

33rd ANNUAL GIRO CONVENTION

Hilton Vienna Hotel, Am Stadtpark

Lloyd's Issues

Henry Johnson, Jerome Kirk and Veekash Badal

Agenda

- Introduction – Henry (5 mins)
 - - Review
 - - Capital and ICA
 - - Hurricanes
 - - SAOs
 - - Reserve benchmarking
 - Capital and ICA - Veekash (20 mins)
 - Hurricanes, SAOs, Reserve benchmarking - Jerome (20 mins)
 - Discussion and Q&A (15 mins)
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Review

- Capital setting
- Lloyd's own ICA
- Solvency 2
 - QIS2 Submission to FSA; QIS3 coming up
- Franchise Plan
- Standards
 - MB Y3318 and LMA (CALM) paper

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Capital and ICAs

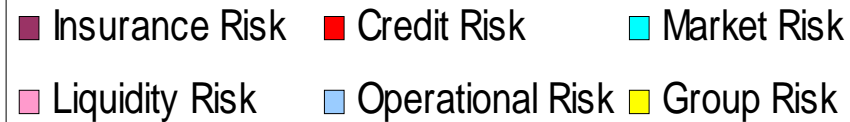
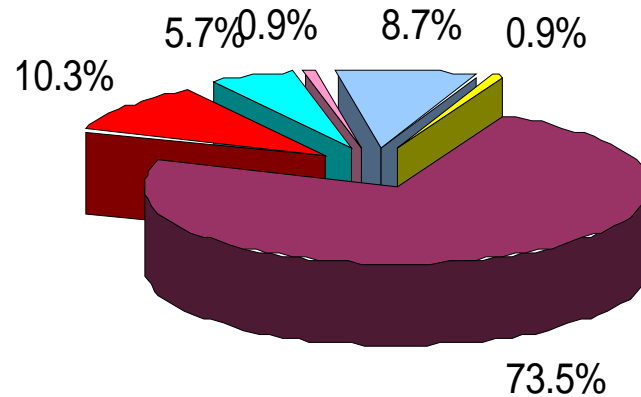
- Update on 2007 ICAs
- One Year On
- Parameter Consistency
- For Next Year
- RBC (Movements from last time, expect to be more volatile)

2007 ICAs

- Feedback From 2006 Feb – April
- Initial Submission 2007 ICA June 22nd
- Feedback on June submission July-Sept
- Final Submission Sept 21st
- Final Feedback Early Nov

2007 ICAs (draft submissions)

ICA Breakdown (After Assumed Diversification)



