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These Days, 'Names' at Lloyd's Find Investing Can Be Costly, Contentious

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LONDON -- Lady Rona Delves Broughton was in the back seat of a London taxi on Sept. 11 when she learned that two jets had crashed into the World Trade Center. It took her about a minute to realize she had a serious financial problem on her hands. So far, she has written personal checks totaling nearly $3 million to cover her share of insurance liabilities for the terrorist attacks.

It isn't only big insurance companies that are paying for the estimated $40 billion of damages from Sept. 11. People such as Lady Delves Broughton pledge their entire fortunes to back insurance policies sold at the 300-year-old Lloyd's of London market. They cover such things as oil rigs, airplanes and, it turned out, New York's Twin Towers.


Lady Rona Delves Broughton

To pay for her Sept. 11 losses, Lady Delves Broughton, who says she is in her 50s but won't divulge more, has suspended renovations of her crumbling country mansion and taken out a bank loan, using her house on London's posh Kensington Square as security. She says she sometimes asks herself, "Who am I to be insuring the World Trade Center?"

It's a question heard often these days around Lloyd's. Some in the London insurance business argue that Lady Delves Broughton and other wealthy "names," as they are known, should no longer be allowed to invest in the market on terms of unlimited liability, meaning that they are obliged to sell almost all their assets, if necessary, to pay claims. But despite the huge risks, most names aren't ready to retreat.

Sept. 11 demonstrated the peril of backing insurance at Lloyd's, but it also helped push premium prices way up. Terrorism and war-risk coverage for a ship valued at $500 million now costs about $500,000 a year, or four times as much as a year ago,

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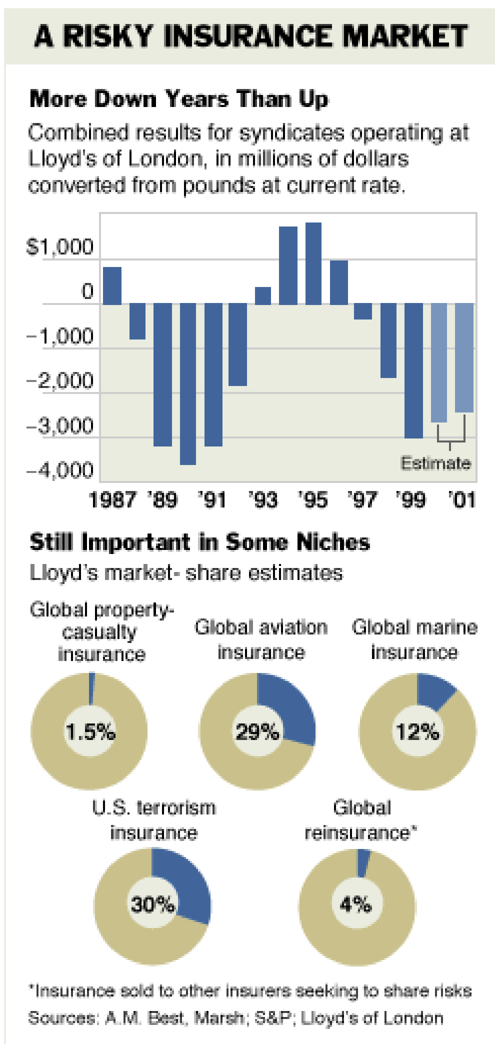
according to Christine Dandridge of Atrium Underwriting PLC, who sells such insurance at Lloyd's. Investors at Lloyd's are expecting bumper profits over the next few years, barring catastrophic new eruptions of terrorism.

"We're gambling for very high stakes now," says Lady Delves Broughton, as white-jacketed waiters clear away the remains of lunch at Le Gavroche in London. "We're desperate to get our money back -- and we believe we will."

Reasonable Bet

Many of the other 2,500 individuals who invest at Lloyd's share her belief that prices have risen high enough to make this a reasonable bet, especially when spread over several types of insurance. Among them is Terry O'Reilly, a plaintiffs' product-liability lawyer in San Mateo, Calif., one of about 170 Americans who invest with unlimited liability at Lloyd's. "It sounds like some buffoon sitting at the table in Vegas," he says. "But from the look of things, the next few years should be pretty solid."



The names' high-wire efforts to recoup their losses -- and fend off those who would push them out of the market -- provide a glimpse into the peculiar world of Lloyd's at a critical point in its long history. Lloyd's has lost money in 10 of the past 14 years -- an estimated £s;2 billion ($3.1 billion) from Sept. 11 alone. Its share of the world insurance market has been eroding for decades, today accounting for only about 1.5% of the property-casualty market. Unless it can become more consistently profitable, Lloyd's could lose the support of the insurance companies that now supply most of its capital and shrink into insignificance.

