

ANNUAL UNDERWRITER SURVEY

FEBRUARY 2007

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CONTENTS

Methodology	04
Summary	05
Main findings	
Insurance industry issues – 2007	06
Managing the cycle – a year on	07
Climate change	08
Business classes – premium income earners	09
Business growth opportunity areas	10
Insurance industry cycle	11
Global market conditions	12
Modernisation of the Lloyd's market	13
Business process reform	14
Lloyd's competitive advantage	15
The Lloyd's market 2007	16
'Managing the Insurance Cycle' recommendations	17
Disaster and continuity planning	18
Risk management – resource	19
Risk management – sophistication	20

METHODOLOGY

During January 2007 Lloyd's undertook its third Annual Underwriter Opinion Survey.

Acritas spoke directly to Underwriters at the box, recording their individual opinions relating to challenges and opportunities faced by the market.

It gathers Lloyd's Underwriter views on the year ahead, focusing on both the global insurance industry as a whole and the Lloyd's market specifically.

In total, 116 Underwriters from a large number of syndicates were interviewed at random in the Lloyd's underwriting room. Nowhere else can provide access to such a physical concentration of Underwriter expertise.

SUMMARY

- 1 For the third year running, Underwriters in the Lloyd's market have identified 'managing the cycle' as the most important challenge for the industry, by some margin

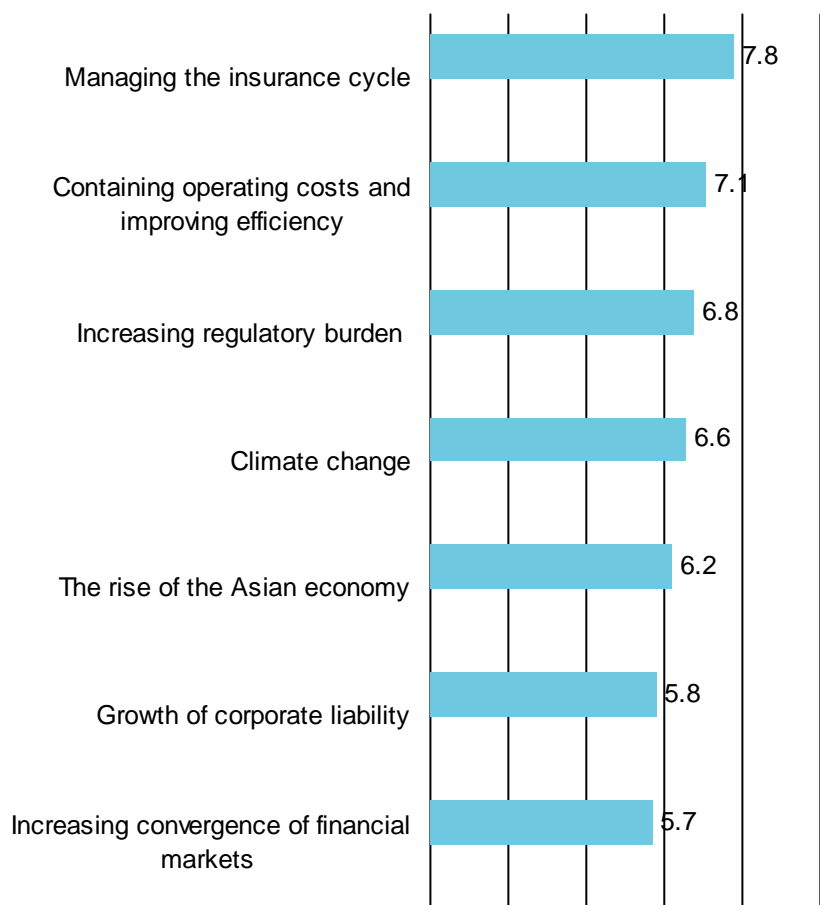
Two-thirds of the Underwriters interviewed this year, when prompted, stated that they had noticed progress in this area, an increase on last year where just over a quarter of the Underwriters stated they had noticed progress

- 2 Two-thirds perceive climate change to pose a major threat to the insurance industry and nearly half believe insurance buyers are ill-prepared for the impact climate change will have on their businesses
- 3 Terrorism/Political, Energy, Property and D&O are the risk categories expected to show the highest growth, in premium income, in 2007
- 4 It is believed that the Lloyd's market is:
 - modernising rapidly with still more to do
 - committed to further business reform
 - and that its face-to-face marketplace will remain equally important for specialist risks over the next year

