

Scottish Widows Protect & Paraplanners Assembly

# Protection Essentials

February 2024

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**SCOTTISH WIDOWS**

# PROTECTION ESSENTIALS

1

Better understand the importance of protection as part of holistic financial planning

Be aware of recent trends and misconceptions in the protection market

2

3

Understand the fundamentals such as product types remuneration and insurer processes

Know about the range of tools, systems and services available to support you in researching and delivering recommendations

4

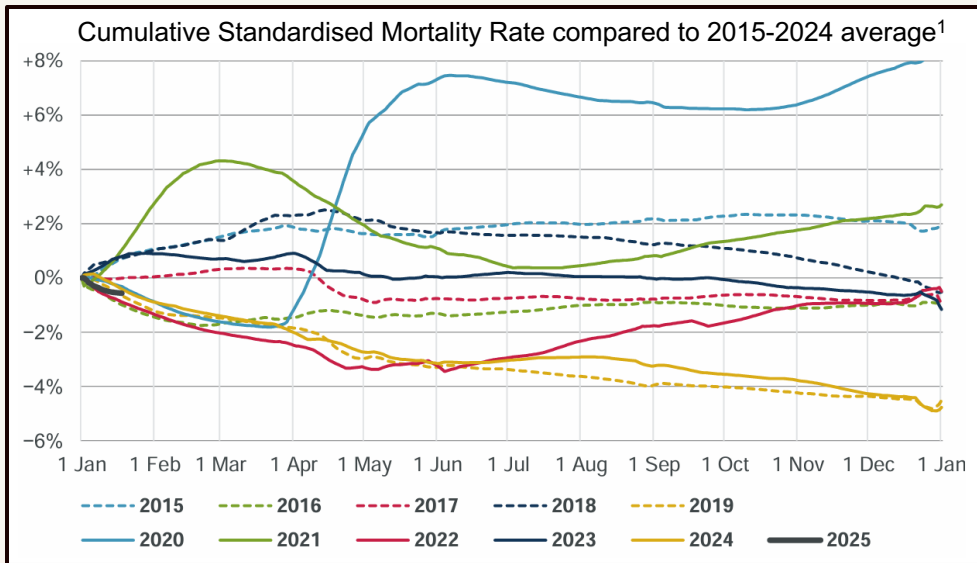


A man wearing a blue cap and a dark blue polo shirt is leaning over a wooden pallet in the back of a green van. He appears to be organizing or securing items on the pallet. In the background, another person in a blue uniform is walking towards a pallet loaded with colorful fabrics. The scene is set outdoors in front of a brick building with a window.

PROTECTION IN HOLISTIC FINANCIAL PLANNING

SCOTTISH WIDOWS

## MIND THE GAP



Every **two minutes** someone in the UK is diagnosed with **cancer**<sup>2</sup>

80% of people with cancer are up to **£900 a month** worse off<sup>2</sup>

**375,000 new cases** of cancer in the UK every year<sup>3</sup>

Every **five minutes** someone is admitted to a UK hospital due to a **heart attack**<sup>4</sup>

Around **1.5 million men** and **830,000 women** in the UK are living with **coronary heart disease**<sup>4</sup>

There are more than **100,000 strokes** in the UK each year – **at least one every five minutes**<sup>4</sup>

Around **1.4 million people** living in the UK have **survived a stroke or TIA**<sup>4</sup>

Sources: 1 – Institute and Faculty of Actuaries & ONS, 2025

2 - Macmillan Cancer Support, 2021

3 - Cancer Research UK, 2023

4 - British Heart Foundation, 2023

## MIND THE GAP

60%

Three in five households don't have any life insurance.

75%

Three quarters of households don't have any critical illness cover.

48%

Nearly half of unmarried couples don't know whether their partner has life insurance.

34%

More than a third of couples don't discuss long-term financial planning as they don't think it's important.

