TRANSCRIPT OF ORAL EVIDENCE

MINUTES OF EVIDENCE

TAKEN BEFORE

THE FINANCIAL INCLUSION COMMISSION

CHEYNEYGATES ROOM, WESTMINSTER ABBEY, LONDON SW1P 3PA

TUESDAY 25 NOVEMBER 2014

MR CHRISTOPHER STACEY and MR MATT CULLEN

Oral Evidence

Taken before the Financial Inclusion Commission

on Tuesday 25 November 2014

Members present

Sir Sherard Cowper-Coles, in the Chair
Mr Chris Pond
Ms Sian Williams

Witnesses: **Mr Christopher Stacey**, Director (Services) Unlock; and **Mr Matt Cullen**, Assistant Director, Head of Strategy, Association of British Insurers.

Q. Chairman: Thank you both for coming along. We are a Commissioner down unfortunately because Omar Khan has had to go back to the Runnymede Trust on an emergency call so the two Commissioners are Sian Williams from Toynbee Hall and myself. I am a former diplomat who has been working on financial inclusion with HSBC. You know the purpose of the Commission which is to take stock after the Pomeroy Task Force finished its work and to produce a short menu of suggestions or items of unfinished business which we think the new British Government starting work on Friday 8 May next year should be addressing in this space. This session is of course entitled insurance, but if there are other areas, particularly you Chris, in the field of financial exclusion for former offenders you want to address and not just exclusion from insurance, please do so.

The way we will run this is we will ask each of you to make an opening statement about your concerns and then I am going to ask you both a general collective question which I would like you to respond to and then Sian and I will keep the questioning flowing from there and make this very informal. Matt, would you like to start on behalf of the ABI by making an opening statement?

Mr Cullen: To introduce myself, I am Matt Cullen and I am the Head of Strategy at the ABI. I am here today on behalf of Otto Thoresen, our Director-General, who is sorry he could not be here himself.

Financial inclusion and insurance is obviously an important issue. From the ABI's perspective there are, I guess, two broad areas of relevance. There is the general insurance side, so access to traditional insurance products, motor insurance, home insurance and so on. Home contents insurance in particular has been a focus of previous Commissions' work over the last six or seven years or so. Then the other side is the life insurance, pensions, savings space, where the ABI is also a very significant player and where of course there is a lot of change happening at the moment which has an impact on financial inclusion. I speak of a whole raft of changes such an auto enrolment, such as how we deal with small pension pots and how we deal with the changes to pensions and savings that were announced in the last Budget. I am happy to talk about both of those areas. The ABI and the insurance industry have done significant work over the last six or seven years on financial inclusion. We were particularly engaged in the process from 2007 to about 2011-12 where we did a lot of work on financial inclusion in the home contents insurance space. This is a particular issue because market penetration in this space is low relative to other general insurance products.

Q. Chairman: If you have numbers?

Mr Cullen: I have numbers which are not 2014 numbers but if you go back to 2011, you can see that only 44 per cent of tenants had tenants' contents insurance policies whereas if you look at owners of homes the number is up well into the 80s/90s. So there is a significant lack of market there in the contents insurance space. I think that is primarily a demand side issue but there is work that the insurance industry has done and continues to do to try and promote that market and try and make sure that the market is available. I am happy to talk about that.

I have talked about a number of areas as well in the pensions space at a very high level. From this perspective, there is an awful lot of change going on at the moment. From our perspective, in the pensions world it is very important that we see how all of the changes we are undergoing at the moment bed in over the next couple of years. We have auto enrolment taking place, which is a massive change to the pensions and savings market. That will be complete within the next three or four years and over that period of time we will see a huge number of people who currently are not saving into a pension save into a pension. Combined with that we have had the establishment of NEST, the National Employment Savings Trust, which allows the market to operate in an auto enrolment world even for small employers, areas where you might traditionally expect financial exclusion to appear in the pensions and savings world. NEST is a significant body which will help to alleviate any concerns in that space. It has been announced that our Director-General Otto Thoresen will be moving early next year to become the Chairman of NEST. In that space I am slightly reluctant to suggest a menu of measures which the new Government can move ahead with as we move into the middle of next year. I think it is a slightly longer term process. However, one thing I would suggest is that the pensions guidance which has been announced by the current Government as part of the Budget reforms needs to retain the rigour which was initially set out as part of the Government's consultation response. It is important that the guidance that people get on pensions when it gets to the time to take out their retirement income takes account of a broader set of measures than simply what the options for dealing with your pension income are. It also needs to take into account mortgage income, mortgage payments, dependents and other factors which are important in understanding how you might best make use of your savings.

Q. Chairman: Thank you very much, Matt. Chris?

Mr Stacey: To introduce myself, my name is Christopher Stacey and I am the Director of Services for Unlock. We are a tiny charity. Rather than use 'small' I say 'tiny' because we have only got four staff. We are an independent organisation. We do not take Government funding. We were set up by former prisoners. What we exist for is to help people with convictions lead positive, law-abiding lives and we focus on issues where criminal convictions particularly cause problems.

