Oxbow Partners

CEO AGENDA 2025

LLOYD'S AND LONDON MARKET

Leading through uncertainty

ABOUT THE AUTHOR



Greg Brown
Partner
gbrown@oxbowpartners.com

Greg leads engagements on digital, operational, and technology strategy and transformation. He spends most of his time in the Lloyd's and London Market and European retail insurance. Graduating with a degree in Engineering and Computer Science, Greg has a strong technical background which allows him to give his clients confidence in the feasibility of their strategic choices. CEOs often rely on Greg to look through the hype and advise them on the relevance of technical trends. Topics where Greg's range of experience comes together include digitisation in the London Market and the impact of Lloyd's Blueprint 2, strategic choices available to syndicates around the bifurcation of lead/follow, and using technology as a vehicle to drive underwriting transformation. Greg is a regular commentator on transformation and digital topics, and often speaks at industry events.

Oxbow Partners

CONTENTS

Executive Summary 04

Market review 06

1 Navigate market bifurcation 08

2 Set out a strategy for Delegated Authority / MGAs 10

3 Increase portfolio resilience 13

4 Embrace the evolution from datasets to insights (and Gen AI) 15

5 Build the talent pool for the future 17

6 Achieve an efficient cost base and embed transformation discipline 19

Conclusion 22

EXECUTIVE SUMMARY

2023 was the best performing in sixteen years for Lloyd's and the London Market. Gross written premium reached £52bn and market combined ratio dropped to 84%.

However, there is an emerging consensus that the current hard market might be approaching an end, although the current CAT season may change that, even if there are different opinions about how it will evolve. The high profitability of 2023 creates an opportunity to reinvest profits into making the business resilient against a range of future market scenarios.

Over the next 12 months we believe that CEOs have the opportunity to gain advantage from advancing six transformation topics.

#	Topic	Context	Imperative for 2025
1	**Navigate market bifurcation**	The market is shifting towards a clearer split between lead and follow capacity and follow models are becoming increasingly sophisticated; this will squeeze the opportunity for traditional follow capacity	Define where to play in a bifurcating market (including where to lead/follow and in which channels) and develop an aligned operating model that allows you to win
2	**Set out a strategy for Delegated Authority / MGAs**	We estimate that Delegated Authority now accounts for over 40% of the Lloyd's market and continues to grow; digital DA models are emerging	Build a deliberate DA strategy (set out ambition, identify capabilities required), design the DA operating model and ensure a strong technology backbone
3	**Increase portfolio resilience**	The rate environment has been broadly positive (6-10% CAGR across most lines in 2018-23), but it is starting to show early signs of slowing (e.g., US Property, cyber)	Review portfolio positioning and define rate adequacy, set up capability to monitor signs of potential market softening, prepare for action (e.g., review operating model, incentives)

#	Topic	Context	Imperative for 2025
4	**Embrace the evolution from datasets to insights (and Gen AI)**	The market has come a long way to close the gap on technology and data analytics; however, greater strategic focus and investment are needed to leverage data more effectively	Shift strategic focus from building foundations to extracting insights from vast data sets and actively consider how to benefit from Gen AI (e.g., set an ambition and delivery framework)
5	**Build the talent pool for the future**	The capabilities required even in the medium term are different to today, for example more portfolio underwriting experience and analytical capability; companies need to establish how to attract these kinds of employees	Embed talent as a key pillar of your strategic architecture, linking capabilities implied by the corporate strategy to the talent strategy; be realistic about what the organisation of the future needs to offer to attract these individuals
6	**Achieve an efficient cost base and embed transformation discipline**	Rate-adjusted admin costs increased by 2ppts from 10% to 12% over the last 5 years; as the market evolves, cost will likely become an area of focus	Identify areas of opportunity, develop a portfolio of initiatives, set up a Transformation Office to increase discipline; be honest about how to make initiatives stick

Many of these topics have been discussed in corporate boardrooms over the last few years. However, we think that greater strategic focus is required, not least because the market environment could soon become more challenging.

MARKET REVIEW

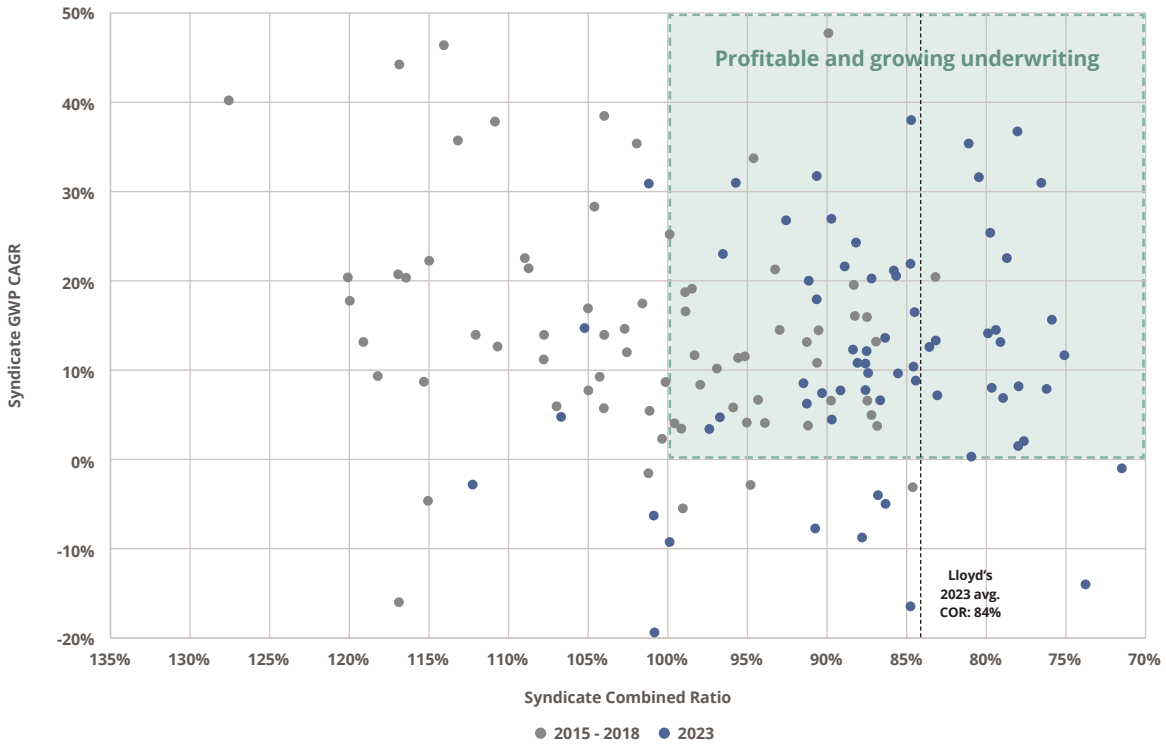
2023 was the best in sixteen years for Lloyd's and the London Market. Gross written premium reached £52bn and the market combined ratio was 84%. Lloyd's return on capital exceeded the cost of capital for the first time since 2014.[1]

