UK VS. EU: HOW WILL THE UNITED KINGDOM'S DECISION TO REMAIN IN OR LEAVE THE EUROPEAN UNION AFFECT INSURERS DECIDING WHERE TO BASE THEIR OPERATIONS IN FUTURE?

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EXECUTIVE SUMMARY

THE RESEARCH QUESTION AND REASON FOR STUDY

The title of this dissertation is ‘UK vs. EU: How will the United Kingdom's decision to remain in or leave the European Union affect insurers deciding where to base their operations in future?’

This is a very important question for the insurance industry at the moment as there is currently a lot of debate over the future of the United Kingdom’s (UK) place within the European Union (EU). The Conservative party[1] needs to deliver on their promise of an in/out referendum by the end of 2017, which raises the question of how insurers will be impacted by the decision. If the UK exits the EU, insurers will have to weigh up the benefits against the disadvantages and make a decision on where their business would see the most value. Where they decide to base themselves in future could have significant impact on the performance and operation of their business.

The aim of this dissertation is to determine how the UK's decision to remain in or leave the EU will affect insurers’ decisions on where to base their operations in future by evaluating the following:

- The relationship between the EU, the UK and insurers; and the impact of that relationship on insurers globally.
- The opinions expressed in the media regarding the UK leaving or remaining in the EU and how this impacts insurers.
- The views of key industry informants to corroborate the medias reporting

BACKGROUND RESEARCH

The first part of this research paper focused on establishing a background to the relationship between the EU, the UK and insurers, and determines how insurers would be impacted if the UK exited the EU. This was to provide the foundation of knowledge on possible areas of particular focus when deciding on the referendum's impact to insurers deciding where to base themselves in future. This section showed that the EU and the UK have a great amount of impact on each other and on the global markets, including sway in the insurance industry and on insurers.

From the above research, a few clear topics emerged which were referred to during the rest of the study:

- Regulation
- Workforce and jobs
- Trade borders
- Currency
- Stability

These topics provided a framework used to evaluate further analyses which focused on considering the opinions of the insurance media and key industry informants. Their views were combined with the topics to gain a more balanced view of the options insurers should consider when deciding on where to base their operations in future.

THE RESEARCH PROJECT

The objectives of the research project were to:

- Review and consolidate the opinions expressed in the media regarding the UK leaving or remaining in the EU and look at how this would impact insurers
- Gain the views of key insurance industry experts on what they feel the primary factors are if the UK exits the EU, to see to what extent their opinions are in line with those of the media and background research.

It was important to consider the opinion of the media as they provide a lot of insight into industry affairs and undertake a lot of research on the topics on which they report. However it was also important not to take the opinion of the media at face value as they may just be sensationalising in order to grab headlines. There are valid opinions in the media, with some high-profile insurance expert comments in their articles. However it is always valuable to gain those expert comments first hand in order to evaluate the validity of the media's opinion, without them 'cherry picking' the opinions that are best suited to achieving their own agendas. For this reason, key industry informants were also consulted to try and balance/validate opinion.

Media opinion was evaluated by reviewing web-based media and news articles from financial and informed press, insurance trade press and industry observer blogs, to determine a general consensus of media opinion in order to gain as many opinions as possible from the widest variety of media sources. Key industry informants were asked to express their opinion on four key questions emailed to them, in order to minimise the disruption to those individuals by providing them with concise questions that could be answered in a minimal amount of time.

The research project concluded that there is a great deal more comment in favour of UK remaining within the EU, than there is for it to leave, both in the media and from the opinion of experts.

Regulation is the number one concern for all parties and would have the greatest impact on an insurer's decision on where it will base itself in future: Solvency II[2] is a large area of deliberation.

Trade borders are also a large consideration for insurers as, if passporting into the rest of the EU were to be removed or inhibited, insurers may consider relocating. The key area of consideration here is what can be negotiated with the EU if the UK exits the EU. The preferable option would be for things to remain as they are currently in order to limit uncertainty and maintain confidence in the UK as a high level global financial hub.

If the UK decides to leave the EU and insurers decide to relocate or immigration is impacted, job losses are likely in the UK and job creation may apply elsewhere. If the UK exits the EU and negotiates an adequate arrangement for immigration, the **workforce** is unlikely to be impacted too much. The most desired outcome though would be for the UK to remain in the EU with the current level of access to/from the rest of the EU, including access to a quality workforce.

Other issues that have been highlighted in this research have been the uncertainty and instability currently being felt in the insurance industry. Uncertainty is not a good thing to have in an economy or industry, as it can reduce confidence and sometime adversely impact decision making.

CONCLUSION AND FUTURE DEVELOPMENTS

The original question posed for the research paper was 'How will the United Kingdom's decision to remain in or leave the European Union affect insurers deciding where to base their operations?'

Any decision to leave the EU would have a great deal of impact on the insurance industry and this impact could in turn determine whether or not insurers would choose to be based in the UK, in another EU country or elsewhere globally. This relationship is a large part of an insurer's decision as it will set the terms under which an insurer will have to operate. What these terms are and how they interact with an insurers core values will inform their decision on where to base their operations.

The clear message from the research is that everyone, with the exception of some experts who may be reluctant to state their opinions, has an opinion and wants to talk about it. It is complete conjecture as to what will happen and no-one will know until the referendum vote actually takes place. It is therefore only speculation as to what insurers will do in deciding where to base their operations.

It is clear however that insurers would prefer the UK to remain in the EU in order to take advantage of the benefits this offers. Not having to make the decision of moving in the first place is definitely preferable. In the researcher's opinion though, having considered all the implications during this study, insurers are likely to choose to remain in the UK for the immediate future, following a vote to leave the UK. It would be premature for them to relocate prior to this and would be far more prudent to remain in

[2] http://www.bankofengland.co.uk/pra/Pages/solvency2/default.aspx

the UK until the actual implications are evaluated and they can determine what benefits they may receive as part of their decision to stay. Each insurer will have different requirements which will lead to a different decision for each of them. Ultimately, it may be that were some companies decide to leave the UK, others may decide to relocate to the UK, thus balancing the market as a whole.

The run up to the referendum is going to be a particularly uncertain time for the UK, the EU and insurers globally while the industry waits with bated breath for a decision. With this we can conclude that stability is currently the top priority for insurers with regard to how the UK's decision to remain in or leave the EU will affect them deciding where to base their operations at present.

After the referendum has taken place there are a few things to consider for the future:

- If the UK remains in the EU, what are the implications of staying? How, if at all possible, the UK renegotiates its membership with the EU will have significant impacts on insurers, not least in areas such as regulation.
- How long it will be until this same topic arises again and another referendum vote is proposed?
- There is also the consideration that such a referendum may happen in another EU state. What would the implications of this be?

Overall, there is no way to predict the future, so there will always be uncertainty no matter which way the vote goes. The only thing that insurers can do is to try to plan for both eventualities so that they can react swiftly and limit the impact any outcome will have on their operations.

INTRODUCTION

RESEARCH QUESTION

UK vs. EU: How will the United Kingdom's decision to remain in or leave the European Union affect insurers deciding where to base their operations in future?

BACKGROUND

The reason for this analysis is that, in recent years there has been a remarkable increase in debate over the future of the UK's within the EU. Politicians[3] have picked up on people's unease regarding the benefits and drawbacks that EU membership brings and political parties have used it as a political 'bargaining chip', including promising a national referendum (or even suggesting outright withdrawal[4]) should their party be elected. David Cameron's Conservative party included this promise in their manifesto and, having now been elected, need to deliver on their promise of a referendum by the end

[3] http://www.bbc.co.uk/news/uk-politics-26515129
[4] (UKIP Manifesto, page 70: https://d3n8a8pro7vhmx.cloudfront.net/ukipdev/pages/1103/attachments/original/1429295050/UKIPManifesto2015.pdf?1429295050)

of 2017[5]. This then raises the question of what this could mean for the UK and, in particular for the aim of this analysis, how insurers would will be impacted by the decision. If the UK exits the EU, they will have to weigh up the benefits against the disadvantages and make a decision on where their business would see the most value. Where they decide to base themselves in future could have significant impact on the performance and operation of their business. On the other hand, if the UK remains in the EU, there may be other consequences to consider, albeit possibly significantly less as the general status would remain the same without a re-negotiated deal between the UK and the EU.

RESEARCH OBJECTIVES

The purpose of this research paper is to determine how the UK's decision to remain in or leave the EU will affect insurers' decisions on where to base their operations in future. In order to determine this, the following key objectives are required:

- Evaluate the relationship between the EU and the UK; and research the impact of that relationship on insurers globally.
- Review the opinions expressed in the media regarding the UK leaving or remaining in the EU and how this would impact insurers.
- Gain the views of key industry informants to balance/validate the opinions expressed by the media.
- Provide a conclusion on how the UK's decision to remain in or leave the EU will affect insurers deciding where to base their operations in future.

