Written evidence submitted by Lloyd's

Introduction

This written evidence is submitted on behalf of the Society of Lloyd's (**"Lloyd's"**). Lloyd's is a society of members that operates as an insurance market in London. It is not an insurance company: policyholders are insured at Lloyd's, not by Lloyd's. All the insurance business in the Lloyd's market is underwritten by Lloyd's members rather than by Lloyd's itself. Appendix 1 contains further details of Lloyd's business and operations.

All insurance business in the Lloyd's market is underwritten by Lloyd's members, organised into 74 active syndicates, managed by managing agents. The Lloyd's Market Association (**"LMA"**) represents the 48 managing agents and three members' agents in the Lloyd's market. The risks insured in the Lloyd's market come from across the world: 86% of the market's £35.9bn premium income in 2019 originated outside the UK. Lloyd's therefore has a substantial interest in the questions asked by this Inquiry, which focus on access to markets in other countries.

Much of the business written at Lloyd's and in the wider London insurance market (**"the London Market"**) is either reinsurance or specialty direct insurance. This includes marine, aviation (including space risks), energy, goods in transit and non-marine classes such as cyber, terrorism, political risks, directors and officers and professional indemnity. London's importance as a centre for the underwriting of such risks illustrates the concentration of capital and expertise in the UK that supports this business.

The purchasers of these covers are mostly sophisticated commercial clients, with access to knowledge and market expertise. There is greater equity of bargaining power between the parties to such insurance contracts than exists for "mass market" personal lines such as household, motor and travel insurance. Clients are looking for the best price and cover they can obtain in global markets, and do not want to be restricted to their local markets.

Lloyd's and Lloyd's managing and members' agents are authorised persons under the Financial Services and Markets Act 2000 (as amended; **"FSMA"**). As the EU Solvency II Directive recognises "the association of underwriters known as Lloyd's" as a legal form of insurance undertaking, the UK implementation of Solvency II is such that it applies to Lloyd's as a whole. Market compliance with the regime means that managing agents and the syndicates that they manage must operate in accordance with Solvency II.

Executive Summary

We welcome the opportunity to contribute to the Treasury Select Committee's Inquiry into the Future of UK Financial Services. The UK's departure from the European Union (**"EU"**) has created a new institutional, regulatory and trading landscape which the Government and Parliament need to adapt to the specificities of the UK financial services industry whilst maintaining the UK's pre-eminent role as a global financial hub. Whilst our positions are described more fully throughout this submission, they may be outlined as follows.

- **A wholesale deregulatory agenda would not be in the UK financial services industry's interests.**

- **We support the independence of the regulators from day-to-day political interference, but agree with HM Treasury's proposal that Parliament should set the strategic direction and fundamental principles.**

- **Development of detailed rules should sit with the UK regulators who have the relevant technical expertise, though policy framework legislation should enshrine the core principles and features of sectoral regimes to provide stability.**

- **A specialist independent statutory advisory body (similar to the Office for Budget Responsibility) should be established to assess current and future regulation for its efficiency and effectiveness.**

- **The UK regulators should continue to coordinate with international bodies and not seek to materially diverge from global standards (assuming they remain broadly appropriate for the UK market).**

- **UK statutory objectives should be updated to require regulators to consider the impact their activities may have on the competitiveness of the UK financial services industry. Regulatory principles should also be updated to reflect the new regulatory environment.**

- **The Government could usefully facilitate cross-border insurance and reinsurance market access by working to remove certain national barriers. This will help to ensure that capital and expertise can be deployed effectively and efficiently in the UK.**

- **In addition to effective and proportionate financial regulation the UK's future competitiveness relies on a wide range of factors, including broader economic and fiscal policy, social and physical infrastructure, as well as access to a workforce with skills fit for the modern world.**

Future regulatory framework

The ongoing review of the UK's financial services regulatory framework will fundamentally change how financial services regulations are developed and scrutinised in the UK and will set the regulatory framework for the long term. As such, it is important to ensure that this transformation is undertaken in a manner which ensures that any enhanced rule-making powers vested in financial regulators are subject to effective accountability and scrutiny mechanisms. The review should also meet the Government's intention to create a balanced regulatory framework which continues to contribute to the dynamic development and competitive performance of the UK financial services industry.

We therefore believe that existing mechanisms should be appropriately strengthened by a new independent panel which could test new initiatives, make recommendations for their improvement as well as contribute to regular reviews of the appropriateness of existing rules and regulations.

Whilst regulators should operate within a robust framework of accountability and scrutiny, their independence from day-to-day political interference remains paramount. It must be open to the regulators to determine how to respond to issues arising through mechanisms for accountability and how to advance any public policy considerations whilst maintaining an appropriate balance with their statutory objectives. In the absence of assured regulatory independence, the reputation of the UK as a well-regulated financial market could be subject to challenge and firms may be less confident to invest in the UK. We also submit that transparency remains a fundamental principle supporting effective operation of regulatory independence and accountability.

The new framework should be underpinned by continuing the ethos of robust regulatory and supervisory standards in the UK. A wholesale deregulatory agenda would not be in the interests of the UK financial services industry for a number of reasons, including for the competitive standing of UK firms in the global marketplace and for the preservation or expansion of UK firms' access to foreign markets by providing confidence to overseas regulators about the quality of their domestic supervision. With this in mind, the UK regulators should also continue to coordinate with international bodies and not seek to materially diverge from global standards (assuming they remain broadly appropriate for the UK market).

Reallocation of powers and responsibilities following the UK's departure from the EU, however, should strike the right balance between (i) maintaining a sufficiently flexible regulatory framework which can be quickly adapted to the evolving financial landscape and (ii) ensuring stability of the framework's fundamental features which provide certainty to the industry and stakeholders about its operation. Additionally, to ensure appropriate policy input by democratic institutions, it is important that the fundamental concepts and features of sector-specific financial rules are enshrined in legislation to provide certainty to the industry and other stakeholders as to their operation.

Regulatory objectives and principles

The UK's future success as an attractive destination for international businesses and their customers depends on the regulators' ability to keep in step with global trends and developments in the financial services industry and its regulation. We believe therefore that when exercising rule-making and supervisory powers, UK regulators should operate subject to a new statutory objective to consider the impact their activities may have on the competitiveness of the UK financial services industry in a global context.

The current set of regulatory principles should also be updated to align them with the features of the proposed regulatory framework and reflect the recent changes in the regulatory landscape. We believe that the new principles should require regulators, for instance, to continuously consider the impact of new initiatives on the UK's ability to comply with global financial standards; to promote compliance efficiencies by utilising appropriate technological solutions; and to undertake effective policy coordination with the objective of minimising regulatory burden on firms.

International trade priorities

Whilst existing Free Trade Agreements (FTAs) make limited provision for insurance and new FTAs may not substantially expand UK-based insurers' cross-border access to third country markets, the

Government should consider how new FTAs and other trade and regulatory policy options could address cross-border insurance access more comprehensively.

The Government could usefully work to facilitate cross-border insurance and reinsurance market access by working to remove national barriers. This will help to ensure that capital and expertise can be deployed effectively and efficiently in the UK.

UK insurance and reinsurance markets are generally open to firms outside the UK. The UK's regulatory system is not discriminatory against foreign firms and we believe this should continue.

