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IRSG DISCUSSION:

Brexit and the implications for consumers

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Introduction

- The vote for the UK to leave the European Union will have significant implications for the financial services industry and more importantly for its customers.
- However, much of the analysis surrounding 'Brexit' has so far focused on the future ability of UK-based firms to operate in the EU, EU-based firms to trade with the UK and on the overall economic effect on the UK in particular but also the EU in general.
- There has been less examination of the potential impact for consumers across the EU, particularly with regard to retail financial services products sold on the basis of passporting – either to or from the UK.

Background

- The purpose of this discussion is to gain IRSG members' views on the impact on customers, if passporting to or from the UK is lost.
- Also to discuss whether there are any potential solutions and what influence, if any, we can have as a stakeholder group to try and mitigate detriment for consumers.
- For reference please refer to two papers written specifically from the consumer perspective:
 - (1) ***Brexit: Securing a positive outcome for consumers***, BEUC, February 2017
http://www.beuc.eu/publications/beuc-x-2017-017_mgo_brexit.pdf
 - (2) ***Financial Services Consumer Panel position paper***, February 2017
https://www.fs-cp.org.uk/sites/default/files/brexit_paper_final_20170206.pdf

Passporting

- UK firms have substantial business passported throughout other EU Member States.
- The contracts are governed by the law of the country in which the customer is resident.
- Some of the products passported are not available in some Member States other than from UK firms. With-profit policies are a good example of this.
- Passported business sold from the UK is authorised and prudentially supervised by the UK's Prudential Regulation Authority (PRA).
- Conduct supervision is undertaken by the local regulators. This supervisory arrangement is possible due to the freedoms provided by the EU Single Market.
- As customers in other EU Member States are customers of a UK insurance company they also have recourse to the UK's Financial Services Compensation Scheme (which provides compensation in the event of insurer insolvency).

Post-Brexit Passporting

- Post-Brexit, the UK's Prudential Regulation Authority, which prudentially supervises UK passported business at present, will become a third country supervisor.
- Without passporting, UK firms would no longer hold a license to either write new business or service existing contracts in EU Member States.
- According to analysis by one large UK insurer, non-EEA insurers in this position must either hold a third country branch license (Article 162 of Solvency II) or set up an EU subsidiary to continue conducting both new and existing business.

Questions for discussion

- Do IRSG members believe there is potential risk to EU consumers if passporting rights to and from the UK are lost?
- Is there feasibly any influence we can have through EIOPA, or directly, on the Commission?
- Can we have more influence through individual regulators in our own Member States?
- Any suggestions for solutions that might mitigate potential detriment to EU consumers?



Thank you