LLOYD'S

Aggregate Accounts

2021

Sharing risk to create a braver world

Aggregate Accounts 2021

Contents

At a Glance

Our purpose

Everything Lloyd's does is underpinned by one unifying purpose: sharing risk to create a braver world. Our purpose speaks to the aspiration and impact of the market and is as true today as it was in Edward Lloyd's coffee shop back in 1688.

Our strategic priorities at a glance

We will continue to focus on Lloyd's four strategic priorities, delivering value for our stakeholders operating in a complex and fast changing world. Our four strategic priorities are:

Performance

In 2021, the Lloyd's market reported a strong return to profitability, with an overall profit of £1,719m before tax (2020: loss of £1,870m) and a combined ratio of 94.3% (2020: 111.9%; 98.7% excluding COVID-19 losses). Lloyd's strong performance has been driven by our continued focus on portfolio management action, demonstrated by a 2.7% reduction in the attritional loss ratio (52.1% in 2020 reducing to 49.4% in 2021). Our focus on sustainable, profitable performance continues through 2022, and will be supported by the implementation of our new, principles-based oversight framework and delivering a differentiated approach to syndicate business planning.

Digitalisation

Blueprint Two continues to be at the heart of the Future at Lloyd's, striving to digitalise the Lloyd's market. The programme is focused on establishing clear and accurate data through the use of market-wide data standards, open market and delegated authority placement, and claims management, underpinned by effective digital processing. In doing so, we will deliver tangible efficiencies to the market, including reduced cost and complexity of doing business at Lloyd's.

Purpose

We have placed Environment, Social, Governance (ESG) at the heart of everything we do. In 2021, we committed to be net zero by 2050 and were invited to lead the Insurance Task Force, part of HRH The Prince of Wales's Sustainable Markets Initiative. The Task Force brings together global insurance leaders and firms to drive and accelerate the transition of our industry towards a resilient, net zero economy. We aim to lead the market by continuing to develop sustainable practices in 2022.

Culture

In 2021, we continued our commitment in building a solid foundation to create a diverse, inclusive and high-performing culture across the Society and the market. We met our short-term target of female representation in the board and executive committees and further reduced the gender pay gap. We also kept the momentum to establish a diverse workforce by setting an ambition for one in three new hires in the market and the Society to come from an ethnic minority background. We have also continued our work on social mobility in 2021 and were recognised as a Top 75 employer in the latest UK Social Mobility Employer Index.

Our Performance: financial key performance indicators

Gross written premium

£40.9bn

2020: £36.3bn

Profit before tax

£1,719m

2020: Loss before tax of (£1,870m)

Combined ratio

94.3%

2020: 111.9% (98.7% excluding COVID-19)

Expense ratio

36.0%

2020: 38.6%

Underwriting profit

£1,581m

2020: Underwriting loss of £(3,084m) including COVID-19 losses

Investment income

£133m

2020: £1,240m

Market-wide solvency coverage ratio

177%

2020: 147%

Read more about our performance in the 'Market Performance' section. The above metrics include alternative performance measures; see page 174 of the Lloyd's Annual Report 2021 for definitions.

Market Performance

Market results

The Lloyd's market reported an overall profit of £1,719m in 2021 (2020: loss of £1,870m) with a combined ratio of 94.3% (2020: 111.9%). The underwriting result is a profit of £1,581m (2020: loss of £3,084m), representative of continued improvement in underlying performance, driven by portfolio remediation and favourable market conditions. Net investment income was £133m (2020: £1,240m) and other income, including foreign exchange was £5m (2020: loss of £26m).

Underwriting Result

The underwriting profit of £1,581m includes the impact of major claims and benefit from prior year releases. Major claims contributed 10.9% to the combined ratio, significantly less than the 23.0% in 2020, as both the severity and frequency of events were less in 2021; 2020 was also more significantly impacted by COVID-19 losses. Prior year releases benefited the combined ratio by 2.0% (2020: 1.8%), with releases reported across most lines of business, except for the casualty insurance and reinsurance lines which have reported some strengthening.

Adjusting for the contribution from major claims, the Lloyd's market reported an underlying combined ratio of 83.4% for the 2021 financial year; a 5.5 percentage point improvement on the 88.9% reported for the 2020 financial year.

The main contributors to the improvement in the underlying combined ratio* is the reduction in the attritional loss ratio* and expense ratios*, which stands at 49.4% and 36.0% respectively, representing an 2.7 and 2.6 percentage point reduction from that reported for the 2020 financial year. The improvement in the attritional loss ratio is the result of the market's actions to drive sustainable profitable performance and continuing to sustain risk adjusted rate increases across a number of lines. The improvement in the market's expense ratio which, has reduced to 36.0% from 38.6% in 2020, is predominantly driven by a 2.7 percentage point improvement in the acquisition cost ratio. This is a continuation of the trend of a reducing expense ratio since 2017, with further reductions continuing to be expected from the Future at Lloyd's programme.

Gross written premiums increased 12.7% when compared with 2020, however excluding the impact of foreign exchange – mainly USD weakening against GBP – and growth from new syndicates, premium growth stands at 16.5%. The market has seen a period of sustained risk adjusted rate increases on renewal business, with the 16th consecutive quarter of positive rate movement being reported in the fourth quarter of 2021. Risk adjusted rate increases of 10.9% were reported in 2021 across all major lines of business and geographies. This was in addition to a net 5.6% increase in business volumes period on period, after allowing for volume growth where syndicates have demonstrated their ability to write business which contributes to sustainable profitable growth.

Investment review

The market reported net investment income of £133m in 2021, representing an investment return of 0.3% (2020: £1,240m, return of 3.0%).

Financial markets over 2021 were again dominated by the COVID-19 pandemic as new variants caused further lockdowns resulting in market volatility. Equity markets managed a positive return for the year as a whole whilst fixed income markets fared worse due to rises in inflation expectations and higher bond yields.

The Lloyd's market prudent asset allocation, with the majority of the portfolio held in government bonds, highly rated corporate bonds and cash, supports the delivery of an overall positive return.

Balance Sheet strength

The Lloyd's market-wide solvency ratio has increased to 177% from 147% at 31 December 2020. This increase reflects a reduction in the SCR (driven by the modelled benefits of the Central Fund cover and refinements in the modelling of syndicate risks), and an increase in eligible assets.

Subsequent to the balance sheet date, the ongoing conflict in Ukraine may have implications which are set out in note 20 to the Aggregate Accounts.

2021 Performance

Premium

Gross written premium for the year was £40,881m, compared with £36,280m in 2020.

The overall price change (taking into account terms and conditions) on renewal business was an increase of approximately 10.9%, which was above planning assumptions for the year. Positive price movements have been experienced for the past 16 consecutive quarters and across the majority of lines of business.

In addition to the pricing momentum, the market experienced volume increases in line with proposed business plans to expand into profitable lines of business. These volume increases have led to an increase in premium of 5.6%, compared with 2020.

US dollar denominated business continues to account for the majority of business written in the Lloyd's market. Weakening of US$ to GBP average rates of exchange has led to comparative reductions in premiums year on year.

