

Exiting the European Union Committee

Oral evidence: The progress of the UK's negotiations on EU withdrawal, HC 372

Tuesday 24 July 2018

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Members present: Hilary Benn (Chair); Joanna Cherry; Stephen Crabb; Mr Jonathan Djanogly; Peter Grant; Wera Hobhouse; Stephen Kinnock; Jeremy Lefroy; Mr Pat McFadden; Craig Mackinlay; Mr Jacob Rees-Mogg; Stephen Timms; Mr John Whittingdale; Sammy Wilson.

Questions 2310 - 2382

Witnesses

I: Huw Evans, Director General, Association of British Insurers; Catherine McGuinness, Chair, Policy and Resources Committee, City of London Corporation; Adam Minns, Executive Director, Commercial Broadcasters Association; Giles Derrington, Head of Policy, Exiting the European Union, techUK.

Examination of witnesses

Witnesses: Huw Evans, Catherine McGuinness, Adam Minns and Giles Derrington.

Q2310 Chair: Can I begin by welcoming our witnesses this morning? Catherine McGuinness, policy and resources committee chair of the City of London Corporation, Adam Minns, executive director of the Commercial Broadcasters Association, Huw Evans, director general of the Association of British Insurers, and Giles Derrington from techUK, on behalf of the Committee can I thank all of you for giving up your valuable time this morning to come and share your views with us, and particularly to you, Mr Derrington, for stepping in at the last minute? We are very grateful to all of you. We have, as always, a lot of ground to cover, so succinct questions and indeed answers would assist. I would like to kick off by asking each of you, starting with you, Ms McGuinness, just to give your reaction, from the perspective of your organisation and your sector, to the White Paper.

Catherine McGuinness: Thank you very much and thank you for inviting me to come and speak to this Committee. As people will know who have read the papers, the City of London Corporation did not welcome the White Paper and the way that it treats financial services, because we had been working with the financial and related professional services sector for some time on the proposal for mutual market access based on mutual regulatory recognition. We felt that was ambitious but pragmatic and the best outcome for consumers and businesses for the UK and the EU.

Having said that, the Government have taken the decision to move on from that proposal. We are pragmatic. The crucial thing now, 248 days from the day that we leave, is to achieve a sensible deal that gives the sector as much continued access as possible, while ensuring that we have the autonomy we need for the sector to thrive. We did not welcome the proposals, but we are absolutely committed to working with Government, with Parliament and with the EU to try to reach a sensible solution.

Q2311 Chair: It has been reported that even the proposal for a different form of equivalence—because you had passporting, then you had mutual recognition, and that has been cast aside now—was not apparently greeted with great enthusiasm by the European negotiators. Is there anything you would like to say about that? Does that cause you concern?

Catherine McGuinness: I would say it is not surprising at this stage of the negotiations that we are at and also given the EU's pattern of being very firm on sticking just to its third country regime. We were warned by the Swiss, in conversations that I recently had with them, that modifications to the system would be tricky.



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What I would say is that we all need to focus on something pragmatic, which will work for a global sector, works across borders and serves the EU extensively. It is in none of our interests for disruptions to that market or to fragmentation, reduction of liquidity or increased costs for consumers and businesses. I hope that they will engage constructively as we move forward.

Q2312 Chair: The Government have stepped up their efforts, while of course saying that they want to get a deal, to prepare for no deal. What is your current assessment of the implications of no deal for the City?

Catherine McGuinness: There are two things I would say, first about our assessment of the likelihood of no deal but then the consequences of no deal. We are hearing increasingly fears from other EU states and people we deal with that no deal is a possibility. For the large firms I would say people have been making their contingency plans since the referendum result. Nothing that has happened in the meantime has stopped them making those plans, so the large firms will be placed to serve their customers on day 1 post-Brexit where they can. That will not necessarily be in the UK's interests, because that means operations elsewhere.

There are some parts of the sector that cannot do that. Can the solicitors, for example, continue to fly in and fly out and provide advice? No, under the current arrangements, and we need to look carefully at that. They are not the only professional service sector affected.

I have to say we would have a concern about whether the unregulated companies—the SMEs and those who do not have regulators reminding them of the need for contingency plans—are as far advanced in their planning. Therefore, we welcome the proposal from Government to remind people of the steps that they need to take or the questions that they need to ask. Indeed, we ourselves are talking to the CBI, the FSB and others who are looking at this issue to make sure that in our capacity, responsible for the SMEs in the Square Mile, we are signposting people where we can.

Adam Minns: The White Paper for us was a backwards step. In the Mansion House speech the PM suggested the UK would seek mutual recognition for broadcasting. That was removed in the White Paper and nothing else replaced it. That leaves us in a situation where we are really not certain whether we are being thrown under the bus or if we have just hit a temporary roadblock.

This uncertainty could not have come at a worse time for us. No one can wait until March 2019 before activating contingency plans. It takes a long time to restructure, if you need to, under no deal, so we really need a commitment from the Government that they will seek an ambitious deal on broadcasting. It would instil a lot of confidence in industry if Government could set out, to some extent, how that would be achieved.

Q2313 **Chair:** You said you saw it as a backwards step.

Adam Minns: Yes, because in the Mansion House speech we had at least the suggestion of mutual recognition, which was then removed from the White Paper, so we do not know what the Government's plan is at the moment.

Q2314 **Chair:** The framework for all of this is that the Government have decided to adopt a common rulebook for goods and for agri-food to the extent that is necessary to ensure frictionless trade in goods but have decided not do so in relation to services. We are dealing with the consequences of that. What will be the consequences of no deal for your members, if we get to next March and there is not an agreement relating to broadcasting at all?

Adam Minns: COBA represents a range of domestic and international channels, and the issue here is for international channels. This is a £1 billion sector in the UK. It supports one in five jobs in UK broadcasting and it is extremely high growth. It is also something that the UK is very good at. We have more international channels based here in the UK than any other EU country, by a country mile. When I say "international", they are based here, they are licensed by Ofcom but they are not broadcasting to UK homes; they are broadcasting into the EU.

There are two impacts for these channels. There is the impact on day 1, when we know some companies will be able to minimise the level of disruption because they may already have a significant base in an appropriate EU country. They can move a few people into that country and qualify for a licence from a remaining EU member state. Other companies are not in such a fortunate position and face a much more challenging set of logistics. I know that some have already had to let go a significant percentage of their UK staff. That has already happened.

The real impact, though, is over the longer term. Every analysis we have done says that the impact will escalate over the next five or 10 years, because the UK will have lost a competitive advantage. Right now the UK is the country of choice for an international media group in Europe. We have infrastructure, language skills, creative talent and the regulatory regime. What no deal would do is allow a country like the Netherlands to say, "You have not looked at us before as a base because our media sector is much smaller. However, we have Netflix. We have a tech hub that we have been growing. We all speak English. We have great airport links. Guess what? We can offer you something the UK cannot. We can offer you a broadcasting licence".

What that means is the UK has lost a critical mass, or the critical mass starts to erode in the UK. The critical mass will increase in other countries, and it is not just broadcasting we are talking about. It is also the supply chain. For example the UK post-production sector is a £2 billion sector. Parts of that are reliant on international channels and that is a client business. They would have to move with their clients.



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No one is saying that the UK TV industry is going to collapse as a result of this, but international broadcasting is such a phenomenally high growth sector. It is growing at twice the rate of the rest of the UK's audio-visual sector. It is growing faster than the average for creative industries. I cannot see how you can sustain that level of growth if you cannot offer international broadcasters a licence going forward.

Q2315 Chair: Do you think Ministers understand the adverse impact and the consequences of no deal that you have just described, in the short and longer term, on what is a great British success story?

Adam Minns: The honest answer is that I do not know. Some Ministers in some Departments do and some do not.

Huw Evans: Our view is the Government had to agree a negotiating position. It has taken far too long to get to this point. Therefore, the Government's shift from the mutual recognition ambition that they had, which Catherine just described, reflects that reality: that with 11 weeks to go they felt they had to bring a more realistic negotiating position to the table.

We understand the rationale and we certainly understand the urgency, but for the insurance and long-term savings sector this approach poses quite considerable risks. Why? Ours is a world-leading sector; it is easily the most international insurance sector in the world and is the largest in Europe by some measure. For us a future regime that is built on the foundations of the European Commission's equivalence model poses potentially significant risks that we end up as rule-takers, either completely or de facto. The Chancellor understands those risks and the Treasury is keen to avoid them, but they are nonetheless inherent in the approach that the Government have decided to take as part of their negotiating position.

I should say at this point that it does not affect every part of the insurance market equally. Being the largest insurance market in Europe and the fourth largest in the world, it is obviously a wide and deep sector. If you are a UK long-term savings or pension company then being a rule-taker is a very big deal. Equally, if you are a broker then relying on the equivalence model is also a bad deal because it does not give you any market access at all. If you are in the more international parts of the London market then if you get equivalence for reinsurance that enables Lloyd's of London to operate, for example.

I would not claim that it is an equally bad or difficult situation for all parts of the insurance market, but certainly the risk of being a rule-taker and tied into the equivalence regime over a long period of time, even if there is a respectable argument for doing it in the short term for financial stability reasons, is a major concern for us and one that we are very keen that the Government manage to avoid in the negotiations that will follow.

Q2316 Chair: In terms of the impact on the sector of no deal, what happens



from 1 April onwards next year?

Huw Evans: The most obvious challenge will be around insurance contracts that already exist. This is the so-called contracts continuity issue, which I know this Committee has looked at in the past. A no-deal situation would leave those in a form of legal limbo, where insurers would be unclear whether they could legally pay claims for contracts that have been written pre-Brexit but which have to be paid out in the countries of the European Union.

In many countries in the European Union—and this is not the case in the UK—if you are not authorised to transact business there, it is illegal to pay a claim to fulfil the contract. For many insurance companies, particularly ones that have written DNO policies, which are corporate insurance policies, if a claim comes in two years down the line in a country like Germany their lawyers will be advising them that they cannot pay the claim, because it is illegal to pay the claim without either authorisation, which currently comes through the passport, or through some form of agreement between European regulators as part of an overall deal.

For us a no-deal situation keeps that situation in the legal limbo that it is at the moment and that has to be sorted out as part of a withdrawal agreement arrangement. Also, for a consumer you would lose the European Health Insurance Card, which would mean people would have to pay extra for their travel insurance, to have that covered as part of that. It would leave the green card arrangements for both freight and domestic road travel across the continent in limbo. That is close to being sorted, but it requires a Commission rubber stamp, which presumably will not come if there is a no-deal scenario. More generally, for such a highly regulated sector it throws into doubt what form of regulation is in place across the continent to ensure financial stability.

Q2317 **Chair:** That is very helpful. Presumably the people who have taken out the contracts are ringing up their insurance companies in London and saying, “If I claim are you going to pay out in a year or two years’ time?” and the answer presumably they are having to give at the moment is, “Under your own legislation it looks like we would not be able to do that”. Is there any sign of them trying to terminate those contracts or find alternative arrangements that you are aware of?

Huw Evans: At the moment there is more nervousness about new contracts.

