The London Insurance Market

Driving performance forward

A review of risk management, distribution and finance function effectiveness*
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Introduction: Companies face a challenging agenda

Are London Market insurers ready to face the challenges of mounting risk, tougher regulation and softening rates?
London Market insurers are under pressure to maintain underwriting discipline and deal with a possible shake-up in distribution and broker remuneration against the background of softening rates and changing regulation. How confident are they that they can manage the difficult period ahead?

The four years since we began carrying out the annual surveys of the drivers and direction of the London Insurance Market have been marked by some of the most far-reaching changes in the Market's history. New corporate capital providers have insisted on a more structured approach to underwriting in the light of lessons learnt from previous downturns in the rating cycle. For many, this includes the disciplines of technical pricing, peer review and risk-based capital allocation. At the same time, the Market has undergone a range of important reforms including the advent of the Lloyd's Franchise Board and Individual Capital Assessments (ICA) as part of the Financial Services Authority’s (FSA) Individual Capital Adequacy Standards (ICAS) regime.

These have also been years of strong rates that have made it easier to make money and may sometimes have helped to mask any operational weaknesses. Now, as the market softens, we are about to witness the acid test of whether these changes can help to sustain profitability or whether the Market will repeat the mistakes of the past. Those organisations that have invested in robust risk management frameworks, effective renewal rate monitoring systems and cycle management tools are likely to be well placed to take on these challenges.

We asked participants to rate the most important issues on the CEO's agenda in 2005 (see Figure 1 overleaf). Achieving comparable underwriting performance and institutionalising effective cycle management was, as would be expected, way out in front, and many CEOs are confident that they are broadly on track to deliver another strong set of results. 2004’s returns were still generally favourable despite the catastrophic US hurricane losses. The early indications from our survey are that more disciplined underwriting and the targeted withdrawal of capacity from within the Market have helped to ensure that

‘The London Market is doing a better job of managing the cycle than in the past. Rates are coming down more slowly than we expected.’

Survey respondent
Introduction  

Continued

Premiums in most classes of business have declined at a slower pace than at comparable points in previous cycles. Do companies have the right tools and can they maintain the iron rule to sustain this performance at a time when investors may have no hesitation in repatriating their capital if results dip markedly in 2005?

The next most important issues in 2005 are the effective monitoring of aggregations of exposure and optimisation of reinsurance expenditure. London Market insurers have made huge strides in evaluating and mitigating risk aggregations since the wake-up call of September 11. However, while property aggregations are generally well-understood, the identification and tracking of casualty aggregations tend to be less assured. Further concerns have been raised by the growing reliance on commercially available catastrophe models. From the participants we have spoken with, these models tend to provide markedly different results and, it would appear, systematically mis-estimated the cost of the 2004 US hurricane season. As a result, some insurers found themselves unable to access their reinsurance programmes, while some others exhausted their available cover. Many insurers have been looking closely at the reasons for these failures and are already developing, or are planning to put in place, enhanced aggregation assessment frameworks.

Distribution, with a particular emphasis on accessing key geographical markets, is the next highest rated challenge and is also a key focus of our survey. Broker remuneration, transparency of charges and access to policyholders may face considerable restructuring in the wake of the investigations by the New York District Attorney’s Office. Could these changes add to the costs and complexity of doing business in a subscription market?

Figure 1: Top five most important issues on your CEO’s agenda for 2005

Achieving underwriting performance comparable to 2004 and institutionalising effective cycle management
Effective monitoring of aggregations of exposure and optimised reinsurance spend
Creating/accessing new markets (geographical)
Improving claims service and claims cost management
Embedding capital and risk management within the day-to-day running of the business

Mean score

Source: PricewaterhouseCoopers 2005
Our survey suggests that the competition to secure the best business in a softening market has already led some insurers to accept increases in brokerage. Some others have successfully resisted these increases and, in certain cases, negotiated improved commission terms. In any event, there is still a marked degree of unease about the level of efficiency of brokers’ post-placement processes and many insurers feel that various aspects of intermediaries’ services could be unbundled and brought in-house. The developments have also brought into sharp focus the Market’s reliance on a small selection of powerful intermediaries. Our survey confirms that many respondents are seeking to broaden their portfolios through the establishment of new overseas operations and direct business-to-business distribution channels.

Improving claims service and claims cost management are now firmly on the agenda. Effective procurement programmes, piloting of electronic claims repositories, more effective and judicious use of litigation, enhanced claims management information and metrics, and the appointment of senior claims personnel at board level are among the key developments the interviewees in our survey highlighted as being fundamental to delivering discernible bottom-line benefits. Improving the level and quality of claims service will be critical in the London Market’s ability to compete globally and ensuring that the best risks continue to be placed in London.

Close behind is embedding risk and capital management into the day-to-day running of the business. The FSA expects business planning and submitted ICAs to reflect the way the insurer is actually operated on a day-to-day basis and has been critical of what it believes is a lack of management buy-in to the process at some organisations. Clearly, the sheer scale and complexity of implementing ICAs have left many key personnel complaining that they have little time to get on with their ‘day job’. However, instilling an awareness of risk into the DNA of the business can not only placate the regulator but also, more importantly, provide insights into the threats and opportunities facing the organisation. This could prove invaluable in managing the cycle downturn ahead. Nevertheless, our survey raises concerns that risk management is still primarily seen as a compliance, rather than a business or competitive, imperative within many London Market insurers.
Participants’ identification and ranking of the risks they face are equally revealing (see Figure 2). Number one was the mismanagement of aggregations of risk, and steps have been taken by many insurers to enhance the monitoring of overall exposures. One key lesson of the 2004 hurricane season is that the more granular information available when underwriting primary business makes aggregations much easier to control compared with inwards reinsurance or retrocessional portfolios, and some insurers have revisited the profile of their book of business as a consequence. Clearly, potential misunderstandings of the gross exposures can lead in turn to errors in the amount of reinsurance being purchased.

The next key risk was a substantial deterioration in reserves. The London Insurance Market continues to be affected by developments in legacy liabilities including September 11, US hurricanes and US casualty claims emanating from the 1997 to 2002 underwriting years. The share prices of listed companies are susceptible to any deterioration in reserves, and there could be a knock-on impact on the adequacy of current premium rates.

Inadequate reinsurance protections are another major risk cited by respondents. The concentration of property catastrophe business in the London Insurance Market means that companies must monitor aggregations effectively and then either seek appropriate levels of reinsurance cover or maintain a strong balance sheet to manage these exposures. Favourable rates over the last few years have encouraged many insurers to retain a considerable amount of risk. However, the 2004 US hurricane season raised questions within some insurers about the adequacy of purchased cover and how quickly it could be exhausted. Rates are also softening at a slower pace in the reinsurance market.

**Figure 2: Top five risks that your organisation faces in 2005**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mismanagement of aggregations of risk</td>
<td>4.08</td>
</tr>
<tr>
<td>A substantial reserve deterioration</td>
<td>3.57</td>
</tr>
<tr>
<td>Inadequate reinsurance protections</td>
<td>2.86</td>
</tr>
<tr>
<td>A significant load on the submitted ICA in meeting the assigned ICG/ECA</td>
<td>2.8</td>
</tr>
<tr>
<td>A significant operational risk failure</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers 2005
sector than in most of the primary markets. This could compound the problems highlighted by the recent hurricanes by forcing some insurers to settle for potentially inadequate levels of reinsurance.

The advent of the ICAS regime has given rise to concerns that the FSA or Lloyd’s might apply significant loadings to submitted ICAs in order to meet the assigned Individual Capital Guidance or Economic Capital Assessments (ECA). Indeed, the Lloyd’s Franchise Performance Board has already issued guidelines on the range of loadings/discounts to Risk Based Capital (RBC) assessments to arrive at the corresponding ECA. Not only might these loadings dilute returns on capital for adversely affected syndicates, they could also make London less attractive to the associated capital providers in 2006, compared with other jurisdictions such as Bermuda and Continental Europe.

One key aspect of the introduction of the ICAS regime is the focus on operational risk, and many insurers have cited a significant operational failure as being a major risk faced during 2005. Such failures could relate to IT systems crashes, infrastructure damage as a result of natural or other perils, key underwriting or claims controls failures, defections of key teams of underwriters to competitors, central bureaux or other market-wide operational failures, the inability to achieve contract certainty on substantial contracts in a timely manner, or ineffective disaster recovery and business continuity programmes. Although the quantification of operational risks in the context of an ICA assessment is a complex issue that is made more difficult by the lack of relevant data, London Market insurers have nonetheless become increasingly proficient at identifying and mitigating major sources of potential operational risk.

‘The ICA is a real unknown.’
Survey respondent
The findings of this survey offer interesting insights into how London Market insurers are addressing distribution, risk management and finance function effectiveness. Our research and work with insurers have enabled us to identify the attributes in these areas that we believe will drive performance forward in the tough market environment ahead (see box).

