2015 / 2016

FINANCE EDITION

The Parliamentary Review

A YEAR IN PERSPECTIVE

FOREWORD

The Rt Hon Philip Hammond MP

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The Rt Hon Philip Hammond

Chancellor of the Exchequer

This Government is clear that a strong economy is the essential prerequisite to delivering prosperity and improved life chances for all, building a Britain that truly works for everyone, not a few.

Since 2010, we have made significant progress. Britain has been one of the fastest growing advanced economies in the world over the last few years; our employment rate has reached record highs as living standards rose to the highest level ever last year. At the same time, the deficit as a share of GDP has been cut by almost two-thirds from its post-war peak in 2009–10.

While the decision to leave the European Union marks the beginning of a new chapter for our country and our economy, we start from a position of strength and our economy is well-placed to confront the challenges ahead.

Britain will, in due course, begin negotiations to leave the European Union. We recognise there may be some uncertainty as we negotiate and then a period of adjustment as the economy transitions to the post-EU reality. As we go forward, we are determined to build on our strengths as an open, dynamic, trading nation to forge a new global role for Britain.

We are determined to make a success of Brexit and have seen some positive developments with large companies such as Siemens and Lockheed Martin confirming that the UK remains an attractive place for them to invest.

This is all good to see but we cannot be complacent. At the same time as we seek the best possible trade arrangements with our European neighbours, we must also redouble our efforts to promote trade with the rest of the world. Since the referendum we have seen a number of countries indicating their wish to agree trade deals with the UK, and I'm certain the list will continue to grow.

People can be assured that we are prepared to take the necessary steps to safeguard the economy in the short term and to take advantage of the opportunities that arise in the longer term as we forge a new relationship with the European Union.

The message we take to the world is this: we are the same outward-looking, globally-minded, big-thinking country we have always been – and we remain very firmly open for business.

> "As we go forward, we are determined to build on our strengths as an open, dynamic, trading nation to forge a new global role for Britain"

Review of the Year

Introduction

We were living 'in interesting times' even before the 'Leave the EU' vote delivered by disenchanted UK voters on 23 June. With Brexit now the main item on the agenda and with new Prime Minister, Theresa May, announcing that 'Brexit means Brexit', those 'interesting times' just became a lot more interesting. This, of course, is an elaborate way of saying that the fog of uncertainty hanging over the UK and global markets has deepened considerably and it looks likely that the fog will persist for at least the next year or two.

As an aside, it is worth noting that though global markets shed an eye-watering $2.1tn in value on Friday 24 June as soon as the results of the vote became known, by the end of June the markets had bounced back – though by mid-July UK bank stocks had still only recovered about half of what they lost. The general consensus is that getting UK bank stock prices back to where they were is going to be a long haul.

Now that the immediate shock has been absorbed minds have turned to the mid-term future. The most salient factor influencing thinking about that future is clearly the fact that there is no clarity. No one knows as yet what the nature of the UK's relationship with Europe will be and it looks very probable that this uncertainty will continue through much of 2017 as well as 2016. Since markets hate uncertainty and since financial services are heavily predicated on the behaviour of the markets, we can expect a persistent headwind for the sector for some time to come.

New Prime Minister Theresa May has remained firm the UK will leave the EU

However, we can hope that the leading players will take the view that no good crisis should be wasted and will use the difficult times ahead as a spur to devote more resources and energy to innovation and enterprise. The challenger banks and FinTech both clearly have a role to play here. Time will tell if the sector's largest (and more deeply traditional) players are able to rise to the Brexit challenge, whatever shape it finally takes.

Interestingly, the bounce back in global stock markets that took place in the weeks following the Brexit vote happened despite the lack of clarity about the UK's future relationship with Europe. In fact, perhaps the only clarification that occurred over that period was the surprisingly rapid selection of Theresa May as the new Prime Minister to replace David Cameron. May's arrival inevitably saw a new Cabinet and it swiftly became apparent that Britain would have a new Chancellor as well as a new Prime

Minister. George Osborne, whose reaction to Brexit had been to promise to cut corporation tax from 20% to 15%, was summarily dismissed to the back benches.

The key issue for the banks, of course, apart from the obvious economic worry about the chances of Brexit bringing about a recession, revolves around how 'passporting' will play given the UK's new status. Passporting is the policy that allows a financial services company in any member state to trade in all member states if it is approved by the regulatory authorities in one state.

A second crunch issue concerns the fate of the many EU directives that have shaped so much of the legislative framework governing the UK financial sector. The two issues are inextricably linked as passporting rights operate within the context of a slew of Directives which include the Markets in Financial Instruments Directive (MiFID I and II), The Banking Consolidation Directive, the UCITS Directive and upcoming UCITS V Directive, the life and non-life insurance directives and the Mortgage Credit Directive. Which bits the UK will keep, which it will have to keep if it wants to continue trading in Europe, and which bits will be cast aside as so much EU baggage, remains to be seen. It is fair to say that no one, as yet, least of all the newly-appointed Secretary of State for Brexit, David Davis, has a clue as to how the legislative side of things will play out.

Bank share woes put privatisation on the back burner

The opportunity for the Government to sell off the 73% of The Royal Bank of Scotland (RBS) equity that it still owns appears to have disappeared over the horizon in the wake of Brexit.

The initial impact on bank stocks was bloody. When markets opened on Monday 27 June, Barclays' stock was hit by a 10.3% fall while RBS plummeted a massive 15%, triggering the automatic circuit breakers and stopping further trading on the London Stock Exchange. The procedure, once the circuit breakers kick in, is that continuous trading is suspended and the stock is then subject to an auction to enable an appropriate price to be calculated. According to the LSE, the halt in trading lasted no more than five minutes but the market's bruising verdict on the implications of Brexit for UK bank stocks sent seismic shock waves through the UK financial sector.

The Royal Bank of Scotland, Bishopsgate, London

When trading resumed, RBS shares slumped still further and were down 25% at their lowest point, recovering later in the day but ending some 17% down on the day at 174.3p. At their lowest point they hit 152p. By mid-July RBS's share price had recovered to 185.52p a share, a significant

improvement after that initial rout. On 7 July, RBS shares were trading at 169p, so the recovery in the bank's stock price appears to be significant and proceeding in the right direction.

However, few expect UK banking stocks to regain their pre-Brexit values in the near future. There is a widespread feeling that Brexit has sharply increased the chances of the UK economy slumping into a recession.

At the start of July, faced with the crash in the bank's share price, RBS Chief Executive, Ross McEwan, estimated that Brexit had pushed the Government's planned sale of its stake in RBS back by at least two years. In a radio interview he predicted that economic growth in the UK would struggle to reach 1.6% for 2016 and added that he expected GDP growth in 2017 to be under 1%. Growth would be hampered by the uncertainties surrounding what kind of future agreement the UK would be able to forge with the EU and this in turn would be bound to make UK companies more reluctant to invest.

McEwan argued that, immediately after the Brexit vote, the UK was in the throes of a political rather than a banking crisis. His reasoning is that despite the hammering taken by their shares, UK banks remained in good shape. 'Banks stood up very, very well. All credit to our regulators and the Bank of England for making sure that everyone was in good shape,' he commented.

The same couldn't be said for the Government's stake in RBS and Lloyds Banking Group. The breakeven price for the taxpayer, as far as any future sale of RBS shares is concerned, is £502p. Immediately following the Brexit vote, the Government suffered a paper loss amounting to almost £8bn on its combined stake in the two banks.

Ross McEwan, Chief Executive Royal Bank of Scotland

In his 2015 Summer Budget, George Osborne had announced that he was planning a further £2bn sale to retail investors of the Government's stake in Lloyds which would have returned the bank to private ownership. That now looks highly unlikely, with government advisors telling the media that all such plans have been shelved for the time being.

The Government had also been planning the sale of the £17.5bn loan portfolio of the former Bradford & Bingley Building Society. That too is now off the agenda for the time being.

The sale of Bradford and Bingley is off the government agenda for now

Good and bad from ECB's July 2016 bank stress tests

The European Central Bank's (ECB) latest stress test of the UK and European banking sectors, which was ongoing prior to the Brexit vote, found that the region's top 51 banks were in sufficiently good shape to survive another major financial crisis. However, RBS joined Allied Irish Bank and Italy's Monte dei Paschi at the bottom of the class, with the Italian bank being identified hands down as the most likely to fail.

RBS was the 13th worst performer in this round of stress tests. The key metric for the stress tests is the CET1 number, this is the Tier 1 Common Capital Ratio, which compares a bank's core equity capital with its total risk-weighted assets. A negative figure means the bank would be technically insolvent; a low positive figure means that it has very little keeping it afloat and the rocks are probably scraping the hull.

Barclays and RBS were hit by relatively poor stress test showings

The Italian bank managed a negative 2.44%, which ensured it held up the bottom of the table. (It has just negotiated a €5bn recapitalisation from a consortium of banks and will have €90bn of non-performing loans hived off into a special purpose vehicle to be sold off via a securitisation.) RBS did somewhat better but still only managed an 8.08% CET1 ratio, as against the group average of 9.2%. It also saw the third worst deterioration in the group as far as its CET1 ratio was concerned.

There was also a warning for Barclays Bank from the latest stress test in that it saw its CET1 ratio falling from a relatively comfortable 11.4% to 7.3%.

UK bank results over the last year: good in parts

1. Lloyds Banking Group

The latest half year results from Lloyds Banking Group saw Lloyds reporting a pre-tax profit of £2.5bn for the six months to June 2016, more than double the £1.2bn reported for the same period in 2015. Much of this gain came from the fact that the bank felt it unnecessary to set aside more cash to cover further compensation payouts to investors for PPI mis-selling.

However, Lloyds continues to suffer from the low interest rate environment and apparently sees further cost cutting as the most likely way of improving its overall position. LBG Chief Executive, António Horta-Osório, warned that the bank would be shedding another

António Horta-Osório, Chief Executive of Lloyds Banking Group

RBS has made a year on year loss for the ninth time in succession

3,000 jobs and 200 branches in the months ahead in a bid to cut costs by a further £400m a year. In 2014 LBG announced a three year plan designed to cut overall costs by £1bn by shedding 9,000 jobs and 200 branches. Branch transactions had fallen by 15% over the year, reflecting an accelerating trend for customers to turn to digital banking.

2. Royal Bank of Scotland

RBS looked to be getting back on track with its Q1 results for 2016 when it was able to report a profit before tax of £421m. However, when the results for the first half of 2016 were announced in early August the bank announced that it had been forced to set aside a further £1.3bn to cover potential litigation and mis-selling costs. This pushed 2nd quarter losses to £1bn and created a headline first half loss of £2bn.

At the same time, the bank said it was scrapping plans to carve out Williams & Glyn as a new High Street bank, despite having spent some £1.5bn trying to create a new IT system for its proposed new bank. Santander has come forward with a second bid to buy the branches that had been destined to form Williams & Glyn, although its first bid ran onto the rocks over the still unresolved IT issue.

Analysts had been expecting a 2nd quarter loss of no more than £247m so the result was a shock and puts the bank on track to make a year on year loss for the ninth time in succession.

3. Co-operative Bank

Turnaround continues to be a struggle for the Co-op and the current low interest rate/low growth environment is not helping. However, in May the bank announced that its core business was showing an operating profit for the first quarter of 2016. (It made a loss for the same quarter in 2015.)

For 2015, as a whole, the Co-op posted a pre-tax loss of £610m, more than double the 2014 reported loss of £264m. The bank's current position is that it expects to return to overall profitability sometime in the second half of 2017. It closed 58 branches and shed more than 500 jobs in 2015 and plans to close a further 54 branches this year.

Barclays Head Office, Churchill Place, Canary Wharf

Jes Staley, Chief Executive of Barclays Bank

4. Barclays Bank

In late July Barclays reported net profits of £803m. Although this was substantially down on the £1.2bn profit reported for the first half of 2015, the bank's shares soared since the drop was not as deep as the market had been expecting. Barclays CEO, Jes Staley, who is committed to making Barclays a transatlantic bank, told investors that the bank was in good shape to weather any turbulence resulting from Brexit.

There were plenty of options, he said, if passporting rights to the EU became a difficulty. These include beefing up its operations in Ireland and Luxembourg, if that should prove necessary. He also added that he did not see 'thousands of jobs' leaving London as a result of Brexit.

The outstanding performer for the bank was its consumer, credit card and payment unit, which saw revenues increase by 41% year-over-year and reported in excess of a trebling of pre-tax profits. The bank's UK operation returned to profit with a pre-tax profit of £376m which was boosted by the achievement of substantial cuts in expenditure. Costs are now 65% of revenue, down from the previous level of 69%. Barclays has also withdrawn from nine countries and is in the process of selling 12% of its African unit which would leave it with a 50% stake in the unit.

5. HSBC

HSBC's annual report for 2015 was not one of its finest ever and the bank flagged this up somewhat by announcing a pay cut for its Chief Executive, Stuart Gulliver, a few days before the results announcement. Return on equity (RoE) dropped a point, from 7.3% in 2014 to 7.2% for 2015. Costs also rose relative to income.

The bank's exposure to the oil and gas sector damaged profits with rising loan impairment charges. The bank's legal and litigation woes also took their toll with legal provisions rising to $1.65bn. A scandalous past history of

Stuart Gulliver, Chief Executive of HSBC

HSBC headquarters, London

involvement in money laundering and sanctions breaking is coming home to roost for HSBC which, however, now says it has put in place an effective and stable financial crime compliance programme.

Results for the first quarter of 2016 were somewhat better. Gulliver termed the global bank's Q1 performance as 'resilient in tough market conditions'. Profits were down, but only by comparison with the unusually strong Q1 the bank enjoyed in 2015, he said. Media reports termed the results 'dismal', since the net income of $4.5bn was down 20% on the figure for the same quarter in 2015.

Total revenue was $13.9bn, a 4% drop on Q1 2015. HSBC did please investors, however, by retaining its dividend unchanged at a time when many banks are cutting or suspending their dividend payouts.

6. Standard Chartered

Standard Chartered thrilled investors by turning a loss of $4.05bn for the final quarter of 2015 into a pre-tax profit of $589m for the first quarter of 2016. Its shares bounced up 10% on the day of the release.

This was a fine recovery following the first annual loss the bank has suffered in 26 years. However, all is still not plain sailing for Standard Chartered. First quarter income was down 24% by comparison with the same figure in Q1 2015. Standard Charter CEO, Bill Winters, said the results 'reflected good progress on (the bank's) strategic objectives'.

Standard Chartered managed to drive operating costs down 10% year-on-year, to hold them at $2.2bn. The bank is in the middle of an extensive restructuring plan that embraces its Asian, African and European businesses. Winters announced that the bank was planning to axe up to 15,000 jobs and said restructuring costs would amount to around $3bn by the end of 2016.

Bill Winters, Group Chief Executive of Standard Chartered

Taxation and the challenger banks

The Government encouraged HSBC and other global banks to keep their headquarters in the UK

The UK Government spent much of 2015 engaged in a difficult juggling act. It needed – and continues to need – to keep big global banks such as HSBC and Standard Chartered onside so they do not move their headquarters abroad, while at the same time it wants to encourage the growth of challenger banks. The latter are seen as key to solving a perceived lack of lending to the small- to medium-sized business market as the UK's largest banks slim down their SME loan books.

The capital requirements demanded by Basel III are risk weighted. Since lending to SMEs is viewed as inherently riskier than lending to large corporates, reducing lending to SMEs is a way of lowering the capital reserves demanded by Basel III. Conversely, pursuing a vigorous lending policy aimed at writing more SME loan business would significantly increase a bank's capital reserves requirement.

The market has responded quite rapidly to traditional, mainstream lenders withdrawing from the SME market and new money and new players specifically targeting this market are appearing all the time. The Government is keen to do what it can to assist and even to accelerate this process but, as was noted already, it has to keep mainstream banks happy as well.

At the start of 2016 both HSBC and Standard Chartered were contemplating relocating their headquarters elsewhere in the world. Their main concerns at the time were the banking levy, which had been increased, and what they saw as political 'bank bashing' to appease a public that was still simmering over the bankers' role in the 2008 global financial crash.

The Government needed to do something to placate the big banks it had not 'nationalised', so there was little surprise when the Chancellor indicated, in his Summer 2015 Budget, that he would withdraw the levy. However, in the same breath as it were, he went on to say that the Treasury would be looking to replace the revenue lost via the abolition of the levy by instituting a new tax on all but the smallest banks of 8% of profit.

This produced strenuous protests from the smaller banks who argued that in the current difficult trading conditions they do not have sufficient margin to bear an additional tax. Moreover, they are incensed at what they see as an attempt to shift part at least of the tax burden away from the biggest banks and onto the shoulders of the self-same challenger banks that the Government is trying to encourage.

Small banks are exempt from the existing bank levy but the new additional tax proposed by Osborne in the summer of 2015 will affect

George Osborne, Chancellor of the Exchequer 2010 to 2016

Philip Hammond became Chancellor of the Exchequer on 13 July 2016

all challenger banks with profits of more than £25m. Where the current levy impacts just 30 banks, Osborne's additional tax would hit 200 banks.

Whether it will still go forward under the new Chancellor, Philip Hammond, had not been resolved at the time of writing.

The regulators and the rise and rise of digital banking

One of the most significant changes in banking today, being driven both by mainstream banks and FinTech companies, is the rise and rise of digital and mobile banking. Both the Bank of England and the Financial Conduct Authority (FCA) have been monitoring this phenomenon very closely and have set out to encourage what they see as a very desirable trend.

The FCA highlighted the importance of digital and mobile banking and payments in one of its Thematic Reviews in September 2014. Advances in technology were driving 'a significant business model transformation' across the banking sector, the FCA said. 'The drive to a more digital approach is delivering cost and convenience benefits for both consumers and firms,' it noted.

A recent report commissioned by the FinTech company, Fiserv, surveyed 2,000 UK adults on their use of mobile banking. The report forecast that £3.4bn a week will be transferred via mobile banking by 2020, adding to the £9.4bn that will be transferred via the internet. Moreover, the report predicts that the number of UK mobile banking users will virtually double from the present 17.8 million to 32.6 million by 2020. Currently just over a third of UK adults use their mobile for banking. This figure is growing all the time as the ownership of smartphones spreads.

