HOUSE OF LORDS

Industry and Regulators Committee

Corrected oral evidence: Commercial insurance and reinsurance regulation

Tuesday 1 March 2022

10.30 am

Watch the meeting

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

Evidence Session No. 3 Heard in Public Questions 28 - 42

Witness

I: Robert Childs, Non-Executive Chairman, Hiscox.

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Examination of witness

Robert Childs.

Q28 **The Chair:** Good morning, and welcome to this meeting of the Industry and Regulators Committee on the commercial insurance and reinsurance market. It is a great pleasure to have Robert Childs join us today, a long-time participant in the London market and now the chairman of Hiscox.

I think you have been briefed on the areas that we are particularly interested in, and it would be helpful to have your sense of how the market has developed over the last few years, given things like Brexit. How do you see the competitiveness of the London market? How do you think the share of the London market has developed over that period? What competitive pressures do you see coming from other centres, and how successful are those competitors? The floor is yours.

Robert Childs: I gave you a submission and I do not have much to add to that. When I was very young in the insurance market there were a lot more UK insurance companies on the stock exchange. A lot of the UK insurance companies have been bought up over time by overseas insurers, so the market has fewer UK insurers and more subsidiaries of overseas insurers.

The London market genuinely has thrived, bearing in mind the issues that it has had to get over in the last few years. Probably about half of the London market business comes from the US, both reinsurance and insurance, and that has continued. It has waxed and waned according to the competitive market in the USA, but on the whole it has done well.

My concern, as I put in the paper, is that no business, no industry, has a divine right to exist. The question about the level of regulation is not whether I have a problem with the regulators. I do not. I think we have a good relationship with the regulators and that they do a good job. It is a question of focus, and I feel that some kind of competitive priority will be important for our regulators.

If you take our own business, there is a dynamic between production and sales. All businesses have that dynamic and there is a balance. You probably would not let the salesman price your product, and you probably would not let the product people meet the customers, but it is a dynamic and a balance. What I am looking for in our regulation is flexibility, a bit more agility and speed. If you had some kind of competitive priority, there would be someone there to measure those kinds of attributes, which are not there at the moment. That is my point.

The Chair: On the particular points that you are emphasising, has the performance, if I can put it that way, of the regulator deteriorated or changed in any marked way over the last five years?

Robert Childs: I would not say performance. I put it this way. I looked it up, and since 2010 the interactions with our UK regulator have doubled every year. That has not been the same elsewhere. We operate in the UK and in the US, and we operate predominantly in Europe. We have a smaller business in the Far East, but that is the key point. I will give you another example. The only regulator in the world that wants to see all the board papers of our subsidiary companies is the UK. We have two main subsidiaries in the UK: a UK insurance company and a Lloyd's business. They have two separate boards and those papers go to the regulator. The only other one that occasionally asks to see our board papers is MAS in Singapore. My feeling is about the poor people who have to read them, to be honest.

The Chair: I presume that you have pointed out this doubling to the regulators.

Robert Childs: It is an interesting relationship. That is what they require, and we do it.

The Chair: Have they explained why they need to take such a close interest in you?

Robert Childs: I think they want to see the interaction of the board. They like to see evidence of challenge for us, but the other regulators seem to manage perfectly well just by talking to the executives.

The Chair: The UK regulators managed perfectly well under the previous regime where they were less concerned about board minutes.

Robert Childs: I think so, yes.

The Chair: Can you surmise why their behaviour has changed?

Robert Childs: There is nothing wrong with any one of their inquiries. If you held it up to the light, you would say, "That is perfectly sensible. I would do that", but when you add them all together it is just a straightforward accumulation, and that requires a huge amount of effort and time in the business to answer. I would accept all that if there was some flexibility and they had the ability to fast track. I did an exercise in 2017, entirely off my own bat because I wanted to prepare the market. If you look at our business, you will see that it is cyclical. It responds to catastrophe, either natural or man-made, and when that catastrophe happens it normally means that there is a rapid rise in rates. We then need to take advantage of that and write more premium.

After 9/11, US$8.5 billion of capital was raised and went to Bermuda, and US$2 billion went to London. After Hurricanes Katrina, Rita and Wilma, US$18 billion went to Bermuda and US$2 billion went to London. One of the questions you put to me was how you measure it. I would just say: how many start-ups start up in London and how quick is the process, Is it transparent? Is it published? Our business is a business of opportunity, and an opportunity does not wait. The hurricane season is typically July to October. Katrina, Rita and Wilma happened in that period. If you wanted to set up a business, you would want to take advantage of everything that is happening from 1/1. Businesses are able to do that elsewhere. You cannot do it in London. It is just too long. They do not have a fast track, and that is my consideration.

