WHITE PAPER – DECEMBER 2022

ON THE FRONT FOOT

A white paper designed to help protection advisers rise to the challenge of the cost-of-living crisis.

GUARDIAN 1821
LIFE. MADE BETTER.

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Facts and figures are accurate to the Bank of England November interest rate decision, ONS October inflation figures released in November and the Chancellor's autumn statement on November 17th.

SECTION 1
MARKET AND SECTOR ANALYSIS FROM GUARDIAN

It's been an extraordinary year so far with rising living costs becoming an increasing concern for many of your clients. The scale of the current and predicted price rises has been dramatic. The latest Bank of England assessment had suggested that inflation would peak above 11% by the end of this year as it raised the base rate to 3%. It's now reached 11.1% according to the Office for National Statistics (ONS). The Bank suggested that among other things, the energy support package reduced the expected peak from around 13%.

AN EXTRAORDINARY YEAR

Amid the turmoil what is clear is that price rises are of such an order of magnitude that a significant proportion of your clients will be feeling some financial pain. They may be more focused on managing personal costs, something evidenced later in this paper. In this climate, persuading clients about the value of protection has become more difficult, but arguably more important too.

A difficult economic context

Advisers have always set their advice and recommendations in the context of prevailing economic circumstances, but the shift in just 12 months has been remarkable.

A huge number of mostly external factors have combined to drive up prices in the UK. The most significant is the cost of energy which has risen dramatically across Europe as Russia cut off gas supplies with long-term effects across energy markets and a host of energy dependent activities.

This crisis came on top of already significant price rises as the world and the domestic economies adjusted to a reopening that had left shipping containers in the wrong place, inventories depleted, supply chains strained and businesses in some sectors dramatically short of staff. Now the world's central banks are reacting by raising interest rates – something of direct concern to mortgage intermediaries as mortgages become more expensive while the recent mini-budget tax cuts – since reversed - brought unwelcome rises in fixed rate mortgages. Financial advisers may be reviewing investment strategies and, for some clients, tweaking financial plans in the light of a very different set of circumstances.

The challenge to the protection sector

We felt it was important not to underestimate the huge challenge to the protection insurance sector and for intermediaries who recommend protection alongside a mortgage or as part of general financial and business planning. So we've collated our survey results and views from across the industry together with lots of useful information into this white paper 'On the front foot' to help advisers have the right conversations with their protection clients.

A CHALLENGER NEEDS TO RISE TO THE COST-OF-LIVING CHALLENGE

When the economy turns in an unexpected and unwelcome direction, it brings challenges for any business. There's an urgent need to manage costs and to adjust business strategies and business plans. Yet as a protection business that distributes through advisers, it's arguably most important for us to consider what those changed circumstances mean for our customers and your clients and businesses.

Guardian set out to be a challenger brand from inception. We wanted to build a successful business. We also wanted to shake up the market by questioning assumptions, simplifying definitions and developing ways to make making a claim and receiving a payout much easier.

This has given our business a strong purpose to underpin our conventional business goals. Yet the circumstances and context have been remarkable, first with the pandemic and now with a huge shift in economic conditions.

Even when we get good news, it can be followed by bad. The UK Government energy support package was widely welcomed and brought the predicted peak of inflation down. Yet significant support for families and individuals initially offered for 2 years now lasts until April 2023 with a less generous package from then till March 2024. It will certainly make a difference to many households' personal finances but is more of stopgap measure. A difficult market reaction to the former Chancellor's fiscal event or mini-

Katya MacLean, CEO, Guardian

budget led to a less generous support plan, yet not before we saw pressure on mortgage lenders, mortgage product withdrawals, higher mortgage rates and market predictions that the base rate will need to go much higher than previously.

The reality is that even with support, many costs for households have risen and are set to rise further as indeed our intermediary partners acknowledge later in this paper.

As a challenger ourselves, we believe we should rise to this challenge. There is some in-built flexibility within some products including allowing customers to forego rises in premiums. Yet given the nature of the market, and the way insurance is priced and costed, there are no easily available options to dramatically reduce costs for customers. Indeed, the most significant change we have seen in the market is the offer of a pause in premiums, but only at the price of a client not being covered for the duration of the pause.

We feel that an approach that doesn't just reduce cover but removes it, is not optimal and, as we will see again later, many of you agree. Any personal health or work crisis would be made even more acute by an absence of cover in such difficult circumstances.

Instead, we believe that protection businesses should work together with their intermediary partners to see what we can do mostly within the current parameters, but not ruling out anything radical, credible and achievable. That is why we have devoted our regular survey of advisers to understanding how advisers are addressing the protection needs of clients and adapting protection conversations to changed circumstances. We have asked a range of partners and advisers to discuss their ideas, give their analysis of the market and to tell us what clients are thinking with a few ideas and analysis from our executive and management teams. Finally, we have included 10 takeaways as a useful summary. Our intention is to create a valuable resource for advisers as they rise to the challenge of helping clients navigate these difficult financial waters while keeping their financial plans on track with protection, as ever, an essential component of their recommendations.

CHANGING YOUR THINKING IN A CHALLENGING ENVIRONMENT

I first wrote in Professional Adviser in April this year about the rising cost of living facing our intermediary partners and their clients/ our customers due to rising energy bills and general inflation.

Since then, and until the last few weeks, the position and certainly the predictions had got worse. Each report from the Office for National Statistics (ONS) has brought a significant rise in the rate of price rises barring one small retreat. The Bank of England's predictions for the peak also kept rising too.

CPI, the main measure, reached double figures at 10.1% in July. It fell back a little in August to 9.9% but rose again in September returning to 10.1% and in the latest report to October hit 11.1%. The base interest rate has risen to 3% in response and may go higher.

> For the protection sector, apart from a relatively short spate of price rises after the financial crisis, this environment has not really been seen for many decades.

Nischal Singh, Actuarial Director, Guardian

In August, the Bank's prediction for peak inflation was above 13%. It revised the expected peak to around 11% primarily as a result of the energy support package and the energy price guarantee. That support was to last 2 years, was reduced to 6 months, but now extends to 12 months since Jeremy Hunt's most recent autumn statement.

Broadly, the energy package came as a huge relief to the public but the constant shifts in details may lead to some confusion. Yet whatever else, energy remains a significant portion of costs as the Bank of England graph demonstrates. It is also likely we will remain in a rising interest rate environment, something probably made worse by the recent market volatility, the replacement of one Chancellor Kwasi Kwarteng, with another Jeremy Hunt and the scrapping of most of Kwarteng's mini-budget. The fixed-rate mortgage market effectively came to a standstill in the midst of the mini-budget crisis and despite fixed rates falling a little recently, they still remain significantly higher than before. The market for sterling, gilts and swaps is – to use the Bank of England's term – more orderly now, but as the dust settles, many important client outgoings have increased in price.

The ONS has recently been noting that food prices are make making up a significant proportion of price rises and in the latest inflation report, food price inflation was a shocking 16.4%. Alongside this, we know mortgage rates, certainly for standard variable rates and tracker mortgages and likely for fixed rates look set to go higher too as base rates rise.

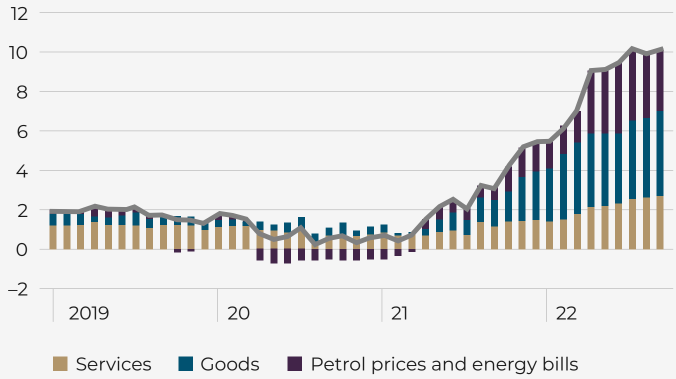
Amid all this confusion and price pressure, it is beholden on us and on advisers to think what this means for our clients and customers. For some younger clients, this sudden and prolonged bout of inflation will have been a new experience in their adult lives and some younger mortgage clients will be experiencing rising rates for the first time too. Remember the base rate was at 0.1% only a year ago!

Additionally for the protection sector, apart from a relatively short spate of price rises after the financial crisis, this environment has not really been seen for many decades.

The bad news is not just how high inflation has gone compared with the previous decade as shown by this ONS graph but the market has increasingly priced in steeper base rate rises as the graph from asset manager Schroders demonstrates.

Higher energy and goods prices have pushed inflation to 10%

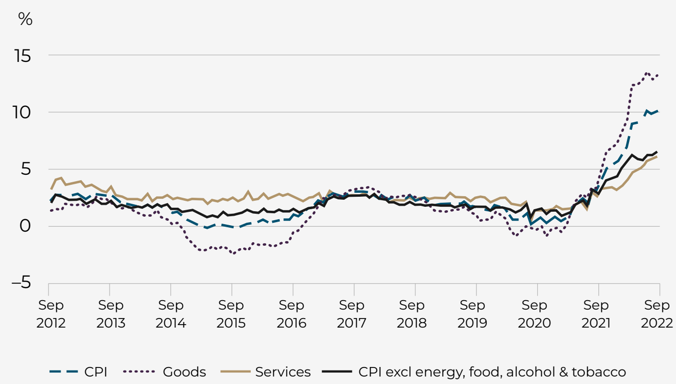
Annual inflation rate (% change) and the contribution of goods, services and energy prices



Source: Bank of England, Monetary Policy Report - November 2022.

CPI goods, services and core inflation rise in September 2022

CPI goods, services and core annual inflation rates for the last 10 years, UK, September 2012 to September 2022



Source: Office for National Statistics, Consumer price inflation, UK: September 2022, 19 October 2022.

Understanding your clients' priorities

It does help to understand what your clients' priorities are, though we must say that it is incredibly difficult to keep exact tabs on what is happening.

We know that the UK faces some more tax rises combined with further threshold and relief freezes and tight budgets for many public services. The Chancellor has sought to share the pain while keeping the bond market onside with a long-term plan for sustainable government borrowing. Clearly it will be challenging for almost everyone.

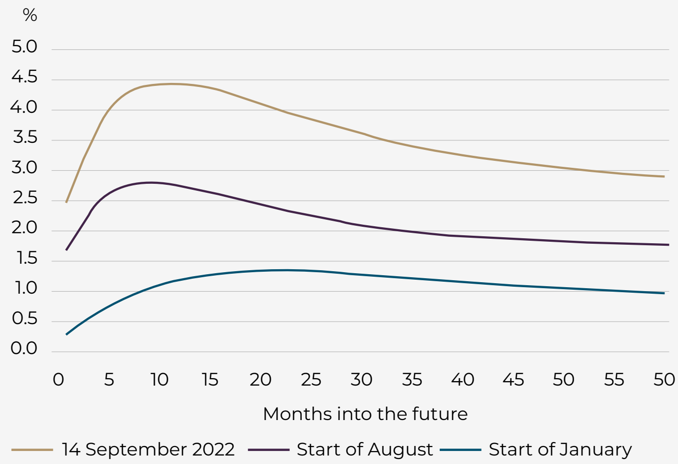
There has been an upwards adjustment in the cost of borrowing, not just for the government but for businesses and individuals. Global investment bank JP Morgan has talked of permanent scarring for gilt markets though again things have calmed since Hunt was appointed Chancellor and Sunak took over as PM.

