COMPANIES & MARKETS

Old school trading under threat as insurers rethink life at Lloyd's

Virus crisis sees one of the last face-to-face financial markets confront an inexorable shift to digital

OLIVER RALPH

On a regular day, about 7,000 people would funnel through the doors of Lloyd's of London and make their way to the insurance market's giant four-storey underwriting room. There, they would discuss policies for clients around the world, make new contacts and catch up with industry gossip, just as they have done for more than 300 years, since the market was founded in a coffee shop.

Lloyd's is one of the last face-to-face financial centres, clinging on to a physical trading room while others have gone digital. Often the negotiations would spill out into the bars and restaurants clustered into the narrow City of London streets.

But since the coronavirus outbreak forced Britain into lockdown in March, Lloyd's doors have been closed, the underwriting room silent and the cafés empty. Many of the brokers and underwriters who work there are now asking if things can — or should — ever be the same again.

"It would be a huge missed opportunity if it did return to normal," said Matthew Wilson, chief executive of insurer Brit. "Lloyd's has a tradition of 300 years of face-to-face trading, which has served it well, but it is in danger of becoming a museum piece."

Steve McGill, chief executive of broker McGill and Partners, said Covid-19 was a "game changer for the way the market is going to work going forward".

"There are going to be lots of questions about the way we serve clients," he added. "The environment is going to be adapted quite profoundly."

Coronavirus has already confronted insurers with significant challenges. The crisis is likely to lead to one of the biggest payouts ever, potentially topping $100bn, with event cancellation and trade credit policies set to be among the hardest hit. There is also increasing controversy over whether insurers should be paying out on business interruption policies.

But London's insurers — which manage about $90bn of business a year, according to a 2017 report from the London Market Group, ahead of other big centres such as Bermuda (about $40bn) and Switzerland ($31bn) — have been faced with the added obstacle of a stark and rapid change to the way they work.

Swapping the Lloyd's Building for their living rooms and home offices has forced them to finally adopt an electronic trading system that was initially rebuffed by some insurers and brokers, who preferred the traditional paper-based process.

The PPL platform, which allows insurance policies to be created electronically rather than on paper, was introduced into the London insurance market in 2016. Two years later Lloyd's had to start forcing insurers to use it.

But since the crisis began, usage has hit a record high. A year ago, the system was being used for about 970 policies per week in Lloyd's and the wider London insurance market. That has risen to almost 3,500.

"There had been a lot of negativity and noise around PPL," said Mr Wilson, "but it has stood up and it has been the saviour of the London market."

Insurers and brokers said that as the system could be used on standard PCs and laptops from home, they were now working at close to full capacity.

The traditional Lloyd's model — through which brokers bring risk propositions ranging from spacecraft to fine art to underwriters' desks, called boxes, to discuss how to insure them — is unique to the City of London.

Elsewhere, there is no such formal system for face-to-face business. Brokers and underwriters in other insurance centres simply visit each other in their offices or work via phone and email.

The ability for Lloyd's brokers to see several insurers in the same place at the same time has been a big advantage, allowing them to work out complex or unusual policies in a short space of time.

Some in the industry said that there were drawbacks to working remotely.

"There is an underlying feeling that we are missing something," said Alastair Swift, head of GB corporate risk and broking at Willis Towers Watson. "New sales are tougher digitally and the same is true of selling the risk to an underwriter . . . it is harder to say no face to face than it is by email or phone."

Others said that working from home was less efficient than sitting in the Lloyd's underwriting room, where brokers queue up to see the underwriters and discussions can last as long as they need to. Now, everything has to be scheduled.

"Some appointments take five or 10 minutes but now they have to put half-hour slots into their diaries," said Sheila Cameron, chief executive of the Lloyd's Market Association, an industry group. "A digital queue is not as efficient."

Lloyd's, which was already working on a series of reforms, is looking at ways to get the underwriting room back up and running once restrictions are lifted.

"There are three options," said John Neal, Lloyd's chief executive. One is for the insurers to be in the room but the brokers joining virtually. The second is that only certain product lines would be allowed in the room at once. The third is a booking system for people who want to use the building.

Allowing people to return to some sort of face-to-face contact is important, he stressed. "People miss the speed of thought when solving a problem . . . something that might take a day at the moment could be done in 45 minutes or an hour physically."

Nevertheless, he added that the crisis had presented an "opportunity to reimagine what we do and . . . be more experimental in terms of the flexibility of the space".

That flexibility could mean simply using less space, which would be beneficial in London, where property costs are high.

It could also mean changing the layout of the building. At the moment, the insurers all sit at identical desks and the brokers sit on stools next to them. Mr Neal said that the space could be less formal in future.

