



Industry and Regulators Committee

Corrected oral evidence: Commercial insurance and reinsurance regulation

Tuesday 8 March 2022

11.45 am

Watch the meeting

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

Evidence Session No. 5

Heard in Public

Questions 55 - 64

Witnesses

I: Matt Brewis, Director, General Insurance and Conduct Specialists, Financial Conduct Authority; Sheldon Mills, Executive Director, Consumers and Competition, Financial Conduct Authority.

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.
2. Any public use of, or reference to, the contents should make clear that neither Members nor witnesses have had the opportunity to correct the record. If in doubt as to the propriety of using the transcript, please contact the Clerk of the Committee.
3. Members and witnesses are asked to send corrections to the Clerk of the Committee within 14 days of receipt.

Examination of witnesses

Matt Brewis and Sheldon Mills.

Q55 **The Chair:** Welcome back to the second panel today on our Industry Committee's inquiry into the reinsurance market. I have great pleasure in welcoming two members of the Financial Conduct Authority, Sheldon Mills, executive director of Consumers and Competition, and Matt Brewis, director of general insurance and conduct specialists.

I will start off with a question of a more general and topical nature. The Government have imposed sanctions that mean any transactions with the reinsurance market and Russian entities or Russian individuals is now banned. I would like to hear your thoughts on how this is to be implemented and what impact it will have. Taking the names arrangements at Lloyds as an example, there will no doubt be names of Russian origin or Russian provenance. How will you ensure that the Government's ban is implemented?

Sheldon Mills: I will start by saying sanctions are a matter for government not for the FCA. We have been working closely with government providing technical assistance and support alongside the PRA, who you heard from just before this session, to help inform their decisions.

Clearly, Lloyds and the London Market as prefaced in your question is one of the world leaders in the sectors of insurance and global reinsurance and therefore has a pivotal role in ensuring that they are applying the sanctions.

The Government have published a statement on further economic sanctions. They have targeted the provision of insurance and reinsurance services for the use in aviation or the space industry, and restricted military goods and technology sectors where those are connected with a Russian entity, so they are reasonably specific. That will prevent Russian entities from renewing or extending insurance or reinsurance agreements.

In terms of how we apply that, we are working very closely with Lloyds and the London Market, and other firms within the industry. They will have to put systems and controls in place to identify contracts and likely entities and start the process of restricting the access for new contracts and claims on existing contracts. Although that is a significant exercise, it is one that we are confident the industry can do. Industries such as financial services have experience with sanctions. Sanctions regimes have been applied across the world in different jurisdictions at different times, so it is not completely unusual for the market, although the size and scale and urgency of this is slightly different.

The Chair: Is there a problem that the know your customer approach will find it difficult to penetrate some locations that effectively allow the owners to conceal their real identity?

Sheldon Mills: I think it is important for there to be a level of international co-operation in relation to this and a level of information sharing to enable Lloyds and the London Market, and other areas of financial services, to properly target the sanctions. We will all need to work closely together in order to ensure that any movement by individuals or entities to mask any connection with Russia is identified and managed.

The Chair: Would that co-operation extend to Crown dependencies, like the Turks and Caicos, which have proved to be very safe havens, if I can put it that way, for concealing the identity of the owners?

Sheldon Mills: At present the sanctions apply directly to Lloyds, the London Market and the financial services industry. Clearly, to the best that we can, we will have our own international co-operation with regulators across the world. It will be for those sovereign entities to decide whether they apply those sanctions on an international basis.

Q56 **The Chair:** Thank you very much. Coming to the main topic of our meeting today, which is the London Market, one of the beefs that we have heard from a lot of our witnesses is the slightly nit-picking, bureaucratic approach of the regulators, which I think they find a combination of irritating and burdensome. It is a sort of cultural issue that many of our witnesses have said they do not encounter from other regulators. I am sure this does not come as shocking news to you, but it will be interesting to get the FCA's take and to understand the extent to which you have recognised the validity of some of these complaints and the steps you have taken hopefully to remedy them.

Sheldon Mills: Absolutely. In part, I recognise some of the statements made, and I think we always have to have an approach to regulation that consistently seeks to ensure that it is proportionate and makes sense in the context of the objectives that Parliament has set for us, and makes sense in the context of international supervision; I am sure we will come on to competitiveness and other issues later. We do our best to do that.

