Autumn 2019

THE INSURANCE Insider

LONDON MARKET ROUNDTABLE 2019

Towards modernisation

London must find a technological solution that will unite the market and bring it up to date

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All the world's a stage

In Lloyd's much-discussed Blueprint One document – its plan for the future of the market – technology and updated processes were very much at the forefront.

The Corporation rests a large part of its future vision on two platforms – one for complex risk and one for more straightforward business – powered by data and connected with the existing systems of brokers and carriers.

It is clear that technology is the key to the market's survival. At a roundtable convened at the *The Insurance Insider*'s London Market Conference in November, and supported by DXC, data and technology experts from the market came together to discuss the London market's progress in modernisation so far.

The compulsory nature of various systems and technologies was brought into focus. While participants said that five years ago making technologies mandatory was highly unpopular, the market will not move as one and adopt technology quickly unless it is mandated. This was the case for DA Sats and PPL, they agreed.

InsurTechs, while generating a great deal of noise in the market, were not expected to make an overwhelming impact. One participant remarked that InsurTechs tended to focus on a single idea or function, making them less attractive to insurance investors, and that the barriers to entry for such companies into the London market remain high.

Further, the best technology money can buy could not solve the London market's problems on its own. Participants agreed that, as sophisticated as it is, blockchain can do little to streamline processes in the Lloyd's market because cover is not priced at the point of trade. It is processes that must change first, before technology can have much impact, they said.

Parallels were drawn with the wealth management sector, where companies had worked out how to price complex assets at the point of trade and improve the process, for instance.

Regardless of the imperfections of tools such as PPL, participants agreed the platform had successfully convinced a generation of underwriters and brokers that the future was digital, instilling the use of technology as second nature in preparation for more sophisticated technologies and processes.

Participants also said that Brexit had been a catalyst that pulled the market together to adopt technologies and data practices that they would otherwise not have done so urgently. For instance, Lloyd's Brussels, created to help London carriers to continue writing European business post-Brexit, requires all carriers to provide data in electronic form, thus providing an impetus for companies to update their processes.

It is clear that Lloyd's will face a major challenge in proposing technology and data solutions that will unite the market, which comprises many players with competing interests. The adoption of that technology, however, is the only way to bring the market up to date and allow it to continue competing on the world stage.

Read on to learn more.

Rachel Dalton
Senior reporter,
The Insurance Insider

Participants

Chris Coyne
Head of Operational Excellence, Canopius

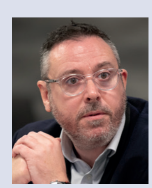
Dave Matcham
Chief Executive, IUA

Chris Newman
Managing Director, ACORD

Kerry Rainer
Director of Claims Services, London Market, DXC Technology

Nathan Shanaghy
COO, UK, Aon

John Taylor
AGM London Market, Insurance, DXC Technology



Jason Townshend
Head of Operations, Atrium Underwriters Ltd

EDITOR-IN-CHIEF
Adam McNestrie adam@insuranceinsider.com

ACTING MANAGING EDITOR
Catrin Shi catrin.shi@insuranceinsider.com

EDITOR
Laura Board laura.board@insuranceinsider.com

FEATURES EDITOR
Gavin Bradshaw gavin.bradshaw@insuranceinsider.com

COMMERCIAL DIRECTOR
Sajeeda Merali sajeeda.merali@insuranceinsider.com

HEAD OF MARKETING SERVICES
Benjamin Bracken ben.bracken@insuranceinsider.com

HEAD OF STRATEGIC PARTNERSHIPS
Oliver Nevill oliver.nevill@insuranceinsider.com

SENIOR BUSINESS DEVELOPMENT MANAGER
Baker Jaggwe baker.jaggwe@insuranceinsider.com

