Lloyd's Incurs Huge Losses From High-risk Claims

Unlimited liability obliges exclusive investors to cough up their share

LONDON : Huge losses of Lloyd's of London will hurt Asia-Pacific individuals who are investors in the market. Losses are unlimited in terms of the historic insurance market's rules. So, a large proportion of the unfortunate investors will be encumbered with nasty cash calls in the coming year, say underwriters.

"Almost all of Lloyd's members will be writing a cheque," says Charles Sturge, director of Chatset, publishers of Lloyd's League Tables.

He adds more than 1,000 of the members, who are called Names in the business, will be forced to pay £100,000 or more for underwriting losses in 1988 and 1989.

About a third of Lloyd's underwriting syndicates incurred losses. Since risk is spread throughout the market, some 27,000 members of Lloyd's worldwide are virtually subject to a lottery. As a result, only a small minority made a profit.

The losses are dismal news for a sizable proportion of Asia-Pacific Names, particularly Australiasian members, who have been pummelled by insurance claims for catastrophes ranging from hurricanes to oil-rig disasters. They have also been hurt by demands for payment on insurance for pollution and asbestos-related diseases in the US.

The three-century-old market does not disclose the identity of its Names. Yet, they include royalty, the rich and famous, and other wealthy investors who qualify as a member of Lloyd's. They must own "readily realisable" assets worth at least £250,000. Until a few years ago, the minimum requirement was only £100,000.

Foreign investors and ladies were allowed to become Names of this staid, traditional market in the late seventies. Following extensive recruiting, the numbers of "non-UK members" soared. Foreigners now account for almost a fifth of Lloyd's Names, and six are from China.

The majority come from the US, but the next largest foreign contingent comprises 984 investors from Australia and New Zealand. A further 48 Names are from Malaysia, Singapore, Japan, the Philippines, Thailand, Korea, India and Pakistan. Officially, six Hong Kong Names are listed. Yet, the true number exceeds 100, according to Sturge, and the majority of them are listed under UK membership.

Lloyd's recruited members mainly in the British colonies and Anglo-Saxon countries, according to agents. As a result, there are fewer Names in Japan, other Asian countries, and Continental Europe.

Moreover, conservative investors in those countries were wary of unlimited liability, some scandals in the market in the late seventies and early eighties, and Lloyd's track record in recent years. Ironically, they proved to be prescient.

Lloyd's problems worsened during the years in which foreign membership rose dramatically.

Once a pillar in the world insurance market, Lloyd's achieved unsatisfactory returns from 1983 onwards. In 1986, the average after-tax return was 6.5%, according the Chatset, declining further to 4.5% in 1987. At the summit of its influence a century ago, Lloyd's had a dominant 50% stake in the insurance world. It has since shrunk to only 2%.

At the annual meeting of Lloyd's last month, shell-shocked members listened in horror while their chairman David Coleridge disclosed record net losses of £510 million in 1988, against record net profits of £509 million in 1987.

The losses were for calendar year 1988 because Lloyd's operates a three-year accounting system to include all claims.

Coleridge warned that there were big losses to come in 1989 and 1990, but he was not prepared to confirm market estimates of at least £1 billion.

He insisted that all the Names must pay their losses. "There may be sympathy for them, but nobody is paying my loss which I suspect is considerably greater than that of many others".

He added, "We have no slush fund available to help people pay. I am desperately sorry to announce a loss at all, but if the market cannot absorb a loss for one year, then, we are in big trouble."

So, it is hardly surprising that Coleridge was bombarded with questions from an estimated 22,000 Names who have lost money. Lloyd's claims

Special to The Star

By Neil Behrmann

that 10,000 out of 32,000 members in 1988 made profits. Yet, Sturge of Chatset says that after commissions agency fees and taxes, returns for the "few lucky" members will be far lower than expected.

Coleridge retorts that over the long term, members "normally do well".

The latest losses "which are the first in 20 years," reflect the worst period since the mid-sixties.

Lloyd's problems began with the October 1987 hurricane which devastated the South of England. Other losses included the North Sea oil rig, Piper Alpha, Hurricane Hugo, European storms, oil pollution claims from the Exxon Valdez leakage in Alaska, and the Pan American plane crash in Scotland.

"The world's insurance industry has experienced a three-year period of catastrophes and resulting claims which have defied the law of averages," said Coleridge in his annual address.

Moreover, high insurance rates in the mid-eighties attracted competition which drove rates down.

He added : "In the US alone, many insurance companies have become insolvent. In the UK, the composite insurance companies have recorded massive underwriting losses, over the same period, running into several billions of pounds.

