

**J D Williams & Company Limited (“JDW”)**

**Competition Commission (“CC”) Market Investigation into Payment Protection Insurance: Response to Provisional Decision and Supplementary Notice of Possible Remedies for Retail PPI dated 14 May 2010**

**Executive Summary**

1. JDW welcomes the opportunity to comment on the Competition Commission’s Provisional Decision and Supplementary Notice of Possible Remedies for retail PPI. We remain at the CC’s disposal to discuss any of the points discussed in this Submission.
2. In summary:
  - 2.1 We welcome a number of the CC’s findings in the Provisional Decision. However, we still believe the CC has overestimated the detriment caused by the AEC in retail PPI, while underestimating the costs of implementing some of its proposed remedies.
  - 2.2 Given the difference in the magnitude of the AEC identified in retail PPI credit sector in comparison the “mainstream” PPI and in light of a number of the findings in relation to Retail credit customers, a remedies package incorporating Options 2 to 5 and 7 would be more than sufficient to address the AEC.
  - 2.3 The remaining remedy Options, including the POSP are either ineffective, disproportionate or both.

**Comments on the Provisional Decision**

3. JDW welcomes the CC’s acknowledgment that the AEC found in retail PPI is lower than that found in the PPI market as a whole. We trust that the new remedies package to be devised by the CC will reflect this.
4. We note that during the Remittal the CC received evidence that in 2008 and 2009 the number of PPI policies sold significantly reduced (paragraph 4.6 of the Provisional Decision); there was an even more pronounced decline in gross written premiums (paragraph 4.7); and there was an increase in the number of claims (paragraph 4.10).
5. We note that the CC concluded that the changes in the market were not symptomatic of a fundamental change that would alter its findings on AEC. However, we believe that the period in respect of which policy sales and GWPs were provided to the CC in the course of its original Inquiry should not have been regarded as typical. Just as 2008 and 2009 may be said to be atypical because of recession, in the period prior to the end of 2007 most economic commentators now believe the UK was in the midst of an unsustainable credit bubble. The CC does not appear to have taken this into account in its estimates in paragraph 9.117. Therefore, if the CC used this data to assess the

impact of the AEC on consumers of the AEC over the full economic cycle, it is likely to have overstated the detriment.

6. As previously submitted, we also believe that in some cases the CC has underestimated the costs of the remedies.
7. We note that the CC, having received additional evidence showing that, on balance, retail PPI customers would generally prefer policies for which a fixed monthly premium is paid, is of the view that this evidence casts doubt on whether the lack of access to customers' balance information is a feature resulting in an AEC. JDW has always believed that this is not a feature and previously expressed the view that not being able to track the current balance on a retail credit account would not preclude switching to providers of fixed premium income protection policies, for example.
8. We agree with the CC's conclusion in paragraph 5.14 of the Provisional Decision that the length of time taken to conduct a PPI sale remains a barrier to search. However, this is primarily determined by regulatory requirements. JDW remains keen to avoid remedies which will add complexity to the PPI sales process, particularly given the relatively low GWPs in the retail PPI sector.
9. In relation to the CC's statement (in paragraph 5.25 of the Provisional Decision) that distributors continue to hold a monopoly over the sale of PPI to their own credit customers, JDW believes retail PPI is different from other forms of PPI in this respect. This is because home shopping customers do not just purchase PPI (nor a bundle of credit and PPI). They buy a bundle of things consisting home shopping products, credit account and PPI. As acknowledged in paragraph 9.19 of the Provisional Decision, retail PPI is a tertiary product. Customers select whether to make purchases from a particular provider on the basis of quality, range and price of the products, offered, service and cost of credit and PPI. JDW competes on this basis and if it is not competitive across the entire bundle (including PPI) customers will choose to take their business elsewhere to other home shopping providers or switch to other forms of retailer.
10. In addition, home shopping customers have a wide range of choices when considering how to finance their purchases. They may decide not to open a retail credit account, preferring to pay in cash, by cheque, debit card or credit card (with the option of credit card PPI). If a customer chooses to open a home shopping credit account, they are free to settle their account at any time. They may do this using a credit card where, for example, the credit card offers a lower rate of interest. JDW has previously provided data on the proportion of JDW credit account holders who settled their balance by credit card [3<].
11. JDW believes that its customers weigh up the relative merits of the various payment methods available to them, including the availability and cost of credit and the extent and cost of the PPI cover available.

