PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Fifteenth Delegated Legislation Committee

DRAFT SOLVENCY 2 AND INSURANCE (AMENDMENT, ETC.) (EU EXIT) REGULATIONS 2019

DRAFT INSURANCE DISTRIBUTION (AMENDMENT) (EU EXIT) REGULATIONS 2019

DRAFT FINANCIAL CONGLOMERATES AND OTHER FINANCIAL GROUPS (AMENDMENT ETC.) (EU EXIT) REGULATIONS 2019

Monday 4 February 2019

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not later than

Friday 8 February 2019

The Committee consisted of the following Members:

Chair: Sir Henry Bellingham

† Bacon, Mr Richard *(South Norfolk)* (Con)
† Bradley, Ben *(Mansfield)* (Con)
† Chalk, Alex *(Cheltenham)* (Con)
† Dhesi, Mr Tanmanjeet Singh *(Slough)* (Lab)
† Glen, John *(Economic Secretary to the Treasury)*
† Hayes, Helen *(Dulwich and West Norwood)* (Lab)
† Hayes, Sir John *(South Holland and The Deepings)* (Con)
† Jones, Mr Kevan *(North Durham)* (Lab)
† Knight, Julian *(Solihull)* (Con)
† Reynolds, Jonathan *(Stalybridge and Hyde)* (Lab/Co-op)
† Robinson, Mary *(Cheadle)* (Con)
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Thewliss, Alison *(Glasgow Central)* (SNP)
† Walker, Thelma *(Colne Valley)* (Lab)
† Warburton, David *(Somerton and Frome)* (Con)
Whitfield, Martin *(East Lothian)* (Lab)
† Whittaker, Craig *(Lord Commissioner of Her Majesty's Treasury)*

Mike Winter, *Committee Clerk*

† attended the Committee

Fifteenth Delegated Legislation Committee

Monday 4 February 2019

[SIR HENRY BELLINGHAM *in the Chair*]

Draft Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019

6 pm

The Economic Secretary to the Treasury (John Glen): I beg to move,

That the Committee has considered the draft Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019.

The Chair: With this it will be convenient to consider the draft Insurance Distribution (Amendment) (EU Exit) Regulations 2019 and the draft Financial Conglomerates and Other Financial Groups (Amendment etc.) (EU Exit) Regulations 2019.

John Glen: It is a pleasure to serve under your chairmanship, Sir Henry.

As the Committee will be only too aware, the Treasury has been undertaking a programme of legislation to ensure that if the United Kingdom leaves the European Union without a deal or an implementation period, there will continue to be a functioning legislative and regulatory regime for financial services in the UK. The Treasury is laying statutory instruments under the European Union (Withdrawal) Act 2018 to deliver that. Debates on such SIs have already taken place in this place and in the House of Lords, and the SIs we are debating are part of that programme. We have at least 13 more to come.

The draft SIs before us will fix deficiencies in UK law on the prudential regulation of insurance firms, insurance distribution and financial conglomerates to ensure that they continue to operate effectively post exit. The approach taken in the legislation aligns with that of other SIs being laid under the EU (Withdrawal) Act, providing continuity by maintaining existing legislation at the point of exit but amending it, where necessary, to ensure that it works effectively in a no-deal context.

Three SIs are being debated today: draft amendments to the Solvency 2 regulations, the financial conglomerates and other financial groups regulations, and the insurance distribution regulations. The Solvency 2 regulations set out the prudential framework for insurance and reinsurance firms in the EU. Prudential regulation is aimed at ensuring that financial services firms are well managed and able to withstand financial shocks, so that the services that they provide to businesses and consumers are safe and reliable. Solvency 2 is designed to provide a high level of policyholder protection by requiring insurance and reinsurance firms to provide a market-consistent valuation of their assets and liabilities, to understand the risks that they are exposed to, and to hold capital that is sufficient to absorb shocks. Solvency 2 is a risk-sensitive regime in that the capital that a firm must hold is dependent on the nature and level of risk that a firm is exposed to.

The insurance distribution regulations set standards for insurance distributors as regards insurance product oversight and governance, and set information and conduct of business rules for the distribution of insurance-based investment products. The financial conglomerates and other financial groups regulations set prudential requirements for financial conglomerates, or groups, with activities in more than one financial sector.

