Mr Chairman, thank you for that kind introduction.

Ladies and Gentlemen, it is a privilege to be here today to represent Lloyd's. We understand thoroughly how important it is in these times to recover some sense of normalcy – to use President Harding's, and indeed, your Secretary of State's word. I am personally very privileged to represent a market that wants to help with that recovery.

Ten days ago the Lutine Bell – our Market's symbol of sadness and of joy was rung once, and then once again, in remembrance. Thousands of workers stood silent remembering colleagues and friends.

We have been here before. We have before participated in the recovery and rebuilding of American lives and American property and we are now ready to participate again in a new rebuilding.

We were involved in the San Francisco earthquake, Hurricane Andrew, the California earthquake at Northridge – and we're here to help with this disaster. It's a honour for us to have so much business from the United States. In the words of Cuthbert Heath, it is our purposeto pay all valid claims..

I am sure you understand that I have had to tear up much of the speech that my colleague Roger Sellek was to have given. As I prepared this speech on the plane over, I read in an early draft dated September 5th the words "It is a brave man who attempts to predict the future." Indeed.

Much of what I can say must be provisional, and I hope you also appreciate that I must be careful in some of what I say. Public and media interest in the operation of the insurance markets has rarely been higher. I would not normally expect to overhear a colleague in the press office trying to explain reinstatement premiums to a tabloid journalist.

However we believe that it is vital that you remain informed of Lloyd's ability to deal with the financial impact of the event. Secondly, there has been and will continue to be a great deal going on at Lloyd's that I believe you and your clients would like to know about.

I know how important it is for you to be able to reassure your clients of the continued security provided by the products you sell to them and I am very pleased to be able to quote from our Chairman's statement made last week.

He said this: ***Our market is open for business and trading normally.***

Brokers and policyholders can take comfort from the fact that both the capital that backs Lloyd's and the risks it underwrites are diversified.

In calculating the market's financial position, Lloyd's regularly test its ability to cope with major disaster by using a series of Realistic Disaster Scenarios (RDSs).

***One of these scenarios specifies two jets colliding above a major US city; another envisages extensive urban property damage. Last week's tragic circumstances do not exactly match these scenarios, however this knowledge, combined with our initial estimates, suggests that Lloyd's can manage the financial impact of the US attacks*.**

That's what our chairman said publicly last week. I now want to share with you some more detail underlying that statement.

In the days since the attack, my colleagues in the press office have been assailed by journalists round the world, telephoning to put a figure on the loss we have sustained. How much have you lost? How much will this cost Lloyd's? Why won't you put a figure on it? What's your involvement – airlines, buildings etc? Will you invoke war exclusions?

Unlike some of our colleagues in the industry we at Lloyd's have so far made no public forecast of the total insured loss, nor of the gross or net underwriting result. The rapidity with which some competitors' early estimates of loss had to be revised upwards confirms us in the view that we were prudent not to act prematurely.

There are many imponderables in estimating loss. There are uncertainties about quantum. What has been the impact on buildings surrounding the Trade Centre? Has the minor seismic shock transmitted through the reclaimed land underneath the World Financial Centre had any structural effect? What will be the duration of business interruption? How many passengers on the aircraft paid by credit card? What awards will courts make to relations? What will the effect be of the federal government, or other governments, stepping in?

There are uncertainties about legal issues. How many occurrences were there, legally, on September 11th?

In general terms, we're not aware of any Lloyd's underwriters seeking to invoke war exclusions covers. While the law is quite vague on this – indeed the entire Gulf War was fought without a declaration– war usually involves sovereign states. We have been asked frequently over the last days: what difference does it make if it's terrorism or war? The answer, we think, is … not a great deal. Both airlines appear to have been insured against war and terrorism.

There are uncertainties – particularly for Lloyd's – about precisely how these losses impact upon capital. It is not enough to know what the crude gross loss is to the market as a whole. It is not even enough to know what the syndicate level exposure is. Our capital base – about which I will talk a bit more shortly – needs calculation to be made at underwriting member level.

Finally, there must be uncertainties about the timing of retrocessional recovery, at least.

