Speech by Archie Kane, Chairman, ABI

ABI CHAIRMAN'S DINNER

Ministers, honoured guests, ABI members, I am delighted to welcome you to the ABI's Chairman's dinner.

At the very outset I would like to thank KMPG our sponsors for this evening – without whom tonight would not be possible.

I am especially pleased to welcome the new Pensions Minister, Steve Webb and the new Financial Secretary, Mark Hoban.

Can I congratulate both of you on your appointments and say how pleased we are to see you here this evening.

As Kerrie said, after an extended 3 years as Chairman, this will be my last formal dinner before I hand over to Tim Breedon as the new ABI Chairman next month.

Some of you might detect a note of relief in my voice there.

Well a 3 year stretch is a long time.

In fact I think I'm right in saying the Ministry of Justice's guidelines suggest I'd have got less for breaching an ASBO, getting caught with a class A drug or for robbery.

Of course, I'm not suggesting for one moment the Chairman's role has been like a prison sentence.

I have been hugely honoured to be Chairman of the ABI.

But it has been a challenging time.

Defending the industry in an atmosphere of hostility can be tiring – especially when for insurers, much of the criticism is unfair, or just plain wrong.

So for a change let's focus on the positive.

The UK's insurance industry is the largest in Europe, the third largest in the world and accounts for over 10% of all worldwide premium income.

We employ over 300,000 people from all walks of life right across the country. That's a third of all financial services jobs.

We make a massive contribution to the Exchequer – paying over £8bn in taxes in 2008 / 09.

Our firms have investments worth £1.5 trillion, controlling over 13% of the London stock market.

We pay out nearly £240m every day in pensions and life insurance benefits – and over £50m per day in general insurance claims – taking the strain from a lot of people's lives.

These numbers speak for themselves.

But it is the industry's human impact I am most proud of.
A senior executive of one of our major insurers recently went out to one of the flooded areas to see the devastation for himself.

While wading through the flood waters he came across a grandmother, who asked him what he was doing.

He explained who he was and which firm he was from – it turned out she was one of his policyholders.

Worried at the predicament she was in he tentatively asked whether his firm were doing everything they could for her.

Without saying anything, she leant forward and gave him a big hug.

She went on to explain emotionally how her house had been devastated by water – and how grateful she was for the support and peace of mind his company had given her since it had happened.

That story shows the industry at its best – and encapsulates why we exist. We should all be proud of the way we support real people facing real problems every day.

Two years ago I set out a challenge for the industry to have a relentless focus on its customers.

A lot has been achieved since then – and I have witnessed a marked change in mentality around the ABI Board. As leaders of the industry we are now much more responsive to consumer needs.

That's not to say there's not more to do. Not everything is perfect.

But in my time as Chairman we have succeeded in placing customer needs at the heart of the ABI agenda.

So why, given all this positive news, am I less than wholly content about our current situation?

Firstly, I fear the insurance industry could be damaged by the international response to the financial crisis.

All of us here know insurance is not banking.

Most informed people outside this room know this.

Our own Government – past and present – know this.

But I'm not sure everyone in the EU, IMF, or G20 knows this.

Take the IMF's recent proposals for new taxes on financial firms.

Whoever came up with the proposals obviously didn't receive the ABI's briefing on "insurance is not banking".

Both the proposed "stability tax" and the so called "FAT tax" on pay and profits were being targeted at all financial firms – not just banks.

After last weekend's meeting of Finance Ministers it still remains unclear how these proposals may be revised before the G20 meets later this month.

But one can only hope that if any levy is adopted – either at the G20, in Europe, or here in the UK – that it remains focussed on the riskier parts of financial services.

Because there are very clear reasons why insurers should not pay for the risks linked with banking.

Insurance has:

- different risks
- different time horizons
- different liquidity and funding issues
- matches liabilities and assets
- and doesn't present the same systemic risk banks do

And why should our customers be asked to insure the banks?

