

Lloyd's: the sequel

From Lime Street to Raffles Place: Lloyd's Asia is attracting new syndicates and helping modernise the region's insurance industries

BY *Jame DiBiasio*

Changing times and the powerful tides of globalisation mean even the most hallowed of institutions must adapt, and Lloyd's of London is no exception. The famous market for specialist insurance and reinsurance underwrites \$26 billion of premiums worldwide, all from its building on Lime Street in the City of London. Well, almost all.

In a break with a tradition stretching back to 1688, Lloyd's agreed in 2000 to establish an Asian platform in Singapore, complete with an office on George Street in the CBD and locally established syndicates, in order to penetrate local markets.

The initiative had looked to be a failure and many had written it off. However, this year it is on the verge of attracting enough new syndicates to create a genuine market in Asia.

Its success will benefit not just the franchise but will also inject a considerable amount of insurance expertise into Asia's relatively backward markets. It could also provide an important boost to Singapore's ambitions to be the region's financial capital.

The Lloyd's market is comprised of syndicates that underwrite business, sourced by Lloyd's-accredited brokers. These have consolidated from around 400 in the 1980s to 65 (bigger, more diverse) syndicates today.

Consolidation has, however, gone hand in hand with increased competition. To put it simply, the worldwide supply of insurance underwriting exceeds demand. These big Lloyd's syndicates worried about their reliance upon Lloyd's brokers, so they have increasingly diversified by using third-party agents overseas, to get closer to the source of business.

Today about one-third of Lloyd's business is underwritten somewhere other than London, by these cover holders (specialist Lloyd's brokers), listed companies and third-party specialists. For example, 14 such cover holders in Hong Kong and over 100 in Australia trade in the local insurance market.

The next evolutionary step was for the London businesses to directly own these overseas agents, and hence for these agents to be regulated by the Financial Services Authority of the United Kingdom.

INSURING SUCCESS?

This led Lloyd's to set up in Asia. The Singaporean government was prepared to roll out the red carpet, but under one condition: that instead of relying on third-party agents as Lloyd's does elsewhere outside of the UK, only wholly-owned service companies would be permitted to operate.

"The MAS [Monetary Authority of Singapore] wants to see Singapore develop as the region's insurance and reinsurance hub, and wanted a mini-Lloyd's onshore," says Anthony Egerton, Asia-Pacific president for Lloyd's in Singapore.

The project got off to a bad start. Lloyd's approached each of its 65 syndicates in London to encourage them to set up businesses in Singapore as a gateway to a region where insurance premiums are growing quickly but where market penetration is low and domestic players often lack sophistication. Of those, 23 visited Asia to take a look, but only three set up business in Singapore. One of these three then pulled the plug (or, in industry jargon, its existing business went into run-off).

By 2002 the "mini-Lloyd's" had underwritten the underwhelming sum of \$7

million in premiums, embarrassing Lloyd's as well as the MAS.

The franchise decided a more determined marketing effort was required. The new tack included hiring Egerton, an insurance broker with experience in Hong Kong, New York and London.

Reflection was required: why had 63 out of 65 syndicates opted not to set up in Asia? Why should a Singapore business necessarily be headed out of London? Why couldn't a Singapore-based underwriter drive the business? To be a Lloyd's syndicate required basing the managing agent in the UK, to ensure it is FSA-compliant, but the syndicate itself could be in Singapore.

Lloyd's and authorities in Singapore decided one way to energise Lloyd's of George Street was to encourage the formation of local syndicates. Temasek served as anchor investor in a new Singaporean-based underwriting operation, Asian Marine Syndicate, which then became the first Lloyd's syndicate with no business activity in London except for compliance.

It's one thing for the Singaporean government to support a local syndicate, but vindication would require private money doing the same. This year, that goal was realised when Whittington Group, previously a London-based syndicate, transferred its headquarters to Singapore.

Egerton says that two more London-based businesses are slated to open branches in Singapore in September, with perhaps two more by the end of the year. That would mean eight syndicates operating in Singapore, a tangible gain in momentum.

