LLOYD'S

# Annual Results

# 2019

Analyst & Investor Presentation
Thursday 26 March 2020

# Overview

**John Neal**
**Chief Executive Officer**

# FY 2019 key messages

**Profit of £2.5bn**

**Positive rate momentum continues in 2019**

**Strong balance sheet and reserves**

**2020 priorities**

# FY 2019 key messages

- The Lloyd’s market profit for 2019 stands at £2.5bn (2018: a loss of £1.0bn), which represents an increase of £3.5bn.
- Return on capital for 2019 is 8.8%.

- Premium rate increases were experienced across all lines of business and were above plan.
- Planned profitability on the 2019 year has been reaffirmed by the market.

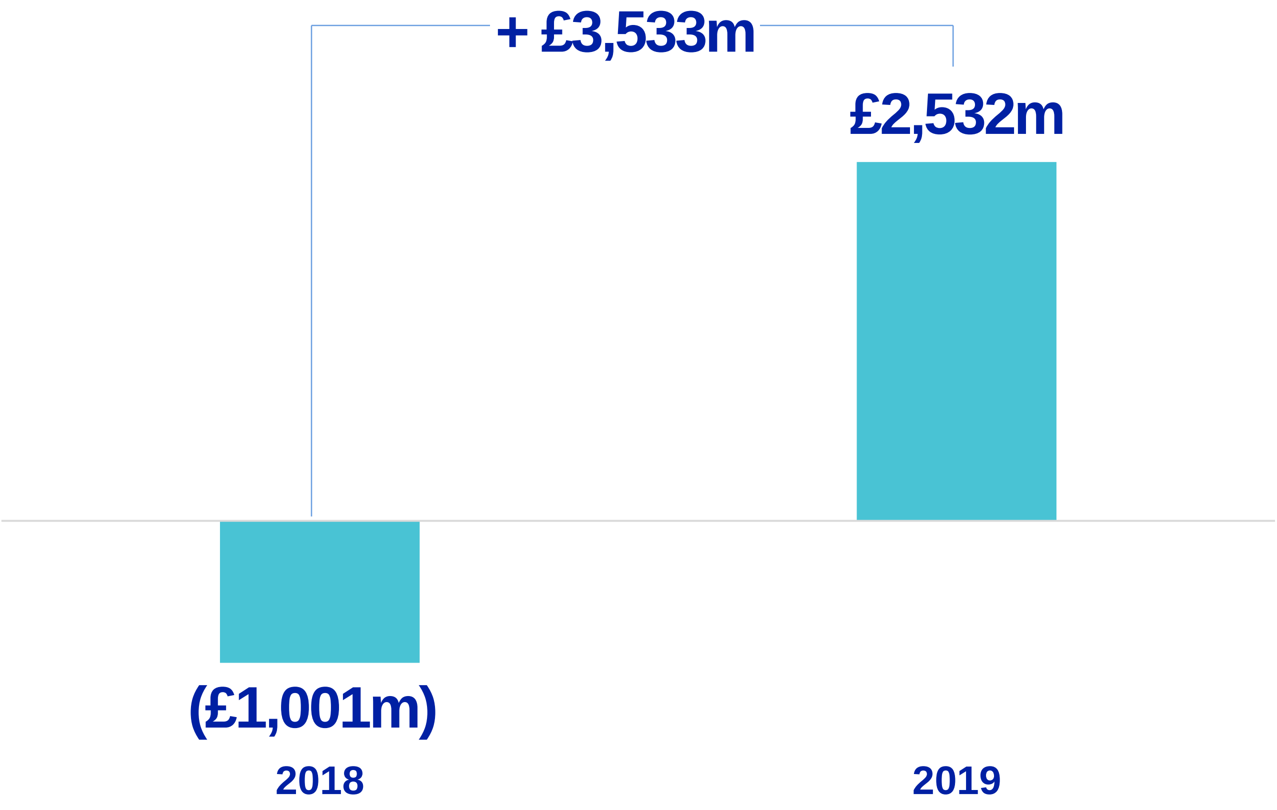
- Net resources have increased by £2.4bn (8.6%) to £30.6bn, reflecting an exceptionally strong balance sheet.
- A reduced level of prior year releases (0.9%) in 2019 due to a greater level of uncertainty around claims development in certain longer-tail classes was offset by below average major claims experience (7.0%).

- All of these factors help build confidence that a return to underwriting profit will be delivered in 2020, subject to major claims experience.

# Financials

**Burkhard Keese**
**Chief Financial Officer**

# Return to profit




Return on capital: (3.7%) +8.8%

# Return to profit

– The market result for 2019 is a profit of £2.5bn (2018: loss of £1.0bn). This represents a £3.5bn increase in profit  year on year.

– We paid claims of £23.0bn in 2019, delivering on our promise to customers.

