

●  
●  
●

# LONDON MARKET GROUP

LIIBA



uma

LLOYD'S MARKET ASSOCIATION

LLOYD'S

LJA

LONDON JERSEY ASSOCIATION

# A PLAN FOR THE FUTURE

THE SUCCESSES ACHIEVED  
& NEXT STEPS FOR REFORM



# A PLAN FOR THE FUTURE: THE SUCCESSES ACHIEVED & NEXT STEPS FOR REFORM

Since our last update, two years ago, significant headway has been made in securing the key goals that we originally set out in 2021 to improve the business environment in which the insurance market operates.

*These include:*

- ✓ Amendments to the Financial Services and Markets Act 2023;
- ✓ Changes to the UK Solvency regime post Brexit; and
- ✓ Development of insurance products so that the market can contribute to the country's economic growth.

We are heading into a critical period in the run up to a UK General Election which is expected in 2024, so we need to work to deliver further progress with the current government while, at the same time, preparing for any future changes.

To this end, this document outlines what we have achieved and what more we want to do in the next 18 months.





# 1



A more proportionate approach to regulation – recognising the nature of the large complex risks we cover and the sophisticated corporate buyers we serve.

Thanks to the LMG's sustained campaigning, the Financial Services and Markets Bill was amended to include measures which enhance the accountability of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

Following pressure from the LMG, action has been taken by the Government<sup>1</sup> requiring both of the regulators to focus on improving their operational effectiveness and publishing more granular data on their performance regarding case handling and authorisation processes. The Government also listened to concerns raised by the LMG about the need to ensure greater independence and transparency around the work of the new Cost Benefit Analysis (CBA) panels.

Following the LMG's campaign in the House of Lords, the Financial Services and Markets Bill was updated further:

- ✓ Ministers have requested that the CBA Panels provide them with an annual report on the regulators' performance on the Cost/Benefit impact of regulations on firms.
- ✓ The Panels now have a statutory requirement to include representatives from authorised firms to ensure industry has a voice and they must publish a statement on their approach to recruiting panel members to make it more open.
- ✓ The regulators must also report annually on their recruitment to the panels.

The Act will now ensure that Ministers see analysis on the cost/benefit effects of regulation, providing data on the impact regulation is having on the sector and giving industry the opportunity to challenge this. We believe that, if done correctly, this could be another important tool in highlighting how regulation could be more proportionate for the London market.

Both major UK political parties have put proportionate regulation at the heart of their proposals for the future of UK financial services.

- ✓ City Minister Andrew Griffith MP said at the start of the year *"the Government's vision is about making UK regulation more proportionate and simpler whilst retaining high regulatory standards."*<sup>2</sup>
- ✓ Shadow Business Secretary Jonathan Reynolds MP has said that *"...we need to consider, if the balance we have at the moment, between how we protect retail consumers, and how we regulate large, sophisticated financial institutions, is the right one... At the moment, too many people tell me they wanted to invest in the UK, but ultimately they had to do so elsewhere. We cannot allow that to continue."*<sup>3</sup>

1. HMT/PRA/FCA: Correspondence on regulatory operational effectiveness: December 2022:  
<https://www.gov.uk/government/publications/correspondence-on-regulatory-operational-effectiveness>

2. Andrew Griffith MP, City Minister, Speech to TheCityUK dinner – February 2023:  
<https://www.gov.uk/government/speeches/speech-by-economic-secretary-andrew-griffith-mp-at-the-city-uks-annual-dinner>

3. Jonathan Reynolds MP, Shadow Business Secretary, Speech to TheCityUK dinner – February 2023:  
<https://www.jonathanreynolds.org.uk/2023/02/03/speech-to-thecityuk-annual-dinner/>

## 2

An international competitiveness duty for UK regulators – ensuring that the London Market remains the most attractive home for large risks.

An international competitiveness and growth objective for both regulators has been secured within the Financial Services and Markets Act 2023, following a long-term campaign from the LMG to introduce such a duty. Both regulators now have a statutory obligation to report on how they are facilitating the UK's international competitiveness and growth.

