

Executive Summary

1. The ABI welcomes the opportunity to respond to this inquiry. The UK is Europe's largest insurance market and is a global centre of excellence for insurance and long term savings. The specialism and expertise of the UK insurance market attracts businesses and investment from around the world and is of vital importance to the national and regional economy.
2. As the leading representative of one of the UK's most successful and valuable export industries, our response focuses on the opportunities and priorities for trade with the rest of the world and the areas to be considered for implementation arrangements during negotiations as part of the EU Exit negotiations.
3. The ABI's 250 members hold £1.6 trillion in invested assets. The UK insurance industry employs 305,000 people, two thirds of whom are based outside of London in 145 locations across the UK. The UK government must establish a comprehensive UK trade strategy to maintain the vibrancy and competitiveness of the UK insurance market. This must:
 - Maximise opportunities to create a healthy and competitive business environment where UK insurance firms and its customers can flourish.
 - Establish the UK's World Trade Organisation (WTO) schedule of commitments to set out the baseline terms on which the UK will trade with the rest of the world.
 - Grandfather existing EU Free Trade Agreements (FTAs) to preserve the value they present to the UK economy and ensure a smooth transition on EU exit.
 - Prioritise regulatory dialogue alongside negotiations on FTAs to expedite British firms' access to new markets.
 - Prioritise engagement in key high growth markets - India, China, Hong Kong, Indonesia, Japan, Malaysia, Singapore and South Korea.
4. Alongside considering the UK's international trade agenda, we would like to highlight that the UK's relationship with the EU remains crucial to the economic health of the UK and to the commercial success of the British insurance industry. To provide industry the clarity and legal certainty needed to make key business decisions and continue to serve customers sufficiently, the ABI anticipates that there will be issues where the UK government will find it necessary to negotiate implementation arrangements as part of the EU Exit. These must include:
 - Retaining the benefits for all insurance and long-term savings firms of passporting into and out of the EU.
 - Establishing an equivalent data protection regime.

Insurance is an important part of the UK financial services export success story – there is an opportunity to preserve and enhance this

5. The diversity and expertise of the UK insurance and long-term savings industry is one of the UK economy's key strengths and presents huge trade opportunities in new markets.

Insurance is one of the UK's most successful exports, in 2014 the sector contributed nearly £12 billion in taxes to the UK Government and £35 billion to UK GDP.

6. The negotiating objectives of the UK government must maximise opportunities to create a healthy and competitive business environment where UK insurance firms and its customers can flourish. While negotiating free trade agreements is of paramount importance, it is essential that the government also prioritises regulatory dialogue and international arrangements to enhance service industries' access to overseas markets.
7. Establishing effective relationships with key jurisdictions would be mutually beneficial. The UK would increase its access to opportunities in growing economies, while our partners would benefit from the capacity and expertise brought by UK insurers, be it helping to address the challenges of aging societies or improving resilience to natural disasters.

Establishing our own WTO commitments and grandfathering current FTAs would safeguard our existing trading relationships with non-EU countries

8. Upon exit, the UK will remain a member of the WTO in its own right. However, to be effective, the UK needs its own WTO schedule of commitments, which sets out the baseline terms on which the UK will trade with the rest of the world. The ABI is supportive of maintaining the existing level of EU commitments, where possible, to ensure a smooth transition. Any further improvements in WTO commitments are best sought at another opportunity, to allow the process to be finalised as quickly as possible.
9. The UK also currently benefits from FTAs negotiated by the EU. The Government should endeavour to secure the grandfathering of these FTAs to preserve the value they present to the UK economy and ensure a smooth transition on EU exit. While FTAs to date have rarely secured significant new market opening for the insurance industry, they do work towards making existing ability to do business more secure and reliable. It is therefore desirable for there to be no gaps in agreements with key jurisdictions for British insurers, such as Singapore and South Korea.

The UK now has an opportunity to build on this foundation and develop closer ties to the rest of the world

10. The ABI is supportive of the Government working towards new FTAs. While we recognise that the Government is unable to formally enter into FTA negotiations before the UK leaves the EU, a lot can be done by way of pre-negotiation. In view of the time it takes to agree effective trade deals, it is important that these discussions start happening now.
11. We also support the UK's participation in multilateral and plurilateral negotiations such as the Trade in Services Agreement (TiSA) given their broad aims at opening markets, including in financial services. While progress on such agreements is more challenging, they offer the broadest benefits if successful.

For financial services, WTO rules and FTAs have to be supplemented with regulatory dialogue to be effective

12. For financial services, it is essential that other regulatory arrangements and dialogue options are pursued alongside FTAs, as these have historically been largely tailored for trade in goods

and involve a lengthy process (for example, the EU-Canada free-trade deal took seven years of negotiations).

