

A guide to **short term income protection**

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Introduction



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In the wake of the payment protection insurance (PPI) mis-selling scandal, many traditional distributors of payment protection insurance have left the market, creating the opportunity for independent brokers to take their place.

The personal loan PPI and credit card PPI markets have been most severely affected, but the mortgage payment protection insurance (MPPI) market is holding its own, and we have seen an increase in short term income protection (STIP) products being brought to market. However, the products are provided by a handful of general insurance underwriters.

Short term income protection covers a proportion of a client's regular income, as well as mortgage payments. This can be seen as a customer-centric move, where the industry is moving away from just covering itself against credit defaulters and towards providing customers with lifestyle protection.

Brokers selling STIP should be aware of the limitations of these simple products and explain clearly to clients what they do not cover and the circumstances in which they would not be able to claim, as well as the benefits. STIP should at least be considered as a recommendation alongside other protection products.

Up-selling to higher levels of cover is good for the industry and good for customers who will get more of what they need. Brokers are well placed to exploit the up-sell from MPPI to STIP and in the context of giving this advice can identify other protection needs, not least the need for life assurance and critical illness and long term income protection where appropriate.

Margins will be tighter and distributors will have to work hard to make sales. We are unlikely to see a return to the high commissions that drove the PPI market and that, to a large extent, contributed to the mis-selling. In future the opportunity to insure a greater proportion of income and up-sell to other products will be a way to add value.

Protection tends to be sold rather than bought – consumers are often unaware of the potential need for cover. A change of consumer mindset is needed, and this requires education, clear marketing and imaginative ways of engaging with consumers. Protection advice is as important as ever.

A handwritten signature in black ink that reads "Ben Heffer".

Ben Heffer
Insight Analyst, Life & Protection

Short term income protection in context

Income protection insurance offered by general insurers is typically subject to a maximum benefit period of 12 months and incorporates variation and cancellation clauses so that the premiums can be increased or the contract cancelled by the insurer on giving the appropriate notice. This type of contract is frequently described as short term income protection (STIP). Income protection insurance from a life assurance company is a permanent contract in that, with the exception of reviewable contracts, the premiums cannot be increased or the cover cancelled and the benefits are payable for as long as the claimant cannot work.

While STIP policies have been available for a number of years, creditor insurers have largely focussed on the provision of payment protection insurance (PPI) because that is used to cover mortgage commitments (MPPI), personal loan and credit card debts.

In the past 12 months this has changed and there has been increased interest in STIP from product providers, evidenced by a significant increase in new products being brought to the market. This will, no doubt, have been driven by the decreased confidence of consumers in payment protection insurance and the need to distance new business from the errors of the past. We predict that the significance of STIP will continue to increase as time progresses with more market entrants for STIP and a continued decline in PPI.

Comparison with mortgage payment protection insurance (MPPI)

MPPI policies are set up to cover regular monthly mortgage payments, although many policies permit an additional percentage to be insured to cover associated insurance costs. By contrast, STIP benefit is based on a percentage of the insured's income. Naturally, this can cover mortgage commitments if there are any but also living expenses such as household bills. People who are renting and don't have a mortgage may find STIP a suitable alternative to MPPI.

Both MPPI and STIP offer short term benefits. General insurers can offer benefit terms of up to five years but most policies pay out for a maximum of 12 or 24 months. All MPPI and STIP policies on the market offer a 12 month benefit period; however, only 21% of MPPI policies also offer other benefit term options, compared with 44% of STIP plans. This is consistent with the fact that STIP represents a more bespoke solution for protection and clients will want policies that complement their existing arrangements. Traditionally, MPPI provides a standard solution for mortgagees.

Both STIP and MPPI are non-permanent contracts, which means that in addition to insurers being able to increase the premiums during the course of the policy, they can also cancel the cover by giving notice under a cancellation clause. All creditor products have cancellation clauses. In the case of STIP, two thirds give 30 days' notice, with the remainder giving 90 days.

Benefit terms options available for MPPI and STIP		
Benefit periods (months)	MPPI	STIP
12	79%	56%
12 & 24	12%	16%
12 & 18	0%	6%
6 & 12	7%	16%
6, 12 & 24	1%	0%
6, 12, 18 & 24	0%	3%
3, 6, 12, 18 & 24	1%	3%

Source: Defaqto

With MPPI, the majority of products (69%) give 90 days' notice with far fewer (22%) cancelling within 30 days. It is important to make clients aware that their cover can be cancelled, and potentially at short notice.

Cancellation notice periods for MPPI and STIP		
	MPPI	STIP
30 days	22%	61%
60 days	5%	3%
90 days	69%	36%

Source: Defaqto

Comparison with long term income protection insurance (IP)

An element of confusion exists between income protection insurance (IP) and STIP largely because both are marketed as 'income protection', which suggests that they are similar products and obscures some of the significant differences.

First, while some IP products may offer a limited benefit term as an option in exchange for a lower premium, most products cover the insured for multiple claims lasting as long as the insured is unable to work or until he or she retires. STIP only ever offers limited benefit terms, typically of 12 or 24 months.

However, the most important difference is that IP is a permanent contract, which means the insurer cannot cancel the cover once it is agreed; cover under a STIP policy can be cancelled by the insurer subject to the appropriate notice period.

Similarly, IP contracts are not subject to premium variation clauses like STIP contracts are. Some IP contracts offered by Friendly Societies incorporate an increasing premium but the client's commitment is still known at outset. Other than this, unless you choose a reviewable premium IP contract, the insurer cannot increase the premiums during the course of the contract. With STIP contracts, however, the premiums can be increased subject to the notice period. STIP contracts are effectively reviewable premium policies.

STIP has an important advantage over IP in the provision of unemployment cover. Both STIP and IP cover those who cannot work due to accident or sickness but most STIP policies can also include cover for those made redundant from their job.

86% of STIP policies offer unemployment cover either as standard or as an option within the policy. By contrast only 8% of IP policies have a redundancy rider benefit available. As long term insurers do not offer redundancy cover, the benefit is usually provided by a third party insurer or a general insurer within the life assurer's group.

Income protection insurance, short term income protection and mortgage payment protection insurance

Income protection insurance aka permanent health insurance

Issued by life assurers

Benefit defined as a percentage of earnings

Mortgage expenses only plans available

Long term benefits (~40yrs +)

Limited benefit terms available

Multiple benefit periods

Permanent benefit (no cancellation clauses)

Guaranteed premiums (no variation clauses)

Reviewable premiums also can be offered

Unemployment a separate policy

Short term income protection

Issued by general insurers

Benefit defined as a percentage of earnings subject to a flat monetary limit

Can cover mortgage payments or lifestyle

Short term benefits (12 or 24 months)

Multiple benefit periods (up to 12 or 24 months' worth of benefit)

Plan can be cancelled by giving notice to policyholder (typically 30 days)

Premiums can be increased by giving notice to policyholder (typically 30 days)

All premiums are effectively reviewable

Unemployment cover often included

Mortgage payment protection

Issued by general insurers

Benefit defined by the mortgage payment plus a percentage of the mortgage payment for insurance and other lifestyle costs

Short term benefits (12 or 24 months)

Multiple benefit periods (up to 12 or 24 months' worth of benefit)

Plan can be cancelled by giving notice to policyholder (typically 30 days)

Premiums can be increased by giving notice to policyholder (typically 30 days)

All premiums are effectively reviewable

Unemployment cover often included

Industry influences

Recent product developments in the creditor space demonstrate that there has been a decline in the traditional PPI products and an increase in STIP products. This has been primarily driven by the fallout from the PPI mis-selling scandal and the resulting actions of the regulator and the Competition Commission. Many of the traditional distributors of creditor insurance, namely banks and building societies, have stopped selling PPI, and creditor insurers wishing to distance themselves from a tarnished product see the provision of STIP as a potential new market.

Competition Commission

Following the PPI super-complaint by the Citizen's Advice Bureau in February 2007, the Office of Fair Trading asked the Competition Commission to investigate. The Commission published the findings of its two year investigation in January 2009, concluding that the root of the problem was lack of competition in the market: 'Businesses that offer PPI alongside credit face little or no competition when selling PPI to their credit customers.' To address this, seven remedies were proposed, which also have application to STIP offered by general insurers.

Competition Commission remedies

- Point of sale prohibition (POSP)
- Ban on single premium PPI
- Provision of personal quotations
- Clearer marketing messages and information
- Clearer information in policy documents
- Provision of annual statements
- Availability of separate retail PPI

The POSP and ban on single premium PPI take effect from April 2012 (although no single premium PPI is being sold now anyway); the remaining information remedies take effect from October 2011.

