Hit the Trail? – Money Marketing – (July 2006)

I recently attended the launch of the 2006 Protection Review and listened to an excellent after dinner speech by Paul Bradshaw (ex of Skandia, Abbey and now of Nucleus). Paul made a number of observations about various parts of the protection industry, the vast majority of which I find it hard to disagree with.

I would however like to consider Paul's comments about commissions which were featured on the night and in the news story 'Hit the trail, Bradshaw tells protection providers' (MM 20.7.06) in which Paul said "Protection is the last bastion of big up-front indemnity commission" and "…some rebalance toward a trail model would surely be a healthy development for customer and intermediary alike."

Let me start by saying that as long as you are fair in your analysis and you consider all the issues (which cannot be done justice in the 650 words I have available) it is clear the current system is imperfect. There are imperfections from each all perspectives; customers I am sure would, given the choice, rather buy a product priced lower because there is no commission, insurers would rather pay less for distribution and have claw-back arrangements over 7/8 years or more and advisers would like to remove claw-back altogether, whilst maintaining at least current commission levels.

Nonetheless I believe that what we have now is probably the best compromise available, given all of the above ideals and the state of the market today. If distributors were in some way forced towards Paul's proposed direction then this would inevitably lead to less protection being sold, a rise in the protection gap and a further worsening of sales on the back of already 3 years of decline.

My doom laden prediction is built on the premise that protection still has to be sold, because it isn't often bought. It has to be 'sold' because it isn't compulsory in the same way home and motor are and it just doesn't occur to many consumers that they need such insurances unless somebody reminds them that they might. Reducing and/or spreading commissions would certainly result in even more mortgage brokers not bothering to sell protection and the specialists amongst us simply wouldn't be able to fund the high costs of sales & marketing activity necessary to stimulate interest in buying. So I cannot see how such a development would be 'healthy for intermediaries', certainly not in the short term and by the time cash flow recovered from the effect of 'spreading' the sale of such policies would have been reduced to a niche activity.

As for the customer, well today there are already options for distributors to take level or initial commission and whichever is chosen the customer's premium is unaffected. "Upfront" is therefore not an adviser/customer issue at all and before you agree with the "big" bit in Paul's comment consider objectively the 'huge' amount of 'upfront' work it now takes for an intermediary to get these policies accepted and on risk. To shift your paradigm a little don't compare insurance commissions to investment/pension commissions as their effect is fundamentally different, compare them to mortgage commissions where the sums involved are comparable but there is no claw-back! Insurance commissions are a transparent building block of the premium charged and believe me comparing premiums is something most customers are pretty good at and given the rise of the discount broker and the overcrowding on the supplier side, customers are already very well served by the competitive nature of our marketplace. Even if you halved commissions today at the very best this would reduce premiums by around 10-12% which would not lead to increased sales as the substantially larger reductions experienced over recent years have proven.

Let us not start to demolish a market which is in so much need of building.

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