London Market Group
Actions for Government post referendum
July 2016

The London Market Group

The London Insurance Market leads the world in providing specialty commercial insurance & reinsurance, taking on the most difficult and complicated risks.

The London Market Group (LMG) represents the four key market constituents - the International Underwriting Association of London (IUA), Lloyd's, the Lloyd's Market Association (LMA) and the London & International Insurance Brokers' Association (LIIBA). These bodies in turn **represent companies that generate over 20% of the City of London's total income, employing 48,000 people and controlling over £60 billion of revenue.**

The LMG is the only body which speaks collectively for all practitioners in this significant Market, representing the views of firms operating within Lloyd's, insurance brokers and branches of overseas reinsurers operating in London – reflecting the full extent of the Market.

Summary of actions

This document represents the collective views of these organisations, setting out their initial reaction to the referendum result and outlining the immediate priorities of the specialty commercial insurance industry as the Government prepares for negotiations.

- **URGENT:** HM Government must promote an immediate message that sees the London Insurance Market as being a key ingredient in UK financial services and economic growth for the UK - and will do 'all it takes' to ensure a competitive environment in the UK.
- **URGENT:** HM Government must secure an arrangement as quickly as possible which ensures that passporting by UK headquartered firms into the Single Market and by EEA headquartered firms into the UK can continue uninterrupted on the occurrence of Brexit. This will ensure that both UK and EEA headquartered firms retain the single licence, remain subject to exclusive Home State prudential supervision and will provide assurance to EEA reinsurers currently operating within the London Market.
- **URGENT:** HM Treasury must complete the structure and tax arrangements to facilitate an Insurance-Linked Securities (ILS) regime in the UK.
- **URGENT:** The Government must clarify that all EU citizens currently living and working within the UK will be able to continue to do so after the UK leaves the EU.

There are further issues that the Government will need to address during the process of the negotiations:

- **NEGOTIATION:** HM Government must secure formal recognition from the European Commission that the UK's insurance supervisory regime is recognised as equivalent to Solvency II prior to Brexit.
- **NEGOTIATION:** HM Government must continue to seek bilateral agreements with target markets outside the EU to remove barriers to market entry by UK-based insurers and reinsurers.

Introduction

The London Insurance Market leads the world in providing specialty commercial insurance & reinsurance, taking on difficult and complicated risks.

Following the referendum outcome, it is important that the UK Government now concludes an agreement as soon as possible with the EU, which maintains London's position as a centre for conducting insurance and reinsurance business from Europe.

If this is not achieved, business and jobs will move from London to other insurance markets.

LMG and its member associations are ready to provide the Government with whatever assistance, advice and support is required to achieve a successful outcome.

Contingency planning for Brexit

The industry was well prepared for a Brexit vote. Firms are now in the process of implementing their contingency plans.

Political uncertainty makes the timetable for UK exit unclear. Firms are therefore proceeding on a "worst case scenario" basis: that the UK is unable to obtain agreement from the EU on the retention of current passporting arrangements. Such an agreement cannot be delayed for too long as firms cannot defer activation of their restructuring and relocation plans until Brexit itself takes place. They need certainty as soon as possible as to the legal regime to which they will be subject on the UK leaving the EU.

This includes reviewing operations in key EU member state markets and in some cases beginning the process for applying to individual member states for licence agreements to continue business in those markets. In the worst-case scenario, commercial insurers will move operations to the EU, rather than writing business from the UK.

Instigating Article 50

The renegotiation process should not be rushed. The Government needs to be clear about the path it wishes to take and produce a detailed set of negotiation proposals before it invokes the Article 50 procedure.

Passporting rights and access to the Single Market

The importance of EU passporting rights to the London Insurance Market cannot be overstated. Passporting refers to the right of an authorised (re)insurer to carry on business within the EEA, whether by exercising the right of establishment or by providing cross-border services, on the basis of a single licence issued by its EEA Home State regulator which remains exclusively responsible for prudential supervision of the firm's EEA activities. A similar provision already exists for intermediaries and London Market brokers use this to facilitate cross-border trade.

Without these rights we expect a significant amount of business will be relocated to EU member states, taking with it investment that would have come to the UK and costing UK-based jobs.

A successful negotiation will maintain the London Insurance Market's access to the Single Market without regulatory impediments.