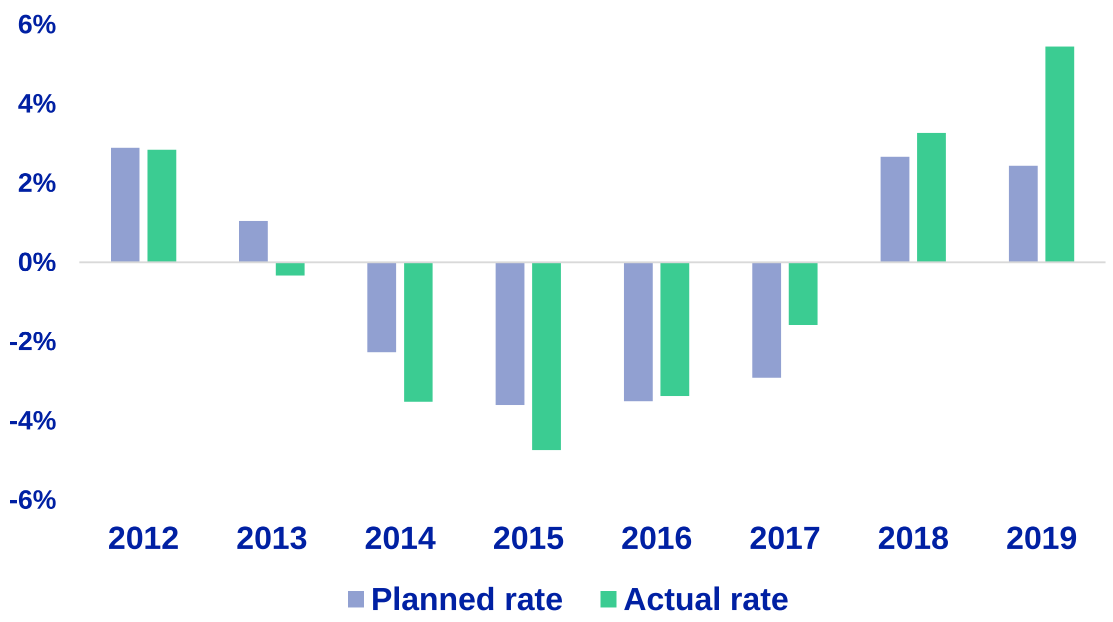
– In 2019, investment income is the driver of the profit, and at £3.5bn, represents a return of 4.8% (2018: £0.5bn and 0.7%).

– The combined ratio stands at 102.1% (2018: 104.5%).

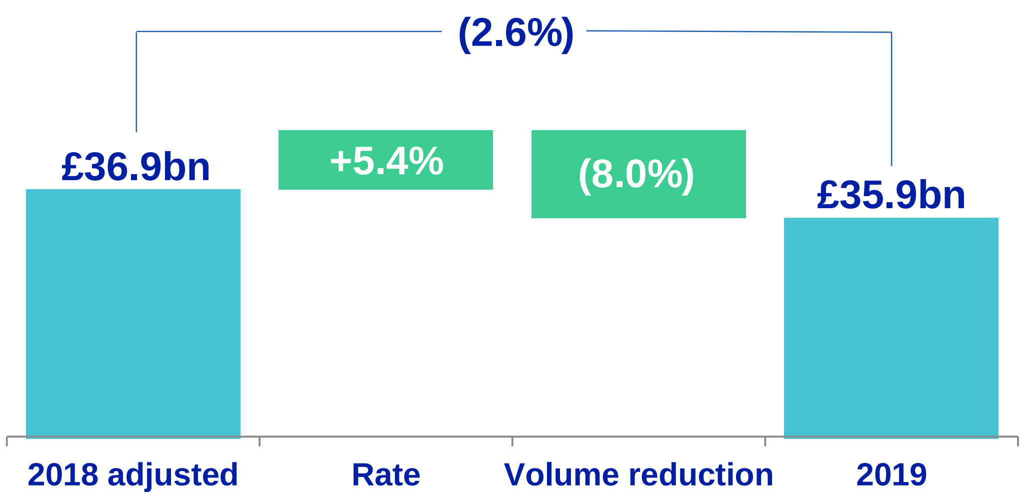
– Return on capital stands at 8.8% (2018: (3.7%)); an improvement of 12.5%.

