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Special Report: Aftermath of Terror

Lloyd's of London Faces Record Loss; Attack Payouts May Total \$1.91 Billion

By **DAVID PRINGLE**

Staff Reporter of THE WALL STREET JOURNAL

LONDON -- Releasing its first estimate of losses stemming from the Sept. 11 terrorist attacks in the U.S., Lloyd's of London said it is facing its biggest single loss in its 300-year history, a blow the insurance market said it can absorb even as analysts warned that upward revisions are likely because of the uniqueness and severity of the events.

Lloyd's estimated its members' net payouts to settle claims related to the attacks will total 1.3 billion pounds (\$1.91 billion), roughly in line with analysts' estimates. The market said the cost would be spread widely among its 108 syndicates, unlike some past payouts, such as the asbestos-related claims that pushed many private Lloyd's investors into bankruptcy in the early 1990s.

Still, such a blow will further weaken a market reeling from a series of major claims this year, such as those linked to the Petrobras oil-rig explosion off the coast of Brazil and the attack by Sri Lankan rebels on Colombo International Airport. These losses cap a string of unprofitable years, and as a result Lloyd's officials believe some of its syndicates may suffer financial difficulties. "Individual businesses might expect problems, particularly if they had losses in the past few years," said Caroline Wagstaff, a spokeswoman for Lloyd's. But Ms. Wagstaff stressed that the market's reserves should be sufficient to meet claims.

With the total insurance bill from the attacks now generally expected to approach or even top \$40 billion, analysts at some U.S. credit ratings agencies are less sanguine. Fitch Inc., which downgraded Lloyd's this week, said Wednesday that Lloyd's ultimate loss related to the attacks was likely to be at least 1.7 billion pounds and noted that initial estimates on catastrophes are almost always understated. Keith Buckley, a Fitch managing director, said that the worst-case scenario for U.S. insurers is that Lloyd's wouldn't be able to fully pay its claims stemming from the terrorist attacks, including reinsurance payments due to U.S. insurers. Reinsurance is a contract under which an insurer agrees to pay some of the costs of policies sold by other insurers.

Mark Hewlett, managing director of the financial-institutions group at Moody's Investors Service, said he wouldn't be surprised to see the Lloyd's estimate rise over time, noting that insurers so far have acknowledged exposure of only \$16 billion.

If Lloyd's estimate stands, "it is going to hurt Lloyd's, but it is the sort of loss that it is expected to be able to cope with," said Joanna Parsons, an insurance analyst with HSBC PLC. While some analysts said Lloyd's reserves should be sufficient to cover the attacks, they added that Lloyd's will face a significant challenge to restore the market to its previous financial health. Lloyd's reported a loss of more than 1 billion pounds for 1998, and its latest estimates for 1999 and 2000 are losses of 1.39 billion pounds and 600 million pounds, respectively.

-- Christopher Oster contributed to this article.

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