Broadstone

The Life Insurance Market: The Mutual Impact

December 2024

Foreword

At Broadstone we know first hand the importance of the UK mutual insurance sector. The participants not only contribute to the financial economy through employment and investment, but mutuals also serve a vital role in supporting the health and wellbeing of wider society. For example, we estimated the provision of health protection policies by mutuals saved the NHS, welfare state and employers almost £1bn in 2022.

There are many challenges facing the UK insurance market, however we believe mutuals are uniquely placed to approach these, with businesses built on trust and putting members first.

We welcome the government's pledge to double the mutual sector, and anticipate the regulator's reports assessing the current mutuals landscape will highlight the potential for growth within this market.

Ewen Tweedie

Actuarial Director

The Life Insurance Market

The Challenges

The challenges facing the life insurance industry are not new, however they continue to increase in scale and complexity:

- The protection gap, retirement gap and savings gap continue to prevail, evidenced by shortfalls, low financial resilience, and poor outcomes for the population overall.
- The population is continuing to age, exacerbated by historically low birth rates, longer lifespans and other demographic shifts.
- There is a background of economic uncertainty – cost of living pressures continue to linger as family finances are stretched and interest rates remain high.
- The advancement of new technologies such as generative AI are exposing short comings within the systems and architecture of providers. This presents a big risk to insurers which needs to be managed carefully.

> “The challenges facing insurers and the population more generally are broad and inter-related. Solutions will need to be flexible to adapt to the changing market place.”
>
> **Darren Richards**
>
> Head of Insurance, Regulatory and Risk

The Life Insurance Market

The Opportunity

Whilst there are challenges, there are opportunities for insurers to seize:

- Investment in generative AI now, in a controlled manner, could unlock gains in performance, efficiency and create scalable growth.
- There is an underserved, disengaged market of younger generations for insurers to target and attract through new products which are flexible.
- There is scope to think creatively, and develop products to close protection and retirement gaps, and improve financial resilience.
- Developing a wider societal benefit will become increasingly important, for example improving health and wellbeing.

"Identifying and investing in the right technologies now can open connections to new markets, however for innovation to be successful, trust must be maintained."

Ewen Tweedie

Actuarial Director

The Life Insurance Market

The Mutual Impact

The mutual sector is uniquely positioned to contribute:

- Mutuals already offer a unique, member led solution to financial services, demonstrating the potential societal benefits.
- The government have committed to doubling the mutual sector and have asked regulators to report on the mutuals landscape.
- Efficiencies through new technologies could contribute to effective cost management.
- Financial strength, coupled with historic, trusted brands which are uniquely connected to communities, could unlock benefits for new customer bases.
- With no shareholders to satisfy, mutuals can take those ethical long-term pragmatic decisions that focus on the right outcomes for their members.

"Mutuals have a unique role in the market, with businesses built on putting members first. The government backing of the sector is well placed, and we can act together to capitalise on the increased focus, through creating efficiencies, engaging with underserved markets and delivering the right products."

Cara Spinks

Head of Life and Health

The Life Insurance Market

The market encompasses long established traditional players of varying sizes and degrees of capability, and also new entrants with innovative business models, target markets or niche products.

Life Insurance Players		Examples	Description
Traditional Players	Large	Phoenix, Canada Life, Aviva, L&G; Mutuals: Royal London	Traditional life insurance players offer the full portfolio of life products, and have capabilities along the value chain. • Players of all sizes pursue broadly similar activities, but larger players potentially cover more of the value chain, and wider markets including wealth management and BPA. • Large players Aviva and L&G account for more than 2m insurance plan owners, whilst some smaller players may only have between 400 and 800 insurance plan owners. • Smaller players include insurance branches of commercial banks, i.e., HSBC, Santander, Barclays, and mutuals. • Mutuals provide niche expertise across different parts of the market. • Some traditional players also participate in the non-life insurance industry, and the health insurance market, whilst other traditional players exclusively offer life insurance.
	Mid Size	Scottish Widows, Standard Life, AXA, SunLife, M&G, Zurich; Mutuals: LV=, Wesleyan	
	Small	Allianz, Saga, HSBC, Santander, Barclays; Mutuals: Shepherds Friendly, Scottish Friendly, Cirencester Friendly, The Exeter	
Non-Traditional	New Entrants / Challengers / Insurtechs	Vitality, Co-op Insurance, Farewill, RIAS, More Than	Digitally focused challenger insurance companies offering technology and personalisation as key differentiators. • Specialised on specific type of policies, e.g., over-50s, family, funeral cover.
	Distributors / BPA specialists	anorak, Guardian, Rothesay, yu life, Resolution Life, Beagle Street.com	Other players, e.g. advice platforms, distributors, bulk annuity specialists use technology to capture market share.

The Life Insurance Market

Life Insurance written premium grown since 2020 with a c. 7% CAGR (2020 – 23), largely driven by growth in the bulk purchase annuity market, and boosted by strong protection business growth.

The Life Insurance market was worth £216 bn written premium in 2023.

Nearly two-thirds (64%) of written premium is for pension related products, 26% is for annuities and savings and protection (c. 10%).

