# Lloyd's Update

*Capital Additions*

*June 2009*

AON BENFIELD

# Contents

# Capital Additions

Pro forma capital of Lloyd's increased by 5% in 2008 to GBP14.2bn while 1 January 2009 stamp capacity increased by 3% to GBP16.6bn.[1] New entrants and capital raising from existing syndicates supported the rising trend with the prospect of firmer pricing in some areas in addition to the Lloyd's A+ rating (Fitch and Standard & Poor's) and the unique distribution capabilities proving attractive.

Eight key mergers and acquisitions (M&A) have been announced since the beginning of 2008, and 12 new syndicates have been established for 2009. Initiatives continue to realize Lloyd's stated goal to be the platform of choice. In 2008, these included the modernization of Lloyd's governance arrangements following the passing of the Legislative Reform Order, an improved tax position as a result of the introduction of a Claims Equalization Reserve, and Lloyd's obtaining licenses to trade in Brazil, Poland and Austria.

Lloyd's delivered pro forma pre-tax profits of GBP1.9bn which were supported by the release of GBP1.3bn in prior year reserves, and by a GBP408mn benefit for the depreciation of sterling in the second half of the year. These items offset the GBP1.4bn in losses to Lloyd's from Hurricanes Gustav and Ike. The combined ratio of 91.3% continued to compare favorably with its peers. The conservative investment approach of Lloyd's provided some protection from falling investment markets in 2008. While investment income fell by 52% it still succeeded in generating an investment return of 2.5%.

Lloyd's assumed GBP6.3bn of reinsurance premiums in 2008, representing approximately 5% of the global reinsurance market.[2] For 2009, the reinsurance arena has experienced some of the strongest uplift. Interim statements from the listed Integrated Lloyd's Vehicles (ILVs) supported the trends observed at the year end. While the highest increases in premium rates were seen in catastrophe-exposed businesses, there were signs that a number of other lines were improving or, at the very least, stabilizing. Most significantly, premium rates have improved sharply compared to the same period in 2008, albeit that the profile of rate rises has been uneven.

Growth rates of 1Q 2009 gross premiums written were enhanced by the sharp movement in exchange rates in late 2008 but underlying growth at constant exchange rates also showed improvement. Interim statements also highlighted the benign claims environment in the period and the presence of further prior year reserve releases for most. Both these augur well for full year results. Investment returns were low, or slightly negative, in the first quarter, although these showed improvement in April.

The statements from the ILVs also suggested a benign claims experience in the opening months. Despite the occurrence of a number of notable incidents in the period, the ILVs stated that claims for the period will compare favorably with 1Q 2008, which featured a number of single risk property losses. Recession related losses are not yet impacting results.

[1] Lloyd's, Moody's, Aon Benfield Analytics Research
[2] Aon Benfield Analytics Research estimate

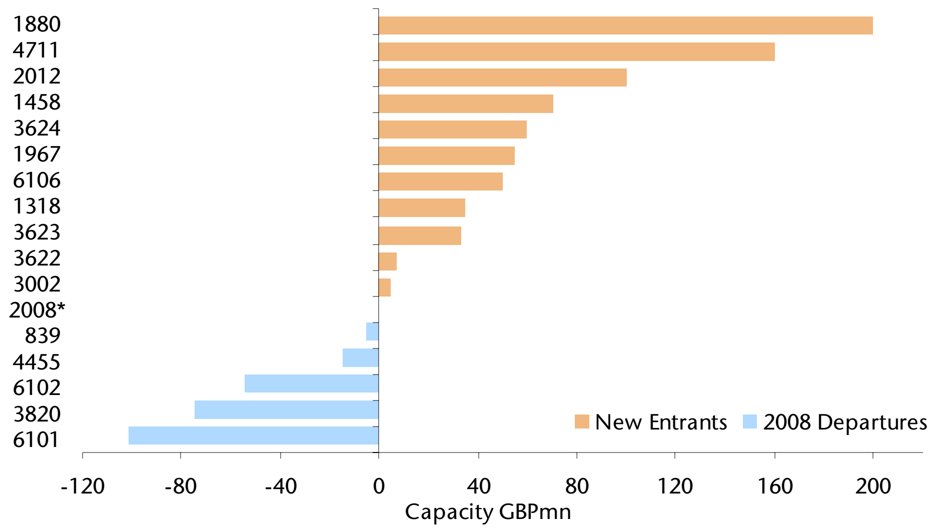
# New Capacity, Capital and Pricing Trends

New capacity outstripped departures and 2009 Stamp 1 capacity increased by 3% to GBP16.6bn. The formation of syndicates by new entrants to Lloyd's such as Arch, WR Berkley and RenaissanceRe highlighted the diversification potential of Lloyd's and the eight notable M&A transactions in 2008 enforced this point. Capital raising has also been a feature and since December 2008 six of the ILVs have raised in excess of GBP650mn. While finance for acquisitions has played a part, an improved outlook for premium rates has been the principal rationale.

## 2009 Capacity

Chart 1 shows that the number of syndicates and total indicative capacity more than offset departures in 2008. 2009 new entrants include four new syndicates with a total indicative capacity of GBP230mn which were formed post 1 January 2009 and are not included in the GBP16.6bn Stamp 1 capacity. While the majority of these have been launched by existing Lloyd's players, the creation of new syndicates by Arch, WR Berkley and RenaissanceRe is indicative of the market's continued attractions for companies wishing to diversify. Further details can be found in Appendix 2.

Chart 1 – Syndicate New Entrants and Exits 2008/09




**Capacity to be based on available transactions*
*Source: Moody's, Aon Benfield Analytics Research*

The desire of insurers and reinsurers to diversify has been reflected in the Lloyd's market. Lloyd's diversification of product line and geography plus unique distribution capabilities has attracted buyers, with eight notable M&A transactions since the beginning of 2008 as shown in Table 1. While Bermudian companies were the main acquirers, the Lloyd's appeal also extended to the US and Canada where both AIG and Fairfax Financial Holdings increased their existing stakes in Lloyd's entities. Renaissance Re launched syndicate 1458 in May 2009 in partnership with Spectrum Syndicate Management Ltd as the managing agent. On 5 June 2009 Renaissance Re entered into an agreement to acquire the agency and its parent, Spectrum Partners Ltd.

Pamplona Capital Management has recently joined the list of parties interested in Chaucer. The company has acknowledged that there are a number of interested parties and intends to continue to hold discussions with each, but noted that "there can be no certainty that an offer will be made"[3].

[3] RNS Statement from Chaucer, 14 May 2009

**Table 1 – Lloyd's Mergers and Acquisitions**

| Date | Acquirer | Target | Price GBPmn | Syndicates |
|---|---|---|---|---|
| Apr 2008 | Argo Group | Heritage Underwriting Agency | 137 | 1200, 3245 |
| Jul 2008 | Ironshore | Pembroke | 17 | 4000 |
| Jul 2008 | AIG | Ascot | n.a. | 1414 |
| Aug 2008 | Max Capital | Imagine Group (UK) Ltd | 11 | 1400, 2525, 2526 |
| Aug 2008 | Fairfax | Advent | 67.2 | 780 |
| Sep 2008 | Beazley | Momentum Underwriting Management Ltd | Up to USD37.5mn | 3622, 3623 |
| Oct 2008 | Flagstone Re | Marlborough Underwriting Agency Ltd | 36 | 1861 |
| June 2009 | RenaissanceRe | Spectrum Syndicate Management Ltd | tba | 1458, 2112 |

*Source: Company Information, Aon Benfield Analytics Research*

## Capital Raising

Since December 2008, five of the listed Lloyd's managing agents have raised a total of GBP663mn in new equity capital. Most of the increase has been through equity placings, although Catlin held a rights issue and Beazley performed both a rights issue and placing. While Beazley and Catlin raised the largest amount of funds in absolute terms, Omega's placing was the largest relative to shareholders' funds at the end of 2008, at 64%. Amlin launched special syndicate 6106 with capital from external members, to support syndicate 2001 through a quota share arrangement.

**Table 2 – Lloyd's Capital Raising 2008/09**

| Date Announced | Insurer | Amount GBPmn | Type | % of 2008 SHF |
|---|---|---|---|---|
| 8 Dec 2008 | Omega | 124 (net) | Equity: placing | 64% |
| 16 Dec 2008 | Amlin | 50 | Special purpose syndicate | 4% |
| 28 Jan 2008 | Chaucer | 75 (net) | Equity: placing | 33% |
| 13 Feb 2009 | Beazley | 150 (net) | Equity: rights issue and placing | 36% |
| 12 Feb 2009 | Catlin | 200 (net) | Equity: rights issue | 12% |
| 27 Feb 2009 | Hardy | 38 (net) | Equity: placing | 37% |
| 3 Jun 2009 | Amlin | 76 | Equity: placing | 5% |

*Source: Company Announcements, Aon Benfield Analytics Research*

An improved outlook for premium rates and opportunities created by dislocation of competitors, namely AIG, were principal reasons given for this capital raising. Beazley and Amlin's placings were made partly to finance the acquisitions of First State Management Group Inc and Fortis Corporate Insurance N.V. respectively. Another key driver of the capital raising was the need to bolster balance sheets following the decline in the value of sterling at the end of 2008. Lloyd's insisted that all syndicates revise their 2009 business plans to take account of the additional capital requirements generated by sterling's depreciation. In addition, on 2 June 2009 Omega announced a Capacity Offer to acquire additional capacity on Lloyd's Syndicate 958 by way of a share offer with a cash alternative.

## 2009 Pricing and Income Trends

Interim statements have provided an update on the premium rate environment in 2009. Reinsurance business experienced the strongest uplift. US catastrophe rates at Advent increased by 5-10% on regional programs, with some nationwide programs up 10-20%, depending on loss activity. Advent's worldwide catastrophe rates increased by 2.5-5.0%. In the energy market, Advent commented that little business was written during the quarter, but that international business rates rose by 10-20%, with tighter wordings on coverage. Table 3 summarizes performance in the opening months of 2009 and Appendix 1 shows rating development since 2000.

