Worst year for individual protection sales this century?

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Based on ABI data, it appears that 2015 was the worst year this century for individual long term protection insurance sales, analysis by Protection Review has found. Yet, it was also the best year for group risk numbers.

It's now a Protection Review tradition that each year we look at the stats to try to work out how well the previous calendar year went in terms of product sales. To do this we use ABI stats for individual business so, first, thank you to ABI for kindly allowing us to have access to its amalgamated stats.

Trying to make sense of the stats always has to start with a couple of caveats. First, no measurement system is 100% accurate. In corporate life it always used to frustrate me that I could never get accurate stats on how well my biggest competitors were doing, although I had 100% confidence in my own company's stats, not least because our philosophy was to get these things right. I hope that confidence was not misplaced…

Most of my competitors were happy to swap stats and, when it came to doing this or giving third party commentators our stats I always put one of my most reliable people on the task because again getting it right was important. That said, there were then, and there are now, some insurers whose figures look shall we say 'puzzling'. Sometime people make mistakes, sometimes different time periods are used and sometimes people simply misinterpret what they have been asked to provide.

All of which adds up to a bit of a health warning that our analysis is based on the data available and you wouldn't bet your mortgage on its accuracy. That said, one big advantage of using the same data sources over many years is that things tend to sort themselves out over time and consistency is probably rather better than if we darted around using different data sources.

In an ideal world, we would all use the same common data source and maybe the FCA is best positioned to provide that. However, what it is interested in measuring is not necessarily what we are interested in measuring so, for the time being, we are more than happy to carry on using the data we have. Big thanks too to the individuals whose thankless task is to supply or gather the raw data, try to spot 'issues' and then try to make sense of it all!

But what of the figures themselves? Was 2015 a great year for individual long term protection insurance?

The short answer is 'no'. In fact, it was the worst year we have recorded since we began this series in 2000.

One factor is the FCA's Retail Distribution Review (RDR), which effectively stopped a lot of churning of business. Also, a lot of (but by no means all) 'wealth managers' (I do hate that rather pompous title…) now see protection business as a bit blue collar and grubby. They won't say that of course, but the perception with some is that managing an increasingly declining potential client base of what the man on the Clapham omnibus would describe as ‘wealthy’ clients (never mere customers…) with large pots of money is much sexier, profitable and (dare we say it) easier. That last word is easy to dismiss, but what I mean is that if, every day, your business is around managing portfolios, following markets and listening to fund managers, even the complex worlds of investments and pensions become relatively ‘comfortable’.

To then have to get involved in talking to say a GP about his or her income protection needs when the last time you did that (if at all) was years ago, makes protection ‘hard’ and for a relatively small (commission) reward too. To those who specialise in protection however, this type of business is ‘easy’ – practice makes perfect and what can appear to be complex rules and traps for the unwary simply become part of the job; familiar because they are.

Protection Review long term protection sales indices

Tables 1 and 2 show new business written and new annualised premium (APE) for all individual long term protection products from 2000 to 2015 inclusive.

As always, it is worth noting that the ABI’s data is constantly ‘cleaned up’. So, if a provider has supplied information too late, the ABI’s statisticians may estimate the likely figure. Then, if the actual figure turns out to be different, or if a provider recognises it has given inaccurate data, the statisticians will amend the numbers next time they are produced. Consequently, never assume that the latest published year or quarter’s figure will remain unchanged. That said, the differences are rarely that significant overall.

Looking first at sales volumes, trends here are significant, as they are a proxy for overall market activity. They indicate whether more or fewer polices are being sold and we can then see how different product types compare with each other. On menu plans, the ABI splits the data by underlying product, but also now records overall menu plan sales (of which there were 456,114 in 2015, down from 550,000 in 2014, which was a sharp fall from 979,000 in 2013, up from 948,000 in 2012, and from 803,000 in 2011). As with all data however, these numbers need to be treated with some degree of caution.

This is especially true, as our method of recording includes an element of double counting on CI rider policies. A policy is first counted as say a mortgage-related term plan, then again as a CI rider policy. But then, it is two different types of cover the customer has bought, so that seems reasonable.

