

THE INSURANCE *Insider*

In association with



LONDON MARKET ROUNDTABLE 2011

AUTUMN 2011



London calling...

The City's role in global (re)insurance

Insight and Intelligence from *The Insurance Insider*



WEALTH YESTERDAY TODAY TOMORROW

How do you get off to the start of a wealth management business? Wealth Management is thriving in Qatar. From its wealth management foundation and investment research base, the QFC is creating value for its investors and clients. It will build a strong base for the new QFC Wealth Management, combining a lot of people, a lot of capital, leading investment research, business, and a lot of experience into one of Qatar's latest treasures. www.qfc.com.qa

BUSINESS ENERGY



Qatar
FINANCIAL CENTRE

Editor

Mark Geoghegan
mark@insuranceinsider.com

Features Editor

Gavin Bradshaw
gavin.bradshaw@
insuranceinsider.com

North American Editor

David Bull
david@insuranceinsider.com

Head of Marketing

Amber Bates
amber@insuranceinsider.com

Sales Director

Spencer Halladey
spencer@insuranceinsider.com

Sales Executives

Rob Hughes
rob@insuranceinsider.com

**Sales Executive,
Subscriptions & Events**

Annie Lightholder
annie@insuranceinsider.com

Senior Marketing Executive

Aimee Pitt
aimee@insuranceinsider.com

Events Manager

Jessica Stacey
jessica@insuranceinsider.com

Art Director

Paul Sargent
paul@insuranceinsider.com

Production Editor

Peter Williams
peterw@insuranceinsider.com

Sub-Editor

Ewan Harwood
ewan@insuranceinsider.com

Publishing Editor

Rebecca Bole
rebecca@insuranceinsider.com

Managing Director

Peter Hastie
peter@insuranceinsider.com

Published by:

Insider Publishing Ltd,
Asia House, 31-33 Lime St,
London EC3M 7HT, UK.
Tel Main: +44 (0)20 7397 0615
Editorial: +44 (0)20 7397 0618
Subscriptions: +44 (0)20 7397 0619
Fax: +44 (0)20 7397 0616
e-mail: info@insuranceinsider.com
2011 Insider Publishing Ltd.
All rights reserved.

“And what do you do?”

It is sometimes surprising how philosophical discussions can become, often at times when it is least expected.

And so it was when an erudite crop of industry rainmakers gathered atop London’s “Gherkin” in midsummer for our London Market Roundtable.

It is often quite when you question the seemingly obvious that you realise only how few things really are self-evident when placed under the harsh microscope of rigorous enquiry.

“What is London for?” was one particular question that arose in the course of debate.

Given the many decades of London market industry experience gathered around the table, one would have thought that such a question would be batted away in the blink of an eye. Yet it wasn’t.

In fact, the question of how London should define and project itself on the global stage unleashed a lasting debate that failed to raise anything approaching a consensus.

Many still see London as a place where business that is difficult to write or difficult to complete should find a home.

This vision sees distribution as a means of continuing to physically bring business into London.

But others think of “London” more as a global brand and font of intellectual capital that can be exported around the globe. This means opening up local physical outposts and hubs, as well as sending out talent and training and empowering local underwriters on the ground.

Such is the nature of global risk that it is probably possible for both visions to still be valid. What also emerged was the idea that if you want to serve and profit from the global insurance trends of the next 20 years, there is no set prescriptive model.

London is, of course, a broker market, and the differences between the more corporate large brokers and the more entrepreneurial smaller ones was also discussed at length.

However, one view at least hasn’t changed.

The familiar consensus that emerged from our discussion was that brokers of all hues should be getting out more to scour the world for profitable new business opportunities.

As one delegate put it, brokers have always tended to be a little “instant coffee” about how they go about business; often preferring to chase down the easy wins rather than put in the hard slog, major air miles and long hours to develop business in hard-to-reach places.

But having scoured the globe, into which version of London will brokers choose to place their business, if they choose either version at all?

It is clear we could all be doing a lot more – and answering that old party ice-breaker “what do you do?” can be often so much more enlightening than it first seems...

Read on.