The POSP means that a firm arranging credit for a customer will not be allowed to sell them a PPI or STIP policy until after seven days to allow the consumer to shop around for a suitable policy.

The information remedies will provide clearer information to consumers to help them understand what they are buying or what cover they currently have so that they can shop around more effectively. These represent a cost to insurers but will hopefully lead to a better informed customer base.

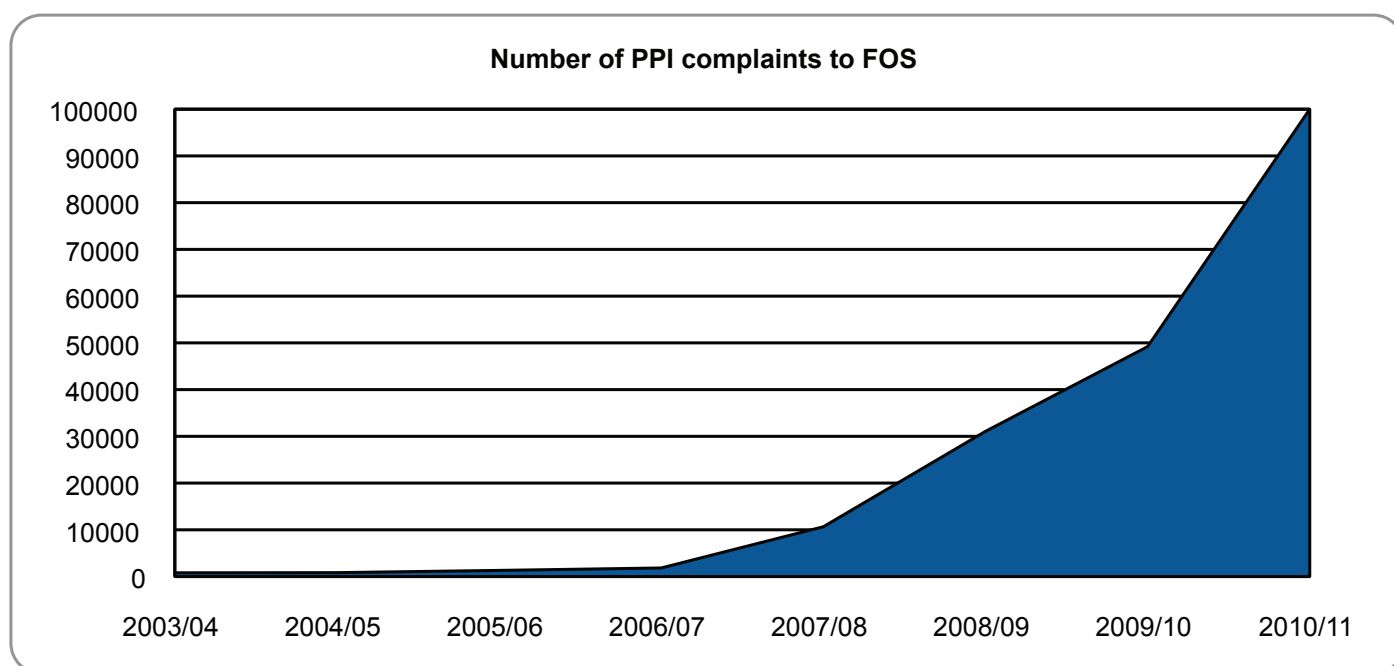
These remedies potentially open up a new standalone market for creditor insurance.

Financial Ombudsman's Service

In its report in 2010, the Financial Ombudsman's Service (FOS) reported that PPI complaints tripled in 2008/9 and increased by a further 60% in 2009/10, representing a five-fold increase since 2006. 30% of all complaints to the Ombudsman were about PPI. In April 2011, the FOS reported that it had received over 100,000 new complaints in the past 12 months alleging mis-selling of PPI – more than half of its total caseload and more than twice the number of PPI cases received in the previous year.

The FOS reports that the 'vast majority' of PPI complaints relate to the sale of the product and not claims, and that 'a high volume' of these relate to single premium PPI sold alongside personal loans and second charge loans. A significant number of cases relate to credit card PPI.

It remains the case that MPPI and other forms of PPI have not given rise to a significant number of complaints. However, creditor insurers and distributors are looking at ways of distancing their future product offerings from the PPI mis-selling scandal.



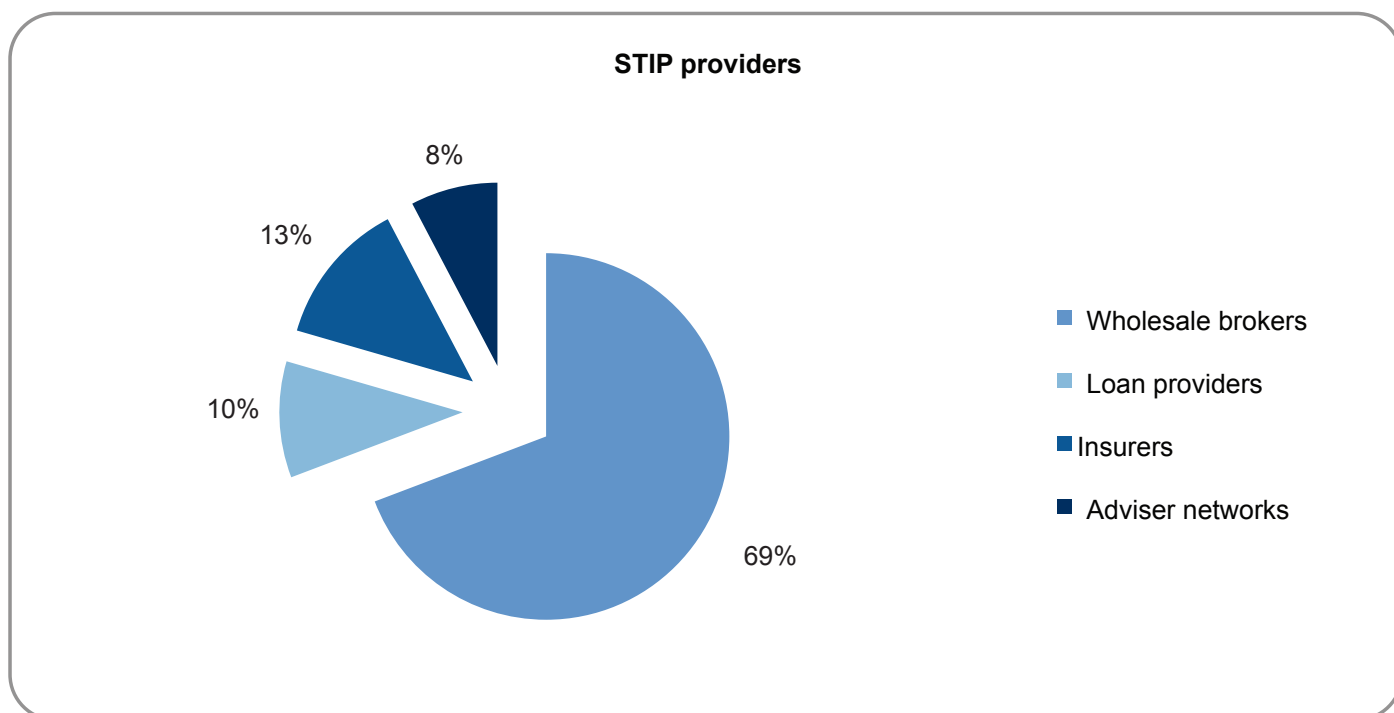
Number of PPI complaints to the FOS 2003 – 2011. Source: FOS

Product and provider movements

There are 40 short term income protection products on the market from 33 different providers. Of these providers only four are insurance companies or trading identities of insurance companies. There are four loan companies (including banks and building societies) and three intermediary networks, but the majority of providers are typically wholesale general insurance brokers, which in addition to offering their products direct to consumers, also offer agency agreements to other (retail) intermediaries.

