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C1: Brexit: What We Know, What We Don't Know and What Are Insurers Actually Doing?

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Sian Hill

**What options do insurance companies have
and what are firms doing?**

UK/EU: Big picture priorities

EU: Divorce First



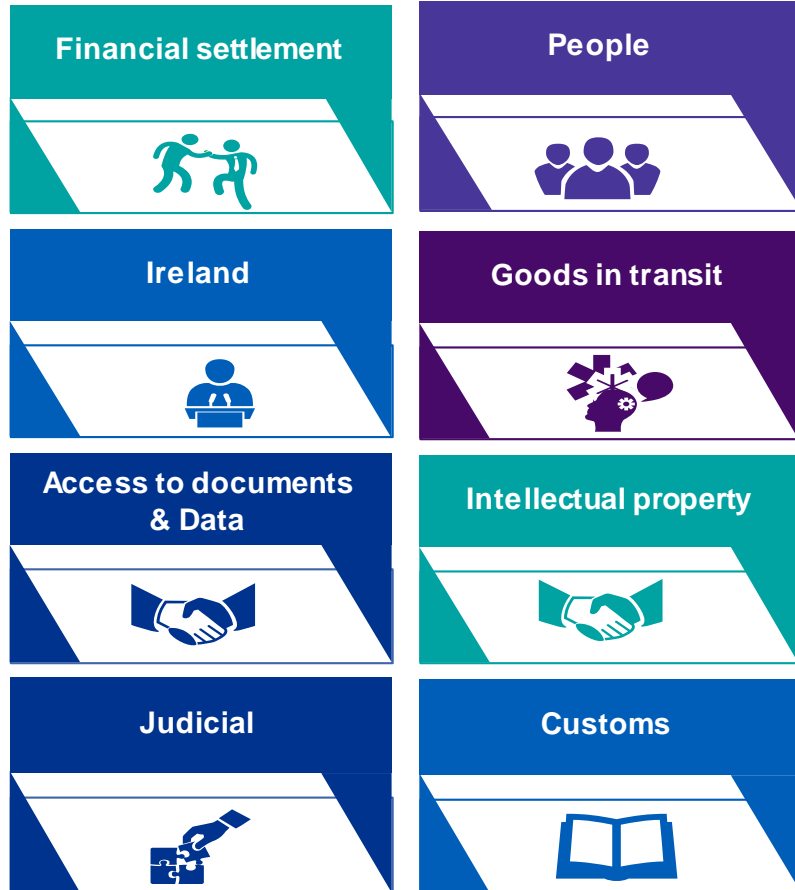
UK: Divorce, Transition & Future Relationship



