

ANNUAL UNDERWRITER SURVEY

FEBRUARY 2006

DISCLAIMER

The communication of information in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. In particular, the contents and / or subject matter do not constitute an offer of information, products or services to US persons or in the United States, or in any other jurisdictions where such an offer may be unlawful.

Furthermore, the attached communication does not represent a prospectus or invitation in connection with any solicitation of capital. Nor does it constitute an offer to sell securities or insurance, a solicitation of an offer to buy securities or insurance, or a distribution of securities in the United States or to a US person, or any other jurisdiction where it is contrary to local law. Such persons should inform themselves about and observe any applicable legal requirement.

No responsibility of liability is accepted by the Society of Lloyd's, the Council, or any Committee of Board constituted by the Society of Lloyd's or the Council or any of their respective members, officers, or advisors for any loss occasioned to any person acting or refraining from action as a result of any statement, fact, figure or expression of belief contained in this document or communication.

The views expressed in the paper are Lloyd's own. Lloyd's provides the material contained in this document for general information purposes only. Lloyd's accepts no responsibility, and shall not be liable for any loss which may arise from reliance upon the information provided.

CONTENTS

Methodology	04
Summary	05
Business opportunities	06
Business opportunity benchmark	06
Protecting US business	07
Lloyd's competitive advantage	08
Impact of hurricanes	08
Coping with catastrophes	08
Challenges in 2006	09
Strengthening the reputation	10
Buyer concerns	10
Buyer concerns benchmark	10
Biggest industry risk	11
Industry concern	11
Progress on managing the cycle	11

METHODOLOGY

During January 2006 Lloyd's undertook its second 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. This is Lloyd's second annual underwriter survey.

In total, 113 Underwriters from a large number of syndicates were interviewed at random in Lloyd's underwriting room.

Cross break analysis was conducted by business class, any interesting differences are noted in the commentary

All figures for 2006 results are based on 113 interviews. The comparable 2005 data is based on 102 interviews.

**Note: Benchmark charts display results of questions that were asked consistently each year*

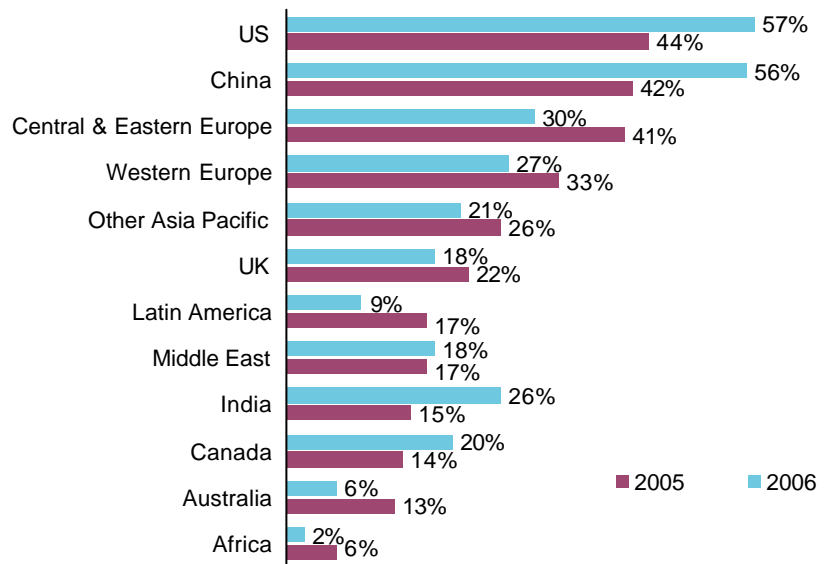
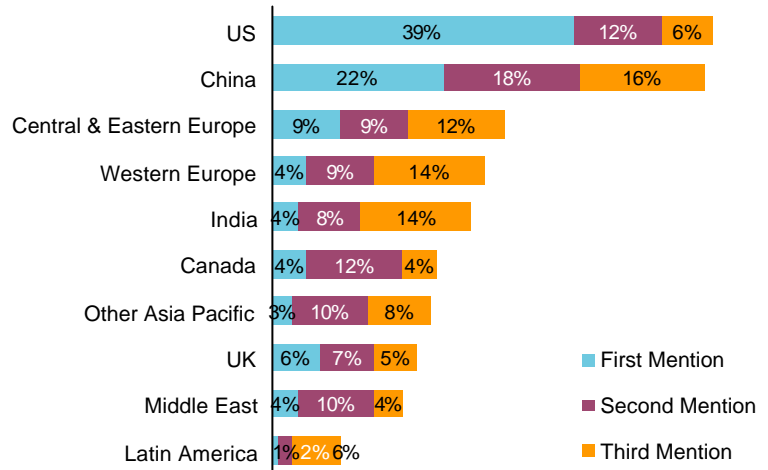
SUMMARY