Market Performance continued

Accident year ratio

The accident year ratio* excluding major claims has continued to improve, reducing to 85.4% (2020: 90.7%). 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 slightly better impact on the results than in 2020.

Attritional loss ratio*: the attritional loss ratio continued to improve in 2021, reducing to 49.4% (2020: 52.1%). 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.

Prior year development: Q4 2021 was the 16th consecutive year of prior year releases. The current year result has seen more benefit from prior year releases* at 2.0% of net earned premium (2020: 1.8%). There have been releases against all lines of business other than casualty and reinsurance.

In 2022, 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 36.0% (2020: 38.6%). Acquisition costs have accounted for the majority of the decrease, reducing to 23.5% of net earned premium from 26.2% in 2020; this is attributed to changes in mix of business through remediation as well as benefits from the better pricing environment. Administrative expenses have increased slightly in both sterling and as a percentage of net earned premium.

Major claims

Major claims for the market were £2,989m in 2021 (2020: £5,967m), net of reinsurance and including reinstatements payable and receivable.

Major losses for 2021 have arisen from three major CAT events, Hurricane Ida, US Winter Storm Uri and the European Floods with losses concentrated in property (D&F) and property treaty lines. COVID-19 loss estimates have remained stable and have had very little impact in the current year.

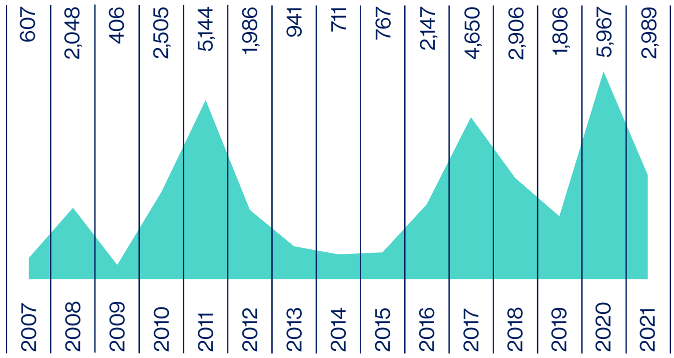
2021 also saw a decrease in the frequency of catastrophe loss activity with the Lloyd's market suffering insured losses from less than half the number of events experienced in 2020.

Major claims	% of net earned premium
2017	18.5
2018	11.1
2019	6.8
2020	23.0
2021	**10.9**
Five year average[1]	11.0
Ten year average[1]	10.2

Accident year ratio excl. major claims	%
2017	100.2
2018	98.8
2019	97.8
2020	90.7
2021	**85.4**
Five year average[1]	96.6
Ten year average[1]	95.2

1. Weighted by net earned premium. Averages exclude the impact of COVID-19.
* The accident year ratio, underlying combined ratio, attritional loss ratio, prior year release 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.

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



Five-year average: £3,662m; 15 year average: £2,290m. Indexed for inflation to 2021. Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

Prior year reserve movement	% of net earned premium
2017	(2.9)
2018	(3.9)
2019	(0.9)
2020	(1.8)
2021	**(2.0)**

Years of account in run-off	Number of years
2017	5
2018	0
2019	3
2020	9
2021	**9**

Reinsurance protection

The credit quality of the Lloyd's market's reinsurance protections remains extremely high, with 98% (2020: 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 (2020: 61.6% of gross written premium). There has been an increase in the overall reinsurance recoverables primarily due to catastrophe losses experienced during 2021 and the continuing 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 2021 and risk mitigation actions being taken to assist in the management of legacy exposures. The level of ultimate reinsurance recoverables relating to COVID-19 losses has remained static during 2021. No negative settlement trends have been witnessed to date.

Lloyd's outward reinsurance premium spend for the 2021 calendar year was 28.3% (2020: 28.4%) 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 2019 underwriting year of account reached closure at 31 December 2021. The 2019 pure underwriting year suffered losses from a number of catastrophic events, including Typhoons Hagibis and Faxai and Storm Dorian.

The 2019 pure underwriting year of account reported an underwriting loss that was partially offset by releases from 2018 and prior years, which were reinsured to close at the end of 2020. These releases amounted to £497m. Investment return on the 2019 underwriting year meant the total result was an overall loss of £953m (2018 underwriting year loss: £1,914m).

At the beginning of 2021, there were nine syndicates whose 2017 and 2018 underwriting years remained open. These run-off years reported an aggregate loss of £100m, including investment return, in 2021 (2020: loss of £2m). There were five syndicates whose 2017/2018 underwriting years remained open post 31 December 2021 in addition to four syndicates whose 2019 underwriting year has remained open. The total number of open underwriting years at 1 January 2022 remains as nine.

The results of the major lines of business are discussed in detail on pages 5 to 11.

The following line of business commentary is as disclosed in the 2021 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.

2021 performance

Lloyd's gross written premium for 2021 was £7,385m (2020: £6,627m), an increase of 11.4%. 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 102.8% (2020: 112.8%).

Weather related disasters continued to dominate in 2021, with circa $120bn of industry insured natural peril losses reported. The US was most significantly impacted, with Hurricane Ida and Winter Storm Uri being key drivers of results in this line of business at Lloyd's. Other regions also experienced extreme events, most notably Bernd in central Europe, where flash flooding and extreme rainfall resulted in insured losses in Germany being greater than any other natural disaster on record.

Prior year movement

The prior year movement was a release of 3.9%, calculated as net movement in ultimates, as a percentage of net earned premium (2020: release of 2.8%). Releases are generally expected as claims estimates for older losses become more certain. Experience on prior years has been favourable overall. There have been reductions in ultimate claims on some historical catastrophe events such as Typhoon Jebi (2018), California Wildfires (2018), Typhoon Faxai (2019) and Typhoon Hagibis (2019). These movements have been partially offset by deteriorations on the larger 2020 catastrophe events, in particular, Hurricane Laura and Hurricane Sally.

Looking ahead

There still remains a surplus of capacity in the reinsurance market, although this year there was a marked reduction in available capacity, particularly for lower level and aggregate covers. Initial indications suggest that pricing levels at 1 January 2022 varied significantly by region and whether or not loss impacted. However, overall there has been a continuation of positive rate momentum across most regions, which is expected to continue throughout the remainder of 2022 driven by increasing retro capacity costs, shifts in reinsurer risk appetite, inflation, near-term climatic considerations and a greater proportion of U.S. loss affected business renewing later in the year.

Cyber clauses and communicable disease clauses have now been widely adopted by the market, providing enhanced clarity. Terms and conditions at 1 January remained largely unchanged, with the focus rather being on price and programme structure, a trend which is expected to continue in 2022.

Reinsurance – Casualty

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

2021 performance

Lloyd's gross written premium for 2021 was £4,440m (2020: £3,321m), an increase of 33.7%. The Lloyd's reinsurance casualty line reported an accident year ratio of 88.9% (2020: 113.0%).

The casualty treaty market in 2021 maintained the trends of the previous year with the market continuing to experience tightening policy coverage and price strengthening in distressed and high exposure accounts across most lines of business. Capacity has started to return on better performing portfolios, but not to the detriment of underwriting discipline.

