



**International Trade Committee – Support for Exports and Investments inquiry**

**Response from the Association of British Insurers**

**March 2017**

**About the ABI**

The Association of British Insurers is the leading trade association for insurers and providers of long term savings. Our 250 members include most household names and specialist providers who contribute £12bn in taxes and manage investments of £1.6trillion.

**Executive Summary**

1. The Association of British Insurers (ABI) welcomes the opportunity to respond to the International Trade Select Committee's inquiry into support for exports and investment. This area of UK policy will become ever more important with the upcoming exit of the UK from the EU.
2. British insurers are major investors and exporters, both domestically and overseas. In 2014, they managed investments of £1.6 trillion, and contributed £12 billion in taxes to the Government. In 2015, they held £93.6 billion<sup>1</sup> of assets in overseas Government securities.
3. The UK insurance industry is the fourth largest in the world (after the US, Japan and China) and the largest in the EU. The ABI's 250 members include most household names and specialist providers who employ 305,000 people, two thirds of whom are based outside of London, in 145 locations across the UK.
4. The UK is recognised as a major exporter of services, with the UK enjoying a surplus in trade in services.<sup>2</sup> The UK's insurance and pensions sector is a valuable export for the UK economy, as it is the fifth largest trade by services exported, and has the second largest trade by service surplus of £12.8 billion.<sup>3</sup>
5. While the EU is an important market for British insurers, our submission focuses on the opportunities to support insurance as an export in our priority markets. Our priority markets are: China, India, Indonesia, Hong Kong, Japan, Malaysia, Singapore and South Korea. These markets have been chosen based on their size, growth potential, and existing regulatory links or cooperation. We recognise, however, that there are markets with fewer market access challenges to address, such as the US, where it is also important for the UK to maintain a good ongoing relationship.
6. The ABI acknowledges the importance the UK Government has placed on supporting exports and investments, particularly with the creation of the Department for International Trade (DIT) in July 2016. We recognise that DIT, alongside other Government departments, will play an important part in determining the UK's relationships with key non-EU jurisdictions.

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<sup>1</sup> Association of British Insurers; Industry data downloads on Investment Holding for 2015 (2016)

<sup>2</sup> Office for National Statistics; UK Balance of Payments, The Pink Book: 2016

<sup>3</sup> Office for National Statistics; UK Balance of Payments, The Pink Book: 2016



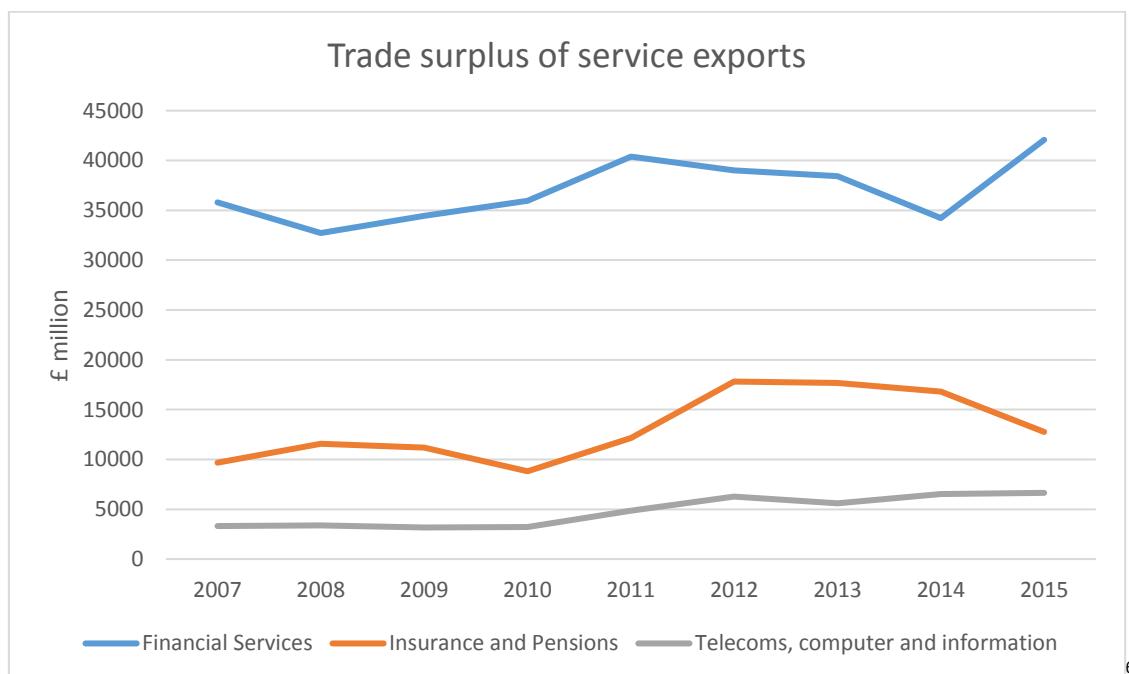
7. It is important that a comprehensive trade strategy is developed reflecting the importance of financial services and realities of 21<sup>st</sup> century trade and investment, particularly as the UK re-thinks its relationship with the rest of the world in light of EU Exit. As a principle, the UK should base any trade strategy on working to further build effective relationships and to improve opportunities in key markets to help support UK exports of both goods and services.
8. To help open markets for insurance, we would recommend that regulatory arrangements and dialogue should be the focus, such as the existing Economic and Financial Dialogues (EFDs) and Joint Economic and Trade Committees (JETCOs), as well as Ministerial, official and regulatory visits. In the past, these have proven to be highly beneficial in highlighting how the expertise and knowledge of British insurers can help local Government's objectives.
9. International engagement should be harnessed at all levels – political, official and regulatory – and can be embarked upon ahead of the UK's exit from the EU.
10. The ABI would be strongly supportive of initiatives that can build on existing arrangements, in addition to the EFDs and JETCOs. We would also advocate the EFD process being extended to other jurisdictions such as Japan and the US.



