

Lloyd's members insist "very large profits are possible" following September 11

Richard Tyler
31 October 2001

An internal newsletter sent to nearly 3,000 Lloyd's "Names"—rich individuals who pledge their wealth to back insurance risks—says they stand to make huge profits in the wake of the September 11 terror attacks.

The newsletter, issued by the Association of Lloyd's Members, contains a report entitled, "The Terrorist Attacks on the United States - PART I THE OPPORTUNITY." The document forecasts, "Names may now have an historic opportunity for profitable underwriting."

"The market was hardening strongly before the attacks, but since September 11 rates have shot up to a level where very large profits are possible."

Anthony Young, chief executive of the association, defended the newsletter, saying the report was meant to help members make "investment judgments".

Insurance premiums for major airlines have increased by between 400 and 600 percent in the wake of the terrorist attacks. The world's five largest airlines all have policies at Lloyd's, which controls almost 25 percent of world aviation insurance. Aviation war rates have risen by an astronomical 1,400 percent, while maritime war rates have increased by 500 percent.

The British government has agreed to meet part of the extra insurance costs to the airlines, effectively channelling public money into the pockets of the Lloyd's Names and the giant insurance conglomerates that control this multi-billion industry.

Lloyd's provides insurance in over 100 territories and is the largest insurer and the second largest business insurer after Tokyo Marine and Fire Insurance, according to Standard and Poor, with net premiums worth nearly \$10 billion. Almost 70 percent of the FTSE 100 top companies and 83 percent of the Dow Jones Industrial Average have policies through Lloyd's.

In 2000, Lloyd's made a £118 million surplus, a 54 percent increase on the previous year. The vast bulk of this came from premium levy income, which rose from £81 million in 1999 to just under £98 million last year. Lloyd's holds almost \$7.6 billion in US funds, which is its largest market and accounts for 35 percent of its total premiums.

Lloyd's is not a single business, but a marketplace in which individuals (the "Names") and syndicates compete to provide insurance cover. It originated in 17th century London, at the Tower Street coffee house belonging to Edward Lloyd, where wealthy individuals would meet and agree to take a share in the risk of insuring a vessel and its cargo. They signed their names one below the other on a document listing the amounts they had decided to cover, hence the term "underwriters". The Lloyd's Act 1871 incorporated the Society of Lloyd's, providing the legal basis for today's multi-billion insurance market.

According to the *Financial Times*, "Prospective Lloyd's Names should possess three qualities: a voracious appetite for risk, £350,000 (\$500,000) or more in investable assets and the capacity to take losses on the chin."

In return, they can expect to make a handsome profit over the long term from their investments, in what the *Financial Times* says "underwriters call the hardest, or most highly priced, market for commercial lines insurance in a generation." Those operating through Lloyd's also enjoy an extremely favourable tax regime, which contributed some £18 million towards last year's surplus.

The number of individual Names has dropped from over 35,000 ten years ago, to just under 3,000 today, as massive corporate insurance interests have moved in. Some 890 corporate Names, mainly large US and

European insurance companies and investment banks, now control most of the business done at Lloyd's.

Total insurance losses from the September 11 attacks are estimated to be as high as \$40 billion. Lloyd's own exposure as a result of the terrorist bombings in New York and Washington is projected at £5.4 billion (\$15.5 billion). Lloyd's has been able to win a reprieve from the US authorities from a November 15 deadline for posting its entire liability, instead only setting aside 60 percent or £3.24 billion, with the rest due March 2002. Lloyd's chairman Sax Riley said it was a matter of short-term liquidity, not solvency.

Lloyd's has already made a cash call to its members worth £780 million to meet US claims, with individual Names possibly having to fork out up to £100,000 to meet their share of these liabilities. Although in the short-term some Names may have to reach into their wallets to provide funds, the *Financial Times* noted, "Many existing Names are increasing their exposure, however, hoping to trade out of their current losses and possibly turn a profit. 'I am buying capacity right now,' said [Association of Lloyd's Members chairman] Mr Deeny. 'I'll be underwriting 80 percent more next year.'"



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact