

The future is bright?

With a stormy economic climate forcing advisers to seek alternative revenue streams, this month's COVER Think Tank focuses on how IP can flourish in these tough times. Johanna Gornitzki reports.



Johanna Gornitzki

Last year industry experts predicted 2007 would be the year of income protection (IP). Did that turn out to be the case?

Peter Le Beau

The Association of British Insurers' (ABI) figures suggest the number of sales has gone up by 25%, which is 34,000 policies, to 173,000. So in that sense, I think we have seen some partial green shoots of recovery in terms of sales. But new business premiums are completely flat.

Tom Baigrie

Sales of individual IP have only increased in the past year thanks to the supply side effort. There has been no increase in consumer interest and a great proportion of sales are budget. Consumers are not prepared to buy as much cover as they require but they can see a bit of a need and are happy to buy something when persuaded.

Alison Turner-Holmes

And does that tend to be stand-alone IP?

Tom Baigrie

No, the number of approaches we get from consumers related to life insurance is huge compared with the tiny number we get for IP. But we make an effort to add IP to the sale of life insurance.

Johanna Gornitzki

Will we see an uptake in sales this year or will the market remain stagnant?

Roy McLoughlin

It will be interesting to see what happens to the mortgage market. Brokers are saying that they are almost being forced to start selling other products, which is ironic because they should have sold IP in the first place. This is good news nonetheless.

Andy Chapman

We are 10% up on last year's IP sales so, at the moment, the downturn in the mortgage market seems to be playing in our favour.

Johanna Gornitzki

Do you think that will last?

Andy Chapman

There is no indication at the moment that it won't. However, I think we need to get the word out to a wider audience of intermediaries.

Peter Chadborn

Estate agents would definitely endorse the idea that the slowdown in revenue from normal business has meant they are focusing more on other revenue streams and obviously protection is the main one.

Alison Turner-Holmes

Protection is a very cyclical market. It is closely related to interest rates and every time we have a slump in the mortgage market, advisers are looking at replacement income instead.

Roy McLoughlin

The good news is that for the first time ever, many mortgage brokers have to ask the question about IP in their fact-finding process due to the regulator's Treating Customers Fairly (TCF) initiative.

Peter Chadborn

It will be the test, when the mortgage market recovers, as to whether this is down to TCF or just down to advisers looking for more revenue.

Johanna Gornitzki

Looking at the credit crunch, do you think it will have a positive effect on sales in that more people will think about protecting themselves?

Peter Chadborn

It will be adviser-led, not consumer-led. More people are concerned about their savings and investments as a result of the credit crunch than they are about financial exposure. I think it will be down to advisers to lead that push.

Tom Baigrie

From the consumer side, the demand for unemployment cover is rising strongly. It is up to the seller to turn that into the right sale which, generally speaking, will be an IP sale instead of a mortgage payment protection insurance (MPPI) sale. The vast majority of

volume sellers have little interest in doing that; they sell MPPI because it is more profitable and easier to get on the books, and that is an issue we need to address.

Alison Turner-Holmes

Consumer research we have just done showed that people who thought they had IP actually had MPPI.

Johanna Gornitzki

So do you think advisers need more education when it comes to selling IP?

Roy McLoughlin

Yes, it has always been more of an adviser problem. I think we have a problem with a lot of IFAs who almost look down their noses at IP or protection as a whole.

Tom Baigrie

This is not due to laziness or incompetence but profitability. It is much easier making money selling investment than protection, which is extremely hard to make profitable in the long term



Alison Turner-Holmes, Scottish Provident

due to the structures of the products in the market.

Peter Le Beau

I agree. The consumer does not know about protection because they are not educated enough because the Government doesn't choose to make them more aware of it.

Andy Chapman

There is also a great deal of need for the education of intermediaries and there is acceptance on their part that they need educating.

Tom Baigrie

It is hard to persuade people to do something when you have a Government which is failing to come clean on the way it has cut back the welfare state and how people have to make their own provision. If you can run public awareness campaigns on 1001 things, then you can run it on the fact that you no longer cover people like you once did. I think that is the responsibility of the Government and no one else.

Alan Martin

Is it realistic to expect consumers to fully understand the need? Is that not the role of the IFA?

Tom Baigrie

If you look at the number of IFAs versus the number of consumers, there are not enough advisers. But if the Government came clean and explained the need, there would be huge consumer demand and the number of IFAs would rise very fast.

