Beneath the Surface

Serving the Underserved

2024 REPORT

Contents

1 Introduction

Beneath The Surface is an annual report produced by Pacific Life Re using in-depth consumer research and market expertise to explore important questions facing the protection market in the UK and Ireland.

Previous editions have looked at value-added services and how they are used by customers, and last year we investigated the long-term sustainability of the protection market.

This year, with customer value becoming even more front of mind for the insurance industry, thanks in part to Consumer Duty in the UK, we have focused on how well the industry is currently serving different customer segments. Through our survey of over 2,000 consumers across the UK and Ireland we've sought to identify those groups that are not as well served and examine what could be done to both better serve and grow the protection market.

Key findings at a glance...

Protection products have long been seen as an important way for individuals and families to improve their financial resilience. Yet in both the UK and Ireland, not enough customers have adequate protection in place.

There has been significant effort within the industry in recent years to make it easier to buy protection products by focusing on improving the underwriting journey, redesigning products, developing new distribution methods, and sharpening premium rates.

Despite these improvements, there is now a greater recognition that not all customers are served equally. This has been brought more into focus by the introduction of the Consumer Duty regulations in the UK. In this report we examine different customer segments and identify which ones are relatively underserved. We explore what factors could be driving these differences and reveal what changes could be made to better serve different customer segments.

The results reinforce widely held assumptions around the protection market, including that males and heterosexuals are amongst the most well served. Customers on low incomes are the least likely to have protection, whilst customers with disabilities, females, and LGBTQ+ customers are also less well served. We see a varied picture by ethnicity, with customers of an Asian heritage more likely to have cover, but customers of black ethnicity less likely. Of course, it's not just about having a protection policy in place, but whether customers have enough

Customers **with a disability** are **17%** **less likely** to have any **protection cover**

...and are...

10% **less likely** to have **Individual Protection**

The **LGBTQ+ cohort** are **11%** **less likely** to have **Individual Protection** than those identifying as heterosexual

...and **females** **8%** **underserved** compared to males

cover. For those who do have a policy, we find customers with black ethnicity are more likely to have sufficient individual cover although this is linked with lower home ownership for this cohort. Despite having some of the greatest need, customers aged 25-44 are more likely to have a shortfall in cover than other customers. While these results confirm what we may expect to be the case, it helps to quantify the disparity between customer groups, and raises the question why haven't we done more as an industry to protect these individuals?

To better serve all customers, we need to better understand differences in customer preferences and circumstances. Our research highlights low awareness and understanding of protection across the board, but we especially need to consider how we engage underserved segments. Traditionally, a mortgage is the biggest driver for protection and is often the focus in protection marketing, but we find children and recommendations from family and friends are more important drivers for protection amongst some ethnic minorities and younger customers. This points to the need for more tailored marketing around the need for protection, engaging with customers at different touchpoints in their life cycle, and alternative distribution methods.

We also reveal the significance of parental influence, with customers being twice as likely to have protection if their parents did. This underlines the role families and friends play in raising awareness about protection and we believe that encouraging more open discussions about financial wellbeing is a key area where the industry can help to improve the protection reach.

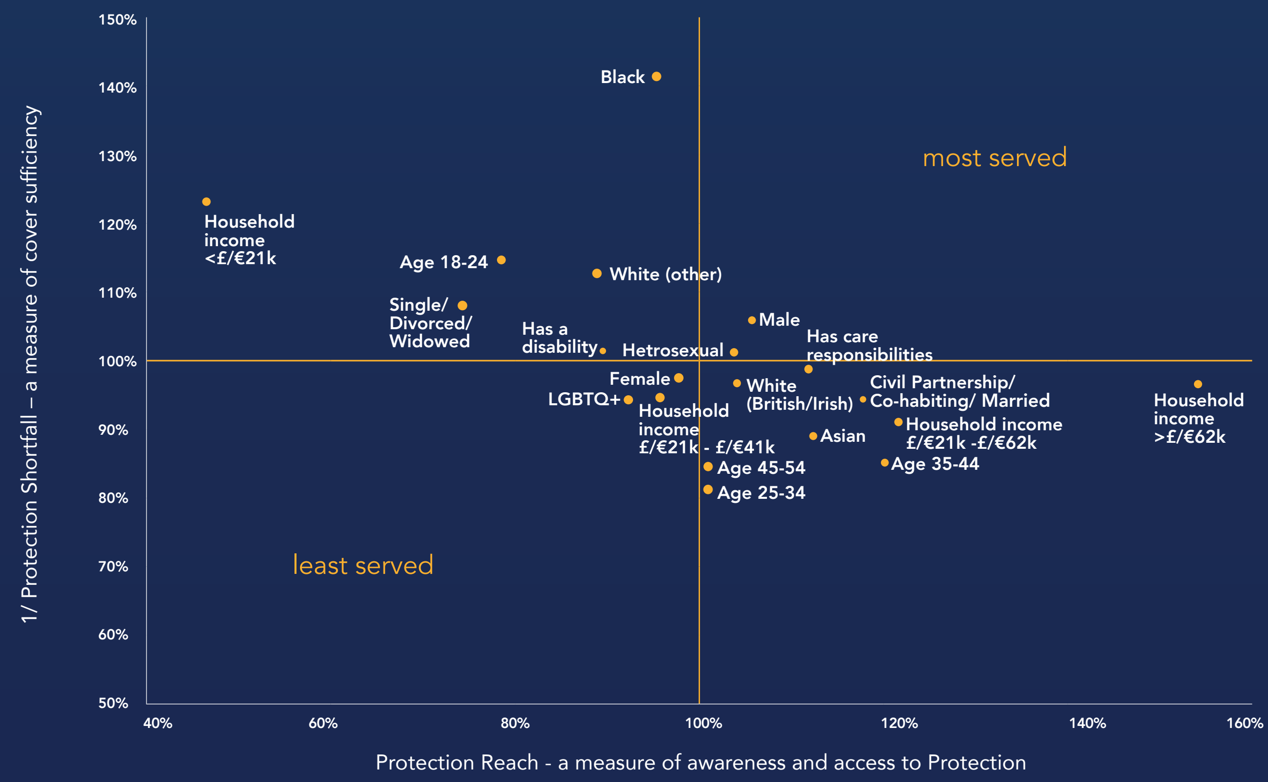
We also explore what distributors can do to effectively serve female, LGBTQ+ and ethnic minority customers. Our research highlights that advisers are not the go-to place for some underserved segments. In fact, low-cost online solutions are more likely to resonate with customers on low incomes, who are half as likely to speak to a financial adviser. Guided digital solutions may play a part in reaching those on lower incomes. However, our research reveals that black ethnic groups are more likely to want to use an IFA, and so there is potential here for IFAs to help improve the reach in this underserved segment.

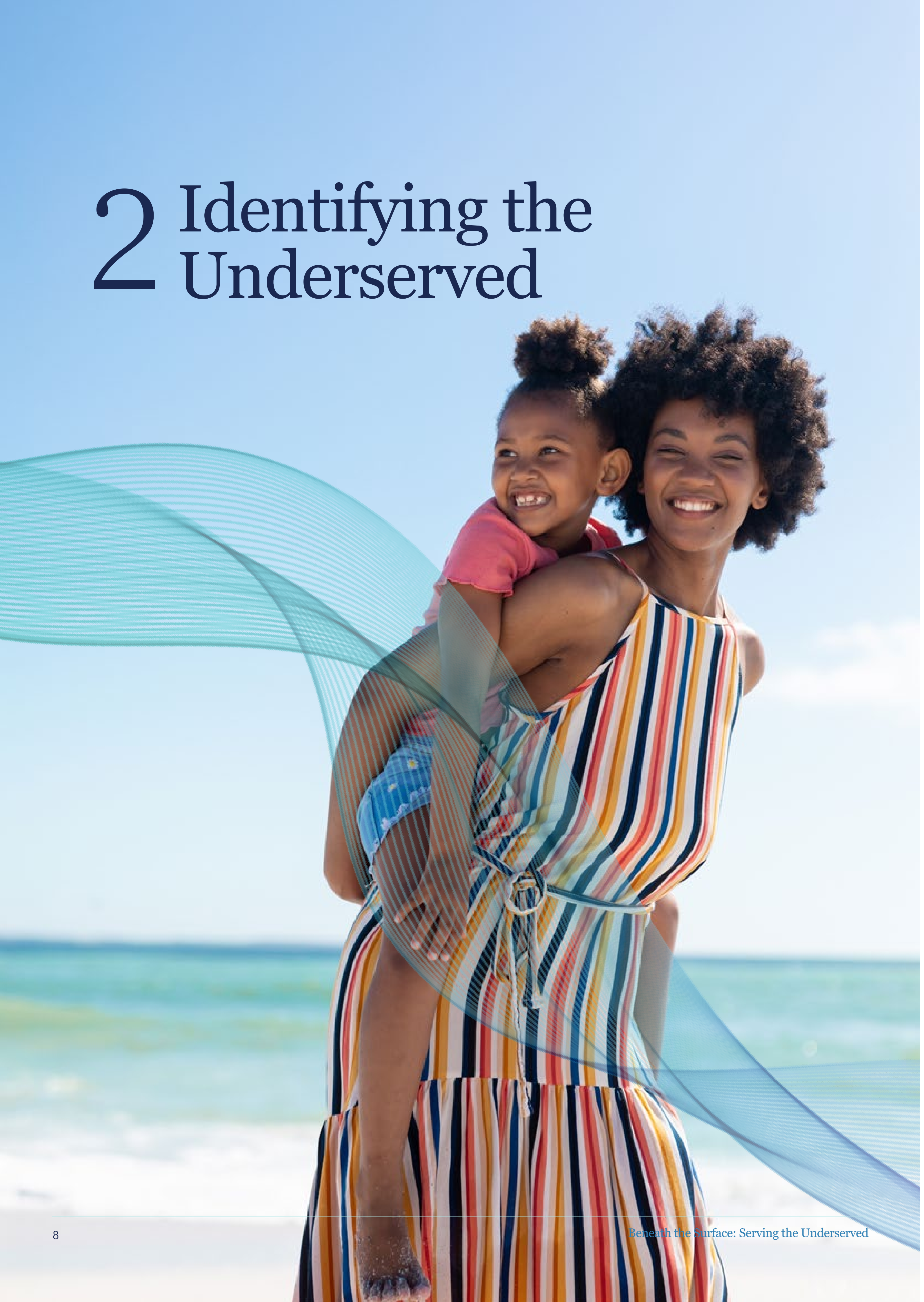
Employers play a significant role in providing protection insurance amongst underserved groups including LGBTQ+ and some ethnic minorities, but this channel could be further developed with a focus on reaching a higher quantity of customers or better protecting these groups with the right products.