12. This is one of the reasons JDW has argued that the point of sale advantage in retail PPI is less significant than with other forms of PPI.
13. We note that evidence from the GfK NOP research indicates that few retail PPI customers would in practice search for alternative PPI policies. We think this reflects the fact that the GWPs involved are small and retail PPI is perceived as offering good value. It is also consistent with customers having other credit and PPI options in the form of credit cards.

### **General Comments on the Possible Remedies**

14. We have set out specific comments on each of the CC's remedy Options in paragraphs 23 to 62 below. However, first we make some general comments on the Possible Remedies.
15. In JDW's view, the remedies package incorporating Options 2 to 5 and 7 would be effective in addressing the AEC found in retail PPI.
16. First, the CC has acknowledged that the point of sale advantage is less marked and GWPs and profits are lower in retail PPI than in other forms of PPI. As a general principle, it would seem perverse to conclude that it would be necessary to impose a significantly more onerous remedy (in the form of the POSP, Annual Opt-in or Price Caps) in retail PPI than in relation to other forms of PPI, where the AEC is more significant.
17. As noted above, retail PPI customers' shopping choices are influenced both by the attractiveness of the overall home shopping offer, the credit terms offered and the extent of and cost of any PPI.
18. We believe that remedies providing greater transparency and visibility as to the relative value of each of the individual elements of the package during the sales process will enhance the ability of customers to explore insurance alternatives in the form of retail PPI or CCPPI, without being disproportionate.
19. In particular the combination of Option 2 (provision of additional information in marketing materials) and Option 3 (provision of information to be published on a comparison site) would enable consumers to directly compare the cover offered and the relative costs of retail PPI provided by a range of retail credit providers and CCPPI distributors. JDW believes that this would incentivise retail PPI and CCPPI providers to differentiate their PPI offers. If, for example JDW's, PPI offering was less competitive than that offered by a competitor, all other things being equal, JDW could expect to lose revenue to competitors (and not just PPI, but credit and merchandise revenues) because our customers will spend their money elsewhere if they perceive we do not offer the best value.

20. Although we believe that customers value the fact that retail PPI traditionally combines merchandise as well as PPI cover, we can see that Option 5 (the requirement to un-bundle retail PPI from merchandise cover would enhance the effectiveness of the transparency remedies contained in Options 2 and 3 and would be prepared to offer an un-bundled PPI product if the CC concluded it was necessary to address the AEC.
21. The remaining remedies (annual review, a policy opt-in or price caps) are unnecessary. Introducing additional/more onerous remedies than those imposed in mainstream PPI is counterintuitive and inequitable. It is likely to be ineffective and will lead to undesired effects which are disproportionate to what the Retail AEC found.
22. Specifically:
  - 22.1 *Option 1* - we understand that the POSP was originally introduced to overcome barriers to switching. JDW does not believe that it will be effective, because, given the balances insured are generally lower than in other forms of PPI, giving consumers a period of time in which to compare PPI offers would not be expected to increase the rate of switching significantly. We also believe the POSP, in the form proposed by the CC, will be costly to implement and that a significant relevant consumer benefit would be lost, as the POSP would prevent the majority of customers who wish to purchase at point of sale from doing so.
  - 22.2 *Option 6* - the Annual Statement will not contribute to the effectiveness of the remedies package and is costly.
  - 22.3 *Option 8* - the obligation to renew retail PPI policies is likely to lead to significant consumer detriment, as it will inevitably leave some customers without cover either temporarily or permanently without them even realising. GfK indicated that when customers were shown annual statements (which we presume were clearly drafted) they indicated that they might identify them as junk. We see no reason why customers would view the opt-in paperwork any differently. We also do not believe that such an approach would encourage customers to shop around. It would also be expensive to implement.
  - 22.4 *Option 9* - in relation to price caps, as well as being difficult to implement, we believe that price capping would lead to significant loss of consumer benefit, particularly for poorer and older customers who may not be offered PPI as a result.