In 2023, over 70% of syndicates, accounting for more than 80% of Lloyd's GWP, were profitable and growing. By contrast, this was true for only a third of syndicates across the four underwriting years before Decile 10 (2015 to 2018).

Figure 1

2023 results were much stronger than historical performance

GWP CAGR and Combined Ratio (2015-2018) vs. GWP CAGR and Combined Ratio (2023)



Source: Lloyd's Insight Hub, Oxbow Partners analysis

[1] ICMR 'Lloyd's 2023 results exceed cost of capital' Mar 2024

We expect the 2024 underwriting year to be similarly strong, assuming early estimates for recent hurricanes Helene and Milton are not wide of the mark. Indeed, the market just reported its best-ever first half combined ratio (83.7%). The market remains attractive and recently gained two high-profile newcomers: Aviva (through its acquisition of Probitas) and Fidelis (through its syndicate launch).

Growth remains in focus and John Neal has put out a $100bn premium ambition for Lloyd's by 2028. The London Market is an exciting place to be.

However, what goes up must surely come down. Discussions with CEOs point to an emerging consensus that 2024 is the "late afternoon" of the hard market. Encouragingly, many executives believe that the market can behave differently and avoid the huge swings of the past. Their optimism rests on two observations:

- First, carriers have much richer data and insights than even five years ago. This will allow them to have a more granular view of profitability and should protect against irrational pricing changes.
- Second, the risk landscape is not easing. Climate change is contributing to higher insured losses: despite no major hurricane losses, 2023 saw $100bn of catastrophe losses and the first half of 2024 a further $60bn.[1,2] In the second half of 2024, Helene and Milton have shown that the risk of major hurricanes still remains. Combined with challenges in US casualty and uncertainty stemming from the geopolitical environment, executives expect caution to prevail.

The net impact would be softening from the peak of the hard market to tighter but acceptable underwriting margins.

When it comes to thinking about the 2025 executive agenda, we are reminded of the phrase "hope for the best but prepare for the worst". The next section of this paper describes how London Market carriers can create greater strategic and operational flexibility in their businesses.

[1] Verisk 'Verisk 2024 Global Modelled Catastrophe Losses' 2024
[2] Swiss Re 'Severe thunderstorms drive insured losses to USD 60 billion in first half of 2024' Aug 2024

Oxbow Partners

1 NAVIGATE MARKET BIFURCATION

Carriers in the London Market have traditionally operated an integrated underwriting model. Teams have been organised by line of business. Some are led by prominent underwriters able to write portfolios of lead or influencing lines whereas others have been largely follow-oriented.

We observe many underwriters taking a more structured approach to their underwriting operating models, a trend referred to as 'bifurcation'. Where they have ambitions to lead, companies are investing in the best people, data and technology. Leaders will solidify their positions by originating additional capacity through, say, consortia.

At the same time, companies are redefining their approach to follow lines. Principally, this involves a shift from underwriting to portfolio management, and often the development of decisioning platforms. Sophisticated players can deploy different follow strategies from self-follow (i.e. using third-party capacity to follow your own business) to a full algorithmic follow proposition that assesses each individual risk based on real-time risk and pricing models.

The self-follow model highlights the close relationship between market bifurcation and third-party capital strategies.

Companies typically see three benefits from their dedicated follow business:

- First, they gain strategic flexibility as data-driven portfolio managers are able to quickly deploy capital to opportunities when market conditions change or distribution opportunities emerge.
- Second, they can drive diversification benefits by gaining exposure to risk they would not have the confidence to underwrite in-house.
- Third, they gain efficiency benefits. Follow models offer an expense ratio opportunity of 5-9 points.[1]

We see risks for carriers pursuing traditional follow strategies. Leaders will put down larger lines, potentially supported by consortium capacity. This will then trigger algorithmic follow capacity. Brokers will then place a portion of their business in their cross-class facilities. This leaves very limited space on the slip for other capacity.

[1] Examples seen in the market include Beazley Smart Tracker (Syndicate 5623), KI (Syndicate 1618), Nephila (Syndicate 2358) – all have expense ratios below the Lloyd's median. Source: The Insurer 'How smart follow and algorithmic underwriting are changing the London market' Jul 2024

Imperatives for 2025

We believe that companies need to have a strong house view on how market bifurcation will play out and where they want to play in the market. This should then seed a strategy about where to lead and follow, and how to play in different channels. They should also consider the impact that differential pricing across the slip would have on this strategy.

Companies then need to review their operating model and build a platform that allows them to win with their chosen models. Often this will require different operating models for the lead and follow businesses – as pioneered by Brit with its Ki syndicate.

