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It is reported that the majority of the risk was placed in Middle Eastern and Asian markets, but approximately 25% is in Lloyd's.

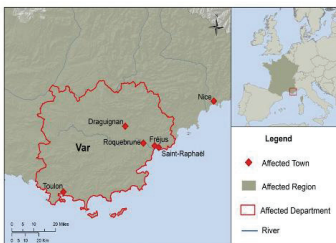
As the anniversary date for the policy was 1 April, this loss will fall to the 2010 year of account, unlike the Chilean Earthquake and Deepwater Horizon losses which principally affect the 2009 year of account.

### Riots in Bangkok

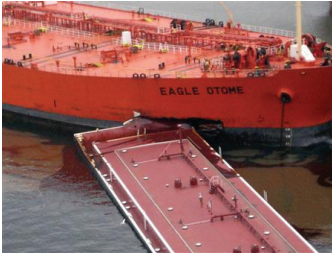


The civil unrest and riots that took place in Bangkok in May, as a result of continuing political tensions, caused significant destruction to insured property. Estimates of insured damage are put as high as \$1 billion. The biggest single loss relates to Central Pattana's Central World shopping mall - the second largest in South-East Asia - which was set on fire as troops closed in on protesters on 19 May. This loss alone may reach \$500m. It appears that both property insurers and those offering terrorist cover may have exposure. The latter category is perhaps surprising, but indicates that terrorist underwriters have been offering broader cover, such as riots, malicious damage and civil insurrection. We expect certain Lloyd's syndicates to have exposure, for example we know that Hiscox Syndicate 33 has a small involvement. A clearer picture will emerge when the second quarter figures are issued at the end of August.

### Floods in Southeast France



Torrential rain in France's Cote d'Azur on June 15 and 16 triggered severe flash floods leaving hundreds of homes inundated and many thousands without electricity. The floods are said to be the worst in the area since 1827. Cars, trees and parts of houses were swept away as more than 40 cm (16 inches) of rain fell in a few hours, leaving at least 22 people dead. Losses to insurers have been estimated at €700m (£600m).



### Port Arthur Oil Spill

A collision between an oil tanker bound for Exxon Mobil Corp.'s Beaumont refinery and an outbound vessel towing barges resulted in a major crude-oil spill in the port of Port Arthur, Texas in January. The U.S. Coast Guard says about 450,000 gallons of crude oil spilled into the port area after the two vessels collided, closing the Sabine Neches Waterway. Insurance costs have been estimated at \$30m.



### Snow at Dulles Airport

Heavy snow in Washington DC on 5 February led to the collapse under the weight of snow of three aircraft hangars in the Dulles Jet Center at Dulles airport. Inside the hangars were a number of private jets, including Gulfstreams, Bombardier Globals and Dassault Falcons, many of which were damaged. Each hangar covered a ground area of over 40,000 square feet (3,800m<sup>2</sup>). Five people were also understood to have been in the hangars at the time of collapse, although none was hurt. The loss, which will fall on the General Aviation market, is said to be up to \$400 million.

### Paris Art Theft

A thief, believed to be acting alone, broke into the Paris Museum of Modern Art on the evening of 19 May and stole five paintings by Picasso, Matisse, Georges Braque, Amedeo Modigliani and Fernand Léger with a combined value of €100m (£86m). Insurance markets are not impacted as the art works were insured under a government guarantee scheme.

### Air India Express B737-300

An Air India Express B737 was destroyed when it overran the runway at Banje Airport, Mangalore, India. It came to rest in a steep valley. There were only eight survivors amongst 160 passengers and 6 crew.



### Afriqiyah Airways A330-200

On 12 May, an Afriqiyah Airways A330 undershot the runway at Tripoli, Libya following a flight from South Africa. Only one passenger survived from a manifest of 93 passengers and crew of 11. The aircraft hull is valued at \$125m and the level of liability claims, whilst still uncertain, is likely to be high.

## Hurricane Forecasts

With the start of the Atlantic hurricane season on 1 June came updated forecasts from both Tropical Storm Risk (TSR) and Colorado State University. Initial forecasts are issued in December of the previous year and updated monthly from April onwards. Both had initially predicted an active hurricane season for 2010, with TSR specifying activity at approximately 35% above the 1950 to 2009 norm. The likelihood of increased activity is attributed to weaker trade winds than normal, combined with higher sea surface temperatures.

In its June update, TSR has revised its prediction for the 2010 hurricane season to "very active", at 80% above the 1950 to 2009 long term average, adding "This is the highest forecast ever issued by TSR at this lead time". Colorado State University likewise forecasts a very active season in its June update: "We anticipate a well above-average probability of United States and Caribbean major hurricane landfall. All factors are lining up for a very active 2010 hurricane season."

