

Nick Prettejohn's speech for the CII Annual Conference

'Lessons in the history of tomorrow'

Thursday 18<sup>th</sup> September 2003

Congratulations on the topic you gave me. "Lessons in the history of tomorrow". Very poetic and epic in its ambition – as you would expect from an organisation with a Mr Homer at its head.

I'll start by giving you a potted and rather unpoetic version of recent insurance industry history. And then I will discuss what we can learn from the history of the past and hence shape the history of tomorrow. Inevitably, and I make no apologies for this, I shall be talking about what we have done and are doing at Lloyd's. Because I want to argue that history strongly indicates that the industry needs to transform itself; and the Lloyd's Market has been through a continuous, significant, and beneficial transformation in recent years, to equip us for the future.

That transformation has, in its own way, been epic:

We saw through the Reconstruction and Renewal Programme in 1996 that created Equitas, and faced up to the issues surrounding, for instance, asbestos in a rigorous way that the rest of the industry has only recently begun to emulate.

We have changed from a market backed wholly by private capital to the more diversely financed market of today, where UK public companies, insurance and reinsurance companies from around the world, private equity and private capital all support Lloyd's businesses.

We have changed from being a self regulated market to being regulated by the FSA.

We have introduced annual accounting to replace traditional three-year accounting, making the market intelligible and comparable.

We have launched cooperative programmes with both the London brokers and London companies to address business process issues.

We have created a new governance structure around the franchise concept, to focus attention on the performance of the market, and the wellbeing of the Lloyd's brand. A concept to recognise that the individual businesses in the market share in valuable financial and brand assets that must be actively, and commercially, protected and managed.

A significant transformation then, by anyone's standards. It is a transformation from which we have emerged stronger and well positioned to trade successfully today and into the future. I will dwell on some elements of this transformation during my remarks. I will also underline that the process of transformation will continue, and that a look at history argues powerfully for that continuation. And while I will regularly but not exclusively use Lloyd's as an illustration, my remarks are intended to apply to the industry.

Mine, then, is a critical look at history, drawing principally on the experience of Lloyd's and the United States industry, with occasional use of UK and other data. I should say that I am a huge admirer of the United States. A critical look at the industry's history is simply easier with US data because they produce such good industry analysis and I am particularly indebted to the Insurance Information Institute.

A basic starting point. This is a cyclical business. It is a cyclical business that demonstrates dramatic fluctuations in pricing. You can see that from this graph which shows, for the US industry, the growth in net premiums year on year from 1970 to 2003. Sizeable peaks in the mid 70's and 80's, a more subdued decade in the 90's and a respectable upturn in the early millennium.<sup>1</sup>

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<sup>1</sup> Source: A.M. Best, Insurance Information Institute (June 2003) \*Estimate/forecast based on 2003 is based on first quarter results

However, this picture underestimates the true extent of the cycle, because – for specialist insurance at least – it drastically understates the down cycle of the late 1990s.<sup>2</sup> A better illustration is the progress of estimated Global Energy Premium from 1994 to 2002. A halving of premium from 1994 to 1999. For the Lloyd's market as a whole, the leading market in specialist insurance, this cyclical volatility translated into a volatile profit performance during the 1990's.<sup>3</sup>

Whichever way you look at it, then, general insurance has been a cyclical business. This cyclical volatility has resulted – for some classes of business – in extremely volatile pricing, which cannot be in the long-term best interests of the shareholders of underwriters or brokers – or most importantly, policyholders.

Of course, policyholders tend to like the troughs in the cycle more than the peaks. So let us look at the economics of underwriting in order to understand the consequences of that preference. There are two sources of economic return for an underwriting business, underwriting profit and investment return. We will look at the history of these two.

