

Treasury Committee

Oral evidence: Insurance, HC 1398

Wednesday 7 June 2023

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Members present: Rushanara Ali; Dame Angela Eagle; Emma Hardy; Dame Andrea Leadsom; Siobhain McDonagh; Anne Marie Morris.

In the absence of the Chair, Dame Angela Eagle took the Chair

Questions 1 - 90

Witnesses

I. Cristina Nestares, Chief Executive Officer, Admiral UK; Charlotte Clark, Director of Regulation, Association of British Insurers; Doug Brown, Chief Executive Officer, UK and Ireland Life, Aviva.

Examination of witnesses

Witnesses: Cristina Nestares, Charlotte Clark and Doug Brown.

Q1 **Chair:** Welcome to the Treasury Select Committee evidence session on insurance. I am very grateful to all of you for coming in to speak to us. I am also grateful to the members of the public who have responded to our request for them to send in their experiences and questions. We have some direct lines to those out there who are on the receiving end of the services you provide. Could I please, first of all, invite the witnesses to introduce themselves?

Cristina Nestares: Hello, everybody. I am Cristina Nestares. I am the CEO of Admiral UK. In case you have not noticed, I am Spanish, but I am sure you got it when I said hello. I have been working at Admiral for 18 years.

Charlotte Clark: I am Charlotte Clark. I am the director of regulation at the Association of British Insurers.

Doug Brown: I am Doug Brown. I am the CEO of Aviva's UK and Ireland life business.

Q2 **Chair:** Thank you very much. Thank you for coming in. I just have a general question to start off with. There is a perception out there that insurers are profiteering with the cost of their policies in what is a very



difficult time for many people. Is that perception correct?

Cristina Nestares: I assume I am going to take this one. It is an interesting question. When you compare inflation data versus data on premium increases, you might say, "Premiums are higher than inflation. What is happening?" I completely understand the question, but allow me to give you some context.

First, we come from a very low base. Back in 2021, premiums were the lowest they had been in the previous six years, because of Covid and less frequency. That was translated into prices and the customer paid less. We started from a very low base. The second thing that has happened—I do not need to tell you—is a very strong increase in frequency and inflation.

According to our internal estimates, the cost of claims has increased by 20% to 30%, more or less, when you look back at the past three years. When you sell insurance, you sell insurance to somebody today; you sell a 12-month policy, but the average time you pay their claim could be two years later. First, the accident could happen in the next 12 months. Secondly, when the claim is paid depends on the complexity. It might be a claim for a damaged windscreen or a large bodily injury claim. On average, it could take two years. If you take that into account and apply the inflation for two years to every policy, you can see we are not profiteering.

Just to finalise, the *Sunday Times* recently quoted Ernst & Young as saying that, on average, the industry is expecting losses in 2022 and very likely in 2023. No, we are not profiteering; we are catching up with this very high inflation.

Charlotte Clark: Cristina has covered it. That comment from Ernst & Young was about motor insurance, but you can look at the loss ratio, which is the total paid out divided by the premium. If the ratio is over 100, you are losing money. That report stated that, in motor insurance, it is currently 115 and likely to be the same next year. Cost pressures from the Covid depression of premiums, as well as cost increases from the cost of claims, are feeding through the system.

If you look at house insurance, where claims are significantly less, you are looking at an increase of about 6%. Where there are not these specific issues, you are not seeing increases of the same magnitude.

Doug Brown: They have said it all. We are definitely not profiteering. We have had increased inflation, which increases claims. We have talked about the impact that has on premiums. We have recently released our first quarter trading results. We have something called a combined operating ratio that we report on. That ratio is the same as it was in terms of what we were trying to provide last year and in previous years. We have guidance on it. It is not improving as a result of increasing premiums.



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Q3 Chair: The inflation of insurance, which is running at 20%, is what justifies it, according to you. It is a catch-up from Covid when insurance premiums were low. Inflation is 10%. You are running at double.

Charlotte Clark: The latest tracker for us on car insurance has it at 15.5%. We have it at 15.5%.

Chair: This is the ONS data.

Charlotte Clark: Yes, but the ONS figures are about quotes, not about what somebody has actually paid. They use quotes from websites: how much you are being quoted for what you will pay, not what you pay. We track what you actually pay. Ours has it much lower. It is 15.5%. I am not saying that is a low figure, but there is a big difference between those two things.

Q4 Chair: It is still higher than the inflation rate, though, is it not?

Charlotte Clark: Yes, completely. It comes back to Cristina's point: there are really significant cost pressures. If you think about the inflation in the car market—I do not know whether anyone has tried to buy a second-hand car recently—or in energy, which is a big part of that sector, those are running significantly above 15%.

Q5 Chair: I have had a lot of representations from my own constituency from older people on very low fixed incomes who live in sheltered housing. Their insurance costs have soared massively, by well over 100% in a lot of cases. It is very difficult for them to pay their service charges. Why is that happening?

Cristina Nestares: If I may clarify one thing from the previous question—I am sorry if I was confusing—when I was saying that inflation is 20%, I was saying that the inflation—

Q6 Chair: The ONS data says it is 20%, which you are saying is quotes rather than actual payments. You are saying it is 15%, but that is still above inflation.

Cristina Nestares: I was just trying to say that, when we sell a policy today, we need to cover inflation not just for one year but on average for the next two years, because on average we will end up paying that claim in two years at the cost in two years. Our annual inflation is similar—it is around 10%—but, when we estimate the actual cost to pay a claim, we need to apply the whole of the time between the selling of the policy and the payment of the claim.

Q7 Chair: The FCA has published data showing the claim payments made to customers as a proportion of premiums paid. It has done that sector by sector. The lower the claims paid, presumably, the higher the gross profit you make on the policies. That is correct, is it not?

Cristina Nestares: That is correct.

Q8 Chair: Why within annual travel insurance are claims paid as a proportion



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of premiums only 9%, whereas for general motor insurance it is 56%? Is the annual travel insurance sector making abnormal profits?

Cristina Nestares: On average, the travel sector loss ratio is much closer to 50% than 9%. I imagine that number comes from the Covid years when we unfortunately were not allowed to travel for a big part of the year. On average, the travel insurance industry does not have a loss ratio of 9%. There are a better years and bad years, and the Covid year was an absolute exception.

Q9 **Chair:** Buildings insurance is about 35%, according to the FCA. That means you are making a big profit from the insurance policies you are selling. Surely, you could put the price down of it and make less of a profit with a ratio like that from cost to claims.

Cristina Nestares: When we look at profit—I should have mentioned this before—we need to take into account the loss ratio, which is how much we pay in claims, and the expense ratio, which is how much we pay to serve and acquire the policy.

In markets where the average premium is small, such as travel or contents and household in general, you need to allow for a high expense ratio. Therefore, you cannot look only at the loss ratio. In the case of car insurance, where the average premium is high, the average loss ratio tends to be 70%. The expense ratio on top could be about 30%.

I am only giving you very rough numbers. When you look at a market with a lower average premium, the percentage taken by the expense ratio is bigger. That is why I would expect that, on average, household policies and travel policies will have a loss ratio closer to 50% than in other cases.

Charlotte Clark: There is a difference. What you are talking about is the payout.

Q10 **Chair:** It is the percentage of premiums paid out in claims.

Charlotte Clark: Yes, but that is not taking into account the cost of running that insurance policy. That is the bit that is missing in terms of the cost for the insurer of the customer service and those sorts of things.

Q11 **Chair:** For travel insurance, 9% is paid out in claims. How much of it is taken up by costs?

Charlotte Clark: It is a very low ratio, as Cristina says. If that is the Covid-year ratio, it is a very peculiar outlier. Is that across the industry or a particular firm?

Q12 **Chair:** This is, from the FCA, the percentage of premiums paid out in claims. That will be across the industry. It is claims data for 2021.

Doug Brown: It is not my area, but I know Aviva's current claims rate is about 73% on travel insurance. I would not recognise that number.



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- Q13 Chair:** Doug, we have had a crowd-sourced question from Liz Rolfs, who has Aviva household insurance. She asks, "Why has my household renewal premium increased by over £100 despite making no claims in the past nine years? Shouldn't my premiums reduce over time to take account of us not making any claims?"

