

Risk Nexus

Understanding income protection gaps:
awareness, behavior, choices



Contents

Preface	1
Executive summary	2
Introduction	6
Chapter 1: The survey: listening to learn	12
Chapter 2: Why do people buy income protection insurance?	18
Chapter 3: Closing the income protection gap – Why does some demand remain ‘untapped’?	27
Chapter 4: Perceptions and preferences for income protection advice and solutions	36
Chapter 5: Implications	45
Acknowledgements	52

The terminology used in this report has been standardized and may differ from common usage in some countries.

Preface

Income protection – the ability to ensure financial security even in the face of crises such as long-term illness or disability – plays a crucial role in our lives and the future of our families. The challenges that it brings, to governments, businesses and the society as a whole, are rapidly becoming critical. This is particularly true as demand for government support – the traditional source of relief – is rapidly outpacing supply while at the same time, disability levels are rising as populations age.

This report marks the culmination of the second phase in a three-year alliance between the Smith School of Enterprise and the Environment at Oxford University and Zurich Insurance Group. As a leading academic institution and a global insurer with expertise on risk and risk management, respectively, together we are well-placed to make society more resilient. That includes finding ways to close income protection gaps.

In the first phase of this project in 2015 we set out to raise awareness and understand the challenges of income protection gaps. Our findings sharpened the focus on a global problem with distinct regional and local characteristics and variations. Given the scale and impact of income protection gaps, it was crucial to gain a better understanding of the behaviors that fuel them, and their implications for the public and private sectors. Our previous report in this series focused mainly on the availability of income protection and social welfare – the supply side. This latest study, which marks the second phase of the project, seeks to understand income protection gaps from the demand side – the behavioral and institutional factors influencing decisions on whether to protect income.

We created a highly ambitious survey aimed at individuals in 11 countries across five continents, which explored worker behavior, knowledge, and beliefs. Our survey looked at attitudes

toward personal finance in general and income protection insurance in particular. It also examined the roles of governments, employers, and individuals in providing protection. The quality of the data secured by the representative samples in each of these countries was remarkable and the survey, to our knowledge, is unique in this field of research. The findings of the survey provide the basis of this report. We place these insights within the broader context of a range of issues, drawing on established research.

This second phase of our project has provided us with a better understanding of factors influencing people's decisions to acquire income protection insurance, what keeps some demand 'untapped,' and public and private sectors' roles. The next and final phase of our project will investigate potential avenues for how public and private sectors could work together to close income protection gaps. The guiding aim for this third phase will therefore be to suggest proposals which achieve a balance between government support, employer provision, and personal responsibility.

We believe that collaboration between the public, private sectors and individuals and households is central to finding effective solutions to close income protection gaps. This report reinforces that assertion.

We look forward to intensifying the dialogue with all our stakeholders as this project approaches its conclusion.

Executive summary

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.

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

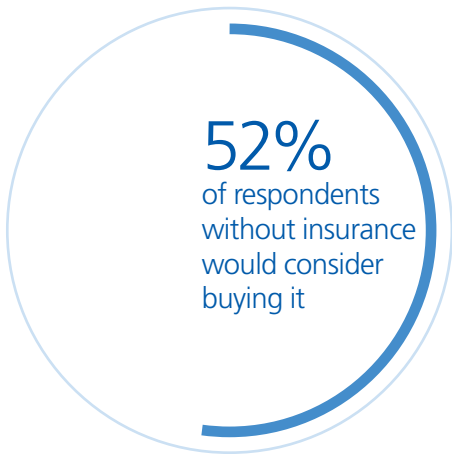
To better understand people's attitudes toward income protection, this latest study by Zurich and the Smith School, the second in a three part series, examined many of the factors contributing to IPGs. Surveys done with individuals in Australia, Brazil, Germany, Hong Kong, Italy, Malaysia, Mexico, Spain, 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

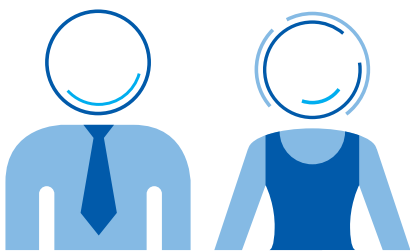
The main reason people cited for lack of income protection insurance was a perceived high cost. But how much they would be willing to pay for such insurance – on average, remarkably consistent at 5 percent of respondents’ monthly income – was considerably higher than the average cost of income protection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

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.

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.

Men are more likely than women to have income protection



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

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

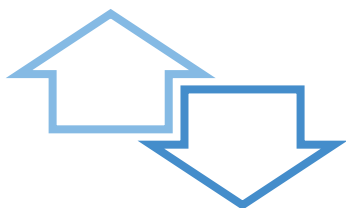
Appetite for income protection may reflect a reliance on public programs in countries where a relatively high level of security has traditionally been available. This could become problematic in countries with high levels of state support as access to benefits is curtailed, and claims periods are shortened.

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
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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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The authors are pleased to acknowledge the ongoing support of Zurich Insurance Group for the project, of which the research presented in this report is a major part. David Swaden at Zurich provided direction and input. The survey underpinning the report was designed by Sarah McGill in conjunction with Epiphany RBC in Amsterdam, which was responsible for the survey dissemination and data collection.

Introduction

What are income protection gaps and why do they matter?

Income protection gaps are becoming a truly global problem for individuals, families, employers, governments, and society. To address this complex and crucial issue, Zurich believes that a multi-stakeholder and global response is needed. As an expert on risk and risk management, Zurich is well positioned to contribute in society's efforts to increase resilience to income protection gaps over time.

What are income protection gaps?

Income protection gaps (IPGs) – put simply, loss of earned income due to death or disability – can have devastating consequences for households and far-reaching social and economic impacts for governments and employers. IPGs are of concern globally, but they occur at the local level. Their causes and consequences may vary depending on the roles of governments, employers, and individuals in the respective environments where they occur.

We define the **income protection gap** as a reduction in household income as a consequence of the death or incapacitation of an adult wage earner on whom that household relies, taking all public and private income replacement sources into account.

Zurich Insurance Group, a global insurer, and the Smith School of Enterprise and Environment at the University of Oxford have committed to a long-term project looking at the issue of IPGs.

In the first phase of this project, we conducted a global mapping of the scope and significance of IPGs for

governments, employers, and the global economy. This latest report is the culmination of research conducted for the second phase of the project, which has sought to understand the behavioral drivers of IPGs at the household level. In the third and final phase of the project, we will offer recommendations to governments and employers that could serve as a basis for measures to close the global income protection gap.

Why are income protection gaps increasingly becoming a challenge?¹

Differing definitions of disability, subjective calculations of need, and a variety of social protection schemes that exclude casual and part-time workers make it hard to calculate the scale of protection gaps or make comparisons between countries. Nonetheless, all the evidence shows IPGs are a real and growing global challenge.

A range of factors contribute to the challenge posed by IPGs. In the developed world, demand for government support – the traditional source of relief – is rapidly outpacing supply. Disability levels are rising due to an aging population, tighter labor markets and improved medical diagnosis. Yet public budgets, particularly after the global financial crisis, have failed to keep pace with need. In most cases, governments have responded not

so much by cutting funding for social safety nets as by raising the bar for those seeking access to benefits. In the developing world, government schemes based on those developed in European countries are encountering similar difficulties. Average lifespans are rising with growing prosperity, and numbers of casual, part-time, and temporary workers – largely excluded from state-backed income protection – remain significant. Government funds are focused more on the impoverished and less on 'middle-earning' workers.

Why do income protection gaps matter?

IPGs can devastate households. For example, a U.S. study suggests that two-thirds of impoverishment among surviving women and more than one-third among surviving men results from inadequate life insurance.² One-third of households drop into a lower income quintile after an unexpected adult death in the UK, and 20 percent fall into poverty. The same is true of disability: in the EU, people who identify themselves as disabled are on average 15 percent more likely to face poverty and/or social exclusion compared with the non-disabled.³ In Australia, 20 percent of mortgage defaults in 2010 were due to illness or an accident affecting a member of the household.⁴

1 Defining disability can be problematic. Official statistics include only successful benefit claims, which usually only cover full-time workers. Self-reported disability rates (which can be found in census figures or surveys) are much higher than benefit claims and often also result in lost earnings.

2 Bernheim, B.D., Carman, L.G., Gokhale, J. and Kotlikoff, L.J. (2001) The Mismatch between Life Insurance Holdings and Financial Vulnerabilities: Evidence from the Survey of Consumer Finances, NBER Working Paper No. 8544, Cambridge, MA

3 ANED (2014) European comparative data on Europe 2020 & People with disabilities, Final report by S. Grammenos from Centre for European Social and Economic Policy (CESEP ASBL) on behalf of the Academic Network of European Disability Experts (ANED) www.humanconsultancy.com

4 Berry, M., Dalton, M., and Nelson, A. (2010) Mortgage default in Australia: nature, causes, and social and economic impacts, Australian Housing and Urban Research Institute, RMIT Research Center. www.ahuri.edu.au/research/final-reports/145

IPGs can also devastate retirement savings. Long-term disability undermines retirement income in two ways. For one, contributions to both state pension schemes and occupational or personally-funded schemes cease, thereby reducing final pension rights. Throughout most of the world, personally-funded pensions are expected to cover retirement from work due to age or disability – but a shorter working life and prolonged periods of reliance on limited funds translates into a lower pension. Given the global pension savings gap, rising longevity, and the declining generosity of pensions schemes (as well as declining returns on savings), people affected by IPGs thus face a very real possibility of running out of money in their old age.

Employers are not immune to the negative impacts of IPGs. At the same time as governments are cutting access to disability support, in some countries they are also requiring employers to keep workers who are incapacitated ‘on the books.’ As mandatory retirement ages become less common and state pensionable ages rise, it has fallen to employers to bridge the gap to retirement.

Perhaps the main concern for employers is how IPGs hit productivity. Without adequate protection, and with job prospects much reduced for the disabled, many workers will choose to work through minor disabilities at reduced capacity, thereby possibly transforming a minor physical problem into a chronic complaint. This ‘presenteeism’ costs U.S.

businesses more than USD 150 billion per year.⁵ Left unchecked, IPGs are likely to have a greater impact on productivity as workforces age.

IPGs are also creating a growing burden for governments that will prove crippling in the future if not addressed adequately today. Most obvious is the demand for support created by premature death or disability, the latter of which will increase as populations age. In addition, in tight labor markets, the partially disabled cannot find jobs and so cease paying taxes and social security contributions while also claiming benefits – thereby unbalancing government books while risking turning a minor disability into a permanent physical problem. This adds to a much wider sustainability problem for the many ‘pay as you go’ welfare systems that rely on those of working age to sustain retirees. For households, the depletion of savings to fill IPGs, combined with increased longevity, means those affected will again turn to the state for support as they grow older. Added to all of this, the changing nature of the workforce due to the proliferation of part-time and short-term work contracts threatens to further undermine welfare systems.

While IPGs are a significant challenge in themselves, they are also closely linked to other pressing issues, such as meeting the needs of aging populations, the global retirement savings gap, and the challenges posed by global financial crises and their aftershocks.

Box 1: Presenteeism⁶

In our first study, which mapped the rising global challenge of income protection gaps, presenteeism was identified as an issue closely associated with IPGs – one that also concerns employers and governments alike.

Presenteeism refers to employees being physically present at work but not working productively due to real but (generally) non-life-threatening medical problems – typically chronic or episodic conditions such as allergies, migraines, back pain, arthritis, respiratory problems, gastrointestinal disorders, and depression. With no additional protection for their income, impaired workers fear that not only will it be highly difficult to survive on state benefits by registering as disabled, but also that they will be unlikely to find alternative work. Such fears are likely more common during economic downturns, when workers are more concerned about jobs and financial security. For example, in countries such as Greece and Spain where the 2008 financial crisis and resulting fiscal pressures hit particularly hard, comparatively low reported disability rates probably reflect ‘discouraged claimants’. These are the significant number of disabled who are unable to access even the low levels of benefits available to them and fearful of losing work if they admit to any impairment.⁷

⁵ See <https://hbr.org/2004/10/presenteeism-at-work-but-out-of-it>. The obverse issue of ‘absenteeism’ is less directly driven by income protection gaps, but is nonetheless closely associated with disability and illness in the workforce. See Box 1.

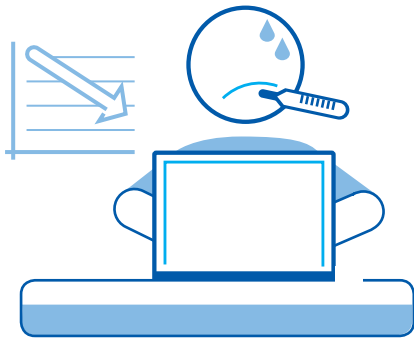
⁶ ‘Presenteeism’ has a second meaning unrelated to our discussion here: it can also refer to employees putting in longer hours at the workplace in order to give the appearance of working harder, with the paradoxical effect that their productivity decreases.

⁷ ‘Income protection gaps – a rising global challenge,’ SSEE/Zurich Risk Nexus study 2015 <https://www.zurich.com/en/knowledge/articles/2016/06/risk-vs-reality>

“The main reason people don’t buy income protection insurance is a perceived high cost. But the amount respondents were willing to pay, at 5 percent of monthly income, was higher than the average cost of income protection insurance for most people.”



IPG hitting productivity



\$150bn

What 'presenteeism' costs
U.S. businesses without
adequate protection
each year

In the long run, presenteeism is hardly an effective way to manage the risks and issues associated with IPGs, no matter whether individuals, companies, or governments are affected. A largely invisible problem, presenteeism is not easy to define or measure, particularly in today's 'knowledge-based' economy, in which outcomes are difficult to quantify. Nonetheless, a growing number of academic and in-house company studies have suggested that this phenomenon can cut worker productivity by anywhere from 20 to 60 percent. Presenteeism affects both the quantity and quality of work; the impacts that different types of illnesses have on different kinds of occupations can vary considerably. Companies incur most of their direct medical costs through treatments for serious illnesses such as cancer and heart disease. Yet, when the indirect expenses are taken into account, presenteeism may be even more costly than absenteeism.

Efforts to tackle presenteeism begin with raising awareness among managers and their staff, and determining the nature and costs of health problems that lower productivity in a given company. Providing workers with information can be tricky, as one-off educational programs about diagnosis and treatments available have been shown to have limited effectiveness. Much more work needs to be done to understand how to encourage workers to overcome behavioral biases such as 'inertia' (see Box 4) that prevent them from seeking medical attention. Measuring the problem of presenteeism is also not easy, but first steps include assessing the range of medical conditions that affect a company's workforce,

calculating the associated loss in productivity, and introducing cost-effective adjustments to the treatments and benefits available to employees.

Companies' attempts to contain employee healthcare costs and other benefits may actually discourage their workforce from seeking treatment for the very illnesses that adversely affect their job performance. But the productivity gains from addressing presenteeism could greatly outweigh the initial investments in education, screening, and treatment. Fundamentally, the question is whether human capital represents a cost or an investment for companies.

What factors influence the decision to buy income protection insurance?

In the previous Risk Nexus report on this topic, we conducted a global assessment of IPGs: how they are defined, why they are a growing challenge, what are their broader socio-economic consequences, and, broadly, what can be done by governments and employers to begin closing the gaps.

This Risk Nexus report seeks to understand the drivers of IPGs from the demand side – the behavioral and institutional factors that influence demand for income protection insurance. By contrast, our previous Risk Nexus report focused mainly on the availability of income protection and social welfare – the supply side. These demand- and

Box 2: What is income protection insurance?

In this report income protection insurance refers to any insurance beyond obligatory government benefits and statutory sick pay that covers income replacement in the event of significant incapacitation (due to illness or disability) or death of a household wage earner. Products differ by country, and different compensation is offered under different types of public and private protection schemes. Compensation may be based on previous salary or it might be 'flat rate'; it may reflect the number of dependents, the severity of the impairment, or both. Whether or not it is adequate also depends on whether medical expenses are covered or otherwise subsidized. Alternatively, payments may be means- or asset-tested, putting at a disadvantage those with savings, or those living with other wage earners. Work-related injuries or deaths are often compensated under different systems.

supply-side drivers are two sides of the same coin, and taken together both are crucial to finding ways to close the global income protection gap.

In this report we therefore aim to understand the factors that motivate individuals and households to buy income protection insurance. We explore worker behavior, knowledge and beliefs about personal finance in general, income protection insurance in particular, and the respective roles of governments, employers, and individuals in providing protection. The findings presented in this report draw on our previous work. They also allow us to propose more comprehensive areas for further investigation, suggested in Chapter 5. Throughout, we recognize that

institutional arrangements vary widely between countries.

We hope to shed light on the following questions:

1. What is the socio-economic profile of workers who already protect their income?
2. What motivates these workers to buy income protection insurance?
3. What would motivate those without insurance, but who are willing to consider buying it, to protect their income?
4. What respective roles do governments and employers have in closing the income protection gap?