The Chair: When you have discussed that with the regulators, what have they said in defence of their relative slowness?

Robert Childs: As we have discussed it over the time, all I will say is that I have not seen a change. I put in my paper that I thought we ought to have some kind of road map that looks to see how we can measure their progress to improving the service. The London market is big; it employs a lot of people and no one is saying that it is going to disappear. My concern is that it will only continue to grow if new businesses continue to open up in it. It will slowly reduce if it does not.

I spend all my life looking at risk. That is all I do, and there is a risk involved in this. Then again, the important thing is to understand the risk and control it. I do think that there should be some kind of initiative that looks at improving the ability to take advantage of opportunities, and measuring how they regulate us. I do not know, for example, where in our regulator someone has sat down and said, "Is it reasonable that your interaction with people should change/double every year?" I do not know who asks that question. My view is that that is a role for Parliament. Parliament ought to be involved and looking at it.

The Chair: We will come to Parliament's role later, but what about the Treasury? You must have raised these concerns with Treasury. What was its reaction?

Robert Childs: I have raised it with the Treasury and I managed, if you look at the paper, to get the Treasury involved. They were supportive of the concept, put it that way.

Lord Eatwell: I am interested in this notion of the speed of setting up, which you referred to, and the ability to react and so on. In your study of the relative speeds of different regulators, did you look at what happened in markets that were highly speedy? Were there more regulatory problems down the line? In other words, how effective as a regulatory process were the faster-track regulators with perhaps less consultation, compared with what happened down the line in the UK?

Robert Childs: I did not measure that exactly, but from my experience they have had no more problems than others. I do not think it is a lack of thoroughness on their part; it is just a desire to make it happen. It is the conversation to say, "We have looked at your business. We have looked at the individuals you want to run it. We think they are fit and proper people. You have a good track record. We will try to make this happen as fast as possible". It just does not get lost in the mill. I have not seen any great increase elsewhere, but I am not an expert on insolvency in our business.

Q29 **Lord Allen of Kensington:** Good morning. What exactly does proportionality mean to you? I have heard a number of people define it differently. Is it the size of the firm, the nature of the activities of the firm, risks, or all of the above? Leading on from that, we have heard from previous witnesses that the one-size-fits-all approach in the UK, with reinsurance and insurance treated in the same way, is a disadvantage to competitiveness and that others do not seem to have that approach. That is why it appears that things move more quickly. I am interested to understand your definition of it. Then we will come on to talk about what we need to do if we think that they are not applying proportionality.

Robert Childs: I have partly answered your question on proportionality, because from 2010 it doubled every year. I am not talking about if there is an enhanced risk, which is why I purposely went back to 2010: to give it a long period. I am not an expert on captives, but before I came here I spoke to someone who is and I asked, "Why is there not a captive market in the UK?" They said that it is partly because there is no history of it here. That is important: there is no history, there is not the expertise, here. He said that he does not feel that it is a tax question. It is just that when Solvency II came in it was problematic for captive managers, because effectively it was loading them up with a whole lot of regulation which they felt was unjustified for a single company insurer. Other territories have managed it in a way that the UK has not.

The UK has tried to say that one size fits all, so whether you are a single company insurer or a multi-insurer, a global insurer like us, there is very similar treatment. That is my experience, and I made the point of asking someone who used to run a captive company to find that out. I had never thought about why there were not many captives in the UK, and that was the reason given. When I asked whether it was tax, he said that the big captive market is the US and that a lot of US companies choose to pay the tax in the US. It is quite simply that there is a history elsewhere of managing them, and that is why they go there.

Lord Allen of Kensington: You also proffered a solution: should the regulator be reviewed in some way by government, or Parliament, for both proportionality and process? We have heard a lot about everybody having to fill in a 250-page document and that it can take eight weeks to appoint an assessor and such. Are there any other practical things that can be done in addition to what you have said; some sense that they have a commerciality responsibility?

Robert Childs: I am not looking for a job because I am approaching retirement, but they could do with some senior people from the business who understand what it is like to be on the receiving end, and just say, "Is it reasonable that you are asking these people to do this?" That is what I think it needs, which also comes back to parliamentary supervision. A lot of you are people who have had very successful careers, so you understand what it is like if you are on the receiving end of this kind of torrent. I think that is what it requires.

