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The London Insurance Market

Delivering maximum value to capital providers

Operational drivers in the London Market – a survey of insurers*

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Contents

Introduction

2003 was another strong year for the London Insurance Market as record profits were generated on the back of record capacity.

Outlooks for 2004 and 2005 are positive, notwithstanding the softening of rates in many key sectors, according to our latest survey of the operational drivers that will shape the future direction and performance of the market.

Yet, have London Market insurers translated the benefits of hard rates and a relatively benign claims environment into sufficient value for capital providers over the last three years, given the notoriously cyclical nature of the market? As new capital has continued to be made available, the answer is a resounding yes, though it is perhaps telling that at this relatively favourable point in the underwriting cycle, some respondents have set return on equity (RoE) targets of only 15% for 2004, compared with actual returns achieved in 2002 and 2003 in excess of 20%.

Do such rewards match the inherent risks of the business being written, especially when compared with less volatile 'defensive' stocks or even the risk-free rate of return? Capital providers certainly appear to think so, although the ability to sustain an average RoE of 15% across the cycle is seen by some as a more elusive goal.

Two years ago, when we carried out the first of these annual surveys, few London Market insurers could reliably allocate capital to a class of business. Now, many can set measures for individual underwriters which are driven by return on capital targets. Such developments are a testament to the rapid advances in the analytical capabilities that are helping to enhance the basis for decision-making across the market. Further impetus is coming from the FSA's incoming Individual Capital Assessment regime.

Such techniques will help London Market insurers to identify weaknesses and opportunities and to target investment where it can earn its best return. They will also provide valuable insights into how to improve the effectiveness and cost-efficiency of key areas of the enterprise, including reinsurance, business planning and risk management.

Rating agencies and capital providers are increasingly expecting well run insurers to apply effective capital

'Clearly there is going to be a dip in premium prices in 2005 and 2006, but rates will have to fall much further before we stop making good money.'

Survey respondent

Introduction *continued*

management to optimise their business operations and to employ the most profitable strategies. The use of these models can also allow insurers to provide additional information to investors and stakeholders, for example on the potential variability of future returns.

The reinsurance market has remained relatively hard over the past 12 months, especially in the retrocessional sector, reflecting a withdrawal of capacity in some classes and the need for reinsurers to replenish their balance sheets following widespread credit rating downgradings. The more widespread use of robust technical pricing models has also helped to maintain discipline in the reinsurance market.

In the light of these conditions, London Market insurers have understandably sought to optimise their reinsurance expenditure. By using increasingly sophisticated modelling techniques, London Market operators have been able to target their reinsurance budgets more judiciously to meet the key goals of protection against catastrophes and aggregations of risk, but without ceding profits unnecessarily.

Cost control was not high on the corporate agenda in our first two surveys. In a hard market the key focus has understandably been to maximise business volumes in order to take full advantage of the substantial rating increases following the events of 9/11. As the primary market continues to soften some London Market insurers are increasingly turning their attention to their expense ratio, as actions taken now can translate into critical benefits at the bottom of the cycle.

Our research and work with London's insurers has enabled us to identify the attributes we believe will help organisations to realise these competitive advantages and maximise returns for investors.

Key attributes include:

- A strong level of buy-in and understanding at senior management level of the organisation's capital, risk and performance management framework;

- The ability to identify and target the best performing business at a more granular level in order to maximise overall returns;

- The use of capital allocation by class of business to enable RoE considerations to drive internal demand for capacity over the cycle downturn;

- A longer term plan is in place to embed and integrate fully capital and risk management within all core processes, including underwriting and pricing;

- Reinsurance needs are determined on a multidisciplinary basis, supported by sophisticated modelling and rigorous peer review systems, to ensure that overall spend is optimised and the programme purchased matches the risks being run;

- A move towards centralised reinsurance purchasing to achieve greater efficiency and simplicity of programmes which avoid duplication of coverage across business units;

- Operating costs are driven down through the use of enabling technology wherever possible, to ensure that the best people can be recruited and retained; and

- Fixed costs across the cycle are optimised through the use of effectively managed outsourcing, with remuneration being linked to performance.

Such capabilities will be crucial in enabling London to optimise profitability in a softening market and attract investment in an increasingly competitive global marketplace.

About the survey

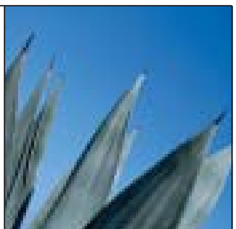
This report outlines the findings of PricewaterhouseCoopers third annual survey of the London Insurance Market. This year's survey focused on capital, reinsurance and operating costs, three of the key operational drivers in today's fast evolving market. A small number of questions were repeated from our last two surveys to enable us to continue monitoring emerging trends.

The research is based on in-depth questionnaires and face-to-face interviews with executives from Lloyd's and Company Market businesses representing more than 40% of Lloyd's capacity and combined estimated gross written premium of approximately £9 billion in 2004. 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

In broad terms the priorities selected by senior management for key operational drivers are unchanged from our 2002 and 2003 surveys.



Despite the introduction of the FSA's new capital adequacy regime, regulation has declined in importance to some extent. This reflects, at least in part, the significant efforts already put into this area by London Market insurers over the course of 2003.

Claims service and claims cost management have finally become a key priority, with lead insurers in particular seeking to strengthen their in-house claims teams.

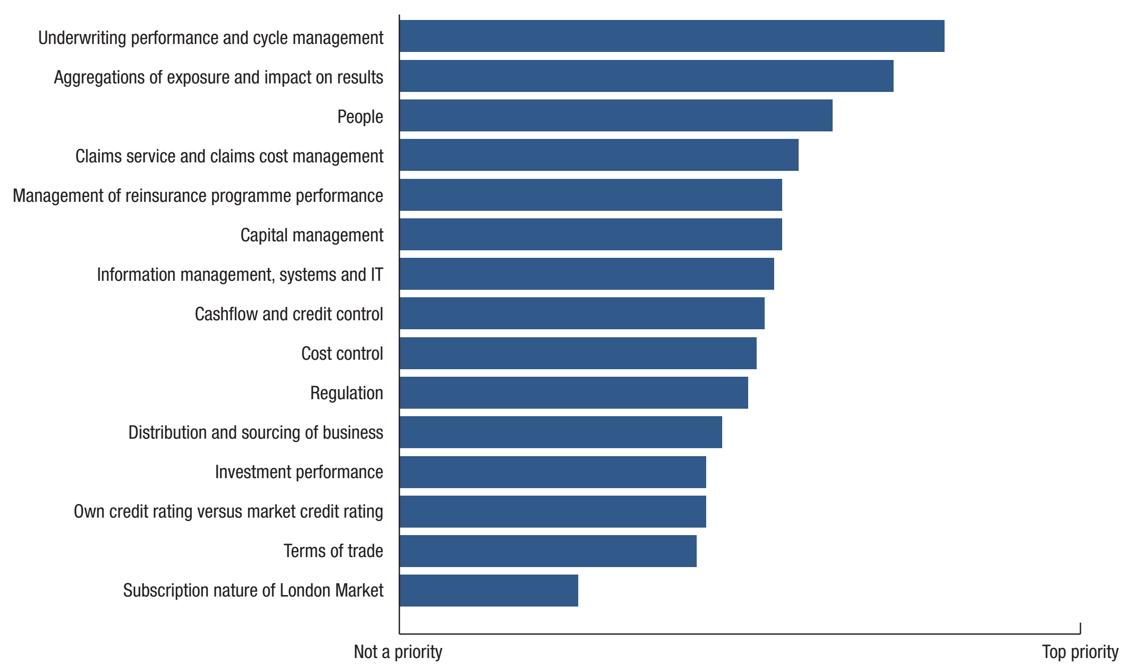
Cost control has started to attract greater attention as margins start to become squeezed in the cycle downturn.

'We have one objective and that is to make an underwriting profit. If we can achieve this our parent will give us the capital we need.'

Survey respondent

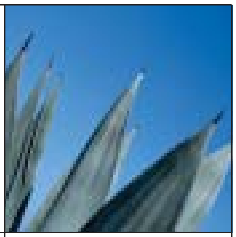
The focus on underwriting and people as key operational drivers in London Market organisations has remained constant over the past three years.

Please grade the following operational drivers according to their importance to you in 2004



Source: PricewaterhouseCoopers 2004

Executive summary *continued*



‘No model is ever going to give you the whole answer, but it can lead to more informed decisions.’

Survey respondent

Distribution and sourcing of business has also gained a greater share of the spotlight, particularly as multiple-market trading platforms and new technology continue to be embraced.

Capital management

Rates are still attractive and the outlook for profitability in the London Insurance Market remains generally favourable. ‘Now is a time to take the foot off the accelerator, rather than slam on the brake,’ said one survey respondent. However, the softening of the market through 2005 and increasing competition for capital will clearly leave little margin for error in underwriting and capital allocation decisions.

A more systematic, risk-based approach to capital management is being used to improve tactical and strategic decision-making. In particular, risk-adjusted capital models are expected to provide a better understanding of the trade-off between risk and reward, leading to more sustainable value creation.

Our survey reveals that around 40% of respondents have implemented capital models and most of the rest are in the process of doing so. Those at the forefront are already using their analyses to enhance business planning and capital allocation, as well as challenging fundamental assumptions about risk and reward. Respondents report that the process has led to ‘tighter underwriting discipline’, ‘closer alignment of organisational goals’ and ‘greater visibility of the business drivers’.

In general, however, respondents appear to be divided about whether such capabilities are yet bringing discernable benefits for their businesses, or simply reflect a regulatory burden imposed by the FSA’s incoming Individual Capital Assessment (ICA) regime. Many see the ICA regime as a ‘catalyst for best practice’, and even those organisations that started to develop capital models some time ago have acknowledged the benefits they have derived from their response to the new regulations. Others have been less effusive. While all expect to have an initial response in place to meet the FSA’s 1 January 2005 compliance deadline, some respondents will be completing their ICA projects in 2005. Some Lloyd’s operations are concerned that likely differences between the ICA and Lloyd’s Risk Based Capital evaluations could create tensions and intensify the debate about the capital efficiency of conducting business in Lloyd’s.

The business benefits of risk-based capital analysis are likely to become more evident as organisations develop their capabilities. However, to realise the full potential, respondents will need to embed their capital frameworks into the day-to-day operations of the enterprise. In particular, many of those at the forefront of these developments have yet to integrate risk and capital management fully, which we see as essential. Many respondents are also finding it difficult to secure underwriter understanding and buy-in for the use of such sophisticated capital analysis. Others have been able to overcome this problem by translating their return on capital measures into more familiar underwriting metrics such as loss ratio or combined ratio, which vary by class of business to reflect the different risk characteristics.

Reinsurance

Reinsurance expenditure represents more than 20% of respondents' gross written premium. Yet, many are questioning whether they are receiving adequate value for money from their existing reinsurance arrangements. Clearly, the current high costs stem from supply constraints within the market. However, concerns about costs appear to have been exacerbated by what some respondents see as growing problems with recovery and the withdrawal of cover to longstanding clients.

Many respondents have chosen to retain greater amounts of risk in the face of the current high reinsurance prices and what some believe was over-purchasing in recent years. 'If the business is good, why cede all the profit?' said an interviewee.

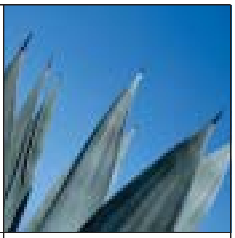
The credit rating of the reinsurer is by far the most important factor in choosing where to place cover, with 95% of respondents' business going to companies with a S&P A rating or above. However, security considerations naturally reduce choice and many are increasingly concerned about concentration of risk. Price is also clearly important, though the value attached to relationships between buyers and sellers in some cases is receding in the wake of changes in the market dynamics in sectors such as property catastrophe. Simplicity and transparency are now key considerations in choosing the nature of the programme, which may explain why so few respondents use alternative risk transfer instruments.

Losses occurring cover predominates, particularly in the Lloyd's Market, though unsurprisingly most respondents would buy more risks attaching reinsurance if it was readily available. The market for such coverages is, however, very much class-specific. While most respondents are generally satisfied with the level and transparency of their reinsurance programme, many are concerned about difficulties in securing casualty protections on an acceptable basis, especially for working layers, and also with the lack of available terrorism cover.

'High premiums and a sometimes growing unwillingness to pay are leading to a move away from reliance on reinsurance.'

Survey respondent

Executive summary *continued*



'To the best of my knowledge, excessive expense ratios have never killed an insurer, although excessive loss ratios have sunk plenty.'