Motor excess of loss business continues to perform below expectations and still plays a very small part of Lloyd's overall business.

Prior year movement

The prior year movement was a strengthening of 8.1% (2020: release of 2.3%). Despite 2021 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 and some carriers have strengthened their reserves as a result of this.

Lloyd's continues to monitor casualty lines to ensure adequate provisions remain over all prior years. There is an increased level of oversight by Lloyd's and additional work being done by the market to monitor the robustness of reserves for this line during this period of heightened uncertainty.

Looking ahead

As we look ahead to 2022, Lloyd's will be specifically and closely monitoring social and economic inflation to develop better market understanding of the trend to ensure adequate and robust pricing and reserving in the market.

While new capacity coming to the market during 2021 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.

2021 performance

Gross written premium overall was £2,512m (2020: £2,211m), an increase of 13.6%. Gross written premium by sector within this specialty business was: Marine, Aviation and Transport £1,782m (2020: £1,506m), Energy £655m (2020: £702m), Life £75m (2020: £3m). The Lloyd's reinsurance specialty line reported an accident year ratio of 80.9% (2020: 101.1%).

Both marine and aviation lines have seen considerable improvement in market conditions in 2021 as a result of increasing pricing levels and remediated terms, in lieu of that an increase in appetite and capacity within Lloyd's has been noted. Concurrently claims inflation has been observed with unexpectedly large claim rewards emanating out of the US and losses susceptible to increased salvors' costs. All energy lines also achieved an increase in pricing levels in 2021 and capacity remained sufficient in the line, to the benefit of the growing renewables market.

Prior year movement

The prior year movement was a strengthening of 0.2% (2020: release of 6.0%). The claims experience for this line has performed broadly in line with expectations over 2021. This line is predominantly marine, aviation and motor business, written on an excess of loss basis.

Marine reinsurance has seen mixed claims experience on prior years, with favourable movements within this line of business for Typhoon Jebi (2018) and Hurricane Sandy (2011), offset by deteriorations on Hurricane Irma (2017). Likewise, aviation has seen deteriorations on losses arising from the grounding of the Boeing 737 MAX fleet, partially offset by a lack of large loss activity on 2020 and 2021 accident years. 2020 year of account has performed favourably over 2021, due to benign claims experience resulting from a reduction in economic activity due to COVID-19.

Looking ahead

A continuation of positive pricing levels is anticipated in all lines albeit not to the extent achieved in recent years. Green initiatives within marine such as the poseidon principles will lead to greater emphasis on sustainable shipping. Aviation exposures are expected to return to pre-COVID-19 levels within the first half of the year as the travel industry recovers from the impact of the pandemic, as such premium levels are expected to increase in accord with that, however price increases will be tempered due to the policy restructuring with regard to minimum and deposit premiums implemented during the pandemic. With respect to energy, the capacity for traditional oil and gas exposures is expected to remain stable, while some writers' appetites and go-forward portfolios may be impacted by ESG strategies and a clients energy transition outlook in regard to particular exposures eg thermal coal. Opportunity to write sustainable energy exposures is expected to be plentiful given the anticipated investment in wind, solar and battery farms globally.

Market Performance continued

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.

2021 performance

Lloyd's gross written premium for 2021 was £9,587m (2020: £9,227m), an Increase of 3.9%. The Lloyd's property line reported an accident year ratio of 104.7% (2020: 135.4%).

2021 was impacted by catastrophic losses, with Winter Storm Uri and Hurricane Ida having materially affected many syndicates writing business in US geographies. Elsewhere, material events occurred across parts of central Europe, South Africa, Australia and Canada. As a result, while we are seeing positive benefits feeding through on the attritional loss ratios, the loss ratio catastrophe component remains under pressure and a challenge to the market delivering against its agreed performance plans for 2021.

We also observed further de-risking of catastrophe exposures by some syndicates and a continued refinement of some syndicates risk appetite, following a number of natural catastrophe losses in 2021.

Deal flow continued to remain reasonably robust through 2021 to London, albeit growing competition levels both in London and in global domestic markets, was more evident and we expect this to be a continuing factor, as we move into 2022 on the volume and nature of business.

Prior year movement

The prior year movement was a release of 9.9% (2020: release of 3.5%). 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 losses suffered during the 2021 calendar year on property direct and facultative open market and binder business, in both US and non-US lines.

There has been deterioration on 2020 accident year catastrophe events during 2021. In particular, Hurricane Sally and Hurricane Zeta have been subject to adverse movements. Hurricane Ida has also impacted some carriers on the 2020 year of account. This has been offset by favourable movements on older catastrophe events such as Hurricanes Harvey, Irma and Maria (2017), Hurricane Florence (2018), Hurricane Michael (2018) and the 2017 and 2018 California Wildfire events.

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 business and also on non-US open market business. Difference in conditions and power generation lines are also performing favourably to expectations.

Terrorism business continues to be cautiously reserved across the market, with favourable claims experience on recent prior years.

Looking ahead

Pricing levels for 2022 are expected to show continued positive movement and to build on actions taken during 2021 and prior years by the market. Higher reinsurance costs, inflationary pressures, together with climate uncertainties and availability of catastrophe aggregates are expected additionally to impact momentum in 2022 pricing levels. We anticipate greater competitive pressures in 2022 and syndicates will need to remain focused and disciplined to successfully execute and deliver upon their approved 2022, plans. This is of critical importance where material growth Is being sought, and not to compromise the hard work done by the market in recent years.

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.

2021 performance

Lloyd's gross written premium for 2021 was £10,360m (2020: £9,067m), an increase of 14.3%. The casualty market has seen significant pricing change in almost all lines of business, particularly cyber and directors' and officers' liability. Lloyd's casualty line reported an accident year ratio of 95.6% (2020: 105.2%).

During 2021, the market hardening continued while capacity remained stable overall. There has been a pronounced shift away from certain lines, exposures and occupations. In particular cyber lines saw significant repricing, with capacity also becoming more restricted for certain sectors. The increases seen on D&O over the past three years are starting to slow down but remain positive. 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, such as cyber, seeing material 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 significant focus on performance management and remediation has resulted in a continuation of the growth seen in the cyber insurance products into 2021, 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 continued price hardening, with underwriting discipline being maintained.

Losses in the contingency line of business, due to the impact of COVID-19, have slowed dramatically with almost all policies now excluding coverage. There are still some major events that include pandemic cover, as they are written many years in advance, however there is less likelihood of these policies incurring losses due to the vaccine roll-out and the ability to run events with appropriate health and safety precautions.

Market Performance continued

Prior year movement

The prior year movement was a strengthening of 4.7% (2020: a strengthening of 5.1%).

During 2021, syndicates have strengthened their casualty reserves on prior years. Deteriorations have been reported on a number of casualty lines, most notably on financial lines such as directors & officers and professional indemnity insurance.

Cyber has also seen a rise in claims on 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 affecting 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 current macro view on concerns such as social inflation, we would generally expect a greater level of uncertainty in this line being factored into the reserves. There is an increased level of oversight by Lloyd's and additional work being done by the market, to monitor the robustness of reserves for this line during this period of heightened uncertainty.