Well, history illustrates just how difficult it is for the industry to make an underwriting profit. Once again, the US data makes stark viewing. Here is the combined ratio for the US industry since 1970. Just remember that you have to score below 100 to make an underwriting profit.<sup>4</sup> Therefore you have to go back to the halcyon days of the 70's to find a profit.<sup>5</sup> And the reinsurers had a worse time of it – this data is for the 90's only, but you get the point. Just to ensure transatlantic solidarity here, ABI figures show how difficult it was for UK general insurers during the 1990's to make an underwriting profit.<sup>6</sup> And to ram home the point, look at global energy claims versus the premiums I

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<sup>2</sup> Source: Willis Energy Loss Database – figures at 07 May 2003

<sup>3</sup> Source: Lloyd's Results 2002

<sup>4</sup> Sources: A.M. Best; Insurance Information Institution (June 2003) \*Based on III Earlybird Survey, February 2003-09-17

<sup>5</sup> Source: A.M. Best, ISO, Reinsurance Association of America, Insurance Information Institute (June 2003) \*First quarter 2003 figures from RAA, ISO

<sup>6</sup> Source: ABI

talked about a moment ago (remember, no expenses are included here, just claims).<sup>7</sup>

Oh, and I haven't mentioned UK employer's liability.

Underwriting profit is, then, an elusive achievement. More obviously so at the bottom of cycles, but, actually, as a general rule as well.

Given the lack of underwriting profit, it follows that the next insight from history has to be that the industry relies on investment rather than underwriting to make a profit.

<sup>8</sup>Investment income, <sup>9</sup>and investment gain, which you can see have been reliable sources of growth until recently, have been the saviour. <sup>10</sup>The performance of the stock market<sup>11</sup> and in particular the level of interest rates <sup>12</sup>over the last few years therefore make sobering reading. The capital markets today offer a harsh reminder that the age old alibi for poor underwriting performance – investment return – is not automatically available to bolster the P&L. And meanwhile the balance sheet shrinks for those who have a significant exposure to equities. At Lloyd's our exposure to equities has been extremely low, but, in contrast, Moody's estimate that the global industry's balance sheet has lost €200 billion from the fall in the equity markets, a number significantly higher than the losses from 9/11. Asset risk can be as potent as underwriting risk.

So, what have been the consequences for shareholders? Continuing in the same vein, the industry has – unsurprisingly – found it tough to earn an adequate return on capital. Worrying, because in the end, that's what we are all here for. You hear many corporate aspirations expressed – market share, premium growth, profit growth, growth in earnings per share, combined ratio. But in the end, generating sustainable positive cash flow and earning a return on capital that exceeds the cost of capital is what matters. The rare breed of companies who achieve that level of performance are rightly celebrated.

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<sup>7</sup> Source: Willis Energy Loss Database – figures at 07 May 2003

<sup>8</sup> Source: A.M. Best, Insurance Information Institute (June 2003)

<sup>9</sup> Source: Insurance Services Office; Insurance Information Institute estimate annualised as of 3/31/03.

<sup>10</sup> Sources: Reuters (September 2003)

<sup>11</sup> Sources: Reuters (September 2003)

<sup>12</sup> Source: Board of Governors, Federal Reserve System; Insurance Information Institute (June 2003) \*As of June 13, 2003  
Source : Merrill Lynch (September 2003)

The performance of our industry has been poor – again I am relying on US data.<sup>13</sup> In the 1990's the industry always earned a return on capital lower than its cost of capital. Not only that but the return on equity for the industry versus the average for all industries shows that the industry has nearly always underperformed other industries over the same sort of period.<sup>14</sup>

So far, then, history does not afford much comfort. High cyclicity, lack of underwriting profit, reliance on investment return that cannot necessarily be guaranteed and inadequate returns on capital.

What makes this all the more stark is that the industry has assumed more and more, and often highly uncertain, risk. That the world is a hazardous and risky place hardly needs stating, barely two years after 9/11 and a subsequent series of tragic events round the globe. History has always made for gloomy but enlightening reading. Human beings have always had the capacity to be unpleasant and unpredictable. The weather only marginally less so.