METHODOLOGY

To obtain the most balanced and informed conclusion to the research question, a number of methods were employed based on the research objectives mentioned above:

- <u>Method used to conduct background research:</u>

  The approach used for this was to **consult relevant academic, industry and government literature**, including reading books and reviewing data available on the internet. This provided relevant details on the history and foundations of the EU, how the UK became involved and how insurers in the UK, EU and globally have been and could be impacted by the UK's decision on whether to remain in or leave the EU.

  Rationale: As it was factual and historical information that was required here, consulting existing literature was most appropriate. The variety of sources enabled a well-rounded view of those facts.

- <u>Methods used during research project:</u>

[5] (https://s3-eu-west-1.amazonaws.com/manifesto2015/ConservativeManifesto2015.pdf)

The opinions of the media were reviewed by consulting **web-based media and news articles** from financial and informed press, insurance trade press and industry observer blogs.

Rationale: This method was used in order to gain as many opinions as possible from the widest variety of media sources.

Key industry informants were asked to **express their opinion via a questionnaire**. This method was employed in order to minimise the disruption to those individuals by providing them with concise questions that could be answered in a minimal amount of time.

Rationale: Aside from the time element mentioned above, questionnaires are an appropriate method for achieving this objective as they elicit responses that can easily be compared to one another and collated for analysis.

- Method used for conclusion and evaluating future considerations:

Draw on the researcher's opinion and **knowledge gained throughout this study** to provide a conclusion and make assumptions and recommendations on the findings of the research.

Rationale: This method is most appropriate for achieving this objective as the conclusion is a collation of information gathered throughout the research and the expression of the opinions of the researcher gain during the study.

BACKGROUND RESEARCH

To establish what issues may impact insurers, it is first necessary to look at what the EU actually is, how it currently affects the UK and how that in turn affects insurers, not just in the UK but in the rest of the EU and globally. This will provide the foundation of knowledge on possible areas of focus when deciding on the referendums impact to insurers deciding where to base themselves in future.

THE HISTORY OF THE EUROPEAN UNION

The EU[6] is currently a group of 28 countries, located in Europe, set up with the intention of promoting a more peaceful continent following the devastation of World War II. The formation of the European Coal and Steel Community started to unite countries politically and economically, but the most significant step came in 1957 when Belgium, France, Italy, Luxembourg, the Netherlands and West Germany founded the European Economic Community, by signing the Treaty of Rome. **The United Kingdom, perhaps due to not having been occupied and not suffering defeat or occupation in World War II that other countries had, did not join** as it felt that their relationships with the North Atlantic Treaty Organisation[7], a political and military alliance, and the USA were sufficient.

During the 1960's there was a period of economic growth for the EU, particularly attributable to the fact that EU member countries removed customs duties when trading with each other. There was also agreement on the join control of food production through the 'common agricultural policy'.

[6] http://europa.eu/index_en.htm
[7] http://www.nato.int/nato-welcome/

In the 1970's, the most significant change was that **in 1973 the United Kingdom, Denmark and Ireland joined the EU**, bringing the number of members to nine. In 1979 EU citizens were able to, for the first time, directly elect members to the European Parliament, which had previously been delegated by national parliaments. Also in 1979 was the creation of an exchange rate mechanism (ERM), allowing members' individual currencies to fluctuate against each other only within very narrow limits, setting the foundation for the creation of the Euro (albeit 30 years later). **The United Kingdom did not decide to join the ERM at this stage, waiting until 1990 before doing so and then having to withdraw in 1992 following the currency turmoil of 'Black Wednesday'[8]**.

Greece became the 10th member of the EU in 1981 and was followed in 1986 by the joining of Portugal and Spain, and the signing of the Single European Act. This Act formed that basis of plan to address the free flow of trade across the EU's borders.

The 1990's saw a large number of progressions within the EU. 1992 saw the signing of the Maastricht Treaty[9] which set out rules for foreign and security policy, closer cooperation in justice and home affairs and plans for the future single currency. This treaty is also where the name 'European Union' is officially recognised, replacing the previous 'European Community'. In 1993 the Single Market was completed with the establishment of the 'four freedoms' of movement of goods, services, money and people. The 1990's also saw the further expansion of the EU with the joining of Austria, Finland and Sweden in 1995, bringing the number of members to 15 and covering most of Western Europe. In 1995 the **Schengen Agreement[10] came into force in Belgium, France, Germany, Luxembourg, the Netherlands, Portugal and Spain (not the UK), removing passport control at borders and allowing free movement of travellers between these countries**. In 1997 the Treaty of Amsterdam[11] was signed, building on the Maastricht Treaty, allowing for reform of the EU institutions and more focus on employment and citizens' rights. The final success of the decade was the **introduction of the Euro currency[12]** in 1999 by 11 of the EU countries. Greece joined the Euro in 2001; however Denmark, Sweden and the **United Kingdom decided not to join** and to continue maintaining their own currencies.

In 2004, the EU expanded further with the inclusion of the Czech Republic, Cyprus, Estonia, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia. It expanded again in 2007 to include Bulgaria and Romania, and later that year all 27 countries signed the Treaty of Lisbon[13]. This Treaty amended all previous treaties and laid plans for making the EU more efficient, more transparent and more democratic, thus positioning it better on a global scale. The Treaty was ratified by all EU countries and came into force in 2009. **An important point to note regarding this treaty is that it introduced an 'exit clause' for members who wish to withdraw from the EU.** In September 2008, a huge financial crisis impacted the world economy[14], leading to difficulties for several European banks, but ultimately leading to closer economic cooperation between EU countries.

Since the financial crisis, the last few years have been dominated by its impact on the EU[15], with austerity measures in many EU countries, bailouts for Greece, greater focus on fiscal consolidation

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[8] http://news.bbc.co.uk/onthisday/hi/dates/stories/september/16/newsid_2519000/2519013.stm
[9] http://europa.eu/eu-law/decision-making/treaties/pdf/treaty_on_european_union/treaty_on_european_union_en.pdf
[10] http://www.itv.com/news/2015-09-01/what-is-the-schengen-agreement-and-does-europes-migrant-crisis-put-it-at-risk/
[11] http://www.europarl.europa.eu/topics/treaty/pdf/amst-en.pdf
[12] http://www.oanda.com/help/euro
[13] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:12007L/TXT
[14] http://www.economist.com/news/schoolsbrief/21584534-effects-financial-crisis-are-still-being-felt-five-years-article
[15] (http://europa.eu/about-eu/eu-history/2010-today/index_en.htm)

and stronger economic coordination and monitoring of budgets. In 2012, Croatia became the 28th member of the EU. In 2013 the ‘fiscal compact’ (Treaty on Stability, Coordination and Governance in the Economic and Monetary Union) came into force, aiming to increase fiscal discipline with a ‘balanced budget rule’ and a correction mechanism. The final element of the EU’s banking union was put in place in 2014, with the adoption of rulebooks on how to deal with banks facing serious difficulties, so that taxpayers do not have to pay for these failing banks.

In 2015, the Conservative Party won a parliamentary majority in the UK general election. As part of their manifesto, they had promised a referendum on whether or not the UK would stay in the EU. This referendum is promised to take place before the end of 2017.

HOW DOES THE EU INFLUENCE THE UK AND IMPLEMENT ITS POLICIES?

With reference to the CII’s Insurance Law textbook, there are a number of sources of European Community Law:

- The treaties – i.e. the European ‘constitution’ which sets out the founding principles of European law. The Treaty of Rome was particularly significant.
- Regulations – Set by the Council or Commission, these are ‘self-enacting’ laws, i.e. laws that are entirely binding on all Member States. These laws tend to have a generalised application.
- Directives – these laws are also set by the Council or Commission and are binding, however they are not self-enacting. It is left up to the Member State to decide how they will implement the law in order to achieve the result desired for the Community. In the UK, Directives are implemented via primary or subordinate legislation e.g. through an Act of Parliament.
- Decisions – these are laws directed only at specified Member States or organisations. They do not have a general application to all and are only binding on those it is addressed to.
- Recommendations – these are only advisory so are not binding.

In the UK, international law has to be incorporated into law through domestic legislation. It is the European Communities Act 1972[16] which sets out how European Community Law is implemented in the UK’s laws. In S.2(1) of this Act it advises that treaties and regulations will have direct effect in UK law with no other formalities required, meaning that these do not need domestic legislation to implement them. For directives and other forms of Community Law, legislation is required to incorporate them into UK law; however they may be achieved through delegated legislation.

As well as how laws do come into force, it is also worth considering how they are ‘avoided’, with one very important example – the UK’s involvement, or rather lack of it, with the Euro currency. It was specified in the Maastricht Treaty’s Protocol (No 25) that the UK could opt-out of the third stage of economic and monetary union (EMU), so it did not join the Euro in 1999 and remains at stage two of the EMU. This opt-out was agreed to so that the UK would not stop the approval of the Treaty as a whole. The UK would still be allowed to join the Euro, but it would require the UK government and parliament to make the decision to do so. In addition the UK would need to satisfy the currency convergence criteria set out in the Treaty.

