HOW TO GET INTO… INCOME PROTECTION

Income protection does not feature as high as it might do on some clients' (and advisers') priority lists. Zurich offers some guidance for advisers looking to break into the market

From arranging a mortgage to saving for retirement, income is an essential component of just about every financial plan. But, while it makes sense for clients to protect their income, some advisers shy away from recommending income protection (IP).

Just how far down the product pecking order it falls can be seen in figures from Swiss Re's Term & Health Watch 2019. Although IP sales increased by 22.6% in 2018, only 148,498 new policies were sold. This compares to 537,073 critical illness policies and 1,572,693 life insurance plans.

UNFOUNDED RETICENCE

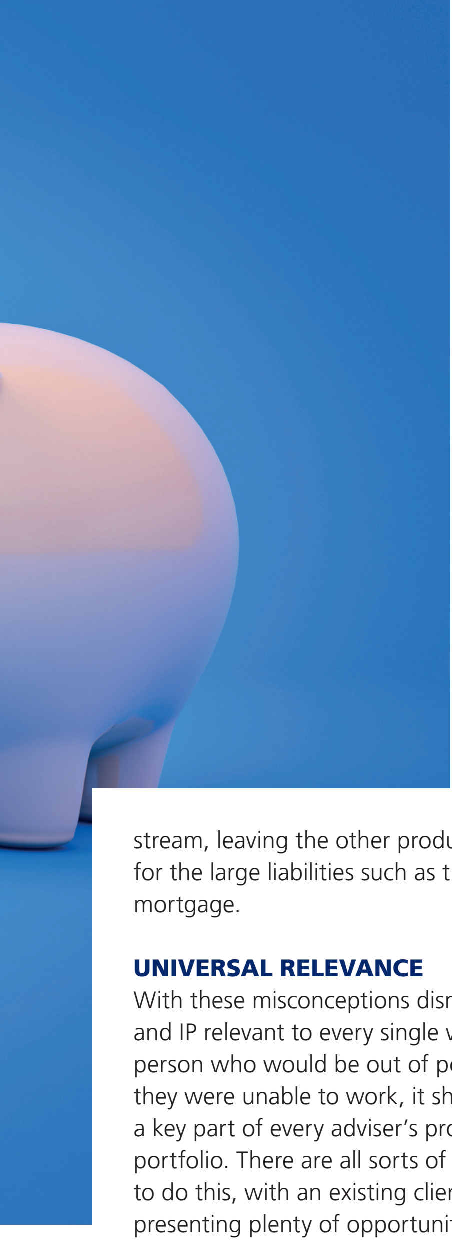
There are plenty of reasons for this adviser reticence. With variable deferred periods, payment terms and salary percentages, IP can seem more complicated than other protection products. This may be true, but these features are simple and make it easy to tailor cover to clients' personal requirements.

Cover can also be perceived as too expensive. Certainly, the premium for an IP plan with a four-week deferred period covering 80% of income until retirement could put some clients off. But a simple solution is to tailor it to their needs by reducing the deferred period, benefit level or payment term – and suddenly it's transformed into an affordable safety net.

CLIENT RESISTANCE

Advisers can also encounter some resistance from clients. As well as the old chestnut of 'it won't happen to me', clients point to their sick pay or state benefits as reasons why they don't need IP. They could be right, but they could also be taking a significant risk, especially if they have to rely on statutory sick pay (£94.25 a week for up to 28 weeks) or universal credit (starting at £317.82 a month for someone aged 25+).

Both advisers and clients can also shun IP as they feel there's already adequate cover in place through life insurance and critical illness cover. It's a good start but a client can struggle financially if they're unable to work as a result of a condition not covered by their critical illness policy. IP also gives them a valuable income



stream, leaving the other products for the large liabilities such as the mortgage.

UNIVERSAL RELEVANCE

With these misconceptions dismissed, and IP relevant to every single working person who would be out of pocket if they were unable to work, it should be a key part of every adviser's product portfolio. There are all sorts of ways to do this, with an existing client base presenting plenty of opportunities for IP advice.