To be fair, rates were rising in any case, but the fiscal event from the mini-budget caused something of a step change certainly in terms of mortgage rates.

At one stage, UK base rates were expected to push above 5%, though even then the Deputy Governor of the Bank of England Ben Broadbent was a little more optimistic. In a recent speech on 20 October 2022, he said: "Whether official interest rates have to rise by quite as much as currently priced in financial markets remains to be seen."

As I noted above, with the energy price guarantee, we at least have some support for the winter months, and now at a lower level till March 2024, though it may be important for clients to understand that this support is per unit of energy not an absolute cap for their energy bills.

Expectations for UK base interest rates



Note: The curves are estimated using instantaneous forward overnight swap rates.
Source: Bank of England, Schroders Strategic Research Unit, 15 September 2022. 605940

It may, of course, be necessary to leave it a few weeks, until things settle down a little before briefing clients with any confidence. But I am certainly looking for signs of return to a more stable economic picture, and when that day comes, it may well help reassure clients to some degree.

How it impacts the protection sector

The protection sector is clearly not immune from such disturbances. We continue to see 3 main risks for the sector. The first is that some clients may decide their existing premiums are simply not affordable.

They may stop paying premiums and their policies may lapse; or they could reduce their cover and become underinsured. None of these are good outcomes.

The second risk is that advisers and mortgage intermediaries may find they meet more resistance to spending money on protection, even for clients at key life stages. Some advisers quoted in Section 3 say that is indeed the case. Some protection conversations may be more difficult this year, so we need to think about the fundamentals of those conversations.

The third risk is that on level terms, people may find inflation eats into the value of their cover, leaving them underinsured. We wanted to take each of these risks in turn to understand how we can mitigate them.

If clients are worried about managing costs and outgoings, then in some circumstances the industry can help, given how policies and premiums are structured.

> Protection becomes even more important when finances are under pressure.

Depending on the insurer, clients who are on escalating policies and who've chosen to link their sum assured to inflationary increases by paying an associated premium increase can defer the annual escalations for up to two years without losing this policy feature.

This could help customers mitigate rising prices while retaining much of their protection. We offer this feature at Guardian, for up to 2 consecutive years. If a client defers for a third year, then we move them on to level cover for the rest of the life of the policy.

The client does have a little less cover, but still has a decent amount of protection in place.

That brings us to the next important point and takes us to the heart of why we want to cover clients. Everyone in our sector knows that a reasonable level of cover is much better than none and this is a key counter argument to the second risk. Again advisers, who we surveyed or quote later, tend to agree.

In a cost-of-living crisis, the last thing a client wants is to see a personal financial crisis due to illness or bereavement exacerbate an already tough situation.

This concept will apply in different ways to different customer types. A young family looking to cover their mortgage costs may want to do this as cost effectively as possible.

However, someone else may be looking to keep their family protected as comprehensively as possible. It all depends on their priorities.

The third risk comes from inflation eroding the value of cover and is clearly a heightened risk for now. Customers can, of course, take out escalating/increasing cover to address this risk.

Highlight protection's importance

The sharp increase in the cost of living is at least a further opportunity for advisers to talk with their clients and highlight the value of protection.

We would argue that far from being a discretionary spend item, protection becomes even more important when finances are under pressure and frankly it can build personal and household resilience when lots of other things seem out of control.

We believe intermediaries are well placed to understand their clients' circumstances, but that task has become progressively more difficult. Finally, we wanted to encourage conversations about how best to deal with this environment and to help clients budget so they can still afford to protect their incomes and, ultimately, their families.

THE MORTGAGE MARKET AND PROTECTION

It would be quite an understatement to say that since about the last week of September it has been a roller coasting ride for mortgage advisers.

We know from our conversations with mortgage intermediaries that the cost of living was already at the front of clients' minds and featured in most conversations. The upheaval in terms of mortgage rates will have exacerbated this situation especially for some new buyers caught in the period between the mortgage decision in principle and an official, confirmed mortgage offer or for those who thought remortgaging would prove just a little more expensive rather than significantly more so.

That now presents us with a complicated picture. There is a little more certainty with energy costs from the new support package, but it will only run till the beginning of April 2023. The Bank of England expected it to help tame inflation and cut the peak to around 11% even with a reduction in the length of support. Inflation for the 12 months to October has now reached 11.1%.

The latest Monetary Policy Committee decision is to raise rates by a bracing 0.75% to 3% in total. It expects a shallow but very long downturn of as long as 2 years, but it does imply that the rate rising cycle is nearing the top and that inflation may begin to fall sharply in the middle of next year. Previously it forecast high

Hilary Banks, Sales Director, Guardian

prices to persist throughout 2023 so that is a significantly different picture than the previous scenario offered by the Bank in late September and something for intermediaries to consider.

Energy package plus tax cuts proved too much

It was the cost of that package plus a big programme of tax cuts which spooked the gilt market, with a knock-on effect on the swap market causing mortgage rate withdrawals and many lenders returning with higher rates and with fewer mortgages all round.

Anecdotally, not all of the big rises were concentrated on those with less equity but were also affecting those with lower loan-to-values too.

It may not quite be a case of robbing Peter to pay Paul but the pain is being shared in different ways. Most of those Kwarteng tax cuts were cancelled, a significantly shorter duration of energy support promised, (with a longer-term, less generous successor scheme till spring 2024) and finally significantly higher mortgage rates.

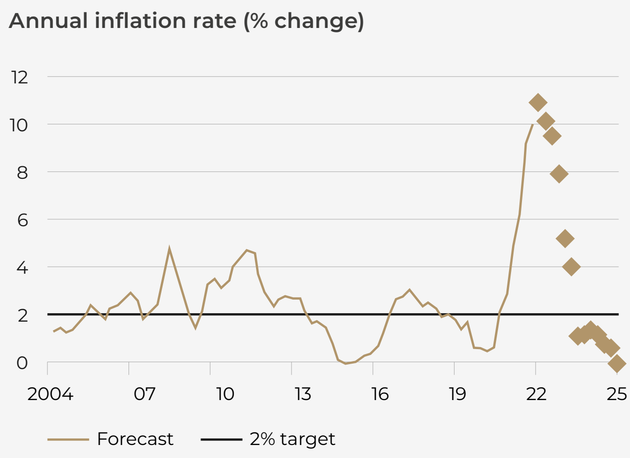
The latest assessment on Tuesday 18 October, saw the average rate for 2-year fixed rate loan rise to 6.53% according to Moneyfacts and a 5-year fixed rate mortgage had risen to 6.36%. We are back to rates last seen in 2008 and that predated the rise in base rates.

There were a few tentative signs that mortgage rate rises were just beginning to ease off a little (post mini-crisis) at the time of writing, but it is still in the context of expectations of more base rate rises and broadly higher prices as huge numbers of mortgages come close to the end of their term as the following calculation and graphs from BuiltPlace shows.

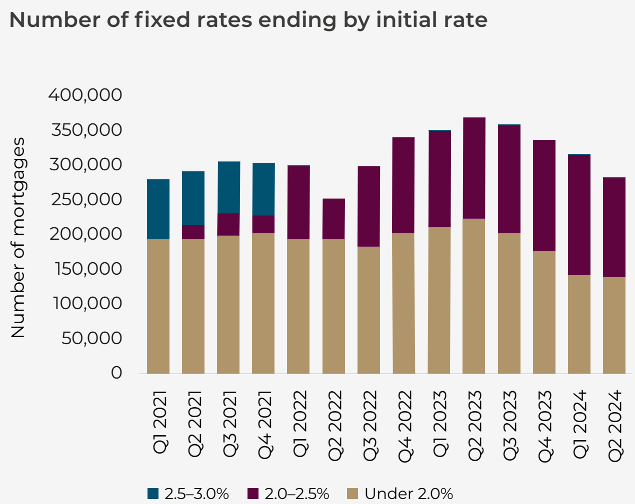
The above is of course also a business opportunity for brokers, but it may involve difficult conversations depending on the trajectory of rates.

Helping clients to budget and consider future expenses has certainly got much more difficult for now.

Even before recent market ructions, we were hearing that a lot of mortgage intermediaries' time was being taken up with helping clients access rates when available, before a product sold out and was replaced with something often more expensive. It was not all about the fiscal event.



Source: Bank of England, Monetary Policy Report - November 2022.



Source: BuiltPlace, Market Commentary, 29 September 2022.

We will hear some interesting views including how to make time for protection conversations later in Section 3.

The market for home sales and purchases also seems to be subdued with an emphasis on remortgaging. House prices have even fallen recently according to Nationwide.

The stamp duty cut may help increase the number of transactions, but again that now needs considered in light of more expensive and potentially harder-to-source mortgages.

It probably won't surprise you that our view is that despite the difficult economic context, we believe the case for protection remains strong. Individuals and families are much more resilient, if they insure their biggest debt in the event of illness, an inability to work or worse and that's a view many intermediaries share.

At the same time, we need to be aware of the changing economic and market context and, potentially, the need to adapt our messaging and approach accordingly. This white paper aims to help.

A different shape of mortgage market

Of course, much depends on the mortgage and housing markets. Although not as pessimistic as some brokers quoted in the press, we had already been told by our intermediary partners that while volumes of mortgages were holding up in the summer, business could fall by a significant degree this year particularly as the number of home sales fell. There had been a shift towards remortgaging and transfers, but all in the context of rising rates.

Remortgaging, in particular, requires a fact-find, and we hear mortgage adviser views later in this paper, underlining just how important a fact-find is for the protection conversation.

We would also make the case that once the dust has settled there may be an opportunity to revisit protection and an opportunity to keep in touch with clients on longer-term fixed rates especially with 5-year fixes much more common.

We know that clients who are adjusting the terms of their borrowing, may feel they are tidying up their finances and not necessarily looking to spend more. Household budgets are tight.

At the same time, we also know that many families' priorities changed in the pandemic and some clients may even be more amenable to a conversation about protecting their family. There is even a case to be made that higher prices and tighter finances reinforce the case for protection when clients are already considering matters to do with money on at least a medium-term basis.

Clients' circumstances also change, they may have got married, started a family, changed jobs and income levels, increased or decreased debts and outgoings. All of which would require a review of their protection needs.

In other words, attitudes will vary with different clients, but some may want to be more prudent.