MAIN FINDINGS

For the third year running, managing the cycle emerged as the most important challenge for the industry, by some margin

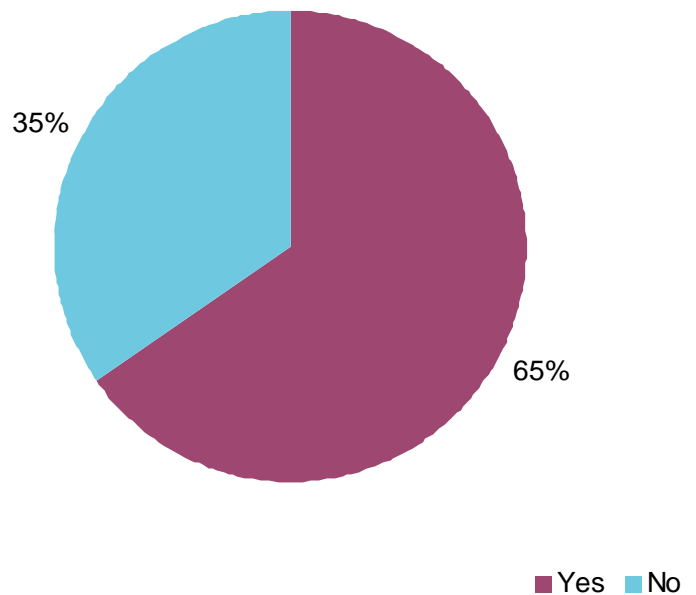
Q. On a scale of one to ten, how important do you think each of the following will be to the insurance industry in 2007?



Two thirds of the respondents believe the global industry has made progress in managing the cycle in the last year

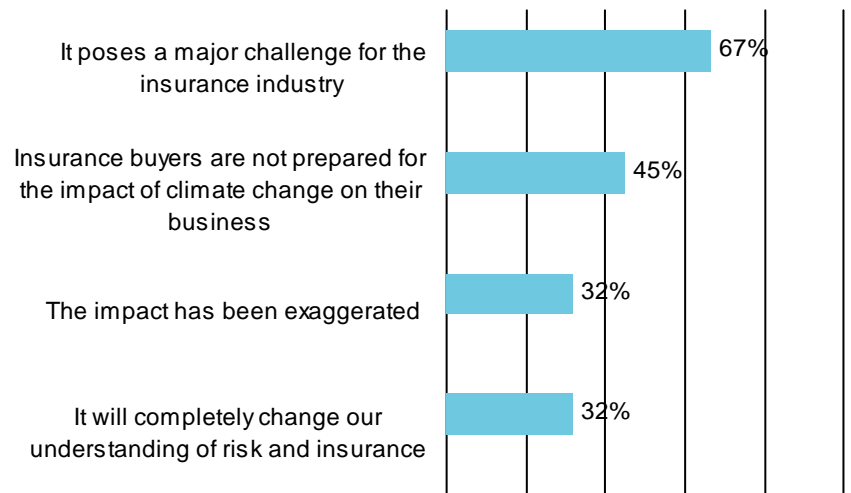
This shows an increase on last year where just over a quarter of the Underwriters stated they had noticed progress

Q. In the 2006 survey 'managing the cycle' was thought to be the most important challenge for the insurance industry to address. Do you think the global industry has made progress in the last year?



Two-thirds of the respondents perceive climate change to pose a major challenge to the insurance industry

