

Swiss Re examines ways for the UK life insurers to embrace low-to-middle income earners

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London, 26 November 2002 – A new report by Swiss Re Life & Health Limited says that UK life insurers are failing to “address the needs of low to middle income earners.” As a result, many consumers are progressively losing touch with the industry.

According to the *Insurance Report - Whose risk is it anyway?*, some 6.8 million households with annual household incomes of between £9,500 and £24,999 are susceptible to ‘financial exclusion’. Consequently, many such consumers do not save enough and fail to obtain adequate life protection. Statistics show that consumers in these income groups are 50% more likely to insure the contents of their home than their life.

Whilst income is the main distinguishing factor, where people live, the state of their health and how well educated they are can also influence consumers’ relationships with the industry, including the likelihood that insurers will target them for marketing purposes.

Consumer research conducted by Swiss Re in compiling the report identified a number of key barriers to the purchase of insurance. Top of the list is the affordability of financial protection, where consumers struggle to balance its cost against other household priorities.

However, the real reason that consumers fail to engage with the industry is often a lack of financial ‘know-how’. Access to financial advice is another obstacle and many consumers do not know where to go to get help with purchasing suitable products. Potential customers are also confused by the range and complexity of products available to them. Confidence in dealing with the industry can be undermined through a perception that insurers are not interested in dealing with consumers in the lower income bands, leaving a feeling of being alienated.

Swiss Re’s findings demonstrate that there is “a long way to travel” before the industry can meet HM Treasury’s target whereby the usage of insurance by low income households should grow to similar levels to other social groups by 2005 *Access to financial services*, HM Treasury, November 1999..] In response, the report makes a series of recommendations as to how the industry can extend the reach of financial products to the financially excluded.

Worksite marketing

The recommendations include finding more cost-effective methods to market existing products and services to those on lower incomes. One highly popular solution with employees is so-called “worksite marketing”. Employees expressed strong enthusiasm for accessing insurance solutions if employers were to facilitate the process, leverage their purchasing power to promote lower costs and provide payment facilities through salary deduction.

All employee groups canvassed were receptive to the idea of worksite marketing as giving them an opportunity to purchase individual products and easy access to better financial advice. In many ways, this is seen to provide a modern-day version of home-services insurance, engendering a feeling of mutuality with fellow employees.

Worksite marketing also has advantages to the insurer in lowering its distribution costs. The report points to research showing that savings products can be sold successfully in the workplace in about a quarter of the time that it takes via an independent financial adviser. However, whatever the savings to both parties, the potential availability of impartial financial advice is seen to be the most attractive feature of worksite marketing for the employee.

The report adds that facilitation, premium reduction, salary deduction and cost contribution will be more difficult for smaller employers but arrangements may already be in place as a result of the introduction of ‘stakeholder’ pensions which can be used for other products.

Network marketing

Beyond the workplace, alternative potential outlets might include the Post Office, local authorities, trade unions, housing associations and other affinity groups. Peer groups exercise a strong influence on people’s

propensity to buy. Less formal means of network marketing may perhaps be a way forward.

Raising financial awareness

Consistent with a central theme contained in the Sandler Review of savings and investments in the UK, the report examines the role the industry can play in improving the level of financial awareness amongst consumers. Better financial education in schools, more effective advice networks and a more focused approach to sales are amongst its recommendations.

In the long term, it is in the interests of everyone to make consumers at all levels more financially aware: "The more people understand the risks that they run and how to protect themselves from the financial consequences of those risks, the more the solutions offered by the industry will be appreciated. However, without advice, consumers will not rush to buy products they do not understand, to meet needs they cannot quantify from people they do not trust," warns co-author Alan Tyler, Health and Welfare Strategy Manager at Swiss Re Life & Health Limited.

Notes for editors

How to obtain a copy

Media copies of *Insurance Report - Whose risk is it anyway?* are available from the contacts provided at the front of this release. The full report contains four chapters, covering a wide range of issues relating to the state of the life insurance industry in the UK:

- Chapter 1 - *The only constant is change* - looks in detail at the broad regulatory and structural changes currently affecting the industry
- Chapter 2 - *Blurring the boundaries* - considers the impact of EU legislation on the UK's life insurance markets and examines the competitive forces emanating from continental Europe
- Chapter 3 - *Who's excluding who?* - investigates the reasons for financial exclusion and explores ways of addressing the problem
- Chapter 4 - *Distribution at the crossroads* - weighs up the industry's options, risks and strategies for the distribution of financial services

Please note that the report is not available to the general public, and Swiss Re asks publications covering its launch not to indicate otherwise.

Swiss Re

Swiss Re is one of the world's leading reinsurers with over 70 offices in more than 30 countries. For 2001, Swiss Re reported a net loss of CHF 165 million, largely due to the 11 September event. Gross premiums in 2001 were CHF 28.5 billion. At the end of June 2002, Swiss Re's shareholders' equity amounted to CHF 18.3 billion and the total balance sheet stood at CHF 168 billion. Swiss Re is rated "AA+" by Standard & Poor's, "Aa1" by Moody's and "A++" by A.M. Best.

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