

## Multi-Ties, will they work? – Money Marketing – September 2004

If you have ever put the words 'Multi Tie' into an anagram tool you will have discovered amongst other things that it is an anagram for 'et umi lit' which, for those of you not fortunate enough to have received a grammar school education, is a well used Latin phrase, the literal translation of which is 'stitch me up'.

Actually 'et umi lit' isn't Latin at all, I made it up, but the fact that around 50% of you thought something along the lines of "hah, serves them right" illustrates how polarised opinions have become on the subject of multi-ties (*funny isn't it that depolarisation has polarised our industry*).

For the last few years a lot of very well paid people have been thinking very seriously about how a multi-tie might work, indeed could they make a multi-tie work and if so in which guise? Should the ties be by product line, with advisers tied to different providers for each product set, or should advisers tie to a number of providers across all their products lines. The key consideration has been which model creates the greatest value, and for whom; the customer, the adviser and/or the provider.

Pondering the possibilities has lead people to draw all sorts of conclusions with the resulting opinions polarising, if you are an intermediary – you probably fall into Camp A or Camp B.

In Camp A they think multi-ties; "are all about commission, an abhorrence designed simply to part wise men from their cash" or that they "offer limited choice masquerading as traditional independence". Camp B on the other hand think they are; "a sensible way of introducing choice to the customers of traditionally single-tied advisers" or "a pragmatic, commercially sensible way for advisers to deal with an over supplied unnecessarily complex market".

By-and-large the provider's private opinions are all very similar; apprehensive, slightly nervous, but they can all see the longer term play and opportunities. Their public opinions are difficult to decipher at present but will inevitably depend on whether they find themselves 'in' or 'out'.

Of course the first multi-ties we have read about in the pinks are 'protection' multi-ties and we have all heard about the increased commissions that are now suddenly available. So how will these higher commissions be afforded? For multi-ties with 4/5 providers the cost efficiencies aren't as great as for a single tie because the providers will still have to compete with each other and competition means making your case, which involves costly reps, marketing and 'all that jazz'. The administration and underwriting don't change significantly enough to get the pricing actuaries excited; therefore, I can see only 3 opportunities for paying for the increased commissions:

1. The 'in' providers could reduce their commissions to those operating as a whole of market adviser and cross subsidise.
2. The providers could pay more now, with a plan to gradually move the goalposts back again later
3. Charge the customer more for the product. It is a fact that when competing in an open and whole marketplace your price has to be keener than in a closed market. This option, however, results in a bit of a 'double whammy' - to ensure profitability the provider has to build into the already higher price the likelihood of worsened persistency (for when the customer finds out what has happened) which in turn lifts the premium further.

For my part I think it is too early to draw firm conclusions about the actual effects of multi-ties on our market and the current propositions need time to mature and inevitably change. The only certainties are that someone has to pay for the increased commission and the providers will not be planning to foot the bill themselves in the long term.

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