Table 1. New business sales 2000-2015. 000s of contracts

Product	WL	Term (non M)	Term (M)	IP	CI standalone	CI rider	Total
2000	353	746	701	185	99	672	2756
2001	265	809	925	192	112	808	3111
2002	270	977	2279	199	110	873	3608
2003	286	1008	1239	158	80	992	3763
2004	254	767	1091	131	64	657	2964
2005	186	665	887	130	59	465	2392
2006	177	734	834	139	64	460	2408
2007	203	806	771	118	85	417	2400

2008	255	838	692	135	27	392	2339
2009	359	915	643	111	20	417	2465
2010	473	986	662	113	18	510	2762
2011	580	1009	569	167	28	629	2982
2012	586	1087	573	200	27	690	3163
2013	491	1064	511	135	20	617	2838
2014	321	850	549	110	21	510	2361
2015	334	834	478	111	19	452	2228

Table 1 shows that in terms of sales volumes, UK long term individual protection insurers wrote 6% fewer policies in 2015 than they did in 2014. Worryingly, the trend has been falling sales since 2012 too. Go back and compare with 2000 (we use 2000 as it gives a good benchmark and was neither a particularly good nor bad year and besides, well, it was the year 2000). Relative to 2000, the industry wrote 19% fewer cases in 2015 and in fact this was the worst sales result over the 16 year period.

Table 2. New business premiums 2000-2015. £m annualised premiums

Product	**WL**	**Term (non M)**	**Term (M)**	**IP**	**CI standalone**	**Total**	**CI rider**
2000	132	243	205	62	39	681	357
2001	116	275	299	69	44	803	358
2002	100	372	400	79	47	998	384
2003	99	392	436	69	39	1035	390
2004	91	336	398	61	33	919	314
2005	73	283	364	52	33	805	246
2006	70	318	349	50	36	823	251
2007	82	306	323	51	42	804	228
2008	101	354	262	56	16	789	219
2009	101	383	240	51	13	788	222
2010	113	368	228	49	13	770	257
2011	122	361	210	49	9	751	269
2012	118	357	214	54	10	753	271
2013	108	306	186	40	10	650	229
2014	105	282	204	40	9	640	243
2015	113	278	190	44	9	634	242

Looking at these annualised premiums, the analysis gets a bit more complex, as we need to take out CI rider plans to avoid real double counting (when it comes to volumes an element of double counting is OK as it is reasonable to count say a term policy with CI cover attached as two policies, or at least two different types of cover). But, when it comes to annualised premiums, we would be seriously double counting if we included CI rider plans again to come up with a total figure). The total figure for annualised premiums therefore accurately represents actual new business annualised premiums by excluding accelerated CI benefits.

As we have noted before, in recent years we have seen a trend of new annualised premiums growing more slowly (or falling faster) compared to policy sales. That can be for one or more of a number of reasons:

- The average customer insured benefit is falling.
- Customers are spending less for budgetary reasons.
- Needs are changing so people may buy cover say for shorter terms or to match smaller mortgages or to have shorter income protection benefit paying period.
- Premium rates are falling.
- People are less committed to the need for cover but are being persuaded to buy – they just aren't prepared to spend as much as they did before.
- People are getting more cover through their employer, and so need less personal cover.

It's not possible to easily record the split between all these factors but, overall, we know many premium rates have fallen (over the longer term) and that times remain tough for many families (who are more cautious on debt anyway since 2008), so all factors may be significant.

Table 3 converts Table 2's results to indices, giving 2000's sales an index of 100 for each product. Rather than show each index each year since, we have just contrasted the 2000 and 2015 results (with 2013's in brackets).

Table 3. The Protection Review 2015 sales indices based on new business sales volumes (000s of policies sold), with 2014's index in brackets

Product	2000 index	2015 (2014)
Whole of life	100	94.6 (90.9)
Term non-mortgage	100	111.8 (113.9)
Term mortgage related	100	68.2 (78.3)
Income protection	100	60.0 (59.5)
Standalone CI	100	19.2 (21.2)
Critical illness rider	100	67.3 (75.9)
Total	100	80.8 (85.7)

Looking at each main product group in turn, this was how 2015 turned out, focusing on product sales rather than premium income:

- **Whole of life.** Sales rose by 4%, with premiums up 8%. Of the 334,000 sales, 278,000 (83%) were guaranteed acceptance (funeral) type plans, up from 256,000 the year before. Whole of life sales were the most positive area of the market in 2015 and within that guaranteed acceptance plans grew by 8%.

- **Term insurance.** Both mortgage and non-mortgage term sales fell. In some ways, term is the constant barometer of protection sales, as it reflects the simplest and best understood and arguably most needed cover type.

- **Income protection**. Sales grew marginally but, given the high profile given to IP over the past year and a bit, this shows a product that is again not yet firing on all cylinders. Although the trend does appear to be positive and API sales are looking rather more healthy. IP remains a work in progress though.