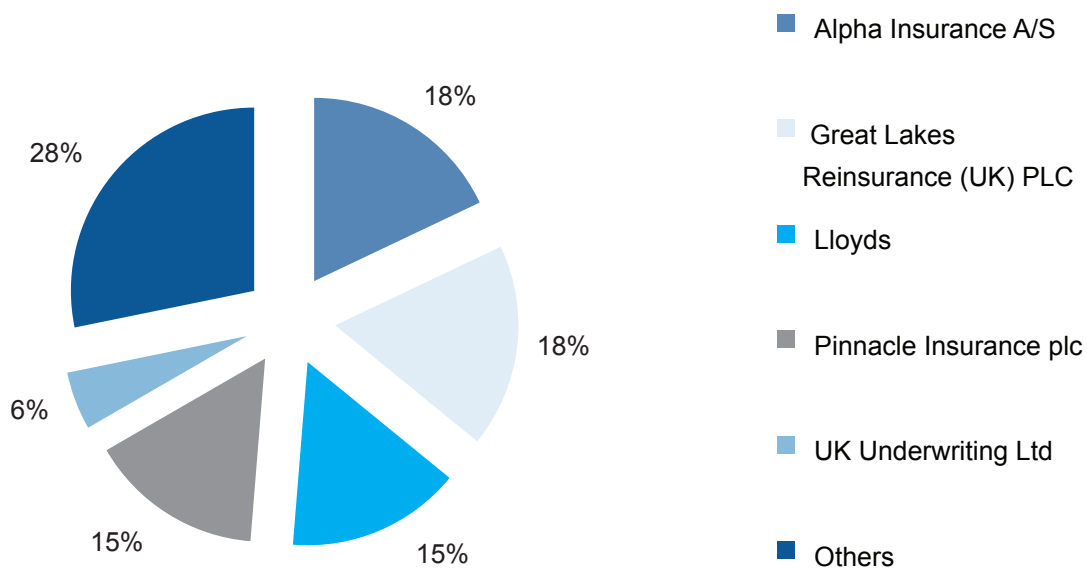
White labelling is commonplace in the STIP market, so on the face of it there appears to be a lot of choice, particularly considering the numerous product variants on offer.

Taking into account the various combinations of accident, sickness and unemployment and the various waiting periods, there are in excess of 380 different combinations but these are underwritten by just 15 insurers. Four of these, Alpha Insurance A/S, Great Lakes Reinsurance (UK), Lloyds and Pinnacle Insurance, account for two thirds of the product offerings on the market.



Profile of STIP market by type of firm. Source: Defaqto

STIP underwriters



STIP market share by underwriter. Source: Defaqto

Distribution channel

Of the 39 products available, just 14 of them are distributed via IFAs or brokers. This further limits the choice of STIP products available to use with clients.

STIP product by distribution channel			
Provider	Product	Cover options*	Distribution channel
Ant Insurance	Lifestyle Protection	AS,ASU	Direct
APRIL UK	Sovereign Income Assistance	AS,ASH,ASU,U	Direct
Assurant Intermediary	Income Protector	ASU	Broker, IFA
Barclaycard	Lifestyleplan	LASU	Direct
Barclays	Income Insurance	AS,ASU,U	Direct
Berkeley Alexander	IncomeGUARD	AS	Broker
Berkeley Alexander	SafetyNET	AS,ASU	Broker
Best Insurance	Income & Commitments Protection Insurance	AS,ASU,U	Direct
British Insurance	Income Payment Protection ASU 18-50 yrs	AS,ASU,U	Direct
British Insurance	Income Payment Protection ASU 51+ yrs	AS,ASU,U	Direct
Business & Domestic Insurance Services	Lifestyle Protect Cover	LAS	Broker, IFA
Columbus Direct	IPI	AS,ASU	Direct
Columbus Direct	Lifestyle Protection	AS,ASU,U	Direct
getMy.com	My Income Protection	AS,ASU	Direct
helpucover	Income Protection Insurance	AS,ASU	Direct
helpucover	Lifestyle Protector	AS,ASU,LAS,LASU	Direct
HMC Funding	Income Protection Insurance	AS,ASU	Direct
iprotect	Lifestyle Income Protection	AS,ASU	Direct
Jump Money	Income Protection	ASH,ASU,U	Direct
justclick4cover.com	Income Protection	AS,ASU	Direct
MMS	Keystone	AS,ASU,U	Direct
Monster Insurance	Lifestyle Protection	AS,ASU	Direct
MORE TH>N	Income Protection Insurance	AS,ASU	Direct
Nationwide Building Society	Lifestyle Protector	LAS,LASU,U	Direct
Payment Guard	Income Protection Insurance	ASH	Direct
Paymentcare	Income Protection	AS,ASU	Direct, IFA
Paymentshield	IncomeShield	AS,ASU,U	Broker, IFA
Personal Touch	First Assist IPI	AS,ASU	Broker, IFA
PMI Partners (FirstAssist)	Income Protection	AS,ASU	Broker, direct, IFA
Protect your bubble	Income Protection Insurance	AS,ASU	Direct
Provide	Bill Protector	ASU	Direct
Rapidinsure.co.uk	Income Care	AS	Broker, direct, IFA
Source	First Assist IPI	AS,ASU,U	IFA
Source	Sentinel IPI	ASU	IFA
TenetLime	First Assist IPI	AS,ASU	Broker, IFA
Towergate Home and Protect	IPI (FirstAssist)	AS,ASU	IFA
Towergate Home and Protect	IPI (Trent Services)	ASH,ASU,U	IFA
Uinsure	Bill Protector	ASU	Broker, IFA
Universal Provident	Income Care	AS	Broker, direct, IFA

STIP product features

When selecting the right products to meet your clients' needs, the features and levels of cover can play an important part.

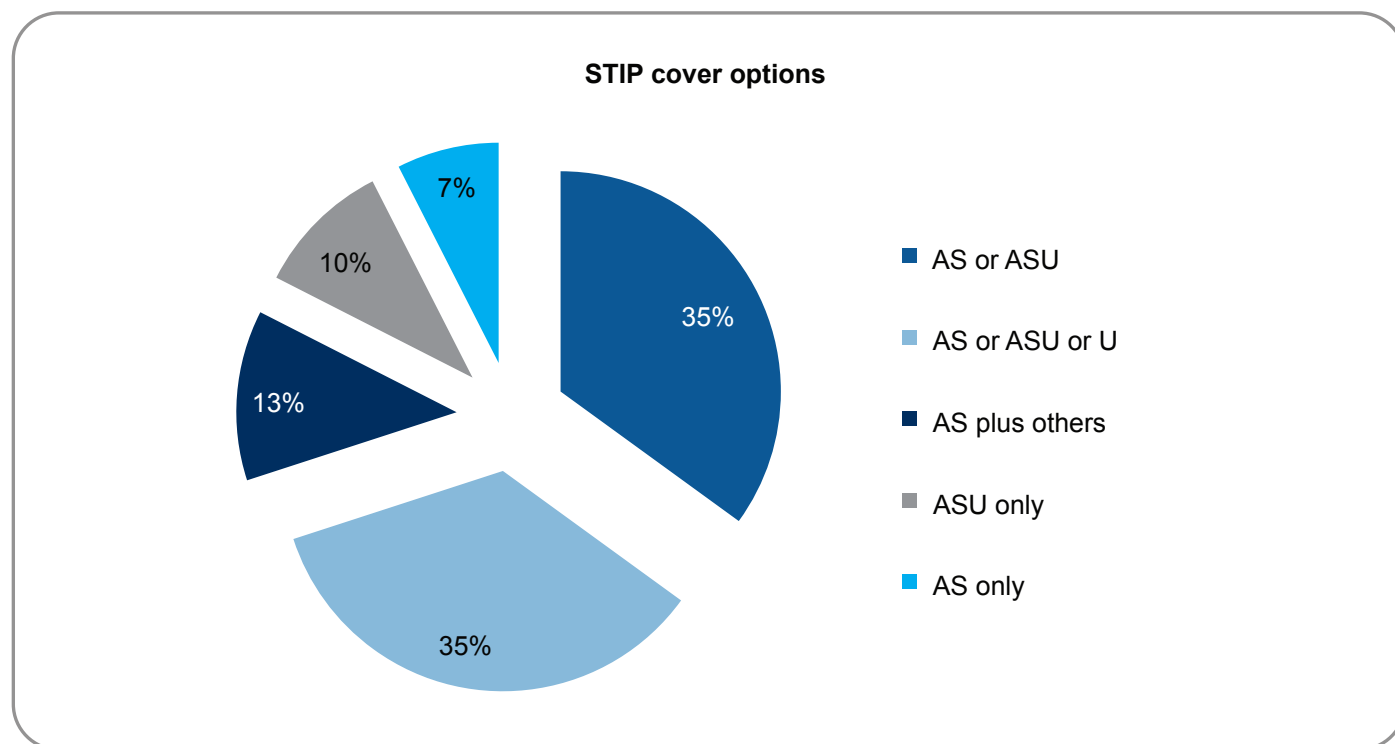
Cover options

Typically, STIP covers the insured for a proportion of their income if they are unable to work due to accident, sickness or unemployment.

All short term income protection policies on the market offer accident and sickness cover either on its own or in combination with unemployment cover or other benefits such as hospitalisation and life assurance. Three products offer just accident and sickness.

Three quarters of policies offer accident and sickness on its own and 80% of products offer it with unemployment cover. A third of products have an unemployment-only option.

