



## Interview

“Lloyd’s has shown that it is able to face-up to the greatest catastrophes...”

# Pablo Wesolowski

Lloyd’s General Representative in Spain.

In its 315 years of existence, Lloyd’s has proven its usefulness and its ability to adapt as required when it comes to underwriting and insuring risks, as well as facing-up to indemnifying the most inconceivable losses.

Lloyd’s is a major player in the London insurance market and, with its syndicates and brokers, it constitutes a peculiar market. A good example of this is its restructuring, the appointment for the first time in its history of a professional chairman - Lord Levene, with a banking background - or the challenge of promoting certain markets, such as China and those of continental Europe.

The relatively recent opening of its branch in Spain, puts our country into the group of advanced nations in Europe where Lloyd’s is already present, for instance France, Germany, Ireland and the Benelux.



Pablo Wesolowski was born in Madrid on 19 January 1961. He qualified as a lawyer in Madrid in 1985, obtained an MA in Business Law at the University of London in 1987. Since then he has practised as a lawyer both in the UK and in Spain, advising major national and international insurance, reinsurance and brokerage companies as well as various Lloyd’s syndicates. He is a member of the Madrid Bar Association, and of the Reinsurance Committee of the Spanish Section of AIDA (International Association for Insurance Law).

A practising lawyer, Pablo Wesolowski is the Managing Partner for Davies Arnold Cooper in Spain.

In 2001 he was appointed as the Corporation of Lloyd’s General Representative in its Madrid branch office; he had been Lloyd’s representative in Spain for tax purposes since 1997 and still holds this position for the purposes of business underwritten on a Freedom to Provide Services basis.



### ***How does the Lloyd's market operate?***

In the first place, it is necessary to point out that Lloyd's has a dual structure.

On the one hand there is the Corporation of Lloyd's, that traditionally is part of the super-structure and is a management and control body. On the other hand is the insurance structure formed by the investing members, the "capital providers". If these are individual members they are known as "Names", and corporate members are known as "Corporate Names". For management purposes, the capital providers joined together in groups called "syndicates", that do not have a legal capacity. At present there are 71 operating syndicates that deal mainly, in respect of primary insurance, in the business categories of third party liability, marine, aviation and transport, catastrophe and property insurance. Every syndicate is managed by a "Managing Agent" who advises the syndicate and is in charge of its administrative affairs. One of the duties of this Agent is to appoint an "Active Underwriter", the professional person with the ability to underwrite risks on behalf of the members of a syndicate.

Lloyd's is a brokers market. Up to a few years ago the Lloyd's syndicates - through their Active Underwriters - only accepted business brought by "Lloyd's Brokers", i.e. brokers authorised by Lloyd's - at present more than 160. Nowadays, in addition to the business brought by Lloyd's brokers, the syndicates may accept business brought by "coverholders". Owing to these coverholders it was possible to overcome the bottleneck that the brokers' structure generated at Lloyd's. These coverholders are local intermediaries trusted by a syndicate, who enter into an agreement, known as "Binding Authority", setting out

the terms and conditions on which a coverholder may place business of a given country with that syndicate. At present there are 3500 accredited coverholders in countries where Lloyd's has a presence.

### ***What is the effect of the reduction in the number of operating syndicates, considering that there were around 600 at the end of the 80s while at present there are only 71?***

As has occurred worldwide in the insurance industry, decrease in the number of syndicates is the outcome of concentration, it is also due to the change of structure undergone by Lloyd's, which probably began with the "Reconstruction and Renewal" - R&R (under Sir David Rolland). The fact is that when certain Names went bankrupt, other Names did not wish to continue having unlimited liability, responding with all of their assets. This caused Lloyd's to admit, from 1994, "corporate names" to membership. These were companies or entities with limited liability and a sound financial status. At present many syndicates are backed by insurance and reinsurance companies. In conclusion it can be said that there is an important concentration of syndicates in Lloyd's.

### ***And what about those traditional "Names"?***

Curiously enough, after a massive exit, they are returning, although not with unlimited liability as before. The probable reason for this return of investors is the present profitability of Lloyd's as a consequence of the market hardening due to increased risks and increases in the price of cover. There are at present about 2000 Names.

### ***What is Lloyd's focusing its attention on, at present?***

Since 2002, Lloyd's is making extraordinary efforts to modernise its structure. After the events of 11 September 2001, Lloyd's became aware of the changes in the marketplace and the need to apply innovative policies in order to adapt to this new era. It was then when the "Chairman Strategy Group" was created, its task boiled down to seven measures that, in summary, mean a move to a "franchise" structure. The Corporation of Lloyd's would become the franchisor and the Managing Agents, acting on behalf of the syndicates, the franchisees. The Corporation would then be in a better position for quality control, to monitor the performance, profitability, etc. of the syndicates, and to render services, protecting the name, image and reputation of Lloyd's.