Survey respondent

Looking ahead, while the board and underwriters will continue to take the lead in setting reinsurance strategy, many respondents are looking to underpin the purchasing decisions with more rigorous analysis and robust peer review. Improved modelling is helping to ensure that the reinsurance being bought more closely matches the risks being run and their potential impact on the organisation. Indeed, the survey indicates that many respondents are looking to carry out more modelling in-house and more closely align reinsurance purchasing with their overall capital evaluations. Catastrophe exposures are already thoroughly modelled, and more extensive analysis of the remaining coverage requirements is increasingly widespread. Nevertheless, while detailed analysis can tell you what you want to buy, there is no way of knowing whether it will be available at the right price and terms.

In the future we would increasingly expect to see dedicated reinsurance units set strategy and purchase reinsurance, rather than focus simply on collections, as is ever more common in leading insurers worldwide. More international groups expect to seek to leverage their economies of scale by moving to central purchasing of reinsurance, setting up their own captive arrangements or simply buying less cover than in the past by taking advantage of their relative capital strength. Around 90% of respondents believe that central reinsurance buying can reduce costs and enhance the efficiency and simplicity of the purchasing process. Ultimately, the survey suggests that as long-term relationships become less important and both buyers and sellers become more hard-nosed in certain market sectors, reinsurance is likely to become a more technical price-driven market than ever before.

Operational costs

The cycle downturn and the forthcoming squeeze on margins have led some respondents to evaluate more critically their expense ratios. Indeed, some respondents consider that they may have become complacent about their level of operating costs during the hard market.

Commissions, brokerage and staff costs dominate respondents' operational costs. Few respondents feel that they can do anything to reduce commission charges, believing that it may simply be the price of doing business in a subscription market. However, those that are looking to cut brokerage expenses may have more leverage than before.

Possibilities for savings include direct trading, rationalising the use of managing general agents in overseas markets and even establishing one's own distribution channels. Anecdotal evidence also suggests that brokers may be open to negotiation through global deals for international insurers. Some respondents also believe that electronic trading platforms will save commission costs in the future.

At 20%, staff are the second highest expense, and most would see this as an essential investment in their most valuable asset. Indeed, many respondents are looking at how to maximise the value of this 'investment' in areas ranging from improved training to the closer alignment of bonuses and other incentive schemes with explicit performance targets.

Many respondents are also continuing to look to improve cost efficiency and flexibility through outsourcing. However, they may be failing to maximise the value of this, especially as most still rely on informal performance reviews to manage their outsourced service providers. The increasing use of financial penalties and profit sharing schemes may help them to optimise results.

IT expenditure is set to increase over the next 12 months, as respondents seek to rationalise the number of legacy underwriting and claims systems in order to increase operational efficiency. However, technology advances and innovation for the market as a whole are being stifled by the reluctance of respondents to share their intellectual capital and sources of competitive advantage.

The focus on cost cutting is likely to intensify as the market softens. However, as one interviewee stressed, organisations need to act now as the benefits can take some years to be realised.

More for your money

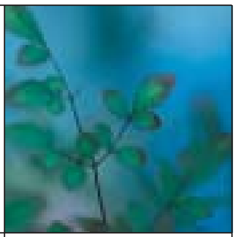
Capital availability, management and allocation

A new imperative

Model basis for decision-making

Catalyst for best practice

Realising the potential



Can the latest capital management techniques help insurers to deliver stronger and more sustainable returns across the cycle?

A new imperative

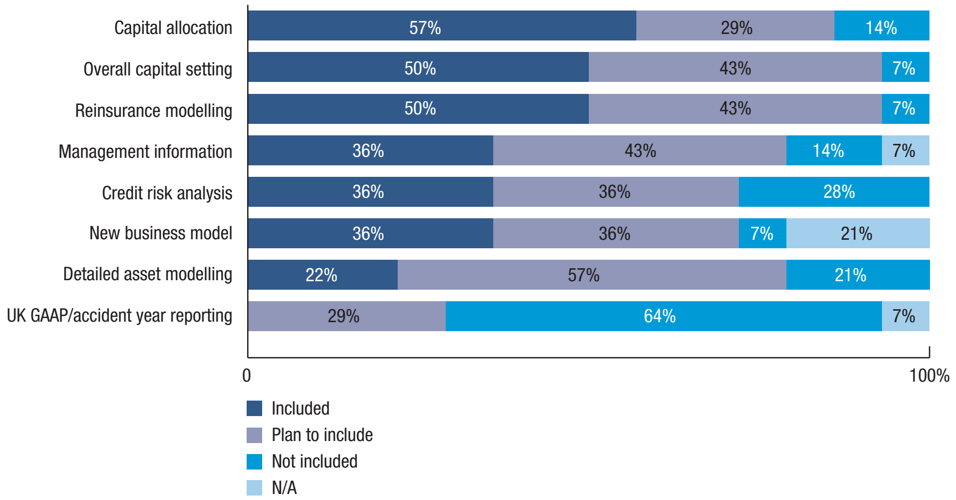
Capacity within the London Insurance Market has soared to unprecedented levels over the past three years as insurers and their investors have sought to capitalise on the environment of hard premium rates. However, the ability to manage capital in a flexible way as the market softens through 2005 and 2006 will be a key area of investor focus. In short, the time for management to show they are prepared to 'walk the talk' has arrived.

Identifying profitable risks will become harder as margins are

'You need a flexible capital base to target investment where it can earn its best return.'

Survey respondent

What features does your capital model currently have and what features do you plan to include?



Source: PricewaterhouseCoopers 2004

squeezed. In turn, available capital and resulting capacity should reduce as prices fall away. The challenge for insurers is how to maximise underwriting profitability and for their investors is judging the optimum level of capital to commit.

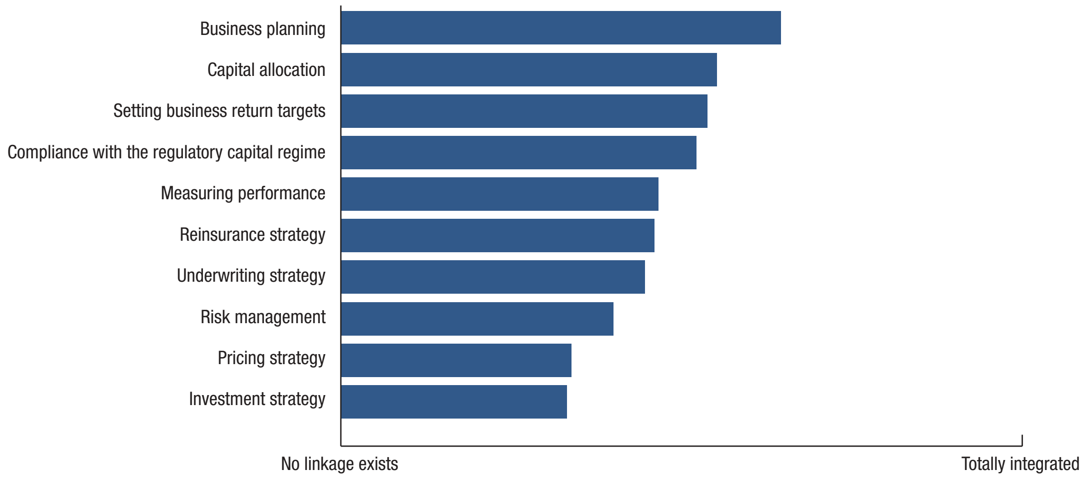
As our survey of last year underlined, the ability to maintain underwriting discipline is seen as essential in safeguarding the bottom line as rates decline. Many of those taking part in this year's survey are looking to underpin this through the development of a more systematic, risk-sensitive approach to capital management. Although few respondents have established a dedicated capital management team, more than 40% now use a capital model, while the majority of the remaining participants are currently implementing such a framework.

The development of such capabilities is still at a relatively early stage, especially in comparison with other financial services sectors. Nonetheless, most respondents now incorporate, or plan to incorporate, reinsurance, new business, capital allocation, management information, credit risk analysis, detailed asset evaluations and overall capital setting in their models.

Model basis for decision-making

Risk-based capital methodologies aim to provide a better understanding of the trade-off between risk and reward by enabling insurers to quantify the risks they

How well is your capital management process integrated with each of the following aspects of the management of the business?



Source: PricewaterhouseCoopers 2004

face, the capital needed to support them and the real risk-adjusted returns that are being made or should be targeted.

The potential benefits of such approaches include the ability to identify threats and opportunities, pinpoint where capital can earn its best return, and improve underwriting decisions in key areas such as risk pricing and risk selection.

In practice, our respondents may still have some way to go before they can realise the full benefits of such capabilities. Our survey found that the capital management process has so far been most closely integrated into the relatively high level areas of business planning, capital allocation and the setting of return targets. In contrast, operational areas such as pricing and risk management are barely in the picture at this stage, though they may follow as development gathers pace.

Lloyd's has been operating a Risk Based Capital (RBC) model at a market level for sometime; this specifies capital requirements at a syndicate level.

Many of those at the forefront of the development of in-house capital models are listed companies. Naturally, the impetus for such a systematic approach is likely to be more pronounced within a listed company, not least in justifying capital decisions to analysts and investors. However, the experience of respondents demonstrates that the capital management process can be just as relevant to other organisations. Moreover, the benefits of a more robust and objective basis for capital allocation and strategic planning can be realised relatively quickly and without necessarily requiring the full implementation of a sophisticated model.

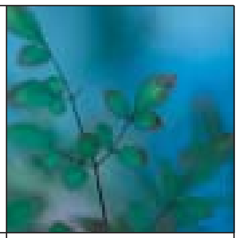
Some respondents are already using their capital management framework to set risk-adjusted target return measures for specific classes of business. Risk-adjusted evaluations can more precisely reflect claims experience, the length of the tail and other key aspects of the risk profile. Such calculations may prove especially helpful in enabling organisations to set a 'walk away' price and pinpoint business that can deliver a steady return through the cycle. 'We may be achieving a 90% combined ratio on a particular class of business, but if you look at the risk-adjusted returns it could be performing less well than classes of business with a higher but more consistent ratio,' explained an interviewee.

The development of the capital framework is also encouraging organisations to adopt a more

'The capital process has challenged our ideas and enabled us to develop a common language of risk.'

Survey respondent

More for your money *continued*

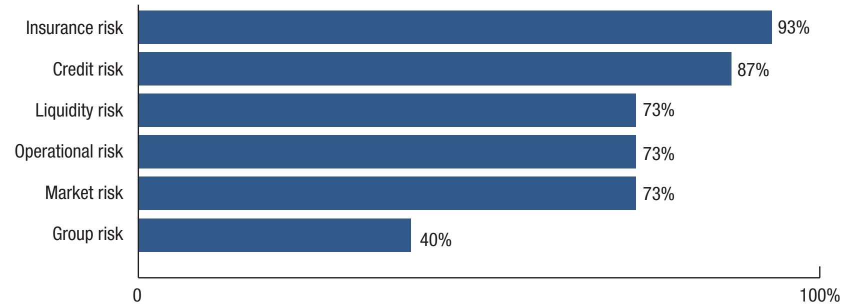


holistic approach to risk that looks beyond insurance, credit and other financial risks to cover systems failures, reputational damage and other key elements of operational risk. Around three-quarters of respondents now have procedures in place to evaluate operational risk and more than a half include it in their estimation of their capital requirements.

Clearly, operational risk is harder to quantify and model into capital evaluations than financial risk and therefore an element of subjective judgement is necessary. The potential to double-count elements of operational risk within insurance risk is also vexing many respondents, and a wide variety of techniques are being explored. However, the process in itself can help to focus attention on potential problems, how to alleviate them and how much capital to set aside to cover what cannot be fully predicted or controlled.

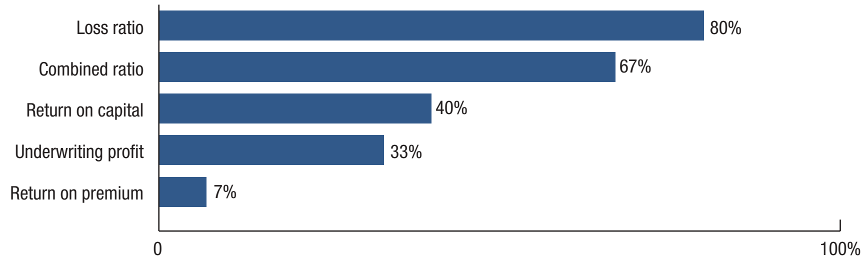
Some respondents have gone further by using the process to challenge their overall assumptions about risk

Do you have procedures in place to measure each of the following risks?



Source: PricewaterhouseCoopers 2004

How are your return requirements expressed at a class of business level?



