LLOYD'S

2019

Aggregate Accounts

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External Environment

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

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

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

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

The insurance gap

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

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

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

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

An expensive industry

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

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

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

An influx of capital

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

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

Talent

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

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

Responding to the challenges

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

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

2019 Highlights

£690m
Profit before tax
(2018: loss of £1,373m)

£232m
Overall surplus on prior years
(2018: £976m)

103.7%
Combined ratio*
(2018: 106.2%)

£1,671m
Total investment return
(2018: £333m)

Combined ratio by line of business*	%
Reinsurance	105.5
Property	99.8
Casualty	105.7
Marine, Aviation and Transport	108.5
Energy	97.3
Motor	98.8
Life	98.4

Underwriting result by line of business*	£m
Reinsurance	(434)
Property	12
Casualty	(390)
Marine, Aviation and Transport	(199)
Energy	27
Motor	11
Life	1

* The combined ratio for the market and by line of business is the ratio of net incurred claims and net operating expenses to net earned premiums. The prior year reserve movement represents the ratio of the surplus/deficit arising on reserves set at December 2018 to overall net earned premiums in calendar year 2019.

The underwriting results and combined ratio tables include the results of all life and non-life syndicates transacting business during 2019. The results and net assets for life syndicates are not material and have not been separately disclosed in the profit and loss account and balance sheet. The results for life business have been reported in the segmental analysis table on page 37.

Market Performance

Market results

At the syndicate level, the Lloyd's market reported a pre-tax profit of £690m in 2019 (2018: a loss of £1,387m) and a combined ratio of 103.7% (2018: 106.2%). This represents a £2.1bn improvement to profit since 2018.

During 2019, premium levels have increased by 1.1%. Stable or increased pricing levels continued with favourable price movements experienced across all lines of business. The Lloyd's market experienced a weighted average increase in prices on renewal business of approximately 5.4% in 2019. In addition, several syndicates exited or severely curbed their risk appetites in poor-performing lines, as Lloyd's began to ramp up its activity to support the market in closing the performance gap. This resulted in volume reductions of approximately 8.0%. Looking at these pricing increases and volume reductions together, there is an underlying reduction in premium volumes of 2.6% on like-for-like business. Foreign exchange movements and growth from new syndicates contribute an additional 3.7% growth, resulting in the overall premium growth of 1.1%.

2019 again saw some significant catastrophic losses for the insurance industry and so too for the Lloyd's market, with notable losses in the second half of 2019 including Typhoons Faxai and Hagibis (in Japan) as well as Hurricane Dorian (impacting the Bahamas). Insured losses arising from catastrophic events cost the Lloyd's market £1.8bn, net of reinsurance, in 2019 (2018: £2.9bn) and added 6.8% to the combined ratio (2018: 11.1%). The impact of these major events on the Lloyd's market result was offset slightly by prior year releases of £232m (2018: £976m), representing a 0.9% (2018: 3.7%) improvement to the combined ratio, however these releases are at a reduced level when compared to previous years.

Investment return was £1,670m (2018: £333m), a return of 4.0% (2018: 0.8%), reflecting a buoyant year in financial markets. Equity investments achieved exceptional gains and bond investments also performed well driving a strong investment result.

Foreign exchange had a negative impact on the result with a moderate £8m gain reported in 2019 (2018: a loss of £108m). This reflected the impact of most major currencies (closing rates) weakening against sterling in 2019.

Looking ahead

Similarly to 2019, the 2020 planning cycle was challenging for the Lloyd's market, with significant effort placed on performance improvement activities against poor-performing lines of business and syndicates. A strong portfolio management led approach was taken, with improvement activities balanced by profitable growth, in syndicates and lines of business with a track record of delivering plan and a sustainable and profitable performance.

As a result of these actions, the market plans to grow in 2020, mainly driven by the positive pricing environment, and to continue to improve planned levels of profit. To continuously improve performance, it is essential to maintain underwriting discipline in the implementation of business plans which are logical, realistic and achievable and to continue to reduce expense ratios.

Positive pricing momentum is likely to continue in to 2020, with the majority of lines of business expected to maintain current positive pricing trends.

The COVID-19 pandemic has created turbulence in financial markets and economic uncertainty which will impact individuals and businesses. The full impact of this on the insurance industry, including the Lloyd's market, is uncertain. Our initial assessment has identified those lines of business most likely to be impacted, however the full extent of the losses and the impact upon pricing will become clearer as the year progresses. We will regularly monitor developments in this area and take appropriate actions as needed.

2019 performance

Premium

Gross written premium for the year increased to £37,516m, compared with £37,223m in 2018.

The overall price change (taking into account terms and conditions) on renewal business was an increase of approximately 5.4%, which was slightly above planning assumptions for the year and better than 2018. This increase was largely driven by catastrophe impacted lines, but the pricing momentum has been gathering in the majority of lines of business. Although improving overall, absolute pricing levels are still challenging in some lines of business, which have struggled to deliver a positive result.

Volume reductions, as expected following several syndicates exiting certain lines of business, or curbing risk appetites In poor-performing lines resulted in a reduction to premium of 8.0%, compared to 2018.

US dollar denominated business continues to account for the largest share of business at Lloyd's. The average exchange rate in 2019 was US$1.28: £1 compared with US$1.34: £1 in 2018. The US dollar and other currency movements have increased premiums as reported in converted sterling by 3.5%.

Accident year ratio

The accident year ratio, excluding major claims, has continued to show signs of improvement with a further reduction to 97.8% (2018: 98.8%). Within this there has been improvement in the attritional loss ratio and expense ratio; there has been a reduction in the level of favourable prior year reserve development.

Attritional loss ratio: The attritional loss ratio continued to show signs of improvement in 2019, reducing to 58.6% (2018: 59.3%). The most recent underwriting year, 2019, has seen notable improvement through the effects of better underwriting discipline and a sustained period of rate increases on renewal business. This improvement has been offset by deterioration seen on the attritional loss ratio on the more developed underwriting years, 2017 and 2018.

Prior year development: This was the 15th consecutive year of prior year releases. The current year result has seen less benefit from prior year releases at 0.9% of net earned premium (2018: 3.7%). During the course of 2019, many syndicates have strengthened reserve estimates to take into consideration the increased level of uncertainty in certain lines of business, notably casualty for which strengthening has been reported across the market in aggregate. In addition, there has also been material strengthening reported in relation to estimates for Typhoon Jebi, consistent with the experience across the wider property and casualty industry. Prior year development on the other lines of business were considered to be at more normal levels.

In 2020, 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: In 2019, administrative expenses have decreased in both sterling amounts and as a percentage of net earned premium, to 12.5% (2018: 13.2%). The reduction in administrative expenses is driven by cost management initiatives across the market as well as the impact of class closures as the market continues to improve underwriting discipline. The acquisition costs ratio has increased slightly to 26.7% (2018: 26.3%) however this is attributed to changes in business mix. Reducing the overall operating expenses will remain an important area of focus in 2020 as part of the Future at Lloyd's strategy.

Major claims	% of net earned premium
2015	3.5
2016	9.0
2017	18.5
2018	11.1
2019	**6.8**
Five year average[1]	10.0
Ten year average[1]	10.4

Accident year ratio excl. major claims	%
2015	95.8
2016	95.6
2017	100.2
2018	98.8
2019	**97.8**
Five year average[1]	97.7
Ten year average[1]	95.0

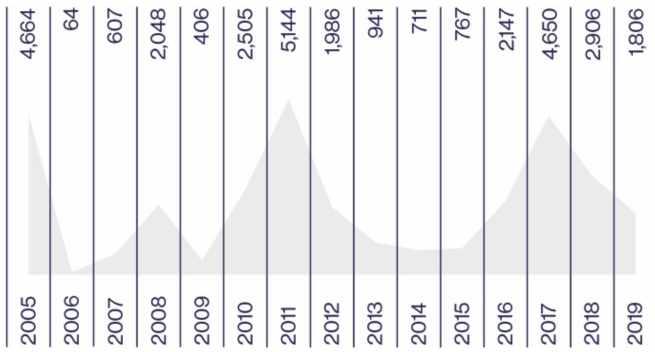
1. Weighted by net earned premium.

