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**Risk Mitigation Services Team**

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**The Risk Protection Arrangement (RPA) proposed Motor Vehicle Cover**

**About BIBA**

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 around 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 £65.1bn 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 hundreds of thousands of enquiries per year to its Find Insurance Services, online and via the telephone, which are directed to insurance broking firms.

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

**BIBA Summary:**

- We strongly disagree with this entire proposal. There is a healthy functioning motor insurance market for school minibuses and absolutely no need for intervention.
- There will be a significant exposure to the taxpayer for multiple personal injury claims (this is amplified by the changes to the personal injury discount rate).
- The RPA does not have the claims data to quantify and price the risks that it will be accepting, bringing uncertainty and risk to both the schools and the taxpayer.
- Schools would lose vital risk management advice provided by the industry.
- There are other much more important priorities for RTA changes like overcoming the Vnuk ruling.
- By excluding the larger 17 seat minibuses this 'selection against' them will have a negative effect on their market as they cannot be part of the school's wider fleet.
- If implemented, UK insurance broker businesses will lose these valued clients and the school would lose their vital risk management advice.

Questions on the consultation (Please use the comments box to give more details for each question where relevant)

**10. To what degree do you agree with the following statement ‘The proposed RPA Motor cover run by the DFE would have a positive impact on my organisation directly or indirectly’. Please let us know what the impact would be.**

- a. Strongly agree  
 b. Agree  
 c. Neither agree nor disagree  
 d. Disagree:  
 e. **Strongly disagree:**

Comments:

We strongly disagree. Our members are professional insurance brokers who advise schools, businesses and the general public on how to identify and manage the risks they face and then to work with insurers to find the insurance solutions that best suit their needs.

Since motor insurance has remained outside of the RPA, this has allowed our members to maintain a relationship with schools as a risk adviser and this will be lost should the proposal go ahead. Our members work today with schools who are members of the RPA to find the most appropriate motor insurance solutions that best fit their circumstances. They work in the best interests of schools and will search the insurance market for the most competitive and suitable insurance solutions. In addition, they advise schools on how to manage their motor risks and help manage claims for them, liaising with the insurer to obtain the best outcome for the school. Motor claims can be large and complex so this aspect of the professional broker’s work cannot be underestimated, and this service would be lost to the school should this proposal go ahead.

Not only would this proposal negatively impact the school’s access to risk management advice, but it would negatively impact our members who would lose the school as valued clients.

**11. In principle, do you or your organisation support the proposed introduction of RPA Motor cover for member schools?**

- a. Yes  
 b. **No**  
 c. Unsure

Comments:

We strongly object to the proposed introduction of RPA motor cover for member schools.

Firstly, there is a healthy, competitive private insurance market for motor insurance which caters for the specific needs of schools, in particular minibuses. Many of our members are active in this area and report no problems in placing the motor risks of schools at a competitive price. We believe that state intervention in the insurance market should be a last resort where there is a crisis in supply or the risk is simply too large for the insurance market to absorb (for example, terrorism.) This would not be a good use of taxpayers’ money. We have been involved in several Government interventions in the insurance market in recent years and the bar has rightly been set very high, requiring unambiguous evidence of market failure. These interventions have also been temporary in nature in most instances with the firm intention to return the risk to the private sector once conditions permit. Here we have an intervention that meets a very low bar and one that is permanent.

We are concerned that the Department is reacting wrongly to the findings of the tender exercises carried out by Willis Towers Watson in 2018 and 2019 which ostensibly found no single insurer that was prepared to respond. This should not be interpreted as evidence of a market failure. Rather, insurers were reluctant to proceed because of a lack of confirmed claims data while asking one

insurer to absorb such a large tranche of business would have unbalanced portfolios and brought with it too much risk.

Secondly, we are concerned that Government does not have the data it needs to quantify and price these types of specialist motor risks. There is significant risk of very large personal injury claims following an accident involving multiple passengers. The current negative personal injury discount rate has made the once remote chance of a claim exceeding £10m far more likely; in particular if the minibus is carrying many young people, the aggregate payment could greatly exceed that figure. Insurers hedge this risk today via reinsurance but also have the claims data to hand to set a premium that reflects the risk presented. If Government under-prices the risk, then any shortfall will fall to the taxpayer. How will the RPA insulate itself from large, infrequent claims in the same way as insurers today look to the reinsurance market to cap exposures and even out underwriting results? Equally, if Government needs to reprice the risk, then schools face budgetary uncertainty.

