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## Unsavoury Savonita

Lloyd's is not doing justice to itself or its members over the Savonita insurance claims

Professionalism, imagination, a sure instinct for survival—these are among the qualities that have helped Lloyd's of London maintain its pre-eminence in the world's insurance markets. Suddenly those qualities appear less tangible, and the institution less sure-footed, after the publication of a report on the so-called Savonita affair. The report is a shoddy document that smacks heavily of kangaroo justice. It has been widely attacked in the press and elsewhere, which is partly why Lloyd's announced this week that it was to review its own powers of self-regulation. To command respect, the review committee will need more than a leavening of outsiders. Its terms of reference should be extended. The Savonita affair raises wider questions about the way Lloyd's conducts its business.

The trouble stems from reinsurance claims on a cargo of (mainly Fiat) cars carried in 1974 from Italy in a ship called Savonita. Part of the cargo was damaged at sea by fire. The Italian insurance company's broker at Lloyd's, Pearson Webb Springbett, presented a claim to the reinsuring underwriters. Subsequently the brokers became suspicious. It later emerged that some of the supposedly damaged cars were being resold in mint condition at near-mint prices.

The story is complicated (for a full account, see page 123), but the hub of it is that Mr Malcolm Pearson, chairman of the broking firm, refrained from pressing the claim on behalf of his client, and took leading counsel's opinion on what he should or should not do in relation to a possible fraud perpetrated on the reinsuring underwriters. He lost his client to the much larger firm of Willis, Faber and Dumas, and has now been publicly censured for allegedly neglecting his client's interest and for tilting at several notables in the Lloyd's hierarchy including a past chairman.

Some of the report's criticisms of Mr Pearson may be justified. Some, transparently, are not. The report is selective, contains inaccuracies, fails to examine substantive issues (like whether there really was evidence of fraud) and omits examination of key witnesses. It excuses Willis, Faber by saying that it did not use the weight of its (very large) account to persuade underwriters to settle the claim, while admitting in the same breath that the behaviour of Willis, Faber staff toward the reinsurers "was robust beyond the normally acceptable standards of broking conduct".

To cap it all, Lloyd's refused to provide newspapers with the report unless the publishers were prepared to sign an indemnity releasing Lloyd's from any legal liability. (Many newspapers, *The Economist* among them, obtained a copy elsewhere.) A curious lack of confidence on Lloyd's part in its own work. This is not untypical of the way it handles the press. It still has a rule preventing members talking to newspapers without prior consent of the committee of Lloyd's. Any contravention ("of which the committee shall be sole judges") can lead to expulsion.

### A brokers' market

Mr Pearson has, of course, some recourse at law; he could issue writs for libel to protect his reputation. But what about his livelihood? There is no appeals procedure if Lloyd's continues to wield its stick. The introduction of some semblance of judicial procedure (which is what, for example, the accountancy profession has been working towards) needs to be a priority of Lloyd's new review body.

Can Lloyd's also afford to ignore the issue of the brokers' tightening grip on syndicates? Some members of Lloyd's are worried about the way the institution is becoming dominated by brokers, who have a greater incentive to drum up premium income than to worry about the quality (or lack of it) of the underlying risk.

Underwriting syndicates are managed by underwriting agencies. Many of these agencies are controlled by brokers and most of the major syndicates within Lloyd's are run by big-broker agencies. The Savonita case is a reminder of the potential conflict of interest (and scope for abuse) in this arrangement. Should it be allowed? Is the emergence of broking monoliths such as the proposed new grouping of Bland Payne and Sedgwick Forbes desirable?

The fuss over Savonita may mean that the Office of Fair Trading, which is looking at the Bland Payne/Sedgwick Forbes proposals, will think more seriously about recommending a monopolies reference. Politicians will henceforth look more sceptically at this important institution that earns three quarters of its £2 billion premium income overseas. Lloyd's activities are already governed by two acts of parliament. Unless its new review body comes up with concrete recommendations for reform, a third might not be far away.

