ALM

LLOYD'S MARKET RESULTS & PROSPECTS 2021

PART ONE

ASSOCIATION OF LLOYD'S MEMBERS

Lloyd's Market Results & Prospects 2021
Part One

SUMMER CONFERENCE

WEBINAR SERIES
23 & 24 JUNE 2021

The ALM is pleased to announce that its summer conference for 2021 will be held over two days via Zoom. Summer Webinar 1 will be held on the afternoon of 23 June with four speakers addressing the current issues impacting on syndicates and private capital Members at Lloyd's. Summer Webinar 2 on 24 June will be a full day of presentations from six leading market speakers plus a keynote address from Bruce Carnegie-Brown, the Chair of Lloyd's. The topics for debate will include the state of the market, the future for Lloyd's as a leading (re)insurance market and the Underwriting Room. The second day will also include two short lunchtime discussion sessions: the first led by Duncan & Toplis and the second by Rathbones.

SUMMER WEBINAR 1
WEDNESDAY 23 JUNE 2021 | 15:30 - 17:00

Host:	Alan Lovell – Chair, ALM
Speakers:	David Flandro – Head of HX Analytics, Howden Group
	Duncan Dale – Chief Executive, Dale Underwriting Partners
	Bill Katesmark – Marine Underwriter, MAP Underwriting
	Mark Dyson – Head of Member Services & Head of Tax, Lloyd's

SUMMER WEBINAR 2
THURSDAY 24 JUNE 2021 | 10:30 - 16:00

Host:	Alan Lovell – Chair, ALM
Speakers:	Julian Tighe – CEO, Asta Managing Agency
	Markus Gesmann and
	Quentin Moore – Founders, Insurance Capital Markets
	Clive Buesnel – CEO, Tysers Insurance Brokers
	Emma Woolley – CEO, Lancashire Syndicates
	Jon Barnes – Active Underwriter, Syndicate 2010
Keynote Speaker:	Bruce Carnegie-Brown – Chair, Lloyd's
Lunch time discussion group leaders:	Rebecca Bright – Director, Duncan & Toplis
	David Shepherd – Investment Director, Rathbone Bros plc

THE AGM OF ALM LTD WILL BE HELD IMMEDIATELY AFTER SUMMER WEBINAR 2

Cost: £60.00 for ALM Members/ £120.00 non-members (cost covers both webinars)

These virtual events will be held via Zoom. To book please email: alm@alm.ltd.uk, we will then send you a link to pay online.

To pay by bank transfer or cheque, or if you have any questions, please contact us: alm@alm.ltd.uk | 020 7283 0931

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INTRODUCTION

Dear Members

A report of two halves

Welcome to the first half of Lloyd's Market Results and Prospects (LMRP). This year the ALM is publishing the LMRP in two parts. Part 1: Lloyd's Market Results will provide more detail and analysis of the recently released results and later in the year, Part 2: Lloyd's Market Prospects will provide an update on the progress of 2019 and 2020, a review of 2021, underwriting prospects for 2022, a review of the 2020 auctions and prospects for the 2021 auctions. This Lloyd's Market Results covers the closure of 2018, the progress of 2019 and development of 2020 to date, and a detailed review of the Lloyd's 2020 annual results.

Many thanks go to Chandon Bleackley, the ALM's Publications Editor, for all his thorough research and analysis in preparing this report. As many of you may know, Chandon began his career at Lloyd's in 1989, when he joined Fenchurch Underwriting Agencies as a trainee syndicate analyst. Over the next 20 years, he worked as a syndicate analyst and portfolio advisor to third party Members, mainly at Christie Brockbank Shipton, but also at Hampden Agencies and Alpha Insurance Analysts. In 2015, Chandon was appointed the Publications Editor of the ALM and although he moved to Australia in late 2018, happily, thanks to the wonder of the internet, the ALM has been able to retain his services as its Publications Editor.

Chandon has brought the benefit of his knowledge and experience as a syndicate analyst to this report, providing detailed insight into the performance of Lloyd's overall and that of the syndicates, focussing on those in which private capital Members participate. The report is essentially factual, and any opinions expressed are Chandon's, which we now share with you, asking you to note that these are not necessarily the opinion of the ALM nor its board members.

The heroes and the zeroes

The report highlights the gap in performance between the top and bottom quartile syndicates and endeavours to shine light on the reasons for this. There is no one factor or one simple answer to how to change under-performance into profitable outcomes. There is positive news: all the top quartile syndicates bar one out-performed the 13 comparator companies used by Lloyd's in 2020; and three syndicates have demonstrated a complete turnaround of performance, moving from the bottom to the top quartile in a year. With help and support from Lloyd's and the new Chief of Markets, Patrick Tiernan, who will be responsible for oversight of market performance and distribution, let us hope that more syndicates can emulate that achieved in 2020 by the three turnaround syndicates, Patria Re, Allied World and Channel.

For private capital Members the 2020 results show that the aggregate combined ratio of third party backed syndicates in 2020 was 4.6% better than the Lloyd's overall combined ratio. Seven syndicates supported by private capital had 2020 combined ratios of less than 100% and 6 are amongst the best performing syndicates. But let us not sugar-coat the pill: Members still had a 105.7% aggregate combined ratio and this is a continuing difficult period for many Members. As Lloyd's itself has said: there is still more work to do.

M&URs

The discussions to finalise the revisions to the Members' Underwriting Conditions and Rules (M&URs) between Lloyd's and the Working Group (including three representatives from the Members' agents and chaired by Paul Davenport of the Lloyd's Market Association (LMA)) are continuing. A lot of work has been done by the Working Group seeking to ensure that the proposed changes inure for the benefit of the majority of Members, including private capital Members. The Third Party Capital Group (TPCG) comprising the ALM, the Members' agents, the HPG and the LMA are due to meet with Lloyd's later this month to hear what the final version is to look like. Thereafter the TPCG will work on a report to all Members and if necessary, a further response to Lloyd's.

Re-doubling our efforts

The ALM is conscious that Members will be concerned about the underperformance of a number of syndicates they support that can outweigh the positive performances of others, producing for some disappointing results that have continued from 2017. The proposals in Blueprint Two, the changes to M&URs, and especially the actions by Lloyd's Performance Management Directorate are all designed to ensure Lloyd's does just that. The results demonstrate that the remediation work and focus on business planning is starting to deliver improvements. The ALM is re-doubling its efforts to work with Lloyd's, the LMA and Members' agents to understand how and when things might improve further and to bring speakers to our Members who can bring insight into the current and future state of the market.

Summer Conference Webinars -23 & 24 June

The ALM has finalised its programme for its Summer Conference Webinars to be held on Wednesday 23 June from 15:30 to 17:00 and Thursday 24 June from 10:30 until 16:00. Over 11 market leaders will share their views on topics ranging across the importance of data and analytics, the Member Services team and changes to M&URs, challenges for syndicates new and established, and concluding with a keynote address from the Chair of Lloyd's, Bruce Carnegie-Brown. The AGM will follow the end of the second day at 16:00. See page 2 for details of the programme. I look forward to 'seeing' many of you at these webinars. It is a packed programme and we have endeavoured to bring you interesting speakers, many of whom you have specifically requested. The booking is now open at alm@alm.ltd.uk so I urge you all to secure your place now.

And the Autumn Conference

As ever, we are grateful to all our speakers for their time and contributions to the ALM events. Inviting speakers to our events is not of course an endorsement of their products, their syndicate or their views. We welcome speakers who can expand our horizon and give us clearer insight into what is happening in the Lloyd's and wider insurance and investment markets. We are putting together the programme for our Autumn Conference, which hopefully with vaccinations and control of any new variants of COVID-19, we can hold physically on 6 October at Haberdashers' Hall. We have several leading market speakers booked already (including the aforementioned Patrick Tiernan), but we have space for more. If Members are keen to hear from certain speakers, please let me know and I will do my utmost to secure their attendance.

As we open up from lockdown - continue to stay safe.

Belinda Schofield
Chief Executive
19 May 2021

The closure of the 2018 year of account

In this chapter, Chandon Bleackley, Publications Editor of the ALM, discusses the closure of the 2018 year of account. He examines the market conditions in 2018, the losses that were sustained by the insurance industry and by Lloyd's, and the effect that these have had on both Lloyd's and the Members' results. Finally, he examines how the Members' allocation of syndicate capacity in 2018 has affected their final result, before looking at the historical performance of syndicates between 2012 and 2018.

Executive overview

- Rates rose steadily across most classes during 2018, but the recovery of the reinsurance market was hindered by the prevailing over-supply of global capacity
- After a benign first half of the year, the second half of 2018 saw a significant increase in the number and severity of major natural catastrophe losses.
- 2018 insured losses amounted to about $85 billion (2017: $144 billion)
- In addition, about 13% of the loss from the COVID-19 loss fell back onto the 2018 year of account
- The Lloyd's market made a loss was 5.9% (2017: a loss of 8.0%)
- The aligned syndicates made a loss of 6.8% (2017: a loss of 7.7%)
- The third party Members' syndicates made a loss of 3.7% (2017: a loss of 6.5%)

Market conditions

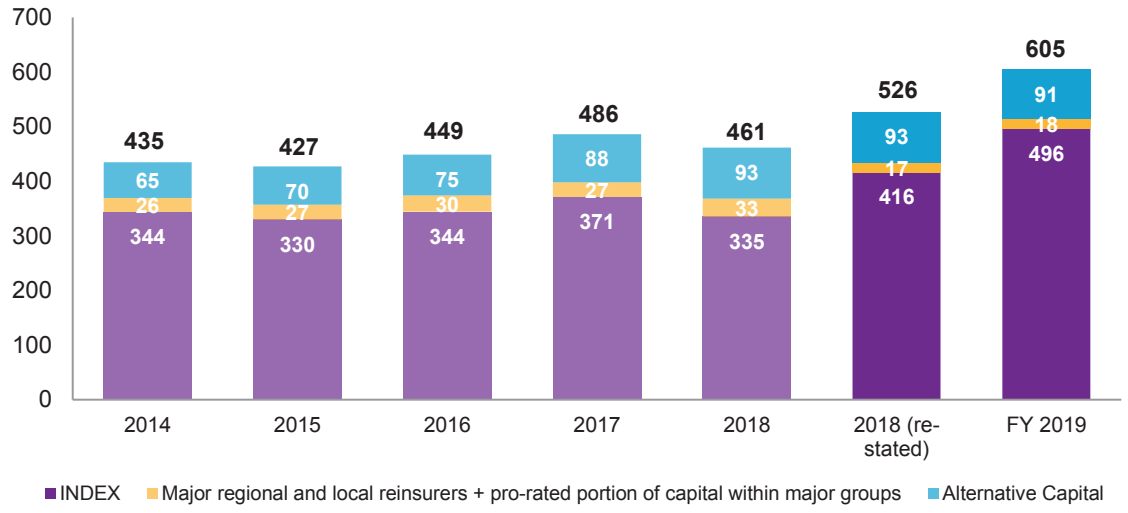
After a muted start, rating increases picked up momentum as 2018 progressed

2017 saw the start of the recovery in rates. There was a significant recovery in rates in the insurance classes, but the recovery of the reinsurance market was much slower and more muted. It was undoubtedly held back by the over-supply of global capital and the fact that the relatively loss-free years between 2013 and 2016 had led to an even greater influx of both traditional and alternative capital providers into the market.

Perhaps what was most surprising was that despite the size and cost of the catastrophe losses that took place in the autumn of 2017, there was no wholesale market recovery in the early part of 2018. In previous years, such as 2002 or 2006, rates had usually increased by dramatic margins in the wake of a large number of catastrophe losses hitting the market in the year before, as they did in both 2001 and 2005.

The fact that this did not happen in 2018 can be attributed to a number of specific reasons. First and foremost, the huge losses of 2017 had still not managed to dislodge the vast oversupply of capital that existed in the worldwide (re)insurance markets. According to figures which were released by Willis Towers Watson in May 2020, global reinsurance capital was estimated to have risen from $461 billion in 2017 to $526 billion in 2018 (see Figure 1). More worrying still was the fact that the alternative capital sector's capital had not been eroded and had not declined as a result of the losses of 2017. There had also been considerable growth in "traditional" capital in 2018. This had not been expected; as in the wake of the 2017 losses there had been speculation in the insurance press whether a number of capital providers would be able to pay their 2017 account losses, let alone trade forward into 2018. The losses of 2017 were therefore seen as the first major test for the newer, alternative capital providers. In the event, even though some Insurance Linked Securities (ILS) providers had to deal with some of their capital being trapped by the losses of 2017, alternative capital providers managed to do both, and they arguably consolidated their market position (especially in the reinsurance market) by raising more capital at the end of 2017.

Figure 1: Total reinsurance dedicated capital (USD billions) *



Source: Willis Towers Watson
** We have re-stated year-end 2018 capital from USD 461B to USD 526B, to allow for a change in methodology introduced with our HY 2019report and to allow for our annual review of constituents. The former adds USD 61B to capital and the latter adds USD 20B.*

What this meant in trading terms was that there was no wholesale market recovery at the January 2018 renewal. That is not to say that there were not some rating increases imposed in early 2018, but these were mostly on loss-affected 2017 business, especially in the retrocessional reinsurance sector. However, these rating increases were not nearly widespread enough, and did not indicate any wholesale turning point in the market. This effectively meant that a large proportion of the reinsurance business that was underwritten in (early) 2018 remained underrated by historical standards.

The second half of 2018 did begin to see more of a recovery in rates in some classes of business, most especially in some of the insurance classes. Rating increases became more pronounced as the year progressed, and favourable price movements were seen across all lines of business and most notably on those which had the greatest exposures to the major catastrophic events in 2017. In its 2018 annual report, Lloyd's reported that the market experienced a weighted average increase in prices on renewal business slightly over 3% in 2018. *"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 rating recovery had been hampered, to a certain extent, by the fact that the first half of 2018 was a relatively loss-free period. However, by the second half of the year there was no doubt that the attritional loss ratios in some classes of business, particularly in the marine sector, had become unsustainable. This led to some long-overdue rating correction taking place in certain classes of property and marine business.

A major catalyst for both the imposition of improved underwriting standards, and rating increases, came in the final quarter of the year with John Neal's appointment as the Chief Executive Officer (CEO) of Lloyd's following the departure of the previous CEO, Inga Beale. It is also important to realise that the Franchise Performance Directorate (PMD), under the leadership of Jon Hancock (since November 2016) had also been in the process of reviewing and improving underwriting standards across the whole Lloyd's market throughout 2017. The PMD had been specifically targeting certain classes of underperforming business, such as those in the marine and casualty markets, for remedial action. This whole review process that had been in progress all of 2017 fed into the new Decile 10 reviews that were a key feature of the autumn of 2018.

In summary, after a slow start, 2018 turned to be a good year for rating increases, although not as good as it could, or should, have been. Rates in the insurance classes continued to increase throughout the year, and the pace and level of these increases picked up momentum in the second half of the year. Reinsurance rates also improved after a muted start to the year at the January renewals, but nothing like the extent that they should have in the light of the magnitude of the losses that were sustained by the industry in 2017. Indeed, at the end of 2018 it would be fair to say that the rates in the reinsurance sector still needed to be increased further.

Market losses

There were about $85 billion of insured losses in 2018. It was the fourth most costly year ever for losses

A major factor that led to the more marked improvement that took place in rates in the second half of 2018 was the fact that from June onwards we saw a big increase in the number and severity of losses that affected the market. In loss terms, 2018 was a year of two very distinct halves. The first of half of the year was relatively benign, with few serious losses. According to figures from Aon, there were about $20 billion of losses in the first six months of 2018. In Lloyd's 2018 half year report, Lloyd's sustained only £73 million of losses, as compared to £225 million of losses in the first six months of 2017.

However, it was the losses that occurred in the third and fourth quarters of the year that were to have the most profound effect on the market. Figures from Aon released in early January 2019 estimated that the 2018 losses had cost the industry about $85 billion. Whilst this was 42% lower than the loss-figure for 2017, it was 47% higher than the average figure of $56 billion for the period 2000 to 2017. Only the losses sustained in 2011 ($148 billion of losses), 2017 ($144 billion of losses) and 2005 ($136 billion of losses) remained higher on an inflation-adjusted basis.

There was no one, single mega-catastrophe event in 2018. However, Aon reported that the industry was hit by 42 separate loss events of all types that each cost over $1 billion. There were 18 individual billion-dollar natural catastrophe events in 2018, which was more than the 16 events that took place in 2017. By far the largest component of the cost of the insured losses was attributable to hurricanes and typhoons in the US and the northern Pacific regions. The US was hit by two hurricanes, Michael and Florence. Japan was hit by typhoons Jebi and Trami which produced combined losses of nearly about $12 billion, making 2018 the costliest year ever for local insurers; whilst typhoon Mangkhut hit Hong Kong, China and the Philippines. Europe was hit by a severe winter storm, Friederike, which cost about $2.1 billion. The combined cost of all these losses was estimated to be about $30 billion.

In the US, there were also large losses as a result of the Californian wildfires. According to figures released by Aon, the Camp Fire in November 2018 produced claims of about $12 billion, which made it the costliest single insurance event of 2018. Aon estimated that the total cost of claims in respect of wildfires in 2018 was in the region of $17 billion, which is slightly higher than the $16.5 billion recorded in 2017. The US was also hit by a series of destructive convective storms in the spring of 2018. When these were measured on an individual basis, their cost was not that significant, but their cumulative cost to the industry was far greater.

Typhoon Jebi and "loss-creep"

One of the on-going problems that persisted into 2019 and which had a material impact on the results and forecasts was what came to be described as "loss creep" on some of these 2018 losses and especially with regard to typhoon Jebi in Japan. For those not familiar with this term, "loss-creep" refers to the increasing loss estimates and reported losses from loss-events that have occurred, such as large windstorms or hurricanes. Significant "loss-creep" occurred following the impact of Hurricane Irma 2017, the Californian wildfires and typhoon Jebi in Japan in 2018.

The costly loss-creep caused by typhoon Jebi in Japan was the result of a combination of unique circumstances. Typhoon Jebi made landfall in the southern part of Japan's Tokushima Prefecture on 4 September 2018 with the strength equivalent to a category 3 hurricane, before striking major urban areas such as Kobe and Osaka and later making a second landfall in the Kansai region. Typhoon Jebi was the strongest typhoon to strike Japan in 25 years and led to the most expensive insured typhoon loss ever to the industry. These losses were compounded by the fallout from typhoon Trami.

Days after Typhoon Jebi struck, catastrophe modeller RMS pegged insured losses at between $3 billion and $5.5 billion, whilst catastrophe modelling firm, AIR, estimated the loss would end-up settling at between $2.3 billion and $4.5 billion. The projected losses were initially focused on property exposures, with high uncertainties around business interruption losses and contingent business interruption from industrial risks and Kansai International Airport, the closure of which disrupted business supply chains. According to the General Insurance Association of Japan (GIAJ), the total volume of paid industry claims stood at $5.5 billion as of November 2018. However, the value of claims paid rose by 66 percent to $9.1 billion in the four months between November 2018 and March 2019 (the financial year-end for domestic companies in Japan). The loss on typhoon Jebi is now estimated to have reached about $16 billion!

The occurrence of typhoon Trami shortly after typhoon Jebi and the resulting overlap in claims was a major contributing factor to the material development in losses after November 2018. The 2018 Osaka earthquake exacerbated the challenges in loss-reporting on Jebi, in that it occupied a large number of surveyors and builders. There was also a considerable amount of construction business being undertaken in preparation for the Tokyo 2020 Olympics, which had the effect of tying up more commercial surveyors. These factors meant that assessing the damage from typhoon Jebi was a far more protracted and harder undertaking than had been foreseen.

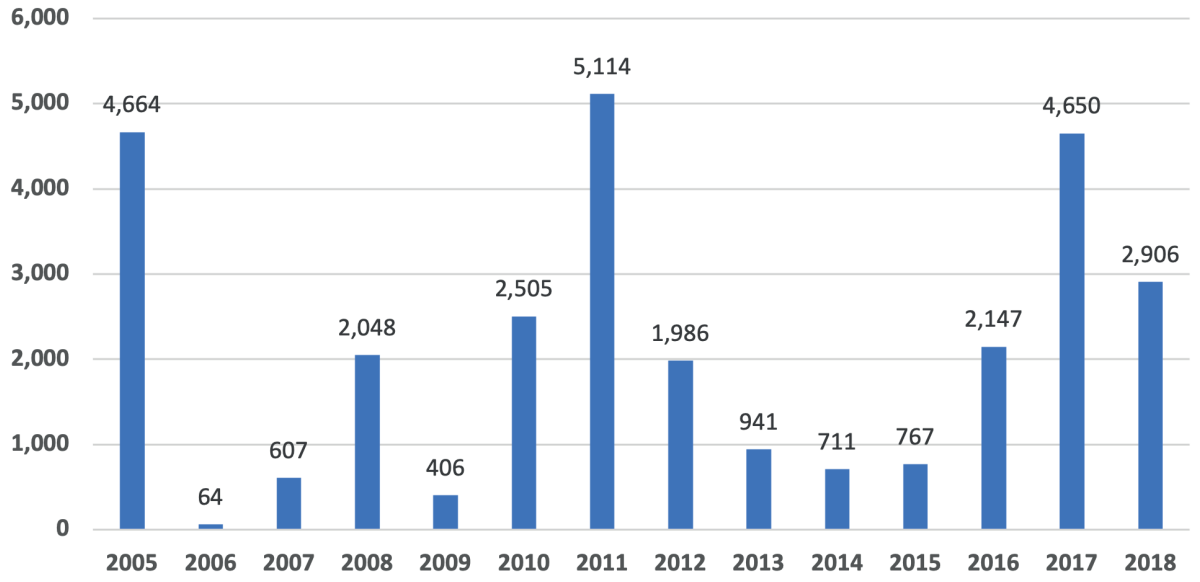
What was the effect of the losses on Lloyd's 2018 annual result?

Insured losses cost Lloyd's £2.9 billion net on annual account basis in 2018

On an annual accounted basis, in March 2019 the Lloyd's market reported a pre-tax loss of £1,001 million for 2018 (2017: a loss of £2,001 million) and a combined ratio of 104.5% (2017: 114.0%). This result was primarily driven by the losses arising from the catastrophe losses which impacted the insurance industry in the second half of 2018. Insured losses arising from catastrophic events cost the Lloyd's market £2.9 billion, net of reinsurance, in 2018 (2017: £4.6 billion) and added 11.6% to the combined ratio (2017: 18.5%). The impact of these major events on the Lloyd's market result was offset, to some extent, by prior year releases of £976 million (2017: £706 million), which led to a 3.9% (2017: 2.9%) improvement in the combined ratio.

Figure 2 is taken from the Lloyd's 2018 annual report, which was published in March 2019. It shows the impact of losses on the Lloyd's market as a whole in 2018 and how these compare to those of previous years. Whilst the 2018 loss experience was nowhere near as bad as that for the years 2005, 2011 or 2017, the losses that occurred in the second half of 2018 still had a very detrimental impact on the market.

Figure 2: Lloyd's major losses: net ultimate claims (£'m)



Five year average: £1,843 million; 15 year average: £1,907 million. Indexed for inflation to 2018. Claims in foreign currency translated at the exchange rates prevailing at the date of loss.
Source: Lloyd's 2018 annual report and accounts

The impact of the COVID-19 losses

About 13% of the COVID-19 loss falls back into the 2018 year of account

One other issue that has influenced the result of the 2018 account on a three year accounting basis has been claims that have arisen as a result of the COVID-19 pandemic. Whilst these did not have an impact on the loss figures that are shown in Figure 2, and the closure of the Lloyd's 2018 account on an annual basis, they have had some impact on the closure of the 2018 account on a three year of account basis.

In an article written for the April 2021 edition of the ALM News, Andrew Colcomb, the Head of Syndicate Research at Argenta Private Capital, wrote: "*Using the overall third party portfolio as a base, the estimated loss costs for COVID-19 net claims (including the costs of reinsurance reinstatement) have increased as from 7.9% of capacity as at 30 June 2020 to 8.2% of capacity at 30 September and again to 9.5% by the end of the year. The loss is distributed across the 2018, 2019 and 2020 years of account. The 2019 account bears the lion's share of the exposure, with an average of 60% of the exposure, slightly more than a quarter falls to the 2020 year of account and around 13% to the 2018 year of account.*"

Although 2018 has the smallest share of the COVID-19 loss, this is still a meaningful sum, and it has been to the further detriment of the overall result.

As Members will be well aware, COVID-19 has been one of the most complicated ever losses to hit the (re)insurance market. Losses have already, and will continue, to fall across many different classes of business, and they will affect multiple years of account. COVID-19, and the losses that it has produced is discussed in more detail in the chapter about the Lloyd's 2020 annual result, and here the author's comments are restricted to saying that the classes of business that have been most affected to date include, amongst others, cancellation and abandonment, accident and health, trade credit and property, and their associated reinsurances and across a number of jurisdictions. There are further potential impacts on those lines where a deterioration of economic conditions is a factor. There will inevitably be indirect losses to lines of business such as general and public liability and employment practices liability as well.

