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## Income Protection: Opportunities for growth? Balancing distribution and proposition

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22<sup>nd</sup> November 2019



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A voyage across space and time, looking at the past and potential future evolution of income protection starting with the UK and moving further afield.

This presentation will look at income protection over time and across the globe, how traditionally it is sold in the advised space and explores the challenges of alternative distributions

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## Agenda

- Background to UK Individual Income protection market
- Product Design
- Distribution
- Barriers to sales
- Opportunities for growth – economy, demographics, housing market
- Hot Topics
- Ideas from other countries



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## Income Protection Market

- What is income protection?

Income protection insurance pays you a **regular income** if you **can't work** because of **sickness** or **disability** and continues until you return to paid work or you retire. Income protection insurance is also known as **permanent health insurance**.

- Source: [citizensadvice](#)



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## Income Protection Market

- In 2018, **2,088,214** Individual new term, whole life, critical illness and income protection (IP) policies sold in UK
- Overall increase of 6% compared to 2017
- Income Protection new business sales are 6% of the total new individual protection sales by number of policies sold

Product	% increase from previous year	Number of New Sales	Increase from previous year
All term (with & without CI)	Up 5.5%	1,572,693	+81,594
All critical illness (incl. SACI)	Up 2.1%	537,073	+10,950
Income protection	Up 22.6%	148,498	+27,414
GA whole life	Up 2.0%	297,798	+5,751
UW whole life (with & without CI)	Up 8.0%	20,273	+1,510

Source: Swiss Re Term and Health Watch 2019



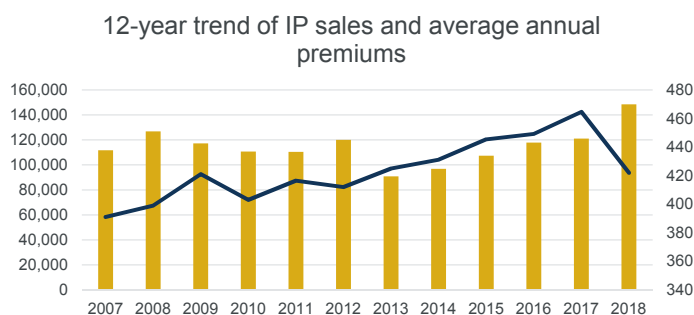
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## Income Protection Market

- 12 year trend of individual IP sales and average annual premiums



- Average annual premium upward trend, reduction to £420pa observed in 2018
- Sales fall to a low in 2013, but volumes are steadily growing



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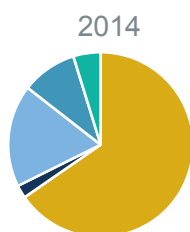
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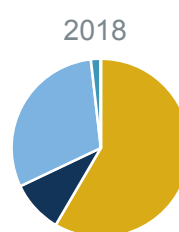
## Income Protection Market

- New individual IP sales written "to retirement" and on a one and two year maximum benefit payment term

	2014	2015	2016	2017	2018	% change 2017/18
IP (excluding LPT)	63,339	66,167	58,661	62,053	86,788	40
IP 1 year limited payment term	2,200	2,383	3,314	6,193	14,117	128
IP 2 year limited payment term	17,329	33,271	46,041	41,573	44,898	8



- IP (excluding LPT)
- Income protection 1 year limited payment term
- Income protection 2 year limited payment term
- Income protection 5 year limited payment term
- Income protection 'other' limited payment term



Source: Swiss Re Term and Health Watch 2019



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## Product Design

### Core product features

- Benefit payment term
- Deferred period
- Definition of disability
- Maximum income benefit
- Recurrent limited payment term
- Age at entry , Age at termination
- GIOs
- Linked claim
- Benefit guarantees



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## Product Design

### Additional benefits

- Hospitalisation benefit
- Death benefit
- Trauma benefit
- Family carer benefit
- Terminal illness benefit
- Proportionate benefit
- Rehabilitation benefit
- Claims rehabilitation service
- Fracture cover
- Unemployment benefit



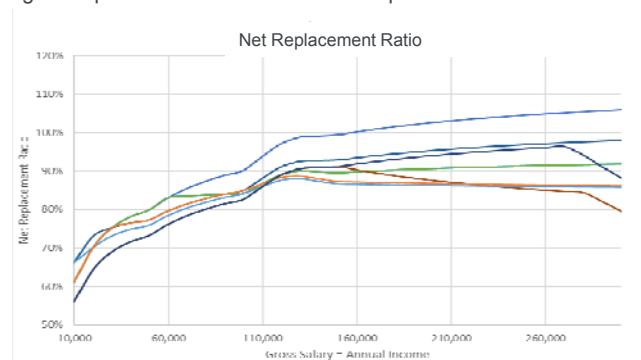
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## Replacement Ratios

