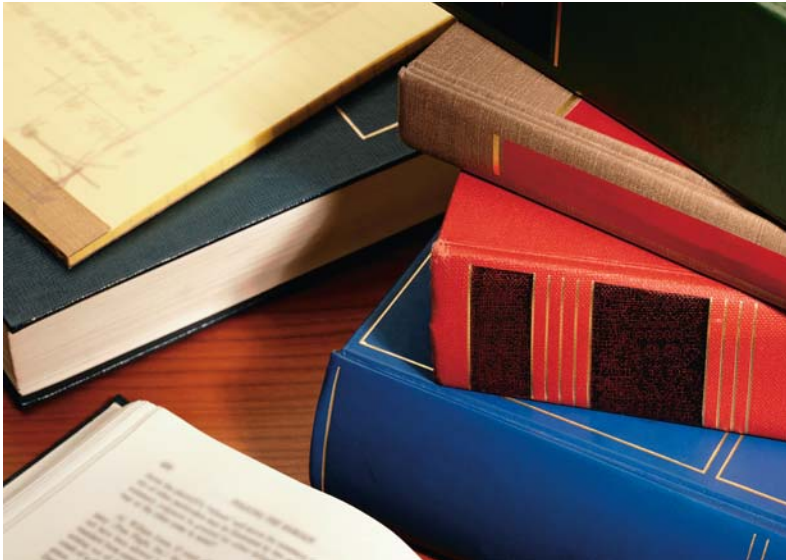


## Extension of regulation to Pure Protection



At our Product Development Seminar last July, Veronica France took up our challenge "Making Sense of Regulation" and gave us a guided tour of the Financial Services Authority's proposals to extend regulation to what we currently know as 'non-regulated protection business' together with proposals to extend the Appointed Representative regime. Veronica made a strong plea that the industry look very carefully at the proposals and make clear, well argued responses to the FSA where it was felt that the proposals would be detrimental to the sales, marketing, expenses and management of Pure Protection business. Now that the FSA has published its final rules, Veronica gives us an update.

When I spoke at Hannover Life Re (UK)'s seminar last year, we were all trying to piece together the overall effect of a number of weighty consultative papers. So, what's changed, you might say!

Well, the key difference for protection business is that the final rules have been published - so we are no longer speculating on what the rules might be. We now have to get on and implement them in time for the deadline of 14 January 2005.

Long-term care insurance is being dealt with by the FSA separately from other protection products. At the time of writing, final rules are awaited following closure of the consultation period at the end of January on Consultative Paper (CP) CP200<sup>1</sup>. Current proposals are for all long-term care insurance to become regulated on 31 October 2004.

The rules that will govern the sales, marketing and administration of non-investment insurance business are in a major new section to the FSA Handbook, called the 'Insurance: Conduct of Business sourcebook' (ICOB) and these have grown out of CP160 as updated by CP187.

It's all too easy to accuse the FSA of ploughing its own furrow and failing to listen to what the industry has to say. But on this occasion, these rules demonstrate that the FSA is prepared to listen and act on industry representation. As a result, the disruption to the structure of the market and the implementation requirements are less onerous than they might otherwise have been. Nonetheless, product providers and intermediaries should not be complacent. The rules are far reaching and include measures that will effect:-

- Customer communications
- Intermediary authorisation
- Intermediaries' processes, procedures and record keeping
- Providers' intermediary/agent database records
- Back-office staff competency
- Training and competency schemes (for those selling to or advising customers)
- Sales processes and supporting documentation
- Intermediaries' and providers' culture - not forgetting the increase in senior management's responsibilities

*Continues over page.*



The truly enlightened reassurer

# Extension of regulation to Pure Protection *continued*

- Storage of information and the ability to reproduce it regardless of the medium (e.g. internet, e-mails, CD-ROMs, letters, faxes etc).
- Claims processing