Furthermore, there have been a number of adverse developments for (re)insurers over the past six months, including unfavourable outcomes in court cases in the UK and Australia and a continuing series of restrictions across many parts of the world. Given these circumstances, it therefore came as no surprise when, in March 2021, Lloyd's announced that its overall forecast for its total loss in respect of COVID-19 had deteriorated.

The Members' and syndicates' results

The overall 2018 result for Lloyd's and Members

The overall result for the Lloyd's market's 2018 underwriting year of account (on a three year of account basis) was a loss of 5.9%

2018 is the third consecutive year in a row in which Lloyd's has made an underwriting account loss (see Figure 3). The Lloyd's result witnessed a marginal deterioration during the final quarter of 2018, mainly on account of a deterioration in the aligned syndicates results to a loss of 6.8%.

Third party Members outperform Lloyd's and aligned corporates in 2018

In contrast, third party capital produced an aggregate loss of 3.7%. In the final quarter, third party capital's result improved by 0.9% as a result of releases from reserves and better than forecast investment returns. Indeed, 22 syndicates, supported by third party Members, saw their results improve. The final result for 2018 was an average of 2.4 percentage points better than the forecast given at 24 months. Although there were 15 syndicates which produced worse results than had been forecast, in aggregate the third party syndicates delivered better results at closure than had been forecast. Between 2008 and 2016, the actual results at closure were an average of 4.7 points better than the forecast after two years. Interestingly, this improvement was only 2.8 points better at the close of 2017.

As Figure 3 shows, as a group, third party Members have out-performed both the Lloyd's market and the aligned corporates in 2018. However, the performance of individual Members has varied and has depended on exactly which syndicates they supported. Writing an in-depth review of the closure of 2018, in the April 2021 edition of the ALM News, Andrew Colcomb, the Head of Syndicate Research at Argenta Private Capital wrote, "*over the past ten closed years, individual Members' result as a percentage of capacity is an average of 2.9 percentage points better than the Lloyd's market overall (market average return on capacity 2009 to 2018 is 4.3%, Names' average is 7.2%).*"

Releases from reserves in 2018

Members' syndicates make a 2.9% release from reserves in 2018

Not only have many of the syndicates supported by Members managed to produce better pure year underwriting figures, but they also benefitted from larger releases from their old years' reserves. As a group, the syndicates

Figure 3: Recent Lloyd's and Members' results

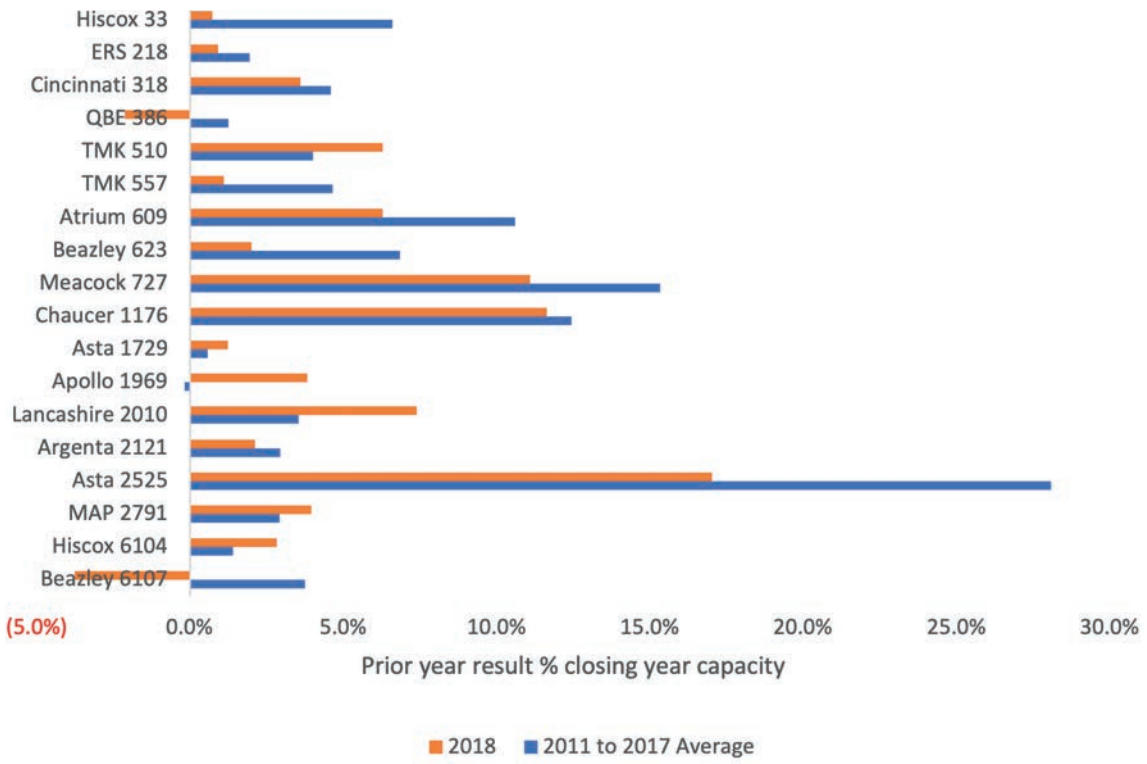
	2016	2017	2018
	%	%	%
Lloyd's	(2.9)	(8.0)	(5.9)
Aligned corporates	(3.7)	(7.7)	(6.8)
Third party Members	4.5	(6.5)	(3.7)

Source: Lloyd's

supported by third party Members managed to make a release from their old years that amounted to 2.9% of capacity. As Members will be aware, many of the syndicates supported by third party Members have consistently made releases from their old years' reserves. Their collective releases have averaged more than 4% of capacity each year since 2005. However, it is worth noting that the overall release that was made at the close of the 2018 year of account was the smallest one that has been made during this period. Figure 4 below, which was created by Argenta Syndicate Research, and which was originally published in the April 2021 edition of the ALM News, shows the releases that were made for 2018 and compares these to the average releases that were made between 2011 and 2017 for the main syndicates that were supported by third party Members.

As can be seen (in Figure 4), a number of third party-supported syndicates have made better releases in 2018 than in the previous years. These included syndicate 510 (TMK), a release of 6.3%; syndicate 1729 (Asta/Dale), a release of 1.2%; syndicate 1969 (Apollo), a release of 3.8%; syndicate 2010 (Lancashire), a release of 7.4%; and syndicate 2791 (MAP), a release of 4%. Syndicate 6104 (the Hiscox Special Purpose Arrangement (SPA)) also made a release of 2.8%; whilst this was better than the average release that the syndicate has made in the past, it did not stop the syndicate from making a serious overall loss.

Figure 4: Comparison of releases made from reserves



Source: Argenta Syndicate Research

More worrying, however, was that two syndicates, 386 (QBE) and 6107 (Beazley), needed to top-up their prior years at the close of 2018. Syndicate 386 topped-up its prior year reserves by 2.1% and syndicate 6107 by 3.8%.

Breakdown of syndicate results

As in previous years, there was a very wide variation in results in 2018

Figure 5: Results of syndicates supported by third party Members in 2018

Syndicate	Managing agent	Syndicate result %
33	Hiscox	0.01
218	ERS	(2.35)
318	Cincinnati	(6.50)
386	QBE	(1.21)
510	Tokio Marine Kiln	0.74
557	Tokio Marine Kiln	2.96
609	Atrium	7.66
623	Beazley	(2.70)
727	Meacock	5.18
1176	Chaucer	44.16
1200	Argo	(3.39)
1729	Asta/Dale	(6.16)
1884	Charles Taylor	(35.42)
1969	Apollo	(1.03)
1991	Coverys	(35.54)
2010	Lancashire	1.43
2014	Hamilton	(16.52)
2121	Argenta	(9.83)
2525	Asta/Ive	6.38
2689	Asta	(22.30)
2791	MAP	2.92
2988	Brit	(19.58)
4242	Asta/Beat	(37.09)
4444	Canopius	(5.19)
5623	Beazley	3.19
5886	Asta/Blenheim	(7.73)
6103	MAP	(0.35)
6104	Hiscox	(48.80)
6107	Beazley	(8.61)
6111	Catlin	(25.35)
6117	Argo	(6.86)
6123	Asta	(43.68)
6133	Apollo	(23.86)

Table produced by ALM, based on March 2021 data issued by individual managing agencies and Lloyd's. All the estimates are stated as a percentage of capacity after standard personal expenses, but before Members' agents' fees

Figure 5 above shows the final results produced by each of the 33 syndicates that were supported by third party Members in 2018. The table makes quite depressing reading; not only did 22 of the syndicates produce a loss in 2018 but 11 produced worse results than the Lloyd's market average, namely a loss of 5.9%. (But see below, Figure 6 and the allocation of Members' capacity, strongly biased to the better performing syndicates.)

As in both 2017 and 2016, there was a very wide variation in the results produced by the syndicates; from a profit of 44.1% produced by syndicate 1176 (Chaucer) to a loss of 37.0% produced by syndicate 4242 (Asta/Beat). Two of the SPAs made even larger losses. Whilst losses of this magnitude are not excusable in themselves, these syndicates have always been marketed as high risk/high reward ventures, which are susceptible to producing large losses in years which have an incidence of catastrophe losses. However, it should be noted that the losses that were produced by some of the SPA syndicates were not out of proportion to some of the past profits they these SPAs have made. The same argument cannot be made about the non-SPA syndicates, whose losses were completely out of all proportion to any of their past profits. Syndicates like syndicate 1884 (Charles Taylor), syndicate 1991 (Coverys) and syndicate 2014 (Hamilton) have made consistent, and very large, losses (see Figure 7 below). In the case of syndicate 1884, the 2018 loss was seven-fold greater than the result produced by Lloyd's: 35.4% as opposed to 5.9%. It is a good thing for both the market and for private capital that the syndicate has now ceased to trade.

It is also worth noting that only five syndicates have now succeeded in making a profit in both 2017 and 2018. These were syndicates 609 (Atrium), 727 (Meacock), 1176 (Chaucer), 2525 (Asta/Ive) and 2791 (MAP).

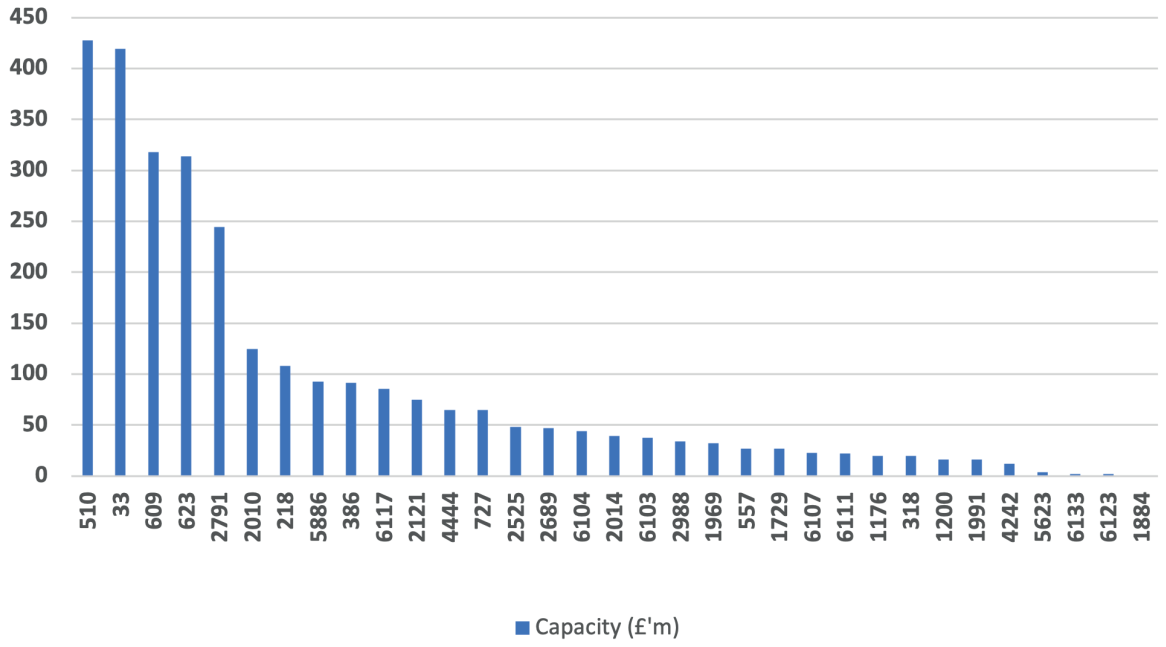
Two syndicates failed to close in 2018

Two syndicates were unable to close their 2018 years of account at the normal 36 month stage. Syndicate 1991 (Coverys) ceased trading at the end of 2020 and the ultimate destination of the reinsurance to close of the 2020 year of account is not yet known. A bigger concern for Members, especially Argenta Members, may be that the board of Argenta Syndicate Management Limited determined that the 2018 account of their syndicate 2121 should remain open in order to preserve equity between the different capital bases of the 2018 and 2019 years of account whilst COVID-19 losses are still an issue.

The allocation of Members' capacity in 2018

There was no dramatic change to the allocation of Members' capacity for 2018

Figure 6: Allocation of Members' capacity in 2018 by syndicate (£'m)



Graph produced by ALM, based on data obtained from Argenta

As in previous years, the key determinant of the Members' results in 2018 has been their capacity allocation. Figure 6 shows a breakdown of the allocation of Members' capacity in 2018. As can be seen, there was a stark difference in the level of capacity allocation between the top five most supported syndicates and the remainder. Nearly 85% of all Members' 2018 capacity was allocated to only ten syndicates.

There was no major change to the allocation of Members' capacity for the 2018 account from the two prior years. In 2016 and 2017, Members continued to allocate the bulk of their capacity to five "core" syndicates: 510 (TMK), 33 (Hiscox), 609 (Atrium), 623 (Beazley) and 2791 (MAP). For 2018, third party Members allocated a combined capacity of about £1.75 billion to these five "core" composites, with the largest allocation of £427 million to syndicate 510. £1.75 billion amounted to about 60% of all 2018 third party capacity trading at Lloyd's.

Given this capacity allocation-imbalance, it was, once again, the results produced by these five composite syndicates which played the key role in determining the overall monetary result of most Members in 2018. Given the importance of the results that have been produced by these five "core" syndicates it is worth looking at their performance in a bit more detail.

The performance of the core syndicates was critical for Members in 2018

Syndicates 510 (TMK) and 33 (Hiscox)

Members were fortunate that syndicate 510 (TMK), which had the greatest allocation of Members' capacity, managed to make a small profit (0.74%). Equally, an improvement in syndicate 33's (Hiscox) figures in the final quarter was critical. The syndicate had been forecasting that it would make a loss of 2% for 2018 but managed to produce a break-even result, which has been vital to the overall health of many Members' results. Collectively, these two syndicates had £846 million of Members' capacity allocated to them in 2018. Had they both made a loss this would have had a very serious impact on Members' portfolios.

Syndicates 609 (Atrium) and 623 (Beazley)

Members had £632 million of their capacity allocated to the next two most supported syndicates in their portfolio, which were syndicate 609 (Atrium) and syndicate 623 (Beazley). Syndicate 609 (Atrium) has been an historic out-performer, which has never made a loss; 2018 saw no let-up in this trend. Interestingly, this time last year it was the only one of the five "core" syndicates that was forecasting a profit for the 2018 year of account. Not only did the syndicate manage to make a profit of 7.6% for 2018, but this was the second best result produced by any syndicate in the market. Save for the 44% profit produced by the nuclear syndicate, 1176 (Chaucer), which few Members support (see Figure 6: Members provided only £19.9 million of capacity in 2018), then syndicate 609 (Atrium) has made by far the best profit of any syndicate. In addition, syndicate 609's result improved by 3.9 points prior to closure, a fact which contributed to its enhanced profit. The fact that the syndicate produced a profit of this magnitude has been critical for the overall result produced for the average Member; we believe that most, if not all, Members may have a line on this syndicate. Furthermore, our information is that Atrium is probably one of the larger lines in each Member's portfolio.

This time last year, syndicate 623 (Beazley) was forecasting a break-even result. Unfortunately, the syndicate has produced a loss of 2.7% for 2018. The Beazley result deteriorated by 1.8 points, mainly owing to deterioration on the Cyber and directors' and officers' books during the last quarter. This was a great disappointment, as this syndicate formed a significant part of many Members' portfolios and 2018 is the second year in a row that the syndicate has made a loss.

Syndicate 2791 (MAP)

Syndicate 2791 (MAP) is another syndicate that is important to Members' overall performance. For 2018 Members had committed £244 million of capacity to this syndicate. This time last year, the syndicate was, uncharacteristically, forecasting that it might make a small loss for 2018. However, its forecast improved dramatically during the final twelve months of the 2018 year of account and the syndicate has produced a final profit of 2.92%. The syndicate has only ever made one loss in its entire trading career.

In some ways, the fact that these syndicates have made so large a proportion of the Members' profits (and all, bar one of them, have not lost money) is an illustration of the Paretto principle in action. The performance of five syndicates has delivered the greatest monetary benefit to the Members and underpinned the overall third party Members'

Figure 7: Syndicate % returns between 2012 and 2018

	2012	2013	2014	2015	2016	2017	2018
Syndicates	%	%	%	%	%	%	%
33	16.8	17.2	17.0	17.8	7.5	0.0	0.1
218	0.3	2.4	(4.7)	(4.7)	(6.9)	5.9	(2.3)
318	12.2	15.6	12.5	10.7	(10.4)	(34.9)	(6.5)
386	9.7	15.8	14.7	9.6	8.9	9.1	(1.2)
510	8.5	10.9	15.7	11.1	4.4	(2.3)	0.7
557	5.8	15.3	27.4	29.9	25.7	(14.7)	2.9
609	17.7	15.9	17.7	13.5	12.8	3.1	7.6
623	14.6	11.8	19.6	15.9	9.2	(1.9)	(2.7)
727	11.4	15.9	17.5	7.7	5.5	4.8	5.1
1176	62.4	54.0	53.2	51.9	47.9	66.0	44.1
1200	6.1	6.7	7.1	1.4	(15.3)	(21.5)	(3.4)
1729	-	-	0.6	(7.8)	(10.5)	(15.5)	(6.1)
1884	-	-	(43.0)	(40.6)	(52.0)	(44.3)	(35.4)
1969	9.1	0.4	7.4	4.6	(30.7)	(26.4)	(1.0)
1991	-	(11.5)	(9.4)	(7.0)	(6.3)	(9.6)	(35.5)
2010	17.6	12.6	14.2	13.7	6.8	(20.0)	1.4
2014	-	-	4.1	2.2	(11.6)	(15.1)	(16.5)
2121	13.5	11.5	14.4	5.3	(0.4)	(1.2)	(9.8)
2525	22.7	20.4	10.8	9.0	6.5	4.0	6.3
2689	-	-	-	-	-	(31.1)	(22.3)
2791	11.7	13.3	13.7	11.8	8.3	3.8	2.9
2988	-	-	-	-	-	(47.5)	(19.5)
4242	9.8	24.5	31.1	22.9	0.3	(54.3)	(37.0)
4444/958*	0.1	7.3	7.2	(5.3)	(7.0)	(15.6)	(5.2)
5623	-	-	-	-	-	-	3.1
5886	-	-	-	-	-	(26.2)	(7.7)
SPAs							
6103	25.5	38.1	27.3	30.8	20.9	(6.4)	(0.3)
6104	39.0	43.1	36.1	36.1	28.9	(35.0)	(48.8)
6107	33.7	17.9	29.7	51.0	33.8	(27.7)	(8.6)
6111	9.5	12.7	7.7	3.2	(7.7)	(25.3)	(25.3)
6117	-	-	26.1	13.8	16.0	(18.9)	(6.8)
6123	-	-	-	(2.7)	(21.9)	(60.3)	(43.6)
6133	-	-	-	-	-	-	(23.8)

Table produced by ALM, based on March 2021 data issued by individual managing agencies and Lloyd's. All the estimates are stated as a percentage of capacity after standard personal expenses, but before Members' agents' fees

**Syndicate 958 was supported by Names until 2015, when it was merged into syndicate 4444. The results for 2012 to 2015 shown here are for syndicate 958. Those for 2016, 2017 and 2018 are for syndicate 4444.*

underwriting result. To put it another way, had these syndicates all lost money in 2018, then no amount of profit made by some of the smaller, or more specialist syndicates such as 727 (Meacock), 2525 (Asta/Ive) or the nuclear syndicate 1176 (Chaucer) would have made much appreciable difference to the Members' overall results.

Indeed, if we look at the performance of the next five most-supported syndicates in the market, only one of their number, syndicate 2010 (Lancashire), has produced a profit in 2018. (Surprisingly, syndicate 218 (ERS) and 386 (QBE) both lost money, having produced good results in 2017.) The fact that only one of these next five syndicates managed to make a profit underlines how critical is the performance of the top five "core" syndicates. Syndicate 2010' s achievement is worthy of comment. The syndicate saw a 6.9% improvement in its figures, which took a midpoint forecast of a loss of 5.5% back to an ultimate profit of 1.4% at the closure of the 2018 account. Given that it was the sixth largest syndicate in the Members' portfolio (where Members had committed £124 million of their capacity for the 2018 year of account), the fact that it managed to produce an underwriting profit has been significant to the performance of Members as a group.

The syndicate results in an historical context (2012 to 2018)

Very few syndicates have remained consistently profitable

Figure 7 shows how the results of syndicates and SPAs that were backed by third party capital in 2018 have performed over the previous seven years. The table shows the percentage return on capacity achieved by the syndicates in each year of account. This has been an interesting period, as the market weakened considerably between 2012 and 2016. Paradoxically, this was also quite a benign period in terms of catastrophe losses, and many syndicates were able to remain in profit, thanks mainly to their ongoing ability to release money from their reserves. However, even by 2016, the weak market conditions had begun to affect some syndicates' attritional loss ratios, and a number of the weaker syndicates had begun to make losses. Although rates began to recover from 2017 onwards, this recovery coincided with two years (2017 and 2018) that witnessed an abnormally high incidence of catastrophe losses. These losses inevitably led to many more syndicates making overall losses.

The table makes clear that only five of the syndicates supported by Members (609, 727, 1176, 2525 and 2791) have managed to make a profit in each of the last two closed years. If one is charitable, it is possible to include syndicate 33 in this short list, as it is has produced break-even results for both 2017 and 2018 (even though these may turn out to be losses to Members after the inclusion of fees). As has already been discussed, the fact that two/three of these syndicates are "core" syndicates, heavily supported by Members, has made all the difference in terms of the Members' overall results over these years, and especially in the years since 2016. Syndicates 727, 1176 and 2525 have not been supported to anything like the same extent as the others, but they have still been of great benefit to those Members which supported them.

Figure 7 also reveals that some of the newer start-up syndicates, such as syndicate 1991 (Coverys) and syndicate 1884 (Charles Taylor), have produced many poor years of results. Their performance not only illustrates the weakness of the market in the middle years of the decade, but also highlights the issue that it is extremely difficult to start up a new syndicate in any market without the benefit of an established book of business and/or ample reserves, in particular in a soft market. It also begs the questions why Lloyd's let them start trading in the first place, and why Members' agents decided to support them. Members who have traded on these syndicates have sustained some considerable losses and, depending on the size of their lines, will have found that these syndicates have been a significant downward drag on their overall return. Thankfully, both have now ceased trading.

The Development of the 2019 year of account

This chapter analyses the development of the 2019 year of account to the end of December 2020. We have followed the same reporting format as for the review of the closure of the 2018 year of account. The first section focuses on what happened to market conditions and rates. The second section deals with the effect of the major market losses. Finally, we discuss the current forecast returns for Lloyd's and third party Members on a three year of account basis and examine some of the syndicate forecasts in a bit more detail.

Executive overview

- Rates rose in most classes of business during 2019 as a result of the losses of 2017 and 2018
- There were still some classes resistant to the imposition of rating increases, and there was still a surplus of capital available to the industry
- Insured losses sustained by the industry fell to $60 billion (2018: $85 billion)
- However, the bulk of the loss from COVID-19 will fall onto 2019
- The loss from COVID-19 could deteriorate further
- Lloyd's is forecasting a mid-point market loss of 5.3%
- The aligned syndicates are forecasting a mid-point loss of 5.8%
- Third party capital's mid-point loss forecast is 4.2%
- As ever, syndicate forecasts show that there is a big difference between the best and worst performing syndicates in the market

Market conditions

Rates in 2019 – an overall trend of improvement

There was a marked improvement in rates across many classes of business in 2019, but this was especially the case towards the end of the year (by which time the market had begun to sustain some more serious losses). The main reason for this improvement in rates was as a direct, and overdue, reaction to losses that occurred in 2017 and 2018. However, depending on the specific class of business in question, there were sometimes a number of other factors at play. It is worthwhile examining the broader market trends and rating movements in 2019 in a bit more detail.

