

London Matters

The competitive position of the London Insurance Market



CEO HIGHLIGHTS

JOINT STUDY OF THE LONDON MARKET GROUP (LMG)
REPRESENTING ITS LONDON MARKET INSURANCE MEMBERS
AND THE BOSTON CONSULTING GROUP
LONDON, NOVEMBER 2014



BCG

THE BOSTON CONSULTING GROUP



London Market Group (LMG) is the senior body helping to create and articulate the vision for the way insurance is transacted between members of the International Underwriting Association (IUA), Lloyd's Market Association (LMA) and London and International Insurance Brokers' Association (LIIBA). LMG oversees all elements of the market mechanism and identifies areas where proactive action can improve London's competitive position.

LMG is made up of senior representatives of each market constituency – IUA; LIIBA; LMA; and the Corporation of Lloyd's. Each of these constituencies suggests possible issues to be added to the LMG agenda.



THE BOSTON CONSULTING GROUP

The Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customised approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organisation. This ensures that our clients achieve sustainable competitive advantage, build more capable organisations, and secure lasting results.

Founded in 1963, BCG is a private company with 78 offices in 43 countries.

For more information, please visit bcg.com

Contacts

Steve Hearn, Chairman of the London Market Group: steve.hearn@londonmarketgroup.co.uk

Pia Tischhauser, Senior Partner and Managing Director, The Boston Consulting Group: tischhauser.pia@bcg.com

Steve and Pia would welcome your comments, thoughts and feedback on the report.

To download the full copy of the report, visit www.londonmarketgroup.co.uk

© London Market Group

The Boston Consulting Group

2014. All rights reserved.

Executive Summary

London's position as the undisputed global market for specialty commercial insurance is under threat.

A unique ecosystem

Since large-scale commercial insurance originated in London more than 300 years ago the insurance market here has enjoyed a unique position. London insurers' willingness to underwrite commercial risks enabled London merchants to turn the city into the centre of global trade, in turn supporting the development of an unrivalled ecosystem of capital providers, underwriters and brokers which we call the London Market. To this day, companies and individuals worldwide turn to the London Market to protect themselves against specialty risks from space stations to musicians' hands. The London Market now controls more than £60bn of annual premiums, employs 48,000 people, generates more than 20% of 'The City's' GDP and over 8% of London's GDP. Almost all of this takes place in the City of London within a five minute walk from the Lloyd's building.

An industry impacted by change

Globalisation and technological change are affecting the commercial insurance industry as much as any other. Future growth in the industry will be driven by emerging markets, where London is less well represented and where regulators and insurance buyers prefer local underwriting. Brokers and insurers are responding by building global models that do not give London a privileged position. Regional hubs such as Singapore are providing alternatives for business that would have been traditionally placed in London. More analytical underwriting techniques are gaining prominence, threatening London's model, and new providers of capital have arrived. It was against this background that the London Market Group, on behalf of all stakeholders in this unique ecosystem, commissioned The Boston Consulting Group to write this report. Having consulted nearly 300 insurance customers and market participants around the globe, it gives the first holistic view of the current status and future of the London Market.

Six main challenges to London's historic position:

1. Customers have a preference for buying insurance in their local market, putting £13-18bn (30-40%) of London premiums at risk of being written locally, where capacity and expertise is increasingly available
2. London does not have a strong position in emerging markets, and its share of business in these markets declined by more than 20%, from 3.2% in 2010 to 2.5% in 2013
3. London is losing share in reinsurance (from 15% in 2010 to 13% in 2013) as reinsurance purchasing is increasingly centralised and emerging market growth gains in importance
4. London's expense ratios were 9 percentage points higher than its peers in 2013, driven by higher acquisition and transaction costs, putting it at a disadvantage for more price sensitive risks
5. The comparatively high regulatory burden could further increase this price disadvantage for London
6. The prolonged soft market cycle, propagated by the superabundance of capital and securitisation of insurance risk, challenges London's role as the supplier of additional capacity to meet local needs

Six key opportunities to enhance London's position:

