MoneyMarketing

Cover lines

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The panel assess the problems with income protection, who should pay for a consumer advertising campaign, plans for an overhaul of state benefits and the FSA's action on PPI

The Panel

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The ABI started its review of income protection last month. What do you think is the biggest problem with income protection?

Chadborn: I do not think the industry has a thorough enough understanding of the barriers that we face as advisers when processing business. Pound for pound selling, income protection is that much harder to process. The process is more protracted, it is by no means a quick sale. Nor should it be.

But in terms of companies designing processing systems and designing products, I do not believe there is enough of an understanding of the challenges advisers face. You can play around the edges as much as you like but until you get to the fundamental reasons that advisers shy away from IP, you are never going to crack it.

Last: A lot of the problem is that there is a lack of knowledge from the IFA's point of view. Traditionally, a lot of advisers tend to home in on pensions and investments and ignore income protection.

Where the consumer is concerned, it is also a lack of knowledge that hinders interest as advisers are not teaching them - they are being made aware of life and critical illness but not products that protect their income.

Also, income protection has been tarred since the scandal of PPI misselling - income protection protects an income but it does get confused with payment protection.

Hardie: Insurers have to be sure they have their pricing right with the increased unemployment risk. Prices have been too low for too long and now providers want to push them up and the FSA is unhappy about that.

From a customer point of view, the problem is that there has been so much media coverage surrounding unemployment that it has become like wallpaper and people have turned off to the dangers of losing their job. But it is something that advisers should be pushing, it is important.

The Consumer Protection and Insurance Engagement Campaign is trying to raise £5m for a national advertising campaign to highlight the problem of underinsurance. What is the fairest and the most effective way to raise the funds? Should the providers pay, or perhaps a levy on each policy sold, or what about a percentage of the commission paid to advisers?

Chadborn: The fairest way to pay for any campaign is to understand who is going to benefit most from it. Is it going to be the little old IFA? No. Is it going to be be big distributors? Yes, possibly. And is it going to be the big-name brands? Yes. So there has got to be some kind of tiering where the companies with the biggest market share and the wider distribution channels are the ones to quantifiably likely to gain the most and therefore should be the ones that foot the bill.

Last: This should be funded using the FSA levy. We pay for the FSA to essentially look after us, so it should be key in promoting services and products within the financial services sector that would benefit consumers - that would be fairer.

Not that I am in favour of higher FSA fees at all but I would be happier to pay for promotion as it would benefit consumers and advisers rather than the current situation where they just take fees away for something we do not see nor find necessarily beneficial.

Hardie: If insurers want business, regardless of the distribution channel, they should pay for the campaigns. If IFAs want more business they should pay for advertising themselves also. I think sometimes we get into an ethereal debate about these things but it need not be complicated.

Each business in the supply chain should make their own decisions and take marketing responsibility themselves. Politically, there has been a massive shift in what the state provides and it should be remembered that protection eases the burden on the state. If people do not take out insurance it just means the Government has to pay out more in benefits. I find it intriguing that the state does not help promote financial awareness as it is one of the FSA's key objectives.

Thinktank Reform recently called for an overhaul of the benefit system, with fewer state benefits to be paid to wealthier people and the addition of some elements of welfare insurance to the new pension system. Would including an element of unemployment or disability insurance in personal accounts be a good idea?

Chadborn: I would not be against it in principle as I would not see it necessarily as a threat to what we do in terms of giving advice. A good advice process is based on what provision is already available, for example, death in service or sick pay, so this would just be another thing to add to the pot.
As a small employer, I am torn. From an adviser's point of view, the more people that get cover the better. From a small employer's point of view, don't add anything more to my burden. There is merit in considering it further.

Last: In essence, I would say no. The welfare system is far too complicated as it is at the moment, even for IFAs, let alone the general public.

Therefore, I think it should be overhauled, kept as simple as possible and far removed from other schemes. That would mean the public could feel confident to claim, as it would be clear what they would be entitled to.

If they then want to receive advice beyond personal accounts, that is where IFAs can come in but trying to bring it all together it just complicates the issues.

Hardie: This depends on your political stance but people should definitely be made more aware of what can be done to protect their circumstances when they are offered a personal account.

Ultimately, if people do not take out insurance then, it could end up with more people taking benefits from the state. I am very pro-education of the general public on financial issues and there is a case for making people more aware of what is out there.

Recent figures from Legal & General suggest that sales of mortgage-related protection products tailed off sharply in the third quarter of

2009 but sales of critical-illness cover and whole of life cover increased. Is the rise in non-mortgage related business surprising?

Chadborn: That should not come as a surprise to anyone. It stands to reason that mortgage-related sales have fallen off. I think the increase in other areas is for two main reasons. First, it is consumers' general awareness of financial vulnerability, which has prompted them to look a little bit further at their needs, from looking at things such as redundancy insurance at the beginning of the year and then evolving into other areas. Second, it is down to advisers who have easily picked up protection business on the back of mortgage sales now having to look harder and, I guess, ultimately having to do a more thorough job.

Last: Not really. It would be more difficult to sell any insurance alongside a mortgage because people are worried about outgoings and want to keep things to a minimum. A lot of what is offered alongside a mortgage are the type of schemes associated with white goods in shops and people are very sceptical of that type of cover.

Where critical illness is concerned, the increase in sales should be credited to the financial services sector. It has been promoted a lot more and very well and it is not surprising that it has gone up and other products have gone down.

If people need to spend money on insurance they need to see where the risk and where the priority is and I would think people could relate to critical illness cover a lot more.

Hardie: I don't know why non-mortgage related business is up but it could be that L&G's figures are heavily intermediary-based and advisers have seen other income streams harder to sell and are falling back to more trad-itional protection products that we all used to sell 20 years ago. It would not be surprising if advisers were just going back to basics and finding other things to sell.

At the end of September, the FSA announced new rules for the assessment of complaints relating to PPI sales on the back of the evidence of large numbers of complaints that are rejected. Has the FSA gone far enough to tackle consumer dissatisfaction with PPI?

Chadborn: Eventually. Initially no, because at first the penalties were not severe enough and the regulation was too lax. When the FSA came out and said the standards are not high enough, they were only telling the majority of the industry what we had known for years. But some of the fines recently, such as that on Swinton, are absolutely right so they have got there in the end.

Last: The PPI scandal still blights the industry. The public do not seem to have any confidence in making claims with the ombudsman.

From the outside, cases seem to be dragged out and the impression given out to the public is that complaints fall into a great black hole and most claims are rejected thanks to small print. The FSA needs to get that side of the industry buttoned down properly.

Hardie: The publicity that the payment protection insur- ance industry has had of late has not helped the protection industry generally.

I think there is a need for the industry to better educate people and improve customer service - many people's perception of financial services has been tainted by one or two bad experiences.

Also, we focus on misselling and complaints but the industry needs to show the value it adds - the billions of pounds in claims that are paid out never get mentioned.