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Brokers bemoan borrower budgets for protection – analysis

By John Fitzsimons
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Brokers need to be creative in finding the right protection solutions for clients with reduced budgets. Intermediaries have suggested.

Household budgets continue to be under pressure as a result of a prolonged period of higher outgoings, not least on mortgages, meaning many have less money to devote towards insurance policies. Indeed, many are considering cutting protection policies just to make ends meet – particularly the younger demographic.

And while brokers reported that in the main borrowers understand the need for protection, they suggested that working around the reduced budgets to find the right policies can be a challenge.

Protection: Tomorrow's problem

Justin Moy, managing director of EHF Mortgages, said he had seen fewer borrowers take out adequate protection with their mortgage over the last 12 months or so, with price sensitivity the main factor.

He continued: "With affordability stretched so far at the moment, many are just concentrating on the mortgage and putting the protection conversation 'off for another day'."

Moy noted that this has come at a time when protection is actually ever more important, with higher payments on mortgages, utilities and cost of living expenses to cover in the event of sickness, a situation he described as "dangerous".

Asking direct questions around whether the client and their family are prepared for when they die can help, suggested David Nicklin, managing director of Finance Legacy at Finance.

"Skirting around the subjects of illness, incapacity and death, means the planning often gets kicked down the road. It's always tomorrow's problem until that problem happens today," he added.

Understanding the benefits of protection

Stephen Perkins, managing director of Yellow Brick Mortgages, said he had not seen an increased challenge in selling protection, adding: "If you fully explain the risks and solutions and tailor the package to the clients needs and budgets, for many the benefits far outweigh the costs."

According to Gary Bush, financial adviser at MortgageShop.com, clients agreeing to review protection policies at the moment "is quite popular", because of the combination of potential monthly savings and wanting to ensure loved ones have a sufficient safeguard.

However, he bemoaned the lack of innovation in the market at the moment. While Vitality were praised for their approach, the insurer's products "need some serious handholding to ensure families are afforded the right coverage" he continued.

"Never has life insurance, critical illness cover, income protection, private health cover, etc needed a decent financial advice practice to help customers more than now – decent analysis makes a huge difference."

Stretching budgets

Clients are more cautious around their spending on insurance since mortgage rates have risen, pointed out Luke Thompson, director of PAB Wealth Management.

He argued that life insurance is the easiest product to sell, yet the least likely to be needed, and suggested that asking the client to set a budget for their insurance needs and then building the cover around that budget is an effective way of supporting them.

According to Simon Bridgland, director of Release Freedom, clients have become more aware of the need for cover in recent years, perhaps in part due to the pandemic.

He noted that enquiries have moved more towards income protection, whereas in the past they were focused on the likes of life insurance and critical illness protection.

Bridgland argued that with affordability such a pressing issue, it can be useful to look at more overarching cover like family income benefit, which can cover multiple needs at a more affordable premium.

Richard Jennings, founder of Richard Jennings Mortgage Services, said that around three quarters of his clients take some form of protection, but that it had been noticeable that clients have less room in their budgets to cover the cost of protection.

Jennings described income protection as being "drastically under utilised", as it can "help clients address their protection requirements in budget due to the great flexibility these types of products can provide in terms of claim period, deferred period and index linking of benefit amounts".

The impact of the NHS on protection cover

Darryl Dhofer, mortgage expert at The Mortgage Expert, said that it's "never a 'self process' with protection products, and said that once the dangers of not having protection are explained clients tend to recognise the need for cover.

Dhofer continued: "The biggest issue surrounding the ease of application is the GP requests for medical reports – this is a huge issue, with ridiculous delays, which can deter a lot of consumers from protecting themselves."

Scott Taylor-Barr, principal adviser at Barnsdale Financial Management, was another who reported issues with getting the GP's report, which could drag on for months, while clients being on a long waiting list for minor surgery, tests or investigations could mean insurers postponing cover until it is resolved.

He added: "The current state of the NHS is having a knock-on effect on the ability of the insurance industry to protect people, which is an issue we don't hear about."

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John Fitzsimons is a freelance journalist and has been writing about money since 2007. A former editor of Mortgage Solutions and loveMONEY, he has written for titles including the Mirror, the Sunday Times, the Sun and Moneyweek, covering everything from bank accounts and mortgages to football season tickets and rare coins.

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