



Financial Inclusion Strategy

April 2024



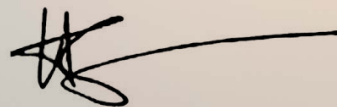
Foreword

As one of the UK's most important industries that helps people protect their property, livelihood and health – as well as prepare for the future – our goal is to ensure everyone can access the products they need. This is a difficult challenge, but while people slip through the net and live without adequate financial resilience, that's to the detriment not just of individuals but wider society too. We have a responsibility to play our part.

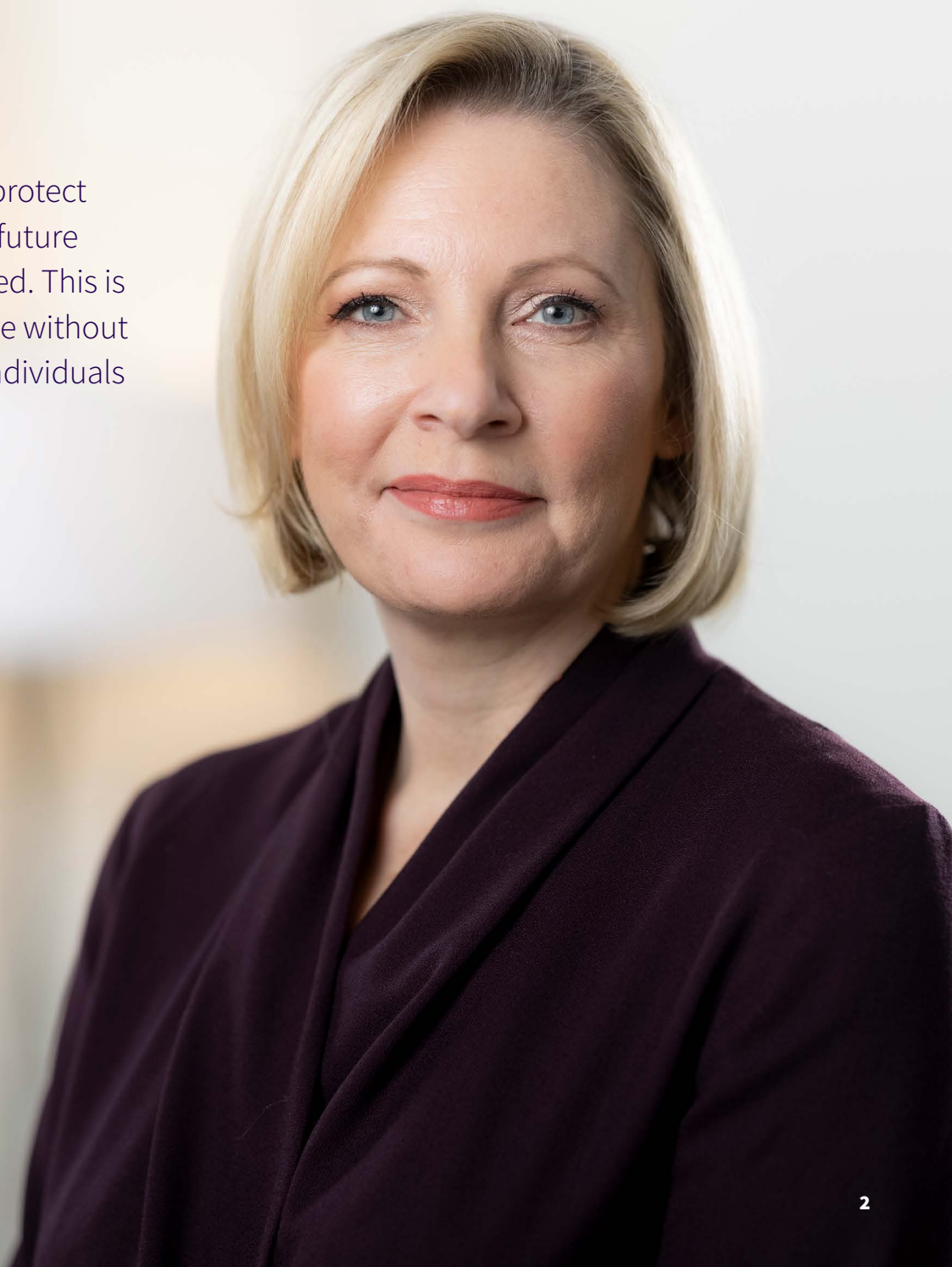
This led us to form our Consumer Advisory Group in 2022 – which gathers a range of vital consumer interest groups together to help inform our activity, flag key issues and advise on best practice.