Annuities premiums saw a 68% year on year growth, largely driven by bulk annuity deals being written during 2023.

Protection business also achieved double digit growth, driven by increased take up of more affordable short term products, and an increased focus on protection as a result of Consumer Duty.

Insurance aggregate data annual report; Bank of England.

The Mutual Sector

The Mutual Sector

The mutual insurance sector is a key component of the industry, accounting for c. 8% share of the UK insurance market.

138
Active mutual and not-for-profit insurers

£23.5 billion
in premium income

£13.6 billion in life
£9.9 billion in non-life

£187.1 billion
in assets held

8.0%
share of UK insurance market

6.8%
market share - life
10.7%
market share - non-life

22,563
people employed

25.5 million
members

UK Market InSights 2023; ICMIF

The Mutual Sector

Following a contraction in 2020 driven by COVID, the mutual insurance market continues to grow steadily.

There were approximately 138 mutual insurers active in the UK market in 2022, accounting for 8.0% share of the insurance market.

The contraction in 2022 is in line with an overall contraction in the market, and an increase in bulk purchase annuity activity in non-mutual insurers.

The mutual insurance sector has grown steadily over the last 10 years at c. 3.7% CAGR 2012 – 22.

The government have made a manifesto commitment to support the mutual sector to double in size, and have requested the regulators to report on the market in 2025. This will aid their consideration of how best to support the mutual sector to drive inclusive growth across the UK.

UK Market InSights 2023; ICMIF

The Association of Financial Mutuals (AFM)

The AFM brings mutual companies together for collaboration and best practice, representing a large proportion of the mutual market.

41 AFM
members

£3 billion
written premium

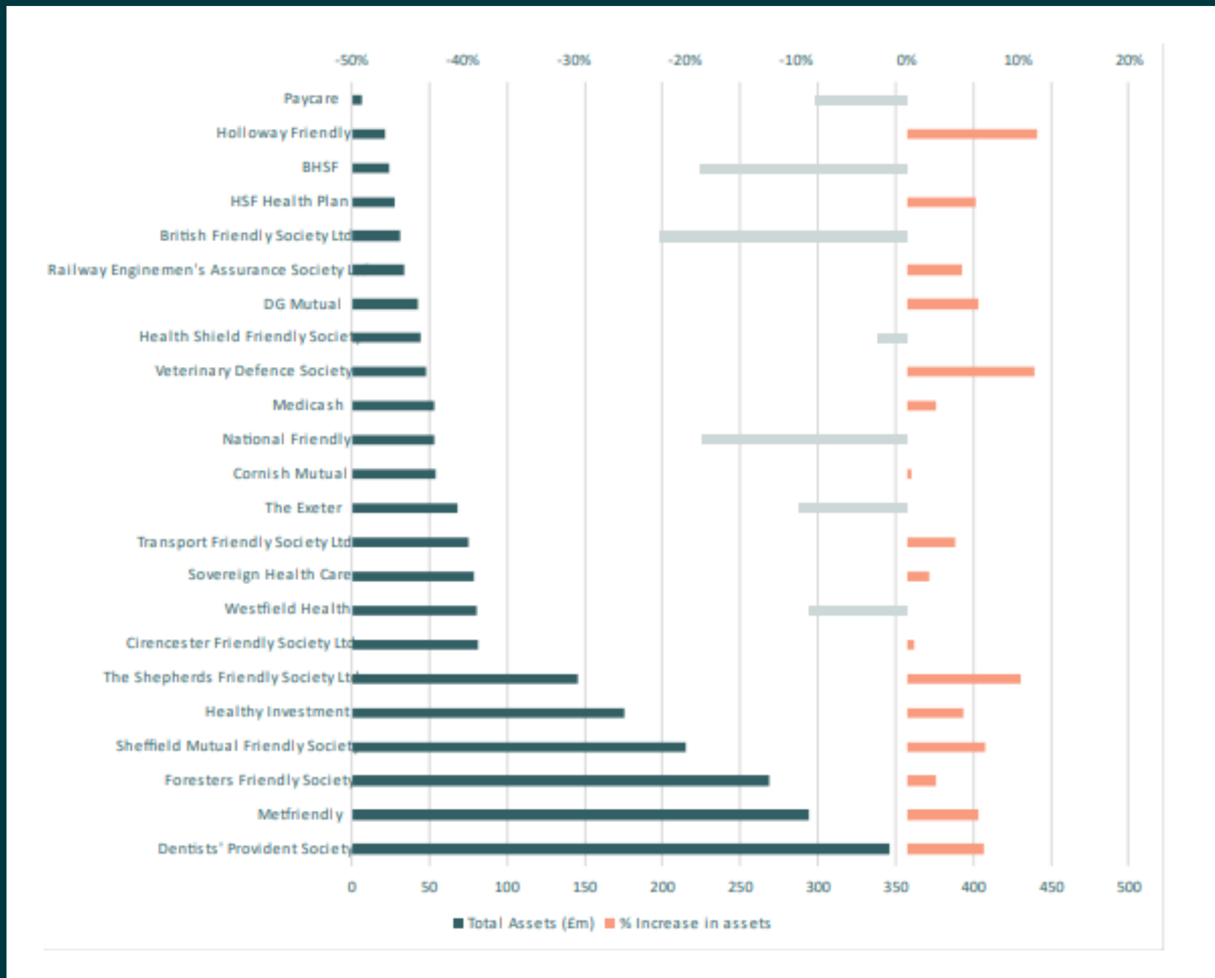
£2.6 billion in life
£0.4 billion in non-life

40.1 bn
assets held

6,532
people employed

£7.1 million
members

Total Assets and % increase



The Association of Financial Mutuals (AFM)

The majority of insurers within the AFM reported an increase in asset values over 2023, with the overall average increasing by c. 1% over the year.