# A better priced portfolio

## Rate change 2012-2019

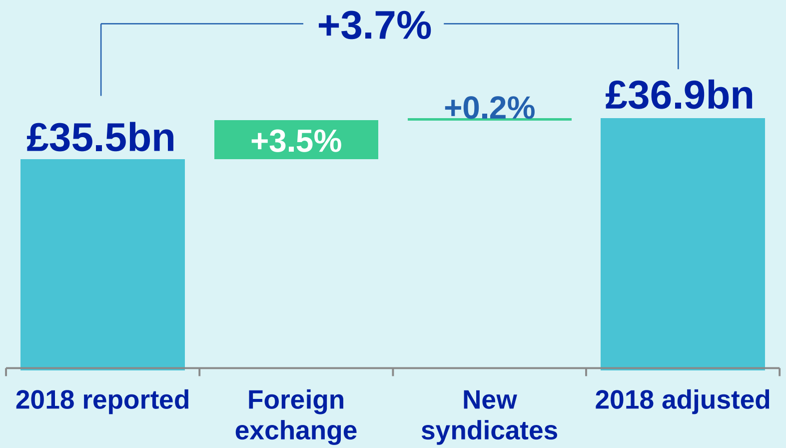



## Premium changes 2018-2019



# A better priced portfolio

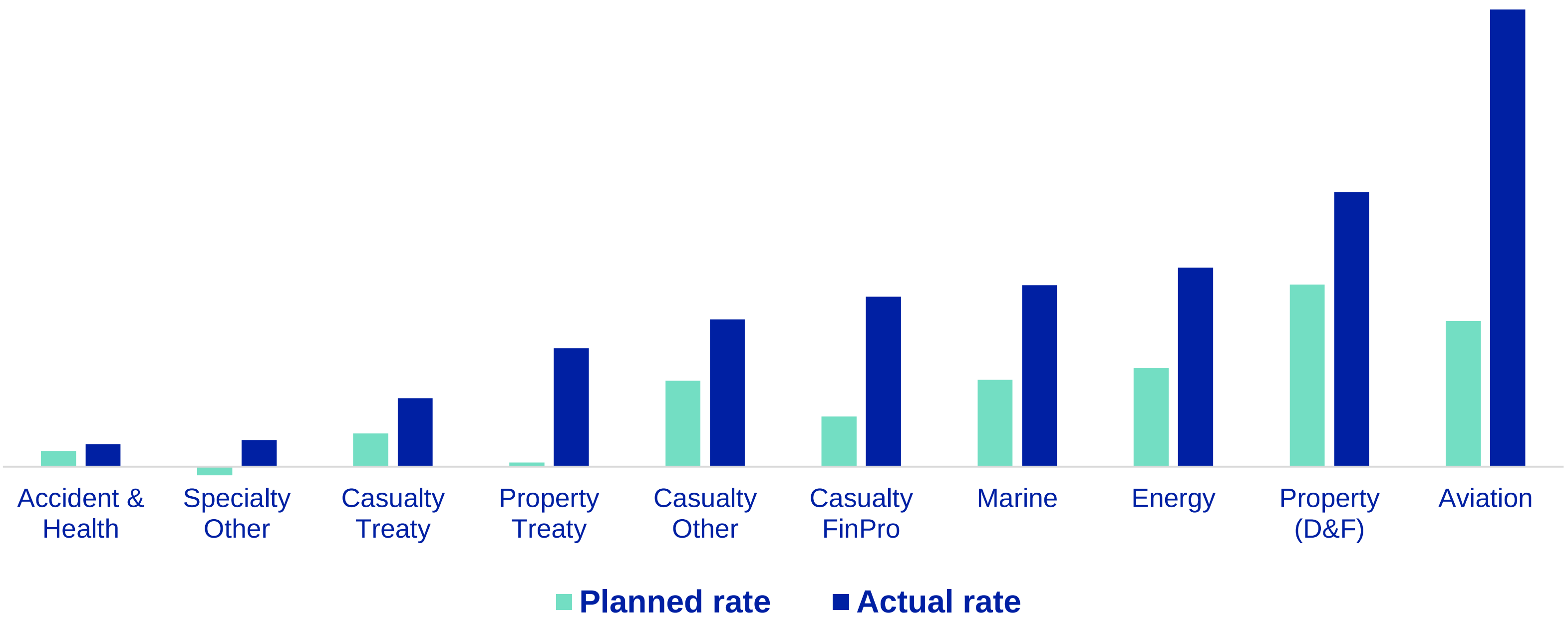
- Pleased with progress market made in 2019 but still presenting an underwriting loss.
- Positive momentum continues at year end 2019, building on the underwriting performance actions delivered in 2018.
- Ninth consecutive quarter of positive rate movement and continues in Q1 2020.
- 2019 rate increases exceeded plan month on month.
- Still more to do to improve price adequacy in specific classes of business.



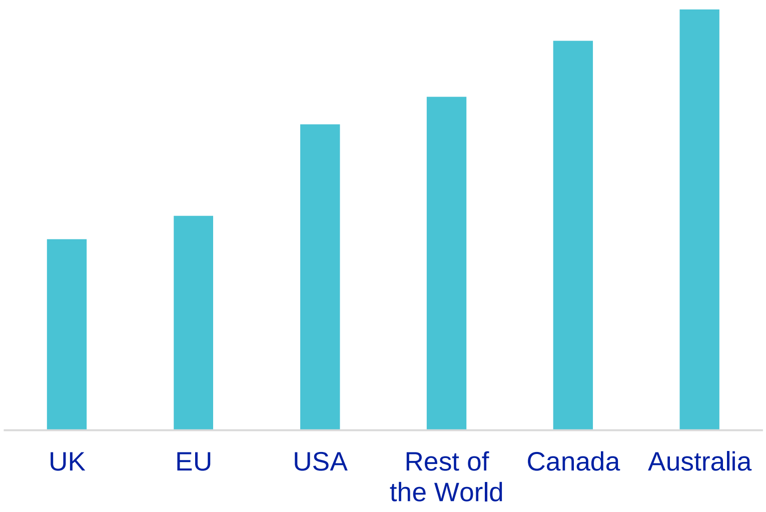

- Reductions in underlying business volumes, which were anticipated following the challenge and approval of the 2019 business plans, have generated a 8.0% decrease in premium.
- This is offset by positive risk adjusted rate increases on renewal business of 5.4%, the ninth consecutive quarter of positive rate increases.
- This overall reported underlying reduction in premium of 2.6% since 2018. Taking into account foreign exchange movements and growth from new syndicates, overall premium has grown 1.1%.
- Foreign exchange movement, driven by average US dollar rates strengthening against sterling throughout 2019 has contributed nominal growth in overall premium of 3.5%.

