CII member economic outlook and Brexit survey

Economic, business and employment prospects for 2017

An analysis for the CII by the Centre for Economic and Business Research (CEBR)

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2 Foreword

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Authorship and acknowledgements

This report has been produced by Cebr, an independent economics and business research consultancy established in 1992. The study was led by Scott Corfe, Director at Cebr with analytical and research support from Jack Coy, Cebr Economist. The views expressed herein are those of the authors only and are based upon independent research by them.

This analysis has been commissioned by the Chartered Insurance Institute (CII) and utilised a combination of membership survey data provided to us by the CII, and economic data available in the public domain through the ONS, IMF and other sources.

The report does not necessarily reflect the views of the Chartered Insurance Institute.

About the CII Member Survey

This report made use of an online survey of Chartered Insurance Institute members, conducted in November 2016. Returns were received from 3,711 respondents (representing around 5% of the relevant membership who were sent the survey). Although the survey spanned the CII's global membership in over 150 countries and covered a wide range of issues, this report focuses on just UK-based respondents' views of the UK's economic and business prospects.

This edition of the CII Member Survey indicates a significant fall in confidence at the end of 2016 among CII members, across all three key indicators measuring economic, business and employment prospects. Following growth in all indices, the yearly change in 2016 is the greatest one-year fall for each index since records began in 2011.

- **This falling confidence reflects general pessimism around future economic prospects** – a measure of members' expectations of the current state and direction of the UK macroeconomy. **Business prospects,** referring to members' expectations of their own company or workplace over the next 12 months, **have also fallen, but remain on balance positive.**
- **Only 23% of members expect the UK economy to improve over the next year, a significant reduction from the 67% who were confident in the economic outlook in 2015's survey. In 2016, 48% of members expect the UK economy to deteriorate over the next year; in 2015, only 5% thought so.**
- The **CII Business Prospects Index is historically less volatile.** 45% of members see the prospects of their own business as stable in the coming year, and 36% see an improvement on the way. **Yet, this represents a cooling of the confidence levels of 2015,** when 59% percent reported improving prospects, and 33% saw stability.
- **Employment prospects are also lower than in 2015.** Just under half (48%) of members feel their employment prospects are the same today as a year ago and 29% report their prospects have improved, a lower share than in previous years.
- The majority of members surveyed voted to remain in the EU (51%), and **52% of members report that the Government's full appreciation of the needs of the insurance sector is a high priority following the vote in favour of Brexit. Yet, 45% are not confident that sector's interests will be well represented in the exit negotiations.**
- However, the vast majority of members say that their investment decisions in their business have not been altered as a result of the UK Government's approach to exit negotiations, and **68% of members said Brexit will make no difference to their firms' appeal to recruit necessary skills.**
- When looking at the UK's economic prospects, **CII members in London are the most pessimistic** by region. **57% of respondents working in London expect the economy to deteriorate over the next 12 months.** London-based members were also the most negative about their own firms' prospects over the coming year.
- Members who are **non-UK residents and those working in Scotland** are also **more pessimistic** about the UK's economic prospects over the next year than other regions.
- **Members in the North East of England are the most optimistic** about the domestic economy over the next year. 36% of respondents in the North East expect the economy to improve over this time.
- By insurance industry sub-sector, **members in Lloyd's/London Market are the most pessimistic** about the next year for their firm, with **37% expecting things to worsen; only 20% expect an improvement.**
- Members working in Lloyd's/London Market were the least likely to have voted to leave the EU, and also attach the highest priority to many Brexit-related issues. In particular, passporting rights are considered as either a high or reasonable priority for the UK in negotiations to leave the EU by 92% of Lloyd's/London Market members.
- Members working in 'financial advice' and those in 'life, pensions and long-term savings' attach the least priority to passporting rights and access to the Single Market relative to other sub-sectors.
- **47% of Lloyd's/London Market members believe their firm has a contingency plan for leaving the EU, the highest share of all sub-sectors.** Members in general insurance were the least likely (26%).

Figure 1: CII Economic, Business and Employment Prospects Indices, 2011–16

Source: CII Cebr analysis

[1]According to research from Cebr (2016), in 2014 exports to the EU contributed £187 billion to the UK economy – 10.3% of UK GDP

Having been slowly edging out of a subdued period of growth, the global economy has had a disrupted year. In particular, advanced economies now face far greater uncertainty over their future, due to impactful and often unpredicted political events in 2016.

Dominating the headlines, both Brexit and the election of Donald Trump as US President are likely to have significant implications for the global economy, given his promise of US protectionism. However, as precise policies are unclear as both events continue to unfold, the spread of possibilities is wide.

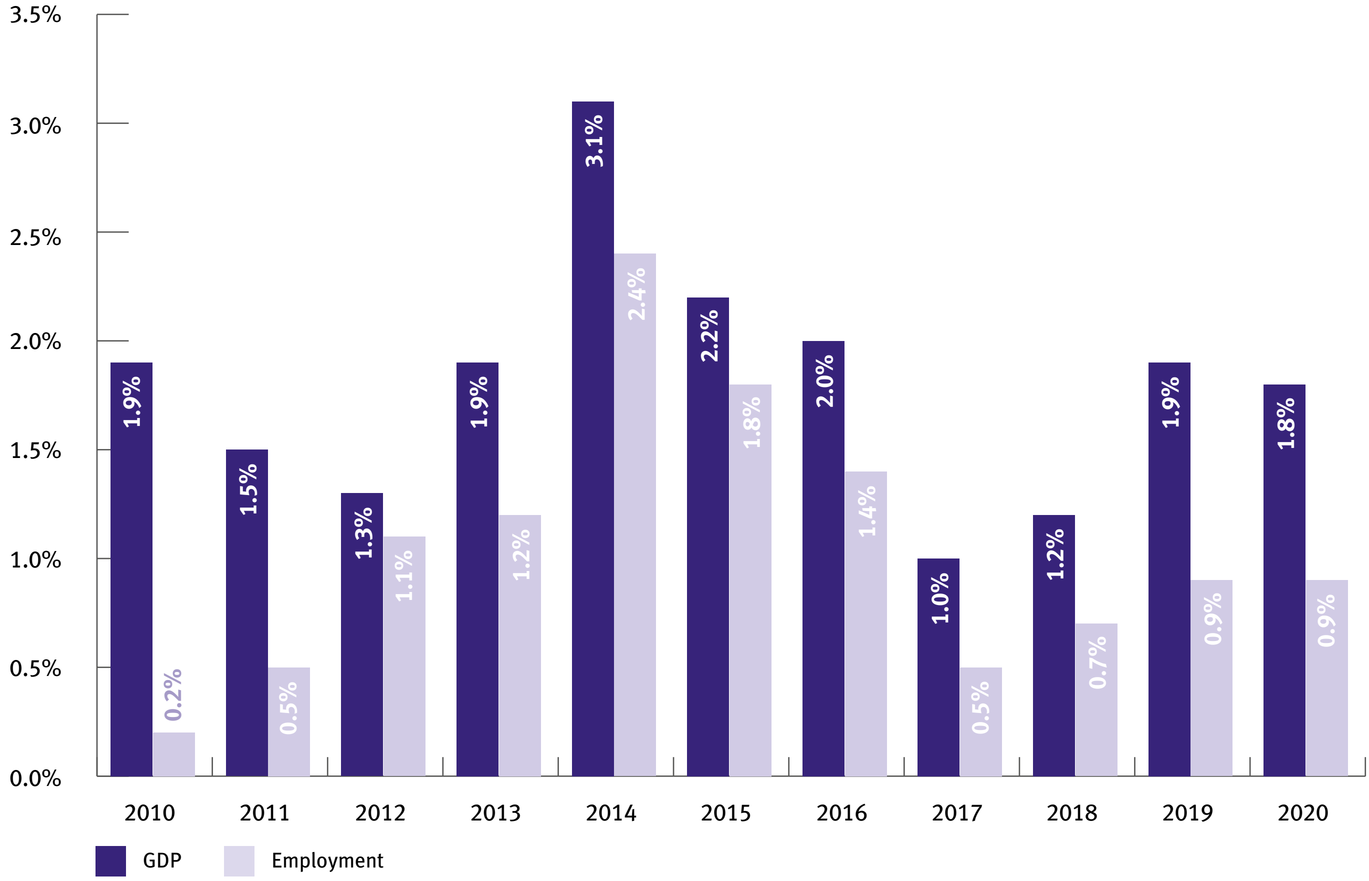
The UK's vote to leave the EU in June has led to a re-evaluation of not only the UK economy, but its impact on major trading partners. Significant downside risks stem from the UK's negotiations to leave the Union: 53% of UK imports came from other EU nations in 2015, and UK exports to the EU contributed over 10% of the UK's total GDP in 2014.[1] Hence, a great deal rides on negotiations determining future trade arrangements. The uncertainty over what will materialise is reflected in this year's survey.

For the moment, the UK economy continues to perform broadly in line with pre-Brexit levels. Consumer spending has been resilient, UK businesses continue to invest, and labour market data indicate further strength. Overall, we forecast UK GDP to grow by 2.0% in 2016.

One immediate consequence of the referendum on June 23rd was the sharp depreciation of sterling against various other key currencies, including the euro and US dollar. Whilst providing a competitive boost to UK exporters, this is offset by rising inflation, which will squeeze disposable incomes. Higher import costs will limit household expenditure growth, forecast to expand by only 0.9% in volume terms in 2017.

Based on the Government's current rhetoric, an exit from the European single market is likely. A 'Hard Brexit' would mark a significant economic shift, and may lower business investment. Furthermore, slowing job creation in Q3 hints that the UK labour market may also deteriorate in 2017. Cebr expects UK GDP growth to slow to 1.0% in 2017.

Figure 2: UK real GDP and employment, annual percentage growth



Source: ONS Cebr analysis

Economic review and outlook Continued

The election of Donald Trump in the US has further widened global economic possibilities, as protectionist policies and repeals of trade pacts could be deeply unsettling for global markets. However, the full details of Trump's trade plans are as yet unclear. We expect looser fiscal policy in the US, with tax cuts and spending on infrastructure, but details for monetary and trade policy remain uncertain.

