



All The Insurance In the World – A Roundtable Discussion about Lloyd’s of London Underwriters

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Roundtable Discussion about Lloyd's of London

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Discussion Points:

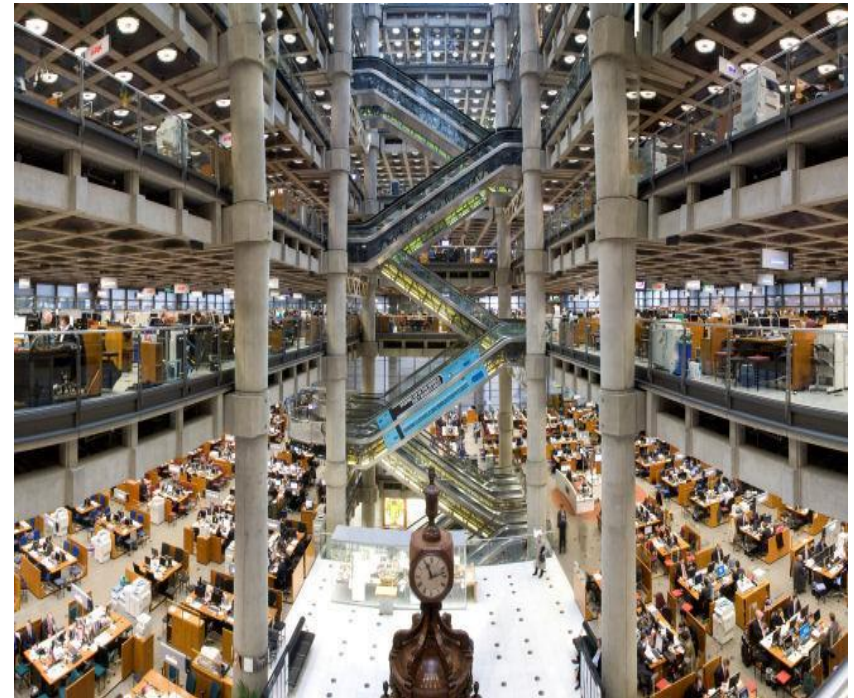
- History of Lloyd's
- Interesting Facts about Lloyd's
- How Does Lloyd's Work
- Types of Risk Written by Lloyd's
- Types of Coverages Lloyd's Writes for Public Entities
- How to Access Lloyd's
- Advantages of Lloyd's

Agenda

- ▶ Introduction
- ▶ History of Lloyd's
- ▶ How Lloyd's works
- ▶ Syndicates
- ▶ Placement Process
- ▶ Current Market

Introduction

- ▶ **Lloyd's of London**, commonly known as **Lloyd's**, is an insurance market located in London's financial district, the City of London.
- ▶ Lloyd's is the world's specialist insurance and reinsurance market, led by expert underwriters and brokers who cover more than 200 territories



History of Lloyd's



- ▶ Lloyd's is the oldest continuously active insurance marketplace in the world.
- ▶ In the 17th century, London's significance as a trade centre led to a growing demand for ship and cargo insurance.
- ▶ In 1688, Edward Lloyd's coffee house became recognized as the place for obtaining marine insurance and this is where the Lloyd's that we know today began. It also became a popular meeting place for underwriters—those who would accept insurance on ships for the payment of a premium.
- ▶ Today, business takes place in Lloyd's Building on Lime Street, opened in 1986.

Lloyd's - Origins and Time Lines

1688 - Edward Lloyd's Coffee House on Tower Street was referred to for the very first time in the London Gazette. However, the article declared a reward for a stolen horse and encouraged anyone with information to contact Edward Lloyd.

At this time there were more than 80 coffee shops within the City of London's walls; each one was a centre for entrepreneurs and each had a specialist interest to offer. Lloyd's specialized in information about shipping.

1734 - the first edition of Lloyd's List was published by Thomas Jemson. More than 300 years on, the paper still provides weekly shipping news to London and beyond.

