

MoneyMarketing

First for the professional personal financial adviser

www.moneymarketing.co.uk

Visit our new site
www.moneymarketing.co.uk

INSIDE

PRE-BUDGET REPORT

Money Marketing brings you the first news from Chancellor Alistair Darling's pre-Budget report, including changes to the IHT regime, CGT taper relief and the Omo review **2/3**

THE FACTORY FACTOR

Andy Curran, director of intermediated distribution at Prudential, believes that a move to factory gate pricing can bring a major boost for adviser businesses **64-65**

PROFILE

Towry Law chief executive Andrew Fisher is one of the loudest advocates of scrapping commission-based remuneration, saying the industry cannot give honest independent financial advice unless it is fee-based and professionally qualified **59**



INVESTMENT BRIEF

Our panel consider Northern Rock's crisis, a slowdown in UK property markets and gloom in the US, plus, Norwest Consultants principal Harry Katz tells IFAs not to let warnings over the complexity of reviewing with-profits investments and Will Henley gauges views on gold as it reaches a 27-year high **75-79**

Multi-manager **36/38**

Investment analysis **40**

Mortgage analysis **44**

Nic Cicutti **49**

Letters/Comment **50-51**



Features

Julian Gibbs **80**

Experts **80**

Market View **80**

Best Advice **81**

Tony Wickenden **81**

New Products **82**

Directories + Services **83-91**

Jobs/Sudoku **92-99**

ONLINE

www.moneymarketing.co.uk

McFall told 'spinners were out' in Northern Rock debacle

Row over FSA 'briefing media against the BoE'

By Paul McMillan

MPs have demanded answers from the FSA over suggestions that the regulator briefed the media against the Bank of England over the Northern Rock fiasco.

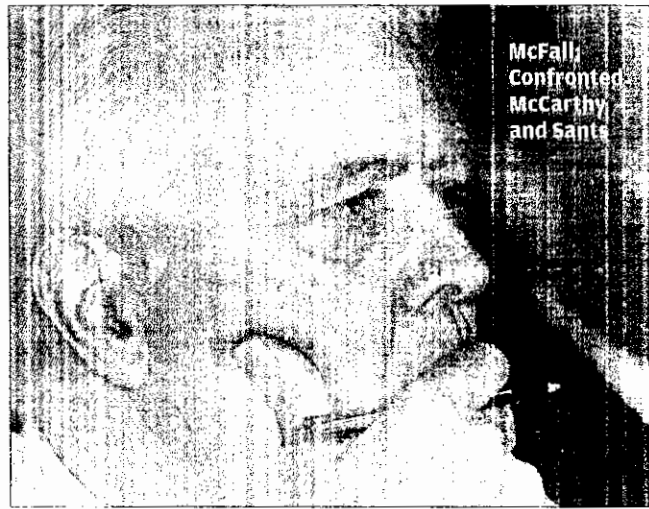
At a Treasury select committee meeting this week, chairman John McFall confronted FSA chairman Callum McCarthy and chief executive Hector Sants with the allegation that FSA staff were the source of a critical BoE story.

McFall said he has been told by journalists that the FSA "spinners were out" but

McCarthy said he did "not recognise this statement" and he would fire any staff member found guilty. McFall has written to the FSA to investigate all staff who briefed journalists in September.

McCarthy also got a mauling from McFall for refusing to answer a number of questions relating to the tripartite system of governance.

McFall said: "This is getting really, really unsatisfactory. It seems you are crawling into your den and not answering anything. We want to sort out this issue, we need to know what one of the emi-



McFall confronted McCarthy and Sants

nent authorities thinks."

Labour MP Sion Simon said "everyone in the room" knew the FSA had briefed against the Bank of England and branded McCarthy the "Sugar Ray Leonard of financial services" as he was a "world-class ducker and diver".

Sants told MPs that the FSA had "lessons to be learnt" about supervisory issues such as extreme stress testing and investigating the role of credit agencies and claimed practical obstacles rather than EU law were the main barrier to a covert lender of last resort facility.

CBK says submit records to stop non-disclosure

By Helen Pow

Non-disclosure could be eradicated if clients submitted their full medical record to insurers alongside their protection application, according to CBK principal Peter Chadborn.

Norwich Union is researching a guaranteed protection product in a bid to reduce non-disclosure but Chadborn says this could confuse consumers by suggesting that non-guaranteed products are a gamble.

Chadborn believes he has devised a more effective way to kill off non-disclosure. He says if advisers submitted a copy of their client's medical records with the policy application for insurers to review when underwriting, this would enable insurers to be sure of clients' pre-existing medical conditions.

Copies of medical records, which GPs are required to provide within two weeks of a request, cost £10 to £50 but Chadborn believes insurers would prefer to reimburse clients for their medical records than pay for a GPR which is around £80.

He says: "Using this procedure, the insurer cannot claim reckless or inadvertent non-disclosure because they have been provided with all but a medical and both the adviser and the insurer will improve their persistency levels because the client will better understand the policy's value. It is hard to deny that this process will improve TCE."

He is now asking other advisers and providers for their views.

Education, p18

TMP buyout system to cut out churners

By Sam Shaw in Alicante

The Money Portal has launched a practice buyout system that values businesses by as much as six times annual earnings but penalises advisers for any perceived churning.

The system, unveiled at the Sage conference in Alicante this week, will apply across TMP's businesses and forms part of its response to the RDR.

The What If? system rates firms on four main criteria - quality of advice and data, compliance record, amount of trail commission taken and uptake of Entelechy, its initiative to move advisers away from up-front commission. This is combined with its new product

matrix, which provides a qualitative overlay. This provides a total buyout figure which depends on the quality of business as well as size. TMP says this allows it to pay high sums because it will limit any liabilities.