- 1 The US and China are seen to offer the most significant growth opportunities for the insurance market in 2006, increasing further in importance since last year
- 2 Lloyd's appetite for difficult risks is its strongest source of competitive advantage, followed by the heritage of the Lloyd's brand and the market's superior underwriting expertise
- 3 The greatest impact of last year's hurricane season will be decreased reinsurance availability, followed by higher catastrophe rates
- 4 Speed of response to catastrophes is something the Lloyd's market was particularly noted for having done well in 2005. Payment of claims was the second most mentioned aspect
- 5 For the second consecutive year, managing the cycle is the most important challenge for the non-life insurance market to get to grips with in 2006
- 6 Contract certainty and increased transparency are seen as the next most important challenges. These are also ranked the same as last year
- 7 Avoiding 'boom and bust' cycles is seen as the most powerful way to strengthen the insurance industry's overall reputation, followed by increased transparency/disclosure, and education about the role of insurance in the world
- 8 Whilst pricing is again expected to be the most significant concern for buyers, other considerations such as availability of coverage and financial security are expected to come into play in 2006
- 9 In the wake of two record hurricane seasons, windstorm losses are again predicted to cost the industry the most money in 2006, and the risk of further natural catastrophes is the greatest concern for the industry this year
- 10 While a quarter of underwriters say that the insurance industry has made significant progress on managing the cycle during 2005, an overwhelming 69% say that there has not been enough progress.

MAIN FINDINGS

The US and China are believed to offer the most significant growth opportunities in 2006

Q. In rank order, which three of the following geographical areas offer the most significant opportunities for business growth in 2006? (Prompted)

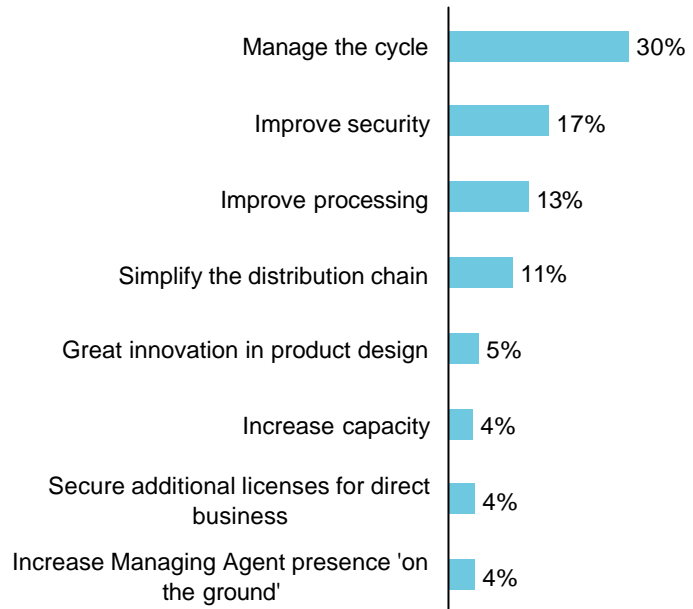


The perceived US and China opportunities have grown in importance since the 2005 survey reflecting the impact of Lloyd's China licence and US catastrophe activity

Perceived growth potential in US, China, India, Canada and the Middle East has increased from 2005 to 2006

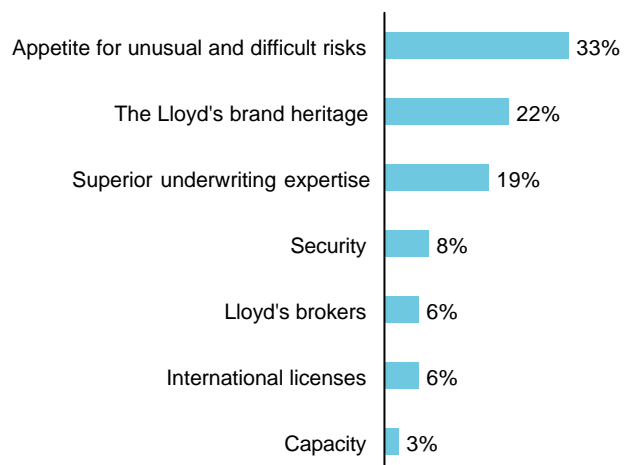
Recognising the importance of the US market, underwriters were asked what would be the key action to secure or grow this business. Managing the cycle was seen as the most important action by far

