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London & the World

Part two: capital connections

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London and the World | Introduction

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The global city with a gift for reinvention

London's ability to adapt has kept it at the centre of international trade and finance for many centuries – and it is changing again. By *James Pickford*

Photos: English Heritage; Getty; Reuters

LONDON HAS A FLAIR FOR reinvention. The city that rebuilt itself after the Great Fire of 1666 and the bombing raids of the second world war has also survived grave challenges to its position as a centre for trade and finance.

Its historic role as a commercial hub grew apace with the expansion of the empire, which brought ready and sometimes captive markets for the multifarious goods that passed through its hands. Catastrophes such as the 1720 South Sea Bubble and the 19th century Barings crisis could have wiped out the city as a moneymaking hub. Instead, it went on to consolidate its position at the centre of the world's financial system.

For some, London's resilience is partly explained by an outward-looking opportunism. Gerard Lyons, chief economic adviser to London mayor Boris Johnson, says: "What these events bring home is that London is not just Europe's financial centre – it has always been at the heart of any growth internationally. This city has an ability to move with the times."

These qualities are currently being put to the test by its relationship with Europe, which remains vital to its economic health. The EU is the biggest market for UK financial services, accounting for one-third of the UK's trade surplus in the sector in 2012. Even after the UK remained outside the euro, London accounts for the biggest share of many EU financial markets, including foreign exchange trading, interest rate OTC (over-the-counter) derivatives and marine insurance.

But London's often fraught relationship with Brussels is entering a period of fresh tumult, after David Cameron promised a referendum on Britain's EU membership for 2017. The prospect that Britain could leave the EU has been noted abroad. Mark Boleat, policy chairman of the City of London Corporation, the Square Mile's local authority, says the question mark is another factor that, "at the margin", might influence overseas companies when deciding on the staff strength of their London operations or how much business to direct to the city.

But Mr Lyons says warnings of an exit from the EU are overstated. "If we make the right decisions in terms of what London needs to do to reposition itself in a changing global economy, then we can still do well outside the EU. But at the same time, it's in London's best interests to stay and renegotiate the terms of the agreement."

THE FUTURE HEALTH OF FINANCIAL services is seen as essential to the London economy but the city is also home to a host of other industries, such as advertising and media, digital technology and scientific research.

The City of London, its finance quarter, is now seeing telecoms and media companies take space in buildings that would formerly have been occupied by banks or other financial institutions. On the City's northern and eastern fringes, a network of high-tech and internet-related businesses has sprung up in the warehouses that once stored the goods of 19th-century trade.

The government has made it a priority to promote the cluster, hosting events at Downing Street and enticing Facebook Europe's head, Joanna Shields, to lead its promotional body. Hopes that one of these companies could one day become Europe's Google remain unfulfilled. But the efforts could help allay fears that London's brightest technology prospects are being snapped up by overseas companies or tempted to leave the country for a stock market listing.

The economy is both specialised and diverse, which helps it remain buoyant when one sector declines

In response, LSE in February launched High-Growth Segment, a niche stock market allowing entrepreneurs to sell just 10 per cent of shares to gain a market listing – in contrast to LSE's main market, which mandates at least 25 per cent. The initiative has gained the support of ministers bent on "rebalancing" the economy, but its success is unlikely to become clear until a wider economic recovery takes hold.

The capital is, meanwhile, establishing a reputation as a global centre for science, with Imperial College planning a £1bn research and technology campus in west London and the Francis Crick Institute, a £600m medical research centre, being constructed near King's Cross station.

Elsewhere, a boost to the city's maritime trade is promised by London Gateway, a new deep-water port on the Thames Estuary capable of accommodating the world's biggest ships, that will open at the end of this year.

London's economy is both specialised and diverse, which helps it remain buoyant when one sector suffers a decline. It has a greater concentration of professionally qualified staff than other parts of the country, which attracts big companies that need to recruit large numbers quickly.

The breadth of London's skills base is beginning to influence perceptions of the city internationally. It has moved steadily up an annual ranking of cities as venues for international business meetings, climbing from 19th place in 2008 to sixth place in 2012, in a survey by the International Congress and Convention Association.

David Pegler, chief executive of ExCel, the capital's biggest conference venue, says some overseas businesses had seen London as "outdated". That changed with the Olympics, which showed the effectiveness of London's infrastructure and allowed it to showcase a range of industries. "We're now seeing more international organisations looking to use London as a base to bring all of their partners in Europe together," he adds. "They've rediscovered the city."

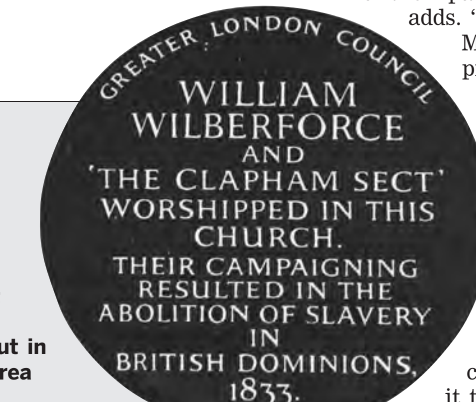
Mayor Johnson argues that a predicted rise in London's population over the next decade makes it essential that the government continues to invest in infrastructure, and calls for a new underground rail route across the city and a new Thames bridge to be added to projects under way. He also wants London to gain more control of revenues from taxes raised in the city, in a way that would allow it to both capture the proceeds of increased growth and increase its borrowing limits to fund big projects.

Some UK regions look with envy at the scale of investment London already commands. But the capital, which is already the largest regional contributor to the UK economy, continues to widen its lead on the rest of the country.

For Mr Johnson, who is fighting cuts to the city's transport budget in the spending round at the end of June, success in London need not mean failure elsewhere. "There is an overwhelming case for investing in London's infrastructure to boost the whole of the UK economy," he says.

The battle to end slavery

THE LIVES BEHIND THE BLUE PLAQUES COMMEMORATING SOME OF LONDON'S EMINENT RESIDENTS. FIRST: WILLIAM WILBERFORCE



Comfortable Clapham might seem an unlikely place to foment political upheaval, but in late Georgian England the area teemed with activists and reformists. Chief among these was anti-slavery campaigner William Wilberforce, who worshipped at Clapham's Holy Trinity Church with a group of campaigners later dubbed the "Clapham sect". While the sect's influence in abolishing slavery is indisputable – they founded Freetown, Sierra Leone, to fight the slave trade and spread the gospel – not all their enterprises flourished: the churchyard contains the graves of Sierra Leonean children brought over by the sect to be educated, only to die of measles. *Feargus O'Sullivan*

London and the World | The city and the UK

Of capital and revenues

Does London's contribution to the national coffers justify a bid for financial freedom? By *James Pickford*

WHEN THE COALITION declared early in its term of government that the UK's economy needed rebalancing from high levels of borrowing towards "saving and producing", the hope was that the economic gap between the north and south of the UK could be closed – or at least its widening halted – by a boost to manufacturing industry.

