

## **The role of intermediaries in the sale of MPPI**

1. In this appendix we assess the evidence on the role of intermediaries in selling MPPI. We examine the level of sales of PPI through intermediaries; the number of different MPPI products sold and the way in which intermediaries search for PPI; and the levels of commission intermediaries earn on PPI sales.

### **The number of MPPI policies sold by intermediaries**

#### ***Sales of distributors' MPPI policies by intermediaries***

2. Data from five large distributors (the distributors) was used to analyse the extent to which intermediaries were responsible for the sale of mortgages alongside an MPPI product from the same distributor. Table 1 shows the results of the analysis. We found that in 2006, 45.8 per cent of mortgage sales were made through intermediaries. In comparison with these figures, only 6.4 per cent of the distributors' PPI sales, when sold in combination with one of their mortgages, were made through an intermediary.
3. The table also shows that the distributors achieved a much lower sales penetration rate of MPPI associated with sales of mortgages through intermediaries compared with their own sales penetration of MPPI sold in combination with their mortgage products through direct customer contact channels. In 2006, the penetration rate for the distributors' MPPI sold by intermediaries was only 1.5 per cent (ie 1.5 per cent of distributors' mortgage sales through intermediaries in 2006 led to a sale of that distributor's MPPI policy), compared with a penetration rate for the distributors' MPPI sold through direct customer contact channels of 18.4 per cent (ie 18.4 per cent of mortgage sales through these channels led to a sale of that distributor's MPPI policy). Considering that, according to the CML, 31 per cent of MPPI policies in 2006

were sold through intermediaries, this data shows that intermediaries tended not to source MPPI from the mortgage supplier. Rather, intermediaries appear to source MPPI from providers that do not sell credit products.

TABLE 1 CC analysis of mortgages sales and MPPI sales of five large PPI providers

	2002	2003	2004	2005	2006
Mortgages sold by intermediaries (1)	315,770	537,981	501,835	425,029	472,612
Total mortgages sold (2)	866,088	1,320,857	1,137,917	947,592	1,032,461
Percentage sold by intermediaries (1)/(2) (%)	36.5	40.7	44.1	44.9	45.8
Total number of mortgages with MPPI sold by intermediaries (3)	31,156	31,344	24,281	8,069	7,006
Total number of mortgages with MPPI sold (4)	231,727	255,128	196,074	111,482	109,920
Percentage mortgages with MPPI sold by intermediaries (3)/(4) (%)	13.4	12.3	12.4	7.2	6.4
MPPI penetration rate for mortgages sold via intermediaries (3)/(1) (%)	9.9	5.8	4.8	1.9	1.5
MPPI penetration for mortgages sold directly (4-3)/(2-1) (%)	36.4	28.6	27.0	19.8	18.4
MPPI penetration rate for all mortgages(4)/(2) (%)	26.8	19.3	17.2	11.8	10.6

Source: CC based on information provided by five large distributors.

4. Evidence we received from parties was in line with this analysis. HBOS told us that '[t]he dominant role of brokers in this market, however, results in the mortgage and the insurance being typically sourced from different manufacturers, albeit sold as part of the same single sales process or transaction'. This was also shown in data provided by Northern Rock on its MPPI sales in 2006, showing that although 89 per cent of its mortgage sales are made through intermediaries, only 20 per cent of sales of its MPPI were made through the same channel. Northern Rock's sales of MPPI were made when the intermediary advised Northern Rock's insurance sales team that the customer was interested in its MPPI. The Northern Rock insurance team then contacted the customer directly by telephone to sell the MPPI.

#### ***Sales of stand-alone PPI policies by intermediaries***

5. In most cases the sale of an MPPI product by an intermediary is tied to the sale of a mortgage, even though the two products will be sourced from two different providers.

Table 2 shows that in most cases MPPI is not sold on a stand-alone basis, or, if it is, the sales are very small.