Johanna Gornitzki

In what way could the Government do that?

Tom Baigrie

It needs to publicise the shortfall between what

the consumers think they have and what they actually have.

Peter Le Beau

You could say to each employer that it is mandatory at the end of each year to provide all employees with a statement talking about how long they have sick pay for, and what state benefits they would be entitled to after that, showing the shortfall. They could do that without much difficulty.

Alan Martin

We did some research last year that showed people believe they have savings to fall back on, or their partner could go back to work, or they have equity in their house. They believe they can call on many other solutions outside of IP. We must tackle that.

Alison Turner-Holmes

Our research came out virtually the same. The top thing was that they would rely on both earners within the household so if the breadwinner is ill, they are assuming that the other one will go and earn income.

Alan Martin

Another hurdle is that most people find it quite difficult to see themselves going off work with stress and anxiety for example, while they can relate to critical illnesses such as cancer, heart attack and stroke much easier. We have to find a way through that.

Peter Chadborn

The industry has a responsibility to make people aware of the needs they have. There is a huge amount of inertia in the IP market where companies regard it as a product they have in their armoury but don't actively market it.

Andy Chapman

There needs to be some serious research to find

out what would push the buttons of consumers because I don't think the current product design is particularly friendly to sell directly. That is an issue for the product providers; we need to find out what will work for them.

Alison Turner-Holmes

That's right. The problem with IP is getting the balance right: flexible but not too complicated.

At the Think Tank table

Guests	
Tom Baigrie	managing director, LifeSearch
Peter Chadborn	principal, CBK Colchester
Andy Chapman	chief executive, Pioneer
Peter Le Beau	managing director, Le Beau Visage
Alan Martin	critical illness and income protection revenue manager, Swiss Re
Roy McLoughlin	senior partner, Master Adviser
Alison Turner-Holmes	head of marketing, UK new business, Scottish Provident, Resolution
Hosts	
Johanna Gornitzki	editor, COVER
Peter Carwill	reporter, COVER

That is one of the huge barriers to the sale, trying to gather the information

Alison Turner-Holmes



Roy McLoughlin

The biggest problem is that there is almost a reticence or a deliberate ambiguity from employers to tell their employees how much they are covered for.

Alison Turner-Holmes

That is going back to what Peter was saying. You get your P60 every year but it doesn't mention the benefits you have if you are off sick.

Peter Chadborn

One of the biggest challenges is the misconception from new clients when we try to assess their protection requirements. They know what their mortgage is, they know what their income is, so you can talk relatively simply about CI and life cover needs, but the first port of call with IP is what benefits does their employer provide? There are huge misconceptions here.

Alison Turner-Holmes

That is one of the huge barriers to the sale, trying to gather the information.

Tom Baigrie

Surely consumer education would clear that?

Roy McLoughlin

Or a campaign. We seem to have a problem in the UK with talking about negatives. What is wrong with disturbing people? These things happen, the

statistics are out there and maybe a campaign with the providers would help.

Andy Chapman

There seems to be a negativity among providers to pool money into a generic awareness campaign. We do need to sort this out.

Alison Turner-Holmes

Yes, I agree.

Tom Baigrie

Providers often use the ABI as a blocking mechanism to these kinds of discussions. They say: "Well you should talk to the ABI about this." And then you go to the ABI and they say: "Listen, that is not our job, we are a representative organisation for a bunch of different commercial entities." So you end up in a circle. Key providers in the IP market should stop talking about it and get together and just do something, irrespective of what the ABI thinks. If that is not possible, then I would rather see a series of competing campaigns. And let's make those providers who don't do it feel left out. Because there are a couple almost blocking progress in this market because they are happy with their current market share.

Alison Turner-Holmes

It is a wonderful idea and I have said for a long time that the problem with our industry is we are not regarded with enough respect. Consumers are very sceptical about our industry.

Roy McLoughlin

Are they sceptical because of the policy? There were two huge mis-selling scandals in the 80s and 90s which touched on a lot of people's lives.

Alison Turner-Holmes

The Government needs to recognise that the more planning we do in the private sector, the more money we can save the public. It would be

great to have its backing. IP is part of the foundations of any financial planning; it has to be made more simple, by reducing the barriers for everybody.

