



Joint Colloquium of the IACA, PBSS and IAAHS Sections of the International Actuarial Association

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HM7-New Trends in Income Protection Products

-United Kingdom- 

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Agenda

- **Market Facts and Trends**
- **Distribution Issues and Trends**
- **Protection GAP and Government/Employer Benefits**
- **Product Trends**
- **Compliance Issues and Trends**
- **Combined Insurance Company - One Approach**

Market Facts and Trends

Payment Protection Insurance (PPI)

Designed to help repay debts (such as mortgages, loans and credit cards)

Upon inability to work because of an accident or illness or involuntary unemployed.

Typically 12 month benefit period

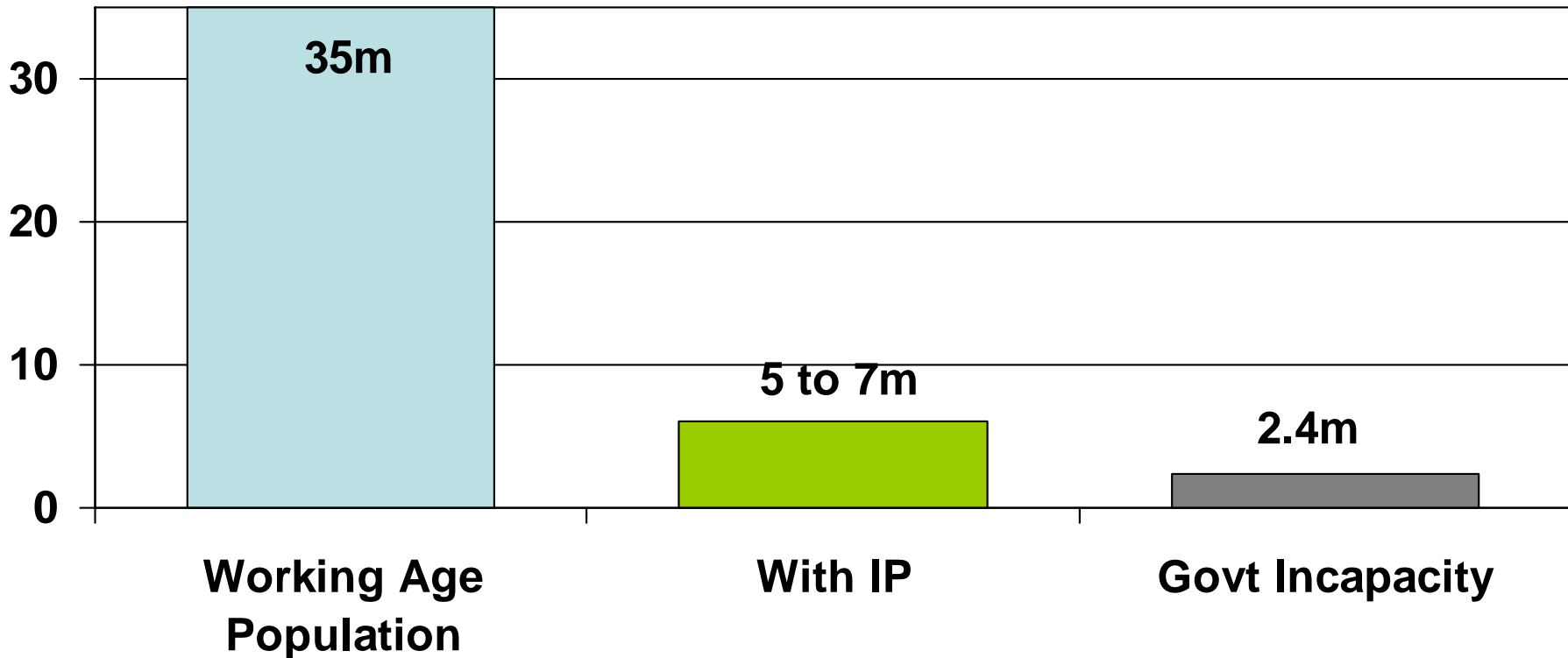
Income Protection (IP), Permanent Health Insurance (PHI)

Replaces part of income if unable to work up because of illness or disability.