We see an opportunity to front-run the market on this topic: early-mover carriers will get market access that allows them to build scale quickly, can create a revenue opportunity from third party capital, and will manage their overall costs.

2 SET OUT A STRATEGY FOR DELEGATED AUTHORITY / MGAS

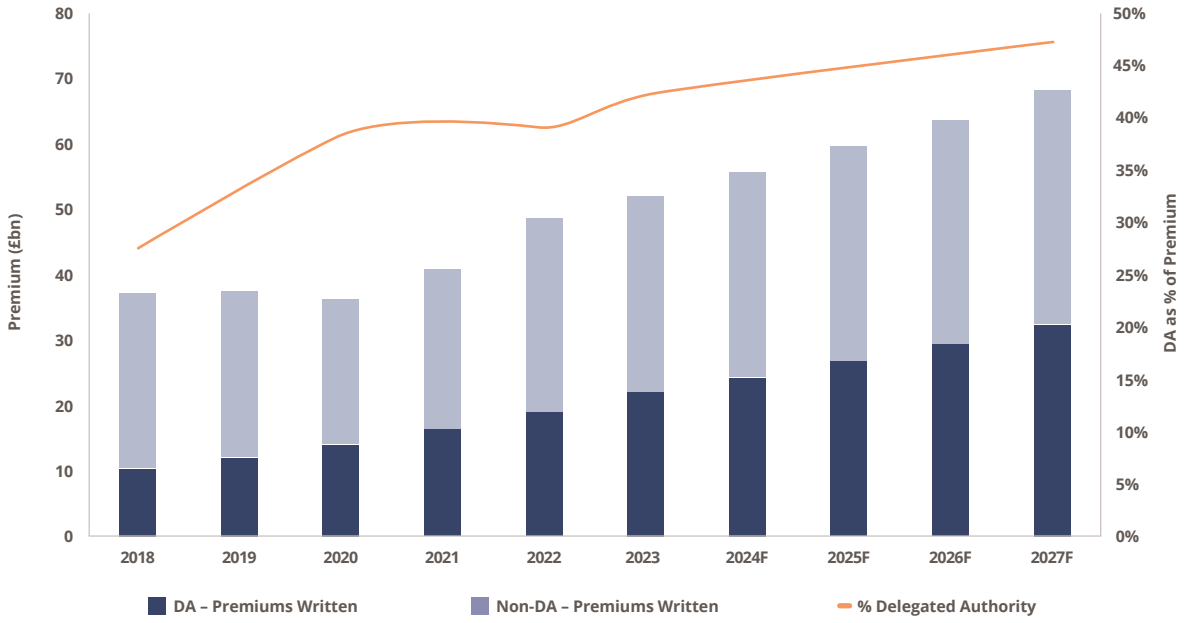
This section is a summary of our recently published report: Winning in Delegated Authority

DA business has grown significantly over the last decade in both absolute and relative terms. Our analysis shows that DA business has more than doubled from £10.4bn in 2018 to £22.1bn in 2023, increasing its share of the Lloyd's market from 30% to over 40%. As the market softens, this trend is likely to accelerate and we expect DA to exceed 45% of market premium by 2027.

Figure 2

DA accounts for over 40% of the Lloyd's Market and continues to grow

Total Lloyd's GWP split between Open Market and DA (2018A-2027F)



Source: Lloyd's Insight HUB, Oxbow Partners analysis

The target state of DA seems clear. We expect coverholders to operate as digital 'front ends' for underwriters, creating a seamless digital journey from brokers to capacity providers. This will allow the reporting relationship between distributors and underwriters to move from periodic performance reviews to ongoing dashboard-based monitoring. This will give carriers a live view of their portfolio, enabling short-term optimisations that should lead to lower volatility, lower loss ratios and lower costs.

This is not another pie-in-the-sky innovation idea. Some managing agents are already running similar business models, for example AEGIS's OPAL platform and Convex Digital. Canopius VAVE is a fully digital MGA that allows brokers to distribute white-labelled products.

However, it is important to recognise that this digital model is not yet widespread. The dominant approach in the market today remains bordereau-based, and coverholders continue to send often poor-quality data in numerous different formats to underwriters for processing at considerable operational effort and therefore expense.

Significant barriers to mass adoption remain, and carriers have limited control over many of them (as is the case in other distribution channels). Most notably, carriers cannot influence the overall technological capabilities of coverholders or their ability to support API connectivity. Indeed, incentives are not aligned: much of the benefit of digital DA accrues to underwriters whereas coverholders might be disinclined to raise transparency of their performance data.

Given the relative lack of focus on DA over the last few years, many carriers have built up operational and technology debt in their businesses.