SUBSCRIPTIONS DIRECTOR
Tom Fletcher tom.fletcher@insuranceinsider.com

SENIOR ACCOUNT MANAGER
Georgia Macnamara georgia.macnamara@insuranceinsider.com

STRATEGIC ACCOUNT MANAGER
Tom Lovell thomas.lovell@insuranceinsider.com

SUBSCRIPTIONS ACCOUNT MANAGER
Luis Ciriaco luis.ciriaco@insuranceinsider.com

HEAD OF MARKETING & ANALYTICS
Lynette Stewart lynette.stewart@insuranceinsider.com

BRAND MARKETING & ANALYTICS MANAGER
Aimee Fuller aimee@insuranceinsider.com

EVENTS DIRECTOR
Sara Donaldson sara.donaldson@insuranceinsider.com

CONFERENCE PRODUCTION MANAGER
Matthew Sime matthew.sime@insuranceinsider.com

CONFERENCE PRODUCER
Miraal Mayet miraal.mayet@insuranceinsider.com

EVENTS OPERATIONS MANAGER
Holly Dudden holly.dudden@insuranceinsider.com

MARKETING EXECUTIVE
Luke Kavanagh luke.kavanagh@insuranceinsider.com

PRODUCTION EDITOR
Ewan Harwood ewan@insuranceinsider.com

SUB-EDITOR
Steve Godson steve.godson@insuranceinsider.com

JUNIOR SUB-EDITOR
Simeon Pickup simeon.pickup@insuranceinsider.com

SENIOR DESIGNER
Mike Orodan mike.orodan@insuranceinsider.com

Published by: Euromoney Trading Limited, Level 1, 29 Ludgate Hill, London, EC4M 7NX, UK. **Tel Main:** +44 (0)20 7397 0615 **Editorial:** +44 (0)20 7397 0618
Subscriptions: +44 (0)20 7397 0619 **e-mail:** info@insuranceinsider.com.

London market

Roundtable 2019

Rachel Dalton
This roundtable is all about change within the London market and we've got a lot of change coming up. Let's dive straight in with the first question: which market-sponsored initiative has had the most impact on your operations and why?

Chris Coyne
DA Sats [Delegated Authority Submission, Access and Transformation Services], because it's been mandated. Things that aren't mandated in the market have had little take-up. And those that have been mandated have had a lot of take-up. So we use DA Sats. I don't think it's that great but it's an example of what the market can do if you push people in the right direction, rather than just expecting everyone to follow along.

"The standout [market-sponsored iniative] for me statistically is PPL just in terms of the numbers that are going through it"

Chris Newman

Jason Townshend
I'd second that – DA Sats is definitely one. As a business we write over 50 percent delegated authority business and to be able to switch off collecting bordereaux from brokers or coverholders is paramount. If we can get the brokers and coverholders to put the bordereaux onto the system themselves, that would be great. And there's the fact that we would get follow data as, at the moment, generally if you're a leader, you're the only one that gets the data.

Dave Matcham
You've got to throw in PPL then haven't you? From an IUA perspective, DA Sats has had minimal impact because it's pretty much a Lloyd's solution.

If you're a joint platform, it is available to be used. PPL has had the biggest impact within the company market, partly as Chris said, because it was mandated by Lloyd's – or the trading was mandated by Lloyd's. And that, by definition, meant that it was going to be mandated in the company market, which was fantastic because we – at the IUA and other associations – were effectively paying for it on behalf of the market, and suddenly it became theirs to own, so we could move to a user-pays model and that then gained more momentum.

The things that are successful have to be truly cross-market. The Market Reform Contract (MRC) was an example of that. The repository that went through the bureau was truly cross-market and electronic trading is truly cross-market. So that's a measure of success, if it affects all parts of the market.

Kerry Rainer
Chris, you started off saying it was successful because it was mandated. Would you have used it if it wasn't mandated?

Chris Coyne
No, I don't think so. The Vipr product is a better product for bordereau processing. It's like a number of things that we've done through the Target Operating Model (Tom) programme. None of them feel like game changers but they're all a stepping stone, which is what Jason said. It's like Tom was a really expensive proof of concept for some of the things that we need to do in the market.

