



Non-Confidential Version

**COMPETITION COMMISSION
PPI MARKET INVESTIGATION**

**RESPONSE TO
PROVISIONAL DECISION ON THE REMITTAL OF
THE POINT-OF-SALE PROHIBITION REMEDY**

[Note: certain text has been excised from this version of the document since they contain commercially confidential information. These are marked with the ✕ symbol].

4 JUNE 2010

Introduction

Nationwide Building Society (“Nationwide”) welcomes the opportunity to provide comment on the Competition Commission’s (“CC”) Payment Protection Insurance (“PPI”) Market Investigation: Provisional Decision on the Remittal of the Point-Of-Sale Prohibition Remedy by the Competition Appeal Tribunal published on 14 May 2010.

This response is divided into two parts as follows:

Part 1 – summarises Nationwide’s high level comments and concerns in respect of the CC’s Provisional Decision on the Remittal of the Point-Of-Sale Prohibition Remedy.

Part 2 – sets out a number of concerns raised previously in Nationwide’s response (dated 7 August 2009) to the CC’s July 2009 formal draft Order, detailing specific observations and issues in relation to the proposed package of remedies. These concerns remain.

Note: Where Nationwide has not made specific comment, this does not imply or infer Nationwide’s agreement to all that is contained within the CC’s Provisional Decision on the Remittal of the Point-of-Sale Prohibition Remedy.

1 Nationwide's high level comments in respect of the CC's Provisional Decision on the Remittal of the Point-Of-Sale Prohibition Remedy

1.1 Nationwide is extremely disappointed that the CC's decision, although provisional, is to continue with the Point of Sale Prohibition (POSP) remedy, alongside the same remedies package as previously outlined in its formal draft Order published in July 2009. We maintain the view that this will lead to disastrous consequences for the considerable consumer benefits that PPI provides and ultimately the protection of consumer's homes. Crucially, given that the current period of economic uncertainty is likely to continue; many consumers will be left vulnerable and exposed to extreme financial difficulties and lack of help when they need it most.

1.2 The remedies package taken as a whole will undoubtedly lead to reduced PPI availability overall, causing detrimental effect on consumers, with many simply going without this vital protection in the future.

1.3 The CC in its latest findings fails to acknowledge the significant changes that have already taken place in the PPI market, specifically in response to FSA Thematic Reviews and subsequent regulatory intervention, which contrary to the CC's belief, has aided removal of a number of consumer barriers to search. Sales of single premium PPI have now ceased and firms have worked tirelessly to accommodate in their sales processes, the FSA's stipulated inclusions relating to optionality, accurate price information and terms and conditions, including exclusions/ability to claim.

It is because the FSA views PPI as a complex product, that the inclusion of these stringent requirements has been necessitated, which has undoubtedly contributed to the longer time to undertake a PPI sale, particularly where the sale is advised, but nonetheless are compliance requisites.

1.4 [REDACTED]

1.5 [REDACTED]

1.6 [REDACTED]

1.7 Nationwide has previously expressed concern in relation to the content of the CC's personal PPI quote and annual statement of cost templates, which are individually aligned to a mortgage, credit card, personal loan or standalone PPI policy.

[REDACTED]

The CC will undoubtedly need to revisit and adapt these templates to the changing PPI market.

1.8 The provision of monthly PPI cost information in marketing material as stipulated in the CC's Article 3 is also problematic.

[REDACTED]

Clearly the CC should further consider this requirement and align to the developing PPI product market.

1.9 Notwithstanding the points raised above, Nationwide believes that the CC's assumptions based on its research findings on the affect to PPI sales if the introduction

of a POSP introduced a loss in convenience to consumers, are flawed, entirely subjective and will have no bearing on the actual outcomes when the POSP takes effect.

Nationwide previously submitted to the CC its own research report entitled 'Non-Point-Of-sale PPI Purchase' dated 07 July 2008, the findings of which fully demonstrated that the majority of consumers do not 'actually' go on to purchase PPI in these circumstances.