No doubt others will reject any idea of an extra cost, but we think it is worth deploying the people skills which intermediaries are well known for to help identify where clients are in terms of their thinking.

Unfortunately, there may be a group who are already struggling a little, and you can see intermediaries underlining the importance of early contact for this group so that costs can hopefully be managed before they get out of control.

Some protection in this context is, of course, much better than none but there remains a very strong argument for covering the mortgage loan at least.

SECTION 2
OUR SURVEY RESULTS

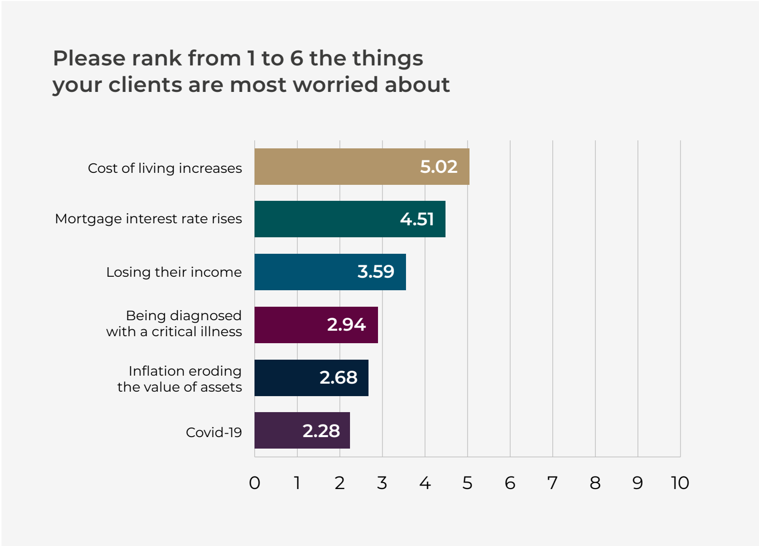
Results from Guardian survey of 701 advisers, between 11 August and 3 September 2022.

OUR SURVEY – WHAT WE WANTED TO FIND OUT

We wanted to understand the changing attitudes of clients since the pandemic as cost pressures increased and what we are sadly coming to describe as a multi-faceted crisis.

Were advisers finding it more difficult to recommend protection, what were client priorities and client worries and what approaches were advisers taking to these more difficult protection conversations?

We surveyed advisers for 4 weeks in August and September to find out, garnering 701 answers, and now present these statistics graphically in the next section of the white paper alongside some brief commentary.



Clients' concerns ranked

We wanted to understand what clients are most worried about and provided 6 options with some of the answers framed around protection. The cost of living came top, then base rate rises, then losing income through an inability to work, being diagnosed with a life-threatening illness and the inflation eating into savings. Remarkably given where we were a year ago, Covid-19 came last.

What are clients seeking to cover when they take out protection?

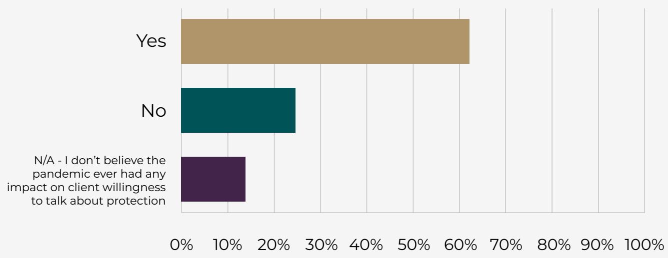
A total of 31% said clients wanted peace of mind that their family is protected, 23% suggested it was about covering their biggest debt. The popularity of both won't come as a great surprise but could give some comfort that the fundamentals still apply. 20% wanted cover at the cheapest level. By contrast around 17% simply wanted the best cover for what they can afford. That calculation may have shifted a little in the current circumstances. Finally, 6% wanted the maximum cover, 3% said 'other'.

The impact of cost on protection discussions – a shift in attitudes?

We know from previous surveys that advisers believe that protection conversations had become easier to introduce to clients in the midst of the pandemic. We were interested in whether that shift had survived the recent bout of inflation and cost pressures.

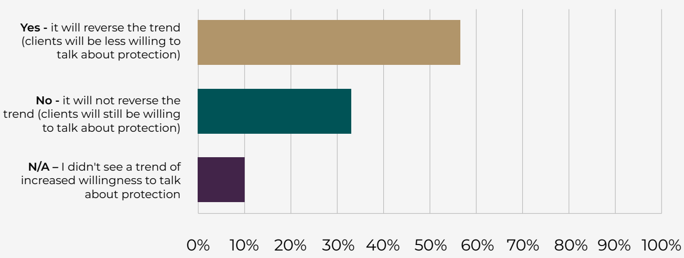
Around 62% felt that it had persisted while 24% felt that it had not.

The pandemic resulted in increased client willingness to talk about protection. Would you say that is still the case?



Framing the question in a different way, we then asked whether current cost challenges would reverse the trend as a result of the high cost of living and some 56% said yes and 33% no.

Do you think that the rising cost of living will reverse the trend of increased client willingness to talk about protection?

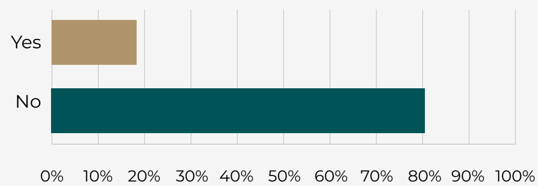


We can see a shift, but at least some willingness to discuss protection persists. We suggest that customers are capable of considering both cost pressures but also may still be mindful of a cautious approach overall, but the price rises have brought some interference in terms of communications.

Are clients asking advisers to reduce premiums and what are advisers doing?

It appears that the vast majority of clients with policies are not asking to reduce premiums but a sizeable minority are at 18% or very nearly one in 5 and a little worrying.

Are your existing protection clients actively contacting you to reduce their monthly premiums or cancel their policy?



What are advisers suggesting clients do?

Advisers are unsurprisingly rising to the challenge. 62% say they are helping clients review their outgoings. 44% would not recommend reducing or cancelling cover but 16% would do so.

13% of advisers would consider changing the mix of covers, 8% would suggest opting not to increase premiums and 3% would consider cancelling a policy to replace it with a cheaper one.

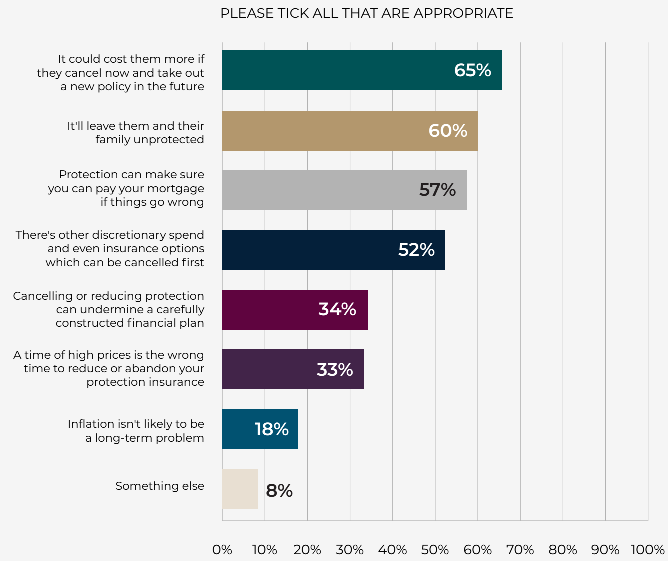
I would not recommend they cancel or reduce their protection	44.36%
Reduce level of cover (to reduce premiums)	15.70%
Change the mix of covers (if they hold more than one cover type)	13.41%
Other (please specify)	13.11%
Recommend they skip their annual increase (if they have increasing cover)	7.62%
Cancel existing policy and write a new cheaper type of protection	2.90%
Recommend they take out more protection	2.90%

Is there a formal approach to stop clients cutting or cancelling cover?

30% of advisers said that they had a formal approach to discussing and convincing clients not to cut or cancel cover and had adapted it to current circumstances while 23% had an approved approach but had not adapted it to recent economic circumstances. 47% of advisers said they did not have a strategy to deal with clients wanting to cancel cover or reduce premiums.

We also wanted to get a feel for what advisers might say in straightened circumstances to potentially deter cancelling a policy – 65% told clients obtaining new cover could prove more expensive. 60% warned clients they would be unprotected. 57% highlighted that the mortgage would not be covered. 52% noted that cutting other spending might be less potentially detrimental, 34% said it could undermine a carefully constructed plan.

What do you say to clients who are struggling financially and talking to you about reducing or cancelling their cover?

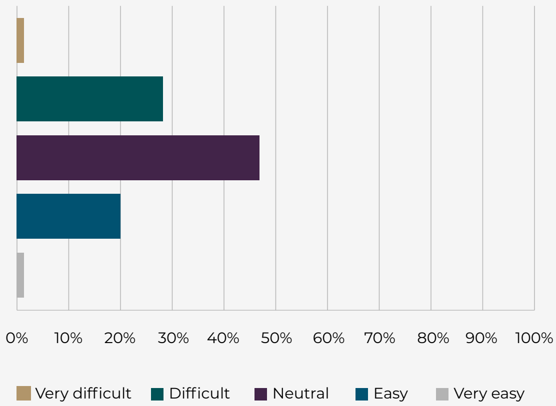


Dealing with new clients in this financial environment

We asked advisers for their views on the challenges of dealing with new clients in these more difficult financial circumstances. More than 47% said that actually they were neutral on the matters.

30% said that is was very difficult or difficult in these circumstances and 23% deemed it still to be relatively easy.

How difficult is it to convince new clients of the need for protection?



Do advisers support a pause in cover?

We know that some protection firms have offered a pause in premiums, but which also means a gap in cover. We wanted to understand adviser sentiment and asked the following question.

Some providers offer the ability to pause protection cover (which pauses their monthly premiums) for a short period of time. During this pause, they wouldn't be covered and wouldn't be able to claim. Would you recommend this to clients facing financial difficulty?

Yes	19.75%
No	46.30%
Not sure	33.95%

SECTION 3
ADVISER AND INDUSTRY EXPERTS' VIEWS

THE VIEWS OF ADVISERS AND INDUSTRY EXPERTS ON THE COST-OF-LIVING CHALLENGE

We reached out to advisers and influential voices within the protection sector to understand their views and to ask for their analysis of the situation, drawing on their experience. We also asked them to share any ideas with fellow advisers especially in terms of how they are adapting their approaches or indeed whether they are continuing with tried and trusted strategies.

We've garnered views from the big networks and support services firms, from owner/managers and mortgage advisers and financial planners. They have kindly shared some of their thinking with us so that we can share it with you in the following section, grouped approximately by theme and sector.

We start with those mostly advising on protection and mortgages, then protection specialists and then advice and planning.

