RFS0015

Written evidence submitted by Association of British Insurers

Introduction

1. We welcome the opportunity to contribute to the Committee's inquiry on the UK's financial sanctions on Russia. The sanctions against Russia introduced in 2022 were unprecedented and posed a number of challenges for the financial services sector. Our evidence submission focuses on the effectiveness of the Office of Financial Sanctions Implementation (OFSI), the insurance industry's engagement with OFSI and reflects views from both general insurance and the long term savings markets.

> ***The UK insurance and long-terms savings market and the ABI***
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> *The ABI is the voice of the UK's world-leading insurance and long-term savings industry, which is the largest sector in Europe and the third largest in the world. We represent more than 300 firms within our membership, including most household names and specialist providers, providing peace of mind to customers across the UK.*
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> *We are a purpose-led organisation: Together, driving change to protect and build a thriving society. On behalf of our members, we work closely with the UK's governments, HM Treasury, regulators, consumer organisations and NGOs, to help ensure that our industry is trusted by customers, is invested in people and planet, and can drive growth and innovation through an effective market.*
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> *A productive and inclusive sector, our industry supports towns and cities in building a balanced and innovative economy, employing over 300,000 individuals in high-skilled, lifelong careers, two-thirds of whom are outside of London. Our members manage investments of £1.5 trillion, pay over £17.2 billion in taxes to the Government and support the UK's communities and businesses.*

Whether financial sanctions instituted by the UK on Russia, are complete and effective in terms of the entities that have been designated, and the entities which have to comply with the rules?

2. It is difficult to measure the effectiveness of the financial sanctions instituted by the UK on Russia given complex ownership and control structures of corporate firms. There are often many layers separating the customer of the product provider with the Ultimate Beneficial Owner. Therefore, despite the application of customer due diligence, the 'true' identification of ownership and any links to a designated entity can prove challenging to establish, as some corporate firms are too far removed from the overall corporate structure to know with certainty who sits at the top. This leaves insurers to determine themselves whether these firms are actively trying to evade the sanctions.

Whether assets frozen as part of the UK's financial sanctions on Russia should be confiscated, and whether there are legal precedents for such a move?

3. A proposal to confiscate assets frozen as part of the UK's financial sanctions on Russia would be a complex undertaking and it would be very challenging to apply any such proposal where assets are frozen via an entity owned or controlled by a sanctioned party. It would require the government to clearly define when assets should be confiscated. Factors that would need to be considered include: the reason for designation and whether this was based on 'association' rather than benefiting or acquiring assets derived from activity listed under the sanctions regime; how it would be coordinated for designated entities with multiple holdings across the financial services industry; and whether the emphasis would be on regulated firms to issue both an OFSI report and a NCA report related to the confiscation.

Whether financial sanctions imposed by the UK should be widened to include those who purchase Russian oil and gas?

4. An evaluation is needed on what the impact would be, in particular on the UK economy, of widening sanctions to include those who purchase Russian oil and gas. The government would need to consider how this would apply to companies who acquire Russian oil and gas via countries, such as the United Arab Emirates or India, who act to some degree as an 'intermediary' given these countries have not applied sanctions restrictions and continue to trade with Russia.

The effectiveness of the work of the Office of Financial Sanctions Implementation (OFSI)

5. Overall, we feel OFSI is effective. In the past, the insurance sector experienced difficulties in interpreting sanctions because of imprecise language in legislation, notably in relation to scope. Sectoral guidance previously issued by HM Treasury was sometimes cumbersome, not timely and issued 'after the event'. We are pleased that since its establishment in 2016, OFSI have been proactive, reviewed guidance on a regular basis and worked closely with bodies including the

Foreign and Commonwealth Office to provide guidance.