Finally, we look at product design and the customer journey. There is a misconception that customers are not entitled to protection insurance if they have a disability or disclose any mental health conditions. Whilst this is certainly not the case, pre-existing conditions do act as a barrier to cover. We discuss if the protection industry should explore removing some of these barriers to improve access to protection, noting we must balance the effect on pooling risk.

Customers **who have group** are **20%** **more likely** to have **individual protection**

Overall, our research helps to confirm and quantify the disparity between customer groups and shows there is still much more to do to better serve the whole population. The results begin to highlight some of the actions that the industry can take to close the gaps through more tailored marketing and improving the customer journey, and there is also more debate to be had around the role of distribution and how we can improve product design and access.





2 Identifying the Underserved

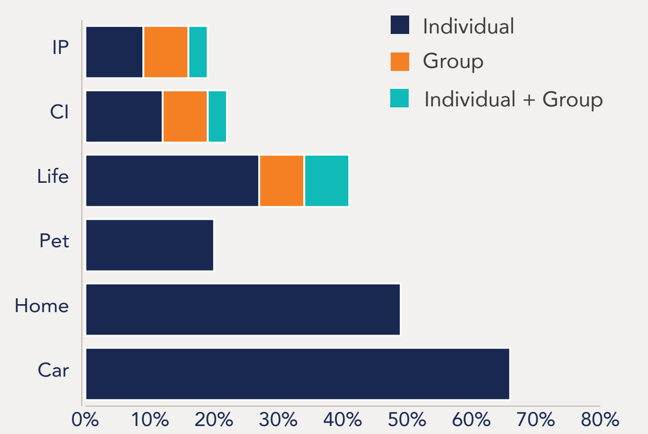
Protection reach and shortfall

To identify which segments of society appear to be underserved by the protection insurance industry, we must define metrics which show the take up of protection products and what we consider 'well-served' to be.

We first consider 'protection reach' and the extent to which consumers have a protection product such as life, critical illness or income protection.

To provide a benchmark and assess consumers' appetite for insurance products more broadly, we also asked respondents about general insurance ownership. Unsurprisingly given the legal requirement, car insurance has the greatest ownership at 66%, followed by home insurance (building and/or contents) at 49%. Within our sample, life insurance has the greatest reach of protection products at over 40%, with critical illness and income protection each being held by about 20% of respondents. Note that to get more credible insights into perceived underserved customer groups, we oversampled some segments. This means statistics on the overall protection reach may not be representative of the entire population, but the relative differences between customer segments will be more informative.

Insurance ownership across our sample



Overall, we find that 59% of the entire sample hold at least one form of protection (including that provided by an employer), with 40% having purchased an individual protection product.

Whilst protection reach is important to identify underserved groups, the adequacy of cover to meet a customer's needs is also key. We therefore consider the 'protection shortfall', which we define as total debt less any individual term assurance cover and any savings.

37% of our total sample have a protection shortfall, amounting to around £/€60k on average. More surprising is that more than 1 in 5 existing protection customers have a shortfall. As most of these customers purchased through advised channels, this shortfall points to changing customer needs over time. This highlights the need for insurers and advisers to remind customers of guaranteed insurability options (GIOs) and the importance of adapting cover to meet evolving needs.

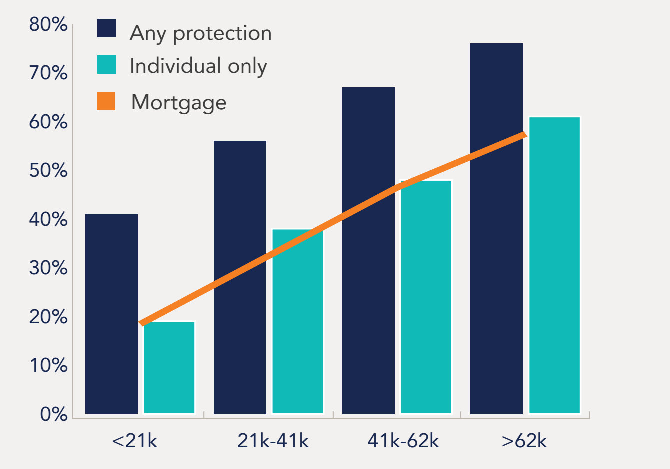
As an industry, we have seen incredibly low application rates for GIOs, far below the rate at which customers experience the life events for which they are designed, signifying a lack of awareness amongst policyholders. Further, for those few who do apply to adapt cover, we have seen insurers with successful execution rates as low as 1%. The friction brought on by the evidence requirements, often requiring original paper copies relating to life events, is a significant barrier.

As an industry, we should simplify the process to better serve our customers and ensure sufficiency of cover. Whilst the life event triggers are an important protection against anti-selection, can evidence requirements be postponed, only to be reviewed under suspicious claim circumstance?

Household income and age

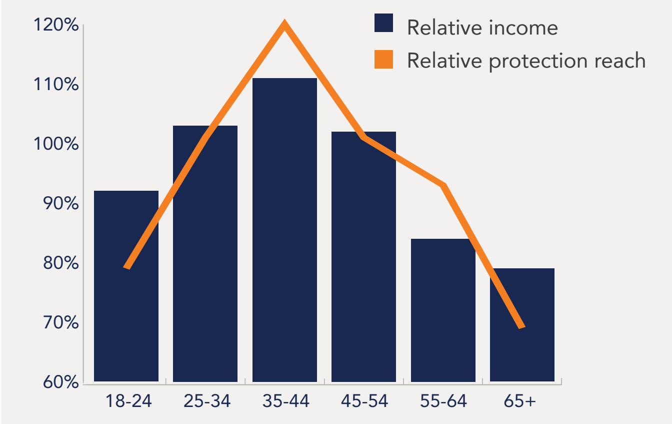
Income and age are known as significant factors in driving both a customer's ability and need to buy protection, and our survey highlights how low-income customers are amongst the most underserved. Individuals earning over £/€62k are three times more likely to have individual protection than consumers earning less than £/€21k.

Protection reach and mortgage ownership for income groups



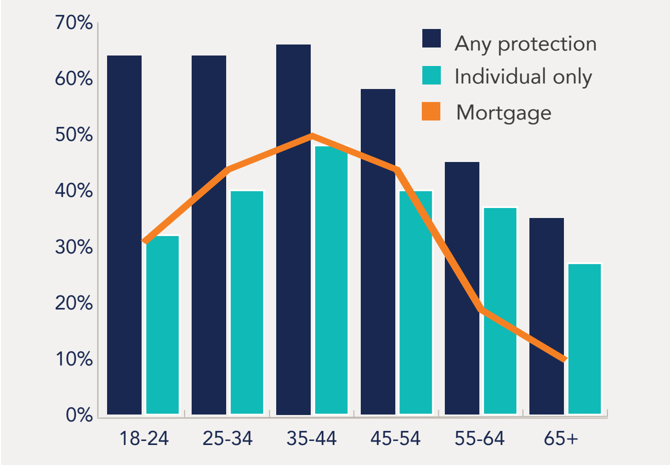
A strong correlation between mortgage ownership and income provides some context to the better protection reach amongst higher incomes. Although customers on lower incomes may be less likely to be homeowners, many still have a need for protection. We see the protection shortfall increases in absolute terms with income, as households take on larger debts, but in relative terms, the shortfall is largest for the lowest income group (165% of the average annual income for this cohort).

Income vs age as an explanatory factor



We know income is also strongly correlated with age, with income typically peaking around middle age, as customers have progressed in their careers, before reducing into semi-retirement. However, we see a considerably steeper shape for protection ownership by age, showing that age is significant in its own right as an explanatory variable beyond its association with income.

Protection reach and mortgage ownership for age groups



We find that only 1 in 3 individuals aged under 25 have some form of individual protection, but customers in this group are less likely to be homeowners or have started a family so their need is generally smaller.

For ages 25-44, where financial obligations often increase and we see a large proportion of protection sales, the protection shortfall is almost 50% greater than the average. By contrast, annual income across these ages is only 7% higher than the sample average. So even though protection reach is greater at these ages, whether as a factor of price or awareness, the policies being purchased are not sufficient in many cases to meet the protection needs.

