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Current Issues at Lloyd's

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Henry Johnson

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Annually accounted results

	£m 2002	£m 2003
Net Earned Premium	10,669	11,711
Net Incurred claims	(6,652)	(6,697)
Net operating expenses	(3,586)	(3,985)
Exchange	(401)	(30)
Investment return	804	893
Profit on ordinary activities	834	1,892

Three year accounting basis

		£m
2001 YOA	Result	(2,378)
2002 YOA	Projection	1,671
2003 YOA	Projection	1,780

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Central assets £m

	2002	2003
Central Fund	476	711
Corporation assets	87	70
TOTAL	**563**	**781**

Further information on www.lloyds.com

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2003 Results - highlights

- Profit of £1,892m* for 2003 (£834m for 2002)
- Further reduction in combined ratio to 90.7% (2002: 98.6%)
- Initial profit projection of £1,780m for 2003 underwriting year (3 year accounting basis)
- 39% increase in central assets to £781m
- Net resources up 35% to £10.1bn

**Pro-forma annual accounting basis*

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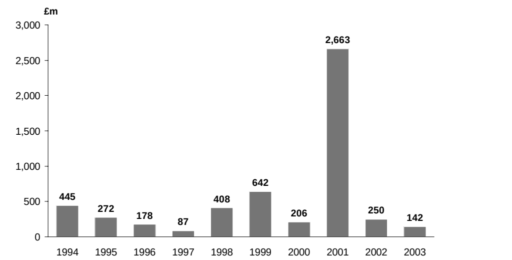
2003 Annual accounting results
Net catastrophe losses



Source: Syndicate quarterly returns

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2003 Results – reserve strengthening

£m	
Current accident year	2,437
Reserve strengthening	(545)
Profit on ordinary activities before tax	1,892

**Pro-forma annual accounting basis*

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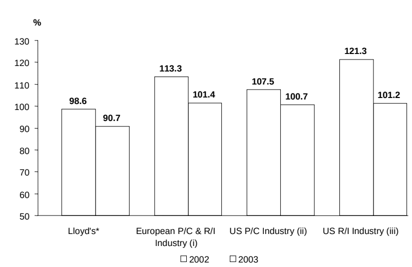
Lloyd's vs Industry 2003 Combined Ratios



Sources i) Company data, ii) Insurance Information Institute estimate, iii) Reinsurance Association of America

**Pro-forma annual accounting basis*

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Market conditions remain attractive

	Premium rating index			2003
	2002	2003	2004	Calendar year combined ratios
Casualty	100	121	130	110.4
Property	100	103	98	89.4
Reinsurance	100	104	102	89.3
Motor	100	107	106	93.6
Marine	100	115	121	89.7
Energy	100	104	96	83.4
Aviation	100	98	94	93.0

**Pro-forma annual accounting basis*

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Statements of Actuarial Opinion

- In 2002 there were 150 Opinions (grouping different YOA)
- In 2002 there were 134
- In 2002, a combination of 8 consultancy firms signed for 91.5% by total net reserve and in 2003 the same 8 signed for 90.5%. The remainder were signed by in-house actuaries – four actuaries in 2002 and a different set of four in 2003.
- Consultancies used 26 signing actuaries in 2002 and 29 in 2003.
- The mean net reserve per consulting actuary was £632m in 2002 and £560m in 2003, and the standard deviations £642m and £560m respectively
- The average length of first names increased but this was more than offset by a reduced average length of surname. The average name is now 11.6 characters long

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Capitalisation (1)

Overall capitalisation

- Lloyd's chain of security
  - PTF
  - FAL
  - Central Fund
- At present, significant surplus in PTF – overall net assets £10,145m (including FAL and CF)
- At end of a soft cycle this source of capital is depleted and FAL and CF are key

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Capitalisation (2)

Overall capitalisation (continued)

- Project to investigate overall capital requirements
- Focus has been on combination of soft cycle and shock loss (as in 2001)
- Project not yet complete – forms Lloyd's own Internal Capital Assessment (ICA)

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Capitalisation (3)

RBC and ICA

- Lloyd's overall ICA project concluded that RBC was robust and we intend to continue to use it
- At the same time, FSA's CP190 requirements will apply to Lloyd's (Lloyd's version of CP190 due out imminently):
  - Enhanced Capital Requirements (ECR)
  - Syndicate ICAs

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Capitalisation (4)

ECR

- We expect the ECR calculation to apply at Lloyd's using the same parameters as the Company ECR
- For companies, ECR will be a 'soft test' for at least two years
- Details of how ECR will be applied at Lloyd's not yet clear…..
- …..but overall RBC>ECR

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Capitalisation (5)

ICA

- Subject to CPXX, we expect Managing Agents to produce ICAs in 2004…….
- ……albeit some of these will be first attempts!
- No prescribed basis for ICA, but general expectation is for ICA to calculate capital on a Value at Risk at the 0.5% probability level (VaR 0.5%)
- Lloyd's will use RBC to set member capital but (subject to CPXX) will need to 'take account' of syndicate ICAs where they are higher

Capitalisation (6)

Comparing ICA with RBC

RBC	ICA
Risk measure is expected loss cost to the CF	Risk measure likely to be VaR 0.5%
Sets capital for insurance risk only	Sets capital including asset risk
Market Average	Syndicate Level
Sets capital for FAL – i.e. assuming there is a CF, which is modelled separately in Lloyd's overall ICA	Syndicate perspective
Allows for member diversification	Syndicate capital

Capitalisation (7)

Comparing ICA with RBC (continued)

- Lloyd's intends to ask syndicates to calculate ICA on RBC basis (=ICA®)
- Can then compare two numbers (easy!)
- If ICA® >RBC, likely to use ICA® in member level calculation
- If ICA® <RBC, will discuss
- Discussions will include input from Franchise Performance, who will be examining and approving business plans and may apply loadings where plans or performance do not meet their criteria
- Asset risk needs separate treatment
- Member level diversification per RBC model – will need FSA agreement
- Test case with CALM

Capitalisation (8)

Conclusion

- RBC to continue
- Lloyd's own ICA in progress
- Lots to do at Lloyd's
- 2004 Calendar Year a 'first attempt'

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Conclusions

- Results have been exceptional in 2002 and 2003
- Risk will increase in the next few years as profits are paid out and market softens
- Imperative that reserving and capitalisation are right as these changes take place
- Never a dull moment at Lloyd's!

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