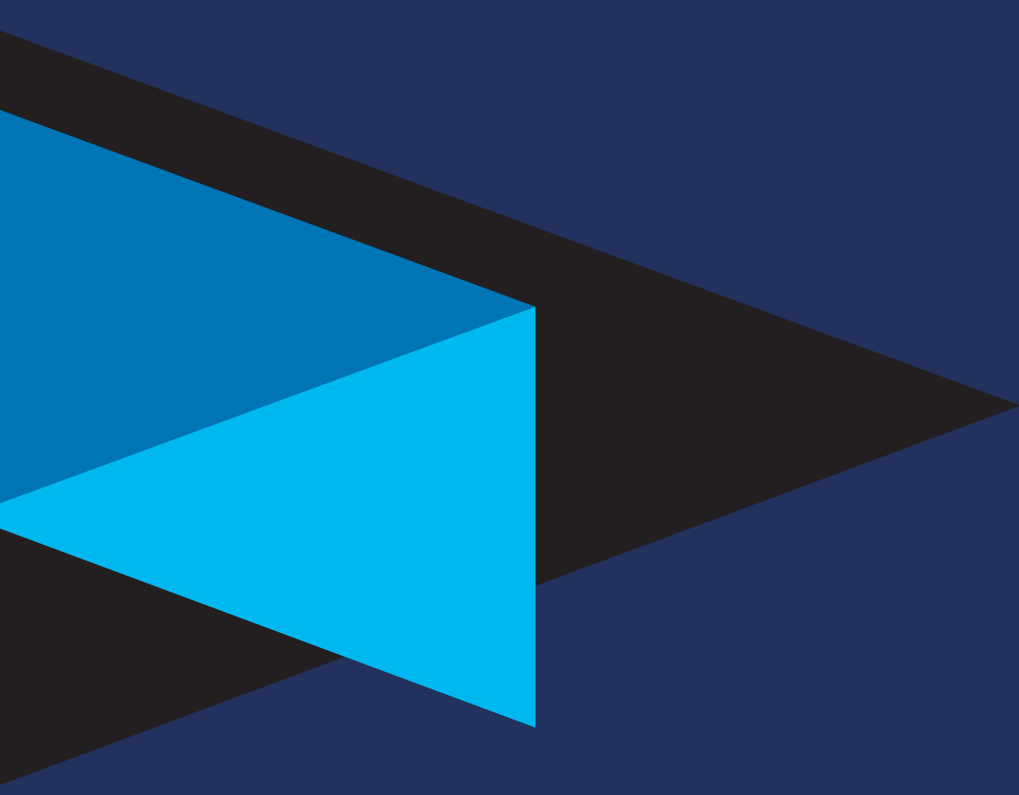




Viewpoint

The New Protection Challenge

NOVEMBER 2020



The new protection challenge

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Research carried out by Opinium Research, 2nd-23rd September 2020.

5,001 UK adults, and 499 mortgage advisers.

Bringing protection to life: Robert Sinclair CEO, Association of Mortgage Intermediaries



Over the years, better minds than mine have tried to resolve the conundrum of why more consumers do not buy life, critical illness or income protection cover.

In starting this survey and

report, our plan was to see if there were perception gaps and where they might lie. The challenge our industry faces is how do we get the consumer on-side and trusting this market during their journey through mortgage advice to protection advice.

In addition to our report, The Times Money section on 10 October 2020 quoted consumers saying, “The basic mindset NOT to pay a claim is standard business practice in the insurance industry.”

Another, “The first principle of insurance is that you pay the insurer large amounts and, in return, they offer you absolutely nothing.”

It is this mountain, not just of indifference, but of animosity that we are going to have to climb. The UK consumer does not understand or want

to comprehend the difference between general insurance, life insurance or insurers with asset management and pensions activities. Any activity in one impacts all, unless we make that difference.

Our research shows a great opportunity for advisers to engage more with customers. Coronavirus and the fear it has created, opens opportunity.

Consumers recognise buying a first home and moving home as two of the top three reasons to buy protection, meaning mortgage advisers are in the ideal position to raise and discuss protection during these life stages.

The research shows that consumers are unsure whether protection policies will be suitable. It’s clear that consumers need help to understand what circumstances they can insure so that they can make a fully informed decision and advisers can help bridge this gap through education. This is even more apparent when we consider that two thirds of consumers feel it is important to protect their mortgage payments, yet less than a third were able to correctly identify income protection when presented with a description.

We need to find a new way to underpin claims statistics. Our challenge is how to make these statistics more real and personable. The IPTF Seven Families campaign is a great example of this. Advisers are in a great position to speak to those customers who have had their claim paid to see if they are happy for their story to be used as a case study on websites and consumer communications. Advisers may have challenged a declined claim and had this overturned – if this has happened, we need to shout about it and make customers aware that advisers do act in their best interests.

value of products. The promotion of mental health added value benefits and 24/7 remote GPs are great services for advisers to promote and are particularly relevant given that we are in the midst of a global health pandemic.

The research indicates advisers should re-consider how they raise protection. How do they view ‘raising protection’? Does raising protection involve simply mentioning it verbally or briefly in customer documentation? Half of consumers (53%) are unable to remember if protection was

“It is our task to encourage advisers to rise to the New Protection Challenge.”

Of most concern to me was that 52% of consumers felt that if an adviser suggested they get protection insurance the motivation would be to increase their commission and not to ensure they are financially protected. Breaking down this barrier, so that the value of being protected and the cost of providing professional advice can be better understood, is key. This could be by demonstrating the wider

brought up by their adviser or not brought up at all, but 97% of advisers say they raised it with consumers.

AMI is embarking on a journey to get closer to fully understanding how protection fits in the mortgage journey. It is our task to encourage advisers to rise to the New Protection Challenge.

A view from David Ellis, Head of Strategic Partnerships at Royal London Intermediary



Moving home has corresponded with some of the happiest moments in my life. The freedom of leaving the nest when I got my first rented flat; the pride felt when buying that first “project”

with my fiancée; and the excited children running around the garden when we got the keys to our new family home.

Good mortgage advice plays a critical role in creating these irreplaceable moments for clients like me. I often think that if Royal London excused me of my services, the joy associated with this job might be hard to resist.

But someone once said, to truly enjoy the highs, you must experience the lows. Sadly, I remember the endowment policy that cleared the mortgage when my father died suddenly. The income protection policy that helped a family member pay the rent when he was off work with poor mental health, and the successful decreasing term assurance

claim made by a friend when he was diagnosed with terminal cancer. Fortunately, in each of these circumstances a great adviser had the foresight to have a conversation about protection, one that was probably not so joyous.

Based on my experiences, it makes me shudder when I read the conversion statistics that highlight the high number of mortgages that are still being taken without associated protection. During my 25+ years in the industry, I have heard lots of opinions explaining why this is so.

Some of these reasons are supply side: “The mortgage advice process is so lengthy, I run out of time.” Some relate to demand: “It’s all too complicated. It won’t happen to me.” I have to admit, I’ve somehow got lost in the debate.

But what I’ve not lost is a passion to try and help address the issue, a passion that I know my colleagues at Royal London share. As the UK’s leading mutual life assurer we are committed to ensure customers are prepared for life’s shocks.

With this in mind, we are delighted to be involved in understanding around Income Protection, and the this research alongside the Association of Mortgage fact that the vast majority of consumers think life Intermediaries. With its members being responsible insurance is important but only the minority have it.

“it makes me shudder when I read the conversion statistics that highlight the high number of mortgages that are still being taken without associated protection.”

for facilitating the vast majority of home loans in the UK, who better to shine a light on the dynamics of mortgage related protection.

I'm sure you'll find the insight in this report enlightening. It's certainly useful to have the adviser and consumer analysis presented together. The supply and the demand factors, so to speak. I'll leave you to draw your own conclusions.

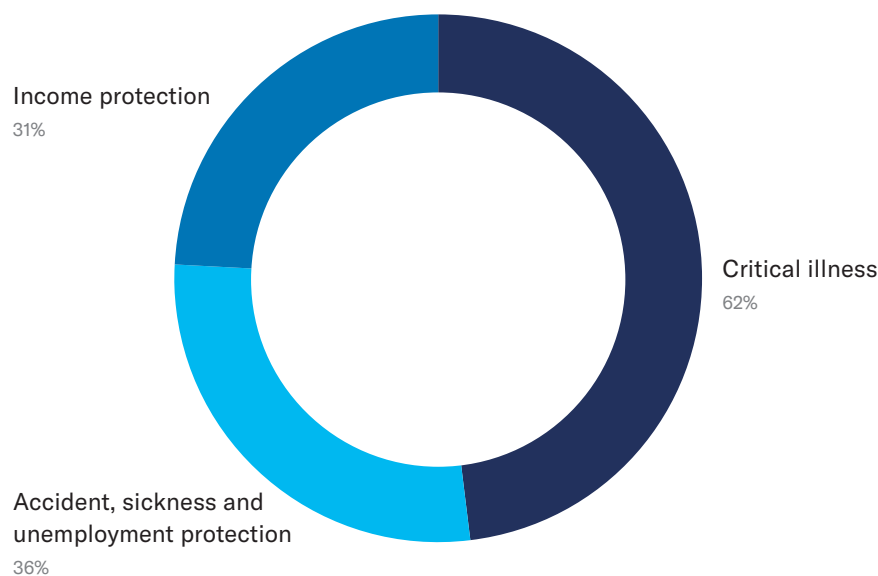
However, for me the big three are the lack of trust around claims statistics, the poor customer

Above all, I hope that this work empowers you to take action.

Using the joy of a home move as the platform to close the protection gap is not only good business practice, but the right thing for us all to do.

Consumer product confusion

Correctly identified policies



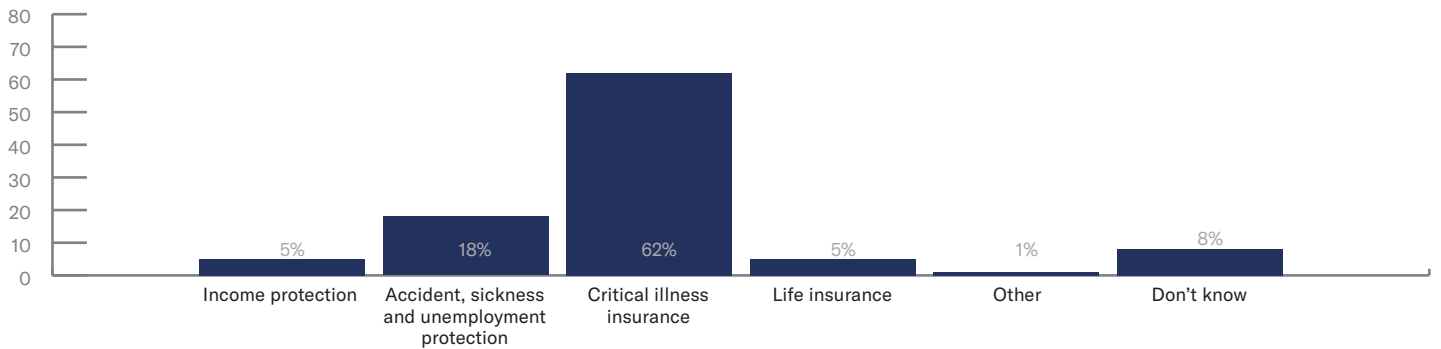
31%

Less than a third of UK adults can correctly identify what income insurance is.