Mark Geoghegan
Editor,
The Insurance Insider

ROUNDTABLE PARTICIPANTS



Christopher Hancock
Active underwriter
Syndicate 1919,
Starr Underwriting
Agents Ltd



Mark Geoghegan
Editor,
The Insurance Insider



Shashank Srivastava
Acting CEO and
chief strategic
development
officer, Qatar
Financial Centre
Authority



Mark Hardinge
Founding Partner,
LEC3



Michael Wade
Chairman,
Besso International



Stephen May
Group CEO,
Kane Global Ltd



Tim Fillingham
Chief operating
officer,
Torus



Vikram Prahbu
Director, Special
Projects Strategic
Development

The London market roundtable 2011

Mark Geoghegan

Let's kick off with a warm-up question – the old chestnut of the cycle. How is London performing? How do you think we're doing this time, in terms of not repeating the mistakes of the past?

Christopher Hancock

The way I see the market is like a crême brulee – it's very hard on the top but very soft underneath. There's a lot of talk about the hard market now. Underwriters want to see rises in rates to improve their profitability, but it isn't going to happen, there's too much capacity. I trade in Lloyd's and Lloyd's has got a lot of capacity and outside there is a lot of capacity. People want to change but it's not happening.

Mark Geoghegan

Tim, you've come from both sides of the fence. With your underwriting hat on, is that what you're seeing?

Tim Fillingham

Broadly, I concur with both Tony and Chris's comments. I suppose we're at a stage now that, with the events of Q1 and Q2, there is a lot of conversation about what might have happened in the near term, but fundamentally there is too much capacity.

It's all about who blinks first. We're either just seeing no withdrawal or there is very limited withdrawal of capacity from the various sectors of the marketplace.

Mark Geoghegan

Michael and Mark, as brokers, are you optimistic?

Mark Hardinge

It's very important to stress that from a client perspective there's nothing wrong with this market. There's surplus capacity out there in virtually every line of insurance, so that puts pressure on rates, raises client expectations of competitive choices being delivered and puts broker revenues under pressure too. And as you can see, the outcome of that has been to go after the compensation from the insurers rather than from the clients.

It's a very interesting time for the London market. We seem to be the "go to" destination of choice – once again – for more challenging risks, be that due to country of origin, the complexity of cover required, or often both.

Michael Wade

I agree that not a lot has changed over that 30-year period. When you think of the changes that have occurred in the outside world, it's extraordinary. But there hasn't been a lot of change in our industry due to globalisation. It's still back to surplus capacity specialist classes and event-driven reactions. And that's where we are still, isn't it?

Stephen May

I think at the moment, people are still not fully acknowledging the reality of the situation. When you read about market capacity, the total reinsurance capability, and the amount of capital deployed in the world, relative to everything else, it seems an incredibly small amount of money. Everybody keeps telling me there's so much capacity, but I'm not sure that's the case – particularly if we accept that the regulators should and will require much higher levels of solvency moving forward.

There is also much talk about how the crisis has hit the banking community much harder than the insurance market, because insurers were so much better prepared for it. I'm not sure that's actually true. I think most of the time we're a nanosecond away from a problem in the insurance market. For example, consider the impact of Katrina – if it had hit a different town or city in the US, it would have effectively wiped out the reinsurance market. Also, look at the earthquake in Japan – if insurance penetration had been higher, it would have been a much more significant problem for the market.

The fact is that current penetration

"Lloyd's is a fabulous franchise, but it's interesting that all the major players have vehicles outside. And while they have that ability, it puts pressure on Lloyd's to entertain new entrants"

Tim Fillingham

levels are very low in a number of these places. We therefore need to spend more time focusing on ensuring that the market's overall capital base is at an adequate level.

In Monte Carlo last year there were a number of reinsurers saying that increased solvency requirements are going to severely damage the industry. If you are a large, well-run reinsurance company you are much more likely to remain relatively unaffected by regulators' efforts to increase solvency levels than the smaller, less well-run companies. For the larger companies, it will just be the price of doing business.

Shashank Srivastava

That's an interesting point. I was in Zurich recently at the international reinsurance summit and somebody put up a really interesting statistic that said in Germany, for instance, the banking industry has an exposure to European debt of about \$600bn. Part of that, \$400bn, has been sold off to the insurers, so they are actually holding a significant portion of that debt, which is why they very quietly went along with all the plans for keeping the Greek economy afloat. That brings out the same point that Stephen has mentioned – when we talk about solvency, it's not about solvency as such, it's about the viability of insurers.

