



RSA BROKER LONDON MARKET ROUND TABLE

# THE FUTURE OF THE LONDON MARKET

IN COLLABORATION WITH

**FWD**



August 2017



The purpose of this whitepaper is to report on the discussion and outcomes of the London Market Broker Round Table, hosted and organised by UK insurer RSA.

The event was designed to create an open platform for key industry figures to discuss and share their in-depth expertise and insight on how they view the future of the London Insurance Market (LIM), with a specific focus on:

- London's evolving role in global financial services – view from RSA Group Chief Executive Stephen Hester

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- The rise of alternate global insurance hubs – what does the LIM need to do to keep pace?

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- Is London losing out to other markets?

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- If so, is it because London is losing its edge or are other markets just improving?

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- What role do relationships play in driving business placement back through the City?

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- Can London do anything to reverse this trend, and if so, what?

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## Delegates



**Richard Dudley**  
CEO Global Broking  
Centre  
Aon Risk Solutions



**Paul Galvin**  
Head of Carrier  
Solutions  
Aon Inpoint



**Guy Malyon**  
Deputy Chief  
Broking Officer  
Aon Risk Solutions



**Michelle Mason**  
Managing Director  
Aon Risk Solutions  
Global



**Sarah Horler**  
Partner  
Lockton



**Steve Dando**  
Senior Vice President  
Head of Specialty  
Portfolio Solutions  
Marsh



**Ailsa King**  
Chief Client Officer  
Marsh



**David Ripton**  
CEO Marine  
UK Practice  
Marsh



**Barnaby Ruge-Price**  
CEO  
RKH Specialty



**David Cross**  
Head of Large  
Client GB  
Willis Towers Watson



**Alistair Swift**  
Head of CRB &  
Head of  
Transportation Lines  
Willis Towers Watson



**Nick Donovan**  
Head of Sales &  
Customer  
Management  
RSA



**Hayley Robinson**  
Managing Director  
Global Risk Solutions  
RSA



**Neil Strickland**  
Global Consulting  
Director  
RSA



**Owen Thomas**  
Sales and Distribution  
Director  
RSA

## Introduction

The key note address was delivered by Stephen Hester, Group Chief Executive, RSA. The event was chaired by Mike Harmer, Director of independent consultancy firm FWD. Chris Beazley, CEO London Market Group, joined the conversation for an enlightening discussion about the work of the London Market Group (LMG).

Hayley Robinson, Managing Director of Global Risk Solutions at RSA, began proceedings and set the scene by highlighting how both the insurance sector and its clients have changed in recent years. Insurable risks have altered immeasurably, primarily due to technological developments.

This is reinforced by the success of companies such as Airbnb and Uber,

which are disrupters to and leaders in their respective industries but do not actually own any hotels or taxis; something the insurance industry could not predict and think possible a few years ago.

There was no question around the table that the insurance industry, not just the LIM, faces some key challenges as a result of the evolving needs of customers and the changing nature of exposed risks. There was also a general recognition that the insurance sector needs to better understand changing customer needs and offer more relevant risk solutions and that London, with its unique and robust talent pool, should be at the forefront of industry-wide changes. Therefore, the key question is how does London need to adapt and what needs to be done to keep insurance, and specifically the LIM, relevant?

## VIEW FROM THE TOP – STEPHEN HESTER



Stephen Hester

**Stephen Hester, RSA Group Chief Executive shared his views on the current marketplace and how he believes the future looks for London.**

I believe the LIM has time to find its voice, although the industry and the people working in it should not be complacent.

The London Insurance Market is currently wrestling with its role in today's marketplace and what it may look like in the future. I recognise (and have seen paralleled in the banking sector) that the pace of change has been high and the insurance industry needs to continue to evolve to prosper. The financial services industry has grown over the last 30 years in order to meet the rising demands and expectations of clients and a growing world economy but both the insurance sector and the London Market needs to accelerate its adaptation and ensure we offer real value to the client.

One of the major challenges facing not just London but the whole insurance market is the move from tangible damages to intangible damages. Whilst insuring property and other tangible assets against potential risk remains as important as ever, other intangible risks, the like of cyber attacks, supply chain disruption or loss of data, are now of greater concern to the client in today's global climate.

The LIM benefitted from global economic growth but as technology continues to shrink our world, allowing things to move more freely, such as information, education, knowledge and capital, the role of the LIM has been thrown into question.

That said, London continues to be a very important place in terms of financial services but is it as dominant as it once was? It is true that the LIM has always benefitted from its global position, writing business across the globe, both East and West, and the English language has been cemented as the global language of business. Both these facts support the

role of London in the insurance sector. However, developing markets are catching up and continue to grow and evolve with more efficient ways to transact and write insurance.

