

PRESS INFORMATION

10 December 2008

Background on Income Protection Task Force

The Income Protection Task Force comprises representatives of insurance companies, reinsurance companies, intermediaries and specialist consultants working collectively to promote awareness of the need for income protection insurance and to encourage the provision of high quality products and advice to customers.

Our objective is to increase sales of Income Protection, where appropriate to need by:

- Engaging with advisers to try to understand the barriers and the positive aspects of the Income Protection product and process;
- Underlining the value of appropriate Income Protection products to a wider industry and consumer audience including key regulators;
- Talking to press and broadcast media to promote the positive value of Income Protection
- Considering all areas of product and process

General Remarks

We have, for some time, been concerned about certain forms of Payment Protection Insurance products and the processes via which they were sold. Our particular concerns were that these products:

- Offer poor value for money to customers in terms of the cover they provide relative to their cost;
- Give a misleading impression of the scope and duration of protection they offer;
- Generate a large proportion of cases for which claims are declined; and
- Are frequently sold through processes which offer inadequate choice or information to customers to enable them to make an informed purchase decision.

We feel the proliferation of these products has impeded customers from gaining access to alternative long term products which offer much greater value for money and which would be significantly better suited to their needs.

We therefore welcome the Competition Commission's investigation into Payment Protection Insurance and most of the measures set out in the Provisional Decision on Remedies published on 13 November 2008.

Specific Comments

In assessing the specific proposals, our starting point has been customer need. The financial impact on most families' finances if the main (or only) income earner were prevented from working for a prolonged period due to sickness, disability or unemployment would be devastating. However, there is clear evidence that only a small minority have effected adequate insurance protection to cover this eventuality.

Mortgage and other debt repayments are not the only components of this income protection need but they account for a significant proportion for many people. We therefore believe it is highly beneficial for any individual entering into a substantial debt commitment to review and consider their income protection requirements at that stage.

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We welcome the fact that the proposed remedies focus specifically on what we would regard as the most “toxic” of the PPI products and sales practices. However we would urge that any resulting regulation or legislation should be carefully designed to avoid unintended consequences which might prevent customers from receiving sound advice regarding well-designed income protection products at times when this would be most pertinent.

In particular we would ask for confirmation that long-term income protection products designed specifically as mortgage protection plans (including those which incorporate unemployment cover, generally offered as a shorter-term rider benefit), will be treated separately from the short-term PPI products at which these measures are aimed.

Key features of these long-term products which we believe are important in ensuring fair value for customers include:

- duration of cover and benefit payment period designed to match the full term of the mortgage; we believe that it is vitally important to match the benefit payment period to the client’s specific need and that this should be addressed as an issue before clients look at any price comparison tables..
- full coverage of *all* types of sickness or disability which have the potential to cause long-term inability to work;
- being within the scope of products covered by FSA regulations regarding sales practices for long-term insurance business.
- the possibility of claiming on several occasions without losing cover or having the premium adjusted, if disability recurs; a feature which is not fully appreciated and which distinguishes long-term income protection from other products.

We would welcome confirmation that advice regarding these products will continue to be permitted at the point of sale of credit arrangements. We would be pleased to advise on a fuller set of criteria which could be used to define this distinction between “banned” and “permitted” products.

We would regard this as an important, positive step in raising customer awareness of the need for income protection in connection with mortgage commitments and in improve the availability of and access to valuable advice and well-designed protection products.

Implemented in this way we believe the Competition Commission’s remedies could be highly effective in not only eliminating customer detriment arising from the misguided purchase of inappropriate products but also by introducing significant customer benefit by encouraging much greater coverage of families and individuals against severe financial consequences of prolonged loss of income due to ill-health, disability or unemployment.

We would be pleased to provide further information as required to assist with the effective implementation of these remedies.