These changes come with their own costs - both one-off and on-going and many intermediaries and general insurers will have to deal with being regulated by the FSA for the first time. So it's perhaps not surprising that many intermediaries are seeking to reduce the pain by either becoming the appointed representative of a product provider, an intermediary firm or a network. As most life offices already conduct investment business, many have already applied FSA type requirements to protection business on a voluntary basis and the Association of British Insurers has assisted this through their codes of conduct best practice notes (e.g. for key feature documents)

As already mentioned, the extension of regulation to Pure Protection business is to be accompanied by augmentation of the FSA's remit into general insurance. This means that the new regulations will affect close relatives of life and disability products, like accident, sickness and unemployment products which are often packaged or sold alongside life cover and critical illness in the mortgage market. Those life offices that market the products of a general insurer will want to review these relationships and ensure that the contractual arrangements and disclosure materials meet the new requirements.

Whilst mentioning the mortgage market, it should also be remembered that most types of mortgages will become regulated by the FSA with effect from 31st October 2004. So for those organisations that sell mortgages, pure protection and general insurance there is much to do over the coming months.

This article focuses on the key points affecting Pure Protection when sold to the retail customers (the regime is lighter for commercial customers, provided that the customer consents to opting out).

## The good news

A number of proposals discussed at last year's seminar, which would not have been popular for protection business have thankfully been dropped.

- Critical illness and income protection will not be categorised as 'high risk' and will not attract any more onerous requirements when compared with other protection products
- The Appointed Representative rules<sup>2</sup> are simpler than originally proposed and will not include a complex categorisation of product groups
- It won't be necessary to produce different product disclosure material for term assurance which is classified as investment business when compared with term assurance which is classified as 'pure protection'.
- Less information needs to be provided for group policies.
- Less information to be provided by intermediaries when introducing a customer

## The overall effect

The overall effect of the new rules is to extend FSA regulation to the prudential management, sales and administration activities of life offices, general insurers and all those that market, sell, or advise on these products. The days of 'non-regulated' protection business will end on 14 January 2005. This is a massive under-taking, and it is hoped that

much can be learned from the investment and pensions industry.

## The Sales Process

The rules will affect most sales processes (direct response, non-advised sales and advisory sales). Providers and intermediaries who also do investment business will be familiar with FSA regulation and many already apply investment business practice to the sale of protection business - so the impact on these firms will be less compared with a firm that is experiencing FSA regulation for the first time. FSA estimates that it will receive over 20,000 new authorisation applications over this year - so there will be many 'novices' come January next year.

The good news is that the rules give intermediaries choice about the type of service they give to customers. Choice is available regarding the type of sale (non-advised or advised) and the extent to which they analyse the market for suitable products. This can range from being the product of a single provider, the products of a group of providers, or the products available from across the market (with or without the use of panels). Further, the range can be different by product. So, for example, an intermediary may give information or advice on a 'fair analysis of the market' for term assurance, but base advice or information for mortgage payment protection insurance on the product of a single insurer.

## Choice versus confusion

Choice is good, but we know from research that few customers make their selection based on analysis of the type or scope of the service being offered to them. There must be serious question-marks over whether customers will appreciate the differences between:-

*Continues on page 5*

## Profile: Actuarial Marketing Team



**Back row (left to right);**  
Caroline Feaver,  
Jeremy Smith,  
Neil McPhillips,  
Stuart Hill,  
Tracy Higgins,  
Joanne Wells  
**Front row (left to right);**  
Leza Engelbrecht,  
Leena Bhavsar,  
Brian Sewell,  
Geetha Singam

Hannover Life Re's Actuarial Marketing Team plays a central role in the company's activities. The ten-strong team led by Stuart Hill, includes a broad spectrum of knowledge and skills - with a diverse range of experience, taking in direct office, consultancy and reassurance, both in the UK and overseas. In the following article we profile a dynamic expanding team that combines a healthy mix of youth and experience.

Stuart Hill needs less of an introduction than most (see profile in 'In Focus' Issue 10). As General Manager - Marketing his responsibilities cover the company's marketing function across a broad front, including underwriting and claims, marketing and actuarial marketing. Stuart's role within the actuarial marketing team is primarily one of strategic direction.

