



Association of British Insurers

AGENDA 2015 – 2020 INSURANCE MATTERS

The Challenges facing the UK

2015 – 2020



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The approaching general election provides the opportunity to debate how the UK should tackle some of the big economic and social challenges it faces.

- How does the UK drive sustainable economic growth and make UK PLC a global success?
- How does society deal with an ageing population?
- How do policymakers help people manage the cost of living?
- How do you reform the welfare system?
- How can data be used positively to support society, with people's consent and understanding?
- What changes are needed to help society adapt to a changing climate?

Policy makers are grappling with these questions and looking for answers.

As a global leader, the UK insurance industry has an important perspective to contribute to these debates – whatever the issue, insurance is part of the solution.

What is insurance?

“

An arrangement by which a company or the state undertakes to provide a guarantee of compensation for specified loss, damage, illness, or death in return for payment of a specified premium.

”

Oxford English Dictionary

Insurance means that people and businesses are not on their own.

Insurance allows people to live their lives, and businesses to focus on growth, by covering the cost of the unexpected. Insurance provides peace of mind by pooling resources: within the pool, the fortunate majority help the unfortunate few. Spreading risk, or luck, in this way allows insurers to absorb the costs of shocks in a way that one person or organisation just couldn't cope with.

Without insurance households and businesses are less resilient and can suffer long term damage if facing a financial shock. Insurance plays a crucial role in preventing unmanageable debt, business failure and household breakdown.

Insurance is a crucial social contract. It is no coincidence that the most stable and successful economies have the largest insurance sectors at their heart.

Why does insurance matter?

The products and services delivered by insurers are essential for the functioning of our economy and society. Insurance helps individuals, businesses and society manage when the worst happens and disaster strikes.

- The insurance industry is a global leader and national asset. Insurers manage assets of £1.8 trillion and contribute over £10bn in taxes to the government
- London is recognised internationally as the centre of excellence for insurance. Insurance is also a crucial regional employer across the UK, employing 320,000 people.
- Households across the UK recognise the role of insurance in ensuring they are resilient to unexpected events with 90% of the 26 million households in the UK holding at least one insurance product.

Insurers are already finding solutions for many of the problems facing society and are working hard to make markets as effective as possible for their customers, shareholders and the economy. They are doing this by:

Driving efficiency and improving the customer experience, for example through work to remove unnecessary costs from the motor insurance market.

Helping society adapt to change, including the development of Flood Re, a world-first initiative that will ensure the availability of affordable flood cover for those who need it most.

Taking a long term responsible perspective, through investing people's savings in infrastructure and the wider economy.

THE FACTS

£1.8trn

The amount of assets insurers manage

£10bn

Contribution in taxes

90%

Of UK households hold one or more insurance products

320,000

People employed by the industry, the majority outside London

Removing unnecessary costs and improving the customer experience

What are insurers doing now?

FIGHTING FRAUD

USING DATA TO IMPROVE PRODUCTS AND REDUCE COST

CLAIMS HANDLING

REDUCING THE COSTS OF MOTOR INSURANCE

INCREASING THE TRANSPARENCY OF RENEWAL PRICING

FIGHTING FRAUD

Insurers are committed to reducing insurance fraud. Over £1.3 billion of general insurance fraud was detected in 2013, more than double the cost of shoplifting in the UK. Insurance fraud is not a victimless crime as it adds costs for honest customers - adding an estimated £50 to the average household's annual insurance bill.

Insurers invest over £200million a year in initiatives to deter and identify fraud. These include the Insurance Fraud Enforcement Department, a dedicated UK police anti-fraud unit; the Insurance Fraud Bureau, to co-ordinate investigation of organised fraud, and the recently launched Insurance Fraud Register, which will contain details of known insurance fraudsters.

£50

the estimated additional cost of fraud to the average household annual insurance bill

£200m

Insurers' investment in initiatives to deter and identify fraud

MYLICENCE

The MyLicence initiative will mean insurers have access to accurate data from the DVLA on motoring entitlements, convictions and penalty points when providing quotes for insurance policies.

Drivers will provide their driving license number when buying motor insurance, allowing an automatic check to be made on the DVLA website, returning accurate information on the customer's licence. Currently, nearly one in five policyholders under-declare the number of motoring convictions they have – some by accident, others maliciously in order to pay a lower premium – and this initiative will help customers to ensure their details are accurate when looking for a quote.