Attractiveness of the UK as a financial centre

Financial services regulations play a crucial role in the UK's international attractiveness and competitiveness as a financial centre. However, there are many other contributing factors which the Government needs to consider. These include broader economic and fiscal policy, social and physical infrastructure, rule of law, education, the corporate framework and access to a workforce with skills fit for the modern world. Considering all these elements in the round will become even more important as the UK looks to build back better in the wake of the current pandemic.

We support a pragmatic approach to immigration which promotes the UK's competitiveness and supports financial services firms, as well as other businesses, with their human resource needs. As the FinTech sector is particularly reliant on flexible access to the global workforce, the UK Government needs to consider creating a sufficiently open and simple visa framework for attracting global tech talent.

The issue, however, requires a strategic approach for growing local expertise in the long term as the nature of demand for a skilled workforce is changing at pace around the world with increased focus placed on digital skills. It is possible that, in the future, national shortage in specific experts might no longer be addressed simply by a sufficiently welcoming and flexible immigration policy.

Detailed answers

1. **How can the UK financial services sector take advantage of the UK's new trading environment with the rest of the world?**

We discuss the current trade environment in relation insurance in detail in response to question 3.

2. **What changes should be made to the UK's financial services regulations and regulatory framework once the UK is independent of the European Union?**

We support the principles which underpin the regulatory model enshrined in FSMA and believe that they provide sound foundation for the UK's future regulatory framework. The UK's departure from the EU, however, has created a new institutional and regulatory landscape which the Government and Parliament need to adapt to the specificities of the UK financial services industry whilst maintaining its pre-eminent role as a global financial hub.

We broadly agree with the HM Treasury's proposal (as set out in its Phase II Consultation Paper on Future Regulatory Framework Review) that the development of detailed rules should sit with the UK regulators as this is where the relevant knowledge and technical expertise tend to be concentrated. This model will allow for the necessary degree of flexibility in the rule-making process, thus ensuring the regulators' ability to respond to developments in the financial services industry's domestic and international landscape, particularly where this is required at fast pace.

Reallocation of powers and responsibilities following the UK's departure from the EU, however, should strike the right balance between (i) maintaining a sufficiently flexible regulatory framework which can be quickly adapted to the evolving financial landscape and (ii) ensuring stability of the framework's fundamental features which provide certainty to the industry and stakeholders about its operation. Additionally, to ensure appropriate policy input by democratic institutions, it is important that the fundamental concepts and features of financial regulation are enshrined in legislation which will also offer confidence to stakeholders as to its operation.

To enable its effective operation, the new framework should also be subject to appropriate checks and balances that ensure the regulators' rule-making activities operate according to the parameters established by UK Parliament and the Government. As regulators will receive additional rule-making powers, their exercise should be balanced by the introduction of appropriate duties and responsibilities, as well as suitable accountability and scrutiny measures.

The vast majority of the current rules and regulations which apply to UK insurers, reinsurers and intermediaries were developed by EU institutions through processes that were subject to robust scrutiny by the European Parliament and the Council of the EU. As these checks and balances no longer apply in the UK following its departure from the EU, it is essential to introduce domestic safeguards which would pursue a similar objective of balanced and effective scrutiny. To be clear, although such safeguards could be developed by reference to best practices operating in the EU (or, indeed, other jurisdictions), the key objective is to ensure they are suitable for the UK's context.

We therefore believe that existing mechanisms should be appropriately strengthened by the establishment of a new independent panel which would test new initiatives and make recommendations for their improvement, as well as contribute to regular reviews of the appropriateness of existing rules and regulations. Equally, continuous access to technical and expert knowledge within UK Parliament will be essential and there are options for maintaining this in the future.

The current set of regulatory principles should also be updated to align them with the features of the proposed regulatory framework and reflect the recent changes in the regulatory landscape. We believe that the new principles should require regulators, for instance, to continuously consider the impact of new initiatives on the UK's ability to comply with global financial standards; to promote compliance efficiencies by utilising appropriate technological solutions; and to undertake effective policy coordination with the objective of minimising regulatory burden on firms.

We strongly believe that these new tools will contribute to preserving the UK's strong reputation for robust, progressive and proportionate financial services regulation. Most importantly, they will provide UK regulators not only with constructive challenge but will also allow them to benefit from diverse perspectives and views. This will contribute to maintaining a positive relationship between the regulators and the industry as both sides co-operate to build a suitable and practical regulatory regime in a transparent manner. Regular reviews of the new framework at triennial intervals would help monitor its performance and enable the identification and implementation of necessary adjustments.

3. **What should the Government's financial services priorities be when it negotiates trade agreements with third countries?**

Insurance, like other financial services, raises quite different issues of international trade from goods. Insurance is a regulated activity worldwide. Most jurisdictions require an insurer to be authorised (or licensed) and to comply with local laws and regulations in order to carry on insurance business on their territory. These rules aim to protect policyholders and to avoid risks to financial stability. There are sometimes exemptions from these requirements and reinsurance is usually subject to less stringent regulation.

Unfortunately, insurance regulations can also act as a barrier to foreign insurers and may sometimes be motivated by protectionism. An important element in international insurance market access is therefore seeking the removal of discriminatory regulatory provisions that prohibit foreign insurer activity or place foreign insurers at a disadvantage. Ideally this is done at a multilateral level, to preserve a global market that can most efficiently share financial risk.

Lloyd's believes that the Government's expectations for negotiations with third countries should be ambitious but realistic. Existing FTAs make limited provision for insurance and new FTAs may not substantially expand UK-based insurers' cross-border access to third country markets. There could also be scenarios where existing market access may be complicated by future FTAs where they do not preserve the favourable situation that Lloyd's currently enjoys. The Government should consider how new FTAs could address cross-border (re)insurance access more comprehensively for those markets where UK (re)insurers do not currently enjoy access (see 'Determining priorities' below). The Government could also usefully work to facilitate cross-border insurance and reinsurance market access by working to remove national barriers. This will help to ensure that capital and expertise can be deployed effectively and efficiently in the UK.

Determining priorities

A table listing the world's largest 15 non-life insurance markets is set out in Appendix 2. It shows that most of the world's non-life insurance market is concentrated in a small number of countries. Market access to most of the countries listed is not a problem for Lloyd's, as the Lloyd's market can underwrite reinsurance from all of them and is a licensed direct insurer in all but three. New FTAs with these countries may be of economic value to some UK economic sectors, but Lloyd's does not expect them to lead to significant premium growth for the market.

There may be attractive business opportunities in countries outside the top 15 and some smaller markets may be growing particularly quickly. However, the scale of the benefits that would accrue to the UK economy from expanded business opportunities in the non-life insurance sector from FTAs with countries outside the top 15 will be more limited.

There are activities in which the Government could usefully engage in support of insurers such as Lloyd's seeking to carry on insurance and reinsurance in and from third countries. Even in countries where Lloyd's is authorised, there can be restrictions on its ability to provide reinsurance: this topic is discussed below. The Government should also aim to play a constructive role in multilateral trade discussions to facilitate the conduct of cross-border insurance and reinsurance business.

