Evidence

Citizens Advice response to the Competition Commission Supplementary Notice of possible remedies in respect of retail PPI.

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Introduction

Citizens Advice welcomes this opportunity to comment on the Competition Commission supplementary notice on possible remedies in respect of retail PPI. The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. The service aims:

- To provide the advice people need for the problems they face; and
- To improve the policies and practices that affect people's lives.

The CAB service is a network of over 400 independent advice centres providing free, confidential and impartial information, advice and advocacy from over 3,000 locations in England and Wales. including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups.

In 2009/10, the CAB service helped 2.1 million people with over 7 million enquiries. This included over 2.3 million debt issues and another 141,000 enquiries about financial products and services. Around 11,000 enquiries had payment protection insurance as a main identified issue, which probably underestimates the scale of payment protection problems given the number of consumer credit debts (around one million in 2009/10) seen by the CAB service.

Background on mail order/catalogue debt

The qualitative research finding on retail PPI prepared by GfK NOP sets out some of the characteristics of mail order/catalogue loan users. We are also able to provide some quantitative information on the characteristics of those people seeking help with mail order/catalogue debt problems from the CAB service. In addition, we have a collection of qualitative *evidence reports* where CAB advisers submit case studies highlighting the specific problems that the clients face. We believe that this information casts doubt on the likely effectiveness of remedies that rely solely on disclosure and improved shopping around by consumers.

Characteristics of CAB clients with mail order/catalogue debts

In 2009/10 the CAB service dealt with around 105,000 enquiries about mail order and catalogue from around 59,000 individual CAB clients. So mail order and catalogue debts are significant amongst the debt problems faced by CAB clients. As a group, people seeking help form the CAB service about mail order/catalogue debts have some notable characteristics. These broadly mirror the findings of the GfK NOP survey, but suggest an even greater bias towards lower income and potentially more vulnerable consumers. This is perhaps not surprising given that our data relates specifically to consumers experiencing financial difficulties. A summary of some of the characteristics of these 59,000 or so people is set out as follows:

- The age range of CAB mail order debt clients broadly supports the GfK NOP findings, with 81 per cent between 25 and 64. This is slightly higher that for CAB clients as a whole, where 79 per cent of people fall into this age group.

- The gender disparity is rather lower than the GfK findings as 73 per cent of mail order debt clients were women (compared to the 53 per cent of all CAB clients in 2009/10 that were women).
- They were rather less ethnically diverse than CAB clients as a whole – around 92 per cent were defined as White British compared to 79 per cent for all CAB clients
- A little over a quarter (26 per cent) had a disability or long term health problem
- Half of them were in households with dependent children, compared to 36 per cent of all CAB clients in households with dependent children
- Over a quarter (27 per cent) were lone parents, disproportionate compared to all CAB clients and to the UK population.
- Households without dependent children tended to include a fairly high proportion of people with disability or long-term health problems. Some 37 per cent of people in couples without children and 41 per cent of single people were reported as having a disability or long-term health problem. Also over a third (35 per cent) of all the people in this group with disability of long-term health problems were single without children.
- The overwhelming majority of the group reported low or very low levels of income. Some 69 per cent reported incomes below £1,000 per month and 43 per cent below £600 per month. This is a rather greater proportion of low incomes than reported in the GfK survey. Some caution is needed here as these income figures are 'self reported' by these CAB clients on a basis that might not be consistent. The sample size is also slightly smaller at about 33,000 where information is recorded. But we believe this is likely to give a reasonable insight into income level of these CAB clients.

In summary we believe that this group of mail order/catalogue are likely to face significant constraints on their ability to *shop around* for payment protection insurance. Indeed one could argue that financial, time and mobility limits on shopping activity are key reasons why people choose to use mail order/catalogue products in the first place.

