

AN ASSESSMENT  
OF  
FINANCIAL STRENGTH  
&  
CORPORATE PROFILE

*Lutine Assurance Services Ltd  
(trading as Lutine)*

February 2011

**AKG**

Accessible – Comparative – Independent

Analysis by AKG Actuaries & Consultants Ltd

# CONTENTS

---

<b>1</b>	<b>INTRODUCTION .....</b>	<b>3</b>
1.1	BACKGROUND.....	3
1.2	AKG'S ASSIGNMENT.....	3
1.3	INFORMATION SOURCES .....	3
1.4	RELIANCES AND LIMITATIONS.....	4
1.5	CONFIDENTIALITY .....	4
<b>2</b>	<b>ASSESSMENT CRITERIA.....</b>	<b>5</b>
2.1	FINANCIAL STRENGTH AND CORPORATE PROFILE.....	5
<b>3</b>	<b>LLOYD'S OF LONDON .....</b>	<b>6</b>
3.1	BACKGROUND.....	6
3.2	FINANCIAL SECURITY .....	6
3.3	SOLVENCY II .....	8
3.4	OPERATING PERFORMANCE.....	8
<b>4</b>	<b>LUTINE.....</b>	<b>10</b>
4.1	CORPORATE STRUCTURE.....	10
4.2	PARENTAL STRENGTH AND ATTITUDE .....	12
4.3	PRODUCTS.....	13
4.4	DISTRIBUTION.....	13
4.5	IMAGE & STRATEGY.....	13
4.6	SERVICE.....	15
4.7	REINSURANCE .....	15
<b>5</b>	<b>CONCLUSION.....</b>	<b>16</b>
<b>APPENDIX 1</b>	<b>CORPORATE STRUCTURE.....</b>	<b>17</b>
<b>APPENDIX 2</b>	<b>INFORMATION ABOUT AKG.....</b>	<b>18</b>

# I INTRODUCTION

---

## I.1 BACKGROUND

This Report has been prepared for Lutine Assurance Services Ltd (trading as Lutine) (The “Client”).

## I.2 AKG'S ASSIGNMENT

AKG's assignment can be broadly summarised as *'to produce a confidential independent assessment of Lutine Assurance Services Ltd (the Company), taking account of AKG's generic experience of the requirements of leading IFAs and including elements from the format of AKG's annual Company Profile & Financial Strength Reports for UK Life Offices'*. This report replaces in its entirety the previous report dated December 2009.

## I.3 INFORMATION SOURCES

AKG has been supplied with the following information:

- a) Jubilee Group Holdings Ltd (formerly Appleclaim Ltd) – Directors' Report and Financial Statements for the year ended 31 December 2009
- b) Lutine Assurance Services Ltd – Directors' Report and Financial Statements for the year ended 31 December 2009
- c) Jubilee Managing Agency Ltd – Report and Financial Statements for the year ended 31 December 2009
- d) Jubilee Service Solutions Ltd (formerly Cassidy Davis Insurance Services Ltd) – Directors' Report and Financial Statements for the year ended 31 December 2009
- e) Cassidy Capital Life Ltd – Directors' Report and Financial Statements for the year ended 31 December 2009
- f) Cassidy Capital Ltd – Directors' Report and Financial Statements for the year ended 31 December 2009
- g) Cassidy Davis Underwriting Agency Ltd – Directors' Report and Financial Statements for the year ended 31 December 2009
- h) Jubilee (formerly) Cassidy Davis Syndicate 779 – Report and Accounts at 31 December 2009

In addition AKG has held a meeting with the following employees of Lutine: Jane Nicholson, Managing Director (also Managing Director of Jubilee Service Solutions Ltd), Alison McQuade, Company Accountant and Marc Osman, Head of Sales and Marketing.

Further information on Lutine was available at [www.lutine.com](http://www.lutine.com). Information on Lloyd's itself was available direct from the website [www.Lloyds.com](http://www.Lloyds.com).

Information in respect of other companies in the market was obtained from AKG's internal library of information, which is maintained both by regular direct contact with product providers and by other channels of market intelligence.

#### I.4 RELIANCES AND LIMITATIONS

Much of the information upon which AKG's comments are based has been supplied directly by the Client. AKG has relied upon the accuracy of such information and cannot accept any responsibility for any inaccuracies or omissions.

Assessments of financial strength, etc. are generally based upon analysis of the annual Accounts and Statements of the companies concerned.

All analysis is based on the assumption that prospective policyholders (and their advisers) will wish to take a cautious approach to risk in respect of financial strength issues, etc. in the selection of appropriate product providers.

AKG personnel are available to expand upon the comments in this report, if required.