1764 - One of the most important trials in insurance history occurred concerning the French-built Mills Frigate, a vessel insured by Lloyd's. The vessel embarked on a voyage in what was described as a "weak, leaky and distressed condition". A lengthy court case concluded that a ship must be "seaworthy" before leaving shore and that a policy could not even be paid "on a ship which suffered from a latent defect unknown to both parties to the contract". This eventually became part of the general English law of marine insurance.

1773 - John Julius Angerstein began to gain a formidable reputation as a Lloyd's Insurer and Policies written or endorsed by him came to be known as "Julians". As these documents would have no trouble finding backing; it seems he originated the Lloyd's concept of a "Lead Underwriter" setting a rate that others would then follow.

1775 - 1815 - As the American War of Independence and the Napoleonic Wars raged over four decades, Lloyd's developed close ties with the Royal Navy and established the Patriotic Fund, which still works with armed forces charities to help individuals and their families in urgent need of support.

1799 - HMS Lutine was ordered to deliver a vast sum of gold and silver, collected by City of London merchants to the German port of Hamburg. Lloyd's Underwriters insured the highly valuable cargo. On the 9th October, the Lutine encountered a "heavy gale" off the treacherous Dutch coast and ran aground with the loss of the vessel, the cargo and the crew. The cargo was then valued at £ 1 million and Lloyd's paid the claim in full.

1859 - The Lutine bell was salvaged and was hung in the Lloyd's underwriting room in the Royal Exchange and successive Underwriting rooms. Traditionally the bell was rung once as a result of a vessel becoming "overdue" or twice for its safe return. Today the ringing of the bell is generally limited to ceremonial occasions.

1904 - The first motor policy was issued.

1905 - By this time, non marine insurance had become embedded in Lloyd's, but this period was also noteworthy as the birth of risk based pricing. Underwriters Cuthbert Heath and Christopher Head began to collect a wide range of data on Gulf of Mexico hurricanes, study it in detail and identify the exact level of risk based on what they found. They also did this for earthquakes.

1906 - San Francisco Earthquake. On the 18th April 1906 San Francisco suffered a massive earthquake measuring 8.25 on the Richter Scale. It sparked uncontrollable fires that raged for 3 days, taking several thousand lives and leaving half of the population homeless. This event was important in the history of Lloyd's not only for laying the foundations of today's modern risk modeling and building practices, but highlighting Lloyd's reputation for paying valid claims. During this era, governments were not expected to supply relief funds, so the burden of losses fell on the insurance industry as a whole. Cuthbert Heath played an important role as he famously instructed his San Franciscan agent to "pay all of our policyholders in full, irrespective of the terms of their policies". The earthquake ended up costing Lloyd's over USD 50 million which is equivalent to over USD 1 billion in today's dollars.

1911 - The Lloyd's Act set out in detail the Society's objectives, which includes the promotion of its members interests' and the collection and dissemination of information.

1911 - The first ever aviation policy was written.

1912 - On the 14th April 1912, the spectacular Titanic collided with an iceberg and went down in the freezing waters of the North Atlantic 375 miles from Newfoundland in just 2 hours and 40 minutes. The hull cover stood alone at GBP 1 million which equates to approximately GBP 95 million in today's money. Numerous Lloyd's Syndicates put their names on the risk with line sizes ranging from GBP 10,000 to GBP 75,000. The favorable premium negotiated for this prestigious risk was GBP 7,500.

1973 - Liliana Archibald became the first female Lloyd's Broker. After her first day in the room at Lloyd's, she passed the building on her way home and observed, "The roof was still on".

1980s and 1990s - At this time, the Society entered the most turbulent and traumatic time in its history, facing up to a series of problems which would in time, lead to the birth of the modern, robust and secure Lloyd's we know today. Lloyd's had known that some types of cover if offered were very risky and equally Names knew that being an underwriter at Lloyd's involved unlimited liability for the risks they underwrote. Suddenly and unexpectedly, large legal awards made in US courts on asbestos, pollution and health hazard claims, some dating back over 40 years, resulted in huge losses to Names. To compound this, between 1987 and 1989, a series of gigantic oil, wind and fire claims, including the North Sea oil rig Piper Alpha hit the market. Costs were in the billions. Many Names suffered severe financial loss and bankruptcy.