## Insurance is a valuable service export for the UK

11. The UK's insurance and pension sector is a valuable service exported from the UK, and in turn makes a significant contribution to the economy. The specialism and expertise of the UK insurance market attracts business and investment globally, and so is of vital importance to the national and regional economy.
12. According to the Office for National Statistics,<sup>4</sup> the UK's trade balance has been in deficit since 1998. While there are a number of explanations for this deficit, the UK's trade in services has run a surplus, which has partly offset this deficit.
13. Trade in services has been gradually increasing as a proportion of the UK's total trade, with it comprising 44% of the total trade in 2015. Insurance and pensions make up 6% of all UK service exports.<sup>5</sup>
14. While financial services has driven a large portion of this, the insurance and pensions sector is the second largest export of services, followed by telecommunications, computer and information as figure 1 depicts.

Figure 1.



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15. The insurance and pensions sector is a valuable strength of the UK economy, as one of the few service sectors that enjoys a trade surplus, and so has further potential to grow. This should be further supported by the UK Government.

<sup>4</sup> Office for National Statistics; UK Balance of Payments, The Pink Book: 2016

<sup>5</sup> Swiss Re, Sigma (No 3 / 2016) – World Insurance in 2015: steady growth and regional disparities

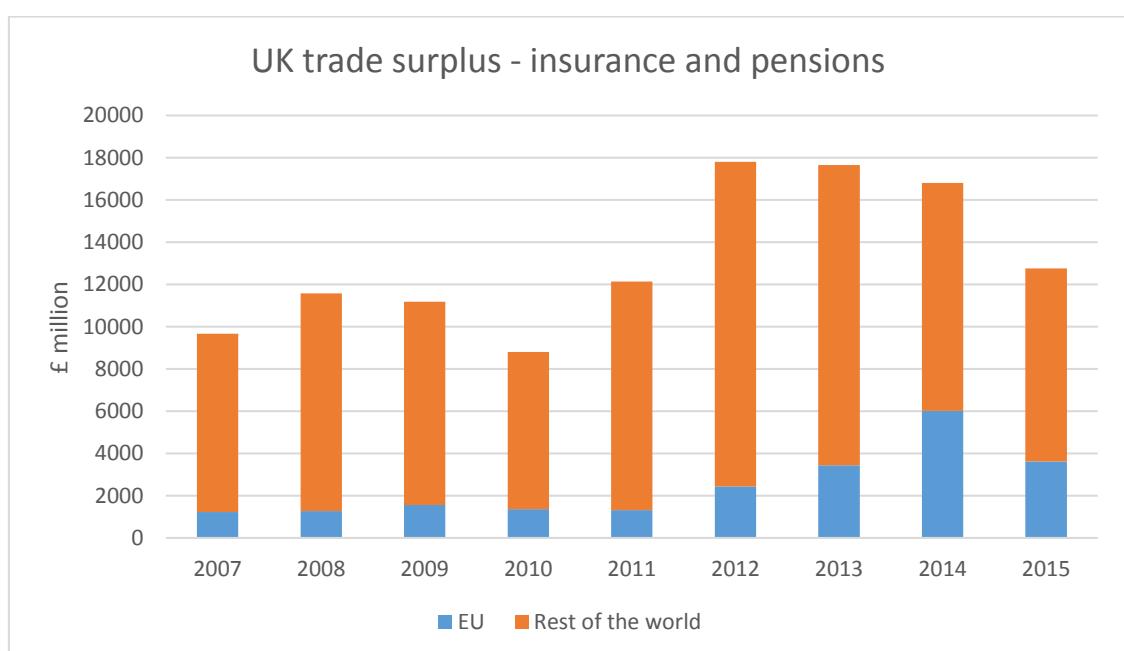
<sup>6</sup> Office for National Statistics; UK Balance of Payments, The Pink Book: 2016



