GREENWICH

Greenwich Insurance Holdings Plc
August 2001 Bulletin

In this Edition

1. Equitas

In its edition of Monday, 16th July, The Times carried an article on the subject of Equitas which caused considerable alarm to its readers. Subsequently, other papers carried similar stories suggesting that the escalating number of asbestos claims was likely to lead to the failure of Equitas. Consequently, the presentation of the latest set of Accounts for the year ending 31st March, 2001 was awaited with some concern. However, those who attended the Presentation by the Senior Executives on Friday, 20th July were greatly comforted by what they heard.

The full Reports and Accounts will be sent to all Names on 8th August: a detailed paper on the subject of asbestos will accompany the Accounts. As was the case last year, an Open Meeting will be held on 7th September in the Queen Elizabeth II Hall, Westminster. The following are the key points:-

- Since Equitas was set up the surplus had previously increased from £588m to £784m. Follow in increased provisions the surplus for the year ending 31st March, 2001 reduced to £700m.

- Overall cash flow for the year was positive to the sum of £103m.

- Cash and investments currently stand at £7.4bn being the highest level since Equitas was formed.

- The Accounts continue to be qualified, as they have since inception, as a result of the uncertainty relating to historical liabilities.

- The increased level of claims filed for asbestos is caused by individual claimants filing against more defendants than previously.

- Increased asbestos notifications have caused the gross reserves to be strengthened by £1.7bn to £8bn.

- In the past year cash payments relating to asbestos claims represented 5% of the total asbestos reserves.

- Favourable results have been achieved in settlement of environmental pollution claims.

- There is considered to be "no material liability in relation to tobacco claims" (The Daily Telegraph's report on Saturday, 21st July was incorrect in this regard).

- Assessment of Equitas' overall reserves against current payment trends suggests there are enough funds to meet payments over the next 26 years: the US Insurance Industry average is 6.8 years.

Our assessment is that Equitas under the management of Hugh Stevenson, Chairman, and Michael Crall, Chief Executive Officer, have done a remarkable job in managing an extremely complex set of liabilities. Undoubtedly, asbestos continues to represent the major exposure but the extraordinary success in reducing and eliminating other liabilities and obtaining cost reductions of 15% per annum has created a very healthy scenario. We believe that Names can have some confidence in these developments.

2. *Underwriting Trends*

Trading during the first six months of 2001 continues the very positive trend identified in our May Bulletin. Evidence is available internally from syndicates under our management but external sources have reported the following:-

Wellington report year on year increases across their underwriting book of 22% for the first quarter of 2001.For the previous quarter, the rate of increase was 14%.

- Hiscox state that, according to their own calculations, premium rates have risen by 26% on average in the last twelve months.

- Amlin report that continued rating improvements across all sectors of their portfolio will gather greater momentum during the remainder of this year and well into 2002.

- Finally, Chaucer, commenting specifically on the Motor Market, expect rates to show further improvement over the next year with figures from the first quarter having improved radically over those recorded twelve months ago.

3. A.M. Best Affirms Lloyd's Rating

A.M. Best has affirmed the A (Excellent) rating of Lloyd's. "This rating reflects the excellent financial strength, strong business profile, strengthening of regulatory control and prospective improvements in operating performance".

The report goes on to state that "A.M. Best initially (April, 2000) placed the Lloyd's rating on a negative outlook following concerns over deterioration in earnings, apparent difficulty in accurate forecasting of results and the ability of the Lloyd's Market to continue to leverage its superior underwriting expertise to attract new capital. A.M. Best has recognised that these concerns have now been addressed by improved prospective operating performance, improved forecasting by Market participants and 10% increase in underwriting capacity for 2001. A.M. Best also recognises a culture of improving strategic leadership from the management at the centre of Lloyd's, which filters through the hierarchy of the Corporation of Lloyd's and also through to Market participants. A.M. Best also view the continued trend towards the involvement of large investors in Lloyd's as a positive development as it has improved the level of professional expertise control within the Market".