# Rate by class of business & geography

**2019 risk adjusted rate change by class of business**




**2019 risk adjusted rate change by geography**



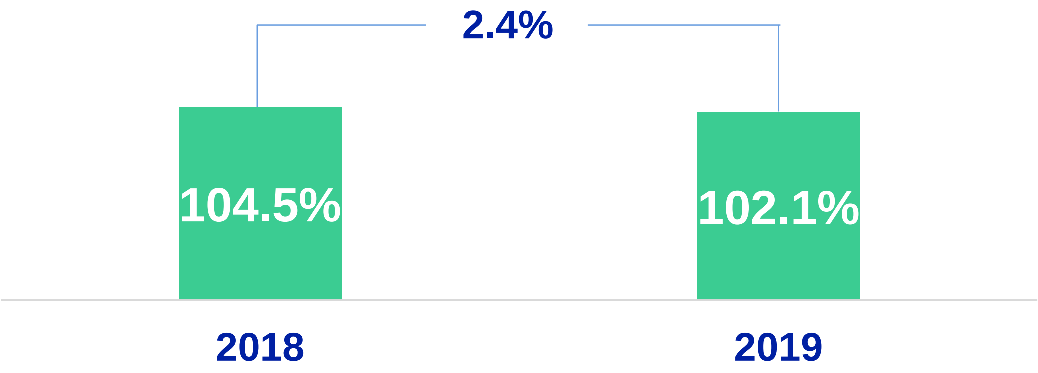
# Rate by class of business & geography

- Lloyd's 10 classes of business all achieved positive risk adjusted rate in 2019.
- Lloyd's 10 classes of business all exceeded 2019 rate plan.
- Classes with performance challenges including Aviation, Property D&F, Energy and Marine recorded the highest rate increases and exceeded rate plans by at least 2%.
- Best performing classes also achieved positive rate change.
- Continued positive rate planned throughout 2020.

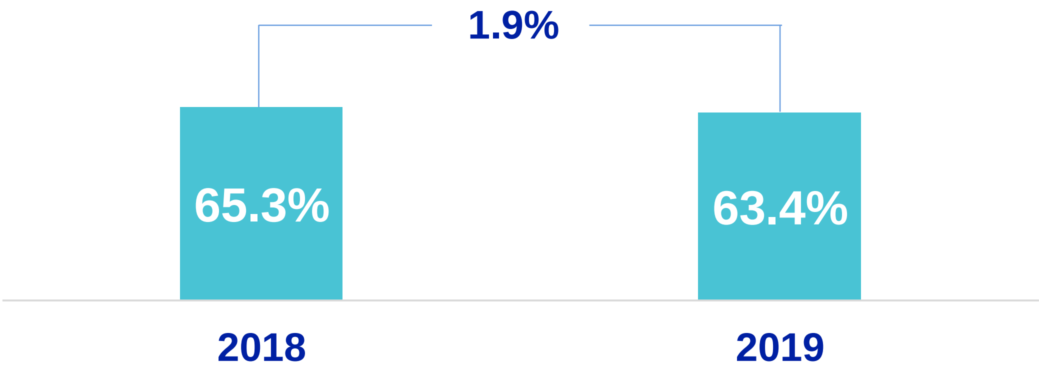
- All geographies achieving positive rate change.
- Australia and Canada lead the way with the largest rate changes, with figures both in excess of 7%.
- Growth in USA driven by positive rate change of 5.6% in Property Treaty and Property D&F classes; now better rated business following 2017 and 2018 catastrophe losses.
- Moderate shrinkage across the market with higher rate change offset by exposure reductions, as syndicates continue to take underwriting action to improve performance.

# Improved underwriting result

## Combined ratio improvement




## Loss ratio improvement



# Improved underwriting result

– The combined ratio has improved by 2.4% to 102.1% (2018: 104.5%). This improvement in the combined ratio is driven by a 1.9% improvement in the loss ratio and a 0.5% improvement in the expense ratio.

– The largest component of the 1.9% reduction in the loss ratio since 2018 is the reduction in major claims (reduced from 11.6% to 7.0%).

– This reduction has been offset by a reduction in the amount of prior year releases the market have made (from 3.9% to 0.9%).

– The attritional loss ratio has improved marginally since 2018, reducing to 57.3% in 2019 from 57.6% in 2018.

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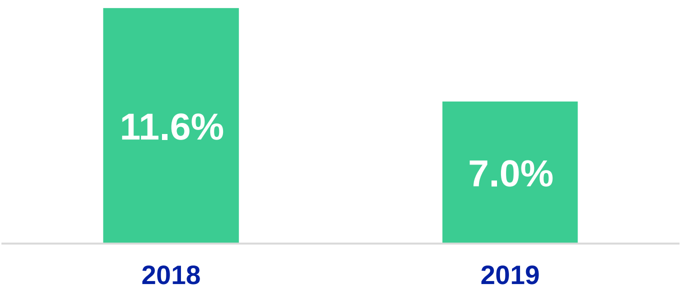
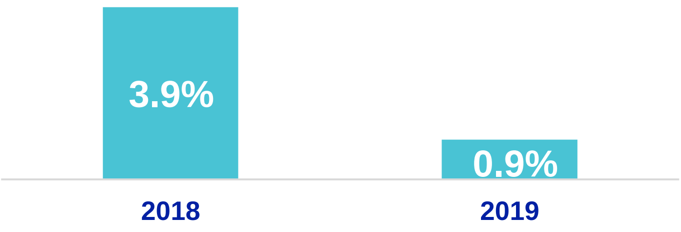
# Components of loss ratio[1]