ENTER WHITTINGTON

The challenge throughout hasn't been finding capital, but the people, says Egerton:



Iconic: Lloyd's Lime Street headquarters in London

"The market in Singapore lacks expertise; Singapore wants Lloyd's to transfer that."

Expertise is what Whittington's CEO, Anthony Hobrow, could bring: a track record of doing business in Asia combined with contacts in London.

Whittington was born in London in 1993 to handle run-offs from various Lloyd's syndicates that had ceased underwriting. It handles claims adjustments, accounting, cash management, compliance, processing and collection, as well as reinsurance. It became the outsource provider for the Lloyd's universe, and uses its capital to buy insurance businesses or fund Lloyd's start-ups.

But London is an ever-more competitive market, with falling margins. Whittington saw Asia as open territory; no one does its kind of business here. It needed to source new capital, however, to finance a new business. It expected to find investors in London but sensed it could find additional support in Asia.

It hired Islemount, a Hong Kong-based advisor, to find investors. To everyone's surprise, Islemount found two private-equity players in Hong Kong, Gems and UCL, which put up all the capital required. "It shows there's enough interest from the market here in a niche insurance area in Asia," says Wayne Farmer, Islemount's managing director.

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Whittington used the capital to set up a new holding company in Singapore, which in turn bought the group's companies. Whittington Singapore now owns the London business, including its units in the United States and elsewhere. Hobrow says most of the company's revenues still come from London but the Asian side is growing faster. Whittington's Singapore business has already acquired two regional insurers whose businesses have gone into run-off.

And Whittington's syndicate proved successful enough to convince Insurance Australia Group to buy it, allowing IAG a chance to break out of its home market. Whittington retains its brand for its own outsourcing and investment businesses, while the Lloyd's syndicate it sold to IAG has been rebranded as Alba.

GROWING THE PIE

Alba is an example, albeit a small one, of transferring insurance expertise to Asia and growing the pie within its niche.

Many Asian markets are full of local insurance companies that lack capital or international credit ratings, and are unable to take risks. Many of these are captive to conglomerates, just as banks used to be. Consolidation is likely: it has already progressed in Malaysia, and is beginning in Thailand and Hong Kong. As a result, for

example, there are now 24 non-life insurers in Hong Kong that have gone into run-off (defined as an insurer's enduring claims/obligations following its exiting the business; buying them is a bit like acquiring a portfolio of loans). The Philippines and Indonesia each have hundreds of local insurers that must at some point rationalise, especially as regulators begin to emphasise corporate governance and capital adequacy.

Alba can bring the expertise required to manage run-off schemes or provide know-how to M&A situations. (It is also attracting the attention of some hedge funds that focus on distressed situations.)

This example suggests that Lloyd's, by building a new onshore franchise in Singapore, can introduce expertise to the region – benefiting customers as well as helping the franchise stay close to them and understand their liabilities. But the jury is still out on whether Lloyd's closed model will remain a competitive advantage.

"In the past, Lloyd's has served the world from London, so is it realistic to expect it can move its expertise here?" wonders Bernard Fung, regional chairman and CEO in Hong Kong at Aon, one of the world's biggest international insurance brokers. "London has always worked through brokers. If you move the expertise, are you creating new business that wouldn't have otherwise gone to London, or are you simply redirecting it?"

To succeed, Lloyd's Asia will need to attract a critical mass of syndicates, to form a proper market. But institutionalisation, consolidation and the rising costs of compliance make new syndicates in London rare. The Alba and Asian Marine examples show another path: Singaporean syndicates that also do business in London. Which begs the question of whether it makes sense to limit the franchise's onshore presence to London and Singapore. Observers suggest the Lloyd's of London business model may be in for yet more changes.

Currently Lloyd's Asia underwrites \$100 million, and it hopes to underwrite \$250 million annually by mid-2008. That's an impressive gain from the nadir of 2002 but still would represent only 1% of Lloyd's global income. It's too early to say whether Lloyd's will truly benefit from having set up in Singapore, but the region's fragmented, underdeveloped markets stand to gain. ■