This Financial Inclusion Strategy is the result of such input, with Fair4All Finance a key partner in helping us develop this plan – for which I'm very grateful. It sets out what we've already been doing, formalises how we will move forward and outlines how our activity can be amplified by the various partners we're aligning with on our mission to battle financial exclusion.

There are some focus areas: improving affordability of motor insurance, tackling the financial and economic impact of ill health and filling the advice gap. Here we can be more specific in our plans, but in due course this strategy can be applied to future societal challenges. Ultimately it aims to boost the nation's financial resilience and make our industry more relevant and accessible for everybody.



Hannah Gurga
Director General, ABI





Fair4All Finance testimonial

We applaud the ABI for taking a proactive stance on financial inclusion with this new strategy. Financial exclusion affects millions in the UK, limiting access to crucial products like credit, insurance, and savings, leaving many vulnerable to crises.

Our role at Fair4All Finance is to act as a catalyst - to help financial services providers understand the extent and needs of people in financially vulnerable circumstances, to research and evidence what works, to invest to test and scale propositions and sustainable business models and to build robust policy recommendations. Financial inclusion will only be achieved by us working closely with industry, government and regulators.

The ABI's commitment to addressing these challenges is a significant step forward, offering a foundation for collaboration and innovation within the insurance sector.

This strategy strikes a great balance by identifying key actions that address either the issues with affordability for certain groups or building resilience. By prioritising these areas, the ABI sets a path to make a transformative impact on countless lives.

It also opens the door for innovation of products, solutions or other interventions to meet the changing needs of customers.

From our ongoing work with the ABI and industry, it is clear the ABI and its members are serious about financial inclusion. This strategy is a demonstration of their leadership in this area and we're looking forward to continuing our work with the ABI and the sector as a whole to take forward the actions in this strategy. We urge other financial services industry leaders to follow suit, working together to create a more inclusive financial landscape that benefits everyone.

Together we can achieve positive change and ensure that no one is left behind in the journey towards financial security and opportunity.

Sacha Romanovitch

Sacha Romanovitch OBE
CEO, Fair4All Finance

The financial inclusion challenge

At a time when the cost of living has significantly increased with rising inflation, access to appropriate and affordable insurance and long-term savings products is simply not a reality for many people in society.

Fair4All Finance define Financial Inclusion as ensuring “individuals regardless of their background, income or personal circumstances are aware of and have timely access to appropriate and affordable financial products and services which enable them to manage their finances day to day, build their long-term financial resilience and wellbeing and participate in society”.

Fair4All Finance’s recent research defining six under-served consumer segments shows that at least 17.5m people in the UK are in financially vulnerable circumstances, with a spectrum of those who are in precarious circumstances to those who are fully excluded.

In this context, the challenge is stark and the call for collective and collaborative action has never been more pressing.

At least 17.5m people in the UK are in financially vulnerable circumstances

What we’re already doing

The work we undertake with our members has had either a direct or indirect benefit to supporting financial inclusion.

The ABI has long worked with government and other bodies to help improve access to insurance cover for high risks – whilst enabling the market conditions for insurers to accurately understand, assess and insure risks in a commercially sustainable way.

The Age Agreement, in partnership with Age UK and The British Insurance Brokers Association, aims to help older people find travel or car insurance. **The Code on Genetic Testing and Insurance**, agreed with the UK Government, provides reassurance about access to life insurance for those at a higher risk of genetic conditions. The industry-government partnership to set up **Flood Re** ensures those living in high-flood risk areas can access insurance up to 2039 – providing time for the UK and devolved governments to invest in flood defences that will reduce flood risk in the meantime.

In 2023, for the second year, our partnership with **Plain Numbers** and development of **Fairer Finance’s ‘Guide to Clear Communication’** showcased best practice for making policy documents and communications simple and clear to understand.

We have sought to explain the role and workings of insurance and long-term savings through campaigns such as **‘Dad comes home’**, and our call to action for consumers to assess their retirement needs and savings through our award winning **#PensionAttention** campaigns.





Our ambition and approach

Our ambition is for the insurance and long-term savings industry to play a leading, proactive and collaborative role to broaden financial inclusion across society through development of solutions which are effective, pragmatic and sustainable.

Over a two-year period, we will:

Understand the issues

Understand the issues and convene the right people, from government and regulators to consumer groups and third parties.