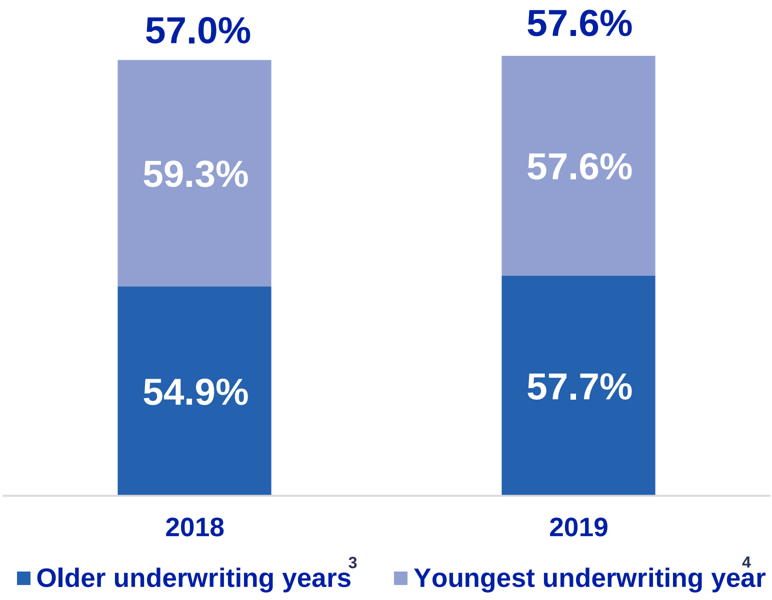
## Major claims




## Prior year releases




## Attritional loss ratio (active syndicates)[2]



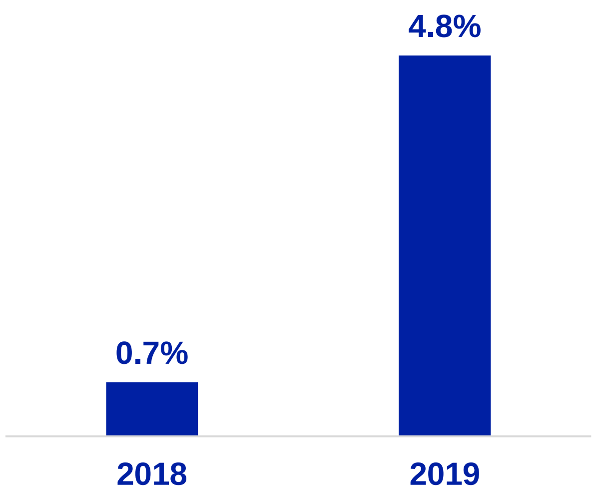

1: The 1.9% improvement in total loss ratio is broken down as follows:
(a) 4.6% improvement in major claims; (b) 3.0% deterioration in prior year results; and (c) 0.3% improvement in attritional losses.
2: The attritional loss ratio chart presented is for active syndicates only. For these syndicates, there has been 0.6% deterioration in the attritional loss ratio since 2018. This is driven by the older underwriting years. When looking at the ratio for all syndicates, the attritional loss ratio has improved by 0.3%, from 57.6% in 2018 to 57.3% for 2019.
3: At 2019 the older underwriting years are 2018 and prior (2018: 2017 and prior). In 2019, the older underwriting years had net earned premium of £14.6bn (2018: £13.8bn).
4: At 2019 the youngest underwriting year is 2019 (2018: 2018). In 2019, the youngest underwriting year had net earned premium of £10.7bn (2018: £10.5bn).

# Components of loss ratio

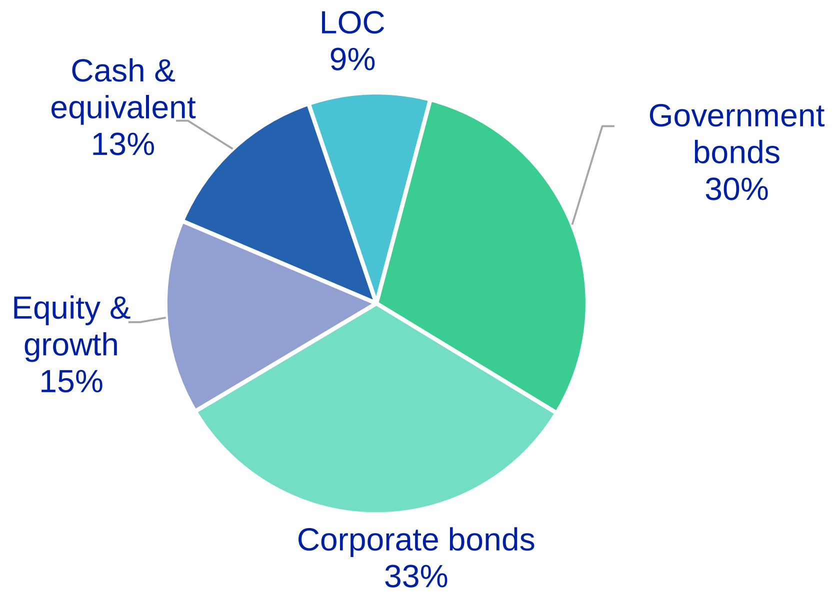
- Total net prior year releases reduced to £232m (0.9%) in 2019, from £976m (3.9%) in 2018.
- Latent claim development in the 2017 and 2018 underwriting years, including Typhoon Jebi (a 2018 loss, which has deteriorated from £0.6bn in 2018 to £0.9bn in 2019) have significantly deteriorated the loss ratio on these years.
- The casualty and aviation classes reported prior year strengthening. US casualty business and some notable aviation losses have contributed to this position.
- Excluding the impact of strengthening in US casualty and aviation, prior year releases are approx. 3% of net earned premium, more in line with previous years' experience.
- The 2019 underwriting year shows a 1.7% improvement in the attritional loss ratio for active syndicates when compared to the 2018 underwriting year at the same point in time.
- There has been deterioration in the loss ratio noted in the more developed underwriting years (2018 and 2017 versus 2017 and 2016 at the 24 and 36 month stages of development respectively).
- Major claims for 2019 amounted to £1.8bn, 7.0% of NEP (2018: £2.9bn, 11.6% of NEP).
- The long-term (15 year) average for major claims is £2.1bn (10.6% of NEP).