Figures reflect draft submissions which have not been agreed

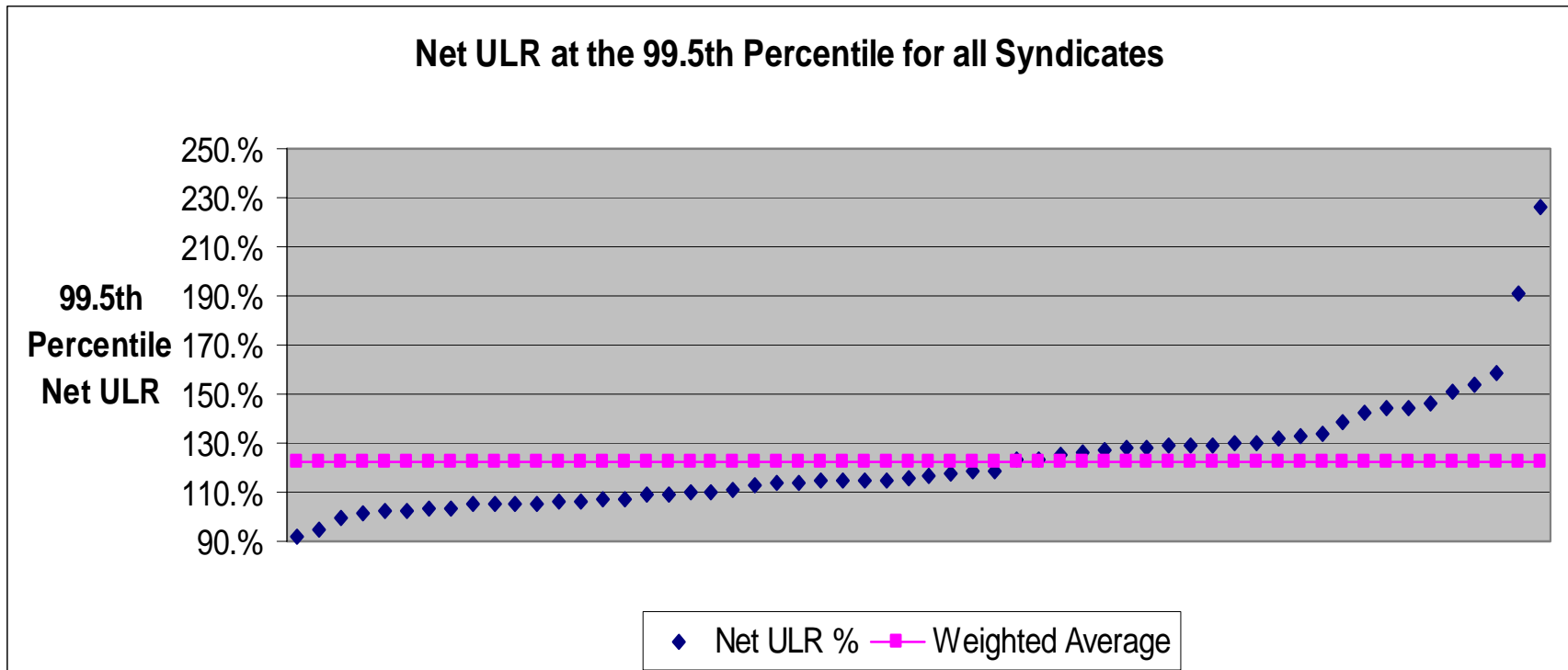
One Year On

- More experience. However, workload has remained the same.
- Better modelling approaches overall but still work in progress for some agents.
- Reserve Margins
 - Greener Years
 - Long tail classes
- Optimistic ULRs
 - Pushing back in cases where we perceive that the ULRs don't tie up with the rest of the market and historical information
- Stress test: Impact on ICA
 - Purpose is to show sensitivity to peak ULR and reserve deterioration
 -and robustness of models

Consistency of Parameters

Underwriting Risk

- Ultimate Loss Ratios for 2007. Some are very optimistic and we need to review them in more detail. Minimum underwriting standards should help.
- Large variation in the 99.5% ULR



Figures reflect draft submissions which have not been agreed

Consistency of Parameters

- Reserving Risk
 - Credit for prudent margins
 - Prudence in the tail
 - Economic Factors
 - Yield Curve
 - Inflation
 - Diversification
 - Correlation Matrix
 - Methodology
 - Volatility parameters
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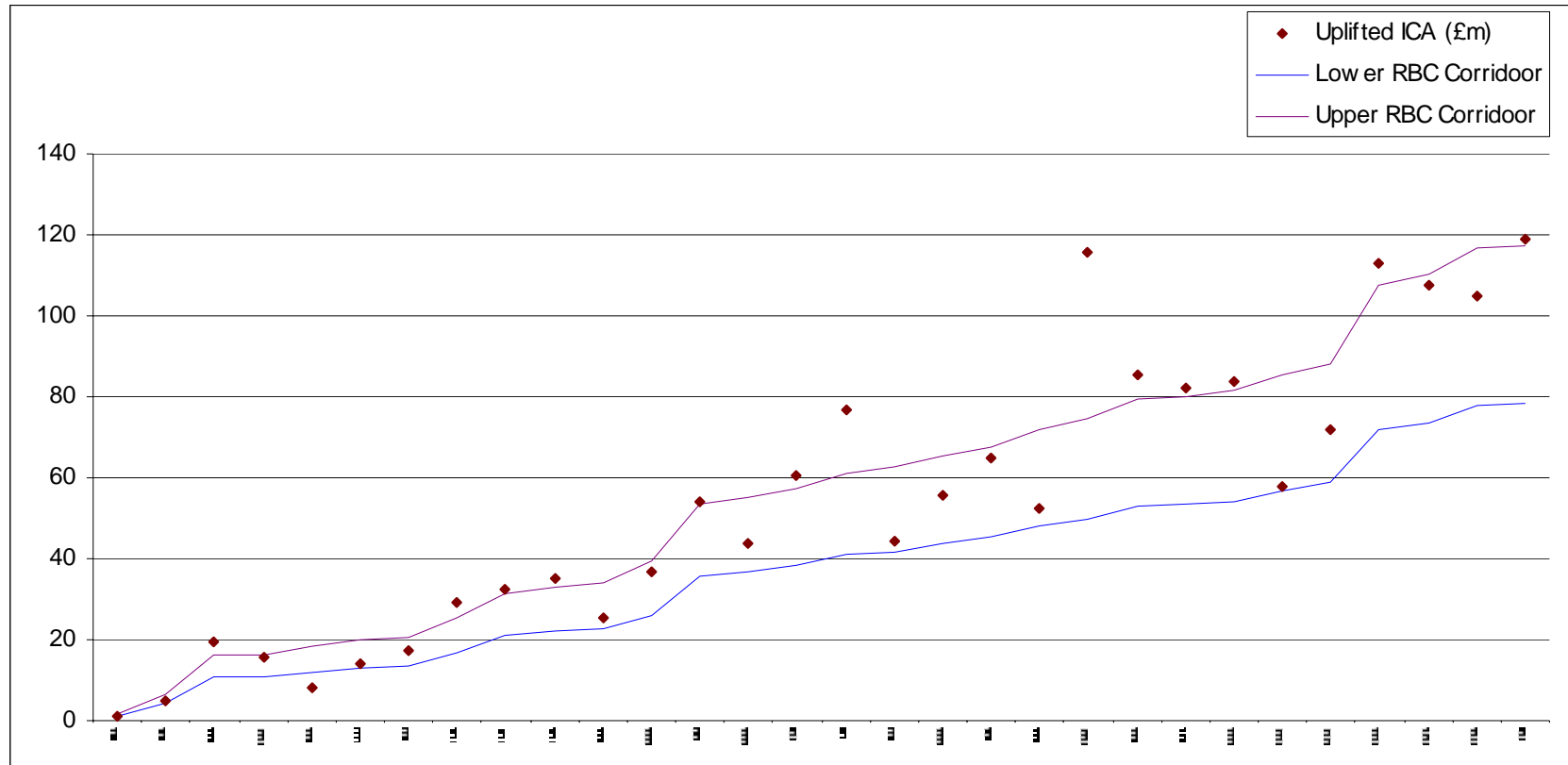
For next Year

