LLOYD'S

LLOYD'S STRATEGY

2010-2012

LLOYD’S VISION

TO BE THE MARKET OF CHOICE FOR INSURANCE AND REINSURANCE BUYERS AND SELLERS TO ACCESS AND TRADE SPECIALIST PROPERTY AND CASUALTY RISKS

TO BE DELIVERED OVER THE PLAN PERIOD BY

- MAINTAINING AND DEVELOPING THE ATTRACTIVENESS OF THE LLOYD’S MARKET
- A RESOLUTE FOCUS ON UNDERWRITING DISCIPLINE AND RISK MANAGEMENT

CHIEF EXECUTIVE OFFICER'S INTRODUCTION

THE LLOYD'S SUBSCRIPTION MARKET IS SERVING ITS CUSTOMERS WELL.

This plan is the result of extensive market consultation and I would like to thank all who gave their time to provide input.

Lloyd's strong performance in 2009, in the midst of global financial turbulence, is a tribute to the success of recent strategies and the focus on performance management and capital preservation. Our model, as a subscription market backed by a layer of mutual security is unusual but it is clearly serving us, the non-life insurance industry and the customer well. The Corporation's role in overseeing the performance of market participants – a fundamental part of Lloyd's success over recent years – will remain a top priority for 2010-2012.

But it is also time to take a more outward view, and this plan examines the external pressures which will influence our continued future success. In the shorter term, the global financial climate continues to present real challenges to the market. We will also need to manage the implementation of Solvency II, which will have a major impact on us and the whole industry.

In the longer term, Lloyd's needs to position itself to ensure that it remains the market of choice for specialist property and casualty risks. This includes working to promote the competitiveness of London as a financial services centre. The continued success of Lloyd's and the London insurance market is intrinsically tied to the reputation of the City of London itself. We benefit, in particular, from the depth of knowledge and wealth of skills of the people working in the London insurance market and its highly regarded ancillary services. 40,000 people work in the London insurance market, supported by 10,000 people elsewhere in the UK. This is around a quarter of all people employed in financial services in the City.

This plan identifies some of the main trends which will impact Lloyd's in the future and our response to them. At the heart of that response is a reiteration of Lloyd's as a broker market – brokers are Lloyd's distribution partners and are central to the market's ongoing success.

There are no major shifts in direction in this plan. This is, in part, because the market is performing well. It serves its function to provide profitable, innovative and bespoke insurance solutions to clients across the world. But it is also the case that it is the market participants – the underwriters and the brokers, rather than the Corporation – who take first responsibility to ensure they are well positioned to reap future gains.

As a result of this external focus, the market consultation that preceded the development of this document was more extensive than in the past. We spoke to over 50 managing agents, brokers and other interested stakeholders and I would like to thank all who gave their time to provide input. This close collaboration, in particular with the Lloyd's Market Association and the London & International Insurance Brokers' Association will continue as, together, we implement this strategy.

The plan not only covers the major areas of activity for the next three years but also includes specific Corporation actions for 2010 (our one year plan).

Our strategy is not one of radical change – perhaps in today's climate this is something of an achievement in itself – but it will provide us with a new clarity of direction, and ensure that Lloyd's continues to thrive.

RICHARD WARD
Chief Executive Officer
February 2010

COMPETITIVE ENVIRONMENT

LLOYD'S COMPETITIVE ENVIRONMENT

LLOYD'S CURRENT COMPETITIVE POSITIONING AND THE CHALLENGES OVER THE PLAN PERIOD.

HIGH LEVEL OVERVIEW OF THE CURRENT COMPETITIVE ENVIRONMENT

GLOBAL ECONOMY

The global economy appears to be beginning its nervous recovery from the recent economic downturn. However, the path of this recovery is uncertain, with few commentators agreeing on its likely speed and smoothness.

It is not clear when governments and central banks will pull back from their interventions into world markets and how and when significant fiscal deficits will be addressed. The approach taken to these issues will impact the speed of recovery, the likely trajectory of inflation and the availability of investment returns over the coming years.

Generally speaking, the availability of liquidity and credit is improving. However, such options are likely to be available only to quality businesses. For others, it will be constrained and the cost will undoubtedly be higher. This will make businesses with strong underlying performance and capital strength well positioned to face the uncertainty which will continue to dominate the global economy in 2010 and beyond.

INSURANCE INDUSTRY

The non-life insurance industry is emerging relatively unscathed from the turmoil in the wider financial services market both in terms of financial and reputational impact. The fundamental differences between the non-life insurance and banking business models have meant that the sector has been resilient and has functioned normally.

Non-life insurers are focused on managing risk and tend to adopt prudent investment strategies. This, combined with a lack of significant balance sheet leverage, means that the vast majority of businesses have withstood the market turmoil. The uncertainty around the economic recovery will, however, present non-life insurers with challenges in trying to maximise investment returns and manage the impact of inflation on the claims environment.

The regulatory landscape for financial services businesses is under the microscope and policymakers and governments are reviewing how to address the systemic failures in the banking sector. Insurers need to guard against being burdened with inappropriate and potentially damaging regulation primarily aimed at the banking sector. The European insurance industry is investing heavily in preparation for the introduction of Solvency II, the most significant regulatory change in 30 years. The industry must ensure that these changes do not adversely affect its ability to compete in the global insurance market. In addition, while some have questioned the economic utility of some aspects of the financial markets, the non-life insurance industry has a compelling story to tell and needs to promote actively the social value of its services.

The financial crisis and the recessionary pressures which followed have led to changes in the behaviour of non-life insurance buyers. Risk managers are seeking to spread risk by diversifying business across a range of insurers and are also under pressure to reduce the cost of insurance cover, for example through increased retentions. This could result in lower demand for non-life insurance which would also feed through into lower growth or even a contraction in the reinsurance market.

As globalisation continues, greater regionalisation of both political influence and trade is occurring. The growth of the emerging economies (eg Brazil, China, new EU members) and regional insurance centres (eg specialist insurance business written in local or regional markets, such as Singapore) have the potential to disrupt the traditional flows of insurance business. In response, many major brokers are creating regional placement centres and insurers domiciled in London are taking steps to ensure that their business models enable them to compete globally.

The growth of capital market products within the insurance industry has slowed, but it would be wrong to assume an end to this trend. The value of the catastrophe bond market, while below its peak, is still substantial with nearly $3.4bn in new issuances during 2009 and innovation can be expected to resume as confidence returns to the sector.

The world is becoming a riskier place. Claims severity is increasing for both natural and man-made events and new risks continue to emerge. This is a challenge for the industry but also allows businesses to innovate and develop new products to respond to policyholders' changing needs.

