HM Treasury

The UK insurance growth action plan

December 2013

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Foreword

The insurance sector makes a vital contribution to the UK economy, employing over 300,000 people across the country, attracting global capital, serving the needs of consumers, and generating UK exports. It plays a fundamental role in assessing and managing risk – whether strengthening the resilience of local communities, sustaining regional growth, or underpinning global trade. We are therefore committed to making the UK one of the most competitive places in the world for insurance.

The Government's objective is to continue its strong partnership with the insurance sector, strengthen its contribution to economic growth and work together to enhance the UK's position as a global leader in a truly global industry. This document sets out the measures we will take to deliver this objective. Our focus will be on five main areas:

- the UK industry in overseas markets;
- the UK as a location for insurers;
- insurers as long-term investors in the UK;
- serving UK insurance customers; and
- skills and diversity in insurance.

The measures identified in this action plan are the right ones to maintain and strengthen the sector's competitive position. They reflect not only the size of the challenge but also the scale of the opportunity, as well as the aspirations of the Government and the insurance sector itself to equip the UK for success in the global economy.

George Osborne
Chancellor of the Exchequer

Sajid Javid
Financial Secretary to the Treasury

Executive summary

The UK insurance sector is the largest in Europe and a leading global centre in a truly global industry. The sector forms a vital part of the wider financial services cluster in the UK and benefits from a broad and highly developed skills base. But more needs to be done to maintain and strengthen the sector's competitive position – and to ensure the sector is equipped for success in the global race.

The purpose of this plan is to drive growth across the insurance industry and strengthen the sector's contribution to the UK economy. The plan identifies actions that Government, industry, and other partners can take forward in five key areas over the next 12-18 months and reflects engagement with UK-based insurers, inward investors, brokers, and trade and professional bodies.

The UK industry in overseas markets

The UK insurance sector has always been outward looking and internationalist. The Government is determined to do what it can to help firms grasp opportunities in emerging economies, especially in high growth economies such as those in Asia and Latin America. To this end, the Government will develop a co-ordinated, targeted approach to promotional and other activity, focusing on five key markets – Brazil, China, India, Indonesia and Turkey – including establishing a programme of senior Government and private sector visits, as well as prioritising financial services and insurance within upcoming free trade negotiations.

The UK as a location for insurers

The UK is one of the most competitive places in the world to undertake insurance and the Government is committed to do what it can to sustain and sharpen the UK's competitive edge, and make the UK the world's leading centre for insurance. Now that the tax framework is highly competitive, industry representations suggest that Government action needs to target inward investment and focus on practical steps that will make it easier for overseas insurers to relocate to the UK. To this end:

- the regulatory authorities have committed to streamlining authorisations processes for prospective insurance applicants;
- UKTI will proactively target insurers to move their domicile to the UK, including developing a marketing campaign setting out the business case for locating in the UK; and
- the Government will work with insurers and wider partners to consider options to grow the market in commercial Islamic insurance.

Insurers as long-term investors in the UK

Insurers play a key role in providing the stable, long-term, investment needed to drive sustainable economic growth. Government has successfully negotiated changes to Solvency II that promote this role. After years of negotiations, the recent Solvency II agreement now provides enough certainty for insurers to develop their long-term investment plans, including investing in UK infrastructure both for the benefit of their policyholders and the UK economy as a whole. In line with the Government's broader transposition policy, and given that Solvency II is maximum harmonising, implementation will be fully consistent with the Directive and not go beyond it – implementation will be through a direct copy-out approach where possible, avoiding gold plating.

As a result of the new certainty over Solvency II, the following insurers – Aviva, Friends Life, Legal & General, Prudential, Scottish Widows, and Standard Life will work alongside partners with the aim of delivering at least £25 billion of investment in UK infrastructure in the next five years. Suitable projects will include, but not be limited to those included in the National Infrastructure Plan 2013 and can include major infrastructure projects led by private sector sponsors.

Serving UK insurance consumers

The retail domestic market in the UK is both mature and highly competitive. While this can give parts of the sector a competitive advantage in international export markets, it can mean that growth in traditional retail product lines can be more challenging at home. The Government wants to see an insurance sector that helps customers manage risk, puts its customers first – by harnessing the power of new technology and creating products that meet their needs – and has their trust and confidence. The Government asks that the industry commit to ensuring consumers are able to access the insurance products they need with information that enables them to make informed choices.

