

Half Year Results

A large, stylized number '2020' is the central focus. The digits are filled with a blue-to-white gradient and overlaid with a fine, vertical blue line pattern. The '2' is positioned in front of the first '0', and the second '0' is positioned in front of the second '2', creating a layered effect.

Thursday 10 September 2020

John Neal

Chief Executive Officer

Responding to COVID-19



Our people

Supporting our people and their wellbeing

Seamless transition to remote working

Maintaining high engagement through effective communications strategy



Our customers

Expected pay outs of £5bn to customers

Market functionality and services uninterrupted throughout lockdown



Building back better

Lloyd's report published

Designed framework for new insurance solutions and services to build future resilience to systemic risk

Centre of Excellence considering product simplification

Charitable donations

Responding to COVID-19



- Caring for our people has been a key priority over lockdown and throughout the return to the office.
- Actively supported Lloyd's Corporation employees in their wide-ranging efforts to care for their communities.
- Prioritised mental health and wellbeing initiatives and support tools.
- Ensuring Corporation and market participant safety with reopening of Underwriting Room.



- Supporting our customers and continuing to pay claims promptly through the duration of lockdown and in the weeks and months ahead is front and centre.
- We expect to pay out up to £5bn to our customers for COVID-19 claims.
- The Lloyd's market converted to digital operations seamlessly, enabling it to remain open and trade efficiently throughout lockdown, providing customers with risk transfer solutions and support services without interruption.



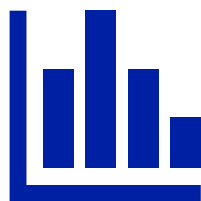
- Launch of three open source frameworks (ReStart, Recover Re, Black Swan Re) with publication of Lloyd's report: [Supporting global recovery and resilience for customers and economies: the insurance response to COVID-19.](#)
- £15m put aside in seed capital investment to develop a Systemic Risk Centre of Excellence, with a current focus on product simplification.
- £15m package of support for charitable organisations responding to the pandemic.

Performance update



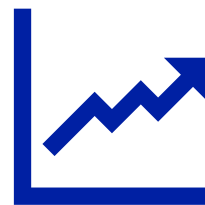
Results

£0.4bn loss due to
£2.4bn COVID-19 losses



Performance

Performance
improvement measures
gain significant traction



Pricing

Accelerated pricing
momentum in H1 2020



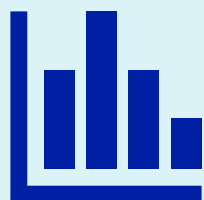
Balance Sheet

Strong capital and
solvency position
Defensive investment
portfolio

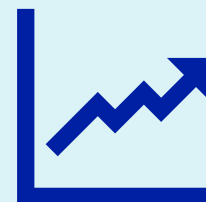
Performance update



- Lloyd's made an overall loss of £0.4bn, driven by COVID-19 claims of £2.4bn, contributing 18.7% to combined ratio of 110.4%.
- Excluding COVID-19 claims, the combined ratio has shown substantial improvement at 91.7%, down from 98.8% in H1 2019.
- Lloyd's remains well capitalised to meet its COVID-19 obligations and other claims activities.



- Focus on sustainable profitability drives improvement in underlying performance.
- Marked improvement in attritional loss ratio of 7% (H1 2020: 52.6%; H1 2019: 59.7%).
- Further reduction in expense ratio but more to do.



- Positive rate momentum has accelerated in H1 2020.
- Eleventh successive quarter of positive rate increases.
- Rate achieved exceeded plan each quarter.



- Q2 recovery resulting in a net investment income of £940m, despite turmoil in the first quarter.
- De-risked portfolio through conservative asset mix supported the positive investment result.

Burkhard Keese

Chief Financial Officer

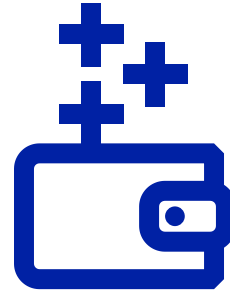
H1 2020 financial highlights



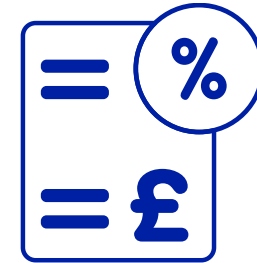
**A better priced
portfolio**



**Substantially
improved
underwriting
result**



**Prudent
investment
strategy**



**Resilient
capital and
solvency
position**

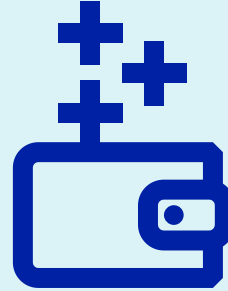
H1 2020 financial highlights



- Accelerating rate increases experienced over the past two years underpins profitability of our portfolio.
- Risk adjusted rate increases have reached 8.7%.
- Premium volumes have reduced by 8.6% as loss making classes are exited or re-underwritten.



