The Syndicate 2016

Synopsis

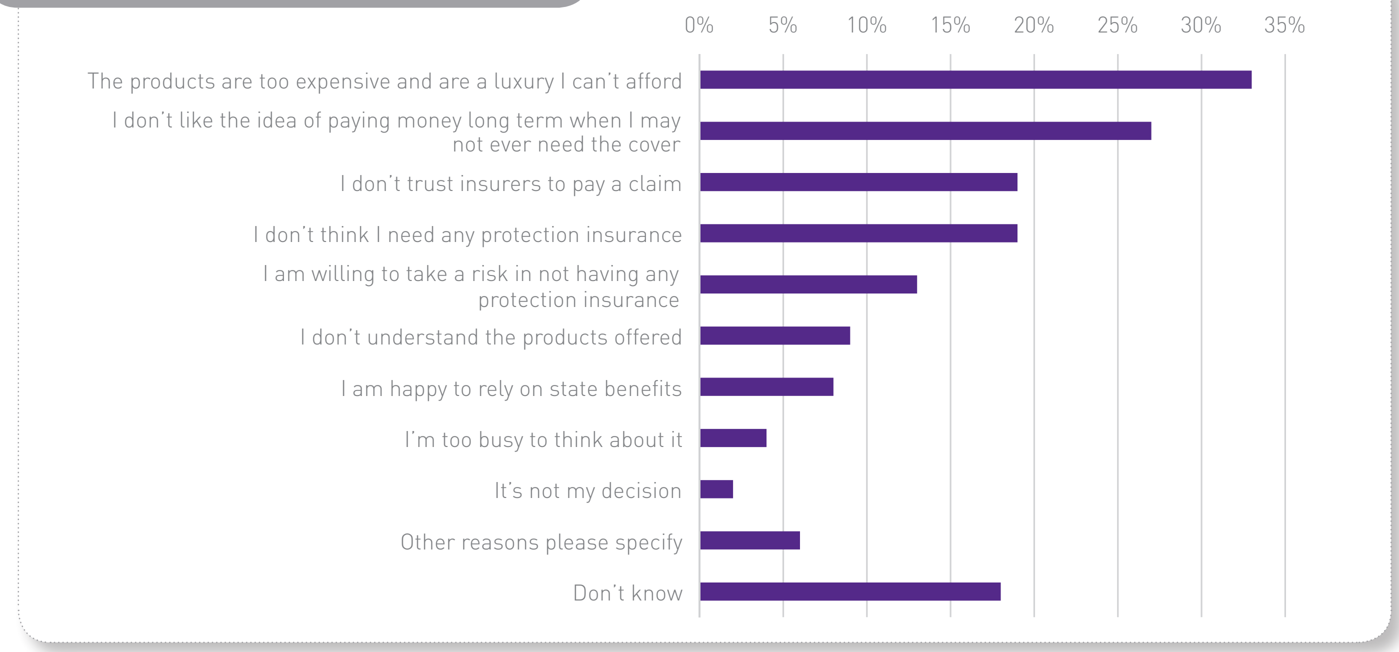
Each year The Syndicate seeks to explore the consumer mindset with regard to protection insurance and establish why people hold the views they do in order to determine the best way for the industry to respond. This year we picked up on several of the themes from our previous research alongside some new topics. We began with the all too familiar question of why people don't buy protection insurance.

The Syndicate

Protection: reasons people don't buy

We asked our sample the reasons behind their decision not to buy protection.

What are the reasons behind your decision not to buy protection insurance?



GRAPH 1

The most likely answer was that people regarded insurance as an expensive luxury they can't afford. Previous research by The Syndicate has touched on price perceptions and how inaccurate they are and so it is worrying that people are making a decision based on what may be inaccurate information. The second most popular answer sheds more light on why it is not regarded as essential: 27% of people said they didn't want to pay money into something that may not be needed.

It is important insurers highlight the value of their products given that this value is not realised until the point of claim, which is ultimately the point that everyone is trying to avoid.

