

Reviewable -v- Guaranteed Rates – Money Marketing – August 2007

Up until a few years ago not many advisers were selling Reviewable CI (RCI) products. The price differential when compared with Guaranteed CI (GCI) was low and so the product was largely ignored.

Since then we have seen the cost of GCI increase from 3 times to 5 times the cost of guaranteed life cover and the gap between GCI and RCI has shifted from around 5% to 40% and back down to a relatively stable 15 – 20% today. During this time advisers have experienced additional difficulties in persuading customers of the value of CI with many having given up selling the cover altogether. Looking around the market now it seems that those who still recommend CI have divided into three camps:

Camp 1: Those who believe that the progress of medical science and the claims issues facing the industry represent too much uncertainty and therefore risk to their customers (who can after all have their premiums marked up, or benefits marked down, unilaterally by the provider), this camp therefore only offer guaranteed terms. The approach also protects the adviser against the revisionist customer who may complain about the benefit changes (and the advice that led to it) down the line.

Camp 2: This camp hold the view that reviewable premiums make the cover affordable, which means that it is bought rather than not, or at least more cover is bought than could otherwise be afforded.

Camp 3: This camp offers the customer both RCI and GCI and leaves it for them to decide whether to take the guarantee or carry the risk.

Personally I am a little worried about advisers in camps 2 and 3.

Whilst I am sure they can all write demands & needs statements that will no doubt act as a defence, should the RCI customer turn on them in years to come, I am not sure whether customers are, at the time they buy, really capable of quantifying the additional risk and its possible effects. When I quiz fans of RCI on this, they point to variable rate mortgages and say “same thing, smaller scale” but to my mind most mortgage customers are aware of, and track, changes in interest rates. They can identify the general direction of rates and they can react accordingly, fixing or otherwise. But who out there is tracking RCI premium/benefit changes for existing customers? If anyone is, then they would soon identify a whole host of existing customers with significant ‘built in’ premium increases due, yet deferred for up to 4 years, making the likely changes at review even more dramatic.

Recent research by the FSA tells us that customers act on what they are ‘told’ and not on what they are ‘told to read’ (reason why/suitability letters, quotes, key features etc). There is therefore now greater emphasis on ensuring customers are ‘told’ everything of importance during the sales processes, rather than handed or sent documents. Easy to prove or disprove in a digitally recorded call centre operation, not so easy for the majority of advisers. And, when it comes to CI, there is already plenty for customers to try to absorb, what chance then that they can really make sense of the factors affecting reviews, namely; general industry claims expenses, the future level of claims the insurer pays, the impact of future medical advances, the costs of re-insurance, the number of plans cancelled early, future business expenses, inflation, investment returns, taxes and the required levels of financial reserves?

15% - 20% of premium savings now could prove to be a real false economy for customers during the lifetime of their mortgage and also very costly for advisers, if the customer understanding wasn't fully established at point of purchase.

By Richard Verdin, Sales & Marketing Director.