Fiserv's senior VP of Emerging Payments, Ginger Schmeltzer, pointed out that what is driving this move to mobile banking is the fact that consumers – and for that matter financial institutions as well – are doing most of their business in digital form, rather than on paper. 'Consumers and businesses want more control over all aspects of their lives, including their finances, and they want it on the go wherever they are. Their mobile devices, phones and tablets give them that access,' he said.

Andrew Bailey, Chief Executive Officer of the Financial Conduct Authority

FinTech is set to create a more inclusive financial system

Schmeltzer also points out that everything that can be digitised is getting digitised, from records and bills to correspondence and payments, everything is going digital.

The Bank of England Governor, Mark Carney, wrote a speech on this theme for the Lord Mayor's Mansion House Banquet in June 2016. He did not actually deliver the speech at the time, since he decided instead to address the unfortunate murder of the MP Joe Cox, but it was subsequently posted on the Bank of England's web site.

In the speech Carney notes that 'The emergence of mobile telephony, the ubiquity of the internet, availability of high speed computing, advances in cryptography and innovations in machine learning could combine to enable rapid changes in finance – just as they have in other areas of the economy'.

The gains for the financial sector will come from shorter, speedier transaction chains, greater capital efficiency and stronger operational resilience. For their part, consumers will get more choice, better-targeted services and keener pricing, he suggested.

Carney's vision of the way in which banking is likely to transform is highly positive. 'The ultimate promise of FinTech is that it may well deliver a more inclusive financial system, domestically and globally, with people better connected, more informed and increasingly empowered,' he commented.

He also pointed out that FinTech-based services, particularly those utilising a distributed ledger approach (the technology that underlies the digital currency Bitcoin), could fill an emerging hole in banking services.

Interestingly, Carney also takes a visionary view of the role FinTech could play in assisting the Bank of England (BoE) in meeting its own objectives. FinTech could help in a number of areas of interest to the bank, he said. One of these was the analytical strengths involved in breakthroughs in 'big data' analysis.

'Big Data techniques could tell us about the state of the economy more accurately and promptly. Forecast performance could improve,' he noted. However, Carney indicated that it would still take some time for FinTech's contribution to really make itself felt as far as the BoE's work is concerned. 'Many of the technologies needed to deliver such transformations are nascent,' he said.

Nevertheless, the BoE is taking a very active role in inviting start-up FinTech companies to present proposals to them outlining how their technologies and offerings could help the Bank.

The Bank of England and payments

At the same time, the Bank of England (BoE) is itself engaged in a major project. It is in the process of replacing its 20-year-old real-time gross settlement (RTGS) system and BoE Governor Mark Carney's aim is to make the new system more directly accessible to a variety of players and not just to the big banks.

Central banks, Carney points out, lie at the heart of national and international payment systems, giving households and firms the assurance that transactions will be settled in the most secure form of payment, central bank money.

Non-bank payment service providers (PSPs) access central bank funds through one of four agent banks but this puts them in an awkward position if their service grows since they compete with the very banks through which they access central bank money. Carney announced in his speech that the Bank of England would be extending direct access to RTGS and its replacement, when it arrives, to PSPs. They will henceforth be able to compete on a level playing field with banks, he said.

Carney also announced that the BoE would add speed to the FinTech revolution by launching a FinTech Accelerator, though this will be restricted to FinTech companies who can convince the BoE that they have a project that directly addresses one of their areas of interest.

Regulation and the Challenger banks

1. The Financial Conduct Authority's 'Sandbox'

For its part, the Financial Conduct Authority (FCA) has launched an equally far-sighted approach, called Project Innovate. The FCA's idea, a first in the world of regulation, is a 'light touch' regulatory regime, dubbed the 'Sandbox', to enable FinTech companies to field test their products on a small number of real customers. They can apply to join Project Innovate which will license them to field test new consumer-facing products without incurring all the costs and obligations normally required by the FCA.

At a speech to the Innovate Finance Global Summit in April 2016, Christopher Woolard, the FCA's Director of Strategy and Competition outlined what this means.

'The key question for us [in designing the sandbox] is: how do we deliver a sandbox that lowers barriers to testing within the existing regulatory framework. And second, how do we ensure that risks from testing novel solutions are not transferred from firms to consumers?' he asked.

One of the major barriers to new FinTech solutions, he pointed out, is that firms have to incur significant costs before they can meaningfully explore consumer appetite for their new product or get a full grasp of any significant risks to consumers from using the product. The basic idea of the sandbox is that it lowers some of the regulatory restrictions but only

Christopher Woolard, the Financial Conduct Authority's Director of Strategy and Competition

for a limited scale test version of the product.

When the product is ready for a full launch the usual regulatory regime applies. 'This gives us regulation that starts in proportion to the scale of the concept being tested and can grow with the ambition of the full business model,' Woolard said.

2. The regulatory regime and the Brexit 'problem'

A key trend that has gathered strength over the last year, as far as financial services regulation is concerned, has been a shift in attention by banks away from the intricacies of Basel III and other pieces of legislation, important as they are, in favour of a refocusing on changes in customer expectations and interests.

Guy Norfolk, Partner Maclay Murray & Spens

Maclay Murray & Spens Partner, Guy Norfolk, pointed out that this renewed focus on the customer is being paralleled by the FCA which now has competition powers for the financial services sector and which has launched a series of studies of various aspects of the market to see exactly how – and how fairly – consumers are being served.

'Regulations such as Basel III and the European Market Infrastructure Regulations (EMIR) are now in place and reasonably well understood, so the banks are able to free up resources that were tied up in compliance to look at how to be more innovative in their approach to changing customer demands,' he said. At the same time, everyone is trying to figure out what will happen if Brexit disrupts passporting.

'There are "third country" provisions in just about all the relevant EU legislation and they offer a way forward, provided the EU is prepared to accept that UK legislation is compliant or equivalent,' he noted. With the UK having led the world on issues such as 'know-your-client' (KYC) and anti-money laundering (AML), this shouldn't be an insurmountable problem, but with politics one never knows.

The mainstream banks have always had two very distinctive major advantages over all other businesses and over potential challengers. Norfolk points out that being licensed deposit takers gives the banks a unique access to funds which, of course, they can then both leverage and lend. In the process they build up a huge wealth of data on a very large client base. Their second major advantage is that their brands, and thus their presence in the public's mind, has been developing for many decades. At the very least, their logos are on every statement a customer receives as well as on cheques and credit cards.

However, while the challengers have their work cut out building up an equivalent brand, the second Payments Services Directive, assuming the UK enacts it, will include new permissions that will enable aggregators to enter the market. The aggregators, Norfolk points out, will not be subject to the same onerous regulatory environment that governs banks since they are not deposit takers but they will enable the public to go onto one aggregator's site and make payments between all their accounts.

In the process, Norfolk noted, they will themselves start to build up a large database of client data, giving them access to the kind of valuable customer information that is currently the sole preserve of the banks. 'The best defence for the banks is to be the innovators themselves, or to acquire innovators. This story will play out over the next few years,' he said.

Cybercrime worries grow

UK banks, in common with their peers around the world, continue to be vulnerable to online fraud and cyberattacks, and cybercrime is now a major concern of regulators across the world. Globally, the scale of the losses being experienced is enormous. Back in 2013, at a cyber security conference in Dublin, Eugene Kaspersky, the co-founder of the anti-virus software firm, Kaspersky Lab, told delegates that a 2010 estimate which put cybercrime losses at some $100bn globally, was out by at least the same again.

By 2015, when Lloyds of London posted its estimate of the global cost of cyberattacks, the figure for losses had grown to $400bn annually. In May 2015, Juniper Research, in a report entitled 'The Future of Cybercrime and Security', warned that the rapid digitisation of consumers' lives and enterprise records will increase the cost of data breaches to $2.1tn globally by 2019, a fourfold increase on the estimated annual losses for 2015.

In January 2016 IBM's Chair, CEO and President, Ginni Rometty, called cybercrime probably the greatest threat not just to banks but to every company in the world. This warning was emphasised by the Juniper Research report estimate that by 2020 the average cost of a data breach will exceed $150m as more business infrastructure gets connected.

In 2016 a survey by PricewaterhouseCoopers (PwC) of the current scale of economic crimes of all types found that cybercrime is now the second most reported crime, with 32% of organisations affected. Some 34% of respondents to the PwC survey said that they thought they would be affected in the next two years. Fifty of the organisations contacted by PwC for the survey said they had suffered losses over $5m from cybercrime, while a third of these reported losses in excess of $100m.

Rick Hemsley, Vice President, Enterprise Security and Risk Management with the cyber risk specialist, Stroz Friedberg, points out that regulators, and the industry in general, now accept that if a determined group of hackers decide to attack a particular bank, financial institution or company they will manage to breach whatever cyber security the organisation has in place. This reality has forced regulators and the financial services sector to change their focus. The emphasis now is not so much on making an organisation impregnable and punishing it for breaches; instead regulators are now focused on the degree of cyber-resilience a bank has managed to achieve.

'Cyber-resilience is all about how you detect and recover from breaches, how you manage to clean and repair your systems after a breach and the systems you have in place to mitigate the damage caused by a successful attack,' he said.

The basic reason for banks and other institutions failing again and again to keep determined cyber criminals from breaching their defences is now well understood. As Kaspersky noted in his speech back in 2013, there is now a solid body of evidence that extremely skilled hackers are being recruited on a project-by-project basis and paid huge sums to break through IT walls.

In its briefing paper on cybercrime, the British Bankers Association (BBA) points out that the availability of mercenary skills, along with all the tools required to hack into systems, means that mainstream criminal groups who lack

Eugene Kaspersky, Chairman and CEO of Kaspersky Lab

Rick Hemsley, Vice President, Enterprise Security and Risk Management for Stroz Friedberg

The global cost of cyber crime is estimated at $400 billion annually

the necessary systems skills to be a threat to a financial institution can hire or rent all the skills and components required to mount an effective attack.

Moreover, as Stroz Friedberg's Hemsley points out, when it comes to cybercrime, financial institutions, and indeed companies in all sectors, need to be aware of internal as well as external threats. 'Over the last 18 months an analysis of data breaches and financial losses through cyberattacks shows that some 60% of all such attacks have originated from within the organisation itself,' he said.

'Historically, a company's "crown jewels" as far as its core intellectual assets are concerned were locked up in filing cabinets or in safe rooms. Now they are digital assets on servers,' he said. Moreover, in the knowledge economy, companies need to empower staff to work with digital assets to generate value. At the same time, they also need to think about how they are going to protect against any employee deliberately misusing or making criminal use of that data.

'Over the last 18 months I have seen a real shift in the way the financial services sector is thinking about the issue of the internal threat,' he commented. In his view, once an organisation has done all it can by way of due diligence on the hiring of staff and staff training, combatting the internal threat is essentially a systems/IT problem, requiring an IT solution.

'One of the best solutions we have seen is an application that comes out of a Carnegie Mellon study. Instead of taking the usual forensic approach and looking to see what was done after the fact, the Carnegie Mellon application, called Scout, focuses on language analysis to identify individuals within the organisation who are exhibiting signs of stress or odd behaviour. The aim is to get ahead of the curve,' he said.

Hemsley explains that Scout is now on its third iteration. It was built by analysing 1,500 adjudicated cases of insider cybercrime and fraud. The basic idea is to have the language analyser look at all an individual's communications, including emails, social media and internal messages.

'People come to organisations with certain predispositions. When they are put under stress, including financial stress, those predispositions can manifest themselves as an insider problem,' he commented.

Similarly, if a criminal organisation has planted someone inside the organisation through normal employment channels, the stress induced by their covert role will tend to reveal itself in subtle language cues which the Carnegie Mellon application is tuned to pick up.

UK banks and financial service companies are already spending well in excess of £700m a year on cyber security, according to the Department for Business, Innovation and Skills. However, with cybercrime losses running to billions, the potential pickings for criminal gangs are so high that they can afford to pay princely sums to skilled hackers. The response of the sector has been to look to cooperate.

2016 and the FinTech revolution

From mid-2015 to mid-2016 the pace of the FinTech revolution continued unabated, spurred by investor appetite for FinTech ventures. A report by the consultancy, Accenture, put the total amount invested in FinTech ventures in 2015 at $22.3bn. This was well up on the figure for 2014 and the pace has continued through the first quarter of 2016 with global investment in FinTech ventures reaching $5.3bn, a 67% increase over the same period in the previous year.

Interestingly, the Accenture report points out that collaborative FinTech ventures, those targeted at financial services companies as their primary customers, saw substantially higher levels of investment than 'disruptive' technologies aimed at prizing customers away from traditional banks.

Warren Mead, Global Co-Lead of KPMG's FinTech practice in the UK, argues that, despite all the fanfare about the disruptive nature of innovation in the sector, so far the incumbents are still way out in front of all the newcomers. 'Most FinTech companies have woken up to the fact that the huge advantage that the incumbents have is their massive customer base. They realise that it is actually extremely hard to build such a base, so the trend now is to look to collaborate with mainstream banks. Instead of competition what we are seeing is a great deal of cooperation.'

The most disruptive area so far has been in payments. Mead points to the success enjoyed by PayPal and to some of the things that Amazon is doing on the payments front. 'Payments is probably the one area where you could say that FinTech is being genuinely disruptive and is taking market share from the existing players. I suspect that how this will play out is that the banks that are most successful at collaborating with new FinTech players will be the most successful, while others will lose market share,' he suggested.

Paypal is one of the companies leading the FinTech revolution

Mead reckoned that another interesting but limited area is the robot wealth advisor model. 'These kinds of robot advice services can deliver a basic wealth management product at a very low cost and in that context they have had some success. They are useful when a consumer has decided how much they are going to invest and they simply want a cheap tool to point the way. However, they are a long way from competing with active fund managers, or with wealth advisors dealing with a client base with significant wealth and complex requirements.'

Globally, Mead said that the most successful market for FinTech so far has undoubtedly been in China. 'The lending market in China has been transformed fundamentally by the peer-to-peer lending platforms, which together lent about $100bn through

2015.' In Western markets peer-to-peer lending has so far had a much smaller impact, although the potential is huge.

'Another FinTech area with a great deal of potential is around authentication and biometrics. Innovations in this field have the power to really help the banks develop new approaches to the way they respond to customers and the kinds of remote transactions they feel comfortable enabling,' he said.

A major area of impact emerging through 2015 and into 2016 concerns the lending process. Where it presently takes a company some four to six weeks to get a loan application approved, new technology using open interconnection technology (open APIs) can interrogate a whole range of data sources. Mead points out that there are FinTech-based lenders now who can turn around loan applications in 24 hours.

'This is especially significant with many banks reducing their loan exposures, which is why new players like Funding Circle and others are making inroads and expanding their loan books – as are some of the new challenger banks,' he explained.

The biggest overall impact of FinTech is that it is empowering customers and driving down the unit cost of banking. This in turn makes it more affordable for banking to happen at lower transaction values. In the UK and Europe this might not be that huge but in places like India and China there is enormous potential for FinTech to enable banking for vast numbers of low earners who have never previously had a bank account.

Pensions: change and more change

Danny Cox, Head of Communications and Chartered Financial Planner with Hargreaves Lansdown

George Osborne's tenure as Chancellor, which ended with Teresa May's ultimately uncontested 'coronation' as the new Conservative Prime Minister, may well be best remembered for his austerity budgets but he should surely also be remembered for his decision to scrap the compulsory annuity. Of itself that change transformed the pensions' landscape in the UK.

For Danny Cox, Head of Financial Planning with Hargreaves Lansdown, the past year has been an odd one as far as pensions are concerned. 'Basically everyone involved in the pensions industry is still busy working their way through the many changes that have taken place since "pensions simplification" in 2006', he said.

'Those changes have been immensely complicated by the transition rules that went along with them. The resulting spaghetti tangle of rules has given a highly ironic twist to the idea that what was being done could be seen as a "simplification".

'As far as the 2015 to 2016 period is concerned, the past year has been dominated by an expectation of further radical change in the pensions regime that actually never happened,' Cox noted.

Perhaps the most significant change for the industry was the lowering of the lifetime limit to no more than £1,000,000, down from £1,250,000. This latest amendment is one that Cox and many other pensions specialists regard as a nonsense. 'What we have now is a lifetime allowance that impacts people who would be retiring on £37,000 a year. There is no logic to this at all. It is an absolute nonsense

to restrict the value of pension rights when you are also, at the same time, restricting how much money people can put into pensions. Logically, you should have either one or the other,' he commented.

By comparison with pensions, ISAs are very straightforward and Cox argues that with 23.5 million people holding ISA accounts, and many withdrawing from pension savings, there is a real possibility that the Government, either by accident or design, is pushing people towards ISAs as the long-term savings vehicle of choice, rather than pensions.

There is little doubt, Cox says, that government would like to get their hands on some of the £35m a year that providing tax relief on pension contributions currently costs the Treasury. However, simply doing away with relief at the point of contribution and applying relief instead to pension benefits – putting them on the same footing as ISAs – would be a highly politically sensitive road to go down. 'We still think that higher rate tax relief for pension contributions will be withdrawn at some point but we are probably still a long way from having ISAs replace pensions,' he suggested.

Insurance: dealing with accelerating change

The past year saw many of the UK's largest insurance companies, both foreign and domestic, turning in stellar, or near stellar performances. Despite an unusually volatile market through 2015, John Stewart, when he was Chairman of Legal & General (L&G), pointed out in the firm's annual results for the year that L&G managed to increase its operating profit by 14% to £1,455m (up from £1,275m in the prior year), and felt able to raise its dividend by 19%, to 13.40p for 2015.

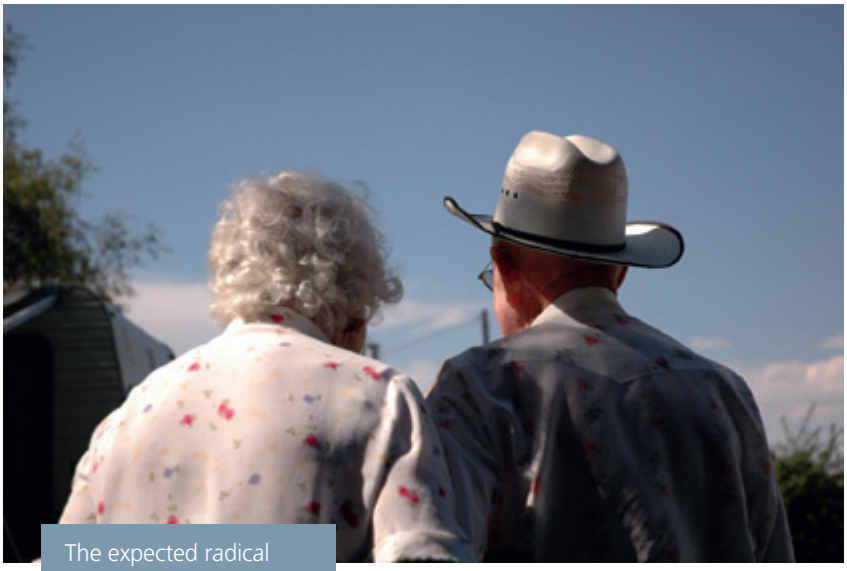
L&G is still the UK's largest manager of pension funds, with £746bn in assets under management. Moreover, taking a slightly longer view, L&G has been able to provide its shareholders with a return of almost 400% on their investments from March 2010 until the end of 2015.