Instead, London's economic dominance, far from waning, has strengthened. Even as financial services, its key industry, was buffeted by the ramifications of the banking crisis, London's gross value added (GVA) grew by 12.4 per cent in the five years from 2007, compared with a rise of between 2.3 per cent and 6.8 per cent in other UK regions. The capital's share of national output rose from 20.7 per cent to 21.9 per cent over the period, consolidating its position as the UK's most powerful economic region.

On productivity, the capital is unchallenged. Official figures show inner London productivity levels – as measured by GVA per hour worked – at 44 per cent above the UK average in 2011.

The city has also fared better than other regions on employment over the five-year period from 2007, registering 267,000 new jobs while all other regions showed a decline apart from the southeast and Wales. More businesses have been set up there and its residents' incomes have risen higher than elsewhere.

London's growing importance to the economy raises questions about its sometimes fractious relationships with the other parts of the UK.

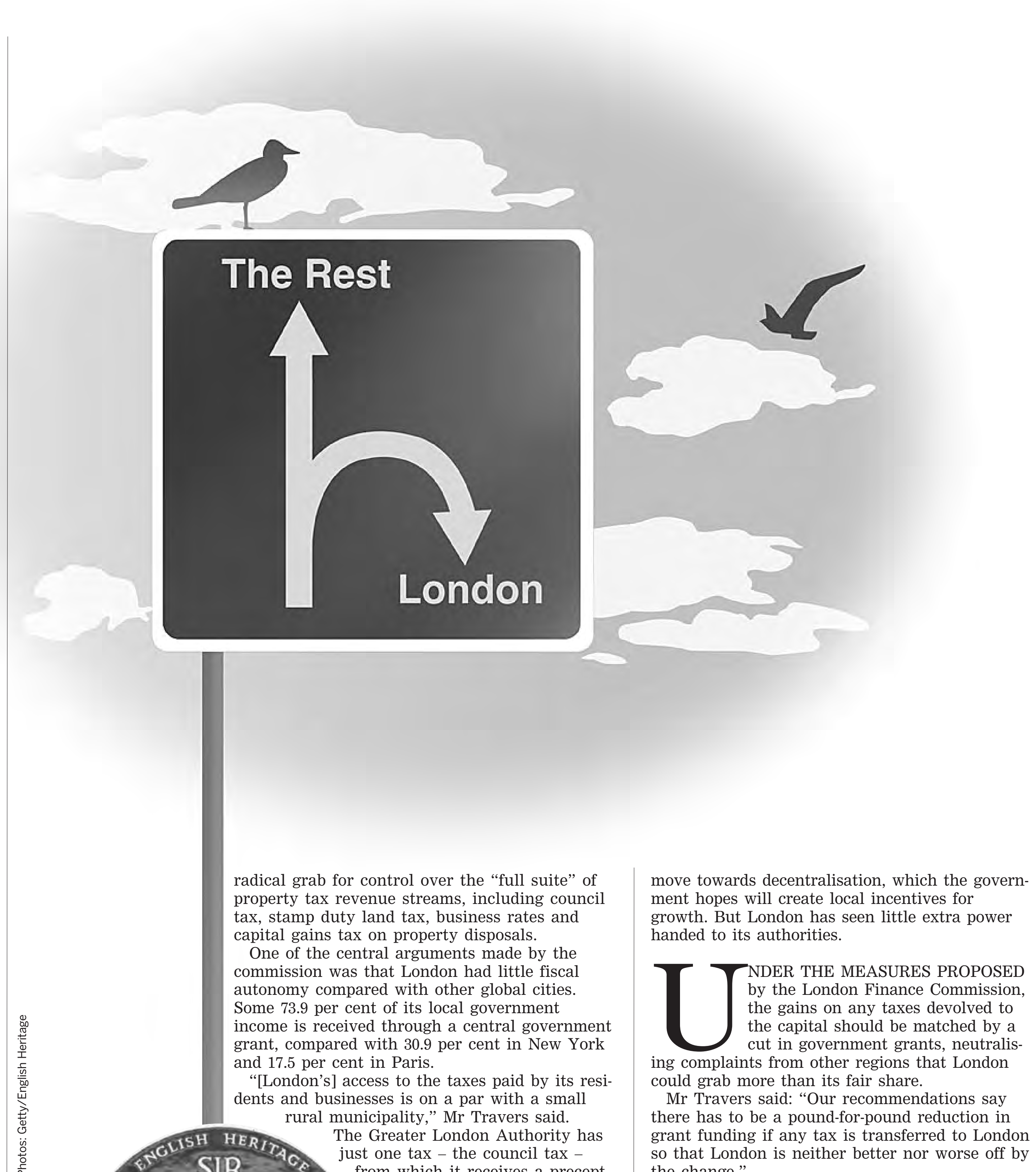
The capital's leaders argue that, if it is to compete with international rivals as a financial and business hub, drawing inward investment and talented people to boost growth, it needs more control over its own affairs.

London mayor Boris Johnson, who is head of the Greater London Authority, points to the city's rapidly rising population – it is expected to reach 10m by 2030 – as an argument for more consistency in the funding of its operations and investment in its infrastructure.

"Our problem in London is we are engaged in endless hand-to-mouth negotiations with central government about penny packets of finance – that's a chronic problem," he says.

Mr Johnson last year set up the London Finance Commission, an independent body chaired by Tony Travers, a London expert at the London School of Economics and Political Science, to help improve the tax and public spending arrangements for the capital in order to promote jobs and growth.

The Commission's conclusions – presented last month and endorsed by Mr Johnson as well as London Councils, the body representing the capital's 33 local authorities – were to pursue a radical grab for control over the "full suite" of property tax revenue streams, including council tax, stamp duty land tax, business rates and capital gains tax on property disposals.



Photos: Getty/English Heritage

One of the central arguments made by the commission was that London had little fiscal autonomy compared with other global cities. Some 73.9 per cent of its local government income is received through a central government grant, compared with 30.9 per cent in New York and 17.5 per cent in Paris.

"[London's] access to the taxes paid by its residents and businesses is on a par with a small rural municipality," Mr Travers said.

The Greater London Authority has just one tax – the council tax – from which it receives a precept alongside the other local authorities within its boundaries, while Tokyo raises 16 separate taxes and New York has an array of levies, including property, sales and income taxes. Berlin wields a wage tax, among others, while Frankfurt receives a share of VAT.

The drive by London's authorities for greater leeway on tax is taking place amid a wider devolution movement in Britain. Scotland will gain control over stamp duty land tax from 2015 and will set a Scottish rate of income tax from 2016. Wales, which has taken responsibility for business rate and council tax, wants similar powers.

England's eight largest urban centres outside London are also to receive greater control over tax – agreements dubbed "City Deals" – in a move towards decentralisation, which the government hopes will create local incentives for growth. But London has seen little extra power handed to its authorities.

UNDER THE MEASURES PROPOSED by the London Finance Commission, the gains on any taxes devolved to the capital should be matched by a cut in government grants, neutralising complaints from other regions that London could grab more than its fair share.