To build clarity of what lies behind poor outcomes for customers, share insight with members and identify where industry can play a role.

Amplify the impact

Amplify the impact of current industry work that supports financial inclusion or the resources of consumer groups and consumer campaigns.

To build the engagement with the sector's existing work and equip firms with the insights and tools to help better serve customers.

Focus industry-wide effort

Focus industry-wide effort on three specific issues where firms face barriers to act alone but where we can enable change collectively.

To identify and develop pragmatic solutions for industry-wide partnerships to improve outcomes.

Our approach

Understand the issues

Where challenges are complex, we bring together disparate perspectives from across industry and stakeholder groups to build a shared understanding of the impact on consumers and issues to address.

We will:

- **Convene the right people** – those with the right insights from consumer, government and market perspectives.
- **Explore the underlying issues** – using research, market insight and resources to get to the root problems, to build clarity and evidence of the problem to solve.
- **Share the insight** – with our members to use for their own work and with our member groups to shape the work of the ABI.



Amplify the impact

There are many groups – whether from industry, government or third sector – already undertaking good work to address specific inclusion issues. By working together and collaborating more closely there is an opportunity to align our efforts and amplify their impact.

We will:

- **Continue to engage our Consumer Advisory Group** – to explore opportunities for partnership to share, develop and promote resources and tools.
- **Develop and promote campaigns and resources** – that build awareness or call consumers to action, set out industry best practice and highlight innovation across the sector.
- **Work with Fair4AllFinance** – to leverage the insights from their segmentation of the 17.5 million vulnerable people in the UK. To promote their Financial Inclusion Plan to build engagement with their work and uptake of their resources by industry.
- **Support and promote the FT’s Financial Literacy and Inclusion Campaign (FLIC)** – by leveraging and sharing their research, insights and resources, putting our weight behind pragmatic policy recommendations and supporting them financially through our Covid-19 Support Fund.

Focus industry-wide effort

The insurance and long-term savings industry underpins our economy and society. The breadth of products and services that our members provide mean we have an interest in a diverse range of financial inclusion issues.

However, this strategy is focused on three specific areas where we believe it is possible to make a difference to consumers:

- **Motor** – improving the affordability of motor insurance
- **Health** – the impact of ill health on financial security
- **Retirement** – filling the advice gap



Improving the affordability of motor insurance

The challenge

The most acute insurance affordability challenge is motor insurance – a legal requirement for driving which makes it an essential product if public transport is not easily available or when a vehicle is needed for work, childcare or anything central to daily life. Motor insurance premiums are at a record high with the average premium in the fourth quarter of 2023 costing £627.

Insurers are experiencing inflationary pressures and delays in their repair and supply chains. The cost of parts and materials is rising, and the increasing cost and complexity of repair – due to increasingly sophisticated cars and the growing cost of labour – is adding to an existing shortage of skilled technicians in the automotive repair sector. The average repair cost in 2021 stood at £3,304, 64% higher than the £2,005 cost in 2014¹. Car theft has also increased, with ONS data showing the number of vehicles stolen in England and Wales up by 24% from 2021 to 2022. These rising costs have resulted in a difficult year for motor insurers and a study from market analysts EY estimates that in 2023 for every £1 motor insurers received in premiums, they paid out £1.14 in claims and operating costs.

The cost of providing motor insurance is a significant challenge that impacts all customers, and we know that certain consumer groups are affected more than others. But the industry is committed to helping address these issues. Concerns have been raised about a 'Poverty Premium' with reports suggesting that low-income consumers can pay £300 more for insurance than their wealthier counterparts and reports of an "ethnicity penalty" that, on average, people of colour pay £250 more than their white counterparts.