Skills and diversity in insurance

The UK's position as a leading global centre for insurance is built on a talented, highly skilled, and diverse workforce. If the UK is to succeed in driving growth both in the domestic market and overseas it is vital that the sector sustains and further enhances the UK's competitive advantage in this area. The Government's aim is to see an insurance workforce in the UK representative of the customers it serves and well equipped to meet their needs. To this end, the Government welcomes industry's proposals to:

- establish a gateway project to help people find apprenticeships and graduate training places within insurance;
- double the number of technical apprentices over the next five years; and
- strengthen the pipeline of senior female executives in the insurance industry.

The Government and industry working in partnership

This document is part of the continuing strong partnership between Government and the UK insurance industry. The measures identified provide a strong basis for action. Implementation will require close collaboration across Government, the regulatory authorities, among industry trade and professional bodies, and the wider sector.

This action plan sends a clear message: the Government is committed to ensuring the UK insurance sector is equipped for success in the global race – both in the near term but also in the decades to come. We look forward to working with industry and with investors to enhance the UK's position as a global leader in a truly global industry.

1 The challenge and opportunity for the UK insurance sector

Importance to the UK

Employment

The insurance sector employs approximately 320,000 people in the UK, in insurance companies, the Lloyd's market, brokers and auxiliary services

Funds under management

Within the UK economy, insurance companies have a vital role as asset managers – managing around £1.8 trillion of investments, which represents approximately a quarter of the UK's total net worth

Contribution to GDP

Insurance and pension funds account for approximately 1.6% of UK GDP (excluding brokers and auxiliary services); the contribution of UK general insurance brokers adds a further 1% to GDP

Sources: TheCityUK; ABI; BIBA

Global, regional, and local

1.1 The UK insurance sector is the largest in Europe and a leading global centre in a truly global industry. The industry has an internationalist outlook, with approximately 30 per cent of premium income coming from overseas business; and the larger UK-based insurers already have a growing footprint in the high growth economies of Asia, Latin America, and Africa.

1.2 The industry has a strong regional presence, supporting jobs spread right across the UK, including particularly strong clusters in Edinburgh, Norwich, and York.

1.3 Insurers also make a significant contribution to local communities – whether building resilience by insuring against the risk of natural catastrophes such as flooding; giving people the certainty and security they need to live their everyday lives through the provision of personal savings and pension products; or helping fund infrastructure projects such as power stations, colleges, housing, hospitals, and GPs surgeries in their role as long-term investors.

Diversity of talent: a competitive edge for UK insurers

1.4 The insurance sector in the UK is highly developed and forms a vital part of the wider financial services cluster in the City. Integrated alongside accountancy, legal services, banking, and compliance, a thriving insurance sector creates demand for professional services; and vice versa, the capacity for risk assessment and risk management that insurers provide serves as the platform to realise commercial opportunities.

1.5 The sector benefits from a broad and highly developed skills base, with the UK insurance cluster composed of underwriting, broking, actuarial, and marketing talent that operates across a range of sub-sectors – whether general insurance, life, wholesale, and reinsurance. Compared with leading high growth economies the UK has a significant comparative advantage in insurance skills, demonstrated by the relative specialisation of UK insurers in global markets.

Insurance in a changing world: challenge and opportunity

1.6 The insurance sector is therefore an integral part of the financial services industry and a key asset for the UK economy. The Government recognises, however, that if the UK is to maintain and further strengthen this position then there are significant actions that need to be taken. There are a number of long-term challenges facing the sector, so there is little room for complacency:

- market access and trade barriers favouring domestic (re)insurers persist in some overseas jurisdictions and limit the potential of foreign firms to expand in growing markets;
- insurance capital is globally mobile and competitor financial centres are taking steps to attract insurance investment and challenge the position of the UK and London;
- the low interest rate environment has kept mortgage bills low for families across the country, but has made it increasingly difficult for insurers to get a healthy return on their investments;
- an ageing population creates real challenges for pensions and the life sector, as well as other business lines such as health;
- the advent of aggregator sites creates intensive competitive pressure on headline prices, which is important for hardworking people but poses a challenge to the industry; and
- the prolific growth of data – and the technology able to process it in real time – now supports highly granular risk-profiling, which is changing the nature of risk-pooling, potentially restricting access to insurance for high-risk customers.

