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# Protection Gap or Protection

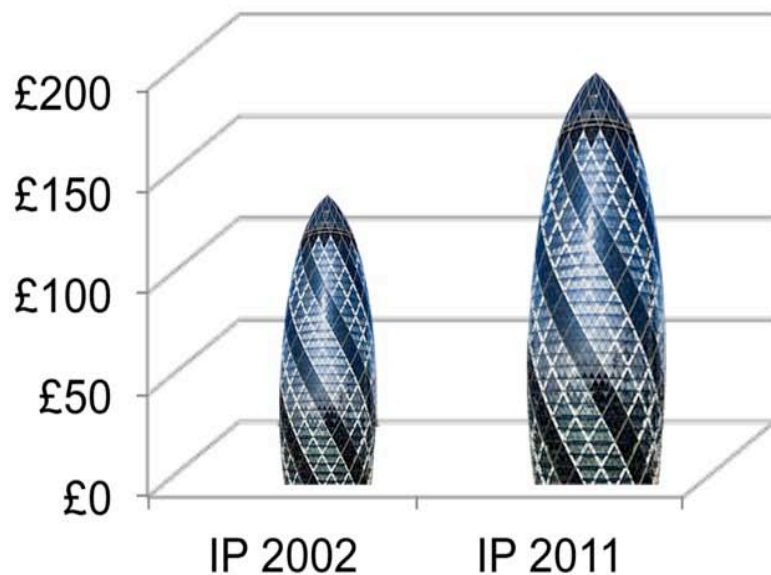
Trap?  
Roy Chappell, CEO SCOR Global Life  
UK

Darren Spriggs, MD Ageas Protect

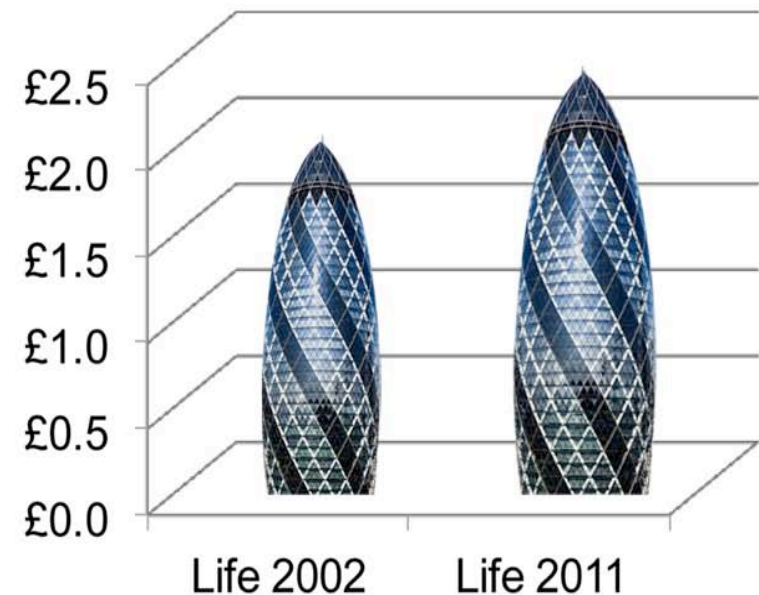


# 10 years since Swiss Re calculated the Protection Gaps for life and income protection

**Income Protection (£Bn)**  
**Up 46%**



**Life Assurance (£Tn)**  
**Up 20%**



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**At what level of earnings should an individual start thinking about buying an income protection policy?**

**50:50**



**A. £10,000**

**B. £15,000**

**C. £20,000**

**D. £25,000**

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**At what level of earnings should an individual start thinking about buying an income protection policy?**