Reinsurance trade barriers
There is a growing problem of jurisdictions around the world introducing or maintaining substantial barriers to entry to non-domestic reinsurers. We suggest that a priority for the Government in negotiations with third countries should be to seek to remove such barriers to cross-border reinsurance. Reinsurance markets enable the efficient and effective diversification of risk globally, thereby promoting continued growth and recovery of global and national economies. The benefits of reinsurance in helping people worldwide to cope with disasters are set out in a recent OECD report on reinsurance and catastrophe risk. It says:

> *'International property catastrophe reinsurance markets can make an important contribution to increasing primary insurance market capacity, managing catastrophe risk and reducing economic and insurance market disruption in the aftermath of catastrophe events.'*[1]

Barriers to trade in reinsurance undermine the efficiency of reinsurance markets by reducing competition, leading to less choice for consumers, higher reinsurance costs and less capacity. If local insurers are unable to share risks globally, local risks can be dangerously concentrated within a national market and coverage for local policyholders can become limited.

The Global Reinsurance Forum (**"GRF"**), of which Lloyd's is a member, produces a bi-annual list of trade barriers and market access issues, most recently in November 2020[2]. This shows that 46 territories including regional groupings have or propose to introduce barriers to foreign reinsurance, including prohibitions, mandatory cessions, localised capital and establishment requirements. The removal and reduction of barriers to cross-border reinsurance is therefore beneficial to policyholders worldwide. It also facilitates the conduct of international business by Lloyd's and other London Market firms from the UK, strengthening London's position as a centre for international reinsurance.

FTAs
While the UK was a member of the EU, UK-based undertakings could benefit from the FTAs negotiated by the EU with third countries. Some of these FTAs include provisions on market access for financial services. These require the Parties to commit to the removal of specified restrictions, such as restrictions on the number of service suppliers or requirements for specific types of legal entity or joint venture through which a service may be supplied. All FTAs contain a national treatment obligation, preventing systemic discrimination against non-local providers.

[1] The Contribution of Reinsurance Markets to Managing Catastrophe Risk, OECD, 2018, page 8.
[2] Barriers to Trade, Global Reinsurance Forum, please see November 2020 issue.

In financial services, the EU's primary focus has been on securing a good package of rights in relation to establishment (mode 3) and permitting EU (then including the UK) undertakings to provide insurance in the third country via a subsidiary company or a branch established in that country in accordance with local regulatory requirements. Many countries are comfortable with supply of financial services via a commercial presence in their territory, as this provides local employment and economic activity and is subject to local regulation. This suits the operational model of many insurance groups. It is less useful to Lloyd's and other London Market insurers, who underwrite international risks in London rather than through local offices.

Existing FTAs make more limited provision for cross-border supply (mode 1). Typically, mode 1 commitments cover only a small number of financial sub-sectors. Usefully for Lloyd's, these generally include reinsurance and classes such as maritime, commercial aviation and space launching. However, these provisions are largely re-stating a country's General Agreement on Trade in Services (**"GATS"**) commitments, without expanding market access. Such provisions have value, as they emphasise existing cross-border access provisions for the other Party, but they are not "game changers".

The Government could therefore usefully consider how FTAs might be structured to provide greater cross-border access for financial services. This is not easy, because it requires the Parties to address regulatory issues, such as financial stability, policyholder protection and the integrity of financial markets, bearing in mind that market access is reciprocal. As a European Parliament report notes:

> *'At the same time, the EU's demands for relatively broad liberalisation of financial services trade have complicated negotiations with South-East Asian nations with direct experience of the Asian financial crisis of the late 1990s, such as Malaysia, Indonesia, Thailand and the Philippines. This experience has made them cautious about the pace and shape of financial liberalisation, and less receptive to the priorities of the EU in this sector.'*[3]

The GATS Understanding

The World Trade Organisation's (**"WTO"**) GATS Understanding on Commitments in Financial Services contains a standard set of market access, national treatment commitments and additional obligations which WTO members may accept, on a voluntary basis, in the financial services sector. Paragraph 3 of the Understanding allows cross-border (mode 1) provision of specified classes of insurance:

- Maritime shipping.
- Commercial aviation.
- Space launching and freight.
- Goods in international transit.
- Reinsurance and retrocession.

Forty WTO members have accepted the Understanding, including all EU members. However, in practice its significance is limited. Under paragraph 2 of the GATS Annex on Financial Services, WTO member states may take measures "for prudential reasons" which can effectively remove the ability of foreign (re)insurers to provide the cover listed in the Understanding.

The WTO Appellate Body's decision in 2016 in a dispute between Panama and Argentina highlights the wide potential application of the prudential carve-out. The Appellate Body stated that the conditions for employing the prudential carve-out do not impose specific restrictions on the types of 'measures affecting the supply of financial services' that fall within its scope, provided that such

[3] Financial Services in EU Trade Agreements, Study for the ECON Committee, 2014, page 9.

measures are, effectively, 'for prudential reasons' or 'to ensure the integrity and stability of the financial system'. Hence, WTO members have wide discretion in their use of the prudential carve-out.

The Government could work to ensure wider application of the Understanding's provision on cross-border insurance. Firstly, it could encourage acceptance of the Understanding by more WTO members. Secondly, it could work to ensure that those who accept the Understanding act in full accordance with its provisions. The Government could also seek to broaden the Understanding to encompass other types of non-life business as well, such as non-MAT commercial insurance. One approach would be to permit the purchase of non-life insurance from non-resident providers by policyholders for commercial purposes. Another would be to use an existing definition of "large risks" such as that set out in the EU Solvency II Directive (Article 13(27)). Essentially it includes:

- Aviation, shipping and goods in transit insurance.
- Credit and surety insurance for professional and commercial clients.
- Other types of non-life insurance when a policyholder exceeds two out of three of the following criteria:
    - A balance sheet total of EUR 6.2m.
    - A net turnover of EUR 12.8m.
    - An average number of 250 employees.

Strengthening the application of global regulatory standards
The International Association of Insurance Supervisors (**"IAIS"**), through its Insurance Core Principles (**"ICPs"**), seeks to "encourage the maintenance of consistently high supervisory standards in IAIS member jurisdictions". They say that "a sound supervisory system is necessary for the protection of policyholders and promoting the stability of the financial system and should address the broad set of risks within, and posed by, the insurance sector".

The ICPs provide objective reference points for firms, regulators and Governments, encouraging movement towards market liberalisation in countries where restrictive approaches are in place.
Lloyd's agrees with the Global Federation of Insurance Associations (**"GFIA"**) that many national barriers in international trade in (re)insurance cannot be reconciled with the ICPs. In GFIA's view, restrictions on cross-border reinsurance result in non-observance of several ICPs, with up to 14 of the 26 being affected.

Strong internationally-derived regulation gives customers confidence that (re)insurers will meet their financial commitments and reassures local supervisors that (re)insurers in other jurisdictions are robust. UK supervisory authorities should maintain their existing constructive engagement with the IAIS (including by continuing to take prominent positions in its governance structures), enabling the UK to retain some influence over the international insurance regulatory agenda.

The UK-US Covered Agreement
The UK-US Covered Agreement[4] will eliminate local requirements for reinsurers based in the other jurisdiction to post collateral or have a local presence, and it provides that an insurance or reinsurance group will be subjected to worldwide group supervision only in its "home" jurisdiction, and not in other jurisdictions where it operates. Sectoral agreements such as this can deliver benefits. The Covered Agreement will help to liberate capital for more efficient global use and allow firms to create establishments in a manner that most benefits their business models, rather than to suit local requirements.

[4] Official title: "Bilateral Agreement between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance".

The Agreement was not negotiated in a vacuum and follows closely the text of the EU – US Agreement, which took several years to conclude. Ultimately, we expect the US to extend its benefits to other jurisdictions interested in reinsurance, including Bermuda and Switzerland. Agreements of this nature are most easily arranged between nations, or trading blocs with comparably stringent models for risk-based capital setting as this allows each nation to trust the home state regulation of the other.