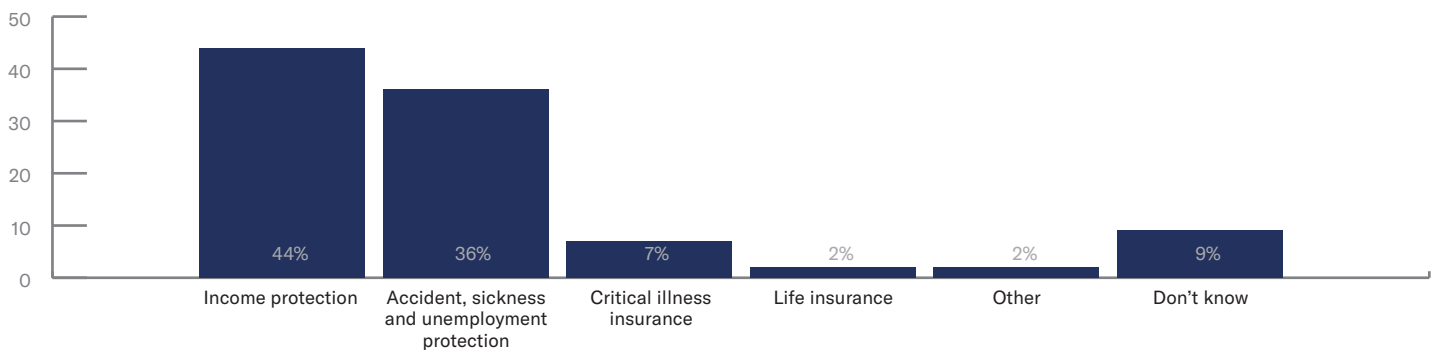
Which one of the following products do you think is being described here?

	An insurance policy that pays out when you are diagnosed with a disease or condition covered in your terms and conditions	A short-term policy that replaces your income for a set amount of time (e.g. up to 12 months) if you can't work due to health reasons or redundancy	An insurance policy that pays a regular income if you're unable to work or have lost income because of health reasons
Income protection	5%	44%	31%
Accident, sickness and unemployment protection	18%	36%	42%
Critical illness insurance	62%	7%	14%
Life insurance	5%	2%	3%
Other	1%	2%	1%
Don't know	8%	9%	9%

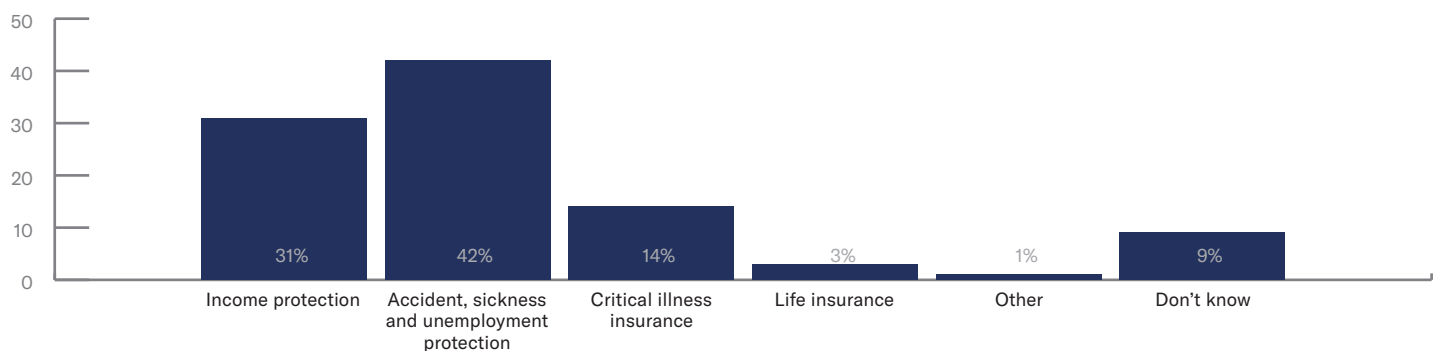
An insurance policy that pays out when you are diagnosed with a disease or condition covered in your terms and conditions



A short-term policy that replaces your income for a set amount of time (e.g. up to 12 months) if you can't work due to health reasons or redundancy

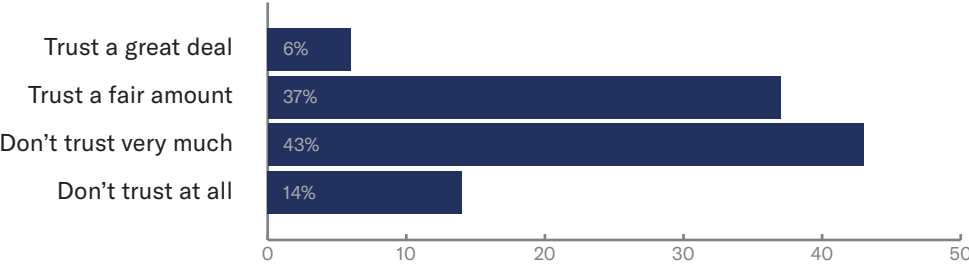


An insurance policy that pays a regular income if you're unable to work or have lost income because of health reasons



Consumer confidence

Thinking about when insurance companies give claims statistics (e.g. 99% of claim(s) paid out), to what extent do you trust that these figures are accurate?



57%

Consumers don't have a lot of trust in the industry: over half of consumers don't believe claim statistics.



“There’s no question that protection can make a huge financial difference, but this research shows that there’s still much work to be done in spreading that message wider.”

Lucy Brown, London & Country

“The use of terms like income protection also serves to confuse - I tell clients it’s sick pay and they immediately get it.”

Alan Lakey, Highclere Financial Services

“Are the numbers so high that people don’t trust them? Would people trust them more if they were lower?”

Emma Walker, LifeSearch

“It is particularly concerning that such a higher number of respondents didn’t know Income Protection Insurance was available to the self-employed, given the high (and likely increasing) numbers of self-employed workers in the UK”

Rob Harvey, Drewberry

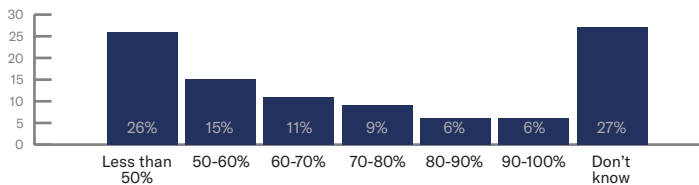
“It is really sad that so many people prefer to disbelieve claims statistics, while believing the myth that insurers don’t pay out. Is it time for an independent industry standard reporting system?”

Scott Taylor-Barr, Openwork

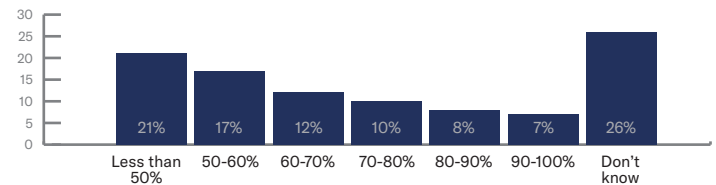
What proportion of claims do you think are typically paid out for each of the following types of insurance?

	Income protection	Accident, sickness and unemployment protection	Critical illness insurance	Life insurance	Payment protection insurance	Mortgage payment protection	Buildings insurance	Contents insurance
Less than 50%	26%	21%	21%	12%	23%	16%	12%	11%
50-60%	15%	17%	14%	10%	14%	13%	9%	9%
60-70%	11%	12%	13%	9%	13%	12%	10%	10%
70-80%	9%	10%	9%	9%	10%	12%	12%	12%
80-90%	6%	8%	9%	11%	7%	10%	12%	14%
90-100%	6%	7%	11%	27%	7%	13%	22%	21%
Don't know	27%	26%	25%	21%	27%	26%	22%	22%

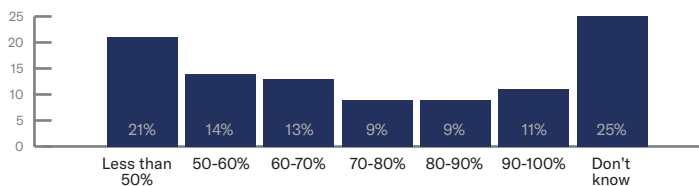
Income protection



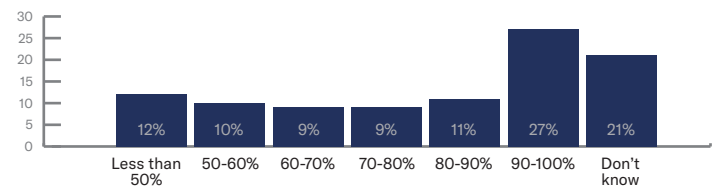
Accident, sickness and unemployment protection



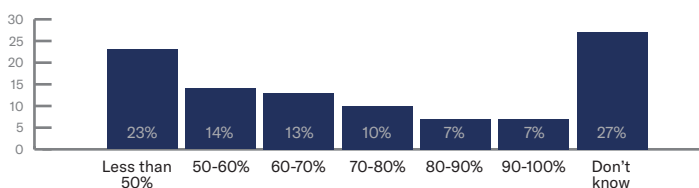
Critical illness insurance



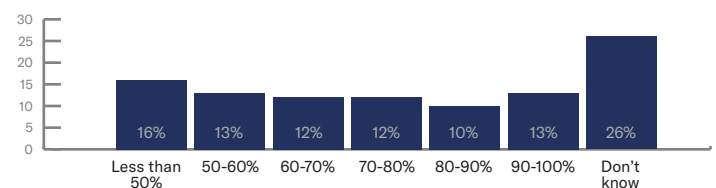
Life insurance



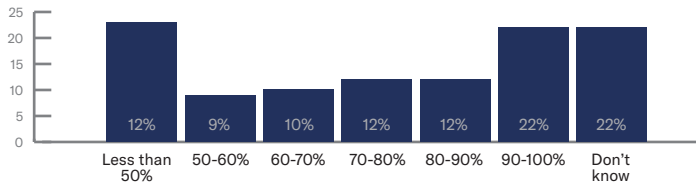
Payment protection insurance



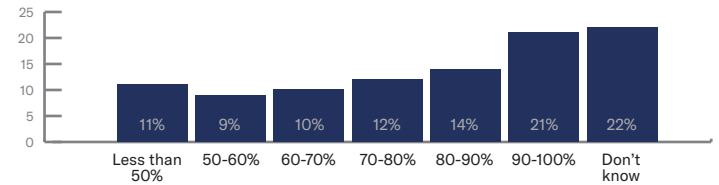
Mortgage payment protection



Buildings insurance



Contents insurance



“Protection is the corner stone of the financial services industry. My worry is that this is too often forgotten and left behind due to time pressures and other priorities.”