I thought it might be best to start the response to this question by setting out how we supervise firms, if that is helpful. We split our firms into what are called fixed firms, which are the largest systemically important firms, which are often dual regulated with the PRA, and portfolio firms, which are smaller firms in the market. In this area of wholesale insurers, there are around 750 firms, 250 insurers and 500 brokers that we regulate. I will not go into the details of which they are—Matt tells me that I should not say those publicly—but, of those, less than 10 are fixed firms.

Fixed firms have a different approach to that of our supervision portfolio firms, so they will have a minimum of three points of contact with the FCA each year: usually an annual strategy meeting, a meeting with the CEO or chair, and other engagement. In that process we ask for board packs and information. We ask to understand the strategy of those firms. From that, we will work out whether there are any issues or concerns that we wish to take up with those firms.

Sometimes there are no issues, so firms will not see very much of us apart from those three events in the year, and sometimes there are specific things to deal with. Generally speaking, with wholesale firms, which are of a great size, the issues relating to the B2B contracts which they engage in, the large risks, are not generally of major concern to us because it is with sophisticated customers. We look at things from our position as a conduct regulator with a competition, consumer protection, market integrity objective, things that trickle down or impact directly on retail customers, sometimes SMEs.

I did wonder whether we have been seeing firms more in the past two years, and I think we probably have been. There are probably two or three reasons for that. One is that there has been change at the top of the FCA; I am new in post and the CEO is new in post, and obviously when that happens you go out and meet people, so there will be that engagement. Secondly, we have had a number of issues that are quite significant in these markets. The Covid pandemic has meant that we have had more engagement to assess risks. Specifically, in this industry, the business interruption insurance claims and test case that flowed from that has meant that we have had quite a lot of engagement with some of the firms in this area.

We will come on to this, I am sure, but I think that greater interaction falls out of some of the backlogs in our authorisations process, which means that there is interaction there because firms want to make sure that they get an efficient and speedy response from us on certain changes within their boards and so on.

So I think they are probably seeing more of us, but the base level that we have is reasonably proportionate. Firms will know that in other jurisdictions across the world there will be even less communication. In the US, for example, some of the states might have a different approach and some other states might have an approach that is even stronger than the one we have. There are different approaches across the world. In response to your question, I accept that one of the things that we have an opportunity to do in a post-Brexit environment is to work out what regulation looks like and to think about how we can be more proportionate to meet some of the valid questions that people have with the way in which we supervise.

The Chair: Are you seizing that opportunity? Do you have a process under way to look at the way you are regulating and to learn from elsewhere?

Sheldon Mills: We do. I do not like the word "transformation", but it is called transformation. There is a transformation process, which has two or three elements that are relevant here. One is that we have merged our supervision policy and competition areas of the organisation into one division to try to get more of an end-to-end approach. When supervisors are not talking to the policymakers, we do not get the most efficient approach to things, so we have merged that and I co-lead that with another executive director, Sarah Pritchard. More widely, across the FCA

as a whole, we are looking at better approaches to how we use and analyse data. That should help quite a bit with our portfolio firms, but it should also help with the efficiency of our supervisory work and our authorisations work.

Lastly, in a post-Brexit environment we are quite clear that we need to work more internationally. Matt can speak to this, but we do a lot of work with the FSB and other international bodies. That allows us to share experience of supervision and to learn and develop that internationally. There is the fair comment that these markets are both domestic and global in nature. They have different geographic scopes, and it is important that there is. You will never get complete international consistency, but we are aware of that.

The Chair: Thank you very much.

Q57 **Lord Blackwell:** The London Market is obviously very special compared to a lot of domestic industry in terms of its sophisticated clients and wholesale reinsurance. Some of the comments we have had from the industry suggest that too often the FCA has a one-size-fits-all approach to this. Clearly, the London Market is very important from a prudential point of view, but in terms of consumer and conduct it may not have the same implications as much of the rest of the industry you regulate, so I would be interested in how you think about proportionality in the way you approach this and whether you think there is anything in this concern about a one-size-fits-all approach.