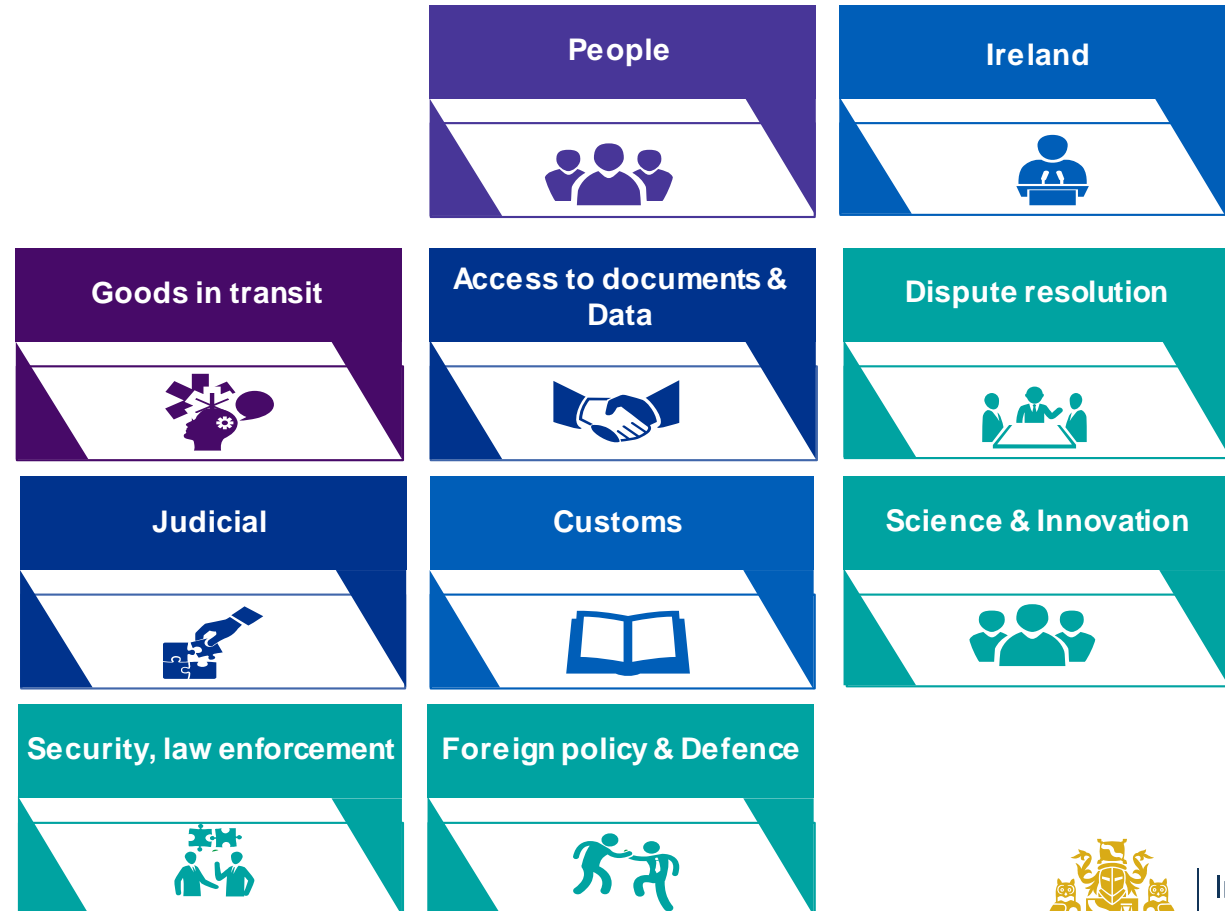
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Detailed position papers