13. The liberalisation of trade in services has instead largely taken place at a unilateral or bilateral basis. The key trade issues for services firms are the ability to establish a commercial presence and the rules governing foreign ownership. Once a firm is active in a foreign market, concerns turn to the practical implications of local regulation and practice, particularly where there isn't a level playing field between domestic and foreign competitors. As there is little precedent in addressing these concerns through FTAs, engaging in bilateral regulatory (and political) dialogue becomes crucial.
14. Establishing good cooperation and open dialogue between regulators is fundamental to overcoming practical challenges of operating cross-border. For example, the 2016 China-UK Economic and Financial Dialogue was successful in securing a range of improvements on both sides, including a commitment to work towards increasing foreign ownership of life insurance companies conducting business in China.

15. The ABI has identified eight priority markets and issues for insurers

16. The ABI has identified high growth in eight priority markets – India, China, Hong Kong, Indonesia, Japan, Malaysia, Singapore and South Korea.
17. The government can use a two-pronged approach, where the pursuit of longer-term ambitions is balanced with efforts to secure swifter, more practical improvements in the regulatory environment insurers are subject to overseas. This reflects the fact that obtaining positive market access and regulatory outcomes requires a long-term view, while also recognising that the UK already has constructive regulatory relationships with a number of jurisdictions that can be leveraged now.
18. Initiating regulatory dialogue between international jurisdictions is often a quicker and more practically meaningful route to establishing market access than negotiating FTAs. Prioritising this approach alongside trade agreements will reduce the risk of protectionist or discriminatory practices such as:
 - Rules on investment, such as whether foreign insurers can set up subsidiaries or branches overseas; restrictions on FDIs 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
 - Addressing barriers to moving skilled people to share their knowledge in overseas markets and help develop local talent.
19. The ABI would also be strongly supportive of further initiatives to build on these existing arrangements. 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.

20. Our members' experience shows that outreach, such as visits from senior government officials, Trade Envoys or Ministers, in particular from the Department for International Trade and the Treasury, are extremely effective. These can be useful opportunities to showcase the contribution that the expertise of British insurers can make to the domestic political objectives of foreign authorities, and to highlight mutual benefits.

Implementation arrangements: passporting and data protection regime

21. Above we have considered the UK's relationship with the rest of the world. This rest of the submission will focus on specific implementation issues that will arise as the UK moves towards a new relationship with the EU.
22. To provide industry the clarity and legal certainty needed to make key business decisions and continue to serve customers sufficiently, the ABI anticipates that there will be issues where the UK government will find it necessary to negotiate implementation arrangements. This will be a major negotiating challenge.
23. One area where implementation arrangements will be needed is passporting. Passporting rights are an integral part of some insurance and long term savings companies' business models, allowing ambitious firms to trade and serve customers across borders. A loss of this freedom could result in job losses, reduced revenue to the UK and a reduction of services to UK customers.
24. Agreement on future passporting arrangements between the UK and EU will probably not be agreed prior to exiting the EU, making the need for appropriate transitional arrangements to be prioritised as part of the Exit negotiations. This would avoid any unnecessary disruption to the market that would result from a loss of passporting e.g., reduced ability to serve customers, increased costs for insurers and customers or potential relocation outside of the UK. In particular, agreement on an implementation arrangement early on in the EU Exit process will provide firms and their customers with certainty while the future regime for financial services is negotiated.
25. Another key area for implementation arrangements is the UK's future data protection regime. Ensuring a workable flow of data between the UK and the other jurisdictions (EU and internationally) should be one of the main priorities for the UK Government to secure for when the UK leaves the EU. An adequacy decision ('equivalence') by the European Commission is the most robust and legally certain way in which data can be transferred between the EU and the UK (as a third country jurisdiction). To achieve an adequacy decision, the UK requires a data protection regime that closely mirrors the EU's data regime.
26. Given the lengthy nature of considerations before an adequacy decision is given, it is of paramount importance that the UK Government engages in discussions with EU officials at the earliest opportunity. Implementation arrangements to enable the free flow of data must be prioritised if this is not achieved before the UK formally leaves the EU.
27. Though the ABI stresses that such arrangements will be no substitute for permanent solutions, we recommend that the UK government seeks an implementation arrangement on the following issues should a satisfactory agreement not be reached.

The ABI would be more than happy to expand on this submission at a future meeting of the Select Committee. Please contact seth.williams@abi.org.uk or 020 7216 7354.