1. Meet substantial unmet demand for new products & solutions, building on London's reputation for innovation and flexibility in order to offset the commoditisation of more traditional risks
2. Reinforce London's strength in expertise based underwriting with improved analytical techniques
3. Market its strengths particularly in emerging markets, to stimulate demand and encourage access
4. Break down barriers to (re)insurance and intermediation and develop the distribution network, creating appropriate local presence, to allow London to compete more effectively in high growth markets
5. Reduce the cost of doing business to increase competitiveness, particularly for more commoditised risks
6. Embrace the rise of alternative capital in order to take advantage of deep capital markets, build capacity in capital scarce lines and protect against extended soft market cycles

A call to action

London is the only genuinely global insurance market. While London's position faces significant threats, London has unique strengths and opportunities. In a globalising world facing new and evolving risks, the need for London to build on its ability to evaluate and bear the most complex risks is high. London's capabilities are founded on the specific characteristics of the London Market – the wide range of market participants competing and working together in a few blocks of the City of London. Yet, such a structure risks becoming a weakness when rapid change is required. Clarifying and communicating London's role in a globalised world will require all stakeholders in the market – insurers, brokers, regulators and politicians – to work to reinforce the market and its unique role in London, the UK and the world.

The London Market: A unique face-to-face ecosystem

2 Minster Court

Price Forbes
Advent
AHJ
Endurance
Tokio Millennium Re

106 Fenchurch Street

RJ Kiln
Chubb Insurance

10 Leadenhall Street

Scor

1 Whittington Avenue

RK Harrison Group

78 Leadenhall Street

LIIBA

122 Leadenhall Street

Amlin (from 2015)
Aon (from 2015)

Birchin Lane

Berkshire Hathaway

25 Walbrook

Arthur J Gallagher
Xchanging
Capsicum

60 Fenchurch Street

Cunningham Lindsey

49 Leadenhall Street

Markel

140 Fenchurch Street

AXA

42 Trinity Square

Crawford

3 Minster Court

Zurich
Pro Sight Specialty Insurance
ACORD
Sirius International
IUA

1 Great St. Helen's

Hiscox

30 St. Mary Axe

Swiss Re
Allied World

Plantation Place

QBE
Aspen
Chaucer
British Marine
Ascot
Munich Re
Great Lakes

Beaufort House

Tysers

Lloyd's Building

Lloyd's
Canopus
Atrium
LMA

8-11 Cresent

Besso

107 Leadenhall Street

THB group

138 Houndsditch

JLT Group
Lockton

1 America Square

BMS Associates
Minova Insurance

Tower Place

Marsh
Guy Carpenter



MORE THAN 350 MARKET PARTICIPANTS...

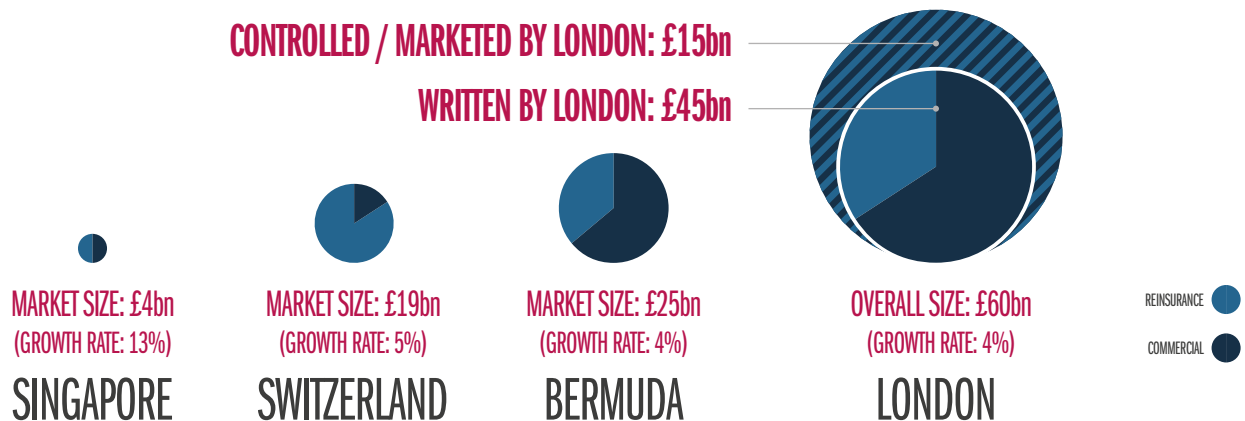
of carriers, brokers and affiliate professional services



