.

Gross

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	**2020 £m**	Total £m
At end of underwriting year		9,181	8,270	7,094	7,253	7,005	8,637	16,528	13,876	10,425	11,693	
One year later		14,967	13,407	13,340	13,776	14,464	18,807	26,569	25,135	22,743		
Two years later		15,075	13,634	13,523	14,630	15,305	20,314	28,421	27,504			
Three years later		15,044	13,460	13,210	14,497	16,039	21,037	28,868				
Four years later		15,111	13,426	13,000	15,382	16,439	21,239					
Five years later		14,963	13,270	13,305	15,556	16,645						
Six years later		14,867	13,665	13,496	15,560							
Seven years later		15,354	13,920	13,446								
Eight years later		15,764	13,882									
Nine years later		15,737										
Cumulative payments		14,763	12,635	11,986	13,360	13,123	15,944	20,341	15,251	6,911	1,749	
Estimated balance to pay	3,956	974	1,247	1,460	2,200	3,522	5,295	8,527	12,253	15,832	**9,944**	65,210

Net

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	**2020 £m**	Total £m
At end of underwriting year		7,369	6,245	5,859	5,854	5,722	6,663	9,418	9,015	7,497	8,187	
One year later		11,915	10,652	10,946	11,042	11,494	14,063	16,520	16,813	16,132		
Two years later		11,931	10,791	10,968	11,615	12,017	14,928	17,821	18,324			
Three years later		11,841	10,637	10,707	11,497	12,395	15,339	18,153				
Four years later		11,869	10,465	10,524	11,793	12,403	15,238					
Five years later		11,485	10,360	10,609	11,722	12,437						
Six years later		11,416	10,510	10,592	11,709							
Seven years later		11,619	10,543	10,532								
Eight years later		11,741	10,487									
Nine years later		11,718										
Cumulative payments		10,999	9,575	9,499	10,190	10,116	11,926	12,734	10,864	5,500	1,233	
Estimated balance to pay	2,598	719	912	1,033	1,519	2,321	3,312	5,419	7,460	10,632	**6,954**	42,879

3. Risk management continued

Financial risk – credit risk

Credit risk is the exposure to loss if a counterparty fails to perform its contractual obligations.

As discussed on page 27, the market's principal credit risk is that the reinsurance purchased to protect the syndicates' gross losses does not respond as expected. Syndicates are also exposed to credit risk in their premium debtors. Credit risk in respect of premium debt is controlled through broker approval and regular monitoring of premium settlement performance. Syndicates and members are exposed to credit risks in their investment portfolios. PRA and Lloyd's investment guidelines are designed to mitigate credit risk by ensuring diversification of holdings.

The carrying amount of financial assets and reinsurance assets represents the maximum credit risk exposure.

The tables below show the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements and the use of credit derivatives.

2020	**Neither past due nor impaired £m**	**Past due £m**	**Impaired £m**	**Total £m**
Debt securities	29,974	–	–	29,974
Participation in investment pools	490	–	–	490
Loans with credit institutions	123	–	–	123
Deposits with credit institutions	1,117	–	–	1,117
Derivative assets	95	–	–	95
Other investments	113	–	–	113
Deposits with ceding undertakings	71	–	–	71
Reinsurers' share of claims outstanding	22,338	–	(7)	22,331
Cash at bank and in hand	2,713	–	–	2,713
Total	**57,034**	**–**	**(7)**	**57,027**

2019	Neither past due nor impaired £m	Past due £m	Impaired £m	Total £m
Debt securities	28,907	–	–	28,907
Participation in investment pools	433	–	–	433
Loans with credit institutions	110	–	–	110
Deposits with credit institutions	1,042	–	–	1,042
Derivative assets	70	–	–	70
Other investments	85	–	–	85
Deposits with ceding undertakings	38	–	–	38
Reinsurers' share of claims outstanding	20,779	–	(6)	20,773
Cash at bank and in hand	2,283	–	–	2,283
Total	53,747	–	(6)	53,741

In aggregate, syndicates have no financial assets that would be past due or impaired whose terms have been renegotiated.

In aggregate, syndicates held no material debt and fixed income assets that were past due or impaired beyond their reported fair values, either for the current period under review or on a cumulative basis. For the current period and prior period, syndicates, in aggregate, did not experience any material defaults on debt securities.

Assets held as collateral comprise cash and debt securities, received as collateral against reinsurance assets transferred from syndicate reinsurers.