It is not just the Euro that the UK has opted out of. Other opt-outs are:

[16] http://www.legislation.gov.uk/ukpga/1972/68/contents

- The Schengen Agreement, with the Treaty of Amsterdam, relating to abolishing border controls between EU member states – the UK did not want to open its borders.
- The Treaty on European Union - area of freedom, security and justice – originally stated in the Treaty of Amsterdam and retained in the Treaty of Lisbon Protocol 36.[17]

It is clear from the prior two sections that **regulation is a largest part** of how the EU impacts the UK. I**n the following sections regulation will be considered separately,** and prior to other issues, as it needs to be acknowledged that regulation may be a contributory factor in the other issues discussed. For the purpose of reviewing the following sections, **regulation here is 'how' insurers could be impacted; the general impacts are 'what'** aspects of the insurers business could be impacted.

WHAT IMPACT DOES THE EU HAVE ON INSURERS BASED IN THE UK?

This is an extremely large area to tackle as there are vast numbers of EU edicts affecting insurers – by searching an EU website and typing 'insurance' as the search word, over 31,000 results are returned[18]. This is a lot to process, so here the focus will be on a few key examples of how and where insurers have been affected the most by EU legislation.

Regulation

The Insurance Companies Act 1982 dealt with the regulation of insurers and was largely based on EU Directives. It has now been superseded by the Financial Services and Markets Act 2000[19] which is "*An Act to make provision about the regulation of financial services and markets; to provide for the transfer of certain statutory functions relating to building societies, friendly societies, industrial and provident societies and certain other mutual societies; and for connected purposes*"[20]. This act has many EU Directives and regulations affecting its content, for example The Insurance Accounts Directive and The European Communities (Lawyer's Practice) Regulations 2000[21].

The **Solvency II** legislative programme is a new insurance regulatory regime that will apply to all 28 EU member states, coming into force from January 2016. Solvency II's key objectives are follows:

- *"Improved consumer protection: It will ensure a uniform and enhanced level of policyholder protection across the EU. A more robust system will give policyholders greater confidence in the products of insurers.*
- *Modernised supervision: The "Supervisory Review Process" will shift supervisors' focus from compliance monitoring and capital to evaluating insurers' risk profiles and the quality of their risk management and governance systems.*
- *Deepened EU market integration: Through the harmonisation of supervisory regimes.*
- *Increased international competitiveness of EU insurers."* [22]

The European Insurance and Occupational Pensions Authority (EIOPA)[23] was set up following reforms required for the supervision and structure of the financial sector of the EU. The main objective is to

[17] (http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32012R0741:EN:HTML)
[18] (http://eur-lex.europa.eu/search.html?qid=1439986053024&text=insurance&scope=EURLEX&type=quick&lang=en)
[19] http://www.legislation.gov.uk/ukpga/2000/8/contents
[20] (http://www.legislation.gov.uk/ukpga/2000/8/introduction)
[21] http://www.legislation.gov.uk/uksi/2000/1119/part/1/made
[22] (https://www.lloyds.com/the-market/operating-at-lloyds/solvency-ii/about/what-is-solvency-ii)

protect the public interest and for the insurance industry this means establishing common supervisory standards across the EU. EIOPA will be heavily involved in the implementation of Solvency II, but also has a number of other interests for the near future, including advising on the revision of the **Insurance Mediation Directive** which governs the conduct of brokers, agents and intermediaries and providing input to the European Commission regarding Insurance Guarantee Schemes.

It is important to note that there are many other EU regulations that can indirectly affect insurers. e.g. the 'free flow of people' impacting the workforce available to the UK and human rights issues affecting the way the courts operate, thus impacting how insurers process claims.

There is some debate with regards to the impact on regulation of insurers, should the UK exit the EU, with some factions of the opinion that there would be more scope for the UK to de-regulate[24] and others stating that there would be little impact as the UK would still need to have regulation in line with the EU, but with no say in it, in order to trade with EU members.[25].

General Impacts

The above shows how insurers are legally impacted by the EU, however we now turn to 'softer' impacts. As mentioned above, one of the key areas in which insurers may be impacted by the UK exiting the EU is through its workforce. The EU provides insurers operating in the UK with easy access to a very wide pool of professionals. By exiting the EU it may be that this pool is significantly reduced and could detrimentally affect the quality of insurance professionals, and thereby the quality of service provided to consumers[26]. This could be due to both loss of access to new employees as well as loss of existing employees, should they decide to relocate to the EU.

It is not just the workforce that could impact the UK if it decides to exit; it is also the potential impact of conducting business with countries on a global scale. It may be that global insurers treat the UK as somewhere from which to gain entry to the rest of the EU. If this is the case, they could be likely to move their operations into another European country in order to maintain these European benefits, meaning a loss of dealings for the UK with insurers in those countries and a significant loss of revenue. The UK's best option to try and avoid this exodus might be to consider lowering tax, granting subsidies or providing incentives to global insurers to maintain their UK, pan-EU, relations.

An exit from the EU may also have an impact on the value of the Pound (and the Euro), possibly devaluing the currency due to the uncertainly in the markets during the exit period. Ollie Carpenter, writing for the Euro Exchange Rate News, commented:

"the Pound Sterling or the Euro exchange rates would be likely to sink and may remain vulnerable for some time—especially if economic growth struggles in the fallout. However, if economic growth were to continue, the Pound Sterling (GBP) and Euro (EUR) exchange rates could regain strength and perhaps come out of the situation stronger than ever."[27]

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[23] https://eiopa.europa.eu/
[24] (http://openeurope.org.uk/intelligence/britain-and-the-eu/what-if-there-were-a-brexit/)
[25] (http://www.ibtimes.co.uk/eu-referendum-brussels-would-still-control-britains-labour-laws-despite-brexit-says-eiu-1454268)
[26] (http://www.relocatemagazine.com/articles/david-sapsted-07-d3-2015-brexit-would-threaten-british-jobs-and-investment)
[27] (http://www.euroexchangeratenews.co.uk/how-a-grexit-or-a-brexit-could-affect-pound-and-euro-gbp-eur-exchange-rates-in-the-foreign-exchange-market-10492)

It is important to note here that some insurance contracts are written in foreign currencies. The impact on the potential cost of claims could be huge, depending on how significant the change in exchange rates are.

HOW WILL INSURERS IN THE REST OF THE EU BE IMPACTED IF THE UK LEAVES THE EU?

Unfortunately the majority of focus regarding the UK's exit from the EU is focussed on the impact to the UK and UK-based insurers; and little information is available regarding its impact on the EU and other member states or insurers in their respective countries. However, there are some general views among the researched opinions that can be considered. There is also the potential that some of the issues that have affected the UK could have the opposite impact in the rest of the EU, so this is also taken into account below.

Regulation

It is often felt by the rest of the EU that the UK is an 'awkward partner', always bringing problems to the EU rather than being helpful or cooperative. It may be that without the UK blocking the way, the EU could move forward more quickly with implementing regulations to the benefit of the rest of Europe.

This may be the case, however there are also those with the view that they would be losing a lot of the support that the UK has offered them. For example 'Germany and other northern European states worry that the loss of the UK within the EU, with its strongly liberal minded approach to trade & economics, could tip the EU towards protectionism[28]. For states which have secured opt-outs, such as Denmark and Sweden, the idea of differentiated integration or a multi-speed Europe could become more difficult to sustain. The absence of the largest supporter of such an approach would leave them exposed'[29]. So it would seem that there is definitely mixed opinion within EU member states as to the benefits or disadvantages on the UK exiting the EU.

How the above could impact insurers in the rest of the EU is questionable as it depends on how and what regulations are likely to be implemented. For example, given that the UK was particularly protective of certain aspects affecting its financial services industry, including insurance, it may be that the rest of the EU, and thus its insurance industry and insurers, becomes more heavily regulated in comparison to the UK, if the UK is not there to object and others do not do so in its place.

General Impacts

The UK has the biggest financial services sector out of all EU member states. This could have a positive or negative effect on the rest of the EU's insurance industry should the UK exit. For example, insurance companies may decide to stay in the UK, should the right incentives be offered, or they may move to other countries in the EU if they decide that they want to access the rest of the EU more easily than they would with Britain being outside the EU. Either way, this will have an impact on the EU by either boosting other economies, who would potentially gain from the increase in jobs that new companies would bring, or negatively impacting those economies if Britain offers a more attractive deal. One country which may benefit in particular could be Ireland, purely due to their primary

[28] (http://blogs.telegraph.co.uk/finance/matspersson/100024783/hey-berlin-this-is-what-an-eu-without-britain-would-look-like/)
[29] (http://www.swp-berlin.org/en/publications/swp-research-papers/swp-research-paper-detail/article/europe_without_britain.html)

language being English, which is the language of preference for many businesses, particularly those trading across national boundaries[30].

