Evidence to support:

Financial Resilience APPG
The Impact of Income Shocks on Financial Resilience

Evidence from:
Building Resilient Households Group
and
Aviva

January 2022

Building Resilient Households Group (BRHG)

BRHG

Building Resilient Household Group members for 2022: Aviva, Royal London, Legal & General, LV+, Swiss RE & Scor with associate members from the Chartered Institute of Insurance and the Income Protection Taskforce. Chaired by Alan Woods and Richard Walsh of Sami Consulting.

The BRHG is an informal group whose members include the Chartered Institute of Insurance, a number of insurers and reinsurers interested in Income Protection, and a number of independent members including its two joint-chairs. Its first piece of work – 'The Future of Financial Provision for those too ill to Work' (copy attached) – highlighted the low financial resilience of this group.

Financial Resilience pre-Covid

In the wake of this report, an independent Financial Resilience Task Force was established as part of the National Financial Capability Strategy work of the Money & Pensions Service, chaired by Baroness Jeannie Drake. Its report (copy attached), published at the end of 2019 provides a pre-pandemic snapshot of household financial resilience. The report:

- Highlighted the widespread problem of income shocks –with 4 to 6 million people a year facing a major interruption in income. In addition, almost three-quarters of workers now experience significant volatility in their income. At the same time, occupational benefits covering income shocks have reduced, with only 28% of employers now offering sick pay above the statutory minimum of £96 a week.
- Found evidence that many households have low resilience against such income shocks and their wellbeing and health often suffers as a result. There are also wider adverse consequences for their children and other dependents, local community and economy and national/local government and the NHS; these are often poorly understood and overlooked in decision-making.
- Recommended establishment of population-level measurement of financial resilience – with a new Resilience Index to be governed by the Office for National Statistics and used to evaluate policy decisions as well as a springboard to developing new financial resilience solutions.

How Covid has affected Financial Resilience

There have been a range of reports on this topic (see for example https://www.bankofengland.co.uk/quarterly-bulletin/2021/2021-q2/household-debt-and-covid) , which no doubt the APPG will receive from other bodies. Common themes include:

- Some people have been able to increase their financial resilience during the pandemic thanks to reduced outgoings combined with stable incomes. In the main, this seems to have primarily benefitted those who already had stable incomes and good levels of financial resilience.
- Others, particularly those in the lower income deciles have seen a worsening of their financial position and/or resilience. Most notable amongst these are:
  - the self-employed;
  - those living in rented accommodation;
  - those who have suffered redundancy;
  - consumer credit borrowers;
  - Women;
  - Single parents;
  - BAME;
  - those already in insecure or irregular employment.

Our suggestions for improving financial resilience

We'd like to suggest a number of ideas for the APPG to explore:

1. We see four key building blocks of household financial resilience:

- The **individua**l (and those close to them) has a key role to play – more can be done to help individuals recognise their own situation and take action;
- The **State** plays vital role – most obviously through the social security system, but also through its enabling powers, with local authorities also having much to contribute;
- **Employers** play a huge role – both through benefits such as sickness pay, redundancy and bereavement benefits, and through actions they can take to promote the financial and physical security of their workforce;
- The **Financial Services industry** – through good banking, affordable credit and well-designed insurance products and ensuring that individuals can easily access their products both (with or without financial advice).

The APPG might like to look at emerging ideas in this area against this framework.

2. All these parties have to be involved – simply trying to encourage action by individuals alone will make little progress. Even so, helping individuals better understand their resilience, and how to improve it could be a useful component of a broader package.

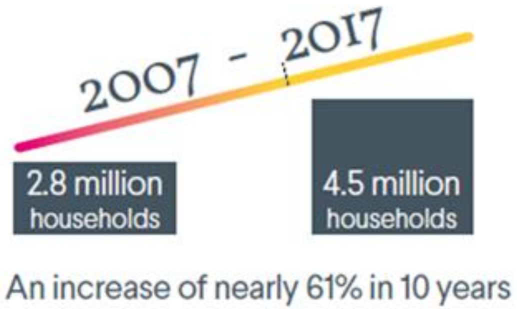
3. Measurement is vital. We know that, following the Task Force report, a number of bodies continue to work on improving the measurement of resilience. This is essential to both guiding future action, evaluating possible policy interventions and tracking progress.

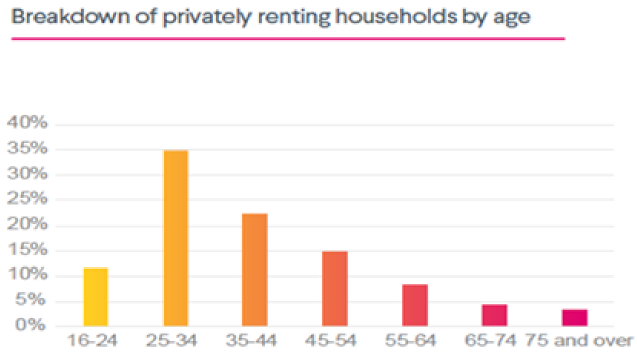
4. At a more detailed level, we have been looking at how the interaction of state benefits and protection insurance could be improved. We attach a summary of a specific proposal which has been evaluated by the Institute and Faculty of Actuaries and would level the playing field to help renters get the same deal from the Universal Credit system as is already available to mortgage holders.

