Claims Issues at Lloyd’s

Claims Agenda:

- Overview of Claims Environment
- Claims Minimum Standards
- Coverholders / TPAs
- Professional Indemnity Static Claims
- ECF

Current Claims Environment

- Across the market there continues a generally benign claims environment
- No shocks in most lines
- Good for results but can mean more pressure on already softening rates

Can too few claims become an issue
Current Claims Environment - Cont.

- **Catastrophes**
  - Little activity on the 2005 hurricanes during 2007
  - Too early to accurately assess the UK floods
  - Plenty of issues to consider such as demand surge and loss adjuster availability

- **Marine**
  - Some losses during 2007 (WD Fairway/MSC Napoli/Sea Diamond)
  - Little claims in other areas of division

- **Aviation**
  - Some smaller losses during 2007
  - No room for catastrophes

- **Property**
  - Is it worth keeping an eye on power machinery claims?

- **Casualty**
  - Apparent stabilization of back years
  - No major new claims
  - Linked to strength of the economy?
  - Possible concerns
    - US sub-prime lending?
    - Hedge fund collapses?

Claims Minimum Standards

- Lloyd’s Claims Minimum Standards were introduced in 2005 and 2006 by FPD Claims
- Introduced a “best practice” framework including:
  - Timely, efficient and accurate claims reserving;
  - Proactive management of third parties & experts;
  - Performance measurement
- Lloyd’s and the market has worked hard to implement
- Compliance could involve changes to processes which could impact patterns
Claim Minimum Standards – Cont.

- Areas of current and ongoing focus:
  - Ensuring all claims are reviewed at least once every 12 months
  - Performance management and delivery against claims business plans
  - Management of claims handled under delegated authority
- What are the implications of non-compliance?
  - Increased operational risk?
  - Increased reserving risk?
  - Claims drive pricing, wordings and reinsurance recoveries

Coverholders / Third Party Administrators

- Quality and timeliness of underwriting/claims handling by coverholders/TPAs could still be improved
- Large claim shocks have emerged from coverholders in the past
- Lloyd’s is developing an enhanced online application and data system to enable closer monitoring of coverholder management and performance
- Lloyd’s performance framework relating to management of third parties with claims handling authority is under review
- Working with LMA Delegated Underwriting Committee to improve standards

Professional Liability Static Claims – 1998-2002 YOA

- Market exercise to actively review all PL claims that had not been reviewed for 12 months
- Exercise to review 5,580 non-moving claims
- Currently 700 claims remain non-moving
- Of those claims reviewed over 70% should have been closed leading to redundant reserves of approx £40m
- Could be a market wide issue?
Professional Liabilities (1998-02):
Gross Incurred and Ultimate Development

Source: Lloyd’s PI Return and BSc 2006

Electronic Claim Filing (ECF)
- Electronic Claim Filing has been live since Sept 2006
- Improve efficiency in the market — speed & cost
- Improve end to end claim transparency — available 24/7
- Target of 100% all new in scope claims processed electronically by year-end 2007; 30% by end of Q2 and 60% end of Q3.
- Progress is good but still work to be done
  - At 20 July, 28.5% of all new in scope claim advices were transacted electronically.
  - New Notifications: 5,776 from live date

Electronic Claim Filing (ECF) – Cont.

Source: FPD Claims
Reserving at Lloyd’s

Reserving Agenda:

- Overview of Reserves
- SAO Uncertainty
- Stability in Casualty back years?
- Reserve Benchmarking

Overview of Gross Reserves – natural reduction in reserves following a quiet 2006

2005: £33.0 Billion
2006: £29.8 Billion

Source: SRD 2006 converted at year-end 2006 exchange rates

Overview of Reserves – analysis of movements by class

- As expected, Property classes saw the biggest decrease during 2006

Source: SRD 2006 converted at year-end 2006 exchange rates
SAO Large Loss Wordings – Reducing Uncertainty?