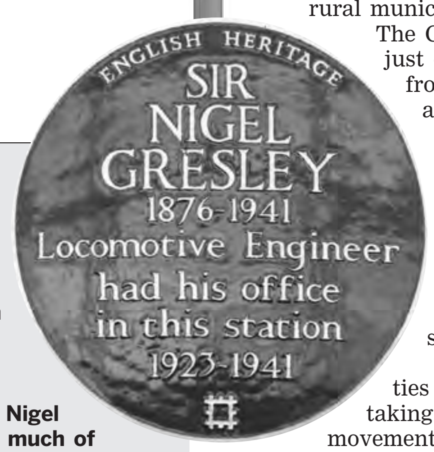
Mr Travers said: "Our recommendations say there has to be a pound-for-pound reduction in grant funding if any tax is transferred to London so that London is neither better nor worse off by the change."

London's ability to raise funds for infrastructure investment is constrained by tight controls on borrowing. Caps should be eased for "borrowing for growth", the report said, allowing the city to borrow on the promise of future revenue streams "within prudential rules".

Jules Pipe, chairman of London Councils and leader of Hackney council, said: "This country has got to get beyond this very narrow argument that all borrowing is bad. There is a difference between borrowing where you end up with an asset. . . with an income stream, such as a toll bridge, and borrowing for revenue expenditure such as housing benefit."

The Treasury has yet to respond to the commission's findings. Few are prepared to bet that it will willingly cede control of key fiscal levers. But, if London's economy continues to widen the gap with the rest of the UK, the clamour for a redrawing of its relationships with government is unlikely to die down.

Building a head of steam



Fittingly for the man who brought the north closer to London, engineer Sir Nigel Gresley spent his working life in an office overlooking King's Cross station's platforms. The designer of Mallard, the fastest steam locomotive ever built, Sir Nigel actually disliked London and for much of his career with the London and North Eastern Railway commuted from the home counties. His country home near St Albans partly provided his great train's name – Sir Nigel was obsessed with ducks, constructing islands for them in the moat of his Elizabethan manor house.

City confidence ebbs amid EU exit fears

Uncertainty over the UK's future in Europe, anti-bank sentiment and reforms are making the Square Mile nervous. By *Patrick Jenkins*

FOR YEARS, LONDON HAS been spoiled. In the decade up to the 2007-08 financial crisis, the UK was a magnet for the world's most talented, best paid bankers and all the ancillary services that came with them – from lawyers and consultants to accountants.

The US had been through the mill with the Enron and WorldCom scandals, the Sarbanes-Oxley corporate accountability law they sparked, and the terrorist attacks of September 11 2001. New York's star was on the wane – and all to London's advantage.

Not so today. As the financial crisis drags on, and its focus has shifted from a global malaise to a European one, the City of London finds itself gripped by a crisis of confidence.

Ten years ago, only "me-too" financial centres such as Frankfurt or Istanbul would form lobby groups to push their merits. Now the UK's banks, insurers and fund managers have come together to create their own, The City UK, with a remit to defend the UK's financial services industry, and the City in particular, in a way that once would have been seen as a demeaning signal of weakness.

There are a few warning signals that London is starting to lose out to rivals. Financial exports have fallen, with the trade surplus now about 10 per cent lower than it was in 2008. Employment fell in the aftermath of the crisis, too, though there has been some recovery of late, with London banking jobs up to more than 314,000 from a 2009 low point of 276,000.

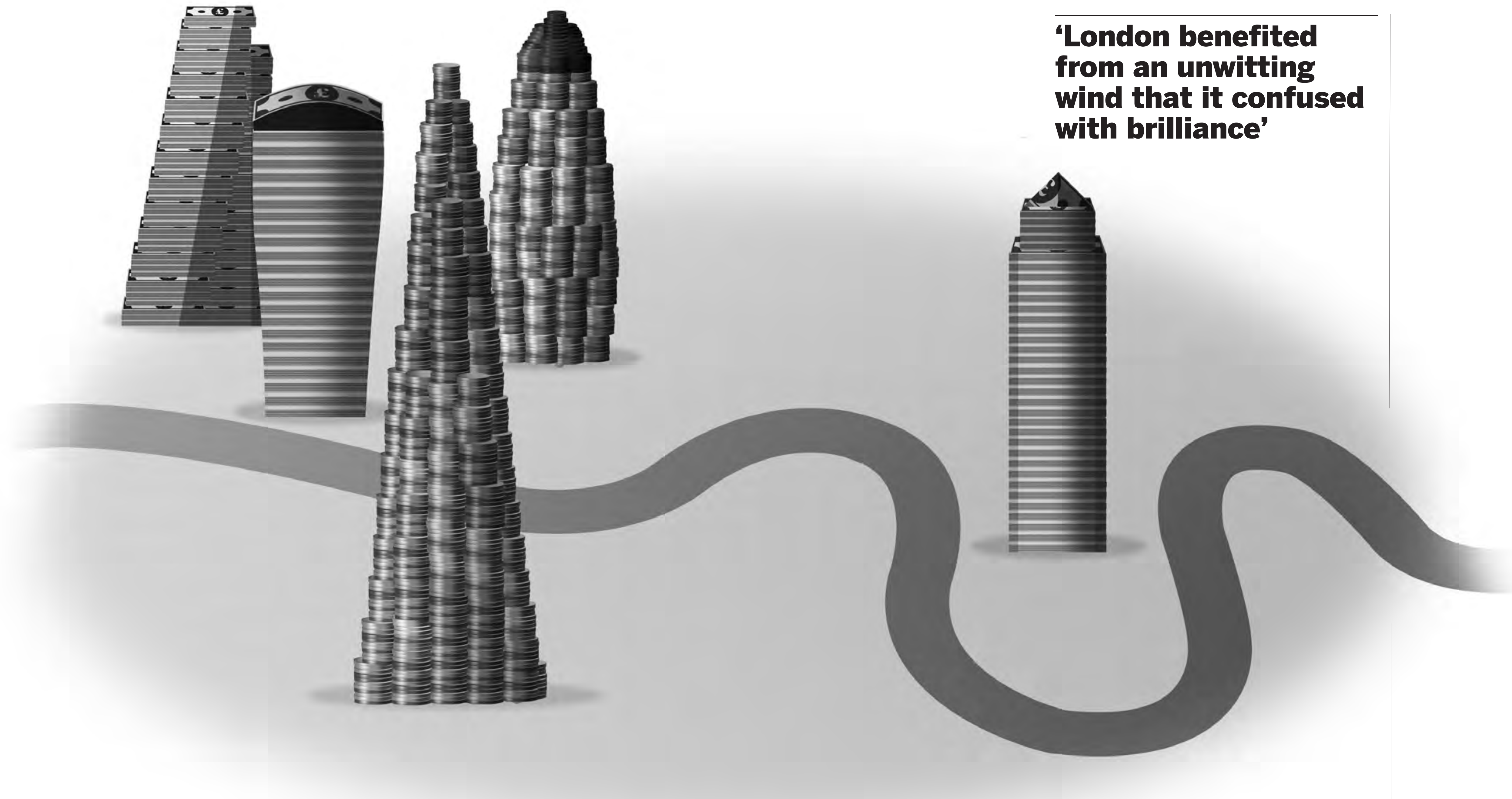
But it is what lies ahead that many seasoned bankers fear most, as the UK government talks up its criticism of the EU and chatter about a potential EU exit increases in volume.

