HM Treasury
Comprehensive Spending Review

Response from AXA UK

1. AXA UK (AXA) is part of the AXA Group, a worldwide leader in financial services, operating in 57 countries with over 160,000 employees and 108 million customers. AXA has over eight million customers in the UK and operates through specific operating companies – AXA Insurance and AXA PPP healthcare.

Executive Summary

2. AXA welcomes the opportunity to submit to the Government's Comprehensive Spending Review. This is an important moment for the UK in terms of the economic recovery from Covid-19, delivering the Government's 'levelling-up' agenda and progressing on a wide range of policy areas including building safety, future of mobility and flood resilience.

3. The submission is split across three areas in which the Government's policy and funding priorities will impact the insurance sector and our customers; tax and growth, future of mobility and instilling safety and resilience across the built environment. In each of the sections, there is discussion of potential areas where additional investment, spending and focus can help tackle social, environmental and financial challenges facing the UK.

4. In addition to the points raised below, AXA is supportive of the submission provided to HM Treasury from the Association of British Insurers.

Tax and growth

Responding to Covid-19

5. As Government will be aware, the insurance industry has played and will continue to play a key role in the economic recovery from Covid-19 by providing individuals, families and businesses with a safety net, providing high-quality jobs across the UK and acting as a large-scale investor. AXA is acutely aware that this has been an extremely challenging time for households, businesses and charities up and down the UK. It is a significant insurance event with initial industry estimates provided by the Association of British Insurers expecting insurers to pay-out in excess of £1.7 billion, including £900 million in valid business interruption payments and £275 million in travel insurance claims.

6. Throughout the crisis, AXA along with our industry counterparts have proactively agreed a number of pledges to support and assist customers across a range of insurance lines including home, motor, travel and health. These pledges included flexible policy extensions and waiving policy restrictions to ensure they supported customers experiencing abnormal circumstances as a result of the impacts of Covid-19. Furthermore, at the beginning of the crisis the industry also reached a landmark agreement for private health sector resources to be used to support the NHS and increase capacity. As lockdown restrictions have been adjusted to support businesses to start re-entering the workplace, AXA is working with our business customers to help support a safe return through risk management guidance.

7. It is vital UK communities receive support from businesses that have the resources to help. AXA UK has therefore donated £1 million to Business in the Community (BITC) to support the charity's recently formed National Business Response Network. Organised as a response to the COVID-19 crisis, the National Business Response Network connects national and local community groups, businesses, local authorities and charities providing food, medicine or community services. Help comes from businesses, ensuring that the right support is delivered to the right place, at the right time.

8. Furthermore, in May 2020, AXA contributed to the Covid-19 Support Fund which has been launched by the insurance and long-term savings industry to help those who have been hardest hit by the crisis. So far, over £80 million has been pledged in voluntary contributions from firms across the sector. The Fund works in partnership with the Charities Aid Foundation, and a network of partners, including the National Emergencies Trust and Business in the Community, to support those in most need. More information on the Fund and our partners can be found at www.covid19support.org.uk.

9. Given the scale of the impact for businesses in the UK, the future of pandemic business interruption cover is a pertinent discussion. AXA is aligned with the insurance industry in wanting to engage in constructive discussions about the future of pandemic cover to ensure that businesses are better protected against a future pandemic event. AXA is part of the ABI's working group looking at potential solutions in this area.

Insurance Premium Tax (IPT)

10. AXA welcomed the Government's review of IPT in the last Budget and look forward to participating further in that consultation process. IPT attracts significant income for the Treasury, however, AXA firmly believes IPT is a disincentive for people who want to responsibly protect their health and property. The continual increases in recent years creates a reverse incentive for consumer spending on protection.

11. Earlier this year, the Social Market Foundation reported that IPT costs every British household an average of £223 a year, with lowest income families spending 4.1% of their post-tax income on insurance, compared with 1.6% for higher income households. With IPT taking a larger percentage of income from those who have less money to spend, it is clear that IPT is a regressive tax hitting the poorest households hardest.