EU Position Papers

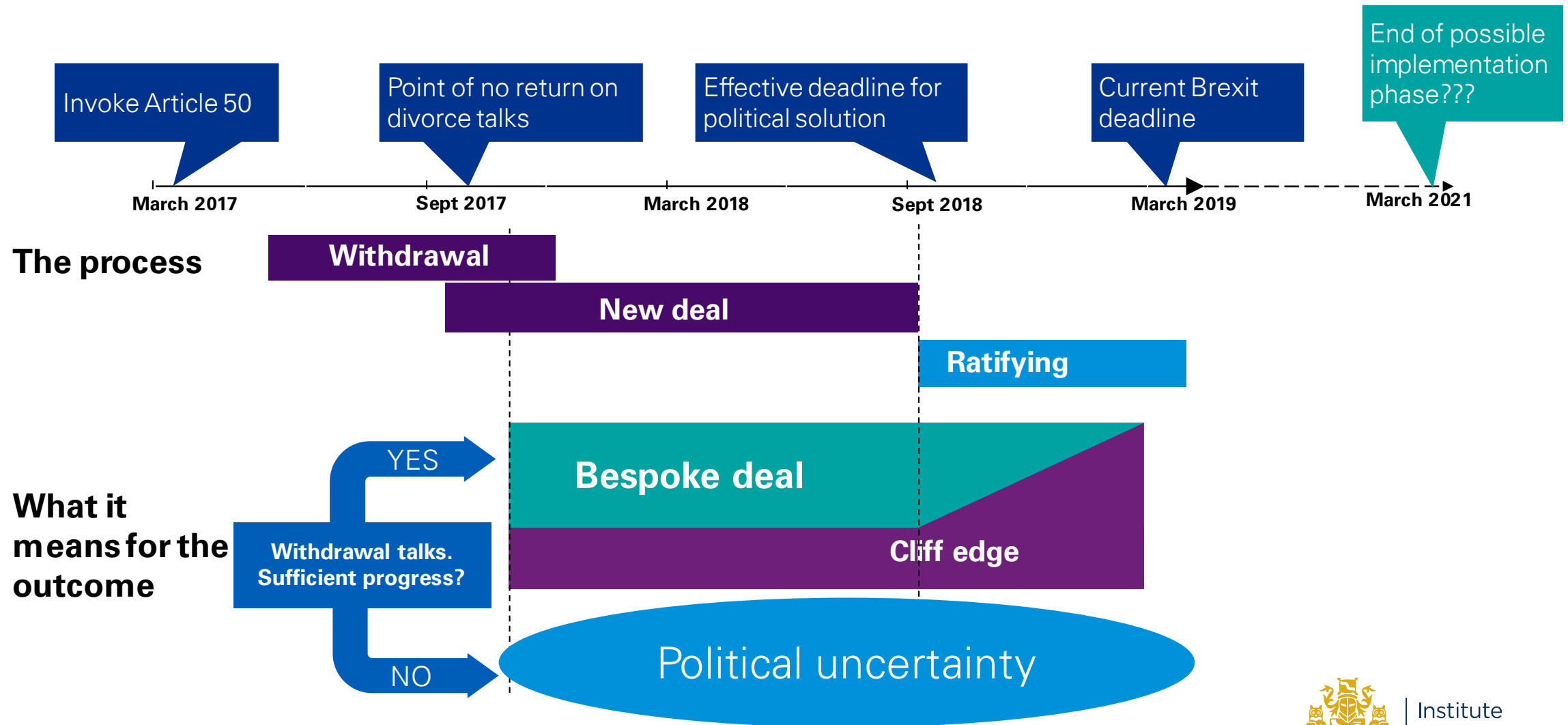


UK Position Papers

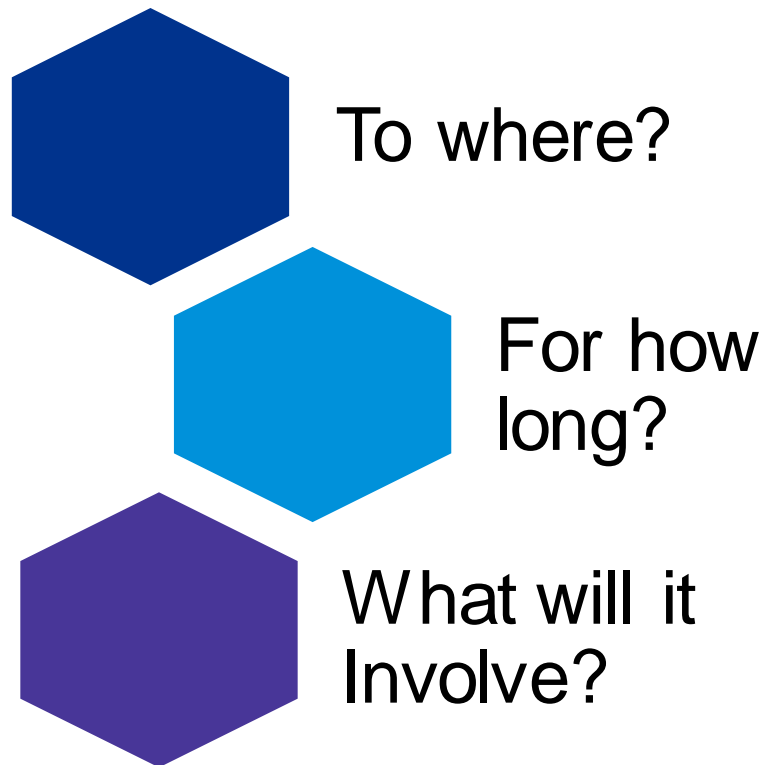


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Possible scenarios



Transitional period?



