

E. R.
PRIME MINISTER

LUNCH AT LLOYDS

You are having lunch at Lloyds tomorrow. After lunch Lloyds will take you on a short visit to the Underwriting Room. The programme and guest list, with their CVs, is at Annex A.

Lloyds have suggested three subjects for discussion and notes on these are attached at Annex B.

- Capital bank in sterling*
- (i) On exchange rates they will be particularly anxious to hear from you your interpretation of recent events and your views on the future of the £/\$ exchange rate. The note explains how a strong dollar limits Lloyds' scope for expansion.
 - (ii) On pursuit of financial fraud cases they may complain that the DPP is taking too long to bring offenders to book. You will have to stress that the DPP acts independently from Ministers.
 - (iii) On China, they may like to have your first hand impressions of the opportunities that are opening up. Lord Young is including an insurance broker in the party for his visit.

In addition they may raise:

- (iv) Financial services in the Community. You will want to stress the Government's total commitment to a free market despite the opposition that is being encountered.

In addition to these issues, there are three others you might raise. The Chief Executive of Lloyds, Mr. Ian Hay Davison, has been in contact with us. He is anxious to prevent the discussion being an occasion for Lloyd's to put

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its concerns to Government without the Government probing them on their weak spots. Privately he has sent us a note about three issues he thinks you should put to them (Annex C):

- (i) Should preferred underwriting be outlawed? (M) (Sub)
- (ii) Should re-insurance with companies owned or controlled by syndicate managers be prohibited? (O) → offshore
- (iii) Should the role of the Chief Executive be made permanent?

The latter issue is a delicate one. While Mr. Davison's arrival at Lloyds has done much to restore confidence, a number of feathers have been ruffled, not least with the Chairman, Mr. Miller. Mr. Davison is anxious that the Chief Executive post should be made permanent and not filled by a tame insider. DTI feel this is a particularly delicate subject and would rather you did not raise it. If, however, a natural opportunity arises, you might ask Mr. Miller for his views. At Annex D is a note by the Bank of England who were, of course, instrumental in securing the appointment of a Chief Executive.

Attached at Annex E is a note by the Press Office on the visit to the Underwriting Room.

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