



## 2010 Auction Report

Auction One, 7<sup>th</sup>/8<sup>th</sup> September 2010

### Highlights

- High prices continue in illiquid trading
- Unsold capacity exceeds capacity successfully transferred as sellers hold out for higher prices.
- Buyers seem to be basing their prices more on last year's actual prices rather than adjusting for last year's pre-emptions.
- Mismatch of expectations for motor syndicates 218 and 260.
- Aligned buyers include Argo, Beaufort and Meacock.
- Unsuccessful bids from Beazley, Hiscox and Atrium.
- Alterra is an aligned seller.

### Prices fell

Last year, the index of weighted average price per £1 of capacity reached its highest ever mark in Auction Three at 35.3p. At 28.7p, the price per £1 of capacity was slightly down from last year's all auction average of 31.8p.

### Or did they?

The auction is conducted in terms of the current year's capacity. Members who buy capacity are entitled to any pre-emption attached. This means that buyers of £1 of capacity at auction last year actually acquired approximately £1.26 of capacity for 2011, or that the cost of acquiring £1 of capacity for the 2010 account was only 25.5p. This year, with as many de-emptions as pre-emptions, £1 of capacity bought at auction will entitle the buyer to 97.6p of capacity (subject to current capacity plans being approved by Lloyd's Performance Management Directorate) and costs an average of 28.7p, up 12% on last year's average.

### Auction One – an overview

Improving rates in the UK motor market meant there were plenty of would-be buyers for the two motor Syndicates 218 and 260, but recent deterioration in forecast results means there are plenty of sellers. On **Equity Syndicate 218**, sellers generally were hoping for more than buyers were prepared to pay. £5.3m changed hands, at an average price of 9.4p, although some successful bidders paid as

little as 6.6p. Buyers for almost £5m at prices lower than 6.5p remained unsatisfied, as did £8.3m of sellers, some of whom were hoping to get as much as 45p (more than the 2009 price) for their shares.

**KGM Syndicate 260** was cheaper, and even at 0.1p not all sellers managed to move their capacity on. The average price of 1.3p masked the fact that some buyers paid more than 4p while others succeeded at 0.1p.

**Syndicate 318** seems to be losing favour with third party members. £22m was tendered, but only £1.5m found buyers, the most significant of which was Beaufort Dedicated with £1.1m (which increases the aligned share to 73.7% as it inches closer to a requirement to make a Mandatory Offer to the remaining Members).

Against the backdrop of the significant reductions in capacity values for these syndicates, one of the key considerations for members during the remaining auctions will be weighing-up a sale at any price against the underwriting prospects for the coming years.

**Syndicate 1200** was also heavily sold by third party members. £6m changed hands, with most being picked up by Argo's Corporate member for a generous 5.4p (by comparison to 2009's 3.0p).

With Kiln Underwriting not bidding for its own managed capacity at all in 2009, **Syndicate 510** was a comparative bargain. There was no sign of Kiln again this year, although the price edged ahead of last year's price to 18.2p. Successful bids ranged from 11.2p to more than 22p, with Argenta's new client MAPA 7222 buying £3m. **Syndicate 807** was a cheaper option, and was available at 0.1p, despite the average of 3.1p. A lack of favour with non-aligned capacity left tenders of £1.9m unsold. Conversely, **Syndicate 557** was sought after and expensive, trading 60% higher than in 2009 at 11.8p. Members buying capacity here will be de-empted by 49.8% (so they need to buy £2 at auction to have £1 on the syndicate next year), increasing the effective price to 23.6p. Given the similarity in the business composition, we would expect some would-be buyers of 557 (£5.5m of whom remained unsatisfied) to switch their attention to some of the Special Purpose Syndicates (SPSs) in order to satisfy any demand for catastrophe excess of loss business. For Kiln's Life **Syndicate 308**, Berkley Life was the only seller, tendering £1m of capacity, of which £691,000 sold at 15p.

Beazley was an under-bidder, looking to buy over half the remaining capacity on **Syndicate 623**, with a bid for £100m at 25.1p. It missed out by about 3p, as £3.3m went to third party members at a price of 34.1p, close to last year's unadjusted average of 34.5p. A 62% pre-emption for 2010 means that the effective price of 2010 capacity was less than 23p.

