24 September 2020

The Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
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Written evidence submitted by the British Insurance Brokers' Association to the Comprehensive Spending Review

The British Insurance Brokers' Association (BIBA) is the UK's leading general insurance intermediary organisation representing the interests of insurance brokers, intermediaries and their customers.

BIBA membership includes more than 1800 regulated firms, employing more than 100,000 staff. General insurance brokers contribute 1% of GDP to the UK economy; they arrange 67% of all general insurance with a premium totalling £66.5bn and 81% of all commercial insurance business. Insurance brokers put their customers' interests first, providing advice, access to suitable insurance protection and risk management.

BIBA receives more than 600,000 enquiries per year to its Find Insurance services, online and via the telephone which are directed to member insurance broking firms.

BIBA is the voice of the sector advising members, the regulators, consumer bodies and other stakeholders on key insurance issues.

Our submission contains policy suggestions for the upcoming fiscal event and explains the desired outcome, policy rationale, costs, benefits, and deliverability of proposals. We would be happy to provide more in-depth analysis in any of the areas covered.

Our response focuses on the Chancellor's stated priorities.

Our key requests are:

- support UK Businesses and households, by freezing insurance premium tax at 12% for the remainder of this parliamentary term;
- invest in innovation by granting targeted IPT relief for telematics and cyber insurance policies;
- prioritise jobs, particularly in the travel insurance sector, by simplifying and revising the rate of travel insurance IPT to 12% and extending the current interventions in the specific areas of trade credit and film/TV insurance beyond the end of the 2020;
- maintain investment in infrastructure by continuing to ring-fence the 0.5% IPT contribution to flood defence work in all future spending reviews and improving flood resilience by providing a VAT break on flood resilience products;

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- reduce pressure on the NHS by waiving the first £500 of private health insurance benefit from the P11D, encouraging more SMEs to offer private medical insurance to employees;
- help achieve net zero emissions targets by exempting from VAT repairs that are carried out by insurers in the event of a claim, provided such repairs are completed in a sustainable way, for example meeting Government net zero standards for energy efficiency;
- ensure longer-term economic opportunity by backing a new world leading pandemic insurance solution;
- follow through with Government's commitments on building safety following Grenfell and reopen and widen scope of the Building Safety Fund for residential buildings with unsafe cladding;
- make cladded buildings safer sooner by creating a new temporary insurance solution for professionals involved in the remediation effort; and
- strengthen the UK's place in the world by introducing an international competitiveness objective for UK insurance regulators the FCA and PRA.

Levelling up economic opportunity across all nations and regions of the country by investing in infrastructure, innovation and people – thus closing the gap with our competitors by spreading opportunity, maximising productivity and improving the value add of each hour worked

Encouraging economic opportunity by committing to freeze Insurance Premium Tax (IPT) at 12%

Our primary recommendation is for Government to hold IPT at the current rate of 12%. IPT receipts are at a record high of £6.2 billion and with the insurance market recently experiencing a number of significant premium rate increases across many classes of business the Government's IPT income is likely to increase further anyway.

The rate of IPT has increased rapidly in recent years: in 2011 the rate was 6%, increasing to 9.5% in 2015, 10% in 2016 and finally to 12% in 2017. This tax burden falls on both consumers and businesses alike and is regressive in nature since it acts as a huge disincentive to the purchase of adequate insurance protection and a lack of insurance can have unintended consequences on the state, for example when UK holidaymakers without insurance contact UK consulates for assistance with repatriation.

A 2018 survey by a leading UK insurer into the Public and Voluntary sectors, for example, found that 1 in 4 public sector organisations have been forced to increase their excesses and 2 in 5 have had to cut budgets elsewhere to offset the cost of successive rises in IPT. Just under half of organisations said they would be forced to reduce or cancel cover on some risks if IPT rose.

