

# Taking on the world

London is poised to make great gains in global competitiveness, but there is still more modernising work to do, says **Robin Merttens**

As the London market pushes on with the next stage of its Electronic Endorsement rollout, now is a good time to examine how the London reform process sits in an international context. In particular, how is London progressing compared with other insurance centres? And how will an industry that is increasingly global in nature write business over a variety of markets where each one is trending towards greater automation, but where they are travelling at different speeds with different priorities?

While those of us in the London market working towards its modernisation are prone to bouts of self-flagellation about the pace of change, a casual glance at the other international centres provides some comfort.

Outside London there is a sense that email is “electronic” and it’s also very cheap. There is no sign in Bermuda, Singapore or Zug of any institutionalised attempts to build shared infrastructure or services, concerted adoption of ACORD standards or structured data distribution.

London has a clear advantage over these markets in that it already has central services and has in place the institutional framework through which it can drive community change. It also has several decades of experience in collaborating around shared services and managing the supplier relations that go with it.

A lot has been learned in that time. If the original Xchanging service were being put together now, more care would go into ownership of the infrastructure, the consequences of exclusivity and incentivising suppliers to keep the technology up to date to avoid ending up in 2011 while still using

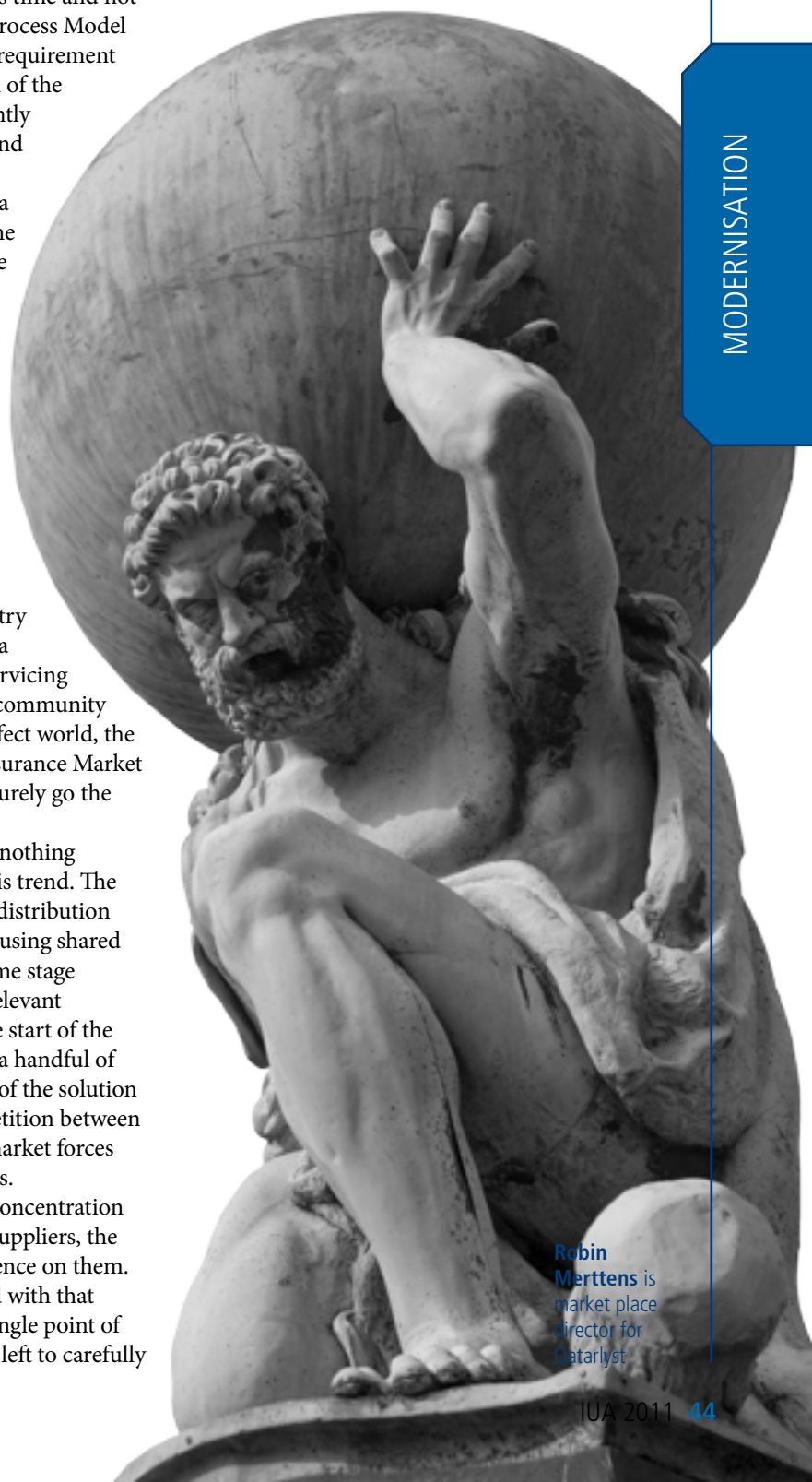
kit from the 1980s.