- Risk control to ensure incentive to return to work
- Net replacement ratio defined as maximum benefit payable/net income
- Graph below shows a range of replacement ratios from different providers



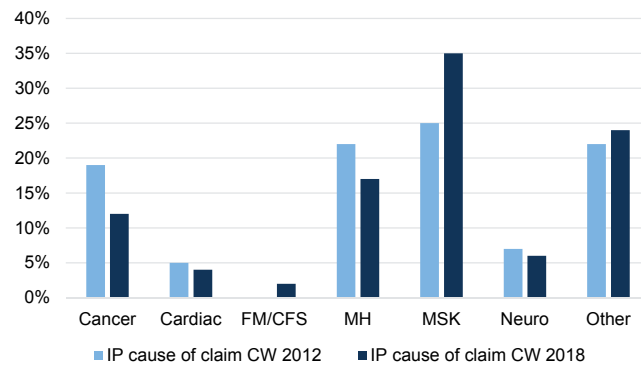
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## Cause of Claims

- Musculoskeletal account for highest proportion of claims (35% in 2018)
- Mental health claims have fallen compared to 2012



Source: Swiss Re Underwriting and Claims Watch 2019



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## Income Protection Market – Barriers to growth

- Complex proposition
- Advised model
- Lack of awareness
- Perception that it is expensive
- Preference for lump sums rather than regular income
- View that employer or state will give adequate provision



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## Income Protection Market – Barriers to growth

### Quotes from T&HW2019

- “Income protection should be the key area for growth...”
- “...something that is impact-based (IP) rather than cause-based (CI)”
- “...IP is not like PMI, it isn't a lifestyle choice...”
- “...broaden the exclusion of all IP benefits...”
- “...Key is access, engagement and signposting...”
- “Remove underwriting and make protection an instant buy. “ or “moratorium replacing underwriting”



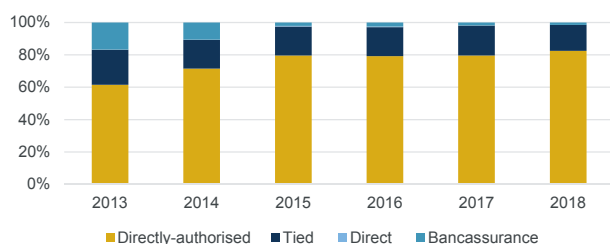
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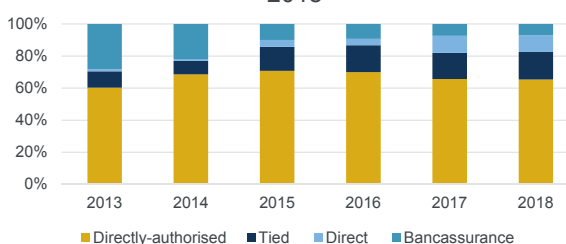
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## Distribution

IP New Business Sales Distribution 2013 - 2018



CI New Business Sales Distribution 2013 - 2018



- Primarily sold via IFAs
- Sharp decline in Bancassurance after introduction of RDR
- Negligible direct offerings