Matt Brewis: Thank you. It is a very interesting question and one that we spend quite a bit of time thinking about. We have some regulations that cover all markets; the senior managers and certification regime that was introduced over the last seven or eight years covers all firms in a similar way.

When we look at our individual regulation of the different insurance markets, we take a different approach when it is retail versus when it is these larger risks that we talk about. Our retail and consumer protection focus is very much about ensuring that customers are receiving value for the products that they are purchasing, that they are given information that they need and that they are looked after by the firms that they deal with. In that way, it is more similar to retail banking, so it is a quite similar approach that we take.

I would contrast that with our approach to wholesale markets where we are much more focused on ensuring that the market is working well and appropriately. If I use the pandemic as an example, our focus on the wholesale market was much more related to areas such as trade credit insurance and ensuring the ability for goods to come into the UK and that they were appropriately insured, working with the Treasury to ensure that there were backstop arrangements in place; as opposed to on the retail side, where we were looking at ensuring that there were payment deferrals available to customers, or refunds where they were unable to

use their products, such as private healthcare or having their gas boiler serviced.

I have been following the evidence to this committee with interest and thinking about these issues quite a bit. I think part of the issue is that the firms you are talking about, and which have been giving evidence here, do not just do large-risk business. That is their primary business, but, as they look to diversify completely appropriately within their business models, they start selling their products to smaller, less sophisticated customers.

That is where our interest really begins. If you are selling business interruption insurance to a local restaurant, for example, with the sophistication of the purchase of insurance and their understanding of it, there is a significant information asymmetry between the two parties that you do not have with large risks. If business interruption insurance had been solely a large risk between large corporates, the likelihood of us intervening in that market would have been very low. It would have been left to the courts to solve, but, given the hundreds of thousands of small businesses that had those products, we felt there was a need for us to intervene. That is where it jars a little bit—where firms are not just writing this large risk but getting into SME business—and that is where there is an overlap between our retail approach and our wholesale approach.

Lord Blackwell: When you addressed that particular issue, were you able to discriminate between firms that you thought were stretching down and firms that were purely in the wholesale market and more sophisticated and leave those out of your contact, or, once you start, do you have to cover everyone?

Matt Brewis: No, absolutely not. We have to understand the size of the whole market and the types of transactions that firms were involved in. The case obviously has wider ramifications for all insurance, but the focus was on firms that did the bulk of the SME business. That was where our real focus was, the mass market of that.

Q58 **Lord Blackwell:** Another area that has been mentioned a number of times is the general insurance pricing review and the significant investigation you did of fair value pricing, which obviously had significant beneficial ramifications in motor and various other retail markets. Again, the suggestion was made that that was applied indiscriminately to some of the products in sophisticated wholesale and reinsurance markets, where you would expect customers to be able to stand up for themselves. Do you recognise that criticism?

Matt Brewis: To an extent. Large risks are excluded from our product governance rules. Where planes, trains and marine business are involved, and where a company is of a significant size—so with a balance sheet of over €12 million—that is largely excluded. It is a well-used definition of what constitutes a large risk; it is used in Solvency II and other legislation. It does not apply to those.

When firms are applying those rules within their books, sometimes it might be easier for them to say, "Well, I've got to do it for this proportion of my book and, as opposed to having a separate system and a separate way of doing things for these customers, I'll apply the same approach across all of them". I think part of it is how firms are applying our rules themselves. It is not something that we focus on in our supervision. We do not focus on product governance when it relates to large risks. If there are specific concerns, if firms see that this is causing them concern, we are very happy to talk to them about it, but we have a clear carveout for large risks in our product governance rules.

Sheldon Mills: It is important to note that general insurance pricing practices were aimed largely at the consumer end. To remind the committee, there was a feature called the loyalty penalty; you could buy your insurance today and then be walked up in price for many years. We are hopeful that that will provide more trust and confidence for consumers primarily in the prices that they achieve in home and motor insurance. Evidently, with those sorts of changes there are changes in the prices that people get.

I am sure that if people listen to Radio 4's "You and Yours" and the consumer programmes, they will heard lots of people who have seen price increases and price decreases. Some of that is due to the cost of inflation, but for the wholesale end the impact should have been minimal.

