



## Swiss Re warns of £130 billion shortfall in Income Protection insurance amongst UK consumers

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**London, 11 March 2003 – New figures calculated by Swiss Re Life & Health Limited show that UK consumers are considerably under-insured against the consequences of long-term ill health. The total annual shortfall in Income Protection cover amounts to some £130 billion, according to Alan Tyler, Health & Welfare Strategy Manager. Mr Tyler will announce details of the ‘Income Protection Gap’ at a health insurance industry conference in London today.**

The £130 billion, regarded by Mr Tyler as a conservative estimate, represents the difference between the level of Income Protection (IP) cover held by UK consumers and the amount of insurance that should be in force throughout the working population<sup>1</sup>. In percentage terms, this means that only 20% of the total working population’s need is covered by IP insurance. In addition, an estimated 25% of the long-term need is covered through schemes run by employers themselves<sup>2</sup>.

Swiss Re’s estimate is calculated as follows:

- People should insure 60% of the first £50,000 of their income
- Consumers earning more should insure 25% of any income between £50,000 and £200,000
- Approximately £4,000 per annum is then deducted from the above results because people will receive State Incapacity Benefit

The calculation builds upon existing research published by Swiss Re Life & Health Limited at the end of 2002. *The Insurance Report - Whose risk is it anyway?* showed a massive under-provision of basic life protection assurance and recommended

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<sup>1</sup> Including those who treat running a household as a full-time occupation, whose average need is assumed to be £150 per week.

<sup>2</sup> i.e. Only 45% of people’s needs are covered.

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that the amount of life insurance cover held by UK consumers must double in order to provide ample financial support for family and dependants.

The Income Protection Gap is particularly acute at a time when many employers are withdrawing final-salary pension schemes, the traditional financial backstop for employees retiring early due to ill health. Failure to address the Gap could result in many people having to fall back on state benefits, which will be inadequate for most middle-income earners - those on salaries of between £20,000 and £35,000 - to maintain a reasonable standard of living.

Mr Tyler will tell conference delegates: "Our findings present a stark picture. Consumers are woefully under-protected against being put out of work early due to ill-health. It is in the best interests of government and the life and health industry that people are made more aware of the need to provide for themselves and the consequences of not doing so.

"The Financial Services Authority (FSA) has a remit to raise consumer awareness of financial products and the need for self-provision. This embraces the need for the FSA to encourage consumers to consider the consequences of long-term incapacity.

"The FSA becomes responsible for the regulation of income protection products in two years' time. It is currently devising its framework of rules in consultation with the industry. In doing so, it must balance consumer protection against an overly-prescriptive approach which might restrict how and where people can get financial advice to address their protection needs."

#### **Notes to editors**

##### **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 1 65 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

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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.

### **Income Protection insurance**

Income Protection (IP) cover can be bought by individuals from an authorised insurer. Similar cover may also be available from an employer who guarantees to provide an agreed percentage of income during long-term incapacity. Employers will typically insure this liability using a group arrangement that covers all eligible employees.

Protection can also be arranged to cover an ongoing expenditure commitment, for example, in conjunction with a loan or mortgage or to meet regular contributions to a pension or savings plan.

IP can also provide cover to 'housepersons', aimed at meeting the costs of maintaining a home in the event of incapacity.

### **UK Government Incapacity Benefit**

The long-term basic rate of Incapacity Benefit is currently £70.95 per week.

### **Speaker details**

Alan Tyler OBE is speaking at the 15<sup>th</sup> Annual Health Insurance Conference - held by IBC at The Dorchester, Park Lane, London W1 - on the subject of 'The Protection Gap - Who Wants To Fill It?'. Please contact +44 (0)1932 893852 for further details.

Mr Tyler was chosen as 'Health Insurance Personality of the Year' for 2002 by *Health Insurance* magazine. He is a member of the Income Protection and Long Term Care Committees at the Association of British Insurers and belongs to the Genetics and Insurance Committee reporting to ministers at the Department of Health, HM Treasury and the Department of Trade and Industry. He is also a member of the Consumers' Association Panel of Research Experts for Critical Illness and Income Protection insurance.

For a photograph, please use contact details at the front of this press release.