GLOBALISATION VS LOCALISATION
- THE CHALLENGE FOR LONDON

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Introduction

- Globalisation vs localisation
- Why is it happening?
- What does it mean for London?
- What can we do about it?

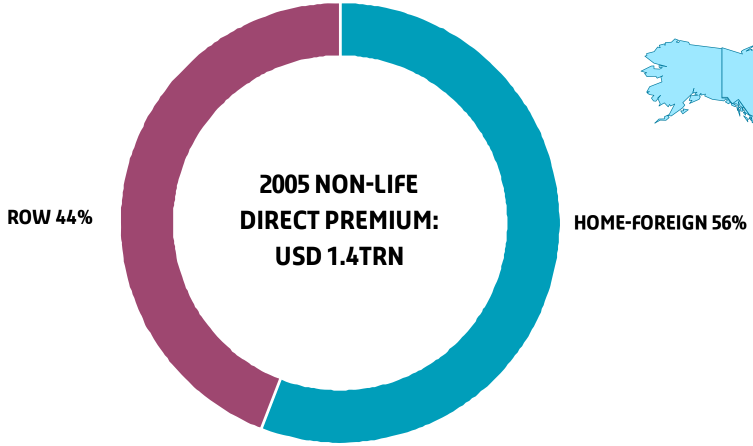
What do we mean by localisation?

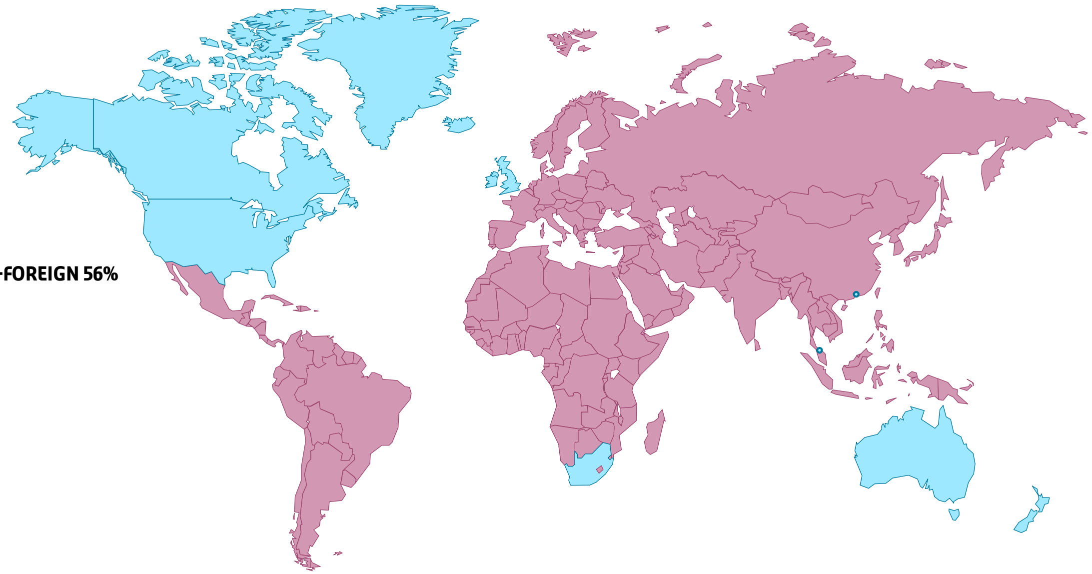
- Business that historically ‘travelled’ now stays in its market of origin
  - Regionally
    - Singapore or Hong Kong
    - Dublin or Zurich
    - Dubai or Qatar
  - Organisationally
    - Captives
    - Industry Solutions

What drives Lloyd's "global" business?

- Good business from **"HOME" FOREIGN MARKETS**
  - **ENGLISH SPEAKING**
  - **ANGLO-SAXON ECONOMIES**
  - **CONTRACT LAW**
  - **BROKER-LED**

UK, US, CANADA, HONG KONG, SINGAPORE, AUSTRALIA, SOUTH AFRICA





NB: Non-Life direct premium includes personal lines business

Why is it happening?