1993 - David Rowland was appointed as the first full-time remunerated Chairman of Lloyd's, initiating sweeping reforms to save Lloyd's. He spearheaded the establishment in 1996 of Equitas, a special vehicle into which all pre-1993 business would be transferred by reinsurance-to-close at a cost of over USD 21 billion.

1994 - Corporate members were introduced with an initial capacity of £ 1,595 million.

1997 - the Reconstruction and Renewal settlement proposals were accepted by 95 per cent of Members bringing to a close the most difficult period in Lloyd's history.

1998 - on the 21st January, the government announced that Lloyd's would no longer be self-regulating but would be subject to the oversight of the new Financial Services Authority, effective from midnight on the 30th November 2001.

How Lloyd's works

- ▶ Lloyd's is not an insurance company; it is a market where members join together to form syndicates to insure risks.
- ▶ To this day, Lloyd's remains a place where business is conducted face-to-face.
- ▶ Lloyd's allows those with something to sell (underwriters providing insurance coverage) to meet with those who want to buy (brokers, working on behalf of clients who are seeking insurance).
- ▶ Lloyd's strength is built upon the diversity of managing agents (underwriting agents responsible for managing a syndicate) who choose to operate at Lloyd's, supported by capital from sources around the world.

Syndicates

- ▶ The members of Lloyd's are formed into many different syndicates, each comprising from a few to several hundred members.
- ▶ These syndicates are represented at Lloyd's by underwriting agents, who accept insurance business on behalf of syndicate members.
- ▶ The syndicate system, which was developed to handle the greatly increased insured values of the 20th century, created a means of spreading an insurance risk over a number of individuals. When a claim is made, each underwriter is responsible only for his portion.