**Driving performance forward**

Key attributes include:

- The pursuit of new geographical distribution channels and direct trading platforms to broaden the portfolio of business;
- The ability to leverage scale and expertise to ensure that high quality business is still being presented by brokers;
- Creating competitive advantage through the early adoption of electronic trading platforms to enhance end-to-end business processes;
- The implementation of an effective risk management function, whose role is well understood across the organisation and which works proactively with each functional area of the business to bring about tangible risk mitigation benefits;
- A positive culture that seeks to embed risk and capital management in the business to drive enhanced decision-making and returns, rather than viewing risk and capital management as regulatory burdens;
- A culture of continuous improvement in the finance function to shorten external reporting timescales and provide more effective management information to the business; and
- Outsourcing of certain back-office finance functions, most notably in relation to transaction processing, to allow the in-house finance team to focus on being a strategic partner to the business.
About the survey

The annual London Insurance Market survey examines the strategic and operational drivers that will shape the future direction and performance of the Market.

This year’s survey explored developments in distribution against the background of what many believe is set to be a far-reaching overhaul of how business is acquired, remunerated, managed and administered. It also examined risk management and finance function effectiveness, issues that are likely to prove increasingly critical in today’s complex and uncertain commercial, regulatory and geopolitical environment.

The research is based on in-depth questionnaires and face-to-face interviews with executives from Lloyd’s and Company Market businesses, representing 43% of Lloyd’s capacity and combined estimated gross written premium of some £8 billion in 2005. As before, the respondents were selected to reflect a broad spectrum of entity sizes, product classes, independent businesses and subsidiary organisations.

Our thanks go to all the organisations and executives who kindly gave their time to the survey and made this report possible.
Executive summary

Distribution, risk management and finance function effectiveness are under the spotlight in a softening market.
Distribution

London Market insurers are facing what has been described as a ‘seismic shift’ in the way business is secured, brokers are remunerated and in the transparency with which information is conveyed to policyholders.

Respondents’ top five brokers account for over 60% of their business at present. Some 40% of respondents expect their reliance on their top five intermediaries to decrease over the next three years, though around half believe it will stay the same and the rest actually increase. ‘The big players are the ones that give us the best business,’ said an interviewee. Many participants feel that the impact of new regulations facing brokers in the UK and the heightened competition for the best business in a softening market could actually strengthen the power base of the larger intermediaries.

While the questionnaire and interviews primarily focused on the views of insurers, we also interviewed some London Market brokers to help cross-check and shed more light on the findings of our survey. It is interesting that some of the smaller intermediaries believe that the dominance of the leading brokers could diminish as more corporations look to review their insurance procurement in the wake of investigations carried out by the New York District Attorney’s office.

Many participants are seeking to develop a broader portfolio by creating/accessing new overseas and direct business-to-business channels. For some, this is a strategic decision, though for many it is a way of securing profitable sources of new business in the face of softening rates in their core markets. While use of electronic platforms such as Kinnect is set to increase over the coming years, most expect them to continue to be used primarily for data exchange rather than as full trading systems.

Mr Spitzer’s investigations have led most wholesale brokers to withdraw the business volume-based commissions paid by insurers under placement service agreements (PSAs). Our respondents reported that they have now all but eliminated PSAs to the extent that these existed. The loss of revenue from these

‘The brokers are still getting the revenues, which doesn’t necessarily facilitate a wholesale rethink of the business model.’

Survey respondent
contingent commissions has spurred some intermediaries to review how they conduct business and charge for their services. Most participants appear to be prepared to agree to higher commissions, though some are still notably reluctant. There is a feeling that the inconsistency across the Market in the application of the extra charges could reintroduce PSAs by the back door, albeit with increased disclosure to policyholders. This is all taking place against the backdrop of continued FSA scrutiny and the European Commission’s competition enquiry into commercial insurance, which may involve further reviews of the London Insurance Market business model.

Some brokers are also seeking to extend the practice of charging fees for specific services such as marketing or processing. However, 60% of respondents would not favour a move to a fee-based approach. Many cited what they believe will be an increase in costs. Others doubt whether brokers have the necessary capabilities or commitment to move to a fee-based system in the near future, though many accept that changes will come eventually. Indeed, pressure from the FSA, including the drive to improve contract certainty, may accelerate the pace of change in the London Market. If services were unbundled, some participants said they would opt to take on the creation of policy wordings and much greater responsibility for claims-associated activities, believing that they could improve customer service and gain a competitive advantage.

Respondents see the London Market Principles (LMP) as a valuable boost to improved processing efficiency and contract certainty. However, while around 60% believe the principles have been embraced in their organisation, barely 20% feel this is true of the Market as a whole. Only 20% of respondents anticipate that the LMP will lead to a reduction in brokerage over the next three years, and none to a significant extent.

Risk management

Risk management continues to be an important item on the boardroom agenda of our survey respondents, in line with the insurance industry as a whole.

Risk is regularly discussed by the board of more than 90% of those surveyed. More than 80% of respondents have developed fully defined and documented policies and procedures for risk-taking activities. Nearly 70% believe the roles and responsibilities for their risk management programme are well understood within the company. A high proportion also believe that their documentation is up to standard.
However, while the process-orientated aspects of risk management, such as documentation of policies and procedures, are often very strong, integration with business planning, management information and the day-to-day operations of the organisation is generally more limited. When asked at what level their risk management programme is operating, only a half of respondents reported that their risk committee is managing risks as effectively as intended. A significant proportion acknowledged that there were aspects of the set up or operation that could be improved. There is also some confusion about roles, including overlaps with internal audit and compliance, which can make risk management harder to embed.

Indeed, risk management is still commonly seen as primarily compliance-related, rather than as a competitive, priority. Barely 10% of respondents have fully integrated risk management with business planning and strategic business decision-making. Only a quarter view risk management process improvements as business enablers rather than a cost to be controlled. Perhaps most telling of all, while all respondents identified regulation as a driver in their decision to implement their operational risk management programme, only a quarter cited competitive advantage and less than 10% good business practice as deciding factors.

However, while compliance is the primary consideration for most, some participants are seeking to integrate their risk management programmes into the business and realise the benefits of an improved basis for decision-making and greater strategic assurance.

One particular benefit as the market softens is in helping to enforce tighter underwriting discipline. It is significant that when the findings of this survey were compared with a study of risk management in the insurance industry worldwide, many London Market insurers were ahead of their competitors, especially in relation to some of the more advanced techniques such as escalation triggers. To some extent, this may reflect the more straightforward nature of managing stand-alone London Market companies compared with global insurers with diverse businesses. It may also reflect the more rigorous requirements of the UK regulatory regime when compared with the operations of non-UK and non-US insurers. However, the London Insurance Market is perhaps lagging behind in the embedding of risk management, which may reflect the difficulty of driving through change in the Market.

‘A disciplined and systematic approach to risk management is a great way to control the underwriting side. You can raise points with underwriters a lot easier without the politics.’

Survey respondent
Finance function effectiveness

The contribution of the finance function will be critical in providing the forecasting, analysis and decision support that London Market insurers need to sustain profitability and steer a safe course through the softening market ahead.

Our respondents’ finance teams make up an average of around 10% of overall staff and cost the equivalent of an average of 0.8% of gross earned premiums. Most of their time is taken up with back-office functions including budgeting, compliance, transaction processing and, perhaps most onerous of all, reporting. The deluge of external reporting means that finance teams can, on average, devote the equivalent of less than a day per week to strategic assistance. Largely as a result, less than half of respondents regard the finance function as a full business partner rather than as a ‘scorekeeper’.

Even when finance teams can contribute to business planning, the survey highlighted potential weaknesses. Only a quarter of respondents have fully established a formal framework that documents the key issues that need to be considered while developing the business plan, including scope, objectives, extent of scenario analysis, potential issues and review procedures. Nearly 40% have no formal feedback programme to measure the effectiveness of the planning and forecasting processes and reports. The integration of business planning and budgeting also appeared to lack the necessary systematic control.

Most respondents appear to be meeting external reporting deadlines, though this may be requiring a disproportionate amount of effort and overtime. Many participants faced problems with data, manual processing and often incompatible multiple systems during their last annual reporting cycle. The demands of International Financial Reporting Standards and Sarbanes-Oxley, where applicable, have stretched finance teams even further. However, more sophisticated data management systems, including data warehouses, are helping some firms to improve the process and cut the time needed to produce what are often overlapping reports.

Some participants are looking to streamline internal reporting to improve the quality and usefulness of management information. Nearly a third of respondents use a balanced scorecard and more than 40% deploy external benchmarks to assess and manage performance.

‘We are bogged down with regulatory work.’
Survey respondent
Participants reported resulting improvements in a number of key areas including working capital and credit control. The availability of non-financial data, however, remains limited.

As the demands on the finance team increase, so will the pressure on recruitment and retention.

Staff turnover in finance is currently around 10% per year on average. Many respondents are looking to implement training programmes and career development to improve staff retention though, for most, training is limited to fewer than five days per year.

‘The finance function has always been an area that has driven important change.’

Survey respondent
Securing business

Distribution and brokers’ remuneration

Security of distribution
Broker remuneration
Business processes
London Market insurers often rely on a small number of brokers for the bulk of their business. Will a shake-up in the brokers’ revenue and operating models change the way insurers secure business and, if so, how?

