



Delivery for Commercial Lines and London Market Insurers



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About the ABI

The ABI is the voice of the UK's world leading insurance and long-term savings industry.

A productive, inclusive and thriving sector, we are an industry that provides peace of mind to households and businesses across the UK and beyond, and powers the growth of local and regional economies by enabling trade, risk taking, investment and innovation.

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Commercial Property

Building Regulations Including Fire Safety

The ABI has a long-held position on the need for fundamental reform of UK building regulations to better protect property from fire. The cost of fire claims to commercial property and London Market insurers writing UK property risks in particular is a significant issue. Since the Grenfell Fire in June 2017 we have engaged regularly with the Government and the various reviews and inquiries that have been established to seek improvements to the building control system. This has included commissioning £250k of research through the Fire Protection Association to build an evidence base behind the industry's position that the Government should ban the use of combustible materials on the outside of buildings and allowing us to point to shortcomings in the current testing procedure for cladding. The Government has since consulted on a ban and confirmed it will introduce it for certain high-rise buildings. We continue to advocate that this should go further. We also continue to highlight the benefits of automatic fire suppression systems, particularly in high-risk properties, and support

the conclusion from the Independent Review of Building Regulations that the current system is not fit for purpose and requires root and branch reform. We will continue our programme of engagement with the Government over the coming years. This will include working with wider stakeholders such as the Fire and Rescue Services to support our messages, to attempt to ensure that the Grenfell tragedy results in significant improvements to fire safety in UK properties.



Terrorism and Pool Re

The 2017 terrorist attacks at Westminster Bridge and Borough Market highlighted the changing nature of terrorist risk in the UK compared to the IRA's bombing campaigns in the 1990s, when Pool Re was established. Terrorist attacks, such as stabbings or shootings, which result in sustained periods of business interruption in the area as police investigations are carried out, have highlighted a gap in many terrorism policies that generally only respond to business interruption claims when property damage has occurred. This resulted in a significant reputational issue for the industry and in particular the London Market where a significant proportion of terrorism risk is underwritten.

While acknowledging that other market solutions are available, both the ABI and Pool Re discussed with Treasury why an extension to the existing reinsurance arrangements would enable more widespread provision of non-damage business interruption within the terrorism insurance market. This concluded with the Government introducing legislation to amend the scope of Pool Re as part of the

Counter-Terrorism and Border Security Act 2019. We have also engaged regularly with Pool Re and Treasury on other changes affecting terrorism insurance, including cyber terrorism and the potential for chemical, nuclear, biological or radiological terrorist risk, ensuring industry views are well-represented.



Fleet Motor

Discount Rate Reform

The ABI's extensive engagement with Government led to the Civil Liability Act, which brought forward changes to the framework for setting the Discount Rate. There are positive aspects of the new rate review process, contained within the Civil Liability Act. These include:

- The assumption that the claimant's investment approach will involve more than a very low level of investment risk.
- The certainty of a regular review of the Discount Rate every five years.
- The clear ability to set a dual rate in the future, which may be more sensitive to long term outcomes, dependent on the degree of political involvement.

We are however, disappointed at the outcome of the first review process given that the Lord Chancellor has used the discretion permitted in the Civil Liability Act to reduce the Government Actuary's Department recommendation by 50bps so the claimants are twice as likely to be over-compensated than under-compensated, which the Lord Chancellor describes as "a reasonable additional margin of prudence".

Whiplash Reform

The measures taken as part of the personal injury reforms should bring benefits for fleet motor insurers by addressing the disproportionate number of low-value, soft-tissue injury claims. The ABI continues to work with Government on the development of a new IT portal that will underpin the shift to a tariff-based system for assessing damages and raising the Small Claims Track limit to £5,000 for road traffic accidents. Following concerns raised by the ABI about the lack of communication on the portal build to insurers, the MIB has offered an email subscription service to provide interested stakeholders with regular updates.

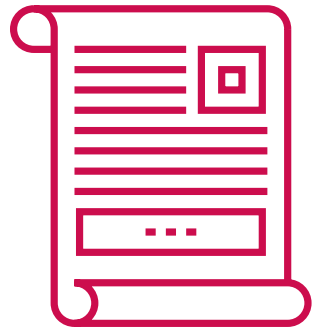
Autonomous Driving

The Automated and Electric Vehicles Act 2018 is the result of significant engagement between the industry, led by the ABI and Thatcham, and the Government over the past few years. The Act adopts our proposals for how the insurance and claims system for automated vehicles should work once these vehicles start to appear on the roads in the coming years. The framework ensures that drivers will not be unfairly held responsible for accidents and gives insurers a statutory right to recover costs where failed technology causes an accident.



