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A better deal for MPPI customers

Even after the general election, an air of uncertainty hangs over the country. Nobody yet knows the full extent of the fiscal policy that will have to be implemented to attack the public debt situation, and the impact this will have on job security.

Many private sector workers have already taken a hit on earnings simply to stay in work. And there will certainly be job losses in the public sector as the new government sets about tackling the deficit. The employment picture for the next year looks fragile.

The Labour government introduced some measures to help those struggling to meet mortgage repayments, including reducing the waiting period for Support for Mortgage Interest to 13 weeks and raising the ceiling to £200,000.

But the cost to taxpayers is phenomenal and any rise in interest rates will put further pressure on the public purse. Given the need to cut public spending, is it realistic to offer this level of assistance?

The current climate means mortgage payment protection is more important than ever. While cost is often cited as the main reason that consumers don't buy it, the unprecedented levels of claims relating to unemployment have pushed premiums even higher.

Did insurers have to increase premiums at a time of such hardship? Some have argued that the depth of the recession was foreseeable and insurers should have acted sooner so rises would not have been so steep. But it is to insurers' credit that they maintained premiums at a stable level for such a long period.

As well as a big rise in the number of claims there has been a concurrent increase in the duration of those claims due to the length of time it is taking people to find alternative work.

All insurers have a duty to ensure funds and reserves are sufficient to pay out all valid claims.

So does mortgage payment protection still represent a valuable safety net or would homeowners be better off using an interest earning account?

A simple calculation tells the story.

A typical customer might take out a policy to cover monthly mortgage payments of £1,000 and additional bills of £200. If the premium basis is £6.82 per £100 per month of benefit, then the monthly premium is £81.84. The total premium paid over a year would amount to £982.08 - almost a fifth less than one month's benefit.

But if they were unfortunate enough to be made redundant or not be able to work due to injury or illness, a policy of this type could potentially offer up to £14,400 in benefits over 12 months.

While the policyholder is required to continue during a claim the total benefit potentially represents almost 14 times the value of the premiums paid.

While we can't compare MPPI with a savings account directly, if there were an instant access account that could show that much value, then I'd shift my life savings there straight away.

But while consumers can do the maths for themselves, there is still an issue of trust. The industry has to provide consumers with a product that they are confident they can claim against, while ensuring it is sustainable.

An MPPI policy is a temporary or short-term contract. The premium is determined by the claims experience of the insurer as opposed to long-term income protection, which has to take a view over a longer period of time and is priced accordingly.

Actuaries have to plot what they think will happen based on historical data for both types of policies, but they are far more vulnerable to peaks and troughs in the short-term. So insurers have to respond to a situation and make an assumption on the hoof. This unwieldy approach is far from ideal.

It's time to align MPPI more closely with other personal insurances. We need to move towards underwriting at point of sale and creating annually renewable policies. This should cut the risk of big price fluctuations.

Equally important, if a policy tailored to an individual's risk profile it is less likely that there will be a situation in which they can't make a successful claim.

It's not going to be plain sailing but it will be worth it if insurers deliver protection that consumers have confidence in, and a product that can withstand the vagaries of the economic cycle.

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