Environmental concerns, and climate change in particular, will continue to grow in importance. Insurers must take climate change into account in their risk modelling and product development. The industry's own operations and business development must be undertaken in a thoughtful and sustainable manner. The industry must also continue to use its position to influence society to help reduce and address climate related risks.

Underwriting conditions over the plan period are expected to remain challenging in the absence of a major event materially impacting the rating environment. In the main, the non-life insurance industry is currently well capitalised. This, alongside greater competition resulting from the splintering of underwriting teams at some insurers, increases the supply of capacity to the industry. Combined with the potential for falling demand discussed above, these pressures are expected to suppress any material increases in rates.

LLOYD'S POSITION

The recent strong performance of the Lloyd's market, despite a challenging economic backdrop, is due to a number of factors:

- A strong balance sheet
- A conservative investment strategy
- Underwriting discipline and expertise ensuring a focus on underwriting profit
- Limited participation in the insurance lines most exposed to the impact of the economic downturn
- An absence of major catastrophe events in 2009

The attractiveness of the Lloyd's market to insurance investors and buyers has been evidenced both in the number of businesses interested in joining the market over recent years and in the increasing importance of the subscription market to customers and brokers.

The stability and security of the Lloyd's market is very attractive to brokers and clients. This, in combination with the ability to diversify risk placement through the Lloyd's and London subscription markets and Lloyd's underwriters' reputation for product innovation, has ensured that Lloyd's operating performance has been strong throughout the recent economic crisis. This positions the market well for the next three years.

CHALLENGES FACING THE LLOYD'S MARKET

- **Maintain underwriting discipline –** A commitment to maintaining underwriting discipline now is necessary if the Lloyd's market is to use its strengths to exploit future opportunities.
- **Maintain London's position as the leading centre for specialist (re)insurance –** The clustering of underwriting, claims, broking and other correlated skills makes London the pre-eminent centre for specialist (re)insurance business. That said, international competition, higher tax rates and increasing City regulation have put London's position as a global financial centre at risk. Against this backdrop, market participants need to continue to work both individually and collectively to protect London's position. This will include promoting the market internationally; lobbying government on ways to improve London's competitive position, including the UK tax regime; and continuing to improve the efficiency of business processes.
- **Maintain access to business in the face of a changing distribution landscape –** The development of regional insurance centres may threaten the flows of some business into London. Many Lloyd's participants are keen to ensure that they have the ability to access local markets to both grow and diversify their businesses. If the Lloyd's market is not to be marginalised in the long term, it is necessary to make it as efficient as possible to attract business to London and also provide access to those regional insurance centres where there is sufficient demand from Lloyd's market participants.
- **Maintain the attractiveness of Lloyd's compared to other specialist insurance markets –** It has become the norm for specialist global insurers to have multiple operations across a number of locations, including the US, EU, Bermuda, Switzerland and at Lloyd's (the multi-platform model), which offer complementary access to flows of (re)insurance business. Over 80% of participants at Lloyd's now have access to other insurance platforms outside the Lloyd's market. The Corporation must ensure that the attractions of the market are understood and continue to attract specialist insurance business.
- **Protect Lloyd's capital, licences, brand and ratings –** In an increasingly demanding regulatory environment, Lloyd's must ensure there is no erosion of its relative capital, brand and licensing advantages, which in turn could weaken Lloyd's market ratings.

LLOYD'S KEY ATTRIBUTES

Consideration has been given to the market's key attributes and the likely influences on them over the plan period. Some attributes are strengths and work will concentrate on further improving them; others require more focus and investment. This has led to the identification of the market's strategic priorities for the plan period and the Corporation's priorities for 2010.

TABLE 1 – LLOYD'S KEY ATTRIBUTES

ATTRIBUTES	INFLUENCING FACTORS
STRENGTHS	
BUSINESS FLOWS	> Regionalisation of placement of some specialist business
CAPITAL EFFICIENCY	> Risk of Solvency II adversely affecting Lloyd's capital efficiency
BRAND AND REPUTATION	> Risk to Lloyd's brand strength arising from contagion from the negative reputation of the financial services industry post the recent financial crisis > Potential dilution of the Lloyd's brand as market participants continue to develop their own brands
RATINGS	> Rating agencies have a generally negative view of the non-life sector going into 2010 > Performance management framework and the successful adoption of Solvency II are key to the ongoing strength of the ratings
UNDERWRITING EXPERTISE AND PRODUCT INNOVATION	> Competition for talent with other financial services sectors
SUBSCRIPTION MARKET	> Increasing demand for diversified risk placement
MUTUALITY	> Security of a market backed by a central fund is attractive in the current economic climate
MARKET'S FINANCIAL PERFORMANCE	> Uncertainty in the global economic and financial climate > Uncertainty in the underwriting and claims climate
AREAS OF FOCUS	
DISTRIBUTION MODEL	> Structural change and consolidation in London and local broker markets presents risks to the flow of business to London
MARKET PORTFOLIO – PRODUCT DIVERSIFICATION	> Catastrophe lines currently have the highest profit potential > Lloyd's increasingly plays a specific role in multi-platform insurers' strategies
MARKET PORTFOLIO – GEOGRAPHIC DIVERSIFICATION	> Growth of insurance markets in emerging economies > Limited share of mainstream commercial business in some established markets
OPERATING ENVIRONMENT	> Wider technological advances potentially outpacing the Lloyd's market's speed of change

	RESPONSE
	> Continue to maintain a competitive licence network > Undertake licence development where opportunities arise > Continue to improve underlying operations supporting business flows > Enhance and promote the coverholder channel
	> Continue work to lobby and influence the development of Solvency II
	> Emphasise the difference between non-life insurance and other parts of the financial services sector > Promote economic/social utility of non-life insurance > Continue to protect, develop and promote the brand
	> Continue to manage relationships with rating agencies and maintain ratings > Maintain underwriting discipline > Continuous improvement in the design and application of the performance management framework
	> Work with market bodies to deliver talent and development initiatives
	> Maintain diversity of market participants > Continue to improve the operational efficiency of the subscription market
	> Continue to protect the central fund > Continuous improvement in the design and application of the performance management framework
	> Continuous improvement in the design and application of the performance management framework > Successful implementation of Solvency II by the Corporation and market
	> Focus broker relationship management on London brokers and local producing brokers > Enhance and promote the coverholder channel
	> Working with market participants, refine the market's overall risk appetite as part of the preparation for Solvency II > Affirmation of focus on profit ahead of growth > Affirmation of specialty insurance focus > Access to smaller, profitable, specialist risks primarily through the coverholder channel
	> Affirmation of focus on profit ahead of growth > Affirmation of specialty insurance focus > Promote the Lloyd's market to local producing brokers and coverholders > Access to smaller, profitable specialist risks primarily through the coverholder channel
	> Deliver and embed current initiatives to simplify movement of data to improve processing and reporting > Deliver and realise benefits from the Claims Transformation initiatives

