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BEAZLEY

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BEAZLEY BUCKS THE BIG TREND

The big is beautiful concept is enjoying a revival at Lloyd's, but Beazley Syndicate 623 questions that philosophy and says it has the customers to prove its strategy is working.

Managing risk, or as Andrew Beazley puts it ironing out the bumps in clients' businesses and making a profit in the process, is what Syndicate 623 is all about. The founder and active underwriter will buck any trend or fad in pursuit of that goal. Beazley remains independent in a market dominated by consolidation. It sticks to its core competence of underwriting and leaves distribution to the brokers. It operates internationally, but its only office is in London.

Mr Beazley admits it is unusual for an international insurer to limit its presence to London when global reach is a corporate buzzword, but he points out that a lot of effort goes into making the company accessible. "Beazley is about two things. One is risk taking. The other is access: developing pipelines for business that come throughout the world back here to London for underwriting."

As part of its focus on underwriting, Beazley outsources many functions including data input, book-keeping and investment. Its creed is minimum personnel and maximum automation: "What we strive to do is create, I suppose in modern parlance, a "virtual company" that keeps all its energies for its core business."

Moreover having just 35 employees, one office and capacity of £95 million in a market where £500 million is seen by many as the norm going forward is not a bar to business, argues Mr Beazley. "I don't think size is the only driver. I know a lot of people talk in that way, but it may be that's because it suits their book."

Customers and capital rather than size are, he believes, the requirements for a successful, independent business and Beazley has no shortage of either. In the U.S., Syndicate 623 claims among its clients five of the top 10 architects and engineering firms and three of the top five food companies. It leads the market in professional indemnity and "critical asset protection" insurance for many large corporations.

"If customers were saying 'I'm only going to deal with syndicates above £300 million,' then obviously we would change. But the evidence is that customers are not saying that and if you look at our catastrophe account, we have retained and indeed increased our share on all our business. If size was the only driver, we just wouldn't be able to do it," suggests Mr Beazley.

Ian Harrison, who specialises in underwriting food and beverage risks, says the company also insures a growing proportion of the small firms supplying many big UK retail chains. "It's all about spread of risk. People tend to go for the big names, but in the business I'm in I need a spread of risk."

LLOYD'S FRANCHISE

Operating in Lloyd's is also vital to spreading risk and invaluable for its franchise and sharing the cost of services, believes Mr Beazley. "The Lloyd's franchise should not be under-rated. The customer really looks to the brand name of Lloyd's from the security angle."

The subscription market -- "a very clever mechanism for sharing the workload" -- is ideal for the risks Syndicate 623 insures. However, Mr Beazley acknowledges that it tends not to work with commoditised risks such as motor and household and that there was duplication and some complacency in previous years.

A current concern is that the Lloyd's franchise may be harmed -- and thereby Beazley too -- unless stricter criteria for joining the market are introduced. "There's a high risk of the Lloyd's licences and systems being leveraged by poorer insurance companies." Centralised provision of services within the market is something Mr Beazley agrees with in principle, although whether Lloyd's is the best body to handle things such as central accounting is another matter.

On the future of Names, the company sees their position within the market as a whole falling to around 15% in the longer term, mostly in limited liability form. However, Names currently provide Syndicate 623 with just over half of its capacity and have proved a loyal source of capital to date.

ADDED VALUE

Capital will continue to come from a variety of sources, but Mr Beazley believes it is the value the company adds that makes the difference. "If you're running a business in Lloyd's now, the key thing is to bring value to the market. If all you've got to offer is capital, then you just have to hope and pray that you hit a bull market every so often, because that's the only time you're going to be needed."

Expertise, continuity and flexibility underpin Beazley's belief that it can meet clients' requirements more readily than most. It has largely steered clear of commodity business, opting instead for the more complex risks where a tailor-made response is required. "You can see demand coming out for products such as brand protection. Right at the end of the spectrum clients are looking to insure their operating income. That is the Holy Grail of a corporate buyer. Anything that makes, quarterly earnings dip, they'll want to try to get rid of", says Andrew Beazley.

The company believes that the unique Lloyd's environment combined with its own flexible approach gives Syndicate 623 an advantage over the companies market. Its underwriters have established long-term relationships with clients, some up to 20 years or more, compared with a regular turnover of underwriting staff in most insurers. They also have the discretion to adapt wordings, effectively creating new products at the box. This contrasts with many of the company markets which, Mr Beazley says, works on the principle of: "Here's a product, do you want to buy it? We tend to come from the other of the telescope."

Maintaining a dialogue with brokers and insureds is key to Beazley's strategy and new technology, including the Internet, is used in this process. "Our website is a really important tool for educating people. We have been very successful in focusing on informing people, rather than simply trying to sell products or promote ourselves on the website," explains Mr Harrison. Beazley's Internet presence has attracted over one million hits in seven months, 90% of them from outside UK.

FUTURE

The company's recent move into marine insurance is a decision Mr Beazley admits the timing of which may appear strange to some. However, the move is part of a long term strategy of building specialist underwriting capability in key areas of the market. He points out that marine adds balance to the portfolio and is currently concentrated in a few identified and researched niche areas. "We're not after leading the big fleets", says Andrew Beazley.

Although not motivated by growth for its own sake, some further expansion is on the cards. "We would prefer right now to build on existing lines, because we think there's quite a lot of vertical growth left." However, Beazley does not rule out taking on new teams if the right people are identified. "We're really at the stage of talent searching. It's a talent war. People are the assets of a risk taking business." As an established independent business we believe we offer an attractive environment for the entrepreneurial risk taker".

Unlike many within the market, Mr Beazley has kept capacity stable at around £95 million over the last five years and is in no rush to change this cautious stance. However, he fears that recent soft rates will lead to "a lot of tears over the next 12 months. I think people got carried away with the weight of capital in the market and the phenomenally good results from previous years. A lot of people have got what I would classify as the walk on water syndrome, where they think they can do no wrong."

By contrast, Beazley has kept its feet firmly on the ground. Leading rather than following, specialising on value added business and always looking for the black hole which may be just around the corner. "What we are good at is calculating risk," says Mr Beazley, not as a boast, but as a statement of fact.