Association of British Insurers response to Finance Bill Public Bill Committee Call for Evidence

Executive Summary

1. The publication of the Net Zero Strategy and the Autumn Budget and Spending Review have demonstrated the Government's focus on levelling up and decarbonising the UK economy. The ABI and UK insurance industry welcomes the scale of ambition in these areas, but it is crucial that the Government seize the opportunity this Bill presents to drive competitiveness, unlock infrastructure investment, improve resilience, and unleash green and inclusive economic growth.

2. We welcome the opportunity to provide a written submission to help inform the Public Bill Committee's scrutiny of the Finance Bill. Collaboration between industry, Parliament and the Government will help to ensure that the Bill delivers on its aims, and the ABI looks forward to working with all stakeholders as the Bill progresses through Parliament.

3. This submission provides an overview of the industry's response to the Budget and our views on how the Bill can be improved through amendment.

Response to the Call for Evidence

Increase of Normal Minimum Pension Age

4. The ABI welcomes the recent changes to the implementation of the Normal Minimum Pension Age which tackle some of the industry's principal concerns about an orderly implementation and help reduce the risks to savers. The changes stop scammers from exploiting uncertainty, and also prevent market distortions as there are now no incentives to transfer purely to access a pension at age 55

5. However, most savers have more than one pension pot and millions will now have a mix, with some pots they can access at age 55, and others where they need to wait to 57 making it harder to plan for retirement. This is on an entirely different scale to previous protected pension ages (PPA) and will affect more DC pensions where transfers are commonplace in order to consolidate pension savings.

6. It is vital that Government and the pension sector work together closely to ensure that customers are clear about their private pension position and when they can access their money. This means developing a clear plan to address the complexity that the current plans for implementation of the NMPA introduce.

7. Most immediately, HMRC must publish the guidance promised about what does and does not count as an unqualified right to access at age 55. Without this, there is a risk of disputes that are not resolved for decades. Below we set out a proposal to remove the requirement to ring-fence pots with a protected pension age of 55 if they are transferred, to avoid further confusion and conflicts with other policies.

<u>Proposal to remove requirement to ring-fence age 55 benefits</u>

8. Ring-fencing is the cause of much of the complexity we are concerned about. It will be confusing and complex for customers to have a mixture of benefits within the same scheme if they transfer, and customer communications will be more complicated. The Government previously rejected a different approach to NMPA, whereby only rights built up before 2028 would be protected, because it "*would effectively split a pension scheme benefit into two parts and … would create unnecessary complexity for both individuals and schemes*." Ring-fencing has the same effect and should also be rejected.

9. This also conflicts with other government policies, particularly small pot transfers, because it will be in customers' interests to retain a protected 'age 55' pot if they have one; customers may complain if they are transferred and later wish to access benefits at 55 and can only access the ring-fenced amount.

10. It creates immediate implementation challenges. Providers and schemes should already be ring-fencing transfers in, but in the absence of HMRC guidance, there is uncertainty about who does and does not have a PPA of 55.

11. We suggest that the best way forward would be to scrap ring-fencing, so that a customer transferring a pension with a protected pension age of 55 to an NMPA scheme would retain their right to access at age 55 but also gain a protected pension age for benefits already in that scheme, and newly accrued benefits into the receiving scheme.

12. This would extend protection, but only marginally. This is because the Bill already allows people to transfer other pensions into a pot with PPA of 55. With that in mind, we do not see any downsides at all to this proposal in comparison to the current proposed legislation.

Start date for block transfers with a PPA

13. Separately from the ring-fencing issue, we understand that the legislation does not specify when the **window of transfer started** for block/bulk transfers. Bulk transfers from originating schemes with a PPA of 55 carry over their PPA if they took place on or before 3 November, but it is unclear how far back this protection would go.

14. Without specifying this, it could imply that any block transfer in the past may have carried a PPA of 55, including transfers from schemes that no longer exist.