Trade Credit Insurance

The ABI is keen to see more of the UK's economic activity protected through trade credit insurance, and we also want to project London as a centre of expertise in underwriting credit risk. We have successfully secured widespread media coverage of the support provided by insurers to suppliers of Carillion and other major insolvencies. This has helped to raise awareness of the importance of this type of cover in difficult trading times. We have also engaged with political stakeholders on the importance of trade credit, particularly in the context of the Government's Industrial Strategy and UK Export Finance's work to support British businesses selling goods and services abroad.



Liability

Cyber

The ABI is committed to supporting the sustainable growth of cyber insurance coverage among UK and global businesses. Major regulatory developments, such as the GDPR, and the growing threat of malware and ransomware from cyber criminals mean that it is vital for more businesses to protect themselves with appropriate cover. The ABI led domestic and international opposition to the development of the International Organization for Standardization (ISO)'s Standard on Cyber Insurance, seeking to avoid the imposition of a one-size-fits-all approach to the product which fails to recognise crucial customer differences in terms of size, sector and jurisdiction. We have also strongly made the case to Government and the Information Commissioner's Office (ICO) for insurers in the UK to have access to privacy breach data reported to the ICO under requirements in the GDPR. This would be the first system of its kind and would help to solidify London's reputation as a world leader in writing cyber insurance. We have firm support from the Government for our proposal and continue to make the case to the ICO.

We have developed a cyber business plan for 2019 which includes initiatives to produce thought leadership on the value of cyber insurance to the economy, oppose efforts at premature product standardisation, and engage with the development of Government policy on cyber security incentives and regulation.



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Tax

Insurance Premium Tax (IPT)

The ABI continues to support a freeze in the standard rate of IPT for this parliament. Our award-winning campaign (#IPTsUnfair) against further increases will be refreshed for the 2019 Budget, and the ABI has produced further material to this end. HMRC are conducting a call for evidence in relation to perceived inefficiencies in the collection and remittance of IPT, as well as potential 'unfair outcomes', and the ABI is working with other industry bodies to engage constructively with this exercise.

OECD - Addressing the Tax Challenges of the Digitalisation of the Economy

The OECD issued a public consultation document on addressing the tax challenges of the digitalisation of the economy. This document describes proposals discussed by the OECD at a high level and seeks comments on a number of policy design issues and technical aspects under two pillars; nexus and profit allocation and global anti-base erosion. The OECD are working towards producing a final report in 2020 which provides a consensus based long-term position. The ABI submitted comments to the initial public consultation which focused on the potential impact of the proposals on insurance given the global and highly regulated nature of our industry. We also attended the first public meeting and are continuing to work to influence the OECD position on insurance now they have published their programme of work.

US Tax Reform

The US Tax Cuts and Jobs Act was passed at the end of 2017 and most of the provisions took effect from 1 January 2018. The Act includes a reduction in the corporate income tax rate from 35% to 21%. It also includes significant international reform including a one-time transition tax on unrepatriated profits; participation exemption on dividends and the introduction of anti-hybrid rules and interest restrictions. The Act also introduces a Base-Erosion Anti-Abuse Tax (BEAT) which could have significant and market-changing implications for the UK industry (and globally) and will particularly impact cross-border affiliate reinsurance.

The proposed regulations designed to clarify many BEAT issues were published in late 2018 by the US Treasury. They did not deliver a net regime for BEAT, but did include some mechanisms which are likely to be helpful to UK businesses.

The ABI submitted comments to the proposed regulations and we highlighted that BEAT goes beyond the objectives of an anti-base erosion regime and could lead to double taxation. Our response also highlighted the disproportionate nature of BEAT and noted that it does not reflect the economic substance of an insurance contract. We requested that BEAT is applied on premiums net of any related amounts from the same transaction e.g. ceding commissions and claim payments. We also requested that when contracts are written on a net settlement basis

(e.g. funds withheld contracts/Modified Coinsurance Contracts), BEAT should apply on that net basis. BEAT is a minimum tax and this concept has now been included in the OECD work on a digital tax (see above). The US Regulations are expected to become final in the latter part of 2019 and the ABI continues to lobby for net treatment for reinsurance.

