




Rethinking Protection

Proposals to help protect UK families



"If I had my way, I would write the word
"insure" upon the door of every cottage
and upon the blotting book of every public
man, because I am convinced, for sacrifices
so small, families and estates can be
protected against catastrophes which would
otherwise smash them up forever.

"It is the duty to arrest the ghastly waste, not
merely of human happiness, but national
health and strength, which follows when,
through the death of the breadwinner, the
frail boat in which the family are embarked,
flounders and the women and children and
the estates are left to struggle in the dark
waters of a friendless world."

Sir Winston Churchill, Manchester, 23 May 1909.

Foreword



Louise Colley,
Protection Director, Aviva UK.

Making sure our families are protected against the worst that life can throw at us ought to be a priority for all of us. However, the reality is that many of us never get round to ensuring we have a financial plan. Human nature tends towards inertia when it comes to our finances. We often excuse this behaviour by thinking that it won't happen to us. Sometimes we need encouragement to act in our own best interests - a fact recognised by a move towards auto-enrolled pensions and proposed free financial guidance for all at retirement. Without this help we can leave ourselves exposed to risks that could be prevented with a little support and forward planning.

At Aviva we care passionately about our customers. We see first hand the devastation caused by bereavement or serious ill health, and the relief afforded by financial immunity to these shocks. As such we have a societal responsibility to help everyone decide what is best for them and their finances. We believe that it should be the norm that people take active responsibility for their own financial futures and that of their families. To achieve this we have a duty to help educate consumers about the financial risks they may be taking - often inadvertently - by not making a plan for the 'what ifs'. By raising awareness of the need for family protection, we can help to improve families' financial resilience and create peace of mind.

Figures from the Aviva Family Finances Report series show that four in ten families have life cover. More than 16,000 UK customers¹ make the choice to protect their families every week, but this still leaves a large number exposed.

None of us like to think about this sort of thing happening to us or the people we love, but sadly the statistics show that many of us will fall victim to unexpected shocks. According to the bereavement charity Grief Encounter, one in 29 UK children under 16 has experienced the death of a parent or sibling. Cancer Research says more than one in three of us will develop cancer at some point in our lives, while it is anticipated that more than 100,000 people in the UK will have a heart attack² every year.

Too many people assume that the state will provide in these difficult circumstances but the unfortunate truth is the maximum paid under Employment and Support Allowance is just £108.15 a week, while if the very worst happens, bereavement benefits pay a one off lump sum of £2,000, followed by between £33.36 and £111.20 a week. More importantly still, these benefits are only available to those who fit strict criteria surrounding income and savings, and are only paid out for a limited amount of time. This level of income will not be enough to sustain living standards and our research suggests there is a clear mismatch between what help is actually available and the estimates people believe they would receive.

The issue has been exacerbated by years of rising prices and stagnating wages, which have affected our ability to save. The typical family's savings would run out within two months if their usual income stopped coming in. Average household unsecured debt of more than £6,000³ in addition to mortgages/rent means a family could face financial hardship very quickly if a relied-upon income suddenly disappeared.

In Rethinking Protection we set out a series of proposals that we believe could help increase awareness of these issues and encourage people to take action and make appropriate plans. These will be discussed in more detail in this document and are as follows:

- Ensuring new parents are made aware of the financial implications of not having a plan in place and helping them to understand the peace of mind afforded by family protection.
- Requiring protection needs to be discussed when taking out a mortgage.
- Educating employees who receive death benefit in service, so they truly understand the benefits and limitations of what they receive.
- Making sure that protection needs are considered as part of divorce or separation proceedings.
- Including protection needs within personal finance lessons as part of the national curriculum.
- Exploring the possibility of protection auto-enrolment.

Putting these proposals into practice gives the UK a chance to achieve real financial security, drastically reducing the number of underprotected people and ensuring that hard working families are not thrown into unnecessary financial distress by events beyond their control.

Without this help we can leave ourselves exposed to risks that could be prevented with a little support and forward planning.

¹ Association of British Insurers.

² British Heart Foundation.

³ Aviva Family Finances Report, December 2013.



Proposal 1

Parents should be given information about protection when they have a child.

- 1.1. Being responsible for a new life causes many parents to reassess their priorities. While practical safety measures such as smoke alarms and car seats are obvious things to consider when preparing for a baby's birth, the need for a financial review, although critical, is rarely front of mind.
- 1.2. This omission leaves many children vulnerable if their parents were to die or become critically ill. Even families who have thought through some aspects of protecting their families - such as making a will or appointing a guardian to look after their child if they were to die - frequently do not make a plan for being unable to financially provide for the new arrival.
- 1.3. However, Aviva's research shows that, for those who do choose to take out life insurance, income protection or critical illness cover, the birth of a new baby is often the trigger point for buying the product. Aviva believes that if more people were informed about the need for financial protection and supported to understand their options at the point when their child is born, then fewer children would be left financially exposed.
- 1.4. Statistics from bereavement charity Grief Encounter suggest that a child loses a parent in Britain every 30 minutes⁴. When this happens, financial stability is hugely important. Without it, children may lose their home and be forced to leave their school and support network, further adding to their distress. Having life insurance can prevent bereaved children from facing this disruption. Aviva has worked with Grief Encounter to understand the difference between bereaved children of parents with protection and those without – the impact is profound.