These findings were further reinforced when 19% of our sample suggested they didn't need protection, discounting the risks they face and preferring to believe it won't happen to them, a phenomena that we called the "casino mentality" in previous research.

The issue of trust was raised again, when 19% of people suggested they didn't buy insurance because they didn't trust the insurer to pay out if they needed to claim. As the 2015 research from The Syndicate suggested, although the industry is making efforts to publish claim statistics, the message is not getting through to the end user, the consumer.

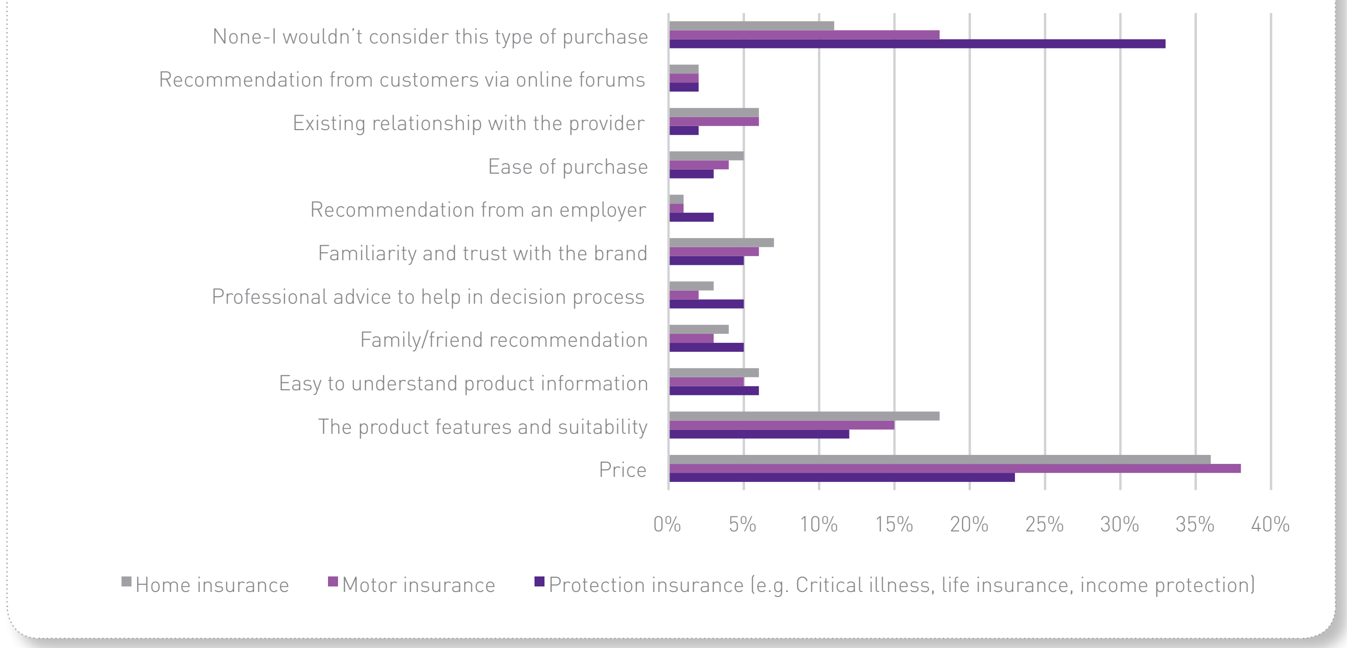
Decision to lapse

When we asked why people had decided to let their policies lapse we found that the value of protection is not being adequately conveyed to those who hold it and price was the most likely reason given for lapsing. Products feel expensive, particularly if none of the benefits are realised. Protection insurance is often considered a grudge purchase but these results suggest that the grudge feelings continue long after purchase.

Protection insurance: why people do buy

We next looked to discover what was important to those who did decide to buy protection. We asked which factor from a list was the most important to our respondents. We drew comparisons with home and motor insurance at the same time to see how protection insurance measured up.

Which one of the following factors is/would be most important to you when deciding to buy the following types of insurance products?



