



UK Insurance and Long-Term Savings

The state of the market 2019



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About the ABI

The ABI is the voice of the UK's world leading insurance and long-term savings industry.

A productive, inclusive and thriving sector, we are an industry that provides peace of mind to households and businesses across the UK and powers the growth of local and regional economies by enabling trade, risk taking, investment and innovation. The UK insurance industry is the largest in Europe and the fourth largest in the world. It is an essential part of the UK's economic strength, managing investments of over £1.8 trillion and paying nearly £12 billion in taxes to the Government. It employs around 300,000 individuals, of which around a third are employed directly by providers with the remainder in auxiliary services such as broking.

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Foreword

By **Matt Cullen**

Assistant Director, Head of Strategy, Data & Analytics

Welcome to the ABI's second State of the Market publication. Last year's inaugural report built on our annual Key Facts summary document, using the ABI's wide range of data on the UK insurance and long-term savings market, to paint a picture of the key trends affecting our sector. The ABI statistics used are freely available to ABI members on our website (www.abi.org.uk), and can be purchased by non-members in a range of different subscription packages.

This year's report is considerably shorter, and focuses in on some of the issues that have been particularly important to the industry over the last year, from civil liability reform to the ongoing impact of automatic enrolment. There is no doubt that it has been a challenging time for firms across the industry, as they deal with ongoing soft market conditions, regulatory concerns about general insurance pricing, pension transfers and use of data, Brexit planning, spikes in storm and subsidence claims (not at the same time), and many more factors that influence their businesses.

In that context, I hope the report provides you with useful insights into some of the key market trends impacting insurance and savings firms. We are always keen to engage with industry participants and analysts on the state of the market, so please do feel free to get in touch with any questions, or suggestions for future work.



Section 1

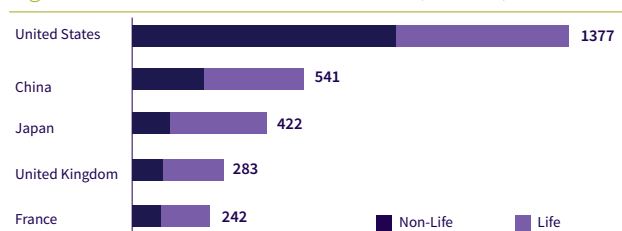
The UK insurance and savings market

By **Daniel Sadler** – Manager, Data & Analytics

UK Insurance - a world leader

The UK insurance market is the fourth largest in the World, and the largest in Europe, with an estimated total premium volume of just under \$220 billion, in 2017 (\$283bn, see figure 1).

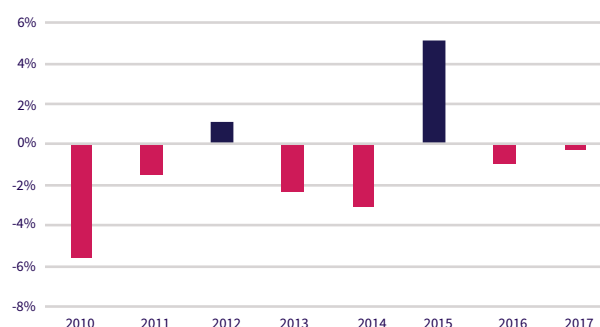
Figure 1: Total Premium Income, 2017 (\$billion)



Approximately two thirds of these premiums stem from life insurance business, with the remainder from non-life business. This is a similar structure to the other top five insurance economies, with the exception of the USA where the non-life market is significantly larger (58% of the total).

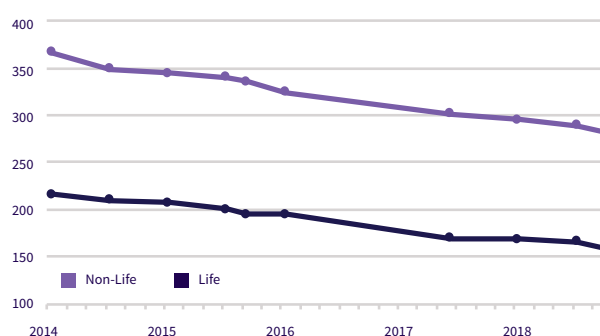
Challenging market, political and regulatory conditions are continuing to influence the UK's competitiveness as an international financial centre. A recent survey of the world's most competitive global financial centres placed London behind New York for the first time, as well as showing significant growth for European centres such as Zurich and Frankfurt¹. Against the looming backdrop of economic uncertainty from Brexit and the possibility of a US-China trade war, UK insurance premium volumes experienced negative growth in real terms in 2017, down 0.3% from the previous year. Moreover, previous estimates for 2016 premium growth have recently been revised significantly, down from +3.7% to -0.9%².

Figure 2: UK Total Premium Growth, Inflation Adjusted, 2010 - 2017



Several other indicators also point to a challenging environment for UK insurers. The number of firms with authorisations to write insurance business has declined markedly since 2015 (see figure 3), with a 21% decrease in PRA authorisations for long-term business, and a 17% decrease for GI authorisations.

Figure 3: PRA Insurance Authorisations by Main Business Line, 2014 - 2018



This has at least partially been driven by consolidation and restructuring, with insurers adapting to more efficient business structures to better manage their regulatory capital requirements under Solvency II. An additional factor to consider as Brexit rapidly approaches is the relocation of insurer operations to the European mainland. According to the EY Financial Services Brexit tracker³, 42% of insurers and insurance brokers are considering moving or have confirmed that they will be moving operations or staff. It is entirely possible that this process will grow in scale in the longer term, as companies adapt to the UK's post Brexit relationship with the EU, whatever form that takes.