In order to understand the drivers of demand for income protection insurance at the household level, Zurich Insurance

Group collaborated with the Smith School of Enterprise and Environment at the University of Oxford to conduct a survey of workers on the issues outlined here. In March/April 2016 we surveyed over 11,000 people across 11 countries: Australia, Brazil, Germany, Hong Kong, Italy, Malaysia, Mexico, Spain, Switzerland, the UK and the U.S. A survey of this size and scope is rare, particularly in academic research. Accessing a representative sample of the working population across multiple countries (and multiple languages) has given us a uniquely valuable opportunity to gain robust insights into various national contexts while maintaining a comparative perspective.

The findings of this survey provide the basis of this report. We place these insights within the broader context of a range of issues, drawing on established research. Through this approach, we aim to raise awareness of IPGs and to facilitate a dialogue with employers and governments on this increasingly important issue.

Chapter 1

The survey: listening to learn

1.1. Headline survey results

A snapshot of our findings

We surveyed over 11,000 people in March/April 2016 across 11 countries on five continents.⁸ Respondents received an online questionnaire that asked about their awareness, knowledge, and experience of income protection insurance; perceived personal risk situation; knowledge and views of the role of governments and employers in covering IPGs; and willingness to pay for insurance products. They were also assessed on their financial risk tolerance and overall financial literacy.⁹

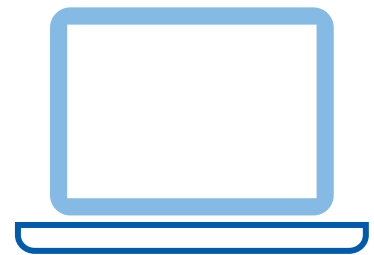
Our key findings included several new insights:

1. 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.
 2. Despite the strong influence of institutional factors (see finding 8), there are three 'universal' indicators of demand for income protection insurance:¹⁰
 - a. There is a positive relationship between income¹¹ and demand for insurance. People become more risk-averse as their income increases. The upshot is that middle-income earners are most at risk of IPGs.
 - b. Self-reported knowledge about insurance products is often positively correlated with holding insurance (i.e., people who know about insurance tend to buy it).
 - c. Having personally experienced IPGs, whether first-hand or through knowledge of someone who has experienced them, also tends to increase the likelihood of holding income protection insurance.
 3. Personal experience of IPGs is perhaps the most important universal driver of demand, far more so than what is conventionally defined as financial literacy, which seems to have little or no bearing on demand for income protection insurance.
 4. Men are more likely to have insurance: Gender gaps in demand do exist in about half of the countries surveyed, particularly those where overall demand for insurance is lower. However, household status (i.e., whether an individual is a primary as opposed to a secondary wage earner in their household) is more significant in explaining demand for insurance, with sole or primary wage earners being more likely than secondary earners to have insurance.
 5. On average, willingness to pay was remarkably consistent at 5 percent of respondents' monthly income. This is considerably higher than the average cost of income protection insurance for most people. Yet at the same time, the main reason people don't buy income protection insurance is a perceived high cost.
- A number of additional findings confirmed previous research findings and assumptions.
6. Work status is an important factor that drives demand. Full-time workers are more likely to have insurance than part-time workers and the self-employed.

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

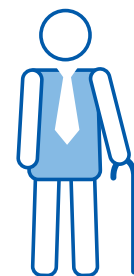


Work status plays a major role



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

⁸ A modified version of the survey was also carried out in the UAE; see box on p.17.

⁹ For more details, including the original questionnaire (and translations) as well as the full survey methodology, please see www.smithschool.ox.ac.uk/research-programmes/income-protection-gap/

¹⁰ We define 'demand for insurance' as the proportion of survey respondents who report having income protection insurance plus those who say they would consider buying insurance.

¹¹ Income can generally be considered a proxy for education level as well as financial literacy (and risk aversion). However, none of these factors is a reasonable predictor of demand for insurance in this research.

7. Younger and healthier people are more likely to have insurance. Although older and less healthy people are aware of their IPG risks, that does not make them more willing to consider buying insurance.

8. Factors that drive demand vary significantly across countries and cannot be explained by geography or the institutional factors conventionally associated with demand – the differences occur within regions, cutting across English-speaking, Latin American, and European countries. The exceptions are Hong Kong and Malaysia, which are very similar to each other and distinct from the other countries surveyed.

1.2. Country context

This report also examined factors influencing demand in the institutional (country) contexts in which household financial decision-making occurs.

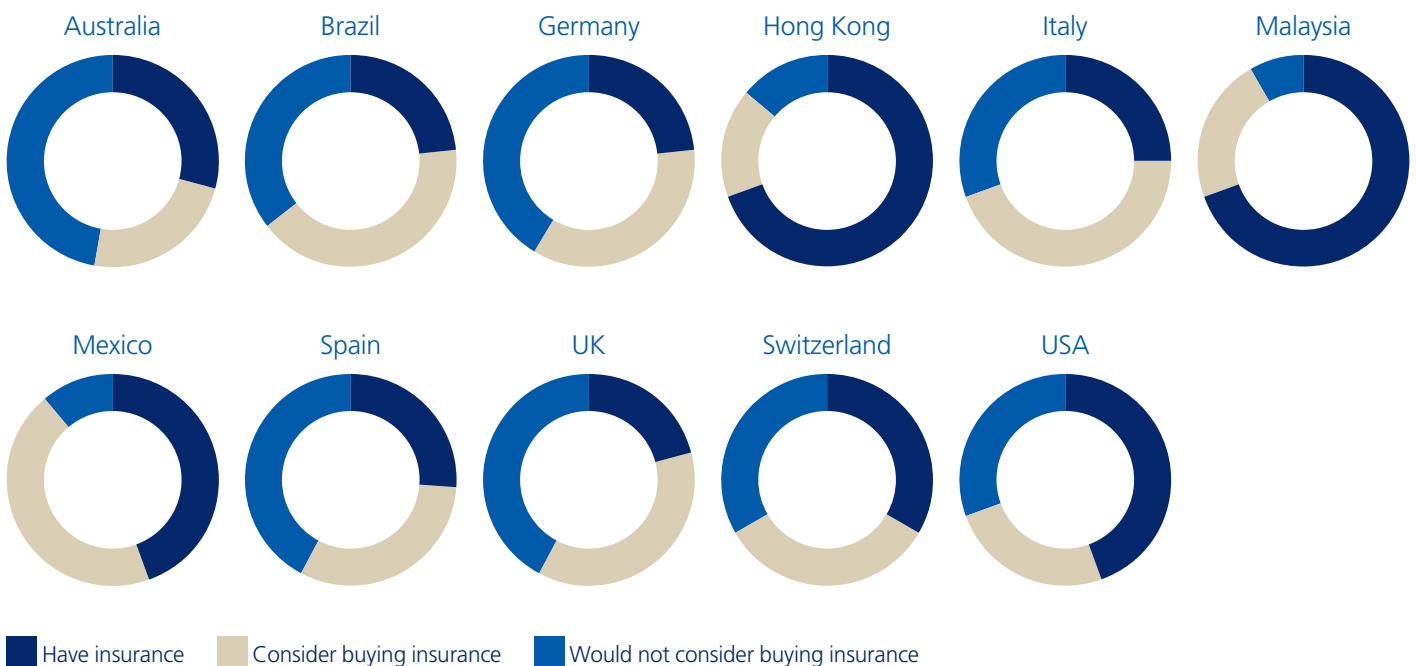
At first glance, it seems reasonable to expect that levels of demand for income protection insurance would be similar across countries, with variations primarily occurring across socio-demographic groups. Economic and demographic challenges have undercut welfare state regimes globally, while at the same time, responsibility for providing protection has shifted onto employers and households.

But in fact significant differences exist between countries when it comes to individuals' uptake of income protection insurance, levels of untapped demand, and willingness to pay for insurance.

Country context thus joins other factors – such as age, gender, income, work status, knowledge about insurance, and health – in influencing demand (both realized and untapped) for income protection insurance. This also supports the assertion made in our previous Risk Nexus report¹² on income protection gaps that the global income protection gap cannot be quantified in a single figure. Income protection gaps must therefore be considered in local and regional contexts, even as some of the factors that drive them remain universal (see finding 2).

For instance, Figure 1 shows the proportions of people who already have insurance along with those who would and would not consider buying it in the countries where we conducted our survey.

Figure 1: International significant differences in demand for insurance



Source: Zurich Insurance Group & University of Oxford (2016)

¹² Zurich Insurance Group & University of Oxford (2015), 'Income protection gaps: a rising global challenge.' www.zurich.com/en/knowledge/articles/2016/06/risk-vs-reality

Previously we focused on four broad geographic regions, as IPGs vary considerably across regions and even countries. By selecting countries from the English-speaking world, Latin America, Europe, and Asia for our previous Risk Nexus report, our aim was to gain a broadly global perspective while also looking at a cross-section of countries within regions.

But as we discuss in greater detail later in this report, factors influencing demand cannot be explained through what was previously assumed about geography or institutional factors – the differences occur even between English-speaking, Latin American, and European countries. Continental European welfare states, commonly considered similar in terms of their traditions of earnings-related social insurance cover, are eroding at varying rates, leading to different demand profiles in terms of interest in buying insurance. Meanwhile, employer-based income protection, while common in the U.S., is not as prevalent in other Anglophone countries, but is beginning to influence parts of Latin America. The exceptions are Hong Kong and Malaysia,

which in this regard are very similar and distinct from the other countries surveyed.

The impact of country context on willingness to pay

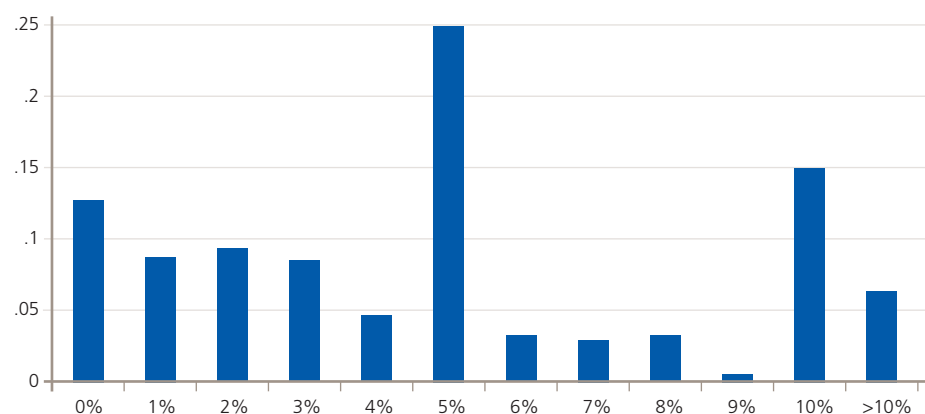
One of the more surprising findings of the survey was how much people appear to be willing to pay for income protection insurance. On average, willingness to pay was remarkably consistent at 5 percent of respondents' monthly income.¹³

Furthermore, many of the factors that increase willingness to pay were similar to the factors that tend to influence overall demand. For example, those who know someone who has experienced an income loss are willing to pay a higher percentage of their income to have insurance.

Most strikingly, though, national institutional factors appear to have the strongest influence on willingness to pay. In particular, the strength of a country's social safety net is a key determinant of whether people without insurance would consider buying it, as well as how much of their income they would be willing to pay for it.¹⁴

“Those who know someone who has experienced an income loss are willing to pay a higher percentage of their income to have insurance.”

Figure 2: Willingness to pay, all countries

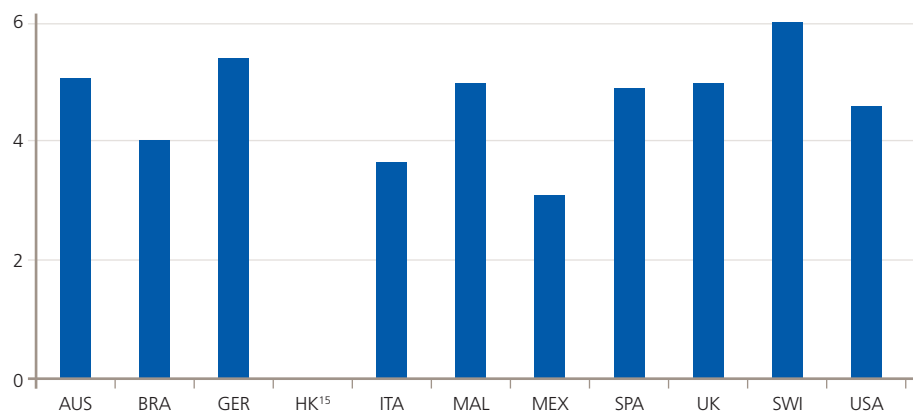


Source: Zurich Insurance Group and University of Oxford (2016)

¹³ In the survey, respondents were asked what percentage of their current monthly income, in whole percentages ranging from '0 percent' to 'more than 10 percent,' they would be willing to pay to protect up to 80 percent of their income.

¹⁴ It is also worth noting that other types of gaps (e.g., gender gaps), are more pronounced in countries with less generous social safety nets.

Figure 3: Social Safety Protection



Source: World Economic Forum (2015)

Table 1 ranks the 11 countries surveyed for this report according to the proportion of respondents who (a) have insurance; (b) would be willing to consider buying it; (c) would not be willing to pay for it at all; (d) have the highest average willingness to pay. These rankings can be compared to the strength of the countries' social safety nets (in ascending order):

Table 1: Country rankings based on survey of 11 countries

	Have insurance (descending)	Would consider buying insurance (descending)	Willingness to pay = 0 (not willing to pay) (ascending)	Average willingness to pay (descending)	Social protection index (perceived strength of public safety net) (ascending) ¹⁶
1	Hong Kong	Malaysia	Malaysia	Malaysia	Mexico
2	Malaysia	Mexico	Mexico	Mexico	Italy
3	U.S.	Italy	Hong Kong	Brazil	Brazil
4	Mexico	Brazil	Italy	Hong Kong	U.S.
5	Switzerland	U.S.	Brazil	U.S.	Spain
6	Australia	Switzerland	Germany	Italy	UK
7	Spain	Germany	U.S.	Spain	Malaysia
8	Brazil	Spain	Switzerland	Germany	Australia
9	Italy	Hong Kong	Spain	UK	Germany
10	UK	UK	UK	Switzerland	Switzerland
11	Germany	Australia	Australia	Australia	-

¹⁵ Data were not available for Hong Kong.

¹⁶ Data were not available for Hong Kong.

Countries where people expressed the greatest average willingness to pay were Malaysia, Mexico, Brazil, and Hong Kong. In the cases of Hong Kong and Malaysia, one explanation for both countries' high willingness to pay might be that the prevalence of mandatory savings makes people more familiar with its benefits, as described in Chapter 2. In Mexico a relatively low level of state benefits (as evident in the fifth column) might make people more acutely aware of the need to protect their income through alternative means.

Australia clearly has the lowest average willingness to pay. Its mandatory personal pension scheme (superannuation), which includes auto-enrollment into disability protection, makes Australia something of a unique case; automatic cover for disability is confined to the maintenance of superannuation contributions, unless the contributor chooses otherwise. It is also possible for contributors to opt out of this part of the scheme. Mandatory 'super' contributions are currently rising as employers pay this as a salary overhead, and this probably explains Australian workers' reluctance to pay any more for insurance cover.

Meanwhile, it is also not surprising that people in Switzerland, the country with the most extensive social safety net according to the WEF index, are unwilling to pay for income protection insurance. In Switzerland, the government puts significant pressure on employers to rehabilitate the disabled, and state and occupational support (in terms of the amount paid to the disabled) has not been cut, even if access has been restricted.

This table is troubling for countries such as Italy, where private insurance coverage is relatively low (ranked ninth out of our 11 countries) even as state benefits have been cut in the aftermath of successive economic crises. Meanwhile, persistent economic weakness has ensured that unemployment remains high – as high as 40 percent for people under 30. And while recent legislation has extended benefits to part-time and contract workers, traditional labor protections have remained in place, reinforcing existing divides in the labor market. In a different way, the table is also troubling for the UK, whose relatively high social protection ranking is in large part accounted for by the National Health Service (NHS). Yet both demand for income protection insurance and willingness to pay in the UK rank low, despite relatively low levels of disability benefits.

Brazil has relatively low income protection insurance coverage and not particularly high demand. Yet state coverage of disability and premature death benefits is flat rate and amounts only to 80 percent of the national minimum wage. Despite this, the system, which was extended to urban and rural workers alike under the government of President Lula da Silva, is contributing to escalating public debt. At the same time, private insurance has been encouraged since the 1960s, although it is skewed toward the affluent. As Brazil faces a financial crisis, government cutbacks in social assistance seem all but inevitable. In such a stratified society this poses a particular threat to an emerging middle class, as well as poorer workers.

Box 3: United Arab Emirates

We conducted a modified version of our survey in the UAE.¹⁷ About a quarter of our respondents in that country had insurance to protect their income should they become ill or disabled. Nearly one-fifth had coverage in case of premature death. A strikingly high proportion – nearly three-quarters (72 percent) – got this coverage from their employer.

The level of untapped demand was similar to the other countries discussed in this report, with a third of respondents saying they would be willing to consider buying insurance, and a willingness to pay an average of 5 percent of monthly income for it. By the same token, the main reason people gave for being unwilling to consider buying insurance matched that of other countries: perceptions about the high costs of insurance.

