

4th June 2010

By email and first class post

Marjorie Davies
Inquiry Manager (PPI Market)
Competition Commission
Victoria House
Southampton Row
London
WC1B 4AD

Dear Madam,

I am writing on behalf of Freemans Grattan Holdings (FGH), formerly known as the Otto UK Home Shopping Group of Companies, which includes the well-known brands of Grattan, Freemans, Kaleidoscope, Look Again and Oli. FGH welcomes the opportunity to respond to the Supplementary Notice of Possible Remedies for Retail PPI, published on 14th May 2010.

All comments are made with reference to those remedies upon which views are sought and are made in addition to earlier submissions.

Option 1: Prohibition at credit point of sale and provision of a personal PPI quote

FGH agrees with the Commission that this is a high-cost remedy, and is pleased to note from the press release of 14th May that Retail PPI is to be excluded from the point-of-sale prohibition proposals. This confirms the Commission's own conclusion that Retail PPI is different from other forms of PPI, namely that premiums are low, they protect small balances, and they are charged in a way which is helpful to our customers. The Commission will be aware from previous submissions that shoppers budget on a monthly basis and are used to receiving detailed billing information in their monthly statements. In relation to the information requirements discussed elsewhere in this submission, this is why the monthly statement is by far the most appropriate, and effective, medium for any such communications.

In terms of the general prohibition requirements, our concerns focus on the effective removal of the customer's right to buy the product they want straight away. The situation whereby we can provide information about PPI, but then be barred from selling it, will be neither understood nor appreciated by our customers. This creates a "two stage" sales process that is both inappropriate and disproportionate.

On the basis that the Commission has concluded there is little competition within Retail PPI and that its own research would suggest that much of this driven by the brand loyalty of our customers, and also considering the disproportionately small gains in relation to the effort required to make that move, it is difficult to understand how the issuing of a PPI quote could ever address any AEC.

In addition, there are serious practical concerns about many of the elements that make up the PPI Quotation. It should be pointed out that, given PPI policies protect running account credit facilities, the concept of the "annual cost of PPI" is not relevant, nor is that of "whole of life cost". Indeed, the concept of "whole of life cost" is meaningless in relation to running account credit as it is wholly dependent upon the

customer's future purchases and her continued loyalty to the brand. The Commission will be aware of the FSA's "typical cumulative cost" requirements, so it is difficult to understand any additional benefits of the proposal in that context.

Even if "typical examples" were to be given, these will have the potential to become misleading if a customer adopts a spending pattern which deviates from that which is deemed to be "typical". Given that, by its nature, "typical" acknowledges a range of variables, FGH believes the adoption of such an approach would raise a serious risk of misleading some shoppers. It should be borne in mind that customers typically budget on a monthly basis and receive monthly statements which always itemise that month's PPI charge. It is this which is meaningful to customers and it is important this continues without the dilution of that message. With increasing complexity, this becomes a serious risk.

It should also be remembered that many PPI policies are linked in with other (non PPI) elements (see also option 5, below) and that research has established that the bundled nature of the product is important to customers. For example, some ASU policies will include accidental damage and theft cover on their catalogue purchases, and other benefits as part of a comprehensive package tailored to a particular customer profile. Would the proposal create a situation whereby the PPI elements were subject to standard disclosure, whereas the non PPI elements were not? In the situation of an advertisement, this split would be seen as strange by any customer who actually tried to understand it.

We must reiterate a point previously made and which appears so far to have been discounted by the Commission. In terms of running account credit, the notion of this being a "quote" is incorrect in law. As the Commission will be aware, a quotation is a fixed price, be it for goods or for services, and an "estimate" is, in essence, a "best guess". The "Personal PPI Quote" concept works in a situation whereby a lender advances a loan of a fixed amount over a predetermined time. Running account credit (or "revolving credit") runs with a variable balance over an indeterminate time, both variables essentially being controlled by the consumer. This can never be a "quote" and should never be described as such. This illustrates one of the fundamental differences between Retail PPI and the mainstream lending institutions. The proposed PPI quote is, at best, an estimate. It is completely wrong to call it anything else.

