PROTECTION REPORT

BEFORE AND AFTER THE MORTGAGE MARKET REVIEW

JUNE 2015

SCOTTISH WIDOWS

200 YEARS

HOMEOWNERS ARE FAR MORE AWARE OF THE WAYS THEY SPEND THEIR MONEY

IS THIS GREATER AWARENESS CHANGING ATTITUDES TOWARDS OUR FINANCIAL PRIORITIES?

THE MORTGAGE MARKET REVIEW (MMR) HAS CHANGED THE HOUSE-BUYING LANDSCAPE FOREVER.

Greater scrutiny over lifestyle and expenditure means a new generation of homeowners are far more aware of the ways they spend their money. But is this greater awareness changing attitudes towards our financial priorities?

Any application to buy a new home or increase a current mortgage is now subject to an in-depth affordability assessment. Lenders are responsible for evaluating whether the borrower can afford the loan, both in the current interest rate environment and the future. One of the immediate effects of MMR has been to split borrowers into pre- and post-MMR groups, with the newest homeowners quickly realising their financial lives will change over the coming years as a result of this legislation. As things stand, only 35% of 25-34 year olds have a mortgage as they struggle with affordability. This rises to 54% among 35-44 year olds before dropping again to 42% among 45-54 year olds and 15% among the over 55s as their mortgages are paid off.

PERCENTAGE OF AGE GROUPS THAT HAVE A MORTGAGE

35%	54%	42%	15%
25-34 year olds	35-44 year olds	45-54 year olds	over 55s

But with their parents' generation often mortgage free by the time they are middle-aged, the effects of new longer repayment terms could come as a surprise to younger adults who may still be paying off their home loan in 40 years. With that shift in time scales in mind, how do we assess our everyday needs and financial priorities in the post-MMR world?

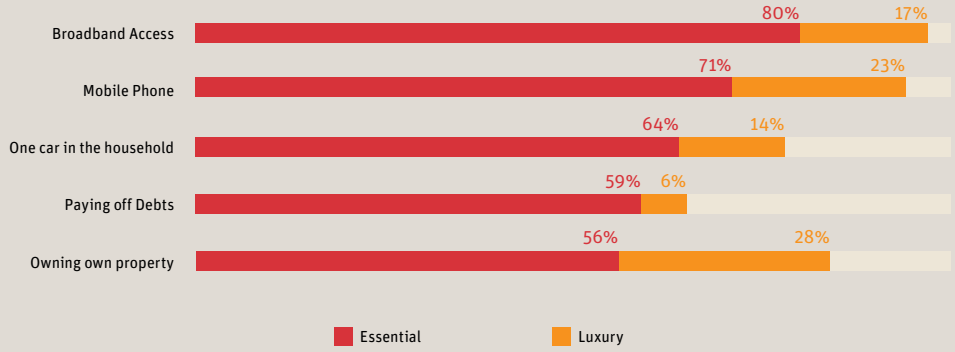
CHANGING PRIORITIES TO DAY-TO-DAY LIVING.

When we started taking the nation's financial pulse ten years ago, technology and communication tools were considered luxuries. Today, broadband access and mobile phone use top the list of everyday essentials as we push to stay connected. So crucial are our networks of friends, family and support that we place these things above owning a car, paying off debt, and, although 5th on the list, owning property.

