

### **Written evidence submitted by the British Insurance Brokers' Association**

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

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

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

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

BIBA submits a combined response that takes into account the issues raised in specific questions 4, 5,7, and 8:

**4. What overall level of taxation can the economy bear without undesirable or counterproductive harm to economic growth?**

**5. Which areas of the tax system are most in need of reform, and which are best left alone?**

**7. What is the role of tax reliefs in rebuilding the economy and promoting economic growth and efficiency? Does the current regime of tax reliefs perform this role well?**

**8. What are the areas for simplification**

2. Our proposals are designed to help support the Governments aims of reducing the strain on household budgets following Covid-19 and assist with the long road to recovery for the UK economy. Our proposals primarily relate to the operation of Insurance Premium Tax where we outline considerations for Government.
3. In addition, we have a recommendation to incentivise greater take up of travel insurance and private medical insurance, the latter through a targeted reform of the P11D system which we contend will bring significant productivity gains to the UK and reduce stress on the NHS as it emerges from the pandemic.

### **Insurance Premium Tax (IPT)**

#### **Freeze IPT at 12%**

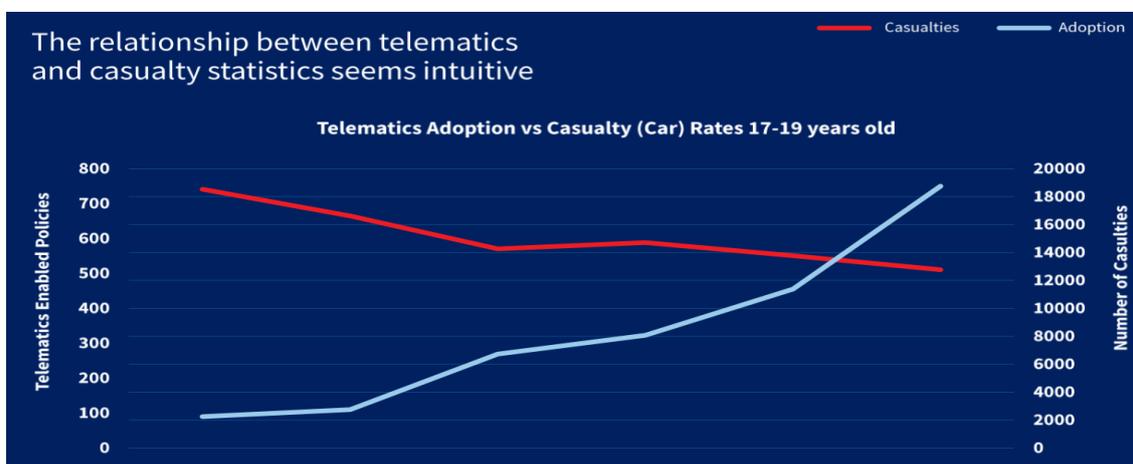
4. Our primary recommendation is for Government to hold IPT at the current rate of 12%. IPT receipts are at a record high of £6.2 billion. The rate of IPT has increased rapidly in recent years: in 2011 the rate was 6%, increasing to 9.5% in 2015, 10% in 2016 and finally to 12% in 2017. This tax burden falls on both consumers and businesses alike and is regressive in nature since it acts as a huge disincentive to the purchase of adequate insurance protection and a lack of insurance can have

unintended consequences on the state, for example when UK holidaymakers without insurance contact UK consulates for assistance with repatriation.

5. A 2018 survey by a leading UK insurer into the Public and Voluntary sectors, for example, found that 1 in 4 public sector organisations have been forced to increase their excesses and 2 in 5 have had to cut budgets elsewhere to offset the cost of successive rises in IPT. Just under half of organisations said they would be forced to reduce or cancel cover on some risks if IPT rose.
6. 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.
7. The pressure on UK businesses caused by Covid-19 have put many at breaking point and that is why we are calling on the Government to announce an IPT freeze for this parliamentary term.

**Grant Targeted IPT Relief for Telematics and Cyber insurance policies**

8. We urge Government to consider targeted IPT relief to encourage responsible behaviour in two key areas.
9. 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.



10. Telematics policies have been shown to moderate driving behaviour, reduce speeding by 25% and increase road safety. We propose that Government incentivise more young drivers to purchase telematics policies by making these policies exempt from IPT.
11. Cyber Insurance. We met with the Minister Matt Warman MP this year and 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. Bearing in mind the lockdown has created an enormous reliance on internet usage it is vital the we ensure more UK SMES have cyber insurance protection.

### **Travel Insurance IPT – in need of urgent reform and simplification**

12. Question 4. Talks about undesirable or counterproductive harm to economic growth. The Travel Insurance sector is in the most desperate situation due to Covid-19 with hardly any income in the last 5 months leading to redundancies and furloughs as firms struggle to survive. This period of massively reduced income is clearly set to continue for a long time with many customers required to shield, many countries on the FCO all but essential travel list and the global rate of Covid-19 still getting worse.
13. Yet this sector is subject to an unusually high rate of 20% IPT. This higher rate is due to the historical issues of travel insurance by some sectors of the unregulated travel industry prior to FCA regulation. However now that FCA regulation is in place for sales of connected travel insurance there is no justification for IPT to be applied at a rate of 20%.
14. Changing the travel insurance rate of IPT to bring it into line with the 12% rate applicable to the rest of the sector would achieve the Government's aim of simplification while at the same time giving a critical boost to the travel insurance and wider ravel sector, helping to safeguard many jobs.
15. Travel insurance is also going to become far more important for UK citizens as we leave the EU wide system of reciprocal health agreements – the EHIC (European health Insurance Card) at the end of this year. With no replacement or alternative health agreement agreed the only financial protection that will be afforded to UK citizens traveling abroad will be to arrange travel insurance.
16. To put this in context, UK citizens make more than 50 million trips per year to EU27 countries. BIBA's joint research with the ABI in October 2019 showed that almost a quarter of UK citizens visiting these countries have no travel insurance. Any incentive to encourage consumers to purchase proper travel insurance is therefore important and IPT is one lever open to Government.
17. This is therefore the ideal time to reduce the rate of travel insurance IPT to 12%.
18. Reducing the rate of IPT on travel insurance to 12% would:
  - Simplify the IPT rate system
  - Make travel insurance more affordable as we lose the EHIC at the end of this year.
  - Would be a stimulus to economic growth in a very troubled sector
  - Result in more UK citizens being protected and reduce pressure on UK consulates.

### **Helping properties at risk of flood**

19. 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.
20. This IPT contribution to flood defence work and resilience must be continued to be ring-fenced in all future spending reviews. BIBA also calls on Government for greater transparency in accounting for where the money is spent through specifying projects funded in whole or in part by ring-fenced IPT.
21. We also believe customers should be encouraged to invest in property level flood resilience and therefore a VAT break on these often expensive products would help assist the resilience of the UK to flood and reduce the pressure on local authorities during a crisis.

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

22. 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.
23. 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 £1.6billion in premiums. This produces £178 million in additional IPT which more than offsets the estimated £135million 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.
24. 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 £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.
25. We hope you are able to give serious consideration to all five of our proposals, of these five responses our main suggestion is to freeze the rate of IPT at 12% for this parliamentary term. We believe our proposals will help with the strain on household budgets and help Government in managing the nations long road to recovery.

*September 2020*