Institute and Faculty of Actuaries

Independent thinking from the IFoA

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think

Potholes and possibilities: the policy and reputational road ahead for insurance

by **Seth Williams**

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Part of the IFoA's purpose is to promote debate within and beyond the profession, and to position our members as leading voices on the biggest public policy challenges of our time.

We aim to showcase the diverse range of expertise and critical thinking both within and outside the profession.

Our 'think' series seeks to promote debate on topics across the spectrum of actuarial work, providing a platform for members and stakeholders alike and sharing views that may differ from the IFoA's house view. In doing this, we hope to challenge the status quo, question the orthodoxy, and shine a light on complex or under-examined issues, thereby stimulating discussion and dialogue to help tackle issues in a different way.

Seth Williams

Seth Williams spent nearly 12 years overseeing the strategic communications and political engagement of the Association of British Insurers, helping secure the legislation that enabled Flood Re and the political agreement on reforming Solvency 2 amongst other highlights. A respected communications and government affairs specialist with a deep knowledge of issues affecting the insurance industry, Seth now works as a freelance consultant.

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Introduction

A reassuring safety net and peace of mind or grating grudge purchase? Essentially insurance is a force for good, but the industry that has built up around it is no stranger to criticism. Driven by environmental, economic and technological change, as consumer expectations increase, the reputational challenges will intensify. Equally, there has long been a partnership of sorts between industry and government. Over the next decades that relationship is going to need to deepen. With evolving risks and rising scrutiny, the road ahead is full of challenges. The actuarial profession lies at the heart of insurance and the UK Government has benefitted from the services of a Chief Actuary since 1912 and a wider Actuary's Department since 1919. The following is a necessarily brief and non-exhaustive tour d'horizon of three broad areas where the role of actuaries will become increasingly important, where continued active policy engagement could have a transformative effect, potentially enabling the insurance industry to reassert its social purpose and build a stronger reputation.

From ancient Mesopotamian merchants to the coffee shops of EC3, the origins of insurance are borne of the need to manage future financial exposure from the perils around us. Whether originating from our planet or the people on it, the risks in our world become more complex daily. At its best and informed by complex risk-modelling, the industry protects people and businesses in life-changing ways. At its worst it is constantly condemned by those who have had to fight for a pay-out or who can't afford their premiums in the first place.

From the global to the granular, current highlights of the industry's reputational canvas include the targeting of 52 London Market insurers by **Extinction Rebellion**[1] over the continued insurance of oil, an 18-month government-led review into the costs of **motor insurance,**[2] FCA market studies into **premium finance**[3] as well as the **protection market,**[4] and that's before you get to a focus on culture through the prism of FCA's non-financial risks **survey**.[5]

The challenging experiences of the Covid-19 pandemic, and developments such as Pool Re and Flood Re, underline the intrinsic partnership that exists between government and industry when it comes to managing societal risks. As if our deteriorating climate and the recent pandemic weren't enough of a wake-up call, the technology revolution and its impact on customer expectations and vulnerabilities perhaps point to the need for a maturing of the relationship between government and industry.

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First impressions

When it comes to customer reputation, perhaps the highest profile area is motor insurance. Whilst evidence from **Fairer Finance**[6] indicates that firms competing on price tend to have lower trust scores, there is no getting away from the impact of increased underlying factors on the costs of insurance. Given its widespread and mandatory nature – with nearly 28 million policies sold a **year**[7] - for many people motor insurance is arguably their first contact with insurance (aside from the many negative caricatures in film, tv and **literature**[8]).

It's unsurprising that the sharp rise in average premiums in recent years has ultimately led the new government to launch a taskforce looking at the costs of motor insurance. There is a risk the heightened cost is potentially stopping some from getting behind the wheel. More worrying still, there is increased uninsured driving amongst younger drivers. The number of young motorists aged 17-20 punished for driving without insurance increased by more than a quarter (28%) between 2022 and **2023.**[9]

As the taskforce gets under way, average premiums have begun to tick down and the rise in the personal injury discount rate for England and Wales (now aligned with Scotland and Northern Ireland) from January may also go some way towards continuing the downward trend. Nevertheless, government and industry shouldn't be deterred from more radical action on some of the underlying cost factors.

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The tone so far has been commendably constructive but it will need to reckon with knotty issues such as the costs of credit hire and credit repair: areas underpinned by commercial arrangements that are difficult for the trade associations to tackle on their own and on which the Competition and Markets Authority previously pulled its punches. The taskforce also needs to live and die by the new-found vogue for mission-led (or 'joined up') government. That means that the Government's other, rather more profound summer announcement on the future of driving – an ambition to have self-driving cars on UK roads by 2026 – needs to be part of this work too.