In addition, there has been a rekindling of traditional underwriting values so as to end practices that might in any way be unorthodox, and an international business platform and there has also been considerable investment in information technology systems.

### ***How did the terrorist attacks of 11 September 2001 affect the solvency of Lloyd's?***

Lloyd's had to activate all the links in its chain of security. It has paid out, to date, over USD 5 billion (EUR 4.25 billion), but the grand total will reach approximately USD 9 billion (EUR 7.65 billion). The significant factor is that Lloyd's has proven to be able to face losses of such magnitude, and that in record time the funds have been replenished. In fact, Lloyd's chain of security is now stronger than prior to those events.

**What is the function and the structure of what is known as "Lloyd's chain of security"?**

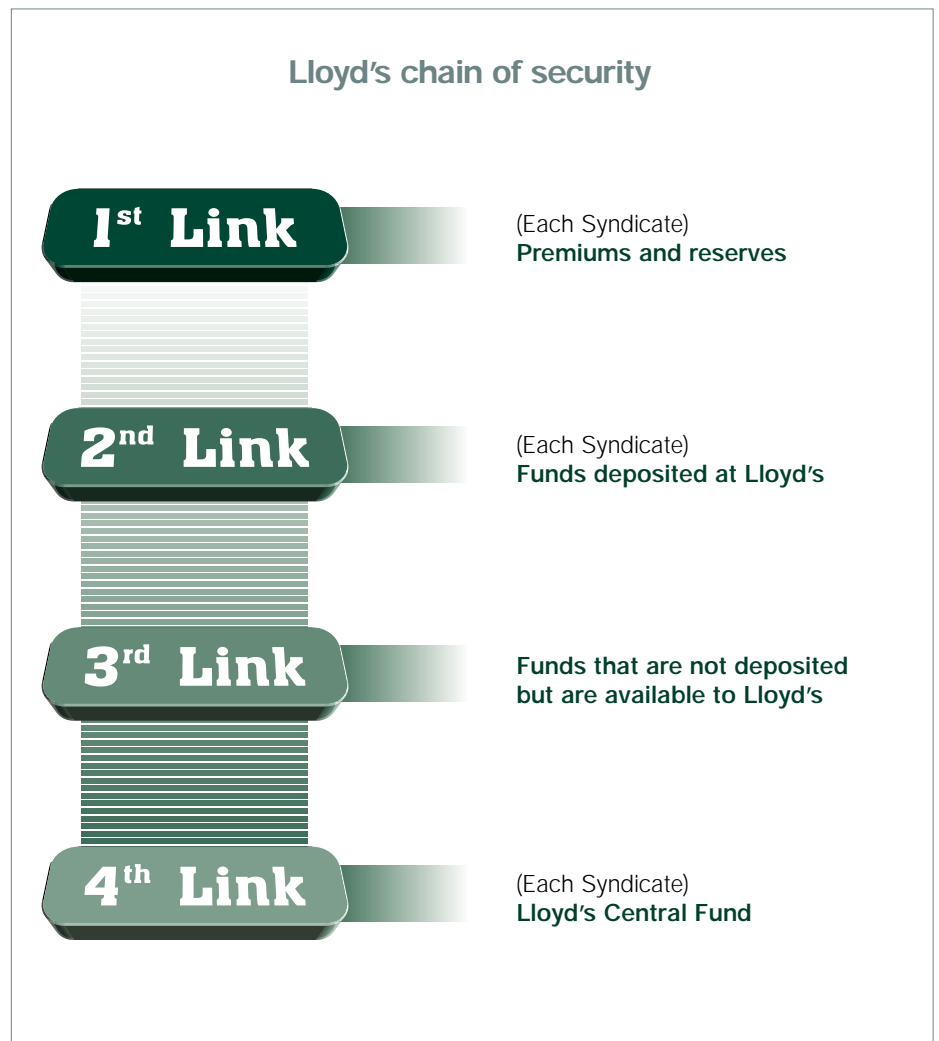
Lloyd's chain of security is a system that backs payment of valid claims to insureds and claimants. The chain is made up of various resources that form its four links. The resources of the first link are liquid assets deposited at Lloyd's, originating from the premiums and reserves that are held in a trust fund. The second link of the chain, should the assets of the first link prove insufficient, is constituted by funds deposited by the members at Lloyd's. To strengthen that chain further, the resources of the third link are other assets of the member that although do not have to be deposited must be declared and readily available to Lloyd's. The fourth link is Lloyd's Central Fund, that is available to the Council of Lloyd's to meet the liability of any of its members.