Insurers' contingency planning



Inbound: Branch, subsidiary or close down?

Authorisation required if regulated activities undertaken in the UK

Branch

Continuity of cover

- Avoids need for portfolio transfers

UK authorisation as third country insurer

- UK Solvency II regime applies to branch
- Supervisory cooperation
- Adequacy of UK policyholder protection in winding-up scenario
- Authorisation in principle pre-Brexit? (no current process)

Reduced UK governance requirements

Subsidiary

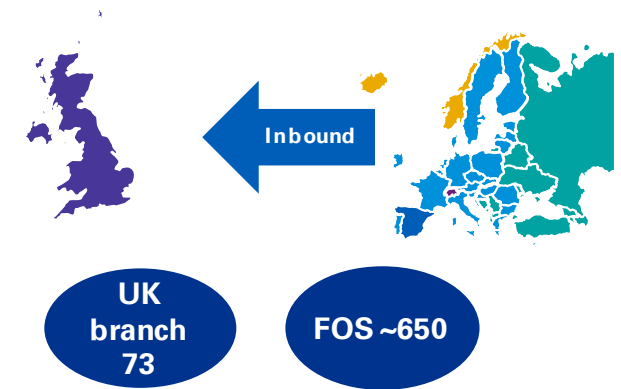
Regulatory preference for retail book

Full UK authorisation

- Can be pre-Brexit

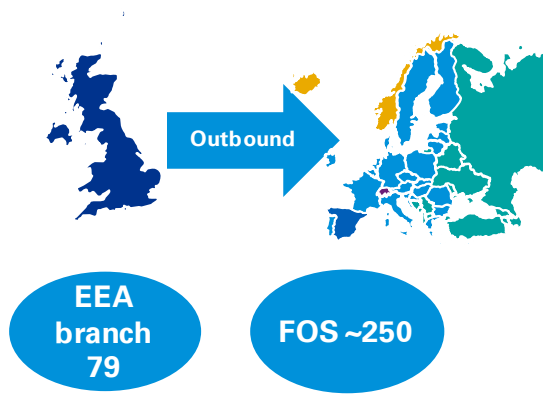
Portfolio transfer in

Full UK SM&CR requirements



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Outbound: Public announcements of chosen jurisdictions



Luxembourg



AIG
Hiscox
RSA
CNA Hardy
FM Global
Liberty
Speciality
Markets
Tokio Marine
Insurance
Group