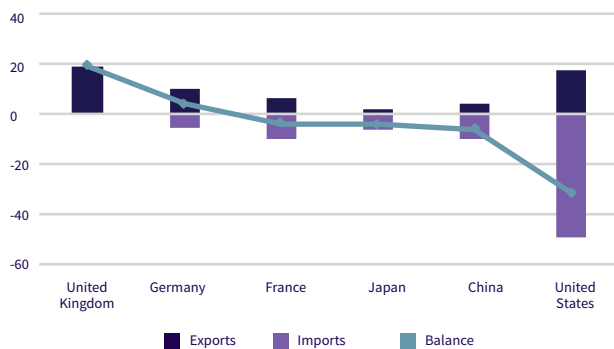
¹ Z/Yen Partners GFCI Global Financial Centres Index, September 2018 (link)

² These growth figures are inflation adjusted in GBP, and therefore do not include any distortions caused by currency exchange rates

³ <https://www.ey.com/uk/en/newsroom/news-releases/19-01-07-ey-financial-services-brexit-tracker-heightened-uncertainty-drives-financial-services-companies-to-move-almost-800-billion-pounds-of-assets-to-europe>

The UK has for many years been a significant exporter of insurance and financial services. In 2017 the UK exported approximately £18.5 billion of insurance and pension services, equivalent to 31% of the UK's financial services exports. Taking into account our total insurance and pensions import figure of £1.8 billion leaves the UK with a trade surplus of around £16.7 billion; according to WTO figures, this is the largest trade surplus amongst the major insurance economies by quite some margin.

Figure 4: Insurance & Pensions Trade Balance, Major Insurance Economies, 2017 (\$billion)



It is worth noting that this surplus has been quite variable over the last few years, dropping as low as £14.6 billion in 2015 and rising as high as £17.3 billion in 2016, according to ONS figures. This will be a key indicator to monitor over the coming years as the effect of Brexit and the associated economic instability continues to affect the London Market.

UK Top Insurance Overseas Trade Partners, 2017 (£million)⁴

Country / Region	Imports	Exports	Exports % of Total
WORLD	1763	18450	100.0%
Europe	1258	12410	67.3%
Germany	503	1916	10.4%
Netherlands	108	1130	6.1%
Switzerland	440	1056	5.7%
Ireland	13	950	5.1%
France	83	797	4.3%
Americas	207	4715	25.6%
United States	186	3898	21.1%
Canada	8	151	0.8%
Asia	272	885	4.8%
Singapore	11	182	1.0%
Japan	0	127	0.7%
Indonesia	0	102	0.6%
India	3	73	0.4%
Oceania	7	239	1.3%
Australia	5	219	1.2%
New Zealand	0	14	0.1%
Africa	19	201	1.1%
South Africa	17	34	0.2%

Challenges in the domestic market

The UK domestic market has experienced considerable disruption over the last few years. As well as the looming spectre of Brexit, the general insurance market has grappled with the implementation of sweeping reforms to the personal injury compensation system as well as various regulatory interventions. This has provided the backdrop to a highly price competitive market, where depressed investment returns have made it very hard to remain profitable. Meanwhile, the long-term insurance sector has seen a wave of consolidation, with several large buyouts and back book acquisitions taking place as insurers seek to build more efficient capital structures under Solvency II.

⁴ONS (2019) "UK trade in services by partner country experimental data: July to September 2018"

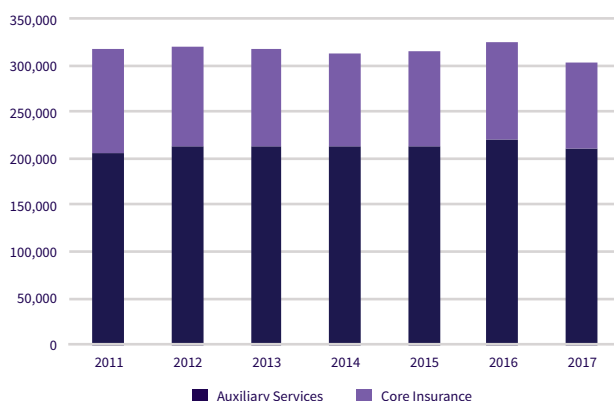
Figure 5: UK Market Headlines, 2017



Despite these headwinds, the insurance and long-term savings sector remains a key part of the UK economy. To give an indication of scale, in 2017 the UK General Insurance market wrote £88.8 billion of premiums and managed worldwide investments totalling £143 billion; meanwhile, ABI members in the UK long-term savings and life insurance sector took on £12.9 billion of new business in addition to managing £1.7 trillion of investments worldwide. These 2017 new business figures are comparable to the 2017/18 budget for NHS England at £108 billion, whilst the overall value of investment holdings is comparable to the £2 trillion total GDP of the UK in 2017.

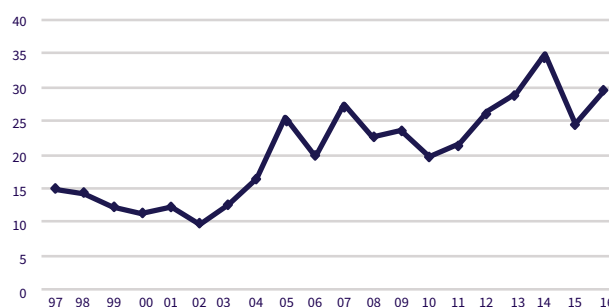
As might be expected, an industry of this scale is also a significant provider of jobs. In 2017 the core UK insurance and pensions sector sustained 94,200 employee jobs, with a further 209,300 jobs in auxiliary services such as loss adjusting and broking. Both of these figures have dropped somewhat from previous years however, reflecting the difficulty of current market conditions; core employment dropped by 10.1% from 2016, whilst auxiliary services employment dropped by 4.4%.

