SPECIAL REPORT

Lloyd's of London: How Lloyd's Works

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The Lloyd's of London insurance market is extremely well-known, although often misunderstood. Set out below is an explanation of its basic structure, how this affects counterparty analysis, as well as what the structure means in terms of the security it offers, claims negotiations, funding and legal status, together with what happens when a business fails and the rationale for individual syndicate analysis. Also included is an explanation of the main entities operating at Lloyd's and its accounting. The Appendix contains additional information on Lloyd's overseas trust funds, Lloyd's Insurance Company (China) Limited, the Lloyd's market's contingent exposure to Equitas, Letters of Credit for Funds at Lloyd's and a timetable for Lloyd's reporting.

For those clients looking for an overview, please refer to the sections 'Basic Structure', Counterparty Analysis' and 'Security – Overview' below.

For information on Lloyd's overall financial position, information on all syndicates currently trading at Lloyd's and the latest statistical and financial information on Lloyd's, please refer to our separate reports covering these areas.

Basic Structure

Lloyd's is a Market

As Lloyd's has stated previously[1], "Lloyds is not an insurance company, it is a partially mutualised market".

The market is made up of many different businesses, the businesses trading as members of Lloyd's.[2] The members' underwriting is undertaken by different syndicates, with the syndicates being managed by an appointed managing agency. In order for this market to function, it has certain central, mutualised resources and a corporation to administer the central resources.

1 Reference the introduction to 'How We Work – Market Structure' in Lloyd's 2009 Annual Report.

2 Most businesses now underwrite with limited liability, although a minority of individuals also remain with unlimited liability.