HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

20 September 2017

The Rt Hon Nicky Morgan MP
Chair of the Treasury Committee
House of Commons Committee Office
14 Tothill Street
London
SW1H 9NB

Dear Nicky

Thank you for your letter of 14 September concerning the impact of the UK's withdrawal from the EU on insurance contracts that run beyond the point of the UK's exit.

The Government and the European Commission both recognise that our exit has the potential to impact the continuity of service provision at the point of exit.[1] With respect to financial services, the Government is alive to the risk that the UK's withdrawal could in some cases create legal uncertainties as to the status of existing cross-border insurance, pension and other financial services contracts sold under passporting arrangements. This could affect both UK and EU financial services firms and their customers. The government has been actively engaging with the financial services sector – including the insurance and pensions industry – to understand how the UK's exit from the EU could impact financial services firms and their customers, including through the effect of withdrawal on existing contractual relationships.

The potential for the UK's withdrawal to impact some types of financial services contracts is also discussed in the Financial Policy Committee's June 2017 Financial Stability Report.[2] The Report notes that the Bank, Financial Conduct Authority and Prudential Regulation Authority are working closely with regulated firms – including insurance and pensions companies – and financial market infrastructures, to ensure they have comprehensive plans in place for the full range of possible outcomes. The Financial Policy Committee has said that it will oversee contingency planning to mitigate risks to financial stability as the withdrawal process unfolds.

There is a shared interest for both the UK and the EU in ensuring that we avoid outcomes that impose unnecessary costs and disruption on individuals and businesses as the UK leaves the EU. What the final EU-UK relationship looks like will be a matter of negotiation, but we are ambitious in our aim to secure a bespoke and reciprocal arrangement that preserves the greatest possible market openness. A mutual process to maintain coherence between our regulatory regimes will be an essential component of the deep trading relationship in financial services that we seek to negotiate with the EU.

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1 See, for example, the European Council Negotiating Directives for Article 50 negotiations: https://ec.europa.eu/commission/brexit-negotiations/negotiation-mandate-and-transparency_en
2 http://www.bankofengland.co.uk/publications/Documents/fsr/2017/fsrjun17.pdf#page=15

This is also likely to mean agreeing supervisory arrangements that are symmetrical, reciprocal and reliable, and that address legitimate financial stability concerns

The Government is clear that, whatever the ultimate outcome of the negotiations, an integral part of delivering our withdrawal will be the negotiation of a time-limited interim period, to provide certainty and avoid a cliff-edge for business and individuals during the transition from the current structures of membership to the new relationship. These arrangements should be designed so as to ensure that businesses do not face two sets of changes as we adjust from our current relationship with the EU to the deep and special partnership that we are seeking to secure.

I look forward to discussing such important issues with you when we meet on 11 October.

Yours ever

Philip

PHILIP HAMMOND