1. Mortgages and protection advice
2. Specialist protection advisers
3. Financial advisers and financial planners

ADAPTING TO A MORTGAGE MARKET WITH LONGER FIXED RATES

Brokers are very busy with rapid rate changes

This is a period of re-adjustment. People are getting used to life after the experience of the last few years and especially the September market changes post the mini-budget. Working practices have changed and everyone's adjusting. We're also adjusting to the current economic context and trying to shape what happens next in the mortgage market.

The mortgage world is very challenging currently. The market turbulence and increasing rate environment means lenders have been either pulling deals, or increasing their rates with very little notice. This creates a lot of work and a lot of stress. Short notice periods mean advisers are working flat out for their clients to get a rate before it disappears. And if they do miss out on a rate, there's a lot of re-work to do.

The house purchase mortgage process itself is also taking longer. It used to typically be a 12-14 week period from initial offer being accepted on the property to completion. Now it's nearer 20 weeks. This longer process requires more communication throughout. In light of these pressures, we're seeing mortgage advisers prioritise mortgage applications, sometimes at the expense of protection and GI.

Martin Reynolds, CEO, SimplyBiz Mortgages

> This is a period of re-adjustment. People are getting used to life after the experience of the last few years.

Protection can help intermediaries stay in touch with 5-year fix clients

However, beyond the immediate challenge, I see an opportunity for protection. Over recent years we've seen many clients take 5-year fixed rate deals. During the early part of 2023, when advisers would have been working with clients needing to re-mortgage after 2 years, they may well have more time to focus on other aspects.

Checking in with clients to review their protection, offers mortgage advisers a really good way to stay in contact during this 5-year fix period. Ideally advisers should be doing annual reviews, keeping close to their customers. We need to be keeping up to date with their lives and to see if anything's changed.

Energy price cap will help

In terms of client budgets, there are mixed feelings. While prices are rising, the energy cap has perhaps helped people feel a little more in control. For some, the energy increases will push them to the breadline, but for others, the energy price cap has made them feel they now have money that they weren't going to have. Advisers need to be finding out exactly how this is affecting their individual clients. Add in the uncertainty around where mortgage rates will settle then keeping close to clients is imperative.

Support clients through the rate rises

For me, what's important right now is supporting those who've not had previous experience of a rising interest rate environment. And by this, I mean both our clients and those working in the industry. Many of the younger generation have not experienced rising rates, either personally or professionally. That means the industry needs to really support people – to explain what it means and how to talk to clients about it. Education is key. We need to be explaining how lenders price swap, why interest rates rise, and what this means for clients' affordability. For those who have protection, we need to explain how protection works and how it is priced. We need to help advisers understand what it means if a client cancels and show them why it's not a good idea if their client will need to buy it again in the future. Advisers are looking to providers for this guidance – and for support with client education – at this time.

MAINTAIN A STRONG RELATIONSHIP WITH YOUR CLIENTS

Emma Thomson, Head of Protection and GI Propositions, Sesame Bankhall Group

Proactive communication with your clients is really important at this time. We suggest you should be in regular contact with them about the cover they have in place, reminding them of the value of those policies which could be through a variety of methods such as telephone reviews or emailed mailers.

Some firms send bespoke annual statements to clients, others might send out more general quarterly newsletters. The key thing is to maintain a strong relationship with clients.

Promoting the added value services which they could be utilising is also important as this helps them to get tangible value from their cover; using these services and benefiting from them will reduce the risk of clients cancelling.

Keeping in contact with policyholders will encourage them to call their adviser if they are having any financial difficulties or have any questions about the continued suitability of cover, rather than simply cancel their direct debit. It's much easier to help a policyholder before they decide to cancel cover than once they've made that decision to do so.

After that conversation, the adviser can then talk through the different options which may be available as opposed to just cancelling cover. For example, taking advantage of the payment break options that insurers have, reducing the sum assured and for income

“Promoting the added value services which they could be utilising is also important as this helps them to get tangible value from their cover.

protection plans, extending the deferment period could also be a consideration. There are a number of ways of trying to reduce the premium rather than simply going without cover at all.

One thing we have been promoting are the retention guides for advisers and for consumers which were produced as a collaborative initiative by the Protection Distributors Group, the Income Protection Task Force and the Association of Mortgage Intermediaries. We and other members of those organisations provided plenty of helpful tips for advisers and among other things, the consumer guide urges consumers to talk to their adviser or at least their insurer before cancelling to explore what options are available.

There are things to do even if a direct debit has been cancelled

In terms of reactive conversations, if the direct debit has already been cancelled, then it still could be possible to keep that client covered. Find out from the insurer what's needed to keep the cover going, then when you call the client, review their current needs and ask what prompted them to cancel, reconfirming the value as aforementioned, and perhaps even re-run the CIExpert report if they have critical illness cover, especially if a report was not done initially, as that may help with the conversation. The insurer will be able to confirm what repayment and/or plan flexibility options are available, and they'll be keen to help you.

> It the direct debit has already been cancelled, then it still could be possible to keep that client covered.

Shorter term solutions to cover for now

When it comes to a client taking out a mortgage and they are worried about the cost of insurance premiums, then there are lower cost products in the market to consider. Short-Term Income Protection with a limited benefit period of 1,2 or 5 years could be a temporary measure until such time as the client can afford to upgrade to a long-term plan. Rather than only look at the usual lump sum solution, consider Family Income Benefit (FIB) which can be a cost-effective alternative and is a better option than clients choosing to buy nothing if the lump sum option is too pricey for them. I would also highlight FIB critical illness too as a budget option which also gets massively underused. Indexation is likely to be a good option too given rising living costs; with most insurers, clients won't initially pay any more for cover, and will have a whole year to decide whether they want to accept the increase or defer it. It's a sensible add-on that provides added protection and flexibility.

It is arguably harder than usual to have these conversations, especially for mortgage advisers who have clients potentially paying hundreds of pounds extra on their mortgages due to the interest rate hikes. But advisers do have to consider the Consumer Duty and the need to avoid foreseeable harm. If you are sorting a massive loan for somebody, and they fall ill and can't pay it, that is foreseeable harm. Protection is a means to avoid that foreseeable harm so helping consumers understand the risks and solutions so they can make an informed choice about whether to take out cover or not, is a good course of action.

Look for alternatives

Protecting the whole mortgage so that it can be paid off in a lump sum can be pricey, so an alternative to a client walking away without cover is to simply protect the mortgage repayments with a Family Income Benefit plan, ensuring loved ones can still stay in their home. We know from insurers' claims experiences that many people don't always pay off the mortgage anyway, preferring to keep some of the money to cover day-to-day expenditure. I know this from first-hand experience; I was diagnosed with cancer in 2019 and when I got my critical illness payment through, I paid some of my mortgage off, but held some money back as I just didn't know what the future held for me. It therefore might make sense to just protect the repayments rather than the whole debt if cost is an issue.

There's the commonly used saying that some cover is better than nothing, and in most cases I agree with that. There are a number of things to do to secure some cover if it's not possible to cover a client's full needs. In addition to considering FIB as explained above, with Critical Illness even if you are just insuring one year's worth of salary because your client can't afford any more – that £25,000 or £50,000 can still make a huge difference in the event of falling ill. With IP, rather than insure the maximum level possible, look at covering the basics so at the very least, the mortgage or rent, together with the essentials can be paid in the event of illness or injury. Age costed premiums are also a cheaper option, at least initially anyway, so could provide a solution until the financial position is better, as can short-term IP plans as aforementioned.

For clients with existing protection plans in place who need to increase cover, for example due to a new mortgage or having children,

> “The key thing is to talk through the options with clients, helping them to find the best value solution for their budget.

have a look to see whether they could utilise a Guaranteed Insurability Option on their existing cover. This could be a cheaper option than setting up a new plan, especially if they've since had health issues which could lead to a rated premium.

The key thing is to talk through the options with clients, helping them to find the best value solution for their budget and encouraging them to get back in touch should their circumstances change. This care and effort will reinforce your value to them as an adviser.

Whatever good advice can be given by advisers though, there will still be some clients that experience real difficulties, so we are also encouraging advisers to signpost their clients to organisations that can help such as the charity 'Turn2Us' which is highlighted in the retention guides above. Turn2Us helps consumers identify if they could be entitled to state support as well as other helpful information about money matters.

There's so much advisers can do to help clients be as financially resilient as possible, and in these challenging times, consumers need advisers more than ever.

TALK TO ALL YOUR CLIENTS – VISIBILITY IS KEY

More than ever, in these challenging times, advisers need to be visible and be present for their clients; contact is key. There doesn't need to be a re-mortgage or a product transfer on the horizon to get in touch, being proactive and checking in with clients is vital at any time. The last two and a half years have been very strange for everyone and no-one's life is the same since the pandemic. Even while Covid has taken a back seat, there's still a lot of uncertainty; the conflict in the Ukraine, the current fuel prices and cost-of-living crisis, and even the change in PM and monarch. Many clients are unsettled and are looking for reassurance from their adviser.

Earlier intervention could help clients and save time and stress in the long term

No one can deny the time pressures advisers are under in light of recent rising interest rates, swap rate fluctuations and bruising economic challenges. Choppy waters indeed, but I think now it's even more important to factor in time to make that call to clients, maintaining those relationships. Finding out what's happening in their lives, supporting them if they have suffered financial shocks or even helping them take a fresh look at securing their future financial resilience, it's about knowing the customer, and being proactive in good times and the bad.

Angela Davidson, Head of Protection, Mortgage Intelligence

> I think now it's even more important to factor in time to make that call to clients, maintaining those relationships.

Protection is about affordability tomorrow

In terms of mortgage advice, advisers are tasked with proving affordability today; protection is all about being able to afford that mortgage, and all the associated costs, throughout the term. Start by really getting to understand what's important to them today, their life, their spending, their future hopes and dreams, and talk about protecting these things into the future. The best way to demonstrate the importance of protection is for it to be interwoven throughout the factfind from the very beginning. Really analysing income and expenditure and explaining why, because getting them into their home is only half the job, keeping them in it is equally important. Really taking the time to explore concerns and discuss solutions that could keep their heads above water if the worst happened.

Mortgage and protection conversations should be intertwined

Mortgage and protection advice go hand in hand, it's not one or the other. They are intertwined and advice conversations need to be about the importance and affordability of both. I was an adviser when the crash happened in 2008 and I remember that in some ways it made conversations about protection easier because clients were more willing to listen. When the country is unsettled, it seems people want things in place that make them feel more secure. It's not a time to shy away from talking about protection. If clients are finding things tight now, how much worse would it be for them if something happened and they weren't protected? To me, there's never been a better time to embrace it.

FROM PURCHASES TO RE-MORTGAGES BUT PROTECTION STILL REQUIRED

Scott Taylor Barr, Adviser, Carl Summers Financial Services

> It all starts with the fact-find. In ours, we plant the seed that clients need to consider protection right at the start of the fact-find.

