S1 2011 Earnings Call

Company Participants

- Luke Savage, Director, Finance, Risk Management and Operations
- Richard Ward, Chief Executive Officer
- Tom Bolt, Director, Franchise Performance

Other Participants

- Analyst
- Andreas de Grrot van Embden
- Barrie Cornes
- Ben Cohen
- Rotger Franz

Presentation

Richard Ward {BIO 1717391 <GO>}

Good morning, ladies and gentlemen. Thank you for joining us for our Interim Results Presentation.

We do have people on the webcast, do we? Yes, we do have people on the webcast. So, can I ask you all to switch your mobile phones, BlackBerrys off to not interfere with the broadcast.

I'm joined up here Luke Savage, my FD. Welcome, Luke, thank you. Tom Bolt might make a guest appearance for the Q&A session, but he is on his way back from Houston having talked to energy underwriters in Houston about offshore energy liability and other such interesting matters.

Let me get into the interim results. I am pleased to see such great turnout, I am sure it's prompted by the press reports that we're going to announce a £1.5 billion loss today. Whereas you've seen from our results, we're not going to announce £1.5 billion loss. It is interesting talking to Luke about it earlier. In terms of old, we might well have done. But I think given the underwriting discipline we have in the marketplace now, given our approach to aggregate exposure, we are able to deal with the extraordinary high level of catastrophes that we've seen in the first quarter, and actually in the first half and still come out with the results, frankly it's not too bad result given the level of catastrophes, a modest loss for the year of £697 million.

The first half is the costliest first half on record, 70 billion totally showed losses, U.S. dollars, we're looking at. For the first half, of course we've had to deal with Australian floods, the Christchurch earthquake, the second Christchurch earthquake, the Japanese earthquake and the tsunami, and then the U.S. tornadoes. And in all, those have accounted for nearly £3 billion worth of claims to the Lloyd's market out of the total 6.7 billion for the year first half.

So, a very difficult environment, a very challenging environment, particularly for those, who have been affected by these tragic events. Importantly, as I was saying earlier, these exposures are within our risk tolerances. We do model for these types of events. We are well prepared for these types of events. We're able to deal with them and pay the results and claims, and still remain well capitalized. And Lloyd's is a well capitalized market with central asset sitting at record levels of nearly £2.5 billion. And so, we're well positioned to deal with whatever challenges we might have in the rest of year.

Looking at the rating environment and this is all people seem to be discussing at the moment, what's happening to rates? Of course those areas that have been affected by catastrophes, we are seeing rates rise, upwards of 50% in terms of excess of loss cats exposed areas, we're seeing 100% increases in rates.

U.S. cats, we're seeing rate increases of 5 to 10%, but I'm afraid outside the cat exposed classes rates modest -- with modest increases, but generally broadly flat, moving sideways. So, that in itself is a challenge for us.

I think when I look at casualty, that probably is a worry, where we're still hearing of rate decreases and if you overlay on top of the catastrophes classes inflation, that is a concern.

Moving onto the non-performance issues, looking at our strategic objectives through the first half of the year, we have made good progress. We've continued to work hard at Solvency II, led by Luke and his team on the implementation and Sean and his team on the lobbying, and I'm very pleased with the progress we're making in Solvency II. And we will be ready, Jan 2013, irrespective of whether, the regulators decide to push it out to 2014 or not.

We've also continued to widen our market access, despite the difficult underwriting conditions and investment conditions, we are expanding our market access. And I'm sure some of you are aware, we opened our platform for direct business in China earlier this year, and we're now writing risks, direct risks in China. So, that's a very pleasing development. And we're also pushing ahead with our market reform initiatives, such as the Lloyd's Exchange, it's now processed probably over 500,000 messages, and it's cut out in excess of 100,000 box visits, as people use the exchange for sending information around the marketplace, and particularly things such as endorsements; so, a good progress on the strategic objectives.

Let me now move to the financial results themselves. Gross written premiums broadly are flat with June 2010, sitting at 13.5 billion, Luke will go into the detail behind the movements there, but they're just marginally up year-on-year.