Our respondents reflected the diversity of the UAE workforce and included UAE nationals, Arab expats, Asian expats, and Western expats.¹⁸ Crucially, this had a bearing on who was most likely to have insurance. While just over half (51 percent) of Western expats and about a third (35 percent) of Asian expats had it, only 14 percent of UAE nationals and 13 percent of Arab expats did. This seemingly low level of coverage of Arab nationals should not be surprising, however, given the generosity of state benefits in the respective countries of their home countries.

The groups with higher levels of coverage reflect the important role played by employers in insurance provision. By the same token, among the relatively small number of UAE nationals with private coverage, fully 90 percent got it from their employer.¹⁹

¹⁷ Further details on this version of the survey are available at www.smithschool.ox.ac.uk/research-programmes/income-protection-gap/

¹⁸ Unlike in the main survey, 70 percent of the respondents were men, and 97 percent were in full-time work.

¹⁹ This result might need to be interpreted with caution: given the prevalence of state-owned companies in the UAE, the distinction between benefits acquired through 'employers' and 'the government' becomes blurred.

Chapter 2

Why do people buy income protection insurance?

In our 2015 report on income protection gaps, we described the different types of income protection that exist:

Income can be protected in several ways. In most European, Latin American, and English-speaking Organization for Economic Co-operation and Development (OECD) countries, the state offers some workers (provided they are also citizens) and their families insurance protection, should they die or become disabled. Those who don't contribute to this insurance can apply for means-tested social assistance. In some Southeast Asian countries, the state requires workers to have personal savings schemes, known as provident funds, to cover all forms of social protection, including, in some cases, to protect people taking out mortgages or acquiring education.

In addition, many employers offer insurance for death and disability as part of occupational pension systems that mainly provide retirement benefits. Work-related impairments or death are commonly compensated under laws that hold employers collectively or individually liable for health and safety at work.

For individuals, most countries offer tax incentives to encourage personal savings to supplement state or occupational protection. This is particularly important in developing countries where the state provides very little or no protection. But increasingly in the developed world as well, as states raise the threshold for access to support, this is becoming an important part of protection. Private protection products protecting loss of income for a certain period also exist for individuals.

Private protection against such income interruption is the primary focus of this report. It does not necessarily exclude government schemes, but survey respondents were explicitly asked about "insurance against serious illness, disability or premature death... beyond **obligatory** government coverage."

Who has income protection insurance, where did they acquire it, and why do they have it?

Who has income protection insurance?

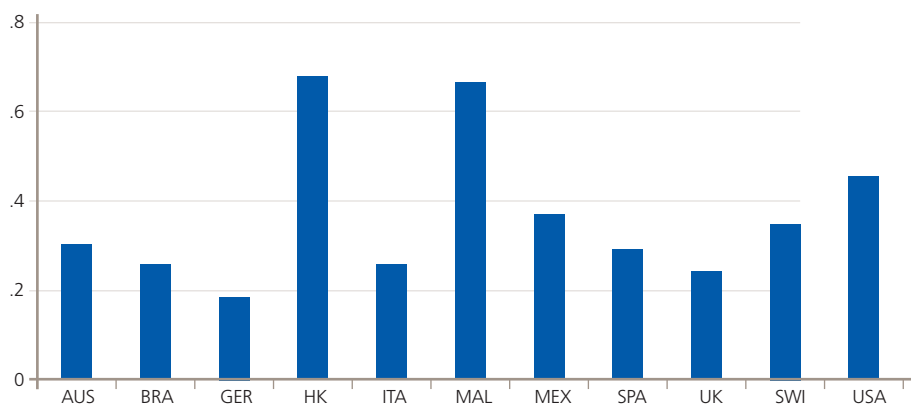
In total, about a third of our survey respondents already have this type of income protection insurance. However, coverage varied widely between countries. The highest proportion (two-thirds) have it in Hong Kong and Malaysia. Both countries have state-mandated 'provident funds' – mandatory individual invested savings that include coverage in the event of disability or premature death and can be supplemented with additional tax-incentivized contributions.²⁰ We suspect that the high numbers of respondents who report holding income protection insurance made additional voluntary contributions to these schemes.

At the other end of the spectrum, only 17 percent of Germans report having insurance. This may be because of the more comprehensive nature of more traditional state-run social insurance, which still covers older workers, and the existence of a separate scheme for long-term care. Country-specific institutional factors behind this variation in demand are discussed in more detail in Chapters 3 and 4.

Where did they get it?

Across our 11 countries, 42 percent of the respondents who have income protection insurance acquired it from an insurance agent, 27 percent from an insurance company, 23 percent from their employer as part of their employee benefits, and 19 percent from a bank. In this case, respondents were allowed to specify multiple channels through which they bought income protection coverage, so it is interesting that different types of partnerships between the various institutions appear to account for much income protection insurance provision. The issue of cross-institutional alliances will be examined in Chapter 5.

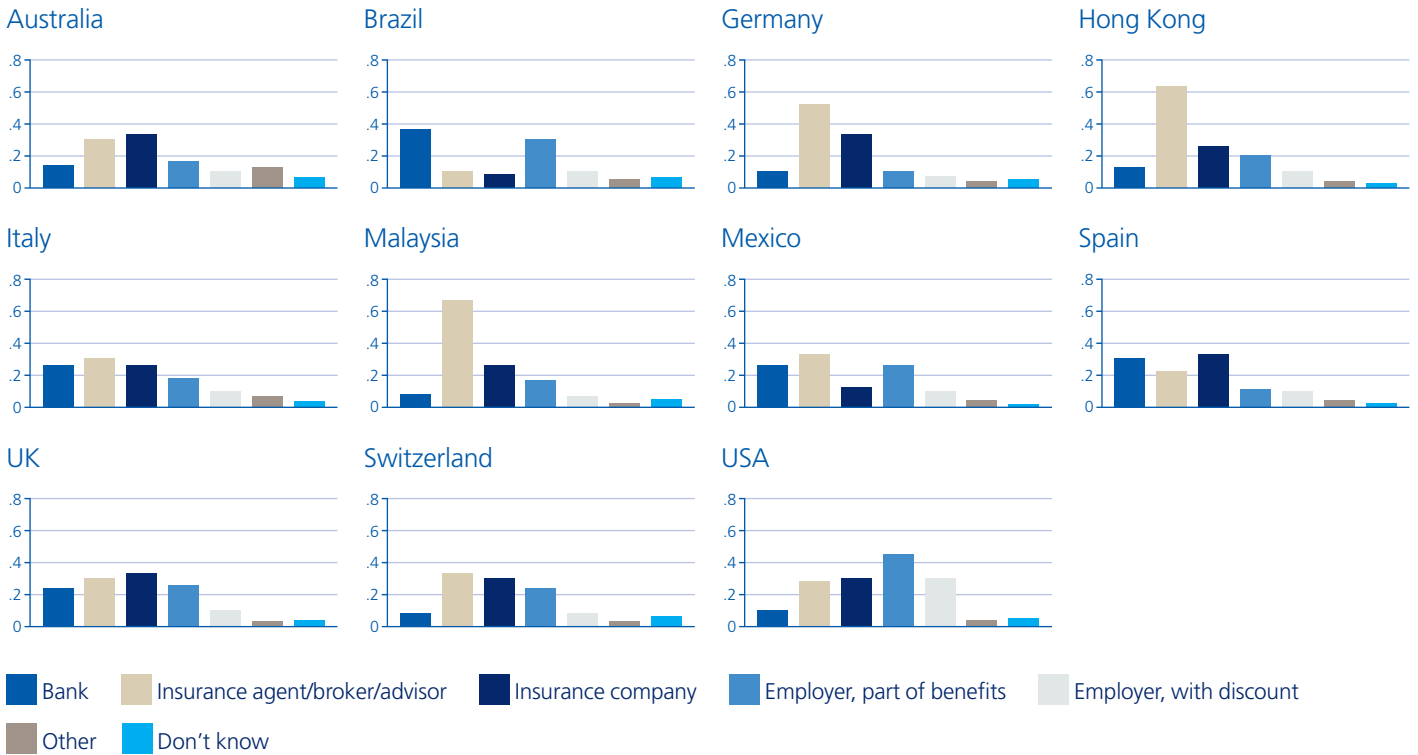
Figure 4: Percentage of respondents who have insurance, by country



Source: Zurich Insurance Group and University of Oxford (2016)

²⁰ Hong Kong's scheme is run by private insurers, while Malaysia's is state-run.

Figure 5: Where respondents who have insurance to protect their income in case of disability or serious illness acquired it



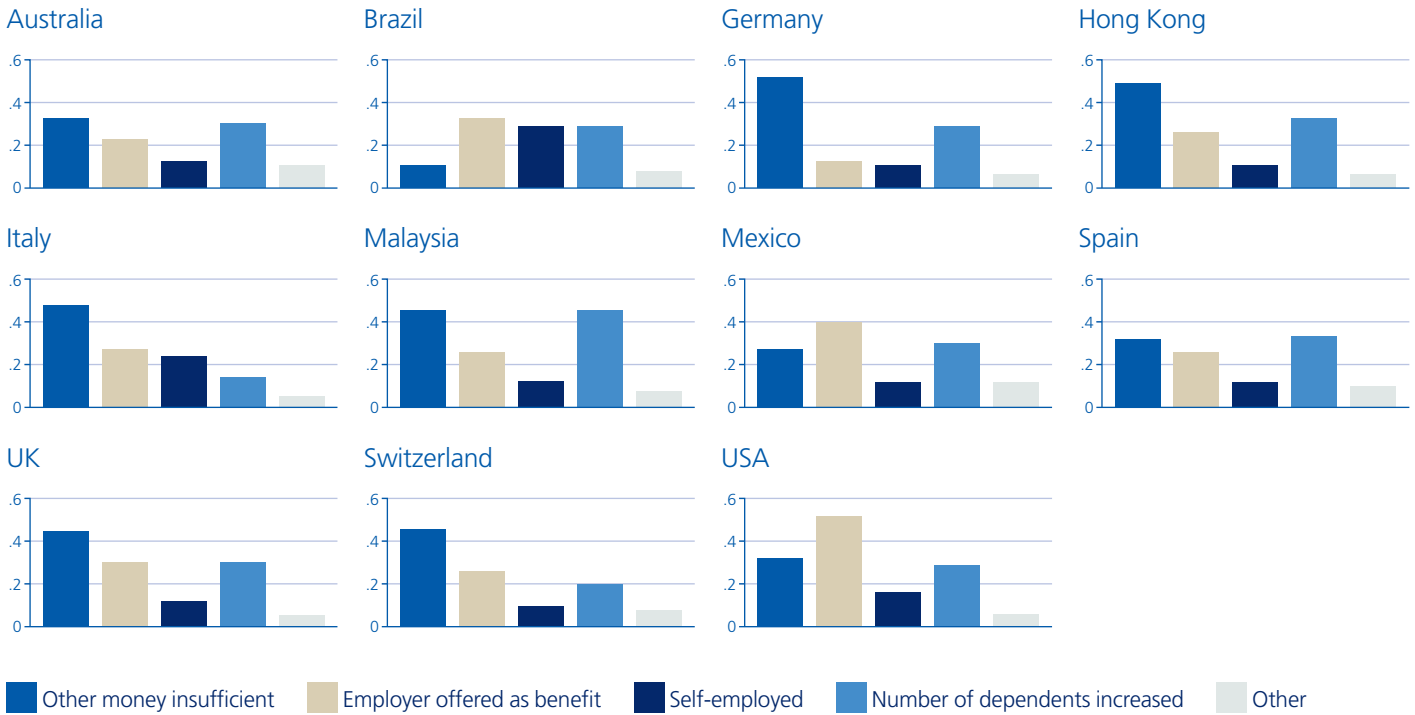
Source: Zurich Insurance Group and University of Oxford (2016)

There are significant differences among countries. Most respondents acquired the insurance from an insurance agent in Hong Kong, Malaysia, Germany, Italy, Switzerland, and Mexico. There are likely to be a variety of reasons why this is the case across countries with widely differing market conditions, distribution availability, and cultural norms. One unifying factor might be that many workers view having a direct contract

with an insurance company as a means to carry protection across jobs, while avoiding the need to rely on more difficult-to-access state benefits. If that is the case, it points to portability and ease of access as two key features that workers most value in income protection insurance products, which are not available through other means. This issue is addressed again in Chapter 5.

Workplace income protection is mainly prevalent in larger companies and multinational corporations, whereas the majority of workers are employed elsewhere. In Brazil, most people acquired income protection insurance from a bank. In the U.S., as would be expected given the relative prevalence of employer-based income protection insurance schemes, most people acquired protection from their employer as part of their benefits.

Figure 6: Why respondents with insurance have it



Source: Zurich Insurance Group and University of Oxford (2016)

Why do they have it?

The most common reason respondents gave for holding income protection insurance (39 percent of respondents) felt that the money they could get from other sources to replace their lost income would be insufficient. The second most important reason (31 percent) was that their number of dependents had increased since they began their working lives, followed closely by the fact that their employer had offered it to them as a benefit (29 percent). Meanwhile, 15 percent of respondents obtained insurance because they are self-employed.²¹

Again, these results vary significantly by country. For instance, in the U.S., Mexico, and Brazil, respondents are most likely to have acquired income protection insurance because it was offered to them by their employer. In the U.S. it is very likely that insurance was automatically provided by employers. In Latin American countries, some multinational companies run universal programs, so it is possible that at least some workers acquired their insurance in the same manner.

It is striking that respondents in developed countries are more likely to have insurance because they believe the

money they could get from sources other than income protection insurance would be insufficient to cover their lost income. There is plenty of systematic and anecdotal evidence to suggest that these people's perceptions of their risks of IPGs may be well founded. For instance, just under half of American consumers surveyed last year by the Federal Reserve Board said that they would be able to find the money to cover a USD 400 emergency.²² Similarly, in the UK, the average household could stay afloat financially on only its savings and minimal state benefits for just under one month.²³

21 Note that the sum is higher than 100% because the respondents could choose more than one answer.
 22 Board of Governors of the Federal Reserve System (2016), 'Report on the Economic Well-Being of US Households in 2015' (available at <http://www.federalreserve.gov/econresdata/2016-economic-well-being-of-us-households-in-2015-executive-summary.htm>).
 23 Legal and General (2014), 'Deadline to the Breadline Report 2014: On the Brink.'

“People who have income protection insurance are not always more financially literate. First- or second-hand experience of income losses due to illness or disability trumps formal or abstract knowledge of insurance.”





For higher-income earners, who tend to put their disposable income toward investments and long-term commitments, continuity of income seems particularly important. In other words, people become both more loss- and risk-averse as their income increases. This challenges the conventional wisdom that those at the higher end of the income scale tend to self-insure against interruptions to their income.²⁴

At the same time, government support is increasingly concentrated on the lower end of the income scale. The upshot is that middle-income earners are most at risk of income protection gaps: demand for insurance among these workers is lagging despite less advantageous fiscal circumstances.

Experience plays a greater role than financial literacy

Low financial literacy is most often blamed for poor financial decision-making on the part of consumers worldwide. Financial literacy can be defined as a person's ability to process economic information and make informed decisions about planning, wealth accumulation, pensions, and debt.²⁵

Past research has shown that people with lower financial literacy levels are less likely to save, make good investments, avoid excessive debt, and plan adequately for retirement. These studies have had a profound impact

on national and international policies and programs globally.²⁶ It is now widely assumed that public policies that aim to promote financial literacy will be highly effective in improving consumer financial decision-making and retirement planning.

But what about less well-explored areas of financial planning, such as decisions about income protection? Whether financial literacy programs as currently designed are effective in this regard is an open question. One assumption underpinning many policy and education initiatives to improve consumer financial literacy is that having a basic understanding of a handful of concepts such as compound interest, inflation, and investment diversification is sufficient to foster better individual financial decision-making across the board. Another is that formal classroom learning can improve financial literacy, despite evidence to the contrary.^{27, 28} Such schemes can be very expensive, yet there is limited evidence that the public benefits associated with them exceed the costs.

Based on these findings, a key question is whether financial decisions, including those related to protecting incomes, are influenced more by consumers' experience or by the degree of familiarity with household financial planning. In other words, which is a more effective spur to action: subjective experience or objective information?

24 On the other hand, it remains the case that for general insurance, those with higher incomes tend to self-insure.

25 Lusardi, Annamaria and Mitchell, Olivia (2014), 'The economic importance of financial literacy: theory and evidence,, *Journal of Economic Literature* 52(1): 5-44.

26 Examples include the initiatives by the International Network on Financial Education (INFE) of the Organization for Economic Co-operation and Development (OECD), the World Bank's Financial Capability and Household Surveys, the Financial Literacy around the World (FLAT World) project, and several national initiatives.

27 Cole, Shawn, Paulson, Anna, and Shastry, Gauri Kartini (2016), 'High school curriculum and financial outcomes: the impact of mandated personal finance and mathematics courses', *Journal of Human Resources* 51(3): 656-698.

28 Fernandes, Daniel, Lynch, John G., and Netemeyer, Richard G. (2014), 'Financial literacy, financial education, and downstream financial behaviours,' *Management Science* 60(8): 1861-1883.

In our survey we looked at whether formal knowledge (familiarity with income protection insurance products in particular or financial literacy in general) or direct experience of income losses was more likely to prompt people to buy income protection insurance. As highlighted in Chapter 1, knowledge of income protection insurance products is one of three ‘universal indicators’ of demand: people who already have income protection insurance tend to report they are more confident that they have good knowledge of the products. This seems logical, but there are two possible explanations here.