Promotion, regulatory co-operation and economic and financial dialogues
There is an extensive toolbox of less formal options that may be employed by the Government and UK regulators to pave the way for increased access by UK firms to new markets. For example, Lloyd's welcomes the Global Financial Partnerships (**"GFPs"**) initiative as an important method by which the UK Government, UK regulators and UK firms can work together in pursuit of expanding market access and removing barriers for UK firms. To complement the GFP approach, the UK Government and regulators should continue to engage with other non-FTA trade mechanisms such as local promotion of UK capabilities, regulatory co-operation agreements and economic and financial dialogue (such as the UK-US Financial Regulatory Working Group). For London as an international financial centre and for Lloyd's, given that 86% of our business is non-UK, such coordinated initiatives will help to bolster the UK's international competitive position in financial services over the long term.

4. **Should the UK open its financial services markets to external competition from countries outside of Europe, or should the UK maintain the current regulatory barriers that apply to third countries?**

We agree that the future regulatory framework should ensure the UK remains an attractive destination for overseas firms. A dynamic and diverse insurance market is essential for maintaining the UK as a global hub where policyholders can continue to enjoy access to a wide range of financial services. The UK's current approach to supervising third country branches is one of the most open globally which supports a diverse domestic insurance marketplace as well as sets a positive example of how prudential and consumer protection considerations can be balanced with fewer operational restrictions.

We believe that the regulators' approach to overseas branches should continue to be guided by their statutory objectives which promote choice that is rooted in healthy and sustainable competition and where firms provide services that enjoy the same degree of policyholder protection. The current regulatory framework review is an opportune moment for regulators to design a structured approach that will guide their authorisation and supervisory activities in respect of third country branches and offer market participants clarity and certainty about the operation of the new regime. The guiding principles should be to ensure that the framework provides appropriate policyholder protection and a level playing field for both domestic and overseas firms.

5. **What skills and immigration policy will the UK financial services sector need once the UK has left the European Union?**

Access to EU and international talent is important to firms trading in international markets. We support a pragmatic approach to immigration which helps financial services firms, as well as other businesses, with their human resource needs. We are therefore supportive of the findings of TheCityUK's May 2018 report on immigration.

The UK's international reputation and its status as an international financial centre are significant factors in attracting the best global talent, but should not be taken for granted in an increasingly competitive global labour market. The FinTech sector is particularly reliant on flexible access to the global workforce as one in four of the sector's employees are estimated to be non-UK citizens[5]. As the UK's departure from the EU has restricted firms' ability to recruit EEA specialists, the UK Government needs to address this additional barrier and consider creating a sufficiently flexible and simple visa framework for attracting global tech talent.

The ability of innovation accelerators such as the Lloyd's Lab to attract the best companies and talent from around the world depends, in a significant part, on the structure of the UK's immigration system. We are concerned, however, that the new points-based immigration system may not prove dynamic enough to meet the full needs of employers seeking highly-skilled expertise that is either in severe shortage in the UK, e.g. digital skills, or which can rarely be found in the UK, such as overseas markets and regulatory experience.

The Lloyd's Lab has encountered visa issues where individuals from participating (or potentially participating) FinTech firms based outside the UK need to come to the UK to participate in the Lab. As this limits the scope to bring innovative companies and individuals to the UK, we would find it beneficial if there were an accreditation system whereby accredited innovation accelerators (and possibly accredited financial services firms more widely) could sponsor non-UK individuals for fast-track short-term working visas. Employers would also welcome an immigration system that is supportive of career growth and considers the skillset and potential of candidates, rather than purely the skill level and salary of the role they are coming to fill.

To realise this system would require strong coordination between HM Treasury, the Home Office and possibly the UK financial regulators, but is arguably in the interests of UK firms in becoming more digital, more efficient and more agile, including with respect to regulatory obligations. It would also be in the interests of the UK economy as a whole to have both innovative firms and entrepreneurial technologists working and potentially establishing and settling in the UK.

The issue, however, requires a strategic approach in the long term. The nature of demand for a skilled workforce is changing at pace around the world with increased focus placed on digital skills. It is likely that, in the future, national shortage of specific experts might no longer be addressed simply by a sufficiently welcoming and flexible immigration policy. Indeed, certain overseas Governments have focused on nurturing domestic expertise in the context of a sustainable knowledge strategy. SkillsFuture Singapore has, for example, previously highlighted that there is already a global shortage of talent and expertise in some areas, such as robotics, AI and data analytics[6]. As such, attractive employment conditions might be insufficient to draw the relevant specialists with up-to-date skills in the future.

In this context, we welcome the Government's 'The Skills Toolkit' programme[7], which provides free access to courses on topics ranging from business and finance to computer science and coding, as well as the Government's plans – as part of the Lifetime Skills Guarantee announced by the Prime Minister in September 2020 – to train adults in digital skills through employer-led bootcamp[8]. The Government might also wish to consider how to support the financial services industry in ensuring its continuous access to the right talent. We note the example of the MAS[9] and Singapore's Institute of Banking and Finance (IBF)[10] which provide subsidies for approved training programmes that are

[5] What the Brexit immigration implications are for the Financial Services sector, EY, November 2020.
[6] SkillsFuture, four years on, The Straits Times, 2 July 2018.
[7] The Skills Toolkit Web-site
[8] Skills for Jobs: Lifelong Learning for Opportunity and Growth, Department for Education, January 2021, page 5.
[9] Institute of Banking and Finance Training Schemes, Monetary Authority of Singapore.

designed for the financial services sector. The scheme encourages individuals and businesses to take advantage of the various training programmes to deepen their skills expected to be relevant in the future. Most importantly, such a scheme encourages addressing the existing skills gap and increasing the industry's talent pool in a structured way. Our objective is not necessarily to encourage adopting an identical approach, but merely to highlight the need for strategic thinking about building the right mix of expertise in the UK financial services industry that would allow it to remain relevant globally in the future.

6. **How can Government policy and the UK regulators facilitate the emergence of FinTech and new competition; develop new areas of growth for the financial services sector; and promote the UK as the best place to incubate new financial technologies and firms?**

The UK is one of the world's leading centres for FinTech and London has recently overtaken New York in terms of FinTech investment deal volume[11]. By innovating in financial services, firms can provide more bespoke products, more cheaply and more quickly. This extends to all parts of the process, from purchase to claims, and includes assisting firms to understand and comply with regulatory obligations.

FinTech is also one of the most dynamic sectors of the UK economy, which is populated by both start-up communities and established firms. As such, Government needs to consider how innovation can be promoted and supported in the context of these two rather different but interrelated settings. It is important to maintain a framework which facilitates a culture of innovation at firms, including the recognition that this may entail a different skillset and attitude from what would be considered the norm in the more conventional environment. In this context, the Government and regulators should continue to ensure that regulation allows responsible risk-taking, as well as a 'test and learn' way of working through the ability to experiment. As not all innovation carries the same level of risk, proportionality should remain a fundamental principle in developing rules that seek to regulate innovative products and services.

The UK already enjoys a global reputation for strong innovation culture and infrastructure. We support the operation of the FCA's Regulatory Sandbox, which has become a blueprint for promoting financial innovation around the world and it has been adopted in a number of jurisdictions over recent years, including through the Global Financial Innovation Network (GFIN). Initiatives like this send an important signal internationally about the UK's open and active approach to FinTech and we encourage the Government and regulators to continue with this strategy.

