Capital Insights: Understanding Investor Experiences at Lloyd's

A review by Aon Capital Advisory UK in partnership with the Lloyd's Market Association ('LMA')

Foreword

Capital Insights: Understanding Investor Experiences in the Lloyd's Insurance Market

Lloyd's is a preeminent (re)insurance market and a recognised leader in writing complex and specialty property and casualty risks. It provides a unique business offering for potential investors through the combination of a capital efficient structure and the ability to underwrite business globally.

This review's aim was to gain a clear insight into the positives and negatives for diverse types of capital providers of their experience of investing in Lloyd's, and to summarise our findings.

We conducted in-depth interviews with 21 individual capital providers to Lloyd's, representing a broad range of the different categories of capital sources that back underwriting in this market. These can be broadly split into three main categories:

1. **Institutional capital providers** (investing in / owning managing agents and, potentially, accessing underwriting returns for own account).
2. **Trade capital providers** (providing capital via (re)insurance products).
3. **Private capital providers** (individuals or corporates who back syndicate(s) in order to access underwriting returns as part of a wider portfolio of investments).

Having collated the feedback, we have identified five key recommendations that we believe warrant further discussion in order to address what are seen as major obstacles to making the Lloyd's market more attractive for external capital providers. These are aimed at making improvements to both the experience and the matching of capital to underwriting risk, and can be broadly categorised as processes, marketing, and reporting. They are outlined in the Executive Summary.

We hope you will find this report of interest.

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The Capital Insights Project – Approach

Objectives

The objective was to gain better insight into the overall investment experience for the three main groups by conducting a range of interviews with the diverse types of capital providers to Lloyd's.

The intention is to help the Corporation of Lloyd's, managing agents and members' agents, alongside other relevant stakeholders, to improve the experience of investing in the Lloyd's market by building on existing strengths, as well as addressing any negative experiences and / or obstacles to investment.

The findings from this exercise may result in further projects or exercises through relevant LMA committees such as the Finance Committee, the Third Party Capital Committee, or the Committee of Actuaries in the Lloyd's Market (CALM).

Approach

The approach taken for our review is outlined below:

1. We identified a set of capital providers and associated parties through our networks, who are currently, or have recently, been involved in the provision of capital to the Market.
    - (Re)insurance companies that are:
        - Providers of Third party FAL
        - Owners of corporate members
    - Institutional investors
    - ILS investors
    - Private Equity investors
    - Listed investment companies
    - Members' agents / Names Representatives and individual members
    - Other actual / potential investors
2. We prepared question sets for the contacts selected for interview. The key questions posed can be summarised as follows:
    - The attraction of investing in Lloyd's.
    - The initial experience of setting up a Lloyd's market investment.
    - The ongoing experience of being a Lloyd's market investor.
    - The ability to readily exit or realise a Lloyd's investment.
    - Other relevant points that the capital providers wanted to raise.

A preprepared list of questions and prompts provided an overall structure to each interview, having been tailored to suit each interviewee.

3. We conducted in-depth interviews with 21 individual capital providers at Lloyd’s, representing a broad range across the different capital providers that currently support underwriting in this market. All the Interviews were conducted under Chatham House rules by LMA and Aon representatives.
4. The range of recommendations from the interviews were collated and a comprehensive summary was created.
5. We prepared our initial findings, supported by any potential additional publicly available analysis data. We discussed these with Lloyd’s, focusing on key themes and areas where we believe Lloyd’s can drive improvement. Summarised feedback was used to identify key issues and themes that we believe warrant further study and formed the basis of our recommendations for action by Lloyd’s, managing agents and /or members’ agents. These have been outlined in the Executive Summary.
6. We prepared this report to document the review, its findings, and our recommendations.

Executive Summary

Balancing impressive strengths with modernising the investor experience

Lloyd's – a unique offering

Lloyd's has been underwriting risk for almost 350 years: it is the world's largest subscription market and a recognised global leader for complex and specialty property / casualty risks.

The Lloyd's market currently comprises 94 active syndicates managed by 51 managing agencies writing business from over 240 countries. Lloyd's forecasts the market will underwrite c.£57bn of gross premium in 2024.

Recommendation themes

Improve promotion

Streamline processes

Reduce complexity

Increase transparency

Improve reporting process

It has an enviable track record of paying valid claims regardless of the challenges, from the Titanic loss to the tragedy that was 9/11, (the largest ever single loss to Lloyd's), to current losses arising from the Russia/Ukraine conflict, wildfires, earthquakes, floods, storms and hurricanes, and the Dali Baltimore Bridge Collision, to name but a few. It has been at the forefront of risk innovation and continues to respond to a changing world and the development of new exposures, from cyber to climate change and parametric insurance etc., thus enabling (re)insureds to better navigate volatility, build resilience, and make informed decisions.

