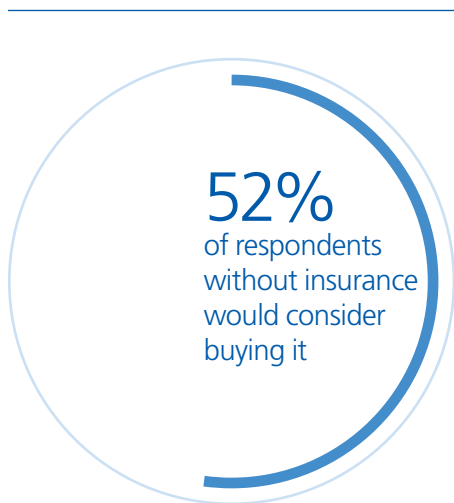
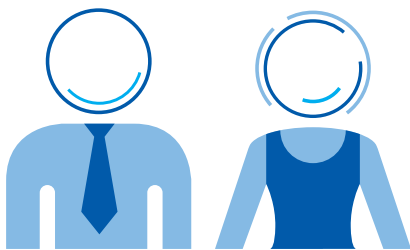


Executive summary

Understanding income protection gaps:
awareness, behavior, choices



Men are more likely than women
to have income protection



but household status as primary
or secondary wage earner is more
important than gender

A study by Zurich Insurance Group, the global insurer, and the Smith School of Enterprise and Environment at the University of Oxford on 'income protection gaps' (IPGs) based on a survey of over 11,000 respondents in 11 countries, has found that:

There is significant untapped demand for income protection insurance. Just over half (52 percent) of respondents without insurance say that they would be willing to consider buying it.

Personal experience of IPGs (whether first- or second-hand) is a bigger factor influencing demand than financial literacy. This may upend a number of assumptions about the effectiveness of financial education and literacy campaigns.

Cost perceptions pose a barrier – but most people believe income protection insurance costs are higher than is likely to be the case.

Men are more likely than women to have income protection, but household status as primary or secondary wage earner is more important than gender.

Work status plays a major role: the rise of the 'gig' economy is putting more individuals at risk.

Older workers are more likely to lack – and need – protection.

Personal experience of IPGs is a bigger factor influencing demand than financial literacy



Failure to protect income in the event of disability or illness poses a significant challenge, both in traditional and emerging economies. For families, the impact of illness or disability on income can be devastating. But not only individuals and households suffer. Income protection gaps can also profoundly affect businesses, governments, and the economy as a whole, undermining productivity and eroding social ties.

The need for such protection is acute and rising. In the developed world, demand for government support – the traditional source of relief – is rapidly outpacing supply. At the same time, disability levels are rising due to an aging population, tighter labor markets and improved medical diagnosis, which can confirm illnesses and disabilities such as mental health problems that were not recognized, let alone treatable, in the past.

Mindful of the challenges, Zurich Insurance Group, the global insurer, and the Smith School of Enterprise and Environment at the University of Oxford embarked in 2015 on a longer-term project to study income protection gaps.

Gaining better insights into key challenges

To better understand people's attitudes toward income protection, this latest study by Zurich and the Smith School, the second in a three part series, examined many of the factors contributing to IPGs. Surveys done with individuals in Australia, Brazil, Germany, Hong Kong, Italy, Malaysia, Mexico, Spain, Switzerland, the UK, and the U.S., in March and April 2016, and later in the United Arab Emirates (UAE), aimed to learn about people's awareness, knowledge, and experiences of income protection insurance.

The information has relevance both for those seeking to protect themselves, and in many cases their employers, as well as providers of income protection products and services. Ultimately, the information obtained in this study points the way toward possible improvements in the approach, and general issues of relevance to public policymakers and others.

Experience plays a greater role than financial literacy

One of the most important and surprising findings of the survey was that having first-hand experience, or (to a lesser extent) knowing someone who has had such experience with income protection gaps, was one of the biggest factors influencing demand. Experience trumps formal or abstract knowledge of insurance. Moreover, this holds true across all income levels. This is confirmed by behavioral research demonstrating that 'subjective knowledge' gained through life experience has a much more

significant influence on people's actions and decision-making than 'objective knowledge,' which is abstract and formally learned. People who have income protection insurance are not necessarily more financially literate. A potential area for future investigation would be how to replicate experience before something bad happens, including through the use of technology-based solutions.