Doug Brown: I cannot speak to this specific customer's case. The first thing I would say is that it is great that Liz has been a customer of ours for nine years, and it is unfortunate that her premium has gone up by £100.

In general, household insurance can go up for a lot of reasons, which we have talked about. Some are more environmental: it could be flooding, subsidence or crime in the area. Of course, we have just talked about inflationary pressures. I appreciate the difficulty that could bring for Liz. If she is happy to, we could have a discussion and talk about the specific circumstances of her case.

Chair: If she is watching this, perhaps she will get in touch with you.

Doug Brown: Yes, that would be great.

- Q14 Chair:** You can see whether you can do her a better deal. Chris Giles, who is a journalist, recently tweeted about his home insurance quotes. He said, "No claims. Old home insurance quote £568, new one £1,573... That'll be a no from me". Why has that gone up 300%, effectively? This is what I hear from my constituents who contact me. House insurance and buildings insurance have gone up by this kind of amount, regardless of where you live or what house you are in. It seems to be across the board.

Charlotte Clark: It is clearly not across the board because you have the inflation figures we have given you. It is not 300%. We are talking about increases of 6% or 7% for housing insurance on average.

I accept these are outlying examples, but without the specifics it is very difficult for us to be able to explain. Is that an area where subsidence has become a problem because of the summer last year? Has that now become apparent? Without knowledge of that, it is very difficult for us to explain why that might be the case.

- Q15 Chair:** Again, a lot of people from my own constituency have contacted me to say that they live in flats and have had huge increases in insurance, even though they do not have any Grenfell-style cladding. There is not an issue there. There is definitely a perception out there that your customers have that, if people are in flats, they are charged a Grenfell premium, whether they have cladding issues or not.

Cristina Nestares: If I may, when we look at the household industry, the best way to assess price increases is to look at the data published by the ABI, because it represents most of the market. That data says that if you compare premiums paid in the first quarter of this year to premiums paid a year ago, the increase in household insurance prices has been 6%.



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This is only part of the story because some people, in individual cases, have bigger increases. That depends on different circumstances. Whether you have had a claim definitely has an impact, but there could be other changes, for example an increase in theft. It could be that somebody is in an area where there is higher theft. There could be other weighting factors that have changed.

On average, we need to look at all the premiums, or the majority of the premiums, in the industry and see what they did in one year. They increased by 6%.

- Q16 **Chair:** Can I ask you about loyalty premiums? When people are seeking quotation with the company they are already with and they have been a loyal customer of, why are they quoted something that is usually quite high? When you match it with another company and come back to the original company, they then offer to match it. Why can you not in the first place just offer loyal customers the premium you will end up offering them if they negotiate? Why do they have to negotiate with you to get the best deal when they are loyal customers?

Cristina Nestares: A big reform in this sector has been the general insurance pricing practices change the FCA introduced. That ensures there is no difference between new business prices—the price of new quotes—renewal prices and prices across different tenures, so between people in year one and very loyal people who have been with the company for seven years. It has made the prices all the same. We definitely comply with this, and I believe the whole market does the same. I believe the practices today are very different to what happened before the introduction of this reform.

Inside the reform, it was also discussed whether it would make sense to give discounts to customers. At Admiral, we are constantly testing different ways of doing things to see what would be better for the customer. Is it better that they have no discount and therefore everybody's prices, on average, need to go up? Is it better if some people, who might have more need or financial vulnerability, and who are more sensitive to prices, get a discount? It is something that we are constantly testing and looking at.

- Q17 **Chair:** You are saying that the loyalty penalty has gone.

Cristina Nestares: I am saying that the prices anybody in the market can get, whether they are a new business customer, a one-year customer or a 10-year customer, should be exactly the same, as long as the data is exactly the same.

- Q18 **Chair:** Are you all saying that the loyalty penalty, which we all know about and have all experienced when we make our own asks for quotes, has gone in your businesses?

Charlotte Clark: That is the regulation.



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Doug Brown: It is GI pricing practices. It is not my part of the business, but that was instituted last year.

Charlotte Clark: You cannot charge somebody who is an existing customer more than you would charge somebody who is a new customer, assuming they have the same characteristics.

Q19 **Chair:** Why did that have to be a regulation? Why was that not done normally as part of customer service? That is what I wonder. There was a lot of money to be made in having that penalty there.

Charlotte Clark: Coming to Cristina's point, yes, some people were paying more because some people were paying less. It was decided that people who shopped around would see increases. That is why the quote is higher than the actual premium paid in terms of the inflation. You are seeing a levelling of the market.

It is not that extortionate profits were being made here. This is between customers; it is a levelling of the playing field and a decision that you cannot treat those customers differently. In the same way, if you try to buy Sky Sports you will probably get a better deal than if you are an existing customer. There are ways of trying to attract people to a business. In a competitive market, those sorts of things happen. The regulators have said they do not want that to happen going forward, so we cannot do that going forward.

Q20 **Chair:** Finally, there are differences in quotations depending on the channel that you use to approach the supplier. Is that fair? Should you not charge the same price whether you phone somebody up to ask for a quote or whether you go through a website, for example?

Charlotte Clark: Some of these would add more costs. Honestly, if you are ringing up, that is more staff time than doing it online. That might explain some of the differences between those two channels. People buy different things in different ways. If you buy something through Amazon rather than in a shop, you will get a different price. You will get different prices using different channels.

Q21 **Siobhain McDonagh:** I have some quite specific questions from my constituents to ask you. Just before 7 am on Monday, 8 August in my constituency, there was a massive gas explosion in Galpin's Road. As a consequence a four-year-old girl, Sahara, died and two of her neighbours experienced severe burns. All of a sudden, hundreds of families were required to evacuate their homes and leave behind all their belongings.

Nearly all those people were owner-occupiers with buildings insurance, but it was not the insurance companies that set up the emergency resource centre or found out how those people would have somewhere to live and clothes on their back. It was the local authority, which has now spent in the region of over £2 million on temporary accommodation.

When I came back from my holiday—I had just gone on holiday—I asked



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the council, "Why are you spending taxpayers' money when all these people are insured?" People could not get through to their insurers. Their insurers did not understand what had happened to them or what they could do to help them in an emergency. Is it not part of your industry to have an emergency service and an emergency offer to people?

Cristina Nestares: First of all, may I say how sorry I am to hear about this? I was aware, but it is always sad when these things happen.

I cannot comment for the other companies, but at least I can tell you what we do at Admiral. We are constantly reviewing and updating our policies. I can say that today we provide alternative accommodation to anybody who needs to leave their house because an authority has asked them to do so. If this is the case, we will provide alternative accommodation.

Q22 **Siobhain McDonagh:** Can I tell you what happened? I would just like to say, through you, Charlotte, thank you to Chris Rumsey from the ABI, who is behind you. He will have spent weeks and months dealing with cases on our behalf.

But this was the reaction of the insurance industry, and I am not picking on a company. When people rang and said, "We cannot stay in our homes. We have been evacuated", they were told, "We cannot provide you with temporary accommodation because we need our loss adjuster to be able to see that your house is at risk of being demolished" or "We cannot provide you with a courtesy car because your car is perfectly drivable", even though nobody could get to their home or their car because there was a police cordon around the area.

People could not get what they were paying for. They could not get emergency services. That was universal across the companies. How can that be right?

Doug Brown: I am happy to take that away and get back to you on what Aviva's response was. As I said, that is not my part of the business. It does not sound like what Aviva would do. From a flooding perspective, we are one of the first companies to respond and set things up. We do that quite proactively. I would be surprised, but I would be very happy to get back to you because that does not sound right.

Charlotte Clark: Similarly, we would have examples where there have been very significant floods in parts of the country, and we have made sure that there are emergency responses there so people can be supported on the ground. In this instance and this example, as you describe it, the response does not feel acceptable, but I am not aware of the details of it. Can we come back to you on this?

Q23 **Siobhain McDonagh:** I wish I could say that gas explosions were entirely rare, but I suppose, having had one, you then hear of others and they form a bigger part of your thoughts. The emergency response to situations that individuals have been pulled into, through no fault of their



own, is an issue. The call handlers do not understand that these things have happened. You get comments like, "We cannot inspect your house. We cannot inspect your car". No, the police are not going to let you do that. There needs to be an emergency response.