One explanation is that, since a basic awareness of income protection insurance is a clear precondition for buying it, a more detailed understanding of the products could further encourage people to buy them – especially in countries where neither the employer nor the state provides sufficient coverage. However, a second and, in our view, more plausible explanation is that holding income protection insurance engenders more detailed familiarity with the products as well as a greater appreciation of their value.

Financial literacy

Our research produced a surprising finding: people who have insurance are not necessarily more financially literate. Rather, even a high (or perfect) financial literacy ‘score’ as assessed through conventional measures does not automatically guarantee appropriate income protection.

Using a conventional proxy for financial literacy – namely, three questions to test respondents’ basic understanding of compound interest, inflation, and portfolio diversification – our survey found that financial literacy had no bearing on demand for income protection insurance. Financial literacy also had no clear correlation to respondents’ willingness to consider buying insurance, or how much they would be willing to pay for it. For instance, even those who answered all three questions correctly were no more likely to hold insurance than those who didn’t have a perfect financial literacy score.

Experiential learning

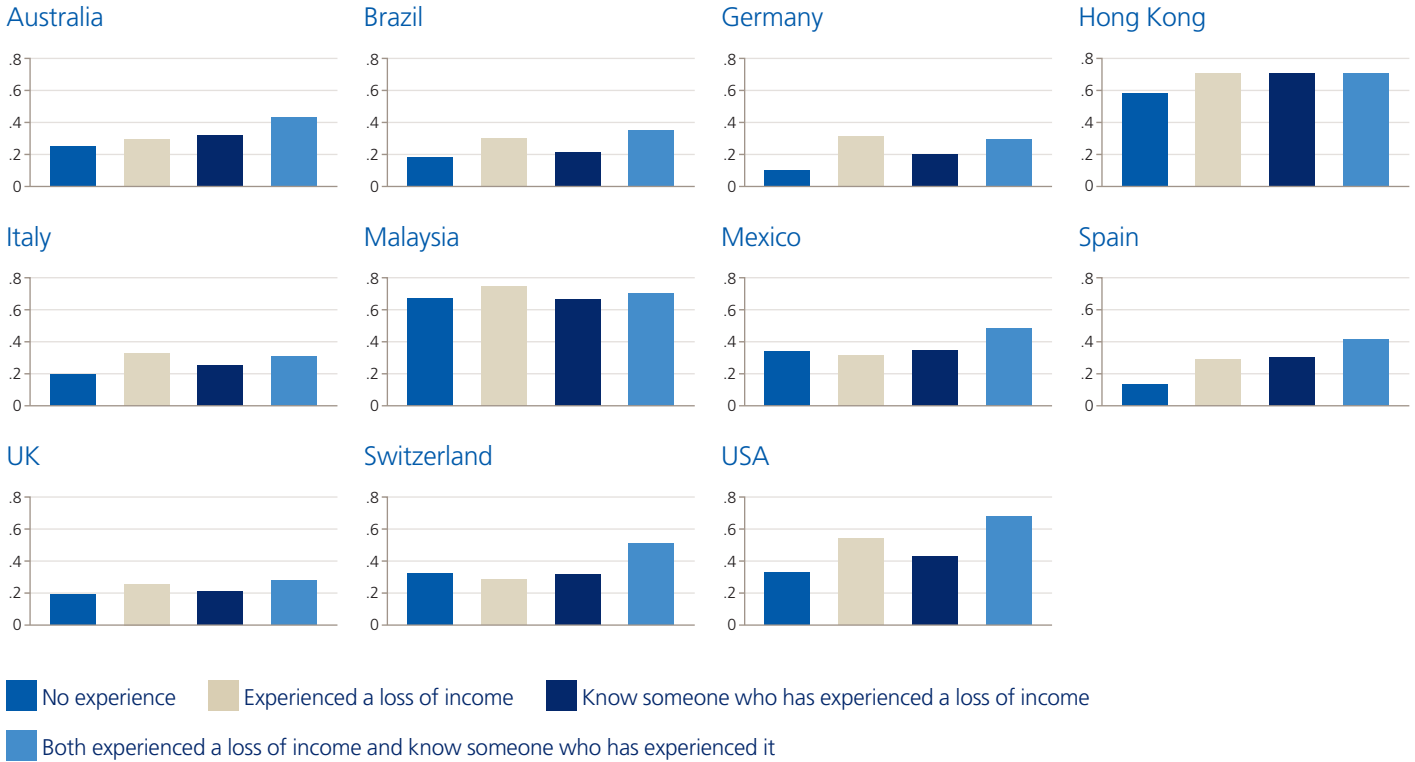
Having first- or second-hand experience with income protection gaps was one of the most important factors influencing demand for insurance across countries. Experience trumps formal or abstract knowledge of insurance, which in turn is more relevant for having insurance than

general education and financial literacy. Moreover, this holds true across all income levels. This is one of the most important findings of the survey, given the centrality of individual responsibility in long-term financial planning. It is confirmed by behavioral research showing that ‘subjective knowledge’, or that which is gained through life experience, is a much stronger impetus for people’s actions and decision-making than ‘objective knowledge’, which is abstract and formally learned.

More detailed findings are also revealing. Not surprisingly, first-hand experience of income losses makes workers more likely to acquire insurance than personally knowing someone else with a similar experience. Moreover, the more personal experience respondents have had with income protection gaps, whether first-hand (i.e., they themselves have experienced income protection gaps) or second-hand (i.e., they know someone whose household has experienced them), the more likely they were to hold insurance.

The table shows the percentage of respondents with insurance depending on whether they have experienced a personal loss of income due to disability/illness or know someone who has experienced it:

Figure 7: Percentage of respondents with insurance, by type of experience



Source: Zurich Insurance Group and University of Oxford (2016)

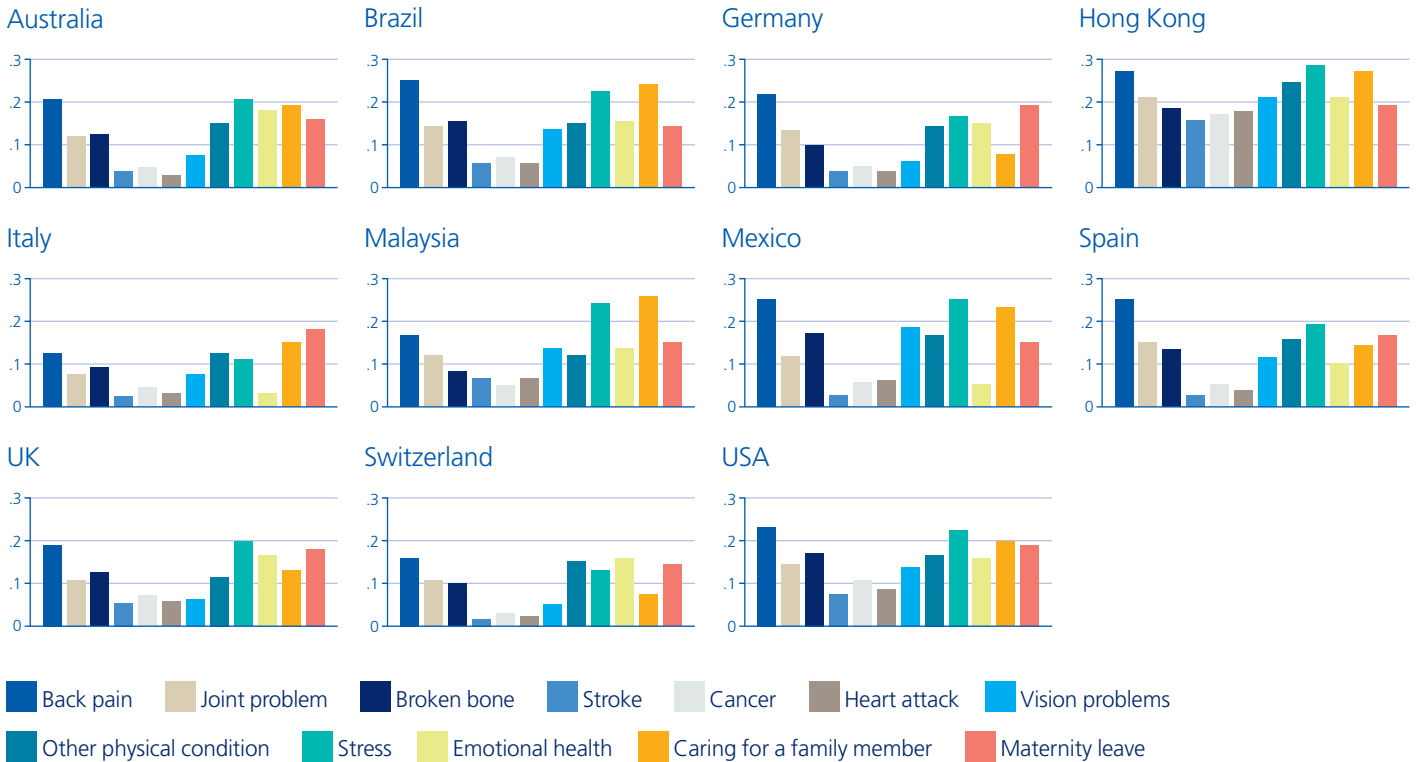
Demand for insurance also varies based on respondents' experience of different types of causes of income protection gaps. Those who experienced a loss of income due to life-threatening physical causes (stroke, cancer, or heart attack) were more likely to have insurance than those who experienced a loss of income due to stress or emotional causes. The relative importance of different types of income protection gaps varied

significantly by country, however. Perhaps most notable was the prevalence of emotional causes particularly in the Anglophone, Latin American, and Asian countries. This may reflect how less stringent labor laws which offer less protection against redundancy and long working hours have consequences for workers' stress levels and mental health. Most strikingly, of all the different types

of causes of IPGs, in the Asian countries' experience of different types of emotional health was the strongest driver of demand for insurance. This may be due to competitive work and relatively stressful living environments, particularly in urban areas.

The table shows the percentage of people who have experienced loss of income by cause and country:

Figure 8: Income losses by cause and country



Source: Zurich Insurance Group and University of Oxford (2016)

Experience thus proves to be key to demand for income protection insurance – but in many cases, it drives demand ex post, or ‘after the event’. Needless to say, it is hardly desirable to rely on real-life encounters with income protection gaps to raise demand for insurance. Thus, the key question becomes: how can people be encouraged to take measures to protect their income before something bad happens?

One corollary to our results is the well-documented human tendency to find storytelling and narrative to be far more effective persuasion techniques than reliance on abstract statistics. There is also a case to be made for ensuring products and the marketing associated with them be made as clear and transparent as possible.

Most effective of all, though, might be simply to pool personal insurance and savings, much as is done in Hong Kong and Malaysia. Such ‘low-willpower savings techniques’²⁹ would bypass the risks of relying on experience as an incentive to the voluntary purchase of insurance. These potential solutions are examined in more depth in Chapter 5.

²⁹ Thaler, Richard H. and Benartzi, Shlomo (2004), ‘Save More Tomorrow™: Using behavioural economics to increase employee saving,’ *Journal of Political Economy* 112(1): 164-187.

Chapter 3

Closing the income
protection gap –
Why does some demand
remain 'untapped'?

Of those respondents without insurance, just over half (52 percent) represent 'untapped' demand. They say they would be willing to consider buying it but have not actually done so. This is an encouraging finding as it suggests that many people have at least a basic awareness of the risks of income protection gaps and the need to address them.

However, a wide range of cognitive, behavioral, knowledge, and structural barriers can prevent those who are willing to consider buying insurance

from actually taking steps to protect their income. It could even be argued that these same barriers also influence many of those who say they would not consider buying insurance.

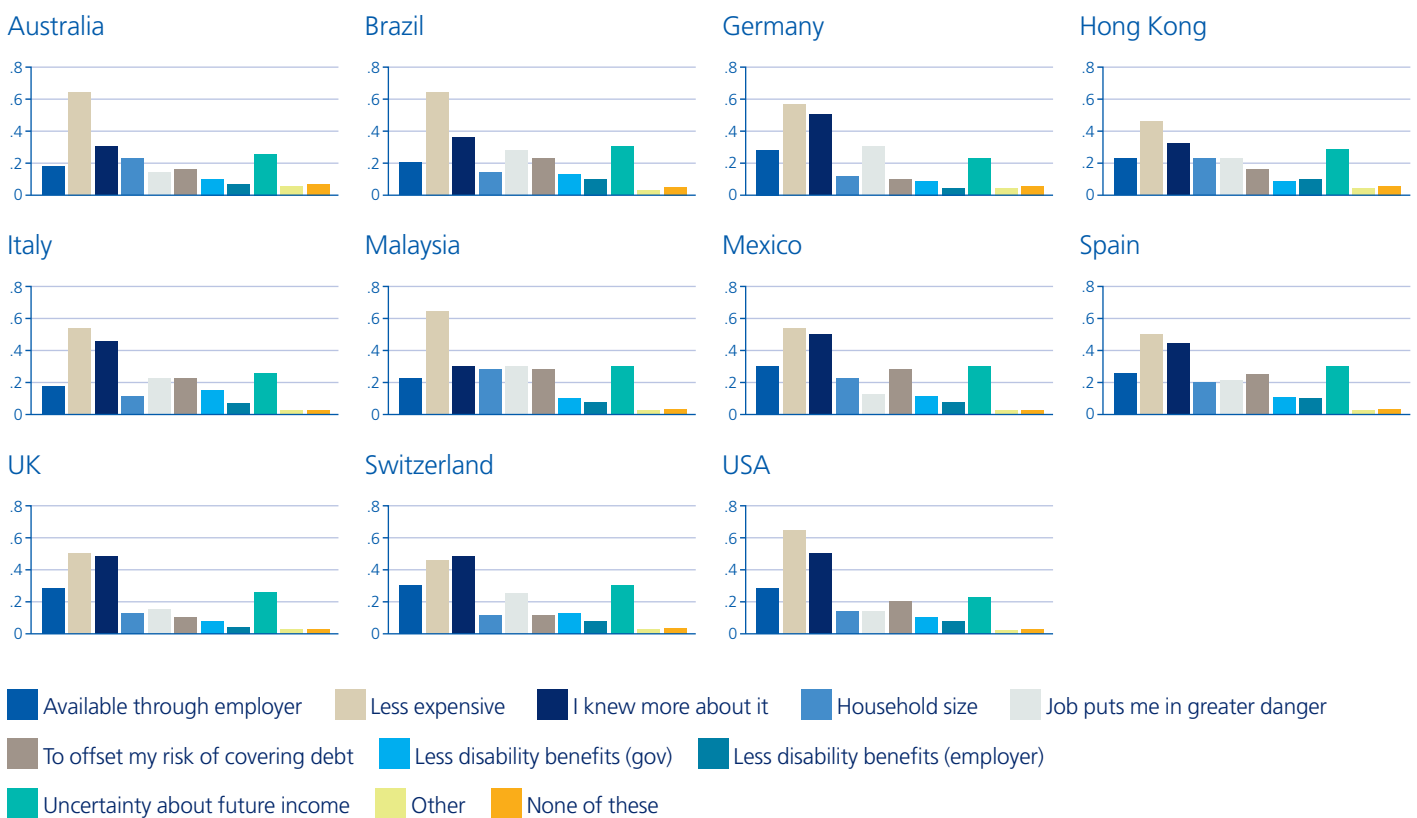
In this chapter, we assess a number of factors which we identified as potential barriers to realizing this 'untapped' demand. These include lack of awareness and price misperception, health/age/risk profile, and gender. The last factor, gender, gives rise to an another interesting aspect to consider: status within the household.

Lack of awareness and price misperception

As Figure 9 shows, the two most common reasons given as preventing respondents who would otherwise be willing to buy income protection insurance from actually buying it are the related issues of cost – or at least perceived expense – and lack of knowledge about the products.

On the matter of cost, our findings elsewhere suggest that many people overestimate the cost of protection.

Figure 9: Reasons those with no insurance said they would consider buying insurance



Source: Zurich Insurance Group and University of Oxford (2016)

On average, respondents were willing to pay 5 percent of their monthly income in insurance premiums, with one in five willing to spend at least 10 percent of their income. In reality, the cost of income protection insurance is significantly lower – as little as 1 percent of income for a healthy, younger policyholder.

