

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 just under 2,000 regulated firms, employing more than 100,000 staff. General insurance brokers contribute 1% of GDP to the UK economy; they arrange 52% of all general insurance and 78% of all commercial insurance business. Insurance brokers put their customers' interests first, providing advice, access to suitable insurance protection and risk management.

BIBA helps more than 250,000 people a year to access insurance protection through its Find a Broker service, both online and via the telephone.

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

The Negative Impact of recent Insurance premium tax Increases

Following the spring 2017 budget, the Financial Secretary to the Treasury wrote a letter stating that there was no evidence to show there was an increase in uninsured driving. However on August 2017 the Motor Insurers Bureau (MIB) – the official body set up to deal with uninsured driving, reported that for the first time in more than a decade, they saw an increase in the number of claims made following accidents with **uninsured drivers**. This increase was a significant 10%.

The Majority of Industry experts including BIBA and large brokers like the AA attribute this increase in uninsured driving directly to the doubling of IPT, from 6% to 12% in a 20 month period up to June 2017.

Insurance – reduces the burden on the state

Insurance is a social good. It allows people to take responsibility for themselves and their assets, and reduces the burden on the state should things go wrong. Additionally, the transferring of risk through insurance allows business to function. It gives our country resilience and businesses the peace of mind that when the unexpected happens, they will be given the assistance they need to be able to continue trading. Without it, the economy would grind to a halt as very few businesses possess the ability to carry their own risk without the need for insurance. In summary, insurance is vital.

Certain classes of insurance such as motor and employers' liability are also compulsory. Whilst there are very good reasons for this, it means that these policyholders have to pay the tax.

Insurance Premium Tax was introduced by then Conservative Chancellor Kenneth Clarke in 1993. Previous to this, there was no tax attached to this insurance as previous Governments saw this as a social good.

Insurance Premium Tax (IPT) is a tax on general insurance premiums. There are two rates;

- Standard rate: 12% per cent (home, contents, motor, van, pet, business, health)
- Higher rate: 20 per cent (travel insurance, mechanical/electrical appliances insurance and some vehicle insurance).

The tax is paid on insurance premiums, which in turn are paid by customers, similar to the way VAT is charged on goods or services and that charge is passed on the purchasers of these.

Between 1997 and 2011, a period of 14 years, there were only two increases of Insurance Premium Tax, introducing a modest rise from 4% to 5% under Rt Hon Gordon Brown, and 5% to 6% under Rt Hon George Osborne MP. The recent increases the industry has seen are beyond historical precedent (figure 1). In a period of around 20 months, there have been three increases in the rate of insurance Premium Tax, doubling the rate from 6% to 12%.

BIBA members feel strongly that this gross inflation of the rate of tax materially affects affordability and limits the ability of the industry to pass on savings made through joint initiatives between the industry and Government to tackle fraud.

In its consultation 'Reforming the soft tissue injury (whiplash) claims process'ⁱ, Ministry of Justice Minister, Lord Keen, stated "Millions of motorists could save an average of £40 on their annual car insurance from these proposals to tackle the unacceptable number of claims". However, the ability of the industry to be able to do this is seriously impacted by the level and frequency of the increases to Insurance Premium Tax, compounded by the Ogden changes, which even after the recent announcement from the Lord Chancellor will still lead to higher catastrophic injury awards and therefore higher premiums when compared to 12months ago.



Motor insurance

According to the AA British Insurance premium Index, in the 12 months up to the end of quarter two 2017 **motor insurance premiums including IPT increased by almost 20% (19.6%)** this is partly due to IPT as well as the change to the Ogden discount rate and claims inflation.

Insurance Premium Tax is a regressive tax, hitting hardest those who pay more for premiums. In particular, those on low incomes, those who live in high-risk areas and young drivers are some of the most adversely affected.

For young drivers in particular, the most recent increases in IPT have significantly pushed up premiums. For a £1,500 policy, the IPT contribution has increased from £90 at 6% to £180 at 12%, in a space of around 20 months. This level of increase is clearly unsustainable.

Helping Young Drivers - Insurance Premium Tax Relief for young drivers using telematics

Telematics policies can offer savings of up to 25% for responsible young drivers. Data provided by the 'black-box' technology builds a personalised risk profile based on an individual's actual driving. Ongoing monitoring of driving behaviours encourages better, safer road use.