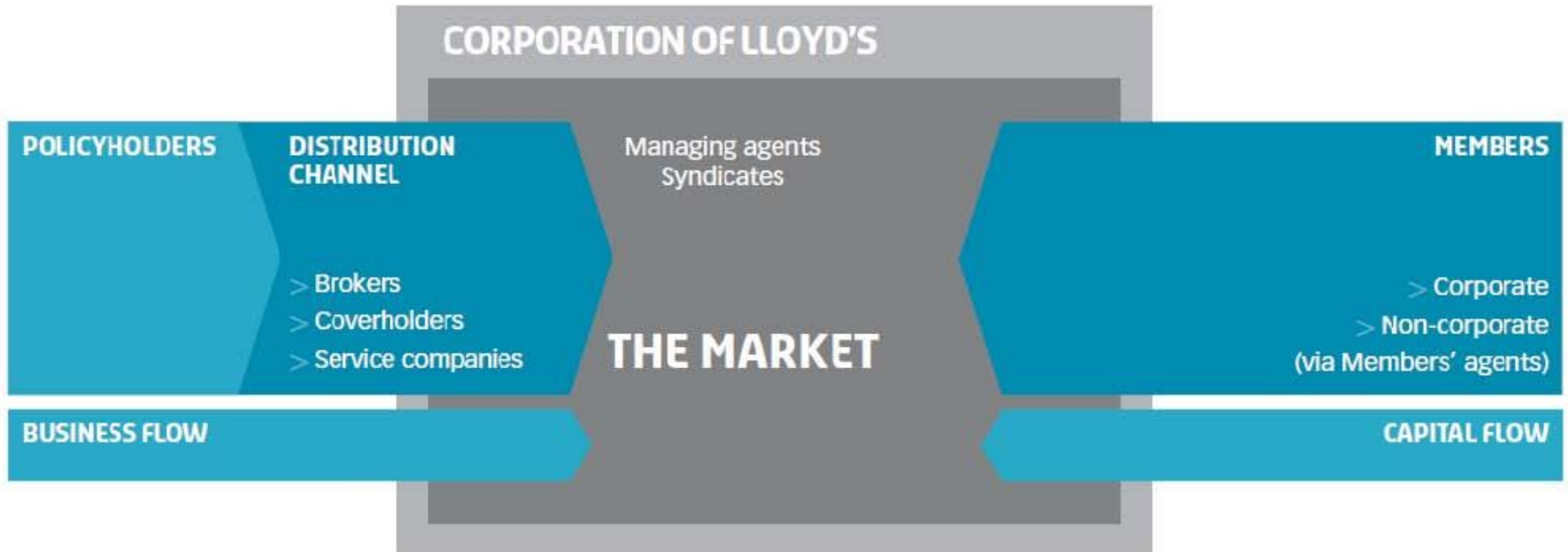
Placement Process



- ▶ Outsiders, whether individuals or other insurance companies, cannot transact business directly with Lloyd's syndicates.
- ▶ They must hire Lloyd's brokers, who are the only customer-facing companies at Lloyd's. Lloyd's brokers shop customers' risks around the syndicates, trying to obtain the most competitive terms.

Placement Process

- ▶ Imagine that you have several factories to protect, with specific and complex needs.
- ▶ You go to your broker, who advises that Lloyd's has the expertise for this risk as well as the robust capital structure from which valid claims can be paid.
- ▶ Once the broker has struck a deal, they return to you for approval.
- ▶ Since your risk is large and complex, it may mean several different underwriters sharing the risk. This means you can get cover for very large and complex risks.
- ▶ Your broker visits Lloyd's and goes to the Underwriting Room. Here they can meet interested underwriters face to face and 'shop around' to negotiate the best package.
- ▶ In the event of a claim, you simply go back to your broker to set the process in motion.



Policyholders - request insurance cover

Businesses, organizations, other insurers and individuals from around the world want to protect themselves against risks that could affect them. They approach a broker and explain their individual needs.

Brokers – place the risks face to face with the underwriters.

Members – provide the capital to support the syndicate's underwriting.

Syndicates – write the risks

Underwriters decide on behalf of its members which risks a syndicate will underwrite and on what terms.

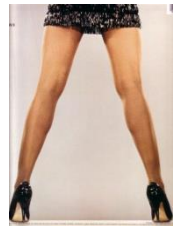
Coverholders –write the risks

underwrites and issues Lloyd's cover on behalf of the syndicate in line with this agreement. This allows syndicates, which are largely based in London, to do business worldwide, subject to Lloyd's licenses.

Notable Policies...

The general public knows of Lloyd's for some unusual or notable policies it has written. For example, Lloyd's has insured:

- ▶ Silent film comedian Ben Turpin's eyes against uncrossing.
- ▶ Tina Turner's legs.
- ▶ Keith Richards' fingers.
- ▶ Food critic and gourmet Egon Ronay's taste buds for £250,000.
- ▶ Whitney Houston's, Celine Dion's, Bob Dylan's and Bruce Springsteen's vocal cords.
- ▶ Michael Flatley's legs for \$47 million (the policy forbade him from dancing except on stage).
- ▶ A confident comedy theatre group against the risk of a member of their audience dying of laughter.



Market Snapshot

GBP 63 billion in claims paid by Lloyd's over the last 5 years.

GBP 27 billion in gross written premiums in 2015.

84 Syndicates

242 Brokers

4,008 Coverholder's.

Some Syndicates are capitalized by major international insurance companies such as Travelers, Liberty, AIG, W.R. Berkley, Chubb and Munich Re which gives these companies access through the Lloyd's brand to over 200 countries worldwide.



Global Business Breakdown

47.00% USA & Canada

18.00% UK

14.00% Continental Europe

10.00% Central Asia & Asia Pacific

7.00% Other Americas

4.00% Rest of the World

Strong Chain of Security

The Chain of Security is made up of three levels of protection that we can call “links”. Should the first link need additional funds, a second link ensures members have the resources available. In the rare event that these two links are still insufficient, a third link provides further back-up to members so that all valid claims are paid.

Link One

Syndicate level assets

GBP 46 billion

Link Two

Members' funds at Lloyd's

GBP 18 billion

Link Three

Central assets

GBP 3 billion



Strength in Ratings

Syndicates operating in the market enjoy the benefit of a single market rating given by independent agencies.

Standard & Poor's: A+ (Strong)

Fitch Ratings: AA- (Very Strong)

A.M. Best: A (Excellent)



Why Lloyd's

Has been in existence for over 325 years and has a strong Brand with a strong Capital Structure.

