GUY CARPENTER

The Lloyd's Market in 2003

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The Lloyd's Market in 2003

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Introduction

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2002 was an extremely important year for Lloyd's. The market continues to demonstrate its ability and willingness to deal with the massive claims stemming from the events of September 11th, 2001, including fully meeting the gross funding requirements on the US situs losses.

Importantly, Lloyd's was largely unencumbered by the substantial equity write-downs facing much of the industry and has attracted significant new capital, with over £6 billion being contributed over the past two years. Market capacity and premium volumes are now at record highs and, against the general trend, Lloyd's has been able to maintain its financial strength ratings. Furthermore, Lloyd's has returned to profit following a period of heavy losses and general underwriting conditions remain good.

Having now turned the corner, the challenge remains to avoid the mistakes of the past. Lloyd's aims to achieve this through the successful implementation of its far-reaching franchise reforms. This report summarises some of the key developments to date in this important market, examines the current structure of the market and highlights some of the more significant changes to come.

At this point, Guy Carpenter & Company Ltd. wishes to recognise and to thank Lloyd's of London for its extensive assistance in providing data and research material for this report.

Executive Summary

- On 2 April 2003, Lloyd's reported a profit of £834 million for 2002 on a pro forma annually accounted basis. The market's financial strength ratings were subsequently affirmed at A (Strong) from Standard & Poor's and A- (Excellent) from AM Best. Lloyd's is forecasting a profit of £1,484 million for 2002 on a three year accounting basis.
- In US dollar terms, the estimated gross loss stemming from the US terrorist attacks has been stable throughout 2002. The estimated net loss has increased by 12 percent. The totals at 31 December 2002 were $8.75 billion and $3.26 billion, respectively.
- Written premium has grown strongly in the past two years and is forecast to reach record levels of £13.4 billion gross and £8.9 billion net in 2002, on a three year accounting basis. The US is now the largest single market, contributing around 40 percent of total premium income.
- Market capacity has increased to a record £14.4 billion for 2003 and is again expected to be enhanced by significant qualifying quota share capacity.
- The number of syndicates fell from 86 at the start of 2002 to 71 at the beginning of 2003, and average underwriting capacity now exceeds £200 million.
- The Chairman's Strategy Group (CSG) proposals have culminated in the creation of the Franchise Board, whose stated goal is "to create and maintain a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised". Rolf Tolle became the first Franchise Performance Director at the beginning of March 2003.
- Significant efforts are being made to improve the market's business processes, including policy production, premium payment and claims payment, the aims being quality improvement, cost reduction and improved service levels.
- Net central assets rose by 55 percent to £563 million at 31 December 2002 and are forecast to increase to £812 million by the end of 2003. However, a dispute has arisen over the Central Fund Insurance Policy, which, on a worst case basis, could reduce the total by £290 million.
- The FSA has recently decided to exercise its responsibility for the regulation of the Lloyd's market more directly. This is expected to lead to a clear distinction between the FSA's responsibility for the prudential regulation of Lloyd's and that of the Society for risk management of the market.

Market Results

The Lloyd's market traditionally reports its results on a three year accounting basis, the most recent closed year being the 2000 account. However, pro forma annual results have also been produced in respect of the 2000, 2001 and 2002 underwriting years, in preparation for the move to full annual accounting, in accordance with UK GAAP, from 1 January 2005.

2002 RESULT PRO FORMA ANNUAL ACCOUNTING

Lloyd's achieved record levels of premium income in 2002, with worldwide growth seen across virtually all lines of business. More importantly, the market returned to profit, after several years of heavy losses.

£m	2002	2001	2000
Gross Premium Written	16,203	16,112	12,641
Net Premium Written	11,160	11,072	9,017
Net Earned Premium	10,669	9,888	8,338
Net Losses Incurred	(6,652)	(10,332)	(7,816)
Operating Expenses	(3,872)	(3,541)	(2,630)
Underwriting Result	145	(3,985)	(2,108)
Investment Return	902	1,098	1,128
Other Expenses	(213)	(223)	(231)
Pro Forma Result	**834**	**(3,110)**	**(1,211)**

Source: Lloyd's Global Results 2002

Lloyd's benefited from much improved market conditions in 2002, a trend toward higher rates and tighter terms and conditions accelerating markedly in the wake of the US terrorist attacks. Underwriters report that prices in the international market have reached their highest levels since 1993. This has enabled the market to report a pro forma profit of £834 million for 2002, comprising a pure year profit of £1,459 million and reserve strengthening in respect of prior years of £625 million, the latter relating mainly to US Casualty business. The result compares with a loss of £3,110 million for 2001, a year which was very heavily impacted by the US terrorist attacks.

Net earned premium rose by 7.9 percent, but would have increased by 15 percent at stable exchange rates. The combined ratio fell from 140.3 percent in 2001 to 98.6 percent in 2002, comparing favourably with averages of 105.1 percent for European reinsurers (source: CSFB), 121.3 percent for US reinsurers (source: RAA) and 107.2 percent for the US property and casualty insurance industry as a whole (source: AM Best). The overall investment result was relatively stable, as conservative restrictions limited the holding in equities to around 5 percent of investment assets. Recent capital market difficulties therefore appear to have had less impact on Lloyd's than on many of its competitors.

There is evidence of some plateauing of rates in 2003. However, with many (re)insurers struggling to match underwriting profits against equity investment losses, it may be that the hard market will not end as fast as it did in the 1990s.

The purpose of the Pro Forma Annual Accounting Statement (PFAAS) is to present technical and non-technical accounts and a balance sheet on a basis generally comparable with the wider insurance industry (source: Lloyd's of London). The result is determined by aggregating the results reported separately by all syndicates in their audited returns. The result does not present a consolidated view of the results of Lloyd's business taken as a single entity and, in particular, it does not eliminate inter-syndicate reinsurances. Premiums in respect of such business totalled £874 million in the 2002 calendar year, up from £631 million in 2001.

2000 RESULT 3 YEAR ACCOUNTING

On a three year accounting basis, the pure year result for 2000 was a loss of £2.2 billion. Reserve strengthening in respect of prior years totalled £0.2 billion, and the year therefore closed with an overall loss of £2.4 billion. One third of the World Trade Center loss fell on this account and the year was impacted by several other Aviation and Satellite losses, a number of costly windstorm and flooding events in Europe and a sharply deteriorating US Casualty experience.

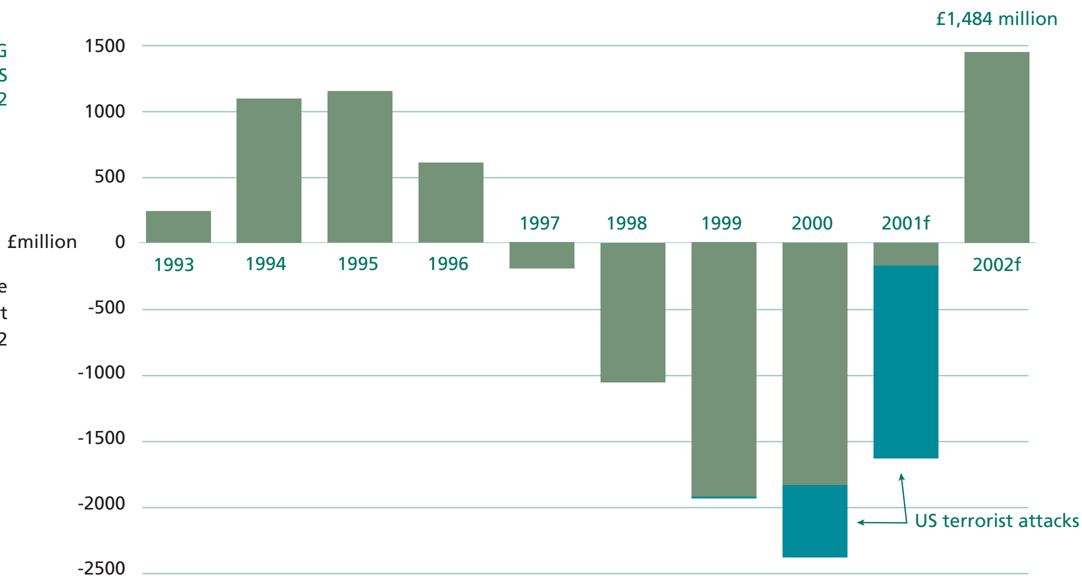
£m	1994	1995	1996	1997	1998	1999	2000
Net Premium Written	5,690	5,893	4,810	4,709	4,869	5,785	6,203
Pure Year Underwriting Result	1,604	1,515	575	4	(904)	(1,563)	(1,794)
Prior Year Underwriting Result	58	87	160	159	127	(166)	(329)
Underwriting Result	1,662	1,602	735	163	(777)	(1,729)	(2,123)
Result after Personal Expenses	1,095	1,149	606	(209)	(1,065)	(1,952)	(2,397)

Source: Lloyd's Global Results 2002

On a three year accounting basis, the latest forecasts issued by Lloyd's are for a loss of £1,653 million on the 2001 account and for a profit of £1,484 million on the 2002 account.

THREE YEAR ACCOUNTING RESULTS AND FORECASTS 1993-2002

Based on an exchange rate of £1 sterling: US$1.61, as at 31 December 2002



Source: Lloyd's of London

World Trade Center

At 31 December 2002, Lloyd's gross ultimate loss stemming from the US terrorist attacks, excluding inter-syndicate reinsurance, is estimated at £5.43 billion (US$8.75 billion). The corresponding net ultimate loss, after reinsurance recoveries, is £2.02 billion (US$3.26 billion). In both cases, these are the largest exposures in the industry. In US$ terms, the market estimate shows considerable stability at gross level, with a decrease of 2 percent over the past year, and relative stability at net level, with an increase of 12 percent, largely due to notification of attritional reinsurance claims.

By class of business, the gross loss is split Property Damage 58 percent, Aviation 26 percent, Personal Accident 7 percent and Other 9 percent. Over 60 percent of the total stems from cover granted under reinsurance treaties. The loss is highly concentrated – ten insureds account for over 80 percent of the total direct incurred loss and ten reinsurance groups account for over 50 percent of the inwards reinsurance exposure. By 31 December 2002, Lloyd's had paid claims totalling £1.74 billion (US$2.8 billion), excluding inter-syndicate reinsurance, or 32 percent of its estimated gross ultimate loss. A further 31 percent of the total (in excess of US$3 billion) was held in the US trust funds.

At 31 December 2002, Lloyd's had recovered and collateralised 37 percent of its total WTC-related reinsurance asset, with the collection process said to be proceeding with 'minimal issues'. Of the outstanding external recoverables, over 89 percent was placed with reinsurers rated A or above as at 31 March 2003.

US Trust Funds

Lloyd's is a 'licensed insurer' in Illinois, Kentucky and the US Virgin Islands. It is an 'eligible excess and surplus lines writer' in all of the United States, except Kentucky and the US Virgin Islands (where it is licensed), and is an 'accredited' or 'trusteed' reinsurer in all states. As a non-US or 'alien' reinsurer in the US, Lloyd's is required to hold collateral in the US amounting to 100 percent of gross liabilities, either by way of letters of credit or cash in 'non-working' trust funds. Any claims are paid from another 'working' trust fund, meaning that, in effect, Lloyd's must double-fund US reinsurance claims. Only when the claims are paid will the monies held in the 'non-working' trust fund be released back to the UK. By comparison, US reinsurers fund their liabilities on a net basis, taking credit for reinsurance purchased, and only post collateral in states where they are not licensed to do business. Lloyd's has taken a prominent lead within the reinsurance industry in lobbying the NAIC for changes to the regulations.