Major claims

Major claims for the market were £1,806m in 2019 (2018: £2,906m), net of reinsurance and including reinstatements payable and receivable. Total industry insured losses for the catastrophe events of 2019 are estimated to be US$56bn.

The first half of 2019 experienced a low level of catastrophic activity. In the second half of 2019 the largest insured natural catastrophe event to impact the result was Typhoon Hagibis, which struck Japan and caused extensive flood and wind damage. This event was the second major typhoon loss event to impact Japan during 2019, with Typhoon Faxai occurring one month earlier. Hurricane Dorian was an extremely destructive category 5 storm which caused extensive damage and devastated parts of the Bahamas. Other notable events included US and Australian wildfires and Chilean riots.

Lloyd's major losses: net ultimate claims



5 year average: £2,266m; 15 year average: £2,115m. Indexed for inflation to 2019. Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

Prior year reserve movement	% of net earned premium
2015	(7.7)
2016	(5.0)
2017	(2.9)
2018	(3.7)
2019	**(0.9)**

Years of account in run-off	Number of years
2015	4
2016	6
2017	5
2018	0
2019	**3**

Reinsurance protection

The credit quality of the Lloyd's market's reinsurance protections remains extremely high, with 98.6% 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 55.4% of gross written premium). There has been an increase in the overall reinsurance recoverables due to the catastrophe losses experienced during 2019 and due to an increase in the 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 2019 and risk mitigation actions being taken to assist in the management of legacy exposures. No negative settlement trends have been witnessed to date. Lloyd's will be monitoring this closely in 2020 as part of our normal market oversight procedures.

Lloyd's outward reinsurance premium spend for 2019 was 29.4% (2018: 28.2%) of gross written premium, which reflects a small increase in 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 2017 underwriting year of account reached closure at 31 December 2019. After a long period of relatively benign major loss activity, the cost of major claims to the Lloyd's market in 2017 was the third highest since 2003. The largest insured event was Hurricane Irma, which devastated large parts of the Caribbean and US Gulf States, and was the second of three major Atlantic hurricanes. The others being Hurricane Harvey, causing significant damage to Texas, and Hurricane Maria causing widespread damage in the Caribbean. As a result, the 2017 underwriting year of account reported an underwriting loss. The 2017 underwriting year loss was offset partially by the addition of releases from prior years totalling £704m on the 2016 and prior reinsurance to close (RITC) (2015 and prior: £896m), which meant the year closed with an overall loss of £2,414m (2016 underwriting year loss: £855m).

There were no run-off years in existence at the beginning of 2019, so there was no contribution to the 2017 result from run-off years (2018: run-off years contributed a surplus of £7m to the 2016 year of account). At the end of 2019, three syndicates did not close the 2017 year of account.

The results of the major lines of business are discussed in detail on the following pages.

Investment review

2019 was a markedly positive year for investments. Equities generated a particularly strong level of return for the calendar year with other risk assets also performing well. In fixed interest markets, the easing of monetary policy drove a reduction in risk free yields resulting in capital gains for government bonds. Corporate bond returns were further enhanced by credit spread narrowing, in line with the trajectory of other risk assets. In terms of foreign exchange movements, sterling was volatile versus most other major currencies, but strengthened versus US dollars by the end of the year.

Syndicate premium trust fund assets form the largest element of investment assets at Lloyd's. Managing agents have responsibility for the investment of these assets, which are used to meet insurance claims as they become payable. The aggregate asset disposition reflects the balanced but conservative investment policy pursued by agents. Cash and high quality, shorter duration, fixed interest investments constitute a majority core share while return seeking equity and growth assets account for a moderate allocation at less than 10%.

Overall, syndicate investments returned £1,670m, or 4.0% in 2019 (2018: £333m, 0.8%). Investment return was materially higher this year driven by strong performance on corporate bonds as well as equity and growth assets. Investments are valued at mark to market prices and unrealised gains and losses are included within reported investment returns.

The following line of business analysis and commentary is as disclosed in the 2019 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.

2019 performance

Lloyd's gross written premium for 2019 was £6,405m (2018: £6,440m), a decrease of 0.5%. Despite improved pricing adequacy on property treaty and facultative contracts, there has been greater scrutiny around risk selection given recent consecutive years of higher than average loss activity and adverse development of some prior year losses beyond expectations. Additionally, 2019 gross written premium has a lower level of reinstatement premium than 2018. The Lloyd's reinsurance property line reported an accident year ratio of 106.5% (2018: 121.1%).

2019 was another year in which globally, natural disasters at times dominated the headlines. Many of these events resulted in meaningful losses to the reinsurance market, but in aggregate were not to the same scale of those experienced in either 2017 or 2018.

Prior year movement

The prior year movement was a release of 0.3% (2018: 4.9%). Releases are generally expected for more recent years, when margin being held for potential catastrophes is not utilised and as claims estimates for losses become more certain over time. The market has made releases overall for the 2017 hurricane events (in particular, Hurricanes Harvey and Maria) as well as for the 2017 and 2018 Californian wildfires. The total release is lower than in previous years, driven mostly by deterioration seen for Typhoon Jebi on the 2018 year.

Looking ahead

Despite above average catastrophe losses in 2017 and 2018 and a number of large catastrophic events in 2019, there remains a surplus of capacity in the market although there is an increased focus on client selection. Initial indications suggest that pricing levels at January 2020 were generally below market expectations, but this was dependent on geographic region and whether or not the business was loss affected. Pricing adequacy may improve as 2020 progresses, with a large proportion of loss affected business still to renew.

Reinsurance – Casualty

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

2019 performance

Lloyd's gross written premium for 2019 was £2,960m (2018: £2,541m), an increase of 16.5%. The Lloyd's reinsurance casualty line reported an accident year ratio of 102.4% (2018: 99.7%).

2019 saw the casualty treaty market begin to restrict capacity and achieve price strengthening across most lines of business. While US Workers Compensation remained competitive, for the other lines this marked a shift from previous years. For motor excess of loss business, syndicates had largely expected some relief as a result of expected changes to the Ogden discount rate during 2019. Most syndicates had expected this to increase to at least 0% with some hoping it could be up to 1%. However, the shift from -0.75% to just 0.25% meant that the impact was not as significant. As most treaty business renews at the start of the calendar year, syndicates were not able to react and may have had to wait until 2020 renewals.

Prior year movement

The prior year movement was a strengthening of 1.7% (2018: release of 3.6%). Despite 2019 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. Furthermore, the global casualty treaty business has performed worse than expectation overall, with the US territory generally seeing the heaviest claims experience. Therefore, the fact that this line has strengthened in aggregate is in line with expectations.

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

Looking ahead

During 2019, there has been growing concern around social inflation and the impact this may have on reserve adequacy in prior years. This is likely to result in significant reassessment of appetite, particularly in the US and other litigious jurisdictions.

Increasingly high jury awards are being seen in the US, Canada and Australia and there are signs that the market is starting to tighten capacity as a result. There is continued concern that these increases are unlikely to be sufficient to keep up with claims inflation, but it appears that greater scrutiny is being undertaken during renewal negotiations resulting in tighter controls around limits.

Reinsurance – Specialty

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

2019 performance

Gross written premium overall was £2,053m (2018: £2,089m), a reduction of 1.7%. Gross written premium by sector within this specialty business was: Marine, Aviation and Transport £1,414m (2018: £1,451m), Energy £633m (2018: £624m), Life £6m (2018: £14m). The Lloyd's reinsurance specialty line reported an accident year ratio of 108.6% (2018: 101.9%).

Following the Lürssen Shipyard loss in 2018, which was heavily reinsured within the marine excess of loss market, the expectation was that prices would measurably increase. However, the segment continued to attract a high level of capacity and the price increases achieved were relatively modest.

Prior year movement

The prior year movement was a release of 2.8% (2018: release of 11.0%). The claims experience for this line has performed broadly in line with expectations over 2019. This line is predominantly marine, aviation and motor business, written on an excess of loss basis. Given that claims experience is largely driven by isolated claim events, prudent reserves tend to be held and released in years with less claims activity.