If I could just look at loss adjusters, when the cordon finally left and people could get the loss adjusters in, they often found that individual loss adjusters could be away from work for weeks on end. Whenever they rang the insurer, they were told, "Nothing can happen until the loss adjuster returns". How do you deal with people who are desperate to get these things sorted out? These are people living in hotel accommodation.

Charlotte Clark: Loss adjusters are used for lots of different parts of the insurance claim, mainly with buildings insurance and business claims. We use them because they bring particular expertise in terms of trying to assess damage and complex claims. They need to understand what the impact is and what the damage is. I realise that is not a straightforward or easy thing.

The example you give of somebody just being away for weeks on end does not feel like it is particularly good customer service. The reason why they are used is that, when it is about buildings and whether a building is safe, you do need that expertise. It is not something where we can say, "Okay, we will just pay out regardless", without understanding the impact on the building.

Q24 **Siobhain McDonagh:** One of the big issues that came up was that people do not know what their insurance insures them for or the level at which it insures them. We are finding that people are underinsured in terms of their contents and their buildings.

A number of houses had to be knocked down because they were structurally unsafe. In a terrace, you will get somebody who is insured for £1 million to replace their property, while the people on both sides are insured for £500,000. To clean and prepare the site and then build the houses, the people insured for £500,000 are not going to get their four-bedroom houses back. The person in the middle of the terrace, who is properly insured, cannot do it because the others cannot.

What responsibility do you have to explain to people just what sort of policy they are actually purchasing?

Charlotte Clark: Clearly, when somebody is purchasing a policy, there is a certain onus on them to understand what they have bought and whether it actually meets their requirements. There is definitely an onus on us to make that as simple and straightforward as possible.

It is insurance. It is quite difficult to explain some of these things. One of the problems with insurance is that nobody wants to claim on it. You do not want to spend an awful lot of time thinking about your insurance. This is one of the issues when people are looking for insurance. If they are going on price comparison websites and seeing different prices, they



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have to understand whether this would cover the things that really matter to them and provide them with the right amount of cover.

There are definitely things that can be improved. Rather than just looking at the price, look at what you are actually buying. One of the regulatory changes coming in this year is the consumer duty. There is a requirement there with regard to customer understanding. There are already regulations about making sure that customers understand what they buy, but it is a constant improvement.

Particularly when people are challenged in terms of budgets and things like that, it is a very obvious thing to go for the cheapest number without necessarily thinking, "Is this what I will need if something goes wrong?"

- Q25 **Siobhain McDonagh:** Looking at claiming on contents insurance, we got a response through the crowd-sourcing of questions. If you bought something a while ago, do you always have to keep your receipts? One of the gentlemen, whose wife was really severely burned, is now trying at this point to claim for contents. They are being asked for confirmation of purchase and certificates for items in a house that fell down eight or nine months ago. In that time, they have been in temporary accommodation. The lady has been in hospital for six months.

I appreciate that you want to protect yourself against bogus claims, but, in these sorts of situations, how reasonable is it to be asking for this level of confirmation or ownership?

Charlotte Clark: In the example you give, clearly asking for receipts from a house that no longer exists would seem to be unreasonable. With that said, if he was claiming for a very expensive painting, he might need to have a picture of that painting. If it is, "We had a TV", I would think that was a perfectly reasonable thing for the insurer to pay out at that point.

- Q26 **Siobhain McDonagh:** I know you are financial institutions, but you are dealing with people at the hardest and sometimes the most tragic points in their lives. All of a sudden they have lost their home; they have lost everything they worked for through no fault of their own.

One of the constant pieces of feedback the council gets at its public meetings—Chris may recall it—is people saying, "I do not want to claim on my insurance because I do not want my premium to go up. I did not cause the gas explosion. How fair is it for my premium to be increased? Perhaps the council can rebuild my home or refurnish my house", or whatever it is.

In situations like that, what are your views about increasing premiums? It is not flooding; they have not done something that has caused their house to burn down.

Cristina Nestares: In general, the role of insurance is to try to put a price on every policy that reflects, to the best of our abilities, the claims



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risk. That is a combination of propensity to claim and claim cost. We take a lot of data, including the claims the person might have had, and we try to ask, "Okay, how much should you pay in premium for the future claims that we expect?"

That is what we do. I cannot comment on this individual case, but in general that is our role as insurers. We think that, at the end of the day, it is the fairest thing to do, if you see what I mean. That is what we try to do. We look at a number of things. Are you going to claim? What is the likelihood of that? What is the average claim if you do? Then we put a price on that.

Then we are constantly monitoring. "Have we done that?" We have rigorous controls in place. We have a team that helps us with data ethics. We look at all the parameters to say whether they are working and, on average, whether our prices are reflecting the claims cost. That is what we do constantly.

Q27 Siobhain McDonagh: In the case of Galpin's Road, the people in Galpin's Road were as likely or unlikely to have a gas explosion as any of us were in the streets we live in. I am not sure how you would define an area to be of greater gas explosion risk or something.

Cristina Nestares: Sorry, I cannot comment on that individual case. I do not know enough to understand whether their premiums were impacted. I am just saying that, in general, for every product we always function the same. We look at all the data we have available and try to predict the claims risk for every individual. That is how it works. In that case, I do not know how the pricing team would look at that risk.

Siobhain McDonagh: The issue of customer service in an emergency is really important for your industry.

Q28 Dame Andrea Leadsom: Good afternoon. I would like to talk to you about the regulatory environment. Very specifically, the industry lobbied hard for a loosening of Solvency II and won the day. The regulators did not want to see it; the industry did. Government sided with the industry. Can each of you perhaps give us your starter for 10 on why this is good for the insurance market and why it is not bad for risk?

Cristina Nestares: We welcomed the Solvency II reforms. I work at Admiral, and we do mostly car, home and travel. In general insurance, the impact is quite small. It is a positive impact. It will mean that we can release capital. It also has some positive impact in terms of the documentation we need to prepare in terms of PPOs. Overall, it is quite small and positive.

In the particular case of Admiral, it is going to have a very small impact. It is possibly a question for my colleague from life insurance.

Doug Brown: Yes, I am happy to go. As one of the largest UK insurers, it was right that both the Government and the regulator looked to us to



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understand the impacts of any proposed regulations they were looking to do. Clearly, the Government set out a policy intent. I thought it was really good that Government, regulators and industry came together to ensure we came up with a solution to drive that.

The Solvency II reforms are positive. There are changes being made to the matching adjustment and the risk margin, which will allow a greater amount of investment to be funded moving forward. That will have a benefit to those projects that need the funding. It will also have a benefit to customers, in the sense that they will get either a better rate or a reduced premium given the additional returns we can get on the investment.

As an industry, we have said that we are committed to £100 billion of investment into everything from green investment to hospitals and social housing. Aviva would contribute to up to £25 billion of that. It is quite significant in terms of moving forward. We think we have landed in a good place. We think the Government and regulators took into account the impacts, weighed up the risks and benefits, and have come up with a package that will work.

Q29 Dame Andrea Leadsom: Charlotte, the ABI said it would unlock £100 billion of further investment, particularly into green energy. Where is the proof? How will we judge whether that has in fact been the case versus whether it is returned to shareholders in the form of dividends? Should the regulators or the Government be requiring more evidence of the intent being matched by reality?

Charlotte Clark: You should definitely hold us to account. The changes to Solvency II—the changes to the risk margin and the matching adjustment—do not come onstream until next year. You would hope that at that point you will see, in particular, changes to the sorts of things insurers can invest in.

At the moment, they have very fixed cash flows, which are restricted to government bonds and things like that, rather than necessarily the things that have a slightly higher risk, such as infrastructure. That is one of the arguments and, indeed, was one of the objectives of the reform that the Government set out. One of the reasons for reforming Solvency II was to get more investment into the sorts of assets the UK, and just about every other economy, needs investment in.

In terms of monitoring it, as the ABI we are thinking about how to show people that we did what we said we would do. We are thinking through the best way of doing that. We want to not only highlight the quantum, because I am not sure anybody ever really understands a number like £100 billion, but help people understand what it means. What does it mean for social housing in a constituency or for the amount going into wind farms or solar?