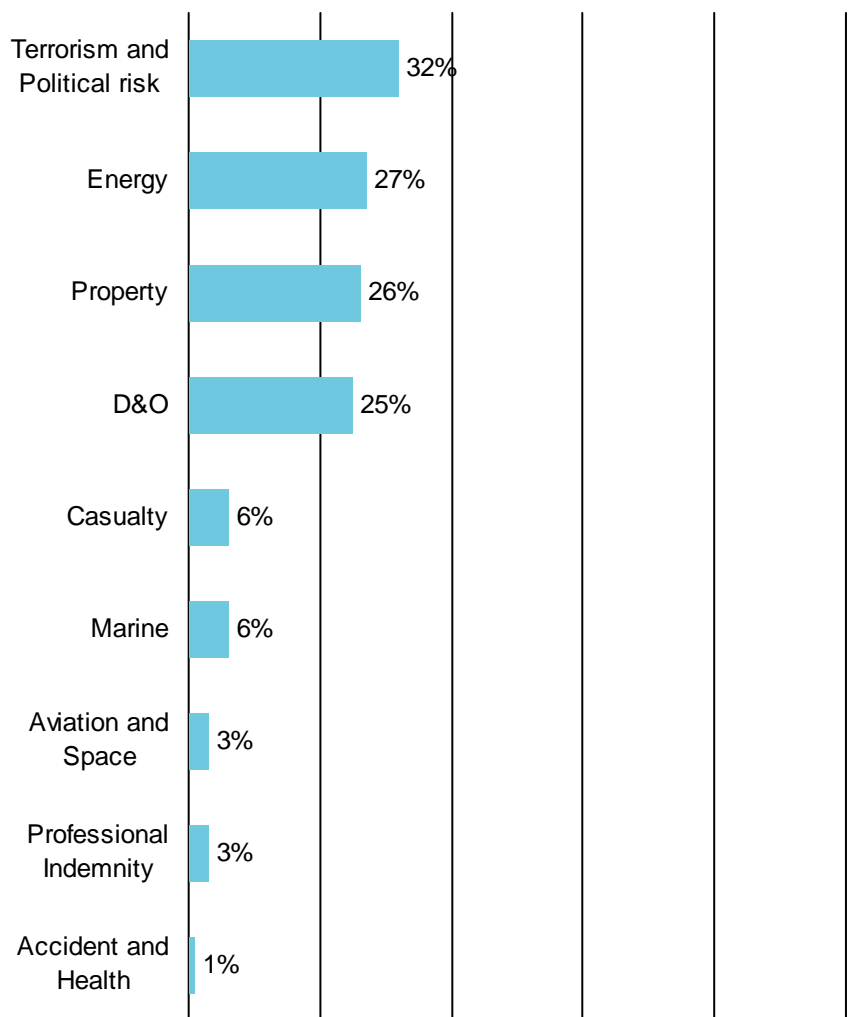
Q. Thinking specifically of climate change, which of the following statements do you agree with?



- Nearly half believe insurance buyers are ill-prepared for the impact climate change will have on their businesses
- One third believe the impact of climate change has been exaggerated

Terrorism/Political, Energy, Property and D&O are the risk categories expected to show the highest growth, in premium income, in 2007

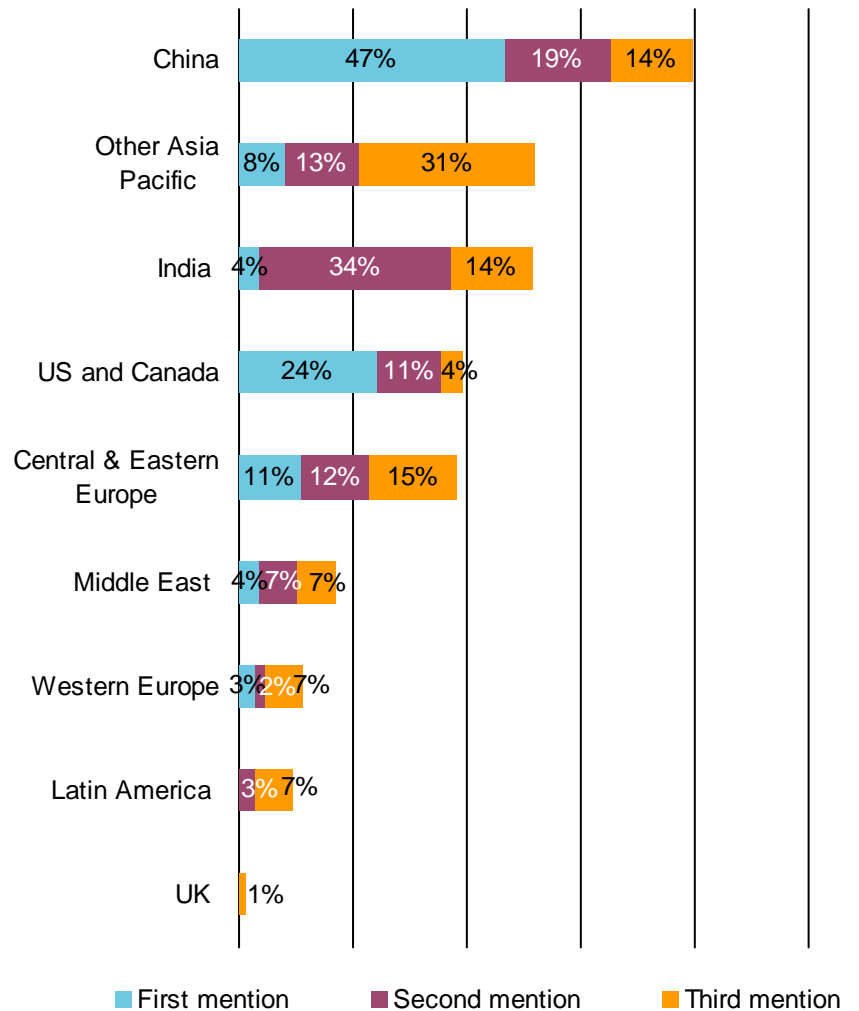
Q. In terms of premium income to the global insurance industry as a whole, which of the following types of risk do you anticipate will show the highest growth in 2007?