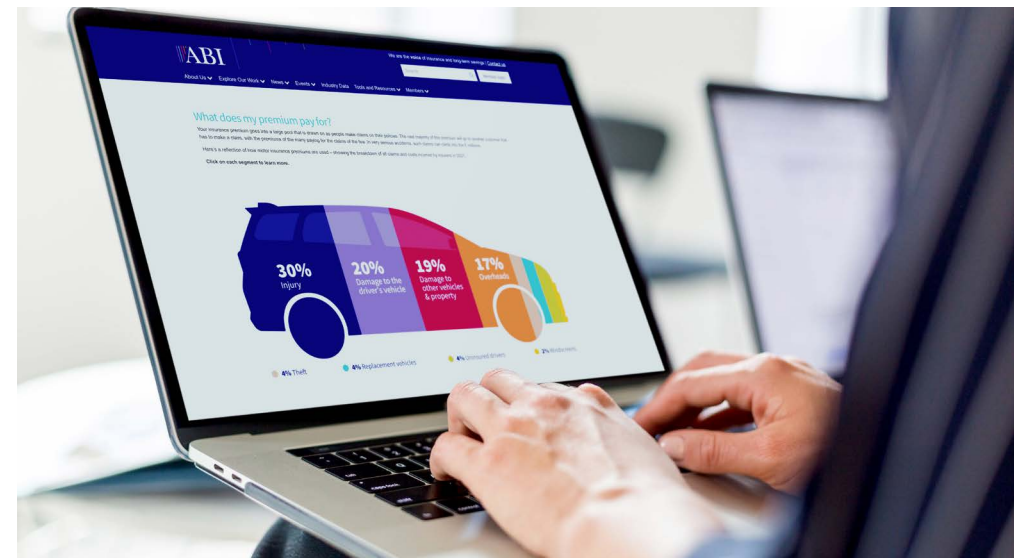
Insurers do not price on ethnicity or any other protected characteristics, but the risk factors associated with insurance claims – traffic density and accidents associated with certain geographical locations, for instance – are clearly highlighting different risks faced by people in society.

The challenge of improving affordability is an acute and urgent priority for industry, consumer groups, regulators and the government

According to data from Fair4allFinance, a majority of the 17.5 million people in financially vulnerable circumstances own cars. Given the legal requirements for motor insurance and the essential role of cars in daily life, the challenge of improving affordability is an acute and urgent priority for industry, consumer groups, regulators and the government. However, it is not easy given the competitive nature of the market, limited profit margins and increasing cost of providing insurance – not to mention the

government-imposed insurance premium tax rate of 12% which adds an average £67 to private motor policies (based on Q4 2023 premium data). There is more the insurance industry can do but many of the factors behind higher premiums are outside industry's control and need different parties, including government, to work together to tackle.

¹ "Damage & Repair: A decade of a fast-evolving car parc", Thatcham Research, 2023



What we will do

To address this challenge, we have worked with our members – and in consultation with the FCA and consumer groups – to set out immediate commitments and steps to improve the affordability of motor insurance. In particular, we will look to address the challenges faced by people of colour and those on low incomes.

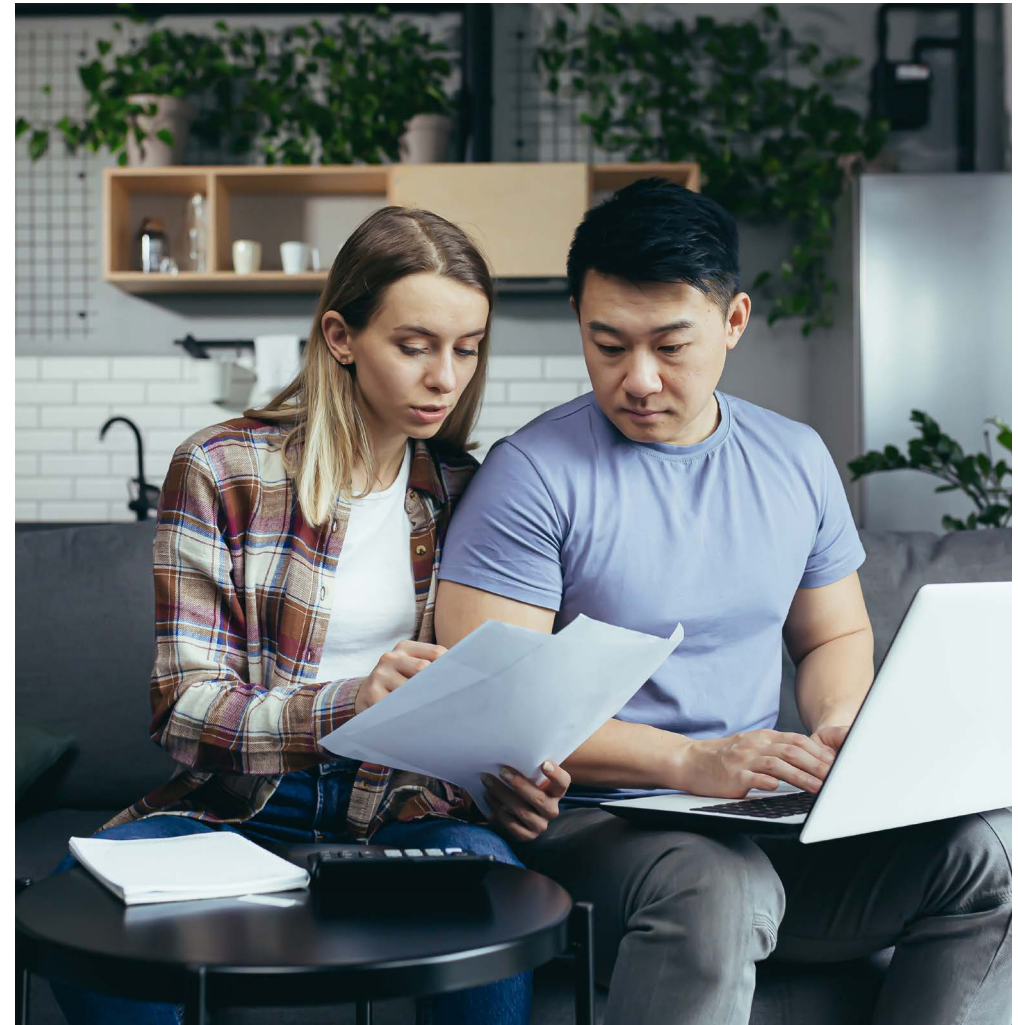
There are four areas where we aim to develop initiatives that will drive change, whether unilateral action by industry or in partnership with the regulator, government and consumer groups.

