



## Understanding the protection gap in the UK

Consumer research findings into protection insurance purchasing decisions

April 2018

By Teresa Roux, Founding Partner of Bdifferent, the financial services market research specialist

On behalf of the Financial Services Consumer Panel

Contents	Page Number
Introduction	3
Research objectives	5
Executive summary	6
How consumers assess risk	8
Why buy insurance products in general?	9
The critical illness protection customer journey	10
Expectations if a claim needs to be made	16
The financial impact of long-term sickness	17
Awareness of income protection insurance	19
Income protection insurance barriers	20
Critical illness vs income protection	21
Conclusions	22
Appendix 1 – research methodology	24
Appendix 2 – about Bdifferent	25

# 1. Introduction

The individual protection market as a whole is seemingly not currently growing. The 2018 State of the Market report from the ABI (Association of British Insurers) makes reference to the total number of individual protection contract numbers falling by 4%.

Yet the ABI has also found that 2017 saw around 1m UK adults being unable to work because of serious illness or injury. Furthermore, the FCA's Financial Lives 2017 Survey revealed that just under a third (30%) of the UK adult population have 'low financial resilience' for one or more of the following reasons:

- They are over-indebted
- They could not cope with a small financial shock (i.e. a £50 or less increase a month to their mortgage or rent)
- They would not be able to cover living expenses for even a week, if they lost their main source of income
- They are retirees who say that they are paying for day-to-day expenses with difficulty
- They are overdrawn constantly or usually overdrawn by the time they are paid or receive other income.

*Despite this apparent financial vulnerability and need for a safety net, the FCA research study also highlighted that 65% of the UK adult population does not have any form of protection insurance. Moreover, among the 35% who do have some form of protection, more of them have critical illness insurance (10%) than income protection (4%).*

## **Critical illness protection insurance**

A long-term insurance policy primarily covering serious specific pre-defined illnesses and paying a one-off tax-free amount. Examples of critical illnesses that might be covered include stroke, heart attack, certain types/stages of cancer and conditions such as multiple sclerosis. However, cover does not extend to all variations of these illnesses and more common reasons for long term work absence such as mental illness or back problems are also excluded.

The Financial Services Consumer Panel has been concerned as to whether the protection market is producing good outcomes for consumers. The recent FCA quantitative research reinforced their interest in finding out more about consumers' thinking around protection and the products available.

**Income protection insurance**

A long-term insurance policy designed to provide a regular income for the employed or self-employed who are unable to work due to one of a wide range of illnesses or disabilities. The policy pays out until a return to work or retirement takes place. However, policies are often underwritten by occupation as well as health and gender which can make it expensive for some consumers.

The focus of this research was the purchasing decisions and understanding among customers holding critical illness policies. In order to drill down into detail, as well as a focus group, Bdifferent also undertook both individual and paired depth interviews (see Appendix 1 for more information on methodology) with people of working age who had critical illness insurance (but not income protection insurance).

## 2. Specific research objectives

- Develop a more in-depth profile of those who have already purchased protection products
- Explore the key points on the customer journey from considering taking out critical illness to completing the buying process
- Enhance understanding of why consumers choose (or are sold) critical illness insurance instead of income protection insurance
- Examine what consumers with critical illness cover understand about their policy
- Assess whether those consumers with critical illness cover (and without any income protection) understand the circumstances in which their policy will pay out
- Identify the key sticking points that stop more consumers purchasing these products
- Understand whether consumers are aware of what they would be entitled to receive from their employer (if employed) and/or the state if they were unable to work because of long-term illness or disability

### 3. Executive summary

- This research suggests that consumers who purchase critical illness are already pre-disposed towards the product in some way
  - Knowing someone who has had a critical illness and witnessing the subsequent financial impact
  - Having seen adverts/charity appeals with 'people like them' getting a critical illness
- The actual catalyst to buy is typically the mortgage broker or financial adviser and with the purchase comes peace of mind
  - The product is often sold, alongside the mortgage, together with life assurance and the premiums are packaged together
  - Income protection is rarely mentioned by brokers or advisers and, if it is, it appears too expensive for the perceived payout
- Customers with a critical illness policy are clear that they get a lump sum payout if they claim and are aware that some illnesses may be excluded
  - The lump sum payout for critical illness is much preferred to the concept of a regular, reduced income for an 'unknown' period of time as with income protection
- There is a general lack of knowledge among employees about their employers' sick pay policy
  - Many assume they will be paid if off sick – either full salary, part salary or at the employer's discretion. Estimates for the duration of employer payments vary between a 'few' months and perhaps up to 6 months. Some assume the employer pays off any employee, who might be longer term sick, with a small lump sum
  - Although not knowing the details, employees tend to think statutory sick pay would be paid at some point and that there exists a legal basic standard sick pay policy applying across all companies (akin to maternity/paternity pay). Being unaware of the 28 week limit, they assume SSP will be paid up until a return to work is possible or there is a move on to another form of statutory benefits

