

## Swiss Re Life & Health report shows UK term assurance sales up by more than 14% but raises concerns about shortfall in protection

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**UK sales of term assurance policies in 2001 grew by 14.1% over sales in 2000, according to a survey published today by Swiss Re Life & Health Limited, the UK division of the world's largest life and health reinsurer.**

*TermWatch* - a comprehensive survey of the industry - shows that new term sales last year totalled 1,571,062 policies. This figure represents 64.8% of all UK regular premium life policies sold in 2001 - compared with 1995, when term sales made up just 23.8% of the market. Out of this total, 2001 saw a significant increase in the number of policies sold by independent financial advisers (IFAs), whose new term sales increased from 558,780 to 653,498, up 16.9% since 2000.

Increased concentration means that the top five providers account for 59.1% of new sales in 2001 (versus 54.7% in 2000). Norwich Union is the largest term writer, issuing 313,449 new policies last year.

### **Average premium buys more cover in 2001**

New average sums assured increased from GBP 74,052 to GBP 82,835, while the average annual premium paid by policyholders in 2001 fell, in the IFA sector, from GBP 360 to GBP 358. The average sum assured via IFAs was higher, at GBP 96,899, compared with GBP 71,193 in the tied and direct sales sector. Increased competition between providers means that the average annual premium was capable of purchasing GBP 7,000 more cover in 2001 than in 2000.

### **Report identifies 'protection gap'**

Despite this encouraging result, *TermWatch* points to a number of factors that demonstrate a shortfall in the amount of term cover purchased by UK consumers.

- Whilst 53% of new term sales in 2001 are mortgage related, *TermWatch* points to evidence suggesting that too few borrowers arrange life cover to protect their mortgage obligations. Figures released by the Council of Mortgage Lenders (CML) indicate that 2,078,000 house purchase loans (including loans for re-mortgages) were made in 2001. The difference between this figure and the number of mortgage-related term policies sold last year is an indicator of a massive 'protection gap' amongst UK consumers.
- *TermWatch* also draws upon research commissioned by the Association of British Insurers (ABI), which illustrates a UK 'savings gap' of some GBP 27 billion and suggests that up to 11 million households are excluded from access to advice on financial services.
- Evidence of the 'protection gap' is apparent from Swiss Re Life & Health's own recent research. Swiss Re's *Insurance Report 2001* showed a lack of confidence on the part of individuals in making their own arrangements for life and health assurance and confirmed consumers' need for face-to-face advice when identifying and fulfilling their protection needs.
- The report also makes reference to *Consultation Paper 121 - Reforming Polarisation: Making the market work for consumers* (CP121), issued by the Financial Services Authority (FSA). The FSA's paper discusses the importance of making advice available to a wider cross section of the market and the need for product providers to re-engage with potential customers whom it has become uneconomic to deal with. The debate prompted by CP121, according to *TermWatch*, must promote solutions to the 'protection gap' that are suited to low to medium earners as well as those who are currently well served by the different distribution channels.

### **Regulatory reform will shape future market direction but regulation must be proportionate**

The report comments on the developing regulatory regime under which term assurance providers operate in the UK. Despite market uncertainties over the outcome of the [CP121] polarisation reform and the Sandler Review of long-term savings products commissioned by HM Treasury, *TermWatch* maintains that there remains a strong need for basic protection and that the growth in new sales is, therefore, encouraging. *TermWatch* also highlights how the market might expect consolidation as firms respond to the reform of polarisation and to the regulation of pure life protection from 2004.

Ron Wheatcroft, Technical Manager at Swiss Re Life & Health welcomed the *TermWatch* findings: "The growth of the term market in 2001 is highly encouraging. The existence of the 'protection gap' highlights the need for consumers to be more aware of how much life cover they realistically require to meet their needs. This provides substantial opportunities for product providers to offer cost-effective solutions to their clients.

"Regulation must also play its part. The extension of the FSA's scope to cover life protection from 2004 must be proportionate to the likelihood of any harm to consumers. An over-costly and onerous regime would threaten to further reduce access to advice for precisely those existing and potential customers it is designed to protect," he warned.

Swiss Re Life & Health Limited is the UK operating company of Swiss Re Life & Health, the world's largest life and health reinsurer. Swiss Re Life & Health is a specialist global division of Swiss Re. The division delivers specific risk management solutions to its clients - life and health insurers world wide - across a wide spectrum of products. Headquartered in London, the division operates through a network of 37 offices in over 30 countries, serving clients in virtually every country in the world.

Swiss Re is one of the world's leading reinsurers with over 70 offices in more than 30 countries. Gross premiums in 2001 amounted to CHF 28.5 billion. Swiss Re has a strong track record of earnings growth only interrupted in 2001 with a net loss of CHF 165 million, largely due to the 11 September event. At the end of 2001, Swiss Re's shareholders' equity amounted to CHF 22.6 billion and the total balance sheet stood at CHF 170 billion. Swiss Re is rated "AAA" by Standard & Poor's, "Aaa" by Moody's and "A++" by A.M. Best.

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