Europhile bankers complain there is already clear disengagement from EU policy making.

"Britain is absenting itself from the room," says Sir Andrew Cahn, vice-chairman of public policy at Japanese bank Nomura. "That is dangerous for the City of London [because] it won't be influential in setting the rules for banking, insurance and shipping."

An actual EU exit would be the most damaging, bankers agree. "If the UK were to exit the EU, it would be much more difficult for the City of London to present itself as the point of entry to do business in Europe," says Ludovic de Montille, BNP Paribas' UK chairman.

Although there is a general view that London's role as a global financial centre would continue – its nascent expertise in trading renminbi would be little affected, for example – the significant role it has played as the financial hub for the whole of the eurozone would be undermined, potentially to the benefit of both Frankfurt and Paris.



PHOTOS: CHARLIE BIBBY; GETTY

Traders believe, for example, that there would be intense pressure to move euro-denominated trading and clearing to a eurozone member country. It is one thing for a non-eurozone EU member state to facilitate euro trading; it is quite another for the trader to be outside the EU altogether.

Such a move would also dilute the quality of the UK financial services industry, says Sir Andrew. "We won't be the magnet for the best young Europeans any more."

The repatriation effect could be bad all round, says Gerry Grimstone, chairman of The City UK – harming Europe as a whole, not just the UK. "French and German bankers would leave London," he says. "The London cluster would fragment."

The City's appeal as a financial centre is not only subject to friendly fire from the UK government's eurosceptic tendencies. There are also deliberate policy initiatives, stemming from the collapse of several of the UK's biggest banks over the past five years, that will make life more difficult for the industry.

Aside from a tougher-than-average regulatory attitude to capital and liquidity requirements to ensure no repeat of those bank failures, there will be structural reform. Within the next few years, UK banks will be forced to ringfence their retail banking operations from their riskier investment banking businesses as part of the so-called Vickers reforms.

'There is no place on earth where it is so unpleasant to be a banker'

To round off Britain's list of self-harm, there remains a poisonous political undercurrent against financial services, executives complain – another hangover from the crisis. "There's no place on earth where it's so unpleasant to be a banker," says one bank chief executive.

BANKERS ALSO POINT TO SOME EU initiatives that threaten to damage the competitiveness of Europe's financial centres versus rivals in the US and Asia. There could yet be a European version of the UK Vickers reforms if the Liikanen report on structural changes to banks is adopted by the European Commission – though momentum on that initiative appears to have been lost.

More certain are the incoming rules that will restrict EU banks' senior staff, and all banks' Europe-based senior staff, from receiving bonuses that are more than one times their salary, or two times with explicit shareholder approval. That, critics say, will give a clear advantage to non-EU banks and take business away from Europe, because US groups, for example, can escape the rules by moving staff to the US or Asia.

At the same time there are fears over US moves to force foreign banks with significant operations there to inject large amounts of capital to support local subsidiaries – another blow for European banks, notably Deutsche Bank and Barclays, with significant US divisions, which up to now have been able to operate through thinly capitalised units.

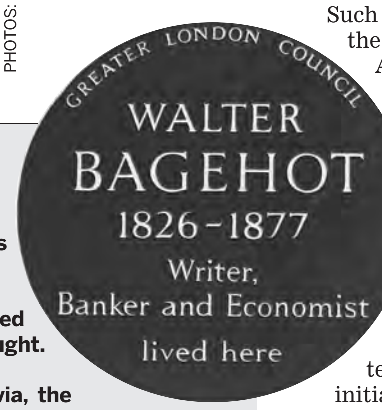
Against that fast-changing background, it is little wonder that the question of whether the City of London can maintain its role as a preeminent global financial centre is being posed rather more often than it used to be.

'London benefited from an unwitting wind that it confused with brilliance'

Certainly, the City will not have the easy life it did in the past. "In the late 1990s, London benefited from an unwitting wind that it confused with brilliance," says one former trader.

With Asian centres, such as Hong Kong and Singapore in particular, growing strongly and technological advance making it far easier for Singapore-based staff to trade Europe-based contracts, there is widespread frustration in the City that political infighting in the UK and continental Europe are distracting policy makers from the bigger picture. One thing is for sure – the City of London faces a more challenging outlook than it has for a very long time.

When words failed Bagehot



Banker, economist and writer Walter Bagehot was one of the great minds and wits of Victorian England, but never achieved the political career he sought. During his years in Upper Belgrave Street in Belgravia, the author of *Lombard Street*, the classic treatise on the money markets and management of financial crises, stood unsuccessfully for parliament three times, stymied by his lack of talent as a public speaker. Could it be that the man who wrote "dullness in matters of government is a good sign" took his own dictums too literally?

Regulation Will short-term pain mean long-term gain?

WHEN IT COMES TO regulatory upheaval, London tops the league tables. In the past six years, the UK has completely revamped its approach to supervising financial groups, shifting from "light touch" to "interventionist" and "consumer focused". Banks, brokers and insurers are facing new demands for information and much higher penalties when problems are discovered.

The main pre-crisis regulator, the Financial Services Authority, shut its doors at the end of March and has been replaced by the Prudential Regulation Authority, which focuses on the safety and soundness of banks and insurers, and the Financial Conduct Authority, which looks after markets and protects financial customers. The UK also has a third new body, the Financial Policy Committee, which focuses on broad threats to stability and growth.

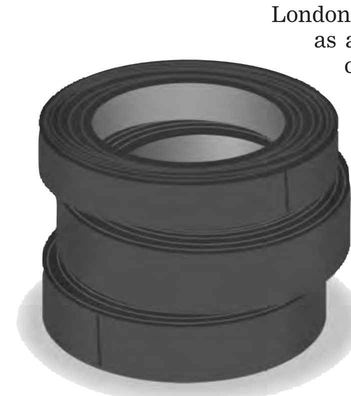
In many regulatory areas, the UK is among the world's leaders – it came up with the first ever liquidity rules, aimed at preventing bank runs, and is working with the US to craft the first cross-border plans for shutting down distressed big banks. The FCA's enforcement arm, while still lagging the US in terms of case numbers, is bringing more complex and important cases involving market abuse, mis-selling and the Libor scandal.

Bankers and industry groups bemoan many of the changes, saying they have driven up costs and created uncertainty at a time when the industry is struggling to regain profitability. They point to the rapidly rising regulatory budget – the PRA and FCA combined will cost the industry £646m this year, up 15 per cent from last year, and up more than 30 per cent from 2011.

But regulators and some analysts argue that the change will make London more competitive in the long run because investors and companies value clean, well-regulated markets and will choose to bring their business there.

"The most important thing about increasing the intensity of regulation is that it increases costs across the board and, for any industry, cost increases drive consolidation," says Simon Gleeson, a partner at law firm Clifford Chance.

