

# London Matters 2017

The competitive position of the London Insurance Market



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The London Market Group (LMG) is a market-wide body, bringing together the specialist commercial (re)insurance broking and underwriting communities in London.

LMG speaks collectively for market practitioners on all common market topics, notably growth and modernisation issues. Its aim is to build and maintain London's position and reputation as the global centre of insurance excellence.

LMG is supported and governed by the International Underwriting Association of London (IUA), Lloyd's, the Lloyd's Market Association (LMA) and the London & International Insurance Brokers' Association (LIIBA).



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Nicolas and Paul would welcome your comments, thoughts and feedback on the report.

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## Preface

In 2014 the LMG published *London Matters*, an influential report confirming the significance of the London insurance Market for the City and the UK. It acted as a basis for discussion about the Market, its position in the global industry and the issues it faced when looking to the future.

The report demonstrated London's leading role in commercial insurance. However, it also laid out some of the longer-term challenges facing the Market: increased competition; other centres with lower transactional costs and lighter-touch regulation; the lack of ties between London and emerging economies; and the need to attract the next generation of market professionals. In September last year, we launched the LMG Manifesto to encapsulate our comprehensive, business-led response to those challenges. It outlines four interdependent workstreams:

1. **Building a better business environment** – we must create an environment for creativity and invention, so we can respond to new client demands, something that has always been at the heart of London's purpose
2. **Making London an easier place to do business** – no matter how compelling our product might be, we now need to be more efficient and easier to access if we are to maintain our position
3. **Telling the London Market story** – customers who do not currently buy their insurance in London need a clear case for coming here to purchase our products and services
4. **Building a diverse, dynamic workforce** – to most effectively confront the challenges ahead we require a deep talent pool upon which to draw.

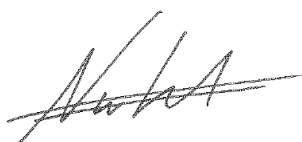
Having a fact-based approach to our thinking and planning has helped us to gain unprecedented levels of market engagement across our workstreams. We are therefore determined to stick with this guiding principle, so, last year, we commissioned a refresh of the Market Data for this report – *London Matters 2017*. The data cover the period up to the end of 2015, too soon for the effects of our work to date to be visible but still offering important insight into the state of the Market.

The figures are again self-explanatory. We remain, by a considerable margin, the largest global centre for commercial and specialty risk. We continue to perform strongly in areas of the world where our product is well known. We work in a \$91 billion marketplace, employing 52,000 people and generating 26% of the City's contribution to GDP. London is developing a vibrant market for cyber insurance – the emerging new risk of our day.

However, some of the key challenges remain. We are losing business in emerging markets (Asia, Latin America and Africa). We are losing reinsurance business. We have seen no meaningful improvement in talent diversity.

Despite the Market's continued strengths, these facts should continue to give us all cause for concern. They clearly tell us that this is not the time to be complacent, or to allow the energy and enthusiasm with which the Market has tackled these challenges so far to diminish. Equally our strategy and plans need to be viewed in light of this latest intelligence. The whole London Market has invested tremendous intellectual effort and emotional commitment to this endeavour so far. Now is the time to *accelerate* this momentum.

*London Matters 2017* renews our call to arms to build upon the pre-eminence of the London Market. I pledge the LMG's and my personal commitment to see the work through. I hope you will come with me.



Nicolas Aubert  
LMG Chairman

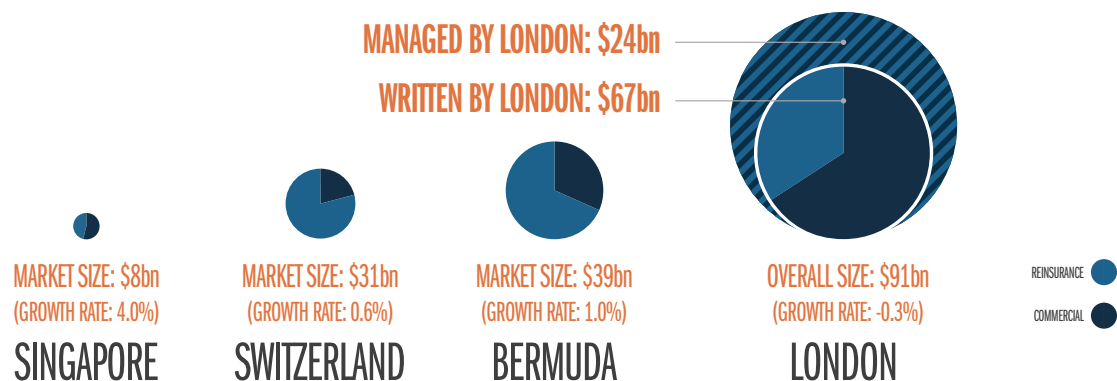




# 1 Summary

## The London Market's current size and importance

THE LONDON MARKET IS THE LARGEST GLOBAL CENTRE FOR COMMERCIAL AND SPECIALTY RISK, CONTROLLING MORE THAN \$91BN IN GWP IN 2015



THE MARKET EMPLOYS 52,000 PEOPLE...



...AND IS A SUBSTANTIAL CONTRIBUTOR TO THE LONDON ECONOMY

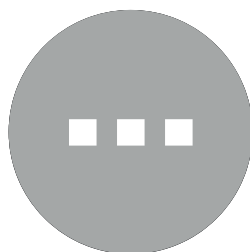
**26%** OF "THE CITY'S" GDP

**10%** OF LONDON GDP IN 2015

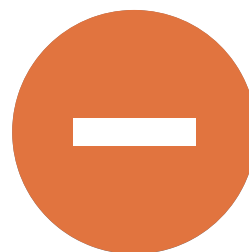
## LONDON IS GAINING OR TRACKING SHARE IN COMMERCIAL INSURANCE, WHILE IT IS LOSING SHARE IN REINSURANCE



**GAINING SHARE IN:**  
MARINE (+2p.p.), ENERGY (+2p.p.)  
& AVIATION (+7p.p.)

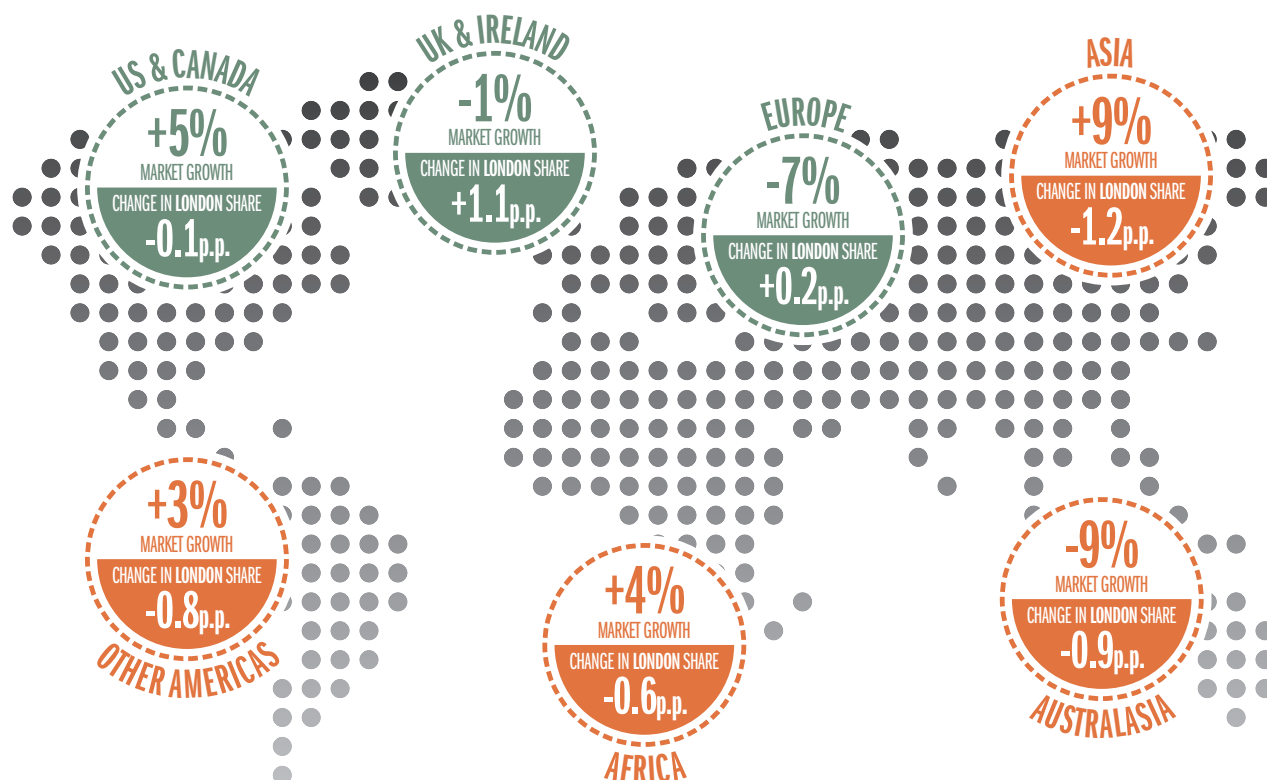


**TRACKING SHARE IN:**  
PROPERTY & CASUALTY



**LOSING SHARE IN:**  
REINSURANCE (-1p.p.)

## IN ADDITION, LONDON IS NOT KEEPING PACE WITH EMERGING MARKET GROWTH, WITH A DECLINING SHARE FROM 2013–2015



Note: p.p. represents percentage point change 2013-15

# 1 Summary

The 2014 *London Matters* report assessed the London Market's performance in the context of the global industry and identified a range of challenges and opportunities. *London Matters 2017* revisits the quantitative data to track London's developments and understand the dynamics in the wider insurance world<sup>1</sup>.

