

Lloyds of London

History of Lloyd's of London

The Beginning

The market began in Edward Lloyd's coffeehouse around 1688 in Tower Street, London. The opening of Lloyds coincides with both the sudden rise in popularity of coffee drinking in England and the increasing demand for marine insurance. His establishment was a popular place for sailors, merchants, and ship-owners whom Lloyd catered to with reliable shipping news. The shipping industry community utilized this place as a way to discuss insurance deals among themselves. Lloyd himself was not involved with insurance, but he provided a reliable place for these men to carry out their business of insuring ships. The insurance process began with members of the coffee house each taking a share of risk and then signing their names one beneath the other on a particular policy with the amount they agreed to cover. This process is what gave them the title they have today as "underwriters." The coffee houses provided a pleasant meeting place and their popularity as places for business transactions was quickly established in the City of London.

After the English Civil War, the growing importance of London as a centre of trade led to a steady increase in the demand for insurance of ships and cargoes. But business in those days was conducted very informally. Between 1688 and 1807, one of the primary sources of Lloyd's business was the insurance of ships engaged in slave trading, as Britain established itself as the chief slave trading power in the Atlantic. Slave trading became one of the primary constituents of all British trade, and its dangers meant that insurance of the ships was a major concern.

At Lloyd's coffee house, and until his death in 1713, Lloyd encouraged a clientele of ships' captains, merchants, ship owners and others with an interest in overseas trade. So, at a time when communications were unreliable, Lloyd gained an enviable reputation for trustworthy shipping news. This was crucial to successful underwriting and ensured that 'Lloyd's' became recognised as the place for obtaining marine insurance.

Society of Underwriters: Informal to Formal

Throughout the 18th Century, the informal gathering of merchants at Lloyd's Coffee House gradually assumed a more cohesive identity. However, there was little to no restriction of activities and the professionalism of the group was mixed. In 1769, a number of Lloyd's more reputable customers decided to break away and set up a rival establishment in nearby Popes Head Alley. This was one of the first signs of any community of interest among underwriters and led rapidly to the establishment of a properly constituted society.

'New Lloyd's Coffee House' as it was called, soon proved to be too small. So a committee was elected to find new premises. Some 79 underwriters and brokers each subscribed £100 towards a new premise. This brought about a new image for Lloyd's as they became known to the public as the property of subscribers.

Furthermore, in 1774, rooms were leased in the Royal Exchange and 'New Lloyd's' left the coffee business for good. While still referred to as 'Lloyd's Coffee House' for many years, it was much more like a place of business. The modern Lloyd's had been born. Over the next century the society of underwriters at Lloyd's gradually evolved.

Key Dates to be Noted

Lloyd's history, developments, accomplishments, and downfalls stretch across time. To see a full history and chronology of key dates related to Lloyd's of London follow this link to the Lloyd's of London site: <http://www.lloyds.com/NR/rdonlyres/C42A827B-479B-4DC5-BA31-F58A6C430CB6/0/LloydsHistoryandChronologyKeyDatesFactSheet1.pdf>

The following will provide more in-depth information on key dates in Lloyd's History:

The First Lloyd's Act, 1871 and 1911:

As the society of underwriters at Lloyd's gradually evolved, membership became regulated and the elected Committee was given increased authority. This period culminated in 1871 with the incorporation of Lloyd's by Act of Parliament. The Lloyd's Act of 1871 gave the Society a formal legal basis allowing it to acquire property and make byelaws with the full authority of Parliament behind them. It confirmed Lloyd's as a business institution with guidelines that can be seen still working successfully today. The Lloyd's Act of 1911 set out the Society's objectives, which include the promotion of its members' interests and the collection and dissemination of information.

The Cromer Report, 1968:

The membership of the Society, which had been largely made up of market participants, was realized to be too small in relation to the market's capitalization and the risks that it was underwriting. Lloyd's response was to commission a secret internal inquiry, known as the Cromer Report, which reported in 1968. This report advocated the widening of membership to non-market participants, including non-British subjects and women, and to reduce the onerous capitalization requirements (which created a more minor investor known as a 'mini-Name'). The Report also drew attention to the danger of conflicts of interest.

Changes in the UK Financial Market:

Beyond the Cromer report, many changes in the UK financial markets occurred that led up to the second Lloyd's Act. These changes included both new developments and several issues domestically and abroad. Developments include the new tax structure, and the increase in Lloyd's external membership. Issues domestically and abroad include the following: Firstly, in the United States, an ever-widening interpretation by the Courts of insurance coverage in relation to workers' compensation in relation to asbestos-related losses, which had the effect of creating a huge, and initially unrecognized and then unacknowledged hole in Lloyd's reserves. Secondly, by the end of the decade, almost all of the market agreements, such as the Joint Hull Agreement, which were effectively cartels mandating minimum terms, had been abandoned under pressure of competition. Thirdly, new specialized policies had arisen which had the effect of concentrating risk: these included 'run off policies', under which the liability of previous underwriting years would be transferred, and 'Time and Distance' policies, whereby reserves would be used to buy a guarantee of future income.