Whilst outside the scope of this research paper, a UK decision to leave the EU could prove to be the catalyst for a further independence referendum in Scotland. The Scottish National Party, whose elected members control the Scottish Government, is committed to Scotland remaining in the EU[31]. There are numerous issues to be resolved regarding Scotland's potential membership of the EU. However if Scotland was successful in joining the EU it would have the same language benefit as mentioned above regarding Ireland.

Aside from the workforce impact on the EU, there is also the potential impact on trade with other countries. Outside the EU, it may be that global insurers where only using the UK as the easiest platform from which to gain entry to the rest of the EU. If this is the case, they would be likely to move there bases into EU countries in order to remain within the EU. This would be a huge gain to the economies of those EU countries. As far as the UK's dealing with other EU member states, "Membership significantly increases Britain's trade with other member states…"[32], so if it were to exit the EU this may be reduced while EU members increase trade within their borders (although general consensus is that adequate deals would be arranged between the UK and EU member states and the impact would therefore be minimal).

The Euro would also not escape impact, as discussed in the previous chapter with regards to the impact on the Pound. The most likely option being a sinking of the exchange rates during the time of uncertainly and a regaining of strength only if economic growth were to continue[33]. This would of course impact insurers' investment returns, as well as in the possible payment of their claims in other currencies, which could be significantly higher if the Euro is devalued. This then also raises the question of what the relationship between the Pound and the Euro will be and how that will affect trade between the UK and the EU, as well as with other currencies.

A final point to note regarding the impact that the UK leaving the EU could have on the rest of the EU is that it may lead to calls for an in/out referendum in other countries within the EU, e.g. the Netherlands[34], thus further damaging the viability of the EU. This would then have an even greater impact on insurers due to the uncertainty over the future of the EU as a whole - this affects all of the above issues far more than just a single country exiting as it undermines the entire foundation of the EU.

HOW WILL GLOBAL INSURERS BE IMPACTED IF THE UK LEAVES THE EU?

There are two things to consider here: how will a UK exit affect relationships between the UK and other countries; and how will it affect relationships between the EU and other countries?

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30 (http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=7&ved=0CEcQFjAGahUKEwjmufqwvtPHAhVIvBQKHRwADT4&url=http%3A%2F%2Fwww.ntma.ie%2Fdownload%2FBrexitIrish%2520Economy.pdf&ei=tV7kVaaLBcj4UpyAtPAD&usg=AFQjCNHQVnGrFD7WL4b3LMCUikN3KnjOkg)

31 http://votesnp.com/docs/manifesto.pdf

32 (http://www.cer.org.uk/sites/default/files/smc_final_report_june2014.pdf)

33 (http://www.euroexchangeratenews.co.uk/how-a-grexit-or-a-brexit-could-affect-pound-and-euro-gbp-eur-exchange-rates-in-the-foreign-exchange-market-10492)

34 (http://www.ft.com/cms/s/6e676a5c-867b-11e2-b907-00144feabdc0,Authorised=false.html?siteedition=uk&_i_location=http%3A%2F%2Fwww.ft.com%2Fcms%2Fs%2F0%2F6e676a5c-867b-11e2-b907-00144feabdc0.html%3Fsiteedition%3Duk&_i_referer=&classification=conditional_stand)

Tim Oliver, in his paper 'Europe without Britain' makes the following statements: "*From the perspective of Asia or the Americas a British withdrawal may reinforce views of Europe as riven by division, introspection and decline…who speaks for Europe if the UK and other non-EU European states disagree with the EU*" and "*The single biggest test may lie in the response of the US*"[35], following which a statement by the US's President Barack Obama counters "*The UK has to stay in the EU*"[36].

"*Membership significantly increases Britain's trade with other member states, while there is little evidence that it reduces trade with countries outside the Union. Britain is home to a large stock of EU and US foreign direct investment than any other EU economy and is the preferred location for investment form other leading markets. Some of this investment would be threatened by a UK exit from the EU*"[37]

Regulation

The main regulatory issue that would affect global relations is the possibility that, without the encumbrance of adhering to EU regulation, the UK may be able to attract/retain foreign relationships by providing the right incentives for foreign entities, including foreign insurers. Without the EU, the UK would be free to enter free-trade agreements with other economies, e.g. China, should those countries wish to enter such agreements. These free-trade agreements could be arranged without the need for comparable arrangements with the rest of the EU including conditions being imposed on the relationship, thus also potentially opening up non-EU markets to UK insurers.

For the EU, it is unknown what the likely impact would be, however personal opinion here, looking at some of the above considerations, is that it is unlikely that anything would change from existing arrangements or, if they did, the UK may not be there to impede arrangements or assert special conditions.

For global entities, including insurers, there may be the opportunity in dealings with both the EU and the UK to negotiate more favourable arrangements as the two may very well be vying for business. 'Playing EU and UK insurers off against each other' will work most favourably for global enterprises, but could detrimentally impact the possible premium incomes of both markets.

General Impacts

As mentioned earlier, a key question here is whether or not those insurers from foreign countries that the UK has dealings with, are purely based in the UK to gain access to the EU in general, or if they are trading in the UK for UK specific benefits. If it is the former, they may very well relocate their bases to other EU member states; or of it is the later they may remain if the UK provides them with the right conditions (incentives, tax etc.) to continue with their EU interactions.

The exchange rate fluctuations of the Pound and the Euro will also be a consideration for the rest of the world, as they could go either way. If the currencies decrease, this could prove a good opportunity for international investors, whereas if the currencies increase in value they may be put off. If they go in opposite directions this may very well sway the direction in which insurers decide to transact business.

[35] (http://www.swp-berlin.org/en/publications/swp-research-papers/swp-research-paper-detail/article/europe_without_britain.html)
[36] (http://www.dw.com/en/opinion-on-uk-brexit-obama-is-thinking-us-not-eu/a-18607337)
[37] (http://www.cer.org.uk/sites/default/files/smc_final_report_june2014.pdf)

For example, an entity wishing to take out insurance may look to the strong reputation of UK based insurers to insure it's business, however if the price is too high it may decide to place its business elsewhere in the EU or globally for a better price.

BACKGROUND EVALUATION

Even from the small selection of topics researched above, it can be seen that the EU has a huge impact on the UK. In turn the UK has a great amount of impact on the EU and the global markets in all aspects, including its sway in the insurance industry and on insurers. With all of this legislation and influence that the EU has, it highlights just how much there is to consider when thinking about the possibility of the UK leaving the EU.

From the above research, there are a few clear topics that have emerged which will be referred to during the rest of this study. These topics are:

- Regulation
- Workforce and jobs
- Trade borders
- Currency
- Stability

At this stage in this research paper it is hard to decide if the UK leaving the EU would be good or bad for insurers, so it is now appropriate to look to other sources for more information. The above research has provided a framework which has been used to evaluate the analyses carried out below. Following the above research, the focus of the following analyses is in considering the opinions of the insurance media and key industry informants. Their views will be combined with the above research to gain a more balanced view of the options insurers should consider when deciding on where to base their operations in future.

Whilst outside the scope of this research paper, it is evident that the views of the wider financial services industry, including banks, within the UK and the EU will likely inform, and be informed by, the deliberations and decisions made by insurers.

THE RESEARCH PROJECT

It is important to consider the opinions of the media as they provide a lot of insight into industry affairs and do a lot of research on the topics on which they report. Currently there is a significant amount of discussion in the media, as can be seen below, regarding the influence that the UK leaving or remaining in the EU could have on insurers.

It is also important not to take the opinion of the media at face value as they may just be sensationalising in order to grab headlines. They are still valid opinions, with some high-profile insurance expert comments in their articles, however it is always valuable to gain those expert comments first hand in order to evaluate the validity of the Medias opinion, without them 'cherry picking' the opinions that are best suited to achieving their own agendas.

RESEARCH OBJECTIVES

The two key objectives of this research project are:

1. Review and consolidate the opinions expressed in the media regarding the UK leaving or remaining in the EU and how this would impact insurers.

2. Gain the views of key insurance industry experts on what they feel the primary factors are if the UK exits the EU and to see to what extent their opinions are in line with that of the media and earlier research.

It is important to gather and understand these opinions in order **to decide effectively on what outcome, staying or exiting the EU, is most desirable for insurers and how the result will affect their decision on where to base their operations in future**.

METHOD

To review the opinions of the media, the method used was the review of web-based media and news articles from financial and informed press, insurance trade press and industry observer blogs to determine a general consensus of media opinion. This method was used in order to gain as many opinions as possible from the widest variety of media sources. These opinions have been collated into positive comments and negative comments to establish which opinion is most prevalent. Following this, the key observations and recurring opinions have been summarised.

Key industry informants were asked to express their opinion on four key questions emailed to them. This method was employed in order to minimise the disruption to those individuals by providing them with concise questions that could be answered in a minimal amount of time.