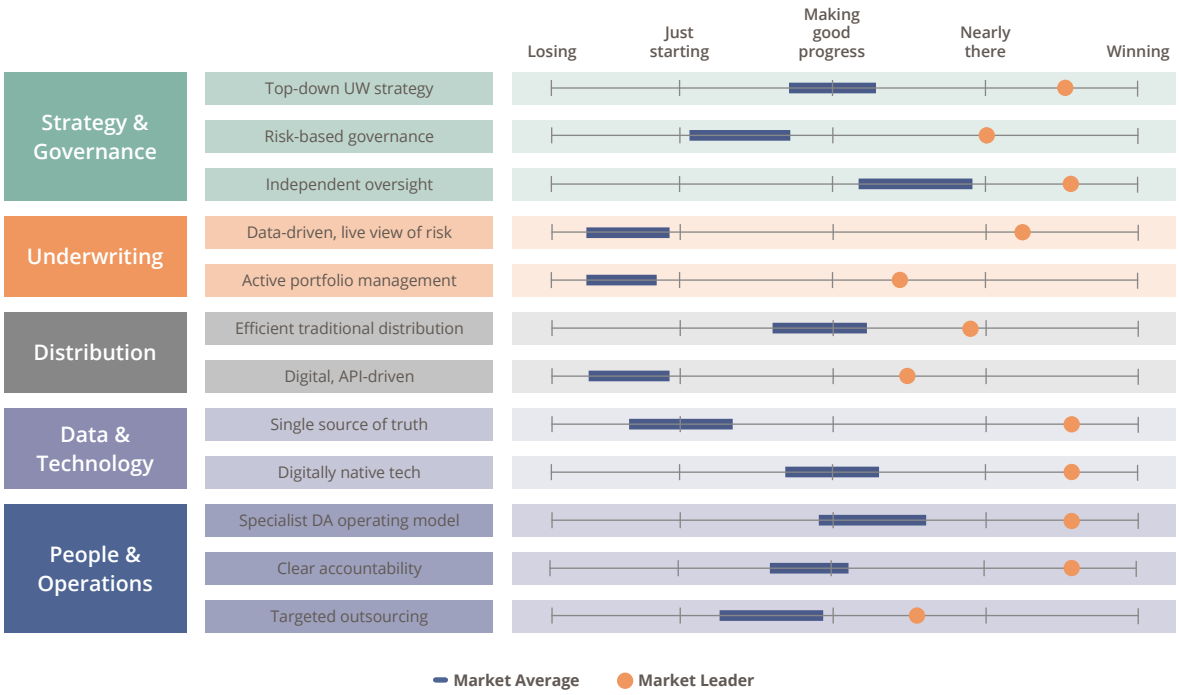
It is difficult to excel across all capabilities and carriers need to identify which capabilities are mission-critical to their business plan and which are hygiene factors. In other words, where does the business want to outperform and where does it just need to be good enough? The answer will be different for each player depending on their lines of business, target market segments, brand messaging and current level of maturity.

We see a broad spread of current capability across the market.

Figure 3

DA offers ample opportunity and winning models are yet to be established

Oxbow Partners DA market maturity assessment framework



Source: Oxbow Partners analysis

Imperatives for 2025

As DA grows and peer group models mature, carriers need to have a deliberate strategy for DA with appropriate capabilities. Those treading water in the market risk anti-selection as market conditions tighten.

The first step is to set a commercially robust DA strategy. This must cover the 'north star' ambition for the business, a view on where to play, how to win, and the enabling capabilities required.

The second step is to define the DA operating model, and the third is to establish a technology backbone to deliver the business. This should include a single data repository, coverholder onboarding and management workflow, bordereaux ingestion and management, and an API Gateway.

Oxbow Partners

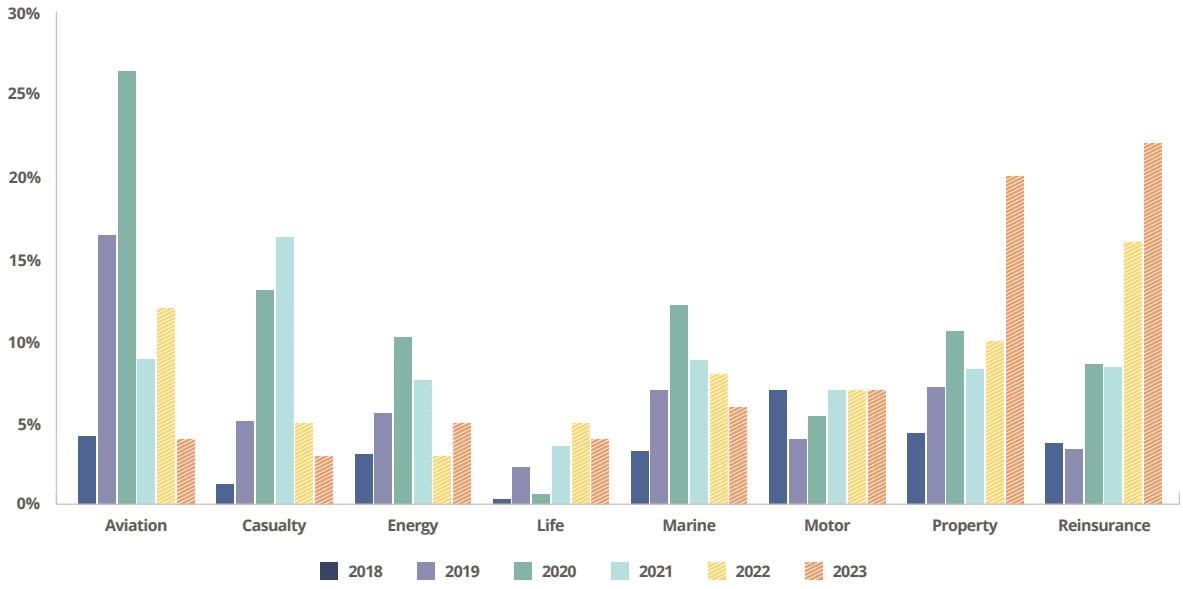
3 INCREASE PORTFOLIO RESILIENCE

The rate environment has been positive across most lines of business since 2018 and benefited from both macroeconomic and geopolitical factors. Nonetheless, the growth in rates has varied across classes of business, with Property and Reinsurance demonstrating the strongest growth (c.10% CAGR) and Casualty, Energy and Motor showing more moderate gains of 6-7% CAGR.

Figure 4

All lines of business have shown strong risk-adjusted strengthening since 2018

Risk-adjusted rates growth by COB (%, 2018-2023)



Source: Lloyd's Insight Hub, 2022-2023 Oxbow Partners estimates

The messaging from Monte Carlo was, as expected, positive with reinsurers keen to stress discipline and that the current rates remain broadly risk-adequate.