One thing I would start by saying is I imagine a lot of the issues that you are looking at here will involve people with convictions but not specifically because of their convictions. What I will focus on are those issues where criminal convictions come into play. I will probably speak most about insurance. I think that is probably the biggest area where the problem is. I will say something small about bank accounts as well as mortgages.

If you put this into context, there are nearly ten million people with a criminal record in the UK. Before March of this year about 2.5 million of those people, so about a quarter have what is known as an unspent conviction. There were some quite significant changes to the laws around disclosure in March and we estimate that that has reduced the number of people down to about 750,000 people who have an unspent conviction. That is quite a big change, but what that figure is is the first figure of is any real effort to quantify that group of people. So we now know that it is about 750,000 people who are affected by the issues that I will go on to talk about.

So what is the problem then? About one per cent of people that get a criminal record go to prison, so 99 per cent of people do not. Under the Rehabilitation of Offenders Act people must serve a rehabilitation period before that conviction can become spent. During that period individual must disclose, when they are asked, their convictions and most insurers, particularly home insurers will ask a question about unspent convictions. Very much like the problem that we have with employers, when you tick that box very often that will mean that you will not get any policy or a quote, because most insurers consider - mainstream insurers I am talking about here - unspent convictions to be relevant and they will ask about them at the application stage and the majority will simply refuse to cover you or cancel that cover without really considering any specific facts or circumstances.

One of the problems that we find is that a lot of people with convictions do not realise or do not understand that they need to disclose when they are being asked a question. Often they will be asked a very general question about criminal convictions. Insurers often do not make it clear or do not particularly help with what people do and do not need to disclose and more generally the laws around disclosure are quite confusing for people. For people’s lives clearly you need insurance. If you want a mortgage, you need insurance. If you want to drive a car, you need insurance. We see a lot of people who struggle to get access to insurance. We did a lot of work along the time-lines that you were mentioning about financial inclusion from 2007 to 2011-12 around developing the specialist broker market for people with convictions and that, depending on how you look at it, has been fairly successful because people with convictions can get insurance. They can get insurance through usually a group of insurers that are insurance brokers. The problem with that is they are specialist brokers; they are non-standard brokers; they often charge more. They are often - no disrespect - slightly strange organisations to go to as a person. They are branded for offenders or reformed offenders which for many people sits quite uncomfortably with them and can cause some practical problems with families and employers when showing those kinds of insurance products to them.

I think one of the major problems for us is that we have not yet see any mainstream attempt to properly risk profile people with convictions. The mainstream market takes quite a blanket approach which means that people are forced into this specialist market. I have got some quite specific issues across all of those areas, but one of the things that we would like to see is some better assessment as to what people are actually being charged when they are getting insurance products because that is not particularly clear. We see a lot of anecdotal evidence to suggest people are paying more because of their conviction without any real effort to determine relevance there. From our perspective, the market is failing this group of people because quite a significant number of people have an unspent conviction for the rest of their lives. Earlier this year there was a chap that went on Radio 4's Money Box to talk about how he is now in his seventies and he has had to disclose his conviction for the last 40 years to insurance companies and he is still paying £50 more a year because of that fact, which strikes at not really properly understanding that person properly and that person's situation.

Just to say a few words about bank accounts and insurance. We did quite a significant amount of work on improving access to basic bank accounts by people as they are released from prison. We published a report earlier this year that summarised the progress that we had made over the last nine years in a nine-year project. To give you a summary of where that is at now, we helped set up about 74 prisoner bank account arrangements, the problem being before that point that people were released from prison without any form of ID and no bank account. Probably you guys in this room will know the importance of having some form of access to a transactional bank account. Every prison now in this country which releases people into the community has the ability to help somebody to open a basic bank account before they are released. It is not perfect but for most people that will help and in the last year just under 6,000 people who were released from prison opened a bank account.

Problems do still remain though, those problems less being a financial industry problem and more of a Prison Service problem in terms of maintaining and managing those relationships. For the last nine months we have monitored that project, not actively but monitored it nonetheless, and a lot of changes in prisons have seen that activity reduced quite considerably, which means that people are being released without being able to have that opportunity. There are still some problems that remain around the banks that are engaging in that and some banks having a significantly disproportionate share. Particularly there I am referring to the Co-operative Bank, which is obviously a very live concern given the issues that the Co-op Bank have had recently. They have approximately 30 prisons out of 140 which represents a figure much bigger than their market share.

Finally, I do not have a script on this, but I feel it important to mention the issue of mortgages. I will say that we do not understand this issue as much as we should. Suffice to say that people with unspent convictions find it hard to get a mortgage. They are often relying on mortgage providers not asking about unspent convictions because those that do will often refuse them a mortgage. From my position I feel uncomfortable with relying on that state of mortgage providers simply not asking because we have seen more mortgage providers start asking, which begins to reduce the market somewhat, so it is an issue that we just want to flag that up rather than have any major solutions to that problem.