Whilst many aspects underlying AKG's comments are likely to change only slowly, the financial services industry is a competitive and dynamic marketplace, with new products and developments being announced regularly. As a result, AKG cannot guarantee that any particular comment will remain appropriate at any future date. In particular, future developments such as product changes, or company restructuring, could have significant impact upon the comments.

#### I.5 CONFIDENTIALITY

This report has been produced for the Client's sole consideration.

AKG is happy for the Client to reproduce all or part of this report in any internal or external published material, subject to:

- Prior arrangement of the content, context, duration and volume of such reproduction and of any reference, explicit or implicit, to AKG's involvement in producing this report; and
- Payment of such additional fees as may be mutually agreed between AKG and the Client.

---

## 2 ASSESSMENT CRITERIA

---

### 2.1 FINANCIAL STRENGTH AND CORPORATE PROFILE

A prime criterion in assessing financial service providers is that of Financial Strength and Corporate Profile. AKG invariably recommends the exclusion from consideration of product providers who do not rate highly enough in this respect, regardless of other considerations.

In producing this report, AKG has also taken into account criteria that are unique to the Lloyd's market.

AKG consistently emphasises the need to evaluate '*Financial Strength and Corporate Profile*' in the context of the product type under consideration. In AKG's experience, it is not uncommon for a single company to have quite different Financial Strength ratings for different types of product. Thus, for example, AKG may rate a company very '*strong*' for Non Profit products, but extremely '*weak*' for With Profits products.

For the evaluation of '*Financial Strength and Corporate Profile*', AKG's general aim is to assess a company's ability to support its business over the long-term, taking the following main criteria into account:

- Available capital
- Parental strength (and likely attitude towards supporting the company)
- Company size
- Corporate structure
- Distribution image
- Future strategy

AKG has rated Lutine B for overall financial strength for business that is underwritten in the Lloyd's market.

AKG has rated Lutine 4 Stars for Non Profit business.

## 3 LLOYD'S OF LONDON

---

### 3.1 BACKGROUND

Lloyd's is a leading specialist insurance market, not a single legal insurance entity. It was established in a 17th century coffee shop, initially offering marine coverage, and has grown to cover some of the world's most complex and specialist risks.

Lloyd's vision is to be "the market of choice for insurance and reinsurance buyers and sellers to access and trade specialist property and casualty risks".

Capital providers are known as "members" or "Names" and provide capital to back the liabilities for the risks they accept. Members include corporate entities as well as individuals and limited partnerships.

Typically the members group into syndicates (84 as at December 2009), which are run by managing agents (52 as at December 2009), firms of specialist underwriters, who accept risk on behalf of syndicate members.

Lloyd's is licensed to underwrite business in 80 territories and can accept risks proposed from 200 countries and territories in accordance with local laws and regulation. 80% of business arises from markets outside the UK.

The principal markets in which Lloyd's operates are reinsurance, property and casualty. It also has a presence in marine, energy, motor and aviation, and a very small presence in life.

### 3.2 FINANCIAL SECURITY

Lloyd's syndicates are subject to a different regulatory framework to that which applies to UK life companies.

Lloyd's is regulated by the UK Financial Services Authority (FSA), under the Financial Services and Markets Act 2000.

The FSA also regulates Lloyd's managing agents, members' agents, and Lloyd's brokers.

The FSA and Lloyd's have common objectives in ensuring that the Lloyd's market is appropriately regulated and, to minimise duplication, the FSA has agreed arrangements with Lloyd's for co-operation on supervision and enforcement.

The security underlying policies issued at Lloyd's has three components:

Syndicate level assets - the first source of funds with which to settle claims is the policyholder trust funds into which all premiums are deposited. These assets are held at a syndicate level, are liquid in nature and are only available to meet each member's share of any claim.

Members' Funds - next, all members, whether individual or corporate, are required to hold additional capital at Lloyd's as further security. Again these are only available to meet each member's share of any claim. The amount of capital required to be held is determined by the nature and amount of risk underwritten.

Central Assets - finally, all members contribute to the Lloyd's Central Fund, which, at the discretion of the Council of Lloyd's, can be used to meet any claims, not otherwise covered, from anywhere within Lloyd's. In this respect it is different to the first two levels, which are member specific. The Council of Lloyd's regularly reviews the central assets target and the level of contributions in light of the current financial position and forecasted needs and adjusts the contribution levels as required. Members' contributions to the Central Fund were reduced from 1% to 0.5% of gross written premiums for 2008 and have remained at that level since.

Life business is not a major or core part of Lloyd's overall proposition. Life business is only written by around half a dozen syndicates and, whilst an increased number in recent years, this represents a very small proportion of the overall capacity (less than 1%). Nevertheless, all Lloyd's policies are ultimately backed by Lloyd's security, so from a financial security perspective, life business has the same security as any other business line with regards potential backing from the Central Fund. Lloyd's has always paid all valid life claims.