Figure 6: UK Insurance Employment, 2011 - 2017



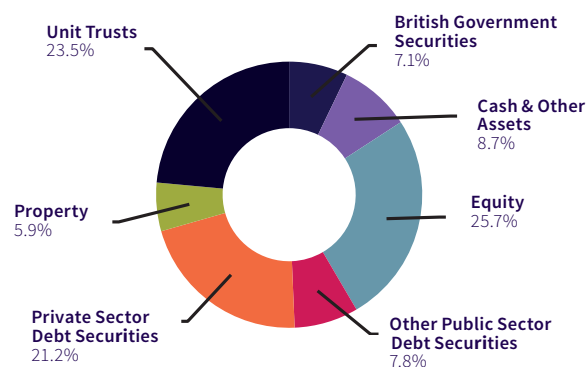
The value that insurance and long-term savings providers add to the UK economy is much broader than jobs alone. In 2016, the sector was responsible for £29.5 billion worth of Gross Value Add (GVA), and though quite variable this value has been increasing by an average of a billion pounds a year since 2002. Moreover, it is worth emphasising that the traditional definition of GVA – the value of output less the cost of producing this output⁵ – does not fully encompass the less tangible benefits of insurance to the economy. This includes the flexibility gained by companies in how they deploy their capital, without having to maintain large reserves for common risks, and relieving the burden on households and the State for the financial implications of unexpected losses. Indeed, without insurance the economy would likely grind to a halt.

Figure 7: Insurance Sector Gross Value Added, 1997 - 2016 (£bn)



The UK insurance and long-term saving sector is also a very significant institutional investor, both with insurance premiums as well as the savings pots of its customers. In 2017 the industry was responsible for total investment holdings of approximately £1.8 trillion, encompassing the full range of investment classes. These included £151 billion of UK public sector debt securities, £228 billion of UK fixed income and equity investments as well as a further £424 billion in unit trusts (which will include a significant investment in UK assets).

Figure 8: UK Insurance & Pensions - Worldwide Investment Holdings by Asset Type, 2017



⁵ This describes the "production approach" to calculating GVA. ONS also use an "income approach" which looks at the income generated by an industry – i.e. the value of wages, gross profit and rental income.

Section 2

The General Insurance Market

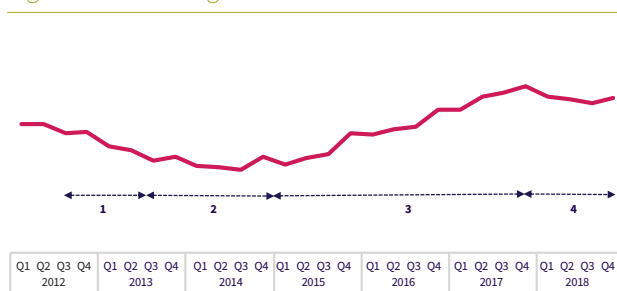
By Rachel Pearson – Data & Analytics Adviser

Motor insurers spend a year under the microscope

Personal injury compensation gets a much-needed refresh

Towards the end of 2018, the Civil Liability Act (2018) gained Royal Assent. Although the personal injury reforms within it do not come into effect until 2020 and the revised discount rate may not apply until August 2019, the effects are already being felt by customers. The industry has promised that any cost savings for insurers as a result of the Act will be passed on to consumers. The signs are that this is already happening - after reaching a peak of £496 in the final quarter of 2017, motor premiums fell £24 through the first three quarters of 2018. This would not be the first time that insurers have passed on savings, with average premiums falling by £50 following the introduction of the Legal Aid, Sentence and Punishment of Offenders (LASPO) Act in 2012, with some suggesting the Civil Liability Act could have an impact of around £35 per policyholder⁶. Overall, this Act is expected to bring about hundreds of millions of pounds in savings, as well as significantly smoothing the claims process for claimants.

Figure 9: ABI Average Motor Premium Index



1. Pre LASPO reductions begin 2012 Q3

2. Post LASPO savings until 2015

3. IPT increases and rising claim costs

4. Insurers begin to pass on expected savings of the CLB

While insurers have been reporting a slowly decreasing volume of personal injury claims since 2016, fewer injuries have also been seen in the Compensation Recovery Unit (CRU) figures⁷, which report on the volume of cases for which the Department for Work and Pensions (DWP) and NHS have been able to reclaim costs from insurers. However, while there has been a drop in 2016, looking further back, the number of injuries reported to CRU has increased 41% since 2005 despite a 35% fall in the number of accidents. At the same time, while the implementation of LASPO (the last set of reforms targeting personal injury claims) in 2012 helped bring personal injury costs down slightly, personal injury lawyers have continued to receive 47p on top of each £1 paid out in compensation to injured claimants. The levels of personal injury and high levels of costs for insurers, and ultimately consumers, provided the backdrop to the Civil Liability Act.

One of the key aims of the Civil Liability Act is to simplify the claims process for victims – directing small claims through an online portal, with a fixed tariff applied to whiplash claims. Currently, making a personal injury claim can be daunting, with many claimants led through the process by Claims Management Companies and solicitors. Following the implementation of the Act, and the launch of the online portal, claims under £5,000 will be directed through this process, with claimants able to navigate and manage the claim themselves, with a fixed pay-out for whiplash injuries. For more complicated, expensive claims, claimants will continue to be able to recover any necessary legal costs, while the claim is dealt with outside of the portal.

The Act has also tackled the calculation of the Ogden Discount Rate, to ensure that claimants receive 100% compensation for their injuries, while ensuring that the rate is fair and reflective of real behaviour. The announcement in February 2017 that the Discount Rate was to be revised set in motion a series of significant adjustments on insurers' accounts, contributing to a £909 million motor underwriting loss in 2016. As news spread that the method was to be adjusted, better in line with investors' actual behaviour, this balanced out somewhat, with a £269 million profit in 2017. Nevertheless, this profit still made up just 2% of Gross Written Premiums for the year and was only the third time the industry had made an underwriting profit since 1994.