- **Help improve understanding and support to those who need it most to navigate the market.** So that consumers who struggle with affordability have more transparency of pricing decisions and clearer actions they can take to find affordable cover.
- **Set out a roadmap for industry, government and other stakeholders to tackle the costs of providing motor insurance.** So that motor insurance premiums are kept under control for consumers, taxes on premiums are lowered and risks are reduced for high-risk groups, such as young drivers.

- **Seek to address market practices that are unfavourable to those who can least afford it.** So that those with affordability challenges are not disadvantaged despite their best intentions to pay their premiums and manage their budgets.
- **Explore public policy solutions that improve affordability for low-income households.** So those living in high-risk areas without the means to mitigate their risk have their premiums subsidised.

Making progress to improve the access to – and affordability of – motor insurance, amidst the context of a challenging motor market and ongoing increased costs, is not easy. But we are committed to working with others to develop the initiatives that can improve outcomes for consumers over the short and the long term.

We are committed to working with others to develop the initiatives that can improve outcomes for consumers



The impact of ill health on financial security

The challenge

The UK is one of the few OECD nations to see a reduction in labour force participation in recent years, with 186 million working days lost to sickness in 2022. The link between ill health and poverty is well established with 2 in 5 people suffering from long-term ill health losing 10% or more of their earnings and those in the bottom 40% of the income distribution almost **twice as likely to report poor health than those in the top 20%**.

Tackling ill health related inactivity is at the forefront of the UK Government's agenda. But current proposals largely focus on returning those already out of the labour market to work through occupational health (OH) via employers.

While these measures are important, we believe this focus is narrow and there is an opportunity for insurance to play a greater role in improving health through the workplace and preventing people falling into long-term inactivity and financial insecurity.

Insurers are already making a major contribution towards reducing the length and frequency of long-term sickness absence. **Data** we collected from our members in 2023 helped to quantify this impact for the first time:

- In 2021, over 1.6 million people used the health services available to them through insurance. This included prevention services, early care, diagnosis, treatment, recovery, and support. These services were used 5.5 million times in 2021 – an average of 3.5 times per person.
- An analysis of around 16,000 vocational rehabilitation cases found that nearly 9 in 10 people remained in work following access to rehabilitation services provided by insurance.

2 in 5 people suffering from long-term ill health lose 10% or more of their earnings

We commissioned **research** to show how the impact of health and protection insurance on labour supply benefits the UK economy, and the potential for scaling up this impact. It identified three key areas of concern: acute labour shortages, record levels of health-related inactivity and badly managed workplace health.

It also quantified that doubling insurance coverage over five years could lead to additional benefits to business, the economy, and the Exchequer worth £800m in the first year alone. By the fifth year, this would mean 165,000 more people in work, as well as saving 28 million days of sickness absence.



What we will do

To reduce the frequency and impact of ill health, limit the likelihood and cost of income shocks and improve the financial inclusion and resilience of people in the UK, we are advocating for a new approach to futureproofing healthy working lives and increasing productivity.

