It's brains you want

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If you think back two or three years, when IFAs and industry commentators where asked what the protection industry needed most, the response was almost unequivocally "innovation".

We were in the middle of a price war and about the most exciting news IFAs were hearing was that life offices were cutting their rates. Hardly inspiring and certainly nothing to put a dent in the growing protection gap. In fact, protection sales continued to fall.

So innovation we wanted and innovation we got in the shape of the PruProtect plan. PruProtect was born from a joint venture with Prudential and Discovery, the South African life office which pioneered the severity-based serious illness concept.

Severity-based means that the payout is directly linked to the severity of the condition or illness, therefore many claims will be paid out earlier than traditional products as well as providing ongoing cover for future and repeat events.

Prudential was an ideal candidate to launch a revolutionary protection product because it has a good pedigree when it comes to creating innovative products. For example, PruHealth is highly regarded, its PruFund Protected Growth fund plays to their established with profits strengths as does the Income Choice annuity.

Critics say the plan is too complicated but I would counter that yes, it is complex but too complicated? I do not believe so. If an adviser is simply price-driven when giving protection advice then it will be too complicated in the same way that if all retirement planning advice is restricted to a managed fund in a stakeholder pension, then the nuances of an unsecured pension will probably be too difficult to articulate.

Of course, the technical details take a long time to become familiar with and extensive training is required, but is that not the same with other contemporary, forward thinking products? Take 'third way' retirement products for example.

The technicalities need to be learned but it is the concept that needs to be understood and embraced first. It is the concept that our clients will relate to and the technicalities will only be of interest, or indeed relevant, if the concept is understood and believed to meet their objectives.

Any self-respecting adviser operating in the at-retirement market will be incorporating 'Third Way' products into their advice process and in my view; progressive protection products can not be ignored by any IFA who claims to take protection advice seriously.

In our experience, clients like the sense of fairness that prevails with the concept of severity-based benefits. They understand and relate to the notion of 'all or something' versus 'all or nothing' when contrasting against traditional plans.

Advisers have expressed concern and fear of retribution if their client receives a payout of, say, 25 per cent when they were expecting 50 per cent. For some this is a barrier to recommending the product. However, we would rather that scenario than one where the client was expecting a 100 per cent pay out and receives zero per cent.

It all comes back to the way in which this product is marketed, recommended and the quality of the supporting literature and the adviser's suitability report. For these reasons the product in its current form should be an advised product only.

If PruProtect were to consider otherwise I believe it would be a mistake. It is the need for advice around such products that means advisers should surely be embracing them and trying to understand how such value-based advice can be incorporated into their proposition.

The changing buying habits of consumers mean that more are looking for either value or a bargain. We cannot compete with the aggregators on price so have to make sure we are adding value.

Furthermore, all life offices will be reviewing the potential for new or increased direct to consumer propositions because they recognise changing consumer buying habits and as we move towards RDR implementation.

Yes, they all claim to be championing the IFA cause and are pledging loyalty to the IFA distribution channel but behind the scenes they will be considering such options for what many IFAs will see as a direct threat to their existence.

So surely these more complex offerings that require advice should be embraced by the IFA community? The need for advice in recommending such products is directly supporting our existence.

The other key factor for us is the minimum protected account feature which allows full cover to be re-instated following a claim without any new exclusions or subsequent increases in premium. This cover can be reinstated up to a total value of three times the original sum assured.

In my experience, other providers have greeted the arrival of severity-based cover with a mixture of respect for the innovation and disdain for its perceived complication. I cannot believe that the severity-based concept will not be offered by other providers in the next few years.

Many providers are recognising that there is room for both severity and traditional plans in the market and that they are not necessarily opposite ends of the same spectrum. I believe we will see plan variations on the severity theme, each one being adapted to suit the area of market the provider is trying to attract. I also believe that any other versions introduced will be less complex to the extent that some will develop non-advised versions in time.

I expect other life offices are particularly attracted to the persistency levels boasted by Discovery which PruProtect hopes to emulate. Their historic statistics show an improvement of up to 40 per cent which is also influenced by policyholders buying into the added value features such as discounted gym membership and the Vitality programme.

Reinsurer Hannover Life Re, which worked with PruProtect in the development of the product, believes that severity based cover is the way forward.

Ronnie Bowes, head of marketing for Hannover, said: "We had been talking about the fairness and value of severity based policies for some years so were delighted to partner PruProtect in this initiative. The level of payout recognises the impact to the individual and the scope of the plan can be extended to include many more conditions for a comparable price."

A common frustration of IFAs is the often protracted underwriting process and PruProtect is unfortunately no exception. We are beyond what could be blamed on teething problems and so any rival looking to enter this space could create an advantage by ensuring their processes are slick.

Although not a severity-based plan, in April this year BUPA Individual Protection introduced two partial benefit payments; for low-grade prostate cancer and mastectomy. The former will be the lower of 25 per cent of benefit and £25,000 and the latter will be the lower of 12.5 per cent and £12,500.

Crucially, this is in addition to the main benefit. For five years now, Royal Liver will pay 20 per cent of the benefit for mastectomy subject to a maximum of £25,000 after which the remaining cover will reduce by the amount paid out. Both companies view is that certainty of claim is a key element that their policy holders are looking for.

I do not believe these are examples of rivals following the PruProtect lead but instead, examples of the critical illness market evolving and hopefully providers thinking further than simply reducing rates or adding more definitions.

In a similar treating customers fairly vein is the move by some life offices to reduce premiums when cover is declined for certain CI conditions such as cancer or multiple sclerosis. This is an extremely positive initiative first made by Bupa Individual Protection back in 2007 and more recently by Fortis and Zurich.

CI needs such product innovations and TCF initiates to survive and win consumer and IFA trust. Rate cuts and non-advised offerings are not going to grow the market but severity-based payments and these other developments should do so.

The last word should be left to the legendary Dr Marius Barnard, the South African surgeon and founder of critical illness cover who has since said "The mistake I made was to develop the policy to pay out on the diagnosis... it should be paid on severity."

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