4. US Becomes Lloyd's of London's Biggest Market

A breakdown of business for the 2000 year of account shows the US now accounts for 35% of Lloyd's gross premium income, equivalent to US $5.9bn. This compares with a 33% share for the United Kingdom. Wendy Baker, President of Lloyd's New York Office, stated:-

"The big thing we hear from the United States market about Lloyd's is they like the fact that they are not risk averse. A rapidly developing economy like the US is consistently generating new risks……………… The ability to come up with innovative solutions is Lloyd's strong point. It may not be cheap, it may have exclusion clauses, but it is cover that US businesses often can't find at home".

Following the UK at 33% Lloyd's third largest market is Europe with 13% and the rest of the Americas (including Canada) with 5%.

5. Chairman's Strategy Group

The Council of Lloyd's is receiving regular reports from the Group, chaired by Sax Riley, and responsible for making proposals in regard to Lloyd's future strategy and structure. In this process, Lloyd's is being assisted by the management consultants, Bain & Company. Following an initial stage of consultation, the Group is now involved in more specific diagnosis of the available options with an intention of reporting their findings to3 Council in October.

6. Grenville III Conversion

84 Names complete the Grenville III conversion at the end of August. This will bring the total number of Names who have converted to limited liability via the Grenville Conversion Schemes to 305 Names. The paid up capital of Greenwich Insurance Holdings plc will move from £22m to £31m.

7. *Exit Strategy*

As indicated to shareholders at the AGM last year, the Board of Greenwich Insurance Holdings plc continues to explore options for liquidity in Greenwich Shares. Opportunities to invest have, however, to take into account both negative and positive factors in relation to past and current underwriting conditions.

Evidently there are negative implications consistent with the losses reported on the 1998 account (10.7%) and estimated losses on the 1999 account (11.99%). Whilst those who converted in the relevant years have been saved the direct obligation to fund losses, Greenwich has done so on their behalf. The sales of underwriting capacity, which have so far raised over £8m, have assisted this process, but these losses have had to be funded to a much greater level than originally estimated. Whilst the Lloyd's forecast for the 2000 account is materially better, a further smaller loss is still anticipated.

On the positive side, as has already been reported, underwriting trends are very positive for 2001 and subsequent years. This is reflected in the share prices of the Lloyd's quoted vehicles which have risen 23.5% in the last twelve months against a stock market average fall in that period of over 20%. As a consequence, there is significantly more interest in investment in Lloyd's than was the case last year, although the recent collapse of the Independent **(see 9 overleaf)** is tempering some of this renewed appetite. Additionally, the increased investment by General Re (Berkshire Hathaway) and the entry of the American International Group **(see 10 overleaf)** to the Lloyd's Market have served to influence positively awareness of opportunities.

Accordingly, any investment entity considering entering the Lloyd's Market will need to evaluate the negatives and positives as described briefly above and the price of entry will reflect a balance of these two influences. The more opportunist investor would seek to take advantage of this scenario to the disadvantage of existing shareholders. Accordingly, whilst the Board will continue to investigate each and every opportunity that arises, it will always be mindful of its responsibility to deliver shareholder value.

8. Greenwich Website

Just a reminder that this Bulletin, like all Greenwich publications, is also available on our website - www.greenwichgroup.co.uk. If you have not already visited our website please do so and take the opportunity of being brought up-to-date with any recent developments which are reported on the website.

We would welcome any comments you have about our website: in particular, any further information you believe would be helpful to have available.

9. Independent Insurance

Following the collapse of the Independent Insurance Group last month, Lloyd's Syndicates have been assessing what effect this might have on their own reinsurance programmes.

To date, a small number of Syndicates have reported some exposure to the company and will be seeking to replace its participation on their programmes as quickly as possible. As far as our own active Syndicates are concerned, there is no exposure on current claims, both paid and outstanding. We will continue to monitor the situation and keep you fully appraised.

10. American International Group

American International Group, Inc (AIG) has announced it will form, through a subsidiary company, an Underwriting Syndicate at Lloyd's. The Syndicate will be backed by £100m of capital.

AIG has established a management team headed by Martin Reith, former Managing Director of Brockbank Syndicate Management Limited, to form the Managing Agent for the Syndicate which will be known as Ascot Underwriting Limited.