In the wake of the US terrorist attacks, Lloyd's was required, and able, to transfer US$5.1 billion to its US Trust Funds by the end of March 2002, the components being existing syndicate funds US$0.8 billion, cash calls US$2.4 billion, borrowing US$0.7 billion and letters of credit US$1.2 billion. Overall, in excess of US$12 billion was deposited in the US trust funds at 30 September 2002.

Reinsurance Recoverables

Total reinsurance recoverables on outstanding claims fell by 16 percent to £12.1 billion at 31 December 2002, representing 135 percent of total Funds at Lloyd's. At 28 March 2003, 84 percent of total recoverables were due from reinsurers rated A or above, down from 86 percent a year previously. The global results state that provisions for reinsurance bad debt at the end of 2002 totalled £420 million (2001: £439 million).

Equitas

Lloyd's retains a contingent exposure to any future failure at Equitas, through the application of overseas regulatory deposits, the assets of present day individual members who also underwrote prior to 1993 and the impact such a failure would have on Lloyd's relationship with the US regulators. Lloyd's is unlikely to be adversely affected by Equitas in the near future, but uncertainty over long-term reserve development at Equitas remains a negative rating factor.

Market Position

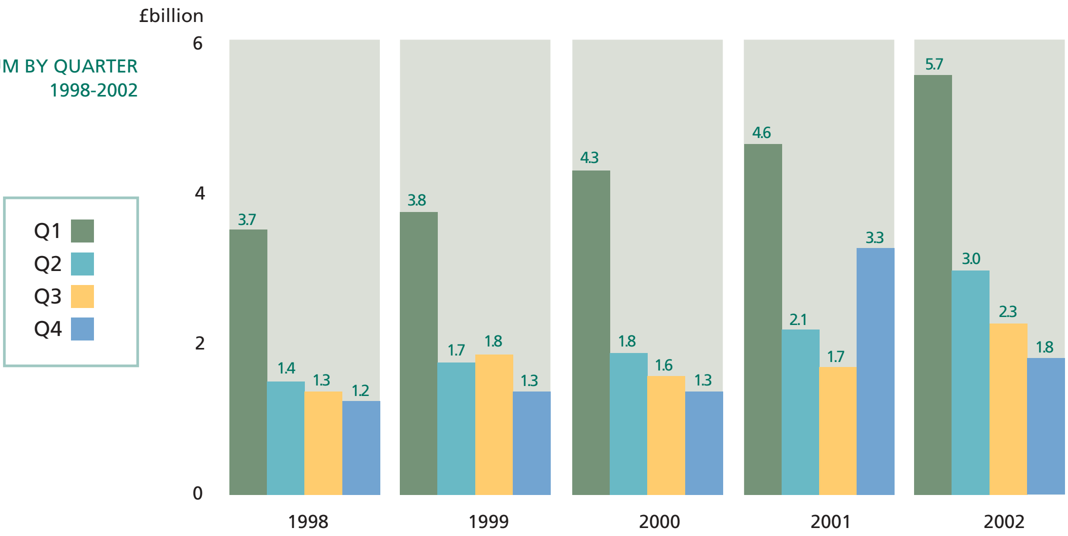
Lloyd's of London provides specialist insurance services to businesses in over 120 countries. It is the world's second largest commercial insurer and sixth largest reinsurer. Approximately 5 percent of global reinsurance premium is placed at Lloyd's, and the market accounts for around half of London's international insurance business. In 2003, the client base includes 96 percent of FTSE 100 companies and 93 percent of the Dow Jones Industrial Average companies.

2001-2002: STRONG GROWTH IN PREMIUM

Widespread market losses and adverse reserve development prompted a wave of rating agency downgrades across the insurance industry in 2002. Against this backdrop, a strong risk appetite, coupled with stable ratings, has allowed Lloyd's to strengthen its presence in many markets. Written premium income has grown strongly in the last two years and, on a three year accounting basis, is expected to reach record levels of £13.4 billion gross and £8.9 billion net in 2002. The US is now the largest single market, contributing some 40 percent of total premium income. Lloyd's has become the leading writer of US Surplus Lines business, market share having grown from 17 percent to over 21 percent in the past 5 years.

Lloyd's was one of the fastest growing reinsurers in 2001 and 2002. Gross reinsurance premium written rose by 21 percent to £6.9 billion in 2002 and accounted for 45 percent of total premium, up from 42 percent in 2001. US premium accounted for about half of Lloyd's reinsurance income in 2002.

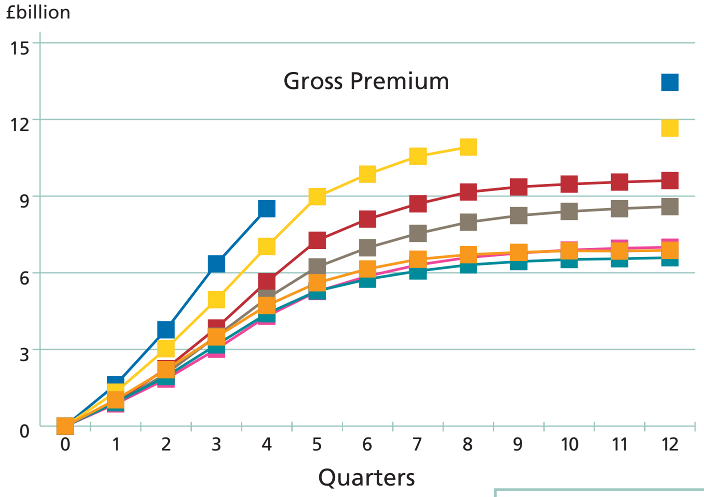
WRITTEN PREMIUM BY QUARTER 1998-2002

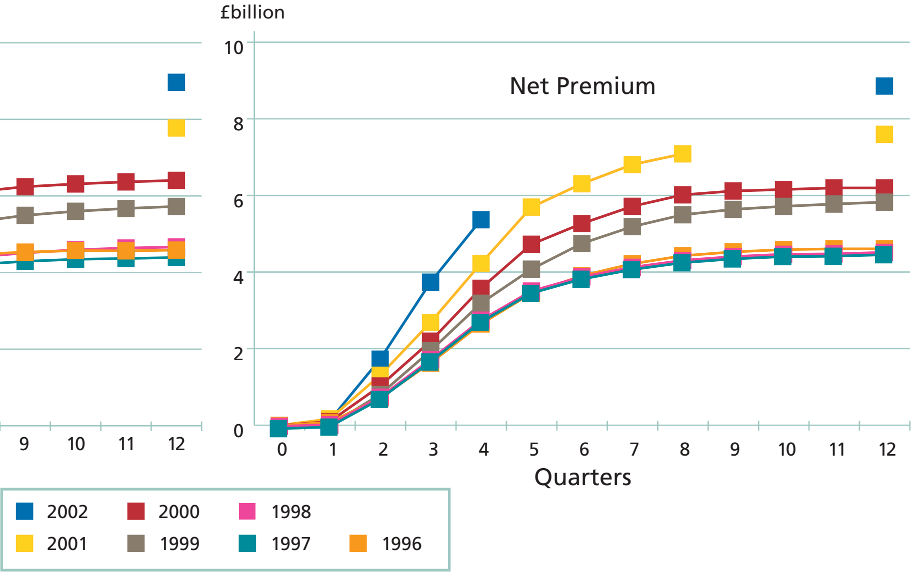


Source: Lloyd's of London

GROSS PREMIUM DEVELOPMENT 1996-2002
(AS AT Q4 2002)

NET PREMIUM DEVELOPMENT 1996-2002
(AS AT Q4 2002)

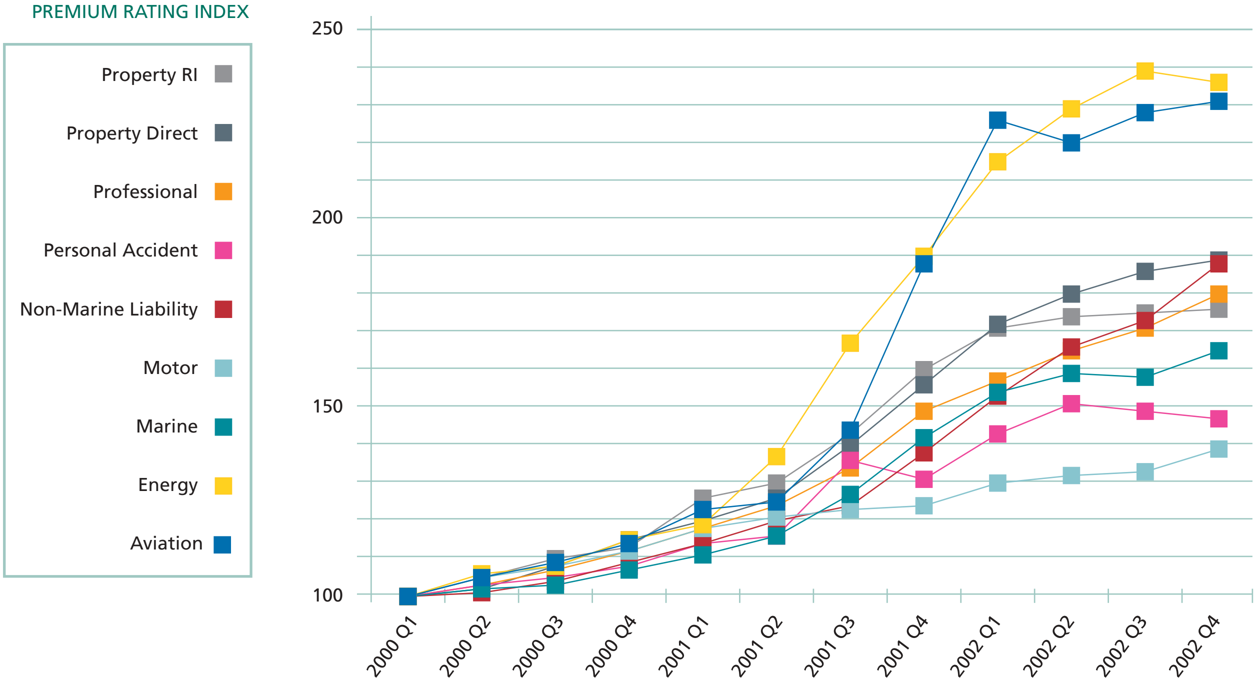




Source: Lloyd's of London

Lloyd's remains the global centre for many traditional speciality risks. After years of underperformance, key sectors such as Aviation and Marine (including Offshore Energy) and the US Surplus Lines market generally are now seeing some of the largest premium rate increases.