Brexit

The working groups formed by the FS industry, HMRC and HMT to explore the tax impact of Brexit outcomes have completed their work pending any further developments. However, engagement continues on preparatory legislation in a number of important areas through the regular forums with HMRC to which the ABI tax team contributes.

UK/EU Tax on Digitalised Business

The ABI continues to work with HMT/HMRC on their proposals for the taxation of digital companies and submitted comments to the consultation on the new Digital Services Tax (DST) announced at Budget 2018. The ABI response focused on the scope of the tax and obtaining greater clarity that insurance is exempt from DST. We are also engaged with the European Union as they continue to develop temporary and/or longer-term proposals.



Tackling Fraud

The ABI funds the Insurance Fraud Enforcement Department (IFED), a police unit within the City of London Police, wholly dedicated to fighting insurance fraud, including commercial lines fraud. In May 2019, IFED hosted an industry de-brief event following conclusion of the Unit's biggest commercial property fraud case which saw members of an Organised Criminal Gang (OCG) jailed for a total of 14 years for targeting multiple insurers in a fraud valued at over £1m.

The Insurance Fraud Bureau (IFB), which spearheads the fight against organised fraud, has nominated product champions and is running a series of workshops to support cross-industry development and disruption in liability and property cases.

In June, the first tranche of insurers began using the industry's new powerful counter fraud platform, the IFiHUB, which will enable insurers to share intelligence in real-time. Once matured, the IFiHUB will facilitate the industry sharing intelligence with other sectors and will be used to develop data-lead strategic threat assessments. These will identify the key fraud threats and make recommendations to mitigate them, including the direction of key industry initiatives such as the IFB and IFED.

The industry continues to evolve its strategy, including the agile use of data to further improve counter fraud capability.



Regulation

Prudential Regulation

The ABI continues to work with our members to ensure the UK has a prudential regulatory framework that provides safety, stability and fairness for customers, whilst also ensuring that insurers are able to offer affordable products, to innovate and invest in the UK economy to help Britain thrive.

Led by the ABI's Prudential Regulation Committee, we actively engage with the Bank of England, HM Treasury and parliamentarians on a range of prudential regulatory issues, including developing responses to PRA consultations. Through our membership of Insurance Europe and the Global Federation of Insurance Associations (GFIA), we are also active in policy development at the EU-level (for example, the reviews of Solvency II) and the international level (for example, the International Association of Insurance Supervisor's development of a global Insurance Capital Standard).

Financial Reporting Standards

The ABI continues to work with our members to ensure the UK has financial reporting standards that enable insurers to communicate their financial performance clearly, in a cost-effective way in order to help reduce their cost of capital. Our focus is on both the International Financial Reporting Standards (primarily IFRS9 and IFRS17) and the UK's Financial Reporting Standards.

Led by the ABI's Financial Reporting Committee, we actively engage with policymakers at the UK, EU and international level, including the UK's Financial Reporting Council, the EU's European Financial Reporting Advisory Group and the International Accounting Standards Board.

Conduct Regulation

The ABI continues to work with members to ensure that conduct regulation is risk-based and proportionate, that it accurately reflects the needs of different markets and market segments, and that it delivers good outcomes for consumers and the industry. We actively engage with the FCA, ICO, CMA, FOS and EIOPA on a range of conduct regulatory initiatives. This includes operational resilience, the FCA GI Value Measures initiative, the FCA GI Pricing Practices Market Study, the FCA Wholesale Insurance Brokers Market Study, the FCA work on GI Distribution Chain, the implementation of the Insurance Distribution Directive, the General Data Protection Regulation and the Senior Managers and Certification Regime. Through our membership of Insurance Europe and the Global Federation of Insurance Associations (GFIA), we are also active in policy development at the EU and international levels.



EU and International

Europe

The ABI continues to lobby on all EU legislation that will be implemented before the UK leaves the EU and on legislation that could affect ABI members if the UK is treated as a third country once it leaves. We also lobby on those areas where the EU has a strong voice on global developments.

