ALM

THE VOICE OF INDEPENDENT CAPITAL AT LLOYD'S

LLOYD'S MARKET RESULTS & PROSPECTS 2021

PART TWO

ASSOCIATION OF LLOYD'S MEMBERS

Lloyd's Market Results & Prospects

2021

Part Two

Alpha Insurance Analysts Limited

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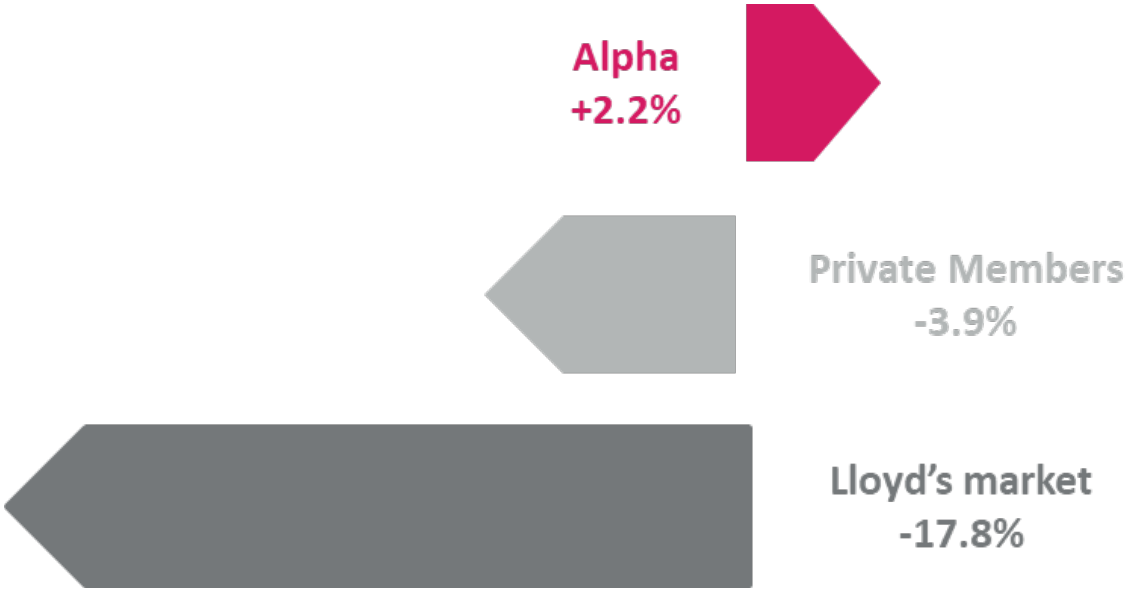

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SOURCE: Lloyd's reported syndicate results for 2016 , 2017 and 2018 at 36 months, 2019 & 2020 syndicate forecasts at 30th June 2021. The numbers above are based upon consistent levels of underwriting across all years.

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2021 AUTUMN CONFERENCE PROGRAMME

Haberdashers' Hall, 18 West Smithfield, EC1A 9HQ
Wednesday 6 October, 10:00am Registration

Morning session		
10:30	Welcome and introduction	Alan Lovell, Chair, ALM
10:40	Modelling for climate change	Richard Brindle, Group CEO and Chairman, Fidelis Insurance Charles Mathias, Group Executive Director & Group Director of Underwriting Fidelis Insurance
11:10	Q&A	
11:15	Changes at the top	Kate Markham, CEO, Hiscox London Market
11:45	Q&A	
11:50	Coffee Break	
12:10	The changing face of Lloyd's	Patrick Tiernan, Chief of Markets, Lloyd's
12:40	Q&A	
12:50	Morning session ends	

Lunchtime		
12:50	Buffet lunch	
13:15	Break-out sessions:	**Alternative Way Forward or Convenient Exit** Nigel Hanbury, CEO, Helios Underwriting Plc **Advising clients of The Corporation of Lloyd's** Wayne Ellis, Director, Tilney
13:45	Close of break-out sessions	

Afternoon session		
14:00	Innovation in underwriting	Simon Lewis, Underwriter, Atrium Syndicate 609
14:20	Q&A	
14:30	New syndicate; old hands	Richard Watson, CEO, Inigo Insurance
15:20	Q&A	
15:00	Coffee break	
15:15	Broking in the new Lloyd's	Vicky Carter, Deputy Chair, Lloyd's; Chair, Global Capital Solutions, Guy Carpenter
15:35	A Members' Agent's view	Robert Flach, Argenta
15:55	Q&A	
16:05	Plans for 2022	Alan Lovell, Chair, ALM
16:20	Q&A and discussion	
16:30	Conference ends	

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INTRODUCTION

Dear Members

Lloyd's 2021 first half year results (H1 2021) provided welcome good news of Lloyd's producing a profit of £1.4bn; a significant improvement on the H1 2020 loss figure of £438m. Chandon Bleackley, Publications Editor of the ALM, has produced a chapter in this Lloyd's Market Results and Prospects (LMRP) Part Two analysing these results in detail (see page 33). This positive news reinforces the general optimistic view of the 2020 and 2021 years of account that has previously been covered by the ALM in its publications (and reported by the members' agents and in the media). Such news should be tempered however by two recent events: Hurricane Ida and the 20th anniversary of 9/11.

Hurricane Ida is currently forecast by catastrophe modeller, RMS, to be an insured loss of between $25bn to $35bn. This is early days for any final cost forecast, but it clearly does constitute a significant and large market loss which is addressed in the first half of this LMRP, the Market Update section, when considering the developments of 2021 and the future prospects for the market. What may be more significant are the questions that have been raised by several market commentators on the impact of climate change on property catastrophe books of business and the (over-)reliance by some underwriters on the current stochastic models, which do not necessarily take into account climate change. Many ALM members have articulated concerns about the impact of climate change on syndicates' performance, and one of the leading market critics of over-reliance on modelling to price risks is Richard Brindle, Chairman, Group CEO and Group Underwriting Officer of Fidelis. The ALM is honoured to have Richard and also Charles Mathias, Group Director of Underwriting of Fidelis, as the two opening speakers at the forthcoming ALM conference on 6 October at Haberdashers' Hall (see adjacent page for the programme), who have promised to deliver a hard-hitting and thought-provoking presentation on this important topic.

The sombre anniversary of 9/11 not only reminded us of the horror of that day, which many of us recall far too vividly with its appalling and tragic loss of life, but also of the consequences both in terms of global political and economic changes as well as its impact on the (re)insurance industry. Underwriting in such a climate presents both threats and opportunities, and the ALM will be seeking speakers with specialised knowledge and experience in this field for our future events to keep its members abreast of current thinking and ideas in the market.

This second part of the LMRP provides not only a detailed review of the results and forecasts published to date, but with reference to various commentaries and reports on past, current and future market conditions, considers the prospects for the market. It also includes a detailed review of the 2020 auctions with a forecast for the 2021 auctions. With significant pre-emptions being announced by several syndicates supported by private capital, this year's auctions are likely to be active and of great interest to our members.

The ALM is indebted to Chandon for all his hard work in putting together this LMRP Part Two and sharing his views and thoughts with our members in this publication. Please remember that the ALM is not seeking to, nor is, giving advice but providing its members with an independent view and facilitating debate and discussion. I hope that many of you were able to join Chandon's morning coffee or fireside chat (depending on your time of day) held on Tuesday 14 September on both the Lloyd's H1 results and the 2021 auctions. Many thanks are due to both Chandon for his talk and to Nicole Salvo for both assisting members with joining the meeting and simultaneously driving the slides. I hope many will also attend either physically or virtually the ALM's autumn conference to be chaired by Alan Lovell, Chair of the ALM, on Wednesday 6 October at Haberdashers' Hall.

It is exciting to be planning our first physical event after so long, but we appreciate that not all will be able or willing to travel to London. We are therefore conducting the event as a hybrid, offering both the usual facilities of our physical conferences with the opportunity to network, but also the opportunity to join a live video screening. Alan and I are looking forward to welcoming you.

Belinda Schofield
Chief Executive
20 September 2021

MARKET UPDATE

UPDATED FORECASTS FOR THE 2019 YEAR OF ACCOUNT

In part one of the LMRP published in June, Chandon Bleackley provided a review of the 2019 year of account. This included an overview of the prevailing trading conditions and the losses that affected the market in 2019, as well as a discussion of the estimates that had been given by syndicates (as at December 2020). This chapter of LMRP Two provides a review of the latest estimates for the 2019 year of account based on the June 2021 figures.

Introduction

On 18 August, Lloyd's released the updated forecasts for the 2019 year of account. These forecasts are for the 2019 account at month 30 of its development (June 2021); the account now has six more months to run until its closure. Lloyd's overall forecast has improved from a midpoint loss of 4.8% in March of this year to a loss of 4.1% in June. Syndicates supported by third party members ("members") are now forecasting a midpoint average loss of 2.8%, whilst aligned syndicates are now forecasting an average midpoint loss of 4.7%.

Syndicate forecasts for 2019 at June 2021

Figure 1 shows the worst-case, best-case and midpoint estimates for the syndicates in 2019. The far right hand column shows the change in the midpoint estimate that has taken place since the March quarter. These estimates are expressed as a percentage of syndicate capacity after standard personal expenses, but before any deduction of the fees charged by the members' agents. The figures were released by managing agents and Lloyd's on 18 August 2021.

Commentary about the 2019 forecasts

Given the loss experience of the 2019 year as a whole, it comes as no surprise that most of the syndicates shown in Figure 3 are still showing a worst-case estimate that is a loss. Some of these forecast losses are quite large. There are a few notable exceptions, such as syndicate 609, syndicate 1176, syndicate 1969, syndicate 1971 and syndicate 2525. Also worthy of comment is that syndicate 2791 is now forecasting a worst case result of break-even as its forecast has improved since March. Aside from these, all of the syndicates that are supported by members are showing a worst case estimate figure that is a loss. As far as the Special Purpose Arrangements (SPAs) are concerned, all, with the exception of syndicates 6103 and 6107 are currently forecasting a loss on a worst-case basis.

There are now 17 of the syndicates supported by private capital that are forecasting a midpoint loss, and more depressing still is that 14 of these syndicates are forecasting a midpoint loss that is worse than that of the Lloyd's figure of a 4.1% loss. There are five freehold tenancy syndicates, and three SPAs that are forecasting a midpoint loss of greater than 10%. On a slightly more positive note, only six syndicates saw their midpoint forecast deteriorate between March and June.

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

As in recent years, the final results made by members are going to be largely determined by the final performance of the five "core" syndicates. Figure 2 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, 510, 609, 623 and 2791, will be the critical determinant of the members' final cash result, as members had allocated a disproportionately large share of their 2019 capacity to these syndicates. Members had a combined capacity of about £1.73 billion spread over these five "core" composites, with their £436 million allocation to syndicate 510, once again, being the largest allocation. This £1.73 billion allocation of capacity to

Figure 1: Syndicate best and worst case estimates for 2019 as at June 2021

SYNDICATE	MANAGING AGENT	WORST-CASE (%)	BEST-CASE (%)	MIDPOINT %	CHANGE IN MIDPOINT
33	HISCOX	(9.14)	(0.86)	(4.14)	0.17
218	ERS	(1.59)	8.40	3.41	(0.40)
318	CINCINNATI	(4.59)	0.40	(2.10)	0.66
386	QBE	(1.24)	3.76	1.26	(8.68)
510	TOKIO MARINE KILN	(12.34)	(2.34)	(7.34)	2.38
557	TOKIO MARINE KILN	(3.53)	1.47	(1.03)	1.67
609	ATRIUM	2.50	7.50	5.00	-
623	BEAZLEY	(5.00)	5.00	0.00	2.50
727	MEACOCK	(2.50)	7.50	2.50	1.50
1176	CHAUCER	25.00	35.00	30.00	5.00
1200	ARGO	(12.00)	(2.00)	(7.00)	3.00
1729	ASTA/DALE	(5.00)	10.00	2.50	-
1969	APOLLO	2.50	7.50	5.00	-
1971	APOLLO	0.00	7.50	3.75	-
1991	COVERYS	(25.00)	(15.00)	(20.00)	(4.42)
2010	LANCASHIRE	(10.00)	0.00	(5.00)	-
2014	HAMILTON	(23.58)	(18.58)	(21.08)	(3.41)
2121	ARGENTA	(20.00)	(5.00)	(12.50)	-
2525	ASTA	5.00	15.00	10.00	2.50
2689	ASTA	(15.00)	0.00	(7.50)	3.00
2791	MAP	0.00	5.00	2.50	1.25
2988	BRIT	(18.95)	(12.45)	(15.70)	1.26
4242	ASTA/BEAT	(24.65)	(14.65)	(19.65)	(2.57)
4444	CANOPIUS	(1.87)	3.13	0.63	1.18
5623	BEAZLEY	(3.00)	7.00	2.00	-
5886	ASTA	(6.00)	1.00	(2.50)	-
6103	MAP	20.00	27.50	23.75	-
6104	HISCOX	(21.61)	(11.61)	(16.61)	6.63
6107	BEAZLEY	2.00	22.00	12.00	7.00
6117	ARGO	(11.75)	(1.75)	(6.75)	2.97
6123	ASTA	(39.06)	(29.06)	(34.06)	(0.44)
6133	APOLLO	(15.00)	(5.00)	(10.00)	-

LOSS FORECASTS AND NEGATIVE MOVEMENT OF ESTIMATES ARE SHOWN IN RED

ESTIMATES ARE STATED AS PERCENTAGE OF CAPACITY AFTER STANDARD PERSONAL EXPENSES AND BEFORE THE DEDUCTION OF MEMBERS' AGENTS' FEES.

SOURCE: LLOYD'S AND MANAGING AGENTS' DATA – 18 AUGUST 2021

Figure 2: Members' allocation to syndicates in 2019 (£'s million)

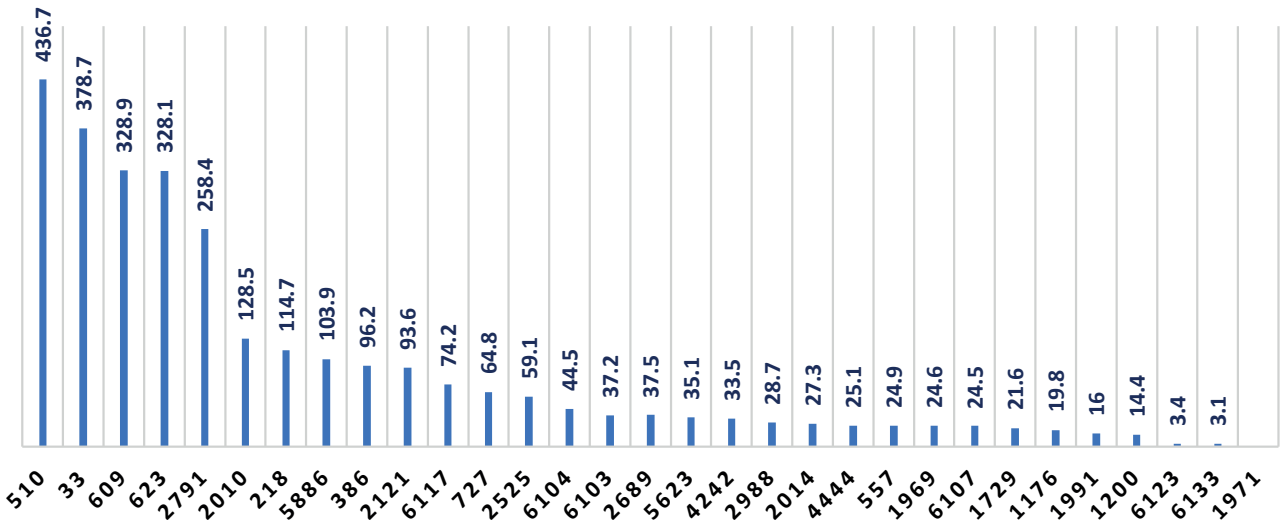


CHART PRODUCED BY THE ALM, BASED ON 2019 FIGURES THAT WERE OBTAINED FROM THE MEMBERS' AGENCIES

"core" syndicates amounted to about 60% of the entire members' 2019 capacity. Notably, there was no real change to the overall composition of the members' portfolio allocation between 2018 and 2019, in that their support of the top 10 syndicates was remarkably consistent between the two years of account.
As can be seen in Figure 1, syndicate 510 is currently forecasting a worst-case loss of 12.34%, which is markedly better than the 16% loss it was forecasting at the December quarter (of 2020). Its midpoint forecast, a loss of 7.34%, improved between March and June as a result of favourable movements on the 2018 and prior years of account.

Syndicate 33 also saw a small improvement in its midpoint forecast over the last quarter, but the syndicate is still forecasting a loss on a midpoint basis. In the case of syndicate 2791 the worst-case forecast has now increased to break-even and the best case forecast remains at a profit of 5%. Of all the "core" syndicates, syndicate 609 is forecasting by far the best result at the present moment; a profit of up to 7.5% and a midpoint forecast of 5.00%. It is also worth remembering that these "core" syndicates tend to reserve more cautiously than many others in the market. Their results have often improved considerably during the final months of a given year of account. That said, if we focus solely on the current midpoint estimates, it seems difficult to envisage a scenario where at least syndicates 33 and 510 do not end up making a small overall loss for the 2019 year of account.

The next five largest syndicates that are supported by members may therefore prove to be more critical in determining the members' ultimate result for 2019. However, the performance of some of these syndicates may cause members concern. Syndicate 2010 is currently showing a forecast of between a loss of 10% and break-even; syndicate 218 is only forecasting a midpoint profit of 3.41%; and the non-US liability syndicate 386 has recorded the largest deterioration in its estimate of any syndicate between March and June. Syndicate 386's 2019 midpoint forecast deteriorated to a profit of 1.26% following the unfavourable development of the 2018 and prior years, as a result of large loss deteriorations on its international liability and professional indemnity books of business. Along with the five "core" syndicates, 2010, 218 and 386 are syndicates that are present in the majority of members' portfolios. The fact that only one of them, 218, is currently forecasting a midpoint profit may prove to be detrimental to the overall performance of some members' portfolios in 2019.

Of more interest, however, are the current forecasts issued by syndicates 5886 and 2121 Syndicate 5886 which began trading in 2017 has failed to make money to date. However, 2017, 2018 and 2019 years of account have not exactly been the easiest years in which to begin a new syndicate. Nevertheless, 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 1 it may

transpire that the syndicate may produce a profit for the 2019 year of account. If it manages to do so, this will have been a considerable achievement against the background of a difficult market.

Syndicate 2121 is a much more established syndicate which has been predominantly supported by Argenta members. 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. As at June, the 2019 account is forecast to lose money, and there has been no improvement in the forecast over the last quarter.

Finally, the performance of the members' next largest allocation, syndicate 6117, will have an overall detrimental effect on members' 2019 results. Despite the improvement in the midpoint forecast that took place over the last quarter, the current midpoint forecast is a loss of 6.75%.

Other less heavily supported syndicates are set to produce good profits

Two other syndicates worthy of mention are syndicates 727 and 2525. Whilst these were not as heavily supported by members as some other syndicates, both are currently forecasting midpoint profits for 2019, and in the case of syndicate 2525 the midpoint profit forecast is a 10% profit. For those members that do have lines on the syndicates, these profits will ameliorate some of the losses produced by 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 even better profits than forecast here.

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

As we look towards the right hand end of the table shown in Figure 2, the monetary amounts of capacity that members have committed to the syndicates drops-off quite substantially. Four of these least well supported syndicates have produced very poor midpoint estimates ranging from -7% for syndicate 1200 to -34.06% for 6123. As has been said in previous ALM publications, many of the estimates and subsequent results produced by some of these syndicates have not only been very poor but have also been out of all proportion to the member's expectation of the size of a potential loss when they joined the syndicate in question. Alas, although there are some syndicates, such as the Special Purpose Arrangement, 6103 (MAP) and the nuclear syndicate 1176 (Chaucer), that are forecasting very good profits, unfortunately the amount of the overall members' capacity allocated to these syndicates is not that great; their excellent results will not therefore make a 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 most 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 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, there may be a significant difference in the results of members who trade through different members' agents, as many of the syndicates shown at the right hand of Figure 4 were not supported by all members' agents. Some of these syndicates drew their capacity exclusively from one or two members' agents. Given this fact, it will be interesting to see how the results of members diverge depending upon their members' agent.

UPDATED FORECASTS FOR THE 2020 YEAR OF ACCOUNT

In part one of the LMRP, published in June, Chandon Bleackley provided a detailed review of the 2020 year of account, including an overview of the prevailing trading conditions and the losses that affected the market in 2020. The first estimates for the 2020 year of account, based on the March underwriting figures, were not published until after the LMRP Part One had been sent out. Revised estimates, based on the June figures, were published on 18 August. This chapter provides Chandon's overview of the revised June estimates for the 2020 year of account.

Introduction

On 18 August, Lloyd's released updated forecasts for the 2020 year of account. These forecasts were for the 2020 account at month 18 of its development (June 2021). It is pleasing to report that Lloyd's overall forecast has improved from a midpoint profit of 0.35% in March of this year to 0.63% in June. Syndicates supported by third party members ("members") are now forecasting a midpoint average loss of 0.7%, whilst aligned syndicates are now forecasting an average midpoint profit of 1.2%.

Syndicate forecasts for 2020 at June 2021

Figure 1 shows the worst-case, best-case and midpoint estimates for the syndicates in 2020. The right hand column shows the change in the midpoint estimate that has taken place since the March quarter. These estimates are expressed as a percentage of syndicate capacity after standard personal expenses, but before the deduction of any of the fees charged by the members' agents. The figures were released by managing agents (and Lloyd's) on 18 August 2021.

Commentary on the 2020 estimates

The 2020 year of account is only 18 months old; the account is still at an early stage of its development and a great deal may yet happen to these estimates. That said, the June estimates are quite encouraging and the 2020 account is arguably in a much better overall position than was the case with 2019 at the same stage in its development. Although only four syndicates are showing a worst-case profit estimate at this stage of their development, nevertheless, there are now plenty of syndicates whose 2020 midpoint estimates are profitable, including some of those syndicates that were most heavily supported by members. It is also worth noting that only seven syndicates have seen any deterioration in their midpoint estimate since March.

The Special Purpose Arrangement (SPA) syndicates, with the exception of syndicate 6103 (MAP), have shown some of the highest forecast-loss figures, but this is not unexpected given the business which they underwrote and the roughly $85 billion of insured losses that hit the market in 2020. These syndicates are high risk/high return entities. As a result of this members' lines should have been kept relatively small, and therefore a relatively large loss on one or two SPAs may not be too damaging to the member's overall 2020 result.

What is of note, is that if the SPAs are excluded, the loss-forecasts being produced by most of the other members' syndicates were much more manageable and are much more within the bounds of members' possible expectation. However, there are three syndicates that were an exception to this, in that their loss-forecasts are disproportionately high. These were syndicates 1991, 2288 and 4242, all of whose worst-case losses were in excess of 30% of stamp. The worst forecast of all has been produced by the Victor syndicate, 2288, which only began underwriting for the 2020 year account, and which was hit by many of the year's losses without having had the opportunity to have built up its reserves.
The performance of the "core" syndicates will be critical to members' final result

As in previous years, the performance of a small group of about 10 syndicates will largely determine the overall results of individual members. As was the case in both 2018 and 2019, more than 70% of the overall members' capacity in 2020 was

Figure 1: Syndicate best and worst case estimates for 2020 as at June 2021

SYNDICATE	MANAGING AGENT	WORST-CASE (%)	BEST-CASE (%)	MIDPOINT %	CHANGE IN MIDPOINT
33	HISCOX	(7.73)	2.27	(2.73)	0.58
218	ERS	1.49	11.49	6.49	0.59
318	CINCINNATI	(0.67)	4.33	1.83	4.03
386	QBE	18.77	23.77	21.27	0.87
510	TOKIO MARINE KILN	(2.50)	2.50	0.00	0.33
557	TOKIO MARINE KILN	(15.21)	(10.21)	(12.71)	2.50
609	ATRIUM	2.50	12.50	7.50	-
623	BEAZLEY	(10.00)	10.00	0.00	-
727	MEACOCK	(9.00)	11.00	1.00	-
1176	CHAUCER	15.00	35.00	25.00	5.00
1200	ARGO	(5.00)	5.00	0.00	(1.00)
1729	ASTA/DALE	(5.00)	10.00	2.50	-
1969	APOLLO	(5.00)	5.00	0.00	-
1971	APOLLO	0.00	10.00	5.00	-
1991	COVERYS	(30.16)	(20.16)	(25.16)	3.34
2010	LANCASHIRE	(12.50)	2.50	(5.00)	-
2121	ARGENTA	(5.50)	7.00	0.75	-
2288	ASTA	(68.58)	(58.58)	(63.58)	(11.08)
2525	ASTA	0.00	15.00	7.50	-
2689	ASTA	(12.50)	0.00	(6.25)	(1.25)
2791	MAP	(5.00)	2.50	(1.25)	-
2988	BRIT	(10.99)	(5.99)	(8.49)	(3.35)
4242	ASTA/BEAT	(35.76)	(25.76)	(30.76)	(5.76)
4444	CANOPIUS	(4.92)	0.08	(2.42)	0.60
5623	BEAZLEY	(3.00)	7.00	2.00	-
5886	ASTA	0.00	10.00	5.00	-
6103	MAP	(10.00)	0.00	(5.00)	(1.00)
6104	HISCOX	(25.08)	(15.08)	(20.08)	3.66
6107	BEAZLEY	(25.00)	5.00	(10.00)	(5.00)
6117	ARGO	(21.39)	(11.39)	(16.39)	(5.39)
6133	APOLLO	(32.50)	(22.50)	(27.50)	-

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: LLOYD'S AND MANAGING AGENTS' DATA – 18 AUGUST 2021

allocated to only five syndicates; 33, 510, 609, 623 and 2791. The final result that is produced by these syndicates is therefore going to largely determine the average members' final cash result. At this early stage in the development of the account, syndicate 33 and syndicate 2791 are both forecasting that they will produce small midpoint losses. Syndicates 510 and 623 are currently forecasting a midpoint result of break-even, but syndicate 609 is showing by far the best midpoint forecast of any of them: a profit of 7.5%. The fact that the midpoint forecasts of all of these syndicates either stayed the same, or improved (in the case of syndicates 33 and 510) between March and June, was good. Furthermore, all of these syndicates have a record of making releases from reserves nearer to the time of their eventual closure. The author does not anticipate that any of them will make losses when they close their 2020 accounts.

Other syndicates will make a very positive contribution to the results

Where 2020 may differ from 2018 and 2019 is that a number of the other syndicates that are reasonably heavily supported by members (such as 218, 386, 2121 and 5886) may make eventual profits and they may therefore make a more positive contribution to members' overall results in 2020 than they have done in recent years. Aside from syndicate 386, these syndicates have produced losses in recent years. In particular, both syndicates 218 and 386 are currently forecasting very good profits for 2020. Both are specialist syndicates (in motor and non-US liability, respectively) and these classes of business will have served them well in 2020, where they would have been able to avoid many of the losses that have affected other syndicates. Whilst any profit that is produced by syndicate 218 will be very welcome, in the light of its record of under-performance in recent years, it is perhaps surprising that the syndicate is not producing a larger profit in 2020, as one of the main side-effects associated with the COVID-19 pandemic was a massive reduction in vehicle use (with an attendant beneficial impact on loss ratios in the class as a whole).

Both syndicates 2121 and 5886 are also forecasting midpoint profits, as well as relatively good best-case profits. Syndicate 2121's final result will prove critical to the overall results that are produced by Argenta's members as it formed a relatively significant part of their portfolios. Both syndicates have not performed well in recent years yet have still been heavily supported by members.

One syndicate whose current forecast will be a disappointment to members is syndicate 2010. As shown in Figure 1, the syndicate is currently forecasting a worst-case loss of 12.5%, compared to its best-case forecast of a 2.5% profit. If the syndicate fails to produce a profit it may have a detrimental effect on many members' results as it has been relatively heavily supported by members.

Some other, smaller syndicates are forecast to produce some very good profits

Two other syndicates that are worthy of mention are syndicates 727 and 2525. Although they both have relatively small stamp capacities, both have been popular with members, and have always been highly sought-after at the auctions. Whilst these two syndicates were not as heavily supported by members as some other syndicates, both are currently forecasting midpoint profits for 2020, and both have issued very good best-case forecasts. In the case of syndicate 2525 the best-case forecast is as high as a 15% profit. For those members that were lucky enough to have had lines on these syndicates in 2020, these profits will undoubtedly have the effect of ameliorating the effect of some of their other, poorer-performing 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 relatively strong reserves, so both may end-up producing a final result that sits at the top-end of their current forecast.

Once again, syndicate 1176 has produced the best profit forecast

It may come as no surprise that the Chaucer nuclear syndicate, 1176, has produced the best 2020 forecast: a midpoint profit of 25%. The syndicate has given a relatively wide profit range of between 15% and 35%; hopefully this range will narrow as the year moves closer to its eventual closure. Whilst this profit forecast is very good news, it pays to remember that very few members have a line, let alone a meaningful line, on the syndicate, and it is hard and potentially expensive to buy one at the auctions. That said, its eventual profit will provide a real boost to the bottom line result of those members who had a line in 2020.

Final thoughts

The current forecasts for the 2020 account are encouraging; the year seems to be developing better than either 2018 or 2019. The overall Lloyd's midpoint forecast is not only a profit, but the profit has improved over the last quarter. What is also interesting is that the forecast return from aligned syndicates has been good. If nothing else, this improvement in the market's performance demonstrates how effective the remedial action taken by the Lloyd's Performance Management Directorate has been, particularly with regard to the syndicates in the bottom quartile of the market. 2020 was not an easy year in which to underwrite, as the market sustained serious losses as a result of both COVID-19 and natural catastrophe losses.

Whilst the midpoint average estimate for members is now a loss 0.7%, there is a good chance that this will improve over the course of the next 18 months, especially if the forecasts for four of the members' "core" syndicates, 33, 510, 623 and 2791 all improve. As in previous years, the five "core" syndicates (i.e., including 609) will be the key driver of the return achieved by most members in 2020. The ALM believes that most members probably support these syndicates to a significant extent within their portfolios, although the percentages will vary between individual members. Above and beyond a member's level of support for these syndicates, most member's final results will also be heavily influenced by the amount of capacity that they have allocated to some of the other better performing syndicates, such as 218 and 386, 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, such as 1991, 2288 and 4242, as well as some of the SPAs.

THE DEVELOPMENT OF THE 2021 YEAR OF ACCOUNT

The first Lloyd's and individual syndicate forecasts for the 2021 year of account (on a three year of account basis) will not be issued until the first quarter of 2022. In this chapter Chandon Bleackley examines the development of the 2021 year of account to date; in particular, the market conditions, the losses that have been sustained in the first eight months of the year, the half year GAAP results of some (re)insurers and the forecasts that have been made for the US wildfire and north Atlantic hurricane seasons over the next few months.

Executive summary

- Reinsurance rates have continued to rise at each of the renewal seasons, but momentum has slowed, especially in the property reinsurance sector in June and July.
- Rates in most of the direct classes have continued to increase.
- Losses in the first half of the year returned to a more normal level. Estimates as to the insured cost of the losses have ranged between $36 billion and $42 billion. Most of the costly losses took place in Q1, whereas Q2 had a more benign loss experience.
- Q3 of 2021 has already seen some costly catastrophe losses, such as the European floods and Hurricane Ida.
- There has been an active US wildfire season, which is still an ongoing event.
- Another active north Atlantic hurricane season has been forecast.
- (Re)insurance companies have produced some profitable half year results.
- Within Lloyd's, Hiscox, Beazley and Lancashire have all produced profitable half year results on a GAAP basis.
- 2021 is currently developing better than 2020 at the same stage.