It is evident that the widely hailed advantages of Lloyd's remain clear and strong. The global licence footprint, the greatest global concentration of high-quality underwriting and innovative risk management talent, the capital efficiency of the Lloyd's chain of security, plus the ability to diversify both risks underwritten and capital allocation, are all attractive.

In addition to these strong fundamentals, Lloyd's is now generating impressive returns and has a respected oversight and performance management regime which is well set to manage returns throughout the underwriting cycle. The case for investing at Lloyd's is as strong as it has been for the last two decades, and our conversation with capital providers shows this is recognised externally.

Looking at the longer term perspective

However, whilst the view from the outside looking in can make a compelling case for investing at Lloyd's, once on the inside and working to establish and run a participation in Lloyd's, investors find that the experience does not necessarily match expectations, and instead often presents frustrations, challenges, and unpredictable set up costs.

Delving into this a little further, there are bright spots alongside the challenges. Our conversations with capital providers highlighted their positive experience of working with members of the Lloyd's executive team, who are willing to take a commercial and pragmatic approach to facilitate what investors want to achieve. This was noted as a marked improvement from the past. While this is encouraging, this alone does not solve the ongoing issues with the underlying processes for getting things done in the market. In many cases, the language and style of interactions remain difficult to navigate, out of date, obscure and misaligned with how modern capital markets operate. Investors have often found the most expedient way to solve issues has been to seek the personal intervention of senior executives to 'break through', and even bypass, convoluted processes in order to get to the desired outcome in a reasonable timeframe.

Several interviewees also noted their positive experience of working with the members' agents, especially when it came to administrative support in terms of their initial investment. Again, these positive observations were often tempered with some negative points regarding out of date processes and style of interaction, unpredictable charges, and limited access to new opportunities for clients.

In our interviews we have explored these underlying system and process issues, identifying those that are a priority to address and with the most impact on the efficiency of matching capital to risk. We loosely grouped our enquiries into three key categories:

1. The decision to invest and establishing the initial investment.
2. Experiences during participants' time as a Lloyd's capital provider / investor / facilitator.
3. Realisation of the investment and exit considerations.

The current favourable market conditions are a clear short-term driver for capital interest and deployment. Hence a key focus of all the market players should be about ensuring the longer-term commitment and participation of a diverse variety of capital providers, even when underwriting conditions are not quite as appealing as they are today. Furthermore, as current risks evolve and new risks arise, Lloyd's will need to continue to attract committed long term capital. This report is aimed at assisting in that process.

In summary, we encourage Lloyd's, the managing agents, and members' agents, to each play their part in addressing the key priorities highlighted in this report. All stakeholders must collaborate to demonstrate to investors that a cross-cycle commitment is worthwhile, not just from the all-important return on capital, but also as regards the ease of doing business and a 21st century approach to process, data analysis and regulation.

Five key investor recommendations

Following our interviews, we summarised our findings and the recommendations and we have considered which were the (i) most requested; and (ii) are optimal to focus on for further investigation.

We recognise that some will be easier to implement than others, and some proposals will raise the subject of Lloyd's as a regulator versus promoter of the market, but this does not negate the need to seriously consider the issues highlighted. It should be noted that these recommendations are not merely aimed at Lloyd's, but also encompass the operating procedures of managing and members' agents alike.

1. Develop plans to **better promote investment in Lloyd's** through more investor friendly explainer material with metrics and language that can be easily understood by a range of financial investors. Whether it is Lloyd's, members' agents or managing agents doing the communicating, the story and terms used should be consistent. This should include:
    - Reducing the complexity of language often associated with Lloyd's and using terminology familiar in the wider insurance and investment industry.
    - Improve promotion and understanding of the market. For example, through a more clearly structured Lloyd's website, provide clear, factual explainer videos and infographics of how the market operates, a guide to P&C (re)insurance, the classes written at Lloyd's and historical market returns and KPIs.
    - Potential investors need ready access to guides as to the ways to participate and the steps involved in the various routes to entry, (see section on the capital providers below), including the cost of access, and contacts for further enquiries.
    - Develop and promote a plan and access route to attract international investors, especially for US, Middle and Far Eastern markets. This could include exploring the use of non-UK corporate member entities, although we recognise there are significant legal, regulatory and tax challenges to be worked through to enable that. It may be that an alternative route to investment at Lloyd's which sits alongside traditional membership is a better way to achieve this – see the section below on the Lloyd's Investor of the Future.
2. **Improve the onboarding and Know Your Customer (KYC) process** by: (i) developing a transparent online facility for investors to track the steps in their application and set up process, and monitor progress to completion; (ii) aligning with other international regulators' processes, particularly in the KYC requirements; (iii) avoiding unnecessary duplication across different parties (i.e. Lloyd's and members' agents) by replacing this with a single entity, (potentially external), that is responsible for the KYC process; and (iv) recognising and defining processes and channels for the different structures and methods of providing capital.
3. **Increase transparency around access to data**, including development of a central reporting system. This could include:
    - Provision of a data repository accessible by members for their participations, and by members' agents for their clients' portfolios. This should be updated with a baseline level of quarterly reporting data from syndicates. Managing agents can supplement this data where they wish to manage more proactively what their investors see.

