

CII member economic outlook and Brexit survey

Key headlines

Economic, business and employment prospects for 2017

An analysis for the CII by the
Centre for Economic and
Business Research (CEBR)

In association with:



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This edition of the CII Member Survey indicates a significant fall in confidence at the end of 2016 among CII members, the greatest one-year fall for each index since records began in 2011.

- **This falling confidence reflects general pessimism around future economic prospects** – a measure of members' expectations of the current state and direction of the UK macroeconomy. **Business prospects**, referring to members' expectations of their own company or workplace over the next 12 months, **have also fallen, but remain on balance positive.**
- **Only 23% of members expect the UK economy to improve over the next year, a significant reduction from the 67% who were confident in the economic outlook in 2015's survey. In 2016, 48% of members expect the UK economy to deteriorate over the next year; in 2015, only 5% thought so.**
- The **CII Business Prospects Index is historically less volatile.** 45% of members see the prospects of their own business as stable in the coming year, and 36% see an improvement on the way. **Yet, this represents a cooling of the confidence levels of 2015,** when 59% percent reported improving prospects, and 33% saw stability.
- **Employment prospects are also lower than in 2015.** Just under half (48%) of members feel their employment prospects are the same today as a year ago and 29% report their prospects have improved, a lower share than in previous years.
- The majority of members surveyed voted to remain in the EU (51%), and **52% of members report that the Government's full appreciation of the needs of the insurance sector is a high priority following the vote in favour of Brexit. Yet, 45% are not confident that sector's interests will be well represented in the exit negotiations.**
- However, the vast majority of members say that their investment decisions in their business have not been altered as a result of the UK Government's approach to exit negotiations, and **68% of members said Brexit will make no difference to their firms' appeal to recruit necessary skills.**
- When looking at the UK's economic prospects, **CII members in London are the most pessimistic** by region. **57% of respondents working in London expect the economy to deteriorate over the next 12 months.** London-based members were also the most negative about their own firms' prospects over the coming year.
- Members who are **non-UK residents and those working in Scotland** are also **more pessimistic** about the UK's economic prospects over the next year than other regions.
- **Members in the North East of England are the most optimistic** about the domestic economy over the next year. 36% of respondents in the North East expect the economy to improve over this time.
- By insurance industry sub-sector, **members in Lloyd's/London Market are the most pessimistic** about the next year for their firm, with **37% expecting things to worsen; only 20% expect an improvement.**
- Members working in Lloyd's/London Market were the least likely to have voted to leave the EU, and also attach the highest priority to many Brexit-related issues. In particular, passporting rights are considered as either a high or reasonable priority for the UK in negotiations to leave the EU by 92% of Lloyd's/London Market members.
- Members working in 'financial advice' and those in 'life, pensions and long-term savings' attach the least priority to passporting rights and access to the Single Market relative to other sub-sectors.
- **47% of Lloyd's/London Market members believe their firm has a contingency plan for leaving the EU, the highest share of all sub-sectors.** Members in general insurance were the least likely (26%).

CII members' optimism fades, as uncertainty looms over the year ahead

After upward trends in recent years, the expectations of CII Members have declined markedly, as optimism has dropped across the board – in terms of general economic expectations, employment prospects, and the future of members' own businesses.

Optimism for general economic prospects: after rising between 2012 and 2015, almost half (48%) of CII members see the general economic prospects for the UK as deteriorating over the coming year, most likely due to the uncertainty caused by the referendum result.

Prospects for members' own businesses have declined since last year. This is the lowest since the CII started measuring this in 2011. Most commonly, 45% expect stability over the next year, but 20% expect deterioration.

Employment: while less positive than previous years, 29% think their prospects have improved in the past year, and 48% think they are stable.

Figure 1: CII Economic, Business and Employment Prospects Indices, 2011–16¹



Source: IMF, Cebr analysis

¹Headline indices are constructed to succinctly summarise the sentiments disclosed in CII's Member Surveys. We first assign responses indicating a 'significantly improving' or 'significantly deteriorating' outlook with double the weight of 'improving' and 'deteriorating' responses, respectively. This step is in order to take account of the relative strength of these expectations. Subsequently, we subtract the weighted proportions of negative responses from the weighted proportions of positive responses, arriving at the indices shown above. These indices have a maximum possible value of 200 and a minimum possible reading of -200. Any score above zero indicates an overall expectation for improvement.