12. In addition, IPT could continue to have a profound effect on the NHS, particularly in the current climate, if customers abandoned their private medical cover and fell back on the public sector. While there are multiple considerations for potential Private Medical Insurance (PMI) consumers assessing whether to purchase a product, AXA considers the doubling of IPT between 2015 and 2017 from 6 per cent to 12 per cent to have been a significant financial disincentive for consumers. A study undertaken by the Centre for Economic and Business Research (CEBR) calculated 200,000 people moved away from health insurance and onto NHS care as a result of the increase. CEBR's findings provide an estimate that each 1 per cent rise in IPT would result in 31,500 private patients cancelling their cover and returning to the NHS.

The financial impact of that change is around £21.5 million in new costs to the NHS. Such a scenario would also reduce the amount of revenue collected by the Treasury effectively creating a double cost.

13. Covid-19 is having a significant impact on the NHS, already two million people are waiting more than 18 weeks for hospital treatment (NHS England) with the NHS Confederation estimating that the waiting list for routine procedures could reach 10 million by the end of this year. Furthermore, Cancer Research UK estimate that between April and July, around three million people were left waiting for cancer screening and between April and August, 350,000 fewer people were referred with suspected cancer symptoms than normal in the UK. Given the evidence of the task facing the healthcare sector, it would suggest that this is exactly the moment for encouraging the take-up of Private Medical Insurance (PMI). In order to provide that encouragement to both companies and individuals, AXA would urge HM Treasury to consider a reduction of IPT on health insurance.

14. Linked to a reduction of IPT, there are alternative options for incentivising health insurance products. One potential option would be to exempt PMI from an employer's Class 1A National Insurance Contributions, currently set at 13.8%. The benefit would be materialised by employers which may provide them with an adequate financial incentive to provide PMI to their employees or to extend the offering to their entire workforce. A second potential option the Treasury may wish to consider focuses on the tax implications for employees. The Treasury could look to exempt PMI as a taxable benefit in a similar manner to the way pension contributions are exempt today. This would provide a cost saving for employees by saving them tax at their marginal rate. HMRC could also apply restrictions to the benefit-in-kind exemption to ensure that it only applies if the benefit is provided to the entire workforce. This further step would likely increase the positive impact on PMI take-up even further. Incentivising measures such as the ones outlined above would provide strong encouragement for greater uptake of PMI which would provide relief for the NHS at a time of significant demand.

15. As outlined in this section, IPT has significant drawbacks for individuals and families taking a responsible decision in protecting themselves from risk. Now more than ever, government should be supporting those purchasing protection for their health and property. To that end, AXA urges government to consider the reduction, or at the very least, the freezing of IPT. In the healthcare sector, the argument for a new approach to the tax treatment of health insurance has never been clearer. HM Treasury should be placing particular focus on this area, if not, they risk adding further pressure to the NHS and undermining the potential for employers to play a greater role in the health of their employees.

Future of mobility

Connected and Autonomous Vehicles

16. AXA has been involved in connected and autonomous vehicles (CAV) since 2014 partnering five government-backed projects focusing on different issues in CAV testing and

development. The VENTURER consortium, the first government-backed project, focused on the handover of control from driver to car in semi-autonomous cars, UK Autodrive carried out on-road trials in Milton Keynes, FLOURISH focused on the connected and mobility aspects of CAVs, Capri investigates the ability of CAVs to switch from road to pedestrian areas and Robopilot will trial an automated courier vehicle in Bristol. AXA's role in these consortiums is to provide advice on safety, regulation, liability and data, which includes publishing thought-piece reports and the provision of insurance for some trials. Furthermore, as a leading insurer supporting the development of connected and automated mobility, AXA assisted the formation of the Automated and Electric Vehicles Act 2018 by giving evidence at the Public Bill Committee.

