Special Comment

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Contact	Phone
London	
Robert Smith Dominic Simpson Mark Hewlett	44.20.7772.5454
New York	
Ted Collins	1.212.553.1653

Lloyd's of London: Improved Policyholder Security and Enhanced Management Processes

Summary Opinion

- Moody's considers that policyholder security in relation to nearly all syndicates currently trading at Lloyd's is better than it has been in over a decade. With significant profits of £6bn forecast for the 2002 to 2004 years of account, the introduction of improved management processes with the Franchise Directorate and with increased capital requirements due to come in for 2005 and subsequent, Moody's believes that Lloyd's should be able to avoid the worst of the losses seen in previous downturns and offer improved financial security.
- This improvement in overall market security comes despite a number of still-present challenges, including significant reinsurance receivables, continued pressure on its Central Fund from run-off syndicates and contingent exposure to Equitas. Furthermore, although the longer-term aim of most of the entities trading at Lloyd's is to avoid mutualisation, the potential for a material element of the market to look to trade outside Lloyd's is currently viewed as remote.
- On a macro basis, Moody's believes that the current underwriting margins mean that reasonable returns should be available to investors for the 2005 underwriting year, with returns falling to circa 5% to 10% of capacity should trends followed in the last underwriting cycle be repeated. Furthermore, with spread capital still involved in some 11 syndicates that Moody's rates for performance at or above B+ (Above Average), there is still the opportunity for a reasonable spread of participations by class and management.
- With regard to underwriting margins for 2006 and subsequent, concerns remain over the extent of underwriting discipline that may be maintained by some of the weaker underwriting units, notwithstanding that for Lloyd's as a whole the Franchise Directorate should be able to curtail the extent of potential losses.

Moody's Investors Service
Global Credit Research

Structure and Market Profile

SECURITY

Lloyd's is a market that comprises competing entities writing predominantly volatile Specialty business, underpinned by a Central Fund that offers a limited mutualisation of losses. The businesses (or syndicates) operate independently, with all members seeking to minimise the resources they commit to Lloyd's centrally and underwriting on a several, and not joint, liability basis.

Policyholders therefore deal with the individual syndicates, with the security of their policies based on the available resources (profits) within the syndicate funds, the members' funds supporting the relevant year of account of the syndicate and finally the central resources of Lloyd's (in the event that the member's funds are exhausted).[1]

From 2003, a key element of market security has been the introduction of a Franchise Performance Directorate tasked with protecting the Central Fund's assets by ensuring that underwriting within the market is of a sufficient standard. There had previously been regulation of the market, but the Franchise Performance Directorate is now taking a commercial rather than regulatory role and focusing on the achievement of consistent underwriting profits.

For 2005, Lloyd's is also proposing to change the nature of the current structure affecting policyholder security, increasing the explicit mutuality of the market via loans from members to the Central Fund of 3% of capacity per year of account. This would radically alter the basis of the funding of the Central Fund from the current annual levies of 1.25% and a 3% of capacity call on the membership (that Lloyd's can impose without recourse to a General Meeting), and would bring significant more resource into Lloyd's Central Fund, Lloyd's currently targeting a figure of £2bn. The proposals, which may not yet be put in place, are addressed further under Capital Adequacy below.

MARKET PROFILE

With regard to the overall structure of Lloyd's in terms of capital provision, capacity, syndicates and managing agencies, the trends are set out below. Further detail is given in Appendix 3 'Lloyd's Market Statistics'.