Makayla Everitt, SimplyBiz Mortgages

“Income protection is an important part of the protection offering available to our clients, but one that is often misunderstood.”

Abi Greenhalgh, Nest Financial Services

“This detailed research highlights the work we need to do to raise awareness on both the value and accessibility of income protection.”

Naomi Gcreatorex, Heath Protection Solutions

“The report highlights a real and vital need for better consumer education around protection insurance. However, this is something we need to tackle as an industry”

Scott Taylor-Barr, Openwork

“If these stats are too high to be believed, do we need to consider the behavioural science behind the distrust - and how might we be able to bring more life to the claims data?”

Stacy Reeve, AMI

“The protection industry is open and honest - we need to work together to find better ways to get the message across to customers.”

Emma Walker, LifeSearch

“The report shows most consumers don’t understand what IP is although 2/3rds think it is important to protect their mortgage payments.”

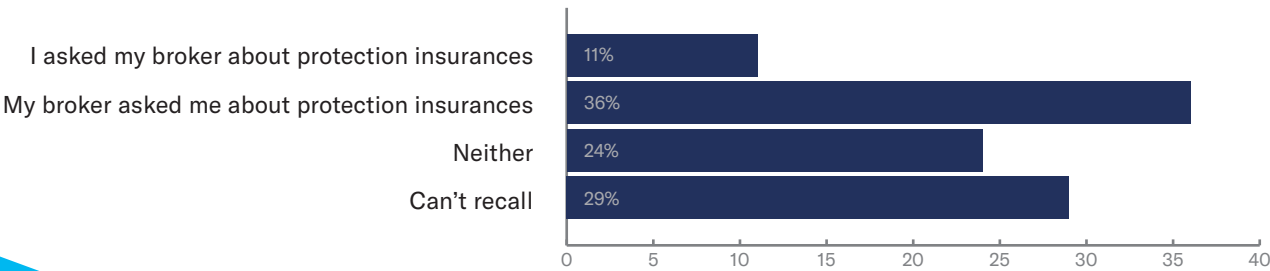
Jeff Woods, Sesame Bankhall Group

“The most valuable thing we can insure is not our house, car or possessions - but ourselves. Because if the worst does happen, the house, car and possessions don’t have to be sold.”

Andy Walton, Mortgage Advice Bureau

Discussing protection

Thinking back to when you were getting your mortgage, which one if either of the following happened?

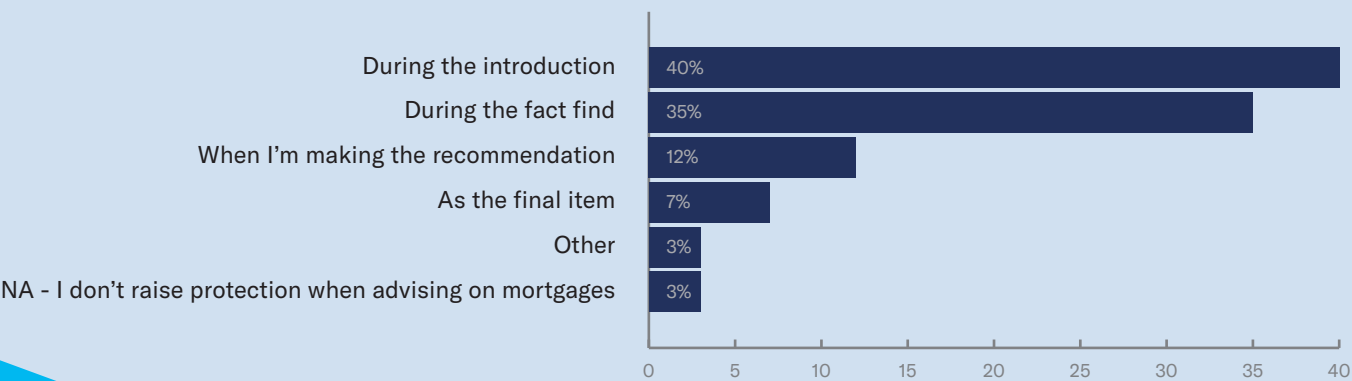


36%

Only 36% of customers remember protection being mentioned by their adviser.

Advisers

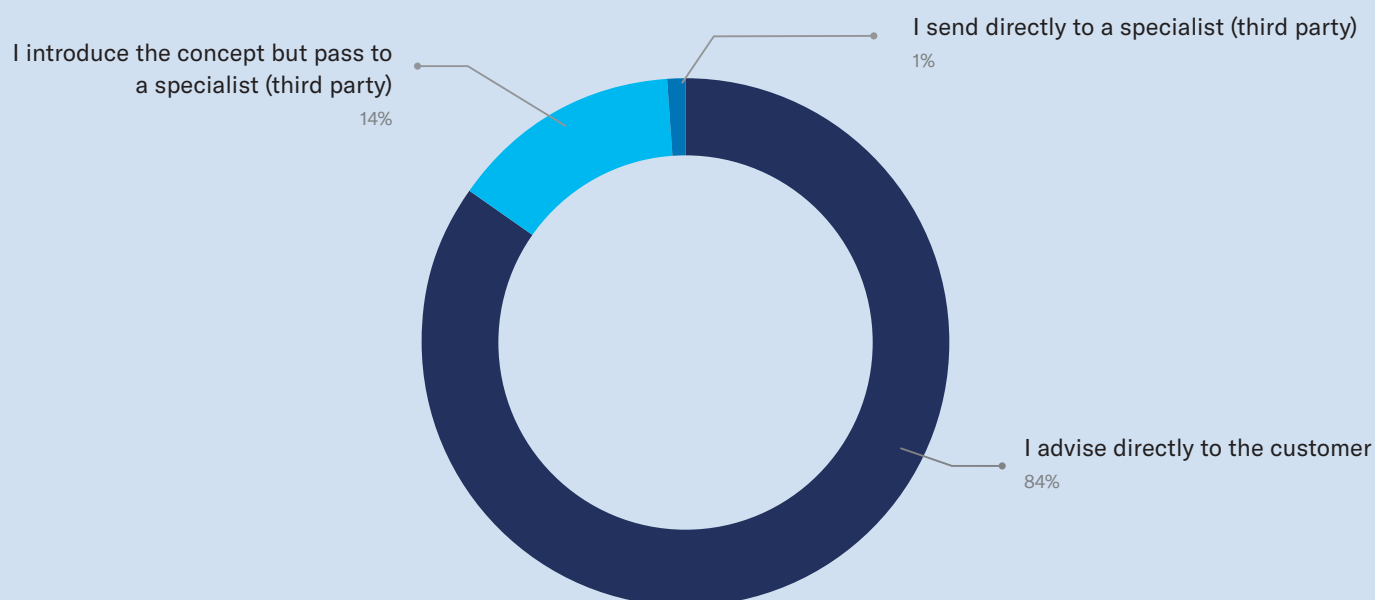
When you are advising clients on mortgages, at what point do you raise protection with your client?



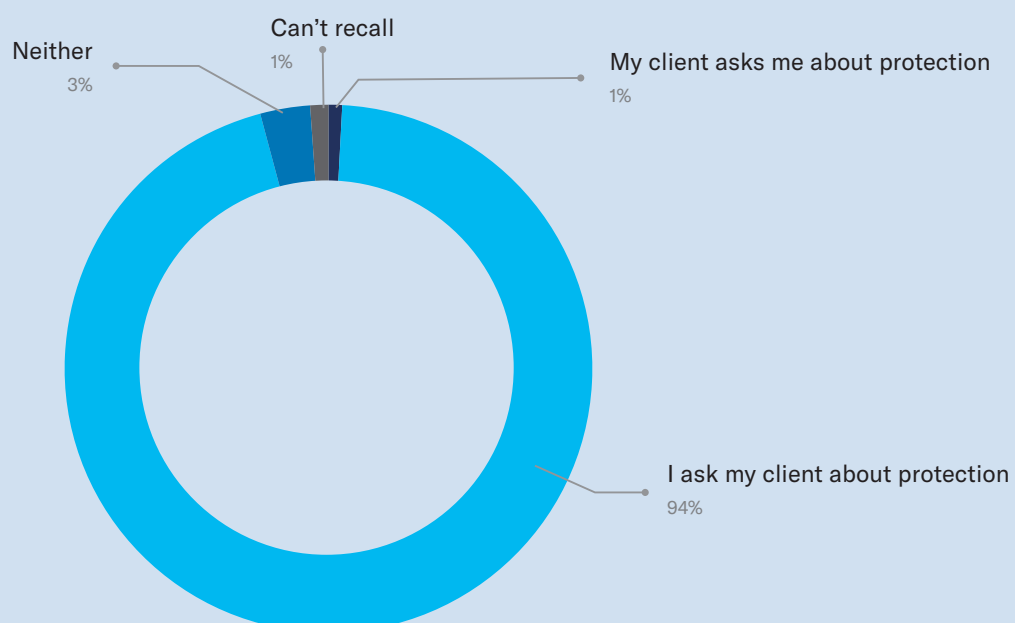
97%

97% of advisers say protection was mentioned by them when talking to clients.