GRAPH 2

Price was an important factor for all types of insurance and was the number one factor for both home and motor insurance. What is disappointing is the standout first choice answer for protection insurance was *"I wouldn't consider this type of purchase"*. The reasons for buying these types of insurance are very different to a legal requirement for motor insurance and an obvious tangible benefit for home insurance but, despite this, the resistance to buying protection is alarming.

Compared to protection insurance, half as many people said they wouldn't purchase motor insurance and only 11% said the same for home insurance. Excluding those who say they wouldn't buy protection insurance, we see that price is the main driver for all three types of insurance, with product features and suitability also playing an important role. Given these results, it is hard to argue that insurance is a financial priority for many. This could be both an indication of public sentiment and a reflection of the effort the industry puts into promoting protection in comparison to other types of cover.

Communication

The results of the research this year suggest that as well as being a grudge purchase, the intangibility of protection cover means it is often forgotten about once purchased. Communication is one way to remind policyholders of what they have bought. We asked current policyholders *"Have you been contacted in the past two years by the company(ies) that provide (s) your protection insurance? i.e. either by post, email, or telephone?"*.

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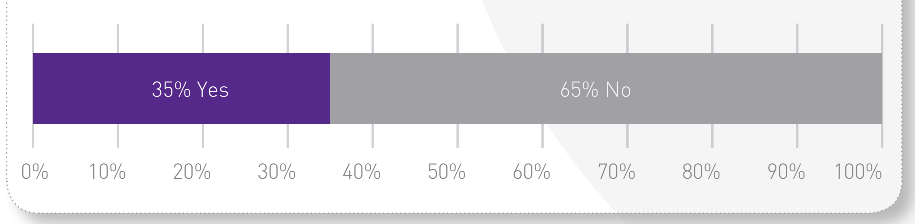


GRAPH 3

The majority had not been contacted by their insurer but when we probed further, the result became even more intriguing: 77% of those who hadn't heard from their insurer were happy not to have been contacted. The message here is clear: customers are happy to forget their purchase. This is a unique position when compared to other household purchases and is a real challenge for insurers. 41% of our youngest age cohort said they would like to have heard from their insurer, preferably by email, and it is encouraging to see signs that this trend may be reversing in the long term.

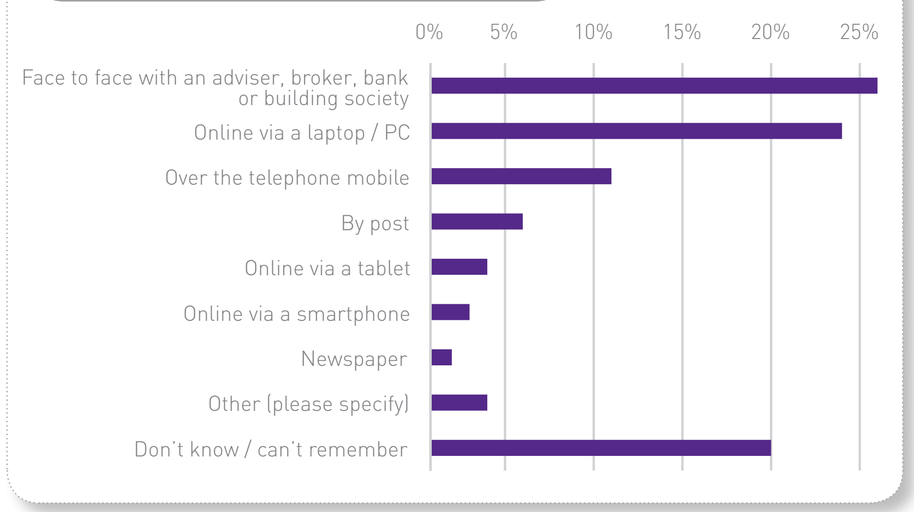
Financial mindset

59% of our sample said they liked to keep up to date with financial matters but, taken in the context of other answers, it was not certain this included insurance. The 40% of people who are indifferent to financial matters is a real concern in terms of how to reach them with messages about their potential financial vulnerability.

