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From the Editor

Inside This Issue

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First the good news...

On the results and cash flow side things are looking good for Lloyd's capital providers. The first confirmed results now coming through for the 2005 account are at the better end of the forecast ranges given previously. Many Members will make a small profit on the 2005 account, which is remarkable given that Hurricane Katrina was the largest insurance loss ever by a long way. Cash flow will for most investors be improved by having paid early cash calls on the 2005 account, even if the overall result is a small loss. Further releases from the extremely good 2006 account are likely. As 2007 is shaping up to be another good year, there may be some small early releases. Run-off years of account are at last closing, many with a repayment of funds, and as we explain in the article in this edition, prospects for further closures over the next couple of years are good. All of which is pleasing to investors.

...now the not so good

We need to be aware of the challenges facing the market. As our sector review shows, rates continue to soften by varying degrees across all lines of business. Favourable claims experience since 2005 is causing premium rates to fall, commissions are rising and there is pressure on coverage terms. The threat of increased hurricane activity remains. Lloyd's remains susceptible to natural catastrophe perils, in particular when they occur in unexpected places or are of unusual severity. Although business plans are predicated on the basis of 'normal' claims activity, there is a tendency towards over optimism as regards rates and premium volumes. Thus profit margins can be eroded very quickly in a declining market.

The Franchise Performance Directorate (FPD)

It can be affirmed however, that the Franchise Performance Directorate is acutely aware of the state of the market. The process whereby the FPD challenges the assumptions in business plans, and monitors performance against the plan, is firmly embedded and Managing Agents expect this.

The FPD believes, as do we, that most classes of business still offer good prospects for profit, but it is reassuring to see that the FPD is focused very definitely on 'active cycle management' and warns of the dangers of complacency.

...and subprime?

As we explain in our update, there is little sign as yet of claims reaching Lloyd's and there is limited impact on investments. Our view remains that, in so far as Lloyd's is concerned, the problem is manageable. However, the uncertainty continues. The shock announcement by American International Group (AIG), the largest insurer in the world, that it is writing off billions of dollars from its investment book is causing some to ask whether this is the 'canary in the coal mine' for insurers, banks and financial institutions. We also consider the wider implications of the credit crunch, in particular the effects of an economic downturn on the insurance sector.

New in this Issue

For our newer clients, and perhaps as a reminder for the more long standing, in our sector review we have included a brief description of the classes of business, as well as comment on current conditions.

In addition we have introduced a new column **'Spotlight on….'.** The intention is to focus on a particular class of business, in this case terrorism, and we are grateful to Ben Garston, a lead underwriter specialising in political risks, war and terrorism at MAP Syndicate 2791, for his contribution. We plan to make this a regular feature.

Throgmorton

Our regular review of the quoted sector highlights recent developments. Of particular interest is the acquisition of any Managing Agency by another party. What is their attitude to third party capital? How will the underwriters respond to their new owners? These are pertinent questions with Kiln, representing 16% of Argenta capacity, which is being acquired by Tokio Marine & Nichido Fire, and Omega, whose Syndicate 958 represents 7% of Argenta's capacity, which is in discussions with a number of parties who have expressed an interest in acquiring the business. Encouragingly the Kiln offer document states that it "...views the Names on each of Kiln's syndicates as an important source of capital and intends to continue with these arrangements".

…and finally

We hope that you enjoy this edition of Market News.

Our next edition will be in May, when we will be looking at the year-end results in more detail and reporting on the first quarter of 2008.

We welcome any comments you may have on Market News - what you like and don't like, what you would like to see more of, or less of. Let us know!

Jeremy Bray - Editor

Market Overview

The effect of a recession on insurance

Slowing economies

Alan Greenspan, former chairman of the US Federal reserve, recently placed the odds on the US entering a recession as close to 50%. The final quarter of 2007 saw US growth fall to an annualised rate of just 0.6%, bringing the full year figure to 2.2%, the lowest rate of growth since 2002.

Beneficial effect in some classes

While recession conditions can be bad for some lines of insurance, this is not universally the case. In particular, it increases exposure to moral hazard, or fraudulent claims. Certain classes of casualty business may become more exposed to claims if the economy enters recession, while some classes may actually benefit. For example, power generation plants, which can be under severe stress at times of high output can benefit from downtime, when demand is lower. While frequency of employees seeking to defraud their employers varies little with economic conditions, more rigorous controls in straitened times increase rates of detection.

In the marine sphere, ships have been working close to capacity and it is only when a lack of orders allows them to return to dry dock that some faults requiring repair become evident. Where premium depends on economic activity (e.g. Professional Indemnity, based on fees received, or airline insurance, based on passenger numbers carried), there will a lower premium base.

Reduced investment returns make insurers focus on underwriting profit

Recessions are of course particularly bad for the investment markets. Interest rates are lower; in the USA the Fed has slashed interest rates from 4.25% to 3.00%, although the Bank of England's Monetary Policy Committee has been more cautious, reducing rates in two quarter point steps to 5.25%. Investment returns are also typically lower, with falls in most stock exchange indices (FTSE 100 down by 9% so far this year, Dow Jones down by 6.5%), further reducing the incentive to underwrite for investment income and potentially removing the surpluses that permit insurance companies to expand their operations.

Cycle Alive and Well

"Insurance continues to be a business where demand remains fairly constant"

During the prolonged downcycle of the late nineties, some raised the prospect of the end to cyclicality of the insurance market. The same hopes were raised during the bull market of 2002 to 2006. Insurance continues to be a business where demand remains fairly constant (very few people buy more insurance simply because it is cheap), while supply fluctuates according to the appetite of capital providers, who tend to be following the herd. Good results attract new capital providers as well as providing retained profit, which in turn is sent in search of underwriting returns. It is difficult to ever envisage a set of circumstances that will change this established order.

2007 Loss Activity

Natural catastrophe losses could have been a lot worse

Despite perceptions of low loss activity, catastrophe activity cost the global economy $75billion in 2007; an increase of 50% on the $50 billion cost incurred in 2006, although still significantly below the worst year on record, 2005, which incurred economic losses of $220 billion. Munich Re recorded 950 separate catastrophic events. The insurance industry bore a total loss cost of $30billion, twice the unusually low cost of 2006.

The threat of increased hurricane activity remains

As is so often the case, the most damaging losses in human terms were not amongst the most significant for the insurance industry. Storms, floods and landslides in various parts of Asia claimed more than 11,000 lives. 3,330 alone were attributable to Cyclone Sidr, which struck Bangladesh in November 2007. The costliest event for insurers was Winter Storm Kyrill, which sustained wind speeds of over 60mph and gusts of up to 120mph, causing damage as widespread as Ireland, the UK, France, Holland, Germany, Austria, Czech Republic and Poland. Economic losses were $10 billion, and insurers paid out almost $6 billion. Exceeding this cost to insurers was the combined cost of two separate instances of flooding in the UK, in June 2007 in Northern England and in July in Western England. Both events cost insurers more than $3 billion.

Strength in Reserve

Robust reserving should provide a cushion going forward

The first confirmed results for the 2005 years of account have begun to arrive by the time of this publication. To date, results reported have been at least as good as mid-point, and in many cases better. We have also seen a few reports from run-off managers (activity in this sector is covered elsewhere in this Newsletter). From both sources we are seeing that reserves established at 31 December 2006 are robust and in some cases show redundancies. Based on third quarter 2007 statistics, the average release from 2004 and prior was projected to be 3% of 2005 capacity across our Members' portfolios. Standard & Poor's noted this positive trend in its December rating of the Lloyd's market and said that it expects this to continue. At Argenta, our clients' capacity is focused on the strongest of the Lloyd's franchises, with the best reserving practices. The benign nature of the 2002 to 2007 years gives us every reason to believe that these franchises will be able to reserve robustly and secure continuing material releases, despite declining pure year profitability as the market deteriorates.

Sector Reviews

It is important to note the contrast between brokers' commentaries on the state of the market and those of insurers. Brokers tend to exaggerate both upward and downward movements in the market, while underwriters' reports often seem to under-estimate them. This is not simply brokers'

The broker's view vs. the insurers' view

hyperbole, nor underwriters deluding themselves, but because underwriters tend only to look at business that they renew. There is a substantial churn of business that does not renew with the insurer, particularly when the market is either rapidly softening or hardening. Brokers' figures thus include business where the insurer declines renewal (or where a new insurer undercuts the incumbent), while underwriters' calculations exclude these risks.