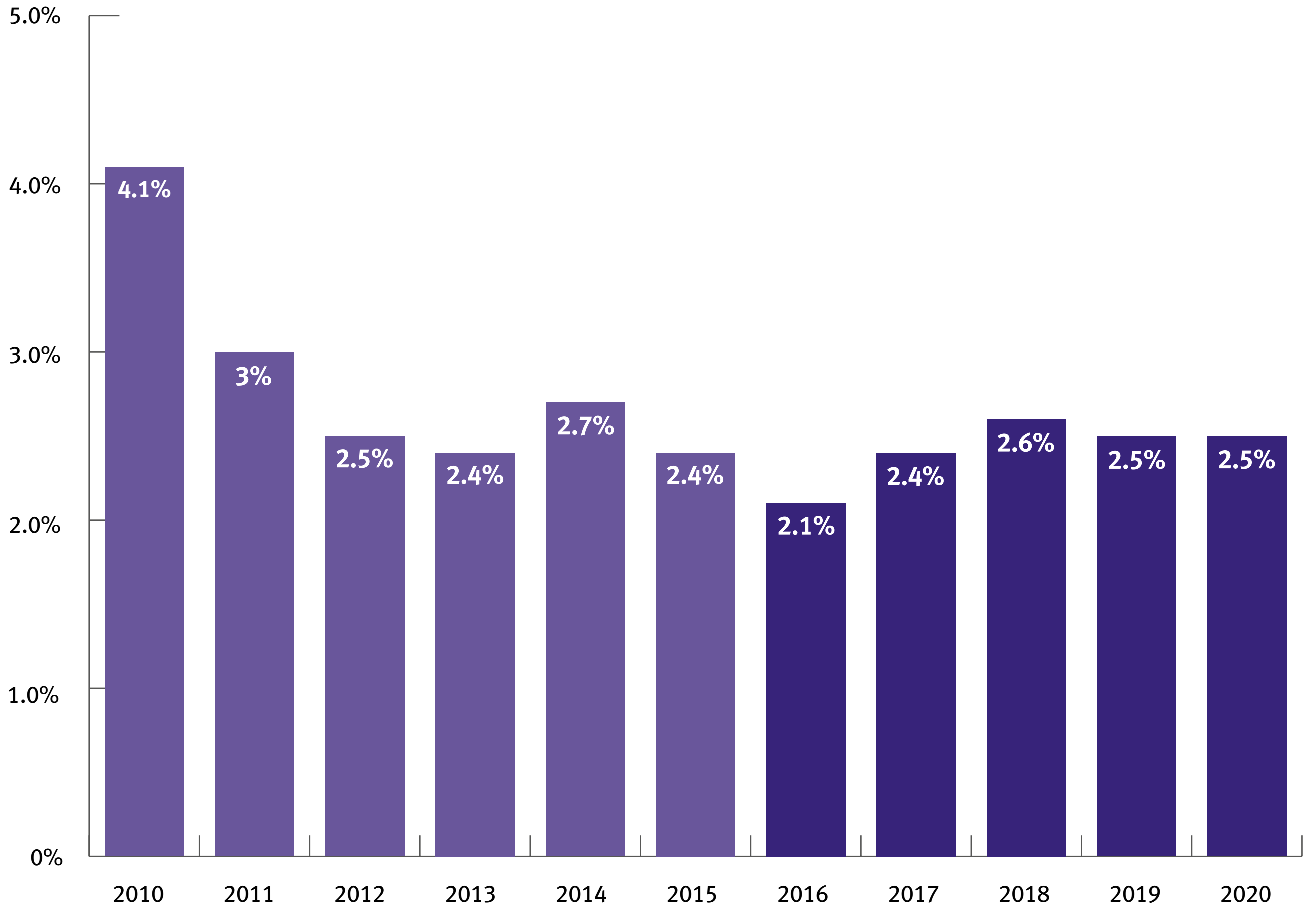
Trump promises to withdraw from the Trans-Pacific Partnership on his first day of office, which would leave the arrangement effectively defunct. Many developing economies, which have experienced robust growth in recent years, may be highly vulnerable to US trade direction; those reliant upon trade may find their export prospects affected by inward-facing US policies.

US prominence in global trade means domino effects will be unavoidable. Any alterations to the North American Free-Trade Agreement (NAFTA), for example, would directly affect Canada and Mexico, as both send more than 70% of their exports to the US. China's largest trading partner by imports is the US too, and again will be subject to Trump's approach to international relations. Further disagreements are highly likely, but whether a war of words will impact trade relations remains to be seen. It will not be straightforward to scrap long-standing trade deals, but Trump's rhetoric to unilaterally impose trade restrictions should be taken seriously. The US is the largest single market for Chinese exports, accounting for about 20% of the total. Aggressive US trade policy could result in a marked slowdown in China's growth and a loss of manufacturing jobs, so retaliatory action from China is possible.

In 2017, US GDP is forecast to grow by 2.4%, fuelled by infrastructure investment. Stimulation of demand from Trump's fiscal policies, and a recovery in global commodity prices, would benefit some economies. Yet, the potential for shock market reactions in the short-term is significant. Considering the lack of clarity and clear direction from Trump, volatility is probable in emerging economies.

After sustained low oil prices increasing fiscal deficits in producing nations, OPEC agreed to a historic production cut in November. Brent crude is currently priced around $53 a barrel and could rise further if members, particularly Saudi Arabia and Russia, stick to quotas. Doing so could be instrumental to many economies where oil forms a large share of exports and GDP. In Venezuela, for example, petroleum exports account for more than half of the country's GDP and around 95% of total exports. Rising oil prices may be the catalyst for a recovery in many such nations.

Figure 3: Global GDP (in USD at market exchange rates), annual percentage change



Source: IMF, Cebr analysis

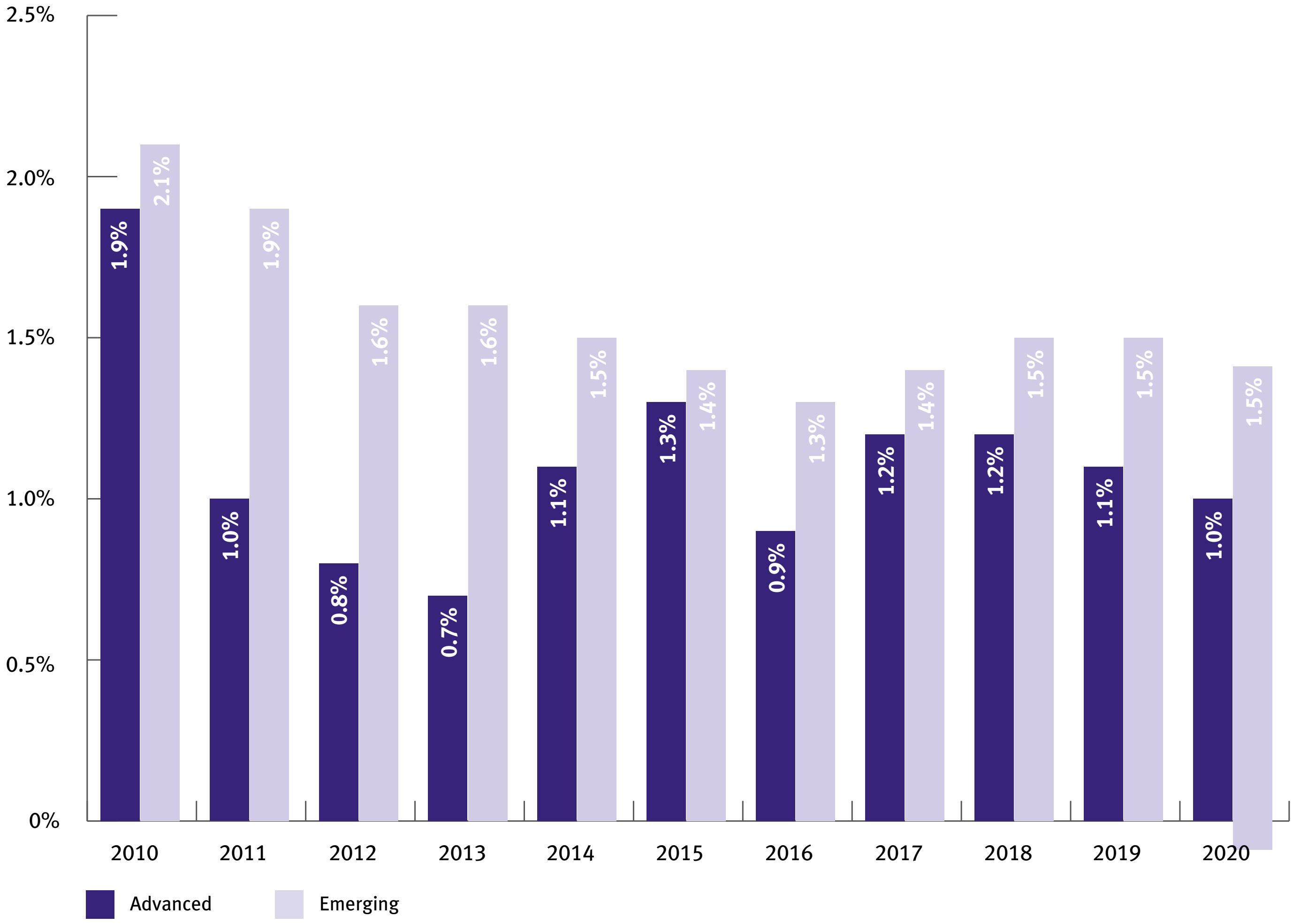
East Asian economies may be affected by the change of US leadership. In late 2016, the Japanese domestic economy performed relatively well, with robust expansion despite global headwinds and the strength of the Yen. In China, although slowing relative to levels of earlier years, annual GDP growth sat consistently at 6.7% for three successive quarters in 2016. But, an uncertain global outlook dampens future prospects, likely to affect trade and investment. Countries reliant on trade surpluses for growth, including Japan, China and others in Asia-Pacific, will suffer from a more protectionist US regime.

The Indian economy has withdrawn 500 and 1000 rupee notes from circulation to address counterfeiting and improve tax collection. The transition has led to disruption for the cash-based economy, leading Indian growth to be revised down for the year. In the long-run, if the move can achieve its aims, it may be beneficial for the Indian economy.

In terms of monetary policy, 2016 has seen a continuation of ultra-loose policies from central banks. The European Central Bank (ECB) has kept interest rates at zero, and Mario Draghi, Chair of the ECB, announced that the quantitative easing programme would be extended from March 2017 until December 2017. The Bank of Japan's benchmark interest rate is also currently at zero, having adopted an unconventional negative interest rate in 2016. The US Federal Reserve, after holding interest rates at 0.5% for most of the year, has decided in December to raise rates to 0.75%, reflecting robust US economic performance and signalling a slight shift to normalise US monetary policy.

Much of the rationale for expansionary monetary policy has been to raise inflation towards targets, after prolonged periods of 'low-flation', 'no-flation', or deflation, following a weak recovery from the financial crisis in many developed economies. Inflation is now increasing, and many advanced economies in Europe and North America will see annual price rises above 2% in 2017.

Figure 4: Advanced and emerging economies' contributions to annual global GDP growth, percentage points[2]



Source: IMF, Cebr analysis

Within the Eurozone, political events have affected the strength of the Union. Economically, it is recovering but only very gradually. Overall, GDP growth in the Eurozone is expected to have slowed to 1.5% in 2016, down from 2.1% in 2015. However, the labour market has posted improvements, with the Eurozone unemployment rate falling below 10% for the first time since 2011.

Italy's referendum rejection of constitutional reforms puts the euro in further jeopardy. With Prime Minister Renzi resigning and the Eurosceptic Five Star Movement gaining influence, the chance of Italy dropping the euro has increased significantly. With the rise of populist, anti-establishment parties elsewhere in Europe, most prominently the Front National in France led by Marine Le Pen, the entire EU is in its most precarious position in recent times.

[2]Advanced economies include EU, USA, Japan, Canada, Australia, Korea, Switzerland, Norway, Taiwan, Singapore, Hong Kong, Israel, New Zealand and Iceland. Emerging economies include China, Brazil, Russia, India, Mexico, Indonesia, Turkey, South Africa and Nigeria.

CII members' optimism fades, as uncertainty looms over the year ahead

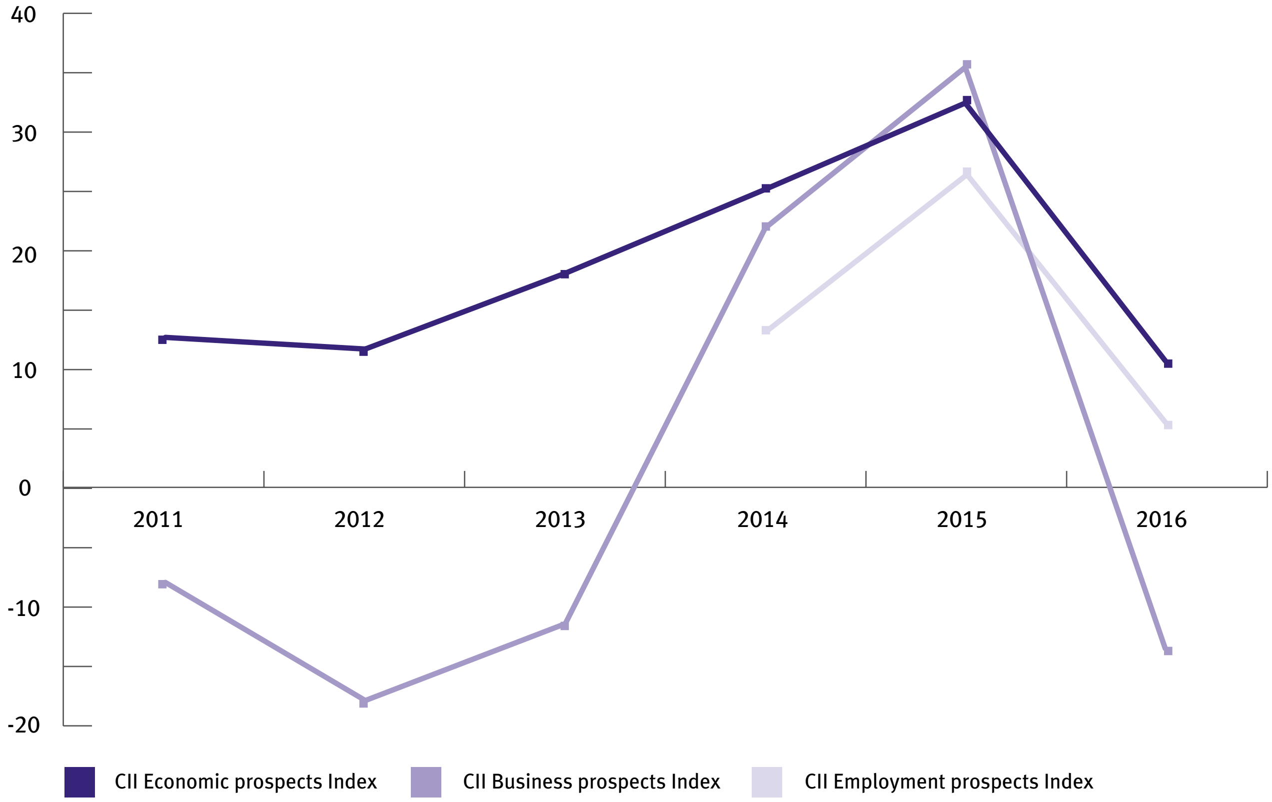
After upward trends in recent years, the readings for all three headline CII indicators have fallen significantly in 2016. The expectations of CII Members have declined markedly, as optimism has dropped across the board – in terms of general economic expectations, employment prospects, and the future of members' own businesses.