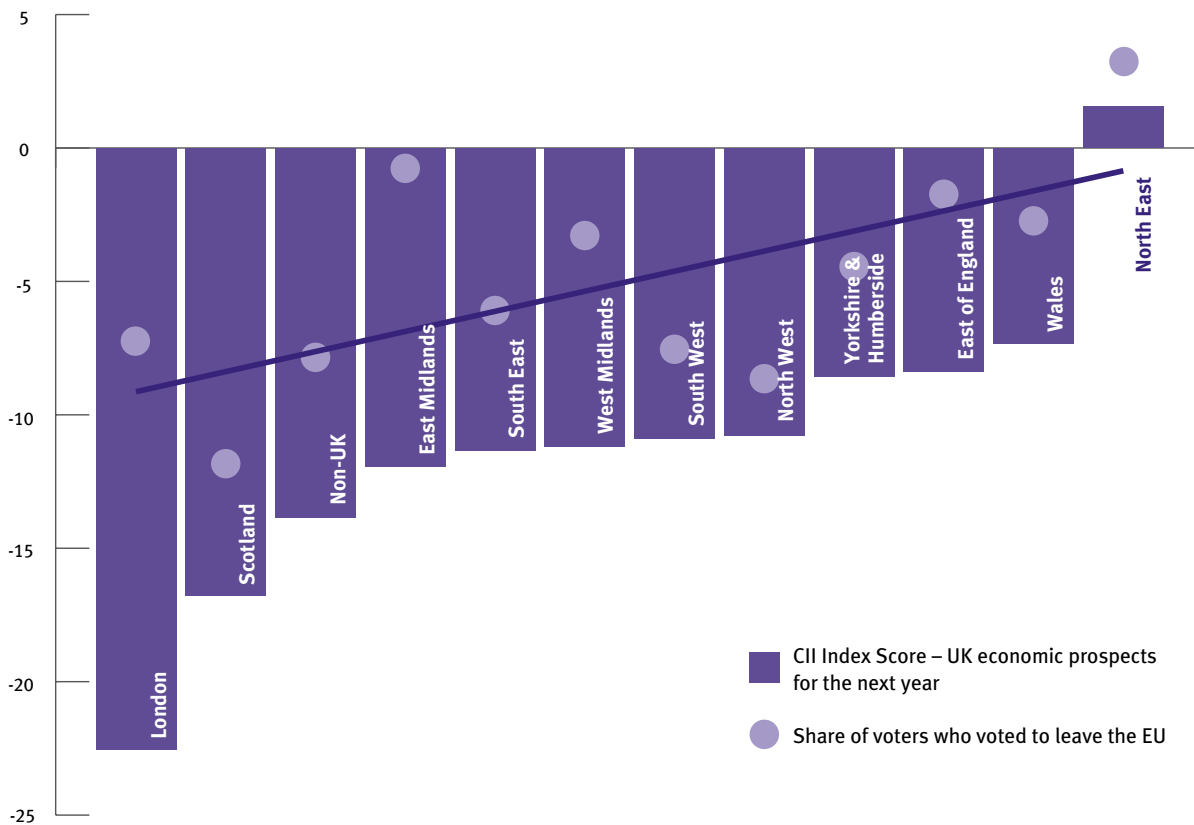
London fears the worst for 2017, while other regions are less pessimistic

Of all respondents working in London, 57% expect the economy to deteriorate in the coming year, compared to only 19% who see it improving.

Elsewhere, Yorkshire and Humberside, Wales and the East of England all presented more balanced, albeit negative, expectations on the whole. The North East of England stands out as the only part of the country to show general optimism: 36% of respondents there expect the economy to improve.

Regional differences in economic expectations align somewhat with the way respondents said they voted in the June 23rd referendum. Although the relationship does not prove causation, it is perhaps unsurprising that regions in which members were more pro-Brexit would be generally more optimistic about the future economy.

