

**ANNUAL
UNDERWRITER
SURVEY**
FEBRUARY 2008

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INTRODUCTION

Background

In January 2008 Lloyd's undertook its fourth annual underwriter survey. The survey captures the predictions and perceptions of a large and representative sample of underwriters in the Lloyd's market.

The survey focused on the:

- key issues impacting on the global insurance industry;
- impact of emerging risks;
- geographical areas offering significant opportunities to the industry;
- reputation of the insurance industry;
- competitive advantages for the Lloyd's market; and
- trends in sophistication of risk management.

Method

The survey was conducted on behalf of Lloyd's by [Acritas](#) research, and consisted of 138 face to face interviews in the Lloyd's Underwriting Room on the 22 and 23 January 2008.

EXECUTIVE SUMMARY

- 1 'Managing the cycle' is the most important issue for the insurance industry in 2008, followed by 'containing operating costs' and 'recruiting and developing talent in the industry'.
- 2 67% of Lloyd's underwriters believe that the insurance industry made insufficient progress on managing the cycle during 2007, and 93% think that the industry is currently in a softening stage of the cycle.
- 3 The instability of global financial markets is seen as the most significant factor impacting the industry during 2008, followed by 'changing global dynamics and emerging markets', and 'the growth of corporate liability'.
- 4 Approximately a third of underwriters believe that insurance buyers are giving more consideration to climate change, but over half think that more needs to be done.
- 5 Over half believe that insurance buyers are giving greater consideration to terrorism and political risk, but 56% think that more needs to be done to prepare for their impact . Around half believe that the world will become a less stable place in 2008.
- 6 62% of underwriters believe that insurance buyers need to do more to prepare for the impact of liability risk on their business, even though 61% believe that insurance buyers are now giving this area greater consideration. Over half believe that the growth of the compensation culture is out of control.
- 7 China is seen to offer the most significant opportunities for specialist insurance growth during 2008, followed by India and the Middle East.
- 8 82% of underwriters agree that there is a high level of market commitment to reforming Lloyd's market business processes.
- 9 The top three sources of competitive advantage for the Lloyd's market are currently seen to be its network of global licences, its strong financial position (and ratings) and a strong brand and reputation.
- 10 Encouragingly, 83% believe that disaster and continuity planning is higher on the agenda for global business leaders than two years ago. Over three-quarters think that business leaders are now dedicating more time and resource to risk management and that risk managers are now more sophisticated in their understanding of risk.