# Strong investment return on high quality assets

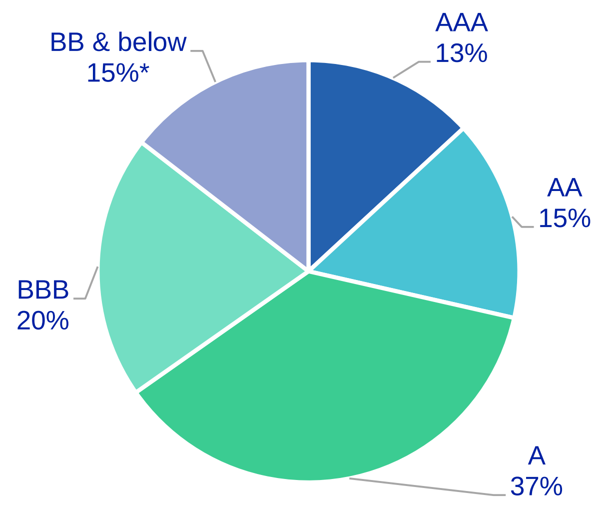
## Investment return




## Asset allocation as at Dec 2019




## Corporate bonds by rating




*BB & below includes bonds where rating has not been submitted by the market.

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# Strong investment return on high quality assets

- A very strong investment return in 2019 with reported income of £3.5bn (4.8%).
- A major improvement on 2018 when reported investment return was £0.5bn (0.7%).
- Key drivers include a strong performance on corporate bond investments and high returns from equity and growth asset.
- Fair value gains on US government bonds was also a notable contributor to return.

- Conservative asset mix and high quality portfolio remained nearly unchanged compared to 2018.
- Cash & equivalents along with government bonds account for more than half of the overall portfolio.
- Equity and risk assets account for a minor share at 16%.
- Investment grade corporate bonds make up the remaining third of assets.
- We estimate an investment loss of £1.8bn over the most recent capital market turmoil (to 19 March 2020).

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# Profit and Loss

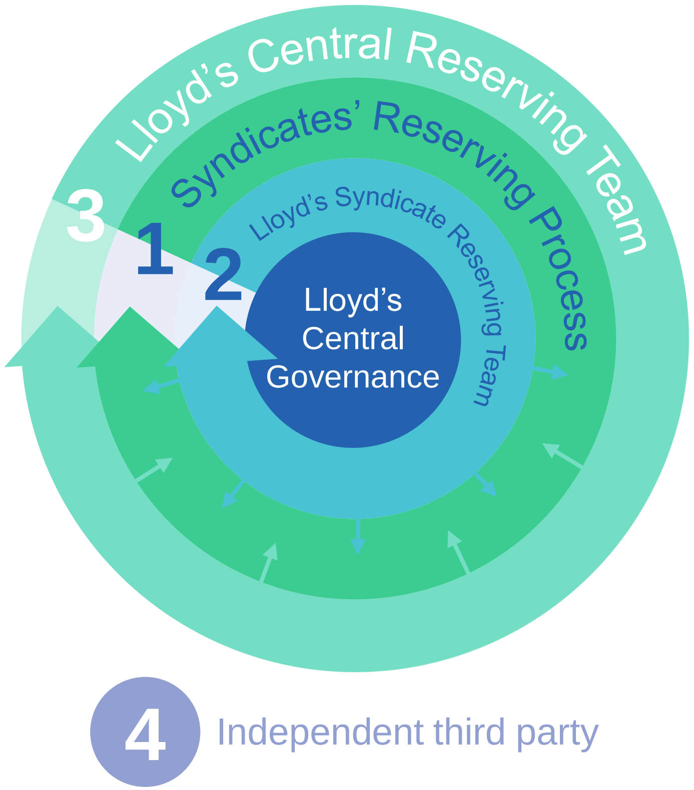
| £m | 2018 | 2019 | Change |
|---|---|---|---|
| Gross written premium (GWP) | 35,527 | 35,905 | +1% |
| Net earned premium (NEP) | 25,178 | 25,821 | +3% |
| Net incurred claims | (16,438) | (16,361) | (0%) |
| Operating expenses | (9,870) | (9,998) | +1% |
| **Underwriting result** | **(1,130)** | **(538)** | |
| Net investment income | 504 | 3,540 | +602% |
| Other expenses and FX | (375) | (471) | +26% |
| **Profit/(loss) before tax** | **(1,001)** | **2,531** | |

| | | | |
|---|---|---|---|
| **Loss ratio** | **65.3%** | **63.4%** | (1.9%) |
| **Expense ratio** | **39.2%** | **38.7%** | (0.5%) |
| *Acquisition cost ratio* | *27.3%* | *27.5%* | *+0.3%* |
| *Admin expenses ratio* | *11.9%* | *11.2%* | *(0.6%)* |
| **Combined ratio** | **104.5%** | **102.1%** | (2.4%) |