Distribution emerged as both a significant opportunity and risk for the insurers taking part in our survey. Access to the best business will clearly be critical in meeting respondents’ key objective to sustain underwriting performance. This includes creating and accessing new markets or distribution channels.

Yet, as the market environment toughens and competition intensifies, the survey highlighted the inherent risks of London Market insurers’ continuing reliance on a relatively small group of powerful global brokers.

Will the premier brokers remain as powerful in the future? How might the way they conduct and charge for business change in the wake of the investigations by the New York District Attorney’s Office? Our survey revealed marked contrasts in the views and expectations of London Market insurers.

One participant went so far as to describe the impact of brokers’ proposed new business models as potentially ‘brutal’. Most others are less immediately concerned, believing that if change does come it will demand careful thought and management and therefore not be achieved overnight.

How much time will be available to reach a ‘satisfactory’ solution remains to be seen. While the questionnaire and interviews primarily focused on the views of insurers, we also interviewed some London Market brokers to help cross-check and shed more light on some of the findings of our survey. It is interesting that some brokers suggested that while the momentum for change might appear to be stalling, this could be a temporary lull. The FSA pressure to tighten up contract certainty and treat customers fairly, along with the continuing competition investigation being carried out by the European Commission, could provide a strong spur or at least a catalyst.

‘I don’t think there will be a seismic change in the way business is done over the next 12 months. It will have to happen eventually, but it is difficult to see who is going to lead the charge and who will make it happen.’

Survey respondent
for more significant and imminent changes than some of our participants might believe.

Nonetheless, despite some pressure from insurers, policyholders and regulators, the overriding conclusion of the survey is that the leading tier of brokers will largely sustain their revenues and maintain their powerful commercial position, even if some elements of their business and income model may eventually change.

Security of distribution

The consolidation and concentration of the broker market, especially among those with global reach, mean that London Market insurers tend to depend on a small number of placing intermediaries.

Respondents expect an average of over 60% of their premium income to be generated by their five leading brokers in 2005; some more than 90%. The very largest brokers are especially important sources of business. Indeed, one participant cited withdrawal from a leading broker’s panel as the biggest danger the organisation faces.

Respondents are naturally conscious of the power of their main intermediaries, though quite a few have come to regard this as the price they pay to gain access to business from the world’s leading corporations. ‘If you developed a business model from scratch with such a concentrated distribution network, you would probably say the model was flawed, but that’s how it is and is likely to remain,’ said an interviewee.

Some 40% of respondents expect their reliance on their top five intermediaries to decrease by 2008, though around half believe it will stay the same and the rest actually increase (see Figure 1).

Many participants believe that the consolidation of the intermediary market and dominance of its leading players may also increase. ‘Size will be a significant advantage for brokers in dealing with all the developments in the Market, including...’

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Figure 1: How do you expect the proportion of inwards business by premium volume, produced by your top five brokers, to change by 2008?

- Increase: 13%
- Stay the same: 47%
- Decrease: 40%

Source: PricewaterhouseCoopers 2005

‘We need to persuade global brokers to bring business to us.’

Survey respondent
new regulation. They haven’t even begun to milk their economies of scale,’ said an interviewee. More than a third of respondents reckoned that the application of the EU Intermediation Directive would reduce the number of London Market brokers. ‘The ability to invest in developments such as Kinnect could also reinforce the grip of the big players,’ said an interviewee.

Commenting on these findings, one of the brokers we interviewed countered that the increasing pressure of due diligence and the recent publicity generated by the US investigations are encouraging many leading corporations to review their insurance arrangements and often longstanding relationships with their brokers. As a result, some customers have switched to other, possibly smaller, intermediaries.

As Figure 2 highlights, respondents regard access to key geographical markets, customers and sectors as the most crucial criteria for selecting an intermediary. Price and service were also seen as important, though less so. It is interesting that the size of the broker’s market share actually came out near the bottom of the list, though it is possible that some may simply take the size as a given.

While almost all participants accept that the business they receive through the London Insurance Market will remain the bedrock of their enterprise,

**Figure 2: What are your key criteria in selecting your producing brokers?**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Very unimportant</th>
<th>Unimportant</th>
<th>Important</th>
<th>Very important</th>
<th>Neutral</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access: Key geographical markets, sectors and customers</td>
<td>53%</td>
<td>27%</td>
<td>20%</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td>Specialism: Specialisms/expertise</td>
<td>47%</td>
<td>20%</td>
<td>27%</td>
<td>27%</td>
<td>0%</td>
</tr>
<tr>
<td>Size: Broker’s market share</td>
<td>-13%</td>
<td>-27%</td>
<td>27%</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td>Service: E.g. early risk presentation, quality of risk packaging, accuracy of slip production</td>
<td>20%</td>
<td>27%</td>
<td>20%</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td>Price: Level of commission/brokerage</td>
<td>-7%</td>
<td>40%</td>
<td>13%</td>
<td>20%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers 2005
many appeared keen to balance their portfolio through access to a broader range of high quality risks. For instance, around two-thirds of respondents have established or acquired UK operations outside the London Market, such as a regional retail or small/medium-size enterprise commercial lines operation (see Figure 3).

Others are looking to expand overseas, either by targeting new territories or more commonly by developing new/existing operations. As Figure 4 reveals, the coming years could see an increase in the proportion of respondents’ business coming from Continental Europe and the Far East, including China. Although these are tentative ‘footsteps’ at present, the cumulative strategic impact could eventually prove significant.

Figure 5 outlines some of the motivations for adjusting the geographical mix of business. For some, diversification is a tactical decision, for example balancing business between the Lloyd’s and non-Lloyd’s platforms or targeting alternative sources of profit as rates soften. ‘If we want to grow in a softening market, we can either expose ourselves to more potential losses in the London Market or go elsewhere. That’s why developing new markets is so important,’ said an interviewee. For others, expansion is part of a longer-term strategy to bring their expertise to bear on a wider stage. ‘If we want to grow, we need to look at how to apply our existing products and skill sets in different situations,’ said an interviewee.

The routes to market range from representative offices and managing general agents (MGAs) to e-trading or fully-licensed subsidiaries. What they have in common is a determination to open up sources of business that have not traditionally found their way to London. Clearly the Lloyd’s global licence gives it an important advantage over the Company Market. In some cases, however, even Lloyd’s operations are looking to move beyond their existing authorised business, such as excess and surplus lines in the US, to exploit larger and potentially more

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‘Lloyd’s is a good place to trade, but you can’t put all of your eggs in one basket.’

Survey respondent

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Lucrative opportunities such as the ‘admitted’ property & casualty market in the US. Overcoming the logistical, licensing and other regulatory hurdles is often easier for operations that are already part of multinational groups than for independent players. MGAs remain an important source of business, providing access to customers outside the traditional retail and wholesale broker chain. An average of around a quarter of respondents’ premium income will be generated through MGAs or delegated underwriting authorities.

**Figure 4: What is your anticipated mix of business by geographical region in 2005 and 2008?**

- **UK**: 34% (2005), 32% (2008)
- **North America**: 32% (2005), 32% (2008)
- **Central and South America**: 3% (2005), 3% (2008)
- **Continental Europe**: 15% (2005), 16% (2008)
- **Japan**: 3% (2005), 3% (2008)
- **China**: 2% (2005), 1% (2008)
- **Rest of Far East**: 4% (2005), 5% (2008)
- **Australasia**: 3% (2005), 3% (2008)

Source: PricewaterhouseCoopers 2005

**Figure 5: What are your key motivations in changing your aspirational geographical mix of business between 2005 and 2008?**

- **Future potential business growth**: 40%
- **Do not rely heavily on one class or geographical area**: 20%
- **Spread of acquisition capacity**: 20%
- **To continue to diversify our book**: 20%

Source: PricewaterhouseCoopers 2005
in 2005, though for some it is up to a half. Around 20% expect the proportion to increase by 2008 and very few foresee a decrease (see Figure 6). Although concerns about the effectiveness of controls remain, some participants have been able to streamline their MGAs into a more manageable panel, while still maintaining a comparable level of business.

Although the importance of business being produced outside the London Insurance Market appears to be growing among our participants, London is likely to remain the primary source of revenue for the foreseeable future. The ‘franchise’ between brokers and insurers that is the linchpin of the London Market has demonstrated its resilience and commercial viability in the face of considerable competitive and regulatory pressures. It looks equally solid going forward. However, certain aspects of the business model are under review. For example, one of the brokers we spoke to suggested that there could be more strategic alliances between London Market brokers and insurers as companies seek to cut costs and improve process efficiency. Many others believe that the foundations of the relationship between broker and insurer could be about to undergo a far more fundamental transformation as a result of a possible shake-up in the basis of broker remuneration.

**Broker remuneration**

The relationship between brokers and insurers has been brought into sharp focus as a result of investigations in the US into the lack of disclosure and alleged manipulation of placement service agreements (PSAs). The PSAs in question give rise to ‘contingent commissions’ being paid to brokers by insurers in return for a particular volume of business. Although almost all the participants in our survey had been prepared to accept such PSAs in the past, they claimed that these contingent payments have now been virtually eliminated.
However, nearly half of respondents still typically accept profit commission clauses (see Figure 7) and few of these said they would be removing these types of clauses in the near future. All respondents agreed that commissions/brokerage paid to brokers should be explicitly disclosed to policyholders. As Figure 8 highlights, most, but not all, would include contingent commissions in the disclosure to policyholders.