Research from insurance provider Ingenie shows that telematics-based feedback **can halve a driver's risk of crashing over their first policy year**. In addition, BIBA member Marmalade, specialists in telematics insurance for young drivers, has seen exceptionally strong safety results. Studies show

that 1 in 5 young drivers have an accident within the first 6 months of passing their test, yet with Marmalade that figure significantly improves to only 1 in 16, making their young drivers three times safer.

Research by the UK's 3rd largest private car insurer, Ageas, together with the Road Safety Foundation studied the business case behind implementing Insurance Premium Tax relief (a zero rate of IPT) on telematics insurance policies for the under 25sⁱⁱ.

The research showed that over a seven year period, the reduction in accidents resulting in killed/seriously injured road users would be 259 in year 7, presenting an economic saving of £829m over the period, compared to lost revenue from IPT of £588m (at the current rate of 12%).

BIBA believes this is a credible policy intervention the Government could make that would limit the impact of previous IPT increases on the group most acutely impacted by it, whilst at the same time making roads safer.

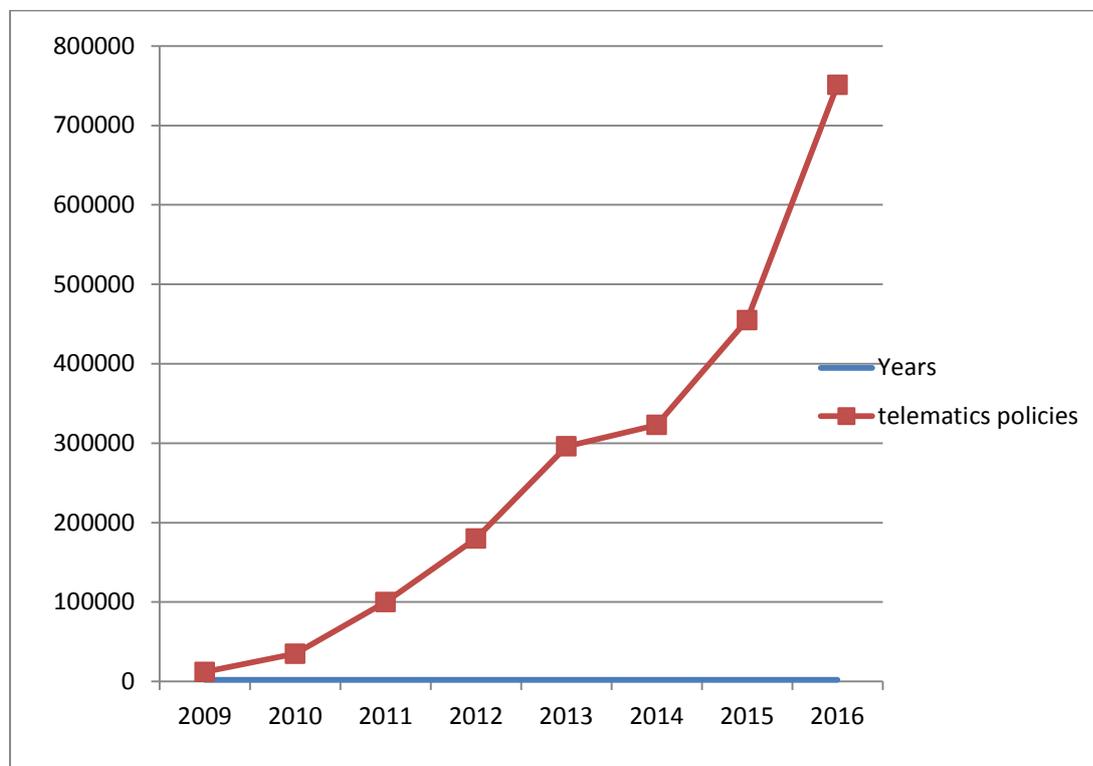
Year	Total Telematics policies bought by under 25's based on 83% of total annual telematics sales (increasing at 75,000 annually)	Lost IPT (£m)	Policies induced (this represents induced purchase of an additional 35,000 telematics policies each year following reduction in IPT to zero)	Killed / seriously injured People reduce by 37 each year. This is because of the reduction in IPT leading to a greater take up of telematics policies which reduces accidents by at least 30%	Economic Cost savings (NHS and benefit costs) Each KSI £400,000 This increases by approximately £30M a year : (37 fewer crashes x £400,000 saving x 2)	Present value cost (£M)	Present Value Benefit (£m)
1	325,000	57	35,000	37	30	55	29
2	400,000	66	70,000	74	59	62	55
3	475,000	75	105,000	111	89	68	80
4	550,000	55	140,000	148	118	73	103
5	625,000	84	175,000	185	148	78	125
6	700,000	93	210,000	222	178	73	144
7	775,000	102	245,000	259	207	78	163
TOTAL £M		588		1036	829	487	699

