

Beazley Specialty Lines

Analyst Presentation

31st January 2007

Disclaimer notice

Certain statements in the presentation, are or may constitute “forward looking statements”. Such forward looking statements involve risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company, or industry results, to be materially different from any future results, performance or achievements expressed by such forward looking statements. The information and opinions contained in this presentation are provided as at the date of this presentation and are subject to change without notice. There is no intention, nor is any duty or obligation assumed to supplement, amend, update or revise any of the information contained in this presentation.

Agenda

- Overview Johnny Rowell
- Underwriting management Adrian Cox
- Lawyers Professional Indemnity Lloyd Fielder
- Architects and Engineers Professional Indemnity Jerry Sullivan
- Political Risks Adrian Lewers
- Healthcare Nat Cross
- Private Enterprise (non US) Steve Bashford
- Claims service David Marock
- Conclusion and Q&A Johnny Rowell

Our Vision

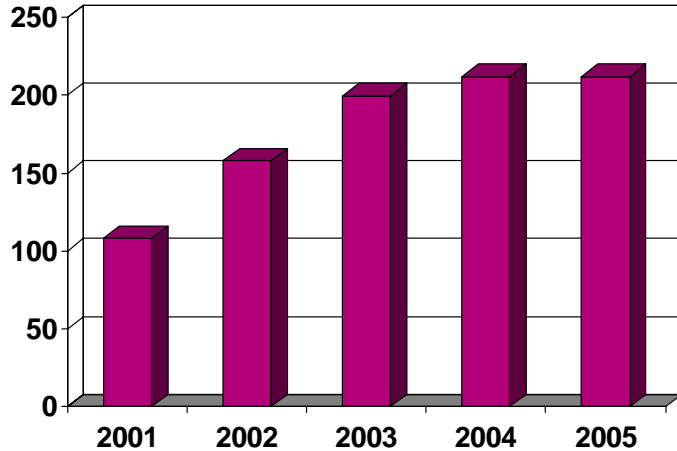
To be the premier specialty lines insurer, measured by results and reputation, with the strength to compete in any chosen market segment offering sustainable and profitable risk-taking opportunities.

Specialty Lines strategy

- Recruit, develop, deploy and retain strongest talent from both inside and outside insurance market
- Develop and maintain leadership position in complex, frequently challenging, lines of business with high barriers to entry
- Use extensive proprietary data and experience of classes through multiple underwriting and claims cycles to achieve superior segmentation and risk selection
- Manage correlation risk by writing business across multiple product lines, geographies and risk sizes
- Improve loss ratios and support client retention through targeted risk management advice
- Unlock value from improved claims service, for mutual benefit with clients
- Maintain flat organizational structure supporting rapid decisions and accountability

Evolution of our business

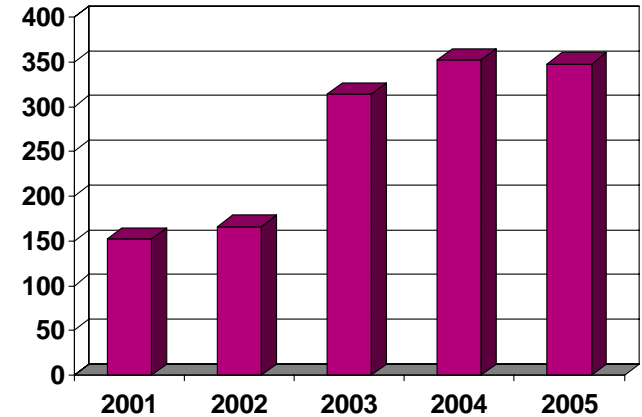
Cumulative rate change %



Led Business

2001	69%
2004	74%
2005	77%

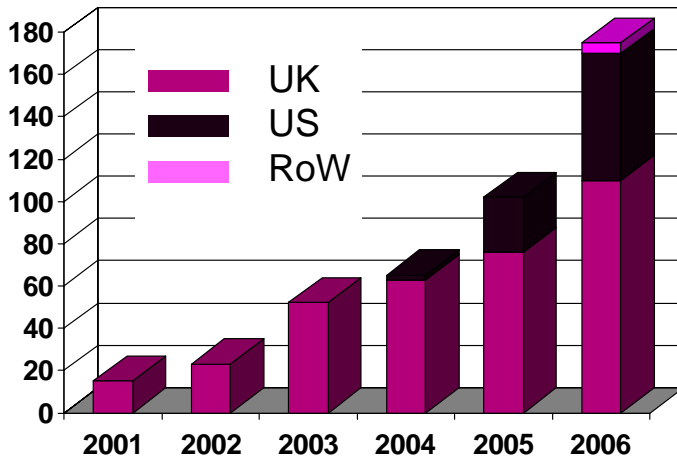
Gross written premium £m, Year of Account



