



Protection panel: Chain reaction

22 March 2011 8:00 am

Our panel discuss the implications of Government reform of the welfare system, the ABI's redefinition of total permanent disability and the recent move to ban gender pricing have for the take-up of protection products

The panel

Peter Chadborn, director, Plan Money

Kevin Carr, chief executive, The Protection Review

Alan Lakey, partner, Highclere Financial services

Will the Government reform of the welfare system to simplify and combine welfare into a single payment lead to an increase in awareness and take-up of income protection?

Chadborn: Absolutely. The way the benefits system has got so complicated in this country is why people understand so little. Because there is a state benefit system there is also a general perception that 'I will be alright, no one starves in this country. It won't be ideal but it will be ok'. So it is greater awareness that is needed.

I do not think simplifying the state system alone will do it. But if in doing so it makes it easier to understand, the industry and the Government will find it easier to promote awareness. It is very difficult to promote awareness of something so complicated.

Carr: I am not sure I agree with the fact there is a relatively low take-up of IP. There is thought to be around 4 or 5 million people with cover (including both group and individual plans) and if you look at the realistic target audience, the fact that there is a population of around 20 million in terms of working adults, you are looking at about one in four or one in five who is covered. It should be higher than that but it is not tremendously low.

I would agree that the big issue is lack of understanding. Access is an issue. A lot of IFAs and mortgage advisers do not talk about it, you cannot buy it online at comparison sites and there is the existence of payment protection insurance, which people often think is the same thing.

Lakey: It does not matter how simple the system is, someone has to engage with the process. The greatest barrier is apathy. My biggest client is a recruitment firm with 45 employess. All are well paid and most do not own their own homes. But the company has got no sick-pay scheme. Even after talking to most of them about it, only three people have taken out plans. They do not believe it will happen to them.

The Association of British Insurers recently published its updated definition of total permanent disability. Has the ABI got it right?

Chadborn: I am losing the will to live with this, we just seem to be going round in circles. The best solution would be to remove TPD from the list of critical illnesses because it works so differently. It is more aligned to IP than it is to critical illness. I would rather providers do not include it within their CI plans but have it as something you can bolt on to complement a life plan. The confusion lies between advisers not understanding the difference and the notion of CI being understood by the consumer and the mechanics of how it pays out being very different.

Carr: I am very much in agreement with Alan Lakey's recent Money Marketing column and I am sure I wrote something similar five years ago. It has taken them four years to do next to nothing.

Lakey: The ABI has not got it right. The problem is that it is limited in what it can do. The insurers are free to do whatever they want and the ABI has put in place model wordings to enable some kind of commonality.

The real problem is that any company that uses wording based around any occupation, where by definition you have to be so ill you are in a coma before you can claim, or any task-based definition, where the onerous three out of six tasks are such that again you would have to be seriously ill or injured that you almost certainly would have already claimed anyway, makes it not only a bit of a joke but also perpetuates the fact that 55 per cent of claims are turned down.

I cannot see that what the ABI recently came out with is anything useful. In fact, it fudged it because using the word total is a misnomer. Total does not mean total. If you are unable to do your job then it is not total disability, it is limited in that it was limited to your job. It is a nonsense word.

Is Otto Thoresen's appointment as ABI director general good news for the protection industry?

Chadborn: Very much so. Otto is a respected figure, not just in terms of the life offices but also in terms of distribution. He has displayed a good working knowledge of the industry at every level and that is, in my experience, quite a rare thing.

One of the problems with the protection industry at large is that people can become blinkered in terms of their views of the industry, based on what happens in their world. It has to be a good thing when you have someone like Otto, with his broad understanding and widespread respect, in positions of influence.

Carr: I think it is. The question is what his first priority should be. There is a lot of interest around gender and the European Court of Justice decision. Even though the ABI will call the decision a win and say it got 18 months when it could have been implemented immediately, I think many people may feel the ABI has handled it pretty poorly.

