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COVID-19 report

Impact on distribution of protection products

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1 Abstract

This report considers the impact that COVID-19 has had, and continues to have, on the distribution of protection products in the U.K. We begin by considering the impact of the pandemic during the initial phase (when a strict lockdown was in place), the period following the strict lockdown and the potential long-term impact of the pandemic.

During each phase the impact on sales volumes, consumer demand and ways of working are considered.

A series of questions were posed to a range of U.K. insurers who shared their findings on what had happened to their business volumes and mix during these periods and their outlook for the future. We would like to thank the insurers that responded. These responses have been invaluable in informing this report.

Keywords

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2 The impact of the pandemic in the initial phase

A strict lockdown was in place across the U.K. from 23rd March to 10th May 2020. During this time, there was a significant impact on the sale of protection products within the U.K.

2.1 Sales volumes and distribution mix

iPipeline published figures (iPipeline, 2020), which showed that in Q2 2020, protection sales processed through its platforms, on a 'like-for-like' basis, were down 13% year-on-year. Income protection (IP) was the hardest hit area, with a 30% like-for-like decrease compared with Q2 2019.

The iPipeline report also split the volumes by channel, where only Call Centres saw an improvement in volume:

- Mortgage Brokers were the worst hit sector, with a 23% decrease in new business year-on-year,
- Wealth Independent Financial Advisers (IFAs) had a 16% decrease
- General IFAs had an 8% decrease
- Call Centres had a 9% increase

Unsurprisingly, the advisers who have fared the best during the pandemic have largely been those whose normal business model is to deal with consumers remotely.

Legal & General published their H1 2020 sales figures (Legal & General, 2020) via Cover magazine at the end of July 2020. They found that protection sales varied by distribution channel:

- Telephony-based firms: **up** 20-30% from 2019

- Mortgage firms: **down** 20-30% from 2019
- Wealth firms: **down** 10-20% from 2019

L&G reported that the telephony firms were finding consumers more likely to be at home when they contacted them and more open to having protection conversations.

We also contacted U.K. insurers to ask for their findings on what had happened to their volumes and mix during this time. Four insurers shared information with us and their comments are summarised below.

Insurer A:

- Single-tie business reduced by 30%, partly due to many staff being furloughed.
- Overall, volume reduced by 40% in Q2.

Insurer B:

- Volumes in Q2 fell and were only partially offset by a higher conversion rate of quotes/applications to policies.
- Reduction in volume from mortgage brokers, due to slowing down of house sale completions.

Insurer C:

- Overall, volume reduced by 30% at the start of lockdown although recovered somewhat towards the end.
- Reduction in volume from mortgage brokers, due to slowing down of house sale completions and some furloughing of staff at mortgage brokers.
- Reduction in business from more traditional financial advisers, whereas volumes largely maintained by telephony firms.

Insurer D:

- Volumes fell materially in Q2.
- Telephony-based firms or those firms who were quick to move to remote ways of working have fared much better.
- Direct channels were less impacted than intermediary channels.

Wealth firms tend to submit larger cases and thus were more heavily impacted by insurers' revisions to underwriting process and the general impact COVID-19 had on the medical profession in terms of their ability to manage a timely turnaround on doctors' reports and to carry out face-to-face medical screenings.

During the tightest period of lockdown, new house sales slowed due to the difficulty consumers faced in viewing properties. This inevitably would have had an impact on protection sales from this channel as there would have been fewer mortgages written (and therefore to protect) and each one may have taken longer to process.

All four insurers who replied to us reported that telephony-based firms had maintained volumes much better than face-to-face firms. Aside from the mix in distribution firms changing, there was also some shift in product mix. Some of the insurers reported:

- a reduction in the proportion of larger sum assured business, due to difficulty in obtaining medical evidence.
- a reduction in the proportion of business protection cover compared with individual protection.

- a reduction in the proportion of decreasing term business, due to the slowdown of the mortgage market.

