Think piece

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INDEPENDENTLY PROMOTING DEBATE AND FRESH THINKING IN THE FINANCIAL SERVICES INDUSTRY

The UK's European Union Referendum June 2016

Lucy Thomas, Deputy Director of Britain Stronger In Europe

John Longworth, Chair of the Vote Leave Business Council

- On 23rd June the British population will be given the opportunity to vote to remain or leave the European Community. This is second such referendum to be held on renewal of membership, with the first conducted in 1975 following formal UK entry to the then EEC in 1973.

CII stance

- In line with many professional bodies - particularly Chartered bodies - the CII does not have a corporate view on the vote itself. We recognise that individual members will have strong views on both sides of the debate. However, as a professional body we believe it is our responsibility to facilitate a balanced and informed debate on the issues at stake for our members, particularly where they impact insurance and financial planning sectors, as well as the wider economy.
- As part of this process we have set up an information site. This covers factual and academic information as background to the debate [where possible we have tried to link to fact-based, and as far as is possible, neutral content] more opinion-led reference points.
- This is available at http://www.cii.co.uk/41220

Thinkpiece

- As part of this process we have asked both campaigns: *Britain Stronger In Europe* and *Vote Leave* to contribute to a special referendum *Thinkpiece.*
- Lucy Thomas - Deputy Director of *Britain Stronger In Europe,* makes the case for the UK remaining in the EU.
- John Longworth - Chair of the *Vote Leave* Business Council, makes the case for the UK leaving the EU.

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CII introduction: Lucy Thomas, Deputy Director of Britain Stronger In Europe, makes the case for the UK remaining part of the EU.

Membership of the European Union makes British businesses of every size and sector stronger. It boosts our exports, investment, and research and development. It means less red tape, and gives our companies a stable environment in which to plan, invest, and take on new staff. No alternative to the EU that has been proposed can provide this level of benefits.

Britain's thriving financial services sector is a major beneficiary of being able to trade freely across Europe as part of the largest free trade single market in the world. As part of the EU's single market, British firms have unrestricted and guaranteed access to the world's largest market of 500 million consumers. The single market is the destination of 45% of our exports and grants our exporters tariff-free access.

For financial services and Britain's insurance sector in particular, access to the Single Market has helped the sector to grow significantly. The UK is the gateway to the rest of Europe and 40% of the world's largest 250 companies choose London for their European of global headquarters as they know they can access Europe. Putting up barriers to that free trade would put our place as the number one recipient of foreign direct investment at risk.

Nothing illustrates this access more clearly than the single financial passport, which allows firms to trade freely across the EU. This is only available to members of the EU and it is hard to see how Britain would be able to negotiate access to it were we to leave. The free trade deals the EU has with countries around the world do not include comprehensive access in services and none include the single financial passport.

A recent PwC report for TheCityUK said that loss of passporting rights could mean the loss of between 70,000 and 100,000 financial services jobs in the UK. Furthermore, we would lose all influence over European regulation, and would face attempts to lure businesses from London to Paris, Frankfurt, and Dublin. As Mark Carney has said, we should beware basing our economic strategy on "the kindness of strangers."

Financial services account for 7.9 per cent of our GDP, and around 12 per cent when combined with related professional services. In 2014 the financial services sector constituted 22 per cent of UK services exports and currently more than two million people across the UK work in financial and related professional services.

Trade with the EU accounts for a third of UK exports of insurance and financial services, and 37 per cent of total UK services exports. Insurance services alone contributed a trade surplus of £11.3 billion in 2012, with the rest of the financial sector contributing a trade surplus of £34.6 billion. Continued access to the single market is vital for the British financial services industry and insurance sector and leaving the EU would put this at risk. We could only retain full access to the Single Market if we gave up our say over its rules while accepting free movement of people and continuing to pay into the EU budget. In any case, top Leave campaigners like Michael Gove, Boris Johnson and Nigel Farage wants the UK to leave the Single Market and adopt an Albanian-style free trade agreement. No country outside the Single Market has unrestricted access to the EU market in financial or other services, including insurance. It is a move that could cripple the insurance industry.