People are generally unaware of the risk to their family, finances and lifestyle brought about by an unexpected death or serious illness, and don't know how to properly plan for this.

## STATE BENEFITS

### Bereavement Support Payment

Made up of first payment and then up to 18 monthly payments. There are two rates:

Rate	First Payment	Monthly payment
Higher	£3,500	£350
Lower	£2,500	£100

Higher rate is available to those who get Child Benefit or those who were pregnant when their husband, wife or civil partner died.

### Support for Mortgage Interest

Help with paying the interest (not capital) on up to £200,000 of borrowing.

SMI is a loan that must be repaid when the claimant returns to work or the house is sold.

39 week waiting period to claim.

Government use an interest rate of 3.16% to calculate the amount of SMI available.

This information is based on our understanding of the Chancellor's 15<sup>th</sup> March 2023 Spring Budget.

## STATE BENEFITS

### Bereavement Support Payment

**Maximum payment  
is just £9,800**

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## REASONS FOR COVER



To protect  
their family



To protect  
their home



To protect  
against IHT



To protect  
their business



# FAMILY PROTECTION

## Legacy

To provide an additional cash lump sum in the event of death (level or increasing life cover)

## Childcare

To cover the ongoing cost of childcare provision in the event of parent's death or critical illness (level or income life and/or CIC)

## Education

To cover the ongoing cost of education in the event of parent's death, critical illness or inability to work (level or income life and/or CIC, income protection)



To protect  
their family

## Treatment and Support

To allow the option of private treatment and support to speed up recovery (level or increasing CIC)

## Standard of Living

To allow a family to continue enjoying the same standard of living should a parent pass away or fall critically ill (level, increasing or income life and/or CIC)

To provide a stable source of income if one of the household earners is unable to work through illness (income protection)

## IHT MITIGATION



To protect  
against IHT

### Peace of Mind

Provides funds to settle any actual or potential IHT bills after death.

(life cover arranged on WOL, JLSD or GIV basis)

### Whole Of Life (WOL)

A single-life policy with a specified sum assured (level or increasing) but no end date. Guaranteed to pay out whenever the life assured dies.

### Joint Life, Second Death (JLSD)

Level or increasing cover for two people, designed to settle an IHT bill arising from the second death.

### Gift Inter Vivos (GIV)

Cover that tapers over a 7yr term, in line with the reducing IHT liability on Potentially Exempt Transfers (PETs)

# BUSINESS PROTECTION



**To protect  
their business**

## **Continuity**

Provides funds to allow a business to continue trading following the death or critical illness of a business owner or key employee.

(life cover and/or CIC arranged in various ways)

## **Key Person Cover**

Life cover and/or CIC policy taken out by a business on the life of a key employee (life of another). Designed to cover loss of profits, cost of replacement etc.

## **Loan Protection**

Life cover and/or CIC policy taken out by a business on the life of an individual responsible for its commercial borrowing.

## **Shareholder Protection**

Life cover and/or CIC policy taken out by shareholders to provide funds to 'buy out' a deceased or critically ill business partner.