Several positive trends reaffirm our traditional strengths, with London:

- increasing its commercial insurance premiums in line with global market growth
- reinforcing its position in established markets such as North America and the UK with a rise in premiums
- gaining share in its traditional heartlands of speciality risk classes
- demonstrating its ability to develop with significant growth in premium from cyber insurance and
- remaining a significant contributor to UK and London GDP.

However, many of the challenges highlighted in the previous report remain.

- London has continued to lose market share in reinsurance

- The volume of London business from emerging markets has decreased, despite growth in insurance business within these regions
- The diversity of talent remains a challenge. The Market is failing to attract talent from backgrounds not traditionally well represented.

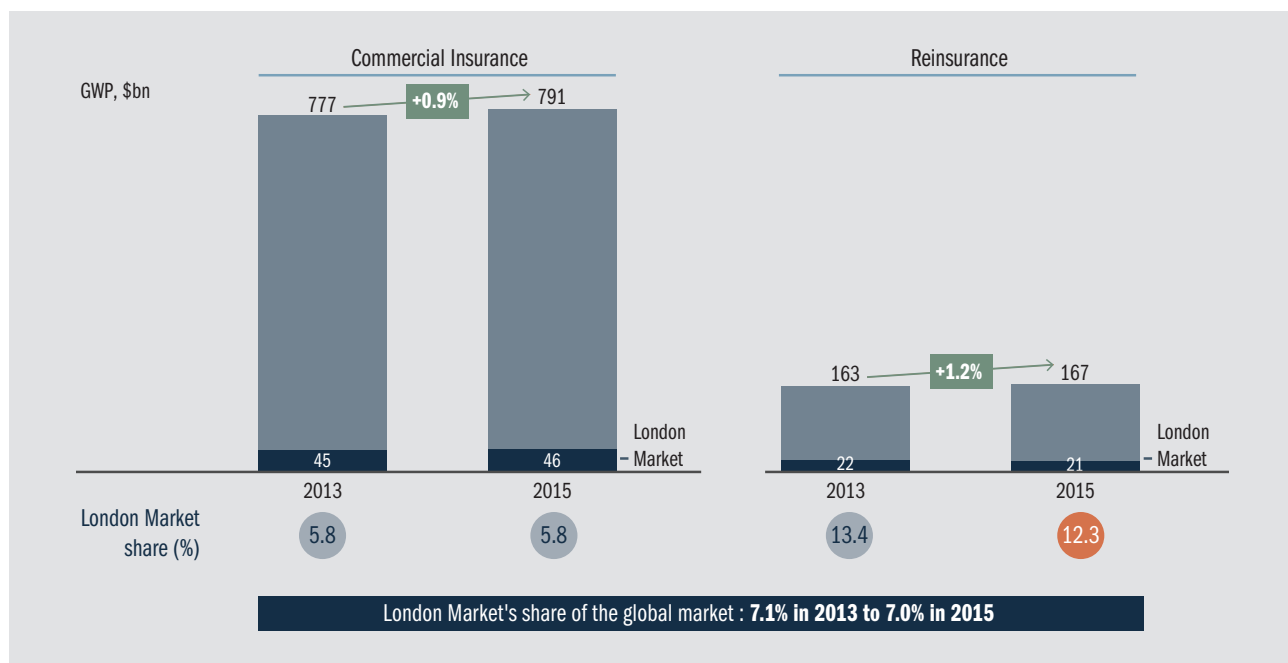
This summary lays out the report's key findings, while the main Fact Base contains more detailed analysis of the data and underlying trends.

## London commercial insurance premiums keep pace with global growth

Growth in London Market commercial insurance premiums (+1.0% p.a. 2013-15) has kept pace with global market growth (+0.9% p.a. 2013-15), meaning London's global share has remained steady at 5.8%. London's growth has been underpinned by a strong performance in the mature markets of the UK and North America.

Other established insurance centres (e.g., Zurich and Bermuda) have lost commercial insurance premiums over the same period.

Figure 1: Global market size and London Market share (2013-15)



## Established markets drive growth

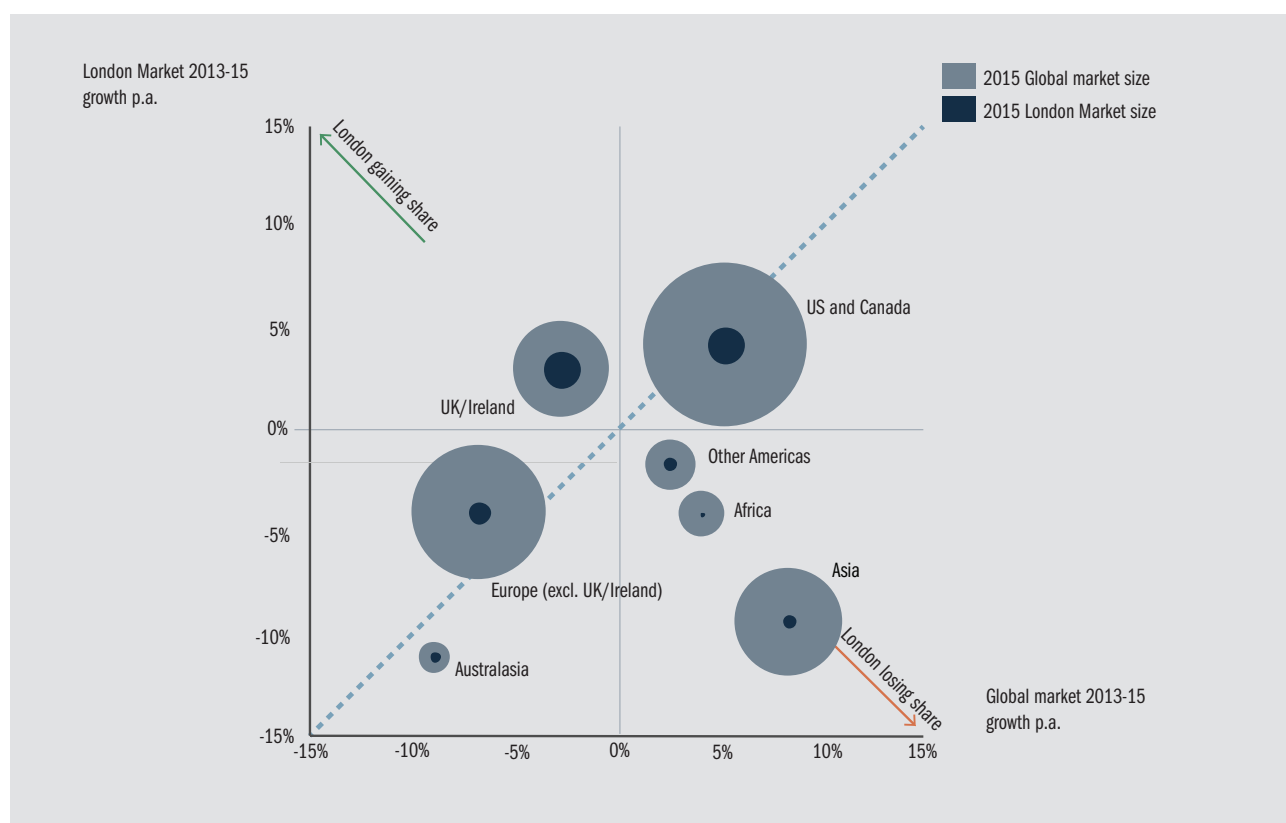
London's strong growth in UK and North America (+2.7% p.a. 2013-15) was driven by two factors:

- Strong growth in Lloyd's coverholder premiums in the UK and North America (+12% and +13% p.a., respectively)

- Relatively strong GDP growth in the US and UK (+2.5% and +2.6% p.a. growth in real GDP 2013-15, respectively).

1. Since the 2014 *London Matters* report the reporting currency for market sizing and analyses has been switched from GB pounds to US dollars and SME premiums have been included in the global market estimates and London Market figures (see note on methodology, p16)

Figure 2: London Market's relative growth by region (2013-15)



### London continues to perform well in the traditional P&C and specialty lines

London has increased its share of global specialty markets (Marine, Energy and Aviation) from 38.0% to 40.2% by outperforming the declining global market. The Market also grew strongly in the traditional property and casualty classes, holding its share of the global market.

### Developing new products

A small but fast growing niche within the Casualty class was cyber insurance (approximately ~\$700m in gross written premiums in London in 2015). The London Market is estimated to have grown cyber premiums by 74% p.a. 2013-15, re-emphasising London's ability to develop products for emerging specialty risks. The global market for cyber insurance is estimated at \$2.5bn in 2015, with London playing a key role in the development of this market.

### London remains a big contributor to the UK economy

The London Market employs 35,000 people in London and a further 17,000 elsewhere in the UK. The Market's direct contribution to the UK economy is estimated at 0.9% of GDP in 2015, accounting for 26% of the contribution of 'the City'.

### Emerging markets activity declines

London premiums from emerging markets declined from \$10.5bn in 2013 to \$9.3bn in 2015. This is likely driven by a combination of the following factors.

- As *London Matters 2014* demonstrated, insurance buyers have a preference to buy locally and the growing capital bases and capability of local carriers is making this increasingly possible. Given most of the growth from emerging markets is still likely to be in less complex risks, a substantial part of this growth can be catered for in local markets
- However, more complex risks do increasingly originate in emerging markets. The decline in London's premiums from emerging markets indicates a combination of lack of appetite on the part of London Market players for such risks and/or a lack of ability to compete.

The London Market has to consider whether shorter-term considerations of profitability outweigh the longer-term opportunity to establish a strong presence in the parts of the world that are likely to drive future growth.

