Legal Update

Beware the IPT trap

The November IPT hike might push businesses toward underinsurance, fears **Helen Devery**

Businesses need to talk to their brokers about the ways to mitigate the increase in insurance premium tax, instead of falling into the underinsurance trap.

The IPT will rise from 6% to 9.5% in November and analysts estimate this will add between £10 and £12 to the average buildings and contents policy, and from £12 to £13 to an annual motor insurance bill.

According to the AA, the IPT hike will add an extra £17.50 to the average shop-around premium and it is premature. Janet Connor, managing director of AA Insurance, notes: "The average premium at the end of Q1 2015 was £530, having fallen from a peak of £742 at the end of 2011, following a significant increase in the number whiplash injury claims and 'cash for crash' fraud. They have not yet fallen back to the £493, which was a typical premium at the beginning of 2010."

Price comparison website Money Supermarket suggests that the tax paid on home and car insurance premiums may add £35 to insurance bills for the average two-car family.

In other parts of the market, the rise will see private medical premiums increase by between 7.5% and 15.5% a year. It will also impact employees' taxable benefits, as the IPT is included in an employee's overall P11D liability.

The new rate affecting such a wide range of policies is predicted to generate additional revenues for the Treasury of up to £1.75bn a year. The government has justified the increase by saying that the average cost of premiums has already fallen and that IPT is still lower in the UK than in other European Union countries, such as Germany, where it is set at 19%.

Inevitably, this has caused concern among the insurance industry. The British Insurance Brokers' Association labelled it a 'stealth tax', with its CEO Steve White expressing his 'disappointment' with the move. Simon McCulloch, director of Compare The Market, said his major worry was that the increase would simply be passed on to consumers through higher premiums. He also expressed concerns that it may discourage people from taking out insurance at all.

Insurance companies may fear that this increase represents a gradual move towards aligning the IPT rate with the VAT rate, as is the case in other EU member states. There is, however, some silver lining: transitional provisions around the rate rise should allow insurers to manage the change with less difficulty than in 2011, the last time the IPT increased.

What does this mean for business? There is concern that the rise in IPT and the cost of premiums generally could lead to underinsurance for businesses. There is, therefore, a real need for organisations to consult with their brokers and advisors to consider effective ways to mitigate the increase, for example higher deductibles and levels of self-insurance.

Businesses must identify their risks both current and emerging and implement robust strategies to manage these effectively. The costs of accidents and incidents can often highlight areas of underinsurance. But if the horse has already bolted, the business has to play catch up to recoup its losses. It would be more effective to have in place strategies for managing risks and identifying weaknesses in systems before an event occurs. That would help address these risks and develop plans to avoid and mitigate the losses. Such strategies make good business sense at any time but focus on these could increase because of the rise in IPT and the impact this will have on the industry.

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