'I see my role in terms of shaping the overall way we work,' he says. 'We are actively growing the actuarial marketing team, bringing in people with broader skills and experience to complement our existing strengths. My priority is to ensure that we are as well equipped as we possibly can be to understand, anticipate and meet our clients' ongoing needs.

'We try to avoid over-specialisation of roles - with all team members working across a broad range of client facing and research and development activities. We have a huge amount of intellectual capital, and I think it is very important to continually question, challenge and explore new approaches. Combined with a good understanding of the way a direct office works in practice, this is key to maximising the value of our input.'

Marketing Actuaries Caroline Feaver and Joanne Wells each lead a team with specific responsibilities for different clients and various areas of research and are jointly responsible for all aspects of the actuarial marketing function at Hannover Life Re (UK). They are both members of the executive team and also make a significant contribution to the company marketing strategy and the overall actuarial approach of the company. Other aspects of their role include participation in the company client visit programme and liaising with actuarial colleagues within Hannover's global network.

Caroline and Joanne play an active role in industry forums and

committees - keeping at the forefront of current thinking and helping to shape future developments.

Caroline Feaver joined Hannover Life Re (UK) in 1998, having previously spent six years with Cornhill Life, where she worked in both valuation and product development, qualifying in 1996. She leads a team of four who act as the first point of contact for a range of clients including the Lloyd's market. Day to day - their work focuses on client contact, pricing, product development, research and analysis. In research terms, her team specialises in income protection, impaired annuities, financial reassurance and group business. Caroline is also deputy chair of the ILAG Health and Protection Committee.

Working with Caroline are Assistant Manager Brian Sewell and Actuarial Assistants Geetha Singam and Leena Bhavsar. Brian, a nearly qualified actuary, joined in 2001 after five years with Cornhill Life in a valuation role, and before that worked on the pensions review team at Pearl Assurance. 'Having spent time in a life office definitely helps,' he says. 'It saves a lot of time, because you have a better understanding of the client's priorities, objectives and the constraints they

have to work within. There are several of us here with direct office experience, and that is something we always try to share and factor in to everything the team does.' Brian has specific responsibility for Lloyd's clients and directly handles most of the team's actuarial systems work. On the research side, he is particularly involved in work on income protection.

Geetha Singam joined in May 2003 having previously worked for Gerling Global in Australia, where she gained extensive experience on the group side (due to the different structure of the market there). She is actively involved in the team's research work on impaired annuities. 'One of the things I really like about working here,' she says 'is that there is a strong focus on research and development. I think the combination of clear client focus and a strong commitment to research work gives us an edge.'

Leena Bhavsar joined in 2002, after working on the non-life side at Hart Re. Since moving into the life sector she says she finds the work far more diverse and interesting. 'One of the things I enjoy about this job,' she says, 'is that there is a good mix of client contact, research and pricing work. I think we have a very well integrated and balanced approach here that encourages us all to see things in a wider perspective and develop a broader skill set.'

Our other Marketing Actuary Joanne Wells joined Hannover Life Re (UK) in 1988 and now leads a team of five, with its own distinct set of client relationships. Joanne has over 15 years experience in the reinsurance industry and has worked in various actuarial roles, ranging from valuation to research and pricing. Joanne's team maintains the actuarial profit testing programs used by actuarial marketing and in terms of research specialises in the analysis and pricing in the areas of critical illness, standard annuities and mortality products.

Joanne is very well known within the industry and is a member of the Institute and Faculty of Actuaries Health and Care Committee research working party on Critical Illness Claim Trends and the CMI Graduation Working Party, which develops the standard tables used by the industry.

The other members of her team are - Assistant Manager Leza Engelbrecht, Senior Actuarial Assistant Neil McPhillips and Actuarial Assistants Tracy Higgins and Jeremy Smith. She describes them as a hard working and dynamic group who share a ready ability to assimilate and develop new ideas and think on their feet.