Optimism for general economic prospects in the UK has weakened in 2016. After rising between 2012 and 2015, members are once again pessimistic about the UK economy over the next year. Almost half (48%) of CII members see the general economic prospects for the UK as deteriorating over the coming year, a likely result in part due to the greater uncertainty arising after the UK's vote to leave the EU in June.

Similarly, prospects for members' own businesses have declined in 2016 relative to last year's reading. Respondents on the whole are optimistic about the year ahead. Aggregate scores give a net balance of +10.5, the lowest CII Business Index reading since the survey was first conducted in 2011. Most commonly, members expect stability for their firms over the next year (45%), whilst 20% of members expect their firms' prospects to deteriorate over the next year.

In terms of employment, respondents indicated that in general their job prospects had improved in 2016, compared to a year ago. While less positive than in previous years, 29% of members state their employment prospects have improved in the past year, with 48% saying they have remained stable.

Figure 5: CII Economic, Business and Employment Prospects Indices, 2011–16[3]



Source: IMF, Cebr analysis

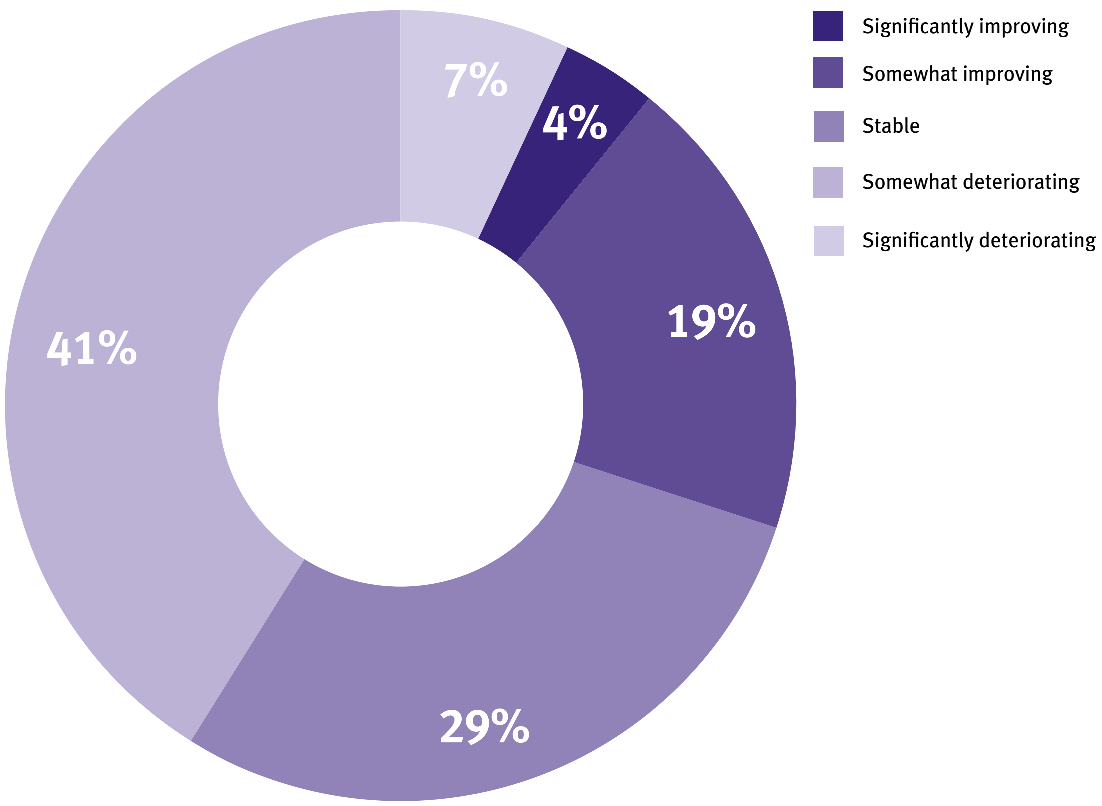
[3]Headline indices are constructed to succinctly summarise the sentiments disclosed in CII's Member Surveys. We first assign responses indicating a 'significantly improving' or 'significantly deteriorating' outlook with double the weight of 'improving' and 'deteriorating' responses, respectively. This step is in order to take account of the relative strength of these expectations. Subsequently, we subtract the weighted proportions of negative responses from the weighted proportions of positive responses, arriving at the indices shown above. These indices have a maximum possible value of 200 and a minimum possible reading of -200. Any score above zero indicates an overall expectation for improvement.

10 Economic prospects

Almost half of respondents expect the economy to deteriorate over the next year

The results of the 2016 CII Member Survey show that much of the optimism about the UK economy that had been building in recent years has faded. Members present a broadly negative view about the next 12 months. 48% of respondents expect some deterioration, 23% expect some improvement, and the remaining 29% expect the UK economy to remain stable. Following the UK's vote to leave the European Union, members have revised down growth expectations. Indeed, lower confidence in the prospects of the next 12 months accords with Cebr's own forecasts for 2017, in which we expect GDP growth to slow to 1.0%.

Figure 6: Prospects for the Uk economy over the next year, 2016



Source: CII, Cebr analysis

The impact of the Brexit vote must be considered a highly influential factor in altering economic expectations. Other gauges of business and consumer confidence have similarly highlighted the downturn in prospects directly following the referendum result[4]. While few tangible economic effects have been identified in the immediate aftermath of the vote, it may take time to feel the full effects of Brexit, especially before Article 50 is triggered. For the minute, hard data suggest limited impact so far from the referendum – low unemployment currently underpins a robust UK labour market, business investment is on the up, and exports grew in the third quarter, driving GDP growth after the referendum. Even so, with potential future consequences, it is clear consumers and business alike are conscious of the potential impacts – economic uncertainty continues to cloud many sectors and regions.

The difference between 2015 and 2016 is stark. Last year, a majority of CII members had high hopes for the UK economy for the year ahead, with 67% of respondents expecting economic prospects to improve ('somewhat' or 'significantly'); in 2016, only 23% anticipate economic improvements. However, the increased share of pessimists is more striking: in 2016, 48% of respondents expect the economy to deteriorate ('significantly' or 'somewhat') in the next year, a share over nine times higher than in 2015.

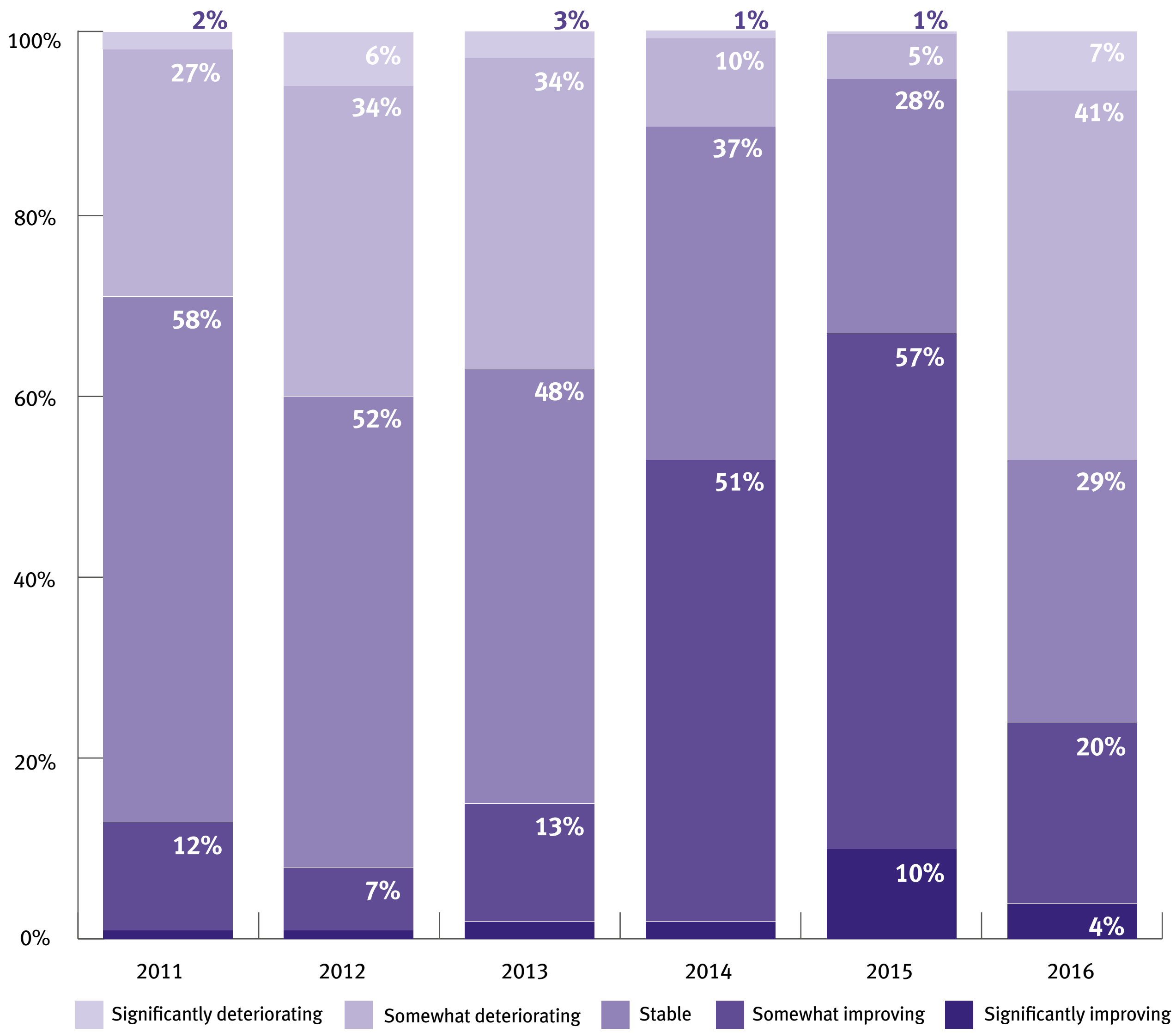
[4]ICAEW's Business Confidence Monitor (2016) showed confidence in Q3 falling to its lowest level since the 2008/09 recession, scarcely recovering in Q4; GfK's Consumer Confidence Index dropped 11 points in July, the sharpest monthly fall in 26 years (although it has recovered in the months since).