"We should expect increases in financial regulation to drive more of the global financial industry to concentrate its activities in a smaller number of financial centres. It is hard to see London coming out of this process as anything other than a significant gainer," Mr Gleeson adds. "Service industries naturally gravitate to centres of excellence, and finance is no exception to that rule."



The UK's focus on making banks safer and cracking down on bad behaviour generally draws support, even from market participants who complain about the cost. The industry is far less enthusiastic about the slew of new initiatives in Brussels, which have revamped regulation of everything from bankers' pay to derivatives and hedge fund managers.

'It is hard to see London coming out of [the reforms] as anything other than a significant gainer'

The EU's tough new rules limiting bonuses could be particularly problematic

"It's not just London's regulatory system which is a work in progress, the European system is still very much in the same state," says David Ellis, a managing director at FTI Consulting. Europe is also potentially adopting some very harsh measures, for example the "financial transaction tax" that could sharply increase the costs of all kinds of financial transactions.

The EU's tough new banker pay rules, which limit bonuses, could be particularly problematic for London's competitiveness, industry participants say. EU banks will either have to increase the salaries of traders and other big risk-takers – uncoupling compensation from results – or give up on competing for top talent. Non-EU banks, meanwhile, are likely to avoid putting high fliers in the EU where they would be caught by the bonus rules.

Over the long haul, such moves could undermine the capital's traditional status as the headquarters for all of the Europe, Middle East and Africa.

Brooke Masters

New challenges for ‘lawyer of the world’

Historic influence and a liberalised market put the capital in a powerful position – but threats are mounting from overseas. By *Caroline Binham*

VICTOR PINCHUK, ONE OF Ukraine’s richest men, confirmed in May that he was suing two of his fellow oligarchs for breach of contract in a claim that centres on a Ukrainian iron ore company.

He chose London as the venue for his lawsuit, following a long line of magnates from the former Soviet Union who have come to the UK to resolve big-ticket litigation, in which claims regularly top $1bn.

Boris Berezovsky famously and unsuccessfully sued his former protégé, Roman Abramovich, for $6.5bn in London before his sudden death in March. Other examples include Oleg Deripaska and Michael Cherney, who settled last year.

The links to London can be tenuous but this does not seem to bother the parties. “The London courts are considered the most objective and fair… There are professional lawyers,” said Gennadiy Bogolyubov, one of the men Mr Pinchuk is suing. “Enforcement is not a problem.”

The English legal system also has features – such as recognising oral agreements – that are missing in Russian law, according to Nikolai Lazarev, a London barrister who specialises in disputes involving litigants from Russia and the Commonwealth of Independent States.

“The ability to cross-examine witnesses extensively and legal mechanisms such as a duty of disclosure [not available in Russia] are better able to ensure an effective means of getting at the truth and therefore achieving a fair and just trial,” says Mr Lazarev, originally from Russia.

London’s attraction as a legal centre for international disputes has been seized on by the UK government and promoted heavily abroad.

“A decision from a UK court carries a global guarantee of impartiality, integrity and enforceability,” said Chris Grayling, the justice secretary, in a March speech at Allen & Overy, one of the biggest UK firms by revenue. “We are determined to help British law firms and barristers compete in the global race and develop a presence that is equal to their world-class reputation.”

Mr Grayling was simply picking up the baton from his predecessor, Ken Clarke, in pushing the UK as “lawyer of the world”.

The UK’s legal market is worth £23bn, according to government statistics and, despite a tough period after the financial crisis, some of the world’s biggest law firms still hail from the UK.

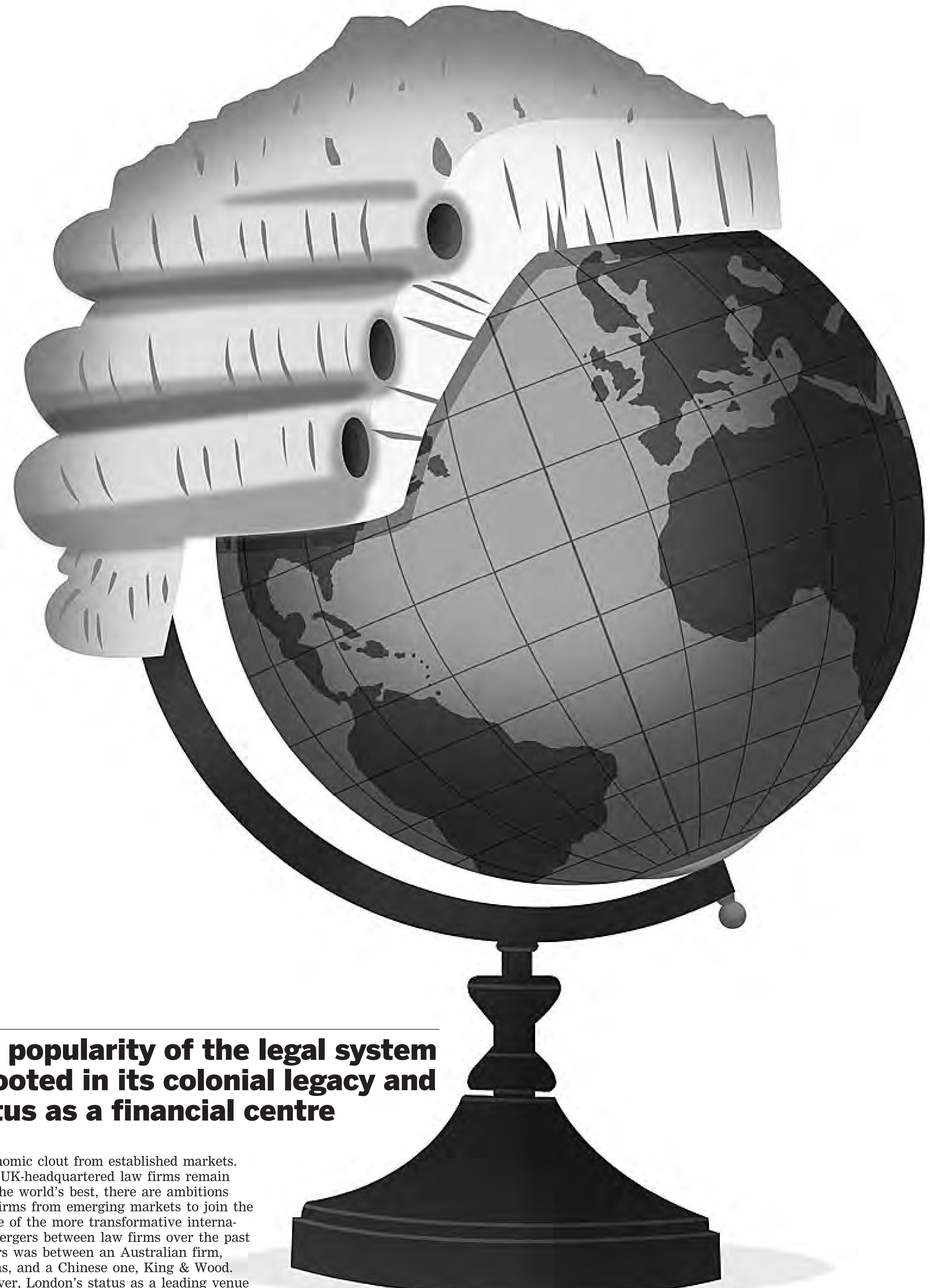
Allen & Overy is among four London-headquartered firms – known as the magic circle – ranked in the world’s top 10 law firms by revenue. Another two in that group, DLA Piper and Hogan Lovells, are transatlantic behemoths created by mergers between US and UK firms.

