A Brave New World

Theme: Political Challenges

Politicians in the 2020s will face formidable challenges of structural change, demonstrable relevance, the capacity to act effectively, and the pressures of short-termism.

The structure of the EU and the UK will have evolved from today, whether through giant steps or small ones. In Europe, the institutions and power structures of the European Union will have adjusted profoundly to reflect the realities of a large trading block with marked differences of economy, culture and possibly, currency. Its framework will have been established by the realities of banking union, the consequences of a UK decision to either remain or leave and the differing appetites for integration within an EU made up of at least 27 states. Institutionally, this is likely to mean greater power for an ever-more politicised European Parliament at the expense of the Commission, with the EU-wide regulators (especially in banking) increasingly influential, not least as a point of EU continuity in the rotation of presidencies, commissioners and MEPs. However, these authorities will also have to battle even more for power and influence with national governments, which can deprive them of their authority by sidelining them or increasingly ignoring them altogether.

Within the UK, the structural foundations of the United Kingdom will probably have evolved, irrespective of whether Scotland has voted to leave the Union either in 2014 or in a subsequent plebiscite. Structurally, the trend will continue towards increased devolution towards the constituent parts of the UK with Wales and Northern Ireland having ever greater autonomy over their own fiscal decisions with inevitable consequences for insurance. Short-termism and capacity. Increased short-termism is a natural consequence of the speed of this political environment in which hard-to-reverse critical judgements can be formed in a matter of minutes. Power spread thinly between a range of governments and institutions and the constant threat of legal challenge will also constrain ministers wanting to effect major change. In the UK, this may mean more EU-style of policy making with openly speculative policy development eventually narrowing down into concrete legislation, compared to the Executive-driven top down governmental policy making framework we have traditionally had.

For insurers, as for other sectors of the economy, all this will change the dynamic with central governments. Insurers will be under almost constant pressure to help develop and, critically, implement public policy given the reduced policy instruments and smaller public finances these governments are likely to have. This is an opportunity to help frame public policy in a way that enables insurers to manage liabilities effectively in the public interest, but it brings with it the big risk that the industry is viewed as an alternative source of public funding with the industry constantly pressurised to spend resources on preventing risk rather than managing it, while still blamed by governments when things go wrong.
Think Piece 4: A New Kind of Politics and Its Implications for Our Sector

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Summary

- The era of stable party politics is over. A new kind of politics is emerging – less certain and more reactive.
- In this new political world, government policy is likely to be harder to plan around and may require innovative approaches to deliver.
- The ABI and its members need to be prepared to adapt to this new reality if they are to remain relevant in the public policy arena, whilst ensuring the market thrives.

An altered relationship between politicians, the media and the public, increasing distrust of the mainstream political parties, the rise of new and often anti-establishment parties, and a new distribution of power across the country is changing the UK political environment. This will affect the ability of governments to plan or retain broad ideological underpinnings to their policy. This has already impacted, and will continue to impact, the drivers behind public policy development which will have ongoing implications for the insurance and long-term savings sector.

We can expect less long-term planning in government with more reactions to external factors, less of a set agenda for our industry and more self-regulation due to current parliamentary arithmetic. Engaging with this process in the future will require a fresher and more nuanced mindset for the ABI and its members than it has in the past, ensuring that we demonstrate our relevance to public policy priorities and innovative approaches to delivery.

Key Events Since 2013

The 2014 referendum on Scottish independence energised passionate debate and, despite resulting in a relatively narrow ‘no’ vote, emphasised a huge shift in Scottish politics. The referendum had other consequences, with the UK Parliament quickly moving to promote ‘English Votes for English Laws’, leading to proposals for further devolution of powers to Scotland, and the potential for other constituent parts of the UK to gain greater autonomy in the future.

The 2015 General Election resulted in a narrow Conservative majority, very significant losses for Labour and the Liberal Democrats, and the SNP becoming the third party in Westminster. Despite avoiding a hung parliament, which most commentators and polls had predicted, the election has led to new challenges for each party. With its slim majority in the House of Commons, and with no majority in the House of Lords, the Conservative party faces new challenges in asserting legislative authority and will need to be imaginative in how it drives change. Meanwhile, the Labour and Liberal Democrat parties prepare to regroup under new leadership.