Chair: I was just going to come to that.

Huw Evans: There are more questions about how you can write or broke this new contract if you cannot be sure you can pay the claim, so firms are looking to find a way around that. There is less concern about this at the moment because there is a general view, “Surely an agreement will be found on this”. By way of context, the Bank of England and EIOPA, the European regulator, estimate there are 38 million EU policyholders



affected by this issue, so this is not a small issue. This is highly material. There is the related issue that in future, if this issue is not sorted out, if UK citizens retire to an EU country and they have an insurance-based pension that is paid to them in the domestic bank account of the country in which they reside, that may also be deemed illegal if there is not an arrangement found for this problem. There is both an existing problem we are aware of and there is a future challenge that arises from the mobility of people and not just the insurance contracts, which needs to be sorted out.

None of this is impossible to sort, by the way. It is sortable, but it requires regulatory co-operation and political agreement to do so. Up to now the European Commission and EIOPA, the European regulator, have refused to engage in those discussions because of the overall state of the negotiations.

Q2318 Chair: You are saying that British pensioners, if they take the policy they have at the moment and go and live somewhere else, in the absence of a method of sorting it out, might find they could not get paid their pension. Is that what you are saying?

Huw Evans: That is a perfectly plausible risk in the future if no agreement is reached in some countries.

Q2319 Chair: That is where the domestic law prevents.

Huw Evans: It is important to note here, not least to avoid panic, that each country of the EU has slightly different arrangements around this. We did a survey working with a City law firm of eight different EU countries and found eight different regimes, so we are not saying this is a blanket risk across all 27. It is a classic issue of the type that requires regulators with political blessing to sort the issue out themselves and put in place the types of arrangements that are perfectly common, for example, when an insurance company goes into run-off. Regulators agree with each other how they will supervise the company that has gone into run-off and how they will make sure that contracts are paid. That is perfectly normal regulatory activity. We need a similar sort of agreement on this, but it requires political blessing to get there.

Giles Derrington: On the overall paper, the institutional framework it proposes is a workable starting point. The discussion about moving towards an association agreement model, something that the EU understands and has implemented in the past, is a sensible initial opening position. It takes a broadly positive view for goods. The calculation of market access being traded off against regulatory flexibility is a sensible approach. There are a number of questions, which I am happy to come to, about how that works in practice, but overall on the goods side there are some positives there.

Where our real concerns are on the services part, particularly on digital services, where, if we are honest, the paper just does not give any



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real information about what the plan is. As my CEO put it recently, for goods I know the day after Brexit broadly speaking things will be the same. For services I know some rules will be the same and some rules will be different. I do not know which ones are which, so that makes it almost impossible to plan for what things might look like.

The calculation that certainly our members have continued to make is that for services the same trade-off as has been made for goods is something we would probably broadly like to see, i.e. we would rather be seeing market access and regulatory influence in exchange for flexibility. There is a lot of talk about the potential benefits of flexibility. We struggle to really identify where those might be on a global scale.

Q2320 Chair: Just say that last point again. You struggle to identify benefits for the sector here in the UK from the flexibility that it is argued would come from not adopting a common rulebook for services.

Giles Derrington: Absolutely. The main reason for this is that the EU still remains one of the big regulatory hubs in the world and a number of its rules have extra territorial reach, so we will have to apply them anyway. That limits flexibility. On a number of the other things where flexibility might benefit the sector, the reality is that we do not see British Government seeking to diverge on those kinds of rules. If you think of something like the copyright directive, where the UK Government's position is the same as the EU's position, there does not seem to be much space for flexibility there. Anything that requires people to present two products to two different markets, i.e. the UK and the EU, becomes quite problematic for the majority of the sector.

Q2321 Chair: Can you think of any examples where you as a sector cannot sell your services outside of the EU—in other words, to the rest of the world—because you are constrained in some way by EU rules? Does it prevent you from exporting?

Giles Derrington: I know the Committee has produced an excellent report on data flows. That would be a key driver of that. If there are a number of places where we do not have through the EU the ability for third party transfer to third countries, that prevents the provision of digital services and not just digital services, but an awful lot of other services as well.

Q2322 Chair: It is pretty important to the way in which you function.

Giles Derrington: Yes.

Q2323 Chair: Mr Minns, did you want to add a point?

Adam Minns: I have a point on flexibility, if that is alright. When I saw the Secretary of State talk about flexibility, I assumed that he did not mean broadcasting, because I do not know anyone in the broadcasting sector who is asking for more flexibility and, even if we were, we could get more flexibility without sacrificing mutual recognition or leaving the



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single market because the UK gold-plates so many rules anyway. It certainly is not going to be mitigation for losing access to 45% of our market, which is what the EU is.

Q2324 Mr Whittingdale: Mr Minns, can I follow up on some of the comments you made about broadcasters? Prior to the publication of the White Paper, can you say what discussions you have been having with Government about any negotiation to ensure that country of origin still applies to the UK post Brexit? Have those conversations, if they were taking place, now ceased or are they ongoing?

Adam Minns: We have had conversations with various Government Departments and we have had assurances that broadcasting was a priority. Mutual recognition was mentioned in the Mansion House speech. We knew it probably would not be an off-the-shelf definition of mutual recognition, but something based on that. Since then we have met with Ministers in DCMS. We have requested a meeting with the new Secretary of State at DExEU. We have not had any information about the Government's position on broadcasting post the White Paper.

Q2325 Mr Whittingdale: What discussions have you had with your members? It is notable, for instance, that the biggest investment this country has probably ever seen is into an international broadcaster based in Britain, which is £23 billion from Comcast for Sky. That does not suggest that they are too concerned or do you expect other investment decisions to be switched overseas?

Adam Minns: As I said before, it is short term and then medium and long term. As I said, some companies will be able to reduce the level of disruption because they already have a significant presence in Europe. In order to qualify for a licence for an EU country you have to have "a significant part" of your relevant workforce in that country. Some companies will already have that and will be able to move just a small amount of people into an existing office somewhere. Others do not; I know one company that has already let go nearly a quarter of its UK staff in order to restructure. That is just talking about things that are happening right now for day 1.

The longer-term issue is, yes, it is true there is a lot of merger activity going on in the sector, and that is part of the worry, because that conversation with the Netherlands is going to happen every time a company restructures, merges or acquires another company. That conversation in the Netherlands, Dublin or Germany is going to happen every time a new entrant emerges. This is happening a lot. We have new players entering the sector because of digital disruption and online services, which are also subject to these rules. It is a fast-moving, evolving sector and that is the real risk to the UK's future position, as we are at the moment the leading European broadcasting centre. It is hard to see us sustaining that over the medium to long term.

Q2326 Mr Whittingdale: Can I just explore with you the grounds on which to



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apply for a broadcasting licence overseas? We are talking about employment. Uplinking, for instance, is not sufficient in order to qualify for a licence.

Adam Minns: Uplinking is if you have no presence in the EU at all.

Q2327 **Mr Whittingdale:** Let us take Discovery. How many people, in your view, would need to be employed by Discovery in the Netherlands out of their total European workforce in order to be able to apply for a Netherlands broadcasting licence?

Adam Minns: I cannot comment on a specific company. We have looked at this because legal challenges come up all the time from different member states. Ofcom has done a lot of work looking at what qualifies as significant and, in the casework they have done, under 10% of your senior editorial staff does not seem to cut it.

Q2328 **Mr Whittingdale:** How would that happen? If I am Discovery and I have a base in the Netherlands and I apply to the Netherlands regulator, do they turn around and say, "We are not going to give you a licence because the number of employees you have is not sufficient"?

Adam Minns: Potentially, or a third member state can turn round and say, "They do not qualify because they do not have enough presence there".

Q2329 **Mr Whittingdale:** You estimate it is possibly around 10%.

Adam Minns: That is 10% of your senior editorial workforce.

Q2330 **Mr Whittingdale:** What is the senior editorial workforce?

Adam Minns: Sadly there is no easy definition, but we assume it is people making editorial decisions, so we are looking at schedulers, commissioners, programmers and these sorts of people. The issue is you cannot just have these people working in an ivory tower somewhere. They need support: they need their IT people; they need legal; they need compliance; they need technology, et cetera. That is when it starts to snowball.

Q2331 **Mr Whittingdale:** To what extent does the trans-frontier television agreement mitigate against this?

Adam Minns: We would still be signatories. It does not work for us because it does not give you the country-of-origin principle on advertising. It allows member states to overrule the advertising rules from the UK. It also does not cover on-demand services, so that rules out part of our businesses and the future direction of travel for businesses at the moment. I do not know a single COBA member that would be willing to use it.

However, it might work for some channels that do not rely on any advertising revenues and that do not have any on-demand services. The one category of channels that it might work for are Russian propaganda



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news channels coming out the UK, which is a big concern to some of the Eastern European countries, who are alarmed at what would happen if the UK crashes out under no deal and suddenly certain news channels are able to carry on using the Transfrontier Television Convention. That would allow them to be out of the reach of the Commission, which there is no jurisdiction over.

Q2332 **Mr Whittingdale:** Hold on; they are still subject to Ofcom's jurisdiction.

Adam Minns: They are. They would be, yes.

Q2333 **Mr Whittingdale:** Ofcom is a much tougher regulator of impartiality than anything in Europe.

Adam Minns: Possibly, but they would not be subject to the European Commission. These are not COBA members. It is interesting that this is a concern and a reason why it is in the EU's interest to do a reasonable deal on broadcasting.

Q2334 **Mr Whittingdale:** I have one last question. The UK is still a massive market for broadcasters and possibly the biggest in Europe, or close to. You and I have talked in the past about the AVMS directive, which is not all beneficial. There are bits of it that we opposed and that broadcasters regard as unduly burdensome. By being outside, do you see some opportunity to relax certain provisions, perhaps on advertising requirements, on cultural content or some of the other areas within AVMSD that we are less happy about?

Adam Minns: I am afraid I do not. The problem is, for example, on advertising minutes, the UK is more restrictive than the European minimum standards require it to be, so we could do that tomorrow if we wanted. What we would lose is this thing called the country-of-origin principle, which I know you understand completely. That basically allows us to have access to the single market, to be regulated in one single country and broadcast to every other country under the same rules, which is what we need for our cost efficiencies and keeping our overheads down. We would lose a lot more than we gain.

Q2335 **Stephen Timms:** Ms McGuinness, job losses in the City have been much fewer so far than was initially feared. If the White Paper plan was delivered—Mr Barnier has cast some doubt on aspects of that—what do you think that would mean for jobs in the City from here?

Catherine McGuinness: First of all, rather like Giles I think we need to see a lot more detail of what the proposals in the White Paper mean and what they will achieve, because the number of job losses will depend on the amount of access that the sector continues to have to EU markets and the amount of business it can follow up there. We also need to draw a distinction between the short term and the long term, because in the short term, especially while the overall framework is still uncertain, people are only going to set up or move the number of jobs they need to



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in order to carry on business. They cannot make the best decisions until they know what the long-term framework is going to be like.