The LIM still has many benefits including the time zone and the business language, but fundamentally London has a cluster of expertise and the industry needs to focus even harder on utilising that expertise to the advantage of clients if it wants to stay relevant.

As technology develops, location becomes less relevant and proximity to the client in many circumstances is less relevant. People work remotely more than ever before and similarly clients need 24-hour access regardless of an organisation's location. Therefore, to remain successful, the LIM needs to understand and be able to predict the jobs of the future and support the development of those jobs as well as the infrastructure to make it happen.

I believe the LIM has time to find its voice, although the industry and the people working in it should not be complacent. Due to the aforementioned rapid pace of change, the LIM needs to be able to add value to the transaction if it wants to remain at the epicentre for financial services.

I believe that the LIM needs to work in partnership with all parties, both Lloyd's and the Companies Market need to modernise and to add real value, where it is needed. If the LIM can remove frictional cost then it will continue to be a leading force in the financial services sector.

# LONDON MATTERS – THE LONDON MARKET GROUP

Chris Beazley, London Market Group (LMG) CEO and a leading voice in the LIM, summarised the robust findings of LMG's 2017 London Matters report.



Chris Beazley



**The LIM controls more than \$91bn in GWP**



**10% of London's entire GDP in 2015**



**Employing 52,000 people**

The research highlighted that, despite continuing to be the leading global hub for insurance (including reinsurance), the LIM faces significant challenges. This reinforced many findings from the first London Matters report, which was published in 2014.

The LIM remains the leading centre in the world, significantly larger than any other global hub for commercial and specialty risks. **The LIM controls more than \$91bn in GWP** and is a significant contributor to the UK's economy, responsible for **10% of London's entire GDP in 2015**.

The LIM has access to a wealth of financial capital and continues to lead the market for specialist lines such as marine, energy and aviation, which have all witnessed increases in the amount of business placed via London in the last three years. One of the key strengths of the LIM is its ability and capacity to innovate. **Employing 52,000 people**, the LIM has an unprecedented wealth of knowledge and human capital, as well as access to financial capital. However, there is a question as to whether or not that talent is being deployed in the best way possible to meet the changing needs of the client.

Despite increases in specific business lines, there has been a drop in overall business seen by and placed via London, especially in reinsurance. The levels of property and casualty business have remained relatively static in London over the past three years

but other global hubs such as Dubai, Singapore and Bermuda now manage some of the traditional business that was once written via London. Therefore, the LIM needs to evolve to meet the needs of clients and offer something unique or better than anywhere else if it is to remain market leader.

Through its extensive research, the LMG identified the key challenges for the LIM including:

- Competition from other global hubs means the LIM is not as unique as it once was
- The LIM is not seeing as much business from emerging markets and so needs to articulate its proposition better in order to attract this business
- There is a wealth of human capital but does London have the right skills in today's climate?
- A need for the LIM to modernise and make it easier and more efficient to be able to transact business here.