1.7 Nevertheless, these are challenges which UK insurers are well placed to meet and for which they often have a competitive edge, and which therefore offer significant opportunities for growth:

- the Government's commitment to liberalisation of trade in services and the long track record and strong reputation of UK insurers, supported by a strong regulatory environment, means that UK insurers are in a strong position when making the case for overseas jurisdictions to open up their markets to UK firms;
- the cluster of brokers and insurers, as well as the Lloyd's market, in London which all operate internationally provides expertise that is unmatched by other financial centres and helps foster a creative environment in which innovative solutions can be developed and distributed across the globe;

- the recent agreement of Solvency II finally gives UK insurers certainty that there will be a level playing field in Europe, that they will be able to operate competitively outside the EU, and that key domestic business lines (such as annuities) have a secure long-term future; and
- the UK industry has a long history of excellence and innovation, with established experience in adapting to meet emerging challenges, and deploying new technology and new ways of working to make the most of new opportunities.

1.8 In recognition of the importance of the insurance sector to UK growth, the Government is determined to do what it can to help the industry meet these challenges and fully realise these opportunities.

The key issues identified

1.9 The Government has invited views from right across the insurance sector, including a wide range of insurers, brokers, trade bodies, and professional bodies. Building on this consultation, there are a number of areas where action can be taken by Government to support the industry, and where industry can work collectively, to meet these challenges. This document identifies five key areas where Government and industry, working with other partners, should focus attention:

- the UK industry in overseas markets;
- the UK as a location for insurers;
- insurers as long-term investors in the UK;
- serving UK insurance customers; and
- skills and diversity in insurance.

1.10 The purpose of this action plan is to achieve progress on each of these fronts, driving growth across the insurance industry and strengthening the sector's contribution to the UK economy. This document identifies measures that can be delivered over the next 12-18 months. The five areas are discussed in further detail in the following chapters.

2 The UK industry in overseas markets

2.1 The UK insurance sector has always been outward looking and recent years have seen UK based insurers expand their operations across Asia, Latin America, and Africa. Government has an important role to play in promoting market access and breaking down barriers to trade, creating the right environment, and supporting firms to grasp opportunities in emerging economies where new investors, new savers and new markets are appearing – and in the process maximise the potential for more business to be undertaken in overseas markets.

2.2 The Government will therefore co-ordinate and deploy its resources and influence to promote the UK industry overseas, focusing on key insurance target markets and adopting a more targeted approach to breaking down barriers to market access. Our aim is to grow the UK insurance sector's market share and tackle barriers in opening up new markets, especially in high growth economies such as those in Asia and Latin America.

A coordinated and targeted approach

2.3 HM Treasury, UK Trade & Investment (UKTI), the Foreign and Commonwealth Office (FCO), TheCityUK, and industry bodies are all working to promote the UK insurance and wider financial services industries, identifying opportunities for growth in overseas markets, and building the reputation of UK firms. But so much more can be achieved by co-ordinating this work more effectively, and by focusing efforts on tackling the barriers to growth in priority markets.

2.4 The diverse nature of the UK sector – comprising life, general insurance, the London Market, and brokers – and the wide range of potential markets and consumers, presents a challenge to taking a co-ordinated approach to overseas promotion. However, when it comes to pursuing opportunities for growth internationally there is certainly scope for delivering a more coherent approach.

2.5 At Budget 2013, the Chancellor announced the creation of the Financial Services Trade and Investment Board (FSTIB). The Board is tasked with identifying trade and investment priorities and ensuring that the Government and the private sector take joined up actions to support UK firms to pursue these priorities across the globe.[1] **The Board has agreed to promote the insurance sector as one of its top priorities. Over the next 12-18 months, the Board will oversee high value initiatives for five markets which have been identified by UK insurers as key targets for growth: Brazil, China, India, Indonesia and Turkey. The FSTIB will oversee joint work between Government departments and private sector organisations to identify key opportunities for the growth of the UK insurance sector in each of those markets and take necessary actions to mitigate any major barriers to growth.**

2.6 **As part of this, the Government will – through the work of the FSTIB – establish a programme of senior Government and private sector visits to the key target markets. This will also include targeted inward visits and strengthened insurance representation on cross-sectoral UK overseas trade missions.**

[1] Chaired by HM Treasury and reporting directly to the Chancellor, membership comprises senior representatives from FCO, UKTI, the Department for Business, Innovation and Skills (BIS), and TheCityUK.

Open markets

2.7 The UK is one of the most open economies in the world, and has long been a consistent and leading advocate of free trade. We want to see more countries taking this stance – breaking down trade barriers and increasing opportunities for the UK insurance sector to reap the economic benefits of trade liberalisation, while at the same time affording consumers and businesses in overseas markets a broader range of insurance services and expertise.