3. Risk management continued

Financial risk – credit risk continued

The table below provides information regarding the credit risk exposure at 31 December 2020 by classifying assets according to the credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as other. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated. This table is the sum of assets neither past due nor impaired.

2020	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	9,244	8,224	8,554	3,326	626	29,974
Participation in investment pools	104	98	63	10	215	490
Loans with credit institutions	31	37	23	6	26	123
Deposits with credit institutions	357	77	388	45	250	1,117
Derivative assets	–	1	3	–	91	95
Other investments	5	2	–	–	106	113
Deposits with ceding undertakings	–	–	6	–	65	71
Reinsurers' share of claims outstanding	415	4,855	14,557	289	2,222	22,338
Cash at bank and in hand	121	217	2,246	70	59	2,713
Total credit risk	**10,277**	**13,511**	**25,840**	**3,746**	**3,660**	**57,034**

2019	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	8,777	8,824	7,328	3,384	594	28,907
Participation in investment pools	89	93	29	6	216	433
Loans with credit institutions	39	35	11	10	15	110
Deposits with credit institutions	338	87	179	40	398	1,042
Derivative assets	–	2	2	–	66	70
Other investments	7	6	–	–	72	85
Deposits with ceding undertakings	–	–	4	–	34	38
Reinsurers' share of claims outstanding	520	4,301	13,623	229	2,106	20,779
Cash at bank and in hand	158	152	1,740	90	143	2,283
Total credit risk	9,928	13,500	22,916	3,759	3,644	53,747

3. Risk management continued

Financial risk – liquidity risk

Liquidity risk arises where a syndicate has insufficient funds to meet its liabilities, particularly claims. Managing agents are expected to manage the cash needs of their syndicates on an ongoing basis and to avoid becoming forced sellers of assets. Generally, syndicates have a high concentration of liquid assets, namely cash and government securities.

The Society centrally monitors syndicate liquidity and conducts stress tests to monitor the impact on liquidity of significant claims events.

2020	No stated maturity £m	0-1yr £m	1-3yrs £m	3-5yrs £m	>5yrs £m	Total £m
Claims outstanding	–	22,240	23,019	10,215	9,736	65,210
Derivatives	–	21	–	–	–	21
Deposits received from reinsurers	560	119	36	8	4	727
Creditors	1,034	9,196	772	48	13	11,063
Other liabilities	15	98	1	–	–	114
Total	1,609	31,674	23,828	10,271	9,753	77,135

2019	No stated maturity £m	0-1yr £m	1-3yrs £m	3-5yrs £m	>5yrs £m	Total £m
Claims outstanding	–	19,954	21,457	9,736	9,399	60,546
Derivatives	–	15	–	–	–	15
Deposits received from reinsurers	641	177	47	10	5	880
Creditors	795	9,077	913	57	10	10,852
Other liabilities	13	71	–	–	–	84
Total	1,449	29,294	22,417	9,803	9,414	72,377

Financial risk – market risk – overview

Market risk is the risk of loss, or of adverse change in financial situation resulting from fluctuations in the level of the market prices of assets and liabilities arising from exposure to economic variables and market forces such as inflation, interest rates and rates of foreign exchange.

Syndicate assets are held in premium trust funds and are subject to the asset rules contained in the PRA's handbook and must comply with Lloyd's Membership & Underwriting Requirements. Managing agents manage asset risk through their investment strategy.

Oversight of market risk includes the monitoring of Investment Management Minimum Standards. Lloyd's Society monitors assets across the full chain of security to ensure the asset disposition of the market and Society remains appropriate, closely monitoring global economic and market trends.

The potential financial impact of changes in market value is additionally monitored through the capital setting process, and asset mix must be reported to the Society on a quarterly basis, including credit rating analysis of fixed income portfolios.

Market risk comprises three types of risk:

(a) currency risk;
(b) interest rate risk; and
(c) equity price risk.

3. Risk management continued

Financial risk – currency risk

Managing agents must identify the main currencies in which each syndicate transacts its business. For the market overall, the US dollar is the largest currency exposure. Assets are then held in each of those currencies to match the relevant liabilities. Managing agents must ensure that assets match liabilities and take corrective action where a mismatch arises. The Society also reviews the matching of assets to liabilities at the syndicate level as well as at the market level. In addition, many members seek to match their capital disposition by currency against their peak exposures. At 31 December 2020, 67% (2019: 67%) of all assets deployed at the market level were provided in US dollars. The profile of the aggregate of syndicate assets and liabilities, categorised by currency at their translated carrying amounts was as follows:

2020	**Sterling £m**	**US dollar £m**	**Euro £m**	**Canadian $ £m**	**Australian $ £m**	**Other £m**	**Total £m**
Financial investments	5,246	25,472	2,055	5,144	333	311	38,561
Reinsurers' share of technical provisions	4,155	19,163	1,356	952	489	90	26,205
Insurance and reinsurance receivables	2,732	13,357	947	559	420	291	18,306
Cash at bank and in hand	515	1,183	492	74	266	183	2,713
Other assets	1,375	4,441	424	944	1,432	336	8,952
Total assets	14,023	63,616	5,274	7,673	2,940	1,211	94,737
Technical provisions	(15,104)	(53,630)	(5,632)	(4,676)	(2,234)	(963)	(82,239)
Insurance and reinsurance payables	(1,032)	(6,856)	(442)	(315)	(180)	(130)	(8,955)
Other creditors	(1,257)	(2,130)	(86)	(207)	(54)	(85)	(3,819)
Total liabilities	(17,393)	(62,616)	(6,160)	(5,198)	(2,468)	(1,178)	(95,013)
Total capital and reserves	**(3,370)**	**1,000**	**(886)**	**2,475**	**472**	**33**	**(276)**

2019	Sterling £m	US dollar £m	Euro £m	Canadian $ £m	Australian $ £m	Other £m	Total £m
Financial investments	5,066	24,378	2,208	4,465	316	212	36,645
Reinsurers' share of technical provisions	4,142	17,955	1,312	844	338	115	24,706
Insurance and reinsurance receivables	2,856	13,220	786	452	360	313	17,987
Cash at bank and in hand	494	941	413	84	214	137	2,283
Other assets	1,315	4,471	483	921	1,324	282	8,796
Total assets	13,873	60,965	5,202	6,766	2,552	1,059	90,417
Technical provisions	(14,939)	(50,053)	(5,576)	(4,252)	(1,842)	(1,259)	(77,921)
Insurance and reinsurance payables	(1,365)	(6,450)	(370)	(335)	(130)	(86)	(8,736)
Other creditors	(1,574)	(2,052)	(9)	(228)	(50)	(25)	(3,938)
Total liabilities	(17,878)	(58,555)	(5,955)	(4,815)	(2,022)	(1,370)	(90,595)
Total capital and reserves	(4,005)	2,410	(753)	1,951	530	(311)	(178)

3. Risk management continued

Sensitivity analysis

A 10% strengthening or weakening of the pound sterling against the following currencies at 31 December would have increased/(decreased) the result before tax and members' balances for the financial year by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

2020	Impact on result before tax £m	Impact on members' balances £m
Strengthening of US dollar	288	288
Weakening of US dollar	(236)	(236)
Strengthening of euro	(98)	(98)
Weakening of euro	80	80

2019	Impact on result before tax £m	Impact on members' balances £m
Strengthening of US dollar	440	440
Weakening of US dollar	(360)	(360)
Strengthening of euro	(84)	(84)
Weakening of euro	68	68

Financial risk – interest rate risk

Interest rate risk is the risk that the value and future cash flows of a financial instrument will fluctuate because of changes in interest rates. Lloyd's syndicates operate a generally conservative investment strategy with material cash and short-dated bonds portfolios, which reduces the interest rate risk exposure.

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on the result before tax and equity of the effects of changes in interest rates.

2020	Impact on result before tax £m	Impact on members' balances £m
+ 50 basis points	(402)	(402)
- 50 basis points	385	385

2019	Impact on result before tax £m	Impact on members' balances £m
+ 50 basis points	(337)	(337)
- 50 basis points	322	322

3. Risk management continued

Financial risk – equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Syndicates' equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

Syndicates manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each sector and market.

For syndicates, in aggregate there is no significant concentration of equity price risk.

The analysis below is performed for reasonably possible movements in market indices on financial instruments with all other variables held constant, showing the impact on the result before tax due to changes in fair value of financial assets and liabilities (whose fair values are recorded in the profit and loss account) and members' balances (that reflects adjustments to the result before tax and changes in fair value of available for sale financial assets that are equity instruments).