The average 2023 asset value is £99m (£96m) and the median value is £54m (£65m)

The majority of insurers report an increase in asset values. There are 7 insurers where asset values have decreased with the largest reported fall at 22%.

On average, giving equal weight to each of the 29 insurers, asset values have increased by 1% compared to 2022.

LV=, Wesleyan, Scottish Friendly, OneFamily, IPB Insurance and The Oddfellows, all with assets above £500m, have been excluded from Chart 1 to allow a more proportionate comparison for the majority of the group analysed.

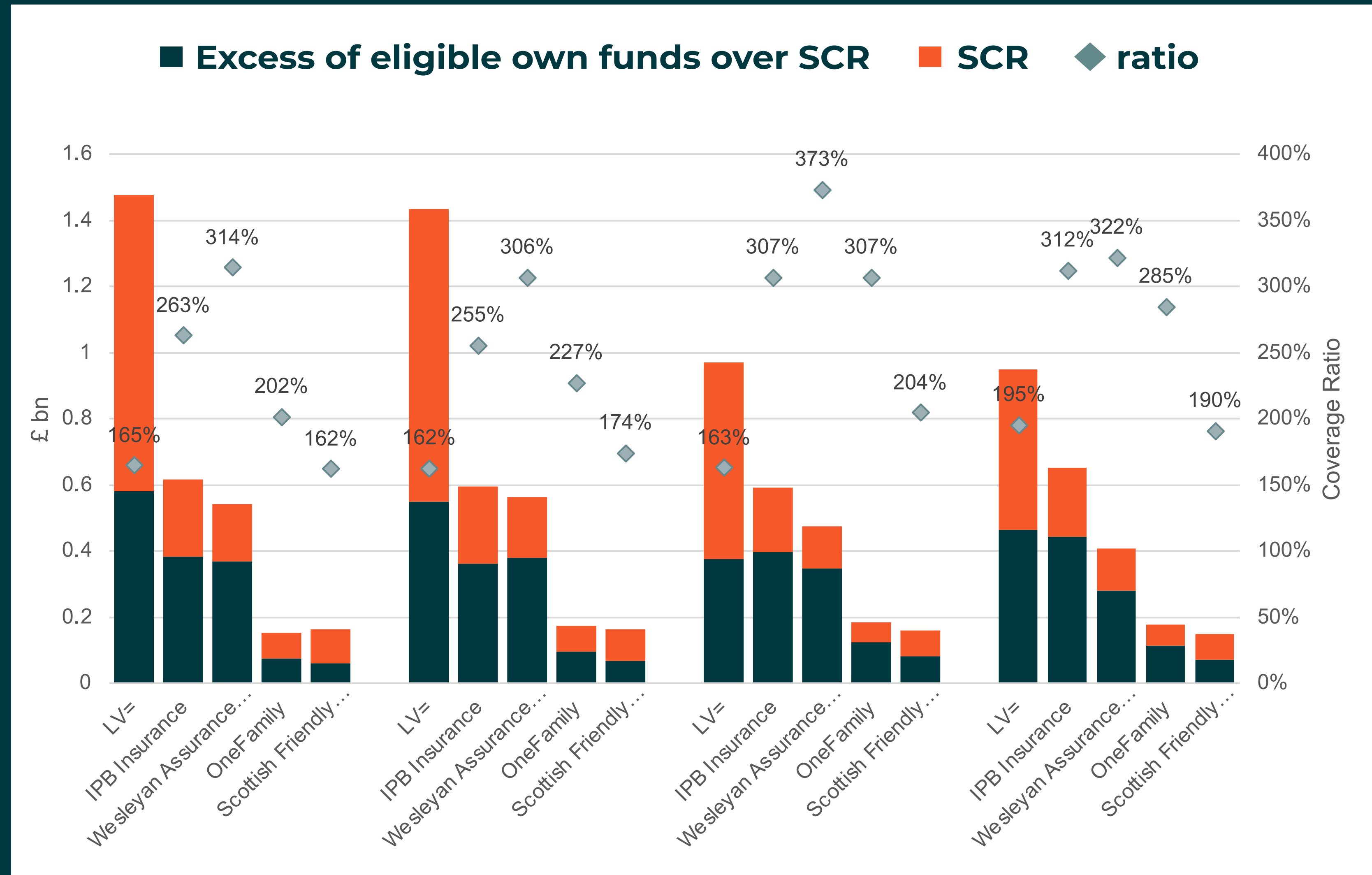
AFM: Ratio AFM members with assets > £1bn

The top 5 largest members by assets accounts for c. 89% of the asset holdings of AFM members.