MAIN FINDINGS

The global Insurance industry in 2008

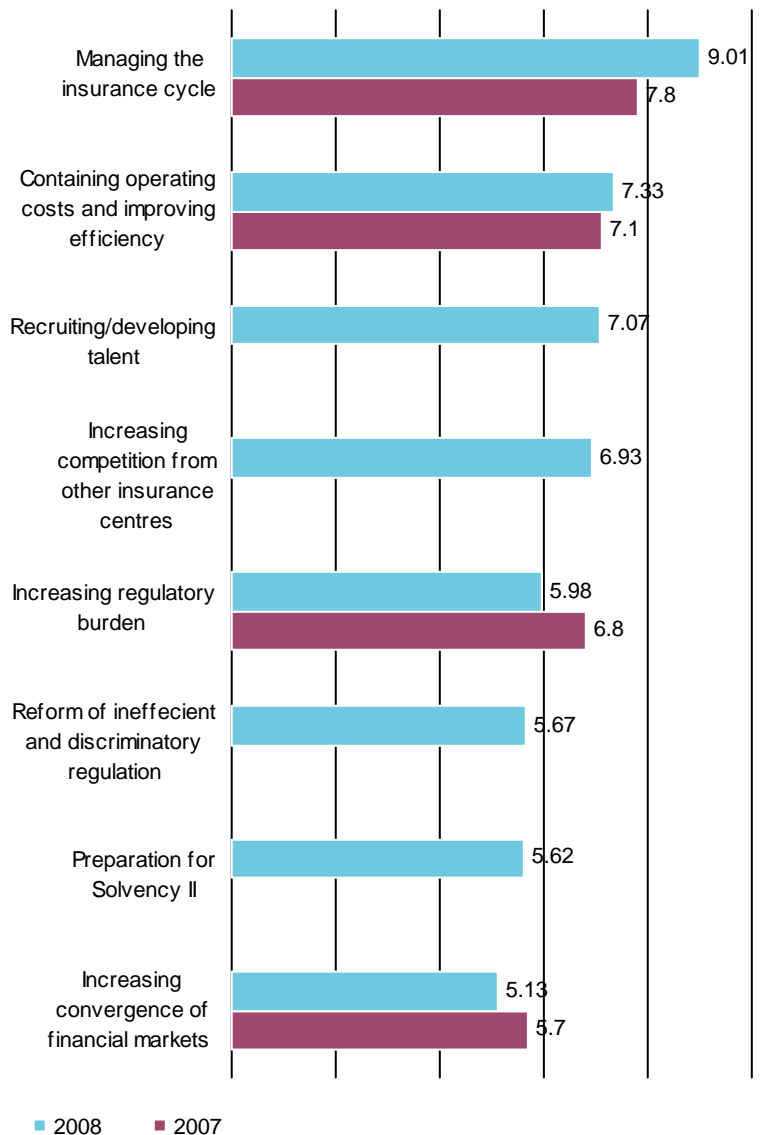
Key issues for the industry

**MANAGING THE CYCLE
REMAINS THE MOST
IMPORTANT ISSUE FOR
THE INDUSTRY IN 2008**

Managing the cycle remains the most important issue for the industry in 2008, and unsurprisingly its importance has increased as market conditions change.

Other factors seen as important are the need to contain operating costs and improve efficiency, and the need to recruit and develop talent in the industry. Interestingly there has been a decline since last year in the importance attached to the increasing convergence of financial markets and there is less concern about regulatory burden.

How important will each of the following factors be to the insurance industry in 2008? (mean score out of 10)



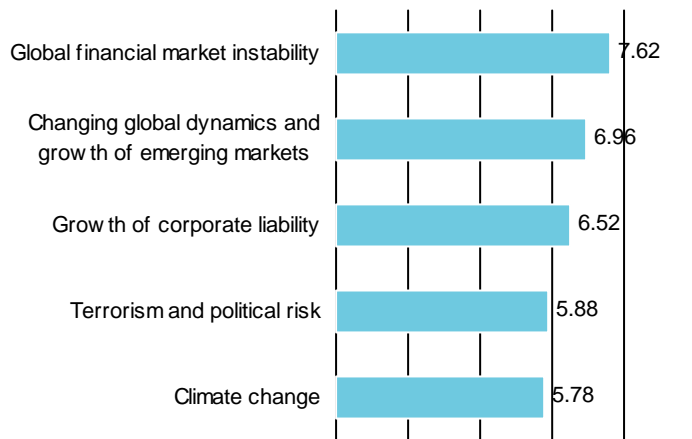
* note, several new questions were added to the 2008 survey, to ensure content remains relevant and topical.

The impact of emerging risks

In line with [Lloyd's 360 Risk Project](#), underwriters were asked to give their perceptions of how significant certain areas of emerging risk will be for the global insurance industry in 2008.

The instability of global financial markets is seen as the most significant factor to impact on the insurance industry during 2008. The growth of emerging markets and corporate liability are also seen as influential factors.

Significance of factors to global insurance industry in 2008
(mean score out of 10)



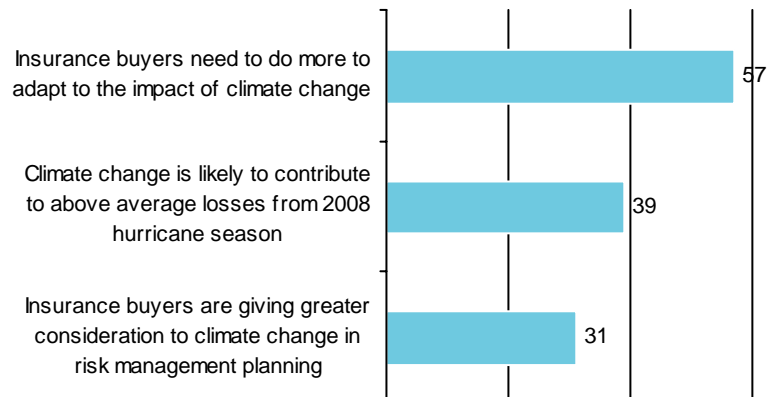
Respondents were then asked for their level of agreement with a number of statements regarding these emerging risk areas.