- A number of drivers:
  - Push predominantly underwriters
  - Pull predominantly the insureds
  - Price predominantly the capital providers

Push…away from London

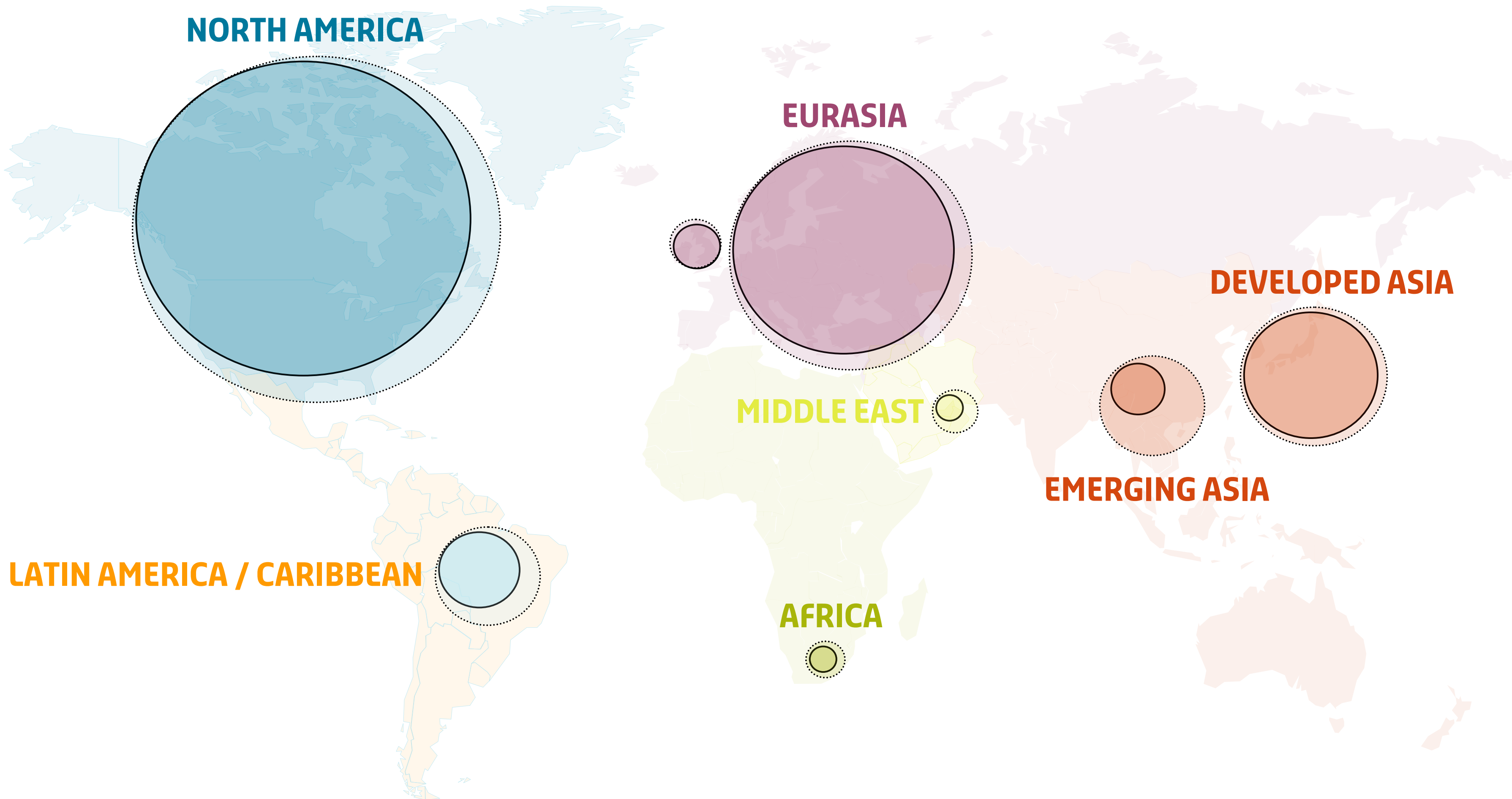
- Tax
  - Not just Bermuda!
  - Relative tax rates falling across Europe
- Regulation
  - “Gold plated” – but who for?
- Cost
  - Length of the distribution chain
  - The price of a subscription market
- Search for diversity

Pull…towards local markets

- Same culture, language, time zone
- Face to face
- Increasing local expertise
- The “HSBC” factor

“Diversified business doesn’t tend to leave its local market unless distressed or underpriced.” – Stephen Catlin, Chairman, Catlin UK

LOOKING INTO THE FUTURE ONE THING IS CLEAR...