Lloyd's also operates a tech incubator, The 'Lloyd's Lab', which gives start-up firms access to the Lloyd's Market and the chance to develop their ideas alongside their target audience. Following five successful cohorts, the Lab is in the process of assembling a sixth and Lloyd's has even invested directly in Layr, a firm from the first cohort, which is a cloud-based commercial insurance platform for small businesses. InsurTechs which participate in the Lloyd's Lab seek to apply technological innovation to tackle a wide range of issues to the benefit of both industry and society. We provide a number of recent examples below to illustrate some notable successes:

a) Previsico has developed a new flood forecasting technology in the course of its participation at Lloyd's Lab, which provides actionable property level warnings up to two days in advance and crucially includes surface, fluvial and coastal flooding. In the Lab they created a new way of delivering the insights to customers, and worked with Lloyd's syndicates to evaluate

[10] Financial Training Scheme, IBF Singapore.
[11] London tops list for global FinTech deals in 2019, Innovate Finance, 23 September 2019.

the commercial model. The company's tool attracted praise from multiple stakeholders, including Luana Avagliano, Head of ResilienceDirect at Cabinet Office: '*This is ground-breaking work that will immensely assist our resilience community in making informed decisions for planning and response to flood events and impact*'[12].

b) In autumn 2020, Lloyd's launched a first off-the-shelf parametric business interruption coverage for small and medium-sized enterprises developed by a Lloyd's Lab alumni Parametrix Insurance. The product offers protection in relation to IT disruption or downtime caused by incidents such as cloud outages, network crashes and platform failures.

c) Parsyl, another alumnus of the Lloyd's Lab, developed a new syndicate at Lloyd's to provide comprehensive insurance and risk mitigation services to support the manufacturing and distribution of COVID-19 vaccine.

One of the potential challenges that the industry may encounter in the future relates to data. Unhindered data flows between the UK and other jurisdictions remains a critical factor in the ability of financial sector firms to operate and provide services to customers. This is relevant for the operation of both the established market and FinTech innovators, but may become a more prominent issue as part of the conversation about the attractiveness of the UK as a destination for overseas FinTech developers.

Observations on the attractiveness and competitiveness of international financial centres

We note that the international financial services industry is becoming increasingly competitive where individual jurisdictions are striving to become a marketplace of choice for investments, business and employment. This dynamic environment is positive news for firms with international ambitions, but it also highlights the importance that governments should attach to continuous alignment with overseas practices and adoption of necessary changes to retain their competitive position.

There is no doubt that the UK starts from a sound place. It enjoys a strong reputation for the rule of law and high levels of confidence in public institutions and processes. The UK financial services market has a strong position internationally with its renowned infrastructure, robust financial regulation and access to a diverse workforce. We encourage policymakers, however, to consider how to preserve this position in the future as the world of financial services continues to undergo fundamental transformation and overseas governments become increasingly active in enhancing and promoting their own markets as regional or global financial hubs.

We note, for example, Japan's ambitions to reinvent Tokyo as a global financial hub under the Prime-Minister Yoshihide Suga. This is expected to involve the review of multiple aspects that would make the city more competitive, including changes to residency requirements, taxation reform and corporate governance improvements to promote diversity in the boardroom[13]. Furthermore, the Japan Financial Services Authority (JFSA) has published its own strategy on promoting the international competitiveness of the Japanese markets. As the JFSA notes,

> *'Reflecting a needed balance between diversification and concentration, it is likely that international financial hubs will shift from extreme concentration to cooperation in a multipolar system, where it will be important for core hubs to compete with and compensate each other while preserving their unique characteristics'[14].*

[12] Flood forecasting research underpins world-first solution as part of new UK resilience mapping platform, Loughborough University, 18 June 2020.

[13] Suga: Tokyo can be global financial hub, Nikkei Asia, 5 October 2020.

[14] JFSA priorities for July 2020-June 2021, Japan Financial Services Authority, August 2020, page 20.

As such, the JFSA is planning measures to improve the function of the Japanese financial and capital markets and enhance Japan's role in Asia and the rest of the world. This involves, for example, administrative improvements, such as greater use of English in administrative services and registration processes to attract foreign financial institutions and experts to Japan. It also envisages structural changes, for example, in the asset management industry and operational reforms, such as enhancing disclosure requirements.

The Monetary Authority of Singapore (MAS) also attributes its competitiveness to a wide range of factors beyond aspects purely related to financial regulation:

> *'Strong capabilities across wealth and asset management, foreign exchange and derivatives, insurance and risk financing, fixed income, infrastructure finance, as well as FinTech and innovation are underpinned by a pro-business and cost-competitive environment, excellent infrastructure and international connectivity, as well as a highly skilled, cosmopolitan labour force'*[15].

According to the MAS, Singapore ranks high on the global competitiveness scale thanks to the quality of its institutions, government efficiency, pro-business environment, developed infrastructure, high speed connectivity, openness to trade as well as progressive digital environment and adoption of new technologies.

The examples of Japan and Singapore highlight the need for countries to undertake a holistic approach to building and maintaining their international competitiveness, an undertaking which should incorporate a wide range of factors touching on the ease of establishing a business, accessibility of financial regulation and flexibility of the immigration rules. As noted earlier, the UK has a globally renowned reputation as a financial hub, but we consider it important to adopt a strategic approach to ensuring that the UK retains its position and remains an attractive destination for overseas investors and customers. This could be supported by regular inquiries into the global financial landscape taking stock of recent developments, evaluating the extent to which they challenge the UK's position and assessing whether there are adequate mechanisms in place to address the risks. The UK Parliament is perhaps best positioned to undertake such reviews which would rely on contributions from both public institutions and industry stakeholders.

7. Through what legislative mechanism should new financial regulations be made?

HM Treasury's Phase II Consultation has proposed a new regulatory framework, including how new financial regulatory rules should be developed and implemented. We broadly support its principles. Reallocation of powers and responsibilities, however, should strike the right balance between (i) maintaining a sufficiently flexible regulatory framework which can be quickly adapted to the evolving financial landscape and (ii) ensuring stability of the framework's fundamental features which provide certainty for the industry and stakeholders in respect of its operation.

We consider HM Treasury's proposal that the Government and Parliament only provide strategic policy steers to regulators to be insufficient in safeguarding that regulatory stability, since this approach envisages blanket delegation of rule-making responsibilities, regardless of whether they relate to fundamental features of the regime or their technical application. This also overlooks the important role that the democratic process should play in determining key principles and features of the financial services regime. To some extent, certain FSMA provisions, such as those on listing rules and ring-fencing rules, already follow this principle as legislation in this case goes beyond policy

[15] Singapore Competitiveness Factsheet 2020, Monetary Authority of Singapore, page 2.

direction and offers a detailed framework within which the regulators develop further technical detail.

As such, we believe that the role of Parliament and Government should be expanded to include responsibility for developing sector-specific financial services regulatory frameworks in greater detail than currently envisaged under HM Treasury's proposals. In the context of insurance, Parliament and Government should consider including more operational detail in the proposed policy framework legislation by incorporating some of Solvency II's fundamental provisions. HM Treasury's ongoing Solvency II Review provides an excellent opportunity to consider which features of the on-shored legislation should be incorporated in the policy framework legislation and which detailed provisions should be retained within the remit of, for Solvency II, the PRA.

