

LLOYD'S AND LONDON MARKET SEMINAR

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Lloyd's Minimum Underwriting Standards and Price
Monitoring

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Agenda

- **Lloyd's Minimum Underwriting Standards**
 - Why standards?
 - Background & approach
 - The 7 standards
- **The Pricing and Rate Monitoring Standard**
 - The Key Components
 - The Importance of benchmark pricing
- **Linking price monitoring to other areas**
 - Business Plans, Underwriting Controls & Capital
- **Conclusion**
 - Key messages

LLOYD'S MINIMUM UNDERWRITING STANDARDS

Why Standards?

- Protects the reputation & performance of Lloyd's
- Supports mutuality
- Clarifies expectations on all sides
- Still allows Managing agents to operate above the minimum
- Standards subject to periodic review

Background & Approach

Background

- Support the Franchise's objectives
- Developed as tools to assist managing agents & Lloyd's
- Guidance notes provide more detailed explanation

Approach:

- Produced in conjunction with Market (published July 2006)
- Effective 1 January 2007 (self assessments provided by 31.12.06)
- Expectation that gaps will be closed during 2007
- Assistance provided by Lloyd's where requested
- Under / over performance will be recognized in 2008 business plans / ICAs.
- Underwriting reviews carried out by FPD

The 7 standards

1. Underwriting strategy and planning
2. Underwriting policy and controls
3. Delegated authority
4. Pricing and rate monitoring
5. Exposure management and modeling
6. Reinsurance
7. Data Quality

THE PRICING AND RATE MONITORING STANDARD

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The Key Components

- Clear accountabilities
- The processes must be demonstrable and transparent
- The use of benchmark pricing
- Must be able to measure:
 - Actual pricing against benchmarks (rate adequacy)
 - Pricing movements on renewals
 - The impact of non-renewed business on the business plan & capital

Importance of Benchmark Pricing

- Introduces consistency in approach
- Helps to assess the quality of new business
- Leads to improved pricing decisions / profitability
- Key input into business planning / capital setting
- Supports an entrepreneurial culture
- Can be tailored to suit the modelability of each class

The Actuarial Profession
making financial sense of the future

LINKING PRICE MONITORING TO OTHER AREAS

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Linking Price Monitoring to other areas

- Business planning
- Underwriting controls
- Capital (Underwriting & Reserving risk)

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CONCLUSION

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Key Messages

- Standards key to the Lloyd's Franchise's objectives
- Devised in conjunction with the Market
- Lloyd's approach is risk based
- Meeting / exceeding Lloyd's pricing & rate monitoring standard should lead to better pricing decisions and easier business plan / ICA approvals
- The standards increase shareholder value:
 - Well run businesses are worth more
 - Future profitability enhanced
 - Improved returns on capital employed
- Supports (not suffocate) entrepreneurial underwriting