- Very few consumers have given any thought to the financial impact a long-term sickness would have – those that hold critical illness cover, assume the lump sum they could claim would suffice.

## 4. How consumers assess risk

Whilst there are a range of views of the risk levels involved in aspects of life and activities with consumers often readily interchanging 'risk'/'impact', our participants tended to use three main criteria to determine their own individual assessments:

**Control** – the less control consumers feel they have over a situation happening, the more risky the event seems

**Impact on finances** – the larger the potential impact on consumers' finances, the more risky the event is perceived

**Impact on health and wellbeing** – the bigger the likely impact on them personally, the more risky the event is regarded as with death being the highest risk.

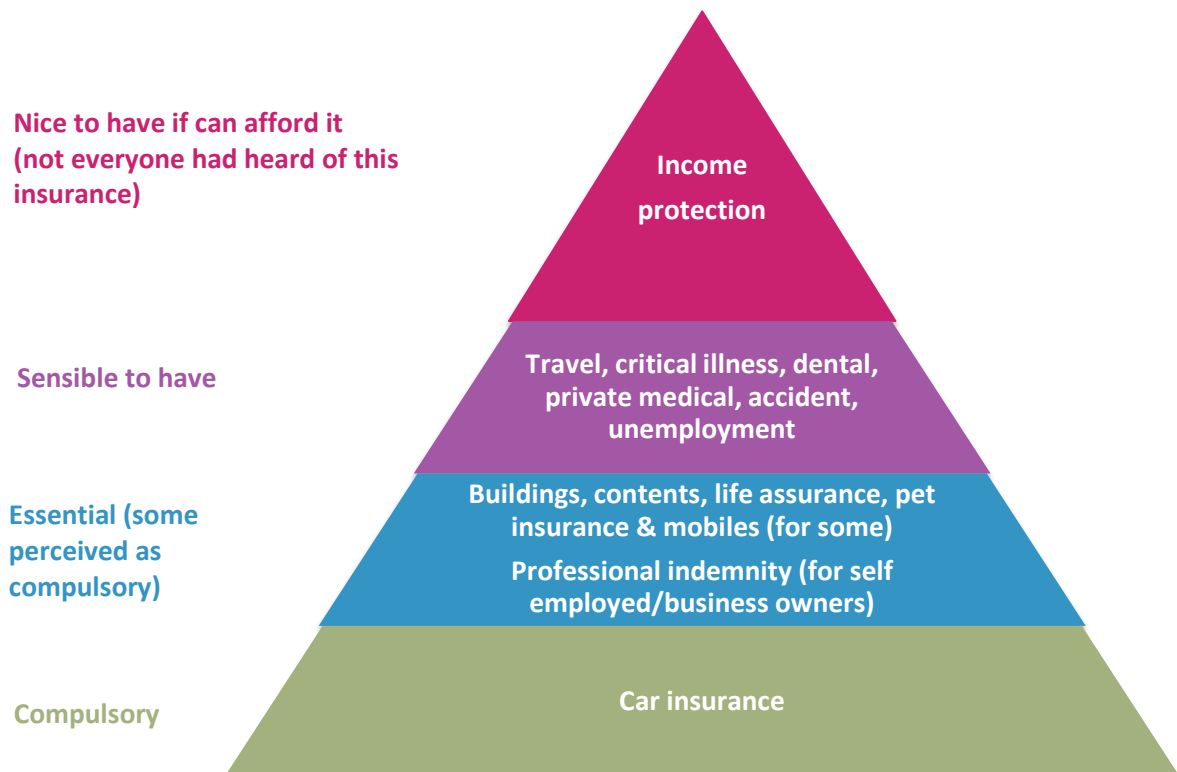
The eventuality of a long-term sickness/disability was regarded as having a big impact on finances but the likelihood of it happening was considered a low risk.