Combined ratio may surprise us here, given the cats of the first quarter and first half, our combined ratio of 113% as compared to last year of 98.7%. Don't forget, last year we had the Chile earthquake in the first half and also the transition week in the first half. So, that contributes to that combined ratio.

Investment return is actually kind of pleasing story, given the pretty dark economic climate, we find ourselves in at the moment. Listening to the radio this morning and they talked about double-dip recessions and sovereign debt default. And that seems to dominate the news and yet despite those problems, we're able to return 1.1% on our investment portfolio and generate an investment return of 548 million against last year of 597 million.

The overall result for tax, say loss before tax of £797 million, significantly less than speculated in the press, comparing against a profit last year of 628. But again, no surprises, given the unprecedented level of catastrophes we've seen in the first half of this year.

Looking at how our combined ratio compares to our peer group and to remind you this is what we've put up every half year and every year now, since we started annual accounting. Our combined ratio of 113 actually doesn't look too bad compared to our peer group, U.S. reinsurers sitting at a 116, Bermudian reinsurers sitting at 117%. So, we've outperformed those peer groups.

If you look at the European reinsurers and insurers, the 106 reflects probably the low combined ratios with the direct writers, who have big European presence such as the Axis and the Allianzes. If you compare us to Munich at 124 and Swiss Re at 118, again our combined ratio compares very favorably against the reinsurance industry.

For me, the surprise story here is the U.S. P&C industry combined of 109 and yet we think what has happened in the first half in the U.S., they've had the tornadoes, which added probably for our results about $600 million in terms of net claims. But outside the tornadoes, not a lot has happened in the U.S. So, I think there are some other issues behind that high combined ratio for the U.S. P&C industry.

But a good result as compared to our peer group reflecting -- sorry, which reflects as I said earlier, in my mind good underwriting discipline and good aggregate exposure management, good risk management across the market.

So, over to Luke for details on the numbers. Luke?

Luke Savage {BIO 6622987 <GO>}

Well. Thank you, Rich. And good morning, ladies and gentlemen.

And so, little more detail around the numbers; first of all, we will start with gross written premiums. As Richard said, superficially the number is flat year-on-year, but that actually masks what would have been a small decrease as a result of FX, offset by a small increase in underlying premiums.

Now that increase in underlying premiums comes about largely from new entrants to the market, bringing books of business from outside Lloyd's into Lloyd's. And indeed, in one or two cases, existing Lloyd's players bringing business in from outside Lloyd's to Lloyd's. So, it's certainly a larger transfer of business in rather than growth organically within the market, which we'll take as an encouraging at this stage in the cycle.

Net incurred claims, up some 24%, and I'll come back in a moment to the cats that drove those. And whilst on the surface, net operating expenses look as through they are ticking up with 8% up year-on-year, in reality, the 2010 figure was affected by about £170 million of foreign exchange gains that hasn't come through again this year. But if you adjust that FX movement and losses numbers, the expenses will be broadly flat.

Our investment return held up remarkably well under the circumstances; and again, I'll come back to that in a moment. And then finally, the other income expenses, the movement there is FX related on our subordinated debt.

So, in terms of the claims, on the chart here, you can see that we've taken the cat losses or cat claims that the market has incurred over the past 15 years and broken down between those incurred in first half in blue versus those incurred in the second half in purple. And the obvious story here is that most cat seem to come through in the second half, not surprising given our exposures to things like U.S. windstorm season.

But on the right hand side, you can see in 2011 that almost £2.8 billion, the first half cat claims were more than 10 times the long-term average of 252 million. And to remind you, the big ones there were Japan, they were the floods in Australia or the second lot of floods in Australia being there, there is the Christchurch quakes; and indeed on top of that, we then had the U.S. tornadoes in the Mexico oil rig, which were closer in the latter part of the first half.

And what I would say is we put numbers out back in May for the first three of those events, the floods and the earthquakes, and we put out a figure $3.8 billion from us as some small movement between the three events. That aggregate numbers held firm.

What has that done in terms of the overall combined ratio? We can see in the blue bars on the left hand side, the attritional claims are materially unchanged year-on-year, 86.4% versus 86.2%, holding steady despite the financial difficulties that the global economies invariably might have expected to see that number tick up slightly.

