UPDATE

No. 13 January 2012

Focus One: Otto Thoresen

ABI Director General, Otto Thoresen talks about the barriers to saving.

See page 9

Focus Two: 2011 – Progress, 2012 – Where Next?

See pages 10-11

Viewpoint

Otto Thoresen
Director General

"We know we are set for a challenging climate as we adjust to the new, tougher "normal" for financial services."

Welcome back to work and a happy New Year from the ABI. Looking forward into 2012 we know we are set for a challenging climate as we adjust to the new, tougher "normal" for financial services that has emerged following the global financial crisis. Added to the mix, 2012 was always set to be a year of big policy challenges for insurers. Some of these challenges – such as flooding and executive remuneration, covered in our News In Brief section – have already hit the headlines this year.

Our News in Brief section also covers many more of the big issues that will dominate 2012. Calling for government reforms to improve young driver safety, supporting the Government through the newly established Insurers' Infrastructure Investment Forum and reform to the UK's regulatory system are just some of the articles on pages 5, 6 and 7 in this issue of Update. Page 8 also includes our response to the publication of the Transport Select Committee's report into the cost of motor insurance and details of Commissioner Michel Barnier's visit to the ABI.

Finally, with 2012 marking the year the automatic enrolment of millions of lower earners into workplace pensions begins, our first focus section sets out some of my personal views on the challenges we face to get more people saving. As it is our first issue of the year, our big focus on pages 10 and 11 looks across all areas of the ABI, in our new structure, with an update on progress made in 2011 and a look forward to where the priorities lie in the next twelve months. We are glad to announce the appointment of Stephen Gay as Director of Life, Savings and Protection and the appointment of Robert Talbut to the ABI Investment Committee.

I hope that you find this edition of Update a helpful preview of our 2012 priorities. As we settle into the new economic normal of 2012, I look forward to working with you all, continuing to promote your interests and showcasing the important contribution insurers make to UK plc.

Otto Thoresen

2012 Events

ABI Scottish Parliamentary Reception Wednesday, 1 February

With the debate around Scottish independence heating up, our annual Scottish Parliamentary Reception is scheduled at an apt time for ABI members to meet with Members of the Scottish Parliament to discuss this and other issues affecting insurers with Scottish bases or interests. We hope to see many of you there to join members of the ABI Executive team and MSPs.

For more information please email Roisin.Watson@abi.org.uk

Venue: Committee Room 2, Scottish Parliament, Holyrood, Edinburgh.

The Insurance Summit 2012, Managing Risks, Recognising Responsibilities Thursday, 1 March

Economist Conferences The Economist

The ABI is pleased to offer our members a discount at the Economist's Insurance Summit 2012. The insurance industry is faced with new responsibilities, new risks and new challenges in a rapidly evolving global market place.

This one-day summit brings together some of the leaders of the industry to discuss the strategic direction for UK insurance. It brings in the perspectives of insurers, government, regulators and consumers. Discussion leaders include: John Nelson, Chairman, Lloyd's of London; Andrew Moss, Group Chief Executive, Aviva; Simon Lee, Group Chief Executive Officer and Executive Director, RSA Insurance and Otto Thoresen, Director General, Association of British Insurers.

Quote "ABI" and save 25% off the full fee.

Venue: The Hotel Russell, London.

ABI CEO Breakfast with Paul Tucker, Deputy Governor, Financial Stability, Bank of England Tuesday, 13 March

ABI CEO BREAKFASTS
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Registration and a light breakfast will be available from 7.30am. The dialogue will begin at 8.00am and run until 9.30am.


Paul Tucker, Deputy Governor, Financial Stability, Bank of England.

On Tuesday 13 March we will welcome Paul Tucker, Deputy Governor of Financial Stability at the Bank of England, to the ABI. Paul Tucker has served as Deputy Governor since March 2009 and been closely involved in the UK's regulatory reform agenda following the financial crisis. He also serves on the Board of the Financial Services Authority. Paul is also a member of the Monetary Policy Committee, Financial Policy Committee, the Bank's Court of Directors, and he is a member of the G20 Financial Stability Board's Steering Committee.

