

2008 Auction Report

Auction One, 3rd/4th September 2008

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Highlights

- **Small price falls on key syndicates from 2007 levels.**
- **Bids to buy capacity exceed sales by 60%.**
- **Individual members continue to make the running.**

Auction One – An overview

£33m of capacity changed hands at an average price of over 21p per £1 of capacity. This compares with an average of 17.6p in last year's auctions.

As predicted at our recent pre-auction Client Meeting, volumes remain thin. Only £79m of capacity was tendered. More than half of the tendered capacity remained unsold, as sellers (perhaps unsuccessfully) sought to push prices even higher.

Buyers were almost entirely third party members, with only recent offeror Beaufort (Syndicate 318) and HCC (Syndicate 4040) adding to their aligned capacity. MAP Capital, aligned to but independent of Managing Agency Partners and Syndicate 2791, disposed of £25m of capacity in a bilateral deal with a number of Hampden MAPAs.

Rather than the average price paid, a more meaningful index is of all third party capacity which fell very slightly to 20.78p from last year's average of 21.73p (a reduction of 4%). Changes in capacity entitlement via de-emptions and pre-emptions render inter-year comparisons complicated, but it seems that Members' absolute values have reduced by more than this. The reduction when adjusted for the de-emptions and pre-emptions applied for 2008, is a more meaningful 10%. For example, Syndicate 33 reduced in capacity for 2008 by 20%. It traded at an average price of 23.3p last year. In order to secure £1 of 2008 capacity, members needed to buy £1.25 at auction, increasing the average price to 29.1p. In Auction One this year, Syndicate 33 traded at 23.8p, an 18% overall fall in value.

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Who traded and at what price?

Perhaps who didn't trade and why would be a better title.

Two syndicates continue to trade at a significantly higher level than any others, these are **QBE** managed Syndicate 386 and **Chaucer** managed nuclear Syndicate 1176. Although **QBE** stated in 2007 that it would not be making a general offer (and since then has not bid for capacity), the syndicate continues to be one of the most highly sought after by members. While some sellers were holding out for as much as £1.50, the syndicate traded 10% up on 2007 at 91.2p. All successful buyers paid at least 80p, with some bidding £1.30 to ensure success.

Syndicates 386 and 1176 attract the highest bids.

The nuclear syndicate set the record for the highest average price for a syndicate last year, in Auction Three at £1.33. It didn't quite scale these heights, but nonetheless achieved £1.25p. Chaucer actively pursued capacity last year, but this year's small levels of capacity were bought in equally small bundles by individual members.

Aligned bidders generally unsuccessful or not participating this time.

As usual, while the identities of unsuccessful bidders are not disclosed, it is fair to guess that bidders for very large volumes of any syndicate are normally the corporate vehicles of managing agents. In Auction One, there was an unsuccessful bid for £25m of capacity on Syndicate 33 at 9.2p. Last year, **Hiscox** was unsuccessful with bids at 8.2p.

Atrium reduced the value of last year's bid. During 2007, it bid 15p for both Syndicates 570 and 609 with very limited success. This year, it has so far bid 10p for £10m on both managed syndicates. The lowest successful bids were in excess of 25p for Syndicate 570 and 17p for Syndicate 609.

Beazley looks to be an under-bidder for Syndicate 623, with a bid for £10m of capacity at 15p at least 3p short of any success.

Beaufort was successful as it added to the £42m on Syndicate 318 that it had acquired in August's capacity offer. While the bid was at the same level as the capacity offer, 27.5p per £1 of capacity, Beaufort bid only for another £1m of capacity, less than the total volumes for sale and some buyers were successful below the offer price. Whether Beaufort comes back for more in Auction Two remains to be seen.

HCC increased its share of Syndicate 4040 through NameCo 808 by another 0.2% bringing its total share to 87%. It placed a bid to acquire all the remaining non-aligned capacity at 0.1p.

Kiln, Cathedral, Omega, Heritage, Equity and **Imagine/Max** do not appear to have bid for any of their managed capacity.

Kiln catastrophe syndicate available at less than 1p.

Syndicate 557 was subject to the largest volume of capacity for sale. £2.5m was successfully traded but another £11m remained unsold, and even those tendering at 0.1p could not be certain of selling. While low utilisation of capacity will reduce the expected returns, we were surprised at the volume of sales as rates in the reinsurance market remain relatively high and also as one of the other potential outlets for members looking for

catastrophe business, MAP Special Purpose Syndicate 6103, is ceasing at the end of the year.