TABLE 2 – LLOYD'S PRIORITIES

THE MARKET'S STRATEGIC PRIORITIES FOR THE PLAN PERIOD

> **Maintain and develop the attractiveness of the Lloyd's market**
- London: work with other stakeholders to maintain and promote the competitiveness of London as a financial services centre
- Operating environment: continue to improve the efficiency of business flows and placement, accounting and claims handling
- Regulatory environment: continue to influence the evolving regulatory landscape to maintain Lloyd's capital and licensing advantages

> **Resolute focus on underwriting discipline and risk management**
- Performance management framework: continued application of minimum standards and guidelines to drive ongoing performance improvements across the market
- Risk management: ensure high quality, robust risk management practices are developed and embedded at both individual market participant and aggregate market levels as part of Solvency II implementation

CORPORATION PRIORITIES FOR 2010

> **Performance management**
- A resolute focus on underwriting discipline and risk management

> **Solvency II**
- Implementing Solvency II at Lloyd's in a way that protects, and where possible, enhances Lloyd's capital structure and efficiency

> **The Exchange**
- Increasing adoption and use of The Exchange

> **Claims Transformation**
- Driving a transformation in the way the Lloyd's market handles claims to enhance the experience of the customer

> **Access to business**
- Improving access to business through streamlining coverholder management

VISION

KEY CHARACTERISTICS

LLOYD'S VISION IS TO BE THE MARKET OF CHOICE.

Lloyd's vision remains:

"To be the market of choice for insurance and reinsurance buyers and sellers to access and trade specialist property and casualty risks."

This vision reflects the strength of Lloyd's as a market. Being a market continues to be a virtue; the competition and diversity inherent in a market, whether in relation to business mix, market participants or capital make Lloyd's an attractive place for insurance investors, brokers and buyers.

Much has been achieved in the last few years in embedding changes to the way Lloyd's does business, raising standards in underwriting and risk management and building up the market's capital strength. These changes helped the Lloyd's market to cope well with the financial crisis. The market remains a demonstrably attractive place to do business and is well positioned to continue to take advantage of opportunities over the coming years.

KEY CHARACTERISTICS

Many of the defining characteristics of Lloyd's are at the core of its centuries' long heritage as an insurance market. Lloyd's is not a unitary insurance company but a subscription marketplace for specialist (re)insurance business which is owned by its members.

The existence of the central fund which provides an additional layer of capital for the protection of policyholders is unique to Lloyd's and underpins its capital strength, licences, ratings and the market's reputation for claims payment.

The individual actions within this plan are not in themselves a radical change in direction. However, clarity has been achieved around Lloyd's key characteristics.

These are:

- Lloyd's model – **a subscription market backed by a layer of mutual security** – is one which positions the market well over the plan period
- Lloyd's is **a broker market** – brokers continuing to access the market on behalf of their clients is critical to the market's ongoing success
- Lloyd's is **a London-based international business** – it is a major role of the Corporation to maintain and enhance market access and to ease the flow of business into the market
- **Diversity** underpins the market's attractiveness – this includes diversity in the market portfolio (product and geographic balance) and in the size and structure of market participants and capital providers

THE ROLE OF THE CORPORATION

This plan does not fundamentally change the Corporation's role and its relationship with the market from that set out at the time of the establishment of the Franchise Board in 2003. The role of the Corporation is as follows:

- To undertake the overall risk and performance management of the market
- To maintain and develop the attractiveness of the market for capital providers, distributors and customers while preserving Lloyd's diversity and London-based business model

This plan has been developed in consultation with the market – managing agents, capital providers and brokers. It is built around the needs of Lloyd's market participants and expresses what the Corporation can do to support their business aims. The Corporation will take action where necessary in the long-term interests of the market, but in general its actions are guided by market need and demand.

GLOBAL INSURANCE MARKET

LLOYD'S POSITION IN THE GLOBAL INSURANCE MARKET

LLOYD'S IS THE LEADING INSURANCE MARKET FOR SPECIALIST AND COMPLEX RISKS ACROSS THE GLOBE.

TRENDS AND ISSUES

MARKET PORTFOLIO

PRODUCT BALANCE

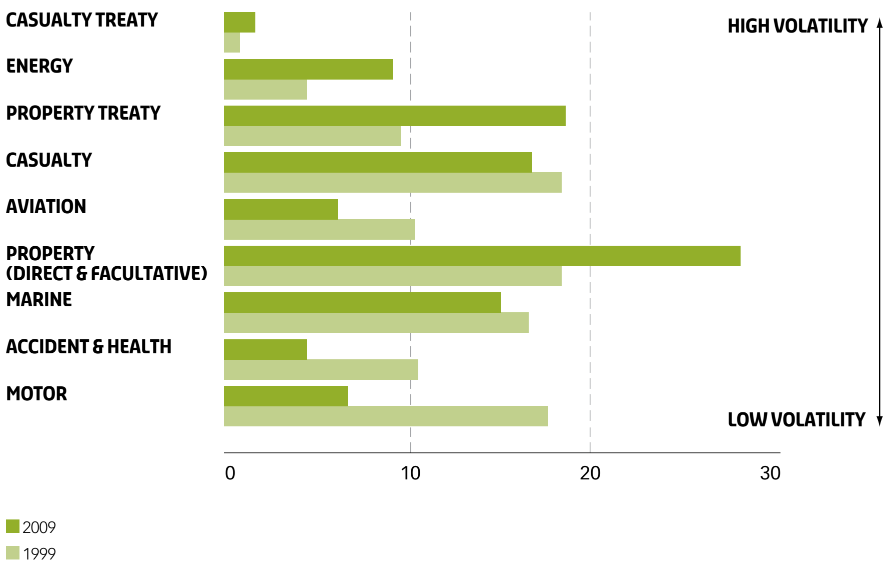
Over the past decade, the Lloyd's market has seen a gradual shift towards more catastrophe exposed business, particularly property and energy business in the US (see Figure 1). This is driven by two main factors:

- Businesses at Lloyd's responding to profit opportunities – catastrophe business, and US catastrophe insurance in particular, has demonstrated a higher margin than other classes in recent years
- The role of the Lloyd's market in the strategies of multi-platform insurers as the most attractive option for writing specialist and complex insurance risks resulting from the relative capital efficiencies of the Lloyd's model

FIGURE 1

LLOYD'S PRODUCT BALANCE

% contribution to Lloyd's premium*



Note: volatility ranking determined by the volatility of underwriting results 1997-2008
*2009 planned gross written premium, 1999 actual gross written premium
Source: Lloyd's

LLOYD'S POSITION IN THE GLOBAL INSURANCE MARKET CONTINUED

GEOGRAPHIC BALANCE

The Lloyd's market portfolio is heavily focused on North America and the UK, with limited penetration in the large developed continental European insurance markets or smaller insurance markets in developing economies (see Figure 2).

