



AUTHOR

Adrian Fowler,
*European Marketing
Director,
Assurant Solutions*

This article was
published by
*Mortgage Finance
Gazette,*
November 2010

The darkest hour could be just before dawn

To say that the UK creditor market has weathered a turbulent time of late is something of an understatement. The market is now valued at just over one third of its size in 2005, due in part to the recent ban on single payment protection insurance. We've seen the number of underwriters and distributors decline over the years, and the recession has caused a leap in both the volume and duration of claims. And only this week, we read that the British Bankers Association is mounting a legal challenge to the regulator's recent announcement that it will be imposing new rules regarding historic complaints of mis-selling.

At the time of writing we have just received the final ruling from the Competition Commission. Distributors now know that they will have to redesign their sales processes given the point of sale prohibition, as well as supply personal PPI quotes, and annual reviews. The ruling has also stipulated the information provided to make it easier for consumers to compare and search for products as well as to switch policies. While these outcomes came as no surprise and the industry has been preparing itself for these outcomes, I suspect there will be some fallout over the coming weeks and months. The good news is that we are now able to move forward with certainty rather than speculation.

However, just when it seems the die is being cast, political changes are afoot which may mean that the landscape changes yet again. Whilst many have wondered whether PPI is on the brink of extinction, it could be about to be thrown a lifeline from a rather unexpected direction, Government.

As part of the coalition's 'Big Society' programme and in its bid to cut the £190bn annual welfare bill, the Government is seeking to involve an increasing numbers of private-sector companies in the business of supporting the population. According to a recent report in The Times, for example, under the Work Programme, to be introduced next year, private consultancies will be given incentive payments to bring unemployed individuals off welfare benefits and back into jobs. Already some insurers have made proposals to the Government under which employers would have to insure themselves against the costs of paying workers on sick leave. In the same article, Andrew Haldenby, a director of think-tank Reform, said: "The

Organisation for Economic Co-Operation and Development has recommended that Britain investigate private-sector insurance as a solution to long-term sickness, because the existing system has a patchy record getting people back to work."

This is just one of a number of the hypotheses being mooted in political discourse and reflected in the media extolling the virtues of individual responsibility. Increasingly it seems that these ideas are being made concrete by political decisions such as introducing the threshold for child benefit (which foster an environment of encouraging private self-reliance rather than state dependence). If the welfare state shrinks which now seems inevitable, then there is arguably a logical progression for solutions offered by the private sector; namely the insurance industry.

During the Competition Commission's review, product development has naturally been framed within the parameters of the expected outcomes. Now, instead of continually agonising over the past and anticipating where the report will lead, it should be possible to look forward with hope and some clarity to the future for this market.

For some consumers, protection covering a specific repayment may still represent the best option. Clearly there will be changes to the way this type of protection is designed and sold, but that doesn't mean that we necessarily have to throw the baby out with the bathwater. After all, if you look at the volume of claims that insurers have experienced in recent years, you can see that in many respects, these products have a valid role to play.

We need to ensure that at the point of sale of the insurance cover, distributors fully discuss protection needs to ensure that the consumers are eligible to buy a policy. They must also ensure that consumers are given and understand all the material information they require to make an informed decision about the suitability of the cover and whether it meets their individual circumstances, so that if and when they need to claim, they can do so with confidence.

As well as working with our clients to manage the sales process, from an insurer's perspective, we also have the opportunity to turn the way we underwrite the product on its head. Rather than treating all consumers the same, we need to view them as individuals and build and price the product so that it not only meets their individual requirements but is priced according to their own risk profile.

As MPPI doesn't always cover all the financial commitments a consumer may want to protect, we are also seeing a move towards short-term income protection policies. There have been some recent new product launches of this type as insurers play their part in the new dawn in starting to develop products that are aligned to consumers needs whilst offering greater flexibility.

The crystal ball is far from crystal clear as to what the future holds for the industry, but they do say the darkest hour is just before dawn, and it just might be true.