



# UPDATE

NO.1 2010

Association of British Insurers

## Kerrie Kelly

Director General, ABI



“ So much is at stake in the battles the industry has to fight in the wake of the financial crisis. I am up for the challenge and look forward to meeting you as I lead the ABI forward on your behalf ”

Welcome to the first edition of ABI Update, the new monthly publication for our members. I hope you like it. I have designed this with the ABI team so we can reach out more effectively to our member companies, keep in touch better on the issues that matter and engage more closely on your priorities for us.

In this edition, you will find a round up of the latest news affecting the industry, reports back from our lobbying work in Whitehall and Brussels and in-depth articles on tax & competitiveness and the Government’s Equalities Bill. Please let us know what you think of the content and any topics you would like to see covered in the next few editions. Please email [abiupdate@abi.org.uk](mailto:abiupdate@abi.org.uk)

You will notice the style of writing in the ABI Update is accessible rather than technical. This is deliberate. We exist to speak on your behalf to the outside world. To do this, we need to constantly endeavour, with you, to use language that is understandable outside the insurance industry. In due course, I would like to share this publication with selected stakeholders to help build their understanding of what we do. So it is important to start as we mean to go on.

I am now halfway through my first month at the ABI. Not many people can truthfully say they have turned their world upside down to take up a new position, but in my case having relocated here from Sydney, it is literally true. My reason for doing so is simple – London is the global centre of the insurance industry and the UK is the third largest insurance sector in the world, after the US and Japan. The honour of being asked by the Board to lead your trade body at such a crucial time for insurance and financial services was an offer I could not turn down. So much is at stake in the battles the industry has to fight in the wake of the financial crisis. I am up for the challenge and look forward to meeting you as I lead the ABI forward on your behalf.

**Kerrie Kelly**

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## February Snapshot

### 8 Key meetings with external stakeholders

**ABI representative:**

Kerrie Kelly

Maggie Craig

Nick Starling

Peter Montagnon

Peter Montagnon

Peter Vipond

Rebecca Driver

The Financial Regulation team

**Who we met:**

Karel van Hulle, Head of Insurance and Pensions, European Commission

Dutch Insurance Association

HM Treasury, Government Equalities Office and FSA

European Corporate Governance Forum

Takeover panel and 5 members

Spanish Finance Ministry

Fathom's Monetary Policy Forum

Treasury and Revenue and Customs

**Subjects covered:**

Solvency II and other issues

Exchange views and best practice

Signposting service for older drivers and travellers

Corporate Governance

Takeover issues for investors

Spain's Presidency of the EU

Quantitative Easing

Options for exemption of foreign branches from corporation tax

### 9 Meetings with MPs/Peers/Candidates

**ABI representative:**

Maggie Craig/Huw Evans

Nick Starling

Nick Starling

Nick Starling

Huw Evans/Nick Starling/Peter Vipond

Huw Evans

Peter Montagnon

Ben Stafford

**Who we met:**

Theresa May MP

Andy Burnham MP

Dominic Grieve MP

Lord Henley

Conservative Prospective Parliamentary Candidates

Zac Goldsmith

Lord Myners

Steve Webb MP

**Subjects covered:**

Retirement income

Health Secretary's Social Care Conference

Pleural Plaques

Pleural Plaques

Regulation, flooding (Two separate meetings)

Flooding

Non-bank lending

Retirement Income paper

### 5 top incoming issues the ABI media relations team has been dealing with for 2010:

1. Snow related insurance queries

2. Corporate Governance

3. Long-term care funding debate and the role of insurance

4. Toyota queries

5. ABI Retirement Income paper

## February Snapshot (continued)

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## ABI Committee meetings

Solvency II  
Taxation Strategy  
ORIC management  
Indirect Tax Working Group Meeting  
Financial Regulation & Taxation  
Life Insurance Committee  
Guided Sales Working Group  
Pensions Policy Sub Group  
Executive Advisory Panel Meeting  
Investment

Health  
Access to Insurance Working Group  
Pet Insurance  
Travel insurance  
Extended Warranty  
Property  
Creditor Insurance  
Motor  
Trade Credit

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## Consultations/submissions

### Organisation

Treasury  
FSA

### Government:

HMRC/HMT Consultation  
HMRC  
Department for Transport  
Ministry of Justice  
Ministry of Justice  
Information Commissioner's Office

Lords Special Bill Committee

### Europe:

CEIOPs

CEA

### Other:

FOS  
Post Office  
Legal Services Consumer Panel  
Tenant Services Authority  
Nuffield Council on Bioethics  
Board for Actuarial Standards  
Accounting Standards Board