Reinsurance rates were increasing throughout 2019

It could be argued that dynamics of the (re)insurance market changed markedly as the year progressed. Overall, the various 2019 renewals were more positive than many had expected, with those in June being especially good. However, what was perhaps the most positive development was that many of these changes were driven by a different set of circumstances, and most importantly by a different mindset and outlook about the market on the part of underwriters and their management. Underwriters were finally beginning to look for payback for the recent years of losses.

There were several complementary reasons why rates increased in the reinsurance market in 2019 (especially at the April, June and July renewal dates). Underwriters were keen to increase rates after the 2017 and 2018 losses, and seemed to have found the will to insist on the imposition of proper and meaningful rating increases. In many cases,

reinsurers were also having to deal with the escalating cost, the so called "loss-creep", emanating from losses such as hurricane Irma and typhoon Jebi, which was leading to the further deterioration of their underwriting figures in respect of the 2017 and 2018 years of account in the early part of 2019.

Against this background, there were two major trends that emerged in the reinsurance market in 2019. The first of these was the emergence of a shortage of retrocessional capacity, which first became apparent at the January renewals. This shortage drove up prices considerably, and had a positive knock-on effect on pricing elsewhere as the year has progressed. Secondly, in what seemed at the time to be a radical departure from established practice, reinsurance providers began to differentiate in terms of both pricing and terms between counterparties much more than had been previously the case. The imposition of rating increases on cedants was based on their loss experience, long-term performance, the accuracy of their previous loss estimates, as well as their willingness to work as partners for the medium to long term. In practice, this meant that these metrics largely replaced the established business model of applying a universal "one-size-fits-all" rating increase across the market in the wake of a major loss. The fact that reinsurance providers of all types were applying a more discerning and differentiated approach to their pricing created a wide pricing disparity between different accounts, but the overall trend in rates was still very much a positive one.

The June and July reinsurance renewals were also very positive

There were further strong rating increases imposed at the reinsurance renewals in June, particularly in the retrocessional market. In their July 2019 reinsurance market report, Willis Re noted how the disappearance of some of the collateralized retrocessional reinsurance capacity (that had been previously available to reinsurers) was a key feature of the mid-year 2019 renewals. Many firms which had relied on cheap retrocessional cover in the past now found that this was no longer readily available.

As a result of this, it was no great surprise that there were some significant rating increases imposed, some of which were as high as 35% to 40%. Willis Re also noted that those reinsurers who were less reliant on retrocessional cover, as well as those with large balance sheets, were able to write more business at the Florida reinsurance renewals, growing their existing relationships and also adding new, carefully selected, cedants. At the same time, ILS-backed capacity continued to remain under strain in the global non-marine retrocession market. Indeed, the way in which the retrocessional market had effectively seized up, and the higher rates that were seen as a result (with some loss-affected accounts suffering rating increases of more than 35%, according to Willis Re), had the effect of attracting some "traditional reinsurers" back into the market.

The positive momentum of earlier in the year was therefore carried seamlessly into the July renewals, despite the fact that some commentators doubted whether this would be possible. In a report issued on 17 July 2019, analysts at Barclays reported evidence of reinsurance price hardening across all geographies and lines of business, with rate increases that averaged 2% to 3%. However, underlying this, retrocessional reinsurance pricing had increased by as much as ten times these amounts.

Insurance rates continued to increase in 2019

In addition to the rating increases that took place in the reinsurance market, there was a continuing and steady improvement in rates in the insurance classes throughout 2019. The market had now entered its third consecutive year of rating increases. Whilst the percentage rating increases that were seen in some of the direct classes may not have been as dramatic as those that had been seen in some sectors of the reinsurance market, they were still meaningful when viewed in the context of the rating reductions that had taken place over the previous years. Although it may be too simplistic to generalise, there were three main reason why rates in the direct classes improved to the extent that they did in 2019; the withdrawal or retrenchment of underwriters from some classes of business (such as by AIG and some of the weaker, poorer performing Lloyd's syndicates that took place in the latter part of 2018 and early 2019), the increased cost of reinsurance cover and the simple fact that underwriters needed to return to profit (especially as they could no longer rely on investment income to the extent that they had in the past).

As a result of a combination of some, or all, of these factors, rates increased by between 10% and 20% in the US direct and facultative property market as a result of the retrenchment of companies such as AIG's Lexington and FM Global, and the fact that some Lloyd's syndicates, such as 1995 (Barbican) and 4000 (Travellers) had ceased writing the class. Interestingly, there were also rating increases imposed in some sectors of the US casualty market (despite

the fact that this was a market that was still over-burdened by surplus capacity), and especially in the directors and officers (D&O) class, where the rating increases were in excess of 10%. These rating increases were driven by increased frequency and the escalating cost of losses. Another area of the market that witnessed some significant rating improvement was the downstream side of the energy market, where rates for some buyers had increased by about 20%.

In mid-July 2019, further evidence of the buoyant US excess and surplus lines (E&S) market emerged from Texas, when the state reported that premium had jumped 13.4% at the half-year stage to $3.48 billion. The Surplus Lines Stamping Office of Texas (SLTX) reported that in the first half of the year, each month's recorded premium had been the highest ever reported for that month. Texas was deemed to be a good bellwether for the US E&S market as a whole because it accounted for around 20%, or $6.1billion, of the overall premium recorded by stamping offices in the US last year. At the same time, E&S property and many casualty segments had seen an acceleration of rate hardening. This was driven by the high-profile retrenchment of a number of carriers, led by AIG and some Lloyd's syndicates, in multiple classes of business across US commercial insurance business. That led to an increasing incidence of retail brokers seeking E&S capacity through their wholesale relationships to fill gaps in programmes when standard lines' capacity was no longer available. However, perhaps the most positive aspect of this process was the fact that rating increases were successfully imposed when the market still had plenty of surplus capacity. It could be argued that this was some proof of a change of mindset in the industry, as underwriters of all types had shown more resilience and discipline in terms of holding out for rating increases, and by then pushing them through, after nearly seven consecutive years of rating reductions.

Rates in all sectors did not recover to the same extent in 2019

However, there were still some classes of business that were slow to recover, and some that were more resistant to the imposition of rating increases in 2019. This was certainly the case with some sectors of the US casualty market. One area of the US casualty market that was most resistant to the general upward movement in rating levels was the US workers' compensation class. According to a report issued in July 2019 by the rating agency Fitch, this class of business was then on track to produce its fifth consecutive year of underwriting profit in 2019 (despite a weakening in market fundamentals)! The industry's combined ratio fell to 86% in 2018, and had averaged 93% since 2015. The "quality" of these underwriting figures (albeit on a long-tail class of business) had led to a very damaging increase in the level of competition in the class, at a time when, according to the US Council of Insurance Agents and Brokers (CIAB), prices had actually been falling for the last 17 quarters. At the same time, the lack of losses and the ability to release reserves had maintained the illusion of the "profitability" of the class.

Another class of business where rates remained inadequate was the marine hull market. The main reason for this was because there was still a considerable surplus of global capacity available in the market. Another sector that continued to struggle in 2019 was the aviation market; to the extent that some Lloyd's underwriters and insurers elected to withdraw from the sector.

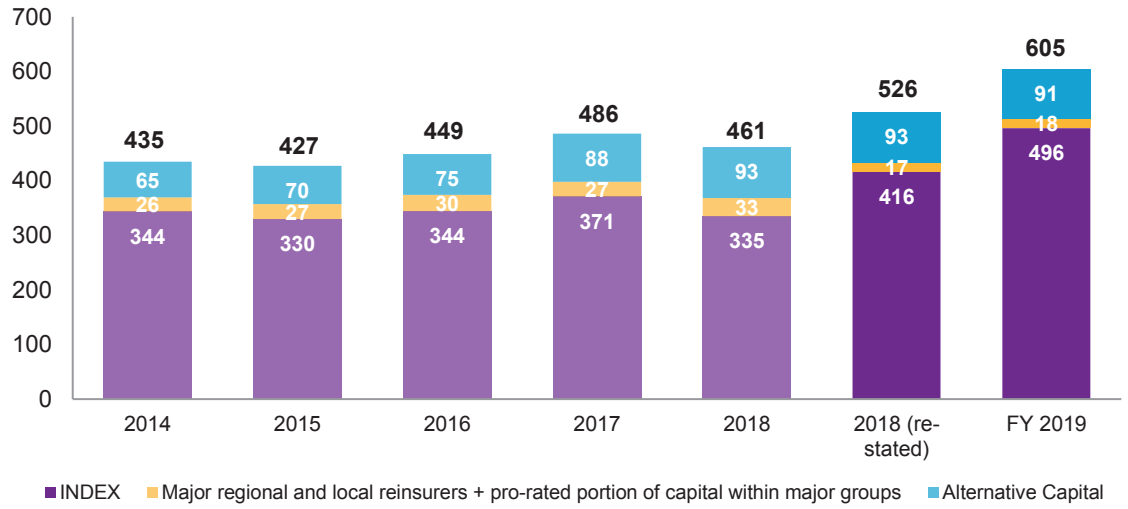
Trading conditions also remained difficult in the motor market. Although rates in the international motor market witnessed some upward movement during 2019, it would be fair to say that underwriting conditions in the UK motor market continued to be challenging throughout 2019. Market conditions were arguably made all the more difficult and uncertain by the fact that many market practitioners had hoped that the 2019 Ogden discount rate review, -0.75% at the time, would lead to a rate of 0% or higher, when in fact it was only set at -0.25%.

A market-wide recovery in rates was hampered by the fact that there was still a surplus of worldwide capital

On a less positive note, the over-supply of capital persisted throughout 2019 (see Figure 1). Had there not been as much capital available to the industry, especially to the reinsurance market, there is every possibility that rates would have started to increase far sooner and that the size of rating increases would have been far greater. On the reinsurance side, there would definitely have been an earlier reaction to the 2017 catastrophe losses, and on the direct side, this market correction may well have occurred even earlier (depending on the class of business in question, as most classes of business had been under-performing well before 2017).

Figures released by Willis Towers Watson in May 2020 estimated that global reinsurers' capital actually rose to $605 billion in 2019 (see Figure 1). So called "traditional" equity capital rose to $496 billion.

Figure 1: Reinsurers' capital 2014 to 2019



Source: Willis Towers Watson
** We have re-stated year-end 2018 capital from USD 461B to USD 526B, to allow for a change in methodology introduced with our HY 2019report and to allow for our annual review of constituents. The former adds USD 61B to capital and the latter adds USD 20B.*

In summary, however, despite an excess of capital, 2019 was still a very positive year as far as rates were concerned. Rates were increased across most classes of business and the overall market was in a much better position as regards the adequacy of its rating levels than had been the case in 2018. That is not to deny that there were still classes of business where rates were still under competitive pressure.

Market losses

2019 industry losses fell to $60 billion

What was particularly interesting was that some of the rating increases of 2019, discussed above, were imposed against a relatively benign catastrophe loss experience in the first six months of the year. In recent years, it could have been argued that this, in combination with the worldwide surplus of capital committed to the (re)insurance industry, would have led to the speedy reversal of any rating recovery. Whilst the first six months of 2019 did not witness a significant number of catastrophe losses, this did not have the effect of stopping or diluting the rating increases that were being imposed. These increases were a long overdue reaction to the losses of 2017 and 2018, and an attempt to correct the years of declining rates. According to preliminary figures released by Aon in July 2019, total losses in the first half of 2019 only amounted to $18 billion, which made this the least costly first half of any year since 2006. This figure of $18 billion was about half the ten-year average claims cost (of $36 billion) for the first six months of the year, and 36% lower than the median loss figure of $28 billion.

"Loss creep" from prior years' events had a detrimental impact

What had a far more profound effect on the market than these losses in the first six months of 2019 was the on-going problem of "loss-creep" emanating from events such as hurricane Irma (a September 2017 loss), typhoon Jebi and, to a lesser extent, hurricane Michael (both of which were 2018 losses). The phenomenon of "loss-creep" is discussed in greater detail in the review of the closure of the 2018 year of account. However, the effect of "loss creep" was to increase the size of the industry's insured loss on typhoon Jebi to $16 billion (as compared to its original loss forecast of about $3.5 billion). Equally, the loss on hurricane Michael rose to $12 billion. An interesting side effect of the whole "loss-creep" issue was that it arguably made catastrophe reinsurance business less short-tail than many people would have ever imagined, as the way in which it increased the cost of claims was more akin to how some casualty classes behaved. That said, the uncertainty that the issue generated created another factor that drove rating increases in 2019.

There were a lot more catastrophe losses in the second half of the year

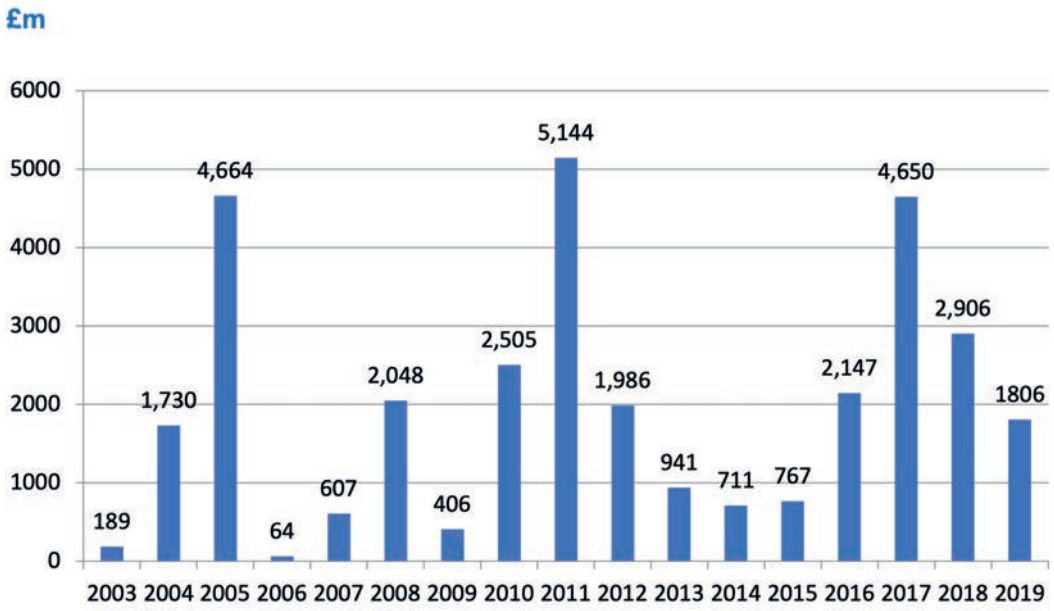
In complete contrast, the second half of 2019 saw a far larger number of losses hit the (re)insurance industry. The Bahamas and North Carolina in the US were hit by Hurricane Dorian, which caused insured losses of about $4.5 billion. Japan was also hit by two devastating typhoons within a short period. In mid-September, typhoon Faxai hit the Kanto region (which includes the greater Tokyo Area) and caused insured losses of approximately $7 billion. Soon after, in early October, typhoon Hagibis struck the same region, causing further widespread damage across Japan. Total insured losses from Hagibis are now estimated to be between $8 billion to $10 billion.

In addition, 2019 also saw heatwaves and dry spells, with new temperature highs recorded in several locations around the world, from Europe to Australia. Devastating wildfires affected Australia, Indonesia, the US, Canada, the Amazon region and Siberia. Once again, there were devastating floods in many regions in 2019. Severe monsoon rains led to extensive flooding in India, Bangladesh and Nepal, and there were repeated flood events in other regions, including China, the US, Europe, Canada and Australia. Thunderstorms and hailstorms have caused damage to property, vehicles and agriculture in many parts of the world. Together, all of these secondary perils were estimated to have caused more than 50% of 2019's global insured losses from natural catastrophes.

What was the impact of these losses on the Lloyd's 2019 annual result?

When Lloyd's released its 2019 annual result in March 2020, it disclosed that its exposure to losses in 2019 amounted to £1.8 billion, which was both below the 15-year average loss tally (£2.1 billion) and well below the figures for either 2017 (£4.7 billion) and 2018 (£2.9 billion).

Figure 2: Lloyd's major losses 2003 to 2019 – net ultimate claims (£m)



Indexed for inflation to 2019. Claims in foreign currency translated at the exchange rates prevailing at the date of loss. Source: Lloyd's 2019 Annual Report & Accounts

As can be seen in Figure 2, the losses sustained by Lloyd's in 2019 were less than those sustained by Lloyd's in 2016, 2017 or 2018, but were actually far higher than those of the preceding three years. This meant that the five-year average for losses was then £2.2 billion, and the 15-year average was £2.1 billion. What was quite interesting was that the Lloyd's market paid a combined £9.8 billion of losses in the years 2016 to 2018, which was its most active period for losses since 2010 to 2012, which saw losses of £9.6 billion paid. The key difference was that the losses sustained in period of 2010 to 2012 fell against a market where rates were much higher.

The potential impact of COVID-19 losses on the 2019 three year (of) account

Whilst we cannot completely rule out the possibility that some of the natural catastrophe losses of 2019 may deteriorate further before the closure of the 2019 year of account at 31 December 2021, we would argue that the

greatest uncertainty facing the development of the 2019 year of account in its final twelve months is how COVID-19 develops. Claims arising out of COVID-19 are perhaps the most complicated of any loss that has impacted the (re) insurance market in the past few years. Losses have fallen across many lines of business, including cancellation and abandonment, accident and health, trade credit and property, and losses have fallen across many different jurisdictions. There has also been the effect of the deterioration in economic conditions as a result of the imposition of lockdowns to be considered. This will inevitably cause indirect losses to the lines of business, including general and public liability and employers' liability. Although vaccines have been rolled out in some countries on a widespread basis, this is not the case in the world as a whole, and it is going to be some time before the world returns to "normal". The effect of COVID-19 in insurance terms could persist for some time. As has been discussed in various ALM publications, there have been a number of court judgments in different jurisdictions, such as the UK and Australia, and some of these have had unfavourable outcomes for insurers.

The bulk of the COVID-19 loss will fall onto the 2019 year of account

As has been discussed in our review of the closure of the 2018 year of account, the loss from COVID-19 will impact the 2018, 2019 and 2020 years of account. Under the Lloyd's three-year accounting methodology, annual insurance contracts written in one calendar year can often continue to be on risk into the next calendar year. Losses can therefore fall back onto the year in which the contract was written and incepted, and this is exactly what has happened with COVID-19 as the majority of the loss will attach to the 2019 year of account, despite the fact that the pandemic only gathered momentum in the early months of 2020. The 2019 account is expected to bear the greatest exposure of the three years. In an article written in the April 2021 ALM News, Andrew Colcomb, the Head of Research at Argenta Private Capital, estimated that this would be in the region of 60% of the whole COVID-19 loss. Given that COVID-19 is still an on-going, unfolding event (which could go on until the closure of the 2019 account in December 2021 or beyond), its ultimate cost to the market is hard to state with any degree of certainty at this moment. As will be discussed later, a number of syndicates have had to increase their reserves in respect of COVID-19 in the last quarter of 2019. It also pays to remember that many syndicates have reserved it as IBNR (incurred but not reported) rather than as claims.

Lloyd's and syndicates' forecasts

Lloyd's estimates a mid-point loss forecast of 5.3%

In June 2020, Lloyd's issued its first forecast for the 2019 year of account, which ranged between a loss of 4.8% and a profit of 2.3% (or a mid-point loss estimate of 1.2%). This forecast was issued against the background of the still developing COVID-19 pandemic. There were three possible reasons why this estimate was always going to change. The full extent of the developing COVID-19 loss was still an unknown factor. There were a number of natural catastrophe losses in 2019, some of which had the potential to deteriorate in the same way as some of the losses in past years had done. Finally, there was the fact that a portion of the 2019 book of business was still going to be "on-risk" until October or November 2020. It therefore comes as no surprise to see that the latest forecast issued by Lloyd's, based on December 2020 figures, has seen a deterioration over the one that was issued last summer.

- Lloyd's is now forecast to make a mid-point loss of 5.3%
- Aligned capital are forecast to make a mid-point loss of 5.8%
- Third party capital is forecast to make a mid-point loss of 4.2%
- Third party capital is therefore set to outperform both Lloyd's and aligned the capital

The aligned syndicates are currently forecasting a mid-point loss of 5.8%, which represents a deterioration of 1.2% in the last quarter. Syndicates with third party capital are forecasting an aggregate mid-point loss of 4.2%. This is a slightly lesser deterioration, but many syndicates are still showing forecasts that have a very wide range of potential outcomes, as was the case last year. As can be seen in Figure 3, some of the syndicates are even showing forecasts with a positive top-end figure. These wide estimate ranges demonstrate the considerable uncertainty which remains, particularly with regard to the potential effect of COVID-19. It is also important to remember that these syndicate forecasts do not generally include any consideration of prior year releases at this stage.

Syndicate forecasts for 2019 at December 2020

Figure 3 shows the worst-case, best-case and mid-point estimates for the syndicates in 2019. These figures are expressed as a percentage of syndicate capacity. The figures were released by managing agents (and Lloyd's) in March 2021.

Figure 3: Syndicate best and worst case estimates for 2019 as at December 2020

Syndicate	Managing agent	Worst-case (%)	Best-case (%)	Mid-point %
33	Hiscox	(11.50)	(1.50)	(6.50)
218	ERS	(0.50)	9.50	4.50
318	Cincinnati	(8.57)	(3.57)	(6.07)
386	QBE	8.93	13.93	11.40
510	Tokio Marine Kiln	(16.09)	(6.09)	(11.09)
557	Tokio Marine Kiln	(5.78)	(0.78)	(3.28)
609	Atrium	0.00	10.00	5.00
623	Beazley	(7.50)	2.50	(2.50)
727	Meacock	(9.00)	11.00	1.00
1176	Chaucer	12.50	32.50	22.50
1200	Argo	(17.00)	(7.00)	(12.00)
1729	Asta/Dale	(5.00)	10.00	2.50
1969	Apollo	2.50	10.00	6.25
1971	Apollo	0.00	7.50	3.75
1991	Coverys	(16.18)	(6.18)	(11.18)
2010	Lancashire	(10.00)	0.00	(5.00)
2014	Hamilton	(22.74)	(12.74)	(17.74)
2121	Argenta	(20.00)	(5.00)	(12.50)
2525	Asta	0.00	15.00	7.50
2689	Asta	(15.00)	0.00	(7.50)
2791	MAP	(2.50)	5.00	1.25
2988	Brit	(21.39)	(13.47)	(17.43)
3268	Asta	(10.00)	(2.50)	(6.25)
4242	Asta	(20.90)	(10.90)	(15.90)
4444	Canopius	(5.64)	1.86	(1.89)
5623	Beazley	(3.00)	7.00	2.00
5886	Asta	(6.00)	8.00	1.00
6103	MAP	20.00	30.00	25.00
6104	Hiscox	(30.50)	(20.50)	(22.50)
6107	Beazley	(5.00)	15.00	5.00
6117	Argo	(18.31)	(8.31)	(13.31)
6123	Asta	(38.58)	(28.58)	(33.58)
6133	Apollo	(15.00)	(5.00)	(10.00)

Loss forecasts are shown in red

Estimates are stated as percentage of capacity after standard personal expenses and before the deduction of Members' agents' fees. Source: Managing agents' data – March 2021

Comments about the 2019 forecasts

It comes as no surprise that most of the syndicates shown in Figure 3 are showing a worst-case estimate figure that is a loss. Some of these forecast losses are quite large. There are some notable exceptions, however, such as syndicate 386 (QBE), syndicate 609 (Atrium), syndicate 1969 (Apollo), syndicate 1971 (Apollo) and syndicate 1176 (Chaucer). All of these syndicates are showing profitable best and worst-case forecasts. Aside from these, all of the syndicates that are supported by third party Members are showing a worst-case estimate figure that is a loss. As far as the Special Purpose Arrangements (SPAs) are concerned, all of them, with the exception of syndicate 6103 (MAP), are currently forecasting a loss (on a worst-case basis). The mid-point figures may be slightly more positive in that there are currently 14 syndicates that are forecasting a positive result.

The final result declared by the five "core" syndicates will prove critical to Members' overall loss or profit

As in 2016, 2017 and 2018, the final results made by third party Members are going to be largely determined by the final performance of the five "core" syndicates. Figure 4 shows the allocation of the Members' 2019 capacity by syndicate, and it is immediately apparent that the ultimate result that is produced by the five syndicates 33 (Hiscox), 510 (TMK), 609 (Atrium), 623 (Beazley) and 2791 (MAP), shown on the left-hand side of the chart, will be the critical determinant of the Members' final cash result, on account of the fact that Members had allocated a disproportionately large share of their 2019 capacity to these syndicates. Third party Members had a combined capacity of about £1.73 billion spread over the five "core" composites, with their £436 million allocation to syndicate 510 (TMK) once again being their largest individual allocation. This £1.73 billion allocation of capacity to these "core" syndicates amounted to about 60% of the entire third party Members' 2019 capacity. Incidentally, it is also worth noting that there was next to no change in the overall composition of the Members' portfolio allocation between 2018 and 2109, in that their support of most of the top 10 syndicates was remarkably consistent.