- Our combined ratio stands at 91.7% excluding COVID-19 losses.
- Attritional loss ratio improved by 7.1% with a reduction to 52.6%.
- This result is a direct result of our performance management action.



- Investment income of £940m, generating an investment return of 1.2%.
- Our prudent investment strategy resulted in positive returns despite the turmoil in Q1 2020.

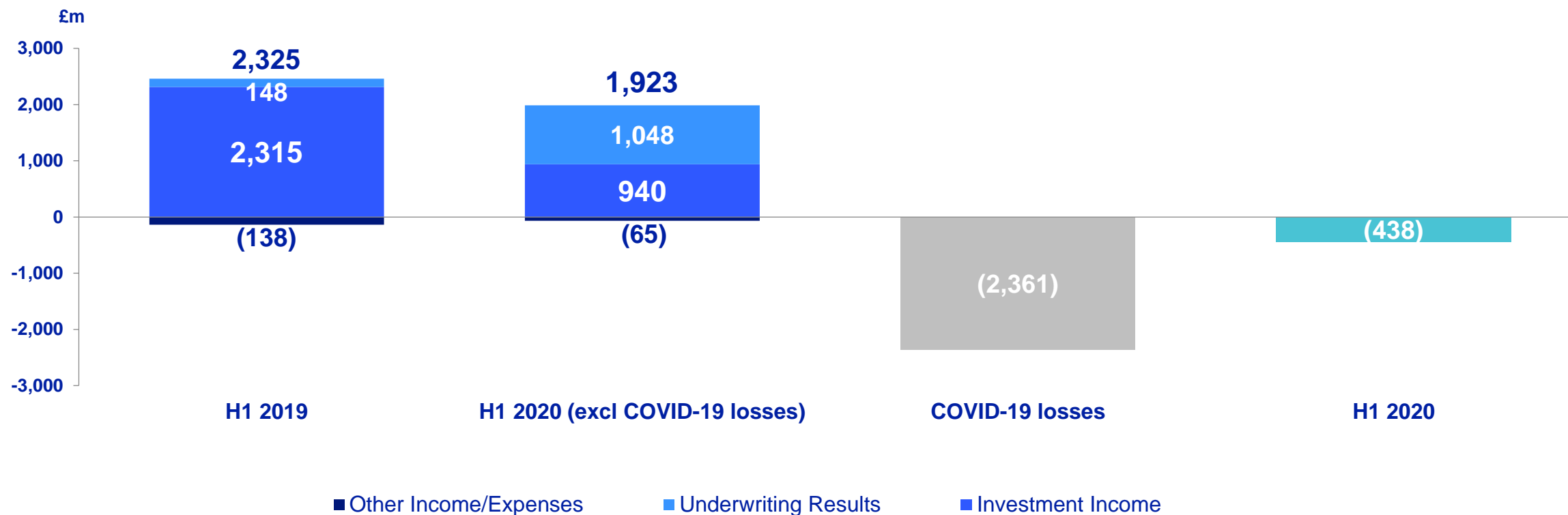


- Central solvency ratio stands at 250%. The market's capital base has increased to £32.8bn.
- Members' capital injections and surpluses cover £3bn COVID-19 losses. £0.9bn surplus in Funds at Lloyd's.
- Our proven capital system, once again, demonstrated its resilience.
- Sufficient solvency coverage to withstand material catastrophe losses in second half of the year.

Profit and Loss

£m	H1 2019	H1 2020	Change
Gross written premium (GWP)	19,689	20,047	+2%
Net earned premium (NEP)	12,685	12,569	(1%)
Net incurred claims and operating expenses	(12,537)	(13,882)	+11%
Underwriting result	148	(1,313)	
Net investment income	2,315	940	(59%)
Other expenses and FX	(138)	(65)	(53%)
Profit/(loss) before tax	2,325	(438)	
Loss ratio	60.7%	72.7%	12.0%
COVID-19 Loss Ratio		18.7%	
Loss ratio excluding COVID-19		54.0%	
Expense ratio	38.1%	37.7%	(0.4%)
Combined ratio	98.8%	110.4%	11.6%
Combined ratio excluding COVID-19		91.7%	

