

Speech: Economic Secretary's speech to the Association of British Insurers

Introduction

It is a pleasure to be making my first speech as City Minister here at the ABI.

Yesterday, a confidence and supply motion was agreed between the government and the Democratic Unionists. Taking into account the Sinn Fein MPs who do not take their seats, that gives the government a working majority of 13, once the deputy speakers are elected.

Understanding the implications for policy of parliamentary numbers in both the Commons and the Lords is an area in which I have experience as my previous government role was as The Treasury Whip.

It was my responsibility to get the government's economic and finance policies through Parliament and so I am already familiar with much that is important to you. I hope to use that experience to help frame our discussions.

Prior to becoming an MP, I worked in both the insurance and banking sectors, and at the City regulator. I plan to bring that industry focus to bear in discussions within Whitehall and beyond.

I know that my job will involve a great deal of listening to your concerns, and indeed your ideas for growth and investment. But it will also be about showing you that we're acting on what you tell us. And today I intend to show you a number of areas where, in my first two weeks in post, we've already done so.

Because everyone in this room knows how important financial services and in particular insurance, is to our economy:

- 112,000 directly employed in insurance, double that if you include those indirectly employed
- £35 billion contributed to the UK economy
- £12 billion of taxes paid

The government's priorities for financial services

This was why a week ago at [Mansion House](#) the Chancellor set out further details of the government's priorities for financial services as we engage in our negotiations with the EU.

He spoke about access to talent; trade; regulation and reciprocity; and about the need for transitional arrangements.

Talent

The City of London and our world leading financial services across the UK – and 2/3rds of those working in financial services are based outside London – have always been a magnet for global talent.

There are those who are suggesting that in voting to leave the EU, many were willing to put at risk the ability of firms to get the talent they need.

I believe that misunderstands my views and those of my parliamentary colleagues. It also misunderstands the views of the majority of my constituents, and millions of others, who voted to leave the EU.

The British people understand the importance of businesses being able to access global talent and to move individuals around their organisations.

The concerns on immigration expressed during last year's referendum were not about insurers bringing in the skills they need to keep their businesses at the cutting edge. Rather it focused on those who come, primarily to areas like my constituency, at a pace and scale not reflected in local services.

So, I believe the British people understand that while we should seek to manage migration, we should not seek to shut it down.

Trade

In the case of trade, we want to agree a bold and ambitious free-trade agreement with our EU counterparts that covers both goods and services. Our economy is 80% services and insurance is a vital part of that – we sell £4 billion of insurance to people across the EU and over double that to EU businesses.

There are three essential components to a sustainable access agreement between the UK and EU for cross border trade in finance.

First, it requires an evidence-based, transparent system for setting the regulatory standards that apply to business – and those regulatory standards must themselves reflect international standards.

Second, cooperation arrangements between supervisors in each jurisdiction must be reciprocal, reliable, and prioritise financial stability.

Third, any system must be predictable and permanent so businesses and the markets are not troubled by the unexpected.

We are on a firm footing to achieve this. The Bank of England, the PRA and FCA are rightly respected around the world for the quality of their market oversight, their expertise and their willingness to lead on the setting of global standards. It is a role they will continue to play.

Transitional arrangements

All of this requires that as well as the terms of the arrangements we finally

make with the EU for our future trade, we have to consider our transition to those arrangements. Firms in this industry and elsewhere in the financial sector have been clear with us that we should seek to avoid disruption and uncertainty as we leave the EU.

And so the Chancellor made clear that early agreement on transitional arrangements is a priority – avoiding a dangerous cliff edge and ensuring instead that firms can get on with investment, and trade in services and goods can continue uninterrupted.

Beyond the negotiations

But it's not all about the Brexit negotiations.

There are a lot of other ways in which we can work with British insurers to tackle existing problems, seize new opportunities, and compete with the very best in the business.

Our track record of working shows this.

Look at Flood Re, which we worked with you to design and ensure all homeowners have access to affordable flood insurance.

Look at how we have been tackling fraud and the excesses of compensation culture head on.

You will have seen whiplash reform in last week's [Queen's Speech](#), alongside our intention to transfer regulation of claims management companies to the FCA.

But I know there is more to do. Like all MPs I am concerned about my constituents having access to good insurance at the right price. In arranging car cover, that can be a particular issue for young and old drivers alike.

Many of these consumers, as well as many of the companies represented in this room, will have been affected by the change in the personal injury discount rate.

That concerns me, and I know it will concern many of colleagues in Parliament.

That is why the government has been consulting on how the rate can be set in future in England and Wales. Scotland and Northern Ireland set their rate separately, which has an impact on the parliamentary arithmetic.

We are currently considering the responses to the consultation we've received and I would like to thank the industry for the constructive engagement on this issue.

We want to make sure that the way the rate is set is put on the firmest possible footing in future, so that we have a better and fairer system for claimants and defendants. In doing so, we will keep true to the 100% principle: that a claimant is paid no less than they should be, and no more.

In short, we have been consulting on moving away from a mechanism that has grown outdated and, with negative returns on interest-linked gilts, lost its connection with the way people invest in the real world.

Insurance Linked Securities

The constructive engagement between industry and government which I've just mentioned has also been evident in the work over the last 18 months to design a whole new system for Insurance Linked Securities (ILS).

Up to now, without that kind of regulatory framework in place, London has been held back from becoming a leader in ILS, despite all the expertise we have to offer in the field of alternative risk transfer.

But this is about to change.

Yesterday I [wrote to the London Market Group](#) to confirm that I will shortly place regulations before Parliament to implement this new ILS framework and help London become global leaders in this field.

Going further

But I want to see more advances like these – advances that are driven by a close and collaborative approach that spans both the government and the regulators and all of you in the industry itself.

There are clearly many more opportunities for us to pursue.

And I want us to keep developing and keep innovating.

One of the biggest areas of opportunity is clearly in InsurTech.

A lot of work has already been done to make sure we've got the right environment for FinTech and InsurTech to develop at pace – the FCA's innovation hub and regulatory sandbox are the most obvious examples of that, and it is welcome that four Insurance firms have already got involved in the next cohort of the Sandbox.

But where there's more to be done, I'm keen to look at that – particularly in terms of getting more investment into the InsurTech sector.

And there are lots of other areas we can look to develop too.

We'll want a regime that can keep pace with the development of new products, such as cyber insurance.

We'll want to look at whether Brexit gives us an opportunity to make changes to support the unique nature of the UK life insurance market.

We'll want to explore opportunities to deepen trade beyond the EU – particularly in the market for corporate and speciality insurance. It is these reasons that insurance continues to be one of the priority work streams of the Financial Services Trade and Investment Board.

And I want to thank the ABI for all the work they've done alongside Inga Beale [CEO of Lloyd's of London] in supporting our efforts to grow the market share of UK insurers in the high-growth economies of Asia and Latin America, and in attracting inward investment, both insurance capital and jobs, to the UK market.

So I know there are questions remaining about the political context and about Brexit. But there are opportunities too.

To take them, we need to keep the dialogue between industry and government open. That is my clear priority and I hope you will always work with me.

On my side, the work has already begun, including with the Chancellor to deliver a negotiated exit to the EU that delivers for Britain, its financial services and our vital insurance sector.

In doing so, we're recognising the importance of our financial services – that taken as a whole you contribute £71 billion to public funds, with insurance playing an important role within that.

That critical tax revenue must ensure that the insurance industry and the whole of financial services remain central to the discussions in Whitehall in the months ahead.