## 5. Why buy insurance products in general?

The research study encouraged spontaneous discussion around the importance of insurance to manage the risk of 'things going wrong'. There was widespread sentiment that insurance generally delivers peace of mind.

Sort cards featuring different types of insurance were then used to prompt respondents to rank into categories of 'essential', 'sensible' and 'nice to have'. Car insurance received mention as falling outside these categories, being a legal requirement and therefore compulsory.



## 6. Beginnings of the critical illness policy customer journey

Initial consideration phase – consumers are nearly always ‘sold’ critical illness but the triggers to purchase often already exist

- The key trigger to purchasing critical illness for many of our participants was prompting by a financial adviser or mortgage broker
  - If by a financial adviser, this generally had occurred during a consultation to cover pension planning or holistic financial life planning. Otherwise, first time property buyers or those seeking to remortgage had received the recommendation from a mortgage broker/adviser
- Most knew of someone who had experienced a serious illness/poor health so are able to easily recognise the need when highlighted
- Just a few participants had initiated the process themselves, being prompted by a family/member getting a serious illness and witnessing the financial vulnerability of the family involved

We know people who have had cancer and we decided we ought to have life assurance the adviser at the Halifax also suggested critical illness  
*Consumer, 41 – 50 years*

I bought a new build through the Help to Buy scheme, so I had to get interested in insurance on the house and on my mortgage. It was a bit morbid talking about ‘what if ‘ but I’m glad to be covered  
*Consumer, under 30*

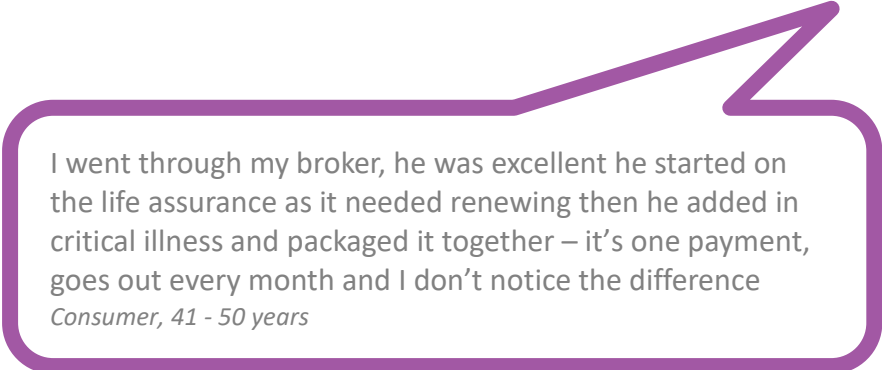
- A change in circumstances such as getting married/divorced or moving from employment into self-employment served as a trigger for a few
  - Such changes often necessitated a review or reorganisation of financial affairs, which in turn led to advice being sought from a financial professional in the form of financial adviser, mortgage broker or accountant
- For most, critical illness was bought in tandem with a larger financial product (typically a mortgage), which was their main focus of attention
  - A few thought critical illness was a pre-requisite to obtaining a mortgage
  - Although other relevant products such as buildings/contents insurance and life assurance were also discussed at this juncture, income protection did not form part of the discussions.

## 7. Moving through the purchase decision

Purchase process phase – most buy what the adviser recommends with just a few undertaking their own research

Participants in the research covered both those identifying themselves as the decision-maker when it came to their finances and also couples. In the case of couples, there tended to be one partner who was the main driver for financial decisions, albeit with the agreement of the other. Indeed, there were instances where the decision had been made to take out critical illness protection on one but not the other, with a rationale seemingly based on size of earnings.

- Whether taken to mitigate risk of getting a critical illness during the lifetime of a mortgage or during pre-retirement years, most of our participants went with the adviser's recommendation in terms of policy and provider



I went through my broker, he was excellent he started on the life assurance as it needed renewing then he added in critical illness and packaged it together – it's one payment, goes out every month and I don't notice the difference

*Consumer, 41 - 50 years*

- The adviser also tends to lead discussions covering the level/affordability of premiums, deferred period, size of lump sum and policy term
- Using the knowledge they had gleaned from the intermediary, a few respondents then independently researched policies to ascertain whether they could obtain better value by buying online/direct. They typically went to price comparison sites or [www.moneysavingexpert.com](http://www.moneysavingexpert.com)

- There was some sentiment that the adviser or broker might be pushing a particular product on the basis of receiving a higher commission. However, this was not seen as a barrier for most participants (who tended to view as a 'fact of life'). Just a few decided to undertake their own research and buy direct and on the assumption it would be cheaper (without the adviser receiving commission)
- Those participants who eventually purchased via the intermediary had gone with their recommendation without undertaking any comparisons themselves
- The few who undertook the whole process from start to finish independently (without any kind of intermediary) found it complex and daunting
- This was driven by the plethora of health, lifestyle and financial questions with which they were presented, along with decisions to be made around various product features. These all combined to make the undertaking overly complicated.