Equally, the 48 percent of employed workers who don't have insurance and said they do not wish to buy it stated a variety of reasons why they would not consider doing so, including not having

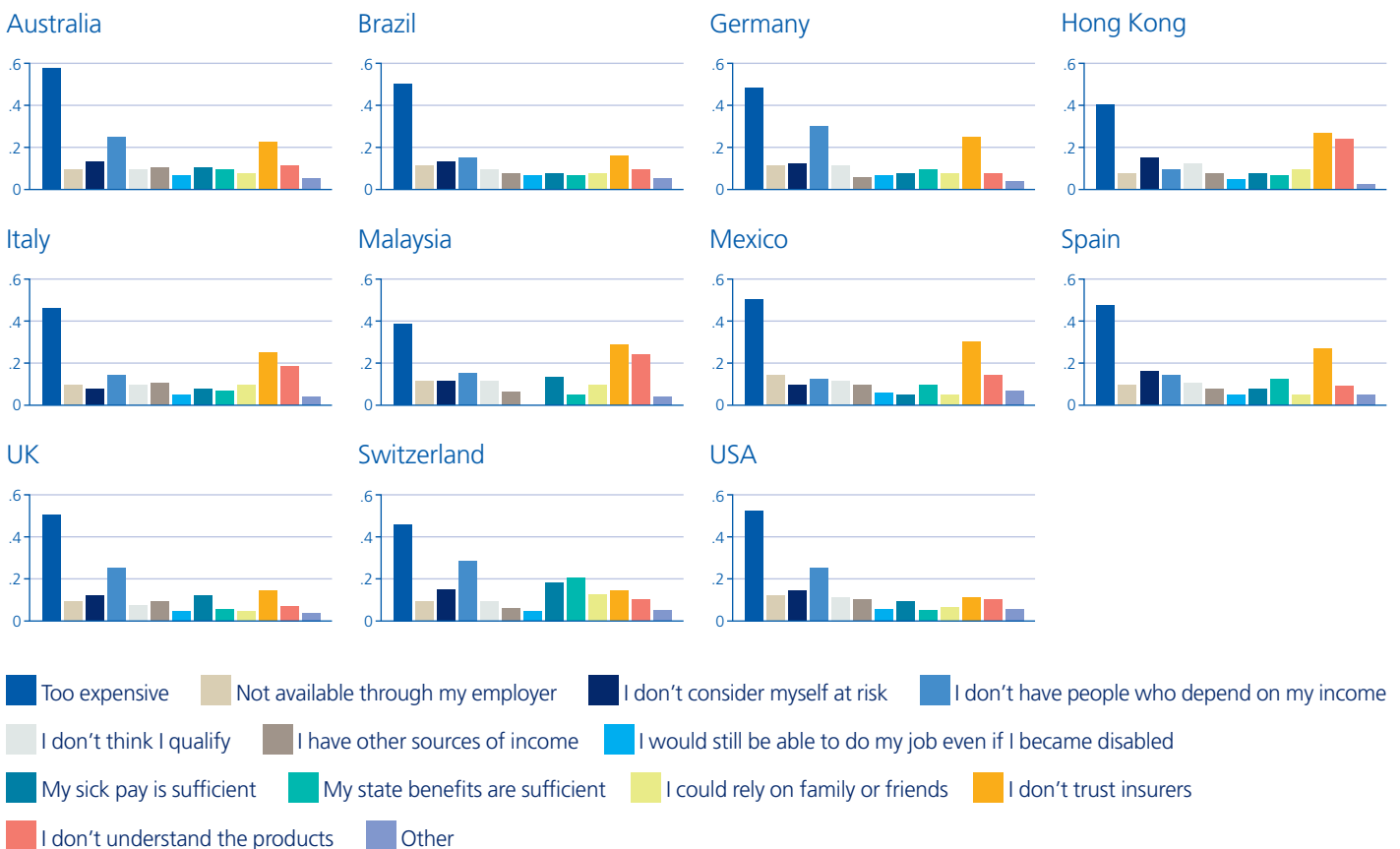
any dependents (20 percent), lack of trust in insurers (19 percent), and believing they are not at significant risk of disability (14 percent). However, by far the most common reason given for refusing to buy insurance was price. Just about half (49 percent) believed that income protection insurance is too expensive.

This supports research commissioned by the Association of British Insurers,³⁰ which found four consumer behaviors that act as barriers to buying income

protection insurance: perceived value, complexity, lack of trust in providers, and inertia.

Misperceptions on cost are closely tied to knowledge. A lack of familiarity with income protection products was shown by two-fifths of respondents, who stated that they knew little to nothing about term life insurance and a strong majority – over two-thirds – who said they have little or no knowledge about insurance to protect their income against interruptions due to disability or illness.

Figure 10: Reasons those with no insurance said they would not consider buying insurance

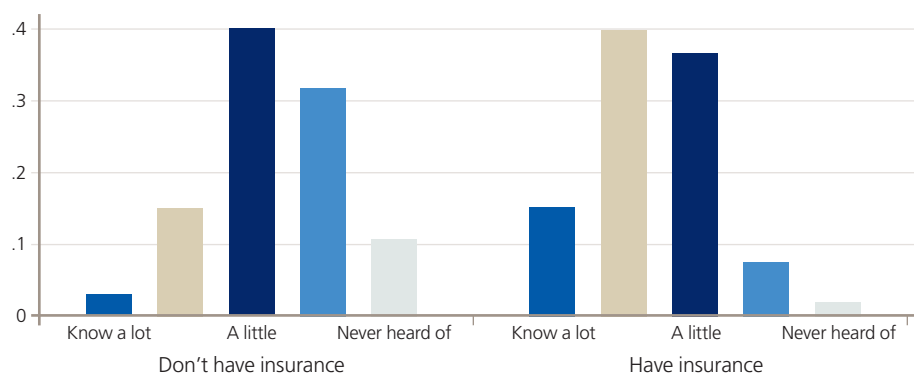


Source: Zurich Insurance Group and University of Oxford (2016)

30 Association of British Insurers (2014), 'Welfare Reform for the 21st Century'

“There is clearly a need to rethink the scope and delivery of financial education around income protection insurance.”

Figure 11: Compare good/excellent knowledge of insurance with those who have vs. don't have insurance.



Zurich Insurance Group and University of Oxford (2016)

As mentioned in Chapter 2, the most well-informed respondents live mainly in countries where workers are required to take a higher degree of personal responsibility for their long-term financial planning. Respondents in Hong Kong and Malaysia, both of which have mandatory provident funds, were most confident in their knowledge of insurance. By contrast, and consistent with trends seen elsewhere in our survey, the two countries where respondents appear to know the least about insurance – Germany and Switzerland – are among the countries with the most generous social safety nets.

It might be tempting to conclude that public education campaigns about the range of benefits and lower-than-assumed

costs of income protection insurance should continue to be pursued in their current form. However, the insurance industry has embarked on numerous such campaigns in the past, with (by some accounts) mixed results. There is clearly a need to rethink the scope and delivery of financial education around income protection insurance. We will consider this issue further in Chapter 5.

In addition to the reasons uncovered by our survey, behavioral biases such as those outlined in the Box 4 also contribute to gaps in income protection insurance coverage. These psychological barriers very often prove to be intractable obstacles to individuals taking steps to protect their household income:

Box 4: Behavioral biases and financial decision-making

We can identify five behavioral biases that prevent many people from buying insurance, and from making sound long-term financial decisions more generally:

- **Salience:** when making decisions, people can attach more weight to certain information or experiences in their environments if their attention has been disproportionately drawn to it. Or put more simply: “Our mind has a useful capability to focus on whatever is odd, different, or unusual.”³¹ As discussed in Chapter 2, experiencing an income protection gap – or more accurately, having no experience of one – has particular salience when making the decision whether or not to buy income protection insurance.
- **Endowment effect:** people value things they already have more highly than things of equivalent value that they do not own. A related cognitive tendency is status quo bias: quite simply, a preference for the current state of affairs. Both of these behavioral biases help to explain some people’s reluctance to pay out of their current income in exchange for insurance products. Both are also rooted in loss aversion, which is the tendency to prefer avoiding losses over making gains of at least equivalent value.
- **Future discounting:** people have difficulty assessing the probability of future events; they also have trouble objectively assessing the costs of paying for insurance today against the benefits of a potential payout tomorrow – a perennial issue with insurance coverage. This is also related to the endowment effect and loss aversion.
- **Overconfidence:** again, people have difficulty assessing the probability of future events; they tend toward optimism and confirmation bias, particularly if they lack direct experience of income protection gaps.
- **Limited bandwidth:** also known as a ‘finite pool of worry’; people can only consciously focus on a small number of problems, tasks, or sources of stress at any given time. The complexity of long-term household financial planning can exacerbate this tendency, with income protection falling down the list of priorities.

Health, age, and risk awareness – bigger risks tend to be less well covered

In developed and developing countries alike, as populations age, so too does the workforce. An aging workforce means higher disability rates. Consider the age gap found by the 2011 EU Labour Force Survey: while only a little over one-tenth of 15- to 24-year-olds reported a chronic health problem, nearly half of 55- to 64-year-olds did. For older workers with health problems, staying in work can be challenging, and finding a new job even more so.

These global trends are pronounced, and there are further aging-related factors related to income protection gaps that vary according to geography. De-industrialisation, particularly in the U.S. and Europe, has left many older workers with physical health problems along with a lack of employable skills. And in developing countries, although a notable increase in average lifespans is certainly good news – for instance, in Latin America the average lifespan has increased 15 years since 1970³² – the side effects of this demographic change are showing up in an aging workforce and associated challenges.

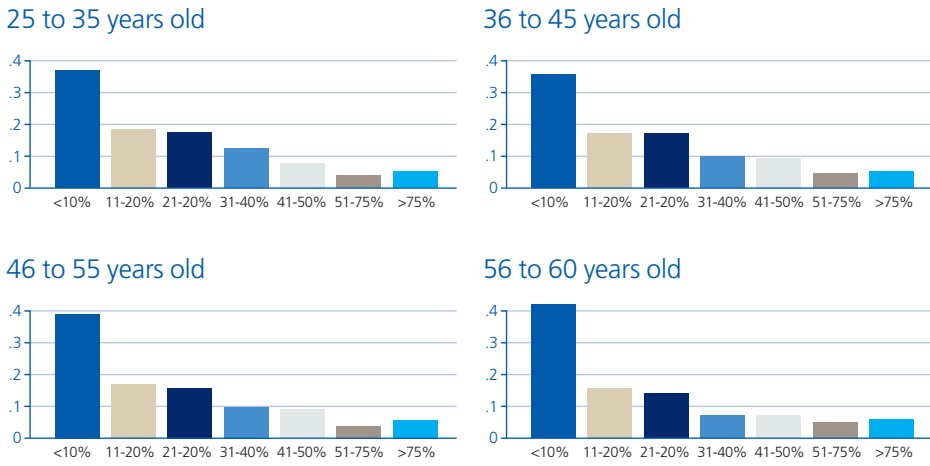
Our survey findings highlighted a troubling gap between older, less healthy workers’ awareness of their risk of income protection gaps and their demand for insurance.

“An aging workforce means higher disability rates.”

³¹ Kahneman, Daniel (2012), ‘Thinking, Fast and Slow,’ New York: Farrar, Strauss and Giroux.

³² World Bank (2014), ‘Working for a World Free from Poverty,’ (available at <http://data.worldbank.org/indicator/SP.DYN.LE00.IN>).

Figure 12: Self-reported probability of experiencing an IPG, by age



Zurich Insurance Group and University of Oxford (2016)

Less healthy people and older people reported a higher level of personal risk of income protection gaps – that is, they were aware of their risks. Moreover, older people had also experienced more income losses in the past, which given our general observations should make them more likely to hold the insurance. However, this awareness of their risks and experience did not lead these (overlapping) groups to buy insurance. Our findings on age and demand, in particular, are consistent with past research on the topic.^{33, 34}

This raises concerns because although current benefit levels for older workers will generally be kept stable in the short term, many countries have tried to address the numerous challenges of population aging by raising pensionable ages and/or abolishing early retirement.

A common response among chronically ill or disabled older workers – a sizable

group, constituting half of the older segment of the workforce in the EU, for example – has been to claim for disability benefits in order to bridge the gap between reduced working capacity and retirement.

With government resources dwindling and productivity levels flat, this situation appears to be unsustainable in the long term and threatens to leave these older or higher-risk workers with considerable income protection gaps to face. In Europe, it is partly for this reason that governments have responded to political pressures to help this age group manage the risk. For example, by encouraging employers to continue to employ partially incapacitated employees in part-time work, or by introducing benefit restrictions on a staggered basis, the current generation of older workers retain certain income protection-related rights.

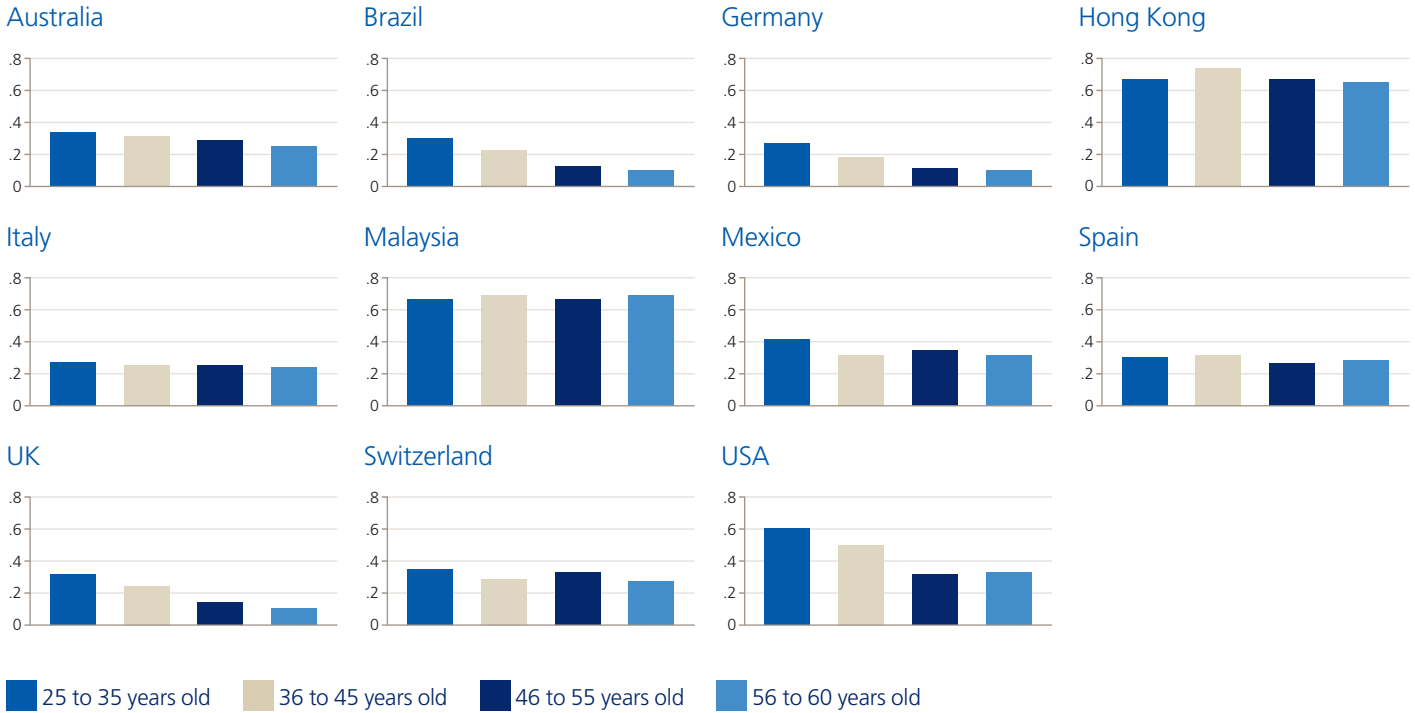
On the other hand, younger people (age 25-35) and healthier ones (or more accurately, those who report being healthier) are more likely to have insurance. This is partly related to age, since younger people, who also typically report being healthier than old people, are more likely to have insurance. It is also the case that the gradual recalibration of state social security coverage for younger workers encourages them to take out supplementary insurance policies, which will offer compensation for premature death and disability, leading them to report higher levels of insurance coverage. As younger workers, particularly in Europe, are less likely to be in permanent work, they are also less likely to be covered by state schemes.

Among different age groups, risks of income protection gaps therefore manifest in different, yet no less real, ways. Even if older workers continue to be covered at constant levels by the state, it does not necessarily follow that this coverage is adequate in all cases and in all countries. Further, many of those coping with disability can face additional financial challenges in bridging the gap to retirement. Similarly, though younger workers may be more likely to purchase income protection insurance than their older cohorts, this doesn't necessarily translate into an adequate level of protection to ensure that this group as a whole is protected. Meanwhile, workers in middle age brackets (36-55) appear to be stuck in the middle – neither 'young' and thus more likely to save, nor 'older' and thus likely to enjoy sustained state protection. At best, governments offer tax concessions to the middle-aged to encourage them to take out private insurance plans.

³³ Outreville, J. François (2014), 'Risk aversion, risk behavior, and demand for insurance: a survey', *Journal of Insurance Issues* 37(2): 158-186.