That said, we are still estimating, in the short term, between around 3,500 and 12,000 jobs, which I would have to confirm. That is the range we have heard announced and we are now beginning to see some of the specifics from some of the firms coming out. That is all in keeping with the Oliver Wyman report that was carried out shortly after the referendum, which suggested a range between 4,000 and about 75,000 jobs, depending on the shape of the ultimate arrangement.

We are not at the moment expecting a big *Brexodus* in the first instance, but depending on how things pan out, depending on what long-term agreement is reached and depending on how much the EU starts turning up its requirements for presence in the different centres where people are setting up, in the longer term we may see many more go. There is also the question of the dependencies. Some jobs go, but there are other functions that work with those jobs that we need to look very carefully at.

Q2336 Stephen Timms: Even though losses so far have been at the low end, it would be fair to say, in terms of expectations, that you think we may well be on track for the much bigger numbers that Oliver Wyman was talking about.

Catherine McGuinness: We would say it is all to play for. The initial movements are not an indication of what will happen in the longer term. What will happen in the longer term entirely depends on the level of access, the level of business and the level of opportunity that we can develop elsewhere.

Q2337 Stephen Timms: There are lots of different professional and business services in the City. How much variety is there in their views about the merits of a continuing very close relationship with the EU? I take it you are particularly speaking about financial services in the answers you have given. What about all the other services?

Catherine McGuinness: We also work with the related professional services sector. Indeed, I am on the Professional and Business Services Council. There are a variety of views and we will see that emerging now that we have moved away from the mutual market access and mutual regulatory recognition approach, which most people could coalesce behind. It will depend very much on how focused people's businesses are on the EU or how focused they are domestically or outside the EU.

When it comes to the professional business services, there are certain sectors that would be particularly affected if we are not careful. I mentioned law, the solicitors and the need for mutual recognition of qualifications and the need for them to be able to fly in and fly out, as I mentioned before.

It is worth not losing sight of the fact that besides the cliff-edge question of contract continuity that Huw mentioned, there are similar issues



around the recognition of English law as the appropriate system to govern the contracts that we are beginning to see emerge, which I find extremely worrying because the supremacy of English common law as the international system for governing contracts goes back well before our participation in the EU. It is a real concern that it is now being undermined as we leave.

Q2338 Stephen Timms: Outside the legal sector that you have mentioned, how important is mutual recognition of professional qualifications to the other sectors in the City?

Catherine McGuinness: I cannot be very specific without going into more detail and I can write back with more information. For many of the professional sectors, it is very significant. My understanding is that solicitors and architects are particularly badly affected, but that some of the other professions are equally concerned. It is one of the core asks of the PBSC for the agreement as we go forward.

Q2339 Stephen Timms: Can I just put one further point to you? There are two offsetting considerations that have been suggested to us to those that you have raised. One is that the single market on services is far less complete than for goods, so its loss would be relatively a lesser problem to the service sector. The other is that the proportion of exports accounted for by the EU in the case of financial services is significantly less than in some other sectors. Also, the EU rules constrain exports to Asia more in the financial services sector than is the case elsewhere. The implication of that would be that there is potentially a big export opportunity for financial services, from leaving the EU, to other parts of the world. What is your response to those offsetting considerations to the concerns that you have expressed?

Catherine McGuinness: The first thing I would say is that the sector has relied very heavily on its passporting rights over the past few decades. Those have enabled it to build up a method of practice, to provide services across borders into Europe and beyond, which it has relied very heavily on for the model of business that has been developed. If that access is significantly diminished that will mean less business, and that is likely to mean fewer jobs. That is the first point I would make.

We really do need to see more detail on what is actually proposed and how the Government plans to build up the building blocks. When we look at the system of third country access, which we would have if nothing else is agreed, it is partial. It does not cover the whole sector, so there would be areas of business that we would not be able to do under that system. It is political, so even if you tick all the boxes, as it were, you cannot be sure of getting an equivalence judgment. Indeed, we have seen that recently with the Swiss stock exchange, which has been given a temporary permission for 12 months when really it ought to be given a longer one for certainty. We see that it can be very quickly withdrawn and we need clarity. We need stability, so that people have a longer time to off-ramp—I think that is what we are now calling it—if recognition is



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withdrawn. There could be a very significant impact on the business that people can do if they have to rely on that system.

Q2340 **Stephen Timms:** Might there be a bigger prize in Asia?

Catherine McGuinness: There are two things I would say on that. The first is that, business being business, it pursues opportunities where it sees it and, therefore, people have been pursuing opportunities in Asia already, as China in particular opens out to the world and as there are other opportunities. We can expect to see business carry on doing that.

It will fall to agencies such as ours, and indeed Government, which are not of the sector itself, to try to encourage a step up in that regard, because frankly if business sees opportunities it develops them anyway. What we need to be doing to make up for this significant loss—and it is significant because it is one of our biggest service export markets—is helping to see further opportunities in the other markets that business has not yet seen.

Q2341 **Stephen Crabb:** Catherine McGuinness, were you taken by surprise by the Government's shift from mutual recognition to equivalence?

Catherine McGuinness: We were aware of it ahead of time. We were not consulted, but we were aware shortly ahead of time. We were surprised in that just two weeks before we had had the Mansion House speeches, where from the tone we had expected continued support for the mutual market access and mutual regulatory recognition approach.

Q2342 **Stephen Crabb:** Has there been a concern in the professional and business services sector that perhaps Ministers have not had their ears attuned so closely to the needs of your sector compared to, for example, manufacturers, where the big players like Airbus and Jaguar Land Rover have been able to make some quite bold interventions in the last couple of months that have moved the dial in terms of some of the internal discussions going on in Government? How does your sector feel?

Catherine McGuinness: The sector feels that it is sometimes easier to make a story about something in the manufacturing space than some of the more esoteric and difficult arguments that we need to make. The financial services sector has been speaking with Government from the very start and has had a pretty open dialogue, certainly since last year's election. We feel that many of the Departments we deal with understand our concerns. The professional business services have perhaps been a little slower in coming forward with a united voice about their needs, which they have now done with a letter that was delivered to Number 10 a couple of weeks ago, which we have seen reflected in the White Paper.

There has been a worry that goods and manufacturing might be given priority over services, which would be a real concern for the economy because we are an 80% service economy. If you take the financial services sector alone, it employs 2.2 million people directly and generates £75 billion in tax each year. The related professional services are



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4.6 million in direct employment up and down the country. We have been concerned at the thought that services would take a second place to goods.

Q2343 Stephen Crabb: Now that the Government have said that they want to pursue enhanced equivalence as their preferred approach, do you think that there may be some complacency around Government about just how easy or difficult it will be to get the European Commission to play ball with that?

Catherine McGuinness: I do not know if there is complacency. We can all see that it is going to be an uphill task to persuade the EU 27, and indeed Mr Barnier's comments just reported now underline that. There is going to be a job of work to be done ahead of us to persuade our EU partners to go for a solution that will work for EU consumers and businesses as well as ours, and enhancing equivalence is going to take quite a lot of work. It is crucial that we follow up the proposal in the White Paper, that we apply for as much equivalence as we can for day 1 post Brexit and then build on that.

Q2344 Stephen Crabb: Can I bring Huw Evans in on that point as well, about the difficulty of being able to land any significantly enhanced equivalence regime?

Huw Evans: It is a very ambitious ask. The fact that the Government have moved from what they came to consider to be an impossible ask to the next thing down the ladder does not mean that that thing is still not a very hard thing to achieve. Why? Because you are effectively asking for the EU to partner with you in the way in which you make the equivalence regime work in the future, whereas, as Catherine has just pointed out correctly, the equivalence mechanism in the third country regime is something that the EU considers proprietary. It is theirs. They deploy it, directive by directive, in different ways according to each directive and sometimes not at all, on the basis of what suits the EU's interest. As we have seen with the Swiss, they will withdraw it when it suits them as well and when they get into an argument about it.

It is quite a big psychological ask, as was reflected in Mr Barnier's comments, to say, "Our way forward is for this thing that is yours to become ours and for us to agree a way in which we work together to make it work for our benefit and for yours". It is not impossible and it is certainly technically more straightforward for the EU to find a way to do than the previous mutual recognition, but it is nonetheless psychologically a big ask.

You are then looking to partner on something that is not a uniform approach anyway. It is a piecemeal approach, done differently according to different directives, with different levels of market access—in some cases none at all—that come with it. It is an ongoing process. It is not something you can agree on day 1 and then you live happily ever after. It is an ongoing process of assessment. What you sign up to means that



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you have to be content that, 10 years down the line, that is still going to be working in both your mutual interests. The distinction I would seek to draw out for your consideration in terms of the White Paper is the distinction between the short term and the longer term. In the short term, the Government are rightly focused on financial stability around either a cliff edge that could arise in March 2019 or the cliff edge that could arise when the transitional period runs out at the end of December 2020.

It sees the equivalence model and some agreement around it as being a way of navigating that potential problem, but we also have to be aware of what it looks like beyond that, in the longer-term period, if this is the basis on which we now work together and try to make our markets work together. For me that is where, for the insurance and long-term savings market, we have some more profound questions about whether this can really work if we are looking at it through a 10-year lens rather than a two or three-year lens.

Q2345 Stephen Crabb: Just finally, given the fact that Michel Barnier is sounding a very sceptical note about enhanced equivalence and the fact that European authorities are not fully co-operative at the moment with UK authorities, do you think there is a risk that their approach is stoking the fires for a no-deal scenario?

Huw Evans: Yes. EIOPA in particular, the European supervisory agency responsible for insurance and occupational pensions, has been unnecessary political in its handling of certainly contract continuity, where, to my mind, its responsibility as a regulator is to policyholders. It is not responsible to do the Commission's bidding in terms of holding up what would otherwise be a relatively straightforward process of agreement.

There is a price to pay for the last two years in which the UK Government has failed to reach a negotiating position and get stuck in to these discussions. That price has allowed some of the hardliners in the Commission to prosecute their agenda and, indeed, for the Commission to still be in charge of the process, because the working assumption two years ago was that the Commission would kick off this process and then the member states would take it over. The fact that the Commission itself is even still running this process is in itself an indication that this has not yet moved to the advanced state it needs to to get a deal, because ultimately it is the member states and the political leaders of Europe who have to reach an agreement, not the Commission officials. The sooner we can get to that stage the better. In the meantime, we have seen regrettable behaviour from some parts of the EU establishment. It has made a deal more difficult and as a result we face a more uphill challenge, but it is still doable and it is still in policyholders' interest that we find a way forward.

Catherine McGuinness: Can I just add to Huw's comments on the question of contract continuity and the need for a pragmatic and



responsible approach by the EU, because this affects the derivatives market as well, and £26 trillion of open derivatives, which could be a risk to financial stability, even if only a fraction of those are uncertain or if you are not clear if your contract will work. It really is crucial that these issues are tackled by both the EU and the UK in a pragmatic way. We are told repeatedly from the Commission that the market can find a solution. There is not time left, even if the market could find a solution, to deal with all the contracts that would need to be dealt with.