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Many voices of the British insurance industry have voiced concerns about a potential exit from Europe, including the British Insurance Brokers Association. They said that the UK leaving the EU "would be disadvantageous overall to the insurance broker sector". This is owing to uncertainty, loss of passporting rights into the UK, reducing choice for UK consumers, loss of business from EU-domiciled clients and a reduced pool of skilled labour. Sean McGovern, Lloyds Chief Risk Officer, echoed this by saying the UK's membership of the EU has been part of the sector's success story and believes that it will be key to their future growth and development as they deal with competition from other insurance centres around the world.

Leaving Europe would also bring uncertainty around mortgage rates. In April the Chancellor issued a stark warning that mortgage rates will rise if Britain leaves

Europe. The Chancellor knows that if there is a vote to quit the EU, sterling would slump, therefore pushing up the cost of imports. The Governor of the Bank of England also set out why the UK will be better off in a reformed Europe and why leaving is a threat to our economic security. In an appearance to the House of Lords he warned of "potentially higher mortgage rates".

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EU membership is a major contributing factor to the huge amount of foreign direct investment that comes into this country. European investors are responsible for 46 per cent of our stock of foreign investment and non-European companies, from American banks to Japanese car manufacturers, set up shop in Britain to access the European market. This investment creates jobs for our citizens and opportunities for British businesses. Leaving Europe could reduce the attractiveness of the UK as a gateway to Europe and make it harder to attract corporate HQs.

The Albanian, Canadian and other models mentioned by Leave campaigners are totally inferior to the deal we have now. Some tariffs would remain, red tape caused by regulatory divergence would stifle insurance businesses, and the services industry which makes up over 75% of our economy would not be covered. Insurance services are excluded from any deal that doesn't provide full access to the single market in services, such as the Albanian and Canadian deals.

Furthermore, it would take years to negotiate, and Britain would clearly be the junior partner. Such a deal, if it is even possible, would leave our businesses weaker, jobs at risk and families across Britain out of pocket. Treasury analysis has found that leaving and adopting a Canadian-style agreement would cost families £4,300, and reduce our economy by over 6 per cent. In the words of Axa chief executive, Henri de Castries, leaving Europe would be akin to the UK playing "Russian roulette".

Britain is stronger, safer and better off in Europe. If you believe Britain's insurance industry is stronger in Europe, and that leaving would be an unacceptable risk to our prosperity, join us before 23rd June and make your voice heard.

BRITAIN STRONGER IN EUROPE

CII introduction: John Longworth, Chair of the *Vote Leave* Business Council, makes the case for the UK leaving the EU.

Having been the Director-General of the British Chambers of Commerce until just a few months ago, I know that business does not speak with one voice in the debate about the EU. As the Chief Executive of Renault-Nissan recently said, "Whatever is the decision of the UK we will adapt to it. I don't think there is a reason to worry."

Future investors have also said the same thing. The Vice Governor of the China Development Bank, for example, has stated that "Because of its infrastructure, because of its legal environment, because of its participation in the world, China will definitely use London as a financial hub for many international transactions."

And you can understand why both current and future investors wouldn't be put off if we did decide to leave. After all the UK is the EU's largest export destination; our capital city is one of the three "command centres" of the global economy; we have the lowest rate of corporation tax in the G7 and the City of London is the second largest financial sector in the world; our language is spoken by billions of people across the globe and last year Britain grew faster than any other major advanced economy in the world other than America.

But despite the inherent advantages that we enjoy, Britain has been outvoted by the European Council of Ministers 40 times since 2010. In other words on 40 different occasions Britain has been forced to accept legislation regardless of whether this will advance the goals of British business.

And think about what this means for the long term future of the City of London - the UK financial sector is effectively being held hostage to the interests of Eurozone countries and exposed to their economic fate. Our over dependency on what happens inside the Eurozone also matters when you consider that British exports in financial services, pensions and insurance increasingly goes to countries outside the EU.

To those who say that it's better to stay in the EU and change the system from within, I would seriously question whether or not the EU is even interested in reform, let alone open to changes that will benefit British business. Just look at our own recent renegotiation as evidence of that.