Additionally three products have a life assurance option and four offer hospitalisation cover.



Cover options available in the STIP market. Source: Defaqto

Benefit payment periods

Unlike long term income protection insurance from a life assurance company, STIP pays out for a limited benefit term, typically 12 months, although almost half of products also offer other benefit term options.

Most people do not envisage being sick or disabled to the extent that they cannot work and few can imagine being unable to work for more than a few months. For this reason, creditor insurers frequently indicate 12 months as the preferred benefit period. While this may be ample time to find another job following redundancy and is therefore probably the right benefit period for unemployment cover, 12 months may not be sufficient for someone severely disabled in an accident, for example.

The Department of Work & Pensions (DWP) reports that of the 2 million people in receipt of incapacity benefit in August 2010, 28% of them had been incapacitated for more than five years; and almost half of them (43%) for more than 10 years.

Therefore, subject to affordability, it is preferable to choose a longer benefit period, if available. The longest paying term available in the STIP market is two years. It is always worth comparing the costs of long term income protection as an alternative recommendation.

A combined recommendation of long term income protection with a 12 month waiting period to reduce costs and a short term income protection policy can be a cost effective way of providing cover

STIP benefit terms in addition to 12 months

Provider	Product	Benefit period options (months)
APRIL UK	Sovereign Income Assistance	24
Barclaycard	Lifestyleplan	24
Barclays	Income Insurance	24
Berkeley Alexander	IncomeGUARD	24
Business & Domestic Insurance Services	Lifestyle Protect Cover	3, 6, 18 and 24
Columbus Direct	Lifestyle Protection	18
getMy.com	My Income Protection	6
helpucover	Income Protection Insurance	6
helpucover	Lifestyle Protector	6, 18 and 24
Jump Money	Income Protection	24
MMS	Keystone	18
MORE TH>N	Income Protection Insurance	6
Nationwide Building Society	Lifestyle Protector	6
Paymentshield	IncomeShield	24
PMI Partners (FirstAssist)	Income Protection	6
Protect your bubble	Income Protection Insurance	6
Provide	Bill Protector	6

STIP products offering benefit terms other than 12 months. Source: Defaqto

Costing

STIP premiums are costed on the basis of an amount per £100 of cover, subject to the maximum benefit levels permitted. So, while there is significant variation in price on the market, the costs are at least comparable.

Premiums range between 41p per £100 to as much as £17 per £100 depending upon the cover options chosen, the waiting period and the age of the insured.

Range of STIP premiums by cover options	
Cover options	Cost per £100 cover
Accident & sickness	£0.41 - £7.02
Unemployment	£1.76 - £15.43
Accident, sickness & unemployment	£1.65 - £17.14

Source: Defaqto

Looking at average premiums, people typically pay twice as much for accident, sickness & unemployment cover as they do for accident & sickness. However, because standalone unemployment cover costs almost as much as accident, sickness & unemployment, this is a cost-effective way to purchase cover.

Average cost per £100 cover by cover options				
Cover options	Age at outset			
	25	35	45	55
Accident & sickness	£1.93	£2.18	£2.63	£3.69
Unemployment	£3.27	£3.74	£4.56	£5.35
Accident, sickness & unemployment	£3.87	£4.49	£5.44	£7.83

Source: Defaqto

Two thirds of providers now have age-related premiums with, on average, a 55 year old paying more than twice that of a 25 year old for accident, sickness & unemployment cover. Older customers may be better served by choosing a policy that does not have age related premiums.

The increasing risk of ill health with age is mainly responsible for the uplift. By contrast, for standalone unemployment cover, older customers pay just two thirds more than their younger colleagues.

It is important to shop around to ensure your clients don't pay more than they should, while being mindful that the cheapest policy may not provide the cover they need.

Maximum benefit levels

There are 16 different bases in the market for calculating maximum benefits. The maximum benefit is typically expressed as a percentage of gross income, although some policies use the term 'normal income'. With the exception of the plan offered by Best Insurance, which covers a straight 50% of income, the maximum insurable benefit is further limited by a maximum monthly limit.

The table on the next page demonstrates at what salary level the maximum monthly benefit starts to limit the percentage of income that can be insured. The portion shaded demonstrates the salaries that are unaffected by the maximum monthly benefit limit.

Two plans, offered by Provide and Uinsure, are designed for bill protection purposes and are not, strictly speaking, income protection plans. They simply have a flat maximum benefit, which is equivalent to very low notional salaries.

For the remaining plans, the combined effect of the percentage of salary that can be insured and the monthly benefit limit has implications for those on higher salaries. The least generous terms are 60% of gross salary limited to £1,000 per month, which will restrict anyone earning more than £20,000 per annum. The most generous terms are those offered by Columbus Direct and MMS, which combine a maximum benefit of 90% of gross income with a monthly limit of £3,000. This means that people earning up to £40,000 can insure 90% of their income.

It is important that clients understand the benefit they will receive in the event of a claim; for those earning more than £50,000 the choice of plans that can pay 50% or more of income is severely limited

Eligibility for cover

With the exception of British Insurance, which has a separate plan for those over 50, all plans have a minimum age of 18. The maximum age for taking out a policy ranges between 50 and 69, although 64 is the most common maximum age. This is because the insurance is annually renewable and almost all insurers do not extend cover beyond 65. The exception is Barclays and Barclaycard, which offer cover up to age 70.

Effective percentage of income covered (shading shows salaries that are unaffected by the maximum monthly benefit limit)

Maximum earnings covered	Maximum monthly benefit	Annual gross income				
		£25,000	£30,000	£40,000	£50,000	£60,000
No limit	£250	12%	10%	8%	6%	5%
No limit	£500	24%	20%	15%	12%	10%
50%	£1,000	48%	40%	30%	24%	20%
60%	£1,000	48%	40%	30%	24%	20%
50%	£1,500	50%	50%	45%	36%	30%
65%	£1,500	65%	60%	45%	36%	30%
60%	£1,800	60%	60%	54%	43%	36%
50%	£2,000	50%	50%	50%	48%	40%
60%	£2,000	60%	60%	60%	48%	40%
65%	£2,000	65%	65%	60%	48%	40%
66%	£2,000	66%	66%	60%	48%	40%
60%	£2,500	60%	60%	60%	60%	50%
70%	£2,500	70%	70%	70%	60%	50%
90%	£3,000	90%	90%	90%	72%	60%
75%	£3,000	75%	75%	75%	72%	60%
50%	No limit	50%	50%	50%	50%	50%

Source: Defaqto

For clients nearer to retirement age, it is important to choose a product that runs right up until they stop working. For younger clients, this is less important because STIP is annually renewable and they are likely to change their policy many times during the course of their early working life

Two thirds of products require the applicant to have worked in their job for a minimum number of months before being eligible to take out cover. Most of these specify six months although eight providers require a year. This is a consideration for people when changing their job, and providers seeking to cover this scenario would represent a potentially valuable product innovation.

Full and part-time workers

Almost all providers require the insured to be employed for at least 16 hours a week in permanent employment although three – Rapidinsure, Universal Provident and APRIL UK – specify more.

This caters for most full time and part time workers; however, those on less than 0.5 of a job would have limited choice in the market. Business & Domestic Insurance Services, Barclays and Barclaycard will cover workers from one hour.