Figure 2: CII Index score – prospects for the UK economy over the next year, 2016 by region (LHS) % share of voting CII members who voted to leave the EU (RHS)

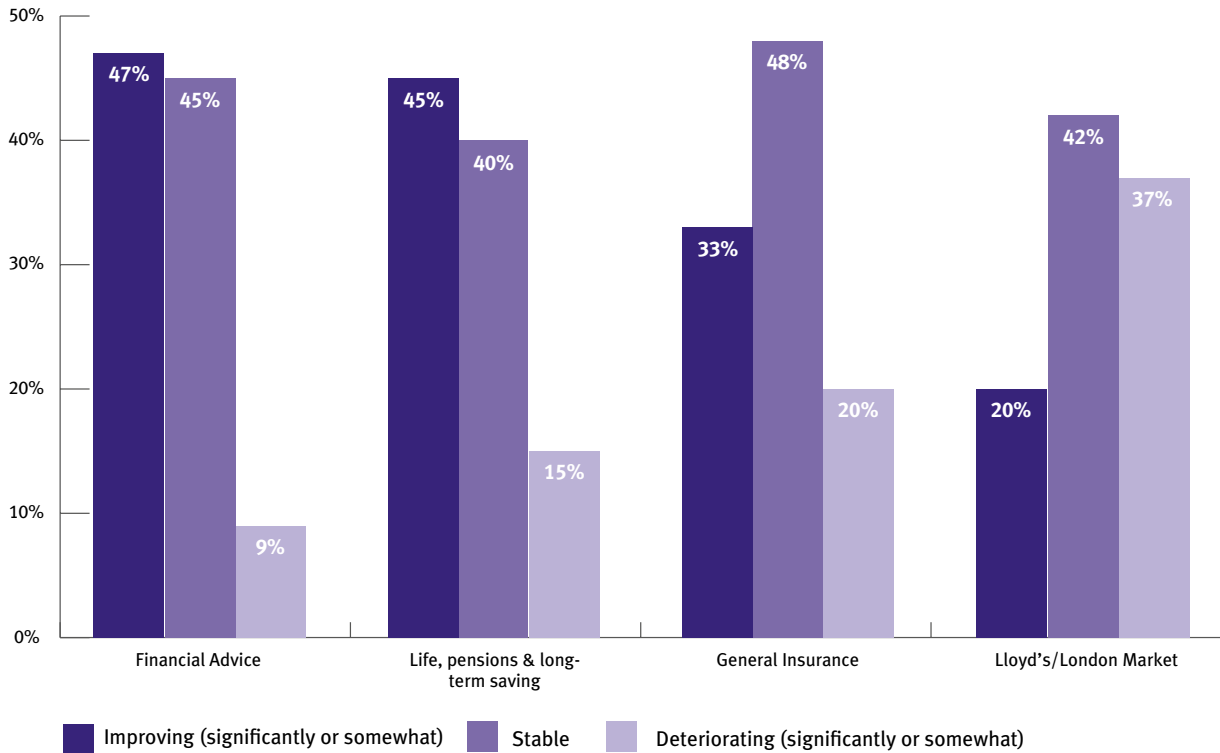


Source: CII, Cebr analysis

Outlook also varies considerably by sector. Those in Lloyd’s/London Market are the most pessimistic about the coming year for their firm, with 37% expecting things to worsen compared to only 20% foreseeing improvements. In contrast, members working in financial advice were

the most optimistic, with 46% expecting improvements, followed by 43% in the life, pensions and the long-term savings sector. CII members from Lloyd’s/London Market are more worried about potential losses from leaving the EU, such as the loss of passporting rights.

Figure 3: How do you view the general prospects for your business in the coming year, by sector?