The average financial strength has improved since 2020 from 199% coverage ratio to 243% coverage ratio. This compares to other members where average coverage ratio has improved from 197% to 205% over the same period.

IPB insurance has a high ratio of eligible own funds to total assets, indicating a lower proportion of unit linked business.

The top 5 largest members all use Standard Formula for SFCR reporting, however only LV= uses the Matching and Volatility Adjustment and transitional measures in calculating technical provisions.



Ratio of Eligible Own Funds to SCR (Coverage Ratio)

The majority of the AFM members operate to a coverage ratio between 150% – 250%

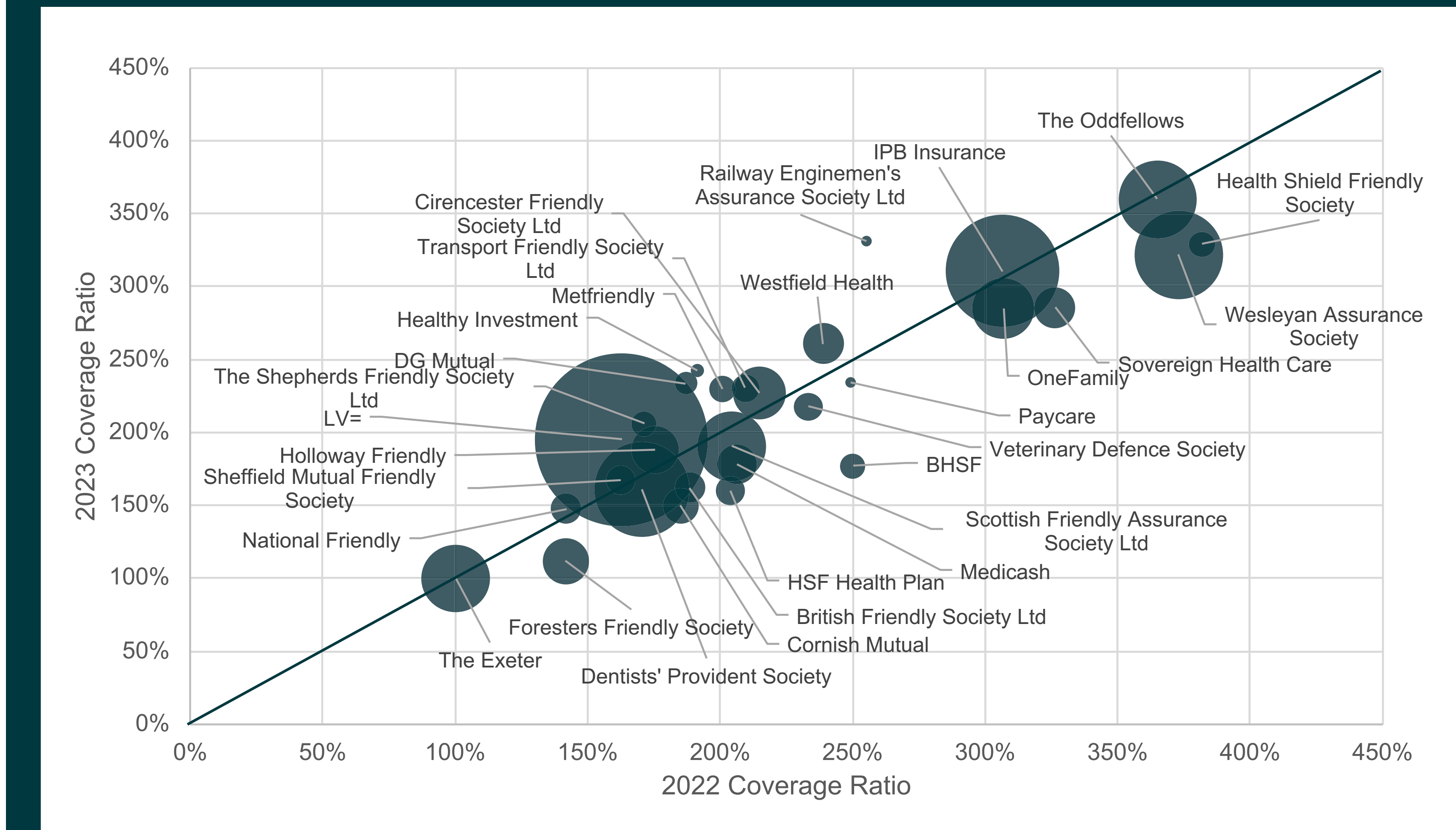
The companies shown above the diagonal line have strengthened their solvency coverage ratios between the 2022 and 2023 year-ends, whereas the solvency coverage ratios for those companies below the line have weakened over the 12-month period.

Coverage ratios have remained stable from 2022 – the weighted coverage ratio increased from 225% to 227%. This demonstrates the stability and financial strength of the mutual sector.

LV=, the firm with the largest SCR, increased coverage ratio from 163% to 193%. This was due to a decrease in SCR as a result of favourable fund performance reducing mass lapse exposure.

Some firms have coverage ratios in excess of 300%. This could be driven by the provider's risk appetite, or investment strategy.

