UK consumers need twice as much life insurance protection: Swiss Re warns of more than £2 trillion shortfall in cover

14 Nov 2002 CET

London, 14 November 2002 – The amount of life insurance protection held by UK consumers needs to double, warns a report published today by Swiss Re Life & Health Limited. Cover worth at least an extra £2 trillion is needed to plug a 'Life Protection Gap' which, according to the report, leaves "most of the population woefully under-insured".

Swiss Re's estimate compares individuals' needs for life cover against policies, savings and assets actually held in the UK. The figure, according to the *Insurance Report - Whose risk is it anyway?*, reflects the genuine requirements of individuals and families who are either failing to provide or under-providing against the most basic risks.
The £2 trillion gap - viewed by the report's authors as conservative - acknowledges that life cover is not essential for the entire population. Everybody's individual circumstances are very different and people need life assurance cover for many reasons. Examples include payment of an outstanding mortgage or other debt; income to provide for a partner or the cost of looking after children until they grow up; and the costs of a child's wedding or further education in the event of the parents' early death.

- For example, a couple aged 30 with two young children, one parent earning £25,000 a year and the other not in employment, could need cover worth £330,000 More than 13 times annual income, contrasting sharply for example with the average new term assurance policy taken out in 2001 where the sum assured (£82,835) was less than four times average earnings (Source: *TermWatch* , Swiss Re Life & Health Limited, May 2002). If both were non-smokers, the approximate cost of providing life assurance cover up to the age of 50 could be around £6 per week for the household.
- A 40-year-old working single mother earning £10,000 a year, with two dependant children, could need £120,000 worth of cover. If this was provided up to age 55, the cost for a smoker could be approximately £6 per week.
- A couple aged 55, both earning and with a joint income of £40,000, but no dependants, could need life cover totalling £160,000. The cost of this cover for both lives up to age 65 could be around £18 per week for the household.

Swiss Re stresses that these figures - based on potential requirements for term assurance cover - are designed purely as a guide. The actual cost of life assurance will vary according to market conditions and consumers' individual circumstances.

Commenting on the Life Protection Gap, co-author Ron Wheatcroft, Technical Manager at Swiss Re Life & Health Limited, points to research commissioned by the Association of British Insurers, which in 2001 identified a national 'savings gap' of more than £27 billion: "The savings gap is clearly significant but, for vast numbers of consumers, the Life Protection Gap needs to be addressed just as urgently," he urges.

The 'financially excluded' must have access to products and advice

Whilst consumers who fall into the Life Protection Gap span all income brackets, the report makes a series of recommendations as to how the Life Protection Gap could be filled in part by extending the reach of financial products to the so-called "financially excluded".

This group comprises an array of consumers who, for one reason or another, do not engage with the insurance industry effectively enough to save or to obtain adequate life protection. The *Insurance Report* treats some 6.8 million households whose annual income falls between £9,500 and £24,999 as susceptible to financial exclusion. 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.

Swiss Re's consumer research 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. Access to financial advice is another major obstacle, with consumers demonstrating a lack of knowledge about where to go to get help with purchasing suitable products. Potential customers are also confused by the range of products available to them. Confidence in dealing with the industry is undermined through a perception that insurers are not interested in dealing with consumers in the lower income bands, leaving a feeling of being alienated.

The *Insurance Report* research concludes that re-engagement with consumers is an immense challenge for an industry that has lost public confidence and calls upon the life insurance industry to find a basis on which it can gain and retain the trust of its market.

"The plain fact of the matter is that, if the financial services industry does not succeed in radically improving this situation, it has immense consequences for the future economic development of this country," says Ron Wheatcroft.

However, in considering how financial services will be distributed in the future, the report notes the strong influence of regulatory developments. The Financial Services Authority (FSA) is examining almost every aspect of insurance regulation - including the reform of 'polarisation' and introducing, from October 2004, a regulatory framework to cover, for the first time, the sale of life and general insurance protection products.

Ron Wheatcroft is concerned that the regulatory framework for protection products which emerges from the combination of these initiatives should effectively balance the needs of consumers with an approach that does not result in disproportionate costs for distributors: "If the regulatory regime for protection is excessive, many existing distributors may simply walk away from the market, making it harder for consumers to access advice and products. Ironically, this could create a new form of financial exclusion at the very time that the government and regulators are quite rightly seeking new ways to reduce the savings gap," he suggests.

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.

Calculating the Life Protection Gap - additional information

The factors used in estimating the Life Protection Gap were tested with and verified by members of a panel of independent financial advisers (established by Swiss Re) as the minimum levels of cover that should typically be discussed in a client interview. The multiples used have also been tested against some 'typical' consumer scenarios available on financial websites. Furthermore, as interest rates have fallen, the multiple needed to achieve a given level of income has increased. For instance, Limra International has calculated that people may need up to 15 times income.

Research methodology

The qualitative and quantitative research for the *Insurance Report* - *Whose risk is it anyway?* was conducted in three phases:

- Quantitative phase: 750 telephone interviews with a nationally- representative spread of consumers (age, gender, socio-economic status, working status, ethnicity and region)
- Qualitative consumer phase: a mixed methodology involving (a) six 'creative' groups with consumers, split by social grade and family status, looking at emotional responses to the industry and (b) two 'standard' groups with consumers defined as "financially excluded"

- Qualitative industry commentator interviews: in-depth talks with key figures in the industry exploring views and opinions on the potential impact of current changes on the financial services landscape

The research was commissioned from the specialist Corporate & Financial Unit of The Research Business International (TRBI) - one of the largest full service market research consultancies in the UK. The report also draws on third party research and additional interviews with external influencers.

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.

Swiss Re Life & Health Limited is part of the Swiss Re Group. Swiss Re is the world's largest life and health reinsurer. Swiss Re's Life & Health Business Group delivers specific risk management solutions to its clients - life and health insurers world wide - across a wide spectrum of products.

Press Release

For information please contact SRUK Corporate Communications Team on 020 7204 3937

Top of page