Quality of the results



Quality of the results

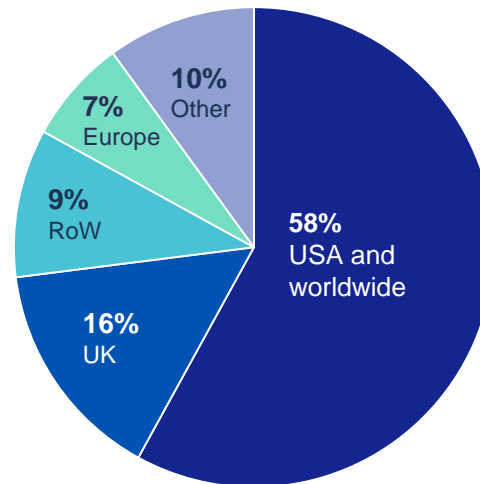
- £1.9bn result, excluding COVID-19 losses, underpin our successful return to profitability.
- £900m improvement on the underlying underwriting results, now representing more than 50% of total income, excluding COVID-19 losses.
- The quality of our results have improved significantly.
- Despite the turbulence in financial markets, the Lloyd's market reported positive investment income of £0.9bn representing a return of 1.2% (H1 2019: £2.3bn and 3.2%). 2019 was an exceptional year for investment performance.

COVID-19 losses

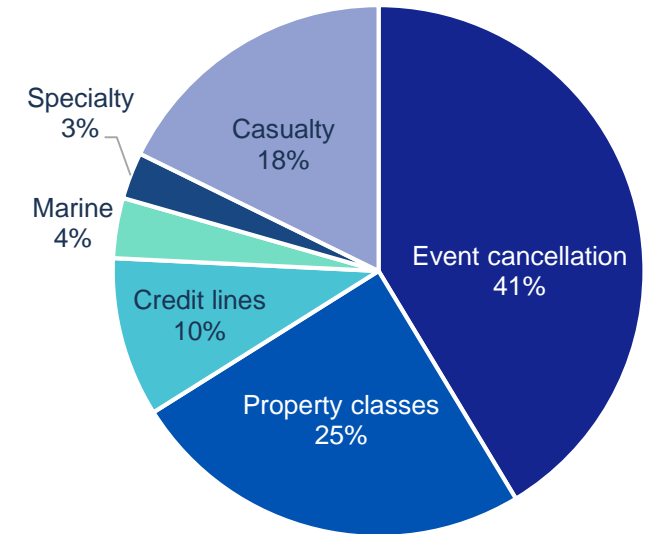
Estimated losses as at May 2020	£2.5bn-£3.5bn
Incurred losses as at 30 June 2020	£2.36bn
Net ultimate losses as at 30 June 2020	£2.96bn

Distribution of COVID-19 losses

Geography



Classes



'Worldwide' – customers that have global risk programmes

'Other' – Australia, Canada and Asia

'RoW' – all other countries and territories not specifically listed Lloyd's customer pay-out range is net of reinsurance

COVID-19 losses

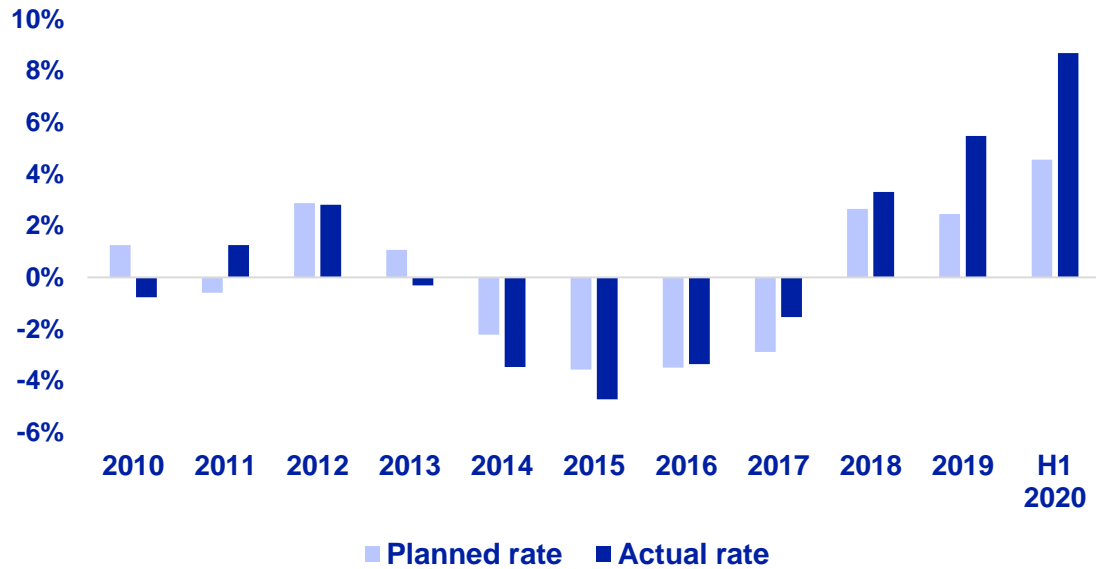
- Reported COVID-19 losses are in line with projections published in May which provided the range of £2.5bn to £3.5bn.
- Incurred losses amount to £2.4bn. This amount is included in our H1 2020 profit & loss account and represents 18.7% of our combined ratio.
- £3.0bn estimated ultimate loss to the Lloyd's market expected to be substantially booked by the end of 2020.
- On a gross basis, Lloyd's expects to pay out up to £5bn of COVID-19 losses; of which £2.0bn are ceded to reinsurers.
- Two successful capital collections fund the £3.0bn COVID-19 losses.