1.10 Furthermore, if the CC persists with the requirement that prevents consumers from returning to the Branch where their application for credit and a PPI quotation was initiated following the 24 hour prohibition period, this will only serve to exacerbate the limitation of consumer choice. As Nationwide has stated previously, this conflicts with the spirit of treating consumers fairly, a message that the FSA has continued to emphasise and one which consumers have rightly come to expect.

1.11 The 24-hour prohibition period/return to Branch prevention presents further challenge where the PPI quotation is initially undertaken in the Branch on an advised basis.

Nationwide telephone and internet sales are undertaken in a non-advised capacity and therefore conclusion of the original advised PPI sale (in Branch) would be prevented, thus forcing a new non-advised PPI quote/sale (with the potential for further POSP) when the consumer initiates contact after the 24-hour prohibition period. This is neither a reasonable, nor practicable sales approach from a consumer perspective.

1.12 The logistical timings of the POSP itself present a number of challenges, specifically in understanding when the 7-day prohibition actually starts and ends. Nationwide would appreciate the CC's further clarity on this, particularly given concerns previously raised in our August 2009 response to the CC's formal draft Order, challenging the CC's definition of 'credit sale' which states:

'means the process commencing when the Consumer receives confirmation in a Durable Medium that the Credit Provider is bound unconditionally to provide the credit'.

Nationwide's concern remains, as the point as at which the mortgage lender is bound unconditionally to provide the credit, is at completion of the property purchase. The lender is able to withdraw the provision of credit at any time prior to this.

The CC should therefore re-consider its definition of 'credit sale' and remove reference to 'unconditionally' to overcome what Nationwide perceives would be an unintended consequence, resulting in consumers being unprotected for a period as long as 6 months, perhaps even longer.

1.13 The CC must be more explicit about how the POSP will affect consumers who are switching credit products, amending credit products and cancelling existing PPI to subsequently take out new cover.

Where a consumer with PPI wishes to amend or upgrade their existing policy cover, or chooses to cancel it in favour of a new PPI product, it is standard practice in the

industry for this to be treated as 'continuous' cover. Nationwide assumes therefore that the POSP will not apply in these circumstances as to do so, will only serve to subject consumers who were previously protected with PPI to gaps in insurance cover, exposing them to unnecessary risk and the inability to claim.

- 1.14 Nationwide would also be interested to understand what (if any) impact the CC's POSP remedy will have on a free PPI product that is embedded within a credit product i.e. MPPI as a free feature of a mortgage, rather than a secondary product sold alongside it.

In this scenario, the cover will be sold compliantly to eligible consumers, however as the cover is free for the deal period of the mortgage there is no PPI quotation. Nationwide considers that the POSP is inappropriate in this scenario, as is the obligation to provide a personal PPI quote and an annual statement of PPI cost.

2. Nationwide's specific observations and issues on the remedies contained within the CC's Formal Draft Order (July 2009)

Nationwide has listed below a number of points raised previously in its August 2009 response to the CC's Formal Draft Order (July 2009). Albeit that the CC's decision to press ahead with the same package of remedies is at this stage 'provisional' many of our original concerns remain and therefore Nationwide requests the CC reviews and provides the necessary clarity, as appropriate.

The numbering of these points corresponds to the associated section of the draft Order.

2. Interpretation

Claims Ratio

Despite further representation following the Informal Draft Order, the CC's Claims Ratio interpretation still requires more work, specifically that it would require a standardised industry approach to reserving and premium earning, no adjustment to the requirements have been proposed by the CC.

Currently the proposals will not produce information that will make loss ratios comparable, thus defeating the CC's objective.

Credit Sale

The definition of 'credit sale' needs to be amended in the light of our earlier comments raised under Part 1 (1.12) of this response.

[§<]

Part 2 – Information Requirements

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4. Obligation to provide an Annual Review

Notwithstanding that Nationwide has questioned earlier in this response the relevance of the annual review and personal PPI quote templates as currently drafted, we believe the following points still stand:

- 4.1 Nationwide makes the assumption that the CC's Annual Review (a) requirements apply to an annually renewable policy that is paid by monthly premium.