Introduction

The first eight months of 2021 have been a broadly positive period for the market. Overall market conditions have remained good, in that not only have rates continued to increase across many lines of business, but there has also been a further strengthening of terms and conditions. Where 2021 has arguably differed from 2020, however, has been in the pace and size of some of the rating increases, which seem to have slowed as the year has progressed, particularly in the property catastrophe reinsurance market. Based on some of the rating increases reported by a number of Lloyd's and other carriers at the half year point (H1) there has been a sense that rates may have plateaued in some of the reinsurance classes. However, this has not been the case with many of the direct classes of business, where rates have continued to increase as the year has progressed.

The market as a whole has also benefitted from the fact that the first six months of the year has been exposed to a more "normal" loss experience. The combination of enhanced rates, increased premium and a manageable level of insured losses in H1 has meant that a number of (re)insurance companies, including some Lloyd's businesses, have already reported far better combined operating ratios and more profitable results for the first half of 2021 on a GAAP basis than they did for 2020 at the same stage. This has been a positive development and sets businesses up well for the remaining few months of the year, where they face what has been forecast to be another active north Atlantic hurricane season and an active wildfire season in the US.

Obviously, what does, or does not, happen between now and end of the north Atlantic hurricane season in November could obviously have a material impact on the overall result that is produced by both the market and the members' syndicates and on what happens to rates in the reinsurance market in 2022.

To date, the most severe hurricane to hit the market in 2021 has been Hurricane Ida, which made landfall in the US on 29 August. This loss, which the catastrophe modeller RMS has recently estimated may cost between $25 billion to $35 billion, is discussed in more detail below. It goes without saying that there could also be further hurricane losses between now and the end of the hurricane season in November. In addition, if the experience of recent years is anything to go by, the market may well be affected by other insured losses from events such as floods and wildfires. These losses, especially wildfires in the US, have become increasingly common and costly loss event in recent years. This year could prove to be no exception to this recent trend, as the start of the third quarter of the year (Q3) the (re)insurance market is already facing relatively large claims from wildfires in North America and the largest floods seen in western Europe since 2002 as well as Hurricane Ida.

Market conditions in 2021

As has been reported in issues of ALM News and the ALM bulletins in 2021, in broad terms, the first half of 2021 has seen a continuation of the rating increases and improvements in terms and conditions that characterised both 2019 and 2020. At the same time, however, there have been differences in both the pace and the size of the rating increases that have been imposed on various classes of business. Some sectors have undoubtedly fared better than others. For example, the rating increases that have been seen on the reinsurance classes have begun to lose some momentum in June and July; the increases were not as large as some commentators had hoped. However, despite this rating slowdown, as more (re)insurance companies have begun to release their H1 trading statements in July and August, a more complete picture of what had happened to rates in the first half of 2021 began to emerge.

A two track market

In particular, it is worthwhile examining the H1 one figures put out by the Lloyd's quoted companies (Hiscox, Beazley and Lancashire), as these arguably provide a "snapshot" of what is going on in the market at the moment and they are particularly relevant to third party members that support the syndicates in question. These H1 disclosures indicate that there are now some signs that rates may have plateaued in certain sectors and commentary issued by these companies has indicated that the escalation in rates was starting to slow down, with the emergence of a two track market between the shorter and longer tail classes of business and a change between H1 and H2.

On the positive side, in their H1 trading reports, Hiscox and Lancashire reported that rates had continued to increase in the first half of 2021. Hiscox reported that rates in its London market segment (which included its Lloyd's syndicates) had increased by 12% in the first half of the year. This made 2021 the fourth consecutive year of rating improvements. It reported that cumulative rates have now increased by 60% since 2017. However, the carrier also reported a rating picture that varied by line of business, with the strongest growth being seen in lines such as cyber, where rates had increased by a further 20%.

Lancashire also reported that it had been the beneficiary of the rising rates as its gross written premium grew by 40% in H1 2021. To be fair, this growth was partly attributable to the fact that it took on a new team of underwriters, but its Renewal Price Index (RPI) rose to 111% when measured across its book. The largest RPI was seen in the aviation sector (113%), but the energy, property and casualty reinsurance and marine sectors, also had RPIs of 112%, 111% and 110% respectively.

Although the rating increases reported by both Hiscox and Lancashire were still in double-digit territory, and welcome, it is important to note that they were not as large as they have been in recent years. There is evidence that the acceleration in rates that has characterised the past two years has begun to lose some of its pace. That said, there were still classes, such as cyber, where rates have continued to surge ahead, albeit in response to an increase in ransomware claims. In mid-August, the Insurance Insider reported that rates had increased by between 40% and 50% in this class since the beginning of the year, and those increases have been as high as 100% on some loss-making accounts. What is even more interesting is that these increases have been far greater than had been forecast, limits have been cut, and underwriters have largely eschewed writing excessive amounts of new business in order to concentrate on re-underwriting their existing book of business and increasing its rates.

Figure 1: Beazley's reported cumulative rate change since 2016 (%)

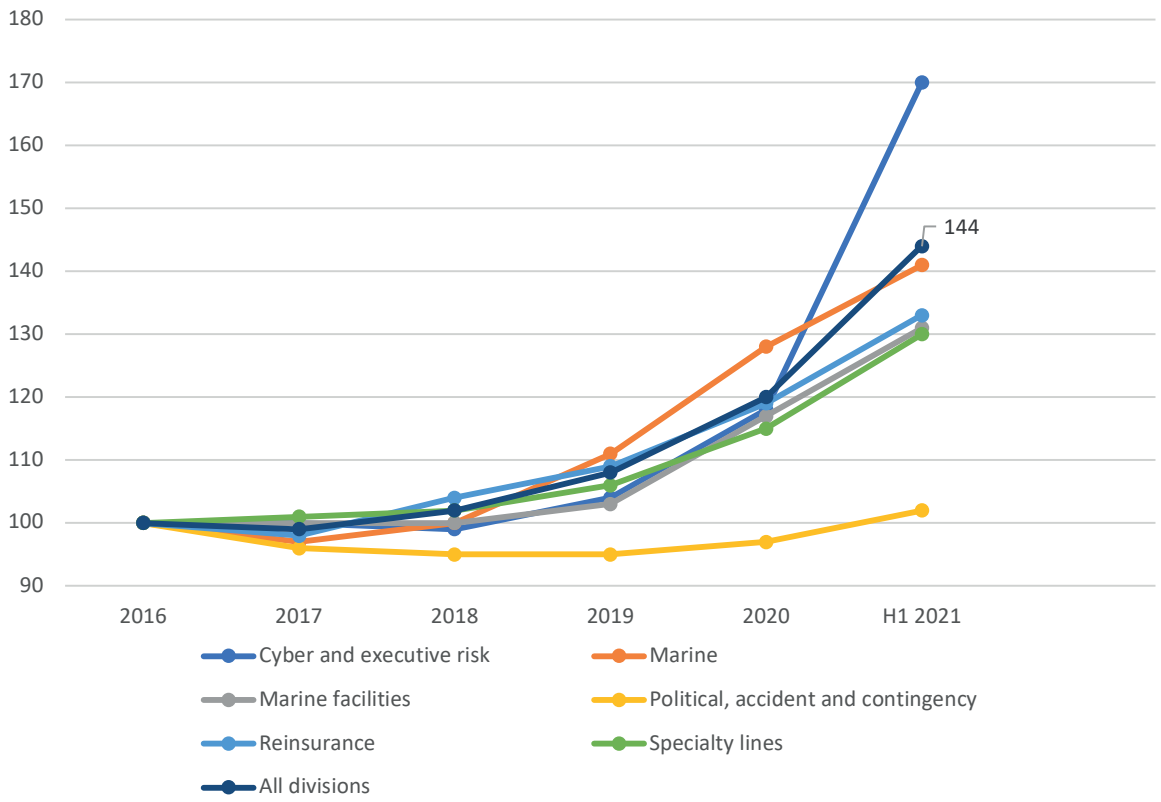


CHART PRODUCED BY THE ALM, BASED ON FIGURES EXTRACTED FROM THE BEAZLEY H1 2021 PRESS RELEASE

Interestingly, Beazley reported an overall larger rating increase than those reported by either Hiscox or Lancashire. It reported a renewal rate increase of 20% for the first half of 2021 (see Figure 1 below). Figure 1, which is based on the figures shown in the "Business overview" section of the Beazley H1 interim report, shows the cumulative rate changes that have occurred with each of the classes of business written by Beazley since 2016. The index starts at 100 for 2016. The coloured lines on the chart show the rating progress that has been made by each class of business since 2016. The dark blue line shows all of the business divisions combined. This dark blue line has now reached 144 in H1 2021, as compared to 120 in 2020. However, the overall 20% rating increase reported by Beazley in H1 2021 has undoubtedly been skewed by the significant acceleration of pricing in its cyber and executive risk division, where rates increased by 44%.

The worst performing class of business in terms of rate increases was its political, accident and contingency book. However, it is important to understand that the performance of this division was dragged down by that of the contingency book. The contingency book was seriously affected by the COVID-19 pandemic, and it has continued to experience the residual effects of COVID-19 in 2021, despite the gradual return of some conferences, concerts and sporting events in very few parts of the world. On the other hand, its life, accident and health book has experienced an overall rate increase of 6%.

Beazley differs from its two market peers in that it has a higher weighting of longer tail business. There is no doubt that strong rating momentum is still present in some of the longer tail classes of business. For example, the specialty lines division experienced very strong rating increases, which averaged 13%. Gross premium increased by 29%. Indeed, the company is anticipating that rates will continue to increase in this sector throughout H2 2021.

Elsewhere, other (re)insurance companies have reported very similar trends. Rates have been continuing to increase across their books of business, and their gross written premium income has also grown. In some cases, the companies have also used the first half of the year to rationalise their books of business by discarding under-performing lines of business. For example,

Hannover Re, one of the three largest reinsurers in the world, reported that rates in its property and casualty reinsurance division rose by between 5% and 10% (depending on the class in question, with casualty reinsurance rates increasing by more than property ones) in H1 2021 and that its gross written premium had increased by 17.2%. Bavarian rival, Munich Re, also reported strong H1 rating increases, as well as an overall 15.5% increase in gross premium income.

Despite rates as a whole increasing during H1, there are still some classes whose rating development has been disappointing in relative terms. Paramount among these has been the reinsurance class. There are a number of reasons for this. As has been discussed in the various ALM publications released this year there is still a surplus of available capacity to write this class. Figures from Aon show that global reinsurer's capital still amounted to $650 billion as at the end of Q1 2021. This was the same as at the end of 2020. The class is also still attracting money from alternative capital providers. There has been considerable growth in the catastrophe bond market. Specialist ILS funds rose by 4% to about $76 billion (in contrast to H1 2020, where they shrank by 5%) and reinsurer ILS funds expanded by 5% to $24.5 billion (as compared to a 1% uplift in H1 2020). Not only has the alternative sector's recovery in H1 2021 supported the trend of easing rating increases in the reinsurance market, but the market has not been helped by the fact that many traditional carriers and new start-ups have been trying to grow their books of business into the rising market.

Another major reason that rating momentum in the property catastrophe reinsurance market has declined has been the fact that 2020 had something of an abnormal loss pattern. Although there were more windstorm losses in the US in 2020 than in any year since 2005, there was no single ultra-large hurricane loss. Instead, the (re)insurance market was hit by a much larger number of smaller losses. These tended to affect lower layers of reinsurance programmes rather than the market as a whole. These tended to be the areas of the market that paid the largest rating increases in 2021; higher layers saw more competitive pressure.

The Japanese renewals in April were another case in point. There was no single very large Japanese windstorm or earthquake class in 2020. Indeed, it could be argued that Japanese renewal was something of a disappointment for a number of reasons. Primarily, the level of the rating increases achieved was insufficient. Although there were some rating increases imposed on certain classes of business, in itself a positive development, the recovery in rates, that had only begun with the increases imposed in 2020, had started to falter and wane only one year later. Given the $35 billion of insured losses that were produced by the Japanese market in recent years, this should not have become the case so soon. There does not seem to have been much change in the reinsurer/cedant dynamics within the Japanese market. Did underwriters with short memories focus more on the better 2020 year rather than on the huge losses that took place in 2018 and 2019? There was a feeling that reinsurers might have been more assertive and might have used the several poor years' trading to not only push for enhanced rating increases this year, but also to seek a re-evaluation of the cover that they provide and what they charge for it.

The enormous losses of 2018 and 2019 probably gave reinsurers their best opportunity in the last decade to re-negotiate their whole business relationship with their buyers. Rates should have increased by far more than they did in 2021, just based on the losses that the market has already sustained, let alone before any attempt was made to factor in any of the prevailing uncertainties about the future, which are associated with issues as diverse as the increased potential frequency of typhoon losses in Japan or the possible future effects of climate change.

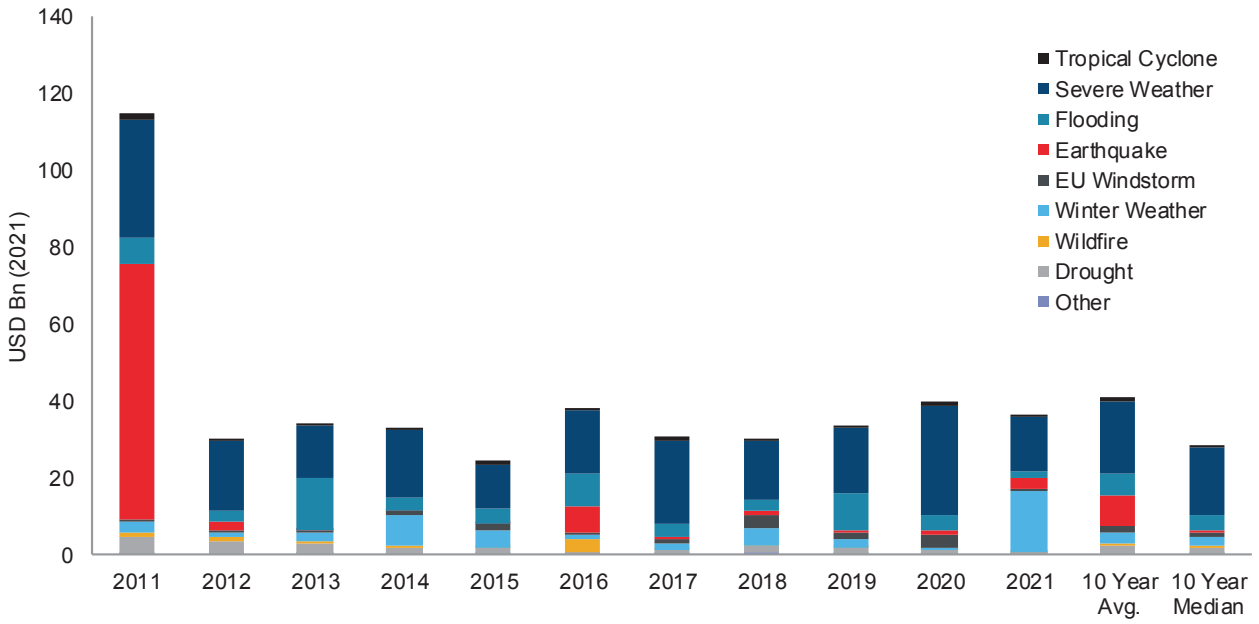
Losses in H1 2021

Another key factor that has slowed down the pace of rating increases in the reinsurance sector, especially at the June and July renewals in the US, was the fact that H1 2021, and especially Q2, have both turned-out to be relatively benign in terms of catastrophe losses.

In a report issued in July 2021, Aon estimated that insured catastrophe losses during the first half of 2021 had amounted to about $36 billion. This figure was only marginally above the median loss figure of $33 billion and was below the 10-year average figure of $41 billion. In August, Swiss Re released a slightly higher estimate, of $42 billion, for the H1 2021 catastrophe losses.

H1 2021 saw six loss-events that produced insured losses of $1 billion or more; four of these were located in the US. The largest single insured loss was winter storm Uri in the US in February, which is currently estimated by both Aon and Swiss Re to have

Figure 2: Q1/Q2 Insured Losses by Year (2011-2021)



SOURCE: AON'S REINSURANCE SOLUTIONS

cost the industry about $15 billion. A Japanese earthquake, near Fukushima in February, was the next most costly loss. It is currently estimated to have cost insurers about $2 billion. The two convective storms that occurred in Europe within a two-week span in late June have produced a combined insured loss that is estimated to be about $3.4 billion. The recent European floods and the ongoing US wildfire losses are Q3 losses, so are not included in these Aon H1 figures.

Whilst the overall cost of insured losses in H1 has not been abnormally high, these losses have not fallen evenly across the market. Some insurance companies have fared far worse than many reinsurance providers. A case in point has been US primary insurer, Travellers, which has sustained record losses of $1.31 billion in H1 2021, mainly as a result of Uri.
Additionally, these losses fell on (re)insurers who had already had the benefit of rating increases and increased gross premium income over the course of the last two years and the first six months of 2021. These companies therefore have been better able to absorb the losses. The release of H1 results has shown that even the largest losses, such as Uri, have not had that detrimental an impact on most (re)insurance companies' overall figures. As an example, Hannover Re reported a Uri loss of €136 million, roughly 1% of its gross premium income in the property/casualty reinsurance division. However, within Lloyd's, Lancashire reported that its net loss for winter storm Uri, including the impact of reinsurance and inwards and outwards reinstatement premiums, was $44.8 million, which, given the size of the business was a much more meaningful sum. That said, Lancashire still reported a good H1 profit (see below). What was also interesting was that whilst Q1 was a relatively active and costly period for losses, the opposite was true of Q2, which was relatively benign.

Losses in Q3 2021

Q3 has already suffered from a larger number of losses than Q2. There were some significant losses during July and August which will have a serious effect on the Q3 results. The first of these were the northwest European floods, which particularly affected western Germany's Rhineland, the Netherlands and Belgium. These followed on from the European storms in June, which are currently estimated to have produced insured losses of about €4.5 billion, the bulk of which cost went into the H1 figures. The second major loss, and the one which may ultimately prove to be more costly to (re)insurers, has been the fires that have been burning in the west of the US, especially in California, Oregon and in Canada during June, July and August. Finally, the most serious loss that occurred in August and early September has been Hurricane Ida. Given the size of these losses they are worth examining in a bit more detail.

The European flood losses

Between 12 and 15 July 2021, heavy rain fell across the United Kingdom, western Germany, and neighbouring Netherlands, Belgium, and Luxembourg. A storm complex moved east from France into Germany and stalled over the region for two days. Precipitation was intense in the east of Belgium, with 271.5 millimetres of rain over 48 hours in Jalhay and 217 millimetres over 48 hours in Spa. Heavy rainfall was also seen in the south of North Rhine Westphalia and north of the Rhineland Palatinate in Germany, where rainfall averaged 100 to 150 mm in 24 hours, equivalent to more than a month's worth of rain. The city of Koln, for example, was inundated by 154 mm of rainfall in 24 hours. Floods occurred in Belgium, Germany, the Netherlands, and Switzerland on 14 July 2021 after record rainfall across western Europe caused multiple rivers to burst their banks.

At the time of writing, the impact of these floods seems to have been greatest in western and southern Germany, where these have been the largest floods since those of 2013 (which produced insured losses of about $3.6 billion). Not only have in excess of 150 lives been lost, but there have been widespread power-cuts, inundations of part of the rail network, and significant economic and industrial losses, the full extent of which will take some time to determine; we may also see some business interruption claims in due course. Early estimates suggested that the floods may cause insured losses of up to €5.5 billion just for the German component alone. Hannover Re has since argued that the final cost may be even higher, at about €7.5 billion. If this does transpire to be the case, then the cost of all these European floods would equate to the size of a medium-sized US hurricane. There will be further insured losses as a result of claims emanating from the low countries, so the total pan-European loss may end up being in excess of €10 billion. For comparative purposes, winter storm Uri, in February was a $15 billion insured loss, and 2020's hurricane Laura cost insurers about $9 billion.

The floods are certain to produce losses for both German and European carriers, and lead to pressure to increase rates next year. Allianz has announced that it is expecting to pay a €500 million loss as a result of the German flood losses alone. It is forecasting that it will pay €900 million in claims. A significant part of the loss will be passed to reinsurers. Hannover Re has estimated that the losses will cost it between €200 million and €250 million at this stage.

The on-going North American fires

The other major loss facing the industry now, and for the remainder of the summer and autumn, is the ongoing north American wildfires. The significant increase in the number of costly wildfires in north America, especially in California, over the past decade arguably means that wildfires in this region can no longer be considered a "secondary" or "non-peak" peril for many (re)insurers. For the record, 2020 was the most active and devastating year ever for wildfires (with six of the largest ever fires in Californian history), although the insured losses that were caused by wildfires in 2018 ended-up being more costly to the (re) insurance industry (about $15 billion), largely as a result of the devastation caused by the Camp Fire alone.

In a report about the 2021 wildfire risk published in July, Gallagher Re argued that the main drivers of the increase in risk from wildfires are the impact of climate change on weather patterns, fuel availability and the spread of populations into high risk wildland-urban-interface areas. Warmer temperatures and unpredictable rainfall patterns led to drier conditions and were considered to be the most direct way that climate change was impacting the frequency and severity of Californian wildfires. Equally, the warmer, drier weather has meant that wildfire season in California is now almost year-round, whereas it used to run from May to November. Climate change was also increasing fuel availability, by enabling the spread of invasive species that killed vegetation and trees, as well as influencing the frequency of lightning storms, which are a key cause of fires' ignition. Climate change was also linked to increases in windy conditions that drive wildfires forward and make them much harder to control.

Gallagher Re argued that the situation this year has been complicated by an ongoing drought in California since last year. It reported that as of 15 June, 95% of California was experiencing severe drought conditions, compared to only 3% in 2020, and that drier and warmer than average conditions were expected to persist from June until the end of September. In heavily forested regions, such as northern California, drought-stressed trees are vulnerable to fatal bark beetle infestations, thereby adding more large patches of dead bark and leaves to areas that have yet to recover from the mass of tree deaths caused by the 2014-2016 drought. This creates further combustible material on the forest floor for the fires to consume.

Hurricane Ida

There is a general consensus between scientists and meteorologists that the antecedent conditions and the early arrival of the wildfire season in March (traditionally from May to November) indicated that 2021 had the potential to be another year of

extreme wildfire activity in California. Wildfire potential in the western USA is forecast to remain "above normal" throughout the summer months and into the autumn, with the peak of the "season" forecast to be in August and September. To date there have been more fires in 2021 than in 2020 at the same stage. Two of the larger ones were the River and Dixie fires in California in July. Both are notable for having occurred relatively early in the year.

A further factor that may inflate the cost of potential fire-related claims to (re)insurers may be the new Senate Bill 872. Last year, Richard Lara, the Californian Insurance Commissioner, sponsored Senate Bill 872 which was designed to create a series of new protections for wildfire survivors, despite opposition to the measure by the insurance industry. The bill provides that insurers will no longer be able to deduct the land value when paying an insurance claim if a wildfire survivor chooses to relocate rather than rebuild their home back at the same location. After recent major wildfires, some insurance companies had refused to include the value of land when paying a total loss claim, thereby reducing the total pay-out by tens to hundreds of thousands of dollars. This change gives homeowners the choice whether to rebuild or relocate their new home but could lead to an increase in the cost of claims for insurers.

2021 half year GAAP results

There has been a general improvement in the performance of many (re)insurers' results in H1 2021 as compared to last year. The underwriting results that were produced by many (re)insurance companies beat many analysts' expectations largely because the market benefited from a relatively loss-free Q2 and had the benefit of compounding rating increases from prior periods. Figure 3 shows the combined ratios that have been produced by some (re)insurance companies in H1 2021. There are a number of common trends. First, all of the companies shown have managed to take their combined ratio back to under 100% in H1 of 2021. The three main reasons for this have been the diminished number of claims in respect of COVID-19, the more "normal" loss-experience and the beneficial effect of the rating increases that have taken place in 2020 and in the first six months of 2021.

However, it should also be borne in mind that some companies also used the increased rates as an opportunity to re-underwrite their book of business and discarded under-performing and under-priced lines of business. At Axa XL, for example, the gross premium income fell back in spite of the fact that rates rose by 10% on its reinsurance business and by 15% on its direct book of business. As has been stated above, Q2 2021 also saw far fewer serious catastrophe losses than Q1 and this has been to the benefit of the overall H1 underwriting figures that have been produced by many companies. For example, most of the $521 million of natural catastrophe losses sustained by Swiss Re in H1 2021 were attributable to winter storm Uri, that took place in

Figure 3: Companies' H1 results in 2021

Company	2021 combined ratio in H1	2020 combined ratio in H1
AXA XL	95.8%	115.2%
Beazley	94.0%	107.0%
Brit	94.6%	106.7%
Hannover Re	96.0%	102.5%
Hiscox	93.1%	114.6%
Lancashire	80.7%	106.9%
Munich Re	94.3%	103.0%
Scor	97.2%	104.0%
Swiss Re	94.4%	115.8%

TABLE PRODUCED BY THE ALM

SOURCE: COMPANIES' H1 2021 DISCLOSURES AND REPORTS

Q1. Indeed, Swiss Re's H1 combined ratio is an excellent result; it has been many years since the company has managed to produce a combined ratio of under 95%.

Lloyd's businesses' H1 results

It is worth looking at the three Lloyd's based companies, Beazley, Hiscox and Lancashire (shown in Figure 3) in a bit more detail, as each of these businesses still runs a syndicate at Lloyd's within its overall business on which third party members participate. The GAAP results, whilst not directly comparable to the third party members' final three year of account results, are still a good indication of the current prevailing underwriting trends and general direction of trade and potential for profit and loss. As can be seen in Figure 3, each of the three Lloyd's quoted companies have managed to reduce their H1 combined ratio to under 100%, and each has managed to produce an underwriting profit in H1 2021.

The Hiscox H1 result

The Hiscox Group made an H1 profit of $133.4 million (2020: a loss of $138.9 million). The group's overall combined ratio was 93.1% in 2021, although it is worth noting that one of its operating divisions (outside Lloyd's), namely its retail division, produced a combined ratio of 100.7%. On the other hand, the London market division of Hiscox (which includes its Lloyd's syndicates) produced a very commendable combined ratio of 81.7%, which was a 23.5 point improvement on the equivalent 2020 figure of 105.2%. The main reason for this was the carrier's decision to write more business in areas that saw large rate increases in 2021, such as some of the catastrophe lines. In what was a strongly-rated market, Hiscox wrote $2.4 billion of gross premium at group level, which was an increase of 9% on H1 2020. The London market division wrote a gross premium of $609.9 million, which was a 10% increase over the amount of business written in same period last year.

The Beazley H1 result

Beazley managed to produce a profit of $167.3 million in H1 (2020: a loss of $13.8 million) which was considerably better than had been forecast by some analysts. The group's combined ratio also improved by 13 points over that of 2020, to 94%. Every single class of business written by the syndicate, bar cyber and executive risk, saw an improvement in its combined ratio over that of 2020. The combined ratio on cyber and executive risk was 9 points worse in H1 2021 than in H1 2020, but at the other end of the scale, the combined ratio in the property class improved by 43 points, and that for the political, accident and contingency class improved by a massive 75 points. All of these improvements took place against a background of the group's overall gross written premium increasing by 22% (to $1.66 billion), largely as a result of the increase in rates by an average of 20% across the book (compared to an increase of only 11% in the first six months of 2020). As discussed above, Beazley has recorded a much higher rating increase across its book than either Hiscox or Lancashire, largely on account of its cyber and executive risk book being the beneficiary of such large, and much-needed, rating increases.

The Lancashire H1 result

Lancashire produced an H1 profit of $54.1 million (2020: a loss of $23 million) and managed 40% growth in its written premium mostly as a result of growth in the reinsurance sector, where it had written more catastrophe reinsurance business and had also taken on a new casualty reinsurance team. It was interesting to note that the group's net loss ratio for the first six months of 2021 improved to 38.4% (compared to 57.4% for the same period in 2020). The accident year loss ratio for H1 2021, including the impact of foreign exchange revaluations, was 56.3% compared to 55.4% for the same period in 2020. As discussed above, its net losses recorded in H1 2021 in respect of Winter Storm Uri came to $44.8 million. Uri was therefore a significant loss for the syndicate. By way of comparison, in H1 2020, its net losses from the COVID-19 pandemic amounted to $41.6 million. Had Uri not occurred, then the H1 2021 loss ratio would only have been 22.6%.

Forecasts for the 2021 account on a three year basis

At the time of writing, members' syndicates have not released any forecasts for their 2021 years of account (on a three year of account basis). They are not required to do so until early next year. Whilst the H1 GAAP figures for the three companies discussed above are not directly comparable to the forecasts that will issued by the syndicates on a three year of account basis in 2022, it could be argued that they are still worthy of examination as they give a good indication of the overall state of the market and the businesses. Based on their performance in H1 2021, it would be fair to say that the Lloyd's companies have not only had a good start to 2021, but one that has been considerably better than that for 2020.

Forecasts for the 2021 hurricane season

As always, the case, a key determinant of this year's ultimate result is going to be what happens during the remainder of the north Atlantic hurricane season. As last year, the forecasts issued for the 2021 north Atlantic hurricane season have all suggested that there will be another above average level of storm and hurricane activity this year. The north Atlantic hurricane season officially runs from 1 June to 30 November each year. Whilst these dates encompass the period in which most tropical cyclones form in the Atlantic basin, some of these can intensify and can lead to the formation of hurricanes. There is also a season within a season. Historical data from the National Oceanic and Atmospheric Administration (NOAA), which was released last September, suggested that the strongest time for hurricane activity is between mid-August and mid-October. Wind factors, temperatures and moisture are all perfect at this time of the year to encourage more cyclonic activity.

The formation of tropical cyclones is technically possible at any time of the year, and there have been numerous instances, especially in more recent years, where hurricanes have taken place outside the range of these dates. Indeed, as early as 18 May of last year, tropical storm Arthur, the 2020 season's first named storm, had already formed off the coast of Florida. Indeed, the much more active seasons that have taken place in recent years have led some forecasters to question the whole concept of a "season", as weather patterns have now become much less predictable and far more unstable owing to a whole range of factors, paramount among which is probably the effect of climate change. It is worth noting that with effect from this year, the National Hurricane Centre (NHC) began to issue regular Tropical Weather Outlooks on May 15, which is two weeks earlier than it did in the past. This change has been implemented in light of named storms having already formed in the Atlantic prior to the official start of the "season" in each of the past six years.

Forecasting hurricanes is still not an exact science

By way of some background, every year in the six months that precede the start of the hurricane season, several meteorological agencies forecast how many named storms, hurricanes and "major" hurricanes[1] will form during the "season" and/or how many tropical cyclones will affect a particular country. These agencies include the Tropical Storm Risk (TSR) Consortium of the University College London, the National Oceanographic and Atmospheric Administration (NOAA), the Colorado State University (CSU) and the Weather Company (TWC), Accuweather, Weatherbell, the UK Met Office and the North Carolina State University (NCSU). The forecasts that are issued by these institutions include weekly and monthly changes in the significant factors, such as the prevailing sea-temperatures, which can help to determine the likely number of tropical storms, hurricanes and "major" hurricanes that might occur within a particular year. Some of these forecasts are issued as early as December and they are often subject to change between that time and the start of the "season" in June through to November as the actual loss pattern evolves.

The early forecasts for 2021

As early as 9 December 2020, TSR issued an extended range forecast for the 2021 hurricane season, predicting slightly above-average activity with 16 named storms, 7 hurricanes, 3 major hurricanes. CSU released its first actual predictions on April 8, 2021, predicting an above-average season with 17 named storms, 8 hurricanes, 4 major hurricanes. Accuweather and Weatherbell also issued quite broad, extended range forecasts. Figure 4 shows the forecasts that had been issued by the main agencies by the beginning of August. As can be seen, the early forecasts that were issued by both CSR and TSR have now been amended upwards.

