



WEALTH REVIEW 2009

A report into what it means to be wealthy today and the impact of the recession on professional workers in the UK.

**HISCOX**

INTRODUCTION

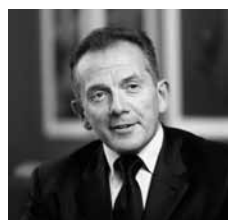
This is Hiscox's second Wealth Review and it could not have been written in a more different economic and social climate to the first review in January 2008. Instead of record highs in terms of spending and employment, this report has been written against the backdrop of a global financial crisis.

Do professional workers believe that the boundaries to feeling wealthy have increased? Are multiple holidays and second homes now the preserve of only the extremely rich and famous? Or has the economic situation caused people to underestimate their affluence?

This investigation uncovers how the global recession has impacted the UK's working professionals. Are those with an annual household income of more than £92,000 asserting their wealth credentials at a time when the super elite has seen their asset base shrink? Has the confidence boat been well and truly rocked with the threat of unemployment? And has the recession led them to re-evaluate what's important in life?

We have researched what it means to be one of the Working Wealthy in today's society, to understand the new psyche of these individuals and what drives them financially and socially.

Steve Langan



Steve Langan,
Managing Director, Hiscox UK

THE MEANING OF WEALTH

For many people, wealth equals cash in the bank, the home of their dreams, a luxury car or even a top performing investment portfolio. But while some define wealth by its monetary value, others believe it represents an abundance of resources and happiness. Originally the term wealth comes from the Old English words 'weal' (well-being) and 'th' (condition), meaning the 'condition of well-being', yet given the state of turmoil and significant financial pressures caused by the global economic downturn of the last 18 months, it seems unlikely that many people would feel this way.

Since our last Wealth Review in 2008, the world has gone through a major economic shift; from the collapse of some of the world's biggest financial services companies and the subsequent bank bail-out plan through to interest rates hitting an all time low and the announcement of a huge deficit by Alistair Darling in the 2009 Budget. According to Mervyn King, Governor of the Bank of England, there has been a major

change in the economic landscape: "We have witnessed the most serious banking crisis since the outbreak of World War One¹."

So in today's vastly different financial climate, what does it really mean to be wealthy and how has the perception of wealth been affected?

The number of UK millionaires has more than halved since 2007

The figures point to a huge disparity in wealth across the UK. The national average gross income in the UK currently stands at just over £25,800². Top executives in FTSE 100 companies have increased their average annual salary to £767,500 (£3.5 million a year when incentives and share options are added)³, while the country's GPs took home an average of £106,072 last year⁴. We also can not escape the fact that in the last 12 months the world's population of ultra high net worth individuals fell by almost a quarter⁵. In fact, as the recession has strengthened its grasp the number of UK millionaires has more than halved from 489,000 in 2007 to 242,000 this year⁶.

¹ Speech to the CBI, 21st October 2008.

² Office for National Statistics: 2009 Annual Survey of Hours and Earnings.

³ Income Data Services: Directors Pay Report 2008.

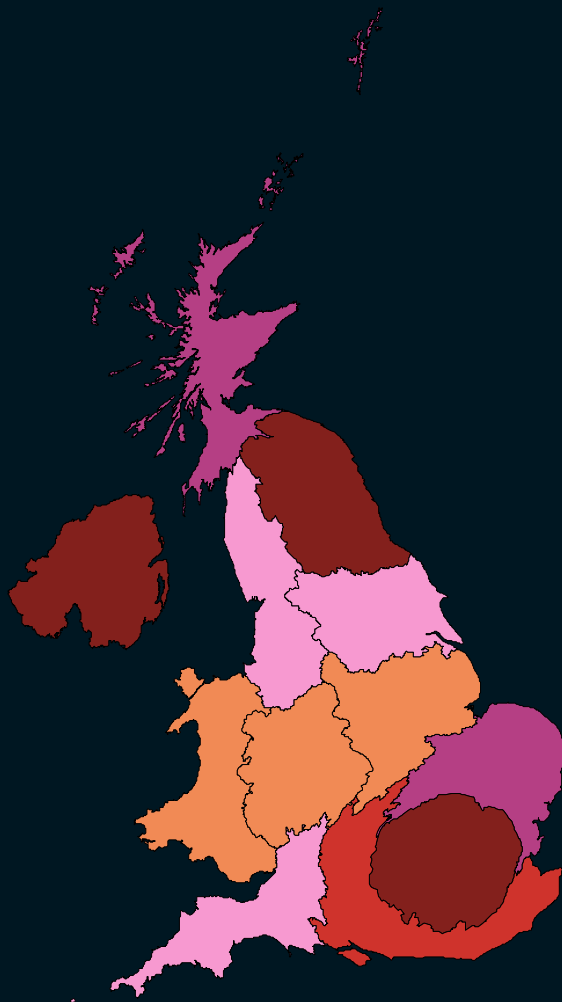
⁴ NHS Information Centre, September 2009.