Q. Chairman: Thank you, Chris. Before we move to the general question, Matt, do you have any response from the industry to some of the points that Chris has made? Do you recognise the picture?

Mr Cullen: Yes, we absolutely recognise the picture. The insurance industry has a difficult balance to play as guardians of risk for society. We have multiple pressures facing us. One of those pressures is the need to price risk as accurately as possible. Another one of those pressures is the need, particularly in the retail insurance space, motor insurance, home insurance, to very aggressively compete on price. It is a very price-driven market. You have got to be at the top of the comparison site list if you want to get the business in the majority of cases. We have a world, especially in those comparison site-driven retail insurance products - contents insurance, motor insurance, et cetera, where we have a number of large insurers whose business model is low-cost, so it inevitably is not going to be 100 per cent granularly assessing individual risks and an individual human being, looking at every individual case and having a think about it and looking at every single piece of evidence and so on. That is not going to get you from an expense and cost perspective to the top of the comparison site cost list. So you need to have a low-cost, highly automated approach to make sure that what you deliver is the cheapest possible, most affordable possible insurance for the vast majority of people for whom that process works. Inevitably what happens is that there is a small minority of people, including people with unspent convictions, but there are other groups as well, people at high risk of flooding, people with multiple car accidents, whatever it might be, who are deemed particularly high risk and for whom that very low granularity approach does not necessarily work. That is where you have the niche market coming in which has been mentioned which is aimed at non-standard risks. I also understand the concern that that is not an ideal state of affairs and that maybe it is a bit more difficult to find cover through that mechanism. You cannot engage with the simple ways of buying insurance that mainstream society does. You might have, as Chris was saying, brokers with unusual names and stigma attached to them and so on and so forth. I am not convinced I know what the solution is to that because what I do not want to do is move to a world where that low-cost mainstream market is compromised, putting costs up for everybody by those mainstream approaches having to go into greater levels of granularity and detail which pushes up expenses. I think there is a space for the granular approach, the niche approach and the broad brush approach. How we make those work together more effectively is an open question for me.

Chairman: We will come back to that in questioning because that is not a very satisfactory place to leave it; you know there is a problem but do not know what to do about it. I need to ask you a general question and also welcome the Vice Chair of the Commission, Chris Pond.

Mr Pond: My apologies for missing the start of the session.

Q. Chairman: The general question is - and we are asking all our witnesses this because we want to read into the record the views of all witnesses - do you agree that the next UK Government should work to make the United Kingdom the global leader in financial inclusion? If you accept that proposition, we would be very interested to hear from you later in this oral evidence session or separately in writing what you think are the practical measures that government, the regulator and individual firms need to take in order to promote financial inclusion. Matt, do you agree with the general proposition?

Mr Cullen: Yes, I do agree with that proposition. The question I would ask - and I do not know the answer to this - is whether we are already. We may well be already or are we not?

Q. Chairman: Yes, but whether we need to maintain it. I doubt we are.

Mr Cullen: Yes, I do agree.

Q. Chairman: In terms of practical measures that you would like to see taken by government in your field, taken by the regulator, taken by individual firms, you may not be able to list those now, but are there certain practical things that you would like the Commission to be highlighting?

Mr Cullen: I think there will be certain practical things that I would like the Commission to highlight. For a full response, I think it would be sensible for us to write, which we will do. I think there are two broad areas which will inevitably be relevant. There is the general insurance retail product area and then there is the life and savings area. I think it is important that we separate those. I think that in the life and savings area, the key focus for us at present and as we move through 2015 is not revolutionary change but making sure things that have been announced, particularly pensions guidance, are rigorous and robust and give people who are at risk of financial exclusion the guidance that they need; not a kind of token effort guidance. I think in the general insurance space, for me the crux of the issue is that there is a demand-side problem. We have heard about specific concerns, but in terms of raising the ability of the insurance industry to manage the risk of people who are on low incomes or who are from another aspect of society which is traditionally less financially covered by insurance, there are products out there which are not taken up, and I think there needs to be a focus on the demand side as well as focusing on potential supply side issues, which are not covered.

Q. Chairman: And Chris?

Mr Stacey: You would expect me to say 'Yes' to your question about being a leader in financial inclusion. Just to echo, I have prepared something in writing that I am happy to submit to you because I appreciate that we will not be able to cover all of this today. In response to your three categories of people, in relation to people with convictions I think the Government needs to look again at the disclosure rules we have, particularly for insurance. I mentioned it earlier, but when the changes to disclosure laws came in in March of this year, there was a rather quick exception to those changes which were around motoring convictions, and that was as a result of industry lobbying by the ABI, which has meant that people with motoring convictions have been disproportionately affected both in terms of insurance but equally as a result more generally of things like employment and others because it applies across the board. The Government have said that was a temporary measure and that they would look again at that. We have not heard anything in the last nine months about looking again at that, so I think they need to look at that fairly urgently.

