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THE RISK GREAT TRANSFER

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Key impact areas identified so far

Pensions accumulation

When employers provided their employees with defined benefit (DB) pensions, they also managed the financial risks associated with keeping the scheme solvent. In defined contribution (DC) provision, individuals assume the responsibility for saving enough to fund their retirement and, by extension, the risk that comes with being invested, thereby shouldering the risk that their investments perform badly.

Pensions decumulation

The 'Freedom and Choice' agenda in UK pensions removed the requirement for retirees to buy an annuity, and gave people the option to access income flexibly from their DC pension pot.

This has resulted in many people becoming responsible for managing longevity risk (the risk that they draw down from their pension pot too quickly and run out of money before they die).

General insurance

Insurers are more able than ever to price their products based on a person's specific risk profile.

This has led to those who are considered more 'risky', and at times those who face the highest risk (and thus have the most need for insurance) being priced out of the market and without the protection that insurance provides, potentially resulting in loss of income or even their home.

Social care funding

People in the UK are living longer, but improvements in healthy life expectancy are not keeping pace. This means more people are likely to experience care needs in later life, which can come at great cost.

The current social care funding system in the UK means that people are disincentivised from insuring themselves against the risk of catastrophic care costs, and must shoulder this risk themselves.

Investment advice

Risk transfer has increased individuals' need for independent and affordable advice, but the availability of such advice has not kept pace with the need.

There is significant resistance to automated ('robo') advice: in a recent FCA study 57% of consumers rejected it. Meanwhile many cannot afford to pay for face-to-face advice. Making complex investment decisions without advice leaves individuals further exposed.

Life insurance

The financial uncertainty that comes with long-term insurance promises is increasingly owned by individual policyholders, not insurance companies.

This has occurred due to a shift in recent years from with-profits insurance schemes towards unit-linked schemes.

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Strengths	Weaknesses
The price of protection more closely represents the consumer’s risk profile	This approach reduces the benefits of risk pooling and can price those with the highest need out of the market or lead to anti-selection
This approach can have societal benefits e.g. the black box leading to safer roads and wearables leading to healthier behaviours	The use of granular pricing factors can lead to questions around when a factor becomes unfairly discriminatory
Consumers have greater choice	Making an informed decision requires a good level of financial literacy

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1. Consumers need a minimum level of knowledge to make informed decisions that are in their best interests. Institutions should retain the responsibility for providing consumers with communications that empower then to make informed decisions.
2. Consumers' freedom to choose must be coupled with access to products and services that meet their needs.
3. There must be mechanisms in place that enable individuals to hold institutions to account, such as sanctions and redress, as well as a need for oversight bodies that have the expertise to act as guardians and create societal accountability, e.g. Ombudsmen.

Q. Are there examples of regulatory or policy interventions which are either supporting consumers to maximise the opportunities afforded by the transfer of risk, or helping to tackle the potential adverse effects?

Q. What are the current barriers to interventions in this area and how might they be overcome?


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