

Subject cc Master

CONFIDENTIAL

File

JG2ASX



cc: Prof. Griffiths

10 DOWNING STREET

From the Private Secretary

8 January 1986

LLOYD'S AND THE FINANCIAL SERVICES BILL

The Prime Minister today discussed with your Secretary of State, the Chancellor and the Governor of the Bank of England the proposal set out in your Secretary of State's letter to the Chancellor of 6 January for an inquiry into Lloyd's to see whether its constitution and the steps taken by Lloyd's under it provide adequate protection for members of Lloyd's as investors.

Your Secretary of State explained that the proposed inquiry was intended to have a narrow and limited focus. In essence the question was whether the framework being created by the Financial Services Bill for investor protection was matched by the protection afforded to names as investors by the Lloyd's constitution and the rules which Lloyd's had put in place under the Lloyd's Act. Any recommendations arising from the inquiry would almost certainly be directed towards changes which could be effected by the Lloyd's authorities themselves, and they would be under great pressure to adopt them. The result should help to avoid a need for further legislation on Lloyd's.

The Chancellor argued that to set up an inquiry would be a high risk course. It was possible that it would find no cause for further legislation. But on the other hand it might conclude that protection under the Lloyd's Act was not as good as the protection which would be provided under the Financial Services Bill. Further legislation on Lloyd's which would need to be taken through in the 1986/87 session would be much better avoided. There was accordingly a very strong case for deciding now to bring Lloyd's within the scope of the Financial Services Bill provided this would not render the Bill hybrid. The Chancellor did not himself believe that this would necessarily be the case.

The Governor said that he was himself basically against an inquiry. However, he was prepared to go along with it if this was necessary to prevent Lloyd's from being drawn into the Financial Services Bill, in part because if there was a risk that it might be, the difficulties of securing a new Chief Executive would be increased. Names should for the most

CONFIDENTIAL

2/6

part be seen as shareholders and insurers at Lloyd's, and in these roles they should be able, as business people, for the most part to protect themselves. It was most important that any inquiry should focus solely on the protection of names as investors. The problems at Lloyd's had arisen over the management of money in the hands of Lloyd's between receipt of premia and payment of claims. The inquiry should focus on this area.

The Prime Minister said she was in general reluctant to set up inquiries in haste. However, noting that the Governor was prepared to acquiesce in it, the Prime Minister agreed that a narrowly focused inquiry as proposed by your Secretary of State should go ahead. The Prime Minister said she would prefer it to be headed by a lawyer and, after a brief further discussion, it was agreed that Sir Patrick Neill should be approached. (Your Secretary of State agreed to consult again if Sir Patrick refused). The inquiry should be asked to report quickly, in order to allow time for legislative options to be considered if that proved necessary. The Prime Minister proposed that the inquiry should report by Whitsun.

Your Secretary of State said he would be very reluctant to indicate that the Government would be prepared to incorporate recommendations of the inquiry into the Financial Services Bill if legislation was required. The Chancellor felt that it was important that this should not be ruled out. The Prime Minister suggested that the line should be that whether further provisions could or should be included in the Financial Services Bill would depend on what came out of the inquiry, and that to do so might risk hybridity. Your Secretary of State said he would prefer to say that the Government would of course be prepared to consider legislation if that seemed necessary in the light of the findings of the inquiry. The discussion broke off at that point.

I am copying this letter to Rachel Lomax (H.M. Treasury), Joan MacNaughton (Lord President's Office), David Morris (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office), Michael Stark (Cabinet Office) and to John Bartlett (Governor of the Bank of England's Office).

David Norgrove

John Mogg, Esq.,
Department of Trade and Industry