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- 1.5. Aviva feels so strongly about the importance of family protection that we offer £10,000 of completely free life cover to new parents - both mum and dad - up to the child's first birthday⁵.
- 1.6. There is currently nothing official in place that informs new parents about how to provide financial protection for their families. Aviva believes that if parents are given information about life insurance, critical illness cover and income protection at this crucial trigger point, fewer children would be left financially vulnerable by the sudden death of a parent, or by a parent unable to work due to illness.
- 1.7. Educating new parents about family protection could happen at one of a number of points during the journey towards new parenthood. Health visitors or midwives could provide impartial literature about the importance of financial protection, or leaflets could be given out at the registration of a birth. While new parents are naturally very busy at this time, they are also engaging in official activities such as registering the birth, applying for Child Benefit and opening children's savings accounts, so there are many opportunities to consider how to plan for the unexpected. Impartial literature on financial protection should help to add this consideration to their list of high-priority tasks.

⁴ Grief Encounter Charity.

⁵ Terms and conditions apply.

Proposal 2

Discussing protection should be compulsory as part of the mortgage sale process.

- 2.1 A mortgage is the biggest debt most of us will ever take on, but when we take one out, many of us do not think about how we will continue to pay it if we lose an income through serious illness or even death. If protection is not discussed at the time when key financial decisions are made, it may not be considered at all.
- 2.2 It is estimated that around half of UK mortgage holders do not have life insurance, meaning that millions of homeowners are vulnerable to sudden shocks. Aviva believes that mortgage advisers have a duty of care to customers who are taking on a large financial commitment. Their customers need to understand what could happen if they are not protected and they are hit by an unexpected tragedy.

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- 2.3 Therefore, mortgage advisers should be required to discuss protection needs as part of all mortgage sales, although buying a protection product should not be compulsory. Raising awareness of protection should encourage new homeowners to think about what their circumstances would be if they became ill and therefore unable to work, or if someone paying the mortgage was to die.
- 2.4 Similarly, the adviser would be well placed to urge consumers to consider the costs of day-to-day living and how these may be covered, as well as mortgage repayments.
- 2.5 A discussion like this is merely common sense when it comes to considering financial matters. It seems odd that this vitally important aspect is not considered when our modern lifestyles constantly encourage us to consider the risks we face. When we take on a huge financial commitment like a mortgage, ensuring that we understand the consequences should be an obvious step.



- 2.6 The requirement to discuss protection requirements need not be onerous on mortgage advisers or their customers.
- 2.7 After receiving protection information, customers should sign a document stating that they have discussed the issue. This would serve the dual purpose of protecting the mortgage adviser against accusations of failing to warn the customer about their obligations and ensuring that the customer is clear about the risks of an unprotected mortgage.
- 2.8 This may also be an opportunity to make homeowners aware of the limits of the state safety net in place for those who face health problems, long-term unemployment or other seismic shocks to their lifestyles. While government support is there for those in need, it is understandable that this help can only go so far. Support from the state, which begins 13 weeks after claiming, helps only with interest payments on up to £200,000 of mortgage borrowing and won't extend to capital repayments, related insurance premiums or payment arrears.
- 2.9 Aviva believes that the industry needs to work closely with the Government to address trust issues surrounding the sale of insurance by financial providers. Insurers must work with the Government to deliver simple communications highlighting the importance of protection as part of responsible homeownership.

Proposal 3

The level of death benefit needs to be explained to all, so that everyone can make a decision on how it fits within their protection needs.