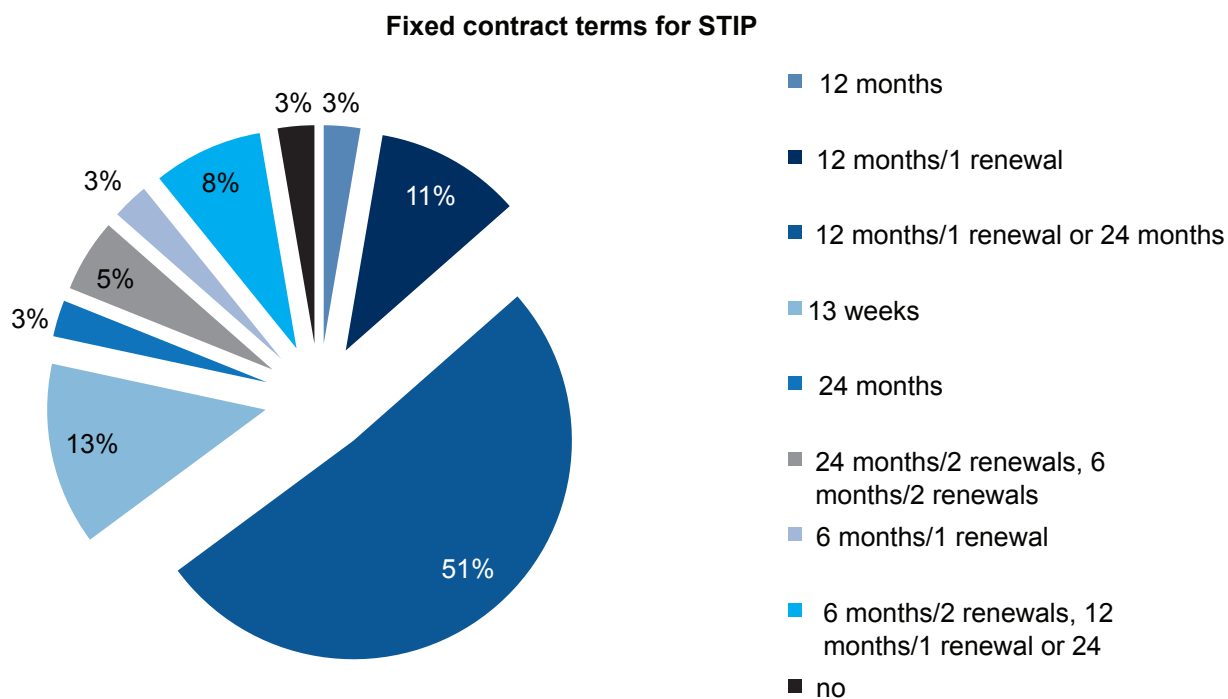
All except Provide and Columbus Direct cover the self-employed. One of the contributory factors to the PPI mis-selling scandal was that PPI was sold to self-employed people who couldn't ever claim under their policies, so it is positive that the majority of STIP products cover self-employed people.

Special conditions apply to unemployment cover for the self-employed and care should be taken when recommending a policy in these circumstances

Fixed term contracts

All those products that offer unemployment cover, except Provide, will cover workers on fixed term contracts subject to certain conditions set out in the policy. These conditions are typically that the applicant has been employed for at least 12 months and has had the contract renewed at least once or been employed for 24 months.

It is important when recommending STIP to a client that he or she fulfils the eligibility criteria for the product chosen and particular care should be taken with those on fixed term contracts



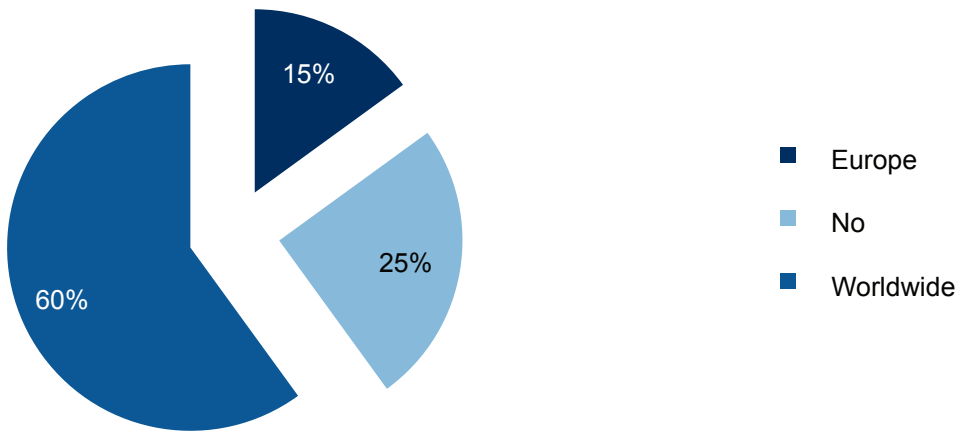
Definitions of fixed term contracts available in the STIP market. Source: Defaqto

Overseas working

All policies require the applicant to be permanently resident in the UK to be eligible. However, most will allow the insured to claim while working outside the UK providing the period of time away is not intended to be longer than a defined number of days, typically 90 days.

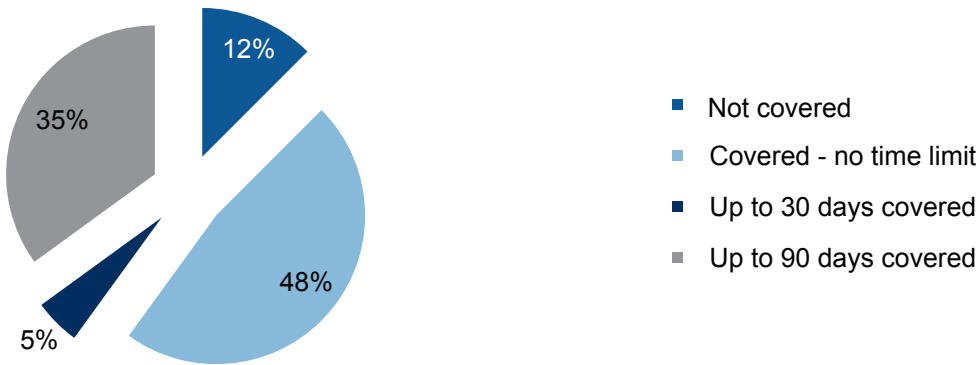
Most policies do not, however, specify a time limit for those working in Europe. The majority of policies will cover claims for those working outside Europe as members of the British Armed Forces or as a civil servant in a British Embassy or Consulate.

Military/diplomatic cover



STIP products offering European and worldwide cover. Source: Defaqto

European working



STIP market by cover periods for European working. Source: Defaqto

Product structure

In common with other creditor insurer products, such as MPPI, STIP products incorporate excess periods, waiting periods, deferral periods and initial exclusion periods. However, providers do not always use these terms to mean the same thing, which can be confusing for customers and also makes comparison of products between providers difficult.

Initial exclusion period

Policies often incorporate an initial exclusion period during which no claims can be made. This is to protect the insurer from being selected against by those who take out the policy in the knowledge of a potential claim. The initial exclusion period is sometimes referred to as a 'wait' period.

Excess/waiting periods

The excess, or waiting period, is the period of time between the claimant becoming ill or unemployed and when the benefits start to accrue. Most providers offer a range of optional excess periods and the longer the excess, the cheaper the cover generally is. The claimant may not need to receive a benefit straight away if they are covered by their employer's sick scheme, for example.

Choosing a longer excess period is also a way of addressing affordability for those on a tight budget, but it does mean that in the event of a claim, cover may not start soon enough to avoid financial hardship. More than half of providers use the term 'waiting' or 'wait' period to describe this feature and 18% use the term excess. A few use the term deferral period or deferment period.

In the long term income protection insurance arena, the term excess is never used and 'deferred period' is the favoured terminology.

Deferral/waiting period

There is an alternative interpretation of the terms 'waiting period' or 'deferral period'. Some providers use them to mean the period of time after benefits

start to accrue up until the first payment is made. As almost all products pay a monthly benefit, it is typically 30 days but can be longer. Benefits accrue during this time so where it is greater than 30 days, the first payment will be more than the regular monthly benefit in order to retrospectively cover the interim period.

Back to day one cover

Policies with no excess or waiting period are marketed as retrospective plans or Back to Day One (BTDO) cover. Claimants start to accrue benefits as soon as they become ill and their first payment, typically paid a month later, covers the deferral period.

Daily and monthly accrual

All except a few STIP policies accrue benefits on a daily basis. Policies that accrue on a monthly basis pay no benefit for part months. This means that a claimant returning to work after, for example, four and a half months of sickness, will receive no benefit for the last 15 days of his claim.

Confusion marketing

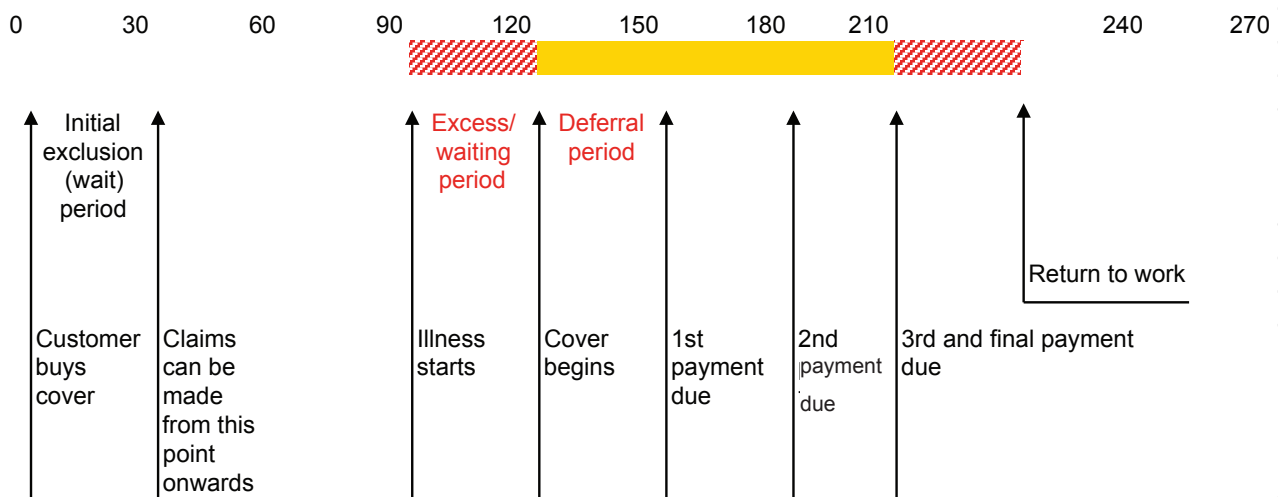
Policies purport to have similar 'excess' or 'waiting periods', which might mean the same thing to the unwary. However, the ways in which benefits accrue and are paid can vary significantly between apparently very similar policies. These variations are not just differences in terminology but can have a material significance in the amount of payment a customer might receive.

For instance, policies may be marketed as providing 12 months cover with a 30 day excess or waiting period (depending on the terminology used by the various insurers) but provide widely differing benefit. The following diagram illustrates an example of a person who becomes sick and is off work for four and a half months. Each policy is shown with a 30 day excess or waiting period, but, as the chart demonstrates there are actually four main types of policy structure.

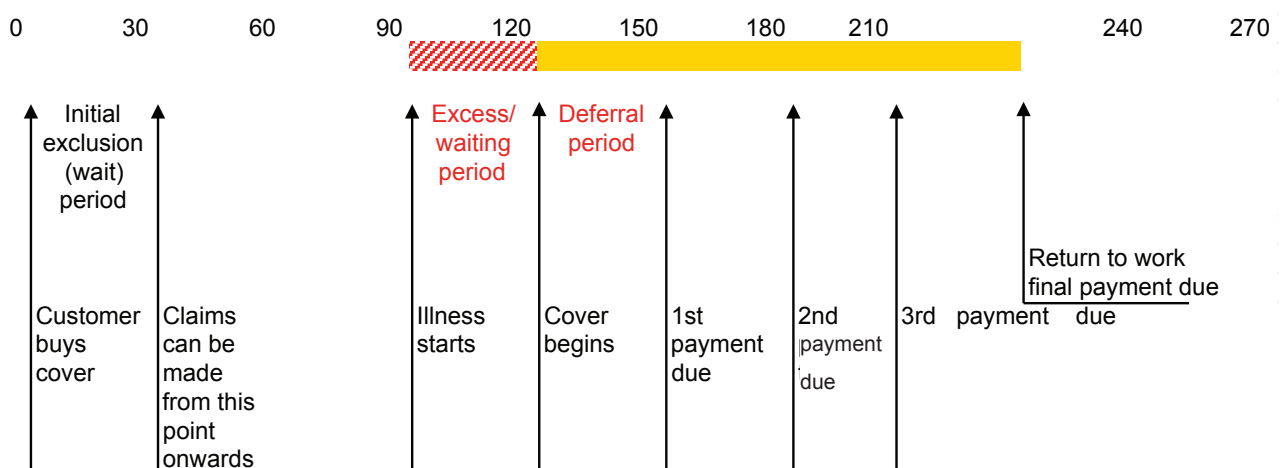
How short term income protection works

It is interesting to compare waiting periods and when payments are due.

30 EM policy
30 day excess/waiting period, monthly benefit accrual

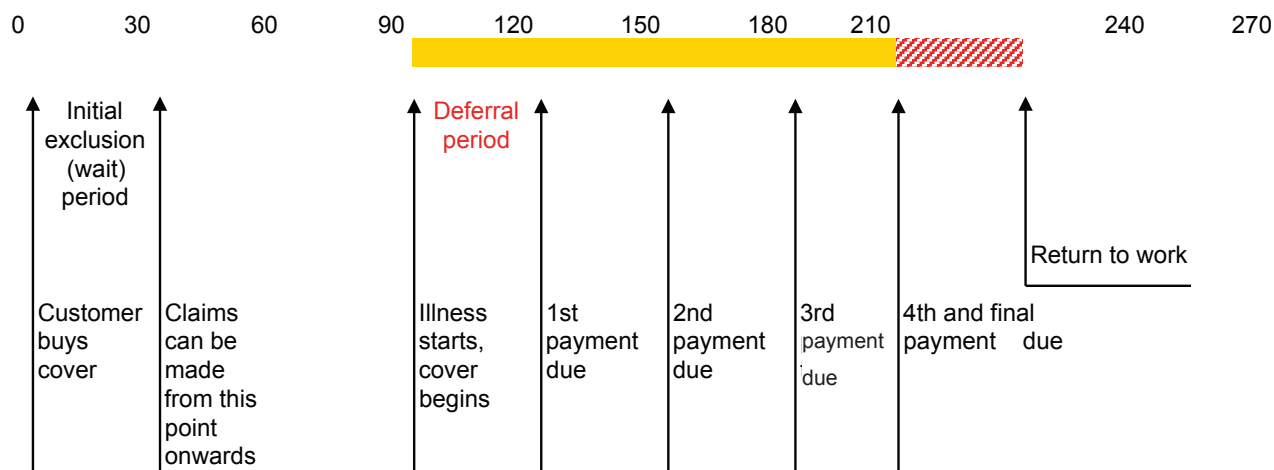


30 ED policy
30 day excess/waiting period, daily benefit accrual



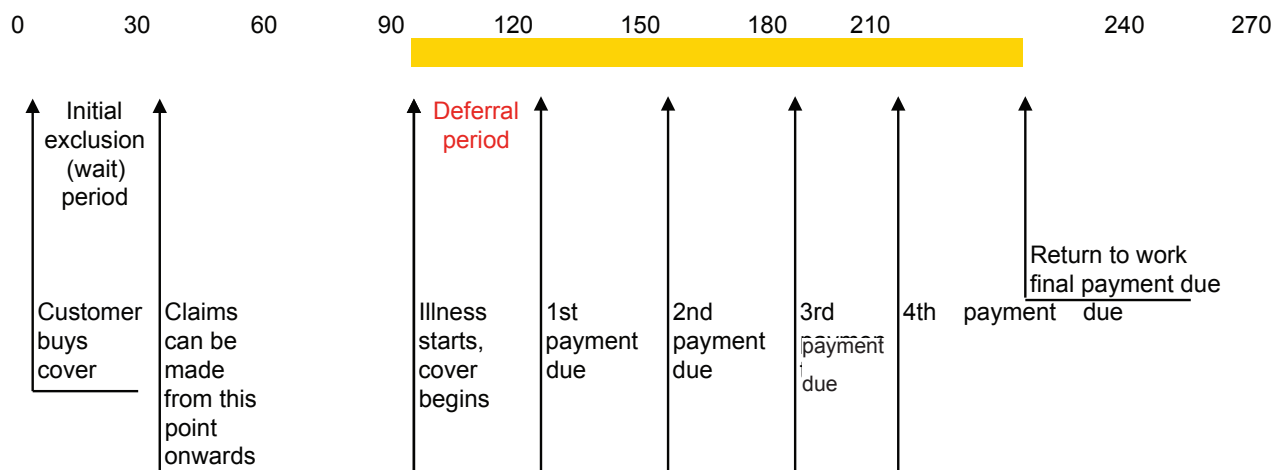
30 RM policy

Retrospective cover (no excess) 30 day deferral period, monthly benefit accrual



30 RD policy

Retrospective cover (no excess), 30 day deferral period, daily benefit accrual



Benefit structure of STIP policies. Source: Defaqto

*E = Excess / D = Daily / M = Monthly / R = Retrospective

Rider benefits

All plans cover disability and all except IncomeGUARD from Berkeley Alexander, Income Care from Rapidinsure.co.uk and Universal Provident cover unemployment. Additionally, 32 products incorporate carer's cover, four have a hospitalisation benefit, four have a life assurance benefit and two have an accidental death benefit.

Carer's cover

The sickness or disability of a close family member can be as significant for the family finances as the incapacity of the breadwinner, especially if they have to give up work in order to care for a dependant. With this in mind, the majority of providers that offer unemployment cover state that they will consider paying a claim where the insured has to stop working to act as a carer. The provider will typically need evidence of this and some require the claimant to be in receipt of Carers Allowance from the DWP.

Five insurers do not offer carer's option, namely Berkeley Alexander, Payment Guard, Provide, Source and Business & Domestic Insurance Services.

Paying a claim under these circumstances is an important Treating Customers Fairly (TCF) factor but advisers and clients should note that contracts only say that consideration will be given, not that a claim will definitely be paid.