The most senior member of Joanne's team is South African Leza Engelbrecht - the fourth fully qualified actuary on our team. Leza joined in August last year, having previously worked for a life office in South Africa and for consulting company Ernst & Young in the UK. Leza believes that having seen how other markets around the world operate provides a valuable insight and perspective and can help when suggesting alternative approaches to issues affecting the UK market.

With previous experience of both direct and consultancy companies, Leza finds reinsurance offers the best of both worlds. 'I missed the element of client contact when I was working in a direct environment. On the consultancy side, of course, there is a huge amount of client contact - but, because it is predominantly project-based, you don't get the same ongoing relationship with the client that you have with reinsurance work.'

Neil McPhillips, a nearly qualified actuary, joined Hannover Life Re (UK) in June 2001, having previously worked for Swiss Re in their technical operations and pricing team. His role within Joanne's team focuses on pricing work, research and experience analysis'. He says 'it is good to work for a company where you feel less anonymous and

more as a team, it enables you to get a more rounded perspective on the things you are working on as a whole. It's a very positive working environment here and we all get on really well as a team.'

Tracy Higgins moved from Dublin to join Joanne's team in November 2003, having previously spent a year as one of 12 employees at a small consulting organisation, Life Strategies. She is rapidly working her way through her actuarial exams, with just four to go, and says she realised early on that reinsurance was the industry sector she wanted to pursue. 'I knew I wanted to be involved in the fundamental process of risk assessment', she says. 'I have learned a huge amount since I joined, and I am really enjoying being part of a bigger team where there is always someone to ask if you come across something you are not sure about.'

The newest recruit to Joanne's team is actuarial assistant Jeremy Smith. He joined at the beginning of 2004, after two years with Swiss Life working on pricing within their personal finance division, and before that Canada Life. Jeremy has excellent systems programming and coding skills, and one of his key responsibilities going forward will be maintaining and upgrading our actuarial profit testing system MOSES, a state of the art pricing tool that enables us to quote on structures as quickly as they are dreamed up. 'I'm still learning the ropes at this stage', he says, 'but I already feel very much at home here. They say it normally takes a couple of months before you start to enjoy a new job, but I haven't found that here.'

Hannover Life Re (UK)'s actuarial marketing team will continue to grow and evolve to meet the future challenges and opportunities of the market and to service our clients' needs to the highest standard possible. But the team we have in place now provides what we feel is an exceptionally dynamic, balanced, capable and highly motivated structure around which to build for the future.

# Extension of regulation to Pure Protection *continued*

'receiving advice' and 'helpful information'

based on analysis of the contracts from a limited number of insurers.

'Helpful information' (a non-advised sale) may be perceived by the customer as being advice - despite what any supporting documentation might say.

The customer may feel that he is getting independent advice if the range of providers appears to be fairly comprehensive, particularly if the range includes most of the leading brand names that the customer will have heard of.

advice or information based on 'fair analysis of the market' and that

Further, will customers appreciate that the type of service or the range of products from which the product selection has been made may be different by product line?

If we are to avoid expensive complaints in the future, intermediaries and insurers who are selling to the individual will want to make sure that the intermediary is very clear about how he describes his service to the customer and supports this with clear written materials. The industry will want to reduce the risk of complaints arising which hinge on proving what type of service the customer thought he was receiving.

I believe that monitoring and managing the activities of multi-tied intermediaries will be a real challenge. Being a multi-tie seems to create a certain distance between the adviser and the different firms that must ultimately take responsibility for their actions. This has been recognised by the FSA and its final rules call for the appointment of a 'lead principal' who must take the lead in certain matters e.g. complaints. It's my suspicion that from a regulatory perspective, the 'lead principal' will become increasingly relied upon to manage the multi-tie arrangement which will increase costs and inevitably increase its potential liabilities in relation to the activities of the multi-tie intermediary. I am reminded how difficult life offices found it to monitor and control their Appointed Representatives in the late 1980s. This led to many life offices having to re-train their representatives and many were fined heavily by the regulator of the day. The industry must ensure that high standards are applied and delivered in connection with multi-tie arrangements.

