



Impact of Brexit on the Insurance Industry Opportunities and Challenges

Thomas Harris, FIA
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Why am I speaking to US Actuaries about a UK issue?

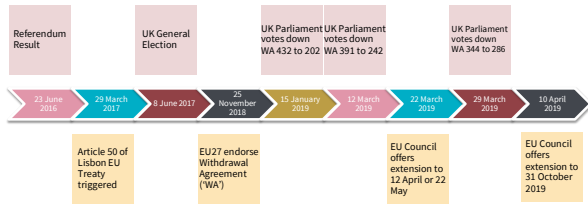
- **In a global world, and a global industry, Brexit has a global impact**
- Focus on impact on US within context of Global Insurance Industry
- London Market intertwined with the history of the US Insurance Industry
- Understanding Brexit impact in the EU helps us to understand how it will impact globally
- Importance and priority of talent across the US, the UK and internationally

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Political timeline

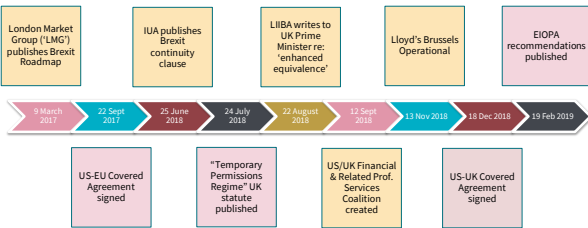
A complex and confusing political process



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Insurance Industry Timeline



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Industry Quotes

Industry is looking for **certainty** and **continuity**

"It is vital [...] that we have an orderly withdrawal process and transition period. Regulatory co-operation is very important and must follow from any political agreement."

Huw Evans, Director General
Association of British Insurers

"It is our business to provide certainty to policyholders. That question of certainty has arisen in conversations with brokers and clients. We will find a way."

Bruce Carnegie-Brown, Lloyd's
Chairman

"We need to find a way of maintaining client access to the specialty expertise in London that allows us to provide cover that simply could not be sourced anywhere else."

Christopher Croft, CEO of LIIBA

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UK Non-Life Insurance Industry – Quick Facts

- 1 UK insurance market:
 - GWP \$283bn
 - 303,500 employees
- 2 UK non-life insurance market
 - GWP \$105bn

	London Market
Annual GWP (USD bn)	\$90bn
GWP EU Risks (USD bn)	\$10bn
# Employees (Total)	52,000
# Employees (EU Nationals)	2,400
% City of London GDP	26%

Source:
 ABL, "UK Insurance & Long Term Savings, Key Facts", 2018
 London Market Group, "Proposals for a Future trading Relationship between the UK and the EU"
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Uncertainty

Business has been forced to take action as governments have not provided certainty

- 1 23 June 2016: Referendum Result
- 2 Uncertainty persists across multiple dimensions:

Uncertainty	Industry Response
Business & Regulatory Uncertainty	Legal Entity Restructure, Industry Lobbying
Contract & Coverage Uncertainty	Brexit continuity clause(s), Industry Lobbying
Client & Consumer Uncertainty	Client Communication, Industry Lobbying
Employee Uncertainty	Staff Communication, Business Planning

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Case study: Brexit stockpiling

"Nearly every square meter of warehouse space in the country is now full".
Richard Harrington, Business Minister,
 January 2019

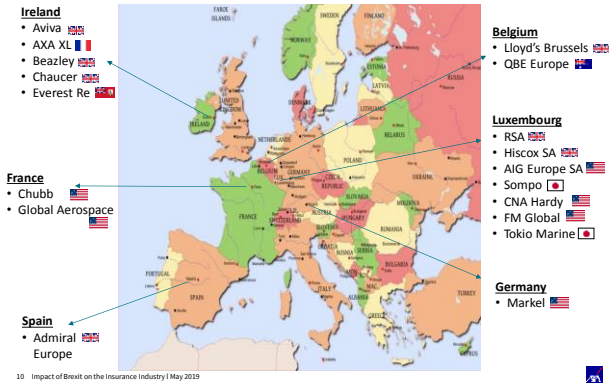
"We are facing a 'perfect storm' in the warehousing and logistics industry".
Peter Ward, UKWA CEO,
 January 2019

- 1 Stockpiling: manufacturing parts, medical supplies, food & retail products
- 2 Implications for Insurance:
 - Under-insurance. Heightened fire, fraud and theft risk
 - Attritional losses from damaged goods
 - Trade Credit costs and coverage with increased inventory.
 - Directors & Officers
 - Stockpiling exposure outside the UK (especially from exporters to Europe)
- 3 Communicating with policyholders
 - Most insurer websites now have a 'Brexit FAQ' section
 - Some carriers are enhancing Seasonal Increase Extension clauses in policies

