

The Treasury Consultation Forming Part of the Two-Year Review of the Financial Services and Markets Act (FSMA)

A response by UnumProvident

May 2004

Executive Summary

In our view the FSMA review offers a timely opportunity for debate. However we would like to broaden that debate from solely considering Pension provision to include life or health or income risks in the context of Insurance protection products. If all the review seeks to do is to encourage employers to do more to promote the value of pensions and provide better information about company pension schemes then we feel the review is looking too narrowly at the current boundaries of FSMA regulation.

Our view is that the important question of pension provision should be considered within the wider context of other employee benefits. The importance of protection products, and the need to promote the take up of such products as part of a holistic approach to financial planning should also be recognised.

Alongside the consideration of lifestyle provision in retirement it is also important for individuals, and their advisers, to consider the perhaps more pressing immediate need for them to protect themselves, and their families, against the risk of the financial effects of ill-health and incapacity.

The FSMA review should play a greater role in encouraging that broader debate, particularly in the area of providing improved consumer education, choice, independence and self-reliance alongside the minimising of potential consumer detriment. In our view it is vitally important therefore that employers should not be faced with a regulatory regime, which acts to prevent them from offering such products, particularly to those who might otherwise be least protected.

We appreciate that the review will be a two-year process and UnumProvident look forward to assisting the Treasury address these issues in later consultations. We have considerable experience in working with employers, as mediators for good advice and products, on condition related issues such as back-pain and stress, which could be of value to Treasury as the Two-Year Review develops.

1. UnumProvident – providing protection

- 1.1 UnumProvident is the UK's leading provider of group income protection insurance. In addition, our critical illness and life assurance products enable our customers to purchase complimentary protection that together make a comprehensive protection package.
- 1.2 At the end of 2003 UnumProvident protected 1,300,000 lives and had more than 14,100 schemes. We paid out benefits worth £164 million, of which £137 million were income protection.
- 1.3 Group Income protection insurance may be given as an employee benefit by an employer and serves to provide a regular replacement income for the individual employee to maintain their living standards whilst they are unable to work. The natural desire of the employer to get his staff back to work, and in their turn for them to be back at work, quickly is supported through UnumProvident's uniquely tailored rehabilitation programmes, aimed at both returning them to work and retaining them in those jobs.

2. Introduction - The changing regulatory environment

- 2.1 Recent years have seen fundamental changes in the scope and nature of the UK's financial regulation. The introduction of FSMA in 2000 brought with it the creation of the Financial Services Authority (FSA) and the Financial Ombudsman Service (FOS), introducing statutory regulation to many firms who had previously been subjected only to self-regulation.
- 2.2 More recent developments have seen the concept of financial regulation extended to new sectors. For example, firms selling financial services as ancillary products will increasingly fall within the scope of the FSA. Equally, regulatory risks also face many employers potentially undertaking regulated activities in the course of providing HR benefits, such as group pensions or life cover.
- 2.3 Domestic policy initiatives, such as the proposed Sandler reforms to financial advice and point-of-sale regulation, and the continued development of Single Market insurance regulation stemming from the European Union's Financial Services Action Plan, mean that the scope of regulation is set to grow further. This issue of scope is therefore rightly a prime consideration for the Treasury in the current review.
- 2.4 This changing regulatory environment is particularly pertinent to UnumProvident given current changes to the regulation of mortgage and general insurance sales (including non-investment protection products). These changes will see UnumProvident, as one of the UK's leading providers of protection products, come under the scope of the FSA's Conduct of Business (COB) rules for the first time in January 2005.
- 2.5 In anticipation of these changes one of UnumProvident's primary concerns is to ensure that regulations do not provide unnecessary obstacles to the promotion of protection products. The Treasury consultation paper identifies how this may be an issue at present with regard to the Financial Promotions Order (FPO) and its impact on restricting take-up of workplace pensions. Given the similar

distribution model for group life and protection products a repetition of this outcome would be highly undesirable. This is discussed in more detail below.

3. The need for greater ‘protection’

- 3.1 UnumProvident believe that it is always better for individuals to take some steps to protect themselves against the risk of long-term ill-health and incapacity. Different households will be exposed to different levels of risk according to their personal circumstances, for example, their income level, their number of dependants, or their value of their assets. They should therefore respond to these risks in appropriate ways, but the basic principle of insuring against these risks applies to all. The failure to do so can impact hugely on the financial well-being of any household.
- 3.2 As the State and employer continue to shift increasing levels of responsibility on to individuals for their own welfare, the importance of protecting one’s own lifestyle continues to grow. This trend has already been seen in Government reforms to the funding of long-term care, higher education and pensions. Possible reforms to Incapacity Benefits and other welfare reforms could extend this trend further to impact on the provision of income protection products.