The estimates shown in Figure 4 may well change again as the year progresses further. There are a few other, important points to note. The 2011 to 2020 average number is now higher than the 1950 to 2020 long-term average. The 2011 to 2020 average figure is interesting in itself, as the north Atlantic had three quiet hurricane seasons from 2013 to 2015, followed by a slightly above-average season in 2016. This was followed by near record-breaking levels of activity in 2017 and another slightly above-average season in 2018. There were two major US hurricanes in 2018, Florence and Michael, but overall, it was a much less destructive and costly year for (re)insurers than 2017.

2019 saw a much reduced incidence of loss from hurricanes in the north Atlantic and the US. Due to the lack of severe hurricanes, the US share of global natural catastrophe losses was lower than usual (31% of overall global losses compared with the long-term average of 35% according to figures sourced from Swiss Re). The most severe Atlantic hurricane that took place

[1] A "major" hurricane is defined as one of Category 3 or higher on the Saffir-Simpson scale

Figure 4: 2021 hurricane forecasts – August 2021

FORECASTER	NAMED STORMS	HURRICANES	MAJOR HURRICANES
NOAA	15-21	7-10	3-5
COLORADO STATE UNIVERSITY	20	9	4
TROPICAL STORM RISK	18	9	4
ACCUWEATHER	16-20	7-10	3-5
WEATHERBELL	16-22	9-13	3-6
UK MET OFFICE	14	7	3
THE WEATHER COMPANY	18	8	3
NC STATE UNIVERSITY	15-18	7-9	2-3
UNIVERSITY OF ARIZONA	19	6	4
1950-2020 LONG-TERM AVERAGE	12	6	3
1981-2010 MEDIAN	12	6	3
1991-2020 NOAA AVERAGE	14	7	3
2011-2020 AVERAGE	17	7	3

SOURCE: AGENCIES' FORECASTS, PRESENTED BY ARTEMIS BM

in 2019, Hurricane Dorian, only produced insured losses of about $4 billion. In some ways, 2019 is a good example of how a year that was forecast to experience quite a high incidence of losses can turn out completely differently.

As we now know, the 2020 hurricane season was an extremely active one. There were 30 named storms. When measured in terms of the number of windstorms that actually made landfall on the US mainland, 2020 was the most active year of the past 15 years and one of the worst ever years. However, most of the 2020 storms and hurricanes that made landfall did not hit densely populated areas. This meant that the actual damage and insured losses that they caused was much less costly than it might otherwise have been. Munich Re has estimated that the insured cost of the US hurricanes in 2020 amounted to "only" about $26 billion, making the 2020 US storms and hurricanes much less costly to the industry than those of other years that suffered from a large number of individual windstorm losses, such as 2017 (where hurricanes Harvey, Irma and Maria are estimated to have cost the industry about $97 billion). The single most expensive insured loss to occur in 2020 was Hurricane Laura, whose cost was "only" $9 billion. By industry standards, this was a relatively low sum.

What turned-out to be particularly relevant was that most of the windstorm losses in 2020 caused the most financial pain to insurers and low-level reinsurance layers, as these smaller monetary losses were not generally picked-up by the higher-attaching layers of reinsurance programmes. As a result of these kinds of losses being so prevalent in 2020, it was the lower-attaching reinsurance layers that attracted the greatest percentage rating increases (of between 15% and about 20%) at the June 2021 renewal. This was the exact opposite of what happened last year, as in 2020 it was the high layer-business that bore the largest rate increases, as these were the layers that had sustained the most serious losses in 2019.

Forecasts can only take us so far

As we have said many times before, when reading these hurricane forecasts, it is always important to understand that they are only one part of a much more complex picture. There is no doubt that the data used by forecasters can be very revealing of the general meteorological and climatic conditions that might be prevailing in the north Atlantic in a given year. However, there are a number of other critical factors that have to be considered alongside this data. Even if the 2021 forecasts prove to be correct and we witness a large number of storms and hurricanes between now and the end of November, there will be factors that can either exacerbate or mitigate the impact of any potential insured loss. These include critical issues such as the path of

any storm, its intensity, where it actually makes landfall, and how it behaves thereafter. Experience has shown that these small behavioural quirks can make a difference of billions of dollars' worth of economic or insured losses. As has been discussed above, the intensity and storm path of Hurricane Ida have been unique and may well increase the final cost of its insured loss. However, both of these factors would have been impossible to predict in advance.

Actual hurricane activity to date in 2021

By 7 September 2021, there had been 12 named storms and three major hurricane in the north Atlantic. Tropical Storm Ana formed as early as May 22, making 2021 the seventh consecutive year in which a storm had formed before the official start of the "season". This was followed by a further four tropical storms: Bill on 13 June; Claudette on 18 June; Danny on 22 June; and Elsa on 28 June. Although Bill, Claudette and Danny all made landfall on the mainland US, the most damage (about $100 million) was caused by Claudette. The first hurricane of the season was the category 1 hurricane, Elsa, which was upgraded from a tropical storm on 2 July, and which did varying amounts of damage to the Antilles, Barbados, Jamaica and Cuba before making its initial US landfall in Florida. Catastrophe risk modeller KCC has estimated that the insured loss to onshore properties from Hurricane Elsa will probably only be around $290 million. This figure consists of around $240 million in the US from both wind and storm surge and about $50 million in the Caribbean from wind. This makes it a good example of a tropical storm which developed into a hurricane, which made landfall in at least seven different populated places during its lifespan but only caused a small insured loss. On the other hand, and thanks to its intensity and unique storm path, Hurricane Ida may cause an insured loss of as large as $35 billion (based on the range given by RMS).

Final thoughts

At the time of writing, 2021 is eight months into its development, and the north Atlantic hurricane season is not yet over. We are also in the midst of another active US wildfire season. Despite this, it could be argued that what has happened in 2021 to date should provide members with some cause for optimism. In broad terms, during the first seven months of the year, rates have continued to increase in many classes, there was a return to a more "normal" incidence of catastrophe loss and many (re)insurance companies produced some good H1 figures. Members will be especially pleased to see that some of the Lloyd's businesses whose syndicates they support such as Hiscox, Beazley and Lancashire, have produced much better H1 results than was the case this time last year. Both Beazley and Lancashire have also increased their rates and premium income in 2021 by substantial margins. The fact that these Lloyd's companies have been the beneficiaries of some good rating increases and have also produced better underwriting figures in H1 arguably leaves them in a stronger position to deal with the rest of the year.

On less positive note, however, what has been noticeable in the first six months of 2021 has been the fact that the pace and size of rating increases has undoubtedly begun to slow down in some of the reinsurance classes. This was especially noticeable when looking at the H1 disclosures made by some of these corporate entities, and from analysis of rating trends at the June and July renewals. Finally, there has been a marked increase in losses in Q3. It now looks as though Hurricane Ida will be a large insured loss. The combined effect of Ida and the other losses that have occurred in Q3 may have a detrimental effect on the final result that is produced by the 2021 year of account, but they may also have a major beneficial impact on rates at the January 2022 renewals and beyond.

EARLY THOUGHTS ON TRADING PROSPECTS FOR 2022

Chandon Bleackley offers his preliminary views on what might happen in 2022.

Introduction

In mid-August, the Insurance Insider reported that a number of the syndicates that are heavily supported by Lloyd's third party members had announced that they were offering substantial pre-emptions to members for the 2022 year of account. These included syndicate 386 (a 10% increase), syndicate 623 (a 26% increase), syndicate 2121 (a 16.6% increase) and syndicate 5886 (a 10.7% increase). The fact that any syndicates is offering pre-emption is indicative of the overall view that the market is still improving and rates are projected to increase. These syndicates need more capacity in order to write more gross premium income in 2022. In summary, it is generally expected that rates will continue to improve in 2022 across most classes of business, with some classes where the size of the rating increases that are achieved in 2022 being less than those of the past three years. The factors that ensure rates continue to increase in 2022 should outnumber the countering factors. For 2022, underwriters face the prospect of having to trade against a background of rising inflation (which will have a detrimental effect on claims) and in a market where they will still not be able to rely on investment returns; but one where rates, terms and conditions will be the ultimate arbiter of their results.

What is likely to happen to rates in 2022?

The broad consensus is that rates will continue to increase, and that terms and conditions will improve across many classes of business in 2022. Some commentators believe that the losses sustained over the period of 2017 to 2021 may have ushered in a hard market which will persist for the next few years. However, there may be some classes, such as property catastrophe reinsurance, where the size of the rating increases that are attained in 2022 may not be as large as has been the case over the past three years, although the losses that have now been sustained by the market in Q3 of 2021 may change this. Other commentators have been more guarded in their assessment of the market and have advanced the argument that rates cannot continue to rise indefinitely, especially in classes such as property and casualty reinsurance, as there is still a large surplus of reinsurance capital available to the industry and there is also a finite limit to the amount that buyers can be expected or are willing to pay for their coverage. Surplus capital in the industry, as well as new capital entering the (re)insurance market, could lead to a resurgence in the level of competition in the market. Before looking at the issues surrounding the surplus industry capital in more detail, it is worth outlining some of the main reasons why rates should keep rising in 2022 in most classes of business, paramount among which is that the industry needs to extract further pay-back for the huge losses that have taken place between 2017 and 2021. The recent loss caused by Hurricane Ida will only serve to reinforce this need for payback.

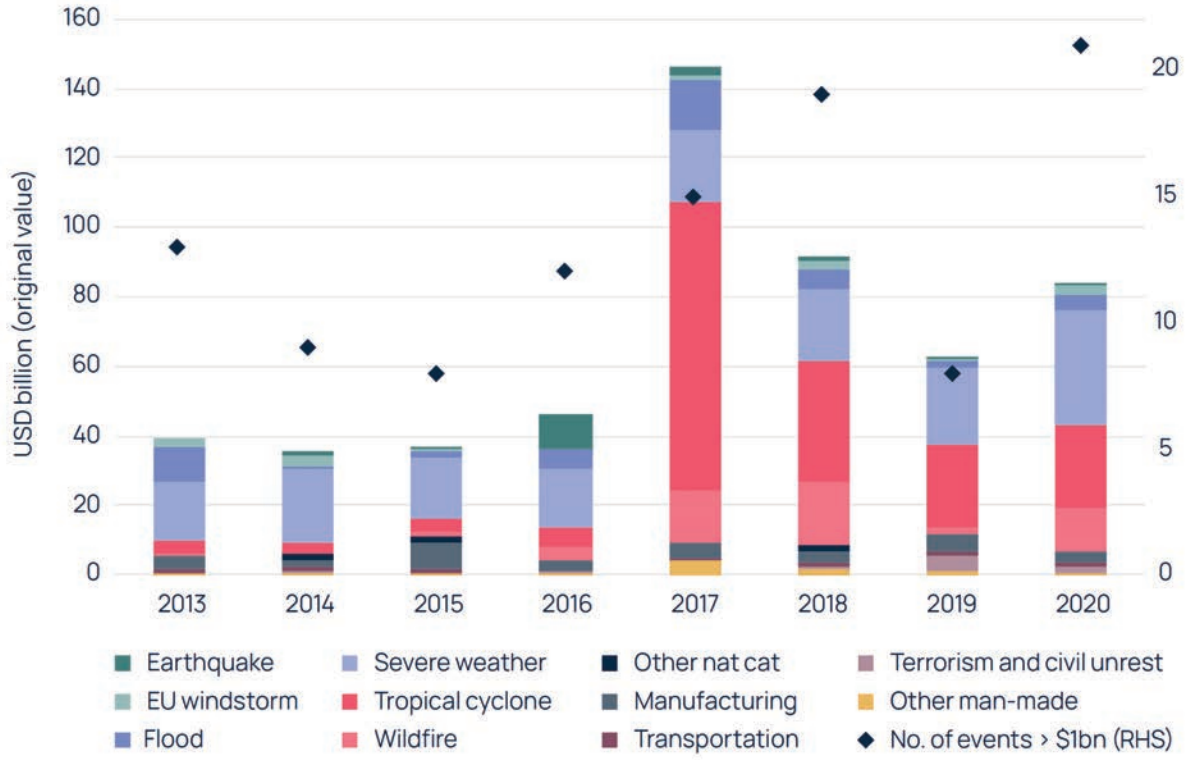
Pay-back for recent years' losses

There are a number of reasons why the losses that have taken place in recent years may lead to the imposition of further rating increases. As has been discussed in the LMRP and in other ALM publications, the period 2017 to 2020 has witnessed a huge surge in losses (see Figure 1). Furthermore, these losses initially fell on a massively under-priced (re)insurance market where rates had been falling steadily since 2012. The rating increases that have been seen since 2017 have been beneficial, but it is argued by many that they have still not been large enough. The reinsurance market has been slower than the direct market to recover, and HX, Howdens' data analytics team, has estimated that property catastrophe rates are now only back to where they were in 2013 (see Figure 2).

It pays to remember that 2013 was not a market rating-peak in its own right. Furthermore, there has already been some evidence of how some rates in certain property sectors have plateaued at this year's mid-year renewals. Equally, there are examples of other sectors, such as Japanese catastrophe market, that have generated huge losses (c.$35 billion since 2017) and where the rating increases that have now been imposed have arguably not been near large enough to reflect the levels of exposure being run by underwriters.

In addition to the losses that occurred between 2017 and 2020, according to recent figures from Swiss Re, the first six months of 2021 has seen a further $42 billion of insured losses fall on the (re)insurance market. As discussed in the previous chapter,

Figure 1: Global insured catastrophe losses by peril – 2013 to 2020



SOURCE: HX NOVA PORTAL

Q3 of 2021 has seen a signficant number of losses hit the market, the most costly of which has been Hurricane Ida. The outcome of the remainder of hurricane season will obviously be critical to what happens to rates in 2022, but there is already mounting pressure to increase rates still further for 2022 to pay for the losses that have been sustained to date in 2021 and to continue paying back the past years' losses.

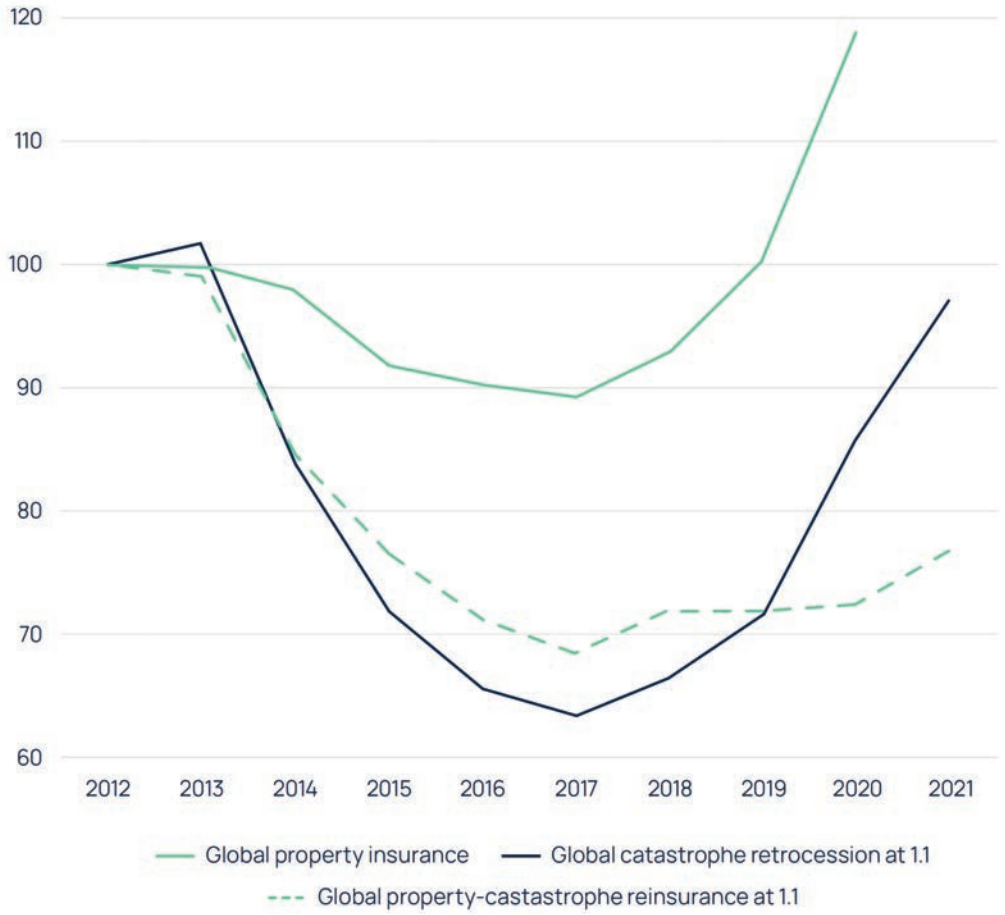
The market is increasingly susceptible to more diverse losses

A loss such as February's winter storm Uri in the US highlighted the concern whether the market fully understands the risks that it is running. In the case of Uri, there was a marked divergence between the modelled estimate of single billions of dollars that this kind of event could cost and the $15 billion that it has actually cost to date. The same has also been true with the US wildfire losses that have taken place in recent years. The (re)insurance market seems to have been caught-out by some of the larger losses that it has faced in recent years; losses like Typhoon Jebi, hurricane Irma, winter storm Uri and the north American wildfires have all cost far more than had been envisaged, for a variety of loss-specific reasons, but mainly because they deviated away from what the modellers expected. To a certain extent, this was also the case with Hurricane Ida. This casts an element of doubt on the effectiveness of some of the catastrophe models that are being used and has caused some analysts to wonder how reliable the models are in respect of other potential loss scenarios, particularly with regard to the kinds of losses that might occur as a result of the impact of what is arguably the most serious threat to the market of all, namely climate change. Rating increases alone may not be the answer here; what may be required is a fundamental re-evaluation of the viability of the business itself.

The different characteristics of the direct market

In the direct market, individual classes of business have tended to have their own unique underwriting cycles; not all have lost or made money at the same time. The extent of the rating increases that have been imposed on each of them has therefore varied accordingly. For example, US workers' compensation made money between 2012 and 2019 and this partly explains why the rating increases took so much longer to be realised, and why the increases have been relatively low; at 4% in 2021 to date.

Figure 2: Howden pricing index for primary, reinsurance and retrocession markets – 2012 to 2021



SOURCE: HX NOVA PORTAL

On the other hand, classes like US D&O and US commercial auto business have made consistent losses over the same period and seen much larger rate increases sooner in the cycle. In the case of the US D&O market, rate increases have been in excess of 100%. Progress is still being made in terms of the imposition of rating increases, as H1 2021 has seen rates increase across a broad spectrum of direct classes and more rating increases are forecast for the future.

Some of the most dramatic rating increases have been seen in the cyber market. Rates have surged ahead of initial expectations and the view of some commentators is that it may take between two and three years for the market to stabilise in the wake of the recent losses that it has sustained as a result of ransomware claims. 2021 rating increases have averaged between 40% and 50% and there have been some triple digit increases in the case of the more badly loss-affected classes. 20% of the global cyber premium is underwritten in the Lloyd's market. Not only have rates been increasing and are expected to continue to do so into 2022, but terms and conditions have also been improved and sub-standard business has been discarded. In some ways, what has happened in the cyber market is similar to what has happened in the US D&O market: all the remedial action that has taken place has made the class more sustainable in the long term. There is no reason for this to now stop.

That said, there have been some sectors, such as US direct and facultative property, where the size of rating increases seems to have waned. Whilst rates are still increasing, and are expected to continue to do so, the amount by which they are expected to increase has reduced. A huge amount of D&F business has already come into the London market over the recent years, especially as a result of the remediation work that was undertaken by some US carriers such as Lexington and AIG (both of whom dropped a considerable amount of business). London and the Lloyd's market in particular, have been enormous beneficiaries of this strategic re-allocation of business. The good news is that there has not been a huge increase in competitive

pressure within the US market itself, as some of the carriers that had scaled-down their involvement or withdrew from the class entirely in 2018 or 2019, have not come back into the market in any significant way.

On-going worries about COVID-19

COVID-19 may prove to be a further catalyst for the imposition of more rating increases in 2022 for two main reasons. First, it is important to remember that COVID-19 is a global pandemic that has reached different stages of evolution in different countries. It is still far from over, even though it has been estimated by the WHO that as at mid-August 2021 there have now been over 211 million people infected and in excess of 4 million deaths worldwide. New variants and strains may continue to develop over the coming years, and COVID-19 still has the potential to inflict further damage to national economies and by extension their (re)insurance markets. COVID-19 will not be "over" until the most affected countries have managed to deal with it, or a large proportion of their populations' have been vaccinated. To date, most vaccines have been bought and used by rich, western countries, and this has impeded the global recovery. Unless vaccines are distributed more widely, then the recovery will take longer and that could have a detrimental impact on both the global economy and, by extension, the (re)insurance markets.

Secondly, with regard to the insurance aspects of the pandemic, many of the existing COVID-19 losses have still not been resolved or settled. An example of how COVID-19 is still an ongoing issue is the losses associated with trade credit in the UK. Trade credit insurers are now preparing for an influx of UK insolvencies as the government support schemes are set to be withdrawn in September and rising interest rates start to affect companies that have been propped-up during the pandemic. The government support resulted in far fewer insolvencies in 2020 than normal in the UK (as well as in other countries where similar government schemes were in operation). Rises in inflation and interest rates may prove to be additional factors in determining the number of insolvencies, with sectors such as UK retail and aviation being especially exposed. Insurers, including Lloyd's, have long anticipated that there would be a series of these trade credit losses as a result of COVID-19. Indeed, Lloyd's has already estimated that its own gross COVID-19 claims from political risks and credit lines' claims would be around £500 million. Some commentators have argued that the net effect of the payment of these losses will be rates increases and cover becoming difficult to purchase; there is also a counter-argument that this is a specialist class of business with ample capacity factors which will mitigate the size of any rating increases.

Another example of how COVID-19 being an ongoing insurance issue is the continuing dispute over the UK's business interruption claims. The FCA recently announced that insurers had only paid out £567 million for BI claims to date with continuing disputes on policy response. The UK Supreme Court's verdict on the FCA's test case in January left a number of issues unresolved, with disputes between policyholders and insurers about the aggregation of claims or entitlement to multiple sub-limits and outstanding coverage issues, such as the scope of "at the premises" wordings, and the impact of furlough and the additional cost of working. The scale of the issues at stake was recently highlighted by the £845 million legal action brought by the UK's largest pub company, Stonegate, which has taken legal action against a group of insurers.

The casualty market and the rise of "social inflation"

A major underlying influence on the casualty renewals in 2021 has been the "social inflation" that has been adversely affecting the casualty market in recent years. "Social inflation" is an expression used to describe the rising liability loss cost trends of recent years. Some of the main factors that have fuelled it include a more combative and aggressive plaintiff's bar, higher litigation costs, the growth in the use of third party litigation financing, an increasing number of class action lawsuits and a general increase in the level of anti-corporate sentiment that has been aided by the ever-rising level of social and economic inequality, especially in the US and the UK. The relaxation of COVID-19 restrictions in the US may lead to a full resumption of the judicial system and in turn to an increase in litigation and claims during 2022. Social inflation has been a key factor in the imposition of the rating increases of the casualty renewals in 2021, a trend that seems likely to continue in 2022, as the issue has been gaining momentum as US courts return to full time operation.

Environmental, social, and governance factors

There is no doubt that all (re)insurance companies face a changing global market; they are under pressure to elevate their own level of sustainability, as well as the sustainability of their underwriting profits. ESG (environmental, social, governance) factors are adding new requirements which prudential regulators require to be included in (re)insurers' business models.

There seems little doubt that in time, (re)insurers, including Lloyd's syndicates, may have to eliminate certain once profitable areas of their businesses for ESG reasons. Lloyd's has already begun to address this issue with its announcement last December

of the decision to phase out the underwriting of new thermal coal mines and related power plants, as well as oil sands and Arctic energy exploration activities for 2022. Despite this positive initiative, Lloyd's has still been regularly targeted by climate activists, who have claimed that progress has been too slow; as apart from anything else, Lloyd's is not intending to cease writing these risks altogether until 2030, which is in nine years' time.

It may be likely that the perceived slow response by many (re)insurers to the issues of climate change and what business they are prepared to underwrite may be causing some damage to their brand and reputation. For example, in May of this year Berkshire Hathaway's board opposed two shareholder resolutions that called for the publication of annual reports on how the group's companies were responding to the challenge presented by climate change, as well as reports on diversity and inclusion in the workplace. Whilst Warren Buffett and his board prevailed in their opposition, it was interesting that 25% of the company's shareholders, including Black Rock, defied the board and voted for the adoption of each resolution. Berkshire Hathaway's management was widely criticised for their stance. This is a sign of changing attitudes.

Rate stability?

Above all, climate change is becoming an increasingly important business issue for both underwriters and their managers. It is arguable that it has become increasingly hard to justify lowering rates on risks that are potentially exposed to climate catastrophes. This may provide another reason for not depressing rates in the next few years and for installing a true "pricing-floor". If nothing else, this may also allow the industry to pause and take the opportunity to work out how to provide cover for what could be a rising number of climate-related losses. Reflecting on the findings of the recent Intergovernmental Panel on Climate Change's (IPCC) sixth assessment report, Karen Clarke & Company (KCC) argued that hurricane activity was likely to feature more intense storms in the future. For example, it is worth noting that Hurricane Ida was the fifth most powerful storm ever to hit the US. The IPCC report also pointed to the growing certainty that coastal flooding and wildfires will increase in frequency and severity. Aside from the potential increase in the number of these events leading to a massive increase in losses for the (re) insurance industry, perhaps the main climate change related problem for the (re)insurance industry is the increase in uncertainty that surrounds the future losses. This makes the ability to make any decisions that are based on a consistent trending baseline with any degree of certainty that much harder; it is impossible to know what will happen or change next.

As discussed above, some of the losses of recent years, such as winter storm Uri and the north American wildfires have already demonstrated the shortcomings of the catastrophe models used by underwriters. It is an understatement to say that climate change is going to pose a huge problem for (re)insurers. Aside from the fact that underwriters are likely to be facing more unforeseen or new losses. To put this into perspective, Swiss Re has indicated that 50% of its losses in recent years have come from secondary, or largely unmodelled, perils.

What is also particularly worrying about the potential financial effects of climate change on (re)insurers is that the industry may be left isolated when it comes to paying for the losses, at least in the next few years, as there seems to be little that that governments seem to be doing to really address, either the issue of climate change itself, or who should pay the financial costs of any losses. Government action on dealing with the threats posed by climate change has been painfully slow to date, and it is questionable as to how effective governments will be in the short to medium term. Are western governments going to be prepared to put into place the potentially unpopular direct measures and changes that are necessary to counter the effects of climate change? They are after all elected entities which always face a day of electoral reckoning at the next election. Unfortunately, too many governments are plagued by short term thinking rather than the search for a long term solution. The way in which some western governments have dealt with the COVID-19 pandemic does not inspire a great deal of confidence as to how they will deal with the much bigger, global issue of climate change. There has been an endless clash between what was deemed to be the best course of action to preserve people's health and what was deemed to be best for the economy. This battle could play out once again when it comes to whether they are prepared to take any fast or definitive action on climate change. In the meantime, (re)insurers will be left to pick up the bill for whatever the next "unprecedented" loss turns out to be. This is not an ideal situation, especially for shareholders and members of Lloyd's syndicates.

The evolving reality of climate change is perhaps yet another good reason why (re)insurers need to ensure their discipline on pricing remains intact, and that they continue to impose rating increases and enforce robust terms, conditions with, where necessary, exclusions. Large sections of the (re)insurance industry, especially some of the large European insurers, have already recognised the threat of climate change and are well ahead of their national governments in terms of planning. In an ideal

world there needs to be not only an effective industry/government partnership, but one where the government has the political will that matches the industry's financial imperative to address the problem.

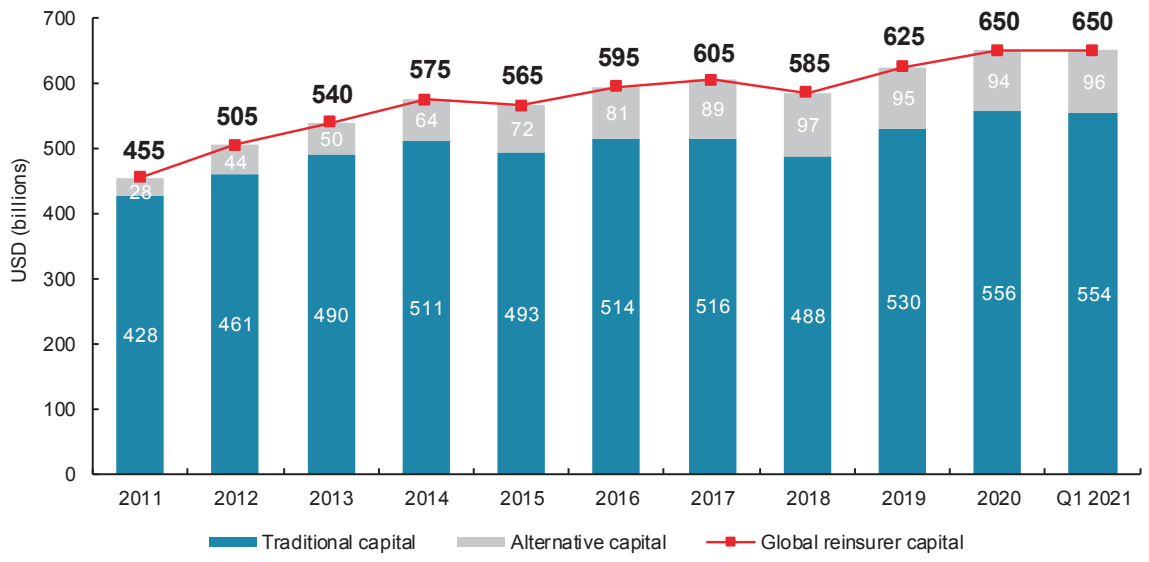
What challenges does the market face in 2022?

The dangers of excess capital

One of the side effects of any rising market is that it tends to attract more new capital and start-up businesses. This was the case this time last year; 2020 was very much a year of both new start-ups and capital raising on the part of existing Lloyd's managing agents, such as Lancashire. If the loss on Hurricane Ida ends up being at the top end of the forecast range that was recently issued by RMS (of between $25 billion and $35 billion) then this would make Ida the kind of large loss that could draw more capital into the market. Therefore, the one factor that cannot be accurately predicted at this point in time is how much new capital will come into the market for 2022. The availability of reinsurance capital at the year-end will undoubtedly influence the renewal seasons in 2022, and especially those in January and April. Last year, one of the definitive signals that confirmed the improved trading prospects for 2021 was the way a number of companies including some of those trading at Lloyd's, such as Lancashire and Beazley, raised more capital mid-year. Lancashire successfully raised $340 million mid-year and speedily. In July last year, in its report on the reinsurance market, Willis Re estimated that the industry had already raised $16 billion of capital, and that it was still in the process of raising more money. In retrospect, it was interesting that all these capital-raising initiatives took place against the continuing uncertainties that surrounded the development of COVID-19. This year, there has not been as much high-profile activity in this sector. That said, the possible magnitude of the loss caused by Hurricane Ida, and an active last three months of the hurricane season could easily change this and more capital could be committed to the market, especially to the alternative reinsurance market.

Despite this there still remains an oversupply of capital in the industry as a whole, and especially in the reinsurance market. Although we may not have seen as many high-profile fund-raisings and new start-ups in 2021 as we saw last year, there has been a steady influx of capital into the sector. Figure 3, which was produced by Aon in July 2021, shows that global reinsurer capital still amounted to $650 billion as at the end of Q1 2021. This was the same as at the end of 2020, as the growth in alternative capital had offset a small reduction in the level of "traditional" capital that had taken place.

