

Lloyd's and the London Market:

capital management and pricing trends

Sanjiv Chandaria presents headline results from a recent Watson Wyatt survey

Watson Wyatt recently conducted a survey of practitioners in Lloyd's and the London Market, with the intention of gauging current trends in pricing and capital management. Our research was based on questionnaires completed by, and interviews with, actuaries and senior management from organisations across the market.

The survey showed that the top five issues in the sector are as follows:

■ Underwriting in a soft market

Whilst 84 per cent of respondents believed their underwriters would write business which is expected to achieve a below target return, even more (92 per cent) believed their competitors would write such business.

■ Capital management

Capital management processes and models are considered to be of value in day-to-day business decisions but not yet well embedded, particularly in respect of underwriting and reinsurance purchasing.

■ Competition

69 per cent of respondents felt the new Lloyd's syndicates started in 2007 and 2008 would impact the underwriting cycle either by accelerating the fall in rates or making rates fall further or both.

■ Embedding capital and risk management into the business

There is some way to go before capital models are fully embedded. For example, only 40 per cent of respondents review their capital model when major changes occur in the business.

■ Talent management and retention of staff

Demand for well qualified and experienced insurance professionals continues to be high. In particular, actuaries are being used very selectively in pricing risks given their scarcity and cost (mainly on risks where they are perceived to add the most value).

insurance matters in the numbers

400,000

The estimated number of people that would be killed in less than five minutes if a Vesuvius eruption occurred without any form of prior evacuation.

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84%

Of respondents to Watson Wyatt's, Lloyds and the London Market Survey believe their underwriters would write business which is expected to achieve a below target return.

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30%

The annual rates of return on equity achieved in CEE.

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31%

The Chief Risk Officer Forum has suggested that diversification across risk types within legal entities could reduce capital requirements by 31%.

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