2020	**Impact on result before tax £m**	**Impact on members' balances £m**
5% increase in equity markets	86	86
5% decrease in equity markets	(86)	(86)

2019	Impact on result before tax £m	Impact on members' balances £m
5% increase in equity markets	72	72
5% decrease in equity markets	(72)	(72)

3. Risk management continued

Concentration risk

The Society closely monitors concentrations of risk across the market and tests risk exposure against clearly defined risk appetites as established by the Board. Specialist supervisory teams across the Society monitor concentrations across the following areas: region perils, line of business, geographical location, method of distribution in insurance and investment counterparties, among others.

While syndicates define the type of business that they write, at the market level the Society seeks to avoid an inappropriate concentration of premium sources, monitoring concentration of business in poorly performing lines, material sources of premium by method of placement as well as coverholder concentration, which feature in metrics reported quarterly to the Board. Managing agents controlling more than 10% of overall market gross written premium are also subject to Council review. Any reported metrics outside of appetite are reported to and discussed by the Risk Committee and Council. Specific and targeted actions can then be agreed, which will be discussed with specific managing agents or the market as a whole, as appropriate. These actions can vary considerably depending on the nature of the risk or the line of business impacted, with different levels of the requirements placed on syndicates, which forms part of the Society's oversight role of the market.

Further analysis of premiums, claims, expenses and underwriting result by line of business is included within note 4, with commentary on the performance of each line of business included on pages 7-14. Analysis of premium by geographical region is included both within note 4 (which details where contracts were concluded) as well as within the Lloyd's line of business breakdown by region analysis in the '2020 At a Glance' section at the beginning of the Lloyd's Annual Report 2020. Analysis of capital providers by source and location is also included in the '2020 At a Glance' section of the Lloyd's Annual Report 2020. Analysis of investments held at the syndicate level is disclosed in note 9.

Regulatory risk

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. Managing agents monitor regulatory development to ensure ongoing compliance and any impact on claims reserves. Additionally, given current developments in the global regulatory landscape, the Society closely monitors changes that may adversely impact the global licence network. Lloyd's is actively working with the market to assist and adapt to the changes in the UK regulatory architecture, in particular the increased focus on conduct risk by the FCA; managing agents are now expected to comply with the Lloyd's Conduct Minimum Standards. Similarly, the Society monitors global political trends and is taking action at both a Society and market level in response to a growing geopolitical risk facing companies operating around the world.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Managing agents manage these risks through internal compliance monitoring and the use of detailed procedure manuals. The Society sets minimum standards to be applied by agents and monitors to ensure these are met.

Group risk

Group risk is the risk of loss resulting from risk events arising within a related entity. While Lloyd's is not a group, the Society monitors potential risks that could impact Lloyd's, for example arising from the activities of a parent company of a syndicate or managing agent.

While, by its nature, group risk is difficult to control, the Society mitigates the potential impact of group risk through the implementation of controls, including Lloyd's minimum standards, mitigating any material impairment to Lloyd's brand, reputation or strategic priorities.

4. Segmental analysis

The following segmental analysis is derived from the equivalent notes in the syndicate annual accounts. The syndicate annual accounts report the material direct lines of business and aggregates all other lines as 'other'. Consequently, aggregation of those figures is not meaningful. Syndicates have provided returns to Lloyd's, including segmental analysis and syndicate auditors have given audited opinions confirming that those returns have been prepared in accordance with instructions issued by Lloyd's and that they are consistent with the syndicate annual accounts. Those figures have been aggregated to provide the following tables:

2020	Gross written premiums £m	Gross premiums earned £m	Gross claims incurred £m	Operating expenses £m	Reinsurance balance £m	Result £m
Accident and health	752	836	(686)	(330)	23	(157)
Motor (third-party liability)	107	102	(64)	(20)	(11)	7
Motor (other lines)	614	744	(405)	(242)	(58)	39
Marine, aviation and transport	4,249	4,304	(2,380)	(1,258)	(347)	319
Fire and other damage to property	8,023	8,062	(5,946)	(2,410)	(413)	(707)
Third-party liability	8,376	8,307	(6,381)	(2,431)	(27)	(532)
Pecuniary loss	1,223	1,361	(3,409)	(393)	1,052	(1,389)
Life	52	59	(38)	(20)	(8)	(7)
Other	15	14	(13)	(9)	1	(7)
Total direct insurance	23,411	23,789	(19,322)	(7,113)	212	(2,434)
Reinsurance acceptances	12,832	12,450	(8,751)	(2,920)	(1,435)	(656)
Balance on the technical account for general business	**36,243**	**36,239**	**(28,073)**	**(10,033)**	**(1,223)**	**(3,090)**