As a practical example of the fundamental problems the proposed "quote" will bring, the following scenario is entirely foreseeable and will be of interest. If a customer orders £50 worth of clothing on Monday and has a policy which calculates monthly charges at 1.99%, she will expect the monthly cost to protect that balance to be about 99p. This will be reflected in the PPI quote we may send her the same day. On Tuesday, she may choose to order a television at £500, taking her balance to £550. On Thursday she will receive her quote based on her £50 balance, and probably her television, and may well choose to buy PPI on the basis that we have quoted 99p. On her next statement she will see her PPI charges at nearly £11, not the 99p quoted. That customer will complain. Whilst it is obvious that the discrepancy has been caused by the customer's *novus actus* we will, nonetheless, have misled that customer as a consequence of complying with those requirements imposed upon us. That customer will undoubtedly take the view that the "quote" was, at best pointless and, at worst, misleading. Dedicated staff will be required to deal with this and related matters and this brings additional expense. Ultimately, we may lose that customer.

In view of this example, which is wholly foreseeable, it is difficult to understand how this remedy could ever effectively enable shoppers to make any meaningful search for alternatives. The key piece of information is in the manner by which the charge is calculated. In the specific circumstances of our own product, this is £1.99 for every £100 of outstanding balance. This is what is important to the customer. It is completely transparent and fully understood, and this is what customers currently receive.

Option 2: Information provision in marketing materials

FGH supports any initiative that increases consumers' knowledge and recognises the commercial benefits of such. An informed customer is less likely to cancel, is less likely to complain and is less likely to take her business elsewhere as a consequence. Pre-sale documents, such as catalogues and equivalent means of communication, are the proper environment for such information as it gives both time and space for shoppers to make a meaningful assessment of their own personal requirements. This is of assistance on a number of levels: it raises awareness, it provokes interest, and it provides an opportunity to shop around should they be inclined to do so. It is obvious that no customer will be inclined to visit one of the many available price comparison websites whilst they are on a call to us at the same time. Clearly, it makes sense to provide the appropriate level of information in advance of any conversation which may lead to the purchase of PPI.

Great care must be taken to avoid "information overload", whereby customers are in receipt of too much information and, as a consequence, they simply fail to engage with it. Any requirement to provide information should not be required at each and every mention of PPI. Signposting to other areas of a catalogue must not in itself trigger the information requirements. We believe that the relevant information pages of the catalogue or the equivalent area of the website is where the Commission would intend us to fulfil any such requirements. This would be consistent with the current signposting requirements concerning, for example, the sale of domestic electrical warranties.

With all of this in mind, customers are provided with details of the PPI products in catalogues and on websites before being offered the product by telephone. Customers can, and do, take out PPI at any time during their trading relationship with us and, equally, can cancel at any time of their choosing without notice and without penalty. We believe that the optional nature of PPI is already apparent from that context. This optional nature is also reflected in sales scripts and associated documentation, namely the statement of Demands and Needs, and the policy document itself. Clearly, the benefit of emphasising all of this is well understood and FGH supports any move to ensure its continuation. Similarly, FGH would be content to support a requirement to inform customers and prospective customers that information on PPI, alternative providers and other forms of protection products are available on the CFEB "moneymadeclear" website.

