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Brexit

Effects on the markets

Daniel Revilla – Lloyd’s Head of Latin America

What is Brexit?

And what can we expect from the negotiations

- Brexit is a withdrawal of the UK from the European Union. Following the June 2016 EU referendum, the UK Government has been considering the nature of its future relationship with the EU, and it has triggered the separation process last week.

- The main parties (UK & EU) are the ones that will be most affected, and they currently rely heavily on each other

- There are two parts to be negotiated: a separation and a new agreement. The outcome of exit negotiations is uncertain, with the nature of access to the single European market and movement of people being two key elements.

The importance of the London (re)insurance market to the UK and EU

The negative implications of a bad deal can harm both sides

- Currently over £8 billion of premium is brought annually to the London Insurance Market by brokers on behalf of EU customers

- Over £6 billion of international business is written in London by firms with a parent company or principal base located elsewhere in the EU, demonstrating the importance of continuing mutual market access between the UK and EU post Brexit

- The EU is an important non-life insurance market. Excluding the UK, its total non-life gross written premium (GWP) in 2015 was US$432 billion, 21% of worldwide non-life GWP.

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London (re)insurance market Brexit objectives

Key objectives that the Government should consider

Regulatory equivalence under Solvency II: While this would not give market access rights to the EU for UK insurers and reinsurers, it is important in agreeing a trade deal with the EU that our prudential regulatory regimes remain comparable.

A right for UK insurers and reinsurers to have unimpeded access to the EU market: A new trade agreement with the EU, which gives a specific right for UK-based insurers and reinsurers to accept business introduced to them by brokers from the EU and a reciprocal right for EU insurers and reinsurers to do business in the London Insurance Market, unimpeded by additional capital requirements and allowing home state prudential supervision.

Early agreement of an implementation period with market access rights: It is important to agree at the start of the negotiations an implementation period to move to the new agreement, during which the industry's current market access rights would be retained. Uncertainty over whether insurance policies will be enforceable is already affecting the decisions of the London Insurance Market's clients.

Implications for Lloyd’s EU insurance access

Insurance cross border will be more affected than reinsurance

- **Loss of the Freedom of Services and Freedom of Establishment**

- Under **Freedom of Services**, insurers are allowed to write business on a cross border basis, i.e. London underwriters write open market business originating from other EU Member States

- Under **Freedom of Establishment**, underwriters are allowed to write insurance business through Lloyd’s “establishments” in other EU member states. This means that they can appoint coverholders and establish service companies in other EU member states

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Key messages

Lloyd's is advancing its plans to ensure that it can continue to do business with the European Union

- In order to ensure that we can continue to trade seamlessly with the EU we will be establishing a subsidiary company in Brussels and we are working up detailed plans for the next steps;

- Lloyd's believes the insurance sector in the City of London will continue to thrive with whatever arrangements we have in place;

- For the immediate weeks ahead:
  - We will be in constant discussion with the market, UK Government, EU Governments and regulators;
  - Until the UK formally leaves the EU, we continue to operate as a full member with access to the single market and full passporting rights;
  - Lloyd's has an experienced team of specialists working on this with unrivalled expertise in acquiring and defending trade rights across the globe;

- Europe remains an important market for Lloyd's and we plan to continue trading across all remaining 27 EU states and 3 additional EEA states;