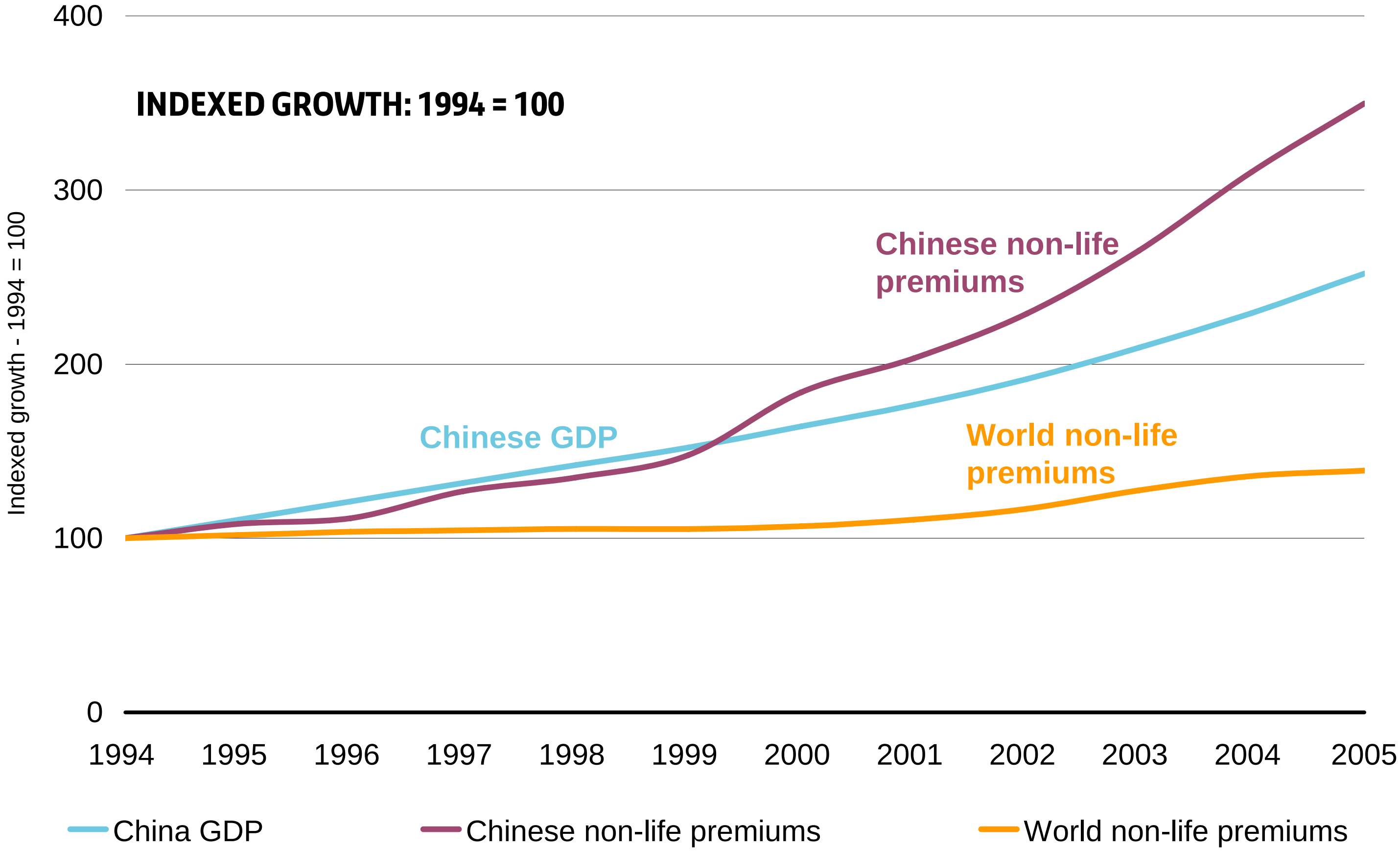


...THE TREND WILL ACCELERATE

LIBERALISATION **GROWTH IN INSURABLE ASSETS** **PRIVATISATION**

Chinese insurance market: non-life premium tripled in the last decade

Indexed growth – Chinese/world non-life premium and Chinese GDP



Source: WWM calculation based on: Sigma, “Non-Life Data 1980 – 2005”, (2006); Deutsche Bank, “Country Infobase”, (2006)

Price

- Pure Arbitrage where “Stateless” business attracted to best returns

- For example:
  - US property Cat to Bermuda – low tax
  - UK personal lines motor to Gibraltar – low capital

What does this mean for London?