Yet Lloyd's also has huge opportunities. Cachet still clings to its venerable, if tattered, brand name, whose origins go back to a coffee shop opened by Edward Lloyd in the late 1600s. The market is rich in expertise for covering complex risks that many insurers won't touch. It retains a large share of the market for covering airplanes and ships. It is also the leading supplier of terrorism coverage for U.S. businesses, with 30% of that market, insurance brokers estimate.

Eighty-six syndicates sell insurance at Lloyd's, which is housed in a modernistic tower with a 13-floor glass atrium in London's financial district. Each syndicate is a separate business, with its own investors. Once, only individuals could invest, and at their peak a decade ago, there were 34,000 names. Today, such corporations as American International Group Inc. and Warren Buffett's Berkshire Hathaway Inc. provide 80% of the capital. The companies' liability is limited. The syndicates generally compete, but they also collaborate to insure some large risks. And they share the Lloyd's brand.

Some of the companies that manage Lloyd's syndicates would like to push the gradually dwindling names out the door in the name of modernizing the market. These companies say it is costly and inefficient to juggle lots of relatively small investors under the market's complicated rules. Early this year, a "strategy group" dominated by industry professionals at Lloyd's tentatively proposed paying names unspecified sums to surrender their right to invest in syndicates.

The reaction was swift and often angry. "They want us out, and they want our interest for free -- or as little as they can get away with," says Mr. O'Reilly, the American name. Lloyd's is governed on a one-investor/one-vote basis. Although few new individuals are signing up as names, those remaining have the numbers to stave off their banishment.

Robert Hiscox, who chairs Hiscox PLC, a syndicate manager, says "bitter enders" among the names could ruin the market by delaying or blocking reforms.

"No one listens to Mr. Hiscox," retorts Lady Delves Broughton. Unless names are careful, she says, they could be "stuffed" by the corporations, though she quickly apologizes that "stuffed" is "not a proper word." By spring, the idea of buying out the names was abandoned.

Although most of them have lost huge sums in recent years, the names have good reasons for fighting to stay. Funds they pledge to underwrite insurance at Lloyd's can simultaneously be invested in stocks, bonds or property. They get the proceeds of those investments plus any profits from the insurance they back -- in good years, a double return on capital. The names also benefit from juicy British tax breaks, including the ability to set off losses at Lloyd's against other types o income. Leaving Lloyd's, says Lady Delves Broughton, would mean "kissing goodbye to all those lovely tax losses."

But names recently discovered how easily they could be cut out of some of the action at Lloyd's. In May, Wellington Underwriting PLC, which manages one of the biggest syndicates, known as 2020, announced plans to transfer much of the syndicate's business to a new company outside of Lloyd's. The backers of the new company: institutional investors, such as New York's Blackstone Group. If the deal sparked others, such outside arrangements would divert capital from Lloyd's, perhaps hastening its demise.

Pressure Campaign

As head of the High Premium Group, an association of 300 names who back large amounts of insurance, Lady Delves Broughton found herself the target of lobbying for and against the Wellington foray. The deal required the approval of a majority of names. Proponents telephoned to argue that without the transaction, Wellington, weakened by heavy Sept. 11 losses, might fail to raise the money needed to preserve 2020.

The names who invest in 2020 were offered options to buy shares in the new outside company and a possible cash payment. But some advisers to names asserted that those terms were inadequate. After initially endorsing the deal, Lady Delves Broughton in early June changed her mind. She sent a letter to members of her group, warning that allowing Wellington to set up shop outside of Lloyd's could set a dangerous precedent.

The opposition failed. On June 19, it was announced that Wellington had won, 59% to 41%. Julian Avery, Wellington's chief executive, says the deal will benefit names and not harm 2020's profitability.

The tussle at Lloyd's has become a major distraction for Lady Delves Broughton, who has had little time for other interests, which include tennis, "psychic studies," and management of her 800-acre estate in Cheshire. For many of the other names, the attraction of Lloyd's is partly social. It provides an excuse to meet friends who have shared some terrible losses over the years and grown close in the process.

Lady Delves Broughton was too busy to attend a recent luncheon at London's Naval Club for about 30 members of her High Premium Group. Over a meal of steak-and-kidney pie and brownish cauliflower, the attendees heard a guest speaker discuss how to value the Lloyd's brand name.