A further outcome of the General Election is the confirmation of a referendum on Britain’s membership of the EU, which will take place before the end of 2017. The referendum was a key element of the Conservative party’s manifesto, with David Cameron continuing his efforts to renegotiate the position of the UK in the EU ahead of the referendum. Whether the EU referendum campaign will energise the debate in a similar manner to the Scottish referendum remains to be seen, although it will almost certainly dominate UK politics over the coming years.
The changing structure of party politics and an end to the ‘age of deference’

The political, social and economic elite were once instinctively trusted by the public. This ‘age of deference’ has been in decline since the 1960s, but has been accelerated by the digital revolution. Nowhere was this more embodied than during this year’s General Election. The election saw the rise of insurgent parties such as UKIP and the SNP that energised voters in a way that mainstream politicians struggled to. They offered ‘anti-consensus’ policies – leaving the EU, Scottish independence and abandoning austerity - in the face of what the public often saw as identikit politicians from the mainstream parties.

Relatively similar policies offered by party leaders from similar backgrounds increased many voters’ disconnect with the traditional two, and more recently three, parties that have dominated UK politics. Indeed in Scotland this happened years ago with the rise of the, now governing, SNP who look on course for another victory in next year’s Holyrood elections. The SNP in Scotland and the insurgent parties’ leaders across the UK didn’t seem to the public as though they were part of this traditional elite and were refreshingly real to many, both in their policy offering and authenticity. A similar outcome can be seen in the election of Jeremy Corbyn as Leader of the Labour Party, who appealed to people, particularly younger voters, thanks to his authenticity and views that differed from the mainstream candidates.

This is not a UK phenomenon; anti-establishment parties are gaining popularity across Europe and creating instability to the long-standing political order - Spain’s Podemos, Syriza in Greece, the Front National in France, the Sweden Democrats and the Austrian Freedom Party to name a few. Clearly these parties do not offer a single ideology, and of course vary in their levels of what are deemed ‘extremist’ policy solutions. However the root cause of their rise generally lies in their appeal to many who feel they have missed out on the benefits of rapid globalisation (in particular the ease with which capital and labour can now move from one country to another), resent the inequality of wealth distribution that it has brought (and in many cases the austerity now being imposed on much of Europe by its leaders), or fear a loss of their cultural identity as a result.

Time will tell whether these parties are here to stay in the UK, but during the course of this UK Parliament the new parliamentary arithmetic will affect the environment in which the Government operates. It will likely be more reactive to these parties’ proposals, perhaps at the expense of its ideologies and policy priorities. Certainly in the short term, as a consequence of this year’s General Election, we face a generational decision about our future in Europe, questions about the future of the Union and increased devolution across the UK and in English cities and regions – uniquely all at the same time.

The changing nature of public engagement with politics

The UK General Election also highlighted the changing nature of the public’s engagement with politics, in part due to the significant media developments in recent years. It was the first ‘social media General Election’ - in which social media provided a key platform for politicians, activists and commenters. As with the Scottish independence referendum eight months earlier, news often ‘broke’ on social media and it complemented traditional media, such as during the television debates when viewers gave their reactions on Twitter as events unfolded.

![Graph showing % trust politicians to tell the truth when they are in a tight corner](image)

Source: The British Social Attitudes survey.

For the political parties’ campaign strategists, chasing Facebook ‘likes’ and Twitter ‘followers’ has never felt more important. Pre-election, the parties had good reason to focus on this. Research showed that among those aged 18 – 24 social media was ranked only second to TV debates in terms of influencing their decision on polling day.

The internet has altered the way we digest information, adding to the decline in public deference. Where previously we were comparatively passive consumers – we received information that traditional media provided us with – we can now create our own content. Social media has become a platform for the public to undermine and challenge politicians’ carefully stage-managed campaigns and announcements. An immediate consequence compared even to election campaigns of a decade ago is the decline of election press conferences and fixed poster launches.
Consequently, few situations now arise in which politicians engage with the public in an unscripted way as party spinners seek to control every aspect of their leaders’ public image through stage-managed performances. Any supposed ‘gaffes’ are quickly jumped on by campaigners – indeed Ed Miliband had barely unveiled his party’s tablet of stone before the hashtag #edstone was trending on Twitter. The ability to satirise or ridicule politicians has been democratised; previously the preserve of the media elite, now anyone can do it.

The rise of social media has also led to what many see as ‘Echo Chambers’ in our views - we follow those on Twitter and choose to read articles by people we share views with, removing opposing opinions. Some argue the hype around crazes like the social media ‘Milifandom’ created a bubble that removed the Labour Party from wider opinion, although polling companies clearly played a far more significant role in this. Interestingly, analysts looking at social media interaction by the main parties and their leaders predicted largely similar election results as the polling companies\(^2\), demonstrating that tweets don’t make votes. Indeed the wider question is whether social media does influence people’s views or just reinforces existing biases.