17. AXA is supportive of the deployment of automated technology on UK roads because of the significant societal benefits they could have. These include:

- **Safer roads** – CAV technology has the potential to remove the cause of **90% of road traffic accidents** – driver error. CAVs are predicted to save over 2,500 lives and prevent over 25,000 serious collisions in the UK by 2030.
- **Efficient roads** – Automated systems are predicted to reduce vehicle numbers on the roads and produce an intelligent network that runs more cleanly and efficiently, as well as freeing up space and reducing traffic.
- **Increased mobility –** CAVs can overcome transportation related obstacles for those who currently find it difficult to drive e.g. those with disabilities and the elderly, increasing independence.

18. AXA welcomes the support Government has provided for this technology in recent years, to make the UK a world leading location for the mass-market potential of CAVs, with an estimated £62 billion annual economic opportunity by 2030 and 400,000 new jobs. The combination of the Automated and Electric Vehicles Act 2018, which ensures a smooth transition for consumers with the creation of a single insurance model, and Government funding of over 80 CAV projects involving more than 200 partners across academia and business, means that the UK is at the forefront of developing this new technology. AXA further welcomes the work of the Law Commission in conducting a full review into the legal and regulatory framework that will underpin the safe deployment of CAVs on UK roads.

19. While the Automated and Electric Vehicles Act laid the foundation for CAVs, work is required to ensure the UK remains an autonomy leader. AXA would therefore urge the Government to focus on:

- **Continued Funding** – The UK is recognised as a global leader in CAVs, largely due to the £400 million invested by government and industry in recent years. Given the large appetite from industry in this sector, investment in automated technology can provide significant economic benefits including high-value research and development anchoring new industries, supply chains and jobs in the UK. Any slowing of investment now will result in the UK importing this technology as a tech taker rather than a tech maker.

- **Data** – Access to data is fundamental for establishing liability and accurate risk modelling. The type of data being collected, and its uses, should be transparent, so Government and industry should collaborate and invest time and resource to create a ‘data map’ for the CAV ecosystem to identify frameworks for effective governance and who needs to access data, what type and when.
- **Legal & Regulatory Framework** – Must clearly define, with little room for interpretation the responsibilities of the users of CAVs and any changes to the current road safety regime. AXA would urge the Government to prioritise developing and implementing the recommendations outlined by the Law Commission following the conclusion of their Review.
- **Consumer Education** – Government, road safety agencies and the relevant industry stakeholders must provide sufficient levels of information to educate consumers on the limitations of the new technology and their responsibilities as a user. This includes the need for industry to ensure the public is aware that SAE level 3 vehicles are not autonomous and so users cannot disengage at any point during a journey. Further consideration needs to be considered on user behaviour and building consumer awareness as automated technology become more prevalent on UK roads. AXA therefore urges continued investment of the relevant departments and agencies to ensure consumer education is an integral part of the Government’s future mobility strategy going forward.

20. The Government has signalled for a number of years a real intent to lead the world in helping automated driving technology develop. Over the past five years, the UK has made significant progress, creating a cluster of SMEs working in this area and a unique testbed ecosystem. The next five years will be crucial for securing industrial leadership in this area. Without continued support it is likely the momentum built up by UK industry will be lost, as industry leaders in other countries continue to develop their services and expand their reach internationally.

Micromobility

21. AXA considers micromobility vehicles, like e-scooters, to be a positive step towards reduced carbon emissions and a more inclusive transport network. AXA welcomes the intent of government to conduct e-scooter trials in the UK as it reflects the rapidly changing needs of transport users as a result of Covid-19. Studies, such as the one carried out by Inrix in 2019, show technologies like these can replace nearly 70% of short-distance vehicle trips. However, e-scooters need clear regulation that prioritises road safety and this urgently needs to be addressed by legislators.

22. As one of the largest UK motor insurers, our customers will be affected by the move towards micromobility on roads. AXA recently contributed a response to the Department for Transport’s call for evidence on the ‘Future of Transport Regulatory Review. In the response AXA highlighted that if there was no insurance framework for e-scooters and the vehicles were to fall under the definition of “vehicle” as per the current Motor Insurance Directive and the Road Traffic Act 1988, collisions involving micromobility vehicles and the resulting claims

would be under the responsibility of the Motor Insurers' Bureau (MIB), in alignment with the Uninsured and/or Untraced Drivers' Agreement. In this scenario motorists, whose insurance premiums fund the MIB, would be obliged to cover accidents not caused by motor vehicles and whose users have not contributed to the MIB.

