

not the Election Special

- 1) BP
- 2) the Pru

And now for something different... remember when Thatcherism hit the City?

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As I am writing this missive, the leaders of the political parties are locked in discussion about the future of the Government of the UK. Some say that it's doesn't really matter, as global businesses run everything anyway – your Editor couldn't possibly comment!

However, nobody would argue that global big business is highly significant at the moment. Two of our largest players are in the news:

- 1) BP

The situation in the Gulf of Mexico with the oil slick needs little introduction or indeed further comment from me.

However, back in the SIG's early days, in particular *NEWSLETTER No 5* May 2006, we did have a look at some other BP dirty linen: Texas City (explosion) and Prudhoe Bay (oil spill) – needless to say a lot of money was involved. Strange that things seem to go bump in the night in the North American division – the logical conclusion being that a different organisational and leadership culture applies, or as one of our members pointed out to me recently, there are various sub-cultures within organisations. I would add that the bigger the organisation, the more sub-cultures are likely to apply.

During our 2010 / 2011 season, these *NEWSLETTERS* are scheduled (subject to my re-election at our AGM in London on June 28) to concentrate on the finer detail of improving this area through a combined ERM and Performance Management approach.

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- 2) the Pru

Now there's a story here for you. Back in 1961 your editor had just started work as a clerk with Atlas Assurance (now part of AXA) a traditional British *tariff* insurance company of repute.

My parents had bought me a dark suit from *John Collier* (the high street Taylor of *the window to watch* fame) and I travelled the nine miles or so to work by train which was still pulled by a steam engine in those days.

One evening I walked out of the station and was spotted by two scruffy boys who were messing about in the entrance to the station goods yard (yes, larger village stations had goods yards, including locally mined coal stocks, in 1961)

"Ha ha, the man from the Prudential", one shouted out, quoting the insurer's catch phrase.

Having accepted reality that I was never going to be a Formula 1 racing driver, I still felt a little miffed about working in insurance and felt it was bad enough having to do so without everyone knowing it!

The point is of course, that the Prudential Assurance had an image of respectability and a market presence second to none – everyone had heard of them. In addition to the then *industrial* branch life assurance with weekly collections by their employees of premiums from workers, the Pru were strong on *ordinary* branch life assurance and group pension schemes and, in those days, general business too. Fast forward to 1997 they took over the Scottish Amicable, another well known pension provider.

Now back to the present and they wish to take over AIA, the Asian branch of struggling American International Group (AIG) in order to become the leading life insurer (by the way, they were called assurers for life business in 1961) in seven Asian countries rather than four as at present and the biggest foreign provider in both China and India – or so the media tells us. Anyway, the Pru wish to raise a lot of money in the markets for this intended acquisition.

The appeal of this is clear – it is said, by those who are supposed to know about this thing, which as China develops there is the opportunity to multiply the life market there almost four fold and a figure of more than double applies to India. From a broking perspective, I have always felt that money spent on takeovers of goodwill, often becomes *bad will* and you might have got the same growth over a period if you had spent a proportion of the takeover monies on product development, advertising and marketing – but that's another story. I can say that the potential market in China and India and elsewhere in Asia must carry a not inconsiderable element of uncertainty.

The bottom line is that the deal is subject to *lead* regulation by the British authorities and the Financial Services Authority (FSA) has got cold feet and has held up the deal. Their thinking is that the mainstream operation could be destabilised by unknown future needs for capital and the waters were further muddied by talk of Europe and the coming of Solvency II.

I will comment more on this in my conclusion, but in the meantime:-

And now for something different... remember when Thatcherism hit the City?

Back in the late 1980s, when the Conservative government of the day opened up the City to free competition, self regulation was the name of the game – it was considered a bad show for government to stifle progress by regulation of financial services.

Anyone arranging a financial product became known by a new name – an *Intermediary*, Eventually professional bodies e.g. The Law Society for solutions, regulated their own, but anyone else (including insurance brokers who received more than a small percentage of their income from Life and Pension business) had to belong to an organisation called: FIMBRA (Financial Intermediaries, Managers and Brokers Regulatory Association).

FIMBRA had to feel their feet at first – there was a rule that all intermediaries had to have a clients' bank account, then the penny dropped that most life assurance sellers received commission later on, the premiums having been paid to the providing insurer direct. A lot of unused accounts that had been set up had to be closed. Another, less memorable rule was that client's files had to be kept in fire proof filing cabinets. Even as recently as the change from the 1980s to the 1990s, there was much more paper about and this fact soon produced some disturbing feedback from members:

Fireproof cabinets are heavy steel objects and those large enough for retention of all but the smallest of firms' records were very heavy and very large and many of these organisations occupied offices in former Victorian houses now converted to offices in the suburbs. Even if you could get the cabinets in the building, the weight of them was too much for the timber floor joists. The rule was quickly cancelled!

Editorial conclusion

The concept of self regulation has now long gone - the FSA took over FIMBRA and today the authority must be looking at the Prudential situation with some in trepidation. Memories of adventurous actions by our institutions are not good – just consider Lloyds TSB who was plodding through the recent crisis quite nicely until they took a punt with HBOS.

If we pause for a moment and consider the situation of the Pru coming to the government for a hand out in year or so – today they're actually trying to raise £14 billion through a rights issue towards a deal of around £25 billion to take over AIA. Still if the FSA stop it, they could still mount a good marketing campaign from their existing not inconsiderable base in Asia for a couple of billion and one day, on the platform of a railway station somewhere in India, a shoeshine boy might see a man in a smart suit get off a train and hoping for a sale think:

“Oh wow, it's the man from the Prudential”.