

# Protection brief

**The panel**

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**Peter Chadborn**  
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**Nick James**  
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Our panel focus on pension term assurance and consider the effect of declined critical-illness cover claims

## Term time



**Should pension term assurance be sold as an execution-only product?**

**Lakey:** Common sense says that the public need protecting from themselves but an equally valid argument is that we are all allowed to make rash decisions and live with the consequences. Any plan can be bought on an execution-only basis and I believe this facility should be allowed, otherwise, it limits freedom of choice.

I do not encourage execution-only business but I accept it has its place in the financial arena. With the internet playing an ever more important role in decision-making, it would be

foolish to deride and discount a customer's choice.

**Chadborn:** The requirement for consumers and advisers to understand the bigger picture when considering PTA means that the answer to this question should be a no-brainer. A product with the complexities of PTA should only be provided with advice.

The FSA's recent announcement that Icob advisers must include certain warnings about the appropriateness of their advice, if they have not obtained sufficient information about their client's pension arrangements, indicates there could be serious implications if PTA is inappropriately distributed. If only the FSA had the fore-

sight to recognise the potential for misbuying with all types of protection and impose similar warnings on all execution-only protection purchases.

**James:** Yes. Why? I own three death contracts, one of which I bought through an IFA, one I bought from a tied agent and the other I bought direct. I think it is reasonable to expect that there will be part of the population who will have enough knowledge and confidence to purchase a death contract direct.

The key, as always, is to be as transparent as possible with the consumer, pointing out the major advantages and disadvantages, pluses and pitfalls of the contract.

**Do you think that the majority of PTA business will come from new business or simply rebroking of existing business?**

**Lakey:** It is incumbent on advisers to search out whether existing clients are able to take advantage of cheaper options. Their current health and pension position will also be factors in such a decision.

Hopefully, publicity from the personal finance columns will engender interest from potential clients, especially those who have previously chosen the direct route or used the limited services of a bank or building society. This will present a one-off opportunity to expand client

bases and also show added worth to existing clients.

**Chadborn:** I would like to think that the rebirth of PTA will go some way to reducing the protection gap but I fear that the majority of new business will be advised with the aim of finding cheaper cover. The obsession with advising, based on cost alone, will instinctively lead many to revisit existing life policies and see if the same cover can be obtained for a lower premium. But PTA does represent an excellent opportunity for advisers to discuss their clients' protection requirements in general.

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**James:** The bulk of business will come from new contracts. I hope the industry looks at FTA and decides to focus on this as an opportunity to close the much publicised protection gap. There are clearly rebroking opportunities for advisers, especially for higher-rate taxpayers but there are many issues associated with rebroking, such as re-underwriting, which may put customers off.

**What impact do you feel that the reporting of CI non-paid claim statistics has had on the protection industry?**

**Lakey:** It is undeniable that the bare figures of 20-25 per cent non-paid claims makes for sensational headlines in certain newspapers. This has caused many of my own clients to question the continued viability of their own plans.

There are two discussion points behind these figures. First, many claims are for matters not insured, such as broken legs. The second is that insurers are tightening up their claim processes and looking carefully for any instance of non-disclosure, however innocent, which then allows them to rebut the claim.

**Chadborn:** I welcome the reporting of CI non-paid claim statistics because it has unequivocally highlighted the importance of full and accurate disclosure.

It could be argued that the reporting of these stats gives ammunition to those who want to sensationalise non-paid claims but if one of the primary reasons for non-paid claims is non-disclosure, then we have to get this right before we can move on.

I hope the impact of this step will be to tighten the application process, so that the majority of future non-paid claims will be due to the claimant not meeting the definitions.

**James:** The industry has now started a health debate but the real issue is that customers do not understand the contracts they are buying. If they did, you would not see such high decline rates for non-disclosure and for not meeting definitions. Standard Life was the first to publish these claim statistics, as a result of the compelling arguments made by advisers, such as Lifesearch. Now we know that our competitors are facing the same challenges, the industry stands a much better chance of tackling this shared problem together.

**What innovations are required to stimulate the income protection market?**

**Lakey:** Often, the perception of clients is that the plan is too expensive with the desired short deferred period. Add to this the concern that the insurer may argue the claim based on medical evidence or on financial means-testing.

A better method would be a system similar to pensions, where everyone is allowed to insure for a sum of, say, £12,000 a year, regardless of their working situation or income. Those wanting to exceed this figure would need to supply evidence at the outset rather than at the point of claim. This would breathe confidence into the products' ability to meet needs. A flexible underwriting view of occupational risk would also help.