## **Remedies in the 2009 Report**

### ***Option 1. A prohibition on selling PPI at the credit point of sale combined with the provision of a personal PPI quote.***

23. We note that the CC's Provisional Decision indicates that the CC is unsure whether a remedy package containing the POSP would produce adverse effects disproportionate to the aim.

24. This POSP, as devised in the 2009 Report, is not a prohibition on the sale of PPI at point of sale of credit, but a prohibition on the sale of PPI on the first occasion the customer is approached in respect of PPI. For JDW, because it does not sell retail PPI at point of sale of credit, this would mean a 4-stage sales process, comprising credit sale, sending of the first statement, provision of personalised PPI quote and follow up sales call after the requisite period of time. In addition, customers also have a 3 month cooling off period.
25. JDW firmly believes that this Option would result in adverse effects which would be disproportionate to the aim:
  - 25.1 Firstly, the CC has acknowledged that the point of sale advantage in Retail PPI is weaker than for other forms of PPI.
  - 25.2 Secondly, the provision of a personal quote as required by this remedy will be extremely costly as shown in the figures previously submitted to the CC by JDW.
  - 25.3 Thirdly, the POSP was introduced to overcome barriers to switching. However, as it would lengthen and add complexity to the sales process, it is more likely to increase barriers to switching.
  - 25.4 JDW believes that sending enhanced marketing information to customers prior to approaching customers to sell PPI and again during the cooling off period would be effective in addressing the point of sale advantage and the POSP would not enhance the effectiveness of this Option. The POSP would unnecessarily add cost to the selling process without adding any appreciable benefit to the customer.

***Option 2. Information provision in marketing materials***

26. As previously submitted, subject to some reservations around the practicalities of this remedy (for example, the workability of cost per £100 of benefit as a measure of the value of retail PPI), JDW broadly supports those measures which enhance transparency and comparability. JDW believes the best time to provide consumers with information is before a PPI sale and during the cooling off period.
27. JDW currently provides customers with information regarding retail PPI with their third statement and contacts customers shortly afterwards. This information includes a letter detailing what PPI is and refers customers to the Summary of Cover available to them included in a separate leaflet within the statement. JDW believe this is the best place for provision of the additional information suggested by the Commission.
28. A repeat mailing containing the same information could then be included with the policy documents sent to customers after the sale of the policy. JDW already gives customers free cover for a period of 3 months after sale, in which customers may fully assess the suitability of their PPI product. JDW would be content to provide customers

- details of where they could find information on other providers' products during that period.
29. To include statutory information as currently described during the sales call itself would cause confusion to customer and information overload. Retail PPI providers use distance selling methods (usually over the telephone) and consideration needs to be given to the duration of the call and the duplication of information given during the call.
  30. As noted above, any measures that lengthen or complicate the sales process are likely to increase rather than reduce barriers to switching. The FSA themselves ask authorised firms to consider the amount of information given to customers at the point of sale to ensure they are given the key points and not given too much information so as to obscure or confuse the message. If customers were to be directed to other sources of information in relation to PPI products during the call, we believe this would significantly increase the cost of sales and the time taken to complete the sales process.
  31. Provided customers have already received statutory information prior to the sale call and will be sent it with policy documents, they ought to have ample opportunity to compare the other PPI products available. Rather than take customers through the statutory information again during the call, we would suggest that firms are required to refer the customer to the relevant statutory information already supplied within their marketing material or policy documents.
  32. We would propose that marketing material provided, as well as giving details of the product, would inform customers where they could obtain information on other policies available. If provided before and after sale, this would allow customers two opportunities to compare the market. While we acknowledge that there is evidence that customers currently do not seem to have the incentive to search, we suggest this may in part be because the costs of search are high compared to the benefits. We believe that if information was made more readily available, this would reduce search costs and when combined with Option 3, would create an incentive for retail and other PPI providers to innovate.
  33. The effectiveness of the remedy could potentially be improved were providers required to send a reminder of cancellation rights and key messages before the end of customers' "cooling off" period and annually with statements. This would increase transparency and would be a cost effective way of keeping customers informed of the presence and costs of PPI on their accounts.

***Option 3. Provision of information to the OFT and CFEB for monitoring and publication and obligation to provide information about claims ratios to any party on request***

34. As stated in previous responses to the Commission, JDW agrees it would be feasible to provide comparative data to the OFT and CFEB for monitoring and publication on a comparison website.