The ambition should be that a majority of workers have access to financial and practical support to prevent and manage periods of sickness absence and return to work as quickly as possible. This would mean employers have access to workplace health solutions, including insurance, which help them to prevent and manage ill health among their workforce, reduce sickness absence, and limit long-term inactivity.

To reach this ambition, the UK Government should leverage insurers' strong economic interest in keeping people healthy and in work, which benefits workers, employers, and the government alike.

We propose **recommendations** that we will – working with others – refine and build support for in the coming years. Principally, these are:

- **Reform Statutory Sick Pay (SSP) to create a stronger safety net underpinned by more support for employers.** The experience in the Netherlands suggests that higher levels of sick pay can strengthen the employer incentive to invest in workplace health, as well as improve safety nets and deliver fiscal benefits.
- **Ensure that the tax system better supports low to median earners to stay in the labour market.** This can be done by reducing the tax barriers preventing employers from delivering better workplace outcomes for segments of the workforce that need it most. Insurance is a key part of the workplace health landscape, and greater take up amongst small and medium-sized businesses can help deliver the government's objectives to reduce sickness absence and health related inactivity. It should not be overlooked in favour of a singular focus on OH.

Recognising the role of insurance, alongside other tools, is a key part to reducing the impact of ill health on financial resilience and exclusion. With our members, we are ready to work in partnership with others to address the challenge.

We are advocating for a new approach to futureproofing healthy working lives and increasing productivity



Filling the advice gap

The challenge

Most people don't like thinking about financial planning for the long-term – let alone how to do it well. **39%** of all those contributing to a Defined Contribution (DC) pension haven't considered how much they should be paying in and **33%** of working adults have never thought about how they will manage financially in retirement.

Yet many people are left on their own to make decisions about building savings, investing and accessing their pensions, with ABI data showing over half do not receive professional advice before making a decumulation decision. More generally, only **11%** of adults have taken financial advice in the past two years. **23%** state they wouldn't take it even if it were free.

As a result, common problems arise, for example with consumers holding too much of their savings in cash, remaining invested in funds selected at outset, not consolidating, or withdrawing their pensions at unsustainable rates.

These behaviours leave savers with inadequate savings and inadequately diversified investment portfolios.

All these behaviours ultimately lead to lower resilience and living standards in later life when people rely on their savings to provide an income. This is a particularly worrying problem for those relying on DC pensions who need to start saving more for their pension and need to make active decisions about how to manage their pension pots at and in retirement.

Customers can access an array of information from their pension provider or investment platform, with many innovative guidance propositions available that make use of tax calculators, interactive graphics, educational videos, AI and more. But due to the risk of crossing the 'advice guidance boundary', many providers feel unable to give customers information or to supply information that will tend to influence a customer's decision – or anything that may be considered as advice.

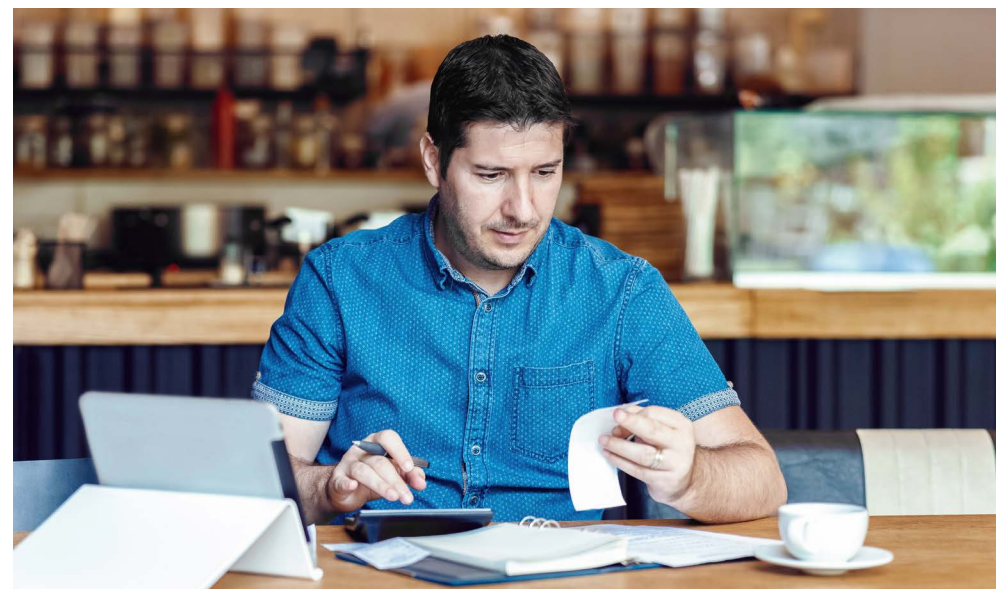
Only 11% of adults have taken financial advice in the past two years

This restricts providers from offering customers help to avoid harm and realise the benefits of savings and investment products. All the while, the cost barriers to financial advice remain.