Further controversy has centred on whether brokers have been favouring insurers that place reinsurance through them. If such favourable treatment does exist, it does not appear to be reflected in different remuneration levels. Our survey found no noticeable difference between the average level of commissions paid by the vast majority of respondents to London Market intermediaries providing both inwards business and broking of outwards reinsurance on the one hand, and those solely placing reinsurance on the other (see Figure 9). It also revealed no significant disparity between the commission levels paid to respondents’ leading and lesser brokers.

Although contingent commissions accounted for a relatively small proportion of brokers’ overall income, the impact of their loss on profits was more significant.

**Figure 8: Which components of commissions/brokerage do you consider should be disclosed explicitly to the policyholder?**

| Component                        | Disclose
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic commission/brokerage</td>
<td>100%</td>
</tr>
<tr>
<td>Profit commission</td>
<td>100%</td>
</tr>
<tr>
<td>Commission on reinstatement premiums</td>
<td>86%</td>
</tr>
<tr>
<td>Contingent commission</td>
<td>86%</td>
</tr>
</tbody>
</table>

**Figure 9: Do you have different remuneration arrangements for your top producing brokers on your inwards business?**

<table>
<thead>
<tr>
<th>Arrangement</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Yes, commission rates are higher</td>
<td>7%</td>
</tr>
<tr>
<td>Yes, varies by class</td>
<td>7%</td>
</tr>
<tr>
<td>No difference exists</td>
<td>86%</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers 2005
Affected brokers are therefore striving to cut costs to help make up for the shortfall. Many are also seeking to raise their basic levels of brokerage. In response, many participants said they were willing to accept a limited increase in commissions to help brokers to replace the revenue from PSAs. This includes some of the larger, well-established insurers in our survey. ‘As the market softens, we will have to accept higher commissions,’ said an interviewee.

However, there appears to be some inconsistencies in the additional charges that are being levied by brokers. Indeed, one of the brokers we interviewed argued that once some insurers are paying more commission than others to attract the same business, then these are ‘contingent commissions by any other name’. The Market is ‘in danger of playing a game of hypocrisy,’ he said, though it is questionable whether the increasing level and quality of disclosure within the Market would permit this.

Brokers are currently remunerated on a fee rather than commission basis for placing less than 40% of respondents’ inwards business (by gross written premium). A further development would be to extend the practice of levying fees for specific services over and above charges for placement. Many brokers argue that this could help to reduce overheads and improve the fairness and transparency of charges for both insurer and policyholder, especially when aligned to activity-based costing. However, our survey indicated that many insurers remain sceptical. Three out of five respondents would not favour the unbundling of services and charging of associated fees (see Figure 10).

Concern about ‘increasing costs’ was clearly a significant factor in the lukewarm response to the extension of the fee-based approach, especially as payments to brokers are already London Market insurers’ biggest expense after claims. ‘Unbundling might be used as a pretext to hike up charges,’ said a participant. This may present insurers with a choice of reducing their own margins or passing on the costs to policyholders through higher premiums.
Further opposition to fees appeared to stem from concerns about whether the system is viable and how it would work in practice. Indeed, even some of the supporters could see a range of obstacles to change. ‘We believe that individual brokers may be reluctant to be isolated from the rest of the market by moving to a fee-based system of charges ahead of their competitors,’ said a participant. ‘It is not always clear whether the services being charged for are being conducted for the client or the insurer,’ said another. Others wondered whether brokers currently have the required ‘skills’, ‘systems’ or ‘culture’ to move to a predominantly fee-charging basis.

There appears to be some concern that intermediaries are seeking to achieve increases in brokerage rates by nominally labelling them as fees. There could certainly be transitional issues to consider, including how insurers might avoid creating an agency relationship with their brokers.

Certain leading figures within the London Market have joined the Association of Insurance and Risk Managers in calling for a move to ‘net pricing’. Under this system, the intermediary would charge policyholders a variable rate of commission over and above the level of premium rates set by the insurer to achieve its hurdle return on capital. Many of the participants in our survey are yet to be convinced, however, especially as there could be potential VAT and Insurance Premium Tax issues. Others fear they may lose their ability to influence the negotiations with the client. In particular, by not being party to the gross premium rate ultimately charged, insurers would miss out on an extremely valuable element of the information they need to know about what pricing levels the market will bear.

There appears to be some concern that intermediaries are seeking to achieve increases in brokerage rates by nominally labelling them as fees. There could certainly be transitional issues to consider, including how insurers might avoid creating an agency relationship with their brokers.

So is change coming and if so when and to what extent? Quite a few participants argued that ‘now brokers are managing to restore their margins, the pressure to do anything radical is beginning to ease off.’ Others accepted that remuneration practices will evolve, though this may take several years and developments are likely to be spearheaded by individual firms rather than being Market-wide initiatives.

It is interesting that the brokers we interviewed argued that the development of Market initiatives to strengthen contract certainty could help to pave the way for wider changes including a more streamlined, consistent and transparent system of charges. ‘It will be a struggle, but the Market will get there,’ said a broker.

‘It is not necessarily going to benefit us if our suppliers’ profits come down.’

Survey respondent

Driving performance forward • PricewaterhouseCoopers • p24
Business processes

The services most commonly provided by brokers include policyholder relationship management, wordings creation, marketing and claims broking (see Figure 11). The key role that brokers continue to play in the distribution and claims chain is evident from the fact that few respondents receive more than 10% of their insurance or reinsurance premiums directly (see Figure 12) and only just over a quarter settle more than 30% of claims directly (see Figure 13).

If there is a significant overhaul of broker remuneration, how might this affect the operations and cost-base of London Market insurers? According to our survey, if intermediaries were to unbundle services and seek to charge insurers fees, two thirds of respondents would opt to take on the creation of policy wordings and around half assume much greater responsibility for claims-associated activities (see Figure 14). Many of the larger organisations believe that these are areas where they can develop a competitive advantage that would not only help to attract policyholders but also provide a ‘unique selling point’ to brokers as well. Some also believe that greater control over policy wordings would enhance the achievement of contract certainty and therefore provide important regulatory and risk management, as well as business, benefits.

Indeed, some of the participants wonder whether brokers really want to retain some of the more labour-intensive aspects of administration, especially as they are likely to find it difficult to pass on the costs to clients. ‘Policyholders aren’t...
interested in processing. All they want is the right coverage at the price they want to pay. Underwriters will therefore have to take on more of the processing,’ said an interviewee.

As a result, some believe that the brokers’ existing revenue/operational model is ‘unlikely to survive’. How far this will benefit insurers’ bottom line is another question, however.
‘You may find that we take on the work and the costs and the brokers maintain the commission. There is no guarantee that we can actually use this as a lever,’ said an interviewee. In turn, one of the brokers we interviewed did question whether insurers had really considered all the practicalities of taking on more processing.

The London Insurance Market is already taking steps to improve the efficiency and cost-effectiveness of its business processes. The London Market Principles (LMP) aim to facilitate the achievement of contract certainty and speed up the issuing of policies, payment of premiums and settlement of claims. Around 60% of respondents believe that their own organisations have embraced the principles reasonably well, though only around 20% feel this is true of the Market as a whole.

There seemed to be a certain amount of scepticism about the practicalities of moving all the many different enterprises along at the same pace. Indeed, this is one reason why a number of firms are keen to take more of the processing in-house, rather than trusting this to brokers or centralised institutions. ‘We can’t afford to move at the speed of the slowest,’ said an interviewee.

It is equally telling that only 20% of respondents anticipate that the LMP will lead to a reduction in brokerage/commission levels over the next three years, and none to a significant extent (see Figure 15).

Recent years have also seen the launch of a number of electronic trading and data exchange platforms. These include Kinnect, which not only seeks to provide a fast and cost-effective route to market, but also reduces the re-keying of data and provides an audit trail of risks. However, usage remains patchy at present. Respondents expect to use Kinnect or other electronic platforms as a means to transfer data for an average of around 5% of their business in 2005, possibly rising to around a quarter in 2008. ‘If we’re going to attract custom in the future, we have to be able to put lines down efficiently and have the electronic processing capabilities to back that up,’ said an interviewee.

‘The key question is to what extent the brokers will want to offer the processing services they currently provide in the subscription market.’

Survey respondent
The actual placement of business over the internet is still relatively uncommon, though some respondents expect electronic trading to increase to the equivalent of around 12% of their premium income by 2008. According to the survey, the average proportion of outwards reinsurance placed in this way could grow to around 30% by 2008, and up to 50% in some organisations. Around 90% of respondents feel that the amount of business they place using Kinnect or other electronic platforms is likely to grow as more of their peers use such systems over the coming years. Nearly 60% also believe that take-up will increase once a wider choice of classes of business can be placed in this way (see Figure 16). ‘Placement through Kinnect will take off once it gains critical mass in the Market’, said an interviewee.

