Protection brief

The panel

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Our panel ponder changes to the age 70 rule, the prospects for pension term assurance and online quotes for menu plans

On the threshold

The FSA's consultation period on the age 70 rule has now ended. Would you like to see the rule abolished or the age threshold raised to 80? Which option do you think the FSA is likely to take? Would you like the rule to be scrapped on all types of whole-of-life plans or only certain types?

King: We believe and expect that this rule will be amended so that protection contracts that do not carry an investment element can be advised upon and sold by Icob-regulated advisers regardless of client age. This would include term assurances and non-profit whole of life.

The only exception is that Icob-regulated advisers should not be able to give advice on inheritance tax planning as this is a highly specialised area that requires knowledge beyond the scope of most Icob-regulated advisers.

Chadborn: I am not convinced of the relevance of this rule as I do not believe you can identify a specific age whereby someone should not be dealt with by an Icob adviser if the product is as straightforward as term insurance. I do not think it should be scrapped on all whole of life plans though.

Clearly, any product that has an investment element should be advised under Cob only. But, allowing non-investment whole-of-life plans to be sold under Icob could enable different protection needs to be addressed by consumers taking advice from an Icob adviser, which could be a positive step.

Carr: We are in favour of scrapping the rule as there is no reason why a person's age should have an impact on the protection products available to them. The rule is unfair to consumers and intermediaries and causes unnecessary confusion.

With spiralling levels of debt, this change will bring a refreshing opportunity to help people with debts protect against the financial implications of death as those consumers affected by the rule will have greater access to the most suitable products.

Non-investment-linked whole-of-life products should be included within the Icob regulation as there is no investment element. If it is pure insurance, regulate it as pure insurance. If it is investment, or even partly investment, regulate it as an investment

The pension term assurance market has seen steady growth since A-Day. Do you expect this to continue or will sales level out? Has there been too much hype about PTA?

King: PTA has proved to be a popular product, which is unsurprising, given its broad suitability to the mass market. There are extra risks associated with this product but most PTA plans now have switch options that allow a rewind to an ordinary term contract in case of need and it only requires a few extra questions at point of sale to ascertain if any of the statutory limits are likely to apply. We expect sales to level out at current penetration levels but we are probably slightly ahead of the market as a whole on this.

Chadborn: Steady growth is all well and good and was broadly expected but this has been at the expense of other life products. Therefore, what we have seen overall is levels of new life cover business remain unchanged and so the rebirth of PTA has not created a new demand for life cover.

I do believe there has been too much hype about this product in terms of it answering the calls for innovation or closing the protection gap. I do not think there has been too much media coverage of PTA because despite it appearing to be just a cheap alternative to a traditional term policy, there are potentially serious consequences for intermediary and consumer if it has not been considered in relation to other financial planning matters.

Carr: PTA has already become a significant product but a number of IFAs and networks are still to catch on and most consumers do not know about it at all so maybe there has not been enough hype.

As long as the Treasury do not change the rules, sales are likely to continue to increase. The question is whether or not PTA is growing the market or just saving money for those who would have bought cover anyway and those who already had cover. So, if anything, PTA and protection in general need more hype so that consumers are more aware of their options.

70 limit: Are there signs of the FSA changing the rule?

Research has found that 60 per cent of consumers who buy protection products without advice think that they can seek redress from the Financial Ombudsman Service if the policy proves unsuitable. Are you surprised by this? Does the regulator need to reform the non-advised sales arena?

King: This does not surprise me. Many of the consumers that we deal with do not appreciate this important fact until we explain it to them. We believe that this

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is a fundamental point that should be clearly explained to the consumer whenever any contract is sold without advice. We hope and believe that eventually the regulator will address this issue.

Chadborn: The only surprise for me is that this figure is not higher. Of course, the regulators need to reform the non-advised sector. I have no issue with the principle of consumers being able to buy financial products without advice or with those who want to provide non-advised services.

What I do object to is when the inability to seek redress from the OS is not made blindingly obvious from the outset, regardless of the contract. If there is any ambiguity about this fact in the eyes of the consumer, then we as an industry are storing up future bad press and continuing to operate on an uneven playing field.

Carr: I think this research tells us what we already suspected, which is that consumers have very little idea about what protection products are available and how best to prioritise them. Many buy a little bit of life cover and then stop, regardless of what is available and, more important, what is suitable.