There is an 'advice gap' with many customers needing support – and so a large part of society is excluded from achieving a financially secure future.

Developments in pensions over the last decade, such as automatic enrolment and pension freedoms, have increased inclusion by expanding access to products, but support is needed to ensure consumers can make the most of them.

Support for decision-making is the missing piece in ensuring that these developments work for all customers.



What we will do

We have helped shape the progress of the joint HMT-FCA Advice Guidance Boundary Review since it began in early 2023. The objective is to enable consumers to receive the help they want, at the time they need it, at a cost they can afford – so they can make informed decisions. We are supportive of both the ‘targeted support’ and ‘simplified advice’ proposals from the Treasury and the FCA, outlined in their recent policy paper DP 23/5.

Our consumer [research](#) with Thinks Insight & Strategy’s Behavioural Team evidenced that guidance tailored to an individual’s circumstances can be highly effective in improving financial decisions. The findings offer lessons for the development of a ‘targeted support’ regime by the FCA. For example, customers will often need a clear course of action presented to them to achieve better financial outcomes.

We will use further research to support the development of the government and FCA’s policy proposals. In 2023 we interviewed industry experts to learn lessons from previous attempts at simplified advice reform. We plan to publish our findings as part of our response to DP 23/5. Later in 2024 we will publish findings from our work to understand international approaches to financial guidance and advice.

Proposals to help fill the advice gap, such as targeted support and simplified advice, can improve the efficacy of wider government reform on pensions and investments, improving consumer outcomes along the way. For example:

- **Decumulation reform** – Trust-based schemes can leverage these solutions to more effectively guide their members to the decumulation services they will be duty-bound to provide.
- **Small deferred pots** – if the value of consolidation can be made clear to customers, then we can see greater consolidation of small pots.
- **ISA reform** – improved guidance to help customers choose ISA wrappers and investments within them can simplify ISAs for customers, increasing uptake.
- **Future Disclosure Framework** – the FCA is designing a leaner framework to replace the prescriptive, oft-ignored PRIIPs Key Information Document
- **PRIIPs Key Information Document (KID)**. Disclosure tailored to the customer’s circumstances will be more engaging and effective.
- **Value for Money** – enabling greater personalisation of support can improve the quality of service provided by firms, raising standards across the industry.



Tackling the advice gap by increasing the support available to consumers to help them avoid foreseeable harm can have a significant positive impact on financial inclusion within the UK.

It is a priority for us and for our members to ensure the final policy proposals from the FCA and government have a tangible impact for consumers.

Measurement

We aim to deliver against this strategy over 2024 and 2025. We will assess progress towards our policy recommendations with a report of progress published no later than Spring 2025. This measurement will include qualitative feedback from our members and stakeholders as well as quantitative lead and lag metrics relating to each of the three areas of policy focus.



About us

The ABI is the voice of the UK's world-leading insurance and long-term savings industry, which is the largest sector in Europe and the third largest in the world.

We represent more than **300 firms within our membership**, including most household names and specialist providers, providing peace of mind to customers across the UK.

We are a purpose-led organisation: **Together, driving change to protect and build a thriving society.**

On behalf of our members, we work closely with the UK's governments, HM Treasury, regulators, consumer organisations and NGOs, to help ensure that our industry is **trusted by customers**, is **invested in people and planet**, and can **drive growth and innovation through an effective market.**

A productive and inclusive sector, our industry supports towns and cities in building a balanced and innovative economy, employing over **300,000** individuals in high-skilled, lifelong careers, two-thirds of whom are outside of London.