MyLicence is a collaboration between the DVLA, the Department of Transport and the insurance industry, and is due to go live in 2015. As well as saving honest customers an average of £15 on the cost of their car insurance, it will mean that customers need to answer fewer questions when they apply for insurance, improving their experience.

TELEMATICS

Telematics has the potential to change the motor insurance market dramatically. For insurers, the technology will allow the management of policies on a more individual basis than has previously been possible and enable new tools to reduce costs and prevent fraud. This is an example of how technology has the potential to change behaviour for the better, by making an explicit link between an individual's driving performance and the premium they could pay for their motor insurance.

CLAIMS HANDLING

Insurers are introducing new technology and systems to improve the customer experience, ranging from instant emergency payments to customers and claims apps directly accessible by the customer, to the use of webcams to allow customers to stream pictures of damaged property directly to their insurer. All of which is designed to make the claims process more efficient and smooth for the customer, at what is often a very difficult time.

The industry is also increasingly using technology to identify potential areas of demand within the claims supply chain. During the winter 2013/14 floods, insurers were able to use forecasting technology to identify which parts of the country were most likely to be hit by flooding, which allowed them to get advanced warning to their customers, increase their claims handling resources and advise their partners (e.g. loss adjustors, drying companies and building contractors) about where their resources should be deployed.

This kind of innovation with emerging technology is something insurers will continue to invest in: it can limit the damage caused by unexpected events and get the recovery process started as quickly as possible during what will be a traumatic time for those affected.

1,500%

Increase in sales of telematics products in 3 years

REDUCING THE COSTS OF MOTOR INSURANCE

Motor insurance is compulsory and represents a significant cost to ordinary households. Customers, insurers and politicians are aligned in wanting it to be as affordable as possible and the best way of achieving this is by driving out unnecessary costs. Reforms of the civil justice system have helped reduce premiums by 14% over the past 18 months.

Motor insurers have supported the Competition and Markets Authority investigation into the credit hire and credit repair markets. For too long insurers have faced inflated rates for credit hire cars and excessive hire periods which have led to higher insurance premiums for customers. Regulation of all players in the market to tackle excessive costs is needed to ensure the changes recommended go as far as possible towards reducing costs that ultimately hit the pockets of motor insurance customers.

RENEWAL PRICING

The home and motor insurance markets in the UK are among the most competitive in the world. Shopping around for the best products and finding the best value is an important part of making a market work well, and research shows that the majority of home and private motor insurance customers do exactly that at renewal: 84% of UK private motor insurance policyholders and 75% home insurance customers.

Home and motor insurance products 'auto-renew' unless the customer chooses otherwise – an opt-out rather than opt-in approach. There are very good reasons for this practice – driving without motor insurance is a criminal offence and most mortgages require continuous building insurance to be in place.

It is, therefore, important that customers are able to easily compare their proposed renewal premium with their existing premium, so they can make the right decisions about their home and car insurance, shopping around at renewal if necessary to get the best deal.

Insurers value the loyalty of their customers, but also want to make their lives as easy as possible when it comes to such an important decision. They are discussing with regulators how to make renewal pricing more transparent for customers.

14%

Reduction in motor premiums
in the last 18 months

What more needs to be done?

ACTION ON WHIPLASH

Every day there are 1,500 whiplash claims, a figure that has risen by nearly a quarter in the last four years, despite the number of road accidents falling. Whiplash claims cost £2 billion a year, adding an extra £90 a year to the average motor insurance premium.

It has been estimated that 70% of road accident personal injury claims are for whiplash in the UK, compared to 47% in Germany, 32% in Spain and only 3% in France, earning the UK the unwanted title of Whiplash Capital of Europe.

We need cross-party support for an open and honest public debate about the level of general damages that should be awarded for whiplash injuries and other low-value personal injury claims. Only then will we start to see any significant reductions in the cost of such claims which, ultimately, are paid for by all customers.

INCREASE THE SMALL CLAIM TRACK LIMIT FOR PERSONAL INJURY CLAIMS

There is a strong case for increasing the Small Claims Track (SCT) limit. The need for an increase is overwhelming: when the £1,000 limit was set in 1991, 50% of personal injury claims fell within its jurisdiction, compared to only 9% now.