Dave Matcham
I checked the stats: well over 300,000 firm orders, this year 93,000 risks on PPL.

Chris Newman
Obviously from a standards point of view, Acord is involved in both of those initiatives, producing the standards in conjunction with the market. For instance, the Global

Placement Message for PPL and P&C, AML for delegated authority standards and also the CSRP initiative in terms of EBOT and ECOT Acord standards. But the standout one for me statistically is probably PPL just in terms of the numbers that are going through it. Some of the larger broking houses have been putting the majority of their business through it. It's also managed to get people thinking about the actual data in the business process which is key.

Rachel Dalton
InsurTech has been signalled as a solution to the market's operational challenges. Have you seen it make a difference?

John Taylor
It's more about emerging technologies. What's going to be the one thing that's going to disrupt you? Or be the best tool that you can leverage? InsurTechs tend to have one idea, don't they? They're very narrow in the opportunity and therefore it's difficult when you've got a broad operation to see the value of investing just in that InsurTech.

Chris Coyne
Yes, and there's been some impressive stuff. I saw a demo of ChainThat and I thought it was impressive – the way the whole thing is done on a blockchain. The question is, has anything changed, and the answer is no. It looks great and I can see that's a vision for the future, but none of us are using it.

Nathan Shanaghy
Process change will enable the use of new technologies to come to fruition. Blockchain (dual ledger) can't work because we don't price our product at the point of trade. So where you've got a marketplace that does lead-based pricing and then much later calculates the taxes etc, it is difficult to leverage technologies developed for other segments or industries.

We have to make sure it isn't just technology-enabled, we've got to look at our processes and make sure they are modernised to enable the technology to work in the way it's meant to work.

We have RPA processing about 60 percent of our straightforward London market slips at the moment. It is unlikely to find an InsurTech that's going to have enough influence to be able to change the market.

Chris Newman
Probably because many InsurTech solutions tend to be more component-based and focused on specific business functionality and not the end-to-end solution. Therefore it's harder for them to be adopted in isolation. So the barrier to entry is quite high for some to compete in replacing existing systems in isolation.

Nathan Shanaghy
The market is specialist by nature. The opposite of mandating is consensus. Unfortunately, consensus doesn't move quick enough. By the time you've decided, you're out of date. So somewhere in the middle is engagement and that's probably what's going to change the market – getting the right people to engage on the right things will make the market more effective.

"If we can get the brokers and coverholders to put the bordereaux onto the system themselves, that would be great"

Jason Townshend

Dave Matcham
It's one of the issues we have when talking to members who are global and where London is just part of their book. Often other parts of their organisation are ahead of their London part because the London part goes with the consensus, or goes with the flow. It can be a bit frustrating. Do you not think some InsurTechs have been very successful in the client space though?

Nathan Shanaghy
Some InsurTechs have been very successful in personal lines, SME and claims management.

We internally promote our own disintermediation for some services because there are certain activities where we don't add value. Aon Carrier Link is an example where clients or producing offices can place directly with insurers. They are things where by process and by technology you can touch the retail world significantly more with some of the InsurTechs. And some have been very successful. They will be even more successful in the claims space. A lot of the technology that is being developed at this moment in time will capture content or events as they happen improving the claims service. We see that area evolving very significantly over the next five years.

Chris Newman
In terms of does it makes a difference, Acord carried out a global study recently involving 125 of the world's largest carriers and effectively that looked at the last eight years of

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Dave Matcham

each carrier's performance versus their digital maturity. As you can imagine, it was a huge study with lots of analysis and interesting outcomes, and the overriding driver showed that there was a direct correlation between organisations that actively invested in and executed digitisation strategies and their total shareholder returns, where they outperformed the industry by 1.4x. So it shows if organisations actively engage in it, there is an upside ultimately.