For further information go to [www.abi.org.uk](http://www.abi.org.uk)

### Topic

Non-bank lending risk, reward, and responsibility in banking  
Response to Turner Review

Implementing the restriction of pensions tax relief  
Pre-release response to revised legislation on Bank Payroll Tax  
Promoting financial resilience for major airports  
Future of the Edited Electoral Register  
Civil Law Reform Bill  
Proposed code of practice setting out recommendations for handling personal data properly in an online environment.  
Third party rights

Solvency II detailed comment on draft papers, including the draft Level 2 implementing measures and proposed changes for QIS 5 (8 responses)  
Policyholder and financial instrument accounts

Annual draft corporate plan and budget for 2010/11  
Banking Consultation  
The organisation's regulatory framework  
Referral fee arrangements  
Medical profiling and online medicine  
Actuarial modelling  
Future of UK financial reporting framework

### The ABI hosted:

**Pensions Policy Institute seminar attended by 13 members and 57 attendees on the PPI's latest report, 'Retirement income and assets: outlook for the future'.**

UK Rehabilitation Council/ABI workshop attended by 40 members on Rehabilitation Standards

### And....

- 38 Institutional Voting Information Service (IVIS) company reports were issued
- Two ABI research papers on Financial Advice and Long-term contracts for home insurance and 2 statistics updates were released
- Huw Evans spoke at the Intellect Conference on financial services

## News in brief

### ABI backs Government initiatives to help those with asbestos-related diseases

#### **The Government's package of measures to help those with asbestos-related diseases was welcomed by the ABI on 25 February.**

Four ABI members will be contributing £3million to help fund Government research into asbestos-related disease. The ABI will also be driving forward work on the Employers' Liability Tracing Office, which will help people trace the relevant insurer for their case.

The Government's decision to accept the House of Lords judgement that pleural plaques – which indicate exposure to asbestos but do not themselves have symptoms – should not alone attract compensation follows prolonged lobbying by the ABI. We believe the decision is significant and welcome and the package as a whole strikes the right balance.

This follows two years of hard work, including a specialist group of 15 people involving senior representatives of all affected companies and five ABI staff (including two ABI Directors) meeting by phone fortnightly. Very close co-operation between members meant tight co-ordination of all lobbying and media work and high quality and rapid analysis of policy options and impacts. It is a fine example of ABI and members working together to achieve a specific result.

### Complaints data

#### **The ABI has called for consumers to be given clear and helpful information about complaint handling.**

Responding to the publication of company-specific complaints data by the Financial Ombudsman Service on 25 February, the ABI said the information should be put into context in order to help consumers make informed choices.

Our own data shows the low level of complaints compared with overall numbers of customers. Only one complaint per 4,100 motor insurance policies is referred to the FOS with the equivalent figures for travel insurance being one in 12,700 and one in 14,700 for annuity contracts. This is not made clear from the FOS data.

### Shareholders and bank pay

#### **The decisions by the Chief Executives of Barclays, RBS and Lloyds Banking Group to waive their bonuses seem appropriate in the current environment.**

We all hope, of course, that market conditions will soon again allow remuneration to be decided on the measurement of performance against contractual objectives. But these are still not normal times. Earlier this year, the ABI wrote to all FTSE 350 Remuneration Chairmen to set out shareholder thinking about remuneration in the current climate. We stressed, and continue to do so, the importance of good dialogue between shareholders and boards.



**Insurers handled 36,000 flood and storm damage claims in Cumbria, arranging alternative accommodation for 470 customers, and making interim payments ranging from £250 to £400,000.**

### Cumbria floods

#### **The huge cost of last November's devastating floods in Cumbria has been highlighted by the ABI.**

We published figures last month showing the cost of insured damage had topped £200 million. Flooded properties will always take time to dry out. But the misery for businesses and families was eased by members' quick response in handling claims and dealing with policyholders. We drew media attention to the case of a flooded hotel which the insurers had repaired and renovated for guests in time for the busy Christmas period.

In all the industry handled 36,000 flood and storm damage claims, arranged alternative accommodation for 470 customers, and made interim payments ranging from £250 to £400,000. Damage on this scale puts huge pressure on insurers but they responded superbly. ABI staff met Government Ministers regularly to brief them on insurers' rapid response as well as conducting several prominent media interviews.

Nick Starling, the ABI's Director of General Insurance and Health, visited Cockermouth at the centre of the flooding, to see the challenges on the ground. Quick responses in handling claims and dealing with policyholders gave great credit to the industry. It only strengthens our resolve to make sure the Government starts spending on flood defences as soon as possible.