- Consider the time horizon
- Allow for volatility in parameters when discounting claims
- No strict requirement to use a formal statistical model (unchanged)
- More guidance on stress test
- Softer market?

Economic Capital Assessment (“RBC”)

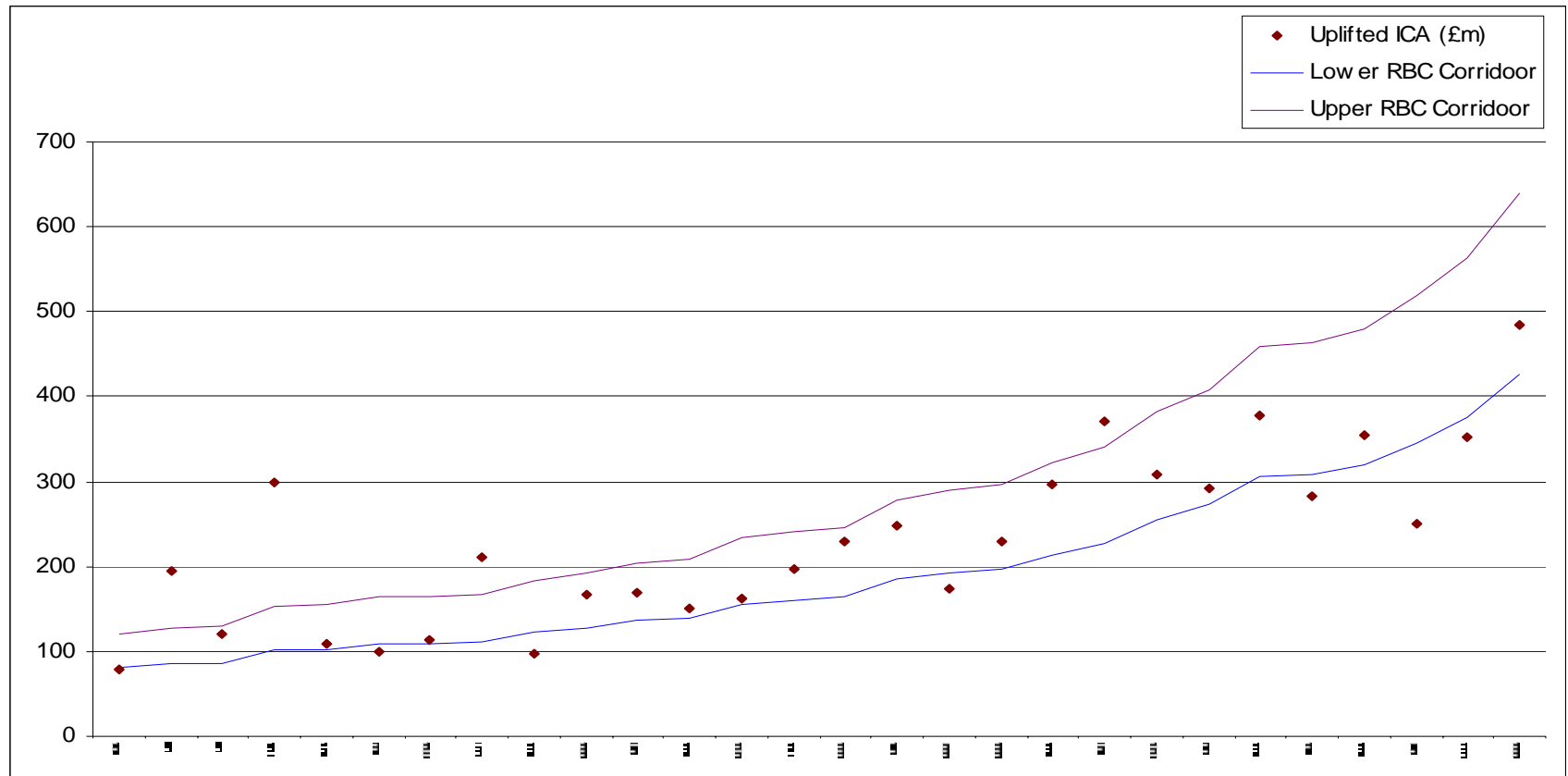
- Used as a benchmark, in particular for new syndicates
- 20% Corridor applied
- Smoothing factors removed. Expect more volatility in the results going forward
- New system to be developed over the next 18 months