Companies report average premium rate movements for renewal business. The non-renewed may be written elsewhere at much lower rates

The Munich Re Group, which renews two-thirds of its €13billion book of reinsurance treaties at 1 January, reported that, while 14% of the renewal book was non-renewed for one reason or another, "*the average price erosion in renewed business [was restricted] to a very satisfactory 2.8*%". Chaucer has reported a similarly small average reduction of 3.3% across its renewed non-Motor lines. Its forecast for rate reductions for the full year has been increased from 6.6% to 7.9% in what it described as *"positive but challenging market conditions"*.

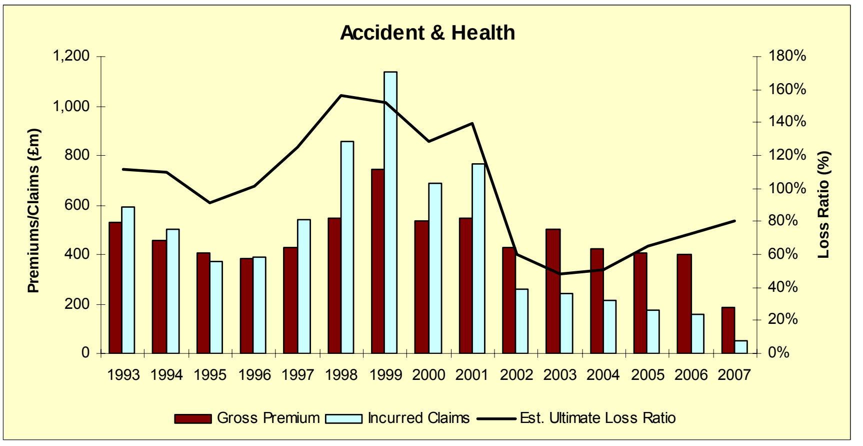
The charts shown below provided for each broad category of business are for illustrative purposes only, with the underlying data having been sourced from the Lloyd's Market Association. The bars show premium received and claims incurred for each category of business, for each year of account and are stated as at 31 December 2007. They are shown before the cost of reinsurance purchase and before any reinsurance recoveries ("Gross" in insurance parlance). Both premium and claims continue to develop for a number of years and therefore the more recent years risk misleading as both premium and claims data is far from fully developed. In order that these charts can be better used to make inter-year comparisons, we have used a fairly rudimentary forecasting technique to extrapolate estimates of the ultimate claims ratio (the solid line on the charts) for each category of business and year of account.

Description of the various classes of business now included

In addition to our usual round-up of the more recent developments in each of the major categories of business, we have included a chart of the past performance of the categories of business and a description of the various insurance and reinsurance products offered by syndicates within each category. These are meant to be illustrative rather than exhaustive, and many Lloyd's syndicates have some specialist accounts that do not fit readily into any particular category, with the exception of property; the reinsurance of which is itemised separately as Property Treaty. The following classes include both original business and reinsurance of original accounts.

Accident & Health

This category includes travel, accident and medical expenses policies and is largely written through schemes and binding authorities. Specialist insurances for sports stars and entertainers are also written. Policies are typically on a defined benefit basis. They are thus not contracts of indemnity, but pay a set amount for a given injury. Kidnap and ransom is *also included under this heading, although life term business is written separately by the Life syndicates.*



Rates good but starting to drift

Rates have been strong since 2002, with only minor worsening of terms for underwriters coming from brokers seeking to increase commissions and cedants wishing to introduce profit commissions. The good results have prompted a degree of underwriter movement around the market, which is likely to result in increasing competition and also in the signing down of some business (i.e. where brokers place more than 100% of a risk, there can be a large difference between the underwriter's "written" line and his final share of the policy, the "signed" line).

Medical expenses is another class which, following a period of high profitability, is seeing increasing competition. Medical inflation tends to run far ahead of inflation in the wider economy and, without constant re-appraisal of rating levels and deductible levels this class can swiftly become unprofitable.

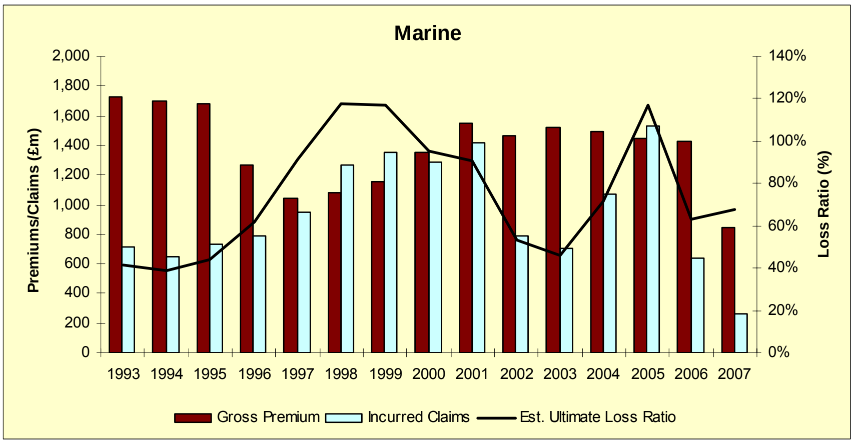
Marine

Marine business is broadly divided into three main classes: Hull, Cargo and Marine Liabilities. Hull policies cover damage to vessels ranging from tankers to yachts and fishing boats and also include shipbuilding and marine property, such as bridges, jetties, tunnels and dams. Other specialist classes within the Hull category include loss of hire and total loss only. Marine War risks cover acts of war or sabotage either to aircraft or shipping. Acts of war between the permanent members of the UN Security Council (USA, UK, Russia, China and France) are not generally insurable.

Cargo includes the insurance of goods of any sort being transported by sea, land or air and is often extended to include the storage of these goods. Specie is the insurance of gold, bullion, currency, diamonds and valuable papers against fire, theft and robbery. These are typically held in vaults or safes. Fine Arts may include private collections and museums, which may include exhibitions and transit. Policies for Marine legal

Choppy seas…..Marine Hull faces greater challenges than Cargo or Marine Liability

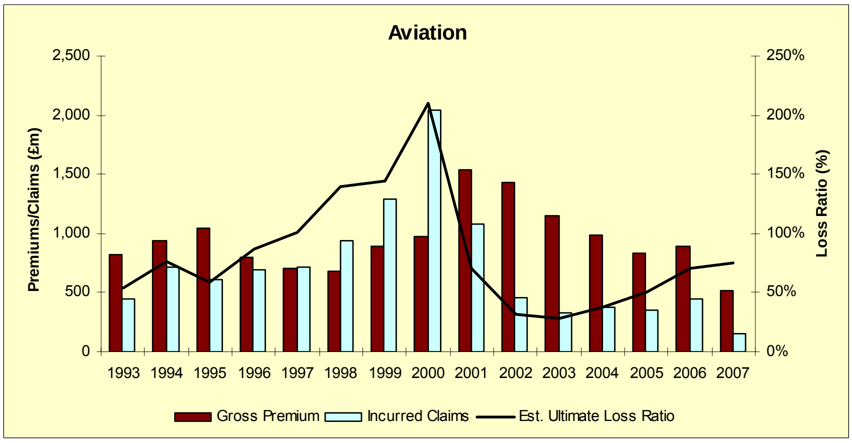
liabilities protect ship-owners and operators against liabilities to third parties arising out of their activities. This class also includes the liabilities of more specialist groups in maritime industries such as ship repairers and stevedores. Pollution liabilities arising from tanker spills are also written in the Marine market. Much of the Marine Liability account arises out of the reinsurance of the International Group of Protection & Indemnity Clubs – not for profit pools which issue primary policies for most types of marine liability.



The Marine Hull market endured a poor 2007 loss year with claims exceeding $1.5 billion, four times the loss incurred in 2006. Despite this, rate reductions continue, with many buyers able to secure terms between 5% and 10% better at renewal. The absence of War losses means that the overall marine book has continued to be profitable. For all types of marine claim, average claims costs have been increasing, a result of the ever larger vessels at sea and also the increase in the cost of raw materials and the scarcity of repair facilities when order books for new vessels are so full. On the Liability side, the P&I clubs have been forced to increase rates paid by their members. Some of the lower reinsurance layers of the International Group have also been impacted. Cargo, while not as volatile as Hull business has also seen average reduction is the 5% to 10% range. London's pre-eminence in the sector is coming under increasing pressure from new hubs seeking to expand their share of local business, in particular in the USA, Middle and Far East.