"The Association of British Insurers has revealed that its member companies recorded underwriting losses of £5 billion in 1990.

"Ultimately and inevitably everyone suffered."

The main losses were in the marine insurance area, but underwriting syndicates in non-marine, aviation and motor insurance produced a profit. During 1989 and 1990, however, aviation and motor insurance suffered from uncompetitively low premium rates, contributing to the market's depressed state.

In recent months, however, rates have begun to improve. In motor insurance, rates are 15% to 18% above their levels of a year ago and may rise further, says Colin White, chairman of Lloyd's Motor Underwriters Association.

Nevertheless, such is the dissension in the market that Lloyd's was forced to appoint Sir Patrick Neill, warden of All Souls College, Oxford, to investigate losses of syndicates formerly managed by Feltrim Underwriting Agencies. Sir Patrick headed a 1987 inquiry into regulations at Lloyd's.

According to varying estimates, the syndicates ran up losses of £320 to 370 million on claims from disasters ranging from Piper Alpha to pollution in the US. The firm admitted that its reinsurance programme was inadequate and flawed.

More than 2,000 Names managed by loss-making Goods Walker have taken legal action, and Tom Benyon, a former MP and a Gooda Walker Name, has formed a pressure group, known as the Society of Names, which includes Hong Kong members. Much publicised problems at syndicates such as Feltrim, Outhwaite, Pulbrook, and others are only the tip of the iceberg, he says.

Meanwhile, 2,000 investors in the US have asked the Securities and Exchange Commission to determine whether Lloyd's met US regulatory requirements when it signed them up as Names in the first place. Lloyd's Lawyers say that the market complied fully with US regulations.

Hardly surprising then, that total Lloyd's membership slid to 26,568 this year from 32,433 Names in 1988. A further 5,000 members could leave this year, notably those who incurred steep losses or must raise their means test to £250,000 from the former limit of £100,000.

Coleridge, however, recalls that Lloyd's was "written off" when it incurred losses in the sixties. But the market survived and members who stood firm did extremely well in subsequent years. Many members' current losses will come out of profits of preceding years.

He hopes and expects that the nineties will be a good decade for the market. About 6,000 Names intend to increase their investment commitment so that they can benefit from higher insurance rates.

Many syndicates are strengthening their reserves. A task force of senior members in insurance industry is also studying Lloyd's future and possible changes in its structure.

One submission suggests that Lloyd's abolish its system of unlimited liability. Coleridge is not prepared to comment on the proposal, which would signify a fundamental change in the nature and character of Lloyd's.

"The ramifications of changing Names' status are absolutely immense," he says. "But if it's the only way for Lloyd's to fund its capacity in the future, where there's a will there's a way."

Meanwhile, Lloyd's is launching an advertising campaign to promote the market. These advertisements "will be especially directed at buyers of insurance, Lloyd's brokers, non-Lloyd's brokers and intermediaries, all of whom we wish to encourage to bring more business to this market." Lloyd's will also participate in exhibitions, seminars, and conferences in Britain and abroad.

Coleridge says : "I see many letters questioning how large losses could have accumulated without adequate reinsurance and why they were exposed to the risks of such syndicates.

It is indeed an irony that only a few years ago syndicates underwriting this class of business were riding high and members were clamouring to join them.

"High returns in insurance as in other business mean high risk. In years when the unexpected happens, members of high-risk syndicates are likely to face substantial losses."

Chatset's Sturge, who is also a loss-incurring Name, is unimpressed. He says, "Lloyd's needs to get its act together. There is little doubt that several syndicates were badly managed; at least Lloyd's can lower its commissions and fees!"

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Operation Flood : A Success Story

by Riaz Hamidullah

Since its launching, exactly 20 years back from now, the dairy project brought prosperity and well-being all around. The production has picked up from a paltry 20.74 million tonnes in 1970 to an astounding 50 million tonnes in 1990.

IT was the last day of 1990. I was going to Bombay on an excursion. The train reached Boroda, Gujarat. I did not have my breakfast. As soon as the train entered the junction, I got down the train to get some eatables.

I was in fact looking for a snacks corner. But soon after something unusual struck my sight — everyone getting off the train was rushing toward a middle sized shop. People were buying bottled flavoured milk there. The added attraction was the wide range of flavours (i.e. mango, chocolate, vanilla). At first, quite unwillingly or rather skeptically I took one bottle. But the quality and taste was so alluring that it made me order two more. And one such 200 ml chilled bottle of milk was priced at only Rs 3.