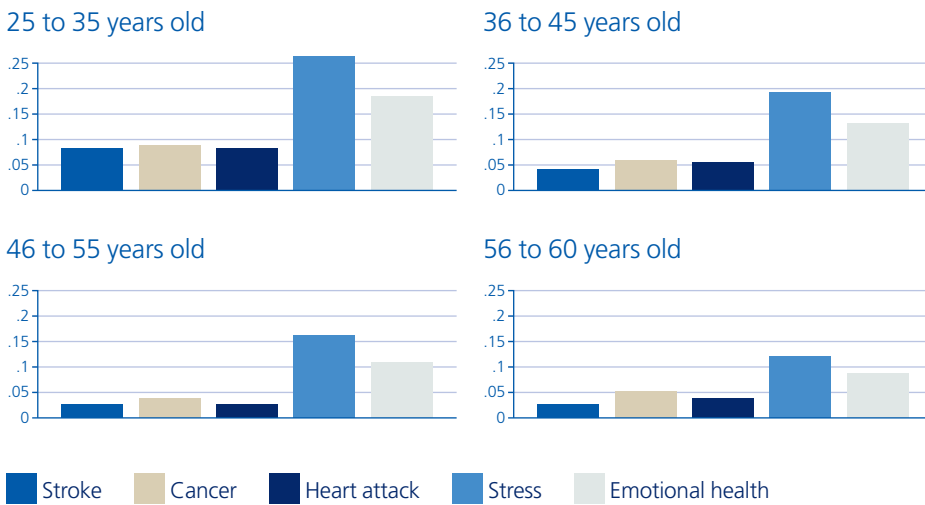
³⁴ A similar gap can be found for lower-income people, who also tend to report higher levels of personal risk: although they would also consider buying insurance, they do not actually buy it.

Figure 13: Percentage of people who have income protection insurance, by age and country



Source: Zurich Insurance Group and University of Oxford (2016)

Figure 14: Breakdown of experience of IPGs by age



Zurich Insurance Group and University of Oxford (2016)

Workers of different ages also have varying perceptions of the strength of their national safety net – and this can also influence their perception of their risks of income protection gaps. Particularly in countries like Germany, where welfare has traditionally been high, but where access is being restricted for all but older workers, younger people will likely have to live with a much changed system. Low public awareness of changes to welfare provision can exacerbate this issue. Chapter 4 looks in greater detail at the factors influencing trust in public institutions.

A gender or household status gap?

Adequate long-term financial planning has long been recognized as an issue in which gender plays a role. Research has shown that in many countries, women are less likely to save and invest for retirement. This is the case despite, or perhaps because of, being paid lower wages on average (and thereby having lower savings), and a longer life expectancy.

It is therefore not surprising that the men in our sample were more likely to have insurance than women: 37.8 percent of male respondents had insurance compared with only 34.1 percent of the female respondents. And the gender gap was seen across all income levels.

Based on the survey, we note the following key issues related to gender:

Gender doesn't necessarily determine demand for insurance directly: instead, men tend to share three universal factors affecting demand:

- Men tended to have higher incomes. In all countries surveyed, the probability of having insurance increased with income level, but there was no evidence that the gender gap decreased as income increased.
- Men were also more likely to say that they 'know a lot or a fair amount' about income protection insurance than women. While this may simply reflect a greater degree of confidence, we know that self-reported knowledge is a key universal indicator of demand.

- Men were more likely to work in full-time jobs, whereas women were more likely to be part-time workers. As mentioned, full-time employees are more likely to have income protection insurance than part-time employees.

The gender gap was not observed in all countries. It was only significant in Australia, Germany, Italy, Spain, the UK, and the U.S. There was no significant gender gap in Brazil, Hong Kong, Malaysia, Mexico, or Switzerland. This was significant because the most marked gender gaps seem to be present

in those countries with lower percentages of income protection insurance overall.

Perhaps most interesting was the household status of a wage earner. When the respondent was the only wage earner in the household or not the main wage earner, the gender gap (where it existed) was still significant. However, the gender gap decreased or in some cases vanished when a woman was the primary wage earner in her household or when she earned a wage similar to that of another member of her household.³⁵

Box 5: Gender and household decision-making

One possible explanation for the gender gap may be that financial knowledge and behavior tends to change more among women than men depending on marital status. The exact reasons are not known, but previous research can help to shed some light on both issues.

With respect to knowledge, there is often a division of labor in the running of a household, with one spouse taking responsibility for short-term financial management and/or long-term financial planning. There is no evidence that women are less likely to take responsibility for either of these tasks. In fact, one study found that married women had greater knowledge of personal finance than single women.³⁶ This may be partly related to household size, since those with more family members to protect are more likely to have insurance.

With respect to financial behavior, it is known that married individuals are generally less risk-averse than single people. In portfolio terms, we can think of marriage as a sort of 'safe asset,' particularly for women with children, whose socio-economic position is generally relatively less secure.³⁷ Married individuals who earn less than their partners have access not only to a higher income level but also a more diversified asset base.

³⁵ In other words, men's demand for insurance also drops significantly if they are not the main income earner for their household. However, the difference in the likelihood of having insurance between main and secondary wage earners is higher for women than for men.

³⁶ Fonseca, Raquel, Mullen, Kathleen J., Zemarro, Gema, and Zissimopoulos, Julie (2012), 'What explains the gender gap in financial literacy? The role of household decision making,' *Journal of Consumer Affairs* 46(1): 90-106.

³⁷ Bertocchi, Graziella, Brunetti, Marianna, and Torricelli, Constanza (2011), 'Marriage and other risky assets: a portfolio approach', *Journal of Banking and Finance* 35(11): 2902-2915.



It is important to consider the impact that a secondary wage earner becoming incapacitated has on the primary wage earner's ability to sustain their own income. Care and treatment costs, childcare and other expenses weigh down on the family income, while the ability of the primary wage earner to sustain the current level of work could be compromised. Thus, the unprotected loss of a secondary wage earner's income could significantly affect households, even if the primary wage earner's income was protected. This is particularly important in the UK and Germany (and in the near future, it will also be significant in Australia), where governments have made cuts to income-related disability payments such that benefits are now means- or assets-tested, to the disadvantage of households with more than one wage earner.

Where a gender gap exists, it may be that some women are more financially 'conservative' – not so much with respect to taking steps to protect their income (through purchasing insurance) – but rather that they have not been as strongly encouraged to overcome certain cognitive biases such as the endowment effect (see Box 4). The persistence of a gender gap (whether direct or indirect) in at least some countries fits with a broader picture: women are generally less prepared for financial problems than men.

Chapter 3 takeaways

- The two most important barriers preventing those who were willing to consider buying income protection insurance from actually buying it were reported by respondents as 'limited understanding of the products', and 'perceived high prices'. These two factors are closely related, and both point to the importance of finding the most effective ways to improve awareness and knowledge of income protection insurance. This will require more than traditional education campaigns, however.
- Awareness of personal risks of IPGs related to age and health may have led people to be willing to consider buying insurance, but it did not affect the number of people who have insurance already. Concerns about higher premiums (which are related to risks) might play a role here – although, as noted already, just 5 percent of monthly income that our survey respondents were willing to pay, on average, was already far higher than the true cost of insurance. Regardless, the income protection gap risks facing workers in different age groups tended to have different institutional (country) drivers.
- What appeared at first glance to be purely a gender gap issue influencing levels of income protection turned out to be at least partly a 'household status gap': primary wage earners in multi-income households were most likely to have insurance. It is therefore important to consider how country context affects these dynamics: in some countries where there is a persistent gender gap, it might be appropriate to focus on improving coverage for female workers, whereas in others a more nuanced view of household dynamics might make more sense.
- A number of behavioral biases – namely awareness (or more accurately, lack thereof), the endowment effect, future discounting, overconfidence, and limited bandwidth – act as barriers to uptake of insurance. While not tested in our survey, these cognitive biases have been well documented elsewhere and can collectively be assumed to be a significant factor that keeps demand for income protection insurance untapped.

Chapter 4

Perceptions and preferences for income protection advice and solutions

4.1 What role do survey respondents see for governments and employers?

Behavioral and demographic factors play an important role in demand for income protection insurance. Equally important are the roles that people expect – and want – governments and employers to play. Of course, people’s perceptions and experience with different types of insurance providers varies due to variances in differing institutional arrangements across countries. To provide some context, we examined the expectations survey respondents tended to have of governments and employers.

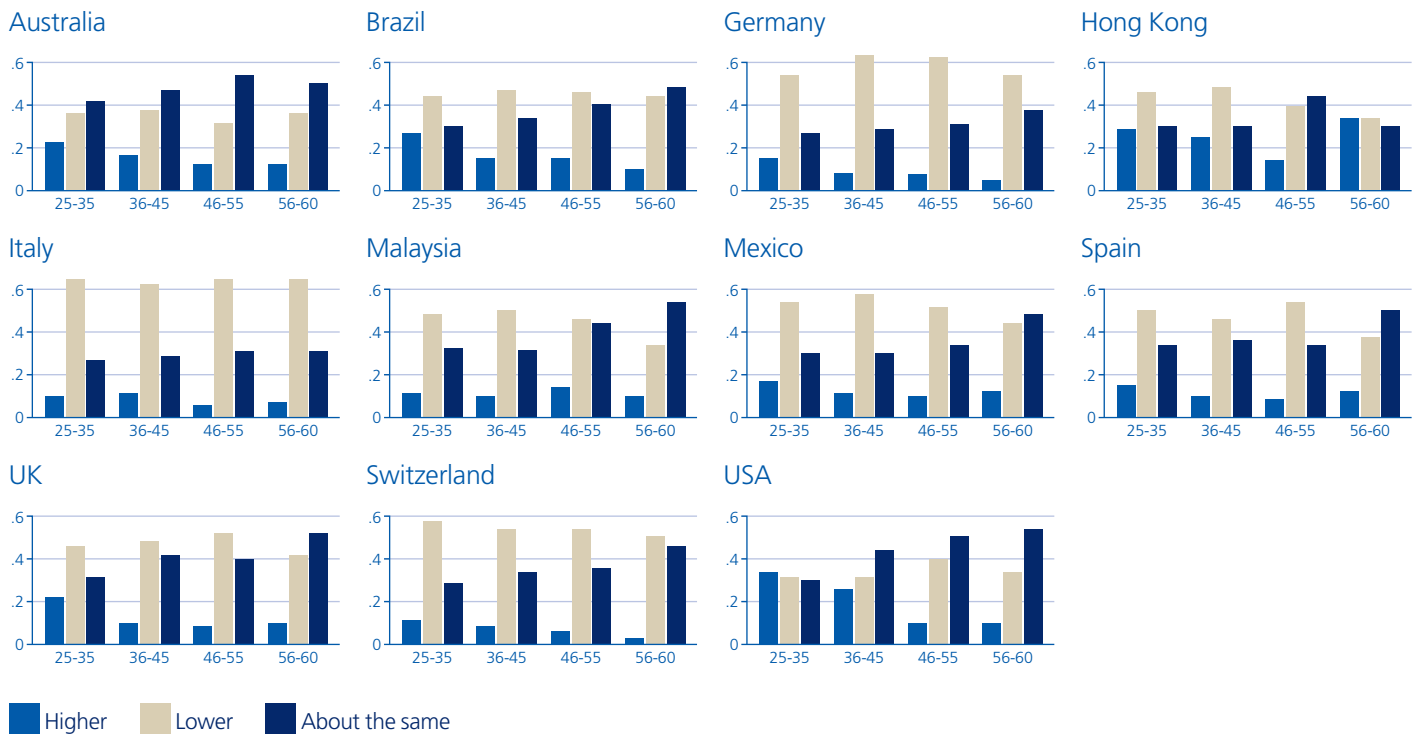
Governments

In the current economic climate, governments worldwide are keen to contain the costs of social safety nets. They tend to focus their limited financial resources on protecting the poorest members of society, while encouraging those in middle- and high-income segments to turn to either collective, or make individual private solutions, often by offering tax incentives.

Indeed, it appears that a majority of respondents in all countries are not optimistic about the future of government solutions. Based on the results shown in Figure 15, in no country are benefits expected to rise in the next five years, and in most cases it is anticipated that they will fall.

In this regard, differences across age groups are evident. In most countries, (Germany, Hong Kong, and Italy are exceptions), a majority of older people tend to expect government solutions to be unchanged in five years’ time. Interestingly, while those who believe governments will provide higher levels of benefits are in a clear minority across virtually all countries and age groups (with the exception of those aged 56-60 in Hong Kong, and 25-35 in the U.S. where both groups appear to be fairly evenly split), pessimism tends to increase with age: younger people are somewhat more likely to believe benefit levels will have increased in five years’ time. This is worrying, given (as discussed in Chapter 3) that state protection cutbacks currently being introduced will be staggered, and thus likely to hit younger people harder.

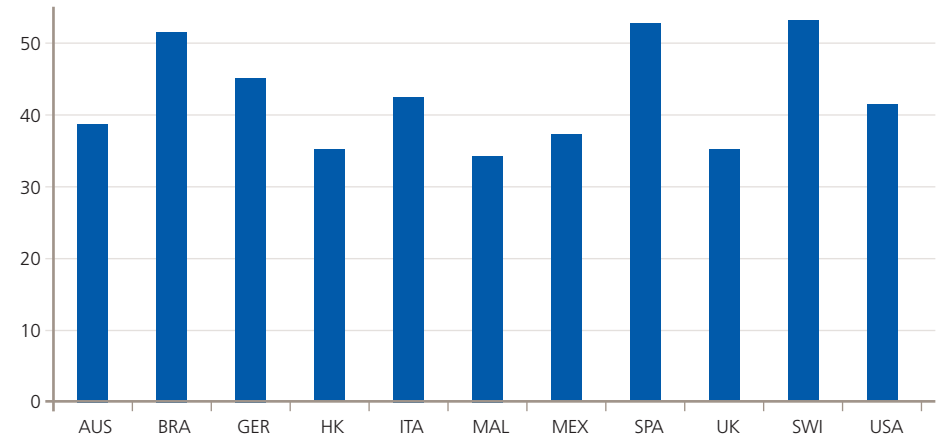
Figure 15: Looking ahead five years from now, and adjusting for inflation, what amount of money do you think the government would pay you if you were unable to work due to serious illness or disability?



Source: Zurich Insurance Group and University of Oxford (2016)

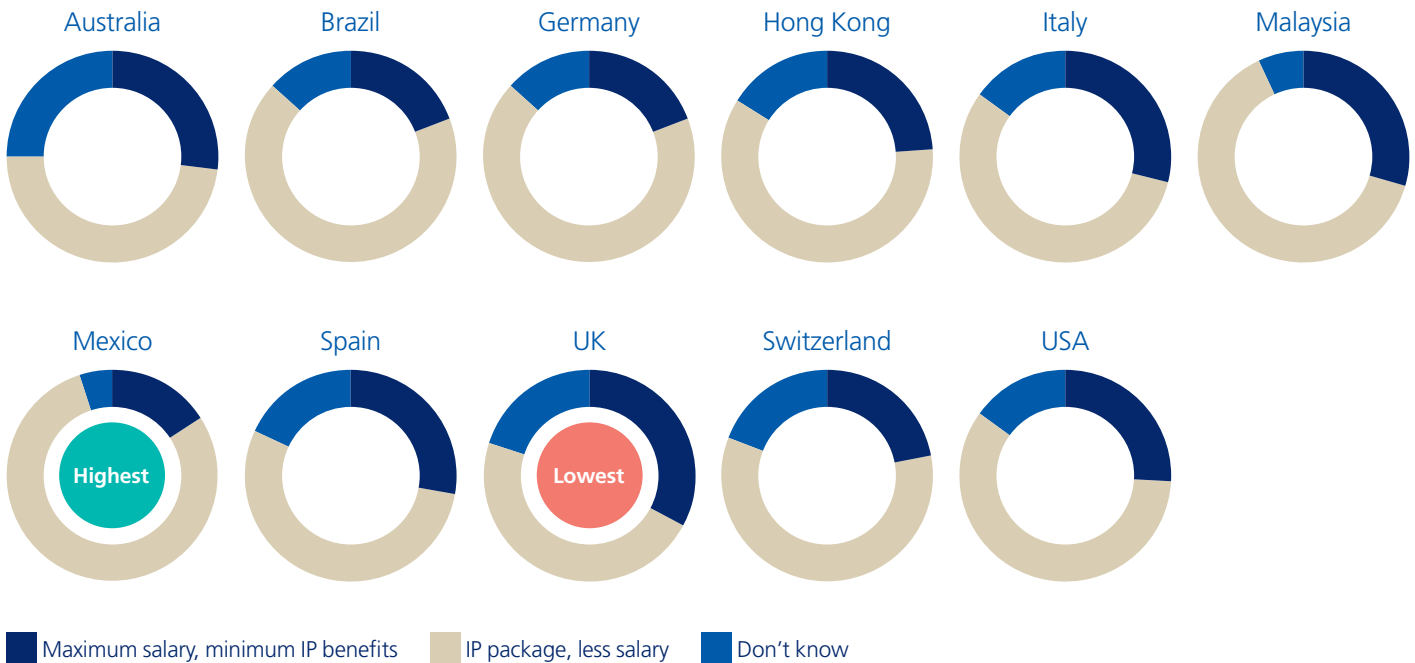
By the same token, Figure 16 shows respondents' estimates of the percentage of their income the state would pay them as a monthly benefit if they were unable to work due to serious illness or disability. In general, the lower this percentage, the higher the percentage of people in that country with insurance.

Figure 16: Survey respondents were asked to estimate what percentage of their income the government would pay them as a monthly benefit if they were unable to work due to serious illness or disability.