Marine reinsurance has seen mixed experience on prior years, with favourable movements for the Lürssen Shipyard loss offset by the increased incidence of large losses and exposure to Typhoon Jebi on the more recent years. Likewise, aviation has seen increased large loss activity on more recent years over 2019 with major losses arising from the grounding of the Boeing 737 MAX fleet and within the space account impacting the reinsurance market. In contrast, motor reinsurance has generally performed favourably against expectations. Most benefit has been seen for UK business due in part to the change in Ogden discount rate with a rate of -0.25% being used from July 2019.

Given the increased incidence of large losses on the marine and aviation lines, larger margins for uncertainty are generally being held and reserving estimates increased to cover the uncertainty around emerging claims. Therefore, the overall strengthening in the market is not unexpected.

The claims experience for this line has been favourable compared with expectations over the 2019 year. This line is predominantly marine, aviation and energy business written on an excess of loss basis. Given that claims experience is largely driven by isolated claim events, e.g. the Jim Beam warehouse fire, prudent reserves tend to be held and released in years with less claims activity. In addition to the general release of prudence over time, the marine line can also be impacted by global natural catastrophes and non-modelled losses (such as wildfire).

Looking ahead

There are signs of price strengthening in the sector in 2020 following a challenging 2019 result, which further compounded the losses made in the catastrophe impacted 2017 and 2018 results. There may also be additional impetus following Lloyd's performance improvement planning – the effects of which may fall beyond the lines immediately included in that review.

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.

2019 performance

Lloyd's gross written premium for 2019 was £9,586m (2018: £9,687m), a decrease of 1.0%. The Lloyd's property line reported an accident year ratio of 101.5% (2018: 114.0%).

2019 loss experience was more benign than observed in recent years, although not without a number of natural catastrophe events. The largest of which were Hurricane Dorian, Typhoons Faxai and Hagibis together with an extreme Australian wildfire season.

Additionally, significant hailstorm and thunderstorm activity also occurred, particularly in the US, whilst regional social unrest within Chile during the second half of 2019 additionally impacted overall performance for some syndicates.

Performance improvement actions across poor performing accounts, along with appetite and capacity changes within London and a number of domestic and international carriers resulted in a more favourable operating environment through 2019. This helped to drive a continued firming of both policy terms, conditions and pricing levels as the year progressed.

2019 exposures showed modest contraction in most lines of business, driven by continuing impacts of remedial actions with syndicates, who often exited or reduced lines. These reductions however in part have been offset by stronger pricing levels for both new and renewing business.

Prior year movement

The prior year movement was a release of 1.7% (2018: release of 3.6%). Recent years of account have seen elevated levels of catastrophe losses worldwide, with most impact seen for the direct and facultative lines of business. In particular, the 2018 year has been impacted by the heightened uncertainty around the ultimate claims cost for Typhoon Jebi. In addition to increased catastrophe losses, there is evidence that attritional and large loss experience is worsening in some areas of this account. Although these non-catastrophe losses are isolated, focus will continue to be placed on them to ensure that market reserves remain adequate.

Looking ahead

2019 saw significant market activity driven by an increased focus on portfolio management and clear evidence of a firming market, which is expected to remain a feature for 2020. In order for syndicates to achieve the planned outcomes for 2020, underwriters will need to continue to focus on the execution and delivery of plans together with ongoing underwriting discipline for both existing and new accounts.

Casualty

The casualty market at Lloyd's comprises a broad range of sectors. The most significant are general liability and professional liability. Although shorter tail in nature than most casualty lines, accident and health business is also included within this sector. The US market is the largest single market for Lloyd's casualty business followed by the UK, Canada and Australia.

2019 performance

Lloyd's gross written premium for 2019 was £9,459m (2018: £9,094m), an increase of 4.0% This increase was largely driven by further growth in cyber, warranty and indemnity business and US directors and officers' liability. Lloyd's casualty line reported an accident year ratio of 103.8% (2018: 103.9%). While there is still substantial capacity in the casualty market, there is evidence that throughout 2019 this has started to become more restricted. Most lines are now starting to see price strengthening with increasing pressure towards the end of the year. However, years of suppressed price increases, often below claims inflation assumptions, mean that there remains uncertainty around whether these are sufficient to achieve pricing adequacy.

The growth in cyber insurance products continued into 2019 as new customers respond to high profile cyber breaches. Across other lines there was premium growth during the year as a result of price hardening towards the end of the year, particularly in some of the professional lines. This has also resulted in the rate of growth in some lines beginning to slow compared with more recent years. Niche and heavy industrial occupations continue to see more focused underwriting, not just in terms of pricing but also in relation to reviews of programme structure and policy terms.

Prior year movement

The prior year movement was a strengthening of 1.9% (2018: a release of 1.0%).

Claims experience for this line has performed in line with expectations over 2019. However, selected casualty lines continued to receive additional oversight. This is appropriate given that their longer emergence period leads to greater uncertainty when compared to property lines, which have shorter periods of exposure. In particular, there are concerns over the estimation of claims reserves for the directors & officers, general liability and medical malpractice lines of business.

As a result of the additional oversight, several casualty classes have seen increases in their reserves over 2019. Despite reserve increases seen for some focus areas of this account, the fact that experience has generally been stable at a total level and that the market tends to hold large margins for uncertainty for a number of years means continued releases are not unexpected. In addition to the above lines, cyber has also seen a rise in claims on recent years related to ransomware and other cyber attacks. This is will continue to be a key focus for Lloyd's given the limited experience available for this line.

In 2020, Lloyd's will continue to monitor the adequacy of market-wide casualty reserves, ensuring that we engage with managing agents writing material casualty business. This increased level of oversight is warranted given the current tough market conditions and the fact that it will take many years to confirm whether any adjustments to these reserves are sufficient.

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

Looking ahead

As with casualty reinsurance, there has been a growing focus on social inflation. While a lot of the focus has been in the US, other territories such as Australia and Canada are starting to see similar trends across all casualty lines. These territories and jurisdictions have all seen trends of increasing regulation and litigation. This has been accompanied by increased capacity for litigation funding. A general public desensitisation to litigation and jury awards has led to ever increasing severity of claims. While the primary market has already started to see restrictions in appetite and demand for increased deductibles, in 2020 there is likely to be an increased focus on excess placements.

As the market in all casualty lines becomes more restricted following years of growth, often through delegated underwriting arrangements, there appears to be significant signs of stabilisation. This is likely to continue across the board as syndicates attempt to recalibrate pricing against changing inflation assumptions.

Marine, Aviation and Transport

A diverse mix of marine business is placed at Lloyd's who are regarded as industry leaders in the sector. Business lines such as cargo, hull and marine liability are the main drivers of the whole line performance, notwithstanding the share of marine war, yacht, fine art and specie.

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 (e.g. 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.

2019 performance

Lloyd's gross written premium for 2019 was £2,802m (2018: £3,152m), a decrease of 11.1%. The Lloyd's marine, aviation and transport line reported an accident year ratio of 113.3% (2018: 116.2%).

Following a challenging 2018, the 2019 business planning season included extensive performance improvement activity, specifically in hull, yacht and cargo lines. A number of syndicates elected to withdraw either partially or fully from certain marine lines, explaining the written premium decrease for the year. The above implied an improved pricing and underwriting performance environment that gathered momentum throughout 2019.

Cargo showed the clearest evidence of positive market remediation and stabilisation. Hull, however, remains under significant strain despite an improving performance environment. The recent increase in tensions within the Middle East has impacted war written premiums and this will continue into early 2020.

Due to the ongoing challenging conditions in the aviation market a small portion of insurers elected to withdraw or reduce their appetite and capacity in the sector in 2019. There were fewer large losses in 2019 in comparison with prior years. Nevertheless, the 2019 results continued to be impacted by the frequency and cost of attritional claims eroding premium and deductible levels.

Whilst airline and general aviation have previously been the main lines contributing to the negative result, aviation excess of loss and space have endured a difficult 2019. Loss activity coupled with the decline in industry capacity levels, caused by consolidation and market withdrawals, driven by the sustained poor performance, have led to a positive pricing environment in 2019 across all sectors.