Aviation

Aviation policies give cover for replacement or repair to damage to aircraft hulls, spares and engines caused by impact, fire or natural perils. Aircraft range from wide-bodied airliners to light aircraft and helicopters. Liability sections include liability to passengers, crew, third parties (including other aircraft) and cargo. Other liability policies include products, aviation premises, hangars, airports and refuellers. Insurances of satellite launch and in-orbit cover also fall into the aviation category.



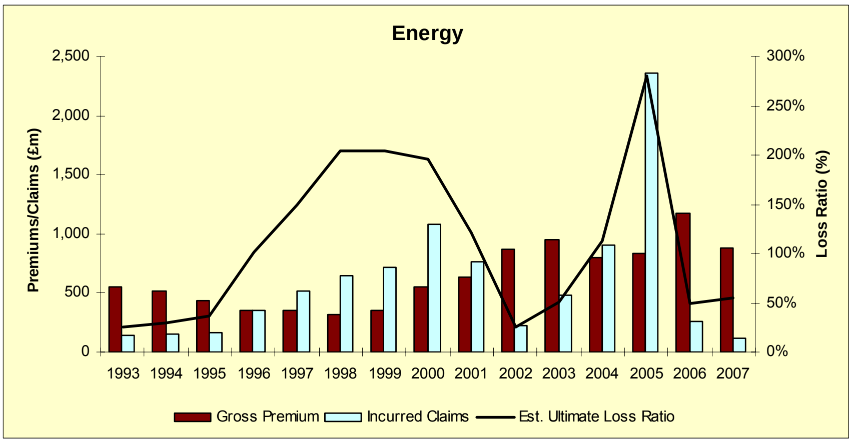
Airline rates continue to fall. Too early to tell if this trend will continue in 2008

It is probable that the global airline insurance market will make an overall loss for 2007, with claims of approximately US$1.7bn ahead of hull and liability premiums of $1.5bn. The major airlines renewing in the final quarter of 2007 (when most airlines renew) reported reductions of up to 20% despite increasing fleet values and anticipated passenger numbers. Aviation reinsurance is more disciplined than the direct market, and rate reductions of 5% to 10% have been the norm.

Under-priced airline business has increased pressure on the hitherto stable aviation products, liability and general aviation classes. While rates for these have generally reduced by up to 10%, there have been some reports of aggressive competition, under-cutting incumbent insurer's rates by a much larger margin.

Energy

The category includes most aspects of oil and gas exploration and production, including physical damage to structures such as oil rigs, pipelines and equipment, and any ensuing loss of operating profit, as well as liabilities arising out of the operation of energy facilities. An important element is the cost of securing and capping well blow outs and making them safe.

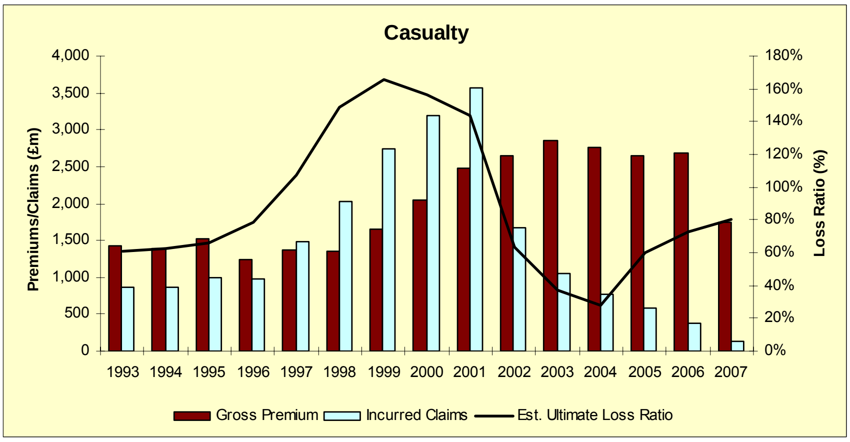


Conditions still good in spite of competitive pressures

The remarkable but necessary re-rating of business following the 2004 and 2005 hurricane seasons has prompted new competitors to enter the market, while the 2006 and 2007 hurricane seasons have been benign. Subsequently, rates have been falling at between 10% and 15%. Some of the sub-limits imposed for Gulf of Mexico exposed risks have begun to increase. There have also been attempts by some buyers to secure longer term deals. High commodity prices have caused upward revaluations of the replacement cost of much offshore equipment, which will increase premiums even at a time of falling rates, albeit that exposure is higher.

Casualty

Casualty is the US term for liability risks. This is perhaps the broadest of all categories and many syndicates specialise in only a handful of the various types of cover. Sub-divisions include insurance of financial institutions against theft, infidelity, fraud, computer crime and similar risks. General Non-marine Liability provides against claims by customers or other third parties for damages potentially including environmental pollution and industrial diseases; Employers' Liability provides cover for similar risks to employees; Professional Indemnity Insurance gives cover against Errors and Omissions (E&O) on the part of professional firms including lawyers, architects, accountants and others that may result in damages incurred by a client. Medical Malpractice is an important sub-sector. Directors' and Officers' (D&O) protects against suit from shareholders for malfeasance by company officers. Syndicates also specialise by territory, with a large number of syndicates avoiding exposure to the US legal environment.

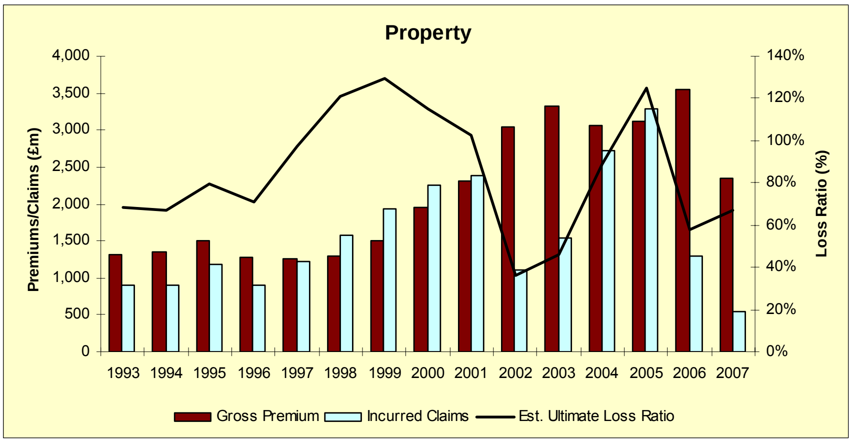


The US is holding up better than the UK and International sectors

The market for Casualty business has been softening for at least four years and profitability now relies on the absence of many major claims. In the US, rates continue to fall by up to up to 5% to 10% for most classes of E&O and D&O. Classes where there is potential exposure to the subprime lending crisis are not seeing reductions. Outside the US, rates have fallen further and many classes are now marginal. Cumulative rate reductions since 2003 are more than 50% in some classes, and the UK in particular has experienced a rediscovering of risk appetite on behalf of the composite insurers. Although rates have fallen, policy coverage terms are not generally being amended. Australia and Ireland have both been through a period of tort reform, with a consequent reduction in claims frequency and costs, although the degree to which these changes justify the reduction in premiums is hard to gauge.

Property

This covers insurances against fire and allied perils such as windstorm, earthquake and flood for buildings and their contents. It includes both homeowners and commercial policies; the latter may often be extended to include loss of profits for businesses which are out of action following physical damage to buildings or machinery (Business Interruption).



While it seems that prices have fallen rapidly for some classes – up to 20% is quoted by some – terms and conditions have generally held firm, deductibles in particular. An area of some concern is the re-emergence of the multi year policy, with reports of some programmes being placed for up to 36 months (although it seems that 24 months is more common). Typically these programmes offer few benefits to underwriters, as the client seeks a cancellation and rewrite if the market softens, but will maintain the policy in force if the market moves in underwriters' favour.

