Five key threats to your business… and what to do about them

The news from the recent Protection Review that almost 85% of industry commentators believe that the number of intermediaries selling protection will be lower in 2020 than today was the latest in a string of somewhat dispiriting reports from the frontline. From consumer surveys flagging up a lack of consumer engagement with products to the seemingly intractable protection gap, Health Insurance readers could be forgiven for taking to their bunkers. But are the oft-mentioned threats to the adviser channel really critical or can canny advisers protect and even grow their businesses in 2010?

THREAT NO.1: ONLINE DISTRIBUTION

The internet is the biggest threat of them all, according to IFA firm CBK Colchester's Peter Chadborn, who points to the decline in motor insurance broking firms since the advent of online sales and the emergence of a younger generation for whom the internet is the default channel for transactions. However, he believes that there will "always" be a market for face to face protection advice, provided that advisers "make their services saleable" and accept that "people will want to jump on and off the advice train for different things".

THE INDUSTRY VERDICT:

Roger Edwards, proposition director at Bright Grey (the life assurance provider which sells both through IFAs and online intermediary theidol.com)

"I would love everybody to be able to go to an IFA and get advice and get an absolute cast iron product fitted to their individual circumstances but we know that there aren't enough IFAs to go round and even if there were there is always going to be a breed of consumer who is not going to go to an IFA.

"The generation in their 20s and early 30s have never known life without the internet and to them the natural route to purchase will be some sort of online engagement. Unless the advice process finds a way into that in future there are going to be a load who become excluded from advice because of the channel.

"Advisers need to think about what they are doing to justify their position as an adviser. Just focusing on price does not differentiate them from an internet site."

THREAT NO.2: COMMISSION CLAWBACK

Chadborn, whose firm writes 40% of protection business on a non-indemnity basis, believes that there is a "very obvious" link between remuneration and behaviour, and a danger that indemnity commission is seen as a reward rather than remuneration. CBK Colchester's persistency rates are "very high", according to Chadborn, who said the firm had only been able to gradually move in the direction of non-indemnity based commission because protection is only part its business.

"It's de-risking for us," he said. "Not just in terms of principles but also from a cash flow point of view. What is needed is a bit of foresight from advisers; to think of a way of building in more recurring income but also willingness from life offices to offer some alternatives."

Alan Lakey of IFA firm Highclere Financial Services praised the service offered by income protection provider Cirencester Friendly, which allows advisers to choose how commission is broken-down. He also argued that linking commission to lapse rates – a model that the industry has considered – "could inhibit people from doing the correct thing and re-broking as appropriate." There can be "very good" reasons for moving clients in the first few years of a term, he believes, for example, if providers entered the market or made product improvements.

THE INDUSTRY VERDICT:

Mick James, business development manager at Reinsurance Group of America (RGA)

"It is absolutely vital for life offices to get business to stay on their books in the early years (see box out); a lapse in the first year is an absolute disaster. I actually think that a lot of the market is strongly aligned here.

"If a customer has a thorough understanding of what they bought and why, then they are less likely to lapse and clawback is less likely to occur. Associated with that are things like putting the contract into trust – these policies are much likely to lapse because the customer has often more fully bought into the policy.

"When it comes to affordability, advisers can also look at cheaper ways for clients to maintain their cover instead of lapsing, perhaps by reducing the sum assured.

"There is also a debate around whether advisers with very low lapse rates should be able to negotiate better commission rates with life offices. Providers should also be looking at offering different shapes of commission to advisers, including more trailed commission models."

THREAT NO.3: BANKS

Last HSBC sold more income protection policies than any other provider. Meanwhile, providers of protection now have tie-ups with high street banks. Legal & General, for example, has alliances with Nationwide, Barclays and Lloyds Banking Group. According to research commissioned by the Association of British Insurers, banks can provide advice to customers at half the cost of a small IFA, spending less time with customers and requiring a lower earnings threshold. However, advisers Health Insurance spoke to dismissed the threat posed by them.