Q2346 Stephen Kinnock: Good morning. The fundamental challenge with this process is the constant attempt to create a bespoke deal and to create something new in a situation where there is a tremendous amount of time pressure and a lot of political good will has been burned. In that context, have your respective industries looked at the European Economic Area as a model for Brexit, particularly given the fact that it is a well-known and well-established agreement that industries and Governments could slot into. I would be very interested in hearing from the panel on your views on an EEA-based Brexit as potentially solving so many of the challenges that you have raised today.

Huw Evans: We have looked at that and we are not fans of the arrangement. I would agree with your starting point that, given the situation you describe, it is imperative to try to find working solutions. That is why many parts of the insurance market have gone ahead and set up subsidiaries in the European Union, to be ready by next year to enable them to carry on transacting business in the EU. They will be regulated in that manner. That has been a very notable characteristic of the insurance market's response to the Brexit referendum. They have done that already if they need to be absolutely sure they can write new European business next year.

That colours our view as to the merits or otherwise of an EEA approach, because if the firms that absolutely need a European licence to operate have gone ahead and set up a subsidiary and then the other firms are largely domestic players, the big disadvantage of being in the EEA is to be a rule-taker, both for your domestic business but also when you have already signed up to EU rules with the subsidiary that you set up.

Talking to our Norwegian counterparts, with whom we have a very close relationship, they have said to us, "Do not become us". Their view is that for a market size of ours—over 20% of the EU insurance market—it would be entirely unsuitable to be in the EEA model, to be a rule-taker and to not have any influence on how those rules are made.

Particularly I would draw out a distinction here for the long-term savings market rather than the general insurance market. For the long-term savings market, rules in the European Union—we saw this with the development of Solvency II—are driven by the very different tax and welfare systems that operate within the member states, which inevitably affect how their pensions and long-term savings markets work. For us to end up in the long-term savings market being subject to a set of rules,



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whether in Solvency II or any other directives, that were driven by the welfare and tax systems of the member states would potentially be very damaging for the UK, particularly for the ability to write annuities, which are a feature almost unique in Europe to the UK market and which we had to fight very long and hard to get Solvency II to recognise when we were in the room. We would be very fearful that being out of the room would see us disadvantaged on that, particularly given there is a big review of Solvency II happening in 2020, when the directive could end up being rewritten.

Catherine McGuinness: I would agree with Huw. The consensus around the EEA from the sector that we hear is that, first of all, the question of rule-taking would not be appropriate for a sector of the size that we house here in the UK and, indeed, for the amount of risk that we need to manage here in the UK because of having that sector here. Rule-taking would not be appropriate and it would not give the sector the access that it needs.

Q2347 **Stephen Kinnock:** Although it includes passporting. You would have passporting if you were in the EEA.

Catherine McGuinness: We would still be a rule-taker, which would not be appropriate for us. We would not be able to develop in the way that we need to and we would not be able to control risk in the way that we need to.

Adam Minns: To be honest, I look at the EEA longingly and think, "That would be fantastic". Being a rule-taker has issues, but, as I mentioned before, we are so in excess of EU minimum standards that, while not perfect, we could live with that if that gave us access to EU markets.

Failing that, as I have said, we do not really desire more flexibility at the moment. I wonder if there is room for discussing some sort of carve-out for audio-visual in terms of mutual recognition and then we end up going down the list to enhanced equivalence.

Can I just mention very quickly something in response to what Mr Whittingdale mentioned about which countries would require you to have that significant presence? We have had a chain of different embassies coming to the UK to woo the international broadcasters. Some of them may say, "Look, we will only be pursuing very minimum requirements for you to be based here". The problem will come from a third-party country then crying foul and saying, "That is not on", especially if they have a lot of channels moving over there. I just wanted to clarify that.

Q2348 **Mr Whittingdale:** To clarify, you are suggesting that a third country would apply to the ECJ that a regulator's recognition was illegal because there was not sufficient presence for them to grant a licence.

Adam Minns: To the Commission.

Q2349 **Stephen Kinnock:** Mr Derrington, what do you think about the EEA?



Giles Derrington: We have not taken the approach particularly looking specifically at models, because ultimately that is broadly a political decision. What we have done is looked at where models do not provide enough for the sector, which is why the association agreement approach that the White Paper takes seems to be a potential landing zone.

For us we do not see a free trade agreement model—a “CETA plus plus”, as it were—as being able to provide in any way the types of regulatory support we need. Services are thoroughly undeveloped, even within CETA. We move past that and then you are into association agreement, EEA type territory. We have not particularly made a distinction between the two.

There may be areas, if Government wish to express them, where there may be some benefits from flexibility. We have not, as I say, been able to identify them ourselves, not least because of our understanding of the domestic approach to some of these regulatory areas where the UK Government are in lockstep with the EU. If there is a change in that then an association agreement potentially allows you to create carve-outs in a way the EEA does not. It is a little bit difficult to know fundamentally what the difference is. For us the big Rubicon to be crossed is between a standalone trade agreement and something that is not quite full third-country status, which allows you then to do things like wrap around for data protection, so that the ICO has a continued presence and access to the one-stop shop, et cetera. The association agreement seems to give us that. You would get the same with the EEA.

Q2350 **Stephen Kinnock:** Just going back to this rule-taker issue, perhaps to Mr Evans and Ms McGuinness, given that you have all made it absolutely clear that highly integrated trade in services with the European Union is vital for the industries that you represent, is it not therefore inevitable that we will be a rule-taker? It is not possible to export services into a market without accepting the rules of the market that you are exporting into. With that in mind, would you rather have equivalence, which is what seems to be on the table from the European Union, or would you rather have the EEA?

Huw Evans: It is partly a question of timing. If Parliament had reached the view two years ago that there was a consensus around going after an EEA model then the judgment would have been more balanced, because many of my members who have spent the last two years setting up subsidiaries in Belgium, Luxembourg and Dublin to get market access to enable them to carry on running their European business—and, indeed, Lloyd’s of London has had to do the same in Brussels—would not have had to have done so, because the EEA model provides market access. That horse has bolted. They have spent the last two years doing that. They have done it. They have the market access they need to keep their businesses running.

For those of my members who then have UK businesses left, it is the worst of all worlds, with the idea that having spent two years setting up a



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subsidiary in, say, Luxembourg, their UK entity is then going to be regulated out of Brussels through rules that they have no say over. They accept it for the business that is happening in the EU, but for them, as for my members who are entirely domestically based, the prospect of being regulated out of the EU with no say on the rules is a problem, particularly for insurance and long-term savings because, unlike banking, our regulatory standards are not internationalised. They are not globalised. The vast majority of regulation for insurance and long-term savings is done through the EU. There is not the equivalent of the Basel accords that you have in banking, which set international global standards that are largely then mirrored in EU regulation. For insurance and long-term savings, Brussels is where it is at and where it is largely done, so for us it is much more material to be in a position where we have to take those rules.

Notwithstanding all of that, you are right to say we have to now look constructively at how to make an equivalence model work. We are at the beginning of that negotiation. It is an ambitious ask. We have to make sure that there are arrangements in place, for example particularly around reinsurance, so that Lloyd's of London and the large wholesale GI businesses can operate from day 1. We have to make that work.

Q2351 **Stephen Kinnock:** Ms McGuinness, specifically on this point, given that the EEA delivers passporting, you would still rather have equivalence than the EEA against that backdrop.

Catherine McGuinness: I would go back to the point about rule-taking and rule-making, and the need for us to retain autonomy. I have to say that, for two reasons, I think there will be a great degree of alignment between at least the regulatory outcomes that this sector faces here and this sector faces within the EU. The first reason is the access point that you make: the EU, for the businesses that want to work in their markets, will expect their regulatory outcomes to be met, but also because being well regulated is part of the USP of the City of London; good regulation that complies with global standards is something that we will continue to want to comply with them.

What Huw has just illustrated, though, is how there are differences even within one sector on how they view regulation, depending on how their business is structured and where they are focused. It is important to note that we have been really influential in shaping EU regulation as it has developed over the years and, if we are outside the room, it may very well move in a different direction that we are not comfortable with.

Q2352 **Stephen Kinnock:** That is inevitably going to happen on 29 March anyway, because one thing we know with Brexit is we will leave the political institutions. Given that we know that that is going to happen and given that we know we will not be in the room from 1 April, your view remains, though, that equivalence is preferable to passporting.



Catherine McGuinness: Certainly not equivalence in its present form. What we need is to seek the greatest possible neutral market access, as I say, for consumers and businesses here but also within the EU. It is a bit difficult to pick between one and the other, especially when we do not know exactly how equivalence will be enhanced as we go forward with negotiations, but, as I say, the bottom line needs to be, I suggest, the greatest possible neutral market access to enable global markets to carry on serving customers across borders.

Giles Derrington: Can I very quickly make a further point on that? For us, a key issue in this is the extraterritoriality of some EU regulations as they apply to digital. We already have data protection law. We are going to have e-privacy, which will likely come in after we have left. On those things it is far better to have some level of regulatory influence, even if that is observer status, because we will have to comply with them anyway. For our members, including, for example, our American, Japanese or wherever members, who invest a huge amount of money in the UK, they do so on the basis of the UK being a strong domestic market, yes, but being able to serve the European market and the UK being able to continue to have some regulatory influence over things that will apply to them.

Q2353 **Stephen Kinnock:** Something like membership of the EEA Joint Committee and observer status on EU agencies that comes with EEA agency would probably work, as damage limitation.

Giles Derrington: Broadly speaking, yes. The White Paper talks about, for goods, some kind of observer status on some of the committees and agencies. It is not entirely fleshed out exactly what that means. There needs to be more detail on that, but you could see the model in the White Paper being able to supply that. It is just a question of ambition.

Q2354 **Mr Djanogly:** There is a growing trend for services to be provided with manufacturing exports. This could take the form of domestic or non-domestic outsourcing of activities, such as accounting, design or marketing, which were previously done in-house. First, should the White Paper be treating goods and services trade as though they were separate areas of trade? How well do you think the servicification of goods is understood?

Giles Derrington: We increasingly see this being the case. If you take something like a mobile phone, the ability to import the handset into the UK is great, but the things that you value are the apps that you have on it, all of which will have an impact from EU regulation, be that copyright law or limitations to liability, et cetera. Before you even get to the services provider alongside the product, increasingly goods have digital services deeply embedded within them.

You are likely to see that potentially more in the future. If you think of things like 3D printing, at what point is trading something a good and at what point are you providing a service, which is a blueprint or whatever



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else it might be. Those kinds of things are only going to increase. There are big challenges globally. There is a lot of discussion at WTO about how you deal with some of these things in the future. Within our current status in the EU that is not a problem, but trying to separate it is very difficult.

You also then absolutely have products provided with service contracts and, indeed, a number of our members have said that the real value and the profit that they make on a number of the goods that they sell is almost entirely the service contract. There are potentially quite severe limitations within certain free trade agreements, if you look at them, about how you can provide services, particularly in terms of movement of people to provide that service. With something like CETA, effectively you can provide the first 12 months of a service through a person going back and forth. For those members who provide a UK hub for their engineers, et cetera, that means you cannot really house the engineers in the UK and have them serve five, 10 or 15-year contracts elsewhere in the EU. Do you locate them here? Probably not. You have to move them across as well.