Chris Coyne

Why is it that you don't have your data digitally anyway, Nathan? You talk about optical character recognition and robots, but why not just present the data digitally in the first place? Is that a feature of the legacy systems that you've got?

Nathan Shanaghy

Clients do not have all their assets digitally collated and packaged in a way that meets the needs of brokers or carriers. Clients are collating data for their needs, therefore the data has already been touched once or twice before it gets to us and needs to be reformatted to complete the transaction in the London market (e.g. split by line of business, taxes etc).

We're looking at lots of technologies to see if we can improve data ingestion. It's important that as we digitise more processes, we are realistic about what information we need at what point to make decisions. A lot of the time when we're placing business, the client themselves might not even have collated all of the assets, therefore, we must be realistic about what is possible.

Wealth management companies have worked out how to trade complex assets efficiently by pricing the product at the point of trade, therefore, it is important to improve the process. They trade complex assets but they don't have the downstream burden, which is driven by a small number of process issues. Technology may make the process go quicker when the information is available but we need to remove unnecessary complexity from the process to build an effective marketplace.

Rachel Dalton

That leads me on to the Lloyd's blueprint, which put electronic placement pretty much at the heart of the initiative. Have the current placing initiatives had positive effects on your operations and, if not, what additional functionality is required?

Jason Townshend

Our underwriters have not seen any real benefit from using PPL. However, we've definitely seen a change of culture and the acceptance that the digital future is ahead. I was speaking to a couple of underwriters last week, and one said he hasn't put a physical stamp down in months. Another one said that he can now triage risks before underwriting them.

There is an acceptance that the product isn't perfect as it sometimes feels like it's just a glorified workflow for documents. To get the benefit, we need to start doing some sort of data-driven, straight-through processing. We're using PPL and I'm still using a third party in India to enter my risks onto my underwriting system. That can't be right. At the moment all of the Tom initiatives are additive costs to the business when we were told three or four years ago that the benefits of Tom would far outweigh the costs.

Chris Coyne

We made a mistake with PPL in not putting data at the heart of it. What is interesting are companies like WhiteSpace, which is looking towards what a future might look like in electronic placing. It's working with the brokers trying to get that data digitally at the point of it coming into a carrier. The whole process just ends up being a bit slicker in terms of the way that data then passes through. It has some quite neat technology that gets around some of the things that Nathan talked about in terms of how the MRC is presented. So that's probably what for me an electronic placing future looks like.

Chris Newman

You're probably aware from recent articles that WhiteSpace donated its digital MRC and APIs into Acord. So those assets will be evaluated and integrated into the GRLC standards to be available for the industry to be used as an enabler. The Lloyd's blueprint talks about using documentation and data initially and then ultimately looking at a full digital record in the future. So the vision is all within the very near future to be leveraged as an accelerator for the entire market.

Dave Matcham

I don't think PPL is seen as the answer necessarily for the future, but it is seen as the structure because it's a good way to involve the whole market in governing it. People can get confused with the term PPL meaning a product versus a structure. There is an idea to look at other products now within the structure such that they are better for the market, to start driving those benefits. Our members saw PPL as not transformational – it didn't save them money – but we've got to start somewhere. What else was available four years ago?

Jason Townshend
The "M" word was a swear word, but if it hadn't been mandated, we would still be sitting here talking about where we are going with the trade. So we can't underestimate that. And for the future, which parts of the blueprint are we going to mandate and which ones are we not going to mandate?

Dave Matcham
It was seen as the single placing utility for the market. Go back to some of the principles of PPL – the big brokers drove that, didn't they? There were lots of different views and ways of doing things; it needed one way to do it to be more efficient.

Nathan Shanaghy
It's about momentum. Have we seen some efficiencies? Yes – PPL is a legal way of exchanging endorsements. There's significant benefit to be had. We need to work out how to articulate the benefits so the London market does not see electronic trading as a threat but as an enabler.