Softening markets but US catastrophe rates remain high by historical standards

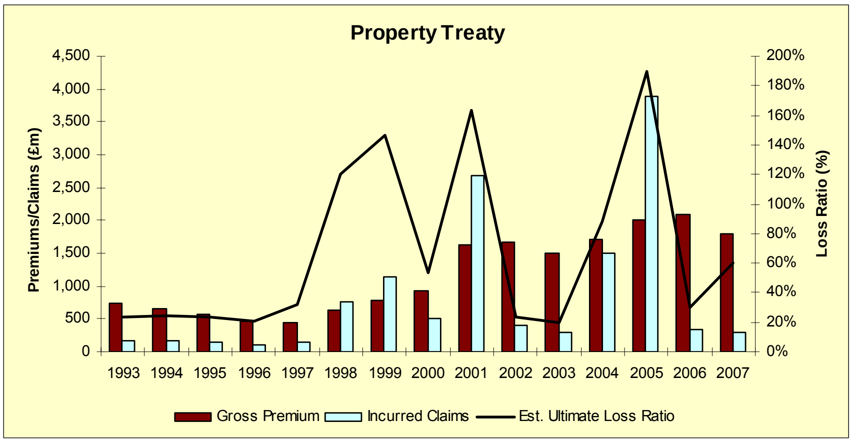
While US catastrophe exposed business has weakened, rates still remain very high by historical levels. There has been some reduction is the level of windstorm deductibles, with 3% of values becoming more the norm for second tier (i.e. not directly coastal) rather than 5%. The pricing cycle for non catastrophe related business is rather more advanced. Overseas markets, Bermuda in particular, are hungry for large premium volume accounts, and while brokers try to maintain a balance across their various markets (typically US, Bermuda and London/Europe), cheap quotes from the other two markets have resulted in lower orders for Lloyd's and reduced signings on renewal orders.

Much of Lloyd's smaller premium business from the US is written via the Excess and Surplus Lines (E&S) market. As the standard market rediscovers its appetite for risk, risks previously shown to the E&S market begin to drift back to standard carriers. Often this business is written under binding authorities and lineslips. We anticipate syndicates reporting lower income from these facilities in 2008.

International business is the most competitive of the sector and in some areas rates have fallen back to pre-9/11 levels. Happily, Lloyd's syndicates are being seen to let business go rather than underwriting it at unsustainable levels.

Property Treaty

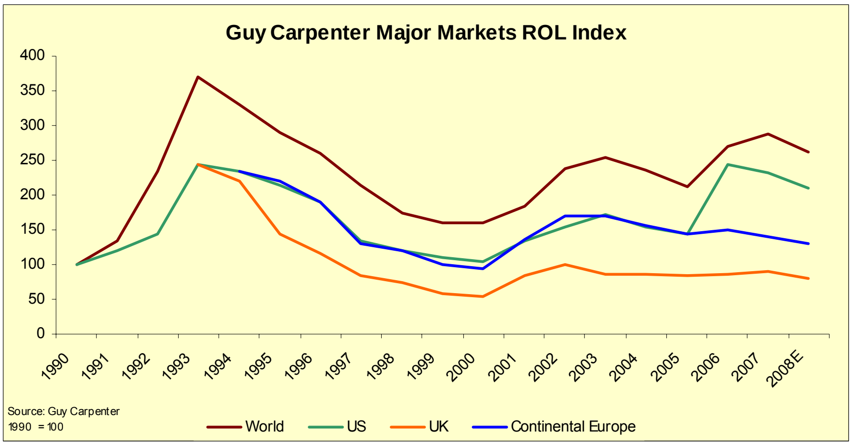
The class protects insurance companies and other Lloyd's syndicates against losses arising out of property damage. Protection may be on an event basis, against an aggregation of claims arising out of a single catastrophe (examples include windstorms, earthquakes and floods) or, on a per risk basis, protecting against an unexpectedly large loss to a single risk (from, say, a large fire).



Rates continue to be under pressure across the reinsurance market, with reductions of up to 20%. Reinsurance broker Guy Carpenter produced the following analysis of historical rate movements in the international reinsurance markets.

Rates declining but more gradually than in the past and primary insurers are retaining more risk

Rate on Line (ROL) is a crude, but effective measure of rating levels; a reinsurance contract paying a premium of £100,000 for £1million of indemnity per event is said to have an ROL of 10%. Where cedants retain more risk for their own account they can reasonably expect to pay a lower rate on line. There are two main observations, aside from the fall in rating levels for 2008: firstly there is a slower decline in ratings post 2005 (Hurricanes Katrina, Rita and Wilma) compared to post 1993 (Hurricane Andrew) and, secondly that increased risk retention by primary insurers and an absolute reduction in the number of direct insurers (through mergers and failures) should, over the long term, reduce average ROLs.



Guy Carpenter summarised as follows the rating movements at 1 January 2008 in major property treaty reinsurance:

USA National	↓10%
USA Regional	↓12%
Continental Europe	↓7%
United Kingdom	↓7.5%
World	↓9%

While rates fell in almost all areas, the reductions were larger for lower attachment points. Some programmes in Europe experienced losses from Windstorm Kyrill. These programmes in general saw lesser reductions, whilst the most severely affected saw price increases of up to 15%. Few reinsurance placements were impacted by the two UK flooding events of 2007.

Windstorm Kyrill caused some price increases. UK floods had no effect on UK reinsurance prices

Rapid economic growth in Asia and the Pacific make changes in rates difficult to gauge, as exposures are rising rapidly. Guy Carpenter commented that competition in the region is fierce and that like for like rate decreases were in the range of 10% to 15%, although some treaty prices fell by as much as 20%. Business from Japan, which is, by a significant margin, the largest market in the region, renews almost entirely on 1 April.

Pricing levels for Risk Excess business are often determined by loss experience which, unlike Catastrophe, does vary from client to client. Loss-free cedants were able to secure renewal terms similarly improved over their expiring catastrophe programmes.

UK Motor

UK Motor includes insurance as required by law for cars used for private and business purposes, including liabilities to third parties. Many owners include cover for damage to their own vehicles. The class also includes commercial vehicles (from small vans to major road haulage), public transport and coaches, as well as smaller sub-classes such as taxis and motorcycles.

The UK Motor market is showing signs of coming off the bottom, but it may be a slow process

The Lloyd's market has outperformed the wider UK motor market by a substantial margin over a number of years, with the company market becoming increasingly reliant on releases from reserves in order to remain profitable. Rates are being increased across the market, but it remains a fiercely competitive marketplace with the so-called aggregator websites (e.g. confused.com and comparethemarket.com) directing buyers to the lowest possible provider with little meaningful comparison of policy terms (hence the call for the Financial Services Authority to regulate this sector). Lloyd's syndicates have in general avoided the most competitive sectors by writing a greater proportion of commercial lines business, where careful risk selection can bear better dividends. Rates here have also slowly begun to increase.

View from Throgmorton Street

Our regular review of Stock Exchange listed Lloyd's vehicles. This is for general information and must not be construed as being any form of investment advice.

Volatile markets

Continuing volatility in the financial markets has impacted the shares of the group of Integrated Lloyd's Vehicles (ILVs) we have been watching for the past year. This is despite Kiln, after Atrium, becoming the second member of the original group to accept a bid from an overseas insurance group and a third, Heritage, being approached, but failing to agree terms. Separate analysis of Kiln and Heritage follows.

In a report dated 3 January 2008, Chris Hitchins of Keefe, Bruyette & Woods argued that there was an 11% upside to his universe of Lloyd's shares (he follows the same group as do we, but we include Hardy, Heritage, Omega and Novae) based on fair values and conservative assumption. He also drew attention to the view (shared by Argenta Insurance Research) that "*the international P&C industry could well find acquiring a Lloyd's business as an attractive opportunity to secure the growth and access to diversified risks it clearly wants.*" The concerns over the rating environment, as well as the relative weakness of the US dollar (in which Lloyd's earns 50% of its premium) and fears that subprime exposure may materialise, all seem to be behind the uncertainty in share values. The group has outperformed both the FTSE 100 and FTSE 250 since our last Newsletter, but lags behind both over the past thirteen months.

AIG announcement sends shock-waves through markets

All insurance shares were adversely impacted on 12 February by AIG's raised estimate of loss from insuring mortgage related instruments, up from the $1bn announced in December to $5bn. This is despite very few other insurers having disclosed any similar exposure to that reported by AIG. AIG's own shares fell 11% on the day of announcement and is 20% lower over the past month. Although AIG boasts an AAA rating from Standard & Poor's (S&P), Catherine Seifert, analyst at S&P, said the news was "troubling" and that AIG would "have an extremely difficult time regaining investor confidence".

