

The Actuarial Profession
making financial sense of the future

Current Issues in General Insurance
May 2010


Current Issues at Lloyd's

Jerome Kirk - Lloyd's
Market Reserving and Capital




Agenda

- Results
- Reserving
- Underwriting
- Investments
- Capital
- Summary



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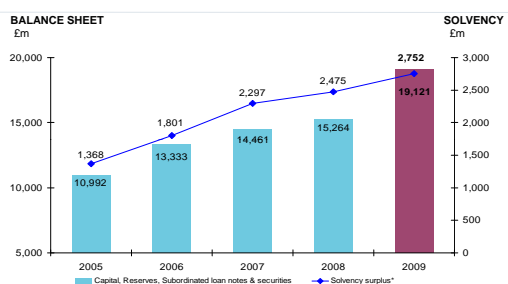


Record results during challenging economic conditions...

| £m | 2008 | 2009 |
|-----------------------------|--------|--------|
| Gross written premiums | 17,985 | 21,973 |
| Combined ratio | 91.3% | 86.1% |
| Investment return | 957 | 1,769 |
| Profit before tax | 1,899 | 3,868 |
| Return on capital (pre-tax) | 13.7% | 23.9% |

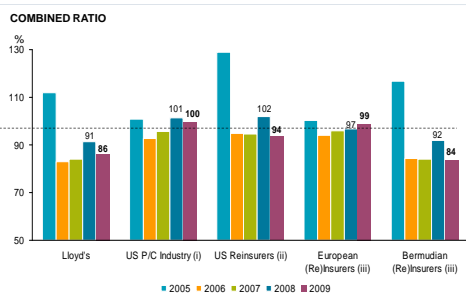
Source: Lloyd's pro forma financial statements, 31 Dec 2009

...with net resources and solvency coverage at record levels...



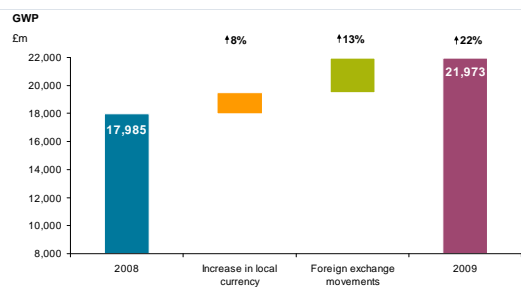
Note: * Solvency surplus net of solvency deficits
Source: Lloyd's pro forma financial statements, 31 Dec 2009

...and our performance continues to compare well against our peers



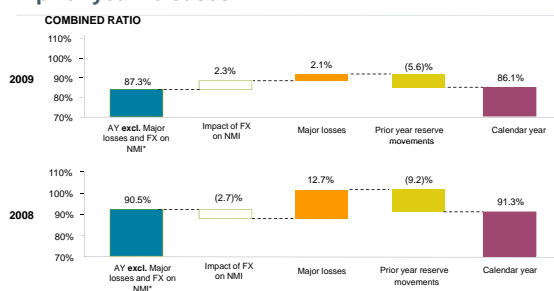
Sources: i) Insurance Information Institute (estimate-2009), ii) Reinsurance Association of America, iii) Company data (8 European companies; 17 Bermudian companies)

Premium increase driven by currency movements and new business



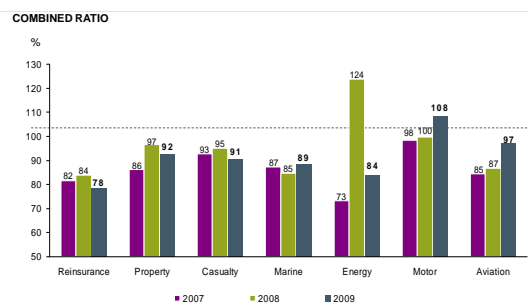
Note: Attribution to foreign exchange movements and increase in local currency stated on a compound basis
Source: Lloyd's pro forma financial statements, 31 Dec 2009

Absence of severe catastrophes and continued prior year releases...



