

London Matters 2020

LMG



“The London insurance market is a vital part of the financial services industry both in the UK and globally and I am pleased to see that this edition of London Matters reinforces its leading place in the world. Despite challenges from other markets, the most recent data shows that it is holding its own, and I am pleased to see the steps that it has taken to improve its offering to clients. The recent pandemic underlines the importance of the services it offers to organisations all over the world through challenging and unpredictable circumstances.”



John Glen

Economic Secretary to the Treasury & City Minister

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Foreword

Welcome to London Matters 2020, the latest edition of the London Market Group's influential report which tracks the growth and development of the London (re)insurance market over time.

Since 2010 we have been tracking the key data on the market including its overall size, the breakdown by class of business, geographical sources of risks and its financial contribution. For the first time we also look specifically at investment in the London Market, the contribution that claims make to the wider global economy and changes to the make-up of insurers within the market. This report analyses these key trends as we head into a new, technologically-driven era that will disrupt existing business models and redefine customer relationships.

It is important to note that this report is a snapshot of the London Market between 2015 and 2018. The data and analysis reflect the circumstances of this period and do not include any impact on the market and its clients caused by the COVID-19 pandemic. Drawing conclusions from such recent data now would be premature. The effects on market structure, products, processes and working practices caused by this crisis are likely to be profound and long-lasting. The London Market Group board will take the time required to think about what this means for the initiatives it has underway to support the market.

I am pleased to say that this report found the London Market in good shape. Aggregate market share held steady, maintaining its dominance over other insurance centres, attracting more US business than ever before and increasing its contribution to UK gross domestic product. Nevertheless, some of the underlying challenges from the first London Matters report in 2014 remain. We are still losing reinsurance business share, our share in emerging markets remains small, we need to replace an ageing workforce and there is more work to do on closing the gender pay gap.

The insurance industry's support for the wider business community has never been more important. The London Market has invested a lot of time and effort responding to the findings of previous reports and has reaped the benefits. The current crisis shows that the market can support its trading partners and clients through the toughest of challenges, and the fact it is doing so today is in part down to its adoption of previous London Market Group initiatives. For example, electronic placement of risk through PPL (the market's placing platform) has meant that remote working has been possible, and that contracts have been placed and renewed with legal certainty. Other activities, such as the promotion of the market overseas and as an attractive career option will continue to be important as the global economy responds to the challenges it faces.

Current circumstances mean it cannot lose momentum now. London Matters 2020 shows it is more important than ever to build a London Market that can continue to serve its clients whatever the circumstances they face.

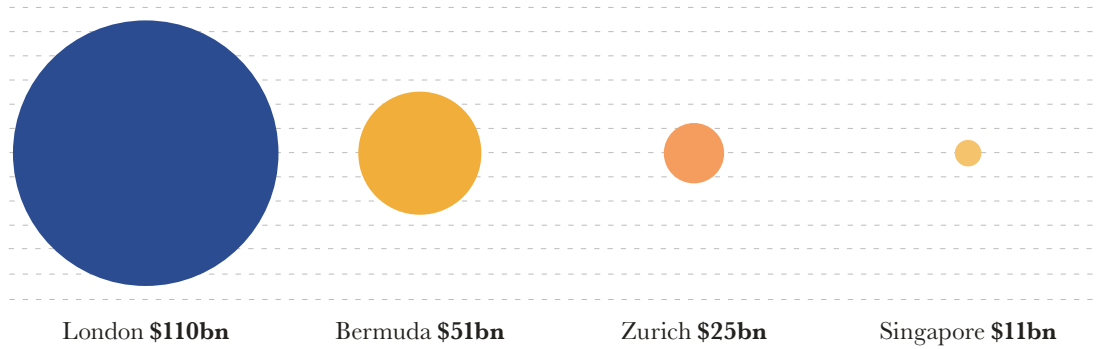


A handwritten signature in black ink that reads "Matthew Moore". The signature is fluid and cursive, written in a professional style.

Matthew Moore
Chairman

Executive summary

The London Market remains the largest global (re)insurance hub with \$110bn of Gross Written Premium in 2018



Since London Matters 2017

8.1%

Annual growth of London Market's P&C lines (Property, Casualty, Financial Lines)

13.8%

Annual growth in business managed by London Market brokers and written overseas

36%

Share of London Market premium from US, overtaking the UK and Ireland as the largest source of income

The London Market is a substantial contributor to the UK and global economies



£37bn

contribution to UK GDP in 2018, up from £32bn in 2015



4x

the UK average productivity (measured as GDP per full-time equivalent), and **70% more than banking**

\$180bn

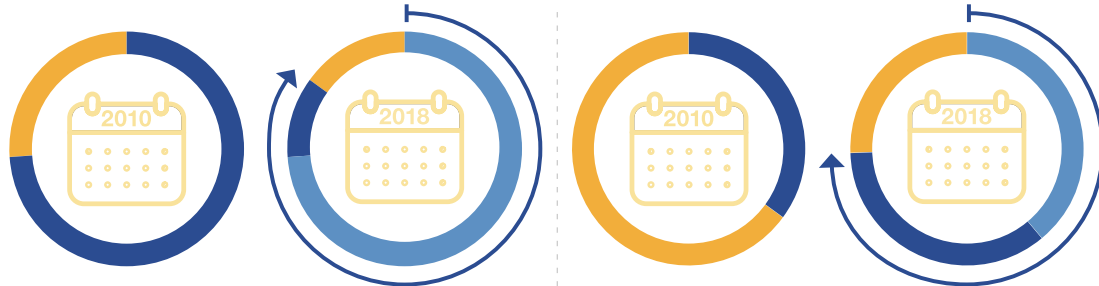
economic impact of London Market's claims payments since London Matters 2017



47,000

people employed in the UK, 5,000 fewer than London Matters 2017, reflecting offshoring, productivity gains and synergies

The London Market's capital is increasingly global in source



74% to 85%

Share of London Market premium written by companies domiciled outside the UK has increased

35% to 67%

Share of London Market premium written by carriers operating across both Lloyd's and the Company market has almost doubled

60%

of companies operating in the London Market wrote **less than 25% of their global premium** in the London Market



Diversity has improved, but further to go



29%

of London Market firms **have no women** in Financial Conduct Authority-controlled functions



45%

of London Market employees are female

1 in 4 top quartile earners are female



3pp decline in share of workforce

that are under 30, as the London Market struggles to attract younger talent



The size and composition of the market

For the first time, this edition of the London Matters report compares data from 2010, 2013, 2015, and 2018 – giving a unique insight into the trends and developments shaping the London Market over the last eight years. The wider scope of this report paints the most comprehensive picture yet of how the market is growing, which sectors are changing, and where the premium is coming from.

The London Market remains the leading global insurance hub

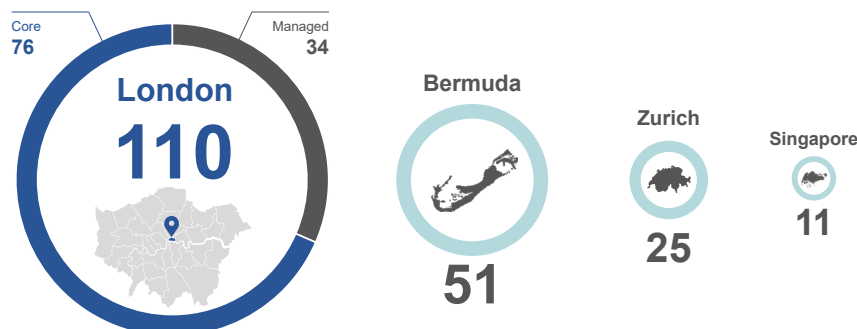
London Matters 2020 confirms that the London Market remains the largest global (re)insurance hub. It continues to develop as an attractive location for insurers. Large specialty buyers continue to seek out the capacity and expertise that London provides.

Earlier predictions that London's significance would diminish as business gravitated to regional centres have not been borne out. The gap between London and the total written premium in Bermuda, Switzerland and Singapore combined has widened from \$16bn in 2015 to \$23bn in 2018 (see Exhibit 01).

This strong performance has been achieved despite the increased efforts of challengers. There has been significant growth in Bermuda's insurance-linked securities (ILS) sector. The Monetary Authority of Singapore (MAS) has likewise set out to become the (re)insurance hub for South East Asia. To date, however, it has not been able to create the gravitational pull necessary to attract business that would otherwise come to London. It is probable that Singapore has yet to develop sufficient depth to act as a centre of global excellence.

01 | The London Market remains the largest (re)insurance market globally despite faster growth in Bermuda and Singapore

Global hubs gross premium, \$bn, 2018



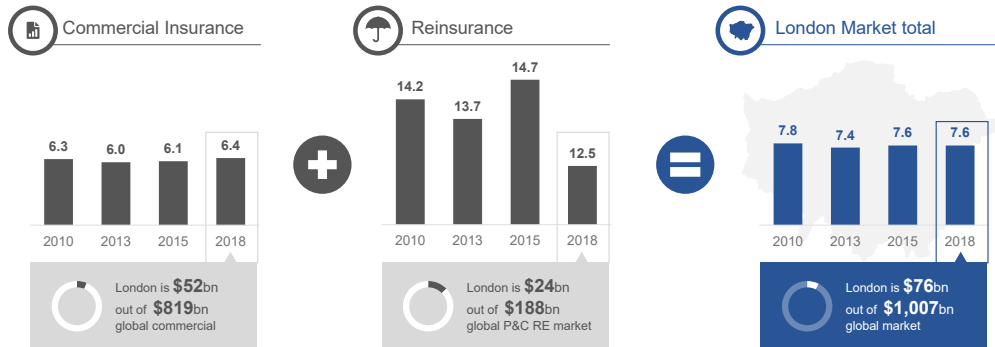
Note: Bermuda premium is estimated, as 2018 figures are not yet available

Source: London Market sizing: Lloyd's, IUA, Tysers P&I Report, Gallagher Marine P&I Pre-renewal Review. Bermuda: BMA, Class 4 insurance and reinsurance, which excludes Special Purpose Vehicles and Captives (including any commercial insurers whose non-captive business accounts for more than 50% of their book). Zurich: FINMA, Swiss Inwards reinsurance, Singapore: MAS, offshore premium and onshore commercial premium. Note: In 2015 Swiss Re decided to domicile the majority of their Asian business in Singapore, accounting for a rise of which approx. \$3bn in premium 17-18.

London's overall market share holds steady

02 | London is maintaining its share of the global (re)insurance market

Share of global markets, London Market gross written premium by placement type, % of global total



Note: Global inwards reinsurance figure is calculated based on A.M.Best – used with permission; For London Market, Reinsurance includes all treaty reinsurance, and facultative reinsurance for Casualty, Motor, Property and Other. For aviation, energy and marine, facultative reinsurance is included in commercial insurance as these business types share similar underlying risk characteristics.

Source: London Market sizing: Lloyd's, IUA, Tysers P&I Report, Gallagher Marine P&I Pre-renewal Review. Global Insurance sizing: Axco. The commercial insurance share for each country have been calculated by applying a split to the overall premium based upon the GDP levels. GDP levels obtained from World Bank. Global insurance values: Provided by A.M.Best – used with permission. Based on A.M.Best Global Reinsurance Net Written Premium, grossed using premium of Top 50 global reinsurance companies, A.M.Best – used with permission.

London's share of the global commercial (re)insurance market has remained steady overall at 7.6% since 2010 (see Exhibit 02). Within this, the London Market's share of commercial insurance has grown by 0.1 percentage points, while its share of the global reinsurance market has fallen by 1.7 percentage points.

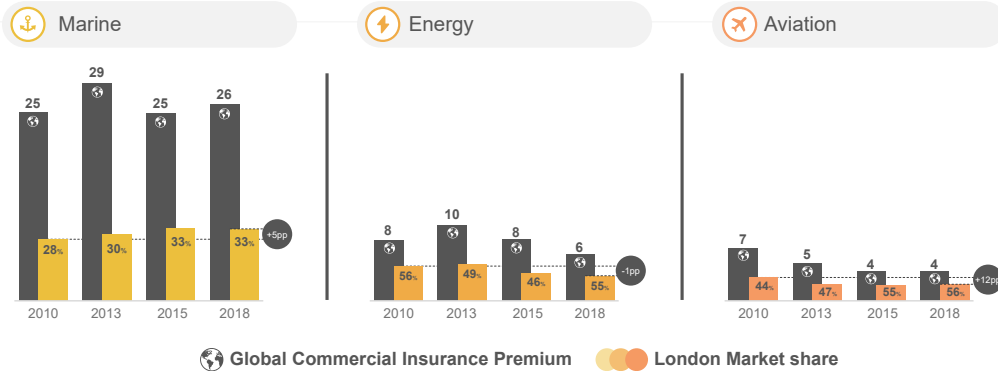
The decline in reinsurance continues the trend seen in previous London Matters reports. This is driven by several factors, including:

- **Local business stays local:** while most UK business written by global companies is written in its UK branch, the same holds true for the business written in other local branches.
- **Structural challenges:** Lloyd's is not set up to create large structured reinsurance deals and so cannot compete with global companies in the growing markets in mortality/longevity risk.
- **Protectionist trade policies:** several countries restrict London's local access to their fast-growing emerging markets.
- **Cost of capital:** reinsurance is capital intensive; London cannot compete with lean operators in Bermuda or with ILS players that have fewer overheads.
- **Ability to package programmes:** many major groups have now packaged up programmes and so buy only a handful of reinsurance programmes rather than hundreds of individual treaty reinsurance programmes as in the past. London businesses can't write all lines of business and so find it hard to build these large and diverse packages.
- **Regulatory support:** regulators in Bermuda and Singapore have supported the growth of alternative capital in their respective countries. This has not been the case until recently in the UK.

London's share of specialty grows as the market shrinks

03 | The London Market is increasing its share of the global market in Specialty lines

Specialty classes of business, gross written premium, \$bn



Source: London Market sizing: Lloyd's, IUA, Tysers P&I Report, Gallagher Marine P&I Pre-renewal Review. Global Insurance sizing: Axco. The commercial insurance shares for each country have been calculated by applying a split to the overall premium based upon the GDP levels. GDP figures obtained from World Bank. All London Market excludes reinsurance premium.

Overall, the size of the global speciality market¹ has declined by 10% between 2010 and 2018 to \$36bn (see Exhibit 03). Over this period the London Market has grown its share despite pricing and profitability challenges. Much of this increase has been in aviation and marine, which have shown 12 and 5 percentage points growth, respectively.

While the global aviation market has shrunk significantly, with a soft rating environment driving down premium, London's share rose between 2010 and 2018, as capacity elsewhere contracted and business came back to London to seek out the market's underwriting expertise.

The size of the global marine market has remained relatively flat, despite the growing world fleet and increase in size of vessels. In part, this is because of highly competitive pricing. Hull claims have been rising as larger vessels take to the seas with bigger cargoes. According to the Nordic Association of

Marine Insurers (CEFOR), the costliest 1% of claims account for >30% of total claims in any given year. These developments have played to the strengths of the London Market, which has the necessary expertise and capacity to write larger risks and is reflected in the increase in its market share between 2010 and 2018.

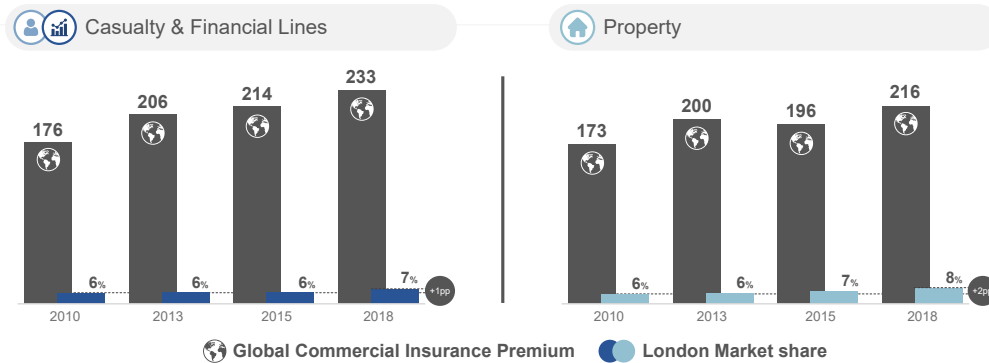
Global energy premium also saw contraction, as lower oil prices and a soft upstream market reduced premium, merger and acquisition activity increased among upstream companies, and greater use was made of captives. Although the London Market's share dipped between 2010 and 2015, the latest data shows an increase of 9 percentage points over the subsequent four years, reflecting rate hardening in the downstream market and reduced capacity as losses increase.

¹ Specialty products, which make up almost a fifth (18%) of the market, include energy, marine, and aviation

Market share has expanded in growing property, casualty & financial lines

04 | The London Market has expanded its market share within growing Property, Casualty & Financial lines

P&C classes of business, gross written premium, \$bn



Source: London Market sizing: Lloyd's, IUA, Tysers P&I Report, Gallagher Marine P&I Pre-renewal Review, Global Insurance sizing: Axco, Willis Global Energy Review, IUMI. The commercial insurance share for each country have been calculated by applying a split to the overall premium based upon the GDP levels. GDP figures obtained from World Bank. All London Market figures shown exclude reinsurance premium.

The London Market gained share within the Property & Casualty (P&C) market, with growth coming from property, casualty and financial lines. Much of this growth has accrued in recent years (see Exhibit 04) due to a number of factors:

- Some types of complex risk in financial lines, that match London expertise, have become harder to place in Europe and the US. These include high-limit, high-excess Directors & Officers (D&O), cyber, and Errors & Omissions (E&O).

- London has the specialist expertise to provide risk-transfer in difficult markets where local capacity has been constricted. This is especially true in transport, construction, commercial residential and medical malpractice.

London Market premium growth is accelerated by managed business

05 | The London Market is unrivalled as the largest global hub

London Market gross written premium by source 2018, \$bn



Source: Lloyd's, IUA, Tysers P&I Report, Gallagher Marine P&I Pre-renewal Review. London Market premium managed via brokers obtained via survey responses received from London Market brokers, grossed up to estimate premium from non-respondents

The London Market comprises both the core London Market (Lloyd's, company market/ International Underwriting Association, and Protection & Indemnity Clubs) as well as the managed business written on paper outside the London Market but managed by London-based carriers or brokers (see Exhibit 05).

Premium written in the core London Market has grown steadily between 2010 and 2018, with a compound annual growth rate (CAGR) of 2.5%.

This growth accelerated in 2015-18 to 3.7% CAGR (see Exhibit 06).

While the core London Market has grown steadily, with Lloyd's contributing to this increase, managed business has seen the fastest growth rate with 12% CAGR in 2015-18.

Overall, the entire London Market (core plus managed business) has grown steadily between 2013 (the start of London Matters' reporting of managed business) and 2018 with 4.1% CAGR.

06 | The core London Market has grown steadily, with a 2.5% CAGR between 2010-18

Growth by cohort, 2010-18. Overall Gross Written Premium, split by market carrier, % CAGR



1. This represents premium that is written in overseas or regional UK offices, but subject to oversight and management by London operations
2. This represents premium that is written overseas or in regional UK offices, but brokered by London-based broker teams

Source: Lloyd's, IUA, Tysers P&I Report, Gallagher Marine P&I Pre-renewal Review. London Market premium managed via brokers obtained via survey responses received from London Market brokers, grossed up to estimate premium from non-respondents

The London Market is changing: it is no longer seen just as the place where difficult risks are underwritten. There is now an important interplay between the London Market's three main components: the capital to underwrite risk, the advisory services to mitigate client risk and provide support to overseas branches and subsidiaries, and risk acceptance and placement. Over time, the mix of these activities has continued to shift, depending on factors such as pricing and appetite.

This report finds that advisory services have been the primary driver of growth in managed business between 2013 and 2018. This is seen, for example, in the case of a broker's Service Level Agreement (SLA), where the critical input London provides is reportedly in the modelling and the advice given, not in handling the transaction or in collecting claims. The same is true on the underwriting side: while business may not be placed in London, local and regional offices look to their London colleagues for data, advice and expertise. This finding is

also reflected in the comments of a number of global carriers that, even though they might use a different part of their business to take the risk, the underwriting will be done in London.

It is important to ensure that London retains its reputation as a key source of intellectual capital if it is to continue to attract business and maintain the market's position. Market participants suggest that the hardening of prices (a situation which has largely post-dated the compilation of this report) has seen a significant pick up in the business coming to London wholesale brokers from US retail brokers.

The composition of the market has also changed since the last London Matters report, with a notable decline in premium from London-based P&I clubs. This reflects the recent soft market in marine classes and increased competition from other marine hubs, primarily in Scandinavia, where there is now a comparable concentration of local expertise and a well-developed marine insurance ecosystem.

Growth in the Core London Market is driven by property, casualty and financial lines

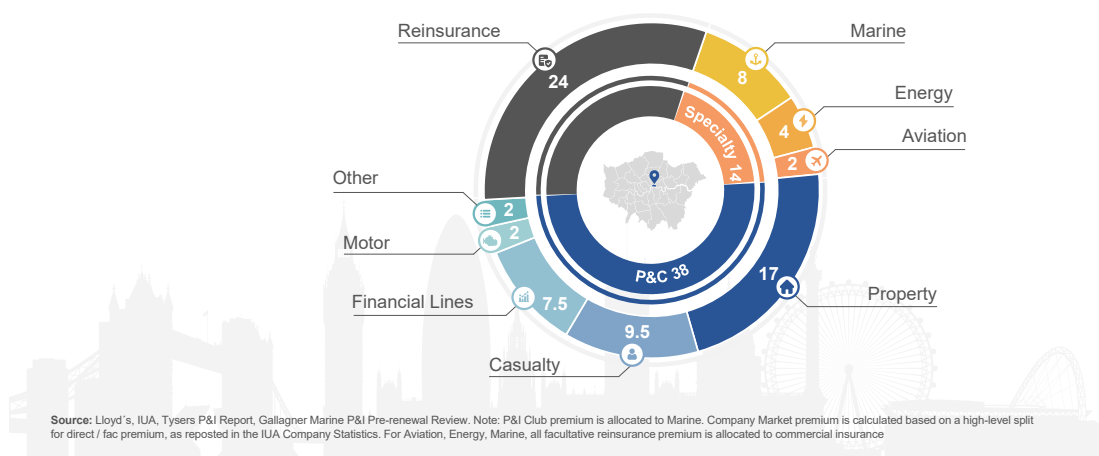
The P&C segment accounts for more than half of all premium written in the London Market in 2018 (see Exhibit 07).

P&C business also continues to dominate in terms of premium income flows into London, with a

compound annual growth rate of 8.1% between 2015 and 2018 (see Exhibit 08). A significant part of the premium during this period came from property, casualty and financial lines (14% CAGR for financial lines).

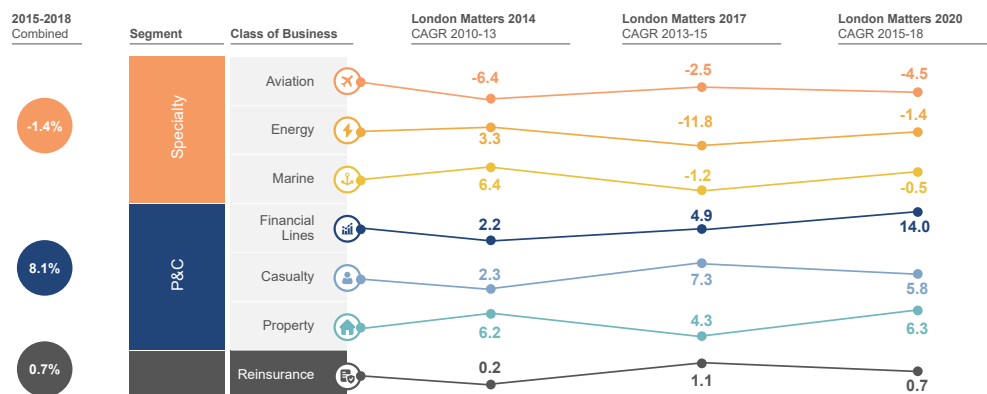
07 | P&C accounts for half of London Market premium in 2018 (property, casualty and financial lines)

Premium flow into core London Market 2018, \$bn



08 | Growth is largely driven by the P&C segment (property, casualty and financial lines)

Premium flow into London Market 2018, % CAGR



Source: Lloyd's, IUA, Tysers P&I Report, Gallagher Marine P&I Pre-renewal Review. Note: P&I Club premium is allocated to Marine. Company Market premium is calculated based on a high-level split for direct/ fac premium, as reported in the IUA Company Statistics. For Aviation, Energy, Marine, all facultative reinsurance premium is allocated to commercial insurance

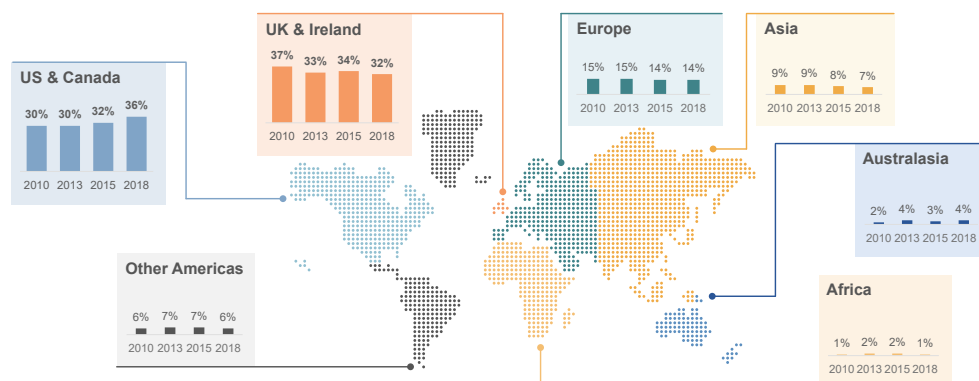
North America replaces the UK and Ireland as the biggest source of income

The London Market's income from North America (the US and Canada) increased by 6 percentage points between 2010 and 2018, making it the largest source of premium for the first time during the lifetime of London Matters (see Exhibit 09). North America was also the fastest growing region for the London Market during this period, with the most rapid increase in growth taking place post-2015.

The growth has been driven largely by strong performance in the US Excess and Surplus (E&S) sector. According to Fitch, direct written premium in the US has grown for eight consecutive years, this growth being driven both by the strong performance of the economy, as well as by growth in the tech sector and weather-related catastrophe.

09 | In 2018, the US & Canada overtook the UK & Ireland as the main source of premium

London Market gross written premium by insured location (includes both commercial insurance and reinsurance), %



Source: London Market sizing: Lloyd's, IUA, Tysers P&I Report, Gallagher Marine P&I Pre-renewal Review. Global Insurance sizing: Axco, Willis Global Energy Review, IUMI. The commercial insurance shares for each country have been calculated by applying a split to the overall premium based upon the GDP levels. GDP figures obtained from World Bank. All London Market figures shown exclude reinsurance premium.

In contrast, the income share from the UK and Ireland saw a sharp decline between 2010 and 2018, dropping by 5 percentage points. Combined with the strong growth in North America, this saw the region fall behind North America for the first time. This trend results from UK insurers moving their

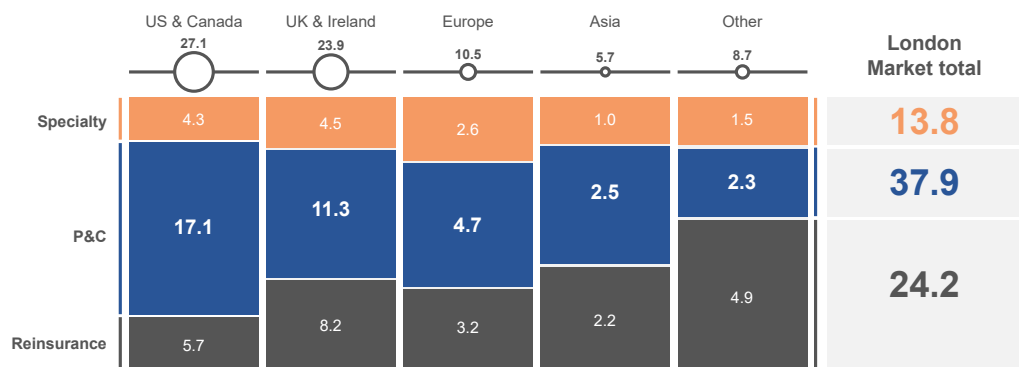
business from London to regional offices where not only are their transaction costs lower but where they are also closer to clients.

Income from reinsurance, which accounts for a third of premium, has also decreased.

P&C is driving the growth in North America

10 | The P&C segment in the US & Canada is the main source of London Market premium

London Market 2018 gross written premium, segmented by class of business & insured location, \$bn



Source: Lloyd's, IUA, Tysers P&I Report, Gallagher Marine P&I Pre-renewal Review. Note: Specialty includes Marine, Aviation, Energy. P&C includes Property, Casualty, Motor, Other, Financial Lines. P&I Club premium is allocated to UK & Ireland Marine. Each Class of Business contains both commercial insurance only, with reinsurance reported separately.

Looking at the breakdown of premium by region, by far the largest contribution overall comes from the North American P&C segment, at \$17.1bn (see Exhibit 10). The UK and Ireland remain the main source of premium for specialty lines and reinsurance.

The London Market also grew its market share in the US E&S sector, which has seen increasing amounts of business migrating from retail to wholesale (see Exhibit 11). London's increase in the share of this business – the vast majority of which is placed in the Lloyd's market – came from the small to mid-size E&S brokers. Brokers have either acquired or expanded their London broking operations in order to diversify and expand their offer to their clients, providing them with greater choice, while retaining a greater share of earnings where possible.

On the underwriting side, there is a significant overlap among E&S underwriters, with many having a presence in both London and the US. This dual platform approach enables them to see

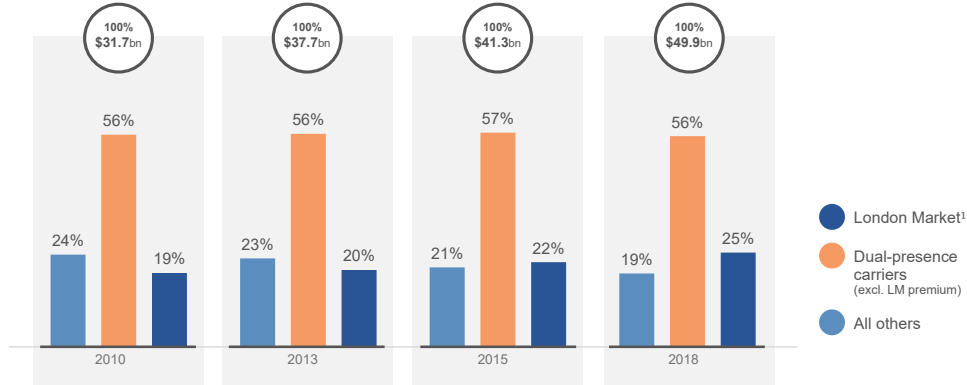
business that flows to London, allowing them to be more flexible and offer more choice to their clients, especially in classes where the London Market has specific expertise, such as cyber and catastrophe-exposed risks (e.g. difference in condition, standalone flood, earthquake and wind).

Merger and acquisition activity has also altered the composition of the E&S market, reducing the number of participants and the level of choice for brokers. Two examples that stood out in 2018 were that of American International Group's (AIG) acquisition of Validus Holdings and Hartford Financial Services Group's purchase of The Navigators Group.

Since 2018, in order to improve performance, leading E&S market participants, including Lloyd's and AIG, have increased their focus on underwriting discipline. They have done this by various means, including changing policy limits, reducing risk appetite, and driving out unprofitable business. These activities have increased premium rates.

11 | The London Market is gaining share in the growing US Excess & Surplus lines

Total US Excess & Surplus market written premium



Source: ©A.M.Best – used with permission and McKinsey E&S model
 † 95% of London Market in US E&S segment comes from Lloyd's

Emerging markets still underperforming

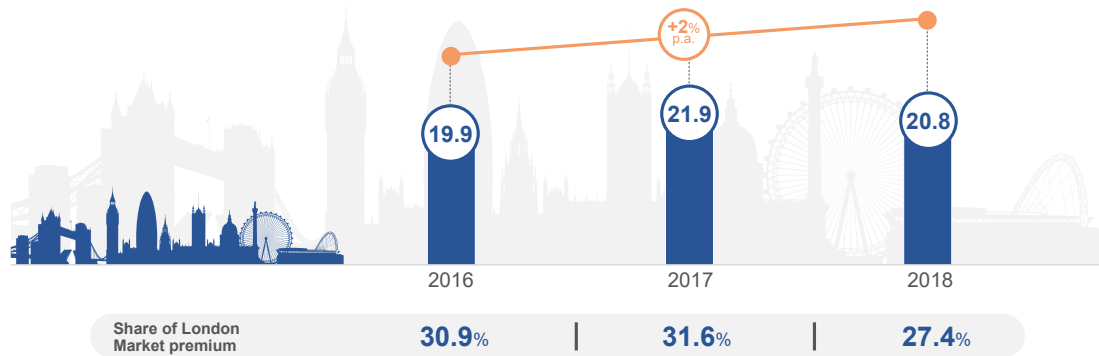
As noted in previous London Matters reports, London has continued to underperform in emerging markets in Asia and Africa (see Exhibit 09). There are several reasons for this. Growth in many of these markets is still being driven by mainstream commercial insurance business, such as local package business and commercial auto, which is less specialised and can be covered by local retail markets. Furthermore, insurance buyers prefer to buy locally, and doing so has become more feasible as local carriers increase capacity and capability. As a result, much of this business isn't coming to London.

On the plus side, emerging markets are increasingly seeking cover for more complex risks. This should provide the London Market with opportunities for such business. Why it has yet to pick this up is not entirely clear. However, the data suggests London lacks sufficient appetite to trade in emerging markets and/or is uncompetitive. In recent years, a number of London-based businesses, that had earlier opened branches in the Middle East and Asia, have withdrawn from these markets after struggling to make a profit in these locations.

London's Delegated Authority premium has grown

12 | Delegated authority business is growing but reducing its share of London Market premium

London Market premium from delegated authority business, \$bn



For the first time, London Matters examines the Delegated Authority (DA) business within the London Market. DA makes a substantial and important contribution, accounting for more than 27% of London Market premium in 2018. While DA's contribution has grown in absolute terms, its share of London Market premium has fallen by 3.5 percentage points since 2016 (see Exhibit 12).

Almost half of all DA business came from the US and Canada during this period, with another third coming from the UK. Commercial customer risks make up the largest share of DA business (41%), with another 35% coming from consumer/micro business.

DA business is a valuable part of the London Market in that it not only provides a way for underwriters and brokers to try out new products and new classes of business but also access to local customers. In 2015, recognising that the London Market needed to be more efficient in how it

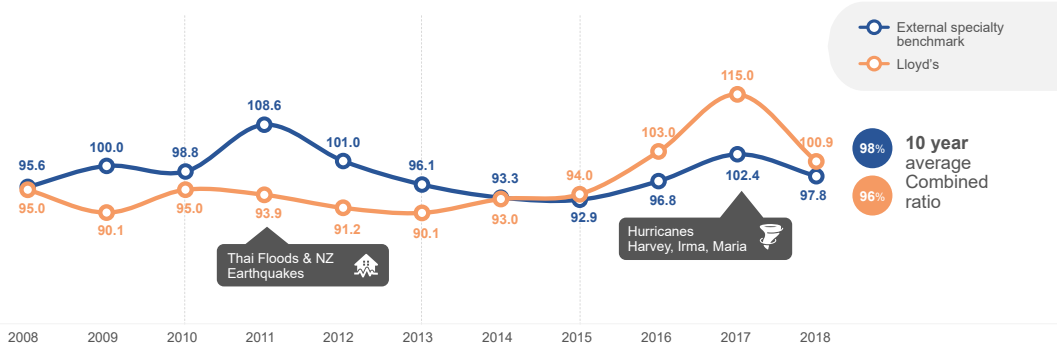
handles DA business, London embarked on a programme to improve processes with the objective of ensuring that it continues to be attractive to current and future coverholders. This is also the focus of one of the ongoing initiatives of the Future At Lloyd's programme.

A milestone in the DA programme was reached in September 2018 when the Delegated Authority Submission Access Transformation Solution (DA SATS) was rolled out. This market-wide platform provides a central service that standardises the collection, validation, processing and supply of delegated authority data across the market. It changes the way bordereaux are shared and processed in the London Market by delivering standardised bordereaux data to all market participants, thereby transforming and modernising coverholder management and strengthening this key global distribution channel.

Profitability versus growth

13 | The London Market has outperformed peers in the last decade despite higher combined ratios in recent years

Using Lloyd's as a proxy for London Market wholesale Insurance combined ratio



Note: Peer benchmark includes 12 Bermuda and US global specialty companies for whom the majority of specialty business is transacted outside of London
Source: Annual reports, annual review, investor presentations

London Matters 2020 describes the London Market's increased share in established markets between 2015 and 2018, but this is not the whole story. Profitability is key, particularly in a soft market. However, because data is not available for the profitability of the London wholesale market in its entirety, this report uses Lloyd's market data as a proxy.

This suggests that the London wholesale market has outperformed its peers over the last decade, despite the higher combined ratios of recent years (see Exhibit 13). Given the recent challenging market conditions for insurers everywhere, growth is not

necessarily the number one objective at present. It is quite likely the case that if London had grown faster during the period 2015-18 it would also have been less profitable. Some commentators argue the level of growth has been 'just right'. Time will tell, now that many companies have reduced their capacity or exited the market and rates have been hardening since 2018.



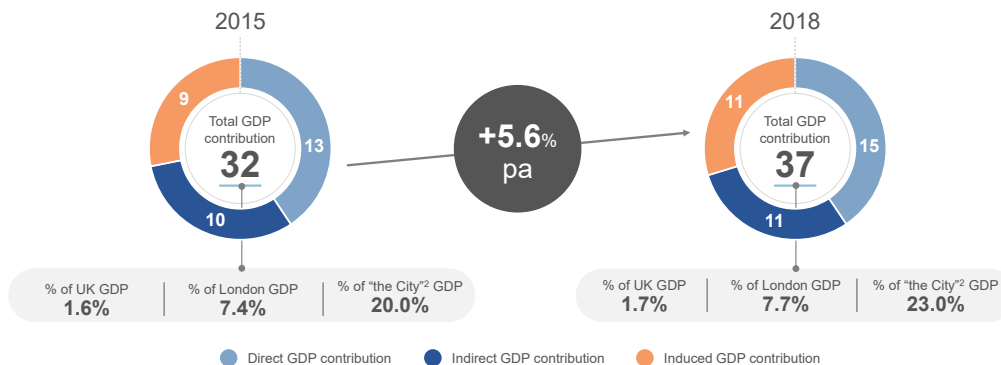
Strong contribution to UK and global economies

The London Market plays a fundamental role in supporting and stimulating global economic growth through risk transfer and advisory. Without this, many public and private ventures would be too risky to carry out and companies would be required to carry substantially more capital. Through the payment of claims to customers across the world, the London Market plays an important and often under-appreciated role in strengthening the resilience of local economies after catastrophic events. The London Market is also an engine of economic growth in the UK and abroad.

London's contribution to the UK's GDP has risen

14 | The London Market's £37bn GDP contribution has increased by 21% since 2015

London Market's Gross Domestic Product contribution. 2018 economic impact, normalised for loss ratio¹, £bn



1. To account for significant variations in year-on-year loss ratio, the economic contribution has been calculated based on the profit levels at the 10-year average loss ratio for the market, but adjusting for rate fluctuations.
 2. Taken as GDP of financial and insurance activities in Camden and City of London and Tower Hamlets.
 Source: CNS, Lloyd's, Broker, Survey, Carrier Survey.
 Note: The 2015 figures have been restated and are now different to those quoted in London Matters 2017 because the Office of National Statistics restated its figures for the period.

The full impact of the London Market is best demonstrated by looking at the sum of its direct, indirect and induced contributions.² In terms of direct contributions, London contributed £37bn to UK GDP on a through-the-cycle loss ratio basis³ in 2018, up from £32bn in 2015. This rate of growth

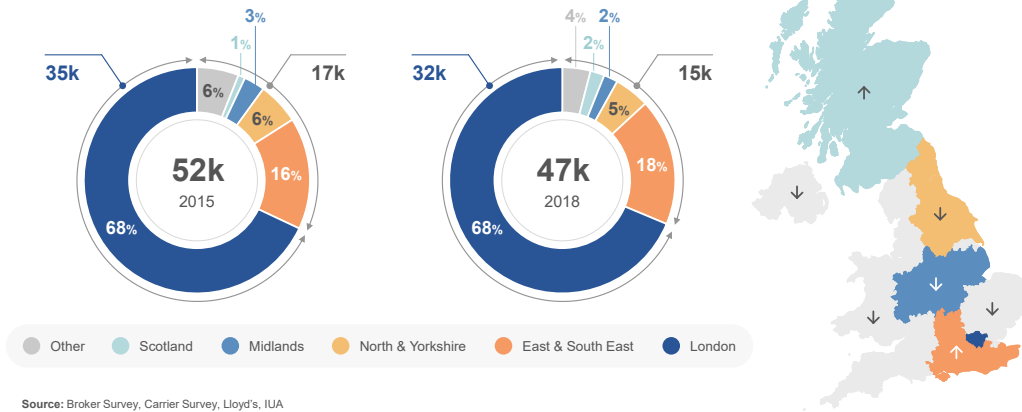
of 5.6% a year (on the same basis) is twice that of the UK economy as a whole. As a proportion, the London Market's economic contribution equates to 1.7% of UK GDP, 7.7% of London's GDP and 23% of the City's GDP (see Exhibit 14).

2 The direct contribution to GDP measures the value-add of the economic activity of Lloyd's, the London Market risk carriers and brokers only. See appendix on methodology.
 3 Through-the-cycle loss ratio basis: see page 44 in the appendix on methodology.

London employs fewer people

15 | In 2018, the London Market produced 47,000 jobs, including for 15,000 people outside London

Regional breakdown of the number of jobs supporting the London Market in 2015 and 2018



Source: Broker Survey, Carrier Survey, Lloyd's, IUA

The London Market, by virtue of its status as a global hub for commercial insurance and reinsurance, attracts jobs into the UK economy. This report shows the London Market is a major UK employer, employing 47,000 people across the UK. While around two-thirds of these jobs, about 32,000, are in London, 15,000 are based outside the capital (see Exhibit 15).

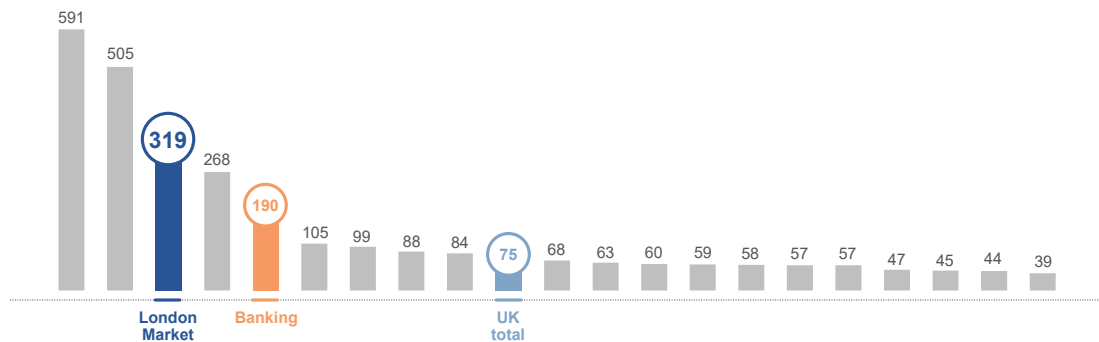
That said, the number of people employed by the sector fell between 2015 and 2018, a result of the consolidation that took place in the sector over

this period. Further reductions have been made as companies adopted new technology and outsourced back-office functions, which improved efficiency and productivity at the expense of some jobs.

The London Market makes a higher contribution to GDP per full-time equivalent (FTE) compared to other sectors in the UK (see Exhibit 16). For example, it contributes 70% more GDP per FTE than banking, and more than four times the UK average, making it one of the most productive sectors in the country.

16 | The London Market's production per full-time employee is four times the UK average and 70% more than banking

Gross Domestic Product per full-time equivalent by sector; Insurance on through-the-cycle loss basis¹



¹ refer to methodology section for full details

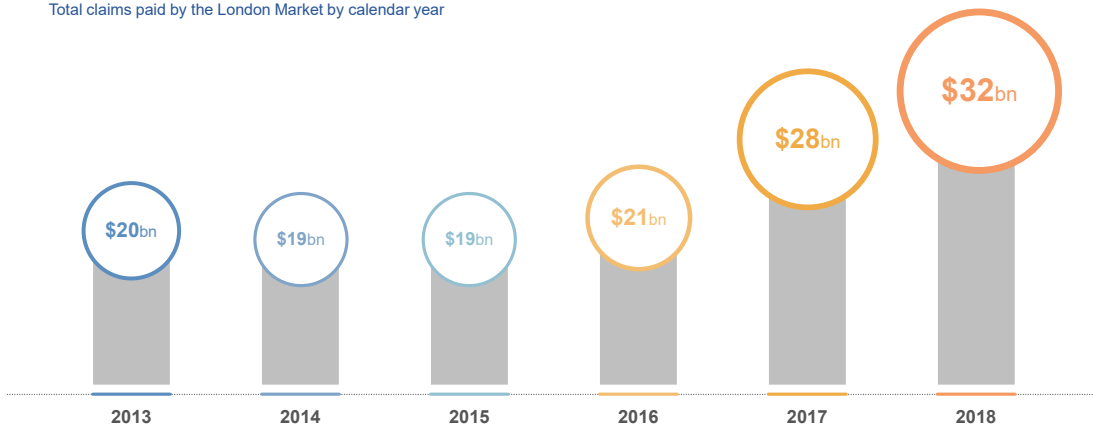
London supports economies around the world

As well as working with clients to reduce their exposures and mitigate their risk, when catastrophe strikes, the London Market also supports businesses and communities through the prompt payments of claims. Since 2013, London has injected billions of dollars in a series of above-average major catastrophe years, helping clients to get back up and running as quickly as possible (see Exhibit 17).

This report estimates that London Market's claims payments have resulted in \$181bn⁴ of economic impact across the world since 2015 (Exhibit 18). To put this figure in context, this is roughly equivalent to the GDP of New Zealand in 2018.

17 | The London Market paid 68% more in claims in 2018 than in 2015

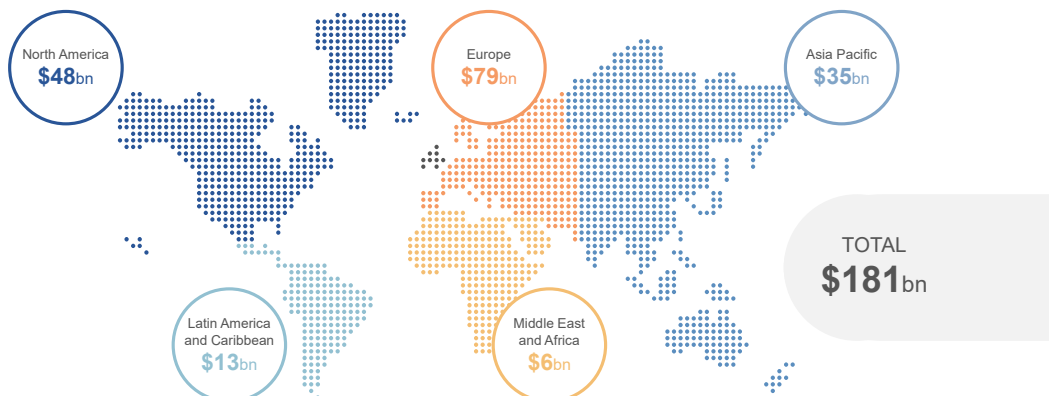
Total claims paid by the London Market by calendar year



Source: Lloyd's, Xchanging, IUA

18 | The London Market has created \$181bn of economic impact worldwide since London Matters 2017 was published

London Market's cumulative impact on economic output since London Matters 2017 (2016-18)



Source: Lloyd's, Xchanging, IUA, RIMS, OECD, McKinsey Global Institute

⁴ The economic impact is the economic output produced by the claims paid. This calculates the impact along the entire supplier chain – both indirect and induced – of the claims payments in economies globally. Essentially, this measures how much economic output is created when increasing demand for construction by \$1.

The London Market has a positive impact beyond the economic one

The London Market's positive impact on economies and society at large comes from more than just paying claims fairly and objectively, irrespective of whether the recipient is an individual or a multi-national business, or whether an event has affected one person or thousands. For instance, when the Caribbean was hit by Hurricane Irma in the summer of 2017, claims teams in London put in place plans to respond quickly, offer advance payments, and provide services and support to policyholders.

This included addressing the islanders' lack of a power supply, which had been damaged by the hurricane, by chartering planes to fly in generators and fuel. They also provided satellite phones as an alternative to the existing communications network, which was not working. In one exceptional case, a loss adjuster even hired a catamaran to sail through the storm to reach a policyholder and begin assessing their claim.

Despite access challenges, and the lack of power and infrastructure, the London Market made multi-million-dollar payments to many policyholders within days of Hurricane Irma making landfall. Once the catastrophe was over, local communities and businesses acknowledged the responsiveness and sensitivity with which London had responded, and how it had helped the islands start recovering and rebuilding as quickly as possible.

Historically, London has demonstrated its ability to work through complex claims situations involving multiple stakeholders. In the light of recent events, this ability is once again being put to the test.

“London is perceived as more neutral than other markets; the claims conversations are seen as less biased”

Risk manager

Building on strong foundations

In interviews conducted for this report, London's reputation for consistently and fairly paying claims was highlighted as one of the market's strengths. However, interviews also showed there was some frustration with London's claims processes, particularly with regard to the time and complexity involved in paying small claims. Client feedback also noted that policyholders and brokers often cannot track the progress of their claims after notification. In contrast, many local insurers provide online portals so that claims can be tracked. Since 2018, the London Market has taken steps to simplify its claims processes. This has streamlined the way smaller and less complex claims are dealt with, speeding up decision-making and payments.

The London Market recognises that more work needs to be done to enhance its claims service to make it more transparent and efficient for clients and brokers. Current London Market and Lloyd's initiatives are addressing this. These include streamlining agreement and automating processing and instant payments, loss prevention advice, one-touch notifications and real-time loss assessments.

“We just need to ‘meet the bar’ on simple claims, then it will make the overall proposition shine”

CEO, service company



ANNO · ELIZABETHAE · R · XIII · CONDITVM · ANNO · VICTORIAE · R · VIII · RESTAVRATVM



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An increasingly global capital base

In London Matters 2020, for the first time the report analyses the capital that underpins the London Market's underwriting, looking at where in the world it comes from, why people invest in London and the form in which it is provided. The London Market is essential for investors with an appetite for insurance risk because it provides access to the entire global market and the broadest choice of risks. As a result, London has always attracted, and continues to attract, investors of all types – including insurance companies, private equity and institutional investors. The departure of the UK from the European Union – formalised early in 2020, may pose a risk to the flow of capital into London, particularly from Europe but also other countries looking to access European business.

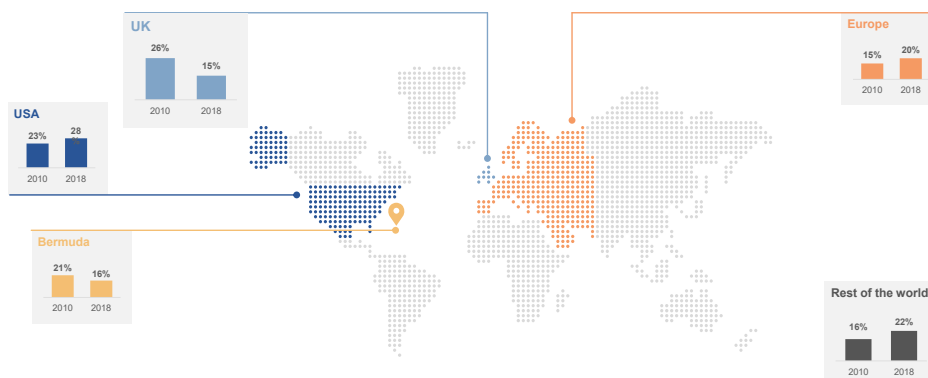
Ongoing internationalisation of the London Market

Analysis for this report confirms the ongoing internationalisation of the London Market, which between 2010 and 2018 saw an increase in the amount of capital invested from all regions outside the UK, with the one exception of Bermuda (see Exhibit 18). By contrast, the amount of money invested in London by companies domiciled in the UK fell by 11 percentage points over this period. This trend has been growing as international insurers have sought to widen their portfolios to include more exposure to the specialist risks that come to London.

This evolution of the London Market reflects the globalisation of the world in general. This has meant London-based investors looking beyond their own borders for investment opportunities, as well as the London Market attracting more capital from around the world. This trend has increased the competition among London carriers, requiring them to prove their business case to capital providers, instead of relying on the London-based investors' historic attachment to the London Market.

18 | The London Market is increasingly dominated by foreign-domiciled capital

Distribution of London Market premium by holding domicile, %, \$bn



Note: Group holding premium refers to the total premium recorded for the holding company (i.e. parent insurer of London Market entities). Source: AM Best, Lloyd's Statistics, Company Annual Reports, IUA

“As long as London attracts new business – looking for complex underwriting or capacity – it will attract capital. To the extent business can be written more cheaply in local markets, big organisations will over time do this. Therefore, it is important that London maintains an attractive return profile.”

CEO, London Market carrier

Capital flows from different regions at different times

Capital has flowed into London from different regions at different times, often for different reasons. One reason for these flows is that national carriers have sought to develop outside their own borders in order to service the increasingly international operations of their domestic clients in a variety of industries. London, as the world’s leading insurance hub, is the natural place to pursue this strategy. Another reason for these flows is the pressure to diversify. For example, in 2010, 20% of the premium contribution in the market came from businesses domiciled in Bermuda, many of which were monoline carriers under pressure from ratings agencies to diversify. London was one of three possible capital centres they could choose. Examples of new market entrants at this time included those of RenaissanceRe in 2009 and Allied World in 2010.

More recently, London has seen new market entrants from other countries with mature insurance industries. Investment from Japan and Korea has been driven both by the need for insurers from both countries to expand beyond stagnant domestic markets, as well as the need to develop the capability

to compete in the more complex overseas property and casualty risk markets. Between 2013 and 2018, there were five major deals involving Asian capital providers, predominantly from Japan (see Exhibit 19).

Capital providers in emerging markets have also been investing in the London Market – China Re in 2012 and GIC RE from India in 2018, for example. These insurers are major businesses in their own countries and have expanded into the London Market to gain more knowledge and experience of property and casualty risks in London.

Throughout the past decade, the London Market has also seen increasing investment by US carriers, often carried out via mergers or through buying a Lloyd’s vehicle. This reflects US investors’ desire to diversify and access specialty risk and demonstrates their preference for London’s shared language and cultural similarities.

19 | Asian capital is investing in the London Market

M&A deals involving Asian capital 2013-18

Rank	Company	2013	2014	2015	2016	2017	2018	Capital provider	Deal value (\$m)
1	HCC	○	○	🚩	○	○	○	TOKIO MARINE	7,500
2	Endurance	○	○	○	🚩	○	○	SOMPO	6,304
3	Amlin	○	○	🚩	○	○	○	MS&AD INSURANCE GROUP	4,958
4	Sirius Group	○	○	🚩	○	○	○	CM 中国民生	2,592
5	canopus	🚩	○	○	○	○	○	SOMPO	1,025

Source: Dealogic

Private equity investment has increased in the London Market

This report shows that between 2015 and 2018 there was a significant private equity investment in London Market companies, with six deals worth more than £250m (see Exhibit 20). This investment has until recently usually targeted brokers, who

offer steady cash flows, high client retention rates, and strong revenues. However, the latest data shows private equity has also been targeting insurers during the latter part of this period.

“It is interesting to see private equity investors playing in a broader spectrum of the London Market – including in balance sheet businesses”

Senior executive, London Market broker

20 | Private equity has made significant investment in London with six deals of more than \$250m

Top six largest private equity deals in the London Market 2015-18

Rank	Company	2015	2016	2017	2018	Capital provider	Deal value (\$m)
1	AmTrust Financial (Insurer)	○	○	○	●	ENSTAR, Stone Point Capital, Madison Dearborn	2,950
2	Ironshore (Insurer)	●	○	●	○	FOSUN, Liberty Mutual	2,100
3	lowergate (Broker)	●	○	○	○	Madison Dearborn, HPS	1,573
4	ESSECO (Insurer)	○	●	○	○	CIF Investment Board	1,100
5	canopus (Insurer)	○	○	○	●	Concubridge	952
6	cfc (Broker)	○	○	●	○	WARBURG PINCUS	250

Note: Ironshore was sold by a consortium of PE investors to Fosun in 2015 and to Liberty in 2016. Source: Preqin

This report identifies several trends within private equity investment:

- An increasing focus on investing in consolidation platforms, mostly within the brokerage space, to create economies of scale through acquisition.
- The use of private equity capital to invest in start-ups that have distinct value proposition in areas where there are gaps in the market.

- The focus on profitability through greater cost discipline and technology-driven efficiency.

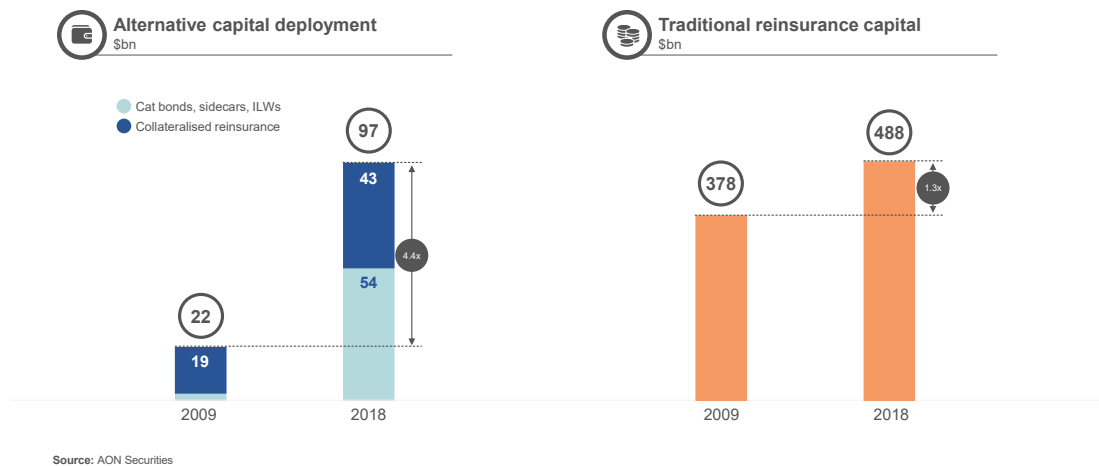
Private equity capital will likely remain attracted to the insurance sector as long as there are significant opportunities to create value. Primarily these opportunities will come from transformation of legacy platforms into more customer-centric and cost-efficient businesses.

London could become a leading centre for insurance-linked securities

As the number of London Market businesses has diminished through acquisition, there are fewer opportunities to invest directly in the London Market. This is stimulating the appetite and opportunity for institutional capital to invest

directly in the London Market through alternative capital vehicles, such as insurance-linked securities (ILS), a discreet asset class distinct from other insurance risks globally (see Exhibit 21).

21 | Alternative capital has more than tripled over the past decade



“UK ILS has great potential, especially outside of property cat. Examples of lines of business where you can deploy ILS: cyber, property cat outside of North America, terrorism – i.e. playing its card as a specialist in difficult to insure risks.”

CEO, London Market carrier

Research⁵ shows that alternative capital investment tripled globally between 2009 and 2018, with much of this being driven by the ILS market in Bermuda, which specialises in US natural catastrophe reinsurance. By the end of 2019,⁶ \$88bn of capital had been deployed in the global ILS market, of which more than 55% supported bilateral collateralised reinsurance transactions executed via risk transformation vehicles.

In 2018, after lobbying by the London Market Group, the UK Government responded to Bermuda’s continued growth in this area by putting in place legislation to develop an ILS market in London. There is an important design difference between ILS in the London Market and that in the Bermudan market: London allows investment in multi-transaction, collateralised reinsurance

business, not just Insurance Special Purpose Vehicles set up for single transactions. This means investors in the UK ILS market are given more choice and can invest in a much wider range of risks, rather than just in the traditional property catastrophe bonds. Since the legislation was passed, four protected cell companies have been approved in the UK, including one for Pool Re that created one of the most innovative ILS deals in 2019 to cover terrorism risk.

The UK’s legislative and regulatory ILS framework and tax arrangements are globally competitive and have been broadly welcomed by investors. However, ILS development has been hampered by bureaucracy, applications being seen as rather onerous and costly. As a result, not all insurers, reinsurers and fund managers are persuaded that

⁵ Aon Securities research

⁶ Guy Carpenter research

operating through a UK-based risk transformation vehicle is as cost efficient and flexible as that in other countries.

This situation is likely to improve for several reasons:

- The UK Government is actively engaged in the ILS market and is working on improving it.
- London's extensive geographic connections to the world's major insurance markets means it can access new risks in many more geographies, not just those in North America (which, to date, have fed ILS in Bermuda and other markets).

This gives London a competitive edge.

- The London Market's spread of business across all classes of life and non-life (re)insurance gives it a broad scope for new business opportunities.
- Many leading ILS markets are based in offshore locations; this can create additional cost and complexity due to some countries' restrictions on transacting with offshore territories. London ILS business does not incur such costs.



Fewer, larger players in London

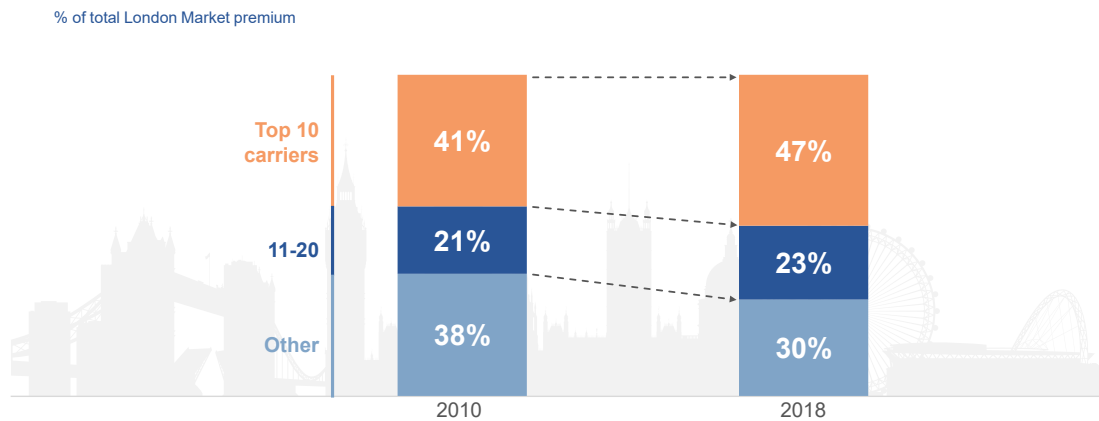
In London Matters 2020, for the first time we analyse the profile of the carriers writing business into the London Market and how this has evolved over time.

The London Market has become more concentrated

The top 10 carriers wrote 47% of market premium in 2018, up from 41% in 2010. This reflects the fact that larger global carriers have entered the market through merger and acquisition activity, thus diversifying, growing in specialty classes of business and/or developing new capabilities (see Exhibit 22). In 2018, the two largest examples were AXA's acquisition of XL Catlin and AIG's of Validus. Many firms acknowledge they often don't have the skills and experience to write specialist products locally and so it makes more sense to write specialty risks out of London.

Consolidation is not unique to London. This trend is evident throughout the global (re)insurance industry as it seeks both growth in new markets and greater economies of scale. While consolidation can result in less choice for customers, access to larger global balance sheets offers several benefits, including increased capacity and access to more products and services. It is worth noting that London is the only insurance market in which all the top 25 global non-life (re)insurance groups⁷ have a presence.

22 | The London Market has become more consolidated



Source: IUA, Lloyd's

“Cultural integration is an important factor in the success of the large M&A deals. There have been varying levels of success in achieving this.”

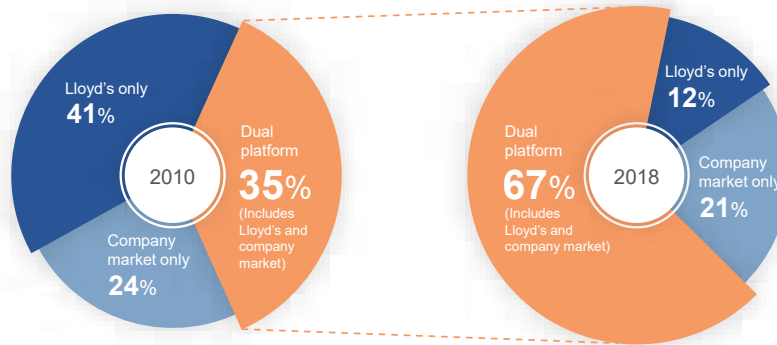
UK Managing Director, Reinsurer

7 AM Best September 2019 report

Carriers are increasingly operating in both Lloyd's and the company market

23 | The share of premium contributed by carriers with a dual platform has nearly doubled

Breakdown of total London Market premium by platform



Note: Group holding premium refer to the total premium recorded for the holding company (i.e. parent insurer of London Market entities). A holding company refers to the ultimate parent insurer of a London Market insurer. If two operationally separate insurers, for example, have one ultimate parent, they will be classified as one company.
Source: Lloyd's Statistics 2019, IUA

The share of premium written by companies operating in both the Lloyd's and company markets (dual platform) nearly doubled between 2010 and 2018 (see Exhibit 23). This gives capital providers greater flexibility as to where they write their risk and provides customers with greater choice. For example, Lloyd's has a far-reaching distribution network and access to key markets – the US Excess and Surplus Lines market, for example – which it

is hard to replicate elsewhere, even though other insurers may have larger licence networks, at least on paper. Lloyd's historical mix of access, distribution and global brand makes it an attractive platform for this sort of business. However, this report shows that as firms become part of larger international groups that possess strong capital bases, high ratings and global distribution networks, they are more able to operate independently.

“Carriers like the flexibility of having access to Lloyd's and the company market. Each platform comes with different sources of capital and expense implications. The ability to distribute business across the two is an advantage for London.”

Senior Executive, Broker

London is competing harder to attract global capital

24 | In 2018, the London Market is dominated by carriers for whom London is less than a quarter of their portfolio

Insurers operating in the London Market



Source: Lloyd's, IUA

“London is now an increasingly part of a global portfolio of companies. We need to constantly prove our right within the group to write business here.”

Chief Executive Officer, Insurer

The make-up of the London Market has changed since 2010, when 26% of London Market premium were written by businesses domiciled in the UK; by 2018, this proportion had fallen to 15% (see Exhibit 18 on page 23). In the same year, the majority of premium (62%) in the London Market was controlled by large companies. These large global carriers control substantial insurance premium volumes outside of London – more than \$800bn – with the result that London represents less than a quarter of their total group premium (see Exhibit 24).

The increased internationalisation of the London Market creates advantages and disadvantages. On the one hand, it has bolstered the importance and scale of the London Market, and is a recognition

that it is a capital-efficient, expert underwriting hub that needs to form an important strategic part of carriers’ global portfolios. On the other hand, the London Market is just one of many priorities for these companies. Insurers are seeking more flexibility across the platforms on which they operate to enable them to shift risks and capital more easily and more rapidly between London and other markets. This is increasing competition for capital and investment in London. There is also a heightened risk that global insurance companies could pull back from London if performance declines or if volatility increases.



A changing workforce in London

Since London Matters 2014, it has been clear the London Market must attract a more diverse workforce and develop new skills if it is to preserve its leading position in the global insurance market. London has many natural advantages that make it attractive to talent, including a vibrant trading environment, a sense of pride and shared mission, and the opportunity to live in an exciting, cosmopolitan city.

These advantages are not sufficient in themselves to ensure the London Market can attract the workforce it requires. The London Market operates in a highly competitive global employment marketplace, particularly with regard to attracting employees with digital and analytical skills, as well as those from different backgrounds that bring fresh and different perspectives. The London Market

needs these sorts of employees if it is to prosper in the long-term; historically, it has not been successful in attracting them, causing commentators to warn of a looming talent crisis. In response, over the past few years the London Market has been working to improve its value proposition to both current and potential employees.

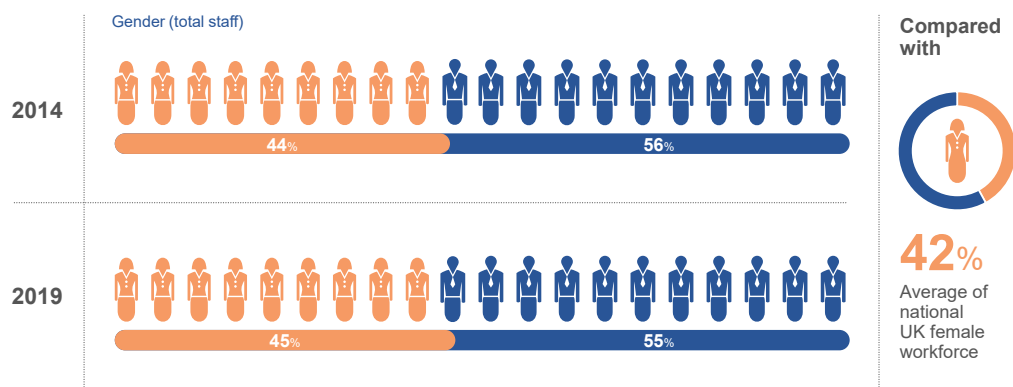
Gender diversity is improving

As part of this drive, London has been trying to increase gender diversity in the market. This report shows a slight improvement in gender balance

within the market as a whole since 2014, rising to 45%, three percentage points better than the national average (see Exhibit 25).

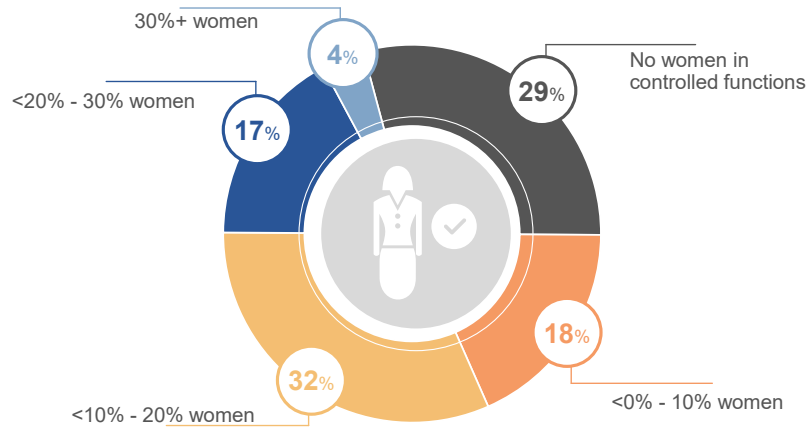
25 | Gender diversity of the London Market has improved since London Matters 2014

Gender diversity of the London Market workforce and executives¹, 2014 and 2019



¹ Based on the FCA data for 2019 for all London Market members, the term 'executives' includes CEOs, CFOs and Executive directors (SMF1, SMF2, and CF3)

26 | 29% of market firms have no women in controlled functions (FCA 2019)

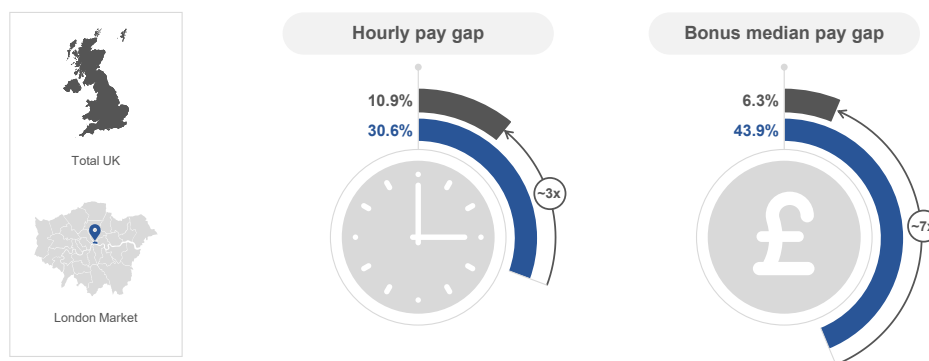


While this progress is encouraging, women working in the London Market still have a low share of executive roles in controlled functions according to the Financial Conduct Authority. The percentage of women in these roles across the whole of the financial services sector is 17%, but only a fifth of London Market firms have this level of women in controlled functions (see Exhibit 26).

Their under-representation in senior roles largely accounts for the substantial gender pay gap in the London Market, which stands at more than 30%, three times the UK average for hourly pay (see Exhibit 27). In terms of bonuses, the median pay gap is even wider, with male employees receiving bonuses seven times the average for female employees.

27 | The gender pay gap in the London Market is significantly higher than for the UK overall

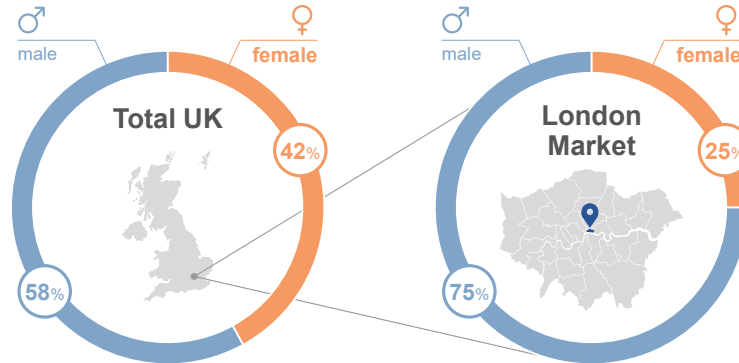
London Market gender pay gap by hourly wage and bonus



Note: Company sizes reported in ranges, weighting for company size done by taking the median of the reported size range. Source: 2018 Gender Pay Gap Data, gov.uk, 10,814 reported companies; 58 identified London Market participants.

28 | Only a quarter of the top earners in the London Market are female

Gender mix of top quartile earners in the London Market vs UK



Note: Company sizes reported in ranges, weighting for company size done by taking the median of the reported size range. Source: 2018 Gender Pay Gap Data, gov.uk, 10,814 reported companies; 58 identified London Market participants.

Only 25% of top earners in the London market are female, 17 percentage points below the UK average of 42% (see exhibit 28).

In interviews conducted for this report, London Market executives consistently expressed the need to create better career progression opportunities for women, and yet they have struggled to realise this ambition to date. This, in part, can be explained by the fact that senior leaders stay in roles in insurance for a longer time on average than in other sectors, which creates fewer opportunities for women to move into these roles. In interviews carried out for this report, market leaders recognised that to achieve better career progression within their own organisation they need to be more innovative in their approach to inclusivity and to increasing opportunities for women – by creating more cross-function promotion opportunities at senior levels, for example.

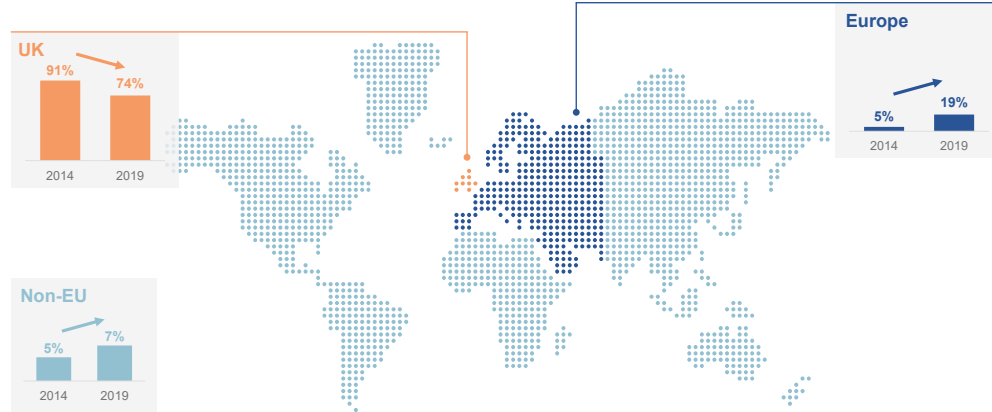
They acknowledge the need to improve flexible working practices, parental leave policies and other employee benefits, which support a more effective work-life balance. They also need to improve the attitude of some middle managers towards supporting these policies and practices. This is especially important in levelling the playing field for women.

There is recognition too that the working culture in the London Market needs to change, as evidenced by Lloyd's 2019 culture survey, the largest ever carried out by the insurance sector. Building a more inclusive and diverse culture is now a key focus for the London and Lloyd's markets.

The market is more international than other UK financial services

29 | There has been a significant increase in diversity in the nationalities working in the London Market

The London Market workforce by nationality



Note: percentages do not add up to 100% because of rounding

Since publication of London Matters 2014, the number of non-British employees working in the London Market has nearly tripled, rising from 10% to 26% (see Exhibit 29). This proportion is the same as for London as a whole and significantly

higher than the average for UK financial services (12%). This diversity allows London to serve its international client base more effectively, bringing understanding and insight to local cultural and business customs.

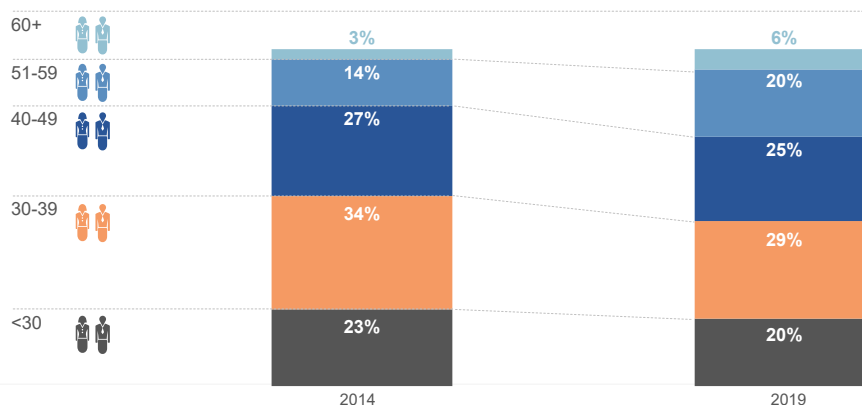
The market is ageing and failing to attract younger talent

London Matters 2014 made it clear the London Market needs to attract a younger and more diverse workforce. Rather than attracting a younger demographic as intended, the proportion of the workforce over 50 has increased from 16% to 26% since 2014 (see Exhibit 30). London faces the

prospect of losing a significant portion of its more experienced workforce in the near to medium term due to retirement, without a ready pipeline of younger talent to learn from their experience and take on the roles of those retiring.

30 | The London Market has started to show signs of ageing

The London Market workforce by age



Source: Based on Deloitte research

London needs to be smarter in recruitment

There is still considerable work to do to attract more talent to the market. In 2018, only 4%⁸ of UK graduates said that they were considering a career in insurance. Furthermore, in many of the interviews carried out for this report, executives said that even though they wanted to attract mid-career talent from other industries in order to add new skills and fresh perspectives they found it hard to do so. Some interviewees noted that while they were happy to have fallen into their roles in the London Market by accident rather than design, they felt this needed to change. Likewise, focus groups shared the opinion that it was hard to find out about careers in the market – prospective employees needed to get lucky and stumble across the opportunity.

As noted in previous London Matters reports, this problem arises because the insurance industry has historically not been good at promoting itself outside of its own market, and there is still too much hiring based on relationships and connections rather than wider searches for talent.

In reality, the London market has a compelling story to tell, supporting as it does enterprise and innovation around the world, while helping businesses and communities to recover quickly from disaster through the payment of claims. It has inherent social purpose which few other financial services, can claim. Indeed, younger market participants interviewed for this report highlighted these as important contributors to their job satisfaction. Older market participants consistently cited their pride and commitment to being part of such a dynamic and important industry. “It is great to be working in an industry where the UK has outright global leadership,” was a sentiment echoed multiple times.

This is at odds with the broader public perception of insurance as untrustworthy and focused on trying

to avoid paying claims rather than supporting customers. This negative view may put people off considering insurance as a career.

‘The London Market is not sold to you when you apply, you need to look for the information yourself.’

This report found that the way the London Market communicates its value proposition is poor; in particular, to younger talent, but also to professionals in different industries. One senior executive who recently joined the London Market from a different sector told researchers: “I was introduced to the London Market by coincidence by a non-executive director. I had never even considered a career shift to insurance, but what attracted me was the challenge to push the boundaries in an industry which is quite insular. After I joined, we started to recruit more people from other industries to build out our digital teams.”

The research also highlights the fierce competition for younger talent within the London Market itself. There is considerable anecdotal evidence that significant rises in remuneration are being offered for those willing to make lateral moves. A single move frequently results in further ones, quickly turning into a cascade of lateral hiring as recruiters scramble to fill the emerging gaps from the limited talent pool. The net result is increased costs for everyone.

At the root of the problem is a flawed talent acquisition approach. The London Market does not communicate its unique value proposition well, leading to a lack of awareness and interest among millennials. The London Market must put in place a more coordinated and better structured recruitment process if it is to attract the next generation of talent to the sector.

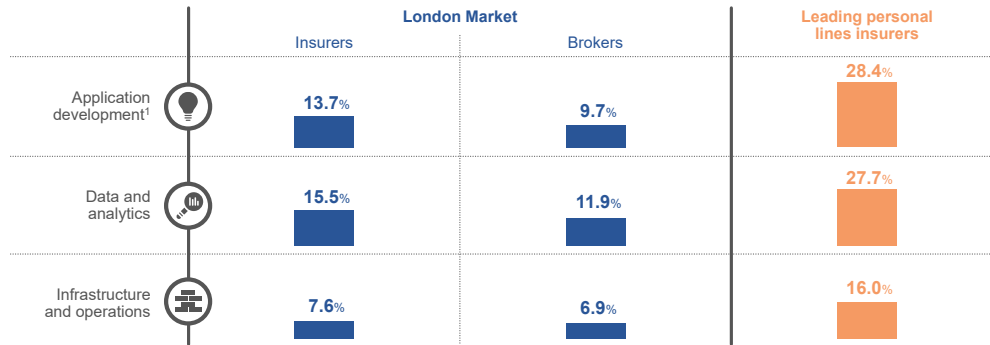
‘The smaller carriers don’t even have a careers page.’

8 Based on Deloitte 2018 report, *The Future of Talent in Insurance*

Digital skills are vital for future success

31 | The London Market must do more to attract talent with digital and analytical skills

Skill availability across application development, data/analytics, infrastructure and operations
% of employees that have at least one digital or analytics skill



¹ Application development includes: enterprise & software architecture, front-end / back-end development, mobile app development, embedded systems development, programming skills.
Note: Any companies with fewer than 30 profiles were excluded from analytics
Source: LinkedIn analysis

The London Market has fewer employees with digital and analytics skills compared to other sectors, including personal lines insurance (see Exhibit 31). While the comparison is not an exact one given their different products and distribution channels, it is clear that the London Market needs to do far more to attract and develop digital and analytical skillsets, as these will be of increasing importance in a world in which data drives new product and service development.

In the context of a global economy that is digitising and automating, the business models of insurers will also change, ensuring an increased requirement for digital skillsets. Research⁹ suggests that process automation could make as many as a quarter of all insurance roles obsolete by 2030. *The Future of Skills in the London Market*, published by the London Market Group in 2019, highlights the need for London players to adapt to this changing business environment by redesigning their businesses, developing and acquiring new skills. This will entail significant cultural transformation. Data, analytics and technology skills will become central to their operations.

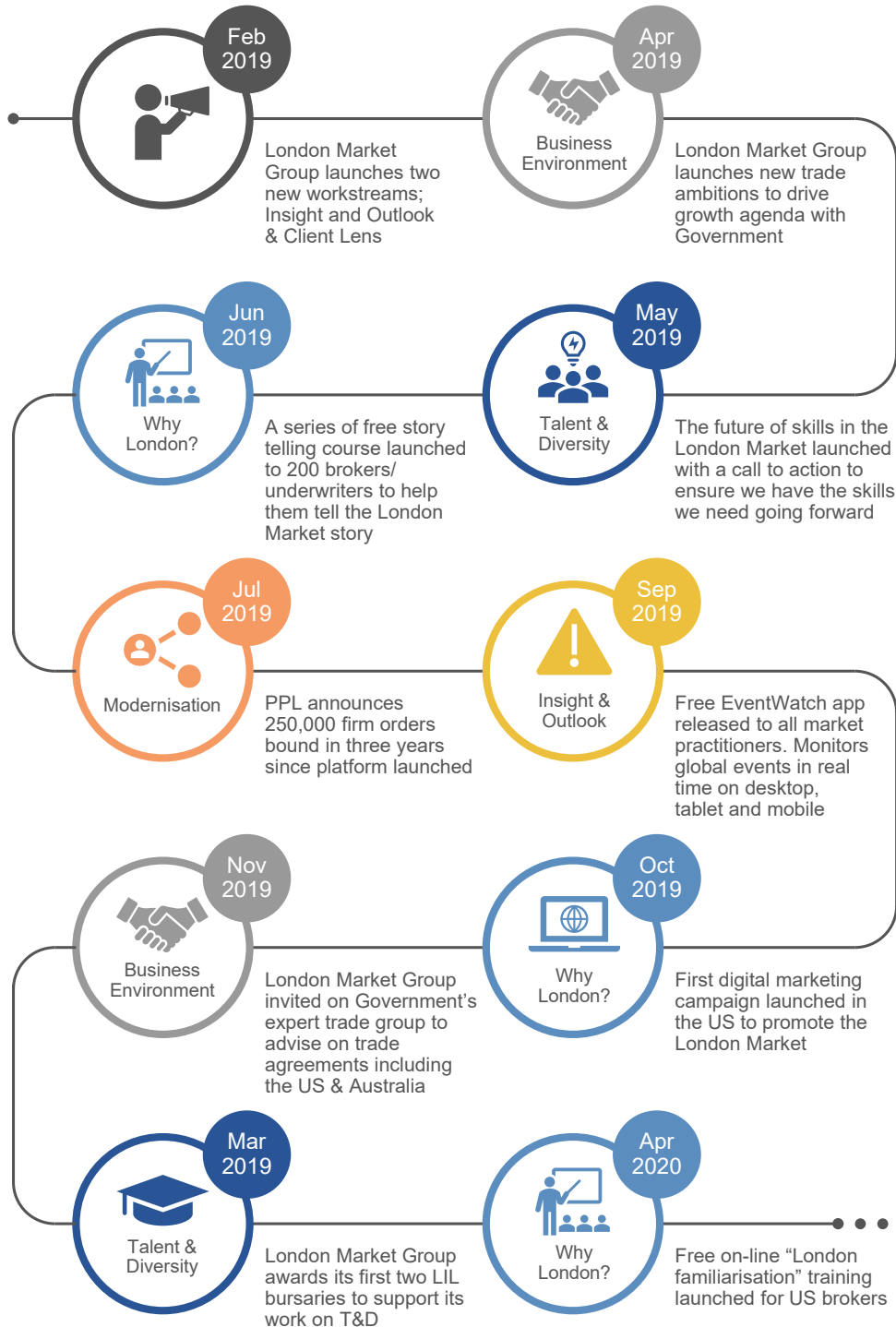
There is some evidence that the London Market is already starting to fill the need for data and analytics skills, at least in the front office, by creating attractive roles for data scientists to help underwrite complex risks, for example. However, in order to address cost and productivity challenges, the London Market must also attract more distinctive digital talent to back-office roles, such as infrastructure management and process automation.

Recruitment is not the only approach, of course. The solutions can include training existing employees in new skills. By broadening their skillsets and providing the right training to further develop their careers, the London Market could improve prospects for its current workforce, and at the same time make the market more resilient to the forthcoming challenges it will undoubtedly face.

⁹ Based on McKinsey 2020 report, *State of Property and Casualty Insurance*



London Market Group initiatives update





Talent and Diversity

Our London Insurance Life (LIL) campaign is now nearly three years old.

The campaign's successes include:

- Increasing LIL's social media following by over 54%. More students are interacting with our career oriented posts (short videos by practitioners talking about the market and their role in it), as well as the job vacancies advertised on social media.
- Reaching more young people. We have participated in careers events in London, Birmingham and the home counties. These events have been attended by over 3,500 young people. LIL also hosted three Insight Days where students from schools and colleges came to hear about the range of careers that the London Market has to offer.
- Becoming the careers hub. We are continuing to post jobs/internships for students on social media in pursuit of the LIL's aim of becoming the go-to hub for young people looking for a career in the London Market.



Business Environment

We have deepened our engagement with the government significantly, moving from being seen as a lobbying body to being a trusted advisor.

Our achievements have included:

- Creating 31 separate engagements with MPs and government officials in 2019, an increase of 10% over 2018.
- Furthering conversations with the government around trade post-Brexit, focusing on the areas identified as target growth markets in our April 2019 publication "Future Trading Opportunities".
- Joining the government's financial services expert trade advisory group. This is the body at



Insight and Outlook

In 2019, we launched the Insight and Outlook workstream to curate knowledge and intelligence, both from within and outside the London Market.

Our activities have so far included:

- Launching the free EventWatch monitoring application. This provides real-time insights regarding events that might impact clients. The application has seen significant take-up and already has nearly 500 subscribers from over 100 different market firms.
- Publishing London Matters 2020. Recent events demand further reflection by the London Market Group's board to ensure that our activities align with the market's priorities through the later part of 2020 and into 2021.



Market Efficiency

Over the last four years the London Market Group’s modernisation programme (LM TOM) has delivered a number of important solutions to the market. The Future at Lloyd’s will build on this work.

Our achievements to date have included:

- Helping move the London Market to digital. Over 70% of the market’s risks are now being bound electronically, with 140 underwriting firms and 120 broking houses signing up to PPL (the London Market’s electronic placing platform).
- Encouraging automation. The Delegated Authority Submission Access Transformation Solution (DA SATS) was rolled out in September 2018. DA SATS provides a central service to standardise the collection, validation, processing and supply of delegated authority data across the market.
- Improving representation. The London Market Group’s board also became the London Advisory Committee for Future at Lloyd’s. The board not only offers the widest possible market representation across all stakeholders but, by also including the ABI and CII in these discussions, engages across the entire (re)insurance value chain.



Why London?

Why London furthers the strategy for promoting the London Market. From 2019 onwards, it has become predominantly digital focusing on the US markets.

Our marketing activities have included:

- Creating content by filming market practitioners talking about the expertise in the London Market.
- Advertising the London Market in targeted industry press, achieving nearly 300,000 impressions.
- Widening our coverage through social media, achieving similar reach.
- Creating free online e-learning modules for US brokers who wish to know more about interacting with the London Market. Six broking houses have taken them in-house and are now using them within their management learning systems. Our target over the next 12 months is to ensure that at least 250 brokers take up these online courses.

Appendix: Methodology

Employment

The employment figures are based on data requests sent out to a representative sample of market participants. The responses were scaled up to approximate the whole London Market, based on their share of London Market premium. For brokers, their share of Lloyd's premium was assumed to be the same as their share of London Market premium. Comparisons to the UK economy were made using employment figures from the Office of National Statistics (ONS).

UK GDP Contribution

The calculation for the size of the London Market's Gross Domestic Product (GDP) contribution was based on the GDP contribution per Full-Time Equivalent (FTE) for risk carriers (Managing Agents, Company Market participants, and Lloyd's), using an average ratio of GDP to revenues for brokers. The latest ONS data was used for all historic values, which included some restatements from previous London Matters reports.

The impact of the London Market on the wider UK economy (e.g. actuarial consultants, legal services, accountants, hospitality, construction, etc.) was taken into account and modelled via Leontief multipliers. Leontief multipliers approximate the indirect and induced effects between different sectors of an economy. The UK Input-Output Table (ONS) was used to calculate the Leontief Multipliers Types I and II for the indirect and induced GDP contributions of the London Market to the UK economy. FTE figures for the London Market risk carriers were taken from the employment sizing model described above.

As the London Market falls across two sectors by the SIC 2007 definition – insurance, reinsurance and pension funds and activities auxiliary to financial services and insurance activities – multipliers were calculated separately for each sector. In this calculation, Managing Agents, Company Market carriers and Lloyd's fall into the former SIC 2007 sector, while brokers fall into the latter.

The GDP contribution of London Market risk carriers was calculated using the Gross Value Added (GVA) per sector figures (ONS). The GVA was scaled up to GDP to obtain an estimate of GDP per sector, assuming that the same sector percentage-splits for GVA apply to GDP.

In this report, a deviation was made from the methodology followed in London Matters 2017, in that in this report risk carriers' GDP was also normalised and reported on a through-the-cycle loss basis to account for the significant variations in year-on-year loss ratios. The difference between each year's loss ratio, and the 10-year average loss ratio from 2008 to 2018 was calculated, assuming that Lloyd's loss ratios are the same as those for the London Market. The difference between the Marsh Global Insurance Market Index for the individual year and that for 2018 was then added in order to account for differences in price (which are assumed to be more structural). This figure was then multiplied by the London Market premium to calculate a "profit delta" – the amount of additional profit that would have been made by the market had losses followed the usual pattern. This profit delta figure was added to the direct GDP contribution of the market in each year. For 2018, this produces an upwards adjustment of £3.3bn; in 2015, it leads to a £0.5bn downwards adjustment.

The GDP contribution of London Market brokers was calculated by estimating the income of UK based brokering activities of a sample of London Market brokers. The GVA contribution was estimated applying an average ratio of value add to revenues for general insurance brokers (estimated by the British Insurance Brokers' Association and London Economics). The GVA was scaled up to GDP in order to produce an estimate of GDP per sector, assuming that the same sector percentage-splits for GVA apply to GDP.

The estimates of the GDP of "The City" are consistent with previous London Matters reports. This takes 2012 data on the GDP contribution of Financial Services in The Cities of Westminster and London, as well as the Boroughs of Poplar and Limehouse (for the period when the most recent data was published). This data is in line with that for the UK Financial Services as a whole.

Global Claims Economic Contribution

The London Market's claims payments were estimated by triangulating two approaches. Firstly, Lloyd's claims data was used to estimate the loss ratio for each year in each region and each class; this loss ratio was assumed constant across other segments of the market. Adjustments were made wherever Xchanging data suggested that Company Market loss ratios were different to Lloyd's loss ratios.

The economic impact of claims was calculated by using the Leontief Type II output multipliers.

London Market Sizing

London Market sizing was calculated using a bottom-up approach. The 'core' London Market refers to premium that is underwritten in London. Data was collected from Lloyd's, the IUA (as representatives of the Company Market) and P&I Clubs.

The total premium for Lloyd's was calculated using a combination of Lloyd's Annual Reports, Lloyd's Statistics, and data obtained internally from Lloyd's. Company Market premium was calculated using the IUA Company Market Statistics Report, supplemented by data obtained from the IUA. Protection and Indemnity (P&I) Club premium consists both of premium from London-based clubs (Tysers P&I Report) and that of P&I premium owned outside the clubs (Arthur J Gallagher Marine P&I Commercial Market Review).

All facultative reinsurance premium for Marine, Energy and Aviation insurance was allocated to direct insurance, as the businesses share the same underlying risk characteristics.

The overall London Market premium figure includes both 'core' London Market, as well as premium that is underwritten elsewhere, but where the London Market is involved in its placing or processing. The latter consists of IUA 'controlled' premium, identified as written in other offices outside London, but managed and overseen by operations in the London Market, as well as premium that is brokered through London Market brokers, but placed elsewhere. The broker managed premium was calculated by surveying brokers and scaling up the result, based on their individual market share of London Market premium.

Figures were converted from GBP to USD using IMF exchange rates provided by AXCO.

Industry Sizing

The industry's size was calculated for both parts of the industry: the global commercial insurance industry, and the global reinsurance industry.

The commercial insurance sizes are based on third party data provided by AXCO. Assumptions were made for the share of commercial lines within motor and property insurance, depending on the maturity of the country concerned (measured by GDP per capita, based on World Bank statistics). Where data for 2018 was not yet published, an estimate was calculated for that year based on the Compound Annual Growth Rate for 2013-17.

The overall market size for Marine, Energy and Aviation markets were estimated using data from IUMI, Willis Towers Watson Energy Review, and the Lloyd's Market Intelligence team.

Reinsurance comprises treaty and facultative non-life reinsurance. To establish the size of the reinsurance industry as a whole, data from AM Best was used. As this data was for net written premium, conversion to gross premium was made using data of the world's 50 largest reinsurance groups, as reported by AM Best. The proportion of the premium written in each individual country was estimated using total ceded premium from AXCO.

The total London Market share of global premium consists of the combined commercial insurance and reinsurance figures, unless stated otherwise. Reinsurance is reported as a distinct Class of Business, when reporting market share by Class of Business; the market share of all other Classes of Business necessarily exclude reinsurance.

The sizing of premium underwritten by other global hubs was produced from the regulatory returns for each of these locations. For Bermuda, this consisted of Class 4 premium, as reported by the Bermuda Monetary Authority, differing from London Matters 2014 which, in addition, included Class 1 and 2 premium. For Singapore, this consisted of commercial onshore and all offshore premium. For Zurich, this consisted of non-life premium earned by reinsurers, as report by FINMA.

Company-level Capital and Premium

London Market insurers were grouped together under their ultimate parent company. If two or more separate insurers in the London Market have a single parent, then for the purposes of this model, they are considered to be one company.

Company-level premium for the Lloyd's market were obtained from Lloyd's statistics. For the Company Market, no company-level premium was collected. Instead, results were produced using anonymised aggregated outputs, which were completed independently by the IUA.

Overall group-level premium and group-level jurisdiction were collected from a combination of AM Best data and data gathered from interviews and data requests.

Figures were converted from GBP to USD using International Monetary Fund (IMF) exchange rates provided by AXCO.



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“The UK is the world-leading hub for financial services, which are exported across the world. Insurance accounts for nearly a quarter of the GDP of the City of London – a number that has risen by 15% since the previous London Matters report was published. As an international ambassador for the UK’s financial and professional services sector, I am delighted to be a champion for the London insurance market which is worth \$110 billion. The London Market supports economies around the world through its centuries of expertise, deep pools of capital, and innovative new products.”



The Rt Hon. The Lord Mayor Alderman William Russell



LMG