	Share price			Change since	
	Dec-06	*Nov-07*	*Feb-08*	*Dec-06*	*Nov-07*
Advent	34.5	24.5	24.5	-29.0%	0.0%
Amlin	332	295.4	256	-22.9%	-13.3%
Beazley	139	160.7	174	25.2%	8.3%
Brit	316	258	223	-29.4%	-13.6%
Catlin	510	402.2	357	-30.0%	-11.2%
Chaucer	98.5	96.5	95.5	-3.0%	-1.0%
Hardy	259	281	250	-3.3%	-11.0%
Heritage	102	116	116	14.3%	0.4%
Hiscox	283.5	260	272	-4.1%	4.6%
Kiln	123	100	149	21.1%	49.0%
Omega	161	149	170	5.6%	14.9%
Novae	35	34.5	34.5	-1.4%	0.0%
Lloyd's*	108.3	96.5	93.8	-13.4%	-2.8%
FTSE100	*6,221*	*6,155*	*5,880*	*-5.5%*	*-4.5%*
FTSE250	*11,178*	*10,366*	*9,961*	*-10.9%*	*-3.9%*

* *Argenta's Index of Lloyd's quoted companies*

Swiss Re and Berkshire Hathaway

Berkshire Hathaway's CEO, Warren Buffett

By 21 January 2008, Swiss Re's share price had fallen by more than 40% since April last year. The disclosure last autumn of more than a $1billion loss as a result of credit swaps hit by the subprime fallout did not help. On 22 January, Berkshire Hathaway announced that it had taken a 3% share of the company and also that it had written a 20% quota share reinsurance of Swiss Re's US Property & Casualty business for the next five years. It was reported that the two transactions were not connected. While the terms of the reinsurance contract have not been made public, the general view of Berkshire Hathaway is one of a robust negotiator and the terms are more likely to favour them. Nonetheless, the interest by Berkshire Hathaway has been seen as a general vote of confidence in Swiss Re (the shares recovered almost one-third of the lost value by the end of January) and also in the state of the US Property & Casualty market.

Heritage / Ironshore

We have long argued the benefits of Bermudian (re)Insurers seeking to access the Lloyd's franchise as a way of diversifying its business base, as well as promoting capital efficiency. Last year saw plenty of activity on this front with Ariel Re acquiring Atrium plc and Validus buying Talbot, as well as Montpelier Re establishing both its own managing agent and syndicate. In December, Heritage announced that it had received an approach from Ironshore, established in Bermuda in late 2006. Its board includes Les Rock, formerly Active Underwriter of Heritage Syndicate 1200, as Chief Underwriting Officer and Ron Sandler, Chief Executive Officer of Lloyd's between 1995 and 1999. Heritage confirmed the approach but stated that Ironshore's preliminary offer undervalued the company. Although this was subsequently revised marginally, it remained at a level that could not be recommended to shareholders. Ironshore announced that it would not be pursuing its interest in Heritage on 18 January. This activity seems to have flushed out other would-be buyers, which Heritage said may yet lead to an offer for the company.

Kiln / Tokio Marine

Kiln announced a recommended cash offer by Tokio Marine & Nichido Fire Insurance (Tokio Marine) in December 2007. The terms of the transaction valued Kiln at £442million (£1.50 per share) or at a premium of over 40% to the closing price on 10 December.

Kiln acquired by Tokio Marine & Nichido Fire, the oldest and largest general insurance company in Japan

Prior to this announcement, and since 2002, Berkley Insurance Co had owned 20% of Kiln. Founder of Berkley, William R Berkley and his son, W. Robert Berkley, were non-executive directors of Kiln Limited. In turn, Kiln and Berkley had co-operated in the formation of WR Berkley Europe, which Kiln owned 20% and Berkley the balance. This company underwrites UK liability business, and takes a share of Syndicate 510's reinsurance business via the Kiln Reinsurance Consortium. WRB Europe withdrew from the reinsurance consortium for 2008 and Kiln announced that Berkley had agreed to purchase Kiln's share of WRB Europe in November last year.

A Kiln press release drew attention to the "*changing priorities and objectives of each of the parties*". These changing priorities saw Kiln redomicile to Bermuda during 2007, with future plans including the launch of a US underwriting platform. This could have placed Kiln in direct competition with Berkley. It seemed that Kiln and Berkley were growing apart and we were not surprised to see that Berkley undertook to support Tokio Marine's proposals.

Tokio Marine plans to maintain the culture and identity of Kiln

Kiln has traded with Tokio Marine since the formation of the former in 1962. In the circular to shareholders dated 11 January Tokio Marine said it sees Kiln as playing a pivotal role in the expansion of its international underwriting operations and in enhancing its existing overseas activities. There will be a joint growth strategy in international commercial insurance and reinsurance, in particular in the US, Continental Europe and Asia. Tokio also stated that it plans to maintain the culture and identity of Kiln, jointly developing the growth strategy for the combined businesses and recognising that Kiln is a success because of the quality and stability of its people. The brand of Kiln will be retained for existing operations and new initiatives will be branded in accordance with the respective strengths of Kiln and Tokio Marine in each region and business line.

Third party Members seen as an important source of capital

Tokio Marine also stated that it views the members on each of Kiln's syndicates as an important source of capital and intends to continue with these arrangements.

Omega is in discussions with potential buyers

Omega

Omega's shares leapt by more than 13% on 6 February to 171p; a high for the last twelve months. At the time of writing, Omega has merely acknowledged that it is in discussions with a number of parties who have expressed an interest in acquiring the business. Omega manages Syndicate 958 which is underwritten by John Robinson.

AFG acquires Marketform, making it the fifth Lloyd's managing agent to be acquired by an overseas insurer during 2007

Marketform / American Financial Group

In December, Marketform became the fifth Lloyd's managing agent to be acquired by an overseas insurer during 2007. American Financial Group (AFG) acquired a 67% interest, with directors and key staff of Marketform retaining the balance. Marketform manages Syndicate 2468 (with 2008 capacity of £100m) and capital is provided wholly from dedicated or corporate sources. Formed for the 1999 year of account, the syndicate underwrites a non-marine liability account, the largest single constituent of which is Medical Malpractice, under Simon Lotter (formerly underwriter of Murray Lawrence Syndicate 919). AFG operates in the US property/casualty market as Great American Insurance Group. The transaction valued the Marketform Group, which also includes two Lloyd's corporate Members and a service company, at £55m.

Recent Loss Activity

Heathrow Crash Landing – 17 January 2008

Investigators are still trying to find out why a British Airways plane crash-landed at London's Heathrow airport on Thursday 17 January.

The hull of the Boeing 777-200ER is valued at approximately $120mn.

US giant AIG is reported to lead the hull insurance cover.

Liability losses are thought to be negligible as all 136 passengers and 16 crew survived with only minor injuries. The pilot was praised for his professionalism.

The British Airways policy is written by a broad range of insurers, including Lloyd's syndicates.

From our investigations, we understand that there is only one Lloyd's syndicate open to third party capital that has an involvement.

Soc Gen

France's second largest bank loses €4.9bn and calls €5.5bn from shareholders

On 24 January 2008, Société Générale (SocGen), the second-biggest bank in France, revealed that the actions of a rogue trader had cost it €4.9bn (£3.6bn) and forced it into an emergency €5.5bn cash call on shareholders.

It appears however that this event is unlikely to result in a large insurance loss. SocGen bought a package of professional lines insurance, including Bankers Blanket Bond (BBB), which covers losses involving employee fraud. However, the BBB policy provides cover only where the employee has profited personally from the fraud, which is not believed to have happened in this case.

In addition it is reported that SocGen did not buy an Unauthorised Trading policy, which would have covered an event such as this.

However, there is a possibility of claims under a D&O policy, where it might be alleged that, as a result of poor management, shareholders had suffered a loss. The share price has fallen by nearly 25% since the beginning of the year.

Subprime

As outlined in previous editions of Market News, losses may arise on the asset side, where insurers have invested in securities linked to the US subprime debacle; or on the liability side, where claims may be made against directors and officers of lending institutions, investment banks, retail banks, hedge funds managers and asset managers. Claims could also emanate from actions against the professional liability insurers of lawyers, mortgage brokers, rating agencies or any other party potentially at fault.