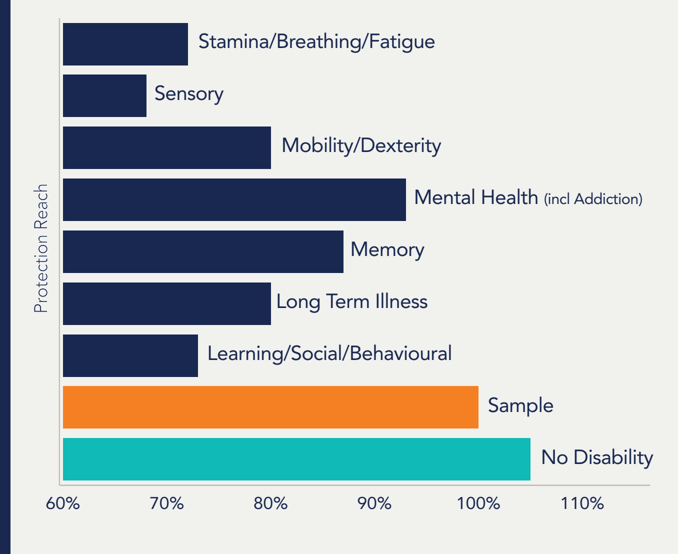
Disability and long term illness

We find that customers who report a disability or illness are 17% less likely to have any protection cover (group and individual), and 10% less likely to have individual cover compared to the total sample. This highlights much lower reach for group protection amongst this customer segment and is likely connected with higher rates of unemployment amongst disabled persons and therefore lower employer provision.

Looking at the average protection shortfall for customers with a disability or illness, it's around 50% less than that of the sample. This suggests greater sufficiency of cover where it is purchased and could be driven by lower average debt levels.

Amongst customers with a disability or illness, our research finds those with sensory deficits and learning, social, or behavioural disorders have the poorest protection reach.

Relative protection reach for those with varying disabilities and illnesses

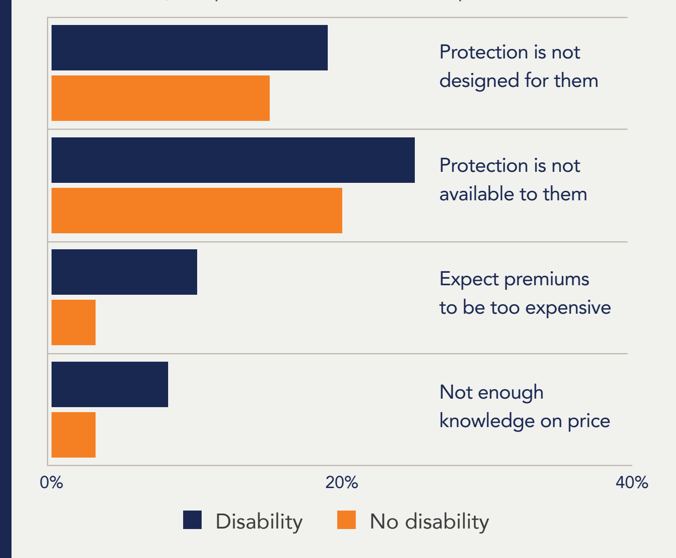


Many customers with a disability or illness find it more difficult to get cover owing to their condition, and this is certainly evident in the reasons why participants do not have any cover in place.

On average, respondents with a disability or illness said they had less knowledge about the price of insurance, and those that did expected it to be too expensive. In addition to this, they were 4x more likely to say that protection is not available to them, as a result of their underlying condition(s).

We know from our Beneath the Surface research in 2023 that most customers thought moderate mental health was a barrier to protection, whereas in reality, most customers with prior mental health conditions are offered cover, and many of them on standard rates. This suggests there may be a perception gap in respect of some conditions covered. However, the results here also highlight how the industry could challenge itself to be more inclusive in respect of certain conditions.

Reasons why respondents do not have protection



Sexual orientation

We find LGBTQ+ customers have the same level of protection ownership as the wider sample (59%). However, when looking at individual protection only, there was a disparity with LGBTQ+ customers 11% less likely to have individual protection than those identifying as heterosexual.

This inconsistency between group and individual reach may well be indicative of the underlying sales and underwriting practices adopted by these channels. With group protection, employees are likely to be auto-enrolled into schemes with no underwriting under the free-cover limit.

By contrast the contributing factors influencing an LGBTQ+ customer's decision to purchase may include:

- being wary of engaging with individual products which have been slow to adopt inclusive language,
- being put off by intrusive and personal questions, or
- belief there is a bias in insurance against those living with HIV.

As an example, common underwriting journeys have previously asked the following series of questions:

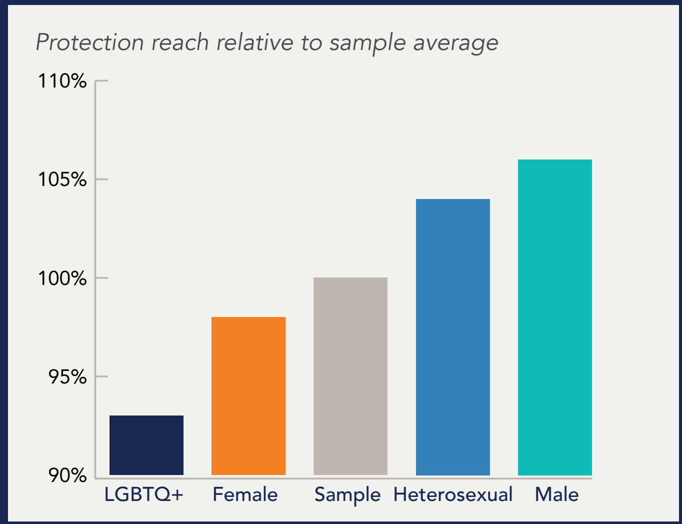
1. In which of the following sexual groups would you place yourself?
   a. Heterosexual b. Homosexual c. Bisexual
2. Have you ever belonged to either of the sexual groups not selected in question 1?
3. Are you now, or have you ever been, a sexual partner of anyone in the following categories?
   a. Homosexual b. Bisexual
   c. Intravenous drug user d. Haemophiliac

Given the intensity of the stigma portrayed by these historical questions, it is no surprise that the negative impression of insurance has outlasted the actual underwriting practice. Whilst, in general, underwriting journeys were corrected over a decade ago, more can be done as an industry to ensure all applicants feel comfortable and represented.

This is an area that needs further research to fully understand how the protection reach can be extended in this community.

Gender

The gender protection gap is well reported, and our survey reinforces this, with females being 8% less likely to have any protection than males. Differences in workforce participation where females have historically been more likely to be a stay-at-home parent, and lower pay for females who do work, will be driving some of these differences. Advice practices could be a contributing factor, where traditionally only one partner may be engaged in a protection conversation by an adviser.



Our survey also reveals that more women than men have no confidence in an insurer to make a fair underwriting decision, and would not purchase protection because they think it would be too expensive. Analysis on disclosure data from UnderwriteMe reveals that women disclose mental health nearly twice as much as men and are more likely than men to receive a non-standard rate because of their height and weight, potentially pointing to lower misrepresentation amongst females. However, this is likely to lead to higher premiums and could be seen as self-fulfilling.

We believe that some solutions to improve the protection reach of females include:

- ensuring brokers are involving women in conversations around financial wellbeing,
- considering the cost of a stay-at-home parent when protecting a family's assets, and
- improving housepersons cover

Interestingly, the shortfall for males was larger than for females. This could be a consequence of different attitudes to the cover required, and cost of putting it in place.

Only 7 out of 2,250 respondents identified as neither male nor female and so, with little credibility, this cohort is not included for comparison.

Ethnicity

We find that there are large variances in protection reach by ethnic group. Customers with Asian heritage have a better protection reach, but are 25% more likely to have insufficient cover, with an average shortfall of £/€69k. By contrast, customers of a black ethnic group have a worse protection reach, but are 25% less likely to have a protection shortfall. With greater awareness and ownership of group cover amongst those in the black ethnic group, we believe this acts as a natural trigger for customers to consider their protection needs holistically, purchasing additional individual cover where necessary.

However, where this awareness is lacking and a protection shortfall does arise, we see black respondents having the least sufficient levels of cover with an average shortfall of £/€73k.

Beyond this analysis, we also consider the respondents' financial position when including both illiquid assets (such as property) and intended inheritance. Where the original calculation relates to a customer's protection needs, this reflects their desired financial position upon death, or an 'estate shortfall'.

As expected, when we include the future needs of customers, we see even greater insufficiency of cover. Lower awareness of needs and the value of insurance, as well as limited access to advice for many in the population, are likely key drivers in the poor estate planning on display.

On average, we see a 20% increase in the number of people with an estate shortfall vs a current protection shortfall. Not only that, but the magnitude also grows by over £/€20k, highlighting the need for cover to be flexible over time.

	Estate Shortfall	% of Annual Household Income
Asian	£/€73k	171%
Black	£/€161k	403%
White Other	£/€75k	240%
White British/Irish	£/€77k	195%

Where people of black heritage had the greatest shortfall initially, we see this compounded considerably when considering the future financial position. Not only is the estate shortfall among this group double the sample average, but it is over 400% of their average annual income.

These results highlight that, as an industry, we should consider not just how to reach customers, but how we ensure that cover is tailored to their needs both now and in the future.

3 Barriers to Protection

Barriers to protection

Whilst our analysis has shown which segments of society are more underserved than others, there are certain factors affecting the protection reach and shortfall that cut across the whole population, from awareness and education to product features and price.

Education and awareness

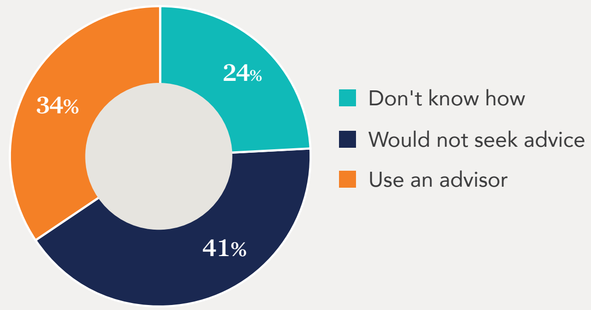
Knowledge and understanding of insurance products is the first hurdle to meet customer needs. With 1 in 5 respondents only becoming aware of the concept beyond the age of 25, this is a concerning figure when we consider the poor protection reach to younger lives.

