

eProtection equals eRisk – Money Marketing – May 2004

When was the last time you read an insurance company's terms of business agreement?

For me it has been quite a while, however as one landed on a desk near me this month I thought I would have a read, just to keep up with events and to understand why changes were needed to the existing agreement. The changes, as it turned out, are necessary to accommodate eBusiness and in particular the use of the providers eProtection application/underwriting tool being actively promoted by them.

It appears that they have come to recognise that with these new developments intermediaries are playing a much bigger part in the completion and the content of applications, and therefore the medical and family history disclosures being made. As such the adviser's role and influence over customer's disclosure is becoming more transparent and they realise that their terms need to reflect this.

So is there anything in these new terms to concern intermediaries? Here are a couple of extracts from the agreement that I have just read.

- The Intermediary shall ensure that all data submitted is accurate to the best of the Intermediary's knowledge and has been gained through discussion with the Client.
- It is the responsibility of the Intermediary as agent of the Client to ensure that the Client is aware of the need to inform the Company immediately of any change in their health or circumstances before the Company assumes risk for all cover applied for.
- The Intermediary will indemnify 'the Company' against any loss sustained by the Company arising from:
 - The provision to the Company of incorrect information
 - Any loss suffered by the Company as a result of any breach of the Terms by the intermediary, its agents, employees or anyone to whom the intermediary grants authority access to the System.

So If I have this straight, the intermediary is responsible for ensuring the client discloses all relevant facts and that these must arise from a discussion with their client whether the sale is advised or non-advised/execution only. They must then make sure that all the relevant facts 'discussed' (data) are properly input into the system. This therefore brings an end to the practice by many intermediaries that simply post data capture forms to customers and key them in to the systems when they are returned.

Now, let us assume that in a few years time there is a critical illness claim and it turns out that either (a) the clients circumstances changed as the case was being underwritten and says their adviser didn't make them aware of their obligations to disclose relevant information post application, or (b) the client later says he disclosed information which the adviser said was irrelevant (as with a recent case highlighted on Watchdog).

So what happens next? Let us assume that the insurer decides to, or is forced to, pay the claim – what do their terms of business with the adviser allow them to do? The contract is clear they can recover the sum paid, and any other expenses, from the adviser. Does your PI cover that?

The conditions actually seem quite reasonable to me; frankly it is the adviser's responsibility to give full and rounded advice to their customer, including the importance of disclosing past medical history issues and any previous or current diagnosis. Advisers should make their clients aware of all the conditions on which the application is being underwritten and that changes to their circumstances in the interim are relevant and have to be disclosed.

The only contradiction here is that insurers, with these new online processes, require the adviser, who they see as the agent of the customer, to contract with them to compensate them for their losses for non-disclosure when they also require customers to sign a paper version of the online application before going on risk. Does this mean that the insurers don't really feel they can rely on an application, with all the declarations, signed by the client as evidence that the customer understands their obligations? The answer has to be yes.

So to be harsh on the insurers, not only do they want their cake, they want to supply the recipe and the ingredients, they want to dictate the measurements and the cooking instructions (including temperature and time), they then want to inspect it carefully and they want to eat it. Finally, if they don't like the taste they want you to pay them all their costs and expenses incurred from start to finish.

From a business perspective I don't actually have a problem with this – if I was an insurer I would do the same. It is simply that they have thought through the implications of the electronic age and are preparing themselves for it and it is time for you to do the same. Assuming that you already conduct business properly and professionally, the sensible thing for you to do is to provide yourself with the protection you need from the possibility that your customers might have selective amnesia in the future.

In this electronic age of shifting responsibilities you must record every single conversation with every single customer and every single insurer. You must date every recording, log it and store it for easy retrieval in the future. If you employ staff to key this data for you, you must monitor recordings of them. It is the only way to protect yourself - it is what my company does.

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