- **Critical illness insurance.** Accelerated or rider CI sales fell by 11% after falling 17% in 2014. Is CI now past its sell by date – at least in its current form?

Other market commentary

ABI stats are just one angle on how well sales went in 2015. So what do others say?

On 1 December 2015, Cover reported Gen Re's Protection Pulse findings for the first half of 2015. This found sales down in Q1 by 3.5% (with a particularly poor January), followed by a small (up 1.1%) rise in Q2. Overall, total new business was down 1.2% in the first half of 2015.

By distribution channel, Gen Re reported independent advice sales up 5.8% in Q1 and by 10% in Q2. That contrasted with falls of 28% and 22.3% for restricted advice. The best relative performance came from non-advised sales, up 8% in Q1 and by 10.6% in Q2. However, even in Q2, non-advised sales made up just 11% of sales, compared to 28% for restricted advice and 61% for IFAs.

On the individual product front Gen Re reported for the half year:

- Mortality (life) sales up 0.06%.
- Accelerated CI sales down 5.3%.
- Standalone CI sales up 2.3%.
- Income protection sales up 16.3%.
- Total market down 1.2%.

The one surprise here, compared to ABI data, is the much stronger performance of IP. To some extent, API has increased faster than sales volumes and IP can be difficult to monitor because of the blurring between long and short term contracts and long and short term benefit periods. Gen Re's findings on the second half of the year will therefore make particularly interesting reading and anecdotally, we believe IP may be growing faster than some believe to be the case.

On 21 March 2016, Cover reported Equifax Touchstone's analysis that protection sales were 'strong' in Q4 of 2015. Overall however it saw total protection sales down over the year from £453.5m to £452.1m, a drop of 0.3%.

In the group risk market, Swiss Re's Group Watch 2016 report was published in April 2016 and it reported:

- Death benefits up 5.2%.
- In-force disability income (IP) benefits up 4.2%.
- In-force critical illness sums insured up 11.4%.

Swiss Re UK & Ireland CEO Frank O'Neill said: "Group risk covers play an important role in covering employees and their families. However, although 40% of all insured death benefits and 80% of insured long-term disability income cover are arranged through employer schemes, we still have a lot more work to do in closing the protection gap in the UK."

Perhaps the most telling state in the report is that over 300,000 more people became members of group risk schemes in 2015 and the number of people covered now stands ate more than 11.5m

Conclusions

Many protection insurers' strategy in recent years has broadly focused on:

- Cutting costs so that premiums can be as competitive as possible.
- Competing largely on price.
- Evolution rather than revolution in terms of product design.
- Support for intermediaries and other distribution channels but no saturation marketing, little advertising and only limited (albeit welcome) support for training.
- Continued consolidation of providers (or, for some, looking to survive without being eaten by bigger fish!).
- Minimising risk.

Unfair? Certainly, some insurers have been hugely innovative and here we are talking of innovation on all levels, not just product design. We commend that. But then again, we continue to see a lot of 'me too' innovation – a good example being the slow and inexorable rise of conditions being covered under critical illness policies. I'm not against this – more conditions equals wider coverage equals more people being able to make valid claims to meet life changing adverse events that could otherwise ruin them financially. That can never be a bad thing, but it has to be balanced against 'wearable complexity' – that is, it becomes only too clear to the customer that this protection malarkey is not just complicated, but too complicated for the likes of them to try to understand so why should they bother?

Is that the message we want people to hear? Of course not, but it's the message we risk broadcasting – not so much in what we actually say or write but in the overall flavour of those messages.

One simple protection need is mortgages. A mortgage is generally your biggest single financial commitment and, if you die, become ill or disabled, it still needs to be paid every month. Insurance can stand between you and the bailiffs, ensure you can keep your home and in some cases you could even be better off financially if the worst, healthwise, does happen.

