# Zurich Insurance – Written evidence (SCG0023)

## About us

Zurich UK provides a suite of general insurance and life insurance products to retail and corporate customers. We supply personal, commercial, and local authority insurance through a number of distribution channels, and offer a range of protection, retirement, and savings policies available online and through financial intermediaries for the retail market and via employee benefit consultants for the corporate market. We have several large office sites regionally and employ around 5,000 people.

We are a part of Zurich Insurance Group, a leading multi-line insurer serving people and businesses in more than 200 countries and territories. Founded 150 years ago, the Group provides insurance protection and prevention services that promote wellbeing and enhance climate resilience. The Group has about 60,000 employees, is headquartered in Switzerland and Zurich Insurance Group Ltd (ZURN) is listed on the SIX Swiss Exchange.

Zurich welcomes the opportunity to respond to this call for evidence on the secondary international competitiveness and growth objective for the financial services regulators. A resilient insurance sector which is based on effective competition benefits both policyholders and the industry, and agile and proportionate regulation is a key factor in attracting investment into the UK.

## Executive summary

- **Long term planning and a joined-up approach**: Regulators need to have a long-term view of how to improve competitiveness and how they can achieve this goal.
- **Culture change**: There needs to be a shift towards a growth mindset in the regulators' strategy and how they operate on a day-to-day basis.
- **Proportionate regulation**: We continue to support regulatory change which is proportional and of evident benefit to the customer, with the viewpoint that change is required to move the industry forward and meet evolving needs. However, regulators must consider whether the benefits to customers outweigh the costs to industry.

- **Current barriers**: The focus for the regulator has been on eliminating the risk of loss from the financial system, but in general there has been a 'haphazard nature' to regulation where its often unclear as to what it is trying to achieve.

- **Volume of change**: Regulators need to carefully consider the volume and cost of change on the industry and the resource/cost versus the benefit it will provide to customers. Firms and especially SMEs may have limited resource available to them.

- **Industry engagement**: The regulators have made efforts to inform and communicate with the industry through speeches, publications, and consultations. However, it is uncertain as to how the industry feedback has been considered and taken on board.

- **Accountability**: There has been insufficient evidence of the regulators being publicly and transparently held to account for how they are seeking to achieve the secondary objective. There needs to be greater collaboration between the House of Commons and House of Lords committees.

- **Metrics**: Options to consider include shareholder investments; the resource breakdown relevant to the secondary objective as part of overall spending; and the amount of capital released when compared to the costs of regulation.

- **Other jurisdictions**: It could also be appropriate to assess the business culture in, for example, Singapore, and in jurisdictions where there seems to be greater transparency and more effective communication between parties.

**Our response**

1. **What opportunities or changes should be prioritised in order for the regulators to meet their secondary growth and competitiveness objectives effectively?**

In the UK, Zurich is a significant foreign investor and regional employer, we provide a range of insurance products and services to different markets, with large office sites in London, Birmingham, Farnborough, Glasgow, Swindon and Whiteley, employing approximately 5,000 people.

We consider the fundamental aspect of making the UK an attractive investment destination is fostering an environment of stability and predictability. Looking ahead, there is an opportunity for the regulators to prioritise:

- **Long term planning and a joined-up approach**: Regulators need to have a long-term view as to how to improve competitiveness. To do this they need to ensure that they are aligned both internally, with other regulators, trade bodies and the Government to drive improvements for customers, while working in collaboration with industry.

- **Culture change**: There needs to be a shift towards a growth mindset in the regulators' strategy and how they operate on a day-to-day basis. Exercising the competition objective must benefit all firms and must not be used to try to improve the position of lower-performing firms to the detriment of advanced firms that have made the cultural shift to a growth mindset. Competition initiatives must benefit the industry equally and without discrimination.

- **Proportionate regulation**: We continue to support regulatory change which is proportional and of evident benefit to the customer, with the viewpoint that change is required to move the industry forward and meet evolving needs. However, regulators must consider whether the benefits to customers outweigh the costs to industry. An example of this was the recent implementation of Cash Warnings on Pension Plans. What would appear to be a simple request (informing customers who hit certain criteria that they have money in cash so not necessarily growing) has meant that we had to develop an extensive process to identify plans that met the criteria, send a warning letter, and keep appropriate records, at considerable resource. We have completed this and there were a small number of cases who will receive the letter, but we do not know how many, if any, will take action. There could have been a much simpler and more cost-effective way of doing this rather than through a formal regulatory change.

2. **To what extent are the regulators focused on the objective to promote international competitiveness and growth? Are there areas where the ability of the regulators to fulfil their secondary objectives might be constrained by having to fulfil their primary objectives?**

Since the secondary objective has been introduced, it is our view that growth and competitiveness have not been at the forefront of the regulators' thinking. In addition, our experience, in general, is one of a lack of transparency and dialogue once an announcement has been made.

