7 February 2020

**HM Treasury**
**London**
*By email to Budget.Representations@hmtreasury.gov.uk*

Dear Sir or Madam

**2020 Budget Submission**

I am writing to you in my capacity as CEO of The British Insurance Brokers' Association (BIBA) to provide input to the forthcoming budget. BIBA is the UK's leading general insurance intermediary organisation representing the interests of some 1,850 insurance brokers and their customers. Our members contribute 1% of GDP to the UK economy through arranging almost 70% of all general insurance with a premium totalling £66.5 billion.

We have 4 main requests of Government when assembling the next Budget:

*1. Freeze Insurance Premium Tax (IPT)*

Our primary request is for the Government to freeze Insurance Premium Tax (IPT) at the current rate of 12%. IPT receipts are at a record high of £6.2 billion. 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.

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 would be forced to reduce or cancel cover on some risks if IPT should continue to rise. Similar research carried out by the same insurer in 2019 found that 50% of organisations would anticipate a cost increase of £50,000 if IPT were to increase further. Public sector organisations and charities have been faced with a difficult financial landscape for a number of 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.

*2. 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.

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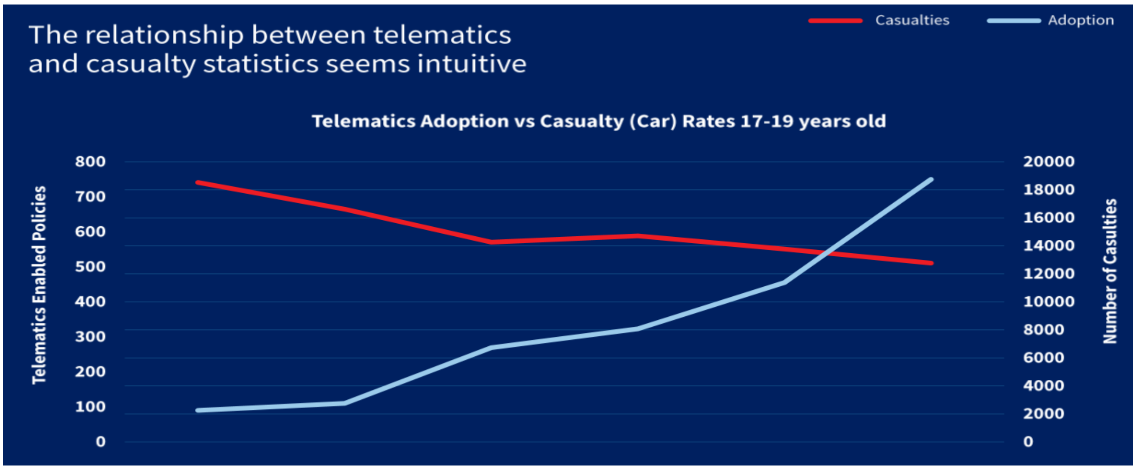
- Motor Insurance policies which utilise Telematics technology. There has been a significant uptake in telematics policies with almost 1 million currently force. There is a clear correlation between this increase and declining casualty rates for 17-19-year-old drivers. See graph below which draws on 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 them exempt from IPT.

- Cyber Insurance. We are working with DCMS and the National Cyber Security Centre to raise awareness among SME's to make their businesses more resilient to cyber attack and to buy adequate cyber insurance. Less than 3% of SME's buy cyber insurance today. To encourage better uptake, we propose that IPT relief is given on cyber policies purchased by SME's.

*3. Continue to Ring-fence the current percentage of IPT for Flood Defence work*

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.

We believe this IPT contribution to flood defence work and resilience must continue to be ring-fenced in all future spending reviews and used solely for this purpose. 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.

*4. Waive the first £500 of private health insurance benefit from the P11D*

We believe that such a move will encourage more SME's 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 SME’s can be enrolled in private medical schemes as a result of this incentive, we estimate that this will generate an additional £1.6 billion in premiums. This produces £178 million in additional IPT which more than offsets the estimated £135 million reduction 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 SME’s. 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.

Finally, I would like to make two more general points which are important to our members and to the long-term health of the insurance broking industry. Both need support from HM Treasury, especially now that we have left the European Union and have entered the transition period.

Firstly, it is vital for our members to have continued access to the EU post 31st December 2020 by preserving ‘passporting’ rights in any future trading agreement. In this way, insurance brokers can continue to service the needs of clients which have operations in the EU 27. In addition, approximately £8 billion of premiums relating to EU domiciled risks is placed into the London insurance market by UK based insurance brokers for reasons of capacity and expertise. The UK is a global leader in the insurance industry and seamless access to the EU is essential if it is to maintain that position in the long term.

Secondly, in a post Brexit world, it is important for the regulators that oversee the insurance industry in the UK - the Financial Conduct Authority, the Prudential Regulatory Authority and the Competition and Markets Authority - to have an international competitiveness objective. The Financial Services and Markets Act of 2000 did impose a duty on the regulator at that time (the Financial Services Authority) to ensure ‘the international character of financial services and markets and the desirability of maintaining the competitive position on the United Kingdom.’ This was withdrawn when the current ‘Twin Peaks’ approach to regulation was introduced in response to the 2008 crisis. The latter was inspired by the banking industry and not the insurance industry, while the insurance broking industry in particular does not pose a systemic risk to the financial system. Our belief is that the reinstatement of this objective will lead to a simplification of the onerous regulatory regime that faces UK insurance brokers, making it more proportionate and effective. It will encourage new entrants and help the UK maintain its leading position as a global centre for insurance and reinsurance.

Yours faithfully,

**Steve White**
**Chief Executive Officer**