Typically starts after 6 month wait, to earlier of retirement age or recovery

Market Facts and Trends

UK Population Millions



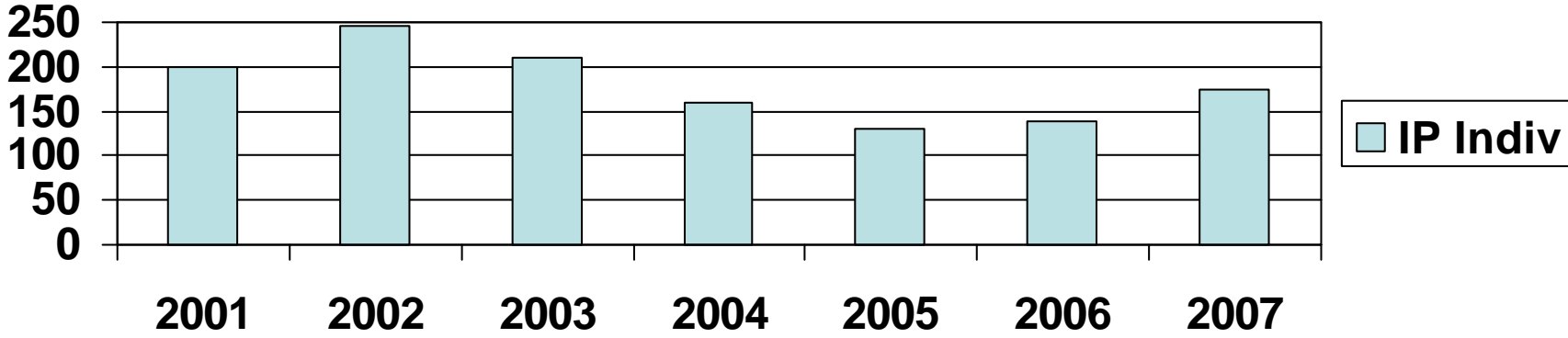
¹ Source: Department for Work and Pensions, HBAC 2005/6; ⁷ Government Incapacity Feb 2005
Quarterly Summary Statistics includes all ages

Market Facts and Trends

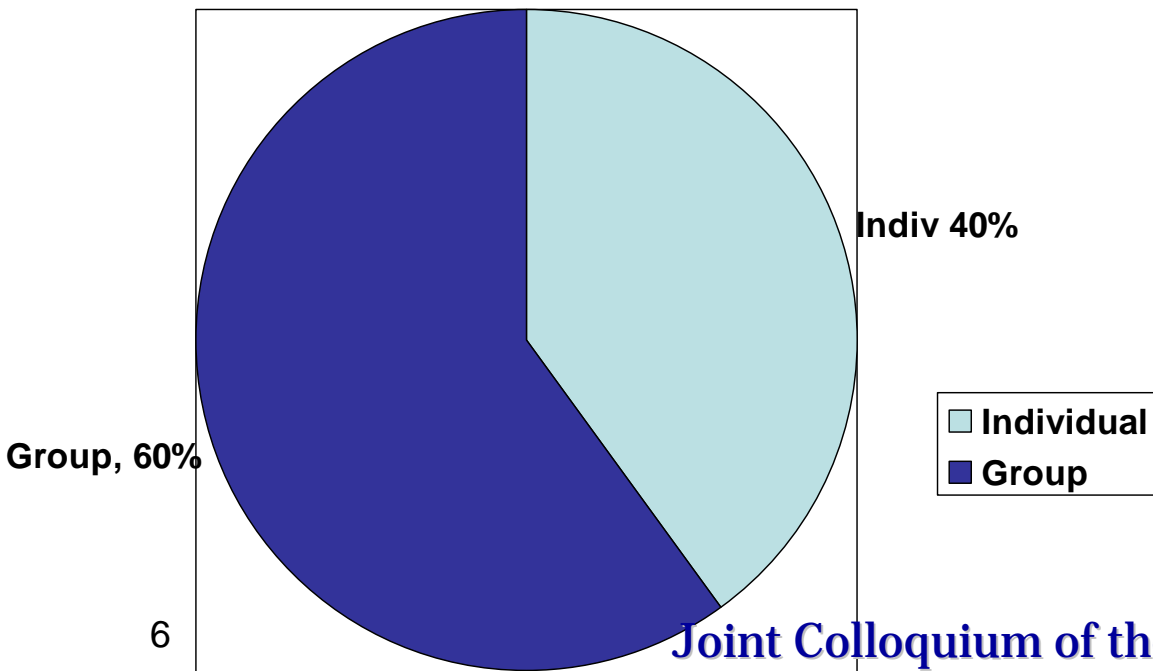
UK Working Age Population:	35 million
IP Annual Sales (group +indiv) averaging:	1% of market
Group IP Cover	3 million
Implied Total IP Coverage Group + Indiv	15-20% of population