Lord Allen of Kensington: Would that be an ombudsman-type role, reporting into Parliament?

Robert Childs: That is why I said that there needs to be some kind of road map. There needs to be an opportunity to have a broad range discussion that is not just one-sided. All our regulators are remarkably nice, decent people. They do a very good job, but they are not going to listen to me if I tell them that they ought to change the way they do things. They will listen to me, but they will not necessarily agree with me, and I think it needs to be a broader group with some muscle.

Q30 **Lord Eatwell:** I was going to ask about captives, but you have already dealt with that. What is the relationship between the UK approach to insurance regulation and innovation in the industry? Does it encourage or discourage it? We hear a lot about the role of fintech these days and technological change in the sector. Is this encouraged or discouraged, or neutral, with respect to the framework?

Robert Childs: The proof of the pudding is where they are based. They are not here. The companies you read about are based in the USA, and that is what I point to. Look at climate change. The UK regulator approaches us on climate change from the point of view of risk, not from the point of view of opportunity. We spend an awful lot of our time studying climate. We have been writing insurance against hurricanes for all my life, on holiday in Cornwall, watching the isobars come together and thinking, "Here is another one", so that is what we do. We understand that risk and climate change represent an opportunity to us, but the regulator just looks at it entirely on the basis of risk.

Lord Eatwell: I am a little puzzled by you opposing opportunity and risk in this case, because risk is what you do.

Robert Childs: Yes, but it is a question of—

Lord Eatwell: The opportunity was to manage a risk.

Robert Childs: In our business you never have 100% knowledge. Aviation insurance came out of the marine business; they started insuring aeroplanes from people who insured ships. There was no actuarial knowledge in the marine business of how you insure an aircraft. We do not have 100% knowledge, but we have to say, "This one looks like that one. If I put my hand over it, it covers most of those risks and that is an opportunity". We price risk, but we do not run away from it. My comment there on climate change is that it is only about the controls; it is not about thinking whether there is an opportunity here that the UK can take on more risk in this area and effectively help the world, because that is what it needs.

Lord Eatwell: It does not sound as if it is opportunity versus risk. It sounds as if you are talking about an excess of caution.

Robert Childs: I am talking about an excess of caution, yes, only on the basis that that is where it comes from, because that is the only area.

Lord Eatwell: Off this topic, you talked earlier about the doubling every year, which has been worrying me. How big is that? If, in 2010, when you began, you met the regulator just once per year, you would be up to about 64.

Robert Childs: It was 10 times a year in 2010.

Lord Eatwell: That is what I needed to know.

Robert Childs: It is that kind of figure. That is the multiple.

Q31 **Lord Reay:** I want to ask you about reinsurance. Should it be a concern that the UK does not have any market-based domestic pure reinsurance companies, and should more be done to encourage reinsurance business among UK companies?

Robert Childs: The simple answer is no. Reinsurance is managed perfectly well in a lot of the Lloyd's businesses; they write insurance and reinsurance in a composite way. Do I think the UK suffers by not having a reinsurance company? Not particularly. The Lloyd's market writes a lot of reinsurance, so I do not think so.

Lord Reay: What are the consequences of these services being provided by subsidiaries passporting into the UK, as well as Lloyd's syndicates?

Robert Childs: I am not quite sure that I understand what you mean.

Lord Reay: Are the subsidiaries and the Lloyd's syndicates taking that business away from UK companies?

Robert Childs: There is a lot of businesses in Lloyd's that are writing that might be subsidiaries of overseas companies. They would be writing that business, but it would all be recorded in the UK. I do not think that is hurting the Lloyd's market. It is a global market, so if you want a global market you do not want to exclude global players. That makes perfect sense. Do I think it is too much? No, I do not.

Q32 **Baroness Donaghy:** Good morning, Mr Childs. My question is a rather peculiar one, I think. It looks almost like a Brexit question. I know that the UK led the way in Europe on creating Solvency II. Is it your opinion that this is now the benchmark for regulation around the world, with the possible exception of the USA? If so, do you think that means that the EU will turn out to be the primary driver of insurance regulation?

Robert Childs: If you take the big insurance, the people who spend money on insurance are the Americans, the Europeans and probably the Japanese. That comes into the open market, so the important people are the UK and Europe combined and the USA, because Japan is not a very open market. Yes, those two regulatory bodies will be very important, I agree, but I am not sure whether it is one over the other. The US tends to go its own way.