For its part, in March 2016, the Prudential expressed itself highly satisfied with its performance through 2015. Its operating profit of £4,007m was up 22% on the figure for 2014 and, according to Mike Wells, Prudential's Group CEO, the Pru grew

Mark Wilson, Aviva Group Chief Executive Officer

across all of its key metrics despite the drawback presented by the low interest rate environment. '[Our results] represent good progress towards the 2017 growth and cash objectives which we set out at the December 2013 investor conference in London,' Wells commented.

The results were good enough for the Pru to feel able to increase its dividend by 5% to 38.78p per share. Working through what Wells termed



The expected radical change to pensions is yet to occur according to experts

'a high-quality agency force and well-established bank partnerships,' the Pru's Asian portfolio of business turned in a solid performance, with life and asset management operating profit up 17% on the previous year.

Aviva Group CEO, Mark Wilson, said in his 2015 results presentation (given on 6 March 2016) that with a balance sheet surplus of £9.7bn, Aviva was one of the strongest and most resilient in the UK market. 'Over the last four years we have tripled our economic capital surplus,' he said. The group expects to achieve its target of £225m of integration synergies from the £6bn Friends Life acquisition.

While the leading players have fared reasonably well through 2015 and into 2016, at least two major challenges lie before them. The first is trying to figure out what Brexit is going to mean for the insurance sector, while simultaneously striving to make sure that their voice – rather than just the voice of the banking lobby – is heard as the negotiations take shape. The second is the even more difficult task of deciding quite what kind of shape the whole insurance market is likely to take over the next few years.

On this last point, as PwC notes in a report on the sector entitled 'Top Insurance Issues in 2016', the insurance industry stayed much the same for the last 100 years. However, the last decade has seen the sector faced with huge change on a number of fronts and the pace of change is accelerating. Just as banking is being transformed by a combination of changes in customer expectations and the innovations in technology introduced by FinTech, insurance is facing similar changes in customer demand and a number of new, potentially disruptive technology innovations, dubbed InsurTech.

The rise of the Internet of Things, driverless cars and wearable tech, among other innovations, is radically altering the markets in which insurance operates. At the same time as customer expectations are changing, the pace of innovation has quickened. As PwC notes, 'So far, incremental innovation has helped insurers meet most new customer expectations [but now] they have the opportunity to do more radical innovations and to experiment with new business models'. It is no longer going to be enough for established insurance companies to expect to be able to hold market share going forward simply by adopting the incremental approach.

PwC notes that funding for startups in the InsurTech space is surging. In 2010 the total global funding for InsurTech companies barely amounted to $200m. By the end of 2015 it had reached over £1.4bn. This is still some way short of the nearly $4bn in funding in 2015 for FinTech companies but it is still a dramatic increase.

The rise of emerging markets also provides both significant challenges and opportunities for the sector, as does the demographic shift towards an ageing population in the developed world. Where the incumbents have an advantage, in parallel to the banks, is in the vast data pools they hold on customers. Using 'big data' analytics to discover and exploit trends and

The peer to peer insurance model is still in its early stage

patterns in the data represents a huge opportunity for the sector going forward, PwC argued.

Ian Benson, a Director with the law firm Maclay Murray & Spens pointed out that the insurance sector has, in many ways, been ahead of the banking as far as technology effects distribution channel for insurance products. 'On the distribution side we have seen that aggregator sites, which gather, analyse and aggregate data and prices on various types of product, have been around for years and have been really disruptive to the sector,' he said.

So far, at least, the peer-to-peer insurance model is still in early stage mode in contrast to peer-to-peer lending, Benson said, largely because insurance products are a lot more complicated than a simple debt product. 'So far FinTech collective self-insurance has not really got off the ground in the UK. I think it will be some time before we see InsurTech peer-to-peer insurance enabled equivalent to say the traditional Lloyds market. There are some very high barriers in terms of capital adequacy, regulatory compliance and underwriting skills to be surmounted before businesses of this nature can launch and scale,' he noted.

Where technology is proving disruptive is in finer-grained pricing for insurance. Using telemetry in cars to tailor motor policies to driver safety profiles more closely has been around for a while, he pointed out, but emerging technology certainly provides plenty of opportunity to refine and improve risk pricing in insurance, subject to constraints around data use and privacy.

Then, of course, there is climate change and a pressing need to become much more fine-grained in the analysis of risk and the construction of risk models. There is no doubt that the next few years will see continued innovation in the market and some of it is bound to be well beyond anything that could simply be termed an incremental improvement!

AXIS Insurance

Since our launch in 2001, at a time when the world – and insurance markets – were reeling from an unprecedented threat of terrorism, AXIS has grown into a global insurance and reinsurance company serving a host of industries and diverse coverage needs. When markets were unable or unwilling to provide terrorism cover in the wake of 9/11, we led the way in offering solutions.

Mark Gregory, AXIS Insurance International Division CEO

Now, as cyber risk and the imperative to take action on climate change have topped the World Economic Forum's Global Risks Report 2016, we continue to demonstrate that same entrepreneurialism for our clients in these fields. Our cyber and renewable energy products are part of the spectrum of specialised risk transfer products which our London platforms, including Lloyd's Syndicate 1686, offer.

The Cyber Risk Phenomenon

The unprecedented pace of technological innovation over the past decade has had a transformative effect on business. Analytics is driving growth in sectors from health to retail – yet new interconnectivities have produced new interdependencies, which in turn have given rise to new vulnerabilities. Cyber-attacks – the unauthorised or malicious targeting of information technology systems, infrastructures, and/or computer networks – have multiplied exponentially; and by 2020, Forbes estimate that the cyber security sector will be worth USD 170bn. Although government agencies, law enforcement, and the private sector are working to combat the technical capabilities of the perpetrators, businesses can be left facing consequences that include business interruption, data loss, theft of intellectual property, extortion, physical asset damage, and reputational harm.

AXIS is at the forefront of innovating risk transfer solutions to mitigate the financial impact of these cyber-attacks. Cyber liability insurance has been available since the late 1990s, when just 1.7 percent of the global population had access to the internet. Today, it has become a mature product, protecting businesses against financial losses resulting from malicious or accidental actions. When confidential data is lost or misused, businesses need to respond quickly: a cyber-liability policy will now reimburse expenses incurred by companies in notifying affected third-parties, complying with regulatory investigations, performing forensic investigations, initiating a public relations campaign, and taking legal advice. Policies also indemnify businesses against legal liability to pay third-party claimants compensatory damages arising from the cyber-attack.

The complexity and systemic importance of these risks means that addressing them requires partnership between government and industry. Solving the remaining challenges, including the limited amount of publically-available loss data, will be paramount for the insurance industry to adequately model exposures and offer appropriate premiums. Our underwriters in London recently contributed to research by the Centre for Risk Studies at the University of Cambridge, which will assist this by developing a fuller understanding of cyber exposure.

AT A GLANCE

AXIS Insurance

- $6.9bn total capital
- $20bn total assets
- $14.5bn cash and investments
- $4,603.7m gross premiums written
- A+ Standard and Poor's, A+ AM Best rated
- Syndicate 1686 at Lloyd's launched 2016
- $404m plan gross premium for AXS 1686 in 2016

> "As the energy sector has innovated and diversified, so have AXIS. Our renewables team... has secured a market-leading position by offering specialised cover for every stage of a project"

AXIS is proud to be working with clients, brokers, and our peers to develop the London market as a global centre of cyber risk excellence.

Supporting Sustainable Energy

AXIS has a strong record of providing appropriate and timely solutions for clients in the energy sector. Since 2001, we have offered the coverages required by companies to weather frequently difficult environments such as the Gulf of Mexico and the North Sea, following in the footsteps of the first insurers to underwrite offshore platforms.

Oil and gas remain the predominant means of meeting global energy demand; but, over the last decade, wind, solar, hydro, and wave technologies have begun to materially increase their share of the production mix – and especially in Western Europe and the United States. Renewable energy production in the latter has doubled since AXIS began operations; in Europe, the story is the same. With near double-digit growth projected over the coming years, renewables have proven a rare bright spot for investment in a sector that has traditionally relied on fossil fuels.

As the energy sector has innovated and diversified, so have AXIS. Our renewables team, launched in London in 2010, has secured a market-leading position by offering specialised cover for every stage of a project, from development through to operation. Now, we are among the top three insurers of these risks in the London insurance market.

A key feature of the renewable sector is the range of scales, from residential solar projects to offshore wind arrays comprising multiple batteries of turbines. The combination of our coverage of the former, in tandem with our appetite for utility-scale solar farms in the US mid-West, makes AXIS the largest insurer of solar projects in the US. With regard to wind, AXIS in London is one of just six insurers covering the Block Island project, an array consisting of five turbines situated off the coast of Rhode Island. This small first step will blaze a trail for offshore wind energy in the United States; eventually it will be linked to around 200 turbines supplying over one gigawatt of clean energy to multiple states in New England. Such projects naturally require significant investment. AXIS' Capital Risks Solutions division has a market-leading position in offering cost-effective protection to lenders funding large infrastructure projects, which can permit more ambitious projects to be undertaken.

The viability of renewable energy depends on the availability of the natural resource the project harnesses, whether sunlight, wind, or rainfall. So, similar to supply chain insurance for other occupancies, AXIS offers cover for situations where the projected sunlight hours, average windspeeds, or precipitation do not occur. As this would usually jeopardise the borrower's ability to repay the loan, the offer of a hedge against unexpected weather conditions enables lenders to fund projects with more confidence – thereby facilitating continued growth in the renewable energy sector.

The London Market

London's reputation for innovation and excellence in insurance is well-established and richly deserved. For this reason, London is at the heart of AXIS' strategy: our presence in London reflects our determination to be a leader in the most responsive insurance market in the world. We demonstrated this commitment with the launch of Syndicate 1686, which furthers our proven record of underwriting the most challenging risks faced by business and industry today. We believe that this record exemplifies the professionalism, responsibility, integrity, discipline, and entrepreneurialism we strive for.

Berenberg

Founded in 1590, Berenberg is one of Europe's leading private banks. The equities division of Berenberg has grown to 230 professionals, of which 175 are based in our Threadneedle Street headquarters. Our research team covers over 500 corporates, and we interact with more than 700 asset management institutions across the world. Last year, we executed more transactions in Germany than any other bank, and were named Euromoney's "Best German Equities House".

Berenberg's London office with around 250 employees is located in the City of London. Photograph by Micha Theiner

Berenberg may be the world's second-oldest bank, but we are still a relatively new presence in the UK – our London-based research team was only established in 2009. Before then, a small team of analysts based in Continental Europe were focused on small and mid-sized companies. Success here gave our managing partners the ambition to expand into pan-European research coverage, but they waited for the right moment to execute their plan. When the financial crisis hit in 2008, they saw the perfect opportunity to build a business counter-cyclically. While most "bulge bracket" banks descended into disarray, Berenberg embarked on an aggressive expansion programme, hiring analysts in London, and sales and trading resource across Europe and the US. At the time, many were sceptical about this strategy, but there is no doubt it has paid off.

Our expansion goes even more against the grain when one considers how the broader industry has developed in recent years. Estimates suggest that asset managers' spend on sell-side research has halved from the 2007 peak, and we expect further declines, partly attributable to legislation included as part of MiFID II. We support the broader aims of the new rules – it makes sense that asset managers should be obliged to provide transparency on how they spend their clients' money (including the amount they spend on external research). However, we would also argue that good research is valuable. Regulators should consider this when implementing the new rules, in order to avoid undesirable unintended consequences.

The most obvious benefit of well executed research is that it helps asset managers make the decisions which generate outperformance for their clients. Let us put the numbers in perspective briefly. The UK asset management industry looks after around £4.5trn of funds for its customers and spends around £1bn on sell-side equity research. This spend is certainly big in absolute terms, but it represents a very small percentage of the total funds managed (just 0.2%). It does not seem like an unreasonable amount to justify, given the benefits of enabling better fund performance (especially for small asset managers that cannot afford vast internal research resources). There are other advantages too. Research scrutinises the decisions that corporate management teams are making (which may not always be perfectly aligned with shareholders). It can also help corporates secure funding, by informing investors, and encouraging the provision of equity finance.

Although MiFID II presents some uncertainties and challenges for the sell-side overall, on balance we expect it to be a positive for Berenberg. One of the reasons why Berenberg

AT A GLANCE

Berenberg

- Established in 1590
- Berenberg is one of the leading privately owned banks in Europe today, focusing on four operating divisions: Private Banking, Investment Banking, Asset Management and Corporate Banking
- The Hamburg-based bank with a strong presence in London, Zurich, Frankfurt and New York has 19 offices in Europe and the US and is managed by personally liable partners.
- Berenberg opened its London office in 2003 and the Bank's multi-awarded European equity and economic research team is now based there with over 80 analysts.

> "The culture we have created has played a big role in our success"

has been able to gain so much share in recent years is our unrelenting focus on the quality and relevance of the research we produce. On this basis, we have nothing to fear from greater scrutiny of research quality by our asset manager clients. In fact, it should be a good thing.

The quality of our people is key to our reputation for excellent research. We have been able to hire some of the city's best analysts by attracting them with the flexibility to write long-term, thought-provoking research on the industries they love, away from the distractions, complications and conflicting goals that so often exist at our bulge bracket competitors. The only remit our analysts have is to identify mispriced equity. We also understand that to be the best analyst in any given industry sector, we need to be using our expertise to help shape the industries we write about, not just to provide commentary from the outside. Many of our analysts do just that, be it Paul Marsch who covers telecoms at Berenberg (and was writing about quad-play long before Vodafone and others went on a buying spree of cable assets) or Rob Muir who covers cement (and to whom European corporates turn because he understands the extent of production capacity in China and its implications for their investments better than they do).

The second reason for the success of our research is more structural. At larger banks, analysts are torn between the need to help their internal traders generate short-term profits versus the needs of their external clients who mostly prefer to receive advice with a longer-term perspective. It is this conflict that encourages the production of low-value, short-term 'maintenance' research. Because we only trade on behalf of our clients, this conflict does not exist.

The culture we have created has played a big role in our success. Everyone is encouraged to suggest ways we can improve, to question anything that appears illogical or inefficient, and to take responsibility. We invest a huge amount in young talent - last year we hired 26 graduates onto our equities graduate scheme, and an additional 15 associates into our "boot camp" programme for people looking to change industries. For all the senior people in the firm, helping educate our associates is an explicit part of their performance review. It is a collective responsibility.

We have come a long way in the last seven years, but we remain ambitious. For example, we plan to increase coverage of UK listed companies from around 150 today to more than 200 in a year's time, with a particular focus on small and mid sized corporates (which are often neglected). Alongside this, we will be more active in providing advice to UK corporates, both in IPOs, and as their corporate broker. Our second major growth area will be the US. Today, we have 14 sales and trading staff in three locations in the US. The next two years will see us expand our coverage of US bellwether shares from London, and establish a research team in New York. We also plan to apply for a licence to advise US corporates.

To get to where we are now, we've had to be disruptive, bold and original, whether it be making our research widely available, servicing the smaller asset managers ignored by our competitors, covering US shares out of London, or applying the same principles of research quality to companies valued at £100m or £100bn. In everything we do, we try to bring simplicity and focus – rare in an industry where the competition is hamstrung by complexity and internal conflicts. We expect MiFID II to bring about change and consolidation, even among larger banks. These will be turbulent times, but at Berenberg we have built a base of expertise that should allow us to weather the storm. And when the storm comes, corporates and asset managers will become increasingly reliant on firms like ours for high-quality advice.

Euroclear

Few of us think about plumbing until it goes wrong. Then it becomes our top priority. The world of finance has its own system of plumbing to settle millions of trades and move billions of pounds each day. Today the UK settles more than half its annual GDP in securities transactions every day. Just as in our domestic world, few people in finance think about the plumbing. If the system leaked, however, people would notice very quickly.

Tim Howell , CEO of Euroclear

For the last 20 years that service has been provided by a system called CREST, now operated by Euroclear UK & Ireland. It was launched in 1996. Until then the system to move title to securities against the corresponding payment was paper-based but rapid growth in trading overwhelmed that manual approach. The associated backlog of settlement meant investors were not sure whether they owned the shares they thought they had bought and financial intermediaries had large risk exposures to each other. The Bank of England stepped in to build a new electronic system which moved ownership of securities quickly and reliably in real time between seller and buyer and moved the corresponding cash simultaneously in the other direction.

This process of Delivery Versus Payment (or DVP) underpins the current system which is not only safe and reliable, but also efficient and cheap. This new system used innovative technology originally designed to provide a robust service for UK & Irish equities. Two years later, the Bank of England decided to move the settlement of UK government securities and money market instruments to the CREST system. At launch, the system settled the cash leg in sterling and Irish pounds but the latter was replaced by the euro in 1999. The system also offered an option to settle the cash leg in dollars.

In 2001, the company running the CREST system became part of the Euroclear group and was renamed Euroclear UK & Ireland. The Euroclear parent company is owned by the major banks and other financial institutions. The Euroclear group is headquartered in Brussels and includes similar organisations, central securities depositories, in Belgium, Finland, France, the Netherlands, Sweden as well as the UK and Ireland. As part of this large group CREST could share technology and skills across a bigger entity and offer a greater range of cross-border settlement possibilities. The larger group enabled Euroclear UK & Ireland to move to an operating model with three live datacentres in different parts of Europe. Two are synchronously linked to provide very high assurance of continuous operational service and the third is hundreds of miles away to offer recovery in the event of a major disaster. CREST now settles about 250,000 net transactions (representing 2 million gross transactions) worth an average of £800 bn a day and holds balances of more than £4500bn. The Euroclear group holds Eur 28,000 bn of assets and settles 750,000 net transactions worth Eur 2,700 bn every day. These vast financial flows are largely unseen by financial firms let alone the general public.