However, there are signs that the tide could be turning. We have already seen slowing rates in US Property lines and in some pockets of Casualty (e.g., Cyber rates have been negative since 2023). This trend is likely to continue, despite recent hurricanes, unless the remainder of 2024 and early 2025 creates additional surprises. In Casualty we have not seen as much of a cyclical spike upwards in rates. Loss cost inflation is still rising, particularly in the US, which could maintain positive rate movements for longer.

With that backdrop, we are reassured to see an increased focus on preparing for a shifting rate environment. However, we observe that insurers often talk the talk but end up following the market down. In fairness, there are conflicting forces at play, for example shareholders with their desire to see growth, and the need to absorb costs. However, this is all the more reason to have a structured and transparent approach to portfolio optimisation.

Imperatives for 2025

We believe that now is a good time to fundamentally review the resilience of the overall portfolio and ensure there are structures in place to respond to the changing cycle. We see a three-step approach.

First, carriers should develop a framework for understanding rating at the individual line of business level. This should include: current rate strength, current and future claims development and market sentiment. Modelling can be used to understand the impact of potential market scenarios.

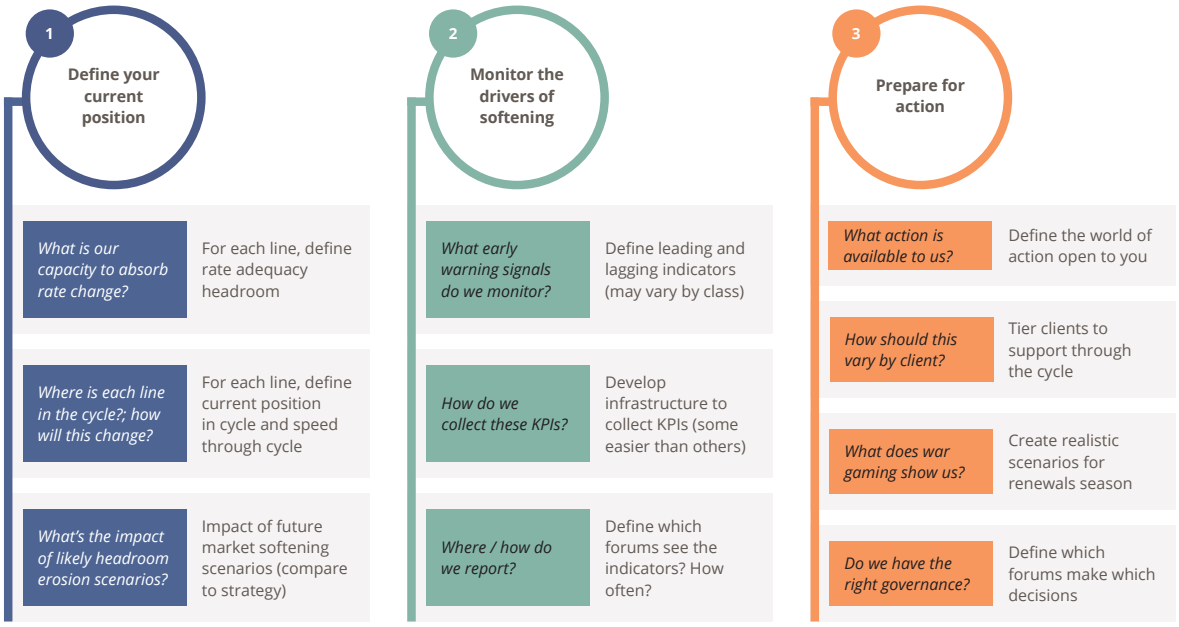
Second, carriers need to identify and monitor the potential drivers of softening. What KPIs do we collect and how do we report?

Third, carriers need to identify potential responses and build the operating structures to monitor and act on their insights. In our experience, underwriting teams are structurally set up to capitalise on a hard market (e.g., incentives) but struggle to be disciplined on the descent. What is the transmission mechanism between insight and front-line behaviour?

Figure 5

Holistic approach is required to improve overall portfolio resilience

Three-step process to improve portfolio resilience



Source: Oxbow Partners analysis

4 EMBRACE THE EVOLUTION FROM DATASETS TO INSIGHTS (AND GEN AI)

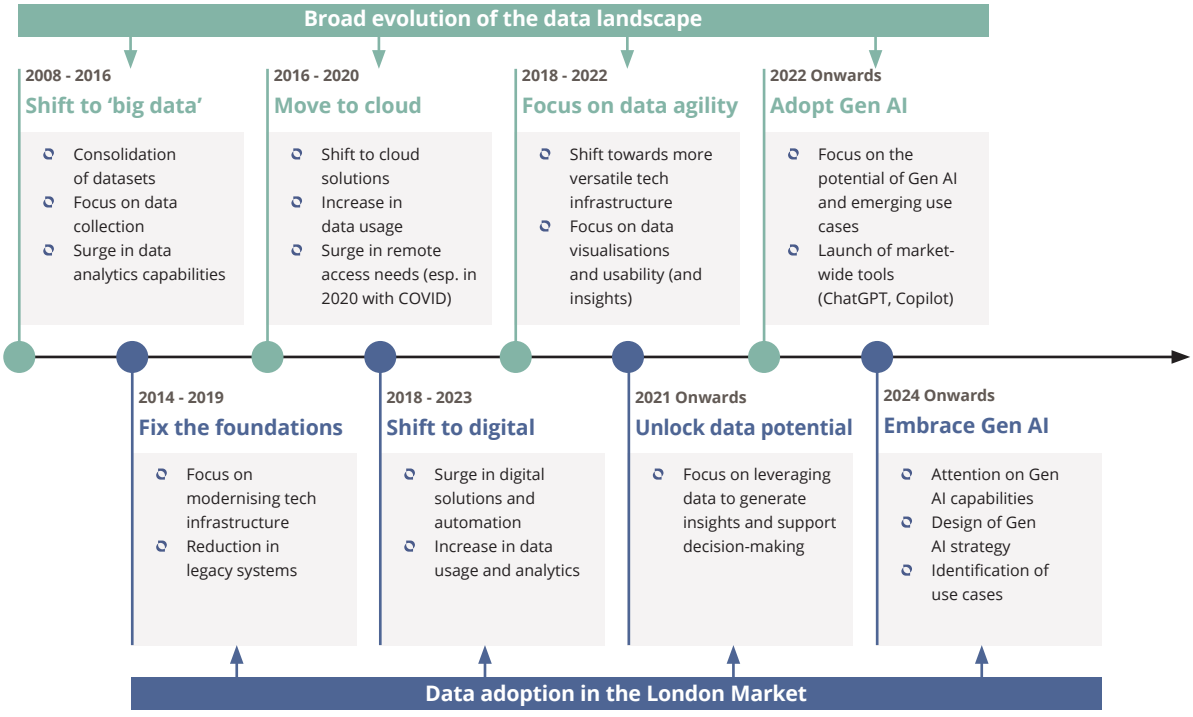
Whilst it is easy to note that the insurance industry lags some other industries on its use of data and analytics, it is worth reminding ourselves where we have come from. An Oxbow Partners Data & Analytics benchmarking study for the London Market in 2017 indicated limited Board and executive team interest and engagement on data. In 2020, a rerun of the study demonstrated positive momentum among leaders and in 2024 we can say that data is universally seen as a critical and differentiating asset.

We observe a significant acceleration in data and analytics activity in the market.

Figure 6

We are witnessing a welcome acceleration in data and analytics adoption

Illustrative timeline for different stages in data adoption and development in leading industries versus insurance



Source: Oxbow Partners analysis

The hot topic in 2024 is clearly Gen AI. We see 2025 as the tipping point where London Market carriers will identify and start acting on use cases that can drive value at scale. We expect these to include opportunities such as automated submission ingestion, data analysis, and risk information summarisation.

Some carriers have already begun to experiment with Gen AI, for example Beazley, Hiscox and Markel. Many of the leaders are partnering with third parties such as Cytora, an underwriting platform, or Google Cloud.

Whilst the rate of adoption of Gen AI remains uncertain, we have a high level of conviction that Gen AI will fundamentally change the industry in the long run. This view aligns with a recent **Oxbow Partners market survey** which found that over 85% of respondents believe Gen AI will be "highly transformational" in the long-term. However, only 5% believed Gen AI will be transformational in the short-term.

Imperatives for 2025

Exploiting data is an ongoing challenge for carriers, but one where efforts need to be redoubled in 2025. Next year we expect the average London Market carrier to pivot from focusing mainly on building data foundations to extracting insight. Leaders need to avoid change fatigue.

Additionally, CEOs must get on the front foot in Gen AI adoption: define a clear strategy and set a Gen AI ambition, actively consider a Gen AI angle in other initiatives (especially in any transformation effort) and establish an operating model for Gen AI testing and implementation.

5 BUILD THE TALENT POOL FOR THE FUTURE

Hiring in the London Market has been very active in the last few years. The overall workforce grew by 25% from 2018 to 2023 and salaries increased 20-30%.[1,2] Attracting and retaining talent has been one of the biggest challenges for carriers.

Despite an active start to 2024 which saw a 25% increase in senior moves year-on-year in January 2024, the market now appears to have slowed down. Overall, talent moves were down by 17% year-on-year in H1 2024.[3]

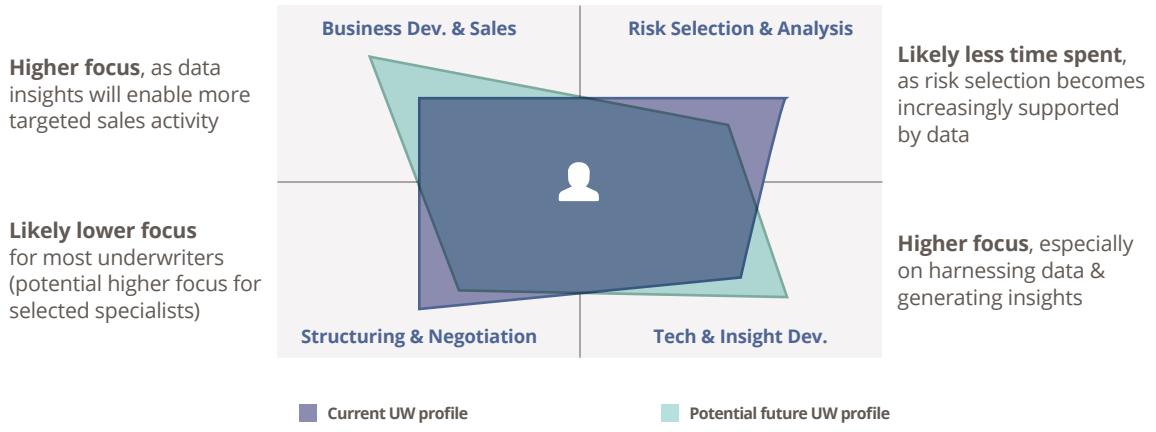
Nonetheless, we expect talent to remain a major topic for executive teams as various market trends solidify. Broadly speaking, we see the need for more quantitative, analytical and technical staff. For example, market bifurcation creates the need for more portfolio managers who have a capital-led rather than risk-led view of the world.

The role of the underwriter will also change and the need for the traditional 'all-rounder' will wane. The underwriter of the future will more likely emphasise skills that can access insights from complex data sets and communicate these insights to brokers and insureds.

Figure 7

Underwriter profiles will likely shift from 'all-rounders'

Illustrative view of the underwriter's skillset currently and in the future



Source: Oxbow Partners analysis

[1] LMG 'London Matters 2024' 2024
[2] Hays 'Hays Insurance Salary Survey 2024' 2024
[3] Insurance Insider 'Talent Tracker review: H1 turnover slows in spring' Jul 2024

Imperatives for 2025

The talent pool of the future will likely look vastly different from today. The long-term talent strategy needs to be integrated into a company's strategic framework. That means developing a clear link between medium and long-term objectives, required capabilities and talent requirements.