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Multiple Legal Entity Restructure Programs pre-Brexit



Distribution & Brokers

Problem: Post Brexit, 'Freedom of Establishment' and 'Freedom of Services' may be lost

- Pre-Brexit: 2,775 UK insurance brokers have passports to trade with the EU
- Mid-2018: BIBA/WBN (Worldwide Broker Network) solution proposed
- EU Insurance Distribution Directive ('IDD') came into force 1 October 2018. Aim: 'to create a level playing field'.
- No EU regulator has yet confirmed that a wholesale broking model will be acceptable under IDD.
- EIOPA and FCA advice defers to response of individual EEA state regulator(s).
- Extract from "EIOPA Recommendation 9 – Distribution activities":
"Competent authorities should ensure that UK intermediaries and entities [...] are established and registered in EU 27 in line with the relevant provisions of the IDD [...] The professional and organisational requirements of the IDD must be met on a continuous basis. This is without prejudice to the right of the Member States to introduce special provisions in their national law for third country intermediaries, provided that equal treatment [...] is guaranteed".

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Regulation: an Opportunity?

- 1 Post Brexit: UK has opportunity for self regulation
- 2 UK has the talent to take advantage of this situation
- 3 Opportunity for Actuarial profession: IFoA evidence to UK Treasury Select Committee
- 4 Solvency II
 - one size fits all approach
 - UK equivalence a top priority
 - UK Customized approach e.g. internal model approval process
- 5 EIOPA: concerned to ensure new EEA HQ are not simply 'fronting'
- 6 Core Principles: Customer/Client Protection and Trust

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US-UK Covered Agreement

Signed 18 December 2018

- A step towards regulatory certainty and market continuity
- Aims to make regulations more efficient, effective and appropriately tailored
- Affirms the US state-based system of insurance regulation
- Increases growth opportunities for US insurers

Extract from Covered Agreement Letters to Congress:

"The UK is the **world's fourth largest insurance market**, and many US insurers and reinsurers do business in the UK. We have negotiated the US-UK Covered Agreement to ensure the continued benefits of the US-EU Covered Agreement to US insurance and reinsurance companies operating in the UK or assuming business from UK ceding insurers, as well as to **maintain continuity and market stability**. The US-UK Covered Agreement addresses the same three areas of prudential insurance supervision as the US-EU Covered Agreement: **group supervision, reinsurance, and the exchange of information** between Supervisory Authorities".

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Talent

"A lot of the things that we have invented here [in the UK] are being copied elsewhere: that will not change, whether there is Brexit or not."
Thomas Buberl, CEO, AXA

- In a global world, the best talent is more mobile than ever
- Lloyd's Brussels: 40/600 UK staff relocated from London to Brussels
- Workplace & employee expectations are changing rapidly
- Attracting the best talent to London/ UK/ EEA/ non-EEA
- London advantages:
 - Language
 - World city/ Lifestyle
- Freedom of movement - visas/ cross border/ professional qualification portability
- Extent & quality of talent impacts innovation
- What is the potential benefit to the US? More FIA seeking CAS/ SOA accreditation?

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Talent – Job Impact and Mobility

Change in **Total Estimated Number** of Finance Jobs moving from London

	Fall 2017	Spring 2018	Fall 2018	Winter 2018/19
Frankfurt	5,150	1,470	1,570	780
Paris	1,800	2,200	2,308	308
Dublin	200	612	796	378
Amsterdam	150	250	262	32
Other	2,000	407	830	488
Total	9,300	4,939	5,766	1,986

Source: Thomson Reuters

<https://fingfx.thomsonreuters.com/gfx/mgs/BRITAIN-EU/010051PM3TN/index.html>

Financial Institutions' Projections

*132 banks, asset managers, insurers, rating agencies and exchanges employing more than 480,000 people in Britain

- According to the Thomson Reuters survey, the number of available jobs in the UK financial services industry has continued to fall with recent lows not seen since 2012

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Looking Ahead – Life after Brexit

- ➊ Innovation: Insurtech, Digital
- ➋ Megatrends: climate change, AI/robotics
- ➌ Closing the protection gap
- ➍ Talent
- ➎ Rules and regulations: customized vs. centralized, tax
- ➏ Rise of other World Insurance Hubs (New York, Zurich, Singapore etc.)

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