Protection Review Sales Indices

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This chapter:

- Looks at the latest year's figures and puts them into historical perspective.

- Tries to determine any trends which may give rise to opportunities or threats.

As in previous years we have mainly used ABI (Association of British Insurers) data for consistency and have gone back to 2000 as our base year.

The year 2000 is a good one to measure progress against - it wasn't a particularly unusual year but it wasn't followed or preceded by significant growth or decline in the protection markets either. In fact, long term protection sales did subsequently rise, generally peaking in 2003, after which time they fell. Since that market peak, sales have not shown any consistent trend – other than generally failing to get back to 2003 levels and often not even to year 2000 levels.

The slack has not been taken up by short term plans for various reasons. The previous massive sales success - creditor insurance or PPI (the most advertised protection insurance ever, even if for all the wrong reasons?) – fell off a cliff edge once the regulators eventually got their teeth into some appalling sales practices that had hitherto carried on under the noses of those who should not only have known better but actually done something about it years before they eventually did.

To digress, it has long been the case that a slow acting regulator can appear to give a green light to practices that should be banned as soon as they emerge. This failure to act can suggest that the regulator is relaxed about such practices – 'We've been doing this for months and the regulator hasn't mentioned anything to us so it must be alright'. The regulator may simply be gathering evidence before it acts, but maybe a traffic light system to put providers and intermediaries on notice earlier could help avoid the kind of damage that the PPI scandal (and before that the pensions scandal, and before that the endowment scandal and etc etc…) has wreaked on innocent and guilty alike could be avoided. There are even conspiracy theorists who argue that regulators like the occasional scandal both in order to appear to be more important than they actually are and to boost their coffers by imposing huge post-event fines. We'd much rather there was no need for such fines in the first place. Indeed, any fine is prima facie evidence of the failure of regulation – not of its success.

Back to the stats - private medical insurance (PMI) and health cash plans (HCPs) have both had difficult times too. The personal market for PMI has dried up considerably over the past two or three decades, while HCPs were on a long decline before someone decided that selling low cost employer paid plans was the way forward. As a result HCPs have rediscovered their mojo and are now vying to be seen as a key solution in the hunt for a sustainable NHS top-up insurance-based solution for the masses – and their employers.

Dental plans too look to be on the rise again after a post 2007 wobble, while (going back to long term plans) we may even have seen the start of a new chapter for long term care insurance with the benefit being added to a regular premium whole of life plan.
So much for individual or personal plans, what about the group risk market? As Swiss Re's data shows, the past couple of years have seen records broken and a new spring in the step of a market sector that some have always seen as, well, a bit old-fashioned. Group risk insurers would dispute that of course, but the activity around pensions auto enrolment has certainly seen a renewed interest in group risks.

We start our annual review though by looking at the long term protection insurance market.

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 2014 inclusive.

As always, it is worth noting that the ABI's data is constantly 'cleaned up'. So, if a provider has supplied information late, the ABI's statisticians will estimate the likely figure. Then, if the actual figure turns out to be different, or if a provider recognises that 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 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 550,000 in 2014, a sharp fall from 979,000 in 2013, which was 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 2000-2014. 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

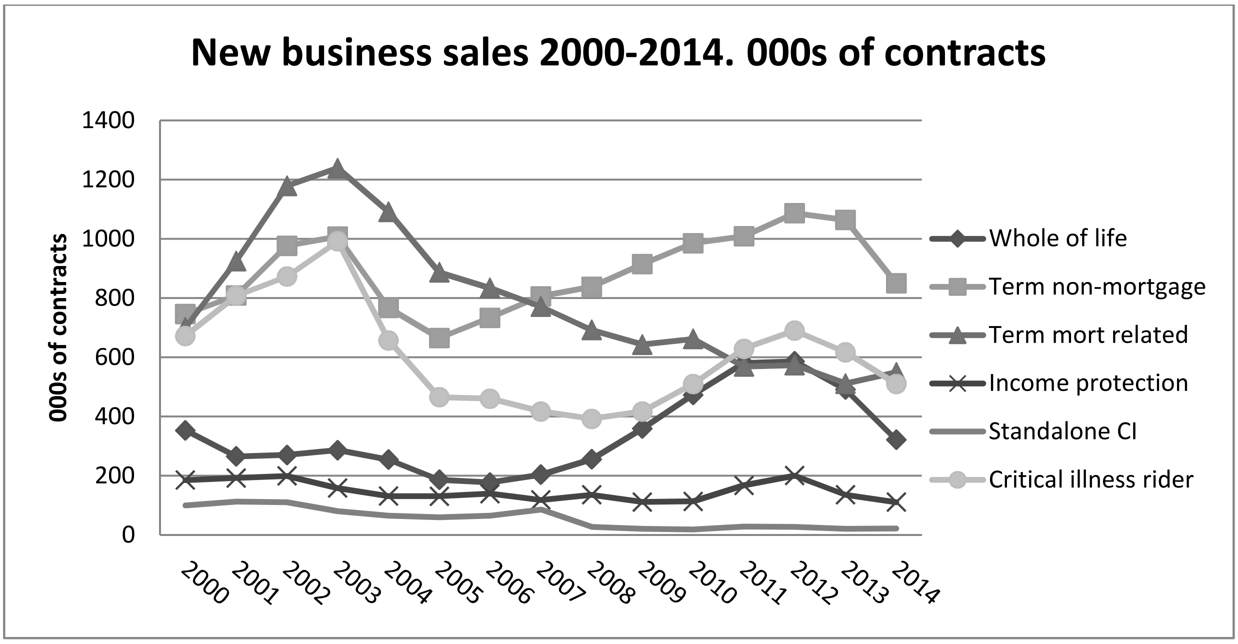


Table 1 shows that in terms of sales volumes, UK long term protection insurers wrote 16% fewer individual long term protection policies in 2014 than they did in 2013 and 2013 was down too on 2012. Go back and compare with 2000 (we like to compare with 2000 as it gives a good benchmark and was neither a particularly good or bad year and besides, well, it was the year 2000!). Relative to 2000, the industry wrote 14% fewer cases in 2014 and in fact this was the second lowest sales result over the 15 year period.