2019	Gross written premiums £m	Gross premiums earned £m	Gross claims incurred £m	Operating expenses £m	Reinsurance balance £m	Result £m
Accident and health	1,042	1,127	(674)	(446)	(60)	(53)
Motor (third-party liability)	141	141	(109)	(40)	(6)	(14)
Motor (other lines)	928	949	(566)	(301)	(58)	24
Marine, aviation and transport	4,359	4,679	(3,336)	(1,376)	(138)	(171)
Fire and other damage to property	8,061	8,134	(4,666)	(2,482)	(1,017)	(31)
Third-party liability	8,638	8,476	(6,135)	(2,547)	(122)	(328)
Pecuniary loss	1,578	1,611	(884)	(498)	(182)	47
Life	102	102	(82)	(25)	3	(2)
Other	600	427	(711)	73	210	(1)
Total direct insurance	25,449	25,646	(17,163)	(7,642)	(1,370)	(529)
Reinsurance acceptances	12,065	11,884	(8,715)	(2,703)	(901)	(435)
Balance on the technical account for general business	37,514	37,530	(25,878)	(10,345)	(2,271)	(964)

4. Segmental analysis continued

The syndicate returns to the Society provide additional information to derive the following table in respect of the lines of business reviewed in the 2020 Annual Report. This is disclosed to reconcile the balance on the technical account for general business to the additional analysis and market commentary included on pages 7-14 of the Aggregate Accounts.

2020	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Underwriting result £m
Reinsurance	12,159	8,616	(6,352)	(2,920)	(656)
Property	9,227	6,605	(5,893)	(2,816)	(2,104)
Casualty	9,067	6,688	(4,615)	(2,761)	(688)
Marine, Aviation and Transport	2,976	2,322	(1,172)	(911)	239
Energy	1,265	877	(451)	(347)	79
Motor	720	719	(410)	(261)	48
Life	52	49	(36)	(20)	(7)
Total from syndicate operations	35,466	25,876	(18,929)	(10,036)	(3,089)
Transactions between syndicates and the Society and insurance operations of the Society				413	413
PFFS premiums and underwriting result	**35,466**	**25,876**	**(18,929)**	**(9,623)**	**(2,676)**
Allocated investment return transferred from the non-technical account					1,042
Balance on the technical account for general business					**(1,634)**

2019	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Underwriting result £m
Reinsurance	11,418	7,841	(5,566)	(2,709)	(434)
Property	9,586	6,815	(3,817)	(2,986)	12
Casualty	9,459	6,793	(4,177)	(3,006)	(390)
Marine, Aviation and Transport	2,802	2,343	(1,567)	(975)	(199)
Energy	1,500	1,008	(580)	(401)	27
Motor	1,053	955	(613)	(331)	11
Life	87	66	(41)	(24)	1
Total from syndicate operations	35,905	25,821	(16,361)	(10,432)	(972)
Adjustments in the Annual Report not made in the Aggregate Accounts				434	434
PFFS premiums and underwriting result	35,905	25,821	(16,361)	(9,998)	(538)
Allocated investment return transferred from the non-technical account					1,371
Balance on the technical account for general business					833

The geographical analysis of gross direct insurance premiums by location of where contracts were concluded is as follows:

	2020 £m	2019 £m
United Kingdom	22,983	25,043
Other EU member states	2	26
Rest of the World	426	380
Total	**23,411**	25,449

5. Life business

The Aggregate Accounts include the results of all life and non-life syndicates transacting business during 2020. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business are reported in the segmental analysis (note 4).

6. Prior year development

The aggregate of the prior year surpluses/deficiencies is a surplus of £461m (2019: surplus of £232m). The surplus arises across all lines of business except for the casualty line of business, reflecting favourable claims development compared with projections in these lines.

7. Net operating expenses

	2020 £m	2019 £m
Acquisition costs	8,600	9,024
Change in deferred acquisition costs	234	138
Administrative expenses	2,532	2,548
Reinsurance commissions and profit participations	(1,321)	(1,344)
Total	**10,045**	10,366

Total commissions for direct insurance accounted for in the year amounted to £5,508m (2019: £6,057m).

