

Insurers, re-insurers and risk – Money Marketing – March 2004

For the last 6 years I have been fortunate enough to work with some of the UK's foremost experts on protection, I have worked with some of the brightest actuaries, the most experienced underwriters, the cleverest IT professionals, the best distribution strategists in the business and the markets leading entrepreneurs. All of which means I have been standing next to the best brains this market has to offer as they ponder the big issues in protection. These include new product ideas, product development, re-insurance (or not), pricing, business channels, remuneration, quoting, promoting, documentation, marketing, advising, selling, applying, administering, underwriting, accepting/declining, policy issue, servicing and finally claims.

"So what?" I hear you ask, well to a man (and woman) they understand that policies are packages of risk, with each package of risk having a correct price and if you get a mismatch between price and risk then it 'hurts'. In the first instance, it hurts the insurer and re-insurer through a higher number of claims than anticipated, but of course their approach to 'pain' is to pass it on to us and/or our customers through changes in pricing and commissions. It is therefore in all our interests to ensure that the insurers receive packages of risk that have been properly put together.

To help ensure each new risk is properly packaged, insurers and re-insurers have been looking at their practices. They have refined their pricing strategies introducing more targeted pricing through greater segmentation of the population using extended questioning and other tricks like pricing to quarter and half birthdays etc. A lot of effort has also been put into improving underwriting results through greater understanding, better defined rules, advanced training and new techniques including a greater use of chemical tests (blood, urine and saliva).

Having upgraded their understanding and management of risk, insurers and re-insurers have turned their attention to the practices of the adviser, and guess what, change is needed. The 'Modus Operandi' of the typical adviser can have such a significant affect on the fine balance of pricing and risk that to achieve real improvements a radical overhaul is due.

Having spent so much of my time, with others, looking at the end-to-end process I believe that there is something fundamentally wrong with the way most companies write protection business today. I believe the education, training, level of understanding and the practices employed by the vast majority of insurance companies and protection IFAs today are flawed, and the flaws are having a material effect on customer pricing and adviser commissions.

IFAs are qualified holding FPC or AFPC and have a comprehensive knowledge of the market together with an excellent understanding of how to match customers to products and appropriate sums insured. If the IFA's role stopped there I would find the IFA's role difficult to improve on, but it doesn't, and the reason it doesn't is because insurers use IFAs to undertake an initial underwriting screening of clients. They do this by asking IFAs to collect clients detailed medical history information. So have IFAs received a sufficient level of training in medical terminology and underwriting principles to pass them as competent to guide every customer through the maze of medical questions now asked? The answer of course is no. In my experience there are probably a handful of advisers that have had the right training, however even their remuneration structures place the priority on policy issue not quality of disclosure, and as a wizened old sales director once told me "you get what you pay for".

Today IFAs give financial advice to customers who are different to them in any number of ways, for example; age, sex, sexual orientation or cultural background, none of which need to be an issue but they often are when it is time to complete the personal medical history sections of a protection form. What typically follows could rarely be described as a full, well informed, detailed and candid discussion on what to, and what not to, disclose.

Of course the results are deliberate or unintentional non-disclosure of important underwriting information, which in turn leads to one of two things:

- The client hopes that the truth never has to come out and they proceed with the application, this will of course become an issue in the event of a claim.
- The client worries that the policy is worthless because they know they have not disclosed everything and they find a way of cancelling the cover during the application process or soon after the policy starts.

Both results are poor ones for us and for the insurers as they cost time and money, eroding margin and profits.

The solution - well this is something that my colleagues and I at Direct Life have worked hard on for the last 14 months, we call it Express Underwriting and it breaks the application process in two. Firstly, the financial adviser completes a product-based application; secondly a highly trained and skilled individual then contacts the customer at a time and place agreed in advance, and using intuitive underwriting techniques and tools works through a full set of medical history questions.

Express Underwriting works on many levels and for many reasons, not least because our staff are not financial advisers and have never been. They are equipped with the right knowledge through experience and training and they are recruited in a way that ensures we achieve a good mix of ages, sex and cultural backgrounds. They talk to customers at a time and place convenient for them to disclose personal medical information, which has many benefits - for example partners don't have to disclose their medical history in front of each other if they don't want to. All the feedback we have had from advisers, customers, insurers and re-insurers tells us we now have a model to lead the way in which protection business is written in the future.

By Richard Verdin, Sales & Marketing Director, Direct Life & Pension Services Ltd