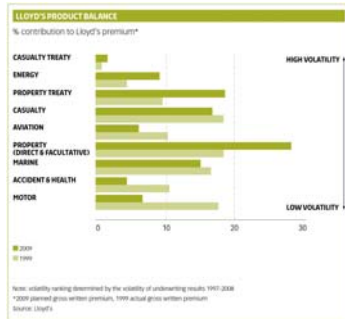
Note: * Accident Year (AY) excluding major losses and foreign exchange on non-monetary items
Source: Lloyd's pro forma financial statements, 31 Dec 2009

...produce strong results for major classes



Source: Lloyd's pro forma basis at syndicate level, 31 Dec 2009

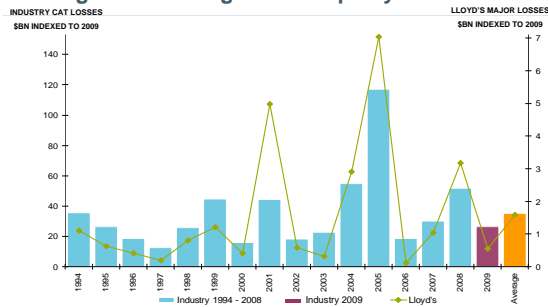
Lloyd's has seen gradual shift in business mix.....



...continuing to have significant exposure in North America...



...which is consistent with Lloyd's outperforming during below average catastrophe years



...all of which is recognised in Lloyd's latest strategy

- Considers business sources
 - by volatility
 - by region
 - by source
- Not radical but may see some shift in focus
- Main vision for Lloyd's remains



"To be the market of choice for insurance and reinsurance buyers and sellers to access and trade specialist property and casualty risks."

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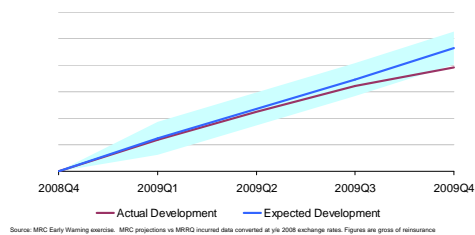
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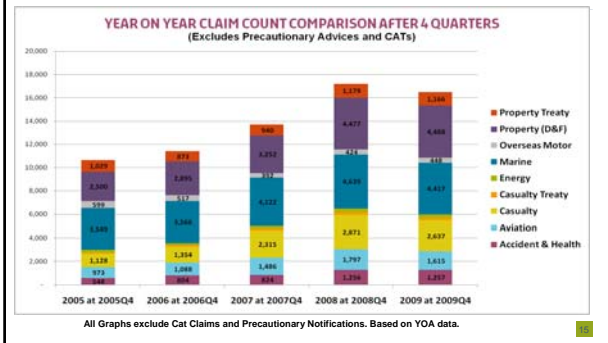
2009 experience was lower than expected....

Actual and Expected Development
Whole Account - Claims

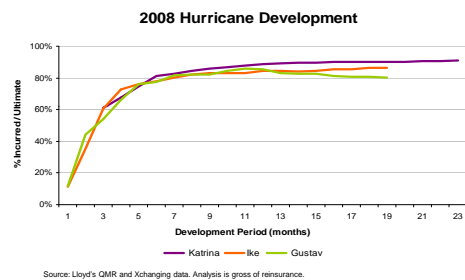


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...with claims counts starting to reduce....

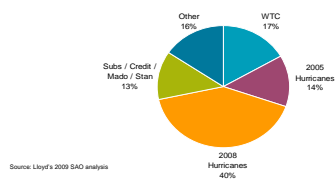


...and stable development for the 2008 windstorms...

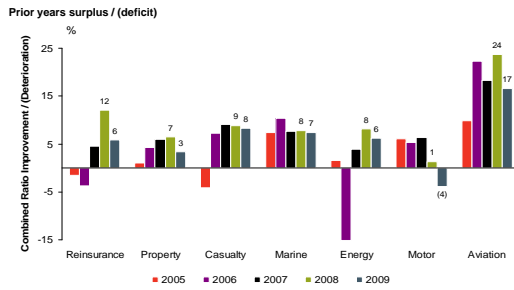


....leading to SAOs reserve uncertainty wordings reductions....