15. For consistency with individual transfers, and for certainty for schemes and their members, we suggest that the start date should be 11 February (the date of the consultation), and that the Bill be amended to confirm this.

Net Pay Anomaly

16. The ABI has long called for this to be addressed and welcomes the positive step towards fixing the net pay anomaly through HMRC. The change will make a big difference to 1.2 million lower earners, three quarters of whom are women, as they will no longer lose out on pensions tax relief. This will improve the financial situation for lower earners and earlier implementation would make this a reality sooner.

Dormant Assets

17. The Dormant Assets Scheme is a success story to date, with £800m from the banking sector going towards good causes. To build on this success, the time is now right to expand the Scheme further to include some insurance and pension products.

18. The insurance and pensions products included in the scope of the proposed expanded Scheme have the potential to contribute £575million further to good causes, a vast sum which will enable the Scheme to build on its good work.

19. The ABI and our members have worked closely with DCMS on the Scheme's expansion, and we warmly welcome the introduction of the Dormant Assets Bill. We will continue to work with Government and politicians on all sides as the Bill progresses through Parliament.

The impact of the global minimum tax rules on the UK insurance industry

20. The calculation of the effective tax rate (ETR) mixes accounting and tax rules under the proposed global minimum tax (Pillar Two). This could lead to very large increases in taxes that potentially total billions of pounds for the UK's world-leading insurance and long-term savings industry, simply because of differences in the timing of the recognition of income and expenses under financial accounting and tax accounting rules.

21. The accounting and tax rules for calculating insurance technical provisions and investment assets are often different as tax rules follow a regulatory basis, and even a small percentage valuation difference can create significant timing differences

22. Our request to the OECD and the UK Government has been that 'deferred taxation' not 'carry-forward' rules are employed to address these timing differences. The 'carry-forward' rules do not work for long tail and long cycle business such as insurance, whereas deferred taxation does work by creating parity in the ETR calculation.

IFRS 17 Implementation

23. IFRS 17 is an International Financial Reporting Standard that was issued by the International Accounting Standards Board in May 2017. It will replace IFRS 4 on accounting for insurance contracts.

24. The ABI welcomes the announcement of regulations for insurance companies to spread the transitional impact of IFRS17 for tax purposes. The introduction of IFRS 17 from the start of 2023 will significantly change the way that insurance technical provisions are valued. It's important that the change in accounting standard does not lead to inequitable tax outcomes. Allowing insurance groups to be able to spread the transitional impact still meets the objectives of Government by mitigating any significant short-term Exchequer risk whilst ensuring insurers don't face potentially permanent tax disadvantages

25. We understand that a consultation will shortly be published on the details of this regulation. We will respond to this consultation and continue to ask that the ABI's proposal for Insurance Groups to be able to elect for either a transition of 6 or 10 years is taken forward. This proposal is in line with precedent changes to accounting and tax practice and it is also easy to understand and implement.

Economic Crime (anti-money laundering) levy

26. The insurance industry welcomes the public-private partnership approach to increased funding on economic crime and is committed to working in partnership to tackle all forms of economic crime and protect honest customers from fraudulent activity. In line with the levy principle of 'avoiding unintended consequences', it is, however, vital that the scope of the levy under clause 54(1)(a) does not inadvertently capture activity that poses little or no money laundering (ML) risk, such as general insurance business, where payments are made by instalments. This could give rise to the unintended consequence of restricting future access to affordable insurance, financial protection and peace of mind, including for vulnerable consumers. It would also risk diverting insurance sector funding away from the high-risk threat of fraud to negligible risk ML.

