



**Informing Progress - Shaping the Future**

## **FOIL Update 10<sup>th</sup> December 2024**



### **Navigating the New Normal – Part 2**

#### **An industry perspective: the ABI's priorities with the new government**

The second session of the conference commenced with a presentation by Mark Shepherd from the ABI, who provided insights into the priority issues for the insurance sector the ABI will take into its discussions with the new Labour government.

Motor insurance continues to be a primary concern, particularly the affordability of premiums, which has attracted significant attention from regulators and the media and was a feature of Labour's pre-election manifesto. The ABI emphasise the importance of retaining customer trust, which requires an enhanced understanding of premium structures, reducing complexity, and enabling its members to deliver positive outcomes. This focus on transparency and customer engagement is vital for navigating the evolving landscape and addressing the complexities driving up premiums.

The government must understand how insurers assess risk, as well as the impact of inflation on claims and premiums costs. Average premiums remained relatively stable between 2017 and 2020 but have risen sharply since, with a rise of 25% recorded in 2023. Although there was a slight decline during the third quarter of 2024, premiums remained 9% higher compared to the same period last year. However, when adjusted for inflation, premiums are approximately 4% lower than the peaks experienced in 2017, indicating the impact on insurance pricing that warrants careful consideration by policymakers.

When examining costs, premium rises have been led by a combination of claims cost inflation and tax increases. Adjusted for inflation, claims paid in 2024 compared to 2017 rose

by 21%. EY estimates that for each £1 paid in premiums in 2023, insurers incurred £1.14 in claims and expenses. Added to this is the increase in insurance premium tax, which was launched at 2.5% in 1994 but had risen to 6% by 2015 and has since doubled to 12%. Insurers are underwriting consistent losses, and policyholders are paying higher premiums, with the situation unsustainable and needing regulatory intervention balanced with the realities of the market.

The government is taking a measured approach that considers systematic enhancements to address the rising costs faced by insurers and to secure a better deal for drivers. The new government taskforce marks a significant development in this area, as it aims to identify the factors driving costs throughout the claims lifecycle and analyse their impact on insurance prices across various demographic and socioeconomic groups.

The taskforce will also focus on understanding the characteristics of the UK model that contribute to escalating costs and examine these against established practices in other jurisdictions. A range of actions has been proposed for discussion, and the market needs to remain adaptable and open to change for there to be an effective response to these challenges.

Claims costs and handling processes will be scrutinised as the taskforce evaluates efficiencies and cost controls within existing supply chains and outsourcing models. Vehicle repair arrangements will be a particular focus, taking into account increasing vehicle sophistication and the corresponding rise in repair costs. Analyses will encompass broader factors impacting claims, such as vehicle theft, uninsured drivers, the condition of roads, and the implications of the RTA claims track. It is hoped such a comprehensive examination will identify areas for improvement and develop strategies to enhance overall claims management efficiency.

The involvement of the Financial Conduct Authority (FCA) in the taskforce runs alongside its ongoing Premium Finance Market Study, announced on the same day. This initiative is aimed at examining the implications of premium financing and the associated costs for consumers who choose to pay premiums monthly.

The study is particularly relevant as it also affects the home insurance market, where consumers often seek flexible payment options. The FCA aims to ensure a more transparent and equitable sector that benefits all stakeholders by addressing costs in the broader insurance landscape and the specific financial mechanisms available to consumers.

The home insurance sector has also seen premiums steadily increasing alongside rising costs for insurers. In real terms, premiums are lower than they were between 2013 and 2017, but claims paid out in the second quarter of 2024 were 24% higher than during the same period the previous year.

Government initiatives, such as the Planning Policy Framework, are expected to generate additional premiums; however, the housebuilding strategy must ensure development is in the right areas to mitigate the risk of increased claims from floods and other climate-related

losses. A balanced approach is needed to ensure the sustainability of the home insurance market while addressing the increasing challenges posed by environmental factors.

The presentation concluded with an update on the Civil Liability Act and the personal injury discount rate, which has recently been set in Scotland and Northern Ireland at +0.5%. This figure provides a strong indication of what can be expected to follow in England and Wales, where a new rate is due by 11th January 2025.

Additionally, the Lord Chancellor has announced the findings of the first statutory review of the Whiplash Injury Regulations 2021, with tariffs to increase by 15%. These changes will not be applied retrospectively, but the timing of their introduction has yet to be confirmed. Further scope for reform exists around credit hire firms and agreements, but success depends on coalescence among providers on approaches and fees to facilitate change.

As we approach the 6-month anniversary of the new Labour government, insurers face the ongoing challenge of educating politicians and consumers about the cost pressures they encounter while striving to advocate for legislation that is equitable for all stakeholders involved.

### **Perspectives on the new Labour government and what it means for insurance**

The conference concluded with insights from The Rt Hon. the Lord Hunt of Wirral MBE, PC, and The Rt Hon Mr Charles Clarke, who shared their initial thoughts on the new Labour government. Emphasising the insurance industry's role in influencing policy, such as its contributions to whiplash regulation, Lord Hunt stressed that efforts continue to enhance client awareness of the current and evolving legal environment.

The speakers highlighted that Labour has expressed ambitions for reform aimed at driving economic growth, identifying the (re)insurance markets as one of five priority growth opportunities within the financial services sector. This focus underscores the need for ongoing collaboration between the industry and policymakers and the industry's need to react to new government proposals.

Mr Clarke commented on the unexpected nature of the early election, with the unpopularity of the Conservative Party highlighting a path to victory for Labour. However, Labour's no-risk approach lacked clarity and failed to set a coherent strategy for change with defined policies. Mr Clarke reiterated his previously expressed view on the need to outline plans for public sector investment, emphasising that market trust in Labour was undermined in the lead-up to the last general election. Labour needed to present a convincing budget and narrative, which they have, with the market seemingly taking the first Labour budget in its stride.

Discussions shifted to the Prime Minister's efforts to restore Labour's credibility on the international stage, acknowledging the party's stability as a positive attribute in supporting this goal. However, policies such as the withdrawal of the winter fuel allowance have led to a significant decline in popularity, according to recent polls, and have raised the question of whether the Prime Minister can deliver meaningful change to make life better. One challenge is the mixed capabilities in the new cabinet and, after 14 years in opposition, the fact many members lack any prior ministerial experience.

An early test of this capability will be the response to the US's tariff plans and the decision on whether the UK aligns itself more closely with the EU or the US. The Conservative Leader has emphasised her party's established relationship with the US, and Labour has indicated a willingness to work on a cross-party basis to address these challenges.

The session ended with a discussion on Labour's likely stance towards pro-business policies and its commitment to supporting the insurance sector in reducing claims costs and premiums. The speakers questioned whether the party is sufficiently representative and possesses a deep enough understanding of the market to navigate the complexities of historical biases and ensure compensatory frameworks do not favour specific socioeconomic groups.

It was agreed regulators must maintain strong connections with the industry and work to reduce compliance costs, a key factor in driving lower premiums for consumers. This presents an opportunity for FOIL to present a clear industry agenda, advocating for policies that promote a fair and sustainable insurance sector.

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