Lloyd's: two decades of trauma

As Post celebrates 180 years, **David Worsfold** takes a look at the years of scandal, losses and court cases that hit Lloyd's of London from the mid-1970s onwards and how they shaped the market that exists today

For a respected institution at the heart of the City of London and on the cusp of celebrating its 300th anniversary, Lloyd's certainly knew how to trash its reputation and almost bring about its own demise. The mid-1970s to the mid-1990s were years of scandal, losses, fraud, court cases and personal and business catastrophes the like of which the City had never seen and could often hardly believe.

The factual narrative is well-known and documented, not least in Andrew Duguid's meticulous account in *On The Brink*, published in 2014, but what was it like to work in the market as its seemed to lurch from one crisis to another? Who were the dominant personalities?

There are three distinctive phases to the story of Lloyd's through those two decades of trauma.

The problems started to emerge in the mid-1970s with a series of scandals, the most high-profile involving Tim Sasse, whose syndicates collapsed revealing huge losses, several surrounding claims arising from arson and fraud involving the mafia in New York. Reforms were set in motion that led to the passing of the *Lloyd's Act* in 1982, creating new governance structures and, crucially, demanding that brokers and underwriters divest themselves of all financial interests in each other. Far from drawing a line under the problems, it just sparked another, even more intense phase of crisis.

Divestment bought in a wave of American money as various businesses had to look for new owners. The Americans were shocked by what they found and they weren't alone.

During the 1970s Lloyd's had been on a recruitment drive for new Names – wealthy individuals who provided the capital to the syndicates. It was an era of high inflation and high taxation and being a Name at Lloyd's offered an apparently easy way to earn more money on assets that were already producing a return. From a base of 6000 Names in 1970, many of whom worked in the market, these suppliers of capital had grown to 18,500 a decade later. It was set to grow further during the 1980s (see box, p45).

Many underwriters took advantage of the naivete of this influx of External Names and syphoned off the best

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Contributors

Many thanks to those who contributed to this article. They may not all be quoted but their help was invaluable. Their roles are those they held during the period in question.

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- Stephen Catlin, underwriter, member of Equitas board and chairman of Lloyd's Market Association
- Angela Darling, Corporation of Lloyd's
- Andrew Duguid, various senior roles, Corporation of Lloyd's and author of *On The Brink*
- Jonathan Evans, Corporate Affairs Minister, Department of Trade and Industry
- Colin Gray, Crum and Foster Group, Resolution Group
- David Haggie, accountant and PR professional
- George Hagland, loss adjuster, Toplis & Harding
- Alan Jervis, junior marine underwriter, Norwich Union, later started own underwriting agency
- Maurice Kelly, general manager and chief underwriter of Kemper Reinsurance London
- Otto Ledniczky, broker, Willis, Faber & Dumas
- Robert Marcus, father Hans Herbert Marcus was a lawyer and high profile Name
- Colin McLean, broker, Grieg Fester (later with Benfield)
- John Moffatt, Corporation of Lloyd's
- William Pitt, broker at Hogg Robinson, reporter at *Post*, communications team at Lloyd's
- Phillippa Rowe, RJ Kiln, expert witness and consultant
- Max Taylor, aviation broker, Willis, Faber & Dumas, chairman of Lloyd's
- Peter Taylor, principal, Erskine Scott Associates and founder Insurance Solutions Network
- John Wylde, director of a managing agency

< 41 business into baby syndicates that only had small groups of Working Names on them, leaving the risky, potentially loss-making, business to be covered by the External Names. Insider trading by any other name. The flood of new money into the market also meant that over-capacity was starting to be a problem with many syndicates writing risks they had little understanding of just because they needed premium income.

This opened the second phase of crisis as the secrecy and deception surrounding these structures was grudgingly swept away. This did little to stop desperate underwriters grabbing whatever business happened to pass their way, still keeping the best risks for themselves.

