



Industry and Regulators Committee

Corrected oral evidence: Commercial insurance and reinsurance regulation

Tuesday 25 January 2022

10.30 am

Watch the meeting

Members present: Lord Hollick (The Chair); Lord Allen of Kensington; Lord Blackwell; Baroness Bowles of Berkhamsted; Lord Burns; Lord Cromwell; Baroness Donaghy; Lord Reay; Lord Sharkey; Lord Trefgarne.

Evidence Session No. 1

Virtual Proceeding

Questions 1 - 14

Witnesses

I: Christopher Croft, Chief Executive, London & International Insurance Brokers' Association; Caroline Wagstaff, Chief Executive Officer, London Market Group.

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Examination of witnesses

Christopher Croft and Caroline Wagstaff.

Q1 **The Chair:** I welcome you all to this meeting of the Industry and Regulators Committee. It is the first oral evidence session in our inquiry into commercial insurance and reinsurance.

I am delighted to welcome Caroline Wagstaff, who is the CEO of the London Market Group, and Christopher Croft, who is the CEO of the London and International Insurance Brokers' Association. Can I invite you, before answering the first question, to tell us a bit about yourselves and your involvement with the market?

The first question is a sort of scene-setter. How large and how significant are the commercial insurance and reinsurance sectors relative to the UK financial services sector as a whole, and in global terms? We are particularly interested in the extent to which London's market share has altered over the last four or five years. Has it grown in real terms?

Caroline Wagstaff: First, thank you very much for inviting us today. It is very nice to see you all. It is a shame that we cannot do it in person, but technology is a marvellous thing.

I am the chief executive of the London Market Group. We represent all the constituents in the London wholesale insurance market. That covers the brokers who bring us the business, as well as the insurers and reinsurers who take the risks when they get to London. We are an overarching trade body speaking for all market participants, and that encompasses about 350 businesses here in the City of London.

It is a unique ecosystem because, pandemic excepted, most businesses are operating within 500 metres of one another. It is a genuine ecosystem and cluster of global expertise that sits here in London. Across our membership, everyone is regulated either by the Financial Conduct Authority or by the Prudential Regulation Authority. We deal with both regulatory bodies in the City at one point or another.

Christopher Croft: I am the chief executive of the London and International Insurance Brokers' Association. We have 152 member firms that are active in the complex commercial markets in London. Our members deal almost exclusively with large corporate clients with dedicated risk management and insurance purchasing departments. Of those 152 members, only 18 employ more than 100 staff. Half of them employ 10 or fewer, so we are very much a vibrant SME sector in the heart of the City of London. I am very happy to be here today.

The Chair: Caroline, could you give us a sense of the size and scale of the market?

Caroline Wagstaff: I will talk about three or four different topics to give you a sense of how the market operates. One is the size of the market. Another is what makes it different from other markets. The third is our

customers and where they come from. Hopefully, that will give you some of the dramatis personae and a sense of the market.

In size, and in global significance in particular, the market is the largest insurance market in the world. We bring in \$110 billion of income every year. That is larger than our nearest three competitors combined. Bermuda, Switzerland and Singapore are all significant insurance markets; we are still larger than the total business they do. It is a real centre of excellence for people all around the world who are looking for insurance solutions.

We contribute 23% of the City's GDP. Within the City itself, we are a very significant contributor: £37 billion a year to the UK's gross domestic product. That has been growing over the last five years. We are in a very strong position. We are a thriving market. We have come through the pandemic very strongly, but we are not without threat. I will come on to that when I talk about market share.

Who are our customers? As Chris said, they fall into two broad categories. The first is multinational corporations. They are sophisticated buyers of insurance, have risk management expertise that sits in-house and are advised by brokers. The second category is insurance companies themselves, which come to London to buy reinsurance. That is insurance companies buying their own insurance, as it were.

They come from all around the world. Our largest source of business is North America, which is now about 35% of our business. We are also very strong in Australia, Canada and South Africa, where English is often the lingua franca of business. About 13% comes from Europe. We are weaker in the emerging markets. That is not an area of strength for us.

Our market share has been broadly stagnant for the last decade. Of the two categories of business that we cover, the largest category is insurance, which is about 70% of what we do. That has grown very slightly, by around 0.1%—nothing significant. In reinsurance, our market share has shrunk by nearly 2% over the last decade. That is because we are not as competitive on cost, particularly the cost of capital, in that sector of the market as some of our competitors.

Hopefully, that gives you a broad sweep across the waterfront that is the London market. Chris, is there anything you would add?

Christopher Croft: No, that is a very good summary. We are facing a period of significant emerging risks, certainly from the climate challenge and risks such as cyber. London has an opportunity to be the global centre of excellence for those risks but will face competition in some sectors. That is why this inquiry is particularly pertinent at this point.

The Chair: Would you say that we are the lead in those two particular emerging sectors, or are we playing catch-up?

Caroline Wagstaff: If we divide the two, we are definitely leading in cyber. We think that we account for about 25% of the global cyber

market. A lot of that risk is coming to London. London has the pool of capital that allows us to take bigger risks. We feel quite confident in cyber, except that it is literally a moving target. There is ransomware, developing criminals and interconnected everything. It is definitely a growing threat and, therefore, a growing market.

We have the roots and the appetite to be very strong in climate change. London has fantastic climate modelling skills, for example. It has lots of experience in weather risk. We have been underwriting hurricanes, floods and wildfires for over 100 years. This issue will permeate everything as the world transitions to net zero and new technologies evolve, and we are worried that unless we have the right regulatory environment, we will not be able to keep up with the speed of development.

Lord Blackwell: Caroline, can you confirm for the record some numbers that I have seen from you? You mentioned that the gross turnover is \$110 billion. I understand that the claims paid out were \$32 billion, so the net profit was \$70-something billion. You told us that the contribution to GDP was £37 billion. Are those figures roughly right?

Caroline Wagstaff: Yes. The data comes from the *London Matters* report, which we issue every two years.

Christopher Croft: To make a slight adjustment, the difference between gross premium and claims is not all profit. There are operating costs as well.

Q2 **Baroness Bowles of Berkhamsted:** Welcome to the committee. We are very interested in knowing what the role of regulation and the regulators is. What improvements do you think could be made to the UK's regulation of the London market? What specific examples of suboptimal regulation would you highlight?

Caroline Wagstaff: If we take a step back and ask in what context we want regulation to help us to operate, it is all about helping the market to thrive. Historically, London's growth comes from its ability to be at the cutting edge of new risk management products. If you go back 150 years, it was the first aviation insurance policy or the first space insurance policy. That is where our historic strength is. We feel that we need a couple of things to allow that to keep happening. They are not so much about the theory of the regulation or about the words on the page. They are about the way in which regulation actually happens day to day.