*Continues on page 6*

## What will go on at the point of sale

### What

### How

#### Step 1

Status disclosure - the intermediary must disclose his/his firm's status to the customer.

Either use FSA's sample form the "Initial Disclosure Document, or develop own material but it must provide the information required by the rules.

#### Step 2

Assess what the customer wants and what he needs

Ask the customer, plus use any existing information about the customer which is readily available and accessible. Record this information in a Statement of Demands and Needs.

#### Step 3

Assess the suitability of a contract against what the customer wants and what he needs. Is the cover sufficient? Are the terms and conditions of the contract right for the customer? Can the customer afford the cover?

Add the results of the assessment to the Statement of Demands and Needs Statement. This could be a very simple statement for some products. There's no FSA prescribed template for this and it doesn't have to be a separate document - it could be part of the application form. It's length and detail will depend upon the complexity of the customer's circumstances and the product being sold.

#### Step 4

If giving advice, make a personal recommendation to the customer and explain the reasons for the recommendation.

Add the reasons for the recommendation to the Statement of Demands and Needs.

#### Step 6

Give the customer information about the product and the cost and the Demand and Needs Statement, provide a copy of the terms and conditions if asked for.

Use the insurer's Policy Summary or Key Features document, plus a Statement of Price (quote). The intermediary must decide on the type of Demand and Needs Statement. Give these before conclusion of the contract\*.

\* Those life offices with point of sale systems that enable the contract to be concluded on-line, may wish to remind the intermediary of their obligations or perhaps extend their service to include an on-line demands and needs statement that the intermediary can elect to use. There are some circumstances when the customer can be told verbally about the content of the statement with the written one being provided immediately after conclusion of the contract.

# Extension of regulation to Pure Protection *continued*

## What will go on at the point of sale

Whatever the scope of the intermediaries service, the sales process with retail customers is guided by what the intermediary needs to tell the customer and what has to be produced to support the message. This will create much work for providers and intermediaries and the new requirements will need to be reflected in training programmes and internal procedures. The key points are summarised on page 5.

## Spare a thought for the FSA

The FSA will be taking on a significant increase in its responsibilities and thousands of individuals and firms will be authorised by the FSA for the first time. The extension of regulation to mortgages, pure protection, long-term care and general insurance in the space of 3 months must surely be a recipe for indigestion. The industry should continue to work with the FSA to ensure that the new requirements are interpreted and monitored in a fair and consistent way and that

the FSA takes into account the very different nature of protection business as compared with investment and pension business.

## Veronica France The Oak Consultancy

<sup>1</sup> CP200 Regulation of long-term care insurance

<sup>2</sup> These were outlined in CP159 Appointed Representatives extending the current regime.

## Hannover Life Re (UK) lights up the Life Convention

Hannover Life Re (UK) once again attended the Life Convention of the Institute of Actuaries in Birmingham. Alongside our exhibition stand we also provided speakers for one of the technical sessions, Caroline Feaver and Joanne Wells spoke on Impaired Annuities.



Kirsteen Grant and Leza Engelbrecht

Many of the 600 delegates tested their skills on our giant 'Operation' game challenge. The winner had to successfully perform the operation, one slip and the patient screamed and his nose lit up - Andrew Dean, Royal and Sun Alliance performed the most operations, going home with a luxury Christmas Hamper.

We will have a presence at this year's convention which is being held in Edinburgh on 7-9 November.



Ronnie Bowes and Andrew Dean, Royal and Sun Alliance.



Leza Engelbrecht and Ronnie Bowes

We hope you enjoy In Focus and we welcome your feedback, please forward any comments to Kirsteen Grant. If you wish to be added to our mailing list contact Kirsteen on 01344 846833 or email [uk.marketing@hannover-re.com](mailto:uk.marketing@hannover-re.com).

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