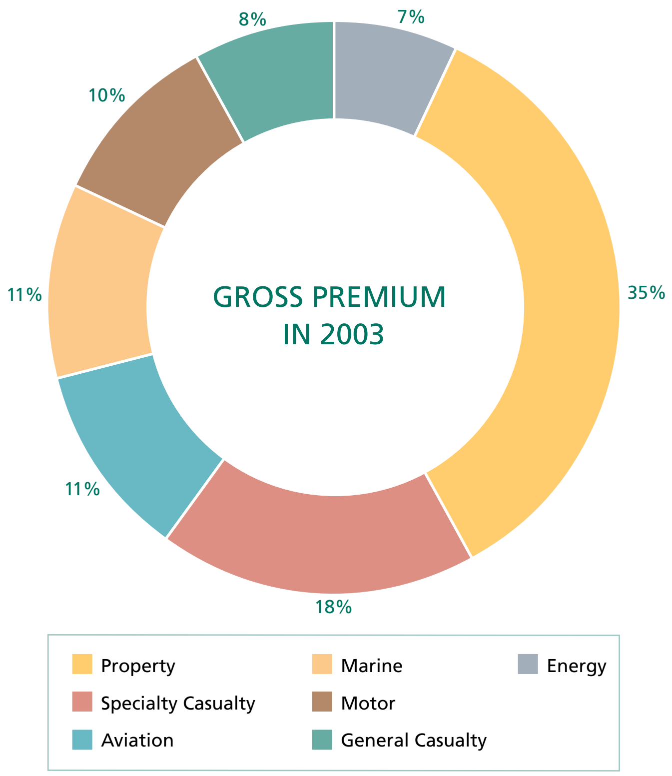
PREMIUM RATING INDEX

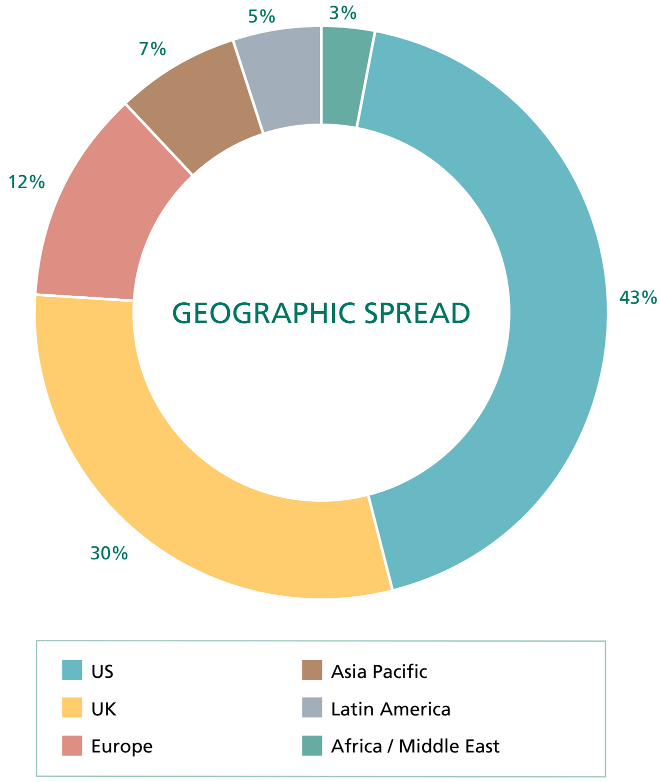


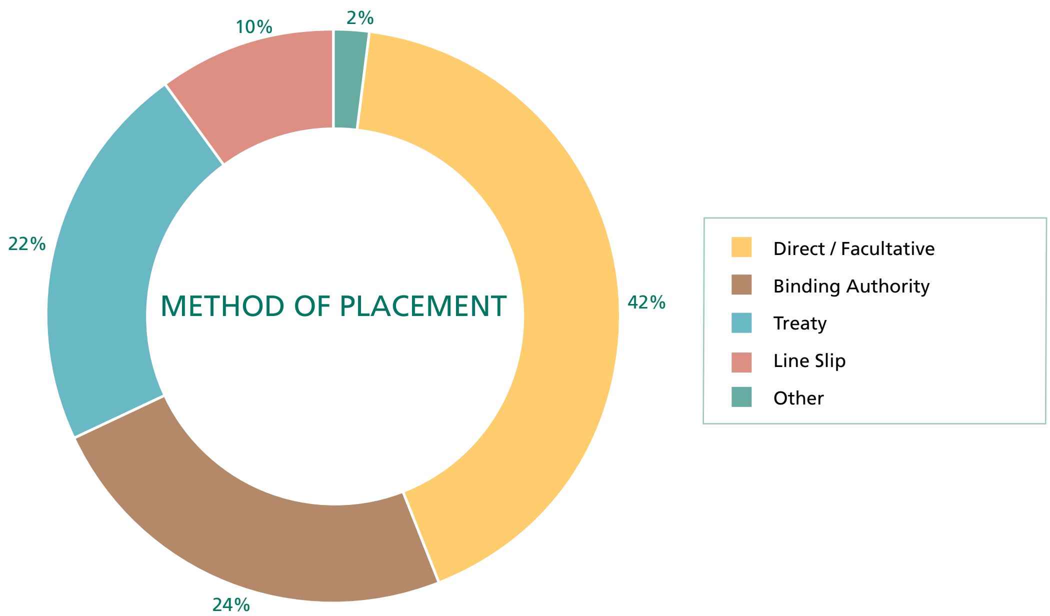
Source: Lloyd's of London

THE MARKET IN 2003

Based on preliminary first quarter figures, premium income is expected to increase again in 2003, by around 10-20 percent. Based on syndicate business plans, the anticipated business mix, method of placement and geographical spread for 2003 are as follows:







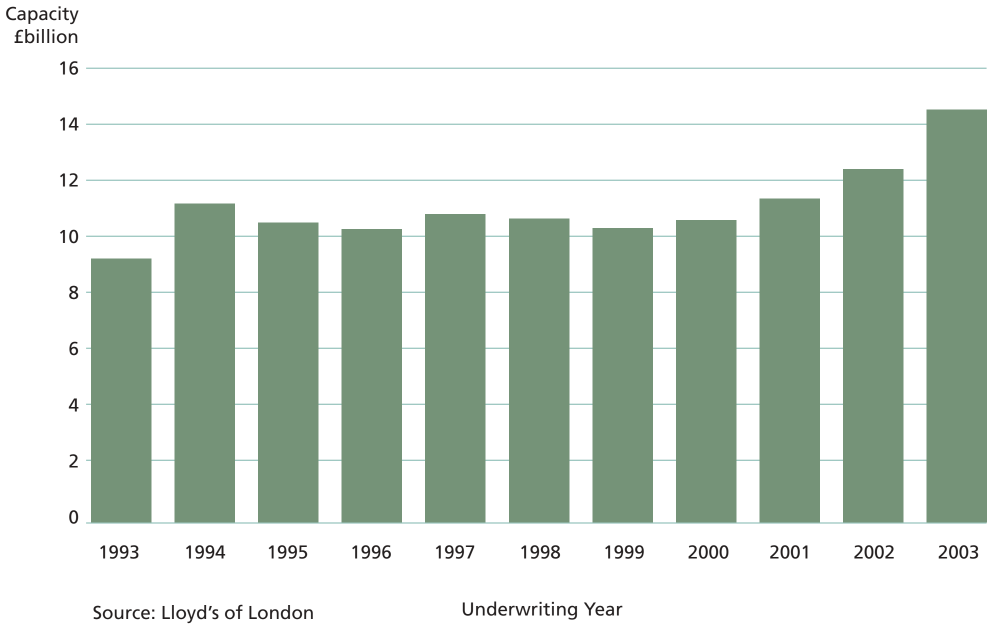
Source: Lloyd's of London

Trends in Lloyd's Capacity

OVERALL MARKET CAPACITY

Market capacity is defined as the maximum volume of insurance premium, net of brokerage, that the Lloyd's market can accept in a single year, based upon the aggregated capital supplied by members. At a record £14.4 billion, the total for 2003 is 18 percent higher than the opening capacity for 2002. Some £6 billion of new capital has been invested at Lloyd's over the past two years and headline market capacity has increased by over 40 percent in the past 3 years.

LLOYD'S MARKET CAPACITY 1993-2003



Source: Lloyd's of London

Additional 'Temporary' Capacity

Demonstrating investors' confidence in the Lloyd's market, capacity of £12.2 billion at the beginning of 2002 was bolstered by a further £1.5 billion during the year, as managing agents sought to take advantage of improved underwriting conditions. This took the form of mid-year capacity increases at several fully aligned corporate syndicates (£0.3 billion) and more widely spread qualifying quota share (QQS) arrangements, which increased to £1.2 billion in 2002, from £0.55 billion in 2001. Berkshire Hathaway Inc. demonstrated a particular appetite for Lloyd's business, supplying some £800 million of 'temporary' capacity in 2002, via quota shares and similar arrangements. Managing agency beneficiaries included Wellington, Trenwick, Heritage, Danish Re, Euclidian, Beazley, SVB, Navigators and Greenwich.

QQS capacity in 2003 is again expected to exceed £1 billion. Though useful, in terms of raising extra capacity quickly in a hard market, it is regarded as opportunistic and, consequently, Lloyd's is keen to avoid over-reliance. QQS arrangements are thus closely restricted and monitored. The maximum permitted in any one year is an additional 30 percent of syndicate capacity (expected to reduce to 20 percent for 2004) and Lloyd's has minimum capital and rating requirements for the reinsurers utilised, as well as a range of additional conditions.

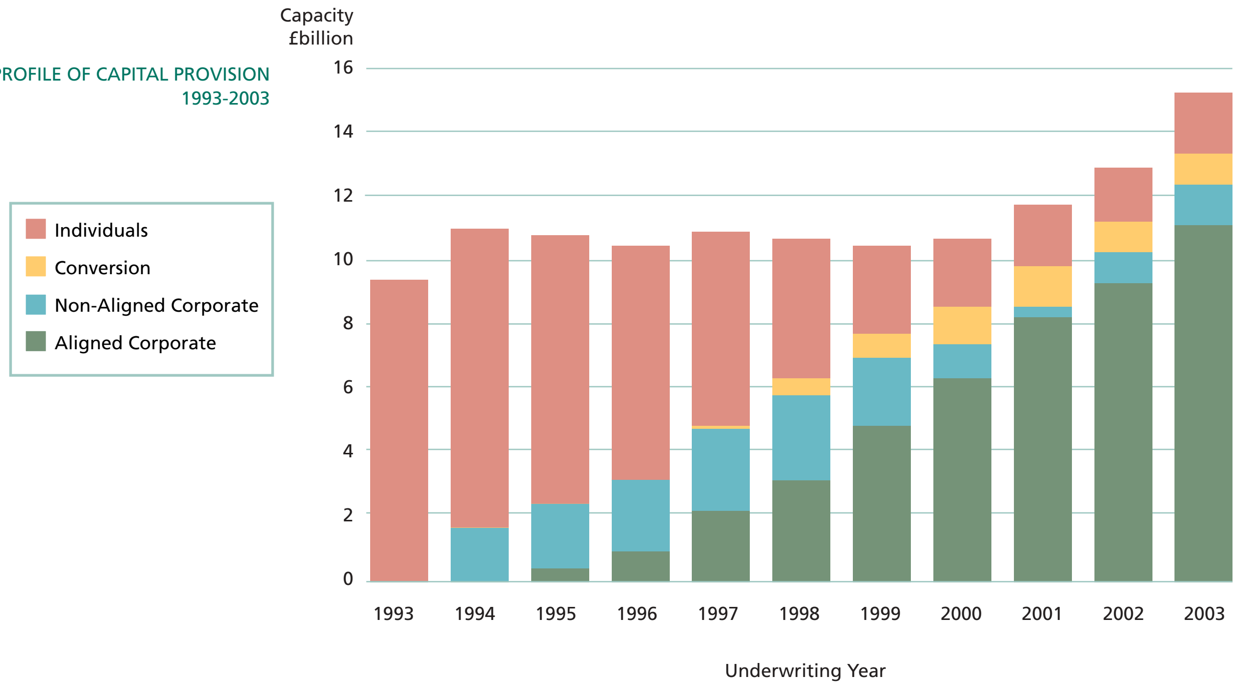
Increases in syndicate capacity, via mid-year pre-emptions, can be funded by corporate members themselves entering into third party quota share arrangements. Such third parties are required to place funds with Lloyd's – normally in the form of a letter of credit – on behalf of the corporate member, to support that member's increased participation in the syndicate. These arrangements must be disclosed to Lloyd's but, by their very nature, tend not to be publicised.