Hopefully it will continue to gather more pace and momentum. It's about shaping something for the market. If the market can unify around a set of capabilities and a set of standards to execute the trade, then it will have been successful.

It is about moving from a document exchange to trading and from trading to digitisation. The power of PPL is the community of like-minded people who try to drive electronic trading forward in the market and we need to continue to keep that in the market and move it much quicker.

Rachel Dalton
Much is being made of the need to improve the client experience in terms of claims payment. How can the carriers' experience of timely premium payment be realised in the future?

Kerry Rainer
In the claims area, we're doing a lot of work to speed up payment and settlement, including options for taking it out of central settlement and introducing direct payments. But a potential issue we're going to come up against is that premiums haven't been paid. Now that's fine if you're six months, nine months into a policy period. But what if you're on day one of a policy period and a claim occurs and you want to go to a direct settlement to reimburse your client but the premium hasn't been paid? What initiatives are there from the underwriting premium side in terms of premium collection to support the payment of quick claims?

John Taylor
The tools and the technology already exist. They are used in other industries, other ways of working, and it can be delivered. The hurdles to it are culture and within that culture, processes. And you need willpower to get it over, even if it's mandated. Everything that we've shown in that vision we use elsewhere. All we're doing is slicing a different kind of loaf, if you like. We're bringing it together differently for the benefit of the London market. It's about how do we make that work and what's the will of the market to adopt that transformation.

It's not just premium payments. Regulation is the other area that we're worried about. If you're making a direct settlement on a fairly big claim and you're professing to do that within a couple of hours, how do you cope with making sure you've not paid someone who is a Specially Designated National? What are you doing about sanctions for instance? So there are hurdles there in terms of process and regulation that will be bigger challenges than just the tool kit that's available.

Jason Townshend
With the fear of sounding boring, it's all about the data. I can give you a real-life example. We've got a quote and bind system used by coverholders in the US and back in November 2018, with the wildfires in California, we started self-adjusting risks before any notification of loss from the insureds because we had all the assureds' data from that system. We had satellite images of where the fires were, we knew which ones were total losses etc. So even before the claimant was putting claims in, we were adjusting them.

"We made a mistake with PPL in not putting data at the heart of it"

Chris Coyne

"The technology we have centrally is a monolithic process. It's not the technology's fault, it's the process and the serial nature of dealing with it"

John Taylor

Chris Coyne
As soon as humanly possible, DXC needs to stand something up. While we've got a bit of momentum, while we've got people enthused about the blueprint; if you can, stand up with proof of concept that demonstrates this working. Do it in Singapore, productionise it in Singapore, let's all see it happening. You'll get a real enthusiasm from people: for once DXC isn't just talking about stuff, it's delivering something.

Jason Townshend
Just finishing that story off, within two months, 40 percent of the claims have been paid and we've halved the payment time of a claim by just having the data. So it can be done – these aren't fairytales.

John Taylor
The technology we have centrally is a monolithic process. It's not the technology's fault, it's the process and the serial nature of dealing with it – the fact that you can only have one participant and one party really looking a claim at any one time. If you get the technology and you have participants collaborating and moving quicker, then guess what, you get the claim paid.

Dave Matcham
So have you seen the Single Claims Agreement Party (SCAP) helping this? Less people to agree.

Kerry Rainer
In terms of paying claims quicker, I'd say it's marginal. It's been encouraged and brokers have been told that they need to write it into the slips but it's not been formally mandated. So the volumes aren't enough to see a significant difference. But also, the single agreement process is only catering for a very small part of the end-to-end cycle time of the claims agreement.

So if you're shaving off three, four, five days in a nine-month process, don't get me wrong, it all counts. But we've got to address all of these things like how we tackle the unique processes of the London market. SCAP is one of those initiatives that needed to happen, same as SCAS, which is the auto agreement. So it's taking SCAP one step further so you get it down to a single agreement party and then we're going to automate that.