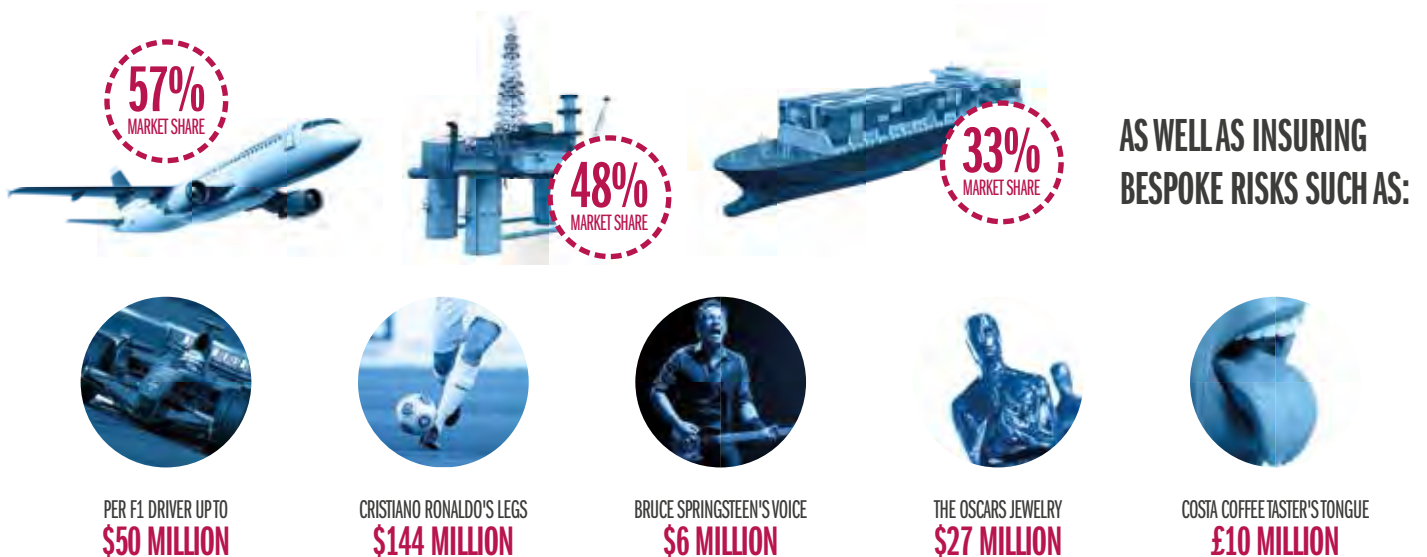
...OPERATING WITHIN 400M OF LIME STREET

The London Market's current size and importance

THE LONDON MARKET IS CURRENTLY THE LARGEST GLOBAL HUB FOR COMMERCIAL AND SPECIALTY RISK, CONTROLLING MORE THAN £60BN IN GWP IN 2013



AS AN INDUSTRY IT INSURES ALL CONCEIVABLE TYPES OF RISK



THE MARKET IS A SUBSTANTIAL CONTRIBUTOR TO THE LONDON ECONOMY

21% OF "THE CITY'S" GDP

8% OF LONDON GDP IN 2013

IT EMPLOYS 48,000 PEOPLE...



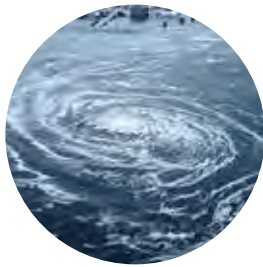
34,000 PROFESSIONALS
IN LONDON

ANOTHER **14,000** WORK FOR LONDON MARKET
COMPANIES IN THE UK, BUT OUTSIDE OF LONDON

... AND SUPPORTS THE BROADER GLOBAL ECONOMY BY PAYING LARGE CLAIMS EVERY YEAR



DEEPWATER HORIZON 2010
\$600 MILLION



JAPANESE QUAKE & TSUNAMI 2011
\$1.95 BILLION



NEW ZEALAND EARTHQUAKE 2011
\$1.2 BILLION



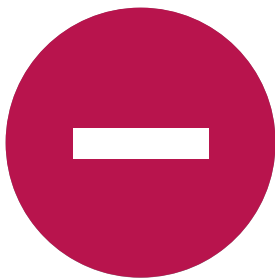
AUSTRALIAN FLOODS 2011
\$650 MILLION

MORE THAN £140 BILLION
CLAIMS PAID IN THE LAST FIVE YEARS

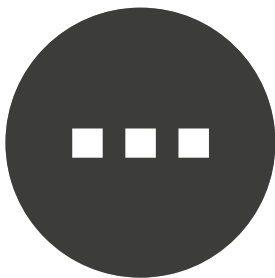


However, London's unique position is under threat...

