

# Intermediary Forum 2015

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We held our annual intermediary forum this year along the traditional lines. We invited a group of leading advisers from across the UK market as well as some other guests who have a very strong strategic focus. The forum is completely anonymised to ensure that confidentiality is observed and the event is facilitated by Protection Review. Our thanks to Friends Life for hosting the forum again this year.

The aim is to get a frank assessment of the state of the protection insurance market from the viewpoint of distributors primarily and to discuss the changes that we see taking place in the market. The focus is very much on what is happening now and what is causing change to take place.

This year's forum saw a very diverse group assemble and explore not only specific protection issues but also some of the wider influences on them. We began, as is our wont, by asking those present for their immediate impressions of how life was for them and what they see as primary market issues.

'It's auto-enrolment. Lots of activity, as the focus moves into SMEs and it's now becoming very transactional. Last year was about benefit design and controlling employer spend.'

'We are looking at the launch of the pension freedoms. We are seeing different dynamics in play as people look at how they will contribute to their benefits.'

'It's a very different world from two years ago. Our referrals from other professionals have disappeared. It's becoming really hard to outbroke competitors, and we are trying to focus on 'What is our offering?'

'There is lots of change on individual protection. Aviva/Friends merging, Ageas Protect acquired by AIG Life (a more recognisable brand and one that consumers don't seem to associate with the banking collapse!)

There might be more M&A (merger and acquisition) activity leading to fewer but very well-placed competitors. There will also be more niche players with different distribution. There are lots of mutuals which exist but have little competitive impact and are resistant to merger. But is the market competitive?

'It's certainly price competitive!'

'Underwrite Me is provoking a response from the quote portals.'

'The 'I-E' change has not been a catalyst for radically different market activity.'

'The Widows decision to stop having specialist advisers at the bank branch was highly significant. It was a blow for face to face advice of the traditional sort provided by banks.'

'There is a concentration of reinsurers which is affecting the market. The HNW market and the 'ordinary' market are completely separated as a result. The reinsurance market controls parts of the direct market because of their underwriting engines, yet it is difficult to get access to all parts of the reinsurance market, as parts are blocked off to us. This is reducing the capacity available. The reinsurance market is apparently diverse but this is not obvious to indirect users.'

'The effects of Solvency II are becoming apparent - this may create opportunities.'

'Care - what does that look like going forward?'

'One big issue is data usage and access. This embraces things like wearable technology and Big Data, which is a concept that covers a number of things [pun intended. Ed].'

The diversity of that range of concerns among a group of about a dozen people underlines the diversity of challenges protection insurance faces. As is so often the case, the issues create potential opportunities and problems for the protection insurance community. We decided to drill down into some of the more important ones:

## **Auto-enrolment and pension freedoms**

Does the complete upheaval in the existing way pensions are transacted create a real opportunity to have a new and more specialised dialogue on protection?

'Under auto-enrolment, the cross-selling opportunities are the big thing.'

'A/E will be for many people the first financial product they buy and could make them much more aware of what else they need.'

'The pensions freedoms suggest that all roads lead to protection. Particularly income protection.'

'There has to be a massive link now with pensions and protection. The pensions changes start a natural process of exploring other options.'

'One change is that we will see more strategic alliances with some of the organisations that can provide services.'

The conclusion was generally that the pensions changes would drive real opportunities to explore other areas of peoples' financial planning and that protection was well-placed because it was a corollary of pensions, but that the amount of change would create uncertainty and delays and might dissuade some people from contemplating a major overhaul in their finances. This 'bonanza' for protection might well exist in the minds of a few pension advisers who had the ability and methodology to examine pension and protection as part of a holistic review. So there were opportunities but will they be fully realised?

Inhibitions to the growth of protection were cited as the widespread need for high-quality protection training for advisers, the potential minefield of relevant life cover which was being sold inappropriately and which could stir up more mis-selling accusations, and the uncertainty over remuneration structures.

'The 1% world is commission by another name. Yet fees won't work for protection.'

## **Advice**

There was a widely-held view that there is a real problem in providing advice to the UK population, particularly those in the squeezed middle with assets to protect and manage, but not enough money to require the services of a wealth manager.

'Advice is a problem with only 20,000 advisers left.'

'Wealth managers should consider protection and may be driven into it.'

'I worry about the middle - ground people. Banks have never looked after them properly.'

'Protection is 6th in a list of six priorities.'

'How do advisers find new customers?'

There was a feeling that the nature of advice had changed and, ironically, while advisers had seemingly lost out to comparison sites, the comparison sites were the invention of adviser firms anyway! It was a generally pessimistic view that emerged that fewer and fewer customers would have access to advice and this would mean that if protection is going to find a route to the end customer it would be in a different looking market. The biggest concern was that the market did not operate in the best interests of customers.

'We should be giving better advice via better (trained) advisers.'

'Advisers don't believe enough in the products we have and people won't buy them of their own volition.'

'There is a massive difference between selling advice and selling product.'

