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Spring is in the air for the PPI market

We've finally reached ground zero. The Competition Commission has now published the order detailing measures to introduce competition into the payment protection insurance market. So it's a good chance to recap and take stock of where we are.

The new regime, which is going to underpin the future of how the product is sold, has been clearly established by this order. Amongst other things, for the non-retail market, we have a point of sale ban, an obligation to provide a personal quote and an annual review, a ban on single premium policies and the requirement to provide claims ratios on request. Some of these measures are clearly easier to incorporate than others, but all will need to become second nature to the sales process. This may be easier if driven by a flexible, innovative insurer in collaboration with a distribution partner.

In publishing the order, Peter Davis, Competition Commission Deputy Chairman and Chairman of the PPI enquiry, acknowledged that: "Insurance to cover periods of unemployment, sickness, and following accidents can serve a significant need in our society." He goes on to say: "If providers properly seize this opportunity to provide good value insurance products to their consumers then, as a result of these market reforms, we can all look forward to a far better functioning market for this important class of insurance products."

It's an encouraging message. So how do we as an industry take this mandate forward?

I think the first thing to do is to recognise that the reputation of the product has been damaged considerably, and while as an industry, we are already moving ahead with optimism, consumer perception lags behind. There is unlikely to be a high level of awareness of the details of the order amongst the general public. And for those who are aware, you could expect a degree of skepticism about whether it will 'do any good'. As we go forward, we should keep this in mind and use this skepticism to 'stress test' the strength of new products and initiatives. Going forward, every experience the consumer has with payment protection should help improve their impression of these products. This should surely be our goal.

Peter Davis is right that these types of products can serve a significant need. At a time when household budgets are being squeezed and inflation is on the rise, many consumers could understandably feel that there is just a hair's breadth between getting by and going under. At the same time, a more positive by-product of the financial crisis is that more people are paying closer attention to their personal finances and budgets. They are having to get into the habit of taking responsibility for their financial security, because the confidence they had that they were in safe hands has been eroded.

This creates an opportunity. If we get it right, products like MPPI and short term income protection could be perceived as a financial 'knight in shining armour' by these consumers. But for perception to follow, reality must lead. There's a long way to go in rebuilding consumer confidence.

In my view, to do this, we have to focus on simplicity at the front end, underpinned by rigorous underwriting discipline and overlain with a flawless approach to service throughout all parts of the sales and claims experience.

Some of the new measures, such as annual statements, will give us an opportunity to interact with customers more often during the relationship. But it's still at point of claim where the most important test comes. Whether they are claiming for sickness or unemployment, this is an emotional and stressful time for the customer. Insurance claims always are. But ASU claims rank amongst the most highly-charged. So we must respond by making the experience hassle-free and demonstrate rigorously efficient processes, excellent communication and sound judgment.

When it comes to product design, it's about keeping things simple and offering products that are easy to understand and which helps build loyalty. Customers don't necessarily want lots of 'bells and whistles' on their cover, and they certainly don't want reams of terms and conditions and complicated exclusions.

Building loyalty will become increasingly important going forward. To achieve this, it will be key to maintain a close working relationship between the insurer and distributor. It's vital to demonstrate interaction and unity so that every customer experience is consistently good, from how a call is handled, to how a claim is processed or a new mortgage applied for.

Throughout the product lifecycle, the mantra must be, put the customer at the heart of everything. In my view, for there to be a viable long-term future in this market, it's the only way.