

Reflections and New Years Resolutions (for life companies) – Money Marketing – January 2004

January is the time when people traditionally reflect on things, particularly the events of the past year and following this reflection it is common to make New Years resolutions. So I thought that I would reflect on 2003, and set a 2004 resolution that I would very much like the life insurance fraternity (insurers and re-insurers) to sign up to.

Looking back on 2003, apart from the realisation that critical illness policies have to change, the other big issue has been the sheer number of re-prices and policy word/definition alterations that have taken place. Coping with the changes has certainly been a challenge, but change is something that you simply have to get used to, when you run a business. However, when we cause change we have to understand that it is incumbent upon each of us to act reasonably, because those we advise, and those we have to work with again in the future, deserve it.

Historically, when life insurers make changes to the terms they are prepared to offer they make provisions for customers with applications already 'in the post' or 'in the pipeline'; these provisions are called transitional arrangements. Ordinarily transitional arrangements allow for these applications, with properly dated quotations and declarations, to work their way through the process and complete on the terms that were applied for (subject to underwriting), and this reasonable approach is the way it should be.

For the last 8 years or so insurers have found it very easy to offer reasonable transitional arrangements because, by and large, premiums have been reducing and the conditions covered have been extended in favour of customers. It therefore follows that insurers were generous in the time they gave 'old applications' to complete, as these were always on worse than the current terms available to the customer. As an added bonus if the reason for the change had been as a result of a new deal between insurer and re-insurer then it was quite possible that the old applications were far more profitable than originally envisaged. So insurers were enthusiastic to allow old applications to have as long as necessary to complete.

Of course, 2003 has been the year of rising prices and reducing cover definitions, therefore once new terms have been announced 'old applications' became a drag on the business. Again, if the changes were as a result of a new insurer/re-insurer agreement, these applications became less profitable than originally envisaged, and therefore insurers have been motivated to reduce the number of completions from old applications.

It is against this unfamiliar background that a number of insurers have started to become unreasonable when making changes, and announcing transitional arrangements, and they have developed a couple of devices to protect their downside. The first is to announce ludicrously short time frames for cases to be accepted, the second is to announce equally ludicrous time frames for policies to be 'on risk'. The problem with these is that, for acceptance deadlines, the insurer manages the process through to acceptance and therefore insurer failings in administration worsen the terms for the customer and a cynic might expect an insurer to go slow deliberately. The second device, of 'on risk' deadlines, fails to recognise that the mortgage event is at the heart of the majority of term business, and therefore arbitrarily set deadlines are meaningless to the customers total transaction. Again a cynic might suggest that insurers understand this and therefore failing to recognise it is in fact a ploy.

The result of this change in behaviour is of course felt most by the IFA, as it is we who have to explain to customers why the product at the price we have quoted is now not available. Of course we understand the legalities of who is offering and accepting etc., but an average person reading an illustration and the acknowledgement letters from the insurers would quite reasonably expect that, subject to underwriting, they will get the terms quoted. Customers therefore quite reasonably become annoyed at the change and, of course, it is the IFA at the sharp end and it is we who end up losing the trust of the customer.

Not all companies act badly but I have noticed that being unreasonable is a trend. The trend started during the second quarter of 2003, and is now firmly in its ascendancy, so I would ask all those determining transitional arrangements to make a 'resolution to be reasonable', and to stop damaging relationships between IFAs and their customers.

I would urge you all to take a leaf out of Norwich Union's book, since it is this company, which stands out as being head and shoulders above the rest, in terms of the way they deal with transitional arrangements. Perhaps because, of all the insurers, they have a big direct sales channel, which understands the issues, or maybe it is because they understand the business they are in and that trust and service are paramount, or maybe, just maybe, it is because Tesco's just wouldn't let them treat customers that badly.

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