China was seen by a substantial proportion to be the area with most significant growth opportunities in 2007

Underwriters recognised the ongoing importance of the US/Canada markets but also reflected the growing significance of India and other Asia Pacific areas

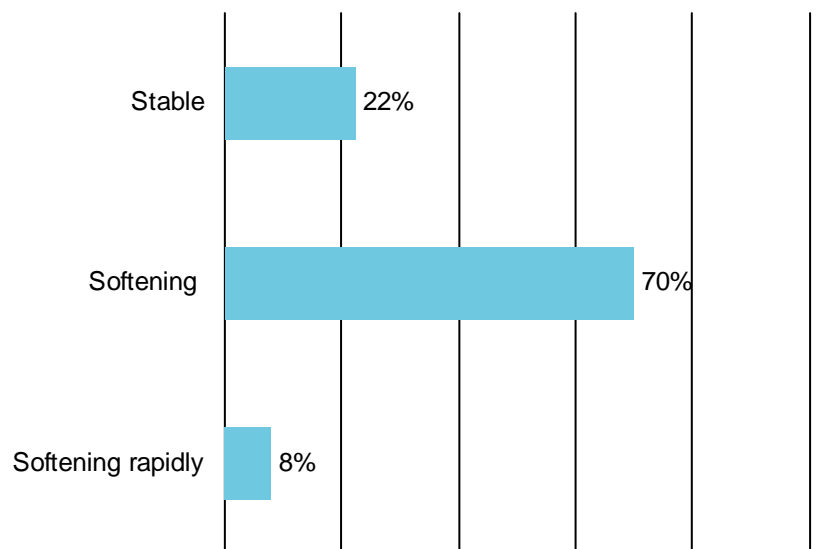
Q. In rank order, which of the following geographical areas offer the most significant growth opportunities in 2007?



The majority of Underwriters interviewed believe that the insurance cycle is currently softening

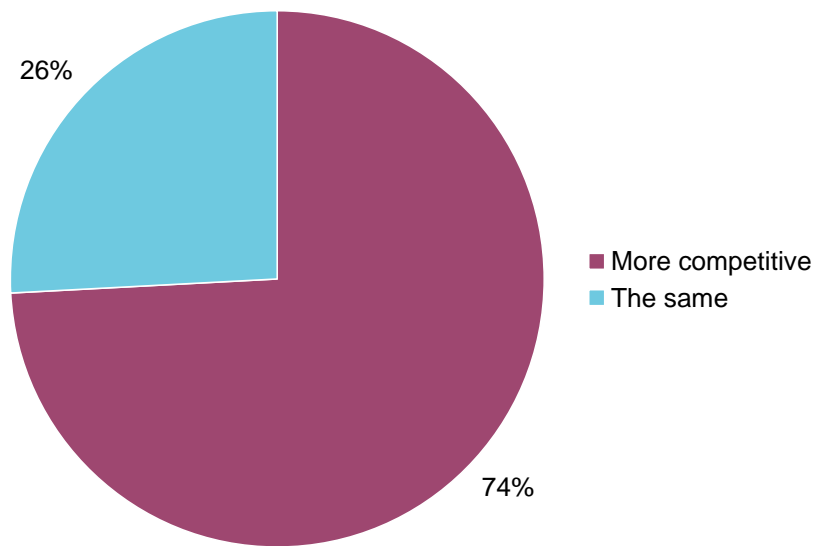
However, underwriters did feel that the property sector was not yet following this trend, and was currently stable

