History of Lloyd’s of London

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What is Lloyd’s?

- Lloyd’s is not an insurance company, but a market in which independent underwriters are joined in syndicates to sell insurance products through licensed insurance brokers under the auspices of the Lloyd’s brand name;

- Lloyd’s started in XVII century in London in a coffee house owned by Edward Lloyd;

- Merchants and ship owners met in Lloyd’s coffee house to sell and buy the risks of losing their cargoes and ships in the high seas;

- This was to ensure that not a single market player would suffer a catastrophic loss that would put that person out of business
The Kauphy (Coffee) House

- In XVII century London coffee houses were more than just coffee houses;

- “Coffee is excellent to prevent and cure the dropsy, gout and scurvy. It is known by experience to be better than any other drying drink for people in years, or children that have any running humours upon them, as the king’s evil, etc. It is a most excellent remedy against the spleen, hypochondriac winds, and the like. It will prevent drowsiness, and make one fit for business”.

Advertisement for “Pasqua’s” Coffee House in St Michael’s Alley (XVII century)
“Professional” Coffee Houses

- Of London’s 300 coffee houses in the reign of Charles II most catered for a specific group:
  - The “Bedford”, “Button’s” and “Will’s” in Covent Garden – for poets;
  - “Child’s” in St Paul’s Churchyard – for doctors;
  - Coffee houses on the south side of Fleet Street – for lawyers;
  - “Grecian” on the north side of Fleet Street – for scholars and journalists;
  - “Hain’s” and “Garraway” – for merchants and ship brokers where they sold ships by old method of candle-auctions (bidding would go on while the candle burnt down an inch: a pin would be stuck in the bottom of it and the last bid had to be made before the pin dropped out as the surrounding candle melted)
“Underwriters”

- Merchants at “Garraway’s” would set up a small side line of insuring ships as “underwriters”;

- “Underwriters” – because merchants would write their line and proportion of the risk they would be willing to undertake under each other’s;

- An underwriter at “Garraway’s” would sit in the coffee house, whilst insurance broker with a risk to place would go from one coffee house to another to “underwrite”;

- A new centre of insurance commerce would sprung at the eastern part of the City of London, which lies between Leadenhall Street and the Tower (and which had been largely untouched by the Fire of London in 1666)
Edward Lloyd

Little is known of Edward Lloyd, but:

- Born around 1648;
- Had been a church warden;
- A member of the Framework Knitter’s Company;
- Maintained good reputation;
- Never involved in actual insurance business;
- Married three times;
- Died in 1713;
- Buried in St Mary Woolnoth’s church in Lombard Street

In 1691 Lloyd moved to large premises in Lombard street where his coffee house would remain for the next 80 years when the foundations of Lloyd’s as a centre of marine insurance would be laid.
All London coffee houses would supply their customers with pens and ink;

Edward Lloyd went a step further: he supplied his customers with shipping and commercial news (similar to current “Bloomberg” or “Dow Jones”);

Lloyd employed runners who would work from one coffee house to another down to the wharves, picking up news of ship arrivals;

When there were casualties which might be important to Lloyd’s customers, and announcement would be made to the entire coffee house by one of the waiters;

In 1696 Lloyd started his own newspaper of shipping movements, “The Lloyd’s News” (now “The Lloyd’s List”)
Developments

- Lloyd’s sold coffee, wines and even horses;
- The “Garraway’s” candle auction sales of ships moved to take place at “Lloyd’s”;
- Lloyd’s coffee house had become a centre for everything which could be called “maritime”:
  - Shipping news;
  - Ship sales;
  - Ship cargoes
- But what was missing still – the Lloyd’s own underwriter
A Brief History of Insurance

- People have been insuring ships long before 1700;

- The Egyptians, Phoenicians and Greeks had insured against maritime loss, but the very first existing record comes from a Roman edict of 533AD, in the reign of Emperor Justinian;

- Merchants of Hanseatic League had their own insurance centre based in Bruges;

- The City of Barcelona laid down the first recorded statute for insuring ships in 1432;

- Under statute of Barcelona if a ship had not been heard for six months, she would be regarded as lost and the owner could claim from the insurer
A Brief History of Insurance

- Marine Insurance in London was invented by Germans who came to England in XIV century and settled on a piece of land on the site of the present Cannon Street Station;