Looking ahead

As with casualty reinsurance, there has, and continues to be, a growing focus on social and economic 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 are experiencing an increase in active regulation and litigation. This has been accompanied by increased capacity for litigation funding driven to a large extent driven by persistent low interest rates.

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 line. 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.

2021 performance

Lloyd's gross written premium for 2021 was £2,909m (2020: £2,976m), a decrease of 2.3%. The Lloyd's marine, aviation and transport line reported an accident year ratio of 90.0% (2020: 98.2%).

Following on from recent years' remediation efforts in the Marine portfolio, including significant compound rate increase as well as tightening of wordings and conditions, both gross and net of reinsurance results are significantly improved upon where they were two or three years ago. While the double digit rate increases that we have been seeing are slowing, the rating environment remains positive going into 2022. One of the key indicators of the improved performance of the marine portfolio and the corrective actions taken by underwriters, is the improvement in attritional loss ratio.

Owing to COVID-19 there was a significant reduction in Aviation exposures; however, as a part of remediation efforts within the line, minimum and deposit premiums were applied to the majority of business from 2020 onwards. As a result of corrective actions, reduction in exposure and improved rating environment, we have seen the gross loss ratio of the Aviation line improve 45-50% for the years of 2020-21 compared with 2017-19. Currently performance for aviation business is well within plan on both a gross and net of reinsurance basis.

Prior year movement

The prior year movement was a release of 8.0% (2020: release of 8.5%).

On marine lines, there is a tendency for the view of claims to be held for a number of years to allow for inherent uncertainty and so releases are common. Overall, these lines of business have performed favourably against expectations over 2021, particularly on 2020 year of account with reduced economic activity due to COVID-19. Favourable experience has been evident on marine cargo and hull, with many carriers reporting benign claims experience on prior years. On marine liability, experience has been mixed across the market, with some carriers reporting favourable experience and others reporting deteriorations following late claims development on prior years. 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 have been reductions on overall losses due to Hurricane Irma (2017). In contrast, there have been increases on some 2020 catastrophe events, such as the tornadoes affecting Tennessee.

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 the 2019 year of account. However, there has been a small decrease in the ultimate position for the Boeing loss over 2021 and there has been limited large loss experience on the 2020 year of account. Aviation lines have also benefited from reduced economic activity due to COVID-19 on the 2020 year of account. Many carriers are reporting benign attritional claims experience as a result of reduced exposures due to the pandemic.

Looking ahead
After another year of significant rate rises, the pace of those rises is expected to slow for marine business; however, it is expected to remain positive with just single-digit, as opposed to double-digit, increases. The demonstrably improved results from previous years has attracted more capacity to the market, both from new entrants into Lloyd's and also on company market paper. We are expecting to see in the region of 10% growth in exposure written into the marine portfolio at Lloyd's in 2022.

As aviation exposures are expected to be coming back online after the slow down for COVID-19 throughout 2020-2021, both gross and net of reinsurance ratios are planned to increase slightly from the last two years. In a similar vein to marine, aviation has seen an increase in capacity and following on from the very high double-digit compound rate increases over recent years and significantly improved results. However, the effects of the invasion of Ukraine may further impact the aviation line.

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.

2021 performance
Gross written premium for the Lloyd's energy line in 2021 was £1,262m (2020: £1,265m), a decrease of 0.2%. The Lloyd's energy line reported an accident year ratio of 98.0% (2020: 99.2%).

The pricing environment across all energy property and casualty lines remained positive throughout 2021. There does remain a disparity between the upstream and downstream lines, given the differing fortunes of recent years, however that gap closed significantly during the year in regard to the percentage of pricing increases being implemented. Downstream lines, along with Power, continued to report double digit price increases, albeit to a lesser degree than in 2020, in comparison with lower single digit for upstream property and exploration and production exposures. Once again despite an active Atlantic windstorm season, the Gulf of Mexico remained relatively unscathed and energy lines have once again benefited from a benign year in regard to natural catastrophe losses with the exception of Winter Storm Uri in the US very early in the year.

Prior year movement
The prior year movement was a release of 6.5% (2020: release of 8.2%). The energy line of business has seen continued prior year reserve releases over 2021. 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 favourably. There has been limited movement on historical catastrophe events, with the exception of Hurricane Laura (2020), where losses have deteriorated. Given that the energy lines are 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. This is evident across the market with insurers reporting releases on incurred but not reported (IBNR) following benign claims experience on prior year of account with respect to both specific events and attritional claims.

Looking ahead
While a deceleration of increasing pricing levels is expected in 2022, the forecast remains positive for pricing and no weakening of terms and conditions are anticipated. The remedial actions taken by the market in respect of downstream property and casualty will see yet more capacity return in 2022, with pricing and terms and conditions vastly improved from pre-2019. Fortunately, despite an abundance of available capacity the competitive Upstream market remains relatively stable in terms of underwriting disciplines.

Substantial developments globally in the renewable energy sector will provide Lloyd's energy underwriters with increased opportunity in 2022. In light of poor underwriting profitability to date, particularly in offshore wind, the market will need to remediate on terms and pricing and it is anticipated that markets entering the space will need to learn from the lessons of the past to navigate the sector sustainably and profitably. Lloyd's has implemented risk codes specific to renewable energy written at Lloyd's and will for the first time be able to capture and attain direct oversight of the size, growth and underwriting performance of these exposures as a subset of broader energy and power generation portfolios.

For 2022 the nuclear line of business will see the impacts of the Paris/Brussels conventions with additional heads of cover, increasing property damage limits and longer liability periods being factored into placements. Lloyd's Futureset continues to work closely with the Lloyd's energy markets and policyholders to identify new and emerging trends and technologies, as well as insurance gaps, in support of a policyholders energy transition.

Motor
Lloyd's motor market primarily covers international motor insurance 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.

2021 performance
Gross written premium in 2021 was £713m (2020: £720m), a decrease of 1.0%. The Lloyd's motor line reported an accident year ratio of 101.0% (2020: 95.5%).

Following a number of years of competitive pricing, international motor has continued to see positive trends with more price strengthening during 2021, as well as a focus on increased deductibles and tightening of terms and conditions.

In the UK, the pricing levels achieved during 2021 are under pressure from competitors with a continued focus on performance management and remediation by Lloyd's.

Prior year movement
The prior year movement was a release of 7.2% of net earned premium (2020: release of 2.2%). This is driven by favourable claims experience against expectation for both UK and overseas motor, possibly driven by reduced economic activity due to COVID-19.

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 in particular in a rising inflationary environment. Lloyd's will therefore continue to monitor motor performance closely.

