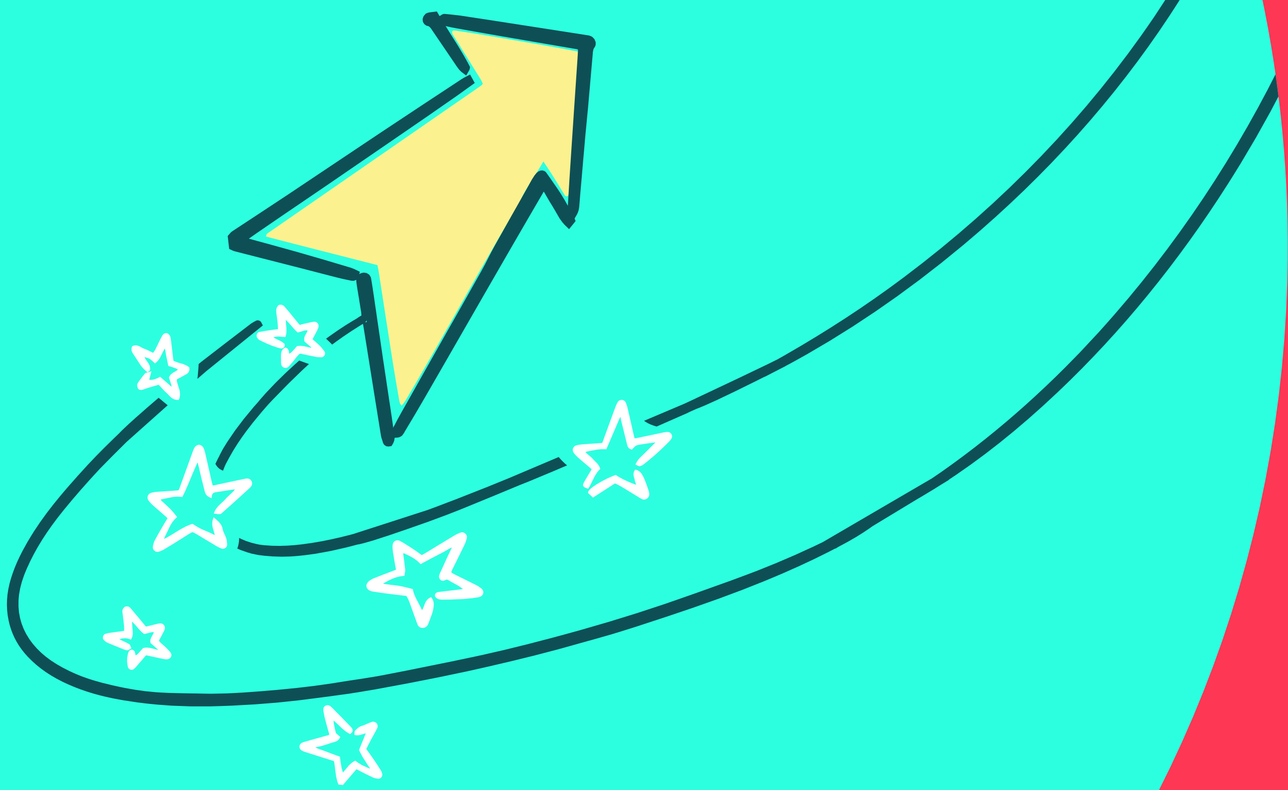
A PLAN FOR THE FUTURE



LONDON MARKET GROUP

LLOYD'S LIIBA LMA IUA OF LONDON

THE LONDON INSURANCE MARKET

ATTRACTING OVERSEAS CAPITAL AND INCOME

The London insurance market is a genuine world leader in commercial (re)insurance, providing unmatched expertise and innovation; creating products that keeps the wheels of the global economic machine moving forward and enabling investment in new technologies, exploration and research.

