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With the media pointing its finger accusingly and regulatory bodies including the Competition Commission (CC) and the Financial Services Authority (FSA) investigating payment protection insurance (PPI), it is not surprising that those in the PPI market are feeling battered and bruised by the criticism. What affect is this having on the industry? While the investigations are taking place, are PPI providers and distributors embracing the opportunity to improve their products and sales processes or are they frozen in to a state of paralysis? What are the implications of inaction for the industry and consumers?

To be frank, the PPI proposition hasn't evolved a great deal since it was pioneered in the UK in the 1970s. There have been significant changes in society that should have driven advances in PPI, including a culture of increased borrowing, much greater demand for sophisticated financial products and a vastly different distribution model with telephone, internet and ATM banking. Although there have been a few instances of innovation within the PPI market over the past couple of years, one could argue that its products have, on the whole, remained static.

Up until now, market dynamics have played the most influential role in preventing the PPI industry from keeping up with the times. PPI has historically been sold almost exclusively through third party distributors. Their enormous bargaining power combined with increasingly sophisticated procurement practices have resulted in a greater focus on margins, rather than on product innovation and driving value through to the consumer.

Add to this the requirement to keep the sales process simple, even though it may conflict with the needs of the consumer, plus an apathetic culture resulting from a self-regulating industry and it is not hard to understand why PPI products today are not that dissimilar to the products offered almost 40 years ago.

Currently, however, the greatest factor influencing how the PPI industry develops is the various market investigations. In 2005, before there was talk of the CC's investigation, Mintel forecast that the PPI market would reach £8,154 million by 2009. A year later, it revised its forecast to just £4,964 million in 2009. Many industry players appear to have been frozen into inaction as they await the outcome of the current CC inquiry which is expected at the end of 2008. Equally, hefty public fines from the FSA for mis-selling have even led a few companies to pull out of PPI altogether for fear of reputational damage.

The question that begs to be asked is how many distributors or third parties are brave enough to enter the PPI market now given the current state of play? With existing PPI distributors displaying a huge degree of caution in their lack of appetite to move their books of business and insurers appearing reluctant to invest and develop their product offerings, the PPI market is in a state of paralysis spelling bad news for the industry as it can only exacerbate the market's already faltering reputation.

In my view, it is more important than ever that the PPI industry invests in new product development and pricing regimes and encourage new distributors to enter the market. This is the only way we can build and sustain the proper level of competition that the CC is surely looking to achieve and ultimately deliver greater choice and better deals for consumers.

When we consider the consumer's point of view, it is hardly surprising that they are skeptical of the value of PPI given all the negative media coverage. The Sunday Times described PPI as "the biggest scandal since endowments" and the Daily Mail described the CC investigation as a "probe into £1bn loan insurance blackmail." But consumer debt is at an all time high of £1.5 trillion. Without protection many are at serious financial risk should their personal circumstances change. Moreover, first time buyers are now able to take up mortgages that are more than five times their salary, interest rates continue to rise and house prices remain high. No one wants to see a repeat of the 1990s housing market crash. For the last 15 years we've been lucky - the economy has been buoyant and the safety net that PPI and MPPI provide has not been tested.

Yet it is a recognised fact that payment protection insurance has real value. It is an important risk management tool for consumers and lenders alike. Clive Briault, FSA managing director of retail markets, said: “When sold properly, PPI can provide worthwhile protection against changes in personal circumstances.”

It is up to the industry to take positive action to improve the products and sales process so that the true value of PPI can be redeemed. This could mean reducing all income to a level where distributors are happy to disclose it. It definitely does mean that we should not treat all customers as a homogenous group. We need to design, manufacture and distribute products that are flexible enough to meet the needs of individuals and make them accessible and affordable for all. Ultimately, providers and distributors need to work together to close the gap between consumers’ needs and market practices today. To bring these advances to fruition will undoubtedly require financial investment, particularly as many insurers are still burdened with legacy systems that will not be able to cope with the demands that new products and pricing structures will place on them.

It is going to require a fundamental shift in mindset at board level to ensure that PPI is deemed a priority now if an organisation is serious about maintaining its market position, and not something that is ‘on standby’ until the investigations are over. After all, what is the alternative? To play it ‘safe’, remaining in a state of paralysis until the outcome of the Competition Commission? I believe organisations taking this strategy are suffering from a false sense of security. Those that will prosper, despite the investigations and negative press, will be the ones that anticipate the changes and start introducing the much needed innovation today.

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