Figure 4: Members' allocation to syndicates in 2019 (£'s million)

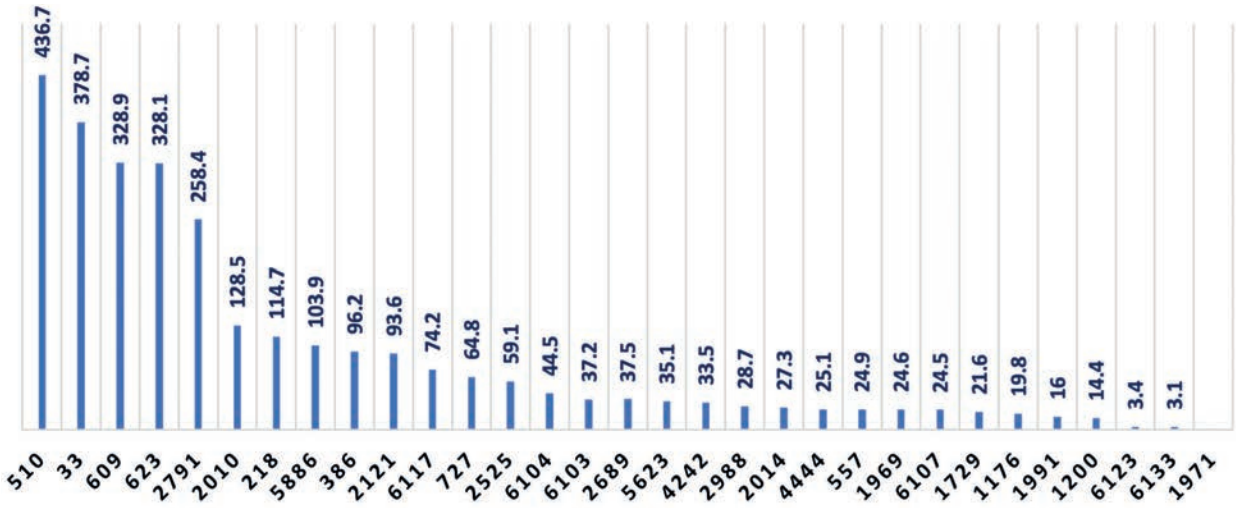


Chart produced by the ALM, based on 2019 figures that were obtained from the Members' agencies

As can be seen in Figure 3, syndicate 510 (TMK) is currently forecasting a worst-case loss of 16% and its current best-case forecast is also a loss, of 6%. Syndicates 33 (Hiscox), 623. (Beazley) and 2791 (MAP) are all also forecasting worst-case losses, but syndicates 623 (Beazley) and 2791 (MAP) are, at least, forecasting best-case profits. Syndicate 33 (Hiscox) is forecasting a loss on a best-case basis. In the case of syndicate 2791 (MAP), the best-case forecast is a profit of 5%. Of all the "core" syndicates, syndicate 609 (Atrium) is forecasting by far the best result at the present moment; a profit of up to 10%. It is also worth remembering that these "core" syndicates do tend to reserve more cautiously than many others in the market. Their results have often improved considerably during the final twelve months of a given year of account. For example, in 2018, the results of these five syndicates, as a group, went from an average loss of 2.9% to a profit of 1.1%. That said, even if we focus solely on the mid-point estimates, it seems difficult to envisage a scenario where at least syndicates 33 (Hiscox) and 510 (TMK) do not end up making a small overall loss for the 2019 year of account.

This may mean that the next five largest supported syndicates end up playing a greater than normal role in the mitigation of Members' overall losses for 2019. Syndicate 2010 (Lancashire) is currently showing a forecast of between a loss of 10% and break-even. The syndicate's forecast did improve during the last quarter, and it is possible once releases from reserves are taken into account that the forecast may end up at the better end of that forecast range. Equally, both syndicates 218 (ERS) and 386 (QBE) are currently forecast to make good profits in 2019, and such profits will prove to be extremely beneficial to third party Members given the size of the lines that they have on these syndicates. As with some of the "core" syndicates, both 218 and 386 are syndicates that are present in the majority of Members' portfolios. In addition to their potential to produce an underwriting profit, some Members have joined these two syndicates in order to diversify their portfolios away from an excessive aggregation of property catastrophe risk exposure within their portfolios, and in the case of certain Members, to help them to reduce their Funds at Lloyd's requirements.

Much more interesting, however, are the current forecasts that have been issued by syndicates 5886 (Blenheim) and 2121 (Argenta). Syndicate 5886, which began trading in 2017, has failed to make any profit to date. However, the 2017, 2018 and 2019 years of account have not been the easiest years in which to begin a new syndicate. Surprisingly, it does form a reasonably large part of many Members' portfolios. Members committed £104 million of capacity to the syndicate in 2019. Based on the forecast range shown in Figure 3 it may transpire that the syndicate does produce a profit for the 2019 year of account. If it manages to do this, this will have been a considerable achievement against the background of a very difficult market. Furthermore, it will have proven to have been an extremely useful contribution to the overall result of third party Members.

Syndicate 2121 (Argenta) is a much more established syndicate which has been predominantly supported by the Argenta Members. Interestingly, its 2018 year of account has been left open at the 36-month point, as a result of uncertainties surrounding its potential exposure to losses emanating from COVID-19. It will be interesting to see what effect this has on the final performance of the 2019 year of account. Theoretically, the fact that the 2018 year of account has been left open may have a positive effect on the 2019 year in that it limits the amount of old years' contamination that may leak into 2019. At the same time, the 2019 "pure" year will still have to deal with its own, unique underwriting losses.

Finally, the performance of syndicate 6117 (Argo) is very likely to have an overall detrimental effect on Members' 2019 results. The current forecast is that it will make a loss of between 18.3% and 8.3%. This is very unlikely to turn into a profit.

Other lesser supported syndicates are set to produce good profits

Two other syndicates that are worthy of mention are syndicate 727 (Meacock) and syndicate 2525 (Asta/Ive). Whilst these are not as heavily supported by Members as some other syndicates, on a positive note it is worth noting that both of them are currently forecasting profits for 2019. For those Members that do have lines on the syndicates, these profits will undoubtedly have the effect of mitigating some of the losses caused by some of their other syndicates (to which they may have had larger amounts of capacity committed). Both syndicates also have a good past record of making sizeable releases from their reserves, so may well end up making better profits than forecast.

Some other syndicates are forecasting very good profits… but are not that heavily supported

Towards the right-hand end of the table shown in Figure 4, the amounts of capacity that Members have committed to syndicates drops off quite substantially. This is both a good and a bad thing. It is good because many of the syndicates at the right-hand end of the table have produced some spectacularly poor estimates. As we have often said in previous ALM publications, many of the estimates (and subsequent results) produced by some of these syndicates have been very poor and are out of all proportion to the Members' expectation of the size of a potential loss. It is also a bad thing, however, as there are some syndicates, such as the Special Purpose Arrangement 6103 (MAP) and the nuclear syndicate 1176 (Chaucer), that are forecasting some very good profits. Unfortunately, the overall amount of Members' capacity allocated to these syndicates is not that great, and their excellent results will not make any meaningful financial contribution to the overall cash result that is achieved by most Members.

There may be a considerable variation in the results produced by each of the Members' agents in 2019

Once again, the five "core" syndicates will be the key driver of the return achieved by Members in 2019. The ALM believes that all, or certainly most, Members probably support these syndicates to a significant extent within their

portfolios, although, of course, the percentages will vary between individual Members. Above and beyond the Members' level of support for these syndicates, most Members' final results will be heavily influenced by the amount of capacity that they have allocated to some of the better performing syndicates, and the extent to which they have managed to avoid the damage done by the disproportionately large losses that are likely to be produced by some of the worst-performing syndicates.

Interestingly, the ALM believes that there may be a significant divergence in the results of Members based on their choice of Members' agent, as many of the syndicates shown at the right-hand of Figure 4 were not supported by all Members' agents. Indeed, many of these syndicates drew their capacity exclusively from one or two Members' agents. It will be interesting to see how the results of Members diverge depending upon their Members' agent. It is possible that there may be some Members that manage to achieve an underwriting profit in 2019, albeit a very small one. At this stage, though, and as a result of the ongoing uncertainty regarding the potential development of COVID-19, we would anticipate that most members will make a small loss for 2019.

Final thoughts

The 2019 year of account still has 12 more months to run before its ultimate closure. There is no doubt that COVID-19 has really complicated the issue of what may happen to the account over this period. There is still a lot of uncertainty surrounding the extent of this loss, but we can say, with some certainty, that the bulk of the total COVID-19 loss will fall into the 2019 year of account. This is bound to have a detrimental effect on the overall result, and is one of the reasons why so many syndicates are still giving quite wide ranging forecasts even at this stage of the account's development.

Although it may sound simplistic, were it not for the impact of COVID-19 on 2019, it could be argued that the year was probably set to produce a far better return than 2018. As discussed in this chapter the number and cost of natural catastrophe losses in 2019 was much less than in either 2017 or 2018. Furthermore, many syndicates had already benefitted, and were continuing to benefit, from the widespread imposition of rating increases across most classes of business that was taking place throughout 2019. The two deciding factors as to the overall eventual result of the 2019 account will probably be the development of COVID-19 and the amount that syndicates may be able to release from their reserves.

The development of the 2020 year of account

This chapter analyses the development of the 2019 year of account to the end of December 2020. We have followed the same reporting format as for our review of the closure of the 2018 year of account. The first section focuses on what happened to market conditions and rates. The second section deals with the effect of the major market losses. Finally, we discuss the current forecast returns for Lloyd's and third party Members on a three year of account basis and examine some of the syndicate forecasts in a bit more detail.

Executive overview

- Rates rose steadily through 2020 across most classes of business
- Rating increases exceeded expectations on some renewal business
- The rating increases were exacerbated by the onset of COVID-19, low interest rates and the high level of 2020 catastrophe losses
- 2020 Natural catastrophe losses amounted to $85 billion (ex. COVID-19) (2019: $60 billion)

Market conditions

Introduction

Pleasingly, the (re)insurance markets saw a consistent, upward movement in rates throughout 2020, and especially at the June and July renewals. In the first 12 months of the 2020 year of account, the market had to contend with the losses generated by COVID-19, as well as a series of other losses, ranging from costly weather-related events in the US in the spring, to the Californian wildfires and the Beirut chemical explosion. An active north Atlantic hurricane season was forecast for 2020; it turned out to be the most active season on record with over 30 named storms. Whilst the impact of COVID-19 and the large number of natural catastrophe losses were the two most serious issues with which the market had to contend in 2020, (re)insurers also had to deal with a fall in investment yield, an increase in social and political unrest, increasing concerns about the potential impact of "social inflation" on casualty business and the potential effects of climate change. All these factors arguably led to a heightened sense of risk-aversion on their part, leading to the imposition of further rating increases and a tightening of terms and conditions throughout 2020 (and into the early part of 2021).

HX Analytics, the data and analytics division of the Howden Group headed by David Flandro, published in January 2021 a detailed report aptly entitled Hard Times, discussing the coalescence of events in 2020. For the full report go to: https://www.howdengroupholdings.com/assets/documents/howden-market-report-hard-times.pdf

The author considers below how unprecedented many of these events and factors were, referencing some of the HX Analytics data as well as numerous other sources commentating on the 2020 year.

What were the key factors behind the 2020 rate increases?

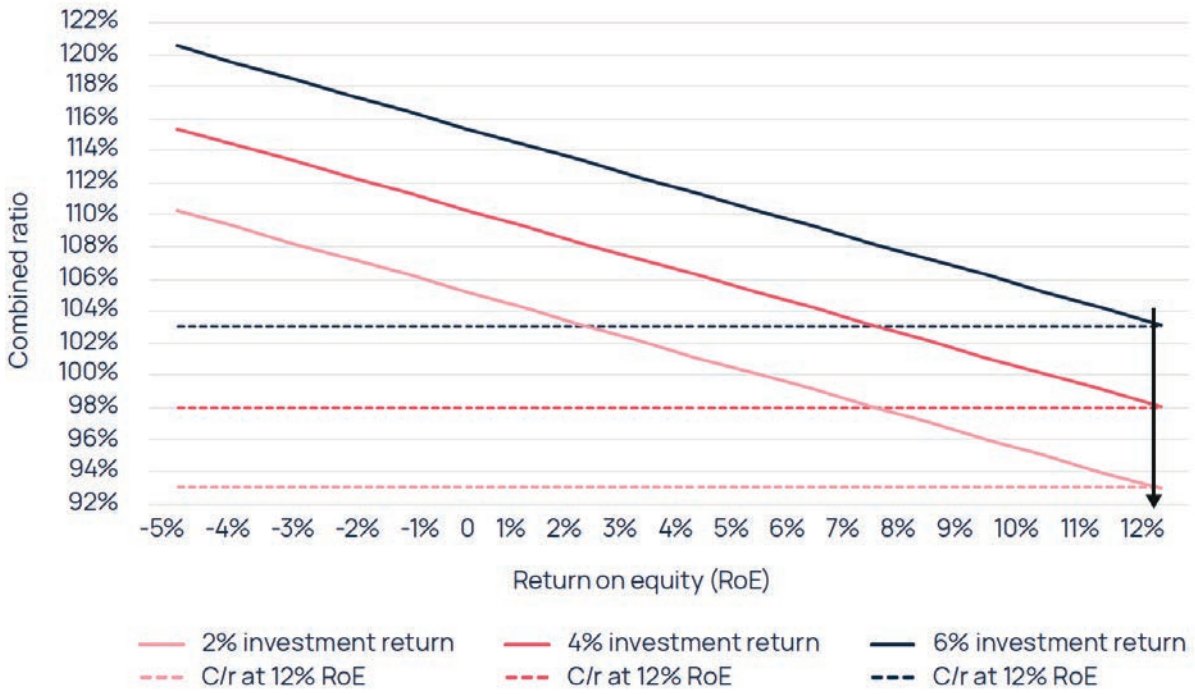
There were several key reasons for the acceleration of rating increases across the market in 2020. Paramount among these was that underwriters were looking to secure payback for the losses which they have sustained since 2017. 2017 had produced $144 billion of insured losses, 2018 had produced $85 billion of insured losses and 2019 had produced $60 billion of insured losses to the industry. 2020 itself then produced insured losses of over $85 billion (which are discussed in more detail below).

Another reason for rating increases during 2020 was that interest rates had been reduced further in March 2020, having a detrimental effect on underwriters' investment returns, thus companies were less able to rely on their

investment returns than had been the case over the past few years. Yields on some countries' government bonds, such as those issued by Germany, moved into negative territory in 2020 with a commensurate effect on the investment grade fixed income securities that are now so prevalent on carriers' balance sheets.

Declining investment returns made underwriting profitability an absolute imperative. HX Analytics has argued that a 200 bps decline in yield requires an improvement of 500 bps in the combined ratio to maintain a consistent return on equity for most carriers (see Figure 1). The reduction of interest rates against a background of heavy market losses in 2020 had the effect of making many (re)insurers push much harder for the imposition of rating increases as the year progressed.

Figure 1: Impact of investment returns on return on equity



Source: HX Analytics

It is interesting to examine what happened to the investment returns of some US companies in 2020. Fitch recently released some research that it had undertaken into the performance of the US property and casualty (P&C) industry in 2020, which was based on its analysis of the GAAP results of 50 US insurers and reinsurers in 2020. Among its findings was that there had been an 8.9% drop in investment income for its cohort of insurers and reinsurers. That said, 14 of them did manage to make double-digit returns on equity, including one reinsurer, RenaissanceRe, which produced an 11.8% net income return on equity (ROE). Fitch noted that the aggregate ROE for the national personal lines writers' was 24.4%, the commercial lines figure was 7.2%, but the reinsurers averaged only 3.6%. However, for the 50-company group overall, Fitch calculated a 2020 ROE of 8.1%, which was less than half the 16.6% figure that was produced in 2019.

Another trend, that has sometimes been overlooked by several market commentators, was an increasing demand from assureds to buy cover from financially robust (re)insurers . This was one of the reasons that some of these (re)insurers were able to impose such good rating increases and to obtain good improvements to their terms and conditions in 2020.

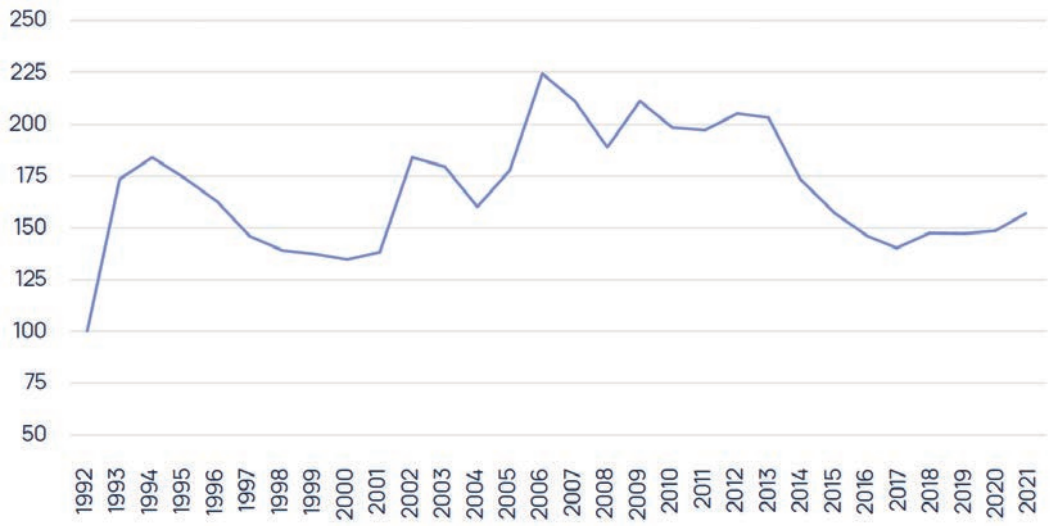
The uncertainty that surrounded the early months of the development of the COVID-19 pandemic also served to speed-up the imposition of rating increases across many classes of business, possibly more quickly than might have been the case a year before. In 2019, for example, only specific classes, such as retrocessional reinsurance or commercial property insurance, experienced high rating increases, whilst other classes of business, such as some sectors of the casualty market, saw lesser increases. As a result of the onset of COVID-19, 2020 saw a faster hardening of rates expand into a wider range of other business classes and territories.

What happened to rates in 2020?

Reinsurance

Figure 2 below shows the development of the global risk-adjusted property-catastrophe reinsurance rates-on-line up to, and including, the January 2021 renewals.

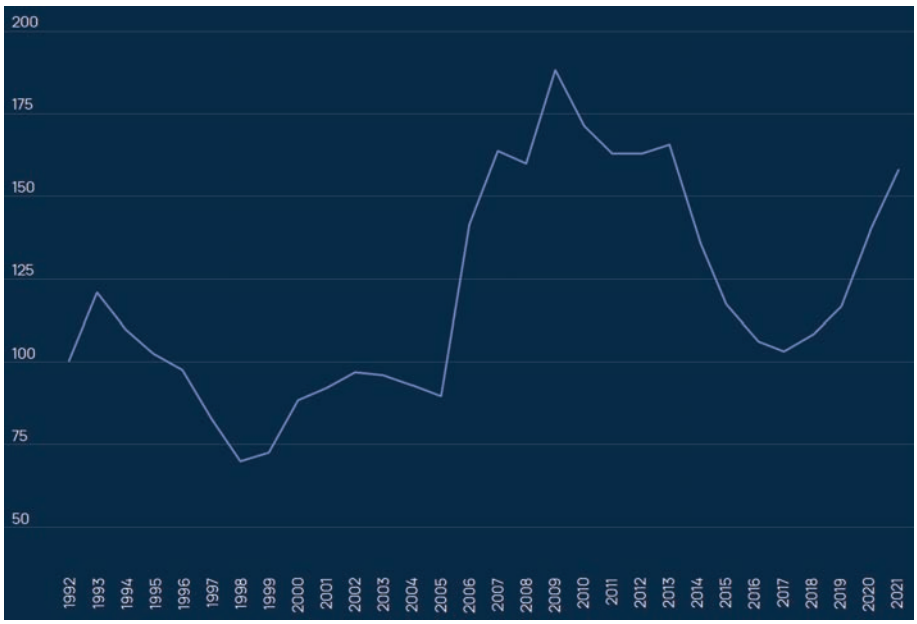
Figure 2: Howden Global Risk-Adjusted Property-Catastrophe Rate-on-Line Index –1992 to 2021



Source: HX Nova Portal

Figure 2 shows how the recovery of the property catastrophe market has been slower than that of the non-marine retrocessional or commercial insurance classes over the past few years. Figure 3 below shows the development of the non-marine retrocessional reinsurance rates between 1992 and 2021. The upturn in rates that began in 2017 picked-up considerable momentum and accelerated by 2020. By the start of 2021, including the effect of the January renewals, rates in this sector of the market had risen by an average of 50% since 2017 (and reached the same levels as they were in 2013).

Figure 3: Howden Risk-Adjusted Non-marine Retrocession Catastrophe Rate-on-Line Index – 1992 to 2021



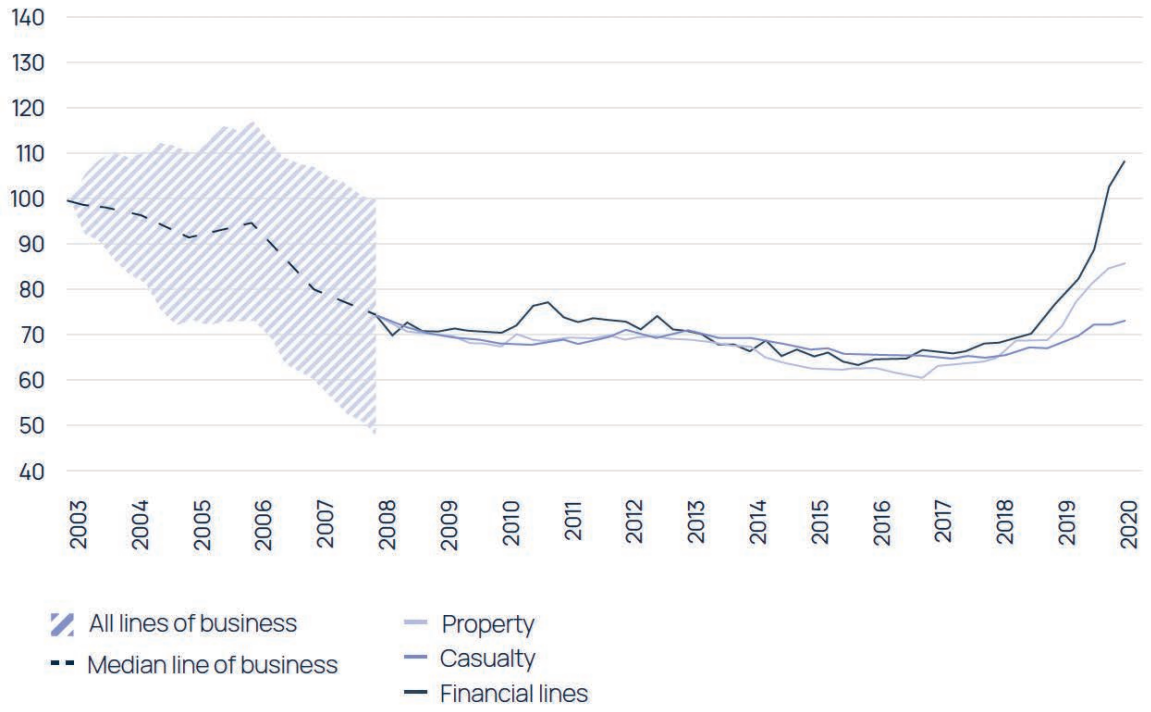
Source: HX Nova Portal

Commercial insurance

Figure 4 shows the development of global commercial insurance pricing between 2003 and 2021. The classes of business which have seen the highest rate increases include property, excess/umbrella liability and financial lines. Pricing for commercial insurance globally rose by 16% on average in 2020, weighted by premium.

Overall, 2020 was another very positive year for rating increases in the insurance classes. According to Marsh's "Global Insurance Market Index" insurance prices jumped by 22% in Q4 of 2020. This increase was the largest since the index was launched in 2012, and it followed year-on-year average increases of 20% in the third quarter and 19% in the second quarter of 2020.