## The UK has a strong, global insurance and pensions market

16. In 2015, the UK's insurance and pensions sector exported £12.9 billion of trade in services, and imported £151 million; as a result, this has given us an overall trade surplus of £12.8 billion in this sector.<sup>7</sup> By comparison, in the same year, the UK exported £9.2 billion of insurance and pensions services to non-EU jurisdictions, while importing £151 million – the majority of imports for this sector come from the US.
17. Given the strength of the UK's insurance and pensions sector, it has contributed a surplus in trade to the UK for a number of years, as figure 2 illustrates. Insurers are also major investors both domestically and overseas. In 2015, ABI members held £287.3 billion of overseas stocks and shares,<sup>8</sup> and £93.6 billion of overseas Government securities.<sup>9</sup>

Figure 2.



18. Working with our members, the ABI has identified eight key markets for British insurers – China, India, Indonesia, Hong Kong, Japan, Malaysia, Singapore and South Korea. These markets have been selected based on their size, potential growth and existing regulatory links or cooperation. We recognise, however, that there are markets with fewer market access challenges to address, such as the US, where it is important for the UK to maintain a good ongoing relationship.
19. The UK has a very developed insurance market, and has an 'insurance penetration rate' of 10% of GDP. Insurance penetration measures the level of development in the insurance sector of an economy. By comparison, for example, two of the ABI's key markets – China and India, which are the third and twelfth largest insurance markets respectively – have an insurance penetration rate of 3%<sup>11</sup> of GDP each,

<sup>7</sup> Swiss Re, Sigma (No 3/ 2016) – World Insurance in 2015: steady growth and regional disparities

<sup>8</sup> Association of British Insurers, Key Stats (2016)

<sup>9</sup> ABI statistics - this comprises £47,075 million index linked and £88,091 million non-index linked UK Government securities, and £17,816 million other UK public sector debt securities.

<sup>10</sup> Office for National Statistics; UK Balance of Payments, The Pink Book: 2016

<sup>11</sup> Swiss Re, Sigma (No 3/ 2016) – World Insurance in 2015: steady growth and regional disparities



indicating huge potential for growth. UK insurers are keen to take this opportunity but require UK Government support in addressing some of the market access challenges.

## The ABI supports the creation of the Department for International Trade

20. The ABI strongly supports the creation of the dedicated, stand-alone Government department, whose prime focus is to support trade and investment through the establishment of key relationships. Ahead of the UK leaving the EU, DIT, along with HM Treasury (HMT) and the Foreign and Commonwealth Office (FCO), will play a pivotal role in directing Government policy which will maximise opportunities to increase export, both for services and goods.
21. Crucially, it is important for the UK Government's objectives to be coordinated across Whitehall departments, in particular between DIT, HMT and the FCO, to ensure that a coherent and ambitious trade and investment strategy can be developed. This will require coordinated working practices and relationships both in the UK and in markets, particularly when working alongside the FCO.
22. The ABI has worked constructively with DIT since its creation in July 2016, in particular on the 8<sup>th</sup> UK-China Economic and Financial Dialogue (EFD) where the UK secured a number of positive policy outcomes, which, over time, should benefit the UK insurance industry. This is a good example of how the UK Government is able to secure market openings in key jurisdictions for UK insurers.
23. While we recognise that DIT is a relatively new Government department, we have experienced a proactive and engaging Department. This has been particularly apparent in them seeking to understand the insurance industry's specific concerns and priorities about potential future trade relations and our key markets of interest, and then seeking ways to address this when opportunities arise.
24. DIT has played a key role, alongside HM Treasury, in the 8<sup>th</sup> UK-China EFD in November 2016, especially in ensuring there was cross-departmental coordination, including with HMT, the FCO and staff who are in overseas posts. Having a coordinated and uniform approach across Government has proven to be invaluable in ensuring that the UK was heard with one voice, and helped to secure some positive outcomes for UK insurers. It is important that this positive approach continues going forward.
25. In addition to their role during EFDs, we support their promotion of UK insurers' expertise and capacity, and highlighting how this can be helpful for key jurisdictions. The UK is already the international capital for insurance and reinsurance, and so it is important that this is not only preserved but enhanced going forward.