TYPES OF INVESTOR

Wealthy individual members write on a traditional unlimited liability basis. Corporate members are limited liability companies formed exclusively to underwrite business at Lloyd's. Examples include Scottish Limited Partnerships, NameCos and Group Conversion Vehicles, all of which are formed to enable individual members to convert their underwriting to limited liability. Where a corporate member and a managing agent of a syndicate form part of the same corporate group, the capital provider is described as 'aligned'. A syndicate consisting of a single aligned corporate member is known as an Integrated Lloyd's Vehicle.

The proportion of capacity supplied by corporate members has steadily increased since their introduction to the Lloyd's market in 1994. For 2003, 762 corporate members writing on a limited liability basis provide 87 percent of market capacity, 73 percent being aligned. The remaining 13 percent is provided by 2,198 individual members writing on an unlimited liability basis.

PROFILE OF CAPITAL PROVISION 1993-2003

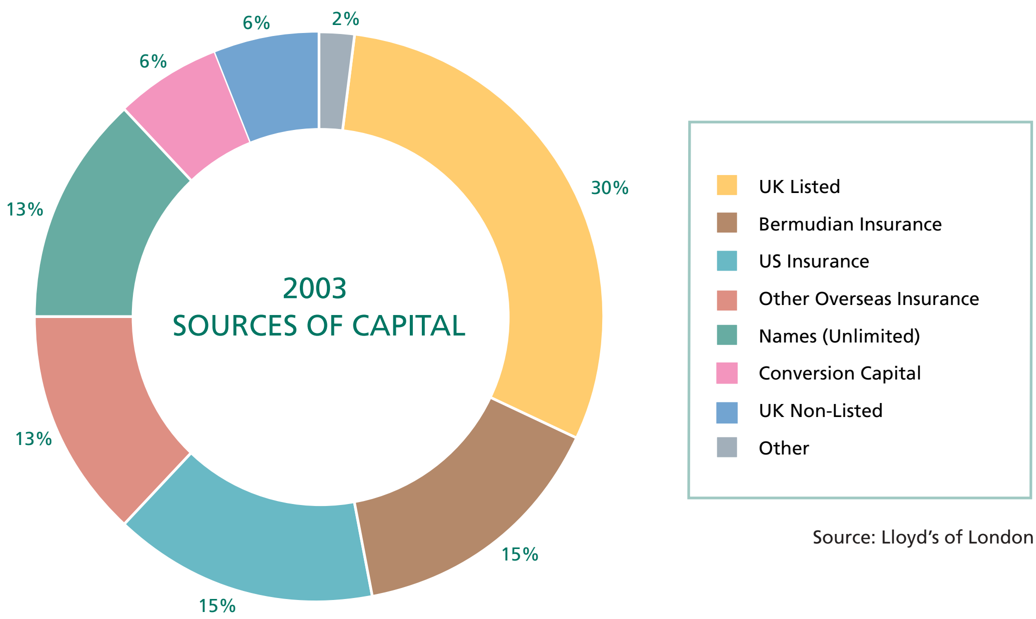


Source: Lloyd's of London

SOURCES OF CAPITAL

Major insurance industry investors, particularly from the US and Bermuda, continue to show strong support for the Lloyd's market – capacity supplied increased by 14 percent for 2003, although their overall share dipped slightly to 43 percent from 45 percent in 2002. By contrast, UK listed vehicles have raised their share from 25 percent to 30 percent. This has been achieved largely through equity capital issues, with more than £1 billion raised in the last 12 months reflecting strong support from investors. Beneficiaries include Amlin (£80 million), Kiln (£30 million), Wellington (£74 million), Brit (£204 million) and Beazley (£150 million). At 31 March 2003, the market capitalisation of Lloyd's listed vehicles had increased by around 75 percent, relative to 10 September 2001, a very strong performance relative to the wider market.

SOURCES OF LLOYD'S CAPACITY IN 2003



Source: Lloyd's of London

Franchise Implementation

Against a backdrop of heavy losses and increasing competitive pressures, it has been recognised that fundamental change is required if the market is to maintain its position as a major insurance centre.

THE NEED FOR CHANGE

Lloyd's of London aims to be the trading platform of choice for high margin specialist insurance and reinsurance business. The market remains attractive as a source of such business, but the cost of mutuality has risen at a time when larger players such as Ace Ltd and XL Capital Ltd, who are no longer so reliant on Lloyd's licences, increasingly have a choice as to where they operate. Furthermore, for various business reasons, several 'traditional' Lloyd's businesses such as GoshawK, Catlin and Wellington have established reinsurance ventures outside Lloyd's, while personal lines insurers such as Highway, Zenith and Admiral have left the market completely.

The overriding objective of the Franchise Implementation process, much of which has stemmed from the Chairman's Strategy Group (CSG) proposals, is to transform Lloyd's into a modern, transparent and profitable market place, which is attractive to capital providers and policyholders as a place to do business. It is recognised that this will require:

- Dramatic and sustained improvement in profit performance
- Greater transparency
- Better standards of service delivered to policyholders
- Increasing flows of new capital into the market
- Reduced transactional costs, including lower Central Fund contributions
- Improvement in the Lloyd's market security ratings
- A new discipline and culture
- A streamlined governance structure

Overview

Franchise Implementation is built on the continuing existence of a market of competing and independent businesses, founded on the mutual security of the Central Fund. This model is believed to play to Lloyd's strengths, which include diversity, choice, innovation and access to underwriting decision-makers. In recent years, poorer performing businesses have undermined these strengths by weakening the results and reputation of the whole market. The reforms aim to address this issue through the creation of a disciplined market place, where the standards of the best businesses, whose performance has been strong, will become the standards of the market as a whole. The two key challenges are to achieve sustained profitability, while retaining entrepreneurial spirit, and to attract and retain investment, while maximising the wealth of capital providers.

THE ROLE OF THE FRANCHISE BOARD

In a bid to adopt a more proactive role in setting the commercial, as well as the supervisory, framework, Lloyd's has moved from a system of licensing to a franchise structure. A Franchise Board has been established, comprising four Lloyd's executives (Lord Levene, Nick Prettejohn, Rolf Tolle and Andrew Moss), four external independents and three market practitioners.

The stated goal of the Franchise Board is "to create and maintain a commercial environment at Lloyd's in which the long-term return to all capital providers is maximised." The relationship between Lloyd's (the franchisor) and the managing agents operating in the market (the franchisees) has been redefined by the Council of Lloyd's in a set of Franchise Principles, which detail the objectives of the former and the obligations of both. These cover three main areas: the overriding principles (relating to legal, regulatory, and corporate governance issues), the capital principles (which emphasise equity between capital providers and prudence in capital setting) and the operating principles (including setting the market supervision framework in accordance with Financial Services Authority requirements.)

The franchisor's principal responsibility is to promote and protect the brand and reputation of Lloyd's. To this end, guidelines representing best underwriting practice, set by the franchisor, are at the heart of the new relationship. The franchisor will expect businesses to honour these guidelines, unless they make a convincing case to the contrary. They include:

- Targeting gross underwriting profit on each line of business
- Restricting maximum gross and net exposures to a single Lloyd's specified Realistic Disaster Scenario to 75 percent and 20 percent of syndicate capacity, respectively
- Setting minimum net retention at 10 percent of gross line, to limit dependence on reinsurance and to discourage arbitrage
- Ensuring that each franchisee has an approved reinsurer selection process
- Ensuring that franchisees adhere to service standards covering policy production and premium and claims payment as defined by the London Market Principles (LMP)

The other key development is the introduction of a new business planning and quarterly monitoring process, aimed at preventing financial under-performance before the event. Risk management elements of the new regime were initiated for 2003 and the full underwriting/risk management business planning regime will be in place for 2004. Although the franchisor's role is intended to be primarily facilitative, it will be prescriptive and apply constraints where required, if under-performance threatens the security and profitability of the market as a whole. Ultimately, the franchisor has the power to remove franchisees from Lloyd's.

To implement the performance-related aspects of the Franchise proposals, Lloyd's has established the Franchise Performance Directorate and appointed Rolf Tolle as its Director.

CORPORATE GOVERNANCE

A new corporate governance structure, aimed at delivering independent oversight, together with clarity of responsibility and accountability, was required to implement the franchise arrangements successfully. To this end, the Franchise Board has replaced the Lloyd's Regulatory Board and the Lloyd's Market Board. It is supported by two key committees: a Market Supervision Advisory Committee and a Capacity Transfer Panel. An Underwriting Advisory Committee has also been established to advise the Franchise Board on underwriting and risk issues. These changes will require amendments to the 1982 Lloyd's Act.

CAPITAL ISSUES

The Franchise Board is required to deal openly and equitably with the different classes of member operating in the market. The senior management team at Lloyd's, while continuing to seek the support of private capital supplied on a limited liability basis, has made clear its belief that unlimited liability capital, three year accounting and the annual venture are commercial handicaps in the 21st Century. Perceived advantages of removal include:

- improved result transparency and comparability with the company market
- greater flexibility in terms of long-term business planning, investment strategy and allocation of business across syndicates and outside Lloyd's

To this end, no new unlimited liability members will be admitted to the market from 1 January 2003 and no member will be able to participate on an unlimited liability basis from 1 January 2005. With little support for mandatory conversion of unlimited members by 2005, Lloyd's is concentrating its efforts on removing the obstacles that inhibit voluntary conversion. After intense lobbying by Lloyd's, the UK government has announced that it is aiming to introduce measures in the 2004 Finance Bill to remove tax barriers to individual members converting to limited liability underwriting.

The Franchise Implementation reforms envisage moving to a position where management and capital provision is fully aligned across all syndicates. For operations already possessing Integrated Lloyd's Vehicle (ILV) status, ways are being sought to minimise the impact of the annual venture-based business timetable and to allow additional operational flexibility. For those who aspire to be ILVs, Lloyd's intends to encourage the transition from spread to fully-aligned status.

From 1 January 2005, it is envisaged that unaligned capacity will participate in the market via an alternative structure operating on a contractual – probably quota share reinsurance – basis. Lloyd's is also encouraging the development of a range of investment schemes introduced by existing market players and aimed at attracting new capital to participate on a non-membership basis.

ANNUAL ACCOUNTING

In the belief that it will improve comparability and thus the market's attractiveness to new capital providers, the Franchise Board is committed to move to an annual accounting system under UK GAAP by 1 January 2005. It is hoped that this will be achieved in tandem with the implementation of International Accounting Standards within the European Union. An amendment to the EU Accounts Directive allowing Lloyd's to distribute profits prior to traditional account closure after 36 months has recently been approved by the EU Council of Ministers.

SERVICE STANDARDS

Significant efforts are being made by the Franchise Board to improve the market's business processes, including policy production, premium payment and claims payment, the aims being quality improvement, cost reduction and improved service levels. The reforms encompass the London Market Principles (LMP) initiative, Xchanging Ins-sure and Kinnect (formerly Project Blue Mountain).

Adoption of LMP remains key to improving the long-term attractiveness of the market. Leading brokers have now agreed targets for the adoption of the new LMP electronic slip and other associated changes, and the Franchise Board will consider establishing a timetable for mandatory use once market take-up has reached a sensible critical mass. Brokers, insurers and cedants placing Property Catastrophe and Excess and Surplus Lines business will increasingly be required to submit standardised exposure data from the 2004 year account.

Kinnect is an adaptable, accessible and secure business platform, enabling commercial lines trading partners to communicate risk data electronically. It aims to improve the efficiency and effectiveness of existing trading relationships by cutting out unnecessary administration. Kinnect will focus initially on the US and UK markets. On 31 March 2003, it was announced that Marsh, Willis, ACE European Group, Amlin, Beazley and Wellington were the first companies to sign letters of intent to use Kinnect. The system will ‘go live’ later this year, the initial risk classes being Commercial Property, Errors & Omissions Liability and Directors & Officers Liability.

