

Financial Inclusion Commission,  


Swiss Re Europe S.A.,  
UK branch  
  


December 12, 2014

**Response to The Financial Inclusion Commission call for evidence on the state of financial inclusion in the United Kingdom, and the development of practical recommendations to promote financial inclusion**

Dear Sirs,

Swiss Re welcomes the opportunity to submit evidence to the Financial Inclusion Commission. Swiss Re is a global business providing reinsurance capacity and services to insurance companies on both general insurance and long-term insurance products and services.

The end customers our clients serve range from very wealthy people seeking cover through to those seeking simple products and propositions which we often develop jointly with those insurers.

Our response to the Commission focuses on long-term insurances providing insurance against the consequences of loss of life or disability.

Consequently, our responses focus primarily on questions related to those aspects.

## **Question 2**

### **What do you see as the role of the regulator, government, and financial services in promoting inclusion?**

1. All three have an important role to play in promoting greater inclusion. The UK has a diverse and changing population mix and it is very clear that the citizen will need to bear a greater responsibility for their financial well-being as State provision is withdrawn.

2. Swiss Re research indicates that many people lack the basic skills to plan their finances and understanding of what and how to prioritise even where they have access to markets and products.

3. The regulatory environment needs to provide the confidence that consumers will be appropriately protected. The challenge, though, is to ensure that there are no unintended consequences such as the loss of access to advice services for many low- to middle-earners with the greatest protection being given to higher earners.

#### **Question 5**

##### **What opportunities are there to use technology to facilitate financial inclusion?**

4. Technology has a crucial role to play as a mechanism for improving consumer knowledge and delivering products and services. Financial services products and services will not be immune to changes impacting other markets for products and the way that consumers choose to buy. Long-term protection products are made less frequently than other insurance product such as household or motor and the use of technology to assist direct purchase remains relatively low compared with those products.

5. We anticipate growth in direct purchases of protection products. Unless cost-effective simple advice models are delivered, financial advisers are likely to work with wealthier clients, a trend we have seen following the implementation of the Retail Distribution Review.

6. Our research suggests that the challenge can often be one of engaging consumers who may have little interest in financial products

#### **Question 6**

##### **How has the financial downturn changed the nature of financial exclusion?**

7. Despite inflation running ahead of salary and wage increases for many people, the number of new protection policies purchased by individuals changed little between 2007 and 2012. Historically, we have found that new protection purchases are less impacted than savings and investments.

8. Our market report, Term & Health Watch 2014 showed that new protection sales in 2013 fell compared with earlier years. Market research conducted for our publication, Connecting generations- protecting generations, published at the end of 2013 show that consumer confidence in entering into new commitments is low and we see this as a contributing factor to reported new sales in 2013 and, likely 2014 when results are available.

#### **Question 7**

##### **What is the impact of welfare reform on financial inclusion and what support should be available to people as a result?**

9. It is inevitable that the State will have to withdraw from some aspects of welfare and benefit payment. This will place greater responsibility on those who are able to do so to make greater provision for themselves. Given the extent of the UK's deficit and the State's inability even to continue supporting based on current entitlements, the rate at which the State will need to withdraw will have to accelerate.

10. Although the market data reported in paragraph 24 below show some increase in membership of insured long-term disability income schemes, this lags far behind the pace at which the State is withdrawing and the number of in-force schemes is falling slowly.

11. New sales of individual products through existing distribution models to protect against the financial consequences of prolonged disability have, so far, not kept up with need. We have calculated an Income Protection Gap in the UK amounting, conservatively, to £190bn annual benefit. This means that there is potential for in-force coverage to be increased three-fold but also highlights the problem which State withdrawal can only exacerbate.

12. There is potential to build on the success of auto-enrolment, initially by protecting the contributions against the financial consequences of payments stopping as a result of long-term disability. Over time, people could top up their cover on a voluntary basis to meet their broader needs. The collective nature of this approach should allow a simpler application process than is the case currently with applications for individual products.