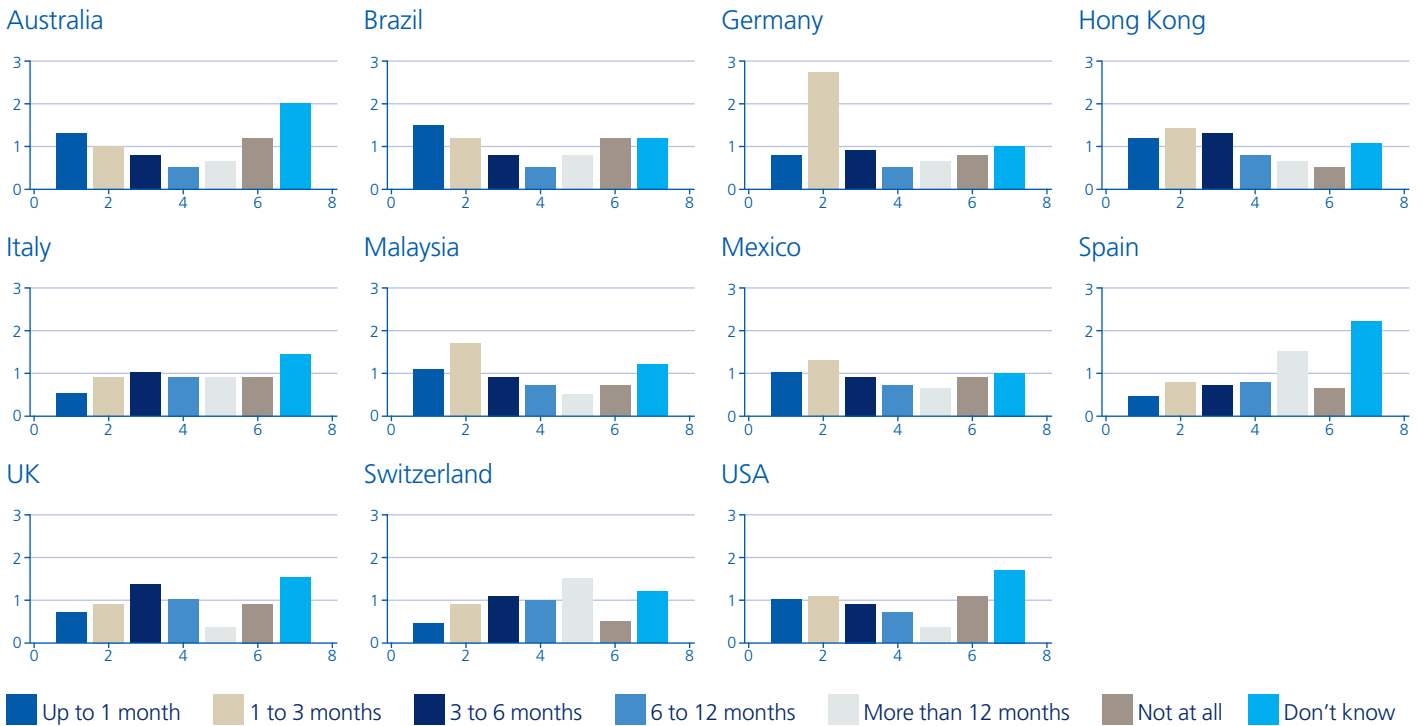
Source: Zurich Insurance Group and University of Oxford (2016)

Figure 17: Income protection package preference, salary vs benefit package



Source: Income Protection Gaps, Global Consumer Survey 2016

Figure 18: Survey respondents were asked for how long, if at all, they thought their employer would continue paying their salary if they became seriously ill or disabled, leaving them temporarily unable to work.



Source: Zurich Insurance Group and University of Oxford (2016)

To summarize the findings: the less assistance people believed they could obtain from their governments, the more likely they were to have insurance. This makes intuitive sense, and it appears to be a healthy attitude. However, neither a relatively high level of state protection nor a greater likelihood of holding private IP insurance necessarily translates to overall adequate protection levels. This is a particular issue in European countries such as Germany and Switzerland, and in Brazil with its ongoing financial crisis. Workers will need to adjust their expectations of what the government can provide and take the necessary steps to protect their income. At the same time, even if a lack

of optimism in governments' future propensity to provide demonstrates an element of understanding, as has been suggested in Chapter 3, this in itself will not necessarily lead to increased demand for insurance.

Employers

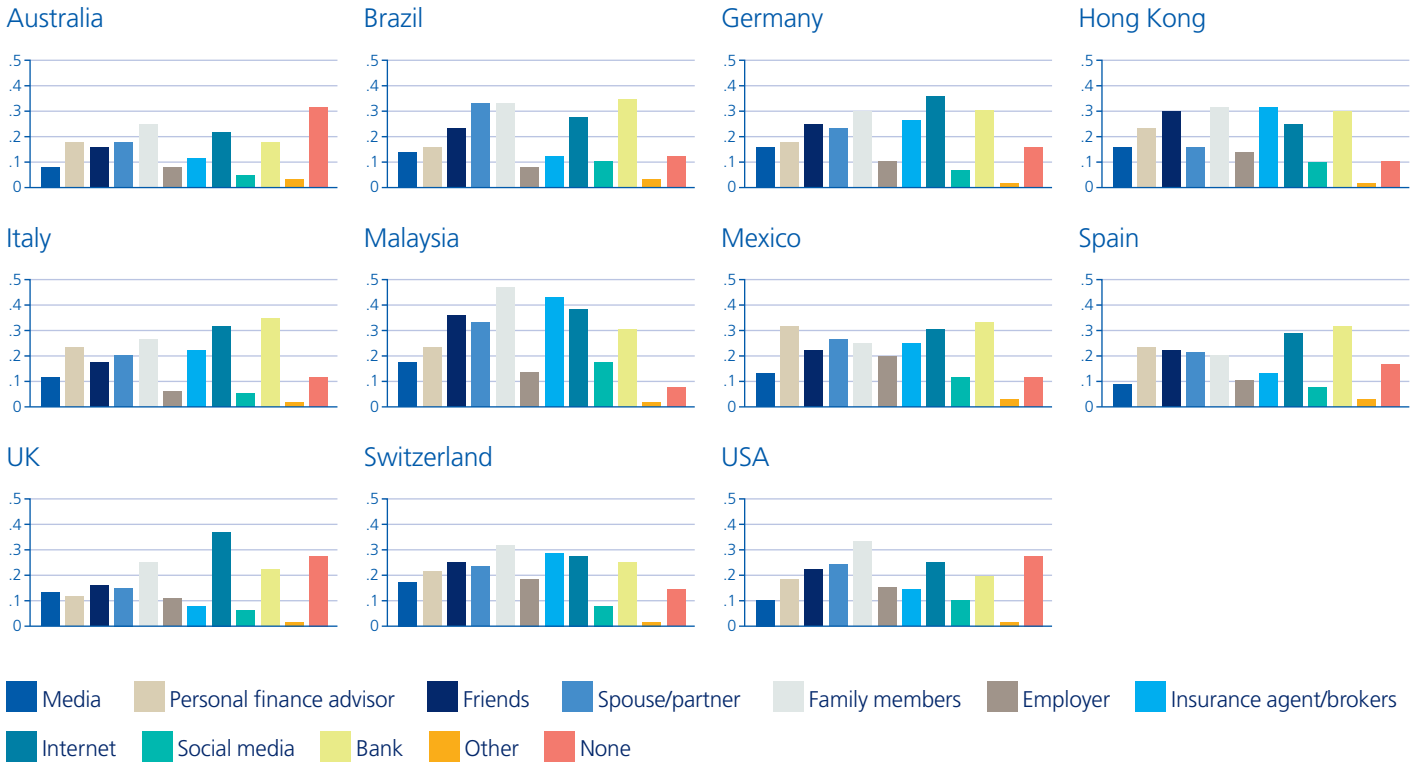
Almost a third of respondents who have insurance (29 percent) acquired it directly from their employer.

Although people generally have good awareness of whether or not their employer has ever offered them income protection insurance, many tend to know less about the details of their policies. For instance, at least 10 percent of respondents in all countries reported

not knowing whether, or for how long their employer would continue to pay their salary in case of serious illness or disability. The percentage was significantly higher in some countries: 22 percent in Spain and 20 percent in Australia. For those who did indicate a time period, many more may have been incorrect in that assumption.

But, when asked whether in accepting a job offer they would prefer to have all of their (post-tax) salary as take-home pay or instead have a package of benefits including income protection coverage with slightly lower take-home pay, in all countries a clear majority of respondents expressed a preference for the latter choice.

Figure 19: From which sources, if any, do you get advice about how to manage your personal finances?



Source: Zurich Insurance Group and University of Oxford (2016)

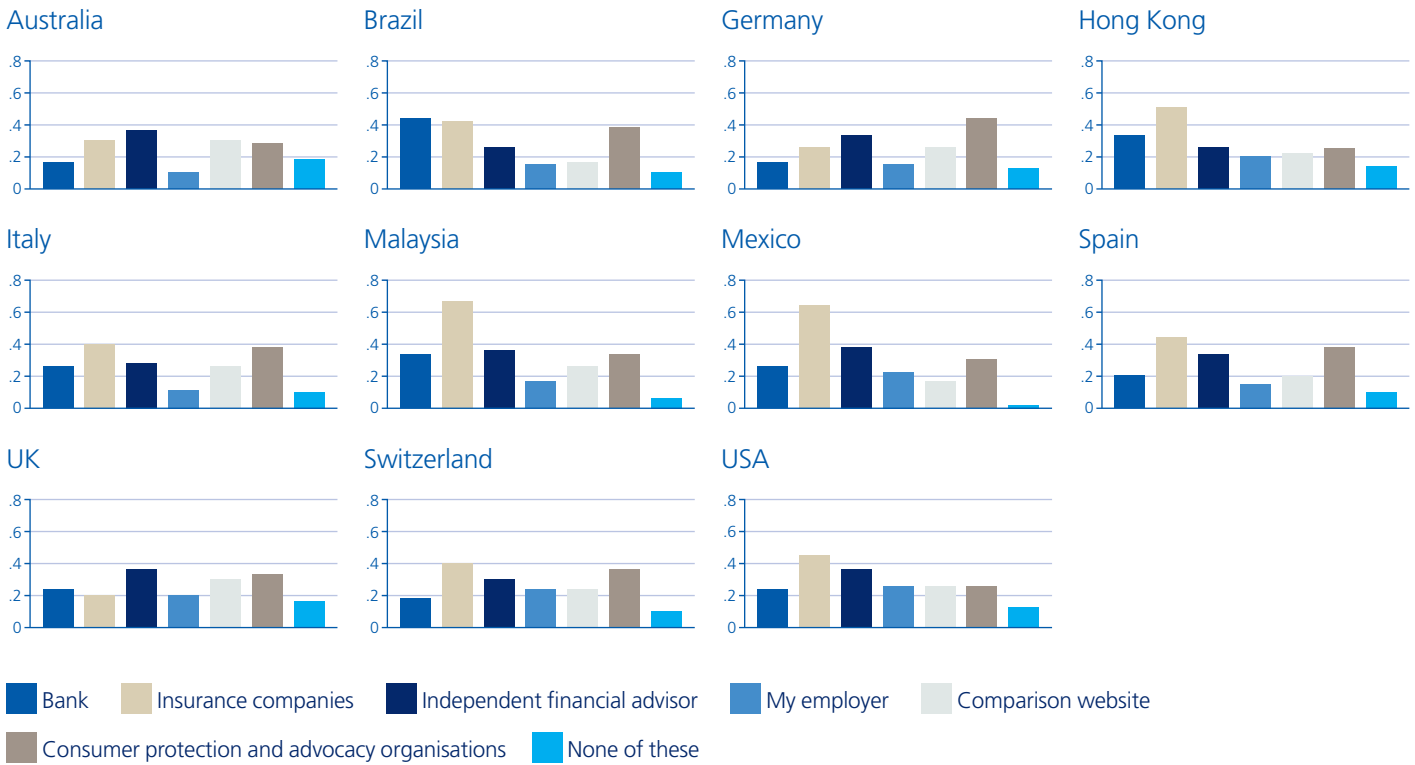
4.2 Whom do respondents trust to provide income protection advice and products?

In all countries, personal connections – family members, friends, and spouses or partners – were significant as trusted sources of advice about personal finances. This was no doubt an example of the universal, and well-documented, tendency to pay most attention to the advice and experience of people’s close personal connections (regardless of how objectively well-informed they might be).

Insurance agents are important in Germany, Hong Kong, Malaysia, Mexico, and Switzerland, but their importance exceeds banks only in Hong Kong, Malaysia, and Switzerland. The financial service sector in most of these countries is pronounced. The pre-eminence of personal provident funds in Hong Kong and Malaysia explains the strong interest in those markets in professional income guarantee systems. Meanwhile, people in English-speaking countries appear to have more of an independent streak, being more likely not to seek financial advice through any of these common channels.

Employers do not figure as the main source of advice about insurance products in any country. Only in the U.S., Switzerland, and Mexico do at least one-fifth of respondents say they would first turn to their employers for this type of advice. This is not surprising in the context of the U.S., where most employers are expected (but not required) to provide income protection insurance; the same might be said of employees of multinational corporations in Mexico.

Figure 20: Survey respondents were asked which type of organization they would trust most to provide advice about insurance products.



Source: Zurich Insurance Group and University of Oxford (2016)

Asked about their preferred source of income protection insurance, respondents tended to favor ‘conventional’ channels – the state and insurers – as their provider of choice. At the global level, 32 percent say they would want the government to cover their loss of income, followed by 27 percent for insurance companies and 17 percent for their employer (see Figure 21). It is notable here that a significant number of respondents said they would rely on their personal savings in the first instance, rather than on income protection insurance per se. Reliance on personal savings was also notable in the Asian countries – although

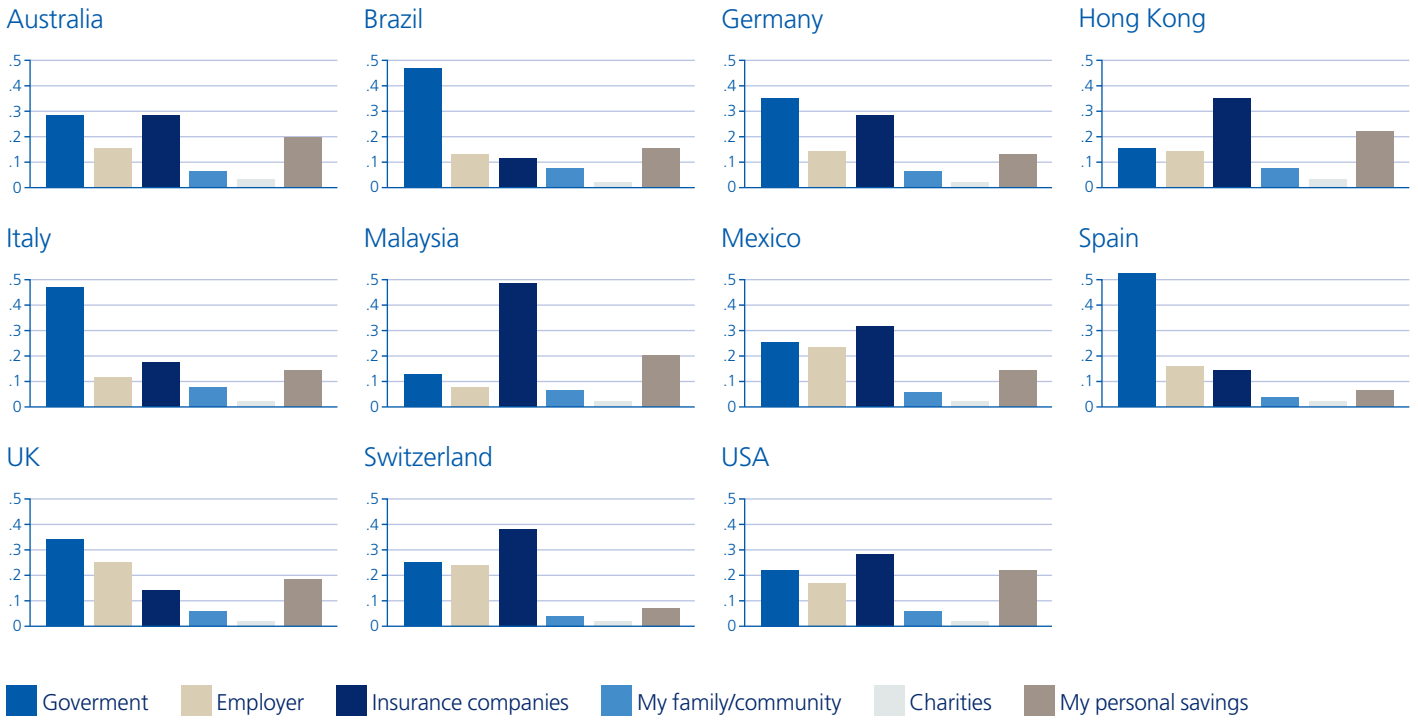
this most likely reflects the importance of provident funds discussed earlier – and in Anglophone countries.

Naturally, across countries there were also marked differences. The clear preference for the government in countries such as Brazil, Italy, Spain, and Germany could reflect workers’ ‘legacy expectations’ of what state coverage could provide, which, if not necessarily high (as in Germany), is at least universal (as in Brazil). Meanwhile, insurers’ overall strong performance could reflect a preference for a legally binding contract over a government promise

or insurance that is lost due to a job change, or loss of employment. It also reflects the fact that, while workplace income protection solutions are effective, the majority of the labor force does not work for multinational or other large corporations where these options are typically available.