Expectations for the coming year are mixed, but mainly pessimistic

As illustrated by Figure 7, with far fewer respondents expecting economic improvements over the next 12 months in 2017, the results from 2016's survey contrast strongly to 2014 and 2015. However, there remains in 2016 a small group of optimists who expect significant improvements in the economy – at 4%, this is the second highest share in the years recorded (2011 onwards). Furthermore, in total almost a quarter of respondents expect some improvement, which is significantly more than in any year before 2013.

While some members are optimistic about the economy in the year ahead, a far larger share expect it to worsen. 2016's survey shows that the 48% of respondents expecting economic deterioration ('significant' or 'somewhat') is the highest recorded. While some in the insurance sector see opportunity in renegotiating Britain's position with Europe, others in the industry are concerned about issues such as access to the single market, passporting rights, and availability of skills. Yet, confidence can be fickle, and equally quick to recover from falls. Our analysis focusing on members' views on Brexit shows that Britain's approach to negotiations is key. While there is currently a wide scope of possibilities, what matters to most members is what eventually emerges.

Figure 7: Prospects for the UK economy in 2011–16[5]



Source: CII, Cebr analysis

[5]Some prior surveys asked members for their view on economic prospects in the following terms: Excellent, Good, Stable, Deteriorating, Very Poor. For more recent editions, the scale was as follows: Significantly Improving, Improving, Stable, Deteriorating, Significantly Deteriorating. For purposes of comparability, these five-point scales are considered interchangeable.

Economic prospects Continued

London fears the worst for 2017, while other regions are less pessimistic

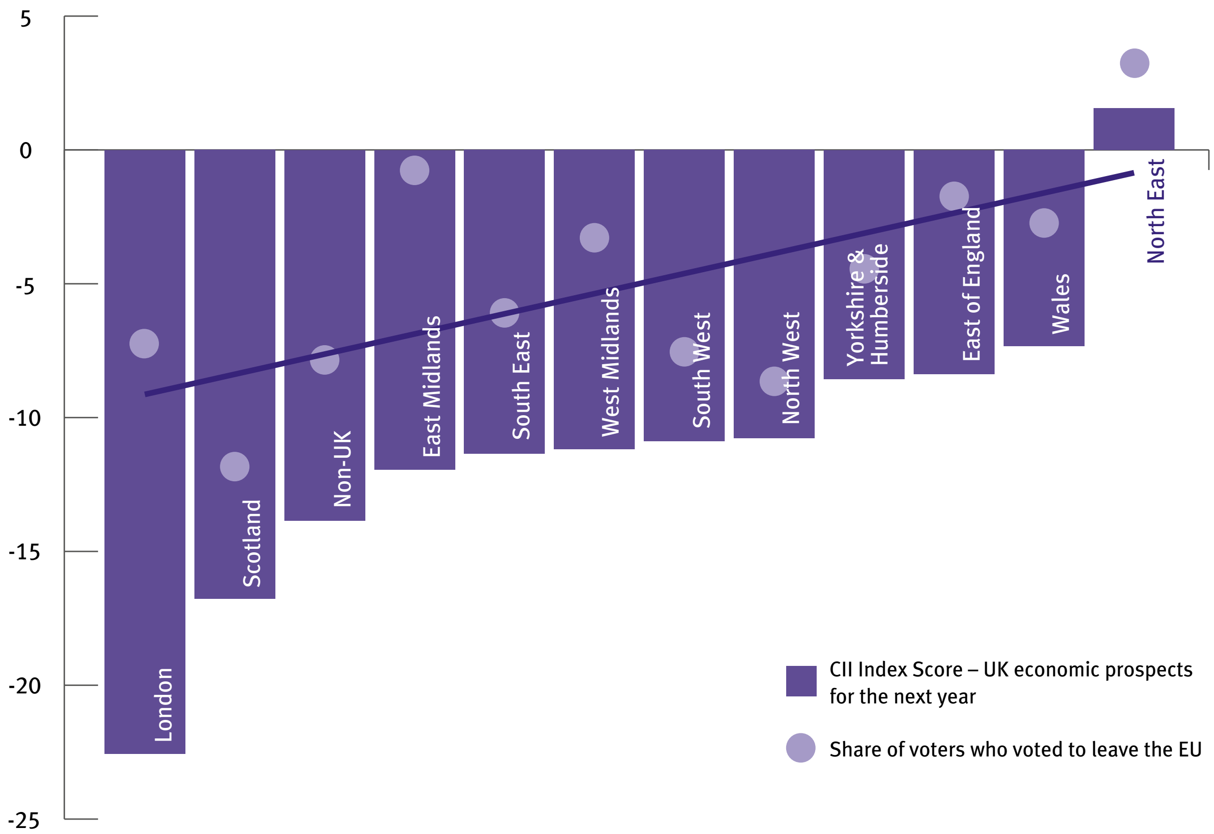
London is the most pessimistic region about the UK economy over the next 12 months. Of all respondents working in London, 57% expect the economy to deteriorate in the coming year, compared to only 19% who see it improving. Respondents from Scotland, and also those who do not reside in the UK, were also relatively pessimistic.

Elsewhere, Yorkshire and Humberside, Wales and the East of England all presented more balanced, albeit negative, expectations on the whole. The North East of England stands out regionally as the only part of the country to show general optimism about the economy over the year ahead. Over a third (36%) of respondents in the North East expect the economy to improve over the next year.

Regional differences in economic expectations align somewhat with the way respondents said they voted in the June 23rd referendum. Figure 8 illustrates that higher regional optimism (or lower pessimism) correlates positively with a higher share voters who voted to leave – a strong correlation of 74%. Although the relationship does not prove causation, it is perhaps unsurprising that regions in which members were more pro-Brexit would be generally more optimistic about the future economy; in the North East, for example, it is reasonable to assume that the majority of CII members who voted to leave the EU expected this path to be economically advantageous.

However, other factors, like exposure to EU labour, may explain regional divergence. London's financial and insurance industry has a higher share of EU workers than others, which may mean that CII members working in London feel more vulnerable to changes. 14% of London's finance and insurance workers come from other EU member states, compared to an average of 7% for the sector across the UK.

Figure 8: CII Index score – prospects for the UK economy over the next year, 2016 by region (LHS) % share of voting CII members who voted to leave the EU (RHS)



Source: CII, Cebr analysis

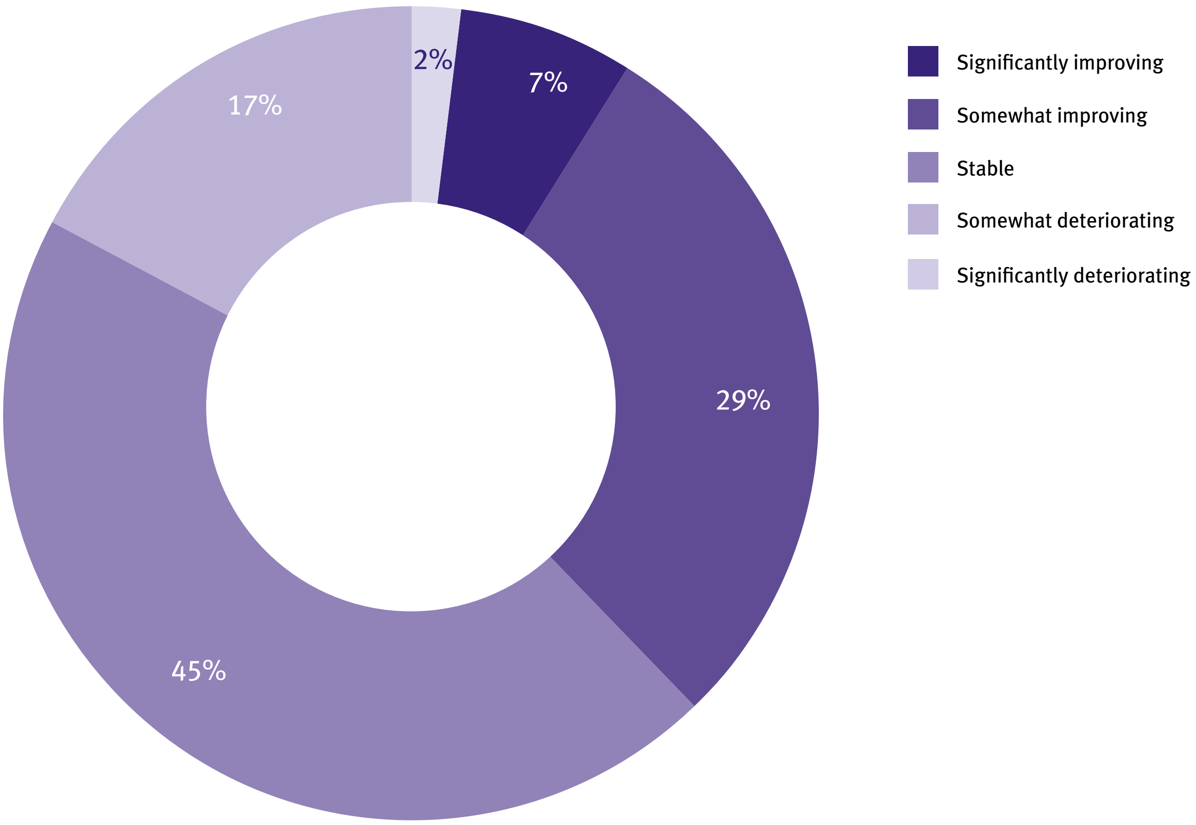
[6]Figures correspond of Q1 2016, according the Labour Force Survey (ONS)

Business prospects decline, but confidence in own firms higher than general economy

At the end of 2016, CII members were less positive about their own businesses' prospects than they were in previous years, but remain on average optimistic about the next 12 months for their firm. Over a third (36%) of respondents expect prospects for their business to improve this coming year[7], down from 60% in 2015. These results suggest that despite a downturn in the high levels of business confidence seen in recent years, CII members are much more positive about their business than the whole UK economy.

Whilst 36% indicate the outlooks for their businesses are either 'significantly improving' or 'somewhat improving', the largest proportion of respondents see continuity – 45% consider their businesses outlook 'stable'. A further 19% see their prospects deteriorating.

Figure 9: Prospects for your business over the next year, 2016



Source: CII, Cebr analysis

[7] Respondents were asked the following question: "How do you view the prospects for your business in the coming year?"

Business prospects fall back in 2016 after gradual yearly improvements

As illustrated by the upward trajectory of the headline Business Prospects Index in Figure 1, this year marks a break in the steady annual improvements seen in business confidence since 2011. Confidence had been improving in every successive year since 2012, but has regressed in 2016.

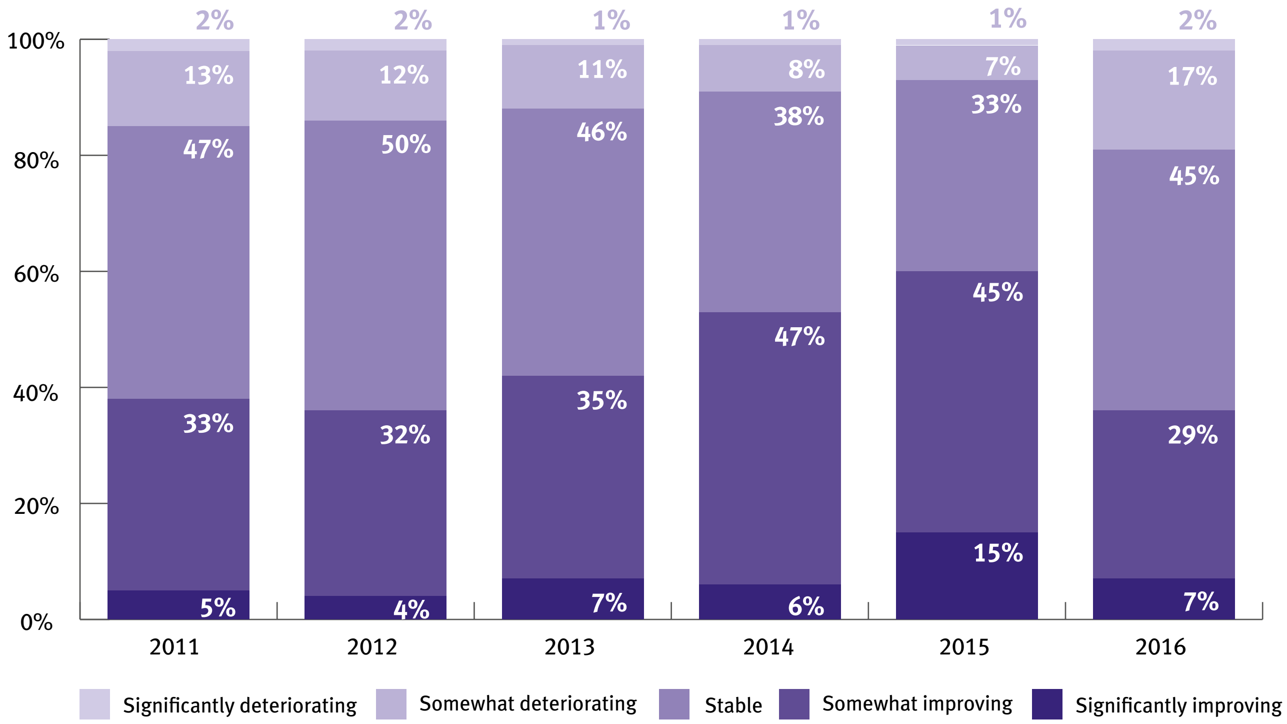
This lower level of overall confidence is a result of many respondents downgrading their prospects from 'somewhat improving' to 'stable' – at the end of 2016 there were far fewer individuals expecting improvement from their business, but a higher share expecting stability. Despite this, the general mood remains positive, and less than a fifth of members expect things to get worse over the next 12 months.