However, there is serious concern that the more complex elements of this remedy will result in customers being overloaded with information on PPI which is both confusing and unnecessary. This presents a real, and apparently irreconcilable, conflict with the principle of Treating Customers Fairly. For example, and depending on which remedies the Commission chooses to implement, the cost of the cover sought by the customer may need to be communicated in up to eight different ways, namely:

- Illustrative annual cost of ASU cover based on a typical outstanding balance
- Illustrative monthly cost of ASU cover based on a typical outstanding balance
- Monthly cost of ASU cover for every £100 of outstanding balance covered
- Monthly cost of ASU cover for every £100 of monthly benefit
- Illustrative annual cost of bundled cover based on a typical outstanding balance
- Illustrative monthly cost of bundled cover based on a typical outstanding balance
- Monthly cost of bundled cover for every £100 of outstanding balance covered
- Monthly cost of bundled cover for every £100 of monthly benefit

In addition, the provision of a “combined APR” figure is a development of the annual percentage rate of charge figure familiar to customers, and will serve only to add to the confusion. It should also be remembered that many PPI policies include non-PPI benefits designed specially for our customers. The Commission’s own qualitative research underlines the importance of the bundled nature of these products to shoppers. If the standard requirements were to apply only to the PPI elements, this would undoubtedly add to the confusion. If it applied to the bundled product in its entirety, rather than simply to the ASU elements, the comparative nature of the remedy would be lost.

FGH remains extremely concerned that much of the information requirement outlined above is disproportionate to any AEC identified and totally incompatible with the FSA’s requirements concerning TCF. Following the conclusion of the Commission’s own research on customer attitudes to switching, it is difficult to understand how any of the above could have any meaningful impact on an AEC. As such, parts of this remedy appear to be both wholly inappropriate and disproportionate to the matters identified.

It is clear from all of the above that FGH is in broad support of appropriate information provision which enables customers to shop around and to make informed choices. There is real concern that the AEC identified by the Commission may not properly be addressed by this remedy as a consequence of the combination of low premiums and small balances. This surely makes any new venture into this sector commercially questionable. This may stifle any practical opportunity for like-for-like comparisons with other providers and lessen the usefulness of this remedy.

Option 3: Provision of information to OFT and CFEB and obligation to provide information about claims ratios

FGH believes that the provision of information to the OFT and CFEB may be effective in enabling customers who would be interested in searching for alternatives to do so, as it would bring all relevant options together for customers who are minded to seek them. However, FGH sees its value arising from bringing potential alternatives into a common arena, rather than from any detailed information that may be provided.

It is feasible to provide the suggested information to the CFEB for inclusion on the relevant price comparison website. However, we believe that website must be expanded to include the other benefits available under Retail PPI policies otherwise a true comparison will not be available. Currently the site only caters for ASU cover. This is a major omission.

There is concern, however, that the Commission’s own qualitative research demonstrates that customers have little interest in shopping around unless, that is, a substantial cost saving of around 50% could be achieved. On the basis that any such

savings will be difficult to realise, it is easy to conclude that this remedy will have little impact on any AEC.

Notwithstanding all of this, we have no objection disclosing penetration rates, Gross Written Premium and aggregate claims ratios to the OFT and/or CFEB for the purpose of monitoring the effectiveness of the proposed remedy. We do, however, have serious concerns that whilst such information may, at first glance, appear attractive to customers it is, in fact, quite complex and brings with it serious risk of confusion. Information concerning penetration rates carries the same concerns, as does the proposal in relation to claims ratios. We would ask for guidance on the preferred method for calculating penetration rates, and continue to argue that the disclosure of claims ratios is both meaningless and unnecessary. Claims ratios, penetration rates and, consequently, GWP are reflections of a firm's customer profile, rather than anything else. It does nothing to assist the customer in researching value for money and must surely be inappropriate.

Whilst it must be accepted that comparability will always result in a "loose fit", the rules that are applied to distributors must apply equally to stand-alone providers. FGH is firmly of the view that information concerning claims ratios is commercially sensitive and must not be disclosed beyond those bodies charged with monitoring the effectiveness of the remedy. It is surely inappropriate to disclose this information to any party on demand. After all, what customer benefit could there possibly be? Such information is likely to confuse and cause customers to conclude that one policy, one provider, or one underwriter is "better" than another, whereas, in reality, any differences are likely to be a consequence of differing customer demographics, and a differing propensity to claim. Customers cannot be expected to understand what claims ratios actually demonstrate without a detailed and complex explanation.

