



Ladies and Gentlemen,

In different trading conditions I suppose I might have begun my speech by saying how honoured I am for having the opportunity of addressing you and thank you for inviting me. Those days are gone, for the moment at least. So I say to those who know me enjoy the ride, to those who don't know me, welcome, and to those of you who are just here to sign up before going off to the golf course you have got one minute to leave.

Historically the London speech at your conference has inevitably given you an update of the state of our market. It is almost like your President's Annual State of the Union Address. So whilst I do not intend to stray too far from that path this year, I am going to take the opportunity of maybe speculating a little bit about where Lloyd's, the London Market indeed world markets are going as we now unarguably enter a new millennium.

So what is the state of the market. A year to 18 months ago as an underwriter I would have described it thus (SLIDE). Today for me it is more like this. (SLIDE).

The cyclical nature of our business has often been quoted, discussed and fundamentally everyone has bored themselves to death debating the why's and

wherefores of how we can run an industry in such a ruinous fashion. Inevitably each party blames the other. The underwriters blame the brokers, to a lesser extent risk managers, to a reasonable extent clients senior management, rarely themselves.

Brokers, as the poor middleman blame the underwriters. They could never bring themselves to blame their client because their paranoia of losing the account would not allow them.

Clients don't really blame anyone until their prices are rising at which time both the broker and the underwriters are blamed for allowing exorbitant price rises to take hold, perhaps overlooking the radical price reductions they have enjoyed over a number of years.

At this point great pains are made to distinguish the good client from the bad client by all parties. The problem is the broker has forgotten how to distinguish one from the other let alone broke it, as he has not needed that skill during the long dark days of a soft market.

In the meanwhile the underwriter is blinded by the need for cash, lots of it, and loses sight of discernment.

Well everyone blaming each other might satisfy the wounded party of the moment but it achieves nothing, it ducks responsibility and merely acts as some temporary shield to the reality that lies beneath. Regretfully just to add fuel to the fire, too many people in our business have short memories.

I have now passed the 26 year mark in this business. This is my third true world hard market and if you count the 92 to 95 Lloyd's hard market my fourth. Every single one is characterised by the same ingredients of bankruptcy; job loss, and above all complete astonishment among the purchaser of the product that the price rises are so fierce, conveniently forgetting the benefits he has enjoyed for years. As an example, in the energy property market and this is not an isolated example, something that cost one dollar in 1996 was a bargain, 20 cents in 2000. Plus of course, for your twenty cents you got all sorts of free extras in terms of coverage. Probably driving the true price down further. It is inevitable what the result will be, but people will not accept the absurdity of the situation and just go with the flow. The easy life.

To quote one example, more than once recently I have listened to senior brokers say "Oh the Independent – we knew it was an accident waiting to happen, but it was "A" rated." Over here perhaps we could substitute the word "reliance". What sort of standard is that?

To emphasise the point I quote verbatim the beginning of an article appearing in Lloyd's List last month.

“Very few people with any knowledge of insurance, it has been said, were surprised at the discovery of apparently extreme under-reserving at London-listed Independent Insurance, the failure which is prompting many questions about the way the industry is run.

Consider the stance of the elite group of brokers who benefited from Independent's outstandingly 'competitive' rates.

Observers say the brokers enjoyed the notion of being part of such a successful club, and were doubtless content to increase their business without bothering too much about how the insurer managed to buck the trend and continue to declare increasing profits, at a time when the rest of the sector was suffering.”

However I do not blame that mentality because it is the mentality common to the middleman who represents the insured. Get the job done today, worry about the consequences tomorrow. Ah I hear you say “Look he is going to blame the broker for the ills of the market”. Keep listening and you might be surprised.

No I don't blame the broker for the ills of the market I do blame the broker for something called weakness, which can equally be levelled at underwriters. In fact it should be levelled at underwriters more so.

The broker at the end of the day is in the unenviable position of being caught between his client, the futility of the world insurance market and the broker next door who will shoot any line, truthful or not, across the client's bows in an attempt to win his business. It is inevitable that a broker will hesitate to talk through the ramifications of market absurdity with his client. It takes balls to make the client listen to what he should listen to knowing that the man next door will say what the client wants to hear. That is a very difficult call particularly for the less experienced.