6. The guidance provided by OFSI and their webinars are helpful for insurers. In particular, we welcome OFSI's initiative to publish blogs to keep businesses apprised of financial sanctions events, changes to OFSI guidance and topical issues. However, we would welcome even further clarity from OFSI to reduce risk of guidance being left open to interpretation. For example, OFSI requires firms to report instances of sanctions circumvention or evasion (in addition to reporting the NCA), but the guidance on reporting and the reporting form does not support this. Similarly, the asset freeze template provided by OFSI is catered more to the banking sector and does not wholly support those from other financial sectors such as the insurance industry.
7. We feel OFSI's licensing regime is generally good but could sometimes be more precise from the start to avoid multiple changes after publication. Related to this, we assert it would be beneficial to consolidate the changes to the Sanction (EU Exit) Regulations in one webpage/place, instead of having to review multiple documents. OFSI could consider further improving their webpage so that information can be located and navigated more easily.
8. The resources available to OFSI are good, but we would welcome more intelligence sharing. OFSI is a repository for sanctions reporting, so firms would benefit from knowledge where designated sanctions are considered to be linked to or have holdings (direct/indirect) to support firms in their own obligations for sanctions risk management.
9. We feel that OFSI's international cooperation is positive, especially the Office of Foreign Assets Control (OFAC) & OFSI Enhanced Partnership. However, we do find it interesting there are aspects of the sanctions regime which the UK is an outlier against those applied via the EU & US, for example the aggregation of holdings.
10. A central aim of OFSI is to improve service delivery to the private sector and OFSI has put in place dedicated resource to engage with the private sector, including via an outreach and engagement team. Since Russia's invasion of Ukraine, we have undertaken productive engagement with OFSI's outreach and engagement team which has helped to improve industry understanding of the UK sanctions landscape, the role of OFSI and expectations of industry. We welcome the establishment of the Russian Financial Sanctions Implementation Senior Group in March 2022, reflecting the importance of effective dialogue between the government, regulators and the financial services industry in ensuring that financial sanctions are implemented effectively. The Group has provided a useful forum for identifying and prioritising key implementation issues, assessing their practical impact and providing guidance to the financial services sector to aid compliance. We welcome this engagement with the private sector and are keen to remain engaged with OFSI going forward. One area where engagement with the insurance sector could be improved is in the long term savings space. We would welcome more guidance on the relationship between Pensions Regulations and sanctions, in particular where relationships are required to be maintained under Occupational Pension Schemes owned and controlled by designated entities.

The effectiveness of the system of designation of financial sanctions, in that it relates to the implementation of financial sanctions, and the relationship between the designation and implementation of financial sanctions.

11. We feel the communication of new designation or changes in designation is generally good, but there are some challenges given the fast pace and volume of changes. When they were first introduced the sanctions on Russia were unprecedented. There was a significant amount of content, information and guidance published, coupled with continual change, that was sometimes challenging to absorb and locate. Additionally, the sanctions list is usually published at the end of the week which is not ideal in terms of getting changes implemented. Most companies rely on service providers to provide screening lists and these providers have struggled to keep lists updated in a timely manner, sometimes taking considerable time to update entity profiles, which had an impact on insurers ability to identify and respond to sanctions issues.

The implementation of financial sanctions against Russia by each part of the financial sector (including the insurance sector), and the maritime sector

12. As mentioned above, at first, the breadth and volume of the financial sanctions against Russia presented a challenge to implement due to increased workload and introduction of new processes to ensure compliance with sanctions regulations. For example, insurers introduced training at every level of the business and worked to ensure punctual internal communications and guidance related to sanctions.

The mitigation of any unintended consequences of financial sanctions

13. Insurers have observed some unintended consequences of the financial sanctions, mainly resourcing and commercial consequences. There has been a slight hardening of the marine insurance market as some insurers were less willing to underwrite those policies due to the obligations relating to the oil price cap and the difficulty in ensuring the sanctions were not circumvented. The sanctions have also meant increased compliance activity to ensure that insurers, their partners, and customers were in line with sanctions regulations and obligations. This has resulted in some delays in processing or onboarding of customers. This, coupled with creation of a more competitive market for sanctions expertise

and need for external legal advice, has driven up compliance costs.

March 2024