Channel preference

We asked about the process of researching protection products, obtaining a quote and purchasing a policy to ascertain which methods people had a preference for. The majority of people couldn't remember how they had researched their protection cover, and significant proportions of people had also forgotten where they had bought it from, but the next most popular answer was aggregators, followed by IFAs. The popularity of aggregators is a concern in terms of it suggesting a focus on price, but it is perhaps not as concerning as those customers who couldn't recall researching their cover, as this has implications for how involved with their cover they are post purchase, which in turn suggests they don't necessarily value what they have bought.

How did you purchase the insurance?



GRAPH 4

Our sample group were most likely to have purchased protection products directly from an insurer. When we asked about how the insurance was purchased, the two most popular answers were *"Face to face with an adviser, broker, bank or building society"*, closely followed by *"Online via a laptop or PC"*. Given the apparent propensity of consumers to forget the details of their purchase, there is a clear need to consider how regular contact with policyholders might help them to keep their purchase front of mind and, as a result, emphasise the benefits of the cover held.

Application process: time is money?

We tested how much of an appetite our survey sample had for shortening the application process if there was a fee for doing so. We described an application process that took an average of 60 minutes and resulted in a monthly premium of £25. We suggested that the application process could be shortened so that it took either 15, 30 or 45 minutes for an additional fee of between £1 and £10 per month.

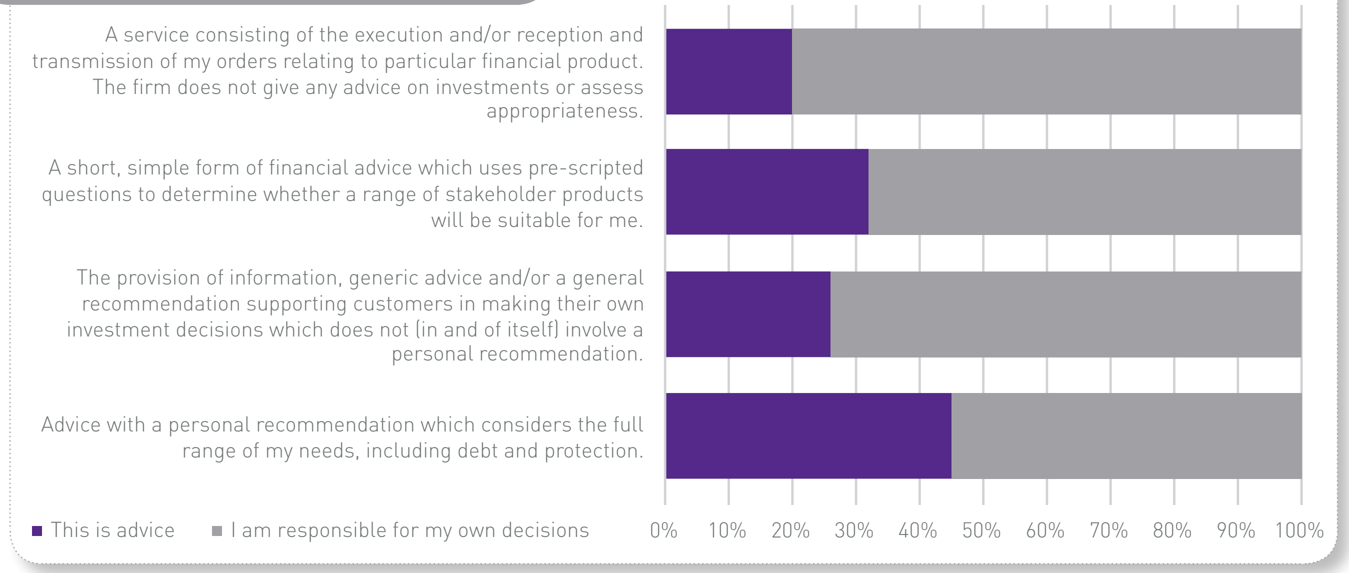
Total application time	% preferring not to pay extra for a reduction in application time	% happy to pay £1 more /month
15 minutes	77	13
30 minutes	78	13
45 minutes	81	10

We found that the smaller the reduction in the application process, the less likely people were to want to pay more for the reduction and the majority were happy with the status quo we had described. Current holders of protection products were more likely to be willing to pay to shorten the process, which suggests the process was not enjoyable when they went through it. The dilemma for insurers is that, as past research by The Syndicate has shown, a more involved sales process results in a policyholder who is more informed and aware of the benefits of what they have purchased.