Western Society, at least, and the rest of the world – albeit selectively – has become more and more prosperous, more and more complex, interdependent and with greater concentrations of larger and larger amounts of economic value. The consequences of any event – accidental or intentional, natural or man-made – are therefore greater. The financial consequences of this can be simply illustrated by this analysis by Swiss Re. The trend is clearly upwards. But leaving aside huge natural events like Andrew, or the man-made horror of 9/11, a bad year for more “normal” catastrophes can make a sizeable impact. In the Lloyd's market the difference between a low and a “normal” catastrophe year is very roughly between £300 and £500 million.<sup>15</sup>

So the world is characterised by enhanced and significant catastrophic risk. But in addition, the boundaries of non-catastrophic risk are being constantly redefined by

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<sup>13</sup> Source: The Geneva Association, Insurance Information Institution (April 2003)

<sup>14</sup> 2003 p/c estimate based on first quarter data, Source: Insurance Information Institute; Fortune (April 2003)

<sup>15</sup> Source: Lloyd's Market Reporting Dept./XCS (Sept 2003)

society, and especially the legal system. Governments, judges and juries define a substantial amount of the risk that is assumed by our industry. The most spectacular examples of this come from the United States where the tort system costs an increasing amount of money so that it is now an appreciable (around 2%) proportion of GDP.<sup>16</sup> A disturbing benchmark for a world that tends to follow US trends. And only a relatively small proportion of the tort dollar goes to the victim in contrast to the large proportion that goes to the legal profession.<sup>17</sup>

The legal and legislative system can be a real creator of risk.

Laws exist because governments make them. The judiciary interprets and applies the law – in doing so the judiciary also makes the law.

In today's world, given its complexity – complexity produced by social, economic, political, random factors – governments have an almost hyperactive tendency to intervene.

Governments can't resist the temptation to intervene where they think they can see evidence of market failure. "Failure" defined as a situation where the government thinks it can do better than the market mechanism; and "failure" also defined as the (in fact totally unsurprising) imperfect reality of actual markets versus the conceptual ideal of the perfect market.

The perception of "failure" rather than reality of "failure" (but perception in politics equals reality) originates from many causes – most notably the activities of pressure groups – but with two underlying geneses: discovery (scientific, or other analytical, research which is pursued by many and not always ideally objective parties) and awareness (information and opinion which travels fast). Thus governments are driven to intervene: they make law, they change law. They seek to stop things from happening, or

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<sup>16</sup> Source: Tillinghast-Towers Perrin; Insurance Information Institute estimates for 2001/2002 assume tort costs equal to 2% of GDP. 2005 forecasts from Tillinghast. (April 2003)

<sup>17</sup> Source: Tillinghast-Towers Perrin (April 2003)

to make them compulsory. The courts then translate those laws into liability. Stir in social attitudes which tend to emphasise rights rather than responsibilities and what we call “compensation culture”, and you have an expensive environment for insurers (and incidentally for society as a whole).

Without extreme care, and sometimes despite it, what you believe you are insuring today may not remain a constant in the years to come. The goalposts, and sometimes the whole pitch, move. We have seen this from government and courts time and again on environmental liability, personal injury, employers’ liability and so on, in the UK, Europe as a whole, and the US.

Against this background, what seem to have been the riskiest courses of action? There are a few to pick out, but history strongly suggests that the pursuit of growth as an end in itself destroys economic value. The naked pursuit of market share has destroyed significant shareholder value in many industries and insurance is no exception. Successful underwriters always put profit, and return on capital, ahead of premium.

