



Association of British Insurers



TACKLING THE CHALLENGES OF A CHANGING WORLD



What does change mean for insurers, our customers, society and the economy?

Faced with global economic change, a new regulatory environment, climate change, an ageing society and the huge speed of technology change, the policy debates and decisions of today are critical to the society and economy of tomorrow.

These challenges are profound and mean insurers, policymakers and regulators need to think hard about how we work together to develop short, medium and long-term solutions.

We are already working hard to deliver change on immediate issues such as pensions, flood and motor insurance, the civil justice system and stewardship but we are also looking ahead, thinking about the big challenges facing our industry, economy and society and we want to mobilise the combined expertise and insight of our members to inform our long-term policy development.

We have highlighted interesting issues for debate but we need your help to shape our thinking and identify other major challenges where action by insurers, government and regulators is needed to deliver change for the long-term. We will also be talking to ABI members as we draw together our ideas on where the Government should focus its own insurance action plan which it is working on over the coming months.



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Insurance provides us with essential support for our everyday lives, ensuring cover for the risks we all face; owning homes, possessions and cars, running businesses, providing an income for life after work, protecting us against the financial impact of serious illness and death, and giving us peace of mind when we travel.

Managing these risks provides a foundation to our society and economy which is powerful but sometimes almost invisible and the world in which we are doing it is changing rapidly. Through the long-term nature of our business and the diversity of our engagement with millions of customers, insurers are quick to identify changes in the way we live and behave. This means we are uniquely placed to use our expertise and understanding to inform public policy and to help society tackle the huge economic, social and technological challenges and opportunities ahead.

**What are
the main
challenges
towards
2030? >**

Digital revolution and an interconnected world

The speed of and access to digital communications will continue to have a profound impact on the way we live our lives. For insurance customers by 2030, empowerment through technology will be a central fact of life underpinning the most basic and most sophisticated of daily tasks.

By 2025 people will have access to digital capacity 64 times that available today, through mobile phones, tablets, laptops and television. Constant access to information, much of it tailored to the individual's requirements is likely to drive new behaviours and constantly raise customer expectations.

The dynamic effects of the digital revolution will continue to drive the process of globalisation and rebalance economic power.



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Customers and their data

In a world where our personal data is more publicly available, the relationship between customer and insurer and the permission to use data when pricing products will be vital. Vital to the insurer because it will be impossible to risk price effectively, fairly and competitively without access to all relevant 'public' information, but also important to the customer to ensure they are getting a product which is fully matched to their needs and priced appropriately.

Is the insurance industry sufficiently focused on the future data ownership and protection aspects of its customer relationships?

What can insurers do to ensure they establish permission levels about what data they need, how they are going to use it to risk price and how they will protect it?

What can we learn from other sectors about data handling and sensitivity?

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Economic impact of the financial crisis



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The long-term macro economic consequences of the financial crisis will influence Western economies well into the 2020s. With £375bn of Quantitative Easing to be unwound, the UK's economic leaders could face an economy struggling either with unpredictable interest rates, inflation or tepid growth, or a combination of all three.

We are unlikely to see 2007 levels of GDP growth until well in the 2020s, household budgets are likely to remain squeezed and low economic growth will mean lower public spending. The potential impacts of this are wide from reduced spending on key investments such as flood defences to a prolonged period of low investment returns, all of which have a direct impact on the insurance industry and the cost and performance of its products and services.

Boosting the economy is a public policy priority. Insurers are eager to identify new opportunities for long-term investment, and the avenues for insurers to contribute are significant, through investment in infrastructure such as roads, bridges, factories and commercial real estate. But there is a mismatch between potential investment finance being skewed into short-term government debt while the same governments desperately need it to be channelled into projects to boost short-term growth and develop long-term productive capacity.