Figure 3: Global Reinsurer Capital

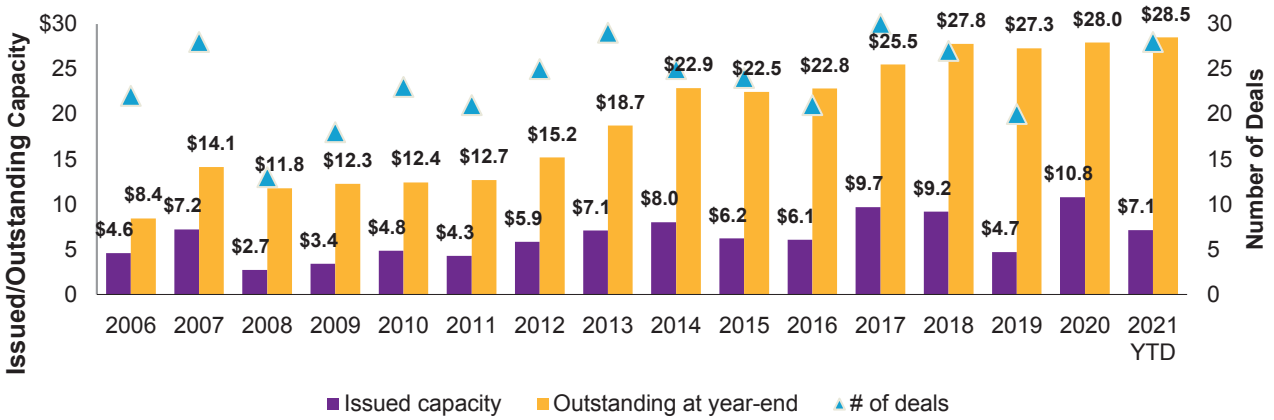


SOURCE: COMPANY FINANCIAL STATEMENTS / AON BUSINESS INTELLIGENCE / AON SECURITIES INC.

As far as "traditional" reinsurance capital was concerned, Aon reported that reinsurance companies had generally reported solid earnings in Q1 2021, despite the impact of the winter storms and the booking of additional losses relating to COVID-19. Aon estimated that "traditional" reinsurance capital had declined marginally to $554 billion by Q1 2021. At the same time, Aon estimated that assets under management in the alternative capital sector amounted to $96 billion at the end of Q1. This represented a growth of around $4 billion over the last three quarters.

These strong inflows of capital have helped the Insurance Linked Securities' (ILS) market close out a very strong first half of 2021. The ILS markets, and especially the catastrophe bond market, have continued to be buoyant (attracting significant interest from yield-chasing investors, particularly for well-structured, widely-syndicated catastrophe bonds) and this has led to a narrowing of spreads for both US and non-US placements at the June and July renewals. As has been discussed in the July issue of the ALM News, it also proved to be a mitigating factor when it came to the imposition of greater rate increases in some sectors of the reinsurance market. 2021 has proven to be another busy year for the catastrophe bond market, as new issues had already reached $7.1 billion by June (see Figure 4). Indeed, by its end, 2021 may end-up matching, or even exceeding, years like 2017 and 2020 in terms of activity in the catastrophe bond sector.

Figure 4: Non-life Catastrophe Bond Capacity Issued and Outstanding by Year[2]



SOURCE: WILLIS RE SECURITIES TRANSACTION DATABASE AS OF 7/30/2021. AGGREGATE DATA EXCLUDE PRIVATE ILS DEALS.

[2] ALL ISSUANCE AMOUNTS REPORTED IN OR CONVERTED TO USD ON DATE OF ISSUANCE. OUTSTANDING AMOUNTS ADJUSTED FOR ACTUAL PRINCIPAL LOSSES.

It could be argued that the existence of excess capital may continue to impede the upward rating momentum of the market during the remainder of 2021 and into early 2022. A lot will depend on the losses that occur in the remainder of 2021. James Vickers, the Chairman of Willis Re International, summed up the situation very well: "At the end of the day, the reinsurance market is driven by capital, and it's in a very strong capital position...Despite the turmoil last year, capital ended up at the end of the year being slightly larger, and capital is remaining more than adequate. And there's no reason to see that there will be a collapse in capital any time soon." Indeed, it is quite possible that a rising toll of losses in 2021 may lead to the commitment of more capital to the market for 2022.

What effect will excess capital have on the industry?

The fact that there is still excess capital available to the industry will come as no surprise to Lloyd's members. However, there are differences of opinion as to the potential effect that this excess capital may have on the industry going forwards. On the one hand, there are those who take a negative view, and argue that in the past excess capital has always led to increased competition and shorter underwriting cycles, and this will therefore be the case once again. The build-up of excess capital in the period after 2012 was one of the reasons that the market remained depressed for the next five years, and why rates sank to their 2016 and 2017 low points. It is believed that the presence of this excess capital may exacerbate competition in 2022. An increase in competition could possibly derail the market recovery earlier than expected.

There is also an argument that is quite possible that there could be an interplay between the abundance of capital available to the reinsurance market and the market simultaneously facing new challenges such as climate change and new risks, such as cyber claims. As discussed above, climate change presents a whole host of potential problems for underwriters. Apart from the fact that they may no longer be able to rely on using outdated empirical rating models, many underwriters will have to reassess their exposure to this "new" and unquantifiable risk, as well as determine which risks they are still prepared to underwrite and what they need to charge to do so. It is quite possible their remaining book of business will have to be re-rated. This process may lead to a situation where underwriters find themselves subject to more considerable competitive pressure, if and when they try to increase their prices, or alter their terms and conditions in any meaningful way to reflect the new levels of risk and exposure. It is therefore quite possible that the reassessment of these risks in the light of climate change could lead to an increase in competition in the market.

On the other hand, there are other market commentators, such as Fitch, which issued a report in August, who argue that although there is currently a massive surplus of capital available to the industry, the recent renewals in June and July of 2021 had shown a much greater level of discipline on all sides of the market; this had resulted in rates holding up better than in previous cycles. Fitch argued that there were several reasons why this was the case, including the shocks caused by catastrophe losses over recent years, the ongoing effects of social inflation and "loss creep", as well as the significant loss effects of the COVID-19 pandemic, the effects of inflation and low-interest rates, and a looming fear that the unknowable nature of climate change may drive higher losses over the years ahead. Together, the writer would argue that all of these issues have combined to make underwriters aware that they need to cover their loss costs, their costs-of-capital, their expenses and produce a profit margin. Fitch submitted that this seems to be driving a renewed, or even a new, understanding of what "rate-adequacy" really means. The market has long-needed to put a floor under rates, to ensure they are covering their outgoings, and that need has now become of paramount importance in view of some of the new risks that the market faces.

Conclusion

At the time of writing, in early September 2021, in the immediate aftermath of Hurricane Ida, it is not known what may happen in the remainder of the 2021 north Atlantic hurricane season, the north American wildfire season or about any other losses that may occur between now and the end of the year. Despite this uncertainty, there are already a number of reasons for members to be optimistic about the prospects for trading in 2022. First and foremost, it is believed that 2022 will see a continuation of the rating increases that have characterised 2021. There are a number of reasons why it is considered that rates will continue to increase and that the hard market may be prolonged. These include that the losses of the period 2017 to 2020 still need to be paid in full; the cost of the losses sustained in 2021 has been increasing, and has now been exacerbated by up to an estimated $25 billion to $35 billion of Hurricane Ida losses; COVID-19 remains an unresolved issue both in terms of the ongoing pandemic's duration and many of the claims associated with the loss still remain unresolved; the effects of social inflation remain a major worry for (re)insurers; and underwriters are now having to focus on ESG issues. Behind all of these issues sit the factors that both interest rates and investment returns are viewed as likely to remain relatively low in 2022, and underwriters therefore will have to focus on rating their business correctly in order to make a profit.

This period of underwriters' re-rating business will be an ideal time for them to reassess their potential exposure to the mounting threat from losses associated with the effects of climate change. It will be interesting to see how underwriters respond to these challenges, particularly if the surplus of capital that currently exists in the industry leads to a resurgence of competition. Will underwriters be prepared to sacrifice business to their competitors, particularly in the light of some of the challenges that beset the market.? With its decision not to renew some thermal coal business, Lloyd's, for example, has already taken this bold step. Another issue that needs to be addressed is the perceived inadequacy of many rating models in the light of challenges such as climate change. There is no doubt that a hard market is an ideal time to reassess the way in which businesses is written, the rates at which it is written and, perhaps, whether it should even be written at all. There is no doubt that the issues and threats facing the market are continuing to evolve and will require different solutions from those of the past. However, there is every reason to believe that these solutions can be both innovative and profitable.

AN OVERVIEW OF LLOYD'S 2021 HALF YEAR RESULT

On 9 September Lloyd's reported a welcome profit of £1.4 billion for the first six months (H1) of 2021, as compared to a loss of £438 million for the corresponding period in 2020. Lloyd's has also managed to outperform many of its industry peers by recording a creditable combined ratio of 92.2% in H1 2021. In this chapter, Chandon Bleackley examines the main component parts of the Lloyd's H1 2021 result in more detail.

Introduction

In declaring a profit of £1.4 billion, and a good, combined ratio of 92.2%, Lloyd's has managed to produce a market-beating result for H1 2021. This has been the best H1 performance produced by Lloyd's since 2015 (when Lloyd's produced a combined ratio of 90% in H1). The profit is the outcome of four years of intense market remediation but has undoubtedly been hastened and aided by the hardening (re)insurance market and the receding impact of COVID-19. When viewed in conjunction with Lloyd's recent £650 million Central Fund reinsurance deal with eight global reinsurers and JP Morgan, it sends a clear signal to members, aligned corporate investors, potential investors and the rating agencies that Lloyd's has definitely put itself back on track.

Overall market results

Figure 1: Key figures

	H1 2021 £M	H1 2020 £M
AGGREGATE MARKET RETURN	£1,432	(£438)
GROSS WRITTEN PREMIUM	£20,465	£20,047
UNDERWRITING RESULT	963	(1,548)
NET INVESTMENT INCOME	£628	£940
COMBINED RATIO	92.2%	110.4%

CHART PRODUCED BY THE ALM, USING DATA FROM LLOYD'S H1 2021 AND 2020 REPORTS

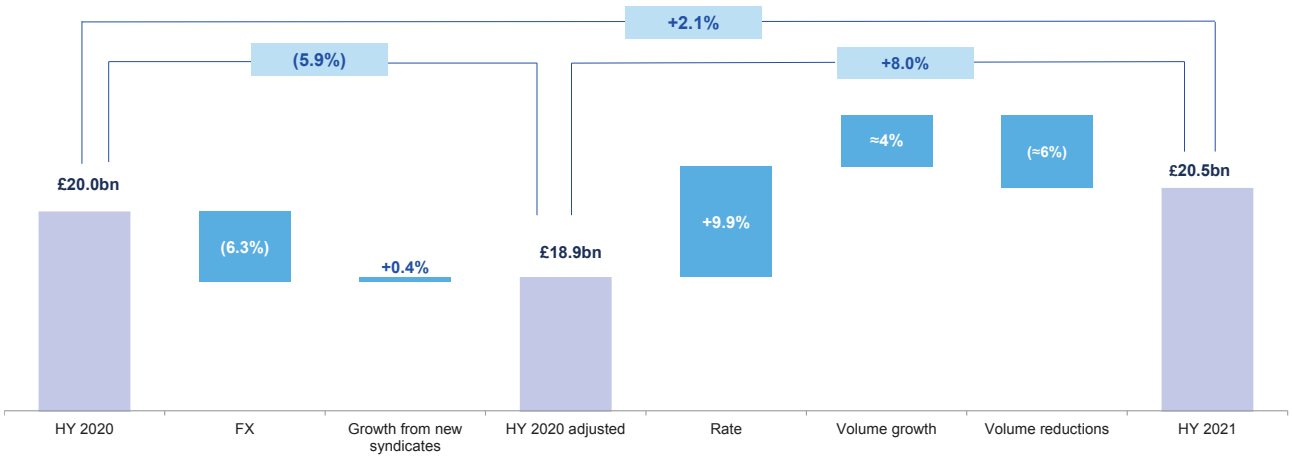
The Lloyd's market has reported an overall profit of £1.4 billion (before tax) for H1 2021 and a combined ratio of 92.2% (see Figure 1). What was especially good news was that Lloyd's produced an actual underwriting profit of £963 million in H1 2021 (H1 2020: loss of £1.5 billion); incontrovertible evidence of the improvement in underwriting that has taken place at syndicate level. It is also a vindication of the market remediation work that began in 2017, and which has led to the closure or cessation of 12 under-performing syndicates (writing a collective £1.8 billion of capacity) since 2018. The only disappointment in the H1 2021 figures was that Lloyd's net investment income fell back by one third, to £628 million in H1 2021, but this can be attributed to the fact that 65% of the Lloyd's investment portfolio was invested in bonds and this asset fell prey to the prevailing macro investment-market conditions.

Gross premium income for Lloyd's as a whole

The first six months of this year were characterised by further improvement in market conditions, as rates continued to increase across most classes of business. There have now been 15 successive quarters of rate increases. Not only have rates now been

increasing continuously since the start of 2018, but for much of this time, the rate of actual increase has often been more than the planned rates of increase.

Figure 2: Premium changes HY 2020 – HY 2021



SOURCE: LLOYD'S HALF YEAR RESULTS 2021

*VOLUME GROWTH AND REDUCTIONS FROM EXISTING SYNDICATES ARE ESTIMATED USING SYNDICATE BUSINESS PLANS FOR 2021

Figure 2 gives a detailed breakdown of how the market's gross premium income has evolved. Bottom line gross written premiums in H1 2021 have increased 2.1% when compared to H1 2020. Reading from left to right, Figure 2 shows the impact on the gross premium of adverse foreign exchange movements (-6.3%; mainly as a result of the US dollar's weakening against UK sterling) and the very small premium growth from new syndicates (0.4%). This means that the H1 2020 adjusted premium fell back to £18.9 billion. In H1 2021, gross premium has now risen to £20.5 billion, which represents an 8% growth over the adjusted H1 2020 gross premium income figure. Risk adjusted rate increases of 9.9% and a 4% exposure growth have been reported in the first six months of 2021 across all major lines of business and geographies. Interestingly, the first six months of 2020 saw the rates increase by 11%, so this does lend some weight to the view that the market is not now rising by as much (or as fast) as was the case last year.

Perhaps most important of all was that the market shed around 6% of under-performing business as part of its ongoing business remediation strategy. In an interview given to the Insurance Insider ("the Insider"), on 9 September, Burkhard Keese, the Lloyd's Chief Financial Officer (CFO), said that it would be at least a year before the Lloyd's market results would show "net" exposure growth – where volume growth outpaced that of dropped business – because of the fact that the market remediation process was still ongoing.

Gross premium income written by class of business

Figure 3 below shows a comparison of the amounts of gross premium income written in H1 2020 and H1 2021, broken down by class of business. What is immediately noticeable is that the income written in 2021 in the energy, motor and life classes has fallen back for the second year in a row, despite rates having been increasing during the first six months of 2021. These falls can partly be attributed to the reduction that has taken place in the level of global economic activity because of COVID-19. It is also worth commenting that these classes are now a much smaller proportion of the overall market's premium income than they once were, and therefore will not drive the market's overall result to the same extent as the larger classes such as reinsurance and property will, and currently do. On the other hand, gross premium income in the reinsurance class has grown, whereas the property income has fallen back slightly. There has also been a growth in amount of casualty business that has been written, which is most probably attributable to the fact that rates have been increasing by substantial amounts.

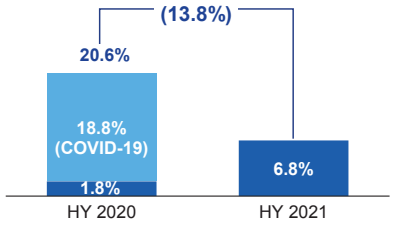
Figure 3: Premium income split by class of business in H1 2020 and H1 2021

CLASS OF BUSINESS	H1 2020 GROSS PREMIUM (£M)	H1 2021 GROSS PREMIUM (£M)
REINSURANCE	7,759	8,350
PROPERTY	5,104	4,898
CASUALTY	4,404	4,597
MARINE, AVIATION AND TRANSPORT	1,585	1,544
ENERGY	761	705
MOTOR	405	349
LIFE	29	22
TOTAL	20,047	20,465

SOURCE: TABLE PRODUCED BY THE ALM, BASED ON DATA EXTRACTED FROM THE SEGMENTAL ANALYSIS TABLES ON PAGE 17 OF LLOYD'S H1 2021 REPORT

Underwriting result

Figure 4: Major claims



- Major claims in HY 2021 greater than HY 2020 excluding COVID-19
- Winter storm Uri was the main driver of the major claims experience with an estimated cost of £0.8m
- HY 2021 experience driven by natural catastrophes

Largest net claims (£bn)	HY 2020	HY 2021
Winter storm Uri	-	0.8
COVID-19	2.4	-
Tennessee tornadoes	0.1	-
Australian wildfires	0.1	-
Total major claims	**2.6**	**0.8**
Number of events	4	1

SOURCE: LLOYD'S HALF YEAR RESULTS 2021

Whilst the H1 2021 aggregate profit of £1.4 billion is obviously a much better result than last year's loss of £438 million, it is interesting to note that is still below the overall profit of £2.3 billion that was produced by Lloyd's for H1 2019. However, it is also important to understand that the 2019 profit was entirely the product of Lloyd's investment return and not its underlying underwriting performance (which was a loss). What is of paramount importance is that the underlying underwriting performance in 2021 has turned out far better than that of either 2019 or 2020. Lloyd's made an underwriting profit of £963 million in H1 2021, compared to a loss of £86 million in H1 2019 and a loss of £1.5 billion in H1 2020.

The Lloyd's combined ratio in H1 2021

Lloyd's has produced an industry-beating combined ratio of 92.2% for H1 2021 (H1 2020: 110%). In H1 2021, major claims contributed 6.8% to the combined ratio, significantly less than the 20.6% in H1 2020, as both the severity and frequency of events were less in H1 2021 (see Figure 4 above). H1 2020 was impacted very hard by COVID-19 losses. Interestingly, if

COVID-19 losses are excluded from 2020's data set, then the major claims sustained by Lloyd's in H1 2021 were considerably in excess of those in 2020. This is entirely the result of the £800 million of losses sustained from winter storm Uri in the US in February.

Figure 5: Combined ratios in 2020 and 2021

	H1 2020 %	H1 2021 %	CHANGE %
LOSS RATIO	72.7	56.4	(16.3)
ATTRITIONAL LOSSES	52.6	50.5	(2.1)
PRIOR YEAR DEVELOPMENT	(0.5)	(0.9)	(0.4)
MAJOR CLAIMS EXCLUDING COVID-19	1.8	6.8	5.0
COVID-19 CLAIMS	18.8	-	(18.8)
EXPENSE RATIO	37.7	35.8	(1.9)
COMBINED RATIO	110.4	92.2	(18.2)
COMBINED RATIO EXCLUDING COVID-19	97.0	92.2	(4.8)

CHART PRODUCED BY THE ALM, BASED ON LLOYD'S DATA TAKEN FROM H1 2020 AND 2021 REPORTS

Figure 5 shows a more detailed breakdown of how the combined ratios were produced in both 2020 and 2021. There has been a massive 16.3 percentage point improvement in the loss ratio in 2021. Attritional losses fell by 2.1 percentage points to 50.5%. This represented both a 2.1 percentage point reduction from the ratio reported for the first six months of 2020 and a 1.4 percentage point reduction from that reported for the 2020 financial year. The telling improvement in the attritional loss ratio is the result of the market's actions to drive sustainable profitable performance and sustained risk adjusted rate increases. Releases from the old years also benefited the H1 2021 combined ratio by 0.9% (H1 2020: 0.5%). Releases were reported across most lines of business, except for the reinsurance and casualty lines which reported some deterioration.

The biggest difference between the two years has been in the level of COVID-19 claims that have been suffered by the two respective years. COVID-19 claims added 18.8 percentage points to the H1 2020 combined ratio. As has been mentioned above, as a result of the impact of winter storm Uri, non-COVID-19 related major claims were actually worse in H1 2021 than they were in 2020. As an aside, it is worth noting that if we exclude the contribution from major claims Lloyd's reported an underlying combined ratio of 85.4% for H1 2021, which was an improvement on the 89.8% reported for H1 2020 and on the 87.3% reported for the 2020 financial year.

Figure 5 also shows that there has also been an improvement in the market's expense ratio which has reduced from 37.7% in H1 2020 to 35.8% in H1 2021. This 1.9 percentage point improvement was driven by a lower acquisition cost ratio. This continues the trend of reductions in the expense ratio that have been taking place since 2017.

Overall, Lloyd's has produced a combined ratio of 92.2% in H1 2021, a figure than is an 18.2 percentage point improvement over that of H1 2021. Not only is this an impressive figure in its own right, but as can be seen in Figure 6, it is better than any of its industry peers shown in the table. Furthermore, both Lloyd's and Swiss Re's combined ratios have improved by the largest margins between H1 2020 and H1 2021; although both produced worse combined ratios than their peers in 2020.

Of note, some of the syndicates that are most heavily supported by members have managed produce H1 2021 combined ratios that are considerably better than the 92.2% Lloyd's overall figure. An example is Lancashire, the managing agent of syndicate 2010, whose combined ratio was 80.7% in H1 2021. In an interview given to the Insider, Lloyd's chief accountant, Steve Jules, said that Lloyd's top quartile syndicates produced an average combined ratio of 81% in H1 2021. These syndicates are probably among the very best (re)insurers currently operating anywhere in the world.

Figure 6: Lloyd's combined ratio compared to those of its industry peers

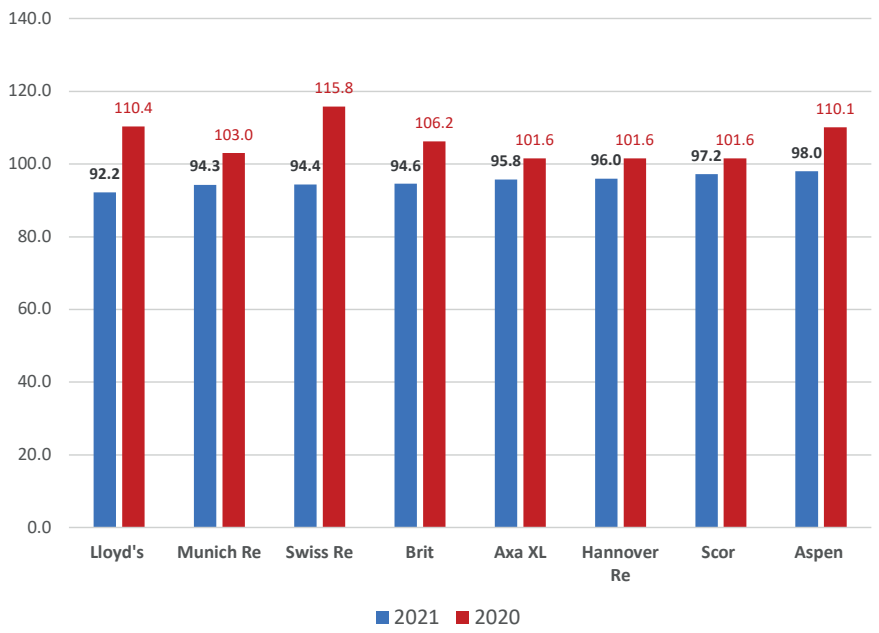


CHART PRODUCED BY THE ALM, BASED ON COMPANIES' H1 2021 DATA

Class by class underwriting results

For the sake of completeness, Figure 7 shows the relative performance of the classes of business in H1 2020 and H1 2021. The 2020 figures have obviously been severely affected by the impact of COVID-19 losses. The classes that have been most affected by COVID-19 in 2020 are those showing the losses (shown in red in Figure 7) namely: property, casualty and reinsurance. As a result of the rates increasing over the course of the past year together with a good deal of sub-standard business having been discarded, every class bar casualty, has now managed to produce a profitable underwriting result in H1 2021. As mentioned above, it is also interesting to note that H1 2021 saw an increase in the amount of casualty business that has been underwritten at Lloyd's.

Figure 7: Class by class underwriting results in H1 2019 and H1 2020

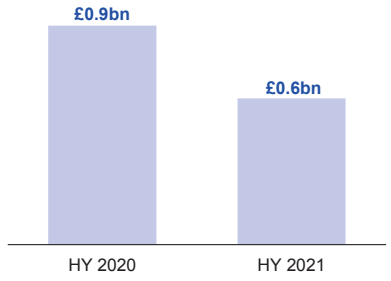
CLASS OF BUSINESS	H1 2020 (£M)	H1 2021 (£M)
REINSURANCE	(256)	199
PROPERTY	(1,002)	281
CASUALTY	(386)	(44)
MARINE, AVIATION AND TRANSPORT	10	206
ENERGY	62	59
MOTOR	22	6
LIFE	2	4
TOTAL FROM SYNDICATE OPERATIONS	(1,548)	963

SOURCE: TABLE PRODUCED BY THE ALM, BASED ON DATA EXTRACTED FROM THE SEGMENTAL ANALYSIS TABLES ON PAGE 17 OF LLOYD'S H1 REPORT

As discussed above, despite the fact that Lloyd's has shed about £1.8 billion of under-performing syndicate capacity since 2018, the business remediation process is far from over. When speaking to the Insider on 9 September, Burkhard Keese made the point that the bottom 15% performance of the market is still dragging down the overall market results. He argued that if the bottom 15% remediated sufficiently to reach the profit levels expected by Lloyd's, this would bring a 30% boost to the market's aggregate underwriting profit of £963 million in 2021.

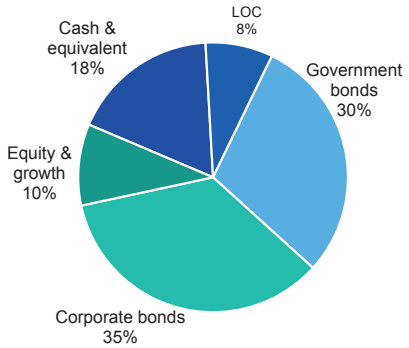
Figure 8: Prudent investment strategy pays off

Investment income

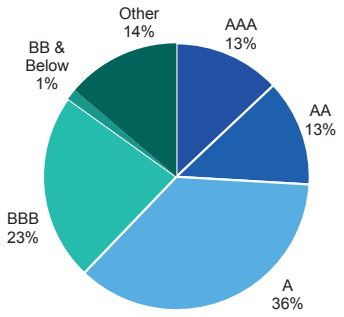


	HY 2020	HY 2021
Investment income	£0.9bn	£0.6bn
Investment return	1.2%	0.9%

Asset allocation as at 30 June 2021



Corporate bonds by rating



NOTES:

1. ASSET ALLOCATION AND CORPORATE BONDS BY RATING APPLIES TO ALL LLOYD'S ASSETS; PREMIUM TRUST FUNDS, FUNDS IN SYNDICATE, FUND AT LLOYD'S AND CENTRAL ASSETS
2. CORPORATE BOND EXPOSURE INCLUDES OTHER CREDIT INSTRUMENTS AND CORPORATE BOND DEBT FUNDS C. 8%
3. OTHER INCLUDES NR/UNK BONDS WHERE CREDIT RATINGS HAVE NOT BEEN SUBMITTED BY THE MARKET

Lloyd's reported a net investment income of £628 million for the first six months of 2021, representing an investment return of 0.8%. The 2021 investment return was roughly 33% lower than achieved in H1 2020 (£940 million, or a return of 1.2%). Financial markets endured a mixed first half of the year in 2021, as the lower risk corporate and government bonds (which formed 65% of the Lloyd's investment portfolio) underperformed equity assets (which accounted for only 10% of the Lloyd's portfolio). Bond yields increased because of markets expecting higher inflation, which had a resulting impact on bond portfolio valuations. Equity assets have generally seen positive returns as the global economy has begun it recover from the effects of the COVID-19 pandemic. Lloyd's has deliberately structured its investment portfolio to be as low risk as possible, so its investment results should be viewed in this context.

Lloyd's capital position

The Lloyd's market remains strongly capitalised with total capital, reserves and subordinated loan notes of £36.5 billion as at 30 June 2021, which was a 7.6% increase from the £33.9 billion reported as at 31 December 2020. The Lloyd's market's solvency ratios have also strengthened since 31 December 2020. The central solvency ratio has now increased to 218% from 209% as at 31 December 2020, and the market-wide solvency ratio has increased to 170% from 147% as at 31 December 2020. These increases reflect the strengthening of the Society of Lloyd's and Lloyd's market net assets and members' assets in the first six months of 2021.

During the first half of 2021 Lloyd's arranged a reinsurance cover for the Central Fund which will increase the resilience of the Lloyd's market by further strengthening its capital position and commitment to pay claims. This reinsurance will support further sustainable profitable growth across the Lloyd's market and increase Lloyd's central solvency ratio. However, its impact is not yet reflected at 30 June 2021, as it is subject to approval from the UK regulator.

Lloyd's ratings

It could be argued that the excellent Lloyd's H1 2021 results have also had a beneficial impact on the perception of Lloyd's by the rating agencies. In their interview with the Insider, both Burkhard Keese and Steve Jules commented on this issue. Burkhard Keese said that "the issue (with Lloyd's rating) has always been that our performance was not at the level of peers." Steve Jules argued that the feedback from the rating agencies about the H1 results had been very positive. Lloyd's is now comfortably reaching AAA capital requirements under S&P and higher financial strength ratings for AM Best. Our hope is that this will make Lloyd's ratings more secure and that it may lead to an upward revision of Lloyd's ratings.

Final thoughts

It is important to remember that the Lloyd's H1 figures are GAAP figures. They therefore bear little resemblance to the ultimate three year of account results of the members. Nevertheless, these very positive H1 results do give members a good indication of how the market is developing and how Lloyd's' performance has dramatically improved in 2021. Perhaps the most revealing figure, which should provide members with the greatest degree of optimism, is that the market has made an underwriting profit of £963 million. This is the first underwriting profit that has been made by the market in H1 for some years and is a vindication of the Lloyd's business remediation programme that began with Jon Hancock's initiatives in 2017. Although the market may still suffer some serious losses because of events in Q3, such as Hurricane Ida, and it has the potential to sustain more losses before the end of the year, its excellent H1 figures have arguably left it in a much stronger place at this point in the year than has been the case for many years.

AUCTION PREVIEW

The auction preview section is divided into three distinct sections:

- **In the first of these Chandon Bleackley offers a review of what took place at the 2020 auctions, and focusses on some of the key trends that defined the auction season.**
- **In the second he provides an overview of the key factors that will influence the 2021 auctions and discuss what may happen with regard to both bidding and pricing.**
- **Finally, in the Appendix, he has also provided a detailed breakdown of the capacity traded and the strike prices for all syndicates in the years between 2015 and 2020.**

REVIEW OF THE 2020 AUCTIONS

The 2020 auctions saw a continuation of many of the trends of recent years, especially with regard to that of buyers' focussing on an increasingly small group of syndicates and the fact that there was a wide gap between the high and low priced syndicates. In this section, Chandon Bleackley reviews the overall trading patterns of the 2020 auctions and examines some of the key components of the auctions in more detail, before concluding with a summary of some of the lessons that can be learnt from what happened at the 2020 auctions.

At a glance: some key figures from the 2020 auctions

- In October and November 2020, Lloyd's held three capacity auctions. These were held on 22/23 October, 28/29 October and 4/5 November.
- A total of £222.3 million of capacity was traded on a total of 19 syndicates in the three auctions (2019: £134.5 million of capacity traded on 20 syndicates).
- The weighted average price of capacity traded across the three auctions in 2020 fell by 11.1% to 20.9p per £ (2019: 23.5p per £).
- The syndicate that reached the highest strike price in 2020 was syndicate 1176. It traded for 200.37p per £ at auction two.
- The prices paid for capacity ranged from 0.10p per £ to as high as 231.99p per £ (for a line on syndicate 1176 at auction one).
- The largest volume of capacity (£69.0 million) was traded on syndicate 2121.
- Aligned corporate and managing agency ("aligned") buyers bid for their capacity on syndicates 609, 623, 727, 2121 and 4444.
- In total, aligned buyers succeeded in buying £73.2 million of capacity (2019: £14 million). This was bought on syndicates 727, 2121 and 4444, but £61.5 million of it was bought on syndicate 2121 alone.