Major claims of 32%, I have already touched on. And the other story here on this slide then is the prior year reserve releases, £470 million or the 5.5%, which at first sight appears to be an increase on the 2010. But if you brush your minds back to 2010, you'll remember then in the first half of last year, the market was significantly strengthening its reserves for the UK motor business. That amounted to several £100 million worth of strengthening over the course of the year. And if you were to back that out and look at all other classes and all other territories apart from UK motor, and last year's reserve release would have been quite significantly higher. We've actually seen a decrease year-on-year.

Perhaps what's surprising, you've been seeing for sometime now that the first part of the last decade, which is continued to thought reserved surfaces, cannot keep getting better indefinitely. With that said, we do still think the balance sheet is well reserved and more than adequately reserved. Although, we do think that in more recent years, a much closer to best estimate and perhaps the years in the first part of the last decade. But overall, a combined of 113.3%, which it says a very respectable performance compared to our peers.

We'll turn now to investment performance, 1.1%. That 1.1% came from a combination of premium trust funds in the blue bars, which are totaling 1.2% as a return. The funds at Lloyd's in the purple section, 0.6% and then the central fund, 2.7%.

Now, those returns was modest under the circumstances we think are pretty reasonable. And the premium trust funds, that the working capital of the managing agency syndicates, so they are all invested in short-term in cash and in short duration bonds, where yields are very, very low.

And funds of Lloyd's includes a large proportion of letters of credits, which for the purpose of the notional calculation of income, we assume is cash and cash is earning next to nothing. And then the central fund, far more diversified with the longer investment horizon turning in the 2.7% is a strong performance.

Overall, we think better than we might have expected, held by the mix of assets that we have in the balance sheet. But the high level hasn't materially changed, it's about a third cash a third governments and a third LOCs.

Now within those governments, it is predominantly, not exclusively, but predominantly UK and U.S. scales and treasuries, and there are some German government bonds. But you'll be pleased to know we have no negligible exposure to any of the peripheral European countries that are perhaps struggling at this point in time. And so with the advents of the euro crisis, we've seen a fight to quality and for the purposes of this, UK and U.S. government bonds have been quality. So, we've seen both UK and U.S. yields reach record lows and that's helped first half income.

With respect to our corporate bond portfolio, 92% remained A or above. That number is slightly down on the figure two or three years back, not because we are holding inherently weaker credit ratings, it's because the rating agencies have had so many downgrades of the particular holdings that we do cover.

I think it is fair to say that given the 80% of all bond issuance comes from financial institutions, we do have exposure within those corporate bonds to the banking sector, which will struggle if there is a euro zone collapse. But again, the focus within that portfolio is for largely vanilla debts and on the best strongest banks. So again, we're not investing in peripheral sort of 'A' European banks there. So, it's well protected as we can be under the circumstances.

Returning to the central fund, and central fund asset disposition hasn't really shifted since the year-end and any small movements there have been largely just due to mark-to-market sort of portfolios we have. We can see here the asset disposition is far more varied than the managing agents. It does include emerging markets, high yield and so on. And that has helped produce not only the good returns that we're seeing at 2.7%, but also over the year, since we've adopted this diversification strategy and much more stable returns. So we're very happy with the way that's positioned and no expectation of any changes there.

So, how does everything there ripple through into balance sheet?

On the second line, we insure share technical provisions. You can see big increase as you can further down under other liabilities. And those two big increases are the increasing claims of the back of the catastrophes that we've just seen, together with the increase in reinsurance recoverables against those claims; so, no surprises there.

Other assets and unearned premiums are both up compared to the year-end, and that is purely a function of timing. Now, we'd like 40% is about book on Jan 1. So, as at the June mid-year, there is a lot more unearned premium on both income close to our payable on our reinsurance programs than you'll find at the year-end.

If you turn to net resources for a moment, you'd see the fall from 19.1 to £17.4 billion is nothing to do with catastrophes and payouts on the claims for the catastrophes. That comes about because of the release of profits. So, in the first half of 2011, we released approximately £1.8 billion of profits back to our capital providers and allowed them tracking them within the market, which is the last thing you want to do in a soft cycle. And that 1.8 accounts for all of that reduction in net assets.