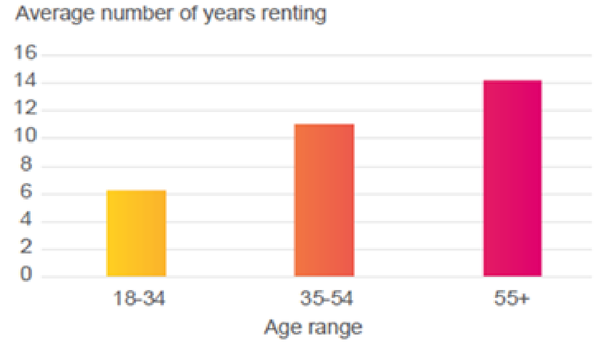
Summary of ‘Protecting Generation Rent’ Report dated Sep’19

Produced in conjunction with the BRHG

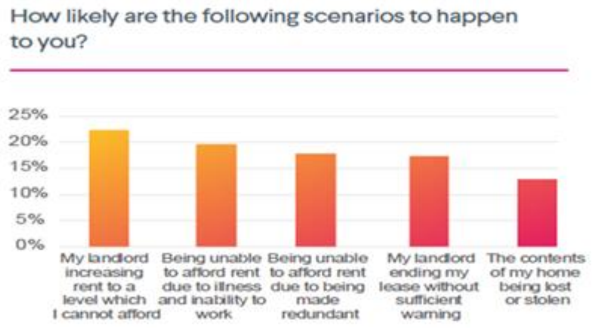
Renters – Financial Resilience & Role of Income Protection



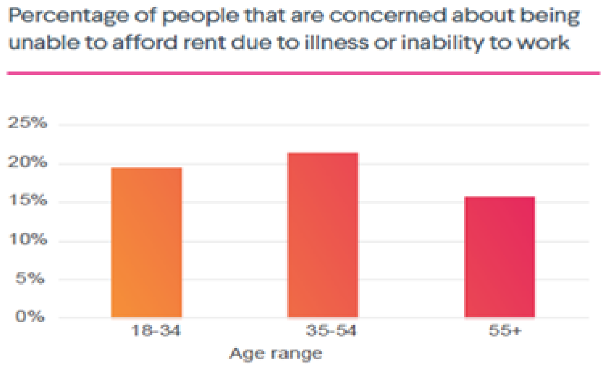




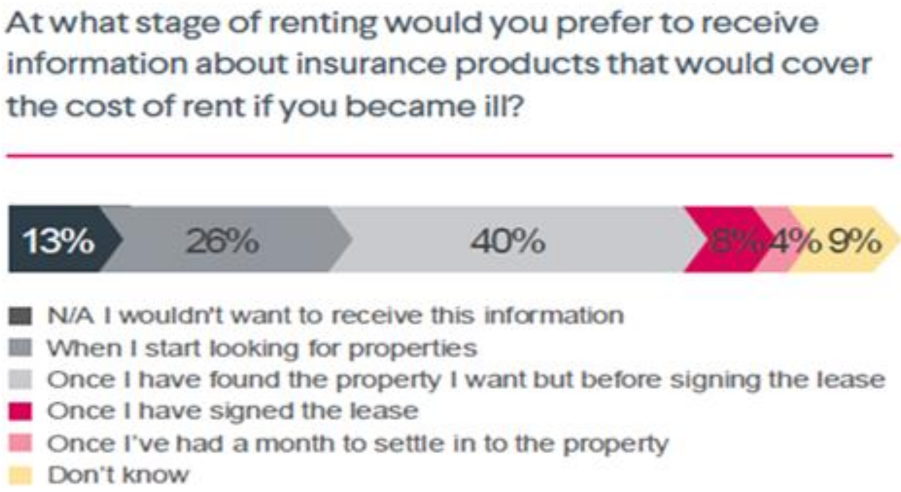
- 1 in 4 households could be renting privately by 2021 – change in attitude of renting, not just a stepping stone to buy.
- Affordability – 2006 to 2018 wages increased 28% whereas house prices increased 40%.
- 65% of renters are under the age of 45.
- 50% of children born in 2018 were born into rented accommodation.
- 37% of people have been renting for 10 years or more – this is no longer just a short term solution



- 20% of renters are concerned about being able to pay their rent if they are unable to work due to illness.
- Many renters hold contents insurance so recognise that risk, but given more renters are concerned about illness than having their contents stolen they may not be aware or have considered Income Protection.



Renters – Financial Resilience & Role of Income Protection



66% of renters would like this discussion either when they start looking for a property or once they've found a property but before they sign the lease

- There is a strong desire by renters to protect themselves against income shocks;
- Products already exist in the market (Income Protection) to help with this need;
- However, two main barriers remain:
  - the complicated interaction of income protection benefits with State means tested benefits;
  - appropriate and timely distribution for those in the rental sector. Income protection is bought primarily through financial advisers – reduced general accessibility of financial advice post Retail Distribution Review and the absence of financial advice from the home rental market means that few renters have access to financial advisers. This is in stark contrast to a house purchase where c.95% of mortgages are purchased on an advised basis, many of whom will also give the opportunity for house buyers to discuss their need for products that will help their financial resilience, such as life insurance, critical illness of income protection.