FGH continues to object in the strongest terms to making this information available to anybody on request. Whilst the Commission has previously stated it does not believe it appropriate to publish these figures on a consumer website, the "disclosure on demand" requirement will cause this information to end up on the many unofficial internet sites dedicated to such matters immediately upon their disclosure, and in the hands of those very consumers whom the Commission concedes will find it difficult information to interpret.

This will, without doubt, fuel complaints which are both frivolous and vexatious. Such uncontrolled dissemination of information will be used to distinguish "good" firms from "bad" and will be seen as "manna from heaven" by unscrupulous claims management companies who will seek to exploit claims ratio data in order to perpetuate their business. All of this will serve to defeat the laudable aim of ensuring that sufficient information is available to enable customers to make informed choices.

In addition, there is real concern that the publication of such data will inflict wider commercial damage in that it will deter people who are not, or do not believe themselves to be, of that typical demographic from shopping with us. The potential for wider commercial damage extends beyond our PPI customers as they may take the view that in some way we are not "right" for them.

It is difficult to understand how any of this addresses an AEC.

Option 4: Prohibition on selling single-premium policies

It is worthy of note that by far the biggest area of customer detriment uncovered during the course of this inquiry concerns single-premium PPI. Neither FGH nor (we believe) any of its retail PPI competitors have ever offered such a product. FGH does not, and has not, imposed charges for the administration, set up or termination of PPI, so has no comment on, or objection to, the remedy so far as it affects Retail PPI.

Option 5: Requirement to unbundle retail PPI from merchandise cover

There is concern that whilst this additional remedy may, on the face of it, provide the customer with greater choice, there is little or no evidence of customer demand for it.

FGH's own experience of offering an unbundled product in the way the Commission is suggesting towards the end of 2007 led us, for commercial reasons, to withdraw the product after a short time. Considerable effort was made to capture sufficient information to carry out an unbundled "advised" sale, but the commercial outcome was such that products were withdrawn. It is understood that our rival, Shop Direct, has recently offered a similar product. Having considered the evidence of the Commission's own qualitative research, and being mindful that customer demand sits with the bundled product, it is easy to conclude that our rival's policy has suffered a similar fate.

It should be borne in mind that unbundling brings about a disadvantageous situation in relation to acquisition costs. Two products have the potential to carry two sets of acquisition costs and the effect of that is likely to be that the cost of creditor-only cover is unlikely to differ substantially from the cost of the bundle. Such arrangements are likely to cause significant regulatory risk and operational difficulties should the shopper's preferred purchasing channel lead to one element being purchased on an "advised" basis, and another as "non-advised". Indeed, it is possible to conclude that any such arrangement will force firms down the "advised" route, irrespective of their wishes. This can never be acceptable.

Would the proposal create a situation whereby the PPI elements were subject to standard disclosure, whereas the non-PPI elements were not? In the situation of an advertisement, this split would be seen as strange by any customer who actually tried to understand it.

Furthermore, the additional cost of separating out the various elements to build unbundled products, along with extended call handling times for telephone-based sales, are bound to make such sales more commercially marginal.

In view of the commercial experience, it appears that the main value in this remedy is to provide a standardised benchmark that will enable shoppers to compare different policies on reasonably equal terms. As a consequence of the matters identified above, the costs associated with making available a benchmark product will be adversely affected by its lack of commercial purpose and will render it irrelevant in terms of addressing any AEC.

Option 6: Obligation to provide an annual review

FGH remains of the view that Retail PPI customers are given sufficient information each month to enable them to decide whether to keep their PPI policy or cancel as required. Customers are already provided with a monthly statement where their premium charges are clearly itemised as a separate charge. This all-embracing approach largely circumvents any debate concerning higher threshold payers and applies now, equally, and to all shoppers with a balance.