Others doubt whether Kinnect has the ‘required functionality to be anything more than a data exchange mechanism’. ‘I don’t believe that electronic placing is going to replace face-to-face contact,’ said another interviewee. It is telling that only around a quarter of respondents believe that full implementation of enabling technology/electronic trading platforms will lead to a reduction in brokerage over the next three years, and none to a significant extent.

Although much of the impetus for improvements in business processes and practices is clearly driven by a desire to achieve competitive advantage, regulators are also applying increasing pressure. As Figure 17 overleaf reveals, over three-quarters of respondents believe that the Intermediation Directive could improve controls at brokers and more than half lead to increased levels of intervention from the FSA.

The movement/holding of funds is one area of the process chain that has already been overhauled and may therefore offer some indication about the course of other changes ahead. New FSA rules on how brokers hold money on behalf of...
insurers and policyholders aim to ensure that funds are segregated and protected in the event of insolvency. One main option is to hold the funds as ‘client money’ in either a statutory or non-statutory trust account. Although the trust account option allows the broker to use the money to pay insurers up front (funding), it can be costly and complex to set up and run. The principal alternative is for the insurer to grant risk transfer to the broker, which avoids the broker having to deal with regulated client money, though in practice most brokers are co-mingling the risk transfer funds. Most respondents have granted risk transfer (as defined by the FSA) to at least some of their brokers. Many, though by no means all, have sought to tighten up agency terms in return (see Figure 18). 50% are using it as an opportunity to ensure that the broker’s commission is only paid when the premium is received, 30% to reduce credit terms and 10% to take ownership of interest from money held by the broker.

The wrangling over the client money rules, their subsequent complexity and the tortuous nature of their application would suggest that any attempt to transform other aspects of business processing on a Market-wide basis may require a great deal of care, compromise and co-ordination.

**Figure 17: What do you anticipate to be the main impacts of the Intermediation Directive on London Market brokers?**

<table>
<thead>
<tr>
<th>Impact</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved internal controls at brokers</td>
<td>79%</td>
</tr>
<tr>
<td>Increased levels of intervention from the FSA</td>
<td>57%</td>
</tr>
<tr>
<td>A reduction in the number of brokers</td>
<td>38%</td>
</tr>
<tr>
<td>Reduced periods of time for which brokers hold client monies</td>
<td>38%</td>
</tr>
<tr>
<td>Enhanced service levels from brokers</td>
<td>29%</td>
</tr>
<tr>
<td>Enhanced technology being employed by brokers</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers 2005
Figure 18: Where you have granted Risk Transfer to brokers, have you sought to tighten any of the following agency terms?

- Restrictions on withdrawal of brokerage: 50%
- Reduction in credit terms: 30%
- Other agency terms: 10%
- Ownership of interest accruing on money held by the broker: 10%
- N/A: 10%

Source: PricewaterhouseCoopers 2005
Risk management

From compliance to competitive imperative

Governance and organisation
Vision and objectives
Making it happen
Risk is continuing to rise up the London Insurance Market agenda. Yet could a narrow focus on box-ticking compliance be missing risk management’s potential to strengthen the business and improve the basis for decision-making?

Embedding risk and capital management into the day-to-day running of the business emerged as one of the key priorities for London Market insurers in 2005. In turn, the mismanagement of risk aggregations was identified as the number one risk in our survey.

The closer focus on risk reflects the increasing complexities and uncertainties facing insurance businesses dealing with the fallout from terrorism, climate change and other extreme and unpredictable forces. The way risk is managed has also been strongly influenced by tougher regulatory demands. In particular, the move to risk-based capital management under the FSA’s ICAS regime has ushered in a more formal framework of risk identification, measurement, assessment and control that includes group and operational risks for the first time.

The FSA expects organisations to embed risk and capital controls into the management of the business as part of its prudential regime. While some might complain about the cost and burden of compliance, these would appear modest when compared with the sums that can be wiped off share values if lapses in probity, underwriting or financial reporting come to light. However, regarding compliance as the only or main objective of risk management may miss an opportunity to enhance the quality of decision-making through better information about the balance of risk and reward, and gain greater assurance that the business can move forward without the threat of unforeseen losses.

**Governance and organisation**

Risk management is now a top level priority in the London Insurance Market. Risk is discussed by the board at least monthly in nearly 90% of the organisations we surveyed. Almost all have some form of risk function, with the CEO/Chairman having overall responsibility for risk in more than half of respondents’

‘The key to risk management is very clear ownership of risks and controls, underpinned by transparency and a proactive process of review.’

Survey respondent
organisations. A chief risk officer (CRO) reports regularly to executives in more than 60% of those surveyed.

The strength of risk governance and the executive sponsorship that underpins it is reflected in the fact that more than 80% of respondents have developed fully defined and documented policies and procedures for risk-taking activities. Nearly 70% also believe the roles and responsibilities for their risk management programme are well understood within the company.

It appears from our survey, however, that the direction and organisation of risk management may not be quite as assured. Less than 40% of respondents were confident that their risk management strategy was fully understood and little more than 30% stated that the benefits of implementing the risk management process had been fully articulated and communicated within the organisation (see Figure 1).

**Figure 1: To what extent do you agree or disagree with each of these statements about your organisation?**

- Our organisation has clearly defined and documented policies and procedures for risk-taking activities
  - Mean: 4.81
  - Strongly disagree: 19%
  - Slightly disagree: 36%
  - Slightly agree: 56%
  - Strongly agree: 6%
  - Neutral: N/A

- Roles and responsibilities for risk management have been defined, documented and communicated throughout the organisation
  - Mean: 4.50
  - Strongly disagree: 12%
  - Slightly disagree: 62%
  - Slightly agree: 19%
  - Strongly agree: 6%
  - Neutral: N/A

- We have a common terminology for the risk management process that is well understood throughout the organisation
  - Mean: 3.88
  - Strongly disagree: -13%
  - Slightly disagree: 62%
  - Slightly agree: 19%
  - Strongly agree: 6%
  - Neutral: N/A

- A comprehensive risk categorisation and assessment model has been defined and communicated to the organisation
  - Mean: 4.31
  - Strongly disagree: -6%
  - Slightly disagree: 50%
  - Slightly agree: 44%
  - Strongly agree: 6%
  - Neutral: N/A

- Our organisation has progressed from risk identification and measurement to active risk mitigation and management
  - Mean: 4.06
  - Strongly disagree: -13%
  - Slightly disagree: 56%
  - Slightly agree: 31%
  - Strongly agree: 6%
  - Neutral: N/A

- Management information supports the risk framework objectives
  - Mean: 3.88
  - Strongly disagree: -6%
  - Slightly disagree: 69%
  - Slightly agree: 13%
  - Strongly agree: 12%
  - Neutral: N/A

- Risk management is fully integrated with business planning and strategic business decisions
  - Mean: 3.75
  - Strongly disagree: -6%
  - Slightly disagree: 56%
  - Slightly agree: 13%
  - Strongly agree: 25%
  - Neutral: N/A

- Our organisation has articulated and communicated the benefits of implementing the risk management process
  - Mean: 3.88
  - Strongly disagree: -12%
  - Slightly disagree: 38%
  - Slightly agree: 31%
  - Strongly agree: 19%
  - Neutral: N/A

- The data and reporting environment is flexible enough to accommodate changing views of risk and customer relationships
  - Mean: 3.75
  - Strongly disagree: -6%
  - Slightly disagree: 56%
  - Slightly agree: 13%
  - Strongly agree: 25%
  - Neutral: N/A

- The ICA process is integrated with the risk management framework
  - Mean: 4.47
  - Strongly disagree: 0%
  - Slightly disagree: 50%
  - Slightly agree: 44%
  - Strongly agree: 6%
  - Neutral: N/A

- The ICA model output is considered during strategic planning and business decision-making
  - Mean: 4.33
  - Strongly disagree: -6%
  - Slightly disagree: 32%
  - Slightly agree: 50%
  - Strongly agree: 6%
  - Neutral: N/A

Source: PricewaterhouseCoopers 2005
When asked at what level their risk management programme is operating, only half the respondents reported that their risk committee is managing risks as effectively as intended (see Figure 2). A significant proportion acknowledged that there were aspects of the set up or operation that could be improved. Although most participants seemed confident about the allocation of responsibilities, separate audit, executive and board committees all appeared to...