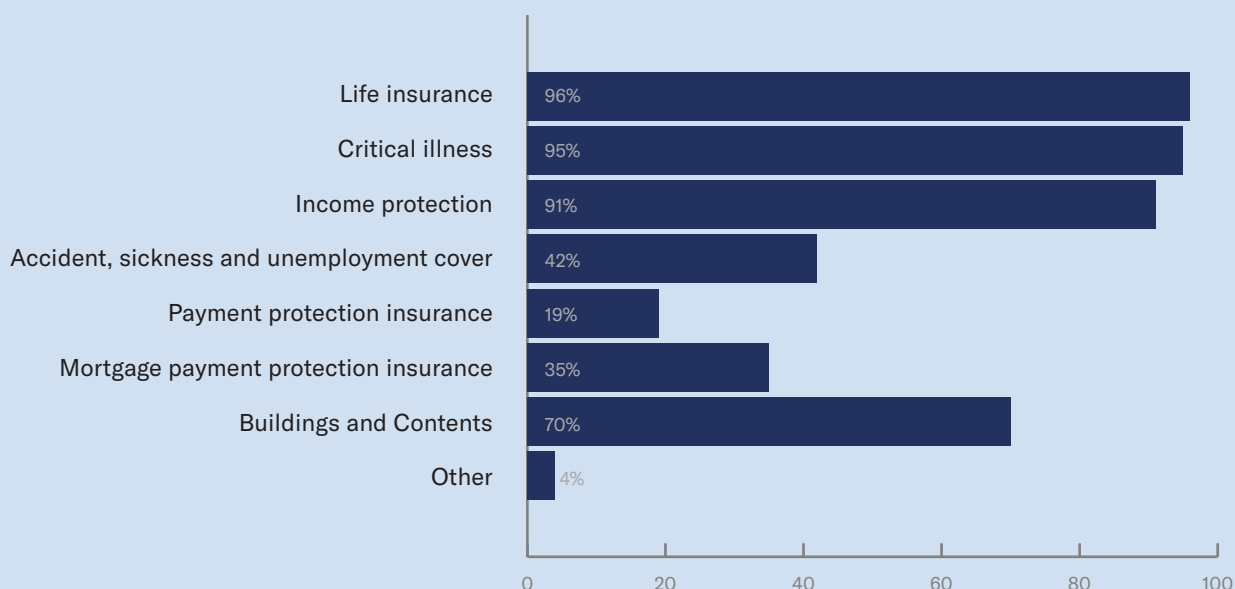
When raising protection with your mortgage clients, which of the following best describes your situation?



When you are advising clients on mortgages, which of the following usually happens?



Which of the following do you discuss when you raise protection with your mortgage clients?



“Renters across the UK are a hugely underserved part of society. Many never cross the path of a broker, yet need protection just as much as everyone else.”

Abi Greenhalgh,
Nest Financial Services

“With less than a third of UK adults able to correctly identify what income insurance is, it will be up to advisers to help boost consumer awareness on this product”

Vikki Jefferies, Primis

“The mountain can be climbed but we need a collaborative effort by insurers, reinsurers, distributors and media.”

Roy McLoughlin, IPTF

“Consumers are now far more aware of their resilience against a financial shock, which will lead to more protection cover being arranged - but only if we make sure it’s easy to buy.”

Ian Sawyer, Assured Futures

“This is very enlightening and could suggest that if protection is being discussed that it’s not being done in a manner that impresses it’s true value and importance.”

Alan Knowles,
Protection Distributors Group

Mind the protection gap: Craig Brown, Director, Intermediary Insurance at Legal & General



During an economic downturn, it is natural for people to move away from risk, and, sometimes sub-consciously, focus more on what they already have.

When the last economic crisis of 2008 hit, we saw many mortgage advisers increase their protection business. This was partly because new mortgage business slowed down, but also because more people were keen to protect what they have - and next year could be similar.

But do our customers always hear what we are saying? This new research tells us advisers raise the subject of protection on almost every mortgage sale. However, the majority of customers don't

remember it being mentioned. This suggests that a communication gap exists between what advisers think they are transmitting versus the messages customers are actually receiving. There is perhaps a need for more structured protection conversations - or maybe more conversations with protection specialists.

As well as mortgage customers, it is also important that renters have access to protection insurance as they can often be more financially vulnerable than homeowners. As an industry, we need to support mortgage and renters' needs through tailoring both product development, advice and technology, because this is a growing demographic.

Each adviser firm will have a different approach but ensuring a structured protection conversation takes place where appropriate is essential. Some firms may ensure that mortgage advisers are also protection specialists, or may have separate in-house protection specialists. While others may partner with an external company.

Since the onset of Covid-19 at the start of the year,

much of the market has been down in terms of new protection sales compared to last year.

We know that protection sales from the mortgage and wealth adviser sectors are down, although protection business from telephone-based firms is up, sometimes by 20-30%. When talking to these

Whether you own or rent, the need for protection remains and it is worth considering that if mortgages become harder to obtain or afford, the number of people renting will likely increase.

We will continue to work hard to ensure that renters are accessing protection to safeguard their homes

“This suggests that a communication gap exists between what advisers think they are transmitting versus the messages customers are actually receiving.”

firms, one of the main reasons is simply that more people are at home, answering the phone and are generally more open to protection conversations at this time of heightened awareness.

While the full impact of the virus remains to be seen, it is encouraging that many distribution firms are continuing to innovate and write protection on a regular basis.

and families. We would welcome an industry wide focus from insurers and distributors to highlight the importance of protecting all potentially vulnerable people and families.

Key findings

Protection has a valuable role to play in ensuring consumers are financially secure, whatever life throws their way. But, while the need is clear, protection sales figures continue to fall far short.

The good news is that it's firmly on advisers' agenda, with 97% of respondents saying protection is part of the mortgage advice process. However, the message isn't necessarily getting through to consumers as just 36% of respondents recall a protection conversation with their mortgage adviser.

Understanding what lies behind this communication breakdown will help to make these conversations more valuable for both parties. Consumer perceptions of protection are particularly revealing. Although the majority of respondents see the importance of having cover (Q6), the research highlights a lack of understanding.

While the majority say they understand what the different products do (Q5A), this knowledge doesn't stand up to further interrogation. When asked to identify a protection product from a description,

62% of respondents recognise critical illness insurance but there's much more confusion around income protection (IP) and accident, sickness and unemployment protection (ASU). (Q5B)

Only 31% correctly identified IP from its description, with 42% thinking it was ASU. Similarly, when given a description of ASU, 44% think it's IP – a higher percentage than the 36% who correctly identified it. Awareness and education campaigns may help to bridge this knowledge gap but the research found there were further obstacles preventing take-up.

A key one is consumer trust. When asked about the claims statistics published by insurers (Q8), 57% say they don't trust them very much (43%) or at all (14%). In fact, when probed further, consumers believe that insurers typically pay far fewer than the 98.3% reported by the ABI. In fact, consumer estimates start at 51.9% for IP and rise to 71.1% for life insurance.

Cost is another area where reality and consumer perception are at odds. On average, respondents without IP think it costs £34.50 a month, but they

would only be willing to pay an average of £17.50 a month. In reality, flexible product design means that both price points are achievable for many consumers.

Understanding consumer motivations around protection can help to refine advice processes. Home purchase (51% plus 28% for moving to a new home), having a baby (36%) and getting married (25%) are seen as the key reasons for taking out cover (Q11).

of cover. An IP policy specifically for mortgage payments was seen as appealing by 46% of respondents with a mortgage (Q14A), while 40% of tenants would appreciate a policy designed to cover rent payments (Q14B).

Given that 55% of advisers express an interest in writing IP for renters through an estate agent, with a further 3% saying they already do this, this is an area that may be worth exploring (Q14).

“Consumer perceptions of protection are particularly revealing.”

These motivators are changing. When asked about future home ownership, 51% of respondents who don't own their own place say it's unlikely they ever will and 42% say it's simply not as important to own a home anymore. Interestingly, the research found that just as life goals are changing, there's also appetite among consumers for different forms

With consumers valuing protection, the industry must ensure it continues to meet their needs. More education coupled with product design to suit evolving needs will help the sector build trust and its customer base.

Lack of awareness



True, False and Don't know statements around protection



“I speak to so many customers who have no idea what income protection is, or what it does.”

Naomi Greatorex, Heath Protection Solutions

“Whilst income protection sales have been moving in a welcome direction, this report sadly reminds us that we are still at base camp in many ways.”

Roy McLoughlin, IPTF

“It is the responsibility of everyone in our industry to embrace change and research like this is incredibly powerful. It needs to be recognised, and acted upon.”

Makayla Everitt, SimplyBiz Mortgages

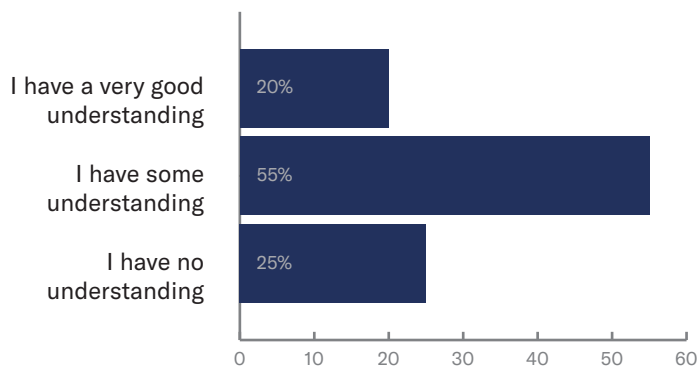
How well do you feel you understand what each of the following products do?

	Income protection	Accident, sickness and unemployment protection	Critical illness insurance	Life insurance	Payment protection insurance	Mortgage payment protection
I have a very good understanding	20%	22%	22%	37%	21%	24%
I have some understanding	55%	58%	58%	53%	52%	54%
I have no understanding	25%	19%	20%	9%	27%	22%
NET: Very good/ some understanding	75%	81%	80%	91%	73%	78%

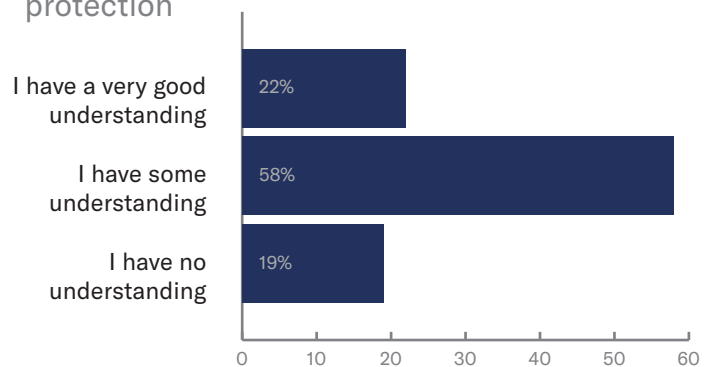
20%+ have no understanding of protection products and there is lots of confusion around products.