I am predominantly a mortgage broker and protection is part of that role. I service clients across the whole income spectrum (from plumbers and electricians to barristers), to help with their mortgage needs including first-time buyers, movers, buy-to-let and remortgages. Prior to that I was a Business Development Manager for a lender.

The mortgage world has been exceptionally busy during the last 2 years, with purchase business as the main driver, as many people wanted to move home. However, now we're seeing a shift to remortgaging.

Many people are now reaching maturity on their 5-year fixes – we are seeing a high proportion of people coming off their 5-year fixes in Q4 across all lenders. We continue to be exceptionally busy as the 'non benign' rate environment (where lenders may pull deals at any time and increase rates), then mortgage applications always need to take priority.

Rising fixed rates bring time pressures

The rising interest rate environment creates issues in terms of time management for mortgage advisers. You may have your day planned out, but if a piece of information for a mortgage application comes in, it needs to be prioritised. This can adversely affect protection, as it falls lower down on the 'to do' list, even when you have the best intentions. In terms of the remortgage market, the rising interest rate environment can create another challenge as peoples' monthly mortgage payments are increasing. In the past, when rates were falling, it was easier to allocate any budget saved to protection. However, that is more difficult when the mortgage is on a higher rate and is going up each month.

More impetus for a review

The fact that many are coming off 5-year fixes poses an opportunity for protection. A lot will have changed for a client in 5 years – their job or income levels may have changed (Have they been promoted? Has their income gone up?), their family situation may have changed (Have they had children? What are their family needs now?) There's more impetus for a review – both with those who already have protection, to make sure it's still meeting their needs; as well as those who don't. And all the changes that may have taken place in the last 5 years can provide lots of motivating factors for protection.

When it comes to overcoming objections discuss what a mortgage really is

I always refer to what a mortgage actually is. This is where I start every conversation. The word mortgage is taken from the French which means 'death pledge'. When you take out this debt, you are pledging to the lender that you will repay it if you die. So, I talk to a client about how they are going to do that, who would they be leaving this burden to, what's their plan? Likewise, I explain to them what a 'secured debt' means. It means the asset will be reclaimed if you don't pay. Would they be comfortable losing their home? For first-time buyers, would they be comfortable losing their deposit money? Very few people are actually comfortable with taking this risk when you explain to them what taking out a mortgage really means.

The fact-find plants the seed for protection

People in the UK do have weird relationship with insurance. They either want to avoid having it or pay as little as possible for it. This is not helped by the language of price comparison sites. But for me the solution is always education.

It all starts with the fact-find. In ours, we plant the seed that clients need to consider protection right at the start of the fact-find when we ask about income and employment. At this stage we ask about sick pay and death in service benefit, so we can say "OK, so you get 3 months sick pay, the problem starts at month 4". The fact-find then goes on to talk about the mortgage, and on the last page we dedicate this solely to protection. Here we give clients 3 scenarios and ask them to rank them in order –

1. I would like to have my mortgage paid if one of us dies
2. I would like financial support in the form of a large lump sum if I became too ill to work and pay my mortgage
3. I would like financial support in the form of a monthly payment to replace my income until I was able to go back to work

What's important here is that we're talking about the support they'd get – not the products. We then ask what budget would the client be comfortable to pay for that support. It's my job then to make the numbers work, based on what they've told me they value most. More often than not, it's number 1 and number 3, which translates in product terms to Life and Income Protection.

Establish the budget first or see policies cancelled

You have to find out the budget up front, because they need to be comfortable. If they're not, the whole thing is likely to get cancelled within 6 months. They need to be able to look at their bank statement and feel comfortable with what they are getting for that direct debit. Quality comes in at this stage, because for me it's about 'what's the best they can afford'. There are levers we can pull here in terms of sum assured; and with income protection, with the level of voluntary excess (how long can they wait for the monthly payments to kick in), and how long they want the cover to be in place for. If the products that meet their budget levels are limited, I will show them what an extra £15 a month or so will buy them and explain the differences.

> They need to be able to look at their bank statement and feel comfortable with what they are getting for that direct debit.

At the moment, I'm not seeing many people actively contact me to cancel or reduce their cover. I think part of this is that, while there's a lot of fear of the rising cost of living, the big one that everyone is anticipating is their energy bills, and they have not actually hit yet. The Government's energy package means people are still 'waiting to see' how it will affect them.

If clients do start calling me to cancel their protection, I'll manage this in 2 parts. First, I'd strongly advise that they don't cancel. I'd do that by telling them about the way insurance works – and the fact that what they think is a saving, will probably end up resulting in higher costs. I'd talk to them about it being age sensitive; and also that the price will also increase if they'd had a claim or been to see a doctor since taking out the policy. If they were insistent that they need to reduce their spend on protection, I'd look to see what levers I could pull to reduce the amount they're paying for cover, without removing the cover itself.

The key point I always use when training other advisers is:

- No one wants life insurance, but everyone wants their mortgage paid if they die
- Don't talk about products
- Talk about what they do

MONTHLY AFFORDABILITY WILL ALWAYS BE AN IMPORTANT FACTOR

Jiten Varsani, Founder, FortyOne Money

“Where clients are looking at cost alone, we have to focus on the need rather than the product. Remind them why they took/are taking this cover.

Monthly affordability will always play an important factor when choosing which cover to take. The same applies to clients reviewing their current outgoings and looking at what can be cancelled.

With the rising cost of living, this leaves less disposable budget for Income Protection, Life Cover and Critical Illness Cover.

It is for us as advisers to ensure the client understands the importance of such cover. A reminder, that if affordability is ‘stretched’ with the rising cost of living, it would be even harder in the event of no income following death or illness. By reducing the level of cover to fit their budget, we can ensure the client has some cover over none at all.

Where clients are looking at cost alone, we have to focus on the need rather than the product. Remind them why they took/are taking this cover.

It is important to point out that premiums rise with age so to take new cover in the future can be more expensive. Along with future changes to personal health, it can mean either increased premiums later down the line, exclusions to cover or in some cases inability to obtain cover. An adviser should have the skills to get these messages across.

SHIFTING YOUR CLIENT'S MINDSET TO 'CAN'T AFFORD NOT TO' TAKE OUT PROTECTION

The cost-of-living crisis is already having an impact on protection advice. The general priority for households to cut costs will not only have an effect on the initial conversation with new customers about taking protection cover but also with existing customers about keeping their cover in place.

The economic climate is also likely to be felt in terms of the types of customers we are talking to. As rising costs and rates dampen demand in the housing market, the remortgage market has become a larger proportion of our business. Customers are starting to shop around earlier which could cause them

Mark Harrington, Advice Director, L&C Mortgages

> Whilst budgets may be tighter and the initial response more reluctant, it is more important than ever for customers to make informed decisions on protection.

to put off the protection discussion until the remortgage is finalised. The lengthier turnaround between application and completion could also mean renewing policy terms, or customers needing to make new declarations of health conditions.

Due to this changing backdrop, it is all the more crucial that the importance of protection is impressed on customers. As advisers, we need to promote the fact that protection is essential for family security and financial resilience, helping to reframe the customer's mindset from "can't afford" to "can't afford not to". It's especially true when most people's short-term fall back plans and savings will potentially be eroded more quickly by higher costs.

It's therefore about focusing on what the policy could mean for them. That's not just illustrating what it would pay out but visualising what that means should they need it, highlighting the peace of mind and choices that they wouldn't otherwise have, as well as what could happen without it.

This is an opportunity for us to demonstrate the value we can add as advisers, not simply by offering the best price and quality of cover, but also providing creative solutions to maximise cover in the right areas according to the customer's budget.

These will be challenging conversations but there should be increased realisation that we really don't know what is around the corner. The pandemic has taught us that even if you're young, fit, active and healthy you can still be affected by something out of your control. Whilst budgets may be tighter and the initial response more reluctant, it is more important than ever for customers to make informed decisions on protection.

AN OPEN CONVERSATION ABOUT A CLIENT'S TOTAL BUDGET

Robyn Allen, Founder, Robyn Allen Solutions

My job is about understanding my client, their life, their lifestyle, what they value and making sure I can give proper context when discussing protection. If you've done that, then they appreciate the value of protection. If you haven't done that, you haven't connected with them, and you're not doing your job correctly.

For mortgage advisers, right now, I understand there will be more pressure. As we're seeing rate rises and delays, I can see how many will think that the increasing monthly payments will eat up the protection budget. But I don't think that's right. I think you need to be open and honest with the total budget. Protection needs to be positioned as an essential part of the overall solution.

As a protection specialist, if someone can't afford protection, they don't come to me in the first place – I literally don't see them. If they don't value it at all, again I don't see them. Which makes it easier. That said, they still come to me saying that they 'don't want to spend much'. Many come in with the attitude of a 'cheap skate' and fear of being 'sold to'. They tend to want to set their boundaries at the start and have a 'bargaining' attitude, and that's OK!

It's our job as advisers to understand their life, look at how they manage money, look at what makes them excited, what makes them worried and what they might resent paying for. It's our job to explain what protection does. I tend to go through each of the different types of protection – what they do – and start with an ideal world scenario. What are their priorities. What do they want to protect. Then you can assess what's important to them.

Then we talk about budgets. What are they spending their money on each month. Some people are really organised with a spreadsheet; for some they are not, so I will go through their banking app with them on a Zoom call, to help them see what they're spending their money on each month. From that, you can pin down a budget that they are comfortable to spend on protection. If I know the family only has £200 a month flexibility, then I would tailor the recommendation, based on their priorities, to make sure they are comfortable. For a person with over £1000 a month spare, it will be very different.

The order of priorities is so important

It's my job to make the numbers work. To use my knowledge of the different products and providers out there to try to get to the figure I know they will be comfortable with, based on what they've told me is important to them. Quality comes into play based on what I know of their priorities. If I know they are very focused on CI, and comprehensive definitions, then I'll look to weight the budget towards that. The order of priorities is so important – and that's why you need to get to know them, to understand them first, and to have talked to them about what the implications are of having, or not having, each type of cover. You need to take them on the journey with you. "I've chosen this because you said....". I'm not worried about choosing the cheapest, because if I know it's what they've said they wanted, and we have talked this through including all the implications of that choice, I know it's right for them. And I always put it all in writing.

Crisis is a prompt to discuss financial risk

In terms of whether the current economic environment is affecting things for me. I would say it's making it easier to have a protection conversation as it's making people more financially aware. It's giving a bit more context to financial risk. For example, indexation – with inflation increases, it's easier for people to understand this concept and why they might need this. People are more aware of interest rate increases and the concept of fixing rates for energy. It's making people closer to their budgets. It's helping people take more control of their finances.

I'm not seeing many people want to cancel or reduce their premiums because of the economic environment. If anything, I'm seeing more people want a review, checking if what they have in place right now is good and fit for purpose.

> "The current economic environment is making it easier to have protection conversations as it's making people more financially aware.