There was some minor capital erosion on the part of some members of the back of the cats, but the capital that was eroded was all made good at the June 30th coming into line. So, everybody fully capitalized going forward.

How does that ripple through into long-term trend? Well, in the blue bars, you can say central assets have reached a new record, as has members' funds at Lloyd's, their capital in the purple bars. So year-after-year, just a steady uptick in the overall capitalization in the market.

The anomaly on the graph here is the green and that arises, because we are comparing the year-end positions, where the profit is sitting in the balance sheet on far left hand bars versus the June position, where we released profit into 2011. So, again to that left hand scale, you can see from 14 billion up to 17.3 billion now.

On the right hand scale with the blue line, you can see our Solvency surplus. So, these are the central assets for Solvency purposes minus any Solvency deficits. And you can see that that too has reached a new record of nearly £3.1 billion. Helped from two things: Firstly, the receipts of Central Fund contributions at a 0.5% of premium back in April together with a reduction in Solvency deficits from capital injected by members between the year-end and June.

So in a vast, we are looking at very tough times ahead. We are still only half way through the windstorm season, and it has been the most active U.S. windstorm season on record to-date. We are actually looking forward, we'll go into that very well capitalized despite all the challenges we faced in the first half.

So, on that note, hand back to Richard.

Richard Ward {BIO 1717391 <GO>}

Thank you, Luke; probably summarized it for me, which is -- yeah, it's been a very costly first half, the costliest on record for the insurance industry. I don't need to tell this audience how challenging the financial markets are.

And we do still see surplus capital in the insurance industry estimates of between 50 and $80 billion worth of surplus capital, let's say 60 billion of surplus at the moment, and that is putting downward pressure on rates. And until that surplus comes out of the system, we'll continue to see downward pressure on rates, but Lloyd's is in a strong position.

We are financially sound and in a strong position to deal with the challenges that I am sure we'll have to face in the remainder of 2011.

Central assets at record levels of over £2.4 billion; funds at Lloyd's at record levels at over £14 billion. Ratings reaffirmed to A+ and stable, one of the few insurers, reinsurers who have not suffered a downgrade or a moved to an exit watch during the financial crisis. So, we're well positioned to deal with whatever challenges we might have to face in the remainder of this year and of course in the years ahead.

So with that, we show you our disclaimer and open for question and answers. And if you could of course just state who you are from before asking a question; and we do have a microphone, which we do use because of people on the webcast.

Questions And Answers

Q - Rotger Franz {BIO 15872041 <GO>}

Yes. Rotger Franz, Société Générale.

Couple of questions; first of all, about reserve releases and reserve strengthening. You mentioned the reserve strengthening in motor insurance. Can you give us some color of how much that was and how much the reserve releases in other lines were, in particular property cat? Then you were confirming or maintaining your aggregate loss estimate for the three large events in the beginning of the year. What about the individual loss estimates for each catastrophe. Have there have been any major or material changes?

And last question is, do you have already a loss estimate for or an update loss estimate for the catastrophic events happening after the end of the first half, particular Hurricane Irene?

A - Richard Ward {BIO 1717391 <GO>}

Luke, do you want to take this?

A - Luke Savage {BIO 6622987 <GO>}

Yeah, okay. So, in terms of motor reserve strengthening last year, if you look at our reporting accounts, you can see, I think it was 36 points to the combined ratio on a book of 1.1 billion. So, you can do the math and work out what that amounted to last year.

In terms of other classes, we saw some significant reserve strengthening at the year-end on casualty, which we welcome. And we assume the casualty is a class that, as Richard said, continues to soften and we like where that's heading. For the first half of this year, we don't get the reserve, we've seen as much granularity. But we have not seen any individual class contribute to the reserve strengthening or reserve releases in any major way; seems to be fairly evenly spread.

On the second points around aggregate loss movement we've seen the New Zealand number go out by a couple of $100 million, and I think inline with -- it's not a change in our estimate against the initial industry losses despite the industry loss estimates have gone up. And therefore, our numbers have gone up a couple of $100 million. And again, despite the Australian flood, that come in by two or $300 million and Japan is largely unchanged at this point.