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**A. £10,000 – it depends**

**B. £15,000 – it depends**

**C. £20,000 – it depends**

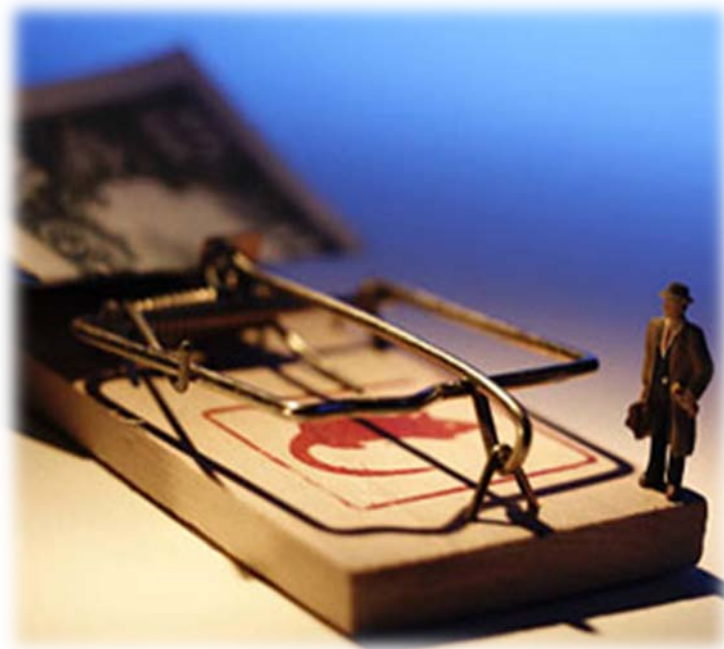
**D. £25,000 – it depends**

# Protection Gap or Protection Trap?

It depends on who you are!

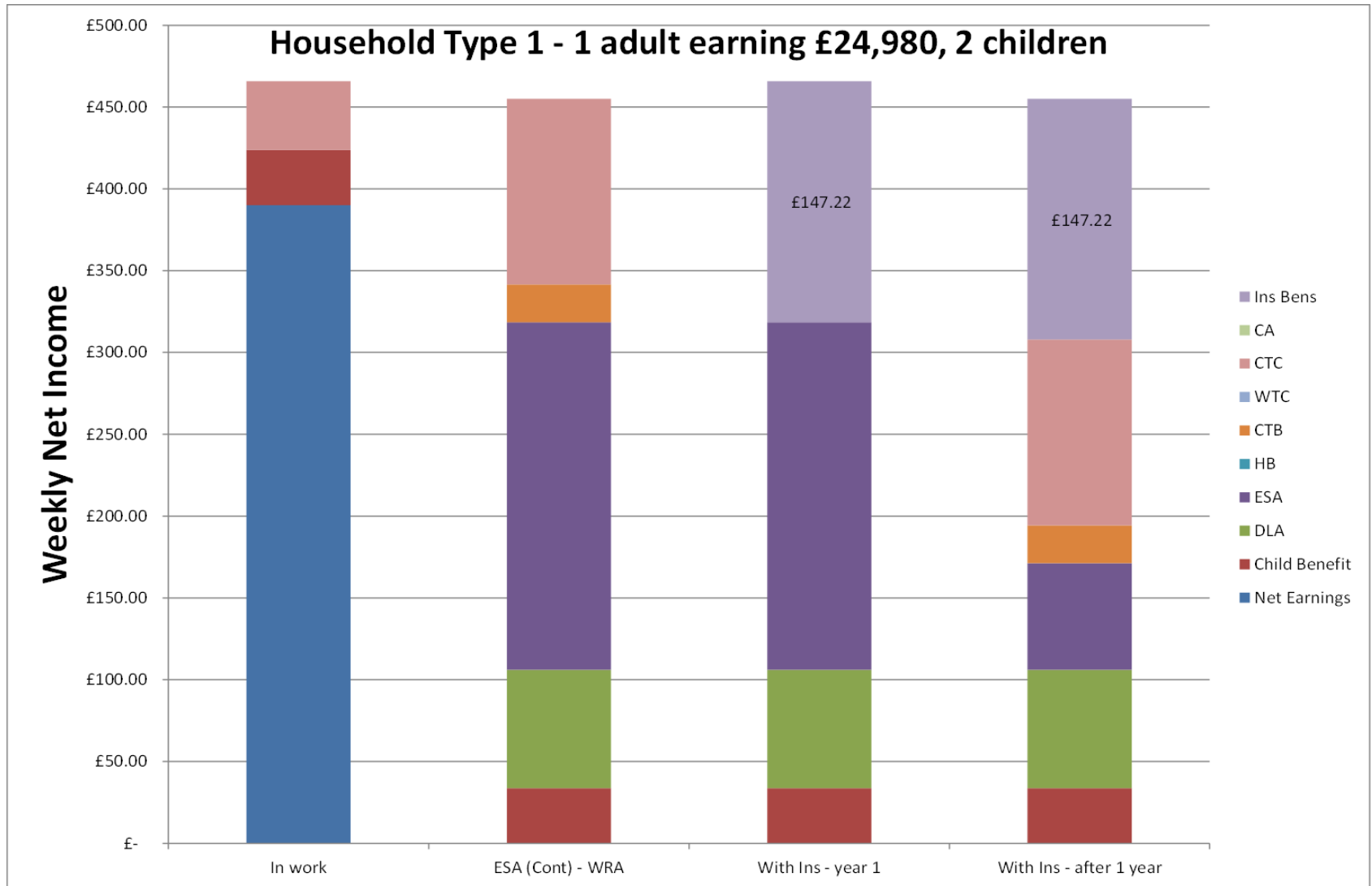
State system is Complex:

- Household Vs Individual
- Having Children (or not) is key question
- Regional variations
- Many benefits are means tested £ for £ but not all - trend towards more means testing



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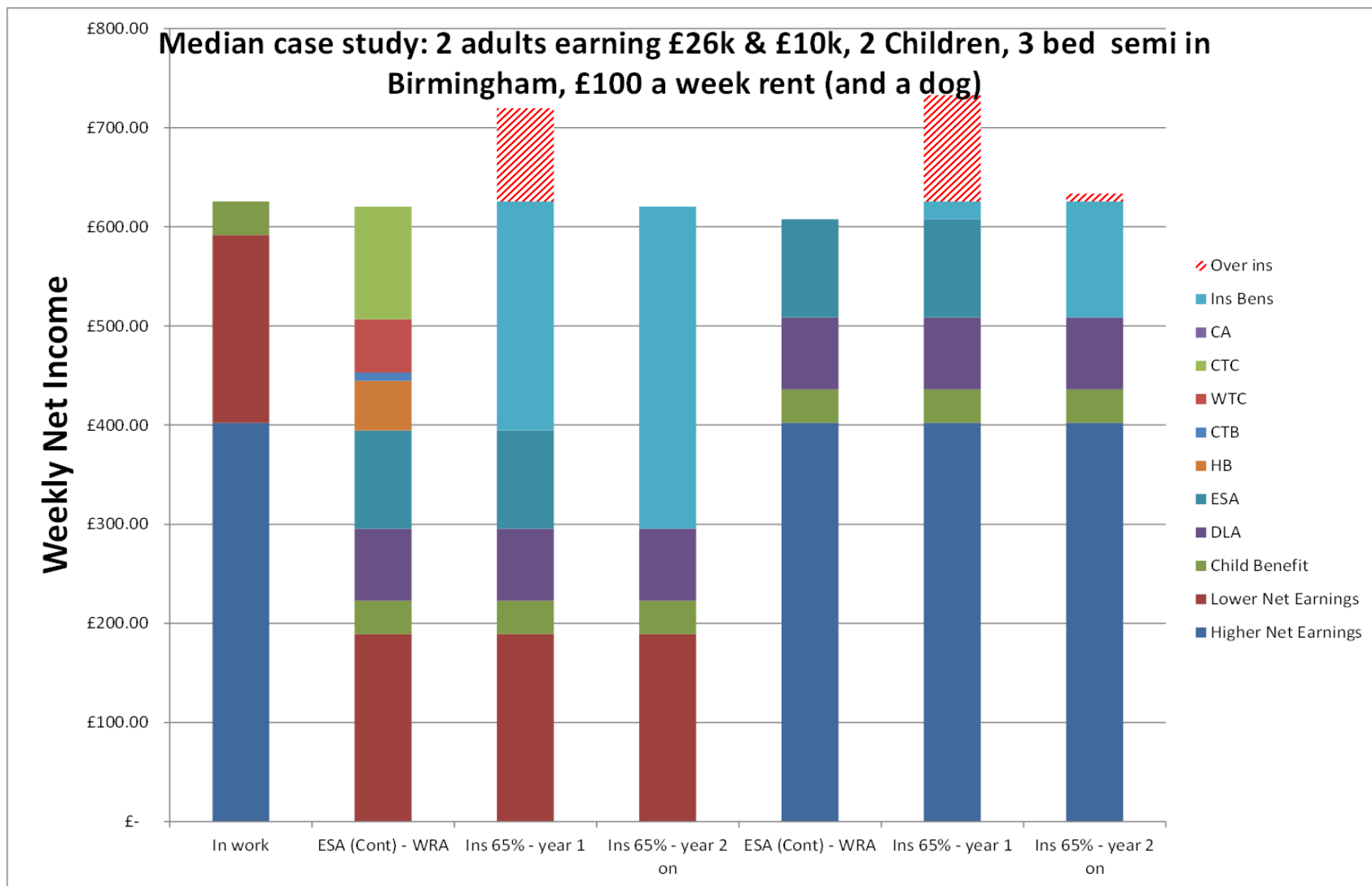
# Household type 1a – Welfare works