⁶ <https://www.pwc.co.uk/press-room/press-releases/Queens-Speech-PwC-comments-on-motor-insurance-and-whiplash-claims.html>

⁷ <https://www.gov.uk/government/publications/compensation-recovery-unit-performance-data/compensation-recovery-unit-performance-data>

Figure 10: UK Motor Underwriting Profit and Loss (%)

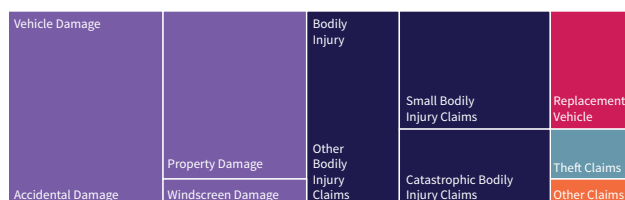


Claims costs reach record highs

With profitability a challenge, insurers are continuing to contend with high claim costs, driven up primarily by vehicle repairs. Increasingly sophisticated technology used in cars, while reducing the absolute volume of claims, pushes up the cost of repairing and replacing damaged parts. This has been exacerbated by a weakening pound pushing up the costs of importing the necessary parts to repair cars. Insurers are now paying out over £12 million a day on repair costs alone, on top of the £9 million for bodily injury claims.

Technology has also taken its toll on the volume of thefts, with thieves targeting sophisticated cars with keyless fobs, intercepting the signal between the key and the car. While still only making up a small proportion of claim costs, the amount spent on theft of vehicles has more than doubled from a low of £42 million in 2013 Q3, to £88 million in 2018 Q3. With these more expensive cars being stolen, the average claim for a stolen car reached over £8,000 in the second quarter of 2018, up £3,500 from 2013 when records began. Police records also continue to show an increase in vehicle related theft, with no indications that this trend will slow anytime soon⁸.

Figure 11: Claims Breakdown 2017



Unusually, fire claims became forefront of motor insurers' minds in the new year of 2018, as fire took over the Liverpool Echo Arena Car Park. Affecting over 1,000 vehicles, the costs at the time were estimated to be over £20 million⁹. Insurers were quick to react, offering emergency assistance and settling the majority of claims in just a couple of weeks.

Overall, 2017 and 2018 have been expensive years, with the average claim reaching a record high at the end of 2017 of £3,095. Despite strong growth to almost £16 million Gross Written Premium, fierce competition in the market continues, with no signs of let up any time soon. With costs at such high levels, and significant public pressure to cut premiums, it is unlikely there will be much relief for insurers on the horizon.

Property and other GI lines – a time of interesting events

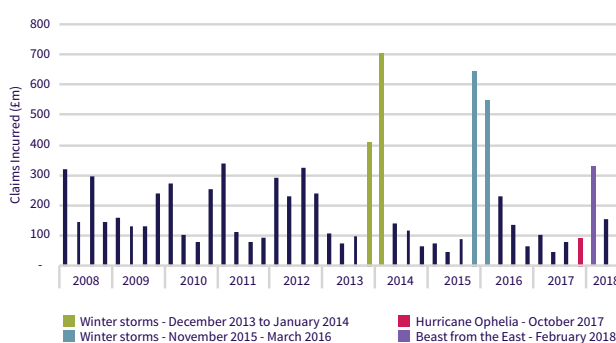
A benign 2017

2017 was a fairly quiet year weather wise for the UK, with the exception being Hurricane Ophelia hitting ground in October. This had a limited effect on costs however, with weather related claims increasing just £15 million on the quarter before. This benign period was in complete contrast with much of the rest of the world, which saw everything from hurricanes to mudslides and earthquakes, with Munich Re expecting global insured losses to come to \$135 billion. Back in the UK, while insurers did see underwriting profits for 2017 dip, Gross Claims Incurred was still below the level of 2015 when the UK saw widespread flooding.

The Beast from the East

Insurers were thrown into the deep end as the UK battled with the Beast from the East in the first quarter of 2018, with property insurers seeing a significant peak in claims. Weather-related claims worth £328 million came in to insurers in the first quarter, of which £193 million came from domestic weather-related escape of water claims. While insurers are geared up for large scale weather events, the Beast from the East caused some insurers to use up their weather reserves for the year in just the first few months. Although causing quite a flurry at the time, the storms of 2018 were minimal compared with those a couple of years previously, with each of those driving over £1 billion worth of claims.

Figure 12: Weather Related Claim Costs



⁸ <https://www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/bulletins/crimeinenglandandwales/yearendingjune2018>

⁹ <https://www.abi.org.uk/news/news-articles/2018/01/insurers-to-pay-out-estimated-20-million-to-motor-customers-after-liverpool-car-park-fire/>

Summer heatwave

In quite the contrast, temperatures reached record-breaking levels just a few months later, with the summer one of the hottest ever. With minimal rainfall, insurers then battled with a spike in subsidence claims, with both the volume and value of claims at their highest level for several years. As policyholders continue to look out for the tell-tale signs, such as cracks in walls, this surge of claims is expected to continue, at least into the final quarter of the year.