Prior year movement

The prior year movement was a release of 4.8% (2018: release of 0.9%).

These classes have performed broadly in line with expectations over 2019, despite heightened large loss activity impacting both property damage and liability within this line. In addition, recent years have seen higher than average catastrophe losses, which are known to drive property damage claims. However, some of these catastrophe losses have become more certain over 2019, resulting in offsetting reserve releases being seen. Despite experience being in line with expectations overall, there is a tendency for the view of claims to be held for a number of years to allow for any uncertainty and so releases are common.

Overall, experience has been in line with expectations. 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. Given the heightened uncertainty on recent years, larger margins are generally being held and reserving estimates increased to cover these emerging claims.

Looking ahead

During 2020, it is expected that the marine market will be highly selective, both on individual risk and also at segment level, with the preference for more open market placements enabling greater opportunity to control risk selection. 2020 is expected to be a year of performance improvement for many market participants. The trajectory to sustainable profit is positive but not embedded, the momentum needs to be maintained.

Safety in the aviation sector is likely to continue to improve, higher aircraft repair costs and the increasing values of engines and airframes will continue to drive higher levels of attrition, with increased values not being matched by a commensurate increase in deductibles.

Notwithstanding the rise in general pricing levels in 2019, industry claims are still likely to materially exceed premiums in a normal loss year. Strict adherence to underwriting discipline regarding risk selection, exposure management controls and rigorous portfolio management remain essential in order to generate positive returns.

Energy

The Lloyd’s energy line includes a variety of onshore and offshore property and liability sectors, ranging from construction to exploration, production, refining and distribution.

2019 performance

Gross written premium for the Lloyd’s energy line in 2019 was £1,500m (2018: £1,404m), an increase of 6.8%. The Lloyd’s energy line reported an accident year ratio of 107.5% (2018: 105.6%).

The direction of travel in the pricing environment across all energy lines has been positive through 2019. Downstream property and liability have benefited the most, fuelled by continued large loss activity in the downstream lines through 2018 and 2019, specifically in the US refining sector. From a whole account perspective this has been balanced somewhat by benign large and catastrophic loss activity in upstream lines, which is the largest part of the overall energy account, in terms of risk count, written premium and exposure.

Prior year movement

The prior year movement was a release of 10.2% (2018: 18.2%). The energy line of business has seen continued prior year reserve releases over 2019. This line contains a mix of contracts that give rise to claims that are settled on both a short-term and long-term time horizon. Both the short-term and long-term lines have performed broadly in line with expectations, with the short-term lines benefiting from releases on older catastrophe losses. Given that the energy line is also exposed to isolated large losses, large margins for uncertainty tend to be held and released in benign years. For long-term contracts, these margins can be held for a number of years. Reductions in claims estimates for these large losses and the release of unused margin is expected to drive releases at a market level.

Looking ahead

In downstream energy, both property and liability, the market is showing improved underwriting discipline and price increases are gathering momentum as underwriters react to adverse large loss experience in the last few years. Steps are also being taken to implement improved and tighter terms and conditions, in light of unrelenting losses and volatility in claims values.

Upstream energy remains in a state of relative stability in terms of pricing, conditions and underwriting appetite. This is mainly driven by an absence of large losses, coupled with a benign wind season in areas of high energy asset exposure accumulations, such as in the Gulf of Mexico.

Whilst there has been a trend of increasing limits of indemnity in the sector due to the increasing magnitude of some of the offshore complexes, there is adequate capacity in the market to accommodate these large placements.

Motor

Lloyd’s motor market primarily covers UK private car, commercial and fleet business. Private car represents around 35% of Lloyd’s UK motor premium and includes niche motor risks. Lloyd’s commercial and fleet business is very diverse, ranging from light commercial vehicles and taxis to buses and heavy haulage.

International motor is also written; a large proportion emanates from North America, including private auto and static risks such as dealers open lot.

2019 performance

Gross written premium in 2019 was £1,053m (2018: £1,037m), an increase of 1.5%. The Lloyd’s motor line reported an accident year ratio of 100.6% (2018: 101.8%).

Underwriting conditions in the UK motor market continue to be challenging. This has been further exacerbated by the 2019 Ogden discount rate review with general expectation that the new rate would be 0% or higher, when in fact it was set at -0.25%.

Market Performance *continued*

The international motor market has seen some positive signs during 2019, with an increasing trend of higher deductibles, which have been kept historically low for a number of years. This should have a positive impact on attritional losses.

Price strengthening has started to pick up as a result of capacity tightening.

Prior year movement

The prior year movement was a release of 1.8% of net earned premium (2018: 3.1%). This is driven by favourable claims experience for both UK and overseas motor. UK motor business has benefited from the Lord Chancellor's announcement in July 2019 to change the Ogden discount rate from -0.75% to a rate of -0.25%, which has reduced the amount insurers pay out for severe bodily injury claims.

Looking ahead

With the updated Ogden discount rate now agreed for five years, this should bring some more certainty around reserves and allow syndicates to implement an updated pricing strategy going forward. At the end of 2018, the Civil Liability Bill received royal assent. While this Bill specifically deals with the Ogden discount rate, the proposed amendment to the current rate was announced in the middle of 2019. The Civil Liability Bill also introduced reforms which are aimed at reducing fraudulent whiplash claims. These reforms will not be introduced until 2020, so it is unlikely to have any material impact on loss ratios for some time. However, claimant reaction to the changing environment may bring about new claims trends in motor and casualty lines.

Overseas motor continues to see refinement of appetite, with syndicates moving away from liability risks, particularly in the US. In particular, some own damage programmes in the US have benefited from local price strengthening on liability risk, which has filtered through to own damage as well.

Reinsurance

Property		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	4,627	87.4	(11.1)	76.3	794
	2016	5,022	101.2	(9.4)	91.8	299
	2017	5,991	134.3	(4.0)	130.3	(1,260)
	2018	6,440	121.1	(4.9)	116.2	(672)
	2019	**6,405**	**106.5**	**(0.3)**	**106.2**	**(258)**

Casualty		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	1,797	103.9	(3.9)	100.0	0
	2016	2,096	105.2	(7.1)	98.1	33
	2017	2,223	103.9	(1.8)	102.1	(39)
	2018	2,541	99.7	(3.7)	96.1	78
	2019	**2,960**	**102.4**	**1.7**	**104.1**	**(94)**

Specialty		Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
	2015	2,169	106.0	(12.7)	93.3	110
	2016	2,290	101.9	(14.2)	87.7	216
	2017	2,346	110.3	(8.5)	101.8	(31)
	2018	2,089	101.9	(11.0)	90.9	138
	2019	**2,053**	**108.6**	**(2.8)**	**105.8**	**(82)**

Market Performance *continued*

Insurance

Property	Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
2015	6,893	94.1	(4.0)	90.1	501
2016	7,988	106.6	(3.2)	103.4	(202)
2017	8,965	131.5	(3.9)	127.6	(1,757)
2018	9,687	114.0	(3.6)	110.4	(700)
2019	**9,586**	**101.5**	**(1.7)**	**99.8**	**12**

Casualty	Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
2015	5,764	104.5	(4.4)	100.1	(5)
2016	7,131	102.9	(0.2)	102.7	(146)
2017	8,464	103.7	(0.6)	103.1	(189)
2018	9,094	103.9	(1.0)	102.9	(183)
2019	**9,459**	**103.8**	**1.9**	**105.7**	**(390)**

Marine, Aviation and Transport	Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
2015	2,832	106.9	(12.4)	94.5	127
2016	3,097	108.2	(5.9)	102.3	(58)
2017	3,193	117.7	0.8	118.5	(480)
2018	3,152	116.2	(0.9)	115.3	(392)
2019	**2,802**	**113.3**	**(4.8)**	**108.5**	**(199)**

Energy	Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
2015	1,414	97.3	(21.3)	76.0	247
2016	1,110	106.4	(13.8)	92.6	59
2017	1,253	107.7	(21.1)	86.6	105
2018	1,404	105.6	(18.2)	87.4	113
2019	**1,500**	**107.5**	**(10.2)**	**97.3**	**27**