One of the first things is an understanding from the regulators that there is proportionality, that not all insurance companies will pose the same risk to the financial services system. At the moment, there is a one-size-fits-all type of regulatory approach. Chris will be able to talk about that more because of the types of members he represents. You tend to see that reinsurance companies are treated like insurance companies, and that large customers, which are sophisticated buyers, are treated as if they are the buyer of a motor policy and are doing that online from an aggregating site. That complete lack of appreciation of the risks posed by

different types of clients and different types of insurers is something that we think needs some in-depth work.

Secondly, the regulators need to help us to compete in an increasingly competitive world. As I said, we are a strong market and we are in a good position, but we are not without threat. Market share is stagnant. Other insurance centres around the world would quite like to eat our lunch, to be frank. We would like the regulators to help us to be more competitive. We think they need to take that into account when they look at how they set new regulations and impose existing regulations. Having done that, they need to be held accountable for it. At the moment, a lot of what we think is being proposed is great in theory, but a lot of it allows the regulators to mark their own homework. We think there needs to be some third-party accountability for what they are doing and how it is getting done, both before they implement things and afterwards. That covers what we think "good" could look like.

To give you an example of when it does not work, I would like to talk about the insurance-linked securities market, which is out at the technical end of the reinsurance market but is a huge global market. It accounts for about US\$88 billion in capital every year and is bought by very sophisticated buyers. The UK had none of this market five years ago. The London market felt that it was really important that we had the ability to join in. We worked with Treasury and the regulators to create a really good environment for that here in the UK. It was introduced in 2018, and we have done five of them.

Singapore lifted our regulation because it was first-class, and dropped it into Singapore. In less time than we have been at it, it has done 18 of them. In fact, it did six last year. That is US\$700 million of income that could have come to London but did not. To us, that is a living, breathing example of how you can put in the best thing in theory, but if it does not work in practice it is not helpful. It does not work, because the regulators treat the ILS market like any other insurer, even though it poses a lot less risk, all the money for the claims that come in is in the bank, the investors are very sophisticated and it is a completely different beast.

Christopher Croft: Can I add a second example from our members' experience? Let me preface it by saying that our members, as intermediaries, are solely regulated by the Financial Conduct Authority, so my comments will tend to relate more to the FCA.

The FCA is currently running an exercise on its fair value product review of general insurance. This initiative was initially triggered by some well-founded issues that it found in the treatment of customers at renewal in the domestic, retail, home and motor markets. Clearly, there are some issues to be addressed there, but the way it has implemented this review does not make clear where the scope of the review lies, so far more sophisticated and complex products that are being sold in London to sophisticated consumers seem to fall within the scope of the review.

Our members are engaged in quite a significant and costly exercise to try in some ways to answer questions from insurers that are very difficult to answer. They ask, "Can you tell me precisely how you were remunerated for this particular product?", when it has been purchased by a client who engages the broker for a series of risk management consultancy services that do not necessarily apply to a particular insurance purchase, so allocating them to any of those purchases does not make much sense. It is a worthwhile and valuable piece of regulation in the markets that it should be focused on, but that lack of precision has allowed scope creep into other markets where it is not appropriate and is causing unnecessary cost, without addressing any particular issue.

Baroness Bowles of Berkhamsted: What are the strengths of the UK regulatory framework? From what you have said already, it appears that you see problems not so much in the legislative and rule framework as in its execution. For instance, we got the ILS framework up and running nicely so that Singapore could pinch it, but then we did not manage to execute it ourselves. Is that a fair summary? Are there any other strengths of the UK regulatory framework?

Caroline Wagstaff: It is a great summary. It is exactly what we would have said if we had answered the question. That is brilliant. If you could come and do our jobs for us, that would be excellent.

The Chair: That is not our job.

Caroline Wagstaff: We quite like our jobs, actually.

UK regulation is incredibly well respected. The point we keep making is that this is not about some regulatory race to the bottom. Our investors and clients want to come to London, because regulation is robust here and they like the framework in which it sits. This is not about that. Things like Solvency II have really added to the strength of people's balance sheets and have brought significant benefits.

We do not want wholesale changes to the regulations themselves, but we think that some refinements are needed. This is a great opportunity to do so, as we have the opportunity to look again at all our legislation to check that it really is fit for purpose going forward. Was data being collected when we were part of Europe that does not need to go to Europe any longer and does not need to be collected? Anything that could save some costs and some complexity in its execution would be fine, and the behaviour and culture of the regulators is definitely a very important part of this.

Christopher Croft: I echo that. Our members would strongly make the point that the strong financial services regulatory framework in the UK is a positive when dealing and liaising with overseas clients. The framework is strong; it is the regulators being disciplined in the way they work within that framework that we think needs addressing. In particular, they need to be very disciplined about establishing evidence of potential market failure before they embark on interventions. To go back to the

fair value product review, my point is that they have not been as precise as they should have been. There needs to be the necessary accountability framework that instils that discipline.

Baroness Bowles of Berkhamsted: Where do you think that accountability framework resides? How should it be executed?

Christopher Croft: We would certainly advocate strengthening accountability to Parliament. Ultimately, that is where regulators should be accountable. I am not sure that the current framework with regard to their direct responsibility to the Treasury Committee and others is as strong as it needs to be. That is certainly something that we hope will be addressed in the current Treasury review.

Q3 **Lord Blackwell:** When we look at the way the regulators implement the regulations, a lot of the issues seem to come down to a word that you have used—"proportionality". We talk about proportionality and the failure of the regulators to exercise it. Can you give us a bit more understanding of the dimensions where that fails to apply? Is it about the size of the firm and the sophistication of its internal controls? Is it about the sophistication of customers? Is it about the risks and the nature of the risks being taken, or the nature of the business activities concerned? Is it about all of the above, in different situations?

Caroline Wagstaff: It is all of the above, in different situations. Other people have also grappled with this. We are not the first market to try to solve the problem, as it were. For example, Solvency II has a definition of a large risk. There are some definitions out there in the market that could help us to refine the proportionality point.

Some of the companies that come into the London market are small to medium-sized businesses. Some of them are multinational corporations. You could have some definitions of turnover, for example, that would allow you to identify better whether people have the support and advice that they need. Equally, there is really no differentiation between insurance and reinsurance, yet reinsurance is 100% bought by insurance companies. They are people who are professionals in the risk management process. That is what they do all day, but there is no differentiation from the regulators for that.

ILS is another example. There is a lost opportunity with captives, which are companies that build their own insurance companies. That is a different type of risk. We think that these are all easy to identify and are done in different places, so we could learn from other markets and regulators, but we do not feel that any of it is really seen on a day-to-day level when we look at how the regulators are behaving.

Christopher Croft: Again, it is a question of precision. There are established regulatory and legal definitions of the concept of a large insurance risk, which is the sort of business that is predominantly written in London, but often the FCA is not precise about whether it expects that business to fall within the scope of a review.