We suggest that this legislation 'shadows' the Solvency II Directive to the extent that it 'establishes' the framework's fundamental principles, such as conditions governing business (e.g. system of governance, public disclosure, duties of auditors etc) as well as rules for valuation of assets and liabilities, technical provisions, own funds and the possibility of calculating the solvency capital requirement by standard formula or internal model. The legislation should not contain the same level of detail as in the Solvency II Directive text, but rather incorporate its key concepts and principles (subject to adapting them for the UK context which HM Treasury's Solvency II Review is currently undertaking) which can be then further developed by the regulators.

8. What role does Parliament have to play in influencing new financial services regulations?

Lloyd's conceptual view on this is set out comprehensively in response to question 2. This may be supplemented by Lloyd's view on regulatory independence from political influence, which is expressed in response to question 13, and Lloyd's view on the legislative mechanism for making regulations, which is expressed in response to question 7.

From a practical perspective, HM Treasury envisages that Parliament will play an important role in the formulation of financial services regulatory priorities, as well as in the scrutiny of the UK financial regulatory authorities. We agree with this general approach, but consider that Parliament's current Committee structure and resourcing could require adjustment to account for the increased volume and intricacy of regulatory rules and supervisory practices which it will need to scrutinise. It is ultimately for Parliament to determine how to meet this challenge.

9. How should new UK financial regulations be scrutinised?

We propose that effective scrutiny should be delivered through a new, independent panel – answerable to HM Treasury and comprising representatives of different stakeholder groups, including academia, public sector, business community and financial and professional services industry – with three primary objectives:

1. To test the accuracy of impact assessments (and similar) and judge whether measures have been effectively and efficiently implemented.
2. To make recommendations for ways in which policies might be improved to enhance their efficiency and thereby reduce costs and administrative burden where this would produce a net benefit to firms.

3. To produce analyses and meta-analyses of the procedural and substantive quality of regulators' methodological approaches to policy formulation, implementation and supervision in order that lessons may be learned and to drive increases in quality over time.

Its operation should follow these principles:

1. So that all regulators with an interest in the financial sector could benefit from this panel's findings, it should operate from a centralised position to consider prudential, conduct and other regulation impacting the financial sector (such as data protection).
2. To enable industry to also draw on the panel's findings, its analysis, conclusions and recommendations should be made public.
3. Industry should be able to provide views, which, though not necessarily entirely determinative of conclusions, would lend appropriate ex post data to the analysis.
4. A reasonable time limit should be set for regulatory changes to undergo a performance evaluation, and this principle should have retrospective application.
5. Finally, the panel should comprise an appropriate variety of expertise, not just in financial services and financial services regulation, but also in scientific, mathematical and economic fields to ensure balanced and well-reasoned empirical assessments are made.

We note the detailed framework developed by the International Regulatory Strategy Group for how such a panel should operate in practice, including discussion of the issues such as its independence, powers and responsibilities, and, without repeating them here, we endorse its proposals. The benefits that this new mechanism would contribute to all parts of the UK financial services ecosystem, including consumers, businesses, firms and regulators, could be manifold and significant in terms of pecuniary and administrative cost savings. It would also align the operation of the regulatory framework with accepted organisational best practice of continually evaluating outcomes to improve performance. Were the UK not to have such a system in a post-Brexit world, the important effects of the 'Better Regulation' approach to EU regulatory architecture, from which the UK regulation previously benefited, would be lost.

10. What progress has the Government and regulators made in facilitating key financial services equivalence agreements with third countries; and would an alternative mechanism serve the interests of the UK market better?

We discuss this topic in the context of the broader trading environment in response to question 3.

11. How should financial services regulators be funded?

We agree that the financial services industry should continue to fund the operations of the UK regulators. This framework should be subject to principles of transparency and close correlation with the nature and extent of the supervisory work carried out by the regulators.

12. Should the mandate and statutory objectives of the financial services regulators change to include wider public policy issues?

Statutory objectives underpin the scope of the UK's regulatory framework and, as such, contribute to its stable, predictable and unbiased operation. We consider that incorporation of wider policy issues into statutory objectives would have a negative impact on the regulators' independence and would unnecessarily politicise regulatory processes. The political environment is a constantly evolving landscape associated with frequent changes in emphasis and focus. Financial regulators, on the other hand, should be guided by a set of stable objectives focussed on apolitical considerations, such as financial stability, consumer protection and the UK's competitiveness. To include considerations which may be more transient or political in the regulators' statutory objectives risks compromising the credibility of UK financial regulation. It is also preferable for regulators to view public policy issues through the lens of statutory objectives; for example, climate change should be viewed by way of its effect on the safety and soundness of firms and on financial stability, whereas the desirability of innovation may be a factor in enhancing the UK's competitiveness.

That said, we think that the current review of the future regulatory framework is an opportune moment to re-assess the regulators' statutory objectives to ensure that they continue to be appropriate for the modern financial services landscape. Current statutory objectives for the UK regulators were developed in a unique context which was largely determined by the post financial crisis landscape and, at the time, necessarily constrained by the UK's membership of the EU. Furthermore, since the last comprehensive review of the UK's regulatory framework around a decade ago, the financial services industry has undergone significant transformation globally, facilitated by swift and revolutionary technological developments. The UK's future success as an attractive destination for international businesses and their customers therefore largely depends on the regulators' ability to keep in step with global trends and developments in the financial services industry and its regulation.

In this context, when exercising rule-making and supervisory powers, UK regulators should be required to consider their impact on the competitiveness of the UK financial services industry in its global context. We acknowledge that there may be concerns in some quarters that giving competitiveness considerations the status of a statutory objective might be perceived as a signal for light-touch regulation which would unhelpfully distract the regulators from pursuing, in respect of the Bank of England/PRA, the financial stability, safety and soundness and policyholder protection objectives, and, in respect of the FCA, the market integrity, consumer protection and competition objectives.

However, we consider that a clear and sufficiently specific definition of competitiveness would alleviate those concerns by promoting transparency and creating a much-needed structure for considering factors that would contribute to maintaining the UK's position as a leading global financial hub in future. Creating a clear set of parameters within which the analysis of competitiveness would be conducted will also help promote essential principles such as proportionality and efficiency in regulators' approaches. Whilst such principles are important in their own right, they are particularly important in the current highly, and increasingly, competitive global environment because they are critical factors for creating space for firms to conduct the innovation which is essential to the UK's long-term competitiveness.

A statutory objective of competitiveness could also incorporate the need for UK regulators to maintain alignment with global regulatory standards and practices (to the extent this remains compatible with the UK industry's specific features). Similarly, UK regulators might be encouraged to have regard to emerging state of the art regulatory practices.

In addition to the review of statutory objectives, we believe that general regulatory principles contained in FSMA should also be updated to align them with the current context of post-Brexit regulatory landscape as well as rapid technological developments which affect the operation of both industry and regulators. The new principles should require regulators to:

a) Consider the impact that their policies and regulations would have on the ability of the UK's regime to comply with global financial standards.
b) Review the relevant regulatory requirements on a regular basis to ensure they continue to operate effectively, achieve their objectives in the most efficient and proportionate way as well as make the most of the recent technological advances available in supervisory practices.
c) Ensure accessibility, consistency and clarity of the regulatory requirements with a view to promoting firms' better understanding of, and compliance with, their obligations.
d) Have regard to the desirability of promoting and facilitating efficiencies in compliance processes, including through adoption of the relevant technological capabilities in their supervisory activities.
e) Consider the aggregate impact of their policy development activities, such as public consultations, to enhance the industry's meaningful and thoughtful contributions to shaping new regulations.