Ireland



Beazley
Chaucer
Aviva
Royal London
Standard Life
XL Catlin

Belgium



Lloyd's
QBE
MS Amlin

Germany



Markel

France



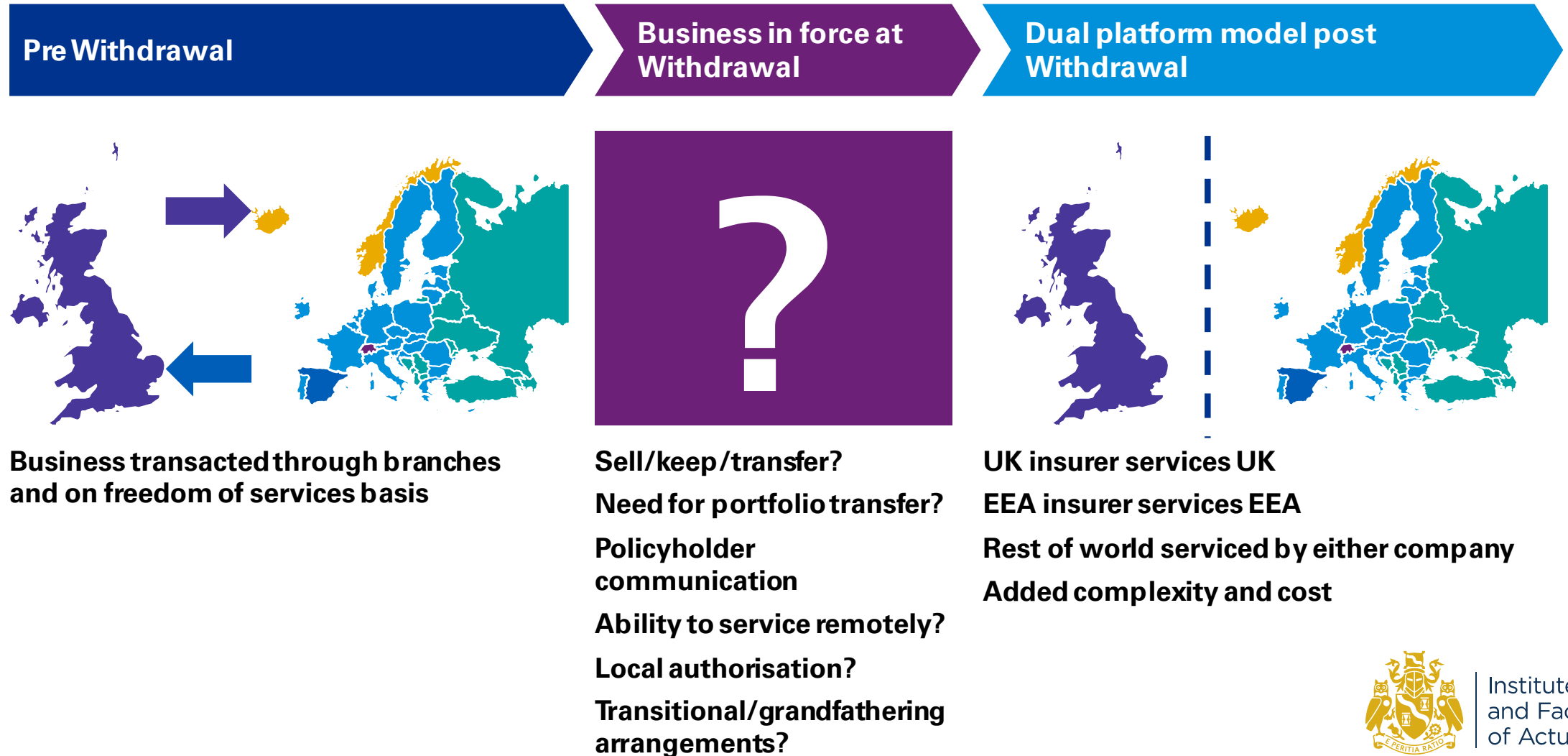
Global
Aerospace
Chubb

As at 31 October 2017

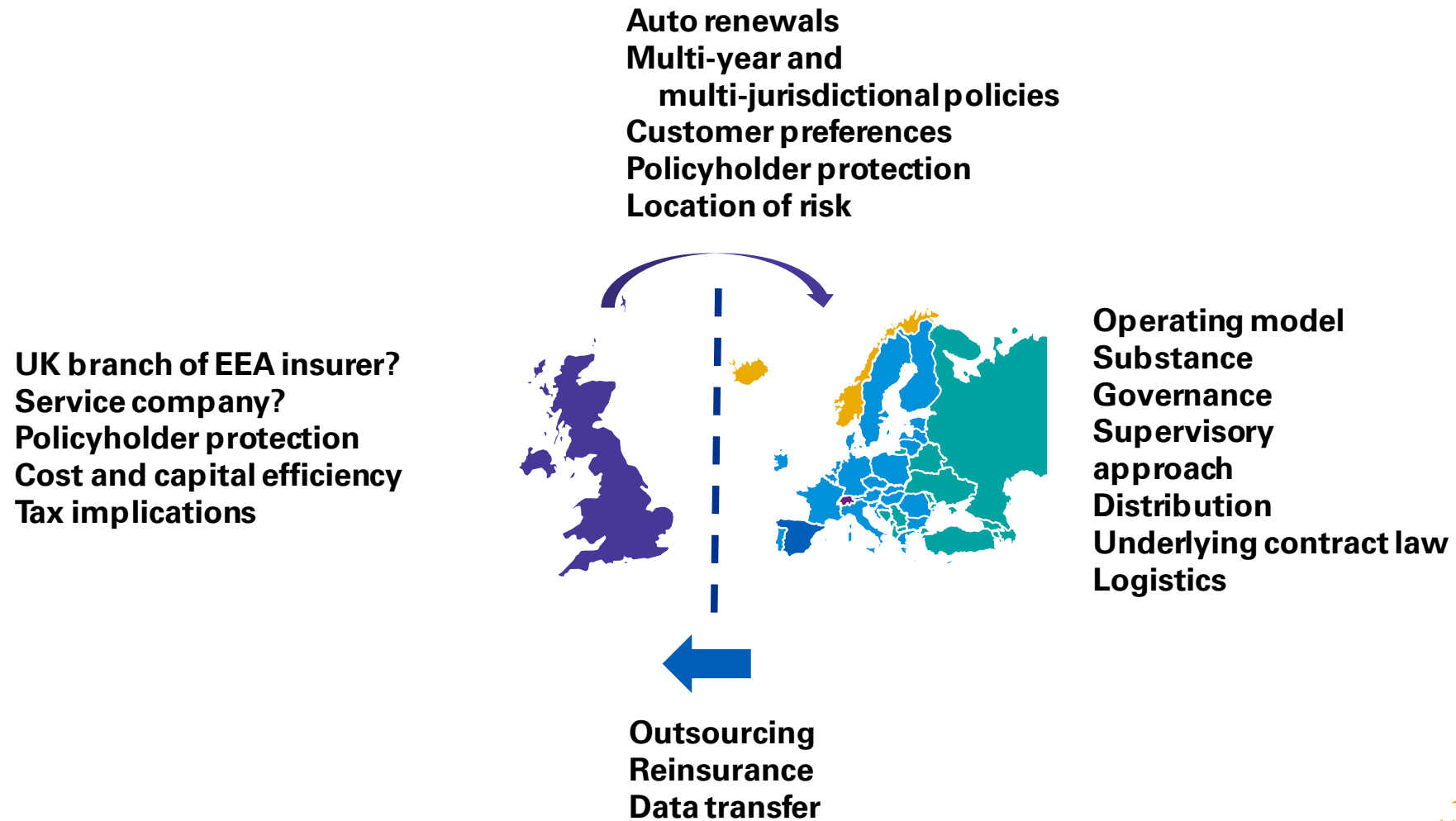


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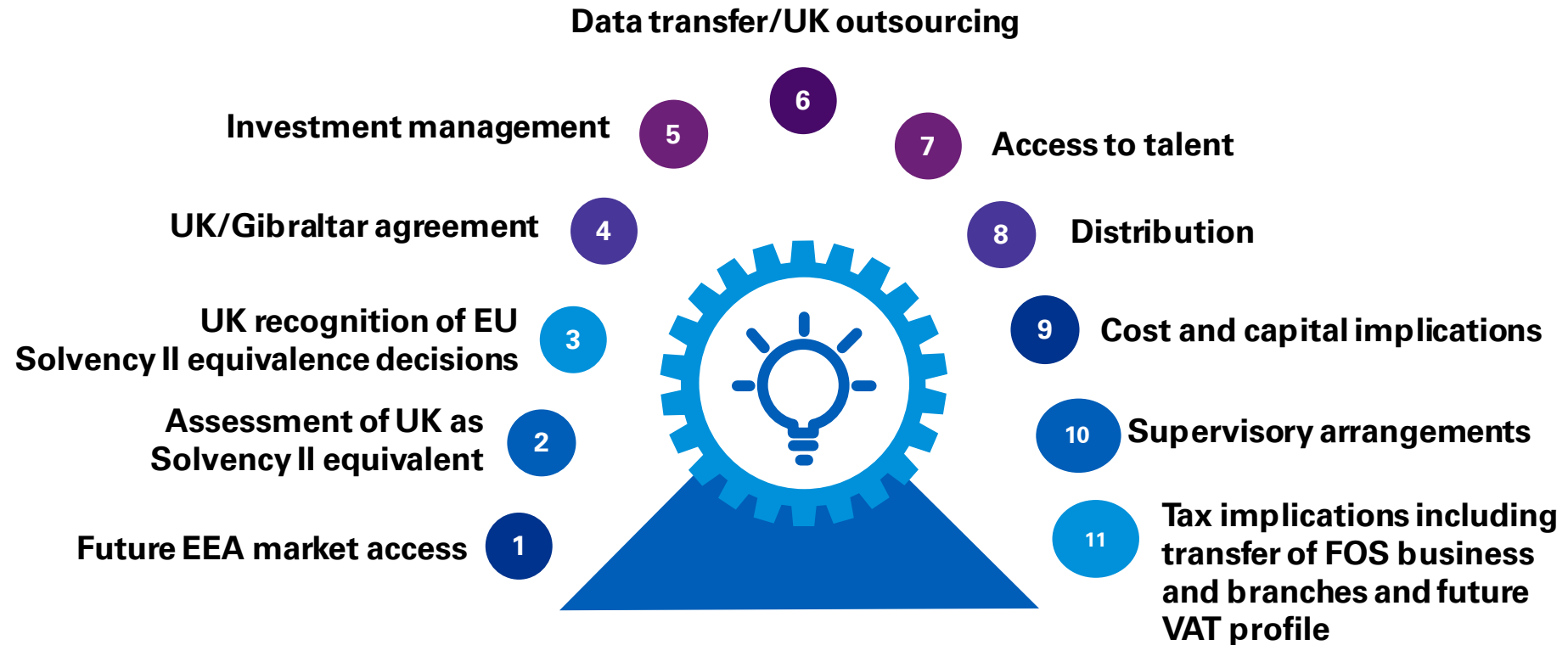
Prime concerns: Contract continuity



Prime concerns: Dual platform challenges



Brexit: Other considerations





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Nick Kitching

**Update and views on withdrawal negotiations
and effect on insurance market**

19 November 2017

Outlook for UK insurance market post Brexit

Scenario	Description	Reasoning
Upside	<ul style="list-style-type: none"> • Grows more rapidly than EU 	<ul style="list-style-type: none"> • New liberal political agenda, new trade deals, competitive tax regime for insurance, help London to flourish • EU lacking structural reforms and likely to face more political uncertainty
Baseline	<ul style="list-style-type: none"> • UK remains the most important insurance market in Europe • Cliff negatively impacts short-term, long-term the UK resumes growth at a lower trajectory 	<ul style="list-style-type: none"> • UK 3rd largest insurance market in the world & by far largest in Europe • Domestic insurance demand remains with only premiums stemming from the EU moving
Downside	<ul style="list-style-type: none"> • New insurance hubs emerge • Legal uncertainty in Britain and loss of EU Market access lead to recession in the UK and a relative decline of the UK insurance market 	<ul style="list-style-type: none"> • Financial centres aggressively woo financial institutions in the UK • Announcements of new subs within the EU, by UK based Financial Services moves significant operations out of London (more than 10%)