AIG is the leading US based International Insurance Company and the largest underwriter of commercial industrial insurance in the United States. AIG Chairman, Max Greenberg said:-

"We have had a presence in the Lloyd's building for many years. This new Syndicate will expand our operations and be an integral part of the Lloyd's marketplace. AIG's global network and innovative products and services position us to maximise the opportunities offered by Lloyd's. We are delighted to be working with the experienced management team of Martin Reith and his associates".

The formation of a Syndicate at Lloyd's by AIG is seen as a very positive endorsement of the Lloyd's franchise and further confirmation of the improved underwriting prospects.

11. Raising Standards

Lloyd's Regulators have been closely monitoring the performance of bottom quartile Syndicates and specifically 51 Underwriters who have been identified as "under performing". Lloyd's has recently announced that "they have had only to prompt changes in respect of 17 Underwriters, where the Agency had not already taken action themselves. Of the 17 Underwriters, only 4 will be underwriting for the 2002 Account".

The Lloyd's spokesman confirmed that all of the 13 Underwriters involved are in the position of it having been announced that they would no longer be the Active Underwriter for 2002 or where they are aware of the position, announcements are due to be made.

12. Voluntary Deregistration of Underwriting Agents

The following Underwriting Agents have applied for voluntary deregistration:-

ACE UK Underwriting Ltd.
Additional U/W Agencies (No. 2) Ltd.
B F Caudle Agencies Ltd.
BS Underwriting Agents Ltd.
CBS Services No. 2 Ltd.
CTW Members Agency Ltd.
Cammo Underwriting Ltd.
Castle Members Agents Ltd.
Catlin Underwriting Agencies Ltd.

Cotesworth & Co. Ltd.
Cox Syndicate Management Ltd.
Crowe Advisers Ltd.
Edward Lumley & Sons (Underwriting Agencies) Ltd.
Gardner Mountain & Capel-Cure Agencies Ltd.
GoshawK Syndicate Management Ltd.
H G Jago Ltd.
Hardy (Underwriting Agencies) Ltd.
Langton Syndicate Management Ltd.
Limit Underwriting Ltd.
Marlborough Underwriting Agencies Ltd.
Merrett Syndicates Ltd.
Merrett Underwriting Agency Management Ltd.
Minories Underwriting Agencies Ltd.
Morgan, Fentiman & Barber
Munich Re. Underwriting Ltd.
Navigators Underwriting Agency Ltd.
Newman & Stuchbery Ltd.
Pieri (Underwriting Agencies) Ltd.
QBE Underwriting Agency Ltd.
R.F. Kershaw Ltd.
RWS Agency Ltd.
SLA MEM D Ltd.
SLA MAN S Ltd.
SLA Marine Ltd.SNIS Ltd.
Stafford Run-Off Agency Ltd.
Syndicate Underwriting Management Ltd.
V W Broad Underwriting Agencies Ltd.
Wellington Members Agency Ltd.

All Names have the opportunity to comment on the applications. They should be addressed to:-

Simon Hardy
Senior Regulatory Officer,
Authorisations Department,
Lloyd's,
One Lime Street,
London, EC3M 7HA.

STOP PRESS!

Tamil Tigers rebel attack on Bandaranaika International Airport, Sri Lanka. 24th July 2001.

Tamil Tigers attacked the International Airport and nearby Air Force Base killing thirteen people. The attack near the capital of Colombo destroyed three brand new Sri Lankan Airlines Airbus planes and badly damaged three others. The attack also destroyed eight military planes at the nearby airbase.

The total loss looks set to reach $500m, an enormous loss for the Aviation War Market. Aviation War Business has traditionally been written in the Marine Market. Syndicate 994 avoids, where possible, War Accounts with exposure other than Marine, however, a few specific and whole accounts will have exposure.

Based on the loss reaching $500m, Syndicate 994's total exposure to 3 direct Underwriters is in the region of $1,012,780. The net retention under the Syndicate's reinsurance programme is $1,000,000.

The Marine Account has an estimated premium income of approximately $6,700,000. The reinsurance programme costs $2,200,000, leaving a net income of $4,500,000. The account at present has had two losses, Petrobras 36 and Sri Lanka airport. The net positive balance after these losses is still in the region

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