Some of the insurers reported that some advisers changed their approach to structuring policies during this time, for example by splitting covers across the market to maximise capacity at individual insurers and by focusing on easier-to-sell products such as term assurance, rather than critical illness or income protection products.

Overall, there is a consistent pattern across the insurers who responded to us and across other published findings. Volumes in Q2 2020 fell significantly and the only channels that managed to maintain volumes were those who already had a remote-contact model, such as the direct channels or telephony-based firms.

2.2 Consumer demand

During lockdown, consumers, insurers and distributors all had to adapt to working remotely where possible. Buying protection products may not have been a priority for many consumers during this time as they adjusted to the changes in their daily lives. For those with children, lockdown presented a challenge of how to balance work life and home-schooling.

Whilst an increased awareness of their own mortality and morbidity risk may have occurred in many consumers, job security and their finances will have been the biggest concern for many and buying protection products may have been de-prioritised. Government data (Gov.uk, 2020) shows that by 20th September 2020:

- 9.6m jobs had been furloughed.
- 2.7m claims had been made under the Self-Employment Income Support – tranche 1.
- 2.2m claims had been made under the Self-Employment Income Support – tranche 2.

Conversely, during lockdown, a subsection of the population found themselves with both more time and more money, because of the removal of their commuting time and cost. This extra time and money, combined with an increased health awareness, may have increased consumer demand for protection products for these consumers.

PwC surveyed 6,000 US consumers from 22nd May to 6th June 2020 to find out about attitudes and experiences with insurance (PwC, 2020). Some said their experience with the pandemic has made them more open to considering protection products:

- life insurance (15% of respondents);
- supplemental health insurance (10%);
- disability insurance (9%);
- critical illness coverage (9%).

ActiveQuote (ActiveQuote, 2020) reported a surge in demand for short-term income protection, with enquiries increasing by as much as 1100% when COVID-19 arrived in the U.K.

Cover magazine reported that Guardian Financial Services carried out a survey of 410 advisers in the U.K. from April – June 2020 and found there had been an increase in consumers actively seeking protection advice (Cover, 2020)

- 75% of advisers have seen an increased willingness from clients to talk about protection as a result of COVID-19.

- 40% said they had seen an increase in protection enquiries from existing clients and 38% had seen it from new clients.
- 55% said they always talk about protection, but a further 37% of the remaining advisers said they had discussed it more frequently since the start of the pandemic.

One of the insurers who responded to us reported that whilst distributors were saying consumer interest had increased, this was not necessarily translating yet into an increase in sales due to reduced capacity in underwriting and the mortgage process taking longer, taking time away from protection sales.

2.3 Ways of working

During the strictest period of the lockdown, nearly all face-to-face meetings between advisers and consumers, and between advisers and insurers should have been cancelled. This accelerated the drive towards digital methods of communicating. The insurers we contacted reported that firms are adopting much wider use of the phone and video-conferencing platforms to talk with customers.

Some of the insurers we spoke with also mentioned a shift in what was deemed important by advisers, with a greater focus than previously on ease of underwriting, particularly being able to write business without the need for medical evidence, and premium flexibility. The latter has not yet translated into material volumes of consumers using this feature though.

3 The impact of the pandemic after lockdown restrictions lifted

On 10th May 2020, the U.K. Prime Minister announced a relaxation of some of the restrictions in England with people gradually being encouraged back to work and shops re-opening on 15th June. The rest of the U.K. followed a similar lockdown relaxation timeline. In this section, we look at what has happened since the rules have been relaxed and what we may expect to see in the next few months while the pandemic is still active. At time of writing in November 2020, much of the U.K was entering back into a period of tighter restrictions, although this is not expected to be as severe as the initial lockdown, with many workplaces now able to operate safely within COVID guidelines.

3.1 Sales volumes and distributor mix

The direct channel may continue to grow during the pandemic, due to increased consumer awareness and potential perceived lack of access to other distribution channels.