    We note that Lloyd's is already in the process of implementing its QMA transformation plan, with the intention of addressing the quarterly member reporting in 2025. Hopefully this will go some way to addressing the above concerns, but we would recommend Lloyd's takes the feedback in this report into account as it progresses the project.

- Consideration of whether to share data which is not currently available to investors which they called for. They particularly mentioned more detail around expenses, rate / price changes and analysis of exposures underwritten.
- Several interviewees also called for greater access to the Member Modeller, or at the very least improved transparency as to how the calculations work. The driver is a desire to see more clearly how capital requirements will change based on plans and portfolio changes that are being considered. This may be challenging to provide since there is a balance to be struck between transparency and the ability to calculate better diversification credits, and we understand Lloyd's is already exploring options. There is, however, a clear demand for a broader market discussion and understanding around this subject.

4. Alignment of reporting across the market to **USD as the primary reporting currency**. This would not exclude syndicates from reporting in other currencies, but the use of USD as the currency for Lloyd's aggregate numbers and syndicate performance monitoring would aid understanding and comparability of key metrics.
5. The concept of the 3-year accounting regime is understood by investors, its benefits are attractive to most and it is certainly not a barrier to investment. However, there was a consistent call for clearer **options for earlier capital distributions** in profitable years. The Quarterly Corridor Test (QCT) provides some opportunity to do this, however, it is evident there is a lack of knowledge / understanding about the availability to do so, and we would argue there is benefit in Lloyd's considering enshrining this in a process based on defined hurdle rates and amounts.

The Lloyd's investor of the future

To achieve the market growth aspirations that have been much touted, Lloyd's needs to be both open to, and able to provide access for, new generations of investors both by type and by geography. Indeed, whilst the diversification of capital providers at Lloyd's should be seen as a strength, accessibility also needs to be appropriate to meet the future needs of both the market and of the investor.

A consistent theme with investors, particularly institutional, was the question of entry and exit mechanisms. Liquidity on two levels raises concerns and barriers to investment. Firstly, there is the inherent illiquidity of capital tied up in syndicates and the absence of a secondary market for entry and exit. Secondly, there is the challenge of accessing capacity on syndicates to build a diverse portfolio when only limited amounts are traded through the annual auction. Both represent challenges to the pace of return and liquidity expectations for investors.

Some attempts have been made to develop fund structures to solve these problems, but this has proved to be somewhat challenging. While the scope of this report is not to provide the answers, our interviews did surface some perspectives on how alternative investment routes may be established alongside traditional membership. The key points emerging were as follows:

- Lloyd's is possibly able to play a role in facilitating and developing a secondary structure to access a diversified portfolio of syndicate participations.
- This could be built on those syndicates which already currently take third party capital, rather than needing to be a full market tracker, albeit there was also interest in the latter as a concept. This would need to be constructed in a way which protects current members' rights or offers an attractive benefit to current members.
- Any structure would need to allow Lloyd's to regulate the capital provided to syndicates alongside the business planning process, so that capital supply and demand mismatches do not become an unintended influence on rates.
- Creation of a secondary method of participation on syndicates would provide a much less complex route for international investors (see above), as well as an attractive access route for investors wanting a lighter touch way of accessing Lloyd's, without the demands of running an underwriting business.

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The Lloyd's Market Association (LMA) exists at the very heart of Lloyd's, a world-leading global marketplace for complex risk where solutions to challenges are delivered every day. All 55 Lloyd's managing agencies, with a total market stamp capacity of approximately £52.6bn in 2024, and all Lloyd's members' agents, are members of the LMA.

We represent our members' interests to organisations including governments, regulators, and the market's central supporting body, the Corporation of Lloyd's. We provide professional and technical expertise in areas ranging from model policy wordings to the implementation of innovative technologies. We connect with our members to identify and resolve issues facing the market, and work in partnership with Lloyd's and the other market associations to influence initiatives and outcomes. We operate the market's most comprehensive technical education service, the LMA Academy.

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