23. AXA believes the regulatory framework for micromobility vehicles, including e-scooters, must be considered as a holistic package including construction requirements, user requirements, appropriate insurance provision and the mandating of the operational domain where these vehicles can be used. The regulatory framework should not apply unnecessary burdens on users or commercial stakeholders but must place priority on the safety of all road users. AXA proposed framework is as follows:

- **User safety measures**: The available evidence on e-scooters, suggests the most significant risk of serious or fatal injuries is to the user of the device:
    - AXA would urge the Department for Transport to mandate the compulsory wearing of helmets, particularly in the early years of this new technology
    - AXA would encourage users to undertake basic training to fully understand their responsibilities and how to use their devices safely
- **Construction requirements**: AXA believes adoption of construction requirements similar to those used in Germany (who already have an evidenced regulatory framework) can better facilitate the usage of e-scooters on lower speed roads and on cycle lanes and tracks – these include a fixed handlebar, maximum design speed of 15.5mph and power limitation
- **Insurance:** AXA considers it fundamental there is a form of insurance for e-scooters, however, it would seem disproportionate to instate an insurance regime for micromobility vehicles as if they were conventional vehicles. To strike an appropriate balance, the Government should amend the definition of "vehicle", so it does not apply to e-scooters, and subject e-scooters to compulsory liability insurance with capped indemnity limits
- **Registration:** The registration of micromobility vehicles would enable enforcement of use and construction requirements. Vehicle registration would not necessarily need to follow the same approach for conventional motor vehicles which could be unnecessarily burdensome.

24. Considering the challenges going forward on micromobility devices, AXA urges HM Treasury to provide adequate resource to ensure the relevant government departments and agencies can research, develop and implement a regulatory framework that prioritises the safety of all users of our road transport network. This will include providing necessary education for all road users, particularly those using micromobility vehicles for the first time.

Safety and resilience

Building and Fire Safety

25. AXA welcomes the Government's focus on improving the building safety regulatory framework in England and the direction of travel contained in the Government's Building Safety Programme. AXA is supportive of the positive changes outlined in the Building Safety Bill including establishing a new building safety regulator, amending the Building Act 1984 and providing greater clarity for relevant stakeholders across the lifecycle of buildings.

26. However, AXA would urge the Government to reconsider the scope of the new regulatory system, the Government's blanket focus on high-rise buildings could potentially create a two-tiered regulatory system which results in those buildings housing vulnerable occupants to not be captured by new regulation. It is clear and obvious that fire does not discriminate based on height, and therefore, the regulatory system must capture other elements including building occupants and building use. AXA would strongly urge the Government to consider expanding the scope of the Building Safety Bill to include other high-risk residential and non-residential buildings at any height, particularly for those buildings that accommodate vulnerable people such as hospitals, hospices and care homes and those buildings that use Government defined Modern Methods of Construction (MMC).

27. AXA understands that the Government has agreed to provide the Health and Safety Executive with an extra £16.4 million this year to recruit staff and establish the regulator. In light of the over 50 per cent real terms reduction in the regulator's budget between 2010 and 2017 and the raft of additional specialist responsibilities the body will be taking on, Government must consider a level of ringfenced funding throughout the next multi-year spending period to ensure it can deliver the much needed regulatory and enforcement changes. A similar argument applies for local enforcement, additional responsibilities for owners and manager of high-rise buildings must be supported by enforcement regimes. Local enforcement regimes will be a necessary component of the building safety landscape and therefore, Government should consider the funding local authorities require to deliver on their responsibilities. The success of the Building Safety Programme to a large extent impinges on sufficient resources being available for the HSE and local authorities from the outset.