2.8 We are determined that UK insurers fully capitalise on their competitive advantage and increase market share in high growth economies. Just as the insurance industry was closely linked to Britain's ascent as a trading nation in the past, the sector's expertise and innovation mean it is well placed to play an important role in the UK's efforts to compete in the 21st Century global race.

2.9 **The Government will prioritise financial services and insurance services in the UK's position within upcoming free trade negotiations, including on the Transatlantic Trade and Investment Partnership and the Trade in Services Agreement. The Government will work closely with the European Commission and other member states to deliver the financial and insurance services priority.**

Deepening and sharing knowledge

2.10 To assist overseas growth, we recognise that officials charged with promoting the interests of UK insurers should have a developed understanding of the sector and the UK market.

2.11 **To support these efforts, the industry have committed to developing a training package for British overseas officials who are tasked with promoting the UK's commercial interests and implementing FSTIB actions in key insurance target markets**. This should complement and build on City of London Corporation and TheCityUK training and briefing of British overseas officials on the broader financial and professional services sector.

2.12 It is equally important to ensure overseas officials and regulators working in target overseas markets are well informed about the benefits to them of working with the UK insurance industry, as well as the benefits of promoting free trade and open markets. Working closely with the insurance industry, **TheCityUK will therefore establish an annual one-week programme for international regulators and policy-makers to deepen understanding of the UK insurance market**.

3 The UK as a location for insurers

3.1 The UK insurance market is highly developed, benefiting from a diverse range of expertise, a strong cluster of skills, and a global reach. The UK is one of the most competitive places in the world to undertake insurance and the Government is committed to do whatever it can to sustain and sharpen the UK's competitive edge, ensuring that the insurance sector can continue to grow, to innovate, and to thrive.

3.2 The Government understands the importance of a simple, fair, and transparent tax regime. We have cut corporation tax from 28 per cent to 23 per cent, with a further cut to 20 per cent planned by 2015 – the lowest rate in the G20 – and have delivered reforms to the controlled foreign companies rules and to our approach to the taxation of branch profits. Combined with the skilled workforce, the cluster effect around the London Market, as well as the geographical advantage of being able to trade easily with the Far East and the US, and the stability of the UK's political and legal system, these factors make the UK one of the most attractive places globally to establish a regional or international domicile.

3.3 While the foundations for success have been laid, and have already had an impact – for example, with the move to the UK of Aon, Lancashire, and AIG Europe – we recognise there is still more to do to encourage firms considering doing more business in the UK to take that final step. On the basis of feedback from insurers and wider stakeholders, Government action needs to focus now on taking the more practical steps needed to lift the remaining barriers to attracting overseas insurers to the UK. Our ambition is for more insurance capital and more insurance jobs to be allocated to the UK as the world's leading centre for insurance.

Effective, responsive, and efficient approval and authorisation

3.4 A resilient and credible regulatory framework is an important foundation for investment and growth. The Government wants to see regulation that strikes the right balance between rigour and effectiveness, while at the same time providing the stability and certainty to foster competitiveness.

3.5 Industry views suggest that the message to overseas insurers looking to relocate is not always clear. The Government therefore makes clear that we fully welcome applications from insurers that meet the conditions for authorisation and who are looking to do more business in the UK. Further, we recognise that a lengthy and time-consuming authorisations process can act as a barrier to investment. The following actions will therefore be taken to deliver a responsive and efficient framework.

3.6 **The Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) have committed to ensuring that the authorisation process for prospective insurers is as streamlined as possible.** Both regulators welcome applications from all firms and are strengthening their pre-application engagement with firms through: clear articulation at pre-application meetings of the authorisation process and the regulators' requirements; providing guidance on and robust challenge to firms' proposals with the aim of helping them to submit high quality applications without unnecessary delay; being as proportionate as possible by focusing on requests for required information only; and seeking to manage expectations as to timescales given the complexity and risk profile of the individual application. **The PRA and the FCA have committed to continued engagement with the industry to identify further improvements that could be made with a view to ensuring that applications are assessed as quickly and efficiently as possible.**

3.7 As part of Autumn Statement 2012, HM Revenue & Customs (HMRC) have put additional resource into all areas of transfer pricing including advance pricing agreements, which will further assist firms looking to relocate. **HMRC have committed to accelerate the process where the agreement is in respect of new or increased investment and activity in the UK.**

Targeting inward investment

3.8 As well as removing barriers to relocation and expansion in the UK, it is important to capitalise on this by ensuring individual firms are fully aware of the competitive advantages of the UK market. **The FSTIB will therefore develop a programme – led by the newly established UKTI Financial Services Investment Organisation – to target commercial insurers looking to move their domicile to the UK.**

3.9 In addition to targeting individual firms, and the effective use of trade visits and Ministerial engagement, **UKTI will develop a marketing campaign, including a package of promotional materials that will promote the UK in overseas markets by setting out the commercial advantages and business case for locating in the UK.**

Promoting the UK as a centre of innovation, and Islamic Finance

3.10 The UK insurance sector is renowned for its capacity to pioneer the use of new technologies, develop new products, and adopt new ways of working. The Government recognises the importance of innovation in sustaining the UK's competitive edge and is committed to supporting the creativity at the heart of the London Market.

