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Profiting from protection

05 April 2011 by Paul Dawson, Head of Distribution Development, Zurich International Life

For many onshore and international advisers, the economic events of 2008 and 2009 required a consideration of how their businesses would continue to survive. A key question was where were revenues coming from and, more importantly, what opportunities existed for new sources of revenue?

The bull market that ran through the mid 2000s until 2008 had seen sales from savings and investments products as relatively easy for businesses to obtain. During 2009 and into 2010, a greater focus on protection products provided those businesses with a new income source which helped them survive and prosper through some challenging times.

The ability for advisers to change their focus and move into what for many was a brand new market, shows the agility and resilience that exists across the financial advice sector.

However, as the stock market rallied over the last few months of 2010, there was a risk that some advisers were moving away from protection sales as clients regained their appetite for savings and investments. For some this might have been a deliberate and calculated strategy, but for many it may have been a subconscious move as clients once again seemed interested in discussing investments.

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Either way, my advice to all advisers is to ensure that protection remains a key part of their client proposition. The world events during the first part of 2011 suggest that stock markets will continue to be volatile and, with increased volatility, comes increased nervousness from those considering a new investment or savings plan. Protection business, however, is not correlated to the stock market rises and falls.

After investing time and effort to be successful in the protection market, the importance of maintaining the knowledge and expertise built up cannot be underestimated for a number of reasons.

Protection is important for clients. This is an obvious statement to make, but we often forget the impact that having appropriate insurance – or worse still, not having appropriate insurance – has on clients, who don't always consider what might happen to them in the future. Many territories have low penetration rates in the life insurance markets, for example, across the Middle East, penetration rates remains low by international standards at under 2%.

All of us in the financial services industry play a role in illustrating the 'what if' scenarios, but, ultimately, the people who work to get this message across to the client are the financial advisers. Clients don't buy a tangible product when they purchase an insurance contract.

They are buying peace of mind, they are taking steps to underpin their plans and aspirations for the future and they are securing their family's standard of living, no matter what might happen. Providing a client with a solution to their insurance needs is an integral - and fruitful - part of the adviser/client relationship.

Protection is important to financial advisers. A fairly obvious statement to make, but just how important is protection? Along with the initial revenues generated, protection business is traditionally business that produces strong recurring revenues for financial adviser businesses. In addition, when discussing protection with clients, an adviser is required to deal with what, for many, are sensitive issues.

This has proven to lead to a stronger adviser/client relationship which, in turn, results in clients being more prepared to make personal introductions of their family and friends to 'their' adviser.

The other area of importance is reputational risk – does an adviser want to be the person who hasn't provided a client with protection advice when they come to try and claim … or do they want to be seen as a 'hero' to a family suffering with personal grief, but with any financial concerns removed by the advice and actions of 'their' adviser?

So how can advisers continue - or start - to prosper in the protection market?

- I suggest they arm themselves with informative and illustrative statistics to help outline the 'what if' scenarios that are often needed to paint a picture for clients. The mass of information available on the web can sometimes be too vast to make sense of, but organisations such as the World Health Organisation (www.who.int) provide valuable information. Just viewing the home page alone provides headlines such as '7.6 million deaths from cancer worldwide in 2008' and '220 million people have diabetes worldwide'.

- Use this type of information to dispel myths and open the eyes of clients to the 'what if' scenario. Also, advisers should discuss with any insurance provider partners what information they have to support client discussions. For example, clients often raise objections and doubts on whether claims would be paid – so advisers should get claims statistics from the insurance providers that can be used to help overcome such objections.

- In any profession, individuals need to spend time 'sharpening the saw'. The same principle applies to advisers, whether new or experienced, within a market. Advisers need to spend time updating their knowledge and skills to ensure they have a complete understanding of the market, including available products and underwriting processes.

- Advisers should consider how discussions start with clients and what techniques are used to progress the 'protection' conversation. When talking with clients about saving to meet future plans, the language used tends to be positive (e.g. goals, plans, aspirations etc). However, a discussion on protection needs requires the use of more 'negative' language, such as worries, impact, concerns and risks, as the tone of words helps clients see what the future might hold if death or illness hits them or their families.

Finally, business owners should regularly complete a stress test on their business. We've heard how major financial institutions, particularly banks, have undertaken stress testing over the last year or so to understand how their businesses would cope in various scenarios. In some ways, whenever an adviser discusses a client's financial situation, they are providing that client with a stress test – i.e. how will the client's finances cope in various scenarios.

Financial advisers need to do the same within the context of their marketplace. The simplest stress test is to consider the impact of another economic crisis similar to the 2008/2009 period, e.g. stock markets falling, recession, unemployment etc.

How would the business cope this time around? Is there sufficient capability within the business to grasp whatever opportunities would exist in such a scenario, or would the business need to spend time bringing its people up to speed with the protection market once again?

By ensuring that their businesses offer a range of products – including making the most of protection opportunities – business owners and senior managers can work to ensure their own peace of mind, whatever the economic climate.