With his extensive background and influence across the economic and regulatory landscape, this breakfast will be an invaluable opportunity for our senior members to engage directly with key policy decision makers at the Bank.

For more information please email Tosin.Fadipe@abi.org.uk

To register for this event please visit www.abi.org.uk/paultuckerbreakfast

Venue: ABI 7th Floor Conference Suite, 51 Gresham Street, London, EC2V 7HQ.

Recent Events

ABI Solvency II Conference

On 8 December, we held our fifth Solvency II Conference, which turned into Europe's leading Solvency II event of 2011, with just under 400 delegates attending, and speeches from the main players in the UK and Europe. EIOPA Executive Director, Carlos Montalvo Rebuelta, gave a candid speech about EIOPA's new role and his thoughts on Solvency II capital requirements.

The conference was opened with a speech by ABI Chairman Tim Breedon, who stressed the need for Solvency II to help insurers contribute to growth and deliver good outcomes for consumers. Financial Secretary Mark Hoban spoke in the morning session and the afternoon session opened with Professor Karel van Hulle from the European Commission and FSA Insurance Director Julian Adams. The resounding message for delegates and our members from all the speakers, was that now is the time to get ready for implementation – despite volatility and current market conditions we must keep up the momentum of the Solvency II project.

Craig Thornton, Aviva, Patricia Plas, AEGON, Michaela Koller, CEA, Bridget Micklem, HM Treasury and Jackie Hunt, Standard Life, discuss Omnibus II & EU Issues.

Long-Term Care Breakfast

Jules Constantinou, GenRe, Nick Starling, ABI, Sally Warren, Department of Health and Andrew Dilnot, Commission on Funding of Care and Support.

ABI CEO Breakfast with Martin Wheatley

Otto Thoresen and Martin Wheatley, FCA Chief Executive designate.

ABI CEO Breakfast with Commissioner Barnier

Otto Thoresen and Michel Barnier, EU Commissioner for Internal Markets and Services.

News In Brief

The ABI calls for bank bonus caution

The Prime Minister's New Year message also focused on the need to reduce excessive executive payouts.

In December, Director General Otto Thoresen wrote to all UK listed banks to raise concerns that remuneration practices were having an impact on their attractiveness as an investable sector. This generated a lot of media coverage and discussion, with interviews on the Today Programme and on BBC Breakfast among others. The ABI has emphasised that employee pay in banks has become out of balance with returns to investors and our arguments have received support in writing from Business Secretary Vince Cable and from Chancellor George Osborne during a Parliamentary Debate in early December. Earlier this month, Otto Thoresen was again interviewed by the BBC on how to improve governance of executive remuneration to deliver better value to shareholders.

Regulatory Reform debate develops following Committee Report

The Joint Scrutiny Committee, made up of MPs and House of Lords representatives have issued their report on the draft Financial Services Bill, which sets out the proposed changes to the UK's regulatory architecture. Maggie Craig and Hugh Savill gave evidence to the Committee.

We are pleased with the specific points in the report relating to insurance, which we have been lobbying for in the past few months, and the positive emphasis on the culture and quality of supervision. Specific points in the report were:

- that the FCA's strategic objectives should be amended to focus on promoting fair, efficient and transparent financial services markets that work well for users
- the need for close co-ordination between the PRA and FCA
- the need for at least one member of the PRA Board to have specialist expertise in the area of insurance

The report is a useful contribution and proposes several improvements to the Draft Bill. We do however believe more needs to be done and we will continue to lobby against other recommendations which are less good for insurers, such as pushing for a harder line on the publication of warning notices.

The ABI calls for urgent reform to young driver laws

Urgent action to reduce young driver deaths and serious injuries is needed to help the industry deliver a better deal for motor insurance customers, ABI Director General Otto Thoresen has said. At the ABI Motor Conference on November 22, he also urged action to reduce fraud, in particular for whiplash claims; to cut the number of uninsured drivers on the road and to ensure the UK's compensation culture was tackled through the Legal Aid, Sentencing and Punishment of Offender's Bill.