## Table 3 – Reported Premium Rate Movements

| | Premium Rate Change | Comment |
|---|---|---|
| Amlin | +4% | Group average for first four months of 2009 |
| Beazley | +2% | On renewed business 1Q 2009 |
| Brit | +5% | Total average weighted premium rates 1Q 2009 |
| Catlin | +6% | Total average weighted premium rates 1Q 2009 |
| Chaucer | +6% | Combined projection for 2009 |
| Hardy | +5% | On renewed business to 1 April 2009 |
| Novae | +5% | Average increase on 1Q 2009 renewal business |

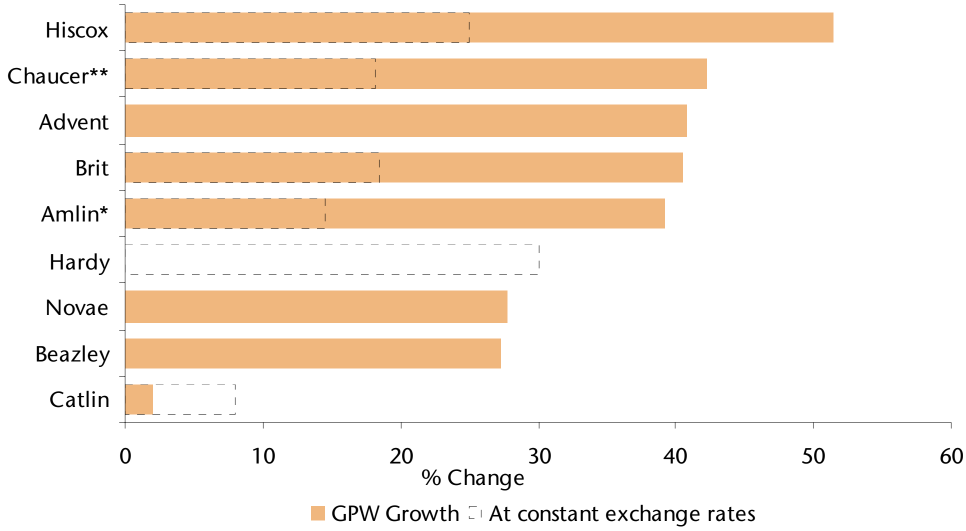
*Source: Company Data*

Amlin experienced average rate increases of 7-10% on the US catastrophe account, with the largest increases in zones affected by 2008 hurricane activity. Like Advent, the rate of increase in the international catastrophe business was slower, but rate increases have been achieved. Most notably, the Japanese catastrophe renewals had an average increase of 8%. Within marine business, the energy account has experienced a sharp increase in rates, up an average of 19% in the period in response to the 2008 hurricanes. While airline rates have remained competitive in the period, Amlin expressed the view that, following a number of losses in 2009, it remains optimistic that rates in this area will improve throughout the year.

While Beazley posted a 2% rate increase across its business, there were also wide variations on a divisional basis. Rates in the Reinsurance division increased by 9%, however medium tail specialty lines saw rates fall by 2%, and political risks and contingency experienced a 3% decline. Hiscox commented that "the tide turned for reinsurance rates and we are taking full advantage of this"[4]. Rates for some of Hiscox's US hurricane-exposed areas increased by 10-50% and Gulf of Mexico windstorm-exposed energy business experienced rate rises of over 50%.

A number of the ILVs stated their belief that the rating environment would continue to improve over 2009. Improved rates were a key driver of the growth in gross premiums written in the first quarter of 2009, as shown in Chart 2. Foreign currency translation was a heavy influence but, even adjusting for constant exchange rates, where available, premiums have increased sharply. Hardy's premium income increased by 30%, to GBP145.9mn, in the first quarter.

## Chart 2 – Growth in Gross Premiums Written




**To 30 April 2009 **Excludes Syndicate 4242*
*Source: Company Data*

[4] Robert Hiscox, Hiscox Interim Management Statement, 11 May 2009

The interim statements generally pointed to a benign claims experience in the first quarter compared with 2008. Advent posted a claims ratio of 87.9% for the period, compared with 100% for 1Q 2008. Chaucer emphasized "the absence of major catastrophe events in the period and a low frequency of high value single risk losses"[5]. The large risk losses included Winterstorm Klaus in January, the Australian wildfires in February, the Italian earthquake in April and some airline losses. However, exposure to these generally appears modest. Amlin stated that its largest net catastrophe loss is estimated at USD8.5mn for Winterstorm Klaus. There appears to be little sign thus far of significant recession related losses.

The investment portfolios of the peer group have been conservatively invested and this is reflected in the low level of investment returns during the period. A number of players continued to de-risk; Chaucer reduced its hedge fund portfolio from GBP154.7mn at the end of 2008, to GBP101.1mn at 31 March 2009. Low interest rates in the UK and US, continued equity market weakness and wider corporate credit spreads in the first quarter also contributed to lower returns on total invested assets. However, April's equity market rally and improving bond markets resulted in improved investment returns since the quarter end.

**Table 4 – Investment Return**

| | 1Q 2009 | Comment |
|---|---|---|
| Amlin | -0.8% | 0.4% return expected for four months to end of April |
| Beazley* | -0.6% | Continued reduction in portfolio investment risk |
| Brit | -0.3% | 0.8% return for four months to end of April |
| Catlin | 0.6% | Defensive investment asset allocation maintained |
| Chaucer | 1.3% | 1.9% return for four months to end of April |
| Hardy | 0.6% | Cautious approach maintained |
| Hiscox | 0.2% | Improvement in April and May |
| Novae | 0.7% | Strategy remains focused on preservation of capital |

**Annualized*
*Source: Company Data*

Table 4 summarizes 1Q 2009 investment returns and associated comments. As markets have stabilized, some vehicles have taken the decision to increase their exposure to some corporate bonds. Hiscox stated that it made the decision to selectively increase exposure to investment grade corporate bonds, while Novae implemented a "modestly increased weighting in short duration corporate bonds"[6].

As in 2008, prior year reserve releases continue to be a feature of profits. Chaucer announced reserve releases of GBP11.3mn for the quarter (1Q 2008: GBP9.7mn) and Amlin of GBP20.0mn (1Q 2008: GBP31.2mn). Advent stated that it had made an addition of GBP0.6mn to prior year reserves (1Q 2008: GBP0.2mn).

Another feature, as flagged at the 2008 year end, has been the reversal of the non-monetary exchange gains that benefited profits in 2008 due to sterling's depreciation. A number of the vehicles expect most of the benefit to reverse in 2009. Beazley stated that it expected the 2008 gain of GBP46.2mn to unwind, mainly in the first half of the year, with an impact of around GBP40mn on profits if exchange rates remain constant. Chaucer expressed a similar view, having reported gains of GBP49.6mn in 2008.

[5] Chaucer Interim Management Statement, 31 March 2009
[6] Novae Interim Management Statement, 29 April 2009

# Lloyd's 2008 Pro Forma Results

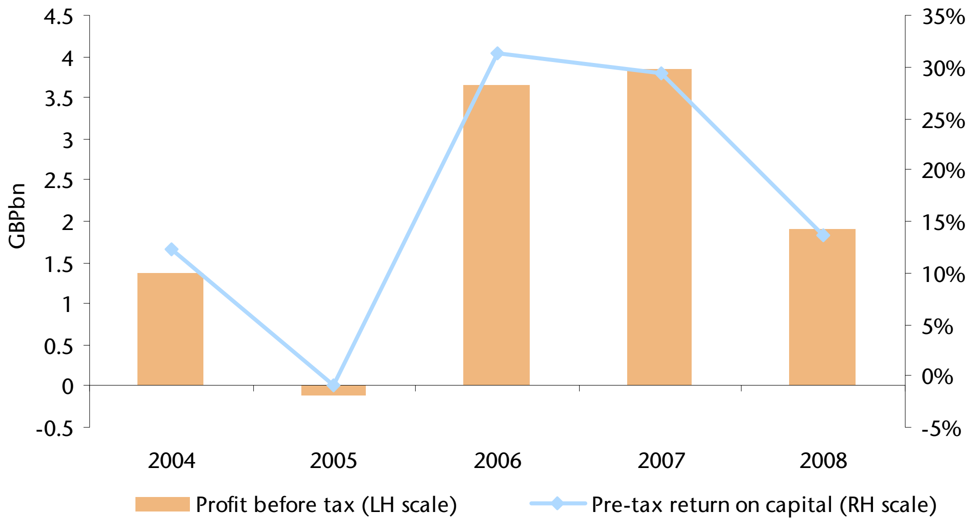
The 2008 pro forma results of Lloyd's were characterized by two main features: the beneficial effects of weaker sterling, and the release of prior year reserves. These two items totaling GBP408mn and GBP1.3bn respectively, more than offset the pre-tax GBP1.4bn from Hurricanes Gustav and Ike. While Lloyd's succeeded in generating a positive investment return in difficult markets, pre-tax profits declined by 51%, to GBP1.9bn, as shown in Table 5.

Table 5 – Lloyd's Pro Forma Results

| GBPmn | 2004 | 2005 | 2006 | 2007 | 2008 | 2008/7 % ch |
|---|---|---|---|---|---|---|
| Gross premiums written (GPW) | 14,614 | 14,982 | 16,414 | 16,366 | 17,985 | 10% |
| Reinsurance as % of GPW | 20% | 21% | 24% | 19% | 21% | 2pp |
| Net premiums written | 11,734 | 11,770 | 13,201 | 13,256 | 14,217 | 7% |
| Net premiums earned | 11,797 | 11,785 | 12,688 | 13,097 | 13,796 | 5% |
| Net claims incurred | 7,646 | 9,505 | 6,219 | 6,547 | 8,464 | 29% |
| Net operating expenses | 3,755 | 3,668 | 4,327 | 4,451 | 4,134 | -7% |
| Underwriting result | 396 | -1,388 | 2,142 | 2,099 | 1,198 | -43% |
| Combined ratio | 96.6% | 111.8% | 86.0% | 84.0% | 91.3% | 7.3pp |
| Profit before tax | 1,367 | -103 | 3,662 | 3,846 | 1,899 | -51% |
| Net resources (incl. sub debt) | 12,169 | 10,992 | 13,333 | 14,461 | 15,264 | 6% |
| Capital | 11,663 | 10,491 | 12,836 | 13,449 | 14,182 | 5% |
| Central assets | 1,663 | 1,850 | 2,054 | 2,465 | 2,608 | 6% |
| Pre-tax return on average net resources | 12.5% | -0.9% | 31.4% | 29.3% | 13.7% | -15.6pp |

*Source: Lloyd's*

Chart 3 – Pro Forma Results




*Source: Lloyd's*

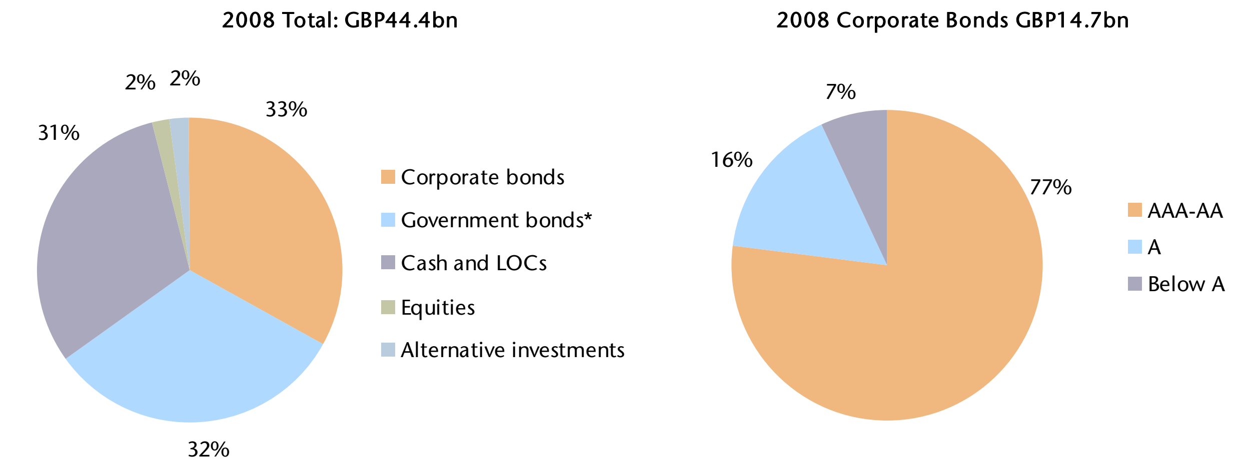
## Balance Sheet

Lloyd's, as a partially mutualized market rather than an insurance company, does not have conventional equity. Instead, its capital base comprises Members' Funds at Lloyd's (FAL), Members' Balances and Central Reserves. This increased by 5% in 2008 to GBP14.2bn. The 8% uplift in Members' funds at Lloyd's to GBP10.6bn was the main driver. All members are subject to a bi-annual (June and November) Coming into Line (CIL) where members are required to hold free funds to meet their economic capital requirement as prescribed by the Franchise Board. Members Balances were marginally lower as distributions more closely matched results declared. The Central Reserves represent the mutual assets of Lloyd's and increased by 5% in 2008 to GBP990mn.