Motor syndicates were in favour. At Argenta's recent pre-auction Client Meeting, Rolf Tolle made an exception for UK motor to the general rule of worse expected returns for all classes in 2009 over 2008. This was reflected in strong demand for the two specialist UK Motor syndicates. Both recorded price rises over 2007, despite each offering pre-emptions for next year. Syndicate 218, the larger and, by Argenta, more favoured of the two, recorded a rise of almost 7%, with another £5m of bidders remaining empty handed. Syndicate 260 also was in demand, with a price rise of more than 25% and almost £3m of unsatisfied demand.

Motor syndicates in demand.

Novae Syndicate 2007 has not traded at auction since its formation. Only a very small proportion is held by third party members. A tiny share of less than £2,000 was tendered and snapped up. Demonstrating that the syndicate's lack of trading has been down more to a shortage of sellers, rather than absence of buyers, there was £680,000 of additional unsatisfied buyers.

Alongside the auction, Members' Agent Hampden arranged a bilateral deal to acquire £25m of Syndicate 2791 from the **MAP** vehicle MAP Capital Limited. Hampden MAPAs thus dominate the buyers table and MAP Capital the sellers.

MAP bilateral dominates tables of largest buyers and sellers.

Syndicate	Top five buyers of capacity	
	Capacity	Buyer
2791	18,175,002	Hampden MAPA
2791	2,941,292	Hampden MAPA
2791	1,586,198	Hampden MAPA
2791	1,515,043	Hampden MAPA
318	1,000,000	Beaufort Dedicated No 2 Limited
557	1,000,000	Hampden MAPA

Syndicate	Top five sellers of capacity	
	Capacity	Seller
2791	25,000,000	MAP Capital Limited
2791	1,200,152	Individual NameCo
510	1,000,000	Individual NameCo
510	1,000,000	Individual NameCo
510	970,969	Individual NameCo

Syndicate	Price Rises		
	2008, Auction 1 price	2007, Auction 1 price	Increase in value
3334	6.31	3.84	64%
2526	21.14	14.15	49%
308	21.69	15.21	43%
318	27.50	21.56	28%
260	19.35	15.35	26%
727	24.30	21.02	16%

Syndicate	Price Falls		Price change
	2008, Average Auction price	2007, Average Auction price ¹	
557	0.77	4.00	-80.8%
807	3.26	6.67	-51.2%
510	15.55	22.33	-30.4%
779	25.00	33.96	-26.4%
958	13.00	17.11	-24.0%
2791	21.24	27.46	-22.7%
609	24.23	31.10	-22.1%
33	23.75	29.11	-18.4%

¹ we have adjusted the 2007 price to reflect any pre-emption or de-emption imposed for the 2008 year of account.

What do we expect to see in Auction Two?

Auction Two follows hard on the heels of Auction One so we generally expect more of the same. Many members now spread their trading over a number of auctions, so we expect that additional capacity will be tendered.

Similar levels of pricing expected in Auction Two.

There are few members entering or leaving the market, so most trading is by those looking to “tweak” their underwriting rather than make wholesale changes.

A feature of Auction One is the low hit rate for sellers and buyers. Less than half of capacity tendered was successfully sold, in most cases because sellers specified a higher floor price than the market could bear. As we think it unlikely that prices will increase materially, it remains to be seen whether these sellers drop their expectations.

Now that the aligned vehicles have shown their hands, buyers should be better able to target their pricing. The spread between the highest and lowest successful bids was large in many cases and we anticipate that these spreads will be squeezed into a narrower band in Auction Two.

Hurricane update

Hurricane Gustav made landfall on 1 September approximately 70 miles west of New Orleans as a category 2 hurricane with sustained wind speeds of 110 mph. Fortunately, the storm had weakened from a category 3 hurricane shortly before reaching land.

Gustav is the first 2008 hurricane to cause significant damage but.....

Catastrophe modelling firm AIR Worldwide has issued preliminary estimates of insured losses at \$2.5 billion to \$4.5 billion for onshore property losses and \$1.8 billion to \$4.4 billion for offshore losses, being mostly oil installations in the Gulf of Mexico.

.....losses to the insurance industry are likely to be modest.

AIR's competitors Risk Management Solutions Inc (**RMS**) gave estimates of \$3 billion to \$7 billion for onshore losses with \$1 billion to \$3 billion of losses expected from damage to offshore energy installations.

The other major catastrophe modelling firm EQECAT also estimates the onshore loss to be in the range of \$3 billion to \$7 billion and the offshore loss to be less than \$4 billion.

Actual losses resulting from Hurricane Gustav should become clearer over the next few days as fleeing residents of New Orleans return to their homes and inspections can be carried out on the energy installations in the Gulf. If actual losses fall at the upper end of the range, Gustav will be the largest US hurricane since Wilma in 2005 and in the top five most costly US hurricanes.