- SAO large loss wordings gauge the size/sources of reserve uncertainty
 - only 1 "high" severity wording remains
 - 2008 windstorms remain largest by number (40%)
- Year-end 2009 has seen
 - reduction in number of wordings including a shift from "medium" to "low"
 - no significant increase in financial related issues (incl. Madoff/Stanford)



...and reserve surplus across most classes of business



But not a great start to 2010....



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January renewals update

- Meetings held with agents to discuss January renewals
- Feedback suggested that market was softening but overall prices still appeared to be adequate
 - Rates down in most Property classes due to an absence of major losses, but still may be adequate given the point in the cycle
 - Certain classes are seeing signs of rate increases, e.g. Aviation, although these increases may not be adequate
- However, the January PMDR indicated:
 - Rates were flat overall on renewals
 - Premium volumes in January were up on last year

PMDR has improved ability to monitor and review premium

- Monthly review of data allows PMD to question
 - Are syndicates getting the business as planned?
 - Is it at the planned price?

Dummy data – illustrative example

| Language / Loc | Premium and policies | | | | Rate Change | | | | Benchmark Price | | | | Loss Ratio % | |
|----------------|---------------------------|--------------------------------------|----------------------------|---|------------------------|--------------------------------|----------------------------|------------------------------|-----------------------|-------------------|------------------------------|--------------------------|------------------------|-----------------------------|
| | PMDR Review Period (days) | Current Year PMDR % of Total Premium | Current Year Premium (GBP) | Current Year Local Number of Policies (GBP) | Current Year Premium % | Current Year Rate Change (GBP) | Current Year Rate Change % | % of Total Premium with PMDR | Benchmark Price (GBP) | Benchmark Price % | Benchmark Price Change (GBP) | Benchmark Price Change % | Loss Ratio % with PMDR | Loss Ratio % with Benchmark |
| 1 | xxx | 87% | 222 | 15374 | 29% | 25% | 2% | 100% | 100% | 80% | 80% | 80% | 65% | 65% |
| 2 | xxx | 95% | 222 | 12608 | 16% | 28% | 4% | 80% | 116% | 82% | 87% | 74% | 66% | 67% |
| 3 | xxx | 96% | 222 | 12013 | 26% | 22% | 2% | 11% | 110% | 106% | 106% | 66% | 67% | 67% |
| 4 | xxx | 95% | 222 | 7622 | 11% | 22% | 2% | 100% | 117% | 98% | 100% | 66% | 66% | 66% |
| 5 | xxx | 95% | 222 | 10264 | 43% | 48% | 5% | 83% | 115% | 116% | 116% | 66% | 66% | 66% |
| 6 | xxx | 97% | 222 | 8923 | 28% | 28% | 3% | 100% | 111% | 112% | 112% | 71% | 64% | 62% |
| 7 | xxx | 99% | 222 | 11968 | 36% | 33% | 4% | | | | | 79% | | 77% |

- Monthly Playback Packs highlight potential performance and data quality issues
 - Data issues can be corrected with the next monthly submission
 - Performance issues are raised with syndicates by the UP

Key issues in 2010...

- Softening market – some classes are marginal at best
- Maintaining discipline
 - Trade credit/ political risks
 - Offshore energy
- Broker remuneration
- Reserving

...some new issues?

- Still too early to see impact of recent losses
 - MLR will be required for Deepwater Horizon / Transocean
 - will increase uncertainty in short term
- And what about the rest of the year:

"Based on current and projected climate signals, Atlantic basin and US landfalling tropical cyclone activity are forecast to be about 60% above the 1950-2009 norm in 2010. There is a high (77%) likelihood that activity will be in the top one-third of years historically."