It earns $159bn every year, nearly three quarters of which come from outside the UK. The 350 insurance businesses in the London Market employ nearly 60,000 highly skilled people in London and across the rest of the UK and make an economic contribution to the UK economy of £49bn every year – equivalent to paying the (annual) salaries of all NHS nurses and midwives in the UK three times over[1].

London historic dominance in specialty re/insurance and its ecosystem of risk transfer expertise means that it attracts capital from around the globe, over 80% is foreign owned. The London Market is an essential home for investors with an appetite for insurance risk because it provides access to the entire global market and the broadest choice of risks.

As a result, London has always attracted, and continues to attract, investors of all types – including insurance companies, private equity, and institutional investors. However, investors have choices about where they place their capital – choices that take into consideration not only the strengths and weaknesses of the industry but also the wider business ecosystem they are investing in. This means the senior executives in London have to prove their business case to capital providers in other parts of the world with no historic attachment to London.

[1] NHS: Key Facts And Figures | The King's Fund (kingsfund.org.uk) and The NHS workforce in numbers | Nuffield Trust

"We are now ready to... invest more into MS Amlin and use it as a driver to lead our international growth going forward."

A Japanese insurer

The need to be internationally competitive is recognised as being critical to the economic growth of the UK. London's ability to grow its market share needs a sharp focus on ensuring that the business environment in which re/insurance businesses operate is as competitive as possible. A number of helpful changes have been introduced in the last several years, including:

- Amendments to the Financial Services and Markets Bill that increased accountability for the financial regulators.
- Action from the Treasury to measure regulatory action and behaviour.
- The removal of unnecessary and burdensome regulation and reporting requirements as part of the Solvency II Review.
- The Department for Business and Trade's review into non-financial reporting, and the Financial Reporting Council's review into the Corporate Governance Code.
- Support from the Chancellor and HM Treasury to take forward the LMG's proposals to create a UK captives market.
- Ongoing work in partnership with industry and the PRA to develop a package of reforms for the regulator to take forward to improve the UK ILS framework.

"From a direct specialty insurance perspective, you would still look to London as the leader... London is the most efficient place and is the best marketplace for risk."

