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Competition Commission
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Dear Marjorie,

PPI Market Investigation: Remittal on the Point of Sale Prohibition Remedy

Aviva would like to take this opportunity to respond to the Competition Commission's recent publications concerning the remittal on PPI and our comments on these papers are set out below:

Remittal of the Point of Sale Prohibition Remedy by the Competition Appeals Tribunal:

Aviva is disappointed that the point of sale prohibition is to proceed (with the exception of Retail PPI) and does not accept the conclusions reached by the Competition Commission in this matter. Aviva's specific comments are:

- The Competition Commission continues to assert that the post-remedies environment will encourage more customers to overcome the inconvenience of not being able to purchase PPI at credit point of sale despite the Commissions own suggestion that customers would not be motivated to switch at an annual renewal;
- The majority of consumers value the convenience of purchasing PPI at the point of credit. Insufficient weight is given to evidence, commissioned by both the Competition Commission and by interested parties, showing that a majority of customers (typically 60%) would like to purchase PPI at credit point of sale. Furthermore, the cooling-off period required by the FSA's rules was not taken into account in the Commissions research. Awareness of this may have had an impact on the opinion of those who expressed a preference for a prohibition had they been made aware of it;
- The weightings attributed to the consumer research are over-stated. Consumers value type of cover and period of claim far more than the time of purchase. In reality consumers would not be willing to pay more post-prohibition;

- Aviva believes that the expected reduction in the take up of cover and the additional steps that distributors and underwriters are required to take will increase the cost of selling and servicing policies;
- The results of the surveys conducted by interested parties is largely discounted whilst the Commission's own research did not specifically cover SMPPI or CCPPI;
- Aviva notes that the Commission expects the standalone market to thrive in the post POSP environment but disagrees with this view. We do not expect this to be the case for the reasons stated in our earlier response e.g. anti-selection, inertia, financial capability. We would like to understand the basis for the Commission's view;
- Consumers will be uninsured during the prohibition period and therefore will be exposed to the full liability of their credit obligations without insurance protection. This was noted as a key concern by respondents to the retail PPI survey. This may become an issue for lenders, which must consider the fair treatment of customers, as they will be unable to provide a means of protection to customers when selling credit;
- The majority of PPI consumers conclude their PPI transaction face to face; yet, prohibition prevents consumers from returning to their local branch to conclude the insurance sale. The Commission is fearful that firms might manipulate the system to circumvent the prohibition but in addressing this concern it significantly increases the inconvenience to many consumers.
- The estimate on the cost to the industry of implementing the package of remedies has been reduced, yet there is no justification for this assessment.

Aviva does not believe that the same package of remedies should be applied to all PPI product types. It is welcome that the Commission is now reconsidering the application of the POSP to Retail PPI but we would argue that the Commission should also reconsider the remedies applicable to MPPI. The FSA has consistently stated that MPPI is a significantly lower risk and the recent annual review published by the Financial Ombudsman Service (FOS) also confirms that MPPI had not given rise to significant number of complaints; a comment that mirrored that made by the FOS in its 2008/09 annual review.

Aviva also requests that the Commission removes short term income protection from the scope of its review, as referred to in our response to the draft Order (7th August 2009).

Supplementary Notice of Possible Remedies under Rule 11: Retail PPI

As mentioned above, Aviva welcomes the decision to reconsider the application of the point of sale prohibition to Retail PPI. In terms of the possible remedies suggested Aviva favours option 7 (reminders of cancellation rights and key messages) as being appropriate for the product.

Aviva has the following comments on other proposals:

Option 1 - Aviva does not believe that the point of sale prohibition is an appropriate remedy for retail PPI for the very reasons the Competition Commission has stated in its report (low cost driven by low balances, customer inertia). Aviva is of the opinion that the same arguments have merit in the credit PPI market as customer inertia is likely to suppress that take up of PPI generally.

Option 3 – Aviva has concerns regarding provision of claims ratio information; both the practical implications of providing the information and questions the benefits to be derived by consumers of this option.

Option 8 - Aviva has concerns that an unintended outcome of annual renewal on an opt-in basis is that customers may unwittingly find themselves without cover in place.

Option 9 –Aviva requests the Commission to clarify its proposals and confirm what element it intends to be capped i.e. commission/profit or the net rate. Aviva is concerned that should net rates be capped this would limit distributors and could result in fewer products to market. This could also act as a disincentive for consumers to look for alternative cover. We would remind the Commission that with regard to underwriting, the investigation found no AEC and therefore we could see no justification for controlling the net rate.

Aviva would be pleased to discuss our comments in more detail if this would be helpful to the Commission.

Please direct any queries to Richard Cockbain (Richard.Cockbain@Aviva.Co.UK).

Yours sincerely

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