Whatever the benefits of technology and telematics, if we want to create safer future drivers and create the conditions for more affordable first premiums, the UK desperately needs to address the system of driver licensing. Of course, the tragedy of lives wrecked by the scourge of deficient driver licensing in the UK is ultimately a human one but better drivers will likely lead to improved road safety, so you would expect lower cost to follow.

I am no actuary myself but even I can see that if you fundamentally transform the quality of the decision making by those driving, there surely has to be a positive correlation to their risk profile on the road. In opposition, the current Roads Minister criticised her predecessor for pulling the plug on plans to move forwards with Graduated Driver Licensing, asking 'Why are you looking for new evidence about alternative interventions and discounting ones that you know are **effective?**'.[10]
As the Government prepares a new road safety strategy, there is unlikely to be a better opportunity to grasp this particular nettle. The industry should be full-throated in its support and the voice of actuaries here would be a powerful addition.

Keeping pace with change

The insurance sector is often lambasted for being behind the curve when it comes to innovation, particularly when compared to banking. They are very different beasts, however. You won't be checking your insurance policy as regularly as your bank account and neither should you necessarily need to. On the other hand, the quest for customer control, greater innovation and the ability to swap between providers in the banking sector led ultimately to Open Banking and the introduction of the Current Account Switching Service.

A direct equivalent in insurance may not be appropriate or feasible and there have been other developments to facilitate greater customer choice, such as the growth in comparison websites. Nevertheless, the next stage in the evolution of Open Finance is something the insurance industry should be firmly watching as the Government moves forward with the Data (Use and Access) Bill. Equally so, new legislative developments such as the Digital Markets, Competition and Consumers Act – whilst not capturing insurance directly – will certainly impact broader customer expectations, and measures such as the consultation on the new subscriptions contracts regime do reference ancillary insurance contracts.

Speculation has abounded for years about the Amazons and Googles of the world taking over the insurance marketplace. That hasn't happened yet – Amazon's UK Insurance Store has come and gone – but the scale of the data these global giants hold is having a fundamental impact on the shape of the market. In September this year, one leading insurance firm **announced**[11] a tie-up with Google Cloud and its intention ultimately to become a technology company selling insurance.

In recent years, the pace of developments in artificial intelligence (AI) has accelerated. The CEO of Microsoft stated in October that the company was seeing progress in AI performance double roughly every **six months.**[12] It remains to be seen the extent to which developments in AI impacts decisions about future human capital within the insurance industry. In the UK it may just be that the Government's recent Budget decision on employer National Insurance contributions forces thinking in a particular direction. At the same time, AI-informed algorithms have long been a part of the insurance industry. However, as the technology becomes ever more advanced, developments such as the FCA's new duty to 'have regard' to financial inclusion and concerns over poverty and ethnicity premiums are likely to collide in a deepening debate about customer data and its use.

Actuaries will be key to ensuring the best outcomes as technology rapidly advances. In particular, on the last point about customer data and its use there is more that can be done to better explain risk to a wider audience. For a meaningful starting point, I would urge anyone reading this to go back to a substantial report produced by Thinks Insight & Strategy (formerly Britain Thinks) and the Association of British Insurers (ABI) on ***Consumer Attitudes to Data and Insurance***.[13] Launched in February 2020, the report quickly became another opportunity cost of Covid-19. One thing that the more observant may have noticed though, is that the founder of Britain Thinks who spoke to the report at its launch is now the Prime Minister's Director of Strategy. There is merit in revisiting.

Given the pace of technology as well as the geopolitics of our time, data security is paramount. I suspect if you asked UK government officials which systemic risk is of immediately higher concern, it is more likely they would point to cyber rather than another pandemic. Lloyds of London and the ABI recently launched an encouraging new guide which in their words 'represents a joint effort to build shared approaches across the **industry'.**[14]

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But on this and a range of potential systemic risks, the industry should be sitting down – preferably through some agreed standing forum – to jointly navigate the dividing line between what the market should reasonably be expected to absorb at future events and when the state needs to actively lean in. Think of insurance and Covid-19 and nobody remembers the industry's voluntary £100 million fund, or the billions paid out in claims, but people will understandably point to the challenges around Business Interruption or the Government's interventions on trade credit, Film and TV and Care Homes.