Figure 4: Global commercial insurance pricing – 2003 to 2020



Source: HX Nova Portal

Casualty

The casualty market still had to contend with some serious problems in 2020, including the low interest rate environment, deterioration of some old years' reserves and an increase in claims, especially in certain sectors of the market such as Cyber. Many of the issues that faced the market were not new problems for 2020 but they continued to have a detrimental impact on the class. The increase in severity for liability losses of all types (auto, general liability, product liability, D&O, employment practices) over recent years, has been attributed to "social inflation" continued to be an issue in 2020.

In the US, the umbrella/excess liability marketplace continued to experience extensive disruption and losses in 2020. The deteriorating loss trends that have characterised the last few years, continued to negatively impact underwriting profitability, and this led to the imposition of more significant rate increases. Not only did the loss severity increase, but so did the percentage of claims that were litigated. According to figures from Willis Towers Watson (WTW), the median value of the top 50 US verdicts in 2019 was estimated to be $88 million, which marked a 62% increase from 2018's median value of $54.3 million. The median value of the top 50 U.S. verdicts had increased by 318% since 2014. WTW argued that these recent numbers, the result of aggressive litigation, litigation financing, the impact of changing attitudes of juries and the impact of "social inflation", may have become the benchmark for future claims. WTW noted that so-called "nuclear verdicts" (awards greater than $100 million) and large settlements in jurisdictions perceived as conservative, have been another major feature of the current market.

Overall, rates increased for the third successive year in a row in most sectors of the casualty market throughout 2020, but, arguably, they still not by as much as they should have in the light of the issues discussed above. This was particularly so classes such as US workers' compensation and professional liability. Although rates on loss-making business rose by up to 25% in the case of the latter class, loss-free accounts only saw rates increase by a small, single figure margin. Given the underlying weakness of rates in these classes over recent years, and the worsening claims-landscape, especially in the US, it could be argued that these rating increases have not gone far enough.

Market losses

When it comes to any discussion of the 2020 losses, the dominant event of the year was the on-going COVID-19 pandemic. As stated in the previous chapter, the largest proportion of the COVID-19 loss will fall onto the 2019 year of account. Indeed, given the relatively long tail that is likely to be associated with the development of the COVID-19 loss, it could some take years for the final loss to be fully known. However, COVID-19 was not the only serious loss to hit the market in 2020. The other natural catastrophe losses in 2020 have arguably had a more immediate effect on the 2020 loss ratios. The recent Fitch report, which looked at the results of the US property and casualty industry in 2020, noted that the 50 US insurers and reinsurers included in its analysis experienced $9 billion of COVID-19 losses but over $20 billion in catastrophe losses in 2020. This led to a 32% drop in their operating income and a 45% decline in their overall net income. Fitch also found that the reinsurers had fared worse than the insurers as many of the former had been forced to increase their reserves by a considerable margin in Q4 of 2020. For example, Everest Re added $400 million to its reserves in Q4.

Given the magnitude of the losses, and their effect on 2020, it is worth looking at the effects of COVID-19 and the natural catastrophe losses in more detail.

The development of COVID-19 in 2020

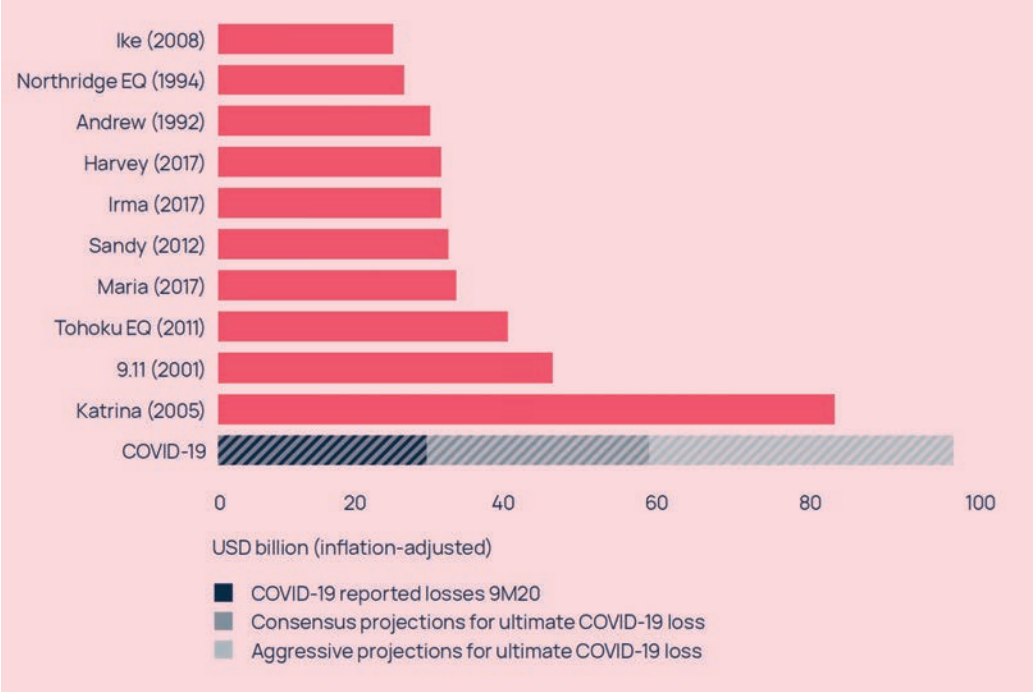
COVID-19 was first and foremost a global health crisis that caused a worldwide economic shock. In an effort to suppress the spread of the virus, governments worldwide shutdown economies and restricted freedoms to a degree not seen outside of wartime. To counter the danger of a sustained economic malaise as economic growth slowed and asset prices plummeted, governments and central banks moved quickly to provide liquidity and stability to financial markets. Interest rates fell, and in some countries, this was into negative territory. At the same time, the level of government debt soared, raising questions about the long-term sustainability of public finances. As discussed above, perhaps the largest indirect impact of COVID-19 on (re)insurers has been the legacy of lower sustained interest rates and how this has led to their adjustment of underwriting strategies. For some, in the light of their underwriting performance in recent years, this will be no bad thing.

The potential effect of COVID-19 on (re)insurers

Beyond the significant macroeconomic impacts, COVID-19 has brought an already challenging (re)insurance risk landscape into sharper focus. Whilst a pandemic event was arguably a known ("white swan") risk, mandatory lockdown orders were not (and were more akin to a "black swan" event). The decision (and the author would say, correct decision) that many governments made to prioritise the public's health over the maintenance of economic activity meant the bulk of insured losses were pushed away from the life market and into the property and casualty market instead. This may have been the opposite of what had been modelled in the event of a global pandemic. For example, in the 1980s and 1990s, the models had always suggested that had HIV/AIDS mutated into the huge loss that some forecasters predicted in the early 1980s, then the sector of the (re)insurance market that would have borne the greatest insured losses was going to be the life market.

Whilst the economic costs of COVID-19 have already been considerable, running into the trillions of dollars, the ultimate cost to the (re)insurance sector is still unknown and much harder to work out. There have already been a number of well-publicised, complex coverage disputes around business interruption (BI). The FCA decision to did answer all the issues concerning the direct policies and certainly not the impact on reinsurers. The longer-tail liability consequences ensure an unpredictable claims settlement process. Years are likely to pass before claims develop fully. According to figures releases by Aon, (re)insurance carriers reported approximately $30 billion of COVID-19 losses as at 1 January 2021 (but the bulk of these were incurred but not reported). Reinsurance accounts for more than a third of announced losses so far, but this has the potential to evolve, as losses mount and cedants and counterparties work through treaty recoveries.

Figure 5: COVID-19 loss projections vs top 10 insured catastrophe losses



Source: HX Nova Portal

In the Hard Times report, HX Analytics, put the potential insured costs of COVID-19 into a clearer insurance context, by comparing it to some of the other catastrophe losses that have taken place in recent years (see Figure 5 above). The first shaded COVID block in Figure 5 shows the reported claims at Q3 of 2020 of about $30 billion. Howden described COVID-19 in comparison as "moderate size major-loss". The second block (to the right) is a loose market consensus range of COVID-19 loss projections. If the loss ends-up costing about $60 billion that would be roughly the same size as the 2001 World Trade Centre loss (adjusted to 2021 dollars); but if it is in the worst case range, that would be about $100 billion. As can be seen the $30 billion loss figure (based on the Q3 numbers) would make COVID-19 a smaller loss than many of the recent natural catastrophe losses.

What was the impact of COVID-19 on Lloyd's?

Lloyd's gave its first estimate of its COVID-19 loss in the middle of May 2020. Its mid-point estimate at this time was a £3 billion loss to the market. The majority of the COVID-19 loss was forecast to fall back onto the 2019 year of account. The most affected classes were cited as being property and reinsurance; mainly BI, contingency, travel, marine liability, trade credit, surety and political risk. As will be seen in the next chapter, which covers the Lloyd's 2020 annual result, the figure for the COVID-19 LOSS has deteriorated, and it has been a major component part of the overall Lloyd's loss in 2020.

2020 natural catastrophe losses cost the industry $85 billion (2019: $60 billion)

Although COVID-19 rightly dominated the news in 2020, it was also another year of significant natural catastrophe losses for the (re)insurance sector. As early as 15 December 2020, Sigma, the research division of Swiss Re, published a preliminary report on the cost of the 2020 insured losses. It stated that insurance industry losses in 2020 from global natural catastrophes and man-made disasters had amounted to $83 billion (see Figure 6). Note: this Sigma loss estimate excluded any claims related to COVID-19. The $83 billion insured losses made 2020 the fifth most costly year to the industry since 1970 and it was a 32% increase over the insured cost of the 2019 losses ($63 billion). Natural catastrophe losses, which showed a 40% increase from 2019, accounted for 91% of the cost of the cost of the 2020 insured losses.

According to later figures released by Aon, some $66 billion of the entire $86 million cost of 2020 losses was caused by US losses (as compared to a 10 year average of about $46 billion). The ex-COVID-19 losses sustained in 2020 mean that the (re)insurance industry has paid-out nearly $400 billion in catastrophe claims since 2017. This compares to just $160 billion for the previous four-year period.

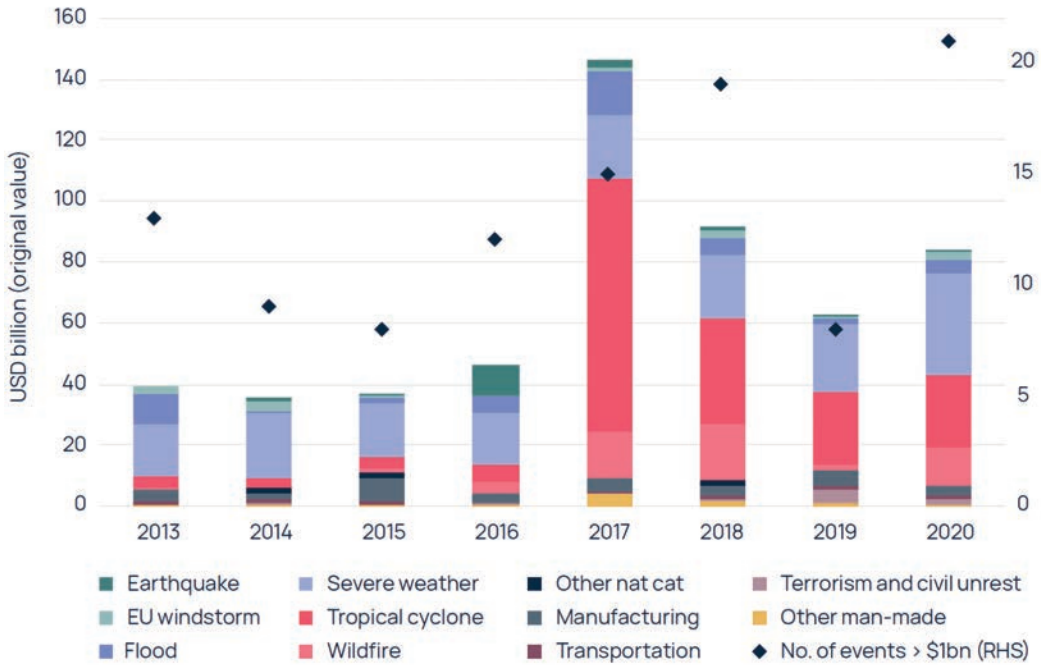
Figure 6: Total economic and insured losses in 2020 and 2019 (excluding COVID-19) in US$ billions

	2020	2019	Annual change	Previous 10 year average
Economic losses	**187**	149	25%	214
Natural catastrophe	**175**	139	26%	202
Man-made losses	**12**	10	17%	12
Insured losses	**83**	63	32%	79
Natural catastrophe	**76**	54	40%	71
Man-made losses	**7**	9	-17%	8

Source: HX Nova Portal

Given that 2020 was another very active year for losses, it is worth examining the year in a bit more detail. Figure 7 shows how the losses of 2020 compared to those of recent years.

Figure 7: Global insured catastrophe losses by peril – 2013 to 2020



Source: HX Nova Portal

With insured losses of about $85 billion, 2020 was a significant loss year by the standard of most recent years. It is also important to bear in mind that none of the loss estimate figures issued by Swiss Re, Aon or Munch Re included any losses in respect of COVID-19. As discussed above, once a potential COVID-19 loss figure is added in, the final 2020 loss figure could well end-up being between $100 and $110 billion, or even higher. Some possible loss-ranges for COVID-19 are shown in Figure 5.

2020 experienced a very diverse series of natural catastrophe losses

A record US hurricane season

The losses of 2020 differ from those of other recent years in that there was no single, mega-catastrophe loss event in 2020 (such as a single huge event like hurricane Katrina). The single largest 2020 loss was Hurricane Laura (which

Aon has estimated has cost insurers about $9 billion). Instead, 2020 saw a steady succession of smaller losses, whose combined cost compounded over the course of the year to produce another expensive catastrophe full-year for the industry. 2020 was the most active year on record for storms and hurricanes in the north Atlantic. Indeed, there were so many of these that it was necessary to deploy the Greek alphabet to name them all. Forecasters had predicted that there would be an active north Atlantic hurricane season in 2020, and an above-average number of storms which made landfall. In fact, the 2020 North Atlantic hurricane season saw a record 30 named storms, 13 of which reached hurricane status. The US landfall record was also broken as 13 storms made landfall as compared to the previous record of nine. The last year with such a high number of storms and hurricanes was 2005, which suffered 29 such events.

Fortunately, most of the 2020 storms and hurricanes that made landfall in the US did not hit densely populated areas. The losses were therefore less costly than they might otherwise have been. Munich Re estimated that the insured cost of the US hurricanes in 2020 has amounted to $26 billion making the 2020 US storms and hurricanes much less costly to the industry than those of 2017 (Sigma estimated that hurricanes Harvey, Irma and Maria cost about $97 billion) or 2005 (Sigma estimated that Katrina cost the industry in excess of $87 billion). As already mentioned, the single most costly loss in 2020 was Hurricane Laura (at "only" $9 billion). According to figures issued by Munich Re, Hurricane Isaias cost $4.1 billion and Hurricane Sally cost $3.5 billion. By the standards of some previous hurricanes, these were relatively "small" sums. Most of the hurricane losses caused more financial loss to insurers than to reinsurers as the smaller monetary losses were not generally picked-up by reinsurance programmes.

Costly US storm losses and a "derecho"

In addition to the damage wrought by the north Atlantic hurricane season, the industry also had to contend with a large number of other individual losses in 2020, whose aggregate cost was not insignificant. In the US, a record number of severe convective storms caused devastation from the spring onwards, leading to record annual losses. According to figures released by Munich Re and Aon, the August US mid-west "derecho" loss was the third most costly single loss to the industry, costing about $5 billion. (For those not familiar with the term, a "derecho" is defined as a protracted, cluster of thunderstorms and damaging winds).

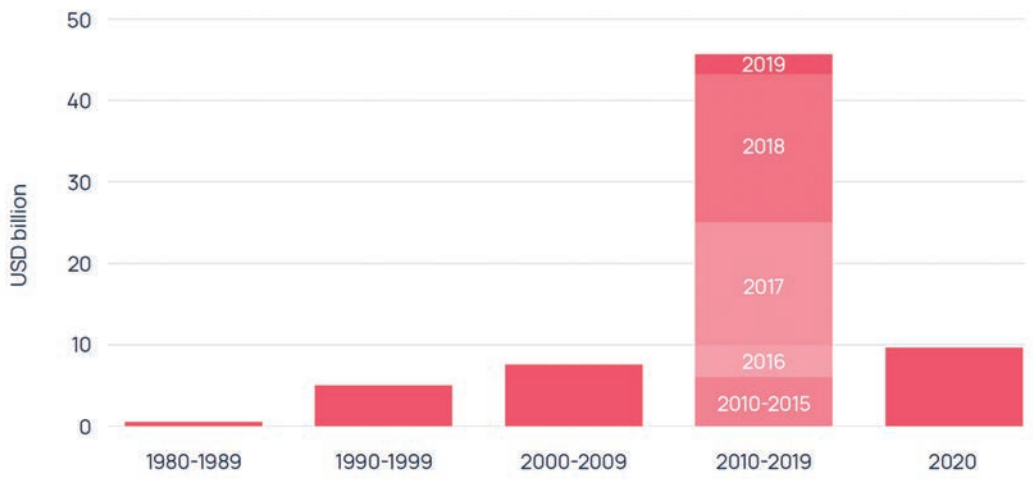
US wildfire losses

The other major contributor to the US losses in 2020 were the wildfires in the west of the country (see Figure 8 below). According to Munich Re's estimate, the US wildfires from mid-August onwards caused insured losses of about $11 billion ($7.5 billion of which fell in California alone). Collectively, this made the wildfires the most expensive insured losses of the year. In the US states of California, Oregon and Washington State, more than 800 wildfires burned close to 6 million acres. Although they produced a loss that was smaller than the record losses of 2018 and 2017, the 2020 year will still be one of the costliest ever years for wildfire losses. Perhaps more worrying for the future is that US wildfires seem to be becoming an annual event. HX Analytics has cited how assumptions about wildfires are now being recalibrated in the light of global warming and population shifts, and on account of the size and regularity of the losses. It cited how wildfires had caused insured losses of about $40 billion in California alone since 2016.

Elsewhere in the world, both Australia and Canada suffered significant losses from hail damage in 2020. In January, hailstorms in south-eastern Australia caused insured losses of over $1 billion, while Canada experienced its costliest-ever hail event in Calgary in June, which led to losses of $1 billion. The market also sustained a number of costly risk losses, including the Beirut port explosion, the Ethiopian airlines fire and a serious oil spill in Mauritius. In Asia, the burden of natural catastrophe losses in 2020 was less than in 2019. According to Munich Re's estimates, insured losses amounted to only $3 billion, as opposed to $18 billion in 2019. The most severe loss was the floods in several provinces along the Yangtze River in China from May, which caused insured losses of roughly $2 billion (according to Sigma's figures). Winter storms hit northern Europe in February, causing flooding, power outages and transport disruption, with more than $3 billion combined insured losses.

By way of a summary, it could be argued that although the overall cost of the 2020 insured losses was high by historical standards, this did not have the usual effect on the January 2021 renewal season. The fact that many of 2020 losses were relatively "low-cost" arguably meant that they often proved to be more of a burden to insurers than reinsurers. The frequency of events was more important than the size of the individual losses and this had an impact on reducing the amount of aggregate reinsurance covers available at the 2021 renewal season. Despite this these losses will have had an effect on some of the syndicates supported by Members for the 2020 year of account.

Figure 8: Global wildfire insured losses by decade – 1980 to 2020



Source: HX Nova Portal

Lloyd's and syndicates' forecasts

The first forecast for the Members' results for the 2020 year of account will be issued in June, and, given everything that has been said above, the author expects that this will be a very conservative figure. He also expects that many syndicates will give estimates that have a very wide range at this stage, as there is a good deal of uncertainty surrounding the potential development of losses, the most uncertain of which will undoubtedly be COVID-19.

Some final thoughts

In rating terms, 2020 was another very good year. Renewal rates in many classes of business exceeded expectations. The market was showing obvious signs of rating recovery even before the onset of COVID-19, and the pandemic only speeded-up this process. Aside from the emergence of COVID-19, the first six months of the year was a benign period for natural catastrophe losses. However, this was not the case in the second half of the year, and the cost of natural catastrophe losses ended-up being greater than in 2019. These natural catastrophe losses and the effects and uncertainties associated with the development of COVID-19 will have an adverse effect on some syndicate's results.

The author believes that the final result for Members in 2020 will be largely dependent on five factors. First, at the time of writing, 2020 is still on risk until about November of this year. The second major issue is going to be how COVID-19 develops over the next two years. Not all countries have been able to contain and suppress COVID-19 to the same extent as yet. Very few countries, including many developed nations, have managed to launch a large-scale, effective vaccine programme. Arguably, one of the worst possible outcomes would be further oscillating waves of pandemic that lead to another series of prolonged economic shutdowns and/or further (re)insurance losses. The third factor is going to be the low investment return earned by the 2020 account. Given that the bulk of this will be earned in the 2022 calendar year, it is difficult to predict what the final investment is likely to be at this stage, although it may end-up being lower than that in previous years.

Finally, there are two issues that will prove to be critical to the Members' results. The first of these is the issue of whether the Members' 2020 syndicates will be able to make any releases from their reserves. As we have already seen in the chapter about the closure of the 2018 year of account, many of the syndicates that are supported by third party Members have a proven record of making releases from their old years' reserves, so there is some degree of optimism here. There has been little change to the overall, broad composition of the Members' portfolios in 2020, so this augurs well in this respect, as some syndicates have an established track-record of making releases from reserves (as well as more than ample reserves). The second and last issue is the performance of the Members "core" syndicates; 33 (Hiscox), 510 (TMK), 609 (Atrium), 623 (Beazley) and 2791 (MAP), that both underpin and determine the Members' result in 2020, as roughly 62% of the Members' 2020 capacity was allocated to these five syndicates alone.

The Lloyd's 2020 annual results

This review of the Lloyd's 2020 annual results has been broken down into three sections: the first covers the overall market result and includes a short section dealing with how Lloyd's has performed relative to some of its industry peers. The second section examines the performance of each of the individual classes of business underwritten at Lloyd's in 2020, and in the third section, the review considers the relative performance of the syndicates on a GAAP basis, with a focus on the syndicates that were supported by third party Members in 2020.

Overview of the Lloyd's 2020 results

The Lloyd's market reported a loss of £887 million for 2020 (2019: a profit of £2.5 billion) and a combined ratio of 110.3% (2019: 102.1%). The financial highlights of the Lloyd's market in 2020 (compared to those of 2019) are shown in Figure 1. While the loss is certainly another disappointing result for Lloyd's, COVID-19 made 2020 a truly exceptional year. As will be seen in the reviews of the individual component parts of the results below, the Lloyd's market's headline loss figure masks some very positive underlying trends that have taken place in the market. Two examples of these are that: Lloyd's has now shed more under-performing lines of business; and there has been an improvement in the normalised (ex-COVID) combined ratio. These factors are not only a validation of the remedial work that has been undertaken by the Lloyd's management since 2017 but are also a very positive development for the market, as they will have a meaningful impact on the future development and profitability of the market.

Figure 1: Lloyd's Financial Highlights 2020

	2020	2019
Overall profit/(loss)	(887 m)	£2.5 bn
Gross premiums	£35.4 bn	£35.9 bn
Combined ratio	110.3%	102.1%
Underwriting result	(£2.67 bn)	(£538 m)
Investment return	£2.3 bn	£3.5 bn
Return on capital	(2.8%)	8.8%

Table produced by the ALM
Source: Lloyd's 2020 Annual Report & Accounts: Segmental analysis reports (page 70)

For comparative purposes, Figure 2 shows the results produced by Lloyd's between 2012 and 2020. The results in Figure 2, especially those in the years 2014 to 2017, were produced against a background where rates had been going down since 2012. The fact that the market managed to keep producing profits in this period, was largely attributable to its reliance on releases from its reserves, the contributions of investment income, and the fact that it was not exposed to any serious, or costly, natural catastrophe losses until the 2017 hurricanes. It was only in the latter half of 2017 that the market began to see any meaningful increase in rates, and an improvement in the underlying profitability of the business. This improvement in rates coincided with the appointment of Jon Hancock as the Franchise Performance Director in November 2016, and the market reforms which he began to implement. Ironically, 2017 was the first of two consecutive years that were hit by a series of very severe catastrophe losses which led to both 2017 and 2108 years of account making overall trading losses.

Lloyd's ratings

Most importantly, and despite the loss it has made in 2020, Lloyd's financial strength prompted Fitch Ratings to reaffirm its AA- (Very Strong) rating and remove the negative watch. This sits alongside Lloyd's A+ (Strong) rating with Standard & Poor's, and A (Excellent) with A.M. Best. In addition, Lloyd's has recently secured a fourth rating from Kroll Bond Rating Agency of AA- (Strong).

