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TAKEN BEFORE

FINANCIAL INCLUSION COMMISSION

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MR JOHN GODFREY and MR RON WHEATCROFT

Oral Evidence

Taken before the Financial Inclusion Commission

on Tuesday 13 January 2015

Members present

Sir Sherard Cowper-Coles
Professor Sharon Collard
Mr Laurie Edmans
Lord Archy Kirkwood
Dame Mary Marsh
Mr Chris Pond

Witnesses: **Mr John Godfrey**, Legal & General Group; and **Mr Ron Wheatcroft**, Swiss Re.

Chairman: Good morning everybody and welcome to what I think is the final day of hearings, apart from a day in Scotland on Friday, by the Financial Inclusion Commission. We are very grateful to the representatives of Legal & General and Swiss Re for coming along this morning. What I am going to do is ask the Commissioners to introduce themselves and then ask each of you to make opening statements and then we have got a series of questions. We will do a transcript for our own purposes. We are very grateful to Swiss Re who have put in a written submission anyway so thank you very much for that.

My name is Sherard Cowper-Coles. I work full-time for HSBC Holdings and I am leading the work across the Group on financial inclusion, both the outward-facing work, of which this Commission is part, addressing the regulators and those who regulate the regulators about the consequences, intended or otherwise, of de-risking and regulation, but also looking at what we as a bank can do both in the United Kingdom and around the world to address the problem of financial inclusion and exclusion in a practical way. On my right is the Vice Chair of the Commission.

Mr Pond: Chris Pond. My day job is with Kraeb Gavin Anderson, which is an international communications agency, but most of my time is spent on this Financial Inclusion Commission, plus I chair the Money Charity and the Standards Board on Equity Release.

Lord Kirkwood: I am Archy Kirkwood, a Liberal Democrat Peer.

Mr Edmans: I am Laurie Edmans, and I know you two guys, but for the record I am here from a pensions and life assurance background. I am also a non-executive director of the Money Advice Service.

Dame Mary Marsh: Mary Marsh. I run a charity at the moment and I have a lot of charity experience, but I have also an education background and I am a non-executive director of HSBC in Europe.

Professor Collard: I am Sharon Collard. I am based at the Open University Business School in the Centre for Public Understanding of Finance.

Mr Jervois: I am Matthew Jervois. I work for Chris Pond at Kraebe Gavin Anderson.

Mr Ghelani: I am Deven Ghalani. I am the Director of Policy and Practice, an organisation that bridges the gap between policy development and its implementation.

Ms Stidle: I am Lisa Stidle from Policy and Practice working as co-ordinator for the Commission.

Q. Chairman: Thank you all very much. Then we have got teams from HSBC and from Lloyds Banking Group at the back. John, would you like to go first and say a bit about yourself and then an opening statement and then Ron.

Mr Godfrey: I am John Godfrey, the Corporate Affairs Director at Legal & General. I suspect that Legal & General are quite well-known to you all in the Commission. We are obviously a major player in pensions and savings and investment markets and insurance markets and the investment management arena. I will not give you the full commercial.

Just by way of introduction, we study inclusiveness quite carefully around our product mix and it is part of our typical market segmentation exercise where we look across the markets and if we see a product that is very obviously under-represented among a certain market segment, and there is not a good reason for that, we try to take remedial action. Some products obviously are targeted at particular segments, but there are products for which we would like to have a broader applicability. We have a fairly low start point in terms of customer net worth for the sort of customers that we like to engage with. We are a mass market business and one of the observations I would make today is that it somewhat surprises me when people talk about, for example, annuity reforms, because there is always an assumption that we are talking about pot sizes of £100,000 or several hundred thousand whereas the reality is the average pot size is well below £30,000 and we start to accept annuity pots a little bit over £1,000 so really *de minimis* in the big picture sense.

Three points really by way of very quick introduction. Some of the most effective ways we think we can improve financial inclusion are those which combine a collective approach and behavourial economics or a nudge. So auto enrolment of pensions, for example, has been very positive for financial inclusion in our view with a 90%-plus stay-in rate in auto enrolled pensions.