HR teams then need to evaluate their current skillsets and identify needs and gaps by function and seniority. Executives then have the opportunity to establish where to find these individuals and how to attract them to the organisation. Some organisations will need to re-evaluate their operating models to make themselves attractive to their critical future talent pools: for example, creating data infrastructure and governance that provides an appealing environment for data professionals.

Oxbow Partners

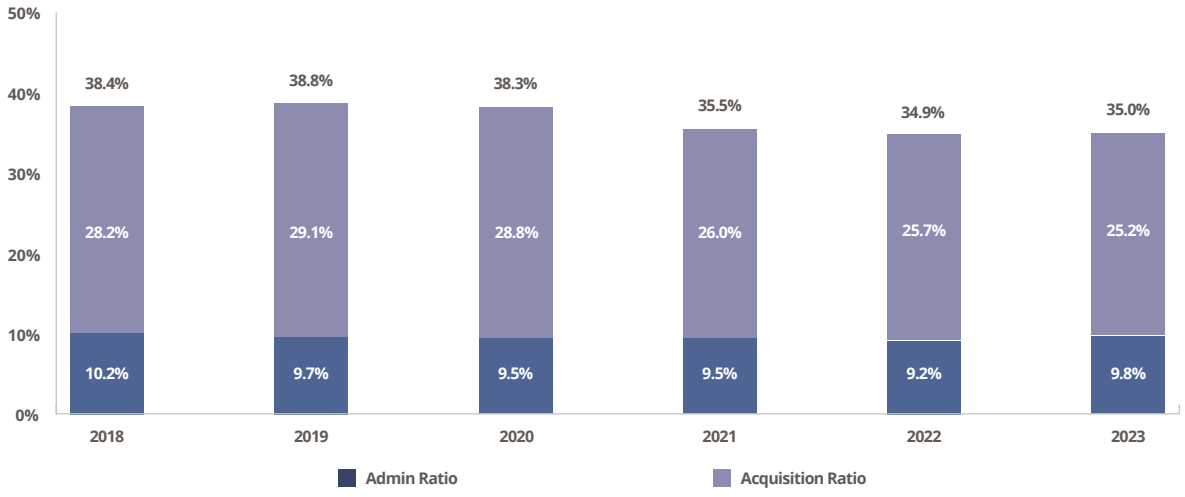
6 ACHIEVE AN EFFICIENT COST BASE AND EMBED TRANSFORMATION DISCIPLINE

Historically, the London Market has operated an outsized cost base. In recent years, the expense ratio dropped by over 3ppts (from 38.4% in 2018 to 35.0% in 2023). However, this was predominantly due to GWP growth rather than a decrease in absolute expenses and the admin ratio component (i.e. expense ratio excluding acquisition costs) has remained largely flat (10.2% in 2018 versus 9.8% in 2023).

Figure 8

Lloyd's expense ratio fell by over 3ppts from 2018 to 2023

Lloyd's expense ratio split by admin and acquisition ratio (%, 2018-2023)



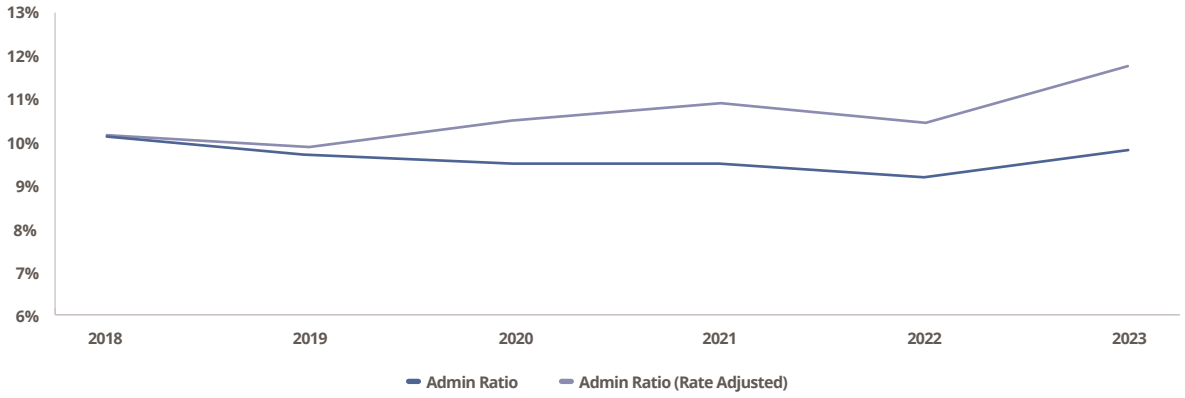
Source: Lloyd's Insight Hub 2023, Oxbow Partners analysis

Indeed, our analysis suggests that stripping out rate rises in recent years, the admin ratio has actually increased, reaching nearly 12% in 2023. This might seem insignificant during a hard market but will likely come into sharp focus as the market changes.