I do not want to bang on solely about the fair value product review. There are some exemptions within that review for large-risk business, but it does not go right across the board. In conversations with the FCA, it intimates that it would not expect to devote much resource to supervising the implementation of the review in our sector, but that does not really deal with the issue. Unless a regulator is precise about saying, "This section of business is excluded", compliance departments within firms, which are necessarily risk averse, will choose to comply to the letter of it, rather than what might be the spirit, so the cost burden is embraced without that precision. It is about finding the right definitions, but then being very clear about your intentions as a regulator.

Lord Blackwell: Your fair value example of applying the same rules to the London market as to domestic insurers is about proportionality related to the sophistication of customers and the nature of the business. As I understand it, your captives point is about proportionality in understanding the nature of the risk, systematic risk and, again, the nature of the users, the customers. Are there examples of where you think that size ought to be much more of a discriminator in the way the regulators operate? For example, should there be different rules for start-ups?

Caroline Wagstaff: One of the issues with start-ups is identifying them not just by size but by what they are doing and whether they are in a different type of business. Insurtech tends to be looked at slightly differently, even though generally many of them are insurance brokers.

Size is certainly important for the businesses that come to London, which are corporations looking to check their hotels or whatever it may be, in the sense of how much advice they are getting and how knowledgeable they are. There will undoubtedly be some businesses that fall into the SME sector whose advisory or in-house capability may not be as great, but we think that could be reflected by turnover and a few relatively simple questions. That would allow the regulators to spend less time on the businesses that need less regulation and more time on those that do. It should be a win-win for everybody. They get more time to worry about the things that genuinely pose a risk by carving out those that pose less of a risk.

Lord Blackwell: As I understand it, Solvency II allows the regulators to apply proportionality in the way capital is acquired. Why do you think the regulators do not take account of proportionality in the way they operate? Why do they not give clearer guidance on what is in and what is out of scope?

Caroline Wagstaff: My first reaction is to say that that is a question you might talk to the regulators about when you see them. We do not know. We have raised the issue, which came up through ILS. We do not understand why the process of those applications has been so difficult and so slow.

To the point about proportionality, the PRA was meant to have a dedicated unit that would understand this type of business, but it has not happened in practice. We keep raising the question, but we have not yet heard an answer as to why that is.

Lord Blackwell: You ask them, but they do not give you a rationale.

Caroline Wagstaff: No.

Christopher Croft: It is probably worth asking whether their current objectives would reward that sort of proportional approach. That is one of the reasons why we have argued in favour of the competitiveness and growth objective that the Treasury is proposing in its latest consultation. It gives the regulators some objective to look at markets and sectors more individually and to promote competition and growth, where that is more proportionate.

Q4 **Lord Cromwell:** Good morning, Caroline and Christopher. We have touched on some of what I will ask you about. I would like to focus on innovation—or lack of it, depending on your point of view—in the market as a result of the regulatory regime, particularly this slippery term “proportionality”, which seems to lie somewhere between robust and competitive. It is a difficult one. Another issue is the speed of the process.

You have given two examples, which were the two I was going to give: captives, which do not seem to have found the UK market worth the effort; and insurance-linked securities, which have really exploded in the last five years but for which we have had very few new companies established here. Can you give us a flavour, hopefully positive as well as negative, of where the regulatory regime and the proportionality and speed questions are affecting innovation in the market?

Caroline Wagstaff: The good news is that in product innovation there is a lot going on in the London market that helps insurance buyers and is looking at new risks and new solutions to them. A lot goes on day to day where people are developing new products. That is a good thing. It is good for the growth of the market, and it is great for clients that they can come to London and get their risks transferred. To go back to the earlier example of cyber, that has been a real success for the London market over the last five to six years in which it has been a growing risk. London has established its place there. It is not all bad news.

Captives are a great example. Given that we have established ILS—at least, a framework in which it can happen—it would be great to have a UK captives market. It is a US\$115 billion market. We spend a lot of time talking to captive managers about what would persuade them to come to the UK. One of the positive things they talk about is that, increasingly, they are worried about the reputation of where they keep their captive insurance company. One of them said to me, “We’re moving it from A to B, because A is seen as a bit regulatorily light and has some tax reputational issues. We want to be somewhere that’s seen as strongly regulated and has a really good reputation”. The UK ticks a lot of boxes

for that. It also ticks boxes, because people have their HQ here, they can share services, and lots of captive management expertise sits in London.

When you ask, "What do you need for your captive?", they say, "Regulators who understand the type of risk that we bring and how to manage it, and who can respond accordingly". That is not just about the UK; it is about regulators generally. For example, Ireland looks great on paper, but the captive managers who are actually in Dublin have said, "It's quite hard to deal with the regulators. They don't really understand that we are different. It's not worked out quite as well as we'd like in practice". We know from talking to them that if we are to invest time and energy in getting a captive market up and running, there is no point doing it unless we already know that we can solve some of those problems. Otherwise, it is a slightly pointless exercise.

We know that there is a great opportunity. We know that the UK has something to offer. There are UK public bodies such as TfL and the Corporation of London that have captives themselves, but they are offshore. They are not in the UK. That seems a bit daft. We want to solve the problem. There is some innovation that will absolutely be limited unless we can get the regulation right. A lot of innovation is going on every day. Climate is a good example. Chris talks a lot about how that is affected by regulation.

Lord Cromwell: Caroline, it is interesting that cyber is a rapidly moving market, yet we seem to be doing rather well in it. Is that because of our regulatory system, or despite it?

Caroline Wagstaff: I think it is because the regulation did not need to change to accommodate it. It falls within a set of risks that are well recognised and a set of processes that already exist for risk transfer ways of reporting. Nothing needs to change to accommodate it in the same way as new risks arise, and underwriting those risks remains constant. The opportunity costs we worry about are where we need to change the environment to make it happen.

Christopher Croft: Cyber plays very much into the unique service offering that you get in London. One of the things that distinguishes our membership from that in other sectors is the enormous expertise in the particular lines of business of their clients that sits within insurance brokers. Cyber insurance, certainly at the moment, is a very service-heavy insurance product. Our members have recruited people from the FBI and other agencies to help clients build resilience into their systems to try to prevent cyberattacks equally as much as to have those experts available to contain an attack when it happens. That real expert service offering of the London broker plays very well in the cyberspace.

Picking up on some of Caroline's other points, the good news about ILS and captives is that the expertise to structure those deals tends to sit in London, and they tend to be deals that are driven out of London broking firms. It is then slightly frustrating that, because of the nature of the

regulatory framework, we are not placing those deals in London as well, and there is a reduced contribution to the UK economy as a result.

