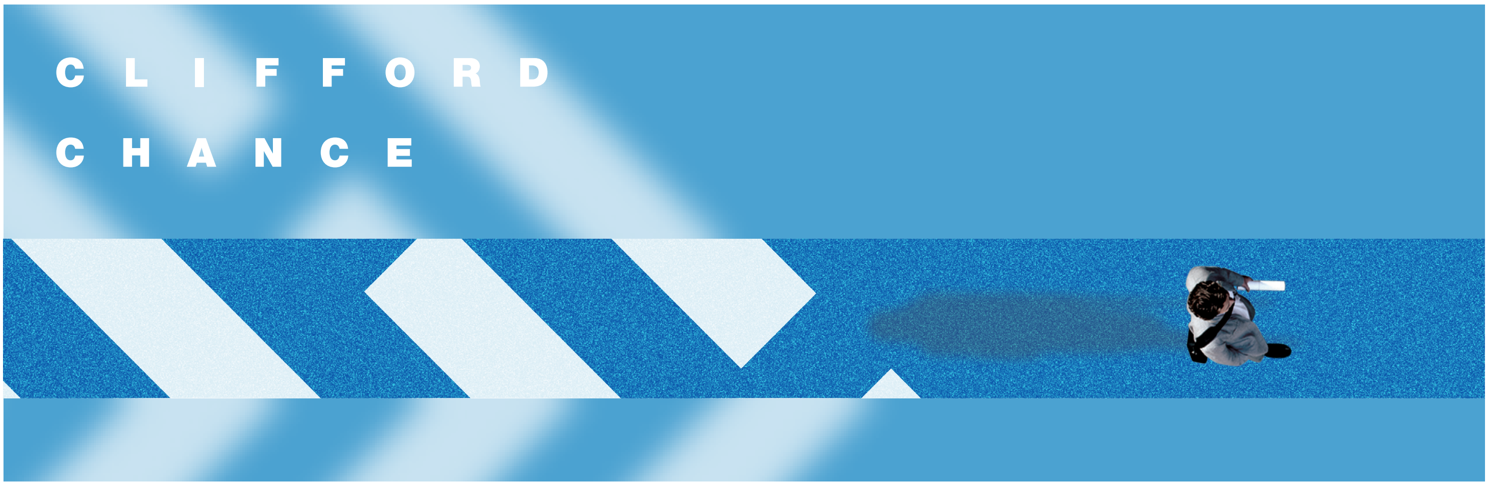

POST-BREXIT VISION FOR INSURANCE: SAM WOODS, MANSION HOUSE SPEECH ON GEOFINANCE

On 4 October 2017, Sam Woods the Deputy Governor for Prudential Regulation and the Chief Executive Officer of the Prudential Regulation Authority ("PRA") delivered a speech at the Mansion House City Banquet.

The speech explored the impact of geography on the shape of banks, insurers and financial regulation – a dynamic Sam Wood's referred to as "geofinance". Interestingly, the speech referred to the PRA's post-Brexit vision for the insurance sector which is further explored in this briefing. The full speech can be read **here**.

In a segment titled Brexit – "Planning for the worst, hoping for the best" Sam Woods explained that banks and insurers have always had to navigate the contours of geofinance. For example, they were "perfectly capable of dealing with the introduction of the euro" and "the years of uncertainty about whether or not the UK would join". He further added that the insurance sector has responded to Brexit by hedging its risks – the "outbounds" using London as a base for continental operations are planning to beef up their existing EU operations or considering where to establish a new entity. This is a view consistent with the trends that Clifford Chance has observed, with a number of firms now having determined the jurisdiction where the European insurer should be based. This decision has often been swayed by legal, regulatory and tax issues but also by social ones.

In Sam Woods' view the impact of the first phase of contingency planning on jobs will be "relatively modest" since "contingency planning is a sliding scale of increased commitment, investment and momentum through time." Given the continued uncertainty in reaching a Brexit deal and the apparent stall in the EU and UK's Brexit negations, there is obviously little appetite for insurers and their employees "to press the relocate button or rush towards to the exit door". However, as the March 2019 Brexit deadline approaches, insurers will speed up the implementation of their contingency planning, with job moves becoming more apparent as the insurer's restructured operating model comes into effect.

Sam Woods stated that the "outbounds" were "a little further advanced in their planning" than the "inbounds" who were expected to generate considerable work for the PRA if they apply for authorisations due to the loss of passporting (or equivalent) rights. He also acknowledged that "re-structuring by firms will in general increase their complexity" and this is something that the PRA should be prepared for. There is no doubt that insurers "will become harder to supervise and harder to resolve" and

Other key points to note for insurers:

- **Branch v Subsidiary**

  Whilst the comments in the speech related to banking only, the indication was that the PRA will expect/require subsidiaries (rather than 3rd country branches) where there is significant retail business in the UK. It remains to be seen if a similar approach is taken for insurers but it looks a distinct possibility.

- **What wasn't said?**

  In any speech, it can be just as important to look at what wasn't said as what was. Most notably for insurers, there was no mention of the potential need for large numbers of Part VII transfers – and the resource stretch in the regulator as a result.

  Insurers would welcome hearing that the PRA and FCA may be open to take a pragmatic and proportionate approach for these applications in 2018 in order that, if necessary, the groups can reorganise to meet the challenges of "planning for the worst" which the PRA have so correctly identified.

although resolution is a remote possibility, competent supervision is a necessity so the PRA must ensure that it has suitably experienced staff to cope with the operational strains that will be placed on the Regulator.

Two cross-sectoral problems were described as being "uppermost in [the PRA's] mind" and which were characterised by Sam Woods as messy and difficult for all firms to try to self-solve. These were ensuring existing insurance and derivatives contracts can be fulfilled after Brexit without risk of breach of law/regulation and ensuring data can be shared within groups across the UK/EU border. The continuation of insurance contracts is indeed a challenge for insurers, although Sam Wood's hoped that "we can find suitable fixes as the Brexit negotiations progress". However, there was no further guidance on what these fixes may be, or how they may arise.

Sam Woods also spoke about the need for negotiations to develop quickly on the subject of a transition or implementation period. There was an acknowledgement that if there is not agreement on this matter by the end of 2017 there may be diminishing marginal returns as firms will be forced to implement contingency plans on the assumption that there would be no transitional period. The required time to conclude these contingency plans was such that many firms simply could not wait beyond that time before moving ahead with those plans.

There was also hope that there would be co-operation with European regulators post-Brexit with common-interests and the same objectives, but in common with the heading of this section of his speech, the overall tone was in favour of prudence, planning and continued engagement with all possible scenarios.

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