20%+

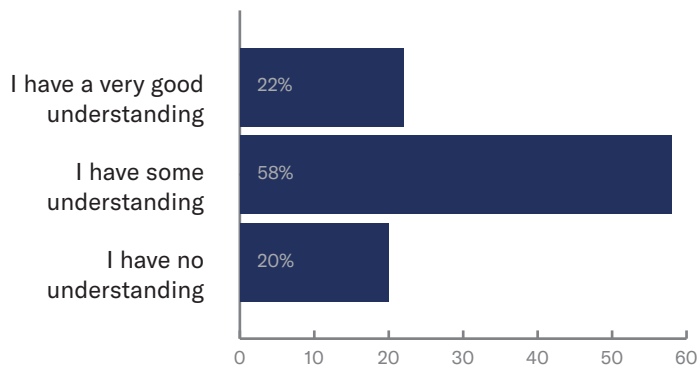
Income protection



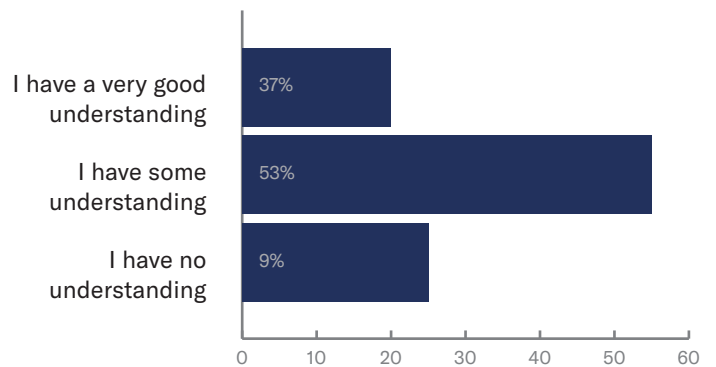
Accident, sickness and unemployment protection



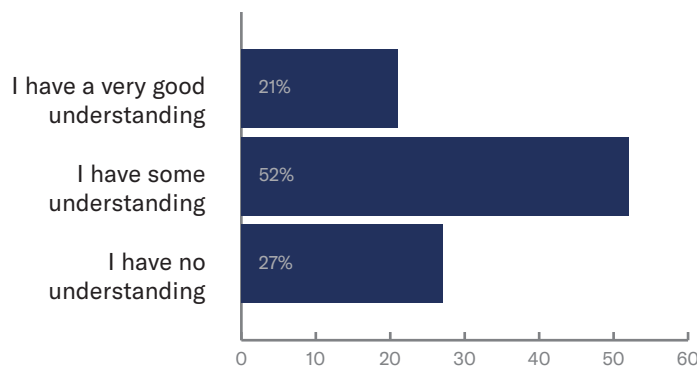
Critical illness insurance



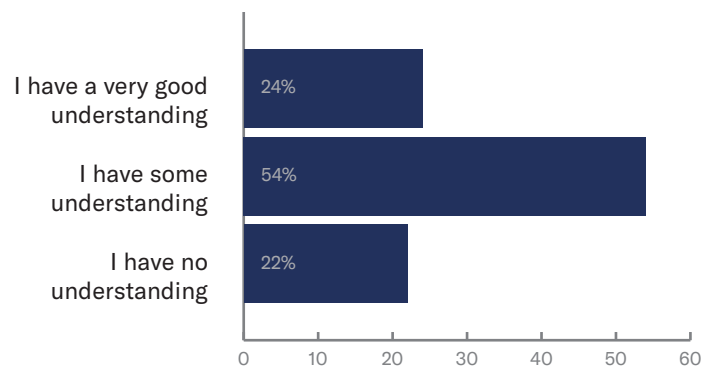
Life insurance



Payment protection insurance

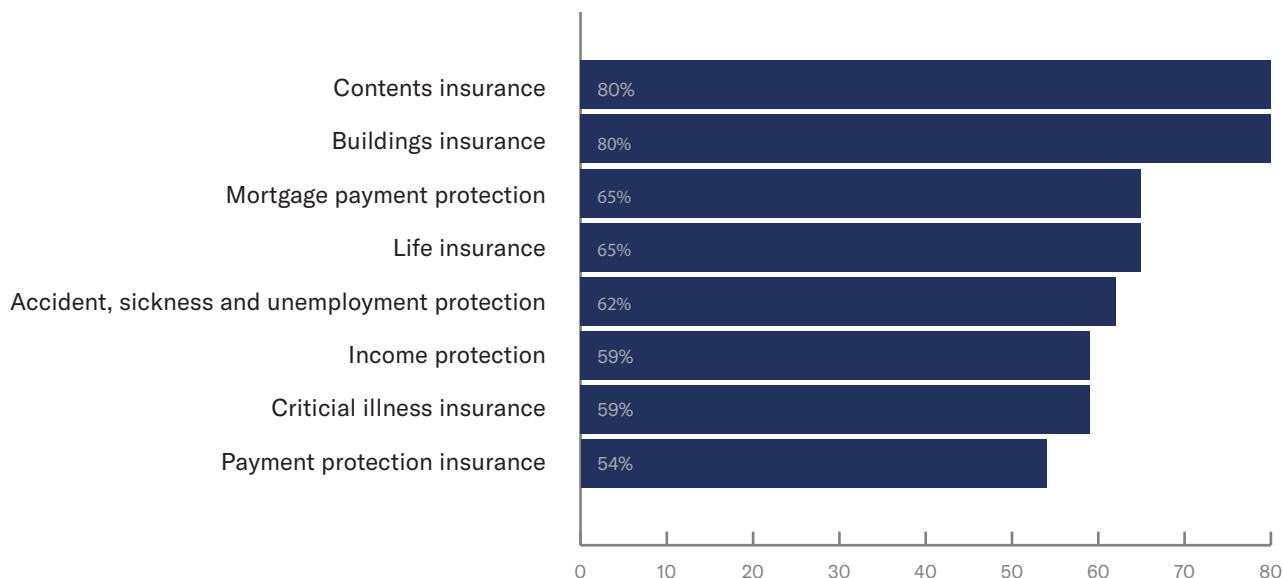


Mortgage payment protection



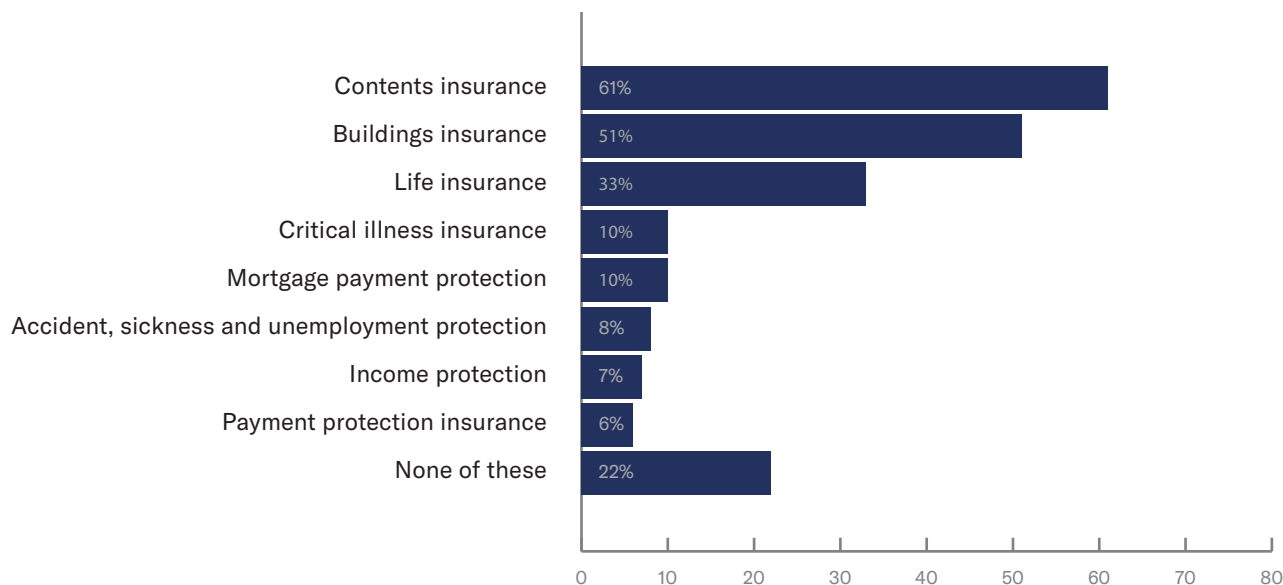
Policy priorities

How important is it to hold products?
% very or fairly important



Home insurance considered the most important type of policy.

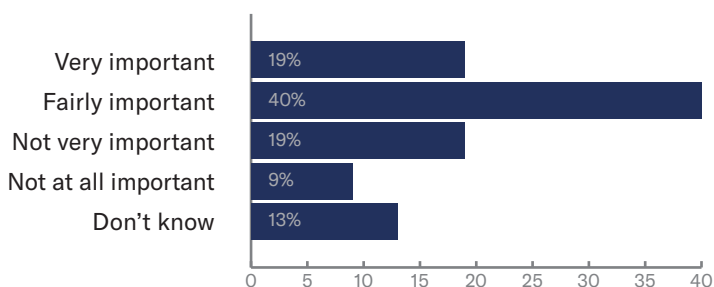
Which of the following financial products do you currently hold?



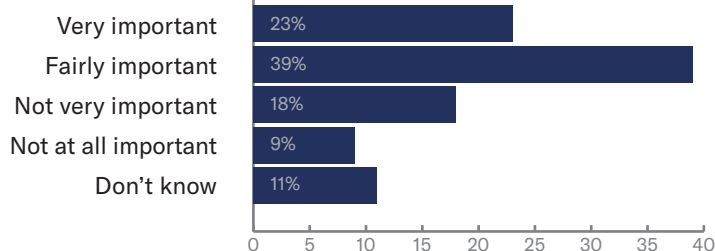
How important do you think it is to have the following insurance products?