Our viewpoint is that the focus for the regulator has been on eliminating the risk of loss from the financial system and there has been 'overstretch' in areas which goes beyond their remit.

Two recent positive developments relate to the consultation on revising the UK insurance Special Purpose Vehicle Regulatory Framework and the consultation on captive insurance. Both of these propositions could increase capital in the UK and could stimulate longer-term growth and this must be encouraged.

### 3. What are some of the barriers in the current regulatory framework (including the role and responsibilities of other regulators and bodies such as the Payment Systems Regulator, The Pensions Regulator and the Financial Ombudsman Service) that could hinder efforts to drive economic growth and international competitiveness in (a) the UK economy and (b) the financial services sector?

There are several barriers in the current regulatory framework, including the overall 'haphazard nature' to regulation which means it is often unclear in what it is trying to achieve and is not aligned with the secondary objective.

Often in thematic papers or 'Dear CEO' letters, there are no cost/benefit analyses provided and it is challenging for firms to keep a track of the multiple rules, guidance, correspondence, and summaries of regulatory "expectations". There is a significant cost to firms, and it is unclear who benefits, certainly not the consumer or markets.

For example, on Consumer Duty, the regulator must recognise that compliance across the industry has been onerous and costly. It has been deliberately written in such a way that it is principles-led and expected to evolve which means that it is unclear for firms as to what they need to do. The consequences of this kind of uncertainty can be seen with the recent issue around the car finance position, where ambiguity in regulation has created huge uncertainty and makes the UK less attractive as an investment destination.

There are several additional factors that could impact international competitiveness, in particular where the regulators are seen as overly prescriptive or where proposals could affect firms' reputational risk. A recent example is the regulatory intention to publish information about investigations into firms. From a reputational perspective the mere fact that an investigation will commence could cause reputational damage, and even where the regulator subsequently decides to withdraw the investigation the damage may have been done. This could also amount to being guilty until found innocent and could affect the UK's international competitiveness.

### 4. Do the regulators have the right capability and capacity to fulfil their regulatory objectives on growth and competitiveness? To what extent might the culture of the FCA and PRA influence their ability to fulfil their growth and competitiveness objectives?

The regulators, especially the FCA are in an unenviable position in that they need to regulate and oversee over 50,000 businesses and protect the financial services industry and their customers at the same time. From this perspective it could improve the position if the regulators identify the key areas or activities that could give the UK a competitive advantage and then prioritise these initiatives. The regulators must also consider which activities would benefit society as a whole, as developing them would increase economic growth over the medium to long term.

We welcome the recent launch of the Regulatory Innovation Office (RIO), however were disappointed to see that financial services was not included as one of the priority areas of focus. There is an opportunity in the future for the RIO to play a leading role in setting specific goals for the regulators to help them fulfil their competitiveness objective.

The regulators should strive to develop the skills for their employees, build the best possible and diverse workforce that will enable them to assess and implement the steps required to be internationally competitive and to stimulate growth.

### 5. How effectively have the FCA and PRA consulted or engaged with industry in relation to the new secondary growth and competitiveness objective?

The regulators have made efforts to inform and communicate with the industry through speeches, publications, and consultations.

However, it is uncertain as to how industry feedback has been considered and taken on board. At times it seems as if they are simply paying lip service to the need to engage with the industry and this needs to improve if the regulators want to work collaboratively with firms to meet the secondary objective.

6. **In delivering their secondary objective on growth and competitiveness, what opportunities are there for the regulators to help to promote and support innovation in the financial services sector? How effective has the FCA's regulatory sandbox been for supporting greater innovation in the financial services industry?**

The regulatory sandbox plays a key role in innovation and the development of new opportunities. Market research has shown that firms in the sandbox raised between 13% and 17% more capital post entry and were up to 50% more successful in raising capital.[1] Using this approach also improved the survival rates of firms and led to increased new entities being created based on the sandbox experience. Having said this, there is a balance between the regulatory effort to oversee the sandbox and the benefit added by participants.

The regulators must therefore focus on the opportunities that could make the biggest difference and in this regard AI start-ups could be prioritised as they could allow regulators to meet all the primary objectives in a way that will allow more time and resource to meet the secondary objectives.

This does not mean that the focus would only be on AI firms, but they may have even fewer administrative and regulatory requirements to meet before they could start operating.