Figure 13: Domestic claims incurred by peril - 2017 Q3

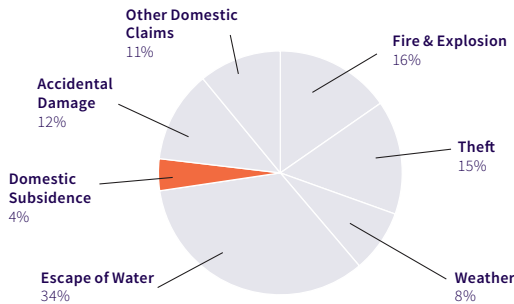
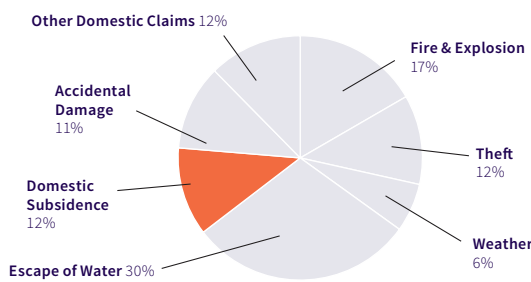


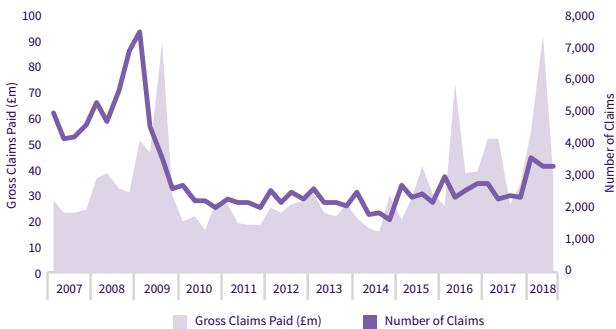
Figure 14: Domestic claims incurred by peril - 2018 Q3



Trade credit insurers step in as Carillion collapse threatens the construction industry

The collapse of construction company Carillion brought trade credit to the forefront of British news, with insurers expected to pay out £31 million to firms in Carillion’s supply chain. This, however, was just the tip of the iceberg, with Carillion’s debts estimated to be around £5 billion. The number of claims made against insurers in the first quarter of the year reached the highest level since 2009, when the country was struggling through the financial crisis. This was followed by the highest level of trade credit claims paid on record in the second quarter of the year. It was not only Carillion that had a difficult time, with numerous other large names, such as Palmer & Harvey, Maplin and Toys R Us all going insolvent and undoubtedly triggering several trade credit claims. The continued hardships on the high street highlight the importance of trade credit insurance, with a company entering bankruptcy quickly setting off a domino effect on the chain of suppliers.

Figure 15: Volume and Value of Claims



Monarch Airlines

Retailers and construction firms are not the only companies struggling. Monarch Airlines went into administration in October 2017, followed by Primera Air almost exactly a year later. In the case of Monarch, over 100,000 passengers were left stranded overseas, many of whom did not have Scheduled Airline Failure Insurance. The Association of British Travel Agents has now had to come forward to refute suggestions that hundreds of travel operators are at risk of going bust in the next few years¹⁰. Nonetheless, travel insurance has continued to prove its worth, paying out over £1 million in claims every day, with 38% of this covering cancellations, compared with 52% on medical expenses.

¹⁰ <http://www.travelweekly.co.uk/articles/321817/abta-dismisses-claims-that-hundreds-of-travel-firms-are-vulnerable>

Section 3

Life and Long-Term Savings

By Lauren Willcox – Data & Analytics Adviser

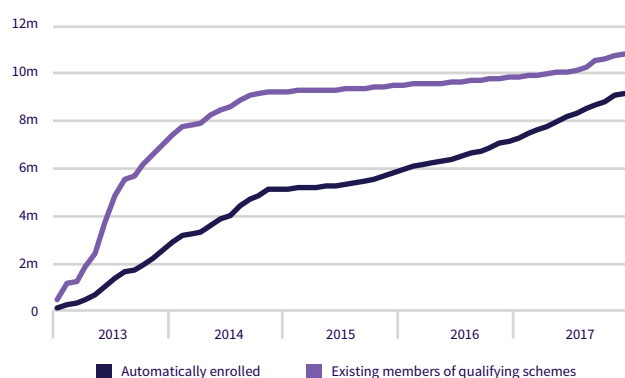
Automatic enrolment continues to bolster the long-term savings market

Throughout 2017 and into 2018 automatic enrolment has continued to have a clear impact on both the number of people saving into pensions and the amount they are saving.

By the end of February 2018 all UK employers were required to have set up a pension scheme and automatically enrolled all eligible employees. This completed a phased approach by size of employer, beginning in 2012 with the largest companies setting up their automatic enrolment schemes.

As the smallest and newest employers set up their automatic enrolment schemes, through 2016 and most of 2017 the rate of increase in total members of qualifying schemes slowed, as seen in data from the pensions regulator (TPR)¹¹. However, this rate jumped slightly again towards the end of 2017 as the February completion date approached. By the end of 2017 TPR reported that, in total, 9.2 million eligible jobholders had been enrolled into an automatic enrolment scheme, while a further 10.9 million workers were already active members of a qualifying scheme.

Figure 16: Number of Members of Automatic Enrolment schemes (TPR Data¹)



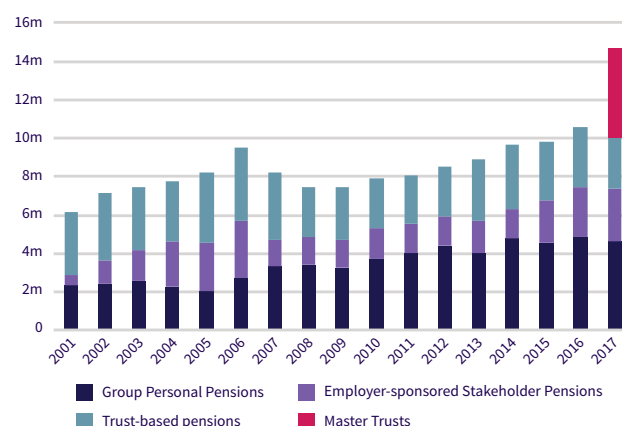
Further to this, data from the Office of National Statistics (ONS) showed that in 2017 73% of employees were saving into a workplace pension - up from 68% in 2016, and just 47% in 2012 when automatic enrolment was first introduced.¹²

Master Trusts, which are multi-employer occupational pension schemes, are clearly a popular option for automatic enrolment. Over 4.6 million scheme members were reported by ABI member companies at the end of 2017, with 863,000 new contracts through the year. This growth continued into 2018 as a further 722,000 new members were recorded in the first two quarters of 2018 alone.