13. A similar model could be introduced providing an element of life cover. One welcome consequence of auto-enrolment has been that around 100,000 people were enrolled into group life cover in 2013 as a consequence of joining a pension scheme. Nonetheless, around half of the adult population has a gap in cover which, on average, amounts to approximately four times average UK earnings.

14. The State will and should continue to play a major role. For the type of model envisaged above, citizens will need to understand where the boundaries between public and private provision rest, their own responsibilities, how they can discharge them and the consequences of not doing so.

15. Evidence suggests that there is widespread ignorance of State entitlement currently, for instance, failure to claim from the benefit system when entitled to do so.

### **Question 15**

**What role should the state and the insurance sector play in providing a financial safety net in the event of an unexpected life event? e.g. bereavement, family breakdown, unemployment and illness**

16. Insurers have a vital role to play in providing a financial security net which, in turn, can result in greater consumer resilience against financial shocks.

17. Many life offices offer simple life assurance products which pay out very quickly to meet the cost of a funeral. These products are easy to purchase and the prompt payment is invaluable at a very difficult time for the family. New sales of such products between 2010 and 2013 are as follows.

<b>Year</b>	<b>New policy sales</b>
2010	346,128
2011	385,132
2012	314,869
2013	246,326

18. Many protection policies include options which allow cover to be adapted on a change of circumstances such as a marital breakdown. This can be helpful in ensuring that cover remains in place.

19. The insurance sector provides benefits direct to consumers but many people enjoy insurance as a result of cover arranged by their employer.

20. In-force data showing the number of people who enjoy insured death benefit cover through insured employer-sponsored schemes are as follows:

### Death benefits

	2009	2010	2011	2012	2013
Registered	6,547,227	6,971,899	7,299,339	7,468,747	7,724,906
Excepted	257,196	312,221	311,479	344,889	334,742
DISP	574,895	572,098	594,166	575,943	514,132

Registered means lump sum death benefit payments arranged through registered pension arrangements.

Excepted means lump sum death benefit payments arranged through non-pension arrangements.

DISP means a death in service pension which is paid to defined widows and orphans when an individual dies prior to taking pension benefits.

21. Some people covered for DISP will also enjoy the benefit of life cover under either a registered or excepted scheme.

22. Some very large employers choose to self-insure rather than insure the death benefit risk. We are not aware of any credible data; it is likely to include cover for members of the Civil Service which we believe to be retained within the scheme rather than insured.

23. In total, group death benefit provision amounts to approximately 40% of all life cover held in the UK. For many people, cover under a group scheme can be the only life assurance cover they hold.

24. Employers also have an important role to play in supporting individuals who become long-term sick. The number of people covered under insured long-term disability income employer-sponsored arrangements (sometimes known as group income protection) is as follows:

### Long-term disability income (LTDI)

	2009	2010	2011	2012	2013
	1,777,459	1,792,315	1,836,020	1,963,814	2,039,059

25. Typically, benefits pay up to 75% of pre-disability income to employees once an individual has been off work sick for a period, typically three or six months. The benefits are paid to employers and are then on to employees through PAYE. A deduction may be made for any State Benefits received by the employee.

26. The majority of arrangements in place provide benefits payable up to the selected expiry date, typically State Pension Age, although, increasingly, employers are limiting benefit payments to a maximum term, typically five years.

27. In total, group arrangements account for slightly over 75% of total insured benefits.

28. As with death benefits, some employers choose to self-insure rather than to insure these benefits.

29. Research carried out to inform Connecting generations- protecting generations shows that employees see an important role for their employer in benefit provision.

- Only 7% of employees saw no role with a further 12% not having a view.
- Of the remaining 81%, just under half (39%) thought their employer should pay for or contribute to the cost of benefits, the remainder seeing the employer's role as one of encouraging and informing or ensuring their workforce was offered a good deal.
- By contrast, 47% of employers researched saw themselves having no role with a further 5% having no view.
- Of the remainder, 39% , most (33%) thought their role should be to educate and inform with the remainder seeing their role as using their influence to get a better deal
- Employers have some concerns that using their influence to get a good deal may mean that are giving or seen as giving advice where they are not authorised to do so

30. As the State withdraws from disability-related payments, employer-provided schemes could be introduced to relieve the burden on the public purse, building on the success of auto-enrolment. This is covered in our response in paragraphs 9 to 15.