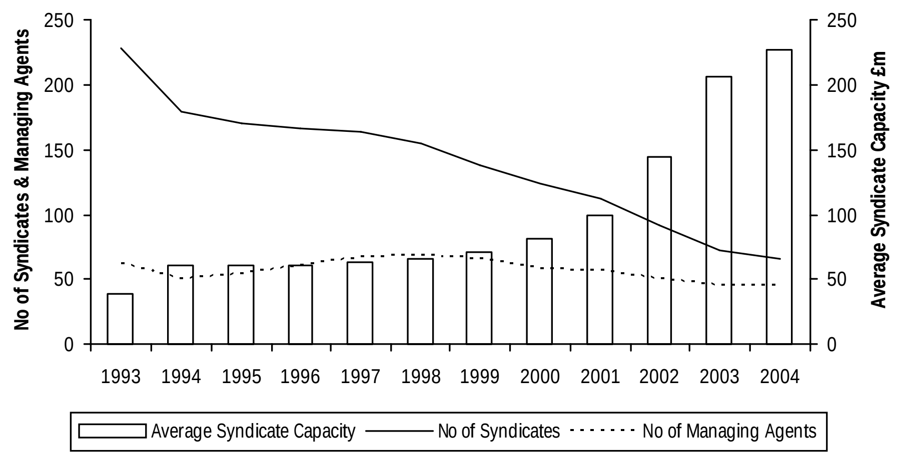
The general trend has been for Lloyd's to become predominantly trade investor and UK listed orientated, these two constituencies representing 70% of 2004 capacity with unlimited Names and conversion capital now representing 18% of the market. The Names currently have some 30 syndicates that they are able to trade through.

There has been a continued reduction in the number of syndicates from 72 to 66 for 2004 and it is expected that this trend is likely to continue in the medium term with further mergers and syndicates ceasing during the downturn. While there may be new ventures, it is currently not considered that there will be a material number, especially at this juncture of the insurance cycle.

	2004		2003		
Source of capacity	**Capacity £m**	**Market Share**	**Capacity £m**	**Market Share**	**2004 vs 2003 % change**
Trade Investors	5,956	40%	6,292	44%	-5%
UK Listed	4,444	30%	4,227	29%	5%
UK Non-Listed	1,090	7%	991	7%	10%
Other Corporate	687	5%	163	1%	321%
Conversion Capital	945	6%	878	6%	8%
Names (Unlimited)	1,869	12%	1,844	13%	1%
Total	14,991	100%	14,395	100%	4%

Source: Lloyd's

1. *Please see Appendix 2 for further details of the basis of Lloyd's Financial Security.*



Source: Lloyd's & Moody's Analysis

Overall capacity has increased marginally from £14.86bn at the end of 2003 to £14.99bn for 2004, although the effective capacity of Lloyd's was reduced with the maximum permitted level for qualifying quota shares (QQS) reducing from 30% to 10% of capacity, initial QQS capacity for 2004 being only £200m against £1,100m for 2003. For 2005, the Franchise Performance Directorate is encouraging syndicates to reduce capacity and will be looking for capacity to reduce further as the down-cycle progresses.

Business Mix – a UK and US orientated, Specialty market

Lloyd's writes a book that is evenly balanced between direct and reinsurance, with 52% of business being direct and 48% reinsurance, including facultative reinsurance. 25% of the whole is liability business with only 14% of the whole being Marine, Aviation and Transport, despite Lloyd's leading position in Marine & Aviation.

In recent years the main trends have been a reduction in personal lines business, Motor reducing from 12% to 7% between 2001 and 2003, while Direct Property business has increased from 18% to 24%. It is considered likely that the Specialty focus of the market will increase further, with another Motor syndicate due to transfer out of Lloyd's for 2005.

	Percentage of Lloyd's Total Income		
Risk Group	**2001**	**2002**	**2003**
Accident & Health	4%	4%	3%
Motor (Third Party)	3%	2%	1%
Motor (Other)	9%	7%	6%
Marine, Aviation & Transport	13%	14%	14%
Fire & Other Damage to Property	18%	22%	24%
Third Party Liability	23%	23%	25%
Life	0%	0%	0%
Other	3%	3%	2%
Total Direct	74%	75%	75%
Reinsurance	26%	25%	25%
Total Income £bn	16,112	16,203	16,422

Source: Lloyd's Global Results

In terms of geographical diversification, a significant amount of business is sourced from North America (45% budgeted for 2004) and from the UK (27%). Lloyd's is currently trying to expand the amount of business written in Europe with 12% budgeted for 2004.