The killer point for me currently is: if you must convince them, you're doing it wrong. The adviser's job is to educate. If you have been through the journey of understanding their life, talking to them about their priorities, explaining to them their financial risks and how they could minimise them with the different product options available, and then they still choose not to, that's fine. That's their choice. But they deserve to be educated because more often than not, they really do want protection.

PRIORITISE RETENTION AND ACT EARLY ON A MISSED PAYMENT

What we're seeing at Cura is similar to elsewhere. We're not seeing a massive impact... yet. However, I do think it will come. With new clients, we have had some starting to tell us that their mortgage payments are going up as a result of rate rises, and so they can't take out everything we've recommended.

We're needing to work to bring our recommendations down a little to meet their budgets. However, this hasn't happened yet as much as I was expecting. Same for existing clients. Not as many cancelling or reducing as expected.

Winter may be tough - the cap will help but prices are still rising

I think there's a false sense of security at the moment. Rising energy bills don't really impact as much in the summer months. We've had a great summer so we've not had the heating on, no gas, light nights, little electric. It's the winter that this is really going to start to bite. While a cap has been announced, the unit prices will still have gone up for most people, so their budgets are going to be hit when they start turning the heating on. This is the calm before the storm. Because if it's a choice between heating your house and food on the table, or life insurance, people will choose heating and food.

I expect the impact on protection will be similar to 2008 during the credit crunch.

Alan Knowles, Managing Director, Cura Insurance

People were losing their jobs, the mortgage market was on its knees. We saw more people cancelling that year and in 2009, than ever before. And this time around, because it's energy bills, the increases will affect everyone to a different extent.

Retention is key

The thing we learned the hard way in 2008 – and this was at a time that many financial advice firms went under because they failed to adapt – is that you need to prioritise retention. At Cura, we put in place a retention team, and it has stayed with us ever since. We monitor direct debit cancellations and asked every provider to notify us ASAP if they see a missed payment or cancelled direct debit. What we found, and there has been a lot of research on this, was that to have the best chance of saving a policy is if you act within hours or days, not weeks. You need to know early if there are problems, so you can jump in and rectify.

It's not about pressuring the client, it about reminding them of the benefits. To explain to them why it's more important than Sky. And that it's during the hard times that you need the protection policy even more. If you're struggling to pay the bills on 2 incomes, how would you do it if one of you lost your job, and you were down to one.

Some cover is always better than none

There are a number of things you can do. You can reduce cover; if they really need to cut back it's still better to have something rather than nothing. You remind them of the benefits. You can also – as a last resort – tell them about cover breaks if their provider provides this. I say last resort here though, as the outcome for a customer who needs to claim when they are on a break is awful. They still feel like they are covered but they are not. And as an adviser, you're responsible for this recommendation so you really need to make sure the customer understands the implications of the cover break and that they are not covered for this time.

THE BEDROCK OF WHAT A GOOD FINANCIAL PLANNER DOES

Protection has always been a challenge. People either get it or they don't and need some persuading. For 99.9% of population, it is the poorest value of any insurance, but for those that have it and make a successful claim, it's the best decision they ever made.

Protection still remains the bedrock of what a good financial planner does. With cash flow modelling software, it has become easier and more accurate to predict the outcome of not having any. It's no longer about sticking your finger in the air and coming up with a number. We can demonstrate visually what would happen if there was a premature death in the household. I think the second thing which has changed over time is death in service, so many people now have it and it's often sufficient.

Ian Else, Founder, 4 Financial Planning

Yet the problem is the same as it's always been. The people that most likely need protection are very often asset poor and aren't attractive to most financial advisers, so they drift on blissfully unaware that they might have enough to repay the mortgage but not enough to replace a lost income too. In my experience mortgage advisers often don't do enough, they get the mortgage covered and don't push too hard for more.

I am absolutely sure there will be people looking at ways to trim their overheads and I can understand why protection will come under the spotlight, but ultimately the people with financial advisers aren't being impacted to the extent of having to do that. Others aren't so fortunate.

I had a lady from the team at a shared office space come to me yesterday and start to explain how worried they were about their financial situation and started crying. They are the people that need the most help.

TREATING PROTECTION ALMOST LIKE AN ASSET IN A PORTFOLIO

Robert Reid, Principal, CanScot Solutions LLP

> When investing assessing risk is essential, ignoring those risks that adequate cover can remove leaves a gap in even the best thought-out financial plan.

People often assume that advisers who deal with wealthy people don't do life assurance. But with the additional risk that comes with this high inflationary period thus uncertainty, putting some certainty into the mix isn't a bad thing. If you have got the average couple, you will very rarely find them with identical risk appetites.

Despite that, they will have a lot of joint goals, and some of those would not disappear if the person who was in favour of taking higher risks was to pass away. It is more magnified if the person with the higher risk appetite and the greater earning power dies. First you lose the human capital of the high earner but with the money you are left with you are going to invest it at a lower risk point and therefore it is not going to sustain you for the same period.

You can bridge those differences between the risk points by putting some life cover in place. If you do that, some would argue that you are starting to regard protection almost like an asset class.

It is like people say about annuities versus drawdown. It does add that element of certainty. Whether that is a lump sum, critical illness or income protection, it's what is the best fit that matters.

Certainly, in the current environment people need to look at what the worst-case scenario would be and consider whether their current arrangements are adequate. That means doing cashflows and everything else. I don't think it aligns well with someone who has a mantra e.g. – 'you should have a million pounds of cover'. It has a bit more science to it than that. You need to think about more than just about the products.

It is a question of how long a period you are at risk for. If someone is 30 years off retirement, and doing ok, although things may be tight currently, they are not going to find covering that risk prohibitively expensive. For those closer to retirement there may be less of an asset gap, so it's less about the period of risk and more about the level of cover.

As to the optimum product this will depend on the capital/income required by dependants. If income cover is needed then when using Family Income Benefit it needs to be indexed. For those buying lump sum cover the need to factor in inflation remains but factoring in inflation will increase costs or, to reduce costs you could use decreasing cover that mirrored how you saw the value of the assets increasing, and this would reduce the level of cover and this would bring down the costs.

If someone says term life insurance is a waste of money unless something happens, I always say to them "If you can tell me your date of death, I may agree with you".

The risk of falling ill or being incapacitated is greater than premature death. Income protection is grossly undersold/underbought! The idea that "it won't happen to me" ignores accidents and illnesses that happen to others – you could be one of the others!

When investing assessing risk is essential, ignoring those risks that adequate cover can remove leaves a gap in even the best thought-out financial plan.

GET ON THE FRONT FOOT AND DO NOT HIDE FROM THE SITUATION

Roy McLoughlin, Associate Director, Cavendish Ware

The most important thing of all is for advisers to address the cost-of-living challenge and not hide from it. It reminds me a little bit of 2007/08. We should be getting on the front foot and going out and talking to people.

First of all, we need to remind them of what protection policies they have got and how useful they are, which will help them to consider if the cover is still appropriate. There is an argument to say in these economic circumstances, you should have more protection because things are more insecure.

There are some people who are trimming budgets and direct debits. We need to make sure that they are aware of an option to reduce their cover if the y must. It is so important. If you leave it to clients to do it, people will just cancel direct debits – say £34 a month to an insurer – because they don't remember what it is for. It is incumbent on us to talk to people and remind them what their policies do.

We also need to talk to them about the effects of inflation. This is why annual statements are so important. Imagine sending an annual statement and not talking about inflation. People may have policies from a long time ago – the sum assured may be totally inappropriate in that it may be too low. We should be talking to them about the effects of inflation on protection policies. At the very least, people may stop cancelling their policies. They may

> We should be talking to clients about the effects of inflation on protection policies.

think: "I might not be able to top up but I should leave it as it is", at the least.

It says 'financial adviser' on our business cards. We should be giving financial advice. That means talking to people about budgeting and then helping them budget. That is what I have been doing.

We need to get the message across that the last direct debit you should get rid of is your protection. If someone has an expensive TV package but has income protection or critical illness, it is the TV package that should go first. But if you don't talk to them, it isn't going to happen.

Obviously, it depends where the client is in their thinking. But I think non-advised and D2C will have a problem because people may forget what policies they have taken out and why. For advisers, it comes back to a message to not hide from these conversations.

We have also got to stop deciding things on the basis of people's ages. Anecdotally, I have seen people on £25,000 a year who have exactly the same problem as people on £100,000 a year. Rich clients may not be 'alright'. Some of the worst debt problems are people with high salaries. Therefore, when people say older people are fine. No, many are not. 700,000 older people are going to have to return to work. That's about 1 in 6 retirees. There are big challenges for youngsters, but it is not just younger people facing them and that is me speaking from experience. We need to get away from the old versus young chasm that has opened up.

WE NEED TO GET THE INCOME PROTECTION MESSAGE ACROSS

Helena Wardle, Partner, Smith and Wardle Financial Planning and Founder, Money Means, a subscription-based advice service for younger people

In Smith and Wardle, our typical client is age 50 plus and the focus is on preparing for retirement, so they have less need for protection.

Where clients do have protection needs, due to the stage of life they are at, we find it is more common that existing health conditions come into it so often premiums are quoted and will be rated, and we usually try and manage client expectations on this. We have also found that getting medical information from GPs still remains challenging and makes it harder to get policies underwritten. If you don't deal with protection recommendations often, I think it is helpful to refer this on to specialist protection advisers as the underwriting needs specialist knowledge to make sure the client gets the best outcome.

We haven't seen this in our advice business, but we are hearing about cancellations. That is very sad. Rather than doing without insurance when things get hard, it is exactly the thing you want to be there. People still put life insurance into the same bracket as insuring their phone. The message as to what risk you are insuring is not as clear as it can be. We need to help people understand the importance and the benefit, yet income protection is not seen as essential. It should be.

If young people are changing jobs so much more frequently, the workplace benefits are not as reliable as they used to be. It should be foundational whether you have a mortgage or not. We need to help people understand in plain terms what their risks are and how they can protect themselves in a way that the benefits are clear. We still see people confusing income protection and health insurance as an example.

SOME PEOPLE MAY BE UNDERINSURED UNTIL THERE IS MORE CERTAINTY

We outsource protection and so effectively signpost to a partner firm though we do have permissions, but we refer to a guy who does mortgages and individual protection.

Where it fits into the planning process for us – pretty much all of our clients have cashflow plans so we use Voyant to run those for us regardless of whether they are accumulators or retired clients – so we generally use that analysis. We use the insight tabs in Voyant to flag protection needs and that is as far as we go. With a young client who can't self-insure and doesn't have assets that exceed their liabilities and so where protection is relevant, we will isolate the types of figures in their plan, in terms of what they should be covering to make the plan work if this or that happens.

We will package that up and refer them on for advice on the products themselves and we integrate it into the planning process. I guess affordability-wise it is interesting. Where it is an issue for them, quite often we will have a discussion with the client and the protection guy around what the priorities are. We would start with protection. If they are under-protected, we will hand it off and sometimes ask them to come back to us later. We see it as the first thing they should be covering off in almost all circumstances, at least having basic life to cover mortgages.