Raising the limit to £5,000 will better help combat fraudulent or exaggerated personal injury claims, particularly for whiplash, while ensuring low value personal injury claims are settled quickly and efficiently, at a proportionate cost.

IMPROVEMENTS TO YOUNG DRIVER SAFETY

Road traffic accidents are the single biggest cause of accidental death amongst young people aged 15-24. Research from the Government's Transport Research Laboratory demonstrates that the most effective way of helping young people become safer drivers is by changing the way they learn and experience driving.

The poor safety record of young drivers is a tragic waste of young life and pushes up the cost of car insurance for under-25s. It will only come down when new measures are introduced to make them safer drivers. With reform, the cost for young drivers could reduce by 15-20%.

We need cross-party support for reforms to how young drivers learn to drive with the introduction of Graduated Driving Licensing, learning from the experience of other countries such as Canada and Australia, as well as the lessons likely to be learned when it is implemented in Northern Ireland.

TRANSPARENT RENEWAL PRICES ACROSS THE MARKET

People buy home and car insurance in many different ways, including directly from an insurer, via a comparison website or through a broker. Improving transparency needs to be taken up by the whole insurance industry and, therefore, we are working with the FCA to consider what changes are needed for the whole of the market.

HELPING SOCIETY ADAPT TO CHANGE

What are insurers doing now?

ENSURING FLOOD INSURANCE IS AFFORDABLE

REFORMING PENSIONS

TURNING SAVINGS INTO AN INCOME AT RETIREMENT

PROVIDING SICK PAY AND PROTECTION

RESPONDING TO CLIMATE CHANGE – ENSURING FLOOD INSURANCE IS AFFORDABLE

With an increasing body of evidence suggesting that we need to adapt to a warming global climate, the UK needs to ensure it is able to deal with increasingly erratic weather patterns. Insurers play a crucial role in ensuring individuals and businesses are resilient to damage caused by weather events, as well as providing insight and expertise on how climate-related risk is managed.

Over recent years, flooding has become a major issue for some homeowners and tenants looking for buildings and contents insurance. 2013/14 was the wettest winter on record, with an estimated £450 million likely to be paid in flood claims to customers whose homes, businesses, and vehicles were flooded – the equivalent of £6.7 million a day. In addition, around £600m will be paid to customers as a result of storm damage.

Without action, between 200,000 and 500,000 high risk households would be unable to secure affordable flood insurance, which is why the insurance industry is spending £10 million creating Flood Re, a not-for-profit scheme designed to ensure flood insurance remains widely affordable and available. With new legislation in place, the new scheme is set to be up and running in 2015.

£450m

likely to be paid in claims for the winter 2013/14 flooding

MANAGING AN AGEING POPULATION – MODERNISING PENSIONS AND SAVINGS

As people live longer with more complex later life care needs, they will need the freedom to work more flexibly in retirement and options for how they manage their retirement income. The insurance industry is critical to this, in providing products that can meet the inherent uncertainties of later life.

Improving the governance of pension schemes. As part of the actions agreed with the OFT following their workplace pensions market study, insurers will create Independent Governance Committees (IGCs) which will have the expertise and resources to recommend actions to the Boards of pension companies to ensure policyholders receive ongoing value for money from their pensions and savings.

Lowest charges ever. Pension charges have been falling steadily for the last decade and are continuing to fall. In newly set up automatic enrolment schemes the average annual management charge of ABI members is 0.52%. The average annual management charge for existing schemes is 0.77%. For many other existing schemes, both large and small, charges can be as low as 0.3%.

Ensuring value for money. People saving into a pension in the age of auto-enrolment must be confident they have value for money. As part of the OFT review of workplace pensions, members of the ABI committed to carry out an audit of older and higher-charging pension schemes to establish the facts around the charges and benefits in these schemes. This will complete in December 2014.

Pension tax relief. The insurance industry has called for a debate about the future distribution of pension tax relief. Providers did so because they want tax relief to remain given its vital role in encouraging people to save more for longer. It is also essential to use the current investment in tax relief more effectively if we are all to build on auto enrolment with higher contribution levels going forward.

TURNING SAVINGS INTO AN INCOME – THE NEW RETIREMENT MARKET

Developing a retirement income framework that will meet the vastly different requirements of current and future workforces is one of the most important policy challenges of our generation. The pensions industry strongly supports choice and flexibility in the retirement income market. It has a central role in delivering the reforms announced in the 2014 Budget, which enable customers to make new and different choices on how to manage their finances in retirement. But with increased ability to choose comes an increased need for guidance so that people are aware of the choices available to them for what will be life-defining decisions.