We want to make sure we show how the money is being spent. Particularly on things such as social housing, there is already quite a lot of investment being made by life companies into those sorts of investments. There is something about showing that that is what we are doing with people's money. That is where your pension money is going. People want to hear where their pension money is invested and how it is invested in their communities.

Q30 Dame Andrea Leadsom: I am hearing that you would welcome some form of oversight of that £100 billion promise, where it goes and how it is spent. Would you comment specifically, any of you, on green energy investments? Why specifically is green energy being highlighted as a suitable investment vehicle for this free £100 billion that has suddenly emerged?

Doug Brown: Charlotte was talking about the matching adjustment and how fixed cash flows are very important. The new regulations are widening that to have a little more flexibility. They are calling it the non-predictability of cash flows. There are some other changes about investment grade and sub-investment grade.

When you look at green energy, a lot of these are new technologies and new investments. They do not have scale yet. When you are looking to make investments in a certain industry, once they have scale they can set up debt financing and things that will have more of a fixed cash flow, but in early stage financing the scale makes it is more difficult to have that.

It is also more difficult, given that it is new, to have a comparator when you are coming up with what they call an internal rating or looking at an external agency that can provide a rating for that asset. The new regulations allow a little more flexibility from that perspective. They will open up that universe to allow us to invest. Hopefully, with more investment, they will then build up scale and become more investment grade. They can then create bonds and debt financing, and so have more predictable cash flows. It will open up.

It is mostly because a lot of that technology is new and it does not have the scale. These are the types of things we want to invest in to help the transition to net zero.

Q31 Dame Andrea Leadsom: You are making the case that you are doing this out of the goodness of your hearts. You have shareholders, for whom you will be wanting to create a return. What is it about green energy? You are not becoming founders of private equity for new green investments, I am sure. Is it the term? Is it the reliability? Is it the certainty, because the sector is going to grow? What is particularly appealing about green energy as an investment focus?

Doug Brown: We are all committed to climate, in particular Aviva. We have come out and said we want to be net zero by 2040. We think it is



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important that the UK is investing in infrastructure in order to help achieve that.

Investment in green energy covers many things. We have offshore wind farms, and there is a cable that has to be laid to be able to bring back that energy. That is an example of something you can invest in, but there is not a lot of scale.

Q32 Dame Andrea Leadsom: That would be a long-term investment and a chunky amount.

Doug Brown: That can be a long-term investment, because it can provide stability in cash flows over the long term.

Dame Andrea Leadsom: You are looking for long-term stable investments.

Doug Brown: That fits very nicely with pension liabilities. We provide promises to pay annuities to people many years in the future, so we are looking for long-term investments, and these types of assets will match that.

Q33 Dame Andrea Leadsom: In terms of the risk of this reduction in capital requirement, the Governor of the Bank wrote to the Committee saying that the changes to Solvency II would lead to a relative increase in the probability of failure of around 20% in any given year, so from less than very low to very low. Is the financial stability of the insurance industry—this 20% increase versus the existing situation—a price worth paying?

Charlotte Clark: The 20% is 99.5% to 99.6%.

Dame Andrea Leadsom: Yes, indeed. Nevertheless, it is a 20% increase in what is, granted, a low risk.

Charlotte Clark: It is a very low risk. I do not want to criticise them, but it is a very assumption-driven analysis. If you look at the changes, the changes to the risk margin do reduce one of the capital buffers, but it is a buffer that most people would say had been badly designed when it was implemented and this was largely changing that. In Europe, the review of Solvency II is coming out at a very similar position to what we are coming out with. It is largely just adjusting it.

On the matching adjustment, we are not changing the calculation; we are changing the investments that can be increased in it. While those will have slightly more risk, as Doug has said, these are not risky investments. This is not equity or venture capital, but large-scale infrastructure projects that maybe do not have quite a fixed cash flow.

There is this idea that it is somehow a risky change. The PRA and the Bank of England were arguing for a tightening of the matching adjustment, so us holding more capital and investing less. Ultimately, the Government have decided that the calculation around the matching



adjustment is the right one, which again is likely to be where the Europeans end up as well.

Dame Andrea Leadsom: Before you respond, Doug, can I just throw this at you? The Bank has in recent weeks bailed out LDI funds. While it is very easy to say, "This is very low risk. This is marvellous. This is all fine", nobody saw that happening either. It is entirely justifiable for the Treasury Select Committee, on behalf of UK taxpayers and insurees, to challenge you on these points.

Doug Brown: Yes, for sure.

Q34 **Dame Andrea Leadsom:** This is effectively an increase in risk, albeit from a low level. Nevertheless, as you have said yourself, you will be looking at longer-term and therefore quite illiquid investments. Is it not possible that you could see the failure of some insurance firms as a result of a sudden tightening that was unforeseen?

Doug Brown: That is right. In the discussions we have been having with the Government and the regulator, we want to weigh the risks and the benefits, so that is right. We are aligned there. We have been around for 325 years; we want to be around for another 325 years. Protecting our policyholders is exactly what the regulator wants to do.

The 99.5% confidence is one in 200. That is the minimum we have to hold as an insurance company. We all hold far in excess of that. At Aviva we are closer to a 200% ratio. We are well above the minimum requirement. It is a 20% increase, but one in 200 is a less than 1% probability. It is 0.5%. You are increasing from 0.5% to 0.6%. It is still very small.

We can weigh that against the benefits of further investment into the economy; the things that we already have in place in our three lines of defence, our risk management and our understanding of risk limits; and potentially—although we have not seen them—the supervisory tools that will hopefully be coming in, in regard to attestation, the publishing of stress tests, potential add-ons and limiting the amount of non-predictable cash flows we can have in the MA. All of that provides greater comfort on the risk.

The risk is there, and we absolutely have to be cognisant of that. LDI impacted us as insurance companies as well. We do not do LDI; we manage. The fixity of these cash flows means that you do not have as much of a liquidity crisis as you would in LDI. It is different. You need to consider all those factors. In the end, it is a good trade-off.

Q35 **Dame Andrea Leadsom:** I have one final question, if I may. The advantage to the insurance sector of having this greater flexibility and greater investability is quite clear. It is also quite clear that you are saying there will be huge benefits to UK plc because of greater investment in infrastructure.



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Again, the Governor of the Bank wrote to this Committee stating that the 65% reduction in the risk margin would result in a reduction of approximately £14 billion in the capital that needing to be held. If you were to give evidence to this Committee in a year's time, how much of that £14 billion will have been returned to shareholders and how much will have been invested in UK plc?

Doug Brown: We have a dividend policy, which we reinforced earlier this year. It does not change as a result of the Solvency II reforms. We are not returning any of that. We have made promises to the Government. We completely expect to be held to account and to evidence what we are doing. Within the ABI, we are talking about an investment development forum because we think we should be held to account and we want to be able to evidence that.

The rules that come in in September will determine how much we can do, but we will definitely be able to show you that from an Aviva perspective.

Q36 **Dame Andrea Leadsom:** So that will be all of it, all £14 billion.

Doug Brown: It will be there. We have committed to the investment over 10 years. We will not be able to invest £100 billion next year.

Q37 **Dame Andrea Leadsom:** We are not going to see a huge uplift in dividend payments to shareholders as a result of this.

Doug Brown: No, definitely not at Aviva.

Charlotte Clark: I do not work in one of these companies. It is not for me to make the decision. When I speak to members, their approach to this seems to be pretty much in line with what Doug has said. This is not about increasing dividends; it is about investment.

Cristina Nestares: In our case, general insurance is much less impacted by this. In the case of Admiral, we already have a very prudent approach. This will be a small release of capital, so it is not going to have any significant or material impact.

Q38 **Rushanara Ali:** Good afternoon. I have a quick question, probably for Charlotte Clark, about insurance companies and their role in other countries, and then I will go on to lost adjusters and third parties.

The Burmese military is using airstrikes indiscriminately against civilians, even against schools and hospitals, and insurance is a vital part of the supply chain in delivering aviation fuel to Burma. Five companies have been identified by the Burma Campaign "Dirty List" and a further report produced by Amnesty International called *Deadly Cargo*. Those companies are UK P&I, Steamship Mutual, Britannia P&I, North Standard and Shipowners' Club.