The tables below show the revisions to the forecasts of the number of storms since the initial forecasts last December. The averages for the period 1950 to 2009 are also shown, but it should be noted that the calculations of the respective entities differ slightly.

**Experts now predicting a "very active" 2010 hurricane season at 80% above the expected average. However, in the event that this is the case, the impact will depend on if and where they make landfall.**

	Named Storms	Hurricanes	Major Hurricanes
Tropical Storm Risk:			
Average 1950-2009	10.4	6.1	2.7
December 2009	13.9	7.4	3.4
April 2010	16.3	8.5	4.0
June 2010	17.7	9.5	4.4
Colorado State University:			
Average 1950-2009	9.6	5.9	2.3
December 2009	11-16	6-8	3-5
April 2010	15	8	4
June 2010	18	10	5

Colorado State University puts the probability of a major hurricane (categories 3, 4 or 5) at 76%, against an average of 52% for the last century. It also considers whether the oil spill in the Gulf of Mexico will have a noticeable impact on tropical cyclone intensity or frequency and concludes that it will not. As regards the effect a hurricane might have on the oil spill, it notes that, if a hurricane tracks west of the oil slick, its anti-clockwise circulation could drive the oil further towards the Gulf coast. If however it tracks east of the slick, it could push the oil further offshore. That said, it is conceded that "...little is understood about the interaction of tropical cyclones and oil".



## Corporate Developments

### New Syndicates

Lloyd's has admitted two new syndicates to commence underwriting on 1 July 2010. Syndicate 2232 will be managed by Capita Managing Agency (**Capita**), with 100% of capital being provided by Allied World Assurance Corporation (**AWAC**). Product lines will be: international property; general casualty; professional lines and international treaty, targeted at territories such as countries in Latin America and the Asia Pacific region. The active underwriter will be Darren Powell, currently Senior Vice President and manager of International Property at Allied World Assurance Company (Reinsurance) Limited in London. Capita, which has operated in the Lloyd's Market for over ten years and has hitherto managed run-off syndicates, was approved as a turnkey provider of managing agency services early this year. Syndicate 2232 represents its first foray into the live syndicate sphere. AWAC was formed in 2001 in Bermuda, is listed on the New York Stock Exchange and currently has \$3.9 billion of assets.

Syndicate 1882 will be managed by a new managing agency, Chubb Managing Agency Limited, part of the Chubb Group of Insurance Companies. Unusually, Chubb has not been required to go down the "turnkey" route. The syndicate has an initial (half year) capacity of £41.5 million and will write a mix of traditional marine business, coupled with professional indemnity and technology business. The Active Underwriter is Rob Cage. Chubb was one of the first companies to take a box on the third floor of the underwriting room in 1994 when the demand for space from syndicates had begun to contract. 1882 is the year that the Chubb Group was founded.

### Quinn

Dublin-based Quinn Insurance was placed into administration by the Irish Financial regulator after "persistent breaches of solvency rules". The company, part of the privately owned Quinn Group, has a large share of the professional indemnity market for UK solicitors, as well as writing contractors and other third party business in the North and North West of mainland Britain, but has been accused by competitors of under-pricing its products for a number of years. The regulator's move followed discovery of guarantees provided by the insurer to other group companies which reduced total net assets by €448m (£386m). The founder and former Chairman, Stephen Quinn, was forced to step down from the Board in 2008 after Quinn Insurance had made loans of €288m to subsidiary companies. Regulators in Ireland and

*Lloyd's admits two new syndicates to commence underwriting on 1 July 2010.*

*Quinn placed into administration by Irish regulator.*

the UK have since allowed the business to resume writing UK motor business and Irish business. An investment bank has been appointed to achieve a sale of the business as a going concern, with one interested party being Allied Irish Bank, nationalised by the Irish government in 2008 and understood to be owed €2.28 billion by the Quinn family.

### **Brit**

#### ***Brit rejects unsolicited bid.***

Listed Lloyd's insurer, Brit Insurance, has been the subject of an unsolicited cash bid from private equity fund, Apollo. Brit rejected the bid as its Board concluded it significantly undervalued the group. The bid is understood to be in the range of £10 per share, but net assets per share are closer to £11. Shares in the company rose from £7.28 to £9.29 on the announcement of the bid. Newspaper reports suggest that Brit shareholders are encouraging the Board to open further negotiations with Apollo.

### **The Budget – Insurance Impacts**

#### ***Insurance Premium Tax increased.***

George Osborne, Chancellor of the Exchequer in the UK Coalition Government, announced in his Emergency Budget on 22 June that Insurance Premium Tax (**IPT**) on direct insurance premiums on UK general insurance products will increase from 5% to 6% on 4 January 2011. Some commentators had predicted a steeper rise, either to 10% or even the rate of VAT, which increased to 20% in the budget. IPT is charged at the higher rate for travel insurance and some motor and electrical goods' warranty insurances.