The following table looks at the solvency position of Lloyd's at a global level in accordance with that published in the Lloyd's Return to the FSA, which is intended to ensure Lloyd's regulatory reporting requirements are in line with other UK insurers, adapted where appropriate to reflect the structure of Lloyd's. Such information at a syndicate level is not available.

	December 2009	December 2008	December 2007	December 2006
	(£m)			
Syndicate level assets	37,400	38,306	30,601	27,954
Syndicate Provisions	33,522	35,744	27,949	27,357
Excess Syndicate level assets – Level 1	3,878	2,562	2,652	597
Members' funds – Level 2	13,159	10,630	9,858	11,282
Central Fund Assets – Level 3	2,084	2,072	1,951	1,454
Total excess assets	19,121	15,264	14,461	13,333
	%			
Level 1 solvency ratio	11.6	7.2	9.5	2.2
Level 2 solvency ratio	39.3	29.7	35.3	41.2
Level 3 solvency ratio	6.2	5.8	7.0	5.3
Total solvency ratio	57.0	42.7	51.7	48.7

The solvency ratios in the above table have been expressed as a percentage of the Syndicate Provisions. The above table leads to the following observations:

Solvency ratios improved in 2009, and overall solvency within the Lloyd's market on the above measures remained relatively good. This measure compares well with most life companies.

Secondly, the major contributor to solvency cover is, as expected under the security arrangements, the Members' funds.

Whilst still reasonably healthy, the contribution to solvency offered by the Central Assets is not the major component. Since this is the only component that is not held on a several basis, this is the level of coverage available should a syndicate need recourse to it.

The Central Fund was strengthened in 2007 by a £500m subordinated debt issue, which also enabled Lloyd's to repay over £300m of loans from its syndicates.

In addition to this there are other positive factors:

The Callable layer. Central Fund assets may be supplemented by a 'callable layer' of up to 3% of members' overall premium limits in any one calendar year. These funds would be drawn from premium trust funds across all syndicates. The callable layer [2009: £683m] is allowable for solvency measures. Allowing for this, and other solvency adjustments [2009: £44m], increases the Central Assets to £2,811m, ahead of the minimum target of £1.7bn. It also gives a solvency ratio of 4,764% [2008: 1,961%].

Another comforting factor is that Lloyd's now has a significant number of corporate members. This in itself brings added comfort from a solvency perspective, due to the generally increased and easier access to capital that companies have compared to individual members. Around 86% of total capacity is provided by corporate members.

The provision for Solvency Shortfalls, which is not included in the above numbers, and which represents the shortfalls for members, whose assets are insufficient to cover their liabilities and capital requirements, reduced again in 2009 from £133m to £59m.

At a syndicate level, all syndicates trading at Lloyd's are required to produce an Individual Capital Assessment (ICA). As well as being an FSA requirement, syndicate ICAs are used to determine capital levels at Lloyd's and form an integral element of the overall Society ICA calculation. The FSA has placed clear responsibilities upon Lloyd's within the ICAS regime and Lloyd's must be able to justify the reliance which it places on a syndicate ICA within the capital setting process. All syndicate ICAs are therefore subject to review by Lloyd's. When agreed, each ICA is "uplifted" (by 35% for 2009). This uplifted ICA, known as the syndicate's Economic Capital Assessment, is used to determine the level of capital required by the syndicate's members to support their underwriting. This capital is held in trust as readily realisable assets and can be used to meet any Lloyd's insurance liabilities of the member but not the liabilities of other members.

### 3.3 SOLVENCY II

Lloyd's is lobbying hard for modifications to Solvency II. It considers that the results of the recent QIS5 exercise made it "clear that the QIS5 assumptions led to an unacceptably high capital charge for the Lloyd's market, seriously out of line with current risk assessments under the FSA's ICAS regime". Current indications are that capital requirements could potentially more than double, although full details of the requirements are yet to be finalised.

### 3.4 OPERATING PERFORMANCE

The Lloyd's market suffered large losses between 1988 and 1992, totalling approximately \$8bn. These losses largely arose as a result of a combination of asbestosis and pollution related claims and the practice in the market at the time of placing inter-syndicate/inter-company excess of loss retrocession in respect of catastrophe losses [the London Market Excess of Loss ("LMX") spiral]. These losses ultimately led to litigation against many participants in the Lloyd's market and forced many Names to cease underwriting. The weight of outstanding debts also impacted Lloyd's solvency and liquidity.

Lloyd's also found itself under severe threat around the turn of this century, having suffered a series of losses since 1997. These it mainly attributed to cost-cutting in the insurance business coinciding with losses from major storms and natural disasters. It lost over \$8bn, more than any other insurance organization, in the attacks on the World Trade Centre in 2001.