Does ABI do much around ethics and how companies observe and monitor adherence to sanctions—as you know, the UK Government have joined the US in sanctions—but also look more generally at who they are



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selling to and what they are doing? In this case, they are using aviation, which British companies are providing insurance for, to kill their own people. You will have seen the effect of that recently in the recent airstrikes.

Charlotte Clark: Clearly, ESG is a big issue across the insurance industry in terms of what we are investing in, how we are investing and how we are reporting that.

Q39 **Rushanara Ali:** Do you know about this case?

Charlotte Clark: I do not know about that one specifically.

Rushanara Ali: I am interested in this particular case.

Charlotte Clark: I am not aware of any of those companies.

Q40 **Rushanara Ali:** Would your organisation be able to write to me, because I have some other questions on other topics, to explain the role of those insurance companies and how, in effect, as a trade body—you are responsible for regulation—you oversee and monitor what they are doing? We do not want to see our insurance companies inadvertently or consciously turning a blind eye to war crimes.

Charlotte Clark: Yes, absolutely.

Q41 **Rushanara Ali:** Thank you. Moving on to loss adjusters, our Committee contacted the Chartered Institute of Loss Adjusters by email and telephone. We left voicemails. We asked them to give evidence to this session and have not received a response. That is just to give you an idea of the way this third-party institution has failed to respond to this Committee, which is indicative of the experience our constituents are facing. Some of us personally have had dealings with loss adjusters and third parties, and it has not been positive.

Can each of you talk us through what incentives insurance companies are providing to loss adjusters and other third parties? What are you doing to make sure they respond to your customers in a timely manner and do not use delays and running down the clock—that is what we have seen evidence of through submissions we have had—in order to avoid paying out what is legitimate and due?

Delaying tactics seem to be one of the trends we are seeing, as is the FOS. That is not acceptable. Clearly, you talked earlier about insurance premiums going up. We are in the middle of a cost of living crisis. As you mentioned, the overall increase is well above inflation. It may not be 10%, but it is nearly 6%. Customers are not getting the service they deserve. One of the problems seems to be around the way third parties are operating.

I would be interested to know what you are doing to hold them to account in order to make sure that they are not damaging insurance companies' reputations and that people are not having a bad experience.



That is what is happening.

Cristina Nestares: Charlotte was talking before about why in general we use third parties. Loss adjusters might be one, but we use other types of suppliers. The reality is that, whenever we find there is something that third parties could do better for us, we think it is wise to hire them to provide a better service to the customer.

We have very strong selection. We have a very clear SLA in any contracts with third-party loss adjusters. We have a dedicated team that follows everything they do.

Q42 **Rushanara Ali:** Talk me through this. We are not trying to get you to chuck everything out of the window. We do not want you to interfere with the ones that are working well. That is not the problem. For the ones that are not working well, what are your accountability mechanisms to make sure they are doing the job they are supposed to do?

You have heard about the gas explosion. In terms of submissions, we have examples of cancer patients who have faced deliberate delays and where misery is being caused. They have paid the insurance companies. It is a racket, in the case of a number of these loss adjusters.

We need to know that, as insurance providers, you are ensuring that contracts are removed from those that are not up to standard. How do you do that? When you get complaints, do you stop doing business with them? That has not been our experience, by the way.

Cristina Nestares: At least in the case of Admiral, we have removed a contract from one supplier that had a number of loss adjusters. They were not holding to the SLA, and we terminated our relationship with them. We will do it again and again, if it is needed.

Q43 **Rushanara Ali:** What are the incentives you are providing? How do you judge whether they are successful? Do you judge them by the fact they are responding appropriately and quickly to the clients who pay your insurance premiums or do you judge them by some other standard?

It is not clear what their incentive structures are, and there may be something in that that needs to be corrected. I just wonder whether others can come in. Charlotte, you have this overarching line of sight in terms of what is going on.

Charlotte Clark: I have less understanding in terms of the distribution chain. Each company is going to have a slightly different approach to loss adjusters and how they manage those sorts of contracts. Generally, loss adjusters tend to get engaged when there has been a significant event and the firm does not have the capacity. Bringing in third parties is an obvious way of managing that.

Q44 **Rushanara Ali:** I understand the reason. That is not the question I was asking, with respect. I was asking this: what is the accountability mechanism overall? What are you seeing? What are the incentives that



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loss adjusters are being provided? We have people who are not getting the service they need; they are getting quite the opposite. They are getting delaying tactics and bad practice. What are you doing about bad practice?

By the time people go to the FOS, that is just more delay. If you have damage, if you have things going badly wrong that require tens of thousands of pounds of repairs, people cannot just pay for that work to be done. Often these are emergencies. They are waiting for payments to be made.

Some loss adjusters will not even answer calls. The example Siobhan provided is not unusual. It is widespread. That is a delaying tactic. The insurance sector is not across this.

Charlotte Clark: If, as you seem to be suggesting, there is a systematic problem—

Q45 **Rushanara Ali:** Does your organisation know whether there is or not?

Charlotte Clark: I am saying I am not aware of a systematic problem.

Rushanara Ali: What are you aware of?

Charlotte Clark: What I will do is go to our general insurance committee and say, "Are you seeing these problems? Are they pockets? Is this poor performance by a particular company? Are we aware of there being systematic problems with loss adjusters?" I am not aware of any at the moment.

Q46 **Rushanara Ali:** The FOS is aware that there are.

Charlotte Clark: We have regular conversations with the FOS, and it has not raised with us specifically issues around loss adjusters.

Rushanara Ali: Perhaps you should talk to them again.

Doug Brown: As I said, it is not my part of the business, but I do hear my counterpart talking. The two of us met with the FOS a few weeks back, and this did not come up. We look at the FOS; we look at other complaints and so forth.

I know the GI side of our business is constantly looking at this. They know speed to settlement is key. Often, customers have gone through something very emotive, and we want to be able to offer help as soon as we can.

They are measuring cycle times. I know in some of the businesses, particularly in motor, they have gone from a cycle time of 29 days down to 12 and they are looking to move that down to seven. They do that by monitoring the customer journey, in which there will be some third parties. If those third parties are not adhering, we still have the responsibility.



- Q47 **Rushanara Ali:** You do; that is right. I will give you an example of what we have heard. Pen is another insurance company. There have been months of delays with third parties. The initial contact point was one organisation. It had technology failures, which led to delays. Another loss adjuster was appointed. There were literally months and months of delays. Pen then sends the customer straight back to the people who are causing the problem. Despite the fact that, as you say, firms cannot delegate any part of their regulatory responsibilities, that is what is happening.

It would be helpful to understand how loss adjusters are operating. If the ABI is not doing work on this, that is quite concerning. We have evidence that serious detriment is being caused to paying customers instead of settlements happening because of these delays and bad practice by third parties. If you have not started an inquiry internally to look at what is going on and what the pattern is, you ought to have done so and you ought to be telling us about it. By the way, the FOS has had complaints.

Charlotte Clark: I am not saying they have not had complaints. I am saying that they have not raised it as a significant issue, as a theme, when we have conversations. We have proactive conversations in terms of, "What are the themes you are seeing in claims or complaints in this quarter?"

- Q48 **Rushanara Ali:** Have you proactively asked them about third parties?

Charlotte Clark: No, I have not asked them specifically about loss adjusters.

- Q49 **Rushanara Ali:** Should you be? Third parties are widespread and widely used by the insurance companies.

Charlotte Clark: I am saying that I am taking away an action to speak to—

Rushanara Ali: With respect, there is considerable complacency in the way that you are operating.

Charlotte Clark: That is a little unfair. I am saying that the FOS has not raised it with us. The FCA has not raised it with us. If there is a systematic issue, we will talk to members and we will definitely report back to say, "This is what we see".

- Q50 **Rushanara Ali:** I have one final question. Does the API intend to do an inquiry internally or share information with us on what you have found? Do you intend to look at what is going on in this territory?

Charlotte Clark: I will raise it with the general insurance committee and ask whether they see a systematic issue with loss adjusters.

- Q51 **Rushanara Ali:** How can they see it as being a systematic issue, if they do not know whether it is? Are they doing the work to find out whether it is?



