London Market Group (LMG) – Written evidence (SCG0075)

Introduction

In its engagement with the Committee to date, the LMG's has focused on the following overarching topics, making a series of specific asks.

1. Improving the regulators' day-to-day function and operational effectiveness
2. Ensuring regulation is proportionate
3. Cultivating a first-class investor experience

This follow-up briefing focuses on points 1 and 3, to provide further detail to inform the Committee's considerations. We would refer the Committee to the LMG's most recent 'Plan for the future' for our views on the topic of proportionality, although we note that this was well covered during the oral evidence session held in September.

1. Improving the regulators' day-to-day function and operational effectiveness

The burden and cost of regulation and supervision are major contributors to the UK's competitiveness in financial services, and disproportionate application of regulatory rules creates a negative perception which damages the ability of London to attract capital to support the commercial insurance market.

This was a conclusion reached by the LMG's Sentiment Index, which was delivered to provide an evidential base and complement the metrics that the regulators have proved in their reports. The Index mirrored many of the questions that the regulators include in their own research, and the LMG have shared the results with them. The Index survey was targeted at individuals that lead compliance and risk teams within London Market insurers and brokers, with responses gained from 50 firms regulated by the FCA and 50 by the PRA. The Index concluded:

Findings of LMG Sentiment Index - FCA

- Perceptions that the FCA's manner of regulation negatively impacts the attractiveness of the London Market – with 90% saying this had "detrimental or strong detrimental" impact.
- Slow approval process for senior managers is hindering business operation – with 96% believing this has a "strongly detrimental" impact.

Findings of LMG Sentiment Index - PRA

- Level of information requested by the regulator - 36% said they have seen significant increases in the last 12 months.
- Level of clarity as to the purpose this information has been used for – 62% said the PRA were only "fairly clear" about why information was requested.
- Sufficient knowledge of market firm operating models – 42% said the PRA "only had somewhat sufficient knowledge."

This is reinforced by statistics generated by LMG members about the compliance burdens and reporting requirements they face. The information contained on this page has been anonymised and reflects a broad range of costs and impacts.

CASE STUDY 1: GLOBAL BROKER

- This business's cost of compliance in the UK is 3-4% as a percentage of its total revenue, nearly double that incurred by its operations in Germany or Ireland. This cost has a 10-15% margin impact on the UK.
- It has 78 staff in the UK responsible for law, risk and compliance. In the rest of the EMEA region, there are 73 staff. This is despite the UK being one country out of an EMEA region of 48 countries, and contributing only 30% of total EMEA revenue.
- The number of regulatory data submissions and applications that must be completed by this business per annum is over 300, over 1 per working day.
- Regulatory fees (FCA, FOS, FSCS) totalled £2.4m for 2024.

CASE STUDY 2: UK HEADQUARTERED BROKER

- There are 90 staff responsible for compliance and regulatory affairs in the UK, compared to 24 staff in the EU, equal to 1.5% of total headcount and 0.4% respectively.
- 8 of these UK staff are responsible solely for completing Fair Value Assessments, the majority of which are in respect of products provided to corporate clients, not retail customers.

CASE STUDY 3: INTERNATIONALLY HEADQUARTERED REINSURER

- The reporting requirements associated with the new Solvency UK implementation for this business's third country branch has resulted in a one-time investment in the region of £2-3 million, accounting for IT and consultants costs required to build the necessary reporting infrastructure. This was for changes that were designed to reduce reporting requirements.

- Growth and competitiveness are never agenda items in the meetings held with the regulators.

CASE STUDY 4: UK HEADQUARTERED INSURER

- This business's global compliance function has a staff of 46, split 50:50 between the UK/EU and US. There are plans to recruit an additional 6 staff in the next 12 months to respond to a growing UK/EU demand.
- There is also a Second Line Assurance team, which performs compliance monitoring and testing, which comprises an additional 7 staff.
- These staff costs equated to £11.6m over 2024, equating to 0.24% of the business's Net Earned Premium (NEP). However, the true cost of compliance across the business is likely to be significantly higher, with costs estimated to increase by at least 30%.

3. How to cultivate a first-class investor experience in the UK

Rival jurisdictions are making extensive efforts to promote their financial services sector and the benefits for investors, particularly in new and emerging risks and green finance.

Singapore and Bermuda both have dedicated resources to promote their markets and have clear strategies for how government, regulators and industry can work together to support the growth of their financial services markets.

- The Bermuda Business Development Agency has been heavily promoting itself as becoming the global green finance centre of expertise. Its key selling propositions are the historical ability to look at hurricane and weather risk, and second, the nimbleness of its regulatory regime, its responsiveness and its ability to pivot and meet new needs.

- The Monetary Authority of Singapore has a promotional/inward investment team. It supports a regularly refreshed Financial Services Industry Transformation Map (ITM) a key part of which is to grow insurance risk advisory and alternative risk transfer solutions for Asia, to address new and emerging risks such as pandemic, climate and cyber as well as facilitate the participation of capital markets in risk financing. The ITM has clear market growth metrics as well as targets around job creation within the sector.

Both of these bodies are funded for outreach and promotional, have offices in other major centres and attend conferences and events to talk to potential investors.

As identified by the 2023 Harrington Review of Foreign Direct Investment, the UK does not have a clear strategy or pathways for investors and risks losing out to these more agile jurisdictions. As the Review sets out, a British Business Investment Strategy would mean investors clearly understand government's long-term goals, and how they fit into this. With many of the London Market's competitors reaching natural constraints, the next few years could be a tipping point for business returning to London – if the right steps are taken to enhance the investor experience.

The UK needs a dedicated unit to welcome inward investment, providing more proactive support and guidance to overseas firms seeking to come to the UK and trade within the London Market. This mirrors many of the practices of global insurance hubs and would ensure that there is a body with the primary role of maintaining a day-to-day focus on helping London to remain the global centre for specialty commercial insurance. As a first step, the recommendations of the Harrington Review must be implemented in full.

We welcome the recent announcement in its Investment 2023 strategy that the Government will enhance the role of, and resources provided to, the Office for Investment (OFI). The approach taken by Singapore of coordinating regulation and development should be considered by the Government as it continues its work in this area, in order that any additional resource given to the OFI is used most effectively.

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