Seeds of disaster

Callum Beaton was starting his career as a broker as the seeds of disaster were sown: "The reality was that the risks were horrific but such was the hunger for premium that many wrote the risks. Poor quality underwriters could readily be identified by the lengthy queues at their boxes, especially so after lunch. The old boy network remained rife with "market families" securing positions or favours for ensuing generations. In a clear number of cases underwriting losses were inverse to some individuals' career progress.

"I have never forgotten being instructed by a senior director to see one particular underwriter and to tell him that it was suggested the risk might be a good one for the baby syndicate".

The culture of the market was very different and not without it pleasures, as another young broker Otto Ledniczky, who started in Lloyd's in 1975, recalled:

"The market in 1980 – as yet untainted by scandal and crisis – was, for a junior broker, a seductive place to work in, a gregarious society replete with endless gossip and stories, mainly about excesses of the human condition, whether it was about brokers waiting for hours to see an absent underwriter, an irate underwriter throwing an unresponsive broker's slipcase out of a window, a tired and emotional claims broker throwing his files off London bridge, or the market leader greeting a Nigerian client with the line: 'have you come to greet me or eat me?'."

David Coleridge lashes out – and gets sued

Among the hundreds of articles on Lloyd's and dozens of interviews with the key personalities published by *Post* in the 1980s and 1990s one stands out for its brutal honesty, trenchant comments and the controversy it left in its wake.

I interviewed David Coleridge in July 1991 a few weeks after his heroic eight-hour stand at the bitter and acrimonious Annual General Meeting on the underwriting floor.

He took the opportunity to hit out at several of Lloyd's critics, including former Conservative MP Tom Benyon, who was a Name and had set himself up as a representative of other Names.

"Mr Coleridge was in no mood to offer any encouragement to those like former Tory MP Tom Benyon, urging Names facing massive losses to sue: 'I think it's a total waste of time and I think Benyon's a busted flush. He's trying to make money out of the misery of a certain number of people, saying you come to me and you pay me money and I'll try to arrange for you to sue'."

This did not go down well with Benyon, who promptly fired off libel claims against myself, *Post*, Coleridge and Lloyd's. We were advised by the famous libel lawyer Peter Carter-Ruck and were prepared to defend the claims on the grounds of fair comment on a matter of public interest.

Lloyd's was scared. It knew I had recorded the interview (with Coleridge's permission) and that

he had sounded off about Benyon with a barrage of allegations laced with the sort of language that would never appear in any respectable publication. Their fear of this tape being played in open court led them to settle with Benyon, paying him undisclosed damages (believed to be around £30,000), paying his legal fees, as well as our legal fees, and indemnifying us against any subsequent action from Benyon as we were not prepared to settle.

"The market in 1980 – as yet untainted by scandal and crisis – was, for a junior broker, a seductive place to work in, a gregarious society replete with endless gossip and stories, mainly about excesses of the human condition." Otto Ledniczky

Even in the culture of the 1980s this was an appalling offensive racist comment. It was, however, reflective of the attitudes of a substantial minority in Lloyd's. After all, it was an institution that had allowed women in only a little over ten years earlier.

"Coffee meetings were long, boozy lunches even longer but somehow the clients' business got placed, premium income estimates exceeded, brokerage incomes raised and there seemed to be a general optimism, a feeling that all was well in the market."

But all wasn't well as the wash of scandal started to buffet the great and good of the market. Star marine underwriter Ian Posgate was suspended from the market. He was later charged along with several other underwriters with conspiracy to defraud and tried at Southwark Crown Court where all defendants were acquitted. Despite several attempts he was never allowed back in the market. The Lloyd's chairman Sir Peter Green was forced to resign over his involvement in baby syndicates and, some years later in 1987, was eventually found guilty by a Lloyd's tribunal of "discreditable conduct" and fined £32,500.