Charlotte Clark: We will ask them what their particular experience is at the moment with loss adjusters, and then we will take a view across the industry as to whether there are systemic issues.

- Q52 **Anne Marie Morris:** Can we now turn to the FCA proposal to make the Covid-year guidance for treating customers in financial difficulties into permanent guidance? Charlotte, does the industry support that guidance becoming permanent?

Charlotte Clark: Yes.

Anne Marie Morris: That is a nice clear answer.

Charlotte Clark: We can see the rationale for continuing it. It is not so much the Covid guidance, but clearly, as we have moved from Covid into a cost of living crisis, we see the need to continue to make sure we are supporting customers as best we can.

It is pretty common-sense guidance. You would hope most insurers were already trying to take into account whether somebody was in financial distress. In that sense, the continuation of it was not particularly a surprise, and it does not seem like a mad decision.

- Q53 **Anne Marie Morris:** Doug, what has it cost you to do this during the Covid era? Clearly, when customers are in financial difficulty, there is inevitably an element of bailout. There is a cost to that. Have you, as an organisation, costed what the guidance becoming permanent will cost the industry? If I can add a final, final point, what do you see as the particular challenges of trying to implement this?

Doug Brown: We were already proactive in responding to the needs of people during Covid. When the initial guidance came out in Covid, we were very aligned to it and support was provided. It is very difficult to say how much it cost because it was already embedded in some of our processes. We have continued that as we have now moved more into the cost of living crisis and financial hardship. It is something that we talk about always as a leadership.

The guidance coming in is not going to cause us a big concern, because we feel we are already doing a lot of those things. Because we were doing them before, it is difficult to give you a cost.

- Q54 **Anne Marie Morris:** How do you define a customer in financial difficulties? Where is the line where somebody gets help and somebody else does not?

Doug Brown: You take into account different circumstances. We will have conversations with people and we will understand their situation. There are things we are doing as a firm. We have premium holidays; we are doing things in our protection business to allow people to flex their cover so they can take a break.



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On the general insurance side, we have created some propositions through Quotemehappy. We have created something for young drivers aged 17 to 29, which can take into account their driving habits. If their driving habits are good, they end up getting lower premiums. We are developing products and solutions to cater to those who have those needs. It is a combination of all of that.

In addition, if people call up to say they are cancelling their medical, I know there are conversations where we can provide options for them to reduce the benefit but not necessarily give it up and then be able to ramp it up. A lot of it is individual circumstance, but then we are developing solutions that can cater to the masses.

Q55 Anne Marie Morris: How much discretion does each of your managers have? Most of this is done online, I suspect, which makes it very difficult for the individual to interface.

Doug Brown: A lot of that would be through the phone. People can contact us via phone. Those types of conversations tend to be done more by phone than online.

Q56 Anne Marie Morris: How long would it take? If I am a customer in difficulty and I pick up the phone, how long is it going to take for you to sort my problem out so I am not in a difficult position?

Doug Brown: It depends on the circumstance. We are not saying we can solve all difficulties. We can help in terms of what is happening, but we cannot necessarily solve everything that is happening.

I was in our call centre listening to calls, and there was an example of someone who had medical insurance but was having issues. They said, "I just cannot afford it going forward, but I know I am getting X payment in 12 months". We talked them through the options to say, "You do not want to terminate at the moment because then it is difficult to get cover. You want to be covered. Here are some options to do that". We reduced the premium very significantly, and he was able to maintain the cover and he knows he has an option moving forward.

That is an example. It probably took about 45 minutes to talk that through. There are lots of different options. That is just an example of one of the things we have done.

Q57 Anne Marie Morris: When you flex, you try to build it in and get it back later, by delay, et cetera, as opposed to a write-off or what would otherwise be effectively a fee to you.

Doug Brown: We did provide some cover. We have allowed a reduced premium, and he is keeping much of the same cover, so we are taking some additional risk. There is a subsidy for us there in the short term, given the circumstances. We think it is a better outcome for him because he does not want to lose that medical cover going forward. We even



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know that going forward he is going to claim a lot, but it is the right thing to do.

Q58 Anne Marie Morris: You have no intention, going forward, of working out the costing of this to you.

Doug Brown: No, it is just part of how we deal with our customers. It will go into the full amount of how we cost, so we will monitor and understand it. It is surprising. For the premium holidays that we have had in some types of protection, very small numbers have taken those up. We are doing a lot more to communicate this, so that people understand the availability of it and can be more proactive. We are a bit surprised, given the environment at the moment, that more have not taken it up.

Q59 Anne Marie Morris: Cristina, does Admiral take a similar approach?

Cristina Nestares: Yes, very similar. First of all, we welcome the idea of continuing with the measures. We think it is quite important not just because we have a cost of living crisis but because different people have different needs. We have continued with every measure we took during Covid. We have an affordability team, and we look at all these cases. It is something we will continue doing because it is important for customers. We are very pleased.

You asked us to quantify the total cost. I do not have the cost, but I know that last year we helped about 14,000 customers who called us. It is a very similar mechanism. They call us. They might ask for this or they might just share some of the problems they have. We have trained our staff in every part of the business to recognise different types of vulnerability. This could be related to finance or something else. All our staff are very used to recognising the special needs of customers, and we deal with this quite quickly.

Q60 Anne Marie Morris: Do you have, as Doug seems to imply that Aviva has, standard products or ways of dealing with problems or is there quite a lot of discretion for the individual on the end of the phone to be creative?

Cristina Nestares: For example, if you take one of the most important measures, payment holiday, there is a standard in the business, which is up to three months. We also encourage our staff to have discussions. It is not impossible for people to go beyond the normal rules. They might need their team manager's approval.

That is something we constantly do. We try to encourage people to go beyond the normal service. Whenever you see a circumstance, ask your manager, because there could be more flexibility. Yes, we do have discretion.

Q61 Emma Hardy: Just to mention for clarity, Aviva is sponsoring an event in Parliament on flooding. I should probably just mention that for



completeness. Talking of which, I would really like to ask about Flood Re.

Do customers know when you have passed on the flood risk of their homes to Flood Re? I am going to fire loads of questions at you. Have you seen any indication that there is a private market emerging to address the fact that Flood Re is going to end in 2039? What do you see for the future post Flood Re? Generally, how is it working at the moment? Would you want it to continue? I will start with you, Doug, if that is okay.

Doug Brown: It is not my part of the business. I am happy to add a few things, but it might be easier if you were to start with Cristina.

Cristina Nestares: Yes, I am happy to start.

Charlotte Clark: Is it possible to take a two-minute break?

Emma Hardy: I have to leave to be back in the Chamber in 10 minutes.

Charlotte Clark: That is fine.

Cristina Nestares: Let us talk about Flood Re. Let me just start by saying that it has been a very successful programme, at least for Admiral. We have been part of it since the beginning; we were one of the initial members. We cede about 1% of the risk we take. At the moment, we are at about half a million. I would say it has been very successful.

The problem is not going to go away. If anything, it might increase. We are having discussions with several parties because I believe there is not one unique solution. We need to work together with Government and different parts of the industry to find the solution.

It is tricky because there is not yet a decision on when the decision will be made. I cannot even tell you when. All I can tell you is that we are working on it. We welcome it. We think it is positive and we want to find a way to continue with it. Charlotte, you might have an industry view there.

Charlotte Clark: It is a very successful scheme in terms of providing lower insurance for people who are either unable to get insurance or unable to get it at what we might deem an affordable cost. It is time-limited, in that it is meant to come to an end in 2039.

Part of the reason for the time-limiting was the idea that by then the UK's flood defences will be sorted and we will no longer be building on flood plains. If those things do not happen, the demand for Flood Re will be there. As Cristina says, while 2039 is still a few years away, we would be keen to ensure that the flood defences are there so people are not suffering and struggling from these things.

Q62 **Emma Hardy:** The risk is escalating.

Charlotte Clark: The risk is escalating, but that means the need for improvements in flood defences is even greater. With that said, there



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could still be significant problems on an ongoing basis. That is the sort of thing where a public-private partnership between the insurance sector and Government will be needed. It seems unacceptable that certain people are unable to insure their homes.