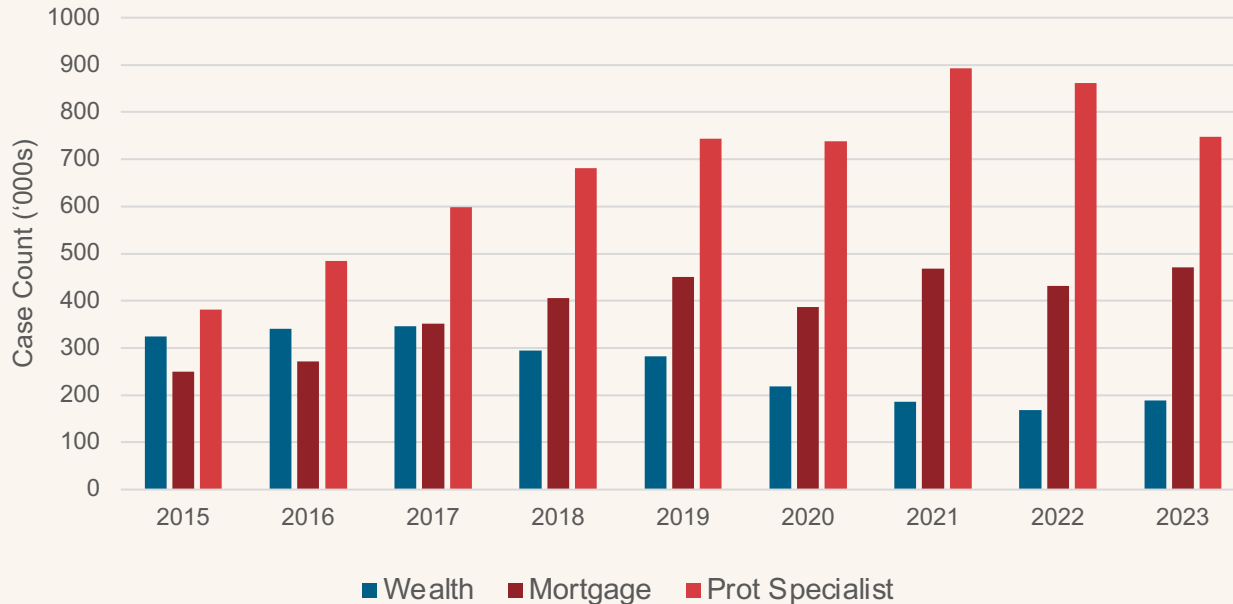


MARKET TRENDS

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# PROTECTION ACTIVITY BY INTERMEDIARY SEGMENT

## Intermediary Segments Case Count Trends

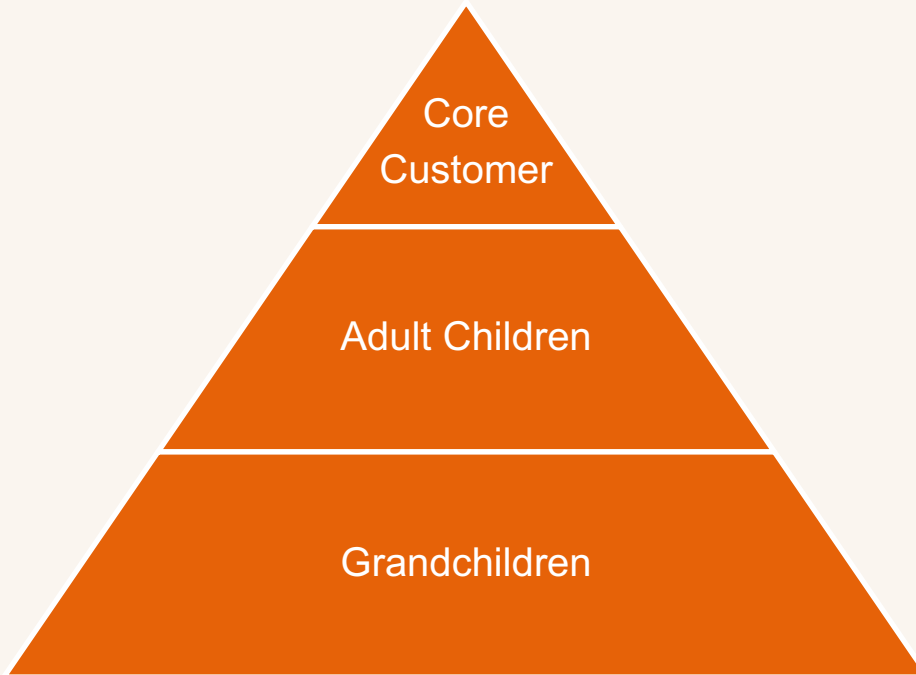


**2022 Wealth channel**  
12% of cases

Protection conversations  
only wealth advisers can  
access:

- Inter-generational FP
- Business Protection
- Estate Planning

# INTERGENERATIONAL PLANNING



Retirement planning focus  
What is their decumulation objective?  
Who inherits their estate?

Income vs Liabilities  
Diminished/inconsistent employee benefits  
Financial vulnerability  
Inheritance potential

Financially vulnerable

## WHY DOES IT MATTER?

- Scottish Widows claims paid 2023 = £243m across 11,702 claims

- That's 961k paid each working day
- Industry claims paid 2023 = £6.85 billion

### LIFE COVER CLAIMS

AGE	% CLAIMS
Child	0%
21-30	0.7%
31-40	3.7%
41-50	15.3%
51-60	37.3%
61+	43.0%

Age 31-50 = 19% of Life Claims

### CRITICAL ILLNESS COVER CLAIMS

AGE	% CLAIMS
Child	3.1%
21-30	1.9%
31-40	11.8%
41-50	28.5%
51-60	42.4%
61+	12.4%

Age 31-50 = 40.3% of CI Claims

Sources: ABI 2023 claims data, Scottish Widows 2023 claims data



A man with grey hair and glasses, wearing a brown sweater, is leaning over a table and looking at a large sheet of paper. He has a pen in his hand and is resting his chin on it. A woman with long blonde hair, wearing a light blue button-down shirt, is standing next to him, also looking at the paper. The table is covered with architectural plans and a calculator. The background shows a kitchen with a sink and a wicker basket on the counter.

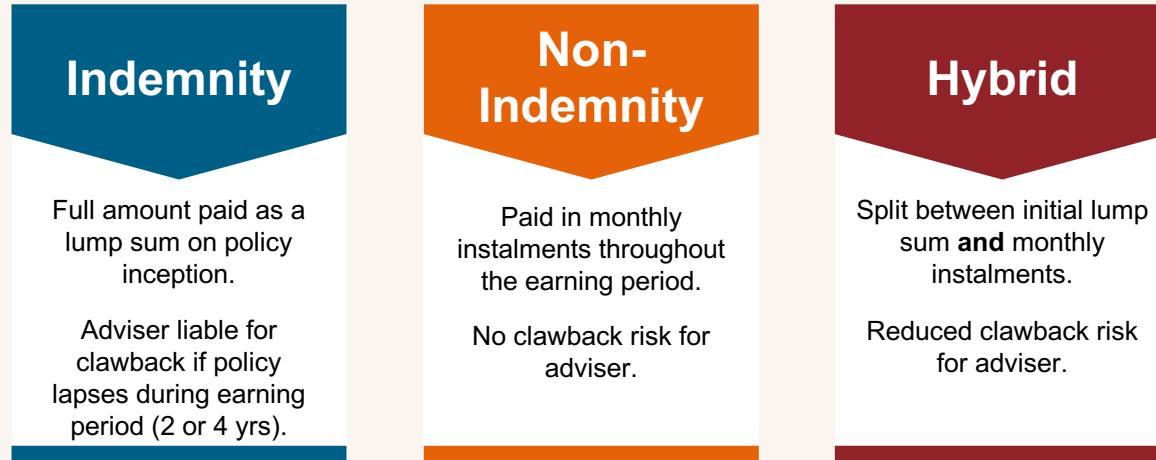
PROTECTION PRODUCTS & PROCESSES

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# REMUNERATION

- Insurers pay commission to advisers for each policy written, once the case is 'on risk'.
- Commission amount is driven by the policy premium and the adviser's/network's commission terms with the insurer.



- Renewal commission is also paid annually after the initial earnings period has ended
- Commission can be 'sacrificed', reducing the client's monthly premium

## MAIN COVER TYPES

Cover Type	Claimable On	Cover Basis	Benefit Type	Payment Type
Life				
Critical Illness (CIC)				
Income Protection (IP)				

## INSURABLE INTEREST

**Legally, in the UK, an adult individual has an unlimited insurable interest in their own life.**

- This means you could hypothetically take out as much cover as you want with an **own life** policy, where the policyholder and life assured are the same person.
- In practice, the sum assured will be restricted by the insurer's maximum cover rules.

**Cover can also be arranged on the life of another.**

- This means that person A can take out a policy on the life of person B.
- In such cases, there must be an **insurable interest** (i.e. person A must be able to prove that they would suffer a financial loss from person B's demise).
- A business can also use a **life of another** policy for key person cover, where the life assured is one of their key employees.

**Important note:**

- Joint Life policies are normally considered as **own life** cover

## LIFE COVER

### Single Life

Covers one individual  
Can be **own life** or **life of another**  
Lump sum or monthly benefit payment options

### Joint Life, First Death

Covers two individuals  
Normally treated as **own life** cover  
Lump sum or monthly benefit payment options

### Joint Life, Second Death

Covers two individuals  
Normally treated as **own life** cover  
Normally available with level lump sum payment option only

- The sum assured can be level, decreasing or increasing to suit the client's needs
- **Level** and **Decreasing** cover has a fixed premium
- **Increasing** cover has an escalating premium (normally 1.6x the rate of sum assured increase)
- Can be combined with CIC in a single policy that pays out on the first claim.
- If monthly benefit instead of lump sum is selected, the policy is normally referred to as **Family Income Benefit (FIB)**

# CRITICAL ILLNESS COVER

## Single Life

Covers one individual

Can be **own life** or **life of another**

Lump sum or monthly benefit payment options

## Joint Life, First Event

Covers two individuals

Normally treated as **own life** cover

Lump sum or monthly benefit payment options

- Cancer, heart attack, stroke, multiple sclerosis + 19 other illnesses **must** be covered to meet ABI minimum standard
- Full payment of sum assured for main critical illnesses
- Additional payment for other serious (but not critical) illnesses (usually a % of sum assured)
- Children's cover also available as an additional payment event
- **Huge degree of variance between insurers/products**

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- **Level** and **Decreasing** cover has a fixed premium
- **Increasing** cover has an escalating premium (normally 1.6x the rate of sum assured increase)
- Can be combined with Life Cover in a single policy that pays out on the first claim.
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# INCOME PROTECTION

A policy designed to replace an individual's earned income in the event that they are incapacitated and unable to work.

## What is 'incapacity'?

If **any illness or injury** prevents an individual from working, they are considered to be incapacitated.

This is assessed on **own occupation**, **suited occupation** or **activities of daily living** criteria.

## How much cover is available?

Most policies will cover around 60% of an individual's gross income.

Different insurers have different definitions of income.

## When does a claim start?

The insurer will start payments when the **deferred period** ends.

This the amount of time between the start of incapacity and start of claim payments.

**Shorter deferral = higher premium**

## How long does a claim last?

Monthly payments continue until the policyholder returns to work, the policy term ends, or the policyholder dies.

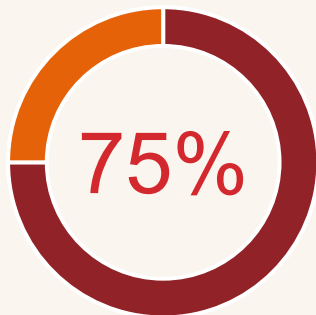
Short term policies are also available (e.g. 2yr claim).