News In Brief

ABI supports Government Infrastructure Investment through IIIF

The ABI is working closely with the Treasury to provide support on the range of infrastructure investment projects announced in the Chancellor's Autumn Statement. The Insurers' Infrastructure Investment Forum (IIIF), is in initial scoping stages examining a range of projects that insurers as investors could fund to help spur the UK economy back to growth.

We want to work with the Government to create a new asset class of infrastructure bonds which could see insurers investing in everything from railways to new hospitals. These bonds will need to be A rated as new Solvency II rules mean that fund managers could be pushed to other investment options if the new bonds do not meet the standard required. However, we are confident that we can do this and we know there is a real determination in Government to make this happen.

> "We want to work with the Government to create a new asset class of infrastructure bonds which could see insurers investing in everything from railways to new hospitals."

Simple Products: ABI supports Government Steering Group

The ABI has met Carol Sergeant, the head of the Government's new Steering Group on Simple Products, to discuss how we can work together. We share common ground both over the need to offer simple but effective financial products for consumers and the important role the industry can play in meeting this goal. Carol confirmed she is happy for the ABI to act as secretariat to the Steering Group and Otto Thoresen will represent the ABI on the Group which will hold its first meeting on 1 February. The next stage is for Carol to discuss the structure of the group and its work with other stakeholders. To help generate ideas for the way forward, we are setting up an ABI Simple Products Working Group and have issued a call for nominations to the relevant ABI committees.

ABI criticises Government's lack of progress on flooding

With the complete expiry of the Statement of Principles less than 18 months away, talks with Government are at a frustrating stage. Just before Christmas the Government released a frustratingly vague progress update, which seemed to reveal a lack of joined up thinking between departments and suggested scepticism about a role for Government in enabling access to flood insurance at reasonable prices. Our response was robust, arguing that if the Government rules out models which help those at high flood risk, up to 200,000 properties could struggle to access cover. This led to significant print and broadcast media coverage over Christmas, with Nick Starling getting out of bed early over the holidays to talk on the Today programme and other breakfast media.

> "Our response was robust, arguing that if the Government rules out models which provide an element of cross-subsidy for those at high flood risk, up to 200,000 properties could struggle to access cover."

Encouragingly, much of the coverage was favourable, helped by the National Flood Forum taking a similar stance. The next couple of months are vital, as we need to be ready to give the Government the advice it needs in order to settle on a workable solution, and also maintain the public pressure on it to do so. We remain committed to having a direct and realistic dialogue with Government Ministers and their officials to find a suitable way forward.

News In Brief

Reform of consumer insurance law

In evidence to the House of Lords Special Public Bill Committee, the ABI supported the Consumer Insurance (Disclosure and Representations) Bill. The Bill will bring into law the principles which underpin existing good market practice. We also called upon the Financial Ombudsman Service (FOS) to take full account of the new legislation in its decision-making and stressed that there was no need to develop further industry codes (as the FOS has suggested) to cover the interim period. The Bill is expected to gain Royal Assent by the end of the year and come into force following a twelve month transitional period.

> “The Bill will bring into law the principles which underpin existing good market practice.”

Stormy weather sees in New Year

We have had some more stormy weather throughout the UK, with Scotland once again being particularly badly affected. We expect members to deal with tens of thousands of storm claims as a result which will cost tens of millions of pounds. The ABI was quick to respond, issuing a press statement and taking part in a number of radio and TV interviews to reassure the public that the industry was ready to handle claims and to offer insurance advice to customers.

Financial Transactions Tax

The ABI has stepped up its opposition to the European Commission’s proposal for a Financial Transaction Tax (FTT). Along with other major financial services associations, we wrote to the Chancellor urging him to continue to oppose the FTT which he has promised to do. We also submitted evidence to the House of Lords EU Economic and Financial Affairs and International Trade Sub-Committee, using the Commission’s own impact assessment to highlight the damaging effects the tax would have on the UK and European economies, on consumers, the financial services industry – and also the implications for UK Government tax revenues.

Financial Services Compensation Scheme (FSCS) Funding Review

The FSA has re-opened its review of FSCS funding, which was placed on hold at the end of last year until the FSCS’s role within the new regulatory structure was clarified. A consultation on the review, which will look at the composition of the funding classes, the levy thresholds applicable to each class and their tariff bases, is expected to be issued in the first half of 2012.