> The Lloyd's market is a significant player in the specialist US insurance markets (Reinsurance and Excess & Surplus Lines). Any further strengthening of this position would be subject to the attractiveness of the pricing environments in target lines of business

> Continental European markets are very competitive and are well served by domestic incumbents although smaller specialist risks within these markets may present attractive opportunities for Lloyd's market participants

> Emerging markets tend to grow initially in insurance lines outside the Lloyd's market's focus and to the extent that there is a need for specialist (re)insurance capacity, Lloyd's is generally well positioned to access this business via the international (re)insurance markets

DISTRIBUTION

Lloyd's is a broker market. Whether business is placed in the Underwriting Room or on a local delegated authority basis, brokers play a significant role in the identification and structuring of the risk placement. This model has served Lloyd's well in building up a strong presence in important international markets while maintaining scale and underwriting expertise centred in London. This model is beneficial for businesses at Lloyd's as they do not need to fund and manage sizeable direct sales forces or customer service units.

Much of the market's business comes via the three largest global brokers (see Figure 3 on page 13). This concentration is not unusual within the insurance industry, although it is magnified by Lloyd's position as a broker market.

Structural changes within the broker market continue. Consolidation and changes to business models have been underway for some time, intended to drive efficiencies and increase global reach. Many brokers are reassessing the value of, and restructuring, their local networks. It is anticipated that successful brokers of the future will exploit either scale or a specialist niche.

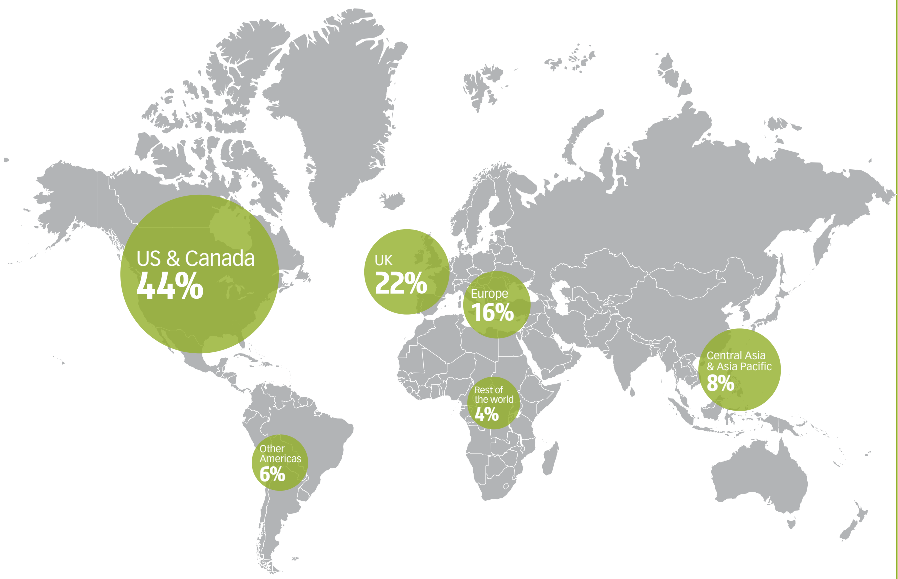
These changes, which are well underway in the London market, are also taking place in international markets. A number of Lloyd's key territories are seeing the emergence of strong local brokers.

At the smaller end of the specialist insurance market, many insurers continue to grow through the use of delegated authority arrangements with local agents (in Lloyd's language 'coverholders' or 'service companies' where owned by a managing agent). That said, Lloyd's reporting requirements for coverholders have traditionally been seen as more onerous than those of the competition in local markets. It can also be more difficult to interface with the Lloyd's market.

FIGURE 2

LLOYD'S TOTAL BUSINESS BREAKDOWN BY REGION

% of total premium*



Note: geographic split is based on Xchanging Ins-sure Services data, as at 31 December 2008
* Premium based on 2008 gross written premium

WHAT THIS MEANS FOR THE LLOYD'S MARKET

Lloyd's needs to maintain its strong position in established markets and product lines, while ensuring effective management of the market's aggregate exposures.

The market is working to improve its geographic reach and product diversification with the aim of improving its overall risk profile and thereby increasing its attractiveness. Any new business flows should be subject to the same rigorous underwriting discipline as existing business. Diversity is likely to come from the application of the market's existing strengths and expertise to new territories and new market segments which require underwriting expertise and not from targeting mainstream commercial and personal lines insurance risks. There is, for example, no compelling need or demand to widen the Lloyd's market's access to the US Admitted market beyond the current position.

The Lloyd's market's approach in different geographic markets can be summarised in broad terms as:

In developed/established markets (eg US, Canada):

> A London-based model making use of established broker distribution to access reinsurance and specialist insurance business

> Accessing smaller specialist business primarily, but not exclusively, through coverholders/service companies

In developing/less established markets:

> Making use of pre-existing Lloyd's operations in China, Singapore and Japan. These are important as they offer access to territories/regions which are expected to continue to grow over the long term

> For other countries the preferred model is to be a London-based reinsurer (or writer of specialist off-shore insurance business) based on broker distribution unless:

- Local establishment is a regulatory necessity; and/or
- The existing distribution channels are not adequate and there is strong market demand for a local presence

Lloyd's location in London has significant advantages as a distribution centre. That said, there are challenges in accessing the market, for example, the distribution chain bringing local market risks to a London-based managing agent can be lengthy and expensive and can act as a disincentive for some types of business to be placed at Lloyd's. This needs to be an area of focus given the need to make the market more attractive to incremental, profitable, diversifying flows of business.

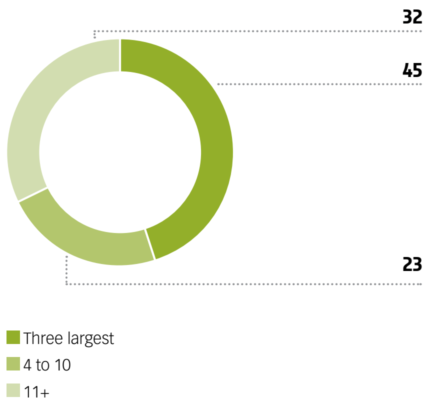
The ongoing changes in the broker market reinforce the need to work closely with brokers, both in London and in local markets, and through a process of ongoing dialogue, ensure that the strategies of all market participants are as aligned as possible.