Advice

We provided definitions based on the FCA four tier definition of advice, and asked respondents to suggest for each one whether this constituted financial advice or whether the individual would still be responsible for their own decision. The results are shown in graph 5.

Consumer perceptions of financial advice



GRAPH 5

For all four definitions, the majority of our sample suggested they weren't advice. The definition most likely to be considered advice was, *"Advice with a personal recommendation which considers the full range of my needs, including debt and protection."* Clearly, the presence of the word 'advice' here may have a bearing on the results but despite this, a slight majority were still not confident enough to classify this as advice.

All these findings clearly point to there being a lack of clear understanding as to what constitutes financial advice, both within the market (the existence of a four tier definition is testament to this fact), but also in the mind of the consumer.

Is advice necessary?

Overall, 42% of those we asked felt that advice was not a necessary part of the buying process. A further 26% felt they didn't know enough to answer. Only 32% suggested that advice was necessary. Later in the survey, 42% suggested that professional advice could ensure that they got the right level of insurance, which leaves 58% not convinced that advice yielded this benefit. This suggests the benefits of financial advice are not being adequately conveyed to the consumer. The degree of scepticism among respondents was worrying and suggests that many feel advisers have an agenda that does not serve their needs as a consumer.

In contrast to the lack of confidence shown in advisers and the value of advice, 44% of our sample suggested they were confident enough to purchase protection without seeking any form of advice.

19% of people disagreed with this, leaving 45% undecided and it has to be acknowledged that this may be in part because they wouldn't consider the purchase in the first place. This group represents the mass indifferent identified in past reports by The Syndicate, and one of the most challenging groups for the industry to deal with given their lack of interest in engaging with insurance.

Robo-advice and online advice

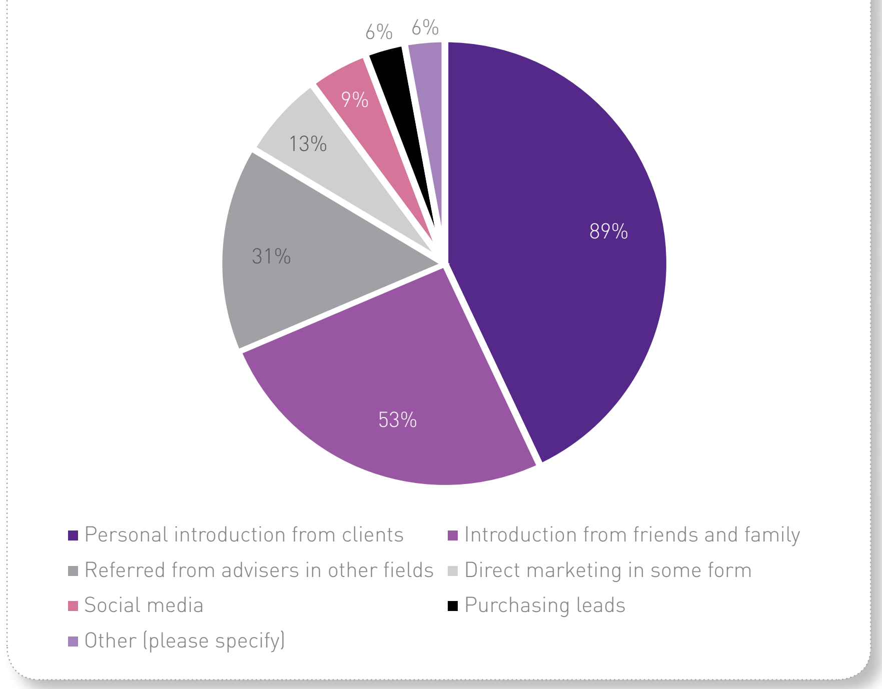
We asked whether people would be happy to use robo-advice. 55% said they would not be happy using robo-advice and when we asked whether people would trust it, only 25% of people agreed that they would. When we asked about trusting advice from a website, our sample were slightly more trusting, with 31% suggesting that they would. The proportions are still low though, with 45% undecided.