Leading specialty reinsurer

A SIGNIFICANT ECONOMIC CONTRIBUTION TO THE UK ECONOMY

£49bn

% OF "THE CITY" GDP

32%

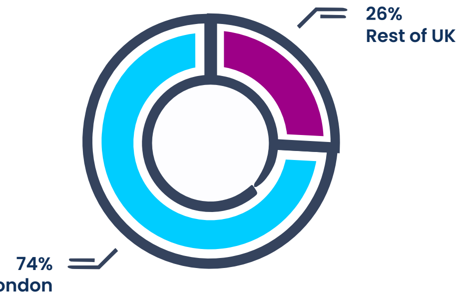
% OF LONDON GDP

8.5%

Figures shown for 2022

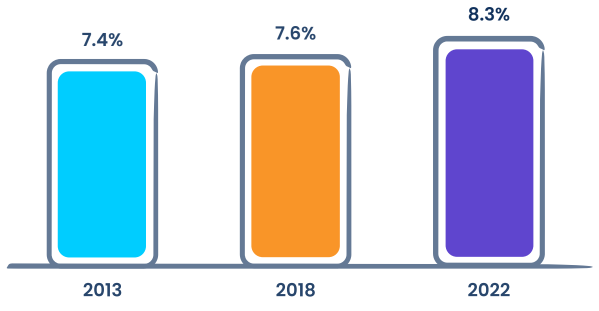
DEPTH OF EXPERTISE AND EXPERIENCE

LONDON MARKET EMPLOYS 59,000



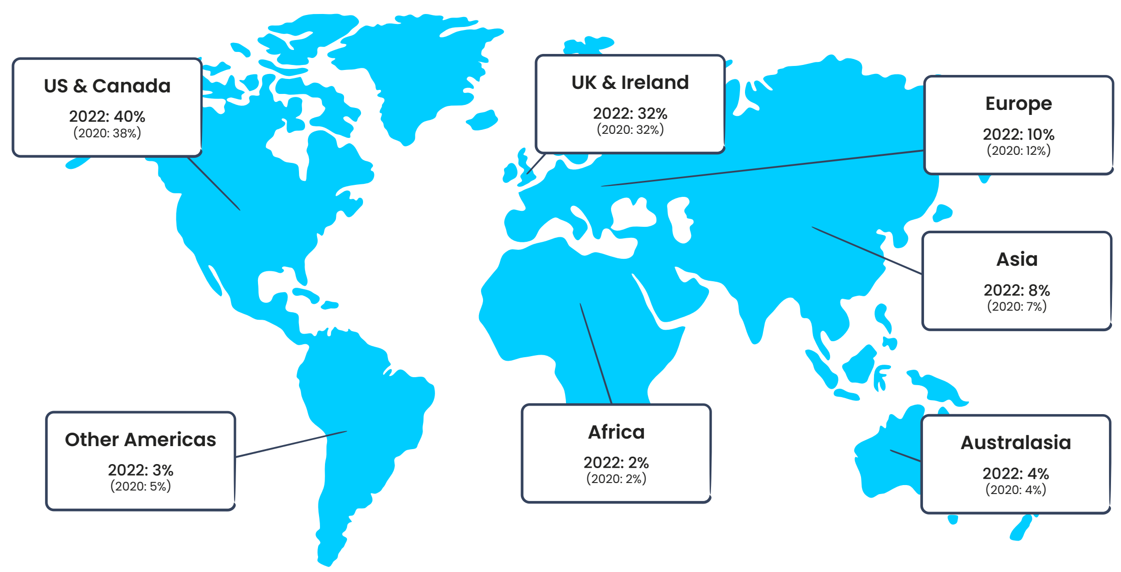
STEADY MARKET SHARE

PERCENTAGE OF THE GLOBAL (RE)INSURANCE MARKET



London accounts for $107bn out of a global (re)insurance market $1,306bn

SIGNIFICANT FOREIGN EARNINGS



"London remains home to large, complex and newer risks where it has the expertise, concepts and ways of crafting the coverage of them."

Global reinsurer

STRENGTH IN UNDERWRITING COMPLEX RISKS

LONDON HAS A DEPTH OF SPECIALIST EXPERTISE

SPECIALTY (PERCENTAGE OF THE GLOBAL MARKET)

Marine, Aviation and Energy

43%

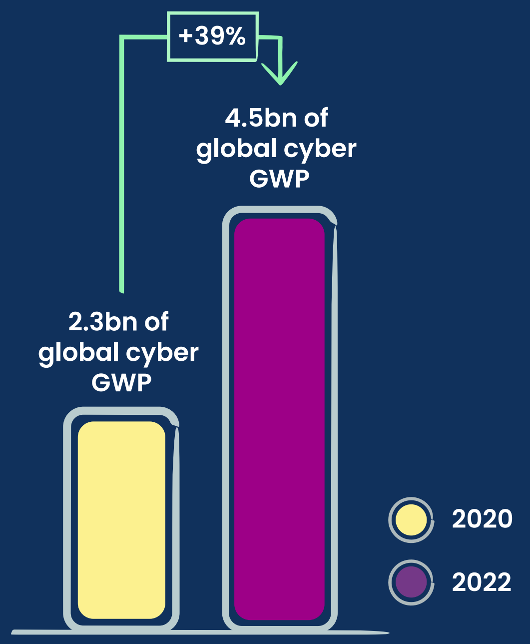
Casualty & Financial Lines

7.2%

Property

8.8%

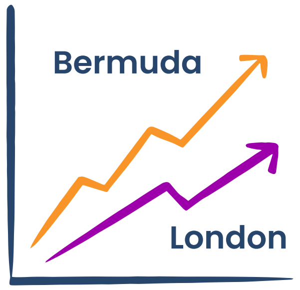
CYBER RISK



LEADING PROVIDER OF GLOBAL MARINE INSURANCE

CASE STUDY: UKRAINE AND THE BLACK SEA

- Russia withdrew from a UN-brokered grain deal, forcing ships to follow an alternative Black Sea corridor with high security risks.
- London Market firms collaborated with the Ukrainian government aiming to cut the price by two thirds of insuring ships and crew transporting grain.
- The programme was then expanded to cover all shipping to and from Ukrainian ports, including key Ukrainian exports like iron ore, steel, electrical equipment, and animal fodder.