² *The Income Protection Task Force White Paper Dec 2006*

Market Facts and Trends



³ LIMRA UK Market Briefing January 2008, ABI Statistics



Market Facts and Trends

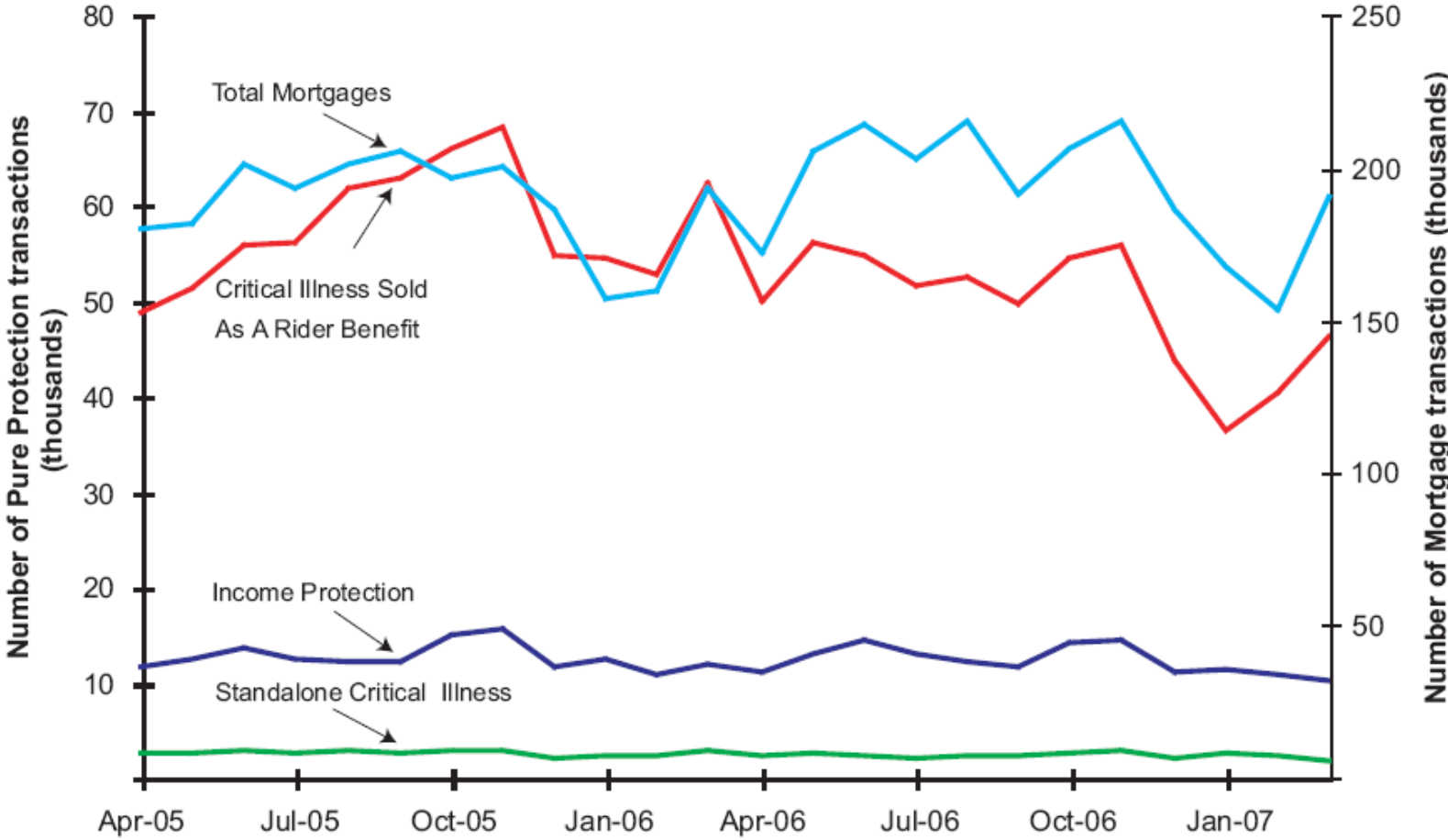


Figure 1: Pure Protection Contracts – April 2005 to March 2007

Source: FSA Pure Protection Contracts PSD