Qualitative evidence of problems with mail order/catalogues

Qualitative evidence on the experience of CAB clients with mail order/catalogue debt problems also suggests that remedies relying mainly on improved disclosure have limited success in reducing detriment faced by more vulnerable consumers in particular. Some recent CAB evidence cases highlight four features of the interaction between consumers and mail order/catalogue firms that may hinder consumers' ability to make informed decisions about product value and suitability.

Firstly levels of general knowledge and ability to deal effectively with financial products may be low amongst mail order users and the more vulnerable consumers in particular. In the following cases, consumers' misunderstanding of the basic nature of the agreement appeared to cause a problem and contribute to financial difficulties.

> A CAB in Sussex saw a 43 year old single woman, who was in receipt of income support and had health issues (epilepsy and stress). Her mother had recently died. The woman had ordered goods from a catalogue thinking that she had a credit agreement to pay back a small regular amount. Owing to an error on the company's part, the goods apparently had been sent to her on a full cash up front basis. When she said she couldn't pay this, the mail order company forced her to take out a high interest loan (39.9%) and the debt increased from £100 to £406. When she could not meet these payments, the mail order company passed the case onto debt collectors.

A CAB in South East Wales saw a 67 year old man who had ordered £94 of goods from a catalogue. On receipt of the goods the advice note listed the goods as being double the price. The man phoned the catalogue company (at a cost of £5 on a mobile phone) and was told that the price on the advice note was correct because there was a 'pay nothing for a year' offer which said 'if you place an order for £50 or more before February 2010 you will not have to pay a penny until Feb 2011'. The company had not properly explained their 0% offer' and the advice note had not explained why the total cost would be double the catalogue cost.

A CAB in Merseyside saw a 37 year old single man suffering from serious mental health problems. He had got into arrears with a catalogue and the company responded to this by sending him an agreement for interest bearing credit. It was not clear from the agreement that it was for a loan that would accrue interest. The man signed the form and returned it thinking it was an agreement to pay arrears to another company. He also believed that his catalogue balance would be clear once the company received items he had returned. He was very distressed and bewildered as he was being asked for money and he did not understand why as he thought he had paid the amount he owed.

In other cases it seems that the borrowers limited financial capability extended specifically to the insurance products they had been sold along with the mail order agreement.

A CAB in Suffolk saw a 67 year old man who for the last two years had held power of attorney for his elderly mother, who had mental health problems. His mother had a number of old debts which he had been sorting out. But one creditor, a mail order company, was not co-operating. His mother had opened an account with the mail order company in 1999. In 2002, when she was 79 and in poor health, the company sold her PPI. Because of her circumstances at that time, it would have been impossible for her to make a claim under the policy, and the man did not think that she was capable of making an informed decision at that time. He had written to the company stating his belief that the policy was mis-sold, but the company has denied this and referred him to the Financial Ombudsman Service.

A CAB in Wiltshire saw a 25 year old severely disabled woman who was virtually housebound. She said that she had a new washer-drier delivered from a mail order retailer recommended by her sister. She was very surprised when the delivery man attached a coin box to her TV. This collected payments for the credit agreement and she had to put pound coins into the box in order to watch her TV. She said she had not been told that the payments would be collected in this way. She said that in two days she had already had to put in £10, and her TV was cut off after four hours unless she put in more money as £1 per four hours viewing was collected. The catalogue quoted weekly payments of £4.80 and this seemed reasonable to her. But the total cost of credit was not made clear in the catalogue, even though it was on the credit agreement. So although the price of the goods was £470, the repayments with interest came to nearly £750. She was also sold additional bundled insurance taking the total debt to around £1,000. The woman had learning difficulties and was not literate and could not read the 'small print' of the agreement she signed. Therefore she did not know the total cost of the credit and bundled insurance, or that the washing machine would be paid for via her TV.

A CAB in Tyne and Wear saw a 62 year old woman who had a catalogue account that she closed in summer 2009. She was not informed by the catalogue company that the insurance would not automatically be stopped without seperate specific written authorisation from her.