Thanks to the pressure applied by the LMG during the passage of the Act, the Government strengthened the legislation by adopting many of the LMG's proposed amendments.

The Act now includes:

- ✓ A statutory duty for the PRA and FCA to publish two reports on how they have embedded and advanced the new competitiveness objective within 12 and 24 months of the Act coming into force.
- ✓ Additional powers for HM Treasury to require the regulators to provide additional reporting on their statutory objectives including how they are facilitating international competitiveness.
- ✓ A requirement for the regulators to provide information on the arrangements for how stakeholders, including the regulators' statutory panels, can make representations on rules to be reviewed, and how those representations will be considered.
- ✓ Equal powers for House of Lords Committees and a future Joint Committee of Parliament to scrutinise the work of the regulators.

The LMG also secured cross party support for these changes, which were also welcomed by Lord Livermore, the Labour Party's Shadow Treasury Minister<sup>4</sup>, who said in the debate: *"It is also important to ensure that [the objective] is meaningfully considered in the regulators' decision-making. One of the main ways of doing this is by introducing some proven accountability measures to require the regulators to report on their performance against the objective. We therefore welcome the amendments...as well as other provisions that seek to improve regulatory accountability."*

Alongside these legislative changes the Government has agreed with the LMG that the regulators need a strong set of metrics to allow government and Parliament to monitor their performance more closely.

In May 2023 HM Treasury announced a Call For Proposals, asking the industry to help the Government to develop these metrics. The Treasury specifically highlighted the leadership role of the LMG in this debate, drawing attention to our Metrics for Success document published in 2022.<sup>5</sup>

4. Lord Livermore, Financial Services and Markets Bill, House of Lords Report Stage debate: HL Deb Vol.830 Col1584, 8 June 2023: <https://hansard.parliament.uk/lords/2023-06-08/debates/DCIODA22-5BC0-4191-983F-D0F910BFD824/FinancialServicesAndMarketBill#contribution-9711C8C2-8FF2-4FA0-8F59-A2A5A3CD4430>

5. HM Treasury, Financial Services Regulation: Measuring Success: Call for Proposals: May 2023 (page 18): <https://www.gov.uk/government/consultations/financial-services-regulation-measuring-success-call-for-proposals>

3



Making London a natural home for foreign (re)insurance companies by reforming the Solvency II regime.

- ✓ HM Treasury announced<sup>6</sup> proposals to remove the requirements for UK branches of foreign insurers to calculate branch capital requirements and to hold local assets to cover them.

4



Increasing the choice of buyers and growing the market.

- ✓ The LMG has met with the City Minister to discuss captives, together with captive owners and market experts, to explore the case for designing a competitive UK captive insurance regime. We welcomed his commitment to “work with industry to support growth and international competitiveness across the UK’s insurance sector, helping ensure the UK remains a world leading destination for risk management solutions and insurance innovation.” The LMG will continue its work with the Government and PRA to work towards the introduction of a UK captives regime.
- ✓ The LMG continues to work with the Government and the PRA to constructively support the improvements being made to the authorisation process for the UK Insurance Linked Securities (ILS) regime, which was introduced in legislation following a long-standing LMG campaign.
- ✓ The LMG has formed an expert ILS Working Group to consult with market practitioners on specific improvements that could be made to the regime and present its findings. The PRA has said it will consider this and how it can bring forward a package of reforms.

5



Creating a ‘welcome mat’ for overseas investors

- ✓ The LMG continues to call for a more welcoming environment in the UK for international investors seeking to set up businesses, create jobs and invest in the UK.
- ✓ Given post Brexit freedoms now is the time to consider what more government, regulators and the industry could do together to encourage and welcome this crucial investment.
- ✓ The LMG has worked with the City of London Corporation to include the idea of a development council within their Financing for Growth strategy.