Q2355 Mr Djanogly: You are basically saying that introducing barriers to trade in services will impact on the UK's ability to trade in goods.

Giles Derrington: Absolutely. It is also worth saying that things like platforms—market-based platforms—sell goods but they are a service and they will be impacted by barriers both ways. For example, IP exhaustion is really important. That means that goods put on the marketplace in France would effectively need to have the same IP price across the whole of Europe. If the UK is outside that regime, does that mean that people can put something on a marketplace in France but then put it on a marketplace in the UK for a higher cost? That hits consumers and hits competition for those platforms providing it in the UK.

Catherine McGuinness: I am moving beyond the financial services, which I normally deal with, but you are absolutely right; there is a false distinction being drawn between goods and services, and actually the two are much more intertwined than is often recognised. Let us just take three examples. One would be the carriage of goods by lorries. The lorry driver is providing a service and needs freedom of movement to cross the Channel with the goods that he or she is transporting. There may be some hire arrangement around the truck itself. There are also other agreements that have to be replicated in order for the truck to go across the border. That is one example.

The provision of complicated machinery or equipment—lifts or aeroplane engines or whatever—often requires engineers holding particular recognised qualifications in order to fit and maintain components, which highlights the importance of the recognition of regulatory qualifications. There are similar examples from pharmaceuticals. The two are very intertwined and we would overlook that at our peril. We need to make



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sure that this question of services embedded in the provision of goods is recognised and dealt with in our negotiations.

Q2356 **Mr Djanogly:** Mr Minns, would you comment on that?

Adam Minns: Our business is primarily services. There is an element of physical goods if people are shipping DVDs or, of course, when we are talking about movement of labour when people are taking camera crews and other equipment across borders. We are primarily about services in broadcasting.

Q2357 **Mr Djanogly:** What are the non-tariff barriers to your sectors that you think could re-appear when the UK leaves the single market?

Adam Minns: Our issue is about getting a licence to be able to broadcast. This is obviously not about whether you have a 10% tariff or a 20% tariff; you are either broadcasting legally, with the legal licence, or you are not. You have to get a licence. At the moment we are allowed to get a licence from Ofcom that will serve us for any EU member state, and that is what everyone does; it is all based in the UK and you comply all your channels according to UK rules even if they are broadcasting across the EU.

Under no deal, once we leave the single market, France, Germany and the Netherlands do not have to recognise the licence granted by Ofcom so you have to relocate part of your business to a remaining member state to qualify for a licence from them.

Q2358 **Mr Djanogly:** Are there any other ones, Mr Evans, that you would like to mention?

Huw Evans: In such a highly regulated sector as ours, it nearly always comes down to the behaviour of regulators and how easy it is to authorise businesses to make regulated business happen, whether those are one-off deals or the ongoing flow of business. It is also worth noting, if you are building a structure around the equivalence models, that a lot of the existing equivalence framework allows member states to do things on top of them. They can gold-plate and they can apply additional restrictions.

This goes back to my point that there is no identical equivalence regime across all the different directives; it is bespoke to each directive. Some of those directives allow member states to do a lot more than necessary, so it would really come down to how those things were implemented and whether it was in an environment where those member states viewed the provision by the UK of insurance services as being something that still enhances their economy, as many of them still do, particularly in the wholesale insurance market where the London market insures very large chunks of corporate risk for the EU. If it is still viewed as a positive, then hopefully it can still be made to work, but there are plenty of opportunities for mischief-making in anything built on the current



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equivalence regime, should that be the way in which the dynamic evolves.

Q2359 Mr Djanogly: Mr Derrington, are there non-tariff barriers that you would like to see sorted out in an FTA?

Giles Derrington: For starters, there are a number of them that cannot be sorted out by FTAs, and that is because the development of services within FTAs is still very limited. There are a huge number that would apply, and this goes back to the short term versus long term. For example, on things like call termination rates in telecoms, they cannot charge a higher call termination rate within the EEA than the basic cap. Outside the EEA, they can. There was a study in 2015, off the top of my head, that talked about the value of that being up to €11.8 billion across the whole EU. That is a huge barrier if we are outside of that.

Again, things like roaming charges, which I know the Committee has looked at before, would have an impact because we would not have access to the price caps.

On the digital side, we have discussed things like limitation of liability and the copyright directive, which may be a long-term question. On day 1, as it were, there would not necessarily be a non-tariff barrier because we feel there is potential alignment, but the EU will likely be changing the copyright directive. The UK can change the copyright directive in a different way. Even if both of those were potentially good outcomes, the fact is that you will have to choose one or the other to apply across your whole service, or present two different products that facilitate the payment of copyright in different ways. That creates massive problems. It is those longer-term things that we cannot predict and cannot know, because we do not necessarily know the EU's approach or the UK's approach. Increasing divergence in those areas would create significant non-tariff barriers.

As I say, the privacy directive is being looked at at the moment. The implementation period will likely take us over EU exit. There is quite a significant concern at the moment that, if we were outside the scope of that and we chose not to have a mirroring provision in the UK, things like the ability to do shared document work across the UK and the EU would not be possible. Think of the productivity impacts of those kinds of things. You can call that a non-tariff barrier or a productivity lag; the choice is yours.

Huw Evans: Switzerland is the best country to continue to look to if we want to get some sense of some of the potential ways in which our future could evolve. They have the mature bilateral relationship that the White Paper seeks to take us towards. It is well-established. It is in both sides' economic interests but it is not a frictionless set of agreements. The current attempts to renegotiate those bilateral agreements are on their 20th stage and, as Catherine alluded to earlier, there has been a huge row about their stock market equivalence. Switzerland is the best



example of something that is close to what the UK Government are looking to achieve but we should not take the view that, once you reach such an agreement, which in the UK-EU case would be the most ambitious agreement ever reached, certainly as far as financial services is concerned, that is the end of the story. There is then an ongoing relationship to manage and an inevitable friction in the relationship that follows.

Catherine McGuinness: I agree with everybody. All the barriers that we have foreseen are non-tariff for these sectors that we deal with. The level of access, the regulatory framework and the regulatory co-operation surrounding that will be absolutely key for us. I have already mentioned recognition of professional qualifications and I have mentioned in passing the status of English law. We are concerned, as I have said, that there are signs emerging of people trying to challenge or chip away at that great edifice, and we should be doing everything now that we can unilaterally to ensure that we underpin its fundamentals, whether that be applying to sign up to the Hague Convention or whatever other steps are open to us.

The other issue, which has not been mentioned as a potential non-tariff barrier, is access to people. Besides developing local skills, the ability to recruit, retrain and move the global talent that the global sector has relied on so heavily, and will continue to need, is going to be crucial. There have been some promising mentions in the White Paper but we need to see that taken forward and we need to see a system implemented that is easy to navigate and use, as well as setting rules that, while giving the country control, are permissive enough for the sector to operate.

Q2360 **Mr McFadden:** In the run-up to the Chequers Cabinet meeting and the statement that came out, manufacturing businesses were very vocal. We had very out-front statements from Airbus, Jaguar Land Rover, BMW and the Society of Motor Manufacturers and Traders, all emphasising this point about international supply chains, frictionless trade and so on. That seemed to have some effect on the Government's thinking, given that one of the big statements from Chequers was that we want a common rulebook for trading goods to avoid the fears that were being voiced by those manufacturers.

Service industries and service companies were much quieter, and the Chequers agreement says on services that the Government see a future where there will be less market access between the European Union and the UK than now, so a very different approach to services compared to manufacturing. I would like to go along the row, beginning with you, Catherine McGuinness. Tell our voters and our constituents what "less market access" means in real terms in the future compared to the way that you can do business now as a member of the single market.

Catherine McGuinness: Less market access means that we will be able to do less EU-facing business, or indeed the global institutions based here



will be able to do less EU-facing business, and therefore will have to carry that out from somewhere else. That means fewer jobs and that means fewer jobs not just in London but fewer jobs in other parts of the country where this sector operates, whether that is Belfast, Edinburgh or the back offices in Bournemouth.

It also means—this starts getting quite technical but it has an impact on ordinary people—reduced liquidity and increased costs for customers, so you are likely to find your financial product costing more. We all rely on them. This is not something esoteric that happens in ivory towers; this is what underpins our pensions, our insurance, our mortgages and our bank accounts. There is a layer of effects that a significantly reduced amount of access could have.

Q2361 **Mr McFadden:** Have you quantified these effects that you are talking about?

Catherine McGuinness: I could not give you figures now but we are doing some research, which is just about to come out, that indicates how financial services employ people across the country. I accept that we need to explain in more granular terms what this sector means for ordinary people in their daily lives.

Q2362 **Mr McFadden:** You said a little earlier that the fate you wanted to avoid at all costs was being a rule-taker. Are you sure, given what you have just told us about market access and what less market access means, that that view is shared by the major financial services companies that exist in London? Would they all agree with your view?

Catherine McGuinness: I do not think they would all agree with that view. There would be, as I mentioned, divisions even amongst parts of the same part of the sector. People will take different views depending upon where their business focus is. Of course, some of these international institutions have the ability to influence EU rules through other means than us because they are operating internationally. Our big concern is the jobs and prosperity of London and this sector in the rest of the country and, secondly, there is a concern that this country should not be taking on risk. We support the Bank of England and their concern to ensure that, if we have risk here that we are managing, we have the right tools to manage it. Only 10 years from the crash, we have seen the importance of regulation.

Q2363 **Mr McFadden:** Mr Minns, my voters in Wolverhampton South East probably do not know a lot about your members and your organisation. Can you explain in simple terms what you set out in your earlier answer to John Whittingdale? What kind of TV companies are we talking about when you talk about international broadcasters? What can they do at the moment and what would less market access, as set out in the White Paper and the Chequers agreement, mean for your members and your sector compared to the way that you can do business now?



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Adam Minns: I am talking about a range of broadcasters from household names to very niche services.

Mr McFadden: Such as?

Adam Minns: As soon as I start mentioning names, people will assume. My board, for example, includes Discovery, Time Warner, Sky, NBCUniversal and A&E Networks. We have other members like AMC. There are a range of different types of channel that are available on pay TV, free-to-air and on-demand services. What they all have in common is that this is a high-growth sector. This is growing twice as fast as the rest of the UK's audio-visual sector and it is growing three times as fast as the rest of the UK's TV sector. This is about the future. This is about something that the UK is brilliant at. We have more channels here than anyone else in Europe by miles. We have 1,200 channels here; France has 400, which is our next rival. This is about the future. It is about future growth. No deal means less investment and it means fewer jobs, not just for now but for future generations.

Q2364 **Mr McFadden:** Huw Evans, you have partly answered this because you were talking about insurance companies having already started to relocate abroad and so on. To spell it out and to ask the same question to all of you, what does the statement in the White Paper mean, which is in the White Paper about six or seven times, that when it comes to services there will not be as much market access between the UK and the EU and vice-versa as there is at present? What does that mean for the insurance sector? Can you quantify for us the relocation pattern that you have talked about this morning? How many jobs are we talking about, either now or in the future, that are likely to be shipped abroad?

