

## MPPI baselines miss the mark – Money Marketing – May 2004

During the 1990's the government applied pressure to the lending and insurance industries to develop solutions to support the aspiration of 'Sustainable Home Ownership'. This was set against a backdrop of the recent introduction of Mortgage (self) Regulation when there was an increasing awareness of the advisory responsibilities of lenders and intermediaries alike and it had become common practice for all customers to be encouraged to buy ASU policies. This in turn had become quite a profitable activity for most lenders and advisers, however the variety of benefits terms and conditions were, to say the least, confusing. So the lenders, through the Council of Mortgage Lenders (CML) joined forces with the insurers, through the Association of British Insurers (ABI), to look at mortgage payment protection policies.

The result was that in July 1999 the CML/ABI launched a new 'baseline specification' for mortgage payment protection insurance which unfortunately has to count as one of the biggest missed opportunities for our industry over the last decade. The reason I describe it as such a significant missed opportunity is simply because the initiative resulted in little more than 'tinkering' with the old ASU product, my dictionary's definition of tinkering is 'Making unskilled or experimental efforts at repair'.

What should have happened is that the ABI and the CML should have looked again at the problems inherent with substantial borrowing against income and developed a 'standard' that met the genuine need of the customers.

Now I don't want to criticise either body individually, because when operating alone they have both genuinely been 'forces for good', however when they combined to solve this particular problem, the results were pretty poor and I can't help thinking this was because the members of both organisations had a combined financial interest in the continuance of ASU sales and that the realities of their commercial ties were simply too powerful to overcome.

Someone should have recognised this at the time and insisted that the CML and ABI each try to solve the problem independently before combining their efforts, to give them room to consider the options unfettered by the common commercial interests of their members.

I think it is fair to say that customers don't like the results of their efforts either. As proof I offer the CML's and ABI's own available statistics (sales from H2 1998 to H1 2003). These illustrate that 3,139,100 borrowers took out a new ASU; however the number of 'policies in force' over the same period rose by only 986,000. Now the statisticians could have an absolute field day with these numbers because some of the customers will have moved, repaid their mortgages etc – but two thirds of them?

The conclusion that I draw from the data is this, a large number of people are persuaded to buy these policies but most quickly get rid of them. Why is that, again my belief is that it is because they were not designed with the customer in mind. To illustrate this let us look at some of the CML/ABI MPPI baseline requirements:

**Baseline 6 - Benefit period - 12 months** for any one claim subject to the length of individual claims (Provider's can offer longer terms but in practice 12 months is the standard).

Whilst I accept taking this position for unemployment cover is reasonable, how can it be appropriate for accidents and sickness both of which can result in being off work for much longer periods. This has to be a mismatch of need and cover because there will undoubtedly be examples here the claimable benefit could represent only one twentieth of the customers need. So when customers take a policy for a 20 year mortgage and realise that the maximum cover is only 12 months do they simply dump the policy?

**Baseline 11 - Minimum periods of notice for changes to the insurance contract** - Cover changes: 30 days, premium rate changes: 30 days, withdrawal/cancellation: 30 days if a substitute scheme is offered or 90 days if no substitute scheme is offered.

So let's get this straight the rules allow the insurers to price the product for sale then unilaterally change the cover and/or the price or cancel the arrangement altogether giving 30 days notice to the customer (90 days notice if no substitute scheme is offered). Unfair? – In the legal sense probably not, however.....

I applaud some of the principles sitting behind this 'under delivery' - to ensure the self employed were not excluded and to define what it is that constitutes medical evidence but, surely now is the time to accept that they could have done better with the opportunity presented and it is time to go back to the drawing board. It is time to apply some fresh thinking in search of a product that could truly be valued by customers and therefore valuable to the retail outlets that fund these trade associations and the advisers selling the intermediary products that follow in the wake of the baseline requirements.

Finally as a footnote, with the impending statutory regulation I really hope that everyone who is advising their customers or clients to buy these products are pointing out all the terms and conditions, because if complaints are made to the Ombudsman in the future they are going to be interested to see that the main features of the contract, including the exclusions, were pointed out to the customers during the sale.

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