There is a link with that in terms of driving convictions more generally and the way that they are recorded on people's driving licences, in many cases for 11 years. Our helpline sees many people who have driving convictions that are on their licences for 11 years. They are spent under the Rehabilitation of Offenders Act so they do not need to be disclosed but because they remain on somebody's licence for 11 years, when they have to present that in some way, whether it be to an insurer or to an employer as part of a company vehicle, this serves to disadvantage them, so I think the DVLA through Government polices needs to look at that aspect.

When we are looking at the regulator and the industry, I think the regulator would like to see an assessment being looked at as to whether the market is functioning properly in relation to people with convictions and whether it is actually properly assessing the relevance of those convictions and determining price on that basis. There has never been, as far as I am aware, a proper assessment as to how the market is functioning. It is something that we looked at and tried to argue for quite some time as to this concept of whether the market is failing in relation to people with convictions. That is something that we would very much like the regulator to look at. Then when it comes to individual firms, I think the ABI guidance - and we were very pleased to work with them earlier this year to update the guidance that goes out to the insurance market/insurance companies - is not very often followed. Individual firms do not follow that guidance particularly well and we would like to see that on a better footing so that it is more properly followed and I would love to see an individual insurance firm actually look at the risk profiling of people with convictions because all of the evidence that we have heard from the brokers that do insure these people is that they are better customers, not worse, and that they have a lower claims ratio compared to ordinary customers. When you begin to think about that you begin to think actually that makes sense because I am disclosing a criminal conviction to you so I know you know this, so if I make a claim I know you know about my conviction so I am only going to make a claim if I have to make a claim. We have got an evidential problem at the moment because the brokers that insure people with convictions are precious about that information. They do not want to share that because they have a market of which they are, quite understandably, protective. I hate to say this but I am not quite sure I know how to get around that of accessing the data because I suspect there might come a time when a mainstream insurance company thinks this is quite a good market. I would love to get to that situation.

Mr Cullen: I wonder why that has not happened because presumably if that data is clear-cut an insurer would pick that up pretty quickly. I do not know the answer to this, but I do not know why, if that is a very clear-cut reduction in risk for people with convictions relative to others, insurers have not picked that up.

Q. Ms Williams: May I pose you a question on this and this is not intended to be an answer;

it is a thought. Moving away from insurance for a moment into the banking sector, one of the things that I know for a fact is that banks struggle with banking offenders and ex-offenders because they think that there is a tabloid risk, and one thing that I have really noticed is that there are types of offenders that are more acceptable politically and from a media perspective than others, for example women, in particular women with children because you can always get away with saying, “Oh well, they got into this position because they were desperate to feed their children”, and so you can actually take that as a customer group. It may not be same for all. Chris, do you think there is any issue there around reputational risk or is it purely that the insurance market is such an opaque and outwith the headlines industry that is not a factor at all?

Mr Stacey: Certainly I know the brokers that operate in this market currently, because they have large insurers that underwrite their policies, the offer that they give to those underwriters is that they will take that risk and they will assess clearly the cases involved, so I think what they are trying to do is sell this concept of taking reputational risk away from the insurer. I can certainly agree particularly in banking. I was in a meeting only the other day and it rather threw me because obviously these banks have this concept of risk of fraud, but then I was asked a question as to how banks should deal with sexual offenders and the question was that they do not do so formally at the moment and the answer I got back was, “That’s not necessarily true. We do deal with those in a negative way. We might refuse to give them policies through ways that you probably don’t know about.” That confirms the testimonies that we get from individuals, and I think that is certainly the case with the banking sector and my anticipation would be that that would probably correlate over to the insurance sector as well.

Q. Ms Williams: So there is a moral judgment involved?

Mr Cullen: I am not convinced that there will be a moral judgment involved, particularly, as I said, in the retail insurance space where it is highly automated. I would be surprised if an insurer was programming into the algorithms on which pricing and so on is based "This looks a bit dodgy from a reputational perspective so decline it". I do not think that would be going on. I guess when you get into a more specialist state, obviously there has been one very high profile case in the news in the last couple of weeks which feels a bit like this kind of issue where an insurer might think, "I have a bit of a reputational risk if I insure a very high profile person who has got an unspent conviction or whatever", but I think that would be fingers on one hand, and particular specific cases. I do not think it would be programmed into ratings engines.

Q. Ms Williams: My hunch is that you are probably right there because when we are talking about banking, we are often talking about proactive attempts to go into prisons and help people be banked before they leave and banks are so nervous about that. The Co-op has been the bank that said, "Look it has not done us any harm", and no other bank really has got their head around that, and they have been cherry-picking female offenders because they think that is the least sensitive subject. I just want to make sure that we have ruled that out as a feeling we have to tackle but you are not sure?