And then the -- can you just repeat what the third was?

Q - Rotger Franz {BIO 15872041 <GO>}

It was the second half losses, loss estimates for the second half.

A - Luke Savage {BIO 6622987 <GO>}

Second half loss estimates, Irene is seen is being a 3 to $6 billion industry event. And for something of that size and scale, we would probably think we are on the 10% market, I would say three to $600 million net. Although, it's not of a sufficient size that we will go out and do a major loss return to the market. We see some events of that magnitude being business as usual.

A - Richard Ward {BIO 1717391 <GO>}

Yeah.

Q - Ben Cohen {BIO 1541726 <GO>}

Hi, it's Ben Cohen from Collins Stewart.

Could I ask two things: Firstly, you mentioned that you're kind of cautious about large cuts in the marketing about pricing. I was just wondering if you can give us some insight into the sort of business planning cycle for this year into next. How much -- where sort of people broadly are kind of pitching their business plans for '12 compared to '11 and you know how much push back you think you'll need to give them around some of your areas of concern?

And the second thing I wanted to ask, I suppose it's related is that I guess, Lloyd's as a whole is just sort of a buyer of reinsurance, cover more than sort of provider of say retro. And I just wondered from the discussions you are having, whether you see that as you know significantly increasing cost for the syndicates for next year? Thanks.

A - Richard Ward {BIO 1717391 <GO>}

Do you want to take second, I'll take the first, Luke?

A - Luke Savage {BIO 6622987 <GO>}

Okay.

A - Richard Ward {BIO 1717391 <GO>}

Yeah. On the business planning process, I mean obviously we're still going through that process, plans were submitted mid September and Tom is going to give feedback to the market, end of October on the syndicate business plans. Not unsurprising is market conditions toughened. They're going to get more push back as profits reduce in people's business plans and it gets more difficult to make money there, can face more of a challenge from Tom and his team as well as Luke and his team on the capital side.

So, we are being more challenging; and probably the market feels, we are being more interventionist with that planning process. But I personally think that's the right thing to be doing at this stage in this cycle. We don't come out with capacity numbers as you know. So, we're not going to come out with capacity number for 2012, but I have been pretty vocal in saying, if people can't get the right prices for the risks, then don't write them.

On the reinsurance cover...

A - Luke Savage {BIO 6622987 <GO>}

Yeah.

A - Richard Ward {BIO 1717391 <GO>}

In particular costs.

A - Luke Savage {BIO 6622987 <GO>}

We're a big writer of the reinsurance as well as a big buyer of reinsurance. And I think off the back of the catastrophe events, we have seen firming international reinsurance rates.

A - Richard Ward {BIO 1717391 <GO>}

Yeah.

A - Luke Savage {BIO 6622987 <GO>}

So that's both going to help us on the business we write and it means that the direct businesses can be paid more to buy cover. But so far, there is nothing that suggests that people are going to materially change their buying patterns because of that. It will just cost them more.

I think on the U.S. side, I believe that the U.S. reinsurance rates are starting to move off the back of the tornadoes that haven't moved a little.

A - Richard Ward {BIO 1717391 <GO>}

Yeah, 5 to 10% was what Tom talked about.

A - Luke Savage {BIO 6622987 <GO>}

So, I think coming back to Richard's point, there's still too much capital in the market to expect those to shift materially anytime soon.

Q - Barrie Cornes {BIO 2389115 <GO>}

Hi. It's Barrie Cornes from Panmure Gordon.

Three questions if I may. First of all, I think Luke, you are actually passing back the investments in the corporate bond exposure to banks. I just wondered if you could clarify the financial amount, please.

Secondly a question, which would be for Tom, I guess; but in his absence, I just wondered if you could comment on your view on offshore underwriting and the risk management of their risks?

And thirdly, obviously there's been bit of a tension recently between some of the brokers and the underwriters concerning rating environment. I just wondered if you view that is healthy and helpful or whatnot you view it as the reverse?

A - Richard Ward {BIO 1717391 <GO>}

Why don't you take the first one, Luke?