Misperceptions about the cost of income protection

The main reason people cited for lack of income protection insurance was a perceived high cost. But how much they would be willing to pay for such insurance – on average, remarkably consistent at 5 percent of respondents' monthly income – was considerably higher than the average cost of income protection insurance for most people. Clearly, people's perceptions about the cost of income protection need to be examined and, where it makes sense, addressed.

Men and full-time workers are more likely to be insured

Gender gaps existed in about half of the countries surveyed, particularly those where overall demand for insurance was lower. Men are more likely to have insurance overall. But in some countries, an individual's position in the household as a primary or secondary wage earner played a greater role determining demand for insurance: sole or primary wage earners are more likely than secondary earners to have insurance.

Income Protection solutions and advice: the perceived and preferred role for employers and governments

Appetite for income protection may reflect a reliance on public programs in countries where a relatively high level of security has traditionally been available. This could become problematic in countries with high levels of state support as access to benefits is curtailed, and claims periods are shortened.

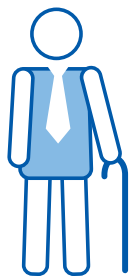
Governments have an important role to play. For example, for many, they are the preferred provider of income protection cover. In today's world of constrained public budgets, most likely this role will be realized in the form of public-private partnerships, or 'PPPs.' For those who do not work for large companies or sharing platforms, other avenues must be found to form partnerships to close the income protection gap. Pooling such groups together, perhaps across industries or even geographies, would help to diversify risk, thus stabilizing prices for such individuals.

Work status plays a major role



the rise of the 'gig' economy is putting more individuals at risk

Older workers are more likely to lack income protection



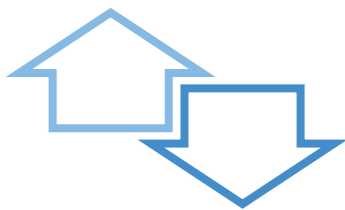
but are more likely to need it

Cost perceptions pose a barrier



but most people believe income protection costs more than is likely to be the case

A majority of people would prefer income protection cover as part of a benefits package



even if this means slightly lower take-home pay

The fact that a majority of people would prefer income protection cover as part of a benefits package, even if this means slightly lower take-home pay, shows the potential value of offering income protection insurance through the workplace. Workplace solutions typically involve income protection-related insurance coverage as well as rehabilitation services and prevention and well-being initiatives. But, in practice, employees may not know much about income protection, and may not be aware of its availability; they may fail to understand its importance to them. In addition, such arrangements tend to be most prevalent amongst large employers and multinational companies, meaning they are not currently an option for the majority of workers.

The diversity of preferred sources of income protection coverage and advice, from banks to employers to insurers and insurance brokers, points to a need for multiple-solution models that include both the public and private sectors.

A changing workforce

The changing nature of labor markets already has major implications for the way workers access income protection. An increase in short-term contracts and part-time positions is leaving many workers exposed to risk. There is an urgent need to design new channels for income protection solutions that are both 'portable' (across jobs and borders) and appropriate to different country contexts.

About this study

This latest study published in October 2016 is the second in a series of three planned on income protection gaps. The first phase of this project was based on a global mapping of the scope and significance of income protection gaps for governments, employers, and the global economy, summarized in the study 'Income protection gaps: a rising global challenge'.*

Areas for future investigation

In the third and final phase of the project, Zurich and the Smith School will focus on what governments and employers can do to help close the global income protection gaps. Based on the findings of the earlier report and the latest published in October 2016, a third study will look more closely at potential solutions to improve learning and choice, developing and expanding private partnerships and public private partnerships to close income protection gaps.

About the authors

The report is the product of a collaboration between Zurich Insurance Group and the Smith School of Enterprise and the Environment, University of Oxford. The project was directed by Benno Keller (Zurich) and Professor Gordon L. Clark, the director of the Smith School of Enterprise and the Environment, University of Oxford, as well as the Sir Louis Matheson Distinguished Visiting Professor, Faculty of Business and Economics, Monash University (Melbourne), and a visiting professor at Stanford University.

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*www.zurich.com/en/knowledge/articles/2016/06/risk-vs-reality