Swiss Re report: less than 5% of UK consumers will pay financial advice fee

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London, 5 December 2002 – Less than 5% of UK consumers would be willing to pay a fee of £50 or more in return for advice on life and health insurance, according to a report by Swiss Re Life & Health Limited. However, despite their aversion to paying for it directly, consumers have a strong propensity to seek advice when purchasing insurance cover.

Consumer research conducted by Swiss Re in compiling its recent Insurance Report - Whose risk is it anyway? reveals, for example, that 62% of those surveyed are 'fairly' or 'very likely' to seek advice when taking out life assurance in connection with a mortgage. Of these 62%, only 8% (i.e. just under 5% of the total taking part in the survey) would be willing to pay more than £50 for the advice they obtained.

The popularity of advice and people's readiness to pay for it varies according to the type of product required. Personal circumstances and age also impact on people's confidence in purchasing without advice. For example, in making a decision about a pension the proportion of those 'fairly' or 'very likely' to seek advice rises to 76%, but still only four out of 10 of these consumers are prepared to pay a fee and three quarters of these would expect to pay less than £50.

Half of the UK population prefers face-to-face advice

By far the most popular route to advice is face-to-face. Across the full range of ages and socio-economic groups canvassed during the study, 49% of those who want advice would prefer to meet with an adviser in person. Advice via the internet scored a low popularity rating at 5%, whilst 9% would take advice from friends or family. The size of the 'don't know' category, at 27%, is indicative of the confusion consumers face in working out what cover they need and how to arrange it.

The number of people preferring face-to-face consultation was highest amongst those with the greatest need for advice, in particular those in the lower income brackets. However, for advisers, these are the least cost-effective people to do business with, suggesting that it will be difficult to migrate all but the top-earning customers to fee-based advice after the reform of the polarisation regime (see press release attachment for further information).

Co-author Paul Hately, Strategic Development Actuary at Swiss Re Life & Health Limited, suggests in the report that a move towards fee-based independent financial advice could effectively disenfranchise a large part of the population: "The harsh reality is that very few advisers could currently contemplate selling regulated products for a fee of around £50. This is a disturbing picture which, taken at its most alarming, suggests that many of the popular, contemporary theories about how to access the consumer more effectively and provide appropriate protection and savings are potentially flawed," he warns.

In response to these concerns, the report's authors welcome the recent decision by the Financial Services Authority (FSA) to modify its original plans for polarisation reform. Under the FSA's new proposals, a so-called 'menu' - provided in the early stages of a sales process - would outline the services an independent financial adviser is offering and allow the consumer to choose how to remunerate the adviser, either through a fee or by commission.

"The intention is that the menu-based approach will bring greater transparency to the cost of advice. As a consequence, consumers will have a much greater involvement in assessing the value of the service provided and will be encouraged to negotiate appropriate remuneration more actively, whether through fees or commissions. However, which ever way the advice is provided, advisers must still be adequately compensated," adds Mr. Hately.

Solving the advice conundrum

Clearly, for consumers to make adequate financial provision, they need to be encouraged to do so by advisers, with the cost of this advice met either by customers themselves or indirectly via product charges.

Many consumers, according to Swiss Re's research, would feel more comfortable if the provision of advice could be separated from the sales process entirely. This, the report says, would enable people to learn more about the options available to them in an unpressurised environment before making a purchase.

Acknowledging that many people would be unable or unwilling to pay for such advice from a financial adviser, Swiss Re asked consumers whether they would welcome some form of high street advice network which would not engage in any type of selling but provide information about what products are available, how to access them and what questions to ask the salesman.

The idea received strong support, especially for centres sponsored by the Financial Services Authority (FSA) or the government, which could combine independence, financial expertise and a responsibility to the consumer. These findings are consistent with the government's Sandler Review, which discussed the separation of charges for advice and sale. It also recommended that the FSA should take a more pro-active role in consumer education and be given more funding for this purpose.

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.

Press release

Top of page