# THE APPLICATION

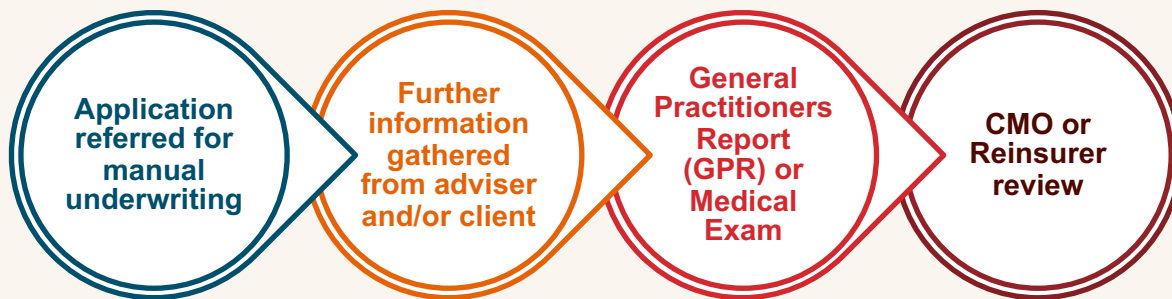
The screenshot displays the user interface for a data capture exercise. At the top, the Scottish Widows logo is on the left, and navigation links for 'Home', 'New business', and 'Search' are in the center. On the right, there are icons for 'Profile', 'Contact', and 'Log out'. Below the navigation, a breadcrumb trail shows '< Health and lifestyle questions'. The main heading is 'Mark Spring's about you' with a sub-instruction 'Please complete all sections'. The form is divided into two columns. The left column contains three sections: 'How tall are you?' with input fields for feet, inches, and centimeters; 'How much do you weigh?' with input fields for stones, pounds, and kilograms; and 'What is your job?' with a search box and a 'More information' link. The right column contains a progress bar with items: 'Quote' (Complete), 'Apply' (In progress), 'Quote summary' (locked), 'Agency selection' (checked), 'Client details' (checked), 'Cover details' (checked), 'Declarations' (checked), 'Agent details' (checked), and 'Client contact details' (checked).

- Data capture exercise to collect client's personal, lifestyle and health information.
- Can be completed online (quickest and easiest method) or using a paper form.
- Extra care needs to be taken when handling a client's health information – it is deemed 'Special Category Data' under GDPR
- Client must agree to provide complete, accurate and honest answers to all questions.

## UNDERWRITING



Of cases are typically offered terms without manual underwriting



Adviser dashboard updated at every touch point



- Manual underwriting could be triggered by a particular health or lifestyle disclosure, or a combination of factors
- An insurer's **non-medical limits** can also necessitate manual underwriting and third-party evidence
- The purpose of underwriting is to ensure the client gets the fairest possible outcome
- Current trends: **mental health is the leading medical disclosure** and different insurers have very different ways of assessing this.



## INSURER DECISION

### Standard Rates

No increase in premium or exclusions applied

### Accepted with Exclusion

A condition has been excluded from coverage but the price has not increased (it may decrease)

### Rated/Loaded

A % increase has been applied to the premium due to certain disclosures on the application

### Per Mille Loading Applied

An extra premium per £1,000 of sum assured has been applied due to the client disclosures

### Postponed

The insurer cannot offer cover to the customer now but can review after the stated time period

### Declined

The insurer is unable to consider this client for cover at this time or in the near future

## TRUSTS



Trustees are the legal  
owners



of an asset – e.g. a  
protection policy



on behalf of beneficiaries



## WHY USE A TRUST?



- IHT planning – e.g. gifting involving investment bonds, and/ or using protection policies to pay IHT bills

