

On the ladder - The majority of pure protection sales, it seems, have become inextricably linked to those on the first rung of the housing ladder. Jane Harrison and Richard Verdin investigate. Cover Magazine – (March 2007)

It is widely accepted that historically somewhere between 60% to 70% of the UK's pure protection sales have been initiated as a direct result of a 'Mortgage Event' (where someone is buying or re-financing a property). So when considering how to develop the protection market it is fundamental that we consider the way the mortgage market operates, including product and service delivery by the mortgage providers and the expectations of those directly involved in giving mortgage advice.

2006 was an eventful year for both the mortgage and protection industries with the mortgage market ending the year on a high with gross lending reaching record levels. This was despite the gloomy predictions at the end of 2005, with concerns that re-mortgaging would diminish and that the driving force of the market, first time buyers, would be increasingly excluded because of affordability problems. The protection market has however stagnated, following significant declines from the market peak in 2002/3, with term protection sales for 2006 standing at around 70% of those previously recorded levels.

So how can it be that these markets, where sales performance was once linked so closely, are now experiencing divergence? Have we simply reached the saturation point for protection products or can it be that customers no longer want, or believe in the value of, the cover on offer? Or is it that advisers have simply stopped offering it? and whatever the answer, what can we do to effect change, for the better?

Swiss Re's annual assessment of the Protection Gap destroys any concerns about saturation. Equally the issue does not appear to be one of consumers turning their backs on protection en masse; rather it is one that they are not being offered it in the first place. The evidence from advisers like London & Country, who continue to offer full mortgage & protection advice, is one of protection sales rising at least at the same levels as mortgage sales and if you talk to the mortgage networks their frustration with 'mortgage only' advisers is clear. So why have so many advisers turned their back on protection?

There are, we believe, four underlying causes:

- **Regulatory Risk** - Following statutory regulation many in the market considered the risks of offering advice, particularly around the more complex CI and IP products too great. Fear of the FOS is significant within the mature mortgage broking market. However there are now a number of systems available in the market place that can significantly reduce the risks involved to a level which, with training, eases many of the concerns expressed by mortgage advisers.
- **Time** - The effect of regulation on the mortgage sale means that adviser and customer alike are fatigued by the amount of paperwork involved by the point that protection would traditionally have been introduced. Again there are now systems that can simplify and speed up the protection sale process, which together with a short-form, tele-underwriting approach can reduce the time spent advising on a comprehensive protection package to under 30 minutes.
- **Remuneration** - Mortgage commissions are now at historically high levels and are, relative to the protection commission on offer, also attractive meaning there is less pressure for 'add on sales', particularly when the market is so buoyant. New entrants are also put off by the prospect of 'claw-back' on protection sales. Again, with the use of appropriate systems, it is entirely possible to introduce a controlled, high quality, slick advice and sales process. This together with the establishment of conservative provisioning for claw-back from the income received, can make the protection sale a very attractive 'pounds per hour' proposition for most mortgage advisers.
- **Process** – Some of the medical questions posed on insurer applications are not the sort of questions many professional mortgage advisers want to be discussing with their clients and the underwriting of protection products has become elongated and increasingly frustrating for advisers. Trying to match the progress of a protection and mortgage application is very difficult nowadays.

The issue of having to deal with medical Q&A's during a mortgage sale can be removed by using the short-form tele-underwriting solutions available today. However the problems posed through post application underwriting processes need to be addressed if confidence is to be restored in those who have the greatest opportunity to influence customers' buying behaviour.

Whilst it is true that both mortgage and protection providers have spent millions of pounds 'e' enabling their business, the experiences for the users are significantly different. Mortgage providers' 'e' systems are viewed as helping lenders to automate many decisions, allowing applications to sail through in a matter of days. Insurers' systems are viewed by many as having elongated the decision making process causing applications to become 'bogged down' while insurers go about collecting additional '3rd party' information that is both very expensive and largely irrelevant for the majority of customers on whom it is collected. This 'view' is supported by a number of re-insurers assertions of insurer practice in the market place.

It would be unfair to say that the technological developments are completely dissimilar and in some circumstances the insurance industry leads the lending industry, it is just that for too many customers the outcomes within a reasonable time frame are significantly different. Whilst the outcomes may well be ultimately similar, the lenders' approach is one of making good decisions as quickly as possible, the insurers' approach seems, in contrast, to be one of making good decisions never mind how long it takes and it is this that is turning many mortgage advisers off selling protection.

A more pragmatic approach to risk management may well be the key with advisers calling for a more balanced approach from insurers. Intermediaries are in the business of providing services to their clients and they fail in their customers' eyes if they cannot reasonably influence the process and the speed at which decisions are reached, inexplicable delays inevitably damage the adviser's credibility. Talk to some mortgage advisers today and they accuse insurers of over managing their potential risk to the point of destruction.

Insurers could definitely benefit from a little lateral thinking around the positive developments that lenders have made in turning advisers 'on' rather than 'off' through their innovation. The developments that lenders have made that impress advisers are for example automated desk top valuations (for otherwise low risk loans) and e-links to 3rd parties including surveyors and solicitors. Insurers on the other hand are still writing 'snail mail' letters to busy GP's who charge £74.70 to respond...eventually.

Statistics vary across the market but in general terms insurers are accepting cases without further evidence on around 50% of cases, demanding additional information (using a 20th century format) on the other 50%, with 60% - 70% of those being ultimately offered standard terms. Only a fool would consider this to be satisfactory.

In the mortgage market, traditional lender attitudes have been forced to change by the activities of aggressive new entrants, applying common sense over tradition. In the protection market new entrants have capped their capacity at such low levels that their impact has been low.

There is no doubt that the mortgage protection market is ripe for regeneration. Stagnation and decline are in nobody's interest and those insurers only interested in their share of a declining market rather than growing the market will lose out.

And so to solutions. To solve the problems of today we need a change of attitude or in 'modern speak' effect a 'paradigm shift'; where there is an administrative task which does not improve your underwriting decision – remove it. Understand that slow decisions often become irrelevant decisions in the mortgage market. Break the application process down, ensuring each element is handled by those trained and competent to deal with them, tele-application and underwriting processes were being used by lenders long before they emerged in the life insurance market. Finding new ways to reach good decisions quickly is the key to making the selling of protection contracts once more universally attractive to mortgage advisers.

The detailed answers to the issues faced by advisers do not lie in complex spreadsheets or algorithms, more likely the answers will be found by those who willingly and with an open mind expose themselves to the reality of the everyday trials and tribulations of the busy mortgage adviser.

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