ASSOCIATION OF BRITISH INSURERS – WRITTEN EVIDENCE (EUC0112)

The economics of Universal Credit

The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry. A productive, inclusive and thriving sector, our industry is helping Britain thrive with a balanced and innovative economy, employing over 300,000 individuals in high-skilled lifelong careers, two-thirds of which are outside of London.

1. The UK insurance industry manages investments of over £1.7 trillion, pays nearly £12bn in taxes to the Government and powers growth across the UK by enabling trade, risk-taking, investment and innovation. We are also a global success story, the largest in Europe and the fourth largest in the world.

2. In response to the Economic Affairs Committee call for evidence on the economics of Universal Credit, the ABI has not sought to answer the individual questioned posed, but instead this briefing provides an overview of how the current Universal Credit rules impact on protection insurance.

What is the role of protection insurance?

3. Protection insurance products provide vital financial support in people's time of need and last year the insurance industry paid out a record £5.3 billion in protection claims – representing an increase of more than £200 million year-on-year.

4. Individual Income Protection (IIP) is a form of private insurance bought by individuals to provide them with an income if they become unable to work due to illness or injury. 148,000 policies were sold in 2018, up more than 50% on 2014. In 2017, some one million policies were in force. At the start of 2018, there were 10,600 claims in payment.

Interaction between Universal Credit and Individual Income Protection (IIP)

5. Many people who have, or intend to take out, IIP or other forms of protection insurance will not consider themselves typical state benefit claimants. However, as UC also extends to working tax credits and child tax credits, its scope will cover lower- to middle-income working households. It is important to note that most protection policies are sold through intermediaries. When a consumer takes out a protection policy, the claim will depend on a number of factors. For example:

   - what their household and financial circumstances will be at that time,
   - if they will want or choose to claim UC benefits,
   - the state benefits amount and rules operating at the time.

6. All of these factors are out of the control of the customer. The customer would have purchased the policy recommended to them by an adviser. IIP policies are long-term policies and regularly written for 25-year terms or more, over which period the state benefits system and the policyholder's personal circumstances may have changed. This is one reason why insurers check claim amounts against salary at both purchase and claim

stage. If a policyholder bought a policy 20 years ago in order to cover their repayment mortgage, it is very likely that any claim amount now would be much greater than their mortgage repayments.

7. It is also unlikely that the intent to protect a mortgage would be specified in an IIP policy as insurers could not reasonably have taken account of the impact this would have many years into the future.

   - IIP, which can be used to help repay a mortgage, plays an important role in improving the financial resilience of the employed and the self-employed, by providing a secure income in the event of an individual not being able to work due to injury or ill health.

   - Under the present arrangements the benefits provided by an IIP product are treated as 'unearned income' and therefore for every £1 claimed under the policy, the claimant loses £1 of Universal Credit entitlement.

   - According to the Centre for Economic and Social Inclusion (CESI)[1] there is a risk that Universal Credit reduces the incentive for middle-income households to make provision for themselves, resulting in higher levels of welfare dependency, lower levels of financial resilience, and poorer employment outcomes for those with long-term health conditions and disabilities due to the lack of access to rehabilitation services.

8. Furthermore, the New Policy Institute (NPI)[2] recently estimated that 54% of all IIP policyholders are estimated to have an entitlement to UC if they become unable to work due to illness or injury and have no IIP to support them. However, 39% of IIP policy holders would lose UC entitlement as a result of claiming on their policy. For a further 10% of policy holders, the value of their policy would be eliminated – there is little point in them claiming on their policy because they would lose an equivalent amount in Universal Credit.

9. Having established the principle of a disregard for mortgages with the Department for Work and Pension (DWP), we need to make its application easy. Application of the DWP guidance can only fairly be established at the point of claim, and we want this to be both simple and fair for consumers, DWP adjudicators, advisers and insurers. Implementation of a solution at claim stage can be applied across new policies and existing policies, passing both the simplicity and fairness test. We believe further discussions with the DWP and the ABI should concentrate on this.

10. *When the DWP receives a claim, they base their assessment on the customer's financial position at that point in time, not a time in the past. We believe the insurance disregard decision should also be based on the reality at claim, not intent in the past. A bank statement or direct debit showing payment of mortgage would be an obvious means of doing this.*

11. **The ABI is therefore calling for all proceeds of an insurance policy, where it is used to pay off, pay down, or service any form of loan commitment, including**

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[1] Centre for Economic and Social Inclusion (CESI), 'Getting the balance right; social security and income protection' (published in July 2014) https://www.abi.org.uk/products-and-issues/topics-and-issues/welfare-reform/key-findings-from-cesi/

[2] New Policy Institute (NPI), 'The impact of individual income protection on universal credit and the implication for policyholders'): https://www.abi.org.uk/globalassets/files/subject/public/protection/npi-for-abi-standalone-summary-sept-19.pdf

mortgage loan payments which are evidenced through a bank statement direct debit or paid directly to a loan provider to be fully exempted.[3]

12. **It would also be desirable to have mortgagor and renter parity, especially given shared equity schemes to aid first time buyers, with a means-testing disregard being made available to renters should they choose to use the claims proceeds of a protection policy to service a rental commitment.**

13. We believe that these measures combined would more closely align the Universal Credit rules with wider Government objectives, prevent the creation of significant disincentives for consumers taking out their own provisions, and avoid higher levels of welfare dependency for those with long-term health conditions and disabilities. According to the NPI, "being more stable and certain than Universal Credit, IIP's net value may rise over time for someone who cannot work for a prolonged period of time. Unlike means-tested support, IIP does not discourage or limit savings"[4]. Overall, a reduced uptake of IIP would lead more people to depend on state welfare benefits.

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[3] Written Evidence from the Association of British Insurers (ABI), Work and Pensions Committee inquiry into Universal Credit rollout (published February 2018): http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/work-and-pensions-committee/universal-credit-rollout/written/78467.pdf

[4] [4] New Policy Institute (NPI), 'The impact of individual income protection on universal credit and the implication for policyholders'): https://www.abi.org.uk/globalassets/files/subject/public/protection/npi-for-abi-standalone-summary-sept-19.pdf