



Association of British Insurers 51 Gresham Street, London EC2V 7HQ Tel: 020 7600 3333 Fax: 020 7696 8999

Direct Line: 020 7216 7405
Email: karen.evans@abi.org.uk

Marjorie Davies
Inquiry Manager
Competition Commission
Victoria House, Southampton Row
London WC1B 4AD

Sent by email

3 June 2010

Dear Marjorie,

PPI Remittal

The Association of British Insurers (ABI) response to the Competition Commission's provisional decision.

1 Introduction

Thank you for inviting us to submit our comments on the provisional decision document, published on 14th May 2010 by the Competition Commission (CC), on behalf of our members.

The ABI represents the collective interests of the UK's insurance industry. The Association speaks out on issues of common interest; helps to inform and participate in debates on public policy issues; and also acts as an advocate for high standards of customer service in the insurance industry. The Association has around 400 companies in membership. Between them, they provide around 90% of domestic insurance services sold in the UK. ABI member companies account for almost 20 per cent of investments in the London stock market.

On behalf of our members we wish to express our concern at the wide-ranging and damaging effects that the prohibition of Payment Protection Insurance (PPI) at the point of sale will have. The current economic climate only serves to further reinforce the importance of the protection offered by PPI to the customer. Our detailed comments are:

2 Point of Sale Prohibition (PoSP)

CC has acknowledged that the market has moved since a PoSP was first proposed but has not correspondingly altered its view that a PoSP is still proportionate.

ABI believes that this would lead to customer detriment, by removing the convenience of cover to the customer and potentially leaving them uninsured. It will lead to a reduction in the number of consumers covered, and potentially a reduction

in the number distributors and unemployment standalone products. This would be a Treating Customers Fairly (TCF) issue for insurers as they are selling customers' credit and offering no means of support should the customer become eligible to claim prior to arranging their insurance. There appears to be no consideration for the increased risk to the insurer from the resultant anti selection by consumers. This could have an adverse effect on cost and exclusions, thus leading to further customer detriment.

We have found no evidence for the assumption that competition for PPI customers will be "vigorous" post-remedies. CC suggest that as a result of the remedies consumers will become more aware of PPI and the total price of the primary and secondary products. The experience of members is that consumers will focus on the cost of the primary product rather than the cost of additional products.

Market sales volumes have decreased since the ban on single premium to in the region of a fifth of sales and this is prior to the PoSP, so will reduce further. If following implementation of the remedies, the penetration rate for PPI remains the same, as CC has assumed, then in addition, due to a reduction in the demand for credit (on which PPI is dependent), it is likely that total sales will decline further, even though PPI prices may be lower. Falling PPI sales will be affected still further by:

- A lack of confidence in sellers and consumers.
- FSA regulation forcing an extended sales process.
- Poor customer experience as a result of the split between sale and loan.
- Consumer inertia or reluctance to purchase PPI from an alternative provider.

It cannot be in the interest of any party to have a regulatory environment which reduces total PPI sales. Consumers need access to quality PPI protection products with appropriate regulatory controls to both stimulate competition and to ensure the fair treatment of consumers.

3 Mortgage Payment Protection Insurance (MPPI)

The issue that CC is looking to address was with single premium loan cover PPI. MPPI is very different to PPI as it takes time for the mortgage to be approved, there are alternative, competing products available at the point of sale such as critical illness cover and long term disability cover, and it is the cause of few complaints.

The Financial Ombudsman Service's annual review for 2008/2009 showed that MPPI has not given rise to significant numbers of complaints to the FOS and this has remained the case this year in the annual review 2009/2010 published on 14 May 2010. This is supported by data within the CC's provisional decision document (Table 7.1 on page 53) which shows that during the period January to November 2009, for total PPI complaints (9,443) upheld by the FOS, only 0.8% relate to MPPI complaints (76). Indeed, of the 878 MPPI complaints referred to the FOS, only 76 were upheld.

In addition, FSA has stated that there is a significantly lower risk of mis-selling with MPPI, and the recent agreement between FSA and industry will reinforce this even further. We believe that MPPI is not an issue.

4 Short-Term Income Protection

We strongly believe it is essential that Short-Term Income Protection, in line with the CC objectives, remains an important competitor to PPI products for the benefit of consumers, which Table 7.2 supports. While we understand the risks and the reasons why Short-Term Income Protection was initially included in scope, to support competition in the market it is essential that it is only included where there is a specific need to protect the interests of consumers and not, for example, where it is taken out on a stand-alone basis by consumers who are shopping around.

We maintain that Short-Term Income Protection should not be included 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 directly linked to any credit terms; and
- Any policy benefits are paid directly to the individual policyholder, and not to a third party such as the loan provider.

Additionally, the definition of Short-Term Income Protection should be:

- Policies that include cover for all of accident, sickness and unemployment as insured events.

Please do not hesitate to contact me should anything be unclear or you wish to discuss any of these points.

Yours sincerely,

Karen Evans
Protection Policy Adviser