Mr Stacey: When you look at banks, I think it is fair to say that the Co-op were one of the leaders. The rest of the industry is now quite actively involved to the point where there are only so many prisons so they can only be involved to the extent they can cover prisons. That was around the financial inclusion agenda that was pushed by Government, so that shows the value of an agenda like that. Where some insurers actually risk price people with convictions, I would say that there clearly is a moral judgment because I do not think you can factor that into risk profiling. Where insurers literally refuse to cover without any risk profiling whatsoever, that would suggest a decision at some level within that insurance company that would look at what groups of people they would actively like to cover. The reasons for why they make those decisions may be moral or may be risk. Again going back to the point about evidence of risk, we have yet to see the evidence that people with convictions are a higher risk, and that to me is just a very interesting question to pose out to the industry, where is the evidence that this exists?

Q. Mr Pond: Apologies if this point has been covered in your earlier presentations, but there are two things I want to explore with you. One is circumstances in which people are insured when they probably should not be and the other is how we might encourage people or incentivise people to insure them again risks which we know could push them over the edge if they are not insured. The first category, when I was at the FSA we carried out some research which showed that there were many single people with no dependents and no commitments who would take out life insurance and we had circumstances where tenants were taking out buildings insurance, and I wondered whether or not (that would have been five or six years ago) the industry has been more careful about making sure that that sort of mis-selling does not take place? The other question is in an earlier session today on savings, we raised the question about whether or not we could use the automatic enrolment principle on pensions in term of other forms of saving short-term savings during life time. I wonder whether that might also be applied to forms of insurance that people really do need, whether it be home contents, life insurance or assurance?

Mr Cullen: That is probably more for me, is it not? Can I take the second one first. I think auto enrolment is a big step change for the life market, that is for sure, and something we see as a very positive step

Q. Mr Pond: As a result you are losing your Director-General. I am sorry about that.

Mr Cullen: We are glad that he is going somewhere where he will continue to make a difference to the life and savings industry. Certainly some thinking has been going on about protection/critical illness/income protection markets, where again you have a significant financial inclusion issue if you have people who, for whatever reason, find themselves unable to work and end up relying on the state. We have recently done a report with CESI, I do not know if you have seen that, which has suggested that there are significant numbers people, 10.8 million households in fact, (more than 60% working families) would see their income fall by more than one third if the main earner had to stop work due to ill health, without any income protection/critical illness cover or whatever would be appropriate for them. That is a significant gap in the market there. How do you fill that gap? I think the solution is something that looks a bit like what we have seen in the pensions world with auto enrolment. Whether it looks exactly the same or not, that is something that people who are much more expert in that specific area than myself need to work through, but something which puts it on the plate for people when they move into employment, when they change employment or indeed more often than potentially a measure which facilitates the demand side, because the supply side in the income protection and critical illness world is that the insurance market is capable of covering people. I think there is a potential question on price. That brings you to a question about individual versus workplace schemes. In this world, workplace schemes are much cheaper. Take the income protection market in particular, it is far cheaper per individual to be in a workplace scheme than it is for an individual to buy income protection insurance simply because of economies of scale and the relationships with the employers being more straightforward and so on. There are certainly questions around that to work through, but I agree when you move into general insurance territory and start thinking about contents insurance, for example, I think there is merit in the idea but the issue is that it does take some of the onus off people to manage their own risk and take responsibility for their own actions. Ultimately, with a contents insurance policy, it is not like buildings insurance. A buildings policy is something which fundamentally affects your shelter. It is a basic tenet of human survival having shelter, having somewhere to live. I think a contents insurance policy is much more something that we would see as being an individual choice and not a necessity. We would not go so far as to say that everybody should have contents insurance in all circumstances. There may be people for whom it not appropriate. For that reason we would be more wary about an auto enrolment type model in that space. That is not to say something that looks a bit like it is necessarily a bad idea.

Q. Mr Pond: The less obvious aspects of mis-selling - it is not PPI but it is people buying insurance products which are really not appropriate for their circumstances.

Mr Cullen: I would be wary about using the term 'mis-selling' in this space because someone buying the wrong product does not necessarily mean mis-selling has occurred, although it may do. I think the insurance industry has made a lot effort to think about this kind of thing in the wake of the PPI scandal and all of the press that that has generated and all of the expense that that has generated, albeit mainly on banks not on insurance companies, so yes, insurers are thinking carefully about trying to make sure that the right products are sold to the right people. I think there is more to do, in fact I am sure there is more to do, but certainly I have not seen significant evidence of large numbers of people buying products that they do not need in the last two or three years.

Mr Stacey: I have just got one little specific niche to add into that which is about the twist of all the problems that I have said so far really, where mainstream insurers do insure people with convictions, but they do not know it, where what they do then do is rely at the claim stage on non-disclosure. They have asked a question. The question at that point becomes how clear is that question, so there is clearly a debate at that point at the claims stage, but at that outset of taking out a policy, there are many cases that we see where the insurers perhaps have not made it as clear as they could have done what they are wanting. This is obviously more important now since the changes in the disclosure law a couple of years ago generally across insurance. I think that is the only thing that I have got to add there and I do not think that does fall into the mis-selling category, but it certainly falls into making it clear, and this is where the guidance that we did with the ABI, if it was wholly endorsed by all insurers, would stop that because it would be quite clear what people do and do not have to do.