The greatest scandal broke over PCW Underwriting run by Peter Cameron-Webb and Peter Dixon. They allegedly defrauded their syndicates of over $60m through rigged reinsurance transactions, fled to the US and never returned, so never faced trial. They also left behind a legacy of appalling losses that eventually ran to almost £300m.

All of this tried the patience of the Bank of England and eventually the then Governor, Gordon Richardson, stepped in and imposed a CEO on the market. Into the Lloyd's maelstrom stepped a high-profile accountant, Ian Hay Davison, who arrived in early 1983 with a mission to clean up the market and champion the External Names. He was never welcomed in the market. He created a sense of accountability that had not been present before and which laid the foundations for what were far-reaching reforms at the time.

Reform bandwagon

The reform bandwagon was given further momentum at the end of 1983 when Lloyd's broke with the tradition of electing an underwriter to the chairmanship and installed a broker, Peter Miller, in the chair. It was quickly clear, however, that Davison and Miller had no intention of working together.

In his otherwise rather disappointing book on his stint at *Lloyd's – A View of the Room* – Davison revealed the tension between himself and Miller was there right from the start.

"Asked at his inaugural press conference how he saw our mutual roles Peter Miller replied: 'I am the Prime Minister, Mr Davison is the head of the Civil Service'. This suggested a fundamental misunderstanding of the nature of the role of the CEO of Lloyd's. A civil servant's job is to support his minister through thick and thin, and to carry out his policy. He should advise on policy certainly, but should never allow his own views, especially his own political views, to appear.

"But that is not how the role of the CEO should be seen. He must have the independence to make value judgements about the situations that face Lloyd's, and must be free to express a view that is not coloured by self-interest. He has to be able to differ from the chairman, publicly if necessary. Above all, he is the voice of the external Names and the public in the inner councils of the society".

This tension eventually exploded when Davison resigned in November 1985, accusing Miller of mustering support in the Council to downgrade the CEO's role.

Sir Peter Green, pictured with the Queen Mother, was forced to resign over his involvement in baby syndicates and was eventually found guilty by a Lloyd's tribunal of "discreditable conduct" and fined £32,500

Lloyd's chairmen

1979 to 1983
Sir Peter Green

1984 to 1987
Sir Peter Miller

1988 to 1990
Murray Lawrence

1991 to 1992
David Coleridge

1993 to 1997
Sir David Rowland

1998 to 2000
Max Taylor

2001 to 2002
Sax Riley

Moving on

A wealth of new rules was introduced to clean up the market during Miller's time but the highlight of his period in office was the move to the new building designed by architect Richard Rogers. This was opened by the Queen in November 1986, many months after the market had moved in as Buckingham Palace was reportedly reluctant to be seen too near an institution that was almost daily attracting the wrong sort of headlines in the financial pages of national newspapers.

The building was controversial for its modernism but robustly defended by senior market figures, including Alan Lord who had succeeded Davison as CEO.

Lord said at the time: "If you look around London at the buildings constructed since the war it makes every other office look as about as innovative as an igloo. You might love it or loathe it but you cannot be neutral about it."

Not only did it provoke strong opinions but it also changed the culture of part of the London market as most of the company market underwriters who had been on the balcony of the 1958 Lloyd's building moved out and established their own offices under the auspices of the Institute of London Underwriters, which later became one of the constituents of the International Underwriting Association of London.

Alan Jervis, who started as a trainee marine underwriter with Norwich Union in the early mid-80s, noticed the change.

"All a broker had to do to complete a slip was to go upstairs and get it filled by the ILU companies and there were an awful lot of companies then. Then there was a change in premises from the old Lloyd's building to the new one in 1986 and the split away of the companies into the ILU. This meant that instead of just going up the stairs in Lloyd's they had to go across the road to another building that had a very different dynamic".

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< 43 Lord and Miller worked well together, fighting off political pressures for more legislation to regulate Lloyd's, settling many of the troublesome problems they inherited, including PCW and, ominously, attracting more Names so that now over 30,000 were committed to Lloyd's down to their proverbial "last gold cufflink".