Figure 9

The rate-adjusted admin ratio has increased by 2ppts since 2018

Lloyd's admin ratio and rate-adjusted admin ratio (%, 2018-2023)



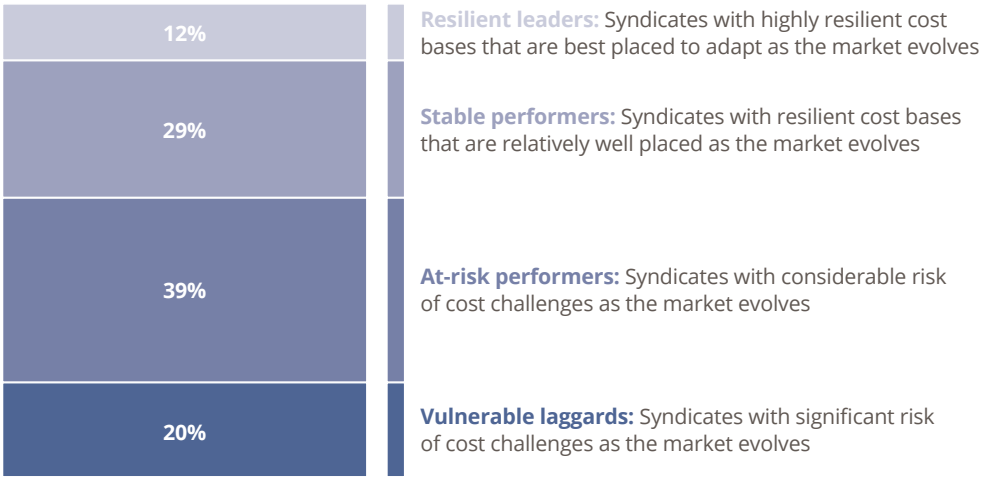
Source: Lloyd's Insight Hub 2023, Oxbow Partners analysis

To that end, we analysed admin expense ratios across the market to ascertain which syndicates likely have more resilient expense bases than others.[1] Nearly 60% of syndicates appear at risk over the next 3 to 5 years. In contrast, only 12% of syndicates appear well placed.

Figure 10

60% of syndicates are at risk of cost challenges in the next 3-5 years

Cost base resilience assessment (51 syndicates, 2008-2023 data) using four factors: ER 2023 vs peers, ER 2023 vs historical, admin ratio evolution, ER change in last soft market



Source: Lloyd's Insight Hub 2023, Oxbow Partners analysis

[1] Based on a cost base assessment of 51 syndicates (those that published 2008-2023 data), evaluating performance across four factors: ER 2023 vs peers, ER 2023 vs historical, admin ratio evolution and ER change in last soft market

However, it is not all bad news. The changing cost base was caused partly by investment in people to maximise value in the hard market and large-scale multi-year transformation programmes (e.g., underwriter workbench, pricing, data and artificial intelligence).

Imperatives for 2025

As the market evolves, companies need to identify opportunities for sustainable cost efficiency and reposition transformation roadmaps.

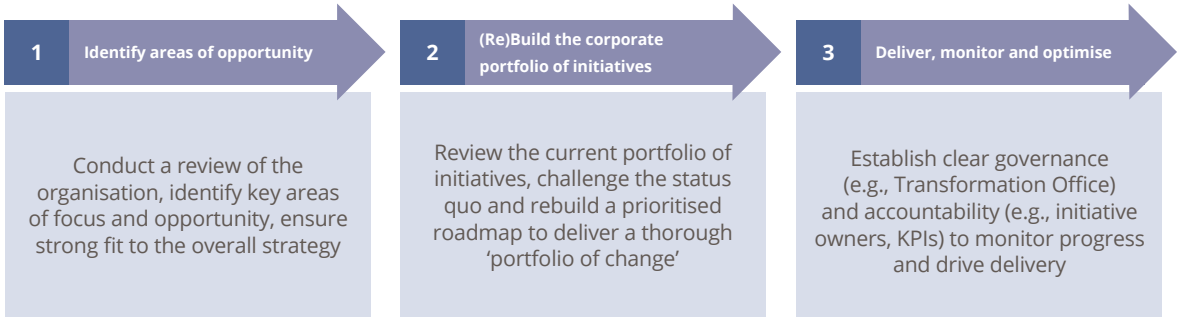
The first step is a thorough review of the business to identify areas of opportunity. This can then be linked to a refreshed transformation portfolio. Critical in this exercise is not to look only for pockets of cost to remove but also to use the financial flexibility provided by the last few underwriting years to rethink the operating model and processes to create a step-change in efficiency.

Finally, we recommend setting up of a Transformation Office to ensure the right degree of discipline and coordination. This typically involves a handful of committed individuals with diversified skillset (e.g., strategy, delivery, PMO, domain expertise, technology) who have a strong mandate from the CEO and sufficient gravitas to drive the change.

Figure 11

Disciplined transformation requires a systematic approach

Oxbow Partners efficiency agenda framework



Source: Oxbow Partners analysis

CONCLUSION

Times are good in the Lloyd's and London Markets, but the future outlook is uncertain. The transformation topics proposed in this paper position companies well in a range of market scenarios, both positive and negative. We believe CEOs have an opportunity to gain advantage over their peers by redoubling their transformation efforts in 2025.

Please reach out to the author to discuss any of the topics raised in this paper.

The author would like to acknowledge the following for their editorial contributions to this piece:



Max Deacon
Principal

mdeacon@oxbowpartners.com



Pawel Rzemieniecki
Senior Manager

przemieniecki@oxbowpartners.com



Izak Vickers
Senior Consultant

ivickers@oxbowpartners.com



Ava Spencer-Jones
Consultant

aspencer-jones@oxbowpartners.com

Oxbow Partners

Oxbow Partners is a specialist management consultancy exclusively serving the insurance industry. Our clients include leadership teams at the world's leading insurers, reinsurers, brokers and private equity firms.

Our consulting engagements span across strategy, operations, technology, transformation and M&A. Our Market Intelligence team offers unique analysis into the UK market and global reinsurance.

Senior executives choose Oxbow Partners when they want a fresh perspective from a high-calibre team of industry specialists that thinks deeply about each client's unique situation and has a track record of delivering insight and impact.

Since 2021 we have been featured as a leading UK management consulting firm by the Financial Times. In 2023 we became a B Corp, indicating our commitment to balance purpose and profit.

www.oxbowpartners.com

info@oxbowpartners.com

/oxbow-partners-consulting

