

## Regulation, risk and reward – Money Marketing – February 2004

The regulation of Pure Protection and General Insurance sales from January 2005 isn't simply going to affect the process of giving information and advice to customers; it is going to materially affect the way most advisers think.

Selling insurance within a truly regulated environment will in part be about presenting the customer with the right information, at the right time and in the right sequence all the time creating an auditable trail. However it should also make us all think quite deeply about the risks that we are prepared to take, and the rewards we expect to receive, for advising clients on the insurance products they should buy and why. This in turn is going to impact on the range of products and number of providers that advisers are prepared to consider offering to their clients.

Being a regulated financial adviser has to make sound commercial sense, in simple terms you have to be able to earn enough money to reach, or maintain, your required standard of living. The new ingredient that statutory regulation of advisers brings with it is that in addition to looking at whether the income generated, on a 'pounds per hour of effort' is worth it, we must also analyse the cost/benefit of carrying the additional 'advice risk'. By this I mean the risk that despite your processes, best of intentions, skill and effort, a future review of your advice could result in others judging it had been inappropriate or in anyway incomplete.

Properly quantifying the advice risk today is almost impossible because we don't yet have sufficient experience of how the Ombudsman (FOS) will assess customer complaints about mortgage & insurance brokers under the new regime. Most insurance contracts may be categorised as low risk with regard to the potential for customer detriment however they are pretty high risk areas for an adviser/broker to be involved in, particularly if you are going to be offering more than one contract through a 'panel' or even a 'whole of market' proposition.

Imagine this; you have a panel approach to household insurance and as part of a mortgage transaction you recommend that a customer takes a buildings & contents insurance policy with ABC Company. The policy is £1.50 per month cheaper than the number 2 company on your list and the policies offer broadly similar cover. A few months down the line the customer makes a claim for three stolen mountain bikes, but ABC's policy only covers one bike per household. The customer finds out that the alternative policy, which you could have recommended, would have paid out for all three. What is he going to do now? Will he complain that your fact-find was insufficient? Will he suggest that in conversation you told him both policies offered the same cover? If he does complain, and you refute it, what judgement will the FOS reach? How much will the complaint cost you in fees, time and reputation?

Let's not forget that the commission available today for advising on and arranging typical household insurance contracts is around 15-25% of the monthly premium. Therefore, for an average £35 per month premium the income for carrying the advice risk on every sale is £5.25 - £8.75 per month. Is it worth it?

Will the fear of the above happening mean that instead of offering a brokered solution, you will reduce the advice risk you are carrying by selling the products of only one company? Or will you choose to not even offer the product at all because it fails to pass your remuneration versus risk assessment test? Makes you think doesn't it!

For big general insurance brokers, who sell nothing else, the risks of recommending such products from a panel is probably going to be something they as specialists just have to accept, and try to manage as best they can. For mortgage brokers who are trying to turn customers into clients by offering a range of products around the mortgage event, the answer is probably quite different.

For the mortgage broker choosing to run with just one household insurer can leave you exposed to increased competitive issues because individual insurers have different experiences and different methods of pricing. As no single insurer offers truly competitive terms across the UK, being tied to one insurance company post regulation cannot be a sustainable answer.

For me the answer for the mortgage broker market has to be along the lines of persuading a number of insurers with different attitudes to pricing, to each quote for an identical range of cover and benefits. This can provide good UK coverage on a best quote provided basis, whilst massively reducing the advice risk. Perhaps you have thought of a better solution? If so please email me at [richard.verdin@directlife.co.uk](mailto:richard.verdin@directlife.co.uk).

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