Whilst these events undoubtedly damaged its brand and financial position, Lloyd's reacted positively to address them:

1. In September 1996, Lloyd's implemented its Reconstruction and Renewal plan, under which it sought to put an end to market wide litigation as well as "draw a line" under prior years' losses by reinsuring the 1992 and prior years' business underwritten by its members (or Names) into Equitas, a UK authorised reinsurer. Equitas was created to reinsure and run off Lloyd's 1992 and prior years' non-life liabilities. In 2006, a deal was announced, which once completed, would end the residual legal liabilities of Lloyd's and bring finality to the Names reinsured by Equitas. It was announced that Equitas would enter into an agreement with Berkshire Hathaway Inc to provide a further £3.8bn (\$7bn) of reinsurance cover to Equitas and, when finalised, would end liabilities for Names under policies reinsured by Equitas. The first part of this was completed in 2007, with final completion in June 2009.
2. Another major factor has been the transition from individual to corporate members.
3. Lloyd's claims to have also learnt from its past mistakes and to have improved the quality of its management. It has improved its governance and risk management procedures.
4. Lloyd's has also improved its transparency in recent years, an important consideration in the current climate and against the backdrop of Treating Customers Fairly. It publishes a three year plan, which outlines the challenges and opportunities that it faces, together with the steps it needs to take to meet and capitalise on them. It has also, for the first time in 2007, published its Key Performance Indicators.

Against the backdrop of the economic downturn, Lloyd's announced a record profit before tax of £3.9bn in 2009 (double the £1.9bn in 2008) and a reduced combined loss ratio of 86.1% [2008: 91.3%], benefitting from the absence of severe catastrophes and continued prior year releases.

Other highlights included:

- Record Gross Written Premiums of £22bn [2008: £18bn], driven by currency movements and new business.
- Return on investments of 3.9% [2008: 2.5%], driven by a recovery in corporate bond values.
- An overall surplus, albeit reduced, on prior years of £934m [2008: £1,265m].
- An increased pre-tax return on capital of 23.9% [2008:13.7%].
- Central assets increased, albeit marginally in 2009 to £2,084m [2008: £2,072m].
- A buy back of £102m of its debt securities.

Another comforting factor, mentioned earlier in this report is the continued decline in the solvency deficit, down to £59m [£133m in 2008].

The above can be viewed as evidence of the improved robustness of Lloyd's, which has emerged from a difficult period in a relatively healthy position, particularly from a solvency perspective.

2010 has, however, been a more challenging year. In the first half of 2010, for example, there have been a number of global catastrophes including the earthquake in Chile and the Deepwater oil rig explosion. 2010 may therefore prove to be not as successful a year as 2009, but this is part of the insurance cycle and Lloyd's is now in a much more stable position in which to deal with such occurrences.

---

## 4 LUTINE

---

### 4.1 CORPORATE STRUCTURE

There are a number of companies involved in Lutine's proposition. See Appendix 1 for a structure chart. The companies are:

#### **Lutine Assurance Services Ltd (Lutine)**

A wholly owned subsidiary of Jubilee Group Holdings Ltd, Lutine acts as a marketing and service company underwriting, accepting and managing individual and group life risks received via IFAs on behalf of Syndicate 779.

2009 was a solid year. Gross commissions of £2.1m were paid to Lutine in 2009 [2008: £2.0m] for these services. The company is operating profitably and reported a reduced after tax profit of £618k in 2009 [2008: £668k]. A dividend of £434k in relation to 2008 was paid in 2009 [2007: £373k].

Lutine effectively operates as a life company in all respects except for accepting the risk and managing the assets and liabilities. It controls distribution, accounts, underwriting, administration and claims management. Lutine recognises that it is small in market terms, but accepts, and is committed to, being a niche player. In this respect, it has carved itself out a good reputation in the market.

Historically, distribution has been on a whole of market basis, there being no differentiation by IFA. The focus is on building relationships and partnerships, aiming at the smaller group market place with schemes of up to 100 lives, competing on such issues as free cover limits.

#### **Jubilee Managing Agency Ltd (Jubilee Managing Agency)**

Jubilee Managing Agency is a wholly owned subsidiary of Jubilee Group Holdings Ltd (Jubilee). Jubilee Managing Agency is an approved Lloyd's Managing Agent, managing Syndicate 5820 as well as Syndicate 779 [Note that Syndicate 1231 has been merged into Syndicate 5820]. It receives Managing Agency fees from the two syndicates it manages based upon the capacity of each of the syndicates. It is also entitled to receive profit commission from the syndicates. It also incurs and recharges various expenses on behalf of the managed syndicates and other group companies, employing the group companies and syndicate staff, for example. Staff retention was over 80% in 2009.

