IndustryVoice

Analysis, commentary and trends for the UK mortgage and protection industry | Edition 12 Spring 2023

Call of duty

How will the market respond to consumer duty in a cost of living crisis?

Guest Contributors

AMI
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Articles from

Aviva
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more2life
Pure Retirement
The Exeter
Shepherds Friendly
Guardian
Cirencester Friendly
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Our partners:

Welcome

Welcome to the relaunch of the Iress Industry Voice - our 12th edition, which takes a deep dive into the topics of 'Consumer Duty and the cost of living' from a provider & distributor perspective.

For this edition we have asked a number of providers from both within the protection industry and externally to share their viewpoints and to give a taste of "what's next?"

The financial markets have experienced some turbulence in recent months and the knock on impact for consumers, providers, intermediaries and the industry as a whole have been significant. The UK is facing a Cost of Living crisis and as an industry we need to drive positive change.

This issue looks to the future of the protection market and the changing relationship between providers and consumers. We also look at the need for more consistency in the delivery of financial advice and aim to cast a positive light on the changes that the industry as a whole is making to ensure better outcomes for all.

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A special thank you to our partners and contributors for sharing their thoughts about new plans, approaches, and driving positive change to the relationships between providers and consumers.

We are always keen to hear your thoughts about this issue and the topics raised.

If you would like to get in touch, please contact the Advertising & Sponsorship Manager, Neal Ray.

Visit: iress.com/industry-voice for more perspectives from our provider & lender partners about the issues affecting our industry.

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Changing for good

Jacqueline Durbin
Global Head of Product - Life, Pensions & Mortgages

In my 20 years in the Protection industry the helicopter view of protection and the conversations we keep needing to have; have sadly not fundamentally changed. The issue of the protection gap has persisted despite positive and proactive change from providers, advisers and technology alike. The old adage that Protection is sold, not bought also continues and, in the midst of an economic crisis, growing awareness and education around the different types of protection cover and policies is more important than ever.

Evidenced by the articles in this publication, however, times could be changing, and changing for good. Post-pandemic attitudes and regulation changes could be a powerful combination that drives a sea-change in Protection.

Consumer Duty should provide the catalyst for wide scale change for protection by better protecting consumer interests and outcomes. There are so many ways this can happen, from consumer understanding and support, to improved product clarity and documentation, ensuring that protection is accessible to all including vulnerable customers, and ensuring that these customers are identified and appropriately considered. Ensuring that products represent fair value and that the cost, risk, and benefits are clear to consumers is critically important when there is still consumer confusion and limited understanding of protection products and all their variations. Product clarity and clearly signposting this information for Financial Advisers to support them in their conversations with Consumers has always and continues to be of critical importance to Iress.

If we want the industry to continue to change for the better it's critical that we - as an industry - collaborate. We need to have an open discussion about what needs to change and how this can be done. In an effort to turn this into reality, Iress's protection forum brings our Provider and Distribution clients together to discuss key issues and opportunities within the industry.

We examine how we might collectively solve problems to deliver better outcomes for Consumers and having one open conversation provides transparency and honesty about what should be done and how it can be done.

In our experience getting our clients together to review, discuss, innovate and agree ways forward is immensely productive. It results in a clear set of actions and opportunities that align with the key themes discussed in Industry Voice. We are excited about what is to come and we are looking forward to hosting the next protection forum to update on progress and agree on the next set of actions.

When well planned and well thought out improvements happen at scale, positive change can occur. And with consumer duty we are looking for collective change. When more consumers have positive experiences at point of sale, during the life of the policy and at point of claim then the trust and confidence they have in the industry will improve and that in turn will also encourage more consumers to obtain the protection cover they need and keep it in place.

We hope that this edition of Industry Voice demonstrates the powerful leadership and positive change that is happening across the industry. Change that looks to capitalise on the protection industry's strong foundations that, whilst operating in difficult economic circumstances, is rightly placing consumers' needs first.

Challenging times: how advisers can help, and who can help advisers

Paula Pearson
Strategic Account Manager, Aviva

2022 was a roller coaster of a year. In fact, we're getting used to them, so it's hardly a surprise if many of us went into 2023 thinking 'What next?' Advisers are certainly no exception.

As 1.8 million fixed-rate mortgages set to mature this year, with significant numbers seeing the flex in their budgets eroded[1], there are fresh factors to add to the mix when it comes to cost of living pressures. Overall, more than one third of borrowers refinancing this year could have less than 10% wiggle room, post-refinancing[1]. And this rises to almost 50% for borrowers in the lower income brackets, earning under £30,000[1]. So we know that things are going to get tricky.

Look at renters. There are 4.6 million private rented households in the UK. 33% of their income already goes on housing costs, rising to 38% where housing support is excluded[2]. Where fixed rate deals may be coming to an end, we could well see landlords passing on the costs to their tenants.

More re-mortgages... more need for input from advisers

As the prevalence of re-mortgages rises, preparation is key; know when your customers' fixed rates end and contact them well in advance. Even if they aren't ready to change anything yet, make it clear you'll be there for them when they do. Bizarrely, many advisers don't consider protection when a re-mortgage is happening. Circumstances may well have changed, so a review should always be considered.

Getting the most from providers

Firstly, I would say work with your BDM, they can help with training, sales techniques or pipeline and case management, so tap into that wealth of knowledge.

Also, check how providers can help clients – maybe premium holidays, or reducing their Sum Assured. Find out if they'll refer their customers to you for advice. Some – like Aviva, incidentally – will do all of this.

Using provider systems to help clients who find it more difficult to afford their policies

Protection is really important now, so use provider systems to

> The ongoing cost of living crisis is making it less likely that under-35s will hit the typical life events that would normally trigger a protection conversation."

effectively manage retention. The Aviva tracking system provides real-time updates, so if you haven't already signed up for alerts, this is definitely something to consider.

Highlight to your clients the value of the policy they have taken out – and therefore the advice you gave them. Not just the protection element, but any day-one value that the policy provides. Some will include access to benefits such as an annual health check or gym discounts. Clients will be far less likely to cancel if they're using the benefits.

Increasing protection sales among renters and under-35s

We really should be looking to help protect these under-served markets. Renters are a good example, with only 38% of private renters having some form of protection[3]... and yet 32% of private renters have dependent children, with just over three quarters (78%) working[2].