7. **How should the regulators ensure that any measures introduced to meet the secondary growth and competitiveness objectives work for businesses of all sizes across the sector, including startups, scaleups, and incumbents?**

Regulators need to carefully consider the volume and cost of change on the industry and the resource/cost versus the benefit it will provide customers. Firms and especially SMEs may have limited resource available to assess and implement regulatory change, on occasion with

[1] Regulatory Sandboxes and Fintech Funding: Evidence from the UK, Review of Finance, Volume 28, Issue 1, January 2024, Pages 203–233

short timeframes.

Any measures introduced need to be clear and concise in order to avoid subsequent regulatory publications having to be issued to provide clarity, and in some instances requiring firms to undertake significant activities to address subsequent regulatory concerns of how firms have implemented regulatory change.

In our own experience, there have been vast requirements placed upon the business within a short period of time. We have recently implemented the Consumer Duty for both life and general insurance carriers. On the UK Life side, we also have the Pensions Dashboard which will require considerable resource as will the forthcoming Value for Money Changes. In addition to this, there is the forthcoming Pensions Review and Pensions Bill as well as the Advice Guidance Boundary Review which will focus on Targeted Support.

The regulators should ensure that proposed rule changes are going through a rigorous process and cost-benefit analysis before consultation and implementation. Most UK firms are well aware of the reputational risk of compliance breaches and are almost forced to consider regulatory speeches, Dear CEO letters and examples of good and bad practice as de facto regulation, even if they were not subject to consultation. If the regulators want to continue with these publications, they should clarify the intention behind them and the impact on firms who do not fully comply.

8. **Are there any additional metrics over and above those already agreed by the regulators that would better enable stakeholders to track progress and support scrutiny of their work against the secondary growth and competitiveness objective? How should a measure of growth be included in these metrics?**

The following metrics could add value:

- Shareholder investments, and if there are large numbers of foreign shareholders this could show that the competition objective is being met;
- the resource breakdown relevant to the secondary objective as part of overall spending;
- the amount of capital released when compared to the costs of regulation;
- the number of scams and fraudulent activity that had been prevented and where the prevention led to improved trust in the

industry, as well as the cost of preventing the scams and fraudulent activities; and
- the speed at which new applications have been approved. While the regulators asserted that they met the statutory deadlines in 98% of applications for authorisation they should consider whether these deadlines are still appropriate. There had been numerous advances in the use of technology, and this could lead to shorter statutory deadlines.

**9. Does the requirement within the secondary growth and competitiveness objectives to align with international standards create any constraints to fulfilling those objectives?**

The general position is that all regulators have the same overarching requirements to protect their industry and its customers and therefore it is unlikely that any objectives would not align with international standards.

It may also be appropriate for the regulator to identify the key regulators who it wants to be aligned with. The level of supervisory scrutiny and standards could be quite different across jurisdictions so the regulators should identify the ones with the greatest investment potential.

We would encourage the regulators to identify the main stakeholders and the standards that are required and to clarify how this would be implemented it in a way that is consistent with the needs and objectives of the financial markets, as well as the requirement to promote international competition and growth.

**10. Are the existing accountability measures around the secondary growth and competitiveness objective adequate?**

This is complex because the regulators should be independent and able to operate in a way that allows them to meet their objectives. Having said this, the regulators should be able to explain how they have contributed to international competitiveness and economic growth when discharging their primary objectives. If they have not contributed to international competitiveness or economic growth, they must explain why this was not possible, or not required. The regulators should also show how they have developed their employees, systems, and approach to meet the secondary objective.

As previously noted, there has been insufficient evidence of the regulators being publicly and transparently held to account for how they are seeking to achieve their secondary growth and competitiveness objective, and this should be a key focus area.

In addition to a regular review of how the regulators are working towards their secondary objective, there needs to be greater collaboration between the Lords (via the House of Lords Financial Services Regulation Committee) and the House of Commons (possibly via the Treasury Select Committee) in line with a more joined up approach.

11. **Are there examples of regulatory policies in other jurisdictions that should be considered by UK regulators to help facilitate the new secondary objective? What might the FCA and PRA be able to learn and apply from comparable supervisors in other markets in terms of applying secondary objectives on growth and competitiveness?**

As stated in response to question 9, regulators will have the same overarching objectives, regardless of the country or jurisdiction, which could make it difficult to identify regulatory policies that could facilitate the new secondary objectives. Additionally, the inherent nature of the relationship between the regulator and firms is heavily dominated by the regulator, whereas it could be more of a partnership and collaborative in its nature.

If the regulators want to look at additional regulatory policies and approaches, they could look at regulators who already have a statutory international competitiveness objective. This would include Bermuda and Switzerland who both have full Solvency II equivalence, as well as Hong Kong and Singapore.

For Singapore, it could also be appropriate to assess the business culture as it affects the relationship between regulators and participants and where there seems to be greater transparency and more effective communication.

*29 November 2024*