

Lloyd's of London

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Lloyd's of London, a British insurance market, leads the industry in specialty insurance. Located in London, England, it serves as a meeting place for its members to come together and pool their risk. Lloyd's does not underwrite insurance, but rather, its members provide the underwriting. It is because of this practice that it is seen as a market and not a company. Businessmen and brokers come from around the world to shop for the best price, terms, and conditions for the risks they want insured. Lloyd's of London just provides the establishment and rules of governance for these transactions.

Lloyd's is the oldest, continuously active marketplace for insurance. In 1688, Edward Lloyd opened a coffeehouse in London. His establishment was frequented by sailors, ship owners, and merchants. This allowed him to become very knowledgeable on shipping information, and up to date on maritime news. Shortly after opening, members of the shipping industry started to visit the shop to discuss insurance with each other. An unincorporated association of members was formed which lasted until it was incorporated by the Lloyd's act of 1871.

The establishment only writes policies for one year with a three year accounting cycle. At the end of three years, all accounts are closed and profits are paid out to the members.

The origin of the three years is said to be based on the time it used to take ships to travel around the world. Exceptions are made to the three year practice and some liabilities are allowed more time because of the nature of the risk. These liabilities are called long-tailed policies. Even on the three year policies, when the account is closed, money is set

aside to cover IBNR (Incurred but not reported) losses. Those losses are transferred to a reinsurer to cover the risk.

Lloyd's has been known to insure unusual and specialty risks. They have business in marine, aviation, cinema, and even kidnap insurance. Lloyd's of London's members have insured Fred Astaire's (dancers) legs, Keith Richard's (guitarist) hands, and Egon Ronay's (culinary critic) taste buds. They have even insured animals.

The Lloyd's of London building is a famous landmark inside London. Over 2,000 people visit it everyday. However, the most notable part inside the building is the Lutine Bell. This giant bell is located in the middle of the Underwriting Room. Historically, it used to signal the fate of an overdue ship. Two rings meant the ship was safe, while one meant the ship had sunk. The ringing of the bell would tell reinsurers to stop purchasing on that ship. Now, the bell is only rung for historical events. Two rings on joyous occasions like visits from distinguished guests, and one ring for world catastrophes like 9/11.