The London Market

Gross premium income – estimated at £41.7 billion for the London Market in 2011.

Niche and specialist expertise – whether in established areas such as marine and aviation, or complex or emerging risks like space and cyber.

Global distribution network – an established and unparalleled network of brokers channelling international business back to London.

Source: TheCityUk

3.11 At this October's World Islamic Economic Forum (WIEF) held in London, the Government unveiled plans to become the first outside the Islamic world to issue a sukuk bond. Alongside this, the Government is also committed to developing London's expertise in Islamic insurance and **the Government will work with insurers and wider partners to consider options to grow the market in commercial Islamic insurance.**

4 Insurers as long-term investors in the UK

4.1 Long-term investment has an important role to play in driving sustainable economic growth. Insurers have long been significant investors in the UK economy, investing the pensions and savings accumulated by their customers over the longer-term – in UK corporates, or in public and private infrastructure. This investment provides the vital capital needed to realise economic opportunities and provides an important underpinning for entrepreneurship. Insurers also play a fundamental role in transforming pension savings into income for retired individuals, in the form of annuities, which is then invested in fixed income assets, and can include assets critical to long-term growth and infrastructure development.

4.2 While Government has a role to play in providing the right conditions for investment, insurers themselves recognise that there's a significant opportunity to do more. Our aim is to ensure insurers realise this opportunity, investing in UK infrastructure both for the benefit of their policyholders and the UK economy as a whole.

Regulatory framework that facilitates investment

4.3 Institutional investors – particularly life insurers and pension funds – have unique advantages as investors in that they are large holders of long-term liabilities, which can be matched with long duration assets. It is important that prudential regulation maximises the benefits of close matching between long-term illiquid liabilities and long duration assets that can be held to maturity. A stable regulatory framework that actively supports, rather than deters, this long-term investment by insurers is vital.

4.4 The Government is a supporter of the risk-based approach offered by Solvency II. Prudential regulation must require insurers to fully identify the risks they face and be adequately capitalised to absorb them. But a risk-based regime must work with the particular conditions under which insurers invest, and recognise the benefits to long-term growth, and to insurers' policyholders, of supporting this.

4.5 The Government made negotiations on Solvency II a priority and has now negotiated a good outcome, with a Matching Adjustment that actively promotes long-term investment in growth and infrastructure. It is important that this good outcome is maintained in the Level 2 implementing measures. In line with the Government's broader transposition policy, and given that Solvency II is maximum harmonising, implementation will be fully consistent with the Directive and not go beyond it – implementation will be through a direct copy-out approach where possible, avoiding gold plating.

4.6 **On the back of this positive outcome on Solvency II, insurers are now in a better position to take long-term investment decisions which deliver benefits to policyholders and broader economic growth. The following insurers – Aviva, Friends Life, Legal & General, Prudential, Scottish Widows, and Standard Life will work alongside Government, regulators and other interested parties, with the aim of delivering at least £25 billion of investment in UK infrastructure in the next five years.** Potential projects must be commercially and economically viable and will be drawn from the broad range of economic and social infrastructure, including for example transport, energy, housing, health and education. Suitable projects will include, but not be limited to those included in the National Infrastructure Plan 2013 and can include major infrastructure projects led by private sector sponsors.

4.7 Now that the Solvency (Omnibus) II Level 1 text has been agreed, it is important to ensure that infrastructure and long-term growth projects looking for long-term financing are designed in a way that is familiar to insurers. This means that those designing financing should be able to fully understand the conditions under which insurers will be able to provide this investment so they can reflect this in their financing arrangements. **The industry will therefore work with wider partners to produce guidance on what Solvency II means for investees and other interested stakeholders**, particularly those designing finance instruments for new infrastructure projects, with the aim of increasing the flow of long-term insurance funds into developing infrastructure.

