

## FIB - What's in a name? – Money Marketing – July 2004

Family Income Benefit should be one of the most successful products of our time, but it isn't.

It should have a market share of around 20 - 25% of all term products sold, but it doesn't. It actually hovers around 1–2%, so why is that? Talk to any old(ish) IFA and they all swear blind that they used to sell it by the "bucket load" and have forgotten why they don't sell it anymore. Every young(ish) adviser I talk to, who has heard of the product, says they really should recommend it as part of their advice process but don't. Following a brief explanation of the product/opportunity, those who have not heard of the product all say something like "Wow, I didn't know you could do that. What a good idea, I could sell that" (pull your socks up insurers).

Back to the future - how do I justify my assessment of the products natural market share? Around 50% of all term assurance sales are designated as 'Mortgage Term' and in my experience around a third of those level term sales that are not designated for any purpose are in fact sold (or bought) as mortgage protection, with the remaining two thirds for family and business protection. One third of all level term being used for mortgage term may seem high but given the popularity of the interest only mortgage (common amongst those leveraging their income as far as they can to get on, or rise up, the property ladder) it is not.

So if, as part of a mortgage arrangement, life insurance is both relevant and wanted by the customer, surely it is wrong to stop at providing cover only for the mortgage debt/outgoing when, in fact, you should establish whether all or part of the remainder of their income would still be needed by their dependants in the event of death. If it is then family protection is just as relevant to them. It follows that a form of life insurance is required and level term simply doesn't cut the mustard, as it requires the adviser to base a sum insured recommendation on their view of what savings/investment returns might be available in the future. Such guesses are more likely to be wrong than right and could lead to all sorts of problems down the line with the regulator.

For the uninitiated, and for those that have got used to not selling FIB, the following example may help. A married father of two (aged 6 and 8yrs) earns £2500 per month net, his wife isn't employed, they were both born on 04/07/70 and neither smoke, the mortgage is £500 per month (repaid in the event of either death from their mortgage term). Let us assume that in the event of either death the surviving spouse and children will need £1700 per month, at least until the youngest's completion of University at the age of 22. Mrs needs the income to replace that of her husband, Mr needs the income to employ someone to care for the children and the house while he continues to work and earn, or to stop work to care for them himself. The family therefore need FIB for £20,400 over 16 yrs. This could be bought for £21.08 (£24.42 if indexed) generating at least an additional £370 commission for the adviser, whilst putting the customer in a better protected position, not bad.

I have long felt that if the volume of CI sales, sold as part of the life policy, were to reduce significantly then we would start to see the re-emergence of FIB. With CI sales penetration levels down to around 35% from 55% across the advised market, the conditions are now ideal for this once popular product to be considered again as good protection for the customer, generating a good income for the adviser, making it again one of the key protection tools in the adviser's kitbag.

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