Huw Evans: It is the right distinction to make because I would certainly see the impacts around market access and future access to Europe being much more in the general insurance and corporate insurance space rather than the retail insurance that your constituents will buy. That is where, as I say, many of the suppliers of that have already set up subsidiaries in Europe. Those that are still here, or even some of those that have set up those subsidiaries—most obviously Lloyd's of London, which is a hugely important financial institution—absolutely need a reinsurance agreement from day 1 to enable their businesses to operate.

Over time, how much of that business ends up irreversibly in Europe with the jobs and the tax revenue that goes with it is hard to quantify at this stage. That is just being honest about the fact that, at the moment, it is difficult to know. That is partly because different regulators are taking different approaches within Europe about how many people they require to operate these new European businesses.

Mr McFadden: This is the 10% issue that was being talked about.

Huw Evans: Yes, and what counts as an "entity of substance", which is one of the legal jargon things that are used. There is a difference of approach, which we welcome, between some of the countries that are



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receiving these insurance companies and setting them up as to how many people they expect. How much business moves ultimately depends on whether a workable set of arrangements can be found for day 1 that allows us to operate a smooth insurance market. That is what we are working towards.

Nonetheless, I would still say that your constituents will still be able to buy their insurance and their pension products on day 1. The UK is one of the largest markets in the world and there are plenty of domestic suppliers. However, two-thirds of the jobs in the UK insurance industry are outside of London, and the Midlands is a significant employer so some of your constituents will be employed, either directly by the insurance industry or indirectly. They will buy motor insurance. One of the biggest variables of the cost of motor insurance is the exchange rate as it applies to the component parts that are used to repair motor vehicles, so that is an important part of the insurance premium that has gone up over the last year because of the exchange rate volatility. Their travel insurance will be more expensive if they do not have the European Health Insurance Card, and may just be more expensive anyway if they go to the continent because of the exchange rate. There are knock-on consequences but they are manageable.

The longer-term challenges for us are what it ends up looking like if we have a decade of taking rules that are designed by markets that do not have the same insurance and long-term savings market as we do. At that point, your constituents are in danger of getting sales documents that make no sense to them because there is a set of disclosures that are given to them that make sense if you are a Belgian insurance purchaser but not if you are buying an annuity in a British insurance market. Those are more of the long-term issues that we see.

We will seek to quantify the impact of Brexit on the insurance market and we will seek to share that data as and when it becomes available, but it is a bit early at the moment.

Q2365 Mr McFadden: You mentioned Lloyd's of London. Their retiring chairman has written in the *FT* today that services are being sacrificed by the Government on the "altar of Brexit". Is he in the right ballpark? Have service industries been too quiet compared to manufacturing industries about speaking up for their concerns?

Huw Evans: It is an interesting question. You referenced some of the goods manufacturers who spoke up. In doing so, they were actually roundly criticised by the serving members of the Cabinet, which is not a comfortable position for any corporate to be in. It is not exactly an easy space for corporates and boards to get engaged in that way. There is a difference between services and goods in the sense that, for services, there are often workarounds; they are just expensive and time-consuming workarounds that are sub-optimal. However, there are nonetheless workarounds. They are services and they can inherently be



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more flexible. That is sometimes why you see services being a bit more reticent.

Also, in some cases, they just look at a very live political debate and see this as being the point at which it is Parliament's responsibility and the Government's responsibility to decide the way forward and that they are engaging at the wrong stage in the political process. I know many firms that did speak up during the referendum who made it clear that they supported staying in the European Union and now take a view that, the public having voted to leave, their job is to stay out of the more politicised discussions about what the alternative framework should be. That is a respectable position to take even if sometimes it is frustrating for those who are trusted with finding a way forward.

Q2366 Mr McFadden: I will end with you, Mr Derrington. The question I have asked everybody is to try to explain in laymen's terms, if you like, this issue about less market access than we have at present. This is almost now a stated government policy. It has been set out six or seven times in the White Paper as the foreseen future for the service industries. For the tech sector, where the UK is hugely successful and growing fast—we pride ourselves on this—what does that mean in the future compared to the way that you are able to do business now?

Giles Derrington: There are current impacts, i.e. day 1 impacts, that will likely be seen, such as on the portability of content across borders. If you travel abroad, you will not have access to subscription services because we have to be within the EU regulatory structure for that. There are also roaming charges, potentially, depending on what individual companies do and whether they choose to swallow the costs.

Q2367 Mr McFadden: Sorry to interrupt. What will you not have access to?

Giles Derrington: Subscriptions. For example, your Netflix subscription and those kinds of subscriptions rely on portability of content rules that are mutually recognised.

Mr McFadden: That would be highly significant for our constituents.

Giles Derrington: Yes, if they are travelling abroad, absolutely, as would roaming charges. Again, there are things like the call termination rates and the cost of that on businesses. Where does that cost go? It is difficult to know. I would not want to say that there is one rule of thumb for all businesses but inevitably some of that will find its way, one would assume, to the consumer.

You then have the potential impacts, so the things where the Government could choose to diverge, which would have an impact. For example, the Committee has done a very good report on data flows. Were we to diverge in a way that breached adequacy then the impacts of that on almost everything that someone might want to do are very significant, be that pulling up their bank account information if it is stored



elsewhere or selling across borders or speaking to friends via digital connections. All those things would potentially be at risk.

You then have the future growth impacts. About 1.6% of the UK tech sector is foreign direct investment. That makes up about 43% of the GVA of the tech sector. They are based in the UK—again, a strong domestic digital market—but also serve a European market. If they cannot serve the European market from here, they have to think about where they put themselves and their key sales hubs. That then obviously leads to the question of where your R&D hubs go to; they go to the same place. The long-term impacts of that may well be very significant.

The big companies can make these choices. They are not beneficial choices to the UK economy ultimately if they mean moving people. Small companies, in some ways, are nimble enough to be able to move quite quickly. There is a big challenge for mid-tier UK tech, which is diverse across the country. If you are a mid-cap company with 250 employees and a British brand but you still have to apply EU regulations, it is you that is potentially going to get squeezed by Brexit on both sides. You do not have hubs in big policy hubs like Brussels or wherever else who can do the influencing for you, so that loss of regulatory influence will be significant on you, potentially more than others.

That is where you can see a fear because they do not necessarily know what to plan for on the basis of the current White Paper and do not know where they will end up in the future. The key line, for what it is worth, in the White Paper for us is that the Government say, "We will propose exploring new models for regulatory co-operation". I do not know what that means and, at the moment, that is not enough for a business to plan on. As I say, if you are in goods, you will know, broadly speaking, day 1 after Brexit.

Q2368 Mr McFadden: Can I just ask you one serious question at the end? We hear from the tech sector all the time that critical to the UK's success has been the free flow of people and that, in the tech business, talented people are the most important thing. Presumably you are also watching quite closely what our mobility partnership or whatever it is called will actually be.

Giles Derrington: Absolutely. We often talk about the two key inputs with current tech and future tech being data and people. If you do not have either of those two things, you cannot be the hub for new innovation.

Q2369 Joanna Cherry: I am interested in the impact that the White Paper has had on your sectoral planning for Brexit. Mr Minns, you said that, at the moment, you have no information on the Government's position on broadcasting post the White Paper. Ms McGuinness, you wrote on 16 July in *City AM* that, up until a few weeks ago, the Government had publicly stated their support for an ambitious mutual recognition model and then there was quite an abrupt shift towards a form of enhanced equivalence,



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which had caused some concern in your sector. Today you have said that you became aware that this shift was going to happen in advance of the White Paper but you were not consulted as such. Is that correct?

Catherine McGuinness: Yes.

Q2370 **Joanna Cherry:** I wonder if I can ask each of you: to what extent did the Government engage with your sector prior to what Ms McGuinness has described as this abrupt shift from mutual recognition to enhanced equivalence? Ms McGuinness, if there was no consultation, how was it that you became aware that this was going to happen?

Catherine McGuinness: We were told that it was going to happen and that a practical decision had been made that what was in the White Paper was the more likely to succeed through negotiations. We respect the Government's decision on that. I should say that we have had extensive conversations and engagement generally over the past 18 months or whatever so I would not criticise the Government for lack of discussion with us.

You also asked what impact it is having on people's contingency planning. To be honest, it has not done anything to the contingency planning because the contingency planning from those firms able to make the contingency plans has been progressing all the way through. The fact that transition was agreed in principle a few months back gave people a lot of encouragement and perhaps people slowed down a little. Perhaps that is just anecdotal but there has not been anything yet firm enough for people to say, "Okay, I can afford to wait a few more months before making my decision." People are having to work on the assumption that we may have no deal and are now implementing their contingency plans accordingly.

Adam Minns: I would agree with that. We were expecting more detail on broadcasting and what that would look like. As I understand it, it was there but it was removed at the last minute. It leaves us in a very difficult position because, as I have said, we have not had any further details about what type of deal the Government are looking for in broadcasting. Companies are having to make contingency arrangements. It will take, we estimate, between three and six months for a company to restructure, if it needs to, under no deal. Some companies have already activated contingency plans and others will be looking to do so in the next weeks and possibly months. We need from Government a clear, unequivocal commitment to an ambitious deal specifically on broadcasting, and it would instil some confidence to know what that looks like.

Q2371 **Joanna Cherry:** You said you were expecting more detail in the White Paper about broadcasting. You understand it was there but it was removed at the last minute. How did you get that understanding?

Adam Minns: In the whole process of the White Paper and the run-up to the White Paper, we were told by different sources that the White Paper



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would include detail on different sectors. It was a fairly common understanding amongst different sectors in industry that everything would be outlined and there would be a framework for moving forward on each sector.

Q2372 **Joanna Cherry:** As far as you are concerned, that was something you expected to see in the White Paper.

Adam Minns: Yes.

Q2373 **Joanna Cherry:** You thought it was going to be there but your understanding is that it was there but it was removed.

Adam Minns: Yes.

Q2374 **Joanna Cherry:** Do you know why it was removed?

Adam Minns: If it was mutual recognition, then that just came out. We were caught in the crossfire. I do not think it was anything to do with broadcasting. There was a piece in the *Times* that said that creative industries were not even mentioned at Chequers. I do not think it was anything about our particular sector; I just think we were caught in the crossfire of, "We need to take mutual recognition out".

Huw Evans: As with the City of London Corporation, we received a courtesy call shortly before it was published to inform us of the decision that had been taken, and our impression was very clearly that the decision to shift the policy had been part of the process involving Chequers and the White Paper and the coming together of the Government's position at that time.

I would like to put on the record that the Treasury has worked very hard to consult with the financial services sector and has been pretty open and thoughtful in its engagement, led personally by the Chancellor as well as a number of senior officials over the last 18 months. However, clearly, the value to industry of that dialogue has been somewhat limited by the tensions within the Government around what the actual position is going to be. When you are in the extraordinary position that the former Foreign Secretary is publicly abusing the Chancellor, calling him the "high priest of Remain", it makes it harder for boards being spoken to by that Chancellor about where he would like the Government's position to be to have full confidence that that is where they will end up. There is a difference between the Treasury's institutional approach, which has been helpful and constructive, and the wider political parameters within which it has been operating at a point where government policy has very obviously not settled.