Climate change

Whilst almost a third of underwriters believe that insurance buyers are giving more consideration to climate change in their risk management planning, over half think that insurance buyers need to do more to adapt to the impact of climate change.

Additionally, over a third believe that climate change is likely to contribute to higher than average losses from the 2008 hurricane season.

% agreeing...

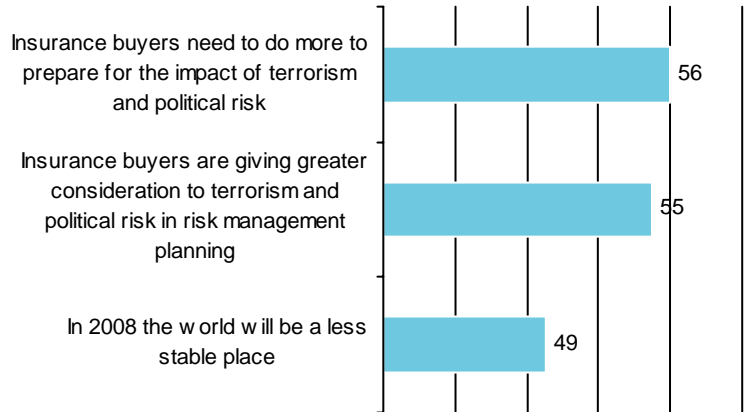


INSURANCE BUYERS NEED TO DO MORE TO ADAPT TO THE IMPACT OF CLIMATE CHANGE

Terrorism and political risk

Over half (56%) believe that insurance buyers need to do more to prepare for the impact of terrorism and political risk, and encouragingly 55% believe that insurance buyers are actually giving greater consideration to terrorism and political risk in their risk management planning.

% agreeing...



Almost half of those interviewed think that the world will be a less stable place in 2008.

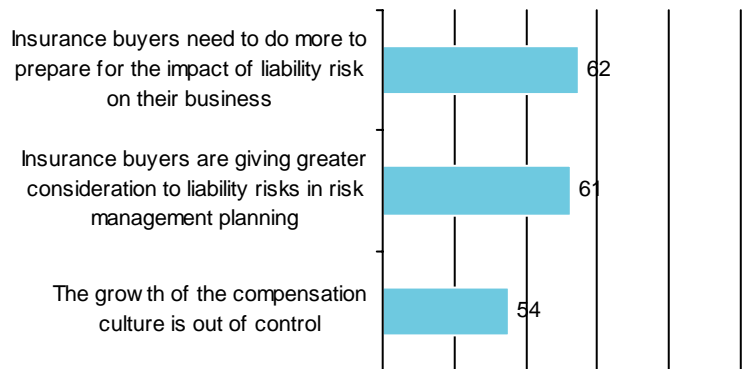
Corporate liability

62% believe that insurance buyers are giving more consideration to corporate liability in their risk planning, but that more preparation is needed (61%).

Over half of the underwriters believe that the 'compensation culture' is out of control.

OVER HALF OF THE UNDERWRITERS BELIEVE THAT 'COMPENSATION CULTURE' IS OUT OF CONTROL

% agreeing...



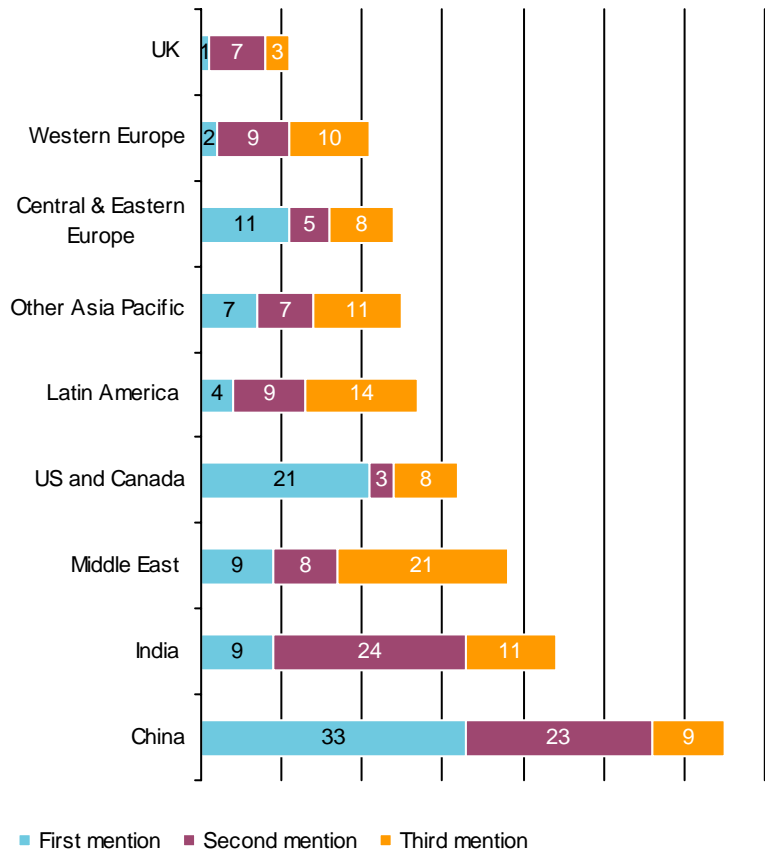
UNDERWRITERS BELIEVE THAT CHINA OFFERS THE MOST SIGNIFICANT OPPORTUNITIES FOR SPECIALIST INSURANCE GROWTH IN 2008