On the climate point, the real challenge is that nobody will be able to achieve their net-zero ambitions without the adoption of technology that is yet to be invented. As an insurance industry, we will have to underwrite that process from invention through to testing and to quite rapid movement into commercial use, and that will require a flexibility in the regulatory regime that we question whether you see at the moment. As an example, we are not going to have 10 years of historical performance data sitting behind that technology before it needs to be adopted into commercial use, so that will be a mindset change that the regulator needs to get used to.

Lord Cromwell: That is very helpful. Thank you both.

Q5 **Lord Burns:** Good morning to you both. I would like to hear a bit more about the reinsurance market if you could, please. We have heard that we do not have any pure UK reinsurance companies other than Flood Re and Pool Re, and we are told that these services are being provided by subsidiaries passporting into the UK. Could you take us through the reasons for that and the consequences of it? How far is it an issue of capital? How far is it an issue of the administrative burden?

Caroline Wagstaff: It goes back to the point about why London's reinsurance market share has shrunk in the last couple of years. It is not only that people are not setting up businesses here, but that not as many people are buying reinsurance in London even if they are buying it from foreign companies. We are less concerned about the absence of domestic reinsurers than we are in ensuring that the people who are here remain here. Some of those are passporting into the UK, and they are operating under the temporary permissions regime. Once the transition period is over that will disappear, and they will then have to become fully regulated by the PRA and the FCA. People who have gone through that process have not spoken positively about it. We know that some branches are thinking about whether it is something they want to go through. They do not need to go through it; they could just take the business back to their domestic market.

We are worried that the processes may cause people not to want to operate in the London market. Equally, there is this issue: why is Bermuda the centre of reinsurance? It is because it can talk about getting a Captive company up and running in four days. The cost of capital and the capital requirements are lower. That makes it more competitive. We are less worried that they are domestically based. Quite a lot of the capital for the London market does not come from the UK—in fact, most of it comes from overseas—but we still think it is a thriving ecosystem, and we have to compete for that capital to come here and to want to establish a business here.

The regulatory complexity is an issue. Again, it comes back to the fact that reinsurance companies are treated like insurance companies despite

the fact that they are very different in the risks they pose and the types of people they are dealing with.

Lord Burns: It comes back, essentially, to describing this as an issue about costs. I am still struggling to discover how far it is about costs relating to our capital requirements, and how far it is just the administrative complexity and the fact that people are not being taken as seriously by the regulator as they might be. What is it about our capital requirement regime that means that Bermuda requires significantly less?

Christopher Croft: I represent insurance brokers, so we are not subject to the same capital requirements as insurers. I know that you are taking evidence from Sean McGovern and Malcolm Newman as part of this process, and I would very much defer to their superior expertise on this question.

Historically, there has been a tendency for capital requirements to be introduced more strictly into the UK market than they are in other countries. A combination of regulatory and operational costs is the challenge in London, but we think that the additional burden of regulations is a significant factor. The opportunities are there in some of the examples we have cited already for greater regulatory precision to achieve the same ends without causing unnecessary cost for our sector where it is not dealing directly with members of the public.

Q6 **Lord Sharkey:** Good morning. Witnesses have told us that insurance regulations around the world are, to a large extent, variations on Solvency II, which of course the UK had a leading position in developing. Are they largely based on variations of Solvency II? If they are, will the EU, post Brexit, be the primary driver of insurance regulation?

Caroline Wagstaff: There is quite a bad line at this end, so I got about one word in four of that. I do not know if that problem was shared by anybody else. I think you asked whether Solvency II is becoming the de facto regulatory standard that everybody is adhering to.

Lord Sharkey: Yes, I did. I am glad you intuited that from one word in four. It must have been in there somewhere. I also asked whether that means that the EU becomes the primary driver of regulation in future.

Caroline Wagstaff: There are two things to unpack from the question. The first is that Solvency II is only a regulation for insurance and reinsurance companies. It does not apply to the broking sector at all. That is much more about conduct than solvency.

There is quite a commonality of regulation across the world in different areas. I do not think our view is that it is being led by the EU in any sense. Bermuda and Switzerland have equivalence to Solvency II, but they still have the freedom to do their own thing and to look at where they need to regulate differently for their markets. Our view is that it is not particularly being led by the EU. We would quite like to stay close, because there is definite advantage in people understanding a common regulatory framework, but we still think that the UK should have, and can

have, freedom to regulate for its own particular circumstances and still be an attractive place for investors and customers to come. Do you want to talk a bit about conduct, Chris?

Christopher Croft: Apologies, I cannot talk directly to Solvency II, but I can bring experience from the conduct side where the relevant EU legislation is the insurance distribution directive. The key source material for insurance conduct regulation is the International Association of Insurance Supervisors' collection of 25 principles for conduct regulation. You can draw a direct line of descendance from that document through to pieces of legislation like the insurance distribution directive. Those global principles drive the approach to conduct regulation across all major markets. That is absolutely something that we would support, because our members sit in London but are at the heart of a global market.

When we are dealing with large companies with global programmes where they have operations sometimes across 150 different countries, those policies tend to be driven from London and at least part placed in London, but you would certainly look to place some of the business in other insurance centres to avoid a concentration risk, and that is something clients would very much want to see. Our members are active in multiple centres, so some consistency across conduct regulation is hugely beneficial.

We would argue that it should be the basis for granting access to those markets, which Andrew Bailey was very strong on when he was chief executive of the Financial Conduct Authority, and it is an argument that we would still favour. I do not see, certainly in conduct regulation, that the EU has a disproportionate role in driving global standards. That happens at IAIS level.

Lord Sharkey: We understand that insurance regulation is very different in the US. Could you explain what those differences are and whether, in fact, they are significant?

Caroline Wagstaff: The key difference is that the US is regulated at state level. There are 50 different regulators, one for each state. If an insurance company wants to be a national player, it has to be regulated many times over, and that, we know, is something businesses do not take on lightly. They will really think about the types of insurance they are selling and the likelihood that there are good markets for it in the states where they need to get regulated. That is the key issue.

If you look at that from the other side, the buyers' perspective, it means that if you are in a particular state you might not have access to all the insurance players that you might want. They also have a system whereby you have to ask your local insurer for a quote even if it is for something that may be a bit complex and that they do not want to underwrite. A lot of that business comes to the London market. They call it the excess and surplus lines market. Who knows what those words mean? They mean something to us.

In both those senses, that drives buyers' behaviour, because they do not have as much choice. I do not think it is a model that anybody would necessarily look to replicate, but it is useful to understand why it drives buyer behaviour.

Lord Sharkey: And drives business our way.

Caroline Wagstaff: Yes.

Christopher Croft: To echo that, they are 50 very distinct regulatory regimes. In contrast to the European Union, there is no concept of a single market in the US. You need to be licensed in every state where you want to be active. You cannot just be licensed in one to gain access to the others.