Management: significant improvements in recent years

Lloyd's differs from an insurance company in that business strategy for the individual syndicates is set by the 45 Managing Agency Boards, within the constraints set by the Franchise Directorate, rather than centrally within Lloyd's.

Moody's considers that there is still a wide range in the quality of management within the 45 managing agencies. The overall trend has been for an improvement since 1997, with many of the weaker agencies having ceased and with a general improvement in the sophistication of management controls. However, there are still a number of relatively new, less well-resourced agents, who have not yet proved themselves, together with some who are likely to find the increasing demands of the new Franchise and regulatory structure very onerous.

With regard to central Lloyd's management, the input of both the Franchise Performance Directorate and those responsible for setting capital levels will be crucial over the next few years in ensuring that Lloyd's does not repeat the mistakes of the last downturn.

The introduction of the Franchise Performance Directorate is considered to have been a positive development for Lloyd's, providing Lloyd's centrally with dedicated underwriting expertise. Overall feedback from market practitioners is that the Directorate's review of underwriting plans and input into the conduct of market business is beneficial, with senior management having the requisite calibre of personnel to perform their role effectively. It has already begun to address the historical reliance on reinsurance, with a marked reduction in reinsurance spend and gross underwriting exposure from major events.

While Lloyd's has previously set out to ensure that the underwriting practices that arose in previous downturns were never repeated, notably in the post-Equitas period, the main difference is that Lloyd's now has experienced underwriting expertise and has improved the flow of underwriting information for monitoring purposes.

Although the Franchise Performance Directorate will not be tested until any future severe downturn, as long as it retains personnel with adequate underwriting and technical experience, the system should be able to curtail the worst excesses of previous years. While the Directorate is unlikely to be able to identify all potential future problem syndicates, its presence is a significant development in contrast to previous underwriting cycles at Lloyd's.

Regulation and Accounting: Enhanced capital requirements; annual accounting to facilitate comparisons

REGULATION

Lloyd's has been regulated since November 2001 by the Financial Services Authority (FSA), which has been seeking to bring Lloyd's in line with their wider solvency initiatives. The practical effects of this are that the FSA has begun its own review of the managing agencies, has applied the principle of continuous solvency, with regular assessments of members' solvency, and has introduced increased solvency requirements in 2004.

The required members' margin for liability classes (Marine, Aviation and General Liability) has increased by 50%, members proposing to underwrite in 2005 having to meet these revised requirements. From 2005, the FSA's Enhanced Capital Requirements (ECR) are due to be applied, being essentially a risk based calculation dependent on business written and reserves held, and managing agents will also have to calculate and justify their own Individual Capital Assessment (ICA) as to the extent of capital that they believe the syndicate needs. Lloyd's will be required to calculate ECRs and ICAs at a member level. The existing RBC ratio is to be used as a control over ICAs, the ICA being increased if necessary, while the FSA will also issue Individual Capital Guidance based on their assessment of syndicate risks and controls, taking into account the ICA calculated by the managing agency.

The regulatory environment has thus changed markedly in the past few years, with the independent oversight of the FSA also likely, in Moody's view, to take a more exacting view of underperforming businesses when losses materialise. In certain circumstances, it may be in Lloyd's interest to seek to maintain a business trading to avoid potential costs to the Central Fund. However, Lloyd's is probably now under greater pressure to take draconian action against an underperforming business with the FSA oversight.

ACCOUNTING

From 1.1.05, Lloyd's will be adopting annual accounting under UK GAAP for all syndicates and Lloyd's Global results. It intends to adopt International Financial Reporting Standards (IFRS) once there is greater clarity on IFRS accounting for insurance contracts. The 2005 account will therefore be reported under annual UK GAAP accounting in 2006, with the traditional 3-year account still being reported in the 2005 calendar year.

Lloyd's have indicated that the three-year account will be kept for distribution purposes / to ensure equity between Names, although the details of the proposals have yet to be confirmed. The FSA and Lloyd's have also indicated that the annual accounted results will be allowed as a basis for distribution, although again final details have yet to be agreed.