- Third party members ("members") purchased about £154.0 million of capacity, or roughly two-thirds of all of the capacity traded in 2020.
- The members' largest subscription (buy) bid, when measured by capacity volume, was placed for capacity on syndicate 510 across the three auctions. Members bid for between £26 million and £28 million of capacity on the syndicate at each of the three auctions.
- The members' largest purchase, when measured by capacity volume, was also on syndicate 510, where they collectively bought £31.1 million of capacity over the course of the three auctions.
- Members' largest tender (sale) bid was placed for capacity held on syndicate 2121.
- Members' largest sale, when measured by capacity volume, was also on syndicate 2121, where they sold £69 million of their capacity over the course of the three auctions.
- As in both 2018 and 2019, this was very much an auction of two distinct halves when it came to pricing. Only 9 syndicates managed to achieve a strike price of greater than 5.0p per £ at each of the three auctions.
- On the other hand, the members' five "core" syndicates (defined as being 33, 510, 609, 623 and 2791) traded for a simple average price of 55.17p per £, 49.13p per £ and 46.93p per £ in auctions 1, 2 and 3 respectively, or a simple average of 50.41p per £ across all three auctions. Some other syndicates, such as 386, 727, 1176 and 2525 traded for even higher strike prices, but in much lower volumes.

An overview of the 2020 auctions

2020 was the twenty-sixth year that capacity auctions have been held by Lloyd's. These still remain the principal way in which members can alter the composition of their underwriting portfolio for the next underwriting year, by means of buying and/or selling capacity in the three auctions. There was a substantial increase in the amount of capacity that was traded in 2020, to

Figure 1: Capacity traded and weighted average prices paid 2009 to 2020

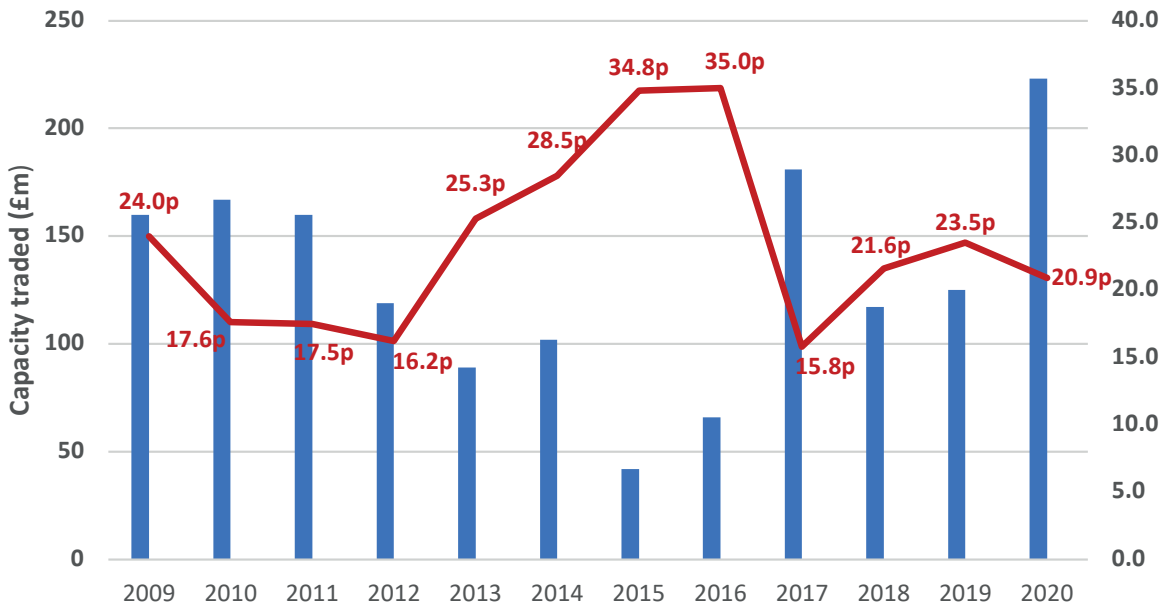


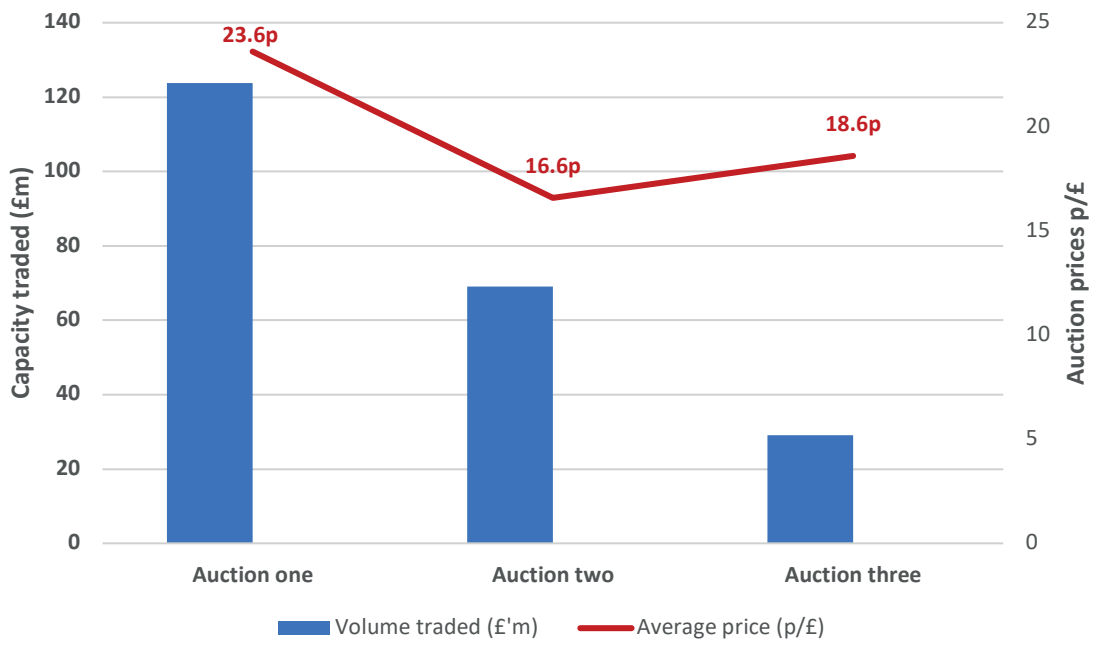
CHART PRODUCED BY THE ALM, BASED ON LLOYD'S AUCTION DATA BETWEEN 2009 AND 2020

£223.2 million (2019: £125.3 million), mainly as a result of Argenta buying back £61.5 million of capacity on syndicate 2121, but there was also an 11.1% decline in the weighted average strike price, to 20.9p per £ (2019: 23.5p per £). The blue bars in Figure 1 show the relative volumes of capacity traded in the auctions between 2009 and 2020, and the red line shows how the weighted average price that was paid for capacity has changed year by year.

As can be seen in Figure 1, the years from 2010 to 2015 saw a dramatic reduction in the amount of capacity that was traded in each year, to the point where only £42 million was traded in 2015. This compares to £167 million traded in 2010. As can be seen by the progress of the red price line in Figure 1, the laws of supply and demand led to a general increase in prices between 2010 and 2016. The average weighted price more than doubled from 17.6p per £ in 2010 to 35.0p per £ in 2016 (which still remains the current high point for pricing). The dramatic increase in the volumes of capacity traded in 2017 led to a fall in the average weighted price (to 15.8p per £). The lower volumes of capacity that have been traded have been one of the key factors in the recovery in prices that took place in both 2018 and 2019. The amount of capacity that was traded in 2019 increased by £8 million over the level traded in 2018.

The dramatic increase in the volume of capacity that was traded in 2020 was mainly attributable to two factors. Firstly, there was an increase in the amount of capacity that was bought back by aligned capital. Analysis of the auction figures suggests that Argenta bought about £61.5 million of capacity from members on its syndicate 2121. This sum alone accounted for about 30% of all of the capacity traded in the three auctions. Secondly, a large amount of pre-emption was offered to members (£332 million) for the 2021 account and some of this was sold off by members.

Figure 2: Capacity traded and average prices across all 2020 Auctions



	CAPACITY TRADED IN 2020	CAPACITY TRADED IN 2019	AVERAGE PRICE PAID: IN 2020	AVERAGE PRICE PAID: IN 2019
	(£)	(£)	P PER £	P PER £
AUCTION ONE	123.8 MILLION	75.1 MILLION	23.6P	25.3P
AUCTION TWO	69.1 MILLION	29.9 MILLION	16.6P	24.7P
AUCTION THREE	29.1 MILLION	29.6 MILLION	18.6P	17.5P

BLOCK CHART AND TABLE PRODUCED BY THE ALM BASED LLOYD'S 2019 AND 2020 AUCTION DATA

The chart in Figure 2 shows the volumes of capacity traded at each of the three auctions in 2020 and the average strike price for capacity. For comparative purposes, figures for both 2020 and 2019 are shown in the table underneath. In both 2019 and 2020, the greatest volume of capacity (£123.8 million) was also traded at the first auction. Part of the reason for this was undoubtedly the fact that the greatest amount of capacity was put up for sale at auction one (£153.1 million compared to £100.7 million and £52.8 million at auctions two and three, respectively). This was the result of the fact that many members were wishing to sell their unwanted pre-emption and, in some cases, their line on syndicate 2121 as well. They therefore put this capacity up for sale at auction one in order to give themselves the best possible chance of selling the capacity over the course of the three auctions.

Members were offered some £332 million of pre-emption for the 2021 account (as compared to £310 million for 2020), and sought to sell their unwanted pre-emption through the auction system. There were several reasons for this. Firstly, as members' portfolios have become ever more concentrated onto fewer syndicates, there is a limit to how much capacity they can write on each syndicate from a risk aggregation perspective. Secondly, some members may not have wished, or been able, to commit more assets to their funds at Lloyd's (FAL) in order to increase their overall underwriting commitment for the 2021 year of account.

Figure 3 shows the amounts of capacity that were sold on each syndicate across the three 2020 auctions. As can be seen, the Argenta purchase of capacity on syndicate 2121 was by far the largest amount; more than twice the amount traded on the next largest syndicate. As will be discussed in more detail later, it comes as no surprise to see that the next four largest amounts traded were on the four syndicates that were most heavily supported by members (510, 623, 33 and 609). Indeed, most of the capacity bought by members in 2020 was on only seven syndicates.

Figure 3: Capacity volume traded by syndicate across all 2020 auctions (£)

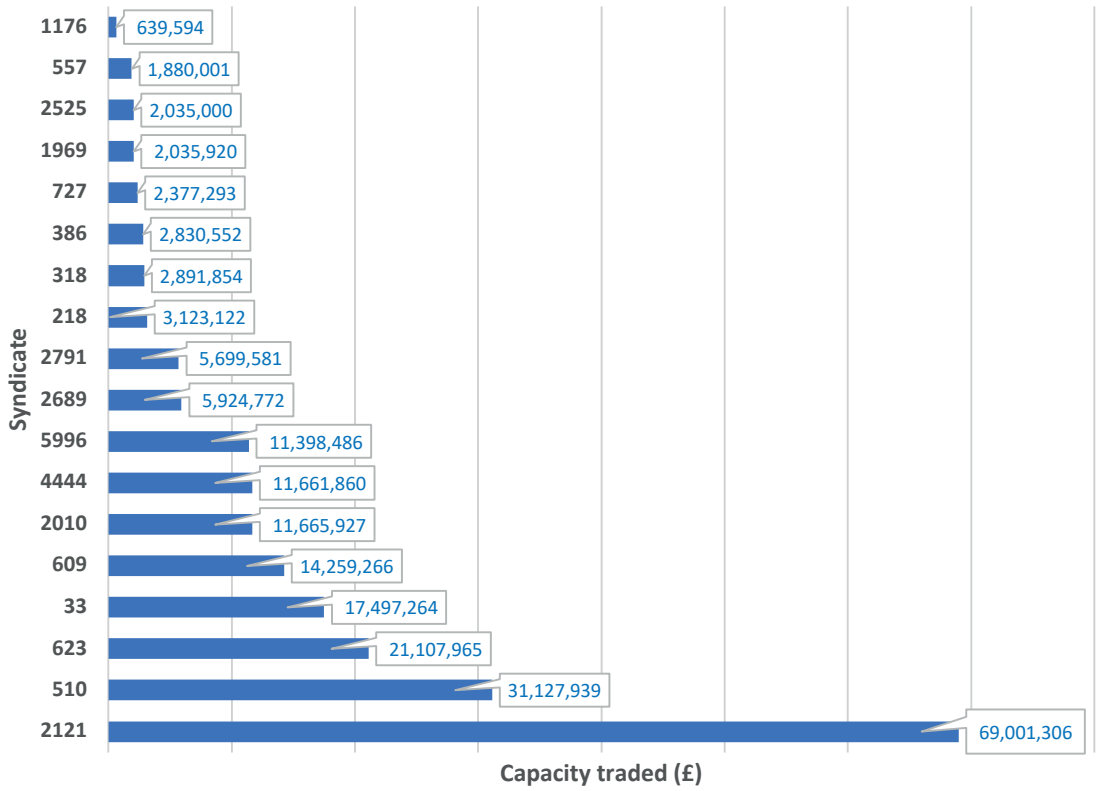


CHART PRODUCED BY THE ALM, BASED ON LLOYD'S AUCTION DATA BETWEEN 2009 AND 2020

Whilst all of these headline figures are interesting in themselves, they are not really that revealing. In order to fully understand what occurred at the 2020 auctions, it is essential to examine each of the component parts of the three auctions in a bit more detail. These include the background to the auction season, what aligned capital, members and corporate spread vehicles were trying to buy and sell, and what happened to individual syndicate prices. It is also worthwhile examining how the price differential between the most sought-after syndicates and many of the remaining syndicates has increased once again.

Background to the auctions

Trading conditions were improving

As has been extensively discussed in a variety of the ALM's publications, 2020 saw a significant improvement in trading conditions in many classes of business. The combined effect of the catastrophe losses that hit the market between 2017 and 2020 and the effects of, and the continuing uncertainty surrounding, COVID-19 had all led to further rating increases being imposed during the course of 2020. By early October 2020, just prior to the auctions, it was clear that the market was continuing to harden and prospects for 2021 looked very encouraging. Members' agents were therefore suggesting that their members increase their underwriting for 2021 and take up syndicate pre-emptions on a selective basis.

Members were offered pre-emptions for 2021

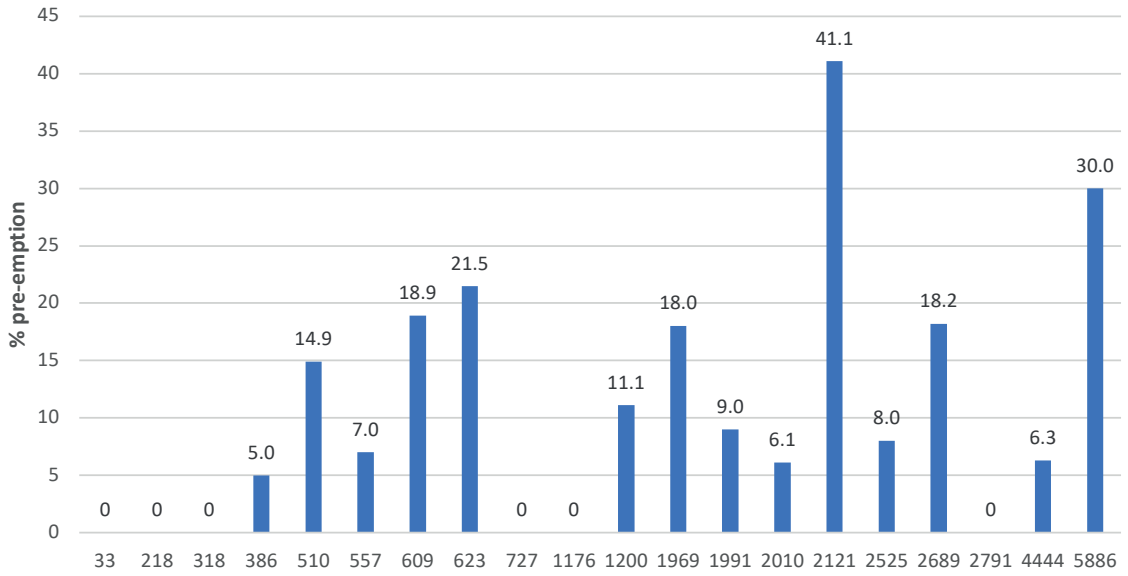
The increase in rates and the improvement in terms and conditions that had taken place in many business classes in 2020 led many syndicates to wish to underwrite more business in 2021. In response to this pent-up demand, the Lloyd's Performance Management Directorate (PMD) refined its targeted approach to syndicate business plan approvals for the 2021 account. This built upon Lloyd's introduction of the "light touch" pilot scheme for business plan approval that had been launched for the 2020 account. "Light-touch" syndicates were those syndicates that had produced a top quartile combined ratio performance.

When assessing the syndicate business plans for 2021, Lloyd's divided all of the syndicates into three key groups; "light-touch", "standard-touch" and "high-touch." There were also some other, new syndicates, whose lack of a performance track record meant that they could not be assessed in this way. The "light-touch" syndicates at Lloyd's were allowed to increase their gross premium income by 18% for the 2021 account. Many of these "light-touch" syndicates, such as syndicates 609, 623, 2525 and 2791 already formed significant portions of members' underwriting portfolios. As a group, the "light-touch" syndicates comprised about 25% of the market for 2021. The "standard-touch", or middle-performing, syndicates which comprised 39% of the market, were permitted to increase their gross premium income by 12%. At the same time, the "high-touch", or the group of worst-performing, syndicates which comprised 27% of the market, were only permitted to grow their gross written premium by 6% for 2021.

What this meant in practice was that members were offered a net £320 million of pre-emption capacity on their syndicates for 2021, as their portfolios were very much concentrated on "light-touch" and "standard-touch" syndicates. Figure 4 shows the pre-emptions that were offered to members on their syndicates for the 2021 account. As can be seen, there were some large offers of pre-emption made on a fair number of the syndicates that were already the most heavily supported by members, such as syndicates 510, 609 and 623.

The fact that some members were likely to want (or needed) to sell some of this pre-emption meant that there was going to be an availability of capacity to buy on both the "light" and "standard" touch syndicates at the auctions. There was always the possibility that some members would be unable, or would not wish, to underwrite all of this capacity themselves, and that some of it would be put up for sale. Equally, if members took up all of the pre-emptions that they were offered on these three "core" syndicates, then they may have had to sell off other syndicate capacity in order to be able to do so (or put in more FAL to support an increased level of underwriting). It is worth noting that neither syndicate 33 nor 2791 pre-empted for the 2021 year of account. In the case of syndicate 33, the syndicate had already pre-empted by a considerable amount (21.2%) for the 2020 year of account, and arguably did not need to do so once again for the 2021 account. Syndicate 2791 did not offer a pre-emption for the 2021 year of account on account of the fact that the syndicate's percentage capacity utilisation was still low relative to its stamp capacity and a pre-emption would therefore have been completely unnecessary.

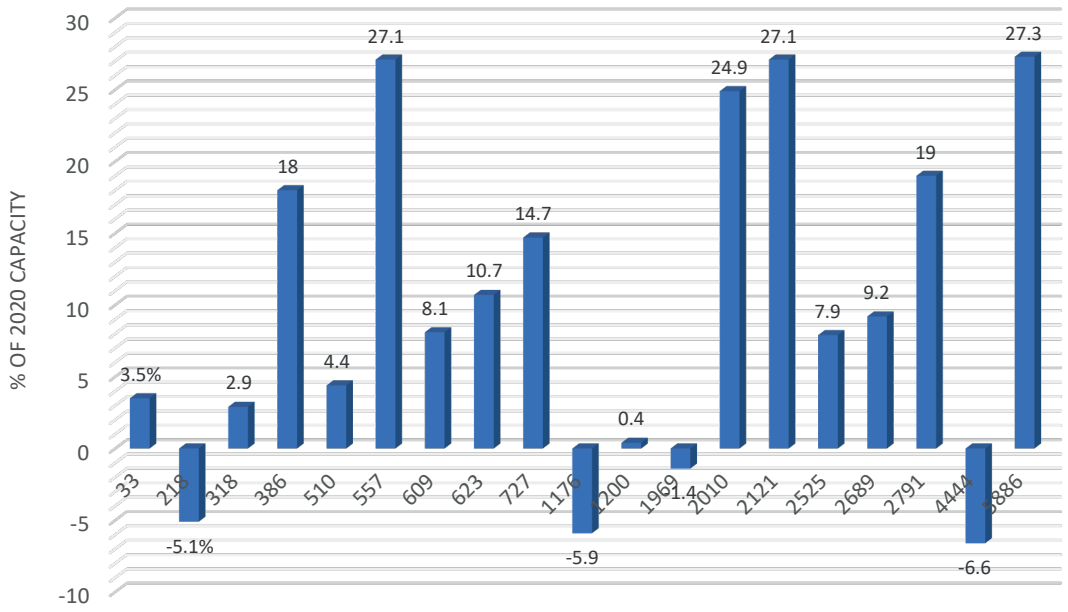
Figure 4: 2021 percentage pre-emption offers on auction-tradeable syndicates for 2021



SOURCE: SYNDICATE AND MANAGING AGENTS' DATA FROM 2020

In addition to the syndicates shown in Figure 4, there were also a number of other syndicates which did not trade in the auctions (but which were available to members for the 2021 account) and which were offering members substantial amounts of pre-emption. These included syndicate 1729 (a 37% pre-emption), syndicate 2988 (a 16.4% pre-emption), and syndicate 4242 (a 36.3% pre-emption). There were also a number of Special Purpose Arrangements (SPAs) which were offering pre-emption to members. These included syndicate 6103 (a 32% pre-emption), syndicate 6107 (a pre-emption of 28.4%) syndicate 6117 (a pre-emption of 21.5%) and syndicate 6113 (a pre-emption of 8.33%). In short, this meant that members did not have to trade

Figure 5: Change in ECA for 2021 as a % of 2020 capacity



SOURCE: SYNDICATE DATA FROM 2020

in the auctions at all in order to increase the level of their overall underwriting for the 2021 account. Furthermore, all of the capacity being offered by these other syndicates came at no cost to members.

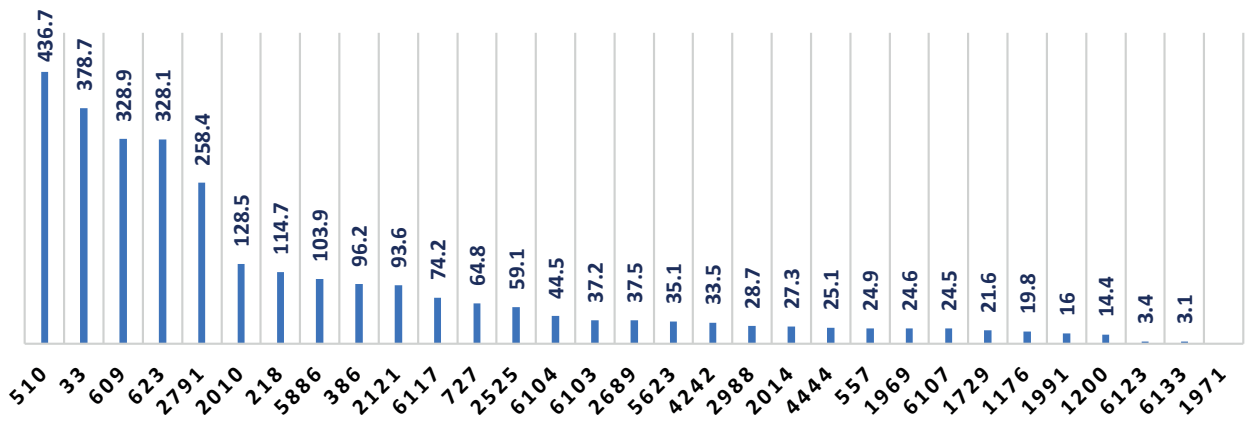
It is worth noting that one of the side effects of the pre-emption offers was that they contributed to an increase in ECA ratios for some syndicates and this sometimes led to an increase in capital requirements. Indeed, there were only four syndicates supported by members that saw a reduction in their ECA for 2021 (see Figure 5).

One of the misconceptions that is still widely held about pre-emptions is that it is often thought that in years such as 2020, when substantial sums of pre-emption are offered, that this leads to a reduction in the volumes of capacity that are traded by members in the actual auctions, as with so much free capacity being offered, members would be less inclined to trade. As will be discussed in more detail, this does not seem to have been the case in 2020, as some of the syndicates which offered some of the largest pre-emptions for 2021, such as syndicates 510, 609, 623 or 5886, were still in heavy demand by buyers at the auctions, as they saw the most subscription bids.

The allocation of members' 2020 capacity

Another factor that has been critical in determining the trading patterns in the 2020 auctions has been the allocation of members' capacity. Figure 6 shows how this broke down for 2020 (prior to the auctions). The syndicates have been ranked, left to right, by the amount of members' capacity that was allocated to them. Members' capacity allocations had not changed by any significant margin in 2020 from those of recent years, and there still remained a vast difference between the amount of capacity that was committed to the most-supported syndicates and to the least-supported ones. It is worth noting that members had allocated just over £1.7 billion of their capacity to what are often referred to as their five "core" syndicates in 2020. The five "core" syndicates were those to which most of the members' capacity was allocated in 2020. They were syndicates 510, 33, 609, 623 and 2791 (see Figure 6). Only eight syndicates supported by members had more than £100 million of capacity allocated to them. Furthermore, the capacity of the ten least-supported syndicates amounted to less than was allocated to each of the top five individually.

Figure 6: The allocation of members' capacity in 2020



SOURCE: 2020 MANAGING AGENTS' AND MEMBERS' DATA

Members' agents' gradings of syndicates

Another associated factor that should not be under-estimated, and which has had a big effect on what has happened in recent years' auctions, has been the gradings (or relative rankings) that the members' agents have awarded to the syndicates supported by their members. The members' agents' gradings of syndicates have always been a critical factor in the level of support that a syndicate receives from members, but they have become even more so in recent years as the number of syndicates open to members has fallen. These gradings now basically reflect the disposition of members' syndicate allocations (shown in Figure 6), as the most supported syndicates, which are shown on the left of the table, are basically those that have received the highest gradings from the three members' agents.

Although the ALM was not party to the exact gradings/rankings that were allocated to each syndicate in 2020 by each of the members' agents, the evidence seems to suggest that the allocation of capacity to the mainstream syndicates by each of the three members' agents is now remarkably similar. These gradings have played a critical part in how the syndicates have tended to trade at the auctions in recent years. Once again in 2020, the syndicates that received the most subscription bids from members in the auctions were those that had been graded the highest by the members' agents. Indeed, how a syndicate is graded by the members' agents has become a de facto indicator of how great the demand for its capacity is likely to be at the auctions. The demand still seems to be there even when the syndicate in question is also offering a large pre-emption (as we have seen with syndicates like 510 and 609 in 2020) as members have consistently wanted to buy more capacity on the best-performing and highest-graded syndicates.

In the 2020 edition of LMRP, the ALM argued that it was quite possible that many members would want to allocate as much of their capacity as possible to those syndicates that have been graded the highest by their members' agents; in other words, the five "core" syndicates and a select group of others, among whom were syndicates 386, 727, 2010 and 2525. The gradings awarded by the members' agents reflected not only the fact these syndicates had out-performed many of their peers in the past, but that they were deemed to be likely to continue to do so in 2021 and in the medium-term future. It therefore came as no surprise at all to see that all of these syndicates were highly sought after by members at the 2020 auctions.

In recent years, one side effect of this has been that the auction market has arguably divided itself into two distinct halves when it comes to bidding and pricing in recent years. For obvious reasons, some syndicates have attracted a lot more subscription bids than others. As will be discussed in more detail below, this is exactly what happened, once again, in 2020.

Subscription and tender bids

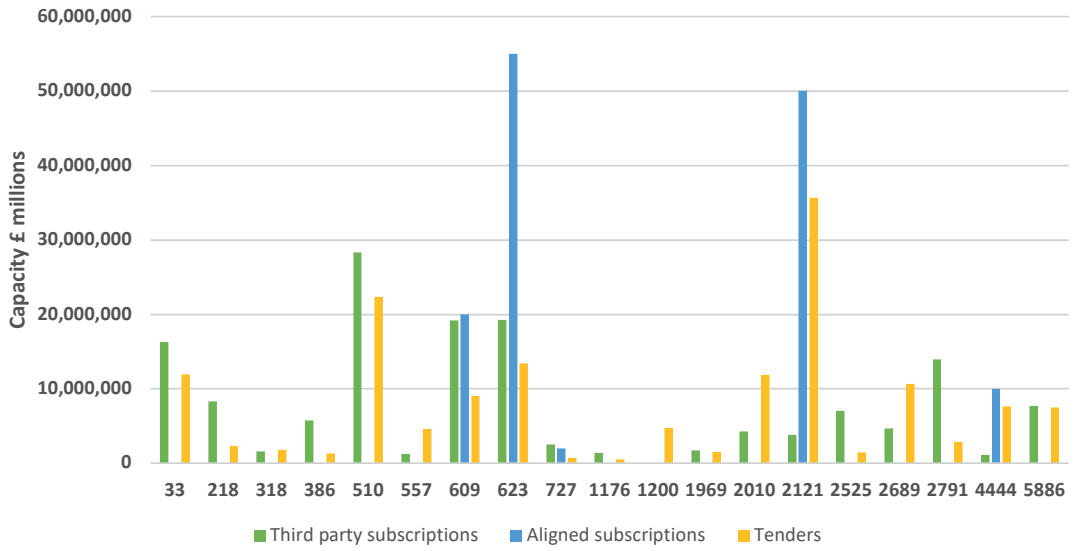
In the parlance of the Lloyd's auctions, buy bids are known as "subscription bids" and sale bids are known as "tender bids".

It is worth examining the subscription and tender bids made at each of the auctions in a bit more detail as they show how bifurcated the auction market has now become. In particular, it is worth nothing that the bids made by members have now mostly become largely concentrated on less than eight syndicates.

Figures 7, 8 and 9 show the amounts of capacity that were being bid for by all buyers, and what was being offered for sale by all sellers, in the three 2020 auctions on a syndicate-by-syndicate basis. These graphs also include the subscription and tender bids that were made by aligned capital in respect of capacity of its own syndicates. As can be seen, in the cases of syndicates 623, 2121 and 4444, the bids that were placed by aligned capital had the effect of massively distorting the amounts of capacity being sought by buyers on the syndicates in question (to the point where considerations about the scale of the graphs has precluded the inclusion of the full Beazley subscription bid of about £465 million). However, what was interesting was that there were not as many bids from as many managing agents as was the case in 2019, in that only five managing agents bid for their own capacity as compared to six in 2019. Some of the managing agents that had placed bids for their capacity in recent years, such as Hiscox (for syndicate 33), ERS (for syndicate 218) and TMK (for syndicate 510), were notable by their absence. Auction one is often the busiest auction, as sellers usually want to enter their capacity into the auction on day one of auction one, so as to allow them the maximum opportunity to sell (by means of rolling over into auctions two and three if the capacity fails to sell in auction one). Buyers also place their bids in auction one, and in many instances these bids are entered at deliberately low prices; the intention being that these bids also roll over through all three auctions (with a view to potentially striking at a cheaper price in either auctions two or three). This bidding strategy has become increasingly common in recent years as many members are now only bidding for relatively small amounts of capacity in the auctions, the purpose of which is usually to allow them top up their existing lines on syndicates which they already own. This strategy leads to an increased amount of speculative bidding, often at well below the strike prices, especially on the most popular syndicates.