Syndicate premium assets account for the largest proportion of invested assets of the Lloyd's market. The need to ensure sufficient liquidity has traditionally led syndicates to adopt a conservative strategy with cash and short-term fixed interest predominating. More recently a number of syndicates have diversified their investments but exposure to more volatile asset classes has generally been limited and is less than 5% in aggregate. Members' capital (Members balances and FAL) is generally held centrally at Lloyd's. A proportion is maintained in investment assets and managed at members' discretion. The remainder comprises letters of credit (LOCs) and bank and other guarantees.

The investment approach of Lloyd's remains conservative; with equities and alternative assets each accounting for only 2% of total invested assets in 2008. As shown in Chart 4, cash and LOCs accounted for 31% of assets, while corporate and government bonds accounted for 33% and 32% respectively. A breakdown of corporate bond ratings is also shown in Chart 4. Chart 5 shows the assets split for the Society (Central Fund) which are included within Chart 4. The high weighting of government bonds not only represents a conservative investment stance but was to the benefit of the Corporation in 2008 given the movement in interest rates. Analysis of the Society's corporate bond portfolio reveals a similar percentage (78%) invested in AAA-AA rated bonds to the Lloyd's market as a whole.

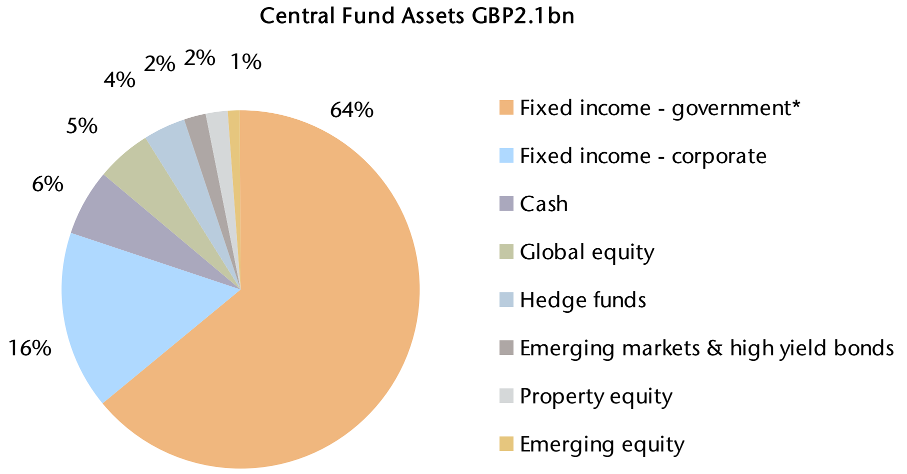
### Chart 4 – Lloyd's Market Invested Assets




** Includes supra nationals and government agencies*

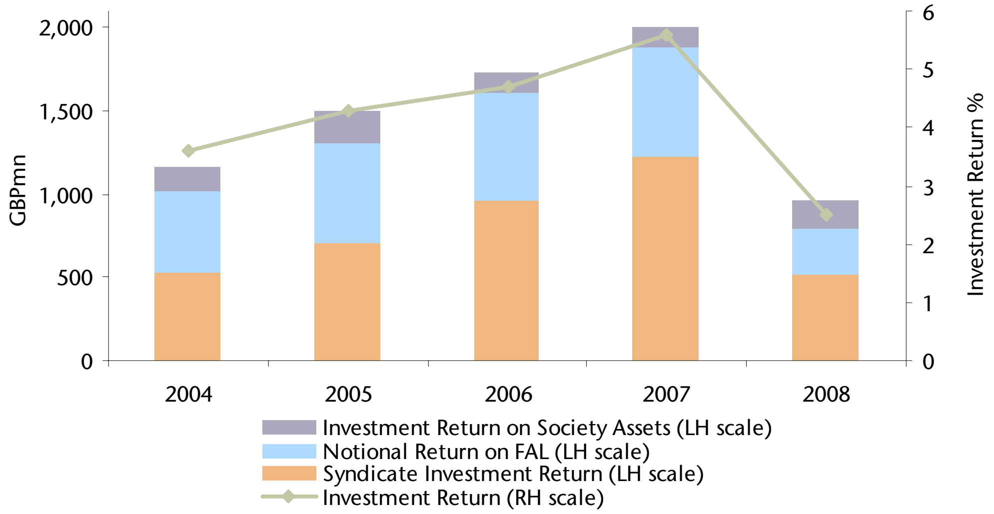
*Source: Lloyd's*

## Chart 5 – Central Fund Assets




** Includes supra nationals and government agencies*
*Source: Lloyd's*

## Chart 6 – Investment Return




*Source: Lloyd's, Aon Benfield Analytics Research*

## Investment return

The pro forma accounts include a notional investment return on FAL together with the investment return on central assets and syndicate investment return. The split is shown in Chart 6. The GBP705mn fall in syndicate return reflects the reversal from a GBP222mn realized and unrealized investment gain in 2007 to a GBP512mn loss in 2008. Investment returns varied significantly between syndicates but most limited losses by maintaining exposures to more conservative asset classes. Relatively high exposure to government bonds was also a benefit in 2008 as bond yields fell. Overall the investment return fell from 5.2% to 2%, but still represented a solid performance in difficult market conditions.

A notional return on FAL is calculated for inclusion in the pro forma accounts which is equivalent to the investment return that is generated by an insurance company's capital. The actual return achieved is included where Lloyd's is the investment manager. Indices are used for other assets and the typical bank deposit return is applied to letters of credit and bank guarantees. Differences between the actual return and notional amount may occur due to individual stocks held, daily cash flows and transactional charges. The notional investment return fell from 6.0% to 2.7% in 2008.

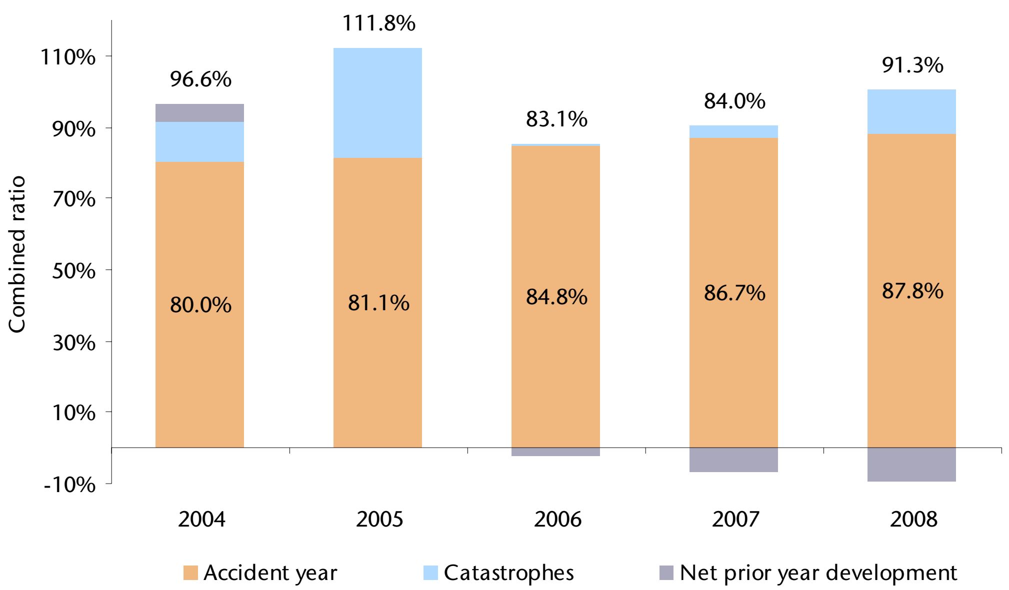
Investment return from Society assets recorded the highest investment return in 2008 increasing from 6.6% to 7.8% with a rise from GBP125mn to GBP165mn. Negative returns on corporate bonds and equities were more than offset by appreciation of the fixed bond portfolio as global yields fell.

## Underwriting Profit

As shown in Table 5, gross premiums written increased by 10% in 2008 with the impact of sterling weakness against the US dollar contributing roughly half of this uplift, and new entrants the remainder. With approximately 60% of premiums written in US dollars, exchange rate movements are a feature of results and Lloyd's flagged up the likelihood that "if sterling continues to trade at or around USD1.44, the past year's exchange gain will largely reverse this year."[7]

Chart 7 shows the development of the combined ratios. The 2008 accident year ratio excluding catastrophes increased slightly, to 87.8%. Catastrophe losses rose sharply, mainly due to Hurricanes Gustav (GBP219mn) and Ike (GBP1.2bn), which added 12.7% to the 2008 result. Chart 8 illustrates that 2008 was the third worst year for Lloyd's in terms of catastrophes and payouts, and also that the Corporation's share of the industry's insured losses increased in 2008, as is typical in a high catastrophe year.

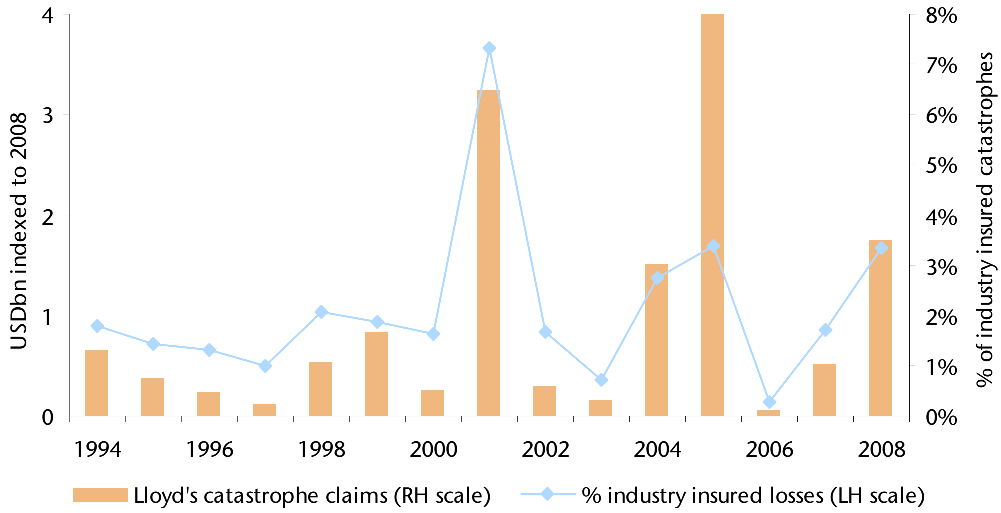
Chart 7 – Lloyd's Pro Forma Combined Ratio