28. As a large property insurer, AXA has consistently reiterated the view that it continues to take far too long to remove and replace potentially dangerous cladding from high-rise and high-risk buildings. While AXA welcomes the most recent announcement to establish a new £1 billion Building Safety Fund as a big step forward in the removal of combustible cladding, the overall funding package remains insufficient to meet the urgent challenges facing many leaseholders across the UK. As outlined by the latest *Building Safety Programme: Monthly Data Release*, 227 high-rise residential and publicly owned buildings still carry ACM cladding systems unlikely to meet Building Regulations, with 117 not yet beginning remediation. With regard to non-ACM combustible cladding, the Housing, Communities and Local Government Committee (HCLG) took oral evidence from the responsible Minister which suggested there

are likely to be a further 11,300 buildings with other forms of combustible cladding, of which approximately 1,700 are high-risk and likely to require urgent remediation.

29. While it is important to identify the Government's intent in this area, particularly around the regulatory framework, it is essential that those 1,700 high-risk residential buildings with dangerous cladding are remediated as quickly as possible so leaseholders can feel safe in their own homes. AXA's views are in alignment with the HCLG Committee in requesting the Government intervenes further in this situation and includes remedial action on historical regulatory building safety failures. While AXA understands the legal and moral arguments surrounding this issue, leaseholders are experiencing extremely significant challenges in unsafe homes while disputes over responsibility take place. Committing to a national target of remediating all ACM fire safety defects by the end of 2021 and all non-ACM fire safety defects by the end of 2022 supported by adequate financial resource would provide sufficient reassurance for all those stakeholders impacted by this issue.

Road Safety

30. As Government is aware, since 2010, the long-term trend of year-on-year declines in roads deaths and serious injuries has stopped. Government should be concerned about the year-on-year trends and look to bolster the UK's road safety strategy with strong action by increasing traffic law enforcement, reviewing the education provided for novice drivers, supporting engineering works to improve roads identifies as particularly risk and continuing to facilitate the development of safer technology.

31. AXA would consider enforcement measures to have the most impact on improving road safety across the UK. As outlined by the Parliamentary Advisory Council for Transport Safety (PACTS), many of the casualties on UK roads are as a result of a failure to comply with traffic laws – knowingly or otherwise. Around two-thirds of collisions relate to the "fatal four" offences including excessive speed, using a phone whilst at the wheel, a driver over the legal alcohol limit, failure to wear a seat belt or a combination of these factors.

32. Over the past decade, AXA understands that the number of roads policing officers has decreased substantially. While the total number of police officers has fallen by around 13 per cent since 2010, there was a 22 per cent reduction in the number of dedicated roads policing officers between 2010 and 2014, and a further reduction of 18 per cent since 2015. In addition, dedicated roads policing officers only make up around 4% of total force strength and are often considered "double-hatted" with responsibilities beyond what would be considered typical for a roads policing officer.

33. Given the reduction in specialist roads policing officers, it is not surprising that the number of motoring offences detected has also reduced. The only area of motor offences enforcement that has not seen a decline in detection rates is the area of automated enforcement i.e. speeding offences. AXA believes it is essential for Government to reduce the downward trend in the number of specialist roads policing officers in the UK Police Force. As part of the Government's pledge to fund 20,000 new police officer posts by 2022, the Government should

support a significant expansion in the number of dedicated roads policing officers across the UK, ensuring they are fully resourced to undertake traditional traffic law enforcement.

34. In addition, road safety is currently inconsistent across the UK road network, indicating there are areas where more progress is needed. The risk on our roads is largely concentrated on particular sections of the network and AXA understands that targeted action on the most dangerous roads delivers the most benefits.

35. While the Government's Safer Roads Fund initiative that delivered engineering improvement across the top-50 high-risk A-road sections in England (2016-18) was a welcome example of coherent collaboration across the roads network on safety, road safety remains inconsistent across the network with risks concentrated on particular sections of UK roads.

36. Around 85% of casualties occur on local roads. Whereas the Government has empowered Highways England to work on the Strategic Road Network, similar empowerment needs to follow for local authorities with greater engagement and funding for local roads. AXA welcomes the Government's intention to review the Safer Roads Fund to understand effectiveness of knowledge-sharing amongst local authorities.