RUN-OFF MANAGEMENT

Lloyd’s is acutely aware of the relevance of efficient run-off management to its claims-paying reputation. A strategic review was initiated in 2002, draft run-off guidelines were issued in February 2003 and detailed market consultation is now under way. The key aims of the guidelines are for Lloyd’s to oversee active commercial management of run-off syndicate performance, including claims management, reinsurance recoveries and reinsurance purchasing. The run-off management team now forms part of the Franchise Performance Directorate under Rolf Tolle.

Lloyd’s is also focused on closing run-off syndicate underwriting years of account that have been left open after 36 months, rather than being reinsured to close (RITC) in the normal way. On 7 March 2003, it was announced that four of the oldest open years had been closed, releasing over 3,300 members from the market, out of a total of just under 15,000. Lloyd’s is assessing the need for central input in closing further open years during 2003 and, in particular, proposals have been advanced for the creation of specialist RITC syndicates.

Lloyd's and the Rating Agencies

MARKET RATINGS

The Lloyd's market as a whole is rated A (Strong) by Standard & Poor's and A- (Excellent) by AM Best, these ratings being affirmed on 2 April 2003, following the release of the 2002 pro forma annual results. Both ratings were lowered one notch in the immediate aftermath of the US terrorist attacks, but, in contrast to many peers, there have been no changes subsequently.

Recognising that, at the current level, Lloyd's has restricted access to certain areas of business, one of the objectives of the Franchise Implementation reforms is to improve the market's financial strength ratings. Lloyd's is currently canvassing opinion across the market with a view to determining suitable 'target' ratings.

SYNDICATE RATINGS

AM Best

AM Best launched a syndicate financial strength ratings product in November 2001. There were eleven in effect at 3 June 2003:

GoshawK	0102:	A s (Excellent)
Kiln	0510:	A s (Excellent)
Atrium	0570:	A- s (Excellent)
Atrium	0609:	A s (Excellent)
Beazley	0623/2623:	A s (Excellent)
Omega	0958:	A s (Excellent)
Euclidian	1243:	A- s (Excellent)
Danish Re	1400:	A- s (Excellent)
Ascot	1414:	A+ s (Superior)
Catlin	2003:	A s (Excellent)
Cathedral	2010:	A- s (Excellent)

Standard & Poor's

Standard & Poor's launched Lloyd's Syndicate Assessments (LSAs) in September 2002, replacing the old Bells/Crowns product. These give an evaluation of the degree to which a syndicate is dependent on Lloyd's Central Fund, brand, licences and infrastructure. Using both qualitative and quantitative analysis drawn from publicly available information, LSAs are assigned on a scale of 1 to 5, a syndicate with an LSA of 5pi being considered to have very low dependency, whereas 1pi indicates very high dependency. Standard & Poor's does not assess syndicates which have reported fewer than three closed years of account, syndicates which have undergone substantial recent reorganisation or syndicates in run-off.

Moody's Investor Service

The team at Moody's has produced Syndicate Performance Ratings since 1995.These represent opinions of a syndicate's potential future performance over the insurance cycle in relation to the rest of the syndicates operating in the Lloyd's market. The ratings do not attempt to assess the security underlying Lloyd's policies. The rating scale is A+ (Excellent), A (Very Good), A- (Good), B+ (Above Average), B (Average). Any other ratings are Below Average. Moody's also pioneered syndicate financial strength ratings in May 2000, of which four were in effect at 1 June 2003:

SVB	1007:	A1 (Good)
Amlin	2001:	A2 (Good)
Wellington	2020:	A1 (Good)
Ace	2488:	Aa3 (Excellent)

Capital Structure

LEGAL FRAMEWORK

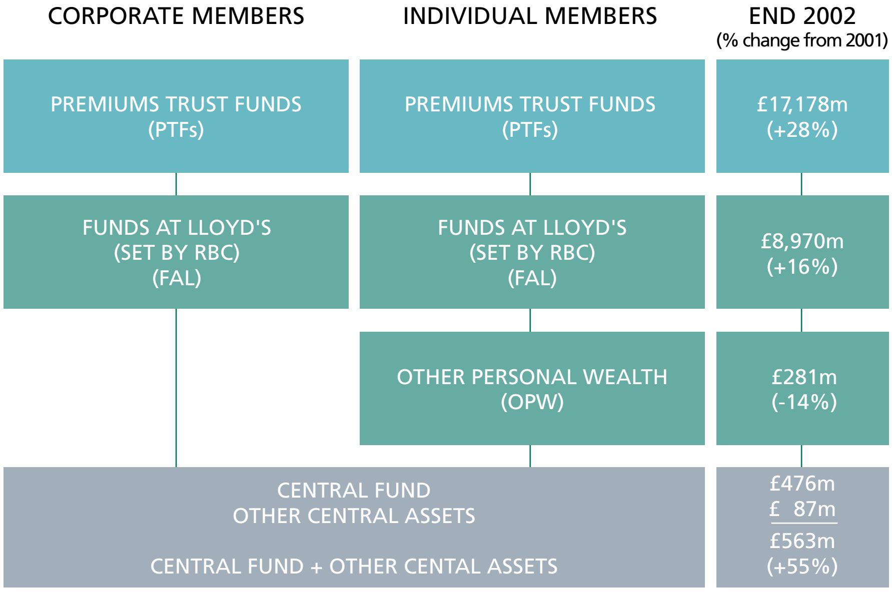
Underwriting at Lloyd's is conducted by the membership, who participate through involvement in one or more syndicates. Members have the legal obligation to policyholders, but delegate management and control of their insurance business to managing agents who act on their behalf. Lloyd's syndicates have no legal personality and are merely the vehicles through which members underwrite. Members are severally liable for their own proportion of the business written and are therefore not obliged to make good losses sustained by other members of the same syndicate(s). Put another way, each member's funds are separate and cannot be accessed by other members or their policyholders. It is only at the level of the Central Fund that Lloyd's becomes a mutual market.

Overview

The capital structure of the Lloyd's market is unique and comprises:

- Assets held in trust in respect of each member at syndicate level – controlled by trustees appointed by the managing agent.
- Overseas business regulatory deposits (OBRD) held, both at syndicate level and as joint funds, in overseas trust funds – primarily controlled by third parties.
- Assets held in trust in respect of each member as Funds at Lloyd's – controlled by the Society of Lloyd's.
- Central assets beneficially owned and controlled by the Society of Lloyd's.

THE CHAIN OF SECURITY



Source: Lloyd's of London

The chain of security only supports policies written for the 1993 and subsequent years of account. At 31 December 1995, all pre-1993 non-life Lloyd's business was reinsured in Equitas, a completely separate and ring-fenced UK-licensed insurance company. Equitas policyholders cannot access Lloyd's funds and vice versa.

PREMIUMS TRUST FUNDS

Every member of Lloyd's is required to execute a Premiums Trust Deed (PTD), under which all amounts received or receivable by him or on his behalf in respect of his insurance business at Lloyd's must be carried to a Premiums Trust Fund (PTF). Assets in a member's PTF are thus not available to non-insurance creditors in the event of insolvency. US regulations require that there are separate dollar trust funds held in New York for US$ denominated business. There are also US-based Joint Asset Trust Funds to support reinsurance and surplus lines business for US policyholders.

PTF assets are held by, or under the control of, trustees appointed by the managing agent of each syndicate in the Managing Agents Sub-Fund (MASF). Each member has a discrete fund, but managing agents manage syndicate-level funds on a co-mingled basis. MASF receipts for a given year of account comprise mainly premiums, reinsurance recoveries and investment income, and effectively constitute a syndicate's 'working capital'. Lloyd's places very conservative investment restrictions on these funds, to ensure that they are available when required. All claims relating to a particular year of account are paid out of the relevant PTF. Other than this, these funds can only be used to meet permitted expenses, as specified in the PTD, which include reinsurance premiums, return of premiums, brokerage, syndicate expenses, contributions/fees payable to Lloyd's and funding of overseas business regulatory deposits.

Members are required to ensure that there are sufficient funds available in their PTFs to enable managing agents to pay all claims, expenses and outgoings made or incurred in connection with their underwriting at all times. Where a shortfall is identified at syndicate level, managing agents must either make a 'cash call' on syndicate members or arrange alternative financing. Under the terms of the standard managing agent's agreement, members are contractually obliged to pay cash calls or face compulsory draw-down from their Funds at Lloyd's.

Profits from the PTFs are usually only distributed when an underwriting account closes after three years. However, the Franchise Board introduced 'Continuous Solvency Transfer' in April 2003, which allows members participating on the 2002 year of account to utilise any 2002 account solvency surpluses, up to a maximum of 5 percent of syndicate capacity, to meet cash calls and loss payments in respect of prior years. This is expected to help backers maintain or increase their investment in new underwriting.

FUNDS AT LLOYD'S

All members are required to provide security in the form of Funds at Lloyd's (FAL), in advance, to support the business they propose to underwrite. FAL is held in trust for the protection of policyholders and must be kept in place provided it is required to support business at Lloyd's. The amount to be provided is specified by Lloyd's and is determined using a risk-based capital (RBC) methodology, subject to a minimum requirement of 40 percent of the overall premium limit (except for members writing mainly UK Motor business, where the minimum is 35 percent). The RBC ratio is determined annually for each member, based on its spread of syndicates and business. Assets supporting FAL requirements must be liquid, but may include letters of credit and bank guarantees.

FAL is inter-available across underwriting years for a given member and typically comprises amounts required to support the previous two open syndicate years and the current/forthcoming active year. For example, after the 'Coming into Line' process in November 2002, each member's FAL had to be sufficient to cover any net deficit on the 2000 and 2001 underwriting years for all syndicates on which the member participated, as determined by actuarial review at 31 December 2001, as well as the RBC ratio for 2003.

AM Best considers the Lloyd's RBC model "to meet best practice standards in the insurance industry" (Best's Rating of Lloyd's September 2002).

Lloyd's Risk Based Capital Methodology

RBC requirements were applied to corporate members from 1994 and extended to all members from 1998, the aim being to equalise the expected loss to the Central Fund per unit of net premium/reserve. Inputs include profile of reinsurance protection, business mix diversification, credit for diversification across managing agents and credit for diversification across underwriting years. Additional FAL may be required in the form of Prudential Supervision Loadings, where the performance or management of a syndicate has failed to meet Lloyd's regulatory parameters.

During 2002, the RBC methodology was updated to more accurately reflect syndicate specific characteristics. The model is parameterised using Lloyd's market data, but an 'Operating Risk' adjustment is now applied using seven explanatory variables: size of syndicate, underwriter experience, underwriter qualification, growth, reinsurance gearing, 100 percent lines and broker over-reliance. A 'Realistic Disaster Scenario' (RDS) adjustment has also been introduced, with three natural catastrophe scenarios being used directly in the RBC calculation (Florida Hurricane, California Earthquake, and New Madrid Earthquake. Euro Windstorm and Japanese Earthquake will be added from 2003.) These adjustments have partly replaced explicit capital loadings, although the following may still apply:

Monitoring Review Loadings
Although operating risk adjustments are now incorporated directly into the RBC calculations, a loading may still apply following an unsatisfactory review or poor forecasting

New Syndicate Loadings
20 percent loading is applied to new start-up syndicates for the first three years

Risk Assessment Filter
Considered in respect of those RDS scenarios not captured by the RBC model, or if the syndicate is over-utilised.

Syndicate Specific
These have largely been replaced by the operating risk adjustments, but in exceptional cases they may be applied.

Realistic Disaster Scenarios

Realistic Disaster Scenarios are deployed to manage catastrophe exposure at syndicate and market level. Every syndicate is required to calculate gross and net exposures to at least seven specific scenarios.

