

Guaranteed protection 'could harm consumer confidence'

By Emily Perryman

A product that promises to pay claims in full even if consumers have not fully disclosed could damage consumer confidence in the protection industry, it has been claimed.

The comments came after AXA announced it had linked up with IFA firm LifeSearch to pilot a life insurance product which guarantees a full payment if the claim is made after a two year period.

AXA and LifeSearch believe the product could rebuild trust in the industry and give consumers peace of mind. But some advisers believe it could have the opposite effect entirely.

Peter Chadborn, principal at IFA firm CBK Colchester, said: "By marketing something as guaranteed, it could imply that everything else is a lottery. Therefore the existing trust in the industry could be undermined."

In particular, it has been claimed that the product could have a negative effect on AXA's other protection products. Richard Verdin, sales and marketing director at Direct Life & Pensions, pointed out that customers who buy AXA products through an adviser other than LifeSearch would be at a disadvantage.

"If AXA doesn't spread the terms out to its other products, why would anyone buy them?" he asked. "It will undermine confidence in those other products. It is a pilot, but confidence is everything."

Similarly, Gerry Warner, protection development manager at Zurich, said that although innovation in the protection arena is to be welcomed, existing customers might think the plans they hold are inferior and have a higher risk of not paying out.

"Will current 'non-guaranteed' plans sold by the majority of the industry be equally considered inferior?" he asked. "The overriding issue is that current products will pay out provided customers are truthful and do not deliberately hide information which is key to the application."

Difficulties may also arise when an adviser wishes to sell combined life and critical illness (CI) cover or a menu of products. Chadborn said almost every recommendation he makes is a mixture of different protection products.

"How would I answer a client who asks why a particular part of the menu is not guaranteed?" he asked. "We are already struggling to get consumers to consider income protection (IP) and this could have a further negative effect. The consumer will naturally ask why one product is guaranteed and not the other."

Matt Morris, policy adviser at LifeSearch, said the issue is the valid one, as the firm is already selling the guaranteed life policy with CI and IP.

"It is important that the adviser ensures they make it clear that one policy is underwritten upfront and the other is not," he said. "In reality, however, while the CI and IP elements do not have an official guarantee, we are very confident it will pay out because the customer will have already been underwritten upfront through the guaranteed life policy."

Morris added that LifeSearch does not believe consumers will be confused, but that it is early days and the point of the pilot is to iron out any such difficulties.

FRAUD

Another concern is that guaranteeing a payout could result in consumers lying when they apply for the policy. Darren Dicks, head of protection marketing at Norwich Union, said the insurer considered introducing a guaranteed product last year but felt the Association of British Insurers' (ABI) non-disclosure guidance was a more effective way of resolving the declined claims issue.

"Two years is not a long time and it could lead to people thinking they don't have to disclose fully," he said.

AXA believes it will eliminate the likelihood of non-disclosure by teleunderwriting all the applications it receives and making consumers undergo a medical. Its statistics over the past year suggest that teleunderwriting reduces non-disclosure to 1.23%, compared to 3.48% for electronic applications and 5.78% for paper applications.

Iain Mallon, director of protection marketing at AXA, said: "The problem of non-disclosure hasn't gone away with the ABI's guidance because insurers will be giving proportionate payments. If a husband dies and the insurer finds out they were a smoker and only pays a proportionate amount of the sum assured, his spouse may still have to sell the house."

Mallon claimed that the key issue is whether insurers believe consumers are lying to them by not completing applications correctly or whether they believe the application process is fundamentally flawed.

"A lot of insurers believe the former and don't accept the latter," he said. "Until there is a level of acceptance on application processes we won't get industry change."

Even with teleunderwriting, however, Mallon admitted that AXA was running the risk of anti-selection. As a result, while it is offering the same level of premiums as its non-guaranteed life products during the pilot, it may increase them if it decides to offer the product permanently.

CRITICAL ILLNESS

AXA's pilot is only for life insurance, but Mallon said that once he has got feedback he would like to extend it to CI as well. This could have a bigger impact because the percentage of declined claims is much higher.

"The CI declined claims rate is 10%-20% at present and this raises the question, is it a lottery product or proper cover?" said Mallon. "We need to give an assurance to customers that we will pay out."

However, Roger Edwards, products director at Bright Grey, the life insurer, said if insurance companies did apply the concept of guaranteed claims to CI they would need to be very clear in their communications.

"An insurer could guarantee to pay out after two years if there is non-disclosure but then decline a claim because it does not meet the CI definition," he explained. "Insurers would need to spell out what they are guaranteeing."

Similarly problems could arise if the concept was extended to IP, as insurers could decline a claim by using a "suited occupation" definition of disability.

"Unless the consumer understands that the guarantee is limited to non-disclosure, the insurer is setting themselves up for other problems," said Edwards.

KEY FEATURES OF AXA'S GUARANTEED PRODUCT PILOT

Guarantees full payment on death after a two year period, even if consumers have not disclosed important health information

Effectively introduces a two year "non-contestability" period

Only applies to term life insurance

Piloted through a group of advisers at LifeSearch

All applications will be teleunderwritten

Applicants will undergo a medical

Premiums will be the same as AXA's non-guaranteed life product during the pilot, but may be increased if the pilot is extended