Market Facts and Trends

CI vs IP

Critical Illness

- Easy to bundle with Mortgage, Life Cover
- Faster Underwriting Approval

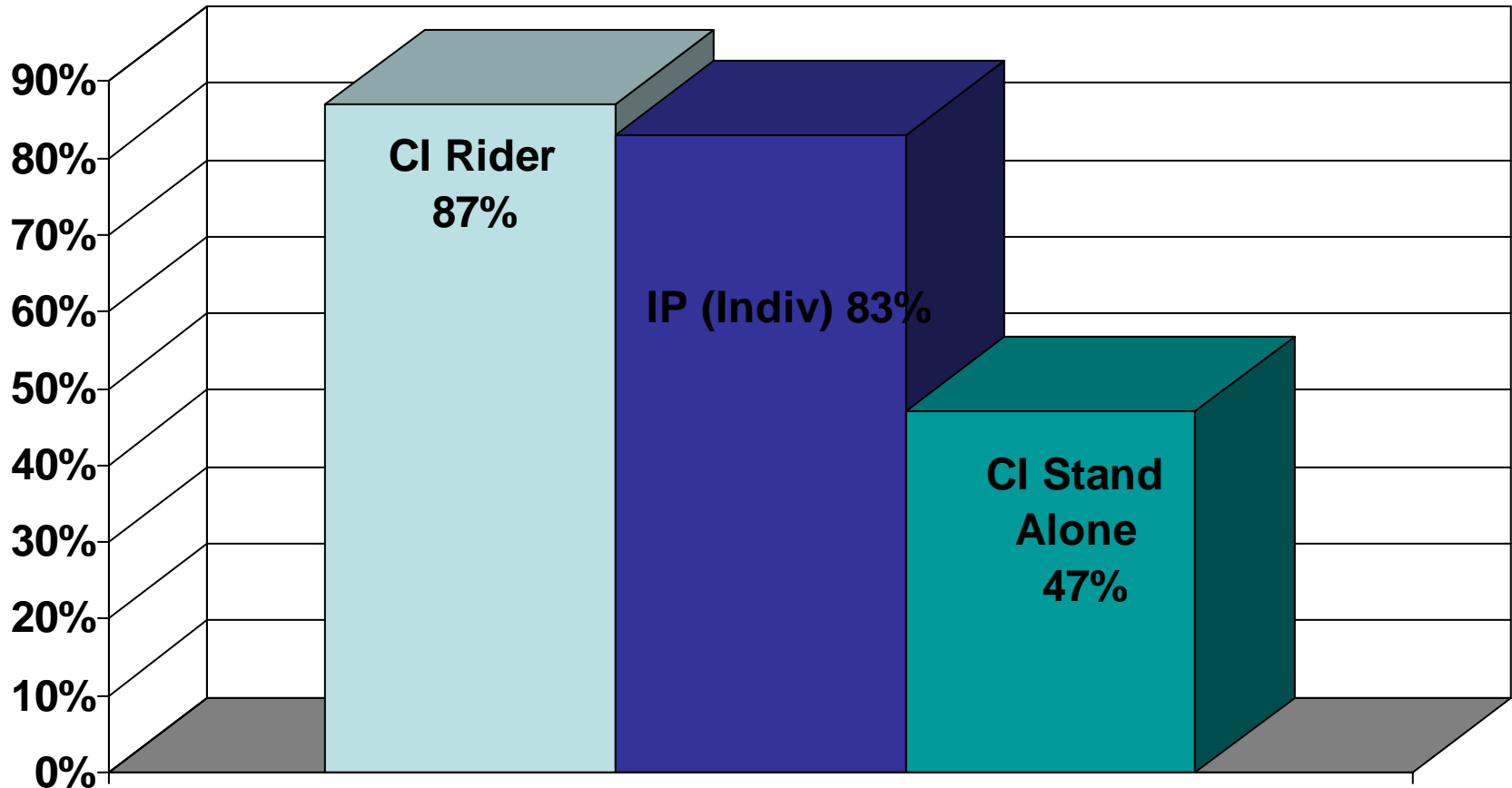
Income Protection

- Claim Rejections:
 - 20-25% CI
 - <5% IP (Pioneer Friendly Society)
- Greater Cover for Disabilities:
40%-60% of Incapacity disabilities not CI related