Within casualty classes, we are projecting the following COVID-19 losses

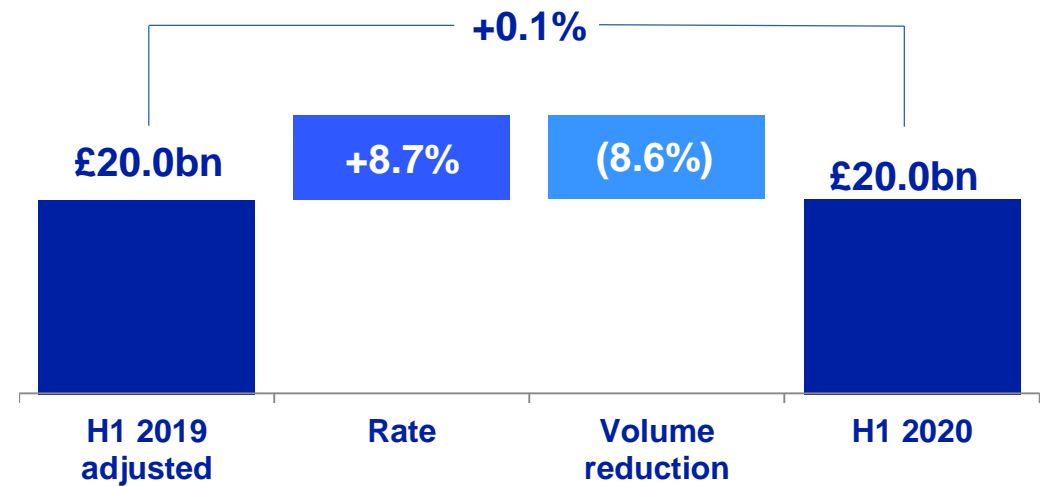
	£m
Accident, Health & Medical Expenses	229
Fin Pro	104
Treaty (including event cancellation)	89
Travel	24
Other	73
	519