Source: PricewaterhouseCoopers 2004

and reward. 'We asked our board to step back and consider whether it is acceptable to lose money and if so how much. As their normal discussions tended to centre on such areas as market movements or new business opportunities, this was not a question they had ever addressed in such a direct way before. Indeed, all found the exercise useful in providing a more rigorous assessment of our true risk appetite and the kind of business we want to pursue,' said an interviewee.

Ultimately, one of the most far-reaching benefits of the exercise will be in helping respondents to create a common language of risk, reward and value creation across their organisation. This language does not need to be based on any single metric. For example, 80% of respondents use loss ratios and around two-thirds use combined ratios to express their return requirements at a class of business level. This can be especially useful in gaining underwriter understanding and buy-in.

This common language can in turn help pave the way for the closer alignment between risk, capital and performance management, which can enable organisations to increase the focus on profitable business and growth. 'We are looking to our capital framework to help us deliver consistent returns by enabling us to match capital, underwriting performance and investment strategies,' one interviewee noted. Others cited the advantages of 'tighter underwriting discipline', 'closer alignment of organisational goals' and 'greater visibility of the business drivers'.

Nonetheless, respondents recognise that 'no model can provide all the answers', nor indeed 'prevent them from writing unprofitable business in a sliding market – that takes discipline'. Other drawbacks cited by respondents include 'expense', 'being blinded by numbers', 'over-reliance on models', the lack of 'buy-in' or 'comprehension' from within the business and concerns about a 'change of culture'.

Catalyst for best practice

Most respondents are preparing for the FSA's new capital adequacy regime (as set out in CP190 and PS04/16 for the Company Market and the comparable CP04/07 for Lloyd's). Although this has clearly been a significant spur for the development of capital evaluation and management capabilities, it is revealing that only 15% of respondents have totally

'The new tools will enable us to sort the good business from the bad more effectively than we used to.'

Survey respondent

More for your money *continued*

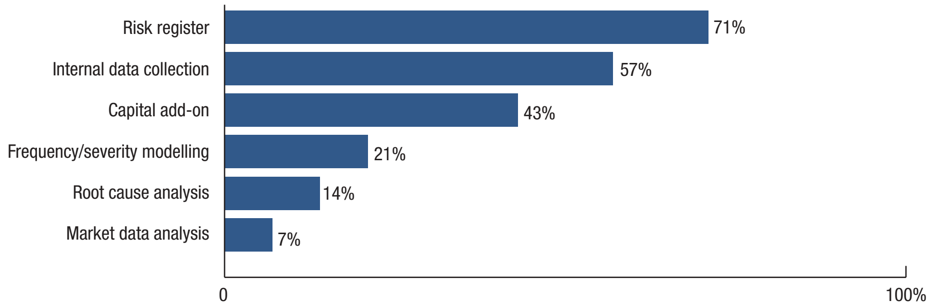
integrated their internal capital framework with the regulatory capital requirements.

Many respondents have welcomed the principles of the Individual Capital Adequacy Standards (ICAS) as a 'catalyst for best practice'. 'The FSA's requirements reflect what good companies are doing already,' said an interviewee. Overall, while they may already have been implementing or planning improvements, most accept that CP190, PS04/06 and CP04/07 have strongly influenced the scope and accelerated the timing of their work in this area. For example, around 70% of respondents have opted to integrate risk registers and risk management with capital management, an approach strongly encouraged by the FSA. Some respondents have been less effusive. 'We'll satisfy the FSA, but we're not going to make modelling part of our core business,' said an interviewee.

However, it would be unwise to allow regulation to become the main driver for the design and development of the new capital frameworks, not least because the FSA expects them to be used to enhance underwriting, as well as meeting its particular compliance requirements. The regulatory and business imperatives for capital management also tend to have a different focus. In particular, regulators concentrate on policyholder security and a failure to meet liabilities. In contrast, insurers are increasingly using risk-based capital techniques to pinpoint where value is being created or dissipated. They also use this information to underpin underwriting, investment and other tactical decisions, while at the same time considering the capital required to protect against extreme events.

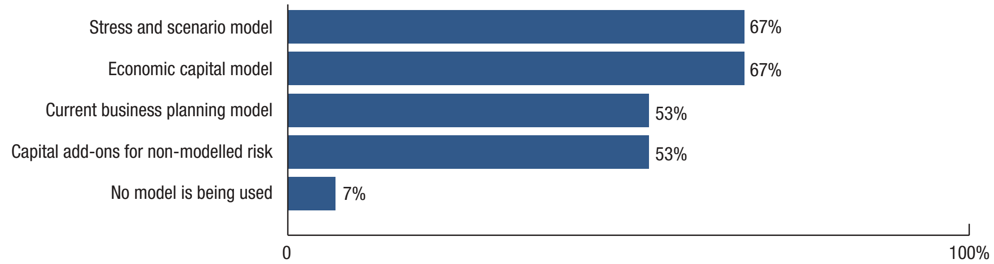
Nevertheless, compliance with ICAS will be a key challenge for the London Insurance Market, not least

Which approaches do you use to assess operational risk?



Source: PricewaterhouseCoopers 2004

What approaches are you taking to determine your ICA?



Source: PricewaterhouseCoopers 2004

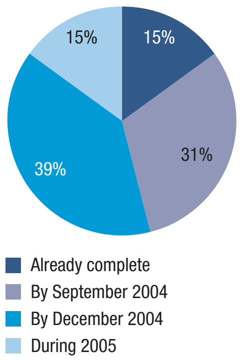
in the demand on time and resources. A successful ICA project will require not only a robust insurance risk model, but also a risk management framework, an assessment of non-modelled risks, detailed documentation and a management team that has a deep understanding of the models and can describe the results to the FSA.

Our survey reveals that chief executives and chief financial officers have been taking the lead in sponsoring their company's ICA projects, with critical support coming from actuarial and risk management teams. Most respondents expect to finalise their assessments ahead of 1 January 2005. However, some respondents have chosen a phased approach, using simple spreadsheet models and stress and scenario testing for ICA submissions in 2004, while at the same time continuing to develop more sophisticated systems for use in the future. Around two-thirds of respondents are already 'applying science' by using economic capital and/or stress and scenario testing models to determine their ICA.

For the Lloyd's Market respondents, it is anticipated that in many cases the amount of capital required under the FSA regime may be somewhat lower than the Lloyd's RBC level. Some respondents feel this may fuel the wider debate about the capital efficiency of conducting business in Lloyd's as rates soften and returns fall. Nonetheless, it is widely recognised that the incremental costs of operating in the Lloyd's Market are outweighed by the benefits, such as access to licences and distribution channels.

'There will be tension if a company's sophisticated models say one thing and the RBC another,' said a respondent. Most recognise that credit ratings

When do you expect your ICA evaluation project to finish?



Source: PricewaterhouseCoopers 2004

are the primary driver for capital levels and that rating agencies' capital expectations will invariably be higher than the minimum regulatory requirement. Indeed, the RBC is set at the level needed to achieve an overall A credit rating for the market as a whole, which some market participants would not be able to secure on a stand alone basis.

Realising the potential

Our survey included a series of questions aimed at gauging respondents' progress in designing and implementing their new capital frameworks; how successfully these have been integrated into the management of the business; and factors they believe are important in developing effective capabilities.

Most respondents have or are developing in-house analytical models, though around 40% have opted for off-the-shelf packages. According to one interviewee, companies can usefully challenge and validate their assumptions by 'bringing in model builders who are independent of the business as they won't necessarily try to confirm the current management view'. However, it is worth emphasising that the FSA expects management to sign off on the models in use to ensure the ICA reflects the leadership's views.

Many respondents see the closer alignment of capital and performance management as the key to translating more effective use of capital into increased returns for capital providers. In practical terms,

Which of the following bodies/individuals take part in or sign off your business planning process?

	Over 65% of respondents	35% to 65% of respondents	Less than 35% of respondents
Overall entity level	Parent CEO CFO	COO Chief Actuary Class Underwriter	Reinsurance Manager Risk Manager Capital Provider Compliance Officer
Generic board class level (e.g. Casualty)	CEO CFO	Parent Chief Actuary Class Underwriter Reinsurance Manager Risk Manager COO	Capital Provider Compliance Officer
Class level (e.g. PI)	Chief Actuary Class Underwriter CEO CFO	Reinsurance Manager Risk Manager COO	Parent Capital Provider Compliance Officer

Source: PricewaterhouseCoopers 2004

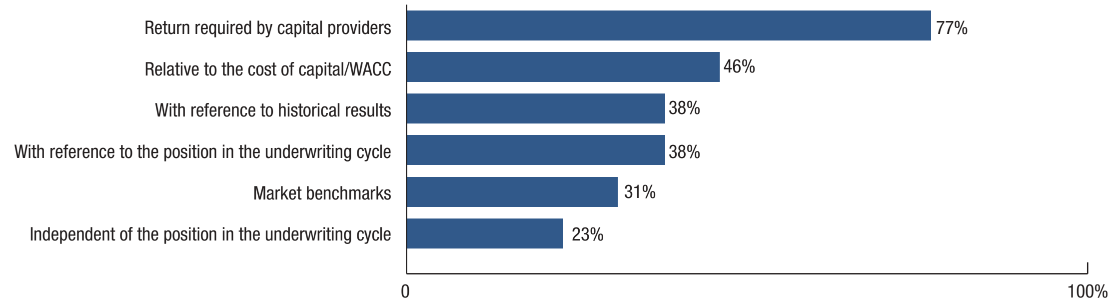
Does your business planning process have the ability to do the following?

Source: PricewaterhouseCoopers 2004

senior management, and especially underwriter, buy-in is regarded as the most important aspect of developing an integrated framework. This is a considerable cultural change, which has been partly driven by regulatory pressures. There are significant benefits to be gained from greater transparency of methodologies and analysis of balance sheets on an economic basis. Unsurprisingly, an assessment of the risks within the business is viewed as the most critical factor in the operation of the framework, closely followed by gauging the diversification effects across risk classes.

Respondents generally prepare specific strategies for individual classes of business during the planning process. Most plans tend to look two or three years ahead. Moving to a longer time horizon was generally felt to be impractical. 'In a market like ours, I can't think of a single decision of substance that is taken over that sort of timeframe,' said an interviewee. Indeed, both catastrophes and the lack of catastrophes or major events over even a relatively short period can result in substantial rating increases or reductions respectively, leading to a need to fundamentally revise business plans.

How are your target returns on capital set?



Source: PricewaterhouseCoopers 2004

More for your money *continued*

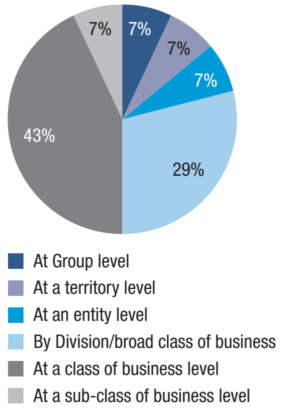
'If the combined ratio comes out over 100%, we cut the business.'

Survey respondent

The increasing analytical sophistication of the planning process is reflected in some two-thirds of respondents that can now monitor shareholders' funds against their risk-based capital and nearly three-quarters that can stress test their plans on an ongoing basis.

The nature of the objectives outlined in such plans and targets naturally tends to reflect the expectations of key capital providers. In particular, capital providers have by far the strongest say in dictating the overall return on capital requirements, from which most other measures tend to cascade, and in determining what constitutes under-performance for a class of business. Just under a half of respondents also take account of the relative cost of capital in setting their target returns,

What is the lowest level at which RoE is/can be measured?



Source: PricewaterhouseCoopers 2004

though market benchmarks and historical results appear to have only moderate influence.

There are evidently two contrasting schools of thought about whether return on capital targets should be set with reference to the position in the underwriting cycle (around 40%) or independently of it (around 25%). Indeed, one or two of the latter respondents are prepared to drop the class of business the moment the combined ratio goes above 100%, in keeping with the relatively hands-on and underwriting return-focused approach of their parent groups. Those that prefer to manage returns across the cycle would counter that once you pull the plug, it is very difficult to win the business back when the rates/risk profile become more favourable. Such organisations understandably prefer to take more measured corrective actions.

Over three-quarters of respondents can measure RoE down to a divisional class of business level or lower. We consider that such granular analysis is increasingly critical and is becoming more widespread, especially as the nature of the underlying business will clearly have a significant influence on the level of capital required and the potential RoE. As one interviewee said; 'It is crazy to expect low volatility attritional business to deliver 20% returns.'

While the creation and implementation of a sophisticated capital evaluation and planning framework clearly takes time, our findings suggest that improvements in their integration and in internal and external communication will help insurers to speed up progress and optimise the benefits of their developing capabilities.

Only around 30% have integrated, and none fully aligned, risk and capital management, despite these areas being intrinsically linked, both analytically and in realising the business potential of such methodologies.