> “We will continue to argue for the retention of a pay-as-you-go funding arrangement and for the dismantling of the cross-subsidy arrangements.”

Our major concerns about FSCS funding have been the possibility of a move to a pre-funded regime and the continued cross-subsidy arrangements between classes. We will continue to argue for the retention of a pay-as-you-go funding arrangement and for the dismantling of the cross-subsidy arrangements which may require insurers to contribute to bank defaults.

Stephen Gay joins ABI as Director of Life, Savings and Protection

The ABI has appointed Stephen Gay to lead the team responsible for the ABI’s work to encourage people to save and protect themselves. Stephen, who has over 25 years’ experience working in the life and pensions market, joins from the Association for Independent Financial Advisors where he is Director General and as part of this role, Director General of the Association of Mortgage Intermediaries and the Association of Finance Brokers. Before that he was Director of Distribution Development at Aviva UK Life.

As Otto Thoresen discusses on page 9, this is an absolutely crucial time for the industry to begin to change the UK’s low saving habit through the introduction of automatic enrolment, and influence the way people save and protect their futures for good. We are delighted someone of Stephen’s proven calibre will be joining the ABI to drive this agenda forward.

UK Political Noticeboard

Long-Term Care

A dinner took place in Parliament for ABI members and Parliamentarians to discuss issues relating to long-term care. Commons Health Committee chairman Stephen Dorrell MP sponsored the dinner. The ABI also gave oral evidence on 23 November to the Health Committee to help with its inquiry into social care.

ABI responds to Transport Select Committee Report on the cost of motor insurance

We are pleased that the Transport Select Committee has recognised that spiralling personal injury claims are the real reason car insurance premiums have been increasing and made recommendations for meaningful reform. The Committee is also right that the fees lawyers receive need to be reviewed as they currently add unnecessary cost. We are however baffled that the Transport Select Committee has again called for the transparency of referral fee arrangements of insurers. Referral fees should be banned altogether and not made more transparent - and that ban should apply to all organisations receiving them, not just insurers.

Engagement with the new Shadow team

Following the reshuffle of the Labour front-bench, we have been working hard to ensure the new Shadow team understand the industry's priorities and concerns. We have already met Ian Murray, Shadow Minister for Employment Relations, Consumer and Postal Affairs, Gregg McClymont, Shadow Minister for Pensions, Gavin Shuker, Shadow Minister for Water and Waste and John Woodcock, Shadow Minister for Transport, who spoke at our November Motor Conference. We have also scheduled our next meeting with Chuka Umunna, Shadow Secretary of State for Business, Innovation and Skills, to discuss investment and remuneration issues.

International

ABI Member Meeting with Michel Barnier

Michel Barnier, EU Commissioner of Internal Markets and Services, promised an open and honest dialogue with our industry when he spoke at an ABI CEO breakfast.

The Commissioner told the well-attended meeting at the ABI on November 4 that his door was open. He stressed that new European Supervisory Authorities will not replace or take the role of national supervisors but exist to co-operate and co-ordinate actions. Among his main priorities, he added was to put a long-term perspective back into the financial markets, to find a balance of compromises on the finalisation of Solvency II which had already been ten years in the making, and to deepen the integration of the single EU market while preserving the diversity within it.

> "New European Supervisory Authorities will not replace or take the role of national supervisors but exist to co-operate and co-ordinate actions."

Focus Otto Thoresen

After years in the making, several Pensions Acts, and millions in investment, delivery for the first phase of the revolutionary social experiment of enrolling millions of new savers into workplace pensions schemes will begin later this year. With consumers struggling to pay the bills in a tough economic climate, Director General Otto Thoresen examines the barriers to saving and what the industry needs to make the most of this opportunity to get more people saving for the future.

The creation of NEST, and the introduction of auto enrolment in 2012 signals the beginning of a new chapter in pension provision in the UK, and all parts of the pension industry, whether contract based or trust based, product provider, adviser, third party administrator or investment manager, need to contribute their expertise and understanding to ensure it is a positive chapter for the citizens of the UK.