The view from advisers

For the first time this year we included adviser research as part of The Syndicate. We found that advisers were most likely to feel that the biggest service they provide clients is explaining their financial vulnerability to them and ensuring their needs are prioritised. The majority of our adviser panel felt that individual protection needs should be reviewed every three years. Business protection should be reviewed more frequently and on an annual basis according to the majority of our panel. Given the reluctance our survey group showed in relation to wanting any sort of contact with their insurance provider, it is clear to see the challenge that faces insurers and advisers in convincing clients of the merits of doing this.

Graph 6 shows the methods advisers use to source clients.

Which of the following methods do you use to source your clients?



GRAPH 6

The results show the importance of a personal introduction to an adviser from a client or by a friend or relative. This method has the added advantage of reducing the potential distrust of advisers that many of our sample expressed.

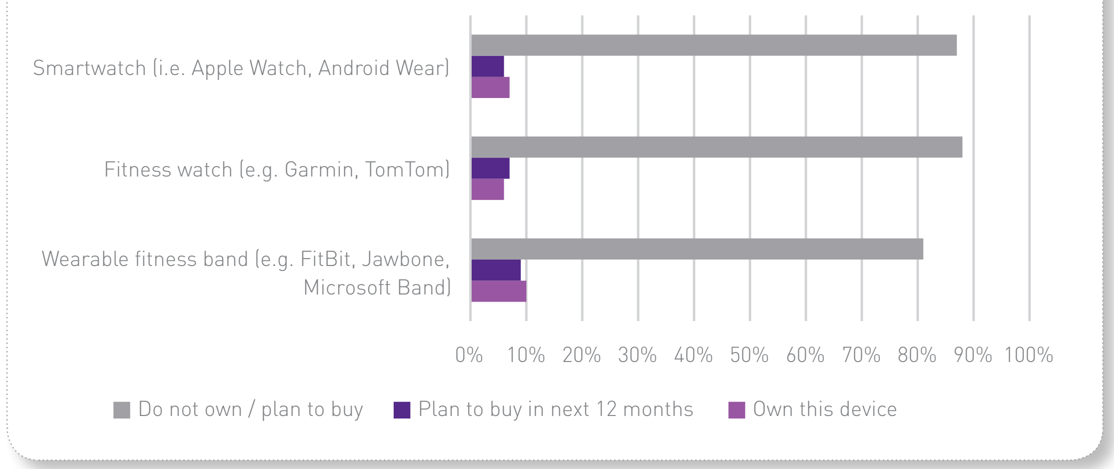
We presented a number of statements to our adviser panel and asked which one most closely resembled their opinion on commission structures.

Two thirds felt that levels were about right as they stand, with the second most popular answer, selected by 16% of advisers, suggesting there should be lower initial and higher renewal commissions.

Wearable technology

Graph 7 below demonstrates the ownership of a range of wearable devices among our sample group.

Do you currently own or plan to purchase in the next 12 months any of the following wearable health tracking devices listed below?



GRAPH 7

The wearable fitness band was the most popular, with 10% of our sample owning one. Ownership generally was low but had grown since the last report by The Syndicate. 36% of people said they used their wearable every day, with 55% saying once a week. 34% used it once a month or less. The over 65s were most likely to say they used their wearable every day.

39% said they used the data from their wearable sometimes and a further 29% said they made use of the data to monitor and adapt their fitness regime regularly. Just 11% never used the data they collected. Our sample were more willing to share their medical data with an insurer than the data from their wearable, even with the incentive of lower premiums. Overall, our sample were reluctant to share their data at all, with only 20% willing to share data they had collected with their wearable device. This suggests the impact of wearable technology is limited....for now.