The broker is also undermined by the insurance market place where insurers will come along with those dulcet words of "Have I got a deal for you". "I want market share". "I need premium income". They don't actually know what they are going to do with that premium income, but happily, eventually, "premium income" knows what it is going to do to them. In addition, you have that most destructive of forces - ego.

Whilst I wouldn't for a moment wish to suggest that the broker can walk away from his responsibilities scot free, I do sympathise with the fact that most brokers try to provide an honest service for their clients in a market place which makes it

very difficult to offer a consistent standard to those clients. That does not alter the fact that the power of broking houses, the actions of individual brokers, a lack of in-depth broking talent in the market place - partly because our business is not attractive enough to people - partly because after 15 years of a soft market, people don't have to broke -combine to offer very little value added.

So where is the client in this mess? Inevitably bemused, but quick in most cases to take advantage of "conditions". Again one must appreciate the pressure he is under. Return on investment. The Chief Financial Officer looking for cost cutting. What a hero one can look when one tells your boss that the premium bill has just gone down 25%. Some but not enough clients do look beyond price in making their purchasing decision. Too many do not. That alone contributes directly to the mess we are in. If ever events should focus the mind of the CEO of even the largest company as to the worth of insurance with the RIGHT carriers (and I leave you to interpret that word) it is now. Just remember the right carriers will demand the right price over time.

BUT let us not forget the underwriters and their management because ultimately it is they who bear the greatest responsibility for the nonsense that goes on and the mess in which we stand today.

Those treasured words market forces are so often quoted as to be nauseous. We have any number of companies seeking market share in a business that has a

finite market. Why the bosses of these insurance companies feel that it is the right business response to just drop the price below an economic rate in order to buy market share in the vain hope that some third party organisation (usually called the stock market) is going to save them from their own stupidity, is beyond me. However lets be fair they are not alone in mortgaging themselves to the hilt in order to go and have fun on the stock markets.

As an example I saw recently a letter addressed to an insured. This client over the past 5 years had had three separate carriers, mainly because the carriers that he chose, or were chosen for him, had gone to the wall. This latest carrier had not gone to the wall. However he advised the client that he would not be getting a renewal quote. He went on to state, "Whilst we had hoped to have a long term relationship (lasted 18 months), regretfully the company strategy for growth has been an unmitigated disaster and as a result they were going back to their core areas from which they believe they can make a profit. Regretfully your business doesn't fall into that category. (I do not actually have a whole amount of sympathy for the client because he only had to look at his pricing structure compared to his losses to work out that he was only on a short term lease). Regretfully the belief that one can make money regardless of one's actions remains one of those fairy stories that too many people believe in.

Then of course we have that other third party saviour for our model underwriter, (SLIDE) the dumb reinsurer. Here our insurers play the game of pass the parcel,

but in this version of the childhood game, if you are left holding the parcel you lose – or alternatively win the prize of bankruptcy. What angers me the most is that it is too often played with malice aforethought, though happily it usually catches up with the perpetrators or maybe I should say entrepreneurs. Here one can mention the impact of Independent and Australian bankruptcies on people's balance sheets as but one example. I find it extraordinary that clients wish to invest their money in such structures.

At this point the broker must step back in because he often plays an integral part in setting up those structures, but ultimately the underwriter must accept responsibility for structuring his hopes and aspirations on the misery of others. It is that misery that unfolds before us today. Bad debt, bankruptcy, redundancy, soaring premiums in all classes of business including liability, restricted coverage, lack of capacity. All the usual ingredients – but now after the 11th accelerating almost certainly at a pace none of us have experienced before.

Have no doubt we are still only in the warm up period, we haven't actually started the match.

Whilst these remarks obviously can apply to Lloyd's and the London market they are not unique to us. I think it is time that we did stand up for ourselves a little bit more and point out that despite many of our competitors never having to face the same problems as Lloyd's they have managed to mess up in the same way as we

have currently. The European markets have soared around the world strutting their stuff. I am quite happy to see more than one or two of them bent double holding their valuables after a quick kick in the “you know where”. We will watch a number of markets both in the U.S and elsewhere with interest, particularly now as they heavily revise their losses forever upwards following the World Trade Centre. Individual companies are now declaring amounts from this one loss that almost make some of Lloyd’s cock-ups of the past look modest.

