Greenwich Insurance Holdings PLC
April 2002 Bulletin

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1. *Lloyd's Results & Estimates at 31st December 2001*

On 10th April Lloyd's announced its results for 1999, 2000 & 2001. For the first time results were produced utilising annual accounting in respect of 2000 and 2001 accounts.

Year	*Annual Accounted*	*Three-year Accounted*
1999	Not available	(£1.95BN)
2000	(£1.21BN)	(£1.72BN) **(P)**
2001	(£3.11BN)	(£1.56BN) **(P)**

P: Projection

NB: Under annual accounting the whole of the loss for 11th September falls into 2001, whilst under three-year accounting it is split between 2001, 2000 & 1999.

2001 Forecast

In addition to the tragic events of 11th September, 2001 has witnessed an unprecedented level of catastrophe loss including:

- The loss of the Petrobras oil rig off the coast of Brazil.
- The terrorist attacks on Air Lanka.
- The industrial explosion in Toulouse.
- Tropical Storm Allison.

In total these four catastrophes, plus the World Trade Centre loss (WTC), generated net losses to the Lloyd's Market of approximately £2.3BN.

2001 also witnessed a significant upturn in Market conditions, a process that accelerated significantly as a result of 11th September. This upturn is reflected in dramatically improved rating conditions and a return to more disciplined and focused underwriting.

2000 Forecast

The forecast of a loss of £1.72BN is primarily a result of soft Market conditions across all lines of business. Currently it is projected that a third of the Lloyd's net losses arising from WTC fall into the 2000 year of account.

1999 Result

The key contributing factors to the loss of £1.95BN are:

- 27 major catastrophes including the Turkish Earthquake, European windstorms and the Sydney hailstorm.
- Soft Market conditions with pressure on pricing across all classes.
- Directors & Officers liability and professional indemnity losses arising from the "dotcom" share collapse.

Lloyd's confirmed that the results were in line with expectations and they provided a comparison with results reported by other large reinsurers. Lloyd's combined ratio in 2001 was 140% as compared to 142% for US reinsurers and 129% for European reinsurers. Within the forecast was an update in respect of the impact of WTC, where losses appear to have stabilised:

- There was little material change in the Market's gross loss estimate of £6.13BN (previously £5.7BN) and net loss estimate of £1.98BN (previously £1.9BN).
- From the date of the first estimate in September 2001, the net estimated loss has increased by 52%. Standard & Poors have identified that for a comparable group of non-Lloyd's reinsurers, the average increase in estimates arising from the World Trade Centre loss has been 67%.
- Lloyd's confirmed that 2,300 claims have been settled at a cost of £600M.
- The Lloyd's US funding requirements (in excess of £5BN) have been met in full.

Comment

Prior to the World Trade Centre loss, Lloyd's had anticipated 2000 to be a "smaller loss" whilst 2001 was predicted to make a small profit. Some analysts, and particularly Moody's, now suggest that 2000 & 2001 losses may well even exceed 1999: Moody's are projecting losses of £2.2BN (Lloyd's £1.72BN) for 2000 and £2.6BN (Lloyd's £1.56BN) for 2001.

2. *Anthony Hilton*

Following a change of policy by the owners of the Evening Standard, Anthony Hilton has had to resign his Directorship of Greenwich Insurance Holdings PLC. Associated Newspapers Ltd, who own The Evening Standard where Anthony Hilton is City Editor, are now enforcing a policy whereby their Editors have to be "free" of any potential conflicts of interest by foregoing Directorships in outside companies.

Anthony Hilton has been a tower of strength throughout the time he has served Greenwich, both as a Director of Grenville Underwriting I Ltd, Chairman of Greenwich Lloyd's Advisers Ltd and, finally, as a Director of Greenwich Insurance Holdings PLC. As a shareholder through the Grenville II conversion scheme we will be keeping closely in touch with Anthony and thank him for the excellent counsel he has always given us.

3. *Chairman's Strategy Group*

In our February Bulletin, we outlined the proposals contained in a report issued by the Chairman's Strategy Group (CSG) and this bulletin offers the opportunity of an update and further comment. The proposals can best be considered under the following five headings:

- **Franchise** – Considerable progress has been made in regard to the proposed structure and operation of a Franchise Board. It is envisaged that Lloyd's will become a franchise manager and, in that capacity, will become involved in the business planning process of managing agencies who, in effect, will be the franchisees.