Given these factors, it comes as no surprise to see that auction one saw the greatest volume of bids placed of any of the auctions at the 2020 season, as subscription bids amounted to £694.6 million and tender bids amounted to £153.1 million.

Figure 7: Subscriptions and tenders in Auction One



BAR CHART PRODUCED BY THE ALM, BASED ITS INTERPRETATION OF LLOYD'S 2020 AUCTION 1 DATA (23 OCTOBER 2020)
NOTE: THE TOTAL SUBSCRIPTIONS FOR SYNDICATE 623 WERE ACTUALLY £483,647,727. INCLUDED IN THIS SUM IS A BID FROM BEAZLEY, FOR WHAT THE ALM BELIEVES WAS FOR £464.4 MILLION OF CAPACITY ON SYNDICATE 623. THE FULL SUBSCRIPTION FIGURE FOR SYNDICATE 623 IS NOT SHOWN IN THE TABLE ABOVE, AS DOING SO WOULD HAVE WOULD HAVE DISTORTED THE SCALE OF THE GRAPH AND MADE THE REMAINDER OF THE NUMBERS ON THE CHART LESS EASY TO READ.

Comments on the subscription bids at auction one

Figure 7 shows the total monetary amounts of the subscription and tender bids placed by the members and aligned capital providers at auction one. By far the largest two subscription bids made were those by the Beazley and Argenta managing agencies for capacity on their respective syndicates, 623 and 2121. Based on an analysis of the day two penny band reports issued by Lloyd's, which showed the price ranges at which the subscription and tender bids were placed, it looks as if Beazley was bidding to buy about £464.4 million of capacity on syndicate 623. This sum is roughly equal to the entire third party capacity holding on the syndicate, and when viewed in isolation, it amounted to just over 65% of the £694 million of subscription bids that were placed at auction one. In addition, Argenta placed a bid of £50 million for its capacity on syndicate 2121. This meant that Argenta and Beazley's combined subscription bids accounted for about 73% of the entire sum of capacity that was being subscribed for by all potential buyers for at auction one. As can be seen in Figure 7, analysis conducted by the ALM leads it to believe that in addition Atrium bid for £20 million of capacity on syndicate 609, Meacock bid for £2 million of capacity on syndicate 727 and that Canopius was bid for £10 million of capacity on syndicate 4444.

If we exclude what we have estimated to have been roughly £550 million of subscription bids from aligned capital that were made at auction one, on five syndicates, then this means that members were bidding for about £144 million worth of capacity. It comes as no surprise to see that the five "core" syndicates that were most sought after by third party members at auction one were the five "core" syndicates that already formed roughly 70% of members' 2020 portfolios, namely 33, 510, 609, 623 and 2791.

What was even more remarkable about this was the fact that three of these syndicates, 510, 609 and 623, were already offering members substantial sums of pre-emption for the 2021 year of account. The fact that members were looking to buy even more capacity on these syndicates suggests that, contrary to the generally accepted view, pre-emption offers are not really that relevant when it comes to what bids are placed in the auctions. The amount of capacity being subscribed for by members on the five "core" syndicates was about £95 million, which was not only equivalent to about 65% of the entire sum of capacity being subscribed for by members at auction one, but was also far in excess of the sums being sought by members on other syndicates. The next most sought after group of syndicates, based on the subscriptions made at auction one by members,

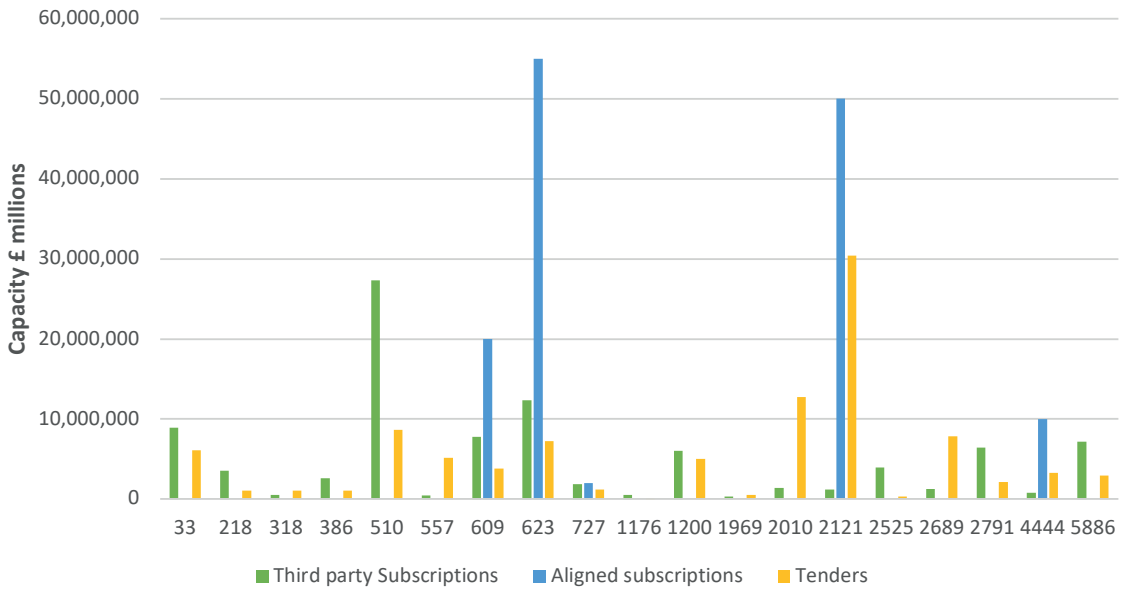
included syndicates 218, 386, 2010, 2525 and 5886. More than £4 million of subscription bids was placed by members for capacity on each of these syndicates. There was only very limited interest on the part of members for capacity on any of the other syndicates trading in auction one. Syndicates such as 318, 557, 1200, 1969, and 1991 saw little interest from potential buyers, and all of them had a lot more capacity up for sale than was being sought by potential buyers.

Comments on the tender bids at auction one

By far the greatest sum of capacity (£35.6 million) was put up for sale by members on syndicate 2121. Interestingly, the next largest sum (£22.3 million) was put up for sale on syndicate 510. Syndicate 510 is the syndicate on which third party members as a whole held their largest amount of capacity (£436.7 million) for 2020. As discussed above in relation in Figure 4, it was offering a substantial pre-emption for the 2121 account, and this may not have been something and that all members wished to take up. Despite that, the amount of capacity put up for sale was more than matched by the amount required by subscribers as the syndicate remained one of the most sought after by potential buyers at auction one.

Another syndicate on which there was a considerable amount of capacity put up for sale (£11.8 million) was syndicate 2010. Although syndicate 2010 had been an excellent performer in recent years, and was still the fifth most heavily supported syndicate by the members in 2020, it is possible to argue that the fact that it too was offering a relatively substantial pre-emption for 2021 may have meant that not all third party members wished to take up their full 2021 pre-emption offer, as this may have left them over-lined on the syndicate for 2021. The fact that the pre-emption led to an increase in the level of its ECA cannot have helped either. Interestingly, there was more than twice the amount of capacity up for sale than was required by buyers on syndicate 2010, and this meant that the syndicate could be bought for as little as 10p per £, which arguably made it one of the "best-buys" at the auction.

Figure 8: Subscriptions and tenders in Auction Two



BAR CHART PRODUCED BY THE ALM, BASED ON LLOYD'S 2020 AUCTION 2 DATA (29 OCTOBER 2020)

NOTE: THE TOTAL SUBSCRIPTIONS FOR SYNDICATE 623 WERE ACTUALLY £477,343,005. INCLUDED IN THIS SUM IS A BID FOR ABOUT £465 MILLION MADE BY BEAZLEY FOR CAPACITY ON SYNDICATE 623. THE FULL SUBSCRIPTION FIGURE FOR SYNDICATE 623 IS NOT SHOWN IN THE TABLE ABOVE, AS DOING SO WOULD HAVE WOULD HAVE MADE THE REMAINDER OF THE NUMBERS ON THE CHART LESS EASY TO READ.

Auction two saw a reduction in both the level of subscriptions and tenders to £641.4 million and £100.7 million respectively. The level of subscription bids was kept artificially high as a result of the Beazley and Argenta bids, which were back in place for auction two. Analysis of the Lloyd's penny band reports suggests that the combined size of these two bids may have been £515 million, or equivalent to 80% of all of the subscription bids that were placed.

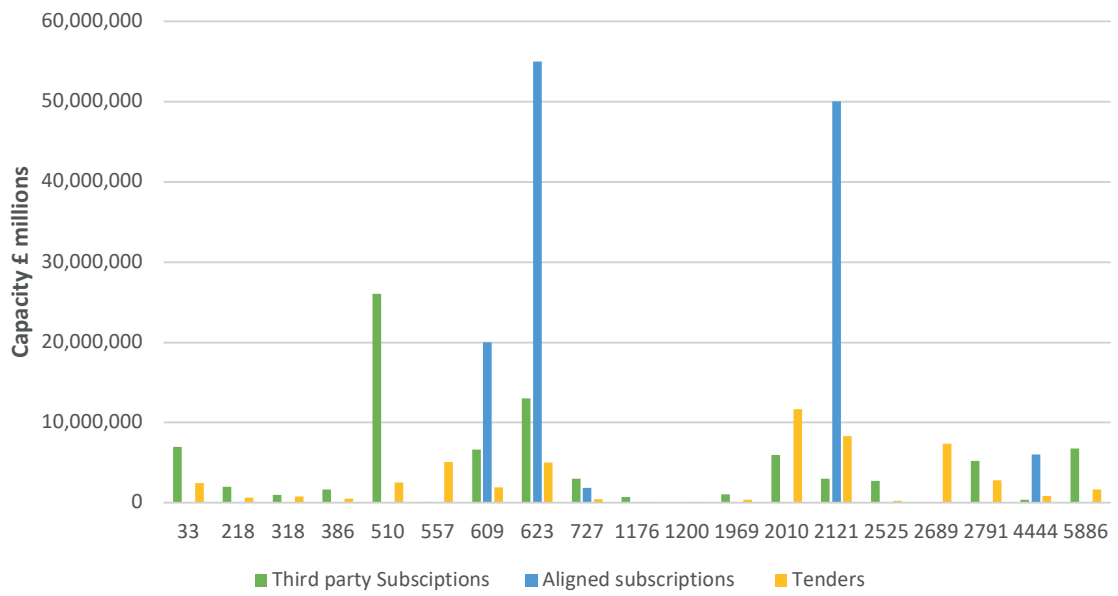
Comments on the subscription bids at auction two

As can be seen in Figure 8, as far as the subscription bids went, auction two saw a continuation of many of the trends that became apparent at auction one. The Beazley and Argenta managing agency subscriptions were still the largest stand-alone bids. The same five managing agencies all bid for capacity on their own syndicates, and Meacock, Argenta and Canopius actually succeeded in buying some capacity on their respective syndicates at the auction (see below for the details).

As far as members were concerned, the five most sought-after syndicates, when measured by monetary amount of the subscriptions entered into the auction, were 510, 623, 33, 5886 and 609. As has already been noted above, all of these syndicates, bar 33, were already offering members generous sums of pre-emption for the 2021 account, yet they still continued to be sought-after syndicates by members at auction two. Once again, this demonstrated that a large offer of pre-emption on a syndicate did not necessarily always curtail bidding for capacity on these syndicates. As has been discussed, the five "core" syndicates were the most sought-after at auction one, and members had managed to buy about £56 million of capacity on these five syndicates at the first auction alone. These syndicates have not only all been good historical performers, but they were all highly "graded" by the three members' agents; and it was these facts, above all else, that ensured they were in high demand (regardless of any pre-emption offer). Perhaps predictably, the sixth most sought-after syndicate at auction two was 2791, where members placed subscription bids that totalled £6.4 million. Aside from these syndicates, members were also focussed on bidding for capacity on other good historical performers, such as syndicates 386 and 2525, not least because their non-US liability books of business provided members with an element of what, in many cases, may have been a much needed element of portfolio diversification (away from their over-exposure to US catastrophe business). Although large sums of its capacity were not traded (mainly as a result of the fact that there was only a limited amount of capacity for sale), it is worth noting that syndicates 386 and 2525 recorded respectively the third and fourth highest strike prices of any syndicates at the auctions.

As an aside, it is interesting to note that subscription bids were actually placed for every single one of the syndicates trading at auction two, whereas this was not the case in auction one, where the fact that it was the first of the three auctions may have made some bidders more selective about their bids. Equally, some members may have been trying to execute a pre-determined bidding strategy at auction one, but the high prices, or unattainability of capacity on some syndicates, may have forced them to compromise these plans at auction two.

Figure 9: Subscriptions and tenders in Auction Three



BAR CHART PRODUCED BY THE ALM BASED ON LLOYD'S 2020 AUCTION 3 DATA (5 NOVEMBER 2020)

NOTE: THE TOTAL SUBSCRIPTIONS FOR SYNDICATE 623 WERE ACTUALLY £478,641,822. INCLUDED IN THIS SUM IS A BID MADE BY BEAZLEY FOR CAPACITY ON SYNDICATE 623. THE FULL SUBSCRIPTION FIGURE FOR SYNDICATE 623 IS NOT SHOWN IN THE TABLE ABOVE, AS DOING SO WOULD HAVE WOULD HAVE MADE THE REMAINDER OF THE NUMBERS ON THE CHART LESS EASY TO READ.

Comments on the tender bids at auction two

As far as tenders went, what was most notable about auction two was that there was only £100.7 million of capacity for sale, as compared to £153.1 million at the first auction.

The most capacity for sale at auction two was on syndicates 2010 and 2121 for the same reasons as was the case in auction one. In the case of syndicate 2010, this surplus enabled members to buy capacity on a syndicate with a very good track record (for as low as 10p per £), and in case of syndicate 2121, the managing agency was able to buy back a further £26.8 million of their capacity. Once again, there were a number of other syndicates, such as 318, 557, 1969, 2010 and 2689, where there was more capacity up for sale than was being sought by buyers.

By auction three subscription bids had only fallen slightly, but the total figure of £628.1 million was once again kept artificially high by the presence of about £515 million of bids from Beazley and Argenta alone. On the other hand, by auction three, and thanks to what had been already been sold at the first two auctions, tenders had fallen back to only £52.8 million. If we exclude the subscription bids that were made by managing agents, then the subscription bids (of about £113 million) that were placed by members at auction three were actually more than two times greater than the total amount of capacity that was now up for sale.

Comments on the subscription bids at auction three

If we just focus on the £113 million of subscription bids that were placed by members, it will perhaps come as no surprise to see that, in monetary terms, the bulk of these were for only 7 syndicates (33, 510, 609, 623, 2010, 2791 and 5886). The five "core" syndicates among that group collectively accounted for bids of £57.7 million, or 51% of the entire sum of capacity bid for by members at auction three. This was a reduction on the equivalent figure in auctions one and two.

What may perhaps come as more of a surprise is the amount of subscription bids that were placed for syndicates 2010 and 5886. It was interesting to see that there was finally a resurgence of interest in bidding for capacity in syndicate 2010. Subscription bids on 2010 totalled nearly £6 million at auction three, as compared to only £1.4 million at auction two, as it was obvious (based on a reading of the day one penny band reports, which showed that there was £10.7 million of capacity for sale at under 99p per £) that this was an excellent opportunity to buy a high quality syndicate for as little as 1p per £. This fact may have put the higher prices being paid for some of its peers into better perspective. As discussed above, the exact reasons why there was quite a lot of capacity up for sale on this syndicate at all three auctions (£12 million at auction three, and £10.7 million of that available at under 99p per £) is not clear, but it may also have been connected to what was happening with syndicate 5886. It is important to remember that it was the defection of some of the leading underwriters from the old Cathedral syndicate 2010 that led to the eventual foundation of syndicate 5886 in 2016.

Syndicate 5886 was a syndicate whose capacity was in demand at each of the three auctions. Subscription bids averaged £7.1 million and the average strike price was 3.8p per £ across the three auctions. The average strike price was inflated by the 6.76p per £ price in auction two, but it is important to bear in mind that the syndicate's capacity could actually be bought for as little as prices of 1.51p per £, 1.11p per £ and 1.82p per £ at the three auctions respectively (see Figures 11, 12 and 13 for more detail). Compared to the price of capacity of the "core" syndicates, this was very good value. Equally, when compared to the 20.0p "fee" that was paid by those members who joined the syndicate for its first year, this was a very cheap way to acquire capacity on a syndicate which we believe to have been relatively highly graded by the members' agents despite its poor underwriting performance to date. Perhaps the expectation was that a harder market would carry the syndicate back to profitability?

Two other high performing syndicates that continued to attract bids from members were 386 and 2525, as their non-US liability business remained a sought-after, diversifier-class for members whose portfolios may well have been over-exposed to US catastrophe business. Buyers were looking to purchase three times more capacity than was for sale in the case of syndicate 386 and more than ten times the amount for sale on syndicate 2525! Both syndicates traded for high prices at all three auctions.

On the other hand, there were two syndicates, 1200 and 2689, that did not get a single subscription bid at auction three.

Comments on the tender bids at auction three

Although the total tenders fell to only £58.2 million at auction 3 (from £153.1 million at auction one and £100 million at auction two) it would be too simplistic to argue that this sum just amounted to what had failed to sell at auctions one and two. This may

have been the case with capacity on some of the less sought-after syndicates, such as 318 or 2689, but was certainly not true of all syndicates, or the most popular syndicates. An analysis of the reserve prices at which capacity was entered into the market for sale at auction three shows this could well have been the case. For example on many popular syndicates, like 609 or 2791, sellers left their capacity at quite high minimum sale prices at auction three. Had the seller really wanted to ensure the absolute best chance of selling their line, then entering the capacity with at the lowest reserve price possible (a price of up to 99p per £) would have done as much as possible to ensure that this was the case. The amount of capacity that was left, or put up for sale, at higher price minimums was undoubtedly one of the main reasons that led to the increase in the overall strike price at auction three, from 16.69p per £ to 18.36p per £, as buyers of the most popular syndicates in particular, such as 33 and 2791, had to pay a bit more to have a chance to buy the more limited supply of capacity that was available at higher minimum sale prices.

Review of auction prices

As discussed, the weighted average price of capacity traded across the three auctions in 2020 fell by 11.1% to 20.9p per £ (2019: 23.5p per £). Whilst the weighted average auction strike prices are interesting in their own right, the figures do not really tell the whole story as they conceal a huge range of price variations at syndicate level. As just one example of this, Figure 10 compares the weighted average strike prices of the members five "core" syndicates with that of the market as a whole across the three auctions. As can be seen, these five "core" syndicates, which were very heavily traded by members throughout the auctions, traded for a far greater average price (over 30.0p per £ more) than the average strike price for the market as a whole.

Figure 10: Overview of average strike prices at the 2020 auctions

	AUCTION ONE	AUCTION TWO	AUCTION THREE	AVERAGE PRICE
	(P PER £)	(P PER £)	(P PER £)	(P PER £)
AVERAGE STRIKE PRICE	23.69P	16.69P	18.63P	19.6P
AVERAGE PRICE OF MEMBERS' FIVE "CORE" SYNDICATES	55.17P	49.13P	46.93P	50.4P

NOTES:

1. THE AVERAGE PRICE SHOWN IN THE RIGHT HAND COLUMN IS A SIMPLE AVERAGE CALCULATED FROM THE WEIGHTED AVERAGE PRICES ACHIEVED IN THE THREE AUCTIONS, SHOWN IN THE THREE LEFT HAND COLUMNS.
2. "CORE" SYNDICATES ARE 33, 510, 609, 623 AND 2791. THESE ARE THE SYNDICATES WHICH HAD THE MOST THIRD PARTY CAPACITY ALLOCATED TO THEM IN 2020.

CHART PRODUCED BY THE ALM, BASED ON LLOYD'S 2020 AUCTION DATA

What was actually paid for capacity at the auctions?

Whilst the average strike prices are always informative, it is important to understand that capacity was bought for a wide range of prices at the 2020 auction season. Figures 11, 12 and 12 show the strike price, the amount of capacity sold and the minimum and maximum prices paid by buyers for capacity on each syndicate at each of the three auctions. These tables have been compiled by the ALM. The ALM has used the strike prices and the traded capacity sums shown on the Lloyd's day two auction summaries that were released by Lloyd's after each auction. The minimum price figures were taken from the Lloyd's unsatisfied bids reports, and maximum price figures were taken from the Lloyd's detailed penny band reports that were released after each auction. We believe that this is a much more useful way to examine what was going on with auction prices.

As an example of how to read these tables, take syndicate 33, that is shown on the first row of Figure 11: £10.4 million of capacity was sold at auction one, and sellers received 54.86p per £ for selling their capacity, or the strike price. It should be remembered that the strike price is the sum that is paid to the sellers of the capacity, but buyers of capacity paid a range of prices. In the case of syndicate 33, buyers paid between the minimum 41.90p per £ and as high as 64.99p per £. Any subscription bid in excess of 41.90p per £ would have bought some capacity. Any bid lower than this would have failed to do so. In the case of syndicate 33, at auction one a large number of bids were placed for capacity, as high as between

64.00p and 64.99p (where there were £99,000 of bids). Some members were therefore "over-paying" for the capacity by a significant margin.

When studying Figure 11, which shows the auction one prices, something that soon becomes apparent is that only 11 syndicates struck for a price in excess of 5.00p per £. Furthermore, capacity on all 11 of these syndicates could be purchased for under their actual strike price. In some cases, such as those of syndicates 510 and 2010, the capacity could be bought for a considerable amount less than the strike price. In the case of some of the larger, more popular syndicates with members, like 33, 510, 609 and 623, it was interesting to see that members were prepared to over-bid by some margin to buy capacity. (Remember that all of these syndicates, bar 33, were offering members quite generous pre-emptions as well). As shown in Figure 7, these four syndicates were the ones that attracted the greatest monetary volume of bids from members at auction one. At the other end of the scale, something that illustrates how bifurcated the market had become was that it was still possible to buy capacity on six syndicates for a price of less than 1.00 per £. In hindsight, we find it surprising that there were not more bids placed for some of what have been graded as "second tier" syndicates, whose capacity could have been acquired for a fraction of the cost of the more expensive "core" syndicates. All of the syndicates trading in the auctions were underwriting in a market where rates were increasing, and had had their business plans vetted and approved by the Lloyd's PMD.

Figure 11: Auction one prices in 2020

SYNDICATE NUMBER	CAPACITY SOLD	STRIKE RICE	MINIMUM PRICE PAID	MAXIMUM PRICE PAID
	(£)	(P/£)	(P/£)	(P/£)
33	10,409,288	54.86	41.90	64.00 – 64.99
218	2,192,198	2.60	2.02	3.00 – 3.99
318	1,584,690	0.22	0.10	0.00 - 0.10
386	1,360,894	73.09	70.17	78.00 -78.99
510	21,816,971	19.36	2.37	26.00 - 26.99
557	1,230,617	0.57	0.10	2.00 – 2.99
609	8,909,642	61.72	51.01	73.00 – 73.99
623	12,133,320	59.45	36.01	69.00 – 69.99
727	742,276	78.10	75.11	82.00 – 82.99
1176	482,049	197.81	176.01	231.00 – 231.99
1969	1,426,142	0.35	0.12	1.00 - 1.99
2010	4,306,527	6.11	0.10	13.00 - 13.99
2121	33,376,434	0.45	0.28	2.00 -2.99
2525	1,490,370	40.87	38.77	51.00 - 51.99
2689	4,674,772	0.10	0.10	0.00 - 0.99
2791	2,887,424	80.46	77.23	86.00 - 86.99
4444	7,640,137	3.35	2.16	5.00 - 5.99
5886	7,157,947	6.76	1.51	13.00 - 13.99
TOTAL TRADED (£)	123,821,698			
AVERAGE PRICE P/£		23.69		

TABLE PRODUCED BY THE ALM, BASED ON LLOYD'S DAY TWO AUCTION SUMMARY (23/10/2020)
NOTE: MINIMUM PRICES PAID ARE BASED ON DATA SOURCED FROM THE LLOYD'S UNSATISFIED BIDS REPORT (23/10/2020) AND MAXIMUM PRICES PAID ARE BASED ON DATA SOURCED FROM THE LLOYD'S DETAILED PENNY BAND REPORT (23/10/2020).

Figure 12: Auction two prices in 2020

SYNDICATE NUMBER	CAPACITY SOLD	STRIKE RICE	MINIMUM PRICE PAID BY BUYERS	MAXIMUM PRICE PAID BY BUYERS
	(£)	(P/£)	(P/£)	(P/£)
33	5,199,640	47.21	38.32	56.00 - 56.99
218	616,886	3.50	3.42	5.00 - 5.99
318	554,214	0.42	0.10	1.00 - 1.99
386	1,042,276	75.11	67.68	82.00 - 82.99
510	7,315,154	10.29	6.37	15.00 - 15.99
557	479,384	0.22	0.10	3.00 - 3.99
609	3,627,259	59.95	48.01	70.00 - 70.99
623	4,644,094	47.57	41.48	65.00 - 65.99
727	1,201,855	75.91	68.11	82.00 - 82.99
1176	87,943	188.43	166.10	211.00 - 211.99
1200	1,401,545	0.10	0.10	0.00 - 0.99
1969	306,940	0.86	0.10	1.00 - 1.99
2010	1,401,545	1.05	0.10	6.00 - 6.99
2121	28,077,160	0.24	0.20	2.00 - 2.99
2525	304,663	52.99	50.32	57.00 - 57.99
2689	1,250,000	0.10	0.10	0.00 - 0.99
2791	2,132,683	80.93	73.81	90.00 - 90.99
4444	3,191,303	3.88	3.16	5.00 - 5.99
5886	2,642,010	2.48	1.11	7.00 - 7.99
TOTAL TRADED (£)	69,129,723			
AVERAGE PRICE P/£		23.69		

TABLE PRODUCED BY THE ALM, BASED ON LLOYD'S DAY TWO AUCTION SUMMARY (29/10/2020)
NOTE: MINIMUM PRICES PAID ARE BASED ON DATA SOURCED FROM THE LLOYD'S UNSATISFIED BIDS REPORT (29/10/2020) AND MAXIMUM PRICES PAID ARE BASED ON DATA SOURCED FROM THE LLOYD'S DETAILED PENNY BAND REPORT (29/10/2020).

As can be seen in Figure 12, the volume of capacity traded at auction two was nearly half the amount that was traded at auction one. Despite this, the trading pattern was much the same. Only nine syndicates traded at a strike price of greater than 5p per £, and all of them could be bought for below the strike price. However, what was notable was that in some cases, such as that of syndicate 510, the amount below the strike price was no longer as great as it had been in auction one. The vast discrepancy between high and low auction prices continued to be a feature of auction two. Capacity on seven syndicates could be bought for less than 1.00p per £, including some historically good performers such as syndicates 557 and 2010.

Figure 13 shows the prices paid for capacity at auction three. As has been discussed, the amount of capacity that was traded was less than half the amount traded at auction two. This fact may have contributed to the fact that ten syndicates traded for more than 5.00p per £. That said, despite the lower volumes traded, there were still six syndicates whose capacity could be bought for less than 1.00p per £ (once again, including syndicates 557 and 2010). Once again, capacity on all five of the "core" syndicates could be bought for well under their strike prices.

Figure 13: Auction three prices in 2020

SYNDICATE NUMBER	CAPACITY SOLD	STRIKE RICE	MINIMUM PRICE PAID	MAXIMUM PRICE PAID
	(£)	(P/£)	(P/£)	(P/£)
33	1,888,336	38.98	33.31	50.00 - 50.99
218	314,038	5.99	5.15	6.00 - 6.99
318	752,950	0.26	0.16	0.00 - 0.99
386	427,382	72.70	63.64	82.00 - 82.99
510	1,995,814	10.83	10.78	13.00 - 13.99
557	90,000	0.10	0.10	0.00 - 0.99
609	1,722,365	53.86	47.81	60.00 - 60.99
623	4,330,551	45.00	38.64	59.00 - 59.99
727	433,162	70.46	69.61	78.00 - 78.99
1176	69,562	200.37	185.27	220.00 - 220.99
1969	302,438	1.00	0.21	4.00 – 4.99
2010	5,957,855	0.13	0.10	2.00 - 2.99
2121	7,547,712	0.37	0.28	0.00 - 0.99
2525	239,967	54.16	51.23	70.00 - 70.99
2791	679,474	86.02	77.82	95.00 - 95.99
4444	830,420	5.15	5.16	5.00 - 5.99
5886	1,598,529	2.26	1.82	5.00 - 5.99
TOTAL TRADED (£)	29,180,555			
AVERAGE PRICE		18.63		

TABLE PRODUCED BY THE ALM, BASED ON LLOYD'S DAY TWO AUCTION SUMMARY (5/11/2020)
NOTE: MINIMUM PRICES PAID ARE BASED ON DATA SOURCED FROM THE LLOYD'S UNSATISFIED BIDS REPORT (5/11/2020) AND MAXIMUM PRICES PAID ARE BASED ON DATA SOURCED FROM THE LLOYD'S DETAILED PENNY BAND REPORT (5/11/2020).

The auctions are now a tiered pricing market

Figures 11, 12 and 13 show that although their capacity could be bought for lesser sums, the average strike price paid for the five "core" syndicates at the auctions was 55.17p per £ at auction one, 49.19p per £ at auction two, and 46.93p per £ at auction three (see Figure 10). As has been discussed above, there was also a group of between five and 10 syndicates that failed to trade for any meaningful amount at the auctions. The 2020 auctions demonstrated that the market had effectively split into two groups of syndicates as far as auction trading was concerned. Not only do the five "core" syndicates, and a small group of other syndicates including 386, 727, 1176 and 2525, all now trade for premium sums, but these are the syndicates that managed to attract the most significant volume of subscription bids of any in the market. At the other end of the scale, many of the remaining syndicates in the market have attracted next to no subscription bids, and traded for very little, if at all, at the auctions. Indeed, in the case of some syndicates, were it not for the fact that the managing agent was making an offer for the capacity, it is also extremely debatable as to whether the syndicate would trade at all. This is in spite of the fact that rates, and terms and conditions, were improving. Indeed, the relative lack of buyers' interest in acquiring any capacity on these syndicates even at this point of the upcycle does beg the question as to why members' agents still recommend support for some of these syndicates to their members? Indeed, if members do not wish to purchase capacity on these syndicates in a hard(ening) market, then when exactly would be a good time to do so?

Successful corporate buyers and sellers

Aligned buyers

Analysis of the Lloyd's auction reports suggests that there were three successful aligned buyers at the 2020 auctions, who collectively bought about £73.2 million of capacity:

- Argenta was the largest single buyer of capacity at the auctions and managed to buy £61.5 million of capacity on syndicate 2121 across the three auctions, paying prices that ranged between 0.19p per £ and 0.27p per £.
- Canopius bought £11.1 million of capacity on syndicate 4444 at prices of between 2.15p per £ and 5.2p per £. Like Argenta, it managed to buy capacity on its own syndicate at each of the three auctions.
- Meacock managed to buy £600,000 of capacity on syndicate 727 across auctions two and three at prices of between 68.1p per £ and 70.9p per £.

Analysis of the Lloyd's penny band reports suggests that neither Atrium nor Beazley managed to purchase any capacity on their own syndicates, 609 or 623 respectively.

As far as aligned sales went, it is interesting to note that MAP Capital sold £250,000 of capacity on syndicate 2791 at auction one for a price of 80.46p per £.

Lloyd's spread vehicles

Analysis of the Lloyd's auction reports (of successful trades that were in excess of £100,000) suggests that, as was the case in 2019, two of the Lloyd's spread corporate vehicles, Insurance Capital Partners (ICP) and Talisman, were both active participants in the three 2020 auctions and that the following trades took place:

Auction one

ICP sold £1 million of capacity on syndicate 510 and bought £500,000 of capacity on syndicate 609.

Talisman sold £500,000 of capacity on syndicate 2121 and £150,000 on syndicate 4444.

