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Direct channels and signature tunes

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What do you think about life offices creating direct salesforces or distributing via alternative channels when they have previously distributed exclusively via the IFA market?

Chadborn: It is going to happen so we had better get used to it. Most IFAs take a dim view of life offices claiming to support the IFA distribution channel and then diluting the quality of their brand by getting into bed with supermarkets and non-advice distribution partners.

Historically, it is fair to say that in most cases the larger the life office, the poorer the service levels. I just hope that we do not see service levels drop for providers who have distributed exclusively via IFAs and in doing so have forged close working relationships within that market.

Morris: Advice is almost always going to be preferable for the consumer than going direct, so it is better if life offices focus on improving their IFA offering. From a business point of view, the worry with a direct salesforce is they will handle the business from a rebroking customer themselves instead of passing it back to the original IFA, as they should do.

McLoughlin: Obviously, an IFA would always advocate independent financial advice. If the predictions about the retail distribution review halving the number of IFAs are correct, then, unfortunately, I think that certain life offices will set up direct salesforces as their perception is that they will lose business.

Do you support the trend for providers removing the wet signature from the application process?

Chadborn: Absolutely not. It is a contradictory nonsense and makes a mockery of the message of the importance of full disclosure. A document that does not require a signature is automatically perceived to be less important than one which does.

What can be more important in the application process than the accuracy of the data on which the underwriting decision is made? What message are we sending to consumers by telling them they are not even required to sign to confirm the accuracy of such information?

Morris: In general, wet signatures make the application process longer and more inconvenient. However, they also play a crucial role in ensuring the client acknowledges that all the information that has been keyed in the application form is correct.

If there is no wet signature, there has to be another alternative system that shows the client has checked and fully accepted the details on their application form.

McLoughlin: We are very concerned that removing wet signatures can create potential liability for advisers. If you have not got a wet signature, then how can you prove that the questions posed were answered accurately by the client? In this age of alleged non-disclosure, this is even more important.

How much importance do you place on the number of critical- illness definitions during the research process and do you believe we are witnessing a conditions' race?

Chadborn: I believe the flexibility of the product and the quality of the definitions are more important than the number of definitions. Clients are never motivated to buy critical-illness cover because they want a long list of illnesses they can claim for. They relate to the core illnesses and want to know the policy will pay them when they need and expect it.

For this reason, I would rather see earlier payouts on core definitions or more providers offering severity-based cover.

Morris: I would rather have a condition covered than not. Obviously, selecting a critical- illness policy comes down to far more than the number of conditions covered, such as the underwriting and application process, so simply adding a lot of obscure conditions to a CI policy will not necessarily mean that providers win more CI business.

At the same time, a relatively obscure condition (such as aplastic anaemia) will, by the law of averages, end up being claimed on at some point. Try telling the client who receives a payout that the conditions covered by the policy are not important.

McLoughlin: In researching what provider to recommend, clearly, an adviser will take into account the number of critical-illness definitions. However, I do not believe that if one insurer has 35 definitions and one has 33 that this makes a material difference to which one an adviser would recommend.

One important point here is to be very careful when looking at previous critical- illness conditions, for example, on old policies, due to the fact that some things that were previously covered may not be covered with current policies.

Have you noticed an increase in the amount of policy lapses in the recession and has it influenced the way you transact protection business?

Chadborn: There has definitely been an increase in people questioning the value of all their financial commitments and this includes protection policies. We have seen an increase in lapses but it has been pleasingly low so far.

Times like this emphasise the importance of doing a thorough job in the first place because that means business is more likely to stick.

We have been writing an increasing amount of business on a non-indemnity commission basis because this creates a more consistent revenue stream and negates the risk of commission claw-back. However, it also has a significant impact on cashflow. Given the choice, I would like the option to select a blend of indemnity and non-indemnity commission.

Morris: Fortunately, there have not been any major problems with sales, leads or lapse rates yet. Times are tough for everyone and no one can be too sure what is going to happen over the next 12 to 18 months.

The people who are best- placed to survive this recession are those that give good advice as opposed to selling a quick bit of life cover. Only then, when you have discussed areas such as trusts, income protection and so on, does the consumer realise the value of what they are buying and they will be far less likely to cancel it on a whim.

McLoughlin: An adviser who keeps in regular contact with his clients is hopefully the first port of call when someone has financial difficulties. We have had several people who have made such a call and in many cases we have been able to recommend lowering the sum assured so that they still have some cover rather than completely stopping the policy. I believe that advisers who advise face to face will have a stronger likelihood of keeping business on the books.

Legal & General recently redefined the business protection gap at £1.1trillion. Does this surprise you? Do you think advisers and providers could do more to sell business protection?

Chadborn: We constantly hear about this vast "untapped" market and the industry seems bemused that more IFAs are not piling into it.

I believe that this could be because IFAs presume that the corporate market means dealing with large organisations into which they may have no obvious entry point.

In fact, many business protection opportunities exist with existing personal clients who happen to be business owners. If, as reported in Money Marketing recently, Legal & General are no longer paying commission on top-up cover, then advisers will not be using L&G for their business protection.

Morris: Business protection is an important yet neglected area and many businesses have no idea what type of cover they need. However, there are relatively few advisers out there with the knowledge and experience of business protection to help.

The figure of £1.1 trillion is a massive amount but probably not that surprising in hindsight. The man and woman on the street are poorly covered and so it should not come as a shock that UK businesses are too. Protection in all its forms is not at the forefront of the public's financial thinking as it should be.

McLoughlin: I think that advisers could sell more business protection but I believe that many shy away from this subject. This is probably due to a mistaken perception that business protection is either overly complicated or takes a long time to underwrite.

I would point out that it is the provider's job to offer support and, in some cases, training to advisers who either have never entered this field or have only advised on it intermittently.

Business protection is undoubtedly a growth area in 2009 due to the fact that more businesses have been forced to borrow and the banks are increasingly stipulating that loan protection needs to be in place.

Source: Money Marketing