Figure 2: Lloyd's profits and losses from 2012 to 2020

Year of account	Result before tax (£m)
2012	2,771
2013	3,205
2014	3,016
2015	2,122
2016	2,107
2017	(2,001)
2018	(1,001)
2019	2,532
2020	(887)

Table produced by the ALM
Source: Lloyd's 2020 Annual Report & Accounts: Segmental analysis reports (page 70)

Gross written premium income in 2020

Lloyd's gross written premium (GWP) in 2020 fell by 1.2% to £35.4 billion (2019: £35.9 billion). Although favourable trading conditions prevailed throughout 2020, and Lloyd's achieved average risk adjusted rate increases on renewal business of 10.8% (2019: 5.4%), these were offset by a 12.0% reduction in GWP as a result of the ongoing business remediation process that was being undertaken by the Lloyd's Performance Management Directorate (PMD). A process, initiated in 2017 by Jon Hancock, and continuing in 2020 with the market shedding under-performing business in 2020, and a decline in its overall GWP.

There is little doubt that one of Jon Hancock's greatest legacies is his stabilising the market's growth. By 2018, Lloyd's was shedding underperforming business and improving the overall quality of its remaining book. During the autumn of 2018, the PMD introduced its Decile 10 Review system, which put syndicates under more pressure to review and refine the quality of their businesses, and discard more substandard business. This business review process was an integral part of the 2019 and 2020 business planning processes. It led to a reduction of 8% in the overall amount of premium income written in 2019, as several syndicates ceased underwriting entirely, and many others ceased underwriting certain lines of poor performing business. This continuing process has resulted in a further reduction in GWP in 2020.

The evolution of the Lloyd's GWP between 2012 and 2020 can be seen in Figure 3 below. Two things are striking about this table: first it shows how GWP income grew nearly 25% from £25.1 billion in 2012 to £33.5 billion in 2017 against the background of a weakening market; and second, how, despite the rate increases since 2018, the overall GWP in 2021 is still only the same as it was in 2018, as a result of the remedial work that has been, and is still being, undertaken by Lloyd's.

There has been some criticism in the insurance press over the fact that as rates have been hardening since 2017 Lloyd's has not expanded its gross premium income more, or at a comparable rate to some of its peers, over the past few years. It could be argued that some of this criticism has missed the key point that Lloyd's is not a single (re) insurance company. The reason that Lloyd's embarked on its remediation strategy was because the performance of the bottom two quartiles of syndicates was poor. (This topic is addressed in more detail section 3 of this chapter). Their underwriting was dragging down the overall performance of the market. These businesses, in the author's view, should not have been allowed to expand, regardless of how good market conditions were. The author's view is that some should have been closed down, and, thankfully, some have been. Some of Lloyd's critics have overlooked that both top quartile and "light-touch" syndicates with a proven track record have been allowed to expand their income in these years. For example, the "light-touch" Aegis syndicate, 1225, increased its GWP from £376.7 million in 2016 to £653.2 million by 2019, whilst keeping its combined ratio under 100% in every one of these years and remaining in profit. A syndicate that will be more familiar to Members, syndicate 609 (Atrium), a "light-touch" syndicate increased

its GWP by 17% between 2018 and 2019 alone, at a time when Lloyd's overall growth was limited. These examples show that whilst the GWP for the market as a whole has been static for the past three years, the best performing syndicates have grown and have been able to capitalise on the rating increases that have taken place.

The volume reductions in business collectively led to an overall decrease in premium of 1.2% for 2020 compared with 2019; this was despite increases in rates. The overall price change (taking into account terms and conditions) on renewal business between 2019 and 2020 was an increase of approximately 10.8%, which was above planning Lloyd' assumptions for the year and better than 2019. Positive price movements have now been experienced for the past 13 consecutive quarters and across the majority of lines of business. There were rating increases across all market sectors, with the largest rating increases in the property, casualty and marine aviation and transport classes. Despite the pricing momentum, the market experienced volume reductions as a result of some syndicates exiting certain lines of business, or curb their risk appetite in poorer performing lines, such as casualty business, or on portfolios heavily impacted by COVID-19.

Figure 3: Lloyd's gross written premium from 2012 to 2020

Year of account	Gross written premium (£m)
2012	25,173
2013	25,615
2014	25,259
2015	26,690
2016	29,862
2017	33,591
2018	35,527
2019	35,905
2020	35,466

Source: Lloyd's 2020 Annual Report & Accounts

Reinsurance purchase and recoveries in 2020

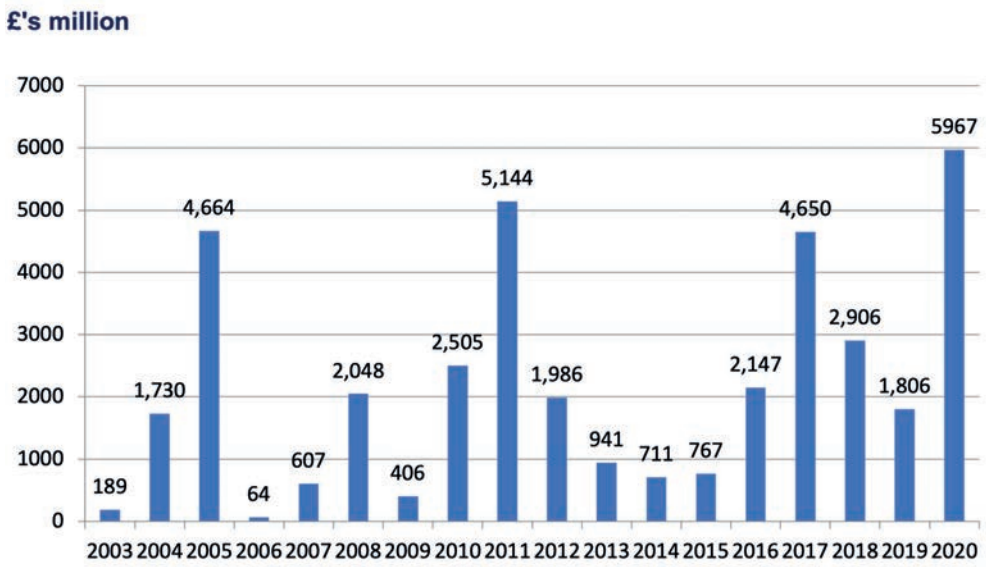
Lloyd's outward reinsurance premium spend for the 2020 year of account amounted to 27.2% of gross written premium (2019: 28.5%), which reflected a relatively stable overall scale of reinsurance purchased. It is interesting to reflect that there was not a reduction in the amount of reinsurance that was bought in 2020, as higher rating levels might have induced some syndicates to buy less cover. The credit quality of the Lloyd's market's reinsurance protections remained extremely high, with 98% of all recoveries and reinsurance premium ceded being placed 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 60.6% of gross written premium or 70.1% of members' assets (2019: 55.4% of gross written premium or 72.7% of members' assets).

As expected, there has been an increase in the overall reinsurance recoverables due to the catastrophe and COVID-19 losses experienced during 2020 and as a result of the continued 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 2020 and risk mitigation actions being taken to assist in the management of legacy exposures. As in recent years, no negative settlement trends have been witnessed to date, and reinsurance bad debt has not been an issue.

Lloyd's claims experience in 2020

In a year that was dominated by the impact of COVID-19, it came as no surprise at all that there was a substantial increase in the number and cost of major claims to hit the market in 2020. Indeed, a week before the publication of the annual results at the end of March, Lloyd's had issued a warning that gross cost of claims resulting from COVID-19 had increased. In fact, all major claims to Lloyd's in 2020 amounted to £5,967 million (2019: £1,806 million), net of reinsurance and including reinstatements payable and receivable (see Figure 4 above). By way of comparison, the

Figure 4: Cost of major claims to Lloyd's between 2003 and 2020



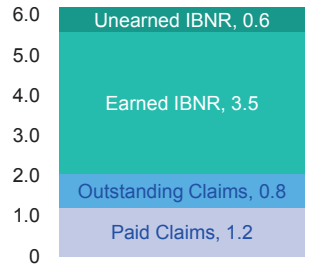
Indexed for inflation to 2020. Claims in foreign currency translated at the exchange rates prevailing at the date of loss. Source: Lloyd's 2020 Annual Report & Accounts

average cost of claims to Lloyd's is usually about £2.1 billion. As can also be seen in Figure 4, 2020 has been by far the worst year for major claims since 2017, and it has the highest monetary loss figure shown on the chart; the cost of the 2020 claims has been greater than those sustained in high-loss years such as 2005 and 2011.

Net COVID-19 losses of £3,433 million accounted for nearly 60% of Lloyd's major claims in 2020, with the remainder mostly attributed to losses caused by catastrophe events. The net cost of COVID-19 losses was however only marginally higher than the estimate that Lloyd's issued last May (a range of between £2.5 billion and £3.5 billion). The small increase was attributable to UK government's decisions to impose two further lockdowns over the winter months; Lloyd's original estimate was based on the assumption that lockdown would end in June 2020.

Figure 5: COVID-19 loss splits

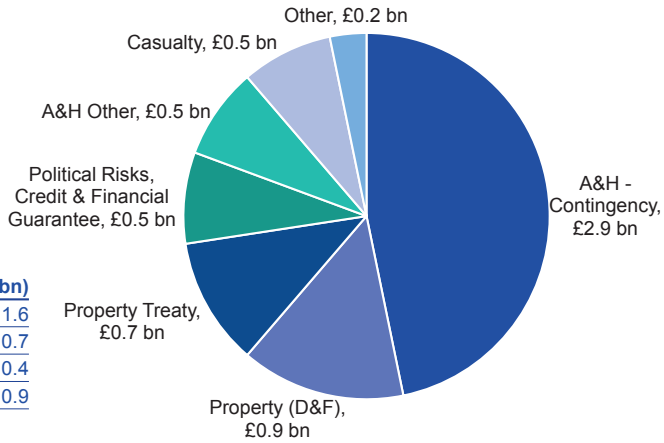
Gross ultimate COVID-19 loss breakdown (£bn)



	Gross (£bn)	Net (£bn)
USA	2.6	1.6
UK	1.3	0.7
Worldwide[1]	0.8	0.4
All Other Geographies	1.5	0.9

Notes:
1. Worldwide geography indicated where losses cannot be attributed to one particular geography

COVID-19 Gross ultimate loss estimate (£bn)



Source: Lloyd's

On page 14 of its 2020 annual report, Lloyd's has estimated that the cost to the global insurance industry in both claims and reduction in asset values as a result of COVID-19 will be around $203 billion. Figure 5 shows the lines of business across the market impacted by COVID-19 related losses. The majority of the losses are concentrated in four lines of business: contingency; direct & facultative property; property treaty and political risk; and credit & financial guarantee. A large proportion have originated from the US, which accounts for approximately 44% of the estimate by geographical location. The COVID-19 loss estimate includes amounts which are directly attributable to individual contracts as well as allowances for the impact of the wider economic conditions which has been caused by the pandemic. The incurred losses reported in 2020 are approximately 94% of the current estimates of the total expected losses to the Lloyd's market from the pandemic. The COVID-19 pandemic is far from resolved, and there is the possibility that there could be some further losses in the future. Indeed, if "social distancing" measures continue until the half year 2021, then Lloyd's forecast that the net loss from COVID-19 will increase to £3.8 billion.

Catastrophe losses accounted for the majority of £2,534 million of other major claims to hit Lloyd's: a sum that is slightly in excess of the normal average annual claims cost of £2.1 billion. (See Figure 6 below showing major claims as a percentage of net earned premium from 2015-202.) As has been discussed in the previous chapter, 2020 saw an increase in the frequency of catastrophe loss activity, and the Lloyd's market suffered its share of insured losses from more than 40 events. The two largest net financial losses for Lloyd's were caused by hurricanes Laura (an £800 million loss) and Sally (a £400 million loss) and Zeta, but Lloyd's also sustained smaller losses from hurricanes Delta and Isaias, the Iowa derecho, the tornadoes in Tennessee and the Beirut port explosion.

Figure 6: Major claims as a percentage of net earned premium 2015 to 2020

Year of account	% of net premium income
2015	3.5
2016	9.1
2017	18.5
2018	11.6
2019	7.0
2020	23.0
Five year average	10.1
10 year average	10.5

Source: Lloyd's 2020 Annual Report & Accounts

Lloyd's underwriting performance in 2020

Figure 7 shows a breakdown and comparison of the combined ratios of both 2019 and 2020.

Figure 7: Combined ratio breakdown in 2019 and 2020

	2019	2020
Loss ratio	63.4%	73.1%
Expense ratio	38.7%	37.2%
- Acquisition cost ratio	27.5%	26.1%
- Admin expenses ratio	11.2%	11.1%
Combined ratio	102.1%	110.3%

Source: Lloyd's 2020 Annual Report & Accounts

Lloyd's combined ratio

Lloyd's combined ratio rose to 110.3% for 2020 (2019: 102.1%). This is the fourth year in row that the combined ratio has been in excess of 100%. However, COVID-19 alone accounted for 13.3% of the overall combined ratio of 110.3%. If COVID-19 claims are excluded, there has been a substantial improvement in the Lloyd's combined ratio, as it has fallen to 97.0%. This is better than both the 2019 combined ratio (of 102.1%) and the 2018 figure (104.5%) and demonstrates how much the underlying underwriting performance has improved. Excluding COVID-19, the market has also managed to deliver an improved underwriting profit of £757 million (2019: a loss of £538 million). Nevertheless, when COVID-19 is counted, the Lloyd's 2020 underwriting result was a loss of £2.67 billion.

The accident year combined ratio

The accident year combined ratio has continued to improve, reducing to 87.3% (2019: 95.1%). Within this there has been a significant improvement in the attritional loss ratio, coupled with an improvement in the expense ratio. Prior year movements have also had a more beneficial impact on the results than in 2019 (see Figure 7 above).
The attritional loss ratio

The attritional loss ratio continued to improve in 2020, reducing by 5.4% to 51.9% (2019: 57.3%). The sustained period of rate increases on renewal business and the continued focus on strengthening underwriting discipline across the market have been the key drivers of this continued improvement. While lower claims frequencies have been evident across certain lines as a result of the COVID-19 pandemic, this did not have a material impact on the business written in the Lloyd's market.

The expense ratio

Lloyd's has been seeking to reduce its expenses for some years. In 2020, total operating expenses have reduced by 1.5% in sterling terms, and as a percentage of net earned premium to 37.2% (2019: 38.7%). Expenses have fallen by more than 2% in two years, taking the expense ratio back to where it stood in 2013. A reduction in acquisition costs accounted for the majority of the decrease. These reduced to 26.1% of net earned premium (from 27.5% in 2019). This reduction can be attributed to changes that have been made to the business mix. Although administrative expenses have slightly increased in sterling terms, have remained stable as a percentage of net earned premium. The extended period of lockdown due to the ongoing COVID-19 pandemic also led to savings across a number of expense lines. However, to some extent, these have been offset by a number of one-off items in the year, including the costs of preparing offices for re-occupation after the pandemic. There is still however further work to be done to reduce expenses.

Reserve releases

2020 was the 16th consecutive year that Lloyd's has made a release from its prior year reserves (see Figure 8 below). 2020 benefitted from an increased release of 1.8% of net earned premium (2019: 0.9%). In monetary terms, this meant that the release doubled, from £232 million to £461 million. There have been releases made in all lines of business other than casualty, which required strengthening by £337 million (see Figure 9 in Section 2 below). Within the net prior year release there has been some strengthening against estimates for previous years' catastrophe events, such as Hurricane Irma, and for typhoons Jebi, Hagibis and Faxai.

Figure 8: Reserve releases made from old years

Year of account	% of net premium income
2014	(8.1)
2015	(7.9)
2016	(5.1)
2017	(2.9)
2018	(3.9)
2019	(0.9)
2020	(1.8)

Source: Lloyd's data from Annual Report & Accounts (2014 to 2020)

Investment return

The market's investments generated a reduced income of £2.2 million in 2020 (2019: £3.5 million). This was equivalent to a return of 2.9% on the invested assets (2019: 4.8%).

Overall, 2020 was a positive year for investments despite the market volatility that took place in the first quarter. Most equity markets generated a strong level of return for the calendar year, with large gains coming over the last three quarters of the year. In the fixed interest markets, the aggressive easing of monetary policy drove a reduction in risk-free yields, which resulted in capital gains for government bonds. Roughly 70% of the portfolio was allocated to bonds. Corporate bonds, which accounted for half of this bond portfolio, along with risk markets, suffered large losses early in the year, but ended 2020 with above average returns.

The market's investment income is comprised of returns on syndicate premium trust funds and the Society's investment portfolio and a notional investment return on Members' Funds at Lloyd's (FAL). Syndicate premium trust funds account for the majority of the market's investment income. Overall, syndicate investments generated income of £1.2 million, a return of 2.8% (2019: £1.6 million, or 4.0%). The return was driven by the strong performance on corporate bonds and from equity and growth assets. The notional investment return on Members' FAL, derived from the investment disposition of Members' FAL and the returns on relevant market indices, was £949 million (or 3.2%) on the related assets (2019: £1.6 million, or 5.9%). Government and corporate bonds accounted for the majority of the return, with equities having a lesser impact.

Lloyd's financial position

The Lloyd's market continues to be strongly capitalised with total capital, reserves and subordinated loan notes of £33,941 million as at 31 December 2020, which was a 10% increase from the £30,638 million reported last year. The Lloyd's market's solvency ratios continued to remain above the levels stipulated by the regulatory requirements. The market-wide solvency ratio was 147% and the central solvency ratio was 209% as at 31 December 2020. These reflected the increases in Members' assets, including their FAL and in the net assets of the Society of Lloyd's as a whole.

Figure 9: 2020 class by class underwriting performance

	Gross written premium	Net earned premium	Net incurred claims	Net operating expenses	Net underwriting result
	£'m	£'m	£'m	£'m	£'m
Reinsurance	12,159	8,616	(6,352)	(2,920)	**(656)**
Property	9,227	6,605	(5,893)	(2,816)	**(2,104)**
Casualty	9,067	6,688	(4,615)	(2,761)	**(688)**
Marine aviation and transport	2,976	2,322	(1,172)	(911)	**239**
Energy	1,265	877	(451)	(347)	**79**
Motor	720	719	(410)	(261)	**48**
Life	52	49	(36)	(20)	**(7)**
Total from syndicate operations	35,466	25,876	(18,929)	(10,036)	**(3,089)**
Transactions between syndicates and Lloyd's				413	**413**
PFFS premiums and underwriting result	35,466	25,876	(18,929)	(9,623)	**(2,676)**

Table produced by the ALM
Source: Lloyd's 2020 Annual Report & Accounts – page 70 Segmental analysis tables

Class of business review

Figures 9 and 10 below show the class by class underwriting results that were achieved by Lloyd's in 2019 and 2020. As discussed earlier, 2020 has seen Lloyd's produce an underwriting loss of £2.6bn, a deterioration from the 2019 loss of £538 million. The reasons for the losses have been outlined earlier in this report as well as noting that the Lloyd's gross written premium did not increase for 2020, despite the rates increasing by relatively substantial margins across most classes of business. Whilst gross and net premiums were much the same in both 2019 and 2020 it was good that operating expenses fell back slightly for 2020. The significant difference between the two years is the size of the net incurred claims that fell on each account. As a result of the losses from both natural catastrophes and COVID-19, 2020 saw four of the seven classes of business produced net underwriting losses.

Figure 10: 2019 class by class underwriting performance

	Gross written premium	Net earned premium	Net incurred claims	Net operating expenses	Net underwriting result
	£'m	£'m	£'m	£'m	**£'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)**
Transactions between syndicates and Lloyd's				434	**434**
PFFS premiums and underwriting result	35,905	25,821	(16,361)	(9,998)	**(538)**

Table produced by the ALM
Source: Lloyd's 2020 Annual Report & Accounts – page 70 Segmental analysis tables

Figure 11 below shows the accident year ratio, the releases from (or the top-up required to) the prior years' reserves and the final calendar year combined ratio in 2020 for each of the classes of business at Lloyd's. Each of these classes is discussed in more detail below. It is notable that five classes made accident year losses and that every class, bar casualty, made a release from its prior year reserves. On a calendar year basis only four sectors of the market managed to produce a combined ratio of less than 100% after taking into account the effect of any releases from reserves.

Reports on the individual business classes

Given the wide disparity in the performance of the business classes as shown in Figure 11, below each class is considered in more detail and the author has attempted to put its 2020 performance into broader perspective.

Reinsurance classes

As in previous years, Lloyd's has split the reinsurance classes into three sub-sectors. These are property reinsurance, casualty reinsurance, and specialty reinsurance; each are now considered in turn.

Figure 11: Class by class combined ratios in 2020

Class	Accident year ratio	Prior year movement	Combined ratio
	%	%	%
Reinsurance classes			
Property	112.8	(2.8)	110.0
Casualty	113.0	(2.3)	110.7
Specialty	101.1	(6.0)	95.1
Insurance classes			
Property	135.4	(3.5)	131.9
Casualty	105.2	5.1	110.3
Marine, aviation and transport	98.2	(8.5)	89.7
Energy	99.2	(8.2)	91.0
Motor	95.5	(2.2)	93.3

Table produced by the ALM
Source: Lloyd's 2020 Annual Report & Accounts

Property reinsurance
As in previous years, the property catastrophe excess of loss book represents the largest component part of this line. Other key areas of the book are facultative property, property risk-excess, property pro-rata and agriculture and hail business.

2020 performance
As can be seen in Figure 12 below, gross written premium for 2020 was £6,627 million, an increase of 3.5% from 2019: £6,405 million. The relatively small size of the increase in premium for 2020 may be of surprise given that rates were increasing by significant margins in this sector in 2020. However, syndicates were showing greater focus on client selection and aggregate deployment as there had been a higher frequency and severity of loss in recent years, and were responding to pressure from Lloyd's to improve the quality of their underwriting.

As has been discussed, 2020 was a record-breaking year for natural disasters, with more storms in the North Atlantic than ever before, as well as many other catastrophic events. When looked at individually, many of the insured losses caused by natural catastrophes in 2020 were less severe than some of those that had been experienced in recent years, but their aggregate effect on the class has been more serious. Reinsurers have therefore accrued large overall losses. Additionally, COVID-19 losses are expected to impact this line of business, although there are several primary policy and reinsurance treaty wording issues that are still to be resolved.

2020 accident year result and prior year movement
The property reinsurance class reported an accident year ratio of 112.8% (2019: 106.5%). A release of 2.8% was made from the prior years (2019: 0.3%), but this still left the calendar year combined ratio at 110.0%. The experience on the prior years was favourable overall, although it was partially offset by deterioration on some historical catastrophe events. Lloyd's reported that Hurricane Irma (2017), Typhoon Jebi (2018), Hurricane Michael (2018), Storm Dorian (2019) and Typhoons Faxai and Hagibis (both 2019) were all subject to a deterioration in their ultimate losses during 2020. Some syndicates, however, did see favourable movements on these losses and the market, as a whole, was able to make releases from the reserves held in respect of the 2017 Californian wildfires.
Development of underwriting figures 2016 to 2020

Development of underwriting figures 2016 to 2020
Figure 12 shows the performance of the class between 2016 and 2020. Whilst the gross premium income increased by about 25% (£1.6billion) during this period, it is interesting to note that the accident year combined ratio has been

Figure 12: Property reinsurance: performance 2016 to 2020

	Gross written premium	Accident year ratio	Prior year movement	Combined ratio	Underwriting result
	£'m	£'m	£'m	£'m	£'m
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)
2020	**6,627**	**112.8**	**(2.8)**	**110.0**	**(441)**

2020 result is shown in bold type
Underwriting losses are shown in red
Source: Lloyd's 2020 Annual Report & Accounts

more than 100% for all these years. The 2016 year of account saw the class produce an accident year ratio in excess of 100%, despite 2016 being a benign year for catastrophe losses. This shows how low rates had sunk, and how competitive the market had become by this point in the cycle as rates had been falling since 2011. Were it not for the substantial release that was made from reserves in 2016, the year would have closed with an underwriting loss.

On a more positive note, however, there have been a consistent series of releases made from the prior years. The release that was made in 2020 was substantially in excess of that made for 2019. Despite this, the 2020 calendar year combined ratio is much worse than that for 2019, but this is a product of the losses sustained in 2020. The worst calendar year combined ratio was that achieved in 2017, which was the year of the three major US hurricanes (Harvey, Irma and Maria). Overall, the class has now recorded its fourth successive year of underwriting loss.

Perhaps the most troubling aspect of the 2020 and the past few years results of the class has been the continued deterioration of the prior years' losses. As we have seen in 2020, this deterioration has had a negative impact on the pure year of account (that is closing). The deterioration is worrying, as it suggests that some of the models being used to determine the size of the market's losses may not be as robust as they should. Indeed, the efficacy of these models have been called into question more and more, as the market begins to tackle issues such as the potential impact of climate change.