Strong rate momentum

Rate change 2012-2020

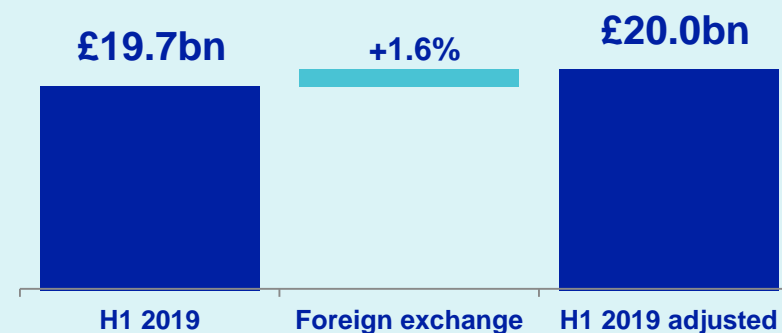


Premium changes H1 2019 – H1 2020



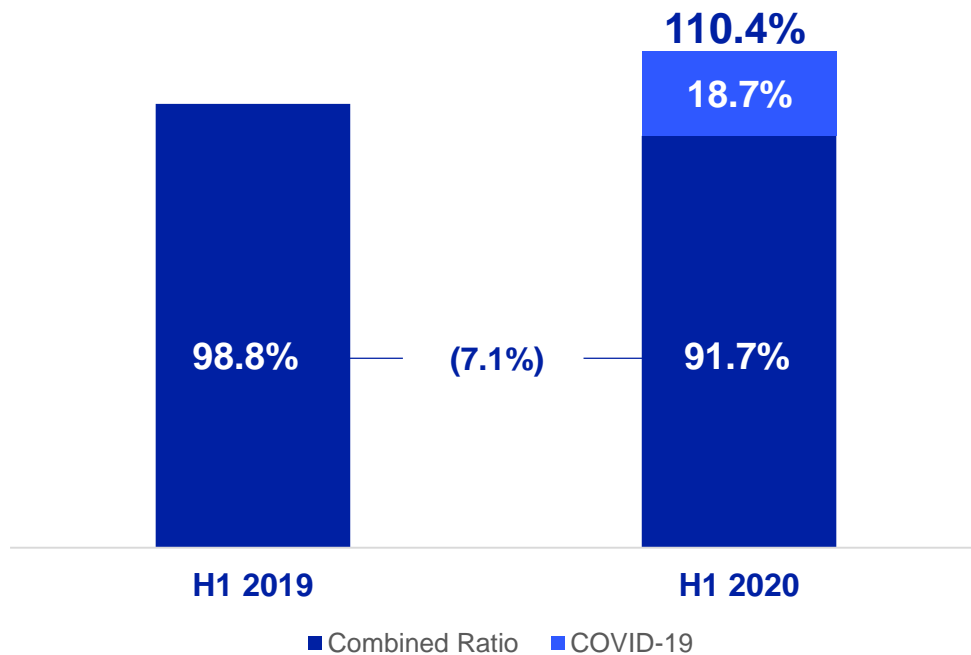
Strong rate momentum

- Positive rate momentum maintained throughout 2020.
- Eleventh consecutive quarter of positive rate movement, with rate increases exceeding plan each month.
- The vast majority of classes of business and all geographies are achieving positive rate.
- Reductions in non-profitable underlying business volumes have generated a 8.6% decrease in premium.
- Positive risk adjusted rate increases on renewal business of 8.7%

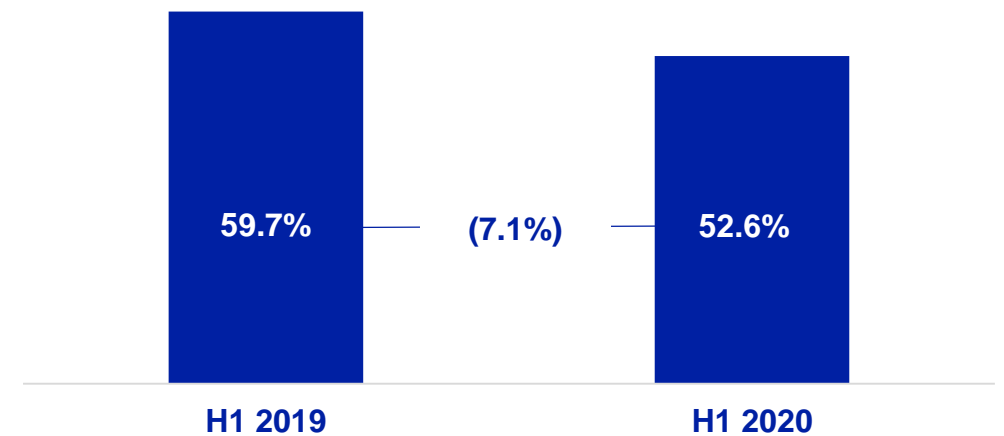


Substantial underwriting improvement

Combined ratio



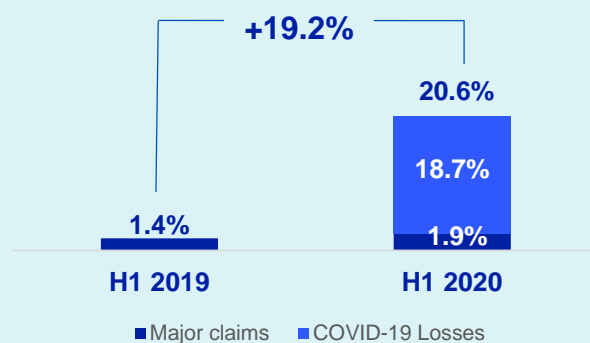
Attritional ratio



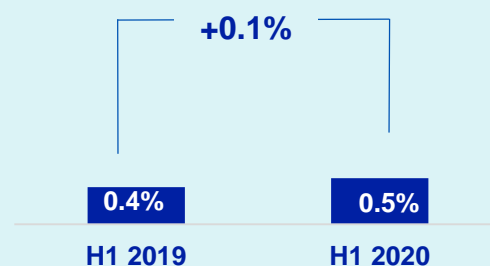
Substantial underwriting improvement

- Excluding the impact of COVID-19 losses, the combined ratio is 91.7%, a 7.1% improvement on H1 2019. The reported combined ratio is 110.4% (H1 2010: 98.8%).
- The attritional loss ratio has improved significantly to 52.6% at H1 2020, an improvement of 7.1% on the H1 2019 ratio of 59.7%.
- COVID-19 losses adds 18.7% to the major claims ratio, which has increased to 20.6% of NEP (H1 2019: 1.4%). Major losses (excluding COVID-19) stand at 1.9% of net earned premium.
- Total net prior year releases remained largely consistent at H1 2020 with releases of £67m (0.5%) at H1 2020, from £52m (0.4%) at H1 2019. Consistent prior year releases show that syndicates continue to provide strong reserving performance.
- Underlying underwriting performance has improved to 89.8%. This is made up of an attritional loss ratio of 52.6% and expense ratio of 37.7%, offset by prior year releases of 0.5%.
- COVID-19 losses have had a significant impact on the reported loss ratio. Excluding the impact of COVID-19, the loss ratio is 6.7% better than H1 2019. The reported loss ratio is 72.7% (H1 2019: 60.7%).