There was a mood of self-congratulation about how these two men viewed their achievements. In an interview in *Post* on 4 September 1986 (its relaunch issue and the first to carry a full page caricature of an interviewee) Lord exuded confidence.

"The new laws and structures will, Mr Lord believes, ensure that there will be no slipping back to the old ways. He says, with a rare hint of aggression in his voice, that the acts of a handful of disgraced members who defrauded the market were 'deeply offensive to the working Names at Lloyd's'. Those ways, he vows, will not return."

Miller's valedictory interview with William Pitt in *Post* on Christmas Eve the following year was similarly upbeat: "We've been enormously successful during what has been called our time of troubles. The market has doubled in size and trebled in insurance capacity".

In doing so, it had sowed the seeds of the calamities that were to bring it to the very edge of collapse. Some were trying to warn the market but they were not listened to. In *Post* in October 1986 Posgate, trying to find his way back into the market, warned: "One of the biggest problems at Lloyd's is that underwriters are no longer taking more risk. We are reinsuring too much". How right he was.

This problem lay at the heart of the final and most perilous phase – the unravelling of the LMX (London market excess of loss) spiral as Lloyd's was battered by losses it had not reserved for and often did not understand. This was the era when it was frequently said "How do you make a small fortune at Lloyd's? Start with a big one." Businesses went under, people went bankrupt and family homes had to be sold

Alan Lord was interviewd in *Post* in 1986

as the years of slapdash underwriting and chasing of easy profits came to an abrupt, brutal end.

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Miller's vanity gets the better of him

When Peter Miller's long stint as chairman came to an end in December 1987 *Post* published a major retrospective on the Miller years, including an interview with him by William Pitt, then a reporter on *Post*.

As this appeared in an issue dated 24 December the decision was made to have a caricature of Miller as Father Christmas delivering the presents of his achievements to Lloyd's. This did not please the notoriously vain Mr Miller, as he still was then. As soon as this became known in the market, photocopies of the cover started appearing on all the notice boards. Miller dispatched the Lloyd's waiters in their bright red livery to remove these but as fast as they could take them down more copies replaced them.

Gathering storms

This fearsome and immensely damaging storm started gathering when Murray Lawrence succeeded Miller as chairman. He sounded some clear warnings about the perils Lloyd's was facing if it didn't find better ways of doing business.

In a speech in 1988 he warned: "We must get back to the highest standards in our original underwriting. In the past, some underwriters have become too involved in cash-flow underwriting, particularly where there has been the ability to shovel out of the back door, by way of reinsurance, what one has underwritten and in this way make a satisfactory return, but only at the reinsurers' expense".

What he was describing was the LMX spiral and the big problem with that is the "back door" usually only opened onto another syndicate at Lloyd's. That syndicate in turn would reinsure another layer into another syndicate and so on. Quickly, policies had over 20 layers with syndicates unwittingly reinsuring themselves on later layers as the business swirled around the market.

Maurice Kelly, who was general manager and chief underwriter at Kemper Re, saw the problem first hand.

"Lloyd's had over-capacity, too many syndicates so they had to create business by reinsuring themselves. Lloyd's was the main leader in the LMX market. We were set up in London to write LMX business so had to do some but were selective.

"Too many were playing right at the bottom end of the market writing reinsurance contracts for £50,000. You can't make a profit at those levels.

"Bill Brown in the marine market was probably more responsible than anyone for the development of the LMX spiral. I don't think a lot of Lloyd's underwriters knew how to rate the business.

"If you were on the balcony you would only see the dregs. If you were a smaller company writing under 5% and didn't have any say you only got the dregs anyway and had no chance to make a profit. You had to be near the top of the slip to have any chance of making any money. At the peak we were the leader on 3750 treaties and we used to have queues at Kemper Re everyday (at 40 Lime Street). I made the decision to stay in if we could change the clauses, expand the questionnaire and charge higher rates. We insisted on proper retentions and rates and we got them. Until we did it, no-one else was willing to step up to the plate."