## 8. The journey's end – point of purchase and post purchase

Once bought, very few see any need to review the policy later to gauge whether still fit for purpose

- All our participants had completed a medical questionnaire as part of the process to determine the premiums that they would pay for their critical illness policy
  - Those with pre-existing conditions had undergone a telephone medical interview, which was generally regarded as easy and, to an extent, reassuring in that such conditions would not constitute a barrier to any potential future pay-out
- Average premiums were £20 - £40 per month for an individual. Joint policies (for both partners in a couple) were up to £100 per month, according to respondents. Some were unclear about the exact premium for the critical illness since the policy was combined with life assurance
  - Within a couple and in the instances of joint policies, one partner typically took 'responsibility' for the paperwork in terms of filing, etc.
- The level of critical illness insurance cover that participants said they had bought ranged from £30k - £100k, with a few citing £200k (tending to be for joint policies)
  - Affordability of the monthly premium was the key determinant of the amount of cover participants had taken out – what consumers could afford to pay without having a big negative impact on their finances
  - There was a feeling that under £50 a month (total if also paying for life assurance and critical illness combined), was manageable and the money would not be 'missed'.

- Most consumers relied upon the intermediary's recommendation and were unconcerned as to which company supplied the policy, although a well-known brand carried a degree of reassurance
- Having bought the policy and experienced a sense of relief, the paperwork was filed away at home
  - The main benefit is perceived to be the peace of mind of receiving a lump sum if struck down with a 'critical' illness, helping them or their families to cope financially
  - The policy was also seen to remove the necessity to continue working 'come what may' during a limited period of time perceived to be needed either in the event of a terminal diagnosis or whilst recuperating from a non-terminal medical condition
  - Whether individual or joint policies were purchased, none of the respondents felt the need to subsequently review, either regularly or on an ad hoc basis
  - Accordingly, there were no expectations in terms of provider communications post-purchase, although some received an annual mailing described as a 'statement'. It tended to be filed away after a glance and would only be looked at if they had to claim.

## 9. Perceptions of what happens if a critical illness claim needs to be made

### Considered relatively straightforward with assumption that policy will pay out

- For those respondents with pre-existing medical conditions, there was an awareness that such conditions needed to be revealed and that they would be typically be excluded from the cover
- Respondents without pre-existing conditions were unaware of all specific excluded conditions within their policies and recognised that 'small print' exists. However, most of our participants assume that the policy would pay out if a critical illness struck
  - This was based on a conviction that most serious illnesses that could be terminal (such as cancer) would be included
  - In addition, if purchased via an intermediary, a level of trust was present that the right kind of 'genuine' policy would have been recommended
- Only a few voiced concerns based on stories in the press about policyholders being refused pay-outs on the basis of having 'the wrong sort of cancer'

I have an underlying health condition, auto immune, so the broker helped me realise that if I had an illness I could get into severe debt with my mortgage. I pay £30 per month and the pay out is £30,000 that's reassuring. I left him do all the research and I went for Aviva as it covered more illnesses – I did have a nurse ring and I am excluded for my colitis  
*Consumer, 50+*



## 10. Long-term sickness and its impact on finances


### Not a scenario typically given much thought or consideration

Under Statutory Sick Pay (SSP), employees and agency workers are currently entitled to £92.05 a week in the event of more than 4 consecutive days off work due to sickness. SSP is paid by the employer and covers up to a maximum of 28 weeks' absence.