At Lloyd’s, we analysed 40 explanatory variables on underwriting performance in the Lloyd’s market over the period 1993 to 2000. The analysis covered 50 risk groups, for all syndicates, generating 11000 data points. Out of the 40 potential variables, seven were statistically significant, and have been incorporated into our Risk Based Capital model because they can help to explain variations in performance. The seven are the size of the syndicate, (and not just as a sop to this gathering) the experience and qualification of the underwriter, the growth of the syndicate, the extent to which the syndicate writes 100% lines, relies more on its primary business producer and purchases more reinsurance. One of the most powerful of these variables was found to be growth.<sup>18</sup>

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<sup>18</sup> Source: Lloyd’s Market Risk and Reserving Department (September 2003)

A healthy scepticism about growth is vital but a willingness to shrink is even more critical. The successful underwriters in our market have shown a much greater inclination to shrink their books of business than the least successful, as amply demonstrated by the last down cycle. In business generally, and in insurance particularly<sup>19</sup>, a sense of timing is critical: reading the cycle and taking action accordingly.

History also suggests that risk sharing is fundamental. You could see that from our analysis of explanatory variables and the increased risk that apparently comes from writing more risks 100% rather than sharing them.<sup>20</sup> As an industry we derive considerable strength from risk diversification and risk sharing. For instance in London, we are able to underwrite large complicated risks because of the subscription market – in my view a major source of competitive strength for Lloyd's. The subscription market diversifies risk and provides the peer review of underwriting decisions that should reduce risk.

But history also tells us that risk sharing through excessive reliance on reinsurance can be a weakness. Again, looking at our own performance, our better businesses retain more risk than our poor performers. Over reliance on reinsurance encourages relaxation of underwriting standards and assumption of excessive risk. It also leaves you vulnerable to the failure of low quality reinsurers and occasional reluctance to pay on the part of reinsurers across the quality spectrum. Rarely, therefore, is there such a thing as cheap reinsurance. And security ratings, while useful and important, are (history suggests) not an infallible tool in these circumstances.

History clearly identifies management failure as the key driver of business failure. Not a blinding insight you might think, but one of those home truths from which people try conveniently to hide. A group of European insurance supervisors looked at 21 cases of failure or near failure in Europe between 1996 and 2001; they identified, in all cases,

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<sup>19</sup> Source: Lloyd's Market Analysis (September 2003)

<sup>20</sup> Source: Lloyd's Market Analysis (September 2003)

underlying management and governance causes. To quote Howard Davies, “These causes took four principal forms: firms straying outside their field of expertise or manically following the herd instinct, excessive risk appetite (or objectives that were at odds with the prudent management of the business), lack of integrity or lack of autonomy and inappropriate pressure for short term results from, perhaps, the parent company”.<sup>21</sup> Time and again, in history’s two by two matrix, it is only the combination of strong management and strong underwriting that produces excellent results over the long term.

What does history say about our efficiency? The economics of underwriting are clearly dominated by claims. But other expenses are a significant proportion of premium. And they have not appreciably diminished over time. I am bound to say that the expense levels in the London Market have typically been, and continue to be, higher than elsewhere in the industry. These expense levels are driven by two things – an historic unwillingness to change the business process that goes beyond complacency to border on irresponsibility, and an ineffective use of technology.

There are a number of features of our industry process at which any outsider would wonder. The sheer volume of paper is an obvious one, graphically demonstrated by a walk around the environs of Lime Street, to see legions of people carrying piles of documents. But it is the absolute number of process steps and the often labyrinthine processes that we adopt – well shown by this valiant but inevitably not wholly successful schematic – which are particularly characterised by multiple re-keying of data and which are therefore the drivers of inefficiency. Multiple data entry means more people, more cost and more mistakes. And finally there is lack of contractual clarity at point of transaction. The concept of multimillion pound exposures being assumed without a precisely agreed contract is peculiar to our industry.

All of these factors make for higher costs – higher administrative costs, higher frictional costs, less time spent broking and underwriting, less investment income because cash

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<sup>21</sup> Source: FSA website

flow is slow. And they lead to higher claims costs too. First, slower, poor quality information means less effective underwriting decisions and purchases of reinsurance. Second, it is a sobering statistic that, for instance, the Lloyd's Market currently spends in excess of £500 million<sup>22</sup> per year on lawyers (and other experts), as part of the claims process. This figure understates the full cost, for instance, by not including the cost of E&O claims.