## News in brief (continued)

### BA strike and travel insurance

With the prospect of industrial action looming at British Airways, the ABI reminded consumers that if they decided to change their travel plans, their travel insurance policies could usually be switched to cover any new destination. Provided they had taken out the policy before the dates of any strikes are announced, then they are likely to remain covered in respect of any delays or subsequent cancellation.

### Concern over FSA fees

**Insurers – and their customers – could pay a heavy price for the banking crisis, proposals from the Financial Services Authority have suggested.** The FSA wants to increase the fees again for general insurers to twice the level they were just three years ago.

It is difficult to see the justification for these increases. Insurers and insurance regulation has passed the test of the current crisis, with no UK insurer failing or needing Government funds. We will continue to call for a balance between the need to enhance regulation and keeping the UK a competitive location for insurers.

### Solvency II latest

**We remain concerned about the overly cautious approach the Committee of European Insurance and Occupational Pensions Supervisors has taken to Solvency II Implementing measures.** We share CEIOPS's view that Solvency II, which will fundamentally change the prudential regulation of insurers across Europe, has the potential to provide many benefits for both insurers and their customers but are convinced more work is needed to ensure these benefits are delivered.

We believe, in particular, that CEIOPS's desire for firms to hold extra capital is excessive and fails to recognise both the strength of the life and general insurance industries and how they work.

### Improving choice at retirement

**While the fact that people are living longer is great news, it does put increased pressure on pensions.**

To meet this challenge, the ABI, its members, financial advisers and consumer groups have drawn up plans to help people get maximum value from their pension savings. These include proposals to raise the current age requirement for buying an annuity from age 75 to 80 – and proposals to encourage married and partnered couples to consider their joint retirement income needs.

### Lending

**The ABI took part in a round-table discussion at 11 Downing Street on 23 February on how institutions, such as insurance companies, who invest for the long-term could help in the financing of smaller businesses.** Our sector has played a major role in the recapitalisation of British companies through participation in rights issues and by purchasing corporate bonds. These are, however, mostly issued by very large companies and there remains a financing gap lower down the scale. We pointed out that solvency requirements were a barrier to changing this position. Treasury Minister Lord Myners, accepted that this was another good reason to ensure that Solvency II did not impose excessive capital burdens on companies.

### Fit for work?

**From April this year the traditional sick note is changing.**



There will now be a new option for a doctor to advise if an employee may be fit for some work, and how a condition will affect the work that a patient does. The ABI has been working with the Department for Work and Pensions on the advice they have issued to employers. We have reassured companies that their employers' liability insurance should not prevent employees who 'may be fit for work' from returning to, or remaining in, work. However, employers will need to continue to manage their employees appropriately and carry out a risk assessment - based on evidence from a doctor, knowledge of the work and workplace and further support where necessary.



## Whitehall update

### Flood and Water Management Bill

**Improved co-ordination to combat flood risk has come a major step closer following Commons approval of the Flood and Water Management Bill in February.** The Bill, which now goes to the Lords, builds on the industry's pledge to continue insuring existing customers against flooding if the Government keeps investing in flood protection in threatened areas.

The ABI has been closely involved in the Bill's preparation, working with all three main parties. We will continue to work closely with Peers and MPs to improve further the protections and clarity it offers. But we are also urging Parliament to pass the Bill quickly so the necessary improvements in co-ordination can start.

### Financial Services Bill

**The ABI is deeply concerned at the lack of scrutiny being given to the far-reaching Financial Services Bill.** With an election imminent, we understand that Parliamentary time is short. But this should not be an excuse for rushing through an important Bill - as has already happened in the Commons - without proper consultation or improvement.

We believe the Bill, drawn up in the wake of the banking crisis, fails to recognise that insurance companies operate very differently to banks and do not have the same liquidity concerns. We also continue to have worries over the Bill's provisions on collective consumer redress on which the industry was not consulted and which could lead to a US style litigation culture.

In fact, too many of the Bill's details are left to secondary legislation. This is not the right way to bring in such important reforms. There are too many examples of the problems caused by hastily-drafted and passed legislation. We are working closely with Peers and the Whips' offices in the Lords to provide briefing and suggestions on how the Bill can be improved.

## International developments

**The banking crisis has not just prompted new safeguards at national level but also in Europe. Proposals for strengthened financial supervision at EU level were revealed in mid-February. They will create three separate authorities to oversee banking, insurance and securities, and a new macro-prudential body called the European Systemic Risk Board.**

This was all part of a process that began with the de Larosiere Report last year. But we now expect some serious institutional in-fighting between the new regulatory Authorities, the European Parliament, the Commission and the Council of Ministers. We will be lobbying strongly to make sure the voice of insurers is heard, especially in a climate where the reputation of the entire financial services sector has been damaged by the banking crisis.