Q. Which one of the following actions should the Lloyd's market as a whole take over the next three years to protect and retain, or increase, its share of US business? (Prompted)



There was a slight difference of opinion of those underwriters who write Reinsurance and War/geographical risks compared to the overall respondent group. More of these underwriters thought 'Improve Security' to be slightly more important than 'Manage the cycle'

One third believe that Lloyd's appetite for difficult risks is its strongest source of competitive advantage, followed by the heritage of the Lloyd's brand and the market's superior underwriting expertise. This is consistent with Lloyd's own brand tracking research with brokers and end customers around the world.



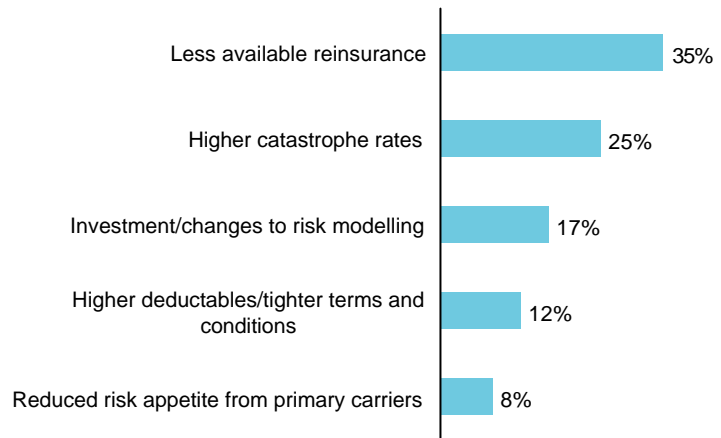
Q. Which one of the following do you believe to be Lloyd's strongest source of competitive advantage over alternative platforms? (Prompted)

Energy underwriters differed from the overall respondent base, with 33% stating 'Superior underwriting expertise' and only 13% stating 'Appetite for unusual risks'

Similarly, Property underwriters differed from the overall respondent base, with 35% stating 'Superior underwriting expertise' and only 10% stating 'Appetite for unusual risks'

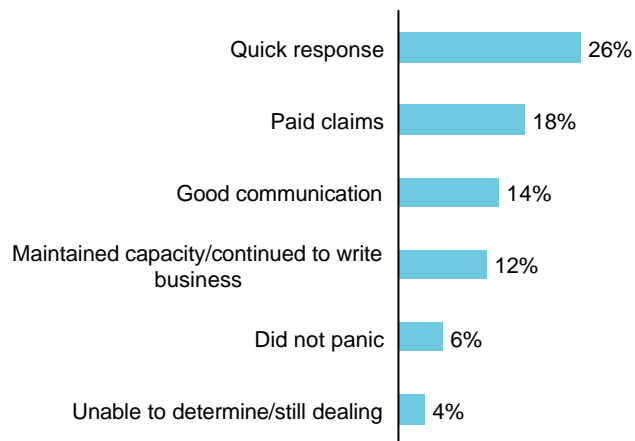
Decreased reinsurance availability was anticipated to be the greatest impact of recent hurricanes, followed by higher catastrophe rates