It is not only insurance knowledge, but also broader financial literacy that can be a barrier. When asked to separately consider the effects of inflation and interest rates on a £/€100 saving, less than 2 in 5 respondents correctly answered both questions.

We do see that existing protection customers are more likely to answer correctly, pointing to the correlation between financial knowledge and awareness of insurance.

This link to broader financial awareness is evident again. Whilst 60% of our sample have never sought any type of third-party advice on financial matters, those with an individual product are 84% more likely to have had advice on pensions and 30% more likely to have had debt advice. It's not surprising that a quarter of respondents don't know how to purchase a protection policy.

When considering a future protection purchase



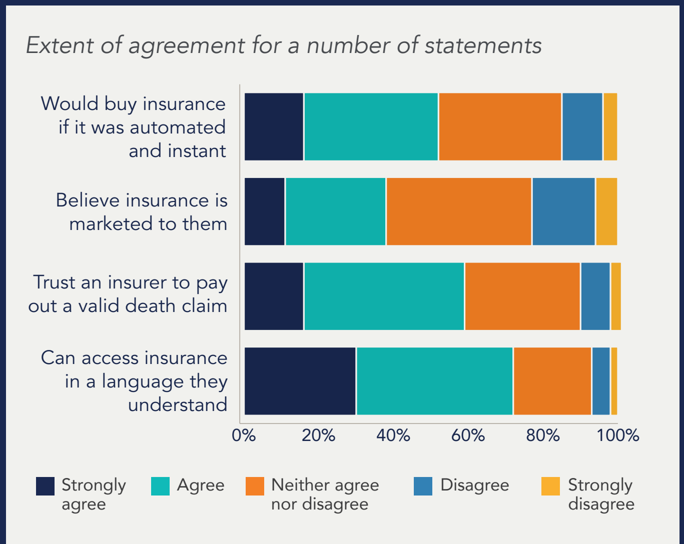
Of those who do know how, over half would not use an adviser – this highlights the need to improve awareness of protection and how to access it. It also necessitates reflection of direct-to-consumer propositions, with a need for these to be simple and easy to understand a common call out in the free text suggestions of the survey.

Product design

We find that, even for those aware of insurance, there are further barriers to ownership.

Accessibility

Accessibility to protection is a key issue, especially when we consider underserved groups. We see that less than 4 in 10 people think insurance is marketed towards them, with 7% of respondents even stating that they could not access insurance in a language they understand. This is likely a key driver behind those with only conversational or lower levels of English being half as likely to have any form of individual protection.

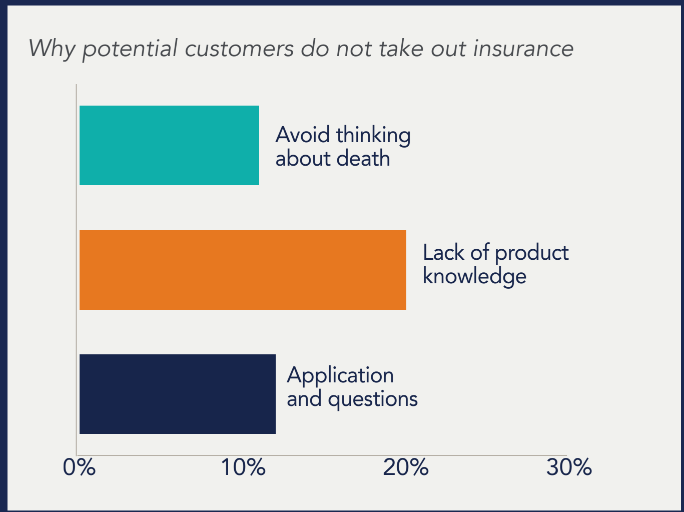


This suggests a need for the industry to reflect on processes – from marketing, quote journeys, and advisers through to policy documentation and customer service, to ensure accessibility for a wider portion of the population.

Lack of understanding

The most significant individual barrier named was a lack of product knowledge, signifying a requirement on the industry to either simplify or better explain product features.

We asked whether IP pays out a lump sum or an income stream, and under what scenarios (unemployment, illness, family illness). Less than 12% of respondents correctly identified how IP works. This highlights the complexity of this product and the lack of awareness within the population, and by extension the importance of advice.



Contemplating mortality

For the 12% who are uncomfortable thinking about what might happen to their finances after their death, the onus should perhaps be on financial advisers and mortgage providers to stress the importance of estate planning.

Application process

A further 11% of respondents listed the long application process, health or lifestyle questions as being blockers.

Overall, the expected duration of a typical life assurance application journey was 28 minutes. This highlights a common misconception about what information is required when applying for life insurance.

This perception around the friction of the purchase journey was a likely factor when over 50% of people stated they would buy an insurance policy if the journey was fully automated and instant, compared to just 15% who would not.

Trust in claims payments

Despite having claim payment statistics of over 99% for life assurance, less than 60% of respondents trust an insurance company to pay out a valid death claim. This lack of trust in the product is a significant barrier to purchase, as if you don't believe it will pay out when the time comes, then why purchase the product in the first place?

Price and affordability

Another significant barrier to buying protection products is the price. Of those without an individual policy, 30% cited the reason being either a lack of knowledge about premiums, or that they expect they would be too expensive.

Affordability is therefore a key factor, with the majority of potential customers suggesting they would need an increase in income to purchase protection. Of those, a third stated they would require their income to increase by more than 20%.

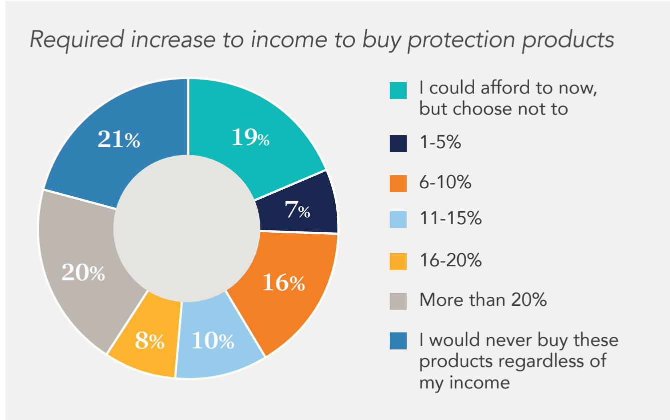
Perceived value

In addition, our data suggests that it's not purely the price that can act as a barrier, but also the perception of value.

Whilst 18% of the non-protection sample could afford to purchase a policy now, they choose not to, and a further 21% of the respondents claimed they would never buy a protection product, regardless of their income.

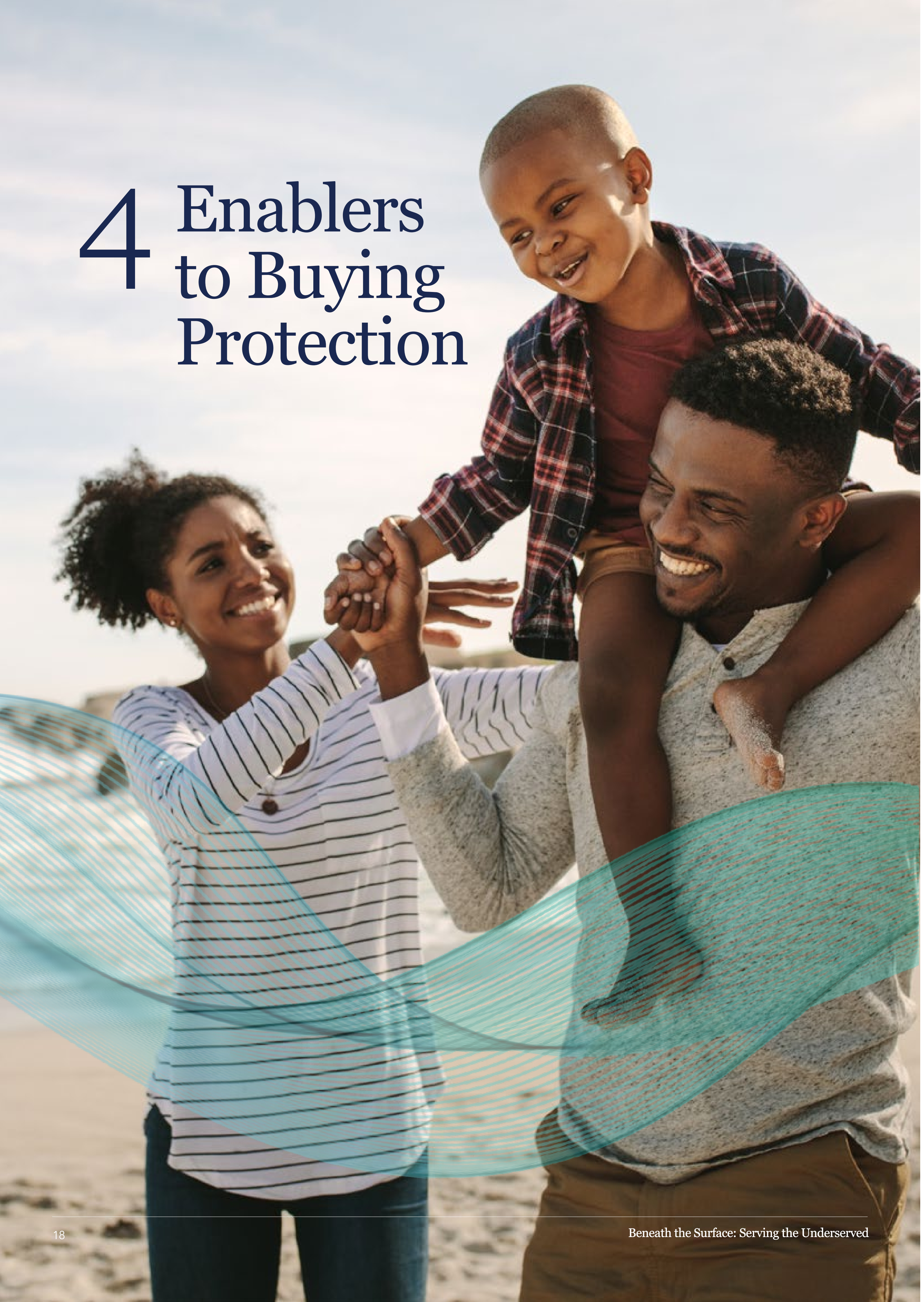
We delved deeper into the perceived value of protection when asking respondents to order the priority of a number of different types of expenditure.