The ongoing cost of living crisis is making it less likely that under-35s will hit the typical life events that would normally trigger a protection conversation – such as moving up the housing ladder. But these are still people who need protecting. And in a challenging market, looking at these markets could be a good way for advisers to diversify.

Income protection... a product whose time has come?

Income protection is the product clients are most likely to claim on, but some advisers say they don't sell it because they sell critical illness cover. In fact, the two products cover different things. Income protection isn't complicated, as it was when I first joined the industry. It would be good to think we see more of this in 2023 as this is definitely a product that could add value. Our longest-running income protection claim, which continued to be paid throughout 2021, ran for more than 37 years and I often wonder what that person would have done if their adviser hadn't talked about income protection – it's a lot of monthly pay cheques to miss.

My three 'must dos' for advisers in 2023

Finally, three priorities I'd recommend...

1 Use client testimonials and videos. Nothing works better than a real customer explaining the difference protection has made to their lives. Aviva have got videos on this: speak to your BDM or check out the protection claims page on Aviva Connect.

2 Don't forget protection just because the mortgage market is busy, or because you have more re-mortgages. Clients need protecting – so if you don't want to make the sale, refer it to someone who does.

3 A simple one to finish with: be proud of what you do! You don't just arrange mortgages or sell insurance, you put in place solutions that can absolutely change people's lives. Don't forget this and make sure your clients fully understand you're there to help them.

Find out more about Aviva's products and services by visiting www.avivab2b.co.uk.

[1] UK Finance, Household Finance Review – Q3 2022.
[2] English Housing Survey Headline Report 2021-22. Contains public sector information licensed under the Open Government Licence v3.0.
[3] Mintel, The Interactive Databook for Term Assurance UK 2022. Base: 1,958 internet users aged 18+.

What does the new consumer duty mean for advisers?

Hazel Johnston
Market Development Manager, Legal & General

On 31st July, the Financial Conduct Authority's (FCA) Consumer Duty regulation will come into effect.

The new Duty sets higher and clearer standards of consumer protection across financial services, and requires firms to put their customers' needs first but comes at a challenging time for consumers and the wider economy.

The rising cost of living is being acutely felt by millions of households who are facing a real income decline in 2023 So it's unsurprising that protection is in the crosshairs for families cutting back.

Whether you're planning to give advice yourself or refer, it's beneficial to have a robust process in place so every client can understand how financially resilient they are. Having a process ensures that the conversation happens, the 'breadcrumbs' of protection are laid out early and that it's kept separate from initial conversations introduced by the client.

Practical tools for your client conversations

Using sales aids and tools before appointments can save time and helps them understand the reality surrounding their situation and not just their perception of it.

This means you're both entering the appointment with their actual financial situation in mind, increasing their chances of understanding any recommendation's importance.

Our range of sales aids, tools and calculators are designed to support your client conversations:

- **Plan Ahead - Know your benefits:** Helping your client understand what benefits their employer provides, and a quick guide to what state benefits they could receive if they became ill
- **Budget Planner:** Getting your client to know their monthly outgoings by using this simple exercise to help them understand their money better
- **Deadline to Breadline calculator:** Your client can calculate how long their income and savings would last if they lost their income due to a longer-term illness or injury
- **Risk reality calculator:** Your client can calculate the likelihood of certain life events happening to them based on their age and certain lifestyle factors

"Using sales aids and tools before appointments can save time and helps them understand the reality surrounding their situation and not just their perception of it."

Asking your client to review these resources will help them understand their financial situation. It could also help them recognise why they need protection, and the value it can bring to them.

Techniques for better outcomes. From advisers, for advisers

Legal & General's research, The Secrets of Protection Success, shares the winning formula used by some of the industry's top protection advisers. The findings from the research show that educating clients about the value of protection is fundamental to unlocking greater protection outcomes for both you and your clients.

We're here to support you on your path to protection success by providing you with tools, resources and insights backed up by top protection advisers. To aid your client conversations and achieve better client outcomes, download the report or browse our expert toolkits.

Re-thinking plan B

Mike Farrell
Director of Protection Sales and Marketing at LV=

If you ask your clients to define financial resilience, what do you think their answer would be?

We asked that exact question in our Reaching Resilience consumer research* we conducted last year, and the common theme was essentially the ability to financially cope should the unexpected happen. Sound familiar?

When we asked consumers what they'd fall back on if they couldn't work due to illness or injury, unsurprisingly protection didn't feature at the top of the list. So, what was their plan B and how can you use this to get your clients to think protection?

Falling back on savings

Over 4 in 10 UK workers said they'd rely on savings to cover outgoings while they couldn't work, and for the self-employed, this was even higher at 60%. For many, this isn't realistic. 39% of workers have less than £5,000 in savings, how long could this sustain them? Especially when you consider that the average Income Protection claim at LV= lasted for 5 years, 3 months in 2022, and I'm sure other providers see similar in their claims stats too.

Even if your client does have a significant amount of savings, get your clients to consider their long-term saving goals. Dipping into hard-earned savings can compromise that car, holiday, or rainy day fund they've worked towards. Let's face it; nobody wants to deplete their savings or investments to cover household bills.

Ask your clients:

- How long do you think your savings could last you? You can likely challenge their response then and there if you already understand their outgoings.
- What are your savings for? Are you prepared to sacrifice these?
- How much are you contributing to your savings? While many said they'd rely on savings, 47% were saving less than £125 a month. Would a portion of this be better spent on Income Protection?

Employer sick pay

For workers, this was the second most common response. When we broke it down though, a quarter of workers didn't actually know what they were entitled to. For those that did, the average entitlement was 12 weeks. Again it comes back to that point around the average claim length. For longer-term illnesses, this doesn't provide that peace of mind that they'll be paid for as long as they need to be to recover. That's something that Income Protection can clearly offer.

For those that don't get this benefit, what's the plan? At the time of writing, statutory sick pay is only due to increase to £109.40 a week in April 2023. How many households do you know that could survive on that?

Ask your clients:

- Do you get sick pay through your employer?
- How long are you covered by occupational sick pay?
- What's your plan once this runs out?

Depending on others

Almost 20% of workers said a partner's income could support them. Yet, over half of working couples need both incomes to maintain monthly expenses. While this could be a short-term fix, it's unlikely to be an ideal solution over the long term.