Mark Geoghegan

I think that has got us warmed up. There are quite a lot of people trying to enter Lloyd's at the moment. Should the Lloyd's market be open to new entrants?

Mark Hardinge

It would be wonderful if we could see new, smaller underwriting enterprises coming in, people turning business opportunities round quickly, going on client calls, doing all the things that the more mature of us would view as traditional Lloyd's roles, rather than just sitting there and waiting for the business to turn up.

Tim Fillingham

Lloyd's is a fabulous franchise, and of course people want to come in and join the club. But it's interesting that all the major syndicates in Lloyd's have insurance vehicles outside. And while they have that ability, it's always going to put pressure on Lloyd's to entertain new entrants. In my view, they certainly should do, but as a new entrant you have to bring something to the table.

Christopher Hancock

They seem to be saying "no" to the new entrants, actually. We were a new entrant five years ago, so Starr are no longer seen as new, but I see no issue with having new competitors in Lloyd's at all.

Lloyd's has got a lot of tools to control what goes on in terms of business planning processes, pricing and rating environments. So they can see a lot of what's going on, and they will react to that.

What I think Lloyd's don't want to see is pass-the-parcel with insurance packages going from one syndicate to another for a 5

percent discount. That makes absolutely no sense whatsoever. So they're trying to ask entrants: what can you bring that's new to the marketplace?

Michael Wade

As a principle, new entrants to Lloyd's must be the lifeblood of the subscription market. So I think the pushback, all the time, by Lloyd's generally on any new entrant is very disappointing.

As it happens, the subject we're touching on is a much broader one: what is Lloyd's going to be like in 10 or 20 years' time? If it doesn't encourage that new lifeblood, it will be dead in the water.

And the question is, how does it do that? If you take Ryan Specialty, with the purchase of Jubilee, this is absolutely how it should be. But gosh, the resistance they've had on that one from Lloyd's is so short-sighted.

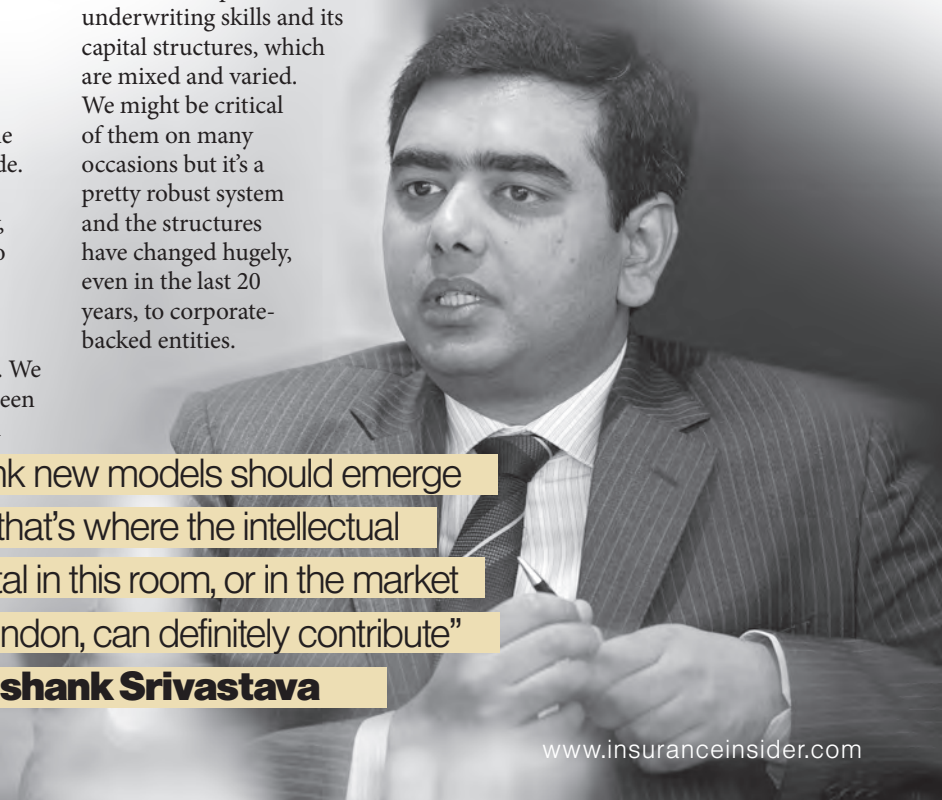
But I think the really interesting twist in all of this is if the big underwriting entities are able to set up in Bermuda or Zurich – and that's not wrong for them as a company – and buy distribution, then it can't be wrong for Lloyd's brokers to acquire the underwriting capacity.