RDS examples for 2003 include:

- US Windstorm – US$50 billion insured loss from windstorm hitting Florida and/or Gulf of Mexico
- Aviation Collision – two airliners over a major US city
- Second Event – Hurricane Andrew occurring shortly after the Northridge earthquake
- Terrorism – aircraft hijacking and total loss of the Empire State and Sears Buildings

Lloyd's is currently working with risk modelling experts to further develop the framework and methodology for measuring catastrophe risk exposures at syndicate and market level.

OTHER PERSONAL WEALTH

Other Personal Wealth (OPW) represents additional assets declared by individual and corporate members but not necessarily held at Lloyd's. Only the former is quantified, as this is all that can be automatically called upon by Lloyd's. However, corporate members are liable to the extent of their resources and may also have assets beyond FAL, which can be called to meet underwriting liabilities. Unlimited liability members are permitted to provide a maximum of 20 percent of their overall capital requirement as Other Personal Wealth.

CENTRAL NET ASSETS

Under the terms of the Annual Solvency Test, the Financial Services Authority requires Lloyd's to maintain net central assets sufficient to meet the aggregate of individual members' solvency deficits. The components are the net assets of both the Central Fund and the Corporation of Lloyd's.

The Central Fund

The Central Fund operates at the discretion of the Council of Lloyd's, receiving income in the form of regular member contributions and investment income, and paying any claims that meet with member default. Every syndicate is required to make an annual contribution of 1 percent of capacity, raising £134.5 million in 2002. Until the end of 2003 at least, members face an additional levy of 2 percent of premium income received, the latter being increased from 1.1 percent in the wake of the US terrorist attacks. This raised a further £246.8 million in 2002. It should be noted that there is scope for Lloyd's to make calls on members to increase the level of the Central Fund by means of a further levy, should it become threatened. Lloyd's also has the right to access up to 3 percent of the PTFs from across the market to pay claims, in the event of the Central Fund becoming depleted (potentially worth an additional £432 million for the current underwriting year).

Parent companies have not always proved willing to make up the losses of their Lloyd's subsidiaries and failed corporate capital is placing increasing pressure on the Central Fund. Payments made in respect of unpaid cash calls of insolvent corporate members totalled £465.5 million in 2002, up from £39.9 million in 2001. Nevertheless, on the basis that the insurance policy responds in full (see over), Central Fund net assets increased from £327 million at 31 December 2001 to £476 million at 31 December 2002.

Central Fund Insurance

The Central Fund is supported by a five year insurance programme, expiring at the end of 2003, with a limit of £350 million in excess of £100 million in any one year and an aggregate limit of £500 million. The participants are SR International Insurance Company Ltd 32.5 percent (Swiss Re), Employers Reinsurance Corporation 20 percent (GE Group), St Paul International Insurance Company Ltd 20 percent (The St Paul Companies), International Insurance Company of Hannover Ltd 15 percent (Hannover Re), XL Mid Ocean Reinsurance Ltd 10 percent (XL Capital Ltd) and Federal Insurance Company 2.5 percent (Chubb Corp).

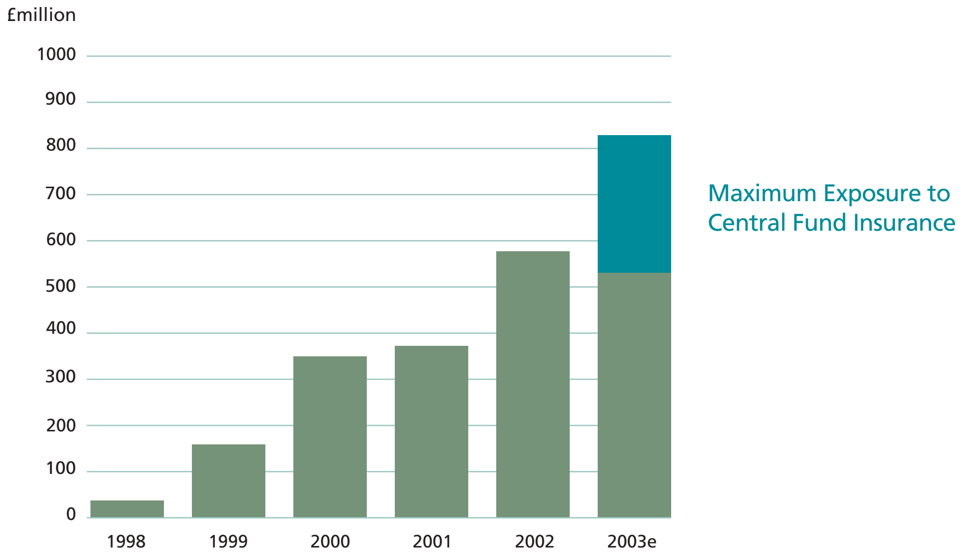
Lloyd's claimed the maximum recoverable amount of £350 million during 2002. The insurers initially paid £134 million with reservation of rights, leaving £216 million outstanding, but then disputed their liability to pay under the terms of the policy. Lloyd's, which expects to claim a further £150 million in 2003, has been seeking a commercial resolution for several months but, on 2 April 2003, announced that it was resorting to arbitration, involving all six insurers. In reply, Swiss Re issued the following statement: "The reinsurers entered into the contract to pay policyholders' claims in the event that a Lloyd's syndicate became insolvent and the Central Guarantee Fund was unable to do so. Lloyd's has submitted claims for discretionary payments from the Central Guarantee Funds used to protect members' solvency and to fund liquidity requirements, particularly in the United States. This is not the purpose for which the insurance cover was intended and as such the reinsurers strongly dispute these claims."

The arbitration is unlikely to be resolved for 12-18 months. The worst case scenario, full rescission of the contract, would result in a maximum exposure to net central assets of £290 million, being the maximum potential claim, less premium paid (£78 million over five years), less tax. Even on this basis, net central assets are still expected to exceed £500 million at the end of 2003, triple the level in 1999.

The Corporation of Lloyd's

The net assets of the Corporation of Lloyd's increased from a previously reported £82.6 million at the end of 2001 to £87.2 million at the end of 2002.

CENTRAL NET ASSETS DEVELOPMENT



Source: Lloyd's of London

NB: The 1998 to 2001 figures exclude the effects of a £285 million syndicated bank loan taken out in 1997 and fully repaid by the end of 2001.

SOLVENCY TESTING AT LLOYD'S

One of the most important controls on the solvency of members of Lloyd's is the annual solvency test. All members have an obligation to keep sufficient funds in trust to meet their liabilities and to satisfy any requests for funds in respect of audited losses or future liabilities.

The annual solvency process requires the managing agent of each syndicate to estimate and provide for all current and future liabilities for each year of account. These liabilities (ie solvency reserves) are subject to a statement of actuarial opinion. There were no qualified opinions at 31 December 2002.

Firstly, each member's solvency position is calculated. Each member must have sufficient assets – held in premiums trust funds, overseas regulatory deposits and FAL – to cover his underwriting liabilities and, on top of this, a solvency margin. The solvency margin is calculated separately for each member, determined essentially as the greater of 16 percent of total annual premium income or 23 percent of average claims incurred over a three year period. Where a member's assets are not sufficient to cover the aggregate of his underwriting liabilities and his solvency margin, the member has a solvency shortfall.

The second part of the test requires that Lloyd's central assets must be sufficient to cover the aggregate of all members' shortfalls calculated at the solvency test date, on a continuous basis. Central assets include the value of the Central Fund and Corporation net assets, including the amount of the effective callable layer and also recoveries expected to be received in connection with the Central Fund insurance programme.

Regulation – Lloyd's and the FSA

AM Best believes "…regulation of Lloyd's not only matches, but in some respects exceeds, that of other financial service sectors in the UK and overseas" (Best's Rating of Lloyd's September 2002).

CURRENT ARRANGEMENTS

Since 1 December 2001, the Financial Services Authority (FSA) has been ultimately responsible for the regulation of the Lloyd's market, under the Financial Services and Markets Act 2000. Simultaneously, the governing body of the Society of Lloyd's, the Council, continues to retain statutory responsibility for management and supervision of the market under the 1982 Lloyd's Act.

The FSA's approach to date has been to concentrate efforts at market level, involving reliance on various monitoring activities carried out by the Society. The FSA also requires the Society to set and maintain certain market standards. To minimise regulatory overlap, the relationship between the parties is governed by the 'Combined Arrangements', which were drawn up over three years ago to provide for the supervision of underwriting agents and co-operation on enforcement matters.

IMMINENT CHANGES

The FSA is currently conducting a general review of UK insurance regulation, which will involve the implementation of a full risk-based capital regime and the adoption of changes agreed at EU level. Wherever possible, the FSA intends to apply the same rules to Lloyd's as it will apply to any other UK insurer, a key concern being the protection of policyholders against the risk that valid claims are not paid. Developments at Lloyd's have reinforced the need for change. In particular:

- Franchise implementation has changed the governance structure and the relationship between Lloyd's and the managing agents. The responsibilities of the previous Regulatory Board have been subsumed into the new Franchise Board, which has similar powers but a wider remit.
- Concentration of risk in large, fully aligned syndicates is believed to pose a more direct risk to policyholders.

Against this backdrop, the FSA has recently decided to exercise its responsibility for the regulation of the Lloyd's market more directly. Proposals for the new risk-based capital regime were opened to consultation on 16 April 2003.

What is Being Proposed?

The FSA considers that the Society and managing agents manage all the significant prudential risks that affect policyholders. It proposes to develop appropriate rules and guidance to apply directly to each of them, whichever is best placed to control the relevant risk. The FSA also expects to address a requirement to members, to reflect their fundamental responsibility to policyholders.

Managing Agents
The first evidence of the FSA's new pro-active approach was a series of direct managing agency risk assessments carried out in March 2003. The rules that the FSA intends to apply to managing agents relate mainly to systems and controls – the obligation to fund capital requirements will remain with the members and the Society. However, as managing agents have the closest understanding of syndicate-level risks and controls, the FSA expects to develop a requirement for them to assess the capital needed to support the business they manage, in line with other insurers.

Society of Lloyd's
Additional rules will be applied to the Society, requiring it to ensure that:

- Managing agents' internal policies for their management of key prudential risks are consistent with or complementary to its own.
- The boundaries of responsibility between it and the managing agents are clearly understood and agreed, consistent with the FSA's requirements.
- It obtains relevant information that will enable it to carry out its responsibility for managing the aggregation of prudential risk within the market.

In addition, to ensure that aggregation of risk is controlled at both member and market level, the FSA intends to impose a high-level requirement on the Society to monitor and control the risks arising in the market and the consequent risk to central assets.

Underwriting Members
The current test demonstrates that Lloyd's satisfies the necessary overall requirements, while recognising that the assets of one member are not available to cover the liabilities of another. The FSA proposes to revise its solvency test so that it addresses the obligations of members more directly.

Summary
In the future, there is expected to be a clear distinction between the FSA's responsibility for the prudential regulation of Lloyd's and that of the Society for risk management of the market. However, 2003 will inevitably be a year of transition. The FSA has indicated that it is committed to working closely with the Society as it develops its approach and will aim to avoid undue duplication. The appropriate division of respective responsibilities will be discussed with the Society and the Combined Arrangements will be updated to reflect this.

The FSA is aiming for new rules and guidance to be effective from January 2005, to coincide with Lloyd's move to annual accounting and the introduction of its new requirements for general insurers. In the interim, existing rules and requirements will be updated.

Implications

1. The FSA believes that applying rules directly to the Society and managing agents, in line with the approach for other insurers, will help demonstrate a level playing field and distinguish the FSA's role in regulating Lloyd's from that of the Society.

