

# Income protection gaps: challenge and opportunity

With this report, Zurich is seeking to raise awareness and develop an understanding of a global challenge, income protection gaps (IPG): the reduction in household income as a consequence of the incapacitation or death of an adult wage earner. We hope that our findings will stimulate debate and provide a base for formulating a response to this growing challenge.



The scale of protection gaps is hard to estimate. Nonetheless, recent research shows IPGs are a real and a growing challenge, to individuals and families but also businesses, policymakers and society as a whole. Rising disability levels, declining state support, an aging population and the growing numbers of part-time and temporary workers is putting increasing pressure on the safety nets that keep families from poverty. In turn, this is a threat to long-term economic growth.<sup>1</sup>

For this survey, we worked with the Smith School of Enterprise and the Environment at the University of Oxford on a poll of more than 11,000 people in 11 countries within four broad geographical regions: Continental Europe, English-speaking OECD countries, Latin America and South Asia.

About a third of respondents own insurance to protect income against illness/disability or against premature death. The numbers vary considerably by country. Only 17 percent of Germans, for example, are insured against the financial consequences of disability, while two thirds of respondents in Malaysia and Hong Kong have added protection to fill the gap in state welfare.

## Underestimating the risks

People tend to underestimate the risk of disability, ill health or the premature death of a bread-winner undermining their finances. Overall, 38 percent of respondents thought there was a less than 10 percent chance that this would happen to them during their life time. That mirrors a 2015 survey by Zurich in European countries, in which respondents were largely unaware that the risk is actually closer to 25 percent, and flies in the face of the fact that 44 percent of

<sup>1</sup>Income protection gaps: a rising global challenge, Zurich/Smith School, University of Oxford, November 2015

respondents have already experienced lost income due to the inability to work as a result of serious illness. Of those, three out of ten, had suffered more than six months of income loss.

The level of knowledge about IPG is clearly insufficient: In this year's survey, 6 out of 10 respondents said they know little or nothing about how they can protect their income against disability or illness. And 4 out of 10 have little to no idea of term life insurance.

In addition, many respondents are in a precarious financial situation. 1 in 5 said they could survive less than a month without income. The majority, 3 in 5, said that their savings would last less than six months. This is even more troubling when you consider the challenges disabled people face in finding adequately compensated employment.

### Untapped demand

More than half of those without income protection would consider buying it. People with higher incomes, with a higher education, parents all saw a greater need for such products.

There is strong evidence that confidence in the state's role as a provider of social support is being tested. While half of respondents are of the opinion that their government should provide income protection, a similar number believe that public services will be cut over the next five years. Two-thirds say they would prefer to buy income protection from an insurance company than through their employer or their government. Respondents also said that they would prefer to turn to insurance companies for advice, ahead of financial advisers and consumer protection agencies.

### Overestimate the cost

Further education is needed, however, to encourage consumers to buy protection against the risks of illness/disability and premature death. When asked what would encourage them to buy insurance, almost half said more information, while an even greater number said lower premiums. Interestingly, many respondents seem to have an exaggerated idea of the cost of such cover. A third of respondents said they would be willing to spend between five and nine percent of their income for it, and 1 in 5 said more than 10 percent. In fact, such protection can be bought for significantly less than five percent of income.

### Protection before income

By offering benefits packages that include disability and life protection, employers can attract and retain talent in today's competitive skills market and also help to close the protection gaps. Only 13 percent of the respondents in this survey have been offered income protection by their employer, but six in ten respondents would prefer an income protection package to higher pay.

One of the key findings of this survey is that protection needs differ across countries, demographics and on an individual basis. There is no one-size-fits-all solution. Neither the state nor the private sector can address this challenge alone. Zurich has set itself the task of casting light on this increasingly pressing issue. As a next step, we are conducting a deeper analysis of the survey results with Oxford University and will publish further insights later this year.

The full report is available on [www.zurich.com/protectiongap](http://www.zurich.com/protectiongap)

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