As an industry we have always tended to spend more time debating among ourselves than focusing on the need to promote saving. This needs to change.

Why? The challenges we face are enormous:

- The introduction of 'compulsion' for employers brings a necessary increase in their costs in an economic environment when they can least afford it.
- Auto enrolment means that individuals will see part of their discretionary income redirected towards long-term saving when household budgets are under huge pressure because of rising prices.
- The uncertainty around the economic outlook makes investing for the long-term a hard argument to win.

But the opportunity created by auto enrolment is also enormous and could potentially be as significant as the Beveridge welfare reforms of the 1940s.

What I would like to see now is the industry seizing the moment. We need all the talent in the industry directed at removing the big barriers to the success of pension reform. So how can we move forward and tackle these challenges? I have identified five areas that would warrant our consideration.

First, we have to focus attention on generating income in retirement, not just talk about pension pots. The ABI has worked hard to make the open market option more effective. Let's build on this first step to create an environment where people can look at getting the best deal possible on their annuity. It's a decision which people have to live with for decades and it is vital we do our best for our customers at this important stage.

> **"We need to think about the types of saving which makes sense to young people, and how that fits with real life, whether that is managing student debt, or getting on the housing ladder."**

Second, as Pensions Minister Steve Webb refers to them, the issue of 'big fat pots.' How can we make it easier for future savers to consolidate their pensions investments in a work environment where job changing will be the norm? And how can we engage people with the asset they are building, so they can begin to feel more financially in control of their futures? Getting that right will be critical to building customer confidence in the long run.

Third, there is making long-term saving relevant and valued by younger people. We need to think about the types of saving which makes sense to young people, and how that fits with real life, whether that is managing student debt, or getting on the housing ladder.

> **"Generating consistent positive returns will be an enormous challenge in the low growth decade ahead."**

Fourth, and of particular importance in an era of low growth, is the question of investment strategy. Generating consistent positive returns will be an enormous challenge in the low growth decade ahead. How do we avoid early disappointment or normal fluctuations putting people off for life?

Finally, charging structures and transparency. This is a very complex area for both Defined Contribution and Defined Benefit schemes, and one which is critical to establishing confidence in pension savings. But even NEST's charging structure works on the basis of cross subsidy between generations of savers. We need to proceed carefully on this if we are to avoid unintended consequences of higher, more transparent charges for everyone.

The challenges are enormous but so are the opportunities. We need to make the next chapter of the pensions story a turning point for UK savers, helping to provide people with the financial confidence to look forward to the positive aspects of living longer lives.

Focus 2011 – Progress

In 2011 we made some notable achievements against an uncertain backdrop and challenging environment. As we move into 2012, we can expect another significant year for the insurance industry with the implementation of automatic enrolment and the Retail Distribution Review, decisions to be made on the provision of flood insurance, a new regulatory landscape and an increasing need to build trust in our products among consumers.

We have restructured ourselves at the ABI to put us in a better position to take on the challenges and opportunities the year ahead presents. At the heart of all this is the consumer – the end users of the products our members offer. As well as creating a new Financial Conduct Regulation team to work closely with the incoming Financial Conduct Authority, specific consumer objectives underpin the principal issues in our 2012 Business Plan and are threaded throughout everything we do at the ABI. Update talks to the ABI's Policy Directors to find out their views on progress made in 2011 and what 2012 has in store.

General Insurance

"We welcomed the Transport Select Committee's acknowledgement that rising personal injury claims and referral fees are at the heart of increasing motor premiums, and agreed with the Government's referral fee ban – an important step in tackling our compensation culture. We responded swiftly on the August riots, upholding members' efforts on claims, and secured the January launch of the Police Insurance Fraud Enforcement Department and the Insurance Fraud Register. Our successful lobbying also supported the DWP Sickness Absence Review recommendation to have tax relief on targeted healthcare for employees on basic-rate tax, and positive outcomes on genetics and insurance, which confirms the role of industry self-regulation and will substantially reduce insurers' reporting requirements."