The three draft SIs that we are debating amend those regulations so that they function properly in a no-deal scenario. The amendments to be made by the draft Solvency 2 regulations, first, remove references to the European Union and EU legislation, and replace them with references to the UK and UK legislation. It is important to stress that the high prudential standards of Solvency 2 are not being altered. Changes are being made to ensure that the Solvency 2 regime continues to operate as originally intended once the UK is outside the EU.

Secondly, the draft statutory instrument alters the arrangements for the regulation of cross-border European economic area groups of insurance and reinsurance firms that provide services in the UK. As in other areas of EU regulation, insurers and reinsurers are subject to the EU's joint supervisory framework. That enables the requirements of Solvency 2 for a cross-border EEA insurance or reinsurance group to be applied to the group, with one EEA supervisor allocated lead responsibility for supervision of the group, in addition to supervision of solo firms by their respective EEA supervisors. Supervisory co-operation takes place through a college of supervisors in which all the interested EEA supervisors take part.

After exit, however, in a no-deal scenario, the EU has confirmed that it will treat the UK as a third country and that the UK will be outside the joint supervisory mechanisms that are the basis for the current treatment of groups in the EEA. Cross-border EEA groups may therefore become subject to group supervision by both UK and EEA supervisory authorities in the absence of equivalence decisions.

The statutory instrument will transfer responsibility for making equivalence decisions in relation to third-country regimes. Currently, a third country's regulatory or supervisory regime may be deemed by the European Commission to be equivalent to the approach set out in Solvency 2. After the UK leaves the EU, Her Majesty's Treasury will make equivalence decisions for third-country regimes.

The statutory instrument will transfer responsibility for a number of important technical functions from the EU authorities to the UK. Most significantly, the risk-free rate—the rate that insurance and reinsurance firms must use to value their liabilities—will be transferred from the European Insurance and Occupational Pensions Authority to the Prudential Regulation Authority. The PRA is the most suitable UK body to undertake the technical function of compiling the risk-free rate. It will also take on the responsibility of publishing the risk-free rate. In addition, responsibility for making binding technical standards, which are currently developed and drafted by the EU supervisory agencies, will be transferred to the PRA, in a manner consistent with the approach taken in the other statutory instruments that we are laying under the withdrawal Act.

The statutory instrument removes obligations for EU competent authorities to share information with each other. If the UK leaves the EU without a deal, it will no longer be appropriate to require UK regulators to share information with EU regulators. UK regulators will continue, however, to be able to use their discretionary powers to share information when doing so might be necessary to ensure that supervisory responsibilities are carried out effectively.

Preferential risk charges for certain assets and exposures that originate from within the EEA, and which are held by UK insurance and reinsurance firms, will be removed. A UK firm's exposures from the EEA will now be treated in the same way as exposures from any other third country. The EU has confirmed that it will treat UK exposures as third-country exposures if we leave the EU without an agreement.

I will now turn to the draft Insurance Distribution (Amendment) (EU Exit) Regulations 2019. This instrument fixes deficiencies in the regulations and relates mostly to removing inappropriate cross-references to EU bodies and legislation. The instrument transfers to the Financial Conduct Authority the power to make technical standards for a template presenting information about general insurance policies—a standardised document to help customers compare policies and make informed decisions. That power is important as it enables the Financial Conduct Authority to update the document in the future, to ensure it continues to deliver useful information for consumers.

The instrument also transfers relevant legislative functions to the Treasury. Those functions give the Treasury the powers to make regulations about conflicts of interest, inducements, assessments of suitability, appropriateness and reporting to customers, and specifying principles for product oversight and governance.

Finally, I will address the draft Financial Conglomerates and Other Financial Groups (Amendment etc.) (EU Exit) Regulations 2019. This statutory instrument makes changes to the definition of "financial conglomerate". Under the EU financial conglomerates directive, a financial conglomerate is defined as a group with at least one entity in

"the insurance sector and at least one…within the banking or investment services sector".