Almost similar scene could be seen in and around the bustling city centres like Calcutta, Delhi, Bombay. People queue in front of a cottage like booth, insert coins for the value of the required amount of milk, then press the specific button indicating the said amount of milk and collect the milk in a pot.

But things were not so easy even 10 years back. Dairy products, let alone fresh milk, was too dear a commodity to find. Like many other developing countries India also used to import skimmed milk. The situation was such that everyone felt the need of a big turnaround. Over times, sporadic bids were made by the governmental agencies in the form of providing credits, knowhow and other incentives. Such measures however failed to garner considerable success. Last in the row was the 'Operation Flood'. As has been christened evocatively, it is finally coming true to its name.

Since its launching, exactly 20 years back from now, it has brought prosperity and wellbeing all around. The production has picked up from a paltry 20.74 million tonnes in 1970 to a miraculous 50 million tonnes in 1990. In the process, so profitable has become the job of milkman that the number of dairy farmers shot up from a mere 1.2 million in 1979 to 6.5 million by 1990. The number of milk cooperative societies now stands at 50,000; earlier the figure was 10,000.

The achievements become more profound with the fact that yesteryears' big name in the world dairy market as an importer, India has today established herself as the third largest producer of milk. And more importantly as a net exporter.

The Man Behind

The entire programme is the brainchild and simultaneously the result of an almost singlehanded effort by one man — Verghese Kurien. His long journey started in Anand town of Kheda district in Gujarat. By the end of the 40's, a cooperative, the 'Kheda District Milk Producers Union' which is commonly known as AMUL (by the brand name of its product) was formed. They started to produce, collect and supply milk to meet the growing demand in the sprawling metropolis of Bombay. The producers were thus getting higher profits. The increasing demand for milk induced employment. A massive social and economic change was imminent.

By early 60's, taking a look on the state of the nation's distressed multitude, a new thinking arose. Serious thought was given whether it is possible to set it through as a model to be replicated across the country. "We had the realization that it will be of no use if condition of crores of poor people in this business are not bettered. In every opportune moment, I therefore attempted to make the people know our story in Anand," says an emphatic Dr Kurien. "From that point at least, what we have done in Anand, can best termed as a pioneering venture."

Operation Flood

Seeing the nurturing of such an enterprising development, the government came forward. That was the beginning of the 70's. Eventually a commission was formed to look after the development of the livestock sector. The man picked up to head the 'National Dairy Development Board' (NDDB) was, quite obviously, Dr Kurien. Soon after the formation, NDDB was entrusted with the responsibility to launch and implement a crash programme to salvage the dairy sector.

Thus started the second run for Dr Kurien. Coded as "Operation Flood", this programme simply aimed at translating the Anand model on a macro level.

Today, at the end of its second phase, Operation Flood links 138 milksheds and 290 urban markets. In 1990, the daily average figure of marketed milk stood at 4.19 million litres in the metropolitan cities and 3.05 million litres in the smaller towns.

The Anand model is a three-tier structure. The societies at the grass roots level (i.e. village) collect the milk and pay the farmers. In the second stage, the district level producers' union provide required input to the farmers including artificial insemination, veterinary services and crucial supply of feeds. Finally a federation of the district level unions at the state level manages the dairy and markets the milk and milk products.

In a self sustaining system, every one or two village cooperative is equipped with drying plants. Option is there for recombination to be adopted to level off the excess milk in winter months and drying up in summer. Income usually doubled with the introduction of milk cooperatives. As a result farmers flourished, provided that the cooperatives were strong and had developed along the right lines.

"The operation is not merely the development of the cow but the development of man," states much laurelled Kurien. The societies use there assets, each deposit and surplus funds to improve roads and start schools in the area covered by the cooperative. The same money is used, in the process for other community development projects. A middle sized cooperative in one Mehrana district of Gujarat has earned Rs 75 lac from the sale of milk alone in 1990. Another in Tamil Nadu is reported to have a turnover of Rs 12 crore annually.

Apart from these achievements, Operation Flood has surely attained something more. The entire operation was supported by the endogenous methods developed by the NDDB scientists. Better feed techniques, and high yield cross breeds were evolved. A popular 'Bypass Protein Feed' was introduced which takes the feed directly to the second chamber of the digestive system of the animal. Another wonder feed 'Urea Molasses Block (UMB)' eventually proved to be an inexpensive source of non protein nitrogen, ready energy and minerals.

Challenges to Come

Such brilliant feat of NDDB is yet to have a telling effect on the overall milk scene of the country. The situation can best be described as "a glass half filled". India has around 40% buffaloes in the world. But they yield only 7% of the world milk.