At Lloyd's however I have to say that the spectacle of another round of syndicate closures reducing our numbers yet again is a sad one, particularly given the intimate way in which we live side by side. More importantly I find it astonishing that almost 10 years to the day that Lloyd's nearly went out of business, we are back facing the same problems, the same reasons for those problems and the inevitable inquiries that follow coupled with the speculation as to Lloyd’s future. On that note, I am amused at the sad attempts of some of your insurance countrymen to besmirch us once again in their vain attempt to win business. Then of course there is the analyst – in this case Morgan Stanley.

DIGRESS. Supposedly market forces had weaned out the bad underwriters, the weak underwriters, the bad managing agents etc. but here we are again.

SLIDEResults

So is it the system that is wrong or does one blame the individuals who wrote themselves into this mess. Who knows? Probably a bit of both, probably the inevitable inability of the Brits to shake off their conservatism and recognise the way in which things are changing. Coupled with that of course one should again mention that beast entrepreneurial spirit or “ego”.

I do not paint a pretty picture. Many of you may criticise my words, perhaps with greater difficulty now, but if one doesn't attempt to face up to some of the truths one can never make an analysis of where we might be going next.

Well in my opinion we are at the end of a road which has two paths leading from it. One is well sign-posted, well trodden and familiar to us all; we just go and do the whole wretched thing all over again. So we will have a hard market for the next 2 to 3 years, possibly longer now. We will then see everyone go coo look at all that money being made we will have to have a bit of that, or a bit more of that, and off we go to the races.

However for the first time I question whether that cycle with all its amateurishness will repeat itself in the same way, certainly to the same levels of peaks and troughs of the past. My reasons offer at least some foundation to an alternative view.

I wrote those words before that day. Now they seem to me to be limp and worthless. The sheer scale of the event to our industry even now remains only partially appreciated. Despite brave words its impact will be immense particularly if America demeans itself and seeks retribution through the courts rather than on the perpetrators of an evil act. For once I hope you folks get a sense of perspective about liability. It is therefore fair to say that my alternative view probably has greater foundation now than when I first wrote this speech and I certainly believe that pricing madness may never return to the same degree.

Firstly over the last 25 years the speed and power of communication has shaped our business enormously. Above all it has powered globalisation. As a result, the number of people controlling certain insurance products diminishes as each year passes.

For example take my old company, Commercial Union. I joined them on the 1st April 1996. At that time they had just amalgamated four separate trading divisions in marine and energy business. By that I mean they merged four separate decision processes into one decision process being the CU. Some three months after I joined they absorbed the only remaining independent decision process the Ocean into the CU. So in the space of one year the Commercial Union had withdrawn 5 separate trading entities in our business and concentrated it into one. Another two years later and all the business of the General Accident was also absorbed into that trading entity. Two years after that

the then CGU Group had hitched up with the Norwich Union another player in the marine and energy field but now withdrawn from it. So that is seven separate carriers amalgamated into one. Within the space of nine months of announcing the merger of Norwich Union and the CGU, all of the marine and energy business was sold on to Berkshire Hathaway Group. Simply put the Commercial Union Group and its successor companies once the largest marine carrier in the world is out of our business. In the meantime Berkshire consolidate their position.

Ten years ago the number of syndicates trading in marine and/or energy business was 145, today we are down to 36. Ah but the capacity hasn't reduced. Well in the main it probably hasn't. However the levers of power have significantly shifted. It bears down upon the way underwriters do business. I do not believe that any one of those syndicates still trading, including ourselves, is not either substantially backed or wholly backed by an American or European capital provider. Their management demands and needs are very different from the traditional Lloyd's names. We only have to look at the recent events at Newmarket syndicate, who started trading at the same time as my syndicate, to be aware of the manner in which capital can appear and disappear very swiftly. The events of Markel at Lloyd's were not inevitable or as a result of the main syndicate not making money, but underwriting philosophy.

If you look around there is not an all consuming appetite for marine and energy business worldwide. Perhaps at this point we should reflect why. At the turn of

the 20th century particularly in London, marine business was “insurance”. Property and contents business was an emerging class, consumerism had not really started. Motor cars hardly existed, aeroplanes definitely weren’t there, the huge pension funds of today were mere petty cash, but there was an abundance of ships. One hundred years later all of those things have overtaken shipping and its 20th century half-brother energy, in numbers, values and income. Insurance is now a mass market tool where for the vast majority of transactions the mass commodity transaction drives the business. The broker adds little value to getting a personal lines quote unless he is of an exceptional talent and professionalism. The policy virtually always says the same thing. The premium a function of the cycle. The vast bulk of insurance transactions fall within that great swathe of business and is clearly ripe for modern technological transaction.

