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Bright sparks

With sales of protection products continuing to struggle, the question is which brave innovator is going to lead the industry out of the shadows and into a more prosperous future? Peter Carvill reports.

As the protection industry ticks into the second quarter of 2008, the issue of the protection gap is becoming increasingly pertinent, especially in light of the financial woes that are building as the credit crunch begins to bite. Since the adage of the world catching a cold whenever the US sneezes tends to hold true, the protection gap in the UK may soon set its teeth upon the British consumer if businesses begin to fail resulting in job losses.

Protection has long been seen as the poorer cousin of other financial products, such as pensions, with sales continually falling far short of their potential. Geoffrey Spencer, chief executive at Shepherds Friendly, says income protection (IP) policies have been the least purchased financial product in the UK. The trend, according to Spencer, has been down for years due to a number of reasons: "Our view is that it's been an industry failure that it has taken the easy road by concentrating on death cover." He adds: "Running alongside that were awful consumer and media views of protection in general. The industry has also gained itself a bad name by not treating customers as it should."

Innovation, like with everything else in life, is the key to moving forwards. And while the protection industry has been bolder in recent years regarding product innovation, there is always room for improvement.

Back to the drawing board

Roger Edwards, products director at Bright Grey, thinks that while there has been little in the way of genuine product innovation, providers have been looking at the process by which policies are underwritten and seeking change. However, he claims, it is time to shift that focus: "A lot of people have been looking at the whole experience where you apply, underwrite and claim. And they've said those aspects are part of the overall thing so that's innovation in their opinion. It's time to revisit the whole financial aspect."

Peter Chadborn, principal at CBK Colchester, thinks there has been no distinctive cross-industry trend in product innovation over the last year.

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However, he says there have definitely been signs of providers thinking about what they could be doing differently and then forging their own paths in terms of product offerings. In particular, he thinks some providers are beginning to look more internationally by bringing products that have worked well overseas into the UK.

However, Chadborn thinks providers are not copying each other but are focusing instead on developing unique aspects of their products. This can lead, he says, to advisers sometimes not knowing where they stand in relation to some of these developments.

"I guess a theme around innovation has been tele-interviewing or tele-underwriting, and what we've learned is that those words have different meanings to different people," Chadborn says. "With some providers it's been trained nurses and with others it's been tele-interviewing with someone getting factual information. From an adviser point of view, it's sometimes hard to know what they mean," he adds.

Breaking new ground

Looking at product developments, Edwards singles out PruProtect's severity-based cover and Lincoln Financial Group's IP offering as having pushed boundaries in the protection market. Edwards thinks Lincoln has done something he has long thought the industry should be putting into practice by ensuring customers know exactly what they would receive in the event of a claim rather than having to wait until the worst happens: "I've always said what we should do is let people have what they pay for. That's what they have done, and it's what we should be looking at."

PruProtect was singled out as being the most innovative product of 2007 for its severity-based index and Vitality scheme with both of these elements being seen as unique and market-leading. The Vitality concept means that customers are actively rewarded with lower premiums for leading healthier lifestyles. The scheme also makes use of discounted gym memberships for those who exercise regularly. But while applauding the product, Edwards says the offering on the latest product is vastly different compared with the discounts offered on PruProtect's private medical insurance (PMI) products, and consequently this may put off consumers.

Both Edwards and Chadborn believe PruProtect's severity-based cover is an important innovation. Instead of having different payouts for different illnesses, the provider grades its payouts on the effect the illness has on a client's life. Edwards explains: "Instead of having 40 illnesses, PruProtect split them into degrees of severity. I like the idea of that but the problem is that by sub-dividing illness, you create a product which has so much small-print that you are going to put a lot of people off buying it straight away."

While the industry has been quiet on product innovation, it has been noted that providers are focusing more on the add-ons that come with their products. This widening of the benefits available to consumers has not been confined to PruProtect. A key development gaining momentum has been the tele-underwriting service from MorganAsh which has been taken up by a number of providers.

MorganAsh's tele-underwriting has, in the past year, been adopted by a number of providers including Pioneer, Lincoln Financial Group, Friends

Provident, Shepherds Friendly and Scor Global Life. The service sees trained and experienced nurses conduct interviews with policyholders in order to gather detailed health information. Along with a reduced need for GP reports, MorganAsh claims its service reduces non-disclosure by up to 70% and boasts not one contested claim from 30,000 interviews.

When asked what development they would like to see over the coming 12 months, the industry response was a wish to see progress that continues the developments of the last few years.

Dominic Howard, director of UK and Ireland at Best Doctors, says he would like to see a continuation of the GP and counselling helplines that have become popular with providers such as Canada Life and Norwich Union: "I think what's needed," he says, "is a genuinely interactive online medical service which would allow people to ask specific questions and get specific answers as, according to Datamonitor, over a third of 18 to 54 year olds are going on the internet to look for health-related information."

Looking to the future, Edwards wishes to see the consumer needs of debt repayment and income replacement married together, possibly even as a new product: "You can design it from a menu but there is nothing particularly dedicated to filling that place in a single format. If mortgage payment protection insurance wasn't so lambasted, that, plus life cover would be an interesting combination but you would have to eliminate some of the negatives."

However, Edwards believes such a development may not succeed because it not only requires a few years' commitment for it to become established but it would also be difficult to win over advisers and company shareholders: "Launching anything different to advisers takes a big commitment with marketing, and for businesses that have short-term targets it is something boardrooms and shareholders don't want to hear."

Talk has also turned to Fortis' forthcoming arrival into the protection market, and the rumours that a major North American insurer is to make an entrance into the arena. Experts hope that increased competition in the market will lead to an increased variety of the products on offer.

Whatever happens in the near future, it seems the protection industry has developed a long-needed appetite for innovation. It has become obvious that in the last couple of years providers have been competing with each other on price rather than in depth of product. While this may have been attractive to consumers in the short-term, it meant that protection policies were becoming indistinguishable from each other in the market.

Customer apathy, long the enemy of healthy sales, combined with products that do not stand out from the crowd has meant they remained undersold. It is not only possible then, but likely that continued innovation and a push in the mainstream media to promote protection will not only improve product sales, but will also tip the balance that will bring the buying of protection into the mainstream. n

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