Market Performance continued

Reinsurance

Property		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	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)
	2021	**7,385**	**102.8**	**(3.9)**	**98.9**	**54**

Casualty		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	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)
	2021	**4,440**	**88.9**	**8.1**	**97.0**	**99**

Specialty		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	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
	2021	**2,512**	**80.9**	**0.2**	**81.1**	**336**

Market Performance continued

Insurance

Property		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	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)
	2021	**9,587**	**104.7**	**(9.9)**	**94.8**	**336**

Casualty		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	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)
	2021	**10,360**	**95.6**	**4.7**	**100.3**	**(17)**

Marine, Aviation and Transport		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	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
	2021	**2,909**	**90.0**	**(8.0)**	**82.0**	**388**

Energy		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	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
	2021	**1,262**	**98.0**	**(6.5)**	**91.5**	**71**

Motor		Gross written premium £m	Accident year ratio %	Prior year movement %	Combined ratio %	Underwriting result £m
	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
	2021	**713**	**101.0**	**(7.2)**	**93.8**	**35**

Council

The following were members of the Council of Lloyd's during 2021:

Bruce Carnegie-Brown	**Karen Green**
John Neal	**Andy Haste** (term expired 31 October 2021)
Burkhard Keese	**Fiona Luck**
Andrew Brooks	**Neil Maidment**
Victoria Carter (appointed as Deputy Chair of the Council 1 September 2021)	**Lord Mark Sedwill** (appointed as Senior Independent Deputy Chairman 3 December 2021)
Dominic Christian	**Patrick Tiernan** (appointed 4 May 2021)
Angela Crawford-Ingle	**Nameco (No 1249) Limited** (represented by Jeffery Barratt)
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 they 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 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 12, was approved by the Council of Lloyd's on 23 March 2022.

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 2021 Lloyd's Aggregate Accounts

Opinion

In our opinion:

- the Aggregate Accounts for the financial year ended 31 December 2021 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 information given in the Annual Report of the Council of Lloyd's (as defined in the Regulations and set out on pages 1-12) for the financial year ended 31 December 2021 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 2021; 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 1-12, 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 17 December 2021. 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.

Other required reporting

Under the terms of our engagement we have agreed to report to you if, in our opinion, we have not obtained all the information and explanations, which, to the best of our knowledge and belief, are necessary for the purposes of this independent reasonable assurance report. We have no exceptions to report arising from this responsibility.

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

24 March 2022

Aggregate Profit and Loss Account

(For the year ended 31 December 2021)

	Note	2021 £m	2021 £m	Restated 2020 £m	Restated 2020 £m
Technical account					
Gross written premiums	4	40,881		36,280	
Outward reinsurance premiums		(11,565)		(10,302)	
Written premiums, net of reinsurance			29,316		25,978
Change in the provision for unearned premiums					
Gross amount		(2,280)		(4)	
Reinsurers' share		465		33	
Change in the net provision for unearned premiums			(1,815)		29
Earned premiums, net of reinsurance			27,501		26,007
Allocated investment return transferred from the non–technical account			68		1,051
Other technical income, net of reinsurance			26		12
			27,595		27,070
Claims paid					
Gross amount		20,423		21,895	
Reinsurers' share		(7,161)		(6,877)	
			13,262		15,018
Change in provision for claims					
Gross amount		4,096		6,218	
Reinsurers' share		(1,340)		(2,175)	
			2,756		4,043
Claims incurred, net of reinsurance			16,018		19,061
Net operating expenses	7		9,928		10,042
Balance on the technical account for general business			1,649		(2,033)
Non–technical account					
Balance on the technical account for general business			1,649		(2,033)
Investment return	8	133		1,240	
Allocated investment return transferred to the technical account		(68)		(1,051)	
Investment return retained in non-technical account		65		189	
Foreign exchange gains/(losses)		8		(19)	
Other expenses		(3)		(7)	
Balance on the non-technical account			**70**		163
Result for the financial year before tax			**1,719**		(1,870)

All operations relate to continuing activities.

Aggregate Statement of Comprehensive Income

(For the year ended 31 December 2021)

	2021 £m	Restated 2020 £m
Other comprehensive income/(losses)		
Result for the financial year before tax	1,719	(1,870)
Currency translation differences	12	32
Other recognised (losses)/gains per syndicate annual accounts	(14)	12
Total comprehensive income/(loss) for the year	**1,717**	(1,826)

Aggregate Statement of Changes in Members' Balances

(For the year ended 31 December 2021)

	2021 £m	Restated 2020 £m
Members' balances brought forward at 1 January	(270)	(178)
Profit/(loss) for the financial year	1,719	(1,870)
Net losses collected from members' personal reserve	2,109	1,461
Capital transferred (out of)/into syndicate premium trust funds	(1,296)	333
Exchange gains/(losses)	32	(2)
Other movements	(32)	(14)
Members' balances carried forward at 31 December	**2,262**	(270)

Aggregate Balance Sheet

(As at 31 December 2021)

	Note	£m	2021 £m	£m	Restated 2020 £m
Financial investments	9		42,054		38,524
Deposits with ceding undertakings			959		71
Reinsurers' share of technical provisions					
Unearned premiums	12	4,376		3,874	
Claims outstanding	12	25,177		22,337	
			29,553		26,211
Debtors					
Debtors arising out of direct insurance operations	10	10,489		8,900	
Debtors arising out of reinsurance operations	11	9,752		9,408	
Other debtors		1,252		1,307	
			21,493		19,615
Other assets					
Cash at bank and in hand	16	2,981		2,749	
Other		3,336		3,148	
			6,317		5,897
Prepayments and accrued income					
Accrued interest and rent		99		106	
Deferred acquisition costs	12	4,565		4,148	
Other prepayments and accrued income		159		172	
			4,823		4,426
Total assets			**105,199**		94,744
Capital and reserves					
Members' balances			2,262		(270)
Technical provisions					
Provision for unearned premiums	12	19,373		17,029	
Claims outstanding	12	68,502		65,250	
			87,875		82,279
Deposits received from reinsurers			1,734		727
Creditors					
Creditors arising out of direct insurance operations	14	871		1,106	
Creditors arising out of reinsurance operations	15	8,875		7,811	
Other creditors		2,499		2,128	
			12,245		11,045
Accruals and deferred income			1,083		963
Total liabilities			**105,199**		94,744

Approved by the Council of Lloyd's on 23 March 2022 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 2021)

	Note	2021 £m	Restated 2020 £m
Profit/(loss) before tax		1,719	(1,870)
Increase in gross technical provisions		5,528	4,845
Increase in reinsurers' share of technical provisions		(3,526)	(1,616)
Increase in debtors		(2,109)	(529)
Increase in creditors		795	409
Movement in other assets/liabilities		78	(170)
Investment income	8	(133)	(1,240)
Foreign exchange		24	278
Other		(6)	–
Net cash flows from operating activities		2,370	107
Investing activities			
Purchase of equity and debt instruments		(36,866)	(29,131)
Proceeds from sale of equity and debt instruments		33,241	27,797
Purchase of derivatives		(455)	(621)
Proceeds from sale of derivatives		427	608
Investment income received		582	850
Other		(209)	(178)
Net cash outflow from investing activities		(3,280)	(675)
Financing activities			
Net funds received from members		2,109	1,461
Net capital transferred (out of)/into syndicate premium trust funds		(1,296)	333
Other		(4)	(25)
Net cash inflow from financing activities		809	1,769
Net (decrease)/increase in cash and cash equivalents		(101)	1,201
Cash and cash equivalents at 1 January		4,543	3,351
Exchange differences on opening cash and cash equivalents		(1)	(9)
Cash and cash equivalents at 31 December	16	**4,441**	4,543

Notes to the Aggregate Accounts

(For the year ended 31 December 2021)

1. Basis of preparation

Basis of reporting

The Aggregate Accounts as at 31 December 2021 have been prepared by totalling the annual accounts of the syndicates reporting as at 31 December 2021. This includes reporting of the audited results for calendar year 2021 and the financial position at 31 December 2021 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 2021, a number of syndicates made restatements to the comparative figures for 2020 within their annual accounts and the Aggregate Accounts have been restated accordingly. The restatements improved the original reported loss of £1,876m by £6m and increased the original members' balances of £(276m) by £6m.