- 3.1 From April 2016, the current system of bereavement benefits will be reformed, and the three existing benefits replaced by a single system known as the Bereavement Support Payment. The payment will consist of an initial lump sum followed by instalments paid out for a year.
- 3.2 Aviva welcomes the reform of the current system, and believes that the new payment will be easier to understand and to claim. Consolidating three benefits (Bereavement Payment, Bereavement Allowance and Widowed Parent's Allowance) into one, simplifying entitlement conditions and promoting this benefit to the bereaved should enable more people to understand and receive this valuable support.
- 3.3 However, it is important to note that this payment is not enough to ease anything but the most immediate financial burden. Analysis suggests that the payment will comprise of a lump sum of £2,500 followed by monthly instalments of £150 for a year for those without dependent children, and a lump sum of around £5,000 followed by monthly instalments of £400 for those with dependent children. More importantly, these benefits are only paid to those who fit certain financial criteria, so they are by no means guaranteed.
- 3.4 Research suggests that the cost of a basic funeral alone is more than £2,000⁶, even without additional costs such as a headstone and flowers. This figure is only expected to increase in future years.
- 3.5 These costs would leave a family with little to cushion them against other financial readjustments that need to be made after a bereavement, such as reduced household income or increased childcare costs. One in 29 children under 16 in the UK experiences the death of a parent or sibling⁷ so there are many UK families at risk of finding themselves in this situation. It is important that they are not naive about the level of financial support available at times of bereavement.
- 3.6 Aviva believes that there is a risk that some households will interpret the Bereavement Support Payment as 'enough' to support their family and may not understand that it is a short-term measure of support. Positive news coverage surrounding the reform of the benefit could exacerbate this problem, with families believing that the Government has set the level of the payment at an amount that will cover all basic necessities.
- 3.7 Aviva is concerned that people will see this reform as relieving them of individual responsibility to plan for their own family's future. As such, they could miss out on the benefits which this planning process affords. In light of this, Aviva urges the Government to use the reform as an ideal opportunity to promote awareness of the financial impact of bereavement.
- 3.8 Aviva recommends that the Government supports the reform of bereavement payments with an engagement campaign that encourages families to understand the financial implications of death. This would lead to more families avoiding financial struggles, should the worst happen.
- 3.9 The Money Advice Service could help by providing unbiased information about the financial pressures brought about by the loss of an income following death, injury or serious illness. As a result of a sustained campaign, families should understand what provision is in place and take the proposed bereavement benefit into account when considering whether they need additional provision.
- 3.10 It should also be noted that cohabiting families face the same needs and pressures as those who have legally registered their partnership - through marriage or a civil partnership. However, the benefit will not be extended to these families. This decision makes it all the more important that the changes are appropriately communicated to all and backed by an informative campaign.

⁶ Source: The Cooperative Funeral Care suggests a typical funeral ranges from £2245 to £2600 plus disbursements.

⁷ Source: Grief Encounter Charity

Proposal 4

Protection should be a required discussion point when a couple is determining the details of a divorce / separation settlement.



- 4.1 Modern UK families are varied and complex. Aviva's most recent Family Finances report shows that one in three UK marriages is now a remarriage for at least one partner, while a third of UK two-parent families include at least one child from a previous relationship.⁸
- 4.2 Many of these modern families receive financial support from former spouses or partners to support their children. The amount they receive from former partners can be considerable. Regular monthly payments range from less than £50 per child to more than £1,500, averaging out at £254 per child, per month.⁸
- 4.3 However, families could be putting themselves in needlessly precarious financial situations, since the income from an ex partner could dry up if he or she loses a job, becomes critically ill, or dies unexpectedly.
- 4.4 Only one in four of the families who receive maintenance from a former partner know for definite that the provider of this support has financial protection - such as life insurance, income protection or critical illness cover - to safeguard child support payments. One in five know that their former partner doesn't have protection, while a further third fear this is the case.

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- 4.5 This lack of protection potentially leaves modern families vulnerable. Aviva therefore believes that couples who are divorcing or separating should be required to discuss protection issues as part of any financial settlements, especially when children are involved.
- 4.6 Aviva research shows there is a tendency to neglect important financial safety issues, such as protection and the updating of wills, when relationships break down. Almost a fifth of those whose wills are affected by a separation fail to bring them up to date, suggesting that issues of financial security rarely receive the attention they deserve at this important juncture in people's lives.
- 4.7 The explanation of protection issues surrounding divorce and separation could take a variety of forms, from a leaflet to a video explaining the ramifications of unprotected child support income. This information could be provided by divorce lawyers or the Government's Child Maintenance Service.

⁸ Source: Aviva Family Finances Report December 2013.



Proposal 5

Protection is a foundation skill in understanding finance and as such should be a key module in personal finance education.

- 5.1 From September 2014, personal finance education will be part of the National Curriculum in secondary schools for the first time. While mathematical problems involving money will be covered from primary school level, students in secondary school will also cover budgeting and risk management, savings and pensions, and financial products and services in their citizenship classes.
- 5.2 Aviva welcomes the introduction of personal finance into the curriculum, and believes now is the time to structure the order in which personal finance is taught, to prioritise those products that promote financial security.
- 5.3 Although the mechanics of insurance - including life insurance, income protection and critical illness cover - will be covered when students are taught about financial products in their citizenship lessons, Aviva believes that financial protection should be accorded a high priority within the lesson planning process. This is because of its importance when it comes to creating family units that are not financially vulnerable to external shocks.
- 5.4 Aviva first began working in partnership with schools to raise awareness of personal finance in 2007. We believe that children need to learn about managing money in a way that reflects household priorities. When considering the hierarchy of needs for financial security, protection should be seen as a foundation need, since without it, families could lose their homes and savings in a very short period of time.