13. How important is the independence of regulators and how might this best be protected?

Whilst we discuss above the accountability mechanisms, particularly with respect to regulatory consideration of public policy objectives, the predominant concern must be for regulatory independence from day-to-day political interference. It must be open to the regulators to determine how to respond to issues arising through accountability mechanisms and how to advance any public policy considerations whilst maintaining an appropriate balance with their statutory objectives. In the absence of assured regulatory independence, the reputation of the UK as a well-regulated financial market could be subject to challenge and firms may be less confident to invest in the UK.

Transparency in the policy-making and rule-setting processes is also key to maintaining the regulators' independence and the perception that such processes are free from unjustified interference of political considerations. For example, transparency mechanisms should apply where HM Treasury feeds its views on the development of new rules to UK regulators. This could be achieved through, for example, incorporating the outcome of such engagements within the subsequent public consultations as published by the regulators. Where HM Treasury's views diverge from the regulators' position, this should be clearly stated and the reasons for doing so also provided. This will allow stakeholders to understand and assess the Government's position on proposed regulatory rules. Most importantly, this transparency mechanism will help deal with a potential perception of the Government's political influence on UK regulators.

14. How can the balance between lighter touch regulation and prudential safeguards be best secured?

We believe that the UK's robust and comprehensive, yet flexible, regulatory approach is a key competitive strength. Whilst the UK's new status outside the EU theoretically allows it to pursue any regulatory strategy, we strongly believe that it is important that the UK regulators continue to coordinate with international bodies and do not seek to materially diverge from global standards (assuming they remain broadly appropriate for the UK market). Alignment with international standards remains an imperative for such a globally interconnected sector. As such, wholesale deregulatory agenda would not be in the interests of the UK financial services industry for the following reasons:

a) Commerciality
The UK's advanced regulation (particularly prudential regulation) is a selling point for financial services firms. It facilitates the international marketing of UK financial services products for end-users to know that the provider is financially strong and well-regulated. In (re)insurance, the contract is based on the promise of the (re)insurer to be able to pay claims as they fall due so the reliability of home state regulation, as compared to international standards, is a significant area of consideration for customers.

b) Market access
The decision of a non-UK regulator or Government to grant market access to, or make other prudential allowances for, UK firms is often predicated on an adequate domestic prudential regime being in place. Consideration of adequacy in such circumstances will naturally be driven by comparison to international standards and to the perceived strength of the host state regime (which will likely also be based on international standards).

The UK-US Covered Agreement, replicated in respect of the UK as the UK-US Covered Agreement due to Brexit, will gradually remove US reserving requirements for reinsurance contracts. This agreement states within the preamble: "[…] for the United States, prudential measures applicable in the UK, together with the requirements and undertakings provided for in this Agreement, achieve a level of protection for policyholders and other consumers with respect to reinsurance cessions and group supervision consistent with the requirements of the Federal Insurance Office Act of 2010". For Lloyd's, this measure is extremely significant as it removes the major barrier to reinsurance trade with the US and must therefore be protected through the continuation of an adequate domestic regime.

c) Equivalence
It remains important to many UK firms that the UK is deemed by the EU to have equivalent regulation in various areas. For the reinsurance industry, this is particularly pertinent with respect to reinsurance equivalence, which, according to Solvency II, would permit continued underwriting of EU cedants' risks on a cross-border basis from the UK on an effectively harmonised basis[16]. Consequently, we would expect the UK regulators (particularly the PRA) to have continuous regard to whether any domestic regulatory changes could decrease the likelihood of the UK achieving reinsurance equivalence and to consult with firms wherever this possibility exists. To achieve this, a degree of regulatory coordination and interaction will likely be required between UK regulators and their European counterparts, including the European Insurance and Occupational Pensions Authority. For this reason, we support in principle the initiative to develop a UK-EU memorandum of understanding on cooperation in financial services (in addition to those regulatory cooperation agreements which already exist).

d) Cost
For financial services firms, it is often regulatory/policy changes which necessitate larger-scale project work within firms to achieve compliance. As such, any material de-regulation would likely increase costs for UK firms over the short and medium term to assess the changes, amend their approach and ensure compliance on an adjusted ongoing basis. Given also the increasing prevalence of international standards, it would seem unwise for the UK to take such a deregulatory approach as it is possible that any changes would need to be reversed over the longer term to adapt to international standards, generating further costs.

[16] Art. 172, Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

The regulators should instead focus on creating efficiencies in the supervisory and compliance processes to remove unnecessary and disproportionate obligations on regulated firms. We therefore welcome the Bank of England's review into how it collects the information from the financial industry with the objective of decreasing the burden on the sector whilst increasing data's effective contributions to supervisory judgements.[17]

15. How should consumer interests be taken into account when considering potential regulatory changes?

Following the financial crisis of 2008-9, two new regulatory authorities – the FCA and the PRA – were established with a clear mandate to consider consumer outcomes in their supervisory work. The FCA has a statutory objective of consumer protection whilst the PRA operates under a specific insurance objective to contribute to the securing of an appropriate degree of protection for those who are or may become policyholders (which would naturally include consumers). We support the regulatory focus on consumer interests and consider that current emphasis on this area through utilising statutory objectives is an effective safeguard for preserving robust and balanced consumer protection.

In addition to this, the FCA's Financial Services Consumer Panel, an independent statutory body, operates to represent the interests of consumers in the process of policy development. The regulators' consultations are also open to consumer organisations and other relevant stakeholders to enable the representation of consumer interests. It is important that the new regulatory framework preserves these mechanisms and allows them to function effectively.

16. What are the strengths and weaknesses of the European Union model of scrutinising financial services legislation?

The EU framework for scrutinising financial services legislation was developed for a specific model which entails prescribing rules in a significant level of detail. The purpose of this approach is to facilitate effective operation of the EU's Single Market so that the application and implementation of the rules are achieved in a consistent and uniform manner. The UK, on the other hand, intends to adopt a rather different approach by setting the broad strategic direction in legislation while leaving detailed rule-making within the remit of financial regulators.

That said, the European Parliament's mechanisms for obtaining and maintaining access to the relevant expertise may offer some helpful insights to inform the UK Parliament's future enhanced role in scrutinising the regulators' activities. In particular, the European Parliament's Committee on Economic and Monetary Affairs (ECON Committee), which has a similar scope to that of the Treasury Select Committee in UK Parliament including areas, such economic affairs, monetary policy, taxation matters and financial services regulation, may merit some further study.

As ECON Members are expected to engage in the above areas at the detailed level by bringing technical expertise to the legislative process, they rely on various mechanisms to assist in the performance of their roles. MEPs employ political advisers with the relevant knowledge and skills to support their activities which is further complemented by a pool of advisers maintained by the European Parliament's political groups.

[17] Transforming data collection from the UK financial sector, Bank of England, January 2020.

Access to independent information is guaranteed through the ECON Committee's Secretariat which comprises experts in the fields relevant to the Committee's work. ECON Members are also supported by the work of the various Policy Departments and the European Parliamentary Research Service which provide independent and objective policy analysis and research, some of which can be performed by external parties.