- Less risky long term premium guarantees/medical developments

² *The Income Protection Task Force White Paper Dec 2006*

Distribution Issues and Trends

Percentage of Sales Through Intermediaries



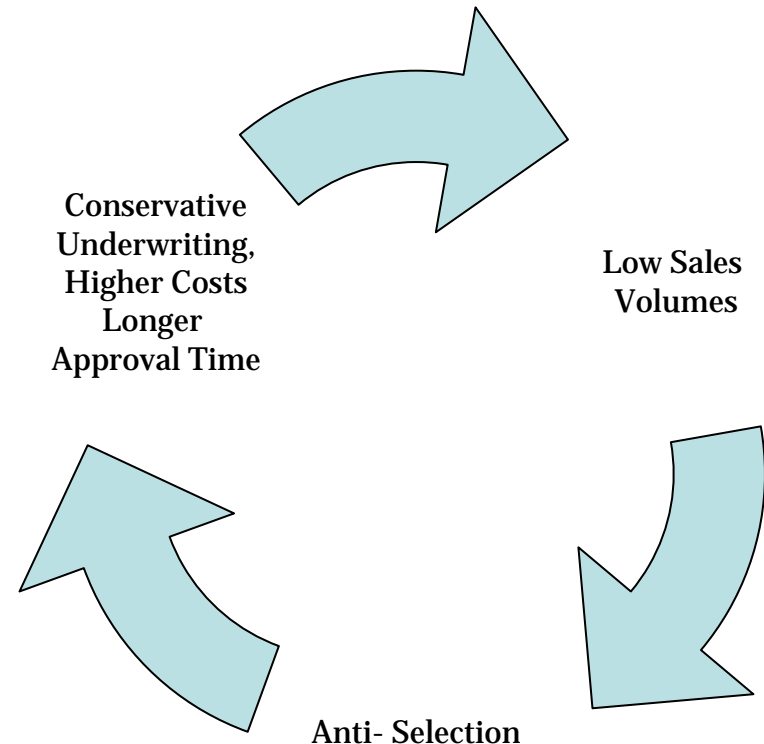
⁴ *FSA Pure Protection Contracts PSD: April 2005 to March 2007*

