

Rising to the global challenge

London is the established epicentre of the insurance world. Despite challenges, experts believe it will retain its position as the number one choice for large corporate buyers and complex coverages. **By Alison Craig**

For over 300 years the London market has offered a highly flexible capital base, an efficient wholesale subscription system, an unrivalled global distribution and licensing system, first-rate security, and a deep pool of talent in underwriting, broking and support services. As a result, it has remained the first choice for large corporate insurance buyers, often being the only market able to accommodate complex and difficult-to-place risks.

"Insurance buyers the world over continue to come to London because it has always been able to look at risks that do not perhaps fit neatly into a class box," explains Jeff Powell, Chairman of Jardine Lloyd Thompson's Construction Division. "London is very good at producing tailored solutions for clients whatever their exposure."

Scott Nissen, Senior Vice-President of US retail broker Allied Risk Solutions, agrees: "What makes London great can be summed up in three words: capacity, creativity and flexibility. Unusual or very large placements need these qualities."

Crucially too, clients know that London pays claims. "Claims service is just as important as the initial negotiation of the

product," says Edward Creasy, Chairman of Lloyd's agency Kiln. "Lloyd's reputation was built around its ability to pay all valid claims quickly and without fuss."

New challenges

But younger markets are snapping at London's heels. Globalisation and, in particular, the growing importance of emerging markets have encouraged some insurers to move capital and underwriting authority closer to overseas buyers. For example, Singapore and Dubai are emerging as important markets, while Miami is gaining ground as a wholesale insurance centre.

There has also been a significant flow of capital into Bermuda and other offshore centres for a variety of reasons, including more favourable tax and less onerous regulatory regimes. However, savings can be offset by higher living costs and the need to invest in acquiring and relocating skilled staff. A recent study from investment bank Keefe, Bruyette & Woods also found the cheaper cost of capital at Lloyd's offsets Bermuda's tax advantage.

Richard Higgins, Chairman of Jardine Lloyd Thompson's Energy Division, says that some of the business going to London's



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competitors might not have reached the London market in any case. "While the development of other markets is having an impact on London, some insurers have moved there to attract business that would not naturally come into London from clients wanting to insure in a local market. For example, they may prefer to deal with people in their own time zone," he explains.

Kelly Lyles, Executive Director of Commercial Lines at insurer AIG UK, points out that "an increasing number of London syndicates are opening up offices worldwide in markets like the United States and these capture business before it comes to London. London's role is therefore relatively diminished, in so much as these syndicates are procuring more business locally. But the overall pie is bigger."

The relocation of leading London companies like Hiscox and Catlin to Bermuda is not necessarily a big threat to London's traditional pole position according to Nissen. "They are not targeting the larger and more complex accounts that typically come to London," he says, adding that they cannot accommodate clients that require more unusual or bespoke solutions.

The world's leading trade investors still come to London for good reasons. "Many major international insurance companies look to Lloyd's as a platform and an integral part of their strategy for growth," says Creasy. "It would be a mistake to paint a picture of gradual decline."

Charles Phillips, CEO of Amlin, also believes that the more recent Bermuda start-ups have struggled to meet investor expectations while London continues to thrive. He says that a lot of the



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»»» companies created in 2005 are trading at about 0.8 times book value whereas their capital providers would have expected them to trade at a premium to book. “Moreover we are going into a soft market and they will find it difficult to trade out of it,” he warns. As a result, he sees real potential for money to flow back from Bermuda to London, which he believes is far better placed in terms of sidecar capacity.

London also scores high on security and consistency – primary concerns of buyers when they decide where to place their business. Low tax and lightly regulated insurance domiciles do not provide the same degree of assurance.

Extending the competitive edge

London must build on its traditional strengths to respond to apparent threats from rival markets, say the experts.

“Many of our direct clients or retail intermediaries bring very complex projects, such as power and petrochemical, to London to be marketed. The market provides a depth of knowledge and experience gained from similar projects around the world,” explains Powell. “For example, a US client may have a project that is unique in the United States, but find out that insurers and brokers have a wealth of experience in insuring a dozen similar projects elsewhere in the world.”

Creasy agrees that London has always been good at reacting to what the customer wants and being able to price that efficiently, while Lyles points out that London is really competitive – “and that keeps everyone on top of their game. It ensures that there is innovation and new products. This does not happen so much in other markets like Bermuda.”

This customer focus is a major strength according to Higgins. “Lloyd’s underwriters are usually not required to write ‘by the book’. They can be flexible: discussing

ideas with brokers and designing products that clients will want to buy.”

Among new products developed recently in the London market, says Powell, for example, is a non-damage business interruption product for the pharmaceutical, communications and technology sectors. Research is being undertaken to extend this to other sectors.

The London market needs to keep pushing the pace of change. Phillips is confident it is on the move and headed in the right direction. “It is also about the ease and cost of transaction,” he says. “One of the real advantages of the market is that it can deliver slick management of claims and policy.”

The strides made on contract certainty have proved that concrete improvements can be made without intrusive regulation. The latest initiative to reduce insurers’ use of reservation of rights also shows that creativity and market co-operation for the good of the insurance buyer are alive and kicking in London.

Further, complex global risks require complex global solutions of the sort that London is traditionally good at supplying. For example, Higgins says that in renewable energy the London market has led the way in developing products and is prepared to design these in different ways to respond to each individual client’s needs. An example is the unique all-embracing package policy developed in London to insure wind turbines, covering assets, liabilities and revenue at all phases, including transit, construction and the operational risk.

The London market has a very well developed global distribution network which, says Phillips, is “based on some very long-term relationships which other markets do not have”.

Additionally, with its extensive experience of different classes of business worldwide, London is well positioned to identify best practice and to take a broad rather than a regional insulated view.

The people factor

The ability to talk to solution-minded and creative people will be critical in the continued success of the market, says Lyles. “It remains a people business and London breeds talent. The other markets are trying to poach people from here but I don’t see this happening the other way around.”

One of the great attractions for the clients coming to London, particularly retail brokers, is that a core of key underwriters is located within the Square Mile. They can easily make six appointments in one day and complete a substantial placement in that time. This is a great advantage, particularly when compared to the United States where most communication is by email and it takes longer to get underwriting decisions.

Higgins places strong value on the ability to negotiate face-to-face with insurers, which he believes promotes enthusiasm and innovative thinking. “This is massively important. It’s a people business. Every client is different so there isn’t a standard product. You need to develop a relationship, trust is an intrinsic part, and you can’t do that remotely.”

“A lot of US retail clients realise that the London brokers provide complementary support,” says Powell. “This includes a lot of consultative advice helpful to the ultimate insured.”

Experts agree that the basic attributes of creativity, flexibility and innovation that helped build London’s reputation in the past will become even more important in the future.

“London is still the strongest centre in the world insurance market based on infrastructure, the talent of the underwriters and the licensing system,” concludes Phillips. “It has the ability to price the risks, has the brokers, lawyers and claims adjusters and so forth plus a tremendous financial capability and access to capital.”

However, Powell warns that it is essential that both brokers and insurers maintain the innovative and entrepreneurial style that has made the London market the epicentre of the insurance world for so many years. **RS**

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