

**Publication:** Mortgage Solutions  
**Subject:** PPI  
**Author:** Ian Moffatt, MD, Assurant Solutions  
**Deadline:** 19 March 2007  
**Target word count:** 1,000  
**Actual word count:** 1,074

**Synopsis:** *Assurant Solutions has some interesting views on the possible impact on commission rates following the CC's market investigation now underway. If it takes action to force rates down, this could potentially halve the value of the market - and if so, what impact would this have on lenders? In considering the sales process itself, will the CC demand that more onerous steps are included - but in doing so, would this have an adverse impact on the standalone companies selling the product online in a non-advised environment?*

---

The decision by the Office of Fair Trading (OFT) to make a reference to the Competition Commission (CC) for an investigation into the supply of payment protection insurance (PPI) has initiated a chain of events that will see this industry change forever - and, arguably, not before time.

There are a number of features of the market that the OFT believes prevent, restrict or distort competition and lead to poor value for consumers. Given issues cited concerning the structure and performance of the market, there can be no doubt that the CC will look closely at both commission levels and the sales process as part of its investigation.

The OFT's report highlighted the huge disparity in rates of commissions charged for PPI, ranging from as low as 20% to as much as 80%. The question as to whether the CC will ultimately force rates down begs to be asked - good news for consumers perhaps, but how would this impact the PPI market?

The market was worth a forecasted £5.3 billion in 2006 according to Mintel. Mortgage payment protection insurance (MPPI) is only worth about £1.1 billion of this total value meaning that the vast bulk of it is made up of PPI sold alongside credit cards and personal loans - the sector of the market that charges the highest levels of commission.

If the CC takes action to force rates down to the levels being charged by some of the newer PPI providers of around 25%, this would impact the current overall market by over £2 billion.

Commission represents a significant issue for the industry to address - or be forced to address - particularly as variances in rates do not appear to reflect any difference in product quality. London Economics surveyed PPI products in the personal loans market on behalf of the OFT, all offering similar cover and similar benefits, and yet the cost of the most expensive policy was four times that of the cheapest. How can some distributors offer the same product for so much less than others?

Rather than masking costs of services provided, are they masking the cost of offering low APRs and zero balance transfers in order to attract and secure customers? Research by both the OFT and Defaqto found that some loans which advertise very low headline APRs become much more expensive when PPI is added to the loan. Arguably, these distributors simply would not be able to provide these price-led propositions if not supported by the insurance element of their offering that underpins the low APRs.

I would argue that in a more transparent business environment these high levels of commission cannot be sustained. The natural outcome surely has to be that interest rates on personal loans and credit cards will increase, and the value of the PPI market will reduce as commission levels come down and products become less expensive. While the actual value of the market will fall, volumes for those distributors who can offer a better value product should increase and help counterbalance this reduction.

Still, price reduction is not the only answer. Any increase in take-up based on price is likely to be short term as the value perception amongst consumers changes. If the product does not suit the need of the individual and fails to live up to expectations, how long will they continue to buy on price alone?

We have seen a rush of new offerings over recent months from predominantly standalone providers operating web-based business models. They not only charge vastly reduced commission rates but have also driven different levels of value into their offering providing consumers with choice and flexibility that allows them to tailor insurance cover to suit their individual needs and budgets. If greater transparency is forced upon the market, traditional distributors could well see their market share eroded unless they address the design of the products offered as well as the ultimate price charged to the consumer.

However, does an online non-advised sale provide enough checks and balances to ensure the consumer has enough information to make a decision without the benefit of the expertise and knowledge of a competent adviser? The OFT expressed its concern that consumers display a poor understanding of PPI including price and detail of cover. The CC is bound to consider the sales process and should it decide that more onerous steps are required, what would this mean for the non-advised environment?

The consumer survey conducted by the OFT revealed that overall 88 per cent of PPI holders took out PPI at the same time as their credit product. This was reinforced by the separate business survey carried out by the OFT, that indicated over 90 per cent of PPI policies were sold at the point of sale of the credit product being insured, and latest Datamonitor figures estimate that just 5 per cent of loan PPI is sold online. However, there is evidence of a steady increase in consumer confidence in purchasing insurance products online. Datamonitor indicates that while Internet-based sales account for 6 per cent of the household insurance sector and 13 per cent of all motor insurance sold, these percentages have been gradually increasing year on year since the beginning of the millennium at the expense of face-to-face sales whilst telesales have remained relatively static.

I would argue that a decision to enforce advised sales in the PPI market would actually fly in the face of the OFT's findings, which wants more competition to deliver choice and value to consumers. It clearly stated that the point of sale advantage experienced by some distributors means that there is little competitive pressure at the point at which consumers tend to buy the insurance and that standalone providers therefore have difficulty in accessing these consumers, relying on those who shop around.

Different consumers have different needs, not only when it comes to the type and level of cover required but also in how they make their decision to purchase. Non-advised sales have an equally important role to play in the future of the market as does the more traditional advised sales route.

What will be the determining factor in the success of either method - and indeed the very future of the industry - is ensuring that the customer has access to quality cover that can be tailored to their individual needs and budgets, and that they are provided with clear and accurate information to help them make the right decision for their own particular circumstance.

*As published in Mortgage Solutions, 9 April 2007.*