Schedule 2 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by the Statutory Auditors and Third Country Auditors Regulations 2017, requires the disclosure of the remuneration receivable by the auditor of the Aggregate Accounts. This remuneration is not reflected in the profit and loss account of these Aggregate Accounts, all these amounts are borne by the Society of Lloyd's and its subsidiaries and are reported in the Society's accounts.

The proportion of remuneration payable by the Society to its auditors in respect of the audit of the Aggregate Accounts is set out below:

	2020 £000	2019 £000
Audit-related assurance services in respect of the Aggregate Accounts	123	120
Total	**123**	120

8. Investment return

Interest and similar income	2020 £m	2019 £m
From financial instruments designated as at fair value through profit or loss	659	776
From available for sale investments	32	36
Dividend income	17	23
Interest on cash at bank	29	52
Other interest and similar income	24	30
Investment expenses	(52)	(58)
Total	**709**	859

Other income from investments designated as at fair value through profit or loss	2020 £m	2019 £m
Realised gains	120	160
Unrealised gains	412	653
Other relevant losses	(1)	(2)
Total	**531**	811
Total investment return	**1,240**	1,670

9. Financial investments

	2020 £m	2019 £m
Shares and other variable yield securities	6,649	5,998
Debt securities and other fixed income securities	29,974	28,907
Participation in investment pools	490	433
Loans and deposits with credit institutions	1,240	1,152
Other investments	208	155
Total	**38,561**	36,645

Disclosures of fair values in accordance with the fair value hierarchy

Fair value measurements have been classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy includes the following classifications:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets. An active market is one in which transactions for the asset occur with sufficient frequency and volume to provide readily and regularly available quoted prices;
- Level 2 – inputs to a valuation model other than quoted prices included within Level 1 that are observable for the asset, either directly (ie as prices) or indirectly (derived from prices); and
- Level 3 – inputs to a valuation model for the asset that are not based on observable market data (unobservable inputs) and are significant to the overall fair value measurement. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions it is considered that market participants would use in pricing the asset.

9. Financial investments continued

Disclosures of fair values in accordance with the fair value hierarchy continued

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. The significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset.

2020	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	Assets held at amortised cost £m	Total £m
Shares and other variable yield securities	1,725	3,623	1,299	6,647	2	6,649
Debt and other fixed income securities	8,230	21,736	8	29,974	–	29,974
Participation in investment pools	276	212	2	490	–	490
Loans and deposits with credit institutions	529	681	30	1,240	–	1,240
Other investments	21	78	109	208	–	208
Total investments	10,781	26,330	1,448	38,559	2	38,561
Borrowings	–	–	–	–	(15)	(15)
Derivative liabilities	(8)	(12)	(1)	(21)	–	(21)
Total liabilities	**(8)**	**(12)**	**(1)**	**(21)**	**(15)**	**(36)**

2019	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	Assets held at amortised cost £m	Total £m
Shares and other variable yield securities	2,073	3,082	840	5,995	3	5,998
Debt and other fixed income securities	7,707	21,188	12	28,907	–	28,907
Participation in investment pools	273	153	7	433	–	433
Loans and deposits with credit institutions	484	638	24	1,146	6	1,152
Other investments	14	67	74	155	–	155
Total investments	10,551	25,128	957	36,636	9	36,645
Borrowings	–	–	–	–	–	–
Derivative liabilities	(3)	(10)	(1)	(14)	–	(14)
Total liabilities	(3)	(10)	(1)	(14)	–	(14)

10. Debtors arising out of direct insurance operations

	2020 £m	2019 £m
Due within one year	8,871	9,090
Due after one year	78	76
Total	**8,949**	9,166

11. Debtors arising out of reinsurance operations

	2020 £m	2019 £m
Due within one year	8,695	7,811
Due after one year	662	1,010
Total	**9,357**	8,821

12. Insurance liabilities and reinsurance assets

(a) Provisions for unearned premiums

2020	Gross £m	Reinsurers' share £m	Net £m
At 1 January	17,375	3,933	13,442
Premiums written in the year	36,243	10,302	25,941
Premiums earned in the year	(36,239)	(10,269)	(25,970)
Exchange/other movements	(350)	(92)	(258)
At 31 December	**17,029**	**3,874**	**13,155**

