Financial resilience needs more than an emergency fund.

Redefining resilience

Financial resilience is often measured by the size of a client's savings buffer: three months, six months, sometimes more. It's a useful benchmark, but it can also give a misleading sense of security.

A savings pot is finite. If a client is unable to work because of illness or injury for an extended period, even a well-built buffer will eventually run out. And it may need to be rebuilt from scratch once income resumes.

What the numbers show

The Association of Financial Mutuals, closing the gaps: building financial resilience report[1] shows that four in ten UK adults (40%) say they couldn't cover their living expenses for three or more months without their main source of household income. These figures suggest that many clients may be relying on an assumption that hasn't really been tested. That loss of income would only be temporary. If an illness or injury lasts longer than expected, even healthy savings can quickly come under pressure.

Where income protection fits

Income protection offers a regular income meaning any savings can remain in place. Rather than drawing from a savings account, an income protection policy can continue to pay for as long as the insurance terms allow. This may be considerably longer than most clients could maintain from savings alone. For clients facing long-term illness or injury, this can make the difference between managing month to month rather than sacrificing other parts of their financial plan, such as pension or investment portfolio, to cover day to day costs.

That doesn't mean income protection replaces savings or is right for every client. Affordability needs to be sustainable over the life of an income protection policy, and cover levels, waiting times and incapacity definitions vary between providers. For clients with strong employer benefits already in place, the case for additional cover may be limited. As with any protection recommendation, the starting point should always be the client's individual circumstances, rather than assuming they do or don't need cover.

A gap that's easy to miss in a review

Because savings and investments are usually reviewed on a rolling basis, they tend to surface naturally in client conversations. Income protection, by contrast, is often arranged once and then forgotten about. However, a client's circumstances can change, they may go self-employed, or change their employer, have a new dependent, or their

[1] Closing the Gaps: Building Financial Resilience - Association of Financial Mutuals

contract of employment may change. Any of these can affect whether existing provision, or lack of, still matches a client's actual exposure.

Revisiting the question periodically, rather than treating it as a one-off decision, can help ensure a client's protection keeps pace with their circumstances, even if the conclusion is that no change is needed.

Building resilience that holds under pressure

A savings buffer and an investment strategy tell only part of the story of a client's financial resilience. Income protection helps protect clients if that period without an income lasts longer than their savings can comfortably support. Considering both together, and reviewing them over time, gives clients a more complete picture of how resilient their finances really are.

If you'd like to explore how our solutions could support a client's resilience planning, our Business Development Team is here to help. Reach out at sales@holloway.co.uk or call us on 0800 716 654.

Important information

This article is for financial advisers only and is intended for informational purposes. It doesn't constitute financial advice or a recommendation.

Protection products are subject to eligibility, terms and conditions, and exclusions. Individual circumstances will vary. Advisers should ensure that any recommendation is suitable and affordable for the client.