



## Talisman Report January 2016

Underwriting at Lloyd's continues to be profitable with forecast results improving with time. In our July report, it was forecast that the 2013 underwriting year of account, which closed at 31 December 2015, would have a profit on capacity in the range of 5.7% to 11.9% with a mid point of 8.8%. As at 30 September 2015, those numbers have improved with the revised mid point being 9.7%. It would be disappointing if the final profit was not in excess of 10%.

Movement on the 2014 underwriting year of account has not been so pronounced with the mid point increasing from 5.8% to 6.0%. The final result will be dependent upon reserves being made redundant during 2016 and the dollar to sterling conversion rate at the year end.

We do not receive the first official forecast for 2015 until the end of May 2016 but currently a profit should be anticipated. It must not be forgotten that many policies remain on risk, for example, reinsurance policies in Japan do not renew until April.

These projections all make very good reading. However, it must be acknowledged that this healthy performance is due more to a benign claims experience than good trading conditions. Indeed, terms and conditions in the round of January insurance renewals have continued to come under pressure. This was not unexpected with many underwriters saying that the rate changes are broadly in line with expectations and that the business plans for 2016 had these reductions built into the assumptions for the profit projection.

Talisman's overall premium limit for 2016 has increased from £20.9million to £22.2million. This growth is again in part due to the purchase of two corporate members at Lloyd's, one having a premium limit of £830,246 and the other £542,488. Similarly, we are delighted to report that both vendors accepted shares as a major part of the consideration and, due to their joint ownership, we welcome four new shareholders into the company.

Like Warren Buffett, we do not seek to make changes to the portfolio for the sake of change and the spread of syndicates that Talisman supports in 2016 and the business mix is much the same as for 2015.

As we have said repeatedly the quality of Talisman's underwriting portfolio is critical to the success of the company. We remain highly focussed on those syndicates in which we have the greatest confidence to maintain a strong underwriting discipline at this point in the underwriting cycle. Underwriters must critically analyse the business they are offered and we will not complain if syndicates do not reach their budgeted income levels. There is profit to be made so long as risks are selected with care using the best data available.

Whilst low interest rates continue across most of the globe, capital remains attracted to the returns produced by the insurance sector which is also seen as an uncorrelated asset class. The lack of costly catastrophes will only serve to prolong this part of the cycle. More detailed information on the points above will be given in our July report.