In a market where affordability is about what is coming out of earnings, clients are looking at what they are spending on stuff. It has been squeezed. In our world, I worry about it in relation to pension contributions – that extra bit of surplus income allocated to pensions may not be there.

Greg Moss, Founder, 11-2 Financial Planning

With protection, I think it may impact. For people who have decent incomes but have a mortgage that has gone up it could push their expenditure beyond where sensible things are affordable. Everybody knows they need protection. Clients get the need for it, but they may say "I don't have the money to pay for it though I should have it and it is bad that I don't". You would hope that changes in future. This year I am afraid some people will be underinsured, until there is some certainty around things.

SECTION 4
10 TAKEAWAYS

WHAT CAN WE DO TO BETTER PROTECT THOSE WHO NEED PROTECTION

Jacqui Gillies, Marketing and Proposition Director, Guardian

Our job, as an industry, is to get clients the protection they need and keep them protected. This is more important than ever in uncertain times, when there are so many different areas of financial challenge happening.

This includes the cost of living generally, mortgage interest rate rises and high energy prices each with varying degrees of impact for different clients, and of course, follows a global pandemic that impacted clients in a host of different ways.

You can see how such a set of circumstances can all feel a little overwhelming for clients and even to an extent for advisers too. So we wanted to help you get on the front foot, hence the title of this report.

We started by sending out a survey, to which over 700 advisers responded. But found the results didn't give us a 'headline' – it gave us several. In fact the answers were so varied we decided to approach a number of advisers who talk to clients on a regular basis to qualify our results. With their permission, we've shared their views so you can see what your peers are thinking and doing in terms of their approach to helping clients with these extraordinary cost and other pressures. We also talked to a wide range of intermediaries and directors of financial advice and mortgage businesses to bring some of the statistics to life.

It has only confirmed to us just how astute and perceptive the adviser community is, the remarkable empathy you have for your clients and your determination to keep delivering the best protection advice you can.

We want this report to be a helpful and useful resource, so we've distilled some of our thinking and the shared experiences from advisers into what we're calling our '10 takeaways'.

10 TAKEAWAYS

1

Explain when the cost of living goes up, so does the need for protection

Against the backdrop of rising prices, the financial implications of a loss of household income due to death or illness are even greater. With inflation hitting family essentials like food and energy hardest, savings will deplete sooner, and debt will build up faster. Arguably protection has never been more vital.

2

View inflation as an opportunity

Greater awareness of the damage inflation can do to spending power will make clients in strong financial positions more receptive to the value of increasing cover. For many, level cover has always been the default. However, current inflation pressures create an environment for increasing cover to really shine.

3

Make the most of the re-mortgaging fact-find

Rising mortgage rates have slowed the housing market resulting in a shift in mortgage business from new purchases to remortgaging. Remortgaging requires a fact-find which allows advisers to reaffirm the value of protection and create the opportunity to offset falls in remortgage with increased protection sales.

4

Use protection to stay in touch with 5-year fixed-rate mortgage clients

With rising interest rates driving a move to longer-term fixed-rate mortgages, advisers can no longer rely on short-term renewals to be the catalyst for regular client contact. Protection can form the basis of annual reviews, giving advisers the opportunity to highlight the benefits of cover, make sure existing cover keeps pace with their lives, and keeping clients close.

5

Point out the risks of cancelling cover

The rising cost of living may tempt some clients to cancel protection policies and insure themselves again in future. So, it's important to point out that premiums rise with age so new cover in the future will be more expensive. Also, any changes to personal health, can mean increased premiums later down the line, exclusions to cover, or in some cases they might not be able to get cover at all.

6 Promote the added-value services

The value of a protection policy is only truly understood when a client makes a claim. So, for many the benefits remain intangible, increasing the risk of cancellation when income is squeezed. However, many policies now offer additional services such as access to a GP 24/7 and second medical opinions which are free to use anytime. With the health service now stretched these added-value services are in themselves good reasons to keep policies in place.

7 Focus on affordability

It's easy to assume that given the cost-of-living crisis clients will be unwilling to take on the additional cost of a protection policy. However, once explained, the value of protection is hard to dispute. In today's climate, the cover a client needs may be different from the cover they can afford. Help them identify a realistic protection budget and work with it. Remember the cost-of-living crisis won't last forever, so your client may well be receptive to increasing their cover at a later date.

8 Act at the first sign of a policy cancellation

Fear of the rising cost of living could cause clients to cancel a protection policy without giving it proper consideration. The best chance of saving a policy is if you act within hours or days of a cancellation. So, ask every provider to notify you immediately if a client misses a payment or cancels a direct debit. A little timely advice can prevent clients from making regrettable decisions.

9 Offer to help clients budget

When clients are forced to budget it's easy for them to overlook the value of their protection plan in favour of a Sky or Netflix subscription. By offering to help clients budget you can help them get their priorities right. The potential consequences of cancelling a protection plan far outweigh the consequences of cancelling Netflix.

10 As a last resort, explore ways to reduce premiums

If a client is set on cancelling a policy, recommend ways to reduce their premiums. The obvious place to start is by looking at the cover amount and policy term. However, with Income Protection switching from a full payment period to a short payment period is always an option, as is extending deferred periods. And clients with increasing policies may be able to defer the annual cover escalation and associated premium increase. At Guardian we allow customers to do this for 2 consecutive years. Reducing cover to reduce premiums is far from ideal, but as we all know some cover is always better than none.

You may not agree with them all. Indeed, there is no 'one' agreed direction. As any adviser will tell you, every client is different with different circumstances and, of course, they may react differently to similar challenges. That said there are significant areas of agreement too.

Unsurprisingly, much of this is about really good communication, identifying clients who may be in difficulty, helping clients understand the importance of protection, and practical details such as actively helping clients with budgeting.

And whether you use this at-a-glance or read the full report, we hope it has been useful and welcome your feedback on this report and what else Guardian can do to help.

What's clear is that it's certainly not a time to shrink away from protection conversations – clients need good advice now more than ever and our research confirms that you're determined to deliver it.

> "Clients need good advice now more than ever and our research confirms that you are determined to deliver it.

SECTION 5
USEFUL INFORMATION AND LINKS

EXPLANATIONS, POLICY DOCUMENTS, AND ANALYSIS

We know that financial advisers and mortgage advisers have always set their advice in the context of the prevailing economic situation. It has an influence on the choice and style of mortgage including the length of any fixed-rate term mortgage given the importance of the base rate in calculations. Financial advisers have always needed to consider the broad economic situation to some degree when establishing or adjusting a financial plan. A prolonged period of interest rate rises and stubborn inflation may also affect investment portfolios in terms of tactical adjustments and perhaps even strategic ones.

In this context, we wanted to create a further resource to help you understand what has been going on, the help on offer and to document recent frequent changes. This section has been subject to significant change as you may imagine. For example, energy support has changed 3 times since the summer, the inflation outlook has been constantly revised and policy around taxation and spending has been subject to frequent change and sometimes complete u-turns.

Below we examine energy, fiscal policy, the specifics of the gilt crisis and its impact on mortgages and finally monetary policy.

Energy package always welcome but consistently subject to change

UK energy prices have proved challenging for consumers, businesses and thus your clients with changes in government policy adding to the confusion.

First full support for 2 years was offered by the Liz Truss administration with shorter term support for business too. This household support was then cut to 6 months by Chancellor Jeremy Hunt in October.

In his November autumn statement, Hunt then extended the scheme for households though at a less generous level, and not for business, to March 2024.

The best analysis arguably comes from the House of Commons Library research analysis.

"Wholesale energy prices increased rapidly from the second half of 2021 onwards. Many consumers were protected, at least initially, by the energy price cap. However, the price cap increased by 54% in April 2022 and Ofgem planned to increase it by a further 80% on 1 October 2022.

"On 8 September the Prime Minister announced that a new Energy Price Guarantee would instead be introduced from 1 October. This was set at £2,500 a year for typical levels of consumption and was initially planned to last two years.

"The Chancellor of the Exchequer announced on 17 October 2022 that the Energy Price Guarantee would now only last six months ending at the end of March 2023.

"In the Autumn Statement 2022 the Chancellor announced that the EPG would last for a further year from April 2023, but would increase from this date from £2,500 to £3,000 for 'typical' annual consumption. This higher price level is planned to last to the end of March 2024."

Tax and spending plans bring shifts and u-turns

Only 2 tax changes of any significance remain from the original growth plan issued by the Truss and Kwarteng administration.

This reduced National Insurance rates from 6 November 2022, in effect removing the temporary 1.25 percentage point increase for the remainder of the 2022-23 tax year.

The 1.25% Health and Social Care Levy will not come into force as a separate tax from 6 April 2023 as previously planned at least at time of writing. The Government has cut Stamp Duty Land Tax for those purchasing a residential property by doubling the level at which people begin paying this from £125,000 to £250,000.

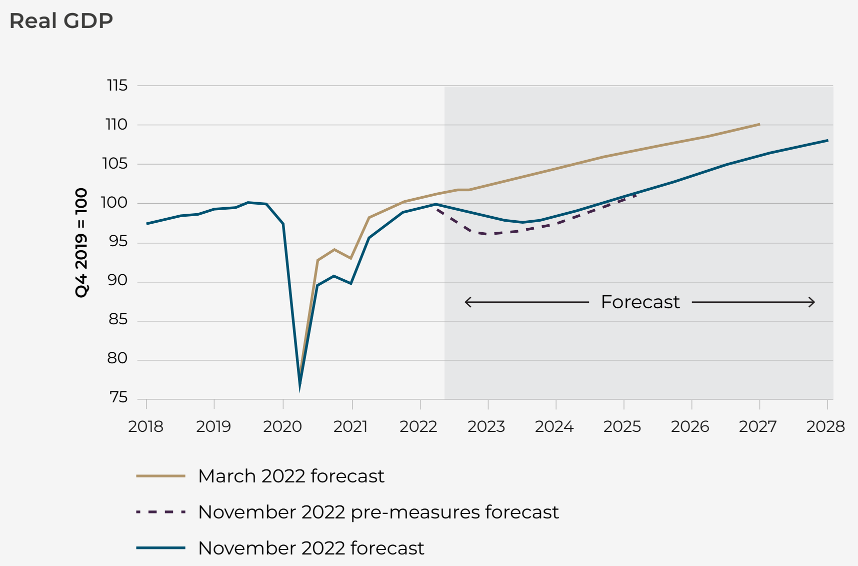
It has increased the level at which first-time buyers start paying stamp duty from £300,000 to £425,000 and allowing first-time buyers to access the relief when they buy a property costing less than £625,000 rather than the current £500,000.