One of those must be located within the EEA. The others can be located anywhere in the world. This statutory instrument will amend the geographical scope of the definition, so that one entity must be located within the UK, rather than the EEA, to be subject to the UK regime.

This statutory instrument amends the definition of "competent authority" so that it no longer includes regulators based in the EEA. It transfers a number of functions from the EU authorities to the UK regulators. The European financial conglomerates directive requires EU authorities to publish and maintain a list of financial conglomerates, for example. That function will now be carried out by the FCA and the PRA. In addition, as with other financial services files, the responsibility for developing binding technical standards will pass from the European supervisory authorities to the appropriate UK regulator.

Finally, as is the case for the statutory instrument that amends the Solvency 2 regulations, this statutory instrument removes obligations for EU competent authorities to share information. If the UK leaves the EU without a deal, it will no longer be appropriate to require UK regulators to share information with the EU. However, the UK regulators will continue to be able to use their discretionary powers to share information where this might be necessary to ensure that supervisory responsibilities are carried out effectively.

The Treasury has been working closely with the PRA and FCA in the drafting of these instruments. It has also engaged the financial services industry on these statutory instruments and will continue to do so going forward. The Committee will have heard from the Association of British Insurers, in a letter of 1 February, how meaningful that engagement has been. In late 2018, the Treasury published these instruments in draft, along with explanatory policy notes, to maximise transparency to Parliament and industry.

Sir John Hayes (South Holland and The Deepings) (Con): On the issue of familiarisation costs, which are dealt with in the SI and are specified more precisely in the explanatory memorandum, it is clear that business is impacted and will endure what are said to be one-off costs in the notes. Will the Minister say a word about that to assuage any doubts?

John Glen: My right hon. Friend is right to draw attention to the impact assessment, which covers two of the three statutory instruments. One of them, of course, did not require one because of the de minimis impact. We have done our very best to be as transparent as possible and to quantify those. In the vast majority of cases, it has been about one-off familiarisation costs rather than an enduring burden. I thank my right hon. Friend for giving me the opportunity to clarify that.

In summary, the Government believe that the proposed legislation is necessary to ensure that insurance and reinsurance firms, insurance distributors and financial conglomerates continue to operate effectively in the UK, and that the legislation will continue to function appropriately if the UK leaves the EU without a deal or an implementation period. I hope colleagues will join me in supporting the regulations. I commend them to the Committee.

6.12 pm

Jonathan Reynolds (Stalybridge and Hyde) (Lab/Co-op): It is a pleasure to serve under your chairmanship, Sir Henry. Once again the Minister and I are here to discuss a statutory instrument that makes provision for a regulatory framework after Brexit in the event that we crash out without a deal. On each of those occasions, I and my Front-Bench colleagues have spelt out our objections to the Government's approach to secondary legislation.

The volume of EU exit secondary legislation is deeply concerning for accountability and proper scrutiny. The Government have assured the Opposition that no policy decisions are being taken. However, establishing a regulatory framework inevitably involves matters of judgment and raises questions about resourcing and capacity. Secondary legislation ought to be used for technical, non-partisan, non-controversial changes, because of the limited

[Jonathan Reynolds]

accountability it allows. Instead, the Government continue to push through far-reaching financial legislation via this vehicle. These regulations could represent real and substantive changes to the statute book. As such, they need proper in-depth scrutiny. In light of that, the Opposition want to put on record our deepest concerns that the process regarding the regulations is not as accessible and transparent as it should be.

Our request for a debate on the Floor of the House regarding the markets in financial instruments directive in December 2018 was rejected, but I note that in the Treasury Committee's oral evidence session last Tuesday, the Chair said that she was writing to the Leader of the House to ask for a debate on the draft Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019. Given that we now have more parliamentary time due to the cancellation of the February recess to focus on this very issue, I hope the Government will heed the calls now coming from across the House for more in-depth and open debates on these matters.

Today we turn our attention to three items that make provision for the UK insurance industry in the event that we leave without a deal. The UK insurance market, centred on Lloyd's of London, is the world's oldest insurance industry of its kind. It attracts business from all over the globe as it is often the only place where the combination of specialists can be found to provide products to cater for all of today's highly complex risks, especially those of terrorism, cyber-attack and natural catastrophes. From its humble beginnings as a coffee house in the 17th century, Lloyd's of London has become central to world insurance markets, paying out more than £18 billion in gross claims in 2017. Yet the insurance sector, which is so fundamental to the way in which businesses and individuals manage daily risks, is still in complete limbo over its post-Brexit future.