2019	Gross £m	Reinsurers' share £m	Net £m
At 1 January	18,119	4,104	14,015
Premiums written in the year	37,514	11,029	26,485
Premiums earned in the year	(37,530)	(11,054)	(26,476)
Exchange/other movements	(728)	(146)	(582)
At 31 December	17,375	3,933	13,442

(b) Deferred acquisition costs

	2020 £m	2019 £m
At 1 January	4,435	4,705
Change in deferred acquisition costs	(234)	(138)
Exchange movements	(63)	(129)
Other	10	(3)
At 31 December	**4,148**	4,435

12. Insurance liabilities and reinsurance assets continued

(c) Claims outstanding

2020	Gross £m	Reinsurers' share £m	Net £m
At 1 January	60,546	20,773	39,773
Claims paid during the year	(21,855)	(6,871)	(14,984)
Claims incurred during the year	28,073	9,046	19,027
Exchange movements	(1,355)	(434)	(921)
Other	(199)	(183)	(16)
At 31 December	**65,210**	**22,331**	**42,879**

2019	Gross £m	Reinsurers' share £m	Net £m
At 1 January	61,516	20,567	40,949
Claims paid during the year	(23,566)	(7,657)	(15,909)
Claims incurred during the year	25,878	8,783	17,095
Exchange movements	(1,804)	(556)	(1,248)
Other	(1,478)	(364)	(1,114)
At 31 December	60,546	20,773	39,773

13. Discounted claims

Discounting may be applied to claims provisions where there are individual claims with structured settlements that have annuity-like characteristics or for books of business with mean term payment greater than four years. Certain syndicates have elected to discount their claims provisions.

The claims have been discounted as follows:

Line of business	Average discounted rates		Average mean term of liabilities	
	2020 %	2019 %	**2020 years**	2019 years
Motor (third-party liability)	1.84	1.80	30.14	28.53
Motor (other lines)	3.00	2.98	5.59	5.84
Third-party liability	3.44	2.74	21.74	22.66

The period that will elapse before claims are settled is determined using impaired life mortality rates.

The claims provisions before discounting are as follows:

	Before discounting		Effect of discounting		Discounted provision	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Total claims provisions	1,293	1,353	(309)	(338)	984	1,015
Reinsurers' share of total claims	433	422	(66)	(68)	367	354

14. Creditors arising out of direct insurance operations

	2020 £m	2019 £m
Due within one year	1,410	1,345
Due after one year	13	57
Total	**1,423**	1,402

15. Creditors arising out of reinsurance operations

	2020 £m	2019 £m
Due within one year	6,807	6,486
Due after one year	726	848
Total	**7,533**	7,334

16. Note to the statement of cash flows

	2020 £m	2019 £m
Cash at bank and in hand	2,713	2,283
Short-term deposits with credit institutions	2,513	1,790
Overdrafts	(252)	(301)
Total	**4,974**	3,772

Of the cash and cash equivalents, £720m (2019: £320m) is held in regulated bank accounts in overseas jurisdictions and is not available for immediate use other than to pay claims in those jurisdictions.

17. Related party transactions

The annual accounts of each syndicate provide, where appropriate, the required disclosures on related parties. Syndicate level disclosures are specific to that syndicate and its managing agent. For 2020, there were no material related party transactions conducted outside normal market conditions reported in the syndicate annual accounts requiring disclosure in the Aggregate Accounts.

18. Off-balance sheet arrangements

Schedule 3 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by the Statutory Auditors and Third Country Auditors Regulations 2017, requires the disclosure of off-balance sheet arrangements where they have been disclosed in the syndicate annual accounts and where the information is necessary for enabling the financial position of the Lloyd's market to be assessed. No such off-balance sheet arrangements were reported in the 2020 syndicate annual accounts.

19. Members' funds at Lloyd's

Every member is required to hold capital at Lloyd's to support their underwriting, which until mid-2007 was all held in trust as members' funds at Lloyd's (FAL). In 2007, a rule change permitted any members that only participate on one syndicate to hold the capital supporting their underwriting in their syndicate's premium trust funds. These funds are known as funds in syndicate (FIS). At 31 December 2020, there was £5,005m (2019: £4,616m) of FIS within members' balances. Capital held in the syndicate premium trust funds is not reported as FAL.

The level of FAL/capital which Lloyd's requires a member to maintain is determined in accordance with Lloyd's capital setting framework. FAL are not dedicated to any specific syndicate year of account participation for any member and are not therefore reported in the Aggregate Accounts.

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