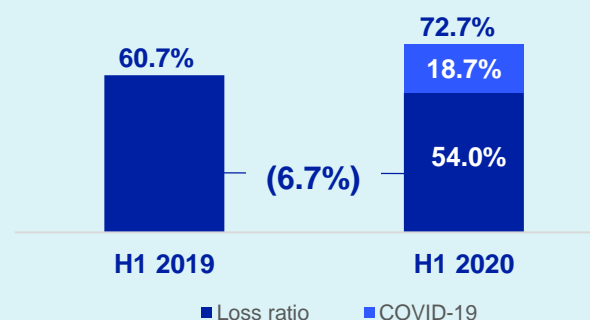
Major claims



Prior year releases

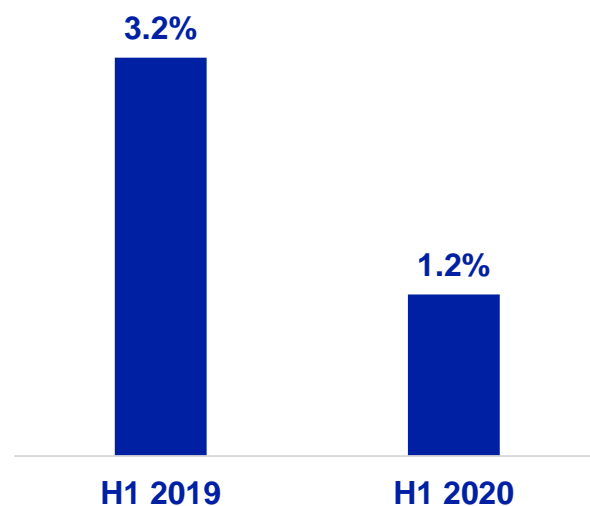


Loss Ratio

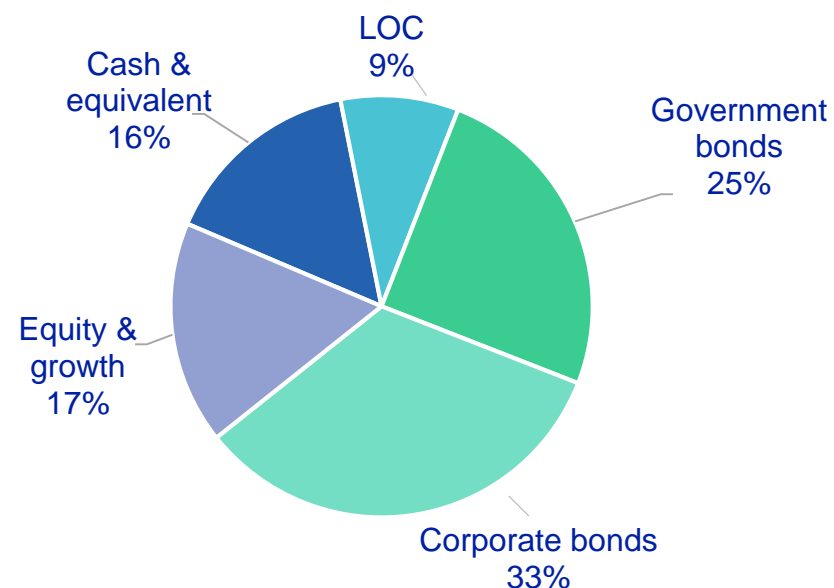


Investment income of £940m

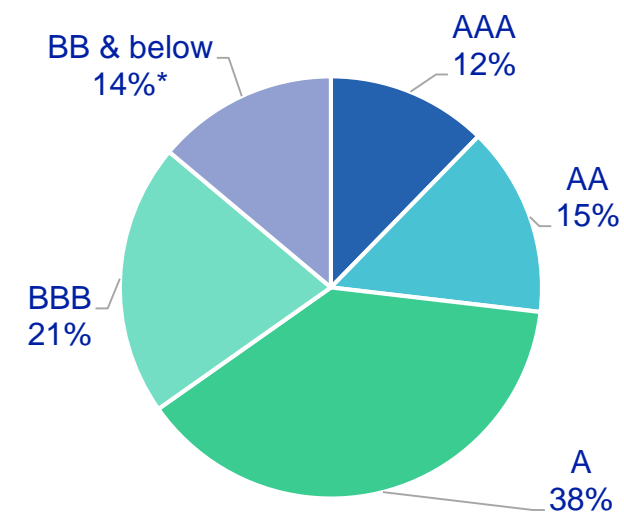
Investment return



Asset allocation at 30 Jun 2020



Corporate bonds by rating



Notes:

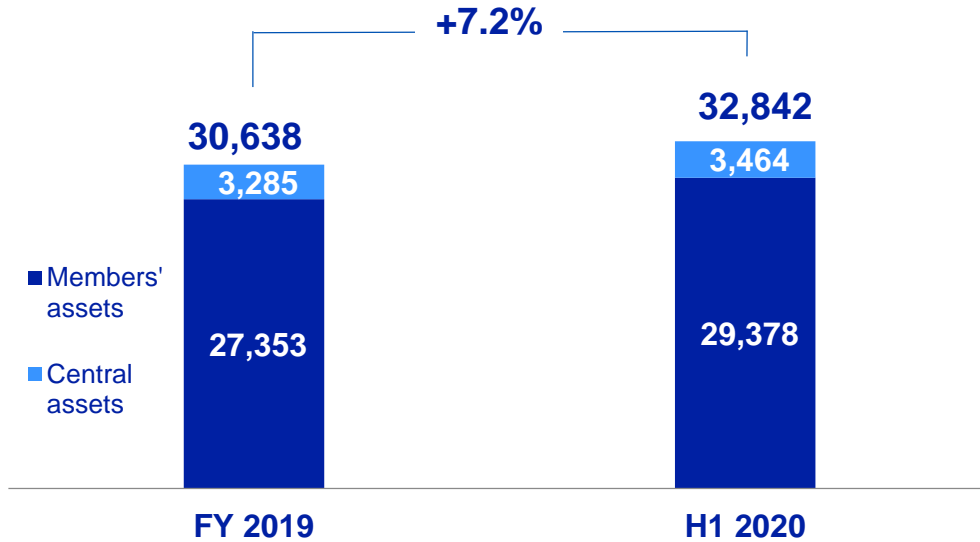
1. Asset allocation and corporate bonds by rating applies to all Lloyd's assets; Premium Trust Funds, Fund at Lloyd's and Central Assets.
2. *BB & below includes bonds where rating has not been submitted by the market.

Investment income of £940m

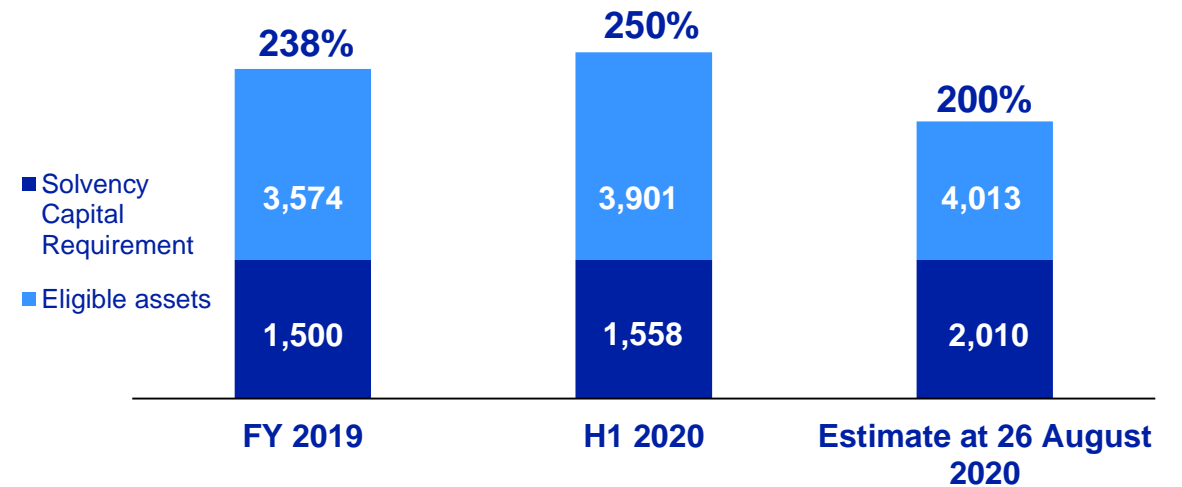
- The investment return made a strong recovery in the second quarter despite market turmoil in the first quarter, resulting in an H1 2020 reported income of £0.9bn (+1.2%).
- Key drivers include a strong performance by equities and growth assets as the market rebounded following the Q1 turmoil caused by COVID-19.
- This compares to an investment return of £2.3bn (+3.2%) for H1 2019; 2019 was an exceptional investment year.
- Conservative asset mix and high quality portfolio remained mostly unchanged compared to 2019.
- Our liquidity position is outstanding; cash & equivalents along with government bonds account for half of the overall portfolio.
- Following our de-risking measures for the Central Fund, we have 90% fixed income and cash assets, and only 10% remaining growth assets.