Historically, individual business prospects have been more stable than expectations for the whole UK economy. The lesser degree of variation in the Business Prospects Index (relative to the Economic Prospects Index) may suggest that the businesses in which CII members operate tend to achieve steadier growth and are less vulnerable to fluctuations than in the more volatile wider economy.

Regionally, there is a wide variation in the expectations of members around the UK. Respondents working in the North of England are the most optimistic about the next 12 months for their business. In particular in Yorkshire and Humberside respondents were most positive, posting an Index score of 20.4[8], with 43% expecting their business prospects to improve over the coming year, and 45% expecting them to stay stable. Aside from other regions in the North of England, respondents working in Wales were also relatively optimistic about the next year for their firm.

Respondents working in London were the most pessimistic about their prospects over the next year, scoring 0.1 in the CII Business Prospects Index, significantly lower than any other region. This reinforces the generally negative expectations of CII members in London, who were also the most pessimistic with regards to the general economic outlook in 2017.

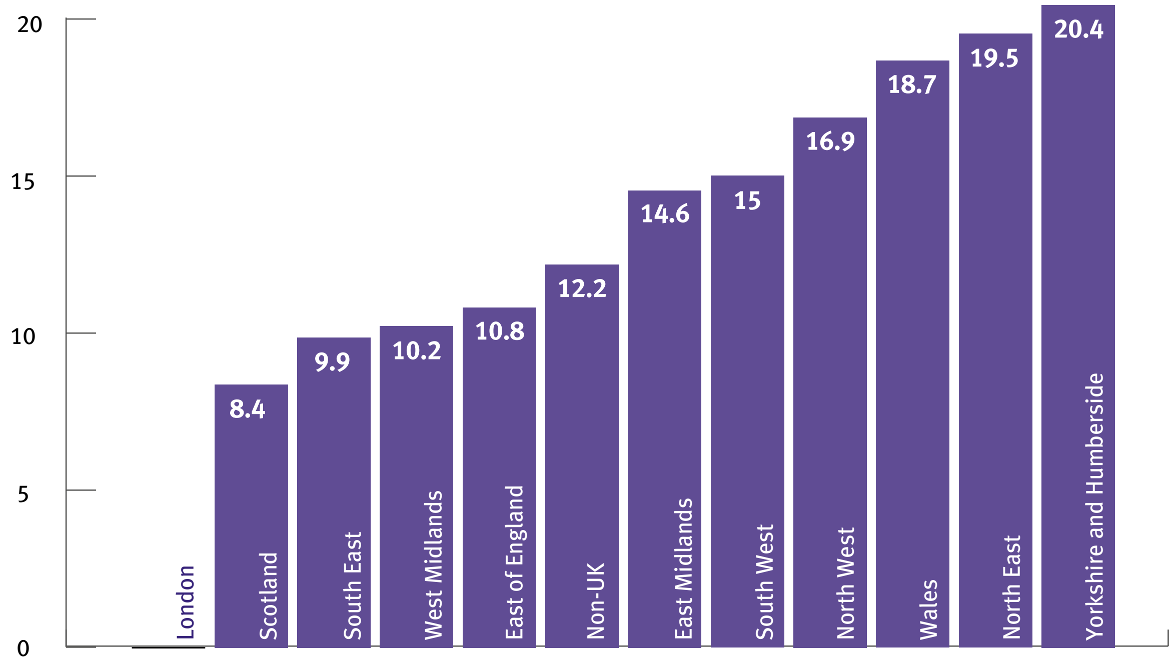
Figure 10: Prospects for your business in 2011–16



Source: CII, Cebr analysis

[8]Headline indices are constructed to succinctly summarise the sentiments disclosed in the CII's Member Surveys. We first assign responses indicating a 'significantly improving' or 'significantly deteriorating' outlook with double the weight of 'improving' and 'deteriorating' responses, respectively. This step is in order to take account of the relative strength of these expectations. Subsequently, we subtract the weighted proportions of negative responses from the weighted proportions of positive responses, arriving at the indices shown above. These indices have a maximum possible value of 200 and a minimum possible reading of -200. Any score above zero indicates an overall expectation for improvement.

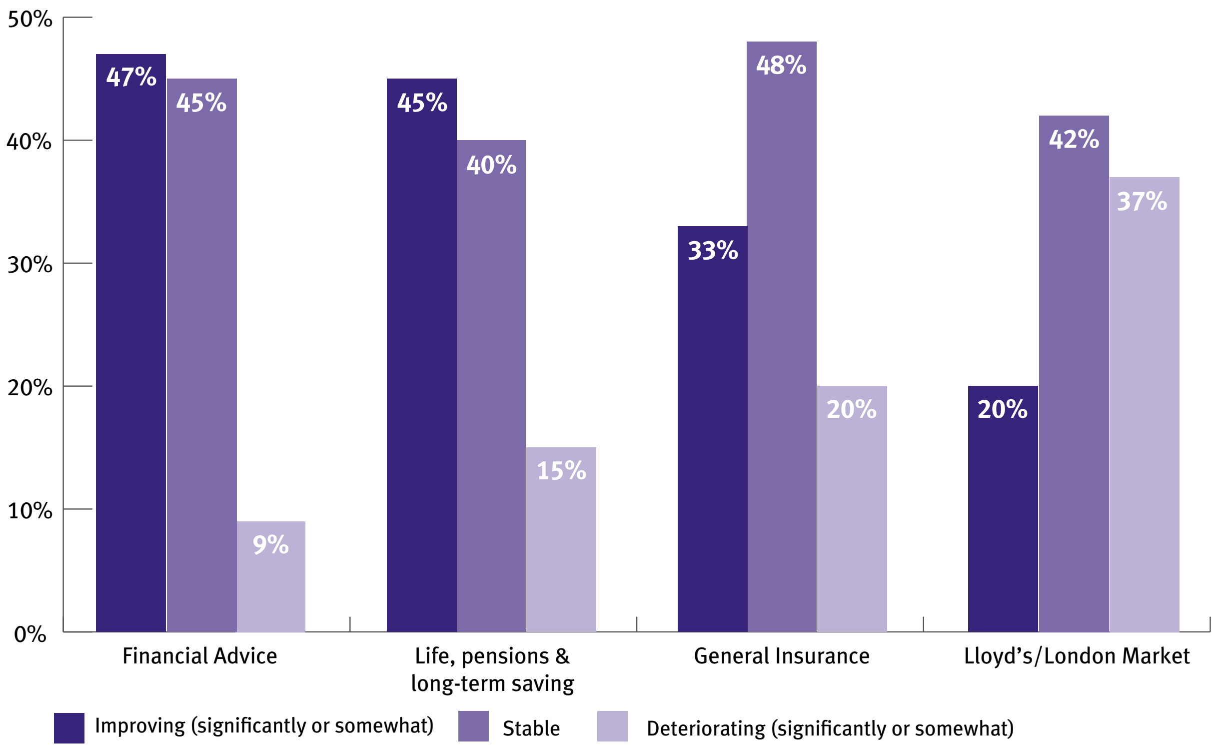
Figure 11: CII Index score – prospects for your business over the next year, by region, 2016



Source: CII, Cebr analysis

As Figure 12 illustrates, outlook also varies considerably by sector. Those in Lloyd's/London Market are the most pessimistic about the coming year for their firm, with 37% expecting things to worsen compared to only 20% foreseeing improvements. In contrast, members working in financial advice were the most optimistic, with 46% expecting improvements, followed by 43% of those in the life, pensions and the long-term savings sector. As is further analysed in the Impact of Brexit chapter, members from Lloyd's/London Market are more worried about potential losses from leaving the EU, such as the loss of passporting rights.

Figure 12: How do you view the general prospects for your business in the coming year, by sector?



Source: CII, Cebr analysis

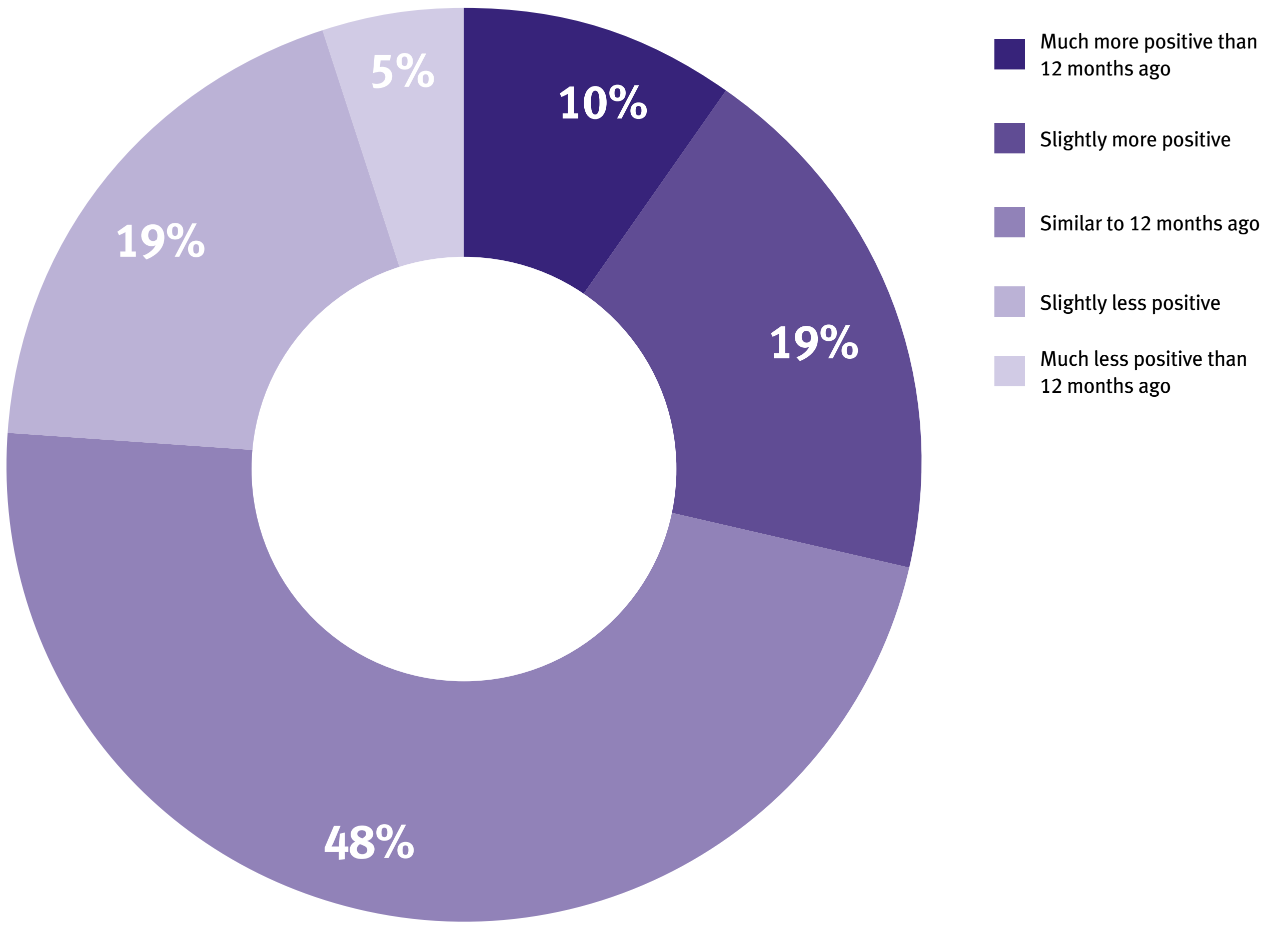
16 Employment prospects

Members' own employment prospects slightly improved from last year

In general, respondents to this year's survey felt their employment prospects had either improved or remained stable compared to 12 months ago.[9] Just under half (48%) of members felt they are in the same position as a year earlier in terms of employment prospects. As the most common response, this indicates general stability in employment prospects in the insurance industry.

