



# RESPONSE TO CONSULTATION ON THE PUBLIC FINANCIAL GUIDANCE REVIEW FROM THE BUILDING RESILIENT HOUSEHOLDS PROJECT

## Introduction

At the end of October 2016 we launched our report “Building Resilient Households”. Our report was commissioned by the Chartered Institute of Insurance under the auspices of the Income Protection Task Force. The purpose of the project was to examine how resilient UK households are to the financial effects of sickness absence, and how that might change in the future. Our work found low levels of resilience and little prospect of this situation improving without concerted action by a range of parties and agencies. The full report can be found at [http://www.cii.co.uk/media/7292361/cii\\_building\\_resilient\\_households\\_report\\_28oct\\_2016.pdf](http://www.cii.co.uk/media/7292361/cii_building_resilient_households_report_28oct_2016.pdf) - the key findings and recommendations are at page 3 of the report.

The report drew on interviews with a wide range of parties. Since then we have held three further workshops, and more bilateral meetings, to further explore how resilience can be improved and the role insurance can play in this area. The sponsors of our work are listed at Annex A along with a list of some 30 organisations who have contributed to our work through participation in interviews and workshops and the provision of data, information and views.

This response has been informed by these rich sources of input. It focuses particularly on the role that the new Single Financial Guidance Body can play in building families’ resilience to income shocks. While we believe many of the views expressed in it are widely shared, they should be seen as those of the authors – further details of whom are also at Annex A.

## Key points made in this response

- Far too few UK households are resilient to income shocks through accident, sickness and disability and other changes in life. Improving resilience must be a key priority for the new SFGB and it should be given prominent and formal status by making it a statutory objective.
- We welcome the proposal at para 2.10 for the SFGB to focus its financial capability interventions on groups that are most in need of support to build resilience. In the case of resilience to income shocks this includes those who are just about managing now plus others who are managing now but would not be able to do so when an income shock hits them.
- Pro-active and concerted action is needed to achieve a step-change in resilience. Government and the SFGB have two essential roles in this area. First, to provide national leadership to bring together the many agencies, businesses



and third sector organisations that can play a role. Second, to use their independence and authority to communicate the need for people to plan for income shocks, to signpost them to services and provide information and tools to help the public understand the risk and how to plan for it. This should be complemented by providing/signposting guidance when a life shock occurs or when there are early indicators, such as missed mortgage payments.

## Key Facts

The facts about financial resilience to sickness absence are stark:

- 1.8 million employees each year have a long-term sickness absence.
- The majority of households rely on one wage-earner's income (almost 2/3rds of households in the case of the self-employed)
- 40% of working-age people (almost 17 million people) have savings of under £100
- Only 1 mortgage-holder in 20 has mortgage payment protection insurance (though more have Life and Critical Illness insurance.)
- Only 1 worker in 10 is covered by Income Protection (IP) insurance (including Group IP)
- Statutory sick pay, at £88 a week falls short of the average take-home pay by £325 a week. State benefits cannot bridge this gap for many families.

As we set out in our October 2016 report:

- Alarming few families have the financial resilience to cope with prolonged sickness or other income shocks – an eventuality which most households are likely to face several times in a working life.
- There is little prospect that resilience will improve without concerted and determined action involving a range of parties including Government, Employers and Financial Services.
- This lack of resilience can lead to serious financial hardship and to further health problems, leading in turn to further sickness absence, debt, employment problems and growing demand on health services.

## Role 1 – National Leadership - A cross-sector Task-Force

Against this background we believe it is essential that a Task Force be established to ensure all opportunities are seized to alert people to the need to plan for contingencies such as sickness absence. Parties involved would include Government, Money Advice Service and the new SFGB, employers, distributors, the FCA, third sector organisations and insurers. The organisations and people whose expertise we have



drawn on during our work could well provide a supportive core of the Task Force and we would be happy to discuss how we might contribute to the work.

The Government's key role is to provide national leadership on this subject. It can do so by:

- Giving clear messages about the importance of people taking steps to protect their livelihood. The messages over the last decade about the importance of saving for retirement have been very effective in changing the climate. They should continue, but it is now time to get the message out about resilience during working life.
- Bringing together the key parties and encouraging them to work together to boost resilience. Once the Task Force is established, its members can take forward much of the work.