"Less than 1 in 8 customers correctly identified when an income protection policy would pay out"



Whilst on average insurance ranked only marginally behind regular expenses such as mortgage, rent and utilities, the picture was mixed between existing and potential customers.

For those customers who didn't have an individual policy, the perceived value was pretty low. A third of these customers ranked life and health insurance as a bottom 3 priority. It seems that, until the first insurance product has been purchased, the value is not perceived highly.

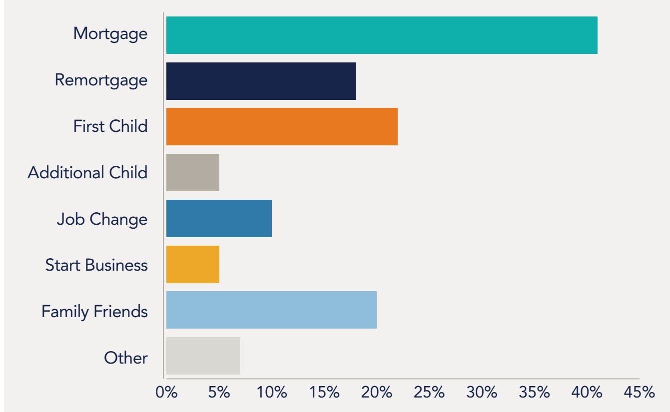


4 Enablers to Buying Protection

Enablers to buying protection

The primary purpose of protection is to replace lost earnings and support dependents in the event of death or serious illness/injury. It follows then that a mortgage and starting a family have historically been important enablers to buying protection.

Reasons for buying protection



A mortgage is the top trigger for most, but not all, with housing affordability worsening

Our research shows the top 3 reasons for purchasing protection are:

- Mortgage related – 58%
- Child related – 27%
- Influenced by family or friends – 20%

Mortgages are the largest trigger for purchasing protection, particularly for those on higher incomes.

Top 3 reasons for purchasing protection

Mortgage related	Child related	Influenced by family/friends
58%	27%	20%

However, worsening housing affordability is reducing the industry's 'traditional trigger point'. The office for national statistics show that between 1999 and 2022, the ratio of average house price to average income has nearly doubled in England, and has increased by 40% in the last 10 years in Ireland. This has increased the average age of a first home buyer by ~1.5 years in the UK and Ireland over the last 5 years alone. This begs the question that as an industry, if fewer people are getting mortgages or they are getting mortgages later, do we need to focus efforts on other touchpoints across the customer life cycle?

Other touch points

Family and friend influences are particularly strong for ethnic minorities, and younger respondents aged 18 – 24. This group stated they were 1.5 times more likely to be influenced by family and friends as the reason for purchasing protection. The family and friend influence is also more prevalent for low-income households, and also more of a factor for males.

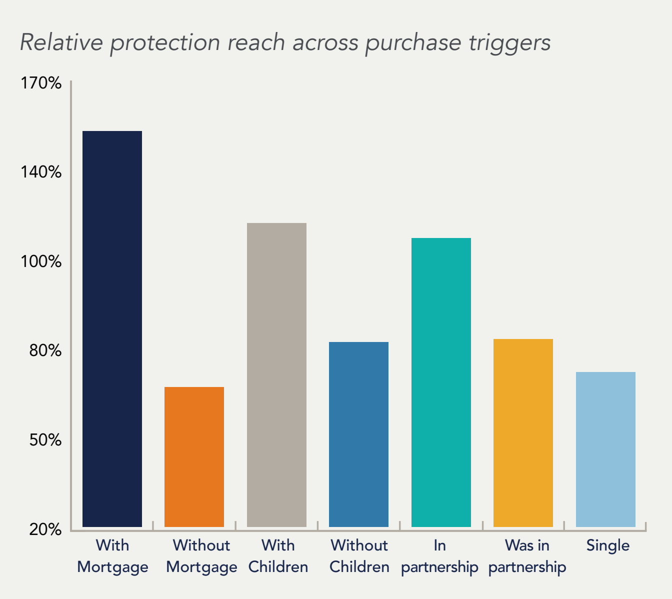
We find that having a child is the strongest influence for people of an Islamic faith with over 50% of Muslim respondents quoting child related reasons as a motivation for purchasing protection, almost double the sample average.

Having a child is also a strong influence for ethnic minorities and younger respondents, but doesn't vary significantly by income which indicates that it is linked with cultural and generational views, instead of income.

We believe that these findings demonstrate starting a family is a key touchpoint for more underserved communities. This could be explored further by the protection industry through more prominent marketing of coverage such as pregnancy complications as part of a CI product.

Children and relationships are significant drivers

We explore differences in the protection reach across those with and without mortgages, children, and partners. Those with children and/or partners are 40% more likely to have protection relative to those without. Within the wider context of worsening housing affordability, we believe there should be greater emphasis on the need for protection when customers have children.



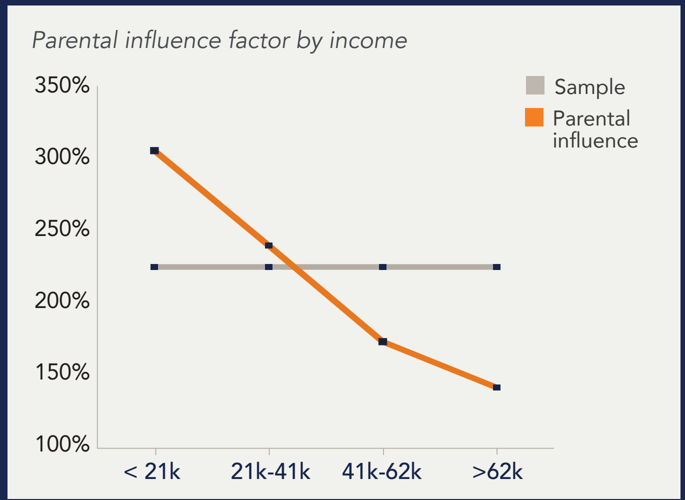
One of the striking elements we found was that compared to the sample average, single parents are 19% less likely to have protection, suggesting they are also an underserved group. Amongst this group, it is likely that affordability concerns are prominent, however there could be an opportunity for more education and awareness in this sector as there is a clear need for protection that is not being addressed currently.

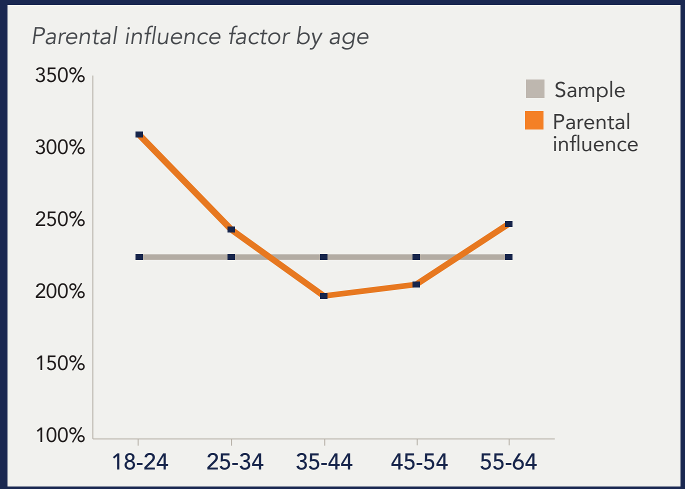
Parental influence is strong

An unexpected theme that emerged throughout our analysis is the strength of the parental influence on insurance ownership.

The 'parental influence factor' compares the relative protection reach of those who were aware of their parents having protection and those whose parents did not have cover, or at least the respondent was note aware of any cover. Across the surveyed population, respondents are twice as likely to have protection if their parents were known to have had protection, relative to those whose parents didn't have protection.

Whilst we note some variations in the magnitude of parental influence, across every subgroup, we find that respondents whose parents had protection are at least 50% more likely to have a protection policy.





We note that the lowest parental influence factor is for white Irish respondents (1.7x) although this could be explained by protection alongside a mortgage being legally mandated from 1995 onwards. The highest factor is for Asian ethnic groups which have a parental influence factor of over 3 times, which we believe could be cultural as anecdotal evidence suggests a higher level of parental influence in general.

Across income bands, the parental influence factor is strongest for low-income households although there is a generational wealth effect with higher income households typically having wealthier parents who were therefore more likely to have insurance.