Calls for greater competitiveness were rightly prioritised by the Prime Minister in his talks with other European leaders. And yet, despite British pressure, no specific regulations have been identified as possible barriers to growth. Nor have any pro-competitive measures been unveiled as part of a genuine effort to strengthen Europe's economy. And, crucially, the UK did not win the right to stop the Eurozone imposing laws on it, with the agreement specifically ruling out a 'veto'.

The failure of the EU to fundamentally address the concerns of British business therefore, despite being in its own interest to do so, suggests that the path desired by those in Brussels is actually further integration – something that would be deeply damaging to our financial sector.

And we don't need to look very far before we spot some fairly ominous indications. Last June, the European Commission published a key report: 'Completing Europe's Economic and Monetary Union'. Dubbed the 'Five Presidents' Report', this document commits the EU to the creation of a 'genuine Economic Union', a 'Financial Union', a 'Fiscal Union' and a 'Political Union' by 2025. Grim reading then, for anyone who seeks looser ties between the UK and the EU.

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In response the Governor of the Bank of England Mark Carney issued a clear warning last year over further Eurozone integration and its impact on the UK economy. He noted that the Five Presidents' Report states that there is 'unfinished business' when it comes to further fiscal and financial integration in the euro area. The Bank's report cautioned that the 'necessary deepening' of integration, coupled with the 'weight of the members of the single currency' could impair the ability of the Bank to 'meet its financial stability objectives'.

Worse still, the document also proposes measures that would actually be regressive to British business such as abolishing the UK's representation on key international bodies where global regulations and standards are increasingly set. Assertions that the EU must act 'with one voice on the global stage' and the complaint that 'in the international financial institutions, the EU and the euro area are still not represented as one' confirms that Britain's voice on the world stage would be further weakened were we to stay in the EU.

I know that businesses and future investors crave certainty, but a vote to stay in the EU, in other words, is not a vote for the status quo. And far from being a risky or radical departure from economic orthodoxy, leaving the European Union makes economic sense for our country. It's what our businesses want – about two-thirds of British businesses think that we should take back the power to make our own trade agreements.

And far from entering a dark and dangerous period of uncertainty, Britain would regain the confidence and ability to forge new, more intimate and more mutually beneficial partnerships, with the certainty of knowing that when we make our way in the world we do it with both hands on the steering wheel.

By taking back control, the future of the City of London would not only be secure, but greatly enhanced. Despite assertions to the contrary, continued 'passporting' rights are likely to be negotiated as a quid pro quo for continued tariff-free access for EU goods exports to the UK, given that the EU currently enjoys a surplus of £78.9 billion. Indeed there is precedent for 'passporting' rights to exist between countries within the European Economic Area and those outside it. Under a 1991 agreement between the EU and Switzerland, Swiss insurance companies may effectively 'passport' their services into the EU.

The truth is that the principal reasons why the City is an attractive location for firms in the financial services sector to locate have little to do with the UK's membership of the EU. In a 2015 report, the Bank of England identified the 'integrity of the UK legal system, the availability of particular skills and services, and the status of the English language' as important reasons unrelated to the UK's membership of the EU why the UK had attracted foreign direct investment.

Far from entering a dark and dangerous period of uncertainty, Britain would regain the confidence and ability to forge new, more intimate and more mutually beneficial partnerships, with the certainty of knowing that when we make our way in the world we do it with both hands on the steering wheel.

I would argue that Britain is great in spite, rather than because of the EU. Although we are often told that our membership has greatly benefited the UK, it is not the Union we joined in 1973: it has a common currency, a Parliament, an anthem and a flag.

And far from reaping the benefits of joining that system, over the last 40 years our membership of the EU has led us further away from what we originally intended. The more we integrate within the EU, the more we will be expected to bear the economic crises that occur on the continent.

Only by removing the barriers to prosperity that stand in our way can Britain be more successful: to meet the challenges that are on our doorstep, to be better prepared for those that are on the horizon, and to shape the direction of the 21st century. Britain can do better and that's why on Thursday 23 June, I will Vote Leave.

Vote Leave

www.voteleavetakecontrol.org

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We are indebted to both Campaigns for contributing to this Thinkpieces series and hope members and other readers find this special Thinkpiece of interest.

BRITAIN STRONGER IN EUROPE

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