Mark Geoghegan

That has neatly brought us into distribution. Lloyd's business is obviously dominated by the "big three" brokers. Is there a risk that encouraging a wider distribution base may mean standards drop in the marketplace?

Michael Wade

I think the frustration around the market among brokers of all sizes, and underwriting entities, is we don't seem to be having the debate about what Lloyd's is all about. Because, as we were just agreeing, I think, it's a fantastic place, with its underwriting skills and its capital structures, which are mixed and varied. We might be critical of them on many occasions but it's a pretty robust system and the structures have changed hugely, even in the last 20 years, to corporate-backed entities.



"I think new models should emerge and that's where the intellectual capital in this room, or in the market in London, can definitely contribute"

Shashank Srivastava

It's almost impossible for individual traders, as members of Lloyd's now, to back new entities because Lloyd's are blocking it. And they're blocking it in the wrong way. They're saying, for example, a broker can't establish its own syndicate. It's got to have no more than 20 percent or 25 percent of the business, which is utter nonsense. It's just not thought through. Where they need to start, as they did in the 1980s, is by thinking, well, where are the conflicts of interest? Where's the transparency? Where's the quality of the underwriting?

And if you tick those boxes, in not too literal a way, then you begin to ask the real questions; not whether X percent comes from one or the other.

And then you've got the vehicle that can be backed by private equity capital, if you call members of Lloyd's private equity capital. But we're not encouraging that and I think that will be to the detriment of the subscription market if it continues.

Lloyd's is all about the subscription market. Kill that and you're down to 10 entities. So there's a big challenge ahead I think.

Mark Geoghegan

Mark, you just started a broker – are you barking mad or have you spotted an opportunity?

Mark Hardinge

Well I think there's a kind of interesting construct: say 75 percent of the business going into Lloyd's is [sold] by three or four brokers. And at the receiving end, there are probably half a dozen manufacturers making stuff for those brokers to sell to their clients. We need to inject as much entrepreneurial spirit and deal-making capability into this model as possible.

That is probably where Lloyd's should start with its strategic thinking: how do we change the landscape?

Stephen May

I'm afraid everybody in this room is currently a pawn in the game. The distribution

process at the moment very much favours the big broker.

At present, risk doesn't come into London unless somebody in Chicago or New York has said that part of it can be placed into the London market.

Lloyd's should be a place where liquidity in the market is created. So, if there's a risk out there that can't be fully placed somewhere else in the world, you should be able to come to Lloyd's.

Equally, if you are a Lloyd's syndicate, you cannot simply say that you are going to stop writing a particular line of business for a quarter or a year simply because you don't think that the market will turn.

You've been given a mandate and you've got to write that business. We've bought the reinsurance now and we've got the cost base. We've already worked out where we're going to invest the premiums that you're going to write.

The problem that we face in terms of the supply and demand equation is that it takes so long to turn it around – it's like trying to change the direction of a super tanker. You can't just stop writing that business.

Mark Hardinge

But there's plenty of opportunity out there for a nimble entrepreneurial broker, if he's prepared to go and find it.

Tim Fillingham

I'd take a slightly different view to that, having worked for a big broker. I'll argue that – broader than Lloyd's – from the London market perspective the differentiation that London brings is actually around the talent and the people that exist here. The big brokers are now starting to earn so much more of their revenue from consultancy practises and many of these other areas are actually not now driven by pure brokerage off the back of deal making. Actually, I think, smaller, nimbler players are very active in the marketplace.

Torus, as a company, has only been going for three years and of course the big brokers are core components of what we do. But there's a significant list of other distributors that have found specialty niches that we really like.