We also believe group income protection is important where an employer applies insurance cover across the entire workforce. If you think, for example, of big retailers and supermarkets, it is important for financial inclusion that the lower paid people working on the check-outs have the same degree of cover as those in management teams, so group income protection can be important.

Another good example of this grouping approach is around home and contents cover, and the example I would cite to you there is some work we did around contents insurance for social tenants. Historically, social tenants have been largely ignored by the contents insurance providers because it is felt they move around a lot and they are not necessarily a good risk. This is not in fact necessarily true, but we found that the way to get over this problem was to work with the likes of housing associations to put some group cover in place so that if the television blows up in somebody's flat they have cover as part of the small fee they pay alongside their rent. We developed that alongside Shelter.

Another minor point I would make is that quite often intellectual property from third sector organisations, as (in this case) Shelter or when dealing with cancer victims Macmillan, can be hugely helpful in putting together policies that add to inclusiveness because these organisations know more about their client base than we tend to, so it is a good way to move things forward.

Another area where we like to use third sector intellectual property is around involving customers and we have got some initiatives going on at the moment in this sort of area of financial inclusion where we use the likes of the Samaritans to train our customer-facing call centre staff and so on because clearly in the life insurance and critical illness business many of the people who contact you are in a state of some distress because by definition something unpleasant has happened to them.

We think this grouping approach tends to work better than the repeated attempts by regulators and others to bring greater transparency to markets, which quite often just adds to the complication. You get more and more verbiage and more and more complexity in the name of transparency and in fact it is regulatory box-ticking. That is not to deny however that there is a high value in better and clearer communications. That is the first point.

The second point is that regulatory or policy change does not necessarily help with financial inclusion even when it is tailored and designed to deliver better customer outcomes. The Retail Distribution Review has had a negative effect in the sense that financial advice is less available on the high street. It is now more targeted at those with larger sums who are willing to pay for more complex advice. This feels to us to be an unfortunate side effect.

Pension freedom following the Budget, again it is undoubtedly going to be popular, but there will be cases where a decision not to annuitize will be the wrong one. There will be cases where people decline to accept the guidance that is on offer. We did a pilot programme in the early part of last year, admittedly before the Budget, and we were seeing how many people might take up free guidance and the result was very disappointing at 2.5%, so people do not necessarily want to be helped in making financial decisions. The general point about that I think is that where choice and responsibility is pushed in the direction of the consumer, which is the direction of travel of almost all financial services at the moment, most importantly, I suppose, to be their own asset allocator and even their own actuary, that does not necessarily lead to greater engagement in decision-making. That is the second point: be careful about regulation.

The third point is possibly the biggest point about financial exclusion is that we have in this country a massive money taboo. People do not like talking about money and so there is not much sharing among social networks, friends and family or anything else about these serious issues. We think that is as much of a problem as education in schools on financial inclusion, although we do quite a bit of that as well.

Just a final point I would make before we move on is that this topic is very relevant in the area of welfare reform, which I am delighted to see is on your list of questions, because we are going to get more of this in an environment where Government spending is constrained, whoever wins the next Election There is a clear lesson from auto enrolment that if you have a plumbing network or an infrastructure that works, that auto enrolment infrastructure could be used for other things which would encourage financial inclusion, things like, for example, life cover, income protection and effective and very genuine personal contributory benefits for things like unemployment and sickness. They can be delivered at good value if there is mass participation through either soft compulsion or good behavioural economics. It could be very affordable and we can talk about that in questioning if you like. We have done quite a lot of work on it under the generic heading of "Beveridge 2.0" where we think that after 70 years Beveridge was terrific but it needs a little bit of an overhaul. I would be very interested if anybody wanted to explore that further. Ron is also familiar with our work. At this point I will stop making introductory remarks and we can move it on.

Q. Chairman: Thank you, John, for some extremely interesting evidence which we would like to follow up in questions. Ron, would you look make a similar sort of opening statement?

Mr Wheatcroft: I am Ron Wheatcroft. I am Technical Manager for Life and Health Business for Swiss Re for the UK so really from my perspective the emphasis today is very much around long-term insurance propositions around life/health/sickness/disability et cetera. I am also a board member of the trade body the Investment and Life Assurance Group and I represent Swiss Re on some other trade bodies: GRiD, which is the group risk trade body, and the Association of British Insurers. We also work with government and we talk with government. We do not deal with individual customers because we are a reinsurer, but we believe that as part of what we do it is important that we are seen as a good corporate citizen through many initiatives globally. We use research to try to help identify and grow markets which we believe is for the good of the consumer and for ourselves ultimately as well.