### **Financial Services Authority**

#### ***The UK insurance market, including Lloyd's, to come under the control of a new regulatory body.***

The UK insurance industry, including the Lloyd's Market, will come under the control of a new regulatory body following Chancellor George Osborne's announcement of a comprehensive overhaul of UK financial regulation. Prudential regulation of insurers will be conducted by a body provisionally called the Prudential Regulation Authority. A new body, the Financial Policy Committee, will look at the activities of financial businesses, including insurers, and at the macroeconomic and financial issues that may threaten stability. Insurers and insurance brokers will also be accountable to the Consumer Protection and Markets Authority. A further body will be established to co-ordinate the tackling of serious financial crime, which is currently dispersed across several government departments and agencies. The exact detail of regulatory changes are still to be confirmed, with the new structure due to be in place by 2012.



**Former Franchise Performance Director to join Beazley.**

### **Rolf Tolle at Beazley**

Beazley has announced that Rolf Tolle, formerly the Franchise Performance Director at Lloyd's, will join the Board of the company's managing agency, Beazley Furlonge, as a non-executive director.

**Catlin to launch Swiss-based reinsurer.**

### **Catlin**

Catlin plans to launch a Swiss-based reinsurer in order to expand its presence in the European reinsurance market significantly. The group said initial lines will include trade credit, surety and political risk business, and that the company will expand into property and casualty reinsurance as opportunities arise. Catlin Re Switzerland will have an initial capital allocation of \$1 billion, funded from internal sources.

**KGM Motor Syndicate 260 to be managed by Canopus.**

### **KGM / Canopus**

Canopus has agreed to acquire fellow Lloyd's managing agent, KGM Underwriting, with effect from 1 July 2010, as well as the corporate member supporting Syndicate 260, Flectat, and the right to manage Syndicate 260. Approximately 60% of the syndicate's capacity is provided by Flectat, with the balance provided by third party capital through the three members' agencies. Canopus will continue to manage the syndicate as a standalone entity and also manages Syndicate 4444, with a 2010 capacity of £550m.

**Lloyd's appoints a new Deputy Chairman.**

### **Lloyd's**

Paul Jardine, Chief Operating Officer of Catlin, has been appointed a Deputy Chairman of Lloyd's, succeeding Ewen Gilmour, who stands down from the position but continues as a working Member on Council. Mr Jardine joined Catlin in 2001, having previously been chief actuary and communications director at Equitas.

**Currently 2008 show signs of continuing improvement and 2009 looks to be positive despite the Chilean earthquake. The estimated results have been struck at an exchange rate of US\$1.52:£1.**

### **Syndicate Forecasts**

The following tables show the estimated results as at 31 March for the 2008 and 2009 underwriting years of account. Although the loss of the Deepwater Horizon rig did not occur until 20 April, it is our understanding that provision for this has been included in certain syndicates' 2009 account estimates. In addition, the financial cost of the Chilean earthquake, which took place on the 27 February and which is expected to cause more significant claims to the Market is included within these estimates.

*Syndicate 218 detracts from improvements elsewhere.*

The most significant movement is in the forecast for the Equity Red Star motor Syndicate 218, for the 2008 and 2009 years of account. Syndicate 218 has experienced a severe increase in the frequency and severity of bodily injury paid claims in the first five months of 2010. This prompted Insurance Australia Group (**IAG**), owners of the syndicate's managing agent, Equity Syndicate Management Limited (**ESML**), and ESML itself to instruct jointly the Syndicate's independent actuaries (Deloitte) to conduct a fuller review of reserves, Deloitte having conducted a review on closing the 2007 year of account at 31 December 2009.

If the assumptions in the latest Deloitte report are adopted, the implication is that the Syndicate is significantly under reserved. Although revised forecasts have not yet been confirmed by ESML, they have informed us that, if the reserves are adjusted to be in line with the mid-point of the actuaries' range, the estimated result for the 2008 year of account has deteriorated from a range of +2.5% to -2.5% to a loss of between 35% and 40%. The same review has moved the estimated result for 2009 from a range of -0.9% to +4.1% to a loss of 3% to 6%. We have issued a separate bulletin providing further information and discussions and investigations continue.