Lord Blackwell: In a sense, though, there may be some messiness in implementation or communication. You are saying that if firms trespass into areas that concern you, things might get applied across the whole of their book. Is this an area where you see opportunities to improve the way you work with the London Market in particular, to make sure that they are not being hampered or that things are not being imposed that need not be imposed?

Matt Brewis: Yes, absolutely. I regularly meet with the trade associations as well as individual firms to hear their feedback and their concerns around all aspects of our regulation and where we could do more work. I have heard this criticism. I have had this conversation with them. Clearly it persists, so we need to do more to understand whether there are specific pinch points that are causing these issues, because, as Sheldon and I have said, it is not our intention that they are covered by these product governance rules.

Q59 **Lord Reay:** Some witnesses have told us that regulators can be overly cautious in their application of rules and in their approach to emerging firms and services, especially compared to regulators in other jurisdictions. The examples mentioned are often insurance-linked securities and captives. Why does the UK not host a more dynamic market in these areas, particularly when considerable effort went into setting up a framework for ILS?

Sheldon Mills: Yes. As a conduct regulator, we are usually cautious in wholesale markets where we are mitigating the risk of harm to

consumers, so we have usually very little oversight of insurance-linked securities or captives. So in one sense it is probably a question for the PRA rather than us.

I would say, however—not selling the FCA—that we have a regulatory sandbox. I do not think it has been used for ILS and captives, and I do not think it would be. The concept of a sandbox is that you can bring forward innovations and new technology or new potential products and services. Around 12 or 13 of the 153 firms or proposals that have been through our sandbox have been in the insurance area, but they are related more to the consumer side than the wholesale side.

We see that when firms go through the sandbox they usually get much more interest from VCs and funders. From our perspective as the FCA—I cannot speak for the PRA—we want to expand that using of sandboxes and opportunities for new business to come in and speak with the regulator and to have a safe space in order to think through new innovation. That will be a sensible approach, certainly in a post-Brexit environment.

Lord Reay: With insurance start-ups, we hear that they find it difficult to set up in the UK, as they are expected to have full capital established and governance structures on day one, rather than being allowed to be phased in. Is there scope to have a more proportionate, faster-track system to encourage these start-ups in the market?

Sheldon Mills: Again, the PRA takes the lead in insurance authorisation for consent of a new business. The approach there is that new insurers have to be fully operational and capitalised at the point of authorisation. That is different from new banks, for instance. When you see the rise of the neobanks, such as the Monzos and Starlings of this world, there is a different approach there, a new bank start-up initiative.

We are considering, alongside the PRA, how you can increase speed for mobilisation for insurers, and one needs to consider that. However, there are different issues with capital and operations, from an insurance business perspective, to banks. At the end of the day, you need to meet the claims and you need to be sufficiently capitalised in order to do that; otherwise, the system of insurance does not really operate. It is not that banks do not need to be fully capitalised, but there is a movement towards that position, which you can monitor and manage a bit better.

Lord Reay: Do you track the number of new entrants to the London Market and the number of firms that withdraw applications, and compare them with other jurisdictions?

Sheldon Mills: We do track the numbers. My understanding is that there have been 12 applications over the past year for the London Market Intermediaries, which make up a small subset of the overall new intermediary applications, the bulk of those operating in the retail space. This also does not include insurers and ILS. A couple withdrew during the process. We do not, to date, have comparative volumes for other

jurisdictions. I noted that in preparation for this hearing and thought that maybe we should have that sort of information and data.

Q60 **Baroness Donaghy:** Good afternoon. Following on from the comment about the time taken to look at individual cases, we have heard from some of the witnesses that there is often a built-in delay of three months before case officers are appointed. That is before the project even starts. How much truth is there in this, and how would you say the project management was for the organisation?

Sheldon Mills: Thank you for your question. There are two elements to this. The first is that the gateway itself is an important element for regulators, so having a robust and efficient authorisations process is where we want to get to. One of the aspects of that is robust challenge—that people have the right information, that the individuals they are putting forward have the right experience and expertise to do the roles that they wish to do in the organisation and—to go to the points about capital and so on—that the business is set up in the right way.

There are a few issues that we have encountered in the past year or two, which have given us operational challenges in ensuring that that authorisations gateway is as efficient as it can be. So in direct answer to your question about whether there will be instances of people waiting 30 days in order to get the case started, I have to say that there will be, and we want to get on top of that and ensure that that is not the case.