Casualty reinsurance

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

2020 performance

As shown in Figure 13 below, the gross written premium for the casualty reinsurance class in 2020 at Lloyd's rose by12.2% to £3,321million (2019: £2,960million). The casualty treaty market saw an acceleration of the trends of the previous year in 2020, as it experienced reducing capacity, tightening policy coverage and significant price strengthening in distressed and high exposure accounts across most lines of business. While US workers' compensation business remained competitive, concerns are emerging over the potential impact of COVID-19 on the class. Motor excess of loss business continued to perform well below expectations and the much sought-after relief from the winding-back of the Ogden discount rate to -0.25% in 2019, which was maintained in 2020, did not have as significant an impact as had been hoped for.

Prior year movement

The casualty reinsurance book reported an accident year ratio of 113.0% for 2020 (2019: 102.4%), which was a poor result. A release of 2.3% was made from the prior years. This was an improvement from 2019, when the market needed to top-up its reserves by 1.7%. Despite 2020 being a year of relatively benign prior year claims experience

for casualty reinsurance business, trends such as "social inflation" were still driving increased uncertainty in this class. The US casualty treaty business performed slightly better than had been expected, whereas the non-US casualty book's performance was very much in line with expectations. The performance of the personal accident excess of loss account was broadly in line with market expectations.

As in previous years, in its annual accounts, Lloyd's stated that it was continuing to monitor the casualty class to ensure that there are adequate reserve provisions in place across all prior years. There has been an increased level of oversight and a good deal of additional work has been done by the market to monitor the robustness of reserves.

Development of underwriting figures 2016 to 2020

Figure 13: Casualty reinsurance performance 2016 to 2020

	Gross written premium	Accident year ratio	Prior year movement	Combined ratio	Underwriting result
	£'m	£'m	£'m	£'m	£'m
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	(3.6)	96.1	78
2019	2,960	102.4	1.7	104.1	(94)
2020	**3,321**	**113.0**	**(2.3)**	**110.7**	**(288)**

2020 result is shown in bold type
Underwriting losses are shown in red
Source: Lloyd's 2020 Annual Report & Accounts

Figure 13 shows that the gross premium income for the casualty reinsurance class has grown by roughly £1.2billion between 2016 and 2020. This amounts to an increase of more than 40%. However, at the same time the accident year ratio has remained poor; the 2020 accident year ratio of 113% is the worst figure that has been achieved in recent years. The account has benefited from being able to make releases from the prior years in every year bar 2019. Interestingly, the release of 2.3% that was made from 2020 was not as great as that made in 2018 or 2016. As such, the 2020 release had a negligible impact on the overall result and 2020's calendar year combined ratio and underwriting result are the worst of any in recent years.

Specialty reinsurance

For 2020, marine reinsurance remained the largest sector of the Lloyd's specialty reinsurance sub-class, followed by energy and aviation business.

2020 performance

For 2020, gross written premium for the class increased by 7.7%, to £2,211million (2019: £2,053million). The split of gross written premium by sector within this specialty business was: marine, aviation and transport £1,500million (2019: £1,400million), energy £702million (2019: £633million) and life £3million (2019: £6million). The notable aspects of these statistics are: the increase in energy business that was written; and the 50% reduction in the volume of life business. The increase in energy business was the result of the general increase in rates that took place in this class, whilst the reduction in life business was a function of the fact that the class has performed poorly, and that there are now fewer syndicates within Lloyd's underwriting life business.

Despite general hardening of the marine market that took place in 2020, the pricing increases in the marine reinsurance sector were more modest.

Prior year movement

In Figure 14 below, the Lloyd's reinsurance specialty line reported an accident year ratio of 101.1% in 2020 (2019: 108.6%). There was a release of 6.0% made from the prior years (2019: release of 2.8%). The overall claims experience for this line has performed broadly in line with expectations in 2020. 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 claims events, prudent reserves tend to be held and released in years with less claims activity.

Marine reinsurance saw a mixed experience in the prior years. Favourable prior year movements were reported within this line of business with regard to Hurricane Irma (2017), Hurricane Sandy (2011) and World Trade Centre (2001). However, these were offset by deteriorations on Typhoon Jebi (2018) and Storm Dorian (2019). Likewise, the aviation sector saw increased large loss activity on some of its more recent years, with major losses arising from the grounding of the Boeing 737 MAX fleet and from within the space account. These have adversely affected the reinsurance market and that have further reinforced the aviation excess of loss pricing environment for 2021. Motor reinsurance has generally performed favourably when measured against expectations.

Development of underwriting figures 2016 to 2020

Figure 14: Specialty reinsurance performance 2016 to 2020

	Gross written premium	Accident year ratio	Prior year movement	Combined ratio	Underwriting result
	£'m	£'m	£'m	£'m	£'m
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)
2020	**2,211**	**101.1**	**(6.0)**	**95.1**	**73**

2020 result is shown in bold type

Underwriting losses are shown in red

Source: Lloyd's 2020 Annual Report & Accounts

As can be seen in Figure 14 the gross premium income in this class of business has reduced slightly between 2016 and 2020. This is partly the result of Lloyd's changing both the composition of the class and the way in which it reports (certain classes of business were amalgamated into this one class two years ago). However, many of these classes experienced poor rating conditions for the early years of this period. The accident year ratio has been in excess of 100% in every year of account, with the figure for 2017, predictably being by far the worst. On a positive note, the 2020 accident year ratio is an improvement over that of 2019 and 2018, and this was achieved despite the gross premium income increasing for 2020.

Fortunately, each of the years shown in Figure 14 has been able to benefit from a release from the prior years' reserves. Indeed, the release made in respect of 2020 is an improvement on that made for 2019. As a result, the 2020 account has produced a calendar year combined ratio of 95.1%, which is a considerable improvement over 2019. Overall, the combined ratios for this class of business are better than those achieved by many other business sectors at Lloyd's: only two out of the last five years (2017 and 2019) have produced calendar year combined ratios more than 100%. Equally, only two years (2017 and 2019) have made underwriting losses and 2020 has made an underwriting profit.

Insurance classes

Property insurance

The property insurance line at Lloyd's consists of a broad range of risks that are written across a large part of the world. The class is predominantly made-up of 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 cover holders.

2020 performance

The gross written premium for property insurance in 2020 amounted to £9,227million a decrease of 3.7% from 2019's £9,586million. 2020 suffered severely from the impact of COVID-19 on business interruption (BI) covers. In addition, as has already been discussed, there was an abnormally high frequency of weather-related, natural catastrophe events in 2020, such as Hurricanes Laura, Delta, Sally and Zeta. There were also a significant number of other severe losses, such as hailstorms and US wildfire events, all of which had an adverse impact on the overall performance of the class as a whole. Additionally, some syndicates were impacted by the impact of social unrest in the USA during the year.

Despite the high frequency of events, the relatively small monetary size of individual losses meant that the reinsurance recoveries that syndicates were able to make often fell below expected levels. These attritional losses therefore fell within the syndicates' own retentions, and as a result had a detrimental impact on the overall performance of these syndicates.

Prior year movement

The Lloyd's property line reported an accident year ratio of 135.4% for 2020 (2019: 101.5%). The prior year movement was a release of 3.5% (2019: release of 1.7%). Recent years of account have seen elevated levels of catastrophe losses worldwide. The most affected lines of business have been the direct and facultative classes. BI losses sustained in prior years had some 2020 calendar year policy exposure on the direct property, facultative open market and binder business. This was the case in respect of both US and non-US business.

In addition, the class suffered from further deterioration in respect of a number of the prior years' catastrophe events. In particular, Hurricane Irma (2017), Hurricane Michael (2018) and Storm Dorian (2019) were all subject to adverse movements. However, these deteriorations were partially offset by favourable movements with regard to the Californian Wildfire events of 2017. In contrast to the increase in catastrophe losses, there was a reduction in the attritional and large loss experience on certain property accounts in 2020. This was particularly evident on some direct and facultative US binder business, but also, albeit to a lesser extent, on both the non-US binder and open market business. Difference in conditions and power generation lines performed favourably when measured against expectations and terrorism business continued to be prudently reserved. The reserves for most prior years proved to be both adequate (particularly on the difficult 2018 and 2019 underwriting years) and stable.

Development of underwriting figures 2016 to 2020

Figure 15: Property insurance performance 2016 to 2020

	Gross written premium	Accident year ratio	Prior year movement	Combined ratio	Underwriting result
	£'m	£'m	£'m	£'m	£'m
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
2020	**9,227**	**135.4**	**(3.5)**	**131.9**	**(2,104)**

2020 result is shown in bold type

Underwriting losses are shown in red

Source: Lloyd's 2020 Annual Report & Accounts

Figure 15 shows the performance of the property insurance book between 2016 and 2020. It is notable that there was 15.5% increase in the amount of gross premium income written between 2016 and 2020. More revealing is that the gross premium peaked at £9.6billion in 2018 reducing in the two later years. This was a result of the remedial work that the Lloyd's Performance Management Directorate (PMD) had been undertaking over this period. As we have discussed earlier, this led to a number of syndicates in this class exiting loss-making and underperforming business.

Therefore, it is no surprise to see that 2017 and 2020 have seen by far the highest accident year ratios. Equally, it is no surprise to see that every single year shown in Figure 15 has produced an accident year combined ratio of over 100%. A combination of poorly rated business, particularly in the early years, and heavy catastrophe losses in 2017, 2018 and 2020 made this inevitable. Except for 2019, the class has benefited from fairly consistent releases from the prior year reserves in the region of about 3%. Unfortunately, these have had a negligible impact on the calendar year combined ratios. Every year, save for 2019 (which was a relatively catastrophe -free year), had a calendar year combined ratio of in excess of 100%; with the 2020 combined ratio being the worst of the last five years. Unsurprisingly therefore, save for 2019 (which was only a little better than break-even), these years produced an underwriting loss.

However, one looks at it, the property insurance class has been one of the real underperformers of the Lloyd's market over the past few years. Whilst there have been valid reasons for this underperformance, linked to the high incidence of catastrophe losses in years such as 2017, 2018 or 2020, the real problem with this account was that rates had fallen so far in the years between 2010 and 2016. It was only with the arrival at Lloyd's of Jon Hancock in November 2016 (as Director of Performance Management), and the ensuing programme of remedial action that he instigated, that an underlying improvement in the fortunes of the class began to take place: syndicates shed underperforming lines and accounts, and some were closed down. Equally, the class has undoubtedly benefited from the fact that rates have been steadily increasing since 2017. Over the past three years there have been substantial rating increases in the US property insurance sector. Unfortunately, the magnitude of the losses that have hit years 2017, 2018 and 2020 has meant that syndicates have produced losses in this class of business despite the refocussing of the books of business since 2016, and the significant improvement in rates and terms and conditions in the property insurance market since 2015.

Casualty

The Lloyd's casualty market encompasses general liability and professional lines of business, in addition, shorter tail lines such as cyber and accident & health represent a significant component of the overall casualty book. The US remains the largest single market for Lloyd's casualty business followed by the UK, Canada and Australia.

2020 performance

Lloyd's gross written premium for casualty business in 2020 amounted to £9,067million, a decrease of 4.1% from 2019 with £9,459million. This was despite significant rating increases on almost all lines of business. In particular, the D&O sector saw significant repricing, with capacity becoming more restricted for certain sectors. During 2020, there was a pronounced shift away from underwriting certain lines, exposures and occupations with a marked decrease in average line sizes across many lines of business as carriers sought to reduce volatility. Nevertheless, across other lines there was premium growth during the year as a result of further price hardening, particularly in some of the professional lines.

Whilst the rating increases were significant, a number of lines seeing double-digit pricing increases, the prevailing market sentiment was that pricing adequacy was in doubt; the protracted soft market cycle had meant that rate increases had begun from a very depressed low base point. A great deal of rating correction was therefore needed to be able to deal with the claims inflation that had taken place over the past few years.

One area of the market that has been a cause for concern has been cyber, with an increase in the losses sustained by the class. The growth in the development of cyber insurance products continued into 2020, with the market outside the US expanding and representing an increasing share of the overall market.

Due to the impact of COVID-19, the contingency market has suffered unprecedented losses because of subsequent event cancellations. It is expected that further losses will continue to be incurred as the pandemic continues during 2021 and 2022.

Prior year movement

The Lloyd's casualty class reported an accident year ratio of 105.2% in 2020 (2019: 103.8%). The prior years' reserves needed to be topped-up by 5.1%, which was in addition to the strengthening of 1.9% that was required last year. The fact that the prior years have had to be topped up for two years in succession is troubling. In its 2020 annual report and accounts, Lloyd's recognised that there is a potential problem with the casualty account, stating that it had shared its market level insights and views of casualty lines with brokers and underwriters during 2020 and commenting: "*syndicates appear to have shifted their views in line with this by strengthening their casualty reserves. Despite the market strengthening, at an aggregate level, casualty loss experience has been favourable to Lloyd's expectations. However, a number of lines have performed adverse to expectations driven by large losses, including on directors' and officers' non-US, non-US financial institutions and professional indemnity US business. US medical malpractice continues to perform adversely, further compounded by increases in losses with regard to medical beneficiaries.*"

Cyber has been a more complex and difficult class to reserve. Cyber is such a relatively new class of insurance business and there is not enough claims experience or historical settlement data to understand how the business will develop. Cyber business has seen a rise in claims' deterioration from recent years. In particular, the 2019 year of account has deteriorated. A key area of concern has been the emergence of ransomware claims, and the uncertainty surrounding how this may develop. This will continue to be a focus for the Lloyd's PMD.

Development of underwriting figures 2016 to 2020

Figure 16: Casualty performance 2016 to 2020

	Gross written premium	Accident year ratio	Prior year movement	Combined ratio	Underwriting result
	£'m	£'m	£'m	£'m	£'m
2016	7,131	102.9	(0.2)	102.7	(146)
2017	8,464	103.7	(0.6)	103.1	(189)
2018	9,904	103.9	(1.0)	102.9	(183)
2019	9,459	103.8	1.9	105.7	(390)
2020	**9,067**	**105.2**	**5.1**	**110.3**	**(688)**

2020 result is shown in bold type

Underwriting losses are shown in red

Source: Lloyd's 2020 Annual Report & Accounts

Figure 16 shows that the gross written premium in the casualty insurance sector increased by just over 27% between 2016 and 2020. Casualty rates began to harden significantly during 2017 and this was the reason for the substantial growth in income that took place between 2017 and 2018. The income written in the class peaked in 2018, at £9.9billion, subsequently reducing as the Lloyd's PMD's remediation programme gathered momentum. This class of business has been a major focus of attention on the part of the PMD for some years, as its performance has been poor. The releases that were made from the 2016, 2017 and 2018 accounts were all small in real terms, especially when compared to the releases made in other classes of business. Indeed, the largest release was only 1% and more worryingly, it was necessary to top-up about the old years in both 2019 and 2020.

Given this poor performance, it is no surprise that the calendar year combined ratio has been more than 100% for each of the years shown in Figure 16. Furthermore, the calendar year combined ratio has got worse in 2019 and 2020; the two years in which a top-up of the prior years has been necessary. The class has made an underwriting loss in every single year with the losses in 2019 and 2020 in excess of those made in the earlier years.

All in all, these results are poor, and this is an area in which Lloyd's, and the syndicates themselves, need to focus in order to reverse the poor underwriting performance that has been prevalent in recent years. The current scenario is

doubly depressing, as the period from 2017 to the present day saw a considerable hardening in rates in this sector. Unfortunately, this improvement has not been reflected in the bottom line underwriting figures achieved by many syndicates, or by the market as a whole. The issue of reserving adequacy in the casualty market has not been confined to Lloyd's alone. Releases from reserves have generally become smaller in recent years, and the need to top-up old years has become an industry-wide issue.

Marine, Aviation and Transport

Lloyd's marine business encompasses a wide variety of sub-lines where Lloyd's continues to be regarded as an industry leader, including, hull, various marine war perils, marine liability, as well as specie and fine art business. Cargo is the largest individual line of business. Other, more niche products are also written, including satellite pre-launch risks and construction related cargo perils, including delay in start-up.

In the aviation sector, Lloyd's underwrites across all the main business sectors including airline, aerospace, general aviation, space and war. Airline (hull and liability) is the largest sector, and Lloyd's also underwrites general aviation risks such as privately owned, light aircraft, helicopters and large private corporate jets, airport liability, aviation product manufacturers' liability, aviation, war and terrorism and satellite launch and in-orbit risks.

2020 performance

The gross written premium underwritten for 2020 was £2,976million, an increase of 6.3% from 2019: £2,802million. Following a long-term, sub-optimal performance, the marine market has continued to go through an extensive, PMD-driven remediation process, which has included several significant market participants reducing book sizes, and others withdrawing from the market completely. For example, the amount of yacht business that has been underwritten has reduced in terms of gross written premium by over 50% since 2018. Marine capacity has contracted and a significant pricing improvement has been seen across the portfolio, especially on the two largest lines of cargo and hull business.

Attritional claims in the hull sector reduced in 2020, but it is yet to be seen if this was due to a hardening market, a decrease in voyages owing to COVID-19, or a combination of the two factors. War-breach premiums have meaningfully increased due to increased tensions in the Middle East. However, annual war premium remains one of the most competitive sub-lines within the marine portfolio. With a new US regime, it remains to be seen how international sanctions will evolve and the subsequent effects this may have on war-breach premiums.

The experience of the aviation market in 2020 was exceptional. The near total suspension of all worldwide air travel and activity in the airline and general aviation sectors, with a bulk of aircraft fleets grounded for extended periods, led to there being significantly less loss activity in comparison to prior years and this was reflected in the underwriting figures. At the same time, the unprofitable prior year performance drove a corrective-pricing environment across all aviation product lines throughout 2020. Business that was renewed in the second half of 2020 saw reduced exposure compared with previous years, given the limited air travel and reduced passenger footfall. In order to lessen the impact of this reduced exposure, in the face of unaltered policy limits, the market in many cases installed minimum premiums in 2020 placements.

Prior year movement

The Lloyd's marine, aviation and transport line reported an accident year ratio of 98.2% in 2020 (2019: 113.3%). This profitable, pure year result was augmented by a release of 8.5% from the prior years (2019: release of 4.8%). On marine lines, there is a tendency for claims' reserves to be held for a number of years to allow for any uncertainty and so releases are common. Overall, these lines of business have all performed favourably against expectations in 2020, despite the heightened large loss activity impacting both the property damage and liability elements within this line. Recent years have seen higher than average catastrophe losses, which are known to drive property damage claims. However, some of the historical catastrophe losses have improved in 2020. There have been reductions of the overall losses on Hurricanes Harvey, Irma and Maria (2017), especially with regard to the cargo component of the losses. In contrast, the losses sustained in respect of Storm Dorian (2019) have increased, particularly in the marine hull sector.

In the aviation sector, recent years have seen an increased loss experience, arising mostly from losses relating to the grounding of the Boeing 737 MAX fleet and increased space losses that hit the 2019 year of account. The cost of the Boeing loss increased in 2020, and this impacted general aviation and aviation products/airport liability lines.

Development of underwriting figures 2016 to 2020

Figure 17: Marine, aviation and transport performance 2016 to 2020

	Gross written premium	Accident year ratio	Prior year movement	Combined ratio	Underwriting result
	£'m	£'m	£'m	£'m	£'m
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)
2020	**2,976**	**98.2**	**(8.5)**	**89.7**	**239**

2020 result is shown in bold type
Underwriting losses are shown in red
Source: Lloyd's 2020 Annual Report & Accounts

As can be seen in Figure 17, this is a class of business which has had a turbulent few years. When Jon Hancock became the Performance Management Director in late 2016 the marine class was one class of business on which the PMD particularly focused its attention. It had been an underperformer for some years and had not made a profit since 2014. Unsurprisingly, the income for the combined marine aviation and transport class has reduced from 2016 to 2020 in real terms, as syndicates either ceased writing certain lines of business or cut their lines dramatically.

The accident year ratio has been poor for four of the five years shown in Figure 17. By 2017 alone, the accident year ratio had reached nearly 118%, at a time when the gross premium income within the class was still expanding Thanks to the remedial work undertaken by PMD over these years, there has been an improvement in the underwriting performance that has taken some years to manifest itself; the 2020 result is a testament to how effective this work has been. The accident year ratio improved by more than 15 points from 2019 to 2020, a remarkable achievement, albeit 2020 was still 98.2%. The pure year underwriting profit was augmented by a substantial release from prior years' reserves and this resulted in the class producing the best calendar year combined ratio of any business class trading at Lloyd's in 2020. The 2020 account has seen the sector return to its first underwriting profit since 2014.

Energy

The energy class includes onshore and offshore property and liability products, ranging from construction to exploration, production, refining and distribution risks. It incorporates both the oil and gas industry and the growing renewable energy sector.

2020 performance

The gross written premium in the energy sector in 2020 amounted to £1,265million; a decrease of 15.7% from 2019 with a gross written premium of £1,500million. Rates rose throughout 2020. Downstream product lines continued to benefit the most from the rating increases, mainly because this sector had suffered from the highest frequency of large loss activity in recent years. This has been reinforced by industry losses in Asia in 2020. From a whole account perspective, these rating increases augmented by a continued lack of loss activity in the upstream lines. Upstream energy remains the largest part of the overall energy account in terms of risk count, written premium and exposure.

Prior year movement

The Lloyd's energy line reported an accident year ratio of 99.2% for 2020. This was a profitable pure year result and a substantial improvement over the 2019 ratio of 107.5% for this class. The 2020 pure year profit was enhanced by a prior year release of 8.2% (2019: 10.2%).

The energy class 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, such as on Hurricanes Harvey, Irma and Maria (2017). However, some historical catastrophe losses have deteriorated since the year-end 2019. There were large adverse movements on the Transocean Deepwater Horizon loss (2010) and the Petrobras (2001) explosion, nevertheless, releases were made as a result of reductions in other large losses (or lower than expected claims activity). Given that the energy line is exposed to isolated large losses, large reserves tend to be held and released in more benign years. For long-term contracts, these margins can be held for a number of years.

Development of underwriting figures 2016 to 2020

Figure 18: Energy performance 2016 to 2020

	Gross written premium	Accident year ratio	Prior year movement	Combined ratio	Underwriting result
	£'m	£'m	£'m	£'m	£'m
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
2020	**1,265**	**99.2**	**(8.2)**	**91.0**	**79**

2020 result is shown in bold type
Underwriting losses are shown in red
Source: Lloyd's 2020 Annual Report & Accounts

Figure 18 shows the development of the energy underwriting figures between 2016 and 2020. The gross premium income peaked in 2019 at about £1.5billion, with a reduction in 2020. Importantly, the accident year ratio returned to profit for 2020 after several years of loss. One of the key factors that has maintained the relatively good underwriting performance of the energy book over the past few years, despite its exposure to losses has been that the class has been able to rely on a steady stream of substantial releases from reserves. These reached 21% in 2017. The 2020 account benefited from a release of 8% from reserves, which meant that the overall calendar year combined ratio reduced to a creditable 91%. This is a considerable improvement over the combined ratio for 2019, but not as good as that were achieved for 2017 or 2018 which benefitted from substantial reserve releases of 10 points higher than the 2020 release. The net effect of all these releases has been to turn a series of accident year losses between 2016 and 2019 into small net underwriting profits, with the 2020 pure year underwriting profit being enhanced by the release. As there has been some deterioration on a few of the larger old year losses, such as Petrobras and Transocean, it will be interesting to see whether the class will be able to maintain its current level of reserve releases.

Motor

The Lloyd's motor market primarily covers international motor. A large proportion of the business now emanates from North America and there has been, and remains, an increasing focus on property damage over liability risks. The Lloyd's commercial and fleet business is diverse, ranging from light commercial vehicles and taxis to buses and heavy haulage.

2020 performance

The market's gross written motor premium decreased by 31.6% for 2020, to £720million; 2019 figure was £1,053million. Following a number of years of competitive pricing, the international motor book benefitted from more positive pricing trends in 2020. There was also a much needed, renewed focus on increasing deductibles and tightening terms and conditions.

In the UK, it remained unclear whether pricing levels achieved during 2020 would be sufficient to address the challenging underwriting conditions brought about by the change in the Ogden discount rate during 2019. However, during 2020 the impact of COVID-19 resulted in a significant shift in exposure, particularly for standard comprehensive motor policies, where the number of vehicles on the road decreased significantly during the various lockdown measures both in the UK, but also in other territories where standard third-party liability cover was provided.

Prior year movement

The Lloyd's motor line reported an accident year ratio of 95.5% in 2020. This was a considerable improvement over the 100.6% reported in 2019. The pure year profit was augmented by a prior year release of 2.2% of net earned premium (2019: 1.8%). This was driven by a favourable claims experience in respect of both the UK and overseas motor markets.

