

PTA - The big issue – Money Marketing - (September 2006)

And so the debate around PTA continues...in some ways it is a shame that this subject is grabbing the headlines away from the very real business issue of closing customer's individual protection gaps. A shame because in truth offering tax relief on already historically low premiums for level and decreasing life only cover is not going to do anything towards closing anyone's gap.

Sure the development represents an opportunity for some to 'churn' and yes like-for-like new premium income for insurers rises even if no 'new' sales are made, but is this worth the very high costs associated with it's implementation and the inherent risks involved, particularly for insurance only advisers selling what is after all a pension contract.

For some 'specialist' term brokers, who were 'early adopters', offering PTA created a temporary competitive advantage, largely because they have been pricing PTA against ordinary term contracts, perhaps winning them a little more business from others (ordinary advisers and supermarkets alike) with the added benefit that they have done this without having to sacrifice as much commission as normal, but at what cost?

The cost from a new business written perspective still isn't clear. Most businesses are reporting steady sales for critical illness (CI) cover however the rumours circulating around the market are that the main IFA quote engines have seen significant reductions in the number of CI and FIB quotations, all of which may result in less of these proposals materialising over the coming months.

And what about the customer's understanding of what they are buying and in particular the service they are receiving when looking for advice? The big issue here is for ICOB advisers because under the rules (ICOB 4.3.8) unless an adviser has sufficient information to conclude whether or not the customer's existing pension arrangements are likely to significantly affect the suitability of any personal recommendation of a PTA policy, it must either; not make a personal recommendation until details of the pension arrangements are made available; or make it clear to the customer that the personal recommendation may not be suitable because it has not taken into account full details of the customer's existing pension arrangements.

This in practice results in the rather bizarre situation whereby a customer approaches an ICOB adviser, is handed an IDD which states very clearly "We will advise and make a recommendation for you after we have assessed your needs" and then somewhere in the statement of demands & needs/suitability letter the 'adviser' includes a statement that says something like "My personal recommendation may not be suitable for you because I have not been able to take into account full details of your existing pension arrangements".

It seems to me to be a very confusing situation, which could become quite messy down the line. If in the future a customer complains about the suitability of the advice how will they fare? Which statement is the customer most allowed to rely upon? If the ombudsman's decision is the latter, will the customer consider themselves to have been treated fairly? If not will the adviser consider themselves to have been treated fairly?

This situation has obvious concerns for many and there are definitely two camps emerging, some ICOB advisers are refusing to consider 'recommending PTA with caveats' and there are others who have embraced it wholeheartedly for its competitive net premium.

For my part I think the right thing for ICOB businesses to do is to offer PTA only on the basis that the sale is non-advised and declared as such on the IDD, that way there can be no doubt who is making the decision about suitability.

Remember for principle based regulation to really work a few principals need to apply some high principles!

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