She received a bill for £61 even though she had not used the account. This in turn led to further default charges.

A CAB in Shropshire saw a 72 year old woman who had recently had a stroke. For about 20 years she had been a customer of a mail order company. She was a regular customer but had not purchased anything for over a year. At some point she got into a debt on which interest was being charged but she also had a payment protection policy for which she was paying out monthly. It would seem that this payment protection policy was not suitable for her circumstances and so far attempts to get to the bottom of how this had arisen had been unsuccessful. She was anxious and worried but unable to deal with the situation herself. Attempts made on her behalf by a third party to get an explanation and details of the account were not successful and led to more anxiety.

This last case also highlights how we are still seeing cases of mis-sold PPI and other insurance in connection with mail order/catalogue agreements. In some cases people have been charged for ancillary insurance that they do not remember actually asking for. Instead of shopping around, these consumers have been sold products that they did not understand, did not want or did not realise that they were actually paying for.

A CAB in London saw a 41 year old woman who was a single mother of two disabled children. She was in receipt of income support, child benefit and carer's allowance. She was a customer of a catalogue company who were constantly billing her for a £12 monthly fee and harassing her up to four times a day on the phone. An extended warranty was taken out in her name even though she did not ask for it. The warranty was now cancelled. She said that her caring responsibilities sometimes left her at her wit's end and could not understand how an unwanted warranty was set up without her permission and she felt threatened by the constant phone calls she received demanding money.

A CAB in Hampshire saw 41 year old with mental health problems. He was in receipt of disability living allowance and incapacity benefit and had a support worker who visited him weekly. He had a catalogue, that he had used for the last two years. He used to order goods on a 'buy now pay later' basis and always paid his balance well in time. He ordered a fridge freezer on behalf of his mother and paid in full before time. However he kept getting statements showing arrears of £109 for 'extended terms'. He was very slow in his speech, but fully aware of his rights and liabilities towards paying in time for what he bought. The CAB rang the mail order company who were very abrupt and unwilling to listen to either the adviser or the client. The company explained that the arrears were due to insurance of £19 per month that he had taken out when starting with the catalogue. The man was adamant that he had not asked for insurance and was not told about the insurance. He tried to tell the firm that he was not liable for insurance that he had not asked for. They would only try and organise reduced repayments for him and said that if he didn't pay the arrears then charges would be made on top.

A CAB in South East Wales saw a 57 year old woman who had taken out a catalogue. A year before she had ordered a computer for her daughter for £470 with a £25 delivery charge. When she ordered by phone she asked whether, if she paid it off over 1 year, instead of the usual 2, she would have to pay interest. She was told by a gentleman in the call centre that provided it was paid in full within a year she would not have to pay interest. When the monthly bills came in, she noticed that she was being charged interest and a 'peace of mind' insurance. She assumed that the interest would be removed when it was paid off at the end of the year.

This has not happened. When she rang up she was told that this was not the case. She would have had to have paid it off within the first month for interest free and she already had a balance outstanding besides this. The telesales operator had given incorrect information and unwanted insurance was also added to her purchase.

Such poor sales practices, including what appear to be cases of negative selling, suggest that de-linking PPI (and perhaps other ancillary insurance) sales from the sale of mail order agreements might be effective in dealing with this sort of detriment. However, some of the above cases also highlight how consumers can have long-term relationships with mail order/catalogue providers. In the presence of poor consumer understanding about ancillary insurance products and limited shopping around, it will almost be open for firms to use this long term relationship as a sales platform at a later date. The cases below highlight the experience of consumers who were cold called about insurance products by mail order providers or their associates.