Development of underwriting figures 2016 to 2020

Figure 19: Motor performance 2016 to 2020

	Gross written premium	Accident year ratio	Prior year movement	Combined ratio	Underwriting result
	£'m	£'m	£'m	£'m	£'m
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
2020	**720**	**95.5**	**(2.2)**	**93.3**	**48**

2020 result is shown in bold type

Underwriting losses are shown in red

Source: Lloyd's 2020 Annual Report & Accounts

Figure 19 shows the improvement in the motor market which began for the 2018 account has continued. Although gross written premium fell in 2020 this has arguably had a beneficial impact on the accident year ratio. As referred to above, the main reason for this fall was probably attributable to COVID-19 and government imposed lockdowns. The motor market has gone from a position where it needed to top up the prior years, to one, since 2018, where it has been able to release money from the prior years. This has obviously had a beneficial impact on the calendar year combined ratios, which have continued to improve. The 2020 account produced a creditable combined ratio of 93% and a good underwriting result, which although small, is nearly five times the size of that of 2019.

Syndicate results in 2020

Introduction

For 2020 there were 50 managing agents trading in Lloyd's which ran 76 syndicates, 12 Special Purpose Arrangements (SPAs) (which write quota shares of other syndicates), and 2 syndicate(s)-in-a-box (writing new business). 2020 saw an even wider divergence in the performance of all these syndicates than has been the case in recent years. The broad spread of results is evidence of the challenge that Lloyd's Performance Management Directorate (PMD) still faces when it comes to trying to improve the overall performance of the Lloyd's market.

There was a massive difference between the performance of the syndicates

One of the main reasons that the Lloyd's overall result in 2020 does not compare as well as it might with that of its peers is because the overall performance of the market is still being dragged down by the poor performance of many of the syndicates in the bottom 2 quartiles, and especially by those in the bottom quartile. There was a big difference

between the results that were by produced by Lloyd's syndicates in 2020. At one end of the scale, syndicate 1176 (Chaucer) produced a combined ratio of 38.8%, and at the other end of the scale, two syndicates with in excess of 300%. The three worst performing syndicates in 2020 were: 1856 (Arcus) with a combined ratio of 252.3%; 2288 (Victor), a combined ratio of 302.9%; and 1840 (Munich Re Innovation) a combined ratio of 379.8%. It could be argued that including syndicates 2288 and 1840 may be unfair as they were both new launches in 2020. Nevertheless, they were part of the Lloyd's market, and their results impact Lloyd's overall performance. Their performance contrast starkly with that of the syndicates in the top quartile of Lloyd's market in 2020 which have delivered a performance that was the equal to or better than, that produced by any other (re)insurer in the world. 26 Lloyd's syndicates produced a combined ratio of less than 100% in 2020. This section compares the Lloyd's 2020 result with that of its industry peers.

The Lloyd's management still has work to do

Research undertaken by the Insurance Insider in April revealed that the top quartile syndicates at Lloyd's had produced a weighted average combined ratio of 96.9% and that the second quartile syndicates had produced one of 104% in 2020. The third quartile syndicates had produced a weighted average combined ratio of 113.7% and the bottom quartile syndicates, a weighted average combined ratio of 133.4%. As we have already seen, the overall combined ratio for Lloyd's in 2020 was 110.3%.

When we consider the huge difference in the performance of these different syndicate quartiles, it becomes easier to understand just how big a job Lloyd's PMD were faced with in 2016 when Jon Hancock began to improve the overall performance of the Lloyd's market. There had been a vast difference between the best and the worst performing syndicates in the market developing for some years as the market weakened from 2012 onwards. Whilst it is important to remember that the results produced by the market in 2020 were affected by the unique combination of natural catastrophes and COVID-19 losses, it also pays to reflect that Lloyd's began the year in a relatively strong position. There were two key reasons for this.

A number of under-performing syndicates had already ceased trading

First, Lloyd's undoubtedly benefitted from many of its weaker, underperforming syndicates, that had dragged down its performance between 2016 and 2019, had either ceased trading, or had scaled back their underwriting by dropping under-performing classes of business. Prior to the start of the 2020 year of account, in November 2019, syndicate 1980 (Pioneer), syndicate 2014 (Acappella) and syndicate 5578 (Vibe) all announced that they were intending to cease trading. These three syndicates were added to the list of underperforming syndicates that had ceased trading since 2017 which included Advent (780), the Securis Special Purpose Arrangement (SPA), syndicate 1897 (Skuld), and 1884 (Standard/Charles Taylor). January 2020 saw the announcement that syndicate 2468 (Neon), was also ceasing to trade. The closure of these syndicates was a positive development for the market as a whole.

Secondly, most of the syndicates that were still trading at Lloyd's began their underwriting in 2020 with the benefit of at least two, and possibly three years, of compounded rating increases. Given this, the vast divergence between the good and bad syndicates' results shows that the PMD has still got a lot more work to do.

The performance of the top quartile's syndicates

Figures 20 and 21 show the combined ratios that were produced by the syndicates in the top and bottom quartiles of the Lloyd's market in 2020. Syndicates highlighted in red were supported by third party Members.

The performance of the syndicates in this top quartile has been very good. Were this the whole of Lloyd's then the average combined ratio would have certainly outperformed many of the companies trading in the (re)insurance industry. Even more reassuring was that third party Members supported six of these syndicates. Two, 609 and 2791, were also "core" syndicates for many Members.

Whilst it was not surprising to see syndicate 1176 at the top of the table, given the specialist nature of its nuclear account, there were some other pleasant surprises in this table. Perhaps the greatest of these was that syndicate 6125 saw a 34 point improvement in its combined ratio between 2019 and 2020, enough to take the syndicate from the bottom quartile of Lloyd's in 2019 to the top quartile for 2020. The main reason being that the syndicate was not as exposed to natural catastrophe losses in 2020 as it had been the year before. That said, it still had an exposure to COVID-19 in 2020. Two other syndicates which made the jump from the bottom quartile in 2019 into the top quartile

Figure 20: Lloyd's top quartile syndicates in 2020

Syndicate	Managing agent	2020 combined ratio %
1176	Chaucer	38.8
1892	MPS	81.2
1492	Probitas	85.6
1971	Apollo	88.8
386	QBE	89.3
1414	Ascot	89.4
3010	Lancashire	90.7
1225	Aegis	91.6
218	ERS	91.9
3902	Ark	92.5
1218	Newline	92.9
2012	Arch	93.0
6125	Patria Re	93.4
2525	Asta/Ive	93.6
435	Faraday	93.7
609	Atrium	93.8
2791	MAP	94.0
2232	Allied World	96.1
2015	Channel	96.3
Lloyd's 2020 combined ratio	**-**	**110.3**

Table produced by the ALM
Source: Syndicates' 2020 report and accounts

of 2020 were syndicates 2232 and 2015. Syndicate 2232 was adversely hit by Japanese typhoon losses in 2019, but fared much better in 2020, despite having a relatively small exposure to COVID-19 losses.

Another welcome performance, especially for third party Members, was 218 (ERS) appearing in the table of top quartile syndicates. As Members will recall, syndicate 218 has performed poorly over most of the years in the last decade. However, the fact that it was predominantly a motor underwriter meant that in 2020 the syndicate was not overly-exposed to losses from either the natural catastrophes or COVID-19. Indeed, COVID-19 resulted in a reduction in the claims experience for the syndicate and was therefore one of the main reasons that the syndicate performed this well.

Many of the aligned syndicates in Figure 20, such as syndicates 1225 (Aegis), 1414 (Ascot) and 435 (Faraday) are all regular out-performers and are found in this quartile year after year. They are also "light-touch" syndicates, as this is the quartile from the which the "light-touch" cohort of syndicates is drawn. An exception here was the Probitas syndicate, 1492, which had produced the third best result in the market. This is not a "light-touch" syndicate. Furthermore, it has witnessed a radical improvement in its performance over the last three years. The syndicate performed poorly up to 2017, and it is only because of the large amount of remediation work undertaken by the management since then that its performance has improved in the last three years (and it has produced combined ratios of less than 90%).

What is also worth noting about the top quartile of syndicates is that many of these syndicates appear consistently in this quartile. 12 syndicates in the 2020 top quartile were also in the 2019 top quartile. For the record, these syndicates were 1176, 1892, 1492, 1414, 3010, 1225, 3902, 1218, 2012, 2525, 609 and 2791. This consistent level of performance has been achieved against different market backgrounds from year to year and is impressive.

The size of some of these businesses is worthy of comment. Whilst some of them, such as syndicate 1176 and 2525 are relatively small syndicates (in capacity terms), many others are not. Syndicates such as 218, 609 and 2791 are mid-size syndicates (all of whom had a capacity that was greater than £400 million), but syndicates such as 1225 and 1414 are now large businesses, whose success is integral to the Lloyd's market. The 2020 capacity of syndicate 1225 was about £740 million and that of syndicate 1414 £650 million. Both also pre-empted substantially for the 2021 account.

The performance of Lloyd's bottom quartile syndicates

Figure 21: Lloyd's bottom quartile's syndicates in 2020

Syndicate	Managing agent	2020 combined ratio %
2001	MS Amlin	118.9
1955	Arch	119.0
1947	CIG Re	119.5
1301	Starstone	120.0
1221	Navigators	121.4
2988	Brit	128.7
3000	Markel	131.3
2003	AXA/XL	133.8
1991	Coverys	135.1
2786	Everest Re	139.8
4711	Aspen	152.2
1975	Coverys	135.1
3624	Hiscox	153.6
1945	Sirius	159.4
4242	Beat	160.5
1967	WR Berkley	171.5
1856	Arcus	252.3
2288	Victor	302.9
1840	MRI	379.8
Lloyd's 2020 combined ratio	**-**	**110.3**

Table produced by the ALM
Source: Syndicates' 2020 report and accounts

The bottom quartile syndicates produced a weighted average combined ratio of 133.4% for 2020. However, one looks at it, this is an extremely poor result and does not reflect well on the market as a whole. Many of these syndicates have also performed far worse than many companies operating outside Lloyd's. The fact that there are still syndicates producing combined ratios of this size, despite all the remediation work that has already been undertaken by the PMD, only indicates that there is still a great deal of work for the PMD to do. Most of these syndicates are the "survivors" of the market remediation process, which managed to struggle into 2020, no doubt with acceptable remediation plans to turn their performance around. As referred to above, several syndicates, thanks largely to the efforts of Lloyd's PMD, ceased trading before 2020. Had some of these "walking wounded", syndicates such as 1884 limped into 2020 the bottom quartile's weighted average combined ratio may have been even worse still.

The two likely overarching reasons for these syndicates' poor 2020 performance were their exposure to first the natural catastrophe losses and second to COVID-19. Some syndicates, such as 1856 suffered the worst possible effect of the natural catastrophe losses, as they ended up retaining a far greater share of these losses than they might

have anticipated. Like some other syndicates besides were exposed to a lot of small to medium sized catastrophe losses, such as hurricanes Laura and Sally, and the Iowa derecho, the size of which failed to reach the attachment points required to trigger reinsurance pay-outs to the syndicate, and therefore a large proportion of the losses were retained by the syndicate on a net basis. For the record, the net combined ratio of syndicate 1856 was also adversely affected by a pay-out that was made to syndicate 1955 (in relation to the commutation of a whole account quota share on the 2017 and prior year of account). Had this not happened then the syndicate 1856 combined ratio would have been 'only' 134%.

It is worth noting that two of the largest syndicates trading at Lloyd's in 2020, syndicate 2001 and syndicate 2003, produced results that left them languishing in the bottom quartile in 2020. Syndicate 2001 was Lloyd's second largest syndicate in 2020. Its result in 2020 remained poor despite of its reduced stamp capacity to £1.6 billion for the 2020 account, as part of a comprehensive, internal business reorganisation process (following several years of poor results).

Some reforms

Perhaps the best thing to emerge from the carnage of these poor results is that it has led to some positive changes. The largest individual reduction of capacity by any syndicate at Lloyd's in 2021 was on the Axa XL syndicate (2003), whose stamp was reduced by 17%, or £311 million for the 2021 year of account. The syndicate had been the third largest at Lloyd's in 2020. The main reason for this reduction was the management's decision to withdraw from both the syndicate's lead position underwriting management liability and financial institutions business, and from the Aon client treaty. These steps were taken to the syndicate's recent years' poor underwriting performance.

Arcus has been acquired by ERS. Had this not occurred the future of syndicate 1856 may have been in doubt. Syndicate 4242 also performed poorly in 2020. As a syndicate supported by third party Members, this is discussed in more detail below. The most beneficial step for this syndicate is that it was acquired by Beat Capital and the new management has now completely changed the focus of the book for 2021. The loss for 2020 was almost entirely attributable to natural catastrophe losses that occurred in the US. The syndicate has now discontinued its association with ICAT managers for 2121 and is underwriting a completely different book of business which has far less US catastrophe exposure.

These two examples demonstrate a beneficial degree of market remediation being undertaken at syndicate and managing agency level in addition to what is being done by the PMD. The positive steps that have been taken by the likes of ERS and Beat should mean that these two businesses leave the bottom quartile for good, as they hopefully return to profitability.

The performance of syndicates supported by third party Members in 2020

A word of caution

Members will be aware that their syndicates provide two sets of accounts. The underwriting year accounts are well understood by Members and these determine the profit or loss made by a syndicate on a three year of account basis. The last year to close its underwriting year of account was 2018. The annual GAAP accounts consolidate all years of account into a single statement for the calendar year in question. Whilst these combined ratio figures are interesting in themselves, it is important that Members realise that there is only a limited correlation between the calendar year results, which are produced on a GAAP basis (and which are discussed here), and their underwriting results on a traditional three year of account basis. Nonetheless, in the absence of a formal year of account forecast for 2020 being available at this stage, the GAAP results serve as an early warning of the likely results for the year in question. That said, there are a number of other factors that will influence the result produced by the 2020 year of account on a three year of account basis. These will include 24 more months of account development, investment returns earned in 2022, and any potential releases that are made from the reserves of individual syndicates.

How do the results of syndicates supported by Members in 2020 compare?

When compared to the performance of all the syndicates trading at Lloyd's, the majority of syndicates that were supported by third party Members in 2020 performed quite well. The full list of the combined ratios that were produced by syndicates supported by third party members can be seen in Figure 22 below. In an article written for the April issue of the ALM News, Andrew Colcomb, the Head of Research at Argenta Private Capital stated that third party backed syndicates had produced an aggregate combined ratio of 105.7% in 2020 which was 4.6 points better than the Lloyd's market declared combined ratio of 110.3%.

He also made the important point that "the combined ratio announced by Lloyd's included certain elements beyond the simple aggregation of syndicate results; for example, premiums paid to and claims made on the Lloyd's Central Fund. Excluding these movements, the aggregate of all syndicates in the market in 2020 was a loss of £1,876million, or a combined ratio of 111.9%." This would mean that the syndicates supported by Members produced a combined ratio that was 6.2% points better than that produced by the market.

We have added the Lloyd's and aggregate combined ratio figures into the table below for the purposes of comparison with the individual syndicates.

Figure 22: Combined ratios produced by syndicates supported by Members in 2020

Syndicate	Managing agent	Combined ratio in 2020 %
1176	Chaucer	38.8
386	QBE	89.3
218	ERS	91.9
2525	Asta/Ive	93.6
609	Atrium	93.8
2791	MAP	94.0
1969	Apollo	99.4
1729	Asta/Dale	100.0
2010	Lancashire	104.6
727	Meacock	108.1
623	Beazley	110.3
Lloyd's combined ratio	-	**110.3**
Aggregate combined ratio	-	**111.9**
5886	Blenheim	111.9
4444	Canopius	112.3
33	Hiscox	112.9
2689	Verto	113.1
2121	Argenta	113.3
318	Cincinnati	113.6
510	TMK	113.6
1200	Argo	116.0
2988	Brit	128.7
1991	Coverys	135.1
4242	Beat Capital	160.5

Table produced by the ALM
Source: Syndicates' 2020 report and accounts

Comments on performance

Looking at both Figure 20 and Figure 22, it can be seen that some of the Members' syndicates found in the top quartile, including syndicates 218, 386, 609, 1176, 2525 and 2791 are among the best performing syndicates in the Lloyd's market in 2020. All these syndicates produced combined ratios of less than 95%. They all produced an overall profit on a GAAP basis.

Unfortunately, as can be seen in Figure 22, there have been several other Members' syndicates which have produced overall combined ratios that were worse than that of the market as a whole. These included syndicate 33 (a 112.9% combined ratio), syndicate 510 (a 113.6% combined ratio), syndicate 623 (a 110.3% combined ratio), syndicate 2121 (a 113.3% combined ratio), and syndicate 5886 (a 111.9%. combined ratio). Whilst a number of other syndicates produced worse combined ratios, this group of syndicates were all part of the group of the 10 syndicates that were most heavily supported by third party capital Members in 2020. Syndicates 510 and 33 were the syndicates on which members had most of their capacity allocated in 2020; Members allocated just over £1 billion of capacity to these two syndicates alone in 2020.

Of the Members' five "core" syndicates, only two, syndicates 609 and 2791 produced combined ratios of less than 100. However, as has been discussed above, there were other syndicates, such as 218, 386 and 1176, which also produced good profits. These syndicates were not as greatly affected by either the natural catastrophe losses of 2020 or COVID-19 as some of their more composite peers. Indeed, there was an impressive 15 point improvement in the combined ratio by a syndicate 386 for 2020.

Final thoughts

As can be seen in Figure 22 there was a considerable difference in the combined ratios that were produced by the syndicates that were supported by third party Members in 2020. Fortunately, very few of the Members' syndicates fell into the bottom quartile of Lloyd's. However, there were a fair number that fell into quartile three. Perhaps most disappointing of all has been the performance of syndicates 33, 510 and 623. All three of these syndicates have produced combined ratios that are as bad as, or worse than, that produced by Lloyd's. Given the amount of Members' capacity that was allocated to these syndicates in 2020 this is of concern for Members, who will wish to know more about the steps the syndicates will be taking to remedy their performance.

In contrast, the performance of both syndicates 609 and 2791 has been excellent (once again), and this, when combined with the performance of some of the other Members' more specialist syndicates, may help to improve the overall result for Members. However, as said at the outset, the there is only a limited correlation between these GAAP year combined ratios and the eventual result of the 2020 year of account that will be declared on a three year of account basis. The three year of account basis results will be dependent upon other factors including the development of the account from now until its closure in December 2022, the investment return earned in the 2022 calendar year and any releases that are made from syndicate reserves.

How the Lloyd's result compares to its peers

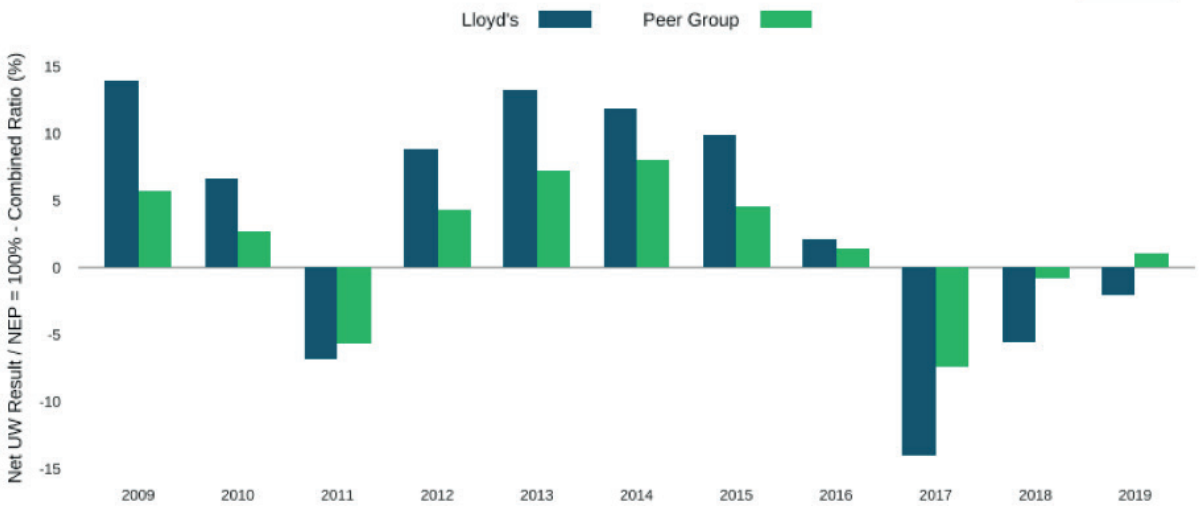
Introduction

Lloyd's used to produce comparative performance statistics every year, where it compared its combined operating ratio with that of a group of 13 (re)insurance companies in its industry peer group. Lloyd's no longer provides this comparison. Chandon Bleackley has done some research to provide Members with a little insight into how Lloyd's performance compares with that if its peers.

In the April 2020 edition of the ALM news, Marcus Gesmann and Quentin Moore from Insurance Capital Markets Research (ICMR) wrote an article about the Lloyd's 2019 results. Their article compared the recent years' Lloyd's combined ratios to those of its industry peers. They used the same group of companies that Lloyd's itself had used in the past. Their research found that there had been a deterioration in Lloyd's combined ratios as compared to those of its peer group companies from 2017 onwards (see Figure 23).

As shown in Figure 1, Lloyd's used to outperform its industry peer group prior to 2017. The only year in which it failed to do so was 2011, which was understandable given that this was the year of the Fukushima earthquake, and given that it wrote a substantial amount of Japanese catastrophe business Lloyd's under-performance was not unsurprising. Interestingly, the previous Lloyd's outperformance of its peers persisted during the leaner years between 2012 and 2016, a period when rates across the market were weakening, and when Lloyd's was expanding its gross premium income. Lloyd's managed to maintain its overall profitability during this period, largely because many syndicates managed to maintain a level of releases from their reserves. However, Figure 1 also shows that Lloyd's has no longer been outperforming its peers since 2017, as its results have deteriorated. Ironically, this under-performance took place at the same time as Jon Hancock and the PMD began to target under-performing lines of business and

Figure 23: Lloyd's underwriting performance vs peer group



Source: Lloyd's analysts presentation, companies annual report

under-performing syndicates. 2018 saw a refinement of the PMD's remediation process with the introduction of the Decile 10 review system. Underperforming classes of business were targeted and as discussed above, there have been several syndicates which have subsequently ceased to trade.

A comparison of the combined ratios in 2020

The author has sourced the 2020 combined ratios for the companies that were used by Lloyd's and ICMR for their comparative analyses. These updated 2020 combined ratios are shown in Figure 24 below. Lloyd's has under-performed all its peers in 2020. One of the main reasons for this is that Lloyd's wrote a broader spread of business than some of these companies and this led it to have a larger loss in respect of COVID-19. Whilst these broad comparisons are interesting, it should always be borne in mind that these are not an exact correlation, as there are considerable differences between Lloyd's and some of its peers. Note that all the top quartile syndicates bar the Channel syndicate, with a 2020 (combined ratio of 96.3%), out-performed all these companies.

Figure 24: 2020 combined ratios – Lloyd's and its competition

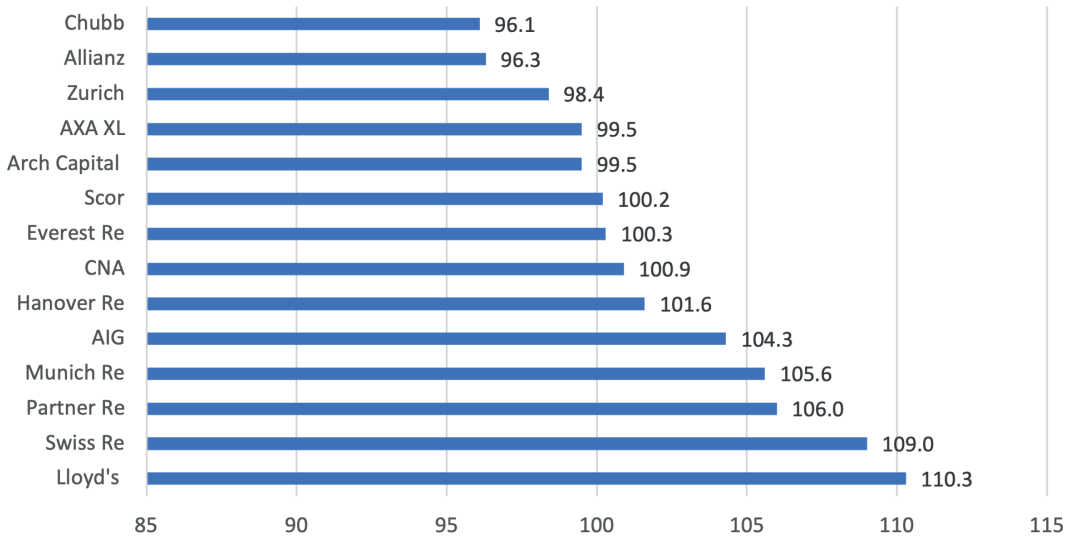


Table produced by the ALM. Source: Companies' 2020 data


ALM