Hospitalisation benefit

Six providers specify hospitalisation as a reason for a valid claim under their policies but not all of them can be described as having a hospitalisation rider benefit.

APRIL UK offers an additional rider benefit paid at the rate of 10% of the main monthly benefit after two days of hospitalisation. Three providers – justclick4cover.com, Payment Guard and Towergate Home and Protect – simply pay the benefit earlier if the insured is hospitalised, typically after a week rather than the usual waiting period of 30 days or more. British Insurance and Jump Money have no enhanced terms for hospitalisation. It is difficult to imagine a situation where one could be hospitalised for 30 days and not be eligible for a sickness or disability claim.

Where an additional rider benefit is offered it will help to defray the extra expenses that are inevitably incurred when a client is hospitalised and represents a useful feature of the product.

Hospitalisation benefit on STIP products

Provider	Deferral period	Daily payment	Total payment
APRIL UK	2 days	10% of monthly benefit	30 monthly benefits
British Insurance	30 days	1/30th monthly benefit	12 monthly benefits
Jump Money	30 days	1/30th monthly benefit	12 monthly benefits
justclick4cover.com	7 days	1/30th monthly benefit	12 monthly benefits
Payment Guard	5 days	1/30th monthly benefit	£1,500
Towergate Home and Protect	7 days	1/30th monthly benefit	12 monthly benefits

Source: Defaqto

Life assurance benefits

Six providers offer an additional life assurance benefit as part of their STIP product. APRIL UK and Berkeley Alexander pay out on accidental death only. Four of the plans offer these benefits as an optional extra up to a specified limit; two providers, APRIL UK and Nationwide, automatically include them.

It is important that clients do not rely purely on the life cover incorporated into their STIP plan; the maximum sums assured are relatively low and most are dependent upon the level of monthly ASU benefit selected. Also, these policies are amendable and can be cancelled by the insurer. However, as part of the protection portfolio, this is a useful add-on and should be taken into account when assessing the client's life assurance requirements.

Exclusions

Much is made by its detractors of the 'small print' and exclusions applying to creditor insurance. STIP also have a fairly large number of exclusions compared to other protection policies, which reflects its roots in general insurance. It is important that clients are made aware of the limitations to cover as well as the benefits of cover.

Prior knowledge

No products provide unemployment cover for individuals who had prior knowledge of redundancy. This potentially applies to those that have heard a rumour of impending difficulties. Anyone taking out unemployment cover and then proceeding to claim on the policy within a short space of time will be viewed with a certain amount of suspicion by the claims manager. Voluntary redundancy, seasonal unemployment and early retirement also are not covered by STIP plans.

Mental health and back problems

Mental health issues and back problems account for most income protection claims. Indeed, this is one of the advantages of income protection over critical illness insurance. While critical illness cover pays out only on the diagnosis of certain pre-defined conditions, none of which include mental health issues or backache, income protection pays out simply if you are too sick to work. No STIP products exclude back problems and only three exclude mental health issues: Provide, Rapidinsure.co.uk and Universal Provident.

Life assurance benefits on STIP products		
Provider	Life assurance benefit	Accidental death benefit
APRIL UK		50 x monthly benefit (max £125,000)
Barclaycard	Up to £49,999	
Berkeley Alexander		Up to £100,00 or 5 x annual gross salary
Business & Domestic Insurance Services	Up to 24 x monthly benefit (max £60,000)	
helpucover	Up to £49,999	
Nationwide Building Society	12 x monthly benefit (max £30,000)	

Source: Defaqto

Pregnancy

Most STIP products cover periods of absence from work relating to pregnancy complications although six providers – Rapidinsure.co.uk, Universal Provident, Business & Domestic Insurance Services, Ant Insurance, Monster Insurance and iprotect – exclude pregnancy related claims altogether. Nine providers – Assurant Intermediary, Barclaycard, Barclays, British Insurance, helpucover, MORE TH>N, Payment Guard, Protect your bubble and Source – do not exclude absences due to normal pregnancy, however it is unlikely that normal pregnancy would result in a period of absence in excess of the waiting period unless there were complications of some sort.

HIV/AIDS

12 providers – Ant Insurance, APRIL UK, Assurant Intermediary, Best Insurance, British Insurance, Business & Domestic Insurance Services, iprotect, justclick4cover.com, Monster Insurance, Rapidinsure.co.uk, Uinsure and Universal Provident – do not cover claims resulting from HIV or AIDS.

Myalgic encephalopathy (ME)

Most providers cover absences due to ME; sometimes know as chronic fatigue syndrome. However, six – Assurant Intermediary, British Insurance, helpucover, MORE TH>N, Protect your bubble and Uinsure – make a specific exclusion.

General exclusions

Self inflicted injury, accident or sickness resulting from drug or alcohol abuse and claims resulting from war are excluded by all providers. Details of other exclusions are given in the Appendix.

Pre-existing conditions

The majority of STIP plans define a pre-existing condition as a chronic or recurring condition that the applicant has suffered from or received medical attention for in the past 12 months. APRIL UK, Assurant Intermediary and Berkeley Alexander (IncomeGUARD) specify 24 months and Rapidinsure.co.uk and Universal Provident specify 60 months.

Most providers will cover pre-existing conditions providing the insured hasn't suffered with it within 24 months preceding a claim, known as the pre-existing condition qualification period. Three providers – Paymentsshield, Nationwide Building Society and Uinsure – have a more generous 12 month qualification period. However, in reality if your client has a chronic or recurring medical condition, it is unlikely that they will be able to claim for it under their STIP plan.

Cancellation clauses

STIP is short term annually renewable business and insurers reserve the right to cancel cover or to increase the premiums by giving notice of their intention to do so. A little over half of products have a notice period of 30 days, one has a notice period of 60 days and the remainder gives 90 days' notice. Four providers – Ant Insurance, iprotect, Nationwide and Monster Insurance – give 30 days' notice where an alternative policy is being offered and 90 days' notice where no substitute policy is offered.

It is wise to select a product with a longer cancellation notice period so that if cover is cancelled by the insurer there is adequate time to arrange alternative cover.

Challenges and opportunities for advisers

The changes in the market, many of which are a result of the Competition Commission's ruling on PPI, present both challenges and opportunities to the industry including distributors and brokers.

Opportunities for brokers selling STIP	Challenges for brokers selling STIP
The POSP is good for brokers and standalone distributors of PPI and STIP because it potentially opens up the market.	The POSP is bad for banks and building societies, which stand to lose their monopoly on customers, but it makes sense for them to go back to customers after seven days with some product offering, which might be MPPI or STIP. Therefore brokers will continue to face competition from the banks and building societies that remain in the market.
If, as a result of the PPI scandal, lenders make a commercial decision to cease being directly involved in this market, the opportunity exists to forge links with lenders to deal with their customers' income protection needs.	
Increased shopping around by consumers will generate internet-based leads – the opportunity exists to purchase leads from aggregator sites.	While we believe that the move towards STIP away from PPI will continue, we also think that MPPI will hold fast as it has given rise to fewer complaints and customers can see the clear link between their monthly mortgage commitment and the need for cover.
There is an up-sell opportunity from MPPI to STIP; a move from covering just the client's mortgage payments towards covering a good proportion of the regular monthly outgoing.	Margins will be tighter. We are unlikely to see a return to the high commissions that drove the PPI market and that to a large extent contributed to the mis-selling. Value will come from insuring a greater proportion of income and up-sell to other products.
In the context of giving STIP advice, the opportunity will also arise to review other protection needs, not least life assurance and critical illness and long term income protection where appropriate.	
Decreased market penetration for MPPI and STIP products means there are more people with mortgage debt that would benefit from having a protection product.	Identifying those that need protection so they can be given the advice they need is a major challenge.
Post Retail Distribution Review (RDR), protection advice is as important as ever and represents a promising income stream for brokers and advisers.	Customers' take up of protection products is sluggish and a change of mindset is required. This needs consumer education, clear marketing and imaginative ways of engaging with consumers.