It demonstrated that over a seven year period, not only would there be **1,036 fewer KSI accidents** but also **the cost benefit for HM Treasury would be £212 Million** (£699M present value of benefits - £487M present value costs)

We feel there is significant merit in Government considering the policy in order to help deliver safer roads, **enable young people to take to the roads** and increase the revenue that is taken into the exchequer.

Telematics is becoming increasingly popular. Each year, BIBA conducts research into the number of telematics policies live in the UK. By the end of 2016 the number exceeded three quarters of a million for the first timeⁱⁱⁱ. The survey includes information from the leading telematics brands in the UK to determine the number of live policies which, on a like for like basis, shows an increase of nearly 25% on the 2015 figure. However it still represents only a fraction of the insurance policies covering the 30 Million plus vehicles in use and a zero IPT rate would provide much needed stimulus as well as serving as a prudent ‘nudge’ towards a product delivering significant road safety improvements.

Growth in live telematics policies (751,000 live policies at end of 2016)



Flood risk areas

Those living in flood risk areas are also impacted heavily by these increases in Insurance Premium Tax. Often, these communities face difficult decisions as to whether they can afford flood insurance or to forgo cover. An increase in the cost of insurance further puts insurance out of the reach of many, especially those outside of the scope of Flood Re.

Flood Re is a transitional arrangement, lasting for a total of 25 years. It is crucial that when the market moves to a risk-reflective pricing model at the end of the scheme, that insurance is not out of reach for those that need it.

Further, the previous IPT increase from 9.5% to 10% was ring-fenced to pay for flood defence spend. Flood defence spending is vital to being able to deliver an affordable risk reflective market at the end of Flood Re, as well as to deliver an effective market for those currently outside of the scope of Flood Re.

BIBA recently launched a new commercial insurance scheme for businesses that will also include flood cover for many commercial premises and let properties located in areas at risk from flooding.

Worked with the market to develop an innovative product that will both help them meet the usual commercial insurance needs of their small and medium sized clients (SMEs) and provide flood cover for many businesses risks that are ineligible for Flood Re.

The commercial scheme backed by the A+ rated security of Lloyd's underwriting capacity, uses an advanced mapping facility developed by Landmark which pin-points exactly the location and features of an individual property. Having this degree of specific and detailed risk reflective information allows each individual business or property to have insurance that is based on its own specific risk. It also recognises where meaningful resilience or resistance measures have been installed to decrease the risk or size of loss that may occur.

The scheme also offers a high degree of customer choice giving the option to 'buy-back' any flood excess that is applied because of the business location meaning customers can choose the amount of risk they want to bear themselves.

Crucial to the success of this however is sustained investment in capital projects, as well as routine maintenance of culverts, highways and defences. BIBA seeks clarification of this spending commitment and that the **IPT contribution to fund flood defences** will continue to be ring-fenced for this purpose from the increase that took place in October 2016.

Other jurisdictions

Another argument Government previously put forward for raising the rate of IPT is to bring us in-line with rates in Europe. However, The UK is now has the sixth highest rate of insurance taxation in Europe, behind only Germany, Greece, Italy, the Netherlands and Finland^{iv}. The rate in Germany is often given as an example of the UK not being the most expensive regime in Europe, however it is worthy of note their regulation of insurance brokers is paid through general taxation, where in the UK some BIBA members pay comfortably over £1m each year in fees.