If insurers were included and the costs are passed onto the consumer – because that's what would happen – wouldn't that just penalise the very people doing the right thing by saving and investing for the future?

This whole issue is mirrored in some of the EU debates.

Take Solvency II.

Solvency II has the potential to revolutionise the way in which our industry manages its capital and make cross-border operations more efficient.

The Commission, Parliament – and we in the industry – have invested huge amounts in this project.

But in the shadow of the financial crisis, Solvency II is in danger of being captured by regulators nervous about allowing any risk – however manageable – into the financial system.

And what would the impact of that be? To increase capital requirements yet further making it more and more difficult for the industry to serve its customers at an affordable price.

We know the UK Government and the Commission sees this danger – but our views are not shared universally in Europe – and we must make sure the benefits of Solvency II are not lost in the usual horse-trading that will go on in the coming months.

It is easy to say insurance did not cause the crisis.

But we must remember the industry has played a significant part in the solution. Our investment activities have provided vital capital needed by businesses to restructure their finances to survive the recession.

In 2009 we provided:

- £63 billion in new share capital
- and £110 billion in new loan capital.

Both absolutely crucial in helping this country avoid a depression.

Just imagine for one moment – if this money had been tied up in paying levies designed for banks or poorly designed EU capital requirements – just imagine how businesses out there in the broader economy would have suffered.

My second concern centres around the UK's future competitiveness as a financial centre.

London remains one of the world's pre-eminent financial centres – having equal standing with New York.

But the future looks less rosy. In recent years, other financial centres have improved their offering, or in some cases emerged as a financial centre where they weren't before.

This is not just about the City. Edinburgh – the base for my company, and many other life & pensions firms – is already suffering. It has gone from being in the top twenty of world financial centres to struggling to stay in the top 30 – all in the space of 3 years.

And none of you will be surprised that the fiercest competition is coming from Asia.

Trying to persuade investors to place their capital with us, rather than in these emerging centres is getting increasingly difficult.

Capital is the lifeblood of our industry – but it is more mobile than ever before and the competition for it is fierce.

Where capital goes, the skills will follow shortly thereafter – and once that happens it is very difficult to recover.

Investors' confidence rests on having a stable environment where there is a good prospect of achieving a decent return.
Is that how they perceive today's insurance market in the UK? I'm not sure they do.

The new Government has made some positive noises already – saying it wants the UK to have the most competitive corporation tax rates among our rival economies. It has also said it wants a more simple and predictable tax system.

That would be great.

But lets not delay too long in turning these words into action.

Overseas investors will not wait for the promise of action to be delivered when the risk / reward equation is more certain elsewhere.

And without that investment – without new capital – the industry will go into decline. Unable to invest for the future. Unable to innovate, to design new products and meet customer needs.

We are not blind to the pressures on the public purse. We recognise and support the Government's plans to reduce the deficit.

But the rate at which our overall tax competitiveness has declined over recent years means this is a pressing issue.

My third concern is the lack of coherence on long-term policy issues.

We all know about the major economic, social and environmental challenges we face. Yet in recent years there have been so many areas where there has been a lamentable lack of clarity or consistency in the way in which the Government has responded to them.

How many of us would say, for example, that there is a realistic and coherent strategy in place for tackling the savings gap or managing flood risks in the future?

We all know how desperately under prepared the UK population is for retirement and the other financial demands they will face in the future.

Frankly, the savings gap poses more of a threat to economic and financial stability in the UK than any individual insurer does.

Yet too often the political response to these long-term problems often falls well short of our expectations.

Recent Budgets have been littered with changes to the fiscal regime.

Repeated and often unexpected change has sapped people's confidence in savings at exactly the time when we should be doing all we can to encourage people to save.

Would it be too much to hope the upcoming Budget will set out a clear and coherent plan for improving the savings rate in the UK?

Any plan needs to be flexible – but the industry, its investors – and most importantly our customers need a clear glide path into the future.