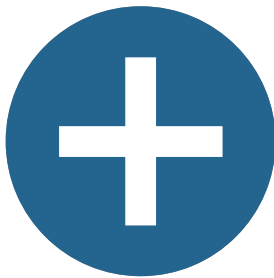
LONDON IS ONLY TRACKING MARKET GROWTH IN COMMERCIAL INSURANCE, WHILE IT IS LOSING SHARE IN REINSURANCE



LOSING SHARE IN:
ENERGY (-3%)
& REINSURANCE (-2%)

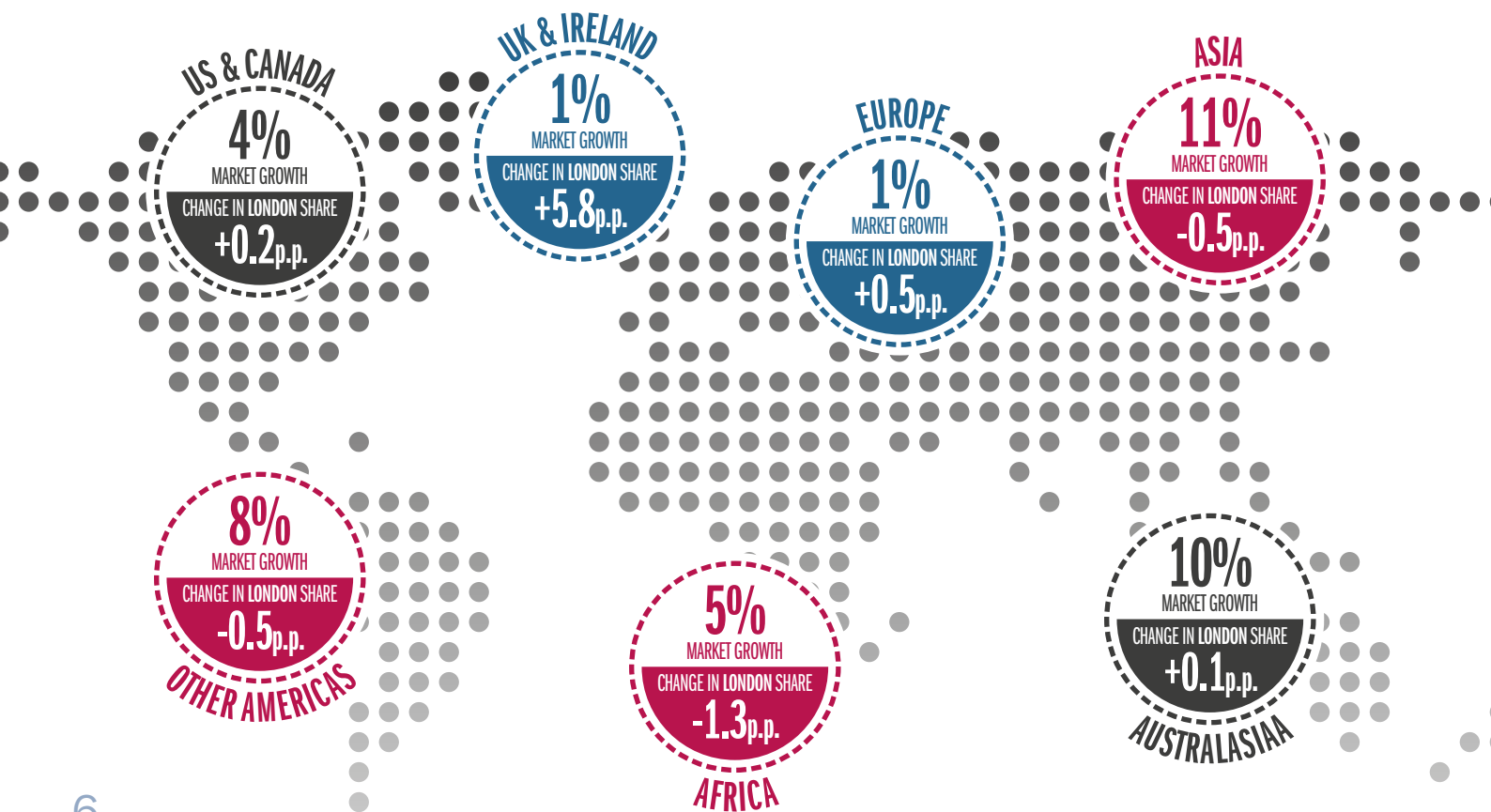


TRACKING SHARE IN:
CASUALTY, PROPERTY,
MOTOR & MARINE



GAINING SHARE IN:
AVIATION (+8%)
& OTHER (+1%)

IN ADDITION, LONDON IS NOT KEEPING PACE WITH EMERGING MARKET GROWTH, WITH A DECLINING SHARE FROM 2013–2014



... as our customers tell us

UNDERWRITING

CUSTOMER PREFERENCE FOR LOCAL PLACEMENT OF RISK

“

People in the region understand my specific risk and company better, so assuming they have the required underwriting expertise I am very happy to place business with them. Only when I can't do that would I go to a global hub.

Latin American Risk Manager

”

I see an increasing amount of my risk being written in regional centres of expertise such as Singapore, they have a better understanding of our specific needs and risk exposures than someone in London.

Asian Risk Manager

“

GROWTH IN ANALYTICAL UNDERWRITING

As I focus more on managing risk, I need increased analytics, knowledge and tools from my insurers and brokers.

US Risk Manager

”

“

Even on our high end airline and airline manufacturing policies we use a series of models leveraging both internal and external data to assist our underwriters with pricing decisions.

*Chief Information Officer,
Lloyd's Managing Agent*

”

“

NEW PRODUCT INNOVATION NOT KEEPING UP WITH DEMAND

The proportion of the corporate risk map covered by insurance has shrunk to perhaps as little as 10%.

Chief Executive, Risk Management Association

”

“

London's role in the commercial specialty market is contingent upon innovation and flexibility, it is advantaged when there are products which no one else can offer.

European Risk Manager

”

“

INCREASING FOCUS ON PRICE

I have to fight hard to get companies to consider anything other than price in their placement decisions.

*Asian Consultant
Risk Manager*

”

“