Motor	Gross written premium £m	Accident year ratio %	Prior year reserve movement %	Combined ratio %	Underwriting result £m
2015	1,120	109.5	(7.5)	102.0	(17)
2016	1,047	108.8	2.6	111.5	(103)
2017	1,057	114.4	7.9	122.3	(188)
2018	1,037	101.8	(3.1)	98.7	12
2019	**1,053**	**100.6**	**(1.8)**	**98.8**	**11**

The Council

The following were members of the Council of Lloyd's during 2019:

Bruce Carnegie-Brown	**Hiscox Dedicated Corporate Member Limited** (represented by Robert Childs)
John Neal	**Julian James** (term expired 31 January 2019)
Axis Corporate Capital UK Limited (appointed 1 February 2019) (represented by Albert Benchimol)	**Neil Maidment** (term expired 31 January 2019)
Simon Beale (term expired 31 December 2019)	**Sir David Manning** (term expired 31 August 2019)
Andrew Brooks	**Munich Re Capital Limited** (represented by Dominick Hoare)
Victoria Carter (appointed 1 February 2019)	**Nameco (No 1249) Limited** (represented by Jeffery Barratt)
Dominic Christian	**Nomina No 115 LLP** (term expired 31 January 2019) (represented by Philip Swatman)
Flectat Limited (represented by Michael Watson)	**Novae Corporate Underwriting Limited** (term expired 31 January 2019) (represented by Matthew Fosh)
Karen Green	**Christian Noyer**
Andy Haste	**John Sununu** (appointed 6 February 2019)

Statement as to disclosure of information to auditors

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

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

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

Statement of Council's responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 ('the Regulations') require the Council of Lloyd's to prepare Aggregate Accounts in respect of the financial year by totalling all the syndicate annual accounts prepared in accordance with Part 3 of the Regulations.

The Regulations also require the Council to prepare an Annual Report on the insurance business carried on by the members of Lloyd's during the financial year. The Annual Report is set out in the external environment, market performance and governance sections on pages 1-15.

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 1-15, was approved by the Council of Lloyd's on 24 March 2020.

Bruce Carnegie-Brown
Chairman

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

Independent Reasonable Assurance Reportof PricewaterhouseCoopers LLP to the Council of Lloyd's on the preparation of the 2019 Lloyd's Aggregate Accounts

Conclusion

In our opinion:

– the Aggregate Accounts for the financial year ended 31 December 2019 have, in all material respects, been properly prepared in accordance with the requirements of the Regulations (as defined below), and have been correctly aggregated; and

– the Annual Report of the Council of Lloyd's for the financial year ended 31 December 2019 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 (as defined below).

In addition, in light of the knowledge and understanding of the syndicates and their environment obtained in the course of the audit, 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 auditor's report. We have nothing to report in this respect.

These conclusions are 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: an aggregate profit and loss account, an aggregate statement of other comprehensive income, an aggregate statement of changes in members' balances, an aggregate balance sheet, an aggregate statement of cash flows; and notes 1 to 20 to the Aggregate Accounts.

The financial reporting framework that has been applied in their preparation is 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.

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 and 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. 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 balance sheet and profit and loss account included in the syndicate annual return and accounts by the managing agent of each syndicate which has 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 information 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 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 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. 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 28 February 2020. Our work has been undertaken so that we might state to the Council of Lloyd's those matters which we are required to state in this report in accordance with the Regulations and for no other purpose. To the fullest extent permitted by law we do not, in giving our opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Mark Bolton
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP London

26 March 2020

Aggregate Profit and Loss Account

For the year ended 31 December 2019

	Note	£m	2019 £m	£m	Restated 2018 £m
Technical account					
Gross written premiums	4	37,516		37,223	
Outward reinsurance premiums		(11,028)		(10,492)	
Written premiums, net of reinsurance			26,488		26,731
Change in the provision for unearned premiums					
Gross amount		15		(842)	
Reinsurers' share		(25)		325	
Change in the net provision for unearned premiums			(10)		(517)
Earned premiums, net of reinsurance			26,478		26,214
Allocated investment return transferred from the non-technical account			1,374		367
Other technical income, net of reinsurance			21		16
			27,873		26,597
Claims paid					
Gross amount		23,567		21,525	
Reinsurers' share		(7,657)		(6,530)	
			15,910		14,995
Change in provision for claims					
Gross amount		2,312		5,110	
Reinsurers' share		(1,126)		(2,618)	
			1,186		2,492
Claims incurred, net of reinsurance			17,096		17,487
Net operating expenses	7		10,374		10,347
Balance on the technical account for general business			403		(1,237)
Non–technical account					
Balance on the technical account for general business			403		(1,237)
Investment return	8	1,670		333	
Allocated investment return transferred to the technical account		(1,374)		(367)	
Investment return retained in non-technical account		296		(34)	
Foreign exchange gains/(losses)		8		(108)	
Other income/(expenses)		(17)		(8)	
Balance on the non-technical account			287		(150)
Result for the financial year before tax			690		(1,387)

All operations relate to continuing activities.

Aggregate Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 £m	Restated 2018 £m
Other comprehensive income		
Result for the financial year before tax	690	(1,387)
Exchange differences on translating foreign operations	45	(72)
Other recognised gains/(losses) per syndicate annual accounts	14	(3)
Total comprehensive (loss)/income for the year	**749**	(1,462)

Aggregate Statement of Changes in Members' Balances

For the year ended 31 December 2019

	2019 £m	Restated 2018 £m
Members' balances brought forward at 1 January	(1,492)	(7)
Result for the financial year	690	(1,387)
Net losses collected from/(payment of profits to) members' personal reserve	963	(851)
Capital transferred into/(out of) syndicate premium trust funds	(405)	825
Exchange gains/(losses)	36	(51)
Other movements	(1)	(21)
Members' balances carried forward at 31 December	**(209)**	(1,492)

Aggregate Balance Sheet

As at 31 December 2019

	Note	£m	2019 £m	£m	Restated 2018 £m
Financial investments	9		36,599		35,818
Deposits with ceding undertakings			38		35
Reinsurers' share of technical provisions					
Unearned premiums	12	3,933		4,104	
Claims outstanding	12	20,788		20,567	
			24,721		24,671
Debtors					
Debtors arising out of direct insurance operations	10	9,172		9,525	
Debtors arising out of reinsurance operations	11	8,828		8,519	
Other debtors		1,076		1,087	
			19,076		19,131
Other assets					
Cash at bank and in hand	16	2,242		2,264	
Other		3,041		2,886	
			5,283		5,150
Prepayments and accrued income					
Accrued interest and rent		113		117	
Deferred acquisition costs	12	4,404		4,674	
Other prepayments and accrued income		171		224	
			4,688		5,015
Total assets			90,405		89,820
Capital and reserves					
Members' balances			(209)		(1,492)
Technical provisions					
Provision for unearned premiums	12	17,375		18,119	
Claims outstanding	12	60,547		61,516	
			77,922		79,635
Deposits received from reinsurers			880		169
Creditors					
Creditors arising out of direct insurance operations	14	1,402		1,325	
Creditors arising out of reinsurance operations	15	7,384		7,415	
Other creditors		2,131		1,900	
			10,917		10,640
Accruals and deferred income			895		868
Total liabilities			90,405		89,820

Approved by the Council of Lloyd's on 24 March 2020 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 2019

	Note	2019 £m	Restated 2018 £m
Result for the financial year before tax		690	(1,387)
(Decrease)/increase in gross technical provisions		(1,047)	6,221
(Increase)/decrease in reinsurers' share of technical provisions		(232)	(2,987)
Decrease/(increase) in debtors		40	(2,226)
Increase/(decrease) in creditors		178	997
Movement in other assets/liabilities		585	(433)
Foreign exchange		1,464	(854)
Investment return		(1,670)	(333)
Net cash flows from/(used in) operating activities		8	(1,002)
Investing activities			
Purchase of equity and debt instruments		(35,761)	(38,662)
Proceeds from sale of equity and debt instruments		35,022	39,082
Purchase of derivatives		(4,721)	(3,078)
Proceeds from sale of derivatives		4,736	3,070
Investment income received		118	607
Other		52	(362)
Net cash (outflow)/inflow from investing activities		(554)	657
Financing activities			
Net funds received from/(paid to) members		963	(851)
Net capital transferred (out of)/into syndicate premium trust funds		(405)	825
Other		(1)	(8)
Net cash outflow from financing activities		557	(34)
Net increase/(decrease) in cash and cash equivalents		11	(379)
Cash and cash equivalents at 1 January		3,782	4,110
Exchange differences on opening cash and cash equivalents		(54)	51
Cash and cash equivalents at 31 December		3,739	3,782

Notes to the Aggregate Accounts

For the year ended 31 December 2019

1 Basis of preparation

Basis of reporting

The Aggregate Accounts as at 31 December 2019 have been prepared by totalling the annual accounts of the 110 syndicates reporting as at 31 December 2019. This includes reporting of the audited results for calendar year 2019 and the financial position at 31 December 2019 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; and
– Related party transactions.