Baroness Donaghy: Does that mean that we could be outliers in the future or that we will have to move closer to the USA model, which does not seem very likely, or maintain our close connection with the EU and Solvency II? Do you have a view?

Robert Childs: My only view, if we are to deviate, is whether it can be "instead of" and not "and". What we want is consistency. I told you the territories that we run our businesses in. We are looking for a consistent approach, because every time there is a difference, our compliance and risk department must operate under a different set of rules. What then happens, of course, is that you end up operating at the strictest level everywhere, because that is what you must do. Bureaucracy is a French word, but we seem to be very good at it, and if we can have less not more, I would be in favour of it.

Baroness Donaghy: I have been keen on asking other witnesses about the funding of our regulators and whether we get what we pay for. You did say that perhaps they needed some more senior practitioners, shall we call them, in the industry, although not you, you hastened to say.

Robert Childs: I think I am probably too old.

Baroness Donaghy: I was wondering also about the salary levels and whether they were attracting a sufficient standard of people, because they are perhaps not funded sufficiently for carrying out their role, compared to, say, Singapore.

Robert Childs: I just do not know. I am not an expert on that. I do not find that when I am interacting with the regulators I see any lack of intellect, so I am perfectly happy there. My whole point is not about the person but about the focus. I go back to consistency, flexibility and agility, nothing else.

Q33 **Lord Sharkey:** Good morning. In your very helpful written submission you are in favour of using post-Brexit flexibility to improve the UK's competitive position and align, I think, with some global standards. Could you be more specific about that? What specific areas would you like changes to be made in to benefit the London market?

Robert Childs: I think I have just highlighted it. If we deviate, can it be less, not more? A view needs to be cast over the regulation to ask what this will do to our competitiveness in the market. My view on regulation is that it is purely a hygiene thing, that people want to operate and to be insured in a market that is regulated properly and fairly. They want access to a good legal system, which we have here, and they want expertise, which we have here. Those are the key things.

Lord Sharkey: I take your point about "or" not "and", but are there any specific aspects of regulation or parts of regulation that you can point to and say, "These are the ones where change would benefit us most"?

Robert Childs: The specific one that I would point to is that there is no competitive mandate as a primary objective. It is a secondary objective, and as a secondary objective it tends to be submerged. It needs to be a primary objective. We do not want to change the standards of regulation, because everyone accepts the importance of the hygienic position. What we want is consistency and a competitive edge and looking at how the

London market continues to grow. We will not win back people; that does not happen. But you want to capture the people who are coming.

Lord Sharkey: I took from the five bullet points in your written submission that you would like to see some measurement of progress made towards this.

Robert Childs: Yes, because it is exactly what is asked of us. I am being measured all the time, and if we are going to change, let us have some measurement.

Lord Sharkey: Briefly going back to Solvency II and the Government's changes that were announced last week, do you think they will have any impact on the London market, or is it just a retail market exercise?

Robert Childs: It will certainly have a big impact on the life industry, which is very important. Everything I heard from John Glen seemed to be a good thing, so, yes, I would be supportive of that. Do I think it is going to have a direct impact on the London market? Let us wait and see.

Q34 **Lord Cromwell:** Increasing or maintaining our global competitiveness is of course attractive as a concept. Setting aside whether that is a fit and proper role for a regulator, it seems from a lot of the evidence we have had, including your own, that the issue is more the regulator than the regulations, and specifically the skills, the resources and, above all, the culture—what you refer to as the focus in the regulator, the treacliness of it, if you like. I am a little vexed by how adding a new and complex objective of international competitiveness with metrics attached is going to relieve those constraints, rather than simply add more to them.

Robert Childs: My view is that it is transparency. If you have measurement and they are public, they are accountable. I would have thought that was the role of Parliament. Without that, you will not get change.

Lord Cromwell: That provokes a slight supplementary, in that case. If the regulator does not necessarily have the skills and resources to do this, how confident are you, flattery aside, that Parliament does?

Robert Childs: This is simple stuff in the sense of how many businesses have started, how many businesses have applied, and what is the comparison with other regulated territories. That is just a simple why. That is not complicated metrics.

Lord Cromwell: Maybe we will rise to that challenge. I hope so.

Q35 **Lord Trefgarne:** I would like to ask you about the proportion of your expenses that are attributable to the regulatory costs. Who bears these costs? Do you charge them straight on or are they hidden in your own accounts, and what would change if those costs fell away?