Figure 3: Global and London Market premiums by Class of Business (2013-15)

Class of Business	Global market			London Market						
	2015 GWP (\$bn)	2013-15 growth p.a.		GWP (\$bn) and share (%)				2013-15 growth p.a.	Change in London share (2013-15)	
				2013		2015				
Reinsurance <sup>1</sup>		1.2%		21.8	13.4%	20.5	12.3%	-3.0%		
Casualty		2.1%		10.3	4.6%	11.7	5.0%	6.7%		
Property		-0.9%		11.6	6.4%	12.3	6.9%	2.8%		
Other <sup>2</sup>		0.8%		4.0	2.3%	4.5	2.6%	5.6%		
Motor		3.3%		2.8	1.8%	2.5	1.5%	-5.6%		
Marine <sup>3</sup>		-5.4%		8.8	31.0%	8.4	33.3%	-2.4%		
Energy <sup>3</sup>		-9.9%		4.9	50.1%	4.1	52.1%	-8.2%		
Aviation <sup>3</sup>		-8.7%		2.8	52.8%	2.6	60.0%	-2.7%		

1. Includes treaty and facultative reinsurance for all Classes of Business, except for Marine, Energy and Aviation where only treaty reinsurance included  
2. Accident & health, contingency, surety 3. Includes both insurance and facultative reinsurance

### Reinsurance share continues to fall

London's share of global reinsurance premiums has declined from 13.4% to 12.3% 2013-15, continuing the trend reported in the 2014 *London Matters* which showed a 15% share in 2010. This decline was underpinned by a number of factors.

- Increased competition, e.g., from emerging market reinsurers; markets with lower cost of capital and expense; and jurisdictions that have actively supported the growth of alternative capital
- Challenges capturing share in some higher growth areas due to protectionist trade policies in some emerging markets and a lack of appetite.

### Increasing the diversity of talent remains a challenge

Attracting staff from diverse backgrounds appears to remain a struggle for the London Market. Despite the proportion of women in the workforce remaining in line with the UK average, the proportion of women in executive director roles has only increased from 3% to 5%. This remains low in comparison with the FTSE 100 average of 21%.

Around 11% of London Market employees are non-UK nationals, slightly higher than the 9.5% of non-UK nationals represented in the overall UK workforce. However, this remains lower in comparison with other financial services sectors such as investment banking.

### Conclusion

The areas of concern highlighted in the 2014 report remain and the overall market context has not changed significantly. The tough market conditions continue and London is still facing challenges in reinsurance and emerging markets. Yet London performs well in markets where its brand is well established and understood.

In 2014, *London Matters* asked a number of questions designed to drive dialogue with market participants and find the right answers to address the challenges highlighted in the report. These centred around:

- **development** – encouraging product innovation and entrepreneurialism
- **competitiveness** – enhancing the ease of doing business, lowering costs and improving services
- **reach** – what is London offering and how can it best participate in high growth markets.

Those questions formed the backbone of the LMG's four workstreams – and the progress made in each of them so far is outlined in the next section. As London seeks to address the threats it faces and maximise its opportunities, this report reinforces the importance of delivering on those initiatives to grow and modernise the Market.



## 2 Our response to the original *London Matters* report

## Building a better business environment



### The challenge identified in 2014

London's reputation for innovation is not as strong as it once was.

### Our customers tell us



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

*European Risk Manager*



### The questions we asked?

How can London encourage product innovation and entrepreneurialism?

### The Market's response

Creating a better business environment – working with government so that the London Market is able to respond to new client demands and existing and emerging risks.

### What have we delivered so far?

#### *Prioritised new products*

We are working closely with the government to deliver on its commitment to bring insurance-linked securities (ILS) business to London. Consultation papers have been published by HM Treasury, Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) setting out a possible approach to tax, regulation and conduct. We expect that the legislation will be in place in 2017 so that London can compete efficiently with other ILS hubs.

#### *Promoted trade relations*

The LMG has worked across government departments to promote the Market and its prominent role in the global industry. Our work includes the creation of a joint working group between HM Treasury, Department for International Development and LMG to develop the idea of a foreign aid catastrophe bond. This creative proposal was the subject of a white paper at a Parliamentary roundtable. We have also developed an LMG/UKTI brochure for all UK embassies to promote the London Market.

#### *Published a roadmap for Brexit*

After the referendum in June 2016, the LMG commenced work with HM Treasury, trade and business officials and ministers to support the negotiations. LMG became the principal lobbying voice for the London Market and developed a roadmap outlining recommendations to the UK Government in the trade negotiations. This highlights the need for: regulatory equivalence with the EU; continued rights to undertake cross border activity; and an implementation period to avoid a cliff edge on the day the UK leaves the EU.

## Making London an easier place to do business



### The challenge identified in 2014

London's expense ratios are significantly higher than its peers, driven by higher acquisition and transactional costs, putting it at a disadvantage for more price-sensitive risks.

### Our customers tell us



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*



### The questions we asked?

How can we make it easier to do business in London?

### The Market's response

Making London an easier, more cost-effective place to do business - by making it highly accessible, efficiently run and relevant to the needs of our customers.

### What have we delivered so far?

#### *Placing Platform Limited (PPL) to deliver efficient, accessible placement of risk*

PPL allows risks to be negotiated and placed both face to face and electronically, removing paper from the process and creating a digital information flow and audit trail. The platform went live in July 2016 and stand-alone Terrorism, Financial and Professional Lines and Marine risks are now being traded. PPL has agreed a roadmap to extend to the other classes of business by the middle of 2018.

#### *Central Services Refresh Programme (CSRP) to move funds more efficiently through the system*

Transaction accounting will be simplified and standardised meaning brokers can use the same systems for London as other markets. The system is now live for electronic premiums and claims submissions into the XIS Bureau. In addition, an online portal has been launched to widen access for more brokers.

#### *Delegated Authority (DA) to make London capacity more attractive for coverholders*

Audit and compliance will be streamlined and standardised, and data collected only once - creating consistency and simplicity for all parties. Centralisation eliminated 1,500 coverholder audits in 2016. The DA audit management system, which automates and simplifies the whole audit process, went live in early 2017.

#### *Data – creating digital data to eliminate re-keying and duplication*

The completion of a successful structured data capture pilot to convert information from a number of sources into a universally acceptable message to enable straight-through processing. A new ACORD message standard was launched to enable firms to share data simply and accurately.

#### *London Market Innovation Exchange*

The creation of a cross market forum, with representatives of carriers, brokers and Market bodies, that is identifying, trialling and communicating the potential for new technologies such as blockchain and smart contracts to improve how we operate.

## Telling the London Market story



### The challenge identified in 2014

Customers have a preference for buying insurance in their local market where capacity and expertise is increasingly available.

### Our customers tell us



I see an increasing amount of my risk being written in regional centres of expertise. They have a better understanding of our specific risk exposures.

*Asian Risk Manager*



### The questions we asked?

What is London offering to its customers, carriers and brokers?

### The Market's response

Telling the London Market story – to provide our buyers with a clear case for coming here to purchase our product and services.

### What have we delivered so far?

#### *Understood current perceptions*

Developed and commissioned a robust qualitative study to: challenge the image the London Market has of itself with global audiences; understand the London Market's role in the future insurance marketplace; and identify and understand the drivers and barriers to placing business here.

#### *Listened to our stakeholders*

Completed a brand strategy investigation into the London Market value proposition with: risk managers; overseas brokers; and insurers in the UK, US, Latin America and Asia. This provided us with important insights to develop a more compelling rationale to promote the London Market.

#### *Developed a proposition*

The research brought out ten clear outcomes which informed the development of a description of the London Market and what it offers:

*Only London can seamlessly bring together the breadth of expertise and depth of resource needed to address the universe of risks that decision makers must take to be agile and succeed.*

## Building a diverse, dynamic workforce

### The challenge identified in 2014

The unique ecosystem in London helps to develop exceptional technical expertise and experience - this talent must be effectively managed to make sure the Market is fit to face the future.



### Our customers tell us



The drivers of people using local markets is rather simple things like local knowledge, language capability and cultural differences.

*European Risk Manager*



### The questions we asked?

What talent is required to encourage growth and modernisation and how can London attract it?

### The Market's response

Building a diverse, dynamic workforce – which offers a deep talent base for the Market to draw on.

### What have we delivered so far?

#### *Identified the talent challenges*

The LMG commissioned and published a study into skills gaps in the London Market highlighting:

- an under-investment in the development of the next generation of leaders,
- longer term skills gaps in operations and wordings and short term in underwriting and claims.
- a failure to seek talent outside the London Market as a priority; and
- significant issues around diversity.

#### *Promoted working in the London Market as a career option*

As well as participating in events to talk about market careers to students, the LMG launched an Instagram and Facebook page (@londoninsurancelife) to recruit a new generation of diverse talent by bringing the Market to life. Featuring 'people posts' from the working lives of people in a number of different roles, it also details entry level job opportunities and intern schemes.

#### *Leading on the levy*

The apprenticeship levy was implemented in April 2017. According to the Chartered Insurance Institute (CII), 50% of the market organisations still don't know how they are going to use the levy. The LMG has led events and communications to get up to date on the opportunities and challenges.



### 3 Fact Base

## 3 Fact Base

This fact base goes into further detail about the Market in 2015 and the development of the trends since 2013. The quantitative update has been complemented with insights gained from interviews with Market participants.

### 3.1 Global market growth 2013-15 and development of London's share

The combined global market for commercial insurance and reinsurance grew at a 0.9% per annum (p.a.), from \$940bn in gross written premium in 2013 to \$957bn in 2015. This change was the result of \$13bn growth in commercial insurance premiums and \$4bn growth in reinsurance premiums.

Geographically the bulk of the growth came from North America (\$29.7bn growth 2013-15, 4.6% p.a.) and Asia (\$23.8bn, 8.7%). Other Americas (\$2.5bn, 2.6%) and Africa (\$2.1bn, 3.8%) grew steadily, while all other regions declined.