### Figure 2: For each of the issues listed below, please indicate at what level your organisation’s risk management programme is operating.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Mean Score</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Level 4</th>
<th>Level 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>A clear vision and goals have been established for risk management</td>
<td>4.31</td>
<td>13%</td>
<td>44%</td>
<td>43%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business units are involved in defining the risk management initiatives</td>
<td>4.19</td>
<td>6%</td>
<td>13%</td>
<td>50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A risk committee is established and actively managing risks</td>
<td>4.13</td>
<td>6%</td>
<td>6%</td>
<td>32%</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>The risk management function/team is responsible for setting organisation-wide standards for risk management</td>
<td>3.94</td>
<td>13%</td>
<td>19%</td>
<td>31%</td>
<td>37%</td>
<td></td>
</tr>
<tr>
<td>The company utilises an effective self-assessment process annually as part of the strategic planning process</td>
<td>3.56</td>
<td>13%</td>
<td>6%</td>
<td>12%</td>
<td>50%</td>
<td>19%</td>
</tr>
<tr>
<td>All risk management processes and controls are evaluated according to frequency, completeness, timeliness, consistency and sophistication</td>
<td>3.66</td>
<td>25%</td>
<td>63%</td>
<td>12%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Escalation triggers are tiered through the organisation up to the CEO</td>
<td>3.56</td>
<td>19%</td>
<td>19%</td>
<td>31%</td>
<td>31%</td>
<td></td>
</tr>
<tr>
<td>Risk indicators are available to management at any time during the month</td>
<td>3.13</td>
<td>12%</td>
<td>13%</td>
<td>6%</td>
<td>31%</td>
<td>19%</td>
</tr>
<tr>
<td>Correlations between indicators and losses are understood and leading indicators are utilised for predictive analysis</td>
<td>2.56</td>
<td>19%</td>
<td>31%</td>
<td>25%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Process improvements or additional mitigation based on analysis of risk events are developed and implemented</td>
<td>4.00</td>
<td>25%</td>
<td>50%</td>
<td>25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal audit and other oversight functions review risk events based on predetermined criteria</td>
<td>3.69</td>
<td>13%</td>
<td>31%</td>
<td>31%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>A risk management training programme is established and operating effectively</td>
<td>2.47</td>
<td>6%</td>
<td>25%</td>
<td>19%</td>
<td>31%</td>
<td>19%</td>
</tr>
<tr>
<td>Risk management process improvement efforts are viewed as long-run business enablers and not as a cost to be controlled</td>
<td>3.81</td>
<td>6%</td>
<td>25%</td>
<td>44%</td>
<td>25%</td>
<td></td>
</tr>
</tbody>
</table>

Mean scores: 1 = Practice is not in place or is not followed, 5 = Practice is in place and operating effectively

Source: PricewaterhouseCoopers 2005
have some say in risk management in at least two-thirds of those surveyed, which could give rise to some confusion.

The survey also raised questions about the level of risk-related skills and understanding, especially as less than 20% of respondents confirmed that risk management training is available on anything more than a limited ad-hoc basis. One potential benefit of systematic risk-related training is in instilling a common ‘language’ of risk throughout the organisation. It is therefore less surprising that fewer than 20% of respondents reported that a common terminology of risk is fully understood within their companies.

The particular objectives and expertise of the CRO are clearly critical in ensuring that risk management is understood, valued and instilled within the business. The CRO is also emerging as a pivotal link between risk and the business in many organisations. However, a significant proportion of participants see the CRO’s primary function as compliance or internal audit. Similarly, while our respondents’ CROs are drawn from a variety of professions, around a third of them have a background in compliance.

Clearly, some organisations are not large enough to justify a full-time CRO post, so staff will be engaged in other activities. However, blurring the lines between risk management, compliance and internal audit could not only raise regulatory hackles, but also make it harder to embed risk management into the business. Seeing risk through a compliance perspective may also encourage a ‘can’t do’ rather than a ‘can do’ ethic that concentrates on loss avoidance, rather than improving the organisation’s capacity to take risks and capitalise on opportunities. Some participants believe that improvements in risk management in areas such as pricing and aggregation monitoring are the key difference between this and the previous cycle downturn, in particular by helping them to offer competitive, technically-driven prices that are still profitable or to walk away from business that is no longer viable.

Vision and objectives

The scale and complexity of ICAS implementation have been very significant and clearly it may be some time before companies are able to move beyond compliance to realise the potential business benefits of a more informed and systematic approach to risk/capital management.

For some, however, the ‘best practice’ being promoted by the FSA will always be little more than a costly regulatory distraction. Only a quarter of respondents view risk management process improvements as business enablers rather than a cost to be controlled. Barely 40% are
confident that a clear vision and goals have been established for risk management within their organisations. Only half have considered their ICA model output during strategic planning and business decision-making.

The tendency to see risk management as primarily a compliance, rather than a business, issue is especially evident in relation to operational risk, a key focus of the ICA. All respondents identified regulation as one of the key drivers for implementing their operational risk management programme, many of them as the primary impetus (see Figure 3).

However, only a quarter cited competitive advantage and less than 20% audit recommendations as deciding factors.

This scepticism appears to stem from what many regard as the arbitrary nature of operational risk evaluation. ‘Operational risk is just a bucket for all the risks that don’t fit anywhere else,’” said an interviewee. The apparent lack of conviction can be seen in the fact that around 20% of respondents have yet to develop methodologies for operational risk quantification and only a quarter have so far sought to embed it in the organisation (see Figure 4 overleaf). This challenge is, it should be stressed, common across banks and insurers.

Certain aspects of operational risk, as defined by the FSA, may not be as relevant to the London Market as others. For example, a rogue underwriter would probably require multiple collusion to succeed in a subscription market. ‘The individual’s company would have to write 100% of the risk and he or she would have to know someone in both the central bureaux and the broker,’’ said an interviewee. A more tangible example of how and where failure to manage operational risk might affect the business is outsourcing, which could cover both direct contracts and the provision of services by brokers. It is telling that less than 40% of respondents carry out any more than partial or ad-hoc performance reviews, or have business resumption and contingency plans in the event of disruptive incidents at outsourced services providers that are regularly tested (see Figure 5 overleaf).
The survey also raised questions about the translation of risk appetite into business parameters and tangible strategic and operational objectives. Although more than 60% of respondents had considered their risk appetite in relation to all risk categories, less than 40% had fully aligned the results of this work with their authority limits or communicated it to the organisation (see Figure 6). Less than half are confident that their risk appetite has been clearly defined or that they fully assess their individual and aggregate risk exposures against their stated risk appetite on an ongoing basis.

It does appear from our survey, however, that attitudes may be beginning to change. ‘I think we started the process of risk management and other regulatory issues because we knew we had to. However, we’ve actually seen benefits through the course of actually devising it and implementing it and it’s becoming a very useful management tool,’ said an interviewee.

A number of participants identified improvements in the transparency of their operating targets and underwriting discipline as important.
benefits. ‘We now have enough management information to look at what an underwriter is doing and compare it against the technical price, movements in rates and our overall profitability targets. At the very least, the information is convincing enough to be able to raise points and if necessary get the underwriter to change course without all the politics of before,’ said an interviewee. However, even in this organisation it appears that old attitudes die hard. ‘We’ve got our underwriters to look at every risk more carefully. Yet they still call it administration rather than regarding it as an underwriting process or technique. Once we’ve addressed that, I think it will become more of an integral part of how they work.’

Making it happen

Although risk management is moving up the agenda, it appears that many organisations are still finding it difficult to bring their vision of risk out of the boardroom and into the underwriting, claims and back-office functions. In particular, while the documentation of policies and procedures is often very strong, their practical implementation and integration with business planning, management information and the day-to-day operations of the organisation are generally more limited.

While the majority of respondents replied that overall responsibility for risk management lies with the CEO/Chairman and the board,

‘The developments in risk management have made it easier for us to control the underwriting side.’

Survey respondent

Figure 6: Please indicate how each of the following statements regarding risk appetite best describes your organisation.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean scores</th>
<th>1 = No</th>
<th>2 = No</th>
<th>3 = Yes, fully</th>
<th>4 = Yes, fully</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall risk appetite has been clearly defined and documented</td>
<td>Mean: 2.44</td>
<td>44%</td>
<td>56%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Board has considered and agreed the risk appetite</td>
<td>Mean: 2.50</td>
<td>50%</td>
<td>50%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>The risk appetite for all risk categories has been considered</td>
<td>Mean: 2.56</td>
<td>63%</td>
<td>31%</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>Risk appetite of the organisation has been assessed using quantitative as well as qualitative measures</td>
<td>Mean: 2.31</td>
<td>56%</td>
<td>38%</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>The above tolerances are subject to scenario testing to assess robustness</td>
<td>Mean: 2.31</td>
<td>69%</td>
<td>31%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Individual and aggregate risk exposures are assessed against risk appetite on an ongoing basis</td>
<td>Mean: 2.44</td>
<td>56%</td>
<td>44%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Risk appetite has been aligned with the authority limits structure and communicated to the organisation</td>
<td>Mean: 2.38</td>
<td>63%</td>
<td>37%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>
barely 10% of respondents have fully integrated risk management with business planning and strategic business decision-making. Only around 30% have been able to translate risk identification and measurement into active risk mitigation and management. Even fewer routinely develop and implement process improvements and risk mitigation measures in response to analysis of risk events.

A similar picture emerges in relation to specific risks. As Figure 7 highlights, the procedures for limits monitoring and exceptions approvals for insurance, credit and liquidity risks were generally fully or partially developed and implemented. However, the comparable procedures for other risks, namely, market, operational and group risks, were far less advanced.

The management of credit risk is revealing. The risk function has a range of important responsibilities in relation to credit risk, including the annual review of credit policy (75%), monitoring of concentration limits (63%) and approval of reinsurance strategy (50%) (see Figure 8).

As Figure 9 highlights, the methodologies for managing credit risk exposure are reasonably well defined and documented. Analysis is often quite extensive, with more than two-thirds augmenting external credit ratings with their own financial analysis of the credit risk associated with their reinsurance partners (see Figure 10 on page 41).