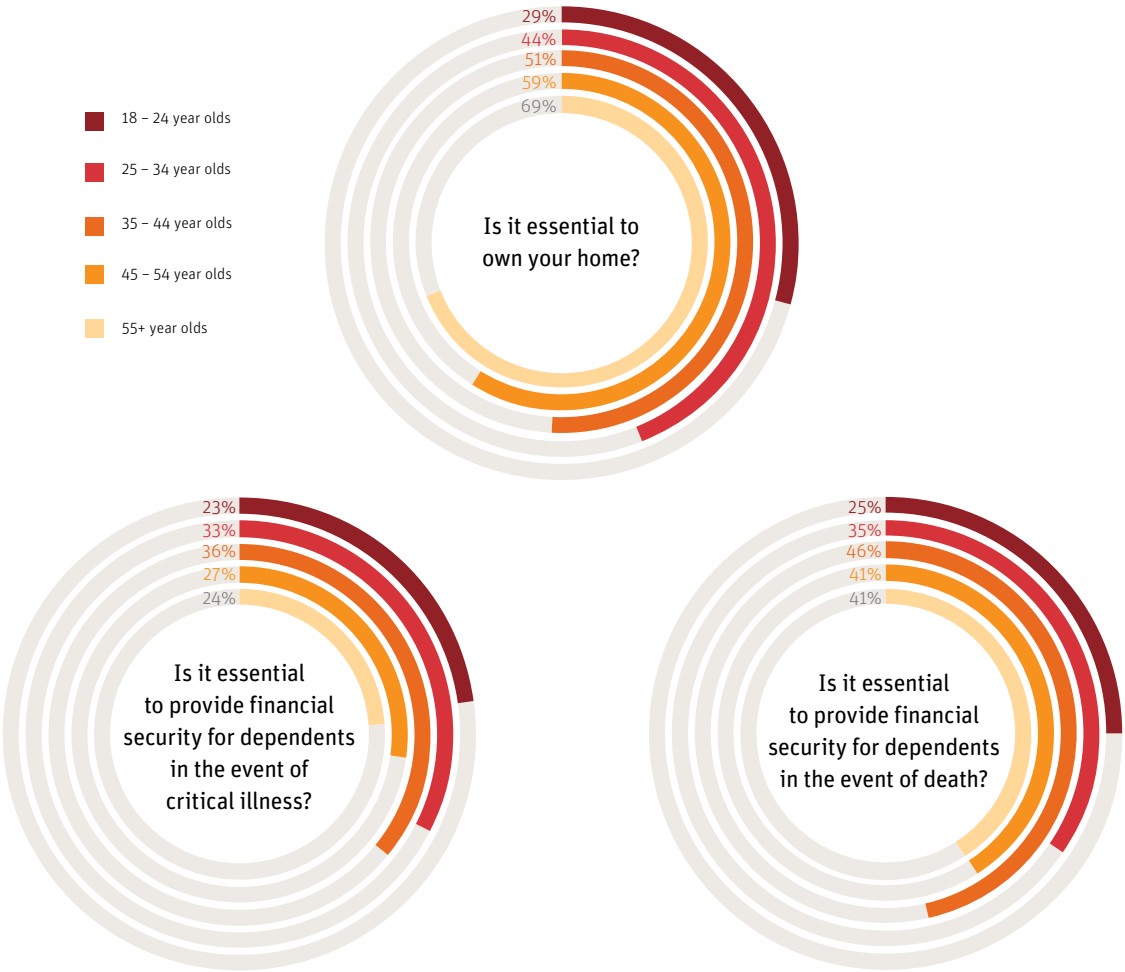
With the new affordability rules in place and house prices continuing to rise, 40% of 25-34 year olds feel property ownership was a luxury, compared with just 13% of over 55s.

Two cars, annual holidays and even paying for childcare come much further down the list.

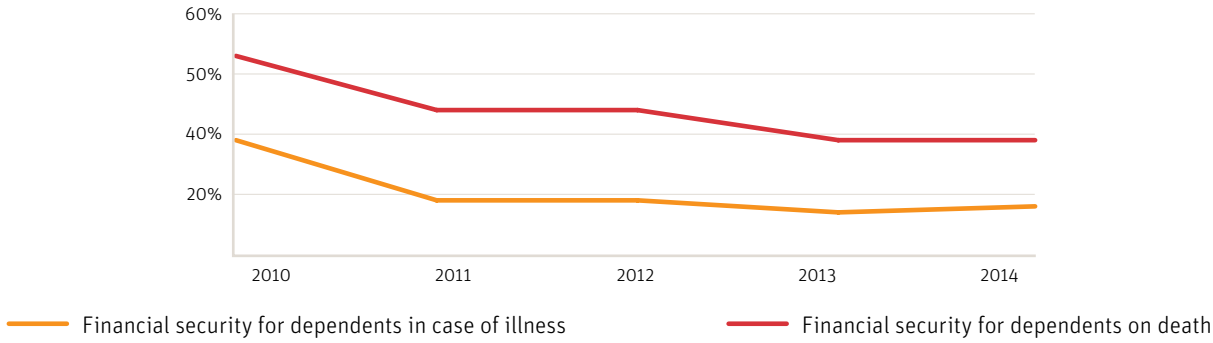
WHICH OF THE ITEMS LISTED BELOW DO YOU REGARD AS ESSENTIAL IN DAY-TO-DAY LIVING AND WHICH DO YOU REGARD AS LUXURIES?



DIFFERENT AGES HAVE DIFFERENT PRIORITIES



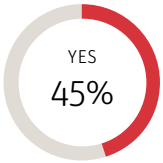
NUMBERS WHO THINK FINANCIAL PROTECTION IS ESSENTIAL



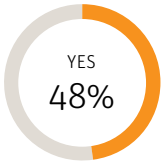
Just 39% of the public feel financially protecting their family is essential in the event of their death, a figure that has dropped from more than half in just four years, a notable decline.