#### Size and development of the London Market in the global context

Summing 'Core London Market' and 'managed business' premiums, the London Market was worth an estimated \$91.3bn in gross written premium in 2015, of which \$24.6bn was 'managed business' marketed through, but not written in, London. Between 2013 and 2015, Core London Market premiums were broadly flat, decreasing marginally from \$67.1bn to \$66.7bn, representing a decline of 0.3% per annum. This was the net result of a \$1bn increase in commercial insurance premiums (1.0% p.a.) being offset by \$1.3bn decline in reinsurance premiums (-3.0% p.a.). The 2014 *London Matters* report showed a 5% p.a. growth in London Market commercial insurance premiums and a 1% p.a. growth in reinsurance 2010-13 (in GB pound terms).

Accordingly, London's share of relevant global premiums declined marginally from 7.1% to 7.0%. Its share in commercial insurance remained steady at 5.8%, while reinsurance fell from 13.4% to 12.3%.

In 2014 London Market premiums grew in commercial insurance and were flat in reinsurance, whilst in the following year premiums declined in both commercial insurance and reinsurance. A substantial proportion of London Market premiums are transacted in currencies other than the US dollar. In 2015 the US dollar appreciated strongly against most major currencies. As a result, the decline in 2015 can largely be attributed to the impact of exchange rate movements.

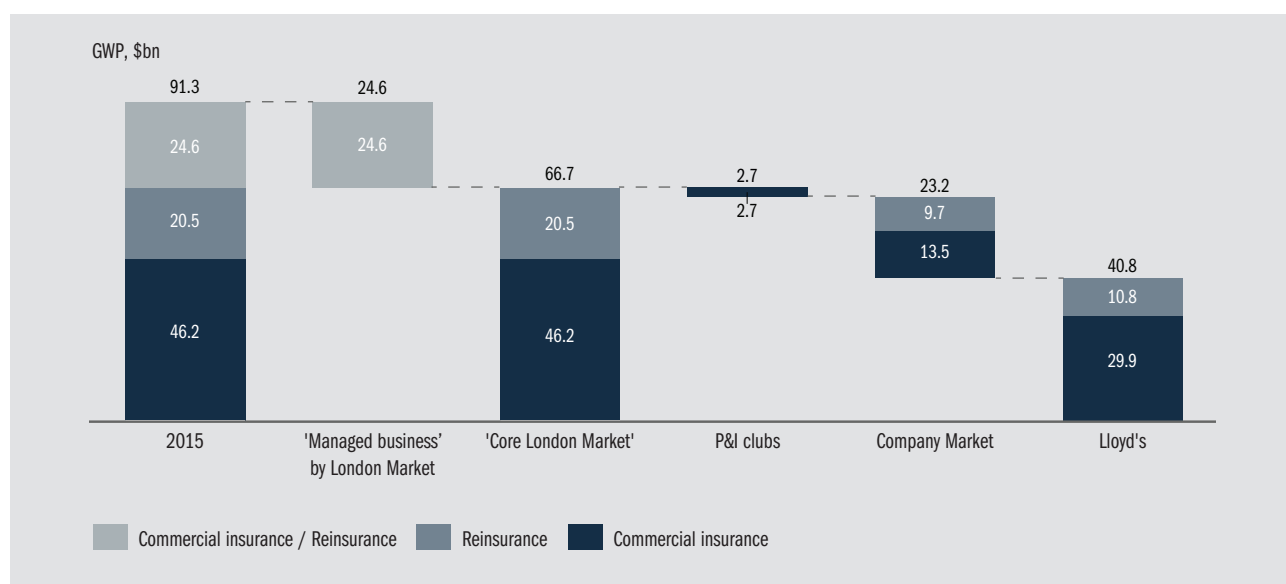
#### Market participants' share of London Market premiums 2013-15

In 2015, 60% of Core London Market premiums were underwritten at Lloyd's (\$40.8bn), 36% by the Company Market (\$23.2bn) and 4% by the P&I clubs (\$2.7bn). Between 2013 and 2015, Lloyd's and the P&I clubs' premiums grew modestly (by \$0.8bn and \$0.1bn respectively); Company Market premiums declined by \$1.2bn.

These patterns in premiums are partly attributable to the geographical mixes of the different groups. Lloyd's transacted 69% of premiums in US dollars, whereas the Company Market is estimated to transact approximately 45% in US dollars. This implies that the 2015 appreciation of the dollar had a more significant negative impact on Company Market volumes (when reported in US dollars).

The appreciation of the dollar also impacted 'managed business.' This declined slightly from \$24.9bn in 2013 to \$24.6bn in 2015 (-0.5% p.a.), despite growing slightly in GB pound terms (0.6% p.a.).

Figure 4: Breakdown of London Market business (2015)



## A note on methodology

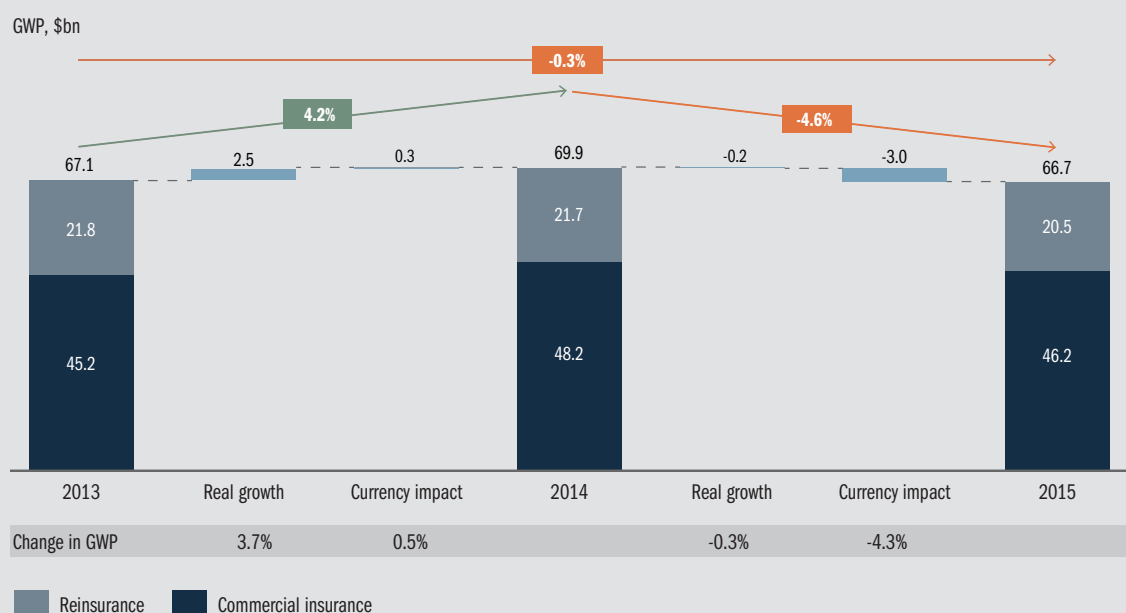
### London Market sizing reported in US dollars

Since the 2014 *London Matters* report the reporting currency for market sizing and analyses has been switched from GB pounds to US dollars. This was driven by three main considerations:

1. London is a global market and the key comparators for the London Market's performance are reported in US dollars
2. The majority (estimated at more than 60%) of London Market premiums are written in US dollars (based on Xchanging data on Lloyd's and estimations based on IUA data)
3. Fluctuations in the US dollar to GB pound exchange rate therefore introduce significant 'noise' into the analysis that is substantially reduced by reporting in US dollars.

During 2014-15 the US dollar appreciated against most major currencies. Sizing the Market in US dollars therefore decreases the reported growth of the London Market between 2014 and 2015.

Figure 5: Real growth and currency impact on the London Market (2013-15)



### Commercial insurance market share

In the 2014 *London Matters* report an estimate for the size of global SME premiums was excluded from the global market estimate to focus the comparison on larger commercial business. In this edition of the report SME premiums have been included in the global market estimates (and London Market estimates) to reflect that London participates in SME business. This has resulted in a lower London share of global commercial insurance market (5.8% in 2013 and 2015) compared with the figure published in the 2014 *London Matters* (10% in 2013).

### London Market data restatements

There have been two significant restatements to the source data for this report since the publication of the 2014 *London Matters* report:

1. The IUA restated its Company Market premiums data for 2013 and previous years to address a double-counting issue
2. Lloyd's restated its premiums data for 2013 and previous years due to a move to exclude Special Purpose Arrangements (SPAs) premiums from reported premiums.

## 3.2 Growth in global market premiums by Class of Business and development of London's share

Global market growth was driven largely by casualty (2.1% p.a.) and motor (3.3%). Property (-0.9%) was the only large class that showed a marginal decline. Each of the traditional specialty classes, marine (-5.4%), energy (-9.9%) and aviation (-8.7%), decreased in size, but on much smaller premium bases.

Comparing the performance of the global market with the performance of the London Market we see some clear patterns. Interviews conducted with brokers and underwriters specialising in each of these classes of business identified a number of hypotheses to explain the relative performance of London.

### Property and Casualty

- London outgrew the global market in **property** and **casualty**, increasing share in property from 6.4% to 6.9% and in casualty from 4.6% to 5.0%
- The change in the trend for casualty seems to have been driven by growth in US non-marine liability business (21% p.a.) and cyber (74% p.a.). In addition, "other" business has grown at 5.6% p.a. between 2013-15, primarily in surety and pecuniary loss business at Lloyd's (13% p.a. 2013-15)

- This growth in share would appear to be underpinned by two trends in relation to London's traditional core regions
  - Strong growth in London Market MGA/coverholder premiums in the UK and North America – in particular in US casualty risks
  - Underwriters' willingness and ability to respond quickly to expand capacity in post-loss environments, such as after Superstorm Sandy.

### Specialty

- London managed to increase its already high share in the declining specialty markets, increasing in **marine** from 31.0% to 33.0%, in **energy** from 50.1% to 52.1% and in **aviation** from 52.8% to 60.0%. In these specialty markets pricing pressure continues and profitability is increasingly a challenge
- This share increase appears driven by London's continuing appetite for these risks. It is further supported by the limited risk appetite shown by emerging market insurers for entering most specialist markets (offshore energy, aviation).

