

# Lloyd's Market Disclosures

December 2009 (No.2)

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## Hiscox Syndicates Limited (Hiscox) Syndicate 33 Multiple Syndicates Byelaw

In accordance with the conditions provided for in the Multiple Syndicates Byelaw Part C, paragraph 7, Hiscox has notified us of its application for consent for certain underwriters to underwrite for more than one syndicate concurrently.

Hiscox has disclosed the following in accordance with sub paragraph 9(4):-

- Consent is being applied for under paragraph 7 of the Multiple Syndicates Byelaw for Mr. Paul Lawrence, Property line underwriter for Syndicate 33, in 2010 to accept all Fire, Theft and Collision business into Syndicate 3624. Further, Mr David Bruce and Ms Elizabeth Seeger, Contingency underwriters for Syndicate 33, will accept all Events and Global Flying business into Syndicate 3624 from 2010.
- The current syndicate allocated capacity for Syndicate 33 is £750m.
- The current syndicate allocated capacity for Syndicate 3624 is £80m.
- The number of underwriting members for Syndicate 33 is 1346.
- Syndicate 3624 has only one corporate member.
- The allocated capacity for Syndicate 33 for 2010 is £1bn.
- The allocated capacity for Syndicate 3624 for 2010 is £150m.
- The registered classes affected for Syndicate 33 are Personal Accident and Contingency.
- The registered classes of business affected for Syndicate 3624 are Global Flying, Events and Fire, Theft and Collision.
- The managing agent for both Syndicate 33 and Syndicate 3624 is Hiscox, which is wholly owned by Hiscox Holdings Limited.
- Both syndicates affected are managed by the same managing agent, Hiscox, and there is no allocated staff capital in either syndicate.

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*Comment: For information*

- Hiscox does not intend to reinsure both syndicates under the same contract of reinsurance. Syndicate 33 and Syndicate 3624 may reinsure each other on arms length terms, if it is deemed appropriate to do so by Hiscox .

### **Beaufort Underwriting Agency Limited (Beaufort) Syndicate 318 Expanded Airline Account / Review of UK Commercial Account for 2010**

Beaufort has advised of certain changes that will occur in respect of Syndicate 318's underwriting for the 2010 year of account and beyond.

#### **Expanded Airline Account**

Beaufort has announced that it has entered into an agreement with its ultimate parent company, Munich Re, to assume responsibility for the underwriting of a substantial proportion of Munich Re's small airline business from 1st January 2010 in addition to the syndicate's existing book. Set out below is the basis upon which this is to be accommodated, and also the likely benefits which Beaufort considers are to be derived by Syndicate 318 from this arrangement.

*Beaufort expands its aviation  
account by writing business on  
behalf of Munich Re and...*

#### **Background**

Since 1998, when Bill Halligan was recruited, Syndicate 318 has underwritten a specialist direct and facultative aviation account, the majority (c 70%) of which comprises airline business. The profile of this book is such that mainstream flag carriers and US operators are generally not written, but elsewhere the syndicate enjoys lead status on many of the risks in which it participates, and for start up operators in particular.

*...discontinues its UK SME  
business through Evergreen*

For 2009, the Syndicate's airline gross premiums (after brokerage) are expected to be approximately £16.3m. Throughout 2009, the airline sector has also seen significant improvements in both rates and terms and conditions, following many years of decline. This has largely been due to the number of headline losses which have principally affected the writers of the larger airlines, and the realisation that the global airline premium is insufficient to sustain the present levels of underwriting losses that are being seen.

#### **Details of the Proposal**

Munich Re underwrites a broad portfolio of airline business worldwide. The vast majority of this business by premium volume comprises major airlines of the type that do not otherwise fall within Syndicate 318's risk profile for this class. However, Munich Re also participates in a number of the smaller airlines, some of which are currently written by Syndicate 318 also, as well as others where currently the Syndicate has no involvement.

From 1<sup>st</sup> January 2010, Syndicate 318's Aviation team will assume responsibility for underwriting this business on behalf of Munich Re. This will not adversely affect the Syndicate's existing business where its line size will remain unaltered, but may in fact increase at renewal. In consideration of the proposed arrangements, Munich Re will pay Syndicate 318 an over rider of 2.5%.