We also look at the role of parental education levels and level of parental financial engagement in insurance ownership. We find that respondents who had parents that were open or well-informed about financial matters are over 25% more likely to have protection, relative to those whose parents were not open about financial matters. However, we also found that there was minimal impact of learning about insurance at an early age on the protection reach. This shows that there is a better chance to increase the protection reach by encouraging customers and the wider society to discuss financial matters and insurance with their children if they have them.

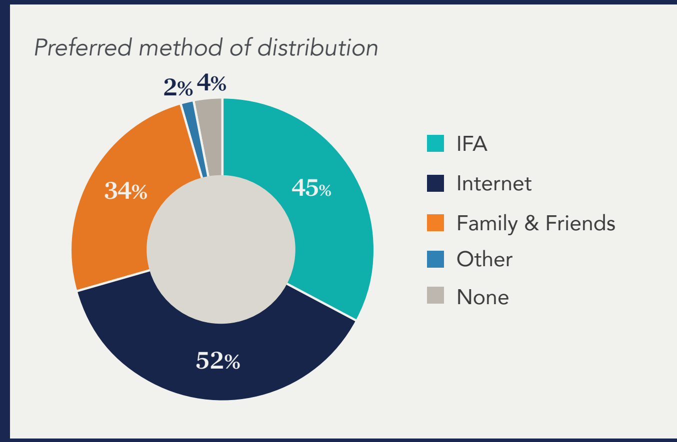
Overall, this highlights that more open conversations between families and friends around financial wellbeing and protection, lead to a higher take-up of protection. As an industry, we should promote more conversations around financial wellbeing and the importance of protection and in doing so, it should lead to more customers engaging with protection and getting the correct level of protection they need.

What about distribution?

We asked respondents who did not have protection, how they would purchase protection should they wish to do so, noting the ability of respondents to click multiple items.

A look at D2C

Reflecting the importance of the internet in every-day life, over 50% of the sample suggested online purchasing would be their preferred method. This was 7% higher than those who suggested an IFA would be a preferred method of purchasing protection. Given these results, it's rather surprising then that market share of direct-to-consumer products has remained at approximately 10% according to the latest ABI stats, relatively unchanged since 2016.



We suspect that this is due to complicated product documentation and policy terms, particularly around CI, which are a barrier to purchasing protection through this distribution channel. This is reinforced by free text responses in the survey where the majority of respondents suggested the industry make things simpler and easier to understand. We suggest and promote the use of visual aids and simple language when designing D2C propositions to help customers to have the best understanding of what they're getting for their money but recognise that further work is required to truly tap into the potential of the D2C market.

The role of IFAs
The second-most popular channel for purchasing protection is through IFA's with 45% of respondents likely to use this channel. However, this is concentrated amongst high-income earners who are twice as likely to use IFA's relative to low-income households. This reinforces views that high-income earners are typically well served by IFA's.

However, we have identified an opportunity for IFA's to help underserved communities too. Our survey reveals that 66% of black respondents would like to use an IFA. Looking at black respondents that purchased protection, we see that they are nearly twice as likely than the sample to have bought it through an adviser. There is an opportunity for IFA's to service this community better and improve their protection reach.

And the impact of family and friends
We find the likelihood of using family and friend recommendations to purchase protection is up to 10% higher for ethnic minority groups and those aged 18 – 34. Research from Klarna shows that young people are increasingly comfortable in talking about money with friends and family. Their research showed that Gen Z are nearly 3 times as likely as the population to feel comfortable talking about money openly.

We believe the greater importance of family and friend recommendations for these cohorts lends itself to alternative distribution methods to create awareness, namely a family and friend referral model or an agent/introducer model. We see examples of this in the Asian market where Taikang Life launched an initiative called 'The gift of life insurance' which allowed customers to 'gift' free life insurance, equivalent to a 1-year £100 policy, to their friends and family which was distributed through a popular Chinese app called WeChat. In this market, this initiative exposed nearly 300m younger customers to life insurance and was seen as a huge success in increasing policy take-up rates.

By developing initiatives that promote family and friend recommendations, we believe the industry could have similar success amongst younger respondents and ethnic minorities in improving the protection reach.

Employers as channel for growth?
As identified previously, the universal approach provided by a group protection policy does at least provide some protection reach to underserved communities.

The survey demonstrates that across the sample, 35% of respondents have protection through their employer. We see this proportion varies significantly by various characteristics:

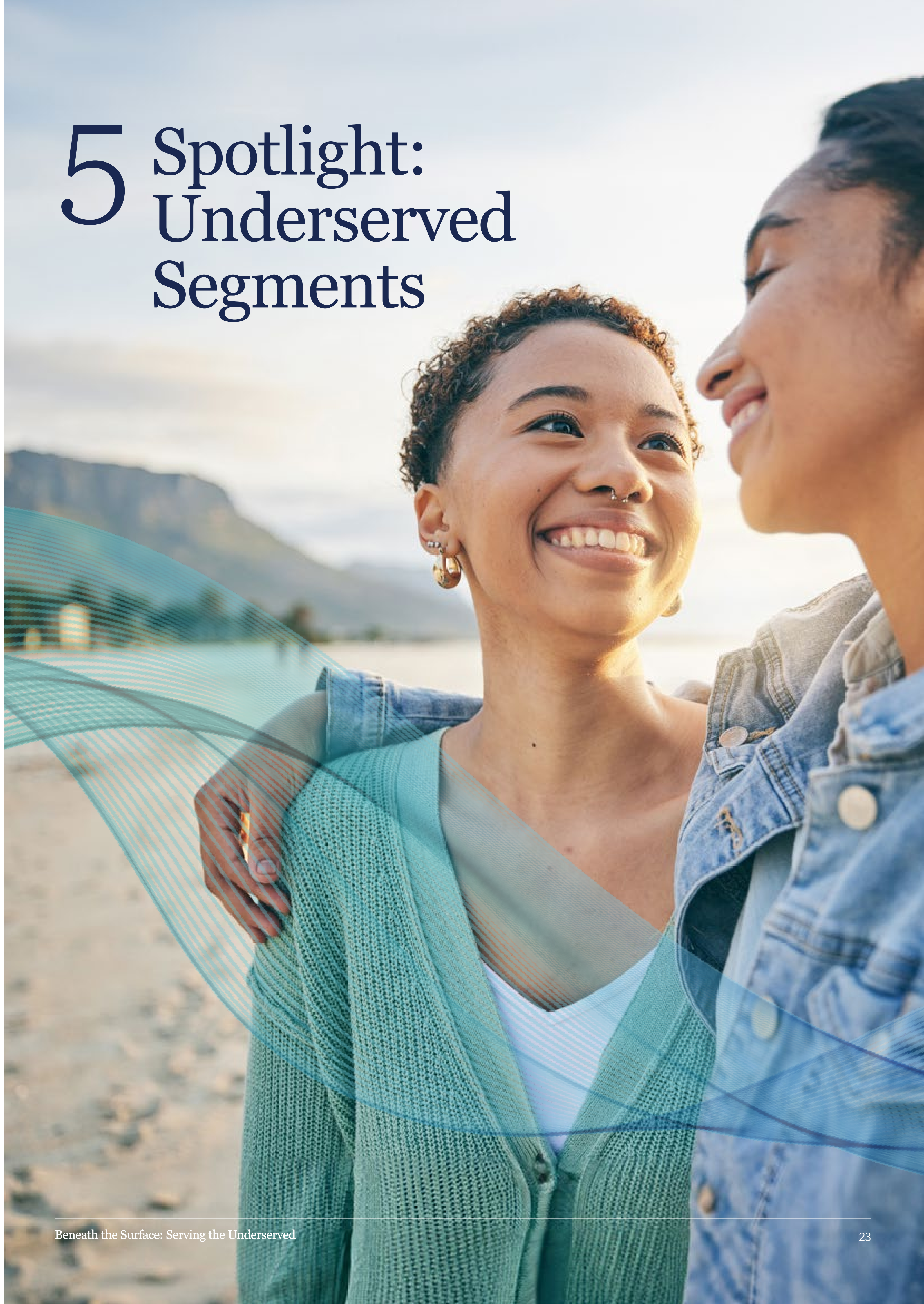
- Ethnicity - black and Asian ethnic groups have a much higher percentage of respondents covered through their employer relative to white UK and Irish ethnicities.
- Age – nearly half of respondents below the age of 34 are covered through their employer but this percentage decreases significantly with age.
- Income - group coverage increases with income, suggesting those in more well-paid occupations are more likely to be covered through their employer.
- Occupation - this is substantiated looking by occupation class, with those in a high managerial or professional job nearly twice as likely to have group cover compared to manual workers.

Across the sample, we see that 45% of respondents that have group cover also have individual cover, albeit with a lower average sum assured. High-income earners and those aged 35 – 55 are most likely to have both group and individual cover, as are those of an Asian ethnicity.

Noting the high levels of respondents in the survey with both covers, we can infer that individuals who have group cover are over 20% more likely to have individual insurance relative to those who don't have, or are unaware of having, group cover. We notably cannot say if this is causal or simply correlation, but it does suggest that greater awareness of protection gained through an employer could lead to improving the protection reach.

As a way to reach a large number of customers, we see potential for individual insurers to partner with Group schemes and/or brokers to offer an opportunity to top-up their existing cover.