Shashank Srivastava

If I look at the emerging markets, particularly in our part of the world, I don't think even the brokers have access to all the business. The fact is that if you talk about companies, corporates and individuals who have a need for insurance, then you've got the underwriters, and you've got brokers or agents sitting in between. The fact is that the marketplace should be bringing them as close as possible.

However, in our part of the world, that part in the middle is not that developed. We don't have that many brokers. In Qatar, the brokers set up a couple of years ago and they are still making inroads, so the market's still out there. I wouldn't be surprised if clients are massively underinsured, and whatever insurance they have is probably the wrong kind.

So nobody is out there, the brokers have not got all of the business and there's a huge big marketplace out there that needs to be developed. But who's going to do it? Is it the brokers? Is it going to be underwriters?

“What is Lloyd's going to be like in 10 or 20 years' time? If it doesn't encourage new lifeblood, it will be dead in the water”

Michael Wade

Michael Wade

Can I ask, you said that the London market wasn't responding to Qatar, but can you describe further where you think the London market isn't responding efficiently to your specific area?

Shashank Srivastava

It's not responded in terms of sending in enough talent. It's an emerging market and all the structures are still being put into place.

We have an economy that this year in Qatar is going to grow at 20 percent plus after inflation. How much insurance is there? The penetration rate is 0.8 percent. So: the highest growth per capita on the planet and what's the insurance density? Nothing.

So there is a market out there and we know that the Indians and the Chinese companies are moving in. We know that the European companies are moving in. At the end of the day, it's a free market.

Mark Hardinge

I think you're absolutely right, it's about energy and application. And on my travels, I see a lot of that going on from London in that part of the world. A lot of the big brokers are service agents for multinational clients and the good old fashioned selling and marketing, treading the boards, is what needs to happen. To pick up on your point, I think by GDP, the local average penetration is about 1.7 percent and the global average is 7 percent. So the growth opportunities are enormous, we've just got to get on the plane and go there.

Stephen May

You've got to have an operation on the ground. In my opinion, Lloyd's should be authorising, not working through a local company that may be very poorly run. There needs to be an operation on the ground with a mandate to operate on behalf of a Lloyd's syndicate – there has to be intellectual capital on site that understands both the local market and the international market. Simply sitting behind one or two big local suppliers is ridiculous, in my opinion.

Tim Fillingham

Interestingly, in Singapore, where there's been a big push certainly by syndicates to appear there, I think that the stats might show something like a third of the business they write is actually Middle Eastern business. They write it from Singapore entities. So whether that is a pre-cursor to them moving into the region, I don't know. They talked quite recently about the fact that Lloyd's hasn't done that yet and whether it's going to happen.

Shashank Srivastava

They've been thinking about it for a long time.

Stephen May

But it should be done. It should be done at the syndicate level and not at the corporation level. It should be a syndicate stating that it wants to write

business, wants to consolidate the business it already has, or wants to write some more.

Michael Wade

It comes to your point that it needs to be market-driven not Lloyd's-driven, which is merely the regulatory capital structure. And is the Singapore model the one to go for? Or is it the Chinese model, which of course is an extraordinary structure, or is it just laissez faire?

Should we just let the market find its own way to the distribution channels, which has its advantage as well, or is it all of those things?

I don't think the notion of having Lloyd's set up a platform in a given country is the way to do it, because it is the market that matters – the distribution, the underwriting skills, which Lloyd's corporations by definition don't have.

Shashank Srivastava

I agree. Clearly there were conversations held with Lloyd's but the fact of the matter is from [QFC Authority's] perspective, we look at it as development of the market. The risks have to be insured. Financial services are there but there is banking or insurance or asset management to support the real economy. The real economy is growing in leaps and bounds. Qatar is going to be the second-largest economy in the Middle East by the end of this decade, after Saudi Arabia. We are the financial services industry centre and, frankly, people who are moving in now are the ones who are going to make huge dividends.

And in terms of business models – the Singapore model, the London model, the Chinese model – I don't think any of that really matters in a place growing at that level. I think new models should emerge and that's where the intellectual capital in this room, or in the market in London, can definitely contribute.