The change to an annual accounts format is welcomed by Moody's in that it will facilitate comparisons with other insurance entities worldwide. Although the syndicate annual accounts will not include capital, it is to be hoped that the disclosures will also include details of the capital dedicated to each individual syndicate, or indicative/nominal capital for those syndicates that have spread capacity, in order to improve transparency.[2]

Capital Adequacy: policyholder security currently better than for over a decade

On an annually accounted basis, for 2003 Lloyd's aggregate net resources increased to £10.1bn and aggregate net premiums written compared to net assets in 2003 were 1.2, comparing favourably to peers. However, due to Lloyd's structure, capital adequacy is better viewed in terms of syndicates trading forward and those not trading forward. Moody's analysis therefore includes modelling Moody's forecast results for each syndicate against estimated capital.

For syndicates trading forward, the significant profits available from the open years taken together with funds at Lloyd's, means that there is a significant buffer of effective capital for most syndicates for the immediate future. The extent of capital adequacy differs from syndicate to syndicate with some of the weaker syndicates forecast to only achieve breakeven results for certain open years.

With regard to those syndicates not trading forward and the weaker operating entities in the market, the Central Fund's position is considered to have improved materially in the past 2 years. At 31.12.03 the Central Fund stood at £711m, increased from £476m in 2002, although if the Stop Loss policy covering the 1999 to 2003 years is avoided[3] then restated net assets would be £449m.

The Central Fund is accounted for on a cash basis and Moody's estimates that there are losses of some £400m relating to the open years, including losses relating to Goshawk syndicate 102, which have yet to be charged to the Central Fund. Further exposures include potential bad debt relating to reinsurance receivables which total £10bn (reference 'Asset Quality' below) and contingent exposure to Equitas, both of which have been allowed for in Moody's modelling.

Lloyd's have sought to mitigate the potential impact of run-off entities that are affecting or may affect the Central Fund by establishing a run-off team to manage these exposures and create cost efficiencies through unified management. Furthermore, by their very nature, the run-off syndicates affecting the Central Fund are likely to have their years left open, with the accounts unlikely to close for several years. This means that the calls on Central Fund resources are likely to be spread over several years.

Lloyd's has a contingent exposure to Equitas via the Joint Asset Trust Fund in the United States (US), with 1992 and prior US policyholders able to resort to this fund in the event that their claims are not met. Lloyd's needs to maintain the fund in order to continue trading in the US, which is a major source of its income. As at 31.03.04, Equitas' surplus was £460m, reduced from £527m in 2003, with its surplus divided by its 3 year average deficit being 5.75 years. However, based on the commutations that it had been able to achieve, its solvency margin (its surplus as a % of net claims outstanding) increased to 9.8%.

Lloyd's is proposing to introduce revised arrangements for the funding of Lloyd's Central Fund which, if brought in as initially suggested, would radically increase central resources and the explicit mutuality of the Lloyd's market. These proposals, which incorporate loans of 3% of capacity per each open year of account from each member to Lloyd's Central Fund, are seeking to build up the Central Fund to £2bn. This would address both the losses of some £400m from run-off syndicates that Moody's believes have yet to be charged against Lloyd's central assets, as well as forming a material resource for any future claims against Lloyd's Central Fund.

2. *For example, the Limit / QBE syndicate report & accounts at 31.12.03 include deemed capital for each syndicate.*
3. *Arbitration to commence in August 2004.*

The open year profits (reference ‘Profitability’ below) and increased capital requirements from 2005, when taken together with the improvement in management and management information over the past two years at Lloyd’s, has led Moody’s to conclude that Lloyd’s currently offers policyholders security that is better than it has been in over a decade, especially for those with short-term policies. Furthermore, the proposals to centralise more of the several assets within the Lloyd’s market, gives the prospect of enhanced security for those trading with the weaker operating units.