> "The financial services industry has evolved throughout the life of the CREST system… but… investors can have confidence that the plumbing always works."

The Euroclear group's origins reflect similar needs to those that led to the creation of the CREST system. It was founded in 1968 by Morgan Guarantee as Euroclear Operations Centre (EOC). It acted as a depositary for physical eurobond certificates

Euroclear in 5 steps

1 Scale provider of post-trade services

>1 million
securities worldwide

191 million
transactions processed
5% year-on-year growth

€675 trillion
in turnover
8% year-on-year growth

2 Asset safety & resilience

AA+ Fitch

AA Standard & Poor's

40%
Tier 1 Capital Basel III

3 Collateral Highway

>€1 trillion
collateral mobilised daily

20%
collateral outstandings year-on-year growth

4 The place for funds

€1.7 trillion
funds under custody

>12.7 million
fund orders routed annually
13% year-on-year growth

90000
funds processed by FundSettle

>900
fund administrators

5 Breadth of participation

> 90 countries
Our clients are located in over 90 countries

16 languages
We offer personalised client support in 16 languages

46 major markets
We have links to 46 major markets

51 currencies
We deal in 51 settlement currencies

Global client franchise

>2000 clients
including:

>100
central banks

90% of the world's
50 largest banks

(which are bearer instruments) for safekeeping and to enable the efficient settlement of trades in the bonds and the payment of dividends or other such corporate actions. As part of a bank, EOC could better enable cross-border cross-currency transactions. Today Euroclear Bank, EOC's successor, enables settlement in more than 60 national markets. Users describe securities that can be settled in the system as "Euroclearable", and Euroclearability has become a very valuable characteristic of securities. It means that they can be held in one place and moved efficiently, safely and cheaply, between system participants for a wide variety of purposes.

The system does not just settle trades but enables participants to move collateral whenever it needs to be offered. The set of services supporting this international activity has become known as the Collateral Highway and Euroclear UK & Ireland is connected to that service. The Euroclear group has also formed a joint venture with the nearest equivalent organisation in the United States, the Depository Trust and Clearing Corporation, to enable clients to pool their assets in the two organisations and move them quickly and reliably wherever they are needed. The group is also seeking to offer these benefits of harmonised practices and reliable straight through processing to the funds industry which, until recently, was also heavily paper-based. Such innovations reflect the group's mantra of "post-trade made easy".

The innovation represented by this approach in the funds industry is perhaps best illustrated by Euroclear's automated reconciliation processes. In a paper-based world where many agents are involved in the chain of transactions it is hard to track the details of a specific transaction which may have been bundled or split several times. With the Euroclear FundsPlace services it is very clear "who did what, with whom, and when".

The financial services industry has evolved throughout the life of the CREST system. The trading landscape has changed enormously. It does not matter, however, whether a trade is conducted on a stock exchange, a multilateral trading facility, settled bilaterally between two parties or settled through an intermediary like a central counterparty, which nets each parties' trades, it can be settled in the same efficient automated service. The system is capable of settling very fast and some securities trade and settle same day. The system, however, also supports markets where deferred settlement is the convention and settlement occurs a fixed number of business days after the trade.

One important technical evolution in the CREST system has been in the legal status of the securities recorded in the system. Now legal title is recorded in CREST's electronic record and share registrars reconcile their records to CREST's "golden record". This change ensures that the settlement in the CREST system is final in legal terms and gives the highest quality of settlement possible. At the technological level the system has evolved continuously to reflect good technical practice but the essence has remained to ensure high levels of resilience and service reliability.

So what will happen to securities settlement over the next 20 years? As Eddie George, former Governor of the Bank of England, said "never try to forecast, especially the future!". What we do know is that there will be significant changes in technology and market structure. Some things, however, will remain the same. Euroclear will settle large numbers and vast amounts of securities trades and will do so in a way that reduces risk for market participants and will do so cheaply and reliably. Investors need not know the detail of what is going through the financial pipes but can have confidence that the plumbing always works.

Foreign & Colonial Investment Trust

Foreign & Colonial is a £2.5bn market capitalised company with £3bn of underlying assets invested across the globe. Our objective is to secure long-term growth in capital and income – in one single investment we offer shareholders cost-effective access to a globally diversified, actively managed pool of public and private equities.

Simon Fraser, Chairman of Foreign & Colonial Investment Trust

Foreign & Colonial was founded in 1868 to provide the investor of "moderate means" the same advantages as large capitalists of the day, reducing the risk of investment in stocks by diversifying exposure over a range of investments and pooling investors' capital with that of likeminded individuals. The first ever investment trust, Foreign & Colonial maintains its relevance today with its shares widely held by private individuals.

Many savers can become confused by the plethora of products, services and associated advice available to them. Arguably, the savings industry has made life for customers much more complex than it needs to be. Indeed, in many cases complexity has added nothing but costs that the end consumer will pay. In a number of cases, savers have been left with potentially unsuitable products, whether it be in an endowment policy or a split capital investment trust to name just two examples.

Regulation has been introduced to try and protect the customer from these risks and limit the downside from poor advice. Some will argue that greater transparency will ultimately provide the protection the consumer needs. In our experience, however, transparency alone is not the solution. Indeed, more transparency can often lead to further confusion. Most people simply want products that work and brands that they can trust with their long-term savings.

This is what Foreign and Colonial has been striving to do for the last 148 years – we are focused on providing a long-term cost effective savings vehicle delivering above average returns with less risk than our competitors. Many of our shareholders have owned the trust for several generations and we hope they and many others will continue to do so for generations to come.

Growth in Capital and Income

Foreign & Colonial has a long and rich history and we have demonstrated tremendous capacity to adapt to changing investment opportunities over time. We are extremely proud of our record of delivering 45 consecutive years of growth in dividends. Not only have dividends shown consistent growth – 7.3% annualised over the past 10 years – but we have also seen substantial gains in capital. Total shareholder returns over ten years have been 8.2% a year. Dividend growth and shareholder returns have been well ahead of inflation.

As an actively managed investment proposition, we also aim to produce returns ahead of relevant market indices and competitors. As at the end of 2015 our asset value and shareholder total returns were ahead of these comparators over 1, 3, 5 and 10 year periods.

AT A GLANCE

Foreign & Colonial Investment Trust

- A long-term cost effective global savings vehicle
- Founded in 1868 as the first ever investment trust
- Aim is to deliver growth in both capital and income
- Primarily investing in publicly listed equities and less liquid private equity
- Focused on creating above average returns with less risk than competitors
- By diversifying exposure across different investment portfolio strategies we can add returns but reduce risk
- A dividend that has outpaced inflation and has increased in each of the past 45 years
- 150th anniversary in 2018 and as relevant as ever in delivering returns to the investor of "moderate means"

> "Most people simply want products that work and brands that they can trust with their long-term savings"

Focus on 'growth assets'

We focus on growth assets such as publicly listed equities and less liquid private equity. For investors who can withstand some short-term – and inevitable – volatility in pricing, equities have proven to be an outstanding long-term investment. Gilts have also performed very well in recent decades but yields are now so low that the kind of returns seen over the past 20 years are simply not repeatable from current valuations.

There are inevitably periods when equities lag bonds and when absolute losses may be suffered but, historically, the longer that equities are held, the greater the probability of outperformance against both cash and government bonds. Equities, as a real asset class, have historically provided a compelling capital and income return for the long-term investor. While return prospects across many asset classes today look less appealing than they have for a number of years, equities continue to offer relative attraction.

An Active and Diversified set of Portfolio Strategies

Our portfolio is not designed to be passive and simply track a market index. For us to beat our competitors and market benchmarks, we must take active investment decisions on asset allocation, stock selection and our borrowings. Importantly, we deliver active management in a cost-effective manner. The directly incurred costs of running the company, expressed as the Total Expense Ratio, are 0.53% of our assets. Our direct and indirect costs, expressed as the ongoing charge, are 0.8%.

We borrow in different currencies and use our capital to fund long-term opportunities, like private equity – to enhance returns. We typically hold reasonably concentrated positions in the underlying portfolios; for example, our European portfolio holds only 43 stocks whereas the index has around 450.

Rather than focusing on one strategy we look for exposures that each bring something different to the portfolio. By diversifying exposure across different strategies, we can add returns for shareholders but reduce risk – smoothing returns over time.

Structural Advantages

As an investment trust and a listed company we have key structural advantages over open-ended investment funds including the governance benefits of having a fully independent board of directors. Without the constraints of meeting redemptions, we can take a genuinely long-term view and hold less liquid assets with attractive return prospects, such as private equity. We can borrow in different currencies to enhance returns. Finally, our long-established reserves are used to smooth dividend payments enabling us to deliver a steadily rising real income stream for shareholders.

The Way Ahead

We aim to deliver growth in capital and income over the longer term and superior returns against market comparators and peers. Our focus is on growth related assets, such as equities and private equity and we aim for cost effective active management. We blend focused portfolios to deliver a diversified investment solution helping us to smooth returns and reduce overall risk. We make use of the corporate structure allowing us to take a long term investment view, we can borrow in different currencies to invest and we can smooth dividend payments for our shareholders.

In 2018 Foreign & Colonial will celebrate its 150th anniversary. Our long-term approach has helped define and maintain the stability of Foreign & Colonial over the decades. We expect and will aim to continue this over many more years to come.

4-Most Europe

Finance services regulation is difficult to get right – knee jerk reactions often lead to unintended consequences and potentially the roots of the next bubble or crisis.

From left to right:
Aidan Halliday, Sales Director
Mark Somers, COO
and Mark Sisson, CEO

The UK financial services sector employs more than two million people in the UK with each one contributing nearly twice the value of an average worker to the economy, according to research from TheCityUK. Unfortunately the industry is blighted by a history of boom and bust cycles that have systemic repercussions through the economy as a whole. Banks, asset managers, or for that matter consumers, display herding behaviour with strong evidence that individual choices are often overwhelmed by group pressures to compete and survive.

Financial regulation is therefore properly targeted to control the "rules of the game" to minimise any damaging volatility in markets and yield positive outcomes for the economy as a whole, but not necessarily for all the individuals within it. This is not to argue there should be no safety net for individuals in our economy, just that financial prudential regulation is not the natural means to provide it. Contrary to much political comment over the past few years market failures cannot be wished away by hoping for better "moral" behaviour from the participants. The solution to market failures must lie with regulators – as a market participant you either play the game or you leave the market.

At a UK, European and International level, regulators have developed a range of responses to the financial crisis of recent years, and many of these rely on complex mathematical models of credit risk. Our company, 4Most Europe Ltd, was founded in 2011 to help UK banks, typically those with millions of retail customers, to implement credit risk models and prepare for increasing regulatory demands. It has been a busy time and the experience has provided us with insight into which regulatory developments are most likely to achieve their aims.

Good regulation vs rules with unintended consequences

Regulations which aim to increase the understanding of management, investors and the public of risks are effective, self-reinforcing and are likely to change emergent behaviour. Market wide stress testing initiatives have been particularly powerful in this regard – by requiring banks to consider explicitly the worst scenarios and publish the outcomes, the market has been driven to protect and plan for those events.

By contrast, regulatory interventions which simply represent a knee jerk reaction to minimise aspects of the market that are troubling, are likely to have unintended side-effects. For example the accounting rules to be introduced in 2018 that cover reporting of credit losses in banks financial statements (IFRS9) have the explicit objective of recognising a banks' losses more fully and earlier in the economic cycle. This is predicated on the idea that on average the market can forecast the next recession, or indeed the green shoots of recovery.

AT A GLANCE

4-Most Europe

- Specialist credit risk analytics consultancy with offices in London and Edinburgh.
- Provides a range of products and services across credit risk, fraud and pricing, working with blue chip clients predominantly in the retail banking and mobile sectors.
- Offers a flexible, competitive model, either working with clients to manage regulatory change or delivering and implementing business critical solutions.

KEY TERMS

» **Stress testing** is a type of analysis that considers what the financial impact on a bank would be in terms of balance sheet and capital requirements should the economy fall into a specific stressed economic scenario. These tests have been used widely by US, European and other regulators to provide investor confidence in a bank's robustness and ability to withstand systemic shocks.

» **Reverse stress testing**. This is similar to stress testing but turns the problem on its head; specifically it asks banks to determine which scenario is most likely to result in a bank breaching certain levels of capital ratio in a recession.

» **Vasicek Model.** This is a mathematical model that describes how the credit losses over a 12 month period for an idealised portfolio would be expected to be concentrated over time due to variation of a single hypothetical economic factor. The model is used with some standard, regulatory determined parameters, to calculate sophisticated Internal Ratings Based banks capital requirements under Pillar 1 of the Basel Accord (Basel II and III).

» **Tail risk.** Banks lending money expect to lose a proportion of it on average due to customer financial difficulties. This can be priced into the lending product and is called the Expected Loss. Over time, banks will sometimes lose more than the expected loss and sometimes less – the spread of loss is called the Unexpected Loss. It is found that in most types of lending over a wide range of economic conditions the occurrence of abnormally large losses while small, is more likely than abnormally small losses. This skew to the risk distribution is commonly described as a "non-normal" tail risk.

Unfortunately economic models are much more useful to understand the past and present than forecast the future – as a result the side effects of the new IFRS9 regulations in practice will be to increase banks' recognised losses in the early phases of a recession and thereby potentially increase the likelihood of bank failure (see "The Significance of IFRS9 for Financial Stability and Supervisory Rules" – Zoltán NOVOTNY-FARKAS study for the European Parliament, September 2015). To counteract this, banks will need to be more conservative in their lending in economically sensitive segments (e.g. small businesses and mortgage lending) and this could reduce efficiency and act as a drag to the financial services and the economy in general.

The proper role of mathematical risk models in regulation

Models are a simplified representation of aspects of the real world. If the use of a model within regulation does not encourage participants to question the assumptions and provide insight, then the output of the model is of less value. Requirements for reverse stress testing, where banks are asked to identify under how severe a stressed scenario they could cope before they would need to be wound up, are showing promise in this regard.

By contrast the formulation of the models underlying Pillar 1 of the advanced approaches to credit risk under the Basel Accord (and subsequently incorporated in EU law) were found to be less effective in the recent downturn and have needed to be augmented.

The underlying Vasicek model used in the fixed Pillar 1 regulatory model is implausible; the fact that tail risks are not normally distributed was popularised in Nassim Taleb's "The Black Swan: The impact of the highly improbable", 2007). Furthermore, the key regulatory correlation parameters are deliberately set by regulators to be a single value by asset class across the world.

Finally, it arbitrarily looks to assess maximum losses purely in a 12 month window whereas real world losses may span multiple years. Nonetheless banks are blindly required to calculate a number that is neither comparable amongst institutions (the correlations in reality could vary by type of business) nor meaningful in its own right. The objective was to have a risk sensitive measure of capital requirements that would be a level playing field for all institutions. Its failure during the banking crisis has led to the introduction of additional backstops (leverage ratio requirements) and the use of the far blunter instrument of simply increasing the quantity and quality of capital required which ultimately reduces investment and economic activity.

Conclusion

Countries face many challenges to ensure growth and prosperity for their citizens. For the UK, with its concentration in financial services, the risks are there but certainly no more challenging than those faced by resource or manufacturing based national economies. To throw away our advantage in this field in favour of more easily replicated expertise in manufacturing or technology would be foolish. We can enhance our regulation and utilise our mature legal infrastructure as a competitive advantage to be an attractive location for financial services. Increasingly this will need to use and reflect the insights provided by analysing the vast quantities of data that the industry generates.

Covéa Insurance

The storms and floods that swept the UK in December 2015 caused widespread devastation, and turned the spotlight on the insurance industry. Although there was some media criticism and public anger, this was directed mainly at government, for failing to fund adequate flood defences. In contrast, the insurance industry received widespread acknowledgement for the effectiveness of its response.

James Reader, Covéa Insurance's Chief Executive (far right) helps locals in the floods

Covéa Insurance was at the forefront of the industry's flood response, and witnessed the impact first hand, when its neighbouring communities in the Calder Valley experienced the worst flooding for thirty years. As a major local employer, inevitably some Covéa Insurance employees were directly affected; others, including the company's chief executive, were amongst community volunteers who helped local residents as the flooding took hold, and assisted in the subsequent clean-up.

A total of three unrelenting storms struck in December – first Desmond, then Eva and Frank, each wreaking havoc in different parts of the country. Ten days ahead of the arrival of the first storm, Covéa Insurance's predictive weather mapping software forecasted a 212% increase in flood claims, and the company immediately invoked its 'surge plan'.

Flood response

Being fully prepared when the floods arrived, its loss adjusters made door to door visits proactively locating their customers. Temporary accommodation was found, interim payments were made, claims were fast-tracked and pumps and drying equipment were shipped in, helping to get people back in their homes as quickly as possible. For those unable to be in their homes at Christmas, hampers were given as a token gesture of understanding for their difficult situation.

Those without insurance had to rely on charity, an unsatisfactory situation that Covéa Insurance and the rest of the insurance industry have been working hard with Government to resolve.

Flood Insurance solution

Their commitment paid off in April this year when 'Flood Re' was launched to provide affordable home insurance to those living in high flood risk areas, providing the peace of mind and security of insurance to those who need it most.

The challenge remains to find an equivalent safety net for small businesses, who are not covered by Flood Re, but many of whom were hit by the December flooding.

AT A GLANCE

Covéa Insurance

- Insures over 1.3 million homes, businesses and vehicles in the UK
- Employs 1500 people
- Sunday Times Best 100 Company to work for 2015 & 2016
- Investors in People Gold Employer
- Personal Lines Insurer of the Year 2015 (Insurance Times)
- General Insurer of the Year 2016 (Modern Claims)
- Personal Lines Insurer of the Year 2016 (British Insurance Awards)
- No 1 for service, 2015 Home and Motor Claims benchmarking surveys – Institute of Customer Service
- Part of the French mutual insurance group Covéa

Carol Geldard, Covéa Insurance's Personal Lines Director receives the award for Personal Lines Insurer of the Year at the 2016 British Insurance Awards

Lowering Insurance Premiums

Although the UK has one of the most competitive motor insurance markets in the world, premiums are being pushed up by those who exploit the system for their own financial gain. In recent years, the UK's whiplash 'epidemic' has reached a scale not seen anywhere else in the world, which is adding approximately £2billion[1] to the cost of car insurance. Government and the industry are currently working on plans to change the law to remove the cash incentive to claim for whiplash, while ensuring genuine accident victims still get the rehabilitation they need. The potential savings are estimated to be around £50 per motor policy, which the insurance industry is committed to passing to customers in the form of lower premiums.