Solvency Capital Requirement



AFM: Market Risk as Proportion of SCR

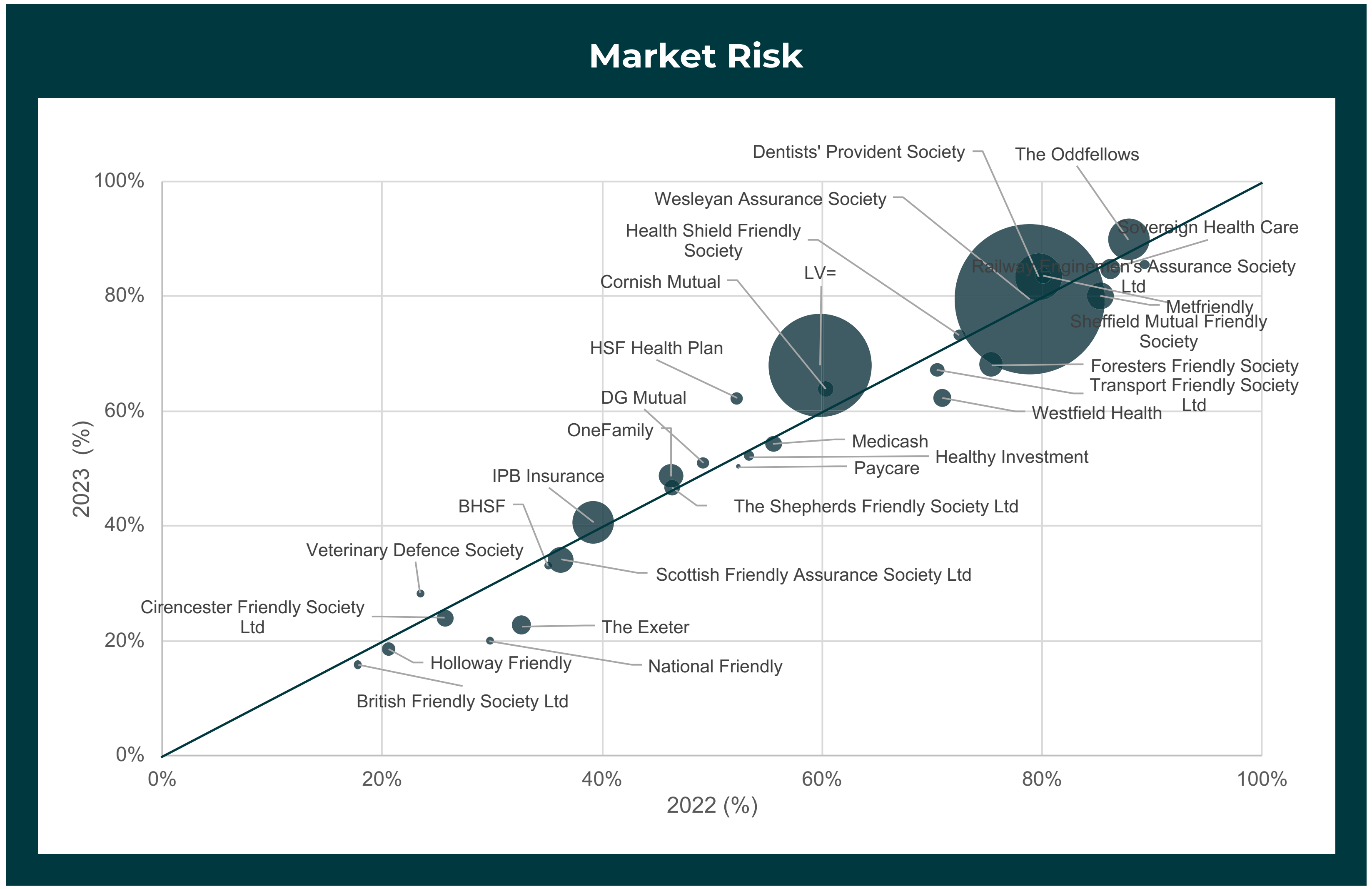
The majority have seen a rise in the proportion of market risk – this is reasonable given the general increase in asset values over 2023.

The companies shown above the diagonal line have increased their proportion of market risk as a component of SCR between the 2022 and 2023 year-ends, whereas the companies below the line have reduced their proportion.

There is a broad range of the level of market risk held by each firm, demonstrating the diverse strategies across the mutual firms.

The market risk proportion for LV= has increased over the year, as result of the life underwriting risk component reducing significantly.

The market risk proportion for The Exeter has reduced, driven largely by a reduction in equity risk.



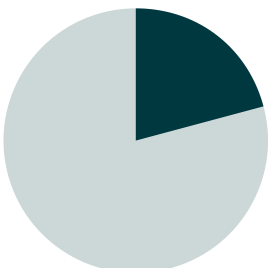
 Broadstone Empowering people's prosperity

Market Trends

AI and Transformation

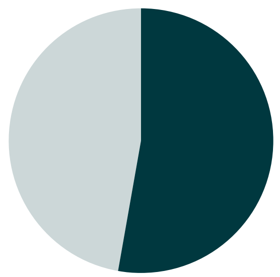
Against the backdrop of a challenging economic outlook, UK CEOs are targeting transformational change to bring future growth

The need for reinvention is critical in the future success of UK businesses...