LLOYD'S PREFERRED MODEL FOR ACCESSING MARKETS
Single licence
Permission for cross-border underwriting
Permission to trade via local intermediaries
Minimal local operations
No or minimal local funding
No or minimal local regulation
Freedom from rate and policy form regulation

FIGURE 3

LLOYD'S SOURCES OF BUSINESS

% of Lloyd's premium* by broker size



Note: coverholder business is allocated to producing broker; service company premium not included
*Premium is based on 2008 actual gross written premium
Source: Lloyd's, Xchanging Ins-sure Services

LLOYD'S POSITION IN THE GLOBAL INSURANCE MARKET CONTINUED

RESPONSE OVER THE PLAN PERIOD

Decisions on business mix and distribution channels are ones for individual market participants. The market's underwriting expertise and flair for product innovation serves it well in this regard. The Corporation's role is to promote the market, provide a competitive licence framework and drive improvements in both the technology and processes supporting the flow of business.

MARKET PORTFOLIO

The market believes that opportunities exist in small to medium sized specialist insurance risks, for example at the smaller end of the US Excess & Surplus Lines market and smaller specialist risks in continental European markets. These opportunities will be assessed and activities in support of access to this business will be prioritised in line with market demand (determined through working in partnership with the Lloyd's Market Association (LMA)).

The Corporation's approach to improving access to these markets will be to support the business development activities undertaken by managing agents and brokers.

This will be achieved in two main ways:

1. Market development – promoting Lloyd's in local markets and securing regulatory access where required. The Lloyd's country manager network will provide local market knowledge, expertise and access to key relationships in support of brokers' and managing agents' business development activities
2. Streamline and simplify access to Lloyd's – making it as easy to transact business with Lloyd's as with other specialist insurers. This will include exploring the potential to provide easier access to existing local market business flows through process improvements and/or technology developments

DISTRIBUTION

Brokers have the expertise and operations to identify attractive business and bring it to the Lloyd's market. By working closely with brokers, Lloyd's will ensure it stays attractive and accessible as global insurance distribution evolves. The relationship between Lloyd's and its broking partners must be one of mutual benefit. Lloyd's commitment to the broker channel must be met with cooperation and a willingness to deliver change on the part of the broking community and without the risk of the market being put at a cost disadvantage.

Activity will fall into three main areas:

1. Coverholders – the development of the coverholder channel, subject to proper and appropriate controls, will be a particular area of focus, with the objective of improving both awareness and the efficiency of this distribution channel
2. Routes to market – strengthening the Lloyd's distribution chain through process and operational efficiency improvements and through developing stronger relationships with producing brokers in local markets. Ultimately, this would include the development of a solution which allows the information supporting risk placement to be provided by local brokers directly to Lloyd's, if they so wish
3. Broker relationship management – the development of deeper relationships with existing distribution partners. While the largest three brokers continue to be important, time and resource will also be invested in those brokers outside the largest three

MANAGING AGENTS' AND BROKERS' ROLE IN MAKING THIS HAPPEN

Managing agents
> To manage their businesses profitably
> To identify attractive market segments and help develop new products
> To work with potential coverholders and producing brokers
> To make the decisions to write individual risks

Brokers
> To identify attractive potential risks and help develop new products
> To support efforts to create or ease flows of business to Lloyd's
> To identify attractive potential coverholders

CORPORATION'S ROLE IN MAKING THIS HAPPEN

Maintain and develop market attractiveness
> To support but not cross into the work of individual brokers and managing agents
> To make placing business into the Lloyd's market efficient and to support smaller brokers as they develop and grow
> To undertake promotional and educational activities aimed at existing and potential brokers and coverholders
> To provide more detailed market insight for managing agents and brokers – in particular segmental analysis of smaller specialist insurance risks in territories of potential interest to the market

Risk and performance management
> To provide robust oversight of business written via coverholders, service companies and overseas trading centres

SPECIFIC CORPORATION ACTIONS FOR 2010

MARKET DEVELOPMENT

The Corporation has an International Markets Development Framework which evaluates potential market development initiatives in a transparent manner. A major input to this framework is market need and demand. A number of licensing initiatives are currently undergoing assessment through this framework, including:

> China – explore the business case for a direct licence

> Russia and Mexico – conduct promotional events and assess the business case for opening Lloyd's representative offices

> India – continue lobbying for regulatory recognition and the ability to write onshore reinsurance

DISTRIBUTION

COVERHOLDER DEVELOPMENT

Working with the London & International Insurance Brokers' Association (LIIBA) and the LMA, and subject to proper and appropriate controls, two main streams of activity will be undertaken:

> Enhance coverholder processes and operations:

- Continue to roll out common standards (ACORD standards) across delegated authority business in support of a move towards electronic processing
- Pilot the translation of model delegated authority wordings into local languages
- Make enhancements to the lloyds.com coverholder section (eg coverholder directories)
- Develop a robust, targeted approach to the performance management of coverholder business, including more co-ordinated audit arrangements
- Continue to enhance and promote the use of Lloyd's coverholder management database (Atlas)

> Promotion of coverholder channel:

- Create marketing and educational materials for use by brokers, managing agents and Lloyd's international offices
- Provide Lloyd's brokers with market intelligence, promotional events and other support to access the coverholder sector in a number of important European markets
- Enhance 'Lloyd's coverholder' branding
- Establish local coverholder clubs in key territories in partnership with local Coverholder Associations
- Pilot a process to pre-approve local agents wishing to become Lloyd's coverholders

ROUTES TO MARKET

> Develop marketing and educational material aimed at local brokers, including information on 'how do I access the Lloyd's market' and 'how do I become a Lloyd's broker'

> Run a structured programme of events and market promotion aimed at local producing brokers involved in the placement of business of interest to managing agents and wholesale insurance brokers

> Enhance directories of Lloyd's brokers on lloyds.com including information to make it easier for local brokers and agents to identify Lloyd's wholesale and international brokers' business appetites and areas of expertise

> Improve the efficiency of the wider London market processing environment (for example, enhancements to electronic claims handling) to reduce the cost differentials that can make it unattractive to place smaller insurance risks into the Lloyd's market

> Raise Lloyd's profile in the regional UK insurance market through a programme of activity focused on brokers and coverholders

BROKER RELATIONSHIP MANAGEMENT

> Ensure the Corporation's market development activities are aligned with brokers' business development strategies so that Lloyd's remains an attractive market for brokers. This will be developed through a more tailored broker relationship management programme

> Enhance the lloyds.com broker section, providing more resources in support of brokers' own business development

> Identify the need, and deliver support, for brokers requiring assistance in implementing and/or exploiting new market technology (eg the provision of change management support to assist in the roll out and adoption of The Exchange)

LLOYD'S MARKET

STRENGTHS

MAINTAINING AND PROMOTING LLOYD'S STRENGTHS IS IMPORTANT TO THE MARKET'S FUTURE SUCCESS.