Yet history has not looked favourably on attempts to resolve this unacceptable situation. It is not as though the industry has been unaware of the issue. Ever since I came into the industry in 1995 at least, there have been consultancy studies showing how inefficient the industry is, and what the potential savings might be. 1995 saw a Coopers and Lybrand study suggesting potential savings of around £300 million in London from process change.<sup>23</sup> More recently, on a global basis for the industry, Bain and Company calculated the prize to be \$39 billion.<sup>24</sup>

But many previous industry attempts to tackle the problem have failed (WIN, Wise and so on). The historian would be justified in concluding that the industry either cannot or will not become more efficient. Like Macbeth, intruding self awareness almost seems to make it worse.

Thomas Malthus once described economics as a “dismal science”. The same epithet might be applied to the study of our industry's history. High cyclicity, lack of underwriting profit and hence undue reliance on investment return, inadequate returns on capital, increasing risk, uncertain risk, a tendency to irrational and unprofitable growth often fuelled by excessive use of reinsurance, vulnerability to management failure, and a seeming inability and/or reluctance to deal with manifest inefficiency. Real Malthus 1, Insurance Industry 0.

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<sup>22</sup> Source: X-Changing Claims Services data

<sup>23</sup> Source: Coopers and Lybrand Study (1995)

<sup>24</sup> Source: Bain and Co Study

But this is, to continue the analogy, a game of two halves. We do not need to be slaves to history. There are not inexorable laws at work here. Rather, diagnosis should precede treatment. The future lies much more in our own hands, and in our heads, because it is about an effort of will.

I want to say something now about how that effort of will – quite simply the will to win – is manifesting itself at Lloyd's in real action.

Firstly the management of underwriting; the underwriting cycle, the need to make an underwriting profit to deliver adequate shareholder returns and the need to avoid the mistakes of the past. To remind you, the mathematics here are straightforward. In today's capital markets, you cannot make a decent shareholder return unless you make an underwriting profit. Some excellent analysis earlier this year by Dowling and Partners shows this clearly.<sup>25</sup>

Therefore, it has been extremely heartening to hear recent public comments by management of Lloyd's businesses that they have walked away from business – and whole risk classes – because pricing has been inadequate and that they are prepared to continue to do so. Those sentiments should be applauded and echoed loudly across the whole insurance and reinsurance market place.

I strongly believe this to be in the best long-term interests of everyone – policyholders, brokers and underwriters. Our industry is all about a promise to pay, now and over the long-term. It is about security: the assumption of risk by balance sheets that can safely assume it. To discharge that function, underwriters need to make a profit. While rock bottom rates may seem attractive to policyholders in the short-term, in the long-term they are the road to nowhere.

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<sup>25</sup> Source: Dowling & Partners 6/1/03

Mastering the cycle, and the mentality that goes with it, is the critical challenge for the industry. At Lloyd's we have taken two steps to try to wire this message into our system.

Firstly, we have created a group within our new governance structure, the Underwriting Advisory Committee, whose role it will be to provide us with an intelligent and independent view of the cycle. It is the one of only two committees created after the demise of around 20 others. The group is composed not only of underwriters, but also claims and broking professionals, as well as independent outside experts.

Secondly, our Risk Based Capital Model, to which I referred earlier, has a built in cyclical effect. When rates and terms and conditions are set to deteriorate – more or the same exposure for a lower price – then more capital is required to underwrite the same amount of business.

We have analysed the mistakes of the past. To seek to avoid them we have created underwriting guidelines, developed by a group of practitioners, that reflect good underwriting practice. For instance, the maximum gross line from an individual risk should be no more than 10% of a syndicate's capacity; and each syndicate should retain a net minimum exposure on each risk. These guidelines, and the business plan process around them, are at the core of the franchise system. Implementing that system will mean tough action, that will not always be popular with everyone, but is essential to improve the market's overall performance, and protect the financial and brand assets in which Lloyd's businesses share.