Tom Baigrie

We need to overcome two key issues regarding how the product should be developed. The first is simplicity; it needs to be easier to understand. The second is a basic fact of contractual misunderstanding. When the consumer applies for IP, their view of the risk being underwritten is completely different to the underwriter's view. Consequently, the consumer has no understanding of why the underwriter is asking many questions, probing this detail and the claimant has no understanding of why the insurance company's claims assessors are being so tough. That is going to ruin the market because consumers will resent the way insurers behave. The solution to these problems is a lump sum. IP cannot be paid out in a lump sum but it can be described like that.

Peter Chadborn

Tom's point emphasises that a lot of consumers



Tom Baigrie (left) and Alan Martin

see IP as a short-term need.

Alan Martin

If you get inside the head of the consumer, I don't think they see the need for 'own occupation' cover replacing the whole of their income until retirement age. Most own occupation claimants could move into a different career further down the line.

Andy Chapman

But people don't want uncertainty. They don't want this idea of suited occupations because what is suited when you talk about that?

Tom Baigrie

Of the two difficulties put forward, own occupation seems to be the one to get right. Having the cover until 65, or whatever date you retire, seems to me to just come second in the queue behind own occupation. Research shows consumers are thinking in terms of 18 months, two years or three years. The PPI market is playing on that misconception. So there is not much point in trying to sell them something they don't need, or don't think they need. You have to get them to think they need it and bring in a product that runs for a shorter period. Saying that, I think two years is the industry not doing its job properly.

Johanna Gornitzki

So what would be the right limit? Five years?

Tom Baigrie

Eight years is mathematically sound.

Peter Le Beau

Claims stats are really important too. You have to put pressure on companies until they get to that tipping point where if they don't publish their statistics, it looks as if they have something to hide. Consumers need to be reassured about our motives and intentions. The problem so many

companies have is they are not going to look good if they compete with other companies like Pioneer and Cirencester who pay immediate benefit claims. What we have suggested is to have a global figure where we don't identify the companies. But what would it do? A journalist asked me, "What percentage of claims are paid in IP?" and I said, "The offices that produce this statistic say 95%". He said: "What? 95%, surely not." I said "are you surprised insurance companies are actually paying out on a product?" And he said, "no, it just seems so high." And I said "well, that is the nice surprise the industry may be able to give the consumer".

Tom Baigrie

The key thing about the publication of claims stats is the moment you start putting things in the open, you start making them better.

Peter Chadborn

I find it has increased confidence at point of sale because we now have a better understanding of what is a claim, what is not a claim, why is it not a claim, when does something not meet the definition. You can have that conversation with the client and they understand the difference.

Johanna Gornitzki

So do you think it would help improve sales of IP if all providers published their IP claims stats?

Peter Chadborn

With the ones we have dialogue with it definitely helps.

Alan Martin

With CI, we would all agree that the claims stats were a good thing but IP is very subjective. Providing greater clarity and certainty around claims is even more important. We can do more to sell what we do at the point of claim. For instance, a company's own claims team can, if



Andy Chapman, Pioneer

they manage an IP claim correctly, often help the claimant through some of the issues they have. We have had experience where we have declined claims but the claimant thanked us for the help and advice given. That is what we should be trying to do with every claim that comes through.

Johanna Gornitzki

Going back to the core of the product, how can we make it more attractive? Will we see any new products being launched into the market?

Tom Baigrie

Yes. One provider is almost certain to launch a new form of IP product in Q2 this year.

Johanna Gornitzki

Which one?

Tom Baigrie

That is not my job to reveal. But we have worked closely with them for a long time in getting it somewhere. There is a desperate need for a product that is built with two fundamental purposes in mind. The first was 'no excuses IP' so that no one in the game has to make excuses: the consumer, the seller or the provider. That is a fundamental principle I hope new products will

embody. And then the second is you cannot realistically sell a product on the scale we need to sell IP unless it is extremely simple to buy. If you have a vast array of choices and questions the consumer and the adviser have to make, you are building a minefield that stops proposals from completing. The new design has to keep it simple.

Johanna Gornitzki

You mentioned eight year payout periods. Is that something this provider will adopt?

Tom Baigrie

The question of lump sum is certainly something dominating my thinking but I cannot speak for providers in this forum.

Alison Turner-Holmes

Any provider that does not continually improve or better promote or educate this year and next will be negligent, both to the end consumer and to the brokers.