Christopher Hancock

There was a lot of discussion two years ago with Lloyd's. We said to them that we wouldn't go forward on the Lloyd's platform in the Middle East because we'd like to do it ourselves – as and when we feel

“The regulators should and will require much higher amounts of solvency because, actually, I don't think insurance companies are quite as clever as some of them think they are”

Stephen May

the time is right. Since we've started, we've seen a lot of good Middle Eastern business, the large-size business that comes through the London brokers, and we've seen what we want to see.

My intelligence has told me that the smaller and middle-size business in the Middle East is very competitive and that doesn't make for a very compelling reason for setting up on the ground – because you can't survive just by moving the big risks from your London operation to your Middle Eastern office. You need to have breadth of business and I couldn't see that opportunity.

Mark Geoghegan

What about regulatory changes in the region? Is there a move to retain more business locally, or to not reinsure as much?

Shashank Srivastava

Well yes, Saudi for instance, has mandated from a regulatory perspective that 30 percent of the insurance premiums should be retained there. What we also see is new lines of business that don't happen right now, so health insurance or other kinds of business.

I remember looking at the balance sheets of a number of insurance companies in the region. On the investment side, for instance, I have seen insurance companies with one line on the investment portfolio, real estate.

Clearly, the regulators are not going to countenance that sort of investment. So, as the pressures build on these insurance companies to clean up, partly on the underwriting but also on the investment side, that's going to drive them to do a better job.

Mark Geoghegan

Would people rather be dealing with something more sophisticated, larger entities, or keep it as it is for the smaller guys that need to buy a lot of reinsurance? How does it work for London?

Tim Fillingham

In some ways it depends on the sort of business you want to see. Especially the companies, there's an awful lot of business

that does come out of the Middle East region, certainly with the construction boom we saw, and the oil, gas and energy business. And it found natural homes in London and around the world.

Certainly, there hasn't been a problem seeing the business. I suppose going back to the point I made earlier, why would you set up a platform in that part of the world if you don't need to?

Shashank Srivastava

That goes back to our original point, which is, is the London market seeing all the business?

Mark Hardinge

What I'm hearing loud and clear is it's the sales and marketing challenge that's not being met. It's not about manufacturing. And that's music to my ears.

Mark Geoghegan

What do you think are the best territories and classes to be in within the Middle East at the moment? If you had to be in one place, if you only had one chance, where would you go?

Stephen May

What we've found is that in each state or kingdom it is a different situation.

Qatar has got a very, very big appetite and is ambitious about its future plans. It's going to be very interesting to see how the market will respond to that. In my opinion, Qatar will become one of the centres of excellence and will attract the intellectual capital that they're looking for – although this will take a little time. I would add, however, that it can take longer to get things done in the region than you might expect – this is very much part of the culture. While it will get done, it will take perhaps twice as long as you had originally anticipated, or even longer.

The UAE is also in a rather unique situation – Dubai is very much a hub for international business and has excellent transport links, which means it will always be an important regional centre. Abu Dhabi, however, is increasingly interesting because it is now developing its own financial centre, which means it too would be a good place to be located physically. With Bahrain, the domestic and regional markets offer good long-term prospects, however the current political situation has slowed down progress in the centre.

Michael Wade

What's the role of the London market?

Stephen May

In my view, the London market needs to work more closely with the region. This gets back to my earlier point. I think people locally need to be given a mandate to write business and I think Lloyd's as a franchise, and the London market as an environment, would do itself so many favours if it actually placed capacity locally and empowered it.

Michael Wade

But we're talking about the non-standard business, and where London is very good is assessing unusual risks. It's not

"We need to inject as much entrepreneurial spirit and deal-making capability into this model as possible"

Mark Hardinge

particularly useful in just providing capacity for the US cat market.

Shashank Srivastava

London has the best intellectual capital in the insurance business, the longest amount of history, great amounts of experience in developing new markets, new lines of business and all the rest of it. The market is there, you guys just need to be there.

Tim Fillingham

Don't the brokers do that? Not to the level that perhaps is needed, but certainly the major brokers are out there. They have representative offices. I agree more work can be done, there's no question about that. There's a great opportunity in the region.

Mark Hardinge

I suspect some brokers have a tendency to be a bit "instant coffee" when it comes to strategic sales planning. If it looks like it will take a while to get stuff done then maybe they move onto the next opportunity.