These guidelines are reinforced by our risk based capital system, which – as we saw earlier – creates a capital charge for the assumption of incremental operational risk, as well as allocating capital to reflect the historic volatility of different classes of risk, and the underwriting cycle.

And they are further reinforced by our risk management framework, which assesses each business in the market across a whole range of measures, including management risk, to reflect the important part that they have played in the success or failure of businesses in the past.

At Lloyd's then, we are actively seeking to learn from the lessons of underwriting and management history. I cannot for a moment pretend that we have all the answers – this is a process of continuous learning and improvement. But we are demonstrating the willingness to change. And I support the efforts of others in the industry to do the same. That process will, I think, be helped by the management change that we have seen across the industry – around 20% of the Property and Casualty insurance business across the world is under new management.<sup>26</sup> And it will be further helped by the increased professionalism of the industry – not least through the activities of this body, the CII – as our own analysis of operating risk shows.

Secondly, management of a riskier world. A world made riskier by a number of factors. Understanding this world is a large part of what makes insurance such a fascinating business to be in.

At Lloyd's we have a process called “Realistic Disaster Scenarios” – which has proved to be an excellent discipline. Some examples are shown here. Even though, like the rest of the industry, we failed to identify the ghastly human scenario of 9/11, our scenarios did give some immediate clues to the likely economic impact of that loss, in the hours that followed.

We have to be extraordinarily creative at evaluating risk. This is not an easy task, but it is an intellectually exciting one. Insurance is a function of the society in which we live – a cocktail of social, political, economic and climatic factors. Stirred by the conscious and random actions of individuals and groups of people. Therefore we have to access the most creative and penetrating thinking to assess risk. In addition to the very

significant investments that Lloyd's businesses make in technical analysis, we have, as a member of our Underwriting Advisory Committee, an independent analyst to push us to think broadly about risk now and in the future.

Because government plays such an important part in determining risk, we must excel at dealing with government. In particular we must educate government about the cost that comes from changes to, and hence the underwriting consequences of, the legal framework under which we operate. In order to do this we must invest. I read somewhere that, the insurance industry spends \$3.5 million in California on government relations and public affairs. Trial lawyers (apparently) spent \$3.5 million on the governor race alone, 87 times more as a proportion of revenue.

And we must price properly for uncertainty. In the past the industry seems to have used investment return as a proxy for pricing for uncertainty on long tail business. As we have seen, that methodology has failed to deliver shareholder value. It has been argued that backward looking reserving techniques are an imperfect way of dealing with the impact of legal change on indemnity cost. But equally there is an argument that says something will always happen to shift the goal posts. So why not price for it? Or walk away?

We should not think of our industry as simply on the receiving end of risk. We have to identify, anatomise and price risk, and manage our exposures. And we have to engage with society and government to influence the process by which risk is defined and redefined.

Thirdly, management of the business process. As you will have gathered from my earlier remarks, progress in this area is long overdue. As Chairman of the Market Reform Group in London, which brings together Lloyd's, the IUA and the London Brokers, it has been a reassuring experience to know that others share that impatience: there is a genuine desire to change. Adoption of the London Market Principles

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<sup>26</sup> Dowling and Partners 2003

programme is starting to bear fruit. 70% of slips<sup>27</sup> placed in the market are LMP style slips. In order to make use of the slips mandatory – which is what we intend at Lloyd’s – we have to improve the quality first. That work needs to be completed urgently, and then we will mandate.

The recent proposals to adopt ACORD standards of messaging for Accounting and Settlement across the market are a hugely welcome step, which will bring both efficiency and consistency with international practice.

Claims systems across Lloyd’s and the company market have been harmonised, as a consequence of the creation of a single back office for London; and there is encouraging progress being made on the introduction of claims repositories, which would lead to much greater efficiency in the claims agreement process by giving parties to a transaction simultaneous access to a single source of information.

