THE INDEPENDENT

Bruce Anderson: We must resist the mob mentality

Flak flies at insurers over policies that could let consumers down

Some people who are worried about job security in the recession may have been led to believe they were buying income protection insurance – when in fact the cover they were sold is different and much less comprehensive. Kate Hughes reports

Sunday, 18 January 2009

One of Britain's largest insurance firms has been accused of misleading customers over the type of protection policy they are being sold, potentially leaving them without the financial crutch they had expected should they fall victim to the recession or suffer another serious setback.

Many conscientious consumers have been putting aside money every month to protect themselves and their family from the financial hardship that would come with losing their jobs or being unable to work due to an accident or sickness. But many may find that, when they need the money the most, their policy is not as comprehensive as they'd thought.

Insurance giant Churchill, along with Ant Insurance and even price- comparison website Moneysupermarket.com, have been charged by LifeSearch, a leading independent financial adviser (IFA), with incorrectly labelling one type of insurance as a far superior form of cover.

Churchill and Ant both call their accident, sickness and unemployment (ASU) policies "income protection"; Moneysupermarket has titled its ASU comparison pages as income protection. It might seem technical, but real income protection policies offer much more valuable benefits – ones that those who buy ASU miss out on.

Most ASU policies pay you an income for a maximum of two years if you lose your job or are invalided out of work. The insurance can be "standalone", simply paying your income, or it can be bought to cover specific debts. This second type is payment protection insurance (PPI), which has been subject to regulatory action itself recently for being mis-sold.

ASU often excludes claims for being unable to work due to back pain or stress – the two most common sickness leading to absence from work. Many policies also operate on an "any occupation" basis. This means the cover will only pay out if you are unable to do any job, rather than specifically your own.

Due to these restrictions, ASU is often considered inadequate for most people's needs, in contrast to income protection which can pay out for as long as you need it – up to retirement if necessary. It usually covers back pain and stress and works on an "occupation definition" basis, meaning it will pay out if you can't do the type of job you were employed for.

It is not surprising that income protection policies have a higher proportion of successful claims than ASU.

"Any consumer searching for IP online would be led to believe they are buying IP with these companies, only to find they are actually buying ASU," says Matt Morris of LifeSearch. "It is even possible they will only discover this when it's far too late to do anything about it – when they come to claim.

"These companies do make a small reference to ASU at some point in the sale, but by that stage the confusion has already been caused in the consumer's mind."

"There are a lot of kudos to be had from the income protection name that you don't get from ASU," says one senior insurance industry insider who wished to remain anonymous. "The question you have to ask is whether this is done to deliberately mislead and to boost potential sales or not.

"There are no laws about what you have to call these products, but how on earth are you supposed to understand the very different benefits?" the source asks.

"At the very least, this is misleading," warns Peter Chadborn, a protection specialist for IFA CBK. "We often talk to consumers who believe they have a full income protection policy but actually don't.

"This is the kind of behaviour that gives the protection industry a bad name. The buck stops not only with the company actively using this misleading terminology but also the body regulating those companies."

Even Kelly Ostler-Coyle, a spokeswoman for the Association of British Insurers, which represents insurance companies rather than consumers, says: "There are differences between income protection and ASU policies, and it is important that consumers are able to understand these through product literature."

"We expect our member companies to ensure all their products are properly labelled and that policy terms and conditions are written in clear language that consumers can easily understand," she says.

Robin Gordon-Walker spokesman at City regulator the Financial Services Authority (FSA), says that insurers must make it clear what type of cover is actually being purchased by consumers – along with any policy exclusions.

One of the problems is that there are no clear, universal definitions for what does and does not constitute an ASU or income protection policy, providing policy providers with an easy excuse. "The wording on our website is FSA approved and we certainly have no intention of misleading customers," claims Claire Foster, a spokeswoman for Churchill.

"The term income protection is often used in the industry to describe ASU policies," adds Robert Pell of Ant Insurance. "We make it as clear as possible that this is a short-term protection policy. We haven't had any complaints over this, but if we did, we would hope to rectify it as soon as possible.

"We are not out to mislead anyone, and we obviously have to be very transparent," he says.

As a direct result of an investigation by The Independent on Sunday, all three companies have promised to review the way they advertise their ASU products, with Moneysupermarket planning to replace every controversial reference to income protection on its website.

But all this will come as little comfort for those who have been carefully paying premiums every month on an inadequate policy, thinking they will be protected no matter what. Those people who have already bought an income protection policy, and suspect it may in fact be the inferior ASU cover, are urged by financial advisers to examine their policies carefully or contact the insurance provider.

If you are not satisfied with the response from your provider, the Financial Ombudsman Service (www.financial-ombudsman.org.uk) is the final port of call for complaints after all other avenues have been exhausted.

Interesting? Click here to explore further

Offensive or abusive comments will be removed and your IP logged and may be used to prevent further submission. In submitting a comment to the site, you agree to be bound by the **Independent Minds Terms of Service**.

Post Comment