Another under-bidder was Atrium, which was looking to pick up £10m of capacity on both managed **Syndicates 570 & 609** at a price of 15p. Pricing for 570 overtook that for 609 in 2008, a lead it has retained ever since. The status quo was maintained, with both achieving a price within a penny of last year's unadjusted values. Buyers paid between 43p and 52p for 570 and between 34p and 49p for 609

Meacock Underwriting was a buyer of Michael Meacock's **Syndicate 727**, picking up a combined total of £348,630 out of the £625,000 traded. Mrs Meacock bought £100,000 in her own right at around 47p. Staff and family have long been large supporters of the syndicate and other members will be pleased to see a further vote of confidence.

**Hiscox** launched its usual sweep-up bid, looking to pick up £20m of **Syndicate 33** at a price of 10p. This was some way off the action, with a minimum bid of 37p required to secure capacity. Hiscox



has not now acquired any capacity since 2005, remaining on 72.5% ownership, just short of being required to make a Mandatory Offer when it reaches 75%. Argenta's MAPA 7222, set up to acquire capacity for new entrants, was the largest buyer, acquiring £1.7m.

There was a large unsatisfied seller of capacity on MAP **Syndicate 2791**. Despite there being over £9m for sale at 30p, the price was just short of this at 29.9p. MAPAs operated by the two larger Members' agencies bought just over half of the £3.9m traded. We will watch to see whether the large seller (possibly Atrium) is prepared to drop its expectations for Auction Two.

Omega has not sought to acquire further capacity following last year's capacity offer for **Syndicate 958**. The price, which edged up throughout last year's auctions, fell back to 24.5p. There was a large mismatch of expectations as, unusually, unsatisfied tenders and unsatisfied subscriptions both exceeded the volume that changed hands.

There were plenty of sellers of Jubilee Life **Syndicate 779**, with £2.46m of capacity (over 9% of the total) remaining unsold. The price was down almost 50% on last year.

Despite the change in underwriter scheduled for the year end, there is no reduction in enthusiasm for **Syndicate 386**, with all successful buyers paying more than £1, and some going as high as 135p. QBE is another corporate buyer notable by its absence, and the aligned share has remained at just under 70% since 2006.

Cathedral has often been a bidder for its managed **Syndicate 2010** at quite high prices. It was content to sit this one out, with no aligned bid. Despite its absence, prices remained high at almost 45p.

Alterra, managing agent to **Syndicates 2525 and 2526**, was a seller of capacity, disposing of a £3m share on Syndicate 2526. The management of the two syndicates is due to transfer to Whittington for 2011, and Alterra has undertaken to maintain its support for the syndicate in sterling terms, but not its percentage share, in the light of a 57% pre-emption.

Argenta **Syndicate 2121** was partially unloaded by Hampden MAPA 7208, but all capacity tendered at 1.0p or less was successfully transferred, with both Argenta MAPAs and a handful of bespoke members among the buyers.

Nuclear **Syndicate 1176** maintained its position as the highest priced syndicate, with £47,000 changing hands for more than 220p per £1. The combination of low liquidity and a highly profitable track record suggest that prices are not likely to come down soon.

Last but not least, the new boys on the block, **Syndicate 1969**, traded for the first time, and achieved a modest price. One seller was hoping for a price of 5p for the syndicate he acquired at no cost in November last year, but despite the headline price of 1.3p, this syndicate could have been acquired for 0.1p by the astute buyer.

## What to expect in Auction Two?

Auction Two starts on Tuesday 14 September.

We had expected members to start their pricing by reference to the adjusted price paid for 2010 capacity. With a few exceptions, prospects for returns in 2011 are generally lower than they were for 2010, so we have been surprised that the pricing has remained quite as strong as it has, and it seems that many buyers have used the higher 2009 unadjusted prices as their benchmark.

For example, Syndicate 510 pre-empted by 46% for 2010. To secure £10,000 of capacity in 2009, a buyer needed only to buy £6,850 which would have cost £1,169 at average prices. To secure a £10,000 line for 2011, the cost would be £1,822, an increase of 56%.

Those members seeking to reduce their underwriting as a defence against the softening market are largely hanging on to perceived high quality syndicates and reducing disproportionately on lower quality. We therefore see high prices continuing for key Syndicates such as 33, 386, 510, 570, 609, 2010 and 2791, with possibly some moderation of the remainder.