STRENGTHS

The strengths of the Lloyd's market are well known and have been affirmed by recent analysis (see Figure 4 on page 18).

PERFORMANCE AND RISK MANAGEMENT

Since the Franchise Board was first established in 2003, its major priority has been to work with the market to maintain underwriting discipline and help manage the underwriting performance of Lloyd's businesses over the insurance cycle. Against a backdrop of uncertain market conditions, this remains the case today. Underwriting conditions for the plan period are already showing challenging signs, reinforcing the need for a clear performance management framework, including the Syndicate Business Plan and Individual Capital Assessment review processes.

A robust performance management framework seeks to ensure that:

> No individual business endangers the central fund

> The aggregate risk exposure of the market is acceptable, thereby:

  – Protecting the central fund, and
  – Safeguarding Lloyd's reputation, brand and market ratings

> Policyholders are protected

Even though certain levels of aggregate risk may be acceptable to individual businesses, in the interests of the whole market an upper level must be established in order to maintain and protect Lloyd's defining features which benefit all market participants, including the central fund and market ratings.

ACCESS TO BUSINESS

The ability to access specialty property and casualty (re)insurance business is one of Lloyd's principal strengths. This access arises through:

1. Lloyd's licence network: Lloyd's has an extensive global licence network, which enables syndicates to write direct business in over 80 jurisdictions and to conduct reinsurance business in over 200 countries and territories
2. London's position as a specialist (re)insurance centre: Lloyd's, given its position at the heart of the London market, is the world's leading destination for internationally traded (re)insurance. The clustering of underwriting, claims and broking expertise, alongside correlated skills such as actuarial, legal and loss adjusting, is one of the major attractions of Lloyd's

CAPITAL EFFICIENCY AND THE CHAIN OF SECURITY

Since 2003, it has been a strategic priority to grow Lloyd's central assets which have risen from £563m at the start of 2003 to £2bn in 2009. This has been acknowledged by market participants and analysts as providing a significant advantage of operating at Lloyd's. The ability to use letters of credit as capital, the capital efficiency that the central fund provides to members and the diversity of the capital base – both in form and geographic origin – are seen as particular strengths.

There are no plans to change the structure of the chain of security and feedback suggests that there are no significant new challenges in this area.

Preparation for Solvency II will, however, require significant effort on the part of the Corporation and managing agents over the plan period. In particular, developing a compliant, approved internal capital model is imperative to retaining Lloyd's capital advantages. To ensure the most effective and coordinated use of resources, any consideration of adjustments to the operation of Lloyd's capital framework will take place within the governance of the Solvency II project.

The Corporation will seek to support managing agents in achieving Solvency II compliance through the provision of tools and guidance, where appropriate to do so.

RATINGS

Lloyd's current ratings

> 'A+' Standard & Poor's

> 'A+' Fitch Ratings

> 'A' A.M. Best

are at the market's target level. This level is determined by the ratings needed to attract the specialist (re)insurance business in which the market is interested. The ratings may vary with wider market conditions and what is important is their position relative to Lloyd's peers.

MARKET TURNING EVENTS

If a major industry event occurs, performance management principles remain important. Lloyd's ability to respond to such events has been demonstrated in recent years and will inevitably be tested again in the future. Such major events are generally the catalyst for a change in the underwriting climate.

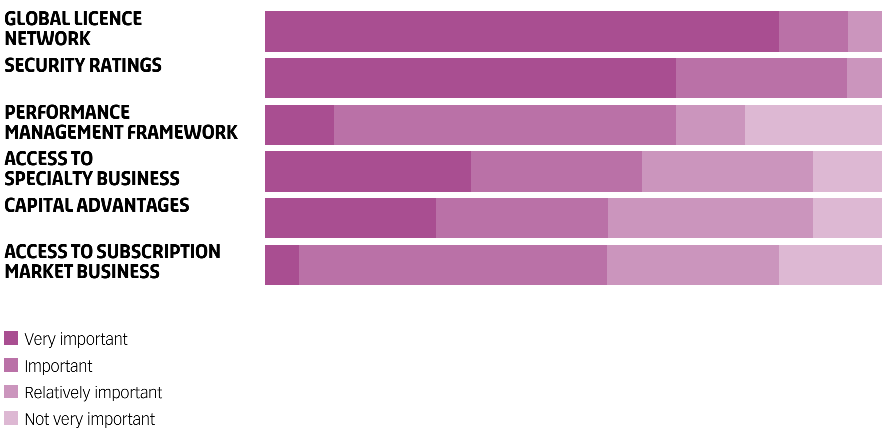
The Corporation will focus its efforts on assisting existing managing agents to take advantage of a significant upturn in rating conditions should this situation arise. A range of responses is available to market participants and a communication outlining the options was published to the market in 2009.

STRENGTHS CONTINUED

FIGURE 4

STRENGTHS OF THE LLOYD'S MARKET

Most important aspects of Lloyd's offering for new entrants



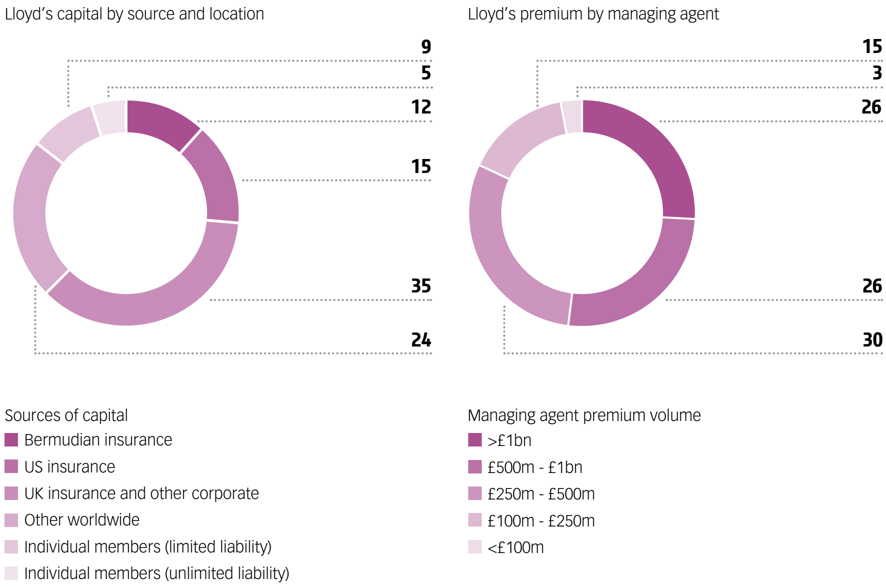
Source: Lloyd's 2009 New Entrant Survey

FIGURE 5

LLOYD'S DIVERSITY IN SOURCES OF CAPITAL AND SIZE OF MANAGING AGENT

% contribution to total capital

% contribution to total premium*



Source: Lloyd's, data as of 1 January 2009

*Premium is based on 2009 planned gross written premium

Source: Lloyd's

BRAND

Lloyd's recent brand tracking study shows that in the present climate, perceptions of the Lloyd's brand compare favourably to both the wider financial services industry and the non-life insurance industry. The core attributes of the Lloyd's brand and its differentiators continue to be that it is seen as traditional, entrepreneurial and dependable, with excellent financial security. In addition, the Lloyd's market is seen as particularly innovative and progressive when compared to the industry as a whole.