*Source: Lloyd's*

[7] Lloyd's Annual Report 2008

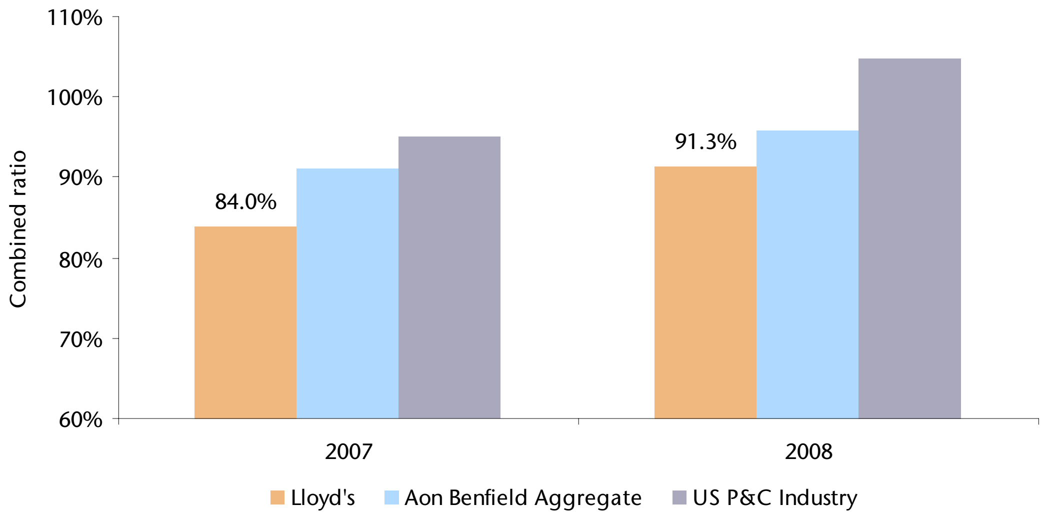
## Chart 8 – Lloyd's Absolute and Relative Catastrophe Losses




*Source: Lloyd's, Swiss Re sigma No. 2/2009, Aon Benfield Analytics Research*

Losses were offset by prior year reserve releases of GBP1.3bn, the fourth successive year of positive prior year adjustments and, as in 2007, the releases arose in the accident years 2002 to 2006. The 2008 combined ratio of 91.3% once again compared favorably with its peer group, as shown in Chart 9. Looking ahead, Lloyd's, like other reinsurers, has observed that future years are likely to see reductions in releases.

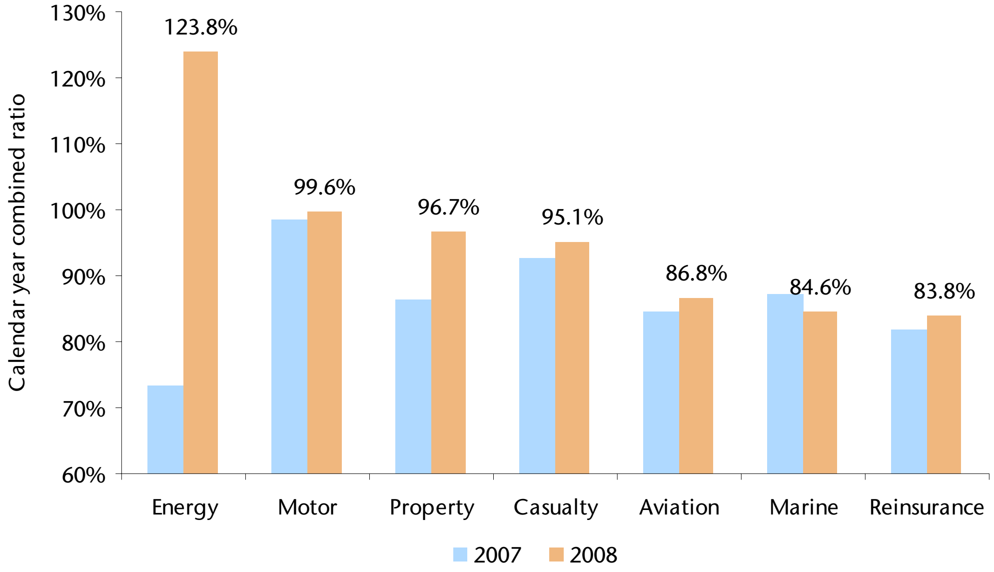
## Chart 9 – Combined Ratio Compared




*Source: Aon Benfield Analytics Research*

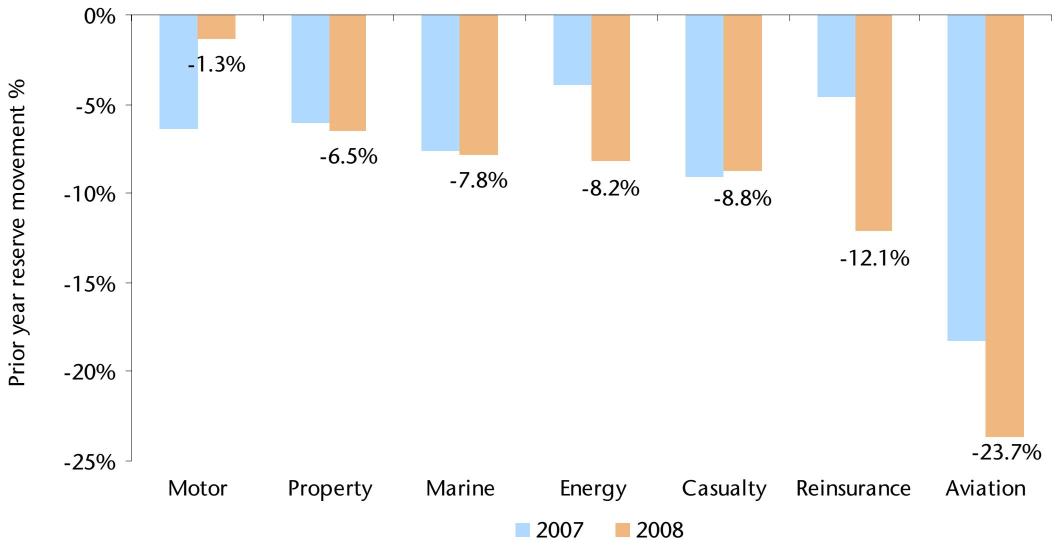
Chart 10 illustrates the combined ratio by business category, while Chart 11 shows the reserve development by line. A split of business by 2008 gross premiums written is given in Appendix 4. Reinsurance accounted for 35% of business written, up from 33% in 2007. Property and casualty accounted for a further 22% (2007: 23%) and 21% (21%) respectively.

## Chart 10 – Combined Ratio by Business Line




*Source: Lloyd's*

## Chart 11 – Prior Year Reserve Adjustments




*Source: Lloyd's*

## Listed Integrated Lloyd's Vehicles (ILVs)

Table 6 shows shareholders' funds of the listed ILVs. Despite the higher claims experience and the dislocation evident within financial markets, shareholders' funds for the group in total rose 9% in 2008, compared with a 22% rise in 2007. While a number of companies continued to repurchase shares in 2008, most notably Amlin, Brit and Hiscox, this trend was replaced by a spate of capital raisings at the end of the year and in early 2009. As illustrated by Table 2, a total of GBP663mn was raised in this period.

**Table 6 – Shareholders' Funds**

| GBPmn | 2004 | 2005 | 2006 | 2007 | 2008 | 2008/07 Change % |
|---|---|---|---|---|---|---|
| Advent | 53 | 35 | 89 | 108 | 95 | -13% |
| Amlin | 460 | 785 | 936 | 1,052 | 1,216 | 16% |
| Beazley | 278 | 280 | 320 | 399 | 413 | 4% |
| Brit | 723 | 725 | 813 | 849 | 850 | 0% |
| Catlin | 504 | 541 | 1,031 | 1,511 | 1,706 | 13% |
| Chaucer | 154 | 156 | 217 | 282 | 226 | -20% |
| Hardy | 65 | 68 | 77 | 85 | 102 | 20% |
| Hiscox | 369 | 578 | 682 | 824 | 951 | 15% |
| Novae | 129 | 112 | 240 | 270 | 301 | 12% |
| Omega | 2 | 66 | 136 | 155 | 196 | 27% |

*Source: Company Data, Aon Benfield Analytics Research*

Table 7 shows gross premiums written for the listed ILVs. While Advent demonstrated the strongest growth of the group at 65%, this fell to 42.3% when reinsurance to close (RITC) premium of GBP38.6mn was excluded. Chaucer's growth was largely driven by premium income increases in its motor, marine, and energy divisions, and the Group's purchase of the remaining outside interests in Syndicate 4000 in February 2008. US dollar strength was a general positive within the peer group. Two of the ILVs reported a fall in gross premiums written. At Amlin, rate reductions within Syndicate 2001 were the primary cause. The 13% shrinkage of business in Hiscox Global Markets deemed uncompetitive was highlighted by Hiscox as the main reason behind a 4% fall in total gross premiums written.

**Table 7 – Gross Premiums Written**

| GBPmn | 2004 | 2005 | 2006 | 2007 | 2008 | 2008/07 Change % |
|---|---|---|---|---|---|---|
| Advent | 75 | 101 | 115 | 127 | 210 | 65% |
| Amlin | 946 | 994 | 1,114 | 1,045 | 1,034 | -1% |
| Beazley | 402 | 558 | 745 | 781 | 876 | 12% |
| Brit | 1,087 | 1,206 | 1,236 | 1,265 | 1,395 | 10% |
| Catlin | 783 | 763 | 872 | 1,680 | 1,873 | 11% |
| Chaucer | 391 | 484 | 594 | 584 | 741 | 27% |
| Hardy | 87 | 111 | 106 | 148 | 173 | 17% |
| Hiscox | 817 | 861 | 1,126 | 1,199 | 1,147 | -4% |
| Novae | 504 | 244 | 281 | 333 | 349 | 5% |
| Omega | 2 | 18 | 63 | 121 | 145 | 19% |

*Source: Company Data, Aon Benfield Analytics Research*

Table 8 – Combined Ratios

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2008/07 Change pp |
|---|---|---|---|---|---|---|
| Advent | 103.0% | 220.0% | 74.0% | 79.0% | 115.0% | 36.0pp |
| Amlin | 82.0% | 82.0% | 72.0% | 63.0% | 76.0% | 13.0pp |
| Beazley | 89.0% | 105.0% | 88.0% | 90.0% | 90.0% | 0.0pp |
| Brit | 92.9% | 105.2% | 86.9% | 92.7% | 99.4% | 6.7pp |
| Catlin | 89.4% | 103.1% | 88.2% | 84.1% | 95.0% | 10.9pp |
| Chaucer | 88.6% | 101.5% | 84.7% | 82.6% | 93.9% | 11.3pp |
| Hardy | 94.3% | 92.7% | 76.9% | 80.5% | 77.2% | -3.3pp |
| Hiscox | 92.6% | 96.0% | 89.1% | 84.4% | 76.1% | -8.3pp |
| Novae | 89.4% | 104.1% | 82.5% | 91.7% | 100.4% | 8.7pp |
| Omega | 84.9% | 93.2% | 78.8% | 79.3% | 101.4% | 22.1pp |

*Source: Company Data, Aon Benfield Analytics Research*

Unsurprisingly, given the high level of catastrophe losses, most of the listed ILVs reported an increase in 2008 combined ratios. As shown in Table 9, reserve releases were a key feature of the results, masking a sharper increase in the underlying results.

