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TO ALL MEMBERS OF THE LEADER'S CONSULTATIVE COMMITTEE

A further paper by Mr. Terence Higgins on Insurance Industry Legislation for discussion at the Leader's Consultative Committee on Wednesday 9th April is attached.

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INSURANCE INDUSTRY LEGISLATION[Paper by Mr. Terence Higgins]

Publication of the Government's Insurance Industry Bill now appears imminent.

The industry itself has tried to talk the Government out of introducing a compulsory levy and fund scheme designed to protect policy holders from loss. It has evidently failed.

Until recently the industry (LOA and BIA) has been divided between those to whom any protection scheme was an anathema, those in favour of the Government scheme and those who preferred a voluntary scheme.

At last faced with legislation - and in view of the opposition to the Government scheme from both sides of the House - including protests from Co-op and Trade Union sponsored Members - during the debate on Insurance in the House on 7th March, 1975 the industry appears united (apart from Commercial Union) in objecting to the Government's proposals. It has made this clear in private to Peter Shore, and put forward alternative proposals of its own. These would involve a minimum of legislation - to ensure general participation - and the establishment of an "Insurers' Bureau" (an outline is attached).

I understand the LOA and BIA proposed to make it clear they oppose the Bill as soon as it is published. We, therefore, have to decide our attitude.

My own view is that we should support the industry proposals. If we avoid alienating Labour back benchers it may be possible to defeat the Government. We should need to stress that the Government proposals will anyway not help Nation Life policy holders (see separate sheet).

The main objection to the Government's Bill - expressed in our Trade Committee - is that it represents a further step in the Government's policy of protecting particular groups - by levy and fund - from the consequences of their own decisions. The Nation Life affair made it clear it is not easy for policy holders to choose between different insurance firms. But the new Government regulations plus the industry scheme should give adequate protection without the unfortunate side effects which the Government scheme would have.

The main differences between the Government scheme and the industry scheme, which we need to take fully into account in deciding how to vote on Second Reading are (i) the Government scheme would permit "rescue operations" before a company concerned went into liquidation - in effect protecting share holders as well as policy holders. The industry scheme would not prevent firms going into liquidation (unless there were commercial grounds for doing so) but would give equally rapid help to policy holders.

(ii) The Government scheme would, in effect, impose a levy on those who had insured with prudent firms in order to bale out the imprudent. There would, therefore, be no incentive for anyone to invest in prudently run companies rather than imprudent firms offering better terms. //

(iii) The main burden of compensation would tend to fall on thrifty "with profit" policy holders, but the burden on them is likely to be significantly less under the industry scheme.

BRITISH INSURERS BUREAU

The insurance company industry had devised a bureau through which it will protect the interests of a wide range of policy holders in the United Kingdom who are insured by any company which becomes subject to a winding up order or is put into liquidation. This proposal has been submitted to Mr. Shore, Secretary of State for Trade, and it is hoped that it will receive his approval so that membership of the bureau will comprise all companies authorised to transact insurance business in this country.

Those to be protected are mainly individuals who have insured in their private capacity for personal risks i.e. business firms and business risks are not normally included (there are some exceptions to this - such as compulsory motor and employers liability).

The bureau will give protection by guaranteeing the payment of the following claims up to the stated limits:-

- (a) Compulsory liabilities for injury to persons under all motor and employers liability policies - 100%.
- (b) Personal fire and accident policies and other private motor risks - 90%.
- (c) Life and pension policy benefits - 90% (subject to a Court order if necessary to scale down benefits).

The bureau will work in close collaboration with the liquidator and payments will be made by him with the guarantee from the bureau together with the provision of funds when necessary. He will be able to make payments up to the stated limits expeditiously.

The balance of these claims not met by the bureau and all claims under policies not covered by these arrangements should be referred to the liquidator as should applications for the recovery of the unexpired proportions of premiums.

Some special provisions may be necessary to deal with life assurance and annuity contracts but the general principles behind the scheme will apply to them.

NATION LIFE INSURANCE COMPANY

The collapse of Nation Life has caused serious distress to many of our constituents.

The Early Day Motion in the name of Robert Taylor which calls for the Government's proposals for protecting policy holders to be made retrospective to cover the Nation Life failure has now been signed by a large number of our colleagues. But at four separate meetings of our Trace Committee (including one well attended meeting convened specially to discuss Nation Life) the general view (with only one or two dissenting) has been that it would be wrong and contrary to Conservative principles to impose a retrospective levy on holders of more prudent companies' policies.

The Government, contrary to the line it has taken over the Court Line affair, has made it clear it has no intention of making its proposals retrospective.

In the debate on the Insurance Industry on Friday, 7th March, Robert Taylor was the only Member to speak in favour of making the Government scheme retrospective. Presumably the legislation when it comes before the House will be drafted to preclude any amendment to give it retrospective effect.

It now seems clear that the assets of Nation Life will eventually cover a very high percentage of its policies. But, meanwhile there are considerable legal difficulties to be overcome - because of problems arising between different classes of policy holders and various categories dependant on the prospects of Nation Life policies are suffering hardship.

The industry itself has baled out a number of insurance companies which have got into difficulties, but it has seemed reluctant to bale out this company which evidently failed because of imprudent management.

We should certainly do all we can to encourage a speedy settlement, but there would seem to be no case for supporting the Government scheme in order to make it retrospective.

T.H.