I would just like to talk briefly about protection gaps or under-insurance. In 2002 we identified, we believe for the first time, the scale of the protection gap in the UK for life assurance policies. At that time we calculated the gap on a reasonably conservative basis to be £2,000 billion or £2 trillion (which is two and 12 noughts, I have to keep reminding myself). Subsequently that has grown by a further 20%. I appreciate that that is a very large figure which is really difficult to comprehend and it was certainly never intended to be a consumer message because it would be meaningless to consumers. Bringing it down to more basic messages, through research we have identified that around half the UK adult population has a gap. Simplistically, that equates to around £100,000 per person with a gap which again, if you take it back to UK average earnings is about four times

UK average earnings. It is greatest we think amongst people aged 25 to 40 with dependants and typically those on or around national average earnings. It is quite interesting, picking up on what John was saying about advice, that that is probably the group that has found access to advice most difficult as a result of the shrinking of advice models in the market, to which RDR is a contributor but not the sole reason.

In the context of income protection, another area that John talked about, there we have calculated the figure as £190 billion of annual benefit. Again, it is pretty difficult to put it into context, but the insured in-force market at the moment in terms of benefit size is around £60 billion, so the gap is around three times as much as the in-force, and around 11% of the UK working population is actually covered by a policy which pays them some income if they are long-term sick. Some employers do self-insure the risk so the remaining 89% are not without cover, but, frankly, it is very difficult to identify and assess just how big that self-insured market is. Employees move jobs much more frequently. There is a tendency we are finding for employers to shorten the benefit term. About 80% of all insured income protection is written through employers and so, building on John's point about group income protection, it is a really important part of the market. The retail market for income protection, frankly, is finding it pretty difficult as well, but we are finding that employers are moving to shorter benefit terms, typically two or five years' payments. This is partly to stabilise costs as a result of the difficult economic climate employers went through in the last decade but also reflecting the fact that covering an ageing workforce may tend to put up costs. Thus the income protection market is really important as well.

We do recognise that there is a section of society which really should remain the responsibility of the state. Nonetheless, again building on John's point, consumers are going to have to become more financially resilient. The workplace is where we all derive our income from ultimately, so we see that as a really natural starting point for increasing participation, whether through their employers providing or through individuals providing for themselves. It is interesting to reflect on the changing workplace. We now have no default retirement age and as a consequence employers could be looking at providing a package of benefits potentially ranging for workforces between age 20 and age 80. What we think that will do is create the need for greater choice within the workplace, so perhaps that will lead to a level of core benefits with greater choice above that, and that greater choice in itself may help to increase engagement.

Group schemes do work really well. Most scheme members are covered automatically without any underwriting at all provided they are at work on the day the scheme begins and for many, particularly lower earners, it can be the only insurance that they have in place. There is an issue that people lose their cover when they leave their employer unless they move to an employer that has another scheme. That is an issue we really do need to address as an industry. There is a bit of a conflict there for an employer in that if they are paying for the cover and the cost of providing an option for the individual to take the policy, then it may not be in the employer's best interest if they are actually using that benefit to try to retain staff.

There are few new schemes being written but once an employer gets a scheme in place retention within the market is remarkably good. There has been a reduction rate of around 1% a year in the number of schemes in force. Most of that would be down to mergers and acquisitions rather than through employers just deciding to remove the scheme. Most schemes, even with limited benefit terms, are providing cover for at least five years for their workforce. Like John, we think auto enrolment has been really good so far. It has done remarkably well and we are pleased with that, but we do think that auto enrolment potentially creates more opportunities for engagement. As people's pots get bigger they are more likely to take an interest in the size of their fund, but also there could be opportunities to start to branch out beyond the auto enrolment model and start to use that as a facility to provide other services for people.