Subprime Asset Risk

The announcement on 12 February by AIG, the world's largest insurer, that it might have undervalued investments in exotic financial instruments, once again aroused fears that insurers may be in a similar position to investment banks such as Merrill Lynch and Citigroup, which have written off billions of dollars from their balance sheets due to investments in credit derivatives backed by mortgages.

AIG's external auditors, PricewaterhouseCoopers (PwC) declared that there was a "material weakness" in the way the company valued its exposure to credit default swaps, with the result that AIG revised its estimate of losses during October and November from $1 billion to $5 billion. The share price fell by 11% on the day of the announcement and shares in European reinsurers fell heavily after the news. The following day S&P placed AIG's rating on negative outlook. There was a similar reaction when Swiss Re announced, last November, that it had lost SwFr1.2 billion ($1.07 billion) on credit default swaps; its share price fell by 10% on the day of the announcement.

Uncertainty remains as to where the subprime rot will next emerge, but so far very limited manifestation in Lloyd's

Among Lloyd's quoted vehicles, only Catlin has so far owned up to limited exposure to subprime-related securities. At the end of November Catlin disclosed that it expected to take a total charge during 2007 of $75m against the value of such securities. With total cash and investments held by the Group amounting to US$5.85 billion at 30 September 2007, the effect of the proposed US$75 million charge was estimated to reduce the Group's investment return to 3.6% on an annualised basis as at 30 September 2007. Others, such as Amlin, have not even referred to potential subprime exposure in their investment portfolios, although some have done so in passing, for example Kiln in its November trading statement:

"This performance (of the investment portfolio) has been helped by the strength of government bonds and, importantly, by avoiding significant exposure to lower rated corporate bonds. Kiln does not hold any investment in equities and has no direct holdings of sub-prime investments."

As we enter the next round of company reporting it remains to be seen whether this position changes.

At a recent meeting of the G7 finance leaders in Tokyo, Peer Steinbrueck, the German finance minister, suggested that writedowns of securities linked to subprime mortgages could reach $400 billion. According to insurance information provider and analyst, Advisen, writedowns from the balance sheets of companies worldwide to date total $257 billion, up from $170 billion reported in January, affecting 132 companies worldwide. It seems likely therefore that there is more to come from unexpected sources.

Monolines

In January attention focused on bond insurers or 'monolines' as they are called. The Financial Times provided a helpful explanation of what these are:

What is a monoline?

A company that insures against the risk of a bond or other security defaulting. For a fee, bond insurers promise to make the payments on the insured security over the lifetime of the security. American insurers MBIA and Ambac are the world's biggest.

No. When a company or public entity decides to issue a bond, it arranges the insurance itself – if it wants to. It then pays the bond insurer to guarantee its bonds. Because this should make the bonds safer, investors should, in theory, require lower interest payments to lend the money.

Does an investor buy bond insurance?

Bond insurers essentially lend their rating to less credit-worthy borrowers, just as some students can only borrow money if parents act as guarantors.

Who uses bond insurance?

The market developed in the US in the 1970s as municipal borrowers, such as small towns or regions, realised that they could borrow money from big investors if they were guaranteed by bond insurers with triple-A credit ratings, the best possible. In recent years, bond insurers have developed businesses around guaranteeing payments on structured or securitised bonds. Some have also entered the derivatives market.

So what is the problem now?

The risks of defaults in the structured and securitised bond markets have proved to be higher than in the municipal bond market. Some of the assets behind the complex bonds were mortgages, including risky US subprime mortgages. The soaring rates of delinquencies on these mortgages means payments to the bonds have stopped. Losses on these bonds, some of which are called collateralised debt obligations have been higher than expected, and the bond insurers have to find extra capital to be sure they can meet their obligations. Without the extra capital, they could lose their triple-A ratings, and no longer be able to insure as many bonds.

The implications are wide:

"The news that some monoline insurers have seen their ratings lowered, potentially with more to come, has opened up a very nasty scenario," said Andrew Milligan, head of global strategy at Standard Life Investments. "Financials may very well face another hefty round of write-offs, which would reduce their future potential to extend credit to businesses, thus causing a vicious spiral to develop."

and

"Analysts fear more downgrades for the bond insurers will spark a fire sale of the billions of dollars of bonds they have insured. This could cause a wave of losses for companies that hold the assets."

Lloyd's Syndicates' Involvement

The underwriting of financial guarantee insurance has been restricted at Lloyd's since the 1920s. Financial guarantee covers a number of classes, including trade credit. Although the rules were relaxed in 2000, the amount of such business is, we believe, negligible. Among the syndicates open to third party capital, our enquiries have not led us to believe that any of them take on the risks that monolines assume and we would be very surprised if that does turn out to be the case.

Subprime Liability Risk

The position has not changed greatly since we last reported. Lloyd's syndicates continue to expect minimal claims activity. In general, those syndicates supported by third party capacity have shown an even lesser appetite than has the market as a whole. Although Lloyd's has allocated a catastrophe code to any claims attributable to this source, this is standard for any event with the potential to produce a number of different claims.

As expected the number of lawsuits against US financial institutions has increased. In mid-January Advisen reported that 113 lawsuits - encompassing securities class action suits, derivative actions, fiduciary liability suits, underwriting malpractice suits and other related suits - have been filed to date. Of the 112 companies reporting writedowns, 24 have been sued. A number of those companies have experienced multiple suits.

Number of subprime motivated lawsuits is increasing, as predicted

Advisen also highlights the concentration of the financial institutions D&O and E&O markets in a limited number of players. For example, the top three D&O insurers, said to include AIG and XL, represent almost 50% of the market by premium. The picture is similar for E&O.

Insurance of financial institutions' liabilities is concentrated outside Lloyd's

One piece of good news for third party liability insurers is the January ruling in the US Supreme Court in the case of Stoneridge v Scientific-Atlanta. The court reaffirmed a 1994 ruling that business partners, lawyers and bankers cannot be held liable for assisting or participating in corporate fraud unless investors can prove they specifically relied on those third parties when making investment decisions. This should limit lawsuits when a company such as Enron collapses, as it makes it less likely that advisers will be drawn into litigation. This is seen as very positive for insurers.

US Supreme Court ruling in Stoneridge case is good news

Although we are less sanguine than some Lloyd's underwriters as to the extent to which subprime related claims will seep out of the narrow financial D&O category into E&O classes, where there may be defence costs if not claims, statements by Lloyd's that it is not unduly worried about subprime are entirely reasonable in our view.

Tornadoes – Southern USA (February 2008)

The tornado season in the southern United States generally starts in January because a jet stream drives storm systems over that region and warm air from the Gulf of Mexico meets cold fronts from the north.

Tornadoes, although less frequent in winter, can and do strike in every month. Some of the worst twisters to rip through the Kansas City region have occurred in February and March.

Severe storms hit a number of US states on 5 February and have been declared a catastrophe by ISO's Property Claim Services unit, meaning losses will reach at least $25m. The death toll has risen to 59, with 33 of the deaths having occurred in Tennessee. The latest damage report by Risk Management Solutions has indicated that the damage caused by the storms was both severe and widespread.

Insurance Day reported that Tennessee and Arkansas sustained the highest levels of damage, with more than 1,500 homes and businesses damaged or destroyed in the two states. At least 950 homes are estimated to be damaged or destroyed in Tennessee, with around 400 homes and 110 businesses damaged or destroyed in Arkansas.

In Alabama, at least 170 homes were damaged or destroyed, with the most severe damage concentrated in four counties: Jackson, Lawrence, Fayette and Walker. Damage in Kentucky was widespread with 37 counties affected by the severe weather.

The full extent of the damage has yet to be quantified. Although these tornadoes have been severe, and are likely to produce losses for Lloyd's syndicates that underwrite catastrophe reinsurance, we would expect such losses to be 'routine' in the sense that they will be within the annual provisions made in business plans.