THE UK LEGAL MARKET IS ONE OF the most liberalised in the world after the introduction last year of aspects of the Legal Services Act enabling third parties to invest in law firms and other companies to start selling legal services.

The firms’ success globally could be attributed in part to the popularity of the English legal system and the use of English law in contracts. That is rooted in Britain’s colonial legacy in influencing overseas legal systems, and London’s continuing status as a leading financial centre.

British lawyers’ “soft” power continues to influence legal systems around the world. One example is the Bingham Centre, named after the late lord chief justice, which promotes the rule of law and has worked with local experts in Libya, Bhutan, Nepal, Myanmar and Bahrain to develop recommendations to their respective governments.

If a large part of London’s success as a legal hub can be explained by history, its future may be determined by some of the world’s developing economies and their growing power in the wake of the financial crisis, which has shifted political



The popularity of the legal system is rooted in its colonial legacy and status as a financial centre

and economic clout from established markets.

While UK-headquartered law firms remain among the world’s best, there are ambitions among firms from emerging markets to join the elite: one of the more transformative international mergers between law firms over the past two years was between an Australian firm, Mallesons, and a Chinese one, King & Wood.

Moreover, London’s status as a leading venue for dispute resolution may be under threat. Prime Finance, funded by the Dutch government,

London’s future may be determined by the growing power of developing economies

opened in The Hague last year as the world’s first international specialist finance tribunal, with experts including Lord Woolf, the former lord chief justice of England and Wales, on its panel.

While Prime sees itself as “complementary” rather than competition to courts in both New York and London – which tend to hear financial disputes because contracts are traditionally written in English or New York law – experts say it has the added attraction of being seen as a “neutral” venue for emerging markets counterparties.

“You don’t have to go to London or New York but you still benefit from the finest legal brains,” says David Ellis, a managing director at FTI Consulting, the business advisory firm, who anticipates Prime will be increasingly used over London in the next five years.

Jurisdictions such as Singapore also have ambitions to become a hub for international arbitration – and are fast succeeding, threatening London’s status. Singapore’s international arbitration centre had 235 new cases in 2012, more than three times the number in 2001, and practitioners describe a rise in Chinese companies using it.

“One also needs to distinguish between the venue of arbitration proceedings and the governing law [of the contract in dispute],” said Melanie Willems, a London-based lawyer at Chadbourne & Parke. “Singapore is an attractive venue… You can, however, quite easily export a London arbitration team to Singapore to run an English law case there.”

Dispute-resolution centres have also opened in the Middle East, including Dubai and Qatar. Yet both sought the gravitas of the English courts by employing their legal luminaries, including Lord Phillips of Worth Matravers, another former lord chief justice, who recently replaced Lord Woolf as president of Qatar’s international court.

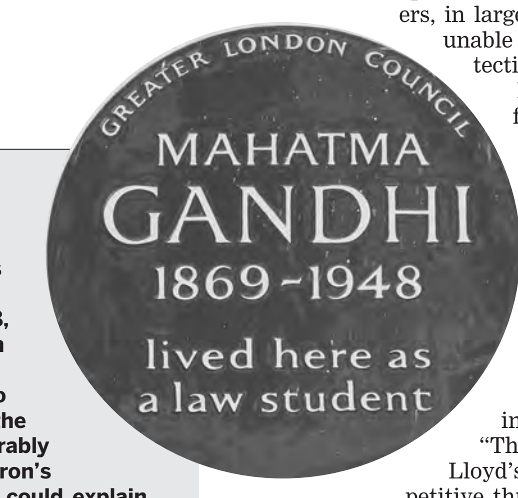
Saudi Arabia weighed whether to take the concept a step further, and actually open a Saudi arbitration centre in London. The plans, which are understood to be on hold for now, would see the kingdom’s largest companies contractually stipulate that any dispute would be heard in the London arbitration centre, as a way to counter investor concerns about the Saudi legal system, thus boosting foreign direct investment.

It seems that there is no shortage of individuals, states and courts around the world still looking for a London imprimatur for their disputes.

Additional reporting by Roman Olearchyk in Kiev.

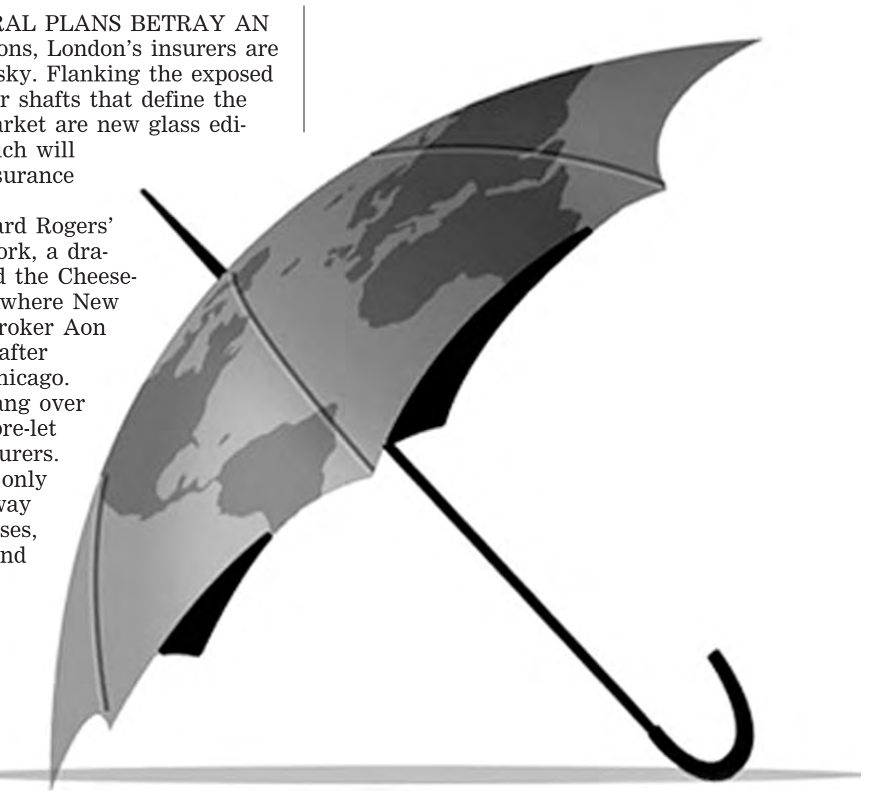
PHOTOS: GETTY; ENGLISH HERITAGE

A real appetite for reform



When the future Indian independence leader Mohandas Gandhi arrived in London as a 19-year-old law student in 1888, he struggled with some English customs. Not yet renamed Mahatma, Gandhi had vowed to abstain from meat, so was at the mercy of his landlady’s insufferably bland vegetarian cooking in Baron’s Court Road, west London. This could explain why, alongside championing non-violent resistance and helping to end British rule in India, Gandhi founded a local chapter of the Vegetarian Society.