MAS – and then the SFGB – should play a key role by working with others to test and evaluate different ways of improving resilience and helping to spread best practice. Some ideas that could be trialled are at Annex B

## **Role 2 - a statutory objective for the Single Financial Guidance Body to increase household financial resilience to the financial effects of income shocks.**

The new SFGB should have a set of clear statutory objectives. Prominent amongst these should be the objective of maximizing the resilience of households to the financial effects of accident, sickness & disability and other income shocks.

We are encouraged that ideas in the Consultation Paper appear to be consistent with what we say about resilience in general but we believe that a clear statutory objective is very important and that this should specify increasing financial resilience to the financial effects of income shocks such as those arising from health problems. As the experience of MAS (and previous financial capability initiatives) has shown, the SFGB is likely to be subject to many pressures and ideas about priorities and initiatives. These will come from many sources including financial services firms and sectors, third sector organisations, Government, Parliament and media. Having clear statutory objectives (and performance indicators to match) will help the SFGB focus ruthlessly on its core task – of which one central element is to improve the financial resilience of UK households.

Improving resilience should be as much about households protecting against financial crisis through insurance and saving as it is about teaching them how to manage better once in the grips of such a crisis. The statutory objective we propose will ensure that help to people with managing crisis situations does not crowd out the 'preventive' work needed to help people plan for the future and build more resilience.



### **Role 3 – communicating the need for people to plan for income shocks**

MAS and its successor should play a vital role as an independent and authoritative source of information about the financial risks of accident, sickness & disability and the importance of planning for them. It should provide tools to help people understand risk and what they can do about it and should signpost people to where they can go to find products or further guidance. It should work with, rather than seek to duplicate, the sources of advice which already exist.

#### **Specific comments on questions in the Consultation Paper**

We add further comments below in response to those consultation questions which are particularly relevant to the issue of financial resilience.

*Q2. Do you agree that these areas capture what the broad role of the SFGB should cover?*

*Q3. Do you agree that the FGB's financial capability initiatives should focus on priority groups such as those who are most in need of support to build resilience?*

We welcome the focus of financial capability interventions on groups who are most in need of support to build resilience. We agree this includes those who are just about managing. However the very low take up of sickness and mortgage insurance, combined with low levels of precautionary savings across the majority of the population means that many people who are managing now would not do so in the event of an income shock. So when it comes to building resilience against income shocks, the target group is the broad swathe of ordinary working people in the modest-to-moderate income brackets. As a very rough proxy, we suggest the focus should be on those in and around the basic rate income tax bracket.

Within this broad group, we think the self-employed deserve a particular focus. They now account for almost one in six of the workforce, have poorer protection from statutory benefits, and are more likely to live in single-earner households.

People working for SME's also warrant special attention. They now account for 60% of the private sector workforce and may be able to access less support through the workplace than those working for large organisations (including the public sector.)

Building resilience should focus on maximising the number of people who are prepared for unwelcome contingencies (e.g. through insurance and/or precautionary savings.) It should also provide for early intervention when people start to get into difficulties.



*Q4. Do you agree that the SFGB should have a strategic role, working with the financial services and pensions industry and third sector organisations to improve financial capability?*

*Q5 How might the SFGB develop its understanding of what works and usefully contribute to sector wide research*

We support the 'What Works' programme which invites applications for funding from providers that wish to pilot and evaluate innovative solutions to financial capability problems, evaluate existing projects, or evaluate and scale-up existing programmes. We agree with the overall aim to build a body of evidence of best practice and to roll out successful interventions on scale.

However, it is important that these initiatives are driven by the strategic objectives – in particular the objective of maximising resilience to income shocks. If providers come up with proposals for promising pilots in this area they should be supported. We don't think there should be a shortage of such proposals (see our examples at Annex B). But the SFGB should also have a pro-active role in setting out where new initiatives/pilots are needed and actively engaging businesses and agencies to participate.

It is also important that the SFGB draws on existing knowledge and understanding by encouraging inward secondments from financial service and third sector organisations. These would help the body grow its knowledge, improve its wider understanding of the industry as well as being good development for people in the industry. Our work has highlighted the invaluable insights that can be brought by individuals who work with sick and disabled people, and those who are involved day-to-day in trying to help people make financial provision for future contingencies.