Q. At what stage in the cycle is the insurance industry currently?



Building on the view that the market is softening, three quarters of those interviewed expect market conditions to be more competitive at the end of 2007

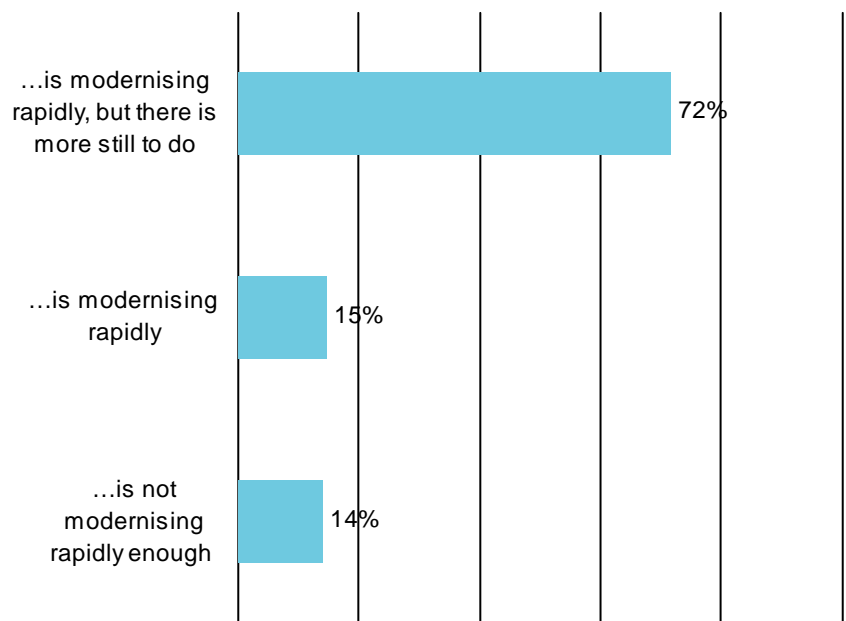
Q. Do you think the global market conditions at the end of 2007 will be more competitive, the same or less competitive than currently?



Focusing specifically on the reform activity currently underway within Lloyd's, the majority believe that the Lloyd's market is modernising rapidly but that there is still more to do

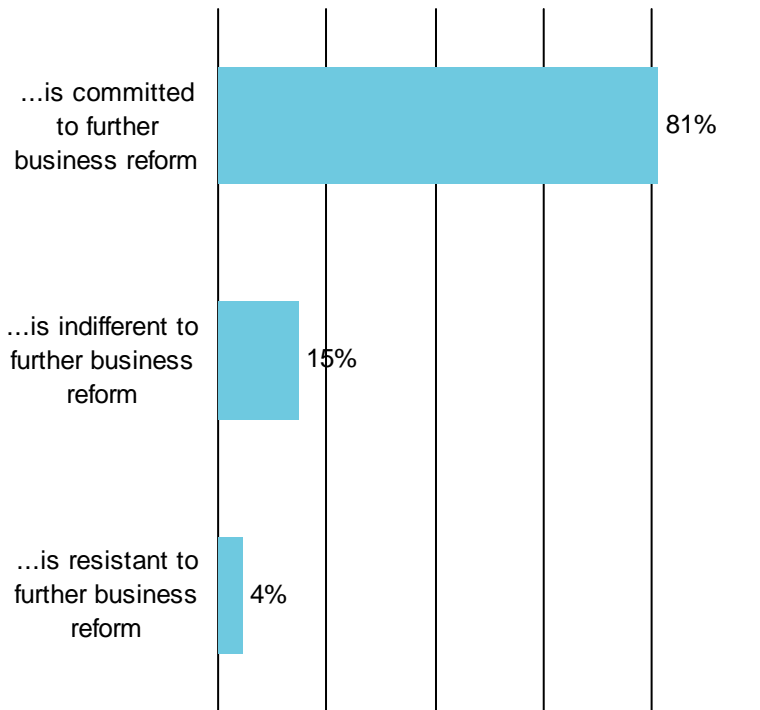
Only 14% believe the market is not modernising rapidly enough

Q. For each of the following set of statements, please indicate which one you would most strongly agree with. "The Lloyd's market is..."