Thirdly, the proposal would deny schools access to professional insurance advisers in a class of business that is complex and brings significant risk exposures. The unlimited nature of third-party bodily injury claims and the potential for large claims involving multiple passengers (minibus scenario) makes risk management central to the insurance proposition. Brokers work with schools today to strengthen risk management through such initiatives as:

- Ensuring that a system of check is in place to vet all drivers
- Ensuring driving licence checks of fleet drivers
- Training
- Claims analysis to identify trends
- Sharing lessons learned from claims
- Ensuring readiness to comply with new rules for driving on the continent of Europe.

Fourthly, the proposal would deny schools an important source of advice at the time of a claim. Our members play a key role in helping schools respond in the event of a claim, helping ensure that all relevant documentation and evidence is gathered. They will liaise with the insurer and help gather the information needed for the claim to be handled in an expeditious and professional manner. As the agent of the school, the broker will work with the school to ensure the best financial outcome while working also to ensure that reputational risks are carefully managed.

Finally, has the risk of uninsured gaps been evaluated? Alongside the central motor insurance product, insurance brokers will also discuss with schools the need for comprehensive breakdown insurance (brokers often include this at heavily discounted premiums) and personal accident cover. Broker schemes can also include trailers as standard in the insurance cover provided to schools. Finally, some broker minibus schemes include free uninsured loss recovery (ULR) cover. How will the RPA plan to cover such gaps?

## **12. Have you any comments on what the department should take into consideration regarding the provision of Motor cover to RPA member schools?**

Comments:

The Department needs to be aware of the risks posed by the unlimited nature of third-party bodily injury claims under the terms of the Road Traffic Act. How will it protect itself against large catastrophic claims that are difficult to model or price? Will the Department have access to the reinsurance market?

The frequency of motor claims needs to be understood. Motor insurers have the infrastructure to handle large numbers of low value claims. They also have the network of repairers to carry out repairs to a high standard in a timely manner. How will the RPA seek to replicate this infrastructure and manage down the cost of damage claims? Fraud is a persistent problem and insurers combat this collectively through sharing data and via membership of the Insurance Fraud Bureau. How will the

RPA insulate itself from fraud if it decides to self-insure? Also, how will it plan to share data so that it can help with the national effort to combat fraud?

By removing the risk from the private insurance market, Government loses an important mechanism whereby good behaviours are rewarded via risk adjusted premiums.

**13. Have you any comments on the proposed categorisation of school vehicles to be covered by the RPA?**

Comments:

Using passenger capacity as a proxy for varying premium thresholds is a sensible approach as the third-party bodily injury risk naturally increases. The proposed categorisation leaves larger minibuses/coaches (over 17 passengers) to be insured in the traditional way. Obtaining insurance to cover such larger, one-off vehicles might be more expensive if the insurer is denied the opportunity to underwrite the wider fleet of vehicles.

**14. Have you any comments on the proposed operation of the RPA Motor cover?**

Comments

If the Department does proceed, then preserving a school's ability to remain insured in the private market is important. We think it needs to be made clear to schools what are the pros and cons of each option. We need the debate to focus on more than pure price but also the service proposition, including risk management and claims management.

We are curious as to how cover will be priced so that it is sustainable. Using a per vehicle approach is a good starting point, but today, motor insurers will use multiple factors to derive an accurate premium. What data is the department using to model premiums and to what extent is this being adjusted to reflect the fact that the role played by insurers to contain claims costs will be lost, at least in part?

It is not clear if the RPA will become a member of the Motor Insurers Bureau (MIB) should the Department proceed. Membership would seem critically important to guard against the risk of accidents involving uninsured/untraced motorists in the UK and to allow access to recovery from equivalent bureaux should such an accident occur while driving in the EU. If the RPA is not a member of the MIB, how does this impact foreign travel and how would evidence of insurance be provided?

We are surprised and disappointed that the UK Government has not been able to introduce legislation to resolve the important issue of the Vnuk ruling that affects the UK – which we were told was a priority - yet seeks, however, to introduce legislative time to pass an unnecessary amendment to the RTA to accommodate this proposal despite a functioning insurance market.

Yours sincerely



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