Source: CII, Cebr analysis

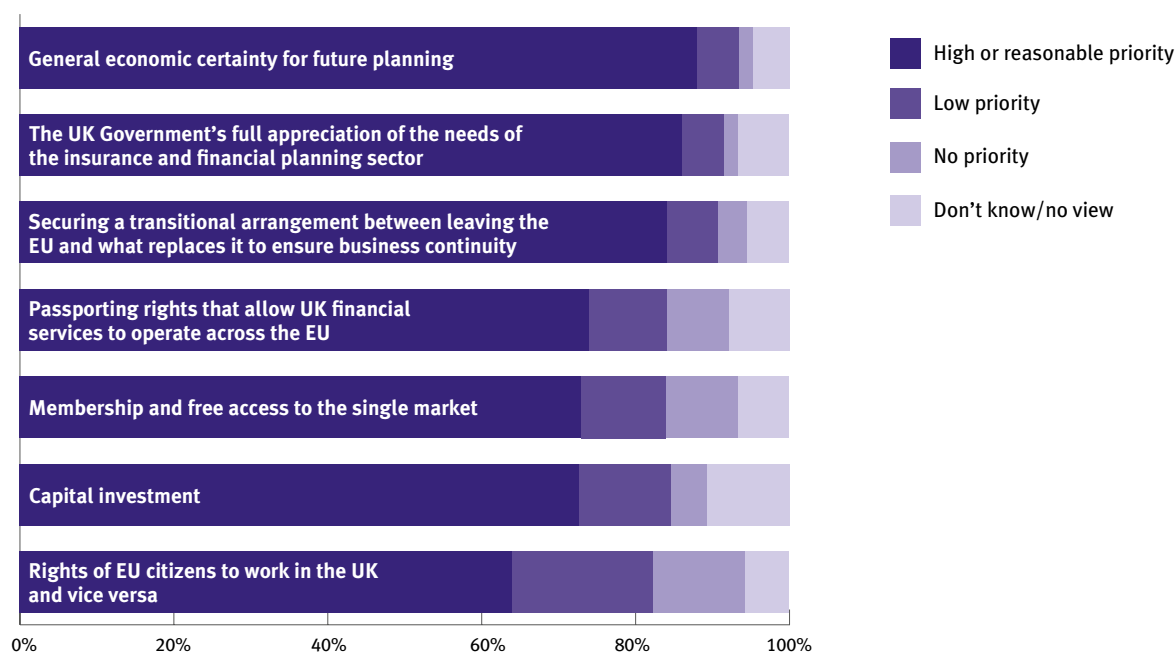
6 The impact of Brexit

Members appear to be waiting and seeing despite uncertainty of the post-Brexit future

Whilst the full long-term effects of Brexit will become clearer as the UK's negotiations unfold, the vote has an impact on the expectations of CII members. According to our survey, a 52% majority of members voted to remain in the EU, but a further 21% answered either 'I didn't/couldn't vote' or 'I'd rather not say'.

We asked members how much priority they attached to a range of factors as the UK enters into negotiations to leave the EU. The results confirmed a wider trend of general economic uncertainty following the Brexit vote. 87% of members consider 'general economic certainty for future planning' to be either a high or reasonable priority.

Figure 4: As the UK enters into negotiations to leave the EU, how much priority do you attach to the following factors for your firm and the wider insurance and financial planning sector?



Source: CII, Cebr analysis

- 86% stated that the Government's full appreciation of the needs of the insurance and financial sector should be a high or reasonable priority
- Only slightly fewer (84%) prioritised a transitional arrangement between leaving the EU and what it replaces as a priority.

These answers may indicate a general feeling of uncertainty regarding Brexit negotiation, but not necessarily a pessimistic outlook for the industry. Whilst members are clearly cautious of the direction of negotiations, and aware of the sensitivity of the impact of Brexit, members appear to be adopting a wait-and-see mindset.

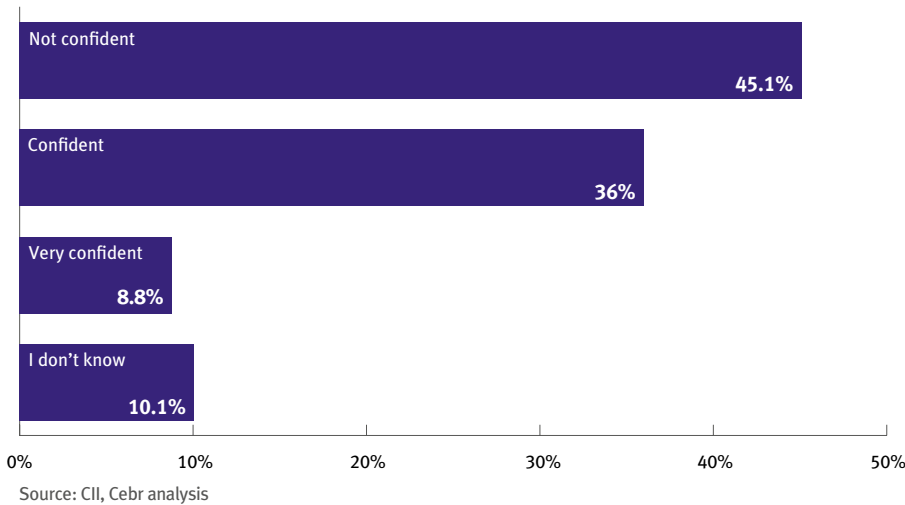
It seems that even though expectations are less certain, members are most likely to continue with any previous plans, especially as the UK has scarcely made progress towards actually leaving the Union thus far. This may explain why the fall in UK general economic outlook was more severe than members' confidence in their own firm's future.