A CAB in Cambridgeshire saw a woman who had taken out a catalogue. A month before visiting the bureau, she had received a phone call from an organization (not the mail order company) selling an insurance product connected to the catalogue. The woman said that she was very busy at the time and didn't listen properly but does not remember saying that she wanted to take out the product. She had not received any paperwork either but found that her catalogue statement included a fee of £79 for the insurance product. She contacted the mail order company who said that they could not remove the amount owing because it would have to be done by the company making the charge. She was told that the selling method of these insurance products was that 'you have 30 days to opt out of this cover and a phone number is given at the time of the original call to enable you to do this'. The woman had no recollection of this information being given to her or a contact telephone number. She tried to cancel her catalogue account but the mail order company would not do this until the £79 had been paid. The woman was extremely annoyed.

A CAB in London saw a 44 year old woman who had taken out catalogues with four different companies while being unemployed. She had been paying PPI on two of the catalogues but later realised that she could not benefit from the insurance as she was unemployed while she took out the catalogues. She was not aware of this condition and did not hide the fact that she was in receipt of benefits when she took the credit. The PPI had been sold by phone without proper explanation of the terms and conditions.

A CAB in the West Midlands saw an 83 year old woman who was living in sheltered accommodation. She had hearing, speaking and understanding difficulties as a result of a recent stroke. She had received a letter from a mail order company saying they were going to recover £36.90 from her by referral to a debt collection agency. The woman had purchased some under-garments from a mail order company in 2008. In April 2009 she was called by the company who apparently signed her up to a bundled insurance product. The woman was insistent that she did not sign up to this product. This caused distress and confusion to a vulnerable person.

Given the ongoing, revolving nature of these products it seems likely that de-linking at the point of credit sale may be ineffective as both a safeguard for consumers and a spur to consumers shopping around to get a better deal.

Conclusions from CAB evidence about mail order/catalogue debts and PPI

The CAB service helps a fairly large group of consumers to deal with mail order/catalogue debt problems. The evidence presented above about the characteristics of this group and of the sort of problems that can arise suggests the following conclusions.

- Low incomes and other possible indicators of vulnerability (disability, lone parents) are fairly common. Many of these mail order consumers are likely to experience constraints on 'shopping around', which also explains the popularity of mail order shopping for this group.
- Consumers experiencing the most severe detriment as a result of poor selling practices of PPI and other ancillary products also appear to be the most vulnerable consumers and also arguably the least likely to shop around
- Although the amounts charged in respect of PPI and other insurance premiums can be relatively low, the amounts can be significant for people in receipt of very low incomes. In addition the charging structure of mail order/catalogue agreements, with default charges and interest, can magnify the costs of insurance premiums.

Given this evidence, we believe that a remedies strategy that is mainly focused on encouraging consumers to shop around is unlikely to deal effectively with any consumer detriment arising from competition failure in the retail PPI market. Better disclosure might help some consumers to some extent, but we do not think it is likely that this will make any significant difference to the sort of people described in the cases above. Therefore we believe that a more direct intervention, such as price control would be justified.

Response to Competition Commission's questions on individual remedies.

Citizens Advice does not have the information to give detailed comments on each individual remedy. However we set out some general comments below to supplement the evidence above on CAB clients' experience of problems with mail order / catalogues and ancillary insurance.

Option 1: A prohibition on selling at the point of sale etc

The evidence above highlighted problems with mis-selling and poor sales practices such as negative selling. A prohibition on point of sale selling might be capable of addressing this to some extent, but evidence of later phone selling of insurance products to existing mail order customers suggests that such a prohibition might have a limited effect as firms may seek to work round the prohibition.

Equally, the lack of evidence of 'shopping around' in the GfK survey, echoed in CAB evidence on mail order users, suggests that these consumers would be unlikely to reap any of the consumer benefits that a point of sale prohibition might bring. Therefore we broadly support the Competition Commission view that a point of sale prohibition may not be an appropriate remedy here.

However we do not believe that this negates the need for effective remedies.

Option 2: Information provision by PPI providers

Citizens Advice believes that this remedy is likely to do some good. But we believe that it will be insufficient to remedy the detriment identified by the Competition Commission for the reasons we have highlighted above.

