



## Treasury Committee

House of Commons, Committee Office 14 Tothill Street, London SW1H 9NB

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Rt Hon. Philip Hammond MP  
Chancellor of the Exchequer  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

14<sup>th</sup> September 2017

Dear Philip

All parties to the Article 50 negotiations have a strong shared interest in ensuring that the UK leaves the EU in a smooth and orderly way, minimising any disruption to citizens and businesses.

To this end, both the UK and the European Commission have published papers covering the status of goods already placed on the market at the point that the UK leaves the EU.

However, less consideration has been given to services that are being supplied at the point of exit, and particularly the hundreds of thousands of insurance contracts sold under passporting arrangements with a duration that extends beyond 29 March 2019.

Without further action, insurers will lose the legal authorisation to service these contracts: they must break the contract or break the law. UK insurers could establish a subsidiary elsewhere in the EEA, and use the provisions of Part VII of the Financial Services and Markets Act 2000 to transfer the contracts to the new entity; but quite apart from the costs involved, there may be insufficient time to do so, particularly if, as the PRA expects, the courts receive a significant increase in the volume of Part VII transfer requests.

As I am sure you will be aware, the implications of insurers being unable to honour cross-border contracts are potentially serious. In particular, citizens – including many UK expatriates – living in the rest of the EEA in receipt of personal pensions may face difficulties in getting paid. Without a change in the PRA's regulatory approach, UK residents – including many EU citizens – in receipt of personal pensions from EEA-based providers will find themselves in the same situation.



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I would be grateful if you could answer the following questions by 21<sup>st</sup> September:

- Does the Treasury consider that the problem set out above poses risks to a smooth and orderly exit, and does it therefore consider it to be a matter for the first phase of the Article 50 negotiations?
- What proposals are being considered to preserve stability and certainty in respect of insurance contracts that straddle 'Brexit day'? In particular, does the Treasury wish to see arrangements that allow contracts written before 'Brexit day' to retain the same regulatory treatment for their duration?
- Does the Government intend to publish a position paper on this question?

I would also urge you to raise this issue with your counterparts, including at the next meeting of the Economic and Financial Affairs Council.

I will be placing this letter, and in due course your response, in the public domain.

*Yours ever*

*Nicky*

The Rt Hon. Nicky Morgan MP  
Chair of the Treasury Committee