As I have said in this Committee before, relying on equivalence arrangements will fall short of what our financial sector as a whole needs if we are to use it when we leave the European Union. For the insurance sector, it is obviously even worse, as there is simply no equivalence framework for brokers under the insurance distribution directive. We would therefore be going into uncharted territory. The London Market Group, which represents brokers and underwriters, has said:

> "It would be unacceptable to see EU clients left in a detrimental position, not knowing whether their claim would be paid or not."

Inevitably, we have seen the consequences of that as the insurance community has been forced to move forward with its own contingency plans in the absence of any clarity from the Government. Lloyd's became authorised to write EEA business from the beginning of the year, and is now working on transferring all EEA business to Lloyd's Brussels before the end of 2020. Brokers here in London intermediate business all over the world, but the third-country regime was not designed for market participants already operating globally; it was intended to bring external countries into the regime.

The Minister has presented three instruments that the Government argue will allow for a basic framework to function in the event that we crash out without a deal. The first is the draft Solvency 2 and Insurance (Amendments) (EU Exit) Regulations. Given the systemic importance of the insurance industry, there has been a co-ordinated effort over the past decade to ensure that capital requirements are sufficient to protect insurers and policy holders against insolvency. Those regulations have been vital to building a more robust insurance sector post-financial crisis. It is critical, in the view of the Opposition, that there is no move to water them down in the wake of our exit from the EU.

Typically, the industry representatives I meet have no desire to bring about a bonfire of regulation, but there is no guarantee that there are not forces who wish to see that outcome in the UK and plan to lobby for it. The Opposition are strongly against any adaptation of Solvency 2 in such a way that would weaken capital requirements. Although I see no evidence of that in this instrument, the area that is cause for concern relates to the end of preferential treatment for EU sovereign debt.

As we discussed during the Committee on the draft Capital Requirements (Amendment) (EU Exit) Regulations 2018, if we crash out without a deal, the zero risk weighting for EU sovereign debt will instantly change. It will no longer receive preferential treatment, but instead be treated as third-country debt. The reverse would apply with regards to UK sovereign debt. That has the potential to be highly disruptive, as big institutions would be expected to recalculate capital ratios and recapitalise when there has not been any real change in risk.

Sam Woods of the Prudential Regulation Authority insisted during a Treasury Committee evidence session, which the Minister participated in, that this is a decision for Parliament, which is why it has been included in an SI. However, he also emphasised the need for making the change very carefully, through proper risk processes and governance, as it will affect reported capital ratios. In a no-deal scenario, where market conditions are likely to be volatile, the last thing needed is for banks and insurance companies to be uncertain about their published capital ratio.

I therefore ask the Minister: what provisions are the Treasury making for that scenario? It is not mentioned in the impact assessments that have been circulated, which is of deep concern to the Opposition. We urgently want to know what provision is being made. As the Association of British Insurers has directly highlighted:

> "The Government has already publicly stated its commitment to applying transitional relief in this area, but it is vital that the PRA applies this effectively so that firms can consider their asset portfolios and make any necessary changes in an orderly fashion."

Moreover, the ABI has underlined further outstanding concerns shared by the Opposition. The PRA is assuming hugely important decision-making powers, and therefore the ABI views the structure as an emergency process to address immediate challenges. As the ABI has publicly stated, there must be genuine checks and balances on how the PRA exercises those functions, replicating the European Parliament's existing role in scrutinising how those functions are currently exercised at EU level.

I have made this point in Committees related to other items of financial services legislation: the Government cannot simply port over the same regulatory framework as the European Commission and its regulators, when our Treasury and supervisory authorities do not interact in the same way. In the Opposition's view, that then becomes an implicit policy decision.

On the draft Insurance Distribution (Amendment) (EU exit) Regulations, the insurance distribution directive was a relatively new piece of legislation that helped to level the playing field for consumers buying insurance and to improve conduct standards. As such, there could be a significant consumer detriment in removing those protections, which try to ensure that policy holders are treated fairly and consistently.