Whether you are investing in a business, or as an individual saver, you need clear sight of where we're heading and what the future environment looks like.

And any plan needs committed and consistent execution from the people at the top.

That might be the case going forward, but let me give you a feel for what its been like in the past.

In the past 9 years the Department of Work & Pensions has had eight different Secretaries of State.

In my three years as ABI Chairman, there have been four.

This is the Department responsible for solving the UK's long-term welfare and pensions problems.

How on earth can anyone be expected to make a difference in such a complex department with such complex issues if their average time in office is going to be less than a year?

So bringing this all together, what do I think needs to be done differently in the future.

<u>Well first</u> I think there needs to be real recognition of the value financial services brings to the economy and society more broadly.

I can understand what is driving politicians to take a strong stance towards financial services – and frankly most right-minded people in the City want to see reform.

But the constant anti-financial services rhetoric is not doing the industry, the economy, or our customers any good.

Any modern economy needs a strong financial services industry.
And it needs a strong, competitive and innovative insurance industry to make up a large part of that.

Consumers need to feel confident in the sector if they are ever going to prepare properly for the future.

And investors need confidence that the UK is a decent market in which to make a long-term investment.

Secondly, we need regulatory reform.

However, we have to remember to focus on where the risks really lie.

I make no apologies for repeatedly saying insurance is not banking. Insurers need to be treated appropriately according to the associated risks.

Some people use AIG as an example for focussing on insurance just as much as banking. But the reason AIG ran into difficulties was because of the exotic, highly leveraged financial transactions they got involved in.

High risk activities like these need to be tackled.

But the regulatory response needs to recognise they have nothing to do with insurance.

And thirdly, as a country we face some huge demographic, financial and environmental challenges.

The insurance industry can help address these risks.

But to do so, we need to have a clear plan – where policy-makers and the industry can be certain of:

- where we're heading
- how to get there
- and the timescales for delivery

I and many of the leading CEOs in the room tonight spent much of last year working with the previous Government to draw up a blueprint for just such a strategy through the Insurance Industry Working Group.

That strategic vision for how the insurance industry can work together with Government should not be left on the shelve and forgotten just because we have a new Government in place.

From my time as Chairman, I know that collectively as an industry and as individual firms, we have so much to contribute, if we can form a collaborative partnership with regulators, policy-makers and politicians.

I hope the new Government shares that desire to work with us over the coming years.

END SECTION

Finally, I'd like to thank those people who have supported me during my time as Chairman.

The ABI Board is made up of the industry's leading CEOs.

In my day job I know them as a fiercely competitive bunch. But collectively at the ABI we work together on the full gamut of industry issues.

And I cannot stress enough how impressive it has been to see this group of leaders regularly put individual issues to one side to focus on the greater good. I would like to thank the whole Board for its support over the past three years.

I would also like to thank the two excellent Directors General I have worked with at the ABI. Both Stephen Haddrill, who is now at the FRC, and more recently Kerrie Kelly have brought drive, intellect, leadership and enthusiasm to their jobs which has enabled the ABI to become a more potent force over recent years.

And finally, the ABI staff who do a stellar job in supporting our industry. They go about their work quietly but effectively and are a real credit to the ABI and the industry at large.

In the shadow of the financial crisis we as an industry have a real opportunity to demonstrate our value to individual customers and society more broadly.

The ABI is in great shape to lead the industry in this work.

I may be stepping down after three years as chairman – but you don't get rid of me that easily!

There's still much to do – and I look forward to continuing to play an active role in the ABI and the wider industry as we strive to make the UK the most competitive, dynamic, and customer-focussed insurance market in the world.

Thank you.

****

I would now like to introduce Mark Hoban our guest speaker this evening.

Mark is the new Financial Secretary to the Treasury. He is well known to us at the ABI and well respected for his knowledge of our industry and the wider economy.

Mark we are delighted to have you here this evening.

Thank you.