Now that it has settled and there is a negotiating position, albeit one that still has not had any contact with the other side, I hope we can move forward into a position that is more constructive. From our position now, knowing that they want to build a position based on equivalence—we know about equivalence, we understand it, it has been in place for 10



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years and we have seen it operate across the EU, so we know the terms around which the discussions will happen—the challenge is to get an engaged consultation on the other side.

Giles Derrington: The engagement, broadly speaking, has been, frankly, quite piecemeal. At certain times there has been very good engagement from various different parts of Government and at certain times there has been, frankly, not enough information. One of the challenges that digital faces is that, while DCMS, as our home Department, has some weight and a lot of expertise on digital, a number of the big discussions that will impact on digital are being made at BEIS, the Treasury or DIT, et cetera, and there is still some co-ordination between those different Departments that I do not necessarily think is flowing through, and there is a slight over-ambition about what might be achievable on the world stage in future on digital, certainly in the near term.

To be clear, being a WTO member in our own right as the UK potentially gives us a leadership role in the future in things like the Australian e-commerce discussions but those are 10 to 15 years down the line and there is some over-excitement about those areas that cuts across what we need in March 2019. That challenge is felt within all Departments and in some cases, for example on data protection, the pragmatic side has broadly won out in terms of government policy but in other areas, in terms of more detailed discussions of individual aspects of the digital single market, it has not. That is where we lie.

From the White Paper's point of view, we had vague rumours about what was going to be in it but the reality is that we had to see the White Paper and then say, "This does not really say enough".

Q2375 **Joanna Cherry:** Did you get a courtesy call in advance?

Giles Derrington: Over the weekend, my CEO spoke a number of times to then Secretary of State Hancock, and the engagement at that level has been really good. The new Secretary of State has been really positive in engaging quickly off the bat as well, but there is a difference between a courtesy call to say, "Look, here is where things are", and the detailed discussion you would have, for example, in the free trade negotiation where, if we were in the American system, you would be sitting down saying, "Here is what the text says; where do the issues lie?" and that kind of proper prep brief. That still comes from officials, not necessarily as direct business input.

Q2376 **Joanna Cherry:** Can I just be clear from Mr Evans and Mr Derrington? I am not sure if you answered this question: does the White Paper provide you with enough certainty about the future end state to shelve your contingency planning in your sectors, or is the contingency planning for a no deal just going ahead nonetheless despite the White Paper?



Huw Evans: Absolutely not; we would certainly not advise our members to shelve any contingency planning. Our advice very consistently for members since 24 June 2016 has been to do what is within their powers to restructure and do whatever they can do legally to ensure that they can service their clients and not rely on a political agreement. We would absolutely not advise anyone in our sector to move away from any contingency plans that they had reached. That would be foolish in the extreme.

Giles Derrington: Insofar as it is possible to do any contingency planning on a number of future-looking things, no. There is still a massive gap. We do not know what new regulatory frameworks the Government might pursue or when we might get them. We assumed the White Paper would be the point at which we would get that information but that is clearly not the case.

Q2377 **Joanna Cherry:** We are taking evidence this afternoon from the new DExEU Secretary of State, and also from the Prime Minister's chief negotiator, Mr Robbins. If each of you could ask one thing of them, what would it be?

Catherine McGuinness: I would ask them to focus very firmly on transition and on tying down the implementation period—so that will be the withdrawal agreement—so that people have time to make whatever arrangements they need to make. I would ask them to focus very hard on these cliff-edge issues that we have highlighted, particularly contract continuity in the field of insurance and derivatives. Other cliff-edges include two-way data flows.

I would also ask them to look at taking every unilateral step that we can take to ensure that our fundamental strengths are underpinned. I am thinking, for example, about what we can do to ensure that English law continues to be recognisable and enforceable. There will be a number of other unilateral steps along the lines that our regulators took back in December but we should be taking every step that we can take to make sure that we are as open to business and as secure as we can be whilst we take time to negotiate this ambitious agreement for the future. I would ask about transition, cliff-edge and unilateral action.

Adam Minns: My main request would be for a clear unequivocal commitment that the Government will seek an ambitious deal on broadcasting. As I have mentioned before, it would also be helpful if we could get some idea of the plan on that. Finally, I would ask them to engage with the sector on this.

Huw Evans: My request would be, from a technical perspective, that they do everything they can to ensure that the market can work on day 1, whether that day 1 is in March 2019 or January 2021, particularly around reinsurance and the operation of the London market, and that whatever arrangements they put in place, either now or in the future, are



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capable of standing the test of time and the evolution of regulatory standards and market practice.

My broader one would be to ask them what they can do to change the atmosphere. We have burned through an enormous amount of goodwill with our European partners and, as someone who sits on the board of Insurance Europe and works very closely with my European opposite numbers, I know full well that most of them wish to stay in a close trading relationship with us and view us as their partners and people who share a common continent and common values and wish to work together going forward.

My request to the Secretary of State, which I will also say personally as and when I get a chance to see him, is to say, "What can you do to help change the atmosphere in the room, so that we can go back to the fact that we are people who share a common continent and have 40 years' worth of shared trading, a regulatory market, shared values and practice? How can we make sure that we reach an agreement that goes back to trying to find a workable way forward that respects the mandate of the referendum but maintains and preserves and develops some good will that has been lost over the last two years?"

Giles Derrington: Could I be cheeky and give three very quickly? First of all, what flexibility do the Government perceive in the new model? How do they quantify that offset against closures of market access, because we, as I said before, cannot necessarily identify areas where flexibility is particularly valuable compared to that.

Secondly, there is this question of proposing and exploring new models for regulatory co-operation. What are those new models? What are they looking at and how do they think they will operate?

Thirdly, connected to that, if they do identify new models for regulatory co-operation, will they be part of the overall institutional framework that is proposed within the White Paper or sit outside it? This is really key. If we want the influence in terms of observer status, et cetera, those things will likely have to be at least within the current model of the institutional framework suggested and, frankly, potentially a strengthened model of that depending on how negotiations go.

Q2378 **Jeremy Lefroy:** I just have one brief question, picking up from what Mr Evans was saying earlier. We have very much taken on-board everything that has been said. Mr Evans, you said earlier that a number of your members have already set up subsidiaries in order to continue to transact business as we leave the European Union. Do you see this, as well as obviously being a necessity, as potentially being an opportunity? If you have fully functioning subsidiaries as opposed to using passporting arrangements from the UK, you tend to have more presence, you tend to be able to build up a local brand and therefore potentially, in the long term, it will be beneficial in terms of overall business for that group that they have done this. Do you see companies seizing those opportunities



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to build up local brands as opposed to being, say, a UK company that is simply relying on passporting?

Huw Evans: That is not where they are at the moment. They primarily view it as an operational necessity for the reasons I have set out. Of course, many of them are setting up these EU hubs to be able to service cross-EU business rather than because they want to run a domestic business in Belgium or Luxembourg or whatever. They are insuring European corporate multinationals for which they will now need to have a base in the EU 27 rather than looking to enter the domestic motor insurance market in the country in which they are in.

Their drivers are operational resilience and to be able to serve, on the whole, large corporate clients rather than domestic clients. However, you are certainly right; they are very mindful that they have to build up strong roots in the countries in which they set up with the regulators and the political establishment. In any territory in which you operate, you need to develop a permission to operate, which is separate from the regulatory authorisation around good standards, working co-operatively and engaging with the territory in which you are engaged. They will take that responsibility seriously but I do not think they necessarily see it as an opportunity to grow their business so much as an opportunity to protect the business that they already have and to ensure that they can write new business going forward.

In terms of new business opportunities, as we touched on in the evidence session in April, and as Catherine alluded to, there are real opportunities in India, China and parts of Asia that have underdeveloped insurance markets on the personal lines, corporate insurance and in terms of pensions and savings products. There, the work that the Government are doing, particularly around regulatory dialogue, as opposed to great big all-singing trade deals, to gradually take away many of the local restrictions that make it hard to build business in those places is very valuable work. It is certainly important that the Government continue with that work alongside the slightly more high profile trade deal work that catches the headlines but which does not tend to be as beneficial to financial services.

Jeremy Lefroy: Thank you very much. That is very helpful. Are there any other comments?

Catherine McGuinness: I would just add to what Huw said that, although there may be opportunities for the companies to pursue, since many of the companies that we are talking about are international companies, not UK companies, that does not necessarily mean opportunity or profit for the UK, unfortunately. We really need to be looking at that question of both access and partnership with our EU counterparts for the longer term, so that, even if we do lose some jobs, we can increase the size of the cake so that we all stand to benefit whilst we are looking at other markets overseas.



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Adam Minns: For us it plays out slightly differently. No deal would mean a diversion of resources away from all the exciting stuff such as investing in local production and investing in new services for consumers into shuffling staff and back-end operations around different countries within the EU, which would be bad for the UK and bad for the EU as well, because we are commissioning production in all sorts of countries, not just Britain.

Catherine McGuinness: That is true. There is also a potential cost in fragmenting the financial services markets, which will not be good for anyone because of the increased costs to consumers and businesses.

Giles Derrington: The ecosystem is important in the tech sector. Where there are large players, you will get spin-offs with people leaving and setting up their own small app developers or whatever, some of which will be bought by other larger businesses. That is incredibly important. London is incredibly good at it. There are other hubs within the UK that are incredibly good at it. There are, increasingly, hubs elsewhere in Europe, particularly in Sweden, Amsterdam and France, which is making a big play to try to do this, particularly on new technologies like AI. If you start moving across some of the bigger companies' corporate functions, does that become their ecosystem such that it detracts from new companies being set up in the UK, some of which could theoretically be the next unicorns?

Huw Evans: Could I add one quick qualifier? The only thing I would say where it is different is in the Republic of Ireland where, from a regulatory perspective, they welcome many of the companies that are going there to subsidise because they have a relatively small number of insurance suppliers and they welcome having more who are operating out of Dublin who can potentially expand the bases of supplier for their domestic market. That would be my one qualification.

Q2379 **Sammy Wilson:** If I was being a cynic, which I am not, listening to your evidence this morning and some of the alarmist nature of it, it could be suggested that, having seen the impact that the interventions of Airbus and Land Rover had, which your industries have not engaged in, you are now trying to do an Airbus on us with the kind of evidence you have been giving. That is based just on my observation of the markets that you all represent. When it comes to foreign direct investment in the financial services industry, we are now hitting a 10-year high in the investment that there has been in the financial services industry by foreign companies, with 165 projects, according to Reuters. That is three times more than we have in Paris or Frankfurt and yet you seem to give the impression that people are now getting frightened to invest in Britain.

When it comes to banks, the American banks are not looking at Europe. They are looking at the UK. In fact, if you take March of this year, the five main American banks had 1,500 new posts advertised in the UK as opposed to 200 in Dublin, Frankfurt and Paris, which again would indicate that there is still confidence in the UK.