Shashank Srivastava

I would have loved to have some larger brokers here, this would be a very interesting conversation. How much business development have you done, really? I see the insurance companies that have set up going ahead and making a much better job of it.

And actually I see the regional insurance companies, for instance there's a company called SEIB Co which is a QFC-licensed firm. And they've done a phenomenal job of opening up the market.

My point is that clearly the intellectual capital and the knowhow that you have in London is far more developed – I would say we do a huge amount of favours to the market in terms of developing it and getting it to that level of sophistication.

Michael Wade

But is it a partner or a competitor? That's the question. Is London [looking at] a diverging Middle East structure as a competitor? I don't know how you feel, but that's a fundamental.

Shashank Srivastava

I don't see it as a competitor. Given the size of the economy, the Middle East as such is now in the top 20 economies on the planet. I think it's a big enough place for business to grow. I see it as complementary rather than competitive. I think there's so much work to be done that by the time you get to a position where you really start talking about competition it'll be a few decades away, I think.

Michael Wade

I'm happy to be corrected on this, but the model should be that the expertise is available via distribution but the business is written in London. That should be how Lloyd's would want it to be.

Shashank Srivastava

That's how London would want it to be but the Middle East doesn't want it like that anymore.

Michael Wade

Exactly, that's what I was trying to say. Are we in a competitive position or not? It sounds like we might be.

Shashank Srivastava

On the face of it I think it sounds competitive, but I don't think it is because the market is yet to be developed. The pricing structure that you would put into place, the way you would look at the market, that risk assessment that you would have sitting here or sitting in continental Europe, is very different to the ground reality. And that's where the real competition lies, because you would have the regional players and the Chinese and the Indians, obviously. But players that understand the risks much better can offer very different pricing, can structure the products for the clients in a much better way, rather doing it from a distance.


Christopher Hancock

I think that the challenge for the Middle East is that Singapore has established itself as a very, very strong market. Additionally, business emanating from the East towards London actually stops off in Singapore now before coming to London.

Michael Wade

Yes, exactly. There's a lot of Middle Eastern business but is there enough to really plant a flag down there and to stop the Middle Eastern business gravitating towards London? My view is probably not at the moment. I think in time there will be this sophisticated market you're talking about.

Lloyd's Asia in Singapore is probably 10 years old, something like that. And it's only now that's



"We were a new entrant five years ago, so we're probably part of the club now, but I see no issue with having new competitors in Lloyd's at all"

Christopher Hancock

it really established. But the Asian market was already very well developed. If you plant your flag, in 10 years' time it'll definitely be very strong.

Shashank Srivastava

It's a chicken and egg thing in my opinion. Unless you have been putting the flags down there, the market will not get developed. And then you would never come to a situation where you would say that the market is a significant size where we can have an operation. So somebody has got to make that move.

Mark Geoghegan

Let's shift focus. There's been quite a lot of M&A activity in the London market, especially with smaller players.

And there's a lot of private equity involvement for the first time. Is that changing the dynamic? How do you see the market at the moment?

It seems that many years ago it was a \$200mn club, then it was a \$500mn club, a billion dollar club and now it's a \$3bn club. There is a sense now that Lloyd's underwriters of a certain size seem to be sub-optimal. Do you agree?

Christopher Hancock

I think the regulations are not helping. Solvency II is eating up an awful amount of time and an awful amount of money. It's going to cost Lloyd's agents and managing agents approaching £50mn.

So if you're a modest or small size, that's a big part of the pill to swallow. You don't have the actuarial support, you don't have the ability to build your own internal model, you've got to go externally, and that's even more expensive.

SII could make it more difficult for small and medium size companies to trade effectively. And I don't know whether that's a good thing or a bad thing. I think it's probably a bad thing.

Michael Wade

The equivalent to Solvency II on the broking side is the new regulatory framework, including the new bribery laws. I think the regulatory burden for brokers, particularly smaller brokers, is absolutely colossal.

And we have to make sure that medium size – not necessarily tiny businesses, but medium size – businesses can flourish in the London market.

Mark Hardinge

Just to make an obvious point, brokers are there to provide clients with choices. So the more choices we can provide to clients, the more effective a market mechanism this is.