- Working along the lines established by Hanseatic League the Germans carried their business through the reign of Queen Elizabeth;

- In XVI century the Lombards who had been expelled from Italy in XIII century, came to London and built up a flourishing business centre;

- The Lombards gave the name to London’s Lombard Street and to the English term “insurance policy”, deriving from the Italian word “polizza”, i.e., “a promise”
At the beginning of Elizabeth’s reign England was not yet a maritime nation;

But, as one of Chairmen of Lloyd’s put it, “an emergent country needs two symbols of its independence – a national airline and a national insurance company”;

By end of Elizabeth’s reign London merchants no longer needed to be taught their trade by Germans or Lombards;

In 1547 the first English marine insurance policy had been issued: taken by some John Broke on a ship called “Santa Maria” bound with a cargo of wine from Cadiz to London;

On Broke’s policy there were only two underwriters;

By 1555 already 25 underwriters were putting their names to a risk
Many innovative underwriters and brokers at Lloyd’s, but one of the more prominent was John Julius Angerstein;

Son of German immigrants to the Russian Empire;

Born in St Petersburg, Russia in 1735;

Sent to London at the age of 14 to serve as an apprentice to a merchant who had dealt with Russia;

Was Chairman of Lloyd’s from 1790 to 1796;

Acted as financial advisor to William Pitt;

His private art collection would later become the nucleus of the National Gallery in London;
John Julius Angerstein

- As a broker Angerstein placed the largest insurance then ever written at Lloyd’s for £658,800 on the treasure carried from Vera Cruz to England on a frigate called “Diana”;  

- Often dealt with risks which at the time seemed frightening and novel; 

- In 1794 Lloyd’s underwriters lost hundreds of thousands of pounds on Dutch and Russian ships seized by hostile governments in the Napoleonic War, but Angerstein bought the salvage rights and two years later the losses were repaid to underwriters and his speculation proved profitable: it was the very first recorded case of an underwriter successfully speculating in the prospects of salvage after payment of a total loss
John Julius Angerstein
(Portrait by Joshua Reynolds, 1765)
Lloyd’s in Trouble

- The trouble started in the United States: in 1965 Hurricane Betsy destroyed many oil rigs and ships in the Gulf of Mexico and Lloyd’s members started to rapidly lose money;

- Between 1960-ies and 1970-ies the US courts have been issuing judgements that held the insurers liable for risks they never intended to insure, e.g., asbestosis, product liability, environmental pollution, professional negligence, etc. with Lloyd’s ending in hundreds of millions of dollars of losses;

- In 1978 136 ships (each valued at approx. US$800,000,-) have become a total loss;

- In 1980-ies the Iran-Iraq war escalated;

- The premiums should have gone up but did not due to market overcapacity
How the Lloyd’s Market Works

THE LLOYD’S MARKET
Lloyd’s Today: Membership

- Insurance activity is now carried out by members of the Lloyd’s Society, joined into syndicates;

- Lloyd’s provides for two types of membership: underwriting and non-underwriting;

- Underwriting members become non-underwriting members on 31 December in the year that they submit an application to resign from Lloyd’s, albeit they may be involved in running existing liabilities;

- A member can be an individual or a corporation;

- Until 1994 all members were individuals ("Names") who used to underwrite on the basis of unlimited personal liability;

- No individual members ("Names") have been admitted to Lloyd’s market as from 1 January 2003
Individual Members

- Working Names: work at Lloyd’s as underwriters;
- External Names: provide capital without involving into underwriting business;
- Individuals placed on syndicates through an intermediary by members’ agents;
- They underwrite across a wide range of syndicates in order to spread the risk (hence, the term ‘spread capital’): such underwriting is called ‘bespoke’, as it is being finely tailored to each particular risk;
- Further to asbestos litigations in 1980-1990-ies many individual Names have suffered heavy losses and did not wish to continue with unlimited liability;
- They converted to limited liability underwriting (e.g., Namecos (small corporate SPV’s) or if in Scotland, to Scottish Limited Partnerships.
Corporate Members

