

# LONDON, THE EU, AND THE WORLD

BY STEVE HEARN, ED BROKING

Not knowing is the hardest part. The London insurance market will survive Brexit: it is resilient, and will find opportunities no matter what the outcome. Provided it holds its focus on customers, it will remain an important centre in an increasingly global market. In the interim, however, the enormous uncertainty over Britain's future European trading position is both difficult and damaging for the brokers, risk carriers, and others who comprise London's still-thriving international re/insurance market.

For now we cannot know what the World will look like when we reach the end of the process of Britain's exit from the European Union. As a nation, we haven't united behind a vision. Considerable debate remains, even in corridors of influence, over our most desirable post-Brexit relationship with the EU. Within government, preferences for 'hard' or 'soft' are as polarised as those for cheddar or brie. Some still believe – with perhaps hopeless optimism – that Brexit can be averted. Others think a 'no-deal' outcome is in some way acceptable.

Even when some agreement is reached, the 'deal' seems likely to be put, at the very least, to a parliamentary vote, which will sustain the uncertainty for even

longer. For a London insurance business planning for the future, the environment is tricky indeed. I honestly believe it will be all right on the night, but collateral damage is being inflicted while we argue amongst ourselves.

Our challenge as broking leaders is to guide businesses – our own and those of our customers – through the transition period. The job is made frustratingly difficult by the current uncertainty. It is impossible to know what steps we should take to prepare, but our customers expect us to offer something more than a very wide range of possibilities. Large clients plan their risk management programmes years in advance, but at present we can give them no guarantees about the London Market's future ability to trade in Europe without friction. Some are – proactively and understandably – considering moving their business elsewhere.

I spoke this week to a longstanding customer in the Netherlands, one that for decades has placed a significant proportion of its business in London. The company's finance director challenged me to articulate London's relevance to them in the future, given the UK's inevitable exit from the single market. My soap-box responses about London's strengths and Fortress Britain,

and my characterisation of London as a glass brimming half full, were rebuffed as insufficient. Already capacity and risk have shifted from London to Europe, the client retorted, and the continental drift is on the rise.

The finance officer insisted on knowing how London will remain relevant, but in this period of voluntary uncertainty over Britain's future trading relationship with Europe, I found it impossible to say more. I have little doubt that this conversation is being repeated between large European companies' risk managers and their London brokers every day. Unfortunately we have no credible answers, even to our own questions. People in places with a more concrete future will continue to take London's business for themselves. My greatest Brexit-related plea is to have the answers sooner, not later.

All that said, as a market we have done well in the business of Brexit. Most companies have a plan in place. Those organisations that have lobbied the UK government on our behalf have managed to ensure that insurance-related issues will be placed relatively highly in the negotiators' priorities: the vulnerabilities as well as the strengths of the London Market have been recognised. That in itself is a major achievement, but as I



write, detailed negotiations have not begun, so the uncertainty remains unaddressed.

London Market players can take some solace in the reality that continental Europe has no equivalent to London for insurance and reinsurance, as their array of choices for new European domiciles has underlined. Other financial services sectors may logically and relatively easily migrate to specific centres such as Frankfurt, but London's insurance market cannot suddenly be recreated elsewhere. That is a weak strength at best.

Another side to the Brexit saga is more positive. Businesses that use the London Market tend to be global companies seeking multinational risk solutions. The biggest buyers in London have assets and risks in continental Europe that need to be covered, as well as in Asia, the Americas, and elsewhere. The solution is not to introduce another stage to the process, one which will inevitably bring complexities and opportunities for things to go wrong. The solution is to redefine the process itself.

It is here where the opportunity lies for brokers and insurers in London and elsewhere in the world. Ed is a global wholesaler. We offer our customers access to the global marketplace. London will continue to be an important part of that proposition, and Ed will access London's talent and capacity when it is most suitable, regardless of the outcome of the divorce. But even before Brexit threw a rather large spanner into the London Market's works, its competitive position relative to the regional markets of the world was undergoing a dramatic shift.

Insurance 'hubs' elsewhere in the world are maturing to become fully-fledged global centres of risk-transfer excellence. They are following Bermuda's lead. We have placed German marine business straight into Hong Kong and Singapore, without a stop in London. Such placements are happening increasingly often. London has for years – perhaps decades – had a tendency to offer customers only what London wants to give them, rather than what they actually want or need. London's attempts to move physically closer to customers have met with muted success, and the market has lost its monopoly over large, difficult, international risks. Customers make

the choices, and ultimately will be the winners. As agents of our clients, that should be our overriding interest.

In this new international insurance market, asking how Brexit will affect London is to pose the wrong question. I shall not toll the bell for London, which will continue to thrive if it is able to put its customers' interests first. A gargantuan effort is underway to ensure that it does, and when it does, it will continue to compete, sometimes successfully, with other insurance markets around the world. Clients will choose London when London's offer is best. I sincerely hope we will know the context in which those better offers can be made much sooner, not later. In the meantime, we must smile in the face of uncertainty, answering clients' earnest and legitimate questions as best we can, and knowing that whatever the outcome of the Brexit negotiations for our industry, London will remain an important centre for risk within the global market. •

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## Steve Hearn

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Steve is Group CEO of Ed. Prior to joining Ed in November 2015, Steve served as Deputy CEO of Willis Group Holdings. He joined Willis in 2008 as a result of its acquisition of Hilb Rogal & Hobbs (HRH) and held a number of senior roles including Chairman and CEO of Willis Global, CEO of Willis Re and CEO of Willis Limited, the Group's principal UK regulated entity. Prior to its acquisition by HRH, Steve was Chairman and CEO of privately owned London wholesale insurance broker, Glencairn Limited. Earlier in his career, Steve was President and CEO of Marsh Affinity Europe, having previously held a number of positions at Marsh and Sedgwick Limited. He has served as Chairman of both the London Market Group (LMG) and the London & International Insurance Brokers' Association (LIIBA) and as a Vice President of the Insurance Institute of London. Steve is executive director of global broking group Brokerslink.