In the absence of that forward planning between government and industry when it comes to systemic risks, history could simply repeat itself. I suspect there is no lack of appetite for dialogue on the industry's part but from a government point of view, the last decade is chequered in terms of consistency. Government and industry worked closely and constructively during the Covid-19 pandemic to address genuine risks to established markets. However, examples exist where the Government has refused to countenance taking on contingent risk even when the root cause of an issue is clearly the failure of government policy, such as the previous buildings safety regime, or by contrast where the Government has wilfully intervened in a market without prior consultation or telegraphing of issues, such as the Department for Education's Risk Protection Arrangement.

To his credit, the former Prime Minister as Chancellor established a new function – the Central Capability on Contingent Liability – specifically to take account of government's various liabilities. This relatively recent development and the role of the Government Actuary's Department in helping establish it is a welcome step.

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Tomorrow's world

The insurance industry has a vital role to play in the context of Net Zero and the battle to mitigate catastrophic climate change. The industry's investments, measured in the trillions, could make all the difference in terms of funding vital investment in sustainable technology and infrastructure, and the Investment Delivery Forum was established to help achieve this goal. Moreover, as the pre-eminent riddlers of risk, insurers and the wider actuarial profession should be at the vanguard of facilitating, enabling and even incentivising consumers' transition to more sustainable energy and transport solutions. Again, though, to maximise this possibility, dialogue between government and industry needs to be active and engaged to develop the potential levers that could make this a reality.

One of the strongest examples of industry and government working collaboratively to solve a pressing public policy challenge is Flood Re, enabling hundreds of thousands of high flood risk households to access affordable flood insurance since 2016. But whilst that scheme is a clear manifestation of social good in action, the path to it was littered with reputational brickbats driven by acute pricing challenges in the market, an undercurrent of government inaction and inadequate investment in flood defences. In many ways, Flood Re was ahead of its time. It is also intended to be time-limited, due to wind up in 2039. I'm not sure anyone looking with distress at the pictures of recent floods across the UK, Europe and the wider world would bet a huge amount of money on that transpiring.

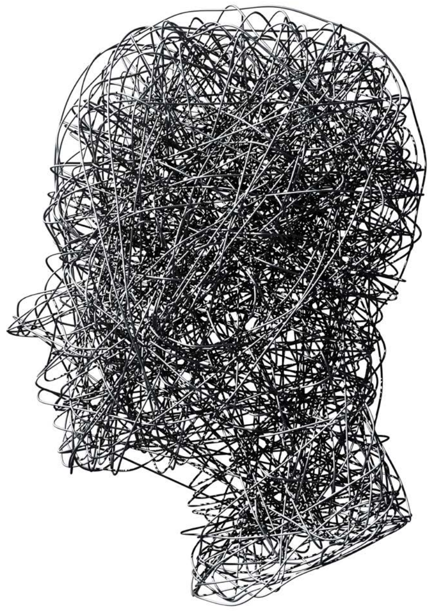
One sure-fire way to undermine that trajectory and frankly the whole point of Flood Re would be for the Government to invest less in flood defences, whether they be man-made or nature based. On that basis, the relevant line that was most troubling in October's Budget was this one: 'The Government is facing significant funding pressures on flood defences and farm schemes of almost £600 million in 2024-25. While the Government is meeting those commitments this year, it is necessary to review these plans from 2025-26 to ensure they are affordable.' Affordable? When it comes to managing the impact of climate change, the time for short-term thinking in government has long-since passed.

So far, so what? The nobler end of the insurance industry likes to think of itself as driven by social purpose and providing peace of mind for individuals, families and enabling businesses. 'Enabling' encapsulates exactly what insurance should be all about. In the fast-changing world we are in, that purpose is becoming steadily more challenging to realise with every year that passes.

Individual brands can and should invest in the experience they provide to their customers, from premium calculation to pay out. This is obviously key from a commercial, competitive and consumer perspective. In many ways Amazon certainly should be the aspiration in customer service terms. But it is worth restating that, given the pace of change and the scale of the risks impacting our world, the ability of the innovative global insurance market to respond to them purely on its own is already under strain.

With that in mind, the partnership between industry and government needs a paradigm shift. As a starting point, a standing forum between key parts of government and key industry players that watches the risk horizon, underpinned by direct dialogue, would surely lead to better long-term societal outcomes when disaster strikes.

Given the essential skills actuaries bring to the table and the central reliance upon the profession within industry and government the actuarial voice is key in any such dialogue. In the words of the late, great Frank Redington 'It is the voice of the future which is noticeably absent from present discussions: our responsibility as actuaries is to make that voice heard.'



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8. Incidentally my own first encounter with insurance was learning in my teens that a great innovator of early 20th century American classical music, Charles Ives, was also a highly successful actuary!

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