Beyond this, almost all measures from the plan have been reversed either in single statements such as the reinstatement a rise in corporation tax next April. There have been 2 set piece statements as well, a fiscal statement on 17 October analysed by the House of Commons library here and an autumn statement on 17 November detailed here on the government website.

Advisers will no doubt be familiar with the detail, but the October statement generally reversed most of the Kwasi Kwarteng tax cutting measures and the November statement set out new measures including reducing the capital gains allowance in the next few years, reducing the additional income tax threshold (a remarkable turnaround since the rate was going to be abolished in summer) and paring back dividend relief. It has also published some challenging spending plans but there were few headline cuts. The state pension was upgraded by September's inflation figure of 10.1% despite much speculation that the triple lock might be cut as Pension Age reported.

It was all accompanied by the Office for Fiscal Responsibility report examining the public finances.

It did not bring good news on the economic front as this graph from the Office for Budget Responsibility (OBR) report illustrates below.



Source: Office for Budget Responsibility (OBR), Overview of the November 2022 Economic and fiscal outlook, 17 November 2022.

The fiscal event and the impact on the mortgage market

Mortgage intermediaries may wish that Chancellor Kwasi Kwarteng's Fiscal Event was a little less eventful. Although almost now of historical interest, the effects continue to be felt so we thought we would examine it briefly.

Essentially markets were unnerved by a combination of the costs of the energy package costing around £60 billion for just the first 6 months (now revised and re-revised) – on the back of the big pandemic spend and a series of both tax cuts and cancelled tax rises due in April 2023 costing around £45 billion a year. The pound fell in value to around $1.03 before recovering as the plans were reversed.

Market attention then turned to gilt yields which soared causing stress for some defined benefit pension schemes for complex reasons due to their use of liability driven investment strategies.

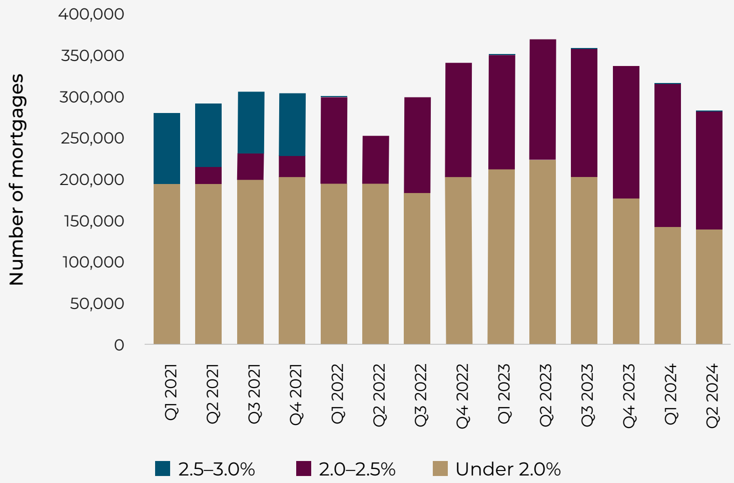
This essentially meant some DB schemes were meant to sell gilts to free up money to meet margin calls from the suppliers of these derivative contracts, but the gilts were also rapidly losing value. Finally, the Bank of England intervened to support long dated gilts and bring order to the market. The intervention was due to come to a head at time of writing. But the big issue for intermediaries was and arguably is mortgages.

This was the conclusion from Moneyfacts.co.uk on 5 October and reported by the Intermediary.

"Last week Wednesday there was a total of 3,961 products on the market. Today, this figure stands at 2,371, registering just over a 40% drop in availability.

"In addition to the drop in choice, average rates have risen at a pace. Last Wednesday the average two-year fixed rate stood at 4.74% but this has since risen to over 6%. It is a similar rise for five-year fixed rates too, which rose by 1.22 percentage points to 5.97% over the last seven days."

Number of fixed rates ending by initial rate



Source: BuiltPlace, Market Commentary, 29 September 2022.

Commentators BuiltPlace assessed those coming off fixed-rate mortgages and at what rate below. This is the commentary.

"We have projected Bank of England data on new lending to provide an estimate. It suggests around 300,000 fixed terms end per quarter but will peak at 370,000 in Q2 next year – two years after the spike in stamp duty holiday transactions – and with a total of 1.4 million in 2023. However, this is probably an underestimate as it does not include rate switches etc and UK Finance put the figure at 1.8 million. Many of these will be coming off rates at under 2.5% to much higher repayments."

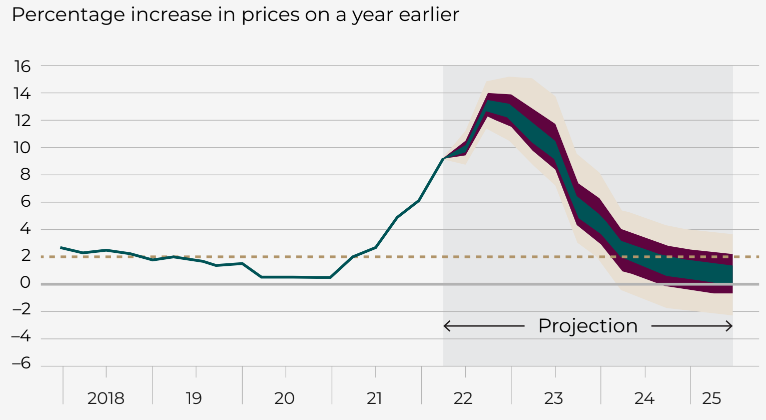
At time of writing the gilt market has reacted to the latest Autumn Statement with relative calm as Investment Week reported. It is to be hoped fiscal policy in other tax and spend will not have such a detrimental impact on the mortgage market again. That does leave monetary policy of course.

Where does the Bank of England stand now?

The year 2022 has been a remarkable one for the UK's central bank. The Bank of England generally offers a forecast for rates alongside its Monetary Policy Committee meetings yet because of events the peak keeps shifting as does its assessment of the duration of such rises.

The expected peak figure of 13% was cut back to 11% due to the energy support showing how all these topics are inter-related. That expected 11% peak was maintained in the MPC report in early November though the latest ONS report to October has the actual figure at 11.1%.

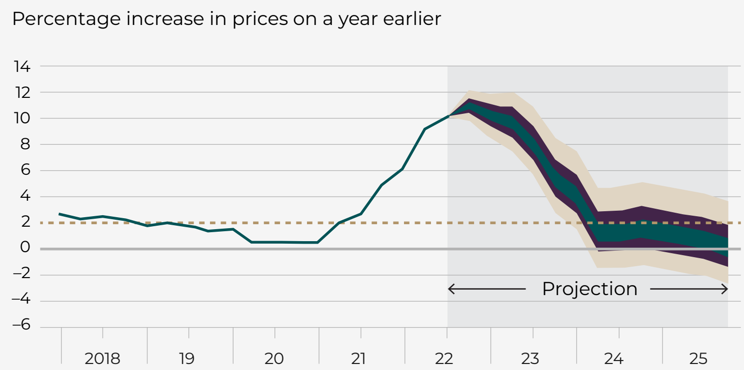
CPI inflation projection based on market interest rate expectations, other policy measures as announced



Bank of England quarterly monetary report – August

We have included the August chart and below the November chart for comparison. Looking closely, you can see something of a prediction for a more rapid fall in inflation next year emerging. (If you don't consult them already, we would recommend the Bank's quarterly Monetary Policy reports which take a more thorough look at the economic environment and a wide range of economic factors include some very useful graphs.)

CPI inflation projection based on market interest rate expectations, other policy measures as announced



Bank of England quarterly monetary report – November

Some Bank views from the November MPC minutes

"In the MPC's central projection, CPI inflation starts to fall back from early next year as previous increases in energy prices drop out of the annual comparison. Domestic inflationary pressures remain strong in coming quarters and then subside. CPI inflation is projected to fall sharply to some way below the 2% target in two years' time, and further below the target in three years' time."

"CPI inflation is projected to fall sharply to around 5% by the end of next year, as fading external factors outweigh domestic pressures. Inflation then falls to 1.4% in two years' time, below the 2% target, and to 0.0% in three years' time."

Brokers will be hoping that with more stable policies, the Bank will not have to revise these views again.

USEFUL LINKS

We've added some useful links here, some of which are already contained in the report but others which are additional. We use the most up to date where possible.

Protection guides

- Guide to retaining protection policies from AMI, IPT and PDG: Guide-to-saving-protection-policies-adviser-April-2022.pdf (a-m-i.org.uk)

Office for National Statistics – some examples of headline releases and in-depth research

- Recent drivers of UK consumer price inflation – Office for National Statistics
- Business insights and impact on the UK economy: 17 November 2022 – Office for National Statistics (ons.gov.uk)
- Consumer price inflation, UK: October 2022 – Office for National Statistics

Bank of England MPC minutes and quarterly in-depth look and a key speech from a deputy governor

- Bank Rate increased to 3% – November 2022 | Bank of England
- Monetary Policy Report – November 2022 | Bank of England
- The inflationary consequences of real shocks – speech by deputy Governor Ben Broadbent

Broader economics including OBR and thinktanks and consultancies

- OBR economic and fiscal outlook: Economic and fiscal outlook – November 2022 – Office for Budget Responsibility (obr.uk)
- Institute for Fiscal Studies: Autumn Statement 2022 – Institute for Fiscal Studies (ifs.org.uk)
- Resolution Foundation: Help today, squeeze tomorrow – Resolution Foundation
- PwC Consumer sentiment survey: PwC Consumer Sentiment Survey – Autumn 2022 – PwC UK
- Early release of FCA financial lives survey on consumer vulnerability: Financial Lives 2022 survey: insights on vulnerability and financial resilience relevant to the rising cost of living | FCA

Mortgages

- BuiltPlace mortgage and housing market analysis: BuiltPlace
- Moneyfacts Mortgage News | moneyfacts.co.uk
- Thinktank the Resolution Foundation's study of mortgage bills: Britain's £26 billion mortgage hike – five million households set for average mortgage bill increases of £5,100 by end of 2024 – Resolution Foundation

Official Government announcements

- The Government Growth Plan 2022 (i.e. tax plans) documents: The Growth Plan 2022: documents – GOV.UK (www.gov.uk)
- The Fiscal Statement October: Chancellor Statement - 17 October – GOV.UK (www.gov.uk)
- The Autumn Statement November: Autumn Statement 2022: documents – GOV.UK (www.gov.uk)
- Energy bills support package factsheet: https://www.gov.uk/government/publications/energy-bills-support/energy-bills-support-factsheet-8-september-2022
- Government's Energy Bill Relief Scheme: help for businesses and other non-domestic customers: Energy Bill Relief Scheme: help for businesses and other non-domestic customers – GOV.UK (www.gov.uk)

House of Commons Library research

- House of Commons library – UK energy support: UK energy costs – House of Commons Library (parliament.uk)
- House of Commons library – domestic energy prices – CBP-9491.pdf (parliament.uk)

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