

Consultation response

FCA General insurance pricing practices market study: **Terms of Reference (MS18/1)**

Response from the Money Advice Service

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1. About us

1.1 The Money Advice Service (MAS) is a UK-wide, independent organisation set up by government to improve people's ability to manage their financial affairs. Our free and impartial money advice is available online and by phone or webchat.

1.2 The Financial Guidance and Claims Act 2018 establishing a new Single Financial Guidance Body (SFGB) received royal assent on 10th May 2018. One of the Objectives of the new Body is to 'ensure that information, guidance and advice is available to those most in need of it (and to allocate its resources accordingly), bearing in mind in particular the needs of people in vulnerable circumstances.' The SFGB will be operating from early 2019.

Access to insurance

1.3 We welcome the FCA investigation into General Insurance Pricing Practices. As the statutory body for financial capability, MAS has led work with financial services firms, the third sector, government and regulators to develop the Financial Capability Strategy for the UK. This 10-year strategy aims to give people the ability, motivation and opportunity to make the most of their money. Being able to access appropriate insurance is key, as it allows families to protect their interests and recover following an accident or emergency.

1.4 There are several issues regarding access to household insurance we believe will need to be considered in the long run, including:

- **Complexity of the market:** insurance products by their nature are often complex, difficult to understand and confusing for consumers.
- **Cost:** some consumers may simply be priced out of the products they require.
- **Financial capability:** how do different groups of consumers engage with planning for negative life events and protect themselves and their households?
- **Engagement:** many consumers do not place the requisite importance on properly understanding and accessing the necessary insurance products.

1.5 This market study can help us understand better what extent issues with access to insurance are due to market-based problems, in particular price, or are down to attitudinal barriers, that people do not see sufficient value in formal protection products.

2. Response

Q2: Do you have any views about the fairness of outcomes from pricing practices for home and/or motor insurance? Please provide evidence to support your views.

Lack of individuals with insurance

2.1 Data from our Financial Capability Survey 2018 shows a significant proportion of the UK population is without home, buildings or contents insurance.

- 48% of working-age adults have no home buildings insurance¹.
- 31% of working-age adults have no home contents insurance.
- 24% of working-age adults have neither home buildings insurance or home contents insurance.

2.2 This situation is due to demand and supply-side factors. Financial capability includes consumers' individuals' **ability** (their skills and knowledge) and their **mindset** (often deep-rooted attitudes and motivations). It is also dependent on their **connection to the wider system** (their access to the range of products, services, guidance and advice). Therefore, analysis of the insurance market should seek to address both these areas.

2.3 Pricing, a lack of triggers to compare or prompts to switch may have contributed to problems in the insurance sector. The regulator should consider potential approaches to all of these. Research suggests that for many consumers home insurance is seen as unaffordable². A Salford University study found many low-income households believe that they do not have enough assets to warrant taking out a home contents insurance policy³. Insurance is also a key item in the "poverty premium", where low-income consumers pay more for basic products. A University of Bristol report found 32% of low-income consumers with insurance pay a premium⁴. The obvious linked problem is that these individuals will additionally be paying extra on other items.

2.4 However, there is evidence to suggest that for some consumers the issue goes beyond product availability. A Toynbee Hall study demonstrates that even when consumers have

¹ 18-64

² The report can be found here: <http://www.friendsprovidentfoundation.org/wp-content/uploads/2015/10/University-of-Birmingham-Financial-inclusion-report-2015-final.pdf>

³ A link to the report can be found here: http://usir.salford.ac.uk/19120/1/Insurance_Delivery_Models_Research_Project_-_Final_Report.pdf

⁴ <https://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1615-poverty-premium-report.pdf>

appropriate access to insurance products – in this case provided free of charge with no obligations – take up will be less than expected⁵.

2.5 Therefore, any investigation should also cover factors that prevent consumers from engaging with financial products and markets. Persistently low financial capability means we should not overestimate consumers' ability to choose the right products for them. It may be also some consumers do not see the value of insurance. Research indicates this may be the case for low-income consumers in particular⁶. Diagnosing, targeting and addressing attitudinal factors should be part of any response to tackling access to insurance products.

2.6 A key challenge is addressing confidence. Our data shows 42% of UK adults do not describe themselves as being confident managing their money (giving themselves a score of seven or less out of ten). If consumers lack financial confidence to investigate insurance providers, this will reduce motivation to engage. This helps explain a situation where over a quarter (27%) of the working-age population either do not shop around for home or motor insurance at all, or only do so very infrequently.

2.7 Another challenge is accessibility of information. People with lower levels of skills and knowledge are less likely to have done anything to check if they were getting the best deal in the last 12 months. Therefore, to maximise the impact of remedies and interventions we need a focus on providing more meaningful opportunities to review options, meaningfully compare and act.

Vulnerability

2.8 Some groups of consumers are less likely to have insurance products⁷. Therefore, in insurance, as with other financial products, there is a need to actively identify and engage and support those facing vulnerable circumstances.

Table 1: Data from the Financial Capability Survey 2018

⁵ A link to the study is provided here: <https://www.fincap.org.uk/document/WCXngCYAAKRDwbwb/saving-money-insuring-the-future>

⁶ link to the report can be found here: <http://www.fincap.org.uk/document/WCT6jiYAAANctvCpC/mind-the-gap-consumer-research-exploring-experiences-of-financial-exclusion-across-the-uk>

⁷ Figures from 2018 FinCap survey – 18-64 age range

	Unemployed	Private rented	Social rented	Mental health problem in last 3 years	Single parent	Income less than £11,499	Disability
No home buildings insurance	76%			61%	58%	75%	58%
No home contents insurance	68%	57%	55%	44%	44%	51%	40%
Neither	53%	43%	45%	32%	31%	43%	32%

2.9 This table (from our 2018 FinCap survey) includes some working-age groups more likely to be vulnerable. However, we know vulnerability can affect any individual at any point. Providers and regulators cannot depend on consumers self-identifying themselves as experiencing vulnerable circumstances. Our research shows people don't necessarily actively look for, or find, the help they need. Consumers we surveyed sought help and found what they were looking for following just a quarter of all recent life events. For those who sought help, two in five did not find what they were looking for.⁸

2.10 The FCA has identified financial capability as one of four categories of vulnerability. MAS believes a lack of financial capability should be considered and addressed as a strand of vulnerability itself and as a factor that contributes to other forms of vulnerability. Those with low financial capability are vulnerable because it limits the ability of individuals and families to manage their money, plan and make financial decisions that are right for them. Low capability can contribute to other forms of vulnerability because it leaves families in a precarious position, reducing cognitive bandwidth to engage in complex decisions and potentially reducing confidence to make financial, or other, decisions.

⁸ MAS, (2017) *Right Place, Right Time*, https://masassets.blob.core.windows.net/cms/files/000/000/847/original/Right_Place__Right_Time_%281%29_%28November_2017%29.pdf