Zurich Art Theft

Oil paintings by Cezanne, Degas, van Gogh and Monet were stolen by armed robbers in a raid on a museum in Zurich on 10 February. The masterpieces were valued at €110m (£80m) but are considered unlikely to be insured. Robert Read, fine art underwriter at Hiscox, said that European museums generally do not buy insurance, preferring to spend their limited resources on improving facilities and tightening security. The raid on the Buehrle Collection came four days after two Picassos worth £2.3m were stolen from the Sprengel museum in the nearby town of Pfaeffikon. This first crime is likely to be insured as the works were on loan from a museum in Germany, although the identity of the insurers is not known. The annual insurance premium for fine arts is put at close to $500m.

The largest ever art theft was the still unsolved taking of twelve artworks including a Vermeer, a Manet, three Rembrandts and five by Degas, estimated at the time to be worth $200 million, from the Isabella Stewart Gardner Museum in Boston in March 1990. The largest European art robbery was the theft of three van Gogh works worth £94m in 1988. The van Goghs were later recovered by police after the robbers attempted to obtain ransom for them.

Spotlight on Terrorism

Market Overview

For the first in what is intended to be a regular feature in our Market News focusing on a particular class of business, we are grateful to Ben Garston for providing an overview of the terrorism market. Ben is a recognised lead underwriter specialising in political risks, war and terrorism at MAP Syndicate 2791.

Although terrorism risks have been underwritten in Lloyd's for decades, prior to 9/11 such policies were sold mainly in countries with longstanding terrorism problems, such as Colombia, Sri Lanka, Israel and Indonesia. However, the panicked response of standard insurers and reinsurers, after the events in New York in 2001, was to try to exclude terrorism from all policies regardless of actual exposure. Lloyd's being an entrepreneurial sort of place, a handful of underwriters reacted differently to the herd and in October 2001 began to offer "standalone" terrorism cover in the United States and Europe, where previously such coverage had been included for free. From an initial per risk capacity of $50million, Lloyd's can provide up to $500million per risk capacity.

The market now offers a diverse range of terrorism products, many originating from MAP Underwriting, one of the first syndicates to offer cover post-9/11. Aside from physical damage terrorism and consequent business interruption ("T3" & "T3a"), the market can offer terrorism public liability ("T3L") and terrorism employer's liability (T3EL") and even some products to cover nuclear, chemical and biological terrorism ("T3X"). Non-conventional terrorism policies tend to be limited to release of nuclear, chemical or biological materials within a particular distance from scheduled properties so as to avoid the risk for the insurer of catastrophic and unmanageable aggregation. The theory behind the terrorism liability products, especially in the United States, is that victims unable to sue a terrorist group will allege poor security and poor evacuation procedures as the basis for litigation. This has occurred after every successful major terrorist attack in the US.

Market exposure to terrorism varies greatly between territories. In the United Kingdom, most physical damage terrorism is ultimately (re)insured by Pool Re, with Lloyds insuring a relatively small amount of property. However Pool Re cannot offer terrorism public or employer's liability, which some Lloyd's Syndicates offer, the latter excess of the £5million statutory limit that standard employer's liability insurers must provide. In France, Australia and Spain, the government terror insurance schemes GAREAT, ATIA and Consorcio are so cheap and all embracing that Lloyd's has virtually no exposure here. In Germany, a similar scheme called Extremus exists, however Lloyd's still insures quite a lot of property in Frankfurt, Munich and Berlin as well as airports and large retail sites. Other recent concentrations of exposure are in Brussels and Dublin. In North America obvious concentrations of exposure are to be found in Midtown and Downtown Manhattan, Downtown Chicago and in Downtown Toronto and Vancouver. There is a US government terrorism reinsurance scheme, TRIA, however pricing is decided by each insurer, so allowing an element of competition and co-insurance. Furthermore, even when competing with TRIA terrorism offered by property insurers, terrorism underwriters may recover a proportion of losses from TRIA, subject to the co-insurance of 15% and insurer deductible of 20% of the previous year's US commercial premium.

Because of the volatile nature of the risk, terrorism underwriters are closely monitored by the Franchise Board. The current Realistic Disaster Scenario regime was devised with 9/11 freshly in mind. For that reason, the scenarios are suitably conservative, focusing on major attacks in Manhattan, a two tonne bomb attack at the Rockefeller Center in Midtown and the same at Exchange Place, which is downtown. These contemplate 100% loss of all property within 100 metres of the blast and 25% loss for a radius of a further 400 metres. This kind of conservative claims modelling naturally serves to protect the interests of capital providers and the Central Fund and should ensure that whilst terrorist attacks are shocking and horrific on a personal level, no syndicate should be at risk of collapse due to terrorism claims.

In many ways, the Lloyd's terrorism market is a victim of its own success. The bold band of "net line" insurers of 2001 have been joined by a swarm of latecomers and newly-brave hangers-on, emboldened by reinsurance, benign loss experience and a worrying complacency regarding the underlying threat. In fact MAP underwriting has recorded more Islamist plots in the US alone in the period 2006-2008 than in the first five years after 9/11 and there are also indications of a sharp rise in terrorist activity in Europe, the UK and Australia. Unfortunately, threat notwithstanding, the influx of new players has caused a collapse in rating by as much as 90%! It is fair to say that the fall in rates has been from a very high level that reflected lack of capacity, lack of reinsurance and massive uncertainty regarding the possible frequency of 9/11 sized events. However there is a danger that current pricing levels will prove to be severely inadequate, as and when the unthinkable happens again, as it probably will.

Ben Garston – Managing Agency Partners Ltd (28/1/08)

Aviation

The threat of terrorism is also very much the concern of the aviation market, where the main exposure comes from the insurance and reinsurance of airlines. Broadly these are divided firstly by type, into hulls and liabilities, and secondly by geographical location, USA and Rest of the World.

US airlines, that is those that are domiciled in the USA, are covered against acts of terrorism by the Homeland Security Act; in effect their hulls and liabilities are insured by the US Government, not in the commercial market.

For non-US airlines, terrorist cover for the hulls of aircraft has to be purchased separately from normal accidental damage, such cover being known as 'Aviation Hull War'. Liability to passengers arising from acts of terrorism is however covered by the airline's 'all risks' liability policy, the full policy limits being available. The Hull War market is largely to be found in Lloyd's. As the market is relatively small, it can react to a loss very quickly, as it did following WTC. Among the syndicates open to third party capital that write Hull War are Syndicates 609, 318 and 510 as insurers and 2010 as a reinsurer.

The events of 11 September 2001 threw into stark belief the potentially huge liabilities that airlines can have to third parties following a terrorist incident, through injury to people on the ground and damage to property. The subrogation rights of property underwriters against the airlines involved in WTC and their insurers are still being disputed in the US courts. Following WTC, insurers imposed a $50m limit on all risks liability policies for third party liabilities. This led to the development of a market to take the excess third party liabilities, usually up to $1bn. The absence of terrorist losses since WTC has inevitably resulted in a softening of the market and the typical third party limit of cover in the all risks liability policy has now increased to $150m.

Nuclear risks are excluded from both hull and liability policies. Hull War policies do however commonly give limited cover for Chemical and Biological risks, whereby the aircraft owned by the insured is covered, but no others. Likewise Chemical and Biological is not specifically excluded in the war clause on liability policies.

Conditions in the Aviation War market remain competitive. A loss involving more than one aircraft in a terrorist incident would undoubtedly cause a large loss to aviation insurers and reinsurers, but as noted above, there would be a sharp and immediate reaction, as followed WTC. In short, this is a volatile market.

Run-Offs

If we needed any proof of the benefits and fluidity of a free market it is surely the changes that have taken place in the run-off arena. In 2006 there were 76 run-off years of account on 31 syndicates supported by third party capital. With only three main markets for Reinsurance to Close (RITC) business there was little prospect that members would see any significant reduction in the number of syndicates in run-off.

Today the story is very different. No doubt buoyed by the stability of run-off syndicates generally during 2006, 2007 saw the emergence of a revitalised RITC market, with a number of existing syndicates, not previously prepared to write RITC business, throwing their hat into the ring and two new syndicates – CMGL Syndicate Management's Syndicate 5500 and RITC Syndicate Management's Syndicate 5678 – being formed for the sole purpose of writing RITC business. In addition, in the latter part of 2007, Centrewrite, the Lloyd's backed reinsurer, was authorised to write RITCs at syndicate level. Previously, Centrewrite was able only to reinsure individual members via an "Exeat" policy. We understand that the primary reason for establishing Centrewrite as a fully-fledged RITC writer was for situations where the Lloyd's Central Fund had a significant exposure to a syndicate in run-off, or to reinsure syndicates where the pot of reserves was now so small so as not to be attractive to the main-stream RITC market. An example would be Syndicate 1204, whose only option until now has been to close alongside another syndicate. Although these latter two reinsurers did not write a RITC contract during the year, 16 years of account closed in 2007 with only one additional year of account being left open.