Table 9 – Reserve Release (Strengthening) as % of Net Premiums Earned (NPE)

| GBPmn | 2007 | 2007 as % of NPE | 2008 | 2008 as % of NPE |
|---|---|---|---|---|
| Advent | 1.1 | 1.1% | 6.4 | 4.1% |
| Amlin | 109.0 | 11.2% | 114.0 | 12.5% |
| Beazley | 64.1 | 10.4% | 72.8 | 10.7% |
| Brit | 58.7 | 5.3% | 79.1 | 7.2% |
| Catlin | 69.5 | 5.6% | 65.1 | 4.6% |
| Chaucer | 45.8 | 10.3% | 74.1 | 13.5% |
| Hardy | 9.8 | 9.1% | 6.4 | 5.3% |
| Hiscox | 59.9 | 6.2% | 122.8 | 12.9% |
| Novae | 5.8 | 2.6% | 6.7 | 2.6% |

*Source: Company Data, Aon Benfield Analytics Research*

Exchange translation differences increased in significance in 2008 due to the weakness of sterling in the second half of the year. This resulted in a total of GBP329mn in 2008 in the foreign exchange translation of net non-monetary liabilities, up from a GBP58mn in 2007, benefiting pre-tax profits[8].

[8] The exchange difference on net non-monetary liabilities arises from translation of unearned premium reserves, deferred reinsurance expenditure and deferred acquisition costs at average historical rates, whereas all other related balance sheet items are translated at the closing exchange rate.

Table 10 – Pre-tax Profit

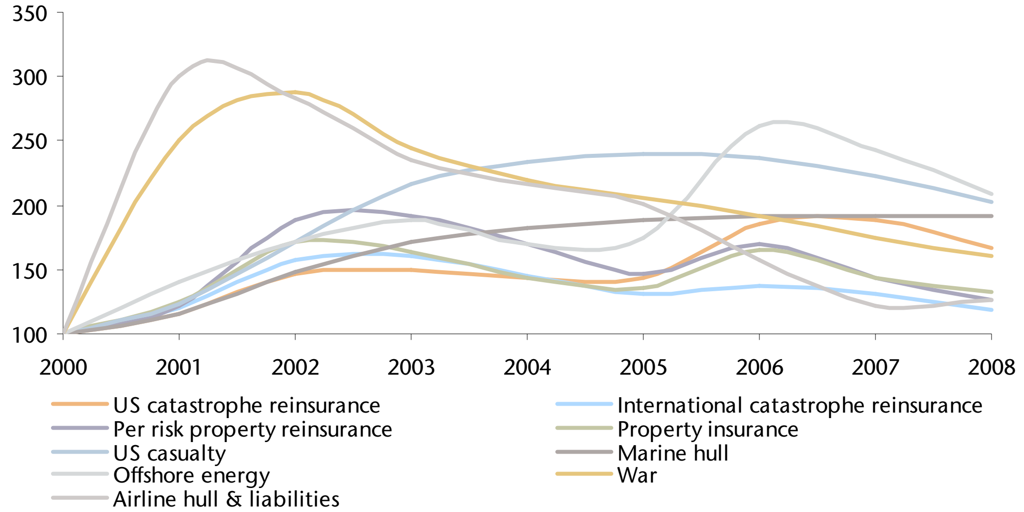
| GBPmn | 2004 | 2005 | 2006 | 2007 | 2008 | 2008/07 Change % |
|---|---|---|---|---|---|---|
| Advent | 5 | -74 | 23 | 25 | -14 | -157% |
| Amlin | 120 | 187 | 343 | 445 | 122 | -73% |
| Beazley | 33 | 16 | 87 | 139 | 87 | -37% |
| Brit | 116 | 62 | 186 | 191 | 89 | -53% |
| Catlin | 95 | 15 | 150 | 272 | -7 | -103% |
| Chaucer | 33 | 12 | 86 | 89 | -26 | -129% |
| Hardy | 9 | 7 | 17 | 18 | 23 | 26% |
| Hiscox | 90 | 70 | 201 | 237 | 105 | -56% |
| Novae | -102 | 3 | 31 | 41 | 40 | -2% |
| Omega | 2 | 4 | 12 | 30 | 15 | -48% |