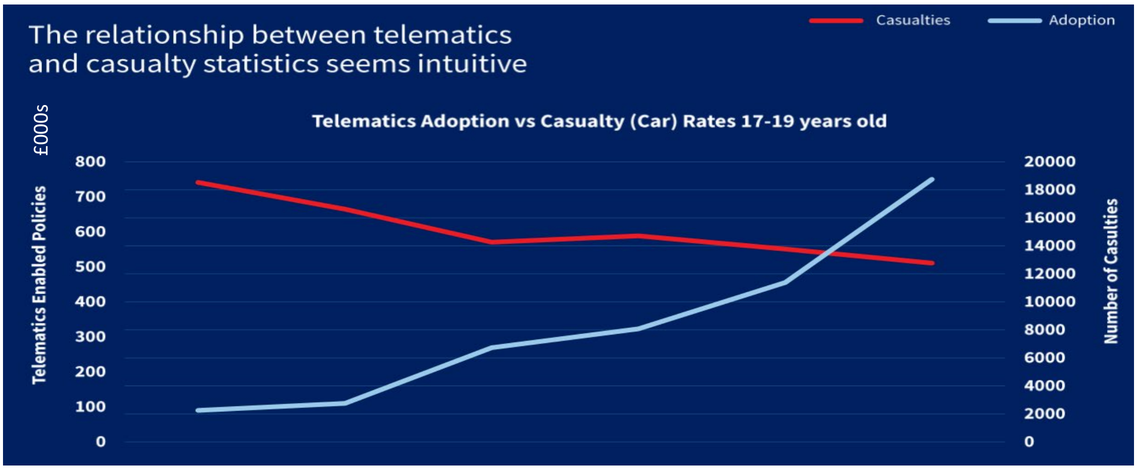
Public sector organisations and charities have been faced with a difficult financial landscape for several years and are now struggling to maintain the level of service and the required level of insurance protection as a result of repeated IPT increases. Further rises to IPT will only exacerbate the pressure on public sector budgets, disincentivising responsible behaviour.

The pressure on UK businesses caused by Covid-19 have put many at breaking point and that is why we are calling on the Government to announce an IPT freeze for this parliamentary term.

Grant Targeted IPT Relief for Telematics and Cyber insurance policies

We urge Government to consider targeted IPT relief to encourage responsible behaviour in two key areas.

Motor insurance policies which utilise telematics technology. There has been a significant uptake in telematics policies with almost 1 million currently force. There is a clear correlation between this increase and declining casualty rates for 17-19-year-old drivers. See graph below which draws on data collated by Nexis Lexis.



Telematics policies have been shown to moderate driving behaviour, reduce speeding by 25% and increase road safety. We propose that Government incentivise more young drivers to purchase telematics policies by making these policies exempt from IPT.

Cyber Insurance. BIBA met with the Minister Matt Warman MP this year and is working with DCMS and the National Cyber Security Centre to raise awareness among SMEs to make their businesses more resilient to cyber-attack and to buy adequate cyber insurance. Less than 3% of SMEs buy cyber insurance today. To encourage better uptake, we propose that IPT relief is given on cyber policies purchased by SMEs. Bearing in mind the lockdown has created an enormous reliance on internet usage, it is vital the we ensure more UK SMEs have cyber insurance protection.

Helping properties at risk of flood

In 2016 the rate of IPT was increased from 9.5% to 10% with the specific aim by Government to use the additional revenue to fund increased investment in flood defence and resilience. We estimate the annual amount thus raised to be over £250 million per annum. This represents a huge contribution to the Government's overall investment commitment of £2.6 billion between 2015 and 2021 to reduce flood risk by 5% and protect a further 300,000 homes. DEFRA estimates that inland flooding would cost almost three times more per year without flood defences (a bill of £1.8 billion) rather than £700 million across the whole of the UK. The EA, in its latest Draft National Flood Strategy for England, states that for every £1 spent on protecting communities from flood, around £9 in property damage is avoided.

This IPT contribution to flood defence work and resilience must continue to be ring-fenced in all future spending reviews. BIBA also calls on Government for greater transparency in accounting for where the money is spent through specifying projects funded in whole or in part by ring-fenced IPT.

We also believe customers should be encouraged to invest in property level flood resilience measures and therefore a VAT break on these often expensive products would help assist the resilience of the UK to flood and reduce the pressure on local authorities during a crisis.