Second Lloyd's Act, 1982:

In 1980, Sir Henry Fisher was commissioned by the Council of Lloyd's to produce the foundation for a new Lloyd's Act. The recommendations of his Report addressed the 'democratic deficit' and the lack of regulatory muscle. The Lloyd's Act of 1982 further redefined the structure of the business, and was designed to give the 'external Names', introduced in response to the Cromer Report, a say in the running of the business through a new governing Council.

1980's and 1990's Decline:

In the late 1980s and early 1990s, Lloyd's went through the most traumatic period in its history. Unexpectedly, large legal awards in US courts for punitive damages led to large claims by insurers.

Also in the 1980s Lloyd's entered bankruptcy for 3 weeks and was accused of massive fraud by several American states and the names/investors. Some of the more high profile accusations include the following:

- Lloyd's withheld their knowledge of asbestosis and pollution claims until they could recruit more investors to take on these liabilities that were unknown to investors prior to investing in Lloyd's.
- Enforcement officials in 11 US states charged Lloyd's and some of its associates with various wrongs such as fraud and selling unregistered securities.
- Ian Posgate, one of Lloyd's leading underwriters was charged with skimming money from investors and trying to secretly buy a Swiss bank. He was later acquitted.

What is Lloyd's?

Lloyd's is the world's leading, specialist insurance market home to 47 managing agents and 72 syndicates. Lloyd's is not an insurance company but a society of members, both corporate and individual, who underwrite in syndicates on the behalf of professional underwriters accepting risk. (To underwrite means to assume the risk on a specific policy). They create a market of insurance companies who are then able to use the trusted and prestigious Lloyds of London name. Supporting capital is provided by investment institutions, specialist investors, international insurance companies and individuals.

How Lloyd's Operates

Brokers come to the Lloyd's Building in London and "shop around," taking a particular risk they want covered around the market to try to find the best price, terms and conditions. The brokers negotiate with different insurance companies residing at Lloyd's until they have insured 100% of the project they took on. At Lloyd's, businesses from all over the world can find insurance for risk exchange for the payment of a premium. This premium and the terms and conditions of the policy, are based on the likelihood of the risk happening and its value. If it's a big risk and worth a lot of money it is likely that you'll pay more to insure it. Together the syndicates underwriting at Lloyd's form one of the world's largest commercial insurers and a leading re-insurer.

What Lloyd's Does

The members of Lloyd's sell or underwrite insurance. The members provide the financial backing, known as capital, which acts as security for Lloyd's policies to help ensure that claims are paid. Capital comes from a mixture of financial institutions, major insurance businesses and individuals. These businesses or individuals are sometimes called 'Names'. A member or group of members form a syndicate. A syndicate is a group of people or a firm who are authorized to undertake a task; they work together to reduce the risk involved with the undertaking. A syndicate's underwriting and other activities are managed on behalf of its members by a managing agent. For example, managing agents employ the underwriters who use their specialist knowledge to accept or decline risks for the syndicate. Different syndicates can specialize in different types of insurance. The market structure encourages innovation, speed and better value, making it attractive to policyholders and participants alike. Immediate access to decision-makers means that answers on whether a risk can be placed are made quickly, enabling the broker to provide fast, good value solutions.

Why Lloyd's is Important

Many ideas would never be possible without a way to reduce risk. We all know risk is unable to be eliminated; however, it can be managed and reduced. There are many insurance companies who price things like cars, houses and medical expenses which can be relatively easy to price with set methods and manuals. Lloyd's specializes in those risks that are hard to price, large and difficult to understand. Their unique market focus helps to get good ideas off the ground that would normally be unfeasible.

Lloyds is a large part of all companies around the world insuring companies in over 200 territories worldwide. Also, 92% of FTSE 100 Companies and 93% of Dow Jones companies have insurance through Lloyd's while 8 of the world's top pharmaceutical companies and 48 of the world's top banks use Lloyds.

Who Works at Lloyd's

Members - Also known as "Names", this group of people are the providers of capital. They generally are employed by large corporations and thus are subject to limited liability.

Managing Agents - Underwriting agents who have permission from Lloyd's to manage a syndicate and carry on underwriting and other functions for the members. They generally oversee all of the syndicate's activities.

Members' Agents - An underwriting agent appointed by a member to provide services and perform duties for the member. These may include advising the member on which syndicates he/she should join and talking with the managing agents on behalf of the member.

Brokers - Also called the intermediaries, brokers are hired by outsiders and focus on trying to find the best deal among the syndicates for their employers.

Examples of what Lloyd's Insures:

Lloyds covers the most complex and specialist risks. This can range anywhere from major airline companies, to celebrities voices or body parts, to oil rigs to some of the world's biggest banks.

Olympics

The Olympics can be considered one of the most difficult events to price. Many things can go wrong and the risks can be very unpredictable which can end up costing millions. The Olympics gave Lloyds a chance to showcase what they were capable of when they sent in teams of consultants to assess and advise on anti terrorist measures.

Egon Ronay

Food Critic Insured his tongue for \$400,000 since his endorsement could end up costing restaurants millions.

Legs

Actress Betty Grable insured her legs for \$1 million each. Entertainers Tina Turner as well as Brook Shields also insured body parts.