Lord Sharkey: Thank you very much. That was very helpful.

Q7 **Lord Allen of Kensington:** Good morning, Caroline and Chris. It is very helpful to hear your insights into this increasingly complex, for me, marketplace.

I want to go back to post Brexit and transition. Certainly, from what we have heard, financial services firms seem predominantly to favour the UK remaining closely aligned with the EU. Is that the case for the London market? What do you think the effect will be on the London market when the transition period ends?

Caroline Wagstaff: Operationally, in the London market, all the businesses, whether they were brokers or insurers, took decisions very early in the process not to wait to see what was going to happen. Post vote, people said, "We'll have to have a business in the EU in order to keep serving European clients and to insure European risks". They have all taken steps to do that, and the process has been expensive and slightly complicated, but now everybody is up and running. We do not yet have data that tells us what we think that will do to the London market. We know that the EU accounts for about 13% of the business that we do. We think that some of that will still come to London and be managed by Chris's members—the brokers—who then may place it back in the EU or elsewhere. We are not quite sure what the effect will be on our income, but there will undoubtedly be a reduction in the income, and we will expect that to continue.

As regards what else might happen, as I say, we want to stay quite close. There are bits of Solvency II that we would like onshored, and there are bits of it that we think we could usefully get rid of. We want to make sure that at the end of the transition period businesses that are operating under the temporary permissions regime are welcomed rather than deterred by the process they have to go through. It would be nice to keep them here.

Those are the sorts of things that we are looking at, as well as what flexibility we have to stay close but still be fit for our own future, for the things that London is good at. In the European insurance market, there

are no centres that are comparable to London. There are some strong reinsurance centres, but most of it is local markets dealing with local risks. A lot of those European buyers still want to come to London for the risk solutions that we can offer.

Christopher Croft: From our experience, referring back to the insurance distribution directive, which was the relevant EU legislation covering our members, one of the things it does not have are any equivalence provisions. Whether the EU was going to provide some regulatory solution granting equivalence to our sector was never a question for our membership. All our businesses that wanted to carry on servicing EU clients had to establish a business within the EU. That is something we initiated very soon after the referendum result, and which could, I suppose, create the possibility for some sort of divergence from the UK.

Going back to the point I made earlier, we see the insurance distribution directive as very much a descendant of those IAIS core principles, and we are very supportive of global standards across all markets and want to stay very close to that sort of text.

Lord Allen of Kensington: A lot of companies have put reverse branching in place. Will it have an impact on that? Do you see any of this having an impact on our share? Is it likely to improve our share, or is it likely to diminish it?

Caroline Wagstaff: The early signs are that some business has definitely been lost to London that is now written in the EU itself, because it has to be there. We will have to unpick the numbers, because we are also seeing new business from markets such as the US. It will be an interesting question. Currently, we only have data until the end of 2020, so we have not even seen fully post Brexit. This is just the pre-transition transition period. It will be interesting to see what happens.

The question about reverse branching is whether people are being asked to duplicate activity that they have already done with a respected regulator in another country. That is a problem we have seen in a number of different places. There is a duplication of effort when the information already exists somewhere but the regulators in the UK will ask you to do it all over again, and we would definitely want to try to resolve that.

Christopher Croft: The specific challenge will be how the regulators will treat the branches of EU entities or EU subsidiaries that our members have opened in the UK, because they will be entities dealing with no UK clients; they will be dealing with sophisticated corporate clients overseas, so they pose very little threat to the core purpose and risks that the FCA in particular is there to guard against. We had hoped to see a supervisory regime that reflected that reduced risk. We will have to see as we emerge from the temporary permissions regime.

Lord Allen of Kensington: Caroline, building on your point, as well as effort I am assuming there is cost. Is there any sense of what

disadvantage that is? How material is that in costs as well as in effort and complication?

Caroline Wagstaff: It is almost impossible to quantify the regulatory costs in that sense. We tend to look at it like this: what is the additional operational cost and what is the lost opportunity cost? We only have anecdotal evidence on the operational costs, because different businesses are structured in different ways and share different costs. What we hear about pretty consistently is the time and effort required.

We chatted to a US insurer operating in London that also has quite extensive EU operations, and it said that it probably sees the national regulator in its EU countries maybe 10 times a year, whereas it sees the UK regulator between 100 and 150 times a year. Think about the cost in senior management time, support staff and paperwork, and that is on top of the normal reporting stuff. The sense we get is that it is really hard to quantify. I wish we could. It would make for a much more compelling argument. The anecdotal evidence is that it is expensive in time and effort. We then worry about what we are losing in opportunity cost because it falls into the just too difficult category, so “Let’s go somewhere else”.

Q8 Lord Allen of Kensington: My final question is on the threat of change. If you see a divergence between UK and European regulation, or legislation for that matter, is it a threat? If it is, how material would that be? It goes back to the duplication point and having to satisfy different jurisdictions.

Caroline Wagstaff: At the moment, when you look at how people are operating, the market feels quite successful. Insurance companies are delivering quite strong results. As the market turns and perhaps becomes more competitive, there will be questions that businesses ask themselves, such as whether they bring investment, whether they bring business and whether they bring people to the London market.

We undertake market research at pretty regular intervals. We did a piece about eight years ago, and the chief executive of one of the risk management associations said—his words were quite compelling—that London was one of the most difficult regulatory environments in which to operate. We do not think that has improved in the last eight years. That is a perception that cannot be helpful if you are trying to grow and develop your market.

Christopher Croft: To emphasise that, in the client research which the FCA commissioned as part of its wholesale insurance broker market study, which was published in 2019, it spoke to overseas clients and asked them what the biggest impediments were to bringing more of their business to London. The No. 1 factor they cited was the cost and complexity of compliance and duplication of compliance checks between domestic markets and when the business is brought to London. It is a live issue.

Lord Allen of Kensington: Caroline and Chris, thank you very much.

Q9 **Lord Trefgarne:** I, too, want to ask about costs. What proportion of your expenses is attributable to regulators' costs? Who bears those costs? Is it the industry itself or the firms? What would change if those costs fell away?

Caroline Wagstaff: As we said, it is sadly almost impossible to quantify which bit of the cost burden is attributed where. Ultimately, the client will bear the cost, because the cost of any service or product will have baked into it the operational costs of delivering it, and the higher those costs are, the more will end up, ultimately, at the customer's door.

I do not think it would just involve the increased price. It is also the difficulties that it might involve for them in the processes they have to go through, the simplicity of that and the time it takes, which is quite hard to quantify. As I say, it is almost impossible for us to come up with a number, but we know that we could be more competitive if some of those things were simpler.

Lord Trefgarne: You said during your opening remarks that your business has been pretty static in the last two years or so. Is that a result of the pandemic? Is it likely to stop before too long?

