The Case for UK Competitiveness

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Peter Vipond, Director of Financial Regulation and Taxation, ABI

These are challenging times for Governments and regulators across the world in deciding with how to re-invent banking systems and tax banks- both domestically and internationally. Within the UK this coincides with a recession which has done nothing to dampen the competitive pressures in the UK, or the willingness of many financial and insurance companies to move their domicile to more favourable locations. Government must therefore chart a path between the challenges it faces in the banking sector, and the need to keep the UK competitive as a location for financial services in general.

Improving UK competitiveness is key for the growth of the British insurance industry. Today, a study by PwC for the ABI shows that, despite the recession, the UK insurance industry contributed £8bn in taxes to the Exchequer in 2008/9. It paid the fourth highest amount of corporation tax of any sector and its payments were far more stable than the rest of the financial sector despite the falls in investment markets; payments of corporation tax were only 8% down for the sector compared to 39% for the financial sector as a whole.

Within this context, the challenge for regulators and politicians is to understand that insurers have a somewhat different business model to banks, and also that many of them are under shareholder pressure to locate their headquarters (or at least many of their operations) in the most efficient location. Ill judged regulation or tax policy will only add to the flow of firms looking to redomicile elsewhere.

We have already seen examples of UK insurers deciding to relocate. Brit Insurance completed the move of their domicile to the Netherlands just before Christmas. The UK is also failing to attract firms looking for a new home - XL have recently announced they are moving their domicile from the Caymans, but have chosen Ireland not the UK as their new home. These moves may have relatively little immediate impact on the size of those businesses in the UK, but in the medium to long term the impact will be much greater. Insurers bring value in terms of tax revenues but also in terms of jobs.

Even so we should not be too negative yet. The UK insurance industry remains the third largest in the world, and the current international problems could be an opportunity to grow the sector. The Government's tax exemption for foreign dividends announced last year was welcome but only went part the way to levelling the playing field on taxing foreign profits. The controlled foreign companies' tax regime, a review of which was announced at the PBR, and the taxation of foreign branches are still areas where the UK is behind its competitor locations for insurance business and where positive changes could be made. The FSA undertook major and broadly successful reform to the regulation and supervision of insurers in the early part of this century.

So, the policy message must be that action on both tax and regulation can promote a more competitive and business friendly environment, one that can grow this sector and increase investment in the UK. Getting the competitive environment right for insurance will be a real win for the UK and for the Exchequer which benefits so much from insurance tax receipts.