Geographical opportunities in 2008

Underwriters believe that China offers the most significant opportunities for business growth in specialist insurance during 2008, followed by India and the Middle East.

The established markets of US and Canada are seen to continue to offer significant opportunities in the next year, followed by Latin America.

Which geographical areas offer the most significant growth opportunities in 2008 ?



Interestingly, underwriters anticipate greater opportunities in the Middle East and Latin America in 2008 in comparison to last year.

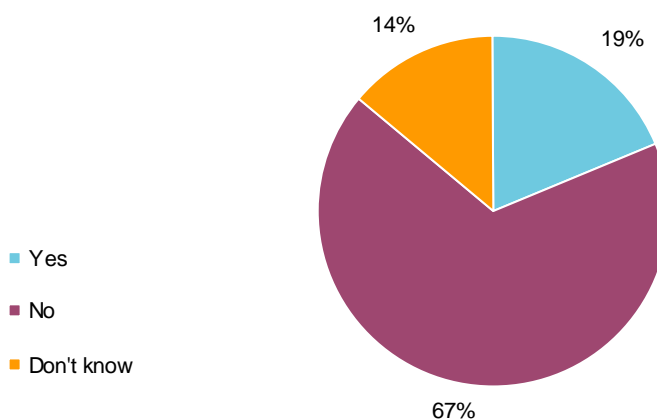
Managing the cycle

19% BELIEVE THAT THE INDUSTRY HAS MADE SUFFICIENT PROGRESS, BUT 67% BELIEVE THAT MORE NEEDS TO BE DONE

In previous annual underwriter surveys (and even more so in the 2008 survey), 'managing the cycle' has been seen as the most important challenge for the insurance industry to address.

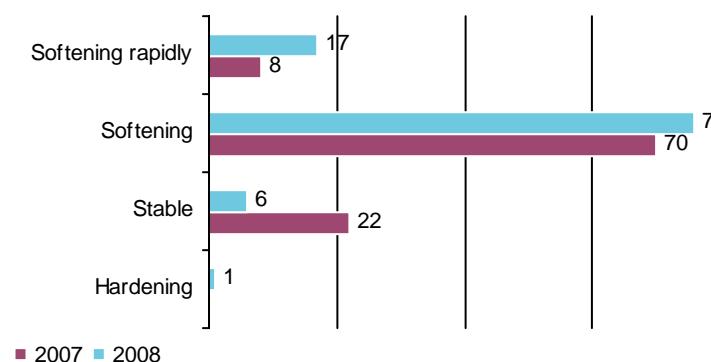
Therefore, in the 2008 survey underwriters were asked whether they believed the global industry had made sufficient progress on this issue during 2007. Only 19% think the industry has made sufficient progress, with an overwhelming two-thirds arguing that more needs to be done.

Has the global industry made sufficient progress on managing the cycle during 2007?



93% believe that the insurance industry is currently in a softening stage of the cycle. This is an increase from the 78% in 2007.

What stage in the cycle is the insurance industry currently?



