Association of British Insurers 51 Gresham Street, London EC2V 7HQ Tel: 020 7600 3333 Fax: 020 7696 8999

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Sir Sherard Cowper-Coles
The Financial Inclusion Commission
[redacted]

Further Views from the Association of British Insurers

Dear Sir Sherard,

Thank you once again for inviting the ABI to provide evidence to the Financial Inclusion Commission on November 25th. Financial inclusion is a vital component of a functional society and I welcomed the opportunity to discuss the important role of the insurance industry in this area. As we discussed at the evidence session, the ABI has undertaken work across a broad range of policy areas that should help to improve access to suitable insurance and savings products. One example I did not mention is our work with the Money Advice Service (MAS) to improve what they do to help consumers understand health and financial resilience risks, and how they can use protection insurance.

During the session you asked that I write to the Commission on two fronts: first, with thoughts on areas where the Commission could usefully make recommendations, and second, with specific information on the use of convictions in insurance underwriting.

Broad Views

Welfare reform: It is now widely recognised that economic and demographic pressures will necessitate significant reform of the welfare system in the coming years. Financial inclusion will be a key consideration in this reform. As I mentioned at the evidence session, our recent research with the Centre for Economic and Social Inclusion (CESI) suggests that 10.8m households (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. The ABI has recently produced a policy paper on the role of insurance in this area, which is attached. Our Head of Protection, Helen White, would value the opportunity to discuss this work with the Commission and can be contacted at [redacted]

Long term savings - auto-enrolment: Auto-enrolment is a huge project for the long term savings market, which should greatly improve the propensity of the UK workforce to save for retirement. From a financial inclusion perspective this is clearly good news. Having said this, the current minimum contribution levels are too low to provide suitable retirement income for many. In this context, the rises to 5% in 2017 and 8% in 2018 are positive, but there needs to be a considered debate about where we go from there, always bearing in mind a possible trade-off between higher opt-out rates but higher contributions and lower opt-out rates but lower contributions.

For micro-employers, there is a risk of a shortage of financial advice capacity as they come to establish their schemes for auto-enrolment, due to a large volume of organisations going through the process simultaneously. Moreover, micro-employers are much less likely to have their own HR teams which can focus heavily on the process. Early engagement by The Pensions Regulator (TPR) with smaller employers is essential, as well as a continued awareness campaign to ensure employers are aware of their duties. Auto-enrolment appears to have gone fairly smoothly for larger employers, but compliance will become more challenging as the employers staging get smaller. It is important not declare the policy a success too early, but instead to closely monitor compliance and opt-out rates as smaller employers stage, and make any policy adjustments which are necessary.

Long term savings - savings 'portal': Also worthy of consideration is the development of a simple online portal that pulls together an individual's state, public sector and private pension information in one place. This could allow people to see clearly how much income they could expect in retirement under different parameters, help to encourage saving, and signpost to sources of financial guidance and advice. Based on the successful Swedish 'Minpension' system, such a portal could bring the benefits of transparent, consolidated oversight of savings and pensions to the mass market. We were pleased to see the FCA advocate a similar idea in the “pension dashboard” in its Retirement Income Market Study yesterday.

Long term savings - self-employment: Following on from the sections above, it may be worth the Commission thinking broadly about financial inclusion for self-employed people, particularly in the context of long term saving. The structures enabling auto enrolment to be a success, for example the National Employment Saving Trust (NEST), are designed in the context of workplace pension schemes; self-employed people may not be explicitly excluded from such structures, but access may prove more challenging. IPSE, the Association of Independent Professionals and the Self Employed, may be worth speaking to in this context.

Our Head of Savings, Retirement and Long-term Care, Yvonne Braun [redacted] would be happy to discuss our views on long term savings further if that would be helpful.

<u>Convictions</u>

At the evidence session there was a discussion about the extent to which convictions are used by insurers to make pricing and underwriting decisions. It was suggested that people with convictions may actually pose a lower insurance risk than those without. I agreed to investigate further.

The ABI does not collect industry-wide data on convictions. However, I have spoken to a number of our member firms for views on the use of convictions as a rating factor. Broadly, these members agreed that those with convictions tend to pose a higher insurance risk than those without, all else being equal. Needless to say, this is a broad statistical reality, and not a reflection on particular individuals. The only meaningful exception highlighted was drivers with nine points on their licence, who may often be seen as lower risk because of the need to drive carefully to avoid being disqualified from driving. To be clear, this does not mean that all customers with convictions will automatically be charged a higher premium.

Insurers’ use of convictions as a rating factor varies across the market, and will increase where the conviction is directly related to the activity concerned. For example, motor insurance premiums will typically increase slightly for those with minor motoring convictions, and more serious convictions such as drink driving may be treated quite seriously by motor insurers. The treatment of convictions not directly related to the activity concerned varies much more across the market. Some insurers might load premiums or decline cover for those with convictions if their claims experience supports this, or if they feel there is a moral hazard; other insurers do not use unrelated convictions as a rating factor at all. Variety in approach to assessing risk is a broadly helpful aspect of a competitive market, and we would caution against making any market-wide judgments in this space.

I hope this information is valuable.

Yours sincerely

Matt Cullen
Assistant Director, Head of Strategy