We were talking in the corridor about what has happened in California. Insurers are basically saying, "I cannot insure homes in California any more". These are big insurers pulling out of a very large market. None of us wants to get to that sort of position. We want to work together to make sure these are insurable risks. At the same time, insurers cannot insure wildfires.

Climate change is of such a magnitude that it is not about the risk of it happening. It is going to happen. That is not insurance; that is simply having to deal with the consequences of climate change.

Doug Brown: In Aviva, we have ceded about 40,000 customers to the scheme. There is clearly evidence that some have claimed multiple times, and it would be very difficult for them to get covered without it. It has been successful.

As Cristina and Charlotte said—this is probably what you are discussing next week—a lot of this is about additional flood resilience. There is the build back better pilot we are doing. Over 25,000 households will be able to claim up to £10,000 for flood resilience. More of that needs to be done, and we need to start doing it because 2039 will come fast.

Chair: If I could interrupt, Charlotte, I know you wanted a comfort break. Please feel free to go now. We are going to carry on. You might miss something important, but, with you out of the room, I doubt we will miss something terribly important. Please do feel free to nip out. It happens to the best of us.

Q63 **Emma Hardy:** Just to push on that point—because I am going to have to dash back to the Chamber myself—how much work is being done through the insurance companies and with Government to try to resolve this problem around flooding through looking at building design and planning legislation? I know the insurance companies were supportive of the amendments I was laying in the Levelling-up and Regeneration Bill; Government unfortunately were not. Has any progress been made?

Doug Brown: I understand that there are conversations going on. It is very important that we have the right framework to insure. It is not necessarily just about flooding. We have to also make sure that new builds take into account extreme weather events, flooding being one of those.

The planning rules and the building regulations have a key part to play in that because we do not want to be creating a problem, going forward, where people will not be able to insure. Those conversations, in my understanding, are happening. Charlotte, you might know a little more.



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Charlotte Clark: It is about making sure that homes are insurable in the future. We have been calling for changes to the Levelling-up and Regeneration Bill. What are the planning requirements going forward? What are building standards going forward?

We always call for more money to be spent on flood defences because it is a great investment. Every pound spent on flood defences reduces the cost of flooding by £7. There is a very good return. More could be done, undoubtedly so, as on so many of these things.

Q64 **Emma Hardy:** I have a final question, just to pivot somewhere else. As Fair By Design and the Social Market Foundation have recently demonstrated, people in poverty pay a premium for motor insurance due to factors outside of their control, such as where they can afford to live, resulting in many struggling to access this essential service. This relates to how their risk is calculated by postcode.

Crucially, people who cannot afford to pay their insurance in one lump sum are penalised for having to pay it monthly instead, despite insurers being able to stop insurance immediately if somebody defaults on payment. What role can industry play in tackling this injustice?

Charlotte Clark: There are two separate issues. There is an issue with regard to monthly payments. If you take out a contract for a year's worth of car insurance at £480, to take an example, there are very few homes where £480 is just sitting in a bank account. I understand that. If you were to go and buy a car, you would buy it on credit. The car would be more expensive than if you had the money to buy it up front. There is a cost to credit. Therefore, if you are spreading that cost over a year, there is a reasonable amount that can be charged.

Q65 **Emma Hardy:** Some of the charges are unreasonable. The cost of paying monthly does seem to be quite unfair. It is something the industry could tackle to help people on lower incomes. You can immediately cancel if someone defaults on payment.

Charlotte Clark: It comes back to something I said earlier. When people are looking at things like price comparison websites, some firms do not charge interest. Some firms will charge you the same monthly as they will annually. Do look at that, because it will make a big difference.

Q66 **Emma Hardy:** That is something industry could do. It could say to insurance providers, "You could help with the cost of living crisis at the moment. Could you perhaps make that clearer in your advertising? Could you make it more obvious on your website?" This feels like something the industry could do that could help quite a lot of people for a relatively small amount of money.

Charlotte Clark: A number of firms are looking at whether there is a way to make their products more affordable, if people need to spread costs. We do need to do fair value assessments; that is a regulatory



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requirement, so we need to be able to attest that what we are charging for these things is providing fair value. The challenge is a good one.

- Q67 Siobhain McDonagh:** A constituent of mine invested part of her pension, her John Lewis pension, in the now collapsed Blackmore Bond. As you might be aware, the investment was promoted with a capital guarantee scheme. This was an insurance product brokered by FCA-authorized insurance brokers based in the UK and it assured investors that they would be repaid on any losses that might occur from this investment.

Blackmore Bond collapsed in April 2020 and liquidators confirmed that all investors' money had been lost. However, the insurers that provided this—what might best be described as investment insurance—have refused to pay out.

I have two questions. To what extent are you aware of the brokering and selling of such investment insurance to UK consumers that does not appear to pay out as per assurances?

Doug Brown: I am not familiar with that one.

Charlotte Clark: I am not familiar with Blackmore; sorry. If you were advertising an investment that gave a guaranteed return, I cannot believe that would be FCA-regulated unless it was something like a Government bond. I am not aware of the specifics of the case.

- Q68 Siobhain McDonagh:** It was the insurance that was FCA-regulated, rather than Blackmore Bond.

Doug Brown: Yes, but if it is a pension wrapper that is insurance-regulated, and it is them investing in the bond on behalf, I would have thought that the insurance has to step in. I am not familiar with it. We can take that away and look at it. That one has not come across within our pension book.

- Q69 Siobhain McDonagh:** Thank you. Secondly, another key issue exposed by this is that, while the investors were clearly the stated beneficiary of these insurance products, some are being told that because they were not the client of the insurance firm that sold the insurance, they have no or limited rights to pursue a claim or complaint against either the insurer or the UK-based and FCA-authorized insurance brokers involved.

How widespread is this issue in the insurance market generally? For example, are tenants and leaseholders who are forced to pay for insurance arranged by their landlord or management company subject to similar issues?

Charlotte Clark: The issue with regard to leaseholders and insurers is quite a complicated one. The regulations are changing on the back of the FCA review. Where somebody is ultimately responsible for paying it but it has been brokered, as you say, through a managing agent, the regulations are changing to make it clear they are a customer and should



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be treated as a customer of the insurer. It is not clear in regulations at the moment.

Q70 **Siobhain McDonagh:** They are not the policyholder.

Charlotte Clark: They are not, no.

Siobhain McDonagh: The freeholder will be the policyholder in leasehold situations. With Blackmore Bond, the purchaser of the insurance product was probably Blackmore or whoever. The investors who are now seeking reimbursement paid a premium but were not the policyholders.

Charlotte Clark: As I say, I do not know the specifics of that case, but there are these distribution chains. Perhaps a more obvious example would be in pensions, where the employer has contracted with a pension firm to provide a pension, but the individual employees are the customers. It is very clear within regulations that they are the customers, even though the employer is the person who has contracted with Aviva or whoever to provide that pension.

Doug Brown: I am worried just listening to that, because there are a lot of pension scams. It is something we are clearly on top of. Sometimes people try to pretend they are Aviva to do things. When we are transferring money and stuff, there is a lot of safeguarding in place to make sure we are not doing it. That example sounds a bit worrying. We should take a look at it and let you know.

Q71 **Rushanara Ali:** I want to pick up on a few points. Earlier we talked about the FOS. In our conversations, it said that one of the biggest areas of concern it was seeing in insurance complaints was people complaining about the length of time it was taking for claims to be resolved, particularly where third-party loss adjusters or builders and decorators were involved. The FOS stated that it judged complaints based on whether prompt action is being taken throughout a claim and that each case would have to be judged on its own merit.

Clearly, that is where the complaints are coming through. It does need to be investigated at the insurance company level. It cannot be right that consumers have to go to the FOS. There are huge issues with the FOS and delays in responding to complaints. By then, you are getting into failure territory, and of course companies also have to pay according to the number of complaints the FOS deals with. There is a serious issue here. We are not just talking about individual anecdotes, though they are serious. There is a systemic issue.

Charlotte Clark: If I gave you the impression I was dismissing it, I am really not. I just do not have the knowledge to be able to answer your question.

Q72 **Rushanara Ali:** We would be really grateful for further work on this.