Promisingly, 10% felt their prospects had significantly improved and 19% felt they had somewhat improved. More worryingly, 23% of members felt their employment prospects had in fact deteriorated relative to their position last year, up from 12% in 2015. This may be a result of firms holding off on hiring decisions given economic uncertainty, adopting a wait-and-see attitude.

Figure 13: CII members' perception of own employment prospects compared with 12 months ago, 2016



Source: CII, Cebr analysis

[9]Respondents were asked the following question: "How do you feel about your own employment prospects today, compared with 12 months ago?"

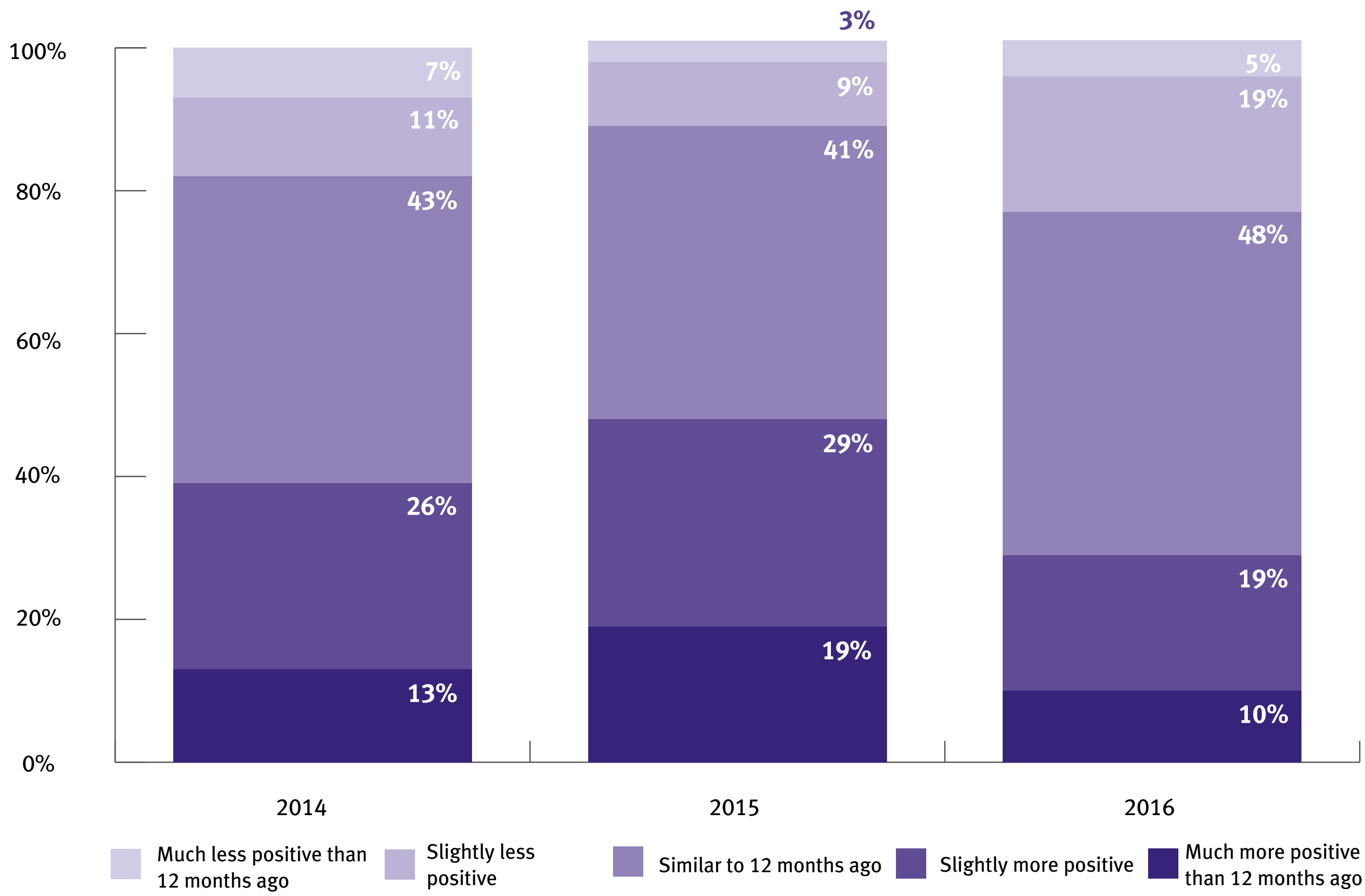
Improvements in job prospects boosted by healthy labour market

The labour market in the UK has substantially strengthened over the last 12 months. The national unemployment rate fell to 4.8% in the three months to September, the lowest level in 11 years, and annual earnings growth has averaged around 2.3% since the end of 2015. Historically high employment figures, with a record 31.8 million people in work across the UK, indicate the strength of the UK's labour market.

Many forecasters expect unemployment to rise from currently low levels as the economy slows. Cebr expects the unemployment rate to rise to around 5.2% in 2017. Already, employment growth has slowed towards the end of 2016, and may soften further with firms unwilling to commit to hiring.

Although comparing 2016 CII survey figures to previous years would seem to indicate a downturn, in fact members' responses show they have on average improved their position over the last 12 months. As the question compares job prospects now to those a year ago, the figures show a general improvement. With a net CII Employment Index score of 5.4, on average respondents feel their employment prospects have improved compared to 2015.

Figure 14: CII members' employment prospects, 2014–16



Source: CII, Cebr analysis

The impact of Brexit

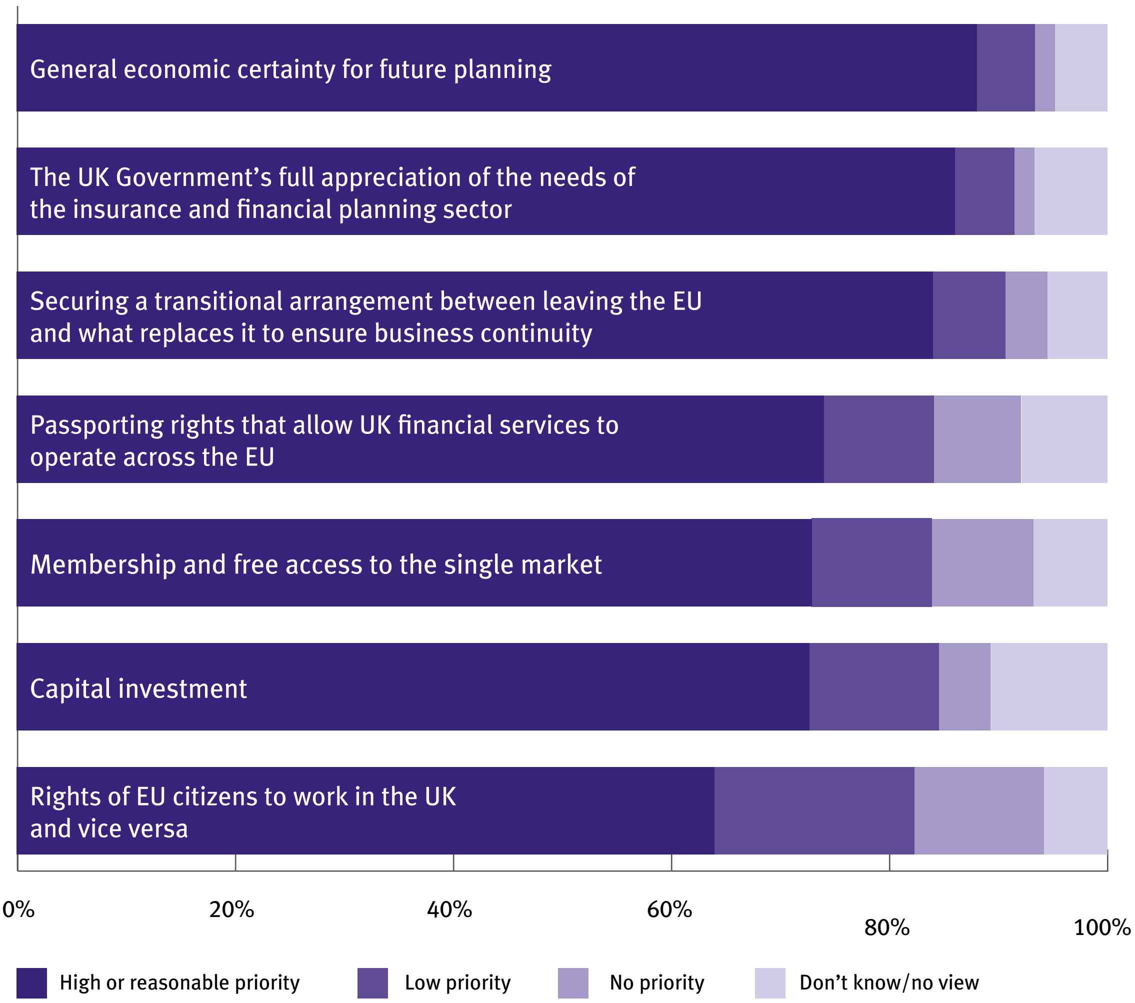
Members appear to be waiting and seeing despite uncertainty of the post-Brexit future

The UK's referendum decision to leave the European Union on June 23rd was undoubtedly a defining, hugely impactful moment in 2016. The full ramifications of the vote continue to unfold. Yet, at least in the immediate aftermath, the picture of the UK economy has been reassuringly robust. Recent data points to a strong performance in the labour market, and consumer demand continues to rally into late 2016. As a result, GDP has so far remained strong in the wake of the vote. However, immediate effects have been felt. For one, a clear shock has been seen in sterling, which has fallen sharply against a range of currencies such as the US dollar and euro since the referendum. Furthermore, such economic uncertainty has affected consumer and business confidence. Also, industrial production, construction and manufacturing output are all down according to the most recent data.

Whilst the full long-term effects of Brexit will become clearer as the UK's negotiations unfold, the vote has an impact on the expectations of CII members. According to our survey, a 52% majority of members voted to remain in the EU, almost twice the 27% share of those who reported voting to leave. A further 21% answered either 'I didn't/couldn't vote' or 'I'd rather not say'.

We asked members how much priority they attached to a range of factors as the UK enters into negotiations to leave the EU. The results confirmed a wider trend of general economic uncertainty following the Brexit vote. 87% of members consider 'general economic certainty for future planning' to be either a high or reasonable priority.

Figure 15: As the UK enters into negotiations to leave the EU, how much priority do you attach to the following factors for your firm and the wider insurance and financial planning sector?