IN THE EVENT OF LOSS OF INCOME, HOUSEHOLDS WOULD IMMEDIATELY LOOK TO CUT BACK ON GENERAL EXPENSES AND EAT INTO THEIR SAVINGS

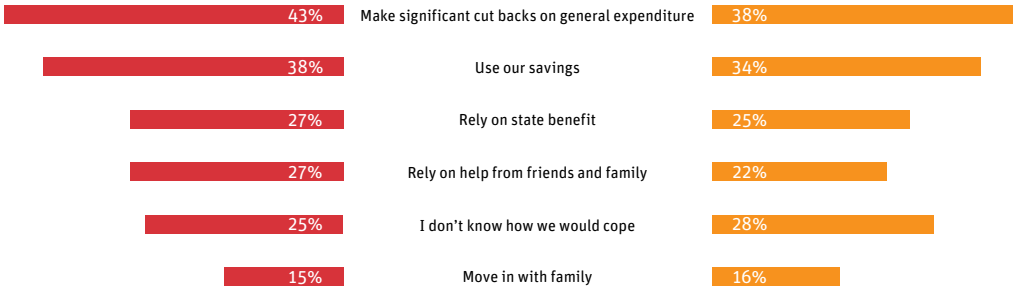
If you or your partner were unable to work for 6 months or longer due to ill health or personal injury, would you be able to live on a single income?



If you or your partner died, would your household be able to cope with the loss of income?



And what would you do to ensure that you and/or your family could manage financially?



Almost half of us believe we could live on a single income if necessary – cutting back on spending (43%), using savings (38%), and relying on the state (27%) to support us if financial difficulty arises and one wage earner couldn't work for six months or more. Only 8% would claim on an insurance policy, and yet a quarter don't know how they would cope.

Those who are the most stretched, often supporting both their own children and their parents simultaneously, take financial protection the most seriously though. Bucking the downward trend by increasing since last year, 45% of 35-49 year olds feel life insurance is essential. This suggests they are very aware that several generations rely on them and their financial security. Keen to take the pressure off in case of illness or accident, 24% of this age group also feel protecting their or their partner's income is essential, compared with just 18% of the population as a whole.

THERE ARE DIFFERENT TYPES OF FINANCIAL PROTECTION OPTIONS INCLUDING LIFE INSURANCE, CRITICAL ILLNESS INSURANCE AND INCOME PROTECTION

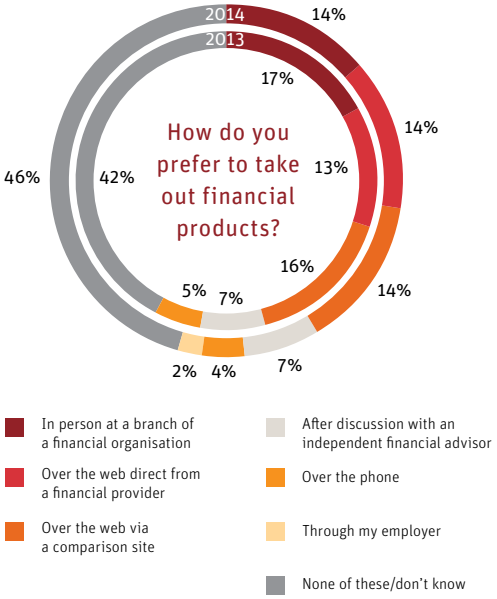
THERE ARE OTHER AGE-SPECIFIC DIFFERENCES IN OUR ATTITUDES TOWARDS PROTECTION.

Among over 55s for example, whose families are likely to be older and living independently, around 30% (compared with 20% of the general public) felt they simply didn't need life insurance.

A quarter were certain they couldn't afford critical illness cover and 15% thought it was a waste of money, despite evidence suggesting consumers aren't aware of how much these policies cost. The older the respondent, the more likely they are to feel they can risk not being covered for the effects of death or loss of income. Older generations are also more likely to distrust policy providers.

Meanwhile, the younger our respondents are the more likely it is that they just haven't got round to it, don't understand it, don't know how to go about sourcing protection, or simply don't know why they don't have a policy.

If consumers do buy insurance, the way they engage with the protection market is changing too. We're now less likely than last year to take out a protection policy in person, in a branch or via comparison sites but more likely to deal with providers directly online.



This could suggest a new confidence in going directly to a provider and increasing uncertainty over the value of comparison sites. But a greater number of people are unsure of how they would go about it than they were last year. Perhaps, with such a range of options now available including via our employers, the general public is more comfortable dealing directly with known, familiar brands when buying products.

However, the truth is that across the generations, a consistent proportion of people (14-26%) feel these products simply aren't high on their list of financial priorities.

Understandably, consumers continue to put their immediate needs first, looking for policies that demonstrate a tangible benefit. Around 40% of our respondents said they give a lot of attention to home, contents and car insurance. This dropped rapidly to just 31% who said protecting their mortgage repayments was important. But if they lost significant income, almost half (47%) of the population either didn't know how long they could pay the mortgage or would run out of money within 5 months.

One explanation for this disparity could be the drop in repossession action over recent years. Perhaps we feel insulated from the potential results of being unable to pay because there is less evidence of it around us. The attitudes of this year's respondents could mean this false sense of security gives us the permission to disregard the less clear 'what if' scenarios in favour of 'here and now' financial priorities.

LIFE FEELS BETTER WHEN
YOU HAVE A PLAN

SCOTTISH WIDOWS

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