Compare that with the UK's working population however, which grew from January 2000 to end December 2014 by 13.6% (source: Protection Review Employment Index, which is based on the Government's *Labour market statistics* reports). As most protection policies are sold to working people, we can make the reasonable assumption that, per head of working age population, we should have sold 3.13m new policies in 2014 rather than the actual total of 2.361m.

So, however you look at 2014 stats, new business sales were disappointing. That does ignore one factor though. Since the start of 2013, new RDR (Retail Distribution Review) rules mean that it is harder to justify replacing an old policy with a new one. Prior to that, the belief is that many 'ne' policies were just re-broked old cases.

Can we draw any crumbs of comfort from last year's sales stats? In volume terms, mortgage related term sales were up but then again non-mortgage sales were down (and we are not convinced that every insurer can accurately report the true split between the two).

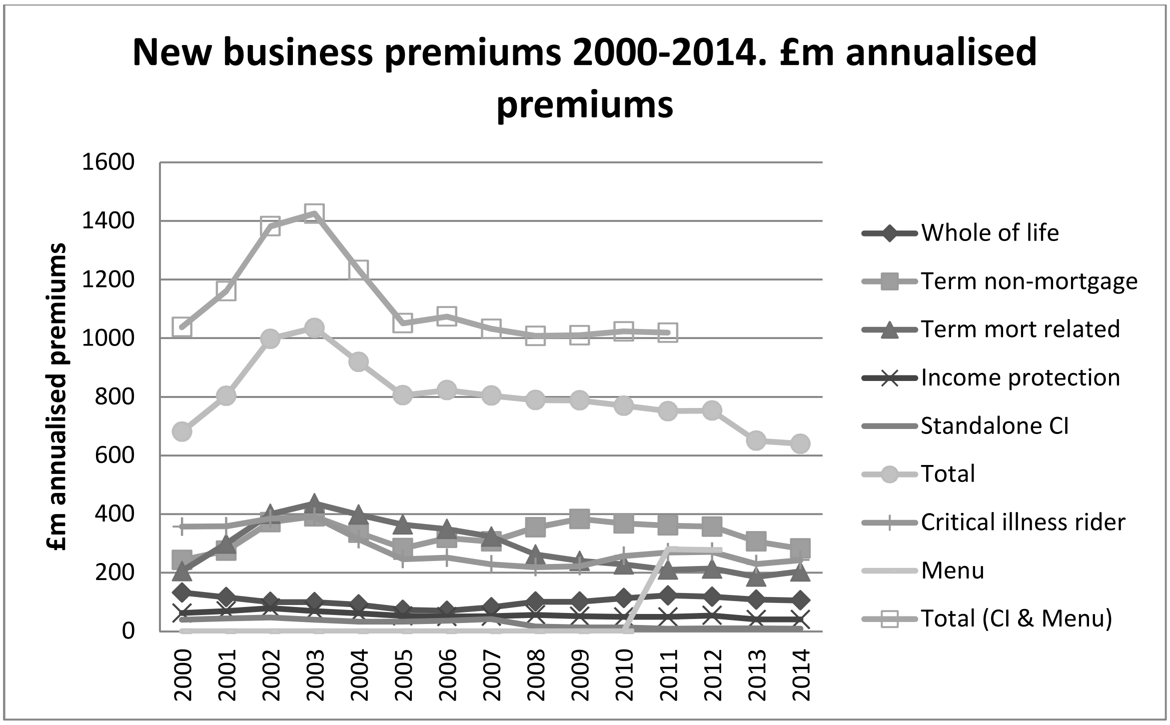
The new figures are disappointing given that the economy was showing signs of a sustainable recovery. As we shall see later, group risk sales were up, but it is hard to believe that that would affect individual sales much.

A more telling fact is that life insurers (except for protection specialists) have been focusing both on pension reforms and on investment business. Years ago my colleague Peter Le Beau coined the phrase ‘Cinderella product’ for income protection. Perhaps we should now use the phrase ‘Cinderella market’ to describe individual protection insurance?

That said, we do see some evidence of things beginning to improve, albeit slowly. The Seven Families initiative has awakened people’s interest in what too many had seen as a tired old product, while emerging claims stats and stories are showing that protection insurance can be and is more than just paying out cheques begrudgingly when we can’t find a good enough reason not to pay (OK I hope that’s an attitude we never ever take, but it is what many of our customers think we do).

Table 2. New business premiums 2000-2014. £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



Looking at 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 that's 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 double counting if we included CI rider plans again to come up with a total figure). The total figure for annualised premiums should therefore accurately represent actual new business annualised premiums.

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:

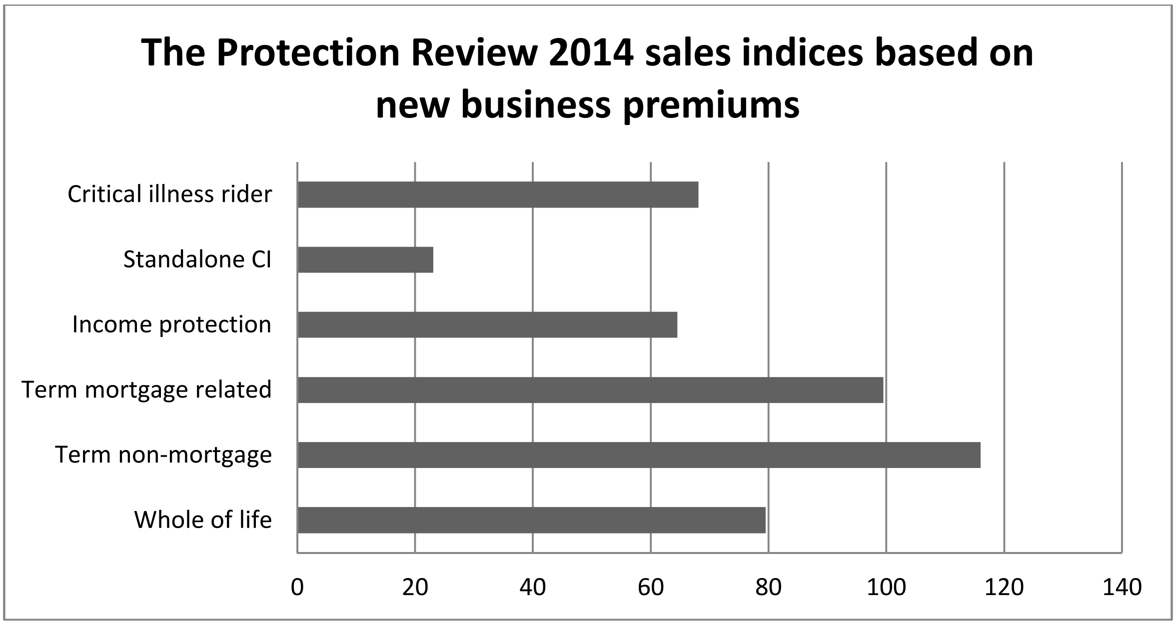
- The average customer insured benefit is falling.
- Customers are spending less for budgetary reasons.
- Needs are changing so people may buy cover say for shorter terms or to match smaller mortgages or to have shorter income protection benefit paying period.
- Premium rates are falling.
- People are 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 2014 results (with 2013's in brackets).

Table 3. The Protection Review 2014 sales indices based on new business sales volumes (000s of policies sold), with 2013's index in brackets

Product	**2000 index**	**2014 (2013)**
Whole of life	100	90.9 (139.1)
Term non-mortgage	100	113.9 (141.7)
Term mortgage related	100	78.3 (72.8)
Income protection	100	59.5 (93.0)
Standalone CI	100	21.2 (17.2)
Critical illness rider	100	75.9 (91.8)
Total	100	85.7 (104.0)



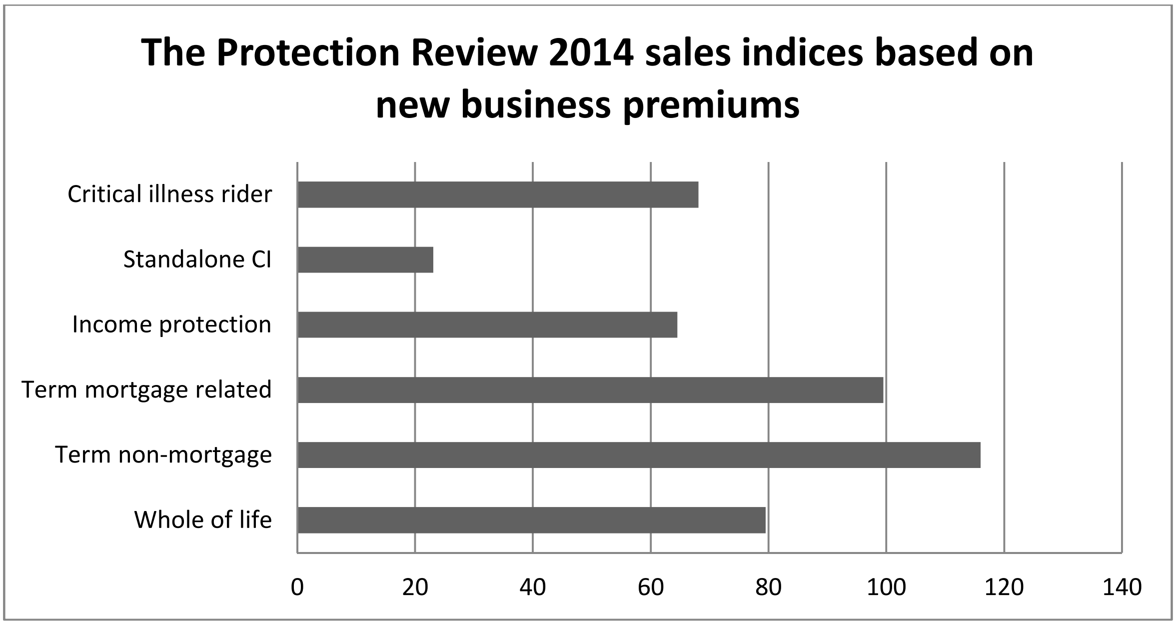
This highlights the situation by product and shows that sales of everything fell last year and just non-mortgage term plans were above their 2000 totals (note - we are looking at numbers of policies sold, not pound notes).

Last year we said that the market was artificially depressed in 2013, partly due to being artificially inflated at the end of 2012. Whilst that looks to be true, it can't really explain why 2014's sales were even lower.

Table 4 looks at the indices in another way, based on premium income rather than sales volumes, as shown in Table 1:

Table 4. The Protection Review 2014 sales indices based on new business premiums, with 2013's index in brackets

Product	**2000 index**	**2014 (2013)**
Whole of life	100	79.5 (81.8)
Term non-mortgage	100	116.0 (125.1)
Term mortgage related	100	99.5 (90.7)
Income protection	100	64.5 (77.4)
Standalone CI	100	23.1 (23.1)
Total	100	94.0 (96.2)
Of which, critical illness rider	100	68.1 (64.1)



These indices effectively value the market in terms of new premium income. Here again, as last year, only term business shows any growth since 2000 but again all figures are down.

Looking at each main product group in turn, this was how 2014 turned out, focusing on product sales rather than premium income:

- **Whole of life.** Sales fell by 34.6%, with premiums down 2.8%. Of the 321,000 sales, 256,000 were guaranteed acceptance (funeral) type plans.

- **Term insurance.** Non-mortgage term fell by 20.1% but mortgage-related sales rose by 7.4%.

- **Income protection**. Sales fell by 18.5%, but new annualised premiums stayed the same at £40m.