4. Encouraging protection

- 4.1 Against this backdrop UnumProvident is disappointed by the main focus of the current Treasury review, which is placed clearly on the need to increase pension provision. In our view the review is looking at the current boundaries of FSMA regulation, and what adjustments might be made to the FSMA framework, too narrowly, if all it seeks is to encourage employers to do more to promote the value of pensions and provide better information about company pension schemes. It is our view that this should be considered within the wider context of other HR benefits. There is no mention of the need to also consider life or health or income risks in the context of Insurance protection products.
- 4.2 UnumProvident regard this as a golden opportunity, which has been missed. At a time when the Government is undertaking several welcome initiatives to improve consumer understanding of financial products, not least with the joint FSA-Treasury Steering Group on financial capability soon to publish its strategy, the FSMA review could have played a greater role in encouraging that broader debate. This could particularly have been in the area of providing improved consumer education, choice, independence and self-reliance alongside the minimising of potential consumer detriment
- 4.3 The Treasury’s focus on pensions is understandable. Much has been reported in recent years of the UK’s growing savings gap. Ever since the Association of British Insurers (ABI) first published its report in 2002, highlighting a savings shortfall or ‘gap’ of £27 billion annually, there has been a renewed desire to encourage further pensions savings. The recently published Pensions Bill contains a number of initiatives to create greater flexibility and remove obstacles to pensions savings – not least through developments such as Informed Choice,

which aim to challenge the current deficit of consumer understanding of the benefits of sound financial planning.

- 4.4 The issue of financial planning goes very much to heart of this debate, and should play a more central position within the Treasury's current two-year review. Financial planning incorporates the full range of possible consumer objectives – beginning with the need to pay down debt, ensuring adequate levels of protection through insurance, short-term 'rainy day' savings; through to long-term savings and retirement planning. We appreciate that the review will be a two-year process. UnumProvident look forward seeing to Treasury address these issues in later consultations.
- 4.5 The need for a broader Government strategy is clear. Along with the much publicised 'savings' gap, there is a less commonly debated 'protection' gap, which some commentators estimate could be as high as £500 billion, in which many individuals are failing to take adequate protection against possible loss of health and income.
- 4.6 In devising Government policies that are geared towards recognising the importance of protection products, and the need to promote the take up of such products as part of a holistic approach to financial planning, the FSMA review offers a timely opportunity for debate.
- 4.7 The current and future health care needs of the nation and the cost and prevention issues that surrounds them are increasingly coming under the microscope, as poor lifestyle choice issues like smoking and obesity vie with condition-related issues like back-pain and stress, receive adverse media attention and comment.
- 4.8 In several recent media and political communications, we have made the point regarding the need to consider the totality of financial planning in the cold light of the hard savings and investment choices most people face. For most householders, current health and welfare planning for them and their families, vies with debt repayments and the need to make short- and long-term savings and pensions provision, for what little spare disposable income they possess. Similarly the case for consideration of the potential role for the employer as an access route for both products and advice has also been put.
- 4.9 An income from privately funded income protection could help to reduce some of the burden on IB claims. Recent HSE work-related stress figures that show that more than 1 million people have moved onto IB in the past five-years in what the FT calls an "epidemic of stress-related illnesses". We believe there might therefore be some scope for combining the existing approach on IB with the Government's wider agenda on workplace provision of financial planning.
- 4.10 Amongst the most pressing obstacles to the take-up of income protection products is cost. Insuring against the potential loss of future income is an expensive business. Cost is particularly an issue for less affluent consumers. As with retirement planning the role of the employer can, and indeed does in many instances, play a crucial role in sharing the cost of provision.
- 4.11 Given that the Financial Promotions Order (FPO) has been identified by Treasury as one of the most "awkward obstacles to employers wishing to impart

better information about pensions to their employees". UnumProvident is committed to ensuring that the FPO does not have a similar effect on protection products when they fall under the scope of the FPO in 2005.

4.12 The Treasury has signalled its intention not to give employers a free hand in promoting financial products as they wish, whenever they choose. UnumProvident support this stance. There needs to be some role for professional advice in the delivery of financial services through the workplace. At the same time employers should not be faced with a regulatory regime, which acts to prevent them from offering such products, particularly to those who might otherwise be least protected.

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