What have we done? We have put measures in place to recruit additional people. We have consultants helping us on recruiting the right sort of people. We have brought in 50 skilled and temporary people to assist on specifically changing control applications and senior manager and certificate regime authorisations, which have been particular areas of high pressure. I can come on to that. We are also recruiting 100 additional permanent employees, so we have increased our budget in authorisations. We hope to have them in place shortly, within the next few months. That is certainly our part of the bargain, and I accept that it is something that we need to get on top of.

There are other reasons for the delays, though. Sometimes we get incomplete applications. Sometimes we get people who put forward individuals who are plainly not suitable for running the organisation or for being a senior person in the organisation. I think we can do better to ensure that people understand the requirements and can come to the gateway in better shape, so that is also something that we need to do.

As I mentioned earlier, in terms of the transformation of the organisation there is a stream of work that seeks to make it more efficient and to use data better in authorisations specifically, which should help with the backlog and ensure that, where you can, you have straight-through processing.

I will make another point to give an idea of the amount of work at our gateway compared to the PRA. We regulate 50,000 to 60,000 firms. The

senior managers regime applies to the vast majority of those. If an individual wishes to change a senior manager within their organisation, they need to go through a process. A lot of that involves non-complex activity and we will work to make that even more efficient through the use of straight-through processing. If there is a flag—it could be a criminal records check, it could be other issues that we have had with the individual—that needs to go into a more considered process with a case officer, and that is where you sometimes get these bottlenecks.

We also need to ensure that our authorisations approach recognises that certain types of applications might need more express scrutiny and pace—to Lord Reay's point about innovation and new applications. We can seek to prioritise certain types of activity to meet certain objectives if we are at capacity.

Baroness Donaghy: Thank you very much. It does sound as though your organisation is going through quite significant changes with recruitment and reorganisation. Project management is one of those silent skills that are very often underestimated in the UK. How high a priority would you set it in the FCA?

Sheldon Mills: It is significant. The authorisations division is led by Emily Shepperd, a senior experienced chief operating officer who has come in from industry. She is taking an approach that is based on project management disciplines and is basically operating a significant operational exercise that allows for efficiency of data and of processing and getting the right sort of approach in our authorisations business.

The change issue for me is really in the demand for the authorisation service, so it is about the change to the senior management certification regime. I think that has put a lot of pressure into the system, and the operations issue is finding an efficient way to deal with that demand. That, for me, is the crux of the issue.

Baroness Donaghy: Finally, would you consider increasing fees to enable more investment in resources if there is a continuing unhappiness with the speed of pursuing case work?

Sheldon Mills: Yes. Our annual funding requirement has increased by 4% in 2021-22 to £613.7 million. I cannot give you line by line budgets, but as you can see from the investment in a further 100 persons in the authorisations unit, some of the investment has gone into authorisations. In addition, a significant amount of investment is going into modernising the systems and the use of data, which will also benefit the authorisations area.

Q61 **Lord Sharkey:** We have heard from witnesses that insurance regulation often derives from EU legislation and overarching international standards. I was going to ask if that is the case, but I see that you are both nodding at that. I can move on my main question. Since it is the case, does this mean that, post Brexit, the EU and other overseas bodies are now the primary driver of insurance regulation? Are they in fact the architects?

Matt Brewis: Thank you. Again, this is a kind of tale of two halves between retail and commercial regulation. From the conduct perspective, on the retail side they are synced with the Insurance Distribution Directive, a significant piece of legislation which the FCA at the time was a significant contributor to, to drive up standards and information provided to customers for retail products. Actually, the general insurance pricing practices work that Sheldon has referred to builds on some of those key components.

On the wholesale side, it is significantly more limited. On the prudential side, there is obviously Solvency II, but there is no corresponding piece of legislation on the wholesale side, so it is derived more from best practice from international committees and approaches, which, again, we at the FCA, along with the PRA, have been significant contributors to and continue to be via the IAIS and the FSB. It is a good thing for the UK markets and more globally to drive up standards and to have, where possible, minimum standards of approach to allow for greater cross-border flows of products. Linked to that, we have been working, via the Treasury, with the Swiss on a mutual recognition framework to make it easier for UK wholesaler insurers to sell their products in Switzerland, which again relies on a level playing field when we come to requirements here.