THERE IS NO ROOM FOR COMPLACENCY

The London Market is undoubtedly growing, but so are its competitors. For instance, Bermuda has seen 39% growth from 2020 to 2022 while London grew by 32% in the same period. London's share of the global market has only grown slowly in the last decade.

Businesses face choices every single day about where to place capital, income and people; London needs to be gaining as much competitive advantage as possible. This will require structures and regulation so that companies and capital find London their natural home for risk transfer, and the pre-eminent marketplace for challenging and emerging risks. To do this London needs to increase its competitive position, drive growth in market share and reduce the cost and complexity of doing business.

GOVERNMENT AND REGULATOR SUPPORT IS VITAL IN THE FOLLOWING AREAS

CULTIVATING A FIRST-CLASS INVESTOR EXPERIENCE	Encouraging inward investment by implementing the Harrington Review in full Delivery on the regulators' secondary objective on growth and competitiveness
FACILITATING ACCESS TO THE BEST RISK MANAGEMENT TOOLS	Implementing a captive insurance regime Pressing ahead with reforms to the UK's ILS regime
REDUCING THE COST AND COMPLEXITY OF DOING BUSINESS	Consolidating regulation and reducing reporting requirements Ensuring regulation is proportionate to the risk and the buyer.

CULTIVATING A FIRST-CLASS INVESTOR EXPERIENCE

WELCOMING INWARD INVESTMENT

Rival jurisdictions are making extensive efforts to promote their financial services sector and the benefits for investors, particularly in new and emerging risks and green finance. Switzerland, Singapore and Bermuda all have dedicated resources to promote their markets and have clear strategies for how government, regulators and industry can work together to support the growth of their financial services markets.

The Bermuda Business Development Agency has been heavily promoting itself as becoming the global green finance centre of expertise.[2] Its key selling propositions are the historical ability to look at hurricane and weather risk, and second, the nimbleness of its regulatory regime, its responsiveness and its ability to pivot and meet new needs.

The Monetary Authority of Singapore has a promotional/inward investment team. It supports a regularly refreshed Financial Services Industry Transformation Map (ITM)[3] a key part of which is to grow insurance risk advisory and alternative risk transfer solutions for Asia, to address new and emerging risks such as pandemic, climate and cyber as well as facilitate the participation of capital markets in risk financing. The ITM has clear market growth metrics as well as targets around job creation within the sector.

In the UK, this need is less recognised and hard to navigate. As identified by the 2023 Harrington Review of Foreign Direct Investment[4], the UK does not have a clear strategy or pathways for investors and risks losing out to these more agile jurisdictions. As the Review sets out, a British Business Investment Strategy would mean investors clearly understand government's long-term goals, and how they fit into this.

With many of the London Market's competitors reaching natural constraints, the next few years could be a tipping point for business returning to London – if the right steps are taken to enhance the investor experience.

"London needs a body with a primary role of maintaining a day-to-day focus on helping the City remain the global centre for specialty commercial insurance."

UK specialty insurer

WHAT IS THE SOLUTION?

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

As a first step, the recommendations of the Harrington Review must be implemented in full – with a specific focus on:

- *A Business Investment Strategy (the Government has agreed to such an approach in principle).*
- *The need for our regulators to be much more focused on inward investment, advocating the use of Strategic Policy Statements. It also recommended regulators should publicly report on how they are taking into account the Strategic Policy Statements on encouraging investment.*
- *Emphasising the importance of a consistent government strategy towards encouraging investment, which has buy-in across Whitehall, so that it does not fall down the agenda.*
- *Calling for a regular review of the strategy, making the Government review its performance to ensure we stay on track for the long term.*

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. UK trade representatives should also be supported and emboldened to promote the UK as an investment destination.