There was a recognition that since the demise of the direct salesforces, products weren't sold anymore. The group (unsurprisingly given its make-up) felt that 'selling' had become a pejorative term when, in reality, products sold in the past had proved their value when claims resulted. Yet there was a feeling that advisers were not holistic in the way they looked after their customer banks. There is possibly a disconnect here.

There was also pessimism about a possible life after commission.

'If commission goes we will be finished.'

And a feeling that financial services operates under a degree of scrutiny that makes life very difficult.

'If a bank had done to its mortgage customers what Pink has just done (which everyone believed was the right action) it would be crucified.'

This pessimism about the difficulties in providing reputable advice to a wide enough market to be both economically viable and inclusive of all those who need it suggested to the group that we might see two developments increasing in importance.

## **A different market?**

Firstly we looked at D2C propositions. It was felt that this market needed to grow if it was to cater for the protection needs of those priced out of taking advice. This growth is already evident with the establishment of Beagle Street, There, the tie-up between Friends and Virgin and some other putative ventures. The last three years has seen a steady growth but sales were not coming through yet. The market flux was likely to drive more insurers- and reinsurers - to develop direct operations. Despite the lack of track record it was felt that these operations would gain traction and it is likely to prove an access point for the technology savvy particularly the young.

The other area which may develop is sales focused around the employer. This is less likely to see a huge extension of the existing group model rather than a form of employer-sponsored access with payroll deduction piggy-backing on the auto-enrolment model developed for pensions. One important aspect highlighted was the role of technology.

'Technology advances will drive sales through employers.'

'Employer sponsored sales get around the trust issues.'

It was felt that it would be hard to speculate about the success of a distribution methodology based on a model which has yet to truly emerge and there was a general feeling that protection products, while thought important by a dwindling band of protection-focused advisers, don't have anyone batting for them within the regulator or the Government and insurers have other fish to fry.

## **Products**

We had a quick discussion about some of the leading products

### **PMI**

'Affordability is the problem as premiums increase by 10/15% each year.'

'(Initial) Commissions have reached 50/60% which, combined with large price increases, make the product very expensive. Level commissions make more sense for everybody.'

'The problem is that a quality proposition is never going to be the cheapest and many brokers sell on price.'

It was felt that PMI was a sufficiently specialised proposition to be referred on to specialist advisers. This sort of model was one that most of the panel felt made sense.

### **Critical illness insurance**

There was a difference of opinion over this product.

'I think there have been interesting changes in the market, with more people coming in at the quality end of the market. There is innovation and products are improving.'

'I'm depressed about the continuing conditions race.'

'Nobody can understand the Vitality product and I mean advisers and the public! The Vitality call centre struggles to cope with demand but are they buying gym or health club memberships?!'

'There is a massive disconnect between the average CI customer and the product designers who ponder endlessly over esoteric medical differences.'

'But there is a refreshing refocusing on core conditions.'

'The group market is growing but not significantly.'

'The take-up for group CI depends on the company culture.'

'Group CI would be a better benefit if it was underwritten on a PEC basis.'

### **Care insurance**

We had a short discussion on the current state of the care advice and insurance sector. Lots of problems abounded.

'The huge problem in the care market is advice.'

'Compliance on long-term care is a huge risk.'

'Some products in the care market are just a sticking plaster.'

### **Public face of the industry**

We discussed whether the industry was effective in representing itself to the public. There was general approval of the Seven Families initiative.

'It has put some pride back into the industry.'

'Seven Families has brought the industry together in a very positive way.'

Reference was made to the fact that protection quotes traditionally rise on comparison sites in January whereas household cover is bought across the year. Does enough thought go into why this different pattern exists and how we could capitalise on it?

Additionally there was unanimous approval of the work the ABI is doing in the protection area, especially its new openness and willingness to communicate.

But ultimately there was still a feeling that the industry had an underlying tendency to do the wrong thing.

'We sell products from our perspective, not on the basis of what people value.'

There was a feeling that had partly arisen out of Seven Families, that the main benefits of income protection might be the rehabilitation services as much as the money.

'Do we need to recast or re-emphasise the proposition so we emphasise the services we provide as much as the money?'

## **Conclusion**

Our discussions were extensive and at times detailed, and the passion and knowledge of our group of experts was clear. Yet, despite the commitment to providing protection and acknowledgement of its value, the pessimism that we referred to seemed to emanate from a feeling that a worthy industry was regularly being let down by the greed of certain parts of it. This has spawned the PPI debacle which still rumbles on and suggests that a respect for customer need is not uppermost in the thinking of everyone in the industry.

It is hard to fix this situation, if after twenty eight years of financial services regulation we still find crises occurring which seem to evade the regulatory policing that is supposed to protect a consumer who shows an understandable cynicism towards the industry. Perhaps the maxim that 'culture defeats strategy' is the most important lesson the insurance industry has to digest. Until this wider problem is fixed, the protection insurance industry may never fully achieve its potential.