TABLE 2 **Details of intermediaries**

<i>Intermediary</i>	<i>Sell on a stand-alone basis</i>
blackandwhite.co.uk	No
Burns-Anderson	No
Connells	No
Countrywide	Planning to in the future
Freedom Finance	No
Genesis	No
Home of Choice	No, but possible in a small number of cases
Legal & General Partnership Services	Rarely (although AR firms do have the ability to sell on a stand-alone basis)
Lighthouse Group	No
LIME	No
MGM	No
Mortgages Broking Services	Generally sold with a mortgage. Zero or near zero sales of stand-alone PPI
Mortgage Intelligence	No
Mortgage Times Group	No
Mortgages Direct	No
Openwork	Can be sold a part of a wider financial review but a small proportion of sales
Park Row	Almost all sales associated with lending
Personal Touch	Yes, if a need is identified
Pink Home Loans	Yes, if a need is identified
St James's Place	Yes, if a need is identified
Your Move	No

Source: CC based on evidence supplied by the parties.

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Note: This table also contains information on second charge mortgages.

### **The number of different MPPI products sold by intermediaries and the way in which intermediaries search for PPI**

6. This section considers the number of MPPI products intermediaries offer to consumers and shows the extent to which intermediaries search for MPPI for individual clients.
  
7. Table 3 shows the typical MPPI product offering for intermediary networks and firms from which we received evidence. It shows that an intermediary or intermediary network typically sells one MPPI product or a small selection of MPPI products (sometimes referred to as a panel of products). There are exceptions, as in some circumstances intermediaries could source MPPI from a wider number of distributors. The MPPI offering for each intermediary does not change very often; rather intermediaries tend to sell the same PPI suppliers' products for a considerable

period. For example, Connells has sourced its PPI from Allianz for more than the last five years and Countrywide told us that it had only used two PPI providers since 1992.

TABLE 3 Intermediaries' PPI product offering

<i>Intermediary</i>	<i>No of PPI products offered</i>	<i>PPI supplier</i>
AXA Thinc blackandwhite.co.uk	Numerous One for MPPI SMPPPI tied to loan	Assurant for MPPI
Burns-Anderson	On average members have access to seven or more plans from three or more underwriters	
Charcol	One	Legal & General
Connells	One	Allianz
Countrywide	One	AXA branded Countrywide
Freedom Finance	One for MPPI SMPPPI tied to loan	
Genesis	One	Paymentshield
Home of Choice	Two	Legal and General and Paymentshield
Legal & General Partnership Services	One	Legal & General (One LGPS AR only uses Paymentshield, another only uses D&D Homecare)
Lighthouse Group	Varies by adviser	
LIME	13 on panel	
London & Country	One	Paymentshield (Customers referred to Paymentshield when they express an interest in protection)
MGM	Two	Paymentshield, Select and Protect
Mortgages Broking Services	Four	Select & Protect, Legal & General, Centrepont, and Paymentshield
Mortgage Intelligence	Three	
Mortgage Times Group	Two	Norwich Union and Assurant
Mortgages Direct	One	Cardif Pinnacle
Ocean Finance	One for MPPI SMPPPI linked to credit product	For MPPI, single premium 'white labelled' policy
Openwork	PPI products from two providers	Zurich/Cardif Pinnacle and Paymentshield
Park Row	Whole market	
Personal Touch	Seven	
Pink Home Loans	Two	Paymentshield and Cardif Pinnacle
St James's Place	Two	Paymentshield and Select & Protect
Your Move	One	Norwich Union

Source: CC based on evidence supplied by the parties (as at 13 March 2008).

Note: This table also contains information on second charge mortgages.

- A survey of mortgage intermediaries by the AMI found that 20 per cent of intermediaries offered consumers MPPI from the entire market (see Table 4), with a further 21 per cent sourcing MPPI from more than three providers. Over 50 per cent of intermediaries offered MPPI products from three providers or less. The respondents in this survey were self-selecting and the AMI told us that 'the respondents to [the survey] tend to be the very small firms, [with up to three employees]. You are not going to get someone in the head office of [a large

independent mortgage brokerage] filling in an online survey'. The results are therefore likely to be skewed towards representing the actions of smaller intermediaries and the large networks and intermediaries are therefore under-represented; therefore these results might be misleading. Given that the evidence we saw suggests that larger intermediaries tend to source from fewer providers, we considered that these figures overstate the percentage of intermediary sales based on a wide panel of providers.