The European Parliament will also be busy discussing the controversial Alternative Investment Fund Managers (AIFM) Directive. Just how heated the debate will be can be gauged from the fact that there are already over 1600 amendments to the draft report from French MEP Jean-Paul Gauzes. We have been lobbying discreetly but determinedly to reduce the risk of limitations in our choice as investors.

All this activity comes against a background of a new Commission settling down. We have been working hard to learn more about the likely priorities of new European Internal Market Commissioner Michel Barnier and ensure the interests of our industry are not forgotten.

We are also keeping a close eye on developments in Washington, after President Obama announced he wanted to prevent large investment banks having their own in-house hedge funds and proprietary trading operations. We will be gauging the impact this might have on insurers as investors in banks.



## Focus – Tax

Attention, as always, is focused on the upcoming Budget and the likelihood of tax changes, especially as this will be the last Budget before a General Election and the country is still struggling to come out of recession.

But with the UK's public finances in a very difficult state, the issue of tax, and its impact on competitiveness, is not going to be limited to this Budget. The shortfall in revenue will be here for years. The banking crisis has had a major impact across the entire financial services sector, making the sector a tempting target for the Treasury, whoever is in power.



**“ Insurance is the fourth largest contributor of corporation tax of any sector. ”**

**That is why it is more vital than ever to show the continuing importance of the insurance industry to the country and to the health of the UK Exchequer.**

A study by PwC for the ABI showed that, despite the recession, the UK insurance industry contributed £8 billion in taxes in 2008/9. The industry has come through the crisis well compared with the rest of the financial sector. Despite the falls in investment markets, payments of corporation tax by our industry were only 8% down compared to a 39% fall for the financial sector as a whole. Insurance is the fourth largest contributor of corporation tax of any sector.

Insurance is also a key employer in the UK. ABI members employ around 175,000 people in the UK and the insurance industry as a whole employs over 300,000 people. Over half are outside London and the South-East. These are high quality jobs, with the insurance sector's average wage of £42,000, higher than the national average of £25,000. In short, anything that damages the insurance industry also damages UK investment, UK jobs and UK tax revenue.

We are seeing signs that our efforts are paying off as the Government recognises the importance of keeping the UK competitive. The recent promise to consult widely on business taxation is one welcome example. Our industry has suffered more than most from a lack of consultation.

We continue to speak to the Treasury about a number of foreign profits tax issues. The controlled foreign companies' tax regime, a review of which was announced in the Pre-Budget Report, and the taxation of foreign branches are still areas where the UK is behind its competitor locations for insurance business.

Our increased efforts reflect the international nature of our members and the fact that some insurers have already decided to leave the UK. Brit Insurance, for example, completed the move to the Netherlands just before Christmas. The UK is also failing to attract firms looking for a new home. XL, who recently announced they were leaving the Caymans, are re-locating to Ireland, not the UK. These moves may have relatively little immediate impact on the size of those businesses in the UK, but in the medium to long term the impact will be much greater.

**The decision by the Government to listen to the ABI over age limits on insurance is good news for consumers and the industry, especially motor insurers.**

The Government had been under intense pressure from charities representing older people to outlaw age limits – particularly in travel and motor insurance – in The Equality Bill. But after detailed consultations in which the ABI took a full part, Ministers announced in January that:

- Insurers' ability to impose age limits will be maintained.
- There will be no restrictions on insurers' use of age bands.

## Focus – Equality

**This is, we strongly believe, the right outcome for consumers and the industry. Independent research found no evidence of market failure and demonstrated that cover is already available to people of all ages.**

Insurers' business models and expertise relies on their ability to accurately price risk. For example, the fact that the evidence shows young male drivers and older female drivers tend to claim more frequently explains why, they may face higher premiums. Any attempt to insist on uniform treatment in either motor or travel insurance could have seen premiums rise for all.

We are pleased the Government has listened to our arguments and confirmed customers can be treated differently, provided it is done in a fair and reasonable way. Market specialisation, the need to maintain an acceptable risk profile and cost issues were all given as legitimate reasons for this. It was also made clear that age limits would be permitted where they are relevant to risks or costs.

Extra protections for consumers will help make access to insurance easier. Companies declining to insure specific age groups will be required to help customers find cover from another provider. This will ensure that the overwhelming majority of people have access to insurance.