Charlotte Clark: Yes, absolutely. You have our commitment that we will have a look at this.



Q73 Rushanara Ali: We appreciate you being here. We need to look at how we address these issues. If we do not, we will just run into further problems. It is really damaging for the insurance industry in terms of reputation. As I say, it is very concerning that loss adjusters cannot be bothered to respond to a parliamentary Committee, which has considerable power and influence over what happens in this arena. We are trying to be helpful.

There is something going wrong here. It is not really on for insurers to be using an industry group that cannot be bothered to respond. It has been some time since those requests were made. It is pretty unheard of, just to say.

I have some questions in relation to people with pre-existing conditions. Is the travel insurance market working for people with long-term health conditions? There are a number of issues around mainstream providers. Flood Re provides an interesting example of pooling risk. Is there a case for looking at something like that for those with pre-existing conditions? We have examples of cancer patients who are facing difficulties with getting insurance. Older people also pay higher premiums, along with anyone with a pre-existing condition. Are there things we could do to improve that in terms of market failure?

Cristina Nestares: I am happy to cover that one. It is quite an important topic. We have done a number of things. For example, we are part of and have signed the ABI's mental health and insurance standards. We give cover to a wide range of customers. Admiral tends to give cover to more than the average of the market. We cover customers with long-term health conditions, including mental health. We have recently engaged with the Money and Mental Health Policy Institute and other bodies to understand better what we can do to take this further.

It is an important point, but we do our best to offer cover. At Admiral, we do not do any exclusions based on health conditions.

Q74 Rushanara Ali: You do not do any exclusions.

Cristina Nestares: We do not. We offer cover to a majority of cases.

Q75 Rushanara Ali: Presumably the premium is much higher if you have a pre-existing condition, which is one of the issues that can be exclusionary. There are specific elements to the policies that make it almost impossible for people to travel.

Cristina Nestares: We comply with the FCA medical signposting rules. If it is the case that the premium is going to be higher because of a health condition, we show this to the customer and we gave them alternative providers they can contact. We are doing our best.

Q76 Rushanara Ali: Do you use specialist insurers? Do you signpost them to specialist providers?

Cristina Nestares: Yes, we do.



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Q77 Rushanara Ali: You are aware that the specialist insurers are not able to pool risks in the same way. That means what is going to be on offer for those with pre-existing conditions is going to be suboptimal from their point of view.

Cristina Nestares: Yes. As I said, we have engaged with different bodies, and we are very open to discussing how we can solve this. It is not just about the insurers. It is the insurers and Government.

Q78 Rushanara Ali: Is there a case for looking at something like a Flood Re-style insurance pooling system that works for people with pre-existing health conditions?

Cristina Nestares: There could be a case for that. We should be open to investigating that.

Doug Brown: The actuary in me says it is slightly different to Flood Re. It is a small amount that you are pooling over here. Some of the claims in travel, if you are repatriating people or doing other stuff, are very high. Therefore, it may be prohibitive. You might price everybody else out of travel insurance. We can look at it, but it might be difficult.

Q79 Rushanara Ali: Is this an area where there is a role for Government? The Government could look at how to remove some of the barriers that are there, to provide more of a level playing field for those with serious pre-existing conditions and to support the market so the market failure is addressed.

If you are left to your own devices, it is going to take the course it is. Is there a case for joint working between the industry and Government to look at what can be done to ensure that we get somewhere?

Doug Brown: We should work with Government and industry to figure it out.

Q80 Rushanara Ali: Is this something you have looked at as the Association of British Insurers? Have you looked at whether there could be a joint programme of action, with support from Government, to suggest proposals that might address this issue of people being excluded?

This cannot be a fair or right way to treat people who have had the misfortune of getting cancer or who have other pre-existing conditions. We are all going to age; we are all ageing. As you get older, it becomes much more expensive. It is in all of our interests to look at a way forward. What have you been doing in terms of this agenda? Have you had conversations?

Charlotte Clark: On the travel agenda in particular, there are some specific areas we have been focusing on. As Cristina mentioned, some of that was around mental health. Mental health is a very broad definition. If you are just asking somebody whether they have had mental health issues, they could have had depression when they were doing their A-levels or they could have a very serious existing mental health issue.



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We have been trying to work with the industry to make sure we have clarity as to how people with mental health issues are being treated and, where they are well-managed conditions, people are not disadvantaged.

- Q81 **Rushanara Ali:** On this specific issue around specialist insurers, cancer patients and so on, you will have seen the piece in the *Telegraph* about some of the horrific situations people are in. Is this something you are speaking to Government about? Would you consider doing that? Would you look at coming up with some proposals on what could be done to address that issue or not?

Charlotte Clark: It comes back to something we have mentioned a couple of times: the premium. The premium is the risk of something happening and the cost if it happens.

- Q82 **Rushanara Ali:** Yes, sure, but why do you not talk to the Government and ask, "How do we mitigate that risk and deal with the market failure?"

Charlotte Clark: If you are saying that you think there should be a social intervention—

Rushanara Ali: A policy intervention, potentially.

Charlotte Clark: —or a policy intervention that basically says, "You should pool so that older people and people with pre-existing conditions are not disadvantaged", that is a matter for society.

- Q83 **Rushanara Ali:** That is what the industry does. Companies spend time lobbying. The insurance companies lobbied the Government on Solvency II. You talk to Government all the time on issues that affect your companies. It is not like you are immune to talking to Government on other issues. We talked about Solvency II earlier. There are many other areas where the Chancellor gets lobbied by your industry and others. Why do not you talk to them about this?

It would be positive to look at this and see whether some answers could be arrived at to ensure that customers get fairer treatment, given that there are understandable market failures. We recognise the context in which you are working. That is what I am interested to know. There does not seem to be the will to do so.

Charlotte Clark: I do not think that is fair. We have tried to think about how we can make the system, as it currently works, work better for customers. Big systemic changes—

- Q84 **Rushanara Ali:** With respect, it is not working well for customers with pre-existing conditions. That is why we are asking these questions.

Charlotte Clark: We are setting up things like directories or codes of practice with regard to how we treat people with mental health issues. All of those things improve—

- Q85 **Rushanara Ali:** That is really helpful, but the question was about the cost and the prohibitive nature of the policies. They create exclusions that



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make it impossible for people to leave the country, for instance, for a holiday or whatever. That is the issue.

Charlotte Clark: I completely get that. Let us take another example: drivers. Older people pay less for motor insurance because younger drivers are deemed to be a higher risk. Is that fair?

Q86 **Rushanara Ali:** With respect, cancer is quite a different type of example.

Charlotte Clark: I am not trying to be facetious. I am just saying that there are different risks and there is a different fairness.

Q87 **Rushanara Ali:** I have three more quick questions before the vote comes. When the bell rings, we will have to go.

I want to turn to the question about discrimination. Citizens Advice has stated that insurance companies do not collect ethnicity data on their customers. Can you confirm that this is the case?

Charlotte Clark: Yes.

Cristina Nestares: Yes, 100%.

Q88 **Rushanara Ali:** Can you also confirm that you do not use algorithmic pricing that takes into account the name of the person buying the insurance?

Cristina Nestares: Yes, 100%.

Q89 **Rushanara Ali:** Would someone get the same quote for life insurance irrespective of their name, racial ethnicity or nationality, if all the other risks were the same?

Doug Brown: Yes.

Q90 **Rushanara Ali:** Car insurance providers used to be allowed to discriminate based on gender but are no longer allowed to do so. Is it still conscionable for insurance firms to be allowed to discriminate based on age and other characteristics?

Cristina Nestares: I am happy to say that I believe the role of the insurance industry should be to try to price using all legal data that we can to predict the claim risk. That is the best solution for society. Whenever there are societal issues, like you just mentioned about people with serious illnesses trying to travel, that is where the Government should come in. As a private industry, our role should be to look at the claim risk. The role of the Government should be the societal issues.

I completely welcome that. I am very happy to work together to find solutions to these problems.

Rushanara Ali: That is a good note on which to finish. I think we might have a partnership. If my party is in Government, we can work with you on this.

Chair: Thank you very much. The bell concludes the Treasury



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Committee's evidence session. I would like to thank you very much for your openness, for coming forward and for giving us evidence today.