I am not saying calculation cannot be made – it can and it is being. But any number must be provisional. Privately we are collating managing agents' estimates and we will be sharing these with our rating agencies, with the Financial Services Authority our regulator, with US regulators, and in due course we will be in a position to share these estimates more widely, with clients and their advisers.

I understand from conversations with London this morning that we are planning to release a range of numbers on Wednesday.

This is the most complex claim the insurance industry has ever dealt with. It includes aviation, property, business interruption, life, liability, contingency and other issues we can't even guess at right now. It will affect the industry for years. Even after the Northridge quake, claims continued to be made for up to two years.

We've of course confirmed publicly we have a substantial involvement with American Airlines, United Airlines and the World Trade Centre complex. This is hardly surprising considering we are one of the world's major insurers with the US as our largest single market.

We all know that some of this will end up either in arbitration or court. Some of those arbitrations are needed for guidance on technical points such as the ones I alluded to earlier.

What's happening to rates?

We have no doubt the market as a whole will contract and prices will rise.

We know and I am sure you know that rates for aircraft, shipping and some types of property have already risen significantly in the wake of the tragedy. Some underwriters are quoting increases for airlines of between four and ten times pre-

loss premiums. We also know the reasons. Our industry has just incurred huge losses running into tens of billions of dollars. If current informed estimates are anything near accurate, the loss will easily soak up the excess capitalisation estimated to have been in the world property/casualty and reinsurance markets beforehand.

The risk of acts of war and terrorism has increased significantly. The way in which we understand terrorism risk will also change considerably. Certainly, and grimly, the way we PML it will change.

We understand that the major increases in charges for reinstatement of limit in particular have caused some clients particular difficulty and we have been working hard with government and the airline industry in particular to resolve this issue. The underwriting room remained open this weekend as we worked on this.

All - virtually all - underwriters are today necessarily uncertain of the cost or extent of their own likely reinsurance and retrocessional protection going forward. As a consequence, many are writing net lines only. At Lloyd's, our capital operates on an annual cycle of renewal, which we are currently in the middle of, and the most recent capacity auction (where the rights to accept premiums are traded between members) was suspended in the wake of the attacks. Our underwriters are therefore necessarily uncertain of their premium writing capacity (which represents the upper bound on premium writing) for 2002 - widely estimated before September 11th at up to £13bn. These uncertainties are contributing to the acute difficulties some markets are having in agreeing reinstatement prices, but I don't think we would necessarily expect these very sharp increases to be sustained.

In this context, we understand the reasons that have led the rating agencies to take the actions they have.

We see these principally as prudential moves. The industry is about to face a liquidity challenge and S&P have put swathes of the property-casualty sector on credit watch.

They, like us, are conscious that the quantum and timing of reinsurance and retrocessional recoveries will be impacted by this loss. They, like us, know that capital regeneration following this seismic event will take time. Like us, they do not, however believe that any of the businesses on which they have changed their position, including Lloyd's, face a solvency-threatening crisis.

I would emphasise: Lloyd's retains its Excellent rating from AM Best and its Strong rating from Standard & Poor's. These words - Excellent and Strong - are theirs not mine.

Because it may be of interest to some of you or your clients I would like to run through just how substantial the assets that back Lloyd's policies are, and how the Lloyd's chain of security operates.

All premiums received by Lloyd's are placed in Premium Trust Funds from which only claims, underwriters' expenses and, some of you will be glad to hear, commissions may be paid until the end of the 3 year accounting cycle. Profit distribution can only take place after this period and then only if Lloyd's is satisfied that all claims have been met and that any outstanding claims are reinsured into the following syndicate year. PTF's currently amount to more than $15bn . In this context it should be noted that US regulators require us to lodge as security 100% of all US reinsurance claims.

Funds at Lloyd's, the capital backing each member is required to maintain at Lloyd's to support their underwriting activity amounts to more than $10bn. The level for each member is set using sophisticated risk based capital methodology that varies the amount of FAL required above the minimum of 40% of capacity.

[slide change to RBC system]

This RBC system uses a number of tests to arrive at a resilient capital allocation. It uses premium as the principal proxy for risk. However, it takes account of error in the estimation of ultimate loss ratio, and of error in reserving, and also of the correlations between those errors across classes. Crucially, in the current environment, it is tested by the application of Realistic Disaster Scenarios applied both across the market as a whole and also set at syndicate level. These RDSs include scenarios such as a $50bn Californian earthquake. Syndicates' own RDSs are related to their particular books of business.

