The City is a natural partner for policymakers - including Labour ones

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The financial services industry can contribute both to levelling up and to a transition to a net zero carbon economy, says ***Huw Evans***

Labour in the City hasn't had the easiest pitch to sell in recent years but, as Keir Starmer's team develops its thinking, Labour has a vital role to play in nurturing new ideas and enabling financial services to contribute fully to public policy development.

Although the next General Election may be four years away, there is never a bad time to seek cross-party support for some of the ways forward. Whether it wins the next election or not, Labour must turn its attention to the three huge challenges of post-pandemic economic recovery, transition to net zero and maximising the benefits of having left the EU.

The last General Election was won with commitments of 'levelling up' across the UK. The COVID-19 crisis, and varied approach to local and regional restrictions, has amplified appeals for further devolution and investment in communities across the UK. As an industry that employs over 300,000 people, with two thirds employed outside of London, insurance and long-term savings providers have a substantial part to play in the economic recovery.

The City of London's value extends beyond the Square Mile. One in 14 people in the UK are employed in financial services and we are natural advocates for 'levelling up' across the UK. As providers of good quality jobs, providing mortgages, savings and insuring peoples' homes and businesses, that is already what our sector has been doing for decades. It is at the heart of so much of our insurance market which began through mutual societies formed by working people to avoid poverty and develop financial resilience.

COVID-19 has been a challenging time but across the economy, financial services have stepped up to the plate and delivered. From banks working with the Government to set up the Coronavirus Business Interruption Loan Scheme, to insurers working with Government on a trade credit re-insurance agreement to support businesses supply chains, the pandemic has shown the value of financial services and the state working together. While headlines for the insurance industry have often focused on disputes around business interruption insurance, the industry has also provided support for the NHS, expects to pay an estimated £3 billion in claims and came together to start the Covid-19 Support Fund, which has raised over £100 million in emergency funding for charities.

We have much more work to do in communicating the benefits our sector brings to the economy and society. Customers do not trust our services as much as they should, and there is still more to do to embrace digital innovations.

The more our customers trust us, the easier it will be to work with policymakers on economic recovery. Building a closer relationship on shared priorities will require maturity on both sides - most of the challenges we face lack simple causes or solutions.

Nowhere is this truer than in developing solutions to the climate crisis. Our sector is unique in that it both insures against climate risks and manages the assets that need to transition and adapt as part of reaching net zero. A key opportunity is the Solvency II review, the first major revision of UK financial services regulation, post-Brexit. KPMG has identified £95 billion of insurer-managed assets that can be unlocked for investment in green technology, socially useful infrastructure and support for the economic recovery without harming policyholder protection or deviating from robust international standards. Labour's own Green Recovery consultation highlighted how the assets of long-term savings and insurance companies can play a key role in financing new jobs and technologies. We have to make it easier to invest insurer assets in a wind farm than a mining company. Solvency II reform is the way to do it.

Solvency II is just one part of a better regulatory framework needed post-Brexit to attract capital into our sector and help it thrive. Whatever your view on Brexit, now we have left the EU we need a regulatory system that works for the UK. This needs to include a statutory objective on economic growth so our regulators have a stake in economic recovery. We also need proper parliamentary scrutiny of how our UK regulators use the many new powers that have been returned from Brussels.

So, there is a vital challenge ahead for UK financial services. Pat McFadden is right to say the City needs to create wealth, not just distribute it. At our best, that is what we do. UK insurance and long-term savings providers stand ready to help develop economic recovery, invest in our transition to net zero and help create a regulatory framework that underpins a growing but stable financial services sector. We are natural partners for policymakers who share these goals and look forward to working constructively with Labour to help achieve them.

Huw Evans is Director-General of the Association of British Insurers. He was a special advisor to Tony Blair and David Blunkett in the last Labour Government.