

# Insurance Premium Tax upsurge hitting businesses hard

## IPT upsurge

UK Government makes almost £6 billion in income from Insurance Premium Tax (IPT) for the year 2017/2018 – an increase of up to 22% on the £4.88bn it collected the previous year.

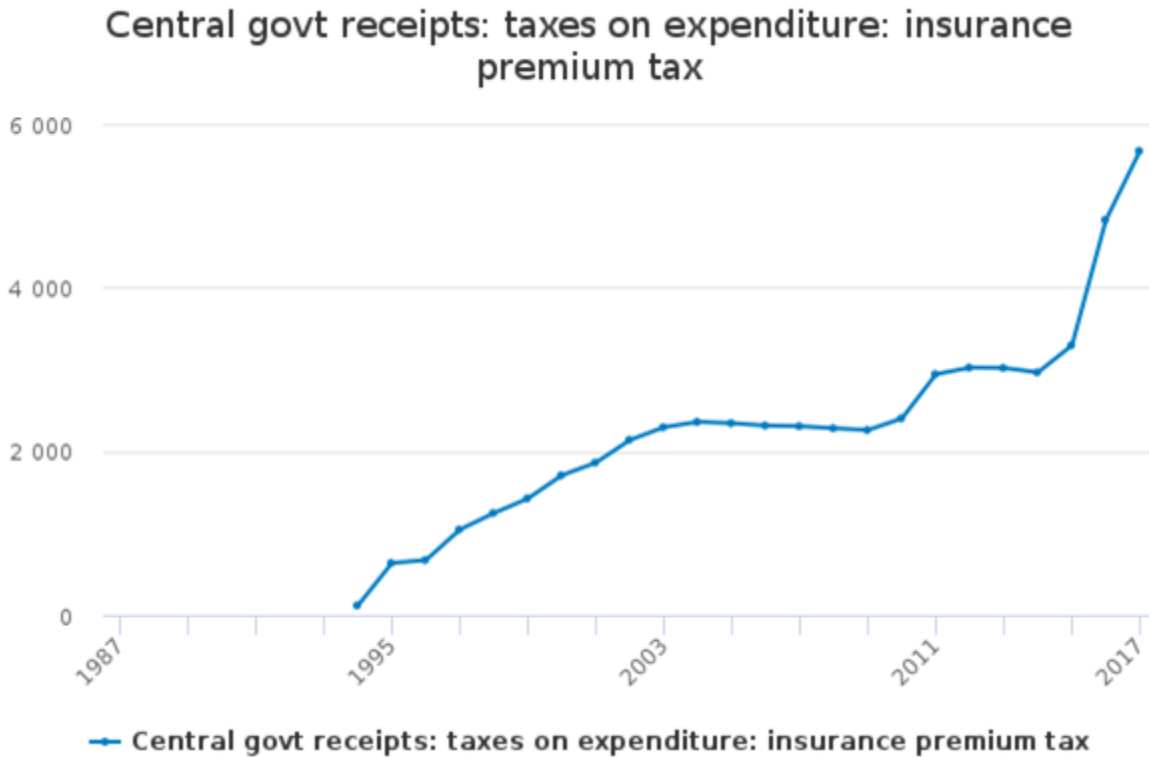
This upsurge is severely affecting businesses and consumers alike, and poses risks to the overall economy.

As announced in its [Autumn Budget Statement 2016](#), the government increased the IPT rate from 10% to 12%, to [fund a series of measures](#) such as improving the country's infrastructure and its citizens' lives.

During his speech Chancellor of the Exchequer, Philip Hammond said *"In order to raise revenue, which is required to fund the spending commitments I am making today, it will rise from 10% currently, to 12% from next June."*

Hammond minimised the impacts and forecasted that IPT would raise £680 million in tax revenue for 2017/18. However, the latest data revealed total receipts of almost £1 billion, being a 47% difference from forecasts.

These effects have been aggravated by the appearance of new threats. Together, they have created a situation where businesses find it very difficult to fulfil their insurance needs.



Source: Office for National Statistics. Available at <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/timeseries/cwad/bb>

## New threats

Reputation is a valuable asset that no business can afford to ignore. It is key for industries whose customers cannot evaluate a product's quality before purchase, and thus, must use past experiences as an indicator.

Preserving reputation has greatly changed with the advent of social media platforms, which allow businesses to increase their audience, but also demand a greater reputation risk.