Capital Corridor (RBC < £100m)



Figures reflect draft submissions which have not been agreed

Capital Corridor (RBC > £100m)



Figures reflect draft submissions which have not been agreed

Economic Capital Uplift

- Fixed 35% applied to 2007 ICAs
- Variable Uplift
 - Theoretical methods investigated to see if a variable uplift should be used – to reflect extreme losses beyond 99.5%
 - Results not conclusive and random sampling errors significant
 - Still looking for a solution

Summary

- Hard market
- Benchmark is volatile now
- Assumptions key
- Treatment of margins an issue

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Hurricanes

- 2004 Hurricanes – no new developments
- 2005 Hurricanes
 - Lloyd's continue to monitor
 - Have seen some incurred creep but generally a stabilised position
 - Uncertainty does remain and may request further MLR at year-end 2006
- 2006 Hurricanes – more than half way through hurricane season and no major events to report

SAOs

- Refined SAO review conducted by MRRU
- Results are fed back to signing actuaries
- Generally standard of reports “meets requirements”
- Some areas identified for improvement:
 - communicating uncertainty, explaining assumptions and actual versus expected
- Positive note: the good standard of business knowledge demonstrated in the reports

SAOs Going Forward

- Encouraging all signing actuaries to give details on:
 - approach to Large Loss Wording selections
 - peer review process
- Lloyd's are currently reviewing possible changes to the scope for Actuarial Opinion sign-off
- Changes are unlikely for year-end 2006 but...
- There is a possibility of removing the gross sign off on Lloyd's worldwide opinions

Relative Reserve Benchmarking

- MRRU have conducted a relative reserve benchmarking exercise over the summer
- Purpose of the exercise is to:
 - Give informative feedback to Managing Agents
 - Identify potential anomalies in reserves
 - Identify potential data issues
 - Assist Lloyd's in understanding agent's reserves
- Results fed back to agents via pack at end of August

Relative Reserve Benchmarking (cont.)

- Review based on SRD data for both gross and net of reinsurance
- Review uses many common measures and is split into 4 areas:
 - Quality of Business: Paid Loss Ratios, ULRs
 - Reserve Strength: Survival Ratios, IBNR Burns, Paid % of ultimate, IBNR % of Reserves etc
 - Reinsurance: N/G Premiums, Reserves and Ultimates, Reinsurance ULR.
 - Trends of each measure over time

Relative Reserve Benchmarking (cont.)

- For each agent construct a representative benchmark for comparison
- Benchmark syndicate based on market data excluding agent in question weighted by exposure by class by year of account
- Present results at an agent level but may split some syndicates out
- Have constructed a dummy agent for illustration – copy of full pack on website.