We are seeking to increase the standards globally, and we are looking at how we can learn best-in-class practice from other jurisdictions. That does not always mean more regulation. It means more targeted regulation, and more focus on where the key risks are to our objectives.

Lord Sharkey: Is the London Market bombarding you with suggestions about how regulation post Brexit may be changed or should be changed?

Matt Brewis: Not as much as other areas. This is similar to Lord Blackwell's questions about where our retail rules potentially bleed over into the wholesale market. So there is a degree there, but, as I say, without there being significant conduct-focused international legislation, there is nothing to knock our door down on.

Lord Sharkey: I take the point about limitations of conduct, but are there any opportunities to make changes—we are talking about the London Market regulations here—which the FCA thinks should be taken advantage of?

Matt Brewis: Always.

Lord Sharkey: Could you be rather more specific?

Matt Brewis: It comes down to how we categorise certain things as large risks. Is that the right definition? Are there other carveouts or bits where the market, as it has evolved over time, has changed in such a way that our rules do not quite work as they were intended to when they were written five, 10, 15 years ago? I cannot give you any specific examples now, aside from those.

Sheldon Mills: I would not say rules, but I think there is a role for us to—how do I put this?—support the London Market in its own objectives; you know, objectively, taking account of our objectives. This is less about regulation and more about where the London Market and Lloyds London sit. Lloyds London has an opportunity and a challenge to reduce the cost of doing business there to make it internationally competitive. It has that tradition. It has that heritage. There is a massively wide base of risks and business that you can do that, but there are aspects of it that are different from international competitors, which will be organisations that are set up in a different way to Lloyds.

Where we can help—a bit of this is more PRA than us—it is to listen and to understand whether there are any aspects of our rules that need shifting or changing in order to support that. We have conversations with Lloyds of London about that, and we will remain open to having those conversations and trying to engage in that way.

Q62 **Baroness Bowles of Berkhamsted:** The historical mistakes of the FSA still haunt us. The competitiveness regime it was given and the light touch have been blamed for a lot, so regulators are still quite nervous or have concerns about the introduction of a competitiveness objective. The Government look like they will introduce some such consideration, so how do you feel about this, and what would you do about it in the instance that competitiveness now becomes an objective?

Sheldon Mills: Thank you. The starting point really is that this is a matter for Parliament and for government, in the sense of what you want from a regulatory system. From our perspective, we think that there is a strong and independent financial services regulatory system. We think it has been enhanced following the last financial crisis, and appropriately so. We also think there is an opportunity to think about whether all of those aspects are proportionate. We have Brexit and we have an international environment, which is ever-changing.

It is important to note that those objectives that we have across the PRA and the FCA have been working, in a sense. The financial services industry in the UK and in London is still par excellence. We have managed our way through several potential crises that could impact the system, so it is important to note what we have.

What the Government are proposing builds a little on the "have regard to"s that we already have. We have a "have regard to" on long-term economic growth and competitiveness. The proposal is to elevate that to a secondary competition objective, and there is discussion about elevation even to a primary objective. Where we sit as regulators, certainly where we sit at the FCA, we note the challenges and the trade-offs, which would be implicit with the graded elevations.

Let us start with the primary objective. If you elevated it to a primary objective, we would have to make explicit trade-offs between consumer protection, market integrity, and competition and competitiveness, however that is defined. If it is defined in terms of long-term economic

growth, those are quite significant trade-offs to consider for a regulator with regard to the short-term or even medium-term aspects that we need for consumer protection versus the potential impact on long-term economic growth and the impact internationally.

I am not saying it is not doable. We have great minds at the FCA and the PRA, so it is certainly doable, but is it what the regulator should be doing? How would we think about the general insurance pricing practices review, which Lord Blackwell mentioned, in the context if we had a primary competitiveness objective? Would we weight the interests of firms over the interests of consumers in that sense, and would we try to work through how that might have an impact on firms internationally? Those are some of the challenges that you might bring into play.

I am quite open to a secondary competitiveness objective, because it implicitly allows for us to serve market integrity, competition, consumer protection. You need innovation. You need growth. You need firms to stand well, domestically and internationally, in order to serve our domestic UK interests, as expressed through the three primary objectives that we already have.