Option 3 Provision of information to the OFT and CFEB for monitoring and publication

Again while these options may do some good, we believe it very unlikely that web based comparative tables or information about claims ratios will have any significant effect on the majority of mail order / catalogue users.

Option 4 – Prohibition of single premium polices

We also have no evidence of single premium policies in respect of mail order/catalogues. However we have seen some evidence on barriers to cancelling insurance in the cases cited above. These were usually administrative rather than charge based, but we would welcome any intervention that makes it easier for consumers to cancel.

Option 5 – A requirement to unbundle retail PPI from merchandise cover

Citizens Advice would broadly support this option as a measure to improve clarity for consumers as to what they are actually being sold and how this might meet their needs. However some of the problems highlighted in the cases above involved ‘unbundled’ non PPI insurance covering goods or protecting against ‘identity theft’. This raises a concern that the problems that have characterized PPI selling may simply move to other lines of ancillary insurance products that are not subject to current regulatory focus. In this respect unbundling may have limited success, and may merely encourage a process of moving the problem elsewhere.

Option 6 – Obligation to provide an annual review

Citizens Advice believes that this option might produce some consumer benefits. However we do not believe that it is likely to fully deal with the detriment. We have no information as to the likely costs.

Option 7 – Remind consumers of their cancellation rights

Citizens Advice believes that such a reminder could be effective in helping consumers to understand that there has been an insurance sale and the steps they can take to cancel this (including who to contact where insurance is provided by an associated firm).

Option 8 – Obligation to renew PPI annually on an opt-in basis

Citizens Advice supports this option. The evidence above suggests that consumers can be sold insurance without really understanding or even knowing what they had bought. Once purchased insurance premiums can be charged to their account balances for extended periods. An annually re-occurring opt-in might provide at least a long stop safeguard against this sort of inertia paying for unwanted insurance products. We do not believe that this will necessarily encourage shopping around to achieve a better deal for insurance, but it might help limit the consequences of bad sales practices for consumers.

Option 9 – Price caps

Citizens Advice strongly supports this remedy as we believe the experience of CAB mail order/catalogue debt clients suggests that only a remedy that directly addresses the consumer detriment is likely to be effective. We do not believe that disclosure remedies will be effective without additional supporting remedies. While a point of sale prohibition might reduce the detriment, it does not seem likely that it will produce the benefit of lower PPI prices for mail order consumers.

We have the following observations as to how a price cap on PPI for mail order/catalogues should work:

- PPI pricing is currently fairly opaque in that it is hard to see the relation between price and product content/quality. Therefore we believe an intervention into pricing should try to improve the transparency of price in relation to benefits received.
- We believe that where insurance is sold in a bundle, any price cap would have to be applied to the bundle to prevent firms from working round the remedy by re-pricing other elements of the bundle. In this respect we believe that where firms are selling unbundled products they may also seek to *push* other insurance more heavily to compensate for failing PPI revenues. As we have highlighted in our evidence above, this is likely to include sales of extended warranties and other insurances such as identity theft and merchandise insurance. In relation to extended warranties, we note that the OFT's evaluation of the impact of the remedies proposed by Competition Commission's inquiry into extended warranties on electrical goods had only offset a small proportion of the consumer detriment caused by mis-selling of warranties. We therefore believe that the Competition Commission must therefore also monitor the price and volume of other ancillary insurance products sold by mail order providers.
- We believe that both claims ratios and distributor profitability could be relevant in setting any price cap. The Competition Commission would need to ensure that underwriting costs are not excessive nor out of step with norms that would be expected in a competitive market. The Competition Commission should also ensure that the commissions that distributors award themselves are strongly controlled to a level appropriate for a secondary (probably non-advised) sale. We believe that distributor incentives have been a primary driver of high prices, poor product quality and bad sales practices in the PPI sector.