What of the mortgage market itself in 2015? After a more positive market in 2013 and 2014, last year saw another healthy increase, with gross mortgage lending up by over 8% on 2014. The table below shows total gross mortgage lending in selected years since 1977, based on Council of Mortgage Lenders (CML) stats:

Table 5. Gross mortgage lending 1977-2015 (selected years only)

Year	Gross mortgage lending
1977	£6.9bn
1987	£35.4bn
1997	£77.2bn
2000	£119.8bn
2006	£340.9bn
2007	£356.8bn
2008	£247.8bn
2009	£140.6bn
2010	£133.8bn
2011	£138.3bn
2012	£144.5bn
2013	£177.7bn

2014	£203.3bn
2015	£220.3bn

Source: CML, January 2016

This table shows that gross mortgage lending in 2015 was still just 62% of what it was in the peak year of 2007 but it was up 84% on 2000's figures. Compare that with protection insurance sales. OK, the two are not directly comparable, but it does help illustrate the relative fall in protection insurance sales over the past decade and a half (and now over a decade since the market peaked in 2003). Especially as many in the mortgage space are still grumbling that mortgage sales are still way below the 'norm' of 2007.

For more than a generation, the health of the mortgage market has been a key driver behind protection sales. But the last few years have illustrated that we need not to rely on the mortgage market for protection sales and have taught us that a rising mortgage market can still result in fewer protection insurance sales.

Aggregators and other sales channels have been a growing force in recent years and have helped give lie to the old maxim that 'insurance is sold not bought'. But doubts remain as to just how far such organisations will be in the big picture.

One test for distribution though is to ask this question:

'Name ten places I could go to to buy life insurance, assuming I am an average person and don't understand much about the market.'

Too tough – OK, go for five names then. Still too tough…?

The fact is, to people outside the industry it is not clear who to go to to get help with the three key questions working people (who make up the bulk of our customers) need answers to:

1. Where do I start - what are my protection needs and priorities?
2. How much of what sorts of cover do I need today that I can afford to and want to pay for?
3. What are the best packages and solutions? What's the tiresome detail stuff that could catch me out (taking account of things like trusts, wills/LPAs, getting the best underwriting decisions, ratings and so on)?

It's not simply information that people want either, it's education, help, advice, hand holding, motivating and managing. It's a tall order – and also one reason why being a financial adviser who focuses on protection can be such a rewarding career.

Go back though to the two products that showed growth in 2015:

- Guaranteed acceptance whole of life.
- Income protection.

The former is successful partly on the back of huge, consistent and continuing advertising. Michael Parkinson has long been the UK's top protection insurance salesman and he doesn't even sell insurance. What he does sell though is reassurance – not the way we understand that word, but the way that the public understands it.

We may scoff at such policies – poor value, low ticket, too simplistic and easy to replace with something better. But, people are buying them in their tens and hundreds of thousands – indicating that the underlying desire to protect ourselves, our families and what is important to us – remains uppermost in people's minds.

IP seemingly didn't do much in 2015, but at least it didn't fall, and there is growing evidence that the Seven Families campaign (spearheaded it must be said by my colleagues Peter Le Beau and Kevin Carr) is getting its messages across to the public, the intermediary and the insurer.

And what of the future? Frankly, it's not easy to see where we go from here. The headline trend has been gradual decline over the past few years. Not enough to be a worry, but disappointing.

To achieve real success – as measured by sales perhaps we need:

- More effective and bigger and better distribution. IFAs, specialists, networks, aggregators, direct salesforces, TV and other media advertising. This is one area we need to advance on many fronts, not just one.
- More product innovation. CI, in particular, is looking tired as a concept. It remains a great product but there must be a better way…
- More innovation. Innovation is NOT just product innovation. This is an area we have actually been much more successful at than we give ourselves credit for (cost cutting, straight through processing, M&A, third party services etc).
- A less cautious approach to risk. Everyone from regulators, to CEOs to underwriters, claims managers and marketeers needs to be bolder, allow mistakes to be made, learn from them and look at the bigger picture not just at our career survival or advancement.
- To find ways of re-engaging with our customers to make protection insurance not just affordable but desirable too. That includes education and information, embracing social media, embracing wearable technology (not just using it as a negative rating tool), becoming trusted more and getting people talking about protection insurance (and not just because sometimes we turn down claims, and sometimes we still turn down the wrong ones).

In the absence of breakthrough thinking in these and more areas though, it is hard to expect any great rise in business volumes – at least not in the near future.

So, 2015 was a great year for group risk but a poor year for most of the individual protection insurance market. Yet the fundamentals remain strong – people will go on being ill, suffering disabilities and dying. They will go on being able to afford to buy protection insurance and they will inherently know that protection insurance is a 'good thing'. But they need help to make what we and they know are the right decisions.

The Government is helping – only recently Support for Mortgage Interest was materially worsened with more to follow in future. And employers are helping by providing more group cover and so raising awareness of the fact that protection insurance is desirable and worth buying.

But we need to do more and we need to do it now.