The company reported a reduced after tax profit of £1.2m in 2009 [2008: £2.7m]. A dividend of £1.7m relating to 2008 was paid in 2009 [2007: £1.8m]. A subordinated loan of £200m is in place from Jubilee to ensure that the company has sufficient funds to meet Lloyd's solvency requirements. No interest is payable on this loan. The company has indemnified Lloyd's against any claims or demands it may receive in relation to moving the underwriting of any new long term insurance business at Lloyds from Cassidy Capital Ltd to Cassidy Capital Life Ltd. The maximum liability of the company is limited to £500k.

#### **Jubilee Service Solutions Ltd (formerly Cassidy Davis Insurance Services Ltd)**

A wholly owned subsidiary of Cassidy Davis Underwriting Agency Ltd, which in turn is a wholly owned subsidiary of Jubilee, Jubilee Service Solutions Ltd (name changed 16 September 2009) provides insurance services, including premium collection and claims administration. Jubilee Service Solutions received fee income totalling £3.6m in 2009 [2008: £3.1m] of which £29k [2008: £60k] was in respect of services provided to Syndicate 779. Jubilee Service Solutions reported an increased after tax profit of £366k in 2009 [2008: £240k]. A dividend of £157k was paid [2008: £0].

### **Cassidy Capital Life Ltd (Cassidy Capital Life)**

A wholly owned subsidiary of Jubilee, the company commenced trading on 1 December 2007 and is a corporate member of Lloyd's, providing capital with effect from 1 January 2008 for Syndicate 779 in which it has a 13.8% interest. It was established in order to separate the capital support for the Life Syndicate from the General Syndicate. As such, it replaced Cassidy Capital Ltd, which provided capital to Syndicate 779 for 2007.

In its first year of operation, Cassidy Capital Life reported an after tax profit of £0, since all profits/losses are paid to syndicate capital providers. No dividend was paid.

### **Cassidy Capital Ltd (Cassidy Capital)**

A wholly owned subsidiary of Jubilee, the company is a corporate member of Lloyd's, providing capital for Syndicates 779 and 5820, participating in all three years of account (2007 – 2009) for Syndicate 5820 and for 2007 for Syndicate 779. The company increased its participation in Syndicate 5820 to 100% in 2009.

In 2009, the company declared an after tax profit of £0 [2008: £0]. No dividend was paid.

### **Cassidy Davis Underwriting Agency Ltd (CDAU)**

A wholly owned subsidiary of Jubilee, CDAU's main activity is the accounting for consortium underwriting arrangements on behalf of insurance companies.

The company reported an after tax loss of £10k in 2009 [2008: profit of £5k]. A dividend of £160k was paid [2008: £56k].

### **Jubilee (formerly Cassidy Davis) Syndicate 779 at Lloyd's**

Syndicate 779 is one of only a handful of life syndicates operating through the Lloyd's market. Its principal activity is underwriting term life assurance via the Lloyd's market. There has been an increase in the number of life syndicates recently, from 3 to 5 in 2009 for example, which led to an increase in business written – albeit at around 0.3% still a very small percentage of overall premiums written through Lloyd's. Lloyd's total gross written premiums for life business were £62m in 2009 [2008: £50m]. Within this, with gross written premiums of £32.6m in 2009 and £33.7m in 2008, Syndicate 799 remains the most significant player, although the lower overall percentage of business written in 2009 reflects the new entrants.

In 2009 it made a profit of £3.9m [2008: £2.3m]. Its net claims and expense ratios in 2009 were 33.5% and 61.6% respectively giving a combined ratio of 95.1% [2008: (1.9)%, 95.8% and 93.9%], higher than that of Lloyd's in total (86.1%). Gross premiums written in 2009 were £32.6m, a decrease of £1.1m on 2008. The investment strategy for the syndicate is to invest in cash or cash equivalents. The main investments are in 6-12 month fixed income securities.

86% of the Syndicate capital is provided by Lloyd's Names. Their capacity can be sold via the Lloyd's auction process only. The remaining 14% of capital is now provided by Cassidy Capital Life Limited, a wholly owned subsidiary within the Jubilee Group.

The Syndicate holds reserves, calculated by its external actuary as sufficient to cover all claims (level one) – these have not been disclosed to AKG. In the event that these were to be exhausted, the Syndicate would look to its Names to cover any further losses up to their limit of liability (level two). Over and above this, the Central Fund would kick in.

The Syndicate states that it has shifted its emphasis from individual business towards group, in light of the drop off in lending and mortgage activity. It also notes increased competition in the group market.

The Syndicate reported an usually high turnover of staff in 2008, primarily in relation to its relocation from Birmingham to London. Staff retention fell from 96% to 63% in 2008, recovering to 89% in 2009.