Taking a longer-term view, Moody’s has had concerns over the extent to which Lloyd’s would allow full distribution of profits, as theoretically is the case at Lloyd’s, without retaining sufficient capital to provide against the excesses of any future downturn, as was the case prior to the previous downturn, as well as over the commitment of many of Lloyd’s participants to the concept of mutuality.

With regard to the distribution of profits, Lloyd’s requirements for minimum capital currently remain at 40% of capacity. However, there has been a trend for the Risk Based Capital ratios prescribed by Lloyd’s to increase while, as noted above, it is expected that additional capital is likely to be required under the FSA’s Enhanced Capital Requirements and Individual Capital Assessments. Added to this potentially will be increased explicit mutuality in terms of the proposed 3% loans, if brought in, all of which mitigate concerns over potential future capital adequacy.

As far as the commitment of Lloyd’s participants to the concept of mutuality is concerned, Moody’s believes that the long-term goal of most entities trading at Lloyd’s is to achieve a status where they are not exposed to potential mutualisation. However, this is not an option for many, with them not having the requisite size to transfer out of Lloyd’s, while for most others the mutuality is a cost that is worth paying for access to Lloyd’s franchise, its licences and the ability to trade using LOCs. Most are also reasonably sanguine about the prospect of future levies, believing that the recent reforms should avoid future material levies. It is thus considered that the potential for a material element of the market to exit in future years, limiting the financial strength of the ongoing market, is now more likely to be only a possibility, based on current feedback from market participants and Moody’s assessment of Lloyd’s future development.

Should all the current proposals go through in the next few years, there is the potential for the Central Fund to be significantly strengthened through increased explicit mutuality via the proposed loans, this coming together with enhanced capital requirements on an individual member basis and more effective restrictions on the practices that might lead to calls on the Central Fund. A strengthened Central Fund and enhanced capital requirements would also strengthen the position of the Franchise Performance Directorate, enabling them to act against underperforming syndicates with less concern that their actions might materially affect the Central Fund’s resources.

Reserves: improvements in 2002 and 2003 forecasts expected to offset reserve deteriorations

Lloyd’s has suffered from deterioration on reserves on US Liability business for the 1997-2000 accounts in particular. The 2001 account result, despite benefiting from the US$ exchange rate movement, has deteriorated from a 14.8% loss forecast by Lloyd’s at June 2003 to the final result, excluding adjustments on run-off syndicates in respect of previous years of account, of a loss of 18.4%.

This deterioration in the forecast result/reserves for the 2001 account follows similar deterioration in prior years. However, it is expected that, despite the likelihood of further deterioration in respect of US Liability reserves, the potential for reserve deteriorations to materially affect the 2002 forecast results is limited.

Most US Liability business is written on a claims made basis, with the expectation that reserving issues would be established after circa 5 years. Policies written on weaker terms and conditions in 2000, should be becoming mature in terms of their reserving profile. There are also long-term policies written from 1997 to 2000 on weaker terms that will have been signed into subsequent years of account. However, any reserve deteriorations in respect of these policies have to be set against the significantly improved terms and conditions that existed in 2002 and 2003, and the limited loss activity for those years. It is expected that reserve releases from the 2002 and 2003 forecasts, as these years develop, will more than offset any deterioration from prior year reserves and long-term policies.

Profitability: profits of £6bn expected for 2002 to 2004

The results for the past few years of account are set out below, Lloyd’s recording a loss of 18.4% for 2001, in line with Moody’s forecast loss of 18.7% issued in September 2003 and in contrast to Lloyd’s forecast loss of 14.8% based on the same data. The main driver of this loss was WTC, the overall loss, impacting both 2000 and 2001, now estimated at US$3.2bn net. However, the change in terms and conditions from 2001, reflected in the underwriting index table below, have led to a significant turnaround in Lloyd’s profitability, especially when taken together with the lack of major loss incidence in 2002 and 2003.