For example, we have successfully lobbied the European Parliament to improve the definition of scope of vehicles in the Review of the Motor Insurance Directive from the original proposal from the European Commission. While the Council is yet to reach a position, the Parliament's report notably excludes vehicles that are not used "in traffic" and motorsports from compulsory insurance requirements.

We continue to press for further certainty to ensure that this will not require amendments to vehicles in scope of insurance requirements in the UK Road Traffic Act.

International

The ABI continues to work with and press Government to ensure the international opportunities of Brexit are fully realised and the challenges are properly addressed.

Our team is in regular contact with HMT, DIT and DfID to help bring down regulatory barriers and open up the markets most important to our members.

Examples of our current work include: successfully lobbying Government to secure an agreement with Switzerland to replicate the EU-Swiss Direct Life Insurance Agreement and with the US on a UK-US Covered Agreement ahead of Brexit; working with sister associations around the world and the wider London Market to collectively advocate against regulatory barriers, such as data retention in South Korea, localisation of reinsurance requirements in Malaysia and India, and onerous requirements on foreign reinsurers in Canada.

We have also been working closely with HMT on their international strategy for financial services and advising them on how to maximise opportunities for (re)insurers in their five priority markets, in particular, how they can support the growing UK cyber insurance and insurance-linked securities (ILS) markets. We continue to work with HMT on the Chancellor's annual Economic Financial Dialogues with China and India.

Brexit

Contract Continuity

The ABI has been working to ensure the priorities of the insurance industry are reflected as the Government prepares for Brexit. To ensure contract continuity for consumers, the ABI called for “urgent action” so existing contracts can continue to be serviced. This saw the UK establish a Temporary Permissions Regime and a 15-year period for contracts in run off. EIOPA has also issued helpful guidance to member states, and we are continuing to monitor how these are being implemented.

Preparation for No Deal

While the ABI has been very vocal about the unacceptability of a No-Deal Brexit for insurers and their customers, we have also been working with members to prepare for this eventuality should it occur (currently the date would be 31 October). The ABI has worked closely with HM Treasury and other City groups on the extensive and technical process of ‘onshoring’ the EU acquis into the UK rulebook, obtaining helpful commitments on the read-across of Solvency II in particular. We have also continued to highlight the consumer implications of a No-Deal Brexit, including raising awareness that policyholders would need to contact their insurer before taking their vehicle to Europe, offering reassurance that travel insurance will continue to cover emergency medical expenses in the absence of EHIC and highlighting challenges around the cross-border transfer of personal data. Subject to political developments leading up to October, we will continue to engage with the FCA and members to ensure that customers have the information they need to be well informed.



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Future Economic Relationship

The ABI has been engaging across Government to highlight that Europe's largest insurance sector cannot be a rule taker. As part of a future economic relationship, we support better dialogue between British and EU authorities around the granting of equivalence for (re)insurance, including the extension of its scope to cover all wholesale risks. For direct insurance, however, equivalence does not offer market access and in the coming months we will be looking for clear and binding reassurances from both the Government and our regulators on how the UK's interests will continue to be served.



Talent and Diversity

The ABI is collaborating with Lloyd's of London and London Market members to champion better diversity and inclusion across the market. The ABI sits on the Lloyd's Dive In Steering Committee for the global inclusion festival. We brought the festival to Scotland for the first time in 2017 and will be holding an event in Glasgow in September 2019.

The ABI is also a sponsor of GIN, the Gender Inclusion Network, which is an official partner of the Inclusion@Lloyd's Network to raise awareness, empower and influence change across the sector.

As part of our strategy to build a modern and diverse industry, the ABI undertakes the most comprehensive survey on inclusion initiatives in the sector to track progress, holds CEO roundtables to facilitate change and conversation, and has our Talent & Diversity Network which brings together leaders within member firms on key inclusion issues.

The ABI and 45 of our members are signatories of the Women in Finance Charter with targets to support the representation of women in management and we champion the benefits of the Charter to help drive change across the industry.



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Data

Innovation and InsurTech

The ABI actively provides support to insurers on innovation and modernisation through our policy work, publications and events. We participate in key policy forums - such as the InsurTech Board of the Fintech Delivery Panel – to promote the UK as a strong location for insurance innovation. We have built a strong network on InsurTech and look to make connections between our members and InsurTech innovators where mutually beneficial.

We also engage with regulators on data, innovation and technology – for example engaging with the FCA on their data and pricing studies, and on their Innovate programme.



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June 2019