[2] 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

[3] 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

[4] Harrington Review of Foreign Direct Investment, 2023: https://assets.publishing.service.gov.uk/media/655f62310c7ec8001195bd5f/231123_Harrington-Review-Report-FINAL-2__HH_Global_.pdf

GROWING MARKET SHARE

INTRODUCING NEW RISK TRANSFER SOLUTIONS

The world is becoming a riskier place – resilience is a national imperative as a wide range of threats become more challenging to insure. That's why market innovations are so critical. London has become a leader in tackling cyber security; with over 600 cybersecurity product and service providers in London income earned has jumped 39% between 2020 and 2022, from £2.3bn to £4.5bn. Similarly, the UK's and other nations' Net Zero ambitions will not be achieved without insurance – behind every pioneering new technology is an insurer taking on the risk and facilitating progress.

These London Market-led innovations are vital to the UK's economic success, in that they result in greater economic investment, as well as in infrastructure and people. If London is to remain the global centre for risk transfer and retain its reputation for innovation, then it needs to be able to offer customers all the tools available in the toolkit – tools which are being used in competitor jurisdictions. Risk transfer mechanisms such as captives are helping companies and insurers deal with new and evolving risks.

Many businesses use captive insurance companies to effectively self-insure. They pose a very low risk to the overall financial system and can help companies manage their own risk profile more effectively.

Captive insurers are being used increasingly by companies but currently none are being domiciled in the UK which is not seen as an attractive location. This is because, under current regulation, they would be treated the same as an insurance company, despite the fact that they only write the risks of their parent or of entities that are part of the group. The result is that UK companies and public sector bodies, including TfL and Network Rail, choose to locate their captives – and their capital – in overseas jurisdictions, including a number of EU jurisdictions. This is a rapidly growing market, estimated to reach US$161 billion by 2030, and the UK is an outlier amongst its competitors in being unable to offer captive solutions.

WHAT IS THE SOLUTION?

Following sustained advocacy from the LMG, the Government is now consulting on the creation of a UK captive regime. 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 purpose. These must focus on appropriate prudential risk assessments which recognise the actual risk posed, a swift approval process (30 – 60 days from application to licensing), reduced reporting requirements, lower capital requirements and reliance on wider group functions such as auditing.

"To grow its global market share, London needs to be able to have all the tools in the toolbox."

UK risk manager

RAISING CAPITAL

The UK Insurance Linked Securities (ILS) market has broadly stalled, with the exception of some activity at Lloyd's of London. Early adopters have been deterred from repeating their experience because of regulatory difficulties which has also had a negative impact on new vehicles. Recent transactions from the likes of UK-based companies Riverstone and Beazley have seen them raise ILS capital in Bermuda and Guernsey without considering the UK. Singapore, which copied the UK's framework for ILS, continues to attract ILS issuances. These decisions have primarily been about the perceptions of the UK's ILS regime.

A CEO in the London Market noted: "the UK's ILS market should be a lot bigger than it is today," and there is no reason why existing business couldn't be done in a streamlined, efficient UK system.

WHAT IS THE SOLUTION?

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. These market practitioners advised the PRA on specific improvements that could be made to the regime and present its findings. These recommendations have included:

- *The introduction of an approved 'insurance manager' regime for ILS vehicles.*
- *Enabling multiple contracts to be written within the same cell.*
- *Securing formal guidance from HMRC on tax treatment of ILS vehicles.*
- *Revisiting the regulator's definition of 'fully funded' to include limited recourse provisions.*

The PRA has said it will consider these, and how it can bring forward a package of reforms in a consultation this year.

However, unless reforms can be introduced in a timely fashion, it is likely that potential investors will simply not be compelled to look for an alternative to established markets in which they currently execute these transactions with less burden and regulatory complexity.