2. The activities of the Franchise Board have added to a growing administrative and financial burden on agencies and underwriters. Should the Society continue to impose its own regulatory requirements, notwithstanding those being developed by the FSA, this burden will be further increased.

3. The FSA does not expect the systems and control proposals it develops to have significant implications for members in terms of additional work or direct cost. However, the proposals being developed may increase capital requirements for Lloyd's, in line with changes proposed for insurers more generally. Any increase will affect members, as it is they who fund the FSA's solvency obligation for Lloyd's. There may be a consequential impact on the business mix.

Appendices

APPENDIX 1
ACTIVE SYNDICATES IN 2003

PSEUDONYM	SYNDICATE	ACTIVE UNDERWRITER	MANAGING AGENT	AFFILIATION	ALLOCATED CAPACITY		2003 CAPITAL BACKING				* 2001 FORECAST	2000 RESULT	1999 RESULT	** PERFORMANCE RATINGS		** FINANCIAL STRENGTH RATINGS	
					2003 £m	2002 £m	Aligned %	Unaligned %	Conversion %	Individuals %	(% of Capacity)	(% of Capacity)	(% of Capacity)	Moody's	S&P	Moody's	AM Best
HIS	0033	R CHILDS	HISCOX	HISCOX PLC	842	504	65	10	8	17	(5.0)	(12.4)	(12.6)	A-	3pi		
JDB	0044	C RAY	TRENWICK	TRENWICK GROUP LTD	5	5	79	4	0	17	3.0	40.5	3.6	C+	2pi		
GOS	0102	P TOOMEY	GOSHAWK	GOSHAWK INSURANCE HOLDINGS PLC	173	154	100	0	0	0	(5.0)	(6.4)	(1.9)	B+	3pi		A s (Excellent)
FRW	0190	T CORFIELD	LIBERTY	LIBERTY MUTUAL GROUP	267	196	100	0	0	0	(7.8)	1.0	1.0	B-	3pi		
EMP	0218	R WHITE	COX	COX INSURANCE HOLDINGS PLC	433	361	58	12	11	19	12.5	5.8	0.1	B+	3pi		
KGM	0260	C HART	KGM	PERSEVERANCE LTD	34	32	18	18	13	51	2.5	2.1	(4.3)	B-	2pi		
LSM	0282	A ELLIOTT	LIBERTY	LIBERTY MUTUAL GROUP	163	226	100	0	0	0	(40.9)	4.0	22.0		3pi		
KLS	0308	S MATHERS	KILN	KILN PLC	4	4	61	29	0	10	7.5	(9.0)	(2.5)	C+	2pi		
MSP	0318	M PRITCHARD	ENSIGN	ENSIGN HOLDINGS LTD	159	106	35	42	8	15	5.0	3.5	3.1	B	3pi		
PWH	0382	A WALKER	HARDY	HARDY UNDERWRITING GROUP PLC	100	54	80	8	1	11	9.0	7.0	3.0	B+	4pi		
DAC	0386	D CONSTABLE	LIMIT	QBE INSURANCE GROUP LTD	450	300	49	13	13	25	5.0	(3.6)	0.4	A-	3pi		
NJA	0389	N ALLEN	BRIT	BRIT INSURANCE HOLDINGS PLC	15	14	92	1	0	7	(10.0)	11.9	2.3	B-	3pi		
FDY	0435	M LANGE	FARADAY	BERKSHIRE HATHAWAY INC	400	400	100	0	0	0	(8.8)	(25.0)	(18.9)	B	3pi		
WTK	0457	D HOARE/O CRABTREE	MUNICH RE	MUNICH RUCKVERSICHERUNG AG	225	184	100	0	0	0	(5.0)	(19.9)	(26.3)	B	3pi		
KLN	0510	VARIOUS	KILN	KILN PLC	484	389	38	22	15	25	0.0	(3.6)	(5.3)	A-	3pi		A s (Excellent)
KCS	0557	A CARRIER	KILN	KILN PLC	55	47	23	17	23	37	(46.0)	18.1	6.0	A	4pi		
STN	0566	P GROVE	INCIDENTAL – SEE SYNDICATE 2999														
ATR	0570	N MARSH	ATRIUM	ATRIUM UNDERWRITING PLC	165	130	17	22	17	44	(2.8)	(4.5)	(3.7)	A-	3pi		A- s (Excellent)
XXX	0587	M TOWNDROW	CHAUCER	CHAUCER HOLDINGS PLC	96	90	84	12	0	4	9.5	0.8	(14.4)	B	1pi		
AUW	0609	C DANDRIDGE	ATRIUM	ATRIUM UNDERWRITING PLC	160	131	15	23	17	45	3.0	4.5	4.5	A-	3pi		A s (Excellent)
AFB	0623	A BEAZLEY	BEAZLEY	BEAZLEY GROUP PLC	330	325	0	45	21	34	0.1	0.6	2.0	B+	3pi		A s (Excellent)
IRK	0626	R CHILDS	INCIDENTAL – SEE SYNDICATE 0033														
SAM	0727	M MEACOCK	MEACOCK	SA MEACOCK & CO LTD	71	62	4	28	11	57	(10.0)	(8.5)	(7.5)	B-	2pi		
CDL	0779	B JACKSON	ST PAUL	ST PAUL COMPANIES INC	20	18	14	20	0	66	5.0	22.7	6.3	A-	3pi		
ADV	0780	P UPTON	ADVENT	ADVENT CAPITAL (HOLDINGS) PLC	228	150	47	15	12	26	(60.0)	(3.2)	(14.7)	B	3pi		
SDM	0807	S MATHERS	KILN	KILN PLC	87	63	40	11	28	21	6.0	(4.9)	(12.0)	B	2pi		
MWD	0820	A HOLT	INCIDENTAL – SEE SYNDICATE 2001														
TMA	0839	J GIORDANO	TRENWICK	TRENWICK GROUP LTD	328	200	100	0	0	0	1.0	(28.8)	(49.8)	C	1pi		
BDC	0887	A HOLT	INCIDENTAL – SEE SYNDICATE 2001														
GSC	0958	J ROBINSON	OMEGA	OMEGA UNDERWRITING HOLDINGS LTD	154	110	2	33	23	42	2.5	2.9	1.3	B	3pi		A s (Excellent)
PYE	0962	D PYE	CREECHURCH	CREECHURCH GROUP	22	28	55	45	0	0	8.8	(11.7)	(16.1)	C+			
JDN	0980	J NEAL	ENSIGN	ENSIGN HOLDINGS LTD	83	68	3	95	0	2	10.1	0.3	(6.7)	B	1pi		
SIM	0994	M SIMMONDS	GREENWICH	GREENWICH INSURANCE HOLDINGS PLC	40	49	90	10	0	0	(14.7)	(34.8)	(56.0)	C	1pi		
SVB	1007	M WHEELER	SVB	SVB HOLDINGS PLC	151	151	79	4	4	13	(3.5)	(9.8)	(4.0)	A-	3pi	A1 (Good)	
COF	1036	C O'FARRELL	LIMIT	QBE INSURANCE GROUP LTD	90	75	100	0	0	0	(3.5)	0.2	(7.4)	B	3pi		
HAY	1084	H HAYWARD	CHAUCER	CHAUCER HOLDINGS PLC	102	82	67	10	12	11	(8.9)	(7.7)	(14.1)	A-	2pi		
RAS	1096	B BARTELL	CHAUCER	CHAUCER HOLDINGS PLC	160	112	81	19	0	0	(12.8)	(24.4)	(24.7)	B-	1pi		
COX	1176	M DAWSON	CHAUCER	CHAUCER HOLDINGS PLC	13	3	26	24	34	16	38.2	42.4	12.6	B+	3pi		
TAL	1183	C ATKIN	TALBOT	TALBOT HOLDINGS LTD	194	66	100	0	0	0			4.0	B			

* MANAGING AGENCY FORECASTS AS AT 31 DECEMBER 2002
** ALL RATINGS STATED AS AT 30 JUNE 2003 AND SUBJECT TO SUBSEQUENT CHANGE

NOTE: SYNDICATES DESIGNATED AS 'INCIDENTAL' OPERATE AS SUB-SYNDICATES OF THE NAMED 'PARENT' SYNDICATE, THE UNDERLYING SECURITY BEING IDENTICAL.

PSEUDONYM	SYNDICATE	ACTIVE UNDERWRITER	MANAGING AGENT	AFFILIATION	ALLOCATED CAPACITY		2003 CAPITAL BACKING				* 2001 FORECAST	2000 RESULT	1999 RESULT	** PERFORMANCE RATINGS		** FINANCIAL STRENGTH RATINGS	
					2003 £m	2002 £m	Aligned %	Unaligned %	Conversion %	Individuals %	(% of Capacity)	(% of Capacity)	(% of Capacity)	Moody's	S&P	Moody's	AM Best
ROC	1200	L ROCK	HERITAGE	HERITAGE UNDERWRITING AGENCY PLC	80	-	1	91	1	7							
JAN	1204	J HELSON	KILN	KILN PLC	28	28	10	90	0	0	(25.5)	(29.0)	(122.4)	C+			
GER	1206	P MIDDLETON	GERLING	GERLING-KONZERN ALLGEMEINE AG	55	55	100	0	0	0	0.0	(23.5)	(40.6)	C+	1pi		
XL	1209	N METCALF	XL	XL CAPITAL LTD	340	360	100	0	0	0	(57.5)	(34.7)	(4.6)	B+	3pi		
ODY	1218	S GORDON	NEWLINE	FAIRFAX FINANCIAL HOLDINGS LTD	115	70	100	0	0	0	(10.9)	(18.6)	(22.9)		1pi		
MLM	1221	C DINGLEY	NAVIGATORS	NAVIGATORS GROUP INC	125	75	97	1	0	2	0.0	(5.4)	(6.1)	B	3pi		
AES	1225	P THORPE-APPS	AEGIS	AEGIS LTD	175	140	100	0	0	0	(10.5)	(20.5)	(51.2)				
FRW	1231	G JOHNSTONE	LIBERTY	LIBERTY MUTUAL GROUP	55	-	0	100	0	0							
EUL	1243	J COLLYEAR	EUCLIDIAN	ZURICH FINANCIAL SERVICES AG	350	164	100	0	0	0	(15.1)	(27.3)	(8.1)				A- s (Excellent)
JAT	1245	G BIGNELL	HERITAGE	HERITAGE UNDERWRITING AGENCY PLC	38	44	7	45	5	43	7.5	(9.0)					
BGT	1301	P GAGE	CHAUCER	CHAUCER HOLDINGS PLC	35	35	0	100	0	0	0.0	2.8					
DRE	1400	M PETZOLD	DANISH RE	TRIDENT II LP	100	113	100	0	0	0	(20.0)	(16.3)	(86.8)				A- s (Excellent)
RTH	1414	M REITH	ASCOT	AMERICAN INTERNATIONAL GROUP INC	269	118	100	0	0	0	28.5						A + (Superior)
JHA	1607	J THOMAS	CREECHURCH	CREECHURCH GROUP	11	13	8	92	0	0	(6.1)	(33.2)	(18.0)				
BRM	1861	J HENDERSON	MARLBOROUGH	BERKSHIRE HATHAWAY INC	185	110	100	0	0	0	(10.0)	(10.6)					
CSM	1923	A PITT	GREENWICH	GREENWICH INSURANCE HOLDINGS PLC	13	14	0	100	0	0	11.5	10.6					
HAR	2000	P GROVE	INCIDENTAL – SEE SYNDICATE 2999														
AML	2001	A HOLT	AMLIN	AMLIN PLC	1000	800	86	4	4	6	1.0	(2.7)	(2.0)	B+	3pi	A2 (Good)	
SJC	2003	P BRAND	CATLIN	CATLIN GROUP LTD	450	275	100	0	0	0	(2.5)	(12.5)	3.2	B+	4pi		A s (Excellent)
MMX	2010	J HAMBLIN	CATHEDRAL	CATHEDRAL CAPITAL PLC	160	96	43	16	16	25	(5.0)						A- s(Excellent)
WEL	2020	D FOREMAN	WELLINGTON	WELLINGTON UNDERWRITING PLC	700	625	56	11	11	22	(19.5)	3.6	1.6	A-	3pi	A1 (Good)	
NEM	2040	T SAMS	BRIT	BRIT INSURANCE HOLDINGS PLC	14	14	0	100	0	0	(5.0)						
HYL	2121	J HYLAND	SACKVILLE	SOC GROUP PLC	34	46	27	24	24	25	(30.0)	(13.7)					
SVB	2147	A HICKS	SVB	SVB HOLDINGS PLC	286	154	100	0	0	0	(2.5)	4.7	(19.7)	B			
DEX	2241	M BONDS	THOMAS MILLER	THOMAS MILLER GROUP	17	22	0	100	0	0	(31.6)	(32.6)					
MWL	2245	G BIGNELL	INCIDENTAL – SEE SYNDICATE 1245														
MFM	2468	S LOTTER	MARKETFORM	MARKETFORM HOLDINGS LTD	57	26	30	70	0	0	(15.8)	(14.1)	(13.6)				
AGM	2488	A KENDRICK	ACE	ACE LTD	725	900	100	0	0	0	(7.5)	(13.8)	0.0	A-	4pi	Aa3 (Excellent)	
DLP	2525	D PRATT	ABACUS	CBS INSURANCE HOLDINGS PLC	42	45	0	37	25	38	(2.5)	(19.1)					
TLT	2607	J THOMAS	CREECHURCH	CREECHURCH GROUP	20	17	100	0	0	0	0.9						
AFB	2623	A BEAZLEY	BEAZLEY	BEAZLEY GROUP PLC	330	-	100	0	0	0				B+			
PJG	2724	P GROVE	INCIDENTAL – SEE SYNDICATE 2999														
	2750	PROVIDES QUALIFYING QUOTA SHARE CAPACITY TO SYNDICATE 0839															
MAP	2791	D SHIPLEY	MAP	MAP EQUITY LTD	326	264	44	30	10	16	(14.5)						
	2800	PROVIDES QUALIFYING QUOTA SHARE CAPACITY TO SYNDICATE 1400															
PYE	2962	D PYE	CREECHURCH	CREECHURCH GROUP	13	-	100	0	0	0				C+			
BRT	2987	S CLAPHAM	BRIT	BRIT INSURANCE HOLDINGS PLC	500	450	100	0	0	0	(38.8)	(28.4)	(6.3)	B			
QBE	2999	P GROVE	LIMIT	QBE INSURANCE GROUP LTD	500	275	100	0	0	0	(14.5)	(28.5)					
MKL	3000	J COOKE	MARKEL	MARKEL CORPORATION	260	200	100	0	0	0				B	2pi		
MIT	3210	P RAND	CHAUCER	CHAUCER HOLDINGS PLC	250	100	0	100	0	0	(5.0)	(44.3)					
SPL	5000	M GRAVETT	ST PAUL	ST PAUL COMPANIES INC	435	-	100	0	0	0	(16.5)	(39.1)					