Should the losses be at the lower end of the range, the involvement of reinsurers will be limited. As things stand, it seems unlikely that this event of itself will reverse or even halt the continuing decline in premiums.

Meanwhile, 2008 continues to be a significant catastrophe year. Property Claims Services estimates that insured losses from catastrophes totaled \$9.4 billion in the first half of 2008. Further storms so far in the third quarter could increase this above \$15 billion, which is well ahead of \$6.5 billion for the whole of 2007, but a long way short of the \$61.9 billion in 2005.

Ike threatens.

At the time of going to press, Hurricane Ike is a category 3 hurricane with sustained wind speeds of 120mph, which has struck north eastern Cuba.

Among the websites monitoring the progress of hurricanes, worth a visit are www.stormpulse.com and www.nationalhurricanecenter.com

Auction One Summary

The table on the following pages provides a summary of Auction One trades against last year's average prices. Additionally, there was a single bilateral deal agreed which saw MAP Capital sell £24.5m of capacity to a number of Hampden MAPAs. There was £489,236 of interaction whereby unsuccessful bidders for capacity were able to buy capacity from MAP Capital.

Connected parties - a table showing Auction One transactions that were successfully entered into by Members with APCL "connected person" status is also shown on the following page.

Auction One Summary							
Synd	Managing Agent	Unadjusted 2007 Average Price	Adjusted 2007 Average Price¹	2009 Proposed Pre/(De)-Emption	Aligned Capacity	Average Price p/£1	Volume (000s)
33	Hiscox	23.29	29.11	-14.29%	72.5%	23.75	2,382
218	Equity	29.53	29.53	7.50%	64.0%	31.95	1,912
260	KGM	16.49	15.35	35.01%	59.7%	19.35	469
308	Kiln	19.01	19.01	0.00%	52.1%	21.69	49
318	Beaufort	21.56	21.56	0.00%	68.7%	27.50	1,150
386	QBE	83.57	83.57	0.00%	69.6%	91.85	1,203
510	Kiln	17.86	22.33	-6.46%	53.0%	15.55	5,575
557	Kiln	4.00	4.00	0.00%	0.0%	0.77	2,457
570	Atrium	29.50	29.50	0.00%	24.7%	28.35	1,360
609	Atrium	31.10	31.10	-18.88%	25.7%	24.23	3,162
623	Beazley	17.84	18.97	-12.81%	81.6%	19.02	1,266
727	Meacock	21.02	21.02	0.00%	9.3%	24.30	949
779	Jubilee	26.81	33.96	0.00%	13.8%	25.00	239
807	Kiln	6.67	6.67	0.00%	38.8%	3.26	1,561
958	Omega	17.11	17.11	0.00%	16.4%	13.00	3,311
1176	Chaucer	123.19	123.19	14.51%	56.3%	125.08	187
1200	Heritage	4.81	4.65	-7.83%	77.7%	5.12	1,279
2007	Novae	0.00	0.00	0.00%	94.0%	8.30	1.5
2010	Cathedral	36.82	36.82	0.00%	57.8%	38.40	1,103
2121	Argenta	1.93	1.54	0.00%	30.7%	3.00	1,172
2525	Imagine	24.40	24.40	0.00%	2.0%	27.30	253
2526	Imagine	14.15	14.15	0.00%	36.4%	21.14	174
2791	MAP	23.88	27.46	0.00%	36.5%	21.24	2,474
3334	Argenta	3.84	3.84	33.33%	67.8%	6.31	129
4040	HCC	0.14	0.14	0.00%	87.0%	0.13	169

¹ adjusted to reflect any pre-emption or de-emption imposed for the 2008 year of account.

Connected Parties				
Synd	Type	Capacity	Member	Status
218	Subscription	10,000	E S Harborne (032687K)	Consultant
218	Subscription	10,000	E S Harborne (032687K)	Consultant
218	Subscription	10,000	E S Harborne (032687K)	Consultant
318	Tender	126,250	E S Harborne (032687K)	Consultant
386	Subscription	2,500	E S Harborne (032687K)	Consultant
386	Subscription	2,500	E S Harborne (032687K)	Consultant
386	Subscription	2,500	E S Harborne (032687K)	Consultant
557	Tender	45,098	E S Harborne (032687K)	Consultant
2791	Subscription	15,000	E S Harborne (032687K)	Consultant
3334	Tender	74,846	E S Harborne (032687K)	Consultant
557	Subscription	25,000	C G Harman (025491Q)	Council Member

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