## 4.2 PARENTAL STRENGTH AND ATTITUDE

Parental strength is primarily a function of available capital (and future supply of same) together with the intrinsic weight, brand and commitment a parent brings to its subsidiary organisations. Its track record for similar exercises would also be taken in consideration.

Jubilee Group Holdings Ltd (formerly Appleclaim Ltd – name change 9 June 2009) is the ultimate parent company of all the constituent components of the proposition with the exception of the Syndicate itself. Whilst none of these companies actually accept insurance risks, this being the function of the Syndicate, financial strength is an important consideration with regards such issues as service and claims management.

In 2005, Lutine was acquired by Jubilee, from its previous owners, St. Paul Travelers Syndicate Management Limited, ultimately owned by The Travelers Companies, Inc – a US property and casualty provider. This meant that the ownership of Lutine and Cassidy Davis was transferred from a large insurance operation with total assets of approximately \$115bn, but not necessarily committed to the Lloyd's market and more importantly to Life Insurance, to a much smaller operation, which is much more focussed on its niche offerings and a continued presence in the Lloyd's market.

This obviously brings with it pros and cons, but on balance AKG considers that this was a positive development.

Jubilee, as the parent company of Lutine, with a 100% shareholding, approves business strategy and reviews ongoing performance. Jubilee has a number of different shareholders, most of whom are individuals.

The highest shareholding, at around 39% is, however, held by a company, Guardian Re (SAC) Ltd, whose ultimate parent company is Guardian Holdings Ltd (GHL), a company registered in Trinidad and Tobago. This shareholding was transferred in 2008 from Nemwil International Insurance Services Ltd, which itself was a subsidiary company of GHL before its liquidation. GHL is the parent company of a financial services group whose business focus is in life, health, property and casualty insurance, pensions, asset management and private equity. GHL operates across the English and Dutch Caribbean, with interests in the United Kingdom. GHL has experienced significant difficulties recently, but these primarily relate to its UK motor insurance company Zenith and the movement towards buying motor insurance via the internet. It has reacted to this, ring-fencing and subsequently offloading Zenith in 2009. GHL reported, however, the biggest loss in its history in 2009, \$821m. GHL states that its after tax profits from continuing operations in 2009 were \$371m. In December 2010 GHL announced a \$75m equity investment by the International Finance Corporation (IFC). IFC is a member of The World Bank Group. The World Bank Group is a source of financial and technical assistance to developing countries around the world. Its mission is "to fight poverty with passion and professionalism for lasting results and to help people help themselves and their environment by providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sectors". IFC provides investments and advisory services to build the private sector in developing countries. On 28 February 2011, GHL raised TT\$1bn via a corporate bond issue, the proceeds of which are "for the purpose of optimizing its capital structure by re-profiling existing debt". GHL remains a significant shareholder in Jubilee and has two representatives on the Jubilee Board.

All other shareholdings are of 6% or under apart from a 15% holding by Mr TTM Agnew, a Director of Jubilee.

Jubilee acts as a holding company. Three subsidiary companies, Jubilee Motor Policies Ltd, Cassidy Capital Ltd and Cassidy Capital Life Ltd are engaged in insurance activities as Corporate Members through their participation on Lloyd's Syndicates 5820 and 779. In 2009 it made a reduced after tax profit of £2.1m [2008: £4.0m]. A dividend of £1.0m was paid [2008: £2.6]. During 2007 the issued share capital was increased by £1.3m. During 2008, there was a capital reduction of around £100k, primarily arising from shares bought back from former employees who left the company. During 2009 there was a further share buy back of £46.3k from a former employee who left the group. A group subsidiary company, Jubilee Administration Ltd, was liquidated in 2009.

### 4.3 PRODUCTS

The principle products marketed by Lutine are:

- Group Life - underwritten by Cassidy Davis Syndicate 779 at Lloyd's
- Keyman Assurance - underwritten by Cassidy Davis Syndicate 779 at Lloyd's
- Term Assurance - underwritten by Scottish Friendly Assurance Society Ltd. A separate AKG report is available considering the financial strength of this Society
- Mortgage Protection Payment Insurance - underwritten 100% by Lloyd's Syndicate 5820. The Lloyd's Managing Agent for Lloyd's Syndicate 5820 is Jubilee Managing Agency Limited. This business is not considered in this report.

From 1 April 2010 all new Group Life policy holders have the opportunity to participate in Lutine Lifestyles, an employee benefit programme designed specifically for workforces throughout the UK. Lifestyles provides a range of social and health related benefits covering all areas of life, from discounted online shopping to Will Writing and Life Assurance. Lutine states that this has been positively received.