The importance of protecting the Lloyd's brand, particularly as businesses at Lloyd's develop their own brand and increasingly have operations outside the Lloyd's market, will remain a major area of focus for the plan period.

DIVERSITY

Diversity is an important characteristic across all aspects of the market (Figure 5) and is desirable from both a risk management perspective and in underpinning the Lloyd's offer to its customers and stakeholders.

The importance of geographic and product diversity within the aggregate market portfolio is well understood and has already been discussed within this plan.

CAPITAL PROVIDERS

Diversity in the forms of capital permitted to operate at Lloyd's is an important strength, reinforcing the security of the market and providing flexibility for both the providers, and users, of capital.

MANAGING AGENTS

A diverse range of managing agents and syndicates is also critical to maintaining the attractiveness of the market to clients and brokers. This diversity includes the ownership of managing agents (ranging from large international insurance operations to niche Lloyd's-only specialists), business focus and size. Where required, the Corporation will take action to preserve this diversity, such as the provision of support to smaller managing agents who may be adversely impacted by the sheer volume of change initiatives currently facing the industry and the Lloyd's and London markets.

REGENERATION OF THE MARKET

Good quality new entrants are important to the ongoing success of the market. Lloyd's policy in respect of new entrants, ie that they must be accretive to the market and managed by high calibre individuals, will continue. The new entrants approval process and charging structure have been reviewed and both found to be robust. The quickest, most efficient and preferred route for new start-ups to enter Lloyd's is turnkey management, ie to use an existing managing agent to provide the full range of management services required for a syndicate in the Lloyd's market. Given the current limited availability of turnkey management capacity, the Corporation will work with the market to increase such capacity.

SUBSCRIPTION MARKET

The subscription market is currently in good condition, with two-thirds of the market's business being placed via subscription.

Market participants and commentators report that the subscription market is currently a key strength of the market and is very attractive to insurance buyers.

"The subscription market is a core characteristic of Lloyd's... A.M. Best believes this structure will be attractive to insurers seeking to diversify the placement of risk..." A.M. Best, Rating of Lloyd's 2009.

Subscription placement has a number of advantages to policyholders, allowing:

> A competitive quote stage to be undertaken to seek out the best price on the best terms, conditions and security available

> Risks to be spread over a number of insurers quickly and efficiently

> Existing and new insurers to participate in a much wider range of business than they otherwise might, thereby stimulating competition and innovation and reducing volatility

The Corporation and the market have endorsed the European Federation of Insurance Intermediaries' (BIPAR) high level principles for the placement of risks in the subscription market to ensure that brokers can place business in a competitive and efficient manner, delivering real benefits to policyholders.

MARKET COHESION

The layer of mutuality represented by the central fund underpins many of these strengths and will remain at the heart of the Lloyd's operating model. Many of the features outlined above also combine to help provide Lloyd's with a cohesiveness which makes the market more influential than the sum of its parts. Other factors that support market cohesiveness include the work of the principal market associations (LMA and LIIBA) and their technical committees; market wide community and charitable work; and membership of various Lloyd's clubs and societies.

RESPONSE OVER THE PLAN PERIOD

At the strategic level, there are no new activities planned in support of the ongoing protection and development of these strengths, other than those outlined above. Following the extensive programme of work which the Corporation and the market have been engaged in over the last four years, the majority of the work is now part of 'business as usual' activity.

There are, however, two major streams of activity already underway which enhance Lloyd's strengths and continue to be of the highest priority in 2010 (see below). Both form part of Lloyd's enterprise risk management framework.

SPECIFIC CORPORATION ACTIONS FOR 2010

SOLVENCY II

> Lobbying – continue to lobby at the European level, on behalf of the Lloyd's market and the wider UK non-life insurance industry, to ensure that the final regulations are proportionate, sensible and appropriate to Lloyd's structure and operations

> Preparation for Solvency II dry-run

- Continue the design and development work in support of the three pillars of Solvency II (Capital Requirements; Supervisory Review; Risk Disclosure)
- Continue work to build and gain approval for Lloyd's internal capital model
- Continue efforts to monitor and support managing agents in the development of their own internal capital models and wider Solvency II compliance
- Work with market participants to refine the market's overall risk appetite and embed this appetite into the market's decision making process. This will include consideration of risk appetite across all major areas e.g. underwriting risk, credit risk, strategic risk etc

PERFORMANCE MANAGEMENT

> Minimum standards and guidelines – continue to monitor managing agents to enhance performance levels. Specific agent reviews will continue where underperformance has been identified

> Performance Management Plan – develop a new plan, setting out where and why the market facing Corporation departments intend to interact with the market. This will not be agent specific but will improve managing agents' understanding of likely areas of focus for the Corporation (including, for example, likely topics for thematic reviews) and allow managing agents to plan accordingly

> Risk management – continue to work with managing agents to promote best practice risk management principles, particularly in the context of Solvency II, to help raise standards and improve performance. Being able to demonstrate that there is a sound risk and performance management framework in place will assist Lloyd's to secure Solvency II internal model approval

> Claims Agreement Processes pilot – maintain claims standards throughout the pilot period

INVESTMENT FOR THE FUTURE

TO SUCCEED LLOYD'S NEEDS TO INVEST IN THE MARKET'S OPERATING ENVIRONMENT AND ITS PEOPLE.

OPERATING ENVIRONMENT

While Lloyd's derives significant strength from being a subscription market, the processes that support the market are inherently more complex. Lloyd's legacy infrastructure has been much improved in recent years through a series of market initiatives (for example, electronic claims handling and electronic accounting and settlement). This continuous improvement is being built upon and is designed to deliver a competitive and efficient operating environment which effectively supports the market.

