Q3 new business stats 2015

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Evidence on how well long term new business went in 2015 has been mixed. Some have pointed to a growth in D2C business, and non-advised business generally looks to be on the up. However, adviser business has largely been flat.

As we have done since we started (is it really as long ago as 2003?), we analyse the data produced by the ABI (Association of British Insurers) and, as always, we add the caveat that no data set is perfect. The ABI does a good job with its stats, but it is reliant on the information it gets from its members and, of course, not every insurer is an ABI member anyway (although the vast majority are). That said, using the same source each year does give us the opportunity to (arguably) better spot trends.

In this quarter's Big Read we have changed the format compared to most of our previous analyses and are looking at how well each product has done over the first three quarters of 2015. The final year results (the latest stats only go to the end of the third quarter) will be looked at in a subsequent quarter. Do let us know if you find this format better (or worse!); our aim, as with all our analyses, is to provide information and comment that is most helpful and of practical value to you.

For each main product type we show:

- Policies sold that quarter, in thousands.
- Policies sold in the same quarter of 2014 (in brackets and for simplicity we just look at sales rather than APE – annual premium equivalent - to get an indication of activity).
- New annualised premium income that quarter in £m.
- The total number of policies sold in 2014 (full year).

Whole life

Quarter 2015	**Sales 000s**	**APE £m**
1	86 (88)	29
2	80 (71)	28
3	80 (75)	28
2014 year total	321	

Whole life sales (WL) are generally up on 2014 but not massively so. WL now has the new later life plans (from Vitality, AIG and Zurich so far) so that should help sales overall. In general too, it is useful to look at both WL and term sales to ascertain any significant trends.

Of which, guaranteed acceptance WL

Quarter	**Sales**	**APE**
1	72 (70)	15
2	65 (53)	13
3	66 (61)	13
2014 year total	256	

The guaranteed acceptance market is driven both by underlying demand and also by insurers' marketing budgets. The sector fell last year, but looks to be bouncing back reasonably well.

Term non-mortgage

Quarter	Sales	APE
1	209 (214)	72
2	209 (205)	70
3	202 (214)	67
2014 year total	850	

The stats show generally flat sales, both between quarters and relative to last year. Term is the simplest and cheapest protection insurance product and so is a good barometer product for the state of the long term protection insurance market generally. Non-advised sales now make up around one in five term sales and are generally, and slowly, increasing.

Term mortgage

Quarter	Sales	APE
1	103 (136)	43
2	116 (135)	46
3	127 (141)	50
2014 year total	549	

We know that the mortgage market in 2015 was stronger than it was in 2014: This is what CML economist Mohammad Jamei said on 17 December: "Lending is set to finish the year stronger than it started, with the pace of lending recovering over the summer months. As we've said for the best part of 2015, lending continues to be supported by strong fundamentals, which are low inflation, strong wage growth, an improving labour market and competitive mortgage deals.

Reflecting this recovery, we estimate lending this year to reach £214 billion, up from our earlier estimate of £209 billion. Looking ahead, upside potential appears limited as a result of affordability pressures and new supply challenges which will continue to weigh on activity."

For comparison, gross mortgage lending in 2014 was £203 billion. Based on that, term mortgage sales should be up by around 5% compared to 2014 but have actually fallen. Why? Three letters – MMR. The FCA's Mortgage Market Review made lending tougher and meant that mortgage advisers now have to spend much longer selling mortgages than they did before. The main MMR changes came into effect in April 2014 but their full effects are probably only now being felt.

The result has been less time to spend on advising on protection needs – at just the time when most people's protection needs take a sharp turn upwards. There are some great exceptions to this general observation – some advisers and lenders are taking the time to talk protection. Their clients are therefore taking out the protection they need but, too many advisers and lenders are simply avoiding talking about protection.

In terms of the wider societal issues, it's wrong, it's short-sighted and it needs to change. The question is both how best to change it and who should lead that initiative.

Relevant life

Quarter	Sales	APE
1	2 (2)	2
2	2 (2)	2
3	2 (2)	1
2014 year total	7	

Relevant life sales are a puzzle. The market is flat and small. If the ABI's stats are correct (and I have no evidence to suggest otherwise) it remains a puzzle as to why more people simply don't look to buy term insurance with tax relief, as part of their pension planning. Is that a tax dodge? If it is, it's one that HMRC employees also effectively benefit from (they get life cover as part of their pension benefits), so it can't be…

OK, relevant life plans are more complex, more restrictive and have some element of danger to them compared to traditional 'life' products, but most of the big insurers offer them, they are well-established and the technical complexities are not that difficult. I remain puzzled…

Business protection

Quarter	Sales	APE
1	4 (3)	4
2	5 (4)	5
3	5 (3)	5
2014 year total	14	

The numbers are small, so it is easy to read too much into the increases shown compared to 2014, but nevertheless, the trend is upwards and positive. If that assertion is correct, it suggests that those insurers who specialise in this type of business are getting their messages across better than has happened in previous years. It's also further evidence of a strong and growing economy.

It will be interesting to see how far the trend continues. Potentially, the market could get significantly bigger and, as more advisers become more familiar with business protection, so that should create a spiralling upward effect.

Income protection

Quarter	Sales	APE
1	25 (26)	10
2	29 (28)	11
3	28 (29)	11
2014 year total	110	

Once again the individual IP sector remains flat. However, there's a puzzle here too, because anecdotal evidence (can you have evidence that's anecdotal?) suggests that the market is picking up. Certainly the Seven Families campaign is having a positive effect in creating greater interest in a product that, despite being developed back in Victorian times, is still very much fit for purpose and, thanks to greater use of rehabilitation and third party services (as 7F is also ably demonstrating) is actually becoming even fitter.