It's unfair that the impact of fraud results in honest people paying higher insurance premiums; and fraud isn't a victimless crime, as the proceeds have been found to support terrorism and organised crime. This makes it vital for law enforcement agencies to work collaboratively with the insurance industry in bringing fraudsters to justice and why, along with its peers, Covéa Insurance is helping fund a specialist police unit, dedicated to tackling insurance fraud, just one of many industry anti-fraud initiatives that succeeded in uncovering £1.3billion of insurance fraud in 2014[2].

Road safety developments

Black Box technology, also referred to as telematics, is an insurance innovation which offers an effective way to reduce motor insurance premiums and improve road safety, especially for young drivers, who are a third more likely to die in a crash[3]. Black boxes placed in vehicles collect data on driver behaviours, such as speed, braking, cornering, journey duration and time of travel, with good driving rewarded through lower insurance premiums.

As a member of the Parliamentary Advisory Council for Transport Safety, Covéa Insurance is fully engaged with the road safety agenda. This extends to Thatcham Research where, as a supporting motor insurer, it is helping fund the development and testing of autonomous driving technology – also referred to as driverless cars. Trials are currently taking place and, as a Government priority named in the Queen's speech earlier this year, autonomous vehicles are firmly on the horizon. The argument for them is compelling, with research in the US by National Highway Traffic Safety Administration (NHTSA) predicting that by 2035, as a result of autonomous and connected cars, crashes will be reduced by 80%.[4]

As a socially responsible business, Covéa Insurance is doing the right thing by investing in both its people and broader initiatives, to develop products and deliver services that make a difference to people and businesses across the UK, by providing peace of mind and protection for the things they value.

> "as a result of autonomous and connected cars, crashes will be reduced by 80%"

[1] https://www.gov.uk/government/news/insurers-vow-to-pass-on-whiplash-reform-savings
[2] https://www.abi.org.uk/Insurance-and-savings/Topics-and-issues/Fraud
[3] http://www.rospa.com/road-safety/advice/young-drivers/
[4] http://news.thatcham.org/pressreleases/thatcham-research-welcomes-volvo-cars-uk-s-largest-and-most-ambitious-real-world-autonomous-driving-trial-1385271

Turquoise

Turquoise is a European wide electronic Multilateral Trading Facility (MTF) based in the City of London, majority owned, 51 per cent, by London Stock Exchange Group and 49 per cent by 12 major banks. Members include a wide range of global banks, domestic brokers, specialist trading firms, and retail intermediaries. Members, with a single connection to Turquoise, can trade shares, depository receipts and Exchange Traded Funds (ETFs) of 19 European countries for settlement into a respective country's Central Securities Depository. This illustrates the ability of the London financial community to be at the forefront of market innovation and applying the technologies to make it work.

Robert Barnes, CEO Turquoise

21st century trends in equities include passive indexation (an investment strategy that tracks the performance of market weighted indexes) and the desire to outperform benchmarks, such as the FTSE 100 representing the 100 largest UK companies and EuroStoxx50 representing the 50 largest Eurozone stocks, by trading larger order sizes of company shares across geographies.

In less than 10 years from concept in 2006, Turquoise activity has grown from nothing to more than €1 trillion value traded in 2015 and achieved industry recognition for its innovations including **Turquoise Uncross™** and **Turquoise Block Discovery™** designed in cooperation with Turquoise buy side and sell side customers for quality electronic trading of larger sized investments. Turquoise won the *Financial News 2015 Award for Excellence in Trading and Technology for Most Innovative Trading Product/Service* for **Turquoise Block Discovery™**. With an aging population and an increasing reliance on private sector pensions, European capital markets need to be competitive to deliver meaningful long term investment returns.

In 2001, The Committee of Wise Men on the Regulation of European Securities Markets[1] noted that asset returns over a period of time were growing faster in the USA than in Europe. World Bank statistics indicate Europe has similar or larger GDP and population compared with the USA.[2] Europe as a 'single market' was underperforming its potential. Among contributing factors were higher costs relating to cross border trading, clearing and settlement.

At the time, Europe featured an exchange landscape comprised of single country monopolies. This model did not serve well an increasing demand by the user community for nimbleness on fees and operating mechanisms, as equities investment across industry sectors grew world wide.

AT A GLANCE

Turquoise Global Holdings

- Founded 2006 by banks
- LSEG acquires 51% 2010
- €1 trillion+ traded 2015
- European stocks + ETFs
- Electronic lit + dark trading
- Award winning
- Innovates with investors
- Members = EEA+ Switzerland

[1] http://ec.europa.eu/internal_market/securities/docs/lamfalussy/wisemen/final-report-wise-men_en.pdf

[2] http://www.thetrade-digital.com/thetrade/the_trade_100_and_the_future_of_trading__10th_anniversary_edition?pg=132#pg132

> "By listening to customers, Turquoise empowers investment firms with trading innovations"

» VOCABULARY TERMS

1. Turquoise = electronic trading platform based in the City of London, used by investment firms that traded more than €1 trillion in European equities in 2015
2. Lit order book = order book that shows the price and size of orders available to a trade
3. Dark Pool = order book where the price and size of the order, pre-trade, is not displayed, but post-trade is revealed
4. Touch prices = the best bid and offered prices to buy and sell shares displayed on a lit order book before a trade
5. Midpoint price = the price in between the best bid and offered prices: for example, if bid is 2 and offer is 4, the midpoint is 3
6. Implicit cost = the cost that impacts investment returns in addition to the explicit tariff charged for trading
7. Crossing the spread = the act of lifting the offer or hitting the bid adds implicit cost to investment

The regulatory tool to address costs was increasing competition, and the findings of the Wise Men report led to the European framework that became the Markets in Financial Instruments Directive (MiFID) which was published in May 2004 and effective November 2007 encouraging competition, transparency and investor protection.

Turquoise was one of these new entrants benefitting from the MiFID regulatory passport to admit for trading securities listed across Europe.

Our principles are Integrity, Innovation, Partnership, Excellence. Turquoise aims to be the European Single Market trading venue of choice. Our approach is to raise visibility, widen membership, and innovate with customers.

By March 2016, Turquoise total average daily value traded surpassed that of any single country stock exchange in Europe.

With European interest rates and real returns near zero, the focus is on efficient trading to minimise investment cost and enhance long term returns.

Trading of stocks can take place on a stock exchange or via multilateral trading facility (MTF). While stock exchanges remain the listing venue for corporates, trading can happen on either. Turquoise is an MTF.

Turquoise differs from London Stock Exchange and Borsa Italiana (all three part of London Stock Exchange Group); which operate a primary market, on which companies can list securities, and a secondary market, on which investors can trade these single country securities via respective UK and Italian lit order books. Turquoise, however, is designed for trading a wider European stock universe – including UK and Italian stocks – offering a choice of 'lit' and 'dark' order books.

While many people understand the concept of 'lit' order books, which show the price and size of orders available to trade, an increasing number of investors are discovering how to access order books using complementary trading mechanisms called 'dark pools'.

Dark pools are electronic order books where the price and size of an order are not displayed to the market before the trade. After a match, however, the trade is reported to the public domain. In an automated world, post-trade transparency enhances pre-trade transparency for the next trade. Turquoise operates a Midpoint dark order book that is fully regulated and displays full transparency of the stock, price and size traded and trade time on a real-time basis after the trade.

Consider the analogy of buying a house. The real estate agent might provide a 'pre-trade' price, but it also helps to know the actual price at which the property next door sold before making an offer to buy or sell the house.

Dark pools may sound both mysterious and secretive but in reality they complement lit order books as an extra knob on the dial that allows investors to get their business done. They match approximately 10 percent of all order book trading of UK and European shares.

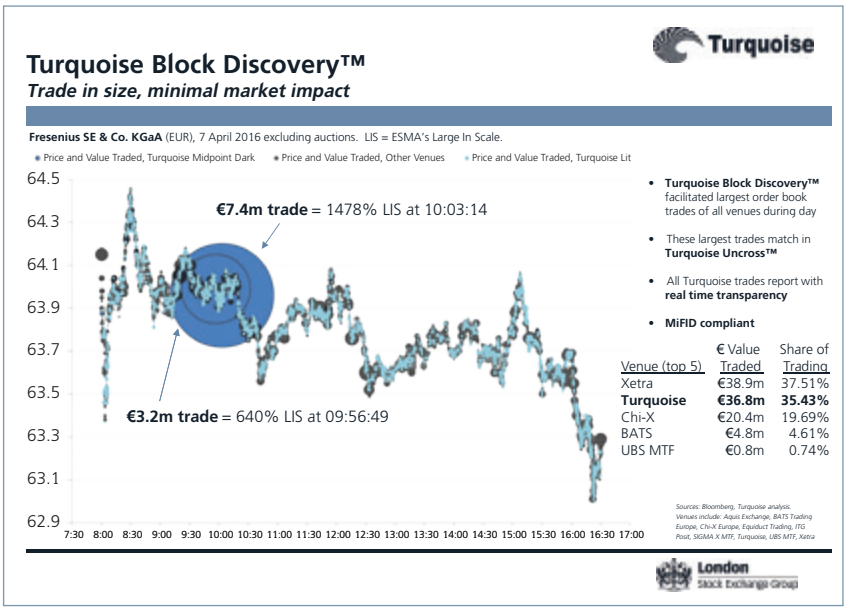
Dark pools can match at midpoint, that is, the price at the middle of the best bid and best offer prices referenced to the primary stock exchange. For example, if the price is 2 bid and 4 offered, the midpoint for potential buying and selling is 3. This means an investor can place orders midway between the best bid and best offer price available on the primary exchange, reducing the implicit cost of crossing the spread (the difference between the offer price less bid price).

Investors that use dark pools can, therefore, benefit from potential price improvement, meaning better investment performance. Like any tool, however, it is important to understand how it works.

A consequence of electronic order books world wide is the trend of shrinking trade size. For example, in 1999, the average trade size on London Stock Exchange was £64,000. By 2008, this had fallen to below £10,000 per trade[3]. Electronic order book environments naturally lead to small average trade sizes, investors that wish to outperform benchmarks are calling for innovation in electronic block trading. Turquoise is answering this call with excellence designed in partnership with our customers.

The Turquoise Midpoint dark order book is different to those of other dark pools. Turquoise prioritises orders by size and features innovations such as Turquoise Uncross™ and Turquoise Block Discovery™ that deliver the first example of a broker neutral venue that is reversing the electronic trend of shrinking trade size.[4] [5]

Turquoise Block Discovery™ now averages more than €250,000 per trade, and this average is more than 25 times larger than the average €10,000 for electronic trades matched by continuous dark order books across Europe[6]. The largest single order book trade matched by Turquoise to date is for €7.4m in a German stock, Fresenius. This trade matched in London on Turquoise and arrived automatically on time for settlement into Clearstream, Germany's Central Securities Depository.



Investors are trading shares of German company, Fresenius, on multiple trading platforms, including Xetra, the electronic order book of its primary listing exchange, Deutsche Boerse, and Turquoise, the European multilateral trading facility based in the City of London. This illustration shows the prices and sizes of trades by investors on 7 April 2016.

Turquoise trade prices match that of the primary Stock Exchange, and Turquoise trade sizes serve both the smallest and largest orders through its single connection for straight through processing from trading in London to settlement into Germany.

Turquoise not only enables investors to access more than 35 per cent of the order book value traded that day, Turquoise also matched the very largest order trades of all venues during the day via its award winning electronic block trading innovation Turquoise Block Discovery™

By listening to customers,[7] Turquoise has delivered a single European trading venue based in London that empowers investment firms with trading innovations that can help them get their business done in thousands of securities from blue chips to small caps in small or large trade sizes with scale efficiency, potential price improvement, and the operational benefits of straight-through processing.[8]

[3] http://fixglobal.com/home/european-equities-how-we-got-where-we-are-today/

[4] http://www.lseg.com/markets-products-and-services/our-markets/turquoise/turquoise-video-resources/how-does-turquoise-block-discovery%E2%84%A2-work

[5] http://www.bestexecution.net/industry-viewpoint-dr-robert-barnes-turquoise/

[6] http://www.bestexecution.net/analysis-dark-pools-best-execution/

[7] http://www.bestexecution.net/analysis-dark-pools-best-execution-3/

Angus Dent, CEO ArchOver

ArchOver

The 2008 banking crisis gave birth to the Alternative Banking industry. With their balance sheets in tatters due to flawed lending models and massive overheads, traditional banks were forced to pull in their horns and retrench as they were hit by huge losses and one scandal after another. Inevitably, one of the major casualties in all the mayhem was the small business sector, where struggling SMEs were not simply starved of finance for growth, but were also having their working capital ripped away by panic-stricken banks calling in overdrafts for no good commercial reason.

Meanwhile hapless savers were looking for a decent return on their money at a time when interest rates across the globe were bottoming, sometimes even moving into negative territory. Depositors were being offered next to nothing. The unfairness of it all was that, even if you could borrow money, particularly by the time you had added on bank arrangement fees, it would cost a small fortune. The gap between borrower and lender interest rates continues to be little short of scandalous.

One solution was to use the internet to introduce people with money to those who wanted to borrow. Put them together, arrive at a sensible agreement and, 'hey presto', you had a budding Alternative Finance industry – 'alternative' really meaning alternative to the banks. The idea was so simple it was brilliant. Small wonder this new industry has flourished, especially with the support of a Government determined to introduce genuine competition into the finance sector.

Having had practical experience of running businesses themselves, the principals responsible for creating ArchOver were familiar with the problem of securing the right type of funding. With this in mind, the management team set out to provide finance to borrowers at a reasonable price and on terms that were fair while, at the same time, provide lenders with an attractive rate of return in a secure manner.

The latest figures from innovation charity Nesta and the Cambridge Centre for Alternative Finance published in February (entitled 'Pushing Boundaries') calculated that the UK online industry grew to £3.2 billion in 2015, an increase of 84% over 2014. Within those numbers, 20,000 worthy SMEs were able to raise £2.2 billion over the same period.

The first loan facilitated by ArchOver, in September 2014, was for £100,000. Since then, our most common loans have tended to be for around £250,000, typically repayable over 24 months. Interest is paid monthly and the capital in a single payment at the end of the term.

The Nesta report calculated that peer-to-peer (P2P) business lending (excluding real estate lending) supplied the equivalent of 13.9% of new bank loans to small businesses in the UK in 2015 compared with only 1% as recently as 2012. Whilst financial institutions as well as individuals have also moved into the P2P space, it has been

AT A GLANCE

ArchOver

- Corporate emphasis: lender security
- Operates unique 'Secured and Insured' model
- Speciality: secured fixed term SME loans of £100k-£3m
- Minimum investment: £1,000
- Started trading: September 2014
- Total loans to date: £20m+
- Parent company: Hampden Group

demonstrated that there is both supply and demand. While inroads into traditional bank territory remain modest, a serious foothold has been established.

One of the main barriers to growth remains education as to what is available. Many small business proprietors requiring finance approach their bank, get turned down and then simply look no further. That is not to say Alternative Finance sources are easier when it comes to assessing loan applications, but they are faster, even if they say 'no', and they are more flexible.

There is already huge diversity in both the number of platforms operating and the services they offer, but they are most definitely not all the same. I believe that ArchOver continues to offer a unique proposition. We lend only to businesses and we do so based on a company's 'Accounts Receivable', which is often the only tangible asset that an SME can offer as security. We place no faith in personal guarantees from the borrowers, which, in the event of a default, has the unattractive and anti-social side-effect of putting a family out on the street in pursuit of debt repayment.

We believe we have come up with a far better alternative which combines robust due diligence with real security for lenders. The ArchOver way is to take a charge over the Accounts Receivable. Then, to optimise the security for lenders across the ArchOver platform, we insist the accounts receivable are covered by credit insurance. If the credit insurer – in our case Coface, the French export insurance agency and one of the world's leading specialists – feels unable to provide cover, the loan does not proceed. The initial process of due diligence and credit risk assessment is thus very effective and efficient.

Not only is this unique, it also adds a valuable further layer of ongoing security. As a part of the deal, borrowers undertake to provide financial information on a monthly basis to both Coface and ArchOver throughout the term of the loan. This information is closely monitored and any breach of covenant is rigorously scrutinised. It is a good discipline for the borrower and, more important, it is a safeguard for our lenders.

The ArchOver structure has attracted both high quality borrowers and lenders, many of the latter being small financial institutions and family offices as well as high net worth individuals.

Most recently, while the 'Brexit' vote sparked widely-predicted market turbulence, Archover's 'Secured and Insured' proposition passed the test with flying colours. There was a brief pause in activity, but ambitious SMEs have begun to borrow again and, with interest rates moving lower, lenders have rediscovered their appetite for high yield returns. It also means that those SMEs which are locked into pernicious invoice discounting facilities because they are unable to secure an overdraft from their banks have a possible escape route.

> "Traditional banks are not the enemy"

In general terms, ArchOver loans are above average size and are growing larger – a £2.3m loan completed in March this year for an occupational healthcare company Duradiamond, based in Perth, was the largest working capital loan organised by any P2P platform in the world.

Perhaps more significantly, we were able to provide the right financial solution for a successful Scottish growth company where the bank could not because of its rigid structure. This demonstrates that we can be more flexible and faster on our feet. It also illustrates that traditional banks are not the enemy and that the two sides can actually be complementary. As the market develops, I am quite certain that, in the not-too-distant future, we will see providers of P2P business lending working happily alongside the major banks to the benefit of the UK's SME community.

BlackRock Investment Management

Tony Stenning, Head of Retirement, EMEA

To enable people to have a financially secure retirement, we need to change their perceptions. We believe that firms like ours have an important role to play. If we are to engineer a cultural change, we need to make saving as easy as it is to get into debt. Those who do save are prone to holding inappropriate levels of cash to meet their long-term income needs. Investing can be a daunting prospect. Large amounts of unsecured credit can be taken out online in a matter of minutes with minimal information being required. On the other hand, investment into even the simplest products can be a slow and difficult process.

People simply do not feel sufficiently confident to invest in stock or bond markets and as a result have far too high a dependence on cash. We believe that it is essential to place the outcomes that people are seeking at the heart of developing our offerings as a product provider.