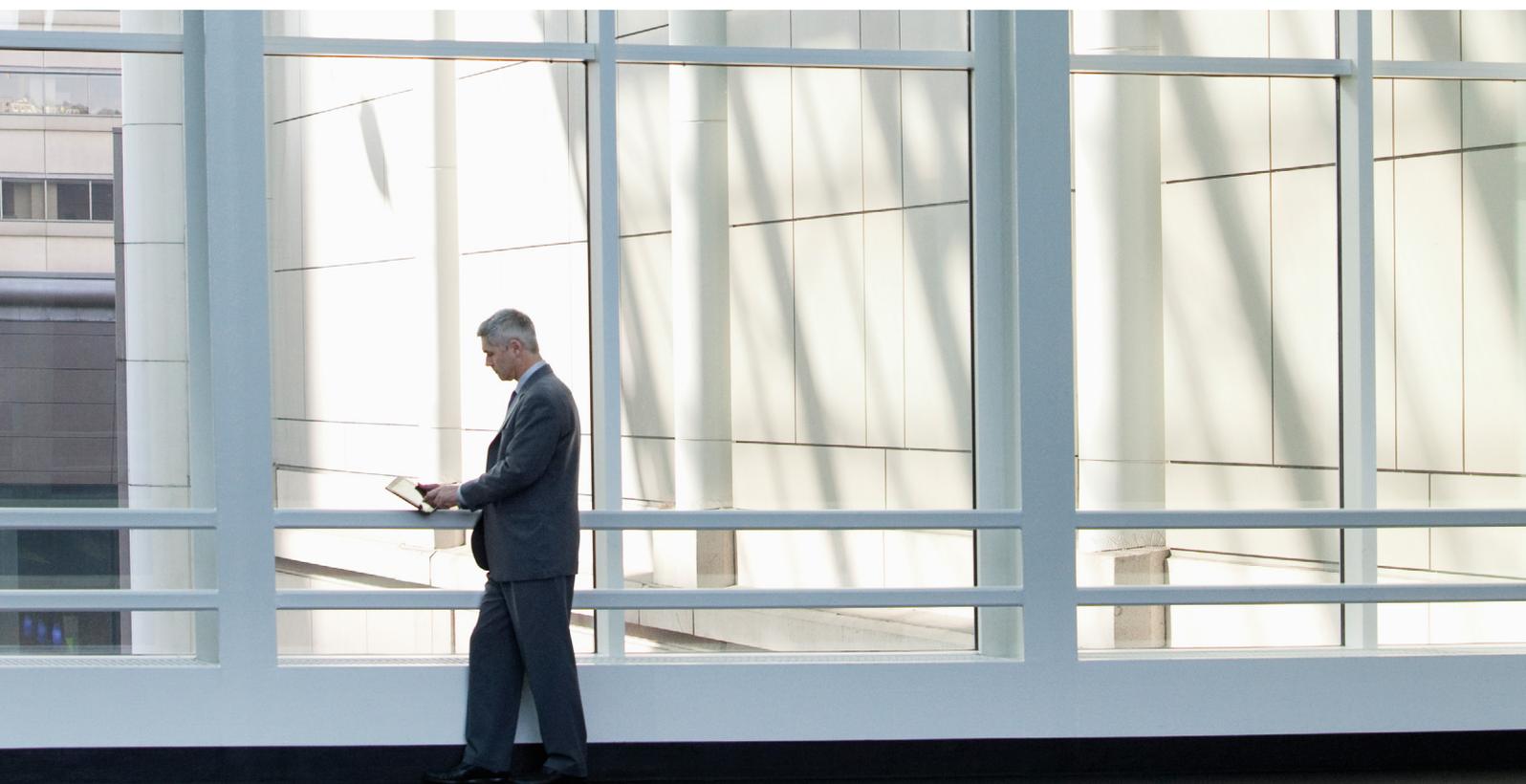
Chris Beazley echoed Mr Hester's view that the LIM needs to focus on the things that make a real difference. The LMG has created and continues to work towards four business streams, three of which are focused on growth and one on modernisation.

### The four business streams under the LMG are:

- 1 Telling the LIM's story better – promoting what London can offer and giving people a compelling reason to come to place business here
- 2 Better diversity and deployment of skills within the LIM
- 3 Improving the LIM business environment.
- 4 The modernisation stream continues the work under the Target Operating Model (TOM) and is focused on trying to reduce costs and inefficiencies in London. In essence, the initiative is creating easier access and facilitating trade with the LIM.

This is essential for London if location is becoming less of a driving force in today's commerce.

There was a general consensus around the table that these workstreams are the right way forward for the LIM. However, Mr Beazley concluded that the LMG can and does lobby government and highlights what is required. It is doing all it can to make sure the LIM's agenda is heard but ultimately it cannot make these changes alone. Therefore, he challenged the organisations in the room to support the initiatives and actually make the changes to meet and deliver what is required for today's global insurance market.





## ROUND TABLE DISCUSSION

There was a reassuring level of agreement and synergy in the room about the significant challenges that the London Insurance Market faces and that it cannot afford to be complacent. However, the LIM has all the ingredients to change and with the right improvements it will continue to be the global centre for risk.

Insurance probably covers less than 10% of the risk that a large and complex business currently faces.

We set out to address what the LIM looks like today and what its role should be in the future. We asked the delegates to provide examples that would depict how the LIM needs to evolve in order to remain relevant. All delegates agreed that the LIM does face some significant challenges but that it remains uniquely positioned to lead the evolution and make insurance an intrinsic part of all businesses in the future.

### **From insurance to risk: adapting to the modern needs of business**

Offering insurance products is simply not enough in today's market and the insurance industry needs to be able to better meet the needs of clients by offering a more rounded risk management and mitigation solution. Clearly, this does not mean protecting assets is no longer important in today's climate. In fact it is more important than ever, but delegates felt that insurance itself is no longer seen as the strategic tool it once was to mitigate and protect against the risks businesses face in this new era of technology.