<sup>6</sup>. Solvency II Review: Consultation - GOV.UK ([www.gov.uk](http://www.gov.uk))





# 1 INTRODUCING A MORE PROPORTIONATE APPROACH TO REGULATION

## WHAT IS THE ISSUE?

The UK regulators take a 'one size fits all' approach to regulation. This means that London Market wholesale brokers, insurers and reinsurers serving corporate clients and other insurance firms are regulated in the same way as a high street broker or insurer offering motor and home insurance to an individual consumer. We need a regulatory approach which recognises that protecting sophisticated corporate buyers armed with advisers is very different to individual consumers who may not have any advice at all.

We have been told that companies' decisions not to invest in the UK are heavily influenced by regulatory approach which fails to recognise that protecting sophisticated corporate buyers armed with advisers is very different from protecting individual consumers.

Proportionality needs to be taken seriously and although it is an existing duty of the regulators<sup>7</sup>, we do not believe it is currently being fulfilled in practice. This is having a significant effect on London's competitiveness and the ability to attract international investment.

## EXAMPLES

London Market brokers are crucial to bringing business and investment to London from around the world. Brokers in a well-regulated territory, such as Singapore or Switzerland, will have already undertaken a range of checks such as 'know your client' and anti-money laundering, overseen by that trusted regulator.

However, the FCA refuses to provide specific guidance on its treatment of insurance business coming into London from overseas and will not say conclusively whether or not it agrees that those checks have already been done. This results in firms, who want to ensure they are complying, feeling forced to repeat all the checks which adds considerable cost to each transaction undertaken in the UK.

The UK regulators also continue to layer additional regulation on the industry, much of which is not appropriate for commercial specialty insurance services:

- In March 2022 the FCA introduced new **Operational Resilience Rules**, on top of two existing layers of rules, the Systems

7. Section 3B Financial Services and Markets Act 2000

& Controls Handbook and Senior Managers & Certification Regime (SMCR). The cost - both actual and opportunity - imposed on designing the additional systems and controls necessary to comply with further rules in this area is substantial, and for the commercial market is largely unwarranted.

- The **FCA General Insurance Pricing Review** was designed to protect existing consumers at renewal in the motor and home markets. However, the review includes large parts of commercial insurance in its scope, despite the FCA itself finding no evidence of this type of

market failure<sup>8</sup> in the London Market. The review is cumbersome, costly and elements of it may be impossible for London Market brokers to comply with.

This translates to a real impact on the business' cost base. London's expense ratios were 9% higher than its peers, driven by higher acquisition and transaction costs, putting it at a price disadvantage for more price sensitive risks. It was also estimated that direct regulatory cost in the UK is up to 14 times as high as the average direct regulatory cost compared to other key jurisdictions.

## WHAT IS THE SOLUTION?

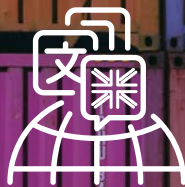
We believe a more stratified and proportionate approach would be beneficial and aid UK competitiveness. Individual consumers and SMEs will still need consumer like protection but large corporate clients who have their own professional brokers and advisers need much less. To achieve this, the existing multiple definitions used by the FCA, should be rationalised to create a definition of 'retail consumer' and 'sophisticated corporate client'.

Currently the FCA Handbook contains multiple definitions of 'consumer'; 'client'; and 'customer'. This has resulted in increasing regulation of how brokers serve corporate clients, with regulatory requirements designed for retail consumers, extended to clients who do not need them. The uncertainty this has created for London market firms about the expectations of the FCA, has resulted in extensive compliance activity which has little value to the corporate client or the regulator, but has the effect of embedding uncompetitive practices.

There should be a single definition of a 'retail consumer' who is the principal person or SME that the FCA is there to protect. In parallel the FCA should develop a definition of 'sophisticated corporate client' which will be a corporate body, who will have strong risk management capability and either internal expertise or the ability to procure reliable external counsel. This enables them to make an informed choice as to their insurance provider. The FCA should recognise that London market firms which deal primarily with these corporate clients should be regulated differently.

There are already well used and understood definitions of corporate clients being used in competitor jurisdictions. For example, this is the approach taken in the US market, where the majority of US states have definitions of 'sophisticated commercial buyers', which allows their regulators to focus resources in a more proportionate way and on the retail consumers that need extended protections.

