

**THE LONDON UNDERWRITING CENTRE -
A PROGRESS REPORT**
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When I was originally invited to prepare this report, we were entering the final phase in the development of the London Underwriting Centre. It was an exciting time as we moved towards the planned opening of London's new non-marine company marketplace in March 1992.

On the 7th of August, however, our hopes and plans were shattered by a devastating fire that caused severe damage to the building, which was well advanced in the fitting-out process. I'm sure some of you will remember that day.,

Anyway, after the initial shock we assessed the situation and determined that we would pick ourselves up and start over to rebuild, reinstate and ensure that what might have been a disaster would amount to little more than a delay. Why isn't it a disaster, some may ask? Because no one was killed and, to the slight frustration of some probing young journalists working on the story, we hadn't forgotten to buy insurance!

The fire is a setback and a disappointment, but its effect has been to delay the opening of the LUC, not to abandon or drastically amend the venture. The setting-up of such an exciting and significant development within the London market remains as viable as ever. The project is very much alive, the determination and commitment from all those involved is even more keenly felt and we are confident about the future.

Although I don't wish to dwell on the fire in great detail, I will outline for you a little later some of its effects, the work we have set ourselves over the coming months, and the new timetable of events.

Origins of the LUC

But what of the LUC project itself? During the 80s there emerged a nucleus of London reinsurance and insurance companies whose management was increasingly aware that to compete effectively and economically in the international marketplace, a radical rethink and strong change of direction was necessary. Change that was *essential* to encourage new and lost business to return to the capital for the benefit of the whole industry.

The initial backing and support was provided by the 24 companies who founded

Market Building Limited in 1988 with the self-appointed task of establishing the LUC. Previous initiatives to set-up a centralised building for companies failed for a number of reasons, not least because of the lack of a vital hard core of dedicated individuals.

The fundamental point that the whole market has had to address over the past few years is that we must all attract business to London before we can compete for it. The LUC is a focal point, but each new development within the market - all individual projects within their own right - are also vital pieces of the jigsaw that will build the successful London market of the future.

The new Lloyd's building, the setting-up of the Institute of London Underwriters, the merger of two market associations, PSAC and the ROA, to form LIRMA, the companies initiative through the LUC ... these are the building blocks which will help maintain, consolidate and develop London's pre-eminent position in world insurance.

Of course, these are likely to be just some of the earlier enterprises. I believe the coming years will see other major developments - increasing mergers, acquisitions, and new patterns of business.

Fortunately all of the market bodies recognise the importance of London's needs and are moving in various ways to streamline and improve services. Only recently a feasibility study was announced by the ILU and LIRMA into the possibility of amalgamating their policy signing and accounting services.

Benefits and effect on market of LUC

What, then, are the benefits of the London Underwriting Centre and what will such a scheme offer? The LUC will give the company market a collective trading identity with up to 80 insurance and reinsurance companies operating under one roof at No.3 Minster Court in Mincing Lane. May I also say at this point, that there is no question of finding a new building. Minster Court, the Prudential's spectacular neo-Gothic development, was specifically chosen for the LUC's future home and despite the fire, that is where we will go. However, I did receive an interesting offer for Billingsgate Fish Market!

The building is modern, it has been specifically designed for the job in hand and, when completed, will incorporate all the latest technology. It meets all the criteria we foresaw for a centre serving the corporate market where all underwriting and claims

functions could be conducted under one roof.

I am sometimes asked the question by those not directly involved: "Does the market need the LUC?" It is a pertinent question and I don't shy away from answering it. The key point is how we as an industry, but also as individuals, want to do business in the future. We should shape the future not be shaped by it. The promotion of electronic slip placements and networking, and the use of modern technology continually gains pace. It is important indeed that we do more business on leader-only agreements, assume routine simple tasks on line slips, move money more quickly and eliminate wasteful procedures.

However, London has a unique and valued tradition of face to face negotiation between brokers and underwriters. We see the future as one in which identity, individualism and continuity are still important to our customers.