Some people want Lloyd's to go further, and abolish the underwriting room entirely.

"It is not a necessity," said Mr Wilson. "[The crisis] has given people time to think about what's the right thing to do."

Tom Clementi, at insurer MS Amlin, agreed: "Over time it ought to disappear, but I don't know if it will take two, five or seven years."

Others warned that electronic trading had its limits, and that there would always be a need for face-to-face discussions.

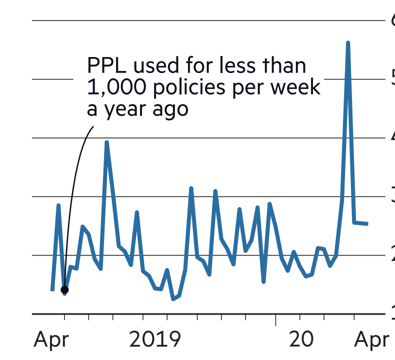
"There is value in face to face in areas that are large or complicated, or where there are new risks," said Richard Dudley, chief executive of the UK global broking centre at Aon. "It is a joint manufacturing process and it is much harder to do if you are not face to face."

London's insurers have swapped the Lloyd's Building for home in response to the pandemic — Henry Nicholls/Reuters

> 'Lloyd's has a tradition of 300 years of face-to-face trading but it is in danger of becoming a museum piece'

Number of insurers and brokers using PPL hits record

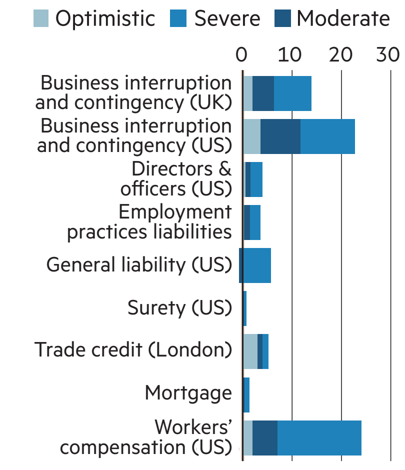
Risks placed ('000, weekly)*



* Spikes represent insurance contract renewal dates

Insurers face big payouts from Covid-19

Potential losses by sector and scenario ($bn)



Sources: Placing Platform Ltd; Willis Towers Watson

Financials

Norway's oil fund sells out of Glencore over coal use

RICHARD MILNE — OSLO

Norway's $1tn oil fund has sold out of some of the biggest names in commodities and utilities including Glencore, Anglo American and RWE after the largest sovereign wealth fund decided they breached its guidelines on the use of coal.

Exclusions by one of the biggest shareholders — the fund owns on average almost 1.5 per cent of every listed company — are often followed by other investors.

The fund also sold out of Brazilian mining company Vale due to "severe environmental damage" from a burst dam and placed miner BHP, and utilities Enel, Uniper and Vistra Energy, on an observation list for possible sale later over their use of coal.

Criteria that stop the fund from investing in companies that extract more than 20m tonnes of thermal coal or use more than 10,000MW of power from coal led to the exclusions of commodities groups Glencore and Anglo American, utilities RWE and AGL Energy, and petrochemicals company Sasol yesterday.

The oil fund, which always sells its entire stake in companies before announcing its exclusions, said it had taken longer than normal to do this since making its decision due to the market turmoil caused by coronavirus.

The fund owned 1.2 per cent of Glencore, 2.4 per cent of Anglo American, 0.6 per cent of RWE and 0.5 per cent in Vale, making it a leading shareholder in all.

Norway's parliament has in recent years tightened the rules about what the oil fund can invest in, adding big coal extractors and users to producers of tobacco, nuclear weapons and cluster bombs to those excluded.

The government added a small number of oil and gas companies, those classified as pure exploration and production groups such as Lundin Petroleum, Marathon Oil, and Cairn Energy, last year but the fund has yet to announce their formal exclusion.

The fund estimates that such product-based exclusions lower its investment returns but bans based on conduct, such as that for Vale, lift them.

The fund is therefore not allowed to invest in some of the best-known companies such as Airbus, Boeing, British American Tobacco and ZTE.

The fund announced yesterday it had for the first time sold out of companies due to unacceptable greenhouse gas emissions as it excluded Canadian Natural Resources, Cenovus Energy, Suncor Energy and Imperial Oil due to the production of oil from oil sands.

It barred Egypt's Elsewedy Electric due to its participation in a hydropower project in Tanzania that it classed as "severe environmental damage" and Brazil's Eletrobras for "systematic human rights violations" due to the construction of a power plant. These exclusions, along with Vale's, were based on recommendations from the independent Council of Ethics.