Absolute price is traded off against the flexibility and breadth of coverage. London is not the cheapest market, but offers a good balance.

UK Risk Manager

”

“

The extended soft market and increasing competition for my risk places increased focus on price as a differentiator.

European Risk Manager

”

”

TRENDS IN BROKING AND DISTRIBUTION

GLOBALISING BROKERS AND INSURERS



London Market participants are setting up local offices in Asia, this is good as it brings London to us, but it reinforces local underwriting expertise and capacity.

Asian Risk Manager



Where I geographically place my business is becoming less important, I select the best carriers who are now global, not the best markets.

US Risk Manager



The London Market no longer leads any of my programmes, it just provides excess capacity.

Asian Risk Manager



EMERGENCE OF HIGH GROWTH MARKETS

It is not simply a preference for local markets, but a government policy. I couldn't even place my programme in London even if I wanted to.

Asian Risk Manager



I have found it hard to maintain my relationships with the London Market, they are overly reliant on me going to them versus others who are more willing to come to me.

Latin American Risk Manager



IMPORTANCE OF MANAGING GENERALAGENTS IN CAPTURING LOCAL FLOWS



If we want to write more direct business, it's clear the expectation of local regulators is you will do it in their country, you will be capitalised locally and they will regulate you. MGAs represent a good compromise here.

Chief Executive, Lloyd's Managing Agent



Lloyd's, and by extension London, can grow business in emerging markets through MGAs. It is a profitable business. However it is over-regulated.

Division Head, Global Broker



SHIFTING LANDSCAPE OF CAPITAL PROVISION AND CAPITAL PROVIDERS

CUSTOMERS BECOMING MORE SOPHISTICATED AND RETAINING MORE RISK ON THEIR OWN BALANCE SHEETS



Our captive enables us to leverage the group risk appetite, take a more holistic view of risk and build our expertise, enabling us to earn some of the risk premium.