However, many respondents appeared less confident that these policies and procedures are well understood or embedded into the fabric of the business. Training is
limited, as may be the tools and available data. Only around 30% of respondents have a suitably robust and comprehensive credit risk loss database (see Figure 11 on page 42). Little more than 30% were confident that their credit risk reports can help management to make proactive decisions.

Nonetheless, the findings of our survey indicate that business and risk management are becoming increasingly integrated within a number of London Market insurers and this trend is set to continue. For example, most reported that risk management is at least partially aligned with strategic

Figure 8: From the list provided below, please highlight the responsibilities of the risk function in relation to credit risk.

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual review of credit policy</td>
<td>75%</td>
</tr>
<tr>
<td>Concentration limits monitoring</td>
<td>63%</td>
</tr>
<tr>
<td>Approval of reinsurance strategy</td>
<td>50%</td>
</tr>
<tr>
<td>New counterparty approvals</td>
<td>44%</td>
</tr>
<tr>
<td>New classes of business approvals</td>
<td>31%</td>
</tr>
<tr>
<td>Review/adjudication of internal credit ratings</td>
<td>31%</td>
</tr>
<tr>
<td>Industry and/or portfolio reviews</td>
<td>25%</td>
</tr>
<tr>
<td>Country risk reviews</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
<tr>
<td>None of the above</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers 2005

Note: Totals >100% due to multiple response

Figure 9: To what extent does your organisation have in place methodologies for credit risk exposure aggregation that are clearly defined, thoroughly documented and well understood by line managers and credit professionals?

<table>
<thead>
<tr>
<th>Methodology</th>
<th>Mean Score</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clearly defined</td>
<td>4.31</td>
<td>50%</td>
</tr>
<tr>
<td>Thoroughly documented</td>
<td>4.00</td>
<td>50%</td>
</tr>
<tr>
<td>Well understood</td>
<td>4.06</td>
<td>37%</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers 2005

Mean scores 1 = Strongly disagree 5 = Strongly agree
Risk management continued

planning. Similarly, while only a quarter of those surveyed currently use escalation triggers to facilitate the identification, assessment and proactive control of operational risk, more than two-thirds plan to have them in place within the next year (see Figure 12).

It would appear that many insurers outside the London Market have also been facing equally significant difficulties in implementing their risk management programmes and realising the benefits. A worldwide survey of enterprise-wide risk management in the insurance industry*, published by PricewaterhouseCoopers in 2004, found that even some of the largest insurers have been finding it hard to make headway in the face of uncertain direction and understanding.

Many of those questions were repeated in this survey. A comparison of the findings revealed that London’s attainments and expectations are as good, if not better, than many of its global counterparts, though some of the developments in the London Insurance Market may have taken place since the global survey was carried out.

It is interesting that only around 20% of global insurers had fully defined their policies and procedures for risk taking activities, compared to more than 80% in the London Market. Around 40% of London Market insurers have access to most, if not all, key risk indicators at any time in the month, compared to just 14% of respondents in the global survey. This stems, in part, from the fact that

**Figure 10: How does your organisation actively measure and monitor the credit risk associated with doing business with your reinsurance partners either as a cedant or as a retrocessionaire?**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P ratings</td>
<td>84%</td>
</tr>
<tr>
<td>AM Best ratings</td>
<td>88%</td>
</tr>
<tr>
<td>Your own financial analysis is performed</td>
<td>69%</td>
</tr>
<tr>
<td>Fitch ratings</td>
<td>25%</td>
</tr>
<tr>
<td>Moody’s ratings</td>
<td>25%</td>
</tr>
<tr>
<td>Other</td>
<td>36%</td>
</tr>
</tbody>
</table>

Note: Totals >100% due to multiple response

Source: PricewaterhouseCoopers 2005

* Enterprise-wide Risk Management for the Insurance Industry: a study published by PricewaterhouseCoopers in 2004. Free copies are available for order or download from www.pwc.com/financialservices
the UK as a whole is often ahead of many territories in the way it manages risk. It may also reflect, however, the more straightforward operational environment within the London Insurance Market, which can make it easier to establish key risk indicators.

It is also interesting that the relative sophistication of the London Market’s risk management capabilities is most noticeable in relation to what many would regard as the most advanced aspects. For example, more than 60% of London Market insurers have at least partially (31%) or fully (31%) developed and put in place escalation triggers that are tiered through the organisation up to the CEO. The comparable figure in the industry as a whole is just 40%, of which only 7% are in place and operating effectively.

Ultimately, both studies underlined the extent of the hard work ahead. For example, barely a quarter of respondents in either survey reported that correlations between indicators and losses are even partially understood or that leading indicators are utilised for predictive analysis on any more than a rudimentary or ad-hoc basis.

<table>
<thead>
<tr>
<th>Tool/Procedure</th>
<th>Currently in Place</th>
<th>Plan to have in place in &lt;1 yr</th>
<th>No plans to put in place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-assessment</td>
<td>6%</td>
<td>94%</td>
<td>0%</td>
</tr>
<tr>
<td>Risk maps/flows</td>
<td>12%</td>
<td>19%</td>
<td>75%</td>
</tr>
<tr>
<td>Risk indicators</td>
<td>0%</td>
<td>44%</td>
<td>56%</td>
</tr>
<tr>
<td>Escalation triggers</td>
<td>6%</td>
<td>25%</td>
<td>69%</td>
</tr>
<tr>
<td>Loss event database</td>
<td>19%</td>
<td>25%</td>
<td>56%</td>
</tr>
<tr>
<td>Balanced scorecards</td>
<td>13%</td>
<td>31%</td>
<td>56%</td>
</tr>
<tr>
<td>Standardised risk categorisation</td>
<td>6%</td>
<td>19%</td>
<td>84%</td>
</tr>
<tr>
<td>Risk management policies for individual operational risk classes</td>
<td>19%</td>
<td>19%</td>
<td>69%</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers 2005
Called to account

Finance function effectiveness

- Drowning in paper
- Objectives for improvement
- Dealing with regulation
- Retention and development
The finance team can too often be seen as a ‘scorekeeper’ rather than as an important source of expertise and information that can proactively add value to the business. Despite having a clear vision for the future, could the demands of external reporting make it difficult for the finance function to take on a more strategic role?

Finance teams have helped to spearhead many of the most important developments in the London Insurance Market in recent years in areas ranging from new capital structures to technical pricing and dynamic financial analysis. Their input will be crucial in enabling companies to manage the cycle. In particular, they can help to identify and target the best performing business and ensure that strategy and operations are geared to meeting investor expectations for risk and return.

However, most find themselves increasingly weighed down by a welter of often multiple financial statements, regulatory returns and other external reports. Preparations for the first full set of statements under the new International Financial Reporting Standards (IFRS) can only add to the strain for many. The new regime is also likely to intensify the spotlight of transparency through new and enhanced disclosures in areas ranging from risk to acquisitions, though in the medium term IFRS should ease some of the reporting burden.

Drowning in paper

Finance teams make up an average of around 10% of our respondents’ headcount, though in some firms it is more than 20%. An average of around 40% are professionally qualified accountants. The average cost of maintaining the finance function is 0.8% of gross earned premium, though in some cases this ranged up to 2.1%. An average of around 60% of finance costs relate to personnel, with the remainder going to pay for IT, premises and other such non-staff expenses.

Nearly 50% of staff time, and in some case up to 80%, is taken up with back office functions including budgeting, transaction processing and, perhaps most
Called to account  

onerous of all, reporting. External demands range from financial statements to FSA returns, which in some cases may need to be produced at a syndicate, subsidiary and/or holding company level. Some structures are even more complex, requiring yet more work. It is telling that while the average number of days required for full ledger close is 16, some participants can achieve this in three days while others need up to 40. Similarly, while the average number of days taken to produce accounts for the UK holding company is roughly 45, some take up to 120 days.

Other routine middle-office functions such as the management of tax and working capital take up around a quarter of staff time. However, many CFOs also have a range of other functions reporting to them. Around two-thirds oversee the actuarial department, around a half IT, compliance and internal audit and a third risk management. Nearly 20% are also responsible for claims and human resources. In short, many CFOs are forced to keep a lot of plates spinning at the same time and may even find themselves effectively doubling up as chief operating or chief risk officers.

Our survey revealed that respondents believe they are generally on top of this workload. More than two-thirds reported no slippage from the original timetable in the delivery of all external reporting in the last annual disclosure cycle. The remainder experienced delays of no more than five days.

However, the findings on transaction processing suggest that meeting targets and timelines could be stretching resources and potentially undermining the quality of the output. While nearly 90% of respondents had consistently been able to meet their month-end close deadline over the previous six months, nearly 40% reported that this had required disproportionate effort and overtime (see Figure 1).

More than 90% maintain an organisation plan outlining the requirements in areas such as report generation, dependencies, timelines, roles and responsibilities. Tellingly, however, fewer plans tend to cover

‘Finance can’t assist the business when there is so much reporting.’

Survey respondent

Figure 1: Is there disproportionate effort and overtime required to meet the existing monthly close timetable?