27. We agree that it is sensible to align the revenue metric with the definition used for financial reporting. However, reference only to the generally accepted accounting practice (GAAP) in Clause 57(7)(b) is too restrictive. Listed companies must follow International Financial Reporting Standards (IFRS), while non-listed companies can choose to follow IFRS or UK GAAP. We therefore assert that, in order to avoid an unnecessary administrative burden, persons (or entities) should be given the option to report on the basis of either UK GAAP or IFRS standards

28. We are mindful that there is no single metric that can fully meet the guiding principles underpinning the levy. However, in respect of the long-term savings (LTS) sector, there is merit in considering a more nuanced, blended approach, splitting the levy so that it is based on both GWP income and assets under management.

29. More widely, we are wholly supportive of the aims of the Economic Crime Plan, but it is vital that the Government makes a long-term commitment to support and share the funding burden to implement the Plan measures effectively. In line with the levy principle of ‘transparency’ and to maintain private sector confidence, there must also be proper oversight and clarity as to how levy proceeds are spent so that a full, proper and informed assessment can be made of the effectiveness of the Plan Actions and their impact upon the economic crime landscape.

Insurance Premium Tax

30. The ABI is pleased to see that the standard rate of IPT remains unchanged at 12% in this Budget. Insurance Premium Tax is a regressive tax that disproportionately affects the lowest earners in our society and punishes hard working people who are doing the right thing in taking out insurance to protect their families, homes, and businesses.

31. A 2019 report by the independent Social Market Foundation (SMF) shows that IPT, the standard rate of which has doubled since 2015 to 12%, is costing households, on average, £223 per year. This is up from £87 per year in 2009/10. The lowest income families are being hit the hardest – they spend 4.1% of their post-tax income on insurance, compared to 1.6% for the highest income households. IPT now raises more revenue than beer and cider duty, wine duty, spirits duty or betting and gaming duties. Since 1994, the standard rate of IPT has increased more rapidly than tobacco duty.

Residential Property Developer Tax and Building Safety Fund

32. The ABI welcomes the introduction of a new Residential Property Developer Tax as part of the Government’s Building Safety Package and the confirmation of £5bn additional funding for the Building Safety Fund to remove dangerous cladding. The ultimate solution to the issues faced by leaseholders living in high rise buildings with dangerous cladding is for remediation to be completed as quickly as possible.

33. We are calling for the scope of the Building Safety Fund to be extended to cover wider fire safety defects, not just cladding, and for sufficient funds to be committed to ensure that defects in those highest risk buildings, not just those over 18m, can be addressed as quickly as possible.

34. The ABI has welcomed the progress of the Building Safety Bill through Parliament and we continue to engage with DLUHC on support for leaseholders living in buildings with dangerous cladding and on the Government’s plan for professional indemnity insurance

for those professionals signing off on EWS1 forms. We want to work closely with the Government, and all those affected by the Building Safety crisis, to deliver the comprehensive reform of the building regulatory system.

35. To ensure the successful implementation of the legislation it is essential that sufficient funding and resource is provided for the Health & Safety Executive, and the new Building Safety regulator, to carry out their additional regulatory and enforcement duties, which will be established by the Building Safety Bill.

About the Association of British Insurers

The Association of British Insurers (ABI) is the voice of the UK's world-leading insurance and long-term savings industry. A productive and inclusive sector, our industry supports towns and cities across Britain in building back a balanced and innovative economy, employing over **310,000** individuals in high-skilled, lifelong careers, two-thirds of which are outside of London.

Our members manage investments of nearly **£1.7 trillion**, collect and pay over **£16 billion** in taxes to the Government and support communities across the UK by enabling trade, risk-taking, investment and innovation.

We are also a global success story, the largest in Europe and the fourth largest in the world. The ABI represents over **200** member companies, including most household names and specialist providers, giving peace of mind to customers across the UK.

The ABI's role is to:

- Get the right people together to help inform public policy debates, engaging with politicians, policymakers and regulators at home and abroad;
- Be the public voice of the sector, promoting the value of its products and highlighting its importance to the wider economy and society;
- Help encourage consumer understanding of the sector's products and practices; and
- Support a competitive insurance industry, in the UK and overseas.

Association of British Insurers
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