Traditional and social media have also become powerful weapons to force government policy changes. The U-turn on what would be dubbed the ‘pasty tax’ of 2012 following a sustained media campaign, which was able to galvanise public support at an extraordinary rate, exemplified this. Freedom of Information requests have also empowered journalists and the public to access damaging, or at least embarrassing, information that can be used to quickly discredit a public figure or organisation.

**Less long-term planning in government**

This new set of political norms generates a less stable and less certain policy environment for the industry to engage with and operate within. In spite of the current parliamentary system supposedly giving more stability, politicians now have less control of the news agenda, less public trust in them and less opportunity to brush away the more radical views of the challenger parties. This creates a situation whereby planning for five days’, let alone five years’, worth of policy is increasingly difficult for all industries. But what does this mean for the insurance industry?

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1. **No set agenda for the insurance and long-term savings industry**

The 24 hour news cycle, the rise of social media and the ability for government policy to be almost instantly discredited by campaigns has inevitably heightened a sense of reacting to external developments rather than sticking to one plan and ideology set out at the start of a parliamentary term. This is not a new trend but it has accelerated significantly. A shift of the major parties’ ideologies towards the centre in recent years also means they have less distinct ideological underpinnings and are more pragmatic in reacting to issues, developments and markets.

An advantage of this majority government should be an end to agreements on policy behind closed doors with coalition partners and no longer having to guess possible red lines in negotiations between parties. Historically we would therefore expect more clarity for industry on what policy to expect based on the party’s manifesto. However all parties’ manifests were written with coalition negotiations in mind and even without this factor, nowadays they can rarely be used as a clear indication of likely policies affecting our sector. Indeed some of the key public policy decisions affecting our industry during the last and current parliament, such as the pensions Freedom and Choice agenda, Flood Re and the consultation on pensions tax relief were not in either of the governing parties’ 2010 manifestos or in the Conservative Party’s 2015 manifesto. These were in many ways a reaction to a particular set of circumstances including external events, market behaviour and media attention.

So, we can expect less of a set agenda for the industry with less clarity than previously on how policy affecting the insurance and long-term savings industry will be developed by parties. Businesses of all sectors can’t necessarily assume that a particular government or party will be its friend or foe.

2. **Less legislation, more regulatory solutions**

The Fixed Term Parliament Act theoretically gives more stability and allows business, and indeed the Opposition, to plan around five year parliaments rather than facing the prospect of snap elections. However with a very small majority in the Commons and no majority in the Lords, this UK Government will effectively have to function as a minority government with the threat of backbench rebellions and significant amendments by the Lords to any legislation.
For the insurance and long-term savings industry this is likely to mean less legislation and more non-legislative means from the government to drive through policy proposals, including through the regulators, and by encouraging the industry to self-regulate. The industry is well-placed to respond to this and will need to take a pragmatic and flexible approach to working with government and the regulators, delivering good outcomes for the industry and consumers while making industry red lines clear.

3. Actively partnering where the agenda is clear
The ABI and our members have demonstrated many times in recent years that we can be an effective partner of government. Over the last five years alone we have worked with the government on a range of societal challenges, including helping to deliver the first phase of the Freedom & Choice pension reforms, developing and negotiating the Flood Re scheme, the development of MedCo, the audit of charges and benefits in legacy defined contribution workplace pension schemes, the development of the prototype for PensionWise, and enabling over £1 billion in reduced motor premiums to be passed on by insurers to customers following a Downing Street summit hosted by the Prime Minister in 2012.

Looking ahead, where government priorities or challenges facing society are clear – for example deficit reduction, supporting SME growth, increasing exports and productivity, climate change – the insurance and long-term savings industry must find ways to support the government’s agenda to demonstrate our relevance and positive contribution to local, national and global growth.

4. Reputation – demonstrating the role of the industry
The power of media campaigns has meant that what could previously have been a day’s worth of negative press for the industry can now become a prolonged campaign that results in regulation of the sector. The media may find them dull compared to negative headlines, but as an industry we must work harder to highlight the ‘good news stories’ of the millions of positive outcomes delivered for customers every day to help act as a buffer for any future media campaigns, including with more transparent data on claims paid/declined. More widely the industry’s commitment to apprenticeships, support for SMEs looking to grow or export, the employment created by the industry across all parts of the UK and its investment in UK and global infrastructure are just some examples of the role of the insurance and long-term savings industry in society. Consistently and in new ways demonstrating to the public, and to governments, this value of the industry to society will be more important than ever before.

The changing political landscape will affect the ability of the insurance and long-term savings industry to plan around government policy. In response, the industry will need to be flexible in adapting to this new environment and work hard to demonstrate its relevance to public policy priorities, while continuing to remind elected politicians of its primary responsibilities to its customers, regulators and investors.