There is concern that customers may, upon receipt of annual review documentation, seek to terminate their insurance in reaction to the statement, thus leaving them without cover. Should any customers subsequently change their mind, they will not be able to reverse that cancellation with equivalent ease. Indeed, they may well discover that their original provider is no longer open to new business or, at best, fresh waiting periods will apply. The former is something we have experienced directly at FGH, whereby processes have been implemented to ensure that customers who seek to cancel (usually by letter or telephone message) are re-contacted prior to final cancellation to explain it could not be reinstated. This process occasionally led to customers reconsidering their decision. Their initial decision was usually driven by either their own confusion or as a consequence of the adverse publicity that PPI had generated and which led them to believe they would never be able to claim. On some occasions, it has led to customers making a successful claim on the policy they were seeking to cancel. This is a serious concern.

It is not appropriate to discriminate between customers on the basis of their PPI spend. In terms of the cost of imposing such a remedy, it is clear that the repeat costs of printing, QA checking, postage and stationery, as well as the cost of handling calls from customers wishing to query it, will be substantial. This will undoubtedly be dwarfed by the set-up cost of building the systems capability to deliver this remedy, as well as its ongoing maintenance. Would this remedy apply only to the PPI elements of the premium or would it apply to the non-PPI elements, too? If it were to apply to the PPI elements only, would it apply assumptions as to what proportion of the premium was attributed to the PPI elements? The imposition of a cut-off point will undoubtedly leave customers wondering what the purpose of it is, particularly if their account activity and, therefore, their PPI payments, lead them to fluctuate either side of some arbitrary threshold whereby one year they get a statement, and the next year they don't.

Conventional wisdom dictates that shoppers will rarely query the scenario outlined above because they won't remember getting a statement (or, indeed, not getting one) last year. This does not feel workable. Furthermore, and as confirmed by the Commission's own research, Retail PPI shoppers budget on a monthly basis and are used to receiving their statements at similar intervals. Any other mailings sent to them would risk being considered as "junk" mail and put directly in the bin. It is, therefore, more appropriate and cost effective for Retail PPI customers to receive any additional information by way of their monthly statement. We would remind the Commission of evidence previously submitted via the BRC that the costs involved are on average monthly premiums of between £1.99 and £7.92, amounting to between £23.88 and £95 annually. This alone renders the remedy disproportionate to the premiums involved.

Should the Commission conclude that this remedy remains appropriate and proportionate, great care must be taken to ensure that any Annual Statement is meaningful to Retail PPI customers. The proposed requirements might work in an environment whereby a lender advances a fixed amount over a predetermined time,

but it is superimposed on an environment that operates in a completely different way. As stated in a previous submission, those sections of the proposed Annual Statement headed “Average cost per month of PPI” and “Annual cost of PPI in past year” appear to have no real function. The “Average monthly outstanding balance during the last year” field will gain added complexity by virtue of some accounts which carry a customer-driven “interest opt-out” feature, whereby customers can flex between interest-bearing and interest-free payment options, and which impacts the size of their monthly repayment.

If the purpose of the proposed annual statement is to precipitate shopping around, then it is likely to fail on this level, too. The commission’s own research suggests that customers will not shop around unless the saving to them is in the order of 50%.

In view of the comments above and the Commission’s own research, the table (below) will be of interest. The table shows incremental personal shopper balance bands (column 1) and the corresponding cumulative percentage of customers so represented (column 2). The average balance at the corresponding point is indicated in column 3. Column 4 is the PPI sum charged in relation to the corresponding balance in the preceding column.

Columns 5 to 8 represent the figures in Pounds Sterling that would apply if the customer was shopping around to save £5 per month and the effect that saving would have on the PPI rate of charge (currently £1.99%)(columns 5 and 6). Columns 7 and 8 indicate the equivalent monthly charge for PPI expressed as a saving of 50% per month. This is the figure cited in the published qualitative research as a trigger point where customers might consider shopping around to be worthwhile.