	Income protection	Accident, sickness and unemployment protection	Critical illness insurance	Life insurance	Payment protection insurance	Mortgage payment protection	Buildings insurance	Contents insurance
Very important	19%	23%	21%	30%	20%	31%	53%	47%
Fairly important	40%	39%	38%	35%	33%	35%	27%	33%
Not very important	19%	18%	20%	16%	22%	14%	8%	10%
Not at all important	9%	9%	8%	8%	13%	9%	4%	3%
Don't know	13%	11%	12%	10%	11%	11%	8%	7%

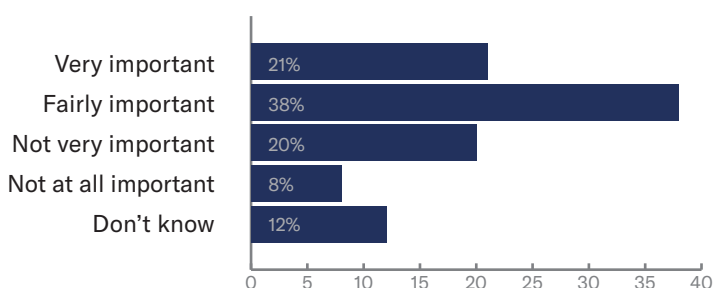
Income protection



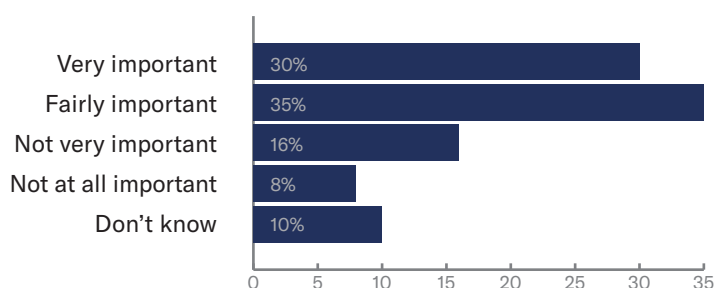
Accident, sickness and unemployment protection



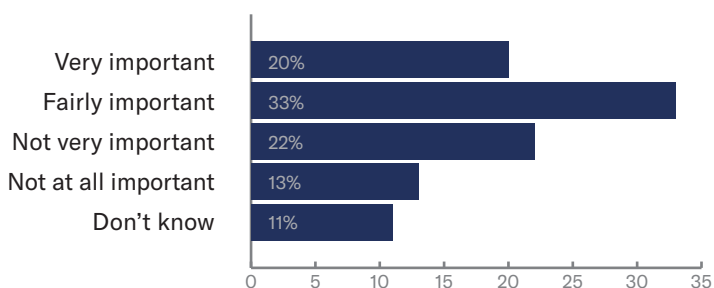
Critical illness insurance



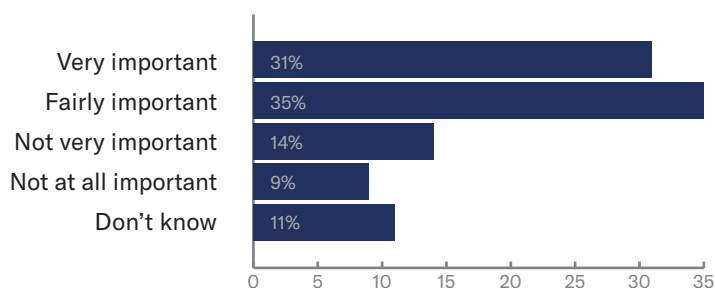
Life insurance



Payment protection insurance

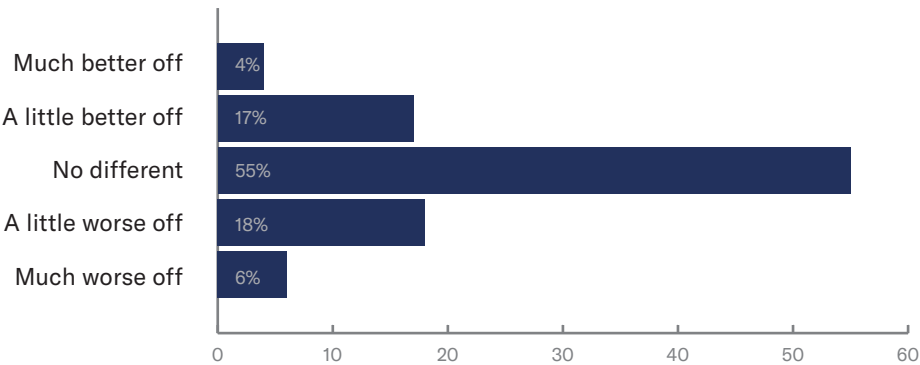


Mortgage payment protection



The impact of Covid

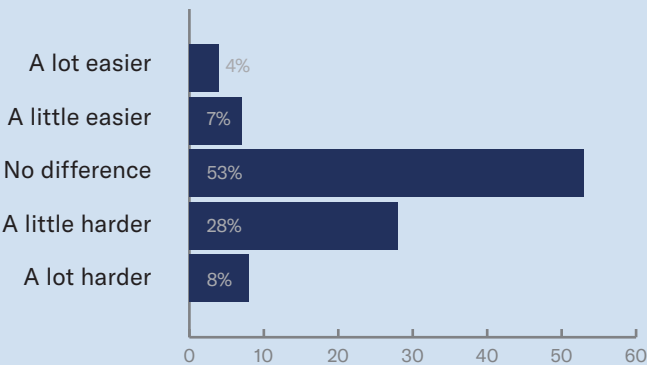
Now thinking about the impact of Covid-19 on your future personal finances, generally speaking do you feel better off, worse off or no different?



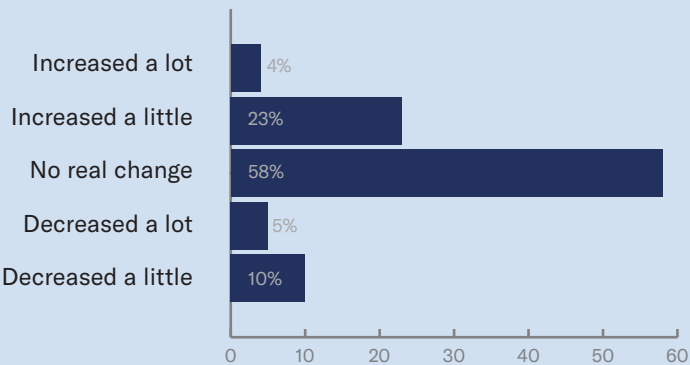
Covid-19 has not impacted the likelihood of getting protection for the majority of consumers.

Advisers

Since the start of the COVID-19 pandemic some conversations have moved to virtual rather than face-to-face, have you found it easier or harder to have long conversations with clients?



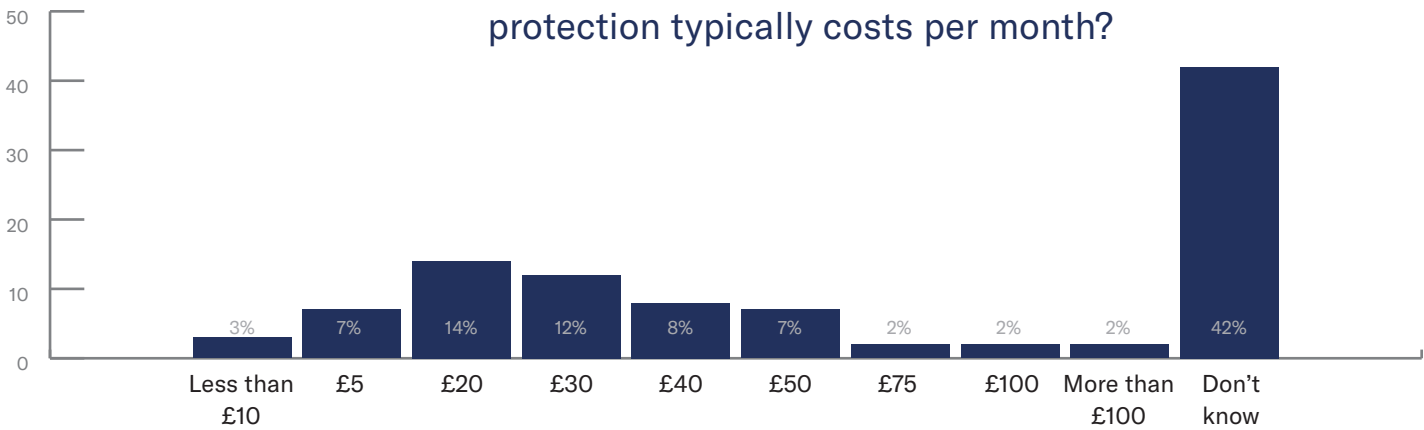
Since the start of the COVID-19 pandemic, has your protection business increased or decreased?



Perceived value of protection



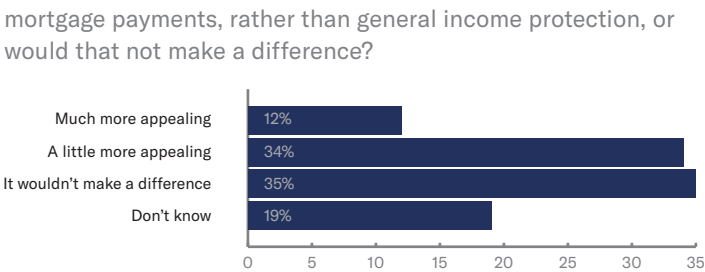
Approximately how much do you think income protection typically costs per month?



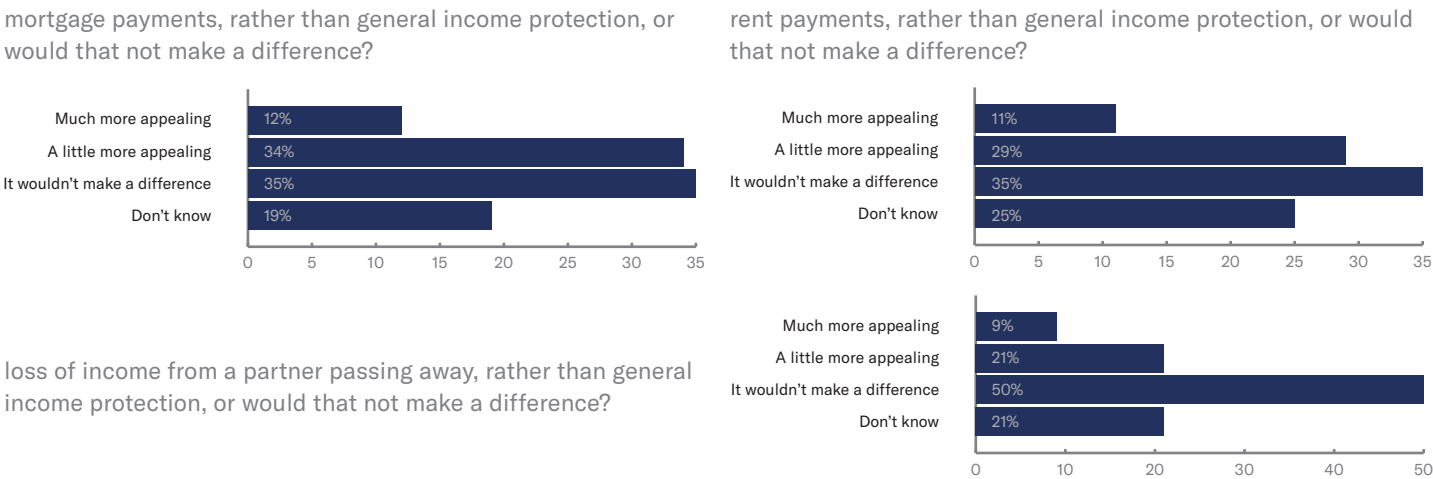
Approximately how much would you be willing to pay for income protection per month?