For instance, wealth management clients could take it out to ensure their pension contributions continue, while anyone with a mortgage could use IP to maintain their monthly payments.

Cover can also be flexed to target different segments of an adviser's client base. As an example, an IP plan with a longer deferred period might suit someone with savings who could self-insure for a period, or a client who already has a short-term IP plan through their employer.

NEW OPPORTUNITIES

Advisers can also generate new opportunities, with social media offering a great opportunity to talk to existing clients, but also their friends and families. Linking to industry and press content on Facebook, Twitter and LinkedIn is a great way to demonstrate expertise and engage with new and existing clients.

A social media presence can also help an adviser engage with younger clients. They might not sound like the traditional IP market but, according to iPipeline, the under-30s accounted for almost one in five of those taking out IP in the first quarter of 2019.

Undertaking a little homework before embarking on these first steps is also prudent and there is plenty of support available. As well as checking out the products and reading the protection press, such as Cover and Health Insurance & Protection, insurers and industry bodies including the IP Task Force, Protection Review and Seven Families can also provide support to advisers looking to grow their IP business.

Breaking into any new market can seem daunting, but with demand for this cover on the up, it's a great time to take advantage of the support that's available to make IP part of the advice you offer. ■

Three advisers who successfully write protection business offer tips to mortgage and wealth advisers looking to branch into advising on income protection for the first time

ANDREW COLES
BEAUFORT FINANCIAL

#1 Show clients how fragile future earnings are
Undertake a cash flow modelling exercise and you'll see how important income protection (IP) is in financial planning. "Future earnings are often a client's biggest asset. If you can't work through illness – and earn – you need to be covered."

#2 Position IP as part of a long-term financial plan
Use diagrams to illustrate a cash flow model. "These make it easier for clients to understand the need for IP, to maintain income while recovering from accidents or illness. IP, paid out monthly, is better in most cases than a lump sum from a critical illness policy, which might be spent less wisely."

#3 Agree an overall financial planning budget
Agree an overall financial planning budget and split this into three important areas – savings, investments and protection
"We find that IP goes hand in hand with CI, offering greater peace of mind. A typical IP policy will cover some 60% of clients' wages or salaries. They won't be better off. They'll need to understand this and what will and won't be covered."

PETER CHADBORN
PLAN MONEY

#4 Get hold of clients' employee benefits booklet
For clients with sick pay benefits via work, it is essential to dove-tail IP recommendations to avoid overlap. "You can add value to your advice proposition by getting a copy of the booklet or benefit statement, interpret it and educate the client about what they have or don't have."

#5 Consider short-term IP
Combined with the need for other protection, the cost of comprehensive IP may be a barrier to purchase, particularly for someone with a new mortgage. Consider short-term IP where the benefit payment would be limited to, say, five years. "It is better to have some cover rather than none. This can bring the premium down to a level that's more palatable and gives you a reason to review the cover a few years later."

#6 Promote added benefits
An attraction to purchase can be the added benefits which many IP providers offer at no extra cost. "As an example, take a look at the Zurich Support Services, available 24 hours a day 365 days a year from the moment the policy is taken out."

ALAN SOLOMONS
ALPHA INVESTMENTS AND FINANCIAL PLANNING

#7 Study the policy wording
A plan with an 'own occupation' incapacity definition should pay out if the policyholder is unable to undertake his or her current job but study the policy wording to identify criteria that might pose a problem. "The policy wording may require the client to be unable to do three out of six tasks of working. This would be no good for a surgeon who contracts Parkinson's disease."

#8 Find out what is relevant to the client
Pay careful attention to areas such as country of residence and maximum cover. "Will the policy pay out if the client is not in the UK? If so, which countries and for how long? This may be vital for non-dom residents in the UK who expect to stay for years but may go back. Later the client's income may exceed their maximum level of cover, so discuss with the client where they see their income going."

#9 Link pay-outs to inflation
Lastly, always select the RPI option to ensure that, if the client claims, the cover will have the same purchasing power as it had at inception.