35. We acknowledge the GfK NOP research, which indicates that retail PPI customers are unlikely to shop around unless they believe they would be able to identify a significant saving in doing so. We believe this is in part due to the time and effort required to search for alternatives and a perceived lack of alternatives. Increasing transparency would be likely to reduce the costs of search.
36. We know that many JDW customers have more than one home shopping relationship and that they have a variety of payment options available to them (including credit cards). We believe that the ability of customers to compare the offerings of other retail PPI providers and their credit card company and (potentially) stand alone policies would be a spur to innovation and price competition, as home shopping providers in particular may risk losing retail and credit, as well as PPI, sales were they seen to be uncompetitive.
37. Therefore, in principle, we support the provision of information to the OFT and CEFB.
38. However, for policies providing benefits other than ASU, it would be misleading to quote the price per £100 of benefit using the total premium paid, as this does not correctly reflect the true benefits the customer is paying for and receiving. Retail PPI policies have been tailored over the years to reflect the specific needs of home shopping customers and therefore offer enhanced benefits above those offered by other types of PPI policies currently available to compare on the CEFB website. We particularly note that there are still no policies on the website that provide cover for unemployed customers as most retail PPI policies do. To use the method of comparison suggested by the CC, could have the undesired effect of reducing retail PPI to the lowest common denominator, which may in turn lead to retail PPI providers choosing to reduce the cover on offer. The GfK NOP research indicates that retail PPI customers valued the extra benefits available to them from their retail PPI suppliers.
39. With regard to the obligation to supply claims ratios to any party on request, JDW's previous arguments still stand. JDW believes that the claims ratios as currently requested will not be fully understood by customers and will not give them any meaningful information which is pertinent to them in making an informed decision to take the cover. In our experience, customers are not interested in the percentage of money paid out against the premium received, but in whether any claim they may make will actually be paid. Therefore, we suggest that a more meaningful way of expressing claims ratios is as a percentage of claims paid as against the number of claims made.
40. JDW does not currently have direct access to claims ratios and must rely on the product underwriters to supply it. Given that the product underwriters hold this information and we cannot compel them to supply it, then if the CC did choose to implement the remedy in this way, we would recommend that the underwriters of the PPI products should be bound by this remedy to supply this information in a timely fashion to PPI Distributors.

41. Further, we believe the timescales in which to supply this information are overly prescriptive and do not allow for requests made at the weekend or during bank holidays. We suggest that the timing be brought in line with the FSA's current complaint handling rules and a reply be made available "orally" by the end of the next business day following the day the request was received.

***Option 4. A prohibition on the selling of single-premium policies***

42. JDW does not levy a charge for administration, set-up or early cancellation of a PPI policy and therefore have no comments with regard to this prohibition.

***Option 5. A requirement to unbundle Retail PPI from merchandise cover***

43. As previously submitted, JDW has some reservations about the impact of unbundling in terms of the impact on sales calls and costs. It is also concerned that its customers greatly value the merchandise cover and, by unbundling, we would be forced to create a new product that very few of our customers would want.
44. However, we recognise that developing an unbundled retail PPI product would contribute to increasing transparency in the retail PPI sector. In particular, it would assist those retail PPI customers who are interested in searching for alternatives to compare PPI products offered by different providers. It would also allow greater choice for customers. Therefore we would be willing to offer an unbundled PPI product if the CC concluded that this was necessary to address the AEC.

***Option 6. Obligation to provide an annual review***

45. The Annual Review as described is likely to be expensive to implement, unnecessary and ineffective for retail PPI providers who already provide details of premium charges on each statement sent to customers.
46. Retail PPI customers are charged a modest monthly premium (which is detailed on every statement sent to them) and are free to terminate the policy at any time without penalty.
47. An Annual Review sent to customers who have paid retail PPI premiums over the past 12 months would not encourage customers to switch or search for alternative suppliers. The Commission's GfK NOP research shows that the majority of retail PPI customers take a monthly view of their finances and therefore an annual view would bring no real benefit to their financial decisions.
48. JDW believes that some customers may be confused by the information sent to them and may not realise that PPI premiums are payable only when the customer has a balance. Without a full understanding, they may react by cancelling their cover, which may leave vulnerable customers without valuable protection.