Do you think you are more likely to take out income protection if it was specifically designed to cover:

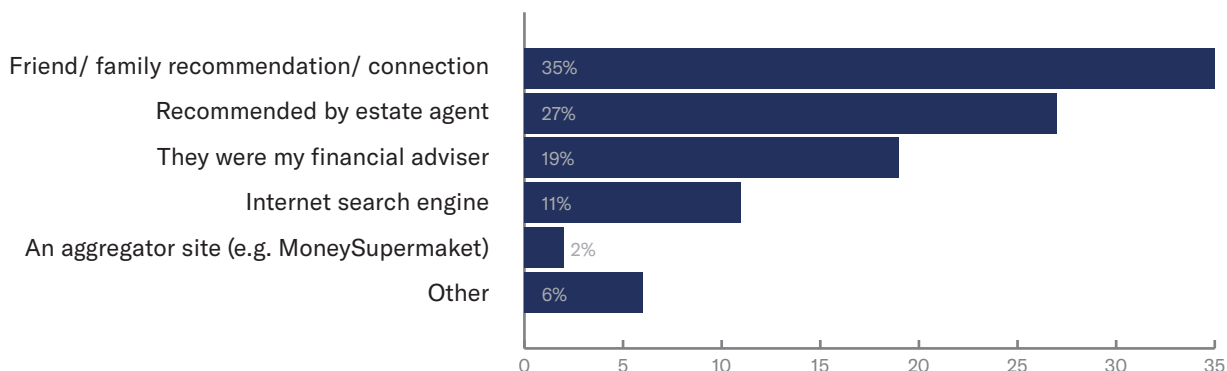


loss of income from a partner passing away, rather than general income protection, or would that not make a difference?

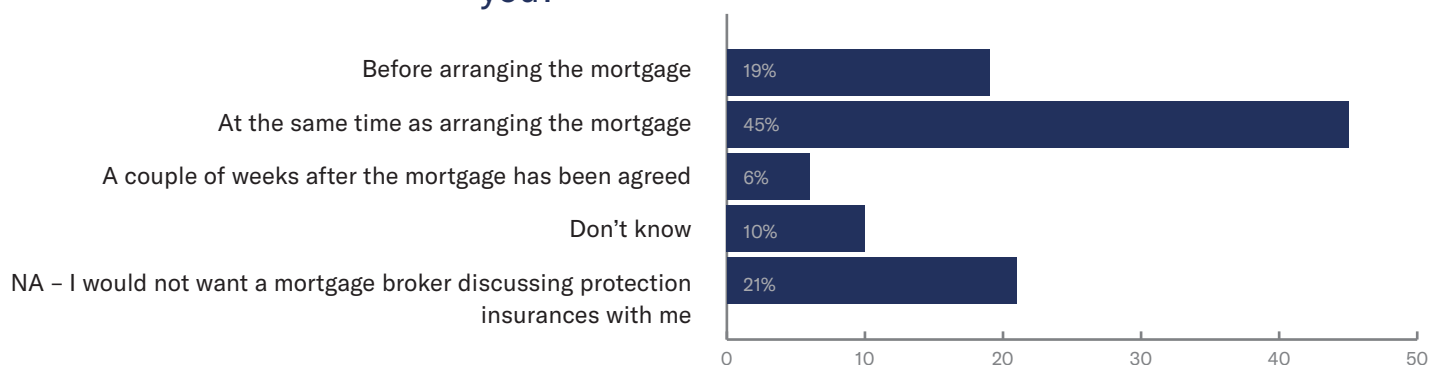


Buying protection

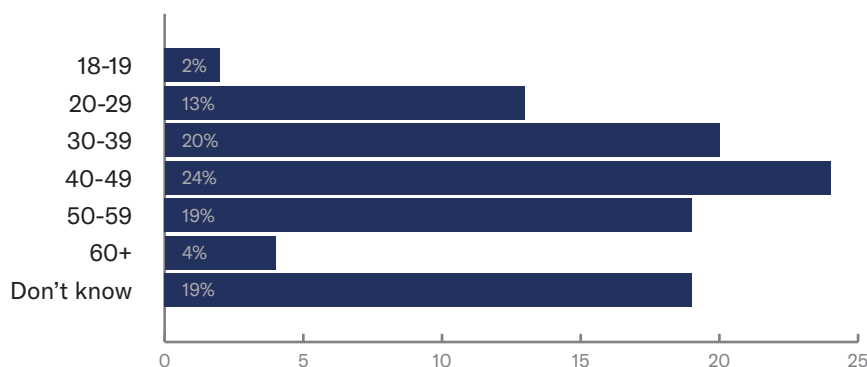
How did you find the broker you used?



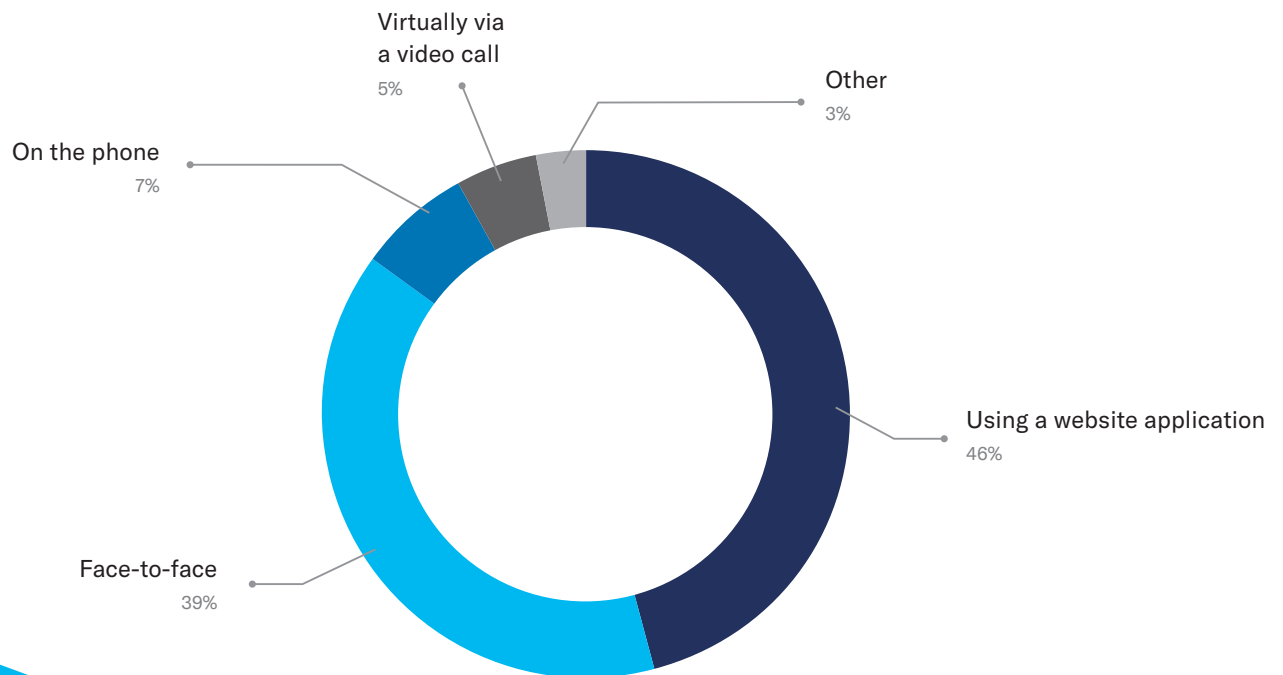
At what point in the process would you want a mortgage broker to discuss protection insurances with you?



What do you think is the typical age of someone who claims on their income protection insurance?



Imagine you were looking to buy protection insurance, in which of the following ways would you prefer to buy it?

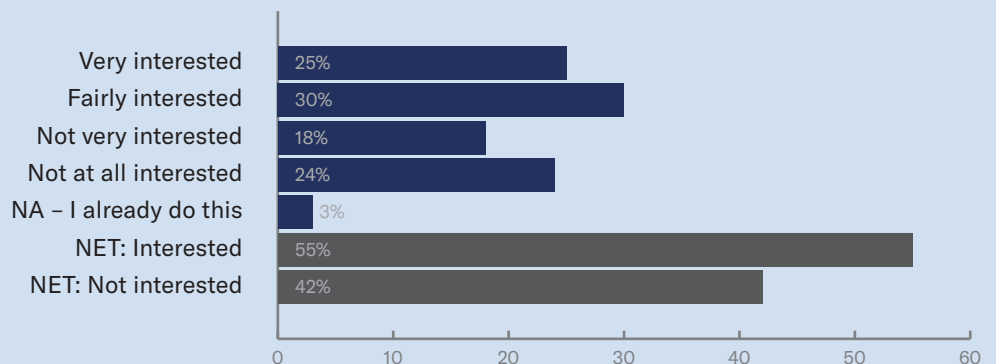


55%

Over half of advisers would be interested in writing protection for renters via an estate agent.

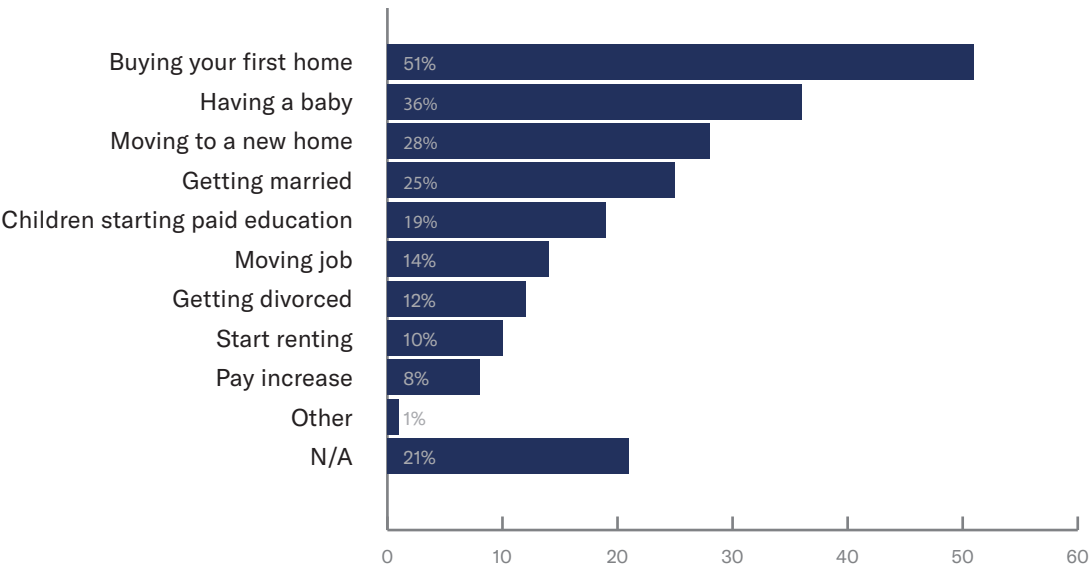
Advisers

How interested would you be in writing income protection for renters via an estate agent?