8. FCA: Wholesale Insurance Broker Market Study, 2019:  
<https://www.fca.org.uk/publications/market-studies/msl7-2-wholesale-insurance-broker-market-study>



## 2 DELIVERING THE INTERNATIONAL COMPETITIVENESS DUTY FOR THE UK REGULATORS

### WHAT IS THE ISSUE?

We welcome that an international competitiveness and growth objective is now a statutory obligation within the Financial Services and Markets Act 2023. This requires both regulators to report annually on how they are facilitating competitiveness and economic growth and will be an important way of holding them to account in meeting the objective.

The key is now how the regulators will implement the objective and how they will be held to account in meeting its requirements. In other words, how can we ensure the objective has the necessary 'teeth' to be effective and to make a difference to the UK's competitive position.

The LMG has been vocal in calling for specific metrics, and published our Metrics for Success report in the summer of 2022. This was referenced in the Governments' Call for Proposals to develop performance metrics for the regulators in July 2023.

### WHAT IS THE SOLUTION?

It is now crucial that the Government agree and implement the necessary metrics alongside the new powers within the Financial Services and Markets Act, requiring the regulators to report on their performance.

The LMG believes this must include:

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



assessing the time it takes for a case handler to be assigned through to final decision on authorisation.

- ▶ Success in attracting new entrants: The regulators should be actively demonstrating the impact they are making in terms of encouraging new entrants. This means that data should be published showing the degree of success obtained in achieving this.
- ▶ Comparative analysis with other competitor jurisdictions: The regulators should be undertaking comparative analysis of their performance against the UK's competitor jurisdictions as well as analysis of product and service innovations taking place in key markets – this is how the Government and Parliament will best understand whether the UK is performing well globally.
- ▶ Ongoing review of data requirements: There should be a co-ordinated process by both regulators, in consultation with industry, to work through all existing and new forms and returns to determine which requirements should remain and where efficiencies can be created.
- ▶ Rule monitoring and evaluation: The regulators should be expected to report on the impact rule changes have had and how compliance has led to material benefits for customers.

HM Treasury must rapidly use its recent consultation on performance metrics for the regulators to agree and implement the reporting parameters it expects the regulators to use in fulfilling their new statutory requirements to facilitate international competitiveness and growth.

This will play a significant role in encouraging the culture change we want to see in how the regulators operate and ensure that the new competitiveness objective is not reduced to a 'tick box' exercise. We would like to see more focused KPIs to improve the regulators' operational effectiveness and the Treasury's ongoing consultation into performance metrics must include requirements for the regulators to undertake comparative analysis of the UK's competitor jurisdictions.

Ministers must immediately use their new powers within Section 40 of the Financial Services and Markets Act, giving a direction to both regulators to produce a report on how they are facilitating competitiveness and growth and that these reports should be requested quarterly as the legislation permits. This is vital if the UK is to keep pace with the increasingly fierce international competition for investment.



# 3 REFORMING SOLVENCY II TO ENCOURAGE OVERSEAS INVESTMENT

## WHAT IS THE ISSUE?

We welcome that HM Treasury has confirmed proposals to remove the requirements for UK branches of foreign insurers to calculate branch capital requirements and to hold local assets to cover them. This is a good start but we believe the PRA can go further and faster.

The process of reviewing Solvency II reporting requirements started in 2020 but has not reached any firm outcomes. The latest PRA consultation on reporting requirements does not close until summer 2023.

Both regulators duplicate many of the regulatory and reporting requirements that foreign insurers already comply with in their home state even when they are based in trusted and UK equivalent jurisdictions. This approach detracts from the attractiveness of the UK. The clients of reinsurance branches are other insurance companies, and the branch is fully protected by the group company. Given the cross-border nature of reinsurance we are concerned that continuing

such an approach will make the UK less competitive and our already shrinking market share will diminish further.