Interestingly, our research also showed that **75% of workers support at least one other person with their income.** The average income had 3 people depending on it. With today's blended families, this could look different for everyone. These dependents could be a partner, young children, grown children, aging parents, or even housemates. What this clearly shows is that Income Protection isn't just about protecting the individual.

Ask your clients:

- Who relies on your income? And what about your partner's income?
- Do you need both incomes to comfortably cover your outgoings?
- What would be the consequences of losing one income?

So, what's the size of the opportunity?

Just 16% hold Income Protection that they personally pay for - perhaps the least surprising statistic of them all! Let's flip that on its head though, **1 in 4 of workers who don't hold Income Protection would like to.** That's a significant portion of potential clients that are already receptive to the idea.

Part of what stood out for me from our research was that when asked, UK workers know the answer to financial resilience is protection - especially Income Protection. This puts the onus on the adviser to guide clients to that answer by asking them the right questions. If you do that, the benefits of Income Protection almost sells itself.

Our Reaching Resilience report* contains countless insights to help you steer the conversation toward Income Protection. You can view the full report on our Reaching Resilience hub. Your account manager can also support you with 1 on 1 CPD training to update you on our range of IP and full menu solutions.

*The data comes from a survey of 4000 nationally representative UK adults conducted for LV= by Opinium in between 16th August and 1st September 2022.

The UK's working adults aren't saving enough – what does this mean for advisers?

Jamie Page
Head of Protection Distribution, The Exeter

Our recent research, 'Challenging Times: The Health and Financial Fears of UK Workers', asked the working population to reflect on the pressures affecting their financial and health security in the current cost of living crisis. One of the most startling findings showed that almost 40% of adults save less than £100 a month, with one in seven saving nothing.

This is vitally important for advisers to know, especially when it comes to client conversations. If a client is already finding it difficult to afford basic essentials, then a new or existing protection policy may seem like a luxury. As such, advisers need to provide tailored and personal support to ensure clients are aware of the full range of products available on the market and that going without a policy is a risk they cannot afford.

So, how can advisers ensure they continue to deliver value to their clients?

Understanding the landscape

With consumer price inflation rising to 11.1% in the 12 months to October 2022 and energy prices doubling at home, it is understandable that people are prioritising essential spending over saving[1]. Indeed, monthly spending on essentials alone increased by £145 in 2022[2].

This has significantly affected peoples' behaviour with 81% of the working population altering their spending habits because of recent rises in living costs, according to our research. Half of people (49%) said they are spending less on the weekly shop, while 44% are reducing their utility usage and 41% are spending less on leisure and entertainment.

And for good reason; 52% of the UK workers we surveyed were concerned about being able to pay for food or utility bills and 44% were worried about being able to afford rent or mortgage payments.

This is something that advisers may consider when speaking to clients. If they are considering cancelling a protection policy to free up cash, that is their decision to make.

But advisers play an important role in ensuring clients understand the impact of doing so, and the alternative options they have open to them.

For example, many protection providers will allow policyholders to reduce their monthly premiums by reducing their cover amount or extending their deferred period, offering continued protection while helping to reduce the cost.

Advisers should also consider using the range of tools available to help highlight the value of protection. For instance, income calculators can help clients conduct a financial MOT to help them measure their outgoings and make informed decisions when adjusting their policies.

Equally, highlighting the value of additional services, such as remote GP services and mental health support, can be another way for advisers to showcase the benefits of protection, even during the cost of living crisis.

Spotting low financial resilience

The cost of living crisis has strongly impacted societal saving habits, however certain individuals are more vulnerable to its effects than others.

For example, older age groups need to save more as they get closer to retirement but lack the same options available to younger generations to secure higher incomes. 20% of those aged 45-54 and 19% aged 55-64 reported that they saved nothing at all, the highest proportion of any demographic, making them vulnerable to financial shocks.

Other demographics we might consider as being vulnerable include those from certain regions. Respondents to our survey in London were most likely to save more than £100 in a typical month (80%) but only 53% of respondents in Yorkshire and 55% in East England said they save the same amount.

Understanding and assessing the vulnerability of clients will ensure that they are provided with the best possible recommendations to meet their needs. This will become even more important in the months to come, not only because of the ongoing cost of living crisis but also as the industry prepares for the FCA's Consumer Duty requirements.

Keeping informed

An adviser's foremost concern is to ensure their clients receive the most comprehensive and personalised service possible. This is especially true during a time of profound economic hardship.

Keeping informed about the UK working population's general health and financial concerns will help achieve this. It does not matter whether an adviser is reassuring an anxious client, considering vulnerability, or helping a client adapt to new costs. Advisers are key in helping clients understand the full value of a policy and the options available to them before making a major financial decision.

In doing so, they will ensure they are delivering a truly personalised and high-quality service.

[1] www.bankofengland.co.uk
[2] KPMG

"Consumer duty's looming deadline is actually provoking real change. There's a swathe of firms, networks and advisers waking up to the idea that a protection policy shouldn't just be sold and left in place. That it deserves the same attention applied to an investment portfolio, that's regularly reviewed. Seeing that change in people's thinking and approach is quite exciting when you start to think about the potentially positive impact on thousands of clients' lives."

Alan Lakey, Director, CIExpert

"With Consumer Duty introducing a more outcomes-focussed approach to protection and higher expectations for the standard of care that firms give to customers, we expect to see an increase in the number of mortgage brokers and advisers ensuring that they have frank and open conversations with clients on their need for protection. Alternatively, if advisers feel that they are ill-equipped to have these crucial conversations, then we expect to see companies taking their duty of care seriously by establishing referral partnerships with protection specialists like us."

Rob White, Director, Essential Insurance

"I'm looking forward to seeing how we as an industry look to change the perception and appeal of Protection and engage with younger people to ensure they are appropriately covered."

Chris Hickman, Business Development Manager, Iress

"Consumer Duty gives us one key objective as an industry to achieve. Distributors of insurance need to be demonstrating that they can access insurer preferred partners and products to fairly place the needs of their clients. Across all aspects of the value chain, I'm excited to see better access to insurance products for individuals with complex health concerns."

Paula Bertram-Lax, Chief Operating Officer & Consumer Duty Champion

"The Consumer Duty will prompt more advisers to have protection conversations and raise the bar across the advice market. It should help to grow the market by building awareness, credibility, and trust with consumers.

Protection pays out billions of pounds each year at difficult times in people's lives, which doesn't always get the recognition it deserves for the peace of mind it brings.