The diversity of preferred sources of income protection advice and solutions further reflects the influence of country context on income protection issues. It also points to the need to consider multiple partnership models, something which will be explored in more detail in Chapter 5.

Figure 21: Survey respondents were asked, if they were to become seriously ill or injured such that they were unable to work, which of the following would they want to cover their loss of income? (First preference).



Source: Zurich Insurance Group and University of Oxford (2016)

Figure 22: Percentage of people with insurance, by work status and country



Source: Zurich Insurance Group and University of Oxford (2016)

Box 6: The changing nature of work

It's become common wisdom that the nature of work in the 21st century is changing dramatically. Technological change, globalization, and deregulation of labor markets have all played their part, while the global financial crisis of 2008 and issues related to the European Union and the euro have had a major impact on short- and long-term unemployment, job security, and social protection for those who are employed. These impacts have been acutely felt by young people just entering the workforce, and among older people approaching retirement age.

In this environment, self-employment is a coping mechanism for many workers. As mentioned, at 15 percent, the self-employed also account for a significant proportion of our sample. In many countries the self-employed are not entitled to statutory social security cover, so in this and many other respects their income can be more precarious than that of full-time workers. Yet despite this, and due to their lower and less stable income levels, they are generally less likely than full-time workers to have income protection insurance.

As the proportion of self-employed within the workforce increases, so, too, does the proportion of individuals who, should they experience income interruptions, lack access either to employer coverage or state benefits.

Another development in labor markets, which was not touched upon directly in our survey, but is equally relevant here, is the resurgence in short-term employment contracts that do not carry with them access to many of the benefits enjoyed by permanent employees. In the U.S., for example, since 2009 10 percent of net new jobs have been created through temporary employment.³⁸ Temps earn 20-25 percent less than permanent employees, and they are more likely to be forced to rely on means-tested social assistance. Although one could argue that short-term contracts offer career flexibility, surveys conducted by the U.S. Census Bureau suggest that people usually take temporary employment because it is the only work available to them.³⁹

One area where all of these issues have crystalized is the sharing, or 'gig' economy, in which freelance and

contract workers offer services through digital platforms such as Uber, Airbnb, and TaskRabbit. This share of the workforce is still tiny – roughly 0.5 percent in the U.S., where the sharing economy is more advanced than other countries – but is expected to grow rapidly in the coming decade or two. In this system an individual worker can be thought of not as a 'wage receiver' but rather as an owner of a system of production.⁴⁰

While the sharing economy brings a wide variety of benefits to consumers of services and to the economy at large, individual service providers do not have access to the benefits and protections extended to full-time, permanent workers at traditional employers. Moreover, state social protection systems are also normally confined to those with full-time employment contracts. If current trends continue such that part-time and temporary workers increase as a percentage of the overall workforce, state and employer benefits will increasingly cover an ever-smaller proportion of citizens.



³⁸ The Economist (2016), 'How the 2% lives', The Economist, 16 July 2016.

³⁹ Migrant workers can also be counted among the 'excluded' here. These can include seconded workers and contracted consultants as well as agricultural and other 'casual' laborers.

⁴⁰ Sundararajan, Arun (2016), *The Sharing Economy: The End of Employment and the Rise of Crowd-Based Capitalism*, Cambridge, MA: MIT Press.



“While the sharing economy brings a wide variety of benefits to consumers of services and to the economy at large, individual service providers do not have access to the benefits and protections extended to full-time, permanent workers at traditional employers.”

Chapter 4 takeaways

- That people’s appetite for income protection insurance might be influenced by state coverage appears to be a rational response. However, it becomes problematic in countries that have traditionally had high levels of state support, where access to benefits is being curtailed and claims periods shortened; developments that will probably be inevitable.
- That a majority 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. However, lack of knowledge and awareness of available income protection coverage may lead some employees to undervalue it in practice.
- The changing nature of labor markets already has major implications for the way workers access income protection. Many workers are being left exposed to risk by an increase in short-term contracts and part-time positions. There is an urgent need to design new channels for income protection solutions that are both portable and appropriate to different country contexts.
- The diverse nature of responses given to preferences around income protection advice and solutions once again reflects the country context and also points to the need for multiple-solution models including both the public and private sectors, an issue discussed in more detail in Chapter 5.

Chapter 5

Implications

In the next and final phase of this project, we look at several potential avenues for how public and private sectors could work together to close the income protection gap. The guiding aim is to achieve a balance between government support, employer provision, and personal responsibility. Based on insights discussed in the preceding chapters, this chapter describes topics that lend themselves to future investigation.

This study has provided us with an enriched understanding of factors influencing people's decisions to acquire income protection insurance, what keeps some demand 'untapped', and desirable roles for public and private sectors. Based on these insights, we can identify the following promising areas for future investigation. These will have implications for individuals, households, the public and private sectors:

1. Testing and implementing appropriate ways to improve learning and choice

A recurring theme in this report has been the dilemma that while, on the whole, people are insufficiently aware of and lack knowledge about income protection insurance, initiatives to educate workers (by governments, employers, and insurers) have, at best, succeeded to only a limited degree in closing the income protection gap.

Much work remains to be done. It is important to gain insights into workers' understanding of the risks of income protection gaps, and their comprehension of the full range of actions they can take to protect their income. Our findings

suggest that personal experience of income protection gaps has a significant influence on demand for insurance. Knowledge of insurance, financial literacy, and general education are much less significant. This may depend on a number of assumptions about the effectiveness of financial education and literacy campaigns. It also raises questions about how to guide consumers in making informed (as opposed to 'educated') and engaged choices.

Going forward, we suggest three broad areas for further investigation:

(1) Bringing the collective experience to the individual: More work should be done to understand what it is about the risks and realities of income protection gaps that resonates with workers at the subjective, individual level. In a world awash with information and data there is a need to design time-efficient and impactful techniques to help close income protection gaps. For instance, it might be most productive to engage customers on income protection issues when they experience certain positive key life developments which underscore the value of their income – the birth of a child, paying off a mortgage, a milestone birthday. So-called 'Big Data' – large, complex anonymous datasets that can be tapped in new ways for valuable insights⁴¹ derived from large groups – could be used to help identify these key opportunities.

Technology-based solutions such as applications ('apps') and other digital tools are emerging as one possible means of overcoming consumers' behavioral biases. Perhaps most interesting in light

of our findings about direct experience as a factor influencing insurance demand, techniques are available that simulate the experience of income interruptions and other financial problems that could occur in workers' lives. Such 'gamification' approaches are designed to play out in different scenarios, replicating individuals' full financial life cycles, based on a handful of initial decision inputs. Other forms of learning via technology that could be investigated for potential effectiveness include augmented reality to simulate the physical strains and limitations brought about by various disabilities.

In principle, this could be a practical application of our insights about how experiences influence decision-making. It could be a way to replicate experience *ex ante*, which in any case is far more preferable than experiences that lead to taking out insurance *ex post*. More work could be done to test the effectiveness of such interactive, personalized digital approaches.

Questions for further research:

- **How can the risks of income protection gaps be communicated in such a way that they resonate with individuals' subjective experiences?**
- **Do key life milestones offer an effective opportunity to raise individuals' awareness of income protection gaps?**
- **Are digital techniques such as gamification an effective means of overcoming biases that influence people's decisions to protect income?**

⁴¹ Cukier, Kenneth and Mayer-Schönberger, Viktor (2013), 'Big Data: A Revolution that Will Transform How We Live, Work, and Think,' London: John Murray.

(2) Improving price transparency and product clarity: As our survey demonstrated, knowledge and awareness of income protection insurance is low in most countries. Notably, there are common misperceptions about the affordability of this type of insurance. At the same time, many people explicitly cite their lack of understanding of the products as a key barrier that keeps them from acquiring income protection. All of these points underscore the need to make pricing more transparent and policies easier to understand.

For instance, our survey results showed an average willingness to pay for all respondents at about 5 percent of income. Yet the actual cost of insurance can be significantly lower – even for more at-risk groups such as older and less healthy people, people with lower income, and the part-time and self-employed. In general, these groups are aware of their risks due to income protection gaps, and so in principle may be more likely to be willing to consider buying insurance. More work could be done to explore and begin removing the information barriers that keep these individuals from buying insurance, barriers related to pricing.

Here, of course, there is a need for balance between the need for simplification and the desirability of tailoring products to individual needs and circumstances. One area for future action, therefore, will be to determine how to strike this balance so that workers will be encouraged to acquire insurance in the first place, and so that insurance that is appropriately tailored to provide suitable coverage.

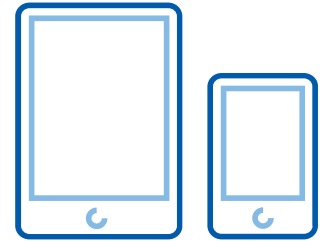
Questions for further research:

- **How can the information barriers that prevent workers from buying insurance be lowered or removed?**
- **In particular, how can workers be made more aware of the ‘true’ costs of income protection insurance?**
- **How can a balance be struck between providing greater transparency and clarity about product costs and features on the one hand, while still tailoring products to individual risk profiles, on the other?**

(3) Determining how to target the appropriate ‘niche’ demographic groups: Whether at a global level or within countries, it is clear that blanket campaigns to improve coverage are too blunt an instrument. For example, in light of our findings, it is less clear that marketing campaigns should target women in general. Gender-based campaigns are more likely to be needed, and successful, in certain countries: Australia, Germany, Italy, Spain, the UK, and the U.S. More generally, it seems that countries with lower rates of insurance coverage tend to have the largest gender gaps.

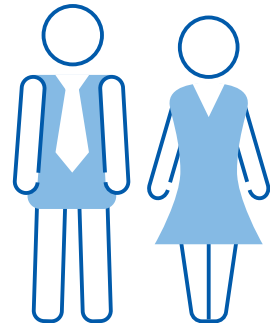
More work needs to be done to investigate whether a more promising approach would be to target activities aimed at specific worker ‘subgroups’ – for example, as one of our findings points to, not women in general but specifically women aged 45-55, or the sizable number of single mothers who are the sole wage earners in their household. Many of those in the latter group will be single mothers. Secondary wage earners also appear to be an important group for consideration.

Overcoming consumers’ behavioural biases



Technology-based solutions such as apps and other digital tools are emerging

Gender-based campaigns are more likely needed



Countries with lower rates of insurance coverage tend to have the largest gender gaps



Such an investigation could be carried out using technology as part of workers' improved financial learning process. Meanwhile, Big Data could also be used as part of these research efforts to aid the targeting and consumer identification process.

Questions for further research:

- **How can micro-targeting workers be carried out most effectively?**
- **Can technology be used as part of these efforts?**
- **Can Big Data be used to aid the targeting and consumer identification process while respecting individuals' privacy and confidentiality?**

2. Develop and expand private partnerships to close income protection gaps

Workers' overall stated a preference for a receiving an employee benefits package that includes income protection over a higher salary without such benefits. Workplace income protection solutions are an established method of provision, involving partnerships between insurers and larger employers, particularly multinationals and other large companies. They typically involve income protection-related insurance coverage as well as rehabilitation services and prevention and well-being initiatives. More work could be done to identify the most effective such workplace-based solutions, to define the features that make them successful, and to determine whether or how they might be adopted by employers that do not currently offer income protection benefits to their employees.

The pooling effect or ‘solidarity’ principle of such schemes also makes protection more affordable for higher-risk individuals, an important feature given the concerns over price described in this report. Such programs can help to minimize presenteeism and enable longer working lives at a time of rising retirement ages. Rehabilitation programs can encourage a return to work following illness, thereby minimizing disruptions to income. In Switzerland, such components are mandatory and state inspectors visit workplaces to ensure they are respected.

Cross-border working has become more commonplace in today’s world, but the portability of certain types of state income protection, such as disability benefits, can be complex. This is true not only for expatriates who remain with the same multinational employer, but even more so for those who work across both borders and employers. In such an environment, multinational employers can offer a solution with their greater flexibility across countries. Of course, much work remains to be done in this area, particularly around portability of such benefits when moving jobs.

Meanwhile the trust in, and preference for, other providers of income protection solutions and advice point to the need for further forms of cooperation. As trusted advisers in many countries, insurance brokers continue to play an important role in communicating the relevance and value of income protection insurance. They also may act as a gateway for purchasing protection, especially given the low levels of awareness and knowledge among the general

population. Equally, cooperation between insurers and banks can increase access and awareness of income protection insurance. Already in Latin America, for instance, simple income protection policies can be purchased via automated teller machines (ATMs).

Questions for further research:

- **What are some ‘best practice’ examples of employer-based income protection insurance programs?**
- **In particular, what rehabilitation and prevention programs have been most successful?**
- **What other types of private-private cooperation could be effective in various country contexts to close income protection gaps?**

3. Income protection in the gig economy

As discussed in Chapter 3, the growth of the ‘gig’ economy is bringing consumers and the economy as a whole many benefits. But workers who are not classified as full-time employees are less likely to have income protection insurance – one unintended consequence of the growth of the gig economy may be to exacerbate income protection gaps. It therefore puts the onus on governments to find a workable solution for the increasing number of people lacking state income protection because they work in casual arrangements, or through online platforms.

There might be a third way to look at workers, rather than simply dividing them in binary fashion into categories of permanent and contract employment. In the U.S., a proposal exists⁴² to create a new legal category of ‘independent worker’, which would create a system of portable benefits that could be applied to individual freelance and contract workers. Depending on the country context, such a system could still have scope to extend certain traditional employment benefits through those companies that outsource work to independent contractors (e.g., collective bargaining rights) and the state (e.g., a universal basic income). In all cases, a new system of benefit schemes will be needed that allows state-sponsored benefits to follow gig economy workers. This could include income protection insurance as a supplement to a life policy, which would guarantee continuing contributions when temporary incapacity results in lost income. Self-employed and other gig economy workers could elect to pay special rates of social insurance contributions. A collective scheme for these workers would diversify the risk pool and extend the solidarity principle to those concerned their risk profile would be a price barrier.

Questions for further research:

- **How can governments facilitate increased income protection coverage of independent workers?**
- **What private-sector alliances could be formed to close income protection gaps for these workers?**
- **How can these solutions be tailored to local environments?**

⁴² Harris, Seth D. and Krueger, Alan B. (2015), ‘A proposal for modernizing labour laws for 21st-century work: the “independent worker”’. Washington, DC: Brookings Institution (available at: <https://www.brookings.edu/research/a-proposal-for-modernizing-labor-laws-for-21st-century-work-the-independent-worker/>).

“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.”

4. PPPs

Governments have an important role to play in supporting each of the three recommendations: learning, private sector partnerships and, most directly, finding solutions to protect workers in the emerging gig economy. They have also been shown to be the preference of many to provide 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.

These new forms of cooperation could be formed through a variety of channels, including with banks and insurance agents. Our survey showed both of these were preferred sources of financial advice, and insurers as well as agents were also preferred channels for purchasing insurance.

The form that PPPs take must reflect the diversity of institutional arrangements and be appropriate to conditions within respective countries. These alliances take many forms across nations. Some countries, such as Hong Kong and Malaysia, currently have a mandatory arrangement. Others, such as Germany and Brazil, use tax concessions to encourage or 'nudge' private citizens into making additional personal contributions to supplement ailing state schemes. Additionally, mandatory income protection through PPPs has been used in some countries.

PPPs for income protection are linked to a far wider need for similar forms of cooperation to secure lifelong income. This recommendation invites comparison with funded supplementary pension schemes that have already spread across the globe (with varying degrees of success). In the majority of countries surveyed, access to funded pension savings is covered in the event of disability or premature death and thus already forms an essential component offering social protection against reduced income. One area for further investigation could therefore be whether or how PPPs which combine savings and income protection can be expanded.

This approach seems appropriate in today's environment of aging workforces and increases in the age at which workers can draw pensions. As retirement is progressively delayed – and may even become impossible for all but the very wealthy – there is a need to introduce schemes to cover older workers whose medical complaints result in declining income due to a decrease in capacity to work (given that the vast majority of incapacitated workers are over the age of 50).

Questions for further research:

- **Through which channels (e.g., insurance agents, banks) can PPPs be designed to cover the majority of workers who neither work for large companies nor as independent contractors?**
- **How can PPPs be tailored to different country contexts?**
- **How could income protection coverage be attached to existing funded supplementary pension schemes?**

Conclusion: Looking ahead to phase 3

Both the public and private sectors have an interest in continuing to raise overall awareness and seek solutions to close income protection gaps. For a global issue with localized attributes, collaboration and dialogue must take place on global platforms such as the World Economic Forum, as well as within regional contexts such as the European Union and on national and even subnational levels. Employers in particular can work together with insurers in new forms of cooperations

on many of the challenges, in ways that include improving transparency, clarity, and choices, by working to raise employees' understanding and awareness related to retirement and benefits plans.

The implications outlined in this chapter point to a way forward in building solutions that recalibrate responsibilities between individuals, governments, and employers to close the income protection gap.

In the next and final phase of this project, the research presented in this, as well as our previous Risk Nexus report, will help us to formulate targeted and sustainable recommendations for a range of decision-makers across the global community to help close income protection gaps. These recommendations will be for households, the public and private sectors, and society as a whole.

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