When JP Morgan in 2014 invited Twitter users to send questions to its senior executives, the campaign quickly became a public outcry on many of the bank's practices. The next day, the company tweeted: "Tomorrow's Q&A is cancelled. Bad idea. Back to the drawing board".

Cyber-risk is also becoming increasingly important. A [Financial Times and ICSA survey](#) showed that 72% of FTSE 350 companies consider cyber-attacks their biggest concern, and 88% are currently increasing spending on cyber-risk reduction.

One problem faced by businesses is that cyber insurance costs can be high due to the evolving complexity of cyber-risk and the lack of historical data.

Added to this, is the fear that insurance companies will not pay. When the National Bank of Blackburg lost £1,7 M (\$2,4 M) between 2016 and 2017 due to hacking attacks, the bank relied on its £5,6 M (\$8M) insurance policy. However, it was offered a mere £35000 (\$50000).

Brexit can also shake the continuity of insurance contracts. According to TheCityUK, the loss of [passporting](#) would affect more than [36 million](#) policy holders across the UK and EEA. As Miles Celic, its CEO explained: “ignoring the question of contract continuity post-Brexit is to play a dangerous game”.

Likewise, international sanctions, particularly to major economies, such as China and Russia, have a significant impact on insurance dealings, in particular in contracts of marine and cargo insurance. One typical example are [the sanctions imposed](#) by the EU against the Russian Federation on the basis of the Ukrainian situation.

Recently, an increase in the IPT has worsened the problems for the insurance industry.

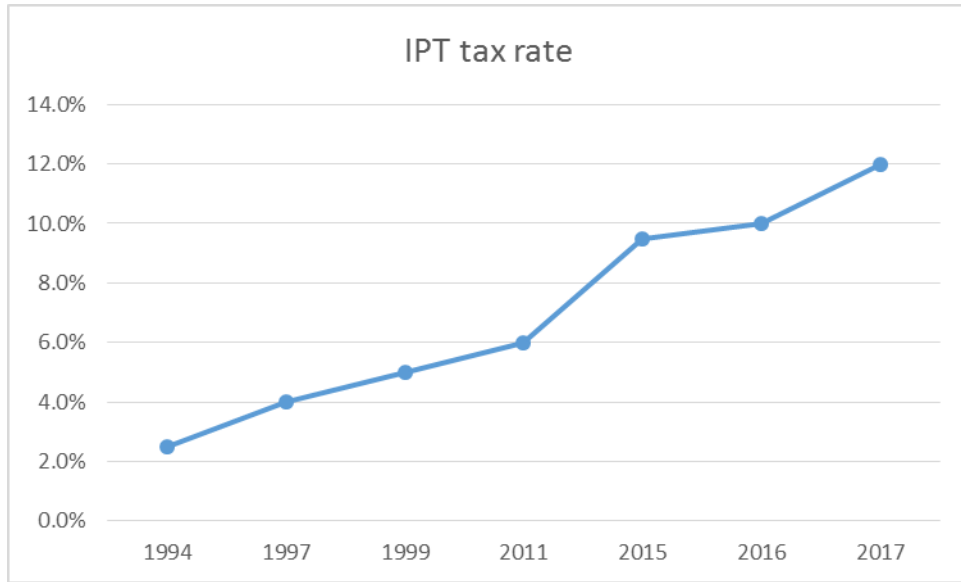
#### [Latest rise in Insurance Premium Tax](#)

The UK government introduced the IPT in 1994 to raise revenue from the insurance industry, which was viewed by the government as undertaxed and not subjected to VAT. Former Chancellor Kenneth Clarke, who announced the tax in the November 1993 Budget, expressed this view when he said: “I have never disguised my personal view that the coverage of value added tax in this country is too narrow.” IPT is managed by HM Revenue and Customs.

The UK is not the only government that has introduced this tax. Many EU members have used it to increase government revenue. However, the UK rate ranks among the top 7.

Initially the IPT rate was 2.5%. Successive changes resulted in the current 12% value. These increases have created many criticisms.

The British Insurance Brokers' Association or BIBA has reiterated its view that the rate should be reduced, and [described the IPT as a regressive tax](#). In its budget submission to HM Treasury, BIBA described two negative effects: an [increase in the number of claims](#) by uninsured drivers of 10%, and the serious impact that the IPT has on floods, particularly for those living or operating in high-risk areas. BIBA concluded that IPT may be an important tax contribution to the government, but seriously misses the effect on insurance take-up.



Source: <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN01425>