More protection conversations and continued focus on customer value will help to deliver greater outcomes and further position protection insurance as an essential purchase."

Jennifer Gilchrist, Protection Specialist, Royal London.

"I am looking forward to seeing how, through our continued collaboration with both provider and distribution partners, we can continue to deliver enhancements that add real value to advisers and their customers. By openly discussing challenges and opportunities, and working together to agree solutions, we can bring real change to the industry that deliver better outcomes for everyone."

Jane Irwin, Senior Product Manager, Iress

"The implementation of consumer duty brings the whole industry to look at themselves and genuinely ask "are we doing right by our customers?" It also will encourage more advisers to maintain the service and the relationship beyond the original sale"

Rosalia Lazzara, CEO, Manuka Media

"I'm excited to see how technology can support niche product innovation to cater for the underserved Protection market and those who struggle to get conventional cover. I'm also excited to see how the industry can help increase awareness and the importance of Protection as part of the Mortgage sales process."

Louise Sarsby, Business Development Manager, Iress

"The biggest financial commitment in your life is likely to be your mortgage. Should you miss a couple of months work through illness, that could be a problem financially, especially with the cost of living crisis. Income protection takes away that worry. With the introduction of consumer duty, the mortgage market will have to really consider their clients protection needs and offer a truly holistic service, helping to drive the quality of advice in this market."

Oliver Jones (BSc), Sales & Distribution Director, National Friendly

Consumer duty: enhancing the relationship between providers and advisers

Liam Barker
Shepherds Friendly, National Account Manager

The Consumer Duty regulation will come into effect on July 31st, with a key focus on prioritising positive consumer outcomes in our business practices. As an adviser, this means you may need to review your relationships with both new and existing providers and review the content of your communications.

Businesses will need to adapt to meet these new requirements. While the overall goal of "delivering good outcomes for customers" may seem obvious, Consumer Duty breaks this down into four consumer outcomes. These outcomes are:

Outcome 1: Products and Services - Products and services should be fit for purpose and have a clearly defined target market, with support for vulnerable customers

Outcome 2: Price and Value - Products and services must represent value for money, including any fees that you may charge clients

Outcome 3: Consumer Understanding - Do you provide suitable information to ensure that clients fully understand the product, including associated benefits and risks?

Outcome 4: Consumer Support - Do you have processes in place to support your clients, in addition to assessing providers' support standards?

It's important to note that implementing changes for Consumer Duty is not solely the responsibility of advisers, but providers also have a role to play in ensuring these outcomes are met. Providers can support advisers by providing transparency through improved information, such as claims data analysis, management information on client cases, or improved product literature.

One challenge advisers may face when implementing Consumer Duty is dealing with clients who may be difficult to place with any provider. Again, this is where speaking to Business Development Managers (BDMs) can be beneficial. For example, Shepherds Friendly launched a new application route for their Income Protection policy in May 2022, called the "Simplified Application", based on feedback from advisers who identified a gap in the market for clients with significant health disclosures, who need quicker cover and don't wish to complete a detailed medical questionnaire.

A useful approach to ensure compliance with Consumer Duty is to map out your existing customer journey touchpoints, from lead generation to post-purchase activity, to identify any areas that may require attention. By doing so, you can confidently address all touchpoints in line with the four consumer outcomes and make necessary improvements.

Moving forward, a key requirement will be to demonstrate that fair value is offered to customers, which can sometimes be offered through the benefits and additional values provided with a product. This means that providers need to effectively communicate these benefits to advisers selling the plan. Advisers will also need training and support to understand the real value of these benefits. For example, knowing that Shepherds Friendly offers a Virtual GP service with their Income Protection policy is one thing, but understanding how this service provides value, such as shorter waiting times for appointments and how customers can access it, is crucial for ensuring the best outcomes for clients. Therefore, consulting with BDMs and obtaining comprehensive information about a product can significantly improve your advice and the service you provide to your clients.

URL: https://intermediary.shepherdsfriendly.co.uk/our-products/income-protection/?utm_source=IRESS&utm_medium=the-exchange&utm_campaign=industryvoice&utm_content=consumerduty

How can the **bank of mum & dad** continue to pay out during the cost-of-living crisis?

Les Pick
Director of Sales, more2life

An increasing number of parents are putting their own financial security at risk to support their adult children as the cost-of-living crisis piles pressure on the Bank of Mum & Dad. More than a third (36%) of parents are already helping their grown-up children with their finances, according to recent research. [1]And that's expected to grow.

Over the coming months, as prices continue to rise, a further 15% of parents who don't currently provide any financial support to their adult children expect to do so due to the cost-of-living crisis.[1]

However, for those parents who are already in or entering later life, especially those with a fixed retirement income, this added financial strain could cause significant issues. More than a third (39%) of retired households have already stated their monthly expenditure exceeded their income at least sometimes in 2022 - up from 16% in 2021.[1]

And 67% of those aged 66-75, alongside 79% of those aged 55-65 say that they're not very confident their household will have enough money to support themselves over the next 12 months.[1]

Where is the focus of the support?

Over the next two years, nearly a third of parents (31%) say they'll provide financial support for their grandchild's childcare, while over a fifth (21%) say they'll cover bulls and other household expenses - an average of £870 each.[1] Nearly 1 in 10 (8%) say they'll help with a house deposit, and almost 1 in 20 (4%) will contribute to paying off debts.[1]

Why is the support needed?

Inflation is at its highest rate for 40 years. Soaring energy, food fuel costs have added significant financial strain on many UK households, particularly young adult households with typically lower incomes.

> "Inflation is at its highest rate for 40 years. Soaring energy, food fuel costs have added significant financial strain on many UK households, particularly young adult households with typically lower incomes."

Add to that sharp rise, in mortgage and credit card interest rates - where the average two-year fixed rate mortgage was £532 more expensive in September 2022 than two years prior on a 25-year, £250,000 mortgage[3,4] - and it's clear to see why so many are struggling. Of those who are providing financial support to their children, over half (51%) say their grown-up children wouldn't be able to meet payments or afford these expenses without their help.[1]

How will this support be funded?

More than half (55%) of parents who already financially support their adult children, or plan to amid the cost-of-living crisis, admit it'll be difficult to do so. While 31% say they can't afford it but will do it anyway.[1] That then begs the question, how will parents fund this financial support? According to research, almost two-thirds (61%) will cut back on their own spending, while 38% will forgo luxuries.