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 claims incurred but not reported. Variances between the estimated and actual cost of settling claims incurred impact change in provision for claims, gross and reinsurers' share, and the balance on the technical account for general insurance. Total gross outstanding claims at 31 December 2021 is £68,502m (2020: £65,250m). The total estimate as at 31 December 2021, net of reinsurers' share, is £43,325m (2020: £42,913m) and is included within the aggregate balance sheet (see accounting policy in note 2 and note 12 (c);

– 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 inputs 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

Premiums written

Premiums written represent premiums on business incepting during the year, together with adjustments for premiums written in previous accounting periods. Premiums written 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 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 premium 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

Where there is expected to be a lengthy period 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

Such provisions are 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 generally 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

This 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.

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 six 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 and Governance Committee, the Remuneration Committee, the Audit Committee, the Risk Committee; the other committees of the council include the Market Supervision and Review Committee, the Environmental, Social and Governance Committee, the Capacity Transfer Panel, the Investment Committee and the Technology & Transformation 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 2021 was 35% (2020: 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 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 them – 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

This 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 2021, 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 2021 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	2011 and prior years £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	**2021 £m**	Total £m
At end of underwriting year		8,329	7,137	7,302	7,053	8,703	16,730	13,761	10,438	11,807	**14,622**	
One year later		13,505	13,430	13,866	14,562	18,925	26,914	25,022	22,857	21,427		
Two years later		13,793	13,606	14,733	15,410	20,428	28,810	27,343	23,394			
Three years later		13,551	13,289	14,582	16,368	21,144	28,957	27,402				
Four years later		13,521	13,074	15,594	16,555	21,398	29,079					
Five years later		13,360	13,498	15,646	16,787	21,645						
Six years later		13,888	13,577	15,697	16,756							
Seven years later		14,019	13,529	15,622								
Eight years later		13,980	13,444									
Nine years later		13,985										
Cumulative payments		12,891	12,312	13,796	14,050	17,229	22,665	18,417	11,730	7,086	**2,954**	
Estimated balance to pay	4,256	1,094	1,132	1,826	2,706	4,416	6,414	8,985	11,664	14,341	**11,668**	68,502

Net

Underwriting year	2011 and prior years £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	**2021 £m**	Total £m
At end of underwriting year		6,285	5,887	5,880	5,631	6,725	9,552	8,991	7,505	8,273	**10,671**	
One year later		10,693	11,007	11,202	11,548	14,158	16,750	16,748	16,159	14,692		
Two years later		10,878	11,131	11,657	12,093	15,025	18,149	18,203	15,910			
Three years later		10,809	10,759	11,542	12,224	15,445	18,240	17,960				
Four years later		10,529	10,577	11,596	12,504	15,361	18,011					
Five years later		10,425	10,702	11,780	12,580	15,347						
Six years later		10,621	10,654	11,824	12,386							
Seven years later		10,622	10,619	11,628								
Eight years later		10,568	10,497									
Nine years later		10,475										
Cumulative payments		9,776	9,788	10,512	10,813	12,795	14,242	12,644	8,545	5,219	**2,467**	
Estimated balance to pay	2,549	699	709	1,116	1,573	2,552	3,769	5,316	7,365	9,473	**8,204**	43,325

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

2021	**Neither past due nor impaired £m**	**Past due £m**	**Impaired £m**	**Total £m**
Debt securities	33,235	–	–	33,235
Participation in investment pools	667	–	–	667
Loans with credit institutions	125	–	–	125
Deposits with credit institutions	1,194	–	–	1,194
Derivative assets	15	–	–	15
Other investments	113	–	–	113
Deposits with ceding undertakings	959	–	–	959
Reinsurers' share of claims outstanding	25,183	–	(6)	25,177
Cash at bank and in hand	2,981	–	–	2,981
Total	**64,472**	**–**	**(6)**	**64,466**

2020 Restated	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	1,116	–	–	1,116
Derivative assets	94	–	–	94
Other investments	114	–	–	114
Deposits with ceding undertakings	71	–	–	71
Reinsurers' share of claims outstanding	22,344	–	(7)	22,337
Cash at bank and in hand	2,749	–	–	2,749
Total	57,075	–	(7)	57,068

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 2021 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.

2021	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	11,222	9,272	8,415	3,719	607	33,235
Participation in investment pools	161	175	92	29	210	667
Loans with credit institutions	19	45	17	–	44	125
Deposits with credit institutions	304	81	454	48	307	1,194
Derivative assets	–	1	2	–	12	15
Other investments	3	3	2	–	105	113
Deposits with ceding undertakings	17	3	847	5	87	959
Reinsurers' share of claims outstanding	293	6,677	16,105	145	1,963	25,183
Cash at bank and in hand	163	298	2,418	47	55	2,981
Total credit risk	**12,182**	**16,555**	**28,352**	**3,993**	**3,390**	**64,472**

2020 Restated	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	356	77	388	45	250	1,116
Derivative assets	–	1	2	–	91	94
Other investments	5	2	1	–	106	114
Deposits with ceding undertakings	–	–	6	–	65	71
Reinsurers' share of claims outstanding	415	4,857	14,561	289	2,222	22,344
Cash at bank and in hand	121	217	2,261	70	80	2,749
Total credit risk	10,276	13,513	25,859	3,746	3,681	57,075

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.

2021	No stated maturity £m	0-1yr £m	1-3yrs £m	3-5yrs £m	>5yrs £m	Total £m
Claims outstanding	–	22,668	24,280	10,503	11,051	68,502
Derivatives	–	23	–	–	–	23
Deposits received from reinsurers	456	433	348	165	332	1,734
Creditors	789	9,839	1,356	200	38	12,222
Other liabilities	4	123	1	–	–	128
Total	**1,249**	**33,086**	**25,985**	**10,868**	**11,421**	**82,609**

2020 Restated	No stated maturity £m	0-1yr £m	1-3yrs £m	3-5yrs £m	>5yrs £m	Total £m
Claims outstanding	–	22,251	23,033	10,222	9,744	65,250
Derivatives	–	21	–	–	–	21
Deposits received from reinsurers	560	119	36	8	4	727
Creditors	1,034	9,157	772	48	13	11,024
Other liabilities	15	98	1	–	–	114
Total	1,609	31,646	23,842	10,278	9,761	77,136

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 the 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 2021, 68% (2020: 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:

2021	**Sterling £m**	**US dollar £m**	**Euro £m**	**Canadian $ £m**	**Australian $ £m**	**Other £m**	**Total £m**
Financial investments	6,005	27,674	1,942	5,703	355	375	42,054
Reinsurers' share of technical provisions	4,683	21,861	1,356	1,107	468	78	29,553
Insurance and reinsurance receivables	3,129	14,745	936	624	532	275	20,241
Cash at bank and in hand	659	1,376	377	131	284	154	2,981
Other assets	1,417	5,408	541	1,099	1,379	526	10,370
Total assets	**15,893**	**71,064**	**5,152**	**8,664**	**3,018**	**1,408**	**105,199**
Technical provisions	15,686	58,246	5,545	5,271	2,345	782	87,875
Insurance and reinsurance payables	1,279	7,411	397	394	196	69	9,746
Other creditors	1,266	3,418	191	272	87	82	5,316
Total liabilities	**18,231**	**69,075**	**6,133**	**5,937**	**2,628**	**933**	**102,937**
Total capital and reserves	**(2,338)**	**1,989**	**(981)**	**2,727**	**390**	**475**	**2,262**

2020 Restated	Sterling £m	US dollar £m	Euro £m	Canadian $ £m	Australian $ £m	Other £m	Total £m
Financial investments	5,231	25,450	2,055	5,144	333	311	38,524
Reinsurers' share of technical provisions	4,155	19,168	1,356	953	489	90	26,211
Insurance and reinsurance receivables	2,736	13,355	947	559	420	291	18,308
Cash at bank and in hand	530	1,204	492	74	266	183	2,749
Other assets	1,375	4,441	424	944	1,432	336	8,952
Total assets	14,027	63,618	5,274	7,674	2,940	1,211	94,744
Technical provisions	15,113	53,650	5,635	4,682	2,236	963	82,279
Insurance and reinsurance payables	1,030	6,834	433	313	178	129	8,917
Other creditors	1,257	2,130	86	207	53	85	3,818
Total liabilities	17,400	62,614	6,154	5,202	2,467	1,177	95,014
Total capital and reserves	(3,373)	1,004	(880)	2,472	473	34	(270)

3. Risk management continued

Sensitivity analysis

A 10% strengthening or weakening of 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.

2021	Impact on result before tax £m	Impact on members' balances £m
Strengthening of US dollar	240	240
Weakening of US dollar	(196)	(196)
Strengthening of euro	(109)	(109)
Weakening of euro	89	89

2020 Restated	Impact on result before tax £m	Impact on members' balances £m
Strengthening of US dollar	290	290
Weakening of US dollar	(237)	(237)
Strengthening of euro	(98)	(98)
Weakening of euro	80	80

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.

2021	Impact on result before tax £m	Impact on members' balances £m
+ 50 basis points	(460)	(460)
- 50 basis points	454	454

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

3. Risk management continued

Financial risk – equity price risk

This 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).

2021	**Impact on result before tax £m**	**Impact on members' balances £m**
5% increase in equity markets	99	99
5% decrease in equity markets	(99)	(99)

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)

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 5 - 11.

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:

2021	Gross written premiums £m	Gross premiums earned £m	Gross claims incurred £m	Operating expenses £m	Reinsurance balance £m	Result £m
Accident and health	770	751	(373)	(295)	(38)	45
Motor (third-party liability)	118	116	(69)	(22)	(13)	12
Motor (other lines)	597	611	(374)	(203)	(11)	23
Marine, aviation and transport	4,244	4,024	(2,167)	(1,164)	(232)	461
Fire and other damage to property	8,392	8,091	(4,506)	(2,404)	(688)	493
Third-party liability	10,030	8,988	(6,162)	(2,460)	(435)	(69)
Pecuniary loss	1,244	1,182	(607)	(358)	(103)	114
Life	48	48	(13)	(16)	(6)	13
Other	15	15	(5)	(10)	–	–
Total direct insurance	25,458	23,826	(14,276)	(6,932)	(1,526)	1,092
Reinsurance acceptances	15,423	14,775	(10,243)	(2,970)	(1,073)	489
Balance on the technical account for general business	**40,881**	**38,601**	**(24,519)**	**(9,902)**	**(2,599)**	**1,581**

2020 Restated	Gross written premiums £m	Gross premiums earned £m	Gross claims incurred £m	Operating expenses £m	Reinsurance balance £m	Result £m
Accident and health	776	862	(697)	(354)	20	(169)
Motor (third-party liability)	107	102	(61)	(20)	(12)	9
Motor (other lines)	615	755	(405)	(252)	(53)	45
Marine, aviation and transport	4,220	4,271	(2,364)	(1,266)	(335)	306
Fire and other damage to property	8,160	8,149	(6,029)	(2,397)	(453)	(730)
Third-party liability	8,399	8,347	(6,345)	(2,474)	(12)	(484)
Pecuniary loss	1,253	1,392	(3,477)	(406)	1,023	(1,468)
Life	52	59	(37)	(20)	(8)	(6)
Other	15	14	(13)	(10)	1	(8)
Total direct insurance	23,597	23,951	(19,428)	(7,199)	171	(2,505)
Reinsurance acceptances	12,683	12,325	(8,685)	(2,831)	(1,388)	(579)
Balance on the technical account for general business	36,280	36,276	(28,113)	(10,030)	(1,217)	(3,084)

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 2021 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 5-11 of the Aggregate Accounts.

2021	**Gross written premiums £m**	**Net earned premium £m**	**Net incurred claims £m**	**Net operating expenses £m**	**Underwriting result £m**
Reinsurance	14,337	10,107	(6,649)	(2,969)	489
Property	9,587	6,551	(3,442)	(2,773)	336
Casualty	10,360	6,408	(3,670)	(2,755)	(17)
Marine, Aviation and Transport	2,909	2,159	(903)	(868)	388
Energy	1,262	835	(468)	(296)	71
Motor	713	567	(307)	(225)	35
Life	48	30	(1)	(16)	13
Total from syndicate operations	**39,216**	**26,657**	**(15,440)**	**(9,902)**	**1,315**
Transactions between syndicates and the Society and insurance operations of the Society				426	426
PFFS premiums and underwriting result	**39,216**	**26,657**	**(15,440)**	**(9,476)**	**1,741**
Allocated investment return transferred from the non-technical account					48
Balance on the technical account for general business					**1,789**

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)
Adjustments in the Annual Report not made in the Aggregate Accounts				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)

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

	2021 £m	2020 (restated)* £m
United Kingdom	24,261	22,879
Other EU member states	2	2
Rest of the World	616	426
Total	**24,879**	23,307

*Restated to be consistent with the basis of the 2021 disclosure.

5. Life business

The Aggregate Accounts include the results of all life and non-life syndicates transacting business during 2021. 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 £552m (2020: surplus of £461m). The surplus arises across all lines of business, except for the casualty and reinsurance lines of business, reflecting favourable claims development compared with projections in these lines.

7. Net operating expenses

	2021 £m	2020 Restated £m
Acquisition costs	8,911	8,597
Change in deferred acquisition costs	(377)	234
Administrative expenses	2,664	2,532
Reinsurance commissions and profit participations	(1,270)	(1,321)
Total	**9,928**	10,042

Total commissions for direct insurance accounted for in the year amounted to £5,650m (2020: £5,508m).