If society does become more resilient we need to think about what does auto enrolment mean in terms of could it be applied to other products. Put really simply, if people's pensions contributions stop when they are sick maybe we should have a product where within the benefits we can just continue the payments. Those of us who have been around a long time will remember this as the pensions waiver, which was available up until 2001 but did not quite fit with the stakeholder model around at that time. We think there is scope to bring that back. We also need to ensure that the tax and benefits systems are aligned so for people who do insure it always pays to do so.

In terms of consumers, when we have researched this they often say that they find dealing with their finances dull, boring and we are accused, quite rightly in many cases, of using complex and jargon-ridden language. It is also interesting that the laws of supply and demand do not seem to work for simple life assurance policies. The market has seen reducing prices for simple level term cover yet new sales have been flat. They have not grown because prices have dropped. There is a bit more behind this than simple supply and demand. In the workplace we believe that many people think they have got more coverage than they actually have. We do think there is a place for an annual statement for people so that they understand what they do have and equally what they do not have. This all might help to trigger better engagement.

We think technology can be a greater enabler but only if people can be engaged better. If they cannot be engaged we just do not think they will use the technology. That is really important because the number of intermediaries has fallen. Often we find in research that consumers want a halfway house between doing it themselves and full advice. They might call it advice but it more around things like “I am doing the right thing, aren’t I?”

There has not been the growth in long-term protection sales remotely that we have for in general insurance sales for example, and I think that is because it is an occasional purchase rather than an annual one where people become familiar with it. We think there is a scope for simple advice models to fill that gap to give people a bit more confidence that what they are doing is sensible.

Finally just thinking about the role of employers, in our last piece of research, and I have copies of our latest report and I will leave them with you, 81% of employed people saw that their employer had a role to either provide or facilitate the purchase of risk benefits. Employers saw it slightly differently and understandably there was a reluctance to do that, but in a market where demand for employees means that these benefits might become more important as a differentiator in the reward package, we think that is important. Interestingly, fewer than half of those who saw a role for their employer thought that the role was just to pay for benefits. A lot of them saw the role of the employer as making it easy for me to do or making sure I get a good deal. Again, back to John's point, we do see the workplace as really critical to all this.

Q. Chairman: Thank you both very much. You both make insurance sound interesting! I have certainly got lots of questions, but I am going to throw this open to our other Commissioners because Lord Kirkwood has to go to a ministerial meeting and other things. Just before we do, can you both confirm for the record - we are asking this of all our witnesses - that you are broadly supportive of the aim of the Commission which is really to move financial inclusion the next stage forward in the United Kingdom? We have talked about the United Kingdom being a global leader in financial inclusion, but not all of us think it is about global leadership; it is about making the position here even better. Presumably both of you would support that, for the record?

Mr Godfrey: For the record, yes, absolutely.

Mr Wheatcroft: Definitely.

Q. Lord Kirkwood: That was very interesting evidence and thank you for that. I am interested in the impact of technology. You both indirectly and directly referred to technology and the role it plays in all this. To what extent is there a danger that if we are not careful technology will make the excluded even more excluded in all this? Do you have any general thoughts about what we might say as Commissioners about guarding against making the division between the haves and the have-nots in all of this worse rather than better?

Mr Wheatcroft: I think it is a very good challenge. To me it is really difficult to determine what the pace of change will be in the use of technology. If I just think back to where we were ten years ago and where we are now, it is frightening. I think where we have got to so far, the technology that we use for long-term products is actually quite unsophisticated. We use aggregated sites. We think that most people that are dealing remotely with insurers for long-term insurance are probably those who at some point in the market have had advice and as a result of that they feel sufficiently confident to do things on their own.

You might find, for example, somebody will buy life or health insurance cheaper. In some circumstances, depending on age and circumstances, it can be cheaper to replace existing cover. We think that is happening with people who often have been through the advice process where they have got embedded into their minds that what they have got is broadly what they need. In using technology and saying you can do it this way, I think we need to address a much broader question about how does it give the information and the help I need to work out what I do need rather than what I can buy. We can all make wrong purchases through use of technology in our daily lives, I guess, but with financial products it is a bit more difficult to understand what the products are, so I do think that there is a risk that it could actually create further exclusion and we do need to make sure that we address that.