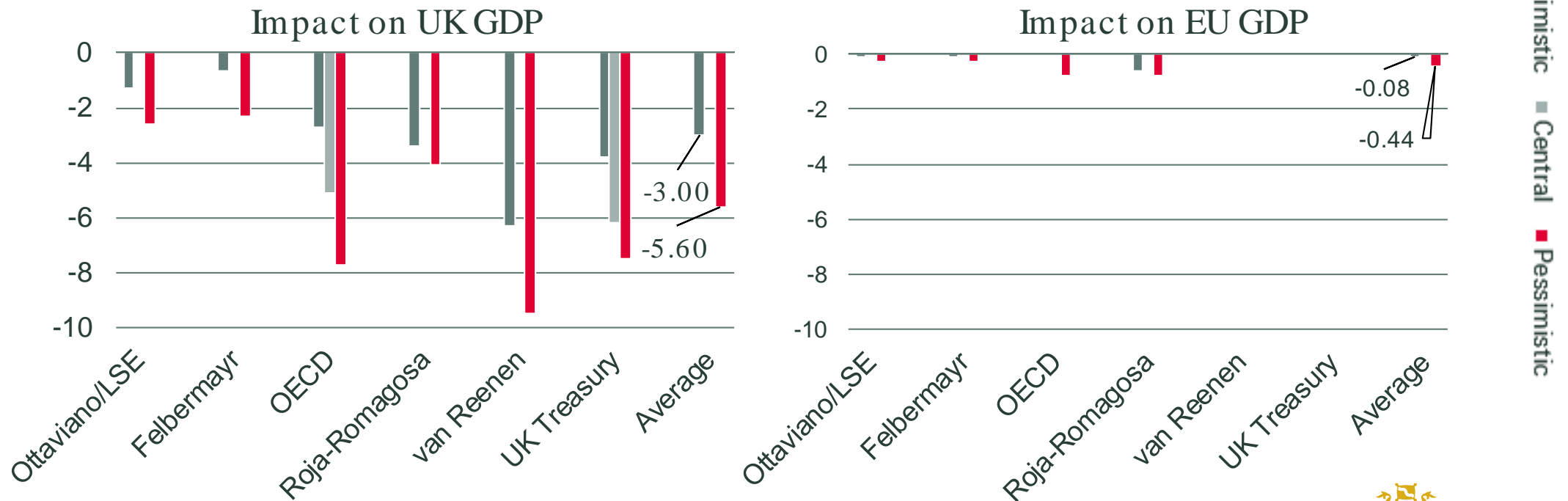


Perspectives on UK-EU withdrawal negotiations and future relationship

Key risks:

- Risk of 'hard exit' = hard custom borders in March 2019, flow of goods sharply curtailed
- UK growth weakening already: jobs exiting UK, investment and consumption slowing

Change in UK's GDP (left) and EU27's GDP (right) by 2030 by type of exit scenario (%)



Notes: OECD estimation for the EU is computed only for a nearer term scenario (2023); Felbermayr (2016) uses GDP per capita, van Reenen considers only 10 years after the exit date.



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A London Market Perspective



Working hypotheses for validation of Brexit impact

UK perspective

Market Access

- UK entity not entitled to Freedom to provide Services
- UK entity does not have market access to the EEA on a cross-border basis (insurance and reinsurance)

Existing Portfolio

- Acquired rights - UK specific requirements for existing portfolio, i.e. local capital req. to back reserves
- PRA does **not** accept continued supervision by EU regulator

EEA perspective

- EEA entity cannot provide regulated services into the UK without a licence
- EEA entity does not have market access to the UK on a cross-border basis (insurance and reinsurance)

- EU regulator remains in charge for existing portfolio, **in addition** to PRA



Areas for focus going forward

- **Business Restructuring** – how to ensure continued access
- **Contract certainty/continuity** – ensuring continuity of service for policyholders
- **Regulatory continuity** – allowing accepted Solvency II principles to apply, including recognition of existing supervisory decisions
- **Regulatory approvals** – capacity of regulators to process applications and approvals within set time frames

Need for clarity

- Access to UK market
- Contract continuity
- Basis of mutual recognition



Summary

- Brexit will fundamentally change the legal and economic relationship between the UK and EU.
- The exit agreement needs to provide clarity on contract continuity.
- There needs to be early clarity around a transitional (Q4 2017), how it will work and what it will cover.
- A Free Trade Agreement is required to provide mutual market access and recognition of prudential regimes on the basis of the regulatory alignment between UK and EU.



Questions

Comments

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