5 Spotlight: Underserved Segments



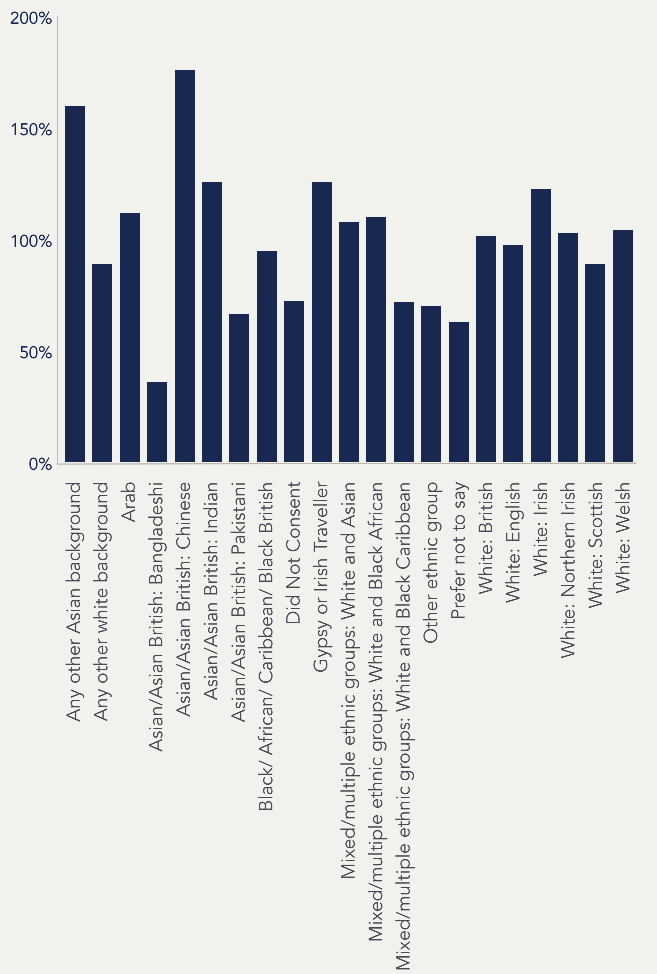
Ethnic minorities

A varied picture in protection reach

Our analysis on ethnic minorities to date has been grouped. Whilst the credibility of the responses becomes lower looking at specific ethnicities, we do note that the protection reach varies significantly.

Specifically, we see those of a Bangladeshi or Pakistani background having a much lower protection reach relative to those of an Indian or Chinese background. This demonstrates that, whilst there are similarities across the broad Asian ethnic group, there should be recognition of cultural and familial nuances to consider in more detail outside of this report.

Protection reach relative to sample average



Differences in property ownership

To recap, our analysis on the relative protection reach and shortfall suggests that Asian people have a better protection reach but a higher shortfall, with this trend being reversed for black people. We see this being explained by the fact that Asian respondents are 20% more likely to have a mortgage relative to black respondents. Interestingly we noted this trend across all income groups, suggesting to potential cultural differences around property ownership. Given the biggest reason for protection is mortgage debt, black respondents may have a lower protection reach because they are not getting information on the benefits of protection at other touchpoints in their life. Noting their preference for IFAs, we see an opportunity for IFAs to play a bigger role in improving the reach for this group.

Differences in religious beliefs

Our analysis also demonstrates that people of an Islamic faith have a significantly lower protection reach compared to the sample. We believe that religion could be a reason for this given there are interpretations of religious text that life insurance is 'haram' due to the unknown aspect of a payout which is then considered gambling, as well as the interest component in some cases.

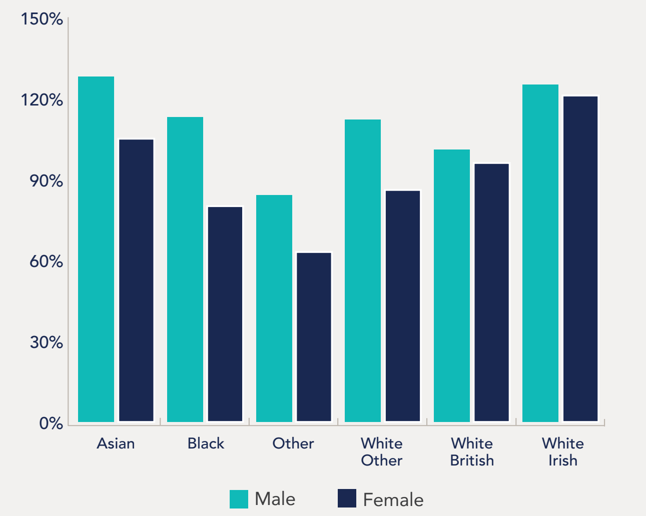
For those that interpret it as 'haram', some potential solutions include designing a product that is based on the 'takaful' principles of mutual assistance and shared responsibility. Given the Muslim population in the UK has grown by 50% over the last 10 years to 3.9m people as of 2021, there is a significant opportunity for the life insurance industry to design a more inclusive product in partnership with the Islamic community.

Larger gender gap

We see that women have a worse protection reach across all ethnicities with a much larger gender difference for ethnic minorities compared to white ethnicities. Whilst white women are almost equally as likely to have a mortgage as white males, Asian and black females are significantly less likely to have a mortgage than Asian and black males respectively

The worse protection reach for females could be influenced by traditional patriarchal and matriarchal roles. Whilst there are initiatives in the industry to address this issue, such as the inclusion of houseperson cover within life and CI policies, we believe greater awareness of protection in this group could be generated through the family and friend referral model discussed in the 'Enablers to buying protection' section.

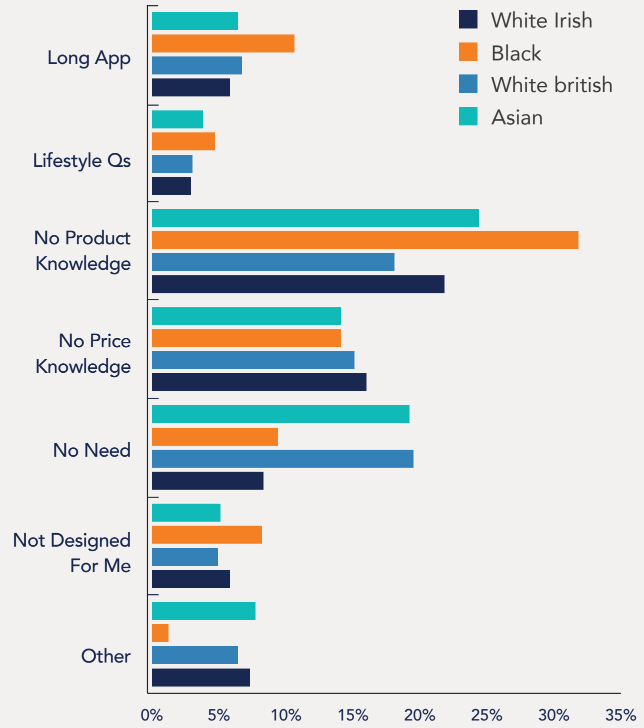
Relative protection reach by ethnicity and gender



Why not buy protection?

We find that for ethnic minorities, the biggest reason for not purchasing protection is due to the employer providing it, closely followed by a lack of product knowledge. Whilst this trend is generally mirrored across the board, we do find that white British respondents think they have no need for insurance, pointing to a lack of understanding of the value of protection.

Common reasons not to buy protection



Employer cover plays a bigger role

We noted that Asian, and in particular black respondents, have a much higher group insurance ownership relative to white ethnic groups. National statistics on employment of ethnicity group by sector show that nearly 50% of the black population work in public administration, education, and health where government support is likely to be more prominent and likely to explain this.

The data does not allow us to consider the adequacy of group protection. Looking at the NHS Group Scheme which is likely to employ a significant number of ethnic minorities, we see that life insurance is provided as 2 times salary which is unlikely to be enough for those that have a mortgage given the average house price is over 4 times yearly earnings for new home buyers. Therefore, we see a potential shortfall for ethnic minorities that are solely insured through group schemes that could be addressed with top-up private cover.

Lower product knowledge

The second largest reason for ethnic minorities not wanting to purchase insurance is the lack of product knowledge. Nearly 30% of Asian and black females said they wouldn't purchase insurance because they didn't understand the product, whilst 40% of black males said they wouldn't purchase insurance for the same reason. Interestingly, white British and Irish respondents were least concerned with product knowledge, although 15-20% of respondents still cited this reasoning.

This reinforces the need to have simple and easy to understand products that are accessible in multiple languages to help improve the product knowledge amongst both ethnic minorities, and the population as a whole.

The family and friend effect

For those that have protection, we notice a stark difference in the family and friend influence for ethnic minorities relative to white British and Irish respondents.

Over 25% of Asian customers, and 40% of black policyholders cited family/friend influence for purchasing protection, compared to 15% of white respondents who cited this reason. We note for ethnic minorities, the family and friend influence is strongest for younger members which outlines the strong parental involvement for this community.

We find that nearly half of ethnic minorities would ask family and friends for advice on where to purchase protection, compared to just 35% of those who are white British or Irish.

