

## The unintended consequences of regulation – Money Marketing – Feb 2006

The law of unintended consequences holds that almost all actions have at least one unintended consequence, which can be either; **positive**, in which event we benefit from serendipity or 'windfalls', **a source of problems**, according to 'Murphy's Law' or **definitely negative**, in which event you suffer a 'perverse effect', which is the opposite result to the one intended.

So as we look at the effect of statutory regulation on the protection market what do we find? Have we benefited from serendipity or windfalls (*none visible yet*), created a source of problems (*possibly, but as with past regulation only time will tell*) or is the industry suffering from a definitely negative effect (*almost certainly*).

Surely one intended consequence of regulation was to better protect consumers and yet as I ponder the reality, I see consumers who are generally less well protected. I can see no evidence that consumers are any better protected from the effects of poor advice than they were under the ABI code of conduct, when insurers accepted ultimate responsibility for the effects of such advice on those who bought their products. I also see consumers generally arranging less protection for their needs than they were previously as the 'protection gap' grows.

I have no argument with the rules themselves, nor the logic or consideration which quite obviously sits at their heart. I think a good job was done all round, albeit with one or two obvious exceptions, 10/70 and anti-money laundering for example, I doubt a much better job could have been done given the circumstances. Nonetheless the negative effects need dealing with.

It is the case that buying protection in the UK is largely event driven, so births, marriages and death or illness of someone we know all play their part. However it is the mortgage event that leads people to consider their personal insurance needs most and it is here that statutory regulation has dealt a double whammy by lengthening the sale process for both mortgages and then protection. Today the discussion that all mortgage advisers should be having with their customers around protection needs is less likely to take place than before statutory regulation because the mortgage sale process has become so elongated. Customers and advisers are fatigued by the end of the process and therefore the protection sale that used to follow is now put off and rarely returned to. This affects those who need protection most, people with big debts and/or other responsibilities that will continue long after they fall ill or die.

Add to this a lack of adviser confidence, meaning it is probably safer for them now to ignore the protection needs of their clients rather than try and risk getting it slightly wrong. Whether they like to admit it or not, most live in fear of what the FOS may choose to think in the future, and who can blame them. If the best minds in the industry are worried about the structure of critical illness cover and income protection, non-disclosure, and an underwriting process for life insurance resulting in ever more customers getting different premiums to those initially quoted then why would we expect mortgage advisers to press on regardless?

Now it is not beyond us to overcome these circumstances because there is much we can do to simplify the advising and buying process. We can make an unnecessarily complicated up-front process simpler through the use of clever technology and by breaking down the application process into its constituent parts using innovations such as tele-underwriting.

We can also grow the confidence of advisers through education but to do this we need advisers to lift their heads from the slog of making a living so we can train them and develop them, encouraging them to **Learn More** so they can **Earn More** and in so doing better protect their customers, because if they don't do it, nobody will.

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