Licensed to trade in many territories world wide on either a direct or reinsurance basis. In the US, Lloyd's is Surplus Lines Licensed in all States and Licensed/Admitted in Illinois, Kentucky and US Virgin Islands. The Surplus Lines approach gives Underwriters the freedom of Rate and Form.

Lloyd's is fully FATCA compliant with the requirements of the IRS.

Capacity Building



Has the potential to provide additional capacity for many classes of business. Please remember that this capacity can sit side by side with your domestic capacity. It is not there to replace it.

Rationale for using a Lloyd's Broker

Traditionally the Lloyd's Syndicates could only be accessed via a registered Lloyd's Broker. Technically, you can now have a direct relationship with a Syndicate via its Managing Agent, but in reality the Lloyd's Broker / Syndicate link still prevails.

The Lloyd's Broker is an agent of the Insured and has the Insured's interests at heart.

They act as a buffer between the Client and the Underwriters and therefore can moderate and manage the expectations of both parties.

Placement Types

Facultative / Open Market.

Binding Authorities. These can also be referred to as Facilities or Contracts which can lead to confusion. The Binding Authority in essence is a document that sets out certain parameters for accepting a book of like minded risks which would perhaps be too small to accept individually in the Open Market.

Lineslips. Similar to Binding Authorities in that this Contract will set out parameters for seeing like minded risks under it, but Underwriters have to accept and agree each risk independently. These risks also lend themselves to being larger than the average risk accepted under a Binding Authority.

Reinsurance.

Becoming a Coverholder at Lloyd's

If your business model revolves around a volume of smaller sized risks, then becoming a Coverholder at Lloyd's and obtaining your own Binding Authority may be the way forward.

It is not an easy process in that a lot of form filling and due process is required and you will need the support of a Managing Agent. Your Lloyd's Broker will help you through the process. However, once that process is completed and you are granted a Binding Authority, you will have the ability to quote, bind and issue Certificates (Policies) within the terms of the Binding Authority granted.

The interactions and the relationships between the London Broker and the Lloyd's Syndicate

Interactions and relationships are an integral part of any insurance negotiation in any part of the world.

We all have our instinctive “go to” markets for certain coverages or territories. “One Size” does not necessarily fit all.

So why is London different?

Primarily the difference revolves around the fact that we still have an active trading floor. Of course in this technological era, we may spend less time on the trading floor courtesy of emails, etc., but we still have the ability to go to a box in Lloyd's or the Underwriters' office to negotiate terms “face to face”. The expression “the Square Mile” in describing the City of London is very poignant, no one is far away!

In a market traditionally based on syndication (where multiple syndicates may support a single risk), it is important that the broker knows the right underwriter for the job. This may not necessarily be the cheapest option as things like innovation, flexible coverages and good service often count for more than pricing.



The “face to face” or “whites of the eyes” interaction is also a benefit for the Broker and Underwriter in that the body language can help determine the quality of the proposition. If either party are unsure of the proposal being discussed, it will soon become apparent!

It is harder for an underwriter to look you in the eye and decline an opportunity opposed to over the phone or via an email. This is especially true in marginal situations.

The “face to face” interaction also means that you can have your time with the underwriter. It means that every broker has an opportunity to see an underwriter even if they work for a small broking firm.

Historical Relationships

In most cases the relationships go back many years and sometimes decades. In some cases they can become generation contacts with Sons and Daughters taking over from Fathers.

These relationships are particularly valuable in tough/soft market conditions where the quality risks can be fewer and the income levels under pressure. A broker’s ability to have many markets within the same building certainly gives them a better chance of maintaining continuity for their clients.

With increasing capacity and a number of high profile syndicate changes and mergers, it is inevitable that there will be a movement of underwriters from time to time. The brokers with the best interests of their clients at heart will look to maintain continuity by supporting their old underwriting relationships at their new venture whilst not necessarily damaging their relationship with the incumbent syndicate.

Finally, it is worth pointing out that the old adage that it takes years to build a good relationship and just minutes to break, is certainly true in Lloyd's. Despite being a multi billion dollar marketplace the speed at which news passes around is still impressive. This is highlighted by the very nature of the market structure where all parties are constantly interchanging.

THANK YOU!