Strong capital and solvency

Movements in capital FY 2019 – H1 2020 (£m)



Lloyd's central solvency and coverage ratio (£m)



Strong capital and solvency

- Net resources increase by £2.2bn (7.2%) to £32.8bn at 30 June 2020 (2019: £30.6bn).
- Two successful capital collections to fund £3bn of COVID-19 losses.
- At 30 June there was a remaining £0.9bn of surplus in Funds at Lloyd's.
- We are, as always, committed to maintaining the highest level of Solvency II coverage ratio. This is clearly demonstrated by our management actions of the capital collection for COVID 19 and de-risking Central fund assets.
- Our capital and solvency positions will withstand significant natural catastrophe events in the second half of 2020.

- To reflect current economic conditions we have sought and had approval from our regulator to increase our capital requirement by £1.3bn for the MWSCR and £0.4bn for the CSCR in August 2020:

	MWSCR	CSCR
H1 2020 Solvency Ratios	155%	250%
Interest rate movements	-6%	-28%
Economic market volatility	-3%	-4%
Link between market and insurance risks	-2%	-18%
Estimated Solvency Ratio at 26 August	144%	200%
Estimated H2 2020 Solvency Ratios - £3bn further major loss scenario	135%	180%

- Lloyd's strong financial strength ratings are A (Excellent) stable outlook with A.M. Best, AA- (Very Strong) negative watch with Fitch Ratings and A+ (Strong) stable outlook with Standard & Poor's.

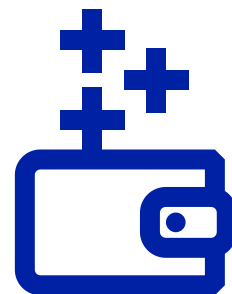
H1 2020 in summary



Stronger portfolio supports future profitability



Performance management delivers better underwriting results



Prudent investment to protect our policyholders

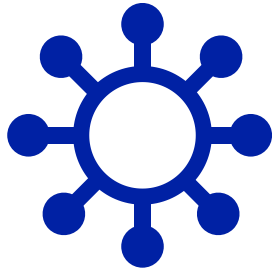


Our capital strength is resilient and can withstand further large losses

John Neal

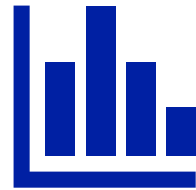
Chief Executive Officer

Our priorities



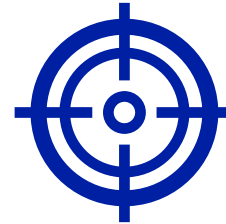
Responding to COVID-19

Supporting customers, businesses, government and society



Performance

Building towards long term, sustainable profitability



Strategy

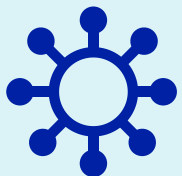
Creating the world's most advanced insurance marketplace



Culture

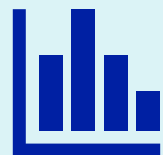
Transforming Lloyd's culture central pillar to our future

Our priorities



COVID-19

- Supporting customers responding to their evolving product and service needs.
- Preparing and building resilience to recessionary impacts of COVID-19.
- Continued engagement with all stakeholders, including governments, to support progress of open source frameworks.
- Lloyd's product innovation and simplification report to be published in the next month.



Performance

- Focus on returning to sustainable long-term profitability.
- Excellent progress through the first half of 2020.
- Performance improvement actions remain through 2021 business planning cycle.



Strategy

- Future at Lloyd's accelerating digital, data and technology transformation across the market.
- Lloyd's Underwriting Room reopened, alongside the launch of first virtual Underwriting Room.
- Blueprint update to be published in November 2020.



Culture

- Transforming Lloyd's culture central to our future success.
- Gender target of 35% female representation for leadership roles.
- Delivering against five initial actions to improve the experience of Black and Minority Ethnic talent.
- Launching second Annual Culture Survey in October.

Q&A

John Neal, Chief Executive Officer

Burkhard Keese, Chief Financial Officer

Appendix

Balance Sheet

£m	H1 2019	FY 2019	H1 2020
Cash and investments	74,761	73,193	78,442
Reinsurers' share of unearned premiums	5,627	3,700	5,743
Reinsurers' share of claims outstanding	19,469	19,897	22,522
Other assets	27,750	23,003	27,862
Total assets	127,607	119,793	134,569
Gross unearned premiums	(20,483)	(17,143)	(20,945)
Gross claims outstanding	(59,668)	(59,655)	(65,598)
Other liabilities	(15,021)	(12,356)	(15,184)
Net resources	32,435	30,638	32,842
Member assets	29,033	27,353	29,378
Central assets	3,402	3,285	3,464

Major losses

Largest net losses (£bn)	H1 2019	H1 2020
COVID-19	-	2.4
Tennessee Tornadoes	-	0.1
Australian Wildfires	-	0.1
Boeing 737 MAX Losses	0.1	-
Grand Bahama Shipyard	0.05	-
Brumadinho Dam Burst	0.05	-
Total	0.2	2.6

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