Insurers fuelling the economy

At a time of unparalleled economic change, one of the biggest challenges from an insurers' perspective is how to unlock and fully utilise the value of capital when faced with regulatory and political obstacles. Insurers are core providers of long-term capital to invest in the economy and an increasing source of short-term capital as banks are forced to meet higher capital requirements. Ideas for making this type of investment more accessible for insurers include a greater level of government involvement and providing state backed guarantees to underpin major projects. And what role do regulators play? The evidence of the last 5 years suggests they often discuss capital adequacy isolated from elected finance ministers and fail to take a holistic view about how to regulate risk management and investment in a way that encourages growth.

What exactly can Western governments do to attract insurer capital into infrastructure investment?

What should the forthcoming UK Government insurance action plan focus on to ensure the insurance industry is able to play its full part in boosting growth and investing in the UK?

How can the UK maximise its attractiveness as a home for globally mobile capital?

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An ageing population

While the world's population will continue to grow dramatically over the next two decades, our UK society is ageing and our ratio of workers to retirees is falling. This makes the current pensions system increasingly unaffordable for government and brings with it wider society level challenges for which we are financially unprepared; the impact of dementia on our health system, the household economics of living for 30 years post-retirement and the need to fund care in later life either at home or in residential facilities.

An ageing society is also likely to present significant economic challenges including demands for more flexible housing, growth in the residential and private care sectors, stretching the welfare state's ability to fund dignity in retirement and potentially creating a new labour force of the semi-retired. For insurers, the most obvious challenge will be to innovate to help fund a range of solutions to long-term care provision in a way that meets shareholder, political and regulatory approval. But potentially an equal challenge will be to develop flexibility in retirement solutions to reflect the financial requirements of the semi-retired and to adjust to a labour market with fewer younger workers and more older part-time employees.



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Reforming how we turn our savings into retirement income

Most of us in the UK still cling to the concept of a fixed retirement age acting as a gateway to a life of no longer having to work. It is hard to imagine this concept surviving the next decade. By 2010, 18% of people drawing a pension also had a paying job of some sort. The older we get the more we will need flexible strategies and products to cope with the changes life brings, from meeting living costs to paying for care.

How can we build on auto-enrolment so it becomes the foundation for healthier saving and protection levels?

How can insurers develop new solutions and improve on existing ones to deliver flexibility for people as they age?

What welfare reforms are most needed to ensure the best alignment with the provision available from the private sector?

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Consumer-centric regulation

The new UK regulatory focus is judgement-based consumer-centric regulation, centred around outcomes, not principles. Early intervention is central to the approach of the prudential and conduct regulators and both have stated they would rather be occasionally wrong, having intervened too early than allow a major problem to develop unchallenged. And EU regulators are increasingly developing a conduct focus alongside their existing prudential focus.

Regulators are clear that firms having the right internal culture is a 'must-have' with a leadership team from Board downwards that wants to do the right thing for customers and which prioritises the long-term health of the business above short-term considerations. But one area where the role of consumer centric regulation is less clear is in its involvement in wider socio-economic outcomes that frame the society in which customers live.

With pressure on public finances, the next few years is likely to require new thinking about insurance solutions in the benefits and welfare space. Regulatory approaches will be an essential factor when considering how to ensure supply and access to new products. Regulators cannot be detached from the fast-changing wider society in which these customers will need solutions that insurance could deliver.



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Consumer access to products

One of the long-term challenges where we need joined up regulation and policy is how to adapt the market for insurance products in the face of a changing benefits system and linked to that, the opportunity to access products through the workplace.

Auto-enrolment into workplace pension schemes has opened the door to distribution of financial products via the workplace and it is likely that the workplace will need to be part of the answer to ensure more people are engaged and active in saving and protecting themselves.

What can the industry do to bridge the gap between political and regulatory imperatives and how best can it avoid being stuck in the middle between them?

What are the regulatory barriers or opportunities to selling via the workplace?

How can insurers encourage regulators to take into account socio-economic factors when judging consumer outcomes?

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Join the debate! Help us shape our policy priorities and have your say

Are these issues the right ones to debate?

What insights can you share on these issues, or any others to help guide our thinking and our input to the Government insurance action plan?

Go online and find out more about the trends likely to affect you and your business over the coming decade.



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