The third link in the chain comprises the other assets of members over and above their FAL, assets that are available to Lloyd’s if necessary. Finally there is the central fund. $485 million in liquid assets and another $500 million of insurance

protection any one year with an overall limit of $725 million of excess of loss insurance underwritten by the world’s leading AA and more highly rated insurers.

So that is more than $27bn in assets backing the underwriting activities of Lloyd’s.

I'd like to turn now a bit away from a natural focus on current events and look for a few minutes at some of the other changes and developments going on in our market.

Firstly, I’d like to give a snapshot view of the market in 2001.

Today, there are 108 syndicates managed by 57 separate companies, known as managing agents. In the late 1990s we saw a strong trend towards dedicated capital where a corporate member's capacity is aligned to a particular business or

syndicate - the integrated Lloyd's vehicle or ILV. We expect this trend to continue.

There are 126 Lloyd’s broking firms in London, of various shapes and sizes. As of this year, there are now also a number of Lloyd’s brokers based outside London, and I shall talk more about that later.

There are some 3,500 Lloyd’s coverholders, bringing business from across the world.

Who are our customers today? In terms of premium volume, Lloyd’s is the 3rd largest reinsurer in the world, and the 6th largest commercial lines insurer. The fact that so many of the world’s largest and high profile corporations have policies at Lloyd’s is a testament to their confidence in Lloyd’s sustained ability and financial strength to meet their insurance and reinsurance needs. We have policies in force with 83% of the Dow. With 42% of the Nasdaq-100. With the top

10 US pharmaceutical companies. With 8 of the top 10 US food companies. With 8 of top 10 US telecommunications companies.

Today, Lloyd's is licensed in over 60 territories world-wide and operates in over 100 in total. There is, however, a bias towards two key markets. The US is now Lloyd's biggest market, closely followed by our own domestic UK market. Together, the two countries account for over two thirds of the Lloyd's premium income.

Lloyd's has always been a place for firsts. But for today's purposes I have picked a few of the more interesting examples from recent times.

Insurance for intellectual property ins available from Lloyd's for a variety of reasons – protection of a patent or copyright, for example for pharmaceutical companies; coverage for the corporate brand and reputation in the event of product recall for safety or health reasons, for example for a food product.

A new market facility has also been launched for medical malpractice/public liability cover in response to requests from numerous Lloyd's brokers to create alternative capacity to the traditional markets. The launch came about after London brokers told underwriters they wanted a fresh approach in this specialised area, for both traditional and new emerging areas of medicine. This is the first new major malpractice facility to become available in something like 10 years at Lloyd's.

Lastly, it might not be everybody's idea of a good time but there are those who consider bridge-swinging, fly-surfing, bobsleighing and high diving as fun. With the popularity of extreme sports growing both in the UK and Europe, Sportscover Direct has just launched a website offering both brokers and the general public insurance cover for almost any eccentric or unusual pursuit you can think of. Over 130 non-motoring pastimes are included in the programme, with four categories of cover characterising the danger of the chosen sport.

These are just a few examples, however new programmes, and products being developed every day on a bespoke basis, as thousands of brokers and underwriters interact in Lloyd's underwriting room every week, and work with their broker partners overseas to meet their clients' needs.

For some time now we have been aware that Lloyd's underwriting expertise is not always matched by quality of service. Research shows that although we are perceived to provide the cover required at reasonable cost, we are in some cases slow at settling claims, provide late and inaccurate policy documentation and we are late at billing. Actually, I don't think we needed market research to tell us that. As always, the easy part is recognising the problem; the difficult part is doing something about it. That's where LMP 2001 comes in.

After a long period of consultation within the London market, a set of new principles and procedures has been agreed by underwriters and brokers right across the London Market.

New, clarified responsibilities are set for policy wordings. There will be greater use of standard wordings. A single policy will be produced for a risk where currently two are required – one from Lloyd's and one from the company market.