Q. Mr Pond: I wonder if there is also room for greater financial education in that field. You fill out your motor insurance policy and you go to MoneySavingExpert, look in the list of occupations and see what occupations you can legitimately say cover your employment and which ones, if you put them down, are going to cost you more. All of that is quite legitimate, there is nothing wrong with it at all, but clearly people might stumble into giving the wrong category or saying they are unemployed when in fact they are on a zero hours contract, or whatever it happens to be. Is there a role for the industry working more with consumers in making sure they absolutely understand at the disclosure point what it is they should put down and what it is that they should not put down unless they want to pay a higher premium?

Mr Stacey: Absolutely. I think that was specifically on the issue of convictions of course and that was the role of the work that we did with the ABI. Just improving that and have insurers themselves take on that responsibility, because we are often having to bash them over the head when we see examples of bad practice. Yes, absolutely. I would also say it is - and it beyond the financial industry but I think there is a role for our criminal justice system on educating people who come away with convictions on what the implications are for various things including insurance.

Q. Chairman: Chris, separately and probably not now, if you have any evidence on access to credit for people with unspent convictions, access to bank accounts, not just access to insurance, it would be very interesting if you could write to us. There are a couple of questions from Dr Omar Khan, who is the Director of the Runnymede Trust and one of our Commissioners that I think are probably more for you, Matt, than for Chris but the first question from Omar is what data is collected and used for risk profiling? What are the most important factors? Then I will come to the second one.

Mr Cullen: Firstly, risk profiling is probably not the right word that we should be using here. Risk profiling is a term that is the subject of numerous discussions in Europe and may not quite be the same as risk pricing which I think is probably what he means. The factors that are used to understand and assess and price risk when selling an insurance policy ---

Q. Chairman: Risk profiling meaning profiling individuals on the basis of their medical conditions?

Mr Cullen: --- on the basis of a certain set of characteristics which are not deemed appropriate to be used. It depends on which type of insurance you are talking about of course. There are a number of categories which are broadly used across the general insurance world. Whatever you are buying you will generally be asked how old you are. You would until recently have been asked your gender. That of course has been banned for the last nearly two years now. There are other questions which will often be asked relating to things like employment status, which are not related to the motor vehicle, not related to the home; they are broad questions about you. Those questions are significant and there is clear actuarial evidence that they impact on the level of risk that is faced. There are also, I guess, the questions which often are the most controversial. You have seen that gender has been removed from the risk pricing process over the last couple of years as a result of a judgment in Europe. That is something that the industry has managed reasonably effectively and the insurance market continues to operate reasonably effectively without gender being used. I think age is probably the one which we genuinely could not afford to lose. Age is very important right across the spectrum because it has a really significant impact on risk, almost irrespective of which insurance product you are buying, so if you think about buying an annuity, age is extremely important. If you think about buying health insurance, age is exceptionally important. It is the number one rating factor. If you look at household insurance, motor insurance, et cetera, it has a really significant impact on the risk. Obviously, as you get into the different products you have a whole load of other ratings factors which are significant, for example in home insurance, the area that you live will be important. That impacts on things like crime risk, it will impact on flood risk, it will impact on arson and burglary risk, so that will have a really significant impact. Postcode in motor insurance is less significant but it is still significant because there is a clear correlation between certain parts of the country and the prevalence of personal injury claims. Again, there is a reasonably strong correlation there with postcode.

You can then move down a level into the stuff that insurers are really doing, not because it is a vital factor but because they are trying to find an edge. That might be something like does a person own a dog or something like that. It might seem like a very innocuous question and that is an underwriter trying to find an edge, they are trying to find a little thing that relates a little bit which gives them a little bit of an advantage over their competitors. It might be something no-one else has found. That stuff in itself no one thing is going to make a really significant difference but a whole load of questions like that which different people might use for different purposes all come together to try and help an insurer be as competitive on price as it can be and assess the risk as accurately as it can. No one of those smaller factors would be deemed a critical rating factor as the more obvious questions are.

Q. Mr Pond: But how do we deal with the situation? We have talked a lot about previous offences, et cetera, and the fact that you have had a conviction in the past does not mean that you are going to commit a crime in the future. Similarly, with medical developments as they are, if you have had a serious illness in the past, it does not mean you are going to have a serious illness in the future or indeed that your life expectancy is diminished, but we still have a situation, especially for life insurance and critical illness cover, that the premia are so much higher. It seems to me that fits into the more postcode type sweeping approach. Is there any development within the industry on that?