Figure 6: London Market's relative growth by Class of Business (2013-15)

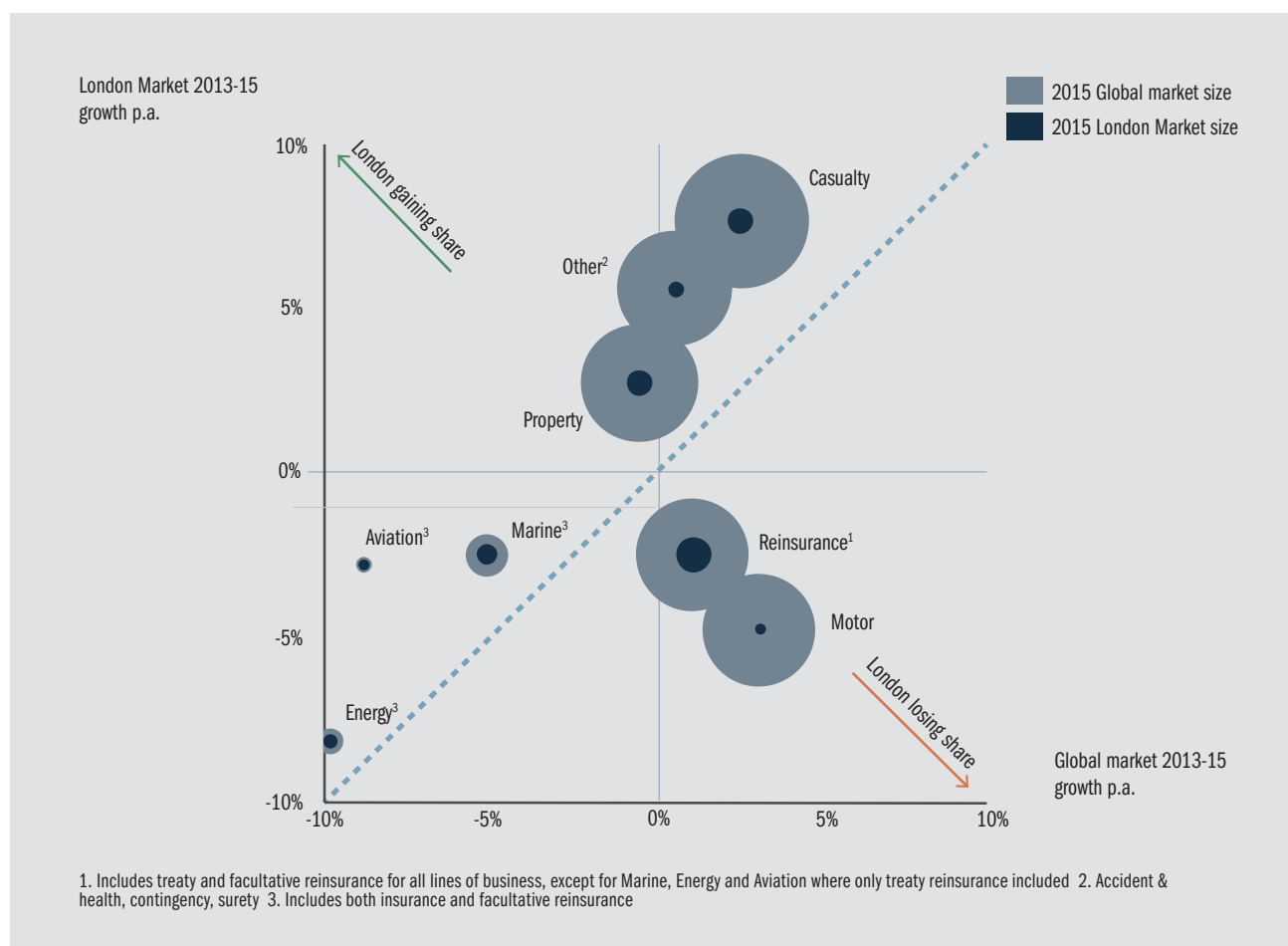
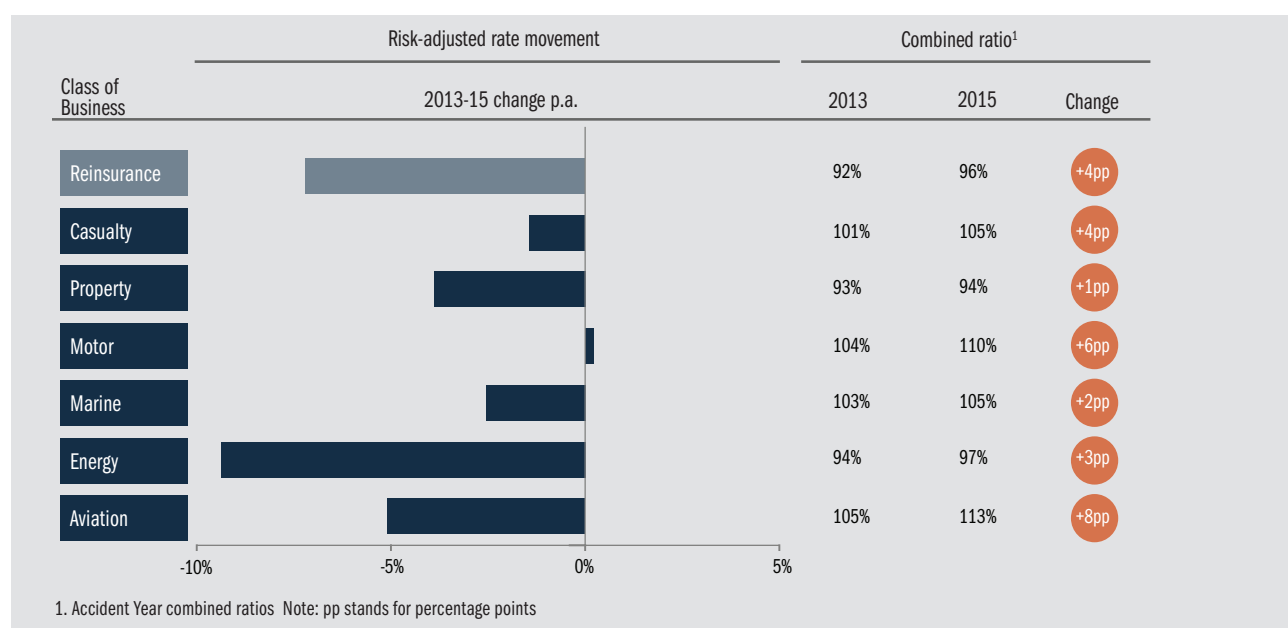


Figure 7: Lloyd's market rate changes and combined ratios by Class of Business (2013-15)



## Reinsurance

- **Reinsurance** has fallen to less than 31% of premiums of the London Market in 2015 from 35% in 2010. London's decline (-3.0% p.a.) was not mirrored in the global market, which grew by 1.2% p.a. This meant that London's share of the global reinsurance market declined from 13.4% in 2013 to 12.3% in 2015. The global reinsurance growth occurred despite an estimated 7.2% p.a. fall in pricing over the period
- This decline in reinsurance share appears to be underpinned by more structural factors:
  - Increasing competition as global reinsurers are joined by emerging market reinsurers and other niche reinsurance operators
  - Protectionist trade policies in a number of countries still restrict London's access to fast-growing emerging markets
  - Regulatory regimes have supported the growth of alternative capital such as in Bermuda
  - The London Market is by nature not set up to compete for large structured reinsurance deals and is not well placed to compete with global operators for growing markets in mortality/longevity risk
  - Competitive market has intensified the advantage of carriers with the lowest cost of capital and expenses, putting London reinsurers at a disadvantage.

Figure 8: London Market premium growth by Class of Business (2013-15)

Class of Business	Lloyd's			Company Market <sup>4</sup>			London Market		
	2013	2015	Growth p.a.	2013	2015	Growth p.a.	2013	2015	Growth p.a.
Reinsurance <sup>1</sup>	11.5	10.8	-3.1%	10.3	9.7	-2.9%	21.8	20.5	-3.0%
Casualty	6.2	7.4	9.3%	4.0	4.2	2.6%	10.3	11.7	6.7%
Property	8.1	8.7	3.6%	3.5	3.6	1.0%	11.6	12.3	2.8%
Other <sup>2</sup>	2.9	3.3	6.5%	1.1	1.2	3.2%	4.0	4.5	5.6%
Motor	1.9	1.7	-3.9%	0.9	0.8	-9.1%	2.8	2.5	-5.6%
Marine <sup>3</sup>	4.2	4.1	-0.9%	4.6	4.2	-3.8%	8.8	8.4	-2.4%
Energy <sup>3</sup>	3.7	3.1	-7.9%	1.3	1.0	-9.0%	4.9	4.1	-8.2%
Aviation <sup>3</sup>	1.5	1.5	0.1%	1.3	1.1	-6.2%	2.8	2.6	-2.7%
TOTAL	40.0	40.8	0.9%	27.0	25.9	-2.1%	67.1	66.7	-0.3%

1. Includes treaty and facultative reinsurance for all Classes of Business, except for Marine, Energy and Aviation where only treaty reinsurance included  
 2. Accident & health, contingency, surety 3. Includes both insurance and facultative reinsurance 4. Including P&I clubs

31% of total (Reinsurance)  
 69% of total (Other classes)

Some patterns within the London Market stand out, with casualty growth being driven by a strong performance within Lloyd's, and declines in the Company Market within marine, energy, aviation and motor. There is some debate within the Market as to whether the relatively more severe declines within the Company Market represent a loss of market competitiveness or deliberate decisions to reduce volumes in a challenging pricing environment.

### 3.3 Growth in Core London Market premiums by location of insured

Growth in the London Market has been driven by the territories where London is traditionally strong. The London Market grew premiums in the UK & Ireland by 1.8% p.a. 2013-15 and in the US & Canada by 3.7% p.a. These two regions between them represent more than two thirds of London Market premiums.

