FT.com FINANCIAL TIMES

PERSONAL FINANCE

Close

Redundancy fears lift cost of insurance

Print

By Josephine Cumbo
Published: January 30 2009 20:35 | Last updated: January 30 2009 20:35

Insurers are raising premiums on unemployment insurance by more than 20 per cent and tightening eligibility criteria, as workers scramble to set up a financial safety net against redundancy.

Payment protection insurance (PPI) is often sold alongside mortgages (MPPI), loans and credit cards to help cover the cost of monthly repayments in the event of accident, sickness or forced unemployment.

Money Show Update

Audio: Jo Cumbo finds out why the price of unemployment insurance is rising

But as job losses mount, existing policyholders and those looking to obtain cover are paying more or having to wait months longer for their policies to pay out.

Paymentshield, which offers standalone MPPI through brokers, is now writing to 220,000 of its customers alerting them to increases of about 20 per cent per month, blaming a rise in claims. It is also restricting MPPI sales to customers who have applied within 30 days of taking out a mortgage or remortgage and turning down those with existing home loans.

“Our underwriter’s experience shows that there is real risk that, in a downturn, people who buy standalone MPPI are concerned about losing their job – and then we get in to the whole area of prior knowledge [of redundancy] for which policies won’t pay out,” said Sandy McPherson of Paymentshield.

The premium increases are broadly affecting all MPPI policies underwritten by Norwich Union, a leading market player, whose products are also sold in banks and other outlets. “We have had a big increase in claims,” said Erik Nelson, a Norwich Union spokesman. “We had to review policies to ensure premiums paid reflect the risk presented by the current economic conditions – and unemployment is a major risk.”

Hitachi Capital has also raised its premiums by more than 20 per cent for all its payment insurance products and said it expected “further price increases”.

“All insurance is based on the basis of potential risk being covered – PPI is no different in this respect to car insurance,” said Steve Lawler, managing director of Hitachi’s insurance division.

In response to concerns over future job losses, insurers are also tightening eligibility criteria – resulting in workers in financial services not being accepted by some insurers. Initial exclusion periods, or the time in which a claim cannot be made on a policy, are doubling from 90 days to 180.

“By increasing the initial unemployment exclusion period, companies are protecting themselves from clients who are already at risk of redundancy,” said Wendy Alexander of UKinsurancenet, an online insurer.

The premium rises are across the sector and came as the industry this week said the total number of PPI claims – which had been lodged but not yet accepted – for unemployment rose to 19,000 in November 2008, a 118 per cent rise on 2007.

The increases also came ahead of the Competition Commission’s move this week to impose tough measures to reduce excessive profiteering in the market, including a ban on the sale of single premium PPI. Firms will also have to wait at least seven days before they can sell a customer the insurance if they have taken out a loan.

“You have to ask why the premiums are rising now,” said Vera Cottrell, principal policy adviser with Which?, the consumer group. “Historically, the claims ratio on loans PPI has been low –

about 15 per cent – so this has been a very profitable line. The minute people start making claims, they increase premiums, which begs the question, 'why are they raising them now?'"

Advisers say anyone facing steeper premiums should think carefully before cancelling their cover. Policyholders whose health has deteriorated since taking out insurance could be declined new cover due to pre-existing conditions. Also, if a person's employment sector has seen large job losses, insurers may consider the individual too much of a risk.

"You need to understand what you are getting into and what you are losing. The decision should not be based on premium alone," said Peter Chadborn of CBK independent financial advisers.