# Profit and Loss

- Profit for the period of £2.5bn comprised of an underwriting loss of £0.5bn, net investment income of £3.5bn and other expenses and foreign exchange costs of £0.5bn.
- The expense ratio has improved by 0.5% to 38.7% (2018: 39.2%) in 2019. Whilst operating expenses have increased 1% compared to 2018, the increase in expenses has been less than the growth in net earned premium.
- This expense reduction is driven by a decrease in the administrative expense ratio by 0.7%, although there has also been a slight increase in the acquisition cost ratio by 0.2%.
- Reduced administrative expenses were experienced, reflecting the continued effort by the market to reduce expenses through cost management initiatives, as well as the impact of class closures from the 2019 underwriting year planning exercise. This is expected to continue into 2020.
- Investment income has been significant in 2019: reported income is £3.5bn representing a return on invested assets of 4.8%. In 2018, reported income was £0.5bn with a return of 0.7%. Mark to market movements led to significant gains in the year.

# Robust reserving oversight




## Syndicate level

### 1. Syndicate view

— All syndicates hold reserves at a best estimate or above.

— The market-level net earned held reserves are relatively stable at £39.7bn compared to £40.9bn 2018 year-end.

### 2. Signing actuary view

— All syndicates hold reserves at or above an independent signing actuary's best estimate. Over 93% of syndicates hold reserves in excess of the signing actuary's view.

— The market-level surplus in the held reserves compared against the signing actuaries' best estimate is 6.5%, which is consistent with the 2018 year-end results.

## Market aggregate level

### 3. Central Lloyd's view

— Lloyd's central view as at 2018 year-end is that market-level reserves contain more surplus than the aggregate of the signing actuaries' view.

### 4. Independent view

— Independent reserve review as at 2018 year-end confirmed the market level of surplus estimated by the Corporation.

# Robust reserving oversight

- 2019 year-end Statements of Actuarial Opinion (SAOs) reported a consistent view of the surplus in net of reinsurance earned held reserves compared to the prior year.
- Reserve strengthening on casualty has occurred where it has had to, mostly where there is exposure to jury awards.
- US casualty is not driving up overall reserves beyond previous levels and reserve releases are still occurring on some casualty lines.
- Deteriorations on the 2019 Year of Account predominantly attributed to Japanese Typhoons, Dorian, or large loss (non-cat) in addition to strengthening of casualty assumptions.
- There will need to be continued emphasis on making sure that reserving assumptions appropriately reflect the changing claims environment.

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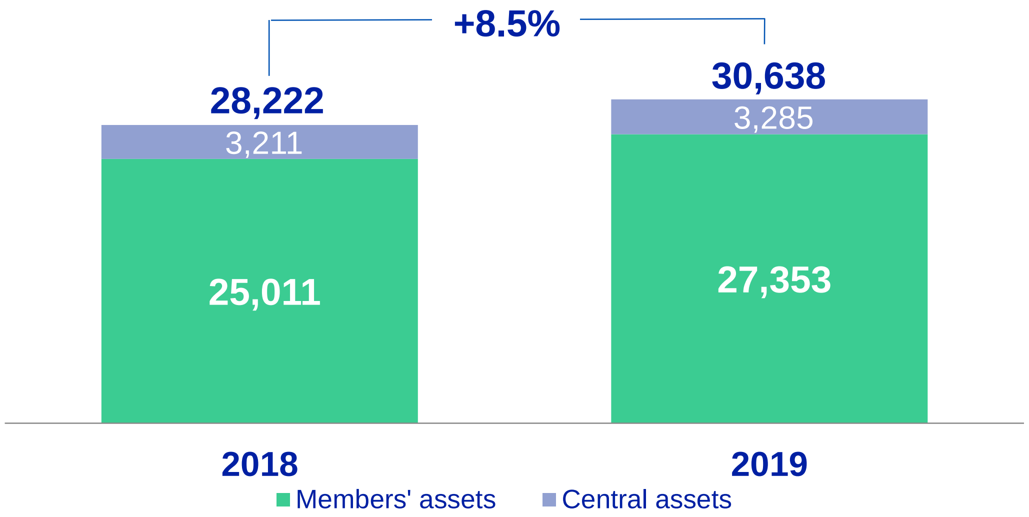
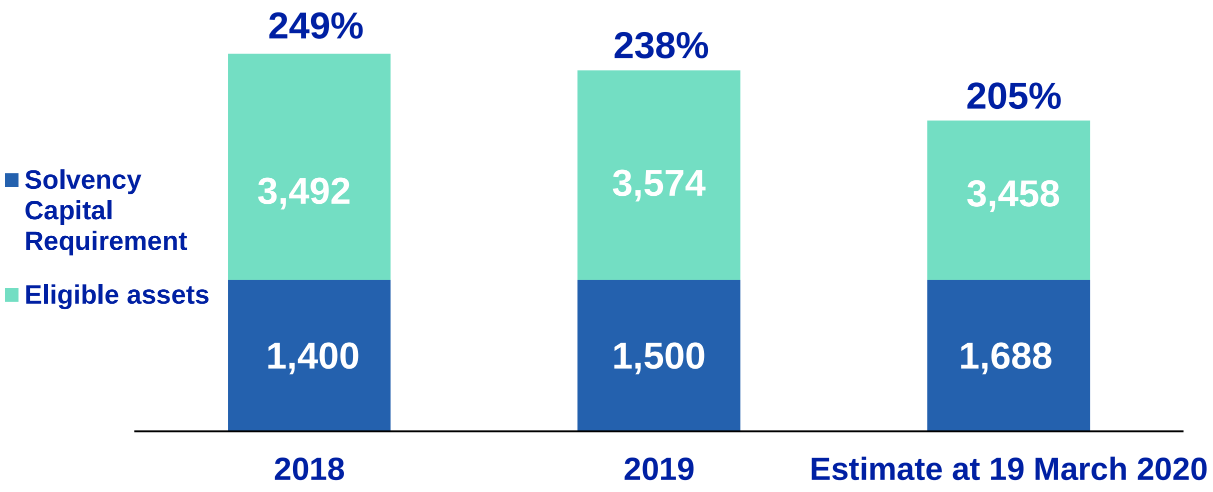
# Capital & Solvency