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 2019, several syndicates made restatements to the comparative figures for 2018 within their annual accounts and the Aggregate Accounts have been restated accordingly. The restatements increased the original reported loss of £1,373m by £14m and reduced the original members' balances of (£1,475m) by a further £17m.

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:

– premiums written (estimates for premiums written under delegated authority agreements) (see below and note 4);
– claims provisions and related recoveries (including provision for outstanding claims) (see below and note 12);
– investments (valuations based on models and unobservable inputs) (see below and note 9).

2. Accounting policies *continued*

The most critical accounting estimate included within the balance sheet is the estimate for outstanding claims. The total estimate, on a gross basis, as at 31 December 2019 is £60,547m (2018: £61,516m). The total estimate, net of reinsurers' share, as at 31 December 2019 is £39,759m (2018: £40,949m) and is included within the aggregate balance sheet.

Premiums written

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

Unearned premiums

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

Outward reinsurance premiums

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

Claims provisions and related recoveries

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

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

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

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

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

Additional information on insurance risk is included in note 3.

Discounted claims provisions

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

Unexpired risks provision

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

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

Acquisition costs

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

2. Accounting policies *continued*

Foreign currencies

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

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

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

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

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

Investments

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

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

Investment return

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

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

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

Taxation

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

Operating expenses

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

Profit commission

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

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

Cash at bank and in hand

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

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 normally has six working, six 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 can discharge some of its functions directly by making decisions and issuing resolutions, requirements, rules and byelaws. Other decisions are delegated to the Board and associated committees.

The Board 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 and the Remuneration Committee.

The principal committees of the Board are the Audit Committee, the Risk Committee, the Market Supervision and Review Committee, the Capacity Transfer Panel and the Investment Committee.

On 7 November 2019 it was announced that the Board would merge into the Council, with effect from 1 June 2020. Further details are provided on page 73 in the Corporate Governance Report, which forms part of the Lloyd's 2019 Annual Report.

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 2019 was 35% (2018: 35%) of the member's SCR 'to ultimate'.

Solvency Capital Requirement (Solvency II basis)

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

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

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

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

3. Risk management *continued*

The Lloyd's Internal Model

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

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

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

Details of the major risk components are set out below.

Insurance risk

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

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

Underwriting risk

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

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

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

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

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

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

Reserving risk

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

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

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

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

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

Credit risk

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

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

3. Risk management *continued*

Catastrophe risk

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

Solvency Capital Requirement coverage

Coverage of the MWSCR is an ongoing and continuous requirement and the Society reports the results of its solvency test – i.e. 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 2019, 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 2019 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.

Advantage has been taken of the transitional rules of FRS 103 that permit the stepped increase in disclosure of claims development information. The claims development information disclosed will be increased from nine years to ten years in 2020.

Gross

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	**2019 £m**	Total £m
At end of underwriting year		9,111	8,347	7,168	7,316	7,077	8,859	17,317	13,987	**10,625**	
One year later		15,360	13,673	13,648	14,086	14,749	19,393	28,109	25,612		
Two years later		15,465	13,949	13,822	14,899	15,605	20,931	30,014			
Three years later		15,327	13,712	13,468	14,771	16,364	21,669				
Four years later		15,278	13,654	13,258	15,725	16,778					
Five years later		15,098	13,500	13,575	15,851						
Six years later		15,011	13,904	13,770							
Seven years later		15,004	14,172								
Eight years later		14,988									
Cumulative payments		13,913	12,588	11,838	12,973	12,314	14,619	17,876	10,322	**1,254**	
Estimated balance to pay	4,765	1,075	1,584	1,932	2,878	4,464	7,050	12,138	15,290	**9,371**	60,547

Net

Underwriting year	2010 and prior years £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	**2019 £m**	Total £m
At end of underwriting year		7,563	6,272	5,959	5,971	5,641	6,943	9,992	9,204	**7,612**	
One year later		12,172	10,842	11,144	11,276	11,724	14,489	17,454	17,105		
Two years later		12,190	10,995	11,209	11,833	12,277	15,410	18,803			
Three years later		12,023	10,828	10,828	11,715	12,647	15,846				
Four years later		12,068	10,631	10,762	12,012	12,685					
Five years later		11,643	10,559	10,834	11,949						
Six years later		11,616	10,682	10,821							
Seven years later		11,574	10,724								
Eight years later		11,552									
Cumulative payments		10,720	9,541	9,423	9,957	9,603	11,115	11,597	7,419	**1,075**	
Estimated balance to pay	3,112	832	1,183	1,398	1,992	3,082	4,731	7,206	9,686	**6,537**	39,759

Financial risk – credit risk

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

As discussed on page 26, 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.

3. Risk management *continued*

Financial risk – credit risk *continued*

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

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

2019	Neither past due nor impaired £m	Past due £m	Impaired £m	Total £m
Debt securities	28,907	–	–	28,907
Participation in investment pools	439	–	–	439
Loans with credit institutions	117	–	–	117
Deposits with credit institutions	955	–	–	955
Derivative assets	70	–	–	70
Other investments	85	–	–	85
Deposits with ceding undertakings	38	–	–	38
Reinsurers' share of claims outstanding	20,794	–	(6)	20,788
Cash at bank and in hand	2,242	–	–	2,242
Total	**53,647**	**–**	**(6)**	**53,641**

2018	Neither past due nor impaired £m	Past due £m	Impaired £m	Total £m
Debt securities	28,003	–	–	28,003
Participation in investment pools	538	–	–	538
Loans with credit institutions	232	–	–	232
Deposits with credit institutions	1,045	–	–	1,045
Derivative assets	26	–	–	26
Other investments	43	–	–	43
Deposits with ceding undertakings	35	–	–	35
Reinsurers' share of claims outstanding	20,575	–	(8)	20,567
Cash at bank and in hand	2,264	–	–	2,264
Total	52,761	–	(8)	52,753

Assets that are past due but not impaired have been in arrears for less than six months (2018: less than six months).

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 2019 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.