Research, conducted by London Economics shows that for both medium and large-sized insurance broking firms, the cost of regulation as a proportion of income in Finland, Germany, Italy and the Netherlands is not as high as it is in the UK. This demonstrates that whilst their rate of taxation may be higher, they are not subject to the same expensive regulation as we are here in the UK. Implementing a high-tax regime at the same time as having one of the most expensive regulatory systems in the world puts the UK at a competitive disadvantage, precisely at a time global competitiveness is more important than ever following the decision to exit the EU.

Direct cost of regulation as a proportion of income

Jurisdiction	Medium insurance broking firm		Large insurance broking firm	
	(€)	(%)	(€)	(%)
Finland	6,400	0.13%	181,000	0.18%
Germany	0	0.00%	0	0.00%
Italy	4,264	0.09%	80,264	0.08%
Netherlands	13,194	0.26%	97,371	0.10%
United Kingdom	16,699	0.33%	314,928	0.31%

Case study on the effect of IPT

Mr Dearsley a retired local government officer lives with his wife Karla an author and their two Bischon Frise dogs Harry and Sophie. He has insurance policies for Motor, Home, Private Health and Pets and the recent doubling in the cost of IPT has had a considerable impact of the cost of these policies.

Mr Dearsley shares BIBA's concerns over the increases to IPT due to the negative effect it has had on their family finances

Mr Dearsley's now pays £242.96 more in insurance premium tax every year

	Recent Premium excluding IPT	6% IPT contribution (October 2015 rate)	12% IPT contribution (rate from June 2017)
Pet insurance for two dogs	£2315.09	£138.91 Total: £2453.99	£277.81 Total: £2592.90
Private Health	£1403.1	£84.18 Total: £1487.19	£168.37 Total: £1571.38
Home Insurance	£168.30	£10.10 Total: £178.4	£20.20 Total: £188.5
Car Insurance	£162.90	£9.77 Total: £172.67	£19.54 Total: £182.44
Total	£4049.39	£242.96 Total: £4292.26	£485.92 Total: 4535.22

Who else is affected?

IPT is paid by the majority of UK small, medium and large business, but also personal lines customers including:

20.4 million Home owners/renters with contents insurance

20.1 million Drivers with home insurance

3.2 million Home owners with mortgage protection

1.9 million People with private medical insurance

3.4 million Pet owners

Our members are reporting back that following the increase to 12% they are receiving requests to reduce and cancel cover and increase excess/ deductibles from both personal and commercial customers.

Summary of the issues

- BIBA believes that the recent increases are contrary to the stated HMRC policy objective IPT01300 as measured by incidents caused by uninsured driving, which have now increased by 10%
- There is now evidence that the recent doubling of Insurances Premium tax has led to a lower take up of motor insurance by young drivers.
- The UK now has one of the highest rates of Insurance Premium Tax in Europe; however, also has one of the most expensive regulatory regimes in the world.
- New IPT income that was generated specifically by an increase of 0.5% to improve flood defences should focus on areas where accessing insurance is the most challenging.
- We have the most expensive financial regulatory system in the world but our regulator has no requirement to consider the international competitiveness of UK firms

Calls to action

- For Government to reduce the rate of Insurance premium tax (IPT) for young drivers using telematics policies to zero, acting as an incentive for greater take up of these policies which deliver significant improved road safety results and result in cheaper premiums.
- BIBA accept that part of the increase was to fund much needed flood defences, however the increase has gone too far and BIBA now call for a **reduction** in the standard rate of **Insurance Premium tax to 10%**
- For Government to commit to sustained flood defence spend and the funds from the October 2016 increase in IPT will continue to be ring-fenced for this purpose.
- For the FCA to be given a balancing statutory objective or strong formal guidance to consider the international competitiveness of the UK's financial markets

For further information please contact:

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ⁱ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/581387/reforming-soft-tissue-injury-claims-process.pdf

ⁱⁱ <https://www.dropbox.com/sh/tavfplf855jwpt8/AAA0g5UdS7iHXAZGvV9M5Urza?dl=0>

ⁱⁱⁱ <https://www.biba.org.uk/press-releases/biba-research-reveals-750000-live-telematics-based-policies/>

^{iv} https://www.abi.org.uk/~/_media/Files/Documents/Publications/Public/2016/KeyFacts/EUIPT.pdf