Funding of pandemic insurance solutions

In the wake of the Covid-19 pandemic, insurers have sought to clarify the intent of their policies when it comes to granting contagious/infectious disease cover through clear exclusions. This is particularly true in the area of business interruption where the FCA test case has helped to bring clarity to the matter. One of the trends we are observing is Covid-19 or contagious/notifiable disease exclusions appearing across the insurance market; however in surveying our members, we found clear evidence of a strong demand for a parametric type insurance policy that pays out a fixed sum in the event of a second pandemic and consequent shutdown of the economy.

Our research with the Federation of Small Businesses shows that over 75% of respondents (out of 469) said they would consider purchasing an insured cashflow protection to protect their business in the event of a future government lockdown.

Sums insured of between £25,000 to £50,000 would provide an emergency cash injection to keep the business running during, for example, a three month lock down period.

However, despite this demand we do not believe the insurance industry will have sufficient funds to capitalise for a national pandemic insurance solution and therefore we propose a shared solution along the line of the Pandemic Re proposals made to HM Treasury this summer.

The Government would effectively fulfil the same role as they do with the Pool Re terrorism insurance facility, standing in as the 'backstop' reinsurer of last resort once the industry allocated premium has been exhausted.

Strengthening the UK's economic recovery from COVID-19 by prioritising jobs and skills

We ask Government to review current interventions in the specific areas of trade credit and film/TV insurance and whether these need to be extended beyond the end of the year following the Prime Minister's address and new measures to tackle Covid-19 made on 22nd September 2020.

Travel insurance IPT – in need of urgent reform and simplification

The travel insurance sector is a clear example of undesirable or counterproductive harm to economic growth: it is in the most desperate situation due to Covid-19 with hardly any income in the last 5 months leading to redundancies and furloughs as firms struggle to survive. This period of massively reduced income is clearly set to continue for a long time with many customers required to shield, many countries on the FCDO all but essential travel list, and the global rate of Covid-19 still getting worse.

Yet this sector is subject to an unusually high rate of 20% IPT. This higher rate is due to the historical issues of travel insurance by some sectors of the unregulated travel industry prior to FCA regulation. However now that FCA regulation is in place for sales of connected travel insurance there is no justification for IPT to be applied at a rate of 20%.

Changing the travel insurance rate of IPT to bring it into line with the 12% rate applicable to the rest of the sector would achieve the Government's aim of simplification while at the same time giving a critical boost to the travel insurance and wider ravel sector, helping to safeguard many jobs.

Travel insurance is also going to become far more important for UK citizens as we leave the EU wide system of reciprocal health agreements, the EHIC (European health Insurance Card), at the end of this year. With no replacement or alternative health agreement agreed, the only financial protection that will be afforded to UK citizens traveling abroad will be to arrange travel insurance.

To put this in context, UK citizens make more than 50 million trips per year to EU27 countries. BIBA's joint research with the ABI in October 2019 showed that almost a quarter of UK citizens visiting these countries have no travel insurance. Any incentive to encourage consumers to purchase proper travel insurance is therefore important and IPT is one lever available to Government.

This is therefore the ideal time to reduce the rate of travel insurance IPT to 12%.

Reducing the rate of IPT on travel insurance to 12% would:

- simplify the IPT rate system
- make travel insurance more affordable as we lose the EHIC at the end of this year.
- would be a stimulus to economic growth in a very troubled sector
- result in more UK citizens being protected and reduce pressure on UK consulates.

Improving outcomes in public services, including supporting the NHS and taking steps to cut crime and ensure every young person receives a superb education

Waive the first £500 of private health insurance benefit from the P11D, encouraging more SMEs to offer private medical insurance to help reduce the burden on the NHS

We believe that such a move will encourage more SMEs to offer private medical insurance to their employees, reducing the burden on the NHS in the process while improving productivity.