  During a recent speech to the Institute of London Underwriters, Sax Riley referred to the franchise proposals and stated: "In the past, we've used the term "franchise" in a loose sense, as a description of the benefits Lloyd's brings – the right to use the Lloyd's name and brand, access to the Market's network of international trading licenses, a global reputation for security and meeting every valid claim, but these new proposals suggest that we formalise the concept – we create a contractually binding franchise with Lloyd's centrally acting as franchiser and managing agents becoming franchisees".

  Effectively, all Lloyd's businesses will be licensed under a contract containing a mutually binding agreement with the responsibilities on both Lloyd's and the managing agent. Behind the franchising process is a desire to tackle the issue of poor underwriting. Sax Riley went on to say: "The problem we have is that the actions of a single syndicate can tarnish the Market's reputation – through excessive losses, poor management, seeking to evade the payment of valid claims, or some sort of disciplinary offence. While the creation of a franchise itself cannot guarantee these things will not happen, the contract can be used to raise standards and help prevent financial under-performance before the event. It will be a pro-active way of enforcing standards of behaviour and discipline".

  At this stage, what is not clear is to what extent the franchiser will impose itself on the business plans of the individual syndicates but it is anticipated that targets and guidelines will be created and failure to meet them could result in the removal of the franchisees right to trade at Lloyd's.

- **Annual Accounting** – Lloyd's commenced the process in 2000 of parallel annual accounting, alongside the existing three-year accounting system. The latest results for the year ending 31st December 2001 reflect this capability.

The proposed changes in reporting are designed to increase transparency by requiring syndicates to account for premiums and claims in the calendar year in which they occur. The impact is clearly demonstrated in the results posted recently for 2001. The unique circumstances of 2001 demonstrate both the strength and weaknesses of annual accounting for the Lloyd's Market. At first glance, the figures for 2001 under the new system are considerably worse than under the old system. But, on the other hand, the new system gives investors much more certainty as regards their liabilities at a much earlier stage.

- **Unlimited Liability/Annual Venture to cease –** whilst this proposal was very clear in its objective in requiring all existing Names to convert to limited liability by 1st January 2005, there has, as anticipated, been some backlash, particularly in regard to the proposed method of compensation and ongoing third party capital participation (see below). The Council of Lloyd's, however, has stated that no new Names will be accepted after this year and has made it clear that they do not think that unlimited liability exposure is appropriate any longer. Equally, the annual venture has become an outmoded structure which, in itself, produces substantial problems and exposures, such as the creation of Open Syndicates. The annual requirement for a reinsurance to close, with its assessment of the exposure to be passed from one annual venture to another, is immensely complex and costly and most practitioners would wish to see an end to it.

- **Third Party Capital –** In our February Bulletin under "Comment" we gave our view that we did "not underestimate the difficulties of finding a solution". Sadly, this has proved to be the case and neither ongoing members' agents, or those managing agents who wish to retain support from third-party capital have been able to find an appropriate solution for former Names. In the absence of an agreeable formula, it might be concluded that Market forces will be left to find a solution. Indeed, it is reported that the discussions between the interested parties has led already, in one instance, to a proposal for Names to be offered shares in lieu of their current underwriting capacity. Additionally, there are already in existence procedures for the acquisition of underwriting capacity such that those entities who wish to achieve integrated status can do so. It may well be preferable to create an environment where the Market entities can efficiently achieve their desired ends with Lloyd's acting purely as the facilitator rather than trying to enforce a method of participation which is both complex and unpopular.

- **Run-Off –** We mentioned in our last Bulletin the necessity for the Chairman's Strategy Group to address the closure of run-off syndicates as essential to obtain the support of non-underwriting Names when proposals are put to the Membership for their agreement. We are pleased to note the sub-group has been established and look forward to receiving their proposals. Regrettably this problem is growing with further syndicates left open at 31st December 2001 and, realistically, a solution is unlikely to be achieved this year.