**Source Data: DWP – Charts and Analysis: Nick Kirwan**

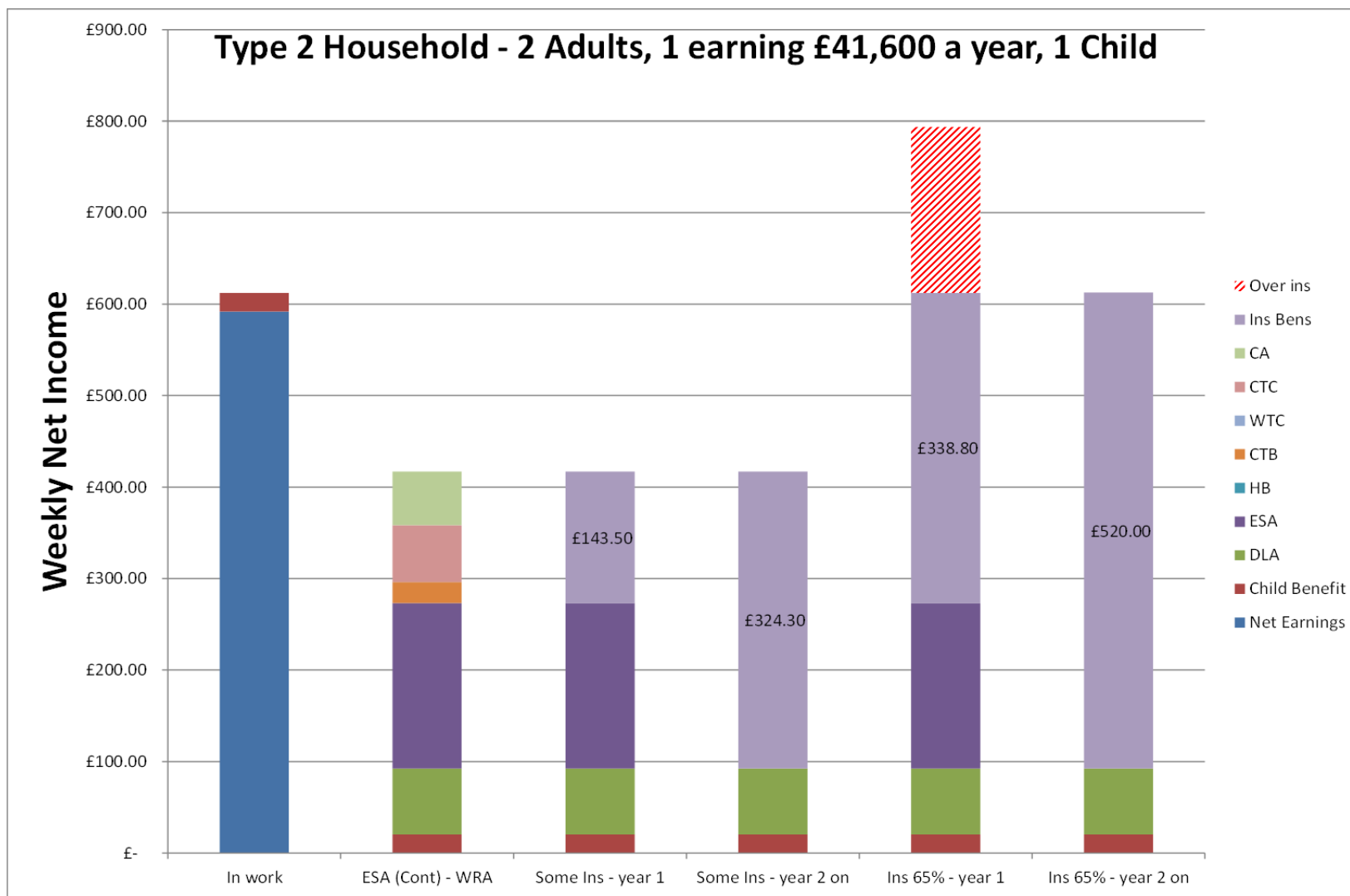


## Household type 