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PPI may help with rescue planning

While the Competition Commission has not confirmed its final verdict on the remedies it wants to introduce to the UK payment protection insurance market next year, the provisional decision published in May concerning PPI on mortgages, loans and credit cards gave a pretty clear indication of its intended course of action.

The prohibition on selling PPI at the point of sale of these financial products is expected to go ahead, although the Commission has indicated it is minded to do away with the prohibition on retail PPI.

There has been much debate as to whether prohibition will act as the final nail in the coffin for PPI as we know it today. Some have pointed to the decision by the Lloyds Banking Group to stop selling PPI across all its brands and products as evidence of this. The bank has stated that it believes further changes in regulation will make it uneconomic to continue to offer these products in their current format.

The Financial Services Authority has subsequently published a policy statement confirming its package of measures designed to protect consumers purchasing PPI products. Since it took over the regulation of PPI, it has taken action against 24 firms and individuals for PPI failings with fines totalling approximately £13 million. In light of the new rules to be adopted by 1st December this year, there is speculation that two and three quarter million people could be refunded as much as £2.7 billion for allegedly being mis-sold PPI. These new rules could certainly influence a distributor's decision with regards to how to sell PPI in the post-Commission world.

The Commission's main aim was to increase competition in the market. If other distributors follow the lead of the Lloyds Banking Group however, then as some comments on industry forums have pointed out, less competition will lead to less choice and potentially a higher cost for cover. Hardly the desired outcome, I would have thought.

There appears to be a growing consensus in the marketplace that PPI will never be the income generator it once was for distributors no matter whether they are a lender, a credit or store card provider, or a home shopping

network. At the same time, it would seem that PPI has never been more important - particularly when it comes to protecting mortgage repayments.

The continued uncertainty that surrounds the economic outlook highlights the continuing need amongst consumers for some form of protection - whether PPI or not.

If it does become harder for Joe Public to find appropriate protection for their financial commitments, then will lenders have to factor in the much higher risk of future arrears on their personal loan and mortgage portfolios? Despite consumer educational activities by the FSA amongst others, there is still an alarming lack of awareness amongst the borrowing public as to the level of support they can receive from the State in times of difficulty. In this case, could PPI have a greater role to play as a risk management tool for distributors rather than being seen primarily as a personal finance tool for consumers?

While consumer organisation Which? claimed the decision by the Lloyds Banking Group marked the beginning of the end for PPI, the Consumer Council commented that removing PPI from the market is not the solution. Rather it is a question of providing products that offer value for money and that consumers can be confident in making a successful claim against.

While it may appear that the industry has been on hold over the past three years, there has been a lot of work going on behind the scenes as many insurers look to present lenders with solutions as to how to market PPI in the 'new world'. There have been some new products launched which have turned the underwriting process on its head to create a policy tailored not only to the individual's personal circumstances but also to their risk profile. Others have started to address the sales process to accommodate the seven-day prohibition period.

I doubt that there is going to be a single way forward. Just as PPI has evolved from the one-size-fits-all proposition of the 1970s, I believe that the market is going to see a number of different propositions being developed. These will meet the needs of the distributor while ensuring they comply with the specific remedies introduced by the Commission when the Order is implemented next year.

Some could choose to offer their clients a more holistic approach to protection. This could result in income protection forming part of a personalised portfolio for the individual that protects their financial commitments as a whole rather than being linked specifically to one credit product such as a mortgage. The downside, perhaps, is that it could marginalise certain demographic groups who are unlikely to have the spare cash to meet the increased premiums of such an approach.

Others could adopt PPI as a risk management tool and look to provide it free of charge to the consumer as part of the credit offering. This does have commercial implications of course, and could see the distributor concerned

passing on the cost in some way to the consumer, possibly through increasing the APR. Such a decision could impact their competitiveness.

Another option is to decouple PPI from the credit vehicle completely and move to selling stand-alone income protection that covers a percentage of salary rather than specific repayments. This would, of course, involve a proactive marketing campaign and that naturally has significant budget implications. From an insurer's perspective, this scenario also presents the likelihood of anti-selection as customers are likely to actively seek cover as they believe their risk of, say, unemployment is greater.

Clearly, each distributor has to make its own decision as to the most appropriate route to market. I would, however, caution all of us involved in the supply chain of the danger of ignoring one key fact that the Commission itself has acknowledged. Protection is not something that consumers have on their shopping list. Unless they feel at risk, they are unlikely to shop around for cover no matter how easy it is to do so.