Furthermore, the majority (81%) of Underwriters spoken to believe that the Lloyd's market is committed to further business reform

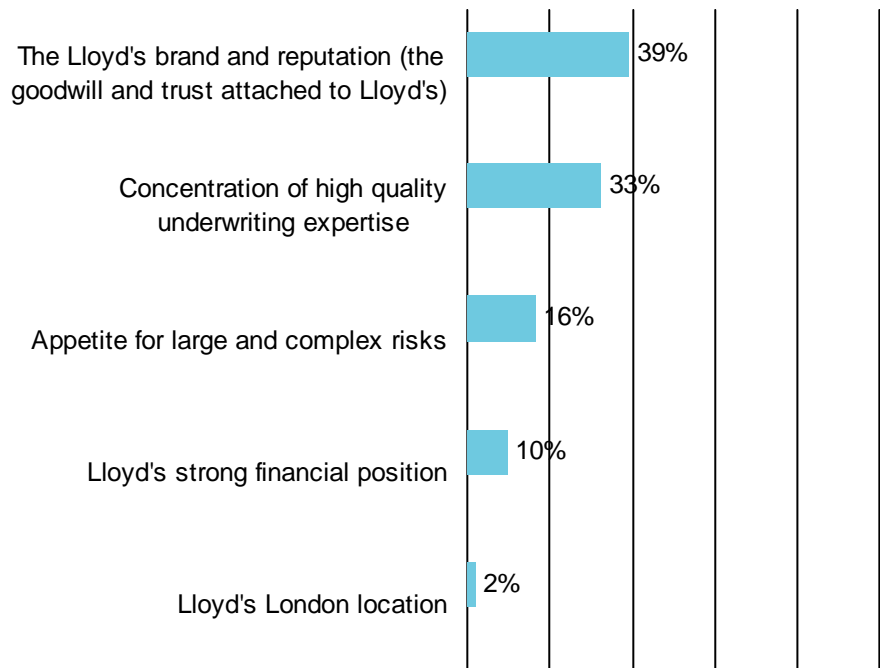
Q. For each of the following sets of statements, please indicate which one you most strongly agree with. "The Lloyd's market...."



When considering the competitive position of the Lloyd's market, the brand and reputation is believed to be the strongest source of competitive advantage over alternative markets, followed by the physical concentration of underwriter expertise

In 2006, Lloyd's appetite for unusual and difficult risks was seen as the main competitive advantage

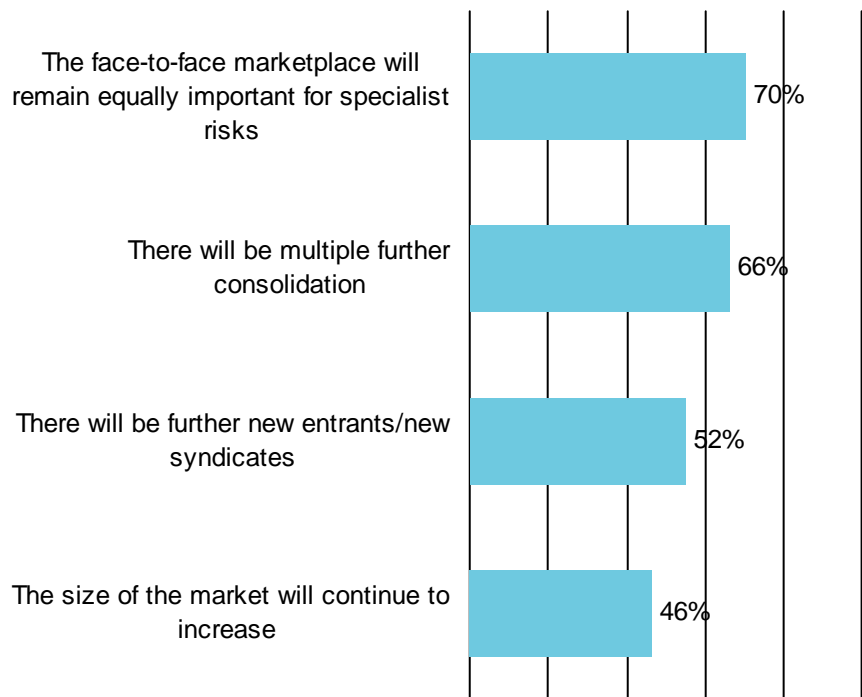
Q. Which one of the following do you believe to be Lloyd's strongest source of competitive advantage over alternative markets?