### 4.4 DISTRIBUTION

Lutine acts as a marketing and service company interfacing with the intermediary (IFA) market in the UK. Its specialist nature, with niche protection business being largely written into Lloyds of London via its activities in marketing, underwriting and administration, means that it only operates in a small part of the overall intermediary market.

As result of its niche positioning and the fact that it does not seek to operate across all intermediary firms, Lutine is able to distribute products with relatively few business development managers and the accent in this regard is on quality and specific experience.

### 4.5 IMAGE & STRATEGY

Being intrinsically linked with Lloyd's of London due to its product offering and ownership, it is important to consider the image and strategy of Lloyd's itself when considering Lutine.

Since early 2004, Lloyd's has been working on defining what its brand stands for in the insurance market, and developing a more systematic approach to expressing this. Lloyd's is aware that a strong brand is of real value in providing differentiation and is keen that everyone involved must play a part in promoting and protecting it. The brand is one of the oldest and most famous in the market and is recognised throughout the world. Lloyd's is acutely aware that, no matter how strong a brand is, it is easy to cause irreparable damage to it.

For this reason, Lloyd's considers it essential that everyone who stands to benefit from the strength of the Lloyd's brand:

- Understands what it stands for
- Communicates what it stands for effectively
- Protects it from misuse
- Actively promotes it at every opportunity

The Lloyd's image went through some difficult times in the late eighties and into the nineties. However AKG considers that it has successfully emerged from this and, aided by a more robust risk management process, it has maintained a good image in the insurance market on a global basis. Indeed it has recently widened its global presence in Asia and has expanded its presence in Latin America, the Middle East and Continental Europe.

Further, during the recent global financial crisis, when both the strength and reputations of some financial institutions have come to experience significant pressure and increased scrutiny, Lloyd's has been able to demonstrate a relative robustness. Consequently the period of more negative connotations has further receded in terms of brand identity.

Lutine itself, under its various ownerships, has always been closely aligned to the Lloyd's market. Whilst it therefore is inherently exposed to the perceived weakness/strengths of the Lloyd's market, it also has carved itself a well respected image in its own right and within its niche markets.

In itself Lutine is undeniably small in comparison with life companies operating in the same or similar markets. However, the operation enjoys a greater name awareness within the UK intermediary sector than this absolute size might suggest. In part this results from its length of establishment and focussed promotional activity over this period. This has certainly resulted in a positive, well established reputation, particularly in its niche markets.

Allied to this degree of established awareness, the operation (itself really a marketing vehicle for the other risk carriers) is able to leverage some aspects of its relationship within a Lloyd's context. In broad terms Lloyd's significant difficulties can be judged as being in the past and the connection between Lutine and Lloyd's should be seen as a positive part of the operation's image (bringing as it does strength as described elsewhere in this report).

Strategically Lutine's activity has been aligned, as might be expected, to that of its parent. The fact that this parental position has changed over the years means that alterations to its growth and development have similarly altered. However, throughout some degree of uncertainty in this respect, a reasonable sense of strategic purpose has been maintained by the operation itself. Now within the Jubilee stable there is a discernable sense of greater strategic intent, along with improved parental understanding of Lutine's markets (current and potential) and the positive effects of this can be seen in both current operational stability and the development of future plans for measured growth, without overstretching itself. In the first instance, this is aimed at extending the breadth of Lutine's presence in the Group Life market, by covering larger schemes for example. Longer term the product range may be expanded into adjacent products such as Group Income Protection and Critical Illness.

Jubilee itself has renamed some of its constituent companies so consolidating under the Jubilee brand. It has also exited the Motor Insurance market, currently considered a difficult claims environment. The existing Motor book, which was in Syndicate 1231, pre-merger, is therefore in run off.

#### 4.6 SERVICE

Lutine states the following in respect of service philosophy. "Our goal is simple. To be regarded by our clients as the best at what we do."

To achieve this and perhaps predominantly facilitated by its relatively small size, Lutine operates a more interactive approach with distributors than larger counterparts in terms of service.

It uses an account manager approach and through this establishment of lines of communication believes it can adjust better to what is required by the intermediary, even when this might vary from the norm.

Whilst a more bespoke approach could come under pressure with growth, indications are that it works well in Lutine's current composition and product markets. Further work in systems development is underway to improve flexibility and there has been recent work in improving staff cross-skilling.

Clearly the organisation sees service as a positive key differentiator and it is particularly something it seeks to leverage in its retention activities.

The company makes increasing use of online capability, with online submission and application, as well as using [www.lutine.com](http://www.lutine.com) to deliver a document library.

Further use of online capability is anticipated both within the current product offering and increasingly as part of new product offerings.

The nature of Lutine as a niche organisation means that it does not feature as regularly in industry awards and benchmarking metrics as some other providers. This is, however, changing with nominations for awards with Moneyfacts and in the Financial Adviser product awards.