TABLE 4 The number of MPPI providers products offered by mortgage intermediaries

<i>No of PPI products offered</i>	<i>%</i>
1	26
2-3	32
4-5	14
6-10	2
Over 10 but still a limited panel	5
Whole of market	20

Source: Mortgage Intermediary Census: The comprehensive track of Mortgage Adviser insights, AMI, Wave 19 November 2006.

*Notes:*

1. Base: November 2006—Respondents who offer PPI, 204, How many providers do you offer PPI from?
2. Questions were placed on November's Mortgage Intermediary Census and fieldwork was conducted during 14 to 24 November.
3. 246 Mortgage Intermediaries responded to the survey.

9. There are two ways in which an intermediary or intermediary network could search for a PPI product that is appropriate for the consumer. They could either periodically search the market and identify the best-value product or range of products for their customers and contract the distributor(s) to be their PPI supplier(s), or they could search across the market, or a subset of the market, for each individual consumer.
10. In most cases the intermediary does not label the MPPI product it sells with its own brand; rather it retains the name of the underwriter or supplier of the MPPI product. In some cases the intermediary sources MPPI directly from an underwriter, in which case the intermediary may have designed the product in combination with the underwriter. We found that intermediaries tended to offer a small, static panel of MPPI products often designed for the intermediary, or offer one product, rather than

encourage customers to choose between offerings from several different MPPI providers chosen from the market as a whole. Further, the commissions intermediaries earn from MPPI are of a magnitude similar to those seen for large distributors. Finally, given the static nature of intermediary MPPI panels, it seemed that the extent to which intermediaries are continuously searching the market for the best-value PPI product is limited.

## **Commission payments**

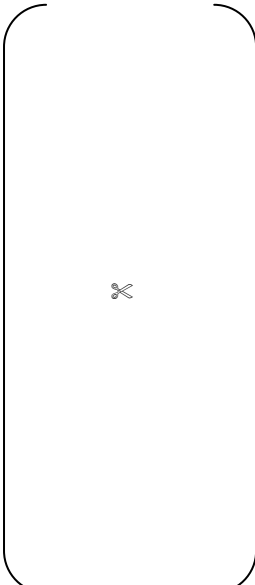

### ***Forms of commission payments***

11. Commission payments to intermediaries by MPPI suppliers or underwriters are usually paid as a percentage of the insurance premium paid by the consumer. These commission payments are complicated by the fact that policies can be cancelled earlier than expected. In some cases, commission is repaid when a policy is cancelled (this repayment is known as 'clawback'). In others, the original commission is set to reflect the risk of early cancellation. However, in most cases, it appeared that commissions are paid on an ongoing basis with the intermediary (and, where applicable, the network) being awarded a percentage of the premiums.

### ***The level of commission payments***

12. Table 5 shows the commission paid to intermediaries for selling their normal PPI offerings. For MPPI, the commission paid is typically in the region of 30 per cent of the premium for most intermediaries, although for some MPPI products (especially for sub-prime mortgage brokers, such as blackandwhite.co.uk) the commission can be much higher. It is interesting to note that [X] has a profit share arrangement with [X], although [X] told us that cancelling this arrangement was under discussion to enable an improved client offer. In contrast, according to the analysis on the profitability of distribution (see Appendix 4.4), in 2006 distributors received 47 per cent of the GWP of MPPI.

TABLE 5 Commission rates for intermediaries

<i>Intermediary</i>	<i>Commission rates</i> %
	2.5% per annual premium, lump sum then renewals monthly after 12 months
	25
	27.5
	27.5
	29.5*
	30
	32.5
	32.5
	32.5
	32.5
	32.5
	32.5
	32.5
	32.5
	32.5
	32.5
	32.5
	32.5
	32.5
	32.5
32.5% of the premium, of which 5% of the premium is retained	
35	
35	
35	
37.5	
45	
52	
60	
Fixed percentage of total annual premium, 60% for underwriter  of which 35–45% is paid to the AR 65% of the first year's premium less IPT	
60.4	
68.23% of GWP	

Source: CC based on evidence supplied by the parties.