This growth has been offset by clear declines in all other regions, which have been exacerbated by the depreciation of currencies versus the dollar in 2015.

Two reasons are most commonly cited to explain growth in London's established, mature markets:

- Relatively strong **GDP growth** in the US and UK (+2.5% and +2.6% p.a. growth in real GDP 2013-15, respectively)
- Strong growth in London Market **MGA/coverholder** premiums in the UK and North America (+12% and +13% p.a., respectively).

The significance of the MGA/coverholder distribution channel has traditionally been a key feature of the London Market. The strong upturn in MGA premiums in North America and the UK was an important source of growth during this period. The growth in premium between 2013 and 2015 from an increasing number of coverholders operating at Lloyd's has been a key factor in this trend.

Figure 9: Growth of Lloyd's coverholder premiums (2013-15)

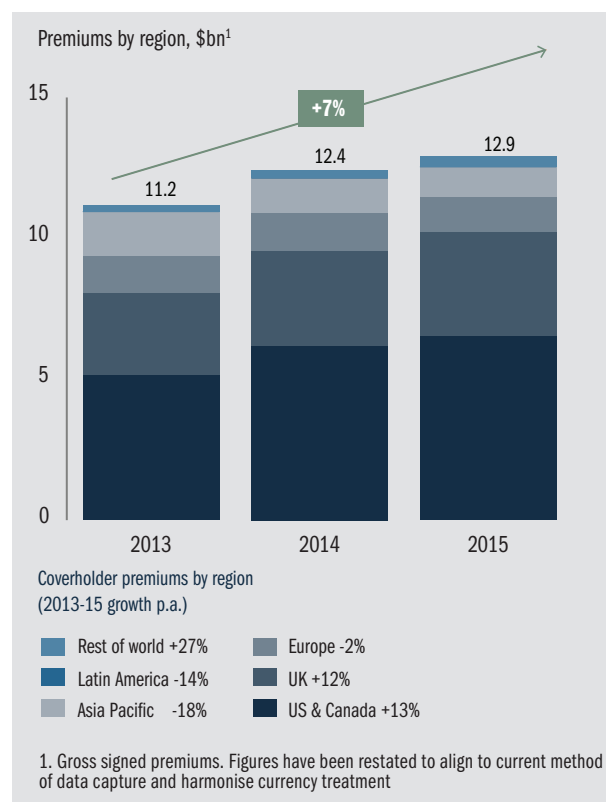


Figure 10: London Market premium growth by location of insured (2013-15)

Insured location	Lloyd's			Company Market <sup>2</sup>			London Market		
	2013	2015	Growth p.a.	2013	2015	Growth p.a.	2013	2015	Growth p.a.
UK & Ireland	6.8	7.6	5.4%	15.2	15.3	0.1%	22.1	22.9	1.8%
US & Canada	17.6	19.2	4.5%	3.3	3.3	-0.3%	20.9	22.5	3.7%
Europe <sup>1</sup>	6.1	5.5	-5.3%	4.3	4.1	-2.9%	10.4	9.6	-4.3%
Australasia	2.7	2.2	-10.3%	0.5	0.3	-17.2%	3.2	2.5	-11.3%
Asia	3.1	2.8	-5.1%	2.1	1.5	-15.6%	5.2	4.3	-9.3%
Other Americas	3.2	3.0	-2.0%	1.1	1.0	-3.1%	4.2	4.0	-2.3%
Africa	0.6	0.6	-4.9%	0.5	0.4	-5.4%	1.1	1.0	-5.1%
<b>TOTAL</b>	<b>40.0</b>	<b>40.8</b>	<b>0.9%</b>	<b>27.0</b>	<b>25.9</b>	<b>-2.1%</b>	<b>67.1</b>	<b>66.7</b>	<b>-0.3%</b>

1. Excluding UK & Ireland 2. Including P&I clubs

86% of total (UK & Canada)  
14% of total (Other regions)

## Performance in emerging markets

In contrast, London has seen absolute declines in all emerging markets, leading to clear reductions in already small market shares in Asia (decline from 3.9% to 2.7%) and Africa (3.9% to 3.3%), and an erosion of London's foothold in Other Americas (8.9% to 8.1%). This difference between London's performance in mature versus emerging markets is in line with the findings reported in the 2014 *London Matters*. Asia remains the highest growth market, but was also the region in which London lost ground the most between 2013 and 2015.

London Market's divergent performance in different regions has also resulted in a decline in the proportion of overall premiums originating from emerging markets. This has fallen from 16% in 2013 to 14% in 2015.

The following reasons for London's poor performance in emerging markets were most commonly cited in our interviews with Market experts.

### Market conditions

- The London Market brand does not resonate in emerging markets
- Limited demand for London's more specialist capabilities as insurance needs remain relatively less sophisticated
- Brokers seeking to place business locally in line with client wishes.

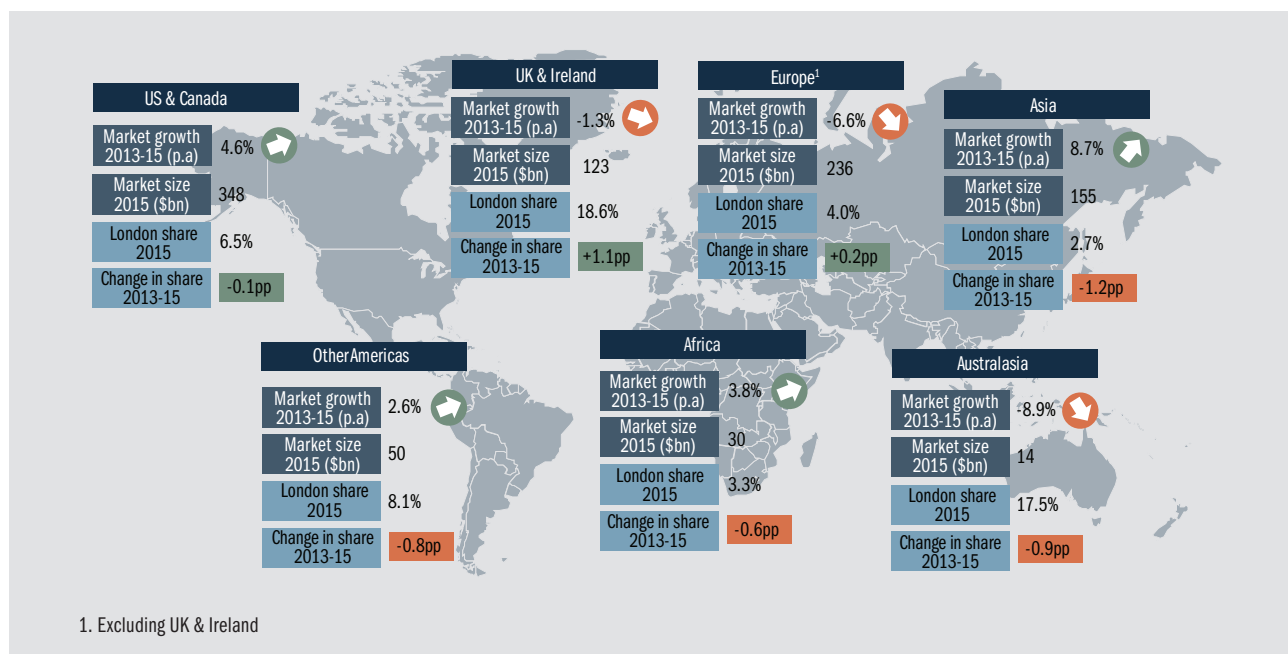
## Moves by local/global carriers

- Development of locally financed (re)insurers capturing growth from emerging markets at the expense of London Market and global carriers
- Emergence of broader risk appetites and capabilities from local insurers and brokers
- London offices of global carriers avoiding competition with their growing local insurance networks.

## Moves by London Market firms

- A conscious decision by London Market firms not to write emerging market business that is outside of appetite or seen as low margin
- London Market underwriters' limited understanding of some of the emerging markets, particularly the risk and regulatory environments
- A concern, especially for some liability classes, that there is not yet adequate precedent in how courts will rule in certain claims situations
- Dependency on a limited number of underwriters and the associated costs for setting up underwriting desks in Singapore which is reducing the appeal of significant expansion in Asia.

Figure 11: London's growth versus global growth by geography (2013-15)



## Specialist capabilities in risk assessment and solution structuring

To meet client need, insurance markets co-ordinate two complementary capabilities: risk assessment and solution structuring. To find optimal mitigation and risk transfer for the world's largest and most complex risks requires a specialist insurance market with deep expertise in both of these capabilities.

- **Risk assessment** prices and underwrites the risk based on the sources, predictors and mitigants of loss for particular clients and perils
- **Solution structuring** designs the optimal vehicle to transfer and spread the risk among providers of capital. This includes the distribution route to bring the risk to the market and the vehicle for matching the capital to the risk.

The long-term success of the London Market will require continued excellence in both of these dimensions. As detailed in this fact base, London has a substantial lead in most specialty classes and has shown to have capabilities to tackle emerging risks such as cyber. These strong positions are underpinned by London's unique ecosystem of expert brokers, underwriters, risk engineers and professional services firms. As such we see no strong evidence that London's lead will be eroded in the short to medium term. Whilst the volume of London Market premiums in 2015 is broadly the same since 2013, London has proven to be adaptable and has embraced the full range of alternative capital flowing in to the global insurance sector.

When it comes to **solution structuring** the required capabilities can be divided into three specialisms where London has or is developing expertise on a similar level to its expertise in risk assessment.

### Syndicating traditional insurance capital

Syndication of risks across multiple carriers, who in turn are backed by a variety of capital sources, remains a key feature of the London Market. With coverholders continuing to be a major avenue for flow of business into Lloyd's (approximately 1/3 of Lloyd's premium) and the growing number of coverholders (20% annual growth 2013-2015) the value of London's broad base of carriers who are happy to pool risks will remain a key strength for London.