The total number of Master Trust members is likely to be much higher than this; ABI Partner NEST and NOW Pensions are not included in ABI statistics and are two of the larger Master Trusts. NEST alone had over 6.8 million members as of July 2018¹³, while NOW pensions announced its 1.5 millionth member in January 2018¹⁴.

As the number of Master Trusts, and their popularity, have increased through the introduction of automatic enrolment, new Master Trust regulations were introduced in the autumn of 2018 by the Pensions Regulator. Existing Master Trusts will be required to apply for authorisation and a supervision and enforcement policy will be implemented for authorised schemes. There are expectations that this will significantly decrease the number of Master Trusts operating in the market¹⁵.

Figure 17: Number of Savers in Occupational Pensions



Executive Pension Plans have also shown a small increase in popularity in 2017, with approximately 7% more policies reported than 2016. ABI data shows a small decrease in both Group Personal Pension Policies (GPPs) which fell by 5% to 4.6 million and Trust-based pensions which fell by 5% to 10 million contracts. This decrease in both GPPs and Trust-based pensions can be explained



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¹¹ The Pensions Regulator, Declarations of Compliance July 2018

¹² ONS Annual Survey of Hours and Earnings pension tables, UK: 2017 provisional results

¹³ <https://www.nestpensions.org.uk/schemeweb/nest/nestcorporation/news-press-and-policy/press-releases/NEST-Corporation-publishes-its-annual-reports-and-accounts-2017-18.html>

¹⁴ <https://www.nowpensions.com/press-release/now-pensions-enrols-1-5-millionth-member/>

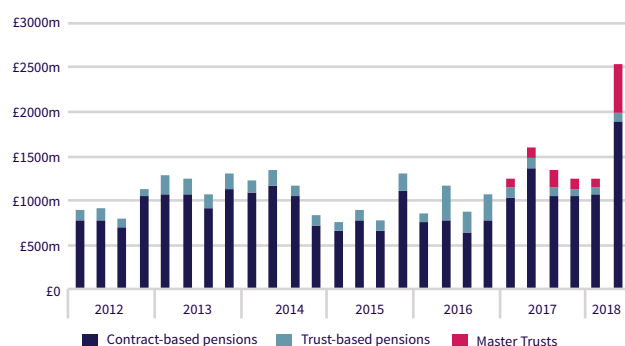
¹⁵ www.thepensionsregulator.gov.uk/docs/master-trust-monthly-report.pdf

by the separation of the Master Trust category in 2017. Master Trusts may historically have been reported in either the GPP or Trust-based pensions data.

The next step for automatic enrolment, following its roll-out to all employers, has been to increase the required contribution rates into schemes from both employers and employees. During the introduction of automatic enrolment pension schemes, a total minimum contribution rate of 2% was required with at least 1% coming from the employer. From April 2018 this increased to a total of 5%, with at least 2% provided by the employer.

The impact of this change could be seen immediately, as the amount being paid into employees' pensions sharply increased. In Q2 2018, the total new regular annual premiums for work-based pensions rocketed to £2.5 billion from £1.3 billion in Q1 (this includes contract-based and trust-based pensions as well as Master Trusts). Master Trusts showed particularly large growth in new premiums with an increase of 566%.

Figure 18: Total Annualised New Work-place Pension Regular Premiums



The overall increase in premiums was clearly due to the increased contribution rates into existing pension policies (or increments) rather than an influx of new members of schemes. For contract-based pensions, these increments usually make up around 40% of all new premiums with the further 60% made up of new premiums from new schemes and new entrants to existing schemes. In Q2 2018, however, increments made up 62% of all new premiums as the total annualised increments value increased to £726 million. A similar increase was also seen in Trust-based pensions.

Figure 19: Contract-based Pensions New Regular Premium Business Breakdown, 2017 Q2

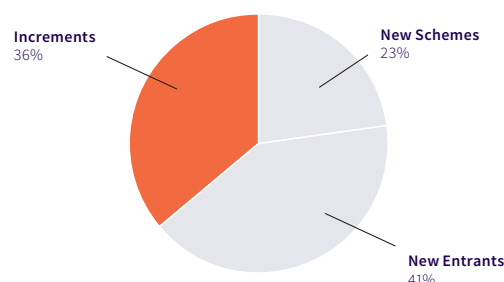
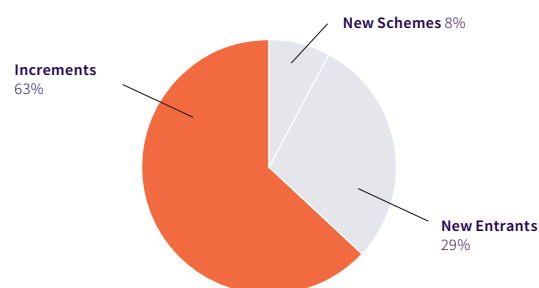


Figure 20: Contract-based Pensions New Regular Premium Business Breakdown, 2018 Q2



Employees who do not wish to contribute to an automatic enrolment pension scheme are able to opt out. There was some concern that introducing increased contribution rates would result in greater opt out rates from automatic enrolment pension schemes. There is little evidence to suggest this has been the case and some analysis has indicated that opt out rates remain low despite the changes.¹⁶

From April 2019, contribution rates are due to increase again, to 8% with at least 3% provided by the employer, and there is a further chance that individuals may be put off by high contribution rates and opt out of the scheme. Recent news showed high opt out rates from NHS pensions, where employee contribution rates are between 5% and 14%.¹⁷

It is widely accepted that the initial stages of automatic enrolment have had a positive impact on the long-term savings market, as many more people are saving into a work-place pension than ever before. The 2018 increase in contribution rates has also bolstered the market, with savings across workplace pension schemes increasing. However it is, as yet, unclear what the implications of future planned increases will be.