One possibility is that the IP pipeline is still rather restrictive and the full effects of greater awareness and activity have not yet been fully seen.

Standalone CI

Quarter	Sales	APE
1	3 (6)	2
2	4 (6)	2
3	5 (6)	2
2014 year total	22	

Most people who buy critical illness (CI) cover buy it with term (usually) insurance added to it, so we can largely ignore standalone plans, except to say that most people don't want the standalone version. Why not? Mainly because if you die too soon after diagnosis of a claimable critical illness, your estate gets nothing. At least with term insurance, the estate benefits from the death sum insured and it 'sounds' like a better deal overall.

CI rider

Quarter	Sales	APE
1	108	59
2	108	58
3	114	60
2014 year total	510	

The ABI records CI rider or accelerated benefit plans in a different way but, for comparison, overall CI rider sales in 2014 were 510,000 policies sold, so it is clear that unless something pretty special happened in the final quarter of 2015, the year will be down on 2014, and by quite a margin.

Why? After all, the general trend on CI policies has been to add more conditions and to widen definitions (ABI+ being the generic for any definition that is better than the industry standard) for little or no change in the premium. Moreover, a new ABI Statement of Best Practice (SoBP) is now up and running, and claims payouts have never been higher (in percentage of claims paid and sums paid out), so consumers should have more trust in the product.

But… we have long suggested that the CI model itself is deficient or at least could be improved. The essential issue is perceived complexity. Organisations such as CI Expert do a great job in helping advisers and their clients understand the coverage included in policies and how they compare to each other. But I defy anyone to explain in simple terms exactly what a typical CI product covers. Here's how a discussion on typical CI cover might go… 'So, does it cover all critical illnesses?' 'No.' 'So what does it cover?' 'It covers the vast majority of critical illnesses and those it doesn't cover are only suffered by a very tiny minority of people anyway.' 'Yes, but what if that's me?' 'Ah well, if you're lucky enough to become terminally ill or permanently and totally disabled then you'd be covered by the policy under one of those headings – as long as you meet their very specific definitions.' 'So what percentage of all CIs would I not be covered for?' 'I don't know – the insurance companies don't tell us that.' 'But it's a very small percentage?' 'Probably, yes, almost certainly – I think.' 'So can I buy top-up insurance to cover that very tiny percentage of conditions I'm not covered for?' 'No.' 'Isn't it a bit like asking me to buy motor insurance that covers accidents on every road apart from roads that use a certain type of road covering and then not telling me which roads those are?' 'You might think that, I couldn't possibly comment…'

OK, that's not being entirely fair. But it does illustrate how we're close on CI but not quite there yet. It's now more than 30 years since the industry first developed mass market CI policies (and I'm proud to have been a pioneer of that process back in the 80s) but maybe it's time to try harder to provide a more complete, yet simpler answer to the question 'So what am I covered for?'.

One simple option (on paper) option would be to have a catch-all definition for 'other' critical illnesses. This would work along similar lines to many other insurance covers in that the definition would not be on diagnosis of a specific condition (as we have currently with most critical illnesses) but would pay out if the effects of any condition met particular criteria. We apply a similar test on TPD and terminal illness benefits under CI plans already so this move would not go against the ethos of what CI is all about.

What would the test be? We could certainly come up with suggestions, but maybe the insurance and medical professions need to sit down and thrash out a possible solution. Alternatively, perhaps an organisation such as the ABI could commission research into wat would be suitable.

My fear going forward is that as CI policies get ever more complex, so consumers will increasingly switch off from the benefits of CI. Moreover, if we can make a catch all work (interestingly, this was part of the thinking behind adding TPD to policies back in the 80s but, in retrospect, we didn't go far enough) then we can claim that CI policies are just that rather than policies that cover most, but certainly not all, critical illnesses.

The rest of 2015 and into 2016

It's fair to say that 2015 does not look to have been a classic year for protection insurance. That is despite record employment levels, a strong and growing economy, falling State benefits and even a stronger mortgage market. Indications from the group market indicate record levels of business, so at least that market recognises the realities and is doing something about it. The growth of non-advised and D2C business is growing too but the diminished size of the IFA workforce in recent years and that sector's over focus on wealth management rather than creation or protection remains a worry (see elsewhere in Big Read for the IPTF's views on the advice gap).

Is protection insurance still actually needed? Of course, and that need is huge and growing. But we've not yet optimised how we 'sell' the need for protection to people. But the indicators are more positive than they have been in recent years: Seven Families has shown how the image of the industry can be transformed and give us as well as our publics a feelgood factor about what we do. Those advisers who specialise in protection advice or make it a key part of their business know that that makes good business sense too.

On the product design front, as our reviews regularly show, insurers are being more innovative and, of course, innovation is much more than just products and features. Underwriting is undergoing massive change, processing is getting better and more joined up and information is developing too.

2015 can probably be written off as a transitional year. What's important now is how the industry goes forward. Are we optimistic? Yes, but that's not to say the path going forward is easy or even particularly clear. But some of the fundamentals are now looking much more positive – the key is how individual decision makers decide what to do. The safe option has too often ruled too many in the past. Perhaps the time is ripe for more innovative solutions and pushing harder on those solutions we already have.