100% Business

2001	26%
2004	39%
2005	39%

186 people



Operational locations

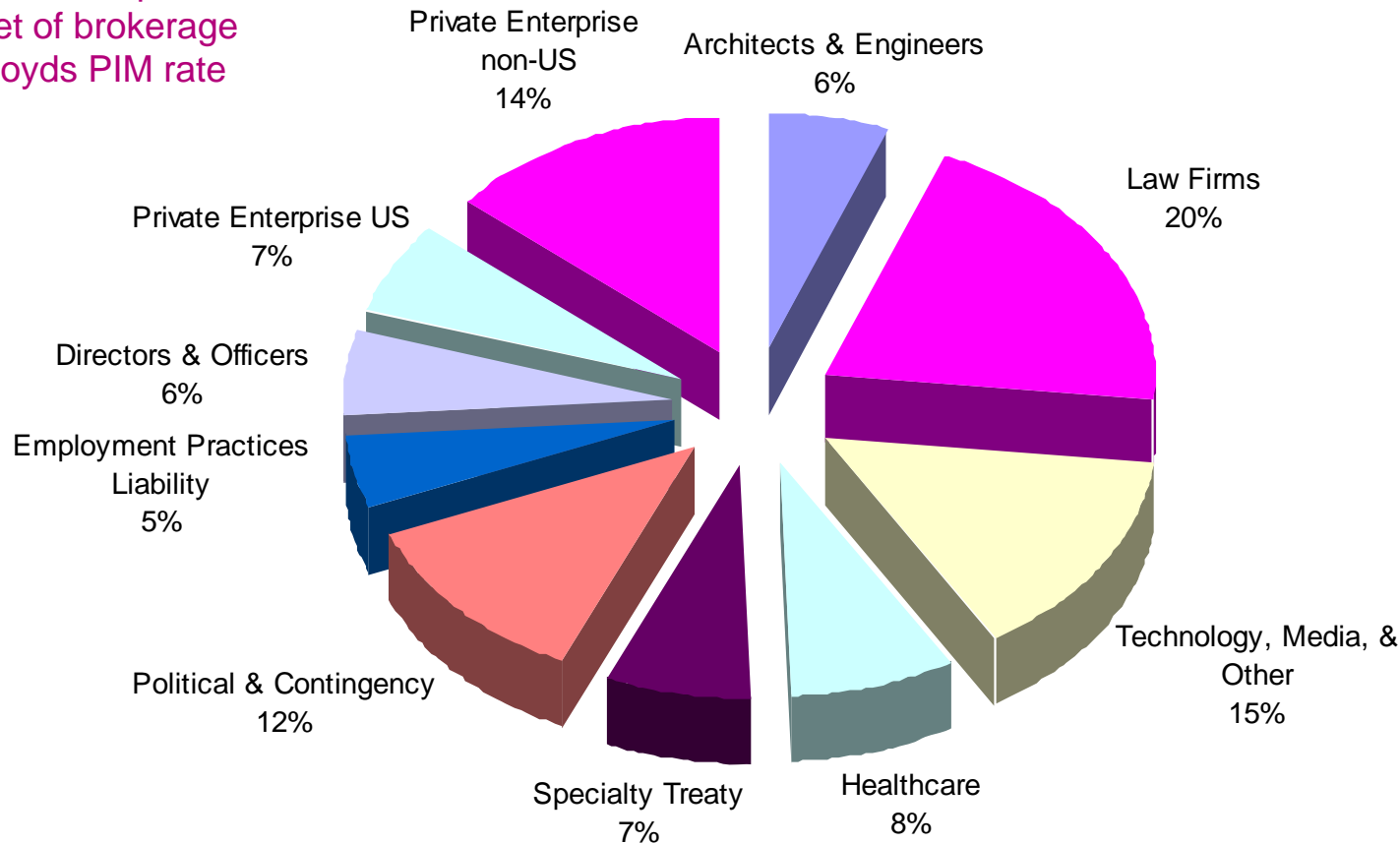
2000	—	1
2005	—	6
2006	—	9

Diversity

26 classes
8 short tail
18 long tail
159 countries

Market leadership, a diversified book

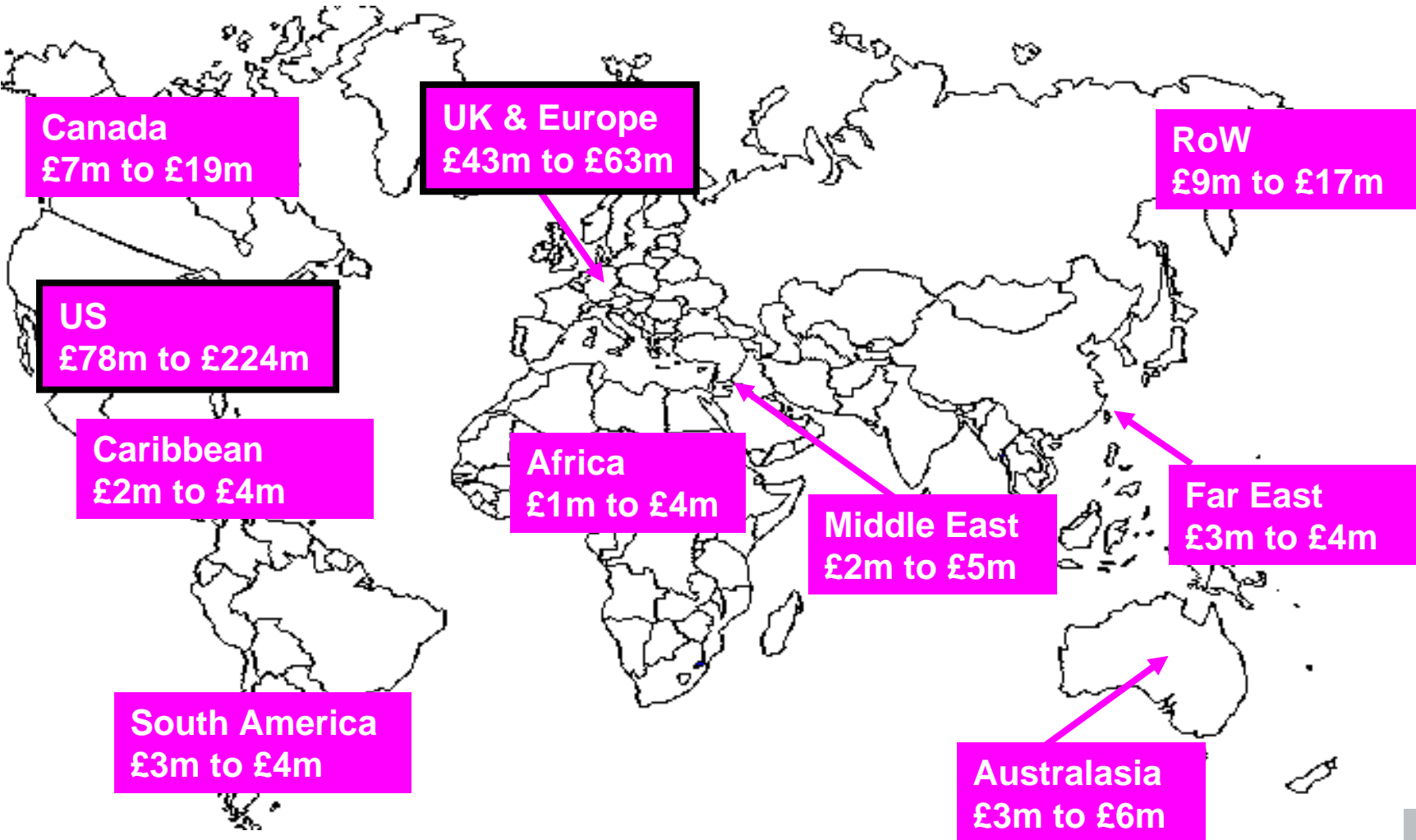
2005 written managed
syndicate premiums,
net of brokerage
Lloyds PIM rate



Total: £348 million

Global growth

Premium income 2002 to 2005



Offices: Europe (2), US (6) and Hong Kong

Underwriting management

Adrian Cox

Underwriting Management

- Optimising underwriting performance across Specialty Lines
- Team provides services to enable underwriters to maximise upside potential at acceptable level of downside risk
- Team comprises legal, actuarial, reinsurance, technical wordings and underwriting skills
- Areas of focus include:
 - pricing
 - catastrophe analysis
 - research and development
 - business planning
 - portfolio management segmentation and analysis
 - design of Specialty Lines governance, processes and controls
- A major current focus is cycle management strategy