In particular, it should secure the UK insurance industry's passporting rights, which allow UK companies to undertake cross border business within EU member states, while relying on UK prudential regulation by the PRA. At the same time, reciprocal rights for EU insurers to passport into the UK should remain.

As an example of the potential impact, the International Underwriting Association – a member association of LMG – has calculated that £5 - £6 billion of gross London company market premium comes from EU member states thanks to passporting rights, representing approximately 20% of IUA members' turnover.

The impact of Brexit is to a degree dependent on the nature and structure of the individual company. Those with a base in EU member states are likely to see less of an impact in regards to loss of passporting rights, than those solely based in the UK.

Passporting and inward investment

At present a number of EU headquartered (re)insurance groups operate in the London Market through branches of an EU parent using the passporting rights to establish here. These branches not only transact UK domestic business, they also transact business where the risks are located all around the world adding to the UK's export of financial services.

Their presence in the London Market helps attract business to London, giving the Market further scale and reach. This inward investment will be at risk if those branches were denied passporting rights, and the loss of these participants will significantly weaken London's competitive position against competing hubs.

We urge the Government to consider contingency plans so that these branches may remain active in London.

Equivalence

It is important that our regulatory regime remains comparable with that applied in EU member states, to ensure the continuing free flow of business between the EU and UK. Equivalence must be granted to the UK by the time that the UK formally leaves the EU.

The Government must ask the European Commission to recognise formally that the UK's insurance supervisory regime is equivalent to Solvency II. This will mean that reinsurance offered from the UK outside the EU is treated in the same manner as reinsurance offered inside the EU. It will also permit EU supervisors to continue to rely on the supervision of UK insurance groups by the PRA. This process of seeking Solvency II equivalence should be initiated by the UK as soon as possible so that the relevant formalities for granting such equivalence are complete by the time of Brexit itself.

Free movement of people

To continue to be successful the London Insurance Market needs access to the very best talent both within Europe and across the world.

Many of our members have employees who regularly work between different European headquarters. A renegotiation must not impede this free flow of highly-skilled people.

EU nationals working in the London Insurance Market play vital roles. It is essential that London Market companies can continue to recruit and employ EU nationals and that those already employed in London are reassured that their status is not under threat.

Renewed efforts for global trade

Speciality commercial insurance is a truly global industry and London is at the very heart of the system.

Aligned to EU renegotiations, LMG would like to see the Government accelerate discussions with target market countries outside of the EU that seek to agree favourable trade and access agreements for UK financial services.

As a minimum, the Government must continue to work with other countries to remove barriers to international insurers and reinsurers.

Gaining better access to higher growth markets is vital if the London Insurance Market is to maintain its share of global specialty commercial insurance after Brexit.

London faces significant and growing competition from overseas, especially from Bermuda, Singapore and Zurich where governments are supported by regulators who actively promote their local insurance markets.

While we expect London to maintain its leading role, this competition may intensify following Brexit.

The London Insurance Market needs to continue to be promoted to retain and grow business in our existing markets, particularly the USA.

LMG believes that Brexit does offer the opportunity to secure more favourable trade relationships with major insurance markets such as the USA.

The imperative of UK regulatory reform

LMG welcomed the Government's support in providing proportionate, robust regulation and governance, helping the London Insurance Market to attract secure and top-rated capital.

However, these are unprecedented times. In a post-Brexit economy, regulation will be an even bigger factor for foreign investors in deciding where to place capital investment and it is vital that our regulatory regime helps the UK actively compete with them.

Many regulators around the world have an objective to both regulate and promote the industry they regulate, and they do it very well. Singapore, Bermuda, Qatar and Dubai are examples of where regulators have this mandate and actively support the promotion of their local insurance markets.

The FCA and PRA do not have such objectives. They do not even have to have regard to the impact of their actions on the competitiveness of the financial services sector.

This means that in the UK there is no mechanism to ensure that the cumulative impact of regulation is not damaging the ability of London insurance market to fulfil its role in servicing the economy, or to help it maintain its position as a global centre of insurance excellence against overseas competitors.

It is now imperative that the Government gives the PRA and FCA a balancing statutory objective to consider the international competitiveness of the UK financial markets and create a dedicated inward investment unit in the PRA to support and encourage new entrants to the UK.

Further information

We would be very happy to discuss any aspect of this document. Please contact Ben Reid on **020 7327 5293** or email **Benedict.Reid@londonmarketgroup.co.uk**.