Investing in the economy and society

4.8 From energy to transport, and education to health, new hubs and networks are essential to the UK's future growth and prosperity. The challenge is to renew and improve the nation's economic and social infrastructure. With an appetite for long-term investment, and expertise in the assessment and management of risk, insurers have an important role to play in meeting this challenge and the Government recognises the importance of giving prospective investors the information they need to consider making investments in infrastructure.

4.9 **The National Infrastructure Plan 2013 provides further detail on the pipeline of planned investment in infrastructure to 2020 and beyond**. Over 70 per cent of this is expected to come from the private sector, at least in part. The National Infrastructure Plan also identifies the relevant sponsor Departments and sets out clear policy milestones and next steps for the Government's priority investments.

4.10 In 2011, the Association of British Insurers (ABI) and the Government established the Insurers' Infrastructure Investment Forum to provide ABI members with a dedicated line of communication with infrastructure policy and delivery teams and we anticipate forthcoming Forum meetings will include particular focus on energy sector investment and the early Private Finance 2 projects involving public sector equity.

Infrastructure investment by insurers

There are a number of recent examples showing the appetite exists among insurers for longer-term investments that deliver a solid return, while also meeting the wider needs of the economy and society:

- Aviva are funding the development of Inverness College campus;
- Legal & General has invested in several student accommodation schemes at UK universities;
- M&G (Prudential) is providing funding for Alder Hey Children's Hospital in Merseyside;
- Friends Life has agreed a loan facility with Drax Group plc underpinned by the UK Guarantee scheme; and
- several UK insurers are re-entering the private rented market after a hiatus of over a quarter of a century.

Promoting insurers as important investors

4.11 UK insurers are already highly active in using the pension savings and other investments of UK workers to support the infrastructure development and long-term financing necessary to help the economy grow. However, insurers have not yet been able to capitalise on this positive message as much of this work is not widely publicised. **A number of insurers have expressed interest in developing a new logo to identify clearly to the public the infrastructure projects that are funded by the insurance sector – and ultimately by the customers (savers and pensioners) of those firms.** Government will lend the support necessary to get this initiative off the ground.

5 Serving UK insurance customers

5.1 The retail domestic market in the UK is both mature and highly competitive. While this can give parts of the sector a competitive advantage in international export markets, it can mean that growth in traditional retail product lines can be more challenging at home.

5.2 Recent experience shows that Government and industry can work well in partnership to tackle challenging problems that arise in the insurance market – whether action taken on whiplash, progress on mesothelioma, or coming to a solution on high-risk flood insurance. Current Government policies – for example on pensions and social care – are starting to create new markets for insurers and new opportunities for growth. To fully realise these longer-term opportunities, however, there are a number of challenges that need to be overcome; and constructive engagement from the sector with Government will be important in achieving this.

5.3 The aim is to deliver results consistent with the sector's commercial success, while at the same time serving the wider public good. The Government wants to see an insurance sector that helps customers manage risk, puts its customers first, by harnessing the power of new technology and creating products that meet their needs, and has their trust and confidence.

Government and industry working in partnership

Whiplash – in response to industry raising concerns about the volume of whiplash claims in motor accidents, the Government acted to correct incentives resulting in reduced costs for consumers and industry.

Jackson reforms – working in close partnership with the sector, the Government has delivered a raft of reforms to civil litigation funding. This includes banning referral fees and changes to 'no win, no fee' conditional fee agreements that minimise the litigation costs of pursuing unmeritous personal injury claims.

Mesothelioma – Government has worked with industry to develop a workable solution with an insurer-funded compensation scheme for mesothelioma claimants with untraced claims from April 2014.

Flood insurance – Government and the industry have worked together to reach an agreement on a successor to the Statement of Principles. The Flood Re model will ensure that people can continue to access affordable home insurance and enable insurers to manage high-risk policies effectively.

Technological change

5.4 New technology will provide both significant opportunities and challenges for the insurance sector over the coming years. UK insurers have always been at the forefront of innovation and early adopters of the latest technology – whether pioneering new ways to reach consumers or developing creative new product lines. Direct Line, founded in the mid-1980s, transformed the distribution of motor insurance via telephone, and more recently the rise of "aggregator" price comparison websites has had a significant impact on consumer choice and competitive pricing – an innovation where the UK has led the world. New technology offers particular advantages for motor insurance, with telematics offering the potential to accurately reflect, and reduce, risky behaviour – particularly for young drivers. The Department for Transport has committed to publish a green paper on reducing the risk posed by young drivers.

5.5 The future challenge will be for UK insurers to continue to innovate – using technology to engage with consumers in new ways, develop creative new products, and harness the power of "big data" to better meet customer needs.