Moreover, nearly 40% of respondents do not underpin their capital evaluations with a clearly defined risk appetite. We consider that the risk appetite is one of the key assumptions in determining the required level of capital. Indeed, we would argue that without a clear definition of their risk appetite, insurers may face difficulties in setting practicable, or at least agreed upon, return on capital targets across the organisation. Regulators and rating agencies are also now focusing ever more closely on risk-based capital requirements and may require documentation to validate the underlying assumptions adopted by insurers.

Despite the emergence of capital modelling as a key information tool, only around 20% of respondents have been able to embed and gain acceptance of such capabilities within the organisation as a whole. 'I don't think that everyone has got to grips with what you can do with a capital model,' said a respondent. Others are finding it hard to bring the underwriters on board, especially as 'they still don't trust the numbers,' as one interviewee said.

As we outlined earlier, it appears that many respondents are seeking to secure buy-in from the organisation by converting their return on capital targets into more familiar underwriting performance measures. However, there are clearly some cultural hurdles to overcome in instilling a more analytical approach to risk/reward within the business at large. Nevertheless, with rates softening and margins about to be squeezed, there has probably never been a better time to embed the capital requirements into the value management of the enterprise.

Ultimately, London Market insurers need to look at whether they are doing enough to meet their capital providers' expectations. A typical respondent's RoE target of 15% in 2004 compares favourably with

'You can't change the culture overnight. The capital process needs to be sensibly fed into the business.'

Survey respondent

More for your money *continued*

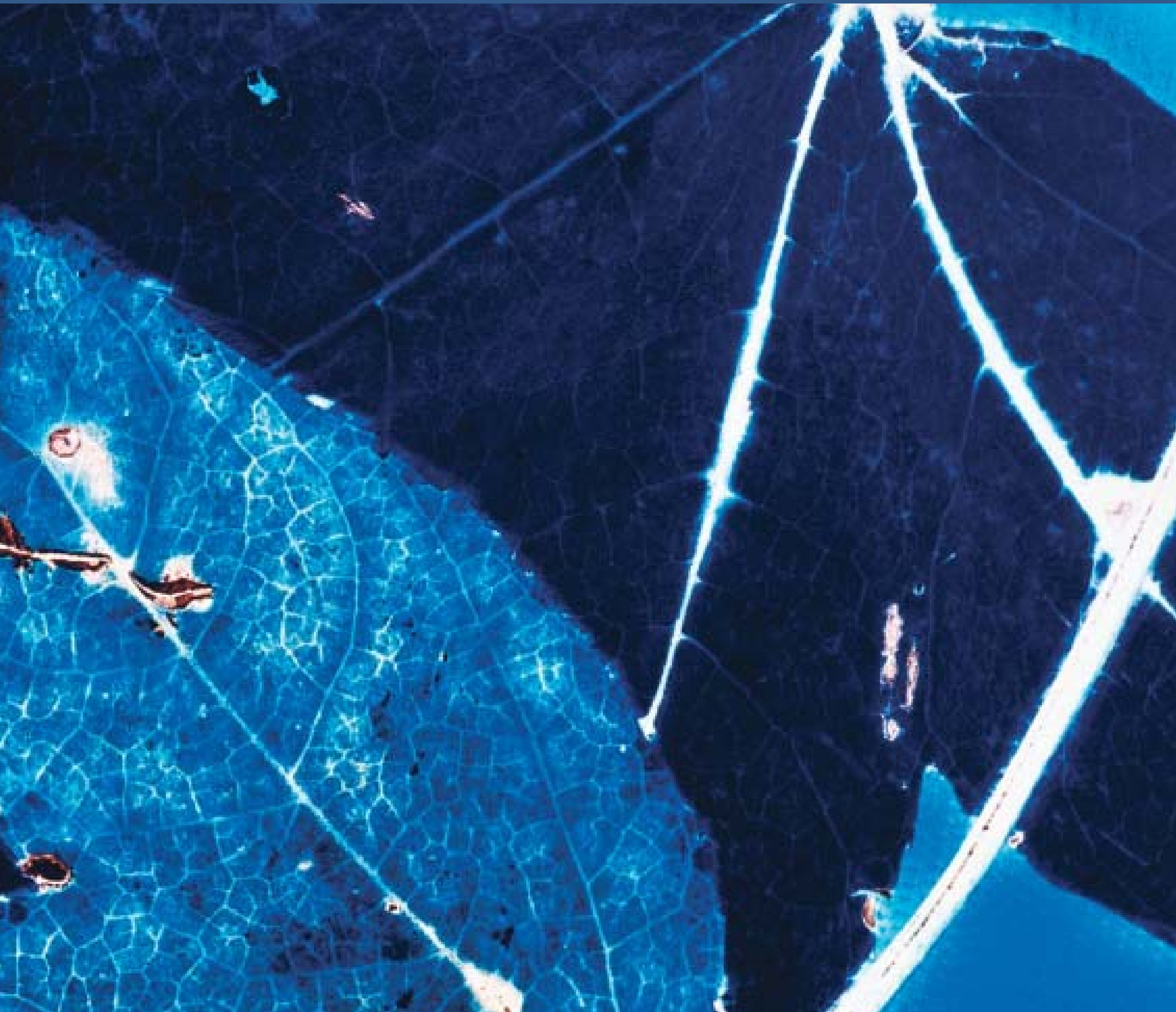
other sectors. However, this is likely to be the high watermark and few believe that anything like this figure could be sustained as rates decline. It is also apparent that our respondents tend to compare their returns against their market peers, rather than seeking to outperform in absolute terms. However, in an increasingly competitive and globalised market for capital, they may need to take closer account of the cross-sector and international RoE benchmarks against which companies are increasingly judged. They may also need to consider whether the returns being achieved through the cycle sufficiently reflect the inherent risks of their business, especially in comparison with 'defensive' stocks or even the risk-free rate.

We believe that those London Market insurers at the forefront of developments in the capital, risk and performance management arena are strongly placed to tackle these challenges. In particular, they are able to identify the best performing areas and focus on these in order to maximise returns, while remaining within their set risk tolerance.

Making reinsurance pay

Reinsurance strategy, purchasing and performance

- The value of reinsurance
- Setting the strategy
- Implementing the strategy
- Level of satisfaction
- Shifts in demand
- Emerging trends



Respondents are seeking improved security, simplicity and value for money from their reinsurance programmes.

The value of reinsurance

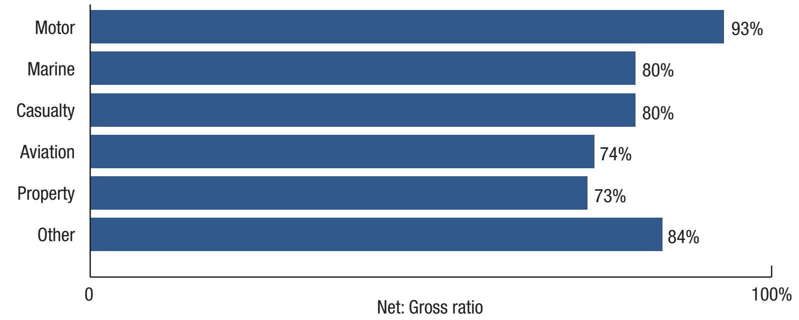
Respondents anticipate that reinsurance spend will represent more than 20% of their expected gross written premium in 2004. Clearly, expenditure tends to be higher in classes that run the risk of catastrophic losses (such as property and aviation) than for business with a relatively stable loss profile (such as motor). Moreover, while the expense is significant, respondents' reinsurance spending in 2004 has fallen by an average of 8% since 2003, which largely reflects higher retentions at this stage in the cycle and a reduced reliance on qualifying quota share protections. Respondents expect their reinsurance expenditure to come down by a further 7% on average in 2005.

Respondents' chief reasons for buying reinsurance are, as would

'As our capital grows, we'll be able to retain more risk.'

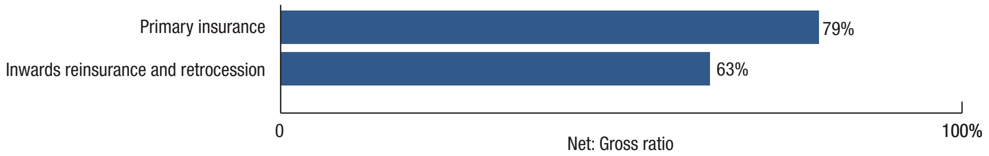
Survey respondent

What is your net to gross ratio of expected written premium in 2004 for the following classes of business?

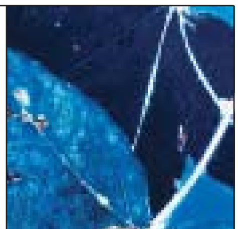


Source: PricewaterhouseCoopers 2004

What is your net to gross ratio of expected written premium in 2004 in the following types of business?



Source: PricewaterhouseCoopers 2004



'Reinsurance is about striking a balance between longevity of the relationship and stability of spend at a reasonable cost.'

Survey respondent

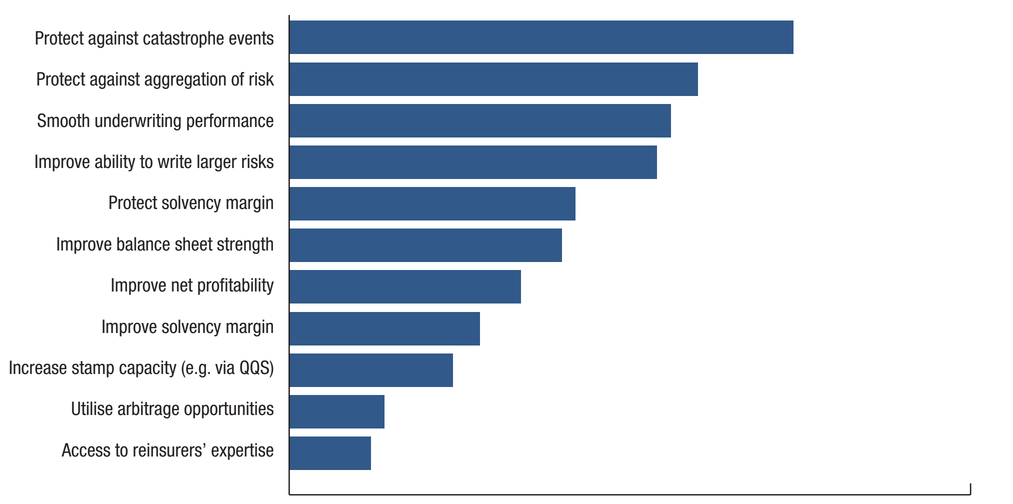
be expected, protection against catastrophes and aggregations, smoothing underwriting performance and improving the ability to write larger risks. 'You can't write risks without reinsurance and higher risk equals higher returns,' said an interviewee. 'Reinsurance is capital by any other name,' said another, 'giving us far more capacity to write business than we could ever achieve on our own.' Enhancing balance sheet strength and protecting solvency margins were seen as less important, while access to reinsurers' expertise barely rated a mention.

Setting the strategy

Devising and implementing the reinsurance strategy is generally a team effort. The board and underwriters have the strongest say in setting the strategic direction. Underwriters tend to oversee the purchasing, while reinsurance departments largely focus on collections. Actuarial and risk management teams tend to have less of an influence at present, both in devising the overall strategy and in setting the required structure, price, terms and conditions, although actuarial teams carry out detailed reinsurance modelling work.

This is perhaps surprising, especially as more rigorous technical analysis could help to match cover purchased more closely with the risks being run and so lead to more cost-effective purchasing. These advantages are already being recognised by some respondents.

What are your main reasons for purchasing outwards reinsurance?



Source: PricewaterhouseCoopers 2004

Who has the main responsibility for setting the outwards reinsurance strategy and for purchasing your reinsurance programme?

	Over 40% of respondents	15% to 40% of respondents	Less than 15% of respondents
Setting outwards strategy	Board Underwriting Director CEO	Parent Reinsurance Manager COO Class Underwriter	Chief Actuary Risk Manager
Purchasing outwards programme	Underwriting Director Reinsurance Manager	Parent CEO Class Underwriter	COO Chief Actuary Risk Manager Board

Source: PricewaterhouseCoopers 2004

Implementing the strategy

Modelling and analysis are generally undertaken three to six months ahead of placement, highlighting the extent of the work required and the level of input from a broad range of functions. Indeed, there are clear indications that more and more respondents are looking to rely less on their brokers by carrying out more analysis in-house.