- London becomes a shrinking share of world insurance markets
  - In absolute terms due to emerging market growth
  - In relative terms due to localisation
- The challenge is not globalisation versus localisation – it’s how to do both

Play to the “Pull”

- Develop global licences that meet insured’s desire to do business locally
- Resource locally with staff who are sensitive to the cultural issues and for whom language is not an issue
- Promote global brand locally to build domestic “feel”
- Selectively create/engage with “mini-hubs”
    - If you can’t beat them join them.

Lloyd’s examples

- China
  - Reinsurance licence
  - Lloyd’s “Room” in Shanghai
  - Brand profile raising
- South America
- Middle East

Challenge the Push

- Positive collaboration with the regulators to support move towards principle based regime
  - “Right touch” not necessarily “light touch”
  - ICAs
  - Contract Certainty
- Lobby for changes to competitive environment
  - Chancellor’s high level working group on City Competitiveness
  - Give HMT solutions not problems!

Challenge the Push

- Reform London Market Processes
  - Electronic Claims
  - Pre-bind quality assurance
- Make it “easier to do business with”
  - Reduced reporting requirements
  - Streamlined broker registration
  - Reduced syndicate approval times
  - Greater capital flexibility

Requires cultural and process change – not just “doing away with the paper”

Compete on “Price”

- NOT advocating rate softening!

$$ROE = \frac{\text{Income – Expenses}}{\text{Capital}}$$

- Income function of seeing the business – “Pull”
- Expense function of efficient process model – “Push”
- Capital function of business mix and capital structure

Compete on “Price”

- Diversity of London market helps reduce capital requirements generally

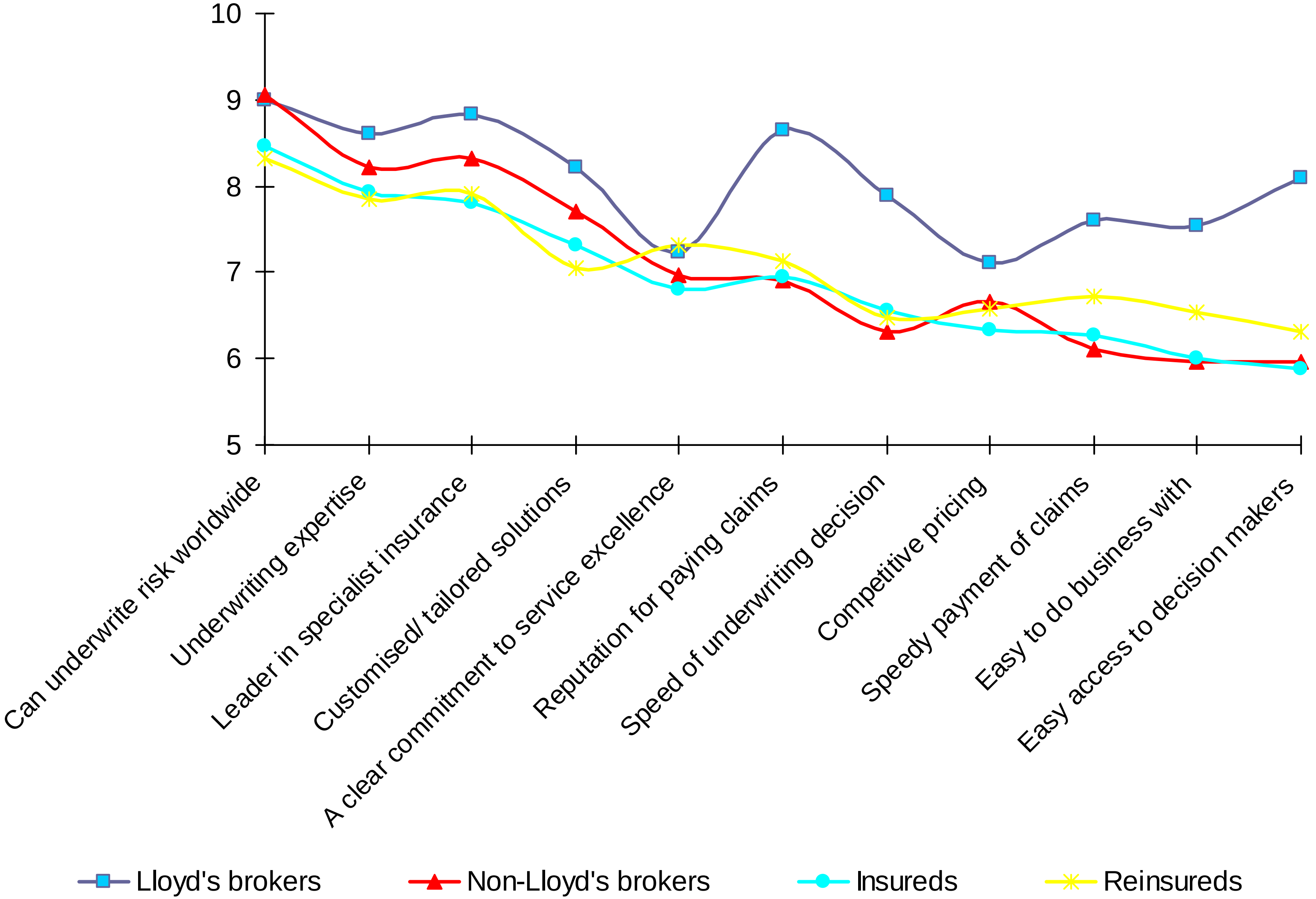
- Lloyd’s mutual structure creates an unbeatable model
  - Combination of diversity and mutual structure supports Lloyd’s capital levels at 45% of a standalone Bermudan or European Insurer*
  - Post-tax returns on capital can beat our peers
- “Managed” growth enhances the model

