Market views

Swiss Re's Term and Health Watch 2009 saw that income protection (IP) sales have risen in the last year. That upturn, however, has been directly attributed to the actions of HSBC. With sales of other protection products falling, what do these results mean for the protection industry?


Peter Chadborn

Peter Chadborn, CBK

It is pleasing to see IP sales increasing regardless of where those sales are coming from. Much as it pains me to say it, credit must be given to a bank for focusing on such an important product area. Hopefully, more ex-PPI writers will follow suit.

There are many reasons why overall sales have fallen, not least the continued difficulties in the mortgage market and the trend for consumer wariness of any potential financial commitment. It has always been argued that a broad choice of distribution channels is a good thing for the protection-buying consumer but, I think there is a potential down side too. In our experience, most people who buy without advice will underestimate the level of insurance they need and will often look no further than life cover. Furthermore, an over-simplified sales process will not competently address all potential areas of need which is the consequence of an adviser following the path of least resistance. Therefore, as fewer consumers choose to seek advice or advisers resist conducting in-depth financial analysis, more people will be underinsured. Hence, we see the numbers of sales falling.

I would like to know how much reported new business sales relate to new cover and how much is re-broked or replacement cover? In other words, when is new cover being effected and genuinely closing the protection gap and when is the same cover just being punted from one life office to another?

Peter Le Beau, Le Beau Visage

IP production in 2008 was a very mixed bag of some offices who expanded very satisfactorily, of whom the most noteworthy is HSBC, and several who saw their volumes reduce again. I think the penny is dropping that mass production of the traditional IP product with long benefit paying periods and at least two thirds replacement of income is unlikely to materialise any time soon. Notwithstanding this, budget IP plans will be easier to buy because they can be underwritten with less evidence being obtained and people seem able to grasp the concept of short-term periods of disability much more readily than the prospect of never working again.

This is not a perfect situation because it would be better if everyone had full cover but we must be pragmatic. Well written, budget plans with shorter benefit paying periods are considerably better than taking no cover at all and if the IP Task Force can develop a grading system that aids consumer comprehension and raises standards of budget cover beyond those generally provided by PPI then all the better.

I occasionally meet people who hope that the IP Task Force can collectively wave a sort of magic wand which will transform the product into a mega-seller. I would love that too but it is not going to happen. We have to adapt to that without losing sight of the fact that IP is THE protection priority. God bless HSBC for showing us the way forward last year. Let's hope they get a run for their money as many providers expand their production in 2009.

Stephen Crosbie, AEGON

It is true that HSBC has had a large influence on the increase in income protection (IP) sales for 2008.

Its plan just pays out for a maximum term of one year, so we need to be careful when a comparison is made with other IP providers who have designed plans that pay out in the more typical way of providing consumers with an income up until the age of 65 or death.

In the IFA market, which does not include HSBC, annual premium income managed to hold up well last year and companies such as LV= and Unum have developed good IP propositions, which advisers seem to like.

I have noted around the industry that other products have also been holding up well in the current economic climate.

Sales of non-mortgage related term assurance were up in 2008, which is to be expected as mortgage-related term assurance products are suffering from the present downturn in the housing market.

Whole of Life sales have increased and I think that these guaranteed acceptance funeral cover plans are set to continue to increase in popularity with the general public and advisers alike.

With the current economic downturn, protection products including critical illness, IP, life cover and business protection are as important to consumers and advisers as ever.

Advisers have a clear role to play in bringing protection products to consumers to ensure that those consumers and their families are adequately protected against the unexpected in the future.

Deepak Jobanputra, PruProtect

It is positively encouraging to see growth in IP sales in 2008 which is something that all market commentators have been crying out for in recent years.

If, however, we look more closely at the figures compiled by Swiss Re we see that the root cause of this is due to one bank's distribution focus that has led to this increase. Without the emphasis from this bank, we would have seen IP sales fall by anything up to 10%. It is amazing that we can see such huge variations based on an individual provider's actions.

On a positive note, it does show what can be achieved through a positive focus on protection if only it were consistently maintained. We have seen this happen over the last decade with one or two providers moving in and out of the top five providers for IP sales.

The protection solutions to customers' needs should primarily be based on need and the delivery of appropriate and relevant cover.

While it is great that we are seeing growth in IP sales, it is worth pointing out that the increase in sales appears to be based on a limited payment term product which is not a bad thing in itself provided customers are aware of this and of other more comprehensive options that are available in the wider market.

We will see more of these limited cover products, due partly in response to the changes to the payment protection insurance (PPI) market and potentially in response to changes in distribution models.