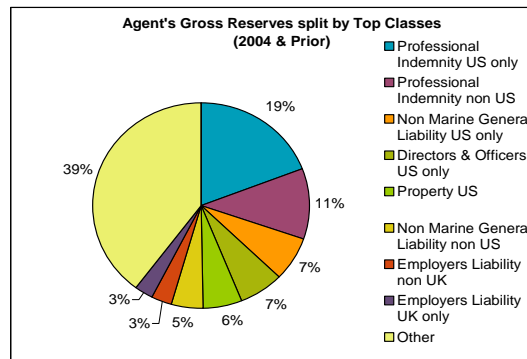
Reserve Benchmarking Pack Example



2 AGENT RESERVE BENCHMARKING SUMMARY STATISTICS (YEAR-END 2005)

Agent Managing agent: Dummy Agent	Syndicate Syndicates for analysis: All Syndicates
	Market Choice of exclusions in market data: All this Agent's syndicates

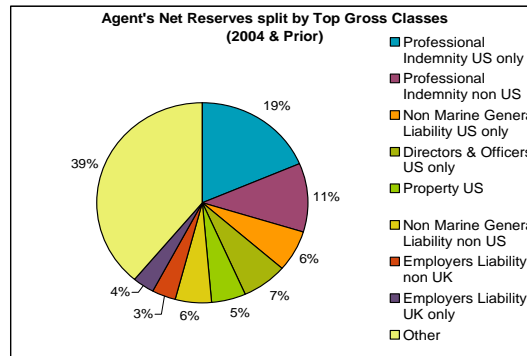
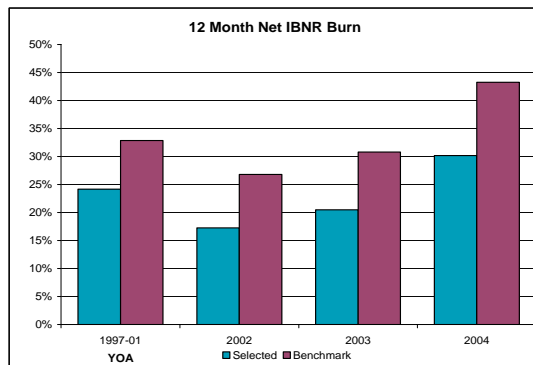
Key Performance Indicators (2004 & prior)	Selected Syndicates	Benchmark
Quality of business		
Gross Paid Loss Ratio	53%	69%
Gross ULR	89%	97%
Reserve Strength		
Net Paid to Ultimate	57%	71%
Net Incurred to Ultimate	74%	86%
Net Survival Ratio (Years)	4.8	3.7
Reinsurance		
Net to Gross Premium	75%	72%
Net to Gross Reserves	74%	67%
Ultimate RI to Ultimate Loss	30%	33%
Reinsurance ULR	108%	114%
Net IBNR Burn (1 year)***		
During 2005	25%	35%
During 2004	22%	34%
During 2003	39%	41%



Components of Agent's Net Ultimate Claims allowing for data adjustments (£m)

YOA	Paid	Outstanding	IBNR*	Ultimate
1993-96	561	20	22	603
1997	178	20	9	207
1998	223	27	17	268
1999	260	56	36	352
2000	281	102	62	446
2001	412	179	154	745
2002	256	100	112	469
2003	226	126	286	638
2004	252	173	486	910
Total	2,650	803	1,184	4,637

Note: IBNR* = IBNR + Unearned Premium Reserve (UPR) + Unexpired Risk Provision (URP) - Deferred Acquisition Costs (DAC)

