

02Oct2001 UK: Lloyd's gross liabilities may climb to \$10bn.

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Lloyd's, the London insurance market, could face gross liabilities of up to GBP7bn (\$10.25bn) arising from the terrorist attacks on the US, according to Fitch, the ratings agency.

Lloyd's last week estimated its exposure at GBP1.3bn - the biggest single loss in the insurance market's 300-year history - but that was net of reinsurance it will be entitled to collect.

Fitch said Lloyd's net loss was likely to be at least GBP1.7bn because history had shown initial estimates of the cost of large catastrophes were always understated. After consulting clients, it reckoned gross exposure tended to be three to four times the net figure.

It said: "Insured losses from the Northridge earthquake, which occurred in January 1994, were initially projected by the industry at \$2.5bn one month after the event, but deteriorated over time so that by September 1995 final estimates were placed at \$12.5bn - or five times the initial estimate."

The agency said that given the magnitude of the loss and the likelihood that the bulk would be concentrated among reinsurers, insolvencies could not yet be ruled out.

Lloyd's yesterday declined to estimate its gross exposure, but said it had deliberately taken some time before publishing its initial estimate. Although the GBP1.3bn net figure could be revised upwards, it was confident the forecast would not have to be increased substantially.

Adrian Beeby, Lloyd's media manager, said 90 per cent of the market's reinsurance was provided by companies that had a credit rating of A or better, and it was confident of being able to recover the reinsurance due.

David Wharrier of Fitch said: "These reinsurers may have these credit ratings now - it is less certain they will still have the same ratings in six to nine months' time, when Lloyd's comes to collect."

Fitch also believes that Lloyd's could face a strain on its liquidity. This is because Lloyd's - and all non-US insurers - is obliged by regulators to hold 100 per cent of gross outstanding claims in trust for reinsurance business they underwrite in the US.

Lloyd's currently has GBP4.1bn in its US reinsurance trust fund. Mr Beeby declined to say how much Lloyd's would have to deposit in the US trust fund by the regulators' November 14 deadline, but said: "Liquidity is not a problem at this stage."

Lloyd's last week increased the premium levy on its 108 underwriting syndicates to strengthen the market's central fund, which is used to pay claims when syndicates and their capital providers are unable to meet liabilities.

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