Robert Childs: In an insurance business we have our internal expenses and we have our underwriter expenses, which is claims, so it is claims and expenses. They come together to form what we call a combined ratio, and if the combined ratio is below 100 we make money, because investment income is not measured by that; it is on top. On the underwriting business, if the combined ratio is above 100 we make money, but if it is over 100 we lose money. The regulatory costs go into the managing of the business side, and if that pushes our business over 100 then, yes, we would have to put rates up to pay for it. At the end of the day, all increased costs will fall back on the customer.

I do not have numbers to hand and we do not necessarily pull them out, because the thing about regulation like this is that it just goes through the entire company and we do not charge all our staff out by hours on all the various things. It just goes through the finance team, the compliance team, the risk team, to the underwriters, the actuaries, so all of them are spending some time or other reviewing the questions and answers for our regulators.

Lord Trefgarne: When you send a bill to the customers there is no separate item at the bottom?

Robert Childs: There is no separate item, and there is no separate item for my salary either.

Q36 **Lord Burns:** We have been asking ourselves where the concerns are here. Is it to do with the way the legislation is drafted and the way the objectives of the regulators have been set out? Is it to do with the way they weigh those objectives and interpret them and the judgment that they apply to them, or is it simply speed, efficiency and their administrative processes that are the source of the problem? What is slightly puzzling me is that it seems to be the speed, the processes and the attention they get that are the real problem. The solution is more transparency: they should be measuring more of the things that you described and they should be more accountable.

The puzzle I have is why that requires raising the notion, some grand term of competitiveness, into a primary objective. To many of us, there is a danger to saying that the regulator should be compared with competitiveness, when we see that their job has historically been to protect the customer and the consumer and to make sure that the system is not damaged. There are is a danger, if growth becomes an objective, that the race to the bottom becomes one of those things that one fears in markets. Surely what you are trying to achieve can be done in a much more straightforward way.

I can see the case for the regulators reporting to Parliament, that they should be judged against a series of metrics, but would it not be better to be explicit about all of that rather than getting into what appears to be a lengthy argument about whether competitiveness should be a primary objective, a secondary objective, or something that is taken into account? I am slightly puzzled that this has become a big issue when it does not seem to me that it is. It is the outcome that you want.

Robert Childs: I am with you on the outcome, and I do not have a solution but a suggestion, which I have made in these papers. When I did this exercise in 2017, it was to get the response of all the parties involved to how we in the London market might respond to a big event. My proposal is that there is some focus on competitiveness. In my experience, unless you make someone responsible for a particular thing it tends not to happen.

Lord Burns: But you could say, for example, that your primary objective is protecting consumers and maintaining the system, but in doing that you must take into account the competitiveness of the industry and how it is measured in the metrics of efficiency that you mentioned and that they should be published. It is, to me, a much more simple and understandable way of doing it, and it is a way that is often applied to regulators, rather than saying that from now on they must have a dual primary objective, which you will know from being on your side of the table and as a regulator is not an easy thing for regulators to implement.

Robert Childs: It is a question of balance. I suppose what I am asking for is some way in which it can be measured and transparent and not swept under the carpet. That is all.

Lord Burns: I am very happy with that. My query, from what I observe and what I have been reading about this agonising debate, is whether something should be a primary or a secondary objective or something that is taken into account when making other judgments. We seem to be dancing on this pin in a quite unnecessary way.

Robert Childs: I accept that it is difficult, and I do not think that making it an objective would be popular all round, because the regulators will say that it makes their life difficult. I look at it from the point of view of the London market: that the presumption is that we must have a very strong regulator in this market, that it has to be a regulated market to attract capital in. We have that, but capital is not coming in.

Lord Burns: And to protect consumers.

Robert Childs: Yes, and protect consumers, but the capital is not coming in, so there is something not right if the capital is not coming in and is going elsewhere. Other entities manage to do exactly that; they manage to have a competitive priority plus a clean set of tables. It is how to get some way of addressing that issue and whether, as you say, it makes it too complicated, but I think it has to be discussed, otherwise you will end up with a very stable market that will slowly shrink.

Lord Burns: Do not get me wrong. I understand many of the problems you mention, and when I was involved in banking I went through the whole question of the regulators wanting to see minutes and ever more detail about what was done. I fully understand the issue about transparency and having someone with oversight of it, and the regulators having some mechanism by which they are challenged on whether they are sufficiently agile and so on. I am just putting to you, and my theme has been, that I find the idea of making competitiveness the primary objective unnecessary and that it leads us down a path that is unnecessary in achieving what you want to achieve.