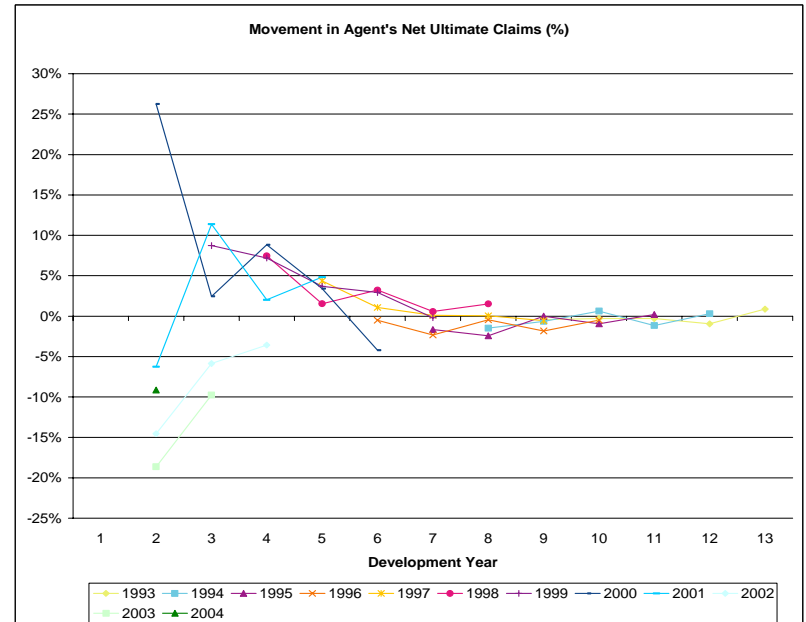
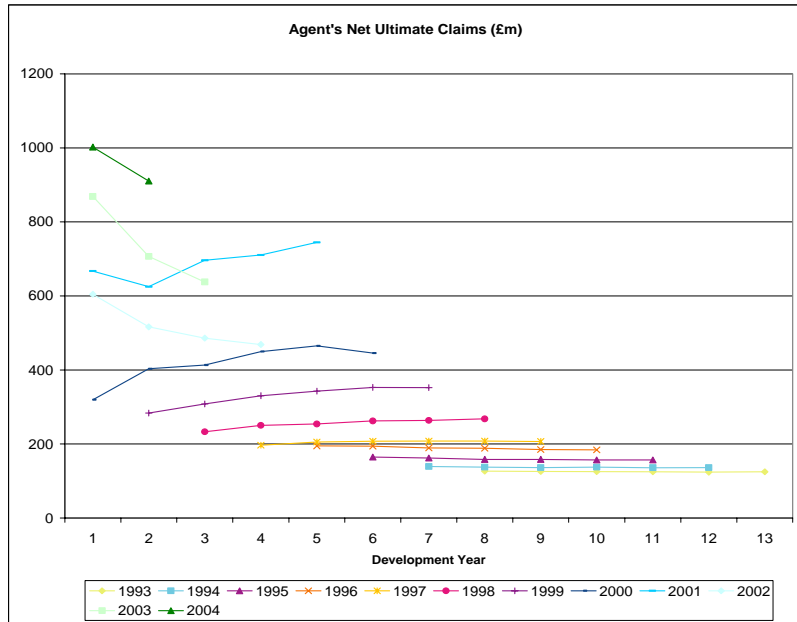


Agent's Top Ten Classes

Class	Net Reserves (£m)	Class %
1 Professional Indemnity US only	369.19	18.6%
2 Professional Indemnity non US	223.38	11.2%
3 Directors & Officers US only	141.22	7.1%
4 Non Marine General Liability US only	128.17	6.5%
5 Non Marine General Liability non US	112.35	5.7%
6 Property US	103.60	5.2%
7 Employers Liability UK only	70.15	3.5%
8 Employers Liability non UK	67.86	3.4%
9 Medical Malpractice US only	62.72	3.2%
10 Political Risk/ Contract Frustration	50.18	2.5%
Other	658.06	33.1%
Total	1,986.89	100.0%

Reserve Benchmarking Pack Example

LOSS DEVELOPMENT TABLES

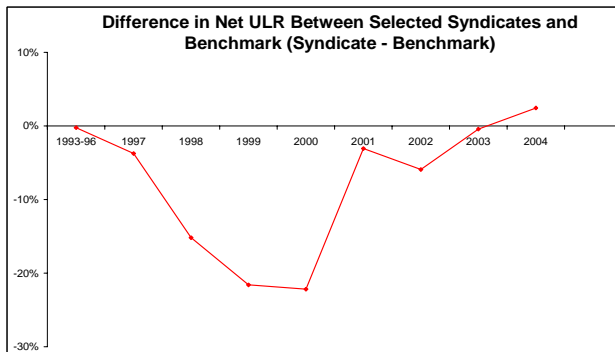
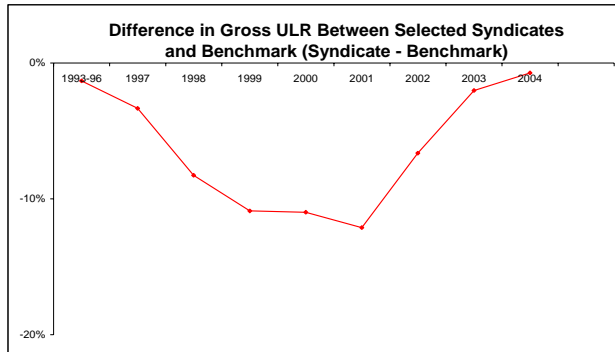