Moody’s latest forecasts for Lloyd's, set out below, indicate profits totalling around GBP6 billion for the 2002 to 2004 years of account, with the cumulative returns of 42% of capacity equalling the profits recorded by Lloyd’s between 1993 to 1995, including the extraordinary prior year releases relating to the transfer of reserves to Equitas. Profits of 15% of capacity are forecast for both 2002 and 2003.

Although rates in some areas have reduced for 2004, overall market conditions remain in line with those experienced in 1995 according to Moody’s Underwriting Index. With utilisation expected to remain healthy and the year not subject to a premium levy, Moody’s is currently predicting a 12% return on capacity for the market for the 2004 account, assuming a “normal” loss year.

Aggregation of Lloyd’s Syndicate Results

	2001 Account at 31.12.03	2000 Account at 31.12.02	1999 Account at 31.12.01	1998 Account at 31.12.00
Capacity £m	**11,263**	**10,045**	**9,870**	**10,169**
Gross Premiums % Allocated Capacity	98%	96%	91%	75%
Reinsurance % Gross Premium	37%	36%	36%	36%
Pure Year Underwriting Result % NPI	-20%	-29%	-27%	-19%
Prior Year Underwriting Result % Capacity	-2%	-1%	-1%	2%
Investment Return % Capacity	4%	5%	6%	5%
Syndicate Expenses % Capacity	6%	6%	6%	5%
Personal Expenses % Capacity	2%	3%	2%	3%
Result as % of Capacity	**-18.4%**	**-21.7%**	**-18.9%**	**-9.8%**
Best Syndicate Result	41.3%	51.1%	22.0%	29.3%
Worst Syndicate Result	-87.6%	-97.2%	-122.8%	-137.2

Results excluding calendar year movement on run-offs — *Source: Lloyd’s Global Results & Moody’s Analysis*

Aggregation of Lloyd’s Syndicate Forecasts

	2004 Account	2003 Account	2002 Account
Capacity £m	**14,991**	**14,859**	**13,239**
Gross Premiums % Allocated Capacity	86%	94%	92%
Reinsurance % Gross Premium	16%	21%	28%
Pure Year Underwriting Result % NPI	27%	28%	31%
Prior Year Underwriting Result % Capacity	1%	0%	1%
Investment Return % Capacity	4%	4%	4%
Syndicate Expenses % Capacity	5%	5%	6%
Personal Expenses % Capacity	6%	6%	6%
Result as % of Capacity	**12.0%**	**15.0%**	**15.0%**
Best Syndicate Result	38.1%	38.2%	38.4%
Worst Syndicate Result	2.0%	-25.0%	-45.2%

Source: Moody’s Analysis

	Net Underwriting Index												
Year	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Marine	119	132	134	127	117	110	104	96	95	110	117	126	125
Non-Marine	109	130	131	129	122	116	109	105	110	118	133	134	130
Motor	122	123	116	110	107	101	103	104	110	124	121	123	118
Aviation	117	121	128	131	118	109	99	99	100	126	136	131	119
Market	114	129	129	125	118	111	106	103	106	119	129	131	126

Liquidity: significantly improved

Liquidity at Lloyd's has significantly improved for nearly all established syndicates since the beginning of 2002. This is in light of profitable earnings for 2002 to 2004 and due to the US Trust Fund deposits reducing as some of the WTC claims have been paid and the related reinsurance recoveries have been received by the syndicates. Many syndicates now have liquid funds available for the payment of gross losses that are the equivalent to one to two of their largest modelled realistic disaster scenarios, the reduction in gross exposures over the past two years helping in this.

Asset Quality: material reinsurance receivable of 67% of 2004 capacity

With regard to invested assets, Lloyd's has prescribed rules for the investment of syndicate funds and restrictions on the Funds at Lloyd's (FAL) underpinning underwriting. This means that investment risk is limited, syndicate funds in the main being invested in government and other highly rated securities.

Lloyd's regulations currently allow the provision of bank Letters of Credit (LOC) and bank guarantees as FAL, with 58% of FAL provided via this means as at 31.12.02[4], the credit risk being with the banks from Lloyd's perspective. The FSA has reviewed the provision of LOCs as acceptable assets, although for the time-being has confirmed that they continue to be permissible, in contrast with insurance companies regulated by the FSA.