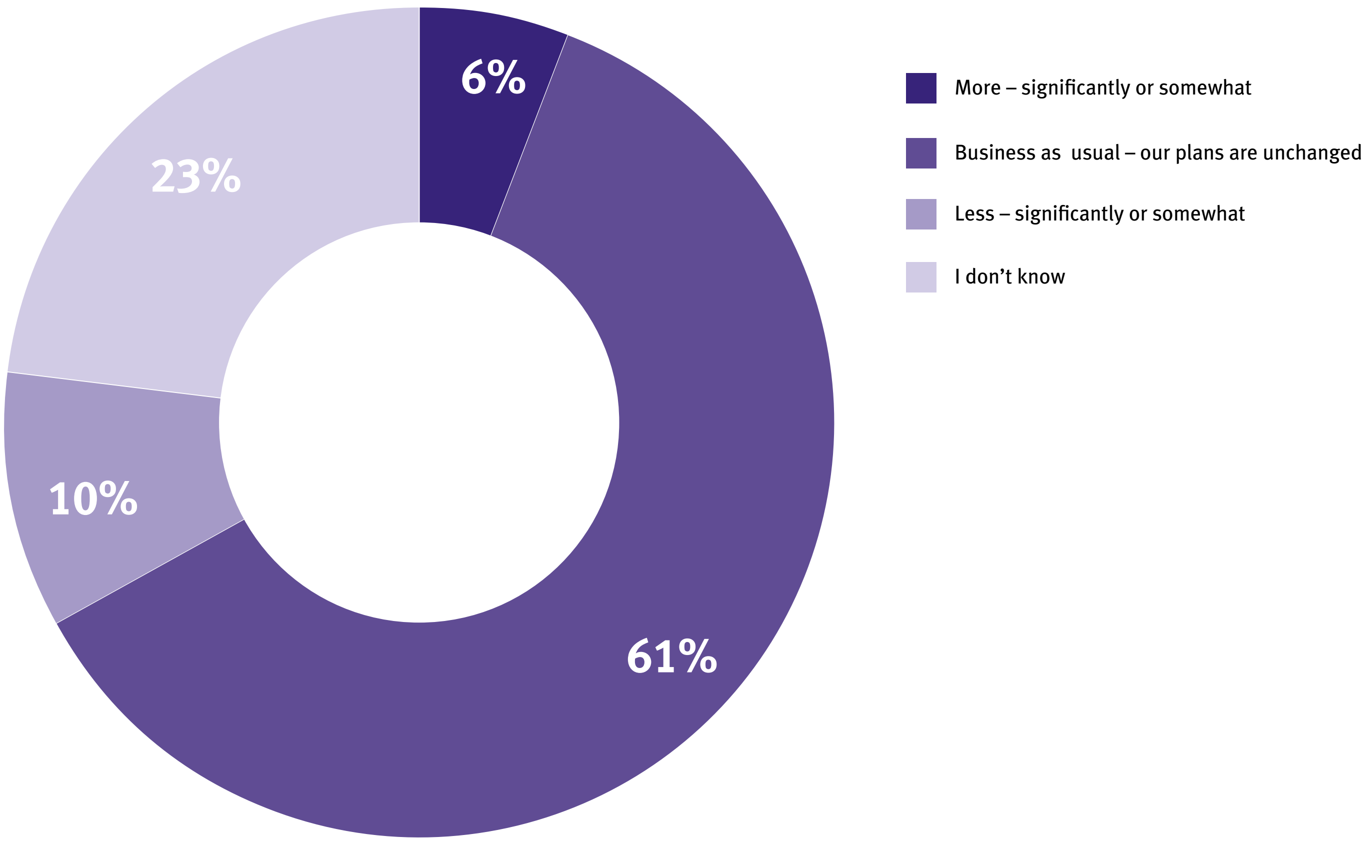
Source: CII, Cebr analysis

Members also reported the Government's full appreciation of the needs of the insurance and financial sector as important with 86% stating this as a high or reasonable priority; only slightly fewer (84%) cited a transitional arrangement between leaving the EU and what it replaces as a priority. These answers may indicate a general feeling of uncertainty regarding Brexit negotiation, but not necessarily a pessimistic outlook for the industry. Whilst members are clearly cautious of the direction of negotiations, and aware of the sensitivity of the impact of Brexit, members appear to be adopting a wait-and-see mindset.

Clearly, the uncertain direction and consequences of the UK's negotiations to leave the EU are prominent factors in the insurance sector. Yet, despite this uncertainty, only a small share of members reported adjusting their plans as a result. In terms of investment into their business, 61% of members reported that their approach is 'business as usual': the Government's approach to negotiations has not altered investment plans in their business. 9% claimed they planned to invest less because of exit negotiations; only 6% claimed they have planned to invest more. For now the majority of members have not changed their behaviour, instead awaiting clearer direction and information before uncertainty materialises into changing investment. This reflects the wait-and-see approach of members.

It seems that even though expectations are less certain, members are most likely to continue with any previous plans, especially as the UK has scarcely made progress towards actually leaving the Union thus far. This may explain why the fall in UK general economic outlook was more severe than members' confidence in their own firm's future. Members have a greater degree of control (and information) regarding their own firm, which is not the case with the wider economy. With many members continuing their 'business as usual' course, they are in a good position to judge their own business prospects. Yet, with regards to the UK economy, the spread of possibilities may seem wider. Even if members know their business has a contingency plan, the same might not be said of the UK economy, perhaps explaining the sharper downturn in general UK economic confidence.

Figure 16: Has the Government's approach to negotiations with the EU since the referendum meant that your firm has planned to invest in the business?



Source: CII, Cebr analysis

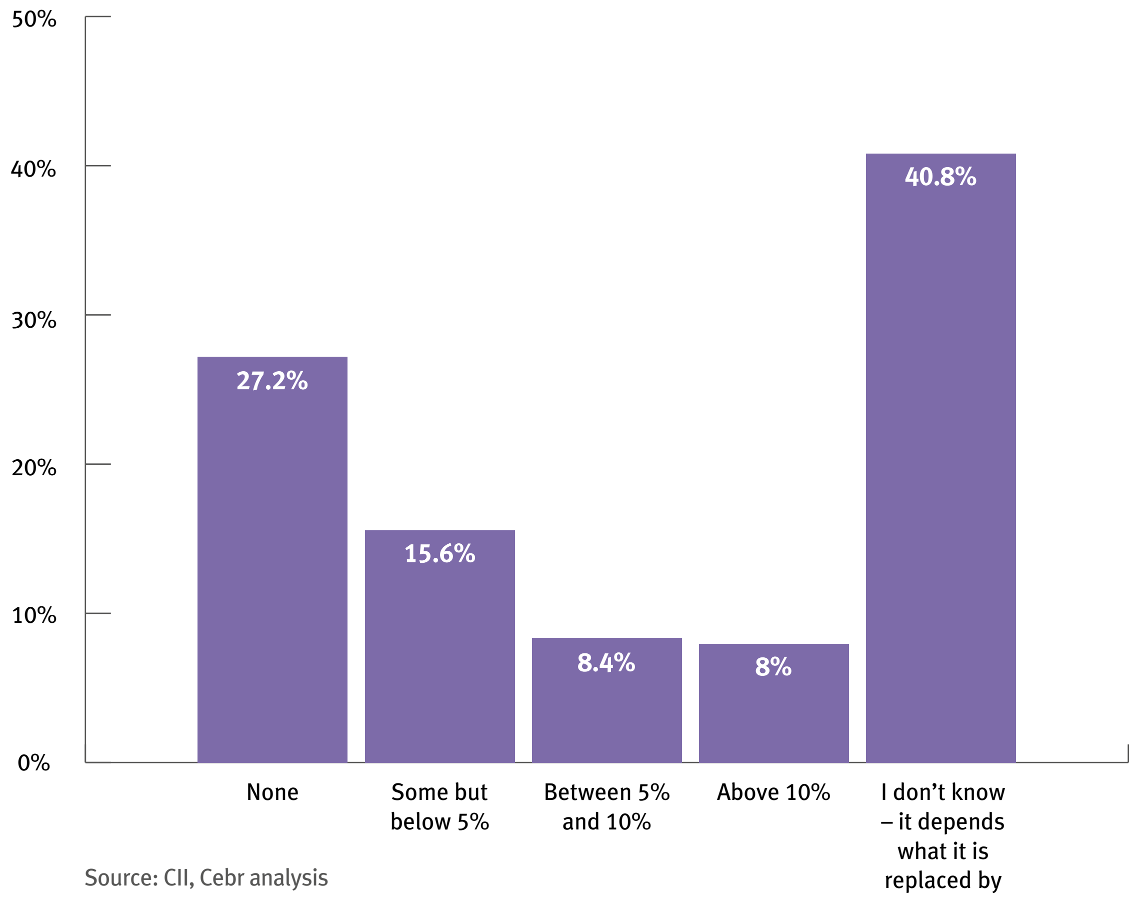
Members unsure of the effect of losing passporting, but aware of the potential losses

A key part of the UK's negotiations surrounding Brexit will be the passporting rights afforded to financial services. Such rights allow businesses in the European Economic Area (EEA)[11] offering financial services the right to set up branches or provide services in other EEA countries – this can save companies substantial costs. Most CII members asked, however, did not think the option of setting up an international headquarters, in the event of market disruption, was directly applicable to them. Only 19% of respondents thought it was likely or certain that their firm would have to set up an additional branch in mainland Europe if passporting privileges were lost and 42% of members said it was not likely or there was no chance of this happening if rights were lost.

When CII members were asked how important they viewed maintaining passporting services to be for their firm, the majority (53%) viewed them as important (28% 'very important', 25% 'important'), compared to just over a quarter (26%) who viewed maintaining passporting rights as 'not particularly important'.

Despite most firms' perception of passporting rights as important, most members claim the loss of such rights is not *necessarily* detrimental for their firm. When asked how much income members' firms stood to lose from the withdrawal of passporting rights and increased barriers to the single market, 41% of respondents said they did not know, claiming it will depend on what it is replaced by. This is highlighted in Figure 17. However, many firms are concerned – 32% believe they will lose some income if passporting rights are not negotiated and barrier free access to the single market is lost. Combined, 73% of members believe their firms could potentially lose income, depending on the direction of exit negotiations, highlighting the importance of negotiations on the part of the Government.

Figure 17: How much of your firm's income do you estimate could be lost if the UK Government fails to negotiate passporting rights or barrier-free access to the single market in negotiations to leave the EU?



Source: CII, Cebr analysis

[11]The EEA consists of all EU member states plus Norway, Iceland and Lichtenstein

Referendum not expected to affect members' recruitment

In terms of employment, members did not appear to be particularly worried about their firms' recruitment prospects following Brexit. Over two-thirds (68%) said the UK's decision to leave the EU will make no difference to their firms' appeal to recruit the skills they need. 16% thought the decision will decrease their firms' appeal, 4% thought it would be beneficial to their appeal, and 12% did not know.

While most respondents appear unaffected by Brexit in terms of recruitment, the industry still employs a reasonable share of its skills from abroad. Across the UK, over 11% of the insurance and finance service workforce consist of foreign nationals, 7% of which are from the EU.