Q. What has been or will be the biggest impact on the market of the recent severe hurricanes? (Prompted)



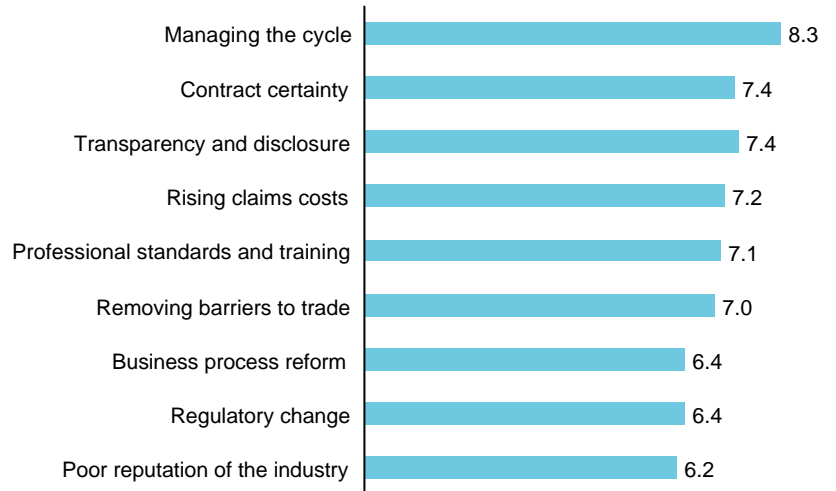
Lloyd's speed of response to catastrophes was spontaneously mentioned as something the market did particularly well in 2005. The market's attitude to paying claims was the second most mentioned aspect

Q. 2005 was a record year of catastrophes. In coping with this, what specifically do you believe the Lloyd's market did particularly well? (Spontaneous)

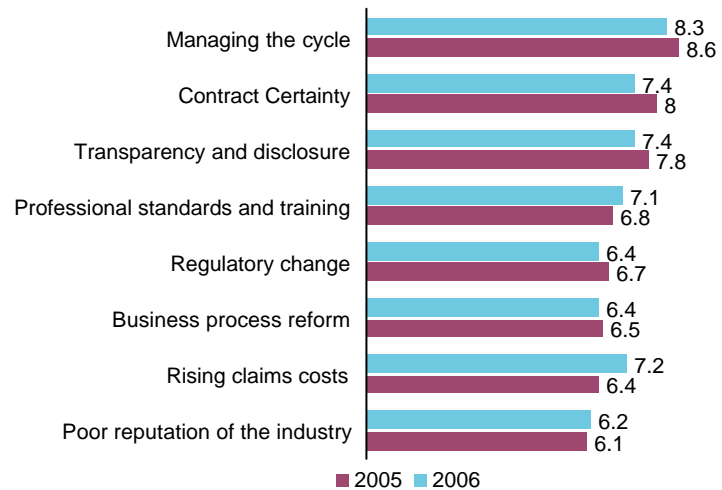


Managing the cycle is the most important thing for the non-life insurance market to get to grips with in 2006, followed by contract certainty and increased transparency

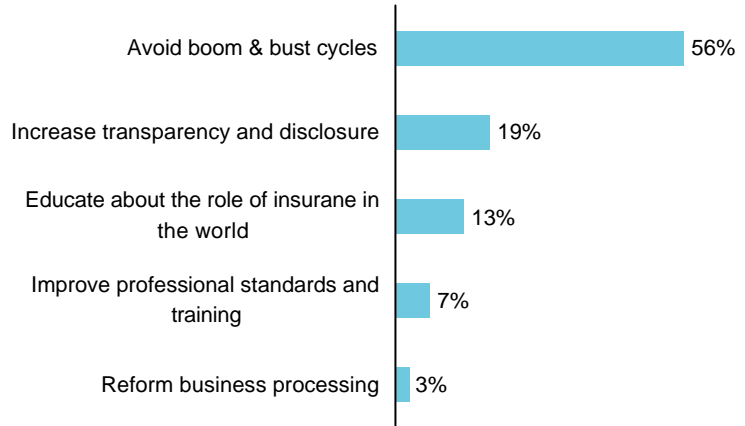
Q. On a scale of 1-10 where 10 is extremely important and 1 is not important at all, how important is it for the non-life insurance market to get to grips with each of the following challenges in 2006? (Rating)



There is little change from the 2005 survey, with only 'rising claims costs' experiencing an increase – perhaps as a reaction to the 2005 catastrophes. The top three challenges remain the same as in 2005.