* MANAGING AGENCY FORECASTS AS AT 31 DECEMBER 2002
** ALL RATINGS STATED AS AT 30 JUNE 2003 AND SUBJECT TO SUBSEQUENT CHANGE

NOTE: SYNDICATES DESIGNATED AS 'INCIDENTAL' OPERATE AS SUB-SYNDICATES OF THE NAMED 'PARENT' SYNDICATE, THE UNDERLYING SECURITY BEING IDENTICAL.

NEW SYNDICATES DURING 2002 UNDERWRITING YEAR

1200	Heritage Managing Agency Ltd
1231	Liberty Syndicate Management Ltd
1382	Hardy (Underwriting Agencies) Ltd
2600	Catlin Underwriting Agencies Ltd
2623	Beazley Furlonge Ltd
3030	Wellington Underwriting Agencies Ltd
3579	Marketform Managing Agency Ltd

SYNDICATES ABSORBED AT 31 DECEMBER 2002		MERGED INTO SYNDICATE
0002	Advent Underwriting Ltd	0780
0227	St Paul Syndicate Management Ltd	5000
0340	St Paul Syndicate Management Ltd	5000
0566	Limit Underwriting Agencies Ltd	2999
0582	St Paul Syndicate Management Ltd	5000
0990	XL London Market Ltd	1209
1003	Catlin Underwriting Agencies Ltd	2003
1047	Sackville Syndicate Management Ltd	2121
1173	Sackville Syndicate Management Ltd	2121
1211	St Paul Syndicate Management Ltd	5000
1241	SVB Syndicates Ltd	2147

SYNDICATES CEASED AT 31 DECEMBER 2002	
0037	Highway Insurance Agency Ltd
0138	RF Bailey (Underwriting Agencies) Ltd
0205	Jago Managing Agency Ltd
1208	Cox Syndicate Management Ltd
1382	Hardy (Underwriting Agencies) Ltd
2002	Zenith Syndicate Management Ltd
2004	Admiral Syndicate Management Ltd
2037	Highway Insurance Agency Ltd
2323	Sackville Syndicate Management Ltd
2400	Brit Syndicates Ltd
2600	Catlin Underwriting Agencies Ltd
3030	Wellington Underwriting Agencies Ltd
3579	Marketform Managing Agency Ltd

NEW SYNDICATES FOR 2003

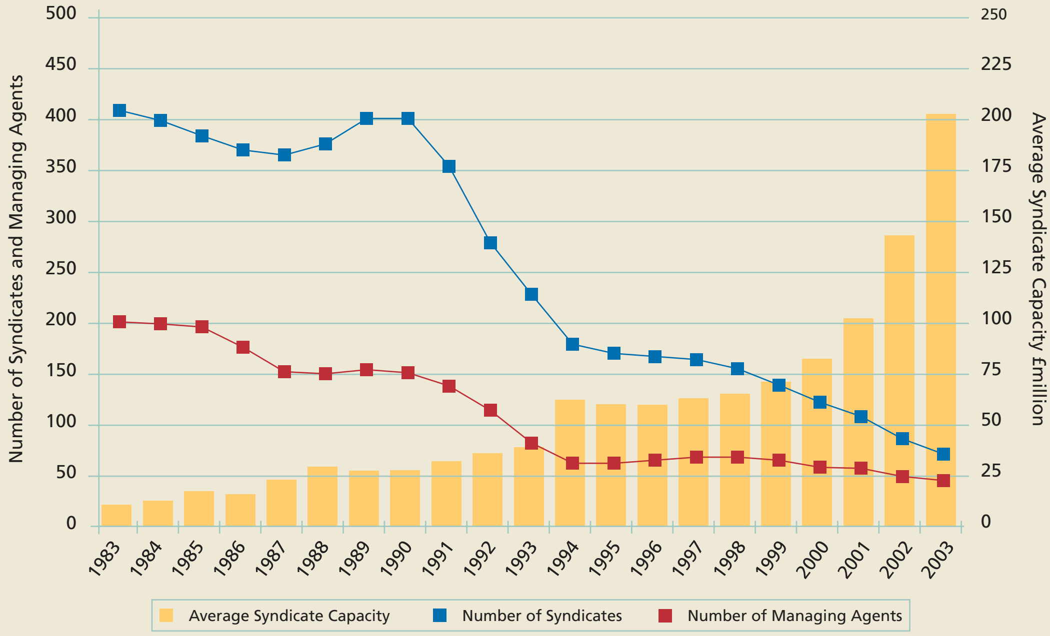
2962	Creechurch Underwriting Ltd
5000	St Paul Syndicate Management Ltd

Source: Lloyd's of London

Number of Syndicates

In line with global insurance industry trends, Lloyd's has witnessed a great deal of consolidation and rationalisation in the past few years. In the drive for greater capital efficiency, the number of syndicates has again fallen, from 86 at the start of 2002 to 71 at the start of 2003, primarily due to mergers. Average syndicate capacity has increased from £142 million to £203 million over the same period. The number of managing agents has also reduced, from 50 in 2002 to 45 in 2003.

TRENDS IN SYNDICATES AND MANAGING AGENTS



Source: Lloyd's of London

20 LARGEST SYNDICATES IN 2003

SYNDICATE NUMBER	PSEUDONYM	MANAGING AGENT	2003 CAPACITY	CAPACITY GROWTH vs 2002
2001	AML	Amlin	£1000m	25%
0033	HIS	Hiscox	£842m	67%
2488	AGM	Ace	£725m	(19%)
2020	WEL	Wellington	£700m	12%
0623/2623	AFB	Beazley	£660m	103%
2987	BRT	Brit	£500m	11%
2999	QBE	Limit	£500m	82%
0510	KLN	Kiln	£484m	24%
2003	SJC	Catlin	£450m	64%
0386	DAC	Limit	£450m	50%
5000	SPL	St Paul	£435m	-
0218	EMP	Cox	£433m	20%
0435	FAR	Faraday	£400m	0%
1243	EUL	Euclidian	£350m	113%
1209	XL	XL London	£340m	(6%)
2791	MAP	MAP	£326m	23%
0839	TMA	Trenwick	£328m	64%
2147	SVB	SVB	£286m	86%
1414	RTH	Ascot	£269m	28%
3000	MKL	Markel	£260m	30%

Source: Lloyd's of London

TOP 20 CAPITAL PROVIDERS

The top 20 investors providing capacity directly through a subsidiary capital provider supply 62 percent of total market capacity in 2003.

CAPITAL PROVIDER	2003 CORPORATE MEMBER CAPACITY	CAPACITY GROWTH vs 2002
Amlin	£861m	49%
QBE	£843m	29%
ACE	£725m	(19%)
Berkshire Hathaway	£585m	18%
Hiscox	£547m	73%
Brit	£514m	13%
Catlin Westgen	£450m	64%
St Paul	£438m	(16%)
Liberty Mutual	£430m	2%
SVB	£405m	0%
Wellington	£393m	36%
Euclidian	£350m	113%
XL Capital	£340m	(23%)
Trenwick	£332m	63%
Beazley Furlonge	£330m	275%
Chaucer	£281m	21%
AIG	£269m	128%
Markel	£260m	30%
Mitsui	£252m	152%
Cox	£252m	(12%)
Total	£8,894m	

Source: Lloyd's of London

TOP 20 MANAGING AGENTS

The leading 20 managing agents, ranked by capacity under management, oversee 77 percent of total market capacity in 2003.

MANAGING AGENT	2003 MANAGED CAPACITY	MANAGED CAPACITY GROWTH vs 2002
Limit (QBE)	£1,040m	25%
Amlin	£1,000m	25%
Hiscox	£842m	67%
ACE	£725m	(19%)
Wellington	£700m	12%
Beazley Furlonge	£660m	103%
Kiln	£658m	24%
Chaucer	£655m	55%
Brit	£529m	4%
Liberty Mutual	£485m	15%
St Paul	£455m	1%
Catlin	£450m	29%
SVB	£437m	(8%)
Cox	£433m	4%
Faraday (Berkshire Hathaway)	£400m	0%
Euclidian	£350m	113%
XL London Market	£340m	(23%)
Trenwick	£333m	63%
MAP	£326m	23%
Atrium	£325m	25%
Total	£8,894m	

Source: Lloyd's of London

GUY CARPENTER

For further information, please contact your local Guy Carpenter office or visit our web site at:

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