However, our real concern is that we continue to lack any kind of equivalence provision for the IDD in a post-Brexit world. As the London & International Insurance Brokers' Association wrote in its letter to the Prime Minister in 2018, an enhanced equivalence regime will see intermediaries losing access. Our primary concern must be that markets can continue to function and that there is no consumer detriment, or any legal risks, created for insurers or brokers. Can I therefore ask the Minister to provide some clarity on whether any progress has been made in that field?

I would also like to know why the term "insurance-based investment product" is being redefined here. It is not clear how that flows from the European Union (Withdrawal) Act. Regulation 12 transfers insurance-related regulation-making functions to the Treasury. Why the Treasury, and not the PRA? Why have the Government not publicly rationalised their transfer of some functions to different bodies? As I have said, simply porting functions over to institutions in the UK ignores the fact that EU institutions and regulators interact entirely differently. There should be a wider debate about those decisions, so we can ensure the right checks and balances are in place.

Moving on to the third statutory instrument, the draft Financial Conglomerates and Other Financial Groups (Amendment etc.) (EU Exit) Regulations 2019, the Opposition has the same concerns with regard to capital buffers and how they are calculated if preferential treatment for EU sovereign debt is removed. Regulation 3 suggests an amendment referring to the "relevant competent authority". Can the Minister clarify who that might be, and why it is not possible to specify that yet? That is all I wish to ask. Subject to the Minister's reasonable reassurances, I do not intend to divide the Committee on these draft regulations.

6.20 pm

Alison Thewliss (Glasgow Central) (SNP): It is a pleasure to see you in the Chair, Sir Henry, and to join all hon. Members for another Delegated Legislation Committee. I look forward to the 30 more to come; I am sure it will be a delight for us all to spend so much time together.

I agree with an awful lot of what the hon. Member for Stalybridge and Hyde said, and I share his concerns about the way in which this secondary legislation is being made, about scrutiny and about the plans as we go ahead. As an SNP Member, I do not want Brexit to happen and I certainly do not want a no-deal Brexit—that is not what Scotland voted for. In July last year, TheCityUK reported that the number of financial services jobs in Scotland rose 6.6% to 161,000 in the preceding year, outstripping London, which had a rise of 5%. Financial and related services now account for 8.9% of the Scottish economy, so it is no small business that we are talking about, but an essential component that we have to get right. The particular strength of my home city of Glasgow is insurance; I have a strong interest in keeping those insurance companies functioning in Glasgow, with all their employees.

I am glad to see that there is an impact assessment for the draft Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019; that is helpful. The familiarisation cost for those alone is £230,000. I appreciate that for some companies, that is not a huge amount of money, in the wider scheme of things, when it is divided up. It is, however, additional money that they have to come up with. I note also that the provisions place an additional burden on the Prudential Regulation Authority. It would be interesting to know from the Minister exactly how that is being met in the PRA; how many extra staff and financial resources will be required for the additional regulatory burden? More insurance firms will fall into PRA supervision, and there will be increased regulatory and compliance costs for UK firms as a result. It would be interesting to know whether he can put any kind of figure on that, because it may be additional resource that firms have to find, outside the familiarisation costs.

I note the ABI's concerns about duplication; it says that this will be an additional burden, which could place firms at a disadvantage to their European counterparts. The ABI's points about those issues were well made, and the hon. Member for Stalybridge and Hyde made most of those points. The ABI wants some assurance about the long-term future of the regulatory structure, and it wants to be part of the review. It says that new regulatory architecture should be within a defined timescale at the end of the process. We are going into a pretty uncertain period, and it needs to know what will happen in advance, for planning and other things.

The impact assessment states:

> "The impact on individual firms will depend on the exposures they have, which we do not currently hold information on. Therefore, it is not possible to quantify the estimated impact on the insurance industry in the time available to complete this legislation."

That comment goes to the heart of the situation we are in. We are building this legislation but we do not have time to deal with it, and there is a prospect of no deal looming. That is a huge worry for many firms and their employees, who do not know what they will be dealing with.