70% of the respondents felt that the face-to-face marketplace will remain equally important for specialist risks over 2007

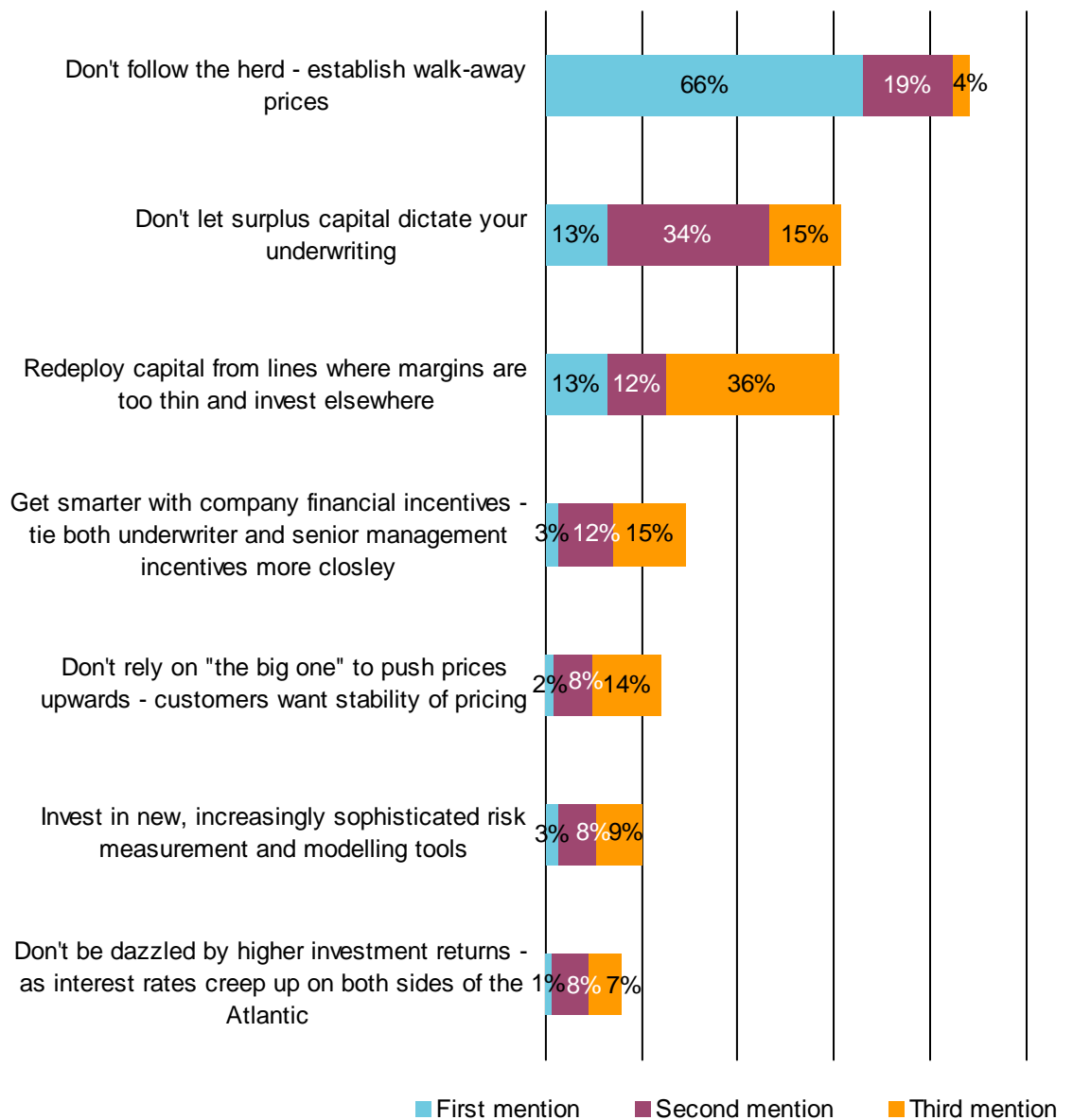
Two-thirds anticipate further consolidation within the Lloyd's market, and over half think there will be further new entrants/syndicates

Q. Thinking about the shape of the Lloyd's market over the next year, which of the following statements do you agree with;