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In broadcasting, Mr Minns, you have said that there is great concern. I am just taking small innovative projects because we know there is money from the big mergers, et cetera. Five small enterprises and innovative projects, with the backing of the banks, have invested, in the last six months, over £250 million in new services, creating lots of jobs from that.

The picture that we actually see when you look on the ground does not reflect the alarmist evidence we have heard this morning. I would like to have your comment on what is happening on the ground with some of the investors and the confidence that investors are showing in Britain in all your sectors.

Adam Minns: I suppose it does sound a bit like Project Fear or something but I would characterise this more as "Project Please Think About This Very Carefully". This is already happening. As I mentioned, I know a company that has already had to let go nearly 25% of its staff in order to restructure. They are not alone in that and other companies will have to follow that.

As I mentioned, nobody is saying that the British TV industry will collapse as a result of this but you have to remember that this is a very particular and interesting part of that sector. The creative industries, which the Government have rightly championed as a high-growth sector that is crucial to the UK's future, grew at 44.8% over the last five years. International broadcasting grew at 50%. The rest of the British TV sector did not even come close to that, with something like 20% over the last five years. This is about our future growth and, if you cannot give a channel a licence, I defy anybody to tell me how you are going to sustain that growth.

Huw Evans: From our point of view, Mr Wilson, I would completely reject the notion that the insurance industry is being alarmist either during the referendum, since the referendum or indeed now since the publication of the White Paper. We have been very clear, in everything we have said, to be measured and fact-based about the options in front of us. There is no getting away from the fact that, for our world-leading insurance sector, Brexit is deeply sub-optimal. As we have made repeatedly clear, we respect the result of the referendum and the focus has therefore been on insurance companies doing what they need to do to adjust their business models if necessary and to engage in a constructive process about what is the best future framework, while all the time respecting that that is ultimately, in a democracy, correctly a decision for elected politicians to make.

In terms of your points around investment, that is not a picture I particularly recognise from the insurance sector. From my members, they have been busy spending hundreds of millions of pounds transferring contracts as a result of Brexit, setting up the new subsidiaries that I have referred to, and there have been virtually no large-scale insurers that have set up in the UK since Brexit. I do not



recognise the picture you paint. It may apply to other parts of the financial services sector but it does not apply to us. We have been repeatedly clear that, as a world-leading sector, we can survive Brexit. There is still an opportunity to thrive and be a world-leading sector going forward, but not by pretending that Brexit is anything other than a deeply sub-optimal outcome for an industry as important as ours.

Catherine McGuinness: That is a consistent message that we get from the rest of the sector; we are hearing people moving and having difficulty recruiting people. There are beginning to be signals that people are not investing where they would have done before. This is not a scare story, I am afraid.

Things will not disappear overnight. We have everything to play for. It is critical that we get a good deal through the negotiations but, whatever happens, we will be working with the sector to ensure that they can maximise the opportunities that will remain. However, it will mean a great deal of work from all of us in supporting the sector and then looking at those opportunities elsewhere.

Giles Derrington: We have been consistently clear that the UK will still be a positive place for tech. It has a very strong domestic market. A lot of that domestic market is actually in digital consumers, so there is a challenge in future technologies that are more B2B focused, such as AI. Does the UK look like as attractive a market for new technologies as it did for old? The Government are, frankly, doing some very good work to help build that case; for example, the Centre for Data Ethics and Innovation is a really positive movement.

However, what we have seen from a number of our members is that they are saying, "We were going to put in maybe 100% of our R&D funding in the next round into the UK but now we are more cautious and we are putting in perhaps 80% and putting 20% in France", where they are making quite a significant play to build their digital technology sector. Just looking at the UK figures does not necessarily give you the global picture. Within the very largest tech companies, tech is growing across the world very rapidly. They have a lot of space to do interesting things. It used to be that, if you were not housing it in the US, you housed it in the UK. That picture is far more varied now and one of the challenges with Brexit is that our competitors are not waiting for us to finish what we are doing before they make the pitch. We have seen that with Macron in France and we are increasingly seeing it with other ASEAN countries, such as Singapore, beginning to take a real proactive approach.

We will still be a great place for tech but there is a difference between adapting and thriving, which is ultimately what we all want to do, particularly if we want the huge potential economic gains of tech in the next 10 or 20 years to be housed in the UK rather than elsewhere.

Q2380 **Sammy Wilson:** I suppose we could trade figures about the performance of each of your industries all morning here. I have quoted figures that



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are in the public domain and which reflect some of the optimism that many people have about the UK after we have left the EU.

Let me look at the question from another point of view. Understandably, you have presented the picture as to the concerns that your members in the United Kingdom have. However, from the other side of the table, obviously we are a big exporter of services and that is because people in Europe need our services. We have had evidence to the Committee on a number of occasions about the importance, for example, of the UK financial services industry when it comes to the insurance of goods and the importance to the export industries in the EU of UK financial services when it comes to investment. Germany is one of the biggest importers of our services and that goes into supporting their industry. When it comes to the export of many of their goods, I think of products in my own constituency. The East-West Interconnector, for example, is supplied by a German company and has to be serviced by German engineers, et cetera, so equivalence or mutual recognition of qualifications is important to them when it comes to selling their goods. From the EU's point of view, how important is it that they get a deal with the UK when it comes to services to ensure the smooth operation of their economies?

Huw Evans: It remains important. That is why my earlier remark was around the importance of getting some goodwill back in the discussions so that a mutually beneficial agreement can be reached, both most immediately for the short-term risks and then hopefully a longer-term agreement that would be sustainable and workable for both sides.

A focus purely on the economically rational view that, "They will always do a deal because it is in their interest too", potentially misreads some of the sentiment that we have seen in recent years. However, I agree that it should be possible to find a way forward that works for both sides. In the short term, that will almost certainly be done around equivalence mechanisms that allow some degree of market access to function, particularly for general insurance corporate risk, which is the obvious area where EU corporates would want to continue to have access to the UK insurance market and to the London market in particular. It does make sense for the deal around reinsurance and wider equivalence to be done that I have talked about.

It needs goodwill in the discussions as well, and an effective political process on both sides, to be able to deliver an outcome that works for both sides. We cannot just rely on economic rationalism alone. If we could, then we would have been further forward now than we are.

Catherine McGuinness: That is a very good point about the interconnectedness that the EU has with us. At the stage that we are at, we are seeing a lot of competition. We are seeing people trying to attract our businesses, as they would and as we probably would in a similar position. The tone is not helping, as Huw has said more than once. Some of the major issues, for example around contract continuity, are either genuinely not being realised or, because of the stage we are at in



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the negotiations, it suits people not to recognise that they are serious for all of us. On that specific point, we have seen our regulators take a very pragmatic line. We really need to see the EU give their regulators the permission to be reciprocal.

In the longer term, I am very hopeful that this interconnectedness means that we will be able to build good, strong relationships going forward, but the next few years will be critical and quite difficult.

Giles Derrington: You saw, for example, before the White Paper, the European Services Forum wrote to Michel Barnier reflecting the importance of services. That was quite right. There is an understanding certainly in the tech sector that mutual support for the two is definitely preferential. There are, however, absolutely countries that are considering, "Is there a benefit for us from forcing the UK to diverge?" I know, for example, that the first conversations that France had with some of its member tech companies were, "If the UK does not get adequacy, what are the impacts?" Actually, the sector has pushed back and said, "We want it across the board because it benefits us on both sides". Understandably, countries are looking at this from a different starting point than perhaps we would assume.

There are other companies, particularly within goods, where there is a potential for them to add value and add profit by the UK divergence. I mentioned earlier that IP exhaustion is a really good example. If the idea is that a product put on the market in France will not have to be put on the market for the same price in the UK in terms of the amount that is allocated to IP, then that potentially allows you to add value in the UK where you cannot at the moment.

Some companies, manufacturers elsewhere in the EU, will look at that as a potential to increase their price. Obviously, as with anything else, supply and demand will still apply so they will have to be able to judge that. However, they do not see this as purely a charitable exercise and, as I say, nor would our companies in the alternative circumstances.

Q2381 **Sammy Wilson:** I have a final question. Our services sales with the EU grew by 2.2% last year. With Asia, it grew by 12.9% last year. Are we facing a maturing market in the EU? From all of your sectors, do you detect that the markets that have the greatest potential to increase are actually those outside the EU and therefore the arguments that have been made for breaking free of the EU and looking to those parts of the world that are growing are being reflected in what you are seeing in reality in your industries currently?

Adam Minns: In broadcasting, the UK is the mature market that is pretty flat in terms of growth. Increased investment and employment has come from international channels basing themselves here, and that has far outstripped the level of growth that we have seen from the domestic sector. Those international channels are serving the EU,



broadcasting to the EU, so that has been where our growth has come from in recent years.

Looking further afield, if we then start to say, "Would we like to broadcast to South America or the Far East from the UK?", in theory that sounds great but in practice, if no one has a licence for the EU and if no one is basing their EU channels here, you are not going to base your South American channels or your south-east Asian channels here. In terms of growth, we need to make sure we have access to the EU markets first and foremost.

Giles Derrington: First of all, there are a number of wholly new technologies where there is no market at all potentially. Think about automatised vehicles and self-driving cars. The EU is not a saturated market because nowhere is a saturated market. The same can be said, to a certain extent, about the latest rounds of AI. There is an ever-evolving market within the EU and, yes, a growing market in the rest of the world, particularly as parts of the world come online, particularly through mobile and those kinds of things.

Those opportunities are expanding as well, which is why one of the benefits of Brexit is us being a member of the WTO in our own right where we can seek to do some of those global standards that do not necessarily exist in tech. For example, is there an opportunity within the e-commerce discussions currently going on in Australia to develop a global standard on data flows? That would have to bring the EU along with it, so it is far better to be involved with the EU and able to influence that regime, and have our own WTO place in our own right to push some of this work on, than effectively have the EU sitting outside and creating a different regulatory pillar be that in the US or China or wherever else, which effectively forces companies to pick and choose which market they want to do because that is not helpful to anyone.

In the short term, the EU market is there to grow, and in the long term the big global standards have yet to be discussed. Once we take our seat in the WTO in our own right, we should absolutely be heavily involved in those discussions.

Q2382 **Sammy Wilson:** Outside the EU, would we have the opportunity to be leaders there?

Giles Derrington: We have the opportunity, either inside or outside, ultimately to influence but, again, under the model proposed for goods in the White Paper, we would still have a WTO seat so you could apply that to services and still do both.

Chair: On behalf of the Committee, can I thank all of you for coming today? I just have a concluding observation. We have before us today examples of four great British success stories, and you are representing part of the services industry—80% of our economy—and, to summarise what we have heard today, we have heard a lot about downside and



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difficulty and, in the event of no deal, potential damage that would have to be dealt with. I do not know if any of you would demur from that summary but what the evidence session this morning has shown us is that we really do need to get this right in the interests of you, your sectors, the people you employ, the jobs you create, the investment you encourage and the tax revenue that you generate for the rest of us. Thank you very much for coming this morning.