## Movements in capital and reserves 2018 – 2019 (£m)




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



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# Capital & Solvency

- Net resources increase by £2.4bn (8.6%) to £30.6bn at 31 December 2019 (2018: £28.2bn).
- This reinforces the exceptional strength of the Lloyd's market balance sheet, with approximately £120bn of assets.
- November 2019 coming into line process for members completed successfully.
- Lloyd's strong financial strength ratings reaffirmed at A (Excellent) by A.M. Best, AA- (Very Strong) by Fitch Ratings and A+ by Standard & Poor's. Standard & Poor's took the decision to revise its outlook from negative to stable based on Lloyd's level of capital exceeding 'AA' level.
- The decrease in the central solvency ratio from 249% in 2018 to 238% in 2019 is driven by an increase in the central solvency requirement.
- The increase in the market wide solvency ratio from 148% in 2018 to 156% in 2019 is driven by an increase in the value of members' funds at Lloyd's during the year, as well as impacted by a reduced solvency requirement, and benefit from profits made during the year.

| Market-wide solvency coverage ratio (£m) | 2018 | 2019 |
|---|---|---|
| Eligible assets | 26,239 | 27,852 |
| Solvency capital requirement | 17,750 | 17,870 |
| **Solvency coverage ratio** | **148%** | **156%** |

- The high degree of turbulence in the financial markets over recent weeks has caused market to market investment losses on the Central Fund. Our solvency ratio has reduced as a consequence however we will still continue to comfortably meet regulatory solvency requirements.

# Our priorities

John Neal
Chief Executive Officer

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# Our priorities

## Performance

- #1 Priority: Good progress to date – more to do
- 2020 target: < 100 COR (assuming "normal" levels of cat risk activity)*
- Heightened focus on reducing the cost of doing business

* Allocation of 10% of NEP

## Strategy

- Digitisation of business placement
  - complex and commoditised
- Speed to process and settle claims
- Build technology/data foundation infrastructure to support new Lloyd's ecosystem

## Culture

- Create an inclusive and diverse culture at Lloyd's
- Independent Culture Advisory Group established to provide expert advice and robust challenge across actions and initiatives
- Culture Dashboard in 2020
- Second Lloyd's annual culture survey in September 2020

**COVID-19** Responding to the impacts of COVID-19 will be front and centre in 2020. We are confident in our ability to meet the challenges we face and particularly support our business partners and customers in their time of need.

# Q&A

John Neal, Chief Executive Officer

Burkhard Keese, Chief Financial Officer

Jon Hancock, Performance Management Director

# Appendix

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# Balance Sheet

| £m | 2018 | 2019 | Change |
|---|---|---|---|
| Cash and investments | 71,240 | 73,193 | +3% |
| Reinsurers' share of unearned premiums | 3,853 | 3,700 | (4%) |
| Reinsurers' share of claims outstanding | 19,541 | 19,897 | +2% |
| Other assets | 23,375 | 23,088 | (1%) |
| **Total assets** | **118,009** | **119,878** | **+2%** |
| Gross unearned premiums | (17,868) | (17,143) | (4%) |
| Gross claims outstanding | (60,450) | (59,655) | (1%) |
| Other liabilities | (11,469) | (12,442) | +8% |
| **Net resources** | **28,222** | **30,638** | **+9%** |
| Member assets | 25,011 | 27,353 | +9% |
| Central assets | 3,211 | 3,285 | +2% |

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# Major claims

| Largest net losses (£bn) | 2019 |
|---|---|
| Hurricane Dorian | 0.4 |
| Typhoon Faxai | 0.4 |
| Typhoon Hagibis | 0.5 |
| All other | 0.5 |
| **Total** | **1.8** |

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