Auction two

ICP bought another £250,000 of capacity on syndicate 609.

Talisman sold capacity on syndicates 727 (£51,300), 2121 (£479,517) and 4444 (£111,478). It also bought £225,000 of capacity on syndicate 5886.

Auction three

No capacity was purchased by these vehicles at auction three.

There was nothing that remarkable about any of these trades, and it seems likely that they were driven by the need or desire to reorganise the corporate vehicles' respective portfolios to accommodate the effect of the pre-emptions or to re-balance their underwriting portfolios for 2021.

Summary: what were the main trends of the 2020 auctions?

There were a number of key trading trends that were revealed by 2020 auctions. Some of these may also be a feature at the 2021 auctions:

- As in 2019, members' subscriptions were predominantly focused on less than half of the syndicates trading in the auction.
- Nearly 70% of the subscription bids made by members were for capacity on only five syndicates. These were the five most highly supported, "core" syndicates.
- What was interesting was that three of these five syndicates were offering members pre-emptions for the 2021 account. Despite this, the syndicates still attracted a large volume of bids. In the past, there was a widely held view that if a syndicate offered pre-emption it usually tended to reduce the amount of bids placed for that syndicate at the auctions. If members were offered free capacity on a syndicate, there was no need to purchase capacity on the same syndicate. In both 2019 and 2020, members seemingly recognised there were not that many high-quality syndicates available to them and therefore sought to buy capacity on the best ones that existed in the market (which were also the most highly graded by the members' agents), regardless of any pre-emptions which they had been offered. We would argue that this may well be the case in 2021 as well, as there has been no substantial change to the allocation of members' capacity over past year.
- There was a marked difference in the strike prices between the most sought-after syndicates and the remainder of those trading in the 2020 auctions. We would anticipate that this will continue to be the case in 2021.
- As in previous years, it was possible to buy capacity on the majority of syndicates at prices that were significantly under the strike price. This has been especially true on some of the most sought-after, larger, "core" syndicates. We would anticipate that this will be the case once again in 2021.
- Five managing agents bid for capacity on their own syndicates at the 2020 auctions. Three of these managed to buy capacity. One of these, Argenta, bought more capacity than the two other successful buyers, and bought about 32% of all capacity traded on its syndicate in 2020.

PROSPECTS FOR THE 2021 AUCTIONS

Chandon Bleackley considers what might happen in the 2021 auctions.

Executive summary

- It is very unlikely that a large number of third party members ("members") will be looking to cease their underwriting in 2021. The likelihood is that most members will be wanting to trade forward into 2022, and many may well be looking to increase their underwriting as market conditions are expected to be good.

- It is therefore unlikely that a lot of capacity will come up for sale, particularly on the higher-rated syndicates that are most heavily supported by members.

- Pre-emptions may not be the major driver of auction trade volumes or prices, but a large pre-emption offer on some syndicates may increase the volume for sale on those syndicates.

- It is more likely to be the members' current allocations of capacity, combined with the gradings given to syndicates by the members' agents, that are going to be much more critical in determining trading patterns and, ultimately, pricing.

- Once again, there is a possibility that certain managing agents, such as Hiscox, ERS, TMK, Atrium, Beazley, Meacock, Argenta and Canopius may bid for their own capacity. All of these companies have done so in past auctions and only a few of them have had much success buying such capacity to date.

- In a rising market, with positive trading prospects, it is possible some members may be more prepared to increase their underwriting by allocating capacity to a more diverse range of syndicates. That said, the likelihood is that most members' subscription bidding may still be mostly concentrated on trying to buy more capacity on about 8 to 10 syndicates, and especially on the five "core" syndicates (33, 510, 609, 623 and 2791) that already constitute about 70% of the average member's portfolio, and on some of the more specialist syndicates such as 218, 386, 727 and 2525.

- We would anticipate that there may be another two-tier market for syndicate capacity in 2021. The price of the most sought-after 8 to 10 syndicates may rise, whereas that of the remainder will remain low, and it is possible that a number of syndicates will fail to trade at all.

- As in recent years, it may still be possible for members to buy capacity on all but a select few syndicates at prices well below the strike price.

- The ultimate volume of capacity traded by members may end up much the same as last year (c £150 million), and given members' probable trading-tilt towards the more expensive syndicates, the average price of this capacity could well increase.

- As far as the auctions as a whole are concerned, any large subscription bid from an aligned corporate, such as the one made by Argenta at the 2020 auction (which led to its purchase of £61.5 million of capacity on syndicate 2121), would not only increase the overall amount of capacity that trades at the auctions as a whole, but would probably also reduce the average weighted auction price (unless this bid was placed on a very high-priced syndicate).

Overview of the 2021 auctions

2021 will be the twenty-seventh successive year in which Lloyd's holds annual capacity auctions. Whilst there has been a great deal that has changed at Lloyd's since the first capacity auctions were held in 1995, it is important to remember that the auctions,

in conjunction with the pre-emptions that are offered to members by some managing agents, still remain the major mechanism by which members are able to acquire, or dispose of, syndicate capacity. The auctions allow members an opportunity to alter the composition of their portfolio for the forthcoming trading year, by means of buying and/or selling capacity on syndicates. The only other ways in which members have access to more capacity is through joining new syndicates, and/or by means of taking up pre-emption offers on their existing syndicates.

Furthermore, the auctions still remain the only way by which the estates of deceased, unlimited liability members can sell off the deceased members' entire portfolio, and by which resigning unlimited liability members can sell off their entire portfolio when they resign their membership of Lloyd's. When a limited liability member decides to resign from Lloyd's, it is more common for it to sell its limited liability vehicle (LLV) in its entirety. This trade, where the entire vehicle (as well as its capacity) is sold, takes place outside the auction system. LLVs can be sold at any time of the year. For the record, in 2021, some 1,542 non-aligned members (out of the total of 1,738 trading this year) are now underwriting in some kind of limited liability vehicle. This means that some 90% of members' capacity (of about £3.1 billion) is now underwritten through limited liability vehicles.

Changes to the auction rules

Given how critical the auctions still remain to members, when it comes to their portfolio planning, the ALM was quite surprised when Lloyd's unveiled proposals in March of this year to change some aspects of the auction and capacity transfer system for 2021. Lloyd's proposed a reduction in the number of auctions, from three to two, the cessation of bilateral trades, and that it would no longer be prepared to consider the correction of auction errors after the final auction. Lloyd's invited comment about these proposals from managing agents, members' agents and the ALM. The ALM's board thought that the proposals would be to the detriment of all members. In particular, it was opposed (as were the members' agents) to the proposed reduction in the number of capacity auctions and the cessation of bilateral trades. The ALM submitted its own response to Lloyd's, voicing its opposition to both of these proposals (see June ALM News for more details). The good news for members is that, as a result of the responses submitted to Lloyd's by the ALM and the members' agents, Lloyd's has agreed that the number of auctions will not now be reduced. However, as things currently stand, bilateral trades will no longer be allowed and Lloyd's will no longer consider correcting auction errors after the final auction.

Dates for the 2021 auctions

Auction one	Wednesday 20 and Thursday 21 October
Auction two	Wednesday 27 and Thursday 28 October
Auction three	Wednesday 3 and Thursday 4 November

Which syndicates are eligible to trade in 2021?

Members may only trade capacity in syndicates which offer freehold capacity. Capacity in Special Purpose Arrangements (SPAs) and limited tenancy syndicates cannot be traded in the auctions, as they are constituted on a year-by-year basis and their capacity is not owned by members. The managing agent does not have to renew with the same capital, and SPAs can be wound up at the end of a given year by their managing agent.

What are the main factors likely to affect the auctions?

There are a number of key factors that will affect how the 2021 auction season may develop. Many of them are going to be the same ones as last year, but there are also going to be some new factors at play. All of these factors are worth examining in greater detail.

The potential resignations of members

The fact that market conditions are improving, and that trading prospects for 2022 look good, arguably means that it is less likely that there will be any significant number of members seeking to cease underwriting this year. It is worth recalling that during the period from 1995 to 2000, the resignation of members was a critical factor in increasing the volumes of capacity that came up for sale at the auctions that took place. However, over the last decade the number of members trading in the market has remained much more stable, although there has been a reduction in the number of unlimited liability members (mainly as a result of deaths). The number of members trading in 2011 was 2,037 and this has "only" fallen back to 1,738 in 2021. The

Figure 1: Syndicates that are eligible to trade at the 2021 auctions

SYNDICATE	MANAGING AGENCY
33	HISCOX
218	ERS
318	BEAUFORT
386	QBE
510	TOKIO MARINE KILN
557	TOKIO MARINE KILN
609	ATRIUM
623	BEAZLEY
727	S A MEACOCK
1176	CHAUCER
1200	ARGO
1969	APOLLO
2010	CATHEDRAL CAPITAL (1998) LIMITED
2121	ARGENTA GROUP
2525	ASTA/DAVID DALE
2689	ASTA/VERTO
2791	MANAGING AGENCY PARTNERS
4444	CANOPIUS
5886	BLENHEIM

SOURCE: LLOYD'S

fact that members have had 15 years of profitable underwriting between 2002 and 2016 has played no small part in keeping many of the remaining members trading in the market.

The fact that so many members have been, and are now, trading in limited liability vehicles has also played an equally important role in terms of maintaining the stability of the capital base. It should always be remembered that these vehicles have often been set up as medium to long-term, inter-generational, tax-efficient trading entities, and this has arguably meant that the owners have been less likely to sell. If a large number of members decided to resign from Lloyd's, and decided to sell their capacity through the auction process, this would obviously have a profound impact on the overall liquidity of the 2020 auctions. However, for the reasons stated above, we do not think that this is a likely scenario. This leads us to conclude that there will not be a large amount of capacity likely coming up for sale at the 2021 auctions, unless we see a large amount of unwanted pre-emptions, on poorly-rated syndicates, offered. We believe that this may be unlikely as well, as the likelihood is that the largest amount of pre-emptions will be only allowed on the "light-touch" syndicates, which are the ones that are most heavily supported by members.

More importantly, the members' combined capacity has remained relatively stable at about £3 billion over the last decade. It is just over £3.1 billion for 2021, so whilst there are fewer members now trading, they are generally writing a higher average premium income limit (PIL). What has been very influential as far as the auctions are concerned, is that over this last decade, members' capacity has become ever more concentrated onto a more select group of syndicates that have come to be known as the "core" syndicates: these are syndicates 33, 510, 609, 623 and 2791. These five syndicates account for roughly 70% of members' entire 2020 capacity allocation.

There could be less capacity for sale

As an aside, it is also worth bearing in mind that a key difference in the auctions nowadays is that when they wish to cease underwriting, limited liability members tend to seek to sell their NameCo or Limited Liability Partnership (LLP) directly to a single potential buyer. This transaction takes place outside the auction system and has reduced the amount of capacity that is sold via the auction process in recent years. Whilst this may afford the member the cleanest, most tax-efficient and instant exit from the market, it also means that their capacity never trades through the auction system as it once did. This diminishes the overall auction liquidity, as it is now really only resigning unlimited liability members, the estates of deceased unlimited liability members and existing members (both limited and unlimited), who are often rebalancing their portfolios, that still "have" to sell their capacity through the auction system. At the time of writing, in September, there were only three LLVs up for sale, whose combined capacity was about £2.7 million (but this figure may well change by the time the auctions commence) and does not reflect the fact that there have already been a number of sales this year.

Given all of these factors, it now seems probable that a great deal of the capacity that will come up for sale at the 2021 auctions is likely to be owned by members, MAPAs or corporate spread vehicles, who are selling capacity in order to re-balance their portfolios. The main reason that members are likely to be doing this is because they may well have taken up some of their pre-emptions on some of their syndicates, and doing so may well have left their portfolio unbalanced, or they may not wish to put any more money into their funds at Lloyd's (FAL) or write a higher PIL for 2022. All of these reasons may lead them to wish to dispose of some capacity on some of their other syndicates.

Rates are predicted to continue to harden in 2022

The fact that rates, terms and conditions are still good, and the fact that further improvement is expected in 2022, may be likely to make more members inclined to not only trade forward, but also to want to increase their PIL for the 2022 year of account. As has been discussed in previous chapters of the LMRP the market recovery has not only been maintained during the first two-thirds of 2021, but some industry commentators are now not only predicting a continuation of rating increases throughout the 2022 year of account, but that the current "hard" market may persist even beyond then.

It could therefore be argued that most members will wish to not only trade forward into 2022, but may be looking to increase their PIL as well, to take advantage of the improved market conditions. In addition to being given new capacity on the syndicates not trading at the auctions, such as the SPAs, there are two main ways that members can increase their PIL. Members can either accept pre-emption offered to them by managing agents, and/or they can purchase capacity in the auctions. Given the projected strength of the market we would anticipate that members will not only take up a large proportion of any pre-emptions that are offered, but may also seek to purchase capacity in the auctions. We have already seen how members bought £109 million out of the £125 million that was traded in the 2019 auctions (against a weaker market background) and £154 million of capacity in 2020 (against the background of a much harder market), and the likelihood is that they will be enthusiastic potential bidders for capacity this year as well. The amount of capacity bought by members may therefore increase once again in 2021, as it did last year, as members seek to capitalise on the hardening market.

Syndicate diversification in a hard market?

One theory that is worthy of consideration is whether the fact that trading conditions for 2022 currently look good will lead to more members deciding to broaden the range of syndicates that they are prepared to support and whether this will lead to their deciding to bid for some more capacity on some of the "non-core" syndicates? In the past, capacity on these syndicates has been far cheaper than that of some of their peers, and we may see some members looking to buy capacity on some of these (most probably discarded pre-emption). In previous hard markets, such as that which was a feature of the period 2002 to 2008, many members were more prepared to support some of the lesser performing syndicates, largely on the premise that most syndicates can make money in a hard market and because capacity on these syndicates was relatively cheap to acquire at the auctions. However, as has been discussed in the review of the 2020 auction season, we were surprised to see that there were not more subscription bids placed for capacity on some of these kinds of syndicates last year, as their capacity was often considerably cheaper than that on many of the "core" syndicates; and on account of the fact that, at the end the day, they were trading in the same hardening market. It is also worth reiterating the point that their business plans had all been vetted and approved by the Lloyd's PMD. That said, there was some evidence that more members were buying a broader range of "second tier" syndicates, such as 2010 and 5886, especially in auctions two and three.

At the same time however, it is important to remember that members could also achieve a measure of both syndicate and portfolio diversification by taking a line on syndicates that are not trading in the auctions at all, such as syndicate 4242 or syndicate 5623; or even on the more catastrophe-orientated SPAs, such as 6103 or 6104. Capacity on these syndicates is also free of charge, although tenancy is limited. There is therefore no "absolute" need to purchase capacity in the auctions.

How relevant to the auctions will syndicate pre-emption offers be in 2021?

Until quite recently, it could be argued that pre-emptions and de-emptions of syndicate capacity have been a significant driver of both the volumes of capacity traded and the prices paid for capacity at the auctions. Generally speaking, syndicates have tended to offer pre-emptions in order to increase the size of their stamp capacity (as they believe that higher rating levels will allow them to underwrite a higher gross premium income, as for 2021 or 2022). In that sense, pre-emptions can be seen as a key indicator of market health. However, a large amount of pre-emption sometimes used to lead to lower auction prices, mainly because a portion of the unwanted pre-emptions usually ended up being sold off through the auctions, as members did not always wish to write the full amount of their pre-emption entitlement. This was usually because they did not want to unbalance their portfolio, or because they either did not have adequate FAL or wish to put any more assets into FAL. Another side effect of the offer of substantial pre-emption was that members sometimes used to accept the pre-emptions that were offered to them on the most "desirable" syndicates and then sell off capacity on what they perceived to be their "second-division" syndicates. This improved auction liquidity.

Conversely, the imposition of market-wide de-emptions (as we last saw in the period from 1997 to 2001) generally led to an increase in auction prices as the overall market liquidity was reduced. Some members even attempted to buy back the capacity that had been removed from them as result of de-emptions. This often led to an increase in the price of syndicates that were de-empting their capacity. Between 2010 and 2016, average auction strike prices rose as a result of the reduction in syndicate choice and the fact that few pre-emptions were being offered against the background of the ever- weakening market. The fall in auction prices that took place in 2017 can partly be attributed to the injection of more capacity into the auction system as a direct consequence of more pre-emptions being offered to members for the 2018 year of account. In the autumn of 2017, members were offered about £509 million of pre-emptions for the 2018 account (and this was one of the main reasons why the weighted average price paid for capacity at the 2017 auctions fell back to 15.8p per £ of capacity, from its all-time high price of 35.0p per £ in 2016).

There is an argument to suggest that by the time of the 2019 and 2020 auctions pre-emptions had become less of a key determinant of trading patterns and auction prices than they used to be. In our review of the 2020 auctions, it was noted that many of the syndicates that were most sought after by members were the very same syndicates that were also offering substantial amounts of pre-emptions for 2021. Furthermore, many of these were syndicates on which most members would probably already have had a significant line size. Examples of syndicates that were offering a large pre-emption, and which were highly sought after by buyers at the 2020 auctions, included syndicates 510 (offering a pre-emption of 14.9%), 609 (offering a pre-emption of 18.9%), 623 (offering a pre-emption of 21.5%) and 5886 (offering a pre-emption of 30%). Indeed, despite its pre-emption offer, syndicate 510 was the syndicate on which members bid for more capacity than any other. Both of the non-US liability specialist syndicates, 386 and 2525, offered pre-emptions (of 8.1% and 5.0%, respectively) yet both saw increased demand for their capacity and an increase in their strike prices.

Logic may have suggested that there was no reason for members to need to buy extra capacity on these syndicates when they were already being offered a substantial pre-emption by exactly the same syndicates. What is important to understand, however, is that the members were looking to buy more capacity on the best-performing syndicates, which also happened to be the syndicates that were the most highly graded by the members' agents. As the choice of syndicates open to members has fallen in recent years, members' capacity has become even more concentrated on these best- performing syndicates. This has led to a situation where members look to take up their pre-emption on the "core" syndicates, and then often look to buy more capacity on the same syndicates in order to increase their PIL. There has been an understandable flight to quality during the soft market period of 2012 to 2017, partly because so many of the other syndicates, and especially some of the newer ones, have performed so poorly.

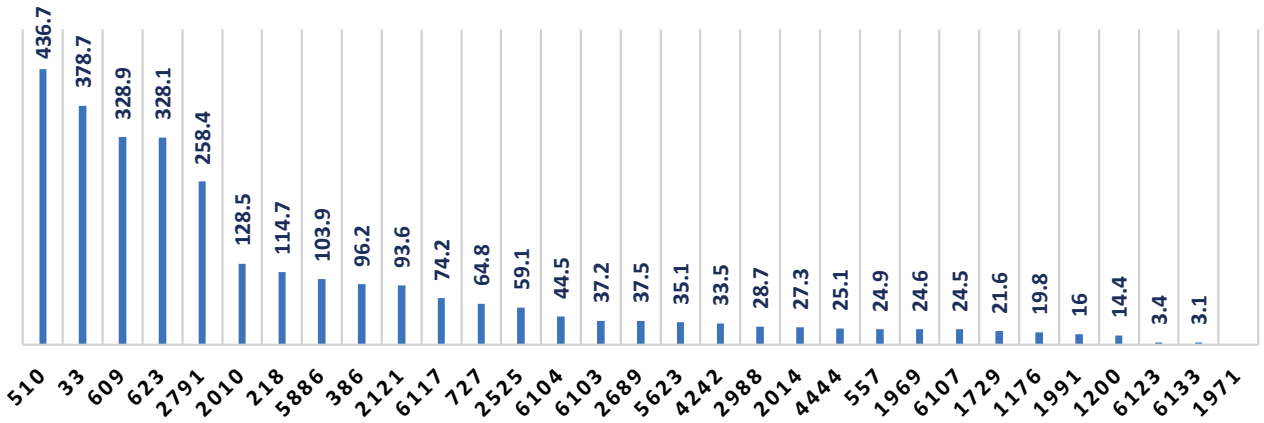
2020 again saw members focus on buying more capacity on the best syndicates. Not only have these syndicates been good performers in the past, but the fact remains that there is still a significant lack of real choice in terms of syndicates available to members. It is highly likely that this pattern will be repeated at this year's auctions, as members' portfolios remain even more concentrated on less than 10 syndicates. Given this fact, we would argue that pre-emption is unlikely to be a major driver of either members' auction activity, or the prices that they are prepared to pay for capacity. Members' bidding may well be

primarily driven by other factors. Paramount among these are going to be the current allocation of their capacity and the members' agents' gradings of syndicates.

The allocation of members' capacity

The allocation of members' capacity can tell us a lot about where the bulk of the subscription bidding at the auctions may fall. Figure 2 shows the breakdown of the members' allocations in 2020 and 2021. The division of capacity here will come as no surprise, as there has really been no fundamental change in the overall strategic allocation of members' capacity in the past few years. In short, about 70% of the members' capacity has been allocated to the five "core" syndicates (33, 519, 609, 623 and 2791). These syndicates have all been excellent performers. The members' over-weight capacity allocation to this group of syndicates is a large part of the reason why members have continued to outperform the market in difficult underwriting years such as 2017, 2018 and 2019. Whilst this has undoubtedly been a good thing, it has also meant that in recent years the auctions have become increasingly bifurcated as a regards bidding. The bulk of the subscription bids have increasingly been placed on only a very select group of less than 10 syndicates. This has also led to an increase in the price of these syndicates.

Figure 2: Breakdown of members' capacity by syndicate in 2020 (£m)



SOURCE: MANAGING AGENTS' DATA

Figure 3: Allocation of members' capacity in 2020 and 2021 (£m)

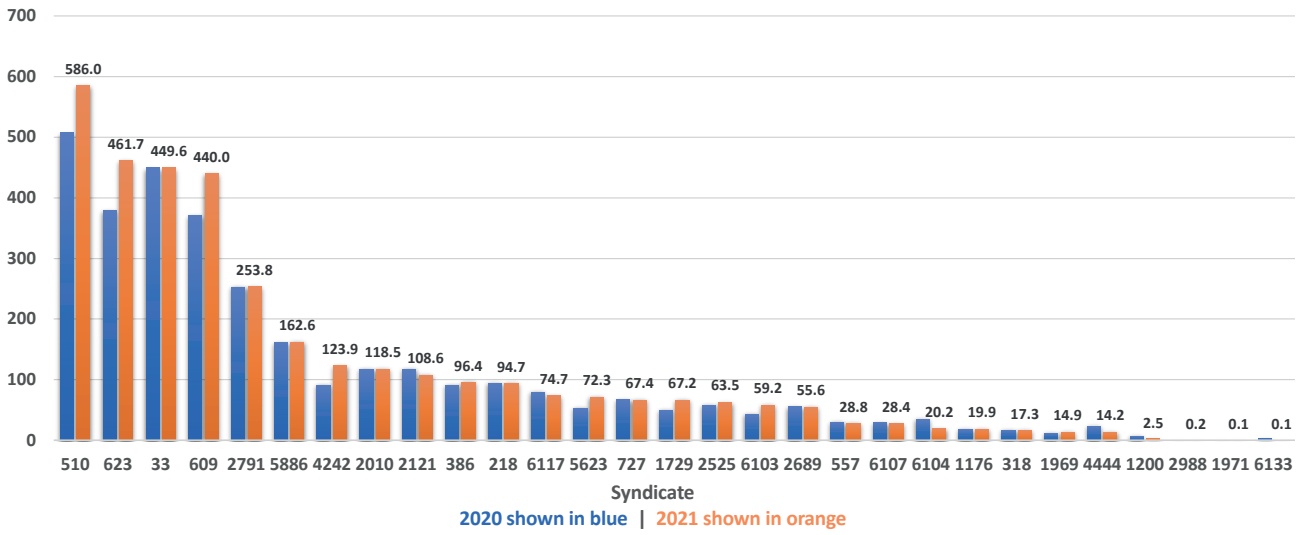


CHART PRODUCED BY THE ALM, BASED ON DATA SUPPLIED BY ARGENTA

Members' agents' grading of syndicates

Another associated factor which has had a big impact on what has happened at recent years' auctions has been the gradings (or relative rankings) that the members' agents have applied to the syndicates supported by members. These members' agents gradings of syndicates have always been a critical factor in the level of support that a syndicate receives from members, but have become even more so in recent years as the number of syndicates open to members has fallen and the members' capacity has become ever more concentrated on fewer syndicates. These gradings were basically reflected in the disposition of members' syndicate allocations for 2020 and 2021 (shown in Figure 2), as the most supported syndicates, which are shown on the left of the table, were basically the ones that received the highest gradings from the three members' agents. As discussed in the review of the 2020 auctions, last year there was a very close correlation between the members' syndicate allocations, the syndicate gradings and the volume of subscriptions that were placed for each syndicate by members. The highest graded syndicates (shown on the left of Figure 2) had the most support from members and were also the syndicates on which the most subscription bids were placed by members.

Although the ALM is not party to the gradings/rankings that have been allocated to each syndicate by the members' agents for 2022, we would expect that there has not been a fundamental change to the members' agents' syndicate gradings, especially in the case of the most supported syndicates.

In the light of this, it is quite possible that there will once again be a correlation between the capacity allocations, gradings and subscription bids in 2021.

If this does transpire to be the case, then we would contend that what are (probably) the most highly-graded syndicates, namely 33, 510, 609, 623 and 2791, followed by syndicates such as 386, 727, 2010, 2525 and 5886, may feasibly attract the largest amount of subscription bids from members at the 2021 auctions. This may be the case irrespective of any pre-emptions these syndicates may offer for 2022. If this is the case, then it could be argued that the trading patterns at the 2021 auctions may replicate those of 2019 and 2020 quite closely.

Who are going to be the main buyers and sellers of capacity?

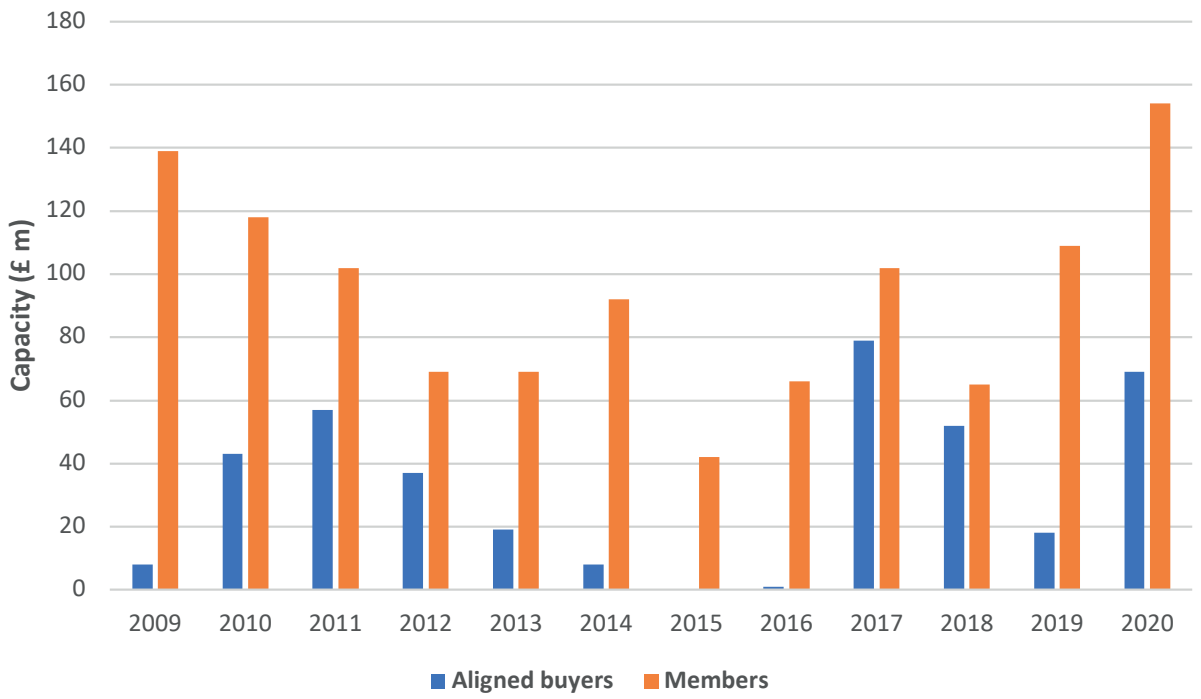
Managing agents may be active bidders for capacity once again

Managing agencies have been actively bidding for capacity on their own syndicates at the auctions in varying quantities since they first did so in 1996. Following a few years in which they did not place that many subscription bids, they have become more active once again in the last four years' auctions. We would therefore expect some of them may seek to buy capacity at the 2021 auctions. The key question is whether their bids are going to be "serious" or merely "speculative" or "opportunistic" in their nature. How badly do they really want to buy back the members' capacity? Figure 3 shows the overall amounts of capacity that have been bought by aligned buyers and members in the auctions since 2009. What can be clearly seen is that managing agents have managed to purchase more capacity since 2017 than at any point in the last decade. That said, much of this capacity has been on specific syndicates and has often been linked to mandatory offers. Furthermore, many of the syndicates in question, such as 4444, have not been integral to members' portfolios in the way that the "core" syndicates are.

Figure 3 shows that 2017 saw aligned buyers acquire some £79 million of capacity in the auctions. 2018 saw them buy a further £52 million of capacity in the auctions, which amounted to 44% of the entire £117.3 million of capacity that was traded that year. Whilst this was less capacity than in 2017, it amounted to roughly the same percentage amount of the total capacity that was traded. 2018 also saw two managing agents, Canopius and Argenta, make mandatory buy-out offers for their capacity. Managing agents were also very active in the 2019 and 2020 auctions. Managing agents managed to acquire £18 million of capacity in 2019. However, Argenta bought £61.5 million of capacity on syndicate 2121 in 2020 and in total, three different managing agents bought about £69 million of capacity in 2020.

That said, just focussing on what was actually bought by each managing agent can be misleading. What may be far more relevant with regard to the 2021 auctions is that there has been a marked increase in managing agencies' bidding activity in recent years. Some commentators have attributed this increase to the fact that the market was forecast to make losses, and

Figure 3: Syndicate capacity purchased between 2009 and 2020



SOURCE: LLOYD'S AUCTION DATA

that some managing agents believed that some members would be more inclined to sell some, or all, of their capacity at this point in the market cycle. For example, in 2020 both Atrium and Beazley placed bids at relatively low prices at each of the auctions in an attempt to buy back some capacity on syndicates 609 and 623 respectively. It is hard to know quite how "serious" these bids were, as the managing agents in question may well have known, or at least suspected, that they would be outbid by members. In that sense, the bids may be best described as "speculative" or "opportunistic". However, there have been other managing agents, such as Argenta and Canopius, which have been making much more concerted efforts to buy back much larger sums of capacity on their syndicates (2121 and 4444 respectively) as part of mandatory offers, albeit with the advantage that these were not "core" syndicates for the members, and the sums of money involved in buying this capacity were very small in relative terms.

Members should note that over the past few years, there have been a number of managing agents that have bid for their capacity on their syndicates. These have included ERS (syndicate 218), Hiscox (syndicate 33), TMK (syndicate 510), Atrium (syndicate 609), Beazley (syndicate 623), Meacock (syndicate 727), Argenta (syndicate 2121) and Canopius (syndicate 4444). It could be argued that the fact that these managing agents have been bidding for capacity on their own syndicates should be a potential source of concern to members because some of these syndicates are very heavily supported by members. If the managing agents in question ever decided to place some "serious" bids, which actually managed to buy some capacity, then members could well have a major problem.

Given their recent bidding activity, there is a good argument to suggest that some of these same managing agents may well be active bidders in the auctions this year. We would not be surprised if a number of the managing agencies cited above decided to bid for capacity in the 2021 auctions, as they have all done so in the past. Whilst it is hard to know whether managing agents bids in 2021 will be "opportunistic" or "serious", it is important to realise that, even if they fail to strike, their subscription bids do establish a floor price for the syndicates in question. This means that any member wishing to purchase capacity on a syndicate on which a managing agent has placed a bid will obviously have to bid in excess of their price. This fact has arguably played a role in keeping the auction price of some syndicates artificially high.