*Source: Company Data, Aon Benfield Analytics Research*

# Appendix 1

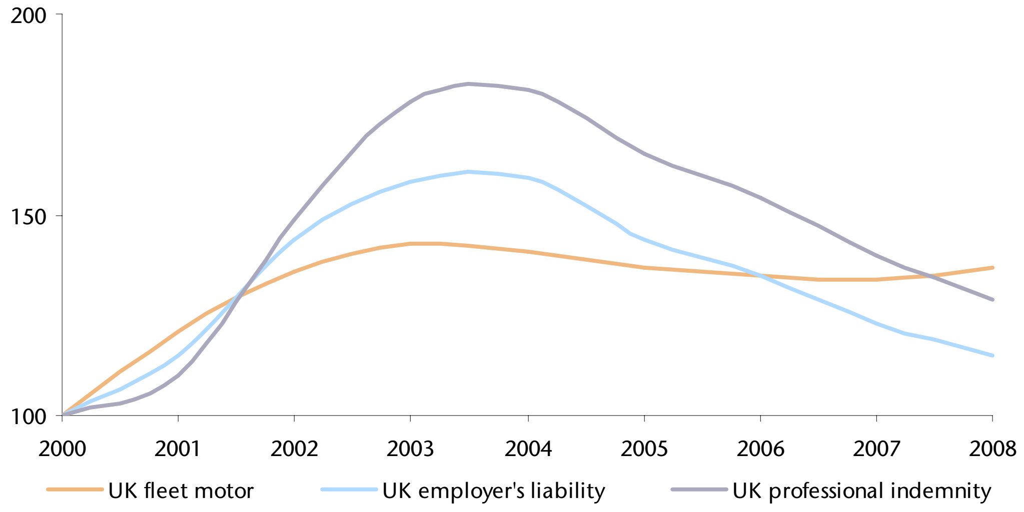
## Pricing Indices

Chart 12 – Amlin: London Market



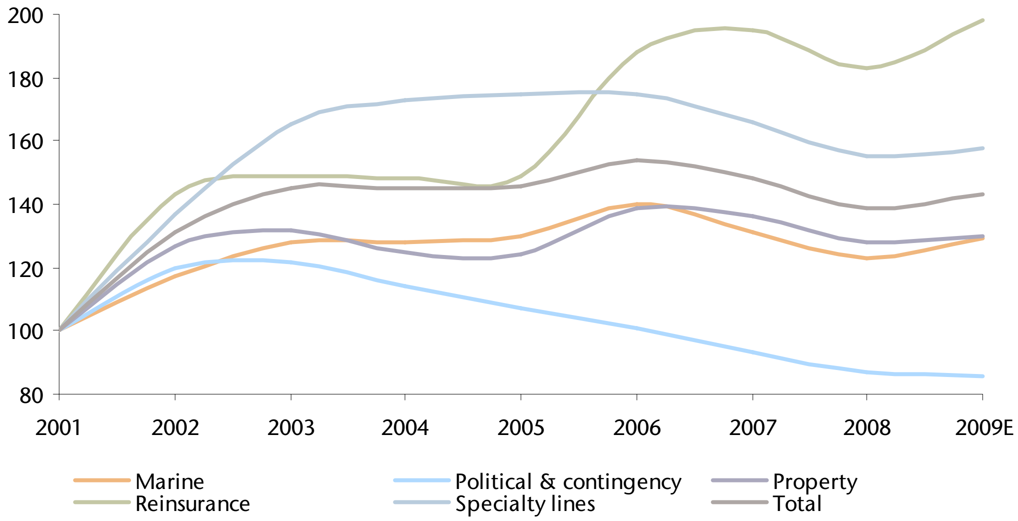

*Source: Company Data, Aon Benfield Analytics Research*

Chart 13 – Amlin: UK



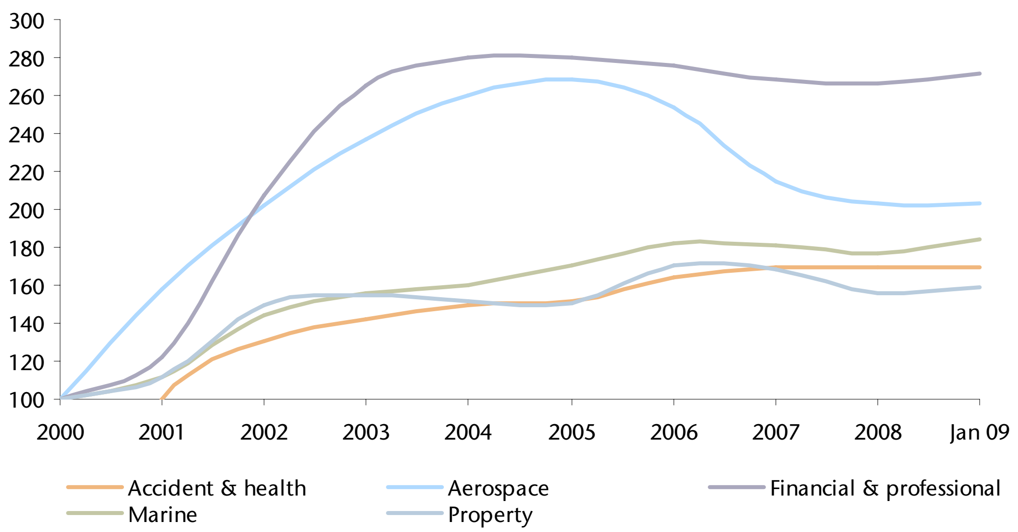

*Source: Company Data, Aon Benfield Analytics Research*

## Chart 14 – Beazley



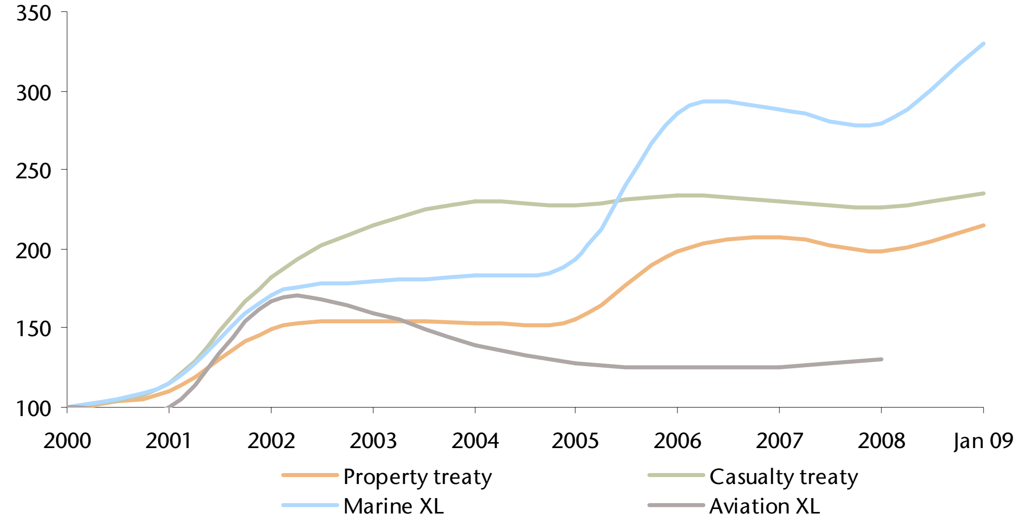

*Source: Company Data, Aon Benfield Analytics Research*

## Chart 15 – Brit: Global Market



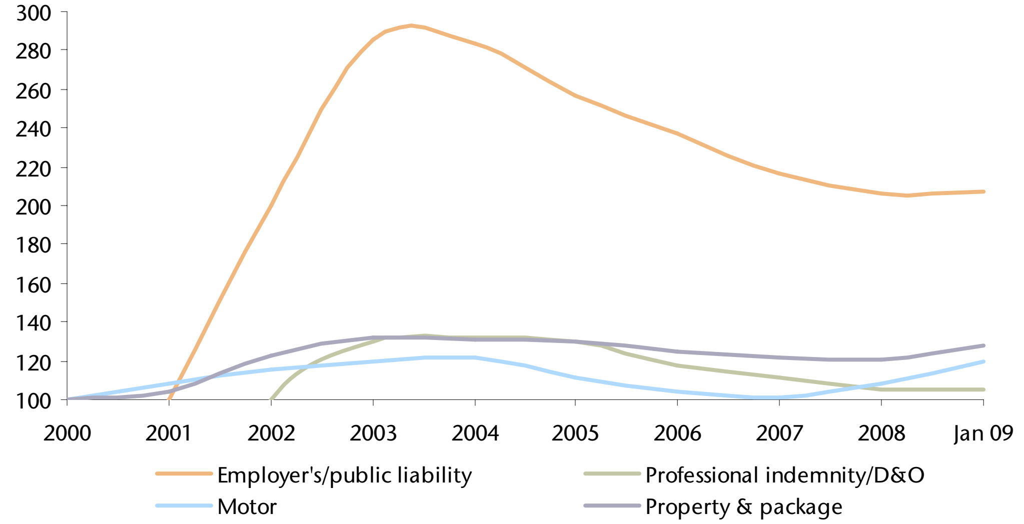

*Source: Company Data, Aon Benfield Analytics Research*

## Chart 16 – Brit: Reinsurance Market



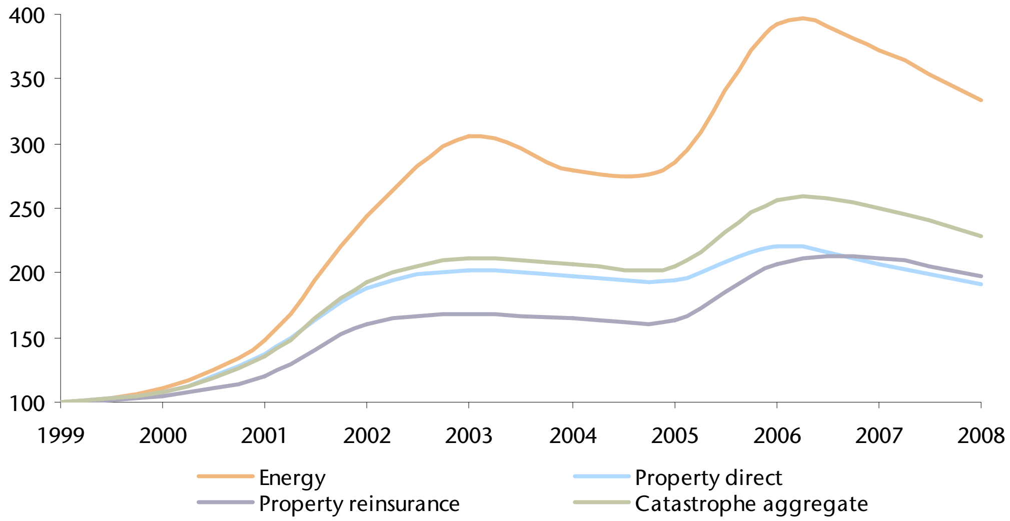

*Source: Company Data, Aon Benfield Analytics Research*

## Chart 17 – Brit: UK Market



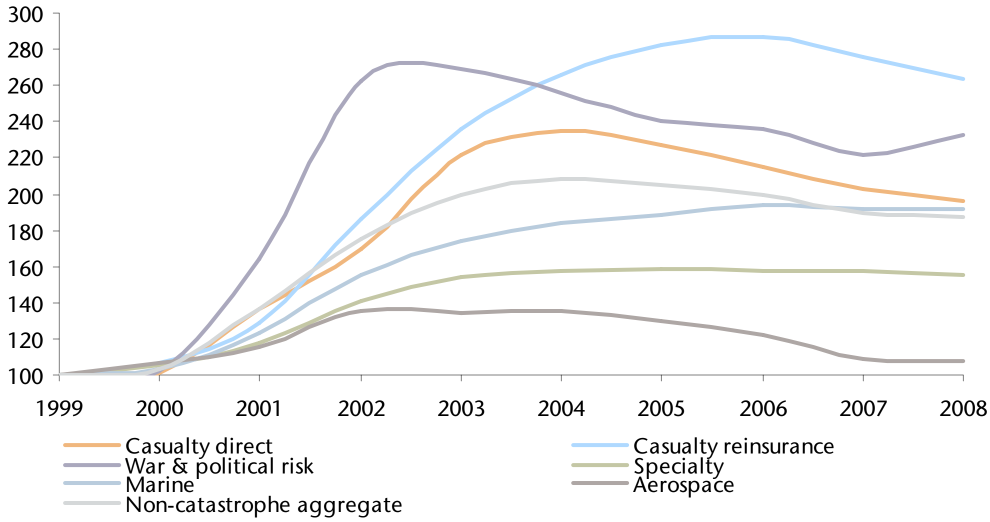

*Source: Company Data, Aon Benfield Analytics Research*

## Chart 18 – Catlin: Catastrophe



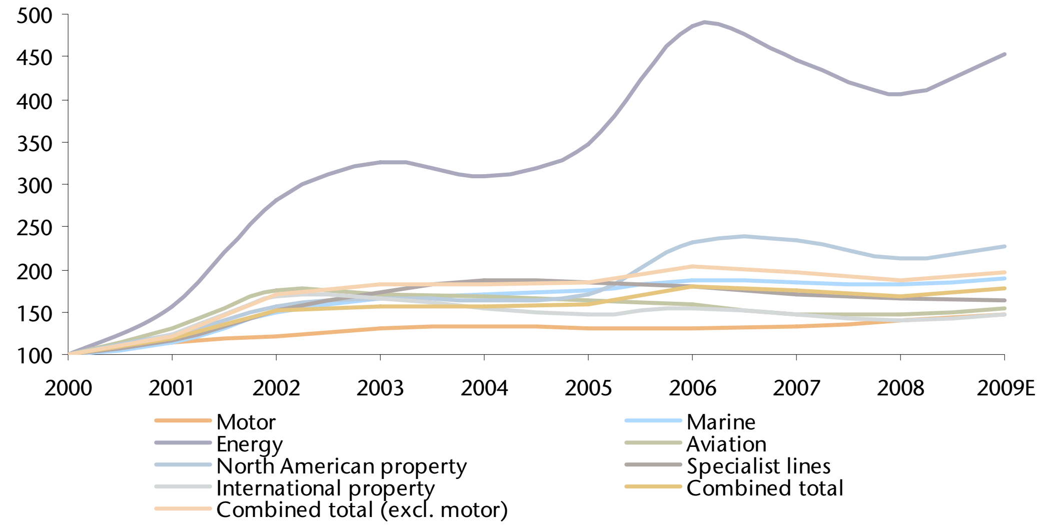

*Source: Company Data, Aon Benfield Analytics Research*

## Chart 19 – Catlin: Non-Catastrophe




*Source: Company Data, Aon Benfield Analytics Research*

## Chart 20 – Chaucer




*Source: Company Data, Aon Benfield Analytics Research*

# Appendix 2

## Capacity

Table 11 – 2009 New Entrants

| Syndicate Number | Managing Agent | 2009 Indicative Capacity GBPmn | Comments |
|---|---|---|---|
| 1318 | Beaufort Underwriting Agency Limited | 35 | Commenced underwriting 1 January 2009 |
| 1458 | Spectrum Syndicate Management Limited | 70 | RenRe syndicate to commence underwriting 1 June 2009 |
| 1880 | R J Kiln & Co Limited | 200 | Tokio Marine Kiln syndicate underwriting RI of Tokio Marine businesses |
| 1967 | Whittington Capital Management Limited | 55 | WR Berkley syndicate to commence underwriting 1 June 2009 |
| 2008 | Shelbourne Syndicate Services Limited | n.a. | Special purpose RITC syndicate; Capacity to be based on available transactions |
| 2012 | Arch Underwriting at Lloyd's Limited | 100 | Commenced underwriting 1 April 2009 |
| 3002 | Catlin Underwriting Agencies Limited | 5 | Catlin Life Syndicate commenced underwriting 1 May 2009 |
| 3622 | Beazley Furlonge Limited | 7 | |
| 3623 | Beazley Furlonge Limited | 33 | 2008 capacity: GBP33mn |
| 3624 | Hiscox Syndicates Limited | 60 | |
| 4711 | Aspen Managing Agency Limited | 160 | 2008 capacity: GBP88mn |
| 6106 | Amlin Underwriting Limited | 50 | Special purpose syndicate taking QS of s.2001 reinsurance account |

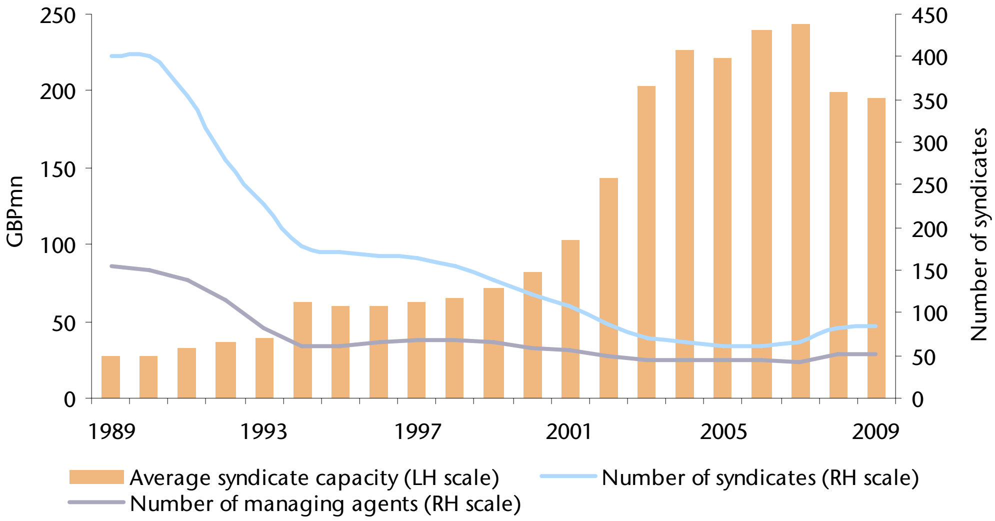
*Source: Company Information, Moody's, Aon Benfield Analytics Research*