On the draft Insurance Distribution (Amendment) (EU Exit) Regulations 2019, I am concerned about the consumer welfare aspect, because of the powers that the Treasury gives itself to adopt delegated acts, and to make regulations about conflicts of interest, inducements and assessments of suitability, appropriateness and reporting to customers. Can the Minister tell us a wee bit more about how he will ensure that consumers do not lose out as a result of this change and what the intended framework will be in the years ahead?

I note that in order for the PRA and the FCA to carry out their functions, the draft Financial Conglomerates and Other Financial Groups (Amendment etc.) (EU Exit) Regulations 2019 remove the requirement on firms to report to the ESAs and replace it with a requirement to report to the UK regulators. It would be good to get a bit more detail on how that process might work, because there is a change from one thing to another. It would be good to know what kind of notice firms require for that, and how easy it will be.

There will also be a transitional cost. I believe it is below the threshold for the impact assessment, but it would still be good to get more of an idea of what it will

[Alison Thewliss]

be. Again, for some firms there may well be duplication—having to report twice—and that would be another additional cost. Any additional information on what that cost might amount to for firms would be useful.

As the hon. Member for Stalybridge and Hyde said for the Opposition, we do not seek to vote against these statutory instruments. However, I reiterate my concern that they are incredibly late in the day, that we do not have much time left and that it is very difficult to get a real handle—besides the very helpful briefing from the ABI—about their impact, because things are moving very fast.

6.26 pm

John Glen: I thank the hon. Members for Stalybridge and Hyde and for Glasgow Central for their thorough examination of these three statutory instruments, and I note their consistent objection to the use of that mechanism to deliver such changes. All I can say is that the Government have pursued the changes consistent with the powers in the Act, and that great care and diligence have been taken to liaise with regulators and the industry, and to engage with industry participants, as I think the ABI has confirmed.

Of course, the process is designed as insurance in the circumstances of no deal; it is not the Government's policy that the regulations will need to come into effect. I fully accept the point made by the hon. Member for Stalybridge and Hyde about the broader need to look at the future in a fair way, and the concerns of the London Market Group representative, whom I will meet tomorrow to look at global financial partnerships. The Treasury is not just focused on no-deal planning.

Both hon. Members raised a number of specific points, which I will seek to address as succinctly as I can. They expressed concern about relying on secondary legislation to push through controversial legislation. I re-emphasise that the powers granted in the European Union (Withdrawal) Act 2018, under which the majority of exit SIs are being made, have restrictions to ensure the appropriateness of their use. The central objective of the SIs is to provide legislative continuity, which is what market representatives have sought. Such SIs are, of course, subject to the usual scrutiny provided by the Joint Committee on Statutory Instruments and the Secondary Legislation Scrutiny Committee. In addition, the Treasury has taken the step of publishing drafts of financial services SIs in advance of laying them before the House, to maximise transparency.

The hon. Member for Stalybridge and Hyde asked about equivalence and whether it was sufficient to protect UK industry. I agree that equivalence is not a sufficiently good outcome, and that is why the Government are working for a deal that aims for enhanced equivalence, which we would embed in the new relationship with the EU by June next year. Obviously, however, if there is no deal, we have to cover ourselves.

The hon. Gentleman also asked whether Solvency 2 can still operate effectively if preferential treatment for EU assets is retained, and whether removing preferential treatment is a political decision that the Government have made. The Commission has made clear that it intends to treat the UK as a third country after exit in the absence of a withdrawal agreement, and therefore we expect EEA regulators to remove current preferential treatment. It is only appropriate for the UK, in the absence of a reciprocal agreement, to treat EEA assets and exposures in the same way. We recognise that that may have a day one capital impact on insurers with EEA assets and exposures; that is why we intend to provide regulators with a transitional tool, as I discussed at the Treasury Committee last Tuesday morning, to ensure that firms have sufficient time to comply with changes overall with respect to legislation and rules.