Cycle management

- Successfully executed by Beazley to-date
 - Formal strategy including –
 - Margin analytics
 - Creation of and analysis of output from pricing tools
 - Integration with claims team
 - Forward looking analysis
 - Actuarial analysis
 - Segmentation
 - Barriers to entry
 - Timing
- } Ability to manoeuvre
- } Maintain margin
- } Maximise opportunity

Lawyers Professional Indemnity

Lloyd Fielder

Lawyers Professional Liability

Our book

- Major primary market for large US law firms
- We insure 41 out of *American Lawyer's* top 100 US law firms. 70 out of top 200.
- 20 year underwriting track record
- Proprietary pricing tool

Perspective on the class

- Poor profitability in late 1990s
- Countercyclical strategy
- Strong rate change

Lawyers Professional Liability

Why we like the class

- Insureds are partnerships that need to transfer risk
- Long experience of class and data-rich pricing tool support risk selection

Opportunities

- Currently limited

Architects and Engineers Professional Indemnity

Jerry Sullivan

Our book

- Major primary market for US architects and engineers
- Insure 27 out of top 50 US A&E firms
- One of very few companies with 20+ year track record in class
- Good reception to new Beazley policy form launched in 2006 – the first major change to A&E standard market wordings in 10 years. Broadens technology related coverage.

Perspective on the class

- Challenging class: risk selection is critical
- Loss frequency on rise, especially among larger firms
- Claims frequency and severity both lower among smaller firms

Why we like the class

- Clients value long term relationships, reinforced by risk management insights and superior claims service
- Superior claims adjusting enhances profitability while cementing client relationships. Addressing issues early reduces cost.

Opportunities

- Substantial growth opportunities among smaller practices.
- Our risk management insights are often even more valuable to smaller firms - which usually lack a professional risk manager – than to larger firms.

Political risks

Adrian Lewers

Political Risks

Our book

- Major London market insurer of global investors, importers/exporters, contractors, commercial, investment and trade finance banks
- Account split two thirds political risks, one third trade credit risks
- Major sectors are trade finance banks, commodity traders and exporters of capital goods
- Focus on emerging markets

Perspectives on the class

- Challenging in its diversity – geographical, clients, products
- Risk / client selection is critical (high moral hazard)
- Complex and labour intensive underwriting
- Low loss frequency but potential for high severity
- History of high recovery rates

Political Risks

Why we like the class

- Very low loss ratios achievable
- Profitable long term client relationships
- Skills based underwriting and claims management
- Uncorrelated with many other lines we underwrite
- High margin opportunities in difficult territories

Opportunities

- Banks have become largest buyers of insurance; Basle II will ensure this growth continues
- Shifting global economic and political risk environment, heightened by risks of terrorism
- Greater awareness of political risk market and products

Healthcare

Nat Cross

Healthcare

Our book

- Four segments – Hospitals, Managed Care, Long Term Care, Miscellaneous
- Largest non-treaty writer of US healthcare liability in the London market
- Clients include 5 of the US News & World top 10 “honour roll” hospitals, and 3 of their top 5 paediatric hospitals

Perspectives on the class

- Historically challenging class: 2003 industry combined ratio of 138% due to reserve strengthening on old years
- By targeting jurisdictions that process lawsuits faster, we can improve pricing accuracy and reduce reserving risk

Healthcare

Why we like the class

- Concerted efforts to improve quality following the Institute of Medicine's seminal 2001 Report claiming that 100,000 US lives were lost per annum as a result of medical negligence
- Multi-front response – process, technology, employers, insurers, government, Leapfrog, transparency
- Powerful 300,000 claim / exposure database supports pricing in conjunction with forward looking exposure-based analysis

Opportunities

- Healthcare spending now stands at 16% of US GDP and is growing at a rate of 7%
- Opportunities remain in some of the more difficult market segments.

Private Enterprise – Non US

Steve Bashford

Private Enterprise

Our book

- 90% Professional Indemnity, remainder D&O
- High degree of control
- We specialise in the small risks and avoid mid-market
- Geographical spread: 50% UK; 30% Continental Europe; 20% other

Underwriting perspective

- Strong knowledge of local markets with local presence in key areas
- Wide range of distribution options to maximise penetration
- Working closely with Claims as well as developing internal intelligence networks to maximise effectiveness

Private Enterprise

Why we like this business

- Stability provides good counterweight to volatility in larger risk categories
- Plays to Beazley Specialty Lines strengths: high service standards and reputation, segmentation capabilities.
- Clients (and brokers) need contract certainty, speed and consistency – investments in superior systems have given us a strong edge in the UK market in these respects.