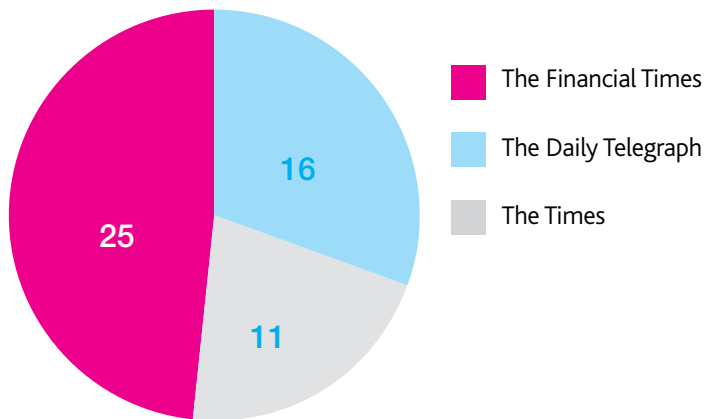
The ABI has already volunteered to develop a signposting system to make it easier for older people to find travel and motor insurance across the industry as well as to collect and publish data on the extent of coverage. We are working with the Government and other interested parties to make sure these safeguards work well for consumers, without imposing unnecessary burdens on insurers.

We do believe, however, that the requirement to collect information on coverage should be limited to motor and travel insurance while the referral guarantee should only apply to older people. We will continue to push for these restrictions to be included in the legislation. We will be keeping a close eye on the progress of the bill and taking a full part in further consultations.

# ABI in the media

## News Watch

### ABI mentions in 2010 (Jan/Feb)



## Notice board

### Future Leaders Forum 2010

**ABI members have until Friday 12 March to nominate individuals for the ABI Future Leaders' Forum.** The Forum prepares individuals for senior management positions through exposure to key political and economic issues facing the insurance industry. It is also a chance to share ideas, network and encourage creative thinking. 2010 will see a series of events, including a visit to Brussels, all providing insight into the breadth of the issues insurers are facing today.

The Forum is now in its fourth year and has proved highly popular. The feedback we have received underlines what a development benefit it is for both the individuals involved and the companies they work for. We have some very exciting events lined up for 2010 and welcome applications from all member companies. To find out more, email [tosin.fadipe@abi.org.uk](mailto:tosin.fadipe@abi.org.uk)



A Future Leaders Workshop Session

### Tell us what you think

If you would like to comment on any of the information provided in this newsletter please email [abiupdate@abi.org.uk](mailto:abiupdate@abi.org.uk)

follow us on  
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# 32 Media responses

### Including:

- Solvency II – cautious response to CEIOPs final advice;
- Complaints data – raising the lack of context in the Financial Ombudsman's data;
- Financial Services Bill – concerns over lack of consultation so far;
- Executive pay - Peter Montagnon interview on the Today Programme.

To see latest ABI releases go to [www.abi.org.uk/Media/Releases](http://www.abi.org.uk/Media/Releases)

## Save the date

### Forthcoming ABI events:

#### Chief Medical Officers' seminar 10 March

This event gives CMO's the opportunity to meet and discuss the issues of access to medical information and the limitations on what the customer knows about their own health. The discussion will include the new Critical Illness definitions and consumer access to their genetic information. Venue: ABI, 7th floor Conference Suite

#### Scottish Parliamentary Reception 18 March

An opportunity for our members to liaise with the policy making community in Scotland. Venue: Scottish Parliament

#### Kate Barker Speaker Lunch 19 March

Senior Executive Lunch with Kate Barker, Monetary Policy Committee Member at the Bank of England. Venue: ABI, 7th floor Conference Suite



#### Future Leaders Forum 13 April

The first of four for 2010. ABI, 7th floor Conference Suite, see Notice board for more information

#### Retail Distribution Review Conference 22 April

On 22 April 2010, the ABI will be hosting a conference to consider industry proposals for a simplified advice process. Simplified advice is a new financial advice process which is designed to serve the needs of consumers who do not need, or cannot afford, existing advice services. The industry's proposals have been developed as part of the FSA's Retail Distribution Review which aims to correct market failings in the distribution of retail investment products for the benefit of consumers. Venue: ABI, 7th floor Conference Suite

#### Financial Media Awards 2010 3 November

Celebrating 15 years of excellence and achievement in financial services journalism. An unrivalled opportunity to develop relationships with key financial journalists. For more information on the purchase of a table or the sponsorship of one of the awards please email [malcolm.tarling@abi.org.uk](mailto:malcolm.tarling@abi.org.uk)