Source: PricewaterhouseCoopers 2005
standards for quality, accuracy, completeness and compliance (see Figure 2). Moreover, most respondents do not use external benchmarks to assess their performance on a continual basis. ‘We would if we could find suitable data and benchmarks to compare ourselves against,’ said an interviewee.

These processing and reporting responsibilities leave little time for front-office support, including the provision of effective management information, forecasting, performance management and investor relations that generally add most value to the business. An average of around 15% of finance time is spent on these tasks, though some respondents have found that they can devote as little as 10% or even 5%.

It is little wonder, therefore, that barely 40% of respondents view their finance team as a strategic partner capable of playing a proactive role in the management of the organisation (see Figure 3 overleaf). However, the fact that most of the rest believe this is partially the case suggests that the potential is there. Less than 10% viewed the finance function as simply a production line of accounting and statutory information (see Figure 4 overleaf).

The reporting burden is onerous, yet is unlikely to ease, in the short-term at least. The changing accounting requirements and enhanced disclosure under IFRS could leave finance teams even more stretched. Some may find that they have to rely more on outside help or ‘quick fix’
Called to account  

spreadsheet solutions. Companies may find themselves in the same costly cul-de-sac when the next set of accounts fall due, unless the necessary skills and systems are available in-house and they are able to look beyond immediate deadlines at how to develop sustainable IFRS-compliant procedures. Although IFRS is currently confined to listed companies, the accounting principles covering other entities in the UK are being brought into line with the new standards.

For many, the problem is not necessarily the workload, but the often inadequate and incompatible patchwork of systems that are used to accomplish it. As Figure 5 highlights, nearly half of respondents complained about problems with manual processes during the last reporting cycle. One in five experienced difficulties with poor quality data and delays from systems interfaces not operating properly. It is also noticeable that some of the late delivery is caused by information

Figure 3: ‘Finance is seen as a strategic business partner to the organisation, not just as producing accounting and statutory information.’ To what extent do you agree with this statement?

![Figure 3](image-url)

Source: PricewaterhouseCoopers 2005

Figure 4: ‘Finance plays a proactive role in helping to manage the organisation rather than just delivering management accounts from the previous month.’ To what extent do you agree with this statement?

![Figure 4](image-url)

Source: PricewaterhouseCoopers 2005
not being supplied on time by other internal functions. Better co-ordination or even a dedicated project manager may help to resolve some of these difficulties.

In the long run, IFRS could help to simplify disclosure through more comparable and compatible reporting systems. We are already seeing moves to align financial and regulatory capital reporting in preparation for the EU’s Solvency II regime, which could provide valuable synergies in some of the most taxing areas of work such as risk modelling and scenario analysis. Growing co-operation between the International Accounting Standards Board and the US Financial Accounting Standards Board also holds out the prospect of harmonised global reporting.

Figure 5: At the last annual reporting cycle, what areas were the most problematic in the reporting process?

Source: PricewaterhouseCoopers 2005
Objectives for improvement

Nearly two-thirds of respondents said that they have a clearly articulated forward-looking vision for the finance function that is understood within the organisation and integrated into the overall corporate mission. In most cases, this includes formalised delegation of authorities and defined roles and responsibilities.

A number of companies are looking to improve the speed and efficiency of disclosure through the deployment of more sophisticated data management systems including data warehouses. This can help to eliminate data processing errors, cut down on the time taken to produce multiple reports and ensure greater consistency in source data. It could also help to streamline management information, including the development of exception reports and corporate dashboards. Nearly a third of respondents use a balanced scorecard and more than 40% use external benchmarks to assess and manage performance. Participants reported resulting improvements in a number of key areas including working capital and credit control.

A number of leading companies have also begun to include non-financial value drivers in their management reports. As Figure 6 reveals, more than half incorporate benchmark data about people, around a third about reputation and more than a quarter on brands and customers, though it is still unusual to report on innovation within the management information.

![Figure 6: Do the internal management reports and measures address the following categories of long-term future value along with benchmarks?](image)

Source: PricewaterhouseCoopers 2005

Note: Totals >100% due to multiple response
Nonetheless, it is surprising that the availability of balanced scorecards and non-financial information is not more extensive. It is especially telling that only 40% of respondents seek to assist decision-making by incorporating emerging claims trends in their internal reporting (see Figure 7).

An equally mixed picture emerges in relation to business planning. The short-term business plan is typically translated into the organisation’s budget for the next year and into the long-term forecast for the years thereafter. However, only a quarter have fully established a formal framework that documents the key issues that need to be considered while developing the business plan, including scope, objectives, extent of scenario analysis, potential issues and review procedures. Nearly 40% have no formal feedback programme to measure the effectiveness of the planning and forecasting processes and reports.

‘There is no point producing information that is not looked at.’
Survey respondent
Called to account  

Dealing with regulation

The burden of compliance is likely to be a key influence on the effectiveness of the finance function, both directly in meeting increasingly exacting regulatory demands, and indirectly in how much time it leaves for other activities. Most respondents appear to be managing regulation reasonably effectively. As Figure 8 highlights, more than 90% of respondents have a formal process for tracking any regulatory changes that might affect finance and ensuring the impact is evaluated and communicated around the organisation. More than 80% systematically update policies and procedures and roles and responsibilities.

Many participants will be required to demonstrate compliance with the Sarbanes-Oxley Act as a result of their parent company’s US listing. Fewer than half of these have done so as yet. Of those that have completed the implementation phase, some are beginning to recognise the benefits. One already uses the Sarbanes-Oxley review as the key control in ensuring that all data/measures reported to management are always reconciled against the underlying records.

‘We use Sarbanes-Oxley as a benchmark. It helps the CFO to sleep better at night.’

Survey respondent

Figure 8: Is there a formal process in place whereby:

- The impact of compliance changes is evaluated and communicated: 94%
- The key regulatory compliance changes impacting finance are immediately known: 94%
- Finance roles and responsibilities are defined: 88%
- Business processes and computer systems changes are documented: 81%
- The finance policies and procedures are created or updated: 81%

Note: Totals >100% due to multiple response

Source: PricewaterhouseCoopers 2005
Retention and development

The increasing demands on the finance function are making it harder to recruit qualified personnel and putting existing teams under strain. Staff turnover in 2004 was around 10% on average, though for some it was up to 15%. However, recruitment and retention policies are still often reactive. While all job descriptions include a clear definition of the required skills, only around a third of respondents carry out analysis to identify the skills needed to meet changing requirements and pinpoint any gaps.

Recruitment is increasingly expensive, encouraging many respondents to improve training and focus on career development and promotion from within the organisation. Around two-thirds of respondents operate a quality improvement programme and more than 80% offer structured training for all finance staff. However, as Figure 9 highlights, in most cases this is fewer than five days per year. With so much of this time being taken up by enabling staff to keep abreast of the latest accounting and regulatory changes, it is debatable how much this training helps finance personnel to think strategically and support decision-making.

Almost all participants also offer personal development plans covering such areas as technical skills or career planning. Some companies have gone one stage further by linking training directly to their performance appraisals and offering share options as an incentive. Few, however, offer help with the work-life balance conundrum, despite the potential for burn-out. Moreover, less than half have formal succession plans, which is surprising given the growing competition for senior personnel.

It is perhaps fitting that the report into the findings of our latest London Insurance Market survey

Figure 9: How many days of training do finance function staff undertake annually?

<table>
<thead>
<tr>
<th>Days of Training</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 10 days</td>
<td>6%</td>
</tr>
<tr>
<td>6-10 days</td>
<td>6%</td>
</tr>
<tr>
<td>3-5 days</td>
<td>69%</td>
</tr>
<tr>
<td>1-2 days</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: PricewaterhouseCoopers 2005
Called to account  

should end with succession plans as the Market is entering a difficult environment that will test the resolve, strategic insight and other leadership qualities of today’s senior management. Although question marks remain, many organisations are laying the foundations for a broader portfolio, stronger risk management and a more effective finance function. Their performance over the next 12 months will reveal whether they can realise the benefits.
London Insurance Market

Background
The London Insurance Market is a subscription market in which large primary risks and reinsurance covers are traded and in 2005 comprises:

- 62 Lloyd’s syndicates (backed by individual Names or corporate capital);
- UK-domiciled insurers and reinsurers; and
- UK subsidiaries and branches of US, European and international insurers and reinsurers.

Total capacity in the London Insurance Market is of the order of £25 billion, of which nearly £14 billion is provided by Lloyd’s.

The London Insurance Market is a centre of underwriting expertise, especially in specialist risks such as aviation, marine and energy.
Contacts
If you would like to discuss any of the issues raised in this survey in more detail please speak to your usual PricewaterhouseCoopers contact or one of the partners listed below:

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**Producing the survey**

We are extremely grateful to all the organisations and executives who kindly gave their time to the development of this survey, and in particular the openness with which they discussed the issues facing their industry.

The research and production of this survey report involved a large team of people and we would like to thank the following for their valuable contribution:

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For information on other insurance and financial services related publications or if you would like additional copies of this survey please contact Louise Hayter, Senior Manager, Global Insurance Marketing, on 44 20 7804 7083 or email louise.v.hayter@uk.pwc.com

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