Aon – Written evidence (SCG0030)

Thank you for the opportunity to respond to this inquiry. Aon is a leading global professional services firm providing a broad range of risk, retirement and talent solutions. Headquartered in London, with over 6,000 colleagues and 28 offices spread across the UK, we are committed to maintaining the UK's best-in-class regulatory regime. The active engagement of the House of Lords Financial Services Regulation Committee in those efforts is essential and we welcome the opportunity to partner with you to shape the future of UK financial services.

London's (re)insurance industry is the largest in the world, double the size of its nearest rival and supporting a national network of insurance firms – large and small – throughout the UK. Supported by a 48,000-strong workforce, the sector contributes c.£36 billion annually to UK GDP, constitutes almost a quarter of the City of London's output, and controls over £95 billion of gross written premium, the majority of which originates from outside the UK. Our innovation, scale and global reach stretches from savings and pensions, household and motor insurance, through to liability and speciality risk management for businesses. We are truly international, doing business from London to every corner of the world and aiding in the development of new and emerging markets.

While we strive to maintain the UK's status as the centre of the world's insurance market, it is nevertheless under threat from fast developing markets with strong government sponsorship and stable, simplified regulation. In fact, London's share of the global insurance market has shrunk in recent decades.

The UK's competitive position was built on the depth of its broker and underwriter expertise, the scale of capital and an attitude towards innovation that allowed for a broad product offering in line with evolving client needs. While operating in London has always meant accepting higher expense ratios, more recently the degree of regulatory uncertainty has increased, which results in costs that do not drive growth. There are still meaningful opportunities for the UK to reverse the decline in global market share, as well as play a crucial role in growing the available global market.

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

We would like to see the regulators go further in promoting the sectors they regulate, emulating the success of other jurisdictions such as Bermuda and Singapore (see Question 11).

Overburden of regulation

Regulators must remain mindful of the administrative burdens that some of their discretionary studies and subsequent regulation can impose on the companies within their authority. While it is important for the FCA and other regulators to understand how well various markets work for consumers, participation in a market study can cost firms millions of pounds in external legal fees as well as huge amounts of internal resources. It can also stifle innovation and competition – needed now more than ever to tackle cyber security issues, the sharing economy and climate change to name but three.

The Senior Managers and Certification Regime (SMCR) is one such example of overregulation disincentivising overseas talent choosing to take jobs in London; the prospect of being directly responsible for certain functions – and hence liable for direct regulatory action – is not an attractive one. The proposed 'name and shame' changes will only exacerbate this trend, as senior executives could be publicly accused of wrongdoing before any final outcome is reached.

Parliamentary accountability

Moreover, regulators' knowledge of the industries they regulate are, at best, out of date and would benefit from increased accountability to parliament. Before imposing these costs on regulated firms, the FCA should have a clear idea of which potential problems it is trying to solve. If market studies and similar inquiries are to be used as a form of routine fact-finding, then the Committee should encourage regulators to conduct them in a way that imposes fewer costs and burdens on regulated firms whilst simultaneously holding them to account.

Regulatory 'hand holding'

There is also little in the way of useful quantitative or qualitative feedback to industry following numerous data requests (or the larger market studies). We believe this should also change. Our suggestion would be to allow for more data sharing with firms. Regulators hold a unique position in the marketplace, covering in excess of 60,000 firms. Those firms should benefit from the insight that brings, without compromising the independence of the regulator or sharing confidential information.

We would also like to see the FCA playing a more constructive role in firms' success, moving towards being a mature counterpart in seeking compliant solutions, rather than a relationship based on control. The FCA could do more to assist firms navigating the regulatory landscape, providing informal advice on a no-liability basis to ensure firms are on the

right track. Aon has seen the difference of how this works when engaging with the Belgian financial services regulator.

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?**

[x]

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?**

Regulation should recognise that not all financial services are the same. Taking a more proportionate approach could actually allow the regulators to focus much more of their resources on keeping individual consumers safe.

FSMA 2000 states that a regulatory "burden or restriction…should be proportionate to the benefits, considered in general terms". However, there is strong evidence which shows that this is not working in practice: there is no duty to report on how the regulators are fulfilling this requirement and we believe it needs to be strengthened by a new Proportionality Principle.

The clearest evidence for this is that the regulators have adopted a 'one size fits all' approach to regulation which treats all financial services the same, no matter the product or the customer the same. In wholesale markets - such as the London Market - customers are sophisticated corporate entities with teams of professional advisers. They do not need the same sort of regulatory approach and level of consumer protection as individual retail customers buying products online or on the High Street. We were pleased to see this month the FCA published a discussion paper on the regulation of commercial and bespoke insurance which to some extent addresses this.