¹⁶ <https://www.theguardian.com/money/2018/aug/24/pension-opt-outs-have-not-jumped-since-auto-enrolment-rate-rise>

¹⁷ <https://www.telegraph.co.uk/news/2018/12/29/240000-nhs-workers-abandon-gold-plated-pension-plan/>

Pension flexibilities and the retirement market

The pension flexibilities, introduced in April 2015, continue to have a large impact on the retirement market three years on.

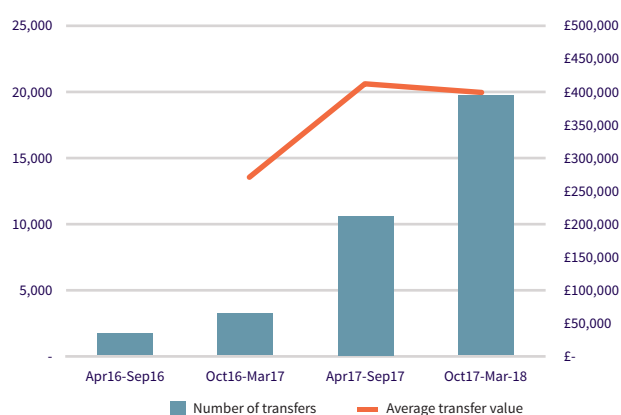
Initially, most changes were seen in customers' decisions at the point of retirement, with a move away from annuities towards flexible drawdown options. However, this has settled into a consistent pattern and the wider impacts of the pension flexibilities are now becoming more noticeable. These wider impacts generally reflect the move from guaranteed income in retirement to more flexible income options.

DB to DC transfers

The pension flexibilities were introduced for members of defined contribution (DC) schemes only, and those in defined benefit (DB) schemes do not directly have access to the same options at retirement. This has led to a significant number of customers transferring out of their DB schemes into DC schemes in order to take advantage of extended flexible options at retirement. Low gilt yields have meant that transfer values are high, and in some cases employers have, with the aim of reducing the costs of their DB schemes, offered incentives to their employees to transfer out of those pensions.

Through 2017, we saw an apparent increased level of these transfers. In the half year October 2017 to March 2018, 19,700 DB to DC transfers were recorded by ABI members. This was an increase of 86% on the 10,600 reported in the preceding six months and a further drastic increase from the 3,200 reported for October 2016 to March 2017. The value of these of these transfers also seems to be high, with an average value of £404,000 recorded in the year from April 2017 to March 2018.

Figure 21: Number and value of DB to DC transfers

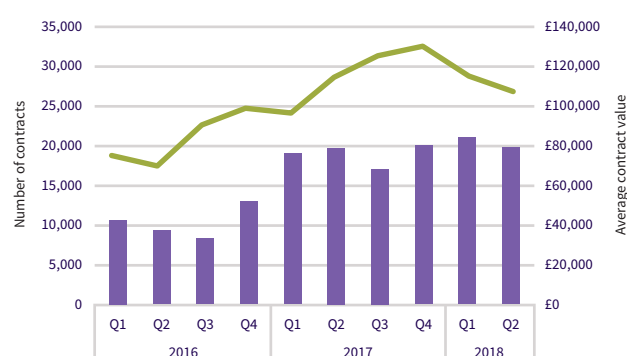


ABI figures align with broader data from the FCA, which registered 34,738 DB transfers between October 2017 and March 2018, compared with 23,800 reported the preceding the 6 months.¹⁸

It is worth noting that both the ABI and the FCA have seen companies improving their reporting in this area over time, with some companies initially not able to record this data at all. This suggests that the volume of transfers may previously have been higher, and the increase may not be as sharp as it appears.

While some of the reported increase may be explained by improved reporting, there are other indications that the quantity of DB to DC transfers has indeed been increasing. DB transfers can be made into personal pensions and Self Invested Personal Pensions (SIPPs). Over the course of 2016 and 2017 there were very large increases in the number and value of new single premium SIPP business. Around 85% of the total value of these new single premium SIPPs came from transfer business.

Figure 22: New Single Premium SIPPs



With both the number of single premium SIPP sales and average value of these sales increasing, reflecting the higher value of DB transfers, this could indicate people transferring from valuable DB schemes into SIPPs. From these SIPPs they would be able to take advantage of tax-free cash lump sums, flexible drawdown payments during retirement and more flexibility in passing on funds.

More recent data suggests that DB to DC transfers may have peaked in early 2018. The total number completed in the second half of 2018 remained high but fell compared to the preceding six months.

Making a DB to DC transfer is a complex and significant decision, and it is vital that the advice framework around such decisions is effective. In 2017, the FCA completed supervisory work showing that less than half DB to DC transfer advice was suitable.¹⁹ This was also reflected in the high-profile British Steel case in early 2018, where the quality of advice for DB transfers was called into question. In the spring of 2018, the FCA introduced new rules on DB to DC transfer advice including a requirement for personal recommendations tailored to the customer and a detailed transfer value comparison of the benefits held in their DB plans.

¹⁸ <https://www.ftadviser.com/pensions/2018/11/26/pension-transfers-surge-587-in-two-years/>

¹⁹ <https://www.fca.org.uk/publication/consultation/cp18-07.pdf>

Retirement income

Figure 23: Proportion of customers with Guaranteed Income Benefits who gave them up between April 2017 and March 2018, by value of pension pot

	Less than £10,000	£10,000 to £29,999	£30,000 to £49,999	£50,000 to £99,999	£100,000 to £249,999	£250,000 and above	Total
Apr 2017 to Sep 2017	83%	54%	36%	33%	27%	25%	53%
Oct 2017 to Mar 2018	84%	57%	40%	42%	50%	50%	59%

There is also evidence in the personal pensions arena of customers giving up potentially generous guaranteed income benefits in favour of more flexible options at retirement.