***Mr Godfrey**:* Just to add a couple of riders to what Ron is saying, firstly, the evidence appears to be that while some people are very happy dealing remotely and digitally and all the rest of it and using technology, others are not, and there is a strange category in the middle where people do not necessarily follow a traditional if you want to call it analogue journey or a digital journey but they will do a bit of both. They will use the net for example to find out broad guidelines on pricing and then they will want to talk to somebody on the telephone or get into email or more traditional methods of interaction. Thus you have to give a high level of choice and that will probably remain the case for maybe a generation until people are absolutely used to almost universally dealing on-line.

The second point is that technology as it deals with customer relations is one part of the mix. The other part of the mix is that technology is helping to make our products much cheaper. The more efficient the back office processing is the faster you can underwrite and accept business and so on and the easier it is to deal with a mass market. Auto enrolment again is a good example of that. It is efficient and cheap to provide because the technology exists and the people are in place.

***Mr Wheatcroft**:* If I could come back with one more point on that. Technology will undoubtedly make products simpler because providers now have to go through quite a rigorous process to demonstrate how they develop a product, what a product is and how that product is distributed. Complex products will tend to be those that are available through advisers. Simple products will be essential in terms of what the proposition is for using technology better.

Q. Mr Pond: Lots of really encouraging things: this big picture thinking about what the future might be in terms of protection and the new Beveridge sort of approach, the use of auto enrolment and group insurance. You answered my first question both of you which is that could auto enrolment be used in other areas of income protection. From your point of view, it clearly could be. And on the group insurance point, the one question I had, John, in terms of the work you are doing with Shelter and the housing associations is whether you see that as part of your CSR or whether these are seen as long-term customers? The other more general point in terms of using the workplace approach generally is could we use that in other areas as well in terms of, for instance, regular lifetime savings scheme and not just the pensions bit? Also, does it address the fragmentation of the markets we are seeing: the growth in zero hours contracts and self-employment, none of which merely allows a mechanism for delivery of benefits in the way you are describing.

Mr Godfrey*:* First of all on how you could use auto enrolment to provide other forms of product, there is a very simple example which is the one that we use when we talk to government which again is based on the law of big numbers where you have enough people in a scheme. This really would be a form of cover for people who are unable to earn because they fall sick. Our fairly rough calculations, but nonetheless done by product by people inside the business, are that if you look at somebody who earns £27,000 (so a little bit above the average) and you apply a premium of 0.5% of their earnings, they are paying a premium then of about £130 a year or £11 a month, in return for which if they become too sick to work their income will be replaced to the level of 40% for 12 months, which is typically between two and three times (depending on their circumstances and family and all the rest of it) what they would get on contributory ESA in those circumstances. That is how you might be able to use it.

To come to your second point about savings - and we have done some work on this – you could structure a scheme like this either as an insurance product or potentially as an insurance product with a savings element to it. You might want to adjust the pricing if you do that. For example, as auto enrolment develops, you could have an auto enrolment pot with a top slice to which people have access if they need to draw on savings. Those sorts of savings, the way we see it (and we did some work for Government on this called "Rainy Day Savings") is it is rainy day savings, so it is less about becoming too ill to earn a living or catastrophic events like that and more about somebody suddenly needing £500 because their boiler has blown up. It is those sorts of events that we cover. It is immensely important to do it because our research (we have a thing called "Deadline to the Breadline" which we do regularly a couple of times a year and it tells us that the average British family has 28 days' worth of savings. If you look at the average family where the breadwinners are of working age, it is down to about 14 days' worth of savings. Retired people have more put aside typically. A third of all families have no savings at all. Having these rainy day amounts available somewhere would be a huge step forward. So I think those were probably the main points you wanted to cover. Was there anything I have missed?

Q. Mr Pond: In terms of the work you are doing with Shelter and the housing associations, is that sustainable or is that something that is part of CSR?

Mr Godfrey: We do not really draw a really hard and fast boundary between what is CSR and what is business. In fact, we try to integrate as much of the CSR work in the business as we can because we have taken the view that it is more use for everybody concerned if instead of just writing cheques to charities we like we actually buy some intellectual property and use them as a service provider and remunerate them that way. We have a relationship with Shelter across all sorts of things including housing investments, but this was a piece that was led really out of business.

