

Lloyd's
chain of
security
2002

LLOYD'S



Security is paramount

Security is of paramount importance to all policyholders. The security of the Lloyd's market underpins its ability to pay claims and its worldwide reputation.

The reputation of Lloyd's for first class security is now recognised by two leading independent international rating agencies, A.M. Best and Standard & Poor's, who rate us A- (Excellent) and A (Strong) respectively. These ratings reflect the strength of Lloyd's total resources of £21.9 billion.

In addition all policies are backed by security where:

All premiums received are held in trust for policyholders. These liquid assets meet the majority of all claims. This forms the **first link** in Lloyd's chain of security.

All members are required to hold additional capital at Lloyd's in case it is required to meet claims not fully met under the first link. This forms the **second link**.

Members' other assets are also liable to meet claims, forming the **third link**.

Finally, Lloyd's operates a central fund that is available at the discretion of the Council of Lloyd's, to meet any portion of any claim that is not met from the first three sources. This, and other Lloyd's central assets, constitute the **fourth link** in Lloyd's chain of security.

A stringent system of solvency and control

Lloyd's operates a stringent system of solvency controls to ensure it meets its own high standards, those of the Financial Services Authority and other regulatory authorities.

All members have an obligation to maintain sufficient assets in trust to meet their underwriting liabilities. The annual solvency process requires the managing agent of each syndicate to estimate all current and future liabilities and to make financial provision for them. An actuary independently validates these estimates.

Lloyd's unique system of security means that the total assets available to meet claims compare very favourably with conventional insurance companies and comparison is made easier by the Lloyd's Security ratings from A.M. Best and Standard & Poor's.

These ratings apply to all syndicates, regardless of their individual performance.

For a fuller explanation of Lloyd's Chain of Security please see Lloyd's Global Results 2001, available on www.lloydsfondon.com

“[Positive rating factors include] the continuing commitment of capital providers to the Market and the consequent increase in capacity and funds at Lloyd's in 2002; the stabilization of the net and gross September 11 loss estimates; the benefit of strong premium rate increases for the lines of business that Lloyd's writes; and Lloyd's ability to meet the March 2002 U.S. situs trust funding requirements.”

Standard & Poor's, April, 2002

1

Liquid assets

All premiums and reserves are held at syndicate level in premiums trust funds. Profits are only distributed when a year of account is closed, normally after three years.

Premiums Trust Funds: £13,462m*

Payment of claims takes precedence over distribution of profits

1

Liquid assets

Members' premiums trust funds form the first link in the chain. This is where all the premium income and any additional reserves are held in trust for the benefit of policyholders. Monies are invested conservatively in order that they are available as soon as required.

Other than paying claims, these funds can only be used to meet permitted expenses, for example, reinsurance premiums, underwriting expenses and to fund overseas regulatory deposits, which also form part of the first link in the chain.

Members are unable to receive profits from the funds until the underwriting account has been closed, three years later, and all outstanding liabilities have been provided for.

2

Members' Funds at Lloyd's



Capital amounts are reviewed annually for all members to reflect the risks underwritten

2

Members' Funds at Lloyd's

In case the resources in the premiums trust funds prove insufficient to meet obligations to policyholders, every member, both corporate and individual, is required to hold additional capital at Lloyd's. These are also held in trust for the protection of policyholders.

To qualify for inclusion these assets must be readily realisable. They include cash securities, letters of credit, bank and other guarantees.

The amount of capital required is determined by the nature and amount of risk the member underwrites. Those underwriting riskier business are required to have more funds at Lloyd's.

3

Members' other assets

Additional assets not necessarily held at Lloyd's but declared. Frequently members, both corporate and individual, have additional assets which are also liable if required to meet claims. Individual members underwrite with unlimited liability. A corporate member may also have assets beyond its funds at Lloyd's, which can be called upon to meet its underwriting liabilities.