The hon. Gentleman reflected on the concerns that the ABI expressed in its letter about too much power being transferred to the PRA for Solvency 2. The PRA has the expertise and resources to take on the technical functions being transferred from EU institutions and to ensure that they are met on an ongoing basis. There are existing safeguards within the Financial Services and Markets Act 2000 that place conditions on the PRA's ability to exercise its powers. The Financial Regulators' Powers (Technical Standards etc.) (Amendment etc.) (EU Exit) Regulations 2018 also require the Treasury to approve changes to technical standards by regulators to correct any deficiencies before exit day.

The hon. Gentleman asked which functions would come to the Treasury. Wherever the Commission exercises a legislative function, that is transferred to the Treasury, which can make changes to these regulations only through SIs in Parliament, where parliamentary approval will be required. On the lack of democratic accountability for the PRA, the changes are not intended to be long term; regulators, the Treasury and industry will work together to address the framework in the long term.

That will be a significant change, and one that I hope we do not pursue; I think there is a lack of understanding about how significant that change would be. However, we would do everything we could to ensure that we set that framework in the right way. Accountability to Parliament will be a priority whatever happens, and only functions carried out by EU regulators are being transferred. The hon. Member for Stalybridge and Hyde also asked why there cannot be more specificity regarding the relevant competent authority with reference to the conglomerates. The legislation specifies that it is either the PRA or the FCA, depending what type of regulated firm is covered, which fits with the UK's existing framework.

The hon. Member for Glasgow Central again reflected on the ABI's concerns, this time about the inefficiencies being created by making cross-border insurers subject to dual group supervision. We recognise that dual regulation may create additional costs for UK insurers that operate across the UK-EU border. However, that is a consequence of the UK's decision to leave the EU rather than of this instrument, and in applying Solvency 2 in a UK-only context, the PRA needs to apply group supervision at the UK level, as it can no longer participate in the formal college of EU supervisors. Basically, the PRA will need to take account of the systemic risks that exist, and ensure they are covered for.

The hon. Member for Stalybridge and Hyde asked why insurance-based investment product definitions are being changed. The definition is not being changed; it will operate as before, but references to EU institutions and EU law need to be fixed. If there are outstanding issues on that point, I am very happy to correspond with him.

The hon. Member for Glasgow Central challenged the need for the Government to take additional powers in the draft insurance distribution SI. The instrument transfers relevant legislative functions of the European Commission, contained within the insurance distribution directive, to the Treasury. As the hon. Lady clearly understands, the Treasury has the powers to make those regulations about conflicts of interest, inducements, assessments and so on. They are important, because the IDD came into force only last year, and as such the Commission held those powers to ensure that the regulatory regime for the sale and distribution of insurance could be updated. Transferring them to the Treasury is in line with the Government's standard approach to such powers as part of this process.

The hon. Lady asked about the resourcing of the PRA. As we have also discussed before, regulators are independently funded by levies on industry. The regulators have prioritised Brexit; I seem to recall that the FCA now has 158 full-time equivalents, up from 28 in March last year. I meet with Andrew Bailey regularly. I met him this morning and he confirms that those resources are in place, but if more is required he would be at liberty to raise a levy to secure those.

The hon. Lady referred to consumer welfare concerns about the IDD. I can reassure her that consumers will not lose out. There is no substantive change in the policy requirements on firms under this SI. Firms will still be required to prepare the standardised statement, with the same content as is currently the case and, indeed, as industry wishes.

I hope that I have dealt with the substantive points that were raised. I have a lot more material that I could go through, but I think I have faithfully addressed what was said. I hope that the Committee has found the sitting informative, and will be able to join me in supporting the three statutory instruments.

Question put and agreed to.

Resolved,

That the Committee has considered the draft Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019.

DRAFT INSURANCE DISTRIBUTION (AMENDMENT) (EU EXIT) REGULATIONS 2019

Resolved,

That the Committee has considered the draft Insurance Distribution (Amendment) (EU Exit) Regulations 2019.—*(John Glen.)*

DRAFT FINANCIAL CONGLOMERATES AND OTHER FINANCIAL GROUPS (AMENDMENT ETC.) (EU EXIT) REGULATIONS 2019

Resolved,

That the Committee has considered the draft Financial Conglomerates and Other Financial Groups (Amendment etc.) (EU Exit) Regulations 2019.—*(John Glen.)*

6.37 pm

Committee rose.