LLOYD’S AND LONDON MARKET SEMINAR
27 JULY 2007, LONDON
Performance Information Packs
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Agenda

- Introduction to Market Analysis at Lloyd’s
  - Performance Measurement
- Performance Information Report
  - The concept behind the “Banana Chart” benchmarks
  - The other bits

Market Analysis at Lloyd’s

“Improve, develop and supply management information to enable effective performance management”

2007 Franchise Business Plan
Performance Measurement

Market Analysis at Lloyd’s involves:

- Monitoring of Business Plans
- Price Monitoring
- Portfolio Analysis
- Cycle Management
- Data Management

The ways in which FPD monitors managing agents’ performance:

- Comparison against the market
- Comparison against individual plan
- Comparison against the Lloyd’s view
Performance Information

- Quarterly
- Report is tailored to each syndicate
- Relative UW performance against the Lloyd’s Market
- IBNR Usage
- Rate Movements
- Market Review

Objectives

- Allows syndicates to compare the performance of classes of business against the market on a like-for-like basis.
- Gives early indication of good and poor performing classes
- Allows the syndicates to compare themselves against the market as a whole.
- Monitor business plans
- Overview over current market conditions

Syndicate COB Benchmark

“Banana Chart”
Data Processing

Ranges around the market mean via simulation. Why?
- Not all classes have enough data
- Not all classes have enough peer syndicates
  - Fine Art, Kidnap and Ransom, etc.
- New YOA wouldn’t have a sensible range
  - Everyone plans for similar levels of profit

Recipe for simulations
- Need market ULRs by risk code and YOA
- Need risk code premium split for the syndicate’s own class
- Need loss distribution for all risk codes
- Need risk code correlation matrix
- Start with multivariate normal distributed random figures
- Transform them into desired distributions
- Take linear combination of the risk code results
Example: Two Risk Codes

- Suppose a syndicate class of business consists of risk codes A and B
- Premium split: A 40%, B 60%
- ULRs: A is log-normal, B is exponential
- Correlation between risk code A and B is 20%
- Market ULR risk code A: 120%, B: 80%
- COB ULR = 40% * 120% + 60% * 80% = 96%

Market Mean

Distributions

Log-normal

Exponential
Performance Summary

Whole Account Gross Benchmark Quartile Positions

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<th>ILR 86%</th>
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Symbol size is proportional to gross stamp premium

▲ top quartile   ○ second quartile   ◦ third quartile   ▼ bottom quartile

COB Summary

Gross COB Benchmark Quartile Positions

Symbol size is proportional to gross stamp premium

▲ top quartile   ○ second quartile   ◦ third quartile   ▼ bottom quartile

Banana Chart Summary

- Benchmark by syndicates’ specific class
- Gives early indication of good and poor performing classes
- Shows volatility of the business
- Checks reasonableness of forecasts

Agent Benchmark
Performance Information

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IBNR Usage

Renewal Rate Movements
Market Overview

Lloyd's Class of Business Team provides:
- In-depth analysis by major lines of business
- Current market conditions
- Market trends

Performance Information - Summary

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