A - Luke Savage {BIO 6622987 <GO>}

Yeah. So, I think about 80% of all corporate bond issuance comes from financial institutions. So, if you can have a large corporate bond portfolio, you are going to struggle to buck that trend. What we have done in light of what's going on in Europe at the moment is internally we've undertaken stress tests to say what would happen to the Lloyd's market if there is a eurozone melt down. We've made a range of assumptions around banks needing to be restructured and debt being written down and so on.

And that comes up with a number, which is not dissimilar to one of our RDS Scenario. So absolutely manageable within the context of the size and capacity of the market. As an aside, that stress testing hasn't just looked what it would do to our balance sheet. It's also looked operationally how we would function if we suddenly had to start settling Greek drachma again. And it's looked to things like potentially knock-on impact to our liability business around Europe, where you can guarantee that every bank would find themselves being sued.

And I think because of that much reduced exposure to financial institutions, we think that if any claims that might through on that side of the business would be very much business as usual as indeed they were in the last financial crisis.

A - Richard Ward {BIO 1717391 <GO>}

On the offshore energy and the particular liability packages, I am sure you are all aware Tom wrote to the market in the aftermath of the transition because of ongoing concerns we've had about the profitability of that class of business. And I think if Tom was here, he'd say that he's lost his money overall for the past 25 years, so, why are we continuing to write it.

In response to transition and the way the risks were managed around transition, Tom did suggest to the market they should consider how they write offshore energy and put out guidance on best practices, whereby we'd split out the liability part of the policy from the fiscal loss part of the policy. So, we could have visibility around the pricing, and therefore, the risks and exposure we are running at the center. That has generated a lot of interest in the market. And we've had some interesting discussions with brokers and underwriters around that. And in part, that's why Tom's out in Houston, talking to the market out there.

The feedback Tom gave me last night from Houston was that he was well received and people absolutely understand our concerns. And if people want to continue writing package policies, then they need to come to us to explain why they think that's a good idea. In the absence of that, we'd expect them to split our the two. But we are not saying to the market we are withdrawing; far from it. We are very active in that market, but we just want to make sure the risks that are priced at the appropriate level, very importantly it is sustainable level. And I think that's absolutely right for the client.

You talked about broker and underwriter tension, not unsurprising; brokers are those representing our clients. So, they have to get a better price for the client and the underwriters there to price the risk at the right level. And as the market continues to soften, that tension will increase as brokers are under pressure from their clients to deliver cost savings. I mean so many clients are under pressure themselves and the brokers want to pass out through to the insurers, but of course insurers are worried about the rating environment.

And yes, I was down in Monte Carlo last week and that was the talk of the town, the tension between underwriters and brokers. It is a healthy tension, because we have very different interests.

Q - Barrie Cornes {BIO 2389115 <GO>}

Okay, thanks. I've got just quick follow-up. Luke, I don't think you actually gave me a specific answer to -- can you give the ballpark figures to how much you might anticipate as a loss if the Europe melt down happens?

A - Luke Savage {BIO 6622987 <GO>}

In the same way that we don't go out and publish how much any individual ideas would cost us, we do say it's manageable and our managing agents will be out too, but within the underwriting guidelines, it's the same for this. We're not going to go out and say it's going to be X. No, we don't do it for a Japanese quake or U.S. windstorm, why should we do it for eurozone, it's no different.

Q - Barrie Cornes {BIO 2389115 <GO>}

Okay. Thanks.

A - Richard Ward {BIO 1717391 <GO>}

We have a late appearance from Mr. Bolt. Tom, why don't you join us at the front? Just to say, I had to answer your question on offshore energy liability, so I'm afraid that's gone.

A - Tom Bolt {BIO 16379135 <GO>}

Okay, good.

A - Richard Ward {BIO 1717391 <GO>}

Okay. Any other questions? Yeah.

Q - Andreas de Grrot van Embden {BIO 1795530 <GO>}

Andreas van Embden, JPMorgan

The net release number you published, the 1.8 billion, which was given back to the corporates, you also mentioned that capital came in after the losses in the first half chose to recapitalize some of the syndicates. Could you -- what number was that, how much came in to recapitalize the syndicate?