European Risk Manager



““

We have purchased a lot less reinsurance from the external market over the past six to seven years, reducing our treaty spend by about €1.5bn.

Head of Outward Reinsurance, Global Insurer

””

MARKET CYCLES AND THE IMPACT OF AN EXTENDED SOFT MARKET

““

An extended soft market is a problem for hubs like London, when less capacity is needed, this challenges their position as a provider of excess and surplus capacity.

Asian Reinsurance Buyer

””

““

In a soft market, I don't need to leave the local market for capacity. For example on our medical malpractice policy, there is so much capacity available I no longer need to go to London.

US Risk Manager

””

THE RISE OF ALTERNATIVE CAPITAL VIA INSURANCE LINKED SECURITIES

““

Sticking your head in the sand and waiting for alternative capital to leave, as some London market participants are doing right now, is not a sensible strategy.

VP Reinsurance Management, US Insurer

””

““

There are capabilities which pure alternative capital providers do not provide, such as tried and tested claims handling ability. A blend of traditional insurance capability and alternative capital seems like the most compelling offering.

US Risk Manager

””

THE CHANGING TAX, REGULATION AND GOVERNMENT LANDSCAPE

TAX REGIMES COMPETING FOR GLOBALLY MOBILE CAPITAL AND TALENT

““

The corporate tax position in the UK has improved a great deal recently. It is now good compared to other jurisdictions. It is only really the tax free locations which are better.

CEO Europe, Global Insurer

””

““

Personal tax still remains a disincentive in London versus Singapore or Dubai, making it tougher to attract talent.

*Chief Operating Officer,
Global Broker*

””

FINE LINE BETWEEN STRONG FINANCIAL REGULATION AND OVER-REGULATION

““

The burden of regulation and the cost that imparts on carriers is a concern, especially if it means a reduction in the flexibility of London to offer bespoke solutions and to be competitive on price.

Chief Executive, Risk Management Association

””

““

My firm operates in many countries, but London is one of the most difficult from a regulatory point of view. That is a negative that you had better correct.

Chief Executive, Global Insurer

””

ROLE OF GOVERNMENTS IN DISASTER ASSISTANCE

““

We need to understand that pre-funding is infinitely more efficient and beneficial to society than post-funding; that is the area where we need to do work and where, as an industry, we can be most constructive.

Co-chair, Geneva Association

””

““

Governments and aid organisations should have a propensity to work with a market such as London since it is more politically acceptable than working with a specific carrier in a specific market.

*Chief Executive,
Lloyd's Managing Agent*

””

““

IMPORTANCE OF PROCESSING INFRASTRUCTURE

It is not that London is terrible in infrastructure and service, it is that the whole industry is terrible. There is an opportunity for London to take the lead and harness the power of shared services.

European Risk Manager

””

““

Given my broker feels most of the pain on infrastructure I don't really have an opinion, I guess I only care about this is if the price is higher as a result.

European Risk Manager

””

““

London has improved with its modernisation efforts. It is now, finally, coming into the 21st century.

UK Risk Manager

””

““

The process of handling renewals and paperwork could be more efficient, but I have never not placed business in London because of this, largely because no one else is better.

Latin American Risk Manager

””

““

The drivers of people using local markets are nothing to do with efficiency of the policy issuing or claims processes, but rather simple things like local knowledge, language capability and cultural differences.

European Risk Manager

””

This translates into 6 challenges to London's position...

1 Customers have a preference for buying insurance in their local market, putting £13-18bn (30-40%) of London premiums at risk of being written locally, where capacity and expertise is increasingly available.

2

London does not have a strong position in emerging markets, and its share of business in these markets declined by more than 20%, from 3.2% in 2010 to 2.5% in 2013.

3

London is losing share in reinsurance (from 15% share in 2010 to 13% share in 2013) as purchasing is increasingly centralised and emerging market growth gains in importance.

London's expense ratios were 9 percentage points higher than its peers in 2013, driven by higher acquisition and transaction costs, putting it at a price disadvantage for more price sensitive risks.

4

5

The comparatively high regulatory burden on London Market participants raises costs and could put London at a further price disadvantage, if it is higher than the value of regulation to customers.

6

The prolonged soft market cycle, propagated by the superabundance of capital and securitisation of insurance risk, challenges London's role as the supplier of additional capacity to meet local needs.