In terms of claims, a streamlined process is being introduced. The concept of "leader-only" settlement will be encouraged, where only the lead underwriter on a given risk needs to agree to claims payment and the others will follow.

In short, what LMP 2001 aims to deliver is policy production within 30 day; premium payment within agreed terms; and claims payment within 20 days of agreement.

This important development is being reinforced by the outsourcing of our back office operations, to provide a more competitive and efficient service. We reached agreement earlier this year to bring the Lloyd's Policy Signing Office, the London Processing Centre into one business owned in joint venture by ourselves, the International Underwriters Association and Xchanging, a venture capital business backed by General Atlantic. Recently we have reached a not dissimilar deal with Xchanging to commercialise the Lloyd's Claims Office. We believe that these changes will improve our ability to deliver LMP2001.

But as well as developing new markets and new products, Lloyd’s is also considering new access routes. We recognise that Lloyd’s can sometimes seem a more difficult place to work with than it needs to be, and there are two particular initiatives which we have launched this year to address this.

First, the accreditation of Lloyd’s brokers. Until recently, only brokers based in London and regulated directly by Lloyd’s were allowed full access to the market.

This system of broker regulation at Lloyd's was based on principles widely regarded to have been overtaken by a number of developments, including e-commerce and the globalisation of the insurance industry.

So, from January this years, overseas brokers have been able to access the insurance market, provided that they are externally regulated and meet technical and customer service standards that we feel necessary to protect the Lloyd's brand. In making these changes, Lloyd's has removed any impediments to developing relationships with new brokers – for those who share Lloyd's commitment to high standards.

The new structure is now in place, and we have had around 300 expressions of interest from around the world. So far this has resulted in 36 firm applications and 11 newly accredited brokers, of which 6 are from overseas – 2 from the US. We rejected 7 applications.

We don't expect that this means the end of the London broker. Indeed, we believe the majority of overseas business will still flow through a London broker, where they add real value and work with you to develop effective programmes. However, what we are creating is an environment in which the keyword is choice. Where risks and programmes might benefit from the new structure in terms of cost and efficiency, the potential will now be there to achieve it for the first time.

lloyds.com was launched on schedule and on budget on 2 April this year. Its fundamental purpose is to make explicit, on the internet, much of that information which has hitherto been the closely guarded preserve of insiders in London – who's writing what, where, on what conditions. It is open to insurance professionals worldwide – although the precise nature of what is visible changes for legal and regulatory reasons depending on type of user and jurisdiction. Ultimately the vision for lloyds.com is to become the global risk management exchange and the current strategy is focussed on changing its stance from that of an informational portal to that of a transactional exchange. Go and look –

www.lloyds.com – and my successor as CEO of the operation, Ashok Gupta will be delighted to hear of your reactions.

We have been developing our global reach.

In 1999, we established Lloyd's Asia in Singapore, to act as a hub for the Asian region, in particular the south-eastern countries. We currently have three different managing agents represented there, along with a Lloyd's office, and are working our way towards full recognition in Singapore regulation.

We also opened our first office in China and have established a full time Lloyd's representative there. In the expectation of the market opening up and licences being granted to more foreign insurers.

Latin America is another area where we have seen a great increase in business over the last two years. We are pursing a strategy of seeking registered reinsurer status in various countries there.

We see opportunities in Eastern Europe too, and are in the process of seeking a licence in the Czech Republic.

Lastly, we are also monitoring the local insurance markets and regulatory regimes in other key territories with the aim of strengthening our position there when the environment is right- such as Russia and India.

We have worked and will continue to work on improving the quality of businesses at Lloyd's. There has been during the soft market of the mid- late- 1990s a great difference between the losses suffered by syndicates in the bottom quartile and the results enjoyed by better syndicates. This has contributed to market losses as a whole. Our CEO Nick Prettejohn and David Gittings, our director of

regulation have been working on ways to manage this situation more tightly. Some underwriters have been ejected from the market. Businesses will have to raise their game or be ejected. On agency has already been closed down.

This is all for and in the future.

It is important as I said at the start to recover some sense of normalcy and we must continue work to develop our market. For now our focus is on what we're here for – to pay all valid claims, support the rebuilding of American lives and property and to continue to offer cover for extraordinary risks, from an extraordinary country.

Thank you.