Concerningly though, around 1 in 10 will rely on credit cards (9%) or go into overdrafts (8%) to help their grown-up children. [1] While over-relying on credit cards has never been a good thing, with average interest rates rising to 21.88% in September, the borrowing costs are at levels not seen since November 1998.[5] That means someone with £1,000 debt repaying the minimum amount would take 18 years and 10 months to clear their balance and would incur £1,459 in interest.[5] Similarly, overdraft interest rates can often be around 40%,[6] meaning utilising this feature, however tempting, could be significantly costly.

Find out more at www.more2life.co.uk

[1] TSB
[2] more2life: Borrowing in later life report
[3] MoneyFacts
[4] Bankrate
[5] The Times
[6] The Times Financial

Putting customer outcomes at the **heart of product design**

Jacqui Gillies
Marketing and Proposition Director

When the consumer duty was first proposed, our initial reaction was that Principle 12 was very similar to the principle on which we set up Guardian – to deliver good customer outcomes.

Listening to and working closely with advisers, we created a modern, customer-focused business with a range of products that addressed a big concern in our industry; namely the perception that policies don't always pay out, which had led to a lack of consumer trust. By introducing crystal-clear definitions to our products, we made it easy for customers to understand what they're covered for, as well as creating certainty that those definitions would pay out as expected.

We adopted the same approach when designing our income protection proposition which pays out if customers are unable to do their own specific job rather than the more generic term of 'occupation' meaning trade, profession or type of work. We believe the improvement from 'own occupation' to 'own job' helps reduce a mismatch in customer expectations as it clearly defines what they are covered for.

Using everyday language that customers understand goes a long way to making sure that customers know what cover they have and can be certain their policy will pay out when it's needed.

We believe that putting customer outcomes at the heart of product design speaks to what the duty is trying to achieve. Yet that doesn't justify complacency. The duty is a major piece of regulation and by far the most significant new regulation we've had to implement as a business.

In practical terms, for Guardian this was mostly a matter of reviewing all the rules and collating the relevant evidence. We carried out a gap analysis on each of the 4 outcomes and cross cutting rules and established actions where we saw the opportunity to improve as well as gathering the evidence needed to show how we're meeting the duty.

We checked our products and price in terms of fair value – you can find our fair value assessment on our website.

And we were delighted to see the FCA shine a light on the importance of customer communications. This is an area that can often be overlooked. Making sure your customers understand what they've bought and how to claim is absolutely crucial to creating trust in our industry. That's why we have language guidelines which we follow when writing customer communications and language training as part of our induction programme.

To be sure our customer communications are hitting the mark, we plan to send regular surveys to policyholders to test their understanding.

The Consumer Duty project has been a substantial internal exercise with a number of workstreams and involvement across the whole business. But it has put us in a position to say with confidence that we believe we're ready to meet the duty fairly and squarely.

It's worth bearing in mind that we've carried out this project alongside the 'real time' and 'still current' cost-of-living crisis. Given that we don't sell direct to customers, we've been working with advisers to understand the issues they face when having protection conversations. As a result, we produced a white paper, 'On the Front Foot' to cross-share peer views and highlight opportunities and ways to support those advisers who are having direct conversations with budget-conscious clients. This paper identified our 'top 10 tips'

How to...

- explain that as prices go up, so does the need for protection
- view inflation as an opportunity and
- point out the risks of cancelling cover.

You can read the full paper, with all the top tips here.

In summary, we believe we're in a good place. But we don't believe by any means that this is the end of the process. Advisers are an essential component in meeting customer needs and generating good customer outcomes, therefore an essential component in the success of this regulatory initiative. We'll continue to work closely with advisers to see the industry-wide adoption of the duty happens as smoothly as possible before the final July deadline.

Later life product development: continuing to achieve best outcomes

Paul Carter
Pure Retirement CEO

As the last throes of winter firmly making their annual disappearing act for another year, and the springtime flowers emerge and start to bloom, could we also be seeing the first green shoots for the later life lending sector towards the kind of activity levels seen before last autumn's mini-budget?

Uncertainty undoubtedly impacts consumer confidence, and the last twelve months has provided a conservable amount of changeability for the wider society to contend with, culminating in the financial turmoil that emerged in late 2022. While the lifetime mortgage market has continued to demonstrate its adaptability and resilience in the past, rising rates and reduced product choice have proven it's not immune to wider market forces. Similarly - and understandably - despite the Equity Release Council's 2022 report highlighting a clear appetite for later life lending solutions, many potential applicants have spent recent months holding off making any major financial decisions.

Nonetheless, despite a challenging landscape, consumers are once again beginning to take advantage of the flexibility that equity release offers to meet financial or lifestyle objectives, if the latest data from Canada Life is to be believed. While it's unsurprising that there's a rising trend of people using it to repay their existing mortgage (amounting to nearly half of those surveyed, up from 45% in 2020), many people will potentially have been surprised to see holidays re-entering the top five reasons people took out equity release.

This comes amid other trends, including no change in the proportion of people using it for day-to-day expenses and a decrease in those using it to consolidate existing debt. Perhaps unexpectedly, given the difficulties surrounding the cost of living and the challenges of buying a house, gifting also doesn't feature among last year's top reasons for taking out equity release.