An unprepared market

The market was simply not prepared for the consequences of joining the LMX bonanza.

Within weeks of Lawrence issuing his warning about the way the market was doing business, calamity struck and the market found itself on a trajectory towards the precipice of extinction.

On 6 July 1988 the Piper Alpha oil rig exploded off the coast of Aberdeen, killing 167 men. A very large proportion of the £1.7bn insured loss was placed in Lloyd's and reinsured many times over there too. The LMX spiral was about to unwind.

Maybe Lloyd's could have weathered the losses from Piper Alpha but year after year saw more unprecedented major catastrophe losses: *Exxon Valdez*, Hurricanes *Hugo* and *Andrew*. On top of that the US courts started to apportion liability for asbestosis claims, a long, long tail liability that few syndicates had the reserves to meet. This was a real shock to the market, says Peter Taylor, principal of Erskine Scott Associates and founder Insurance Solutions Network.

"My early warning of the impending disaster came when I was in Sturge Group's office talking to the finance director, Peter Davis. He had to interrupt our meeting to accept a call from David Coleridge – then the last unpaid Chairman of Lloyd's - who was in New York at the time and gave the dreadful news about the real state of the asbestosis claims situation".

The losses were enormous. Names were sent scrabbling for that last gold cufflink and many did not have the money to meet the losses. The Names action groups were born.

As this phase of the crisis approached its peak the pugnacious Coleridge was in residence in the chairman's office on the 12th floor in Lime Street. He became the lightening conductor for the anguish and anger of Names, many facing financial ruin. It wasn't a role he relished but it was one he took on with a degree of personal fortitude that rightly provoked wide admiration.

In those days the annual meeting of Names was held on the main underwriting floor. It was usually a genteel affair, lasting > 46

Maybe Lloyd's could have weathered the losses from Piper Alpha but year after year saw more unprecedented major catastrophe losses: *Exxon Valdez*, Hurricanes *Hugo* and *Andrew*

Names – naivete, losses, misery

Being a Name at Lloyd's was once the preserve of the very wealthy but in the 1970s Lloyd's set out its stall to recruit more Names, individuals who provided all the capital to the market as there was no corporate capital in those days. From an historically steady base of around 6000 in 1970 membership rocketed and reached a peak of 32,433 in 1988, just in time to catch the worst of the losses.

Colin McLean, who was a reinsurance broker with Greig Fester, whose father was a Name, recalls the period vividly.

"There were so many people across Europe who became Names who should never have been Names because they did not understand how the market worked.

"Some of the Names' agencies turned a blind eye or were simply ignorant themselves about where the serious risks could arise or where the dodgier syndicates were. They came in for a lot of stick. They were the fly-by-night estate agents of the late 1980s Lloyd's market."

As the losses edged ever higher his father put the family house into his mother's name so "if they came after him they couldn't get the house. It was quite disconcerting to think that if he hadn't done that we could literally lose the roof over our head. The level of personal pain one tends to forget".

For some the roof over the head didn't survive. When Stephen Catlin, underwriter, member of Equitas board and chairman of Lloyd's Market Association, was planning to move house he was in for a shock: "I recall going around to my neighbour to tell him that we were going to be moving and he burst into tears and told me he would be moving too. His Lloyd's losses had cleaned him out."

By the mid-80s it wasn't just the wealthy who were Names but many people of modest means who should never have been accepted as Names at Lloyd's, says George Hagland, who was a loss adjuster with Toplis & Harding.

"Staff were made a Name instead of being given bonuses and never expected to face a cash call. Even secretaries to underwriters became Names and they were poleaxed when the losses came in."

Hans Herbert Marcus arrived in the UK as a teenager in 1939, fleeing from Nazi Germany as his family was half-Jewish. He made a successful career as a lawyer and joined Lloyd's in the mid-80s rush of new members. His son, Robert Marcus, recalls that it was not what he expected.

