

## A Look at Lloyd's

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Lloyd's of London is an organization that has provided insurance worldwide for more than 300 years. The organization has a reputation for handling either very expensive or exotic types of insurance. Surprisingly, Lloyd's is neither an insurance company nor, for most of its history, a corporation. It is made up of more than 3,000 active members. There are well over 10,000 inactive members. Memberships consist of the underwriters, the insurance brokers who bring them business, and the investors known as "names." The underwriters accept insurance business on behalf of syndicates (groups of "names").

The history of Lloyd's begins at Edward Lloyd's coffeehouse in 1688, where he attracted a clientele of merchants, particularly ship owners with vessels and cargoes needing protection. Mr. Lloyd's establishment quickly evolved into a meeting place where businessmen sought brokers to place insurance with wealthy, reputable men. Character and integrity were important because the persons (called underwriters) who agreed to invest in the ships and cargoes put their personal fortunes at risk in order to pay their share of any claim. If a ship's voyage was successful, the underwriter would share in the profits.

Note: The term underwriter came from the practice of persons agreeing to insure a ship and/or its cargo by placing his signature under the name of the vessel he was willing to sponsor.

Lloyd's of London has long been identified with British history and the growth of worldwide commerce. It is an international insurance market, located in London, whose members cooperate with each other, compete with each other and, of course, compete against other insurance organizations. There are four major markets at Lloyd's: Marine, Non-Marine, Aviation and Motor. Lloyd's also has a smaller market that handles short and long term life insurance.

Insurance is not placed with the Corporation of Lloyd's, a society incorporated under Act of Parliament of 1871. The Corporation provides the premises, shipping information services, administrative staff and other facilities that enable the Lloyd's market to transact insurance business. The actual insurance transactions are handled by thousands of Lloyd's members. About one-third of the membership is actively engaged in the market. The remaining members provide capital, but do not actively place business in any of Lloyd's insurance markets. Only the underwriting members may accept insurance business on behalf of a syndicate.

Historically, a policyholder with a valid claim could be certain that the claim would be paid, whatever the cost to the member who accepted the risk. Formerly, every underwriting member was responsible up to the full extent of his personal assets for his share business. If his personal assets were not enough, Lloyd's would make any deficit out of its reserve funds.

Today, Lloyd's liability is more conventional, limited in the same manner as traditional insurance companies. The change was necessary due to its long-term problem in handling losses associated with asbestos claims. Lloyd's created a separate entity to handle that large source of loss and many organization members became inactive (no longer writing new business) in order to meet their payment obligations.

While the number of active memberships have substantially decreased; they are made up of, primarily, corporate entities, so Lloyd's capacity to write business in the global marketplace is still substantial and makes it likely that Lloyd's will continue to be an important part of the insurance market.

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