Implicitly, we are probably already thinking about growth and long-term objectives when we think about our firms. You would not impose capital requirements on a firm such that they could not do any business. You would not impose conduct regulation on a firm such that it could not write contracts or deal with customers, so I think implicitly we know that we have to have proportionate regulation that allows firms to compete.

So I think you can manage a secondary objective with the right sort of description without potentially endangering arguments that lead you into a race to the bottom of regulation. That is where we stand currently, but, as I said at the outset, it is a matter for Parliament and government to consider, and obviously we stand ready to provide any information and data that one needs.

Baroness Bowles of Berkhamsted: Thank you. It is actually quite a shame that whenever we talk about competitiveness it always comes out as being a race to the bottom, which of course is possibly what the primary objective of the FSA did or did not do. I think what concerns a lot of industry—it concerns me and, I am sure, many other parliamentarians—is how you operationalise even a secondary competitiveness objective such that one can see that it is being done. We will tend to get assurances that it is being done, but how will it be measured, other than being told that you have done it?

I also fear that a simple statement such as, "Oh, well, we thought it was against the primary objective of stability or soundness or consumer objective", just means that it is not further investigated, when often the things that one is talking about are speed to market, for example. In fact, there can be an interlink between things like the speed of being able to do new business after a disaster, for instance. If an insurance company cannot write new business after a hurricane, it cannot rebuild its books,

so in fact the primary objectives of stability and soundness go hand in hand with issues such as competitiveness. Looking at the figures, most of the business after hurricanes went off to Bermuda, which undermined stability in the sense that the business was not there to rebuild books in the UK.

How would you prove that you had been able to operationalise that consideration, and by what metrics would you judge it and how would you report it other than saying, "Yes, we have"?

Sheldon Mills: The starting point there is that there is a bit of agreement between us in what we have said, in the sense that you are saying that competitiveness is important, or at least growth and innovation is important, in order to meet the primary objectives, and I agree.

The first question is how you operationalise that? How do you put the competitiveness objective into place? From my perspective and an FCA perspective, we will need to work out what that means in terms of the activities that we might need to do and the rule changes that we need to make. We will do that properly—that is a wrong word; we will give that thought and give it attention, so it will not be a fig leaf.

The second question is how you introduce that when you are designing and thinking about rule changes and balancing that with the primary objectives. One of the positive potential forcing mechanisms of a secondary competitiveness objective is that it puts it on the table. Currently when we look at our primary objectives, there is a "have regard to"—we have a lot of "have regard to"s—but there is no necessity to formally say, "Okay, we've looked at these things. This is how we think about X, Y and Z in the context of those". A secondary competitiveness objective gives you an opportunity to formally explain, if all other things are equal, why the secondary competitiveness is not being put forward over other objectives. So I think it would be used.

On measurement, we need to start to think about how we measure growth in financial services and what we mean by that. As you will know, measuring growth in any industry is not the easiest thing to do, but there are lots of different measurements that you can have. How much inward investment do you have in this market, as you have said, and what risks might you insure or otherwise? What is growing in other markets and what are the reasons for that? It is then about trying to pinpoint whether those are about regulation or about other issues, and whether you are willing to do something about those in the context of the other primary objectives that you have.

The positive about the secondary competitiveness objective—there are different views certainly internally at the FCA about it—is that it allows you to have a framework for having that discussion and thinking that through. I have put forward my reasons why we think a primary objective goes a bit too far.

Baroness Bowles of Berkhamsted: That is quite interesting. It is a bit worrying that it sounds like the “have regard to”s do not get the thoroughness of consideration that maybe parliamentarians intended them to have, but then there are quite a lot of them there. I am sure one can bear that in mind in forthcoming legislation. Thank you.

Q63 **Lord Burns:** One of the arguments that has been put to us about having a competitiveness objective is that it would require the regulators to actively compare their approach and service standards to other jurisdictions. Sam Woods mentioned this morning that it might mean there was an annual report on how well you were meeting that objective. If you were called upon to write that report today, how would you compare yourself with Switzerland, Singapore and Bermuda in terms of how you think you are doing?