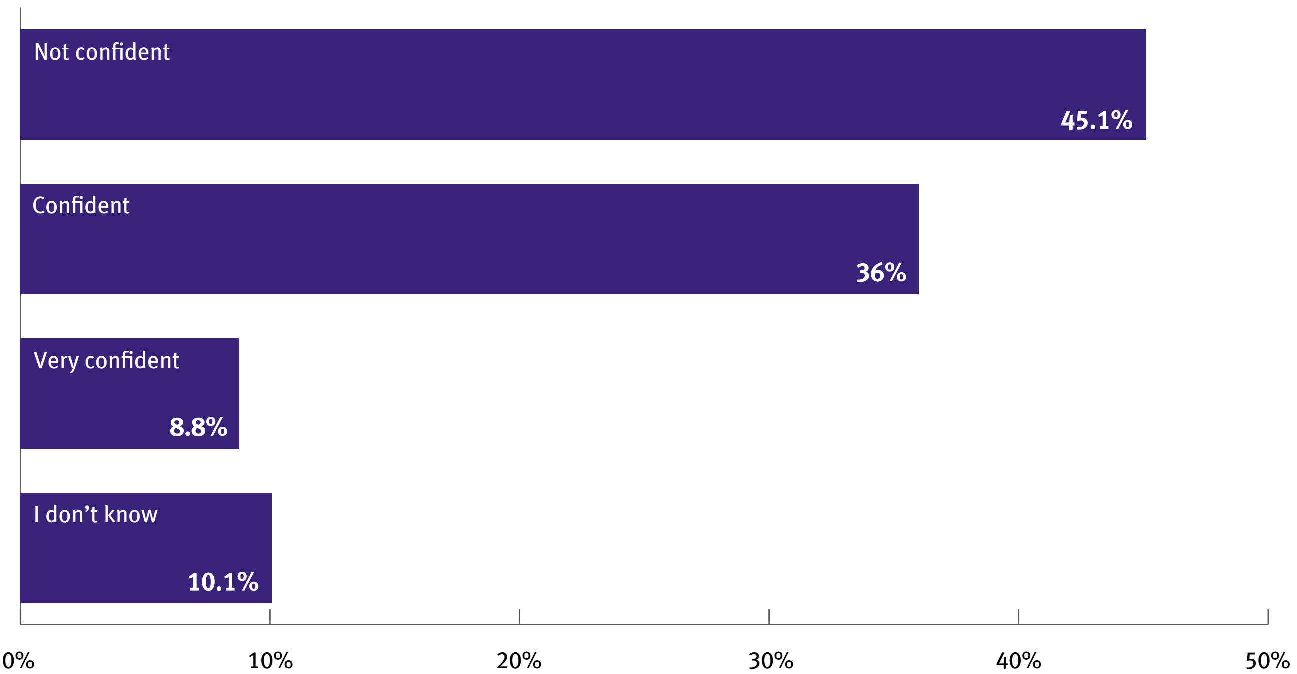
Clearly, as negotiations unfold, insurance professionals are very attentive of the way the sector will be affected. As yet, our survey implies most firms have not made up their minds as to how to react to these implications. In particular, investment decisions are largely unaffected.

Going forward, the representation of the insurance sector in negotiations is of central importance to CII members.

When asked about how confident members are that the interests of the insurance and financial sector will be well represented, the results were a mixed picture: 9% were 'very confident' such interests would be represented, 36% were 'confident', but 45% were not confident in their representation.

While most members appear to be relatively unaffected in terms of their own firms' investment and recruitment, clearly Brexit has had a significant effect on their attitudes towards the wider economy. The priority CII members place upon the exit arrangements underlines the critical importance of effective negotiations as the UK leaves the Union. The sharp downturn in confidence for the year ahead, illustrated in the falling business and economic indices, highlights this further.

Figure 18: How confident are you that the interests of the UK insurance and financial planning sector will be well represented in negotiations to leave the EU?



Source: CII, Cebr analysis

Lloyd's & London Market members place most priority on Brexit related factors

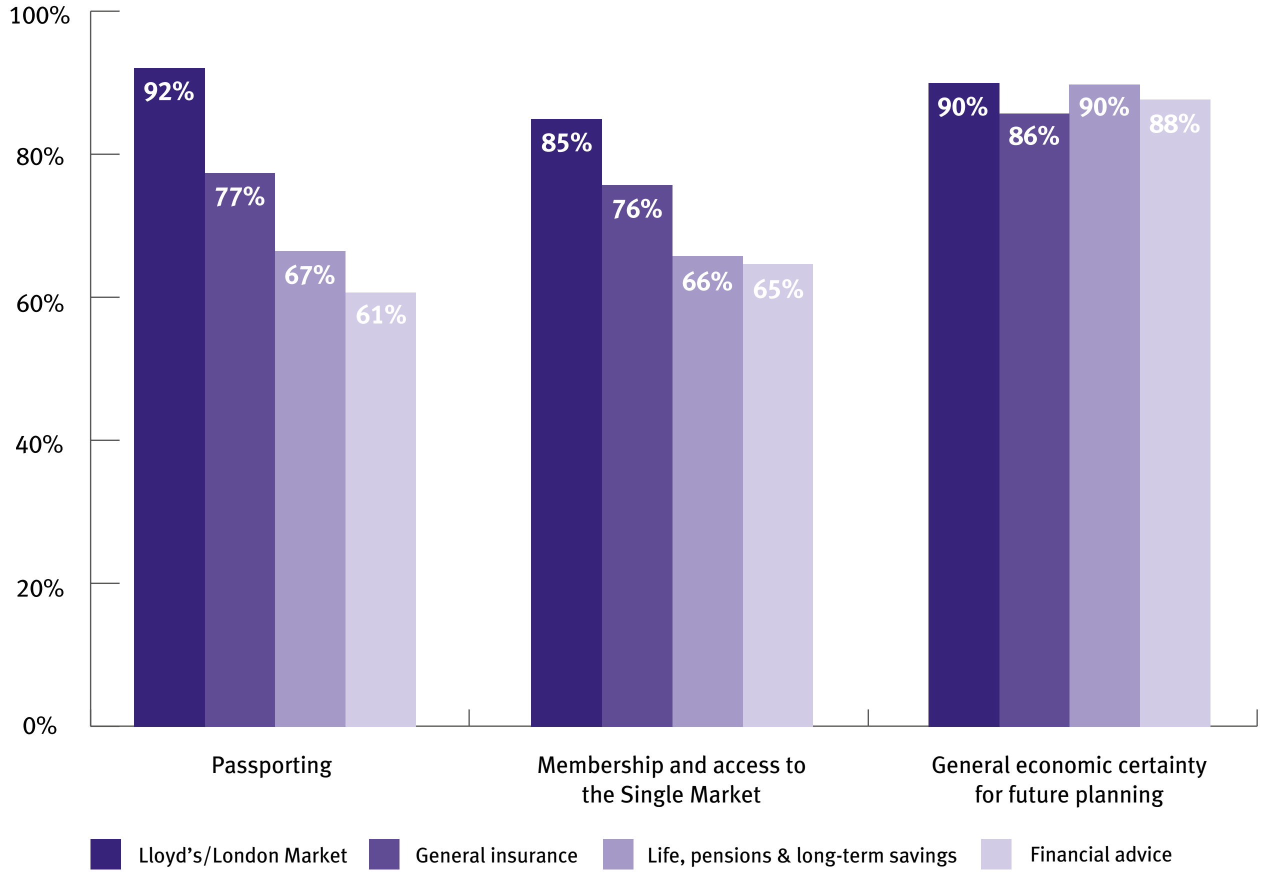
When answers to Brexit-related questions are broken down by sector[12], key differences can be observed. At 36%, those working in financial advice were most likely to have voted to leave; in contrast, Lloyd's/London Market workers were the least likely – only 22% said they voted to leave, whereas 61% said they voted to remain in the EU.

In terms of priorities members attached to certain factors as the UK leaves the EU, perhaps unsurprisingly, Lloyd's/London Market workers showed the most concern for many issues. In particular, passporting rights were seen as either a high or reasonable priority by 92% of Lloyd's/London Market members, far higher than other sectors.

As Figure 19 illustrates, membership and access to the single market and passporting were prioritised differently according to sector, general economic certainty was viewed as a high priority by all members.

While Lloyd's/London Market workers are most pessimistic about their firms' prospects over the next year (as seen in the Business Prospects chapter), they are also the most likely to have a contingency plan at their firm for the impact of Brexit. Excluding those who answered N/A, almost half (47%) of Lloyd's/London Market members answered that their firm had a plan for market disruption. Members working in general insurance were the least likely to have a contingency plan. This further supports the conclusion that members working in Lloyd's/London Market are most concerned by the UK's withdrawal from the EU.

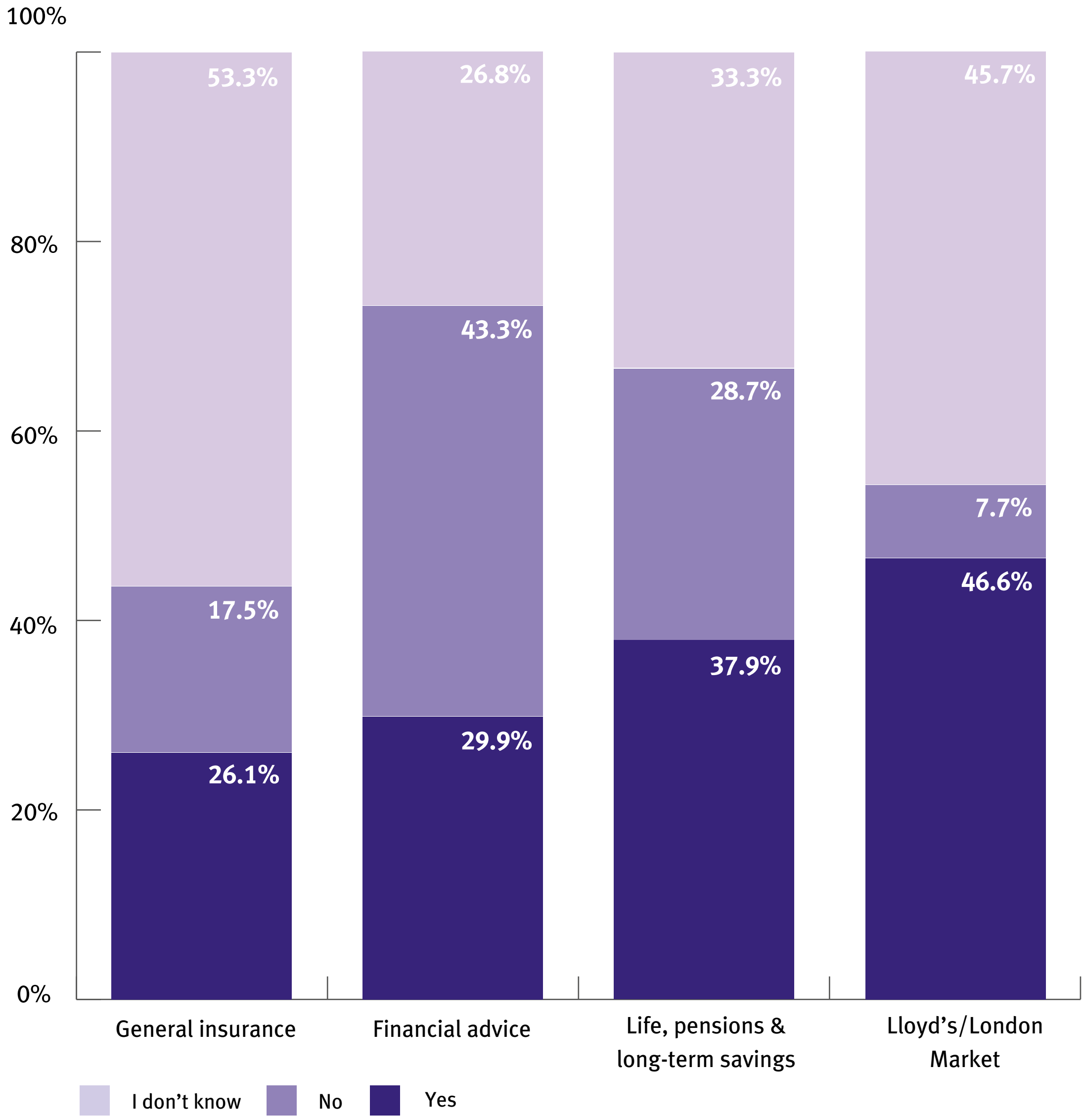
Figure 19: Share of members by work sector who consider different factors to be a priority (either high or reasonable)



[12] Respondents were asked which market they predominately work in, of 'General Insurance', 'Lloyd's/London Market', 'Life, pensions & long-term savings', and 'Financial Advice'

Thus far, the Government has chosen to keep the direction of Brexit negotiations hidden, arguing this will ensure the UK gets the best possible deal in the end. Whether or not this is the case will become clear once negotiations commence, but clearly the uncertainty which has arisen is of central concern to the insurance industry. Without clarity, key sectors are left to wait to and see. For now, this appears not to have drastically affected investment decisions, either for members or generally for UK firms. Yet, the fact that CII Members have downgraded their prospects for the next year is worrying, and passporting in particular is evidently a priority.

Figure 20: Does your firm have a contingency plan in the event of further market disruption caused by the UK's withdrawal from the EU?*



Source: CII, Cebr analysis (*Percentage totals are calculated excluding respondents who answered N/A)

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