"He was not super rich but was wealthy enough to become a Name at Lloyd's. He joined in 1985 and managed to fall in with all the wrong syndicates in particular Outhwaite and Merrett"

"He was brought up to believe in the integrity of British institutions. He was shocked at what happened at Lloyd's. He was very upset by it all and he was very stressed. It contributed to his early death although he lived long enough to see Equitas come into existence".

Events that shook up insurance

< 45 a little over an hour or two, finishing just in time for the underwriters to entertain their most important supporters to expensive lunches in the best City restaurants.

In 1991 it was anything but genteel. Lloyd's had reported unprecedented losses of over £2bn and Names were facing huge cash calls. The underwriting room was packed. It was angry and it was after blood. Such was the mood of despair and fear there were security guards on each gallery as several Names had threatened to throw themselves off to commit suicide.

Answering questions

The platform contained the full Lloyd's Council and the senior officers of the Corporation, all briefed to answer questions about their areas of responsibility. Not one of them was needed. Coleridge, a Name himself and facing significant losses, stood there for nearly eight hours, answering every question, fielding every insult and sympathising with every story of personal ruin. He never once turned to those behind him for advice or information. "I share your pain" was his simple message.

Reg Brown, who was a well-established underwriter, albeit not facing the severe losses of others, recalls that meeting.

"The guy I have as much respect for as David Rowland is Coleridge. He was the last unpaid chairman of Lloyd's. We had the AGMs on the underwriting floor and they would start about 10 in the morning. Being diabetic I had to go for lunch at around 1pm and got back just before two and he was still going. For two years running he stood there for six or more hours without a break, answering all the questions and being abused by the disaffected Names."

It bought Lloyd's time and Coleridge used it well, says Brown.

"He paved the way for the great saviour of Lloyd's David Rowland. It was Coleridge that set up the Rowland Task Force that started work on the eventual rescue plan for the market." This meant that when Coleridge departed there was only one choice for chairman. Rowland was insistent that this was now a full-time job and that he would need to be paid. Hardly anyone objected.

The rescue plan that dominated the Rowland years became known as Reconstruction & Renewal and led to the creation of Equitas, which swept up all the old year liabilities that would have otherwise dragged down the market. Corporate capital had come into the market and the old three-year accounting period (that meant reporting of losses was often deferred and hidden) had gone. Under

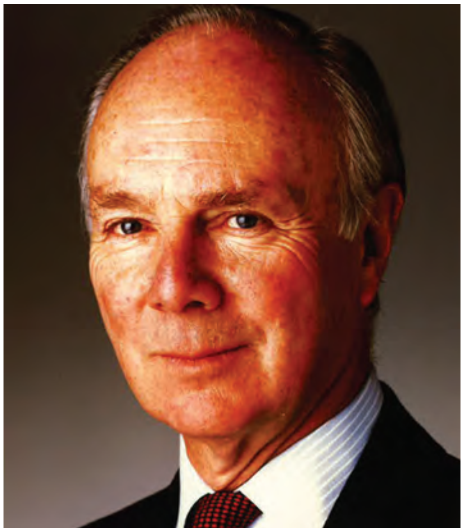
Lloyd's CEOs

1983 to 1985
Ian Hay Davison

1985 to 1992
Alan Lord

1992 to 1995
Peter Middleton

1995 to 1999
Ron Sandler



David Rowland: the first paid chairman of Lloyd's

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Lloyd's 1977 to 1996

1977	1980	1982	1984	1985	1986	1987
Frederick "Tim" Sasse syndicate scandal and collapse. Oakley Vaughan agency collapses.	Sir Henry Fisher reports on Lloyd's governance and regulation	Lloyd's Act passed, enforcing the separation of underwriting and broking interests; PCW scandal breaks	PCW Names offered £38.17m compensation but losses continue to mount	Star underwriter Ian Posgate among those disciplined for gross negligence; Sasse banned for life	Lloyd's celebrates its 300th anniversary; New Lloyd's building opened by the Queen in November; PCW Names offered £225m from Central Fund; Labour presses for new legislation to regulate Lloyd's, this is rejected by Trade & Industry Secretary Leon Brittan	Former chairman Sir Peter Green found guilty of "discreditable conduct" and fined £32,500; Posgate and others charged with conspiracy to defraud but acquitted at trial

Rowland all these reforms were shaped, delivered and nailed down.