- **Critical illness insurance.** Accelerated or rider CI sales fell by 17.3% after rising last year.

Overall, one conclusion must be that there are now fewer intermediaries selling protection insurance and that the slack has not been taken up either by mortgage brokers or by comparison site direct sales. Certainly, mortgage brokers are now having to spend more time on each mortgage sale (over three hours for a family member recently) and that may be at the expense of protection insurance sales. That said, Pink has led the way by insisting that its advisers raise the issue of income protection with all mortgage customers. If others follow (and why wouldn't they?) it could mean that we shall start to see protection insurance sales through mortgage brokers rise again.

What of the mortgage market itself in 2014? After a more positive market in 2013, last year saw another healthy increase, with gross mortgage lending up by over 16% on 2013. 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 1977-2014 (selected years only)

Year	Gross mortgage lending
1977	£6.9bn
1987	£35.4bn
1997	£77.2bn
2000	£119.8bn
2006	£345.4bn
2007	£362.8bn
2008	£254.0bn
2009	£143.8bn
2010	£135.3bn
2011	£141.2bn
2012	£145.3bn
2013	£176.4bn
2014	£205.6bn

Source: CML, January 2015

This table shows that gross mortgage lending in 2014 was still just 57% of what it was in the peak year of 2007 but it was up 72% on 2000's figures. Compare that with protection insurance sales. OK, the two are nowhere near 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.

As we have said before, this is not the place to make political points or to criticise mortgage regulators, but it does illustrate that we need to be careful in our expectations of the mortgage market going forward. Some advocate a return to 'normal' lending while others target the superheated lending we saw in 2007. We're not sure what either really means.

If we look at how the mortgage market has grown since 2000, so that we can make comparisons with our protection indices) in terms of numbers of mortgages (numbers of remortgages are not available before 1993 so we can't go back to 1977) we see:

Table 6. New mortgages for house purchase and remortgages 2000 to 2014

Year	House purchase	Remortgages	Total
2000	1,123,000	558,000	1,681,000
2007	1,015,000	1,058,000	2,073,000
2008	513,100	865,800	1,378,900
2009	511,800	408,000	919,800
2010	543,500	321,000	864,500
2011	509,500	378,600	888,100
2012	540,200	313,500	853,700
2013	605,100	321,900	927,000
2014	676,000	303,100	979,100

Source: CML, 17 February 2015

This shows the mortgage market in rather a different light to the overall gross lending figures. It shows that house purchase mortgage sales were around the million mark for some time, but have now settled at less than two thirds of that. The remortgage market saw the biggest growth – more than trebling from 1997 to 2007 and almost doubling since 2000. It then suffered the sharpest fall, now being under 29% of the number of remortgages in 2007 and just 54% of the number of remortgages in 2000. That probably reflects much tougher lending criteria (boosted further by the FCA's Mortgage Market Review which, although it did not fully come into effect until 26 April 2014, was highly influential on lending policy in the run up to that date and has significantly held back demand since then).

Since the 1980s, the health of the mortgage market has been a key driver behind increased protection sales. But the last five years has taught us that we need not to rely on the mortgage market for protection sales and 2013 has taught us that a rising mortgage market can still result in fewer protection insurance sales.

Before we move off the subject of individual sales, it is interesting to compare ABI data (which we use) with the excellent Swiss Re Term & Health Watch report, the latest version of which was published in May.

Swiss Re reported more positive figures overall, with key findings including:

- Term sales up by 5.2%
- New term sums insured up by 7.3%.
- Whole life sales virtually static.
- Critical illness sales up 4.4%
- Income protection sales up 6.7%.

We have no reason to doubt either data set and know that both organisations go to a great deal of trouble to ensure their data is accurate. We remain puzzled as to how both organisations not only come up with different figures but report different trends too.

Group lives

This year we have included data from 2005 to 2014 showing the total number of lives covered by the three long term group risk products:

- Life
- Income protection
- Critical illness cover

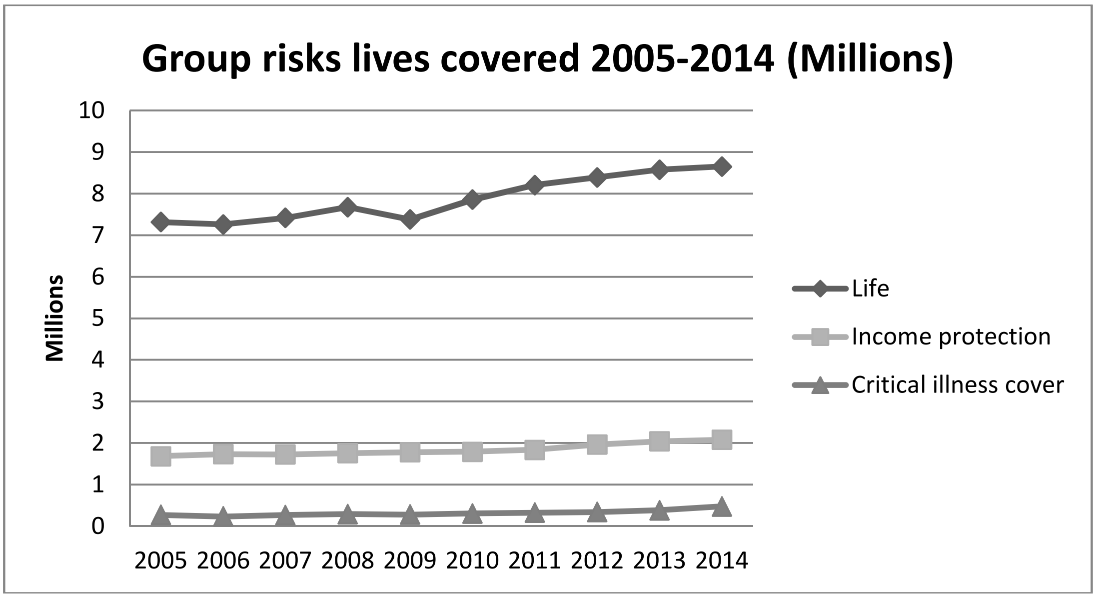
The group risk market is different from the individual market in many ways. In the individual market, the main metrics have been new policies sold and new annualised premiums. Data does exist on total in-force business but we are not convinced how accurate that data is, so we have not included it.