Q37 **Baroness Bowles of Berkhamsted:** I think we are well down the track of discussing the things that were the subject of my question, which is about the competitiveness objective for the regulator. You have told us that you think it needs to be a primary objective, because otherwise it will get swamped, unless you can make sure that it is measured against various benchmarks, which you have also talked about. I think you have said that Parliament should be the organisation that checks how well they have dealt with that competitiveness against those benchmarks. I can see that is a possibility. Do I have that right as a starter?

As you have also explained, the whole business of insurance is about managing risk and managing things that you do not know will happen, and how to do that. Who do you think is now managing the risk? Are the regulators trying to manage the risk, rather than the businesses?

Robert Childs: I think the businesses are managing the risk, and I think the regulators are checking that we are managing the risk. That is perfectly reasonable. The questions seem to have gone up quite a lot over the years, and I feel that it is perfectly proper that that process goes on. We manage risk and we also look to price risk, and as new risks appear we look to price those and address them, cyber being an important one. Yes, I do not see a problem with that.

Baroness Bowles of Berkhamsted: That is fine, so back to the drag, if we could call it that, being the volume of questions and the fact that before you reply to a regulator you must go through a lot of checks with the different departments to make sure that you have not answered something improperly or in a way that has comeback on you—something I fully understand, having spent some time looking at correspondence with the regulators just this week. Do you seriously think that everything that you give to the regulators is looked at, or are they gathering lots of stuff that is not looked at?

Robert Childs: I could not possibly comment on that.

Baroness Bowles of Berkhamsted: I do not see that there is any problem in giving board papers. I am sure that in one of my previous positions I have expounded the view that regulators should look more at what comes from the board, because quite often they are not until finely polished. I think it is proper that they should know what challenge is there, although to be honest it is probably quite difficult for detailed challenges, even for some non-executive directors. Do they ever come back with questions about why such and such was on the board or not on the board?

Robert Childs: Sometimes, yes. I think the board minutes now are considerably longer in our UK company than they are elsewhere, because to stop the questions it is almost verbatim. That is what it happens to be, yes.

Baroness Bowles of Berkhamsted: I somehow feel that I have had a hand in that, which is probably a good thing, although I accept that it is different from the rest of the world and raises issues over the least said, soonest mended type of approach that board minutes have perhaps previously had. It is healthy to have good minutes and more elaborate minutes.

Robert Childs: It is not minutes, it is papers. It is everything.

Baroness Bowles of Berkhamsted: Yes, papers as well, which are of course hundreds of pages long in most instances.

Robert Childs: Six hundred pages, I think. Some of them are 300 pages.

Baroness Bowles of Berkhamsted: That is a light pack. I am trying to see what else one can tease out about this. I think it is quite likely that it becomes a secondary rather than a primary objective to have competitiveness, because everybody is so afraid of the FSA approach whereby competitiveness seemed to become an overarching thing. Do you think that having to explain against the benchmarks would overcome any impetus that the regulator might have to say, "No, in the interests of stability I'm just not doing something"? Your aim is to make them explain how it is—

Robert Childs: My aim is genuinely to protect the London market. That is my sole aim. Everything I have said here is about how you make it grow and how you protect it. I do not have any criticism of the regulators. I think they do a grand job. My concern here is the plea to have consistency across the world, because that makes life a lot easier. If we are going to make changes, can we have less not more? Again, I hear the debate about primary or secondary. I think that unless you have some objective that someone holds in your organisation as their responsibility, it will not happen. That is all.

Baroness Bowles of Berkhamsted: I accept that. One of the issues has been that there are things that our regulators do—this goes back particularly to the new business—that require a timeframe of weeks rather than months, and our regulators are taking months over that. Have you any idea as to how that can be contracted?

Robert Childs: I will give you an example. We set up a subsidiary elsewhere. I met the head of the regulation and he said, "You are a good organisation. You have a good reputation. You are the kind of people we want to have here. We will make sure that you are up and going in time for 1/1". That was the message from the top. It then went down to the troops and the troops did their best to make sure that everything we did was in line with a well-regulated business. It did not mean that it was less thorough. It just meant that they had an objective and that, when the boss says, "We want them to come and we would like it to be ready by 15 December", the likelihood is that it happens.

Baroness Bowles of Berkhamsted: Are you saying that what is needed is more top down from the regulator, rather than bottom up where it goes through the junior people who do not have the ability or the experience to make judgments?