### Sourcing and accommodating alternative capital

London Market insurers are increasingly creating partnerships with specialist investment firms. One particular route is the Lloyd's Special Purpose Arrangement (SPA). Syndicates operating under this structure have grown from providing a quota share of 0.7% of the Lloyd's market in 2010 to a quota share of 3.0% in 2015.

Figure 12: Examples of Investment and Underwriting partnerships



Insurance-linked securities (ILS) is another risk-transfer mechanism that offers an opportunity for London. At the time of going to press, new legislation to support ILS is being progressed by HM Treasury. Already much of the broking expertise required to structure ILS deals is resident in London.

We believe demand for alternative structures is likely to increase. To establish a leading position the London Market needs to continue to find innovations that best match capital with risk.

### Packaging similar risks

There is the well publicised emergence of facilities aimed at reducing some of the Market's frictional costs. Initially formed around portfolios of simple and similar risks, delivering better client value, but facilities are increasingly extending to larger specialty lines risks. This can both reduce the relatively high costs of trading these risks, and allow packages of risks previously too small for London to be made available to carriers in the London Market.

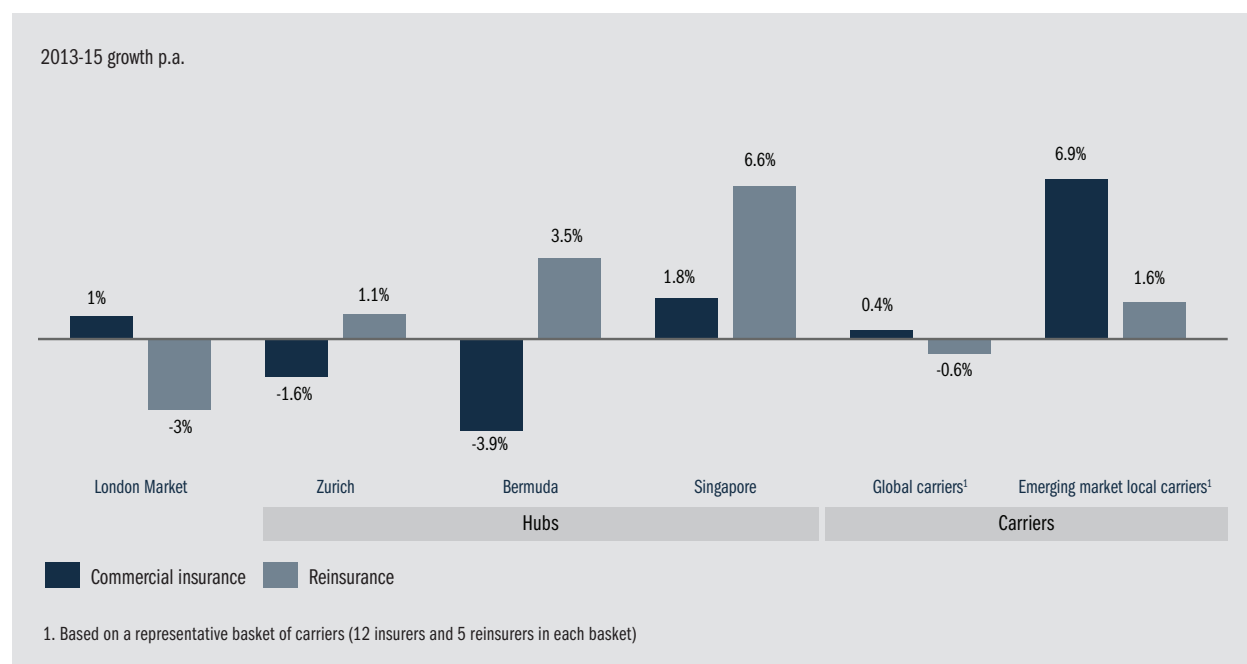
### 3.4 The relative fortunes of insurance hubs and global carriers

The London Market's \$66.7bn of written premiums in 2015 makes it the largest global centre for insurance risk. Bermuda is a leading global hub for reinsurance with an estimated \$39.2bn of commercial insurance and reinsurance premium. Zurich and Singapore, other notable insurance hubs, also play a role in the global commercial insurance and reinsurance industry, accounting for \$31.2bn and \$8.2bn of total premiums, respectively.

Like the London Market, growth in the more mature hubs of Zurich and Bermuda has been relatively flat over the same period (0.6% and 1.0% p.a., respectively). Singapore has been the fastest growing hub with an annual growth of 4.0% between 2013 and 2015, mirroring the higher market growth in the Asian region.

Similarly, emerging market local carriers have been able to capture most of the growth emanating from their regions, on average growing premiums by 6.9% in commercial insurance and 1.6% in reinsurance between 2013 and 2015. Over the same period, global carriers have remained largely flat, with a slight increase in commercial insurance premiums and a slight decrease in reinsurance premiums.

Figure 13: Growth of London Market, hubs and global/emerging market carriers (2013-15)



### 3.5 The importance of the London Market to the UK economy

Beyond the value of its risk management services for its clients, the London Market delivers additional direct and indirect benefits to the UK economy. Repeating the analysis from the 2014 *London Matters*, we have focused on two aspects of the London Market's contribution to the UK economy: employment and gross domestic product (GDP).

#### Employment

In 2015, London Market participants employed an estimated 35,000 people (full-time equivalents) in London, and another 17,000 elsewhere in the UK. This represents 13% of those employed in 'the City', and 1% of financial services and related professional services employees outside of London. As would be expected, 'London Market' employment is heavily skewed towards London (68% of the total), and the South East (16% of the total), but substantial employment is dependent on the London Market in the North, Midlands and East Anglia as well.

Figure 14: Geographic distribution of London Market employees in the UK (2015)

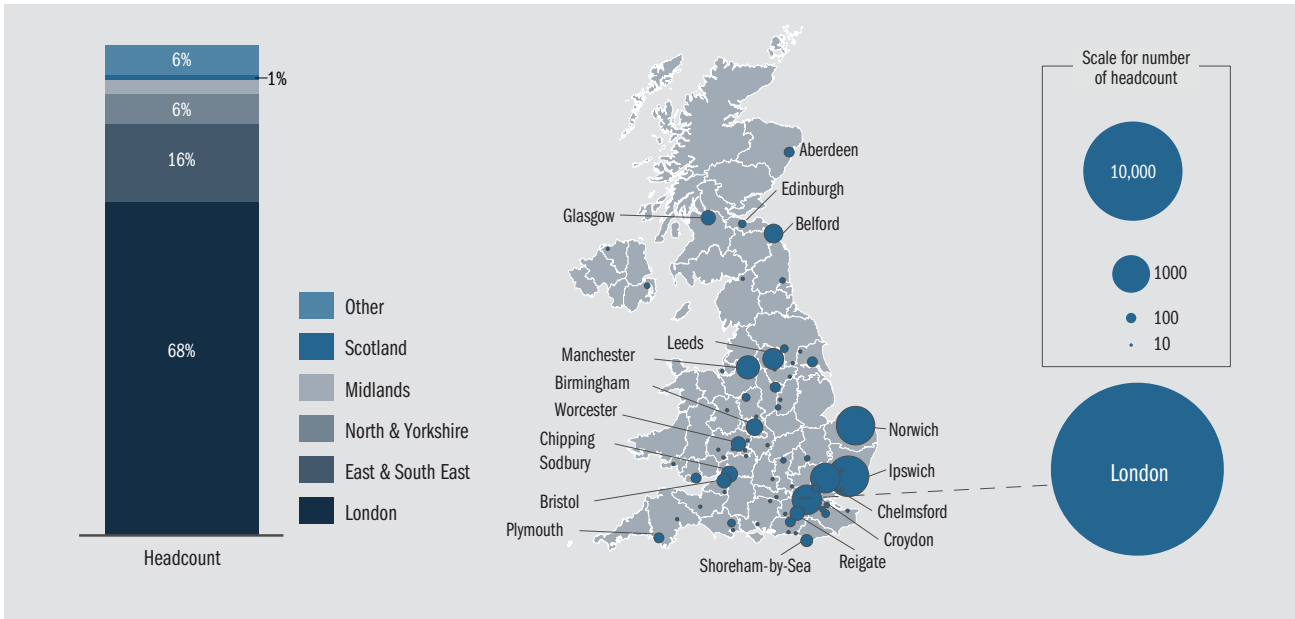
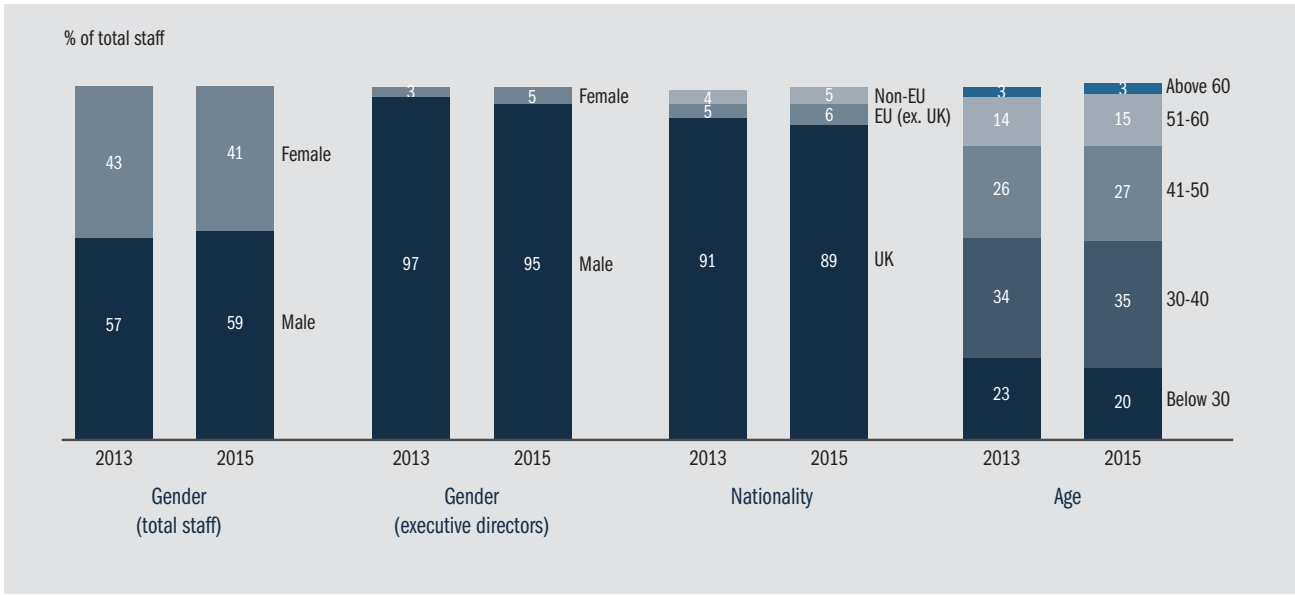


