Protecting a mortgage with Income Protection

Income Protection has the potential to safeguard people's home ownership, which is arguably people's biggest investment, yet it is up to advisers to make them aware of this benefit.

Buying a property is likely the biggest purchase of people's life, yet most don't go to the appropriate lengths to protect their investment.

Mortgage payments are expensive, particularly considering rising interest rates. Homeowners have to work for most of their lives to fund their mortgages, yet if they were to fall ill over many months, they would risk losing their most prized asset.

People that cannot work rely on savings, government support, or family for help. However, in most cases, these options aren't enough to cover mortgage payments, particularly if they are out of work for an extended period of time. Charlie Gray, National Accounts Manager at National Friendly, highlights that this is where Income Protection is the most sensible solution.

For the cost of a monthly premium, Income Protection can support individuals should they fall ill beyond the timeframes supported in their contract with their employer. Yet even though Income Protection is an effective solution to help cover mortgages, it is not widely adopted. Only a small percentage of the population have an Income Protection plan, while around 37.5% have a mortgage or loan for their property, according to Money.co.uk.

The role of mortgage advisers

While Income Protection is a product that benefits many individuals, most mortgage advisers do not suggest or talk about the option. This is in part due to issues of communication and operation change. Some firms have been run the same for so long that offering protection can be difficult to facilitate, particularly during stressed market conditions.

Gray says: "The last 6 months have been a difficult time in the mortgage market, with certain providers pulling their offerings amid rising interest rates and fluctuating house prices. It's hard to put a focus on Income Protection when sometimes just finding the right mortgage for a person can be tricky."

She adds that the challenge of offering Income Protection and the right advice to customers has led businesses to hire specific Protection Advisers or set up partnerships with Protection Firms. This is essential for firms that don't have the knowledge or capacity to start offering protection services in time for the application of the upcoming consumer duty regulation.

Consumer Duty impact

With consumer duty being a strong driver in the industry, mortgage advisers need to suggest all possible options to their customers to “avoid causing unforeseeable harm”. Gray suggests that the regulation is already having an impact, with more mortgage advisers recommending Income Protection.

She says: “If a firm can offer Income Protection but doesn’t offer this to the customer, and then the customer falls ill, it could mean the adviser has not met consumer duty requirements.”

Moreover, the need to ensure good outcomes for customers is rising as populations age. With more people reaching retirement age without having enough savings to maintain their lifestyle, an Income Protection policy can provide much needed support.

However, while the uptake of Income Protection is increasing, there is still a long way to go to educate customers of its importance. By making protection a part of adviser roles, and communicating its importance through industry channels, mortgage advisers can help to close the gap and ensure that more people are protected against income loss.

Gray concludes: “We need to work together to ensure people are truly cared for in the best way possible by ensuring mortgage advisers have the knowledge that is needed - then customers can make Income Protection a priority.”

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