A - Richard Ward {BIO 1717391 <GO>}

I think, if you think about it, we made £2.2 billion for the last year, 1.2 billion, which went back. So 400 million stayed in the system. And there was about another two or 300 million on top of that.

Q - Andreas de Grrot van Embden {BIO 1795530 <GO>}

Thank you.

Q - Analyst

Hi, Seth Cathy at Lloyds Bank Corporate Markets. Question for Tom on business plans for new entrants into the market. Are you still seeing the same volume of new entrants looking to come into the market that you've seen over the last few years?

A - Tom Bolt {BIO 16379135 <GO>}

It might be down a little, but what's balancing that is a fair bit of M&A activity, where the new owners seem to want to put in new business plans as well. So, we are not any less busy.

Q - Analyst

And just a follow-on on that: what's the message that the franchise board is giving to people, who are looking to come into the market right now? Is there an aspiration to continue to see diversity in the market or given where rates are in fact pushed back?

A - Tom Bolt {BIO 16379135 <GO>}

It has always been the case for the franchise board that we've been open to business and we welcome new entrants as long as they add value to Lloyd's marketplace. And in the current market environment with so much pressure on rates, it is more and more challenging, the new entrants that come to us and say look, this is a profitable book of business that we want to bring into Lloyd's. So, our guidelines and standards have not changed, but the market has. As a result of the market, it's going to be more difficult for people to get in.

Q - Analyst

Thank you.

Hi. Could I ask another question? I just was struck by the fact that the attritional loss ratio that you produced was pretty much flat on last year and given what you said about the flat pricing and underlying claims inflation. I was just wondering if you could maybe talk around that, around what you thought had driven that and how sustainable indeed you think that's sort of fairly sort of flat rate would be?

A - Tom Bolt {BIO 16379135 <GO>}

How sustainable with flat rate of what...?

Q - Analyst

Well, the attritional loss ratio.

A - Tom Bolt {BIO 16379135 <GO>}

There are some folks, who have a theory that you have an uptick in claims event as you go into recession and there is a trough in the middle of it and then there is an uptick as you come out. Part of that stands to reason because of increased economic activity after people under invest and safety measures et cetera.

We have seen in the casualty line an uptick in frequency in the first part of 2011, as it relates to -- if you look at 2010 year versus 2009 and also it's a little early days in 2011, but it looks like it might be continuing that modest upward trend in frequency. So, it feels like unless you get another double-dip recession that things you may get a bit of an uptick in claims frequency rate now, which again should drive through to push on, on rates and people will respond appropriately.

A - Richard Ward {BIO 1717391 <GO>}

Any questions from the webcast at all, no? Okay.

Q - Barrie Cornes {BIO 2389115 <GO>}

Barrie Cornes, Panmure Gordon.

Just a quick follow-on: you mentioned also your policy hasn't changed about new entrance. Another way of coming in clearly is to come in by acquisition.

A - Tom Bolt {BIO 16379135 <GO>}

Yeah.

Q - Barrie Cornes {BIO 2389115 <GO>}

And we are starting to see a lot of that at the moment. Do you take any different view? I mean just take new capacity coming in to new -- an existing syndicate, how do you feel about it?

A - Richard Ward {BIO 1717391 <GO>}

Well, on acquisition, it is not new capacity coming through existing syndicate, it's an existing syndicate changing ownership. And our approach has always been, we look at the business plan of the syndicates and approve those business plans, whoever is acquiring. They are going to have accept the business plan that's already been approved, and they are going to have to accept that Tom and Luke and the team are going to scrutinizing future business plans. And if there is any suggestion of growth, they are going to take -- the team is going to take great interest in that.

Q - Barrie Cornes {BIO 2389115 <GO>}

Okay. Thanks.

A - Richard Ward {BIO 1717391 <GO>}

Any other questions to Tom? That's all for Tom? He flew in from Houston, halfway around the world.

Excellent. Well, if there are no further questions, thank you all very much indeed for your time this morning. And thank you Tom for your guest appearance.

A - Tom Bolt {BIO 16379135 <GO>}

Yeah, it's always nice.