BUILDING TRADE LINKS WITH SWITZERLAND
BUILDING TRADE LINKS WITH SWITZERLAND

As part of its Global Financial Partnerships (GFP) strategy the Government has identified Switzerland as a key trade partner.

The London Market Group and its member associations have been active participants in these discussions, representing the interests of the London Market. We have put forward the recommendations summarised in this paper, as part of the forthcoming UK-Switzerland trade discussions and we have been urging both countries to be as ambitious as possible.

We welcome the joint agreement signed in June 2020 between HM Treasury and the Federal Department of Finance, and its commitment to agreeing an outcomes-based mutual recognition agreement on financial services. This is something that the London Market Group has consistently campaigned for as it will help to reduce trading barriers even further between the two countries.

The forthcoming negotiations therefore present a great opportunity not only to deepen trade ties with a valued trading partner, but to deliver an agreement which could provide an exemplar for future financial services-based trade agreements.

THE CURRENT UK-SWISS RELATIONSHIP

The UK maintains a close trade and investment relationship with Switzerland, which is one of the world’s most significant financial centres. Bilateral trade in services totalled £14.9bn in 2018, up from £14.1bn in 2017, according to data from the Swiss National Bank. In services, Switzerland is a top six destination for the UK, with almost three times the total value of UK services exported to China in 2018, while UK was a top three destination for Switzerland in 2018, behind the US and Germany.

Cross-border exchange between Swiss (re)insurers and the UK to a large degree focuses on the non-life and wholesale insurance markets.

The UK-Swiss Direct Insurance Agreement was signed in January 2019 and existing equivalence decisions successfully onshored. These existing arrangements provide a sound basis for conducting insurance trade, but we believe that more can be done to enhance the trading relationship with Switzerland.
PROMOTING CROSS BORDER TRADE

The London Market Group has been urging the UK Government to approach the negotiations by being as ambitious as possible, and with the intention of using a future agreement as a template to engage with other third countries to reduce barriers to trade in financial services.

- Ultimately we would like to see an arrangement which allows intermediaries, insurers and reinsurers in the UK and Switzerland to trade freely cross-border.

- The two countries should recognize each other’s prudential standards allowing (re)insurers trading in the UK and Switzerland to rely on home state supervision with a clear understanding of responsibilities and limitations from home/host supervisors.

- The relationship could be based on cross-border commitments for lines covering large commercial risks for large corporate customers.

- The agreement should limit the need for any localisation of assets and data as well as reduced reporting requirements by leveraging of the home state supervisory standards.

A BESPOKE LIGHT TOUCH SWISS BRANCH MODEL FOR (RE) INSURERS

In achieving greater cross-border trade, the Government should consider whether the PRA could authorise Swiss activity in the UK on a “light touch branch” model, for Swiss firms writing global risks in the UK.

We suggest that there should be no requirement to gain formal authorisation for the branch but that a notification to the regulator be made instead.

The key characteristics would be:

- The branch would write global risk only, not UK risks for UK policyholders

- It would have the ability to sign contracts in the UK on behalf of its Swiss parent insurance company

- Its balance sheet would remain in Switzerland and there would be no requirement to localise assets in UK as liabilities are located outside the UK

- The UK would allow home state regulation of the Swiss branch by FINMA

This arrangement will provide Swiss parent insurance firms the benefits of accessing London’s global commercial insurance market and avoid some of the more onerous requirements which exist under the current branch regime for Swiss insurance firms.

Under this arrangement, the UK branch of the Swiss parent insurance company would not be writing UK risks for UK policyholders, but international risks.

The UK regulators have to date been supportive of these kinds of structures in other contexts. For example taking a light touch approach to the UK branches of EU firms registered under the Temporary Permissions Regime (TPR).

MUTUAL BENEFITS

Such an arrangement would provide Swiss insurers with greater access to London’s international ecosystem and bring them closer to the global risks written in the world’s largest specialty market. This could be particularly attractive to the Swiss when considering the current direction of EU insurance regulation, as recent EIOPA guidance has tightened the requirements and arguably restricts what services a third country intermediary can deliver to an EU entity.

Swiss firms could use this opportunity to expand their underwriting capabilities in the UK, to take full advantage of being part of London’s global market. The arrangement would allow their underwriters to be closer to the UK broker and give them greater access to the London Market eco-system.
The London Insurance Market leads the world in providing specialty commercial insurance and four key market constituents - the International Underwriting Association of London (IIUA), Lloyd’s, the Lloyd’s Market Association (LMA) and the London & International Insurance Brokers’ Association (LIIBA).

The London Market Group is the only body which speaks collectively for all practitioners in this significant market, representing the views of insurance brokers, those insurers and reinsurers operating within Lloyd’s, and branches of overseas insurers and reinsurers operating in London - reflecting the full extent of the Market.

FOR FURTHER INFORMATION CONTACT:

Clare Lebecq, Chief Executive, London Market Group
+44 (0)20 7327 5293
clare.lebecq@lmg.london
www.lmg.london