With regard to other assets, the losses of the previous downturn have left a material reinsurance receivable of £10bn, net of bad debt, at 31.12.03 for Lloyd's overall, equivalent to 67% of 2004 capacity. 87% of the balance is rated in the 'A' category and above, however. Any likely problems with realising this asset should be easily absorbed within open year earnings for nearly all ongoing, trading members. The concern for Lloyd's is the extent to which there may be a deterioration affecting those members no longer trading and potentially affecting the Central Fund. As noted above, Moody's has made allowance for this in its modelling of future potential calls on the Central Fund.

Investors' Potential Returns: prospects reasonable for 2005

From the perspective of investors in the Lloyd's market, the main issue is prospective profitability for 2005. Moody's Underwriting Index indicates that conditions for Lloyd's overall in 2004 approximate to those existing in 1995. Moody's is also currently forecasting, based on the assumption of a normal loss year and factoring in business plan forecasts, that 2004 will produce a bottom line result of 12% of capacity. There is thus a margin for reductions and, if history were to repeat itself, then 2005 underwriting returns would fall to circa 5% to 10% of capacity, based on adjusting our 2004 forecasts for a similar reduction in underwriting margins as happened between 1995 and 1996. Similar feedback is also currently being given by market participants who confirm that while profitable opportunities are being restricted in certain classes, overall there are acceptable returns to be made, with good profit potential in the longer-tail classes.

The other main factors that need to be addressed by investors include syndicate selection, which is addressed via our quarterly syndicate profiles and performance ratings, the limited number of syndicates available to third party investors and the potential for syndicates to cease due to poor performance or the withdrawal of capital during the forthcoming downturn.

There are only some 30 syndicates that are currently available to third party investors and Moody's considers that there are significant differences in the quality of these operations. However, there are still 11 syndicates with a meaningful amount of capacity available to third party investors that Moody's rates B+ Above Average or above. It is considered that this still gives the opportunity for a reasonable spread of participations by class and management.

With regard to the potential for syndicates to cease due to poor performance or the withdrawal of capital, Moody's again considers these factors for those syndicates that it rates and reflects its assessment in the performance ratings. Moody's has previously stated that it believes the potential for individual Names to downsize their capacity in the forthcoming downturn may affect those weaker syndicates reliant purely on Names' support and this view is still held. It is a question of degree, however. Moody's believes that the extent of potential reduction in Names' capacity has reduced on the back of the profits currently being earned for 2002 to 2004 and the changes seen at Lloyd's over the past two years.

4. Latest disclosed figure, disclosure being made in Lloyd's FSA return 30.6.03.

Returns could, however, potentially be affected by the introduction of annual distribution in line with annual accounting, should this be imposed prior to the close of the 2005 3-year account. This would mean that if the open years of account were closed early, they would not benefit from the main investment return from the RITC inwards in the third year of the 3-year account. This may or may not affect the 2005 year of account. Lloyd's current position is that, although annual accounting is being introduced from 2005 with the public accounts being on an annual basis, distribution will be calculated on the traditional three-year account basis. A final pronouncement on the details of the move to annual accounting and the effect on distribution has yet to be issued, however.

Overall, it is thus considered that although issues remain that are peculiar to the individual syndicates, from a macro perspective the prospects are reasonable for 2005 for most syndicates, barring an abnormal loss year and any adjustments that might arise due to a change in the basis of distribution.

With regard to underwriting margins for 2006 and subsequent, concerns remain over the extent of underwriting discipline that may be maintained by some of the weaker underwriting units. The Franchise Performance Directorate should be able to curtail the extent of potential losses for Lloyd's overall, although is unlikely to be able to counter market trends or identify all potential problem syndicates.

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Author	Senior Associate	Production Associate
Robert Smith	*Simon Lovegrove*	*David Ainsworth*