And I think that one of the messages from today for me is that more brokers need to be out there doing more for client opportunities.

Stephen May

Mark's question is all about scale and you were asking about what the optimal scale is. In my opinion, the answer to this is beyond our control.

The answer will be down to the regulators. It will be the

cost of doing business that will dictate what size a company will be.

One other issue I would raise on the subject of scale is the option of people clubbing together. If we all need particular services and there's no third party provider we can pool our resources if the work we are doing is pretty much the same.

Mark Hardinge

Well, virtual networks – you don't need bricks and mortar distribution any more, so work collaboratively.

Michael Wade

But I'm slightly obsessed about the Anti-Bribery Act and its implementation.

I'm sure we've all been subject to the FSA inspections and questions about how it's going to work. They have little idea how it's going to work.

The law is vaguely drafted. Its principles are curious if on the one hand you want to have the UK as a place to do international business and an export-led recovery, but then on the other you create legislation that virtually arrests you for developing the business. That's where I think we have to challenge it.

Mark Geoghegan

Do you think the M&A juggernaut is going to carry on over the next 12 months?

Tim Fillingham

I think you'll see some activity. It's a bit like a pack of dogs. They're all sniffing each other and guess what, occasionally deals will happen. So I think it will continue for a while.

Christopher Hancock

I think people that might be takeover targets might think they're probably worth more than they should be. The people that want to buy want to pay less than they should be. That hasn't changed.

Mark Geoghegan

What about the brokers? There's space there for someone that's not so small, that's got all the whizz-bangs you need, but at the same time is small enough to be able to grow.

Michael Wade

The regulatory issue is making it more difficult for smaller brokers to survive, which is regrettable. Does it drive consolidation? I suppose it does at the small end.

Mark Hardinge

In terms of broker consolidations, we've been hearing for years there's a roll-up to be done of Lloyd's brokers and it's a very brave man that takes that challenge on.

Stephen May

In my view, M&A activity is a sign of a healthy marketplace. It shows that organisations are doing well because others in the market see them as something they want to buy. If there's no M&A activity, what's the point of the whole thing?

Information is everything...

Barbican joins queue of Omega suitors

The relatively slow progress made in the Omega due diligence process may be explained by the presence of Lloyd's insurer Barbican along with Delphi Financial and Canopus. *The Insurance Insider* can reveal...

Canopus, which first expressed an interest in autumn last year, is understood to have maintained its involvement despite frustration about the speed of progress. This delay is also partly a consequence of

How *The Insurance Insider* first revealed Barbican's interest in rival Lloyd's insurer Omega on 9 May 2011...

PRESS RELEASE

Barbican Insurance
Statement Re Omega
Insurance Holdings Limited
RNS Number : 3260I
Barbican Insurance Group
13 June 2011

Barbican Group Holdings Limited
("Barbican" or the "Company")

Statement Re Omega Insurance Holdings Limited ("Omega")

The Directors of Barbican have noted the recent press comments in relation to Barbican and Omega. The Company confirms that it has recently submitted a proposal to the Directors of Omega, the key points of which have been shared with certain Omega shareholders, with regards to a potential combination of the two businesses. Omega's current listing on the Official List of the London Stock Exchange would be maintained.

Barbican's directors believe the proposed share for share combination will create significant long term value for Omega's existing shareholders, through the benefits of the increased scale and focus on disciplined capital allocation. The aim of the proposed combination is to maintain the existing Lloyd's syndicates of both companies and create efficiencies through capital restructuring and operational synergies.

There is no certainty that a transaction will be forthcoming, nor as to the terms of any such transaction. A further announcement will be made if appropriate.

And how the rest of the world had to wait until Barbican's official announcement to the London Stock Exchange on the 13 June 2011

To keep ahead of the competition,
a subscription to *The Insurance Insider* is vital

ONE PLACE DIVERSIFYING

Doha. With every new project comes a new business opportunity. Behind it all, the QFC is helping Doha to become the region's most dynamic economic, and its perfect success point. Benefit from the lowest tax in the world, 100% ownership, repatriation of all profits, and an offshore trading environment. Join us. www.qfc.com.qa

BUSINESS ENERGY



QFC

FINANCIAL FREE ZONE