Working on the assumption 20% of the 16million employees working for SMEs could be enrolled in private medical schemes as a result of such an incentive, we estimate this would generate an additional £1.6billion in premiums. This produces £178 million in additional IPT, which more than offsets the estimated £135miilion reduced P11D revenue to HMRC. More importantly, health insurers will be funding approximately £1 billion in claims that hitherto would have been picked up by the NHS.

In addition, this initiative would bring significant productivity gains for the UK economy. Ill health absence and presenteeism costs the economy £73 billion in lost productivity attributable to 32 million employees. 16 million employees are employed by SMEs. Improved health insurance penetration due to the proposed P11D tax break could mean that 20% or 3.2 million employees would be better protected. 3.2 million people represents 10% of UK employees and so are responsible for £7.3 billion of lost productivity. Recent research by Dame Carol Black estimates that improved wellbeing in the workplace would improve productivity by 25%. If we apply this factor to the £7.3 billion figure, we derive a productivity gain of £1.8 billion.

Improving the management and delivery of our commitments, ensuring that all departments have the appropriate structures and processes in place to deliver their outcomes and commitments on time and within budget

Reopen and widen scope of the Building Safety Fund for residential buildings with unsafe cladding

We recommend that the Building Safety Fund (BSF) to help owners and leaseholders with the cost of remediating residential buildings that have unsafe external wall systems be reopened and its scope widened. The BSF was closed to new applications at the end of July and a key eligibility requirement was for the building to be over 18m in height, which seems an arbitrary number. Our recommendation would be to lower the height criteria to 10 metres. The BSF was originally funded at £1 billion. Our understanding is that the overall cost for the remediation of all unsafe buildings could be as much as three or four times that amount. We would recommend that MHCLG and GAD consider what the true figure could approximate and to fund as close as possible to that level.

Create a new temporary insurance solution to unlock the delay in making cladded buildings safe

From an insurance perspective, buildings that are found to have combustibility issues are becoming increasingly difficult to underwrite, with both price and capacity becoming significant issues. Higher premiums added to waking watch costs are a significant, additional financial burden on leaseholders. In September, working with MHCLG, we conducted a survey of our members on this issue. We asked specialist BIBA members if a temporary government backed scheme is required to address the problem of affordable insurance for buildings with cladding that require remediation. 88% of respondents felt that it was required.

We have also put a detailed paper into MHCLG on solutions to resolve the availability of Professional Indemnity insurance (PII) for professionals involved in fire engineering and fire safety work for high rise residential buildings. The lack of PII is a serious brake on the pace of remediation work and our solutions call for Government intervention to resolve the problem. We look forward to progressing our ideas with Government

Strengthening the UK's place in the world

Many insurance brokers trade overseas and we need support from the Government on the world stage, particularly now considering our exit from the European Union.

Many countries' insurance regulators have an international competitiveness objective. Introducing this requirement to the UK would not be of any considerable cost in the spending review but would help achieve the outcome mentioned in the Queen's speech in December 2019, which referenced incoming legislation that would be 'enhancing the competitiveness of the UK's financial services sector, while maintaining high standards to protect UK consumers so that they can use financial services products with confidence'.

We propose the reintroduction of the previous wording from the Financial Services and Markets Act 2003, which imposed a duty on the then-regulator, the FSA, to have regard to “the international character of financial services and markets and the desirability of maintaining the competitive position of the United Kingdom’. This would most certainly aid our aim of competing internationally.

Making the UK a scientific superpower, including leading in the development of technologies that will support the government’s ambition to reach net zero carbon emissions by 2050

Incentivising Sustainable Behaviour

To support the Government’s net zero target by 2030, an incentive could be to exempt from VAT repairs that are carried out by insurers in the event of a claim, provided such repairs are completed in a sustainable way by, for example, meeting Government net zero standards for energy efficiency.

Summary

Our proposals are designed to help support the Government’s aims of reducing the strain on UK businesses and household budgets following Covid-19 and assist with the long road to recovery for the UK economy. Our proposals primarily relate to the operation of Insurance Premium Tax where we outline considerations for Government.

We hope you can give serious consideration to all our recommendations, in particular our key recommendation to freeze the rate of IPT at 12% for this Parliamentary term.

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