Insurance From laughing stock to premium business



IF ARCHITECTURAL PLANS BETRAY AN industry’s ambitions, London’s insurers are reaching for the sky. Flanking the exposed pipes and elevator shafts that define the famed Lloyd’s market are new glass edifices, big chunks of which will soon be occupied by insurance companies.

To the north of Richard Rogers’ stainless steel masterwork, a dramatic wedge nicknamed the Cheesegrater is taking shape, where New York-listed insurance broker Aon is to be headquartered after uprooting itself from Chicago. To the south, cranes hang over the “Walkie Talkie” – pre-let to a clutch of other insurers.

As the banks located only a few hundred yards away reel from a series of crises, the insurers based around the EC3 postcode are enjoying some of their best ever years.

Inside Lloyd’s, the iconic floor known simply as The Room is swarming with brokers. “Insurance is the jewel in the crown of the City,” says Richard Ward, Lloyd’s chief executive.

It is a far cry from two decades ago, when the insurance district was the laughing stock of London. Back then, a wave of unexpected asbestos and liability-related claims ruined the fortunes of thousands of individual investors and nearly triggered the collapse of Lloyd’s.

The market, which traces its roots back to a 17th-century coffee house, has since cleaned up its act. The syndicates that comprise Lloyd’s endured a manageable loss from the 9/11 attacks on the US and coped with a series of more recent catastrophes such as hurricane Sandy.

Even so, underwriters and brokers warn the market must avoid complacency if it is to remain relevant. In the face of sluggish economic growth in the west, Lloyd’s rode to its recent success largely on the back of demand for insurance in faster-growing regions. Corporate insurance buyers around the planet turn to London underwriters, in large part, because they are unable to source adequate protection locally.

But some underwriters fret that developing insurance industries in emerging markets, flush with fresh capital and local talent, will reduce the need for brokers to source coverage from thousands of miles away.

As Matthew Fosh, group chief executive of the London-listed insurer Novae, puts it: “The big question that Lloyd’s has to face is the competitive threat from the growth in the regional financial centres.”

It is a threat Lloyd’s seems to recognise. Keeping pace with emerging markets forms the main plank of the company’s development strategy – dubbed Vision 2025 – which David Cameron, the

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prime minister, helped launch. Getting it right will be crucial for the wider UK economy as well as for the sector. Overall, the insurance industry employs about 290,000 people and is among the country’s biggest exporters, garnering almost a third of its premium income from overseas.

EXCLUDING LIFE INSURANCE, THE UK industry writes more than $100bn worth of premiums a year, according to data compiled by reinsurer Swiss Re. This accounted for more than 5 per cent of the global total, making it the world’s fourth-biggest insurance industry. But already, China is not far behind, ranked sixth in 2011, with a rate of annual premium growth five times faster than the UK’s.

Mr Ward says emerging markets development presents “both a threat and an opportunity”.

“These developing economies are putting in place infrastructure, developing airlines and building bridges, all of which need insurance,” he says. “We’re there to complement the domestic insurance industries. They can’t afford to carry all the risk on their own books.”

Lloyd’s has several advantages on which it can capitalise: plentiful funding from corporate investors, a global outlook and a world-famous brand. The specialist expertise at Lloyd’s also sets it apart, allowing it to protect buyers against risks as diverse as the civil war in Syria to transporting elephants across the Atlantic.

“What makes Lloyd’s special is it writes the difficult stuff, which others find a little bit tricky,” says Mr Fosh.

Alistair Gray

Britain's other Olympic legacy

London 2012 was a shop window for the companies that staged it. Now those businesses are taking their expertise abroad. By *Roger Blitz*

THE RESIGNATION IN MAY OF Nick Buckles as chief executive of security company G4S served notice of how a high-profile global event such as the Olympics can affect reputations. G4S was the target of a hail of criticism for failing to supply the contracted number of guards for last summer's London Olympics. The army was called in to make up the shortfall and Mr Buckles was humiliated before a committee of MPs.

His eventual departure came as little surprise. In terms of size, the Olympic contract was not significant to G4S revenues – the damage was about perception and the long-term harm to the company will be measured in contracts.

The G4S case, however, is about one company with a blemished record after an otherwise acclaimed Olympics. The games established the reputation of London and the UK for putting on major events, and by inference the reputations of the companies that were awarded the contracts.

Hugh Robertson, the minister for sport, Olympic legacy and tourism, says he often gets positive feedback about the London Olympics when on foreign trips. "In every single place you go, the first thing that anybody of any seniority says is 'congratulations'," he says.

The question both for companies and for the government is how they can capitalise on this enhanced reputation to win contracts when other cities around the world plan their own events.

Ministers held summits during the games to promote British business, showcasing to potential investors the sectors that are particular UK strengths, such as creative industries and content, education, information and communications technology, engineering and global sports events.

But the sales pitch was in danger of being hampered under restrictions imposed by the International Olympic Committee (IOC). In order to protect the rights of official sponsors, companies involved in the games had to sign a protocol agreeing not to issue press releases, run advertising campaigns or market themselves and their Olympic work.

Critics branded the protocol as "petty officiousness", saying the restrictions flew in the face of the government's aim of building a strong legacy.

Sir John Armitt, who chaired the Olympic Delivery Authority, called for the restrictions to be lifted and for the creation of a Whitehall task force to promote the work of London 2012 contractors and lobby for new work on their behalf.

The result was a deal between the government, the IOC and the British Olympic Association lifting some restrictions and giving 2012 suppliers a licence to promote their work. Ministers set up an Olympic legacy unit at UK Trade and Investment (UKTI), the government department, and set a target of £13bn of new business over four years.

ACCORDING TO MR ROBERTSON, the UK has been "pretty ruthless", targeting cities that are staging or bidding for sporting events. Istanbul, pitching for the 2020 Olympics, is in the sights of UKTI. Trade missions have also been sent to Russia and Qatar, hosts of the next two football World Cups after next year's Brazil tournament, as well as South Korea, which is hosting the 2014 Asian Games, and Taipei, staging the 2017 Universiade international student games.

Russia, host of the 2014 Winter Olympics, is a market where British companies are "doing very, very well", says Mr Robertson. Buro Happold, the UK-headquartered engineering company that was part of the "team stadium" in London, has provided engineering design services for the main Russian stadium. Movement Strategies, specialists in crowd planning in 2012, is in the team working on Sochi's Olympic Park masterplan.

"Anybody who is involved in delivering very big competitions is in a very good place, such as architects, transport and masterplanners," says Mr Robertson.

But the focus of UK attention is keenest on Brazil, hosting both the 2014 World Cup and the 2016 Olympics in Rio. This market offers an estimated £1.2bn of business opportunities and is providing the richest pickings for UK companies. Lord Green, UK minister for trade and investment, says there have been 160 missions to Brazil, "cementing a very close relationship between the London and Rio Games".

