

The Inquiry Secretary  
(PPI Investigation)  
Competition Commission  
Victoria House  
Southampton Row  
LONDON  
WC1A 4AD

4 June 2010

Dear Sirs

**PAYMENT PROTECTION INSURANCE MARKET INVESTIGATION: REMITTAL OF THE POINT OF SALE PROHIBITION REMEDY BY THE COMPETITION APPEAL TRIBUNAL – PROVISIONAL DECISION 14 MAY 2010**

We are writing in response to the provisional decision published on 14 May 2010.

In finalising its approach to the PPI Market, we ask the Commission to clarify the various conduct of business matters that we and other respondents have previously requested guidance on. We have included in the appendix to this letter a summary of the main conduct of business matters that we have sought clarity on in previous correspondence.

Our comments on the provisional decision paper are as follows:

**Application of the remedies to MPPI**

We have explained in previous correspondence why we do not believe it is appropriate to apply the remedies to the sale of MPPI. Whilst we recognise that the Commission's modelling indicates that MPPI customers will benefit from the application of the remedies, we believe that the Commission has failed to fully consider the differences in the MPPI market and the changes that have taken place since its analysis was initially undertaken.

Following the FSA's Dear CEO Letter of 23 February 2009 in relation to the sale of single premium PPI with unsecured personal loans, many single premium MPPI policies were withdrawn from sale. Given this market development, we do not believe that it is reasonable to rely on the availability of single premium policies as being a significant factor leading to market failure (Section 2). We do not believe that it is likely that such products will become a significant feature of the market in future. Given the regulatory concerns over the sale of single premium products and the action taken by many MPPI providers to act on this guidance, it does not seem reasonable to rely on failings that substantially relate to this form of product.

The Commission does not consider the relative detriment across the range of product groups. The table included in 9.39 gives data on the extent of customer detriment across various product groups. This shows that the detriment for PLPPI is of the order of 7 times that of MPPI whilst the stated detriment for CCPPI is of the order of 3 times that of MPPI. The Commission goes on to state that in 9.42 that '*the extent of gross customer detriment being addressed is a good indicator of the extent of gross customer benefit arising from implementing the remedies for these four products*'. Given this, we believe that the Commission should consider whether it is

proportionate to apply the remedies to the sale of MPPI where it is clear that the scale of detriment is significantly lower than for other forms of PPI.

### **Application of the remedies to intermediated sales of MPPI**

The Commission's analysis does not differentiate between MPPI sales made by lenders and those made by intermediaries. As a result, the Commission's analysis fails to recognise that for intermediated sales many aspects of the AEC do not apply. For example, in 2.2b when referring to the features of the market which affect competition, the Commission refers to '*the perception that taking PPI would increase their chances of being given credit*'. For intermediated sales of MPPI it is difficult to see how this perception will arise given that MPPI is likely to be one of a range of protection products bought by a customer to protect their mortgage and most importantly there is clear separation between the services provided by the lender and those provided by the insurer.

In addition given that there is a natural break in the sales process for mortgage related sales, it seems unnecessary to impose a POSP when in the vast majority of cases, there will be a number of weeks, if not longer, between the credit sale being made and the loan completing and the MPPI going on risk. For such sales there is an inbuilt period during which the customer is able to shop around and consider alternatives and decide whether insurance is needed. For such MPPI sales, the POSP appears to be unnecessary and will simply build in additional cost and complexity to the sales process.

### **Impact of POSP on propensity to buy**

The Commission does not accept the evidence submitted by firms that indicates that the POSP will adversely impact on the level of take up of PPI. We believe that MPPI does provide valuable cover to consumers and we believe that the value of this form of PPI is demonstrated in the claims data that you quote in the report. This shows that the claims ratios for MPPI for 2009 was significantly higher than previously, but this is discounted on the basis that this increase was '*driven by the rise in unemployment*'. The fact that MPPI claims ratios have risen during a period of high unemployment reflects the fact that this policy is providing customers with valuable cover. The likely reduction in sales which will follow the imposition of the POSP will result in some customers not buying MPPI and being at risk of having no cover in place to help maintain their mortgage payments in the event that they are unemployed or unable to work due to accident or sickness.

Yours faithfully,

**Philip Moran**  
**Compliance Manager**  
**Legal & General Group Plc**

## Appendix

### **A. Conduct of Business Requirements Requiring Clarification – references refer to the date of our previous correspondence in relation to each item**

- Responsibility for Form of Annual Statement to be used (18/5/09).
  - The Remedy Order could be improved by placing the responsibility for deciding which form of Annual Statement should be issued with the insurer rather than the intermediary.
- Definition of a credit sale as it applies to mortgages (31/7/09).
  - This definition should be clarified to state that, for mortgage related sales, the Credit Sale ends when a mortgage offer is issued.
- Form of MPPI Personal Quote provided by intermediaries (31/7/09).
  - The relevant clause in the Remedy Order should be amended to state that where MPPI is sold by an intermediary then the Stand Alone Personal Quote should be issued.
- Provision of Personal Quote following a Marketing Statement (31/7/09).
  - The requirement to issue a Personal Quote when a marketing statement is made should be varied for circumstances where sales are made as the result of a Commercial Referral Relationship.
- Form of Annual Review where a Commercial Referral Relationship exists (31/7/09).
  - We would like the Commission to clarify in the Order the form of the Annual Statement that should be issued in cases where a mortgage lender introduces a customer, to whom it is making a mortgage sale, to an MPPI provider.
- Application of Remedies where PPI is sold alongside other insurance (31/7/09).
  - It would be helpful if the Commission could confirm within the Order that where PPI is sold alongside or combined with other forms of insurance then the Order applies only to those contracts or product components that provide PPI or short term income protection benefits.
- PPI products designed for an intermediary or intermediary network (31/7/09).
  - The clause in the Order that requires intermediaries or networks to ensure that Marketing Material meets the requirements of Article 3 where a product is designed for them could be improved by clarifying that this applies only where a product has been specifically or exclusively designed for an individual intermediary or network.

## **B. Treatment of Bill Protector and Lifestyle Products**

We also require clarity from the Commission on how intends to apply the remedies to bill protector or lifestyle type PPI products.

These products are designed to protect a customer's total monthly expenditure and whilst the benefit from these policies is not linked to a specific credit agreement they can be sold at the same time as credit is being arranged.

We believe that it is appropriate for firms to treat such products as short term income protection and issue customers with a stand alone personal quote and stand alone annual statement, but we would ask the Commission to confirm this.