Since premiums have fallen in the market, the insurance spend is no longer such a big item for the CFO to be focused on. As clients face more complex problems and new and emerging risks, the insurance sector continues to be preoccupied with products rather than solutions and insurance itself probably covers less than 10% of the risk that a large and complex business currently faces, brokers agreed. This reflects one of the overarching concerns raised by the group; that 'insurance no longer has a seat at the C-suite table'.

This is not just a London issue but is a problem facing all markets and the decline in insurable risk, falling premiums and heightened market competition has led to a real need for change. According to one broker, and other delegates agreed, LIM players need to change the way the industry engages with clients from pushing products and reducing costs to solving risks and creating value.

There was recognition that not enough people in the LIM are currently progressing the conversation from insurance to risk and that the LIM needs to develop a wider set of skills (such as sales and risk advice) to support and underpin its evolution, especially within insurers. At the moment, one broker commented, the axis is very much focused on products, pricing and underwriting for insurers. Whilst these are important, insurers in the main do not currently offer the added value clients are looking for, and that the current offering can be replicated elsewhere in the world.



The LIM must get better at successfully deploying its expertise to be more innovative and find more client solutions to the risks currently facing large businesses and organisations.

### London's wealth of human capital

Commerce is now more efficient and more global than ever before. Technology is enabling greater automation across all industries. That said, for large complex risks, which are the LIM's bread and butter, there is recognition that relationships remain important despite new channels of distribution being created through technology. Therefore, the LIM needs to invest in people who have those relationship skills and not just technical know-how.

The LIM has a wealth of human capital, much larger than any other insurance market in the world, although it was also suggested that some global insurance hubs have a greater level of local knowledge than London can ever compete with. London benefits from having a unique set of expertise especially in more complex and speciality risks such as marine and energy. It would not be sensible to throw that away; in fact one broker went as far as to say that without specialisms and specialists the LIM would risk becoming superfluous. Whilst other brokers recognised the need for specialist skills, many called for that expertise to be used or deployed differently to create value for the end client. For example, the LIM understands, in-depth, the risks to the energy sector, which is currently facing an increase in decommissioning (e.g. of old platforms and plants). The face value of the assets

involved in decommissions are very low but the risk is significant and as such the LIM needs to become quicker at developing solutions that match the new risk models in order to properly serve that market. The LIM must get better at successfully deploying its expertise to be more innovative and find more client solutions to the risks currently facing large businesses and organisations.

It was accepted within the room that the LIM needs to approach things in different ways in order to meet the changing needs of clients. It was universally acknowledged that despite its deep pool of technical talent, the LIM needs to encourage and actively bring 'new blood' with new ideas into the industry, to be more client focused and less entrenched by legacy systems and processes. With the average age of managing general agents' CEOs at 54 and the percentage of women employees being lower than the national average, despite some progress in this area, the LIM remains behind the curve when it comes to diversity, and brokers questioned what this means for London's relevance and ability to attract the right talent. There were also observations made in the room about the low proportion of talent actually being brought into London from the geographies that London is trying to appeal to. Brokers agreed that this was not just an issue for insurers and that change is required across the LIM.



## The need for innovation

According to Stephen Hester, 'To remain relevant the LIM should invent new ways to protect clients and be at the forefront of new ideas, not just products, which mitigate today's risk and not just the risk faced by businesses 100 years ago.'

Because of the concentration of insurance knowledge, expertise and talent in London, the LIM should be the global centre for innovation. Previously, the insurance world looked to London for new ideas. More recently, due to regulatory requirements and the ease and speed by which new product ideas can be copied, both brokers and carriers agreed that they were wary of spending too much time and resource on new ideas, propositions and facilities.

London has since gained a reputation for being less innovative than it once was, and brokers and insurers agreed that innovation is not as high up on the agenda as it ought to be, with insufficient time spent on it relative to day-to-day activities. This needs to change and it is also where London can add a huge amount of value.

This prompted significant debate in the room about the cyber insurance market, with some brokers calling out a great success for the industry for having created a \$2.5bn insurance market, \$700m of which is in London. Others commented that actually the industry had done a poor job of developing the cyber insurance market since there were \$400bn of registered cyber losses in the US alone versus a global insurance spend of \$2.5bn. The room concluded that it was a step forward for our industry but LIM and the industry as a whole has a long way to go before it can claim to have successfully developed the range of insurance and risk management solutions needed to address this 21st century threat.