Robert Childs: Honestly, I do not think it is anything to do with the people. I think it is to do with policy. It is policy. Do you want it to happen or does it just go on the conveyor belt?

Baroness Bowles of Berkhamsted: You are saying, therefore, that this impetus has to come from putting competitiveness as the—

Robert Childs: In my world, that is how I would do it. It is how that is managed in the organisation. Competitiveness needs to be a very important consideration in the process, and that is what my paper means.

Q38 **Lord Cromwell:** Me again, I am afraid. You paint a picture of a very well-regulated decline, unless something happens.

Robert Childs: Those are your words, not mine.

Lord Cromwell: Fine. Going back to your interaction with Lord Burns, it seems that we will face this "one governor, two masters" defence if you apply a primary or secondary objective about competition, but there is that great phrase "due regard" that needs to be bolted in there somewhere. Thereafter—I am getting way above my pay grade here—if the London market is going to provide the data, I think it is Parliament's job to pull in the regulators to discuss it with them and that really nothing more formal than that is required. At least, that is the first step that would perhaps shine some light into some dark corners.

Back to well-regulated decline. If these barriers are causing problems—I think I know the answer to this—are companies choosing to locate outside the UK? Can you paint a trend line of where you think that might go if things do not change?

Robert Childs: I cannot paint a trend line. I can point to some of the statistics I gave you from this report, and it is about new businesses. Where do they put their money? There are all sorts of reasons why, and the reason for this conversation is just one, but I hope I am here to try to help address one of the reasons.

Lord Cromwell: I think it is your suggestion anyway, but would industry get behind the idea of having an expert group who put the opposite opinion?

Robert Childs: I think there would be an argument. I know that when Caroline Wagstaff came before you she remarked that MAS has this international advisory board. It depends what teeth it has and what access it has to Parliament. If Parliament were to set up a review for this, one would hope that that group's opinion would be taken into account.

Q39 **Lord Grade of Yarmouth:** The thing that motivates all the regulators I have come across in my career is fear. There is the fear of judicial review, which is a smaller thing, but the great fear, particularly in your area, is that there is some scandal. If you look at the Ofgem, it is the failure of the small energy companies. How do you get past that? How can they be encouraged to be a bit braver?

Robert Childs: Our regulators would say that they are not trying to extinguish failure. They would say that there should be an orderly run-off and a resolution, which I think is perfectly reasonable. I do not have any argument with them about that. I genuinely do not think that getting a regulator to take excessive risk is the answer. I think the answer goes back to what I said before: why are other places successful in attracting business? It is not because they take excessive risk. It is that they look at all the bits around the edge. They look at flexibility, consistency, speed, fast track and ask, "Do we want you here?". It is not a question of interfering with the hygiene; it is all the bits around the side. That is what is important, and I do not know how you get all those bits around the side to be addressed unless you do something like my suggestion. That is all.

Lord Grade of Yarmouth: The London market is an incredibly important piece of the economy in this country in employment and in contribution. Are we losing share, or is the international market expanding with Bermuda, Malaysia, Switzerland and these places?

Robert Childs: I do not think that we are losing it in all senses, but the companies do not necessarily choose to put their head offices here. Going back to your earlier point, they are subsidiaries in the London market of businesses elsewhere. My concern is that we could lose. The market, as far as I can see at the moment, is thriving, but we could lose, and with more companies setting up elsewhere you eventually reach a tipping point and you start to lose the expertise.

Going back to my point about the captives, the chap I spoke to said that it goes to this particular territory because of the expertise. As soon as you start to lose the expertise you start to lose the business. It is a cumulative thing. It does not happen overnight; it drips.

Q40 **Lord Grade of Yarmouth:** The last question from me is on the accountability of the regulator. All the boards I have sat on over the years have a performance review that you undertake biennially, triennially, or whatever. Has the regulator ever asked you for your opinion of how they are performing?

Robert Childs: Not to my knowledge. They might have asked my colleagues, but they have not asked me.

Lord Grade of Yarmouth: Do you think they should undertake some kind of open review of how they have performed, which would impel them to talk to their regulatory clients?

Robert Childs: I do not know if it would work. In one of your previous questions you asked why there are no judicial reviews in the UK. It is a cultural thing. Americans will reach for a lawyer like that. It does not happen in the UK. That needs to be structured, and you will not get the regulator to make it happen, because they are all separate and the regulator is one.