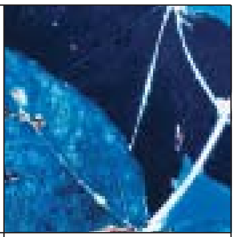
All respondents carry out aggregation and catastrophe analysis and more than 80% conduct realistic disaster scenario and stochastic frequency severity modelling. Nearly 70% also use dynamic financial analysis to gauge the impact of their reinsurance strategy and alternative programme structures on RoE. RMS is the catastrophe modelling package of choice, with most setting their coverage limits on a 1 in 250 year loss basis. However, there are some variations, especially in setting a more cautious benchmark for earthquake cover. Risk appetite is largely consistent with many assuming a target probability of ruin of 1 in 200 or 1 in 250 years.

Respondents' modelling capabilities are generally impressive, with a key focus on catastrophes. While most respondents do apply the return period across the whole portfolio, enabling them to analyse the risks across all possible perils and territories, around 20% simply focus on a single event/site. This could lead to the buying of insufficient cover or a misjudgement about the degree of protection bought.

'We have a hundred years of good information to underpin our US wind models. However, there simply isn't that kind of meaningful data to accurately measure the once in 300 and 400 year catastrophes like a major Californian earthquake.'

Survey respondent

Making reinsurance pay *continued*



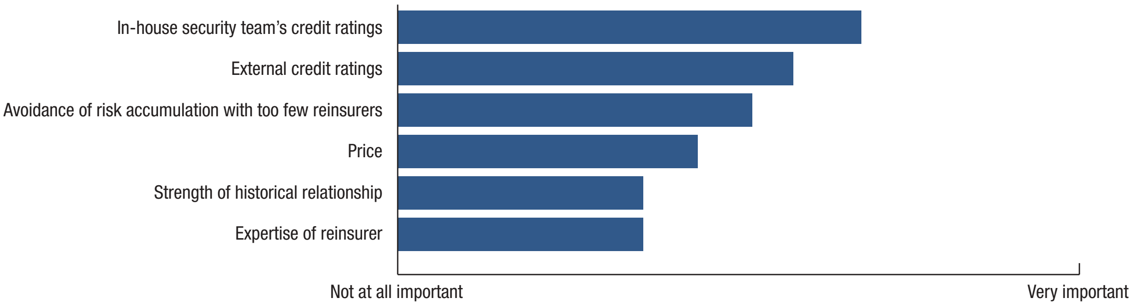
How, why and what respondents buy

Credit rating is the paramount consideration when selecting a reinsurer, with 95% of cover being purchased from companies with a S&P A rating or higher. Respondents tend, however, to prefer in-house credit evaluations to external ratings. Internal evaluations can help buyers to keep pace with market developments and distinguish between what is now a very wide range of companies with the same broad A rating. Indeed, in many cases, respondents are required to choose from a security list drawn up by their parent or at the Group level that may reflect additional considerations such as the speed of payment. Other key selection criteria include price and diversification of risk. However, the strength of the relationship and the expertise of the reinsurer are near the bottom of the list of considerations.

The level of placing service, along with access to high quality reinsurers at favourable prices, are seen as the most important criteria for choosing a reinsurance broker. 'Our brokers are experts at arbitraging the prices,' said an interviewee. Less critical considerations, though still significant, are relationships and claims service. At the bottom of the list was access to their actuarial/modelling capabilities. 'We endeavour to balance the intellectual qualities of the smaller brokers with the clout of the bigger players,' said a respondent.

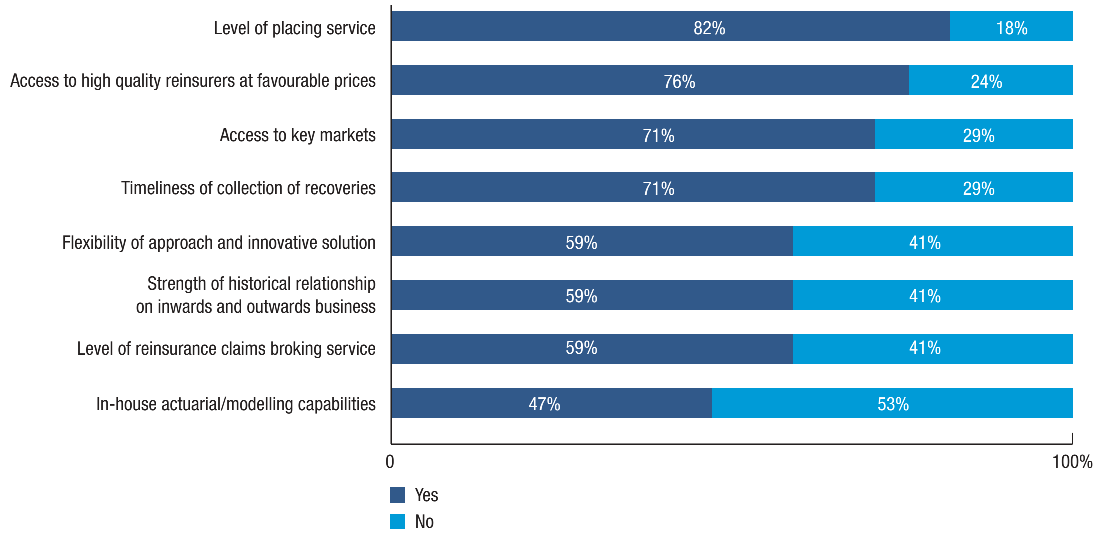
Respondents' average reinsurance spending fell by 8% in 2004. Many have opted for higher retentions and less sideways cover. XL treaty reinsurance predominates in 2004, though quota share protections continue to be significant.

What factors do you consider when selecting appropriate reinsurers?



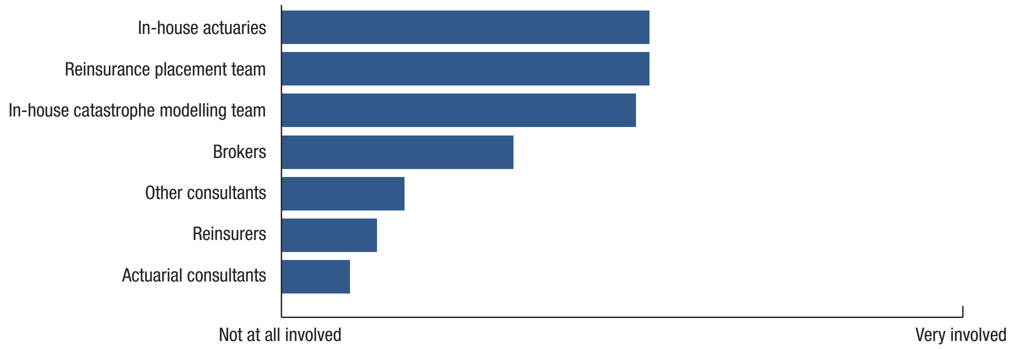
Source: PricewaterhouseCoopers 2004

What factors do you consider when selecting your reinsurance brokers?



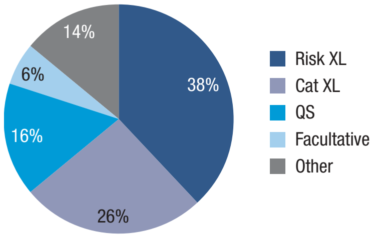
Source: PricewaterhouseCoopers 2004

What level of input do the following parties have in your detailed reinsurance modelling work?



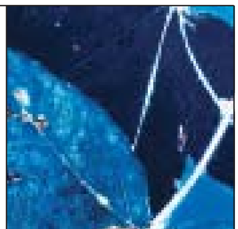
Source: PricewaterhouseCoopers 2004

What is the mix of your reinsurance programme by type of reinsurance cover as a % of overall reinsurance spend?



Source: PricewaterhouseCoopers 2004

Making reinsurance pay *continued*



Reinsurance on a losses occurring basis predominates, particularly in the Lloyd's Market. Naturally, many respondents prefer risks attaching coverages, though these continue to be harder to secure, especially in the property, marine and motor sectors.

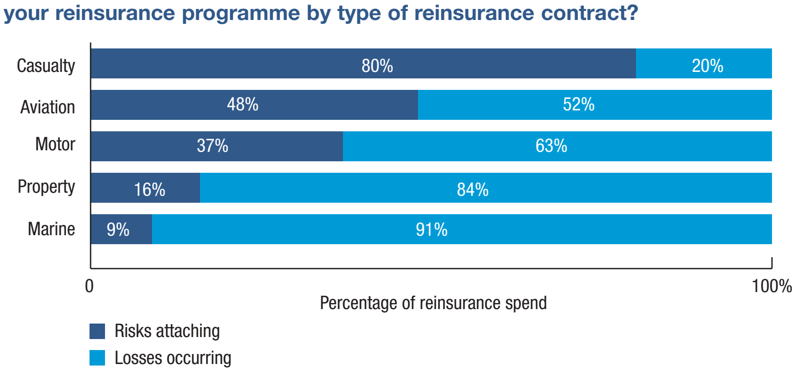
Many respondents report difficulties in buying casualty XL reinsurance at acceptable terms, especially at working layers (50%). A similar proportion of respondents believe that such problems are set to continue, though not necessarily become any worse.

In choosing the nature of the programme, respondents' key preference is transparency. Simplification of the programme is also a primary objective. 'We like reinsurance to be straightforward,' said an interviewee. 'By simplifying the process you keep the costs down.' 'To avoid disputes, I think everyone needs to know exactly what is and is not being covered and that the cover notes provide a clear explanation of all the nuances,' said another. The accent on simplicity perhaps explains why so few of our respondents buy alternative risk transfer (ART) instruments. The main drawbacks of ART are seen as poor value for money and regulatory problems in demonstrating risk transfer.

Level of satisfaction

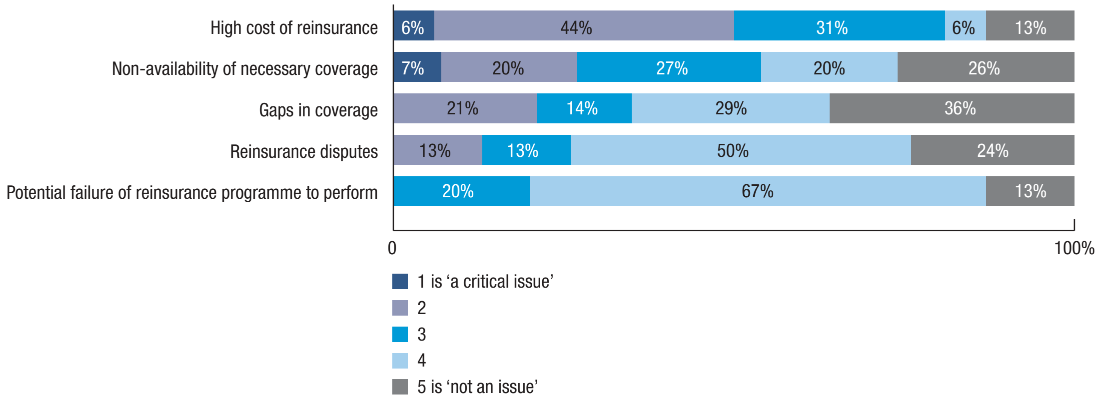
Most respondents review their purchased reinsurance programmes against their planned strategy at least annually, examining price and various other critical aspects both within and beyond their control. Unsurprisingly in a hard market, the key consideration in 2004 has been the high level of insurance rates, though as we have outlined many are also concerned about the difficulties in placing casualty programmes. Some also feel that they may have bought too much cover in 2002 and 2003 and are now reluctant to cede

What is the mix of your reinsurance programme by type of reinsurance contract?



Source: PricewaterhouseCoopers 2004

What would you identify as the main problems with your 2004 reinsurance programme?

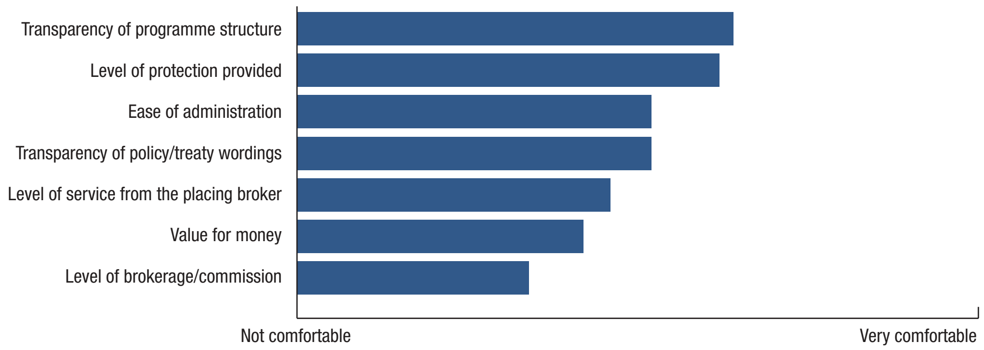


Source: PricewaterhouseCoopers 2004

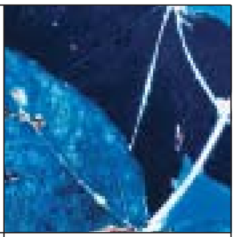
any more profit. 'As our capital grows, we can retain more risk,' said an interviewee.