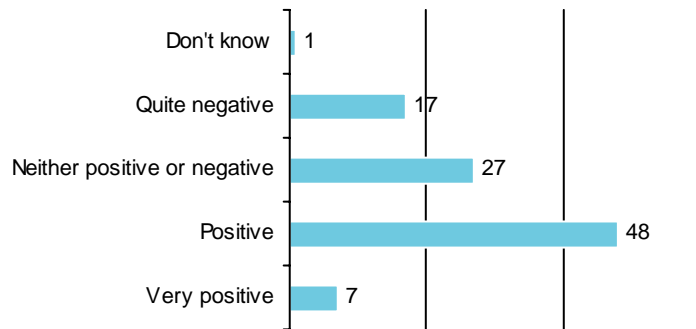
Insurance industry reputation

As a new section within the survey, underwriters were asked how they viewed the current reputation of the insurance industry with the business community.

55% BELIEVE THAT THE INDUSTRY'S CURRENT REPUTATION WITH THE BUSINESS COMMUNITY IS POSITIVE

55% believe that the industry's current reputation with the business community is positive, with a further 27% thinking it is neither positive or negative.

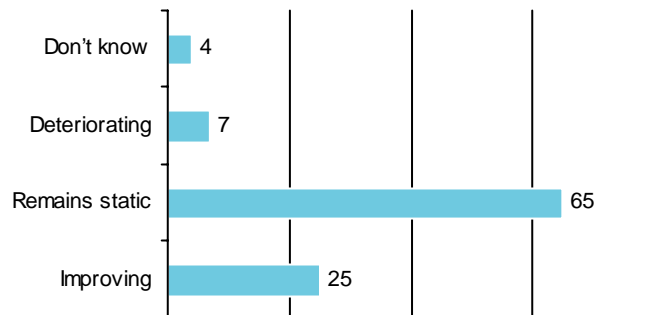
Perceptions of the current reputation of the insurance industry



And furthermore, underwriters were asked whether this reputation was changing.

While 65% think that the industry's reputation is stable, one quarter of underwriters did believe that it is improving.

Direction of the insurance industry's reputation



The Lloyd's market

Within the survey, there are just two questions that focus specifically on the Lloyd's market.

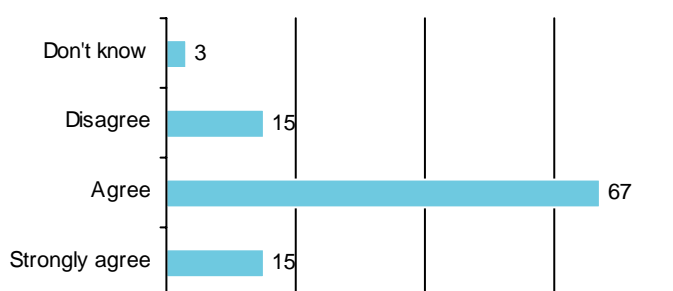
The first asked underwriters whether they believe there is a high market commitment towards the reform of business processes at Lloyd's.

82% of underwriters agree that there is a high level of market commitment to reform activity (reinforcing the 81% that believed the market was committed to further business reform in the 2007 survey).

82% AGREE THERE IS HIGH LEVEL MARKET COMMITMENT TO REFORM

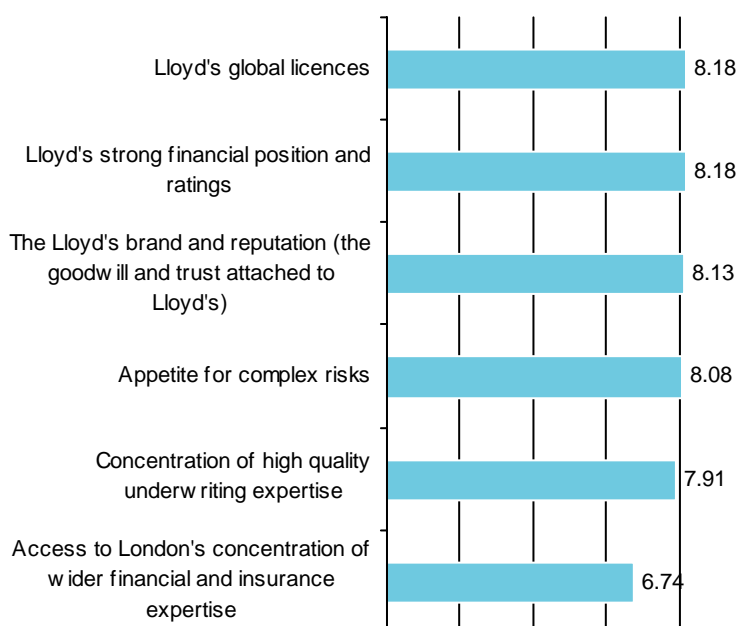
LLOYD'S GLOBAL LICENCES, POSITIVE FINANCIALS AND BRAND ARE ITS GREATEST SOURCES OF COMPETITIVE ADVANTAGE

Agreement that there is high market commitment towards reform



Underwriters were also asked about the current sources of competitive advantage for Lloyd's over alternative markets. Lloyd's global licences, financial position and brand are seen as its greatest sources of competitive advantage in 2008.