From the table (below) it is immediately apparent that typical customers could not reasonably expect premiums to reduce by £5 per month as it would, in essence, make the insurance free. Furthermore, in excess of 80% of customers pay less than £10 per month. This monthly figure was cited in the qualitative research as a point at which customers might consider shopping around. It is clear that the majority pay no more than £3 or £4 per month for PPI. The research concludes that, at that price, there is no customer appetite to shop around. Even the potential for savings at the 98% level would surely be financially questionable to any potential market entrant.

In order to produce the savings to customers indicated above, it is obvious that the rates which would need to apply are so low as to be commercially unattractive to any firm wishing to enter this market. As such, it is likely that this remedy is disproportionate to the AEC it attempts to remedy, and is likely to be ineffective.

Having regard to all of the above, it is difficult to come to any conclusion other than shoppers are unlikely to switch, even if there were a provider ready to write that business.

Please note: the information presented in this table is commercially sensitive and we would ask that the figures are not disclosed

[X]

Without doubt, an annual review will become a hugely expensive exercise and one where it is difficult to see how it could be made both meaningful to our customers and relevant to their situation.

In consideration of the most appropriate means for informing customers of their ongoing PPI spend, and in recognition of the important point that when the customer's balance is zero their PPI charges are nil, by far the most appropriate place to highlight their premiums is on their monthly statement. Customers expect a statement every month when they have a balance and, when there is no balance, there are no PPI charges for them to pay. Because of the nature of monthly statements, they have the advantage of being universally read, making this by far the most appropriate means of communication. Since research has shown that customers budget on a monthly basis, it is difficult to arrive at any conclusion other than that monthly statements are the appropriate vehicle for any such proposed messages. There appears to be no benefit in doing it in any other way and, therefore, the implementation of this remedy is unlikely to have any effect on the AEC.

Option 7: Obligation to remind customers of their cancellation rights and of key messages

Whilst FGH has no objection to much of this remedy, we would still question its relevance given that customers can cancel at any time, without penalty and with a simple phone call. Notwithstanding this, FGH would be content to implement this remedy. It is clear from the rest of this submission, and from the evidence provided by the Commission's own research, that the most effective communication will be through the monthly statement cycle. As a word of caution, and depending on the frequency and complexity, or at least the length, of any proposed wording, some systems development will be required at a time when IS resources are fully committed to delivering on the final requirements of the Consumer Credit Directive.

Should the Commission decide to implement a requirement to provide annual statements to customers who have paid PPI above a certain threshold (Option 6), then any requirement to provide the remaining portion of the PPI file with information requirements and cancellation rights is likely to require system development work. Clearly, for retail PPI customers, the most appropriate vehicle for that information would be the first statement after the relevant anniversary. The relative timings for the internal file transfers required to bring about such messages on statements may render the provision of that information on the following statement impossible where there is a disadvantageous coincidence of timings. There is also some concern that current system constraints may limit the number of characters available to convey any such message.

Option 8: Obligation to renew retail PPI policies annually on an opt-in basis

This remedy has the potential to bring about considerable customer detriment and is of serious concern.

An "opt-in" annual renewal process would add a large and unnecessary expense to the current process. This is different to the rest of the industry where policies frequently renew automatically unless the customer chooses otherwise. There appears to be no evidence that this "tacit renewal" restricts switching. Household and motor policies are good examples of this, and switching is commonplace. No opt-in is currently applicable to any other pure protection contracts caught by the ICOBS rules. FGH is strongly of the view that the highly visible nature of Retail PPI renders this remedy wholly disproportionate to the issue it seeks to address.

It is wholly foreseeable that customers will forget to renew, or will cite letters lost in the post or otherwise not received as an argument for the reinstatement of lapsed policies.