Matt Brewis: That is a good question. Thank you. There are many different parts to the industry, and what we have in the London Market and in Lloyds, which is a company market, is a very—

Lord Burns: In a headline only. I do not want to a 30-page report.

Matt Brewis: There are significantly different component parts, some of which have direct competitors in other jurisdictions. We have a full service model in the UK, so I would look at that and at all the products and offerings that we have here, and, for the individual aspects, where there are different approaches that are perhaps more effective. What are the different components? Some of them will be in relation to our regulation, the level of supervision. Some may be down to tax regimes, speed and efficiency of processes. All the elements that we have talked about this morning would be the key component parts.

Lord Burns: Where do you think we rank? Much of the case that has been put to us is that we have not been doing as well as some of the other areas with regard to insurance and that our market share is declining, if anything. Is that true, and does it have anything to do with our regulatory system, or is it due to other aspects about the way the different products have been developed over time? As I say, the three places that keep coming up are Switzerland, Singapore and Bermuda.

Matt Brewis: London has been at the top of the class historically, and the new upstarts are challenging that position; they are looking at how they can win business from us and are focusing on those bits. If you look at the London Market and the ownership of firms, we have seen a growth of international ownership as opposed to UK ownership of those firms, which are more agnostic to location, based on all the different aspects that we have discussed.

We maintain a level of expertise and experience in the London Market that is incredibly valuable. It is one of our main selling points when it comes to why business comes here, but as other countries evolve and develop their approaches, so do we.

Lord Burns: Is there anything striking that you think that you have

learned from these other markets in the last few years?

Sheldon Mills: With any new market for regulation or for doing business, there will be a degree of pace that other markets will have as they grow. The thing that you have to watch for in those new markets is, of course, what happens in a crisis or a downturn and whether they are completely secure and safe.

One of the selling points of the London Market that remains is that there is a significant amount of concentration of expertise, a massive aspect of availability of speciality risks that can be here. There is capacity here. There is also the safety and soundness of the London Market, and the established nature of that still gives firms some comfort. I still think that underlying your question is whether we can we learn agility and a bit of nimbleness from other locations. Absolutely we can, and we should, but there will always be a balance to be struck.

You asked about the ranking and the market share. Market shares are going down a bit, absolutely—not as strongly as reports would note; the London Market is still strong. As Matt says, there is complication in the international and global nature of the largest firms that now operate in this market. Some comfort that has been provided to me is that we still see those global organisations located in the UK, still investing parts of their business in the UK, and using the UK parts of their business as central parts of their operation, even in a post-Brexit environment. I think that should give some comfort; the London Market remains attractive.

Lord Burns: Is there anything in the case that says that, given the size of the London Market and our whole financial services industries, it is actually more difficult for us to be as nimble as some of the other centres?

Sheldon Mills: There is always a challenge. If you have been strong, and you have a strong system of regulation and a strong set of things that have built up around that, it can always be a challenge to find agility and nimbleness, as I was saying in response to Lord Sharkey. That is what I meant when I said that we need to work closely with Lloyds of London and the London Market on what can we shift and change if we need to, bearing in mind our objectives.

Lord Burns: Thank you.

Q64 **The Chair:** You have referred during this session to an internal review of your processes and how efficient they are, how more efficient they could be and how more competitive they could be with other centres. Do you propose to publish the results of that internal process?

Sheldon Mills: I referred to our public transformation, in the sense of trying to ensure that we transform the regulator. In terms of formal publications, we have our annual report and our business plan. Matt, you will correct me if I am wrong on whether we publish our stats and our authorisation processes.

Matt Brewis: Yes, we do.

Sheldon Mills: We do. Good. I thought we did. There are publications on our throughput of authorisations, so people can see how that moves. What we do not have and therefore would not publish are the sort of comparator elements between us and other jurisdictions. There are several reasons for that. One is that the regulatory systems are not like for like in any way, shape or form. That is one of the challenges, but there is probably more work that we can do on that to understand the distinctions and the comparators there.

The Chair: Certainly the sense I get and the committee gets generally is that there are concerns and that there is no point making any bones about that. The more transparent you can be in your response to those concerns, the more helpful that will be to the market. I offer that suggestion. Thank you very much indeed for your contributions today, Sheldon and Matt.