This is one of the reasons that four years ago, we began our annual Investor Pulse survey. The BlackRock Global Investor Pulse survey is one of the largest global surveys ever conducted. In our 2015 survey, 31,139 respondents were interviewed in 20 nations. Neither income nor asset qualifications are used in selecting the survey's participants, making it a truly representative sampling of each nation's entire population. One of the most detailed surveys was carried out in the UK and was conducted across 4,000 adults aged between 25 and 75.

From this we have been able to draw three key conclusions for the retirement market:

- More than two thirds of household assets in the UK are in cash.
- Professional advice is a key element driving savers' willingness to invest
- Efforts to encourage use of advice and guidance are needed to give people the tools for effective retirement planning.

> "If we are to engineer a cultural change, we need to make saving as easy as it is to get into debt"

Fewer than half of individuals have ever sought advice from a professional and non-advised investors have a staggering 74% allocated to cash. With interest rates at historical lows and inflation eroding the real value of all investments, sitting in cash may not enable people to meet their long-term goals.

We are also looking at how we can use technology to engage better with our clients. One of the tools that we have developed is CoRI (Cost of Retirement Index), an online retirement planning tool which uses institutional analytics to create a simple and easy to use number setting out the cost today of £1 of income for life in retirement. CoRI is targeted at individuals aged 55-74 to translate pension

AT A GLANCE

BlackRock Investment Management

BlackRock is a worldwide leader in asset and risk management. BlackRock was founded in New York in 1988 by eight partners, five of whom remain active in the firm today. We have grown from a start up to a market leader. The foundation of BlackRock's business is our belief that our clients' needs are of paramount importance. Today we manage approximately £3.3 trillion for clients around the world.

We are now long established in the UK. Our largest European offices are in London and Edinburgh and. Our UK clients include corporate, public and multi-employer pension plans, corporates, insurance companies, charities, local authorities, mutual funds, and individual investors.

savings into estimated retirement income. Investor Pulse revealed that just three in ten are confident their savings and investments will ensure a comfortable retirement and four in ten are worried they will outlive their savings in retirement. CoRI is a tool to help people understand how to plan for their retirement and take into account their increased longevity. People consistently underestimate their life expectancy which can have a profound impact to their potential retirement income.

CoRI is intended to help investors and advisers quickly and effectively calculate their annual retirement income based on their savings. Investors can input their age and total retirement savings to receive a projected estimated annual retirement income.

Because CoRI delivers fast and tailored information it allows people to check in regularly, using their CoRI Index like a personal benchmark for retirement planning. This will leave them and their advisers in a better position to answer critical questions in the years leading up to retirement such as whether they are saving enough; whether they are appropriately invested for their goal; when they can retire; and once they retire whether they should drawdown income from investments, buy an annuity, take a cash lump sum, or a mixture. Most importantly it provides a benchmark for individuals to help them avoid running out of money.

Alongside CoRI, we have also recently introduced iRetire in the US. iRetire, which is based on CoRI, creates an intuitive and actionable interface to help clients understand the short and long-term trade-offs of different decisions as well as enabling a dynamic savings, investment and ultimately spending plan to be implemented.

Whether people will have enough for retirement should be a simple question but it is one that many struggle to answer today. The tools that we are creating for individuals should help bring clarity. Among regulators and legislators we are now seeing a drive to make financial services less opaque. We have recently seen the final report of the Financial Advice Market Review with its recommendations for simplified advice and guidance to make investment more accessible. We see industry initiatives such as our own as an important and complimentary part of empowering people to meet their saving and retirement goals.

> "We believe that it is essential to place the outcomes that people are seeking at the heart of developing our offerings as a product provider"

Neptune Investment Management

Robin Geffen, Founder & CEO of Neptune Investment Management

Neptune was founded in 2002 with the aim of providing investors with strong long-term performance based on a clear, simple and disciplined process. We do not use complicated financial products to achieve our goals, instead focusing on the change taking place in the world around us; in economies, business sectors and even in people's everyday lives. We call this "real world" research, which we believe helps us to select world class companies with bright and sustainable futures. Neptune manages a number of award-winning funds, with a focus on actively managed, high conviction equity portfolios. That is to say, if we like a company, we aren't afraid to hold significantly more of it than the benchmark index we are trying to beat.

Since I founded Neptune in 2002 the investment industry has changed significantly. UK investors now have a wide array of choice in how they can invest their assets. As Neptune has grown, I have always sought to ensure that our investment process evolves, whilst sticking to our core investment principles. This centres on our commitment to keeping global sector analysis and real world research at the heart of our investment process. We believe it is the correct sector-based decisions – combined with insightful economic research and focused stockpicking – that are the primary drivers of investment success. Over the past 14 years, I am proud that this process has achieved significant success for our clients.

The flexibility of a boutique

Our approach has been to offer fund managers the freedom to manage active portfolios with a high level of conviction. At many larger investment houses, decisions can be compromised by layers of bureaucracy. At Neptune, our entire investment team sits together around a bank of open plan desks enabling ideas to be shared and views challenged. We run a team-based process, in which our fund managers are able to draw on the expertise of our global sector specialists and analysts, but have the freedom to construct their own portfolios. We believe this enables us to deliver long-term outperformance as our portfolios only contain our very best ideas; we do not wish to over diversify nor to track a benchmark index.

Industry disruption

One of the biggest changes we are finding through our research is the impact that technological innovation is having on companies, sectors and even entire equity markets. For example, we see the rise of electric vehicles as having the potential to significantly disrupt the transport sector and the companies within it. Such is the pace of technological disruption that, in a decade's time, we believe we could even see companies that are currently index heavyweights ceasing to exist.

AT A GLANCE

Neptune Investment Management

- Founded in 2002 by Robin Geffen as an independent investment boutique
- Majority-owned by staff, aligning our interests with those of our clients
- 85 staff based at our headquarters in Hammersmith, London

Consider, for example, old-fashioned businesses such as washing machine detergent makers. Washing machine manufacturers are teaming up with Amazon to enable automatic re-ordering of detergent. Firms that can successfully negotiate these partnerships and protect their pricing point have the capacity to secure long-term recurring revenue. Those that cannot may face a grim future.

Reflecting our views on technology and its importance to future investment returns, in December last year we launched the Neptune Global Technology Fund under the management of Ali Unwin, our Chief Technology Officer who has great experience and expertise in the tech field, having previously worked on innovations at an internet research company and as a technology analyst. We believe that carefully selecting the technology companies that are positioned for this disruption will present a compelling opportunity for investors.

The active versus passive debate

To take advantage of the growth of industry disruptors, and avoid those that will be disrupted, we believe that active management is key. Whilst passive funds or "trackers" aim merely to replicate the performance of a benchmark, such as the FTSE All-Share, investors rely on active fund managers to try and beat these benchmarks consistently over the long term.

In order to do this, we believe that truly active managers must take significant positions in the parts of the market that they believe are best-placed to outperform. As conviction in what we do is such an important part of our business, we believe one of the most important debates on our industry at the moment, is around billions of pounds worth of assets in the UK invested in "closet-trackers." These are funds that charge actively managed fees, but do not attempt in any meaningful way to beat their benchmark. We believe this damages active management's reputation and distracts from the strong performance that companies like Neptune have delivered for their clients. This is why we were the first company in the UK to publish our active share (the degree to which a fund's holdings differ from its benchmark) on our monthly factsheets.

Summary

When I founded the company in 2002, we managed just three products, all focused on the global equity landscape. Within 12 months we had launched single-region funds investing in the UK, US, Europe and Japan. Neptune has continued to grow since then, maintaining a stable investment team over this period of growth. This is particularly exciting for me as, in our industry, the average fund manager lasts just over four years in any one job.

At Neptune, I have managed a range of our portfolios since the company's inception, whilst senior members of our investment team including Rob Burnett (Head of European Equities), Chris Taylor (Head of Japanese Equities), Mark Martin (Head of UK Equities) and Ewan Thompson (Head of Emerging Market Equities) have all been managing money at Neptune for more than eight years on average.

After enjoying significant growth during the 2003-2007 equity bull market, conditions have been more challenging in recent years in the aftermath of the financial crisis. However, against an improving global economic backdrop we believe our reputation as an independent, privately-owned boutique with a robust and repeatable investment process will continue to gain traction with clients and continue to deliver strong long-term performance.

» OUR REAL WORLD RESEARCH PROCESS

- Our investment team undertake real world research, visiting companies, policymakers and academics from the US to Japan
- Chief Economist & CIO James Dowey constructs a macroeconomic overlay, through which this research is viewed
- We manage eight internal Global Sector Conviction Lists. These highlight our highest conviction picks in each global industry sector and help our fund managers in the construction of their portfolios

» IMPORTANT INFORMATION

Rupert Atkin, Chief Executive of Talbot Underwriting

Talbot Underwriting

It was a miracle that Talbot Underwriting was formed at all. It was capitalised in very distressed circumstances in the weeks that followed the attack on the World Trade Center on September 11, 2001, an event that had a huge impact on global attitudes and behaviour, as well as on the Insurance industry. Very little capital was being raised at the time given the uncertain outlook in financial markets.

Aside from the tragedy of the event itself, the insured loss illustrated the folly of a focus on short term gain resulting in the ultimate pain of a loss so large that the capital provider withdrew and the previous business collapsed. However, those of us that had been voicing our discontent were given the oxygen and opportunity to create a new business that could thrive. The memory of that failure and the lessons we learned drives the culture and controls of Talbot today. I take great pride in its social as well as financial success. The culture in Talbot is highly valued by staff; we have very low staff turnover and far more people wanting work experience or permanent employment at Talbot than we can satisfy. I am fiercely protective of this culture if it is threatened by any of our employees.

"Securing the future together through excellence, innovation and teamwork"

Our vision statement "Securing the future together through excellence, innovation and teamwork" is informed by what the old business failed to do. It failed to give security both to our policyholders and to staff. A well-run insurance business must have a deep understanding of the classes of business it writes and there must be enough of them to avoid a concentration of exposure so disproportionate that it could render the business bankrupt.

Actuarial modelling is an indispensable tool to support the management of risk and one on which we and our regulators place heavy reliance. Modelling our portfolio allows us to write high-risk, high-return, volatile classes in a low-risk manner. The classes are largely uncorrelated, geographically diverse and balanced, without one class being so large that it could threaten the whole business.

However, the right people, training and culture are the bedrock upon which success is built. I always tell new joiners, "modelling is not a substitute for judgement". We never lose sight of our non-modelled exposure whatever the peril, be it earthquake, windstorm, or terrorism. We rely on the judgement and experience of our highly skilled people, as well as a culture that allows them to speak openly and without fear. The adversity and lessons from the past have fuelled present prosperity. This means that we are trusted by our clients, our staff, our regulators and our shareholders and are able to provide a secure future for our stakeholders.

AT A GLANCE

Talbot Underwriting

- $1.0bn Gross Premium Written 2015
- 27% average annual return on funds at Lloyd's since 2006
- 8 locations around the world
- 365 staff
- Staff turnover 11%

The Lloyd's Insurance Market

Lloyd's is a unique market. The companies in the market compete fiercely against each other but since much of the business is rarely written by one Syndicate, we also support each other's decisions. It is a market that specialises in complicated risks, often that others do not want, and this can involve in-depth negotiation before terms are agreed and supported. Personal face-to-face negotiation skills are vitally important. Each business seeks to differentiate itself through price, service and innovative products.

Talbot manages Syndicate 1183. We are the 11th largest by premium volume, despite deliberately removing ourselves from certain classes of business that form a large part of the market, such as Casualty Third Party Liability, which is not about physical loss or damage but instead protects against legal liability and is at the discretion of a jury or judge. Put another way, we are larger than 11th in many of those classes we choose to underwrite such as Terrorism, Construction and Energy business.

Talbot was one of a handful of businesses prepared to write Terrorism after 9/11 and now enjoys a dominant position in the marketplace in this class. We have shown that we are skilled risk takers prepared to offer coverage and a secure future to policyholders when nearly everybody else believed it to be uninsurable. These opportunities only emerge rarely, normally out of shock and the unexpected but the industry continues to respond to policyholder demand. Arguably cyber security – we are all familiar with the problems of hacking – is presenting a similar challenge and opportunity, due to the lack of historical data and fear of the unknown.

Public Perception and Trust

Insurers as a whole are poorly trusted by the public. Why is this? I believe it is due to the claims performance of policies bought by the general public, who may suffer from an isolated bad experience. A disputed settlement on a motor, travel or household claim, can tarnish the reputation of the whole industry for an individual policyholder. However, our product and service to the community resides also in policies that are claims free.

Insurance frees the client from uncertainty. Banks get capital relief by moving exposure onto insurers, mortgages are realised because the collateral is insured, cars can be driven, ships sailed and aircraft flown simply because insurance exists. Claims payment is a service where we pay out billions of dollars following earthquakes, floods, hurricanes and tsunami, helping overseas economies and families recover from natural disaster.

Our marketing as an industry has to improve. Talbot and Lloyd's are helping to change those perceptions, particularly among the communities in which we operate.

As part of our Corporate Social Responsibility programme, Talbot works with schools in Tower Hamlets, one of the poorest boroughs in the country and which sits adjacent to the affluence of the City. We offer work experience and mentoring support, and annually invite pupils into our offices where they learn about our business and the industry more generally. I ask them to remember one thing: that insurance is not just about houses and motor cars. Insurance provides security for the future and helps oil the wheels of the global economy.

LLOYD'S KEY FACTS

- Established 1688
- Financial Rating A+ (Strong) Standard & Poors
- More than 90 Syndicates
- More than 50 Managing Agents
- More than 200 Lloyd's brokers
- £25.3bn Gross Premium Written 2014

Source: www.lloyds.com

UK INSURANCE KEY FACTS

- 3rd largest insurance and long term savings industry in the world[1]
- 334,000 people employed in the industry[2]
- £1.9trn Total investments under management, equivalent to 25% of the UK's total net worth[1]
- £29bn contributed to UK GDP (2012)[2]
- £11.8bn taxes paid to the UK Exchequer[3]

Sources:
[1]Association of British Insurers
[2]Office for National Statistics
[3]PwC, Total Tax Contribution of the UK Insurance Industry

2015 GLOBAL INSURANCE KEY FACTS

- 1,060 Natural Catastrophes
- $90bn Total Losses
- $27bn Insured Losses

Source: Munich Reinsurance Company

Stuart Willson, founder and CEO

Willson Grange

Willson Grange Limited Chartered Financial Planners was founded in 2000 by Stuart Willson (CEO). With a staff of 50, the company is one of the most consistently high performing Principal Partner Practices within the St. James's Place Wealth Management Group, through which their clients currently have more than £300 million of managed assets.

For Stuart Willson, CEO of Willson Grange Chartered Financial Planners, business has, for the past 16 years, centred around 'wealth management' – offering financial advice that suits an individual's circumstances as their needs change over time. A relatively new profession, wealth management addresses a wide range of issues, from investment planning to deciding how much you need to save in order to retire comfortably. It can also be about dividing up pension entitlements on a divorce or separation, getting the right types and amounts of life and health insurance or estate planning.

"It's not surprising that most people don't know or understand about what a wealth manager actually does," says Stuart.

With male life expectancy rising from 70.8 years in 1980-82 to 79.1 years in 2012-14, and female life expectancy increasing from 76.8 to 82.8 years in the same period (National Life Tables, United Kingdom: 2012-2014), it's essential for people to plan their finances so they know they won't run out of their hard-earned money as they get older.

A wealth manager takes a holistic view of a person's finances – reviewing their situation at regular intervals, taking current needs into account and planning for future eventualities. It's a continual process that adapts to every stage of a person's life, offering them protection and a reassurance that their finances will serve them well for the rest of their life. Wealth management often also involves building a flexible and closely monitored portfolio to enable an individual to reach specific goals – again, taking into account a number of factors, from their personal circumstances to changing political or economic events.

In light of the recent global turmoil, for example, individuals looking for a better level of income realise that they must look beyond traditional methods of saving.

"We're currently spending quite a lot of time advising people on how best to manage their pensions," says Stuart. "With the new freedoms, pension pots have been made easier to access, but that doesn't mean it's straightforward, particularly in view of all the tax changes in recent Budgets.

"What we want to avoid, naturally, is for people to strip out their pension fund too quickly, so they're left with nothing. What's important is that we keep people in the loop, letting them know what the rules are and how their decisions will impact them further down the line."

AT A GLANCE

Willson Grange Limited

- CII Corporate Chartered Financial Planner status since 2008
- 50 staff
- Clients based throughout the UK
- Funds under Management (FuM) £300m-plus
- Available services include:
  - advice on investment management
  - inheritance and estate planning
  - tailored advice for retirement and later life
  - corporate financial planning
  - business succession planning
  - protection for families
  - advice during vulnerable or difficult circumstances, such as old age or divorce

Clear Vision

Having worked as an Independent Financial Adviser (IFA) since 1990, Stuart set up Willson Grange in 2000. Nine years later, with a handful of staff, he took Willson Grange into the St. James's Place Wealth Management Group as an appointed representative, and is now a Principal Practice.

Along with its distinctive investment management approach, St. James's Place (now a FTSE 100 company) would, Stuart considered, provide his clients with a superior level of service.

Willson Grange ensures that its clients receive advice on their financial planning needs. From there, St. James's Place uses independent fund managers to manage their clients' funds, and sees that they are reviewed on a daily basis. This means that:

- they have access to first-class managers from the global investment market (with the ability to change any of these managers at short notice if they have lost confidence in them, without any charges, or tax, or inconvenience to clients).
- clients are offered a real opportunity to diversify their investments by spreading their money across funds managed by different managers with different styles.

"People are definitely becoming more financially aware, and have come to understand the importance of investment planning," says Stuart. "With so many different factors affecting stability around the world, having a solid, respectable company like St. James's Place behind us has been crucial. With their analytical back-up, first-class fund managers and meticulous monitoring of funds, we believe we can be sure that we have the ultimate package for our clients, whatever their requirements."

Company Growth

Currently heading a 10-strong team of specialist Financial Advisers (FAs) and more than 40 support staff at the company's headquarters in Hoylake (Merseyside), Stuart has seen Willson Grange blossom from a small local business to a Principal Practice managing more than £300 million of client funds throughout the UK.

Wherever they are, the client-adviser relationship is key – being able to call upon the services of an adviser who understands personal circumstances enables clients to benefit from a source of trusted advice as financial needs evolve over the years.