Opportunities

- Increasing customer base in our chosen market sector globally
- Sell current products into new territories, and develop new products for current territories
- Research of and concentration on “super niches” (e.g. UK mortgage brokers) allows development of low risk Miscellaneous business

Claims Service: *Delivering the results*

David Marock

Investing to build a world-class claims service team

- **Benefiting from local access while operating globally**
 - Consistent practices over multiple locations
 - On the ground
 - More than doubled in size
- **Raising the bar for claims managers**
 - Strength in diverse backgrounds
 - ~70% of claims managers are litigators, sourced from top firms
 - 3 partners & numerous senior associates
- **Gaining experience and expertise that matters**
 - Specialist knowledge – A&E, Med Mal, Lawyers, etc.
 - Most claims managers have in excess of 10 years experience
 - Change & performance management experience

Redefining best practice across the industry

Supported by our investment in talent we are:

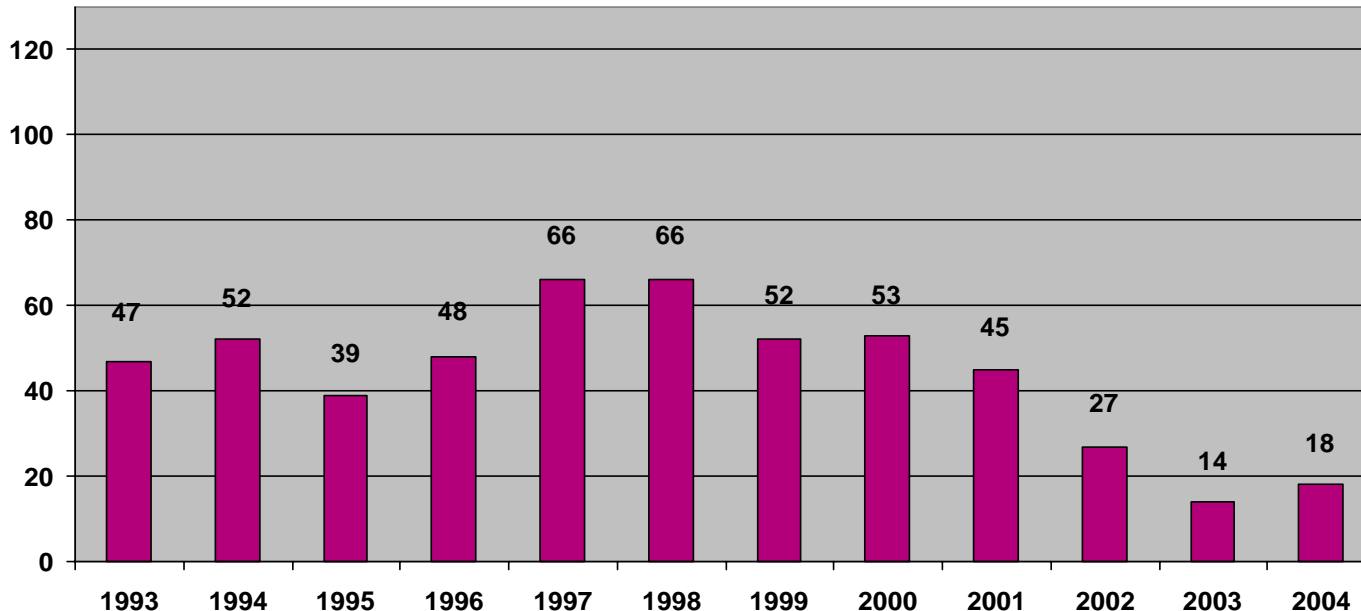
- **Integrating with product lines' underwriters**
 - Deep understanding of our insureds' businesses
 - Credible partners alongside our clients
- **Emphasising analytics in claims management**
 - Team approach to complex claims
 - Cutting-edge strategy development tools
 - Involvement of full-time claims actuary
- **Working actively with counsel**
 - Roll-out of service provider management best practices
 - More refined approach to selection of counsel

- *Lower costs of claims*
- *Greater confidence in results*
- *Higher client retention*
- *Better underwriting and pricing*

Specialty Lines in Summary: an improving picture

Net incurred claims as a percentage of premiums

Month 30



Market currently tougher overall but opportunities still to be found

- In many of the sectors we serve businesses are continuing to grow both in number and size
- Scope to offer new products in established markets and established products in new markets
- Our market leadership and reputation continue to attract both talent and new business