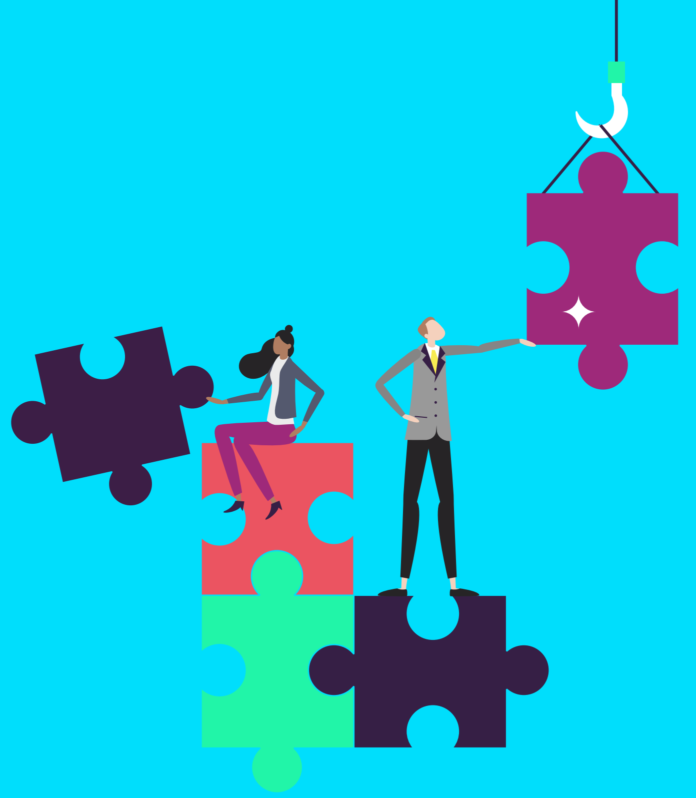
Even so, these latest figures demonstrate the ongoing diversification of equity release uses, which includes around a third of applicants using it for home improvements. The challenge for the wider industry, and lenders, is identifying and understanding what has become an increasingly fluid customer base with various needs and priorities and providing effective retirement solutions that can meet them.

Ongoing product development will remain crucial if the later life lending sector is to continue offering an increasingly mainstream financial solution to many. This has been a longstanding pattern of activity among lenders, which has included the introduction of Direct Debit optional repayment facilities, free Energy Performance Certificates, and the enshrining of penalty-free optional repayment methods as a product standard on all new plans.

This commitment to evolving the later life lending space has also helped generate better customer outcomes, something which is becoming increasing important with the introduction of the FCA's Consumer Duty. Offering increasingly flexible and adaptable later life lending solutions, and arming advisers with the necessary tools to help their clients make an informed decision, is a crucial tenant of helping over-55s reach their financial goals, and will undoubtedly contribute to the sector's ongoing journey towards mainstream acceptance.

This longstanding appreciation of the importance of innovative products, allied to an understanding of customers and their needs, is what's made the sector a resilient and attractive proposition that's been rising in popularity, and one capable of weathering broader socioeconomic challenges.

Living our values



Shirley Fell
Chief Operating Officer at Cirencester Friendly

Since mid-2022 the squeeze on household income has dominated the headlines. Soaring inflation, rising food and energy prices, and increasing interest rates have all had an impact. For many, this means difficult choices, forcing cutbacks on spending and decisions on "essentials" versus "nice to haves."

For those of us in the protection industry, we understand our products and the benefits they offer, and we believe cover like income protection falls into the "essential" category. We have seen first-hand what a difference it makes, preventing severe financial hardship by helping to pay the bills when there is no other source of income available. We are beginning to convey this message more effectively to our members to help them see it as essential too. We are doing this by reminding them of the total value of the protection they have, the security it provides for them and their families and the range of additional benefits available to them.

If we don't establish this need, there is the potential for cover to fall into the "nice to have" category and the risk of cancellation, leaving members financially vulnerable at the worst possible time.

Offering a helping hand

We have been proactively communicating with our members to reinforce their protection choices and highlighting how we can help. We understand the options they face are not easy which is why we are here to help.

Encouraging Members to come forward and be open with us about their circumstances means we are better able to step in to support them.

We want to make being a member-owned organisation mean something tangible. This starts with treating our members as individuals, taking time to listen to their problems, understand how we can help and providing solutions that make a difference.

Our 125 Foundation, set to mark our 125th anniversary, is there to support our members, helping those that need it most.

The Foundation gives us the flexibility to treat each request on its own merits. For example, we recently helped a member facing financial hardship due to an unexpected large bill. The Member had fallen into arrears with their payments and was struggling to break even. They were keen not to lose the safety net provided by their income protection cover. A grant from the Foundation helped the member pay their premium and pay part of their large bill, significantly easing their challenging financial circumstances.

Learning from the past to inform the future

Cirencester Friendly has always been about protecting income and this has not changed in more than 130 years. Anyone, no matter their status or profession can have an accident or fall ill.

We are refining what we do and how we deliver our products and services to reach new audiences, ensuring we are accessible and inclusive, providing support that is valued. Our messaging reflects the lives people live today and resonates with what they feel is important. By encouraging a greater connection with our members, we can better understand their concerns and refine our proposition to fit their needs.

Going beyond short-term assistance

While we are doing all we can to address the immediate issues that Members are facing, we are also considering the longer term. There will always be events that happen beyond our control that have a negative impact. We are working harder to let people know how they can mitigate against these risks and provide security for their families, ensuring the essentials are always covered. We are focused on building greater financial sustainability across the UK, a goal which is also at the very heart of Consumer Duty.

Consumer duty – an opportunity to improve trust in the insurance sector

Stacy Penn
Senior Policy Adviser, Association of Mortgage Intermediaries (AMI)

Last year marked the Association of Mortgage Intermediaries' (AMI) third Viewpoint on the UK protection market. The survey involved 3,000 UK adults and 254 IFAs/ mortgage advisers and included qualitative research for the first time, by seeking views from a bespoke community of 16 adults. This added extra depth to the findings and brought colour to the statistics on the page.

It's clear that mistrust is a common theme; from mistrust of insurer claims statistics (56% of consumers don't trust them) to mistrust of advisers' motivations (50% of consumers think advisers are motivated by commission). As one participant in the qualitative study commented: 'I don't believe that insurance brokers or financial advisers would offer an unbiased opinion; I think they would be swayed by commission or they would push people towards certain providers to get the most money out of it'.

The percentage of consumers that don't trust their adviser's motivations has hovered around the 40%-50% mark since the study began in 2020. Changing consumer opinion can seem insurmountable, particularly when negative consumer views on insurance at a societal level can transfer across into protection.

However, with the FCA's Consumer Duty incoming it's an ideal opportunity for mortgage advice firms to review whether they can make changes to their protection proposition and the consumer experience to improve trust.

Value of advice

Consumers may see little difference between receiving 'information' and 'advice'. With Google part of our everyday vocabulary and even used as a verb ('I'll Google it'), it can be easy for consumers to feel they have access to 'advice' at their fingertips. However, type 'life insurance' into a search engine and you'll receive over two billion results…not so easy to navigate, even if you think you know what you want.