- The following table gives a breakdown of the large loss wording contained in the 2006 year-end SAOs
- Overall shows a downwards migration
- Increase in "Other" wordings 2 was seen due to Thompstone Ruling

<table>
<thead>
<tr>
<th>WTC Wording</th>
<th>2005 Hurricanes</th>
<th>2004 Hurricanes</th>
<th>PI/Enron</th>
<th>Other</th>
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<tbody>
<tr>
<td>28</td>
<td>34</td>
<td>5</td>
<td>6</td>
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<table>
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<tr>
<th>2006 Total</th>
<th>87</th>
<th>51</th>
<th>3</th>
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<tbody>
<tr>
<td>2005 Total</td>
<td>67</td>
<td>76</td>
<td>4</td>
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</table>

Stability in back years?

- The casualty class for years of account 1999-2001 has historically caused concern in the market
- Was this justified?
- Has it stabilised enough to gain more comfort?
- The incurred development shows some clear patterns:

Stability in back years – Casualty YOAs 1999-2001 development up to year 4

Source: IRRS 2006 converted at year-end 2006 exchange rates
Stability in back years – Casualty YOAs
1999-2001 development to date

Gross Incurred Development

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
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<td>8</td>
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Source: SRD 2006 converted at year-end 2006 exchange rates

Reserve Benchmarking

- MRC have produced and circulated the 2006 year-end relative reserve benchmarking packs
- Similarly to last year the four areas of focus are:
  - Reserve Strength
  - IBNR Utilisation
  - Reserving over Time
  - Quality of business
- Introduced an index based on proportional deviations from benchmark
- Information on index quartiles included in the packs

Reserve Benchmarking – sample for dummy agent

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Portfolio Benchmark Development</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Reserve Strength</td>
<td></td>
</tr>
<tr>
<td>1.1 Reserve as % Ultimate Claims</td>
<td>31.6%</td>
</tr>
<tr>
<td>1.2 IBNR as % Ultimate Claims</td>
<td>12.2%</td>
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<tr>
<td>1.3 Case Reserve as % of Incurred</td>
<td>22.1%</td>
</tr>
<tr>
<td>1.4 Survival Ratio (years)</td>
<td>2.3</td>
</tr>
<tr>
<td>2. IBNR Utilisation</td>
<td></td>
</tr>
<tr>
<td>2.1 IBNR Burn (1 year) During 2006</td>
<td>50.3%</td>
</tr>
<tr>
<td>2.2 IBNR Burn (1 year) During 2005</td>
<td>47.4%</td>
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<tr>
<td>3. Reserving over time</td>
<td></td>
</tr>
<tr>
<td>3.1 Ultimate(@now) as % Ultimate(@YOA)</td>
<td>97.3%</td>
</tr>
<tr>
<td>3.2 Ultimate(@now) as % Ultimate(@YOA+2)</td>
<td>93.2%</td>
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<tr>
<td>4. Quality of business</td>
<td></td>
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<tr>
<td>4.1 Paid Loss Ratio</td>
<td>62.9%</td>
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<td>Other KPIs</td>
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<tr>
<td>5. Reinsurance</td>
<td>N/A</td>
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<tr>
<td>5.1 % Premium Ceded</td>
<td>32.8%</td>
</tr>
<tr>
<td>5.2 RI ULR</td>
<td>97.3%</td>
</tr>
<tr>
<td>5.3 RI Ultimate as % of Gross Ultimate Claims</td>
<td>34.7%</td>
</tr>
<tr>
<td>5.4 RI Reserve as % Gross Reserve</td>
<td>28.1%</td>
</tr>
<tr>
<td>6. Ultimate Loss Ratio</td>
<td>N/A</td>
</tr>
<tr>
<td>6.1 ULR</td>
<td>91.9%</td>
</tr>
</tbody>
</table>

Source: MRC Dummy Agent Pack
Summary

- Benign claims experience
  - but softer market
- Claims Process Reforms
- Reduction in reserves
- Stability in back years
- Looking at value added activities such as reserve benchmarking

Questions

- Questions?