The cross-party House of Lords Industry and Regulators Committee also drew this conclusion stating: "It is vital that the concerns regarding the inflexible and sometimes unnecessarily complex processes require a broader reassessment of regulatory culture. There is a need for current rules to be applied more proportionately and efficiently and objective –

setting for staff at all levels to support this…reviews should focus on the scope for more efficient and proportionate as well as less cumbersome and mechanistic engagement.” (As an aside, the high turnover of the FCA means supervisory teams are frequently changing; new supervisors are having to familiarise themselves with their brief quickly, which can lead to a delay in decision-making.)

We would therefore like to see a strengthening of the existing proportionality duties of the financial regulators with an enhanced proportionality principle. A new ‘Proportionality Principle’ would require the regulators to tailor their regulation and regulatory practices much more.

This lack of proportionality is costing the UK valuable investment. For example, Singapore copied the UK’s Insurance-linked Security (ILS) regime, a new form of innovative risk transfer product, recognising the quality of the UK’s legislation. But the Singapore regulator took a proportionate regulatory approach which has encouraged many more new entrants. Singapore has approved 18 ILS vehicles in a shorter period of time compared to five in the UK. As a result, in 2021 alone we believe that the UK lost out on over US$700million of foreign investment in ILS to Singapore, because of a more agile and proportionate approach by their regulator.

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?**

London has to be able to offer a compelling investment proposition to financial services businesses looking to establish themselves in the UK. First impressions count and, with this in mind, the first step of a company’s registration in London should be as efficient as possible.

The speed and quality of decision-making with respect to authorisation of applications is a crucial part of supporting competition and innovation. In addition to supporting existing businesses, it also has the potential to demonstrate the willingness of the UK to welcome good businesses, in particular new entrants, which leads to greater investment and job creation.

This is not currently the case. A survey by TheCityUK found that 93% of firms regulated by the FCA and 67% of firms regulated by the PRA had experienced delays in the authorisation process. This is despite Section 61 of the Financial Services and Markets Act 2000 requiring regulators to

decide on applications within three months of receiving an application (with the ability to stop the clock in certain situations).

Key factors at play here include the aforementioned problems with staff turnover, whereby supervisory teams are constantly changing and having to learn their brief from scratch. The FCA also adopts a risk-averse culture. We see this for example in the previous question whereby all sectors are subject to the same rules, regardless of how sophisticated the firm and its customers might be.

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

[x]

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 future of financial services regulation must reflect shifts in business models and the economy and, crucially, should be mindful of the need to foster innovation. By way of example, we note from our own experience that achieving workable regulatory compliance for companies in the sharing economy or 'gig' economy is challenging and is often subject to interpretation. A flexible approach to regulation to enable new models such as those emerging in the sharing economy will assist the UK in leading the way in responding to growing global economic trends, and will help ensure that it maintains its global position as a pre-eminent financial centre, and the world's InsurTech and FinTech hub.

For example, Aon may be approached by a platform that provides opportunities for people to deliver food from restaurants to people's homes. This is done by engaging riders or drivers who are either self-employed or perhaps on zero-hours contracts or paid per delivery. These drivers will wish to and indeed may be required to have insurance in place in order to use the platform. The traditional approach to motor insurance would be an annual premium payable either in full in advance of inception or in instalments. Drivers using the platform will desire a more flexible option where they can use mobile devices to receive notification of potential work as well as to share data with the platform provider to track their movements and to record and reconcile any amounts due to the driver.

FinTech insurance options can link in with the platform and the driver by allowing them to tap an app at the beginning and end of each shift or delivery and to obtain cover only for the periods absolutely necessary for them. This provides a cost-effective alternative to sharing economy workers but also allows insurers to hone their prices based upon richer data that can be collected.

The implication for insurers and brokers is that the traditional paper-based model of issuing insurance documents does not meet the needs of these customers. Even where information can be transmitted electronically the likelihood of insurance buyers wishing to or being able to read all of the documentation on a mobile device is quite low. This can be proven by click rates but anecdotally where, in general, most insurance policy packs consist of several pages of text, exclusions, disclosures: most consumers do not read all the documentation sent to them.

The need, therefore, is for insurers and brokers to be able to deliver products at speed to consumers at the price that suits them and with simple, easy to read language, in formats that suit mobile devices and which gives certainty to the user as to the value and usability of their product. This has implications for development and the need to move from traditional distribution models but also for cost.