Some historic pension sales included guaranteed annuity rates (GARs) at retirement which were independent of market interest rates. Generally, it is thought that these are likely to be much higher than the annuity rates currently available.

Across pensions providing guaranteed income benefits, only around 41% of customers took them up in the half year from October 2017 to March 2018, as shown in Figure 23. This was a decrease from 47% in the previous half year. This change has largely been driven by those with the smallest pot sizes who have been more likely to give up their rates in the most recent half year. 72% of those with pot sizes less than £30,000 gave them up compared to 43% with larger pots.

The action taken after giving up rates differs substantially between larger and smaller pots. Across those with pot sizes of less than £30,000, 81% fully encashed their pots, compared to just 18% of those with pots of £30,000 and above. Customers with larger pots may still be taking some of their pot as cash or investing in a more flexible drawdown option.

In early 2018 annuity provider Royal London announced plans to offer an increased fund value to customers who wanted to give up their guaranteed annuity rate.²⁰ This was to ensure that policy holders who wanted to use their flexible options at retirement received a fair exchange for their GAR. Several policy holders showed interest and the plan was approved by the high court in July 2018.

The annuity market has also responded to this change in customers' decisions at retirement. Over half of customers (52% in 2017) now purchase annuities from a new provider, suggesting more are shopping around to find the best available rates. Companies have started to focus more resources on enhanced annuity products, ensuring they are more accessible to those customers who qualify for them. In the first two quarters of 2018 enhanced annuities made up 41% of all sales, compared with 32% in the same period of 2017.

Overall, the pension flexibilities have driven a move away from traditional guaranteed income products at retirement to more flexible cash and drawdown options. Initially this was seen through a large decrease in annuity sales as customers showed a preference for drawdown products and cash withdrawals. Now the effect has broadened, as both savers in defined benefit schemes and in personal schemes with defined income benefits have also started to give these up, instead opting for flexible decumulation products.

²⁰ <https://www.professionaladviser.com/professional-adviser/news/3035701/royal-londons-guaranteed-annuity-conversion-plan>

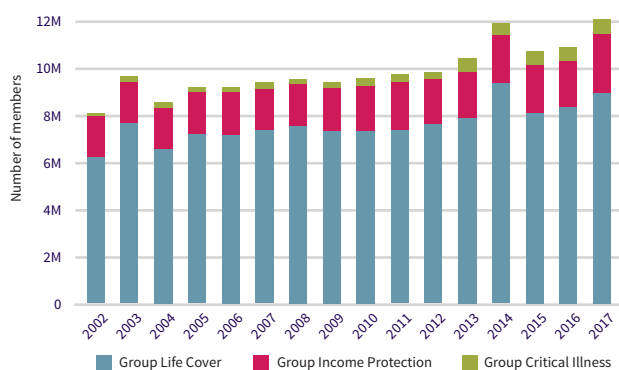
²¹ <http://www.actuarialpost.co.uk/article/group-risk-industry-has-another-record-breaking-year-13444.htm>

The Protection market: Group Protection growth and mental health awareness

While individual protection products saw a fairly steady year in 2017, group protection schemes saw significant growth from 2016, suggesting that employers are becoming more focused on providing valuable benefits to their employees and considering products that reduce long-term absence and support their health and wellbeing.

In 2017 we saw total members of group protection schemes increase substantially. Total members in group life schemes increased by 9% to 9.1 million and group critical illness (CI) schemes grew by 2% to 600,000. The greatest increase though was seen in group income protection schemes (IP) which grew by 23% to 2.5 million members.

Figure 24: Group Protection Scheme Members



There was also a large increase in the proportion of claims paid out by group income protection products in 2017 – 90% compared with 84% recorded in 2016.²¹

The large increase in group protection was counterbalanced by a decrease in individual protection products. Individual term assurance, whole of life and income protection policies decreased, with only critical illness growing, and in fact reporting the highest number of policies in force since 2014.

Group income protection products offer a benefit to both employees and employers and do not require employees to undergo any underwriting, therefore providing access to all employees regardless of any pre-existing health conditions. Early rehabilitation and support services assist an employee's recovery and help them get back to work as soon as possible, reducing the impact of their absence on the employer.

In 2017 Group Risk Development (GRiD) data reported that almost 3,000 employees were provided with interventions (such as counselling or physiotherapy) which allowed them to return to work before they were eligible for any payments. Just under a further 2,000 employees were also helped to make a full return to work within a year, as further support in recovery is provided to these people.²²

In recent years awareness of mental health has been increasing and health and wellbeing in the workplace has been a key motivation for tackling work-related causes of stress. Evidence suggests that almost 13% of sickness absence days in the UK can be attributed to mental health conditions,²³ and stress is believed to be one of the leading causes of employee absence.²⁴

Employers are beginning to recognise that prioritising the mental health of staff is an ongoing commitment and this was reflected in claims for group income protection products, where mental illness became the top cause of new claims in 2017 (24.5% compared with 24.2% of claims for cancer). This was a slight change from the previous year where 23% of new claims were for mental illness while 24% were for cancer.²⁵

While claims for mental illness are less common for individual protection policies, there was a small increase in 2017 from 9% to 11% of all claims.

²² <http://www.actuariatpost.co.uk/article/group-risk-industry-has-another-record-breaking-year-13444.htm>

²³ <https://www.mentalhealth.org.uk/statistics/mental-health-statistics-mental-health-work>

²⁴ <https://www.willistowerswatson.com/en-GB/insights/2017/12/uk-benefits-trends-survey-2017>

²⁵ <http://www.actuariatpost.co.uk/article/group-risk-industry-has-another-record-breaking-year-13444.htm>

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