Life, Savings and Protection

"Our consumer focused agenda saw us make significant progress on the open market option to encourage pension customers to shop around for annuities, successfully implement a speedier life claims payment system and, working with the Investment Management Association, gain agreement to make our managed fund sector names more consumer friendly."

Investment Affairs

"We published a report on board effectiveness and updated remuneration guidelines. We were forthright on the issue of executive remuneration with our letter to UK banks, securing public backing from Business Secretary Vince Cable and being mentioned by the Chancellor in a Parliamentary debate."

Prudential Regulation

"We made good progress securing favourable changes on Solvency II and influencing a different treatment of insurers from banks by the Financial Stability Board and the Prudential Regulation Authority. Our long campaign resulted in a positive outcome on the Government's approach to taxing the foreign profits of insurers."

Financial Conduct Regulation

"We have worked very hard inputting to the new regulatory architecture to try to build a new regulatory system that is fit for purpose for our industry. RDR has also been a key focus for us, particularly in the areas of legacy commission and simplified advice, both of which will continue to be live issues as we move into 2012."

Focus 2012 – Where Next?

Nick Starling, Director of General Insurance

"Building on our meeting with DEFRA Secretary of State Caroline Spelman, pressing the Government for an urgent decision on the provision of flooding insurance is high on the agenda. Tackling young driver safety and getting Government to consider the measures we outlined at the ABI Motor Conference in November will also be key for 2012."

Stephen Gay, incoming Director, Life, Savings and Protection

"In the year ahead we will be working to make pension reforms a success and improve transparency around pension charges. We will also move forward the Dilnot Commission's recognition of the industry's role in funding social care and make use of the central position the Government has given us to inform their Social Care White Paper."

Otto Thoresen, Investment Affairs

"The work we have carried out in 2011 lays the ground for us to influence policy on the concerns of our members as shareholders, in what will be a significant year for the industry where long-term investment will be a crucial contributor to returning the UK economy to growth."

Hugh Savill, Director of Prudential Regulation

"The new Prudential Regulation team will continue to push the UK's views on Solvency II and the Omnibus II Directive as we keep up the momentum on Solvency II implementation preparation."

Maggie Craig, Director of Financial Conduct Regulation

"A key focus for the new Financial Conduct Regulation team will be building relationships with the Financial Conduct Authority to effectively influence across the full range of wholesale and retail issues. In addition, we will be working closely with HMT and members as the Simple Products initiative moves forward."

New Staff

Below are some of the new faces who have joined the ABI recently, whom you may have dealings with.

Adeola Ajayi

Media Relations Officer
Communications
Operations

Caroline Coombe

Assistant Director
Head of ORIC
Operations

Shabbir Patel

Statistical Analyst
Statistics
Operations

Jacqui Thornton

Policy Adviser
Distribution
Financial Conduct Regulation

Jonathan De Beer

Policy Adviser
Solvency II
Prudential Regulation

Matthew Jupp

Parliamentary Affairs Officer
Operations

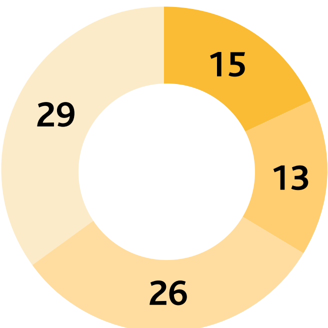
Audrie Powell

Directorate Support Manager
Operations

Media

News Watch

ABI mentions in print for November, December and early January



The Financial Times
The Times/Sunday Times
The Daily Telegraph/ Sunday Telegraph
Daily Mail/Mail on Sunday

Total broadcast interviews in November, December and January: 33

65 Media responses including:

- James Upton appearing on Sky TV Jeff Randall speaking about Bankers Pay.
- Otto Thoresen appearing on BBC TV News Channel also on Bankers Pay.
- Nick Starling appearing on BBC TV Breakfast News speaking about flood insurance.
- Nick Starling appearing on Radio 4 Today programme speaking on motor premiums.
- Otto Thoresen appearing on Radio 4 Today programme speaking on Bankers Pay.
- Otto Thoresen appearing on Radio 4 Today programme speaking on executive remuneration reform.

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**

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