21%

of UK CEOs say their organisation will not be economically viable within 10 years on its current path



53%

of UK CEOs are taking personal responsibility and sponsoring transformation within their organisation

...with generative AI expected to be critical in unlocking value.

The benefits CEOs expect from GenAI in the next 12 months

64%

increase the efficiency of their workforce

57%

improved products and services

45%

increase revenue

45%

increase profitability

Source: PwC 27th UK CEO Survey

"...many CEOs are not expecting a challenging UK economy to offer an organic uplift. While sentiment is improved from a deeply concerned outlook last year, nearly two-thirds of UK CEOs still expect the UK economy to either remain stagnant (27%) or decline (35%) this year (combined: 62% compared to 90% last year)."

AI and Transformation

Mutuals have an opportunity to improve efficiency and manage the cost base through harnessing generative AI to transform. Leaders need to communicate clearly the benefits and risks to ensure trust is maintained.

The Challenge

- Adopting generative AI into any business comes with risk, including transparency issues, biased or false outcomes, reliability and replicability, and balancing.
- Developing and maintaining trust is paramount to delivering a successful transition.
- There are still many unknowns around the impact of using generative AI models, and there may be unintended consequences if outcomes are not monitored closely through a comprehensive framework.

The Opportunity

- Life Insurers have many high impact opportunities to benefit from generative AI and create trust, including Actuarial, Underwriting, Marketing, Claims and Customer Service.
- Best practice firms have created centres of excellence within their organisations to learn and develop safely and with care whilst new technologies are rolled out and established.

The Mutual Impact

- The smaller scale of organisations within the mutual sector means that managing cost and achieving efficiencies is even more important.
- Investing in technology such as generative AI can create scalable advantages to aid growth, which will be vital in achieving doubling of the mutual sector.
- Mutuals are built on trust. To be trusted with innovation, mutuals must be transparent about both benefits and risks and communicate this clearly to members.

Evolving Customer Needs

The cost of living pressure continues to impact demand for insurance products. This is exacerbated by the advice and protection gap creating an underserved market.

The need for accessible, low cost, flexible policies remains

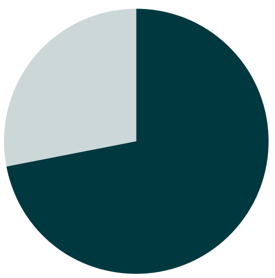
1 in 5
Adults cut back on insurance to save money or because they can't afford the premiums[1]

6% cancelled an insurance or protection policy

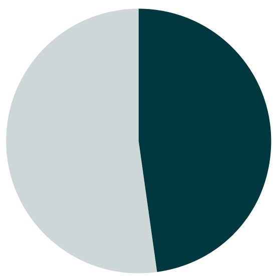
6% reduced their level of cover

12% chose not to buy a policy

Insurers need to seek optimal ways to integrate and meet customers in underserved markets



72%
UK consumers who aren't aware there's a free government advice service[2]