One of the key features of the auctions so far is the absence of forced sellers (i.e. those who have decided either to resign their underwriting or to withdraw from a particular syndicate). These sellers are relatively relaxed as to the price they achieve for relinquishing their capacity and have typically tendered at a fraction of the final auction price in order that they can use the auction allocation methodology to ensure they sell their capacity and attain the average price. This year, there is a greater preponderance of members who will sell at a set price and, if their pricing expectation is not met, they will simply continue to trade with the capacity into 2011. While the volume of capacity traded at £55m was very close to Auction One 2009's £56m, the total volume of tenders was 26% higher in 2010 at £116m.

After the first auction is out of the way, it is easier to guess who will be bidding for what and at what sort of levels, especially by examining the unsuccessful bidders reports and also the spreads of prices between the highest and lowest successful buyers. This should allow buyers to target their bids more accurately, resulting in a narrower range of successful bids.

### Auction One – In Numbers

	<b>2010 Auction One</b>	<b>2009 Auctions One to Three</b>
Capacity successfully traded	£55.3m	£161.5m
Subscription (buy) orders	£248.2m	£733.2m
Tender (sale) orders	£115.8m	£230.3m
Bilateral trades	0	£14.3m
No. of syndicates traded	23	23
Average paid to acquire capacity	22.3p	23.6p
Average of all Lloyd's capacity	28.7p	31.8p

<b>Top Five Price Rises</b>		<b>Auction One Price</b>	<b>Adjusted Average 2009 Price</b>	<b>Price Increase</b>
1200	Argo	5.42	2.98	81.7%
557	Kiln	11.84	7.40	60.1%
510	Kiln	18.22	11.69	55.9%
623	Beazley	34.13	22.91	48.9%
2121	Argenta	2.23	1.56	42.9%



<b>Top Five Price Falls</b>		<b>Auction One Price</b>	<b>Average 2009 Price</b>	<b>Price reduction</b>
260	Canopus (ex KGM)	1.34	6.30	(78.7%)
218	Equity	9.43	40.25	(76.6%)
318	Beaufort	5.09	11.40	(55.4%)
779	Jubilee	9.59	18.90	(49.2%)
958	Omega	24.55	33.15	(25.9%)

<b>Top Five Buyers</b>		
<b>Syndicate</b>	<b>Capacity</b>	<b>Buyer</b>
1200	£5,000,000	Argo (No 604) Limited
510	£3,000,000	Argenta MAPA 7222
33	£1,700,000	Argenta MAPA 7222
2791	£1,000,000	Hampden MAPA 7211
318	£1,155,215	Beaufort Dedicated No 2 Limited

<b>Top Five Sellers</b>		
<b>Syndicate</b>	<b>Capacity</b>	<b>Seller</b>
2526	£3,000,000	Alterra Corporate Capital 2 Limited
33	£2,000,000	Argenta SLP
510	£2,000,000	Argenta SLP
623	£1,000,000	Argenta SLP
218	£935,382	Alpha member

#### **Auction One Summary**

<b>Syndicate</b>	<b>Managing Agent</b>	<b>Unadjusted 2009 Average Price</b>	<b>Adjusted 2009 Average Price</b>	<b>Proposed Pre/(De)-emption</b>	<b>Aligned Capacity</b>	<b>Auction One Price p/£1</b>	<b>Auction One Volume (£000s)</b>
0033	Hiscox	46.61	34.95	(10.0%)	72.5%	41.87	4,437
0218	Equity	43.26	40.25		64.0%	9.43	5,282
0260	Canopus	6.76	6.30		58.8%	1.34	1,520
0308	RJ Kiln	21.64	15.87		52.1%	15.00	691
0318	Beaufort	12.72	11.40		73.7%	5.09	1,555
0386	QBE	107.51	100.11		69.6%	112.56	1,027
0510	RJ Kiln	17.07	11.69		52.8%	18.22	6,594
0557	RJ Kiln	7.40	7.40	(49.8%)	0.0%	11.84	1,097
0570	Atrium	45.67	39.50		24.8%	45.90	1,253
0609	Atrium	38.98	28.31		25.8%	38.00	2,425
0623	Beazley	34.46	22.91		82.5%	34.13	3,322
0727	SA Meacock	41.07	37.90		<25%	47.81	625
0779	Jubilee	17.01	18.90		<25%	9.59	1,027
0807	RJ Kiln	4.24	3.65		51.1%	3.10	2,448
0958	Omega	37.20	33.15		38.8%	24.55	2,702
1176	Chaucer	166.99	166.99		54.8%	222.69	47
1200	Argo	2.98	2.98	(7.1%)	82.30%	5.42	6,075
1969	Flagstone			23.9%	26.9%	1.29	476
2010	Cathedral	43.34	37.15		57.8%	44.69	1,416
2121	Argenta	2.10	1.56	14.3%	29.3%	2.23	3,388
2525	Alterra	31.22	31.22		2.0%	33.22	521
2526	Alterra	27.07	27.07	57.2%	27.0%	29.53	3,483
2791	MAP	26.12	21.10		20.9%	29.90	3,884