YOA	Agent's Net Ultimate Claims (£m)					
	'As at' Year					
	2000	2001	2002	2003	2004	2005
1993	127	126	126	125	124	125
1994	140	137	137	137	136	136
1995	165	162	158	158	157	157
1996	195	194	190	189	185	184
1997	197	205	208	208	208	207
1998	233	250	254	262	264	268
1999	284	308	331	343	353	352
2000	320	403	413	450	465	446
2001		667	625	696	710	745
2002			604	516	486	469
2003				869	707	638
2004					1,002	910

YOA	Movement in Agent's Net Ultimate Claims (%)					
	'As at' Year					
	2000	2001	2002	2003	2004	2005
1993	0%	0%	0%	0%	-1%	1%
1994	-1%	-1%	-1%	1%	-1%	0%
1995	-2%	-2%	0%	-1%	-1%	0%
1996	-1%	-2%	0%	-2%	0%	0%
1997	4%	1%	0%	0%	0%	-1%
1998	7%	2%	3%	1%	1%	2%
1999	9%	7%	4%	3%	3%	0%
2000	26%	2%	9%	3%	3%	-4%
2001		-6%	11%	2%	2%	5%
2002			-15%	-6%	-6%	-4%
2003				-19%	-10%	-10%
2004					-9%	-9%

Reserve Benchmarking Pack Example

ULR COMPARISONS



YOA	Gross Cumulative Written Premiums** (£m)	Gross ULR		Net ULR	
		Selected Syndicates	Benchmark	Selected Syndicates	Benchmark
1993-96	1,159	63%	65%	67%	67%
1997-01	2,524	137%	146%	118%	130%
2002	1,039	56%	62%	61%	67%
2003	1,304	56%	59%	61%	62%
2004	1,460	78%	79%	77%	74%

Note: Gross Cumulative Written Premiums are shown after data adjustments outlined in Section 6.

PORTFOLIO SUMMARY

YOA	Market Share by GCWP	Agent Portfolio Mix by High-Level Class of Business (Gross Cumulative Written Premium)									
		Property (D&F)	Property Treaty	Casualty	Casualty Treaty	Aviation	Marine	Energy	UK Motor	Overseas Motor	Accident & Health
1993	3.1%	22.7%	23.2%	26.6%	1.4%	2.9%	9.5%	2.3%	1.6%	4.6%	5.1%
1994	3.7%	29.1%	19.0%	24.4%	1.1%	3.2%	11.3%	2.4%	1.0%	4.3%	4.1%
1995	4.1%	32.2%	14.3%	25.3%	1.3%	3.4%	12.3%	2.5%	0.9%	4.0%	3.8%
1996	4.6%	29.2%	13.1%	25.9%	7.3%	2.1%	10.4%	1.9%	0.9%	4.4%	4.7%
1997	4.6%	28.1%	12.3%	30.0%	5.2%	1.7%	8.7%	3.1%	0.6%	4.7%	5.7%
1998	4.9%	26.2%	12.8%	32.9%	4.7%	1.2%	7.9%	1.8%	0.6%	4.8%	7.0%
1999	5.3%	24.5%	12.4%	33.4%	3.5%	1.6%	9.5%	1.3%	0.5%	5.6%	7.7%
2000	5.9%	29.7%	11.8%	34.4%	2.9%	1.6%	8.9%	1.7%	0.5%	5.8%	2.7%
2001	7.5%	26.2%	13.0%	29.2%	2.3%	10.2%	10.0%	1.8%	1.1%	3.5%	2.6%
2002	8.6%	24.5%	13.1%	34.8%	0.4%	9.5%	9.0%	3.5%	0.5%	2.5%	2.3%
2003	10.2%	20.4%	12.3%	43.0%	0.7%	6.1%	9.2%	4.4%	0.3%	1.7%	1.9%
2004	10.8%	18.7%	12.2%	42.9%	0.7%	7.1%	10.4%	5.0%	0.0%	0.9%	2.0%

Agent in Top 20 writers Agent in Top 10 writers Agent in Top 3 writers

Notes

- The base data has been adjusted to remove certain negative data items. This is described in Section 6.
- All results are based on SRD Data as at year end 2005. Exchange Rates used are GBP 1 = USD 1.72 = CAD 2.01. Market information includes both run-off and trading syndicates.
- IBNR* = IBNR + Unearned Premium Reserve (UPR) + Unexpired Risk Provision (URP) - Deferred Acquisition Costs (DAC)
- ** 'Cumulative Written Premiums' are ultimate premiums as at year end 2004, with added increments of cumulative written premiums during 2005.
- *** These are historical 12-month IBNR burns, based on incurred movements during the year and IBNR reserves at the start of the year.

