MoneyMarketing

# Protection talking points: Decline and fall are critical points

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Our panel discuss the need for plain English and the public's mistrust of insurance due to claims being turned down.

**The panel**

**Peter Chadborn**
director, Plan Money

**Roy McLoughlin**
IFA, Master Adviser

**Alan Lakey**
partner, Highclere Financial Services

**What do you make of Direct Line's decision to pull out of the life insurance market?**

**Chadborn:** The market for all non-advised insurance, let alone life insurance, is a very crowded area. It is a market ruled by aggregator sites so much so that even a strong brand like Direct Line whose adverts promoted the fact that they did not appear on comparison sites, has decided it cannot compete

I am reminded of the Equitable Life adverts in the 1990s which urged consumers to cut out the middleman, and we all know what happened to them.

Whether it is advice or non-advice, consumers seemingly prefer some sort of comparison before they buy, which should serve as food for thought for those providers developing direct-to-consumer propositions.

**McLoughlin:** Unfortunately, there are still not enough faceto-face advisers out there, so, whether we like it or not, there will always be competition from the direct guys. To be fair, I would also say that if someone genuinely cannot obtain advice, then better that they have cover than not.

However, I would like to feel that the public do believe in seeking help, explanation and ultimately advice on protection policies.

With income protection and critical-illness cover in particular, these products need analysis and quite often translation into a form where they can be understood and the appropriate cover arranged. On straight term, there are still crucial issues, such as use of trusts and levels of cover, that the direct companies cannot hope to offer.

I therefore do not think there were too many tears shed when this news was reported.

**Lakey:** This continues the trend of small or niche players exiting the market due, presumably, to low business levels. Swiss Life, Skandia and others have either withdrawn or trimmed their product ranges. It is worrying that we may ultimately end up with a nucleus of five or six critical-illness insurance providers, as this reduces the potential for innovation.

It may be that Direct Line's withdrawal serves to refute suggestions that direct-to-consumer plans are the way forward.

With financial advice declining and offices retrenching, it suggests that all providers will come under pressure to re-evaluate their market positions.

**Do you agree with Unum and the Plain English Campaign that the protection industry needs to simplify product literature and the language used to describe protection products?**

**Chadborn:** Easy to say - hard to achieve. Terminology for all insurance needs to be very specific to remove all doubt, yet in doing so there can be a tendency to use language that only serves to confuse the consumer and lessen confidence in the product.

I agree that more can be done in this area but feel there is a risk that if descriptions become too simplified, they can appear too salesy. Either way, I won't hold my breath because our industry does not have the best track record in improving terminology, as proven by the recent total permanent disability rewording saga.

**McLoughlin:** My answer is a simple one and I relay it directly from the customer - yes. Protection products are still far too complicated and the jargon and terminology that we use unfortunately puts people off our products rather than make them easy to understand. The inconsistencies between companies on subjects such as deferral periods and CIC conditions make this situation even worse.

The literature is mostly written in a strange and confusing manner which maybe our friends from Mars can understand but not Mr and Mrs Smith.

I am tempted to suggest a radical solution, which is to ask advisers for their input into this subject, but I am sure that is just a pipedream. We, after all, sell (sorry advise on) these products.

**Lakey:** Much good work has been done, such as the descriptive guides produced by Aviva and LV, but the crux of the problem is not so much the verbiage as the sheer avalanche of information the consumer receives both before and after purchasing a plan.

Consider somebody buying an accelerated critical-illness plan. He receives an illustration that can run to six pages, a key facts document that might be 12 to 16 pages, possibly a technical guide that could be 20 pages. He then receives a suitability letter which could be any length. Later, he receives an acceptance letter, possibly six or eight pages and a coolingoff notice possibly with another illustration. Ultimately, he is sent a policy document which is written in legalese and is unfathomable to most consumers.

Last month, the ABI published figures showing that critical-illness insurance and term life claims in 2010 approached almost £2bn. However, the amount paid out for critical-illness insurance claims has fallen slightly since 2009 and the decline rate remains at around 10 per cent. Is the decline rate for critical-illness claims still too high?

**Chadborn:** The publication of critical-illness statistics promotes transparency but there will always be a danger that a person will be put off committing to a policy that they perceive has a one in 10 chance of declining their claim.

I have no concern regarding the slight fall against the previous year's stats but would do if this were a prolonged trend. The declaration of claim stats is only a small step for an industry which should be doing far more to promote its good news stories.

I am eagerly anticipating the Aviva CI TV advert which should be an excellent discussion point to assist advisers to help with open dialogue with their clients regarding personal protection.

**McLoughlin:** The industry has improved dramatically on claim figures over the last three years. This is a welcome trend and makes the adviser's job so much easier. However, we need to face the fact that there still exists a mistrust by the public on whether policies actually pay out. One in 10 are still nervous odds and there still needs to be improvement. It's also a very basic mathematical and psychological equation. If all CIC policies (not withstanding fraudulent claims) paid out, then, guess what insurers, more would be sold. I know many advisers at the coalface understand this but do others in our industry?

With the PPI scandal grabbing all the wrong headlines, it is vital that we show the public that there are products out there that provide comprehensive cover and do pay out.

**Lakey:** There are two points here, first, the highest non-disclosure figure is 4 per cent, so the main reason for declinatures is not meeting the claim definition. This may be due to lack of knowledge or possibly the current trend of trying it to see what happens. Adviser and consumer understanding needs to be improved to reduce these figures.

The second point is that a declinature rate of 10 per cent suggests some insurers may have a worryingly poor claim-paying record. The average of the IFA-supporting companies is closer to 3 per cent, so maybe the bancassurers or the closed companies are the real miscreants. Until all insurers disclose their figures we will never know… unless the ABI cares to inform us.