## The draw of other global insurance hubs

Brokers and insurers agreed that other global insurance hubs have successfully migrated business away from London by focusing on price and ease to transact business, by using more up-to-date systems than London, plus local service and knowledge. It is therefore not a surprise that, as sectors mature and become easier to model and underwrite, business has leaked from London. One broker forcefully pointed out that, whilst the LIM should remain competitive and seek to reduce inefficiencies and costs without compromising service, it should not work against these other centres. Most brokers then challenged carriers to not try and compete with the LIM by opening local offices in other global insurance hubs but instead work with and support business by offering something more in line with clients' requirements. Furthermore global clients want to work with London because there is additional value for them to do so.

The LIM's growth is important but it also needs to modernise to make processes simpler and make it easy for all clients, wherever they are in the world, to take advantage of what London can offer them. At the moment brokers are concerned by numerous examples of how legacy systems and poor technology has resulted in inefficiencies and time wasting. They said they expect more from insurers in terms of the quality of technology and digital tools they provide.

There was huge support in the room for the LMG's efforts in government lobbying and making sure the voice of the LIM is heard in future policy consideration, especially in the upcoming Brexit discussions, which will impact all insurance brokers. They agreed it is essential that the LIM creates a robust and open regulatory environment so London can thrive and not be disadvantaged by current and future regulation, whatever that may be. There was some debate and disagreement on how well the industry currently interacts with the regulator in the UK and how useful and cooperative the current relationship is. Whilst some brokers felt that the LIM does have a 'seat at the table' others felt the regulator has little interaction with and understanding of the LIM. However, there was consensus that the regulator must allow the industry to find new ways to try things and meet the needs of businesses but remain compliant at the same time. So who will make sure that happens?

## Taking the discussion forward

It is a familiar conversation within the market and it has been for several years but there was agreement that London and the whole insurance industry remains too focused on products. Despite a more portfolio-managed approach being recognised as to what clients want, the LIM remains primarily product focused to its detriment, which is exacerbated by the structures of both brokers and insurers. To enhance London's success, a portfolio approach and quota share should play a larger part in an insurer's armoury and ought to form part of the broker's service proposition in the future. Returning to the appropriate skill sets, brokers in the room were clear that it should not be the line underwriters' decision alone within an insurer to understand and take advantage of this portfolio opportunity.

Insurers and brokers around the table agreed they need to think outside of the box and find new solutions to new risks or clients will find a different way to protect their assets. In part, the LIM already has these skills pooled in reinsurance teams. Reinsurance does have a more strategic portfolio approach and many believed it can offer a best practice blueprint for building a more holistic risk approach in the commercial insurance space. London remains in the best place to make these improvements but it needs the infrastructure and support to be able to evolve and meet the changing needs of the client.

As one broker commented, the LIM is far from redundant, although another broker felt that the LIM has less time to spare and get things in order than others may suggest. All agreed that the LIM is worth fighting for and it needs to change with the needs of its clients if it wants to continue for another 300 years.

Group discussions like this not only record the challenges faced and provide a platform for debate, but also seek to find direction on how the LIM could be more effective and efficient, use its strengths and be positioned as the leading global centre for risk and insurance in the future.



## KEY CONCLUSIONS

**RSA's London Market Broker Round Table produced an extremely useful debate that delivered insight into the role of the London Insurance Market now and in the future.**

Key conclusions from the session include:

- The risks clients face and requirements from insurance have changed but the insurance industry must do much more to keep pace and avoid becoming irrelevant

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- The LIM must evolve into a more customer-centric service provider that can add real value to clients

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- Much good work is being undertaken to support the growth of London but all companies need to support those changes if London is to remain as a global centre for excellence in all things risk

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- There is a need to understand what skills are currently within the LIM and the disjoint with what clients require so that the wealth of that knowledge is best used for the benefit of all

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- Innovation should be the focus for London – it should be the leader and work in partnership with the other global insurance hubs

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- Modernisation is needed to improve access and business transaction but the LIM will not win by trying to compete on service alone

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- Relationships remain important despite increased dependence on technology

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- The London Insurance Market needs to find new solutions to the new risks faced by large organisations

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- Collaboration is key across the industry to encourage innovation and evolution.

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## About RSA Insurance Group PLC

With a 300-year heritage, RSA is a multinational quoted insurance group. Focusing on general insurance, RSA's core markets are the UK & Ireland, Scandinavia and Canada, with the capability to write insurance business in over 100 countries. RSA's core businesses have around 13,500 employees with net written premiums of £6.3bn in 2016.

For more information about RSA, please visit [rsagroup.com](http://rsagroup.com)

## About FWD

FWD Research is a full service research consultancy specialising in the Insurance and Financial Services sector. For over 12 years FWD has been working in partnership with clients to make informed business decisions and positive change by understanding their customers, prospects, markets and stakeholders. FWD Research is part of the wider FWD Group together with FWD PR and First Quartile.