Members' other declared assets: £327m*

Lloyd's has access to all of a member's other resources

3

Members' other assets

Other assets owned by individual members of Lloyd's are also liable to meet claims on the policies they have underwritten, should the funds in the first two links prove insufficient. Individual members trade with unlimited liability and are liable to the full extent of their personal wealth. This is not shown in Lloyd's accounts, which record only the wealth that has been declared to Lloyd's.

Corporate members are liable to the extent of their resources. They are often the subsidiaries of leading insurance companies formed specially to participate in the Lloyd's market.

Although aggregate numbers are shown, the first three links each operate on a several basis. Each member's resources are only available to meet their share of claims.

4

Lloyd's central assets

The Central Fund is available at the discretion of the Council of Lloyd's to meet any portion of any member's liabilities that they are unable to meet in full.

As at 31 December 2001 the Central Fund stood at £280m after providing for liabilities committed to by the year end. In addition, the fund is now supported by a five year insurance programme with a limit of £350m in any one year. The Council is also able to call from members' premiums trust funds an amount of up to 3% of a member's premium limit in any one year. Other assets of the Corporation, totalling £83m, are available to meet underwriting liabilities.

Lloyd's central assets: £363m*

The Central Fund is available in the event that a claim cannot be met from the premiums trust funds or members' assets

4

Lloyd's central assets

The Central Fund is available, at the discretion of the Council of Lloyd's, in the event that a claim cannot be met from the premiums trust funds or members' assets.

Resources available to the fund:

- £280m in cash and conservative investments
- £350m in any one year from an insurance policy with six of the world's top insurers/reinsurers: Swiss Re, Employers Re, The St Paul Companies, Hannover Re, XL Re and Chubb Corp.
- Up to 3% of a member's premium limit from the premiums trust funds

The insurance policy with these companies runs for five years from 1 January 1999 and would come into effect should claims on the Central Fund exceed £100m in any one year. It is subject to a maximum payment of £350m in any one year and £500m over the five-year period. The involvement of companies such as these testifies to the strength and reputation of the Lloyd's market.

The Central Fund is available to back Lloyd's policies issued after 1993. Policies issued before that date have been reinsured by Equitas, an independent FSA-authorised insurance company.

Other assets of the Society of Lloyd's are also available to meet members' underwriting liabilities as a last resort.

Claims on the Central Fund Insurance

It is envisaged that the cover will be utilised during the remainder of the policy period, which expires on 31 December 2003. The losses of September 11th are the largest ever suffered by the insurance industry, it is therefore not surprising that the Central Fund insurance will be utilised.

* All figures correct as at 31 December 2001.

Contact us



Australia	+61 (0) 2 9223 1433
Belgium	+32 (0) 3470 2309
Canada	+1 514 861 8361
China	+86 10 6505 8391
Denmark	+45 (0) 33 93 2528
France	+33 (0) 1 4260 4343
Germany	+49 (0) 69 597 0253
Greece	+30 (0) 1 942 1973
Hong Kong	+852 2918 9911
Ireland	+353 (0) 1 829 1222
Israel	+972 9 957 7222
Italy	+39 (0) 2 551 93121
Japan	+81 (0) 3 5730 1605
Malta	+356 2569 1500
Namibia	+264 (0) 61 233108



Netherlands	+31 (0) 1050 66600
New Zealand	+64 (0) 4 472 7582
Norway	+47 (0) 23 11 45 60
Singapore	+65 (0) 6538 7088
South Africa	+27 (0) 11 884 0486
Spain	+34 (0) 91 391 3200
Sweden	+46 (0) 1 71 32760
Switzerland	+41 (0) 1 261 3310
United Kingdom	+44 (0) 20 7327 6677
USA:	
Illinois	+1 312 443 0700
Kentucky	+1 502 875 5940
New York	+1 212 382 4060
Virgin Islands	+1 340 715 4443
Zimbabwe	+263 (0) 4 302 600

LLOYD'S

One Lime Street London EC3M 7HA
Tel: +44 (0)20 7327 1000 Fax: +44 (0)20 7327 5229
Website address: www.lloydsoflondon.com