It is in stadium construction where the biggest opportunities have arisen – for example, International Stadia Group, which is constructing the 45,000-seat World Cup arena in Recife in the northeast of Brazil. Another is Steer Davies Gleave, the transport consultant for nine world cup cities, including Rio. The UK arm of Aecom, the global technology and management support services group and London Olympics "masterplanner", has won a similar role for the Rio Olympic Park, working with British architects Wilkinson Eyre, which designed the 2012 basketball arena. British architectural practices have also won contracts for work on Rio's handball arena and velodrome.

Other sectors are also picking up work, such as PwC and Ernst & Young, the professional services companies; Arup, the engineering and design consultants, advising on sustainability for the 2016 games; and Odgers Berndtson, the headhunter, helping with key appointments. CSM, a marketing and entertainment company, is responsible for hospitality at Rio's Engenhão stadium.

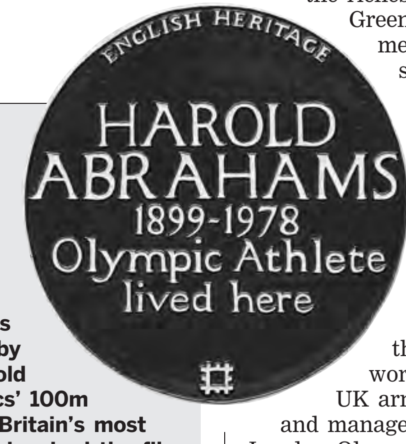
Lord Green says UKTI set a target of £5.3bn in the first year of its four-year strategy. "I am confident that we will meet it," he adds.

But will the "halo effect" for London – the timeframe in which the UK can expect to benefit from the positive outcome of the 2012 Olympics – persist long enough? That may depend on the progress countries such as Brazil make in upcoming sports events, with some work for the 2014 World Cup behind schedule. The International Olympic Committee is closely watching progress for the 2016 Olympics. Any urgent remedial action may play into the hands of UK companies.

Mr Robertson says the halo effect would normally continue for two or three years, "but the London bubble may last a bit longer".

The halo effect will indeed fade over time, says Lord Green. "But we are already winning significant new business overseas and there is a large pipeline of future business projects going forward in which we are well placed to do well."

A golden year in Golders Green



Placidly suburban in appearance, Hodford Road in Golders Green was home to Olympic champion Harold Abrahams from 1923 to 1930, a remarkably eventful period of his life. He shocked commentators by beating the favourites for the gold medal in the 1924 Paris Olympics' 100m sprint, a victory that made him Britain's most famous Jewish athlete and later inspired the film *Chariots of Fire*. His sporting career was snuffed out a year after the Paris games, when he broke a leg during long jump practice and was forced to give up competing.

Video
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PHOTOS: GETTY; CHARLIE BIBBY; DREAMSTIME

Simon Hughes MP Why strengths can also create strains

THIRTY YEARS AGO, I WAS FIRST elected to parliament, for the constituency of Bermondsey, across the Thames from the City of London.

Apart from some Bangladeshis, the only other large group of immigrants in this old dockland seat were the large number of Roman Catholic Irish, who had come over in the previous 150 years. Now just over 40 per cent of my constituents are black, from a minority ethnic background or of mixed race. We have one of the largest proportions of Africans, among the largest Chinese and Latin American populations, and many people from across the EU.

As London continues to grow, so the diversity and multicultural character that helped us to success in the Olympics will continue to grow also. People of many faiths and beliefs are happily at home here. Our diversity is still increasing.

The city of Greenwich Mean Time is globally well placed for business and commerce in timezone and geography, while education and transport are good and crime is falling. And Britain is at a hugely helpful triple intersection as a major player in the European Union, the Commonwealth and the English-speaking world.

Of course there are challenges. A little boy in a Bermondsey primary school recently asked me whether our island would tip up if more people came to live on our end of it. Population growth is not matched by the capacity of services and infrastructure – particularly in housing.

According to the Smith Institute, a social policy think-tank, in the first half of 2011, 60 per cent of sales of new homes in central London were to people or companies outside the UK. Many wealthy individuals and companies are buying housing as an investment, keeping some homes empty, using others rarely or as buy-to-let, often for foreign workers. Such purchases force up the prices for real, needy and already resident would-be buyers.

We need to follow the lead of other northern European countries that are more equal

Requirements on developers to build the minimum percentages of affordable housing required in the London or borough plans are regularly avoided by one ruse or another. More than 380,000 people are waiting for housing to rent from boroughs and social landlords. Private rents are unaffordable for many people in many places, and deposits for the cheapest shared-ownership or owner-occupied schemes are beyond the reach of most Londoners.

There are also the challenges to community, health and quality of life. London has always been a city of coming and going. But in my patch the electoral roll changes by about a quarter every year – and that is, of course, without those ineligible to be on it. We enjoy the excitement of a great capital, but it adds to our stress – look at mental illness figures. Air and river water quality are not yet what a healthy city should have. And the quality of public and private sector services is patchy – often superb, but also often poor.

London's place in the UK has been changed by political devolution

Meeting these challenges is bound up with some big political decisions and strategies that we must decide and urgently deliver at home and abroad.

London's place in the UK has been noticeably changed by political devolution to Edinburgh, Cardiff and Belfast for which Liberals have long worked, but that was almost inconceivable even as recently as 1983, when I was first elected. Further devolution, city deals and the strengthening and development of city regions will make other parts of England more attractive. This may relieve, even if not reverse, the growing demographic pressure on London – possibly helped by the advent of new, speedier trains!

BRITAIN ALSO NEEDS TO FINALISE A more sustainable immigration policy, allowing us to welcome and increase authentic visitors, students, businesses and other contributors. We must continue to take in those asylum-seekers who are our responsibility, but deal firmly with those who come or stay without permission to do so.

At the same time, growth and prosperity of other cities around the world gathers apace. As London slips down the league table of cities by population size, so some other cities will become more logical places for people to stay in rather than flee from. Our future appeal will be heavily influenced by whether we can become not only an increasingly cleaner, greener and safer city but also a more equal one.

If London is to continue to be attractive, we need to follow the lead of other northern European countries that are more equal in income and wealth. If we also make serious progress in countering inequality between countries, we can further reduce some of the additional pressures on us of population movements from the poorest parts of the world to the richest.

London now needs one other decision above all. We need to end the uncertainty about the place of Britain in Europe. My Liberal Democrat colleagues and I will continue to make the case for the UK to remain in the EU, not uncritically of the union, but positive about its considerable net advantages to London and the UK.

Some of us have for years argued that the British people should decide this through a referendum at the point when there is a significant constitutional change between the EU and its member states. We hope and believe that the argument will be won, and that the UK will continue to be a full part of a growing EU.

To succeed, Britain needs to move forward not back. We must build strongly on the historical good fortune of those three greatest global relationships – with our continent, with the commonwealth and with the English-speaking world. And this will be best for London too.

Simon Hughes is MP for Bermondsey and Old Southwark in south London and deputy leader of the Liberal Democrats.