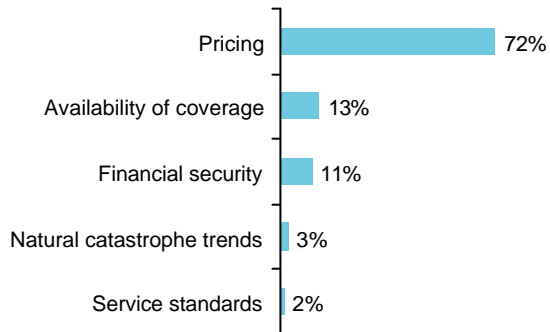
Avoiding ‘boom and bust’ cycles was seen as the initiative that would strengthen the insurance industry’s overall reputation the most



Q. Which one of the following initiatives would strengthen the industry’s overall reputation the most? (Prompted)

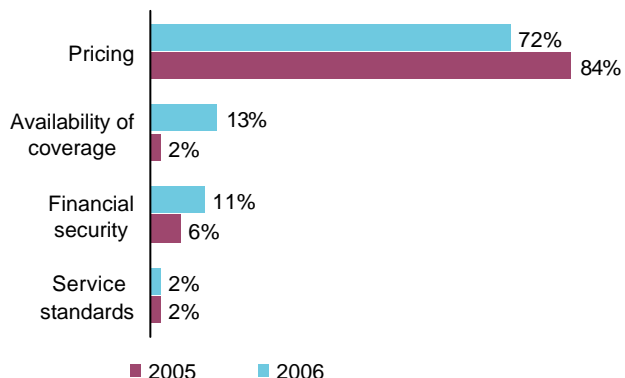
Pricing was seen to be the buyers’ main concern in 2006

Q. Which of the following issues do you think will be most at the forefront of insurance buyer’s minds during 2006? (Prompted)



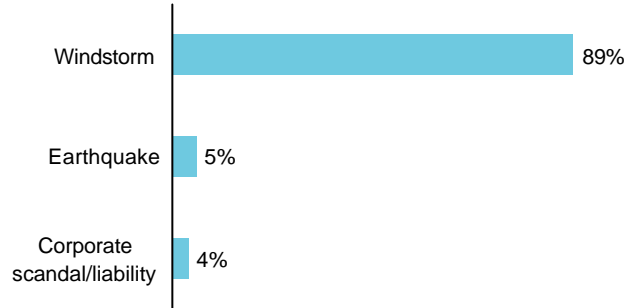
Whilst pricing has remained the most significant concern by far, other aspects such as availability of coverage and financial security have seen increases in 2006, again perhaps reflecting the changing market cycle and 2005 catastrophes

Q. Benchmark – Buyer concerns (Prompted)



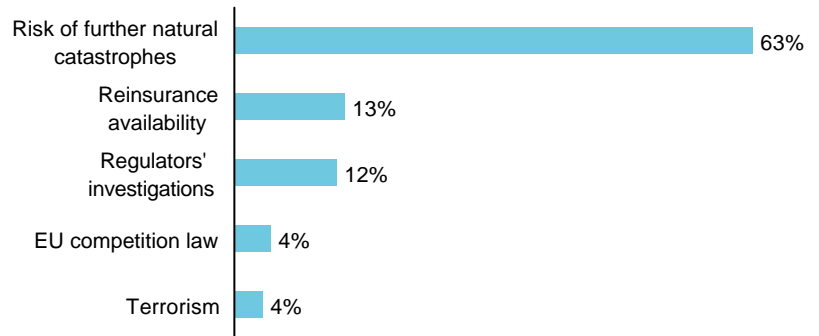
Perhaps unsurprisingly windstorms are predicted to cost the industry the most in 2006

Q. Which of the following types of risk do you think will cost the industry the most money this year? (Prompted)



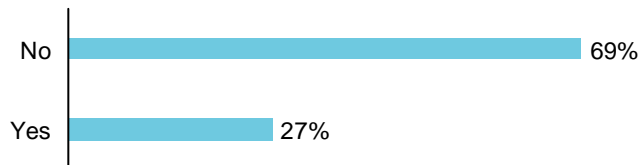
Risk of further natural catastrophes is the greatest industry concern in 2006

Q. Which of the following do you think represents the greatest cause for concern to the insurance industry as a whole in 2006? (Prom pted)



Managing the cycle was identified as key in 2005 but the majority did not see significant progress made in addressing this challenge

Q. In 2005, the Annual Underwriter Opinion Survey found that respondents believed 'managing the cycle' to be the most important challenge for the market to address. Have you seen significant progress on this in the last year? (Spontaneous)



'Managing the cycle' was thought to be the most important issue for the insurance industry to address amongst the majority of underwriters in 2005. However, only just over a quarter of the underwriters interviewed in 2006 noticed progress in that area, indicating that much more needs to be done.