By the very nature of new and innovative products the FCA guidance insists upon an immediately heightened product governance standard. This is despite the evidence that most start-ups may not gain sufficient market share to make them a threat to the UK financial system, and there are other consumer safeguards in place (as mentioned above) in the protection afforded by the policy and the guarantee funds available to compensate consumers.

We believe that a lower, or at least equivalent threshold for a simple product should be applied to new and innovative products. The governance and oversight should scale up as sales and customer numbers, and hence risk, grows. We believe that the insurance industry is already well suited to recognise, monitor and manage risks in this way.

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?**

[x]

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?

[x]

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

The growth in the global insurance sector is being driven by opportunities in the Far East. By way of example, the more recent Global Financial Centre Index published by Z/Yen shows that Shanghai, Tokyo, Singapore and Hong Kong are all closing in on New York and London as the dominant global financial centres. The Committee should be mindful of the fact that the London Market attracts two thirds of its business from overseas when considering a regulatory regime that is conducive to international openness. The principle way this can be achieved is by clarifying the UK's regulatory regime's role when supervising businesses that deal primarily with non-UK customers – as our sector frequently does.

The FCA's approach towards territoriality is one of the opaquest areas of the current regime, leading to UK firms that deal with overseas markets to err on the side of caution and comply with both local requirements of the overseas market and those of the FCA. This is despite the FCA not having any statutory duty to protect foreign customers. Such duplication adds very materially to the cost of doing business – especially for the London Market-based businesses - and reduces the scope for, and pace of, innovation and growth.

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

There needs to be a clear reporting criterion so that government and parliament can properly hold the regulators to account. This could be enhanced by criteria including:

- Regulatory consolidation reviews: The current patchwork of information increases the compliance burden and can be difficult to navigate, particularly for smaller firms with limited resources.
- Speed and responsiveness: The regulators should re-assess the time it takes for cases to be passed through the different types of authorisation cycle.
- Authorisation timeframes: Both regulators should revisit the timeframes for the complete review cycle for authorisation of individuals. This should involve re-assessing the time it takes for a

case handler to be assigned through to final decision on authorisation.
- Success in attracting new entrants: The regulators should be actively demonstrating the impact they are making in terms of encouraging new entrants. This means that data should be published showing the degree of success obtained in achieving this.
- Ongoing review of data requirements: There should be a co-ordinated process by both regulators, in consultation with industry, to work through all existing and new forms and returns to determine which requirements should remain and where efficiencies can be created.
- Rule monitoring and evaluation: The regulators should be expected to report on the impact rule changes have had and how compliance has led to material benefits for customers.
- Transparency on consultation origination: The regulators should be required to be more transparency about *why* they are consulting on new rules, *what* has prompted the proposals and *who* has influenced pre-consultation discussions.

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?

The regulators in many of our most successful competitors - Singapore, Switzerland, Bermuda, Hong Kong, Australia and many US states - have competitiveness duties to promote their markets and enhance their competitive position, without compromising independence, high standards, financial stability or consumer protection.

In Singapore and Bermuda, for example, regulators are more active that their British counterparts in seeking to promote growth. The approach required of regulators there gives those markets significant competitive advantage over London, potentially damaging a leading UK export sector:

- The Monetary Authority of Singapore works to ensure that Singapore's financial services industry remains competitive by engaging with governmental agencies and financial institutions to promote Singapore as both a regional and international financial centre. To facilitate this the MAS may draw upon a Financial Sector Development Fund to develop regulatory and infrastructure systems. The MAS also has a promotional/inward investment team separate from its regulatory function, to promote Singapore as a jurisdiction and regularly produces an 'international competitiveness factsheet'.

- In Bermuda, part of the mission of the Bermuda Monetary Authority is "to protect and enhance Bermuda's reputation and position as a leading international financial centre".

Elsewhere Switzerland, Hong Kong and Australia take a similar approach:

- The Swiss Financial Market Supervisory Authority is required to take particular account of "the effect that regulation has on competition, innovative ability and the international competitiveness of Switzerland's financial centre".
- One of the key functions of the Hong Kong Monetary Authority is to promote Hong Kong as an international financial centre through market development initiatives which strengthen the international competitiveness of the city's financial services sector.
- The Australian Prudential Regulation Authority's statutory objectives require it to "have regard to, and avoid unduly hindering, desired objectives for the financial system: efficiency, competition, contestability and competitive neutrality. Balancing these additional objectives in undertaking its prudential role is important, as they support Australia's long-term growth and productivity". In addition, the APRA has a range of reporting duties to the Australian government, parliament and its committees. This includes reporting on hot it has met its duties to support the country's growth and productivity.

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