1b – Welfare works



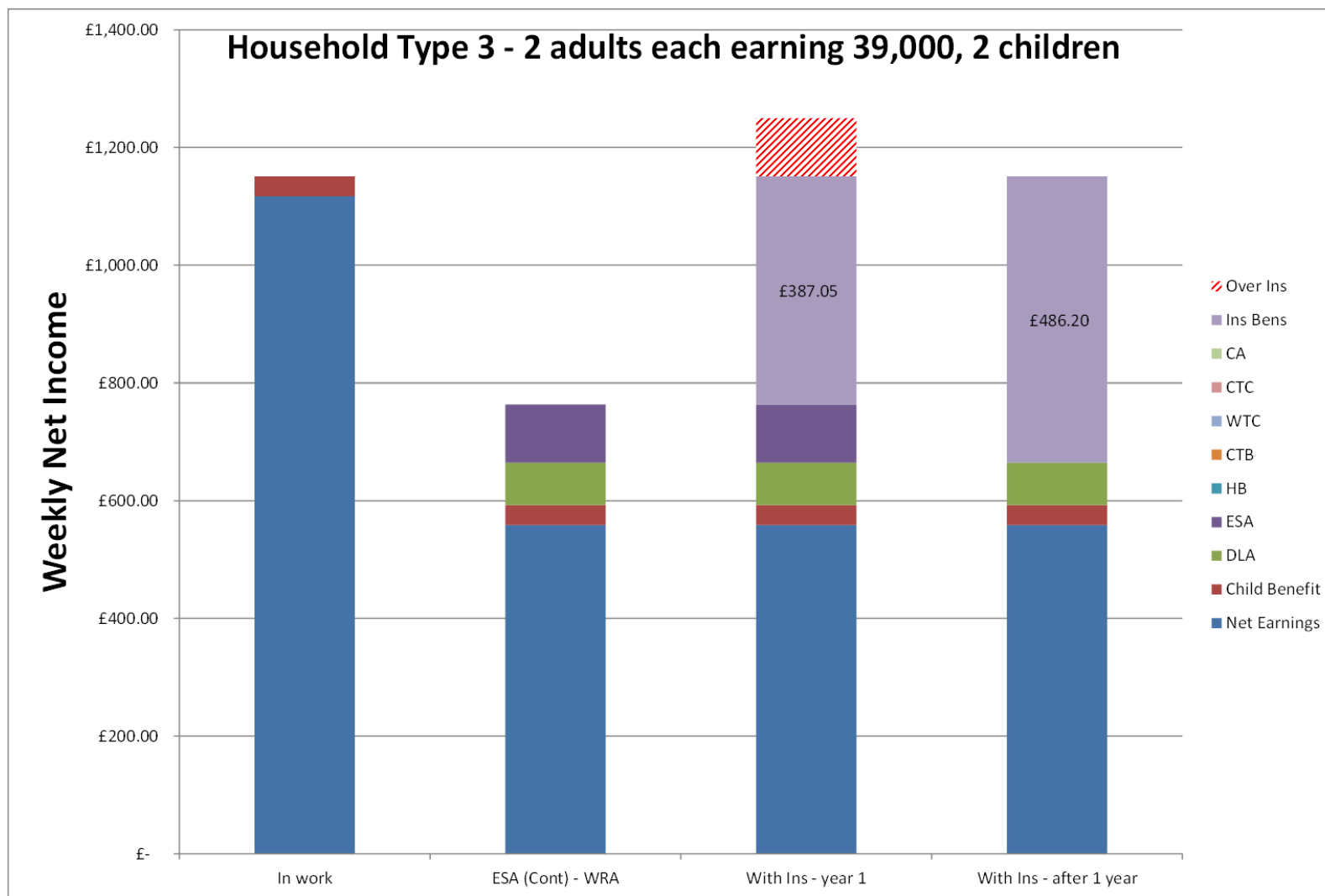
**Source Data: DWP – Charts and Analysis: Nick Kirwan**

