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RAMAOG

bc: John Redwood

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File

Briefing due from DTI on 30/1

10 DOWNING STREET

From the Private Secretary

21 January, 1985

LUNCH AT LLOYDS

The Prime Minister is having lunch at Lloyd's on Friday, 1 February. I would be grateful if DTI could prepare some briefing for the occasion. Mr. Miller's office have indicated three subjects which they wish to raise with the Prime Minister.

(i) Disciplinary action where Lloyd's will want to press the Government on why the DPP is taking so long in bringing charges.

(ii) Access to China. Mr. Miller is travelling to China in April or May and will want to talk to the Prime Minister about the way Lloyd's should go about this and the ways in which the Government can help open doors.

(iii) £/$ exchange rate and the impact, for good or ill, this has on Lloyd's business. The Prime Minister will be able to deal with exchange rate policy so the briefing can confine itself to the impact of a strong dollar on Lloyds.

We have also identified three other subjects which the Prime Minister might put to Lloyd's, on which it would be helpful to know the Department's views.

(i) Preferred or parallel underwriting, i.e. the practice of underwriters writing insurance for a main syndicate and for a "baby syndicate", with the danger that the riskier business is put into the main syndicate and the more attractive business into a smaller syndicate controlled by friends and relatives. Should such arrangements be outlawed?

(ii) Related party re-insurance. Should the practice whereby underwriters re-insure risks with a re-insurance company, usually overseas, in which they have a personal interest be allowed?

(iii) Chief Executive. Should the post of Chief Executive and Deputy Chairman be made permanent with the nomination to it of a non-Lloyd's independent figure.

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Finally there may be other points which the Department would like the Prime Minister to put to Lloyds. Could this briefing reach me by close of play on Wednesday, 30 January?

I am sending a copy of this letter to John Bartlett (Governor of the Bank of England's Office) and, in relation to the reference to China, to Leigh Lewis (Office of the Minister without Portfolio).

Andrew Turnbull

A. Lansley, Esq.,
Department of Trade and Industry

Note
Draft of a letter Sir Ian Hay Davison was going to send to FERB. In the event it was agreed he did not need to turn into it into final form. AT 31/1

R. Butler, Esq.,
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ETC.

ER/ca

18 January 1984

I understand that you would welcome a short brief on some issues facing Lloyd's at the moment, which may not arise spontaneously in a lunch-table conversation. I am assuming that the Prime Minister will have a Departmental brief, and I will therefore not take up time with factual description.

(i) "Preferred (or parallel) underwriting". It has been a not uncommon practice in the past for one underwriter to write insurance for more than one syndicate, one being the main syndicate and the other commonly called a "baby syndicate" consisting of relatively few Names. The theory was that new members of Lloyd's could be introduced to underwriting *via* membership of the baby without diluting the interest of existing Names on the main syndicate; in fact, the baby has usually been a vehicle for giving preferred treatment (by way of carefully selected risks) to a few people - directors or emoloyees of the underwriting agency, or even family friends. Without the strictest prior agreement on the respective shares of the total underwriting book to be taken by the two syndicates, this situation is an invitation, not invariably refused, to favouritism and venality - as some disciplinary cases have been revealing. In fact, objectively the only reliably safe rule is that there must be no "parallel underwriting" whatever; but there is still some weight of current practice and tradition against such a rule.

(ii) Related party reinsurance. Recent disciplinary cases have demonstrated the case with which illicit profits may be made if the underwriter for a syndicate reinsures the risks with a reinsurance company, usually overseas, in which he has a personal interest. The potential corruption of his underwriting judgment is obvious - as is the temptation to go further, and take personal benefit (by way of investment interest) on reinsurance premiums paid by the reinsured syndicate, i.e. the Names. Lloyd's has recently enacted bye-laws requiring full disclosure of any related insurance interests of underwriters: but in principle such relationships, if they are at all significant, inescapably constitute a conflict of interest which should not exist, however honestly individual underwriters may seek to overlook it, and the argument is strong for a rule banning any significant reinsurance with a related party.

(iii) Chief Executive. The creation of the post of Chief Executive and Deputy Chairman, and the nomination to it of a non-Lloyd's independent figure, was at the insistence of the Secretary of State for Trade and the Governor of the Bank two years ago; such an outsider, with an independent judgment and his own City position and career, was seen as the best public guarantor that Lloyd's would genuinely change its ways and become demonstrably "clean". Much has been done, notably in the way of introducing new and modernised rules for the proper conduct of business and for monitoring their observance, but two years is a short time for such a task as is needed, and some time will also be needed for the new ethos to become genuinely accepted and to flourish in the minds of Members. There is, inevitably and understandably, some resentment, some nostalgia, and some hope of an early departure for the Chief Executive; but if the reforms are to take root and to become accepted practice rather than enjoy reluctant lip-service, it is essential that the first Chief Executive should be known to be a fixture for some years to come, and that Lloyd's should not expect to be able to replace him eventually with someone of their own choosing - a continuing external guarantor of proper behaviour is an essential element in the future self-regulation of what has become an introverted and complacent institution.

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