From the Commission's own qualitative research, it is apparent that customers are unlikely to switch policies. Clearly, if they were to do so under existing rules, the policy would commence upon that date, and any relevant waiting period would start again. In terms of the "unemployment" waiting period, currently 90 days for FGH customers, this would lead to the effective removal of 25% of the annual benefit for this important risk. Any remedy which has that as a consequence must surely be a retrograde step. If we conclude that this remedy is unlikely to lead customers to switch policies, and this is difficult to avoid given the published qualitative research, then it must follow that any AEC will not be positively impacted by the imposition of this remedy.

In these times of continuing economic uncertainty, it is a matter of concern that a customer may receive news of pending unemployment in what would have been month 13, but would be unable to claim as they were serving their waiting period.

As is the nature of opt-ins, letters which are not received cannot be actioned, potentially leaving the customer without cover. Any future industrial action at the Post Office, for example, will cause major disruption should reliance be placed on any sort of affirmation. Similarly, if the customer denies receiving the letter, how could we realistically prove they received it? In that scenario, and it is foreseeable that this would indeed be the case, the Financial Ombudsman Service would, if asked, likely find in favour of a customer who simply claimed she hadn't received her documentation on the basis that we were unable to prove otherwise.

In terms of switched policies, as well as renewals of existing ones, there is a likely additional expenditure in relation to the associated costs of renewal, such as the resupply of policy documents, as well as increased stationery and postage costs.

Furthermore, it is the practice of certain groups within our society to spend extended periods with family in other parts of the world. This remedy is discriminatory to those customers. Those groups will be left without cover, and without the relevant knowledge. Situations such as this will inevitably arise with the imposition of this remedy and it is difficult to see how they can be avoided. It is equally difficult to understand how this addresses any AEC.

The current regular reminder of cover on statements each month is an effective opt-in which has the advantage of being already in place. By virtue of its visibility on a document which is common to, and understood by, all customers, it is by far the most appropriate vehicle to address this issue. Customers who have a propensity to switch (or cancel), and who require prompting to do so, will already be prompted under the current arrangements. This effectively renders this remedy obsolete.

It is believed that this option will prove more costly than the Annual Review as described in Option 6 (above), and which is already acknowledged as one of the higher cost remedies. On the basis that remedy appears disproportionate, and given that we have indicated acceptance of Option 7, above, this option surely falls away.

Option 9: Price caps

FGH believes there is little justification for price capping. PPI customers are not charged excessive amounts, as evidenced by the Commission's own conclusions that the low levels of premium mean there is less to be gained by customers searching for other providers. The examples cited of the cost of some stand-alone products greatly overshadow those costs incurred by our customers. At a few pence in the pound to customers with a balance of typically less than £300, the cost of our type of product is by no means excessive. This is far less than the equivalent cost for the £1200 frequently quoted as a typical credit card balance. It would be inequitable to apply the same rules to our situation as applies to some of the more excessive situations publicised in the press. These excessive situations should be addressed more directly, rather than by applying new rules across the whole industry which could better be targeted at those areas which give direct cause for concern.

There appear to be serious risks associated with this remedy. If a price cap were introduced on all new sales, it would be impossible to see how firms could meet the FSA Principle of Treating Customers Fairly if existing policyholders were not also transferred to the same price. This would, in effect, be retrospective legislation. If it were not retrospective, and if firms did not transfer pre-existing policyholders to a new rate, then either the FSA, or the ever increasing number of Complaints Management Companies, would be open to reach the conclusion that the customer had been overcharged since the inception of their policy. Firms may then be compelled to refund many years worth of premiums, with the likely result that they would simply withdraw from PPI in its entirety. This would leave customers unprotected. In the current economic climate, this must not be allowed to happen.

Without doubt, and should the Commission choose to adopt this particular option, there will be a flurry of vexatious claims based on perceived unfairness following the inevitable publicity.

