Mortgage Payment Protection Insurance

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Many insurers have relaunched this product following an initiative in collaboration with the government, the ABI and the CML to actively promote the product and thereby help to improve the safety net available to homebuyers. These bodies would like to see up to 55% of homebuyers taking this cover compared to around 20% who have this cover prior to this initiative.

These contracts regularly receive criticism from consumer organisations who object to the high rates charged, the high commissions paid and the increases in premiums pushed through at times when the cover is most needed, i.e. during recession when jobs are at most risk.

There are a number of risks facing insurers in writing this product. Four such risks are

- recession brings rapid deterioration of the cost of ASU (Accident, Sickness & Unemployment) cover and there is the imminent prospect of the Millennium Bug which may bring adverse economic consequences.
- this contract is easy to mis-sell; it is estimated that 45% of homebuyers do not need this cover. Can the industry target the other 55% effectively?
- there is considerable scope for anti-selection; other factors being equal homebuyers will buy this insurance when they feel most threatened.
- pricing separately by rating factor ought to improve equity among different groups of policyholders but is likely to put the cost beyond the means of those who need it most which may then attract unwelcome publicity.

Pricing Issues

- Many insurers charge a block rate, i.e. not pricing by rating factor. This implies that cheaper groups of policyholders subsidise more expensive groups.
- After a period lapses may be greater among the cheaper risks leaving more expensive risks insured at the same rate.
- To what extent should pricing allow for the prospect of recession? Is it sufficient to allow for a contribution to the statutory claims equalisation reserve?
- The risk of recession due to the Millennium Bug is not quantifiable.
- A one-off offer to existing mortgageholders is likely to cause greater anti-selection than selling to new homebuyers.
- Making the contract available to existing mortgageholders at any time introduces even greater risk of anti-selection.

Mis-selling Issues

- The contract does not dovetail easily with the variety of PHI cover and statutory sick-pay arrangements available from employers.
- A full fact-find covering the client's aversion to risk, level of equity in the property, employers accident and sickness benefits, clients own PHI or critical illness policies, client's other resources, etc is very detailed to assess. Clients ought to assess this for themselves as it is a subjective issue. It will be easy to unintentionally confuse clients.
- What level of benefit should be paid? Should it be mortgage repayments only? Should life policies, buildings and contents and MPPI policies be covered? Should benefit automatically increase/decrease in line with mortgage interest rate movements?
- Should a maximum benefit be imposed?

The aim of this workshop is to explore the ways in which features of product design and/or selling methods can help mitigate some of the tensions described above.