

Starting a new life insurance business – Money Marketing – February 2007

On Wednesday I started to receive all manner of amusing emails, texts and calls about a company called Fortis. According to a newspaper report Fortis are planning to launch into the UK protection market and as such have vacancies to fill from PA to MD. My misfortune was to be named on a 'potential recruits' list faxed to a reporter. Apparently alongside the names on the list were mostly unflattering observations made by someone presumably involved in the recruitment process.

And so the jokes rolled in as my tormentors pointed out that it was difficult for them to work out whether I was the one described as "old school", "not dynamic", or simply "thinks highly of himself", those who know me really well just asked if my shorthand was up to scratch!

Putting aside for now the fact that they clearly have much to learn about confidentiality, recruitment and press relations, the question begs why would any seriously big business want to launch into what is already an overcrowded, stagnating market which allegedly operates on relatively thin margins?

Well for one, if the report mentioned above is anything to go by, you shouldn't believe everything you read in the press. Look at the salaries providers pay, the sheer number of people they employ and the prime real estate they occupy and you will soon appreciate that 'life' isn't actually as tough as some would have you believe.

Nonetheless if, as a new entrant, you want to take a reasonable share of the non-tied life insurance market then offering a competitive premium is fundamental and making profits from competitively priced products (presumably another fundamental?) really requires an insurer to be able to take advantage of being taxed on the basis of I (income and gains) minus E (expenses). Businesses which don't have any life assurance income and gains to offset their hefty new business expenses against, effectively lose the pricing advantage such relief brings.

Businesses which operate in the broker market without the advantage that ' I minus E ' brings are known as operating on an 'excess E ' and tend to have a proposition that relies on a USP, which for some advisers and their customers is more important than the lowest possible price.

USPs that advisers truly value however don't come easy; comparing term life cover is nearly all about price and we already have ultra competitive pricing where any movement around the top of the table always provokes an instant reaction from you know who. The serious/critical illness market already offers a range from low cost basic products, all the way through to one product that, even if you were to add yet more illnesses to it, it simply wouldn't register. Finally we have an income protection market which is currently too small to excite any business allegedly offering salaries of up to £360k.

Having said all that, there are real opportunities. Distribution is becoming increasingly concentrated and e-enabled, creating efficiencies for providers who know how to take advantage of progress. There is also a distinct lack of genuine innovation around underwriting and customer service, all of which point to a means of real differentiation which many believe a significant portion of the mass market would react well to.

Perhaps now is a good time to enter the market - who knows? What I do know however is that potential new entrants should be talking to their potential distributors about their potential opportunities rather than 'allegedly' targeting their employees as potential recruits.

By Richard Verdin, Sales & Marketing Director, Direct Life & Pensions Ltd