**Chadborn:** There is no denying that advising on IP has a more protracted process than for other forms of protection. The information gathered from research platforms when looking at IP is often different from the final terms offered. Of course, the research platforms rely extensively on data provided by life office, so improvements could be made there. Welcome innovation is being shown



by The Exchange which is making strides to improve its IP quotation and new business service. This will include improvements to the occupational lists and a restructuring of the quote basis to provide a more granular table of results. The result should mean advisers will have greater confidence when considering IP.

**James:** IP is not really on the consumers' radar in the same way that critical-illness and death contracts are. This makes it a more difficult sale for the adviser. One of the difficult things for IP is that the claims are often less dramatic as there are no huge lump sum payouts but this does not mean that they make any less of an impact to the consumer's life. I would like to see all partners in the sale pushing to increase the number of case studies in order to let consumers understand what a great product this is.

**Has the Association of British Insurers and the critical-illness insurance working party done enough to address issues, such as definition and application forms, in the CI market? Do you think that the proposed changes will be effective?**

**Lakey:** They have proved very effective at cleaning up the often bizarre definitions and terminology used many years ago. By allowing definitions to be minimum cover only rather than mandatory, they have allowed for innovation and additional strands of protection. Amendments to

claim definitions will be crucial to the continuing success of CI and I hope the requirements of the re-insurers do not detract from the attraction and marketability of such plans.

**Chadborn:** Any proposed changes will only be effective if they are well communicated. Thorough guidance will have to be given by the ABI and life offices so advisers have an understanding of what the proposed changes will mean for their clients and the advice process. Advisers will welcome simpler or more concise application forms but the reality of these proposals remains to be seen. The opinion on the implications of the proposed CI definitions will vary from reinsurer to life office to adviser. Therefore, communication is key.

**James:** The ABI has done a great job in allowing providers to get their house in order but it is not enough for providers to be sitting back as we have failed to address some of the fundamental issues.

CI is a complex product and yet we offer little by way of product training to advisers and the exam process itself contains little mention of CI. Maybe it is time that, as an industry, we started to tackle these issues with, for example, free seminars aimed at increasing the adviser's understanding of core conditions, such as cancer, heart attack and stroke.

**What do you think of Virgin's Big V cancer-only product?**

**Lakey:** As someone who has championed comprehensive critical-illness plans, I find the concept of a basic one-condition-only plan to be retrograde. Cancer is the most likely cause of a claim but I find it as unattractive as life insurance that only pays out on accidental death. Put simply, it is not doing the job. It is a gimmicky plan which is further diluted by the use of reviewable premiums. Would you buy a car with three wheels? Why buy a plan that offers only a fraction of the relevant protection?

**Chadborn:** I admire the innovation but despair at the marketing. If the intention was to inspire a young market to consider protection for the first time, then it is to be applauded but Virgin has done itself no favours in the way it has marketed this product. Claiming it is "simple" and making direct comparisons to critical-illness cover has rightly attracted criticism. If it really believes it is such a great product, then it will make it available to the market as a whole. However, it has to be sold without advice because I am convinced that the IFA community would not sell it, even if they could.

**James:** It is innovative but launched with a confusing set of marketing messages. I am sure that I would get shot for saying that I have a moped for sale and that it is brilliant value, especially when you compare it with the price of a family saloon. When you look under the bonnet of the product, it does what it says, it pays out something if you get cancer, which is a good pitch to the Virgin market. I think it may herald the way for more cut-down dread-disease-type products – but please do not compare it with a guaranteed CIC product.

**Why is tele-underwriting not more prevalent in the**

**industry? What needs to be done to increase its implementation?**

**Lakey:** Many clients cannot recall their salient medical history and I do not think that tele-underwriting will necessarily help. Full access to medical records would solve this and the non-disclosure concerns and make the industry a safer place to transact business. I am dubious about the benefits of tele-underwriting and feel it is only a small bandage on a major wound. Sooner or later, a more viable underwriting process must be developed.

**Chadborn:** As an IFA, I think tele-underwriting has been a breath of fresh air. It considerably shortens the underwriting process, and feedback from our clients has been extremely positive. Any provider implementing such a process must be convinced that it can operate a reliable system because, unless it can, it adds no value at all. Perhaps not all life offices have this level of confidence. Other providers will probably only consider implementing this process if they see market share shifting to those that do.

**James:** It is horses for courses. Some intermediaries and consumers will be happy transacting this way and some will not. Just as some people like going to see an adviser, others like going to their bank and some like to go online.

One of the difficulties for a provider is that tele-underwriting can lead to an extension of the company's liabilities, as the process is often undertaken by third parties, which then become the agent of the provider. It is common for reinsurers to stipulate negligent underwriting clauses in reinsurance treaties. This practice could be extended by providers to cover the activities of their tele-underwriting partners.