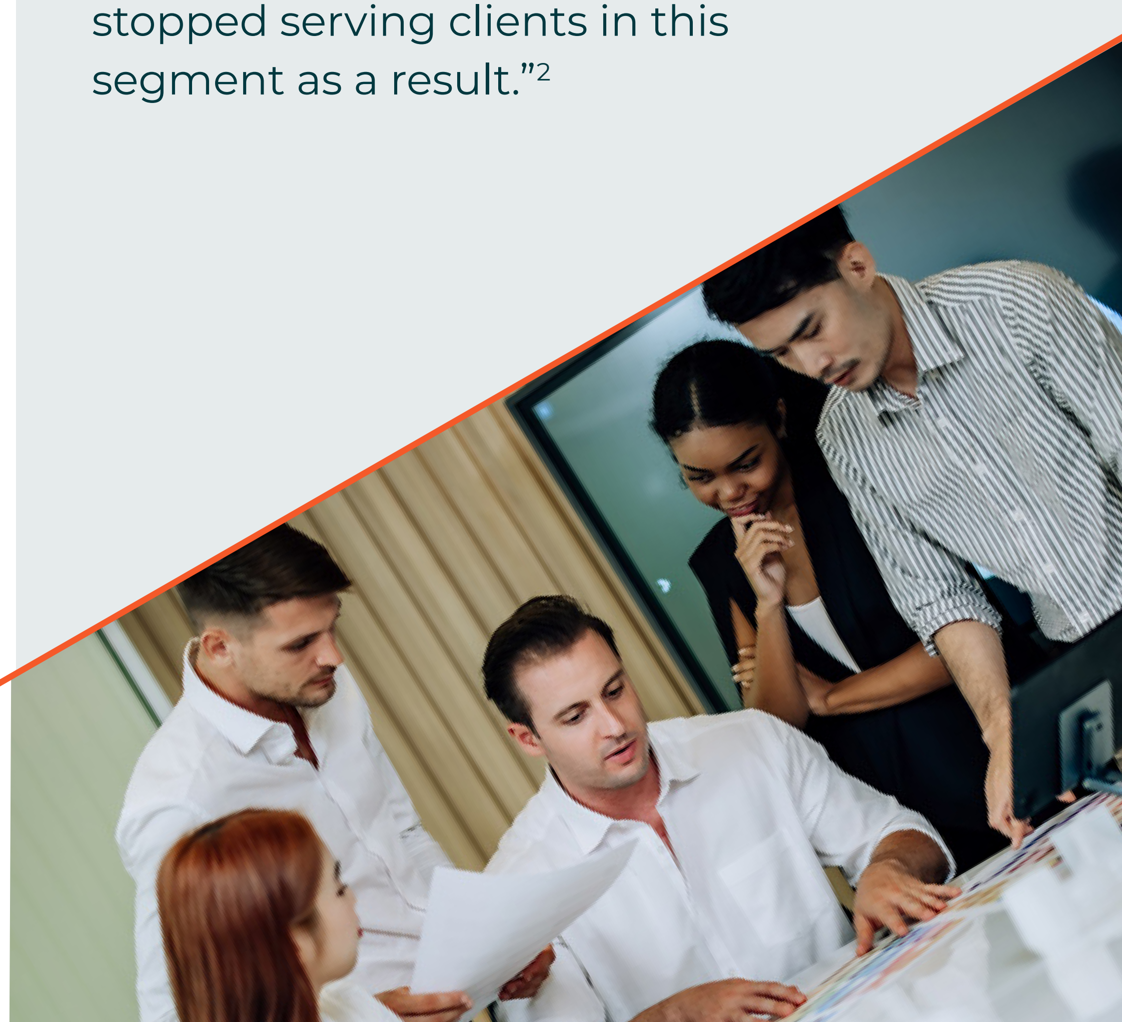


48%
UK consumers who consider themselves "confident and savvy" when it comes to financial products and services[1]

1. Financial Lives cost of living (Jan 2024) recontact survey;
2. The Gap 2024 (lang cat)

There is a market of underserved customers which is expanding:

"over three-quarters of our adviser research respondents say Consumer Duty has made it harder for them to serve clients with a low amount of investable assets, and over half of firms have stopped serving clients in this segment as a result."[2]



Evolving Customer Needs

With targeted business models, the mutual sector continues to serve niche areas of the insurance market.

The Challenge

- In a highly competitive market, customers will turn to providers they can trust to deliver the products they require with confidence.
- Cost of living pressures means customers are more exacting on the value their products deliver, and demand more.
- To win the space insurers are developing modular, holistic, flexible solutions to evolve with customers needs as they change.

The Opportunity

- Embedded insurance, which offers easy access at the point of sale is increasing competition and opening new revenue streams. For example, life insurance and annuities may be embedded in employee benefit plans, or alongside mortgage offerings.
- Insurers are finding ways to engage customers where they are, balancing cost against improved customer experiences built on trust.

The Mutual Impact

- There are underserved parts of the market for mutuals to target, for example providing valuable income protection for lower occupation classes and self employed.
- Mutuals can leverage their trusted reputations but must identify ways to meet customers where they are.
- Holistic member offerings supporting savings and protection, considering the needs of the mass market, evidenced by improving customer outcomes could be supported by mutuality.

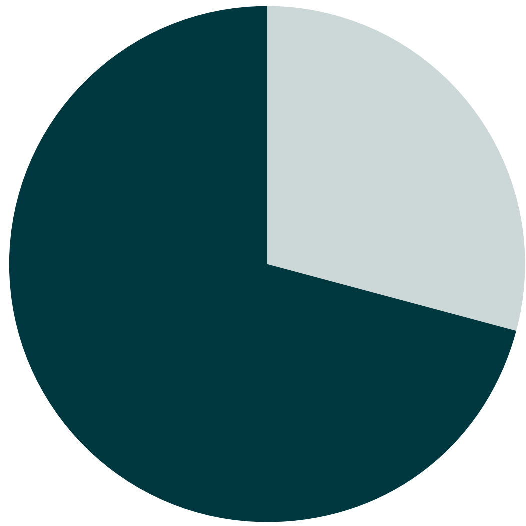
Societal Needs

Today's customers are more socially aware, and their choices are influenced by more than the bottom line.

Customers aspire for more from companies they choose to invest in.

71%

believe the primary responsibility of a CEO is to work for the benefit of all their company's stakeholders, including its employees, customers, and the communities in which it operates, in addition to its shareholders/owners.[1]



29%

believe the primary responsibility of a CEO is to work for the benefit of their company's shareholders / owners by maximising profits.

An ever-expanding savings and protection gap, macroeconomic uncertainty and greater awareness of more severe risks have prompted regulators to look to insurers to help address these complex issues.

Customers are also increasingly expecting insurers to provide more for their money, for example using their deep expertise to protect communities and people.

