

MARKET INVESTIGATION INTO PAYMENT PROTECTION INSURANCE

PROVISIONAL DECISION ON THE PROPOSED POINT-OF-SALE BAN

Introduction

1. The Finance and Leasing Association (FLA) is very disappointed by the Competition Commission's provisional decision to maintain its proposed point-of-sale ban on PLPPI, MPPI, CCPPI and SMPPI, following the Competition Appeal Tribunals (CAT) decision to refer this remedy back to the CC. This is likely to have an adverse effect on consumer credit protection and its availability.
2. However, we do welcome the CC's provisional decision in relation to Retail PPI. We agree with the Commission that a point-of-sale ban would not be proportionate or in consumer's best interests. The CC should have come to the same conclusion in relation to all other forms of PPI, based on the research and evidence presented to it.

Consumer Behaviour

3. The continuation of the proposed point-of-sale ban on most PPI products fails to take into account consumer behaviour, especially in relation to a secondary purchase such as PPI. As we pointed out in our response to the provisional decision on remedies, over 85% of all respondents to the Commission's Provisional Findings report supported the retention of the sale of PPI at the credit point of sale. These included major consumer advice agencies. The CC has completely ignored this advice from all its key stakeholders in this investigation.
4. Previously commissioned CC research suggested that the majority of consumers like the convenience of buying PPI at the credit point-of-sale. Similarly, this recently commissioned research by the Commission also found that a significant number of customers (e.g. 60% of unsecured loan PPI customers) appreciate the convenience of buying PPI instantly at the point of sale credit. Only 31% of these unsecured loan PPI customers said they would prefer to buy it later (page 68). The CC appears to have taken those parts of this latest research which support its original decision and proposed remedies. This is a selective approach to the research findings. This methodology appears to have been taken with all the research and evidence provided. This is neither a balanced or impartial way to conduct research.
5. We note that the suggestion that a point of sale ban would lead to more customers searching for PPI is not supported by the CC's own evidence. This has shown that a delay in the sales process is likely to

result in fewer overall sales from those who would have otherwise taken out the protection.

6. As we have highlighted to the Commission on numerous occasions, PPI is a 'bought' as opposed to a 'sold' product. A ban on the sale of any form of PPI at the credit point of sale would therefore inevitably result in a significant reduction in the number of customers being protected. The practical reality is that customers are only willing to consider how they might meet their loan repayments when they are actually taking out a loan. They are simply not interested in thinking about the risks at a later stage. We already have a large insurance gap in the UK market, as regularly reported by Swiss Re. This will further widen this gap. We therefore urge the Commission once again to take full account of well documented customer purchasing behaviour.

Stand-alone providers

7. We are still unsure where these stand-alone providers are going to come from? We do not believe it will be from the current large distributors in the market as the Commission suggests. Where is the evidence? As we have stated previously we are concerned that there will be nothing to replace point of sale PPI. It can already be seen that the standalone market shrinks considerably in a recession¹. This was predicted when the industry gave evidence and has now happened, with a number of firms having withdrawn products, modified terms and increased prices. The Commission itself has acknowledged this contraction in numerous parts of their report (e.g. pages 11, 19, 25, 60).
8. At present there is very little choice for the customer in the stand-alone PPI market. If lenders cannot sell PPI at the time customers want it the customer will be the ultimate loser as a result of this point-of-sale-prohibition. Adverse selection- where high risk consumers self select after the point-of-sale – is likely to further reduce the likelihood of this stand-alone market developing. Therefore, the core thrust of this remedy- i.e. increased competition- is extremely unlikely to ever occur. The Commission needs to show evidence of this market or unequivocal evidence that it will develop. We have yet to see this. In conclusion, there is a lack of providers after the point-of-sale and no evidence to show they will develop. The Commission has ignored the absence of any evidence that new PPI providers will enter this falling market which these proposals will create.
9. We would also like to remind the Commission that benefits paid by stand-alone products are treated as income and therefore directly impact on any state earnings related benefits. This means that the neediest customers could now be largely restricted to an unsuitable product.

¹ The CC found that the number of stand-alone policies sold in 2009 had almost halved compared with 2008 level (Paragraph 7.65 and 7.67 pages 59-60. See also Appendix A).

Interest Rates

10. As we have said in the past, and acknowledged by the Commission, this remedy package is likely to increase the cost of credit. We do not concur with your conclusion that “for PLPPI, MPPI, CCPPI and SMPPI the benefits of putting in place a remedy package including a POSP outweighed the loss of the relevant customer benefit of lower credit prices...” (Page 7). Indeed we think consumers generally would come to the opposite conclusion. Again the Commission needs to evidence these conclusions.

The Future Market

11. We do not agree with the Commission’s conclusion that 2009 is an anomalous year. Single premium PPI sales have ended, and will never return. There are many companies who have left the market and who are very unlikely to ever return. The loss ratios underwriters are currently bearing will need to be covered by higher net rates (i.e. lower profit margins for distributors) for a number of years to come. We believe that profit share will be negative for many distributors for at least a year.
12. We also disagree with the Commission’s belief that their proposals have not been instrumental in the shrinking of the PPI market. A number of our smaller to medium sized members have directly linked their withdrawal from the PPI market to the CC’s proposed de-linking of the insurance from the credit point of sale. This, added to the FOS and the FSA stance on this market, has severely diminished the size of this market and its potential future.

Conclusion

13. The Commission has undertaken an academic exercise utilising theoretical models. We aired our concerns with this approach in our response to the CC’s remittal statement back in January 2010. These concerns do not appear to have been taken on board.
14. This approach takes very little account of the real world, particularly the post credit crunch and a post single premium prohibition world. In particular, it takes very little account of the wishes of customers. In the CC’s own commissioned research 60% of customers say they have good reasons for wanting to buy PPI at the point-of-sale. Indeed 4 out of 10 respondents would be less likely to take up cover after a seven-

day period (page 46)². At the moment, customers can choose to buy PPI elsewhere if they so wish. These proposals will force all customers to shop elsewhere whether they want to or not.

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Contact details

Richard Bostock
Finance & Leasing Association (FLA)
Tel: 020 7420 9605

² This correlates with previously commissioned CC research (June 2008) into customers' view on buying PPI which found that for 70-80 per cent of respondents the best time actually to purchase PPI was when applying for the loan. (Paragraph 7.19 page 45).