## **Question 16**

### **Is the insurance market functioning appropriately and competitively?**

31. The markets for both individual and employer-sponsored protection benefits are competitive. It is easy for consumers to compare prices and this has had an impact on the unit cost of cover. Most employer-sponsored business is placed through employee benefit consultancies and specialist intermediaries where cover is tailored to the needs of the employer, usually as part of an overall benefits package.

32. The price of long-term protection products such as term life cover has fallen over a number of years and supply and demand economics would suggest that this would result in more purchases. This has not been the case as flat new sales between 2007 and 2012 show.

33. More is needed to engage consumers better with the need to make provision where they are able to do so. In this regard, the reduction in the number of intermediaries and the consequent lack of access to the market has left a void which is yet to be filled. There would appear to be a gap and an opportunity for simple advice models to identify needs and to support consumers in fulfilling them.

34. Although the number of people covered in employer-sponsored arrangements has risen, this has, in the main, been a result of existing schemes getting bigger. The industry faces a challenge encouraging brand new schemes.

### **Question 18**

#### **Will pension reforms enable inclusion, and what further improvements could be made?**

35. We welcome the successful implementation, to date, of pension auto-enrolment. As it develops and as pension pots increase, it should naturally stimulate more interest amongst scheme members. This interest could then develop into thinking more widely about other financial needs.

36. Through unforeseen circumstances, such as being unable to work as a result of sickness, pension contributions may stop. We would welcome, within the scope of auto-enrolment and pensions more generally, insured benefits which maintain the contribution in such circumstances.

37. More broadly, we welcome the greater pension freedoms announced by the Chancellor in the 2014 Budget and subsequent legislation. We have some concerns, however, that the opt out model, which appears to have been so successful in the auto-enrolment roll out, may leave people poorly-equipped to cope with the plethora of choices available when they make their retirement choices. Where people with small pots elect to take the benefit in cash, they will need to understand the tax consequences of how they do so. Although they have received a great deal of criticism, annuities will have their place as many consumers will be keen to secure their income in retirement.

38. The Guidance Guarantee will be vital if the reforms are to be successful. Consumers must be made aware of it and, specifically, why it is important. A simple advice model, geared to their circumstances, would be helpful here.

### **Question 20**

#### **To what extent can savings act as a preventative measure, helping people to avoid debt?**

39. It is important that people understand the need to save. Any savings in place should be part of a plan to cope with debt. It is unfortunate that a "debt culture" has grown up in the UK and that it can be easier to borrow money than to set up a savings arrangement.

40. Although savings can help, insurance products can provide a good alternative or sit well with savings accumulation to help those whose savings are insufficient to enable them to avoid debt.

### **Question 22**

#### **What practical steps could be taken to foster a savings culture in the UK?**

41. Although fostering a savings culture is a good thing, this may be too narrow a question and a better understanding of finances generally is, in our view, the question to be addressed.

42. Many consumers through our research say that they find dealing with their finances dull and boring. They may just lack the interest to become more capable, even though this might be in their best interests in the longer term. Although financial advisers can help, they are not necessarily there to support the most vulnerable in society for whom better financial capability can be critical. The voluntary sector does excellent work here although this is often at a time of crisis.

43. We welcome initiatives in schools and colleges which should help build momentum and equip people better for the transition from education.

44. The industry could undoubtedly do more. Although some progress has been made, many products which might be seen by those in the industry as straight forward might, nonetheless, be regarded as complex by many consumers.

45. We are supportive of using common terminology when possible; this can help consumers when comparing products. There are some good examples, for instance the work carried out by NEST. Language should also reflect daily usage.

46. It is not just product providers who can be guilty of using words in a context which is unfamiliar to people. As just one example, we cite the use of the term "independent" in regulation which has different meaning when considering investments, mortgages and protection where consumers probably see it more in terms of impartiality.

We would be very pleased to meet with the Commission and to discuss our response in more detail. We would also be happy to provide copies of the market reports and research which we have used to support our comments.

Yours sincerely,

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