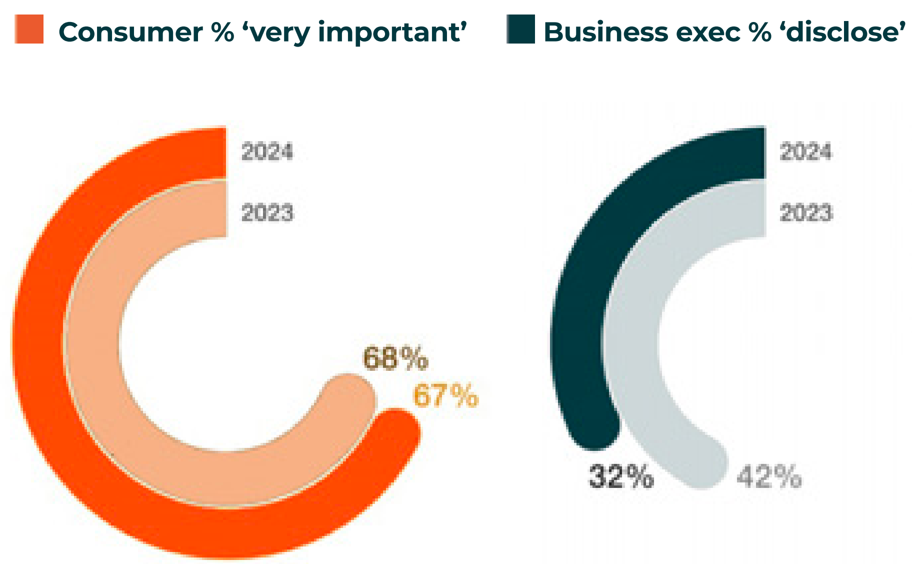
1. Edelman Trust Barometer 2024
2. Trust in Business Survey 2024 (PwC)

Increasing transparency can build and improve trust to win and retain customers.

The strains on public resources leave more and more risk for customers to manage. They will turn to providers they can trust to help.

Insurers that can build and demonstrate trust through societal contributions, an engaged work force, and acting with openness and transparency could benefit from increased acquisitions.

Disclosing data privacy policies is very important to consumers, however businesses are not capitalising on this trust builder as much as they could.



Consumers say it's very important for companies to disclose their data privacy policies

Business executives say their companies disclose data policies or initiatives

Societal Needs

Developing sustainable and socially oriented insurance products could help address savings and protection gaps and improve health and wellbeing for the population.

The Challenge

- There is growing expectation for insurers to increase societal contributions, and deliver substantial benefits including customer loyalty and employee satisfaction.
- Broader sustainability disclosure standards will be challenging.
- Regulatory pressures will continue as the government leans on the private sector to deliver societal benefits.

The Opportunity

- Clear sustainability disclosures could attract new customers to the business and create trust.
- A commitment to societal value can also be a tool to attract and retain talent, particularly as Gen Z and Millennials lead the workforce, making up more than 50%.
- An engaged, trusted work force is a genuine asset in improving access to wider consumers and increasing productivity.

The Mutual Impact

- Mutual insurers can capitalise on their head start - they already have a business dedicated to serving members and communities.
- Focusing on maintaining and growing trusted relationships with their customer base could unlock more gains.
- Mutuals could invest more in employee value propositions, and re-invent to attract young talent in to their businesses.
- The government is actively promoting the mutual sector as key to supporting the population. There are opportunities to use this platform to maximise awareness and reach new customers with government support to do so.

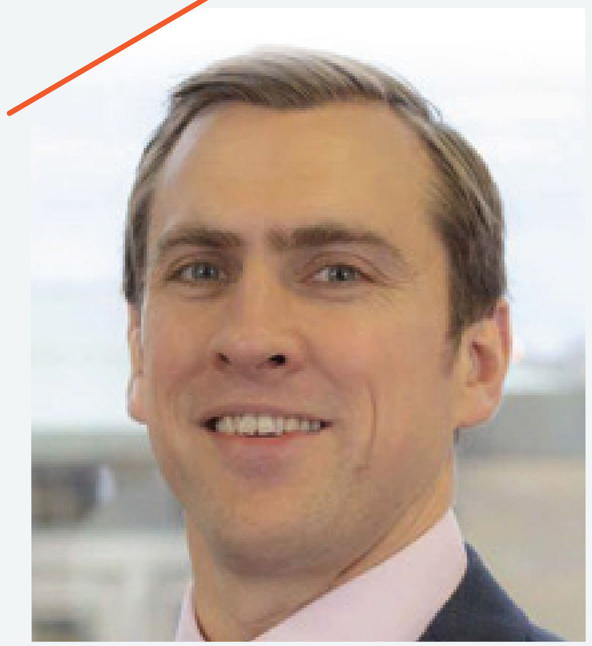
Find out more

Cara Spinks

Head of Life & Health

E: cara.spinks@broadstone.co.uk

T: +44 (0)20 7154 1064



Ewen Tweedie

Actuarial Director

E: ewen.tweedie@broadstone.co.uk

T: +44 (0)20 4570 3825

Darren Richards

Head of Insurance, Regulatory & Risk

E: darren.richards@broadstone.co.uk

T: +44 (0)20 7154 1060

Contact

For further information about any of Broadstone's services, please contact us at:

Email: **corporate@broadstone.co.uk**

Tel: **020 3869 6900**

broadstone.co.uk

@Broadstone_Ltd

company/thebroadstonegroup

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