*Q7. Are there other delivery channels that the SFGB should consider that would be effective for delivering to consumers?*

*Q8. How should the SFGB ensure that it engages consumers at the right time for them?*

We agree that the SFGB website should provide information on money, pensions and debt and direct consumers to high-quality content where it is available elsewhere in order to minimise duplication. We agree the SFGB must innovate, ensuring that it meets the needs of consumers efficiently and effectively through best use of new digital routes.

We think it is particularly important that the SFGB works closely with organisations through which people can be reached and encouraged to plan for resilience. These include employers (with SME's deserving special attention), housing providers, mortgage lenders, charities. Understanding which digital routes- and messages - are most effective in reaching the target groups is also essential.

Human interaction with a trusted voice remains very important in encouraging people to take steps to increase their financial reliance (since this usually involves the psychologically hard decision to defer gratification.) Ensuring there are person-to-person channels available (phone, video-calling and face to face) is therefore important.



*Q9. Do you agree that the SFGB should be able to exercise some flexibility in the way funding is directed?*

We agree that some flexibility is needed but this must be within a clear framework which defines the focus of the organisation and its key performance indicators. To ensure there is clarity of purpose, we believe the SFGB should have statutory objectives. A key statutory objective should be to maximise the resilience of households to the financial effects of income shocks arising from accident, sickness & disability and other causes.

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## ANNEX A: ACKNOWLEDGEMENTS

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Aviva, British Friendly, the Chartered Insurance Institute, the Exeter, LV=, Scottish Widows, Swiss Re.

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Aviva, LV=, SCOR, Scottish Widows, Swiss Re.

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Throughout our work we have been grateful for the information, views and ideas contributed by the large number of people from the sponsors and organisations listed below, who helped us with our research. This sort of project works best when people give their personal views, informed by their knowledge of the context. The opinions expressed should not therefore be regarded as the positions of any of the organisations listed. Our thanks go to our sponsors and to:

Association of British Insurers

Citizens Advice

Council of Mortgage Lenders

Countrywide Group

Fawcett Society

Federation of Small Businesses

Financial Capability Board

Financial Conduct Authority

Financial Inclusion Centre

HM Government

Income Protection Task Force

Intrinsic

Joseph Rowntree Foundation

Lansons



Le Beau Visage

Legacare

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Master Adviser IFA Ltd

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Money Advice Service

New Policy Institute

NHS England

Openwork

Red Arc

Resolution Foundation

Scope

Stepchange

## About the authors

Richard Walsh and Alan Woods are Fellows at SAMI Consulting ([www.samiconsulting.co.uk](http://www.samiconsulting.co.uk)). SAMI Consulting provides consultancy, research and training in scenario planning - and other futures and foresight techniques - to help organisations develop strategy and policy with an eye on the future.

Richard spent 6 years as Head of Health at the Association of British Insurers (ABI). Before that, he was a senior civil servant responsible for strategic planning at the Department of Health. He has a special interest in the health and protection sector and has worked on a number of projects for public and private sector clients.

Alongside his consultancy work, Alan works as a non-executive director and as a coach. He has extensive experience of government and insurance, having been a policy director at DWP for 10 years and Director for Life and Pensions at the ABI for 4 years.



## ANNEX B: EXAMPLES OF IDEAS THAT COULD BE TRIALLED

- Employers providing periodic statements to employees of what sick pay they would get in the event of a prolonged absence. Existing research suggests that many employees have misconceptions in this area. Basic information about what State Benefits would provide could also be trialed.
- Providing, perhaps through digital tools, easy-read information about the risk of sick absence, the potential income gap it creates, and the cost of insurance to cover the gap.
- Building on pensions auto-enrolment communications to alert people to the risks from sickness and opportunities to protect themselves
- Focused information at key life-events such as starting work, setting up a business, buying a home (just like a pension, Income Protection is cheaper the sooner you start.)
- Using key contact points for the self-employed to help them consider how to be financially resilient (research shows that income insecurity due to sickness is a top worry for them, but translating this into action is much less frequent.)