We in marine and energy are lucky enough to work in the very top little percent of the insurance pyramid. The true commercial world where clients wish to be individualised. We are privileged, all of us, to be able to come together in the way in which we do. But there are fewer and fewer carriers who are interested in writing our business. You only have to look at the record and the returns that we produce. For example the average annual return from writing hull insurance since the war has been 4%. I suggest that that is an investment return that few of you in business would accept, particularly when considering the influence of inflation.

If we accept that the inevitability of the past will doubtless repeat itself in the future I question how much of a future many people have in our “cut” of the business. Personal lines will go on, of course, but there is a diminishing band of insurers who have the appetite to transact business in the large commercial world, because it has been a punishing experience. Words written before the 11th. If you look at the markets available to you 10 years ago and today they have, stating the obvious, contracted enormously. Therefore the number of people determining an insurance decision in our area of business diminishes each year. It does not require much further contraction for there to be almost no “market” at all.

I don't suggest that this is going to happen, I don't believe it should happen, but what I do believe is that for the first time there is the possibility that some form of stability might occur and heaven forbid, that this might serve our clients well. As importantly where there is only limited market with which to work so there is less opportunity to manoeuvre. Perhaps some of the more questionable marketing practices will find that they die a death, or at least are considerably muted.

SLIDE: MAP

People might well suggest that this should be feared but what is it that should be feared? Not having a cheap price or the inability to collect under one's policy? As underwriters we need to achieve a price that reflects costs of doing business

and perhaps heaven forbid offers us the same 15% return on investment that most other businesses that I am aware of, are required to meet in order to satisfy that other growing influence, the stock analyst.

I hope I will be around long enough for all of you here today to point a finger at me and say “I told you so, what a load of old cobblers you were speaking” and you may well be right. I can easily see that a combination of greed and stupidity will in three or so years time see an influx of capacity back into marine and energy. However it will not help the market, it will not help the client. It will be naive capacity, it will be there to only ensure that we perpetuate the pain that we suffer at the moment and it will inevitably eventually tighten the market place another notch. If it happens, so be it, I just hope that we can all survive the rapids without breaking our back upon the rocks. I would be happier if there are a few less people who broke their backs, that we offered each other a little bit more care and a little bit more sense to what is a very simple product. It is only by our actions we make insurance ridiculously complicated. As I draw to a close let me return to the client because if you truly believe in stability you can influence things more.

It would probably be helpful if the client decided more clearly what the purpose of insurance is to his business. Why he buys it, how he wants to buy it, what are his business needs and whether he wants a sensible business relationship where he recognises that the carrier needs to make a profit just as he does. I find it very

difficult to believe that we cannot make more sense out of our business particularly when today I see companies faced with insurance quotes that can literally put them out of business, or at the very least temper their profits substantially. I find it totally disquieting that that should be the case. Equally I find it totally disquieting that the assureds have failed to understand the trap that they fall into. It is time you were more questioning of what supports the product you are offered. Once again, since the 11th I believe those words to be more apposite than ever.

If it looks too good to be true it usually is too good to be true, but regretfully in our business too many purchasers of the product lose their head when faced with the exciting prospect of a significantly reduced bill for their purchase. I know that there isn't a single person in this room who would buy from me a brand new Rolls Royce when I said that I could knock it out for \$10,000. You know it has to have a catch somewhere. The same applies to insurance, but despite the fact it has happened all before, either people don't care or they don't learn.

Last but not least however it is time underwriters finally worked out if you go below a certain rate in any given class you will jeopardise your business particularly when you enmesh that mistake in that comforter dumb reinsurance. In all probability things wont change – the code word for insurance stupidity – entrepreneurialism – will kick in. However, the noose tightens daily and it will become apparent that there are few carriers who can really sustain our area of the

business. The World Trade Centre will not only accelerate work in progress but arguably impact us to a greater degree than our industry has previously experienced. If nothing else it will be fascinating to be around as events unfold.

Thank you for your time, I do not apologise for painting the picture I paint, because the facts are there, all I would say is I very much hope that those of us left can do well without causing the same degree of damage as in the past.