New domestic markets

5.6 Insurers are already active in a number of growth markets which Government policy has facilitated:

- Pensions – automatic enrolment, the workplace reform that places a duty on all employers to enrol all eligible employees into a qualifying workplace pension scheme, will see between 6 to 9 million people making new and increased saving for retirement. This represents a significant growth opportunity for the industry. Indeed, the insurance sector is crucial to the successful delivery of automatic enrolment – with insurers acting as providers of pension schemes for employees to be enrolled in to, and as providers of retirement products that will transform employees' pension savings into a retirement income. The Government is working closely with industry to ensure that the sector is prepared for the staging of employers, a process that will continue up to 2017.

- Social care – the Government has accepted the proposals of the Dilnot Commission and is implementing historic reforms to social care funding in England. From April 2016, no-one will face unlimited care costs. As a result of the limit on individuals' liabilities the Commission pointed to possible developments in the use of insurance to meet long-term care costs. The Government is working with insurers to understand what they will be able to offer and how we can, together, create the right conditions for a larger market in this area. The insurance industry has also proposed a package of reforms to make pensions and annuities more flexible to make it easier for them to be used to fund additional costs of disability or social care needs. The Government is committed to considering these as part of the ongoing work on social care.

5.7 Government is supporting the industry's efforts in these areas in a number of ways. A good example is the action being taken against so-called "pension liberation" schemes, which aim to persuade people to convert their pension pots into cash before the age of 55; with the downside that this could result in a large tax bill and significantly reduced retirement income. Following some close work with the insurance industry, HMRC has committed to combating pension liberation activity and recently introduced a package of measures to strengthen existing processes to deter pension liberation. The Government is also working with the FCA and the Pensions Regulator to consider further measures to combat pension liberation.

Promoting consumer engagement and meeting consumer needs

5.8 To take full advantage of new opportunities and new markets, the insurance industry needs to make sure that consumers are able to engage with, understand, and trust, the products and the industry more generally.

5.9 It is essential that the insurance industry gives its customers the products and service standards they want and need, and does so at a reasonable price. In order for this to happen, the Government wants consumers to:

- be equipped to engage confidently and knowledgably with the insurance sector;
- be able to trust that firms will treat them fairly and that the regulator will step in quickly and decisively when things do go wrong;
- have confidence that markets they engage with work well and that firms and the regulator work together towards that goal; and
- be able to exercise choice and have access to competitive products.

5.10 There are several ways in which the sector could improve the service it provides to consumers, and the FCA is taking or has taken forward reviews on many of those areas, such as on automatic renewals, as well as a market study on the use of add-ons to policies. Insurers have the opportunity to respond to these issues to meet consumers' needs and ensure that consumers are given clear, concise and useable information so they better understand the products that they are buying. **To this end, the Government asks the industry to commit to ensuring that consumers are able to access the insurance products they need with information that enables them to make informed choices. This may include:**

- building on the Simple Products approach in the design of terms and conditions; and
- taking further steps to improve the renewals process to avoid penalising consumers who are less able or unwilling to shop around.

5.11 A proper understanding of the way consumers behave in reality is critical to meeting this challenge. **The Government has built up some expertise in behavioural economics in the Behavioural Insights Team, and the team will host a roundtable with insurers to explore ways of using behavioural economics to make the most of new opportunities and deal with current challenges**.

5.12 It is also important that people who are not regarded as a standard insurance risk, who are often rejected by mainstream online providers, are given help to access insurance. The Government has previously facilitated a signposting agreement for older motorists and holiday makers, in which insurers agree to signpost people – to whom they cannot offer cover – to specialist brokers or other insurers. This agreement continues to be extremely successful in helping older people access insurance, and the Government will work with the industry to explore the potential for similar agreements for other types of cover.

5.13 Finally, the Government wants to ensure that consumers can spread the cost of insurance by paying their premiums by instalments – without having to pay extra for the privilege. Many insurers offer this facility to their customers, but doing so can bring them within the scope of consumer credit regulation. To allow customers to pay by monthly instalments over a year, rather than quarterly, even if no interest or fees are charged, brings additional regulatory costs and burdens for insurers. HM Treasury will therefore give further consideration to the pros and cons of deregulation in the implementation of the Consumer Credit Directive requirements relating to instalment credit, to ensure that the Government's regulatory approach strikes the right balance between proportionality and consumer protection.

6 Skills and diversity in insurance

6.1 The UK's position as a leading global centre for insurance is built on a talented, highly skilled, and diverse workforce. If the UK is to succeed in driving growth both in the domestic market and overseas it is vital that the sector sustains and further enhances the UK's competitive advantage in this area.

