

Too busy to write protection – Financial Adviser – November 2007

Most of those who take a serious interest in the protection market should, if they don't already, take a keen interest in the housing market not least because home buyers still represent the majority when it comes to buying protection.

Anyone looking at the last few years protection sales would have to agree that the market's performance has been, at best, lackluster and with no clear revolution or significant market stimulation on the horizon most see little if any prospects beyond 'more of the same'.

The housing market of course has been very busy over the last few years, however since August 2006 we have seen 5 base rate increases from the Bank of England, whereas in the prior 2 year period the rate had only moved twice - once up by 0.25% and once down by 0.25%. One of the effects of the recent rate rises has been to gradually reduce the level of activity in the house purchase market and while reports vary the most credible suggest that new transactions are down to a seasonally adjusted 80% - 90% of previous levels.

The balancing effect of the interest rate rises on mortgage broker activity has been to keep most of them busy, as customers with existing loans on a variable rate shop around for some security in the form of fixed rate re-mortgages. The affect of all of this on the protection market however has been 'slightly negative', as penetration rates for protection on mortgages are generally better for purchases than for re-financing.

In the middle of all of this change we now also have to cope with the 'credit crunch' the upshot of which is simply to confuse the market beyond belief, largely because the whole sorry mess will take 6-9 months to unravel itself and until it does no one knows who the winners and losers really are (apart from the painfully obvious of course).

Views vary on the overall effect the crunch will have on the housing market (and therefore the protection market) and I guess the answers hinge on a handful of questions:

- § Who was left holding the wrong parcels of debt when the music stopped?
- § How important is short term wholesale funding to the liquidity of the residential and buy-to-let markets?
- § How important were high LTV/low interest rate sub-prime and buy-to-let markets to the overall activity of the housing market?
- § Is there sufficient retail funding (or longer dated wholesale funding) available to plug the gap created by the credit crunch?
- § What appetite do those with retail funds have for stepping into the '100% wholesalers' product shoes?

To the pessimists the answers all point to doom, gloom and house price crashes, the optimists (of which I am one) see rays of sunshine peeking out from behind dark clouds. In the meantime, for the market we have today, the most important section of the housing market to those of us interested most in protection is prime residential house buyers which appears depressed but quite stable which, once the re-mortgage flurry subsides, represents probably the best market conditions for protection sales that we have seen for some years.

Why? Because mortgage adviser earnings are depressed and the best way for a mortgage adviser to restore his earnings to previous levels is to perform better on 'peripherals'. In truth the protection market has for some time needed the housing market to cool so that 'it' could warm up.

The housing market has simply kept mortgage brokers very busy and profitably employed arranging mortgages only, collecting fees from their customers and the lenders as they go. It is a fact that many mortgage brokers have, over the last 4 years, either ignored protection altogether or have left the

industry only to be replaced by 'new' mortgage brokers for whom insurance has never been part of 'what they do'.

Of course being too busy has not been the only reason why mortgage advisers have turned their back on protection, other reasons include:

- § The prevalence of sub-prime - persistency is poor and therefore sales aren't attempted.
- § Buy-to-let - the life cover requirements for landlords are different to those of residential borrowers.
- § Statutory regulation – the darkest downside of getting protection wrong could mean payment of the sum insured by the adviser, which is significantly riskier than the worst case scenario for mortgages.
- § Earnings structures – claw-back is considered to be a bizarre and unsatisfactory commercial arrangement by those who are only used to client or proc fees.
- § Customer attitudes – people haven't been clamoring for 'great protection' in the same way they do for a 'great mortgages'.
- § Bad news – in the shape of declined critical illness claims.
- § Process – there is no doubt that for many the process of medically underwriting customers is seen as a turn off for many advisers.

Nonetheless 'being too busy' has certainly been a significant and contributing factor to past poor performance and now we are seeing many advisers showing increased interest in offering protection alongside mortgages.

Key to building on this budding renaissance is the provision of training. Unlike riding a bike the skill and knowledge needed to advise on protection is something that can easily be forgotten and anyway the rules of engagement changed with the introduction of statutory regulation, as has much of the detail underlying some products - particularly critical illness cover.

So re-learning (and indeed learning for relatively new entrants) is key to confidence and confidence is key to successful selling. Therefore the time is ripening for insurers (and others specifically interested in the health of the protection market) to collectively extract their fingers and re-engage with a community that is only too willing to talk about learning for earnings sake.

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