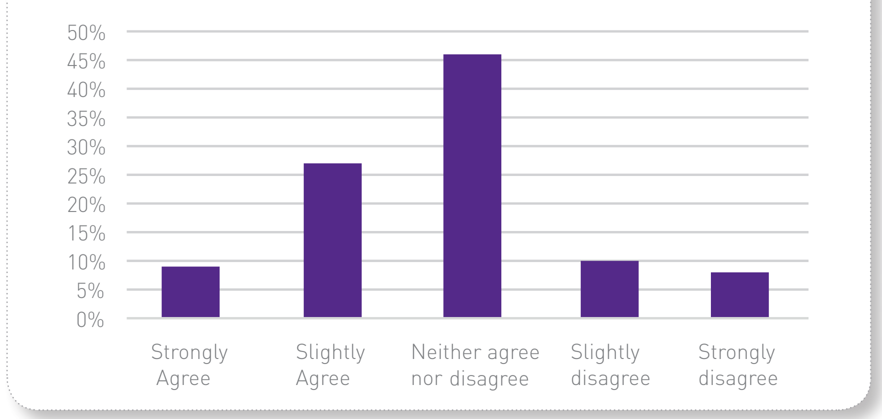
Welfare State

40% of our sample agreed with our statement *"I believe that the Welfare State can be relied upon to support those in need"*. 60% of people were not able to agree but clearly these beliefs do not translate into buying behaviour, curtailed as they are, by an equally prevalent uncertainty with regard to whether insurance can be relied upon.

When we asked about State benefits, 58% agreed that benefits such as universal credit represent a safety net for those who find themselves in financial difficulty. 46% people disagreed that benefits existed to help those too lazy to help themselves. Overall, the majority supported the view that State benefits had a valid role to play.

We asked whether, in light of recent welfare cuts, it made sense to purchase protection products. The results are shown below in graph 8.

It makes sense to have personal protection insurance products such as income protection given recent welfare cuts



GRAPH 8

Even when reminded of welfare cuts and the direction of travel for the Government, just under half (46%) of people were unable to agree or disagree with this statement. Here we see the emergence of the "mass indifferent" again: those who are unwilling to engage with protection at all!

Retirement and later life

73% of our sample agreed that it made sense to plan early for retirement. In fact only 5% disagreed with this. In order to plan early for retirement, it is necessary to know when retirement is expected. Although 25% of our sample were already retired, the largest majority of those remaining (21%) expected to retire between 66 and 70. 13% of those we spoke to never expected to retire, which was down 4% from our 2015 research, but still a significant proportion.

Financial drivers seemed to influence retirement expectation. We asked who should bear primary responsibility for funding care for the elderly. 40% felt that it should be funded through taxation and a further 30% felt that it should be funded through national insurance contributions. Just 14% suggested that individuals should make their own provision. Worryingly for the protection industry, the majority still have an expectation that the State will take care of them.

Conclusion

Our research this year has shown that insurance is a grudge purchase for many and a large majority are indifferent to the subject completely. As an industry we are not focused enough on reminding people of the value of our products. We allow people to forget or resent their purchases. By neglecting value, we allow consumers to focus on price. This rationale also allows those who don't trust insurers and believe that claims will not be paid to justify not purchasing cover.

People don't see advice as necessary and in many cases, weren't even sure what constituted advice, which is, understandably, a stark contrast to the views of advisers who believe they help people to understand their financial vulnerability and ensure that their needs are met by any purchase.

Trust in the Welfare State is also waning but this is not necessarily translating into buying behaviour. The welfare culture is still very much alive and while people may not trust the Welfare State, they still believe in the principle.

There are a number of areas for concern highlighted in this research but there is also a glimmer of hope in terms of opportunities for the future. When the data we have collected is analysed by age, we see a younger generation who are not as cynical about protection insurance, who are not as financially savvy but who want contact with their insurer through new channels. The industry must seize the opportunity that this generation presents if the story of protection insurance is to find a happy ending.

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The Syndicate