Capacity at Lloyd's hits all time high of £14.25bn

Market 'still attracts robust flow of capital', writes Roger Hailey
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LLOYD'S has defied insurance pessimists by announcing market capacity of £14.25bn ($22.37bn) for 2003 — the biggest in the market's 315 year history.

The record figure for the maximum volume of insurance premiums that the London market can accept is up 15.8% on last year's £12.3bn.

Lloyd's of London chief executive officer Nick Prettejohn said it was "a demonstration of powerful commercial and financial strength, in defiance of the predictions of a number of pessimistic observers".

There are, however, likely to be solvency demands on the funds as they will first need to plug any holes in capital arising from losses in excess of £1.5bn affecting each of the 1999 to 2001 years.

But the capacity rise is seen as a signal that Lloyd's can still attract a "robust flow of business and capital" after five years of losses and the events of September 11 last year.

As a result of the terrorist attacks on New York and Washington, Lloyd's underwriters have in the past 12 months placed $5bn in US Trust Funds and paid out $2.5bn in related claims.

During an upbeat speech in New York, Mr Prettejohn said: "We were asked several questions by the tragedy of September 11, and we have shown the resources, financial flexibility and discipline to answer them."

It is clear that investors have taken advantage of rising premium rates, which soared as institutions scrambled to purchase cover in case of a similar atrocity. He added: "Nearly $9bn of capital has been injected into the Lloyd's market over the last two years.

"A telling statistic is that the market capitalisation of Lloyd's UK quoted businesses is around 50% higher today than in September last year."

While corporate investors account for 80% of the London market's underwriting capacity, names will see their contribution in 2003 grow from £2.8bn to £3bn. Names suffered heavy losses as a result of unlimited liability during the 1980s. Mr Prettejohn said that Lloyd's "would never allow itself the luxury of complacency or relaxation".

That was a clear reference to previously announced reforms to change arcane accounting practices and the setting up of a franchise board to improve the quality of underwriting. "The capacity for constant self-analysis — identifying the need for change — is a source of competitive strength, and a relish for necessary change, however gut-wrenching the prospect, is the hallmark of success."

- Brussels is considering further legal action against the UK government over its regulation of Lloyd's of London and Equitas, the reinsurance vehicle which ring-fenced pre-1993 asbestos claims.

But regulators at the European Commission's financial services arm have been advised to seek information from the UK government before deciding to open formal proceedings.

The commission investigation centres on a 1973 directive requiring member states to ensure that insurance markets have enough reserves to cover potential liabilities.

Commissioner Frits Bolkestein has already opened formal proceedings relating to UK regulation of Lloyd's prior to 2001.

The latest investigation is examining the post 2001 position, when the Financial Services Authority assumed the regulatory role for Lloyd's and Equitas.

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