

GIG ECONOMY AND THE OPPORTUNITY FOR PROTECTION



Johnny Timpson,
Financial Protection
Technical & Industry
Affairs Manager
Scottish Widows

THE 'GIG ECONOMY' AND THE NEED FOR A FINANCIAL SAFETY NET

The 'gig economy' is a phrase we hear used more and more these days, and describes the increasing prevalence of short-term contracts or freelance work in the UK employment market. In Britain today around 4.8 million people, or approximately 15% of workers, are self-employed, having grown from 3.8 million in 2008¹. This increase has been driven by modern technology, the growth of the service sector (especially online shopping), and the continued tax

advantages of being a self-employed worker.

This trend is forecast to continue to grow, so what does this mean for protection advisers? If I were to ask you what a typical worker in the gig economy looks like you might think of a young, low-paid Uber driver or parcel courier. However in actual fact, 60% of the growth in self-employment since 2009 has been driven by contractors in high-skilled, high-paid sectors of the economy (such as law, accounting and IT)². These roles tend to be filled by older workers, who are nearer the top of the income range. Doesn't that sound exactly like the target customer of many financial advisers?

It's looking less and less likely that the recommendations from last year's Taylor report on the gig economy will be implemented any time soon (is this still the case?). So what challenges do contractor clients currently face, and what are the opportunities for advisers to make sure they are better protected?

SELF-EMPLOYED LACK A FINANCIAL SAFETY BACK-UP PLAN

Research from Scottish Widows shows that the self-employed are behind when it comes to having life insurance in place (30% vs 34% of population as a whole) and it's the same with critical illness cover, with only 6% of the self-employed having this versus 8% of the general population.

The importance of this workforce being protected is shown by the same research, with nearly half (48%) of self-employed people's families reliant on one wage earner compared with 42% of the general population.

When we asked the self-employed about the consequences of losing their main income, 25% said they would not be financially secure, 13% said that they didn't know how long they would be able to pay the household bills and 11% said they would not make it to the end of the month³.

In fact, almost two-thirds (62%) of self-employed workers say they have no other source of income outside of their business, and a third (34%) admit that if they were unable to work due to illness, they would have no other resources or income to rely on.

It's clear that they need to be better protected.

¹ Office of National Statistics, July 2016 and May 2017

² Resolution Foundation, February 2017

³ Scottish Widows Protection Research, March 2017

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ACCESS TO WELFARE BENEFITS

There are various challenges around the self-employed and their relationship to the welfare state. Benefits such as statutory sick pay and auto-enrolment are designed with permanent employees in mind, with the self-employed unable to claim for these. They are able to claim Universal Credit, but its real-time method of means-testing makes it difficult to assess eligibility.

People often overestimate the level of state support available, so advisers should look to educate their self-employed clients and make them aware of the potential lack of welfare support. They should also highlight how the backdrop of wider welfare reforms (Support for Mortgage Interest becoming a loan, Bereavement Benefit reform) has led to a reduction in the level of support as part of a general working age shift away from welfare to self-care.

Our research shows that awareness of benefits and entitlement is low – 48% of the self-employed have never heard of “Support for Mortgage Interest” and a further 19% who have heard of the benefit don’t know what it actually is⁴.

Self-employed workers who forego insurance are also failing to ‘self-insure’ adequately through other means. Almost half (47%) of them have no other personal contingency plan in place, such as backup savings, should they fall ill, despite working-age benefits like Statutory Sick Pay not being available to the self-employed.

LACK OF IN-WORK BENEFITS

Self-employed contractors are not covered by employment law, and have fewer rights and access to workplace benefits. This means they do not necessarily benefit from statutory sick pay, maternity or paternity pay and redundancy pay. Without an employer to highlight or provide these products, protection of any kind is unlikely to feature highly on a self-employed person’s list of priorities.

However, this gives advisers a great opportunity to have a discussion with their clients about the need to replicate an employer benefits package (pension, healthcare, death in service/relevant life etc.).

It’s clear the growth in the ‘gig economy’ presents opportunities for advisers to have better protection conversations with their self-employed contractor clients. This section of the employment market is not appropriately protected and the uncertain, short-term nature of contracting roles means that clients and their families have an even greater need to be protected financially should the unexpected happen. This is even more important when looked at against a background of welfare reform and little, if any, workplace benefits.

⁴ Scottish Widows Protection Research, March 2017