For the mortgage market, it is less clear what the impact of the pandemic will be in the medium-term. Official FCA figures (FCA, 2020) show that mortgage lending was 33% lower in Q2 2020 than in Q1 2020, and also 33% lower than in Q2 2019, demonstrating the dramatic effect the lockdown had on mortgage completions. Figures for Q3 have yet to be released (due for release on 8th December 2020) but are expected to show considerable improvement, as lenders and advisers work through a backlog of cases. The Halifax House Price Index (Halifax, 2020) shows house prices in Q3 2020 were 3.3% higher than in Q2 2020. September 2020 house prices were 7.3% higher than in the same month in 2019, which is the strongest growth since June 2016. They also report a 12-year high for mortgage applications in Q3 2020.

It is not expected that this mortgage boom will continue though. It is likely that the peak in Q3 is a result of the backlog of cases from Q2. Once this has been processed, the recession and the end of the stamp duty holiday in March 2021 may cause the housing market to start to falter once more.

The relationship between the health of the mortgage market and sales of protection protects is not always clear. Intuitively, increased mortgage completions may be expected to translate into higher volumes of protection sales, but this may not be the case. When there is a large volume of mortgage applications to process, brokers may choose to delay or remove the protection conversation with the consumer in order to process their mortgage pipeline. There is perhaps an optimal point of sufficient but not excessive demand in the mortgage market when protection sales thrive.

In other distribution channels, we may expect some of the older traditional advisers to start to leave the market if they choose not to embrace the new technology. There has not yet been any strong evidence of this happening though and we may see more exiting from the market when the furlough schemes come to an end.

3.2 Ways of working

The insurers we spoke to mostly anticipated a sustained change in the way advisers communicate with customers. The traditional face-to-face advisers who have adopted new technologies during the lockdown period will continue to use these new methods for many of their customers, given the ongoing reluctance of many consumers and advisers to meet in person. There may be increasing levels of investment in technology to support this.

The fall in sales at many distribution firms may lead to a focus on reducing expenses. Giving up large office spaces and promoting a work from home culture may be a way that many choose to achieve this.

The insurers who responded to us have already seen sales recover considerably since the tight lockdown period ended. Larger sum assured business is starting to be written again, as some face to face screening has resumed. However, many underwriting restrictions are still in place and may not be removed until a vaccine or effective treatments are found, which will continue to place some restrictions on sales.

Insurers are looking to support distributors in their new ways of working by increasing communication about underwriting changes during the pandemic and making more processes digital.

3.3 Consumer demand

One of the insurers who responded to us expects there to be increased consumer interest over the short to medium-term as consumers have a greater awareness of their health risks. However, whether this translates to an increase in protection sales is uncertain. The downturn in the economy may mean protection products are de-prioritised for consumers struggling to meet their other financial obligations.

4 The lasting impact of the pandemic

At the time of writing, the U.K. is currently in the second wave of the COVID-19 pandemic and as of 5th November 2020 new national restrictions for England have been introduced, the devolved administrations having already introduced new restrictions. Whilst the impact of this second lockdown is not explicitly considered, there clearly remains great uncertainty about the long-term impact of the pandemic on the distribution of protection products. Nonetheless, COVID-19 is likely to act as an accelerant to important trends as insurers look to reassess their operations, technology infrastructure and physical locations.

Whilst insurance communications have historically been paper-heavy, the pandemic has necessitated change. Communications now make use of technology and consumers are re-directed to digital channels for information, service and queries, wherever possible.

These changes are likely to grow and expand over time and it is highly unlikely there will be a reversion to the old way of doing things.

4.1 Volumes

The insurers who responded generally considered the longer-term prospects for the market to be positive as the pandemic has reminded consumers of the importance of protection products. It is likely the population will continue to think more about protection.

With the exception of some smaller firms, there is no expectation that distributors will stop selling protection products as a result of the pandemic. As distributors adapt to new ways of working, they will increase capacity enabling protection volumes to return closer to pre-pandemic levels.

However, there is concern about the impact of economic headwinds which could depress demand and impact persistency. The planned end of the stamp duty holiday in March 2021 may also impact demand in the mortgage market.