## New Zealand Earthquake

A magnitude 7.1 earthquake, with an epicentre less than 30 miles west of Christchurch, South Island, New Zealand, that struck in the early hours of Saturday 4th September, has been described as the worst to hit the country in 80 years. Fortunately no lives were lost, but damage to buildings in Christchurch is widespread and Fitch Rating Agency puts initial estimates of the insured loss at between NZ\$1.5bn (£700m) and NZ\$6bn (£2.85m). The majority of any loss is reported to fall to the state-backed New Zealand Earthquake Commission which, according to press reports, had a natural disaster fund worth NZ\$5.5bn at the end of 2008, with a reinsurance programme placed in international markets to cover claims that top this level. It is likely that Lloyd's syndicates will provide some of this reinsurance protection and some may underwrite direct insurance in the area. The discussions we have had so far with underwriters suggest that the total insured loss will be at the lower end of this range and that the Lloyd's market does not have significant exposure in the region. Even allowing for the time it takes to assess earthquake damage, which may be greater than it appears to be at first, it does not look as if this will become a significant insured loss, nor will it cause any movement in the premiums for international catastrophe reinsurance, except in New Zealand.

## Connected Party Trades

The table below show Auction One transactions that were successfully entered into by Members with Argenta Private Capital (**APCL**) connected person status.

<i>Syndicate</i>	<i>Type</i>	<i>Capacity</i>	<i>Member</i>	<i>Status</i>
218	Tender	£38,061	E S Harborne	Consultant
386	Subscription	£3,000	E S Harborne	Consultant
2526	Subscription	£10,000	E S Harborne	Consultant
2526	Subscription	£10,000	E S Harborne	Consultant
2526	Subscription	£10,000	E S Harborne	Consultant
727	Tender	£25,113	Aardvark Underwriting Ltd (David Newton)	Third Party Adviser
1200	Tender	£150,000	Aardvark Underwriting Ltd (David Newton)	Third Party Adviser
727	Tender	£16,255	ASLP116 (Alison Follis)	Third Party Adviser
318	Tender	£17,945	Minhotex LLP (David Harrison)	Director
33	Subscription	£300,000	Talisman Corporate Underwriting 2000 Ltd	<sup>1</sup>
318	Subscription	£100,000	Talisman Corporate Underwriting 2000 Ltd	<sup>1</sup>
386	Subscription	£100,000	Talisman Corporate Underwriting 2000 Ltd	<sup>1</sup>
2010	Subscription	£100,000	Talisman Corporate Underwriting 2000 Ltd	<sup>1</sup>
2010	Subscription	£33,012	Talisman Corporate Underwriting 2000 Ltd	<sup>1</sup>
1200	Tender	£200,000	BHC Winton Underwriting II Ltd	<sup>2</sup>
1200	Tender	£283,884	BHC Winton Underwriting III Ltd	<sup>2</sup>
779	Subscription	£100,000	Rona Delves Broughton	Council or Board member
779	Subscription	£100,000	Rona Delves Broughton	Council or Board member
779	Subscription	£100,000	Rona Delves Broughton	Council or Board member
1969	Subscription	£30,694	C G Harman	Council or Board member
1969	Subscription	£30,694	Greylands Underwriting Ltd (CG Harman)	Council or Board member
958	Tender	£103,496	The Michael Deeny LLP	Council or Board member



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## Notes

<sup>1</sup> David Monksfield and Paul Sandilands (respectively executive and non-executive director of APCL) are directors of Talisman Corporate Underwriting 2000 Ltd.

<sup>2</sup> Alan Tucker (executive director of APCL and non-executive director of Argenta Syndicate Management Limited) is a director of the BHC corporate members.

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