These special factors lend credence to my view that 10 years from now the LUC will be firmly established as the focal point of London companies' activities in broker-produced international reinsurance business. London will have become a streamlined market, dealing with large values and sophisticated coverages, where face-to-face negotiation will add value, as compared to more straightforward risks which will be written largely through branch networks or over screen transmission. I am convinced, then, that a decade hence, Lloyd's, the LUC and the ILU will have jointly restored and consolidated London's pre-eminence as an international centre. It is also conceivable that the LUC and ILU will have merged, at least administratively.

Ours is also a people business where individuals matter. The joy of my American colleagues about coming to London to do business is meeting up with old contacts at various stages throughout their careers. Just as London has an important 300 year history, individuals have their own 30-40 year history within the City.

It is vital, therefore, to combine the best and most valued of the old traditions with the benefits of new technology in a modern, efficient environment. Some of the more complicated business we handle will always need direct contact and negotiation. We can't do that through a computer screen.

Likely capacity of LUC

I have been asked what the capacity of the LUC is likely to be from the outset and within five years. This is difficult to assess because there will be two distinct types of members within the LUC. Firstly are subsidiaries of international companies,

whose capacity is limited by capital invested in their subsidiary. Secondly are members representing departments of major UK composites who will write a home/foreign account and who may also focus their reinsurance efforts through the LUC.

It is, however, fair to predict that probable gross writings in, say, 1994, will be similar to Lloyd's non-marine writings, based on the current 50% share placed in the London market.

In terms of capacity, if one makes a conservative assumption that the building will house at least 80 companies, and some 70 have average capital and surplus of £30 million, this would equate to £2.1 billion of capital and surplus and some £6 billion of capacity. In addition, the major composites have a total capacity of some £30 billion - although the extent to which this will be written at the LUC cannot be pre-determined. Hence the capacity of the LUC will clearly be *fluid*, at somewhere between £6 billion and £36 billion, determined to a certain extent by the success of the venture. I certainly feel we could talk in terms of £10 billion if one had to pick a number.

The companies to be housed in the LUC are truly international, with UK branches and subsidiaries of British, American, European and other concerns worldwide being represented. In the past this international scene has suffered from a relatively disorganised "toe-in the water" approach. All too often the toe is yanked from the water following sudden and unacceptable losses.

However, those companies that have stayed have benefitted from a more professional cohesion through membership of ROA and PSAC.

Over the last 15 years this has resulted in the London company market shedding its uncoordinated "fringe market" image. Through LIRMA the companies have emerged as an important equal partner with Lloyd's in the London market. The LUC is the icing on the cake - the focal point of this cohesion and adhesion of the company market.

Stressing the need for new technology

So what sort of building will the London Underwriting Centre be? All of those involved in the LUC have made a statement as to how they would prefer to do business as we move towards the next century. We feel it is important that people enjoy their work and their working environment; and that we maintain and nurture those valuable business contacts that have been built up over the years for the benefit of new generations. None of this will be achieved by closeting people on their own with just

a computer terminal for company.

However, I in no way devalue the importance of computer-based communications, I merely believe that the old and new can and should work hand in hand.

Indeed, I cannot over-stress the importance of computer technology - the market in which we work in today, with its operations on a transcontinental scale, exists largely thanks to the final link being supplied by electronic communications.

Importance to brokers

Fundamental to the success of the LUC is the broker. The project originated from the need to help brokers conduct business quickly and efficiently. I have spoken of the importance of maintaining the tradition of personal contact, but the difficulty of getting to all the insurers' offices quickly with urgent business has meant that brokers have sometimes been unable to obtain the best terms.

Our aim is to provide a user-friendly building designed to ease the wear on brokers' shoe leather in getting around the market. This aim is compatible with all the other initiatives underway to streamline procedures. However, even more important is the fact that if brokers know they have a single marketplace with 80 or so competing companies all open for business at the same time in the same location, they will certainly use that market to the full - witness the success of the ILU.

We believe there will be major advantages for placing brokers accessing companies in one building and that the companies themselves will benefit, for example small companies being located next to larger ones could gain extra business from passing trade.