4.2 Ways of working

Distribution has traditionally been focused on face-to-face meetings and centred around key life events such as a mortgage sale. The pandemic has forced a change, as early technology adopters have been able to benefit from greater resilience. Those distribution firms who are unwilling or unable to migrate to digital methods may find it hard to compete in the new world. We would expect this to impact older advisers more, some of whom may choose to retire from the industry slightly earlier than they perhaps would have done otherwise.

Digital capability has become increasingly important and this will continue in the longer-term. There will be an expectation of video capability and a large range of supported on-line activities. Not only will it enable advisors to continue to operate efficiently in future lockdowns, it should increase their productivity and enable material cost savings.

The insurers who responded felt that there has been an acceleration of the longer-term trend towards the use of technology. This may manifest itself in two ways:

1. ***Adviser and client.*** Advisers will move towards a more agile and flexible approach, with increased work from home. They will increasingly use technology for virtual contact with clients and to provide online advice.

2. ***Adviser and provider.*** The training and support that providers give to their advisors will increasingly be delivered through virtual platforms. Digital capabilities will be enhanced to provide a digital platform for new business processing.

It is likely that there will be an increased future demand for self-service capabilities, thereby increasing the focus on providers who have an excellent digital capability.

The journey to a more flexible and digital environment may not be possible for all. Smaller firms or those that have operated in a traditional manner for many years may not want, or be able, to make the change.

Such firms may struggle to compete against those that have fully adopted a new way of working. This was highlighted by the respondents, who felt that some, particularly smaller firms, may decide to stop selling protection products in the future.

A potential risk here is that such exits could lead to a loss of experience within the adviser market.

4.3 Consumer demand

It has already been mentioned that protection may become more valued by consumers as the pandemic makes them more aware of the importance of life insurance, critical illness and income protection. This will likely increase consumer demand. Despite this, one respondent to our insurer survey remarked that protection will continue to be sold and not bought, although the engagement to sell may become easier.

However, the crisis has also highlighted the vulnerability of insurers to reputational damage, the consequences of which can be long lasting. This can arise from either:

- repudiated claims (for example, if COVID-19 patients are unable to claim under existing critical illness wording);
- a lack of product flexibility; or
- delays caused by inadequate systems for supporting a flexible work environment.

Whilst long-lasting damage could happen to the industry as a whole, providers who are able to maintain their level of support and responsiveness throughout the pandemic are less likely to suffer damage to their reputation. Insurers who have already invested in their digital capabilities have been in a stronger position during the pandemic in communication, servicing and new business activities.

4.4 Pricing implications

The pandemic may have exposed shortcomings in the traditional long-term products, that are largely static in nature. For example, shortcomings such as being unable in many instances to be able to increase or decrease cover easily or temporarily suspend cover. In the longer-term, consumers (and potentially regulators) may demand more flexibility with products. Such flexibility could have pricing implications.

Changes to the distribution model, and the costs associated with it, may necessitate changes to pricing. In addition, if any of the changes result in a different risk profile of the underlying business, then this could have pricing implications.

More generally, providers may need to consider the appropriateness of their product landscape in light of the pandemic.

5 Conclusions

COVID-19 has had, what is likely to be, an irrevocable change on the distribution of protection products. It has prompted a move towards digitisation and remote working that would likely have happened over time but has now been accelerated.

For those that can adapt to these changes, it is likely to bring a range of benefits including distribution models that are more cost effective and resilient to future disruption. Effective digitalisation should result in an improved customer experience.

Whilst the initial COVID-19 outbreak and subsequent lockdown did result in a fall in volumes, this was felt most acutely in face-to-face distribution channels. The experience of telephony provides reassurance that the move to digital modes of communication will mitigate this in future lockdowns.

The long-term impacts of the pandemic are difficult to predict but the increased awareness of such risks within the general public may increase the perceived value and demand for protection products. If insurers can respond to this with excellent digital capabilities and responsiveness, then the customer will benefit and there is an opportunity to enhance the reputation of the industry.

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