Mr Cullen: The insurance industry has to, to an extent, have a sweeping approach because it cannot understand risk on an individual basis in every single case because it is working on data, it is working on statistics. A statistic cannot be developed and managed with one data point. You need a pool of data points to make statistics valid. However, we are getting a lot more granular. If you look at the history over the last 20 years of flood risk assessment, that is a really good example where if you go back 20 years every insurer would have asked, "Do you live within 200 metres of a river?" If you do not then you are low risk and you get a low premium; if you do then you are high risk and you get a high premium. It really was as black and white as that, and not very effective at all, because you would have a load of people who actually are low risk and are getting a high premium and a load of people who are high risk and getting a low premium because it is a really crude measure. We have seen huge advances in data over the last 20 years and now we can pretty much do it based on a grid square about the size of this room in terms of understanding flood risk, so you can be a lot more nuanced, but of course what that means is that insurers are a lot more certain about who is high risk and who is low risk and actually that polarises the premiums more. So in a sense this accuracy, this personalised, individualised underwriting that you move towards, yes, it helps some people, but it hinders other people because insurers know they are high risk and they are much more certain about it. It is an inevitable tension that you get as this information improves which is that I guess people pay the price which more accurately reflects their risk, and arguably that is a good thing. We would say on the whole that is a good thing and something that we strive towards and it is a place the insurance industry is moving towards, but it is not a panacea is what I am saying. It does create other issues. It will create issues for the people who are genuinely seen to be high risk in that world.

Q. Mr Pond: I think many would say that there are lots of people who have recovered from cancer who are probably less likely to suffer from cancer in the future than people who have never been touched by it, but automatically the insurance industry will apply a higher premium there.

Mr Cullen: But that automatic application of a higher premium will be based on a broad statistical reality which is overall as a population those people do claim more. That might not be the case, as you have said, with criminal convictions, where for some reason insurers might be pricing it higher or declining and actually the risk is lower, and I do not know why that would be the case in a rational industry which is always trying to innovate in this space. If people who have had an accident in a car are charged more for their premiums that is because the data shows that they (to be clear - as a broad population) will make more claims in the future. It is not just some random decision that is made because an insurer thinks off-the-cuff it is probably going to cost more in the future. It is because the data shows that.

Q. Ms Williams: Can I push back on this not because I disagree with you but because I think it is a really important point to dive into. It may be that you need to say, "I have not been involved in these discussions, I cannot answer it right now but I will go away and look", and that is absolutely fine. Chris is telling us that actually the insurers who do insure people with criminal convictions find that that is a lower risk of claim because claims are more likely to be genuine, that is what he was saying because people fear scrutiny, and yet for the majority of members there is a blanket ban on knowingly insuring someone with a criminal conviction, so everything else you have said is around statistics, data, it all makes sense, it is all number crunching. When numbers provide evidence, we go for it.

There are only two possible things in my head that explain the gap between what you are saying and what you are saying in relation to criminal convictions. One is that no-one has done the number crunching in a really long time because everybody has stopped insuring people with criminal convictions. Some data came about which said this is too high a risk, we are going to stop, so no-one has got that data. Chris made the point that that data is locked away inside companies that have worked out that this is a really good thing to do. Then there is that herd mentality, "I am not going to break ranks. I am not going to go in to my boss and say, 'Why don't we just go and do this thing that no-one has got any data about?'" There is something about data not being shared in a way that allows people who are at risk of exclusion to benefit from competition. Or there is just a whole load of insurers who are incredibly negative about criminal convictions and do not think logically and then for some reason override all the data.

Mr Cullen: I think it is such a competitive market, something like home insurance or motor insurance, they are very competitive markets. Insurers are chasing market share. They are desperate for market share. They are desperate for an edge. I struggle to believe - and I will say in a minute that I have not been involved in these discussions and I will go away and ask - off the top of my head that insurers have not thought about this and have not modelled it and have not seen that the risk somehow comes out as higher. My gut feeling is that the statistics must be there to show the risk is higher. But I will ask.

Ms Williams: Can we ask the ABI to come back with some form of an answer that combines these two questions, one is around data and transparency around risk and secondly around ---

Chairman: Which of you is right on this?

Q. Ms Williams: Not only that, how can we trust what you say about pricing within the insurance industry that it prices fairly when there is such a lack of transparency?

Mr Cullen: In what context?

Q. Ms Williams: In the context of people who have had a previous illness, age-related travel insurance for example, ex offender insurance, we see so many examples from niche groups who say, "I am priced out of the market. The minute I turn 65 or 70 (depending on your insurer) I am no longer allowed to travel with any kind of insurance." "I am not allowed to do this, I am not allowed to do that." My specific question is normally we believe that competition leads to a better outcome both for firms and for consumers, but when we are talking about financial exclusion, it is normally the case that the market has failed and one of the things that I think we have seen many times and heard many consumer interest groups talk about is the lack of transparency of data in the insurance industry which means that no-one can challenge and say, "Hang on a minute, either you are over-pricing or you are under-serving." I would like you to come back with some robust evidence.

Mr Cullen: I can do that.

Q. Chairman: Could you in doing that, Matt, make clear is the data shared? Does each insurer have its own data?

Mr Cullen: The data by and large will not be shared across the sector.