Our members manage investments of **£1.5 trillion**, pay over **£17.2 billion** in taxes to the Government and support the UK's communities and businesses.

abi.org.uk



About Fair4All Finance

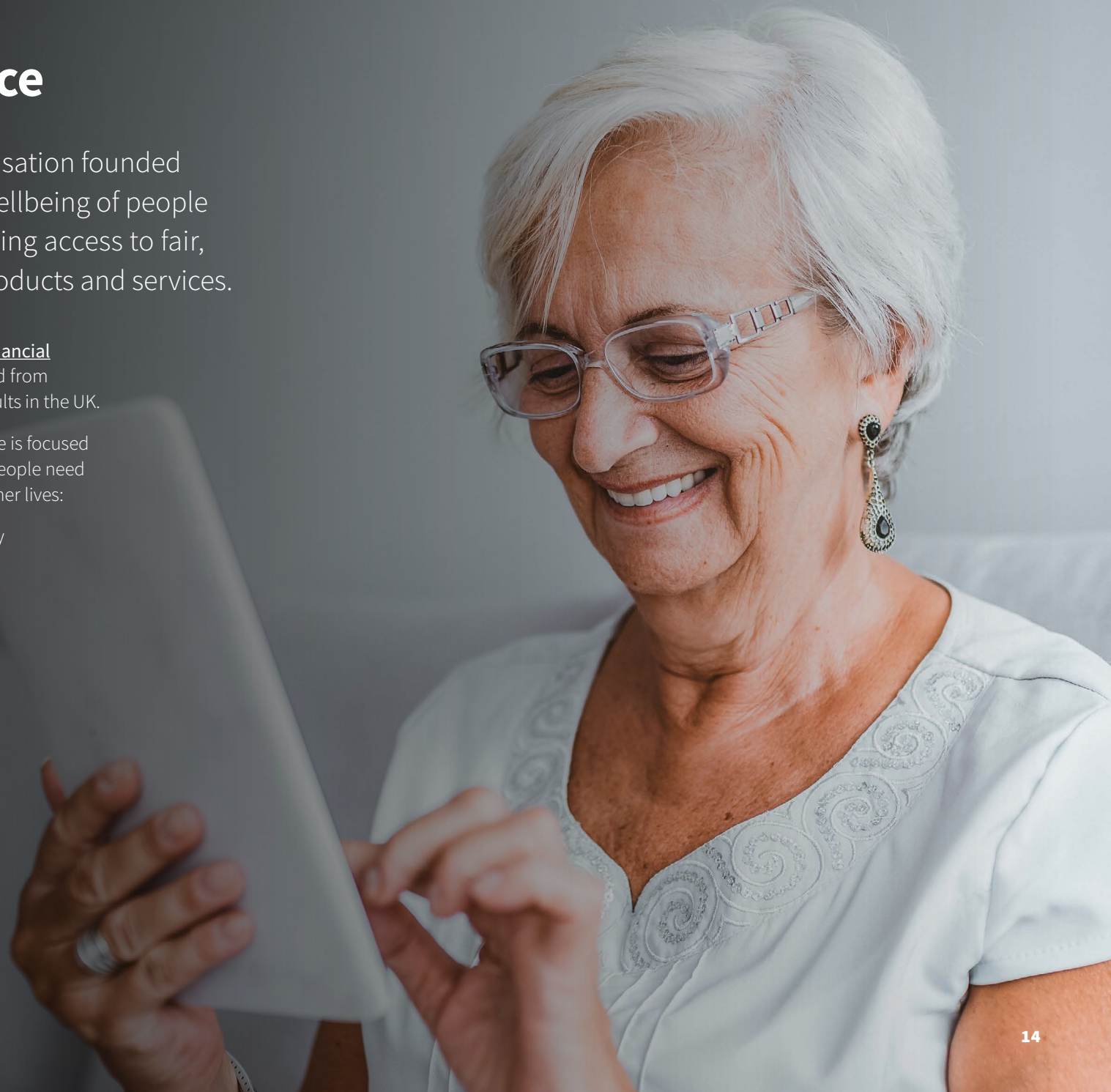
Fair4All Finance is a not for profit organisation founded in early 2019 to improve the financial wellbeing of people in vulnerable circumstances by increasing access to fair, affordable and appropriate financial products and services.

There are at least 17.5m people in the UK in vulnerable financial circumstances, who are poorly served or unfairly excluded from mainstream financial services. That's nearly a third of all adults in the UK.

Funded from The Dormant Assets Scheme, Fair4All Finance is focused on three key areas to make sure the sector provides what people need to manage their finances, build their resilience and lead richer lives:

- Increase the availability of affordable credit to sustainably meet customer needs
- Partner with banks and financial services providers to increase access to products and services
- Develop the market to consistently provide products that meet the needs of all customers

fair4allfinance.org.uk





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