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:

	2021 £000	2020 £000
Audit-related assurance services in respect of the Aggregate Accounts	126	123
Total	**126**	123

8. Investment return

Interest and similar income	2021 £m	2020 £m
From financial instruments designated as at fair value through profit or loss	577	659
From available for sale investments	30	32
Dividend income	22	17
Interest on cash at bank	26	29
Other interest and similar income	12	24
Investment expenses	(53)	(52)
Total	**614**	709

Other income from investments designated as at fair value through profit or loss	2021 £m	2020 £m
Realised (losses)/gains	(79)	120
Unrealised (losses)/gains	(399)	412
Other relevant losses	(3)	(1)
Total	**(481)**	531
Total investment return	**133**	1,240

9. Financial investments

	2021 £m	2020 Restated £m
Shares and other variable yield securities	6,705	6,613
Debt securities and other fixed-income securities	33,235	29,974
Participation in investment pools	667	490
Loans and deposits with credit institutions	1,319	1,239
Other investments	128	208
Total	**42,054**	38,524

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 categorised at Level 3. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset.

2021	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	1,955	3,162	1,587	6,704	1	6,705
Debt and other fixed income securities	9,809	23,415	11	33,235	–	33,235
Participation in investment pools	382	284	1	667	–	667
Loans and deposits with credit institutions	549	700	70	1,319	–	1,319
Other investments	10	9	109	128	–	128
Total investments	**12,705**	**27,570**	**1,778**	**42,053**	**1**	**42,054**
Derivative liabilities	(5)	(15)	(3)	(23)	–	(23)
Total liabilities	**(5)**	**(15)**	**(3)**	**(23)**	**–**	**(23)**

2020 Restated	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	1,787	3,524	1,300	6,611	2	6,613
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	680	30	1,239	–	1,239
Other investments	–	99	109	208	–	208
Total investments	10,822	26,251	1,449	38,522	2	38,524
Borrowings	–	–	–	–	(15)	(15)
Derivative liabilities	(8)	(12)	(1)	(21)	–	(21)
Total liabilities	(8)	(12)	(1)	(21)	(15)	(36)

10. Debtors arising out of direct insurance operations

	2021 £m	2020 Restated £m
Due within one year	10,336	8,822
Due after one year	153	78
Total	**10,489**	8,900

11. Debtors arising out of reinsurance operations

	2021 £m	2020 Restated £m
Due within one year	9,022	8,746
Due after one year	730	662
Total	**9,752**	9,408

12. Technical provisions and deferred acquisition costs

a) Provisions for unearned premiums

2021	Gross £m	Reinsurers' share £m	Net £m
At 1 January	17,029	3,874	13,155
Premiums written in the year	40,881	11,565	29,316
Premiums earned in the year	(38,601)	(11,100)	(27,501)
Exchange/other movements	64	37	27
At 31 December	**19,373**	**4,376**	**14,997**

2020 Restated	Gross £m	Reinsurers' share £m	Net £m
At 1 January	17,375	3,933	13,442
Premiums written in the year	36,280	10,302	25,978
Premiums earned in the year	(36,276)	(10,269)	(26,007)
Exchange/other movements	(350)	(92)	(258)
At 31 December	17,029	3,874	13,155

b) Deferred acquisition costs

	2021 £m	2020 Restated £m
At 1 January	4,148	4,435
Change in deferred acquisition costs	377	(234)
Exchange movements	31	(63)
Other	9	10
At 31 December	**4,565**	4,148

12. Technical provisions and deferred acquisition costs continued
c) Claims outstanding

2021	Gross £m	Reinsurers' share £m	Net £m
At 1 January	65,250	22,337	42,913
Claims paid during the year	(20,423)	(7,161)	(13,262)
Claims incurred during the year	24,519	8,501	16,018
Exchange movements	249	138	111
Other*	(1,093)	1,362	(2,455)
At 31 December	**68,502**	**25,177**	**43,325**

*Other movements include reinsurance to close (RITC) and loss portfolio transfers, which have led to a decrease in gross claims outstanding and an increase in reinsurers' share of claims outstanding respectively.

2020 Restated	Gross £m	Reinsurers' share £m	Net £m
At 1 January	60,546	20,773	39,773
Claims paid during the year	(21,895)	(6,877)	(15,018)
Claims incurred during the year	28,113	9,052	19,061
Exchange movements	(1,355)	(434)	(921)
Other	(159)	(177)	18
At 31 December	65,250	22,337	42,913

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:

	Average discounted rates		Average mean term of liabilities	
Line of business	**2021 %**	2020 %	**2021 years**	2020 years
Motor (third-party liability)	2.17	1.84	26.70	30.14
Motor (other lines)	3.00	3.00	4.57	5.59
Third-party liability	3.03	3.44	23.73	21.74

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	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Total claims provisions	1,347	1,293	(307)	(309)	1,040	984
Reinsurers' share of total claims	817	433	(189)	(66)	628	367

14. Creditors arising out of direct insurance operations

	2021 £m	2020 Restated £m
Due within one year	867	1,093
Due after one year	4	13
Total	**871**	1,106

15. Creditors arising out of reinsurance operations

	2021 £m	2020 Restated £m
Due within one year	7,687	7,085
Due after one year	1,188	726
Total	**8,875**	7,811

16. Note to the statement of cash flows

	2021 £m	2020 Restated £m
Cash at bank and in hand	2,981	2,749
Short-term deposits with credit institutions	1,758	2,045
Overdrafts	(298)	(251)
Total	**4,441**	4,543

Of the cash and cash equivalents, £368m (2020: £720m) 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 2021, 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 2021 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 2021, there was £3,797m (2020: £5,005m) 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.

20. Events after the reporting period

Invasion of Ukraine

The Russian invasion of Ukraine will have short, medium, and long-term impacts on both Lloyd's performance and balance sheet. The primary sources of risk relate to underwriting exposure arising from sanctions, exposure within investment portfolios and the impact on operations. There is a high degree of uncertainty around the eventual outcomes at this point and we continue to monitor the situation closely.

Lloyd's direct premium derived from Russia and Ukraine is less than 1% of total GWP. Indirect underwriting exposures arise mainly across the Aviation, Marine, Trade Credit and Political Risk lines of business. Our assessment of the potential financial impact is ongoing and we are actively working with the Lloyd's market to continue our assessment of the situation. We are also working closely with governments and regulators across the world to ensure we interpret and enact sanctions requirements at pace, together with other legal and regulatory obligations.

Our investments and assets under management are largely fixed income and our strategic asset allocation has limited direct exposure to the crisis; our indirect exposures are also minimal and both direct and indirect exposures account for less than 1% of total invested assets across the chain of security.

The situation is fast evolving, and in order to respond swiftly to developments, we have set up an executive response group that meets daily to monitor the situation and respond to government actions. The group are continually assessing the operational impact upon the Society and Lloyd's market and remains in close consultation and communication with market participants.

At this early stage, it is difficult to assess the full financial impact of this crisis, however there are no indications that this will impact the Lloyd's market or the Society of Lloyd's ability to satisfy regulatory capital requirements or meet their financial obligations.

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