Policies are tailored to customer need and, as such, it is difficult to see how a fair capping mechanism could be introduced. Furthermore, it would appear that if PPI was deemed to be "highly profitable", as described in paragraph 131 of the Notice of Provisional Findings, then innovative market-led solutions to the lack of stand-alone provision would be the certain outcome, irrespective of any perceived barriers to switching or point of sale advantage. It is noted that your provisional findings conclude that PPI is a worthwhile business proposition for just two of the BRC's members who offered Retail PPI (paragraph 139 of the same report). This does not immediately reconcile itself with the Commission's earlier conclusion that PPI is "highly profitable".

All businesses have an obligation to their shareholders to trade at a profit. It is a simple fact that if businesses are forced to reduce prices, then that lost revenue will inevitably need to be recouped elsewhere. This is a simple "waterbed" effect. This may manifest itself in any one or a number of different ways. For example, the price of goods to the customer, or the annual percentage rate of charge (the APR) may rise. Alternatively, deferred credit offers such as "buy now pay later" may be withdrawn, or may only be offered to more profitable customers. Similarly, there may be pressure to revisit delivery charges, or to curtail the delivery of goods to remote areas. All of these are politically sensitive to varying degrees.

Indeed, this waterbed effect is confirmed by the upward pressure on APRs charged by credit card providers as a consequence of the economic downturn.

If there is to be a price cap on retail PPI, it follows that any such measure should apply to the PPI only. The bundled elements, typically merchandise cover, and which are seen as desirable in the Commission's own qualitative research, are not PPI and should not, therefore, be included. This may, however, lead to a waterbed effect within the constituent parts of the bundled product and would simply create an AEC applicable to the non-PPI elements. It should be remembered that the evidence is that customers understand the benefit of a bundled product, and nothing should be done to undermine that.

In such an environment, it is inevitable that the imposition of a price cap will stifle innovation. It may contribute to a depression of the market. It would send a wholly negative message to customers who would perhaps decide not to take out, or keep, a product that is, in fact, acknowledged as providing benefit to them. Any solution to this perceived problem must be market-led, rather than led by the imposition of an artificial instrument.

In effect, policies will debase, effectively moving towards a lowest common denominator. It risks creating an artificial market in which firms will simply raise prices to an effective ceiling, or result in distributors providing less cover to ensure they remained within the required price. In essence, this will create a market which is unattractive to new entrants, thus creating another new AEC rather than addressing an existing one. It is difficult to see how this can ever provide any meaningful customer benefit.

All of this, along with the findings in the Commission's own qualitative research that PPI charges are low, suggests there can surely be little evidence that the imposition of a price cap will have any beneficial effect for the customer.

It must be understood that when a customer does business with any firm, she buys a basket of services. As well as PPI (should she choose to take it out), she is buying credit, a courier delivery and returns service for the purchases she makes, and all the support she needs to maintain that relationship. That support may be required to assist with a range of diverse enquiries such as parcel delivery and its timing, stock availability, faulty goods, account queries and requests for special arrangements when experiencing financial difficulties. The PPI element, when a customer chooses to take this out, is a tiny part of the entire customer experience. This service, which typically benefits those members of our society who are less well off and who would find difficulty obtaining credit elsewhere, is evidence of an underlying social responsibility not seen elsewhere in the UK economy. This is what makes the providers of retail PPI unique, and this is why the small number of PPI retailers identified by the Commission for special treatment as part of this inquiry, all of whom are operating with low cost policies to protect small balances, feel there is a great inequity in many of the proposed remedies.

I trust the above is of some interest. FGH remains committed to helping the Commission achieve the best possible outcome from its Inquiry and would be happy to discuss the matters raised, formally or informally, at your convenience. Should you wish to take advantage of this offer, do not hesitate to contact me.

Yours Faithfully

Bruce McKay
Compliance Manager