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Notes:

1. This table also contains information on second charge mortgages.
2. Where more than one product is offered, we supply the commission rate for the leading product and have done so without identifying individual parties.

13. We also saw evidence that the level of commission is used as a marketing tool for MPPI distributors or underwriters and intermediary networks in attracting intermediaries to sell their PPI. For example:
  - (a) Sesame highlights its 'generous rates of commission on all term assurance, critical illness, income protection and private medical insurance business';<sup>1</sup> and
  - (b) Paymentsshield<sup>2</sup> and Select & Protect<sup>3</sup> both have a commission calculator on their website.

<sup>1</sup>[www.sesame.co.uk/Generic.aspx?PAGE=Adviser%2fServices%2fProtection&portalName=base](http://www.sesame.co.uk/Generic.aspx?PAGE=Adviser%2fServices%2fProtection&portalName=base).

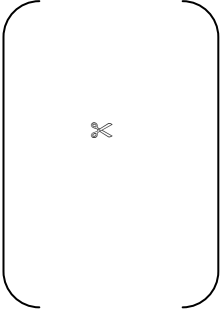
<sup>2</sup>[www.paymentshield.co.uk/intermediary/mppi\\_calculator.aspx](http://www.paymentshield.co.uk/intermediary/mppi_calculator.aspx).

<sup>3</sup>[www.select-protect.co.uk/documents/About\\_S&P/Commission\\_Calculator.xls](http://www.select-protect.co.uk/documents/About_S&P/Commission_Calculator.xls).

**The level of commission payments available from large distributors**

14. This section considers the products intermediaries can source from large distributors of PPI and the commission intermediaries earn from selling these products.

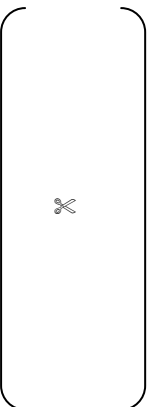
TABLE 6 Large distributors' PPI product offering to intermediaries

<i>Distributor</i>	<i>Product offering to intermediaries</i>
	<p style="text-align: center;">Loans—no variation Mortgages—more options</p> <p>Only MPPI sold through intermediaries. No difference in product offering</p> <p style="text-align: center;">No differences</p> <p>There is no difference between PPI products sold by [✂] and PPI products sold following a referral from the intermediary channel</p> <p style="text-align: center;">No differences in product offering</p> <p style="text-align: center;">MPPI—no difference between sales channels SMPPI products are identical</p>

Source: CC based on evidence supplied by the parties.

15. The products that the large distributors offer to intermediaries seem similar to, or are the same as, those offered directly to consumers (see Table 6) although we saw some differences in prices.

TABLE 7 Large distributors' PPI commission offering to intermediaries

<i>Distributor</i>	<i>Commission</i>
	<p>Various commission levels dependent on underlying loans, amount of business during month and individual negotiation</p> <p style="text-align: center;">MPPI—£50 flat fee</p> <p>Second charge mortgages—3–8% of interest charge per loan and interest charge per PPI policy</p> <p style="text-align: center;">Small numbers of sales with no formal commission structure</p> <p>PLPPI—0.5% of loan value if sold with insurance, on top of the 0.5% loan commission</p> <p>MPPI—£100 flat fee for each insurance lead that is converted to a sale</p> <p style="text-align: center;">25% initial commission 15% trail commission</p> <p>PLPPI—15% full commissions and 5.26% (other commissions) MPPI—15% for referred business and 27.5% for self-fulfilled</p>

Source: CC based on evidence supplied by the parties.

16. Commission offered to intermediaries and intermediary networks by MPPI distributors appear much less generous than those offered by MPPI underwriters

(see Table 7). The commissions that intermediaries receive on these other MPPI products can be seen in Table 5.