

## **FINAL Article 23/8/10 – Telegraph business 896 words**

### **A positive summer but real challenge for business and Government ahead.**

**By Maggie Craig, Acting Director General, Association of British Insurers**

The summer lull this year has been a bigger myth than normal for many in the City. In the 100 days since the coalition launched their manifesto, we have seen a series of seismic changes, with the potential for far reaching significance in the way financial firms operate. A proposed new regulatory system, an emergency Budget setting out the coalition's fiscal plans and consultations on issues such as foreign profit taxation and tax relief for pension contributions are evidence of the busy summer business and Government have both faced.

There were two main driving forces when the coalition came to power and turned its attention to dealing with the financial sector. One was reforming the regulatory structure after the crisis and the second was to support the sector in its important role in the economic recovery. It has been a positive sign that the coalition has recognised the importance of the financial services to UK productivity. It has been especially pleasing that the Government has demonstrated regulation should reflect the diversity within the financial sector. Declaring the insurance sector did not suffer the same problems as the banking sector and has a key role to play in the refinancing of the economy, shows a Government recognising the need to focus reforms where the risk is greatest.

The most high profile change the City faces is the replacement of the FSA. The details of the proposed new Prudential Regulation Authority and Consumer Protection and Markets Authority are currently out for consultation. It is vital that we get this right. Consumers rightly expect both prudential and consumer protection regulation to be at the highest possible level. The danger we must avoid in planning to overcome any underlap, is an expensive and unnecessary overlap. A positive sign is that insurance is being regulated at the top table, at the Bank of England, reflecting the importance of the sector.

The Government should be applauded for its efforts so far to make sure the UK is a competitive place to do business. The cut in corporation tax was the most visible action taken, but as important has been the commitment to reform the way profits earned abroad are taxed. Changes to the way the Controlled Foreign Company rules operate and a branch exemption, will align the UK with many of its international competitors. The ABI will continue to work hard with the Treasury to finalise these changes as soon as possible.

The coalition has also done well in recognising the complexity, and the potential damage to encouraging saving, of the mooted plans to restrict the marginal rate of tax relief on the pension contributions of higher-rate taxpayers. They have listened to the savings industry on the dangers of this and the benefits of instead having a simple limit on the annual pension contribution an individual can claim relief for. However, the lower levels of the possible range proposed are unworkably low, and we will press for a realistic limit. It was also disappointing that Child Trust Funds were abolished, at a time when encouraging saving is crucial to re-balancing the economy away from a debt dependency.

The insurance industry welcomes the Government's aim to change the balance between state provision of welfare and private insurance-based solutions, echoing the report on a vision for 2020 co-authored by the previous government and the industry in 2009. That report identified that while the private sector played a key role in taking on risk, through products such as private pensions, health insurance and protection insurance, there was still more it could do. A 5% shift towards the private sector, the report estimated, could save the government and taxpayers £17 billion annually – more than the budgets of the Home Office, Foreign Office and DEFRA combined. This will be an area of extreme importance over the next few years.

The coalition has also done well in its dealings with Europe. This is a crucial area, especially for insurers with Solvency II, the new prudential regulation rules, approaching a critical time. The Government has quickly developed good relationships with European lawmakers, and understands that business needs a strong national representative at the negotiating table.

The overall approach of the coalition in dealing with business issues has been positive and gives cause for optimism for the future. There has been an effort to ensure consultation, engage privately and base decisions on evidence. These positive sentiments have been sincere and welcomed by the business community but the true test lies ahead, as decisions need to be made on difficult issues such as the future of regulation.

There will, of course, be tough days ahead. For example the insurance industry is keen to ensure that vital flood spending is not cut in the Comprehensive Spending Review, due on 20 October, and that the move towards more localism does not mean decisions which need a national, strategic focus are made entirely locally with no wider accountability, for example planning decisions in flood risk areas. However, the 100 days since the manifesto was announced, have shown that there exists an honest and adult relationship between the Government and business. The challenge is to build on this during difficult economic and trading conditions. Businesses, from all sectors, will also be looking for certainty and long term policy consistency from Ministers, to allow them to plan effectively. That can only benefit the UK economy and consumers.