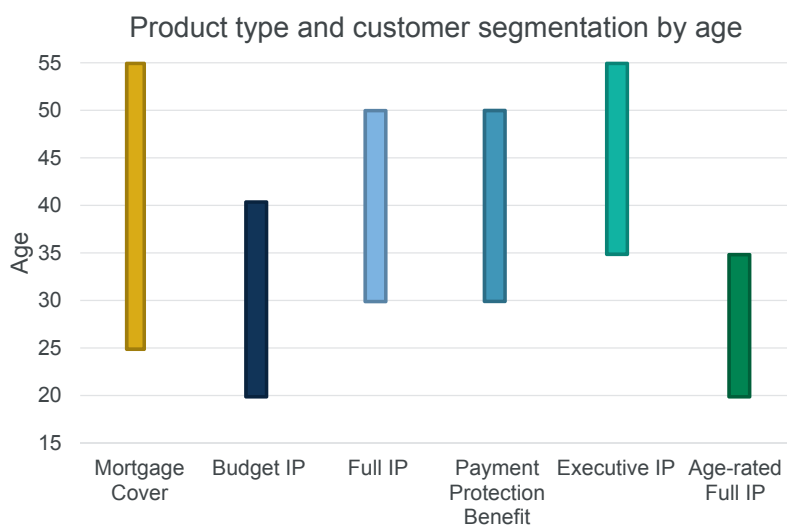


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## Customer Segments

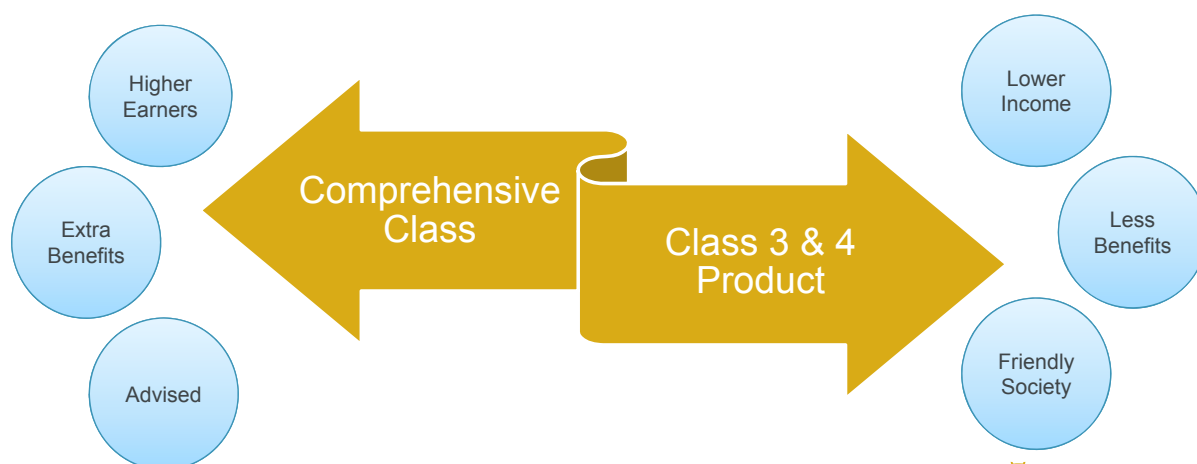


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## Customer Considerations



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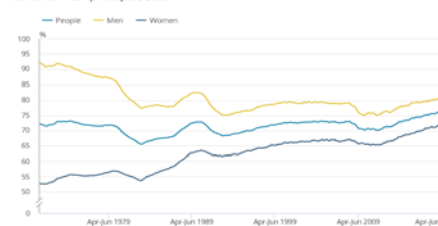
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## Opportunities for Growth - economy

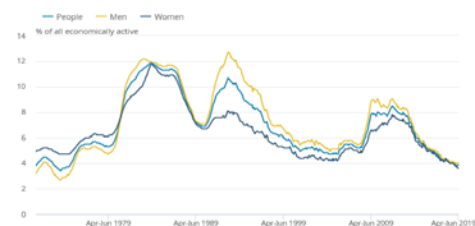
- Number of people in employment in the UK reached a record high of **32.81** million Q2 2019 (increase of 115,000 on previous quarter)<sup>1</sup>
- Estimated employment rate is **76.1%** at Q2 2019
- Increase in the number of people in employment is driven by women, who account for 15.55m<sup>1</sup>
- Total average weekly pay increased by 3.7% in the year to June<sup>1</sup>
- Unemployment rate showing decreasing trend

UK employment rates (aged 16 to 64 years), seasonally adjusted, January to March 1971 to April to June 2019



Source: Office for National Statistics – Labour Force Survey

UK unemployment rates (aged 16 years and over), seasonally adjusted, January to March 1971 to April to June 2019