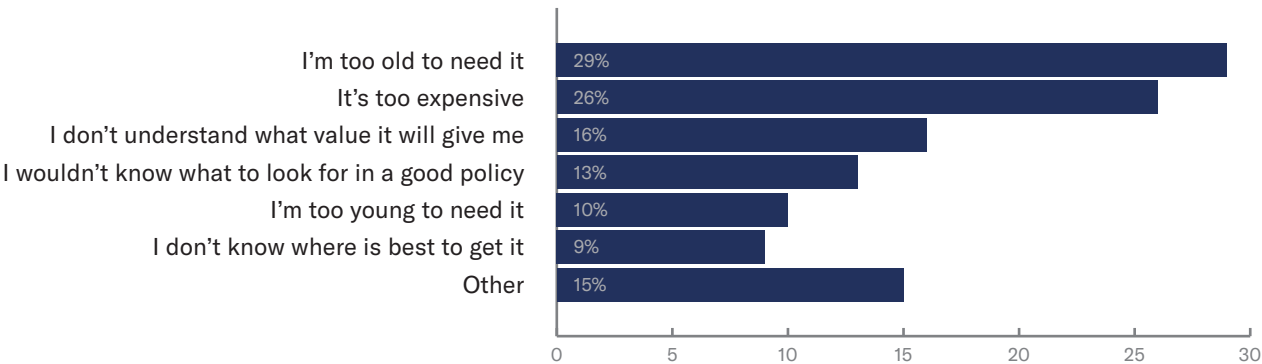


Consumer motivation

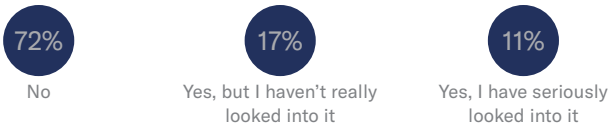
Good reasons to buy protection



You mentioned you don't have income protection, why is that?



Have you ever considered taking out income protection?



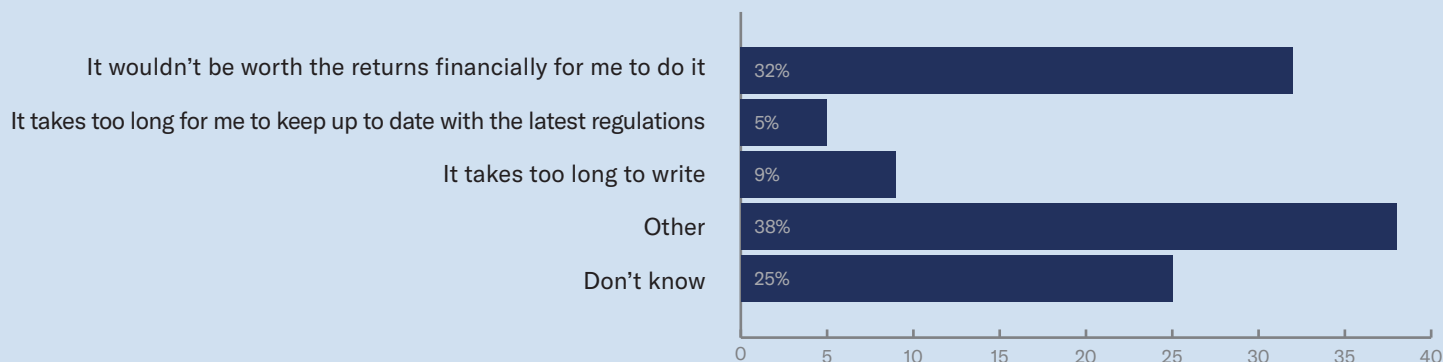
“As a telephone-based adviser, we have seen increased demand for IP (and PMI) and also an increase in people’s propensity to buy.”

Ian Sawyer, Assured Futures

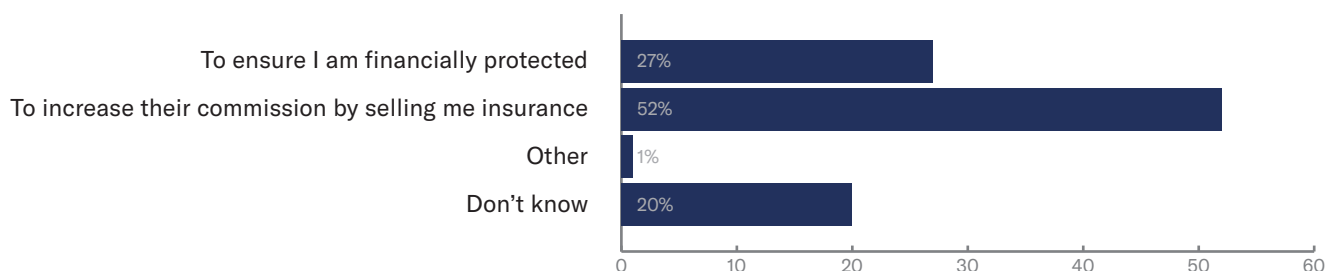
“As advisers it is our responsibility to help customers see the incredible (cost effective) benefits of protection.”

Andy Walton, Mortgage Advice Bureau

You mentioned you wouldn't be interested in writing income protection for renters via an estate agent. Why is that?



If a financial adviser suggested you get protection insurance, which of the following do you think would be their main motivation?



"This research clearly highlights there is still much work to do as an industry if we are to reach more consumers and adequately address the protection gap in the UK"

Rob Harvey, Drewberry

"It is clear we need to find a better and more independent way of promoting claims stats, ideally from a consumer trusted source rather than Providers"

Jeff Woods, Sesame Bankhall Group

Game, set & mismatch?

Kevin Carr, CEO of Protection Review



Like Rafa Nadal's backhand, a strong sense of consistency and detail runs through this report. Rather than breaking records though, the overriding and consistent theme is one of gaps, mismatches, and unmet challenges.

We have advisers saying they always talk about protection, while most customers say they don't remember it coming up. We have an industry that is open and honest in publishing paid and declined claim statistics, but most customers don't believe them. We have customers who either don't understand our products, or mostly get it wrong when they say they do. We have adviser firms doing well over the phone, while customers say they don't want to talk on the phone.

And we have an industry saying Covid-19 should be driving protection sales, while customers are saying it's not making a difference.

Understanding what is driving these gaps and mismatches could help the industry improve across the board, starting with how we communicate to our potential customers as an industry.

As Robert Sinclair so rightly says earlier in this report – the biggest challenge we face is how to get the consumer on-side and interested in protection. Do we commit enough resource as an industry to reaching consumers? Whether it's marketing, PR, digital, social, owned or earned, the ROI may not be guaranteed – but if nothing changes, nothing changes.

Developing products and improving technology is great and plays a very important part – but arguably these are the easier wins. The tough part is reaching consumers, improving their understanding, and encouraging them to act.

Protection has a valuable role to play in ensuring

consumers are financially secure, whatever life throws their way.

When Craig Brown highlights the last economic crisis, he is right to point out that protection sales rose for many mortgage brokers. It may well be customers who didn't take protection the first time,

see many truths throughout the research. And of course, some shades of grey. It is disappointing though, having been involved from day one in the publication of claim stats back in the noughties, to see that the numbers are basically too high to be believed. Oh, the irony.

“Understanding what is driving these gaps and mismatches could help the industry improve”

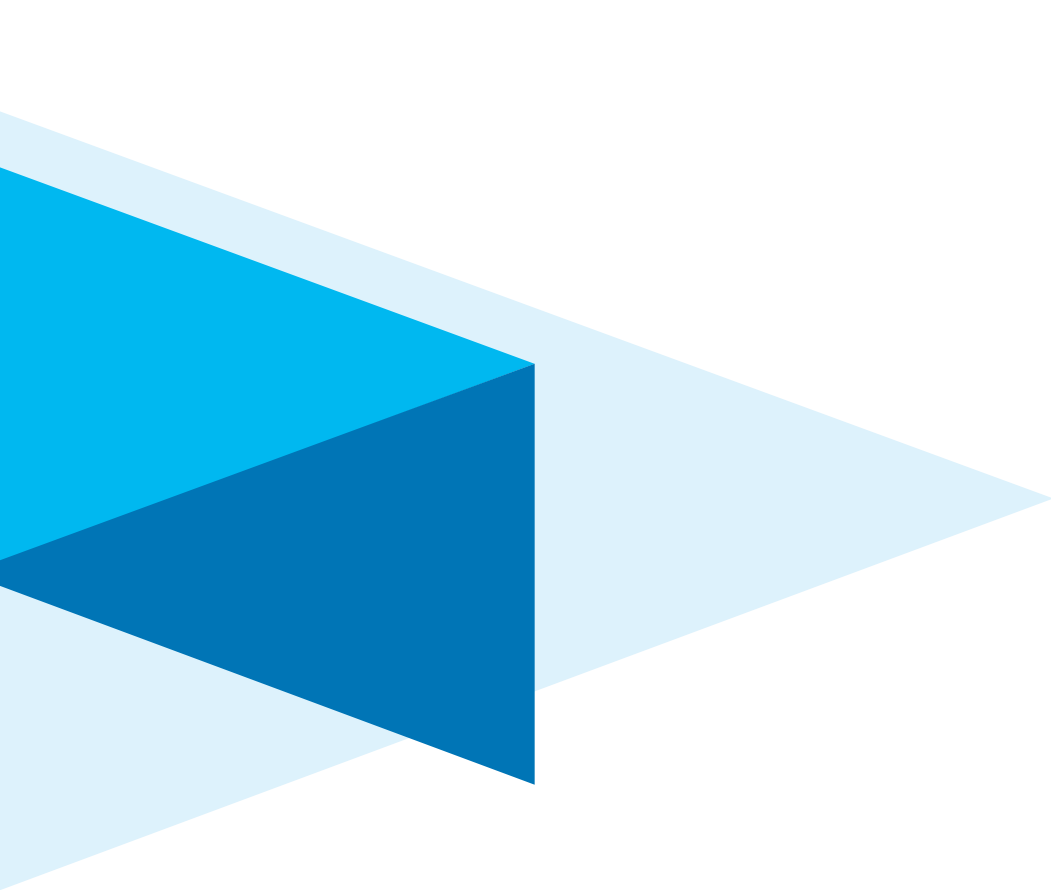
but that's OK if they get cover in place before their circumstances start to change.

While David Ellis took three key points from the report. He said the lack of consumer trust around claims stats, poor customer understanding around income protection, and the view that most people think life insurance is important but many still don't have it.

And personally, as an ex-mortgage and ex-protection adviser, both over the phone and face to face, I

Advisers are, and will always be, crucially important in helping families to become more financially resilient, and on behalf of AMI, I'd like to thank all the advisers who kindly contributed to this report.

But advisers alone can't reach everyone. So, let's make a racket about the importance of protection. Because if we don't, who will.



Association of
Mortgage Intermediaries