Caroline Wagstaff: The numbers I quoted were pre-pandemic numbers. It was stagnant before we went into the pandemic. We have not yet seen the data from the pandemic; the data is sadly always about 18 months behind us, so we are slightly looking in the rear-view mirror. Anecdotally, we do not believe that the pandemic has been harmful to the London market. Quite a lot of domestic markets have reduced their appetite for risk, so that business has come to London, albeit in our traditional areas of expertise—marine and aviation or things like directors and officers risks—and from our mature and existing markets such as the US. We think that the pandemic picture, when we look at it, will be relatively robust.

Christopher Croft: The geographical profile is very important; Caroline touched on it at the beginning. Where we have seen less penetration from the London market is in Asian markets and Latin American markets, and particular countries where global economic growth tends to be focused, and with economic growth comes demand for commercial insurance. Clearly, particularly with Asian markets, the challenge we have from Singapore as a potential rival centre is significant. Our ability to grow further in the future will be down to our ability to compete very keenly with those other centres.

Q10 **Baroness Bowles of Berkhamsted:** I would like to drill down a bit further into the assessment of the regulatory framework that is faced in the UK. We have already touched on a lot of this, but, to clarify further, is your concern about the content of the policy itself, the particular judgments made by the regulators, where they are given discretion to make them, or the speed and efficiency with which they implement their

processes? In connection with the last, I think you just said that there is almost 10 times as much contact with UK regulators as you might have with regulators in other countries. Does that slow things down rather than speed them up? That would seem somewhat perverse.

Christopher Croft: To pick up on the last point first, I think there is a genuine issue, and it is a very common piece of feedback from our members, with the FCA's ability to run its core processes efficiently at the moment. The FCA is under a statutory service-level target to approve new appointments of individual staff or applications for extending regulatory permissions within 60 days. What that actually means in practice is that it has 60 days once a case officer has been appointed and has assessed the application as complete.

Typically, it is taking three to four weeks to appoint a case officer, and if a case officer decides that one of the questions is not fully completed they send it back and cease to be your case officer, so you have to start the process again. Often, the 60 days does not start until quite a long way into the process, from the firm's point of view, and the FCA is routinely missing those statutory targets. It is a significant issue for commercial firms that have appointed someone to a senior management position who is then unable to take up the role until they have their regulatory permission, which is taking several months to complete. Yes, there is an issue, but it is at that core service level.

As we said before, our main issue is how disciplined they are to the principles which the framework should set for them, rather than necessarily the framework itself, and that they are very clear that where they are intervening they are intervening because there is a genuine potential for market failure that regulatory intervention can address, and not, as we saw in the case of the fair value product review—there are other instances—where their lack of precision has allowed the scope of their intervention to creep into sectors where it is possibly not appropriate.

Caroline Wagstaff: If we look at the PRA, we have talked about the ILS regime and the fact that that is very much hindered by the fact that the process is not competitive with other places where people could make applications. Again, the Solvency II review is another opportunity for us to kick the tyres and see whether this is fit for purpose and fit for the future in the new world that we operate in. It kicked off that process, but it does not feel very ambitious. It does not feel as though it is looking at some of the duplication and relevance that we would question. It is still not questioning the collection of data that, as far as we understood, simply went to EIOPA and was not dealt with in the UK at all. It still does not seem to say, "We don't need that any more, so you don't have to fill out that data". There are definitely examples on both sides of the house, we think, of the detail of speed and content as well as the overall approach.

Q11 **Baroness Donaghy:** Good morning. I have questions about building in the promotion of competitiveness and what regulatory obstacles other

than those you have already mentioned you would outline.

Before I ask them, I am interested in this issue. You mentioned Singapore. We understand that their regulators are super-smart, super well paid and well resourced. I understand that this might be a difficult question for you to answer, but I will ask it anyway. Christopher, you mentioned the core business of the FCA. Do we get what we pay for? Has it been thought about in the industry that, if we want super-flexible, super-speedy, super-smart people in our two main regulatory bodies, they have to be adequately resourced?

Christopher Croft: That is a principle that it would be hard to argue against. To go back to the example of the core processes, they are not meeting their fundamental purpose at the moment. If they are not hitting those service levels, it is a significant issue. It is at the heart of running an efficient and effective regulatory regime. I cannot say why that is at the moment in the FCA. Yes, absolutely: regulators should be adequately resourced to deliver the sorts of services that are expected of them.

Caroline Wagstaff: It is also a question of skill set. Markets want people in the regulators who genuinely understand their business, have some current expertise in it, understand how it is evolving and the sorts of things that are going on in it. That should also be a very important part of what is going on. I definitely cannot speak for how well the Singaporean regulator pays its staff. Our members tell us that in Singapore particularly, but in other jurisdictions as well, the regulators that have either an economic growth remit or a competitiveness remit operate in a more welcoming way.

As a flight of fancy for a Tuesday morning, imagine that you are starting an insurance company. If you were to go to Singapore or Bermuda, there would be very much a sense of the regulators coming with the development people, putting their arm around you and helping you through what is still a difficult and complicated process. It is as though they want you to pass the exam; they want you to succeed in the process. There is a dialogue asking questions helping you to get the right information together. The experience here in the UK, as we understand it, is rather more, "Here's a website. Go figure it out yourself, put your application in and we'll come back with some questions". It is as much about culture as it is about anything else. It is about really wanting to encourage people to come.

We think that a competitiveness remit puts the shingle out and says, "We're open for business. This is UK plc, and we would like you to come to our market". We do not believe that can be a bad thing. We know the regulators have a different view. They have been quite public in their view on what a competitiveness remit does. We think that they are smart people and they should be able to balance a view on economic stability and competitiveness duty, and put the pieces together to make it work.

Baroness Donaghy: Thank you. That brings me neatly on to ask for your view on whether you think an objective should be included to

promote competitiveness for the UK, or whether more is needed. You said change of culture and a speedy process, but do you think we should build in the issue of competitiveness?

Caroline Wagstaff: Yes. We have been asking for this as the London market for well beyond my tenure, but still with the involvement of the market, for at least five or six years. We believe that if you put the competitiveness duty in place that will be a great start, but it is only a great start if you then put the accountability measures behind it that say what is changing as a result and whether people are being held to account for that. To put it colloquially, you have to give it some teeth, otherwise it is just warm words on a page.

Christopher Croft: I echo that. As I touched on earlier, it is about a balance of objectives so that the FCA—I speak from our experience—can be rewarded for certain sectors having some life and innovation to them. At the moment, it is too easy to achieve the stability of the graveyard, a phrase that Andrew Bailey used to use when he was chief executive of the Financial Conduct Authority. The competitiveness and growth objective will mean that there is more focus on promoting the market, as Caroline suggests. If the objective is just some words on a piece of paper, it needs the accountability and cultural change necessary to deliver the change.

