



Insurance Ireland CRO Forum

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Brexit – Politics since June (1/2)

UK Developments

- Noisy post-election debate within the Conservative Party over the summer, with the Chancellor the chief advocate of a business-friendly Brexit
- Temporary truce declared between Cabinet members in mid-August. This leaves the Prime Minister's Article 50 approach largely intact, in return for general acceptance of the need for (undefined) transitional measures
- Government published a series of "Future Partnership" options papers in late August.
- UK intends to leave all EU institutions (ECJ, Customs Union, Single Market). Instead bespoke EU/UK mechanisms are to be created to provide roughly the same benefits. Difficult to see the logic in this
- Nothing significant said by the Government on financial services yet

EU Developments

- The 3rd round of Article 50 negotiations took place in August.
- Following the negotiations Michel Barnier expressed concern about the lack of progress. He warned that the UK had to eliminate the ambiguity in its position, and urged the UK to "negotiate seriously." Difficult to disagree
- Reaction so far to the UK position papers from the European Commission is to repeat the mantra that the future relationship cannot be discussed until satisfactory progress has been made on the Withdrawal issues – in particular the UK's financial settlement. British complaints about Barnier's rigid negotiating mandate are justified
- Barnier remarks on British "nostalgia for the Single Market." It is not possible for the UK to take back control and at the same time to expect recognition by the EU of UK regulation. A fair point too.
- Attempts over the summer by UK diplomats to pick apart the solidity of the EU27 have so far failed to work. Attitudes in Brussels to the UK approach have hardened.

ABI Brexit – Politics since June (2/2)

UK Developments

- The Government has introduced into Parliament the EU Withdrawal Bill which will transpose existing EU legislation into UK law. The second reading of the Bill has begun
- The Bill is likely to pass second reading, but the Committee Stages will be much harder for the Government, who may face defeat on some important amendments
- The Labour Party has softened its position to outline that it would prefer the UK to remain part of the single market and a customs union for a transitional period. They will also be looking to amend or vote against the EU Withdrawal Bill.
- Prime Minister speech Florence 22 September: transitionals for money

EU Developments

- The integrity of the Single Market so far appears to be worth considerably more to EU-based market participants than access to the British market. British side cannot see this
- The German parliamentary elections will take place on the 24 September, but the outcome is unlikely to have any effect on the UK and EU negotiations.
- Both the UK and EU now assume that moving to Phase 2 of the negotiations may not be agreed until December at the earliest, instead of the original October deadline. This leaves less time to discuss the future relationship. Of course, no discussion of financial services so far



Brexit: Insurance overview

- Where insurers need to relocate, their plans are some way in advance of many of the banks. Insurers are therefore less dependent than others on the Article 50 negotiations for solutions to Brexit-created issues. PRA letters and data collection on contingency plans
- But a close trading relationship with the EU is very important for London as a financial centre in the medium term
- Unfortunately ABI is not optimistic about prospects for UK/EU mutual market access. Any FTA that is agreed will also take much longer than the Government imagines
- And the UK needs to be precise about a transitional period: only continued Single Market membership works. But this would break the truce in the Conservative Party
- Existing contracts: transfers are poor value for consumers. Needs a political fix
- Inbound branching: PRA has no powers pre-Brexit to approve EEA-based branches
- Data transfers will also require a political solution while waiting for an adequacy ruling
- Zero appetite from Government for optimisation of the UK regulatory environment before or after Brexit. This is short-sighted

ABI Solvency II

- Generally considered fit for purpose, though implementation was costly
- And many gripes about the PRA's gold-plating and slow decision-making
- But no appetite to ditch Solvency II post Brexit – better the devil you know
- However, significant opportunities for improvements in PRA's interpretation and handling of Solvency II
- Main issue the Risk Margin – both its size and its volatility
- EIOPA willing to consider its size (6% CoC rate), but not its volatility
- Risk Margin wrongly perceived in EIOPA as a UK issue so we see little hope of substantive improvements
- Extended discussions with the PRA on:
 - ❑ Reporting requirements: focus on NSTs. Reductions in some areas balanced by increased demands on business model analysis
 - ❑ Internal Model change: timescales, approach to minor change
 - ❑ Eligibility for the Matching Adjustment: infrastructure, callable bonds
- No love in UK market for the IAIS Insurance Capital Standard

ABI Conduct regulation

- Government distracted by Brexit so no leash on the conduct regulator (FCA) at all – sprawling agenda of sometimes contradictory interventions
- FCA competition remit – ensuring markets work well for consumers
- Positive FCA approach to innovation and digital – regulatory sandbox
- Successive reviews have not addressed failings in the advice market – MiFID probably the root cause
- Long term savings contracts under shadow of changing regulatory climate
- Frozen political reforms of pensions market leave the field to the regulator
Study into increasing sales of drawdown pension products – defaults a solution?
- Market study into brokers in the London Market

Business as usual UK issues

Government's entire bandwidth taken up by Brexit, but the world does not stand still and risks/opportunities continue to pile up:

- Ogden discount rate
- Pensions dashboard
- Renewal pricing/loyal customers
- Opportunities of Insurtech
- Driverless cars
- Flood risk – climate change
- Soft reinsurance market
- Pensions market – steep decline in annuity sales and number of providers
- Cost of IFRS17 accounting standard