In the group risk space, the ABI does collect new business data but we feel that it is more useful to record in-force business, so the number of lives covered is set out in Table 7 below. The numbers come from Swiss Re's *Group Watch 2015 report*, which was published in April 2015:

Table 7. Group risks lives covered 2005-2014. Millions

Product	Life	Income protection	Critical illness
2005	7.318	1.684	0.270
2006	7.258	1.731	0.230
2007	7.417	1.724	0.264
2008	7.674	1.757	0.289
2009	7.379	1.777	0.277
2010	7.858	1.792	0.306
2011	8.205	1.836	0.326
2012	8.390	1.964	0.339
2013	8.574	2.039	0.383
2014	8.652	2.078	0.475

Source: Swiss Re Group Watch 2015

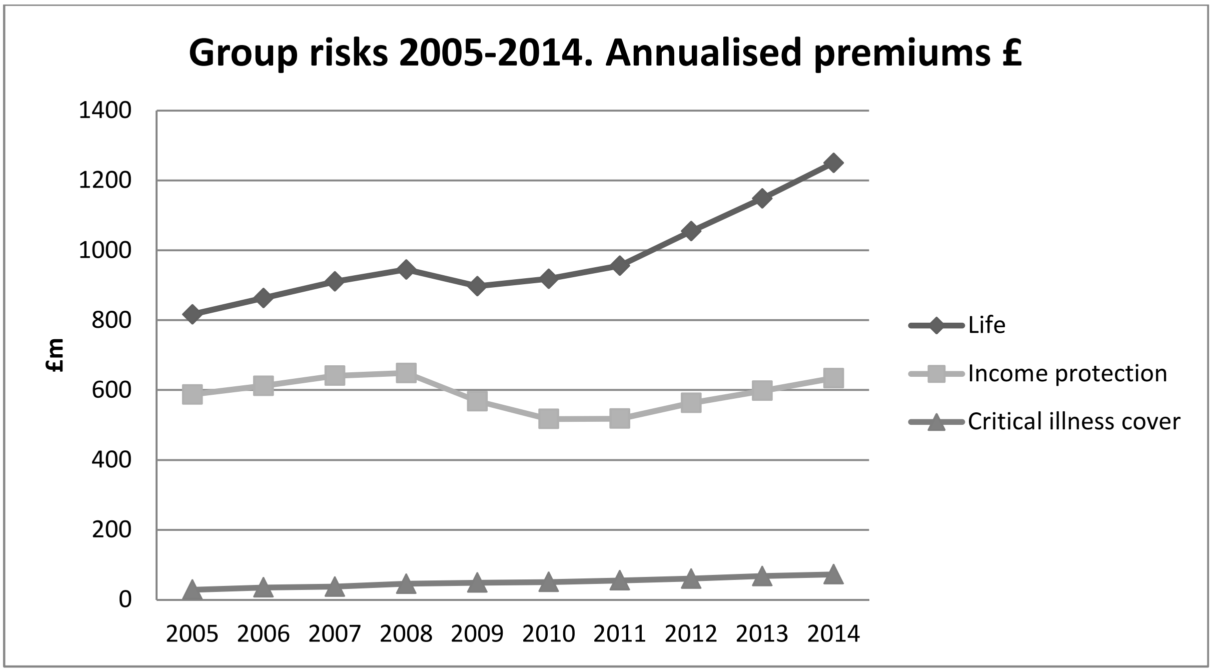


As last year, Swiss Re's figures show the number of lives insured rose on all three product types in 2013. Looking now at in-force annualised premiums:

Table 8. Group risks 2005-2014. Annualised premiums £millions

Product	Life	Income protection	Critical illness
2005	816.9	587.4	28.2
2006	863.4	612.0	34.8
2007	910.8	641.0	37.2
2008	945.2	648.9	45.4
2009	897.3	568.0	48.4
2010	918.6	517.4	50.3
2011	956.1	518.0	55.0
2012	1054.6	563.2	59.8
2013	1148.5	598.1	67.4
2014	1250.4	634.2	72.6

Source: Swiss Re Group Watch 2015



Swiss Re's authors (Ron Wheatcroft and Keith Williams) note that, since 2010, the number of people insured under group risk schemes has grown by almost 1.25m. Lest we get too carried away though, we should remember that the UK workforce is now over 30m and whilst roughly 6m are in the public sector and over 4m are self-employed, millions of employees still have no group risk cover at all. Our thanks to Swiss Re for this information.

Protection Review short term health and protection sales indices

Short term sales stats are less comprehensive and slower emerging than long term stats, so this year we are again focusing on the PMI (private medical insurance) market. Again using ABI stats, the market saw revenues fall by 1% in 2013 in terms of gross earned premiums, with subscriber numbers and the number of people covered also falling.