Entelechy excludes products with high up-front commission while the What If? system penalises switches from, for example, one onshore bond to another onshore bond if it cannot be justified. The system also rewards advisers with a greater proportion of trail-based commission and fees.

Group director of strategy and distribution Alan Easter says it is a fixed, transparent and objective calculation of potential practice valuations

which means advisers see a direct correlation between the quality of their advice and price tag if they decide to sell it on.

Easter says: "This takes all subjectivity out of the equation, plus it is risk-free so there is no need for run-off because TMP takes the liability. We know generally practice buyouts are based on quantitative figures. This means we can reward accordingly based on qualitative performance as well."

TMP says an adviser writing £2m of investment business annually could develop a practice worth £308,692 to over £1.4m - potentially 6.25 times annual earnings. Firms must have been with TMP for at least three years to qualify.

The financial market might be approaching meltdown. Will you melt with it?

Investment Intelligence Seminars 11th October - 5th December



For full details and to reserve your place now, visit www.invescoperpetual.co.uk/seminars or call 01491 417701.

CBK principal Peter Chadborn on catching the high proportion of unpaid claims

An education in non-disclosure

There is much talk about the need to better educate consumers and advisers regarding the issues and implications of non-disclosure. Similarly, the ABI has aided consumer and adviser understanding of critical-illness definitions via its statement of best practice.

This idea is essentially one that the Colchester office of CBK has already partially embarked on and I would therefore like to put it out for discussion to see if there are parts of it that others see merit in.

About 20-25 per cent of claims are currently turned down for non-disclosure. About half of these are turned down due to not meeting policy definitions and half down to various forms of non-disclosure. Therefore, I think that this idea could catch a considerable proportion of the non-disclosure unpaid claims.

Objective

- To considerably reduce potential for non-disclosure when several pre-existing medical conditions prevail.
- To avoid the potential for adviser implication if a claim is unsuccessful due to non-disclosure.

In order for improvements

to be made, all parties need to take an increased level of responsibility.

Consumer: obtain medical records.

Adviser: separate the advice and the application process.

Insurer: review the medical records at application stage

Step 1: Adviser makes broad recommendations and potential health issues are identified. Application form (and supporting docs etc) left with clients to read, digest and complete in their own time. Therefore:

● Clients under no pressure to remember medical history on the spot.

● Clients educated re non-disclosure.

● Adviser has not asked the medical questions or completed the application form (unsuccessful claimant cannot allege info disclosed but not recorded by adviser).

● Persistency levels increased.

● TCF-friendly.

Step 2

Via a template letter, provided by the adviser, the client writes to their GP to request a copy of their medical records

Step 3

Completed application form and medical records forward

ed to the adviser by the client who in turn packages and forwards to the insurer by their preferred method.

The notes section on the application form states "in case one have missed anything..." or "for the avoidance of doubt... my medical records are attached"

Conclusion

Consumer:

● Better understands the contract in which they are entering into because they have had time to read the accompanying literature (ie critical illness definitions)

● Having had sight of their medical records, they may learn something which their GP felt "they may not need to know..." or "they may not understand..."

● Fully understands the importance of full-disclosure

● Better understands and appreciates the work that the adviser is doing for them

Adviser:

● Has separated the advice and application process and reduced their exposure to potential claims of undue influence at application stage or inefficient advisory processes

● Has better educated clients

● Has improved their protection

persistency because (a) client is not likely to go through this process and then cancel the policy because they better understand its value. (b) not likely to replace the cover for a cheaper alternative because of the lengthy application process.

● Demonstrates TCF.

Insurer:

● Cannot claim reckless or inadvertent non-disclosure because they have been provided with all but a medical.

● Has improved their protection persistency because (a) client is not likely to go through this process and cancel the policy because they better understand its value. (b) not likely to replace the cover for a cheaper alternative because of lengthy application process.

● Demonstrates TCF.

Notes:

● Medical records must be provided under the Medical Reports Act 1988.

● Provided within two weeks.

● Cost minimum £10, maximum £50 depending on number of sheets. This cost should be reimbursed by the insurer as it is considerably less than a GPR cost.

● A couple of questions dur-

ing the initial fact-find process, once a protection need has been established, should identify when it would be appropriate to utilise this approach, that is, "Have you visited your doctor or sought any medical advice in the last five years?" If the answer is yes, "Can you readily recall all the instances, the date(s), diagnosis, treatment and/or medication and outcome?" If the answer is no, then this approach may be appropriate.

Anticipated objections

Time

Time spent is initially greater but is then saved by the removal of a need for a GPR in most cases.

If there is a need for speedy application process/underwriting due to impending mortgage, then the application can be submitted anyway (paper or online) and medical notes can be sent afterwards (re recent Norwich Union amnesty).

Cost

Insurers must put more resource into additional underwriting and will therefore be resistant to this idea. If this puts premiums up, then so be it. An extra few pounds on the cost

of protection policies will not be a showstopper.

It is hard to deny that this process will not improve TCF

Business model

incompatibility

Many firms will be resistant to this idea because it does not fit their business model. Engaging in the TCF principals does not mean paying lip service to it. It surely means assessing processes, identifying areas for improvement and implementing improved processes.

"Transactional" advisers who sell more than advise will also be resistant due to the perceived extra time and admin added to the sales process. If persistency rates are low, this process should improve them.

Non-return of applications

If application forms are not returned, then this would imply that the consumer has not fully bought into the need and you would therefore have to question the quality of the advice process.

CBK (Colchester) has been "separating the advice and application process" for about 12 months and has seen no reduction in protection take-up.

CBK (Colchester) persistency levels remain high.