<u>Flood Resilience</u>

37. The clear science on climate change highlights there is an urgent need for strong collective actions across government, industry and academia in the UK and globally. Although a risk we will continue to face over the long-term, there is evidence of our climate changing rapidly with extreme weather increasing in frequency. AXA's strategy has been to adapt by supporting our customers to manage risk and improve resilience, while supporting research that investigates climate-related mitigation and adaptation through the AXA Research Fund.

Flood defences

38. AXA welcomes the Government's long-term funding plan to tackle flooding, particularly the commitment to invest £5.2 billion to create around 2,000 new flood and coastal defences between 2021 and 2027. Investment in flood defences and innovative projects to reduce the impacts of flooding for hundreds of thousands of households is something AXA and the insurance industry has called for, for some time. However, in light of the increasing impacts of climate change, the Environment Agency's long-term investment scenarios report (2019) outlined that £1.2 billion investment in flood defences per year is needed to deliver "very high" levels of protection against future flooding on the proviso current climate change targets are met. While the £5.2 billion announced by government is a welcome step it does not meet the estimated funding required. Not only is investment in flood defence infrastructure crucial to protect households and businesses, it also makes economic sense with every £1 spent on flood defences saving £8 in costs to the economy from flood damage.

39. Targeting increased funding on the construction and maintenance of flood defences will undoubtedly be an effective strategy for managing flood risk. However, investment does

need to be supported by continued work towards government climate change targets, an effective planning system that deters new developments on land at high risk of flooding and the promotion of increased uptake of property resilience measures.

Resilience standards

40. The Government's transition to a focus on resilience alongside increasing and improving flood protection measures is welcome, particularly the continued inclusion of the concept of "build back better". However, AXA would urge the Government and the Environment Agency to reconsider their position on incorporating national standards of flood resilience for homes. While AXA appreciate the Agency's position to providing tangible and immediate improvements to those communities facing flood risks, taking the time to develop and implement methods for assessing and quantifying flood resilience and then incorporating these measures into a nationwide standard would be a long-term step towards consistent flood resilience across the UK.

41. Furthermore, AXA welcomes the Government's announcement to consider reforms to Flood Re in light of the aims of 'Build Back Better'. AXA has long called for Government to look at ways to encourage and incentivise flood resilient measures including permitting the payment of claims to include an additional amount for resilient or resistant repair, above and beyond the original damage. The commitment from Government to consider enabling the scheme to support pay-outs which cover the installation of more resilient repairs is a positive step in removing the current barriers to the uptake of property flood resilience.

Administration of flood grants

42. In November 2019, the Government announced Property Flood Resilience Recovery Support Schemes in which businesses and households could apply to receive up to £5000 to make property more resilient to flooding. In February 2020, the Government announced a further package of support for those affected by flooding following Storms Dennis and Ciara. This included a continuation of the Property Flood Resilience Recovery Support Scheme, £500 in financial hardship payments and council tax and business rate relief.

43. AXA welcome the intention of Government to put these relief measures in place, but AXA would urge that these schemes are implemented as soon as possible after a flooding event. For example, the repairs process can be delayed if the approval process takes weeks to complete, therefore, the sooner measures are implemented the quicker the repairs process can take effect. Delays and bureaucratic processes, which AXA understands did occur after the November and February flooding events, ultimately prevent people returning to their properties and rebuilding their livelihoods. Greater consistency through a centralised system and enabling the grants to be administered by insurers would be welcome to support the implementation of measures and encourage the proactive take-up of flood resilience.

44. Moreover, AXA understand that the Government's relief measures were for local tier or unitary local authority areas which had 25 or more flooded households. Whilst AXA recognise

the need for eligibility criteria, the thresholds have meant that two households with similar levels of damage may not be able to access the same level of government support because of their location. AXA would urge government to consider the drawbacks of those schemes already implemented in order to improve the measures for future flooding events.

If you need to get in touch regarding the information in this submission, please get in touch with AXA UK Public Affairs at ukpublicaffairs@axa-uk.co.uk