**2008 forecasts for third party syndicates and Argenta MAPAs as at 31 March 2010 (% of capacity)**

Syndicate / MAPA	Previous Forecast at 31/12/09			Latest Forecast at 31/03/10			Change %
	Worst %	Best %	Mid-Point %	Worst %	Best %	Mid-Point %	
33	2.50	10.00	6.25	2.50	10.00	6.25	
218	-0.50	4.50	2.00	-40.00	-35.00	-37.50	-39.50
260	-26.24	-21.24	-23.74	-26.24	-21.24	-23.74	
308	8.48	13.48	10.98	10.29	15.29	12.79	+1.81
318	-14.11	-9.11	-11.61	-14.22	-9.20	-11.71	-0.10
386	18.72	23.72	21.22	32.30	37.31	34.81	+13.59
510	5.14	10.14	7.64	6.02	11.02	8.52	+0.88
557	9.49	14.49	11.99	10.30	15.30	12.80	+0.81
570	2.99	7.98	5.48	5.00	10.00	7.50	+2.02
609	9.98	14.98	12.48	10.00	15.00	12.50	+0.02
623	7.50	12.50	10.00	7.50	12.50	10.00	
727	4.50	14.50	9.50	4.50	14.50	9.50	
779	1.64	6.64	4.14	3.99	10.32	7.16	+3.02
807	3.00	8.00	5.50	4.14	9.14	6.64	+1.14
958	0.00	5.02	2.51	0.00	5.02	2.51	
1176	35.00	45.00	40.00	49.92	60.01	54.97	+14.97
1200	-8.00	2.00	-3.00	-8.00	2.00	-3.00	
2007	-7.50	-2.50	-5.00	-7.50	-2.50	-5.00	
2010	5.00	10.00	7.50	5.00	10.00	7.50	
2121	1.00	6.00	3.50	1.00	6.00	3.50	
2525	0.00	7.50	3.75	16.71	21.71	19.21	+15.46
2526	9.70	17.20	13.45	24.77	29.77	27.27	+13.82
2791	8.00	13.00	10.50	10.00	15.00	12.50	+2.00
3334	9.01	14.00	11.50	6.50	11.51	9.01	-2.49
4040	-2.50	2.50	0.00	-2.50	2.50	0.00	
6101	1.00	6.00	3.50	1.00	6.00	3.50	
6102	1.00	6.00	3.50	1.00	6.00	3.50	
6103	7.50	12.50	10.00	7.50	12.50	10.00	
6104	25.00	32.50	28.75	25.00	32.50	28.75	
6105	2.81	7.72	5.26	2.46	7.56	5.01	-0.25
MAPA 7006	4.06	9.31	6.69	1.74	6.99	4.36	-2.32
MAPA 7007	3.28	8.67	5.97	1.19	6.59	3.89	-2.08
MAPA 7049	3.61	8.86	6.24	1.04	6.30	3.67	-2.56
Lloyd's Ave	1.02	7.00	4.01	1.29	6.96	4.12	+0.12

Source: Managing Agents' Forecasts as at 31 March 2010 submitted to Lloyd's, with the exception of Syndicate 218 (see page 20)

**2009 forecasts for third party syndicates and Argenta MAPAs as at 31 March 2010 (% of capacity)**

Syndicate / MAPA	Previous Forecast at 31/12/09			Latest Forecast at 31/03/10			Change %
	Worst %	Best %	Mid-Point %	Worst %	Best %	Mid-Point %	
33	2.50	10.00	6.25	2.50	10.00	6.25	
218				-6.00	-3.00	-4.50	
260	-15.60	-10.60	-13.10	-15.56	-10.56	-13.06	+0.04
308	-4.00	6.00	1.00	0.65	5.65	3.15	+2.15
318				4.27	9.25	6.76	
386				16.30	21.30	18.80	
510	9.30	19.30	14.30	9.39	14.39	11.89	-2.41
557	9.90	19.90	14.90	11.19	16.19	13.69	-1.21
570	0.00	10.00	5.00	0.00	10.00	5.00	
609	7.50	17.50	12.50	5.00	15.00	10.00	-2.50
623	9.50	14.50	12.00	9.50	14.50	12.00	
727				3.90	13.90	8.90	
779	-10.40	-5.40	-7.90	0.23	5.24	2.74	+10.64
807	2.10	12.10	7.10	3.34	8.34	5.84	-1.26
958	5.00	15.00	10.00	5.02	15.05	10.04	+0.04
1176				19.94	40.00	29.97	
1200				0.00	10.00	5.00	
2010				5.00	10.00	7.50	
2121				7.50	15.00	11.25	
2525				-1.97	5.53	1.78	
2526				8.01	15.52	11.77	
2791				15.00	25.00	20.00	
3334				8.00	14.00	11.00	
4040				-1.87	3.12	0.63	
4242				6.50	16.50	11.50	
6103				52.50	62.50	57.50	
6104	35.00	50.00	42.50	20.00	35.00	27.50	-15.00
6105				9.95	15.55	12.75	
6106				34.94	39.94	37.44	
MAPA 7006				6.07	12.58	9.32	
MAPA 7049				5.67	12.14	8.91	
Lloyd's Ave				5.43	11.71	8.57	

Source: Managing Agents' Forecasts as at 31 March 2010 submitted to Lloyd's, with the exception of Syndicate 218 (see page 20)



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