## Having an effective Department for International Trade and UK trade strategy

26. The UK Government now has the opportunity to develop an independent investment and trade strategy for the UK. The last time the UK had this was in 1973, after which the UK joined the EU. Since then, the



world has changed considerably with it being then (arguably) tri-polar (EU, US and Japan) to now being multipolar.<sup>12</sup>

27. Good, open regulatory cooperation and dialogue is essential between the UK and key non-EU jurisdictions, particularly given the increased globalisation of the insurance and reinsurance markets.
28. Establishing regulatory dialogue with an international jurisdiction can often be quicker, and more practical, in securing further market access compared to Free Trade Agreements (FTAs).
29. The Government can play a strong role in championing British business through commercial diplomacy and facilitating the right operating environment for UK firms to flourish in overseas markets. The focus should be on establishing and deepening bilateral engagements and regulatory dialogues, working to eliminate any protectionist or discriminatory practices with as many of the key jurisdictions for the UK as soon as possible. This includes:
  - rules on investment, such as whether foreign insurers can set up subsidiaries or branches overseas; restrictions on FDI, or limits on equity stakes in domestic insurers;
  - discriminatory measures, such as reinsurance collateral requirements;
  - rules that would allow UK holding companies of international companies to carry out financial functions such as lending money to overseas subsidiaries, subscribing for shares in overseas subsidiaries, and receiving repayments, distributions and other returns of value back to the UK from overseas; and
  - addressing barriers to moving skilled people to share their knowledge in overseas markets and help develop local talent.
30. In addition to participating in EFDs, the Department should prioritise fostering other forms of regulatory cooperation, such as through Joint Economic and Trade Committees (JETCOs) or through Ministerial and Trade envoys visits. This engagement will continue to take place while we are still members of the EU.
31. Our members' experience indicates that visits from senior Government officials, Ministers (in particular from DIT or HM Treasury) or Trade Envoys are very effective. These can be prime opportunities to additionally demonstrate how UK insurers can work towards helping the domestic political agenda of foreign authorities in achieving their objectives. The ABI would also be strongly supportive of cross-departmental efforts to focus on such efforts, with DIT working alongside HMT and the FCO in particular. International engagement should be harnessed at all levels – political, official and regulatory – and can be embarked upon ahead of the UK's exit from the EU.
32. We welcome that UK Government efforts have aided progress, such as in opening the Chinese insurance market, and in reducing Indian ownership restrictions. We would advocate the EFD process being extended to other countries with sizeable financial services industries, such as Japan and the US. Options to replicate (or join in the UK's own right) the EU-US Covered Agreement in insurance negotiations should also be explored.
33. As British insurers are keen to share the UK expertise and knowledge that we have with interested markets, this is something which Government departments can use as a benefit which the UK can bring

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<sup>12</sup> TheCityUK; Future UK trade and Investment Policy (2017)



to foreign jurisdiction and in tandem help to address some of our market access challenges. For instance, there are a number of markets who are experiencing similar trends of an ageing population or have a need for increased competition in insurance, due to a potentially low penetration rate. In addition to this, a number of UK insurance have an established presence in the ABI's priority markets for a number of years, and so have developed unique local expertise.

34. It should be noted that the key issue for trade in services is the ability for the firm to establish a commercial presence, and rules governing foreign ownership. However, once a firm is active in the market, concerns regarding the practical implementation of local regulation become more apparent. For example, addressing potential practices which put foreign firms at a competitive disadvantage to domestic players.

The ABI would be more than happy to expand on this submission at a future meeting of the Select Committee. Please contact [stephanie.kenyon@abi.org.uk](mailto:stephanie.kenyon@abi.org.uk) or 020 7216 7570.