## Household type 2 – Complexity rules




**Source Data: DWP – Charts and Analysis: Nick Kirwan**

## Household type 3 – Self Supporters



**Source Data: DWP – Charts and Analysis: Nick Kirwan**

# Protection Trap vs Gap – A Summary

Type 1 Welfare works	Type 2 Complexity rules	Type 3 Self-supporters
The state provides an adequate replacement ratio  Insurance not appropriate	State provision not adequate, but...  Insurance only helps if you buy a “full” safety net	Clear gap with no entitlement to means tested benefits  Any insurance will help  

*Analysis by Nick Kirwan*



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# What connects the following words: Want, Disease, Ignorance, Squalor, Idleness?



“The State in organizing security should not stifle incentive, opportunity, responsibility ; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family.”



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# The challenge for Government & Industry

- There is limited visibility regarding what the state will provide in the future and most employees are unclear what their employer will provide
- We have a complex benefits system and how we judge claims is different to disability assessment
- Product sales are dropping and RDR could accelerate the decline
- Tax relief for 'compulsive' products will be difficult to unlock
- Customer understanding of our products and benefits is not where it needs to be (our fault)
- We are culturally disengaged from this subject
- We live in an entitlement culture – 'malingerers'



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# Cultural Disengagement



You are twice as likely to insure your pet or mobile phone than either household income



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# The challenge



- Product design (in isolation) is not the golden bullet
  - Simple Products: sensible development, game changer, red herring?
- The need to create market education – nudge or tell?
- Its got to be about the financials
- Is some cover better than none?
- We need to learn from the past and from others and explore proven models !





# First Steps

## Government

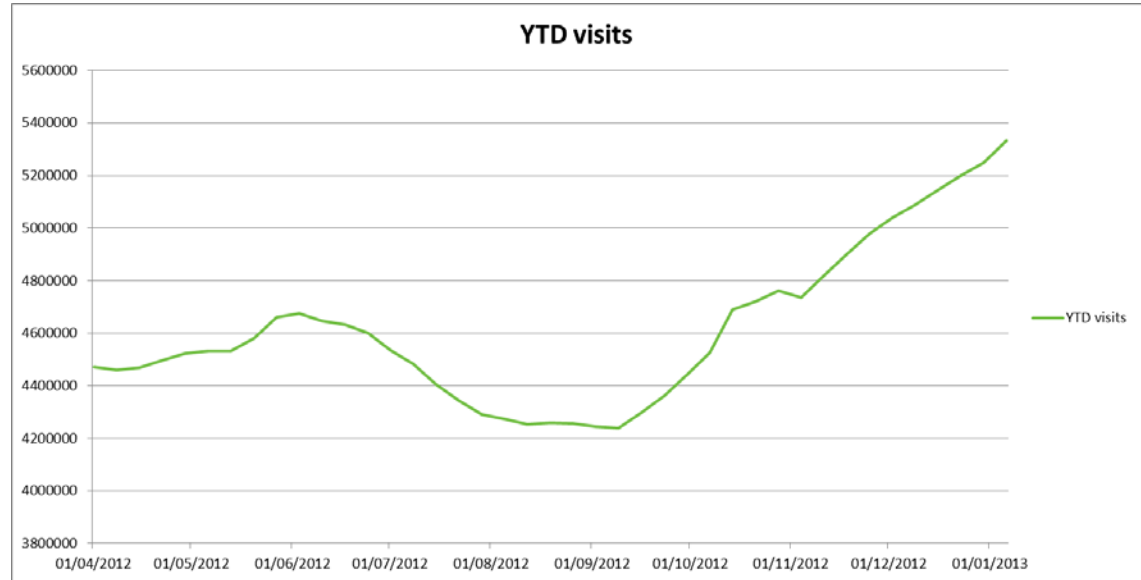
- Changes to benefits systems
- Support for MAS
- Simplified Products

## Industry

- Guaranteed Products
- Simpler customer journeys
- Lifestyle pricing

## ABI

- Protection Season
- Simplify the language
- ‘Make a plan’



Source - MAS



Association of British Insurers



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# Where we are now feels a bit risky.....