Q. Professor Collard: I just want to pick up on the point about the insurance schemes for social housing tenants because I think it is an area where insurance firms have tried really hard and there have been lots of developments around having group cover and insuring rent schemes and that sort of thing, but the problem from my understanding is that the take-up has generally been quite low by tenants themselves. I wondered what your experience was with the Shelter scheme and whether you had found any ways of encouraging take-up?

Mr Godfrey: The secret to better take-up is not necessarily going directly to the tenants, but simply saying to a housing association if you put 30 pence on the weekly rent your tenants will all have this cover so you bypass it in that sense because clearly you are into this problem that insurance is always, as they say, sold and not bought. If I were to say to you, “Would you like to give me some money and if you do you will have this amount of cover or would you rather no?” there is a high probability that you will say, “I do not need to do it right now. I might think about it next month when I am feeling a bit more "flush", or whatever it is. It is almost better to go to the agent for the tenant rather than the tenant themselves.

Q. Professor Collard: Is it something tenants can opt out of or is it a blanket policy that covers all tenants?

Mr Godfrey: It varies from landlord to landlord.

Q. Dame Mary Marsh: John, you said there is a massive social money taboo from which we suffer. That is very sharp and right and that means that even with auto enrolment I think that is an area where employers have struggled sometimes to get the engagement with what is going on there. What is your view about financial education, what we are doing, what works, where you think we should be doing more, what you are doing that you think is really adding value and how quickly? You talk about behavioural economics. Is there something around the nudge or the behaviours that we can do to try and shift this constraint?

Mr Godfrey: I guess first of all on financial education in schools. I have been in L&G for six years and we have always been involved in it so it pre-dates that. We have recently revamped the programme because it is now more officially in the curriculum. We think the key thing to it is largely about practical exercises. I have been to a number of schools who have been doing it and taking part and getting 15-year-old pre-GCSE pupils to engage in this you have to have a very practical exercise where, for example, you are saying to a group of four, "You now have jobs which give you the following income. You are paying this much in tax; you are paying this much in rent; you are sharing this flat together: how are you going to budget for a week?" You have to boil it down to very practical things. Theoretical money discussions are of no interest so far as I can tell from taking part in these. That is the school bit. It is quite intensive and quite time-consuming to do it as an industry player and, I guess, if we and most of the other financial institutions across the broader sector are doing this and we are still struggling to get into the schools, with the best will in the world. The other piece about it is the money taboo which affects adults. In some parts of society if you go to a dinner party or otherwise if you go to a pub, people will always talk about what house prices are doing, but they will never talk about what might happen to their pension or what will their spouse get if they drop dead tomorrow. There is a great taboo about these things. There are probably some nudge things that could be done which are as simple as the job of featuring these sorts of things occasionally in a story in soap operas, which seems to be a way to transmit messages about eating your five a day for example. We want to get to that level and boil it down to something simple and get people talking about it.

Mr Wheatcroft: I think it is a bit unfortunate when we do see coverage in soap operas that it does to start from quite a negative perception of the industry, but that is probably just a legacy of our past. One of the things I would like to mention is that although we do not deal directly with consumers we are working with a number of our clients looking at how behavioural economics can impact on messaging. Like John, we have a view that we can talk a lot of theory but it is best to try and get your hands dirty on these things. We are working with a few clients on different propositions and ideas such as testing different forms of renewal notice to see which has the better impact compared to others.

We can give you a summary of some of the work that we are doing on that, subject to some client confidentiality, if that is useful. We certainly think the initiative that the FCA is taking to bring behavourial economics into its thinking is a good one. We are very supportive of that so we are trying to bring that in on a practical basis and we have done some work with the London School of Economics to help support us as well.

