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Analysis - Whole of Life

Out for the count?

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It is not surprising that whole of life is unpopular with consumers: the product, which gets more expensive as the policyholder gets older, seems particularly unattractive during a recession. Could it get any worse? Probably not. Peter Carvill asks if it's time the cover stirred from its slumber Click here to download pdf (PDF, 793KB)

The story this year, as it was last year, is that sales of whole of life (WOL) policies are continuing to plummet. According to Swiss Re's Health and Term Watch 2008, 2007 sales of the product topped out at 183,636. If, as COVER reported last year, that the 2006 sales of 195,141 marked the lowest recorded for the product, the most hopeful thing that could be said is that the decline has possibly finally bottomed out.

Swiss Re, despite the grim situation, remains optimistic on the grounds that its stance - that WOL products with no cash value other than on death should fall under Insurance Conduct of Business rules - was adopted by the FSA. According to the reinsurer, this was especially important for customers as it opened up "more potential access points". An interpretation of this viewpoint, coupled with the statistics, suggests that Swiss Re hopes that 2007 may have been the nadir that the product had to reach before staging a recovery.

There are a number of reasons why WOL has become so unpopular with consumers. Firstly, there is the expense - with a UK population that is reluctant to buy protection products at the cheaper end of the scale (£2.3trn protection gap and counting, according to Swiss Re), what hope does a product like WOL, which increases monumentally in price as you get older, have?

"Yes, it definitely has a future," says Peter Chadborn, principal of CBK Colchester. "It is essentially sold now to cover inheritance tax (IHT) because the term is impossible to quantify. But for covering a debt or mortgage, it's easier to quantify. With IHT, most sales are going to be WOL so there's always going to be a place for it."

According to Alfred Officer, an IFA at Alfred Officer Insurance and Financial Intermediary, the answer to the question of why WOL is selling badly is a simple one - customers do not see it as an attractive buy: "The product does seem to carry a connotation in the public's mind of them having to pay for forever and a day, and I think there's a disaffection there with this type of product. There is, of course, the element of tax legislation but that is not something that immediately springs to my mind."

Niche products

With a faltering economy and the impact of IHT becoming well-known, Chris McFarlane, head of protection at LV=, says that WOL may still have a future. Asked about what that may be if WOL is still a niche product, he responded by saying that any outlook was determined by which definition of 'niche' is used: "Typically," he says, "the mortgage market is something you'd expect to be massive in the longer term. As people realise the IHT liability they're sitting on, and with house prices suffering so much at the moment after inflating rapidly, there are people sitting on those liabilities who want to protect themselves and their family from a large tax bill."

Likewise, there are a number of reasons why, although optimism is largely muted, WOL could see improved sales in 2009 with the recession being named as one ongoing event that could offer an opportunity for the WOL market to both increase or decrease.

McFarlane paints a picture of a possible scenario where WOL sales may improve because of the credit crunch: "I think that as adviser focus is more on protection, and given that a number of people are sitting down with IHT and, at the other end of the scale, funeral expenses, parents do not want to pass that burden on to their children. So I can certainly argue that the potential is there for an increase."

He adds: "But, to be honest, money is tight and pensioners have fuel bills to worry about and there is less money in people's pockets at the moment. You can argue both ways but, essentially, the challenge is there for advisers and providers to rise to if we are to improve product sales."

Long-established beliefs

Officer also offers a positive note in thinking that WOL sales will increase in 2009, as he believes the product is often the best option for clients: "I believe that sales of WOL will not continue to fall. I am from the old school in believing in the product. Advisers might want to get cheap and cheerful cover in place but the clear logic is that the best value comes from a WOL product. Taking this on board and educating consumers could make all the difference."

He continued: "There might be a way of structuring the earnings but fundamentally I would, if I were a provider, challenge advisers as to whether they are giving the best advice to their clients."

But for now, it looks like WOL will remain a niche product, one that McFarlane still argues consumers need: "For me, it's around the wider promotion of protection and making people aware of their needs in that area as they know that they can no longer rely on the state. If the question is around the product staying as it is, there are only a limited number of providers and it will probably stay that way."

Realistic attitudes

Chadborn believes, looking to the future, that sales will remain static: "I think they will stay the same. I don't think there's any reason why they would increase and I'd like to think - perhaps over optimistically - that 2009 will be a good year for protection as consumers will realise their vulnerability and look at protection more than they did in the past."

And while innovation across the rest of the protection industry was the focus of 2007 and 2008, such advances are not foreseen by either McFarlane or Officer.

Says McFarlane: "I'm expecting any innovation to be around protection products such as critical illness (CI) and income protection (IP) unless the Government comes up with something around how tax legislation works. So this isn't a market where I suspect there will be lots of innovation. I think the focus will be around the living benefits as opposed to the death ones. There is a lot of momentum behind IP at the moment."

Adds Officer: "I would like to think that some innovation would work its way through. Providers are mindful that the story of life insurance in the UK sits on WOL. The onus should be on providers to put their thinking caps on, innovating the product, and challenging advisers on the quality of advise they give to clients. This is something that should happen."

The final word rests with Chadborn, who says that instead of sales having worsened, they have simply dropped to a level they should have been at all along after being sold at too high a volume in the past: "I think WOL is the right product at the right time. Rather than sitting here and asking how we can stop sales from sliding, it's more a case of more WOL sales in the past than there should have been. It's not unusual for us to come across people with a WOL policy that is covering a mortgage, which should never be the case. That's an example of when I say that the WOL being sold now is probably the right level of sales."

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