MoneyMarketing

Protection review

India Aldridge | 20-Dec-2007

The last 12 months have seen several significant events which have changed the shape of the protection industry.

The year started with Asda bucking the trend set by the other supermarkets by choosing to offer an advice service to its protection customers.

After a drawn-out bidding war Lifesearch was chosen to partner Asda, the first time that a partnership between an advisory firm and a supermarket has been tried, the signs so far are pointing to a marked increase in conversion rates and a decrease in lapse rates.

In March, Gordon Brown delivered his last Budget as Chancellor of the Exchequer. He caught the headlines with a 2p reduction in the basic rate of income tax but there was bad news for the protection industry as the Budget confirmed the Government's decision to end free-standing pension term assurance.

Even though the U-turn had been flagged by the Chancellor in his pre-Budget report in 2006, the abolition of PTA was widely condemned by the industry for removing an effective incentive for people to take out insurance and help close the protection gap.

The decision was also criticised for the negative effect that it had the industry's reputation, coming less than a year after stand-alone PTA was introduced, with many commentators saying it further reduced consumers trust in financial planning because of continually changing regulation.

The industry was also critical of the amount of money they had wasted on setting up systems and processes for PTA, with an estimated £35m spent for only nine months' business.

Throughout 2007, Money Marketing campaigned to make the non-advised sales process more informative for consumers and when the FSA finally released its consultation paper covering Icob in June, there was good news on this front.

If the new proposals are to be introduced, this would mean that advisers would have to conform to tighter rules when selling protection products and have less prescriptive rules when selling general insurance products.

In return, the responsibility for getting the right product is passed to the consumer and it would be made clear that they are making this decision without advice.

Lifesearch says: "The paper made it clear that it is the customer's responsibility to choose the right product and not the non-adviser's responsibility. It is crucial that this is in the Icob."

But the FSA's paper did not meet with universal approval. In October, we reported consumer advocate Mick McAteer saying that if the regime were to be reformed, the changes would be detrimental to consumers.

He said: "Categorising income protection in the same group as products such as critical-illness cover and payment protection insurance does not correlate well with the comparative risk of consumer detriment associated with the different product types."

July also saw the Law Commission propose a five-year non-contest ability period in its consultation paper but the proposals were not well received, with the Association of British Insurers saying the move would cause havoc within the industry.

Some advisers said the period is too long and a three-year period would be more appropriate. The exclusion of critical-illness cover from the non-disclosure period was also criticised.

This year has not been all been about regulation though. July saw an innovative new life insurance policy offered by Animal Friends Insurance, underwritten by LV=, offering vegetarians a discount on life cover on the basis that vegetarians are reckoned to be up to 40 per cent less likely to get cancer and 30 per cent less likely to get heart disease than the general population.

Another innovation arrived in September with the second partnership between Prudential and South African life insurer Discovery. PruProtect is based on a product that Discovery has been selling successfully for several years and offers a combination of life, critical-illness and income protection all in one policy, paying out at different levels depending on severity. The policy comes with the added extra that, like their other joint venture PruHealth, if policyholder puts in n effort to become or stay healthy, their premiums can reduce.

However, amid the generally favourable reception for the product there was a word of warning, as policyholders who make no effort to improve their health could see their premiums rise.

CBK principal Peter Chadborn said Vitality should be an option, not an integral part of the new product as "it will be difficult explaining to people who are interested in the severity-based model that their premiums may go up if they do not go to the gym".

The flexibility of PruProtect has been welcomed by the IFA market and there are rumours that it will be joined by other products early next year, with Fortis reckoned to be looking to enter the market in February with a combined life, critical-illness and income protection plan.

In October, Chadborn suggested that non-disclosure could be eradicated if clients submitted their full medical record to insurers alongside their protection application.

The following week, Anand Associates said it had successfully followed the underwriting procedure that Chadborn was advocating for the past two years.

But some critics claimed that if the procedure were taken up by every adviser, premiums would be driven up and there would be added pressure on the NHS.

Another way of getting around the non-disclosure issue is a guaranteed protection product. In November, Lifesearch said it had teamed up with two life offices, which Money Marketing revealed later to be Axa and Norwich Union, to test such products in a bid to gauge customer interest.

Also in November, Standard Life announced it was withdrawing from the protection market.

After entering the market in 2005, Standard Life had acquired less than 1 per cent of the UK's market for life insurance, income protection and critical-illness cover and the company has decided to concentrate on other lines of business.

Standard's decision was promptly followed by Scottish Widows' decision to stop offering quotes for protection insurance through any of the online portals, effectively ruling itself out of the IFA market.

Despite the shrinking number of product providers and the increasing commoditisation of protection insurance, it has not been a bad year for the business.

According to figures from the ABI, sales of regular-premium whole of life cover are up and critical-illness business is rising.

Figures from Lifesearch show that the number of paid claims during 2007 increased to 84 per cent across the industry, up from 81 per cent in 2006.

Lifesearch policy adviser Matt Morris says: "The industry still has a long way to go but this advance is an encouraging sign."

Finally, back to regulation. The investment industry has been coming to terms with what the retail distribution review may do to the advice process but up to now the mortgage business and protection sector have been left alone.

However, this looks set to change as the end of 2007 there were several announcements from the FSA indicating that these two areas would be next on the list.

Source: Money Marketing