49. We believe that many customers would not realise that the Annual Review was important information which they would need to review. GfK NOP research indicates that many customers would consider this to be “junk mail”.
50. If the CC were to take the view that the Annual Review would be effective and proportionate, we would suggest that it should be targeted to customers who have balances upon which PPI premiums are being paid at the time of the Annual Review.
51. JDW believes that the most appropriate means of providing the Annual Review would be to include information in the relevant regular monthly statement.

### **Additional remedies which were not in the 2009 report**

#### ***Option 7. Obligation to remind customers of their cancellation rights and of key messages***

52. JDW believes this method of reminding customers about their retail PPI is proportionate and would be effective. Retail PPI customers receive statements detailing all transactions made to their account including purchases, credit charges and PPI premium charged. They are used to receiving this statement on a regular basis and understand it contains important information regarding their account.
53. JDW suggests that a reminder giving all the required information, including their right to cancel and how to do so, be sent with the first statement after the anniversary of the policy inception. It should include the statutory information required by the CC, remind the customer that the policy is optional and that they have a right to cancel without penalties and contain details on where to find information on alternatives. This could also be done shortly before the cooling-off period ends.
54. Until a definitive decision is taken on how this Option would be implemented, then it is difficult to give costs. However, if implemented in the manner described above, JDW believe costs would fall into the moderate bracket and be more proportionate to the AEC.

#### ***Option 8. Obligation to renew Retail PPI policies annually on an opt-in basis***

55. We believe this Option would be potentially disastrous for our customers. The policy renewal on an opt-in basis will potentially leave customers without cover (either temporarily or permanently), in some cases without customers even realising. We anticipate that a significant proportion of customers would ignore such a mailing. The adverse effects of such an approach would be very significant.
56. In terms of the benefits of this Option, we do not believe an invitation to renew would encourage many customers to consider alternatives. The GfK report indicates that existing PPI customers would only shop around if they considered that could make a relatively large saving and did not think they could do so with retail PPI. We believe

the remedies would be better focussed on encouraging comparison at prior to point of sale and in the cooling off period following sale. Also, retail PPI customers do not need a right to opt in, as they receive regular statements showing PPI premiums charged and can cancel their policy at any time.

57. The direct costs associated with this remedy are likely to be similar to those associated with the Annual Review, but with the likelihood of significant additional indirect costs resulting from higher customer churn. The costs will be disproportionate to the likely benefits associated with the remedy.
58. Annual renewal is not likely to have any significant implications on waiting periods as most retail PPI policies only have a deferment period of 30 days for accident, sickness and unemployment provided the customer has been in employment for the previous 6 months and JDW cannot see that this part of the remedy would have an impact on the deferment period. However, if a customer had developed a condition during the previous 12 months, this could be taken into consideration at renewal and more onerous exclusions limiting future claims if the condition were to re-occur or increase the cost significantly to cover the risk. Potentially customers who do develop pre-existing conditions may be forced to pay higher premiums as they may not be able to get cover elsewhere.

#### ***Option 9. Price caps***

59. As well as being difficult to implement, we believe that price capping is unnecessary and would lead to significant loss of consumer benefit, particularly for poorer and older customers who may not be offered PPI as a result and could potentially reduce competition in retail PPI.
60. The Commission acknowledges that retail PPI premiums and profits are lower than mainstream PPI. In addition, retail PPI provides other policy benefits not offered by mainstream PPI distributors. Therefore, in our view, retail PPI offers significantly better value for money.
61. We do not believe that price caps would be workable in the PPI sector. PPI products are highly differentiated. In particular, risk varies considerably according to the credit rating of the consumers, the claims expectations and the type of cover offered and of the associated credit product. The demographic profile of one PPI provider may be entirely different to another's, even within the retail sector. As a price cap remedy could not take into account all items which go into an underwriter's decision (for example, the different policy terms, demographics, credit risk), JDW does not believe that a price cap remedy would be effective or workable.
62. Price caps could lead to more customers, particularly poorer or older customers, not being offered PPI. In addition, price caps would stifle innovation and could lead to a "plain vanilla" product and price harmonization.