If your firm hasn't done so before, try writing down the benefits

> I don't believe that insurance brokers or financial advisers would offer an unbiased opinion; I think they would be swayed by commission or they would push people towards certain providers to get the most money out of it"

consumers receive when they come to you for insurance advice. Examples could include how your firm liaises with insurers on a customer's behalf, how it explores customer's needs and provides a personalised recommendation, has a team with x years of experience, or specialises in sourcing insurance for harder to place cases. This will be different for each firm based on its scope of service.

Articulating the benefits in this way may help firms re-consider how they explain to consumers what they do and the value they add. The Consumer Duty sharpens the focus on what firms must deliver, so firms should ensure they are realistic and transparent.

Firms are still required to issue customer communications stipulated under statute or regulation but the purpose of this exercise is to help firms think more broadly about their services and how this is communicated both internally as part of its culture and externally to consumers.

Communication

We know from AMI's Viewpoint research that over half (56%) of consumers say they would go online if looking to purchase protection. A firm's website is its digital shop front and Consumer Duty presents an opportunity to carry out a website 'Spring clean'.

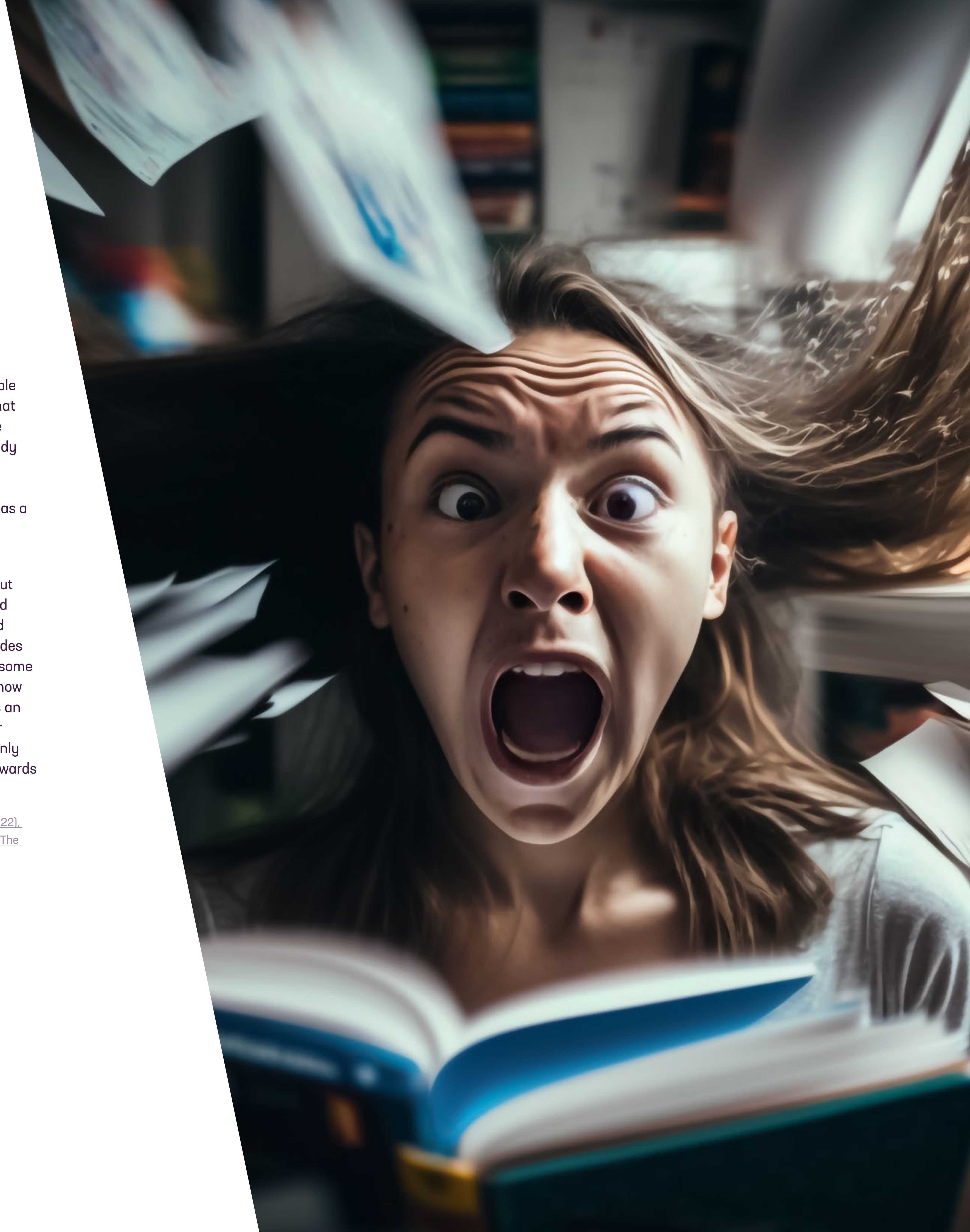
Consider how your firm can bring to life the role it plays in the insurance process via its website. There's no harm in talking about insurance products but what's likely to resonate more with potential customers is how your firm provides solutions.

If you're able to provide real life testimonials or case studies of how your firm helped arrange insurance (with customer permission if personal information is used) this draws out both the human side and the important role of insurance and advice. This may help tackle the consumer narrative that firms only suggest protection to increase their earnings.

Consumer Duty also promotes better business practices by requiring firms to review all their communications (written, verbal and digital), with the FCA providing within its guidance helpful suggestions on ways to tweak areas such as language, layout and display to improve consumer understanding. This is a valuable piece of work for firms given that some of the participants in the 2022 Viewpoint qualitative study cited 'overly complicated and wordy' and 'confusing and not easy to understand' language as a barrier.

Consumer Duty is not about re-inventing the wheel; it's about refining a firm's proposition and practices to act to deliver good consumer outcomes and provides the chance for firms to tackle some of the consumer barriers we know exist in protection. If viewed as an opportunity instead of another piece of regulation, it will not only be consumers that reap the rewards but firms too.

Sources: The Great Protection Shift (2022), Protection: Moving Forward (2021) and The New Protection Challenge (2020).



In turbulent times, **priorities remain constant**

Jo Miller
Co-chair, Income Protection Task Force

There is no escaping talk of Consumer Duty or the cost-of-living crisis at the moment. In truth you may be more likely to discuss one than the other with your mates at the pub, but there is no denying that whether inside or outside of the industry, everyone is watching the pennies and aware of rising prices and the need to watch discretionary spend.