Singers

Bruce Springsteen, Bob Dylan and Rod Stewart all insured their voices to protect themselves from the day their voices no longer worked. Lloyd's also wrote an insurance policy for Celine Dion's vocal chords. Keith Richards, a famous guitarist and songwriter, insured his fingers.

Other

Jimmy Durante's nose, nicknamed: "Schnozzola", was also insured by Lloyds. His nose was what helped make him one of America's popular personalities of the 1920s through the 1970s.

Miscellaneous

Aviation Industry

Sporting Events (Wimbledon, Ryder Cup & World Cup.)

Why Lloyd's is Located in London

- Initially Lloyd's was formed due to the enormous demand for ship and cargo insurance in the city. It was able to establish a clientele of ship owners, ships', captains, and merchants because of London's heavy trading population in the 17th. century.
- Currently London is the top financial center across the globe. The London Stock Exchange is the worlds largest foreign exchange market with its daily turnover rate of \$504 billion dollars, which is more then New York and Tokyo combined. It has been incontrol of over 80% of Europe's assets and 20% of the worlds investment fund assets which attracts the wealthiest investors.
- London has the largest and most distinctive market located in the city. It is the largest market for over-the-counter derivatives as it is in control of 36% of global turnover and it manages almost 50% of Europes institutional equity capital. The main market lists and trades equity and other securities used by over 1,600 companies from 60 countries.
- London is the worlds largest banking center. There are over 550 international banks located in London. It holds more then 100 headquarters of the 500 largest European companies and 25% of the worlds leading financial companies.
- Another reason that Lloyd's is located in London is because of its location with regards to time zones. Since Lloyd's is a global company they are able to get in contact with multiple countries in the same work day if they need to.
- Lastly, London has the availability of skilled personnel which is critically important in determining business location. London is one of the few cities with the availability of high quality personnel. By enhancing their professional standards they are able to maintain their competitive advantage over other industries and attract new talent.

How Lloyds Contributes to London being a Financial Centre

Language and Geographic Location

English is widely accepted as the language of business and London's primary language is English. Lloyd's location allows them to do business with the far east in the morning and the United States in the afternoon. The United States accounts for £10 billion of profit each year Lloyd's.

Revenues and Profits for Insurance Companies in London

London is the world's largest international insurance market with gross premium income of £24.6 billion in 2002. Lloyd's reported a profit of £3.7 billion in 2006.

Potential Capacity

Lloyd's has increased its capacity to £16.1 billion in 2007, an increase of 9% in one year. The largest syndicate of Lloyd's is Catlin which provided an estimated capacity of £1.1 billion in 2007. Catlin accounts for 6.8% of Lloyd's market share.

Types of Investors in Lloyd's

- 123 corporate members (private companies)
- 1,124 individual members with unlimited liability ("Names"), only 30 years ago this number was above 30,000 members. They do not allow new members to invest with unlimited liability.
- 467 NameCos (individuals underwriting via limited liability companies)
- 131 Scottish Limited Partnerships (individuals underwriting via limited liability partnerships)
- 3 Group Conversion Vehicles (individuals who converted into limited liability group schemes)
- 294 Limited Liability Partnerships (individuals underwriting via limited liability partnerships)

Total of 2,142 different investors

Three Year Plan (2008-2010)

CEO Richard Ward developed a three year plan to keep Lloyd's on track with future projections

The Three Year Plan is Made up of five parts:

Performance Framework

Capital Advantages

Security and Ratings

Market Access

Operating Environment

Performance Framework

- Better monitoring of market performance and benchmarking of managing agents across a number of key performance indicators, through the enhancement of internal analysis tools

Capital Advantage

- Reviewing syndicates of Lloyd's more thoroughly including performance and other characteristics

Security and Ratings

- Ratings remain at the desired level, further enhancing Lloyd's reputation as a secure and stable market to place (re)insurance business

Market Access

- Improved support for Lloyd's Asia platform
- Further development of multiplatform model
- Lloyd's presence at key international and regional insurance hubs, allowing managing agents to retain/increase access to business flows

Operating Environment

- Significant change in market culture to recognise and support new business models
- Lloyd's operations appear like any other insurance market to brokers and customers

Lloyd's Building !EBW_Exteriorofbuilding2

The architecture of Lloyd's is no doubt very unique. It was designed by Richard Rogers and was innovative in the sense that its staircases, lifts, power conduits, and water pipes are all on the outside, leaving the inside area free of clutter. In addition to that, lifts and escalators are all see through, and the 12 see through lifts that Lloyds has were the first of its kind in the UK. The focal point of Lloyds is the large underwriting room on the main floor, surrounded by 3 main towers and 3 service towers. The underwriting room is famous for housing the Lutine Bell, which is a famous bell discovered at the bottom of a sunken ship. The bell hangs in the center of the room and was originally used to alert brokers and underwriters of news, such as the arrival or loss of a ship. Now, after developing a crack, the bell is no longer used for its traditional purposes, but is used instead to alert brokers and underwriters when a member of The Royal Family dies, or to commemorate disasters such as 9/11 or the Tsunami.

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