Q. Chairman: It is not shared. So each individual company collects its own data?

Mr Cullen: Indeed. Just on travel for older people, we have done a lot of work on that over the last year so there was a data collection, probably in late 2013, around the different bands and trying to correlate the risk with the premiums and so on, and it showed that there was a clear correlation between the premiums charged and the risk.

Q. Ms Williams: Have you shared that with Age UK?

Mr Cullen: We have had lots of discussions with Age UK.

Q. Ms Williams: Because my very limited experience of Age UK is them still saying this is not in an acceptable state yet, so I think we have not solved it.

Mr Cullen: That is for them to judge, I suppose. We have had a lot of conversations with Age UK on that.

Q. Mr Pond: Not just putting Matt on the spot here but could we ask Chris, you have said that you have got clear indications that the claims rate is lower amongst those with previous convictions. Could you share that with the ABI? Similarly, could we ask Matt to talk to Macmillan, which seems to be making the same sort of claim?

Mr Cullen: We have had a lot of conversations with Macmillan about this as well.

Mr Pond: Could you engage with them and perhaps come back to us and say either, "Yes, we have looked at their data and it does not stack up," or, "Yes, perhaps we need to think about this again?"

Q. Chairman: I hear what you say, Matt, about rational calculations, but from my own observation people will decide on markets in a rather irrational way sometimes. and even if the data is there, they are not particularly interested, they have decided this is an area of business they do not want to go down for all sorts of irrational reputational reasons.

Mr Cullen: Is a reputational reason irrational?

Q. Chairman: It can be very irrational. Their reputation could actually benefit from addressing some of these things rather than be damaged by it.

Mr Cullen: Okay, but I would argue that is a CEO's decision, not mine.

Q. Ms Williams: One of the key points here for us is we are trying to identify areas where industry can make a difference to tackle long-term and remaining pockets of financial exclusion and where industry will not do something that needs to happen to correct market failure and therefore there needs to be either policy or regulation. What I am offering up to you here is an opportunity to show us why we should not be writing in the report that the lack of transparency in the industry around insurance remains at such a level that none of these questions is being answered satisfactorily and therefore policy and regulation are the only solutions.

Chairman: That is not a threat.

Ms Williams: It is a request to help us think in a big way.

Q. Chairman: Both of you, just one final question because we are really out of time; do each of you think it is possible to design insurance products that specifically address the needs of low income customers? Is that something the industry can be doing, should be doing?

Mr Cullen: Yes, I think it is and it is something the industry is doing. If you look at tenants' contents insurance, for example, the big focus, as we have said, over last few years, a number of major insurers, Aviva, Zurich and AIG in particular have made very significant efforts to design tenants' contents products which work in all kinds of different social housing individual scenarios. If you look at something like motor insurance, you might find it a bit more complicated because fundamentally it is an individualized, tailored product and it has a price related to the risk and it is not really the insurer's decision whether that is an affordable product or not. The price is the price. But overall, yes, moving to the pensions and savings space as well, looking at things like auto enrolment, NEST and the work that is going on about the charge cap at the moment, there is an awful lot going on which aims to make sure that that world is available not just to the wealthy but people on lower incomes as well.

Chairman: That is a very good answer if I may say so.

Ms Williams: May I ask one last very quick question?

Q. Chairman: I just want Chris to answer that question as well.

Mr Stacey: The correlation between low income and convictions is quite an interesting one actually. About one-third of people claiming Job Seeker's Allowance have been convicted in the last ten years. That is my correlation in answering the question about convictions which is that clearly it has been shown to be possible amongst a specialist group of insurers to insure people with convictions. I am not yet convinced that the mainstream market is going in the right direction on its own to solve that problem. I think it is possible to take some quite blanket approaches to that because of the absence of risk in my role, and I am happy to try and evidence that, to not really complicate the way that mainstream insurers do price quite simply and in an uncomplicated way. I think it is possible to marry the two up.

Chairman: One last question from Sian.

Q. Ms Williams: Matt, you talked about the idea that there might be some products that should be almost compulsory, from the point of view of auto enrolment being good for some things and not others. Death happens to us all. I just wonder if you think we should have default position and there should be an auto enrolment insurance policy around covering death expenses.

Mr Cullen: Death expenses is not something I have ever thought about, to be honest. Is it an insurance product? You are not really insuring a risk; you are insuring a certainty.

Q. Ms Williams: Funeral costs so not what would happen to your family but the cost of dealing with it.

Mr Cullen: That is what I am saying. It is a fixed cost that is guaranteed to happen so why not just save the money in a bank account?

Mr Pond: I am not convinced the data endorses your statement there ---

Ms Williams: Everyone dies?

Mr Pond: Everyone dies. I would like the industry to take a more granular approach!

Chairman: There is scope for debate. There is a certain person that I would not mind selling a funeral product to!

Ms Williams: I do not know how to take that!

Chairman: Thank you both very much indeed for the measured, calm and clear way in which you have delivered evidence that is not always mutually reconcilable. It has been very interesting. Thank you both and please write to us with further evidence.