NEWS RELEASE

JARDINE LLOYD THOMPSON
Group plc

New Hedge Funds Entrants compete for slice of reinsurance market, reveals Jardine Lloyd Thompson's Annual Market Overview

London, 24 February 2005: Hedge funds, looking for new investment opportunities, are entering the reinsurance market to compete against traditional reinsurers, reveals leading international broker Jardine Lloyd Thompson.

Although hedge funds have always been traditional investors in the insurance sector through shares and catastrophe bonds, the hard reinsurance market and the ease of entry via off-shore vehicles, has provided them with new opportunities to diversify their portfolios, says JLT in its annual insurance market overview, this year entitled "Weathering the Storm."

The hedge funds, many of which have set up in offshore jurisdictions such as Bermuda, are participating in property catastrophe reinsurance programmes put in place by insurance companies to limit their exposures, underwriting layers of up to US$100m and sometimes more. The estimated amount of capital invested during 2004 is no more than US$2bn.

The success of hedge funds in the insurance market, says JLT, is because they have been able to undercut traditional reinsurers as they do not expect the same return on equity, coupled with lean structures and limited overheads.

Some hedge funds, said JLT, would be looking to profit commission levels of just 4 or 5% above LIBOR (London InterBank Offered Rates) compared to annual returns on equity of at least 10% sought by reinsurance investors.

JLT says: "Unlike the reinsurance capital introduced in late 2001 and 2002, these new entrants are not being formed in response to a capacity shortage as there is a significant capacity for most property catastrophe programmes."

"Instead, these funds find reinsurance an attractive proposition because it offers them a diversified investment option. After all, there is little correlation between a hurricane or earthquake and the traditional risk exposures affecting funds' investments such as the price of gold, interest rates or equity indices."

Among the new hedge fund investors are Chicago's Citadel Investment Group, CooperNeff Advisors Inc, part of French bank BNP Paribas and Nephila Capital Limited of Hamilton, Bermuda.

Although these new reinsurers offer no financial strength ratings (normally a prerequisite for reinsurance contracts) and there is no guarantee of their long-term commitment to the reinsurance industry, they provide one attractive characteristic to cedents (insurers): a willingness to collateralise their exposures, typically in the form of a letter of credit.

JLT expects the growth in hedge fund appetite to continue during 2005 fuelled by the desire for new investment opportunities at the same time as potential clients seeking alternative capacity as a result of a dwindling number of traditional resinsurers.

"At current levels, there are no immediate signs that this new capacity will have an impact upon pricing," says JLT.

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In common with other brokers JLT has recorded a general softening in the insurance ratings environment across most sectors but forecasts that any swing may be counterbalanced by the desire of underwriters to build reserves.

The report says that 2004 was a difficult year for the industry with above average catastrophe losses together with the fall-out from the investigation into market practices by New York Attorney General Eliot Spitzer.

"The wind of change blowing through the insurance broking industry is likely to have several consequences. The findings of Eliot Spitzer dealt a blow to the reputation of the industry," says the report.

It concludes: "The major broker fraternity will therefore have to reform and take a long overdue look at its cost base. The necessity of developing more efficient methods of transacting business is clear.

The cancellation of Placement Service Agreements (PSAs) has been a major area of debate in the last six months.

"The FSA at present impose an obligation on intermediaries under Insurance Conduct of Business (ICOB) rules not to conduct business under arrangements that might give rise to conflict with their duties to customers. The FSA regime also dictates, under ICOB principles, that intermediaries must disclose their commissions "on request". There is however pressure on the FSA to change this stance, with Lloyd's recently urging the rules to be amended to specify mandatory disclosure."

JLT said this should translate into "more transparency, greater value, improved levels of service and perhaps better access to markets."

Copies of JLT's insurance market overview, Weathering the Storm can be obtained in pdf format from the group website – www. jltgroup.com or as hard copy from **Dan Stobart on +44(0)20 7528 3854 or daniel_stobart@jltgroup.com.**

Jardine Lloyd Thompson

The Jardine Lloyd Thompson group of companies is a leading risk management adviser and insurance and reinsurance broker. JLT is also a major provider of employee benefits administration servies and related consultancy advice.

JLT is quoted on the London Stock Exchange and is the largest European-headquartered company providing these services and is one of the largest firms of its type in the world. JLT operates out of more than 100 offices in over 30 countries and employs more than 5,000 personnel.

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