



## Talisman Report January 2020

As we start the new decade it appears evident that Lloyd's will look noticeably different in ten years' time and I believe the Society will have much to thank John Neal for, as Chief Executive Officer, in bringing about not only the modernisation of the market but, more importantly, improved performance.

On 30 September 2019, Lloyd's published the 'Future at Lloyd's Blueprint 1', which was the result of thousands of hours of consultation with hundreds of stakeholders. That document sets out the first stage of the vision to create the world's most advanced and customer focused insurance marketplace, with the widest range of products and services. The difficult part starts now in implementing and delivering the plan. To assist, Lloyd's is putting in place a more appropriate governance structure and has raised £300m of senior debt to fund the transformation. In February 2020, Lloyd's will publish Blueprint 1a, which will set out the detailed plans and deliverables for Phase 1 implementation.

Jon Hancock and his team in the Performance Management Department maintained the momentum of applying additional scrutiny to the lesser performing syndicates and classes of business, but with a more graduated approach. Those syndicates with strong records of profitability across all parts of the market cycle were granted much greater latitude in business planning. The very best performing syndicates formed a pilot for 'light-touch' oversight, essentially being able to file and use their business plans without needing formal approval from Lloyd's. Those syndicates rated as 'A' by Argenta Private Capital Limited grew by an average of 16%, with those 'B+' by an average of 12%. Other syndicates found it much harder to convince Lloyd's of their plans, and in general growth was restricted to the level of rate improvement. For 2020 those syndicates rated 'A' represent 49.6% of Talisman's portfolio (46.5% in 2019).

Managing Agents have a duty to ensure that the syndicates they manage produce a worthwhile return on capital. It is noteworthy that in the last few weeks four syndicates, with a combined capacity of £650m (none of which were supported by Talisman), ceased trading as that objective was not considered achievable. The removal of this capacity and competition should benefit others in the market.

Jon Hancock will be leaving Lloyd's during 2020. Talisman and all members of Lloyd's have much to thank him for in raising standards and in particular the 'Decile 10' exercise. To quote John Neal, 'his will be big boots to fill' and we will monitor Lloyd's progress in appointing his successor with keen interest.

The result for the 2017 underwriting year of account will be announced at the end of March. The most recent forecast suggests the market will have an overall loss of 9%, while Talisman is expected to have an improved position nearer 5%. We currently anticipate the final result to be a modest improvement on those numbers, especially as the full year investment income should be better than most expected.

The cost of losses in 2018 was again significant and the current market forecast is a loss of 5%, with Talisman being nearer 3%. We continue to believe that Talisman should move towards a breakeven result when the account closes in 12 months' time.

The market improvements that continued throughout 2019 were stronger in direct lines, including property, marine, energy and parts of the casualty sector, but less so in reinsurance lines despite the loss activity of 2017 and 2018. Conversely, reinsurance of reinsurance, known as retrocession business, rapidly became a scarce commodity as so much capital was locked up in Insurance Linked Securities against future deterioration of recent events and enjoyed perhaps the largest increase in rating levels of any class.

2019 was not completely free of catastrophic activity; a category five hurricane caused devastation in the Bahamas, but spared the mainland of the USA. Two significant typhoons buffeted Japan and the year ended with some of the worst and largest wildfires burning enormous parts of the Australian states of Victoria and New South Wales with tragic consequences for both human and wildlife. Overall though, it appears that the catastrophe loss impact will be lower than average and a long way below the record levels of 2017. With much business remaining on risk, there is still some way to go on the 2019 year of account, but initial indications are that the market will return a respectable profit by the time the account closes at the end of 2021.

We welcomed eight new investors into Talisman during last year and for 2020, the company's underwriting has moved up from £25m to £29m. The growth in capacity arose through syndicates pre-empting and by the acquisition of three underwriting vehicles with the owners all taking some shares in Talisman as part of the consideration. We believe this to be an excellent business model for both parties and look forward to making further similar acquisitions.

Syndicate selection has always been paramount to Talisman and we move into 2020 with a portfolio that should produce profits ahead of the market average whilst remaining within our risk appetite. Our optimism continues as we anticipate further improvements in the market throughout 2020.

More comment on the above will be in our mid-year report.