⁵ Annual World Wealth Report (Merill Lynch and Capgemini), June 2009.

⁶ Centre for Economics and Business Research Ltd, 2009.

Perceptions of wealth

Our research shows that today's perceptions of what it takes to feel wealthy differ greatly across the different regions in the UK. This map reflects the level of wealth required – in short, the bigger the region, the greater the household income needed to feel wealthy.



Key (average annual household income needed to feel wealthy)

Dark Red	£170,000 - £178,239
Red	£160,000 - £169,999
Orange	£150,000 - £159,999
Pink	£140,000 - £149,999
Light Pink	£128,913 - £139,999

Today's Working Wealthy

In the midst of these changing wealth patterns one group of professionals – the Working Wealthy – has maintained its position. More than 2.5 million UK households have an average annual income of nearly £93,000⁷. But despite earning close to three times the national average household income, our new research⁸ reveals almost all (95%) of these professional workers would not consider calling themselves wealthy. In fact, they say they would require an average household income of over £152,000, to be mortgage free (31%), own more than one property (35%), a luxury car (26%) and a disposable income in excess of £20,000 per year (48%) to consider even using the term.

This leaves us with an interesting paradox. When the perception of what it takes to be wealthy is so different from the actual income of some of the UK's most affluent households, where does this leave our Working Wealthy?

⁷ Office for National Statistics: The effects of taxes and benefits on household income, 2007-8.

⁸ YouGov Plc study commissioned by Hiscox among 1,130 AB professionals, 28 Sept – 1 Oct 2009.



DEFINING THE WORKING WEALTHY

By Working Wealthy we are referring to the top 10% of people in the UK by income. In fact, their average household income stands at a considerable £92,936. And when it comes to spending their pay cheques our research reveals:

- a quarter (25%) take more than two overseas holidays every year;
- some invest in art (10%) and valuable jewellery (11%);
- over a quarter (26%) have put away more than £25,000 in savings;
- one in ten (10%) own more than one property.

But how does all this compare to the average income in Britain today? According to figures from the Office for National Statistics, the average annual gross household income is just over £35,000⁹.

The median gross annual earnings for full-time men is £28,300 and £22,000 for women¹⁰.

Indeed, compared to those in other countries, UK wealth far outweighs the worldwide average.

According to the Global Rich List (www.globalrichlist.com), the average worldwide annual income is just \$5,000. In fact, to be among the world's top 10% of earners would require an annual income of only \$25,400 or \$69.59 per day¹¹.

**10% of
the Working
Wealthy own
art while 11% own
valuable jewellery**

⁹ Average annual gross household income: £35,164. Office for National Statistics: The effects of taxes and benefits on household income, 2007-2008.

¹⁰ Office for National Statistics: 2009 Annual Survey of Hours and Earnings.

¹¹ Global Rich List 2009 based on World Bank figures.



Happy affluence

Earlier we looked at the different meanings of wealth and uncovered that it's not just about monetary values and possessions, but is also a reflection on happiness and well-being. As Benjamin Franklin said: "Wealth is not his that has it, but his that enjoys it¹²."

Echoing this point, the average Working Wealthy household says the recession has led to almost half (43%) re-evaluating the things that are important to them in life. While they may not consider themselves to be rich, the majority (68%) believe it is very important to be happy with what they do have, with many citing family (85%), health and well-being (80%) and new life experiences (22%) as top priorities. For those questioned, 60% class their home and 11% class their possessions as very important.

This comes as no surprise considering the amount of investment made – according to Hiscox data, the average Working Wealthy household says they own over £88,000 worth of household goods and £11,000 worth of valuables such as jewellery and watches¹³.

*"Wealth
is not his
that has it, but
his that enjoys it."*
Benjamin
Franklin

¹² Quote from Benjamin Franklin, US political figure. Source: quotationsbook.com.

¹³ Analysis based on the average sums insured of Hiscox 505 Home and Contents Insurance customers as at August 2009.

THE SPENDING SPREE IS OVER

While the cash reserves of many of the Working Wealthy have remained intact, the tough economic climate of the last 18 months has left its mark on their spending habits.

According to our research, two in five (41%) say the recession has had no impact on the amount of money they have to spend, however 8% have been forced to scale back financially due to a redundancy at home.

The tough economic climate has still led to cutbacks being made across the board. Compared to pre-recession, almost half (49%) are now spending less on socialising and restaurants while four in ten are cutting back on holidays (41%) and weekend breaks (43%). The Working Wealthy are also spending less on their property with 38% scaling back home décor and, compared to last year, a third (30%) are shopping more at discount stores.

With many of the Working Wealthy tightening their belts, a ripple effect can be seen across a number of industries catering for affluent Brits. For example, an overall reduction in sales of 29% across the car industry¹⁴, top fashion houses filing for bankruptcy, and major airlines reporting a drop in revenues as passengers opt for cheaper fares over first or business class.