Q. Mr Edmans: In some respects I feel I ought to be sat down there on this topic, but let me have a go. John, one of the stunning numbers you mentioned was that your research shows that only 2.5% of people take up the free guidance that is on offer. I must say that accords entirely with all my experience and currently I chair the Trinity Mirror Pension scheme. We have about 500 people a year leave us and the company pays £750 for people to take financial advice and last year one did. We do try quite hard to communicate as a company and to get the message across. My question that goes with that is, and it ties up with your point about this culture where people do not like to talk about money, is what can we do about it? It seems to me there is a huge difference between what people are able to do, because I know from my Trinity Mirror experience, these are not stupid people, with average earnings of £26,000 a year, and if you talk to them for two minutes, and I talk to a lot of them, they understand what they are doing, so it is not, in my view, an ability thing. It is not the availability of the service because there it is, it is there, it is 750 quid for nothing, so it is about engagement. What can we do about the engagement on it?

Mr Godfrey: Gosh, I wish we had an answer to that because we would have done it by now.

Q. Mr Edmans: Let me ask a bit more helpfully then, are there any particular points in somebody's life when you think people are more susceptible to overcome this reluctance to engage with their finances than otherwise?

Mr Godfrey: Yes, I think there are actually. Just as an interesting not quite statistic but it is backed up by statistics, the evidence is that when people come to decide what to do about their pensions, they spend less time on that, which is a major decision, than they spend deciding where to go on holiday for that particular year, so it is just not a fun purchase having to do this. I have a lot of sympathy. I do not particularly enjoy going through my personal finances either. However, times in people's lives when it is appropriate to think about these things and when it is easier to get them to think about these things, the most obvious one and well-known to the life industry is when people start families or add to families. That is a moment when new parents quite often think, "I now have more responsibilities; what should I have in place to meet those responsibilities? What if…?" and so on. That would be one point.

I think there is also a strong argument for starting to try to engage people with funding for retirement and what they are going to do about living in retirement much earlier. One of the issues with the Government guidance proposals, and it is resource-constrained, is of course it is about the decision you are about to take. Really people should be thinking about this ten years earlier at least and that is probably a good point at which to try to talk to people.

The third point when people quite often take decisions about savings and protection and so on is when they move house. From the Legal & General perspective we operate a thing called - and this is a very commercial part of what we do - the Mortgage Club, which is a lot of providers of intermediated mortgages, customer-facing and people go to them, get their mortgage and they will be given a somewhat exclusive preferential deal because we buy in bulk from the mortgage providers and at the same time they will be asked if they want to review their life cover and other things to protect that house and that new liability they have taken on. We probably sell almost half of our life cover alongside a mortgage so that is a key moment.

Q. Mr Pond: I wanted to ask Ron's advice on that point I was making about how the workplace approach fits with what is happening in the market generally. As I mentioned, the growth of zero hours contracts, self-employment, et cetera, are there ways in which we can adapt the workplace approach to make sure that those people are also covered? The other point is PPI because the debacle (and our FCA representative is not here) with PPI must surely have undermined confidence in protection policies more generally? Are you seeing that and is there a way of overcoming that in the financial services industry?

Mr Wheatcroft: If I can pick up the first point, the self-employed is an issue which has largely been ducked and I think it should be possible to have a collective approach to self-employment. I think an affinity marketing approach there would be attractive because self-employed people do not just work in a vacuum on their own, they do work with other people. I think we need to find creative ways where we can apply that group approach which will be inclusive of the self-employed as well. There is more work to do on that. Clearly they will have accountants in most cases, but they are not necessarily dealing with the financial issues other than the tax and accounts that they normally do.

PPI is a legacy. We have to move on from PPI but it is very difficult to do so given where we are in the history and ambulance chasing and everything, but we do have to move on. We believe that it is a barrier to people taking up income protection because on the face of it it sounds quite similar. 'Income protection' actually is a very poor name for the product because it does not tell you when your income is protected, so in terms of terminology we should hardly be surprised if people think income protection is about unemployment insurance because there are some unemployment insurances which are called income protection.

So we do tend to tie ourselves up in knots and we do have to move on at some point from PPI. The way we need to do that is by demonstrating we are operating an ethical approach in the way we work. Legacies last a long time. Whenever we do consumer research people talk about small print in policies yet most policies now are reasonably user-friendly, they are clear, transparent and they do not have small print, but still people have this perception which goes down the generations, so yes, it is a legacy but we have to move on from it.