Despite this, a bit of crystal ball gazing would suggest that London will have more central services in five years time and not fewer. The Future Process Model project talks of the requirement for “a single version of the truth” and consistently refers to elements and characteristics that can only be met by a central platform. The messaging exchange set up by Lloyd’s is now owned and governed by The Board of the Message Exchange Ltd, a cross-market vehicle created for that purpose.

To be successful, the exchange needed cross-industry representation and a palpable sense of servicing the interests of the community as a whole. In a perfect world, the operation of the Insurance Market Repository would surely go the same way.

There should be nothing surprising about this trend. The move to electronic distribution and storage of data using shared services leads at some stage to reliance on the relevant technologies. At the start of the evolution there are a handful of suppliers with part of the solution with healthy competition between them. In the end, market forces push up the winners.

The greater the concentration around these core suppliers, the greater the dependence on them. The risks associated with that dependence, that single point of failure, can’t just be left to carefully



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worded contracts – they require a complete re-writing of the rules.

The banks dealt with these issues decades ago by creating and sharing ownership of their messaging infrastructure (SWIFT). The insurance industry has no appetite for owning its modernising technology, but there is at least interest in sharing responsibility for it. It doesn't matter which approach you use, it has to be addressed one way or another.

It's the global brokers in particular whose liquidity is the lifeblood for all trading centres, electronic or otherwise. If you want their business on your electronic service then it will have to fulfil their requirements – at a minimum that will involve ACORD standards, standardised processes,

will also lead to the right resources being deployed in the right places. An electronic hub will in turn create an intellectual hub, with EC3 becoming the place where the value-added services like analytics, advocacy and strategy reside.

The performance of simpler tasks can migrate to low-cost centres with access to cheaper, but still skilled resources. To use the example of endorsements: complex endorsements which require face-to-face discussion could be handled in London, with simpler ones referred to a dedicated underwriting team working in a less costly out-of-town environment.

This is why, despite making heavy weather of it, there is now momentum and commitment to get reform home. The commitment

platforms will therefore imply multiple membership rules to sign, different sites to use and separate login and security arrangements. Co-operation and partnership between platforms could help reduce these compatibility issues.

As with other financial services markets, two things will then happen. Brokers and carriers will develop their own desktop technologies enabling them to dip in and out of multiple platforms from a single point of entry. This way they can shop where they need to, access the data they need for their internal workflow requirements and then link up to the relevant back office systems.

The other trend suggested by the forerunners is consolidation. For a while every country had its own stock exchange, but consolidation was ferocious and continues today. Oil, for example, is now predominantly traded on just two exchanges, ICE and NYMEX. The winners are invariably the ones with the most liquidity and the best technology.

So, while London has a head start in the modernisation game, there is a lot to play for. We have to change our existing central infrastructure, which means greater upheaval. Those who start with a greenfield site can move more quickly and be more radical. But nowhere in the world has a better pedigree or more of the attributes required to lead on this than London. If we can execute properly and tax and regulatory issues don't conspire against us, then London will have created a market where technology and face-to-face interaction live in harmony and where we transact more quickly and cost effectively than the competition.

All this would be wrapped up in a governance model that allows us to congregate around shared services without fear of exploitation or overdependence. That's a competitive advantage and an enviable model that would leave others trailing in our wake for years to come.

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easy integrations and lots of good quality carriers at the other end.

For this reason, the electronic services in London will have to accept the eradication of “Londonisms”. There may have to be unique features that cater for the particular requirements of transacting complex business and syndication and these will be tolerated, provided there is alignment with the above features.

While the current centralised bureau model provides economies of scale, it has also fostered Londonisms and led to compromised data consistency and accuracy, particularly around referencing. A modern electronic service will allow increased re-use of data, tie everything back to a core reference and be accessible and analysable from any location.

This in turn will give rise to the long-anticipated possibility of a “dashboard” giving real-time views of management information. It

remains more boardroom than shop floor, but it's the boardroom that needs better quality data quicker, that has to contain costs and improve margins and that would get it in the ear if Solvency II failings led to capital loading.

If brokers and carriers in London make the best use of the available technology and as a result are more efficient, then one has to assume this virtualisation of the markets will become a global phenomenon. Global brokers and carriers can choose to be a member of just one electronic trading centre, all of them or be somewhere in between. Each trading platform will have its own governance model designed to protect its members and there will be varying regional regulatory requirements and differences in the protocols which determine the rules for binding of electronic contracts.

Participation on multiple