Lakey: Otto is a thinker and brings to the ABI the experience of having dealt with a large company and with the mandarins in Whitehall through his work on the Thoresen Review.

He seems to me someone who understands that products need to be sold and that, with the best will in the world, sending out leaflets and advertising on TV works to a certain extent but not to the extent that we need to solve the problem. If he does have that mindset he will be in a very good position to push forward. The ABI has been a sleeping beast for too long.

Will the recent European Court of Justice decision to eliminate gender as an underwriting factor damage consumer confidence in protection?

Chadborn: I do not think so. The headline for the man in the street is that it is a good thing to remove anything promoted as being unfair. It is only the industry that understands the mechanics of it and will say this is ridiculous.

The only saving grace is that we have got the best part of a couple of years to make the changes and bring in other methods of underwriting. It will increase the recent prevalence for different methods of underwriting and understanding risk, such as postcodes.

Carr: It is possible. In consumer land they are more concerned about car insurance and if it will lead to more uninsured drivers. The biggest risk for protection and the one everyone is really scared about is not gender. I think the industry will cope with gender quite well now that it has been given 18 months to be creative about it. You may actually find the industry benefits from it.

There is another directive on the way that talks about religion, age and disability and that is the big threat. That makes gender look like quite a small issue. If you remove disability and age, you do not have an industry.

Lakey: It is tricky. For those people who read headlines, they will see it as a mechanism to rip them off again. I have already had a couple of clients say to me: "You know what is going to happen, women's insurance will not come down but men's will go up." That is the mindset that people have about insurance companies.

I do not believe there will be any increase in confidence. There could be a loss of confidence as there is more confusion. It depends how companies implement the changes. This is particularly relevant to certain types of business, for example, which have rising premiums. Are the rising premiums going to be adjusted or are they going to be fixed, because companies have put down what the fixed rate is?

The same will apply to those whole-of-life plans and other reviewable plans when they come up for review.

Will companies handle this in a sensitive manner or will it be heavy bludgeon of "You are paying more, the European Court of Justice says so"? Companies will have to be very cautious how they deal with it. It could be a big PR loss for them if they do it wrong.

Do you expect the ECJ's decision to affect take-up of life insurance or income protection?

Chadborn:

I do not think so. We get too concerned with price in the industry. We did not sell any more life cover when we had pension-term assurance and we do not sell any less now we no longer have it. If you are given a before and after scenario, that might put people off. But if you looking for a certain type of cover, you will have in mind what you are prepared to commit to in order to provide that. The cost will be what the cost will be. If there is an accepted need to have it, budget will play a part but it will not put people off completely.

Carr: People generally do not know what it costs until they go and find out. If the price goes up a bit or down a bit, it is unlikely to have much impact.

Lakey: I do not think it will have any impact. People in the industry have an awareness of what is going on but clients do not know the issues. A while back I was speaking to a couple with a young child about family income benefit. I sent them a letter with a quote and they obviously did not read it and it was never returned to me. When they came in to see me about something else I brought it up and they said it was too expensive. I asked how expensive it was and they said if I was recommending £1,500 a month it would be about a £100 premium a month. It was actually £14 and they signed up there and then. The point is they had no idea at all of the costs.

I do not believe there will be any change in take-up as people do not willingly buy insurance and are not aware of the cost.

0

•

•

Latest jobs

[Senior Consultant / IFA](#)

Bath OR Cardiff -basic £35k + dep on experience, plus bonus, benefits and potential equity partnership

[ADMINISTRATION POSITION](#)

London - Salary circa £22,000

[Independent Financial Advisor – IFA](#)

Newcastle - £35 - 50k Basic – OTE £uncapped

[Independent Financial Advisers](#)

South East England - Competitive salary, plus bonuses & excellent group benefits

[IFA / Independent Financial Advisor](#)

Opportunities Nationwide - Basic of £30-50k