Reserve Benchmarking Pack Example

3 HIGH LEVEL SUMMARY (YEARS OF ACCOUNT GROUPED)

As at: 2005
 Managing agent: Dummy Agent
 Syndicates: All Syndicates

High level line of business: All
 Class of business: All

Ultimate Loss Ratio

Ultimate Loss Ratio Gross

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	63.4%	137.2%	64.6%
Benchmark	64.7%	145.9%	66.8%
Deviation	-1.3%	-8.6%	-2.2%

Ultimate Loss Ratio Net

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	67.1%	117.6%	67.3%
Benchmark	67.3%	129.5%	67.8%
Deviation	-0.2%	-11.9%	-0.6%

Paid Loss Ratio

Paid Loss Ratio Gross

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	59.3%	96.7%	22.3%
Benchmark	61.3%	108.9%	27.0%
Deviation	-2.0%	-12.2%	-4.8%

Paid Loss Ratio Net

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	62.5%	79.0%	24.5%
Benchmark	63.8%	96.4%	28.1%
Deviation	-1.3%	-17.4%	-3.6%

Survival Ratio Net

Survival Ratio Net 1-yr

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	8.36	7.12	4.11
Benchmark	4.54	4.01	3.34
Deviation	3.81	3.11	0.77

Survival Ratio Net 3-yr

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	4.54	4.90	
Benchmark	3.87	3.23	
Deviation	0.67	1.67	

Paid as % of Ultimate

Paid as % of Ultimate Gross

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	93.6%	70.5%	34.5%
Benchmark	94.8%	74.7%	40.5%
Deviation	-1.2%	-4.2%	-6.0%

Paid as % of Ultimate Net

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	93.1%	67.1%	36.4%
Benchmark	94.7%	74.4%	41.4%
Deviation	-1.6%	-7.3%	-4.9%

IBNR Burn (1 year)

IBNR Burn (1 year) Gross

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	-11.5%	28.9%	29.3%
Benchmark	-5.9%	37.5%	42.1%
Deviation	-5.6%	-8.6%	-12.8%

IBNR Burn (1 year) Net

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	-10.9%	24.2%	25.7%
Benchmark	6.7%	32.9%	37.2%
Deviation	-17.6%	-8.7%	-11.4%

IBNR as % Total Reserve

IBNR as % Total Reserve Gross

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	47.5%	34.4%	66.2%
Benchmark	19.7%	29.3%	55.4%
Deviation	27.8%	5.2%	10.7%

IBNR as % Total Reserve Net

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	51.7%	42.1%	68.9%
Benchmark	21.9%	35.8%	57.6%
Deviation	29.8%	6.3%	11.3%

Ultimate RI Recoveries

Ultimate RI Recoveries to Gross Ultimate Claims

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	17.9%	41.8%	17.8%
Benchmark	21.2%	38.9%	26.3%
Deviation	-3.3%	2.8%	-8.5%

Ultimate RI Recoveries to Ultimate Premium Ceded

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	50.5%	178.8%	54.5%
Benchmark	56.4%	182.0%	64.0%
Deviation	-5.9%	-3.1%	-9.5%

Paid to Incurred claims

Paid to Incurred claims Gross

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	96.5%	78.4%	60.8%
Benchmark	95.8%	80.6%	60.4%
Deviation	0.8%	-2.2%	0.4%

Paid to Incurred claims Net

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	96.5%	77.9%	64.8%
Benchmark	95.8%	81.9%	62.5%
Deviation	0.7%	-4.0%	2.3%

Net to Gross (Ultimate Premiums)

YOA	1993 to 1996	1997 to 2001	2002 to 2004
Selected	77.5%	68.0%	78.9%
Benchmark	75.7%	68.8%	72.5%
Deviation	1.8%	-0.8%	6.3%

Next Steps – Reserve Benchmarking

- Analyse packs and report to Lloyd's Reserve Steering Group (RSG)
- Contact agents where RSG feel it necessary to further understand position
- Contact agents with data issues
- Collate our own feedback from agents on packs contents and use
- Review process for 2007

Reserving: Summary

- Analysing SAO reports in detail
 - Standard “meets requirements” but we would like average to be “Good”!
- Improved analysis of syndicate reserves including feedback to agents
 - Feedback to Lloyd’s encouraging so far
 - Link to ICA review (ICA reviewers using packs)
 - Expect further expansion of review
- These improvements at a time when reserves should be quite strong after hard market
 - Softer market will raise both reserving and capital issues

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Discussion

- ICA
- Reserve analysis
- Softer market
 - Volatility
 - Impact on reserving?
 - Impact on ICA?