Q. Chairman: Can I ask you both to look forward to ten years or so of pension liberalisation and what consequences you see there if the take-up is as small as you suggest? Are there big potential problems of finance exclusion with an increasingly ageing population, people making unwise decisions to liberate their pension pots and, if you think there are problems, what are the sorts of ways in which they ought to be mitigated and suggestions this Commission might be making now for addressing a problem that could be quite long term?

Mr Wheatcroft: I think the biggest potential problem is if people lose interest in saving the right amounts because, if we do not address getting the money into the funds in the first place, that creates its own financial exclusion that we really do need to address. If we look forward ten years, I think the guidance guarantee work will probably look very different to how it looks today.

I would hope that everybody involved in it will learn the lessons from the research. Generally the research will show some things but experience will not be exactly as the research shows, so we need to learn the lessons about how are consumers benefiting, what are the barriers, what is not working and be prepared to admit it is not quite right and change it. I would hope that would be the case.

By auto enrolling people we are actually making them quite lazy in terms of thinking about their financial decisions, and that is a big challenge, so somewhere along the way we need to begin to get into what events will get people to think more about, "Do I need to put more in ten years before whenever I am going to retire, if I am going to retire?" I think that guidance is not a single conversation. We need to make sure that people have the ability to go back and seek clarification and make sure it is very clear where guidance becomes advice in language that consumers understand. It is a big challenge but we do welcome the changes, we have to say.

Mr Godfrey: A few additional points. I think with the new pension freedoms some people will undoubtedly make poor choices because most people tend to under-estimate their own life expectancy and equally under-estimate the cost of living that they will face. I do not think there is going to be, to quote Steve Webb, a surge of mad spending on luxury goods and so on but the risk is of more incremental over-spending by people who then find they are 85 and they have now run out of that money. It is not an insuperable problem for a number of reasons. The first is Steve Webb was absolutely right as Pensions Minister to put the basic state pension on a firmer footing before going down this liberalisation route so there will now be (assuming no change in future Government policy) a decent state pension or a livable state pension underpinning people's income. The bigger problem on a ten-year view is really what is going to happen around care prices because with longevity extending and care becoming very expensive in later life something is going to have to give in that area. The insurance industry has found it very difficult to come up with straight insurance products or anything else that fills that gap because it is hard enough getting people to put money aside to live in retirement never mind asking people ahead of time to put money aside to live in retirement and cover the eventuality that they might get too sick to look after themselves. It is a really big ask to do that, which leaves you another thing which is interesting on a ten-year view, and it will be no surprise to you, Chris, that equity release is going to be hugely important because if you look at the amount of housing equity across the UK that is owned by people of post-retirement age, that is really where an awful lot of the money sits at the moment. Can people either downshift or can people liberate some of that money through equity release to fund their living costs? Equity release needs to be made more widespread and a more acceptable product. It is a good product and has lots of potential and it needs more work. As far as down shifting is concerned, you move into another area of policy altogether, which is we need to have more housing that is built to give people a choice of the right sort of housing that they want to down shift to in old age. Those are two of the big ten-year problems that we face.

Mr Wheatcroft: In terms of care costs, we believe it is important to allow people to pre-fund their potential care costs in the future. That market does not exist at the moment. There is a market for people about to go into care where they can buy an annuity, which at current interest rates gives quite a modest tax break for paying care fees. We are keen to see the development of products, for example extending an income protection product which could provide a element for care either in working life or outside working life, possibly adding a care-related benefit to a simple whole life assurance policy because people are going to have to insure for older ages and they are going to have to buy more whole life type covers rather than products that cease at 55, 60 or 65.

We will be talking directly with the FCA because the rules which determine who can give advice on care products require a separate qualification, which for people going into care we strongly support but we think that, for example, somebody in their 30s or 40s adding a modest care rider you do not need the level of regulation that is there at the moment, so we do think that there is scope, effectively, to take out a chunk of product regulation where it is a pure protection product, so we think that will stimulate the market. It will not create a massive market but it will begin to stimulate and open up the opportunities for more product developments.

Chairman: Thank you both very much indeed. It has been an extremely interesting session. If you have got any material research, and I know you have brought some papers Ron, but anything else you would like to send us, please do and if upon reflecting on this session there are points you think you might have covered, but it has been an exceptionally rich session and thank you both very much.