Dave Matcham
So what's the majority of the time spent on – the adjusting or the gathering of evidence?

Kerry Rainer
It's gathering of evidence; it's when you've got multiple parties involved – the retail broker, local broker, carriers, experts – all these different participants. When it comes back and then sits within a broker or carrier or DXC, it's sitting there for three to five days in each of those.

Dave Matcham
I've often thought we get unfairly criticised for this. I don't think it's all down to us; we can't control a lot of these actions.

Kerry Rainer
But it's the aggregate of all those days that doesn't help. Because everybody is having to re-key the same set of data into multiple different systems, rather than having single source of data that everyone can utilise.

Even if we get to that straight-through process of data, you're not going to flick a switch overnight because you've still got other participants. But it's about, as soon as you've got that data flow, you can move away from a linear process so you can start working in a collaborative way because by using technology, you're opening up those communication methods.

Chris Newman
From a global perspective, the Ruschlikon community (global reinsurers and brokers) proudly share statistics that indicate that not only can carriers realise premium much earlier using digital technology than the traditional paper-based equivalent, but also that the time-consuming practice of reconciling money is handled better as a result of using Acord data and messaging standards.

On average they report benefits have amounted to 30 percent less administrative costs, 30 percent faster premium settlement and 40 percent faster claims settlements.

Rachel Dalton
If we're thinking about cutting expense ratios, what would you say is the initiative that's going to be the most effective or that you'd prioritise?

Chris Coyne
That's data again, isn't it? Because we're all doing what Jason talked about before, sending stuff to India for people to input data and it's costing us a fortune, even if it's in India with cheap employees.

Brexit has been interesting because Lloyd's Brussels sits outside our normal regulatory framework. Brussels has said, "we're mandating that, we need this data". So structured data capture (SDC) is a good example; we've been scraping data off slips and finding too late that the data is not that great because all the slips are a bit different. And suddenly Brussels coming in and saying we need that data electronically because we're not going to have an army of people sitting there scraping stuff off slips has been a bit of a game changer.

So there's an initiative, not before time, to try and help standardise the way that data is presented on an MRC across the broker community. Brexit is helping us do some of the things that probably should have been done to put our house in order.

Jason Townshend
A point I made earlier is that all of the four pillars of Tom have been additive costs to us. If all those four pillars within Tom – so PPL, SDC, DA Sats and CSRP – come to fruition over the next two years, I can switch off a lot of other expenses. It's a massive win-win. As I said earlier, we're using third parties for pretty much all of those pillars and to switch them off tomorrow would be great.

Rachel Dalton
When Lloyd's says it wants to reduce the expense ratio to 25 percent within five years, do you think that is realistic?

Nathan Shanaghy
One of the best ways to improve the expense ratio is to efficiently grow, which is constantly missed from the conversation. This market has got some of the smartest insurance minds in the world, delivering differentiating capability to clients. London continues to be place of choice for many of our clients. We should continue to make the market effective and accessible across the globe so that we can spend more time with clients to understand their strategies and genuinely grow the marketplace.

Jason Townshend
Be careful what you wish for when you talk about the growth rate.

Nathan Shanaghy
We cannot develop the marketplace by just cutting costs. If we are to be successful we need to grow, while reducing costs.

Rachel Dalton
Does the underwriting and broking action on Brexit so far in 2019 mean that when we eventually leave in 2020, the market will be in a good position? Assuming that that is going to happen?

Dave Matcham
All of our member companies have assumed that we're leaving. And they've also assumed we are leaving with no deal. So they are well geared up and even fully operating in many of these new subsidiaries. I don't see many of those necessarily being reversed back into London, even if there's a wonderful deal.

Chris Coyne
Or even if we don't Brexit, if we revoke it, we'll probably carry on as we are.

