

Dear Marjorie

I am responding with observations on the draft Order for PPI issued on the 8th July.

The comments are restricted to the definitions of short-term income protection and PPI and are intended to give some clarity in the definitions. By doing this, we are trying to achieve a clear distinction between those products which are within and outside the scope of the Order. Since the consultation was published, we have become aware that a number of firms have had doubts as to the exact interpretation. Consequently, we expect that you may receive similar representations in this regard.

Our first comment is in respect of the definition of short-term IP. It is essential that short-term Income Protection remains an important competitor to PPI products for the benefit of consumers. Short-term IP is individually underwritten rather than having a blanket PECE exclusion, with any exclusions only being applied at an individual policy level and as a result of underwriting of the risk presented by that individual. There are few or no standard exclusions in products and cover is not cancellable and runs for a minimum term of five years.

We understand why short-term IP was initially included in the scope of the Order, and support the fact that the wording must be sufficiently robust to stop providers using a loophole to promote a product which has the characteristics of PPI but which, nonetheless, falls outside the scope of the Order. Consequently, and to facilitate market competition, it is essential that short-term IP is only included where there is a specific need to protect the interests of consumers. This is not the case where it is taken out on a stand alone basis by consumers who are shopping around.

We therefore propose that short term Income Protection should not be included in the scope of the Order where the product has all of the following three characteristics:

- The policy terms and conditions contain no standard pre-existing medical condition exclusion clause; and
- The policy benefits are not linked to any loan terms; and
- The policy benefits are paid directly to the individual policyholder, and not to a third party such as the loan provider.

We are also concerned that the definition of PPI in the draft Order embraces all retail IP policies (including traditional long term IP) taken out with the reasonable expectation of repaying Credit, including a mortgage. We do not think that including long-term income protection in the regulations is in the best interests of the either the consumer or Government or the intention of the Order.

We suggest that, for the avoidance of doubt, long-term income protection (ie income protection which is not short-term IP) should be defined and specifically excluded from the definition of PPI.

It might be helpful to put some scale to the potential impact were the long-term products described to remain in scope. From the data behind our annual Term & Health Watch reports, we estimate that approximately 25,000 of all new long-term IP policies last year were mortgage-related. For this purpose, we have excluded the sales data for the HSBC Sickness Choices policy which you refer to in your final report and it amounts to 25% of remaining sales. As the mortgage market has become more difficult, the proportion of the total market linked to mortgages across all products has fallen. Data for earlier reports indicate that around 40% of all long-term IP would potentially fall within the scope were these products to be within the scope of the Order. It is important, therefore, both for product providers and intermediaries that there is absolute clarity that such products are outside the scope of the Order.

I hope this is helpful and am very happy to deal with any further questions these comments might raise.

Kind regards

Ron Wheatcroft
Technical Manager