Baroness Donaghy: Would there be trade-offs with respect to the promotion of safety and soundness and customer protection if regulators were required to promote competitiveness?

Caroline Wagstaff: I do not believe there would. We are saying that we do not want a dilution of the regulation. We do not want them to weaken anything that is there. We would just like them to make it more about how we can welcome people, not that the hurdles they have to cross are any lower.

Regulators are smart people. They can weigh these things up and, we think, achieve all of them. I know there are people saying, “It will all end in tears if this is the remit”, but we do not believe that is the case, because we are trying to attract the right businesses to the UK—businesses that will sit well within the UK framework and the UK rulebooks—and bring something really useful to the UK economy.

Christopher Croft: It is about having precision and discipline within regulators to recognise that there are some sectors, which we would argue ours is, where clients are sufficiently sophisticated that they do not need the same level of regulatory intervention to achieve the optimal outcome for them. That is something we hope that the competitiveness and growth objective will drive in regulatory thinking.

Baroness Donaghy: I expect you will say that it is anecdotal, as you said in answer to previous questions, but do the regulatory obstacles that you have highlighted cause any migration of business, or companies themselves, outside the UK, or could they in future?

Christopher Croft: It is not anecdotal. I referred earlier to the client research that the FCA carried out as part of its wholesale broker market study, and that absolutely says that there is business that might flow to London but does not because overseas clients find the regulatory regime complex and costly to deal with.

Caroline Wagstaff: To go back to the ILS example, we think that about US\$700 million of ILS investment was done in Singapore that could have been done in London. We are absolutely seeing that business not happening in London, and that is a genuine loss.

Christopher Croft: It is a genuine challenge for the future, because the emerging risks from climate and cyber will require access to ever-growing levels of capacity to provide the right insurance solutions. Something in the region of \$1 trillion-worth of alternative capital could be sourced through an active ILS market in London, and at the moment we do not have the ability to access that level of capacity, so our ability to meet the emerging challenges of climate and cyber will be slightly compromised by that.

Baroness Donaghy: Thank you very much.

Q12 **Lord Reay:** I should declare that I am a member of Lloyd's and I own shares in the following insurance companies: Aviva, Prudential, Legal & General, Zurich and Phoenix. I have some bonds in Hiscox.

In terms of London's main global market competitors—Switzerland, Singapore and Bermuda—what are the main differentiators, and to what extent is any competitive advantage due to regulation, tax policy or any other market forces?

Caroline Wagstaff: To take that in reverse order, we do not believe that tax is so much of an issue, particularly when you look at different sectors of the market. The red thread that you see if you look across those competitors, particularly the growing markets, is that their regulators definitely have set within their duties or responsibilities a growth and competitiveness remit. Other countries such as Australia and Hong Kong have it. All those regulators have a remit that says, "You need to look at whether you are promoting economic growth or you are helping competition in the financial markets". We think that makes for a different flavour of regulation that is somewhat more welcoming; there is definitely more of what we call a welcome mat culture, where people are genuinely helped through the process. We think that gives them a competitive advantage that we do not have.

Christopher Croft: I absolutely second that. It is the mindset among regulators rather than necessarily the particular framework: "It's happening, make this work", rather than, "Fill in this form and come back and see me later".

Lord Reay: You have touched on this briefly before, but perhaps you can elaborate. What is the experience of UK insurers trying to break into non-UK markets? What role do any regulatory obstacles play in that?

Caroline Wagstaff: As I said, quite a lot of the London market's business comes from outside the UK. We think that one of the strengths of the London market is that it is very complementary to domestic markets, because they often do not have the expertise or capital to look at the specialist risks that the London market does so well. There is definitely a complementary nature to it. In some countries, there are definitely trade barriers, particularly in reinsurance and some other sectors, where it is more difficult to do business. We think that there are increasing amounts of trade that can be done.

As Chris said, we are particularly alive to the problems in the emerging markets. We know that often, in the first instance, customers want to use a local insurer, the sort of people they feel they have relationships with and who understand what they are doing. We want to be able to support those local insurance markets either through reinsurance or by them passing on specialist risks that they do not want to take. We definitely need to keep growing our overseas business to stay competitive. We have been participating actively in the Government's trade discussions to identify opportunities and possible threats.

Lord Reay: What are the main emerging markets that you are keen for UK insurers to develop into? Are they the smaller Asian or Latin American markets? Which area are you thinking of?

Caroline Wagstaff: Both of those. Historically, as economic growth develops, people acquire more insurable assets, and that tends to drive insurance growth. Quite a lot of those countries have real exposure to natural catastrophes, whether that is earthquake or flood. Those are exactly the communities that need the protection of insurance and reinsurance. There is a real need to be developed in those markets to protect and enhance those economies.

Christopher Croft: Where there is potential to increase the flow of business, and where we hope the competitiveness and growth objective would have some impact, is for increased regulatory dialogues between the UK regulators and their overseas partners, so that they can become more comfortable with each other's regulatory regime and can begin to find the ability to rely on other supervisory judgments. One of our issues with the FCA is that it tends to be slightly unclear about the perimeter of its powers. If you have a client in a well-regulated territory in the United States or elsewhere, and they are dealing with their local broker who principally owns that client's relationship, they will go through a lot of the basic regulatory checks at the start of building that relationship, to establish who the client is and some of the anti-money laundering checks.

When that business, because of client demand and the need to access the sorts of excess markets that Caroline talked about, cannot be placed domestically so it flows into London, it is not clear that the FCA will allow our members to rely on the checks that were originally made, so they tend to repeat them, because, as I said before, compliance departments tend to be naturally risk averse; it is how they work. You are introducing

an unnecessary level of cost. It just adds grist to the mill in that process. There is a huge opportunity for a regulatory dialogue to try to smooth that passage and remove the overall burden from global business.

Lord Reay: Can I go back to my first question comparing the three geographic competitors and perhaps paraphrase what you have said, which I may have got wrong? The regulations themselves are not altogether different, or one more competitive than the other; it is the way they are interpreted. London puts itself at a disadvantage, because we interpret the rules in perhaps a more certain way. It is not tax and it is not capital requirements in Bermuda and Singapore that are causing the competitive issue. Would that be correct?

Christopher Croft: The one difference—I think Caroline touched on it—is that the regimes in those territories have at the moment something equivalent to the competitiveness and growth objective that the Treasury is now proposing. It is important that that is enshrined in the regulatory framework, but then, as we said, that it goes from an objective on a piece of paper to actual behavioural change in line with some of the examples we cited.

Caroline Wagstaff: At the end of last year, the Bermuda Business Development Agency was heavily promoting itself as becoming the green finance centre of expertise, something our Chancellor would like London to become. One of its key selling propositions was the historical ability to look at hurricane and weather risk, and another was the nimbleness of its regulatory regime, its responsiveness and its ability to pivot and change and meet new needs. In a sense, that says it all. That is how it is selling itself. We have one of those; we have all the weather expertise and climate modelling expertise, but we do not have the other.