The majority are broadly satisfied with their current level of protection and the transparency of the wordings and programme structure. However, many are not as comfortable with broker service, commission levels and value for money. If respondents could change one aspect of their programme, many would naturally choose price, though as we outline in more detail later, some are also keen to move to centralised purchasing.

How comfortable are you with your 2004 reinsurance programme in terms of the following factors?



Source: PricewaterhouseCoopers 2004



Shifts in demand

Looking ahead to 2005, most respondents expect to spend less on reinsurance. While the average anticipated reduction is 7%, there are marked variations, with some looking to buy more reinsurance to reflect their continuing expansion. These differences reflect the specific pricing dynamics in particular classes of business and the diversity of business outlooks in 2005 among respondents. 'Business and exposures will grow in 2005, so we'll need to buy more reinsurance. But against that we expect some price reductions,' said an interviewee.

Buyers are divided on the direction in which their reinsurance expenditure would move if the market were to soften, with 13% believing it would rise, 31% stay the same and 44% drop. The remaining respondents were less clear-cut in their views.

Many respondents are also keen to spread their programme more widely across the market to avoid risk concentration. Yet, while greater diversification was cited as 'important' or 'very important' by over 50% of respondents, the typical maximum proportion of the programme ceded to the same company is around 20%. In practice many believe that any substantial redistribution of cover would be difficult in the short-term. It appears, as one interviewee said, that 'lack of choice of securely rated reinsurers is inevitably leading to concentration.'

The survey also highlighted deeper concerns that may have a more enduring impact on reinsurance buying patterns. In particular, our survey highlights the declining value attached to relationships between buyers and sellers in certain market sectors. Some respondents believe this stems from what they see as a hardening of attitudes among some reinsurers and resulting difficulties in securing recovery. 'How valuable is a relationship when you're in the midst of a $100 million dispute?' said an interviewee. Some respondents have also been shaken by the withdrawal of capacity. 'I'm not going to try to build a relationship with someone who is not going to be there in a few years time,' said an interviewee. Others have found that the greater emphasis now placed by reinsurers on technical pricing and 'walk away' rating levels has resulted in a less favourable climate than had been expected in the wake of the primary market downturn.

It should be emphasised that many respondents were keen to stress the value of the support and expertise they receive from brokers and reinsurers after catastrophic events or in relation to complex claims. However, the sense that reinsurance is a long-term 'quasi-credit' scheme appears to be receding. Indeed, it also appears that many buyers are themselves taking a more ruthless attitude, including dropping longstanding partners from their security list if their reputation or credit rating are called into question.

Seasoned professionals believe that price will become ever more paramount on both sides in the wake of these developments, especially as buyers see fewer opportunities for pay-backs or preferential treatment. Larger groups may also choose to retain more risk, either directly or through captives. Moreover, both sides of the fence are likely to become more hard-nosed, with fewer openings for arbitrage or what one interviewee described as the 'wall of mirrors in reinsurance'. 'There's no more naive capacity,' said another.

Emerging trends

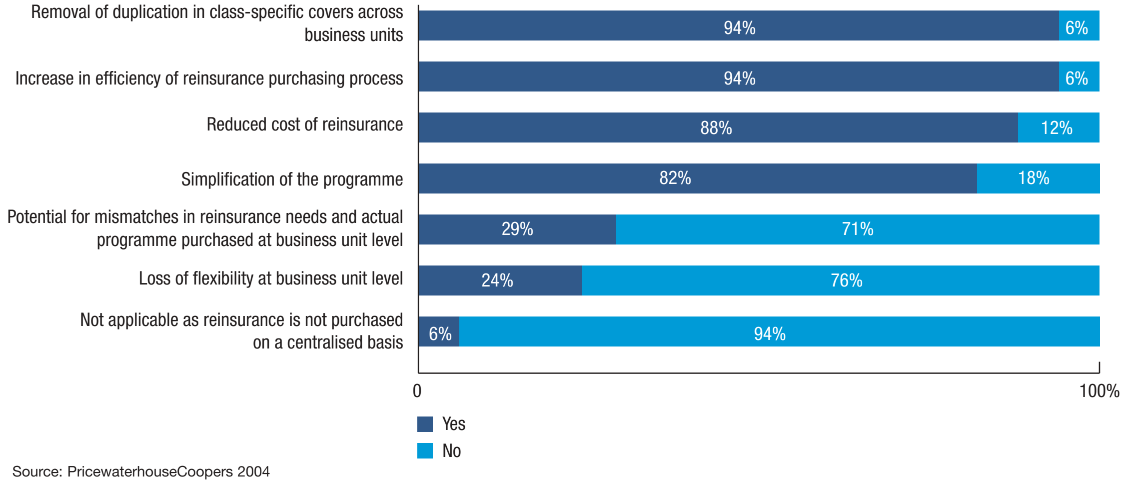
While class underwriters continue to play the lead role in negotiating the reinsurance programme within most of the organisations surveyed, many respondents are introducing more thorough peer review systems. 'Underwriters can be broked and scared into buying cover. Wider involvement can help to judge what is being bought, why and at what price,' said an interviewee.

Many organisations are also looking to increase their use of in-house modelling to enhance the basis for buying decisions and to ensure their reinsurance more accurately reflects the risks being run. In particular, it is felt that more rigorous analysis will help to prevent underwriters 'buying too

'The medium-term trend is a move away from absolute reliance on reinsurance.'

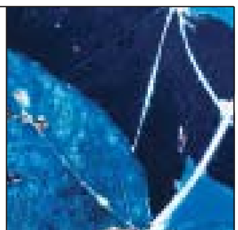
Survey respondent

Do you consider purchasing reinsurance on a centralised basis delivers any of these benefits/drawbacks?



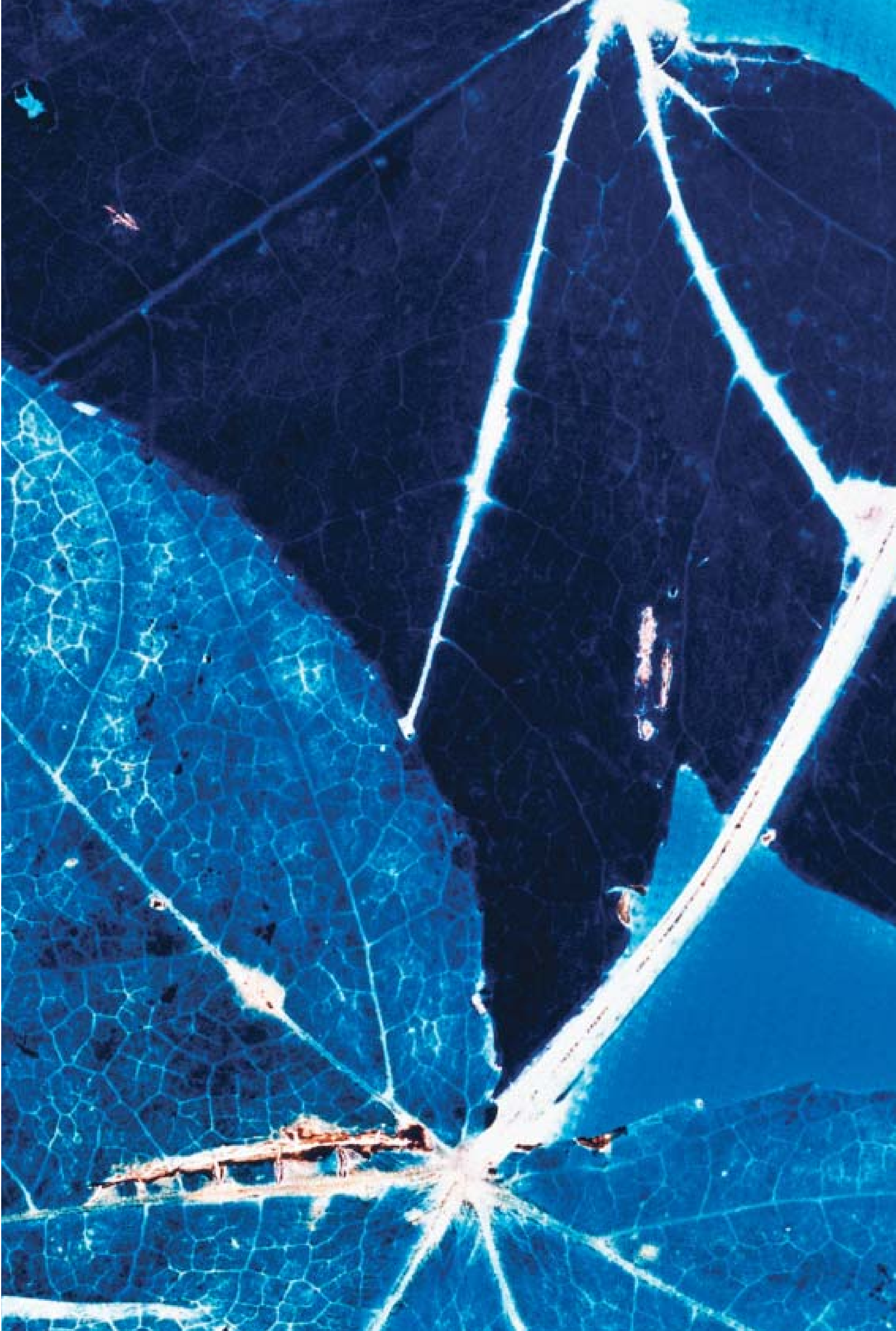
Source: PricewaterhouseCoopers 2004

Making reinsurance pay *continued*



much cover simply to be on the safe side'. More than 90% of respondents already, or plan to, augment their catastrophe modelling by including reinsurance purchasing in their overall capital model. However, while such evaluations are clearly valuable, 'you'll never get to the point where the model buys the reinsurance,' said an interviewee. 'Buying reinsurance is largely about trading. A tough attitude can secure better value for money than a model.' Indeed, the optimum level of cover as identified by the model may simply be unavailable at the desired price and terms.

Our survey also highlighted growing support for centralised buying. More than 90% of respondents believe this can increase the efficiency of the reinsurance purchasing process and remove duplication in class-specific covers across business units. More than 80% believe it can reduce costs and simplify the programme. In the long run, we see responsibility for reinsurance strategy and purchasing being increasingly taken on by a dedicated unit or a virtual multidisciplinary team, which is certainly the emerging trend in leading global organisations.



Tightening the rein

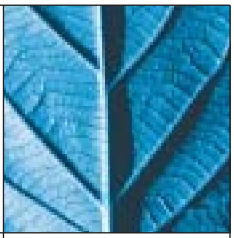
Operating costs and optimisation of fixed overheads and variable expenses

The price of doing business

Investing in the best

IT underpins efficiency

Margin pressures



Organisations believe their costs could and should be more closely controlled. This focus is likely to become more critical as the market softens.

The price of doing business

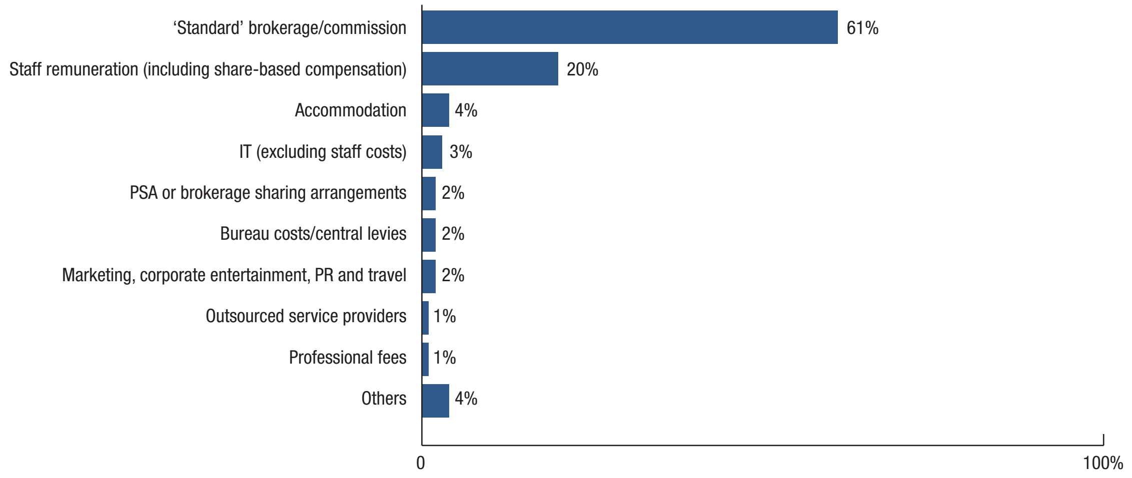
Commissions and brokerage will account for an average of more than 60% of respondents' estimated operating costs in 2004, which is by far their biggest expense. Many feel that such overheads are beyond their individual control and are simply the price of operating in the marketplace. 'It's very difficult to cut commissions as there'll always be someone prepared to pay that level of fees in return for the business,' said an interviewee. Some also believe that such 'expenses are not a priority as long as the business continues to flow in the hard market.'