Lutine reports strong performance on internal measures.

Lutine does not make significant use of outsourcing

#### 4.7 REINSURANCE

AKG has been informed that all reinsurers used have an S&P rating of A or above. Recognising the inherent profitability of the business that it writes, the Syndicate had increased its retention on any one person from £100k to £200k in 2007. In 2008, this was further increased to £500k for one year business and £250k for all other business.

---

## 5 CONCLUSION

---

AKG is satisfied that Lloyd's has reacted positively to the situation it found itself in a few years ago. It has put in place robust governance processes and has improved and stabilised its overall financial strength. This has been reflected in its operating performance in recent years.

AKG considers that both Lloyd's and Lutine enjoy a good image in the insurance market.

AKG considers that Lutine is a well regarded player in its chosen niche markets and has the backing of a supportive and committed owner.

AKG has no major concerns over Lutine's reinsurance arrangements.

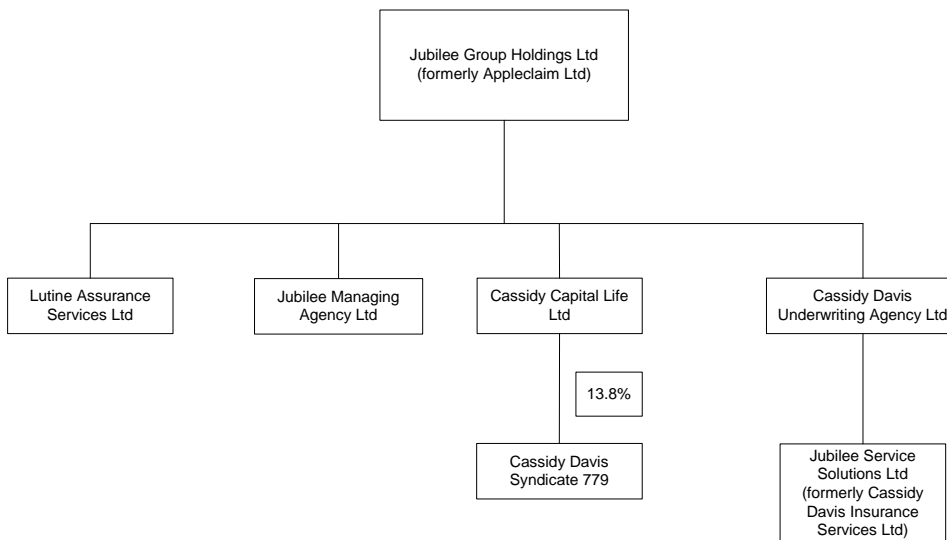
AKG has rated Lutine B for overall financial strength for business that is underwritten in the Lloyd's market.

AKG has rated the company 4 Stars for Non Profit business.

---

# APPENDIX I CORPORATE STRUCTURE

---



---

## APPENDIX 2 INFORMATION ABOUT AKG

---

AKG is an actuarially based consultancy specialising in the provision of ratings, information and market assistance to the financial services industry.

### **A wide range of Clients**

Within a specialist focus on the financial services industry, AKG has developed a broad, complementary range of clients including: Intermediaries (IFAs and EBCs), Life Companies, Friendly Societies, IFA Networks, Regulators, Fund Managers, Trade Bodies, Service Providers, Banks, and Building Societies.

### **Support for Product Providers**

AKG assists Providers in:

- Financial Strength Analysis and Presentation
- Data and Information Provision
- Actuarial Consultancy
- Distribution Consultancy

### **Assistance to Financial Intermediaries**

AKG assists Intermediaries in:

- Financial Strength Analysis and Ratings of Product Providers
- Best Advice Panel Services
- Data and Information Provision
- Actuarial and Technical Support

### **Regular Reports**

AKG publishes the following reports to assist providers and intermediaries:

- **AKG Company Profile & Financial Strength Reports**  
(Covering UK life assurance companies)
- **AKG Offshore Profile & Financial Strength Reports**  
(Covering Offshore life assurance companies)
- **AKG Platform Profile & Financial Strength Reports**
- **AKG UK Life Office With Profits Report**

For further details on any of the above please contact AKG:

Tel: +44 (0) 1306 876439, email: [akg@akg.co.uk](mailto:akg@akg.co.uk)

Or online at [www.akg.co.uk](http://www.akg.co.uk)

Produced by:

AKG Actuaries & Consultants Limited

Anderton House, 92 South Street, Dorking, Surrey, RH4 2EW

Tel No: 01306 876439 | Fax No: 01306 885325 | E-mail: [info@akg.co.uk](mailto:info@akg.co.uk)

[www.akg.co.uk](http://www.akg.co.uk)