- We continually talk about growing the IP market. But...
  - The product is demonstrably bad advice for most Type 1 households
  - The product offers very poor value for many type 2 households
  - How many products in-force already are inappropriate?
- Do you think this is really an area for Simple products?

*“In July 2010, the Financial Secretary to the Treasury outlined the Government’s intention for a new range of simple financial products. These would help people take responsibility for their finances and to make better choices.”*



HM TREASURY



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# Simplified Income Protection

## Success Criteria

- Meet the needs of the target market;
- Put the customer in a better position than having no cover at all;
- Have standardised features with no add-ons;
- Be able to be sold through non-advised channels;
- Operate and exist within the current regulatory and legislative environment.



# Haven't we been here before????



## Endowments

£120,000	— Mortgage Endowment	= Shortfall?
£12,000		
£108,000		
£80,000		
£65,000		
£15,000		



## Pension & Investments

Was your Policy Mis-Sold?

Claim Back £1,000's

Were you "advised" regarding your pensions/investments?

Find out more... Today!

## Claim Back Losses

- ✓ Quick & Easy Process
- ✓ No upfront Fees
- ✓ Hassle Free



**PPI PAYOUTS TOP £2BILLION**  
but millions of people still haven't made their claim for compensation.

The claims process can be daunting but there is an alternative that doesn't involve lots of paperwork or hassle.

**Are you owed £4,000?**

Have you had a loan or credit card from

Abbey	Halifax	MBNA
Alliance & Leicester	HSBC	NatWest/RBS
Barclays	Lloyds TSB	Northern Rock

or any bank or other lender?

If you did, there is a good chance you had a **payment protection insurance (PPI)** policy and you may not be aware of it. You may be due £2000 in compensation even if you no longer have all the paperwork.



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# Actuarial Claims Clause

If you are unable to undertake your own occupation but are able to do something else before you are not able to do anything, then we will pay the agreed replacement ratio as set out in the policy conditions.

If you receive additional income as a result of you not being able to do anything at all (such as but not limited to child tax credits, disability living allowance etc.) we have the right to deduct such amounts from the amount that we pay under the agreed replacement ratio.