* Source: Morgan Stanley Analyst Report, 2006

Compete on “Price”

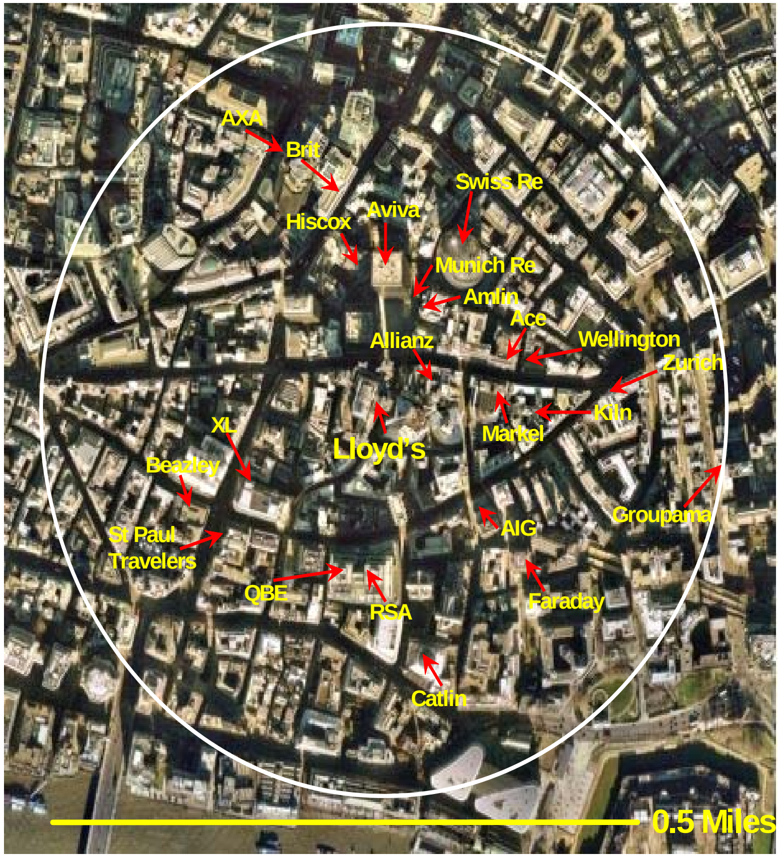
- Diversity, diversity, diversity
  - Uncorrelated risks
    - Demands access to global business
    - Drives need for local presence
  - Uncorrelated Capital
  - Uncorrelated Credit Rating!!!!
  - Tailored solutions

People want global presence and expertise



In the Insurance District of London there are 22 major Carriers…

50,000 people in London Market Insurance



$40billion of premium written in a quarter square mile around Lloyd's

Source: Swiss Re, Google Earth, Arthur. J. Gallagher

Conclusion

- Globalisation in financial services is enabling localisation in insurance as “Pull” factors become dominant
- To be competitive you will need:
  - local presence with a
  - global capital pool
- The only factor outside our control is Regulation and Tax
- London can nonetheless compete if it responds and goes with the flow

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