Figure 4: Managing agents' percentage ownership of capacity in 2021

SYNDICATE	MANAGING AGENCY	PERCENTAGE OWNERSHIP (%)
33	HISCOX DEDICATED CORPORATE MEMBER	72.60%
218	ERS CORPORATE MEMBER LIMITED	77.90%
318	BEAUFORT DEDICATED NO 2 LIMITED	92.20%
386	QBE CORPORATION LIMITED	69.67%
510	TOKIO MARINE KILN GROUP	55.88%
609	ENSTAR GROUP	25.47%
623	BEAZLEY GROUP	80.88%
727	S A MEACOCK GROUP	26.48%
1176	CHAUCER CORPORATE CAPITAL (NO 3) LIMITED	57.21%
1200	ARGO GROUP	84.45%
1969	APOLLO GROUP	52.35%
2010	CATHEDRAL CAPITAL LIMITED	59.78%
2121	ARGENTA GROUP	55.30%
2525	ASTA/DAVID DALE	-
2791	MANAGING AGENCY PARTNERS	19.32%
4444	CANOPIUS GROUP	96.23%
5886	BLENHEIM	29.43%

CHART PRODUCED BY THE ALM, BASED ON LLOYD'S AUCTION DATA: STAKE-BUILDERS' REPORT AFTER AUCTION 3 OF 2020 (5 NOVEMBER)

Figure 4 shows the percentage of each of the freehold tenancy syndicates' stamp that was owned by its managing agency after auction three of 2020 (and at the outset of the 2021 auction season). As can be seen, a number of managing agents have now got close to the 75% ownership of capacity threshold that puts them into the position where they are able to make a mandatory offer to members if they so wish. (However, they are under no obligation to do so, as some are perfectly content with having members as part of their stamp). Canopius has made a formal offer to buy out the few remaining members still left on syndicate 4444 in 2021. Not all members have accepted this offer, and it is therefore likely that it may stand in the auctions in order to bid for its remaining capacity.

Some consolation can be drawn from the data shown in Figure 4, as it shows that managing agents still do not own that significant a portion of the capacity on some of the syndicates that are most heavily supported by members. Managing agents' ownership of capacity on "core" syndicates like 510, and particularly on 609 and 2791, is still relatively low. Indeed the figures shown for syndicates 609 and 2791 are also very reassuring. This is especially the case with syndicate 2791, as the managing agency does not have a habit of bidding for its own capacity. On the other hand, the fact that Beazley now owns over 80% of the capacity on syndicate 623 is more worrying, especially in the light of the fact that it has placed such large volume subscription bids at the last two years' auctions.

What about new members coming into Lloyd's?

The number of new members joining Lloyd's has declined in recent years. The peak year for the entry of new members into the market was 2008. In the wake of the financial crisis of 2007, insurance began to be regarded as an attractive, "alternative" asset class in its own right. Lloyd's membership was deemed to offer investors exposure to the asset class in a more direct way still than simply owning shares in a (re)insurance company and membership of Lloyd's and trading via an LLV also came with generous tax advantages.

However, the number of new members joining Lloyd's has declined dramatically since 2011. The main reasons for this have been the deterioration that took place in trading conditions, and the fact that, in recent years, new members have had to have been prepared to spend a considerable amount of money in order to acquire their portfolio through the auction process. Whilst new members have been able to access SPAs and some other syndicates at no cost, these syndicates alone were not going to be able to give the member's portfolio enough business diversification. This means that the new member had no real choice other than to trade in the auctions in order to acquire the freehold capacity on syndicates that would have given them a more diversified portfolio. To acquire the kind of portfolio that most existing members currently underwrite, with its heavy weighting to the syndicates in the top two quartiles, would have also been prohibitively expensive for most potential members. As an illustration of this, the five "core" syndicates traded for an average price of 50.4p per £ across the three 2020 auctions, and there were other syndicates whose capacity was even more expensive to purchase.

To the best of our knowledge, there are very few new members joining Lloyd's for 2022. Furthermore, many of those new members that do join Lloyd's now will be doing so by means of acquiring an existing limited liability vehicle. As discussed earlier, this transaction takes place entirely outside the auction system. This allows the new entrant to acquire a ready-made portfolio. It is, of course, possible that they may well decide to make a few purchases or sales at the auctions in order to re-balance their new portfolio.

Overall, we think that it is very unlikely that there will be a large number of new members bidding for meaningful amounts of capacity at the 2021 auctions.

The most subscription bids may be made by existing third party members

It is important to remember that most members still trade on a bespoke basis. Hampden is the only one of the three members' agents that offers any MAPAs. We would anticipate that many of the individual members will be active as buyers and sellers of capacity in the auctions. Indeed, in 2020 90% of the bids that were placed by number were made by either individual unlimited liability members or by LLVs. In recent years, the members have mainly used the auctions to re-balance their portfolios. This can mean selling out of any syndicates which their members' agent has downgraded, but more often than not, it means selling some or all of their pre-emption entitlement on a given syndicate, or seeking to buy more capacity on a given syndicate. They have consistently placed more actual bids (by number) than any other participant in the auctions, although the monetary amounts of capacity that they have been bidding for (on an individual basis) have not usually been as large as those placed by the aligned capital, Hampden MAPAs or some of those placed by the spread corporate vehicles. However, the combined monetary totals of the individual members bids can add up to be meaningful amounts on some syndicates.

Buying trends

In 2021, as in previous years, there may also be a number of members who look to exploit any pricing anomalies, or rogue opportunities, that might arise on any given syndicate in any of the auctions. It is important to bear in mind that there has been a considerable spread in the sums that members have been prepared to pay to buy capacity on some of the more popular syndicates (see Figures 11,12 and 13 in the previous article), so there can be opportunities to buy capacity at a discount to the official "strike" price and at very advantageous prices. A good example of this last year was the capacity on all of the five "core" syndicates. Capacity on all five could be bought more cheaply than the strike price for such capacity. A lot depends on the supply of capacity on a given syndicate and the price at which sellers are prepared to sell. The more sellers that enter their sale capacity at a low reserve price, the greater the chance to buy below the official strike price.

Something that is often overlooked is that existing members are in the very fortunate position of already owning a good portfolio. This means that they do not always have to trade. Trading remains an option rather than a necessity. This can lead to some members being prepared to bid more opportunistically, in that they may simply place deliberately low subscription bids which roll over from one auction to the next (in the hope of buying some extra capacity if it ends up selling below the strike price at a later auction as a result of there being an excess amount up for sale).

Equally, some members also put some of their capacity up for sale at deliberately high reserve prices. If the price rises to what can sometimes be an unnaturally high level, then they will sell. However, if the price fails to reach their reserve level, then the member can underwrite the line the next year. A third trait that has been common, and which we can expect to see more often, is that bespoke members have been prepared to place very high bids when buying capacity on some syndicates on account of

the fact that they are only bidding for a relatively small monetary amount of capacity (often to top up their existing line). These are not essential trades, but if and when they succeed, can have the effect of seeming out of line with the rest of the market.

Most subscription bids may come from individual members

Overall, it is likely that the greatest number of actual bids placed at the auctions will, once again, be made by individual members. The majority of these will most probably be aimed at re-balancing portfolios, but there will undoubtedly also be some opportunist bidding taking place as well. It is likely that most members will probably only be trading relatively small sums of capacity. As already discussed, it is possible that there will be some deceased, unlimited liability members' capacity being sold off through the auctions, and this may have a positive effect on the liquidity of some syndicates. As has been discussed, we would anticipate that the owners of any limited liability vehicles looking to cease underwriting will most probably seek to sell their limited liability vehicle in its entirety outside the auction system.

MAPA managers may trade the largest volumes of capacity

As mentioned above, the only members' agent that still runs any MAPAs is Hampden. It is quite likely that it may buy (and more importantly possibly sell) some capacity from its MAPAs in order to re-balance their portfolios. It has always been an active trader on behalf of the MAPAs. If a MAPA buys or sells capacity, it tends to trade reasonably large amounts (relative to the line sizes that most members trade) and the sums involved (usually hundreds of thousands of pounds' worth of capacity) could actually affect the liquidity and the price of some syndicates. This would definitely be the case with those syndicates which have a smaller overall capacity, or on which there is relatively low liquidity. Another point worthy of consideration, with regard to MAPAs trading in the 2021 auctions, is that Lloyd's now no longer allows the use of bilateral trades. In the past, MAPA managers were, on occasion, among the largest users of bilateral trades as these allowed them to trade sums of capacity in excess of £250,000 directly with the managing agent of the syndicate in question (albeit with an inter-action through the auction process). In 2021, MAPAs will have to trade entirely through the auctions and this could lead to an increase in liquidity on some syndicates if and when the MAPA managers decide to sell any capacity.

Spread corporate investment vehicles could also be active bidders

One group that is often overlooked, when discussing the trading patterns in the auctions, is the Lloyd's corporate spread vehicles, such as Insurance Capital Partners (ICP) and Talisman. Both of these vehicles have been active traders in the auctions over the last three years. As is the case with MAPAs, when these spread corporate vehicles do trade, they tend to buy or sell larger sums of capacity than the average member does. Their bids can have a significant effect on both liquidity and prices at the individual syndicate level. Aside from the managing agencies (and the Hampden MAPAs) and a very small number of high premium income limit members, these spread vehicles tend to buy and sell the largest amounts of capacity in the market. It would be fair to assume that some of them may trade at the 2021 auctions, if for no other reason than to re-balance their portfolios for 2022, especially in the light of pre-emptions. Again, the fact that bilateral trades are no longer allowed will mean that these corporate spread vehicles will now have to do all of their trading directly through the auctions.

What may happen to prices?

As far as auction strike prices are concerned, it is apparent that in recent years the auction market has divided itself into two distinct halves. We believe that this division may continue to be the case in 2021, although it is important to realise that it has been, and may well still be, possible to buy capacity on some of the syndicates with larger liquidity at prices below the official strike price, as it has in past years (for evidence of this, see Figures 11, 12 and 13 in the article about the 2020 auctions).

The relative price of capacity

In recent years, there have only been 11 syndicates (33, 386, 510, 609, 623, 727, 1176, 2010, 2525, 2791 and 5886) that have consistently traded for prices in excess of 5.0p per £. As discussed in the previous article concerning the 2020 auctions, the simple average price paid for the five "core" syndicates (33, 510, 609, 623 and 2791) across the three 2020 auctions was actually 50.4p per £. This compares to a simple, all-syndicate average of 19.6p per £, or a weighted all-syndicate average price of 20.9p per £, across the three auctions.

Looking at the other six syndicates listed above (386, 727, 1176, 2010, 2525 and 5886) it could be argued that the nuclear syndicate 1176 should be seen as a complete price-outlier, and that there is a good reason to exclude it from the analysis, as it

is a small syndicate that is not supported by that many members. Its small stamp has always meant that its capacity has always been in relatively short supply, and this has led to very high prices being paid for what little capacity has come to market. Indeed, it was no surprise that syndicate 1176, once again, set the pricing record for the 2020 auctions when it traded for a strike price of 200.37p per £ at auction two. It may trade for the highest strike price in 2021 as well.

Syndicates 386 and 2525 are non-US liability specialists, whose capacity has been in very high demand in the past, as they both offer a good way for members to diversify the business-mix of their often overly-US catastrophe-dominated portfolios. The low levels of capacity that come up for sale on both syndicates have also ensured that their prices remain very high at the auctions. Indeed, capacity on both syndicates regularly traded for more than the price for capacity on the "core" syndicates at the 2020 auctions. The situation is slightly different with 727. The syndicate has had an excellent track record of profitability, but it is a small syndicate and relatively little of its capacity has come up for sale at the auctions. What little has come to auction has tended to trade for high prices, as aside from the low level of liquidity, the syndicate's price has been underpinned by bids made by the Meacock managing agency itself (which managed to buy back about £600,000 of its capacity in 2020).

Syndicates 2010 and 5886 were the cheapest of these six remaining syndicates at auction in 2020, and thanks to ample liquidity, capacity on both could be acquired very cheaply. However, whilst capacity on these 10 syndicates were heavily subscribed for, and bought, by members, the 2019 and 2020 auctions also showed that there was little or no interest from members in buying much capacity on many of the other syndicates trading in the auctions. Indeed, some failed to trade at all.

What may happen in 2021?

For 2021, we would therefore anticipate that the members may continue to focus on buying capacity on these same 10 (or 11, if we include syndicate 1176) syndicates at the auctions for a number of reasons. The 2021 auctions are taking place against a background of another positively-rated market that offers good trading prospects for 2022, where capacity is likely to be in short supply owing to there probably being very few members selling out of the market entirely. There has also probably been little or no change made to either the members' agents' gradings of syndicates, or to the fundamental composition of members' portfolios for 2021, in that the majority of these probably remain focussed around the nucleus of the five "core" syndicates, backed up by a diversifying allocation to some of the other six syndicates mentioned above.

It is obviously debatable as to whether members "need" to buy more capacity on these syndicates, and especially on the five "core" ones. Whilst members may probably not "need" to do so, there may be a good chance that many may "want" to bid for more capacity on these syndicates, especially if their prices seem low (or less than in recent years), because these have been the most consistently profitable syndicates across the cycle (and are also the ones that have been highest graded by their members' agents) and because there are so few other "quality" syndicates to support. These syndicates have also been good performers with a proven track record.

Given these factors, it could be argued that the price of the five "core" syndicates will probably, at least, be maintained and it may well increase, regardless of any pre-emptions the syndicates may offer. Equally, we would anticipate that the price of capacity on syndicates such as 386, 727 and 2525 may also increase, as their capacity may well be in short supply, especially relative to demand. Furthermore, these syndicates are still seen as offering valuable portfolio-diversification benefits. The same may also be true of the motor syndicate, 218, although its benefits may relate more to FAL issues than to portfolio diversification. Essentially, the members' trading patterns may well be very similar to those of 2019 and 2020, in that they may, once again, primarily choose to focus their attention on only a select group of syndicates. This may lead to an increase in the strike prices of some of these syndicates.

What about managing agency bids?

At the same time, it is entirely possible that some managing agents may choose to bid for their own capacity once again in 2021. Canopius, which has already made an offer to the remaining members on syndicate 4444 for their capacity, is likely to stand in the auctions at the offer price. Canopius owned 96.23% of the capacity on syndicate 4444 at the end of auction three of 2020.

Equally, there is a good possibility that both Atrium and Beazley may well bid for their capacity on syndicates 609 and 623 respectively once again. A great deal will depend on the prices at which they choose to enter their respective subscription bids.

Over the past two years, neither managing agent has managed to buy any capacity, as their bid prices have been too low. In the past, as discussed above, there have also been subscription bids entered into the auction by both Hiscox and TMK for capacity on syndicates 33 and 510, respectively. It is quite possible that they may choose to bid once again.

It is also quite possible that Meacock will bid for capacity on syndicate 727 and that Argenta may once again bid for capacity on syndicate 2121. All of these bids, particularly if they are placed at a high enough price, could have an impact on the auctions. However, low bids may have next to no impact on the auction as a whole. As has already been discussed, members' bidding has generally tended to be at higher prices than that of the managing agents because, in the main and to date, most of them have been focussing their attention on an entirely different set of syndicates. If we discount the relatively low-priced syndicates, such as 2121 and 4444, where there was little buyer appetite from members, the only managing agency bid which really offered any competition to, and achieved a measure of limited success against, the members' higher bids in 2020 was that made by Meacock, which was bidding for capacity on syndicate 727.

Summary and final thoughts

- It is very unlikely that a large number of members will be looking to resign their underwriting in 2021. The likelihood is that most members will be wanting to trade forward into 2022 to capitalise on the improving market conditions, and many may well be looking to increase their underwriting.

- It is therefore unlikely that a lot of capacity will come up for sale, particularly on the higher-rated syndicates that are most heavily supported by members.

- Pre-emptions are not expected to be the major driver of auction trade volumes or prices, but a large pre-emption offer on some syndicates may increase the volume that comes up for sale on those syndicates. It is likely to be the members' current allocations of capacity, combined with the gradings given to syndicates by the members' agents, that are going to be much more critical in determining trading patterns and, ultimately, pricing.

- Once again, there is a possibility that certain managing agents, such as Hiscox, ERS, TMK, Atrium, Beazley, Meacock, Argenta or Canopius may bid for their own capacity. All of these companies have done so at past auctions and few of them have had any, or much, success in buying capacity.

- In a rising market, with positive trading prospects, it is possible some members may be more prepared to increase their underwriting by their allocating capacity to a more diverse range of syndicates. That said, the likelihood is that most members' subscription bidding may still be mostly concentrated on trying to buy more capacity on about 8 to 10 syndicates, and especially on the five "core" syndicates (33, 510, 609, 623 and 2791) that already constitute about 70% of the average member's portfolio.

- It is quite possible that there may be another bifurcated market for syndicate capacity in 2021. The price of the most sought-after syndicates may rise, whereas that of the remainder will remain low, and it is possible that a number of syndicates will fail to trade at all.

- As in recent years, a key trait of the auctions may be that it still remains possible for members to buy capacity on all but a select few syndicates at prices well below the strike price.

- The ultimate volume of capacity traded by members may end up much the same as that traded last year (£154 million), but given members' probable trading-tilt towards the more expensive syndicates, the average price of this capacity could well increase.

- As far as the auctions as a whole are concerned, any large subscription bid from an aligned corporate, such as the one made by Argenta at the 2020 auction, would not only increase the overall amount of capacity that trades at the auctions as a whole, but would probably also reduce the average weighted auction price (unless this bid was placed on a very high-priced syndicate).

APPENDIX OF HISTORICAL AUCTION DATA

Lloyd's provides a detailed breakdown of the capacity traded and the strike prices for the years between 2015 and 2000. We have reproduced these tables here, but more information is available on the Lloyd's website.

Figure 1: All Auctions 2015 - average weighted price summary

	ALL AUCTIONS		AUCTION 1		AUCTION 2		AUCTION 3	
SYNDICATE	WEIGHTED AVERAGE	TOTAL TRADED	PRICE	VOLUME	PRICE	VOLUME	PRICE	VOLUME
0033	72.577	2,098,762	68.079	1,068,415	75.294	532,242	79.323	498,105
0218	8.058	4,473,896	8.267	2,437,784	8.072	1,542,548	6.980	493,564
0308	17.883	247,540	21.374	48,110	21.570	60,000	15.092	139,430
0318	20.780	699,023	17.716	422,703	22.200	100,919	27.349	175,401
0386	62.914	2,645,532	65.000	1,504,552	60.371	637,318	59.900	503,662
0510	32.298	5,032,180	27.199	2,421,382	33.263	971,191	39.257	1,639,607
0557	4.577	1,638,675	2.127	446,471	4.507	334,420	5.880	857,784
0609	62.851	2,931,137	55.511	1,476,600	67.143	584,900	72.429	869,637
0623	79.810	1,414,681	74.188	682,092	81.584	324,011	87.788	408,578
0727	76.163	395,910	66.531	161,315	78.011	97,813	86.201	136,782
0779	8.375	624,837	9.167	256,721	7.805	275,689	7.879	92,427
1176	217.848	156,600	209.882	106,000	0.000	0	234.536	50,600
1200	24.640	242,543	19.802	31,479	23.782	61,328	26.008	149,736
1884	0.206	710,183	0.217	507,183	0.212	134,000	0.113	69,000
1969	14.057	2,174,674	18.000	657,211	15.000	728,557	9.900	788,906
1991	0.124	1,857,846	0.122	1,723,195	0.203	61,971	0.100	72,680
2010	65.045	1,250,793	58.909	548,614	67.703	333,307	71.771	368,872
2121	14.174	2,475,537	12.717	1,248,109	14.591	689,341	17.021	538,087
2525	89.395	389,746	82.250	181,362	104.857	93,696	88.062	114,688
2526	75.000	10,000	0.00	0	0.000	0	75.000	10,000
2791	55.628	6,667,289	54.384	5,540,062	57.081	391,928	64.221	735,299
4444	28.056	2,694,724	23.829	1,704,662	29.478	345,709	38.476	644,353
5820	0.100	1,550,000	0.100	40,000	0.150	10,000	0.100	1,500,000
	Totals	42,382,108		23,214,022		8,310,888		10,857,198

SOURCE: LLOYD'S MARKET SERVICES, OCTOBER 2015

Figure 2: All Auctions 2016 - average weighted price summary

	ALL AUCTIONS		AUCTION 1		AUCTION 2		AUCTION 3	
SYNDICATE	WEIGHTED AVERAGE	TOTAL TRADED	PRICE	VOLUME	PRICE	VOLUME	PRICE	VOLUME
0033	75.379	3,017,630	80.828	1,927,167	70.100	620,622	60.000	469,841
0218	8.411	8,301,611	8.003	5,389,097	8.807	1,961,780	9.907	950,734
0318	28.350	430,202	29.990	134,097	29.350	228,984	21.659	67,121
0386	38.028	2,432,196	50.887	831,862	29.830	885,506	33.218	714,828
0510	27.602	10,325,230	34.695	5,152,119	25.600	2,029,516	17.268	3,143,595
0557	9.114	1,309,180	8.488	702,535	10.651	427,532	7.900	179,113
0609	65.759	3,738,102	69.132	2,497,365	63.165	876,961	48.859	363,776
0623	81.709	4,144,410	87.640	2,391,818	79.118	1,116,731	63.947	635,861
0727	84.360	1,044,332	85.945	575,403	89.347	246,484	74.733	222,445
1176	243.856	222,023	239.769	134,984	253.812	64,234	240.000	22,805
1200	11.590	787,146	19.373	275,000	7.308	497,146	10.800	15,000
1884	0.100	23,333	0.100	13,333	0.100	10,000	0.000	0
1969	6.298	5,409,732	10.751	2,403,193	5.488	1,349,789	0.500	1,656,750
1991	0.108	125,000	0.109	110,000	0.100	15,000	0.000	0
2010	19.941	8,744,151	29.757	2,816,471	19.900	3,187,412	9.900	2,740,268
2121	9.627	2,470,403	12.934	1,277,697	9.885	680,206	1.038	512,500
2525	60.815	742,303	69.314	341,317	55.000	365,436	39.000	35,550
2791	48.456	10,940,494	62.257	1,577,383	61.379	646,809	45.000	8,716,302
4444	35.703	2,531,961	36.852	711,209	38.871	1,122,612	29.437	698,140
	Totals	66,739,439		29,262,050		16,332,760		21,144,629

SOURCE: LLOYD'S MARKET SERVICES, NOVEMBER 2016

Figure 3: All Auctions 2017 - average weighted price summary

	ALL AUCTIONS		AUCTION 1		AUCTION 2		AUCTION 3	
SYNDICATE	WEIGHTED AVERAGE	TOTAL TRADED	PRICE	VOLUME	PRICE	VOLUME	PRICE	VOLUME
0033	37.367	16,099,993	37.005	6,753,172	37.690	7,386,281	37.398	1960540
0218	0.335	34,932,648	0.654	11,772,221	0.603	2,934,711	0.110	20225716
0318	0.881	2,079,154	1.953	545,260	0.864	748,625	0.153	785269
0386	44.336	2,991,337	44.990	1,080,150	44.013	1,660,602	43.656	250585
0510	17.159	23,206,551	16.560	11,780,510	18.427	6,788,760	16.822	4637281
0557	0.508	2,009,426	0.572	1,046,971	0.890	265,000	0.267	697455
0609	45.950	6,378,839	44.216	1,900,539	46.292	3,107,997	47.580	1370303
0623	51.433	7,327,744	50.090	2,788,577	51.344	3,058,347	54.147	1480820
0727	71.998	1,122,175	70.361	537,689	73.697	539,507	71.183	44979
1176	159.148	845,700	186.338	275,507	145.510	411,552	147.310	158641
1200	1.433	12,398,272	2.529	6,581,776	0.175	5,110,000	0.327	706496
1969	1.606	17,177,262	2.020	5,786,575	2.029	4,285,257	1.013	7105430
1991	0.161	2,718,761	0.147	2,621,543	0.704	60,000	0.297	37218
2010	13.686	5,452,187	13.537	2,572,758	13.619	1,829,669	14.169	1049760
2121	3.092	14,035,095	1.548	5,375,277	4.033	5,349,351	4.079	3310467
2525	20.231	4,486,564	16.005	3,594,339	38.158	698,096	34.000	194129
2791	49.614	8,695,160	46.309	3,573,597	50.933	3,645,630	54.356	1475933
4444	7.964	17,342,312	9.810	6,573,135	6.899	9,524,874	6.364	1244303
5886	7.677	1,966,830	5.224	966,624	9.165	600,472	11.370	399734
	Totals	181,266,010		76,126,220		58,004,731		47,135,059

SOURCE: LLOYD'S MARKET SERVICES, NOVEMBER 2017

Figure 4: All Auctions 2018 - average weighted price summary

	ALL AUCTIONS		AUCTION 1		AUCTION 2		AUCTION 3	
SYNDICATE	WEIGHTED AVERAGE	TOTAL TRADED	PRICE	VOLUME	PRICE	VOLUME	PRICE	VOLUME
0033	56.535	5,175,910	53.012	2,324,815	59.661	1,053,488	59.259	1,797,607
0218	0.259	4,977,264	0.339	2,730,376	0.143	1,374,000	0.192	872,888
0318	0.114	907,889	0.100	1,550	0.106	871,339	0.300	35,000
0386	60.608	1,439,998	53.564	506,526	61.637	281,949	65.640	651,523
0510	20.092	14,490,606	19.310	6,933,470	20.209	4,635,957	21.760	2,921,179
0557	0.213	426,930	0.239	335,000	0.280	6,113	0.106	85,817
0609	60.801	3,187,932	55.521	1,548,311	62.375	713,072	68.412	926,549
0623	65.049	4,345,026	59.495	1,343,892	66.099	1,636,373	69.260	1,364,761
0727	74.009	1,353,830	73.613	1,215,842	76.003	92,152	80.519	45,836
1176	182.528	206,831	178.556	127,994	186.475	61,337	197.744	17,500
1200	0.162	1,706,229	0.169	1,085,515	0.100	321,077	0.203	299,637
1969	0.103	11,499,364	0.103	8,078,888	0.101	3,136,191	0.130	284,285
1991	0.175	841,063	0.215	521,063	0.109	320,000	0.000	0
2010	12.718	3,911,283	13.275	1,931,070	12.157	1,251,623	12.205	728,590
2121	8.553	2,181,080	6.599	1,619,495	10.009	102,521	15.121	459,064
2525	41.294	1,538,045	39.149	1,083,621	43.966	246,637	49.314	207,787
2689	0.145	7,077,840	0.142	1,709,000	0.147	1,169,840	0.146	4,199,000
2791	64.955	7,777,922	59.734	2,235,673	68.437	1,186,374	66.686	4,355,875
4444	14.000	41,596,985	14.050	41,293,648	9.097	32,468	6.979	270,869
5886	7.806	2,688,808	6.346	1,714,045	9.598	725,397	12.626	249,366
	Totals	117,330,835		78,339,794		19,217,908		19,773,133

SOURCE: LLOYD'S MARKET SERVICES, NOVEMBER 2018

Figure 5: All Auctions 2019 - average weighted price summary

	ALL AUCTIONS		AUCTION 1		AUCTION 2		AUCTION 3	
SYNDICATE	WEIGHTED AVERAGE	TOTAL TRADED	PRICE	VOLUME	PRICE	VOLUME	PRICE	VOLUME
0033	58.203	12,201,370	56.544	7,238,298	59.756	3,610,075	62.935	1,352,997
0218	0.178	21,731,727	0.153	11,345,364	0.171	3,685,920	0.224	6,700,443
0318	0.198	1,494,174	0.210	240,959	0.200	905,000	0.183	348,215
0386	68.668	1,657,470	65.439	1,252,012	73.636	259,561	87.539	145,897
0510	20.563	25,944,787	19.259	16,077,648	21.858	6,396,408	24.215	3,470,731
0557	0.126	1,595,370	0.110	630,831	0.187	398,969	0.100	565,570
0609	61.038	7,579,499	58.979	5,288,800	64.644	1,276,552	67.239	1,014,147
0623	61.807	8,656,131	60.288	5,109,018	63.207	2,437,931	65.728	1,109,182
0727	76.642	1,471,047	75.149	983,431	80.751	274,227	78.244	213,389
1176	196.605	372,863	189.422	254,094	209.956	73,947	215.300	44,822
1200	0.101	2,991,085	0.200	24,986	0.100	2,966,099	0.000	0
1969	0.128	808,215	0.000	0	0.100	70,000	0.131	738,215
1991	0.533	96,406	1.000	46,406	0.000	0	0.100	50,000
2010	10.403	7,789,121	10.044	5,950,680	11.461	1,485,066	12.000	353,375
2121	3.164	12,270,534	3.360	4,069,807	4.078	2,298,083	2.672	5,902,644
2525	28.175	2,710,222	27.871	1,856,086	28.289	773,866	34.089	80,270
2689	0.150	15,141,726	0.110	7,771,906	0.145	1,920,100	0.210	5,449,720
2791	73.510	5,242,672	68.545	3,036,385	78.755	463,103	80.765	1,743,184
4444	3.429	1,512,833	3.099	1,303,012	5.011	171,705	7.578	38,116
5886	9.184	3,503,820	8.370	2,696,621	11.093	523,463	13.397	283,736
	Totals	134,771,072		75,176,344		29,990,075		29,604,653

SOURCE: LLOYD'S MARKET SERVICES, NOVEMBER 2019

Figure 6: All Auctions 2020 - average weighted price summary

	ALL AUCTIONS		AUCTION 1		AUCTION 2		AUCTION 3	
SYNDICATE	WEIGHTED AVERAGE	TOTAL TRADED	PRICE	VOLUME	PRICE	VOLUME	PRICE	VOLUME
0033	50.878	17,497,264	54.867	10,409,288	47.211	5,199,640	38.983	1,888,336
0218	3.123	3,123,122	2.606	2,192,198	3.500	616,886	5.990	314,038
0318	0.275	2,891,854	0.225	1,584,690	0.428	554,214	0.268	752,950
0386	73.781	2,830,552	73.099	1,360,894	75.113	1,042,276	72.707	427,382
0510	16.688	31,127,939	19.366	21,816,971	10.299	7,315,154	10.830	1,995,814
0557	0.454	1,800,001	0.571	1,230,617	0.221	479,384	0.107	90,000
0609	59.561	14,259,266	61.723	8,909,642	56.954	3,627,259	53.862	1,722,365
0623	53.872	21,107,965	59.450	12,133,320	47.572	4,644,094	45.000	4,330,551
0727	75.604	2,377,293	78.104	742,276	75.911	1,201,855	70.464	433,162
1176	196.801	639,554	197.811	482,049	188.432	87,943	200.379	69,562
1200	0.100	5,054,714	0.000	0	0.100	5,054,714	0.000	0
1969	0.525	2,035,520	0.350	1,426,142	0.865	306,940	1.001	302,438
2010	2.453	11,665,927	6.111	4,306,527	1.056	1,401,545	0.137	5,957,855
2121	0.362	69,001,306	0.454	33,376,434	0.248	28,077,160	0.378	7,547,712
2525	44.256	2,035,000	40.874	1,490,370	52.997	304,663	54.163	239,967
2689	0.100	5,924,772	0.100	4,674,772	0.100	1,250,000	0.000	0
2791	81.302	5,699,581	80.460	2,887,424	80.939	2,132,683	86.021	679,474
4444	3.632	11,661,860	3.359	7,640,137	3.889	3,191,303	5.150	830,420
5886	5.142	11,398,486	6.766	7,157,947	2.486	2,642,010	2.261	1,598,529
	Totals	222,131,976		123,821,698		69,129,723		29,180,555

SOURCE: LLOYD'S MARKET SERVICES, NOVEMBER 2020