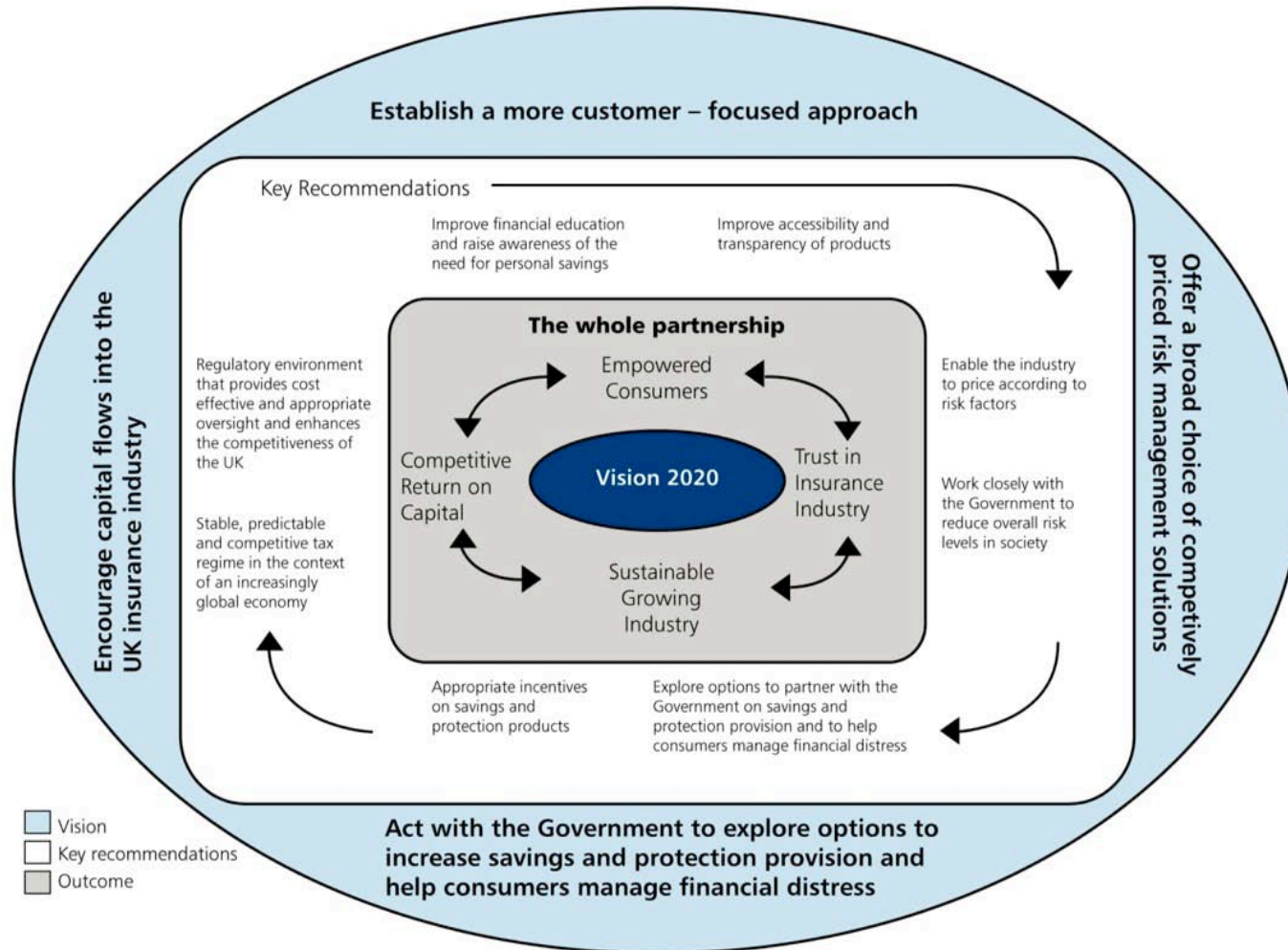
If we do deduct such amounts as a result of your receiving additional income as a result of you not being able to anything at all, we reserve the right to retain the proportion of the premium (as calculated by our Actuaries and cannot be challenged) rather than return this to you meaning that this premium refund will be deemed as income.

If there is a change in Government who decide to that they want to introduce a new colour to the brochures, we reserve the right to make changes to any of the above.



# Public & Private Sectors working together

**Figure 1: The whole partnership**

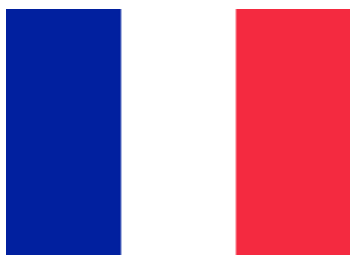


Source - ABI

# Governments can be sensible!



- Sweden: private disability products top up the universal state provision and public are clear on what both provide.



- France: private LTC products top up the universal state provision and public are clear on what both provide.



- Australia: Compulsory superannuation scheme where part of contribution purchases protection benefits. Could UK add this to auto enrolment?



# Whether we have a Protection Gap (or Trap) is not for us to decide – it's a social question!

Is what our state provides an acceptable minimum?

- Yes? Then there is no insurance opportunity for millions of people
- No (it's too high) – then if it reduces in real terms then an increasing number of people will again have incentive to do better and insurance would help more people.

And the timing is good to engage with Government!

- They (we!) have no money!
- Demographic changes will only make things worse (more elderly, more chronic illness)
- Fits with Pathways to Work drivers

But it's a tough ask with MPs having at most a 5 year time  
Horizon whilst making long term decisions!



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# Questions?

# Comments?

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenters.

The figures presented are based on approximate calculations!



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