Stuart's personal vision is for continued growth. Confident in his company's capabilities, he has bought a number of retiring advisers' (non-St. James's Place) businesses. It has been, as it turns out, a productive business move, and a win-win strategy:

- Hundreds of new clients have benefited from the responsive and well-researched financial planning service through Willson Grange and St. James's Place.
- Willson Grange has benefited from an expanded client base.
- Communities have benefited from the creation of new jobs, spin-off businesses and funds for charitable projects.

In summary

Willson Grange offers the ideal combination: a team made up of the highest-qualified and most experienced financial services professionals who comply with the company's Chartered status; a culture of first-class customer service; total adaptability to industry changes and responsiveness to clients' needs.

Wirral-based Willson Grange has blossomed from a small advisory firm to a UK-wide financial planning practice

"Success, for us, has been built on excellent relationships, traditional family values and a respect for the community in which we live and work"

Willson Grange Limited represents only St. James's Place Wealth Management plc (which is authorised and regulated by the Financial Conduct Authority) for the purpose of advising solely on the Group's wealth management products and services, more of which are available on the Group's website www.sjp.co.uk/products. The 'St. James's Place Partnership' and 'Partner Practice' are marketing terms used to describe St. James's Place representatives.

Graceful in defeat – David Cameron responds to the verdict of the EU Referendum

Eleven months after delivering the first outright Conservative General Election victory since 1992, David Cameron came to the Commons Dispatch Box as a lame duck Prime Minister, a caretaker who would remain in office only until his successor could be named. The Referendum vote to leave the EU had ended his career with brutal finality.

He was cheered by his MPs as he arrived in a packed Commons Chamber and he seemed remarkably good humoured. Moments before he rose, the newest MP, Rosena Allin-Khan, who had been elected to replace Labour's Sadiq Khan, the new Mayor of London, had been introduced. With mass resignations from Labour's Shadow Cabinet as the leadership crisis in the Opposition unfolded, he advised her to keep her phone on because she might be promoted by the end of the day.

Then he gave his response to the Referendum decision. 'It was not the result that I wanted, or the outcome I believe is best for the country I love but there can be no doubt about the result. Of course I do not take back what is said about the risks; it is going to be difficult…' He also promised that an upsurge in hate crime against migrants would be stamped out.

One of his key announcements was that he would not trigger the formal EU exit process – Article 50 of the Lisbon Treaty – and the timing of that decision and the nature of the future relationship Britain would seek with the EU were matters for his successor. He said he would take that message to the emergency European Council meeting that had been convened for the next day, to respond to the Brexit vote.

David Cameron's resignation speech outside 10 Downing Street

'Tomorrow will also provide an opportunity to make the point that although Britain is leaving the European Union we must not turn our back on Europe or the rest of the world,' he added.

For Labour, Jeremy Corbyn – accused of fighting a lacklustre referendum campaign – said his party had put

With the upheaval caused by the UK's European referendum, many questions are still to be answered

forward a positive case for Remain and had convinced two thirds of its supporters. He said people in many communities felt disenfranchised and powerless because they had been failed, not by the EU, but by Tory governments.

He complained that the campaign had been marked by untruths and half-truths and added, in a pointed rebuke, that 'the country will thank neither the Government benches in front of me nor the Opposition benches behind for indulging in internal factional manoeuvring…' – an observation that provoked a blast of scorn from Tory and SNP MPs, and silence from the Labour benches.

With Scotland having voted to remain in the European Union, the SNP's Westminster Leader, Angus Robertson, said the Scottish Government would seek to protect Scotland's place. 'We are a European nation and it really matters to us that we live in an outward-looking country, not a diminished little Britain.'

The Liberal Democrat Leader, Tim Farron, said he still passionately believed British interests were best served by being at the heart of Europe. A few moments later his predecessor, the former Deputy Prime Minister, Nick Clegg, said it could not be right that the Conservative Party members who would elect Mr Cameron's replacement would, in effect, choose a new Government. Surely, he said, there should now be a General Election?

A series of Conservative Leave campaigners, the veteran Sir Bill Cash, the former Cabinet Minister, Owen Paterson, and others praised the Prime Minister for holding the referendum, a line also taken by UKIP's sole MP, Douglas Carswell, who was heavily heckled as he warned that the task of implementing Brexit could not be left to 'Europhile mandarins' and called for prominent Leave campaigners to be involved – a comment which provoked a backbench shout of 'Yeah Farage.'

This was the first of what will doubtless be scores of Commons statements on the Brexit process – they will become a fixture in Parliament for years to come.

Trident Submarine Renewal

The first Commons outing for a new Prime Minister is normally a great occasion in its own right, but Theresa May's debut, following the withdrawal of her final opponent in the Conservative leadership race the week before, was overshadowed by a spectacular outbreak of Labour infighting.

She was moving a motion to confirm plans for a multi-billion pound programme to replace the submarines which carry the UK's Trident Missile nuclear deterrent – a move which underlined her personal commitment to Trident renewal which, she said, was essential to national security.

She was challenged by the SNP's George Kerevan who asked if she, personally, would order a nuclear strike which would kill 100,000 innocent men, women and children. Her response was a blunt, unadorned 'Yes'. A nuclear deterrent was pointless if a government was not willing to use it, she added.

She had open support from Labour backbenchers including John Woodcock, MP for the submarine-building seat of Barrow and Furness… 'Whatever she is about to hear from our Front Benchers, it remains steadfastly Labour Party policy to renew the deterrent while other countries have the capacity to threaten the United Kingdom and many of my colleagues will do the right thing for the long-term security of our nation and vote to complete the programme that we ourselves started in Government.'

The Prime Minister answered with an approving quote from Labour's manifesto, which said Britain must remain 'committed to a minimum, credible, independent nuclear capability, delivered through a Continuous At-Sea Deterrent'.

The Green MP, Dr Caroline Lucas, said the UK's nuclear weapons drove nuclear proliferation. Theresa May did not accept that at all – and she took a direct swipe at Dr Lucas. 'Sadly, she and some Labour Members seem to be the first to defend the country's enemies and the last to accept these capabilities when we need them.'

The Labour Leader, Jeremy Corbyn, questioned the 'ever-ballooning ' cost of Trident renewal – but for him the central issue was this 'Do these weapons of mass destruction – for that is what they are – act as a deterrent to the threats we face and is that deterrent credible?'

Unlike the Prime Minister he was not prepared to press the nuclear button. 'I would not take a decision that killed millions of innocent people. I do not believe that the threat of mass murder is a legitimate way to go about dealing with international relations.'

Mr Corbyn faced repeated challenges from his own MPs. Angela Smith noted he was 'Fond of telling us all that the Party Conference is sovereign when it comes to Party policy. Last year the Party Conference voted overwhelmingly in favour of maintaining the nuclear deterrent, so why are we not hearing a defence of the Government's motion?' Mr Corbyn retorted that Labour's policy was under review, provoking more shouts from Labour MPs.

The bombardment continued. The former Defence Minister, Kevan Jones, compared Labour's defence review to the mythical unicorn; people believed it existed but no-one had ever seen it. Former Shadow Armed Forces Minister, Toby Perkins, said the case for not replacing Trident had fallen apart. Former Shadow Defence Secretary, Vernon Coaker, said Britain could not abandon its responsibilities as a senior member of NATO.

The SNP's Westminster Leader, Angus Robertson, said the people

The UK's Trident Missile nuclear deterrent was one of the first issues Theresa May faced as the UK's new Prime Minister

The Government voted in favour of the renewal of Trident

HMS Vanguard returning to Faslane, Scotland

of Scotland had repeatedly shown their opposition to Trident renewal – and he added 'The Government have a democratic deficit in Scotland and, with today's vote on Trident, it is going to get worse, not better. It will be for the Scottish people to determine whether we are properly protected in Europe and better represented by a government that we actually elect. At this rate, that day is fast approaching.'

The vote to bomb ISIL in Syria

The Commons surprise vote in August 2013 rejecting armed intervention in the civil war in Syria was undoubtedly David Cameron's worst-ever parliamentary defeat. That moment reverberated when, two years later in the wake of the Paris attacks, he returned to the Commons with a motion to allow British forces to strike at ISIL, or Daesh, in Syria.

He warned MPs that ISIL was plotting Paris-style attacks against Britain and had already targeted this county. 'We face a fundamental threat to our security. ISIL has brutally murdered British hostages. They have inspired the worst terrorist attack against British people since 7/7 on the beaches of Tunisia and they have plotted atrocities on the streets here at home. Since November last year our security services have foiled no fewer than seven different plots against our people, so this threat is very real. The question is this: do we work with our allies to degrade and destroy this threat and do we go after these terrorists in their heartlands from where they are plotting to kill British people, or do we sit back and wait for them to attack us?"

He was attempting to rally all-party support for the use of British forces in Syria – they were already launching

airstrikes against ISIL in neighbouring Iraq – but many Labour MPs were fuming about remarks he had made the previous evening to a meeting of Conservative MPs, when he suggested people who voted against airstrikes were 'terrorist sympathisers'. He faced repeated challenges to withdraw and apologise – but stuck to a formula that unity was needed and that it was time to move on.

One focus for questions was the Prime Minister's claim that there are 70,000 moderate Syrian opposition fighters who could act as a ground force against ISIL while the UK gave air support. Under questioning from the SNP's Westminster Leader, Angus Robertson, he said he was not arguing that all of those 70,000 were ideal partners but if action was not taken now, those forces would soon be reduced.

Another issue was the position of Labour MPs. In 2013, the Opposition Leader at the time, Ed Miliband, had not been prepared to back the Government. By 2015, a combination of horror at the brutality of ISIL and at the Paris attacks meant there were many who supported the use of armed force and would defy any attempt to make them vote against it. Crucially, their number included the Shadow Foreign Secretary, Hilary Benn.

Jeremy Corbyn was opposed to extending the bombing but, under huge pressure, had allowed his MPs a free vote. 'It is impossible to avoid the conclusion that the Prime Minister understands that public opinion is moving increasingly against what I believe to be an ill thought out rush to war. He wants to hold this vote before opinion against it grows even further.'

Another key force in the debate was the Commons Foreign Affairs Select Committee which had earlier published a report raising a series of questions

Hilary Benn took the opposite view to Labour leader Jeremy Corbyn over intervention in Syria

about any intervention which the Prime Minister was careful to answer in detail. Its Chair, the Conservative Crispin Blunt MP, said Britain's military effort in Iraq had helped stabilise the country in the face of a rapidly advancing threat from ISIL and he now supported extending that effort to across the border into Syria.

The ensuing debate produced a series of passionate speeches – the Liberal Democrat Leader, Tim Farron, gave an emotional description of his experiences visiting refugees who had made the risky journey to Greece. 'A seven-year-old lad was lifted from a dinghy on the beach at Lesbos. My Arabic interpreter said to me, 'That lad has just said to his Dad, "Daddy are ISIL here? Daddy are ISIL here?"'

Tim Farron, Liberal Democrat Leader

Winding up the debate for Labour was Hilary Benn who took the opposite view to Jeremy Corbyn. 'The carnage in Paris brought home to us the clear and present danger that we face from Daesh. It could just as easily have been London, Glasgow, Leeds or Birmingham and it could still be.' He said the UK could not leave its defence to others and asked what message inaction would send to Britain's allies – France, in particular.

He listed some of their atrocities: the gay men thrown off the fifth storey of a building in Syria, the mass graves in Sinjar said to contain the bodies of older Yazidi women murdered by Daesh because they were judged too old to be sold for sex, the killing of 30 British tourists in Tunisia, 224 Russian holidaymakers on a plane, 178 people in suicide bombings in Beirut, Ankara and Suruç and of 130 people in Paris 'including those young people in the Bataclan, whom Daesh, in trying to justify its bloody slaughter, called apostates engaged in prostitution and vice. If it had happened here they could have been our children.

'We are faced by fascists – not just their calculated brutality but their belief that they are superior to every single one of us in this Chamber tonight and all the people we represent. They hold us in contempt. They hold our values in contempt. They hold our belief in tolerance and decency in contempt. They hold our democracy – the means by which we will make our decision tonight – in contempt… My view is that we must now confront this evil. It is now time for us to do our bit in Syria. That is why I ask my colleagues to vote for the motion tonight.'

While Jeremy Corbyn folded his arms and looked away, Mr Benn sat down to rapturous cheers and even applause from both sides of the House. A few minutes later the Government motion was carried with 66 supporters from the Labour benches outweighing the seven Conservative opponents.

MPs pay tribute to their murdered colleague, Jo Cox

Tributes to Jo Cox MP

On Thursday 20 June, a week before the EU Referendum, campaigning was in full swing – the usual cycle of attack, rebuttal and counter attack was being played out. Suddenly the political world shuddered to a halt as news emerged of the brutal murder of the Labour MP, Jo Cox, outside a constituency surgery in her Yorkshire seat.

The House of Commons had been in recess for the Referendum, and was recalled to pay tribute the following Monday. The chamber was packed but the seat normally occupied by Jo Cox was left empty, except for two roses – Labour's red rose and the white rose

of Yorkshire. In the gallery, Mrs Cox's husband Brendan sat with their two young children and members of their family.

MPs wore white roses and several women Labour members were dressed in the suffragette colours of purple and green. Some MPs wept quietly as the Speaker, John Bercow, opened proceedings 'We meet today in heart-breaking sadness but also in heartfelt solidarity… all of us who came to know Jo during her all too short service in this House [she had been elected in 2015] became swiftly aware of her outstanding qualities, she was caring, eloquent, principled and wise.

'Jo was murdered in the course of her duties, serving constituents in need… An attack such as this strikes not only at an individual but at our freedom.'

The Labour leader, Jeremy Corbyn, agreed the murder was an attack on democracy and he quoted from Jo Cox's maiden speech when she told the Commons 'We are far more united and have far more in common with each other than things that divide us'.

David Cameron said the House could best honour her memory 'by proving that the democracy and freedoms that Jo stood for are indeed unbreakable, by continuing to stand up for our constituents and by uniting against the hatred that killed her, today and forever more'.

Tributes were paid from all sides, in a short sitting, which was followed by a memorial service at St Margaret's, the parish church of Parliament. The Labour MP, Rachel Reeves urged colleagues 'to carry on Jo's work and guard against hatred, intolerance and injustice and to serve others with dignity and love…. Batley and Spen will go on to elect a new MP, but no-one can replace a mother'.

Jo Cox's maiden speech to Parliament: 'We are far more united than the things that divide us'

Jo Cox had been a leading figure in several all-party groups – the Conservative former International Development Secretary, Andrew Mitchell, served with her, as co-chair of the Friends of Syria, making common cause, as he put it, 'with a crusty old Tory'.

The Labour MP, Stephen Kinnock, had shared an office with Jo Cox. He spoke first of the unspeakable personal suffering her murder had brought on her family. He said Jo Cox would have been outraged by a poster unveiled on the morning of her death by the UKIP leader, Nigel Farage, showing a queue of migrants 'A poster on the streets of Britain that demonised hundreds of desperate refugees… She would have responded with outrage and with a robust rejection of the calculated narrative of cynicism, division and despair – because Jo understood that rhetoric has its consequences. When insecurity, fear and anger are used to light a fuse, an explosion is inevitable'.

The Lords reject the Government's Tax Credit changes

The Government lost more than 50 votes in the House of Lords in the first year of the 2015 Parliament – but by far the most significant, both in terms of the money involved and of the constitutional aftershocks, was the Peers' rejection of controversial plans to cut tax credits – the benefits used to top-up the incomes of low-paid workers.

Peers are not supposed to meddle in financial matters but this measure was not part of a finance bill. Instead it was put forward in an order, or statutory instrument, issued under existing legislation, which meant it was both un-amendable and subject to a one-off vote.

Faced with claims that the order would cost the poorest families thousands of pounds a year, the Lords passed a Labour motion calling on ministers to postpone the cuts and provide extra support for those affected, for a three-year transitional period. The result was to throw the Chancellor's financial strategy into chaos, because it removed £4.4bn of savings.

George Osborne immediately warned that the vote raised constitutional issues and shortly afterwards the Government commissioned Lord Strathclyde, a former Leader of the House of Lords, to review the powers of the Upper House.

The debate began with the Leader of the House, Lady Stowell, defending the plans. She said spending on tax credits had risen from £4bn to £30bn and the bill was no longer sustainable, warning that interference in a key budget measure would overstep the conventions which prevent the Lords from overriding the tax and spending decisions of the elected Commons.

'In our manifesto, my Party made it clear that reducing the deficit would involve difficult decisions, including finding savings of £12bn from the welfare budget. The regulations that

The interior of the House of Lords

we debate today deliver no less than £4.4bn of those savings next year alone,' she explained.

That argument was challenged by Lord Campbell-Savours, a Labour peer and former MP. 'When the Prime Minister said at the last general election that an incoming Conservative government would not cut tax credits – child tax credits – was he telling the truth or was he deliberately misleading the British people?' Lady Stowell retorted that the Conservatives had been very clear in their manifesto that they would aim to make welfare savings of £12bn and that working-age benefits would be targeted.

There were four amendments in front of Peers: the Liberal Democrat Lady Manzoor had put down a 'fatal motion' which would stop the changes; the second and third introduced delays. The fourth – from the Bishop of Portsmouth – simply expressed regret at the policy. All but the last, Lady Stowell warned, would challenge the primacy of the Commons on financial matters.

Lady Manzoor said 4.9 million children would be affected by the cuts to tax credits. 'We have a duty in this House to consider our constitutional role but we also have a duty to consider those affected by the decisions we make and the votes we cast.'

She went on to say that it was wrong to enact such a major change via 'a statutory instrument, a tool designed for minor changes to processes and administration, being used to implement a substantial change in policy that will affect millions of people's livelihoods. That is not my decision but I hope that we will do everything we can to stop it'.

The second amendment was from the crossbencher, Lady Meacher, who

Baroness Stowell argued that tax credits 'will remain an important part of the welfare system'

wanted to delay the changes. 'The lowest income families, stand to lose more than £20 a week. For one of us this can mean a meal in a restaurant. For a poor working family it can mean a pair of shoes for a child who comes home from school crying because their toes are hurting in shoes that are too small, or money to feed the meter to keep the family warm.'