RESEARCH ANALYSIS

1. MEDIA

The first step in evaluating opinions expressed by the media is to collate the key arguments for and against the UK remaining in the EU. Below, these comments have been split into two tables to clearly identify the balance of opinion. Following these tables is an evaluation of their content.

Statements in favour of the UK leaving the EU, showing benefits for insurers:

1	"If it left the EU, the UK would be **free to regulate** its own financial sector"[38]
2	"If the UK were to exit the EU, UK insurers would be **free from the burden of Solvency II** and could carry on operating in a regulatory environment that has successfully been operating for decades. This would not impact the credibility of the UK insurance industry because for years it has been ahead of the game, and without the colossal costs of Solvency II." [39]
3	"Switzerland and Norway are examples of thriving and financially strong nations who are not members of the EU. Both countries have access to the EU market but **do not have to comply with all EU laws**. Two of the largest and most successful insurance companies globally are based in Switzerland; Zurich Insurance Group and Swiss Re"[40]
4	"The EU Gender Directive could be lifted from UK insurers, allowing them to factor gender into the pricing of insurance" [41]
5	"while Brexit would be costly for the insurance sector, S&P did not expect firms' operations to be "significantly curtailed" as their **trade was more reliant on non-EU countries** such as the US"[42]
6	The UK's insurance industry has little to fear from a potential European Union exit. Business relationships between the UK and continent are sufficiently important that they **would likely survive even in the event of the UK exiting the EU** - economic secretary to the treasury Andrea Leadsom MP[43]
7	"Were Britain to leave the EU, European companies and organisations would still come to the City of London to get the best financing options and terms. Centres such as Frankfurt, Paris and Amsterdam have attempted to build markets that compete with the City in the past and have failed; Britain departing the EU would not make those less-competitive centres any more effective. Threats to the effect that the UK would lose access to EU customers fail to recognise the global reality of how both EU and non-EU companies (and other organisations) finance themselves"[44]
8	"leaving the EU would offer the UK a **chance to develop new rules** to cater for its financial industry. Parliament would have the power to make the UK even more welcoming to foreign firms and a far better place to do business." [45]

Statements against the UK leaving the EU as it could harm insurers:

1	"…the single market is very well developed and the **UK would have difficulty in striking a reciprocal agreement with the EU** given the lack of incentive for the EU to

[38] (http://www.ft.com/cms/s/0/1fa0f3dc-a70a-11e4-b6bd-00144feab7de.html#axzz3jeJSFhfq)
[39] (https://www.barnett-waddingham.co.uk/comment-insight/blog/2015/08/06/brexit-impact-uk-insurance-industry/)
[40] (https://www.barnett-waddingham.co.uk/comment-insight/blog/2015/08/06/brexit-impact-uk-insurance-industry/)
[41] (https://www.barnett-waddingham.co.uk/comment-insight/blog/2015/08/06/brexit-impact-uk-insurance-industry/)
[42] (http://www.theactuary.com/news/2015/06/brexit-could-significantly-dent-uks-financial-sector/)
[43] (http://www.postonline.co.uk/post/news/2389184/insurance-need-not-fear-brexit-says-city-minister)
[44] (http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/11693846/The-City-has-nothing-to-fear-from-Britain-leaving-the-EU.html)
[45] (http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/11693846/The-City-has-nothing-to-fear-from-Britain-leaving-the-EU.html)

	play ball”[46]
2	“A British exit from the European Union **could hit insurers' ability to sell policies in Europe and may deter overseas players from opening offices**.”[47]
3	“If the UK were to exit, insurers and reinsurers from ... countries such as the United States and Japan might be **obliged to choose other European centres over London in order to passport into the EU**”[48]
4	“EU membership provides UK insurance companies direct access to a single insurance market in 28 countries, comprising of over 500 million people”[49] [50]
5	“Policyholders enjoy a **greater variety of choice in insurance products**” [51]
6	“Insurers can conduct **cross-border business without requiring further authorisation** or incurring additional local costs.” [52]
7	“Should the UK divorce itself from the EU, **UK insurers may be required to establish EU-domiciled subsidiaries** or branches in order to underwrite business in the respective territories. Significant cost and resource implications will result from this, as well as the increased likelihood of **insurers relocating from the UK to EU member states**” [53]
8	“Many large nations such as the United States and China, view the UK as a direct platform for trading in the EU market. This perspective could dramatically change if the UK revokes its EU membership. If access for UK insurers is reduced or denied, many business opportunities will tumble and investment in the UK insurance industry will subside.” [54]
9	“The **UK’s influence over EU insurance regulation would evaporate** following a termination of EU membership” [55]
10	“the risk would be a UK outside of the EU, **unable to influence from within, yet still compelled to follow EU regulation** to remain competitive[56]
11	“the International Underwriting Association (IUA) warned that the so-called 'Brexit' could prevent British insurers from selling policies in Europe. It could also **deter overseas companies from setting up offices in London**, reports Reuters[57]
12	Keith Skeoch, head of the insurance group’s fund management arm, says **financial markets would be unsettled** by a vote to quit EU[58]
13	“Any departure from the European Union could do significant harm to the UK's insurance and financial services sectors”[59]
14	S&P credit analyst Frank Gill said leaving the EU "could significantly **dent the UK's current net trade surplus in insurance** and financial services of more than 3 per cent of GDP"[60]

[46] (http://www.ft.com/cms/s/0/1fa0f3dc-a70a-11e4-b6bd-00144feab7de.html#axzz3jeJSFhfq)
[47] (http://www.euractiv.com/sections/uk-europe/brexit-could-hit-london-insurance-market-314970)
[48] (http://www.euractiv.com/sections/uk-europe/brexit-could-hit-london-insurance-market-314970)
[49] (http://europa.eu/about-eu/countries/member-countries/)
[50] (https://www.barnett-waddingham.co.uk/comment-insight/blog/2015/08/06/brexit-impact-uk-insurance-industry/)
[51] (https://www.barnett-waddingham.co.uk/comment-insight/blog/2015/08/06/brexit-impact-uk-insurance-industry/)
[52] (https://www.barnett-waddingham.co.uk/comment-insight/blog/2015/08/06/brexit-impact-uk-insurance-industry/)
[53] (https://www.barnett-waddingham.co.uk/comment-insight/blog/2015/08/06/brexit-impact-uk-insurance-industry/)
[54] (https://www.barnett-waddingham.co.uk/comment-insight/blog/2015/08/06/brexit-impact-uk-insurance-industry/)
[55] (https://www.barnett-waddingham.co.uk/comment-insight/blog/2015/08/06/brexit-impact-uk-insurance-industry/)
[56] (http://www.venquis.com/blog/2015/07/the-effect-of-the-brexit-referendum-on-uk-insurance-market)
[57] (http://www.cityindex.co.uk/market-analysis/financial-news/general-economic-news/37817372015/brexit-could-spell-trouble-for-uk-based-insurance-companies/)
[58] (http://www.theguardian.com/business/2015/feb/20/standard-life-warns-against-britain-leaving-eu)
[59] (http://www.cityam.com/218616/standard-poors-brexit-could-significantly-dent-uk-financial-services-and-insurance-sectors)
[60] (http://www.cityam.com/218616/standard-poors-brexit-could-significantly-dent-uk-financial-services-and-insurance-sectors)

15	Gerry Grimstone, chairman of Edinburgh-headquartered insurer Standard Life and of TheCityUK, which promotes Britain as a financial centre, said…Brexit would be "disastrous for London and the UK".[61]
16	"The risk of a British exit from the European Union is causing **major political uncertainty** for the insurance industry" Huw Evans, chief executive of the Association of British Insurers (ABI) [62]
17	"The biggest issue for a U.K. insurer would be operating without the European Union's financial services passporting scheme. This scheme is where a company can be authorized in one member state and has the ability to access business across the United Kingdom. An exit means that a **U.K. insurer may need to set up a separate EU subsidiary** in order to continue to access that business." A.M. Best's director of analytics Catherine Thomas[63]
18	"…Brexit would be **costly for the insurance sector**…"[64]

Thinking back to the key topics that emerged in the previous section (regulation, workforce & jobs, trade borders, currency and stability), the main points highlighted in the above statements can be split into those categories, along with whether the media view is for or against the UK leaving the EU, therefore good or bad for insurers:

Regulation:

The UK leaving EU is good for insurers	The UK leaving EU is bad for insurers
free from the burden of Solvency II	UK's influence over EU insurance regulation would evaporate
do not have to comply with all EU laws	unable to influence from within, yet still compelled to follow EU regulation
free to regulate	
chance to develop new rules	

Regulation is a factor, with both positive and negative opinions, in the decision to stay or exit the EU. UK insurers could benefit from not being tied to EU regulation in some respects but may still be bound to some of it and lose their voice on the parts that they would be bound to, making transacting business more complicated. It seems from looking at the media's comments that regulation is the biggest area used in the campaign for leaving the EU. This could affect insurers' decision on where to base themselves – if the UK offers less regulation than the rest of the EU, insurers may decide that the UK is a good place to be based. If the UK still has to maintain the same regulation as the rest of the EU, in order to trade with it, insurers will need to look at other factors when making their decision.