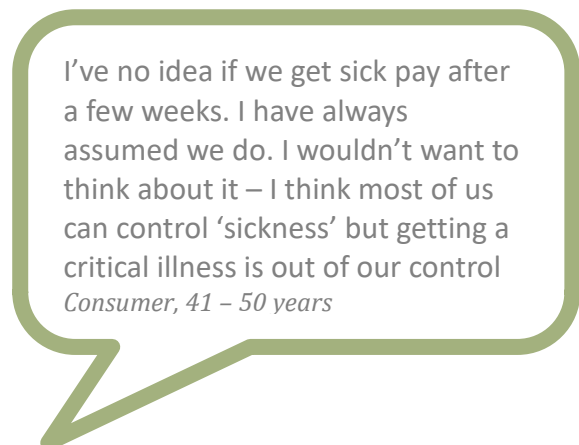
Entitlements under company sickness policies vary according to the employing organisation but can tend to be more generous than SSP. There is no standard sick pay policy.

- Most of the participants in this study who were employees had no knowledge of their company's sickness policy.
  - Some spoke of sick pay being discretionary on the part of the employer
  - Most assumed that their company would pay them for at least a few months (even for as much as six months) and that Statutory Sick Pay would then kick in
  - There was a general sentiment that typically you would only be off work sick for short spells, not longer term, no one really wanted to think about this
- Knowledge of SSP among participants was equally lacking in terms of entitlement amount, circumstances and duration
  - Guesses were that it might pay in the region of £100 per week and be payable until either a return to work or a move onto other benefits
- The self-employed participants had also given no real thought to becoming sick and unable to work for anything other than the very short term

- Most agreed that, if left to survive on SSP and no employer sick pay, they would be able to cover bills and regular outgoings for three months, either by drawing on savings or borrowing from family
- Those who were not the chief wage earners felt they would be able to cope for six months on the remaining salary, albeit with a significant reduction to quality of lifestyle
- Couples in the research had not given much thought about long-term sickness but assumed one of them would keep working to cover regular bills – with no thought about whether they might need to reduce hours to support the person who was ill.



I've no idea about my company's sick policy I have never been off work for more than a few days  
*Consumer, 30 – 40 years*



I've no idea if we get sick pay after a few weeks. I have always assumed we do. I wouldn't want to think about it – I think most of us can control 'sickness' but getting a critical illness is out of our control  
*Consumer, 41 – 50 years*

## 11. Income protection insurance

### Little awareness or understanding of income protection

- Whilst our participants envisaged that a lump sum from a critical illness policy would, in the event of claim, pay off a large debt like a mortgage, they had given little thought to the covering of ongoing living expenses if they were unable to return to work
- Most were unaware of income protection insurance's existence and, on name alone, assumed it was cover for being made redundant or becoming unemployed
  - On the above basis, they could not see a need for cover as they anticipated finding new employment relatively quickly or, at worst, taking on a temporary job with a lower salary to tide them over
- However, when prompted in the research with the main features of the policy showing the focus on cover for long-term sickness, most participants could understand how the benefits might help in terms of managing regular financial outgoings
- And a few could see that it would be relevant if you survived a critical illness but were not well enough to get back to work
- But most thought they would get back to work, even if to a different job to bring in an income

Well, if my work stopped paying my full salary I would get my bum back into work somehow. I'd just do it  
*Consumer, 41 – 50 years*

I've not heard of this, I didn't know it exists, it does feel like it is important but I would be wary – I wouldn't be sure that I was actually covered  
*Consumer, 50+*

## 12. Barriers to the purchase of income protection insurance

Whilst respondents could generally identify with the occurrence of critical illness (since they often knew of someone who had been struck down with a serious medical condition), the same cannot be said when it comes to income protection. There were fairly widespread suspicions over the legitimacy of long-term sickness and so they could not easily envisage themselves in a situation of being unable to return to work.



### 13. Critical illness vs income protection cover in the consumer mindset

- Being struck down with a critical illness was generally perceived to be much more out of an individual's control than long-term sickness
- In the event of long-term sickness, the respondents found it difficult to envisage not being able to get back to work within a six-month period
- As a result of knowing someone personally with a critical illness or seeing related charity appeals, critical illness seemed more to the forefront of participants' minds. Few knew anyone on long-term sick leave
  - This led to a feeling that it would be unlikely to happen to them
- There was a degree of suspicion that an employer would pay-off or manage to 'quietly get rid of' an employee on long-term sick leave, making the policy invalid after the employment had been left
  - There was also some scepticism as to the period of time covered by any income protection payout, continually having to prove unfitness for work
  - And added confusion about whether they had to prove they could do THEIR job or ANY job
- The simple concept of receiving a lump sum cash amount from a critical illness policy was much easier to take on board than a 'vague' potential payout of £x% of salary for x amount of time
- For the few who had been recommended income protection insurance by their adviser, the more inexpensive critical illness cover had seemed more reasonable and sufficient to ease most of the potential financial burden
- With income protection only paying a percentage of salary (which might not cover bills) and the premiums appearing high, participants found it much harder to see they whether they would receive value for money if they had to make a claim