NDDB has therefore, of late given attention to the use of Biotechnology. Using embryo transfer techniques, extensively applying cross breeding and artificial insemination they hope to bring about a qualitative change in the breed of the buffaloes. Which they are confident, will sharply raise the production level.

Though the country is now self sufficient in dairy, the distribution of production is uneven. Around 90% of milk comes from 12 of 25 states like UP, Punjab, Haryana, Rajasthan, Maharashtra, Tamilnadu and obviously Gujarat. A good scope and vast potential therefore remain unexplored.

"The challenges are daunting. And our time is running out", maintains Dr Kurien. "If we are to see India emerge as an economic power by the 90's, I earnestly believe that dairying can contribute in a big way in this agrarian economy".

Over the years a number of allegations have been levelled against NDDB and its modus operandi (viz, making the milk costly, not paying any attention to the deprived rural populace). Kurien and his colleagues strongly refute those. "We are still on the half way. By the time Operation Flood attains its ultimate target you will see what a sea of change it has made."

Clearly, NDDB has a brighter future taking various aspects into consideration. "True, it is not free from faults; but those are far outweighed by the success," states a monograph on Operation Flood, prepared by UN ESCAP. "Kurien's bandwagon has shown the way to their compatriots in the developing region of Asia-Pacific. Various activities in line, like dairying, aquaculture, plantation still holds water enough to improve the living of the poverty ridden populi."

Free Market Approach Checks Population Boom

Market forces have taken over family planning.

This is parallel to Indonesia's policy of deregulation, allowing more private sector involvement in the economy.

Market research has gone into identifying family planning audiences, designing messages and developing "point of sale material" delivered through the media-mix methods of advertising agencies with Madison Avenue-style savvy.

When it started in 1970, family planning emphasised on expansion, to draw in the greatest number of acceptors possible. In the mid-80s, it moved toward self-reliance. The private sector came on board.

Action toward family planning self-reliance took shape in 1984 with a pilot program to let non-government professionals manage family planning services. Doctors, midwives and pharmacists showed a keenness to join.

At about this time, urban family planning was launched. Open-display condoms began to appear in pharmacies for sale to consumers from the street. There was no shortage of supply with a privately-owned condom plant in Banjaran, West Java, yielding 130 million condoms a year.

This new drive to draw urban users was buttressed by a major condom social market program called Kondon Dua Lima.

Dua (two), illustrated by two fingers on one hand, means two kids are enough. Lima (five), demonstrating the spreading out of five fingers on the other hand, is the exhortation to "stop" having more children after the two offsprings.

On its heels rolled the Blue Circle campaign in 1988, a complete social marketing system offering all contraceptives and counselling. Here, doctors and midwives provided services in private clinics.

BKKBN enlisted an advertising agency to promote this non-subsidised service aimed at middle-income earners and above.

The campaign is recognised by the bold capital letters KB inside a blue circle. KB stands for keluagra berencana (family planning).

In one year, private services spread from four to 11 cities. Doctors in private practice began to erect Blue Circle boards to indicate they are qualified to offer family planning services.

Since its start, family planning was entrusted to the National Family Planning Coordinating Agency (BKKBN), a full government body established in 1970 and directly answerable to the President.

"We would ask for 300 doctors and 600 would ask to be trained; we would ask for 1,000 and 2,000 would respond," recalls Haryono Suyono who heads the BKKBN.

What has the selling of family planning to show?

Indonesia's crude birth rate (CBR) has dropped from 46 in 1970 to 28-29 in 1985. The CBR is the number of births per 1,000 population in a given year.

In the meantime, the population growth rate (not to be confused with CBR) declined from 2.32 per cent a year in 1980 to 1.97 per cent in 1990.

Although the government still provides free contraceptives, the BKKBN targets that 30 per cent or more of current users will pay for their services by the year 2000.

Individuals who pay for family planning services, previously provided free by the government, can contribute to the betterment of their families, Mr. Suyono says.

The community movement which originally functioned as a local charitable institution has developed into an economic social movement which helps to strengthen self-reliance, he says.

It wasn't always like that. In the early years — in the first phase — the main aim to convince as many acceptors as possible. The main target were married women of child-bearing age in rural areas where two-thirds of Indonesians live.

It was not enough to rely on public clinics at the sub-district level to provide family planning services. Nor did the creation of a crop of family planning field workers working house-to-house made large, let alone sustainable, gains.

There were just at most 10,000 family planning field workers available for Java and Bali alone where the program started. But Indonesia has 62,000 villages nationwide, spread over the world's largest archipelago.

To increase coverage and reduce cost, central planners introduced community-based family planning. This approach puts more responsibility in family planning management to local organisations.