Table 12 – 2008 Departures

| Syndicate Number | Managing Agent | 2008 Capacity GBPmn | Comments |
|---|---|---|---|
| 839 | Canopius Managing Agents Limited | 5 | Syndicate ceasing |
| 3820 | Hardy (Underwriting Agencies) Limited | 75 | Merging into s.382 for 2009 |
| 4455 | Equity Syndicate Management Ltd | 14 | Syndicate ceasing |
| 6101 | Argenta Syndicate Management Limited | 101 | Syndicate ceasing |
| 6102 | Argenta Syndicate Management Limited | 54 | Syndicate ceasing |

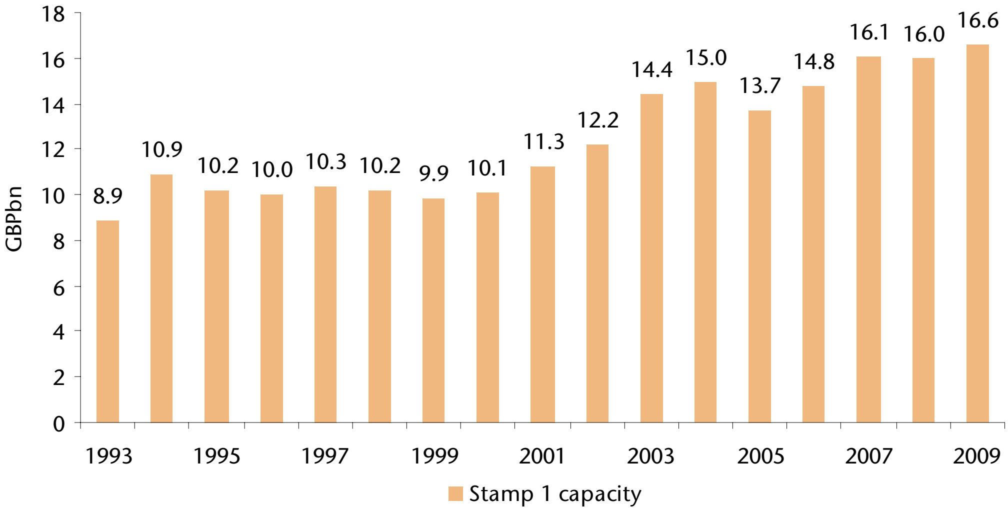
*Source: Lloyd's*

## Chart 21 – Number of Syndicates and Average Capacity as at 1 January 2009



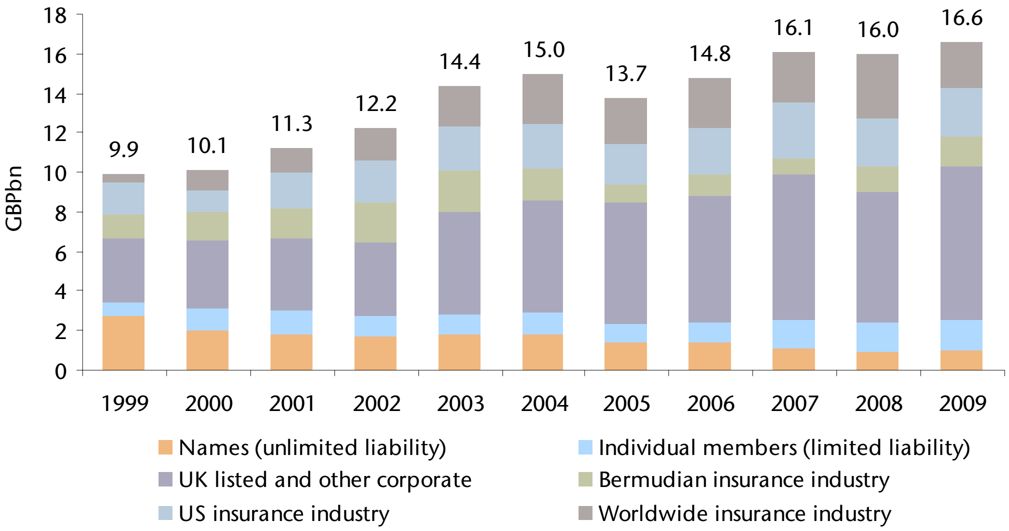

*Source: Lloyd's, Aon Benfield Analytics Research*

## Chart 22 – Stamp 1 Capacity as at 1 January 2009



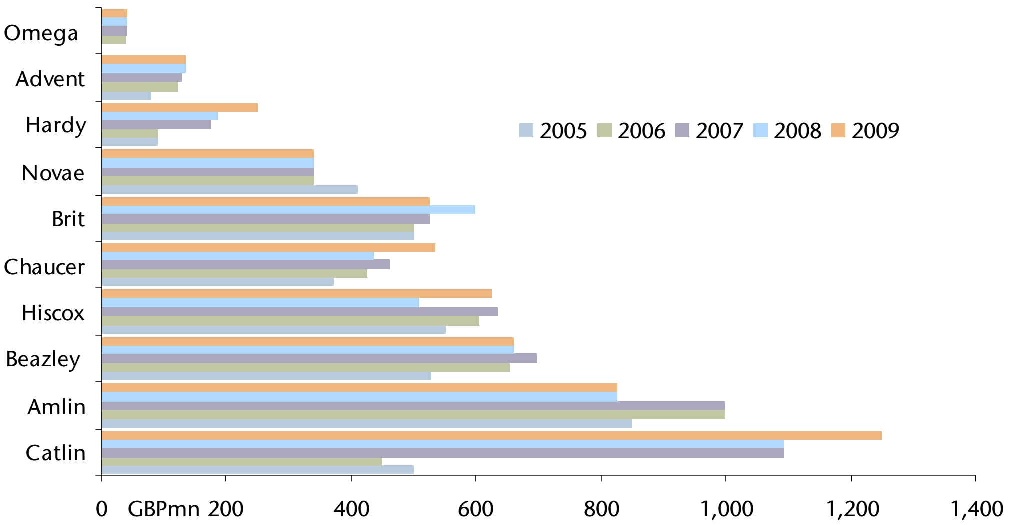

*Source: Lloyd's, Moody's, Aon Benfield Analytics Research*

## Chart 23 – Sources of Capacity 1999-2009



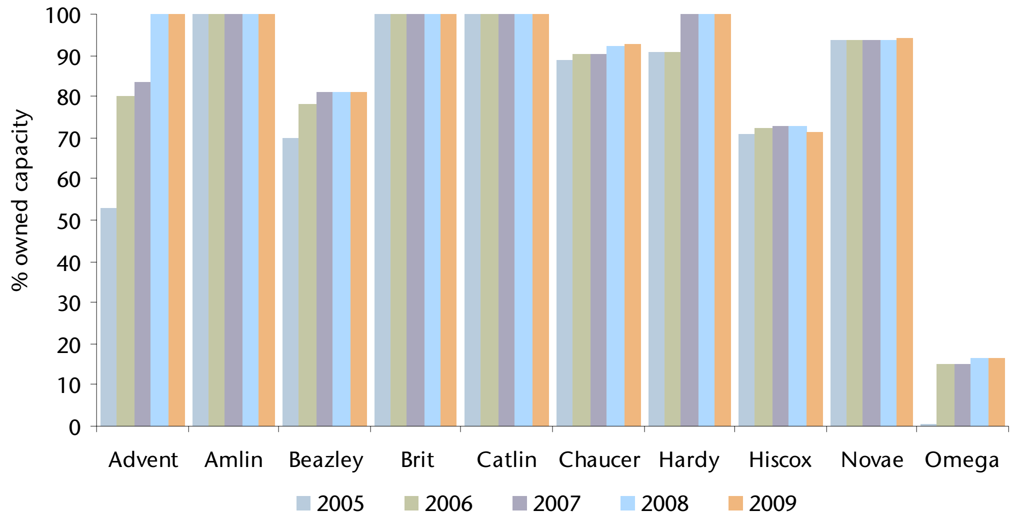

*Source: Lloyd's, Moody's, Aon Benfield Analytics Research*

## Chart 24 – 2005-2009 Listed ILVs Aligned Capacity



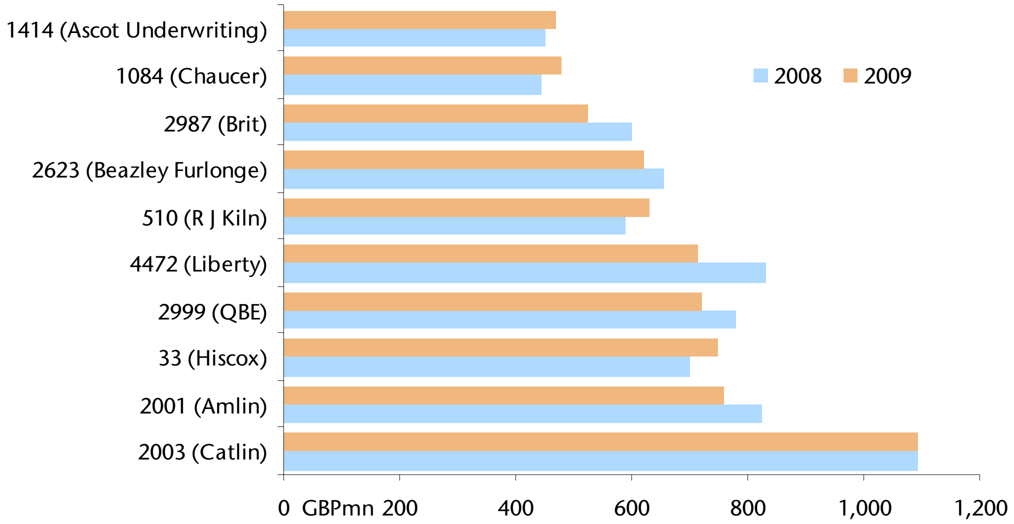

*Source: Company Data, Aon Benfield Analytics Research*

## Chart 25 – 2005-2009 Listed ILVs % of Capacity Owned




*Source: Company Data, Aon Benfield Analytics Research*

## Chart 26 – 2009 Capacity of Ten Largest Syndicates (Managing Agent)




*Source: Company Data, Aon Benfield Analytics Research*

# Appendix 3

## Lloyd's Chain of Security

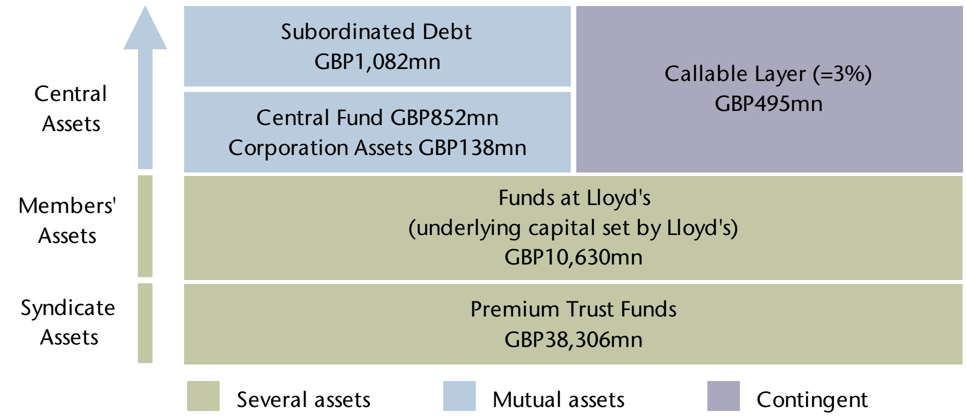
Lloyd's security consists of three links in what is called the Chain of Security as shown in Chart 27. The three links are:

1 Syndicate assets: Premium Trust Funds (PTFs) of GBP38.3bn. PTFs consist of premiums for a given year of account managed under trust by the Managing Agent. All claims pertinent to that year of account are paid out of the relevant PTF. There are separate PTFs held for life and non-life lines of business, and also for business written overseas in currencies other than sterling.

