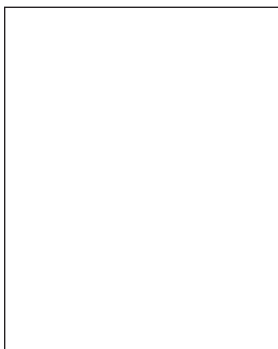


Stipendiatresa till England

The Company Market in the London Market – ILU & LIRMA

by **Karl Mårtensson**, Sirius International



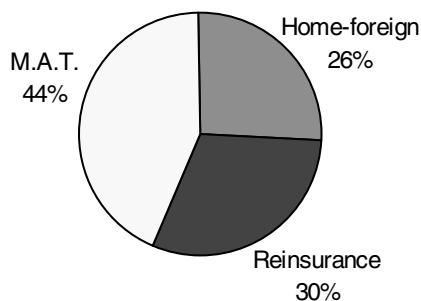
The London market represents 120 insurance companies, 163 Lloyd’s syndicates and 40 Marine P&I Clubs. In addition there are some 200 Lloyd’s brokers active in the London market. Almost all insurance companies in the London market are members of either the Institute of London Underwriters (ILU) or the London International Insurance and Reinsurance Market Association (LIRMA) or both organisations.

Karl Mårtensson

The insurance companies write about half of the premium in the London market. Almost as much is written by the Lloyd’s syndicates and the balance (5 %) is written by the Marine P&I Clubs. ILU and LIRMA could be de-

scribed as the companies counterbalance to Lloyd’s with their own respective building in the city of London where they have their market places. About two-thirds (£5,7 bn) of the treaty reinsurance business is underwritten by the company market. The total gross written premium in the London Market was in 1995 £14,6 bn and the split by type of business is shown in the chart below, figure 1.

Figure 1. London market gross written premium 1995 (£14,6 bn)



ILU

ILU is the trade association for insurance companies writing Marine, Aviation and Transport (M.A.T.) business and it is the oldest body of the two, incorporated in 1884. ILU was initially established to promote the

interest of marine underwriters. It has developed a tradition of working for the international marine insurance community on general maritime issues such as safety and marine liabilities, and through the drafting of policy conditions used by marine insurers worldwide. ILU also collects and publishes statistics for marine casualties throughout the world. Today there are 58 active members and most of them write conventional marine hull and cargo insurance and reinsurance. Two classes that have grown substantially in the past years are marine liability and energy (onshore and offshore) business. 20 of its members also accept aviation hull and liability business and further one member deals solely with this class of business.

In 1996 the premium income totalled £1,5 bn, compared to the previous year figure of £1,9 bn. Marine Hull still represents the largest class with 57 % of the total while Cargo comprised 14 % and Aviation 29 %. Of the total, approximately 20 % was non-proportional reinsurance, which has been halved since 1990. Last year claims amounted to £2,085 m, leaving 1996 as the 7th consecutive year of negative cashflow.

"With the losses of recent years still fresh in our minds, it is hard to understand how we can be confronted with the scale of rate reductions we have seen in the hull and energy markets", ILU's Chairman Mr. N T Jenkins said at the annual meeting in January 1997, in view of the very competitive market. If anything, the vicious downward pressure on rates has been more evident in the energy market than elsewhere.

Marine

1996 was a bad year due to a great number of ships lost and the number of lives lost was as high as 1,190 (whereof more than 800 came from one casualty, the grossly overladen Bukoba ferry which capsized and sank in lake Victoria, Tanzania). Age remains a key factor

in total losses. Only three ships lost were younger than 10 years old. 89% were 15 years and older. However, the statistics show a positive trend in the percentage of total losses of vessels afloat for the last ten years. The flags accounted for most casualties were those of Panama, China and Cyprus. During the first halfyear, 1997, there has been a slight decrease in lost ships of 500 gt and over, 48 compared to 53 in the same period last year.

Aviation

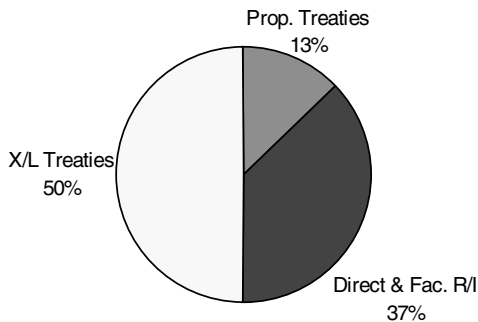
1996 was an even worse year for jet airliner losses with 1,597 passenger fatalities in 75 accidents. The airline industry's rapid expansion has inevitably led to a larger number of aircraft losses with a consequent increase in passenger fatalities. Having said this however, it statistically remains a safe form of travelling considering the low percentage of losses of the total number of flights. There were also 4 significant space losses last year, 2 launch failures and 2 in-orbit accidents, causing claims for US\$491 m.

LIRMA

LIRMA is the trade association for the international insurance and reinsurance companies writing primarily non-marine insurance and all classes of reinsurance in the London market. The mission statement of LIRMA is "to promote the interest of international insurance and reinsurance companies by providing cost-effective electronic placement support and processing systems and a responsive, flexible and efficient range of representational and research services to its full and associate members".

LIRMA was formed in January 1991 through a merger between two other bodies. It had a bit of a slow start as the market was in a depressed state and there was also a big fire

Figure 2. Net premiums for 1995 (£2,7 bn) by type of business



in the London Underwriting Centre (LUC)-building where they were to be situated. When they eventually could move in, some of the members had ceased writing business or just pulled out due to the delays and very high rents. LUC opened in 1993 to provide a focus for the non-marine company market. Now there are 88 active underwriting members (nearly 200 if counting associates too, in forty countries) and the premises are almost fully rented. Approximately one-third of the London-based members, underwriting actively, have offices in the LUC-building. Though the relatively high prices for offices, it can prove to be worthwhile as you will then have the chance to get more/better business in hand provided by the broker.

In February 1996 LIRMA decided to open ordinary membership to companies throughout the European Economic Area (EEA), and to reflect that change they added "International" in the title. For a company licensed in another EEA member country this means by joining the association they can underwrite London Market business through the LIRMA systems even though they do not have an establishment in the UK.

Most of its members are UK subsidiaries or branches of major international insurers and reinsurers. The number of active members

has fallen over the years and that trend may continue as a result of more mergers and take-overs.

The net premium volume has held quite steady between £2,6 bn to £2,9 bn since 1992. The split by type is shown in figure 2. Ever since the peak year of 1993 however, the net premium has dropped slightly each year. The positive side is that the losses have fallen sharper during these years, leaving 1995 with a positive cashflow of £907 m to member companies.

LPC

The London Processing Centre Ltd is jointly owned by ILU and LIRMA. It was formed 1994 from the merger of the two former separate bureaux. The LPC acts as a market bureau for the centralised processing of policies and claims, and the settlement of accounts between ILU and LIRMA members and brokers.

The main reason for having one bureau for the two associations is to provide cost effective service for the members. The LPC has generated annual savings of £3 m overall. A total of 678,000 transactions were processed in 1996 and the overall premiums processed was £4.1 bn, a reduction of 8% from 1995.

The Lloyd's Policy Signing Office (LPSO) provides a similar service for Lloyd's syndicates and both LPSO and LPC use the London Insurance Market Network (LIMNET) to communicate with parties involved, thereby reducing costs and increasing transaction speed even further. LPC, together with LIMNET partners, has developed Electronic Placing Support (EPS). Disappointingly, the usage of EPS has remained low. Both brokers and underwriters are finding some aspects of the system difficult to use and some of them need more convincing about the benefits of electronic commerce.

Some future aspects of the Company Market

LIRMA and ILU have set up a joint team to investigate ways of working closer together. There have not been any formal talks yet, however, merger is likely in the longer term. For instance they have merged their US legislation subcommittees, thus ensuring a consistent approach to many issues. Another matter for a potential co-operation is that there is a considerable overlap between the membership of LIRMA and ILU with 32 companies belonging to both bodies.

LIRMA has admitted its first continental European broker member, the AIG Belgian-based unit SAIL, which also is the first broker to process claims and premiums electronically through the LPC outside the UK. In the wake of this we will likely see more continental European brokers joining LIRMA to get access to the London Market.

Regarding the upcoming possible implementation of the European Monetary Union (EMU) it will not have any major affect on the London market whether the UK joins EMU or not, according to the Association of British Insurer (ABI). Approximately only 10 % of the total premium volume comes from the likely essence of the EMU countries.

Many insurers domiciled within EU have taken steps to convert their London market subsidiaries into branch operations over the last couple of years as they now no longer need to have Department of Trade and Industry (DTI) regulated subsidiaries in the London market. The rise in foreign ownership of UK authorised insurance and reinsurance companies reflects the growing internationalisation of business and the removal of barriers to foreign investment. According to an investment agent the number of companies looking to set up offices in London has risen significantly.

A revised version of EPS known as Electronic Placing Support System (EPS2) has been developed and implemented and at the time the usage by LIRMA members is 17 %. This figure will inevitably increase, despite the very strong tradition of trading face to face in the London Market.

The current market with continued over-capacity, fuelled by low-priced reinsurance, the absence of major catastrophes, and recent good results, have exerted enormous pressure on premium levels. Finally, when rates can not fall in the same speed, the conditions in insurance policies will be wider and more and more exclusion clauses will be removed until the bad years hit us again. The sense of déjà vu is overwhelming.

List of references

- ILU Annual Report 1996
- LIRMA Report & Accounts 1995
- LPC Report & Accounts 1996
- Robert L. Carter & Peter Falush, The London Insurance Market, 1996
- World Insurance Report, May 1997
- Sedgwick Energy & Marine, Market Information Bulletin, April 1997
- AON Newsletter, July 1997
- Insurance Daily, 9 April 1997, 26 August 1997

Lectures

- Peter Cave, Consultant – CII Education
- Marie-Louise Rossi, Chief Executive – LIRMA
- Tony Nunn, Governmental & International Affairs Adviser – ILU