These organisations include women's groups at the village-level like the Women's Welfare Movement (PKK) and mothers' clubs for family planning (Kelomok Ibu-Ibu).

If the aim of the earlier phase was expansion, this second phase centred on maintenance of acceptors. BKKBN would work with these community-based groups.

These groups formed Family Planning Posts and acceptor groups that looked after the distribution and resupply of contraceptives at sub-village level. Their work, however, did not stop there. They also volunteered to motivate non-users and advise new acceptors.

Family planning posts developed into what became known as integrated services posts. These posts provided additional services such as nutrition consulting, growth monitoring, oral rehydration, and mother and child health care.

Various means were adopted to sustain user-numbers. The recognition-approach as opposed to the (financial) reward-approach was primarily used.

Poor Want Rich to Pay

With just a year to go for the 'Earth Summit' in Brazil, developing countries are telling the rich to put their money where their mouth is. **Kunda Dixit** of IPS reports.

THIRD World countries are stepping up their campaign to get the industrialised nations to pay an 'environmental fine' for global pollution damage and to fund the preservation of the world's last remaining tropical rainforests.

There is only a year to go before the big UN Conference on Environment and Development 'Earth Summit' in Rio de Janeiro, and developing countries are telling the rich to put their money where their mouth is.

Reflecting a spreading concern for green issues, development banks and donor groups have also joined the fray, demanding that the rich pay compensation for polluting the world and for an economic order that forces poor countries to destroy nature to survive.

"It is not reasonable to expect developing nations, many of which are among the world's poorest countries to limit or divert scarce resources for the alleviation of global environment problems", said the Asian Development Bank (ADB) in a recent report.

With forthrightness surprising for a regional credit institution, the Manila-based bank said poor nations in the region should be "rewarded" with grants and debt relief for not destroying their natural resources.

Asia has a quarter of the world's tropical rainforests which is threatened by an expanding population and the need of individual countries to exploit forest resources to fuel their economic development.

Over 40 per cent of the planet's known plant and animal species and two-thirds of the world's coral reefs are found in Asia.

To protect this natural wealth from being over-used by their impoverished populations, government officials in Asia say they need to be compensated by the North.

"For the sake of humanity, we are willing to keep our jungles intact, although it will deprive our people of an important source of livelihood," the chief minister of Malaysia's log-rich Sabah state, Joseph Pairin Kitingan, said in a recent speech.

The ADB estimates that at current rates of deforestation, Asia's remaining timber reserves will disappear in 40 years. The trees are disappearing so fast that once-verdant countries like the Philippines, Thailand and Sri Lankan face timber shortages.

The World Bank, the United Nations Environment Programme (UNEP) and the United States Development Programme (UNDP) recently set up a US$1.5 billion 'green fund' to help poor countries improve their standard of living without destroying the environment.

While poverty is the main cause for environmental destruction in poorer Asian countries, the more developed South-East Asian nations are faced with serious industrial pollution that is killing their seas and rivers.

The ADB report also blames rich countries with stringent anti-pollution controls for relocating their dirty industries in developing countries which are eager for foreign investment.

Asian, African and South American non-governmental organisations want rich countries to pay environmental fines for damage caused by their industrial activity — either through pollution by subsidiaries of their transnational companies or indirectly through emissions of greenhouse gases and ozone-depleting chemicals.

Non-governmental organisations met last month in Geneva to coordinate their programmes for the Rio Earth Summit and discussed mechanisms and guidelines to collect levies from rich countries for polluting the world.

Bigger Third World countries like Brazil, China and India are particularly sensitive about accusations from the North that they are major emitters of carbon dioxide and other gases that are contributing to the greenhouse effect and ozone depletion.

The New Delhi-based Centre for Science and Environment (CSE) is one of the most vocal critics of studies that disproportionately blame the Third World for ecological woes.

A 1990 study by the Washington-based World Resources Institute (WRI) which was funded by UNEP and UNDP showed that developing countries account for nearly half the gases that contribute to the greenhouse effect.

The WRI report singled out Brazil, China and India for spewing 20 per cent of the world carbon dioxide — the gas produced by the burning of fossil fuel, which is the main contributor to global warming.

CSE has gone on the offensive against the WRI report saying it does not distinguish between "survival" emissions by poor nations and "luxury emissions" by richer countries.

It also says the emission figures do not take into account the "natural sinks" — the capacity of countries to clean their environment from pollutants.

In recent report, the CSE calls the idea that developing countries must share the blame for heating up the earth and destabilising the climate as "environmental colonialism."