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## Devising the solution

The Competition Commission has announced its final decision on the UK payment protection insurance (PPI) market. I doubt that anyone in the industry was surprised by their decision to introduce a package of remedies based around a point-of-sale ban for all forms of PPI with the exception of retail PPI.

The UK creditor market has weathered a turbulent period of late. The market is now valued at just over one third of its size in 2005, perhaps due in part to the ban on selling single premium PPI. We've seen a decline in the number of both underwriters and distributors. And, of course, the recession has prompted a leap not only in the volume of claims but also the duration.

But while there may still be disappointment in the final decision, the fact is, the verdict is out. The Order is due to be made in late February/early March 2011, with measures relating to the provision of information in marketing materials and to third parties coming into force next October. All other elements of the remedies package will be in place by April 2012. As such, insurers and distributors must draw a line in the sand and determine the best way forward for their respective businesses within this new operating environment.

So what are the main implications?

Clearly, the point-of-sale ban is the headline grabber from the packages of remedies that have been announced. It is also arguably the one that will have the biggest implication for distributors such as high street banks, building societies and other lenders as well as credit card providers and intermediaries.

PPI will no longer generate the same level of income as we've seen in the past and the implementation of the package of remedies will certainly have cost implications. This may lead some distributors to decide this is a market they will no longer participate in. Some lenders have already curbed their sales of PPI, some more drastically than others. Industry forums have sparked debate as to whether more will follow suit. Participants have pointed out that if lenders continue to drop PPI, there will be less competition in the market. Will it play out this way? Maybe we're about to find out.

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As some may choose to withdraw, others have already been planning how to continue to sell PPI under the new regulatory regime. I doubt that we're going to see one single way forward. Just as PPI itself evolved from the one-size-fits-all proposition of the 1970s, distributors and insurers will develop new approaches to both the basic product proposition and the sales methodology, looking for solutions that fit their business model whilst complying with the remedies.

One option would be to offer customers a more holistic approach to protection. This could result in income protection forming part of a personalised portfolio for the individual that protects their financial commitments as a whole rather than just one credit product. We could see a fundamental shift away from traditional payment protection insurance and a move toward stand-alone short-term income protection that adopts a modular approach to claims triggers, covering a percentage of salary rather than any one particular debt. However, if anyone thinks they can get away with simply rebadging PPI as short-term income protection and sell it in the same way, they will need to revisit their plan. If it looks like PPI, it will be treated by the regulator as PPI.

One of the aims of the Commission was to bring greater transparency to the market and make it easier for consumers to compare the various options available to them. Some distributors might consider building a panel of providers designed to provide their customers with a number of competitive quotes. Although this could provide distributors with an opportunity to target more than just their own customer base, they would still be subject to the same point of sale prohibition.

While much of the debate around the package of remedies has centred on this prohibition, we should not under-estimate the effort and costs involved in implementing the other remedies, such as the provision of information to customers. The Commission has adopted a prescriptive approach to information and stipulated the level of detail that must be provided including personal quotes and annual statements. This could well lead to further regulatory scrutiny.

In particular, the need to contact the customer each year will raise the importance of a comprehensive and compliant retention strategy; ensuring that customers continue to understand the value and features of their product at every touch point. There are a number of regulatory as well as practical issues to consider with any retention activity- not least having the appropriate permissions. Firms need to be clear about what can and cannot be discussed. This is an important contact point, enabling a firm to ensure the customer has the right financial products for their current needs as well as identify opportunities to either up-sell or cross-sell other appropriate products and services. However, firms need to be careful not to fall into the age-old regulatory canyon of 'churning' or reselling existing products in the pursuit of new revenue.

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As distributors and insurers work together to develop their respective approaches to the new creditor insurance environment, we cannot forget the times in which we find ourselves. The UK, along with the rest of the world, still faces economic challenges. Whilst we wait to see whether last week's Comprehensive Spending Review will have the ultimate desired outcome, it is clear there will continue to be job losses. 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.

People are more aware than ever before of the need to protect their income in order to protect their lifestyle. It is up to the insurance industry and its partners to give them the tools to do so.