Dave Matcham
The Part VIIs have happened, that's right. Some of our bigger members are using their subsidiary as a key part of their growth strategy within Europe – they're not going to do that business within London now. Look at Luxembourg. I had to smile when the trade association published its first-quarter premium number with a 300 percent increase. It wasn't a 300 percent increase in underwriters in Luxembourg, it was just booked premium. They're running it through there.

So the effect on London, so far, because of outsourcing arrangements and branches that have been formed in the UK by the subsidiaries, seems minimal. I don't see a material impact.

John Taylor
We're normally very accurate on what we see in terms of growth in transactions, and we forecast this year at around about 8 percent growth in overall volumes. We're seeing that

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Nathan Shanaghy

"The single agreement process is only catering for a very small part of the end-to-end cycle time of the claims agreement"

Kerry Rainer

drop down to around 2-3 percent, so we're seeing a drop of 5 points on that forecast, which is fairly significant.

Kerry Rainer
But interestingly, an increase in claims – an increase over forecast as well – on less policies.

Dave Matcham
There's much more premium now which is controlled by London but booked somewhere else. It's gone up to £7.5bn now of our £28.5bn. And we know business is moving between groups as well. Some joint platforms have chosen to use their new EU subsidiaries for the EU business rather than Lloyd's Brussels, and vice versa. We've got two members which haven't formed a subsidiary, they're just using Lloyd's Brussels. So everyone is responding differently.

Chris Coyne
Lloyd's did a good job with Lloyd's Brussels. I feel like we've beat ourselves up a little bit in some of what we've said today but the Brexit stuff has been quite a success.

Jason Townshend
We are purely LMA so we don't have a company, and Lloyd's, to its credit, even back in June/July 2016, got on the front foot and within three or four weeks decided the answer was, even with a hard Brexit, to have an insurance company wherever. Obviously it chose Brussels in the end. I agree with Chris, it's done a fantastic job. Operationally it's not quite there, but conceptually Lloyd's did all the right things.

We do beat ourselves up sometimes and it's not often that I will compliment a regulator but they did a fantastic job. They took the market with them rather than implement something and spent 18 months colluding with the market to come up with a very good solution.

Dave Matcham
Our regulator has done well, the UK regulator. It has been very responsive, wanting to keep the integrity of the London market, recognising its global strength. So the associations and London Market Group itself have worked with the government directly to ensure that those messages are clear. It's a big renewal season at the moment for airlines, and the EU airlines come to London. The Paris Olympics is another good one that has come to London. So there's been a story to tell there.

Nathan Shanaghy
There has been a significant amount of financial, emotional and human capital investment to date, as well as true collaboration. The engagement with clients, carriers and regulators has been great when you consider the constantly moving target we have all been shooting for. I think the market has done a huge amount to get ready. And it's been consistently working on the basis that there would be a no deal so we're ready for the worst outcome and have prepared clients for the same, to make sure they understand what they need to be ready and what they can expect from us. I believe the significant collaboration and investment that has gone on has helped us all be well prepared.

Dave Matcham
There are still some threats. The lack of a transition period was always a threat. If there's no free trade agreement by the end of next year, it's a cliff edge again. I was at a meeting yesterday where the EU and UK have got to agree by 1 July whether their transition period needs to be extended. So it's only six months to see good progress with a free trade deal.

If there was a cliff edge the equivalence regime would fall away. And that is quite a benefit for London reinsurance. So if an EU cedant uses the UK as a reinsurer, they're not deemed equivalent and I've had some members say to me that they'll put that in Bermuda because that is still equivalent with the EU. We may get equivalence quite quickly but it's not in our control necessarily.

Nathan Shanaghy
There has been a lot of legal analysis, process and system change to make sure that we can deal with all of the new and emerging risks Brexit may bring. We're at our best when we work together to build solutions for clients, so I've got confidence we are ready.

Rachel Dalton
That's a nice point to end on. Thanks everybody.