Table 9. PMI subscribers 2000-2014. 000s

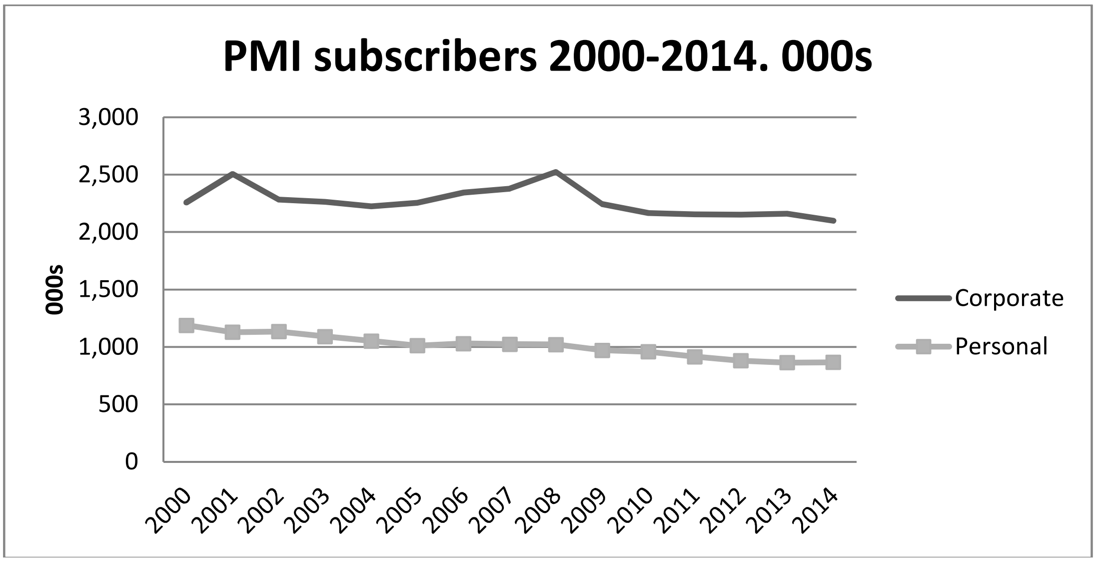
Year	Corporate	Personal	Total
2000	2,258	1,188	3,447
2001	2,506	1,129	3,635
2002	2,282	1,134	3,416
2003	2,264	1,091	3,355
2004	2,223	1,052	3,274
2005	2,254	1,012	3,266
2006	2,345	1,030	3,376
2007	2,377	1,024	3,401
2008	2,522	1,021	3,543
2009	2,243	971	3,213
2010	2,164	958	3,123

2011	2,154	916	3,067
2012	2,152	880	3,032
2013	2,161	864	3,025
2014	2,098	866	2,964

Table 9 illustrates both the gradual and continuing decline of the personal PMI market, which continues to fall away from the one million plus subscribers we last saw in 2008.

ABI data shows that in terms of the number of people covered, in 2014 that was:

Corporate PMI	3,757,000
Personal PMI	1,364,000
Total	5,121,000



2014 figures also show that corporate plans have 1.79 lives per subscriber, while personal plans have 1.57, compared to 1.94 and 1.70 respectively in 2000. The decline in lives per subscriber is due to a combination of factors including an ageing personal cohort and a move by some employers away from automatically covering employees' families too.

Many larger firms now provide PMI style cover not through an insurance policy but through the use of healthcare or health or medical trusts or funds. These contain little or no insured element so do not attract Insurance Premium Tax (IPT – currently 6%), other than on any stop loss premium.

IPT rose from 5% to 6% back in January 2011, so trusts have eaten into the traditional corporate paid PMI market, especially as trusts are now available to smaller groups (traditionally, schemes often had to be around 1-3,000 or more employees in order to offset fixed set up and other costs).

However, there is now an alternative in that employers can choose to have all the security of a formal insurance policy but include a large corporate deductible. WPA and some others now offer arrangements whereby an employer effectively works out a minimum level of claims it expects to pay in any year and has that or a proportion of it as a deductible. The rest it insures and it pays the insurer an additional sum to cover the admin work on the deductible. If the net result sees the firm's annual premium reduce from say £1m to half that, the saving would be 6% (IPT) of £500,000 or £30,000. It's not tax dodging as it's the same in theory as anyone electing to have an excess on their policy or otherwise self insuring any element of their cover (and we're talking all types of insurance here, including motor and household).

Big firms especially may prefer to have an insurance scheme for their employees rather than an in-house scheme. It may be easier to 'blame' a faceless insurer if a claim has to be turned down than for the employer to be turned down by their employer. It's still too early to judge whether this will result in corporate PMI becoming more popular relative to trusts, but the ABI's latest data suggests that might now be starting to happen.

Table 10 shows the combined number of subscribers between corporate PMI and trusts (using estimates of 2000 and 2001 trust business):

Table 10. Corporate PMI and healthcare trust subscribers 2002-2014

Year	**Corporate PMI**	**Healthcare trusts**	**Total**
2000	2,258	***300***	2,558
2001	2,506	***360***	2,866
2002	2,282	404	2,686
2003	2,264	444	2,708
2004	2,223	510	2,733
2005	2,254	538	2,792
2006	2,345	585	2,930
2007	2,377	623	3,000
2008	2,522	622	3,144
2009	2,243	615	2,858
2010	2,164	635	2,799
2011	2,151	637	2,788
2012	2,152	698	2,850
2013	2,161	718	2,879
2014	2,098	707	2,805