Trade Borders:

The UK leaving EU is good for insurers	The UK leaving EU is bad for insurers
Relationships… would likely survive even in the event of the UK exiting the EU	UK would have difficulty in striking a reciprocal agreement with the EU

[61] (http://uk.reuters.com/article/2015/06/02/uk-britain-eu-insurance-idUKKBN0OI1XU20150602)
[62] (http://uk.reuters.com/article/2015/06/02/uk-britain-eu-insurance-idUKKBN0OI1XU20150602)
[63] (http://www.reuters.com/article/2015/07/09/nj-am-best-idUSnBw095843a+100+BSW20150709)
[64] (http://www.theactuary.com/news/2015/06/brexit-could-significantly-dent-uks-financial-sector/)

trade was more reliant on non-EU countries (anyway)	U.K. insurers may need to set up separate EU subsidiaries
	deter overseas companies from setting up offices in London
	insurers relocating from the UK to EU member states
	UK insurers may be required to establish EU-domiciled subsidiaries
	could hit insurers' ability to sell policies in the EU and may deter overseas players from opening offices in the UK
	obliged to choose other European centres over London in order to passport into the EU
	cross-border business without requiring further authorisation

By far the section with the most comment in the media is the impact on cross-border trading, particularly for those that feel that the UK exiting the EU would be bad for insurers. They indicate that the biggest threat from an exit would be the impact on the UK, the EU and global insurers on the loss of the easy 'passport' into the EU that the UK currently provides. This loss of 'passporting' would affect the prospect of companies relocating to within the EU. For insurers who are deciding on where to base their operations in future, this topic is of particular importance. If they would no longer be able to transact business with a large part of the EU, they would seriously have to consider moving or setting up their base elsewhere in the EU. The ideal option all round would be for the UK to remain within the EU so that trading remains consistent and stable.

Currency:

The UK leaving EU is good for insurers	**The UK leaving EU is bad for insurers**
	costly for the insurance sector
	dent the UK's current net trade surplus in insurance

The impact on currency seems to be a purely negative one for insurers. No comment was found to suggest that currency changes would be positive if the UK left the EU. This would suggest that insurers would prefer the UK to remain in the EU, so that currency fluctuations due to an exit would not happen. If there was an exit, their business would be impacted in both claims and investments. Depending on which currency, Pound or Euro, was most stable, insurers may decide to base their operations in the location with the least financial impact on their business.

Stability:

The UK leaving EU is good for insurers	**The UK leaving EU is bad for insurers**
	major political uncertainty
	financial markets would be unsettled

Uncertainty, and therefore stability, ahead of a referendum is destabilising the insurance industry and will continue to do so, possibly until years after the referendum. When deciding where to locate their operations, insurers want to look for a stable environment. Unfortunately, it is not just the stability of the UK which is affected by the referendum, it is also the stability in the rest of the EU – as mentioned earlier, other countries may decide to leave the EU too or the overall validity and viability of the EU could come into question.

Workforce & Jobs:

There did not appear to be any direct comments applicable to how the UK leaving the EU would affect jobs at insurers or the workforce available to those insurers. It is likely though that this element comes in to effect only after other elements are considered, i.e. if where a company is located changes, the workforce will change with it in both who is available to insurers and what jobs are created. Stability could also have an impact – where there is uncertainty, people may look for alternative employment in a more stable environment or insurers may be affected financially and have to make redundancies or hire additional staff, depending on circumstance. The cost of a workforce, the quality of employees and the impact of changing those elements with relocation, would all be factors an insurer would need to consider in deciding where to base their operations.

MEDIA EVALUATION

It can clearly been seen from the above that, for insurers, there is a great deal more comment in favour of the UK remaining within the EU, than there is for it to leave. The UK leaving the EU would have a far more negative impact on insurers than if it remained within the EU and stability as a whole would be far greater. If however the UK did leave, there would be a lot of elements for an insurer to consider in deciding on its future strategy and base of operation.

At this stage in this research paper, the decision on whether the UK leaving the EU is good or bad for insurers is becoming clearer, however there is still more opinion to be taken into account. Next, the objective is to gain the views of key industry informants in order to gain their view on the issues affecting insurers when, should the UK exit the EU, they decide where the best option is for insurers to base their operations. The primary focus will remain on the above key themes of regulation, workforce & jobs, trade borders, currency and stability, but should other issues arise, these will also be considered.

2. KEY INDUSTRY INFORMANTS

Following on from reviewing the opinions of the media, it was felt that primary sources of information were required in order to validate media opinion. It is important to have ‘first hand’ facts from those with the most relevant and informed opinion. For this reason, this research has been limited to only a few key industry experts, rather than sending out questionnaires to large numbers of people.

The method employed here was to seek out the assistance of a key industry contact that could facilitate contact between the researcher and key industry informants. Additional contacts were also suggested by those informants and the researcher attended a conference –

‘Renegotiation, Brexit and the City’ – at which additional contacts were made. Identified informants were sent an email with a brief outline of this study and a set of four key questions aimed at the topics discussed above. This method was used as it would take up the least amount of respondents time, given that they are generally very busy people. In order to allow for as much information from the respondents as possible and not take up too much of their time, the questions posed are open questions.

The questions chosen fit into the categories of

1. Trade borders
2. Workforce/jobs
3. Regulation
4. Stability

Additional comments made by respondents have also been considered however, in order to limit the number of questions, currency has not been discussed as it was one of the smaller points noted.

The key responses received were as follows (full details can be found in the appendices at the end of this paper):

1. **If Britain left the EU, there is the possibility that insurers would relocate to elsewhere in the EU. Do you agree with this & why?**

    - ‘Yes. Under the current Financial Services Passporting Scheme insurers authorised in one member state have the ability to access business across the other EU states. If Britain were to exit the EU then Britain would no longer be part of this Scheme...’[65]
    - ‘Some non-EU insurers may scale down their UK operations as the UK would lose the 'single EU passport'...’[66]
    - ‘...the prospect of any major insurers leaving the UK is fairly minimal. It is already the case that Britain is not part of the Eurozone, which in itself may well have caused insurers to leave if factors related to the EU were of prime importance in determining location. Britain is a renowned global hub for insurance activity and talent and it is unlikely that this position will be threatened to any significant degree in the short to medium term, and arguably the long term, by Britain's withdrawal from the EU...I do not see any of these factors changing materially merely as a result of Britain leaving the EU.’[67]

The responses here show that the most important consideration here is the ability for insurers to ‘passport’ into the rest of the EU. The key here would be what arrangement the UK would come to with the EU if it left and if that would be an acceptable alternative to the current passport system. If it is not acceptable then it is more likely that insurers would move, however if the alternative works, insurers would not have to worry too much about this particular issue if the UK leaves the EU.

65 (Dr Julie Robson (full transcript of responses in appendices))
66 (Nick Hopkinson (full transcript of responses in appendices))
67 (Anonymous University Professor (full transcript of responses in appendices))

2. **How do you feel the workforce available to insurers will be impacted if Britain leaves the EU?**

   - The British insurance workforce is professionally well qualified and compare well with the best in Europe. If Britain leaves the EU and some insurers relocate parts of their company elsewhere then this would have an impact on employment...The obvious and biggest issue would be any change to the current regulations concerning the movement of employees between Britain and the EU...'[68]
   - 'Any downscaling of operations in the UK will reduce jobs.'[69]
   - '...depends on policies adopted with respect to immigration and employment Visas and related matters. I judge that it would be almost inconceivable that any UK government would be so foolish as to close the country's borders to world-class talent from where ever it may originate...'[70]

From these responses we can see that the primary concern will be what regulations are implemented/arranged to ensure the free movement of people into and out of the UK in order to still have access to high calibre workers. There is also a dependency here on whether or not insurers stay or leave – if they stay there may be less impact than if they left and the structure of the workforce changed.