Peter Le Beau

There has been quite a lot of product development already and, as Tom says, we know one or two others that are rumoured to be coming out with something. There is a lot more energy in the industry and more new products are being launched than ever before. One issue that continually causes problems is the issue of standardisation. This acts like a huge straitjacket. All we are asking is to try and make the advisers' job simple where there are tiny differences between offices in terms of contracts.

Peter Chadborn

How many of the important decision makers in our industry take time to speak to the people who are going to distribute their products?

Roy McLoughlin

The crucial people in the jigsaw are the advisers.

Going back to innovation, the amount of communication between providers and distributors regarding product design worries me.

Tom Baigrie

I can answer that as I have been working with a series of providers for four years in bringing this one to the stocks. The challenges are huge and one of the key ones is that we have a very real expectation that almost every aspect of the product we eventually launch will be looked at with an evil eye, not as to how it may increase the market and grow it but at how it may be criticised and challenged. The question of building a product that is easy to sell but is not the complete solution is one other industries find easy. But our industry has a great habit of looking at the whole thing and saying, "Oh, it is not perfect, therefore it is rubbish". And that is something that we are all very scared of.

Alison Turner-Holmes

Recently, the industry has changed quite considerably in terms of research. We now run our literature past consumers and advisers before we go to print to make sure that everybody understands what we have written. And similarly, with product development, there are no ivory towers any more.

Johanna Gornitzki

Looking ahead do you think the future is bright for IP or will it continue to struggle?

Consumers need to be reassured about our motives and intentions

Peter Le Beau

Tom Baigrie

Given product development, which makes it easier to buy, I think the future could be very bright. However, the Government needs to stop lying by omission and admit the welfare state is no state to be in.

Roy McLoughlin

Education is the key which is why the more providers come out and think along those lines, it cannot do anything but help.

Tom Baigrie

Financial promotion of MPPI has to be sorted out because at the moment it is sold as IP.

Roy McLoughlin

We were told, two months ago by someone from the ABI that we had to stop bashing MPPI and payment protection insurance (PPI) because it would harm the IP market. To me that is complete rubbish. They are two different products.

Peter Le Beau

We are going to produce a White Paper towards the end of the year and that second White Paper will look much more at how we get the message



One provider is almost certain to launch a new form of IP product in Q2

Tom Baigrie



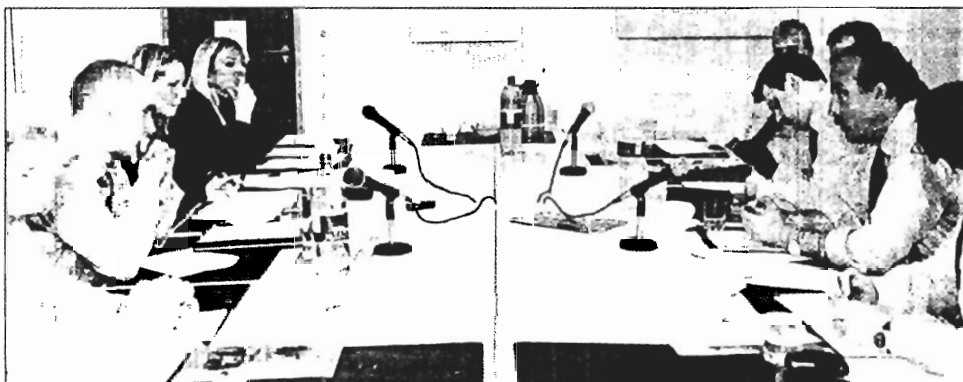
across to consumers and advisers because they are both important.

Tom Baigrie

I think the FSA has a support responsibility. I don't think calling MPPI IP is TCF. The FSA could stop it immediately. When I asked them, they came back with a confused reply about how this was the responsibility of those practising it which seems to be a regulator washing his hands of the offence. The FSA could make MPPI sellers call their product PPI and let IP regain its polluted brand.

Peter Le Beau

That may well be one of our conclusions as well in the White Paper that we need to do this as a matter of urgency. □



(Clockwise) Peter Le Beau, Peter Chadborn, Johanna Gornitzki, Alison Turner-Holmes, Andy Chapman, Roy McLoughlin, Peter Carvill, Tom Baigrie and Alan Martin