TSR April Update



Approach to 2011 business planning

- Specific areas of focus for 2011 in a softening market
 - setting realistic premium targets
 - loss ratios reflecting performance / rating environment
 - appropriate levels of Catastrophe risk
 - management capabilities and resolve
- Need to be prepared for Solvency II (has implications for Business Plan approval)
- Specific focus on reviewing and understanding your ongoing strategy

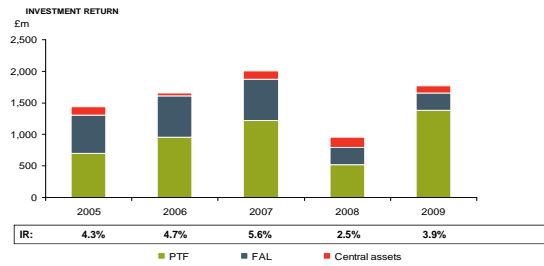


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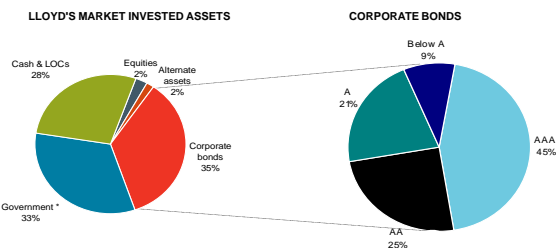


Investment return driven by recovery in corporate bond values...



Note: FAL - Members' Funds at Lloyd's; PTF - Syndicate Premium Trust Funds
Source: Lloyd's pro forma financial statements, 31 Dec 2009

..with over 90% of investments remaining in cash and high quality bonds...



...and the outlook?

"Looking ahead, the investment environment will be difficult in 2010."

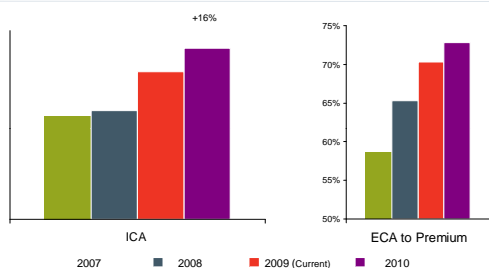
Lloyd's 2009 annual report

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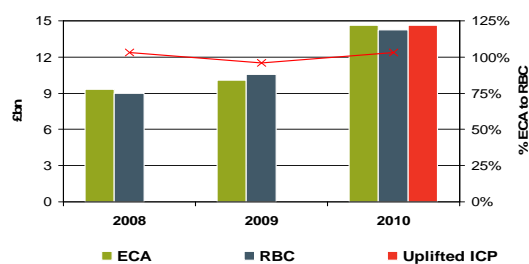
Capital has increased led by lower credit for discounting...



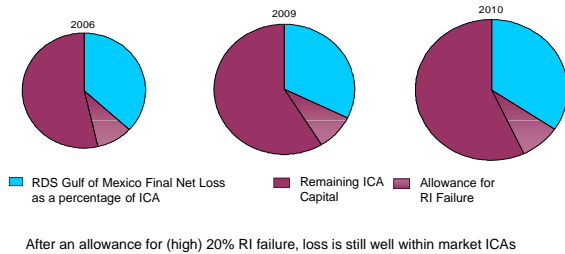
(1) 2009 current figures reflect FX movements from \$1.99 to \$1.50
 (2) Gross premium, net of acquisition costs



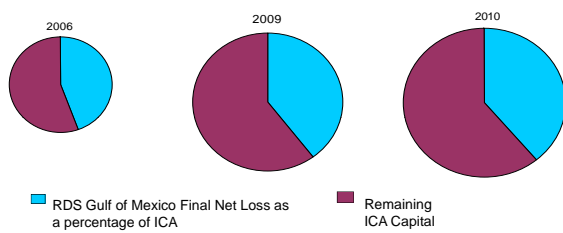
...but aggregate capital remains consistent with Lloyd's benchmarks



Capital properly reflects the increase in catastrophe risk...



...particularly for the largest exposures



Picture for top 20 syndicates by size of FNL

Proposed "lite" approach for 2011 ICAs

- **ICAS requirements stand**
 - Managing agents must keep ICA under continuous review
- High level outline:
 - First submission based on roll over 2010 plan into next year
 - Update ICA only when plan substantially agreed
 - Pragmatic approach if material change in market conditions
- Qualitative considerations covered in SII preparation
- **No submission of full documentation for any agent**

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Summary

- Solvency II may dominate but...
 - don't forget the day job
 - ICAs are still in force
- Fantastic results for 2009 but...
 - 2010 looks challenging
- Always something going on at Lloyd's. For example
 - underwriting in challenging times
 - new strategy
- Lloyd's recognises the fine balance between "SII" and "now"

