MoneyMarketing

Problems with protection processing

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As the RDR remuneration debate rumbles on, the protection industry has let out a sigh of relief, safe in the knowledge that commission is here to stay, for the time being anyway.

But protection is not out of the woods just yet. Retaining commission alone will not save the industry over the forthcoming years. More than any previous regulatory shake-up, the RDR implic-ations are forcing all types of intermediary businesses to review their models and understand where changes are required in terms of process efficiency, service levels and profitability.

Speculation is rife about how distribution will evolve before and after the RDR.

Parallel to the impact of the RDR are the rapidly evolving changes to consumer buying habits and, for CBK as a business, focusing on these aspects is driving our decision-making.

The protection industry is understandably expending considerable energy under -standing how IFA firms will remodel and naturally a big concern is that many IFAs writing protection business will turn their back on this sector and lean towards the affluence of wealth management.

However, the RDR should not be singled out as the catalyst for this potential desertion.

There are many issues threatening IFAs' commitment to protection, not least the threat of the online world but, again, this is only part of the picture.

When compared with investment and pension business, protection is generally less profitable and fraught with frustration.

There are many reasons why this is, including issues such as remuneration not reflecting workload, health issues preventing completion and clawback of commission to name a few. Any adviser writing protection business will attest to these points but they are not new.

A more recent trend is causing greater frustration and is causing many advisers to question if protection business is worth it. Senti-ment is growing among IFAs that the protection industry is not committed to them.

There are many different IFA models and we all operate different methods and pref-erred ways of transacting protection business.

Life offices operate varying methods of transacting business but the key is that advisers have no choice but to vary their methods to accommodate the whims of each provider and hence frustrations are escalating.

Providers seem to assume that all IFAs either do business in the same way or are happy to adapt their models to complement the provider's system. Wrong on both counts.

It also seems that most providers look at the models of their biggest producers and give little thought to the small firms that actually represent the majority of the market.

For example, as a non-paid-claim de-risk measure and to deliver identified TCF improvements, we leave the data-capture form and associated documentation with the client following recommendation. In their own time, they forward the completed application to our office. Clients are under no pressure to remember medical history on the spot, have been educated regarding the importance of full disclosure and have been given time to fully understand the contract they are entering into.

Furthermore, the adviser has not asked the medical questions or completed the application form, so an unsuccessful claimant cannot allege information was disclosed but not recorded by the adviser.

However, much to our frustration, online systems intelligently ask further health questions which were not on the original data capture form, thus breaking our derisking cycle by requiring medical dialogue with the client and adding labour to what is supposed to be a streamlined process.

Stephen Crosbie, head of proposition for protection at Aegon points out there have been advantages in the development of online underwriting.

He says: “Providers have invested heavily in their online underwriting engines mainly to speed up the time it takes to provide clients with cover.

It was not so long ago that it would take weeks to provide the protection a client needed whereas now this can be immediately at the point of sale. The efficiencies that online underwriting offers has allowed providers to continually improve premium rates for customers and enhance commission for advisers.”

The general improvements in turn-round times produced by intelligent underwriting systems are undeniable but they assume the applicant is present or on the phone, yet for most IFAs this is not reality.

It feels like the efficiencies are stacked in the favour of the provider, not the IFA.

If many firms increasingly find providers’ processes frustrating or incompatible, how long will it be before they either actively select based upon compatibility of processes or concentrate more on wealth management?

I pose this question in the knowledge this is already happening and it is not unreasonable to expect these scenarios and sentiments to increase exponentially due to the remodelling of IFA practices which the RDR is dictating.

For all the IFAs in favour of a particular method or system there are at least an equal proportion who will bemoan the incompatibility.

The solution for CBK would be a process which had the facility for our clients to log on and complete the application themselves.

The solution for the growing number of frustrated protection writers would surely be the option to select the process which complemented their preferred way of transacting business rather than be forced to use the process which best suits the provider.

Paul Hackett, business development manager at Allfinanz, can give a system perspective. He says: “Software can do anything you want it to do. The business functional requirement has to be written, the technical requirement can follow, which leads to the build of software to fit the requirement, so these frustrations are not created by software suppliers.

“I agree with Mr Chadborn’s proposed solution. The adviser would complete the sale as described, however, at the end of the process, they would not leave a data capture form for the client to complete - they would simply collect an email address. Upon submission of initial case data, the insurer would email a secure Url to the client.

"The client would log on to the internet from the link in the email, complete the reflexive question set and the process would complete with the adviser retaining the ability to manage, if required.

"To sceptics who think this is impossible, I can say that Allfinanz is already delivering this process. In the Netherlands, the regulatory regime demands that the broker has no sight of the medical underwriting disclosures, so the process has been created to allow private disclosures using our technology."

It can work. I would suggest that anyone who thinks the client would not bother completing this process clearly needs to review the effectiveness of their advice.

Crosbie concludes: "There are a vast array of distribution models within the UK landscape that make it difficult for any one provider to satisfy them all.

"A flexible proposition that can adapt to fit with many distribution models while maintaining prudent risk controls is what is required."

Peter Chadborn is director of CBK (Colchester)

Readers' comments (1)

- Anonymous | 1 Jun 2010 9:16 am

  So you get paid more to submit online, a better acceptance rate through interactive underwriting, and at least one provider streamlines the trust process by providing a signatureless online trust.

  Maybe it's more about staffing levels at the adviser end than the provider forcing them down this route.