Distribution Issues and Trends

Payment Protection

- £6 billion per year market
- 80% commissions, low policy issue costs
- Significant profit driver for banks
- 20% claims loss ratio (CSFB)
- 85% of consumers have had a claim rejected (Citizens Advice Bureau)
- Easy to bundle, standard premium

Income Protection



² *The Income Protection Task Force White Paper Dec 2006*

Distribution Issues and Trends

Credit Crunch

Potential Issues with IP:

- UK Economy, Unemployment
- Costs of Loans
- Sensitive to Mortgage Distribution
- Claims/Underwriting Cycle

A Few Companies Benefiting from Crunch (⁵ *Money Marketing* 21-Feb-08)

BUPA – Protection Products Up 37% in February 2008

- Relaunched IP plan, 70% IP written online, tele-interviews

Aegon Scottish Equitable – 15% rise in protection sales

Protection GAP

- **Swiss re Protection GAP Landmark Study 2002**
 - Highlighted UK national problem.
- **ABI Insurance Market Study no. 5, 2008 ⁶:**
 - Drills down to type of household, more identifiable to individuals
- **Consumer Survey, 2,000 face-to-face interviews**
 - Key Events: Unemployment, Illness, Loss of Life
 - 15% of survey respondents had PPI

Protection gap varies significantly by:

- **Type of household**
 - Young Families 18-35, single income, single parent, female
- **Whether the household has a mortgage**
- **Extent to which the household has relevant insurance.**
 - Most either have no strategy or overestimate employer benefits