Source: Office for National Statistics – Labour Force Survey



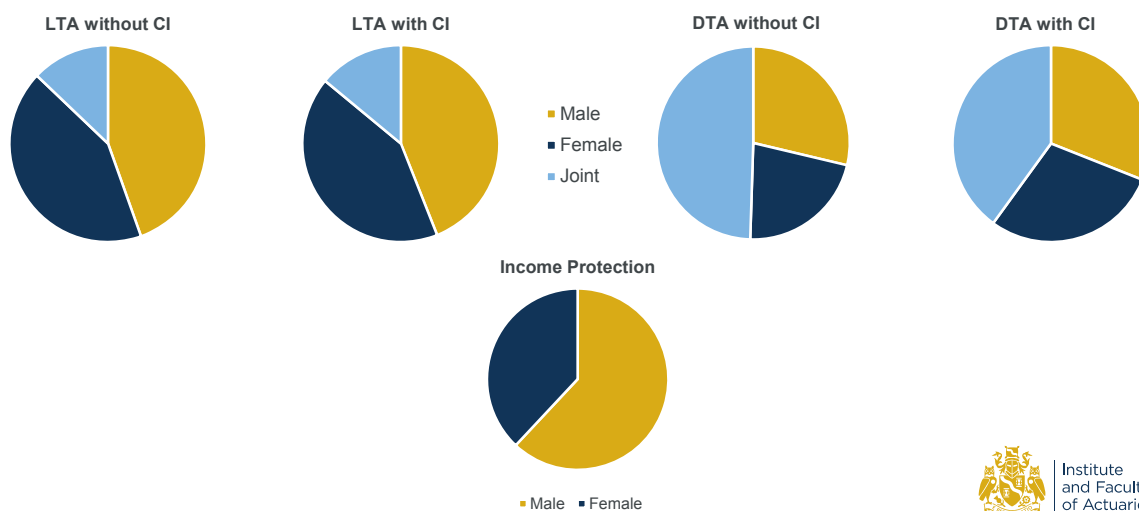
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Source: <sup>1</sup> ONS Labour market economic commentary: August 2019

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## Gender Splits



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## Opportunities for growth - Awareness

- Awareness (7 Families, consultation papers Health Is everyone's business, Improving Lives)
- Clear literature and sales aids
- Features enabling proactive claims management and RTW sooner:-
  - Early notification
  - Triage/Sign posting
  - Rehabilitation
  - Occupational health
  - Physiotherapy.
  - CBT
  - Proportionate benefits



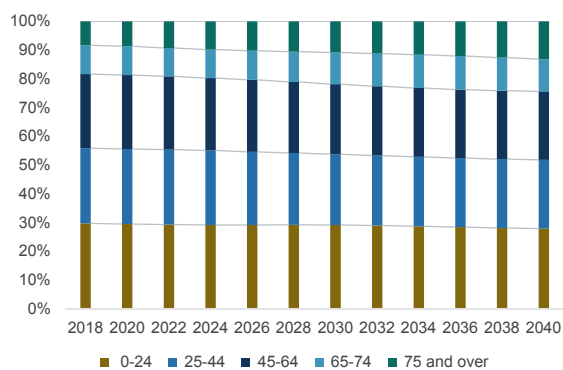
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## Opportunities for growth - Demographics

- Aging demographic
- Working longer
- State pension age – building flexibility
- Mortgage terms longer
- Renters



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## Opportunities for Growth

- 370,000 new first-time buyer mortgages in 2018
- Increase in private renting for 34-44 year olds
- More than 50% of all residential mortgage products available are 40 year term
- +1.6 million borrowers switched product or remortgaged in 2018
- Mortgage lending grew by 4.7 per cent in 2017/8
- 53% of IIP policyholders own their home with a mortgage, 35% are tenants
- IIP policyholders are younger than the working-age population as a whole



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## Hot Topics

- Building resilient households
- State benefits and Universal credit
- Brexit
- Access to insurance



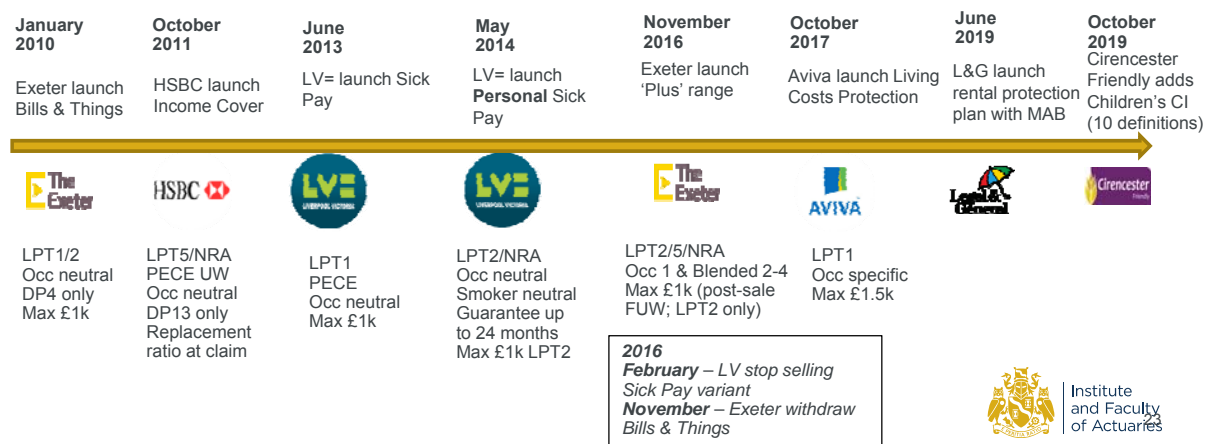
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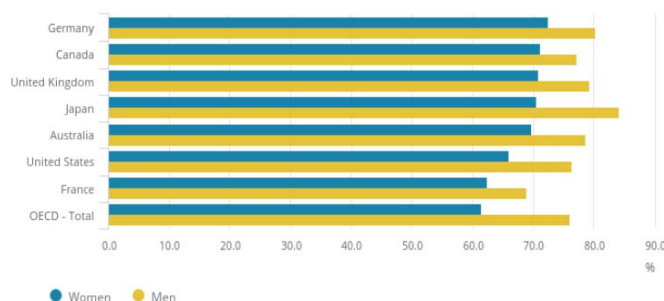
## Product design opportunity for growth - Simplification