The Labour former Work and Pensions Minister, Lady Hollis, proposed the third amendment which would postpone the cuts for three years while transitional protection was brought in. She dismissed talk of constitutional crisis. 'We can be supportive of the Government and give them what they did not ask for – financial privilege – or we can be supportive instead of those three million families facing letters at Christmas telling them that on average they will lose up to around £1,300 a year.'

The Conservative former Chancellor, Lord Lawson, supported the changes and insisted peers had no right to reject them but he wanted reform of the whole tax credits system because too much money went to well-off families. 'It is perfectly possible to tweak it to take more from the upper end of the tax credit scale and less from the lower end,' he said.

Lord Lawson, former Chancellor of the Exchequer

The Hillsborough inquest verdict

The 96 remembered at Hillsborough

When an inquest jury ruled that the 96 Liverpool football fans who died at Hillsborough on April 15th 1989 had been unlawfully killed and that mistakes by the police and ambulance services had caused or contributed to their deaths, the Home Secretary, Theresa May, came to the Commons to announce the Government's response in an emotionally-charged statement to the House.

The new inquest had been ordered following the devastating findings of the Hillsborough Independent Panel, chaired by Bishop James Jones, which had re-examined the evidence. Its revelations that witness statements by police officers had been altered were so significant that it led to the new inquest and to two major criminal investigations. With 296 days of hearings it had been the longest inquest in British legal history.

Theresa May said that the findings 'Overturns in the starkest way possible the verdict of accidental death returned at the original inquests. However, the jury's findings do not, of course, amount to a finding of criminal liability and no one should impute criminal liability to anyone while the ongoing investigations are still pending'.

She praised the families and survivors, who had never accepted official accounts which laid the blame on Liverpool fans. 'They have faced hostility, opposition and obfuscation and the authorities, which should have been trusted, have laid blame and tried to protect themselves instead of acting in the public interest.' As some MPs wiped away tears, she added 'No-one should have to suffer the loss of their loved ones through such appalling circumstances and no-one should have to fight year after year, decade after decade, in search of the truth'.

Labour's Shadow Home Secretary, Andy Burnham, said the inquest jury had delivered a 'simple, clear, powerful and emphatic' verdict. 'But it begged the question: how could something so obvious have taken so long? There are three reasons: first, a police force that has consistently put protecting itself over and above protecting people harmed by Hillsborough; secondly, collusion between that force and a complicit print media; and thirdly, a flawed judicial system that gives the upper hand to those in authority, over and above ordinary people.'

He said a similar inquiry was now needed to clear up what had happened at Orgreave during the

1980s Miners' Strike and his final words, about the families of the 96, produced applause from MPs. 'They have kept their dignity in the face of terrible adversity. They could not have shown a more profound love for those they lost on that day. They truly represent the best of what our country is all about. Now it must reflect on how it came to let them down for so long.'

The Conservative, Bob Neill, who chaired the Commons Justice Select Committee asked the Home Secretary to look at creating a mechanism to ensure 'proper equality of arms,' between the families of disaster victims and the authorities in dealing with inquests and legal proceedings.

The former Lord Mayor of Liverpool, Steve Rotherham, – one of several MPs at Hillsborough that day – said the Liverpool fans had always known they were not to blame. 'It took political intervention to force the judicial process of this country to take 27 years to recognise what we knew from day one – that Hillsborough was not an accident… that drunken and ticketless fans did not turn up late, hell-bent on getting in and that it was not caused by a drunken "tanked-up mob".'

The Liberal Democrat, Greg Mulholland, said the families of victims had been treated appallingly in the aftermath of the disaster.

Theresa May, speaking as Home Secretary

'We saw police officers sitting eating chicken and chips in the gymnasium as the bodies were lying there, while families were told that they could not hug their loved ones in body bags because they were the property of the coroner. Worst of all, the initial coroner forced alcohol testing on all these victims – including children such as 10-year-old Jon-Paul Gilhooley – of this unlawful disaster. That was a disgrace, and we want to know that it will never happen to a single victim again.'

An unexpected Leader of the Opposition

When the Speaker called on Jeremy Corbyn, as Leader of the Opposition, at Prime Minister's Question Time (PMQ), it was the first time in 30 years in the Commons that the veteran left-winger had spoken at the Dispatch Box. Unlike the three rival candidates he had defeated so conclusively in Labour's leadership election, he had never been a minister or shadow minister still less sat in Cabinet or Shadow Cabinet.

Jeremy Corbyn took a different approach at his first PMQs, tackling former PM David Cameron with crowdsourced questions

He was facing a Conservative Leader who had been one of the main players in PMQs for a decade and who had coached previous Tory Leaders on how to handle it for years before that. Things were about to change, Labour's new leader wanted a different kind of PMQs, led by the concerns of the public – and he received 40,000 replies when he asked people to email him with their questions for David Cameron.

'I have taken part in many events around the country and had conversations with many people about what they thought of this place, our Parliament, our democracy and our conduct within this place,' he explained. 'Many told me that they thought Prime Minister's QuestionTime was too theatrical… and that they wanted things done differently but above all they wanted their voice to be heard in Parliament.'

The result was something quite different, dominated by bread-and-butter issues but with little of the familiar professional political fencing – at least at first. The opening question was from a woman called Marie who wanted to know what the Government intend to do about the 'chronic lack of affordable housing and the extortionate rents charged by some private sector landlords'.

David Cameron observed parliamentary protocol and congratulated Mr Corbyn on his resounding leadership election victory and he welcomed the idea of a new style at PMQs. He agreed more affordable housing was needed but added that the record of the Governments he had led was better than that of the previous Labour Government.

Mr Corbyn followed up with questions from Steven, on social rents and from Paul and Claire, on cuts to tax credits– a subject raised in a thousand of his emails – that he warned would cost families up to £1,300 per year and was 'absolutely shameful,' he said. The strategy was to continue; by his hundredth question, in March 2016, he had asked about health issues in 25 of them, welfare in 24, housing in 16 and education in five; it was a far less Westminster-centric approach.

Those first exchanges were courteous and careful as the two circled one another. It was left to the leaders of two of the smaller parties in the Commons to insert a couple of barbs. The first came from the SNP's Westminster Leader, Angus Robertson, who said he was looking forward to working with the new Labour Leader to oppose Tory austerity and fight against renewal of the Trident nuclear missile submarines – a highly divisive issue among Labour MPs, most of whom do not share their leader's unilateralist views.

Then, the Leader of the DUP at Westminster, Nigel Dodds, raised Mr Corbyn's key appointment to Labour's front bench team, his veteran left-wing ally, John McDonnell, as Shadow Chancellor. Mr Dodds pointed to the plaques by the entrance to the

Chamber in memory of Airey Neave, Robert Bradford, Ian Gow and Sir Anthony Berry – MPs murdered by terrorists. He added 'The Opposition Leader has appointed a Shadow Chancellor who believes that terrorists should be honoured for their bravery. Will the Prime Minister join all of us, from all parts of this House, in denouncing that sentiment and standing with us on behalf of the innocent victims and for the bravery of our armed forces who stood against the terrorists?

That produced loud "Hear, hears' and the Prime Minister replied that Mr Dodds had spoken for the vast majority of people in Britain. 'My view is simple, the terrorism we faced was wrong… The death and the killing was wrong. It was never justified and people who seek to justify it should be ashamed of themselves.'

That flash of steel was a harbinger of the Prime Minister's increasingly dismissive treatment of the Labour Leader in later PMQs – culminating in his advice to Mr Corbyn to 'put on a decent suit'.

Nigel Dodds, Deputy Leader of the Democratic Unionist Party (DUP)

Responding to the Chilcot Report on the Iraq War

It had been a long time coming, and the Parliamentarians in both Lords and Commons had complained about the time taken by Sir John Chilcot to produce his report on the decision to go to war in Iraq. When it did arrive, seven years after he started work, his two million word verdict provoked cross-party soul-searching and recrimination.

Sir John concluded that the UK went to war before the peace process was exhausted, that the intelligence on which the decision was based was flawed and that the planning for the aftermath was inadequate. The Prime Minister, David Cameron, responded with a Commons statement – he began by addressing the families of the 179 British servicemen and women and 23 British civilians who died in the conflict. 'In their grief and anger, I hope they can draw at least some solace from the depth and rigour of this report and, above all, some comfort from knowing that we will never forget the incredible service and sacrifice of their sons, daughters, husbands and wives.'

He turned to the keystone of the argument for war in 2003. 'Central to the Government's case was the issue of weapons of mass destruction. Sir John finds that there was an "ingrained belief" genuinely held in both the UK and US Governments that Saddam Hussein possessed chemical and biological capabilities.' The evidence for that belief, he found, was not properly examined.

Mr Cameron voted for military action as a Conservative backbencher, in 2003. He said lessons needed to be learned – and the first was that 'taking the country to war should always be a last resort and should only be done if all credible alternatives have been exhausted'. He then added that the British people should not, in future, recoil from any military intervention. 'There are unquestionably times when it is right to intervene, as this country did successfully in Sierra Leone and Kosovo… there have been times in

Tony Blair, Prime Minister during the invasion of Iraq

UK troops in action in Iraq

the recent past when we should have intervened but did not, such as in failing to prevent the genocides in Rwanda and Srebrenica.'

The Labour Leader, Jeremy Corbyn, who voted against military action in 2003, was heckled by some of his MPs when he condemned the invasion. 'Frankly, it was an act of military aggression launched on a false pretext, as the inquiry accepts, and has long been regarded as illegal by the overwhelming weight of international legal opinion. It led to the deaths of hundreds of thousands of people and the displacement of millions of refugees… By any measure, the invasion and occupation of Iraq have been, for many, a catastrophe.'

In what many took to be a veiled reference to Tony Blair he added. 'We now know that the House was misled in the run-up to the war and the House must now decide how to deal with it 13 years later.'

The Chilcot inquiry published more than 200 memos from Tony Blair to President George Bush. The Leader of the SNP at Westminster, Angus Robertson, pointed to one which he thought was particularly telling. 'On 28 July 2002, Tony Blair wrote to President Bush saying I will be with you, whatever.'

His point about the real reason for the invasion was picked up by the senior Conservative, David Davis. 'The aim was regime change, not WMDs. That fact, and the fact that, as Sir John Chilcot says, Blair's commitment made it very difficult for the UK to withdraw support for military action, amount to a deception and a misleading of this House of Commons. It is not the only one. Sir John has been very careful about avoiding accusing the former Prime Minister of lying to the House but a lot of the evidence suggests that he did. What action can this House take to deal with that?'

David Cameron and the Panama Papers

The publication of the Panama Papers, a massive cache of documents detailing the tax-avoidance activities of thousands of people across the world, became a personal crisis for the Prime Minister, David Cameron, when his late father's name cropped up.

The leak was from the world's fourth biggest offshore law firm, Mossack Fonseca, and documented the activities of more than 200,000 companies holding property and bank accounts in offshore tax havens like the British Virgin Islands. No-one suggested that the Prime Minister's father had done anything illegal; Ian Cameron had run an offshore fund through Mossack Fonseca that avoided British taxes for thirty years.

Faced with rising anger about the extent to which rich people could avoid taxes, David Cameron released a summary of his tax returns for the previous six years, plus details about money inherited and given to him by his family, his salary, the support received as Leader of the Conservative Party, the income from the renting out of his home and the interest on his savings. The Chancellor, George Osborne, followed suit and the Labour Leader, Jeremy Corbyn, published his tax return. The Prime Minister made a statement to the Commons, as soon as the House returned from its Easter break.

He was not suggesting all MPs would have to publish the same information, arguing that since the Prime Minister, the Chancellor and their Labour opposite numbers were, or wanted to be, responsible for the nation's finances, they were a special case.

He accepted criticism of the way he'd handled questions about his finances

Labour MP Dennis Skinner was thrown out of Parliament for labelling the Prime Minister over his personal finances.

but told MPs he'd been angry about the way his father's memory was being traduced 'I want to put the record straight. This investment fund was set up overseas in the first place because it was going to be trading predominantly in dollar securities so, like very many other commercial investment funds, it made sense to be set up inside one of the main centres of dollar trading.'

He added that pension funds, along with other institutions, invested in offshore funds and that, from now on, most British overseas territories which are tax havens will share information with the UK authorities.

Jeremy Corbyn said the Panama Papers had 'driven home what many people have increasingly felt: that there is now one rule for the super-rich and another for the rest. I am honestly not sure that the Prime Minister fully appreciates the anger that is out there over this injustice... with families lining up at food banks to feed their children, disabled people losing their benefits, elderly care cut

and slashed and living standards going down. Much of that could have been avoided if our country had not been ripped off by the super-rich refusing to pay their taxes'.

The leader of the SNP at Westminster, Angus Robertson, also complained that the rules for normal taxpayers were different from those 'for a small ultra-rich elite' but he focused on the UK's 'particular responsibility' for dealing with tax avoidance in its overseas territories and dependencies.

Andrew Tyrie, the influential Conservative Chair of the Treasury Select Committee said there was 'no point in moralising' about legal tax avoidance – what was needed was action to close loopholes in the law and tax simplification to ensure there were are fewer of them.

Meg Hillier, the Labour ex-minister who chairs the powerful Public Accounts Committee (PAC), said the publication of the Panama Papers 'shone sunlight on areas where some people did not want it to go and she called for more corporate tax transparency. That theme was picked up by her predecessor at the PAC, Margaret Hodge, who had led a high profile inquiry into tax avoidance by multi-nationals. She wanted assurance that HMRC would have access to the register of companies operating in British Crown dependencies.

A Conservative former minister, Sir Alan Duncan, accused the Prime Minister's critics of hating 'anyone who has even a hint of wealth in their life… we risk seeing a House of Commons that is stuffed full of low achievers who hate enterprise and hate people who look after their own family and who know absolutely nothing about the outside world'. The Prime Minister may not have found that entirely helpful, saying 'I do not want us to discourage people who have had a successful career in business or anything else from coming into this House and making a contribution'.

Labour veteran, Dennis Skinner, said the Prime Minister had failed to answer questions about a taxpayer-subsidised mortgage and to Conservative fury he added 'Maybe Dodgy Dave will answer it now'. The Speaker immediately stepped in to ask him to withdraw the word 'Dodgy' but Mr Skinner was unrepentant 'This man has done more to divide this nation than anybody else and he has looked after his own pocket. I still refer to him as Dodgy Dave'. Moments later he was ordered from the Chamber.

The Commons votes down an attempt to loosen the Sunday Trading Laws

When the Government proposed a relaxation in the Sunday trading rules in England and Wales it created a rare political conjunction. Much has been written about David Cameron's narrow majority but for him to actually lose a vote in the Commons requires an issue that unites Labour, the SNP, most of the minority parties and a significant number of Conservative MPs.

The proposals in the Enterprise Bill, which would have given local councils powers to relax restrictions on Sunday trading, provoked just such a combination. In a late addition to the

The Enterprise Bill would have relaxed restrictions on Sunday trading

Bill ministers wanted to give councils a new power to extend Sunday trading hours beyond the current six-hour limit for larger stores.

Opponents struck when the Bill reached its Commons Report Stage, the point when all MPs have a chance to consider amendments – including the Government's addition on Sunday Trading. Conservative opposition was led by an influential backbencher, David Burrowes, who said he was all in favour of the Bill's central aim of cutting red tape and freeing business but this was a step too far.

He feared an 'inevitable domino effect, of a race to the bottom, if local authorities get hold of the powers' and that once one had extended Sunday trading hours, neighbours would be forced to follow. He was, however, challenged by a Conservative colleague, Robert Jenrick, who said people should have the right to shop when they wanted. Mr Burrowes retorted that he had been listening to his constituents. 'I am not sure whether he has looked at his mailbag but I have looked at mine and many shop workers, faith groups and others have asked me, "Why are we doing this? Why are we trying to unpick something that is fairly settled, even if it is not perfect?"'.

He received unaccustomed support from Labour MPs. Joan Ryan noted that 49% of retail workers were parents or carers 'and their Sunday is special to them'. Jim McMahon, newly arrived in Westminster after a by-election in Oldham, reminded MPs that he had been a member of the Greater Manchester Combined Authority which the Government consulted on the devolution of Sunday trading powers. 'I can categorically say that those powers were not asked for or requested; they were forced on that body.'

Sensing trouble, the Government had offered to restrict the change to 12 pilot areas – but the Speaker had declined to select for debate the last-minute amendment offered by ministers, on the grounds that it had been put down too late.

Brandon Lewis MP describes trading laws as outdated with the rise of online businesses such as Amazon

That left the Minister for Housing and Planning, Brandon Lewis, in the uncomfortable position of asking his opponents to back down, on the promise that he would change the Bill later… 'An evaluation of this exploratory phase will be published. We are circulating a draft for colleagues to consider and I will be asking them to support… which will then allow us to do this in the House of Lords.'

He said that the laws on trading in England and Wales were last updated in 1994. 'Back when the only time we heard of Amazon was when we talked about the river and back when our high streets faced no external pressures. The internet is liberating and changing the way we live and work but the pressures on our high streets are rising and the internet plays a part in that. Our measures will help them by giving local councils the right to expand Sunday trading.'

That brought a scornful response from the SDLP's Mark Durkan. 'He is trying to tell us that he is selling on some sort of deferred click and collect basis – an option that is not available or in front of us today. Is the Minister not pushing something that will be a predictive text version of public policy that will end up becoming the default position for local authorities, firms and workers who do not want it?'

A Government defeat had looked likely ever since the SNP announced its intention of opposing the Sunday Trading proposal. Eyebrows had been raised because the change wouldn't affect Scotland where there is no similar Sunday trading restriction – but their spokeswoman, Hannah Bardell, was concerned about the knock-on effect. 'The shop workers trade union, USDAW… has warned that the implication of the legislation, without safeguards, is that premium pay for Scottish workers, and indeed workers across the UK, will be threatened by erosion.'

When the issue was put to a vote the Government lost by a margin of 31: In the end 26 Conservative MPs lined up with the Opposition – prompting the Shadow Business Secretary, Angela Eagle, to ask if the Government would 'respect the will of this House and abandon their tawdry attempts to reintroduce this proposal?'

The Business Secretary, Sajid Javid, said the defeat was 'disappointing' and that more flexibility on Sunday Trading would have helped protect jobs in 'struggling local businesses'. He accused the SNP of 'childish and hypocritical actions… They seek to deny English and Welsh shoppers the same freedoms that are enjoyed in Scotland and although they are a party built on the principle of devolving powers from Whitehall, they deliberately stand in the way of a measure that does just that'. Later, the Government confirmed it would not seek to overturn the vote.

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