## 14. Conclusions from this research focusing on Income Protection Insurance

- Based on this qualitative study, whilst relatively few consumers actively seek out protection products, many seem open to 'having a conversation' if they clearly understand the need
- Many of our respondents knew of someone affected by some form of serious medical condition and so a potential need for critical illness protection was perceived as a sensible precaution
- Furthermore, critical illness protection, with its pre-defined conditions and one-off lump sum payout in the event of a successful claim, tended to be a relatively easily understood. The reassurance of receiving a known lump sum brought some peace of mind and also provided them with choices in terms of using it however they wish
- Conversely income protection, in its existing product packaging, held much less appeal
  - This position was partially attributable to an optimistic (but not necessarily informed) view of employer or state support in terms of sick pay
  - Also, participants could less readily anticipate being in a position where they would need to make a claim
  - And the confusion around the implications of what is covered from the product name
- In contrast to relatively simple critical illness products, respondents found the potential benefits of income protection and its multiple options (deferral period, % of salary pay-outs, the term it paid out, in what circumstances it was paid out, regular assessments to evidence still sick etc.) much more complex and difficult to grasp. Those who had been recommended income protection by an intermediary also considered it prohibitively expensive

- In these regards, together with suspicions surrounding potential 'get-out' clauses or caveats 'hidden' within the small print affecting longer term payouts, this research suggests that income protection in its current format is not fit for purpose
- In view of the significant protection gap, the research also highlights the need for less complex income protection insurance to be developed by the industry. Only then can barriers to customer take-up in areas such as establishing the need, reviewing the product name, building of awareness be addressed.

## Appendix 1

### Respondent selection criteria

- All working ages and at least 5 years before expected retirement date – mix across the age ranges
- In work – mix across employed and self employed
- Mix of those who pay premiums for a critical illness policy (or one they believe to be CI) taken out in the last 12 months and some who have held the policy for longer
- Do not pay premiums for an income protection policy – mix across those who have considered but did not purchase and those who have not considered
- Mix male/female; mix across different life stages; with/without partners and/or dependents
- Mix across different levels of health
- Mix of those who use a financial adviser/mortgage broker for financial products and those who don't
- Working across a range of industries and a range of socio-demographic segments; some in the MAS segments of 'cushioned' and 'squeezed'
- Mix of homeowners with/without mortgage and renters
- Spread across three UK regions

### A mix of focus group, paired depth and single depth interviews

Type of respondents	1 group, 15 F2F depths & 11 paired depths
Locations	London & South East, Midlands and North
Aged under 30	X3 F2F depth interviews X2 F2F paired depth interviews
Aged 30 - 40	X4 F2F depth interviews X1 group (30 – 50 years) X3 F2F paired depth interviews
Aged 41 - 50	X5 F2F depth interviews X3 F2F paired depth interviews
Aged 50+ (up to 5 years pre-retirement)	X3 F2F depth interviews X3 F2F paired depth interviews
Total number of respondents	45
All interviews held	March 2018



## Appendix 2

### About Bdifferent

Customer behaviour and sentiment can change as often as financial regulation. At Bdifferent, we're constantly monitoring behaviour, sentiment, usage and attitude to help our clients define and design their strategy, products, propositions and communications.

Business to business or business to consumer, we probe deep and explore in depth to make sure our clients get right to the heart of their business issues.

Using qualitative or quantitative techniques and whether it's investments, savings, pensions, retirement income, insurance, banking or protection, we're 100% focused on financial services. Indeed, we work for some of the biggest financial services brands and organisations around.

The Bdifferent team is an eclectic mix of financial services marketers, brand managers, research specialists, psychologists and business consultants with one thing in common – a passion for finance.

Our senior team held senior positions in financial services companies and so we understand financial services from our clients' viewpoint and appreciate the challenges faced. Our understanding of financial products, distribution, customers and regulation has driven our success and proved invaluable to our clients.

**[www.bdifferent.co.uk](http://www.bdifferent.co.uk)**