Figure 15: Diversity of London Market workforce



41% of the London Market's employees are women, in line with the UK average. However, only 5% of executive directors are women, compared with 21%, on average, at FTSE 100 companies. Around 11% of the London Market employees are non-UK nationals, slightly higher than the 9.5% of non-UK nationals represented in the overall UK workforce. This includes 6% of the London Market workforce who are EU nationals.

This proportion remains lower in comparison with other financial services sectors such as M&A and investment banking. 36% of employees within this sector are non-UK nationals, including 28% who are EU nationals.

Since the 2014 *London Matters* report, there seems to have been little change in staff diversity, with some of the key metrics remaining relatively stable:

- the proportion of employees that are women changing from 43% (2013) to 41% (2015)
- the proportion of women in executive directors changing from 3% (2013) to 5% (2015)
- the share of non-UK nationals changing from 8% (2013) to 11% (2015).

## GDP

### Direct GDP contribution

The direct economic contribution of risk carriers and intermediaries is as follows.

- The London Market's estimated direct contribution to UK GDP in 2015 was £17.1bn, which represents ~13% of the total UK financial services sector's direct GDP contribution

- This compares to an estimated contribution of £16.5bn in 2013, accounting for ~12% of the total UK financial services sector's direct GDP contribution<sup>1</sup>
- Market activities in London alone account for an estimated £11.8bn, representing ~26% of the direct GDP contribution of 'the City' (£11.2bn and ~26% respectively in 2013<sup>1</sup>).

### Indirect GDP contribution

Adding the economic contribution of affiliate professional services (e.g., actuarial, consulting firms, lawyers, etc.) produces the following.

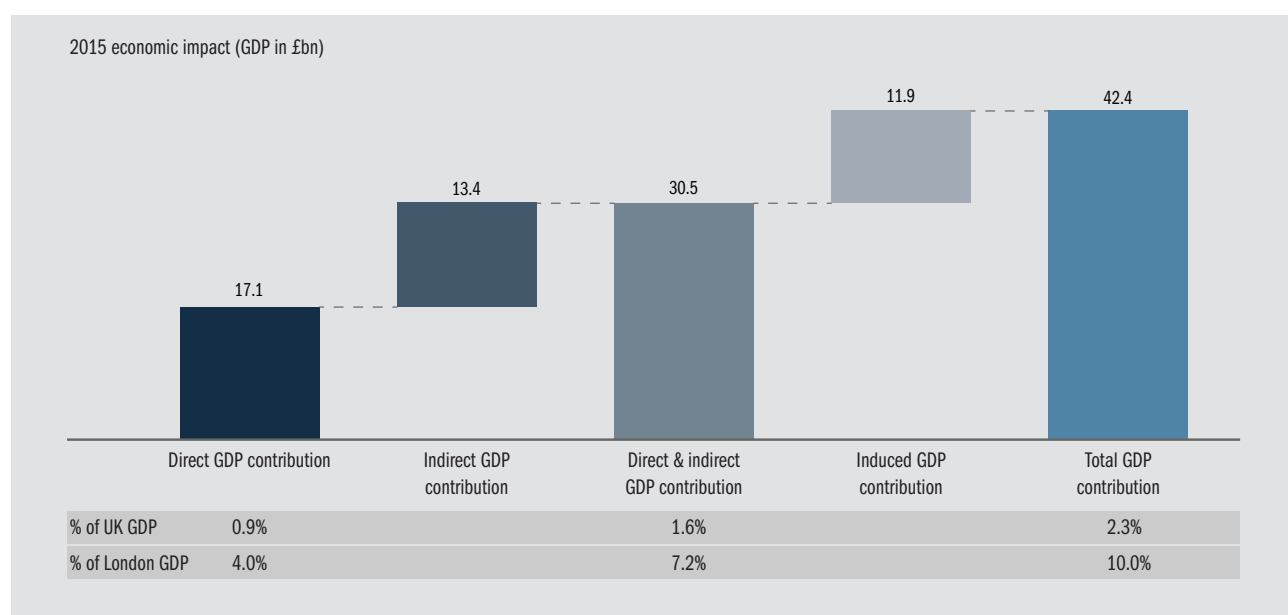
- Including indirect benefits, the London Market's contribution to UK GDP rises to an estimated £30.5bn, representing ~1.6% of total UK GDP and ~7.2% of London GDP in 2015
- In 2013, this was estimated to be £29.5bn accounting for ~1.7% of UK GDP and ~8.2% of London GDP<sup>1</sup>.

### Induced GDP contribution

The wider economic contribution driven by insurance activities (e.g., purchasing behaviour of London Market employees etc.).

- Including the induced effect, the overall GDP contribution of the London Market rises to an estimated £42.4bn in 2015, representing ~2.3% of total UK GDP and ~10.0% of London GDP
- The equivalent figure in 2013 was estimated at £41.0bn, accounting for ~2.4% of total UK GDP and ~11.4% of London GDP<sup>1</sup>.

Figure 16: London Market direct, indirect and induced GDP contribution



1. 2013 figure has been restated due to GDP and GVA restatements by the ONS; please see Appendix for details



# Appendix

# Appendix

## Defining the London Market

In *London Matters*, the London Market Group (LMG) and its member associations derived the definition of the London Market from a simple principle describing the behaviour of Market participants: “London Market participants write globally mobile risk which local markets cannot easily accommodate”

From this was derived the scope of London Market premiums: “All business that ‘touches’ London in its function as a global commercial and specialty (re)insurance hub.”

We have maintained these definitions in this update to *London Matters*, and continue to split London Market premiums into two, separately sized layers:

1. **‘Core London Market’**: London Market specialty commercial insurance and reinsurance business, backed by London capital
2. **‘Managed business’**: Other business marketed through/controlled by London Market participants.

The London Market ecosystem that these premium flows support extends to a wide range of affiliate professional services, including claims handlers and adjusters, actuarial consultants, asset managers, accountants, lawyers, IT service/ outsourcing providers and other ancillary services to the insurance sector. Further detail of business comprising each layer may be found in the 2014 *London Matters* report.

Business written in Lloyd’s hubs in Singapore, Dubai and elsewhere is also included in the Lloyd’s figures.

## Class of Business definition

Classes of Business include commercial insurance only, while treaty and facultative reinsurance is grouped under ‘reinsurance’. For ‘marine’, ‘energy’ and ‘aviation’, commercial insurance and facultative reinsurance are grouped together as these business types share the same underlying risk characteristics. More detailed Class of Business definitions can be found in the 2014 *London Matters* report.

## Notes on methodology

### Employment survey sampling methodology

London Market employment figures have been estimated based on a survey of Market participants in three groups: London Market brokers, Lloyd’s managing agents and Company Market (re)insurers. The survey used in this report was conducted in Q4 2016 and featured questions that were identical to the survey conducted for the 2014 *London Matters*.

Two methods of sampling the survey respondents were used in the analyses. The sampling method to be used was determined based on a consideration of the most accurate portrayal of the 2013-15 trends.

- Sample of respondents that were in both the 2014 and 2016 surveys: Used in all employment and GDP contribution estimates
- Full sample of all respondents in 2016 survey: Used in the estimated mapping of London Market employees across the UK.

### Global reinsurance market size restatement

In 2016, A.M. Best restated its global reinsurance market NWP estimate, impacting the data years from 2013 onwards. As a result, our 2013 global reinsurance market GWP estimate is now \$163bn. In the 2014 *London Matters* this was estimated to be \$183bn (£117bn). Due to restatements by Lloyd’s and the IUA (see note on methodology, p16), the impact of the reinsurance GWP restatement on London’s share is only marginal.

### GDP and GVA restatements

Since the publication of the 2014 *London Matters* report, there have been significant restatements by the ONS to data on GDP and GVA (Gross Value Added) by sector. The impact of these restatements is a ~20% higher figure for the London Market’s contribution to UK GDP in 2013 (as an absolute number). However, the contribution as a percentage of UK GDP remains consistent.

### Sources used

#### London Market sizing

- Lloyd’s: Lloyd’s market statistics
- Company Market: IUA’s ‘London Company Market Statistics Report’, International Union of Marine Insurance (IUMI)
- P&I clubs: Tysers ‘P&I Report’, AJG ‘Commercial P&I Market Review’
- Currency impact analysis: Xchanging

#### Global market sizing

- Global commercial market: Swiss Re
- Global reinsurance market: A.M. Best
- Global sizes by Class of Business: AXCO, IUMI, Willis Towers Watson, Swiss Re, Aon
- Global sizes by region: AXCO, A.M. Best, Association of British Insurers, Bermuda Monetary Authority, Monetary Authority of Singapore

#### London Market’s employment and economic contribution

- LMG survey with sample managing agents, Company Market participants and brokers
- Office for National Statistics

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## Notes

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