REDUCING THE COST AND COMPLEXITY OF DOING BUSINESS

PROPORTIONATE REGULATION

The London Market is an export driven industry, whose clients are among the FTSE 100, Dow Jones 30 and major stock market listed companies around the world. We need a regulatory approach which recognises that protecting sophisticated international corporate buyers armed with advisers is very different to individual consumers who may not have any advice at all.

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, who are often not even based in the UK, are regulated in the same way as a high street broker or insurer offering motor and home insurance to an individual UK consumer. We need a regulatory approach which recognises that sophisticated corporates insuring a fleet of cargo ships are fundamentally different to a consumer insuring their car.

The scope of the FCA's Consumer Duty is one example of disproportionality. The regulator's intention, which the London Market fully supports, is to improve outcomes for retail consumers and small businesses. However, the scope of the Duty also includes London Market clients which include some financial institutions and energy related risks. The Duty requires insurers and intermediary firms to assess whether the price of their products and services provides fair value and to review this regularly, including services provided overseas. The Duty requirements apply to every individual insurer on the risk and the FCA expect information requirements/provision from each individual insurer. This results in multiple requests for information from clients and distributors in the chain, creating an overlapping and potentially confusing picture. It would be much simpler if the lead insurer was able to fulfil the insurer requirements on behalf of the following market.

Application of these rules to the London Market and the disproportionate compliance costs that they have generated have led a number of firms to cease providing cover on certain lines of business or with certain kinds of customers, thereby having the effect of reducing competition and importantly choice for buyers.

We have been told that companies' decisions not to invest in the UK is because of a regulatory approach which fails to appropriately differentiate between consumer and wholesale – citing speed and complexity in contrast to the other financial centres nipping at the heels of the London Market.

Proportionate regulation needs to be taken seriously and, although it is an existing duty of the regulators[5], 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 and service global clients.

WHAT IS THE SOLUTION?

We believe a more stratified and proportionate approach would be beneficial and aid UK competitiveness, with separate models for personal lines, commercial lines and reinsurance which reflected the nature of the risks of these different sectors. Individual consumers and SMEs will still need protection but large corporate clients who have their own professional brokers and advisers need much less. We are continuing to work with the FCA on securing a concrete definition of 'consumer' which should enable the FCA to regulate more proportionately and stop sophisticated corporate entities being subject to unnecessary regulatory burden intended for instances of information asymmetry.

[5] Section 3B Financial Services and Markets Act 2000

> "Investors have choices about where to employ capital. Regulation and supervision are key factors that influence those choices."
>
> **Global risk investor**

REGULATORY CONSOLIDATION AND REPORTING REDUCTION

Rulebooks rarely get smaller, and they also are joined by 'CEO letters', together with policy statements, thematic reviews, ad hoc data requests and even speeches made by senior officials of the regulators. All of this has created a significant body of regulatory requirements and expectations essentially leading to regulatory modifications outside of the more formal rule book.

These expectations have layered new requirements on the industry without appropriate and independent checks and balances, creating a significant burden for firms. As 89% of the capital supporting the London Market is domiciled outside of the UK, we need to recognise that investors have choices about where to deploy capital. The burden and cost of regulation and supervision are certainly factors and create a negative perception which damages the ability of London to attract inward investment.

WHAT IS THE SOLUTION?

There are a number of steps that could be taken that would significantly improve both the perception and reality of the regulatory burden and reporting requirements in the UK. These could 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.*
- **A regulatory 'one-stop shop':** *Easily available, logically organised, and navigable according to firm type for all regulatory information and documentation. 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.*
- **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.*
- **Further Solvency II reporting reductions:**
  - *Reducing reporting by 50% to half yearly returns, consistent with the way that insurers prepare their financial statements;*
  - *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); and*
  - *simplifying and streamlining the Solvency and Financial Condition Report would better meet its original objective of informing policyholders.*

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

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LONDON MARKET GROUP

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