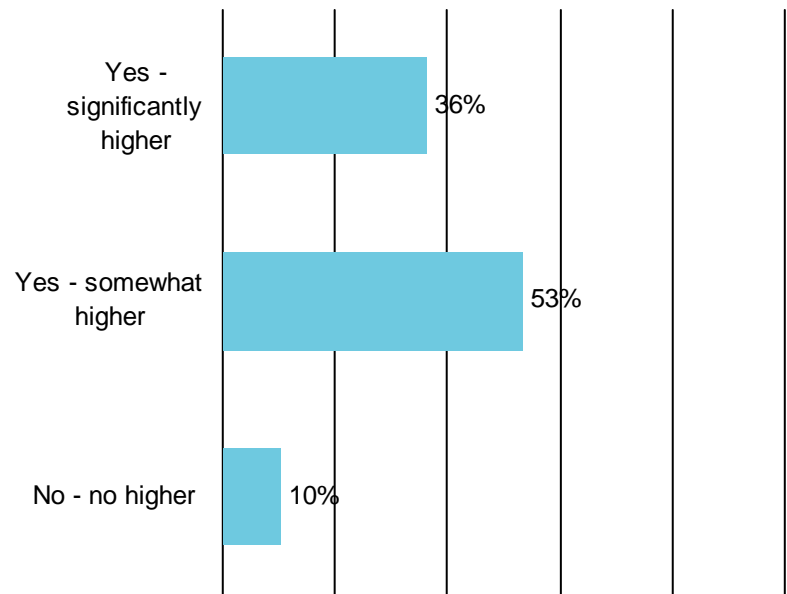
Two-thirds felt that, if widely adopted, the most effective of the recommendations made in the 2006 Lloyd's/EIU 'Managing the Insurance Cycle' report, would be 'don't follow the herd – establish walk-away prices'

Q. Lloyd's recently published a report with the Economic Intelligence Unit called 'Managing the Insurance Cycle' which made seven recommendations. In rank order, which three do you feel would be most effective if widely adopted?



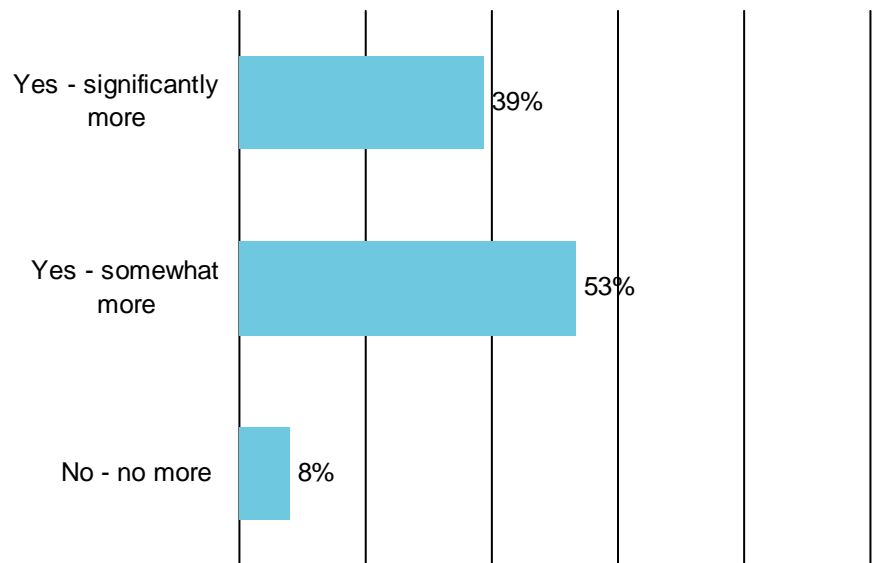
90% believe that disaster and continuity planning is higher on the agenda for global business leaders now than it was two years ago

Q. Do you believe that disaster and continuity planning is higher on the agenda for global business leaders now than it was two years ago?



Similarly, over 90% believe that global business leaders are dedicating more time and resource to risk management now than two years ago

Q. Do you believe that global business leaders are dedicating more time and resource to risk management now than two years ago?



Finally, most respondents believe that risk managers in the global business community are more sophisticated in their understanding of risk now than they were two years ago

Q. Do you believe that risk managers in the global business community are more sophisticated in their understanding of risk now than they were two years ago?