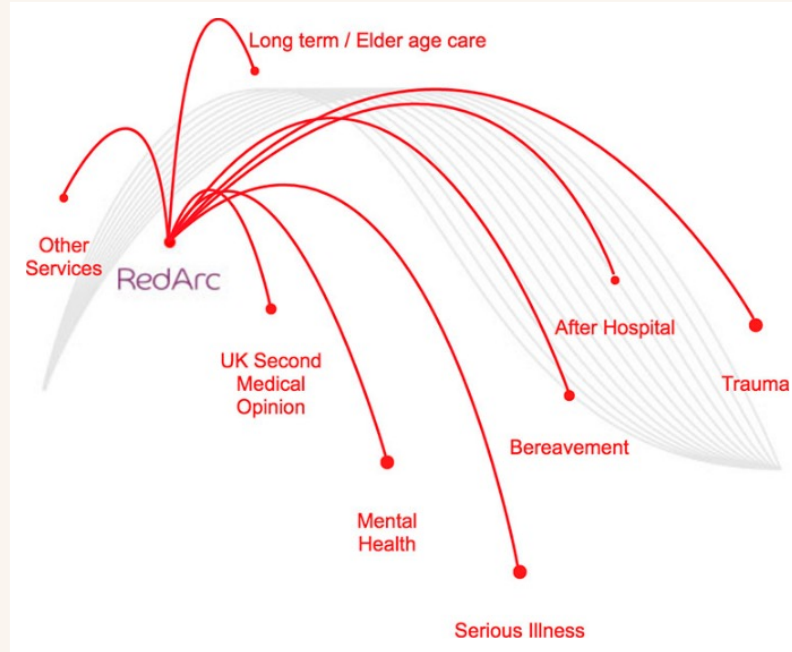


- To get protection policy proceeds into the right hands at the right time



- For life and critical illness cover: in connection with family protection or business protection

## ADDITIONAL BENEFITS



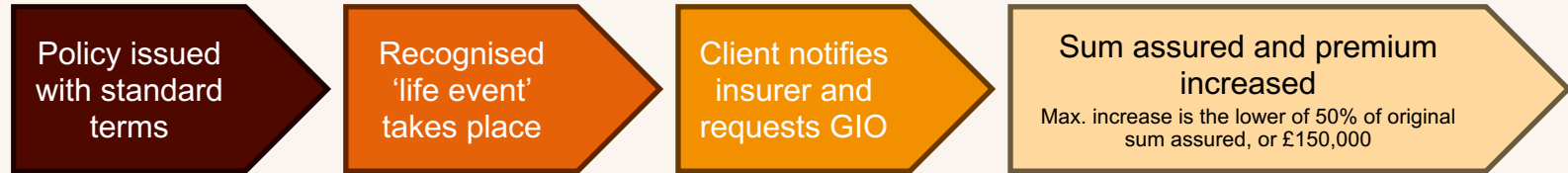
Working with

**MACMILLAN**  
**CANCER SUPPORT**




## REVIEWS & FLEXIBILITY

- Sum assured can be **reduced** at any time – no underwriting required as risk is reduced
- In some cases, the sum assured can be **increased** without further underwriting: this is called a **Guaranteed Insurability Option (GIO)**



- If GIO isn't possible, the adviser will need to source a separate 'top up' policy or look to rebroke the original cover
- Options to 'split' joint life policies and arrange replacement policies following a claim are also available, typically without further underwriting.



TOOLS & SYSTEMS

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## WHAT SYSTEMS SHOULD I CONSIDER?

With so many systems to choose from, do you understand the differences between each quote and application portal and how these can benefit your business?



- Select provider based on pre-underwritten price
- Apply on insurer website
- Underwriting then completed and price/terms may change



As IRESS but also includes ability to provide quotes from different providers on different products to provide cheapest pre-underwritten cost



Same functionality as IRESS: quotes are not underwritten.



Quote and apply system focusing on the post underwritten price, all providers on the protection platform subscribe to one set of questions. Can be used for multiple policies/individuals but personal protection only.



## HOW DO I COMPARE THE PROPOSITIONS IN THE MARKET?



CI comparison system providing the ability to compare current CI contracts across providers in the market or historical policies.

Credits are paid for and used up by each report.



Comparison system used to compare all current product features including CI, claim stats & process, added value benefits etc.

Monthly subscription service that allows unlimited reports.



Comparison system used to compare all current policy features and awards ratings based on how comprehensive the proposition is with 5 stars being the highest.

Mainly used for insurer benchmarking.



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Know about the range of tools, systems and services available to support you in researching and delivering recommendations

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# Q&A TIME



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Every care has been taken to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, which may change. However, independent confirmation should be obtained before acting or refraining from acting in reliance upon the information given.