And at Lloyd’s we have been investing in Kinnect, formerly Project Blue Mountain to address the costly phenomenon of multiple data entry.

The Kinnect Platform comprises a core platform and a set of business support services. Customers access the Kinnect Platform either through a browser or their own systems which are interfaced to the platform, or a combination of both. The single interface to the Kinnect Platform (which can be created at one or more stages of the risk submission process) means that customers don’t have to interface separately to all their trading partners. The support services comprise interfacing expertise to connect to existing systems, processes and data for each customer and support for ongoing users to increase usage and aid adoption. Data entered by customers using Kinnect browser-based functionality or their own systems is delivered through the Kinnect Platform to their chosen recipients and visa versa. Customers can send emails, message and chat across the platform to support their contact with clients, alongside telephone and face to face communication.

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<sup>27</sup> Source: LMP Survey 2003

The Kinnect Platform provides a permanent audit trail of all transactions, correspondence, changes and timings, which helps to reduce the E&O risk and enables easier compliance and dealings with regulators. Better quality data leads to more accurate pricing. This ultimately leads to quicker and higher quality business completion.

For brokers, this will mean reduced administrative costs with less re-keying of data, the ability to submit one entry to multiple trading partners, faster processes, less errors and reduced E&O exposures and automated management of compliance and regulatory requirements.

For underwriters, this will mean reduced costs due to less re-keying of data, as well as improved use of capital based on better information, and better integrity and timelines of incoming data.

For everyone it will mean greater management control and better customer service.

Kinnect should reduce the cost of access to the Lloyd's market. Where being at the end of typically long complex trading chains, the challenges of fast accurate data are particularly acute. By working with all parties up the trading chain, Kinnect enables efficiencies to be gained, in part, by establishing electronic links with parties close to the source of the data.

Kinnect acts as an enabler to many of the reforms in the market. For example, Kinnect facilitates use of LMP Slips together with standard wording from the XIS Market Wordings Database. Similarly Kinnect supports LMP Accounting and Settlement through an ability to pass ACORD standard compliant technical accounting messages to XIS post-binding, on behalf of brokers.

I am pleased that Marsh and Willis, along with a group of Lloyd's businesses, are working intensively with Kinnect to make this vision happen.

This represents a significant programme of action: to improve behaviour through LMP, the back office through XIS and XCS, the front office and connectivity through Kinnect.

In London, then, and specifically at Lloyd's, we are taking active and positive steps to break out of the rut of history where business process is an unchanging, forgotten and inefficient backwater. Despite the predominance of underwriting issues, business process must remain high on the agenda. Whether it is policyholders wanting faster documentation and claims agreement, brokers wanting easier access and streamlined administrative processes, or underwriters wanting better quality data, higher contractual certainty and lower frictional costs, we must and will deliver business process change.

And so much of the business process issue revolves around behaviour. Yes, it is about technology as well, but technology only enables behavioural change, it doesn't create it or guarantee it. I am back to where I started – an effort of will.

That is why, in my game of two halves, I emerge from that rather unnerving first half, with Real Malthus definitely in the ascendant, in a mood of optimism. Optimism not born of complacency, but rather of a determination to learn from the analysis of history.

At Lloyd's we are all proud of a market place that has demonstrated great resilience, has shown a significant ability to change throughout the last 10 years, continues to be a dynamic entrepreneurial environment that provides a distinctive proposition to brokers and policyholders, and is trading very strongly. But I believe my remarks have demonstrated that far from being complacent, we at Lloyd's are busy acting upon the lessons of history.

Let no one interpret my remarks as false optimism, based on the illusion that acting upon the lessons of history is easy. It is not. Rather it is, and will ever be, demanding and

difficult. But I believe that the historians of the future will determine that we and others in the industry set out to learn and act on the lessons, and that we were successful. It should not be for want of trying.