3. **To what extent do you feel that Britain leaving the EU would impact the regulation of insurers in Britain and the rest of the EU?**

   - '... Solvency II as British insurers would no longer need to comply with this. This would most likely be seen as an advantage given the perceived 'burdensome' nature of Solvency
   - The second area concerns EU Directives that have a direct impact on insurance policies and pricing such as the EU Gender Directive. The question here is whether Britain would remove the need for insurers to comply with this directive or continue to work to its requirements?' [71]
   - 'UK insurers complain about the EU's Solvency II directive, but it remains to be seen if UK regulation would be any less stringent (i.e. would levels which can be invested in equities be any higher?)' [72]
   - Prudential regulation of systemically important firms currently and would continue to take place under the auspices of the PRA and the bank of England and I see no reason why leaving the EU would impact at all on this arrangement...the government would aim to ensure that UK insurers remained competitive and trusted in the global environment. Therefore the government is unlikely to dispense with regulatory stipulations that my damage the credibility understanding of the UK insurance sector.' [73]

Here we can see mixed opinion on the changes in regulation that could occur if the UK exited the EU. Solvency II is a very large source of regulation imposed by the EU and it is definitely a frustration for some insurers, however it is not yet an absolute that this would be eased if the

[68] (Dr Julie Robson (full transcript of responses in appendices))
[69] (Nick Hopkinson (full transcript of responses in appendices))
[70] (Anonymous University Professor (full transcript of responses in appendices))
[71] (Dr Julie Robson (full transcript of responses in appendices))
[72] (Nick Hopkinson (full transcript of responses in appendices))
[73] (Anonymous University Professor (full transcript of responses in appendices))

UK exited the EU. There is a distinct possibility that the requirements would remain the same, in order to maintain the high standards that this regulation expects. In the researcher's opinion, Britain may very well be ahead of many other countries in the EU in the implementation of Solvency II standards, so to reverse the requirements may be more frustrating than to continue their necessity. The Solvency II debate, on greater or less regulation, can be viewed from both a positive and negative stance.

Other regulation may also affect the insurance industry in a more indirect way, but will be of equal importance in decision making when determining the best location for an insurer to base its operations.

4. Would Britain leaving the EU be advantageous or detrimental to global insurers?

- '...The impact would depend on where they are currently located in the EU and if they have a sufficient presence in the EU and Britain. In addition, there is the added complexity that the global insurer would need to take account of any changes in regulation that are specific to Britain...'[74]
- 'I can see no possible advantage to global insurers. Only costs of relocation and reduced access to professional services in London.'[75]
- '...I am not sure that Britain leaving the EU would have significant implications one way or the other for global insurers. I doubt it would be the case that any of them would relocate any significant business operations out of the UK and equally providing they are running a profitable businesses, why would Britain leaving the EU cause them to reconsider customer facing operations?'[76]

Responses here are particularly non-committal overall and are heavily dependent on opinions given in other questions. It seems that the decision would be neither advantageous nor detrimental, merely an inconvenience if they decide to relocate.

5. Additional Considerations

- The potential withdrawal of Britain from the Financial Services Passporting Scheme has created some **uncertainty** in the market even though any change is likely to be phased over time. A number of insurers and other financial services companies are examining the implications of this, both the potential advantages and disadvantages and asking the question should they relocate some of their activities now with a view to getting ahead of the competition?[77]
- '...London as a key global financial service centre/market. Will this change if this financial services centre is no longer located in Europe? Potentially yes, depending on the steps taken by other key financial services centres in the EU. Although I would expect London as a key centre is already working on contingency plans to ensure its position within the global financial services marketplace.[78]

KEY INDUSTRY INFORMANTS EVALUATION

[74] (Dr Julie Robson (full transcript of responses in appendices))
[75] (Nick Hopkinson (full transcript of responses in appendices))
[76] (Anonymous University Professor (full transcript of responses in appendices))
[77] (Dr Julie Robson (full transcript of responses in appendices))
[78] (Dr Julie Robson (full transcript of responses in appendices))

It should be noted here that this section of research was particularly challenging. Requests for responses were sent to 12 industry experts, of which only 3 responses were received. It is the researcher's personal opinion that the reason for this is the current importance of expert opinion on this subject. Many people do not yet want to 'show their hand' at this early stage in the referendum considerations and would rather wait to view the opinions of others first. Expert opinion is an important element of people's perceptions and could impact their decision on which way to vote in the referendum, so experts will most likely be considering their stance carefully before making any hasty judgements. The researcher feels that this reluctance and timing of requests for opinions is the primary cause of the lack of responses received. However, from the responses that were received there is still a clear outcome from which to draw conclusions.

The responses received from the industry experts shows that, even between the 3 of them, there is a variety in opinion on the impact of the UK exiting the EU. This corresponds well with the opinion gathered from media sources, where there was more opinion expressing that an exit would be bad for the UK than there was in support of an exit. Although there is no outright support of an exit from the EU from the experts, the anonymous respondent did not appear to think it would adversely impact insurers if the UK did exit the EU.

RESEARCH PROJECT EVALUATION

The main aim for this research project was to gather and understand the opinions of the media and industry informants in order **to decide effectively on what outcome, staying in or exiting the EU, is most desirable for insurers and how the result will affect their decision on where to base their operations in future**.

From the research we can determine that there is a great deal more comment in favour of the UK remaining within the EU, than there is for it to leave, both in the media and from the opinion of experts. If the UK leaves the EU there will be many issues for an insurer to consider, before deciding on its future strategy and base of operation.

Going back to the four key areas of consideration, we can conclude the following:

Regulation is the number one concern for all parties and would have the greatest impact on an insurer's decision on where it will base itself in future. Solvency II is a large area of deliberation for the financial services industry in general and insurers will be keen to see how this area of regulation in particular will change, be it through renegotiation, exit from the EU or staying as it currently is.

Trade borders are also a large consideration for insurers, particularly due to the 'passporting' currently available to them with the UK being in the EU. If this access to the rest of the EU were to be removed or inhibited, insurers would certainly need to consider relocating in order to maintain the levels of access that they require to EU member states, in order to successfully run their businesses. The key area of consideration here is what can be negotiated with the EU if the UK left the EU. The preferable option would be for things to remain as they are currently in order to limit uncertainty and maintain confidence in the UK as a high level global financial hub.

The impact on the workforce & jobs in the insurance industry will depend greatly on the decision that an insurer makes on whether or not to remain in the UK and on the UK's decision to remain in or leave the EU. If the UK decides to leave the EU and insurers decide to relocate or immigration is impacted, job losses are likely in the UK and job creation may, correspondingly, be created elsewhere. If the UK exits the EU and negotiates an adequate arrangement for immigration, the workforce is unlikely to be impacted too much. The most desired outcome though would be for the UK to remain in the EU and for the current level of access to/from the rest of the EU and a quality workforce to remain accessible.

Other issues that have been highlighted in this research have been the uncertainty and instability currently being felt in the insurance industry. As Dr Julie Robson pointed out 'A number of insurers and other financial services companies are examining the implications of this, both the potential advantages and disadvantages and asking the question should they relocate some of their activities now with a view to getting ahead of the competition?'. Uncertainty is not a good thing to have in an economy or industry as it can reduce confidence and sometime adversely impact decision making.

Finally, this paper is not specifically focusing on the London Market, however the London Market is an extremely important element of the overall insurance industry in the UK. It has the reputation of being one of the best international financial centres in the world and the impact to this reputation and business could, on its own, create a huge impact on the rest of the financial services industry in the UK.

CONCLUSION

The question posed at the beginning of this research paper was ‘How will the United Kingdom’s decision to remain in or leave the European Union affect insurers deciding where to base their operations?’

The starting point for this study was to evaluate the relationship between the EU and the UK; and research the impact of that relationship on insurers globally. This showed that the EU has a huge impact on the UK and in turn the UK has a great amount of impact on the EU and the global markets in all aspects of how the UK operates. It has huge sway in the insurance industry and on insurers. With this we could conclude that any decision to leave the EU would have a great deal of impact on the insurance industry and this impact could in turn determine whether or not insurers would choose to be based in the UK, in another EU country or elsewhere globally. This relationship is a large part of an insurer’s decision as it will set the terms under which an insurer will have to operate. What these terms are and how they interact with an insurer’s core values will make their decision on where to base their operations.

The second objective of this study was to review the opinions expressed in the media regarding the UK leaving or remaining in the EU, looking at how this would impact insurers and to then gain the views of key industry informants to balance/validate the opinions expressed by the media. Throughout the course of this research study there have been many opinions on this, both positive and negative. The only clear message is that everyone does have an opinion and, with the exception of some experts who may be reluctant to state their opinions,, wants to talk about it. It is complete conjecture as to what will happen and no-one will know until the referendum vote actually takes place. It is therefore only speculation as to what insurers will do in deciding where to base themselves.

What is clear however is that insurers would prefer the UK to remain in the EU in order to take advantage of the benefits this offers and the stability of not having to consider or make any changes. Not having to make the decision of moving in the first place is definitely preferable. In the researcher’s opinion though, having considered all the implications during this study, insurers are likely to choose to remain in the UK for the immediate future following a decision by the UK to leave the EU. It would be premature for insurers to relocate prior to this decision and would be far more prudent to remain in the UK until the actual implications are evaluated and they can determine what benefits they may receive as part of their decision to stay. The UK may offer incentives in order to entice insurers to remain based in the UK, which could be a more advantageous option than moving operations to another country.

From this review we can conclude that there are five major considerations that insurers will look at in order to make their location decision: regulation, workforce and jobs, trade borders, currency and, lastly, stability. It is the combination of these and how they weigh up for each individual insurer that will inform the decision for the insurer. Each insurer will have different requirements which will lead to an individual decision for each of them. Ultimately, it may be that whilst some companies decide to leave the UK, others may decide to relocate to the UK, thus balancing the market as a whole.

