The challenge: the industry must lead rather than follow public policy debates

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Summary

- The insurance industry has not, but must, make headway in educating the public about its value.
- The industry should be proactive in its dialogue with policymakers.
- Reputation takes a long time to build and short time to lose; insurers should tackle problems head on rather than letting them fester.

In the wake of the "banking crisis" of 2008, insurance chiefs spoke about a 'once in a lifetime' opportunity for the industry to improve its standing in the public's eye. And they hoped that an uptake in talent recruitment would follow. This was crystalised in 2009, when the Labour Government-sponsored Insurance Industry Working Group (IIWG) published a report outlining its vision for the industry.

Now five years on, there is serious doubt as to whether the industry has made the progress it had expected to. It is also unclear whether the window has now shut (or is closing), and whether more bad than good has been done.

These doubts arise because, for all the talk of not posing the 'systemic risk' of banks, the insurance industry has yet to make any obvious headway in convincing the public of its inherent value. Nor has it persuaded the cream of school leavers or graduates that it is of a comparable professional standing to the likes of law or accountancy. And to think things seemed so much brighter in July 2009, when the IIWG report garnered positive coverage. So what has changed?

Obviously, we have had a change of Government. The then-chancellor Alastair Darling is not the only member of the IIWG committee to move on. Only two of the original nine industry members still work for the same organisation now as they did then, RSA's Adrian Brown and Richard Ward of Lloyd's. Hardly a ringing endorsement of the need for a consistent message.

Secondly, one MP's change of heart while in opposition has had more impact on the insurance industry than when he was in power. Jack Straw, Labour MP for Blackburn, took advantage of a slow news day in June 2011 to rail against the insurance industry's "dirty secret" that he claimed was driving up rates, namely the referral fee "racket".

Some sharp-witted industry insiders noted that as Justice Minister in the Labour Government, Straw had publicly railed against banning referral fees, but that was lost in the subsequent coverage. As was the fact that far from being a "secret", dirty or otherwise, these had been vociferously debated for years — with the ABI's stance firmly set in stone: they should be outlawed. The motor insurance sector was already under the political spotlight in the shape of the Transport Select Committee, but Straw's participation in the debate took the coverage to a whole new level.

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But instead of seizing the moment to get its well-worn messages across, the insurance sector ultimately did itself a dis-service by pointing the finger elsewhere and somewhat clouding the issue. Following its report, "The Cost of Motor Insurance", the Transport Select Committee received flak by suggesting that insurers publish a list of firms with which they have referral relationships and the amount they are paid. As one senior figure sniped, "referral fees are the symptom of the dysfunctional market and not its cause". Consumers simply shrugged their shoulders and asked what the firm had to hide.

There were grievances that the insurance industry was being unjustly highlighted more than others with their noses equally – if not more deeply – in the trough; but only one insurer – AXA – publicly said it would no longer take these fees, ahead of any proposed ban. Until that happened, the public could easily assume that the others would not relent because everyone else was "at it" and, if they did not participate, they would be at a competitive disadvantage. It was hard to ascertain where the customer was in this thinking, as shareholder value seemed higher up the agenda.

One positive outcome of this whole hullabaloo was that, in February 2012, the Prime Minster invited a select group of senior insurance figures to 10 Downing Street to explain how a sector that had seen double digit rate increases in recent years was still failing to return an underwriting profit. By the time the parties gathered again – without Cameron – in May 2012, a proposed panel of independent medical practitioners to tackle whiplash, and affordable cover for young drivers, topped the agenda.

Interestingly, having toured the UK with his referral fee agenda in 2011, Straw took up the whiplash baton as his new crusade a year later. This is another subject that had long been exercising the ABI and its members, not least because three-quarters of personal injury claims in the UK are for whiplash, more than elsewhere in Europe.

The trade body estimated its proposals for young drivers – including a one-year minimum learning period, limiting the number of young passengers and restrictions on night-time driving – would cut their premiums by 15–20%. On the flipside, others have painted the proposals as curbing the rights of this age group, and questioned how the new rules would be policed.

The Office of Fair Trading's report into the sector labelled the motor insurance market as "dysfunctional". It is difficult to see the industry shaking off this tag for some time – no matter what progress it makes on these key issues before the Competition Commission reports back in September 2014.

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That is because, for all its good intentions, the sector does not have a great record of keeping its house in order. Many of the issues mentioned as being at the heart of this "dysfunction" have been around for years: credit hire, referral fees, claims management companies, to name but a few. But instead of being attacked head on, they have been left to grow and fester until the smell became so putrid that politicians had no choice but to intervene.

Of course, reputation is a slow-burner. And despite these motor mis-steps, it would be overly doom laden to suggest that no progress has been made – even if the momentum is gathering progress under the surface. A number of insurers and organisations such as Lloyd's are reporting that entry levels for graduate programmes are up, in terms of both numbers and standards. And the efforts of the Insurance Profession Task Force (IPTF) – dating back to March 2010 – requiring firms to commit to a number of professional standards under the auspices of the Aldermanbury Declaration, looks to have the legs to make a greater enduring impact than the IIWG.

At least a significant number of the IPTF still work for the same firms as they did when it was formed. And by not having a political sponsor, its lifespan and ultimate success in improving the industry's consumer image will not be dictated by the nation's polling mood.