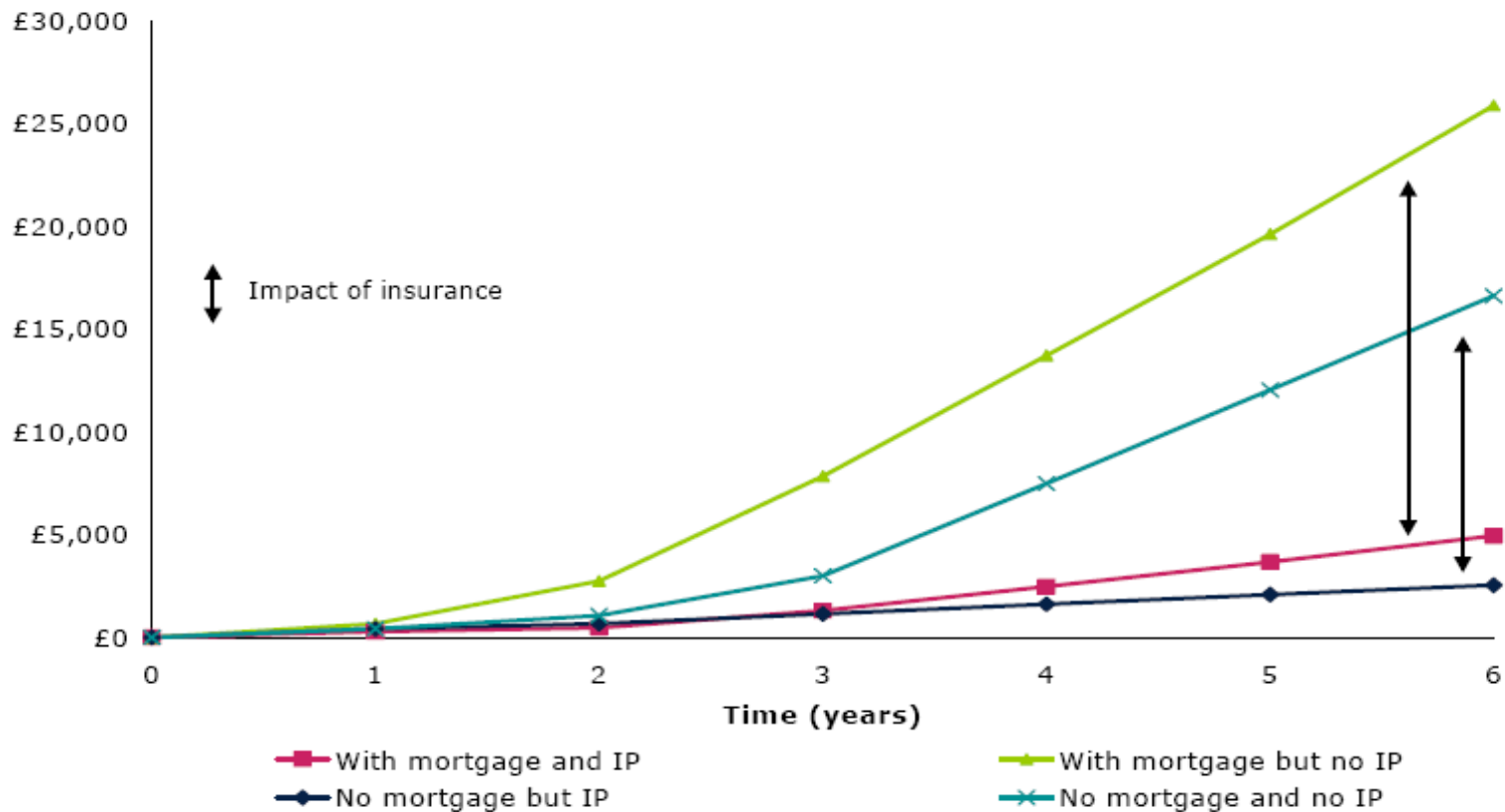
Protection GAP

- ***Unemployment/Illness lasting up to two years.***
 - PPI serves to preserve savings so that the gap increases faster in the second year of unemployment for those households without PPI.
- ***Long Term Illness (lasting > 3 yrs):***
 - Govt Incapacity Benefit Data (Aug 06):
 - 2.4 million people
 - 70% claiming between 2-5 yrs
 - >50% had been claiming for five years.
 - < 10% of the surveyed households cited any form of income protection (and most had not considered it).
 - Year 6 GAP rises to £22,000

⁶ *ABI Insurance Market Study no. 5, 2008*

Protection GAP

Figure 5 Long-term illness: Cumulative debt and essentials gap (for households with and without mortgages and IP insurance)



Source: ABI NMG Consumer Survey 2007.

Protection GAP

Risk / GAP for Debt & Essentials	Annual GAP w/o Insurance	Annual GAP With Insurance	Difference
Unemployment (PPI)	Yr 1: £2,000 Yr 2: £4,000	Yr 1: £600 Yr 2: £500	Yr 1: £1,400 Yr 2: £3,500
Long Term Illness (PPI)	Avg 1-6 £2,200 Year 6: £25K	Avg 1-6: £900 Year 6: £3,000	Avg 1-6: £1,300 Year 6: £22K

⁶ *ABI Insurance Market Study no. 5, 2008*

Government and Employer Benefits

- **Govt Incapacity Benefit Current Weekly Rates**

- Short-term (lower rate wks 1-28) £63.75 - £81.10
- Short-term (higher rate wks 29-52) £75.40 - £84.50
- Long-term basic rate (weeks 53+) £84.50

- **Employer Statutory Sick Pay Current Weekly Rates**

- £75.40
- Starts on the fourth day
- Maximum of 28 weeks.
- Recurrence within eight weeks, starts from 1st day.
- (does not cover self employed or unemployed persons)

- **General Eligibility for Govt IB**

- Unable to work 4 consecutive days and getting treatment at least 2 out of 7 consecutive days off work
- Pay minimum national insurance contributions
- Exhausted Statutory Sick Pay or are self or unemployed