A number of other benefits, principally concerning the development of Syndicate 318's own airline book, are expected to be derived. These include gaining access to accounts which the Syndicate has previously not been exposed and, by controlling an increased level of capacity, the Syndicate's underwriters will have a greater ability to set terms and conditions. The Syndicate will apply its existing underwriting criteria to all business assumed. It is expected that the arrangement will generate additional gross premiums to Syndicate 318 of some £1m in the first year, in addition to the over rider income previously mentioned.

The key features of the proposed arrangements are set out below.

1. Munich Re and Beaufort have agreed a list of risks currently written by Munich Re which it is intended will fall within the scope of the arrangement. In addition, in order to cover new business, the geographical scope of the arrangement has been predetermined, although the Syndicate is not precluded from writing in any territory for its own account, should it so wish;
2. All existing Syndicate 318 renewal business will be retained by the Syndicate for its desired line. It follows that the Syndicate's line will not reduce by virtue of Munich Re participating on the risk in question, and nor will any business transfer from Syndicate 318 to Munich Re;
3. The syndicate will have full unfettered authority at next renewal date to determine whether or not to renew any risk falling within the proposal, and at what rate;
4. All risks will be written in accordance with the Syndicate's underwriting guidelines;
5. The Syndicate will assume the lead line (unless neither is currently the leader);
6. For new business, Syndicate 318 will write its desired line ahead of any proportion to be written on behalf of Munich Re;
7. Syndicate 318 will participate on every risk written and no risks will be written solely on behalf of Munich Re. However, because of Munich Re's line structure (being based on a percentage line as opposed to a US Dollar limit favoured by the Syndicate), it is not feasible to write all business on a predetermined split stamp/consortium basis;
8. Munich Re will not benefit from the Syndicate's reinsurance programme and will continue to make its own arrangements; and

***Comment: This appears to be a positive step for Syndicate 318 as it will allow it to have a significantly greater presence than the Syndicate's size would normally allow. Members will also benefit from the payment of an over rider***

9. A written agreement has been entered into between Munich Re and Beaufort to cover these arrangements, which will be subject to review by the Managing Agency's Independent Review Director.

Full details of the arrangement will be included in the Syndicate Annual Reports and Accounts as at 31<sup>st</sup> December 2009.

### **Review of UK Commercial Business**

Further to Beaufort's Auction disclosure (November 2009) – included in our *Lloyd's Market Disclosures, Pre-Auction 4 2009* – the review of the Syndicate's UK underwriting accepted via Beaufort's service company, Evergreen, has been concluded. As a result, and with effect from 1<sup>st</sup> January 2010, no new or renewed business will be accepted on behalf of the syndicate via Evergreen.

This business predominately comprises UK Small Medium Enterprise commercial property and liability package risks. In recent years, the UK market generally, and this market sector specifically, have been subject to both severe competition and structural changes within the distribution chain, leading to rapid consolidation amongst UK regional brokers. As a consequence, the Syndicate has experienced difficulty in underwriting the account profitably and also developing the business in a soft market. Beaufort does not envisage that this position will change for the foreseeable future in the sector in which the Syndicate operates. This, combined with recent loss activity (both large loss and event based), has resulted in the Syndicate's account becoming increasingly unprofitable, to a point where they no longer believe that it is sustainable.

Against this background, the Board of Beaufort has had to take the difficult decision of putting this business into run-off. However, arrangements for an orderly run-off of the book have been negotiated and finalized, along with the transfer of the renewal rights to the underlying binding authorities which comprise the minority of the book with QBE, a well established international insurer with a pre-existing and significant UK presence. This will also result in a substantial proportion of the associated staff involved being transferred to provide both continuity of employment for them personally and also continuity in terms of undertaking the run off on members' behalf.

In transferring these renewal rights, Beaufort believes that it has secured a more favourable deal for the Syndicate's members in terms of the run-off administration costs than might otherwise be possible were it to seek either quotes on the open market or retain responsibility for this within the Syndicate. For claims administration, negotiation and settlement, the Syndicate will retain its existing personnel and outsource arrangements to ensure continuity of service and consistency in reserving approach.

For 2009, the Evergreen business is expected to generate approximately £11m of gross premium income to the Syndicate under the various facilities. As well as the increased airline income mentioned above, Beaufort is optimistic that a proportion of the shortfall against the Syndicate's 2010 business forecast will be made up through additional business opportunities to be derived through the worldwide property account.

***Comment: We are in contact with Beaufort regarding the cessation of this business and the transfer to QBE in more detail. However, it is difficult to argue against the sense of discontinuing a book of business which is believed to be unprofitable***

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