Brokers remain a cornerstone of the market. As one interviewee said; 'It's easy to dismiss brokerage as a waste of money. Yet we have to remember that brokers market our products, collect information and manage our client base.' However, is the current level of spending on commissions really justifiable and is there no way it can be reduced?

'The fewer noses you have in the trough, the cheaper it is to do business.'

Survey respondent

What is the approximate breakdown of your estimated total operating costs in 2004 according to the following categories?



Source: PricewaterhouseCoopers 2004

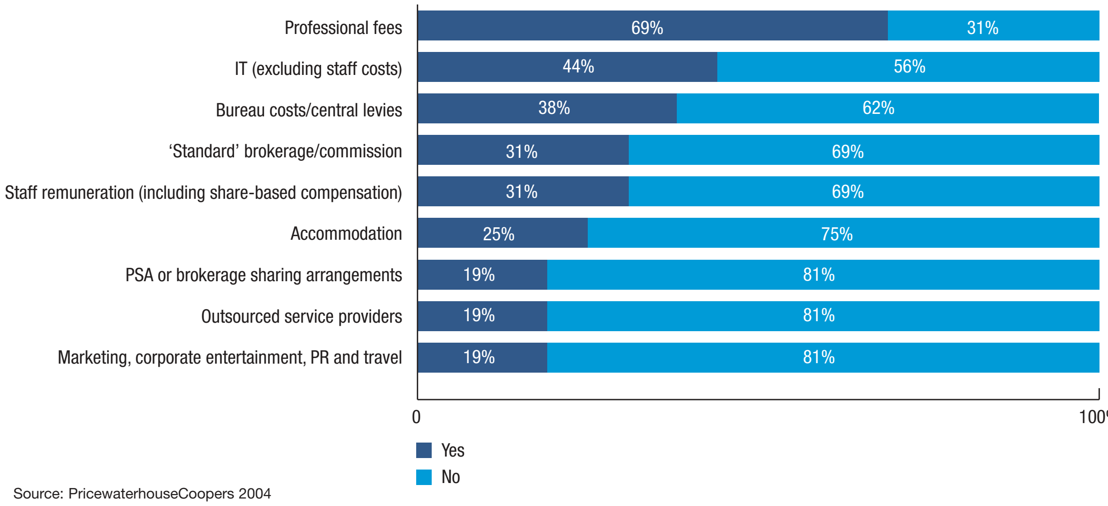
Tightening the rein *continued*

More than 30% of respondents take a contrary view to the rest of the market and are looking to reduce their commission costs. While this is easier said than done, brokers can be open to negotiation. In particular, there is anecdotal evidence to suggest that some international players have been able to agree global deals on commission levels.

While recognising that, as one respondent said, 'direct trading comes at a cost that has to be assessed against broker's commissions', some organisations are looking to increase their level of direct or pseudo-direct sales to policyholders. This includes setting up direct or broker-targeted e-enabled trading platforms that have eliminated or significantly reduced commission costs. Some others have gone further by effectively buying their own brokers. Further possibilities identified by interviewees include streamlining the number of managing general agents (MGAs) they use in the US and other overseas markets, in order to offer their MGAs higher volumes of business in return for lower percentage fees.

The second graph on page 40 highlights the marked differences between average commission levels in the Lloyd's and the Company Markets. Such variations are to a large extent explained by the distinctive and specialist nature of the business that comes through Lloyd's. However, a few respondents have suggested that commission levels in the Lloyd's Market on some like-for-like risks are higher than those in the Company Market. Some organisations are therefore looking to channel their business accordingly. Although the percentage savings may be marginal, they can make a cumulative difference to overall brokerage costs.

In which of the following areas are you looking to reduce your current level of expenditure?

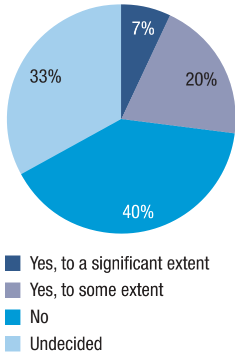


Source: PricewaterhouseCoopers 2004

The London Market Principles (LMP) and the emerging electronic trading platforms could save commission costs by reducing administration, allowing users to share data in real time and reducing the need for face-to-face negotiation on simpler risks. However, only 27% of respondents feel that LMP can generate savings, though 33% are undecided at this juncture.

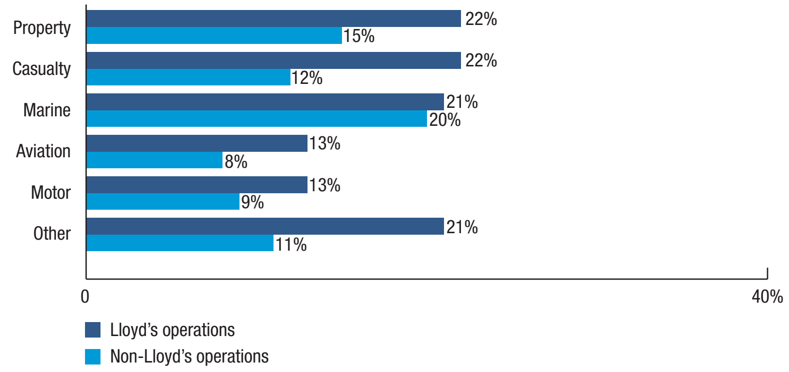
With regard to reinsurance commissions, our survey reveals that a significant number of respondents have moved from fixed percentage to flat fee brokerage. We believe this trend will continue, especially as 'paying a fixed percentage of the premium offers the broker no incentive to secure a lower price,' as one interviewee said. Some respondents pointed out that the amount of work for the broker in placing the cover is less when buyers' choices are limited to a restricted security list. Others are

Do you anticipate that the full implementation of LMP and the associated enabling technology will lead to a reduction in commissions?



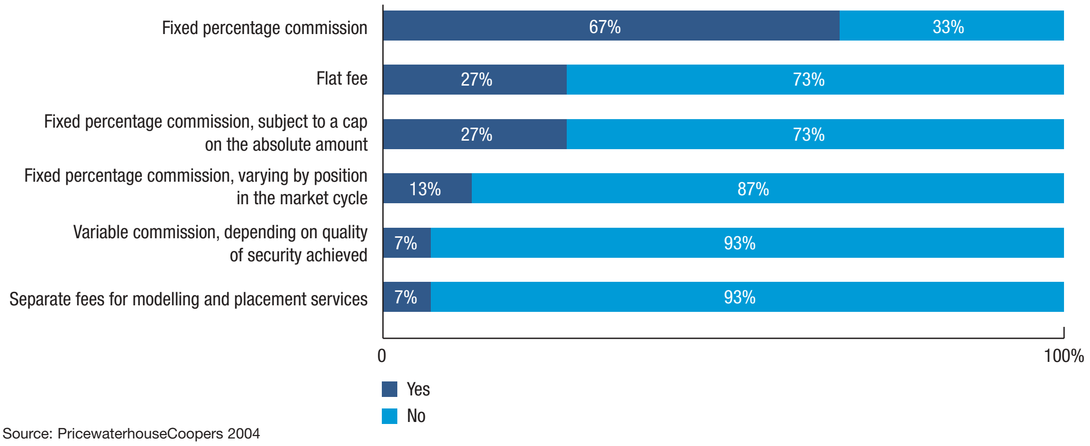
Source: PricewaterhouseCoopers 2004

What levels of commission/brokerage (as a percentage of gross written premium) do you anticipate paying in 2004 in the following lines of business?

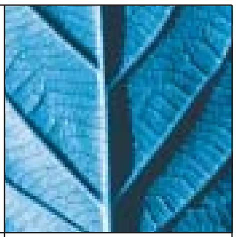


Source: PricewaterhouseCoopers 2004

How do you remunerate your reinsurance brokers?



Source: PricewaterhouseCoopers 2004

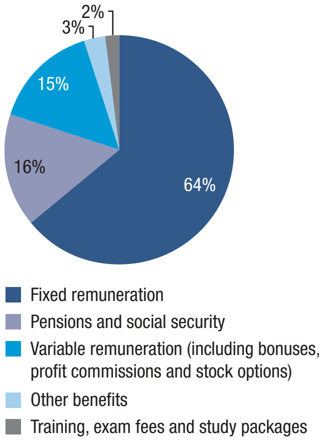


looking to separate the fees for modelling and placement, and in many cases carry out more of the evaluation in-house.

Investing in the best

At an average of 20%, staff costs represent respondents' second highest expense. As people have always ranked as one of the most important operational drivers in our surveys, it is unsurprising that few respondents intend to cut their staff expenditure. Indeed, a significant number of respondents are looking to spend more in areas such as training and recruitment in the expectation that investing in the best people can benefit the bottom line.

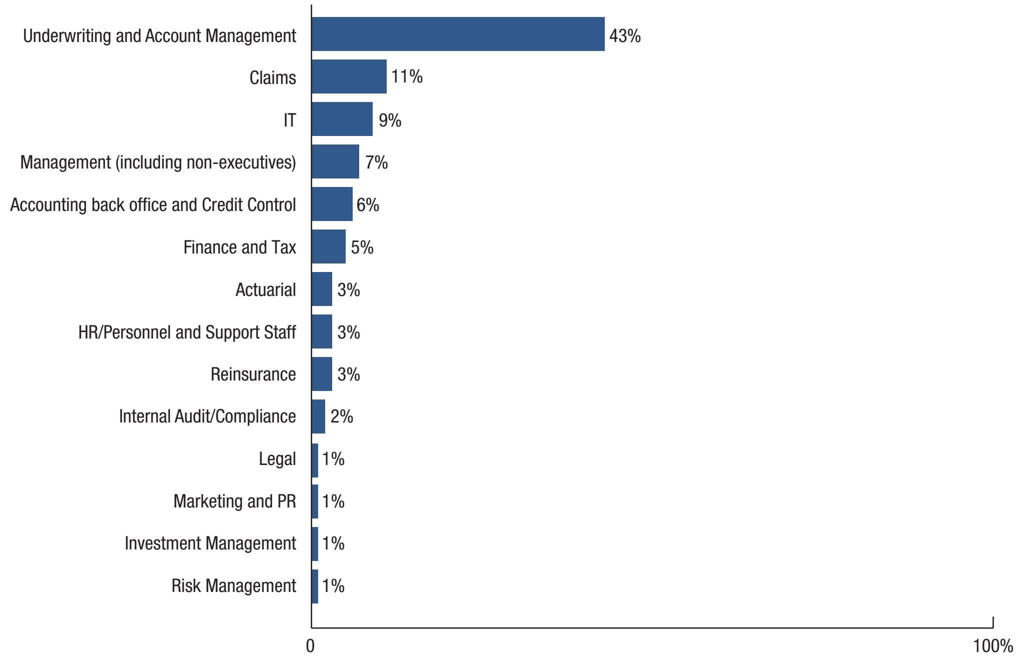
What is the approximate breakdown of your estimated overall in-house staff costs in 2004?



Source: PricewaterhouseCoopers 2004

Around 20% of respondents are looking to raise fixed pay and a quarter increase variable

How are your estimated overall in-house staff costs for 2004 split between the following functional areas?



Source: PricewaterhouseCoopers 2004

remuneration including bonuses, stock options and profit commissions. Although training makes up only 2% of average staff costs, half of respondents are looking to increase their level of investment, more than for any other area of personnel expenditure. 'Well-trained and competent people are better at judging risks and the movements in the market,' said an interviewee. 'We don't mind a higher expense ratio if we get a better combined ratio,' as one interviewee said.

However, could organisations improve the value they receive from their investment in their people? Key questions include how best to reward improved performance, what functions are core and what could be outsourced, and how to balance fixed and variable expenditure to maximise operational flexibility.