- Corporate membership at Lloyd’s introduced in 1994;
- Captive Insurance Companies: allowed to underwrite at Lloyd’s albeit very few have done so;
- Lloyd’s Investment Trusts: corporate members set up as subsidiaries of investment trusts to underwrite in a broad range of investments;
- Integrated Lloyd’s Vehicles: where capital provider, managing agent and corporate member are all under common ownership;
- Aligned & Dedicated Members: aligned member - in the same ownership as a managing agent and takes part exclusively in syndicates managed by that managing agency; dedicated member – maintains 100% of syndicate’s capacity, but not aligned with that syndicate’s managing agent;
- Spread Vehicles: corporate members taking part in various syndicates managed by different managing agents together with individual participants
Syndicates

- Members (a few hundred Names or large corporate members) conduct business in syndicates which could be comprised of more than one member;

- Syndicate maintains no legal personality, it is not a partnership (there is no partnership agreement) and is not a corporation (no code of rules);

- Syndicates are established for one calendar year during which underwriting takes place;

- For next year the syndicate may reform with the same or similar membership, but with no common legal identity between a certain syndicate and its successor;

- Members of syndicate ensure there is sufficient capital to assume their own share of insurance liabilities in relation to policies underwritten by syndicate proportionate to their share of capital contributed to the syndicate;

- Each member gets a share of syndicate’s profit proportionate to their share and is responsible for losses arising on their share of syndicate’s business.
Lloyd’s Syndicates in Operation
Syndicate’s Capacity

- Syndicate’s capacity is the amount of premium a syndicate may underwrite in one calendar year, i.e., maximum of funds that come in minus reinsurance premiums paid out;

- It is related to the amount of capital provided by its members, i.e., how much funds they put at risk;

- The syndicate must have enough funds to pay up all claims without exception that may be brought by the policyholders;

- Assume that a syndicate has a capacity of £500MIO: if a member maintains 5% of the syndicate, his capacity on that syndicate would amount to £25MIO;

- The member’s underwriting on that syndicate is borne in mind when ascertaining that member’s capital requirement, i.e., how much funds the Lloyd’s member must hold.
Lloyd’s Brokers and Coverholders

- Underwriters do not deal with the assureds direct, but through accredited Lloyd’s brokers only;

- Brokers willing to place risks at Lloyd’s come to its building on One Lime Street in the City of London;

- UK brokers are authorised by the Financial Services Authority as general insurance intermediaries;

- International brokers are authorised by their own financial regulators;

- BUT: all Lloyd’s brokers should meet a number of accreditation requirements (acquaintance with the Lloyd’s market, sufficient management control, adequate financial standing, etc.) as per Lloyd’s Brokers’ Bylaw;

- No Lloyd’s broker can be associated with any management agent
Lloyd’s Brokers and Coverholders

- Any managing agent can delegate to another company (including Lloyd’s broker) an authority to enter into contract of insurance on behalf of syndicate that it is managing;

- A person with such authorisation is called a “coverholder” and the document delegating such authority is called “binding authority”;

- Coverholders are the agents of the Lloyd’s managing agent, as oppose to being agents of the policyholders;

- Coverholder arrangements and binding authorities do not necessarily involve the Lloyd’s brokers;

- Some managing agencies also run direct sales companies which do not use brokers
Placing a Risk

- Policyholder-to-be contacts Lloyd’s broker with the request to place the risk on the Lloyd’s market giving him full representation and disclosing all the relevant facts;

- Broker goes to see the (leading) underwriter to find out the premium and terms;

- If underwriter wishes to proceed, he would agree to underwrite a proportion of the risk;

- Broker informs the future policyholder of underwriters’ terms;

- Should the policyholder wishes to go ahead, the broker would put together a slip with details which is to be signed by each underwriter that have agreed to undertake the risk;

- Broker then deducts his commission from the premium paid by the policyholder and then pays the rest of the sum to Lloyd’s which then distributes such funds among the relevant syndicates.
Making a Claim

- If there is a claim, the policyholder should contact his broker first;
- The broker then assesses the claim based on a report produced by claims adjuster who is in employ of the lead managing agent;
- The claim is subsequently presented to the leading underwriter who reviews the claim on behalf of the following underwriters;
- The claims adjuster then appoints loss adjuster to further investigate the claim;
- The loss adjuster reports to the lead managing agent which information is then reviewed with the brokers and the final claim is agreed;
- Every syndicate will then pay their own proportion of the agreed claim sum
Lloyd’s Building Today
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