Lloyd's sources of competitive advantage (mean score out of 10)

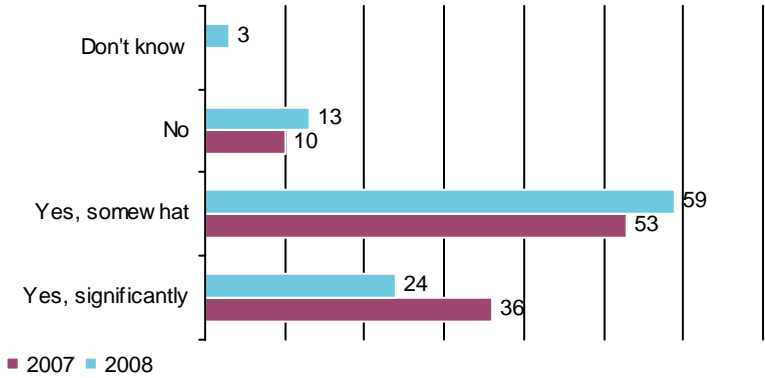


Global business leaders and risk management

83% BELIEVE DISASTER AND CONTINUITY PLANNING IS HIGHER ON THE BUSINESS AGENDA

Encouragingly, 83% of underwriters believe that disaster and continuity planning is higher on the agenda for global business leaders now than two years ago, a similar picture to in the 2007 survey.

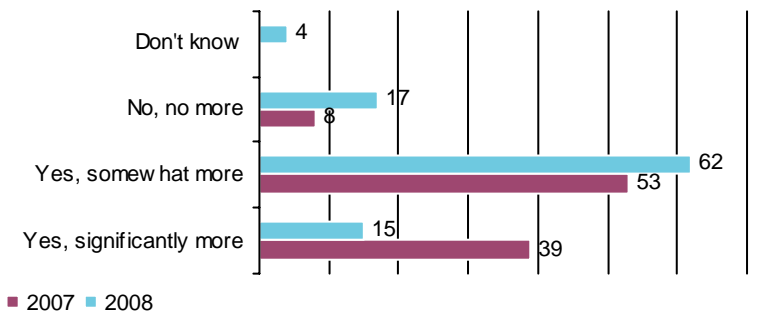
Is disaster and continuity planning higher on the agenda for global business leaders than two years ago?



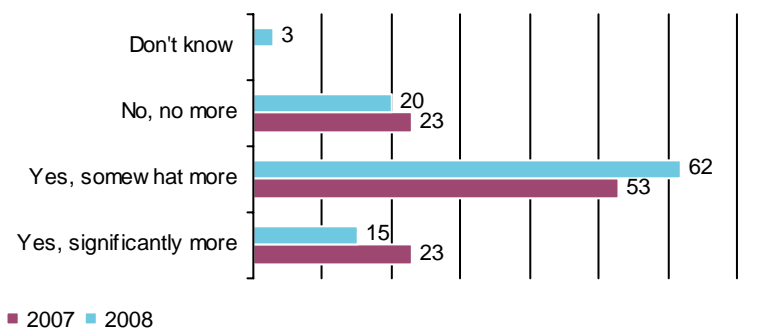
Furthermore 77% believe that global business leaders are dedicating more time and resource to risk management now than two years ago (a slight decline on 2007 results), and a similar proportion that risk managers in the global business community are now more sophisticated in their understanding of risk than they were two years ago.

77% OF UNDERWRITERS BELIEVE RISK MANAGERS ARE MORE SOPHISTICATED IN THEIR UNDERSTANDING OF RISK

Are global business leaders dedicating more time and resource to risk management than two years ago?



Are risk managers more sophisticated in their understanding of risk than two years ago?



Appendix

Risk classes primarily underwritten by those interviewed.

Number of underwriters per class of business