Many competitor jurisdictions actively use their solvency regime to ensure they stay competitive. Bermuda's Solvency Regime operates in a proportionate way, reducing barriers for low risks entities such as international reinsurers. This includes them having more stratified systems which recognise the differences between reinsurance, commercial insurance and retail insurance. For example, the Bermuda Monetary Authority has different classes of insurer and reinsurers, together with authorisation criteria and KPIs which match the level of risk that entity poses to the system. This allows them to undertake an authorisation on an international reinsurer, with clients that are solely other insurance companies, in less than a week, thereby freeing up resources to focus on entities which are serving individual retail consumers.



## WHAT IS THE SOLUTION?

There should now be a rapid move to undertake a detailed template-by-template cost-benefit analysis of all reporting templates with only those which are demonstrably needed retained.

- ▶ Reducing reporting by 50% to half yearly returns, which is consistent with the way that insurers prepare their financial statements.
- ▶ Extending data deadlines so that supervisors may get the best possible value from the data.
- ▶ Removing reporting requirements that were previously needed for EU-wide financial stability calculations.
- ▶ Withdrawing the additional national specific templates and removing the annual Regulatory Supervisory Report (RSR)
- ▶ Simplifying and streamlining the Solvency and Financial Condition Report to better meet its original objective of informing policyholders.
- ▶ Removing requirements to identify key function-holders as these impose on insurance companies the same broader requirements as those for banks which are a significant gold-plating of the Solvency II requirements.

As the UK develops its own Solvency regime, the PRA should avoid the imposition of excessive demands on local operations which place London at a competitive disadvantage compared to other jurisdictions. The PRA should consider adopting a policy which defines essential basic access requirements that may be enhanced to reflect the needs of policyholder protection and competition, rather than a high baseline that may be scaled back.

The regulators should be willing to place more reliance on the known quality of supervision provided by trusted regulators, when supervising UK branches. Where a jurisdiction is recognised to be equivalent to the UK's Solvency Regime - now the case with the EU27 countries, the EEA countries, Bermuda, Switzerland and Japan<sup>9</sup> - in relation to its supervision of groups and reinsurers, the PRA should not apply additional regulation at UK branch level, at least in respect of those areas where equivalence has been found.

This approach should also be extended to US firms seeking to create a reinsurance branch in the UK, using the UK-US Covered Agreement<sup>10</sup> as a basis to reduce regulatory burdens on those firms.

9. HM Treasury equivalence decisions for the EEA States: November 2020: <https://www.gov.uk/government/publications/hm-treasury-equivalence-decisions-for-the-eea-states-9-november-2020/hm-treasury-equivalence-decisions-for-the-eea-states-9-november-2020>

10. UK/USA: Bilateral Agreement on Prudential Measures regarding Insurance and Reinsurance: January 2019: <https://home.treasury.gov/system/files/136/20181218-US-UK-Covered-Agreement.pdf>



# 4 CREATING A UK CAPTIVE REGIME

## WHAT IS THE ISSUE?

There are no captives based in the UK as it is seen as an unattractive location. UK regulators treat them the same as an insurance company, despite the fact that they pose a very low risk to the overall financial system and indeed can help companies manage their own risk profile more effectively.

It is however a rapidly growing global market, with c. 7,000 captives worldwide and captive premium at c. US\$69 billion which is estimated to reach US\$161 billion by 2030. In August 2022, Marsh – a leading captives adviser, estimated c.200 new captives had been created in 2020-21 by their business alone.

Despite this the UK regulators continue to take a disproportionate approach, which has seen UK companies and public sector bodies

choose to locate their captives – and their capital, in overseas jurisdictions, including a number of EU jurisdictions.

Importantly there is a ready-made market. All UK public sector bodies currently base their captives offshore and should be encouraged to return to the UK if a competitive UK regime can be created for taxpayers. It is also estimated that there are almost 500 UK associated captives currently based overseas.

A competitive UK captive regime would act as a strong incentive to re-shore the captive, giving them all the benefits of access to London's world beating insurance and financial services eco system.



## WHAT IS THE SOLUTION?

The selection of a jurisdiction in which to base a captive is a choice. Any UK captive regime must be internationally competitive in both design and use or it will simply not be chosen by businesses. As well as having the right legal and regulatory framework, it is imperative that the approval and supervisory regulatory processes are fit for this purpose too.

