



Institute  
and Faculty  
of Actuaries

# THE RISK

# GREAT TRANSFER

[www.actuaries.org.uk](http://www.actuaries.org.uk)

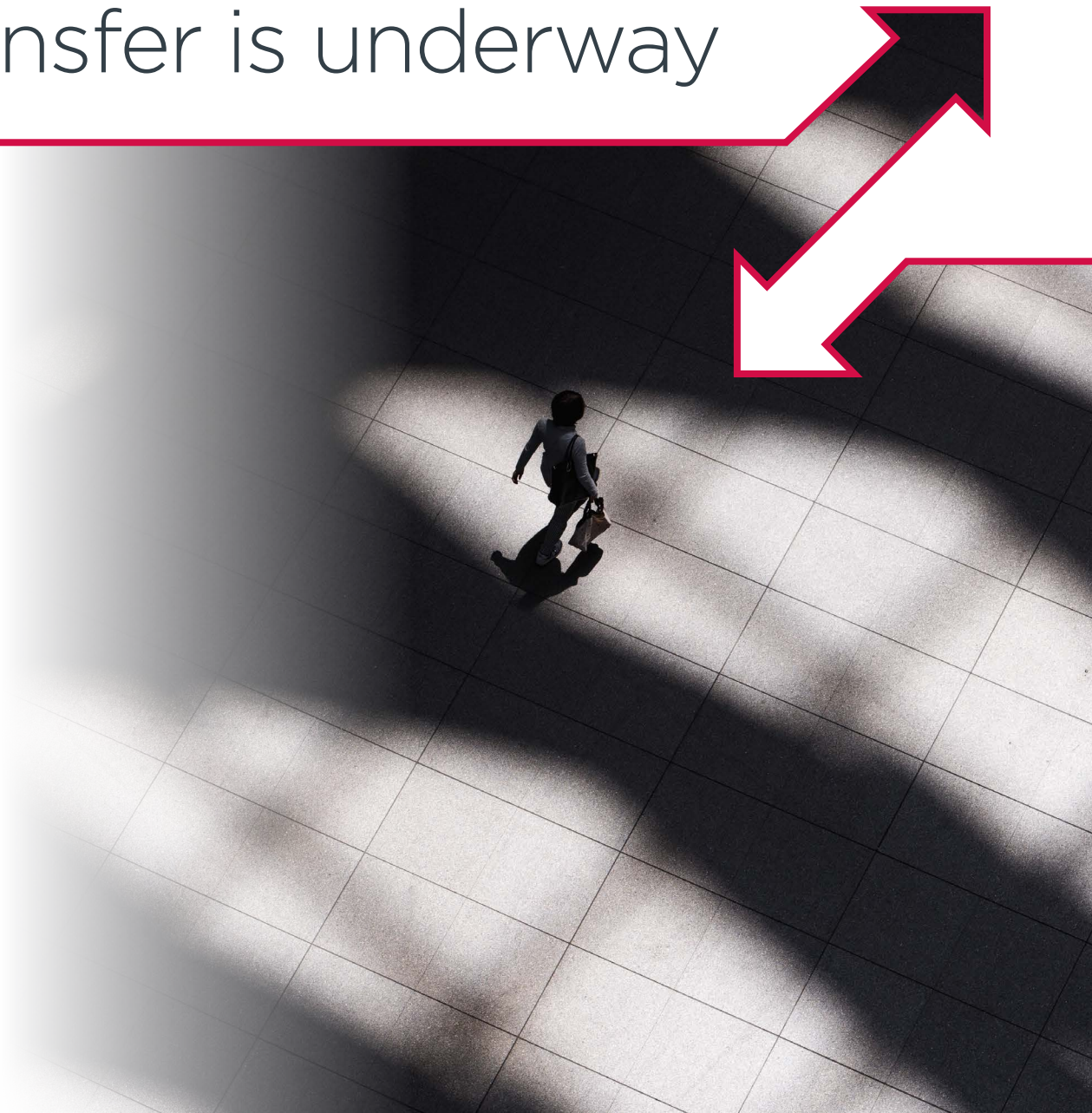


# The Great Risk Transfer is underway

---

Risks that were previously managed by institutions – an employer, the State, financial services providers – are increasingly the responsibility of individuals. Evidence of this shift can be found in a number of areas of public policy and actuarial work, and amounts to a profound change in the way that individuals manage their life and finances.

In the last two decades there has been an increasing trend towards institutions giving people more choice and greater responsibility. Taken on their own, these choices can be seen to liberate people by giving them the freedom to manage their affairs in a way that best meets their individual needs. But making these choices can often be extremely complex, and helping people to manage the risks involved requires effective approaches to consumer engagement, protections for those consumers who do not (or are unwilling to) engage, and product development to ensure that consumers can access products that are relevant to their needs in the short and longer-term.





# Who's affected?

There is an abundance of evidence globally that many people have low levels of numeracy and financial literacy, and that understanding of risk is low. There is also evidence that the products currently available are not meeting consumer needs. Not all social groups are affected by this trend in the same way or to the same extent, and some groups are better equipped than others to deal with the responsibility for the risks they face. This means that some social groups, particularly those who are traditionally vulnerable, are disproportionately affected by this transfer of risk.

To address these related concerns, the IFoA proposes that three elements of the financial services sector need to be strengthened:

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 them to make these 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.



# A call for evidence

Throughout the first half of 2020 we plan to collect as much evidence as possible, from across the world, about the extent and impact of the Great Risk Transfer. We invite you to submit evidence to <https://www.actuaries.org.uk/news-and-insights/public-affairs-and-policy/great-risk-transfer>

1. Where and how do you see risks being transferred from institutions to individuals in the area(s) you work in, or in wider industry and society? Are these transfers working in or against consumers' best interests?
2. What do you think are the main drivers of this phenomenon?
3. Which consumer groups are benefitting and which are being negatively affected by this risk transfer and how?
4. Are there any examples of regulatory or policy interventions which are either supporting consumers to maximise the opportunities afforded by choice, or helping to tackle the potential adverse impacts?
5. What are the current barriers to interventions in this area and how might they be overcome?

Submit evidence at [bit.ly/38wOdRC](https://bit.ly/38wOdRC)



# 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. Now, in a world of 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.



Institute  
and Faculty  
of Actuaries

# THE GREAT RISK TRANSFER

Find out more at [bit.ly/38wOdRC](https://bit.ly/38wOdRC)

## Beijing

14F China World Office 1  
1 Jianwai Avenue  
Beijing · China 100004  
Tel: +86 (10) 6535 0248

## Edinburgh

Level 2 · Exchange Crescent  
7 Conference Square  
Edinburgh · EH3 8RA  
Tel: +44 (0) 131 240 1300

## Hong Kong

1803 Tower One · Lippo Centre  
89 Queensway  
Hong Kong  
Tel: +852 2147 9418

## London (registered office) Oxford

7<sup>th</sup> Floor · Holborn Gate  
326-330 High Holborn  
London · WC1V 7PP  
Tel: +44 (0) 20 7632 2100

1<sup>st</sup> Floor · Park Central 40/41  
Park End Street Oxford · OX1  
1JD  
Tel: +44 (0) 1865 268 200

## Singapore

163 Tras Street  
#07-05 Lian Huat Building  
Singapore 079024  
Tel: +65 6906 0889

[www.actuaries.org.uk](https://www.actuaries.org.uk)

© 2020 Institute and Faculty of Actuaries