Initially, Rowland worked with Peter Middleton, who had succeeded Lord as CEO. A former monk, Olympic athlete, spy and banker, he had saved the travel business Thomas Cook from collapse and came into Lloyd's with reputation for making things happen. He made the perfect partner for the reforming Rowland but the relationship ended abruptly when Middleton one day left a letter of resignation on Rowland's desk.

Shockwaves

The abruptness of Middleton's departure sent shockwaves reverberating around the world, not least in government where the Corporate Affairs Minister at the time, Jonathan Evans, say it was felt to be "a threat to confidence in the market".

Brown's sentiments about Rowland are echoed by almost everyone who was in the market at that time, often coupled with the thorough and diligent Ron Sandler, who Rowland managed to recruit as CEO.

"They did a phenomenal job. It was their determination to see the light at the end of the tunnel and get the Americans onside that saved the market", says John Wylde who was a director with Castle Underwriting Agency.

Stephen Catlin, who was an underwriter in Lloyd's at the time, is also full of praise for Rowland.

"The real kudos goes to Rowland for creating the good bank/bad bank structure. We are familiar with that now but it was fairly novel at the time."

Catlin has his own particular reasons for remembering Rowland.

"Rowland in his own inimitable way rung me at the box at 11.30am one morning and asked me to be the Lloyd's director on the Equitas board. He gave me 24 hours and, true to form, rang me at precisely 11.30am the following morning.

"I did fear several times that the market might not survive. When the New York Insurance Department concluded that the Lloyd's American Trust Funds were underfunded by either $8bn or $18bn (depending on the conservatism of the accounting) was one such occasion." William Pitt

"I thought he was stitching me up so I laid down some clear conditions, one of which was that the quantum should be set before I joined. This was done so I found myself on the board."

Ron Sandler: thorough and diligent

"The first meeting was very difficult. We had £14.5bn as a start-up company and an indeterminate amount of liability. We were not helped by inheriting some poor quality claims staff but that was reflective of the market at the time."

Threat of collapse

Before they reached that point there were plenty of moments of great peril when fears that the market might collapse were very real, says Catlin.

"When it came out that we had over-stated the US trust fund by four times. The New York regulator was not overly impressed with that. I thought we might have to start again and that we would have to do it outside Lloyd's."

That was the critical moment too for William Pitt, who had moved from *Post* to a senior communications role at Lloyd's.

"I did fear several times that the market might not survive. When the New York Insurance Department concluded that the Lloyd's American Trust Funds were underfunded by either $8bn or $18bn (depending on the conservatism of the accounting) was one such occasion. Ed Muhl, the then insurance commissioner, was threatening to stop Lloyd's writing new business in the US, which would have been a death sentence."

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1988	1989	1990	1991	1992	1993	1994	1995	1996
Piper Alpha disaster, triggering the LMX spiral crisis	Exxon Valdez oil spill; Hurricane Hugo	Asbestosis losses start to accumulate after US court decisions	Typhoon Mireille; almost 100 syndicates close	Hurricane Andrew	Bishopsgate bombing and subsequent establishment of Pool Re. Equitas project starts	Northridge earthquake; first corporate members join	Merrrett Names Action Group wins key judgment	Agreement reached with US regulators; Equitas set up

< 47 There were other times when those close to the centre at Lloyd's felt they might not succeed, says Andrew Duguid.

"The first was one evening in 1991 when Michael Wade [a young broker and member of the Rowland Task Force] told the task force that his model projected total losses of £6.5bn.