... and 6 opportunities for London to enhance its position

1

Meet substantial unmet demand for new products & solutions, building on London's reputation for innovation and flexibility in order to offset the commoditisation of more traditional risks.

2

Reinforce London's strength in expertise based underwriting with improved analytical techniques to deliver value to customers, enable better selection of risk and help retain more commoditised business.

Invest in marketing the strengths of the London Market, particularly in emerging markets, to stimulate customer demand and encourage brokers and carriers to remove barriers to placement.

3

Break down barriers to (re)insurance and intermediation and develop the distribution network, creating appropriate local presence, to allow London to compete more effectively in high growth markets.

4

5

Reduce the cost of doing business by delivering on infrastructure activities, removing London specific processes and realising economies of shared service, to increase competitiveness for commoditised risk.

6

Embrace the rise of alternative capital in order to take advantage of deep capital markets, build capacity in capital scarce lines and protect against extended soft market cycles.

London must answer a set of strategic questions

In order for London to address these threats and make the most of its opportunities, there needs to be a wide ranging dialogue about the initiatives required with market participants, regulators and political leaders. The following questions should drive this dialogue. Finding the right answers for the market will be imperative to its future success.

DEVELOPMENT



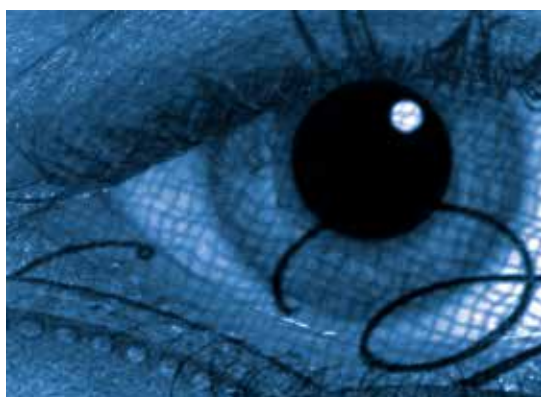
- How can London encourage product innovation and entrepreneurialism, and the talent required to deliver them?
- How can London supplement its reputation for expertise with analytical capabilities?
- How can London better attract and leverage alternative capital?
- How does London remain relevant to reinsurance buyers centralising purchasing?

COMPETITIVENESS



- How can London enhance the ease of doing business, in particular for brokers?
- To what extent can shared services and infrastructure activity lower costs and improve service?
- How to ensure market regulation is proportional and does not put London at a disadvantage?
- How to ensure tax does not become a material disadvantage for London?

REACH



- What is London's offering to its customers, carriers and brokers?
- What is the best way to communicate that offering?
- How can London best participate in high growth markets?
- How can London increase its local market knowledge and diversity of employees?

Acknowledgements

Authors

London Market Group

Steve Hearn, LMG Chairman

steve.hearn@londonmarketgroup.co.uk

Christopher Croft, Head of LMG Secretariat

christopher.croft@londonmarketgroup.co.uk

The Boston Consulting Group

Pia Tischhauser, Senior Partner and Managing Director

tischhauser.pia@bcg.com

Miguel Ortiz, Partner and Managing Director

ortiz.miguel@bcg.com

Paul Clark, Partner and Managing Director

clark.paul@bcg.com

Paul Hurst, Project Leader

hurst.paul@bcg.com

Communications

Claire Hopkins, The Boston Consulting Group

hopkins.claire@bcg.com

Nathan Hambrook-Skinner, Willis Group

nathan.hambrook-skinner@willis.com

Lisa Hunter, Lloyd's

lisa.hunter@lloyds.com

With thanks to

The authors are grateful to the members of the LMG working group for their participation in shaping this report; Simon Gaffney (Willis Group), Wendy Kilminster (Lloyd's), Sasa Brerevic and Adam Rushin (Hiscox), Mel Goddard (LMA), Dave Matcham (IUA), Ian Summers (LMG) and James Livett and Chris Buer (LIIBA). Additionally, the authors would like to thank all the firms and individuals who contributed their time and data to the construction of the report.

© London Market Group | The Boston Consulting Group | 2014. All rights reserved.

For permission to reprint this study or parts of it, please contact the authors.

Notes

Notes



BCG

THE BOSTON CONSULTING GROUP