Automobiles

VW pauses operations after restart

JOE MILLER — FRANKFURT
RICHARD MILNE — OSLO

Volkswagen will pause the production of four key models just weeks after reopening its manufacturing headquarters in Germany as anaemic demand for new cars in Europe dashes industry hopes of a quick recovery.

The German group began ramping up operations at the world's largest auto plant in Wolfsburg on April 27, with almost 8,000 employees returning to the factory, which had been modified to prevent the spread of Covid-19.

But in an ominous move for the auto sector, VW will now be forced to idle assembly lines, adding to the ballooning costs of keeping underutilised factories running.

In the coming days, VW will temporarily stop making its best-selling Golf 7 and 8 models, as well as the Tiguan and Seat Tarraco sport utility vehicles.

In an internal interview seen by the Financial Times, VW manager Arne Meiswinkel said the company had to "align production to the expected market fluctuations".

"We have the necessary flexibility to adapt production to the current situation again and again," he added.

Håkan Samuelsson, chief executive of Volvo Cars, told the FT Global Boardroom event that the Swedish premium carmaker did not want to close down its factories fully, but instead run them according to demand. That meant its European factories were working three days on and two days off a week on average, he added.

Demand in Europe was about 30 per cent of normal levels for Volvo but in China it was about 20 per cent higher than last year, Mr Samuelsson said. "If those numbers are correct, they would speak to a rather rapid comeback," he added, although many in the industry are sceptical Europe's recovery will be as strong as China's.

About 45,000 VW staff have returned to work on varied hours in the past few weeks, as it reopened several plants across Germany, including the Zwickau site where it is manufacturing its first mass-market electric car, the ID.3.

About 35,000 employees remain on the state-sponsored "short-time" work scheme, or *Kurzarbeit*, which VW expects to use until at least the end of June.

Last month, as it reopened the Wolfsburg site, VW brand's chief operating officer Ralf Brandstätter warned that "additional momentum is needed to stimulate demand in Germany and throughout Europe so that production volumes can be successively increased".

However, while VW's sales in China have recovered to 2019 levels, revenues across Europe have been all but wiped out. France, Italy, Spain and the UK sold just 3 per cent of their usual volumes in April, while Europe's largest car market Germany suffered a 61 per cent drop.

Yesterday, Moody's drastically cut its forecast for global car sales, predicting the market would shrink by a fifth in 2020, and by as much as 30 per cent in western Europe.

"While auto production has restarted in the region, dealerships in some countries remain closed and demand is likely to remain very weak," the rating agency warned. "What happens next will depend heavily on the extent of government support."

Germany's car lobby has been calling for Berlin to reintroduce a scrappage bonus.

VW modified its Wolfsburg plant to prevent the spread of Covid-19

Travel & leisure

Las Vegas Sands abandons Japan plans

LEO LEWIS — TOKYO

Las Vegas Sands, the US casino operator that boasted it would spend $10bn to secure a foothold in Japan's future gaming market, has dropped out of bidding for a licence to operate in the world's third-biggest economy.

The decision by Sheldon Adelson, LVS's billionaire chief executive, throws more doubt on the Japanese government's vision for a thriving casino industry involving multiple "integrated resorts" and a market that analysts projected could become the world's second-largest after Macau, given once-bullish forecasts for Chinese outbound tourism.

The abrupt pullout ends an LVS charm offensive in Japan that began in the early 2000s — years before the administration of Prime Minister Shinzo Abe broke with tradition and pushed through a bill in 2016 that legalised casino gaming.

It comes as the coronavirus pandemic has wrought havoc in the global gaming sector, prompting suspended dividends, shattered market valuations and low-priced stake sales. LVS and its industry peers have been forced to halt operations at most critical sites in Las Vegas, Macau and Singapore.

But LVS said its decision on Japan was not related to financial constraints or the current global health crisis.

Mr Adelson cited the unfavourable framework around Japan's future casino industry. "While my positive feelings for Japan are undiminished," he said, "the framework around the development of an IR [integrated resort] has made our goals there unreachable."

LVS would now focus on other opportunities, Mr Adelson said.

It was unclear from the LVS statement, said industry analysts not authorised to comment publicly, whether the company would consider returning to the Japanese bidding process should the framework be tweaked. LVS declined to comment on that possibility.

According to people familiar with the matter, management did not feel there was likely to be a receptive audience on the issues raised.

Although the various bidding processes have been in effect suspended by the coronavirus pandemic, Japan's plan was to grant licences to three cities that would then accept bids from casino operators and consortium partners.

LVS, Melco, Genting and others initially expressed enthusiasm for a site in Osaka but most had dropped out of that process, leaving MGM unchallenged.