2 Members' assets: Funds at Lloyd's (FAL) of GBP10.6bn. Capital requirements for each member are determined through the Individual Capital Assessment (ICA) whereby each syndicate states how much capital it requires to cover the underlying business risks. This is agreed with the corporation and then "uplifted" (by 35% in 2008) to ensure extra capital is in place to support Lloyd's ratings and financial strength. This uplifted ICA is known as the Economic Capital Assessment (ECA). Assets supporting FAL requirements must be liquid but may include letters of credit and bank guarantees.

3 Central resources of the Society. The net assets of the Society as at 31 December 2008 were GBP990mn, which included Central Fund net assets of GBP852mn. Syndicate loans, introduced in 2005, have now been replaced with a second tranche of subordinated debt that, together with the 2005 issue, totals GBP1.1bn and brings central resources to GBP2.1bn. The Council can also call from members' PTFs an amount up to 3% of a member's premium limits in aggregate in any one year. The Council of Lloyd's regularly reviews the central assets target and level of contribution. The current target for unencumbered central assets is a minimum of GBP1.7bn. The contribution rate remains at 0.5% of gross premiums written for 2009.

Chart 27 – Assets at Lloyd's as at 31 December 2008




*Source: Lloyd's*

## Lloyd's Market Rating

The Lloyd's market ratings are shown in Table 13 and apply to all business written by all syndicates, and consequently to all policies issued by Lloyd's from the 1993 year of account onwards.

Table 13 – Ratings for Lloyd's Market

| | Rating | Outlook | Action |
|---|---|---|---|
| A.M. Best | A (Excellent) | Stable | Affirmed 11 July 2008 |
| Fitch Ratings | A+ | Stable | Affirmed 4 August 2008 |
| Standard & Poor's | A+ (Strong) | Stable | Upgraded 23 April 2007 |

*Source: Rating Agencies*

While all syndicates benefit from the Lloyd's market ratings, Standard and Poor's also grades some syndicates individually. Table 14 lists the 39 syndicates which currently carry Lloyd's Syndicate Assessments (LSAs). LSAs are based on the level of dependency a Syndicate has on the Lloyd's market.

Table 14 – Standard & Poor's Current Lloyd's Syndicate Assessments (LSAs)

| Syndicate Number | Managing Agent | LSA Grade |
|---|---|---|
| 260 | KGM Underwriting Agencies Limited | 1pi |
| 308 | R J Kiln and Co. Limited | 2pi |
| 318 | Beaufort Underwriting Agency Limited | 2pi |
| 382 | Hardy (Underwriting Agencies) Limited | 4pi |
| 386 | QBE Underwriting Limited | 5/Stable |
| 435 | Faraday Underwriting Limited | 3pi |
| 457 | Munich Re Underwriting Limited | 3pi |
| 510 | R J Kiln and Co. Limited | 4pi |
| 557 | R J Kiln and Co. Limited | 3pi |
| 727 | S A Meacock & Company Limited | 2pi |
| 779 | Jubilee Managing Agency Limited | 2pi |
| 780 | Advent Underwriting Limited | 2/Stable |
| 807 | R J Kiln and Co. Limited | 3pi |
| 958 | Omega Underwriting Agents Limited | 3pi |
| 1084 | Chaucer Syndicates Limited | 3/Stable |
| 1176 | Chaucer Syndicates Limited | 3pi |
| 1200 | Argo Managing Agency Limited (formerly Heritage) | 3pi |
| 1206 | Sagicor at Lloyd's Limited | 1pi |
| 1218 | Newline Underwriting Management Limited | 2pi |
| 1225 | AEGIS Managing Agency Limited | 2pi |
| 1231 | Jubilee Managing Agency Limited | 2pi |
| 1301 | Chaucer Syndicates Limited | 2pi |
| 1400 | Max at Lloyd's Limited | 1pi |
| 1414 | Ascot Underwriting Limited | 3pi |
| 2001 | Amlin Underwriting Limited | 4/Stable |
| 2003 | Catlin Underwriting Agencies Limited | 4-/Positive |
| 2007 | Novae Syndicates Limited | 3-/Stable |
| 2010 | Cathedral Underwriting Limited | 3pi |
| 2468 | Marketform Managing Agency Limited | 2pi |
| 2525 | Max at Lloyd's Limited | 2pi |
| 2623 | Beazley Furlonge Limited | 4/Stable |
| 2791 | Managing Agency Partners Limited | 4pi |
| 2987 | Brit Syndicates Limited | 3pi |
| 2999 | QBE Underwriting Limited | 4-/Stable |
| 3000 | Markel Syndicate Management Limited | 3pi |
| 4040 | HCC Underwriting Agency Limited | 1pi |
| 4444 | Canopius Managing Agents Limited | 3-/Stable |
| 5000 | Travelers Syndicate Management Limited | 3-/Stable |
| 5151 | Montpelier Underwriting Agencies Limited | 3-/Stable |

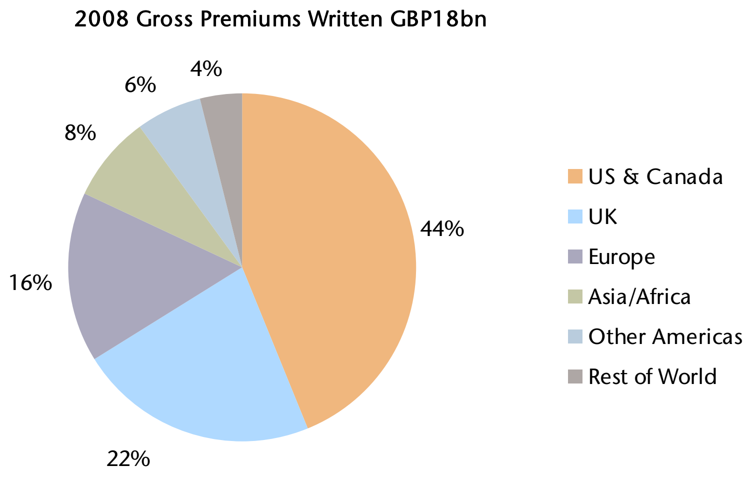
*pi = Syndicate is assessed on a public information basis*
*Rating scale: 1 = very high dependency; 5 = very low dependency*

*Source: Standard & Poor's*

# Appendix 4

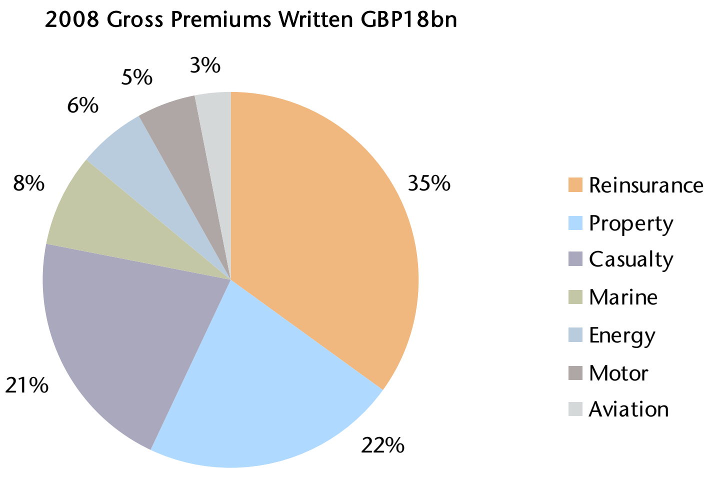
## Business Split

### Chart 28 – Business Mix by Region




*Source: Lloyd's*

### Chart 29 – Business Mix by Class




*Source: Lloyd's*

# Appendix 5

## Realistic Disaster Scenarios

Lloyd's has developed a number of Realistic Disaster Scenarios (RDSs) to stress test both individual syndicates and the market as a whole to see how they stand up to exposure to extreme events. These event scenarios are detailed each year by Lloyd's and used to assess both aggregate market exposures and the exposure of each syndicate to those specific events. Every syndicate is required to prepare syndicate-specific scenarios according to the type of business it writes. For Lloyd's, the RDSs form an input to capital setting and facilitate the monitoring of aggregated exposure to specific catastrophe scenarios at a market level on a gross and net basis. This enables Lloyd's to understand existing reinsurance protections and profile prospective reinsurance assets. The current 18 scenarios are listed in Table 15.

Table 15 – Realistic Disaster Scenarios

| Generic Scenarios subject to de-minimus tests | | Specific Event-Based Scenarios | | Industry Loss 2007 USDbn | 2008 USDbn | 2009 USDbn |
|---|---|---|---|---|---|---|
| 1 | Marine Event | 9 | Two Event | 69+32 | 74+34 | 78+36 |
| 2 | Loss of Major Complex | 10 | Florida Windstorm | 108 | 119 | 125 |
| 3 | Aviation Collision | 11 | California Earthquake | 69 | 74 | 78 |
| 4 | Satellite Risks | 12 | New Madrid Earthquake | 42 | 45 | 47 |
| 5 | Liability Risks | 13 | European Windstorm | 30 | 31 | 31 |
| 6 | Political Risks | 14 | Japanese Earthquake | 50 | 51 | 51 |
| 7 | Alternative RDS: A | 15 | Terrorism | n.a. | n.a. | n.a. |
| 8 | Alternative RDS: B | 16 | Gulf of Mexico Windstorm | 106 | 113 | 113 |
| | | 17 | Japanese Typhoon | 14 | 15 | 15 |
| | | 18 | UK Flood | n.a. | n.a. | 6 |

*Source: Lloyd's*

Reflecting its awareness of emerging risks, Lloyd's has added a major UK flood to its set of RDSs for 2009. The scenario is based on heavy rainfall resulting in extensive flooding of the River Thames from Oxford to Teddington, with secondary flooding on the River Colne from Ruislip south, and surface flooding on the western and southern edges of Heathrow. The total flood area covers 194 square kilometers and would impact the towns of Oxford, Reading, Slough, Henley and parts of west London.

The UK flood RDS generates an estimated industry insured loss of GBP6.2bn. Of this, GBP4.5bn relates to residential losses and GBP1.6bn to commercial losses. Clearly, a number of major roads and rail services would be seriously affected by the event. Disruption at Heathrow Airport would clearly be another major factor, as would the impact of pollution as a result of the event.

There are a number of reasons why Lloyd's has chosen this scenario. Firstly, there is a growing consensus that climate change could result in a higher likelihood of more extreme rainfall events. Secondly, the area chosen for the flood would give rise to a larger insurance loss than a similar flood in any other part of the UK. Lastly, Lloyd's has become aware that, as concerns have grown over UK flooding, it is becoming unclear how much longer UK insurers will continue to automatically include flood risk in their property policies. Paul Nunn, Head of Exposure Management at Lloyd's stated that, "inclusive flood cover could well disappear within the next few years in the UK and that could lead to a big change in the market and the insurers who write it".[9]

[9] Lloyd's press release, New RDS brings UK flood into focus, 27 October 2008

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