

Subject: 'Promoting Protection'

Note of key matters:

Attendees:

Presenters	APPG	Others
David Worsfold, Incisive Media Kevin Carr, LifeSearch Prof Michael O'Donnell, UnumProvident Nick Starling, ABI	John Greenway Baroness Turner Lord Hunt Lord Davies Lord Brookman Edward Leigh Peter Bottomley	David Morey (PwC) Johanna Gornitzki, Editor of Cover magazine

1. Incisive Media

David introduced the three speakers and the background to the presentation session.

- In the UK there is a significant protection gap; there is underinsurance of the population as a whole in respect of health insurance and loss of income insurance
- Cover magazine, an Incisive Media publication, has launched an industry wide campaign to raise the profile of the protection sector; the campaign has attracted the support of over 40 firms.
- The 'Promoting Protection' campaign seeks to break down barriers that exist in bridging the protection gap.

2. LifeSearch

Kevin covered three areas – the IFA view, the consumer attitudes and overall concerns.

1) IFA view

- Protection is the cornerstone of financial stability and well being. As it is so fundamental, it is important to make the right decisions regarding the extent and nature of protection cover – policies vary significantly in terms of quality and suitability; purchase is often 'event driven' and infrequent, meaning generally a low level of consumer expertise exists
- According to Swiss Re, the protection gap in the UK is £2.3 trillion (this compares with indebtedness of over £1 trillion)
- Believe this protection gap is linked to the advice gap in that as more non advised sales of protection products are made (e.g. PPI), the protection gap increases. Research suggests that 70% of consumers make a significant change to their intended buying decision once they have received advice
- Sales are better quality when advised – better range of products considered in the context of the customer's needs and circumstances, often priced more competitively

2) Consumer attitudes

- Generally consumers show a lack of interest in protection products – reflects lack of trust; seen as dull; price frequently seen as more important than policy coverage; this could mean that consumers make poor product choices when buying without advice
- Consumers' knowledge of protection policies is limited – many rely on their banks for insurances rather than shop around for the most suitable product type

3) Overall concerns

- Protection policy sales have halved in the last 4 years, despite increases in the extent of personal borrowing. The shift to non advised sales, including internet selling, is likely to be leading to poor decisions and poor protection for consumers
- Consumers are not aware of the potential loss of access to the Financial Ombudsman Service when buying without advice
- More needs to be done to promote the wider range of protection product offerings and the merits of advice. Any successful generic advice regime needs to overlap with regulated advice in order that the system serves consumers.

3. UnumProvident

- There is a general lack of understanding of the impact of ill health on an individual's lifestyle; work itself is a major contributor to maintaining health
- There is often an over-reliance by individuals on the availability of State support and too much faith in what is realistically available
- Consumers' buying of protection is influenced by low product perception (media coverage of mis-selling, high claim rejection rates); generally, non advised selling means people do not gain a full appreciation of the cover and limitations/restrictions. In addition, customer documentation still needs to be improved
- The protection products being referred to include life, bought individually or provided through employers, term insurance, critical illness (although this is not a long term insurance solution) and income protection
- Selling of these products has often been influenced by the desire to keep the sale simple, commission rates and the ability to keep the sale to a short duration; income protection is a more complex cover and warrants a fuller and more time-consuming sales approach
- It is recognised that some sellers still need better training and increased understanding of the implications for consumers of the loss of work and ill health
- Employers have so far not generally been persuaded to make group income protection available to staff, as there are difficulties in matching the long term nature of the cover with the often shorter terms of employment contracts
- Effort needs to be made to raise the level of understanding of what is available from the State, the implications of a lack of protection cover, the value of rehabilitation and getting back to work and a greater degree of transparency in the market.

4. ABI

- In size terms, income protection accounts for £1 bn in annual premiums and critical illness £3 bn (comparisons with other insurances include motor £11 bn and PPI £5 bn); 60% of households have some form of life cover
- Income protection typically includes ailments such as stress and mental illness; critical illness includes cancer, heart attack, stroke – these are all common health issues yet protection is still not actively bought
- 48% of households have less than 1 months' salary in savings as a buffer; 25% of these have no savings at all; 20% of households have less than £2,000 saved for a rainy day. In the event of ill health, consumers tend to think they can rely on their partner's income, or handouts from friends or the sale of the home
- Protection products are attractive when properly described. There is a need to increase positive media comment on the benefits of such covers and increase consumer confidence in them
- ABI are developing consumer guides for critical illness insurance and income protection, developing standardised terms to aid understanding by consumers
- The FSA is looking at the Insurance Conduct rules, and is likely to consult on new rules for protection products – it is important that these new rules are not overly complicated and prescriptive
- The use of tax relief by the Government has been inconsistent in its application, which again acts as complicating factor
- The provision of rehabilitation within protection is to be encouraged
- The Government should increase the extent of support for protection products as a means of decreasing unnecessary financial strain on the State.

5. APPG's view

- The Group is supportive of the protection campaign
- The sale of quality cover to people who need it is entirely appropriate
- For these more complex products, advice may be necessary to ensure consumers have access to the right range of products and particular covers are identified to meet individual needs and circumstances
- The Group also supports the provision of rehabilitation as an effective way of getting people back to work as early as appropriate, decreasing the risk of upsetting a household's general financial stability and well being.

DL Morey

28 March 2007