With many members continuing their 'business as usual' course, they are in a good position to judge their own business prospects. Yet, with regards to the UK economy, the spread of possibilities may seem wider. Even if members know their business has a contingency plan, the same might not be said of the UK economy, perhaps explaining the sharper downturn in general UK economic confidence.

When asked about how confident members are that the interests of the insurance and financial sector will be well represented, the results were a mixed picture: 9% were 'very confident' such interests would be represented, 36% were 'confident', but 45% were not confident in their representation.

While most members appear to be relatively unaffected in terms of their own firms' investment and recruitment, clearly Brexit has had a significant effect on their attitudes towards the wider economy. The priority CII members place upon the exit arrangements underlines the critical importance of effective negotiations as the UK leaves the Union. The sharp downturn in confidence for the year ahead, illustrated in the falling business and economic indices, highlights this further.

Figure 5: How confident are you that the interests of the UK insurance and financial planning sector will be well represented in negotiations to leave the EU?



Lloyd's & London Market members place most priority on Brexit related factors

When answers to Brexit-related questions are broken down by sector², key differences can be observed. At 36%, those working in financial advice were most likely to have voted to leave; in contrast, Lloyd's/London Market workers were the least likely – only 22% said they voted to leave, whereas 61% said they voted to remain in the EU.

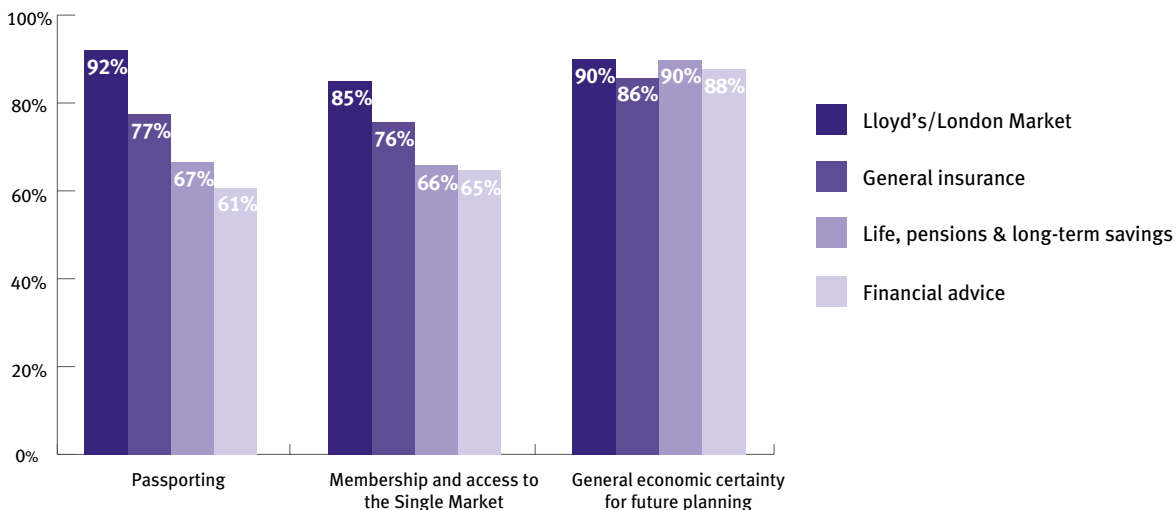
In terms of priorities members attached to certain factors as the UK leaves the EU, perhaps unsurprisingly, Lloyd's/London Market workers showed the most concern for many issues. In particular, passporting rights were seen as either a high or reasonable priority by 92% of Lloyd's/London Market members, far higher than other sectors.

As Figure 6 illustrates, membership and access to the single

market and passporting were prioritised differently according to sector, general economic certainty was viewed as a high priority by all members.

While Lloyd's/London Market workers are most pessimistic about their firms' prospects over the next year (as seen in the Business Prospects chapter), they are also the most likely to have a contingency plan at their firm for the impact of Brexit. Excluding those who answered N/A, almost half (47%) of Lloyd's/London Market members answered that their firm had a plan for market disruption. Members working in general insurance were the least likely to have a contingency plan. This further supports the conclusion that members working in Lloyd's/London Market are most concerned by the UK's withdrawal from the EU.

Figure 6: Share of members by work sector who consider different factors to be a priority (either high or reasonable)



²Respondents were asked which market they predominately work in, of 'General Insurance', 'Lloyd's/London Market', 'Life, pensions & long-term savings', and 'Financial Advice'