Appendix

Timeline of STIP product developments, June 2010 – July 2011		
Month	Provider	Details
June 2010	Ant insurance	Updated the premiums on its income protection insurance, as well as increasing the initial exclusion period for unemployment to 120 days.
	Columbus Direct	Lifestyle Protection policy was launched. This is a white label of the MMS Keystone short term income protection policy, underwritten by Lloyds.
	getMy	Changed the premium rates on its income protection insurance product.
	Source	Launched a short term income protection plan. The unemployment only option for Source's FirstAssist income protection insurance was withdrawn. The ASU and AS options remain in place.
July 2010	British Insurance	Changed underwriters and premiums.
August 2010	British Insurance	Income protection insurance offering is now provided by Allianz Insurance for policies with 30, 60, 90 and BTDO excess periods. 180 day periods are still provided by FirstAssist.
	Paymentshield	Launched short term income protection product, IncomeShield.
September 2010	Payment Guard	Launched income protection insurance.
October 2010	Barclaycard	Launched Lifestyleplan short term income protection.
	Towergate	Launched Home and Protect's income protection insurance policy administered by Trent Services.
		Launched Home and Protect income protection insurance, underwritten by Great Lakes and administered by FirstAssist.
	Ant Insurance	Withdrew its income protection insurance product for new business. Launched Lifestyle Protection policy. This is a white label of the Columbus Direct short-term income protection policy, underwritten by Lloyds.
	Barclays	Launched Income Insurance short term income protection policy.
	Monster Insurance	Launched Lifestyle Protection policy. This is a white label of the Columbus Direct short-term income protection policy, underwritten by Lloyds.
December 2010	British Insurance	Updated the premiums for one aspect of its income protection insurance. The ASU option for ages 18 to 50 – including 30, 60 and 90 day options – plus Back To Day One has new rates, with all other options remaining the same.
	helpucover	Made changes to its income protection insurance. These include minor changes to policy conditions but mostly entail changes to the premium rates for both the 6 month and 12 month benefit periods. Amendments to its Lifestyle Protector product. The changes include a 90 days recurring illness period and 30 day new illness claim period for accident and sickness claims. Slight amendments to premium rates have also been made.

Timeline of STIP product developments, June 2010 – July 2011		
Month	Provider	Details
December 2010	iprotect	Made changes to the premium rates for its Lifestyle Protection policy.
	MMS	Made an amendment to the Keystone short term income protection policy. The initial exclusion period for unemployment claims has now been increased from 60 days to 90 days.
	Rapidinsure	Launched income protection insurance – a white label of Universal Provident IncomeCare. The policy offers AS cover (no unemployment cover) with 30 and 90 day excess period options and a 12 month benefit period.
January 2011	Ant Insurance	Made changes to the premium rates for its Lifestyle Protection policy.
	APRIL Insurety	Launched Sovereign Income Assistance product.
	Assurant Intermediary	Launched a short term income protection policy called Income Protector. Withdrew its income protection policy for new business and replaced it with Income Protector.
	Barclays	Made IPT-related changes to its premium rates for Income Insurance.
	British Insurance	Made IPT-related changes to the premium rates for its income protection policy.
	Columbus Direct	Made IPT-related increases to its premium rates for income protection insurance.
		Made changes to the premium rates for its Lifestyle Protection policy.
	getMy	Made insurance premium tax (IPT)-related increases to its premium rates for income protection insurance.
	helpucover	Made IPT-related changes to the premium rates for its income protection policy.
	MMS	Made changes to the premium rates for its Keystone policy.
	Monster Insurance	Made changes to the premium rates for its Lifestyle Protection policy.
	MORE TH>N	Made IPT-related changes to the premium rates for its income protection policy.
	Payment Guard	Made IPT-related changes to the premium rates for its income protection insurance product.
	Protect your bubble	Made IPT-related changes to the premium rates for its income protection policy.
	Rapidinsure	Made changes to the premium rates for IncomeCare.
	SecurityFirst	Ceased operating as a trading name of British Insurance and as a result no longer offers British Insurance income protection insurance.
	Uinsure	Bill Protector policy now underwritten by Jubilee on behalf of Lloyd's.
	Universal Provident	Made changes to the premium rates for IncomeCare.
	webmoney	Made IPT-related changes to the premium rates for Payprotect.

Timeline of STIP product developments, June 2010 – July 2011

Month	Provider	Details
February 2011	Best Insurance	Made changes to the premium rates for all levels of its Income & Commitments Protection Insurance.
March 2011	Jump Money	Launched Income Protection product. The policy provides short term cover with benefit periods of 12 or 24 months.
April 2011	Berkeley Alexander	Made changes to its SafetyNET short term income protection product. A 90 day excess has been introduced for ASU and AS, The unemployment-only option has been withdrawn, Carers cover has been withdrawn and a 12 month benefit is now offered.
	helpucover	Made changes to its income protection policy and changed the premium rates.
	Provide	Launched Bill Protector, underwritten and administered by ACE European Group.
	webmoney	Payprotect short term income protection policy was withdrawn for new business.
July 2011	Universal Provident	Universal Provident's IncomeCare is now underwritten by Personal Assurance plc.
August 2011	Ant Insurance	Relaunched Lifestyle Protection, replacing the plan underwritten by MMS with a white label of iprotect.
	Monster Insurance	Relaunched Lifestyle Protection, replacing the plan underwritten by MMS with a white label of iprotect.
	Towergate	Unemployment only option for Towergate Home and Protect's IPI product, underwritten by FirstAssist, has been withdrawn. AS and ASU options remain available.
	Nationwide	Nationwide increased the options available for the Lifestyle Protector short term income protection policy.

General exclusions on STIP products
















Provider	Product	Self-Inflicted Injury	Cosmetic Surgery	Drugs & Alcohol	Misconduct	Industrial Action	Imprisonment	Riot	War	Radiation	Earthquake
Ant Insurance	Lifestyle Protection	✓	✓	✓	✓		✓	✓	✓	✓	
APRIL UK	Sovereign Income Assistance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Assurant Intermediary	Income Protector	✓		✓	✓	✓	✓	✓	✓	✓	
Barclaycard	Lifestyleplan	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Barclays	Income Insurance	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Berkeley Alexander	SafetyNET	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Berkeley Alexander	IncomeGUARD	✓	✓	✓	✓			✓	✓	✓	
Best Insurance	Income & Commitments Protection Insurance	✓	✓	✓	✓	✓		✓	✓	✓	
British Insurance	Income Payment Protection 51+ yrs	✓	✓	✓	✓	✓		✓	✓	✓	
British Insurance	Income Payment Protection 18-50 yrs	✓	✓	✓	✓			✓	✓	✓	
Business & Domestic Insurance Services	Lifestyle Protect Cover	✓	✓	✓	✓	✓		✓	✓	✓	
Columbus Direct	Lifestyle Protection	✓		✓			✓	✓	✓	✓	
Columbus Direct	IPI ASU	✓	✓	✓	✓			✓	✓	✓	
getMy.com	My Income Protection	✓		✓	✓		✓	✓	✓		
helpucover	Income Protection Insurance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
helpucover	Lifestyle Protector	✓	✓	✓	✓	✓	✓	✓	✓	✓	
HMC Funding	Income Protection Insurance	✓		✓	✓	✓	✓	✓	✓		
iprotect	Lifestyle Income Protection	✓	✓	✓	✓		✓	✓	✓	✓	
Jump Money	Income Protection	✓	✓	✓	✓	✓		✓	✓	✓	
justclick4cover.com	Income Protection	✓	✓	✓	✓	✓	✓	✓	✓	✓	

General exclusions on STIP products

Provider	Product	Self-Inflicted Injury	Cosmetic Surgery	Drugs & Alcohol	Misconduct	Industrial Action	Imprisonment	Riot	War	Radiation	Earthquake
MMS	Keystone	✓		✓			✓	✓	✓	✓	
Monster Insurance	Lifestyle Protection	✓	✓	✓	✓		✓	✓	✓	✓	
MORE THAN	Income Protection Insurance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Nationwide Building Society	Lifestyle Protector	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Payment Guard	Income Protection Insurance	✓	✓	✓	✓	✓		✓	✓	✓	
Paymentcare	Income Protection	✓	✓	✓	✓			✓	✓	✓	
Paymentshield	IncomeShield	✓	✓	✓	✓			✓	✓	✓	
Personal Touch	First Assist IPI	✓		✓	✓	✓	✓	✓	✓		
PMI Partners (FirstAssist)	Income Protection	✓		✓	✓	✓	✓	✓	✓		
Protect your bubble	Income Protection Insurance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Provide	Bill Protector	✓		✓	✓	✓	✓		✓		
Rapidinsure.co.uk	Income Care	✓		✓				✓	✓	✓	
Source	Sentinel IPI	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Source	First Assist IPI	✓		✓	✓	✓	✓	✓	✓		
TenetLime	First Assist IPI	✓		✓	✓	✓	✓	✓	✓		
Towergate Home and Protect	IPI (FirstAssist)	✓		✓	✓	✓	✓	✓	✓		
Towergate Home and Protect	IPI (Trent Services)	✓	✓	✓	✓	✓		✓	✓	✓	
Uinsure	Bill Protector	✓		✓	✓	✓	✓	✓	✓	✓	
Universal Provident	Income Care	✓		✓				✓	✓	✓	

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	A guide to platforms	Jun 2011
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