For a captive regime to succeed in the UK, the PRA must work with Government to create a new class of 'captive insurer'. Crucially this does not require primary legislation and can be done through secondary legislation adding an additional schedule to the Regulated Activities Order.<sup>11</sup>

This must sit alongside specific guidance for captives which focuses on reduced prudential risk assessments, a swifter approval process (30 - 60 days from application to licensing), reduced reporting requirements, lower capital requirements and reliance on wider group functions such as auditing etcetera.

The LMG, working with market and legal experts, has developed a comprehensive implementation plan for a UK captive regime. The proposals have wide spread support and would be a clear demonstration that the Government and the regulators are committed to opening up new markets and making the UK more globally competitive.

We would now welcome the formation of a joint working group between industry, HM Treasury and the PRA to formalise the dialogue already underway. This working group should be tasked with completing a plan to present to Ministers with clear timescales for implementation.



11. The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001: Schedule 1: Contracts of Insurance: <https://www.legislation.gov.uk/uksi/2001/544/contents/made>



# 5 CREATING A 'WELCOME MAT' FOR OVERSEAS INVESTORS

## WHAT IS THE ISSUE?

The London Market contributes over £37 billion to UK GDP annually, making it one of the UK's major export industries, equating to around a quarter of the City's GDP. This is delivered by attracting significant levels of inward investment. Approximately 85% of London Market income is earned by companies domiciled outside the UK and almost 70% of the capital that comes to the UK's commercial insurance market is foreign owned.

The business that comes to London is highly mobile, as is the capital needed to support it. The economic activity in the UK supporting this business is therefore at risk if the regulatory regime is misaligned with more generally accepted international norms.

Other 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. The Swiss, Singapore and Bermuda regulators all have a recognised role to promote the market they regulate.

The Bermuda Business Development Agency has been heavily promoting itself as becoming the global green finance centre of expertise.<sup>12</sup> Its key selling propositions are the historical ability to look at hurricane and weather risk, 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 separate to, and not conflicting with, the regulatory function that promotes Singapore as a jurisdiction. The MAS has developed and regularly refreshes a Financial Services Industry Transformation Map (ITM)<sup>13</sup> which sets out the regulators' growth strategies to strengthen Singapore's position as a leading international financial centre. A key part of the ITM 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 and 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.

12. BDA Promotes Bermuda as a Climate Risk Finance Capital at COP27:  
<https://www.businesswire.com/news/home/20221107005948/en/BDA-Promotes-Bermuda-as-a-Climate-Risk-Finance-Capital-at-COP27>

13. Monetary Authority of Singapore: MAS launches Financial Services Industry Transformation Map 2025:  
<https://www.mas.gov.sg/news/media-releases/2022/mas-launches-financial-services-industry-transformation-map-2025>



## WHAT IS THE SOLUTION?

The UK needs a 'welcome mat' which encourages inward investment to the UK, through a dedicated unit to provide more proactive support and guidance to overseas firms seeking to come to the UK and trade within the London Market.

London needs a dedicated inward investment unit to support and encourage businesses to the UK as well as retain those currently present. This mirrors many of the practices of global insurance hubs and would ensure that there is a body whose primary role is to maintain a day-to-day focus on helping London to remain the global centre for specialty commercial insurance.

In addition, trade promotion needs to join up financial services with infrastructure and other industries - offering markets a complete service that, for example, includes infrastructure design, construction and operation alongside commercial risk brokers who can unlock finance, advise on risk mitigation and secure insurance.



# ABOUT THE LONDON MARKET GROUP

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.

This plan reflects the perspectives of the International Underwriting Association of London (IUA), the Lloyd's Market Association (LMA) and the London & International Insurance Brokers' Association (LIIBA) and Lloyd's of London.

FOR FURTHER INFORMATION CONTACT:

[lmg@luther.co.uk](mailto:lmg@luther.co.uk)  
[www.lmg.london](http://www.lmg.london)