The needs of the broker have always been firmly in mind when planning the interior of the building. Speed and freedom of access to all underwriting suites is a key concern.

The design includes the addition of a new third entrance and the remodelling of the atrium to accommodate a bank of escalators (the tallest free standing escalators in the world) as well as high speed passenger lifts.

It is estimated that more than 1,500 brokers will be using the building on a daily basis. The figure could be considerably increased during the renewal season. Facilities already planned include brokers' lounges, extensive payphone services - with free

City-based calls - a broker message system and networked information points indicating availability of underwriters.

A meeting place with generous facilities

The facilities for the members and other users are equally important. I have emphasised that we need people to enjoy their working environment and that is the atmosphere we want to create in the LUC. The word 'ambience' is very appropriate. The services and the quality of the food and drink in the restaurants and bars, the efficiency of the conference facilities, the pleasure of doing business in our private meeting rooms - these factors will be among the hallmarks of the LUC. And yes, there will be a coffee shop - one London market tradition that should never be forgotten!

At the beginning, the enterprise was described as the new London bourse - an exchange where merchants meet for business.

This is essentially a correct description of the LUC in that it is most certainly a meeting place. In that respect it will be similar to Lloyd's and the ILU. We believe, however, that having had the advantage of learning from the experience of these two organisations, the LUC building will be even more efficient, with regard to the movement of the people and back-up services.

The thought that has gone into the design of the building, the time devoted to the project by very experienced managers, the extensive consultation with experts, tenants, brokers and other users will result in a centre which will offer facilities, services and a modern business setting of which we can be justifiably proud. However No.3 Minster Court will be much more than a building - it is a totally new trading environment planned from the outset for the industry it will serve.

Fire and what is being done to rectify it

The building was handed over to us in shell and core form a year ago, simultaneously with the appointment of the main fitting-out contractor. We had approved a budget of £46.3 million, making the LUC one of the largest and most imaginative fitting-out projects of its kind in London. At the time of the fire we were more than halfway through the fitting-out stage.

It is important to remember that this was a construction fire which began at a time when the building was far more vulnerable than if it had been fully fitted-out.

The blaze was discovered at 7.20am on the 7th August on the upper ground floor. It proved impossible to contain the flames using portable extinguishers and the fire spread to the central atrium, igniting the escalator system.

The London Fire Brigade responded within 7 minutes and over 100 firefighters tackled the blaze which burnt rapidly up the atrium to the top floors where it spread out causing severe damage, until the atrium roof was blown out and the fire was vented. The blaze was brought under control by mid-morning. There were no major casualties.

Following the loss adjusters' report on the blaze, it is clear that nearly all the fitting-out work that had been carried out up to that date will have to be replaced. There is also damage to the core areas of the building and the external facade.

Looking beyond the fire, as the global market, which forms the future of our business, develops and matures, it is likely to be concentrated on a number of major centres that meet all the criteria necessary for handling tomorrow's business. Such centres, including London, New York and Tokyo, have a number of common features. For example, the availability of capital and investment finance, fully supported underwriting facilities, qualified personnel and comprehensive communications and network services.

London has a number of extra qualifications to enable it to take advantage of this situation and to be prepared for the future. Its position and time zone give it unique communication advantages.

Important as the development of the LUC is, it is not necessarily any more important than some of the other current initiatives. It is, however, the most eye-catching and, as an expression of the aim of London 'being seen to get its act together', it takes on added dimensions.

As we approach 1992, with the opportunities of that milestone, it would behove London to strengthen its financial role.

Lloyd's has been a key factor in attracting business to the capital, but it needs help. If the London market is to maintain and enhance its position in world terms, then the company market must take up the slack.

During the long history of the London insurance market we have weathered many storms. Current problems, if unfronted, chip away at confidence and stature. A

collective will to restore that confidence and stature will do much to protect the competitive position of the market. To this end, I believe the chemistry of a market building for companies to sit alongside Lloyd's, the Institute of London Underwriters and the Aviation Building, can and will play a major part.