"Then as we worked towards the first settlement offer I was more optimistic. But when the first settlement offer was rejected on Valentine's day, 14 February 1994, I had big doubts about our survival. Frankly these dominated our thoughts for much of the two and a half years from that day on.

"Later that year I vividly recall a meeting with the Department of Trade & Industry, the government department responsible for insurance supervision, where I sought to explore the possibility of part settlement of some of the US claims. It was made crystal clear to me that Lloyd's trading position rested on full payment of all claims. If there were ever a default by a single syndicate or Name, that was not made good in full by the central fund, then Lloyd's right to trade in insurance in the UK would be suspended. This would apply to all syndicates, no matter how healthy and profitable some might be.

"That meant there was no easy way out."

Very real threat

Max Taylor, who was then an aviation broker with Willis, Faber & Dumas and later became chairman of Lloyd's, says the fear of collapse was very real.

"The large syndicates all had plans for how they would operate outside of Lloyd's if Lloyd's wasn't there. I am sure brokers were contemplating where they could place the business if Lloyd's wasn't there. That doesn't mean everyone wasn't working their butts off to find a solution and make it work".

One of the reasons Lloyd's so spectacularly hit the buffers was the power vested in individual underwriters. Many became synonymous with the years of litigation that ensued as the Names' action groups sought to recover money: Stephen Merrett, Dick Outhwaite, Anthony Gooda, Derek Walker and many others cast long, dark shadows across Lloyd's during the 1990s.


Max Taylor: fear of collapse was real

"There were a lot of businesses that had quite a lot of influence and power run by dominant individuals who, generally speaking, didn't have the skillset to run big businesses. There was a kind of mystique around the big underwriter. Dick Outhwaite was an obvious example and that really flawed man Stephen Merrett was another. He was allowed to carry so many conflicts of interest that it wasn't true," claims Wilde.

He says there were those who demonstrated that it was possible to rise above the prevailing culture and run successful businesses in Lloyd's: "There are two exceptions from that era – Robert Hiscox and Brian Marsh."

Litigation surrounded Lloyd's long after Equitas was up and running and was one of the legacies Taylor inherited. He modestly says his only claim to fame is that he succeeded Rowland but he still had many challenges.

"There was still a huge amount to do. There was still money to transfer to Equitas. There were still lots of Names that weren't paying. There was no sliding back. The deal had been done. There were legal suits going on all over the place. There were poor relations with regulators in a whole range of different places inevitably which had to be re-built."

"The large syndicates all had plans for how they would operate outside of Lloyd's if Lloyd's wasn't there. I am sure brokers were contemplating where they could place the business if Lloyd's wasn't there." Max Taylor

In the witness box

The court cases eventually largely settled in the favour of the Names. Phillippa Rowe, who had been an actuary at one of the well-run Lloyd's business, RJ Kiln, was called as an expert witness in the crucial early trials that set the tone. Initially, she was working on the Wellington claims but when the courts decided to hear the case against Merrett first, she was accelerated into the witness box.

"There were several allegations that the way the reinsurance to close had been calculated was either negligent or, at worst, fraudulent and they needed an expert on how reinsurance to close should be calculated, which was one of my responsibilities at Kiln."

"It was one of the simplest jobs I have had because, in essence, it hadn't done anything. It had decided what profit it wanted and worked backwards. Although it was simple I was still in the witness box for three-and-a-half days because everybody wanted to have a go at me."

The court found against Merrett and "the whole pack of cards folded".

"Stephen Merrett was back in the witness box at the end of the trial. Judge Peter Cresswell turned to him from the bench and said 'I knew your father Roy Merrett' – who was a very respected underwriter at Lloyd's – 'you have probably let him and his syndicates down very badly'."

A final, bitter epitaph for a generation that let Lloyd's down, trashed its reputation and nearly brought the curtain down on 300 years of trading. ■