It is vital for the success of Britain's young people that they understand the complex financial choices they face and their importance in keeping them and their families safe

- 5.5 Within the financial curriculum, children should be taught how insurance policies work, as well as the limits of the state financial safety net available to families where a main wage earner is unable to work, or where there is an unexpected death. The curriculum should cover the importance of protecting oneself and one's dependants against unexpected events and the possible effect on finances if a person remains unprotected.
- 5.6 Aviva also notes that academy schools, which represent 50 per cent of all secondary schools in the UK, are free to opt out of the national curriculum. This means that they have no obligation to teach personal finance. Aviva believes that these schools should be encouraged to include the subject in their curriculum, since it is vital for the success of Britain's young people that they understand the complex financial choices they face and their importance in keeping them and their families safe.

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Proposal 6

Protection and auto enrolment in the workplace.



- 6.1 The involvement of employers in offering financial products to their staff has taken a giant leap forward with the introduction of pension auto-enrolment in many workplaces. This then presents an opportunity for employers to further support their employees financially, by offering other simple financial products, such as income protection.
- 6.2 A reported seven per cent⁹ of employers offer income protection to their employees. The Sergeant Review of Simple Financial Products, published in April 2013, recommended the development of a simple income protection product as a 'high priority', stating that this product should be sold on a non-advised basis. We believe that the workplace is the best place to distribute such a product, which could go a long way towards solving the issue of underprotection amongst employees.
- 6.3 Trade bodies GRiD (Group Risk Development) and the ABI (Association of British Insurers) are already responding to the provocation from the Department for Work and Pensions to develop a simple income protection product that would be accessible through employers.
- 6.4 Workplace absence is currently a financial burden both on employers and on the state. In December 2013 Mike Penning, Minister of State for Disabled People said: "We spend more than £13bn sickness and incapacity benefits for almost 2.5 million people of working age."¹⁰ Enrolling employees into protection products through the workplace would help to reduce this reliance on the Government, while benefitting employers too.
- 6.5 Aviva believes that offering income protection through the workplace offers huge societal value. The product helps employees to get back to work, rather than simply paying out when they become unable to work. Moreover, an income protection offering in the workplace would give more employees access to protection benefits while they are unable to work due to illness or injury, while reducing the cost to the Government benefits system.
- 6.6 Employers may be more willing to take up the scheme if some of the savings are shared with them, for example, through the use of tax incentives, such as making a change to employers' National Insurance contributions linked to whether or not they offer the product.
- 6.7 Aviva believes that, given the success of similar schemes in Holland and Germany, many UK companies will sign up to a voluntary scheme without the need for auto-enrolment. The Government has excellent means to help educate both employers and employees about such a scheme. Meanwhile, insurers have the infrastructure, the resources and the expertise to offer a simple income protection product to benefit both employers and employees. Working together, we could significantly reduce the burden on the state, helping those who are able to work, get back to work quicker.

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⁹ Money Marketing, 5 November 2013, citing Government figures.

¹⁰ <https://www.gov.uk/government/news/penning-welcomes-findings-of-litchfield-review-of-work-capability-assessment>

Conclusion

The protection industry offers a vital lifeline to millions of UK families. While nobody ever wants to be in the position of claiming on a life, critical illness or income protection policy, every year tens of thousands of people do. Customers receive more than £36 million each day through protection insurance policies*, providing financial comfort at some of the most difficult times.

Perceptions around the insurance industry are slowly improving. Transparency around claims statistics has helped to increase consumer confidence, while an ongoing programme of product enhancements means providers are paying more claims. Definitions are clearer, helping customers and advisers to know exactly what is covered, while claims processes have become quicker and slicker.

Insurers have also taken great strides in breaking the taboos around life insurance, critical illness cover and income protection. By creating bold TV and radio advertising campaigns, Aviva has helped to raise awareness of family protection. By working with the media, insurers have shown families that while we don't necessarily want to think about the 'what ifs', it's vital that we do.

There is still much more to be done if we are to address the issue of underprotection in the UK. But we are fortunate that the touchpoints outlined in Rethinking Protection mean we can communicate with consumers and help them to appreciate the importance of family protection.

Protection is the bedrock of financial planning. It gives families confidence that they can build their futures without fear of the unknown. Aviva believes every family deserves protection, and by working together, we can make sure that families have the stability they need.



*ABI: life insurance, critical illness, income protection and long term care policies, September 2013.