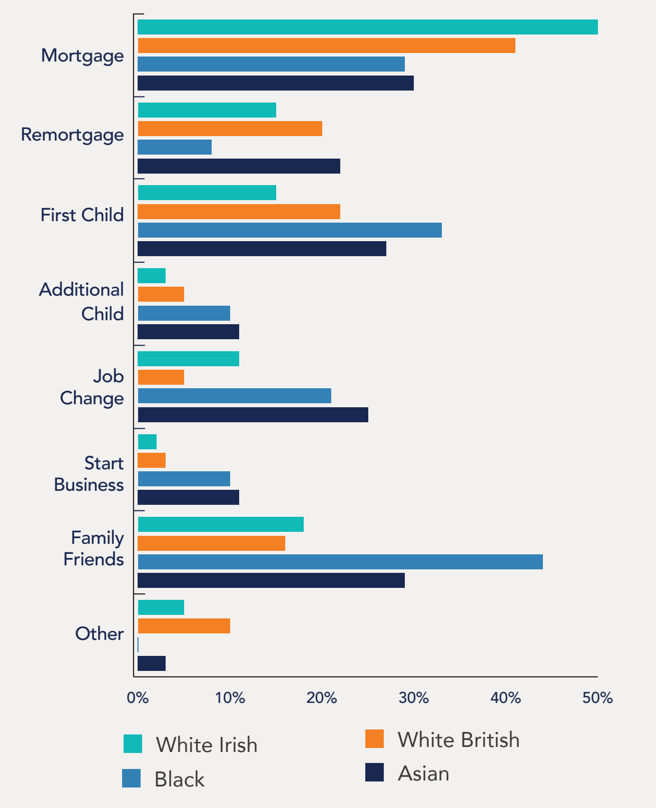
"Asian and black respondents are 50% more likely than white respondents to ask for family and friend recommendations when buying protection"

We also note that having a child was a bigger reason for purchasing protection for Asian and black policyholders.

This could be due to people in these groups often having children earlier and note they are more likely to live in intergenerational households meaning they are less likely to go down the traditional protection route of a mortgage.

This further reinforces the need for alternative distribution methods for ethnic minorities, such as the local introducer/agent model that's prevalent in Asia, and a greater potential for family and friend referral distribution as mentioned in the Enablers for Protection section.

Common reasons to buy protection



Low income households

Only 40% of individuals with a household income of less than £/€21k have any form of protection, with less than half of these having an individual protection product.

In this section we will explore the driving forces behind this disparity, analysing the common barriers to protection before suggesting how the industry may adapt to leverage alternate purchase triggers.

Affordability

When considering low-income households, one obvious barrier is the affordability of protection products. Occupations within the group will play a part, with a skew towards non-traditional customers such as students, unemployed, and retirees. However, even after removing these cohorts, we see that only 22% of the low-income group have a protection policy - less than half of the sample average.

Whilst the proportion of low-income households citing price as a barrier is consistent with the sample average, we do see differences when asked how a change in income would affect buying habits.

Considerably fewer in this group state that they can afford protection but choose not to purchase, whilst comparatively more suggest only a 20%+ income raise would be sufficient for them to consider insurance.

"1 in 5 respondents state they would need more than a 20% pay rise to afford traditional protection products"

Additionally, a quarter of those in low-income households state they would never purchase protection, regardless of income. This suggests an issue beyond just affordability, with a lack of understanding of the products and their value potentially being a root cause.

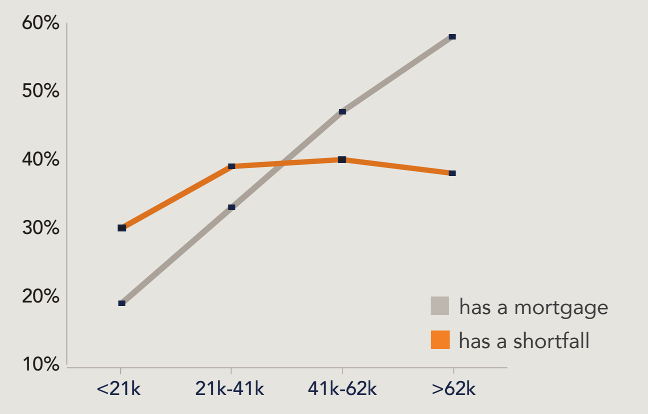
This is consistent when considering the priority that respondents placed on insurance, with low-income respondents 33% more likely to rank insurance in the bottom 3, often behind the likes of vacations and Christmas planning.

Education and awareness

Awareness of the product is seemingly a key driver in the reach of protection but can also affect those that have purchased if their cover is insufficient.

Surprisingly, we see fewer low-income respondents having a protection shortfall. However, this is largely driven by a lack of mortgage debt, with only 4 in 20 low-income households having a mortgage, compared to 9 in 20 across higher earners.

Mortgage ownership as a driver for protection shortfall



If we again consider the estate shortfall – the discrepancy between the current financial position and the desired financial legacy – we see a stark picture for these households.

The estate shortfall for this group is £/€43k, 3.5x the average annual income. By contrast, the average estate shortfall for higher earners is only 2x annual income.

This disparity between expected/desired position and reality may be explained by education factors. Financial literacy across the sample is relatively poor and this is exacerbated for lower earners. Less than a third of these respondents correctly answered both questions relating to the impact of interest and inflation. Moreover, low-income earners were 62% more likely to answer both questions incorrectly than the rest of our sample..

This result may be indicative of more general levels of education, with an expected skew by income group. Over half of those earning less than £/€21k either had no formal education or to a secondary school level. By contrast, two thirds of those earning over £/€21k have a university degree, equivalent, or higher.

Relating this to insurance ownership, we see that those who completed further education are 44% more likely to have purchased a protection product.

We identified product knowledge as one of the key barriers to protection and so, with education clearly being a factor, the need for simple and easy to understand products is paramount to reach underserved customers.

Given the relatively small variance in wealth between generations, it is no surprise to see that those in the lower income group are 25% more likely to suggest their parents were poorly off financially.

This is likely a driver of parental coverage, with those earning under £/€21k also 30% less likely to indicate that their parents had protection.

This early knowledge of insurance via parental ownership was deemed significant when considering the whole sample previously, and so its lack amongst low-income households will similarly be felt.

Potential solutions?

Despite a mortgage being a considerably less common trigger point for those on lower incomes, bancassurance may still offer a solution.

Without the necessity to seek financial advice, low-income households are less likely to interact with IFAs and so information about - and access to - insurance is limited. Given the predominant interaction with financial services is through their current account provider, could retail banks (whether traditional or digital) be the key to accessing these customers?

Being able to interact with a life insurance policy in the same manner as a current or savings account could certainly remove common hurdles, whilst there is already an element of trust to manage existing finances.

We expect that flexibility will be key for those on lower incomes, with fixed premium schedules and no paid-up values being a notable barrier for people living on fluctuating income. The introduction of low sum-assured, single-premium policies may be fundamental as a way to introduce new customers to protection without the long term commitment.

Whilst we have focused on the sufficiency of cover throughout, there is an argument that some cover is better than none, provided the customer is aware that the policy is not designed to meet specific liabilities.

This concept has been explored already in Singapore via embedded insurance solutions, with SNACK by Income offering low sum assured cover topped up via 'cashback' on spending with affiliates.

Smaller benefit amounts are neither a unique nor novel idea, with microinsurance growing in popularity for a number of years. With $3.6bn in premiums generated across Africa in 2022, it's expected the microinsurance market will continue to grow to $6bn of premium income by 2028, of which 60% will be from life insurance.

Whilst this is clearly a different market than the UK and Ireland, when considering the lowest income households, we as an industry should consider shifting our focus from the traditional model (which is well set up to serve those with middle and higher incomes), and instead consider implementing some of the innovative developments from other countries to help solve this issue.

6 Conclusion

Conclusion

In this report, we have demonstrated the relative difference in the protection reach and shortfall across various customer segments. Those on low-incomes, females, LGBTQ+, and disabled customers are amongst the most underserved, whilst males and heterosexuals have generally greater coverage.

Our report highlights the major barriers to improving the protection reach, including a lack of education and awareness of the benefits of protection, and that customers often believe that protection is too complicated for them. Customers also demonstrate a lack of trust in the industry to pay claims, and do not understand what benefits are included on policies. Lastly, there is a misconception that applications take longer than they do, certain conditions would not be covered, and that protection would be more expensive than it actually is.

Our research suggests that the protection reach can be improved by encouraging open discussions around financial matters between family and friends, and particularly between parents and their children.

Leveraging our global expertise, we apply learnings from other markets as to how the industry can better serve segments according to their preference and circumstance. We highlight the potential for a family/friend referral model to be effective in improving the protection reach of ethnic minorities and younger customers. There is also opportunity for embedded and microinsurance to address the poor protection reach and shortfall for low-income households. Overall, these are some of the actions that we can take as an industry to help provide the benefits of protection to people who need it, ultimately serving the underserved.

About Pacific Life Re

For more information please contact:

Authors

Richard Purcell
Director, Client Solutions, Europe
Richard.Purcell@pacificlifere.com

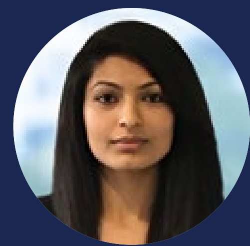
Ashley Hannah
Client Solutions Actuary, Europe
Ashley.Hannah@pacificlifere.com

Aaron Saldanha
Client Solutions Actuary, Europe
Aaron.Saldanha@pacificlifere.com

Protection Client Solutions Team

Mala Thurston
Head of Protection Client Solutions
Mala.Thurston@pacificlifere.com

Gautham Suresh
Director, Client Solutions, Europe
Gautham.Suresh@pacificlifere.com



Anika Bains
Client Solutions Actuary, Europe
Anika.Bains@pacificlifere.com

Our global team, comprised of the best minds in the industry, are not afraid to disrupt and challenge industry thinking to provide the best mortality, morbidity, longevity, and capital reinsurance products and services possible.

We pursue personalised, bespoke solutions for every one of our clients and our commitment to cutting-edge technology reflects our ambition to offer the most sophisticated answers to the most challenging reinsurance questions.

We are proud of our beginnings, and we celebrate our youth because it is what keeps us tenacious, agile and energised. We are equally proud of the security and freedom we possess from having the backing of our parent company Pacific Life. With a heritage of more than 150 years, Pacific Life provides strength and resilience to our business which enables us to bring our fresh and dynamic approach to the marketplace.

PACIFIC LIFE RE