"In two short years the number of markets for syndicate RITC business has increased from 3 to more than 10…."

2008 has seen the process accelerate. Two new RITC syndicates are to be launched. We understand that Alea Syndicate 2740 has received conditional approval from Lloyd's and Andrew Elliot and Sean Dalton, formerly with Liberty (itself an RITC market), have received approval in principle to form Shelbourne Syndicate 2008. In addition, new angles are being explored. For example, Chaucer has quoted for Syndicate 1245 with a return premium mechanism. This is another example of the competitive nature of the RITC market.

In two short years the number of markets for syndicate RITC business has increased from three to more than ten and this may increase further as the year progresses. The result is that the "take it or leave it" attitude that once prevailed is being replaced by an eagerness, on behalf of reinsurers, to write RITC business and the competition that now exists is putting downward pressure on the cost of closure. This is extremely good news for members and, although we will continue to resist closure for closure's sake, the opportunities for closing run-off syndicates at acceptable prices are greater than they have ever been.

The number of third party syndicates with accounts in run-off will have halved since 2006 and the number of run-off years of account reduced by 38.

At the time of writing we are aware of firm proposals to close a further 22 run-off years of account as at 31 December 2007, thereby reducing the number of run-off years of account to 39 and halving the number of syndicates involved. We would not be at all surprised if we saw further closure activity during the course of 2008 as the new RITC syndicates seek to put income on the books.

Although members of the syndicates proposing to close have been written to individually, a summary of the proposed closures is shown below. Full details of run-off syndicates closing and remaining open will be included in our annual Run-Off Report to be produced in June.

More than half of the proposed closures will result in surpluses being paid back to members.

Syndicate	Year of Account	Uncalled @ 31.12.06	Cash to/(from) Member to Close	Change	Reinsuring Syndicate
205	1999	(0.6%)	4.5%	+5.1%	Shelbourne 2008
	2000	0.4%	2.8%	+2.4%	Shelbourne 2008
	2001	9.0%	12.8%	+3.8%	Shelbourne 2008
	2002	2.6%	2.6%	-	Shelbourne 2008
227	2000	(35.0%)	(20.0%)	+15.0%	RITC 5678
	2001	(19.2%)	(13.0%)	+6.2%	RITC 5678
228	1999	5.9%	8.5%	+2.6%	CMGL 5500
	2000	5.5%	5.7%	+0.2%	CMGL 5500
435	2000	(21.4%)	(9.8%)	+11.6%	Faraday 435
535	1999	4.8%	6.4%	+1.6%	Centrewrite
	2000	12.7%	18.6%	+5.9%	Centrewrite
	2001	12.0%	17.8%	+5.8%	Centrewrite
536	1999	(11.7%)	(9.6%)	+2.1%	CMGL 5500
588	2001	1.5%	(1.4%)	-2.9%	Shelbourne 2008
861	2001	6.6%	(7.4%)	-14.0%	Shelbourne 2008
1245	2002	(0.1%)[1]	(14.5%)[2]	-14.4%	Chaucer 1084
	2003	0.3%	(1.1%)[2]	-1.4%	Chaucer 1084
	2004	(1.4%)[1]	(3.4%)[2]	-2.0%	Chaucer 1084
1308	1998	2.7%	4.0%	+1.3%	CMGL 5500
	1999	(5.4%)	(2.2%)	+3.2%	CMGL 5500
1999	1998	12.8%	13.3%	+0.5%	CMGL 5500
	1999	(18.6%)	(3.9%)	+14.7%	CMGL 5500

[1] *Includes Cash Calls made in September 2007*

[2] *There are possible return premiums of 4.7%, 2.2% and 1.6% for 2002, 2003 and 2004 respectively.*

The final cash figures are still indicative as they are based on quarter three numbers and subject to adjustment at the year-end. However, we would not expect any significant changes in the event that these proposals proceed. Although the final cash implication is not necessarily an indication of the acceptability of the RITC quote, the fact that more than half will result in surpluses being paid back to members and that the majority represent an improvement since the previous year-end, even after the inclusion of a risk premium, does demonstrate the effect of the increased competition within the RITC market.

Florida Hurricane Catastrophe Fund

At the time of writing, the future scale of the Florida Hurricane Catastrophe Fund (FHCF) seems uncertain. Introduced after Hurricane Andrew in 1993, the limit of cover offered by the fund was doubled to $28 billion last year.

Reinsurers reported that demand for catastrophe protection remained strong

The FHCF charges a fraction of the premiums charged by the commercial market and many commentators expected a rapid softening of the reinsurance market as reinsurers fought for the scraps of business that remained outside the scope of FHCF. In practice, this softening did not happen. Prompted by their catastrophe models, primary insurers are prepared for increased frequency and severity of storms and responded by buying vertical and sideways cover above and beyond that offered by the FHCF (*vertical cover refers to protection against damage caused by a single storm, sideways cover to protection against a series of separate events).* Reinsurers reported that demand for catastrophe protection remained strong in Florida and that total premium volumes were not undermined to anything like the extent predicted when the expansion of the FHCF was first postulated.

It is proposed to reduce the limit of cover offered by the FHCF by $3billion

The funding of the FHCF relied heavily on an issue of debt by the Florida state and, with these markets having dried up since August last year, the State is heavily exposed in the event of a major storm striking. With some softening in the commercial reinsurance sector, Florida financiers see a cut in the levels of cover offered by the FHCF as prudent. A Bill to reduce the limit of cover offered by $3billion is due to go before the State's House of Representatives later this month. Assuming an average rate on line of around 10%, this reduction could reintroduce premiums to the private sector of around £300m.

New Appointments to Lloyd's Council and Franchise Board

On 6th February 2008, Lloyd's announced the following appointments to its Council and Franchise Board.

Lord Levene was re-appointed as Chairman of Lloyd's.

Ewen Gilmour and Graham White were re-appointed as Deputy Chairmen of Lloyd's and Bill Knight was re-appointed as Deputy Chairman of Council.

In the recent Council elections, Nick Marsh was elected as a working member of the Council for a three-year term, effective from 1 February 2008. Nick is Director of Underwriting Review at Atrium Underwriting Limited.

Catlin Syndicate Limited (represented by Paul Jardine) was also elected as a corporate 'C' external member for a three year term, effective from

1 February 2008. Paul is Deputy Chairman of Catlin Underwriting Agencies Limited and is also the Chairman of the Lloyd's Market Association (LMA).

The Council of Lloyd's also took the opportunity to announce the appointment of Dr Reg Hinkley as a nominated member of Council. Dr Hinkley's appointment was approved at the Council meeting on 26 September 2007 for a three-year term following Judith Hanratty's retirement from the Council in August 2007.

Lloyd's Chairman, Lord Levene said:

"I am delighted to welcome Reg Hinkley, Nick Marsh and Paul Jardine to the Council. With their combined experience they will add tremendous value in helping to underpin robust management of the underwriting cycle."

Alongside the appointments to its Council, Lloyd's also announced changes to its Franchise Board.

Claire Ighodaro CBE has been appointed as an independent non-executive director on the Franchise Board for a three-year term, expiring on 31 December 2010, and Jim Stretton was re-appointed as a non-executive director on the Franchise Board for a two-year term, expiring on 31 December 2009.

Stephen Hodge has been re-appointed as an independent non-executive director until April 2008, when the 2007 Annual Report is approved by the Council.

Dipesh Shah will join the Franchise Board for a three-year term ending 31 December 2010 following Stephen's retirement from the Board on 2 April 2008.

On 4 February, Council appointed Nick Furlonge, Director of Risk Management at Beazley, as a market connected non-executive director of the Franchise Board, replacing Steven Burns whose term expired on 31 December 2007.

Welcoming the appointments to the Franchise Board, Lord Levene added:

"I would like to thank the Franchise Board members, whose terms of office have either come to an end or shortly will do, for their hard work, especially Stephen Hodge who has agreed to stay until the Annual Report is published in April. I look forward to working with all of the new board members."