Oliver Carruthers, a disheveled former colonial official who is a vital member of Lady Delves Broughton's brain trust, called out, "Hands up, anyone who think it's worth £s;100 million!" Nearly everyone raised a hand. "Hands up, anybody who thinks you're going to get £s;100 million!" Mr. Carruthers said. This time, the names guffawed.

John Wheeler, a 70-year-old retired entrepreneur, listened, then said softly, "If I were offered £s;1 million, I'd have a hell of a time persuading my wife not to take it."

Some names take a more hard-nosed approach. Mr. O'Reilly, the California lawyer, says the ouster of the names is inevitable. "We are dinosaurs," he says. "But we own the place." He joinec Lloyd's in 1985 on the advice of a money manager and says he has made more money than he has lost. Mr. O'Reilly, 57, says the corporations eventually will have to pay the names a fair price for their stakes in syndicates -- although no one knows what the price will be. "I, for one, am not leaving till I get something back," he says.

Amid this static, the chief executive of Lloyd's, Nick Prettejohn, is trying to build consensus for a reform plan that goes beyond the role of the names. Mr. Prettejohn, a 41-year-old former management consultant, says the main problem is that the terrible performance of a few syndicates drags down the results of the entire market, jeopardizing its reserves and credit rating. This month, he expects to propose new rules that would punish syndicates that take inordinate risks.

His reform package also will include plans to update Lloyd's archaic accounting methods. And the plan will call for forbidding anyone to join the market with unlimited liability after 2002. Current names could continue to invest with unlimited liability. The plan would require the approval of most of the names.

Lady Delves Broughton says she generally likes the Prettejohn plan. Instead of bickering about reform, investors and syndicate managers should "put all our energies into making a profit," she says.

Aristocrat's Progress

Lady Delves Broughton is an unlikely person to wield influence in the insurance world. As a young woman in Cardiff, Wales, she aspired to study medicine and serve in a leper colony. But an early marriage and children ended those plans, she says. After a divorce, she remarried to become the third wife of Sir Evelyn Delves Broughton, a baronet whose father's romantic troubles in Kenya were the subject of the 1988 film "White Mischief."

Accompanying Sir Evelyn to the Ascot horse races, Lady Delves Broughton remarked on all of the luxury cars parked near the stands. Sir Evelyn explained that the owners were "all members o: Lloyd's," she recalls. "That persuaded me that it might be a good idea." She became a name herself in 1976, although her husband did not.

For her first 12 years as a member, things went swimmingly. Lloyd's profits "educated my three daughters at the best schools in England, with plenty to spare," she says. By the late 1980s, however, Lloyd's had ceased to be a reliable place for the rich to get richer. Claims gushed in for asbestos-related disease in the U.S. and such disasters as the 1989 Exxon Valdez oil spill. Lloyd's reported losses totaling £s;8 billion for the five years through 1992. Those losses wiped out the fortunes of hundreds of names. A few committed suicide. Lady Delves Broughton, then a member of the ruling council at Lloyd's, recalls receiving frantic late-night calls from names as far away as California.

Her husband died in 1993, and she had suffered frightening losses. But she says she stuck with Lloyd's because she knew that after the rocky years, premiums would rise. Lloyd's indeed showed profits for four years in the mid-1990s.

But Lloyd's fell into the red again in 1997 and has remained there since. Part of the problem -- and the part that annoys Lady Delves Broughton the most -- is that some of the corporations that began backing syndicates in the mid-1990s moved aggressively into the market just as insurance prices were plunging. One of those companies, Bermuda-based insurer XL Capital Ltd., whose shares are traded on the New York Stock Exchange, reported losses of $52 million on business it underwrote at Lloyd's in 2000. It lost another $314 million last year. A spokesman for XL declines to comment on its Lloyd's investment beyond saying the company hopes the market will adopt changes that encourage XL to remain an investor.

A few of the corporate-backed syndicates have drawn on the Lloyd's central fund, a pool of money available for syndicates that otherwise can't pay claims. As a result, all Lloyd's members are paying extra fees to rebuild the fund. Lady Delves Broughton resents having to share the cost of what she views as corporate mistakes. The syndicates partly backed by names' capital generally have done better than those that use only corporate money, according to Charles Sturge, a former name who compiles annual syndicate rankings.

Lady Delves Broughton says some foreign companies blundered by buying control of weak syndicates and hiring second-rate underwriters to run them. It helps to know which underwriters drink too much at lunch, she says, adding, foreigners "would be very hard pressed to know the intricacies of Lloyd's."

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