6.2 It is essential that the insurance sector is able to attract new talent, particularly if it is to retain the dynamism and capacity to innovate, meeting changing customer demands and grasping new opportunities for growth. Equally important is having a robust professional culture with standards that foster trust and integrity, and deliver good outcomes for consumers.

6.3 This should be true for insurance business the length and breadth of the country, and is important if we are to ensure the UK is equipped for success in the global race. Our aim is to see a sector characterised by a highly skilled and diverse workforce, representative of the customers it serves and well equipped to meet their needs.

Attracting new talent

6.4 The insurance sector offers a wide range of interesting, demanding, and well-paid jobs. Despite this, the industry often finds it difficult to find the right recruits to meet increasing demand, at all skill levels. The challenge is to raise awareness of the opportunities available and recruit sufficient numbers of new recruits at all levels, from apprentices to graduates.

6.5 To this end, **the wider industry will establish a gateway project for people seeking to find apprenticeships and graduate training places within insurance. The industry-funded project will build on existing initiatives, such as the Chartered Insurance Institute's Discover Risk project, to promote the sector, co-ordinate with companies, and serve as a 'one-stop shop' for career guidance professionals.**

6.6 Underpinning this, the industry will make use of Discover Risk's well established website to advertise entry-level positions, including apprenticeships, graduate schemes and internships. The Government will lend the support necessary to ensure the initiatives are a success. As part of the project, the industry will explore ways of joining up individual company's apprenticeship schemes to offer apprentices a wider experience of the sector and create the type of networking opportunities that are central to the insurance industry.

6.7 **In recognition of increased demand the industry commits to double the number of technical apprentices (which involve the apprentice attaining an insurance professional qualification) over the next five years.**

6.8 The Government is very clear that the UK is open for business and that we need skilled immigration to boost our economy and fill skill gaps in our labour market. We have put in place a selective immigration system, geared to meet business needs. Our annual limit on skilled workers is undersubscribed, and applications are processed quickly compared to our competitor countries. We continue to welcome the brightest and best, while ensuring that where possible jobs are done by resident workers.

Promoting professional standards

6.9 Insurance is an industry built on relationships – insurer and consumer, broker, underwriter and client, and industry and regulator. Having the right people, effective training, and strong values is important, particularly if the sector is to deliver good consumer outcomes and foster the trust and integrity at the core of insurance business.

6.10 Insurers play an important role in ensuring diversity of opinion in the Boardroom of those companies in which they invest, and so alongside this the industry commits to place a strong emphasis on encouraging more women to take senior positions in insurance firms. **The ABI will therefore ensure that its re-launched Future Leaders programme will address and strengthen the pipeline of senior female executives in the insurance industry**.

6.11 Voluntary professional standards are good for employers and good for those that work in the sector, with greater professionalism providing a foundation for success in a consumer-facing industry. **The Government supports voluntary initiatives to improve professionalism in the insurance sector, such as the Aldermanbury Declaration.** These voluntary initiatives show that a large number of insurance firms recognise the important role of professional standards in delivering better outcomes for consumers, a confident and more trusted profession, and a more rewarding career for those working in insurance.

7 Next steps

7.1 This document is part of the ongoing long-term conversation between the insurance industry and Government. It is the product of Government working in partnership with the sector to articulate measures that will strengthen the sector's contribution to economic growth and enhance the UK's position as a global leader in a global business. It identifies actions that can be delivered over the next 12-18 months, but also highlights the longer-term challenges and opportunities facing the UK insurance sector.

7.2 Implementation will require close collaboration across Government, the independent regulatory authorities, among industry trade and professional bodies, and the wider sector. HM Treasury will work with UKTI, BIS, FCO, HMRC, and with the PRA and the FCA to ensure this action plan succeeds.

Long-term approach

7.3 The longer-term economic and social challenges facing developed countries such as the UK are by no means small. Rising to meet them will require creativity, resilience, and a determined focus over the long-term. Working in partnership and with a common purpose, however, the Government and insurance industry can drive forward meaningful change; delivering outcomes consistent with the sector's commercial success, but also those that advance wider public policy objectives.

Conclusion

7.4 This action plan sends a clear message: the Government is committed to ensuring the UK insurance sector is equipped for success in the global race – both in the near term but also in the decades to come. We look forward to working with industry and with investors to enhance the UK's position as a global leader in a truly global industry.

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This document can be downloaded from www.gov.uk

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