We are confident annuities will continue to play a key role, as people are living longer than ever before and a guaranteed income for life is still an attractive proposition for many, particularly later on in their retirement. But people will need to factor in the needs of dependants, possible long term care needs and other factors such as whether the use of property equity would work for them. For this reason, reliable guidance will be crucial in ensuring people are able to make the right long-term decisions.

The insurance industry is working hard to develop solutions to ensure good customer outcomes. We have led the way in responding to the 2014 Budget with a detailed report on how the guidance guarantee could be delivered successfully. For April 2015 the guidance guarantee should be delivered through existing guidance services such as the Money Advice Service (MAS), The Pensions Advisory Service (TPAS) and Citizens Advice. As the scope of the guidance guarantee is established, and the content and standards become clear, Government and FCA should continue to review the role of providers and utilities, and whether providers and others with a commercial interest can deliver the guidance guarantee themselves in a genuinely impartial way.

WELFARE REFORM – PROVIDING SICK PAY AND PROTECTION

Each year one million people are unable to work for more than four weeks and around 250,000 people leave employment due to ill health. 6.6 million households would see their income fall by more than half if the principal earner left work due to ill health. In these cases, income replacement rates from State support vary enormously, even within income bands. Households with more than one income, savings and a mortgage but no children tend to receive the least State support. State support simply does not provide the safety net that many expect or need.

The insurance industry plays a significant role in helping people cope with income shocks through income protection products, and by getting people back to work more quickly through rehabilitation services either through the workplace or direct to individual customers.

With significant reform to the welfare system already underway including the introduction of Universal Credit and changes to eligibility for other benefits, we believe more should be done to broaden the debate on how workers can better protect themselves from an unexpected loss of income.

6.6m

households would see their income fall by more than half if the principal earner left work due to ill health

What more needs to be done?

ENSURING FLOOD RE IS NOT NEEDED IN 2040

It is intended that, over 25 years, flood insurance will transition to a free market, with all customers paying a price that reflects their risk. Flood Re has the mechanisms to allow this, but it will only be a good outcome for society if the flood risk has been reduced to the extent that risk reflective premiums are affordable.

We need government commitment to target funding for flood risk management measures at the places where it is needed most: the places where high risk equals unaffordable premiums without Flood Re.

This needs to be part of an overall strategy for managing flood risk alongside a zero tolerance approach to inappropriate development in areas at risk of flooding, the maintenance of flood defences and robust mapping and forecasting systems. There should be cross-party support to develop a plan for the 25-year transition period showing how flood risk will be reduced for each home that benefits from Flood Re, ranging from new or improved defences to property-level protection and, if necessary, relocation.

DEBATE ABOUT THE ROLE OF INSURERS IN WELFARE REFORM

We believe all parties should engage with insurers to explore how income protection insurance can play a greater role in helping people cope with income shocks. This would be beneficial to customers, strengthen society's resilience and reduce the financial burden on the State.

PEOPLE NEED TO SAVE MORE

Auto-enrolment means there is a mechanism to engage people in saving from an early age but with 50% of the 400,000 people who currently retire each year having a defined contribution pension pot at retirement of less than £20,000, clearly more saving is needed if they are to have the quality of life they expect in retirement.

REFORM PENSION TAX RELIEF

It is time for policymakers to rethink how pension tax relief is used to maximise its impact in encouraging people to save more for longer.

CLEAR DECISIONS ON THE NEW RETIREMENT LANDSCAPE

We need swift decision making from Government on a preferred model for Guidance to ensure it is delivered by April 2015. This includes agreeing what the Guidance Guarantee is and who should deliver it with a roadmap for delivery. We also need new tax rules to strike the right balance of creating a simple and flexible framework while also providing the right protections to customers.

ACCESS TO AFFORDABLE REGULATED ADVICE

Guidance is unlikely to be enough to help everyone make the right decisions and developing new forms of affordable regulated advice should also be part of the new retirement landscape. Getting this right will require commitment from industry, regulators and government.

TAKING A LONG TERM, RESPONSIBLE PERSPECTIVE

What are insurers doing now?