Q13 **Lord Reay:** I have a final question, which is about a recent case last year when some of the big insurers were taken to court for refusing to pay out on Covid-related business interruption cases. I got the impression that it gave the industry a bit of a bad name. Could you talk about the repercussions of that and whether it has reflected badly on the London market?

Christopher Croft: That was absolutely an example of the FCA acting properly within its remit as a regulator. In that instance, it identified a genuine market failure and found a swift measure to resolve it and ensure that customers got the right outcome. We very much applaud the FCA for that initiative. Hopefully, it will reflect on some of the core drivers of how it arrived at that initiative and apply them across the rest of its approach to the sector.

Caroline Wagstaff: From a reputational point of view, you are absolutely right. People need to know what insurance they are buying and what gets covered. Policy wordings need to be clearer. The industry has to learn lessons from the business interruption issue. I think it is trying to do that and everybody has been very alive to it. It has been a lesson learned for the industry. People recognise that we have taken a

reputational hit, and quite rightly; when people feel they have been let down, that is a bad thing.

Again, to the credit of the regulator, lots of customers in other countries said, "We wish our regulator had done the same thing as the FCA". They are enmeshed in five years of up-and-coming litigation to try to get to a resolution of the issue. A lot of what we said may sound a bit negative, but we think this was a very positive intervention by the regulator and one where the UK was leading in how that was dealt with.

Lord Reay: Thank you very much.

Lord Cromwell: You touched earlier on the one-size-fits-all approach and that that is a regulation issue that perhaps we could address. You also talked about the cultural and organisational treacle of the regulators. The cure you are suggesting is putting a competitiveness objective on their "To do" list. Do you really think that will change that culture, and, if so, how long will it take?

Caroline Wagstaff: I do not think it will change the culture unless some accountability goes alongside it. I do not think giving the regulators the remit alone will change anything. I hope it will change because alongside it will go a greater understanding of proportionality: which customers and which markets pose what type of risk to the system they are trying to protect. You would hope that a better understanding of that, plus a sense of trying to be more welcoming, and growth and competitiveness, with some accountability that matches up to all that will genuinely make change. It will not make change overnight. Change anywhere does not happen like that, but you could see some early steps that would be helpful.

Lord Cromwell: It is a big change. I hope you are right.

Q14 **The Chair:** Can I stay with the relationship with the regulators? You talked about some of the concerns and anxieties, some of the sand that slows down the whole process. You have presumably raised these points with the regulators on many occasions. What has been the response of the regulators to your concerns? Do you feel that you have a sufficient level of dialogue with the regulators on these issues? To the extent that you are frustrated by the lack of response, to what extent does the Treasury take account of your concerns? Perhaps you could explain the dynamics of the relationship between the industry and the regulators, and then ultimately the Treasury, in a little bit of detail.

Christopher Croft: Yes, we raise those concerns with the FCA. I am not sure to what extent they are taken on board. For some of the more formal mechanisms that we have to provide this sort of feedback, I can point to a consultation it carried out on operational resilience in the industry. It published a consultation paper on 5 December 2019 arguing for a new level of rules to help it establish operational resilience in regulated firms, a principle that nobody has any argument with. We would have said, "You already have the systems and controls handbook

and you have the senior managers and certification regime, which gives you lots of powers to achieve the outcome you need, so introducing another level of rules is an unnecessary level of complication and makes compliance more of a challenge”.

The further point that we made for our sector is that the senior managers and certification regime came into force on 9 December 2019, so the FCA had already written a consultation paper suggesting that a set of rules that were not in force for our sector were somehow insufficient. Our response was, “Everyone expects operational resilience”. As a result of the pandemic, the response did not go in until October 2020, because the timescales were very welcomingly extended by the FCA. By October 2020, we could also point to the fact that the industry had gone through a rather unique test of its operational resilience and the market had carried on functioning through the first sets of lockdowns.

Our point was that you do not need additional rules; you already have the powers. The FCA completely ignored that argument when it came to produce the policy statement. Sometimes it is hard to see whether the feedback is being accepted. It is less visible certainly with our smaller members in the market than it was two or three years ago. We are very keen to have constructive dialogue with the FCA, and we would hope to see that reflected.

Caroline Wagstaff: We have certainly raised our concerns about the ILS regime with the PRA. So far, there has not been much suggestion of change. We have not heard any concrete suggestions about what might change that would make that different and encourage people to come back again. We are in a situation, to be honest, where people will not engage unless there is a commitment to change from the PRA that somehow we can put some specifics around. We want to keep talking to the PRA. We are talking to the PRA this week. There is an open dialogue, but we do not get many verbs back.

The Chair: Does the Treasury pay close attention to these matters?

Caroline Wagstaff: I think it does. We have had conversations with the Treasury about ILS. We put it in contact with people who have done some ILS in the UK so that it could understand what the issues were because they have invested a lot of time and energy into this market that has not really gone anywhere. We certainly told the Treasury what our objections are on things like the future regulatory framework. I have sat with the Economic Secretary to the Treasury as other trade bodies in the City have articulated similar concerns about the regulators and what we are hearing there. There is a good level of dialogue with the Treasury, and it hears what the City is saying. It has to balance that with the fact that the regulators are independent. It is an interesting position to be in.

The Chair: You talked about the relationship with regulators in other territories such as Bermuda and Singapore where they are very welcoming. In the reporting structure and the accountability structure, do you see anything in the way the regulators operate in Singapore that we

should import so as to make the relationship better functioning?

Christopher Croft: It is hard to say. The key difference, which we have touched on already, is that they are incentivised to promote their markets in a way that our regulators are not. We very much support the Treasury proposal to introduce a competitiveness and growth objective, because that begins to give the same sort of incentives to our regulators. Accountability regimes, I suspect, need to be flexible across the way different nation states work, but we would very much welcome a strong accountability regime that both holds regulators to those objectives and makes sure that they can demonstrate progress.

The Chair: Caroline, do you have anything to add?

Caroline Wagstaff: I do not think so. The honest answer is that from a day-to-day perspective we do not deal with other regulators. I suspect that when you talk to some other people, particularly Sean and Malcolm, who have experience of dealing in different markets, they may have some more interesting detail on how it works in practice that could offer some colour. Anecdotally, I talked to someone the other day who said that they felt the amount of paperwork they had to fill out in Bermuda was certainly the same as it was in London, but some of the speed of turnaround was different. On a more detailed comparison, I could not really comment.

The Chair: Thank you both very much indeed, Caroline and Christopher. You have been very helpful. We shall certainly be taking up some of the points you have made with subsequent witnesses. Thank you very much for your contribution today.