Most consumers do not know the difference between their bank, a mortgage broker, a website or a telephone seller when it comes to advice, and the initial disclosure document is too often a case of too little information provided too late in the process.

The FSA must reform the non-advised sales process in protection so that consumers can make better informed decisions about their protection needs.

The industry has seen the first payment protection insurance-related fine against sub-prime adviser firm Regency for failing to treat customers fairly. Is this to be the first of many such fines for adviser firms? What needs to be done to improve the PPI market?

King: Undoubtedly, there will be many such fines in the future as regulation of the general insurance market starts to bite. Last week, Carphone Warehouse was fined for TCF failings.

These are both big themes that will grab headlines in coming years. The PPI market needs to be rid of overpriced plans with excessive exclusions and new consumer-focused products launched in their place that bridge the gap between PPI and income protection to offer the consumer value for money and a simple application process.

Chadborn: When you have a product that is so profitable for those that market and sell it, has such a low claims' ratio and is generally inferior when properly compared to income protection, it is no wonder that this fine has happened.

The way to improve the quality of any market is to make those who operate in it more accountable. Despite the volume of regulation in this industry, it still lacks breadth and, to many, myself included, there appears to be a huge disparity between the degree of regulation and accountability applied to different distribution channels.

Carr: I suspect that this may be a case of being the first of many. PPI has been overpriced and oversold for decades and I am afraid the worst is yet to come.

The first thing the industry must do, although only the regulator can make it happen, is to end the confusion over product names. It is ridiculous that PPI products can be called income protection. How can we expect consumers to make an informed choice when the product names do not treat customers fairly, let alone the myriad of exclusions that also apply? And how many consumers would buy income protection instead if they knew it existed?

When looking to recommend multi-benefit (or menu) plans, what are the issues regarding the use of portals for comparison quotes and intranet sites for specific company quotes?

King: Portals do not generally handle menu plans well as insurer systems were not built with this in mind and the features and benefits can differ in important ways.

This is disappointing, as menu plans will grow in popularity as advisers try to blend and affordable mix of the main life/critical-illness insurance benefits. There is no reason why it should not be possible to be able to produce basic menu plan quotes on via portals. All involved need to focus on this issue.

Chadborn: Portals play a vital part in the research process but they should not be used in isolation. Often, the only way to get an accurate illustration is to get one from the providers extranet so another tier is added to the research process. Multi-benefit plans are cost-effective in terms of saving policy fees and are often desirable for clients who like the idea of their financial plans to be under the same roof but it is not always the case that the same life office is the preferred provider for every protection need and cost should only be one consideration during the research process.

Widows: Critical contingency plan backed by panel

Carr: This could be a real issue because most portals are not yet as flexible in terms of mixing and matching benefits as the provider's own systems while the provider's systems only quote their own products, which makes it time-consuming to get accurate quotes.

Typically most critical-illness insurance sales in the past have been identical to the life cover amount but I think the future of critical-illness insurance is likely to include more sales where the sum assured varies, quite often with a small amount of CI being taken in line with a larger amount of life cover to meet the client's affordability.

Scottish Widows believes that consumers should take out critical-illness cover as a contingency plan to guard against rising healthcare costs and the future rationing of medical treatments by the NHS. Do you agree with this view?

King: This is a valid reason to take out critical-illness cover. CI is often presented to consumers as an either/or product when it is really complementary product alongside income protection, private medical insurance, life cover, etc.

We know that the NHS has waiting lists, is unable to fund some of the more expensive drugs and is even less likely to fund complementary therapies or treatment abroad. This leaves patients with a difficult choice which funding from a CI plan can address.

Chadborn: I believe this was one of the original objectives of Dr Marius Barnard when he invented the concept of critical-illness cover. The vast majority of CI is too often simply sold as a package with life cover to protect a mortgage but with rising house prices and therefore rising mortgages, the cost can be prohibitive.

In this scenario, it is easy to fall into the trap of offering CI as an all or nothing option rather than an affordable proportionate approach.

I agree with Scottish Widows' views because the need for CI cover does not begin and end with mortgage protection and future rationing of medical treatments is a genuine concern.

Carr: Yes. This arguably falls into the area of PMI, with critical-illness cover once the claim is paid the money is in the bank to use as you require, with no caveats. Critical-illness cover was not designed to pay off mortgages and replace income, it was designed to pay for the associated costs of potentially life-saving treatment for life-threatening illnesses.