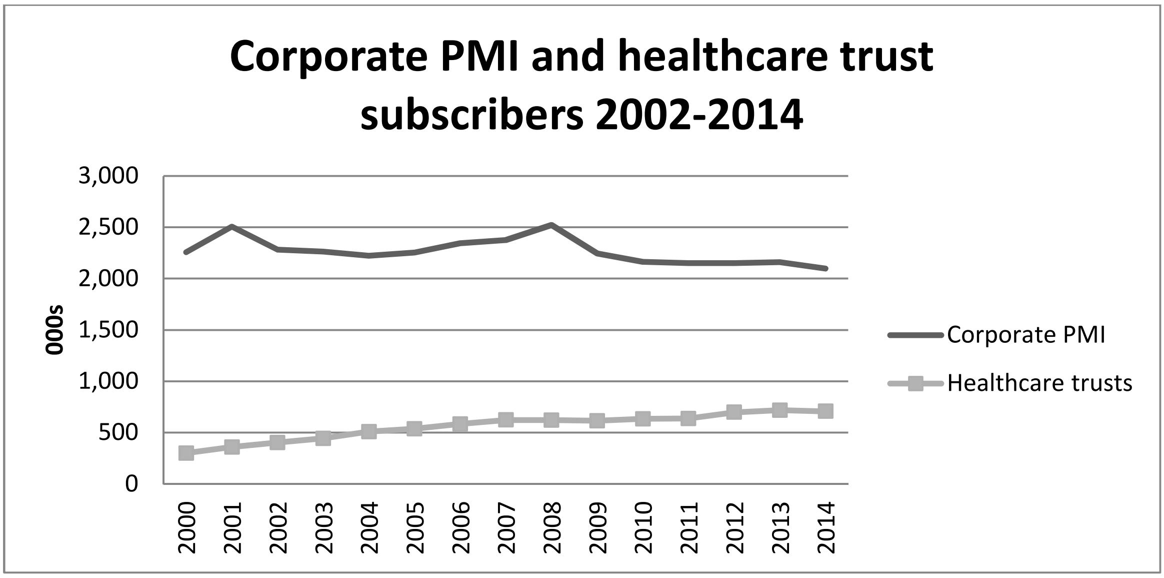


Table 10 shows how the total corporate market (PMI + trusts) effectively grew from 2.7m subscribers in 2000 to peak at over 3.1m in 2008, before falling back to now just 2.8m. That's a fall of almost 340,000, which is not insignificant. In the table and chart we have also shown the size of the healthcare trust market in 2000 and 2001 (shown in bold italics). These two figures are our estimates, so should be treated with caution.

ABI data shows that in 2014 some 1,230,000 lives (down from 1,254,000 lives in 2013) were covered by healthcare trusts, giving an average of 1.74 lives per subscriber, about the same as the corporate PMI figure.

Table 11 shows gross earned premiums and claims incurred since 2000. These data exclude healthcare trusts.

Table 11. PMI gross earned premiums and claims incurred 2000-2014. £m

Year	Corporate premiums	Personal premiums	Total premiums	Claims	U/W loss ratio
2000	1,130	1,096	2,226	1,777	79.8%
2001	1,253	1,256	2,509	1,946	77.6%
2002	1,341	1,369	2,710	2,065	76.2%
2003	1,394	1,422	2,815	2,203	78.3%
2004	1,433	1,422	2,855	2,200	77.1%
2005	1,495	1,450	2,945	2,267	77.0%
2006	1,561	1,509	3,071	2,376	77.4%
2007	1,696	1,545	3,241	2,501	77.2%
2008	1,831	1,637	3,468	2,653	76.5%
2009	1,838	1,606	3,444	2,679	77.8%
2010	1,982	1,632	3,614	2,858	79.1%
2011	1,929	1,619	3,548	2,727	76.9%
2012	2,010	1,615	3,626	2,770	76.4%
2013	1,982	1,615	3,597	2,674	74.4%
2014	2,004	1,667	3,672	2,714	73.9%

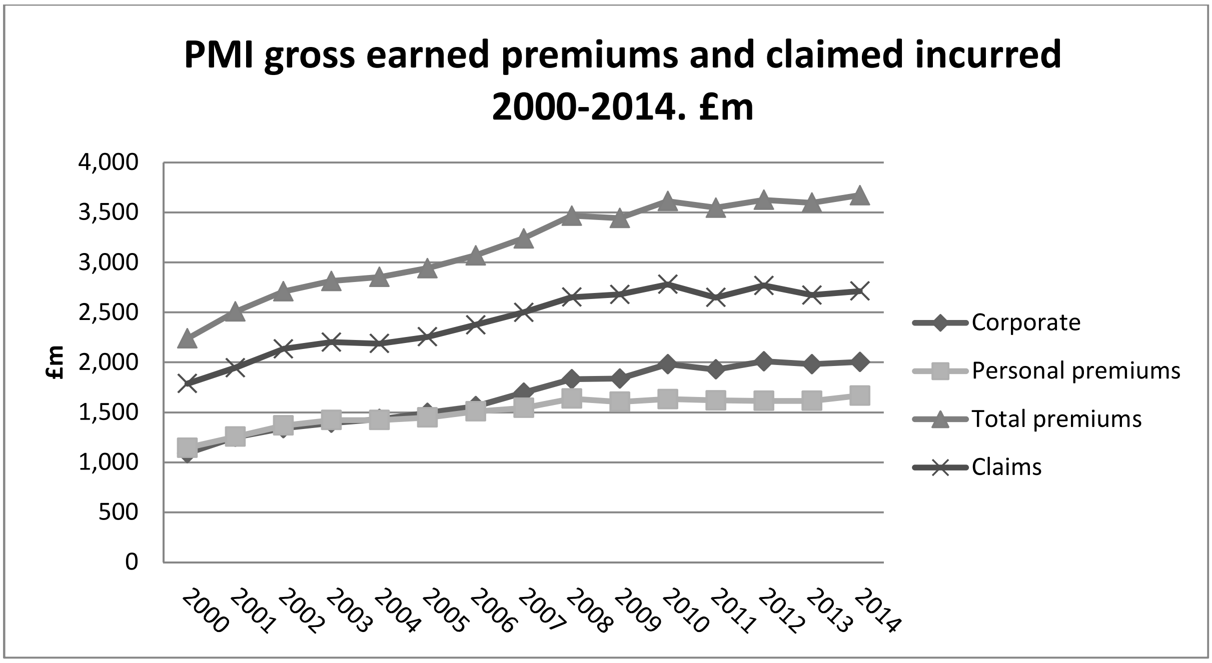


Table 11 also includes our calculation of the underwriting loss ratio in each year. This shows loss ratios in the period reviewed peaked in 2000 at 79.8%, then fell to 76.2% in 2002 before rising again). Since then they have improved again (remember, the lower the underwriting ratio, the higher the 'profit', which sounds counter-intuitive!) and 2014's figure of 73.9% is both a further improvement for insurers and the lowest since 2000. Note that underwriting loss ratios do not mirror underlying profitability as they ignore all the other costs insurers have to meet, including intermediary commissions and providing the growing number of extra services that can be so valuable to employer and employee alike.