And, when it comes to splashing out, the Working Wealthy are now far less inclined to reach for the plastic as our latest figures reveal a quarter (27%) are using credit cards less compared to before the recession.

¹⁴ Centre for Economics and Business Research Ltd, 2009.



BANK OF BRICKS AND MORTAR

Property has always been a strong indicator of wealth. When it comes to top-end properties, the five highest value areas are all in London, with Kensington clinching the number one spot. In fact London is the only area in the UK to achieve average home values of more than £1 million this year, with properties in Kensington, Chelsea and Knightsbridge averaging £1.3 million¹⁵. Now the sixteenth most expensive city in the world, London has almost 1,200 streets with an average house price of over £1 million¹⁶.

This is in stark contrast to the average UK house price that now stands at just over £155,000¹⁷, almost £40,000 less than at the time of our last review when it was just below £200,000.

Our research shows that over a third (35%) of professional workers would only consider themselves to be wealthy if they were to own more than one property.

Even with the recent slump in the housing market, the connection between property and affluence is still strong and so it is important that the Working Wealthy take stock of what they do have and make enough provision to protect their home and possessions.

While the drop in house prices has affected all homeowners across the UK, an interesting positive side effect of the downturn for the Working Wealthy has been the 'recession dividend' caused by lower interest rates. A welcoming twist for affluent workers with more valuable properties – vast sums of money have dropped from their monthly mortgage payments following the Bank of England's decision to cut interest rates to stimulate the economy.



¹⁵ Financial Times, April 2009.

¹⁶ Zoopla, September 2009.

¹⁷ Land Registry, October 2009.



A NEW BREED OF WORKING WEALTHY

The bull market of a few years ago was coupled with risky transactions and boom time spending. In contrast to this time of financial self-assurance, the recession has left its mark on the psyche of the Working Wealthy with a lack of confidence impacting their perceptions of wealth and appetite for risk. Nearly a third (30%) say they are now taking less financial risks compared to before the recession. A number of high-net worth

individuals scaled down their exposure to equities throughout 2008, while

increasing the proportion of safer and simpler assets such as cash based investments to preserve their asset base¹⁸. This attitudinal change has also impacted people's views on when they will stop work, with over half (56%) believing they will have to work past retirement age.

44% of the Working Wealthy are more fearful of the future and have been saving instead of spending

When the government first came to power in 1997 it called for the introduction of a savings culture in the UK¹⁹. But it has taken the dramatic economic shift of the last 18 months to drive a real change in attitudes towards saving. Interestingly, while the recession has not directly impacted how much money many of the Working Wealthy have to spend, 44% say they are now more fearful of the future and have been saving more of their disposable income. The same number of people state they have scaled back activities in order to save more should the worst happen and someone in their household is made redundant.

¹⁸ Merrill Lynch and Capgemini Wealth Report, June 2009.

¹⁹ Speech by Alistair Darling, 3 December 1997.

The psyche of the Working Wealthy

The Working Wealthy are also being more reserved when it comes to displaying their wealth. Over one in ten (11%) say they don't talk about material expenditure as much amongst their peers compared to pre-recession. The same number say they actively behave in a less flashy way and are more discreet about discussing money. Big brands have picked up on this attitudinal shift, with John Lewis Partnership launching 'Make do and mend' classes²⁰ and offering a customer booklet encouraging consumers to look after and repair possessions.

Since our last Wealth Review it's clear the recession has not only caused a major economic shift at a financial level, but also triggered a significant, though less well publicised, psychological impact on affluent workers

across the UK. While the wallets of many of the Working Wealthy may have been left intact, many have suffered a crisis of confidence and scaled back spending and their exposure to risk.

Given the tough economic climate it is now more important than ever for the Working Wealthy to keep stock of what they do have and understand their affluence. Because they don't feel well-off this could lead them to underestimate the value of their possessions. By not making enough provision to protect themselves and their possessions which they hold dear, the Working Wealthy could face a risk of a very different nature – that of not having adequate home insurance in place should the worst happen.

Nearly a third (30%) of the Working Wealthy are taking less financial risks compared to pre-recession

For more information about the insurance options available at Hiscox please visit www.hiscox.co.uk.



²⁰ More information available www.johnlewis.com/jl_assets/pdf/0909_make_do_and_mend.pdf.

About Hiscox

Hiscox, the international specialist insurer, is headquartered in Bermuda and listed on the London Stock Exchange (LSE:HSX). There are three main underwriting parts of the Group - Hiscox London Market, Hiscox UK and Europe and Hiscox International. Hiscox London Market underwrites internationally traded business in the London Market - generally large or complex business which needs to be shared with other insurers or needs the international licences of Lloyd's. Hiscox UK and Hiscox Europe offer a range of specialist insurance for professionals and business customers, as well as high net worth individuals. Hiscox International includes operations in Bermuda, Guernsey and USA. Hiscox Insurance Company Limited, Hiscox Underwriting Ltd and Hiscox Syndicates Limited are authorised and regulated by the Financial Services Authority.

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