Source: DirectGov

Government and Employer Benefits

- 2008 – Government Incapacity Benefit (IB) Changes Designed to:
 - Reduce incentive to stay on claim
 - Provide more for severe disabilities, reductions for milder cases
 - Encourage return to work
 - Aim By 2015, remove 1 million people from claim (2.4 current)
 - Change from inactive benefit to an active benefit – remove step increases
 - ‘Age Addition’ removed: gives more who start claim pre age 45
 - Medical assessments to be conducted much sooner - within 13 weeks

Source: DirectGov

- Mid 90s “considerable changes no real growth in private IP”

² The Income Protection Task Force White Paper Dec 2006

“Getting the right protection has never been more vital or more difficult”.

Theresa Fritz of Which?; Income Protection task Force White Paper 2006²

Product Trends

6 ABI Insurance Market Study 2008

- Confident shopping for less complex financial services products, such as credit cards, motor insurance and mortgages.
- But..Confidence with simpler products -> over-state knowledge about protection products and levels of cover.
- Internet Main Information Source (even for low socio-economic groups) but many rely on family and friends.

FSA 2007 Consumer Survey

- 2/3 hated shopping for (protection) insurance, 1/2 found it too difficult to compare

Product Trends

- “Protection products predicted to take center stage ”
- Similar issues as Pension crisis, complaints on the rise, Govt and regulatory focus likely to follow
- “People will have to make protection a priority, because more people are living alone and uncertainty surrounds the labour market”

*Mick Mc Ateer of Which?; LIMRA White Paper*⁸

Product Trends

- Account Aggregation – Comparison shopping
- “Pay as you Live” - Just in Time Technology
- Mobile Phone – South Africa “Met Life” Cover2go
- Automatic acceptance (online applications)
- Tele-underwriting

⁸ *LIMRA White Paper*

Compliance Issues and Trends

- FSA regulates protection products as general insurance (house, car)...”information only basis”, consumers need help to bridge the knowledge gap. (LIMRA White Paper ⁸)
- Law Commission – Non-contestability
- Treating Customers Fairly
- EU Gender Equality Directive

Compliance Issues and Trends

**“If both ICOB and TCF are policed robustly,
Individual and group IP sales will increase exponentially”**

² The Income Protection Task Force White Paper Dec 2006

Combined Insurance Approach

Key Barriers:

- **Affordability** – particularly for lower incomes where accommodation costs, food and clothing were higher priorities.
- **Confidence** – lack of confidence in whether policies pay out, uncertain about contract details. (“Watch Dog Effect”)
- **Advice** - lack of neutral sources

⁶ *ABI Insurance Market Study 2008*

Combined Insurance Approach

Current Demographic and Market

- Rural, Occupations C2 and D
- Mid to lower income
- Sport Clubs
- Self Employed, Manual and Skilled Trades Bias

Distribution Models

- Traditional Direct Sales
- Non-Traditional Distribution Test

Products

- Simple Structure
- Short Term Benefit Periods, Up to 5 Years
- Accident Only or Sickness Only Options
- Short Deferred Period 1st to 4th Day Covered
- Covers Any Accident
- Limited Underwriting
- (In development) Modular, Flexible Products

Sources

- ¹ Department for Work and Pensions, HBAC 2005/6
- ² Income Protection Task Force White Paper December 2006
- ³ LIMRA UK Market Briefing January 2008
- ⁴ FSA Pure Protection Contracts Product Sales Data; June 2007
- ⁵ Bupa Benefits From Crunch” Helen Pow - 03-Apr-2008 - Money Marketing
- ⁶ ABI Insurance Market Study no. 5, 2008 “Coping With Crisis: Household Protection Needs”
- ⁷ Department for Work and Pensions Government Incapacity Feb 2005 Quarterly Summary Statistics
- ⁸ “Safeguarding Life and Income: Consumers, Protection Products and the Future”:
LIMRA White Paper, Brian Eves