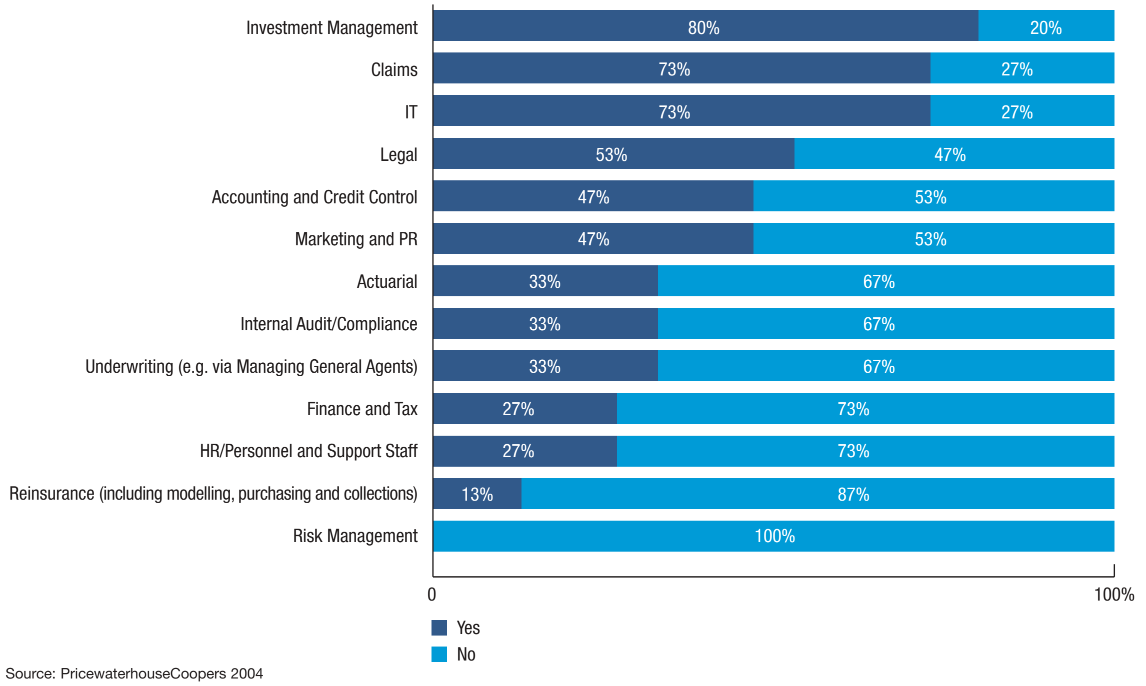
Fixed pay will make up 64% of our respondents' estimated staff costs in 2004, compared with 15% for variable remuneration. The vast majority now prefer to link both fixed and variable remuneration to tangible performance indicators rather than decide on a discretionary basis.

Underwriting and account management unsurprisingly make up by far and away the highest proportion of staff costs by functional area at more than 40%.

'Controlling costs too heavily can hold up the development of the business.'

Survey respondent

Which of the following operational functions do you currently outsource, either in part or in full?



Source: PricewaterhouseCoopers 2004

Claims is in second place, though some way back at 11%. Although a quarter of respondents are looking to increase the level of claims outsourcing, the perceived wisdom is that claims needs to be a core competency for organisations that lead much of their business. Indeed, some respondents are looking to reduce the use of claims service providers and beef up their in-house capabilities.

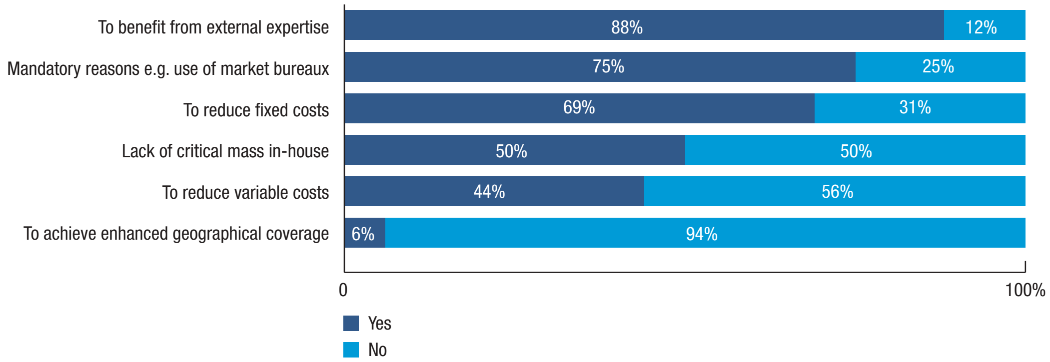
However, for functions deemed to be non-core, contracting out to a specialist provider may be the best answer. Outsourcing has always been an integral feature of the London Insurance Market and can indeed be mandatory in some cases, such as the use of the market bureaux. The increase in outsourcing looks set to continue, with IT and claims the most likely areas of growth. The chief benefits are seen as access to external expertise and the reduction of fixed costs, which can give organisations greater flexibility to expand or contract through the underwriting cycle.

However, the survey questions whether some companies are doing enough to maximise the value for money from their outsourcing contracts, especially as most still rely on informal performance reviews. Half of respondents can financially penalise their service providers for poor results, though such sanctions may be of little use without a rigorous performance review. Better results might come from profit sharing arrangements, which have been negotiated by nearly a third of respondents.

IT underpins efficiency

Respondents are spending an average of around 3% of their operating expenditure on IT, though some are investing up to 6%. The key benefits are seen as improved profitability and operational efficiency, though such benefits can be undermined by implementation snags, inflexible legacy systems and failure of the technology to deliver.

Why do you outsource elements of your operations?

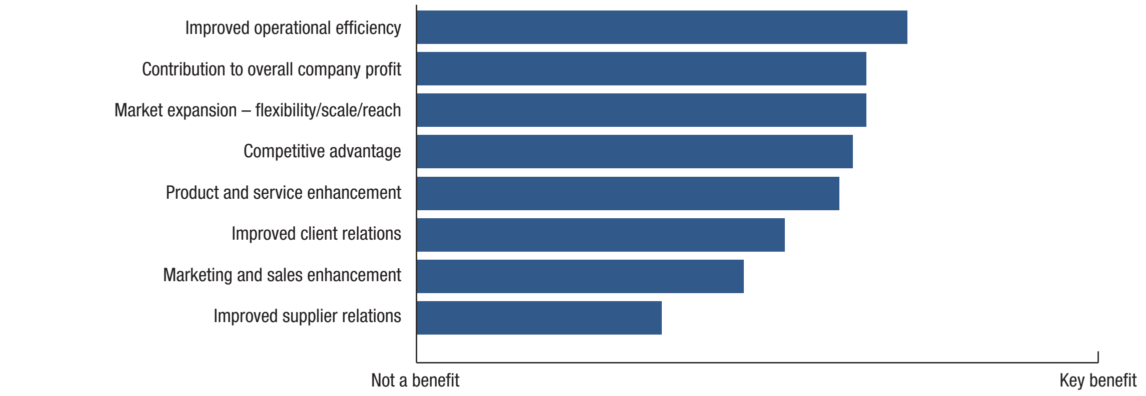


Source: PricewaterhouseCoopers 2004

Furthermore, in a subscription market some organisations are reluctant to invest in the latest technology unless this will lead to a clear competitive advantage. It could be that market-wide developments such as Kinnect may prove a more viable route to progress.

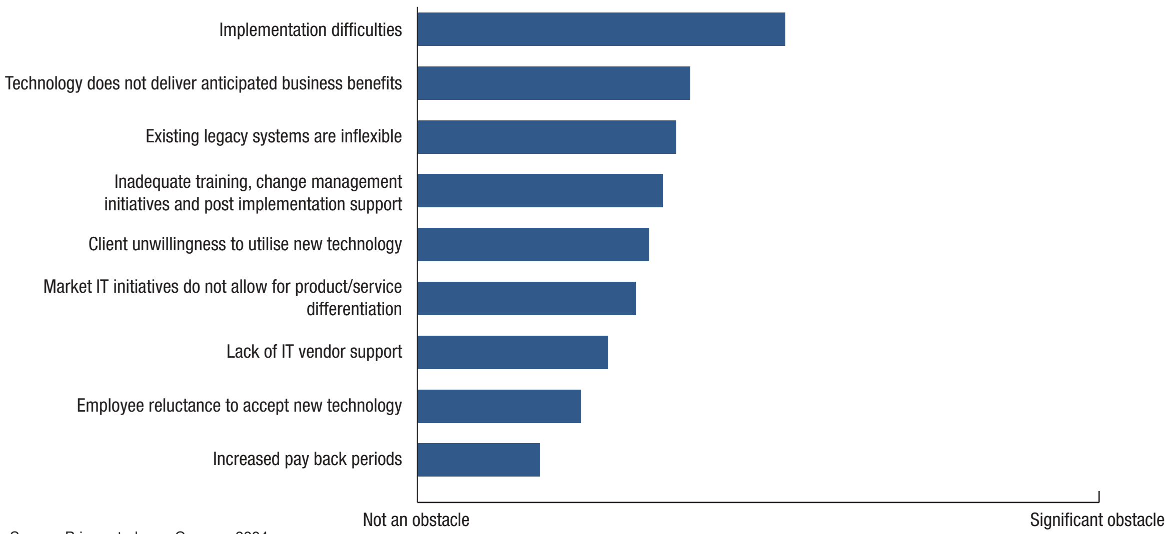
Respondents are also running an average of around three, and in some cases up to 14, separate underwriting and claims systems. 'It is surprising that there is no standard IT platform in such a concentrated market,' said an interviewee with wide experience of working abroad. Rationalising

What do you perceive to be the key benefits of your IT investment?



Source: PricewaterhouseCoopers 2004

What do you consider are the major obstacles in realising IT value?



Source: PricewaterhouseCoopers 2004

Tightening the rein *continued*

systems platforms looks set to be a key focus for expenditure. However, some fear the nature of the market means it may be some time before the problem is resolved. ‘My concern is that in a technologically backward industry, we’re going to end up having to interface with 25 different systems and databases.’

Margin pressures

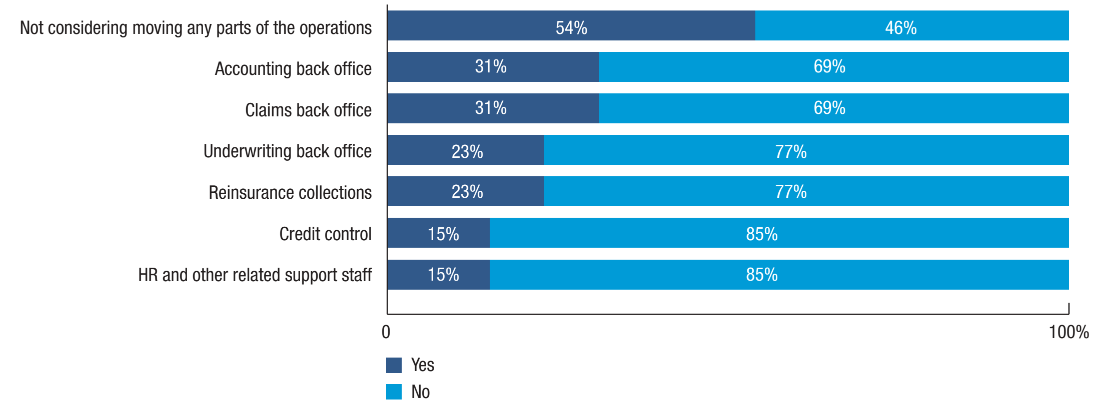
Some respondents argue that the remaining overheads are largely immaterial and that any reductions are unlikely to have any real impact on their combined ratio. ‘What is the point of saving 10% or even 20% on such areas as premises and office social activities, which are only a tiny fraction of our combined ratio and could undermine morale if we did so?’ said an interviewee. However, others feel there is too much complacency about expenses following the surge in profits during 2002 and 2003.

One of the chief targets for cost reduction is professional fees, in particular greater curbs on lengthy disputes and litigation that can ratchet up the legal costs. Loss adjusting costs are also being targeted. ‘If we invested more in training and supporting our claims team, we could probably save much of the needless time, money and aggravation that’s wasted on these disputed settlements,’ said a respondent.

Moreover, while all respondents are adamant that a front office presence in Central London is essential, around half are looking to cut accommodation costs by moving some of their back office personnel out of the City.

The view that every pound saved is a pound more profit could prove ever more crucial as margins tighten in a softening market. ‘It always takes quite a while for savings to come through. So companies need to start planning now, as by the time they realise they need the money it may be too late,’ said an interviewee.

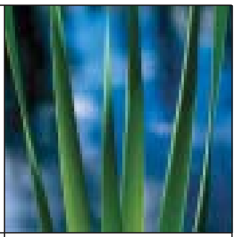
Which parts of your operations might you move outside the City or to a cheaper location within London?



Source: PricewaterhouseCoopers 2004

London Insurance Market

Background



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

- 66 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 over £25 billion, of which nearly £15 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.

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Producing the survey

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