“They are their own worst enemy,” said Peter Chadborn. “If an adviser is putting up their services alongside a bank the IFA should win every time. If not, they should not be in business. The only threat is if the potential client goes to the bank first and does not see what an IFA has to say.”

THE INDUSTRY VERDICT:

Steve Casey, head of sales and marketing at Bupa individual protection

“With the exception of HSBC, every other bank has a tied relationship, so the intermediary is hamstrung in terms of only being able to sell certain products. An IFA has access to the whole of the market, giving them access to better quality products. A lot of business that comes to IFAs is from word of mouth, from the reputation that they have for coming up with a bespoke service that meets the needs of consumers. IFAs also keep abreast of industry developments, as part of their continuing professional development, enabling them to see what is on the horizon and offer advice in line with this.”

THREAT FOUR: THE FOCUS ON PRICE

When industry analyst Defaqto asked IFAs about what most influences their recommendation of protection products, 61% said price while 26% cited quality of cover. Lakey believes that too many advisers sell purely on price while Chadborn estimates that at least 80% of protection sales are based on price.

He said that providers needed to “stop trying to be all things to all IFAs”, from those who put quality first to those operating in a price-driven market. “You cannot appeal to both,” he argued. “You set out your stall and say ‘this is what we stand for’. Or you go down the Fortis route and offer a cheap and cheerful type of product and for the quality end all the bells and whistles and different prices accordingly.”

“If you look for value and offer a superior service and point out to the client that you need to look at the best product for them rather than the cheapest then you won’t suffer any threat,” said Alan Lakey of IFA firm Highclere Financial Services. “If you sell on cost then you will always be susceptible to the cheapest out there.”

THE INDUSTRY VERDICT:

Alun Beynon, head of sales and distribution at AEGON

“Consumers will be price sensitive unless they can see the value or any rationale to support paying a higher premium. Because advisers have historically used only price comparison sites to base their protection advice on they have driven the consumer and themselves down this price sensitive route. One danger is that the internet has now evolved as a distribution channel and that will also focus customer attention purely on price.

“However, the internet is a very one dimensional transaction platform. It cannot easily accommodate the changing needs of customers as they progress through life. What advisers have at their disposal are flexible protection menus where you can increase or decrease sums assured and add benefits on or have multiple benefit and trusts. There are also other protection areas like business protection whereby the higher, larger cases should not be as rate sensitive.

“Advisers moan about the application process and the length of underwriting but they do not seem to realise that because they have led the charge in commoditisation they are reducing their margins and our margins as providers. We have to look at costs and one of the ways of mitigating those costs is to extract more information direct from customers. The more our premiums have been squeezed, the more we have had to look at ways to underwrite this business and one way has been to increase underwriting application forms so that we can capture as much information from the customer to assess risk and hopefully not have to go for medical evidence.”

THREAT FIVE: LACK OF CONSUMER ENGAGEMENT

The latest consumer research from the ABI suggests that just 8% of people are considering purchasing critical illness, mortgage payment protection or private medical insurance while insights from Swiss Re suggests there remains a fundamental lack of understanding about products available. Alan Lakey believes that “products do need to be sold, but clients don’t want to be sold to.” He tries to sell clients a concept, including those who are unaware of what they need and what products exist to address those needs. He also believes there needs to be an “uplift” in adviser knowledge.

THE INDUSTRY VERDICT:

Phil Jeynes, head of new business at IFA support provider Direct Life & Pensions Services Ltd

“A lot of people have not been selling protection for all that long.

The traditional route was that you were part of a large tied sales force in which you were sent through fairly indepth training. Advisers need to be making the customer realise the risks they are already facing and matching up a solution that matches that need. A lot are not well enough equipped or comfortable to do that. They need to challenge the customer because, frankly, for most people cost is not the issue when you look at other things in their budget that they are spending money on. We regularly run roadshows for advisers who have not seen that kind of sales skills training before. You do have to take someone a bit out of their comfort zone – it’s a topic that is going to disturb and that is when people buy protection.”