



GREENWICH

Greenwich Insurance Holdings Plc

June 2000 Bulletin

1. *Market Conditions*

Moody's Analysis of Lloyd's – Preliminary 1997 Results and Future Forecasts

Moody's has just published their analysis and estimate of the above results. Their forecast losses for the whole market for 1998 – 2000, including prior year releases, are:

| | |
|------|--------------------------|
| 1998 | £771M (7.6% of capacity) |
| 1999 | £775M (7.8% of capacity) |
| 2000 | £496M (5% of capacity) |

The implication of these forecasts is that the average return for the seven-year period 1994 – 2000 (i.e. post Equitas) would be circa 1% of underwriting capacity. Whilst this period does not represent a whole insurance cycle, it does indicate that returns over the cycle may well be marginal. However, the developments of the next 2-3 years should demonstrate whether, post Equitas, Lloyd's can produce better than marginal returns.

They also point out that it would be wrong to judge Lloyd's in terms of being one business unit. The return of the best and worst performing syndicates vary enormously. The difference between the best and worst performing Non-marine Syndicates for 1998 was 103% of capacity, whilst interestingly, the difference between the best and worst Composite Syndicates for the same year was 29% of capacity; the lowest difference in any class.

Moody's further comment on the trend of Lloyd's syndicate's forecasts. Whilst they accept that Lloyd's syndicates write potentially volatile classes of business into relatively small capacities and that this can result in losses in a downturn being marked and difficult to forecast, they still question the ability of underwriters and managers to forecast. They believe that they should be aware of losses incurred when they first forecast their results (perhaps with the exception of the aviation sector) given that their first forecast is six months after the end of the year being forecast, when part of the account is off-risk. It is worth noting that the forecasts given by Lloyd's for 1997 was a 3.5% profit at 13.12.97 and for 1998 was

a 0.6% loss at 31.12.98. Moody's feel that capital providers have a right to expect better forecasting than is illustrated by these figures. Greenwich would agree!

2. *Commentary by the Underwriter of Syndicate 1222 (Beverley Shreeve)*

Service Motor Syndicate 1222 was acquired by Greenwich Insurance Holdings plc and placed under the management of Greenwich Managing Agency Limited for the 1999 Account. We have asked the Underwriter, Beverley Shreeve, for a report on the Syndicate's development:

There have been significant improvements in the motor market for the first time in several years. Both insurers and brokers alike are achieving premium increases of up to 30% and in certain sectors, even greater.

Syndicate 1222 specialises in the more difficult to place motor risks. For example, our Private Car account targets young drivers for limited cover on older performance vehicles. Alternatively we will offer comprehensive cover for more mature drivers for performance or high value vehicles, or where their occupation limits their ability to obtain cover in the open market.

Amongst our other products we have an account of Public and Private Hire business, a flourishing Motor Trade account and a small but developing Fleet account.

Our products are sold through a limited number of distributors, typically high street brokers or national telesales brokers. For some of the more specialised parts of the business, our products are limited to a handful of brokers who understand and specialise in that sector themselves.

We aim to use technology to the fullest extent and to this end have developed electronic data interchange (EDI) facilities with two of the major software houses commonly used by brokers. The introduction of EDI into our business reduces our dependency on clerical staff and means that our volumes of business can increase on a variable and not fixed cost basis.

The Syndicate is currently working on its 2001 Business Plan and with market conditions clearly favourable and rates increasing, it is not difficult to envisage a significant increase in the income and profitability for next year. Indeed we believe that both 2001 and 2002 provide good opportunities for profit.

It is our intention to continue to develop the account through these two years within the existing product lines already developed by the Syndicate, albeit we see the need to increase our proportion of comprehensive business.

3. *Lloyd's Quoted Shares*

There has been some positive activity in relation to the share prices of Lloyd's companies quoted on the London Stock Market. Whilst it may take some time to gain momentum, there appear to be two influences for this improvement:

- a. Insurance Company Shares are being recommended again by Stock Market Analysts following an improvement in the earnings of U.S. insurance companies where increases in insurance premiums have been experienced for the first time in many years. This trend has fed through to London where UK and Lloyd's quoted insurance stocks have benefited, to some extent.
- b. The proposed merger of LIMIT and Wellington, followed by a cash bid from the Australian reinsurer, QBE, has increased the interest in Lloyd's quoted shares. At the time of going to press it is not apparent who is going to win in this particular battle: during the period concerned the Wellington share price has moved from 79p to 101p and the LIMIT share price has moved from 120p to 135p.

4. *Exeat Quotations*

A number of syndicates have been left open for the 1997 account and, indeed, a small number of syndicates remain open from earlier accounts. This causes obvious complications for the transition from unlimited liability underwriting, which for Grenville II participants should have reached a close at this point. In earlier years we would have recommended the "Exeat" policy offered by Centrewrite, which closes off all these open lines. However, for a number of reasons the premiums have increased massively this year, making the decision less straightforward. Most of the 1997 years which are left open should close in relatively short order, as the problems are not of a similar type or scale to those experienced in the early 1990s when so many syndicates were left open. We would expect the number of 1997 account syndicates left open to reduce considerably after the fourth year of the account, namely at the end of 2000.

We believe that the reasons for the "Exeat" premiums being so high are principally driven by the rating agencies. Lloyd's is very conscious of the ratings and the scrutiny under which it has been placed by Standard & Poors, Bests and Moody's. Centrewrite, the company offering the "Exeat" policies, is owned entirely by Lloyd's and if they were to run short of money they would make a call upon the Central Fund. The Central Fund is jealously protected by Lloyd's and it is keen to show the rating agencies that it remains unencumbered. Another reason for the increased premiums appears to be the MSU charges, which are suffered by Names who have ceased and only have run-off years. In the past these would not have been significant but under the new "User Pays" basis this represents a much higher figure. Furthermore, it may be that the premiums charged in the last few years for "Exeat" policies have not been adequate, bearing in mind the number of years now left open and the lengthening of the timeframe during which membership remains "live". In order to balance the books Centrewrite may now be taking this out on new entrants, all of which add up to a higher than expected premium.

One of the additional problems relating to open years is that Lloyd's will retain Members' funds under the "Glass Test" formula, which would otherwise have been released if an "Exeat" policy had been purchased. This, of course, provides further difficulty for the conversion process and we are examining all possible solutions.

5. *Greenwich Lloyd's Underwriting Limited*

Greenwich Lloyd's Underwriting Limited ("GLU") has recently been the subject of disciplinary proceedings brought by the Lloyd's Regulatory Division. These proceedings relate to transactions in the Deceased Name's Auction in December 1998. At the said auction GLU sought to improve the quality of underwriting supported for the 1999 account by the Grenville underwriting subsidiaries and Greenwich MAPA 7058. Accordingly GLU contacted the managing agents of two syndicates and notified them of its intention to "drop" capacity. At the Auction GLU purchased total capacity of £870,390 and "dropped" capacity on Syndicates 535 and 1173 (a Syndicate on which we had more capacity than we deemed ideal). These transactions also created a situation whereby Grenville II was, for a period, technically "out of line" in respect of underwriting for 1999.

It is now acknowledged by GLU that these were technical breaches of Market Byelaws. In accepting the breaches of the relevant byelaws, GLU stated in mitigation that, "at all material times Greenwich were acting in what they considered the best interest of their names". The objective at all times was to replace capacity with better quality capacity obtainable in the Deceased Name's Auction. GLU was required to pay a fine of £20,000 and £3,750 towards Lloyd's costs arising from these proceedings.



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