- Timeline showing new products launching in the UK market with "simpler" features namely Benefit amount | Occupation neutrality | Payment term | UW journey | Premium structure

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## Comparison against other countries

- Comparison of employment rates for different countries
- Germany the highest employment rate for women, Japan has the highest employment rate for men
- Employment rate for women is always behind that of men
- Higher the employment rate => more sales opportunities. Germany has good penetration of policies.



Source: Organisation for Economic Cooperation and Development

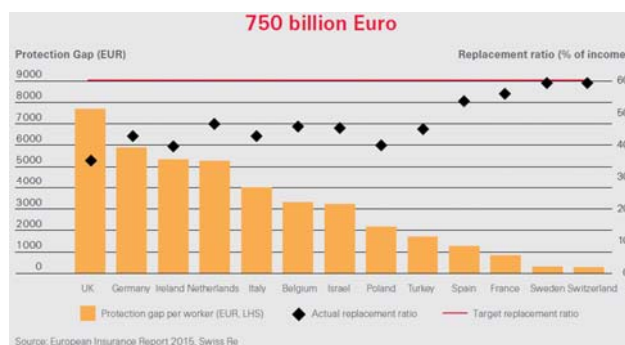
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## Comparison against other countries

- Disability protection gap i.e. "Need" – "existing cover"
- 13 countries reviewed



- Opportunity to bridge the gap with insurance protection

Source European Insurance report 2015, Swiss Re



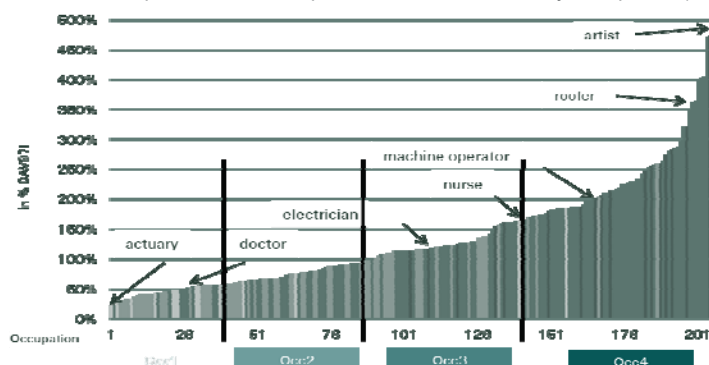
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## Ideas from other countries?

- Extend the number of occupation classes? Spread of incidence rates by occupation (unisex) Germany has 12



Within each occupation class, there can be a wide differential between "best" and "worst" performing occupations

We can potentially target better performing occupations within class 1 by offering preferential terms, e.g. class 1A

Source : Swiss Re Bestandsmonitoring – Germany (covers ca. 6.6m policies from 35 providers)



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## Ideas from other countries?

- Occupation definitions – Germany recently moved to offering functional assessment tests (ADW)
- Higher number of occupational classes

Country	Risk Features	Mitigants
France	High replacement ratio	Robust pricing DI always a rider to life – reduced anti-selection Definition for DI claim a combination of both occupational and functional disability
Germany	Selection risk from increased number of occupation classes  Blue collar workers unable to afford disability cover	Monitoring of adequacy of rates via regular industry studies  New product innovations aimed at blue collar (Körperschutz) and ADW definitions
UK	Guaranteed Rates, guaranteeing claims experience and interest rates	Conservative underwriting Robust pricing Strong claims management in a specialist line of business



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## Summary

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## Questions

## Comments

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