These mechanisms are critical for effective scrutiny of EU legislation, but they also support the ECON Committee's general oversight of the European institutions, including the European Central Bank and European Supervisory Authorities.

Outside the EU, the US Congress relies on the work performed by the Government Accountability Office (GAO) which includes informing the legislative process and improving the operation of Government departments. Over time, GAO's remit has evolved from the narrow focus of reviewing federal spending to the broader mission of providing comprehensive analysis and expertise on the issues pertinent to the US Congress's oversight role. GAO produces technical reports on a wide range of topics, including financial services, to inform the US Congress's legislative initiatives. Its reports are also widely read by the industry and regulatory agencies which contributes to comprehensive debate among the relevant stakeholders.

17. Should the UK seek to replicate the EU's model for drafting and scrutinising financial services regulation?

We do not advocate establishing identical mechanisms and institutions in the UK, as Parliament will need to determine the best approach for the specific circumstances of the UK's future legislative and scrutiny framework. However, we would like to highlight the importance that modern lawmakers attach to the availability of balanced, in-depth and expert information in performance of their duties. As UK Parliament's role in the scrutiny of UK rule-makers is expected to grow, it needs to consider how its new responsibilities can be best supported in the future.

Appendix 1 - Lloyd's business and operations

Business transacted in the Lloyd's market

(i) The Lloyd's market writes a variety of different types of non-life insurance[18]:

Class of business	Percentage of Lloyd's total premiums
Reinsurance	32%
Property	27%
Casualty	26%
Marine, Aviation & Transport	8%
Energy	4%
Motor	3%
Total	**100%**

(ii) Typically, the risks underwritten at Lloyd's are complex, with large monetary exposures and risk profiles characterised by high severity and low frequency. Although marine, energy and aviation insurance make up a small proportion of Lloyd's overall business, the Lloyd's market is an important provider of this type of cover to clients worldwide. A significant portion of Lloyd's premium income also relates to reinsurance.

(iii) Lloyd's underwriters therefore often take on risks that local insurance markets are not well-placed to underwrite, for reasons of size, profile or exceptionality. Those insured at Lloyd's include private individuals, small and medium-sized companies, large commercial entities and insurance companies.

Contribution to the UK economy

(iv) Although Lloyd's does not have GDP analysis for its own economic activity, the London Market Group (LMG) report, 'London Matters'[19], estimates the contribution of the London Market to UK GDP in 2018:

2018 economic impact	£ bn	% of total London GDP	% of total UK GDP
Direct GDP contribution	15		
Indirect GDP contribution	11		
Direct + indirect contribution	26		
Induced GDP contribution	11		
Total GDP contribution	**37**	**7.7%**	**1.7%**

[18] Lloyd's Annual Report 2019.
[19] London Matters 2020, London Market Group, May 2020, page 17.

(v) In 2018, 63% of core London Market premiums were underwritten at Lloyd's ($47.4bn), 34% by the Company Market ($26.1bn) and 3% by P&I clubs ($2.4bn), emphasising Lloyd's central role in the London Market.

Employment

(vi) It is estimated that, in 2018, London Market firms employed 32,000 people in London, and another 15,000 elsewhere in the UK.

The regulation of Lloyd's

(vii) **Regulation in the UK:** The Society of Lloyd's and Lloyd's managing agents are dual-regulated under the UK's regulatory structure. The Prudential Regulation Authority (PRA) regulates them for prudential purposes and the Financial Conduct Authority (FCA) supervises their business conduct. The FCA regulates Lloyd's members' agents and UK-based Lloyd's brokers in totality.

(viii) **International regulation:** The Lloyd's market underwrites insurance and reinsurance risks from around the world in accordance with applicable local laws and regulations.

(ix) In most jurisdictions carrying on insurance business is subject to legal licensing or other authorisation requirements. Because Lloyd's is not an insurance undertaking, its international authorisations need to take account of its structure and legal form. International supervisors are aware that considerable administrative and practical problems would arise if they sought to authorise Lloyd's members individually.

(x) When Lloyd's obtains a licence outside the UK, it therefore sometimes needs to negotiate specific legal provisions to permit the local supervisory authority to licence or authorise Lloyd's underwriters to carry on insurance business. Its international authorisations can summarised as follows:

European Economic Area (EEA)*	
Lloyd's Europe	1 member state
EEA Freedom of Establishment & Services	18 member states
EEA Freedom of Services only	11 member states
United States	Licensed in two states (Illinois and Kentucky) and one territory (US Virgin Islands).** Eligible surplus lines status in all states and accredited reinsurer status in all states/territories.
Dependent territories***	9 jurisdictions
Other direct licences	28 countries
Reinsurance only authorisations/ registrations	17 countries

* EEA authorisations are held by Lloyd's Insurance Company (Lloyd's Europe) based in Brussels.

**Lloyd's announced in July 2020 its plans to relinquish admitted licences in Kentucky and Illinois from 1 July 2021 and the US Virgin Islands from 1 January 2022.

*** Includes British Overseas Territories, Self-governing Territories and Crown Dependencies.

Lloyd's Europe

(xi) To mitigate damage from Brexit to Lloyd's trading position, it established a 100% owned subsidiary in Belgium – Lloyd's Europe. Lloyd's is a Solvency II compliant (re)insurer supervised by the National Bank of Belgium. Risks are underwritten through outsourcing agreements with managing agents in London and ceded back to syndicates in London.

(xii) This arrangement allows the Lloyd's market to continue to access EEA insurance and reinsurance markets after Brexit, as Lloyd's Brussels' passports into other EEA member states. Lloyd's Brussels does not write non-EEA risks (though it does have a licence in Monaco). Reinsurance continues to be written by Lloyd's underwriters in London wherever possible.

Appendix 2 - Leading non-life insurance markets worldwide
Source: Swiss Re Institute sigma No 3/2019. Based on estimated 2018 figures

	Country	Premium volume (USD bn)	Share of world market	Lloyd's direct licence?	Lloyd's R/I authorised?
1.	United States	875.9	36.9%	YES*	YES
2.	PR China	261.5	11.0%	YES	YES
3.	Germany	145.0	6.1%	YES	YES
4.	Japan	106.4	4.5%	YES	YES
5.	UK	101.0	4.3%	YES	YES
6.	France	92.8	3.9%	YES	YES
7.	South Korea	80.9	3.4%	**NO**	**NO****
8.	Canada	73.8	3.1%	YES	YES
9.	Netherlands	68.6	2.9%	YES	YES
10.	Australia	48.9	2.1%	YES	YES
11.	Italy	44.9	1.9%	YES	YES
12.	Spain	39.9	1.7%	YES	YES
13.	Brazil	33.5	1.4%	**NO**	YES
14.	Switzerland	28.9	1.2%	YES	YES
15.	India	26.1	1.1%	**NO**	YES***
	Total Top 15	***2,028.1***	***85.5%***		
	Rest of the world	344.9	14.5%		
	Total	**2,373.0**	**100.0%**		

*Lloyd's announced in July 2020 its plans to relinquish its admitted licences in Kentucky and Illinois from 1 July 2021 and the US Virgin Islands from 1 January 2022. However, Lloyd's will retain its surplus lines eligibility status in all states.

**Lloyd's underwriters can write exempt classes of direct insurance and reinsurance from South Korea on a cross-border basis.

***Lloyd's underwriters can write reinsurance in India via Lloyd's India and on a cross-border basis.