INVESTING IN DATA

SUPPORTING ECONOMIC GROWTH

PROMOTING GREATER DIVERSITY

GROWING EMPLOYMENT IN THE SECTOR

PERSONALISATION VERSUS PRIVACY

Digitisation and technological change have accelerated rapidly in recent years. Data is now, more than ever, a valuable asset both to individuals and businesses. People are increasingly open about the data they share about themselves online and through social media, and advances in business intelligence mean that personal data provided to companies is more easily shared between organisations. Much of this data, that many people would consider ‘personal’, is easily accessible by other individuals and businesses, and is often used (with consent) by them to target products and services.

This is as true for insurance as it is for any other industry. In an increasingly digital world, data will become increasingly critical for insurers looking to offer their customers the right products, at the right prices and in the right ways. Data is also crucial to help the industry prevent fraud, personalise customer relationships and deliver new industry initiatives. The insurance industry must ensure that it continues to access, use and protect data appropriately, and it must ensure customers understand how their personal data is being used.

In return, customers, politicians and regulators must accept and facilitate responsible data use. The importance of striking the right balance between protecting privacy on one hand, whilst allowing data to be used responsibly for the benefit of customers, must be recognised by regulators and politicians in the UK and EU.

DRIVING THE ECONOMY

Insurers use their customers’ pension and other long-term savings to invest in the economy. Investing in long term investments such as public and private infrastructure projects in the UK provides the ideal match for the long-term liabilities, such as annuities, they hold, supports the economy and benefits society as it drives sustainable economic growth. ABI members have already committed to deliver at least £25bn of investment in UK infrastructure in the next five years. Insurers investments make a difference everyday and include helping housing associations find the funds for new housebuilding projects and supports the building of schools, care homes, hospitals and transport infrastructure.

£25bn

The amount of investment six leading insurers have committed to UK infrastructure in the next five years

PROMOTING GREATER DIVERSITY

Insurers recognise how important it is to ensure a diversity of perspective in the Boardroom. As investors and shareholders, insurers want to ensure companies are well run and support those that take steps to increase the types of voices heard around the Boardroom and that can challenge the familiar and help prevent groupthink. Key to delivering this is a more diverse population within Executive Director roles and this includes increasing the number of women in the Executive 'pipeline'. This benefits their own insurance businesses and is equally important for the corporates into which they invest their customer's money.

To support diversity in the insurance industry the ABI has committed to relaunch its Future Leaders development programme for insurance sector leaders in 2015.

GROWING EMPLOYMENT IN THE SECTOR

The worldwide reputation of the UK's insurance industry is built on the skills and expertise of its workforce and bringing in new talent is essential. Insurers have joined forces with others across the insurance industry to launch a new apprenticeship initiative to encourage young people to join the industry and ensure it continues to play a key role in the fabric of people's everyday lives.

Working together, the Chartered Insurance Institute (CII), the Association of British Insurers (ABI), the British Insurance Brokers Association (BIBA) as well as partners from across the insurance and risk management industry will work towards the ambition to double the number of apprentices in the sector.

What more needs to be done?

DATA DEBATE

Questions about who owns data and how we manage the relationship between insurers, customers and their data are becoming ever more pressing. There needs to be a frank and open debate about how data is and could be used by insurers and the impact this will have on the individual, the market and the industry.

DATA PROTECTION RULES SUPPORT AN EFFECTIVE MARKET FOR CONSUMERS AND INSURERS

The rules governing data are already changing and we need legislative and regulatory support in the UK and EU to ensure intellectual property and data protection frameworks are created that adequately protect customers, whilst allowing for a market that enables innovation.

AN AGREED UK INFRASTRUCTURE PLAN

Certainty is essential for long term investment and government can do more to encourage insurers to invest in infrastructure. All parties must commit to developing a single UK infrastructure investment plan with a 20 year time horizon, covering all proposed capital expenditure across all sectors, including those planned by the devolved governments.

RENEWED AMBITION ON CLIMATE CHANGE

It is widely accepted that to minimise the risks of the worst impacts of climate change, global average warming should be stabilised below 2°C. Not achieving this would have significant implications for individuals and society and therefore insurers, and the broader UK business community. A transition to a net zero emission economy by the second half of the 21st century should be the goal and to achieve this we need a credible strategy to revolutionise the energy system, incorporating resource efficiency and energy supply, not just in power generation, but in industry, transport and the built environment.

For more information

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