FUTURE STATE OF THE LLOYD'S OPERATING ENVIRONMENT

Expressed at its most basic level, the work in this area is about creating an operating environment in which information is 'entered once and used forever'. Common information standards (ACORD standards) will exist across the market, ensuring the use of a common language. This is essential to ensure high quality customer service as well as to reduce processing costs and support a reduced reporting burden. The Corporation will not seek to implement large complex technology solutions, but to operate a standards framework which allows multiple participants to operate at Lloyd's irrespective of their own technology and operating models.

TABLE 3 – OPERATING ENVIRONMENT INITIATIVES

INITIATIVE	WHAT IS IT?	END 2010 TARGETS	BENEFITS
THE EXCHANGE	> A utility launched in May 2009 that enforces a common ACORD standard across the market, providing an address book and a standards checker, for the movement of information for all stages of the risk lifecycle > The focus for 2010 will be on connecting remaining market participants and starting to drive up live usage	> By premium, 70% of managing agents/50% of brokers receiving/sending endorsement messages in the pilot class(es) in the ordinary course of business > 1,000 unique live messages per month passing across The Exchange	> Easier transaction of business at Lloyd's irrespective of market participants' own operating models > Reduced costs and improved customer service
LLOYD'S INFORMATION AND REPORTING PROJECT	> The streamlining and standardisation of the collection and management of information > Separating accounting and processing from tax and regulatory reporting	> A rationalised suite of information requirements across the Corporation > The ability to receive tax and regulatory reporting data from managing agents for service company business	> Reduced reporting burden > Permits direct reporting by managing agents to the Corporation > Permits greater flexibility in the operating model for service company business
CLAIMS TRANSFORMATION	> New claims agreement processes to deliver the quality and flexibility required in a subscription market > Developing the infrastructure required to support these processes	> Assess impact of new Claims Agreement Processes (following the pilot across three classes of business during 2010)	> Enhanced customer experience in terms of quality and speed of settlement > Flexibility in claims operating model for managing agents
FUTURE OF CENTRAL SERVICES	> A new operating model improving efficiency, reducing costs and introducing choice in the provision of central services for placement, accounting and claims	> New market operating model approved with the market	> Increased operating flexibility for market participants

RESPONSE OVER THE PLAN PERIOD

The goal is to ensure that it is at least as easy to do business with Lloyd's as with any other insurance market. While core standards are essential in a subscription market, the aim is to give managing agents greater flexibility in the design of their operating models. A simplified environment, using common standards, will make it less complicated and less costly to undertake all aspects of the 'risk lifecycle' for both existing and new business flows. This will be delivered through four principal initiatives which are summarised in Table 3.

The provision of certain core central services is essential to the operation of the Lloyd's subscription market, as this offers economies of scale and greater simplicity in the way the market processes business. Lloyd's is a shareholder in both Xchanging Insurance Services and Xchanging Claims Services. It is anticipated that Xchanging will continue to deliver core services to the market throughout the plan period.

MANAGING AGENTS' AND BROKERS' ROLE IN MAKING THIS HAPPEN

- Participation in working groups and wider consultation to agree the design of these initiatives
- To adopt and embed initiatives throughout their organisations
- Any changes to the commercial relationships between managing agents and brokers as a consequence of process efficiency improvements will be for those parties to agree

CORPORATION'S ROLE IN MAKING THIS HAPPEN

- To act as a catalyst for change and provide leadership
- To own small technology and manage service level agreements on behalf of the market for large technology/infrastructure developments as appropriate
- To drive the adoption of change, mandating it if and when required

SPECIFIC CORPORATION ACTIONS FOR 2010

THE EXCHANGE

- Continue the connection of managing agents (achieving 95% connectivity by the end of the year), brokers and suppliers to The Exchange
- Drive up live usage across the market
- Focus on the endorsement pilot
- Add the capability to send and receive ACORD accounting information on The Exchange
- Ongoing promotion and marketing of the service to the managing agent and broking communities

LLOYD'S INFORMATION AND REPORTING PROJECT

- Challenge and rationalise the information used by the Corporation
- Review service company direct reporting solution following feedback from the pilot and determine next steps

CLAIMS TRANSFORMATION

- Claims Agreement Processes – 12 month pilot of new processes across three classes of business (Marine, Casualty Treaty and Property Direct & Facultative)

FUTURE OF CENTRAL SERVICES

- Working with the market, design and agree potential future operating model for centralised processes in support of placement, accounting and claims

INVESTMENT FOR THE FUTURE CONTINUED

CHANGING MARKETPLACE

Operating at Lloyd's provides market participants with access to a range of Corporation services. These include regulatory and tax reporting, central settlement and processing and the provision of market intelligence and research reports into specific markets. This is an advantage of the Lloyd's market and will be maintained.

A lot will be demanded of market participants over the plan period, especially with market reform activities coinciding with the implementation of Solvency II. The Corporation will, however, support businesses through this transitional period by providing tools (for example, updating the Risk Management Toolkit with appropriate products and services as the market moves into the Solvency II era) and expertise wherever possible. This support will form part of the Corporation's ongoing service offering.

TALENT MANAGEMENT AND DEVELOPMENT

People are the market's main asset. Innovation and expertise help define the Lloyd's brand and enhance the strength and attractiveness of the market. Work will continue to develop skills and talent across the Lloyd's market, in partnership with the LMA, LIIBA and other interested stakeholders.

SPECIFIC CORPORATION ACTIONS FOR 2010

- In conjunction with the market, continue the current Graduate Programme and develop leadership skills through the London Business School leadership programme
- Develop a tailored management development programme for Corporation employees
- Deliver an enhanced Lloyd's and London Market Introductory Test (LLMIT) moving from paper-based examination to online assessment
- Develop a programme of secondments between the Corporation and managing agents and brokers, thereby broadening the experience of employees and increasing the understanding of the role played by different organisations in improving Lloyd's overall competitiveness
- Establish a dedicated learning and development programme aimed at current and future claims professionals to promote skills and develop future talent in this important area

USEFUL WEBSITES

LLOYD'S
www.lloyds.com

PERFORMANCE MANAGEMENT
www.lloyds.com/performancemanagement

SOLVENCY II
www.lloyds.com/Solvency_II

THE EXCHANGE
www.lloyds.com/lloyds_exchange

LLOYD'S MARKET ASSOCIATION
www.lmalloyds.com

LONDON AND INTERNATIONAL INSURANCE BROKERS' ASSOCIATION
www.liiba.co.uk

THE LONDON MARKET GROUP
www.marketreform.co.uk

Since merchants first met to insure their ships at Edward Lloyd's coffee shop over 300 years ago, nearly every aspect of the way we do business has changed. But one constant is the bold confidence proclaimed by our motto, reflected in both our unique appetite for risk and our worldwide reputation for settling valid claims.

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