2019	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	8,777	8,824	7,328	3,384	594	28,907
Participation in investment pools	89	93	35	6	216	439
Loans with credit institutions	39	35	15	10	18	117
Deposits with credit institutions	294	78	170	35	378	955
Derivative assets	–	2	2	–	66	70
Other investments	7	6	–	–	72	85
Deposits with ceding undertakings	–	–	4	–	34	38
Reinsurers' share of claims outstanding	521	4,301	13,637	229	2,106	20,794
Cash at bank and in hand	158	152	1,699	90	143	2,242
Total credit risk	**9,885**	**13,491**	**22,890**	**3,754**	**3,627**	**53,647**

2018	Rated AAA £m	Rated AA £m	Rated A £m	Rated BBB £m	Other £m	Total £m
Debt securities	9,156	7,572	7,328	3,146	801	28,003
Participation in investment pools	128	131	36	7	236	538
Loans with credit institutions	35	38	–	14	145	232
Deposits with credit institutions	312	117	188	64	364	1,045
Derivative assets	–	–	8	–	18	26
Other investments	9	1	–	–	33	43
Deposits with ceding undertakings	–	–	2	–	33	35
Reinsurers' share of claims outstanding	616	3,829	13,724	107	2,299	20,575
Cash at bank and in hand	110	105	1,678	254	117	2,264
Total credit risk	10,366	11,793	22,964	3,592	4,046	52,761

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

2019	No stated maturity £m	0-1yr £m	1-3yrs £m	3-5yrs £m	>5yrs £m	Total £m
Claims outstanding	1	19,954	21,457	9,736	9,399	60,547
Derivatives	–	15	–	–	–	15
Deposits received from reinsurers	641	177	47	10	5	880
Creditors	795	9,127	913	57	10	10,902
Other liabilities	13	71	–	–	–	84
Total	**1,450**	**29,344**	**22,417**	**9,803**	**9,414**	**72,428**

2018	No stated maturity £m	0-1yr £m	1-3yrs £m	3-5yrs £m	>5yrs £m	Total £m
Claims outstanding	2	20,045	22,618	9,518	9,333	61,516
Derivatives	–	21	–	–	–	21
Deposits received from reinsurers	26	104	30	7	2	169
Creditors	968	7,968	1,477	146	60	10,619
Other liabilities	1	36	3	1	–	41
Total	997	28,174	24,128	9,672	9,395	72,366

Financial risk – market risk – overview

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

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

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

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

Market risk comprises three types of risk:

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

Notes to the Aggregate Accounts *continued*

For the year ended 31 December 2019

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 2019, 67% (2018: 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:

2019	Sterling £m	US dollar £m	Euro £m	Canadian $ £m	Australian $ £m	Other £m	Total £m
Financial investments	5,015	24,408	2,208	4,450	306	212	36,599
Reinsurers' share of technical provisions	4,157	17,955	1,312	844	338	115	24,721
Insurance and reinsurance receivables	2,857	13,232	786	452	360	313	18,000
Cash at bank and in hand	494	904	413	80	214	137	2,242
Other assets	1,361	4,449	479	938	1,334	282	8,843
Total assets	**13,884**	**60,948**	**5,198**	**6,764**	**2,552**	**1,059**	**90,405**
Technical provisions	14,939	50,053	5,576	4,253	1,842	1,259	77,922
Insurance and reinsurance payables	1,402	6,463	370	335	130	86	8,786
Other creditors	1,568	2,032	5	226	50	25	3,906
Total liabilities	**17,909**	**58,548**	**5,951**	**4,814**	**2,022**	**1,370**	**90,614**
Total capital and reserves	**(4,025)**	**2,400**	**(753)**	**1,950**	**530**	**(311)**	**(209)**

2018	Sterling £m	US dollar £m	Euro £m	Canadian $ £m	Australian $ £m	Other £m	Total £m
Financial investments	4,665	23,931	2,296	4,367	364	195	35,818
Reinsurers' share of technical provisions	3,996	18,198	1,385	695	238	159	24,671
Insurance and reinsurance receivables	2,956	13,090	998	452	282	266	18,044
Cash at bank and in hand	439	983	482	88	133	139	2,264
Other assets	1,841	4,180	603	880	1,254	265	9,023
Total assets	13,897	60,382	5,764	6,482	2,271	1,024	89,820
Technical provisions	15,264	51,628	6,312	3,836	1,593	1,002	79,635
Insurance and reinsurance payables	1,267	6,400	593	294	113	73	8,740
Other creditors	986	1,873	(148)	154	40	32	2,937
Total liabilities	17,517	59,901	6,757	4,284	1,746	1,107	91,312
Total capital and reserves	(3,620)	481	(993)	2,198	525	(83)	(1,492)

3. Risk management *continued*

Sensitivity analysis

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

2019	Impact on result before tax £m	Impact on members' balances £m
Strengthening of US dollar	442	442
Weakening of US dollar	(362)	(362)
Strengthening of euro	(84)	(84)
Weakening of euro	68	68

2018	Impact on result before tax £m	Impact on members' balances £m
Strengthening of US dollar	287	287
Weakening of US dollar	(235)	(235)
Strengthening of euro	(110)	(110)
Weakening of euro	90	90

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.

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

2018	Impact on result before tax £m	Impact on members' balances £m
+ 50 basis points	(328)	(328)
- 50 basis points	323	323

3. Risk management *continued*

Financial risk – equity price risk

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

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

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

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

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

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

2018	Impact on result before tax £m	Impact on members' balances £m
5% increase in equity markets	85	85
5% decrease in equity markets	(85)	(85)

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 Board review. Any reported metrics outside of appetite are reported to and discussed by the Risk Committee and Board. Specific and targeted actions can then be agreed, which will be discussed with specific managing agents or the market as a whole, as appropriate. These actions can vary considerably depending on the nature of the risk or the line of business impacted, with different levels of the requirements placed on syndicates, which forms part of the Society's oversight role of the market.

Further analysis of premiums, claims, expenses and underwriting result by line of business is included within note 4, with commentary on the performance of each line of business included on pages 7-13. Analysis of premium by geographical region is included both within note 4 (which details where contracts were concluded) as well as within the Lloyd's line of business breakdown by region analysis in the '2019 At a Glance' section at the beginning of the Lloyd's Annual Report 2019. Analysis of capital providers by source and location is also included in the '2019 At a Glance' section of the Lloyd's Annual Report 2019. Analysis of investments held at the syndicate level is disclosed in note 9.

Regulatory risk

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

Operational risk

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

Group risk

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

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

4. Segmental analysis

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

2019	Gross written premiums £m	Gross premiums earned £m	Gross claims incurred £m	Operating expenses £m	Reinsurance balance £m	Result £m
Accident and health	1,042	1,127	(674)	(446)	(60)	(53)
Motor (third party liability)	141	141	(109)	(40)	(6)	(14)
Motor (other lines)	928	949	(566)	(301)	(58)	24
Marine, aviation and transport	4,359	4,679	(3,336)	(1,376)	(138)	(171)
Fire and other damage to property	8,061	8,134	(4,666)	(2,482)	(1,017)	(31)
Third party liability	8,638	8,476	(6,136)	(2,555)	(122)	(337)
Pecuniary loss	1,578	1,611	(884)	(498)	(182)	47
Life	102	103	(82)	(25)	4	–
Other	600	427	(711)	73	210	(1)
Total direct insurance	25,449	25,647	(17,164)	(7,650)	(1,369)	(536)
Reinsurance acceptances	12,067	11,884	(8,715)	(2,703)	(901)	(435)
Balance on the technical account for general business	37,516	37,531	(25,879)	(10,353)	(2,270)	(971)

2018	Gross written premiums £m	Gross premiums earned £m	Gross claims incurred £m	Operating expenses £m	Reinsurance balance £m	Result £m
Accident and health	1,211	1,162	(675)	(463)	(63)	(39)
Motor (third party liability)	158	147	(108)	(44)	(4)	(9)
Motor (other lines)	879	878	(451)	(280)	(126)	21
Marine, aviation and transport	4,047	4,252	(2,642)	(1,352)	(428)	(170)
Fire and other damage to property	8,474	8,214	(6,185)	(2,661)	(306)	(938)
Third party liability	7,883	7,411	(5,050)	(2,389)	(118)	(146)
Pecuniary loss	1,706	1,589	(757)	(529)	(173)	130
Life	83	92	(46)	(28)	(1)	17
Other	985	948	(1,260)	(7)	314	(5)
Total direct insurance	25,426	24,693	(17,174)	(7,753)	(905)	(1,139)
Reinsurance acceptances	11,797	11,688	(9,461)	(2,578)	(114)	(465)
Balance on the technical account for general business	37,223	36,381	(26,635)	(10,331)	(1,019)	(1,604)

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 2019 Annual Report. This is disclosed to reconcile the balance on the technical account for general business to the additional analysis and market commentary included on pages 7-13 of the Aggregate Accounts.