Overall, the run up to the referendum is going to be a particularly uncertain time for the UK, the EU and insurers globally while the industry waits with bated breath for a decision one way or another. With this we can conclude that stability is currently the top priority for insurers with regard to how the UK’s decision to remain in or leave the EU will affect them deciding where to base their operations,

FUTURE CONSIDERATIONS

One of the most important future considerations will be what, if the UK remains in the EU, the implications will be of staying. This is an important consideration and could have just as many implications as deciding to exit the EU. How, if at all possible, the UK renegotiates its membership of the EU will have significant impacts on insurers, not least in areas such as regulation. Insurers may automatically be bound by all EU decisions relating to them, whether they like it or not. Insurers will need to decide if this is acceptable to them or if they would rather be based outside of the EU in a country with perhaps more autonomy on decision making.

For the future, there is also always going to be the question of how long it will be until this same topic arises again. UK political parties will always be looking for a way to gain votes and will use issues such as EU membership, and the decision to remain or leave, as a bargaining tool with voters. If this happens within too short a time after the 2017 referendum, the additional uncertainty will undoubtedly impact insurers.

There is also the consideration that such an in/out referendum may happen in another EU state. If this happened, they may face many of the same issues discussed in this paper and the UK would be considering their position from the opposite side of the argument. This could also have an impact on the stability of the insurance industry based in the UK and elsewhere. Any uncertainly is a threat to the whole foundation of the EU and insurers globally will be keeping a close eye on how other markets react to the UK's decision, in order to limit the potential impact on their operations and enable them to react quickly to any adverse effects they may face.

Overall, there is no way to predict the future, so there will always be uncertainty no matter which way the referendum vote goes. The only thing that insurers can do is to try to plan for both eventualities of remaining in or leaving the EU, so that they can react swiftly and limit the impact any outcome will have on their operations.

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APPENDICES

Note: The following questions remain as asked, although they refer to Britain rather than the UK. The use of Britain does not detract from the relevance of either the questions or answers, in context of the UK.

EXPERT RESPONSES

Respondent 1 – Dr Julie Robson, Bournemouth University

1. If Britain left the EU, there is the possibility that insurers would relocate to elsewhere in the EU. Do you agree with this & why?

Yes. Under the current Financial Services Passporting Scheme insurers authorised in one member state have the ability to access business across the other EU states. If Britain were to exit the EU then Britain would no longer be part of this Scheme. Insurers from outside Britain would then have to consider whether to set up a separate subsidiary in the UK or withdraw from this market. Likewise, British insurers would need to set up an EU subsidiary, if they did not already have one, and wanted to continue to access business in the EU.

The potential withdrawal of Britain from the Financial Services Passporting Scheme has created some uncertainty in the market even though any change is likely to be phased over time. A number of insurers and other financial services companies are examining the implications of this, both the potential advantages and disadvantages and asking the question should they relocate some of their activities now with a view to getting ahead of the competition? In addition, the changes also create a potential advantage in terms of company positioning (in particular in terms of provider stability and continuity) in that EU insurers can confidently offer their customers continued service, whereas currently not all British insurers may be able to do this.

2. How do you feel the workforce available to insurers will be impacted if Britain leaves the EU?

The British insurance workforce is professionally well qualified and compare well with the best in Europe. If Britain leaves the EU and some insurers relocate parts of their company elsewhere then this would have an impact on employment. This may well be short term short term as UK insurers (and other foreign insurers) are likely to expand to fill the space left. New opportunities will therefore be created. The obvious and biggest issue would be any change to the current regulations concerning the movement of employees between Britain and the EU. This currently enables talent and expertise to move easily within Europe to the insurers (and the EUs) advantage.

3. To what extent do you feel that Britain leaving the EU would impact the regulation of insurers in Britain and the rest of the EU?

There are 2 key areas where there would be an impact on regulation. The first is Solvency II as British insurers would no longer need to comply with this. This would most likely be seen as an advantage given the perceived 'burdensome' nature of Solvency.

The second area concerns EU Directives that have a direct impact on insurance policies and pricing such as the EU Gender Directive. The question here is whether Britain would remove the need for insurers to comply with this directive or continue to work to its requirements?

4. Would Britain leaving the EU be advantageous or detrimental to global insurers?

The issues would be similar to those outlined in response to the above questions. The impact would depend on where they are currently located in the EU and if they have a sufficient presence in the EU and Britain.

In addition, there is the added complexity that the global insurer would need to take account of any changes in regulation that are specific to Britain. This will not of course be an issue for a global insurer who will be used to working in numerous countries and regions with different regulations, but will add cost in terms of monitoring and compliance.

5. Additional Thought

One area not covered by your questions is the perception of London as a key global financial service centre/market. Will this change if this financial services centre is no longer located in Europe? Potentially yes, depending on the steps taken by other key financial services centres in the EU. Although I would expect London as a key centre is already working on contingency plans to ensure its position within the global financial services marketplace.

Respondent 2 – Nick Hopkinson, European Movement

1. If Britain left the EU, there is the possibility that insurers would relocate to elsewhere in the EU. Do you agree with this & why?

Some non-EU insurers may scale down their UK operations as the UK would lose the 'single EU passport' - much depends on the arrangement which the UK achieves with the 'rump' EU - if the Norwegian EEA model, the impact may be less severe. If the Swiss model, equivalence of UK and EU regulations may lead to a reduction in operations.

2. How do you feel the workforce available to insurers will be impacted if Britain leaves the EU?

Any downscaling of operations in the UK will reduce jobs.

3. To what extent do you feel that Britain leaving the EU would impact the regulation of insurers in Britain and the rest of the EU?

UK insurers complain about the EU's Solvency II directive, but it remains to be seen if UK regulation would be any less stringent (i.e. would levels which can be invested in equities be any higher?)

4. Would Britain leaving the EU be advantageous or detrimental to global insurers?

I can see no possible advantage to global insurers. Only costs of relocation and reduced access to professional services in London.

Respondent 3 – Anonymous, University Professor

The name of this respondent has been provided to the CII separately for validation purposes, however will not be disclosed publically.

1. **If Britain left the EU, there is the possibility that insurers would relocate to elsewhere in the EU. Do you agree with this & why?**

If Britain left the EU, my judgement is that the prospect of any major insurers leaving the UK is fairly minimal. It is already the case that Britain is not part of the Eurozone, which in itself may well have caused insurers to leave if factors related to the EU were of prime importance in determining location. Britain is a renowned global hub for insurance activity and talent and it is unlikely that this position will be threatened to any significant degree in the short to medium term, and arguably the long term, by Britain's withdrawal from the EU. It is not that insurance is not traded across borders, but equally insurance as a concept and the product is very different to, for instance, car manufacturing-with most consumer facing market interfaces still being relatively domestically orientated. Ultimately insurers need a stable secure economic and regulatory environment, dependable and legal system, reasonable economic infrastructure, a stable political environment and access to a suitable pool of talent. I do not see any of these factors changing materially merely as a result of Britain leaving the EU

2. **How do you feel the workforce available to insurers will be impacted if Britain leaves the EU?**

The answer to the question of how the potential workforce to the insurance sector might change depends on policies adopted with respect to immigration and employment Visas and related matters. I judge that it would be almost inconceivable that any UK government would be so foolish as to close the country's borders to world-class talent from where ever it may originate. I say almost inconceivable as of course there are some who are so narrow-minded when it comes to matters related to immigration that they would close borders completely regardless of the broader economic and business impact. However I am reasonably confident that the lunatics would never be allowed to take over the asylum to such a degree. Therefore my overall judgement is that the insurance actor will continue to have a reasonable pool of talent to call upon particularly given London's pre-eminent position in the sector.

3. **To what extent do you feel that Britain leaving the EU would impact the regulation of insurers in Britain and the rest of the EU?**

Prudential regulation of systemically important firms currently and would continue to take place under the auspices of the PRA and the bank of England and I see no reason why leaving the EU would impact at all on this arrangement. Obviously there are a large number of directives targeted at the general and life insurance sectors and it would be for the UK government and its agents to decide, which elements should remain in force subsequent to UK exit. Given the importance of the insurance sector to the U.K.'s general reputation as a financial hub, in a safe working assumption would be that the government would aim to ensure that UK insurers remained competitive and trusted in the global environment. Therefore the government is unlikely to dispense with regulatory stipulations that my damage the credibility understanding of the UK insurance sector.

4. **Would Britain leaving the EU be advantageous or detrimental to global insurers?**

Frankly given my answers above I am not sure that Britain leaving the EU would have significant implications one way or the other for global insurers. I doubt it would be the case that any of them would relocate any significant business operations out of the UK and equally providing they are running a profitable businesses, why would Britain leaving the EU cause them to reconsider customer facing operations.