**What is the role of Equitas Reinsurance?**

Equitas is an independent insurance company created mainly to deal with 1992 and prior liabilities. At present, its role continues to be the same as when it was first incorporated, to separate 1992 and prior liabilities from the rest and protect them under a reinsurance contract. It is, in fact, a "run-off" operation.

**Geographically speaking, where is the greatest share of Lloyd's business located?**

Lloyd's largest market is the U.S., that represents approximately 35% of its business, followed by the UK, Canada and Bermuda. In Europe, besides the UK, Lloyd's has a presence in France and



Germany. The advantage of the US market is that there are hardly any cultural or language differences. Business in Europe is more difficult, on the other hand, due to the different languages, customs, culture and practices. It is becoming evident, however, that Lloyd's presence in Europe must grow significantly and, in fact, one of Lloyd's projected aims is to do more business in Europe in view of its great potential.

**Why are accounts closed every three years, and not annually?**

Because of its restructuring and changes in organisation, Lloyd's is going through a transition period. The traditional accounting

system is also undergoing changes in order to adapt to international accounting standards and so that accounts are filed in the same way as other businesses. It is estimated that Lloyd's will use annual accounting for the first time in 2005. My personal opinion, however, is that as losses are accounted for in the year of issue of the policy that covers them, annual accounting cannot show as faithfully as the three-year accounting system does, the true financial position of a business because the flow of payments only stabilises, at least in liability claims, some years after occurrence of the loss. In any event, annual accounting is the usual practice of all other sectors of the economy, therefore it is necessary for Lloyd's to adapt to this system.



## Interest in Spain and Latin America



*The most recent branch address set up by Lloyd's in Europe was in Madrid in the year 2001. How is Lloyd's represented in countries where it does not have an office address?*

As it is the case for any other insurance business in the European Union, in order to underwrite business under the Freedom to Provide Services regulations (i.e. without having a permanent establishment) Lloyd's must appoint a representative for tax purposes, liable mainly for payment of taxes and levies. On the other hand, to underwrite business on a Freedom of Establishment basis, a permanent office address is required and a general representative who is in charge of that office. At present I am Lloyd's General Representative in Spain in charge of the branch office and, for business underwritten under the Freedom to

Provide Services regulations, I am the tax representative.

*What volume of business does Lloyd's have in Spain, and what are the results?*

Lloyd's has an approximate volume of premiums in Spain of EUR 120 million per annum. In 2002, the combined loss ratio (i.e. the ratio of claims paid to net premiums collected) was 98% globally. This ratio is positive when compared to the global ratio for Europe, or that for the US market.

*During your discussions with Lloyd's executives, do you make a special case for the Spanish market?*

Lloyd's syndicates usually design their strategies by class of insurance business rather than by geographical territory, that is to say, when they develop policy wordings, for instance bankers blanket bond, they design a product that is later marketed worldwide without considering the peculiarities that are specific to each country. Our endeavours are that Lloyd's should change this strategy and focus not only on the class of business but also on the territory where the product is to be used, so that it is perfectly adjusted to the specific requirements of each country.

*What is the purpose of the Spanish branch office?*

This, as a matter of fact, is the branch office of the Corporation of Lloyd's. Therefore, its aim is not to underwrite business located in Spain but rather to facilitate a legal infrastructure that will enable its members to underwrite those risks. One of the tasks of this branch is to ensure that Lloyd's complies with

standing regulations, both as regards the supervisory control bodies and in matters concerning its relationship with the assureds. For instance that insurance policies have been duly adapted to the Spanish law on insurance contracts, Ley de Contrato de Seguro, and that those policies operate in accordance with the laws in force. It is for these reasons that a practising lawyer is appointed as General Representative, rather than a professional of the insurance sector.

*In recent years there have a growing number of Lloyd's policies to insure professionals and small business executives in our country. Do you believe that they are aware of their rights and obligations as regards their insurer?*

So far as protection of the assured is concerned, there is no difference between being insured by a Lloyd's syndicate or by a company. As is provided in the Ley de Contrato de Seguro Spanish law is applicable, therefore, in the event of litigation, the insured may bring a claim against Lloyd's in the Spanish courts. Lloyd's branch office, as its legal representative in Spain, will accept service of any relevant notices and forward them on to London.

*How interested in Latin America is Lloyd's?*

Latin America is strategically crucial for Lloyd's, basically because it is one of the geographical areas where the insurance industry is to grow most in the next few years. There are syndicates that have underwritten large percentages of business in different Latin American countries, and in addition there are international Spanish companies that have made important investments in Latin America and cover their risks by means of important international insurance plans. ■