Lord Grade of Yarmouth: But they expect you to do it.

Robert Childs: Of course, but I accept that. That is part of the game. I am here. I do not mind that. But if you are going to address this issue, that needs to be done by their superiors in a structured fashion.

Lord Grade of Yarmouth: If it is the job of Parliament to call regulators generally to account systematically, annually, biennially, whatever, is there risk to the political independence of the regulator in using that forum to call them to account?

Robert Childs: I do not know.

The Chair: You have made the point on a number of occasions that getting into new business opportunities can sometimes be slowed down to a point where we miss the boat. You talked about climate change being a big opportunity. I am inferring from your comments that with climate change we start with a great deal of expertise here in the UK. What now stands in the way of us becoming, or what could stand in the way of us becoming, a major centre for climate change reinsurance?

Robert Childs: It comes back to the point I made that if you spend too much time answering questions, it acts as a weight on the business, it uses up resource. So I do not think it will alter day-to-day innovation, but it will probably affect strategic innovation. It is a resource issue. It is just the number of people one has to employ now in a company to answer it. There is no one around, as far as I can see, to say, "Is the amount of time that you are asking these people to answer your questions reasonable?" My point, again, is that all the individual questions are perfect. No answer. In a theoretical world they are great, but in the real world the accumulation will sink us.

The Chair: You cited the example earlier of how, when there has been a particular event in the market, there is an opportunity to price up, if I can put it like that, and secure a significant advantage in the market when it is in a degree of turmoil. That is at the risky end of the spectrum, and you look at that risk and analyse it, presumably based on the expertise and experience that you have. Is that a pinch point, where the regulators slow things down because it is a new risk?

Robert Childs: The pinch point will come because, in my experience, whenever there is a serious catastrophe that you would like to happen to everybody else, it also happens to you at the same time. That means that you will be impaired, and the way to rectify your impairment is to build the balance sheet quickly through the new opportunities that you have. That is the conflict. You need speed and you need people to take a bit more of a risk than they are prepared to take in order to protect the market.

The Chair: The position that you are describing is the sense that you will double down on risk because there is a price movement.

Robert Childs: That is right. You might not necessarily double down on exposure. If I get £1 for insuring this cup and then next week I get £2, I have halved my risk but I have twice as much money.

The Chair: Yes, a good business opportunity to be seized. Why would the regulator draw breath at that point?

Robert Childs: As I said, most businesses will have some involvement with the catastrophe that caused the opportunity. That is a dilemma.

Q41 **The Chair:** On a slightly separate point, but related to climate change, we have been looking over the last few months at the development of the transformation to net zero. One aspect of it that relates to the insurance market is the requirement to have a net zero plan, a net zero objective, for financial institutions. Much of your insurance is, let us say, old industry, the fossil fuel industry.

Robert Childs: Our insurance is new industry.

The Chair: Yes, it has to be new industry as well. Do you see that requirement as gradually making you shift away from fossil fuel engagement and reducing your exposure to it?

Robert Childs: Yes. We have committed ourselves to do it. Basically it is law, it is a legal requirement, so we are doing it. We are moving, like everybody else, towards net zero. We will slowly move away. There is a plan.

The Chair: In which markets will the traditional oil companies get insurance cover?

Robert Childs: It is a question of speed and time. We will not, for example, insure new oil sands extraction. That means in effect that if we do not insure it—we have made this point to the regulators—the banks will not lend on it. We have made this point, but like others we are progressing, we are moving, to a point. It is not overnight. We have not pulled the plug on everything. We are just saying that we will not do new, so we have said no to new ventures. Effectively it is allowing our clients to move at the speed that we are moving at, or for us to move at the speed of the clients.

Q42 **The Chair:** Finally, you have the opportunity to frame the question that we will ask the regulators next week. What is it?

Robert Childs: I would ask how they are able to demonstrate their consistency, flexibility and agility in protecting the London market as a safe place to do business.

The Chair: Would you add speed to that?

Robert Childs: I would add flexibility—agility and speed. No one will go to a place that is unsafe to trade. We want a safe place to trade. We just want it to be transparent, consistent, flexible and quick and to have the ability to attract new capital into it, where people want to come to it as opposed to having to come to it.

The Chair: The competitiveness test is the competitiveness test with the regulators.

Robert Childs: It is a competitiveness test, yes, and it is not a race to the bottom. No one is interested in a race to the bottom.

The Chair: Tune in next week and we will ask that question. Thank you very much indeed.