The table below shows some of the above data expressed as an index. As with our long term indices, our PMI indices are based on the number of policies (subscribers) in 2014, compared to the number in 2000 (creating a base of 100 in each category that year). The 2014 Protection Review PMI sales indices are (with 2013's indices in brackets):

Corporate PMI	92.9 (95.7)
Healthcare trusts	235.7 (239.3)
Personal PMI	72.9 (72.7)

Base (all indices): 100.0 in 2000

Again using ABI data, we can also calculate average premiums per subscriber. These show average premiums of £955 (£917 in 2013) for corporate PMI and (£1,925) for personal PMI. So, it now costs almost £1,000 per employee per year on average and £2,000 per policy per year for personal subscribers. The ABI does not record the costs for healthcare trusts, but we can assume that the average cost per subscriber or employee is likely to be around or more likely just below that for corporate PMI. Those figures are much higher than the average annual premiums life insurers are working on and illustrate the cost issue that PMIs face. It can't be long before both markets go over a £000 threshold. Will that be important? Probably not (it's the actual price you pay not the average that is important to customers), but it does illustrate why PMIs are now looking at cutting costs wherever and however they can as a matter of some urgency.

The big difference between corporate and personal PMI average premiums is partly due to different types of cover but the main reasons will be that personal customers are typically older (many being people who have retired and so come out of a corporate healthcare scheme) and because of employers' greater buying power/economies of scale.

The ABI also recorded health cash plan gross written premiums and these are shown in the table below, starting from 2005:

Table 12. HCP gross earned premiums 2005-2012. £m

Year	**Gross written premiums**
2005	151
2006	135
2007	197
2008	104
2009	120
2010	185
2011	147
2012	132

We have not seen any data after 2012, but would expect GWPs to now be rising. Certainly, subscriber and number of people covered figures should be rising, largely on the back of higher company paid sales. However, the HCP market is a competitive sector for corporates, so margins are tight, while individual subscribers have not (yet) seen the value of having an HCP as ‘NHS insurance’.

Some of the numbers look a little flaky, but they give some indication of the issues facing HCP providers. If correct, they show a concerning fall in premium income since 2010 – one reason why many of the biggest players are now more diversified than they were a few years ago.

Payment Protection Insurance

The payment protection insurance (PPI) market still exists – despite all the misspelling scandals of recent years, but is a shadow of its former self. Indeed, ABI data shows that at the end of 2014 the market exposure (number of policy years) was just a quarter of what it was in 2009:

Year	Exposure (policy years)
2009	17,422,422
2010	12,801,623
2011	9.523,745
2012	7,276,287
2013	6,500,923
2014	4,418,150

In terms of gross earned premiums, these have fallen from £2.245bn in 2009 to £396m in 2014.

The number of claims made has also fallen dramatically too, from 434,207 in 2009 to just 51,517 in 2014.

Partly, the demise of PPI is both inevitable and welcomed. The product was sold badly, often to people who could not benefit from it or who were not told the truth about it. A lot of this was because lenders sold it at far too high a price – necessary to pay the almost obscene levels of commission they were earning. In some cases, more than 80p in every £1 of premium went to the lender in some way (and 6p went to the Government in the form of Insurance Premium Tax).

But there is a counter PPI argument – even if it is not politically correct to mention it. That is that PPI:

- Gave good levels of protection to millions of people.
- Paid out claims to millions of people – at the market peak over 100,000 mortgage PPI claims were paid a year.
- Was easy to understand and to buy.
- Was equitable in that often everyone paid the same premium rate.
- Lenders’ commissions and other payments allowed them to offer cheaper loans. In some cases, more than 100% of some banks’ profits came from PPI earnings alone. Without that lending interest rates may have to have been higher – for everyone.

We do not condone PPI misselling – far from it, and were critical of elements of the PPI market years before it became fashionable to do so. But we lament its demise in one way. That is that too few people have adequate protection insurance to help them if they can no longer afford a loan or a mortgage due to illness or disability. Long term income protection insurance is one way to make up this huge deficit – but IP sales remain in the doldrums and indeed, it can even be argued that IP has suffered by sounding too similar to PPI. The two should not be confused, and we hope that the various initiatives now growing in the market will lead to a reverse of IP’s fortunes over recent years.

Conclusions

Last year was a year of mixed fortunes. The group risk market was a clear success story – across all there markets, each in its different way.

In the individual long term market, ABI data suggests it was a poor year pretty much all round – yet Swiss Re data suggests a rather different picture.

The PMI sector looks to have had a tough year too, although the HCP sector is, anecdotally, more bullish than it has been for some time.

What will 2015 bring? We are already over half way through the year yet it does not look to be a great year thus far. Despite that, we hear more optimism than pessimism in many quarters. Partly, that reflects a number of more positive factors combining to raise interest in life and health insurance:

- The Seven Families initiative is turning more advisers on to IP.
- More industry training (and here we play a part through our very well-regarded generic training programmes that continue to get rave reviews) is turning more advisers onto protection insurance and help them with the practicalities of being successful in this market.
- Advisers such as Pink are now requiring all their advisers to raise the issue of IP with mortgage customers.
- The large networks and smaller intermediary firms alike look to be promoting protection insurance more than they have done for some years.
- A stronger economy.
- Pensions auto-enrolment is helping raise interest in group risks.
- The mortgage market is growing again at a reasonable pace.
- Products are generally becoming more user-friendly.
- The issue of over-underwriting that we have commented on in the past is now rising up the agenda. Insurers are asking whether gathering so much data is helping or actually putting off customers from buying and advisers from advising.
- Politically, we now have a majority Government again, which should help people and businesses plan with more certainty.
- More State austerity means it is more important than ever for people to consider whether they need life and health insurance.
- The NHS has clear and growing financial issues. This should have a positive effect on PMI, HCPs and dental insurance.
- Consolidators are establishing themselves more as an alternative distribution channel.

We could go on. Suffice to say, we do not expect 2015 to be a golden year, but we do believe the climate overall is improving. That should help 2015 to be a better year than 2014 but it should more help 2016 to be a better year than the few years preceding it.

This time next year, we'll know more. Hopefully.