So, what does this mean for advisers trying to have conversations with clients about protection? Mortgage advisers may be concerned that clients will be focused on affording the mortgage in the face of seemingly continuous interest rate rises and less concerned about factoring in the extra cost of protection and those focused solely on protection may expect to face an uphill battle in persuading clients that it's a conversation that needs to be had at the present time.

It is definitely not the easiest time to be having a protection conversation, but the reality is that the basis for the conversation does not change according to the circumstances in which you have it. The reasons for taking out protection are unchanging and provide a constant in an otherwise turbulent environment. It is a matter of priorities.

Why neglect a conversation about income protection when income is, simply put, the basis on which all of your client's other plans sit? Why help saddle them with the largest debt which they are likely to take on without making sure that they will definitely be able to keep up the repayments? The price of weekly food shop going up is a real concern for everyone, understandably, but how much more concerning does the rising cost of outgoings become when the money coming in stops for an unknown amount of time? An income shock has always been a primary motivation for considering income protection but now, more than ever, the need to mitigate risks where possible must be considered. Those oft heard objections of relying on friends and family also hold less weight now with the likelihood that everyone

> The price of weekly food shop going up is a real concern for everyone, understandably, but how much more concerning does the rising cost of outgoings become when the money coming in stops for an unknown amount of time?"

is just about making ends meet as opposed to having enough cash to bail out a relative for an unknown amount of time.

Adviser belief in the products that they are selling here is key and noticed by clients. A conversation about financial priorities with an enthusiastic adviser is less about being sold to, more about learning about options which meet your financial priorities so time spent by advisers learning about the products they are presenting as options is invaluable and will reap rewards. Would you buy a car from a salesperson who admitted they took the bus everywhere?

Having made the case for why income protection (and protection more widely, although we make the strongest case for IP as we are the Income Protection Task Force!) remains a priority despite the cost-of-living crisis, it is time to consider why Consumer Duty makes income protection conversations even more important.

Under Consumer Duty, adviser firms must ensure that they avoid causing foreseeable harm to customers and analysis of the guidance thus far suggests that the FCA will look to enforce compliance with this foreseeable harm rule referencing the risk of harm and not whether or not the harm actually occurs*. It is therefore imperative for advisers to discuss the likelihood of not being able to work for a period of time and the impact this could have with clients in terms of keeping up with mortgage or rent payments, let alone covering their everyday expenses. Tools such as risk reality calculators can bring this reality to life for clients and with context provided, the need to discuss the steps that can be taken to mitigate this risk is understood by both sides.

So, despite economic turbulence and a new regulatory regime on the horizon, can we say there are reasons to be cheerful? Absolutely! The current context provides the most compelling set of reasons to discuss income protection that we have seen in recent years. Clients are more aware of their own financial vulnerability than ever before, to say nothing of the lessons we have all taken from the pandemic, and priority is being given to anything that can provide stability and resilience. If we don't step up our efforts to have these very necessary conversations with clients, then we are really missing an opportunity.

*Analysis by www.brownejacobson.com

"I am excited to see how our clients can utilise our Xplan Mortgage sourcing software to provide a holistic view to a client and concentrate on protection which can be sometimes overlooked. In addition we have delivered a number of propositional enhancements, particularly our Features proposition. This is a real 'game changer' for brokers to really help them sell the benefits of protection policies over and above just price."

Warren O'Connell, Head of Business Development - Sourcing, Iress

"I am looking forward to seeing how technology will continue to enhance both the adviser and client experiences. Not just through the use of sourcing software like The Exchange but also through enhancements that providers are introducing. Collaboration between technology firms, providers and distribution can really contribute to growth and success in the protection market in 2023. I would also like to see more done to gain wider use of trusts or beneficiary nominations across our industry to ensure swifter payment of claims."

Phil Day, Business Development Manager, Iress

"There's no question the last couple of years have been a challenging time for advisers, customers, and (re)insurers alike. But as consumer duty is embedded in our work, I am optimistic that we will see protection being brought into more conversations with customers. Additionally, consumer duty should lead to more ongoing engagement between distributors and (re)insurers. This can only be a positive impact for our industry, increasing the dialogue and working together more closely going forward."

Adam Jones, Head of Innovation UK & Ireland

"Increasing sales of IP, improving underwriting and claims behaviours, and access to our Protection market becoming ever more inclusive, demonstrates good progress for customers and job-seekers.

But the one thing that has definitively happened is the FCA Consumer Duty. It creates a strong imperative on insurers to fully justify the way in which they distribute their products and in particular understand sales processes and lead generation methodology. This cannot but lead to the reform of those few bad practices and players that are left in protection distribution."

Neil McCarthy Quote, Chair, Protection Distributors Group

"I believe Consumer Duty, coming in 2023, will bring about a positive change in the protection market, as companies increasingly prioritize the interests and needs of their clients. This shift towards more personalized solutions and greater transparency will empower individuals to make informed decisions about their financial protection needs, ensuring that they receive products and services that are suitable for them and building greater trust between advisors and customers."

Jinesh Vohra, CEO, Sprive

"There's some new and different initiatives focused on raising awareness and education of protection in underserved markets happening in 2023, and we're excited to see the outcomes from these. Our research has shown that women are still not adequately 'protected', and as an industry we must continue to make protection understandable and accessible. We're hopeful that 2023 will see more people, especially women, taking out some kind of protection and becoming more financially fit."

Georgia d'Esterre, Executive Committee, Women in Protection Network

"I'm excited to see the continued resilience of the sector aside the cost-of-living crisis. The market is continuing to perform well during incredibly tough times which demonstrates the value of the products we provide, and the advice customers receive. However, as more people are affected, communicating the flexibility available within products will become more important than ever."

Louise Colley, Head of Retail Protection, Zurich

"More customer-centric thinking throughout the distribution chain. Our customers rightly expect their policies to pay out to their intended beneficiaries promptly, at what is already a stressful time.

By ensuring that life policies are set up correctly, whether in a trust or other model, we meet their expectations.

Everyone in the industry has a responsibility to ensure this happens. 2023 is the year to put this into action."

Joanna Scott, Technical & Industry Affairs Manager, Swiss Re

Get in touch

Industry Voice is shared with an audience of over 15,000 people in the UK mortgage and protection industry. We produce four editions a year and target an online audience of mortgage and insurance brokers, product providers, financial advisers and individuals with a vested interest in Industry Insight.

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