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

2018	Gross written premiums £m	Net earned premium £m	Net incurred claims £m	Net operating expenses £m	Underwriting result £m
Reinsurance	11,070	7,650	(5,524)	(2,582)	(456)
Property	9,687	6,692	(4,319)	(3,073)	(700)
Casualty	9,094	6,363	(3,696)	(2,850)	(183)
Marine, Aviation and Transport	3,152	2,564	(1,872)	(1,084)	(392)
Energy	1,404	897	(392)	(392)	113
Motor	1,037	940	(607)	(321)	12
Life	83	72	(28)	(28)	16
Total from syndicate operations	35,527	25,178	(16,438)	(10,330)	(1,590)
Adjustments in the Annual Report not made in the Aggregate Accounts				460	460
PFFS premiums and underwriting result	35,527	25,178	(16,438)	(9,870)	(1,130)
Allocated investment return transferred from the non-technical account					367
Balance on the technical account for general business					(763)

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

	2019 £m	2018 £m
United Kingdom	25,043	24,063
Other EU member states	26	38
Rest of the World	380	356
Total	25,449	24,457

5. Life business

The Aggregate Accounts include the results of all life and non-life syndicates transacting business during 2019. 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. Claims outstanding

The aggregate of the prior year surpluses/deficiencies is a surplus of £232m (2018: £976m). The surplus arises across all lines of business except for the marine line of business, reflecting favourable claims development compared with projections in these lines.

7. Net operating expenses

	2019 £m	2018 £m
Acquisition costs	9,028	9,114
Change in deferred acquisition costs	138	(171)
Administrative expenses	2,552	2,744
Reinsurance commissions and profit participations	(1,344)	(1,340)
	10,374	10,347

Total commissions for direct insurance accounted for in the year amounted to £6,057m (2018: £6,100m).

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:

	2019 £000	2018 £000
Services pursuant to legislation in respect of the Aggregate Accounts	120	114
Total	120	114

8. Investment return

Interest and similar income	2019 £m	2018 £m
From financial instruments designated as at fair value through profit or loss	776	658
From available for sale investments	36	39
Dividend income	23	43
Interest on cash at bank	52	50
Other interest and similar income	30	19
Investment expenses	(58)	(45)
Total	859	764

Other income from investments designated as at fair value through profit or loss	2019 £m	2018 £m
Realised gains/(losses)	160	(133)
Unrealised gains/(losses)	653	(290)
Other relevant income/(losses)	(2)	(8)
Total	811	(431)

Total investment return	1,670	333

9. Financial investments

	2019 £m	2018 £m
Shares and other variable yield securities	6,026	5,931
Debt securities and other fixed income securities	28,907	28,003
Participation in investment pools	439	538
Loans and deposits with credit institutions	1,072	1,277
Other investments	155	69
	36,599	35,818

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 (i.e. as prices) or indirectly (derived from prices); and
- Level 3 – inputs to a valuation model for the asset that are not based on observable market data (unobservable inputs) and are significant to the overall fair value measurement. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions it is considered that market participants would use in pricing the asset.

9. Financial investments *continued*

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

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

2019	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	Assets held at amortised cost £m	Total £m
Shares and other variable yield securities	2,072	3,117	834	6,023	3	6,026
Debt and other fixed income securities	7,707	21,188	12	28,907	–	28,907
Participation in investment pools	273	159	7	439	–	439
Loans and deposits with credit institutions	477	562	27	1,066	6	1,072
Other investments	14	67	74	155	–	155
Total investments	**10,543**	**25,093**	**954**	**36,590**	**9**	**36,599**
Borrowings	–	–	–	–	–	–
Derivative liabilities	(3)	(10)	(1)	(14)	–	(14)
Total liabilities	**(3)**	**(10)**	**(1)**	**(14)**	**–**	**(14)**

2018	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	1,511	3,645	774	5,930	1	5,931
Debt and other fixed income securities	7,646	20,337	20	28,003	–	28,003
Participation in investment pools	299	220	19	538	–	538
Loans and deposits with credit institutions	472	637	168	1,277	–	1,277
Other investments	9	35	25	69	–	69
Total investments	9,937	24,874	1,006	35,817	1	35,818
Borrowings	(4)	–	(14)	(18)	–	(18)
Derivative liabilities	(10)	(10)	(1)	(21)	–	(21)
Total liabilities	(14)	(10)	(15)	(39)	–	(39)

10. Debtors arising out of direct insurance operations

	2019 £m	2018 £m
Due within one year		
– policyholders	–	1
– intermediaries	9,096	9,422
Due after one year		
– policyholders	–	–
– intermediaries	76	102
	9,172	9,525

11. Debtors arising out of reinsurance operations

	2019 £m	2018 £m
Due within one year	7,818	7,167
Due after one year	1,010	1,352
	8,828	8,519

12. Insurance liabilities and reinsurance assets

(a) Provisions for unearned premiums

2019	Gross £m	Reinsurers' share £m	Net £m
At 1 January	18,119	4,104	14,015
Premiums written in the year	37,516	11,028	26,488
Premiums earned in the year	(37,531)	(11,053)	(26,478)
Exchange/other movements	(729)	(146)	(583)
At 31 December	17,375	3,933	13,442

2018	Gross £m	Reinsurers' share £m	Net £m
At 1 January	16,601	3,599	13,002
Premiums written in the year	37,223	10,492	26,731
Premiums earned in the year	(36,381)	(10,167)	(26,214)
Exchange/other movements	676	180	496
At 31 December	18,119	4,104	14,015

(b) Deferred acquisition costs

	2019 £m	2018 £m
At 1 January	4,674	4,303
Change in deferred acquisition costs	(138)	166
Exchange movements	(129)	173
Other	(3)	32
At 31 December	4,404	4,674

12. Insurance liabilities and reinsurance assets *continued*

(c) Claims outstanding

2019	Gross £m	Reinsurers' share £m	Net £m
At 1 January	61,516	20,567	40,949
Claims paid during the year	(23,567)	(7,657)	(15,910)
Claims incurred during the year	25,879	8,783	17,096
Exchange movements	(1,804)	(556)	(1,248)
Other	(1,477)	(349)	(1,128)
At 31 December	**60,547**	**20,788**	**39,759**

2018	Gross £m	Reinsurers' share £m	Net £m
At 1 January	55,877	17,795	38,082
Claims paid during the year	(21,525)	(6,530)	(14,995)
Claims incurred during the year	26,635	9,148	17,487
Exchange movements	1,909	546	1,363
Other	(1,380)	(392)	(988)
At 31 December	61,516	20,567	40,949

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	2019 %	2018 %	2019 years	2018 years
Motor (third party liability)	1.80	2.41	28.53	26.12
Motor (other lines)	2.98	2.98	5.84	2.29
Third party liability	2.74	2.59	22.66	22.42

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	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Total claims provisions	1,353	1,438	(338)	(337)	1,015	1,101
Reinsurers' share of total claims	422	398	(68)	(63)	354	335

14. Creditors arising out of direct insurance operations

	2019 £m	2018 £m
Due within one year	1,345	1,322
Due after one year	57	3
	1,402	1,325

15. Creditors arising out of reinsurance operations

	2019 £m	2018 £m
Due within one year	6,536	6,150
Due after one year	848	1,265
	7,384	7,415

16. Note to the statement of cash flows

	2019 £m	2018 £m
Cash at bank and in hand	2,242	2,264
Short term deposits with credit institutions	1,798	1,731
Overdrafts	(301)	(213)
	3,739	3,782

Of the cash and cash equivalents, £320m (2018: £326m) 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 2019, 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 2019 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 2019 there was £4,616m (2018: £5,053m) 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

COVID-19 pandemic

The recent volatility in financial markets has impacted the valuation of the investment portfolios. Whilst there is still a significant degree of uncertainty, having considered the positions within the financial markets up to 19 March 2020 our estimates indicate that the market-wide solvency ratio continues to be above our risk appetite. A further 220 basis points widening of credit spreads and 26% fall in equity values would result in a more material impact to the market-wide solvency ratio, however it would continue to be in excess of regulatory requirements.

The impact of current economic uncertainty on individuals and businesses could also lead to policyholder claims across a number of classes. At this early stage of development, it is difficult to assess the financial impact of any potential claims on either technical provisions or capital requirements. However, taking into consideration current laws and regulations we do not expect these to impact the Lloyd's market ability to satisfy regulatory solvency requirements.

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