Nationwide's existing MPPI is an annually renewable contract with monthly paid premiums. Consumers receive annual renewal documentation detailing cover, total monthly and annual premiums for the next 12 months of cover, satisfying the FSA's MPPI total price disclosure requirement as confirmed in Ed Harley's letter of 17 November 2008.

Provision of an MPPI Annual Review in addition to the MPPI renewal documentation seems an unnecessary duplication of much of the above information which will

confuse the consumer at a time when they are receiving similar information in their annual renewal documentation.

- 4.2 Nationwide believes that the requirement for each subsequent Annual Review to be sent within two weeks of the anniversary of the first Annual Review is ambitious and suggests a period of one month as being a more workable solution.
- 4.4 It would be helpful if the CC could clarify their interpretation of ‘separately’ in relation to provision of an Annual Review separately from any other information on or about or relating to the credit product. Is this to be provided via an entirely separate written communication?
- 4.7 Nationwide makes the assumption that provision of an electronic Annual Review to a consumer will be subject to the firm already having the capacity to do this, as will add to implementation costs if not. Nationwide seeks the CC’s confirmation that this assumption is correct.

Schedules 3a – 3c

Nationwide is concerned that the ability to populate ‘employment status’ within the PPI Annual Review is restricted in that this data although captured initially at the point a consumer purchases PPI, is likely to be historic in that its accuracy is wholly reliant on the consumer making contact with Nationwide to update it.

Nationwide therefore suggests that the CC reconsiders inclusion of this requirement which will serve no useful purpose.

Nationwide questions the CC’s requirement to include a policy summary with the Annual Review, a document which under ICOBS is provided in good time before conclusion of a PPI contract.

Schedule 3b – Annual Review of Optional PPI on your Mortgage

Cost of Payment Protection Insurance cover

The comment under Schedule 4b below also applies to the Annual Review of Optional PPI on your Mortgage which must allow for annually renewable MPPI contracts.

Schedule 3c – Annual Review of Optional PPI on your Credit Card

Cost of Payment Protection Insurance cover

Nationwide believes that the consumer will not fully understand the average monthly cost of CCPPI in the past year and for every £100 outstanding balance covered, without a supporting explanation, due to variations in the consumer’s monthly credit card balance outstanding, which for some months could be ‘zero’ and hence there would be no PPI premium applied.

The example used by the CC in the text below the boxes is not appropriate to CCPPI. The CCPPI premium calculation is based on a monthly cost per £100 of the credit card balance outstanding, with the monthly benefit in the event of a claim being generally 10% of the

outstanding balance for accident, sickness and unemployment cover and for life cover, the outstanding balance.

The Credit protected by this cover

As the CC has not stipulated, Nationwide makes the assumption that the ‘credit limit’ will be the credit limit on the date the Annual Statement is issued.

Schedule 4b – Quote for Optional PPI on your Mortgage

Cost of Payment Protection Insurance cover

The requirement to provide total cost of PPI for the duration of the credit agreement directly conflicts with the FSA’s MPPI total price disclosure for annually renewable contracts which Ed Harley confirmed to the CML in his letter of 17 November 2008:

Annually renewable MPPI contract

The other types of MPPI contracts we are aware of are those described as annually renewable. This type of contract can accurately be described as annually renewable if, at inception, the customer is provided with the monthly premium and the total annual premium and then at renewal the customer is sent a renewal schedule with the monthly premium and the total annual premium and given the opportunity to opt out. The disclosure of a monthly and the annual total premium at inception and at renewal in a way consistent with the standards set out in the ICOBS is capable of meeting the informed decision standards for these types of contracts.

We consider that if a contract is offered on annual basis and the customer is offered the opportunity actively to renew or opt out at the appropriate intervals the disclosure of the annual total premium is sufficient.

The quote for mortgage PPI must therefore allow for annually renewable contracts, where the monthly and total annual cost of PPI will be quoted only for the term of the insurance contract.

Schedule 4c – Quote for Optional PPI on your Credit Card

Cost of Payment Protection Insurance cover

See comment for Schedule 3c above.

The Credit on which this quote is based

As the CC has not stipulated, Nationwide proposes that the ‘credit limit’ and ‘annual percentage rate of charge (APR)’ will be the values as at the date the Annual Review is issued.

5. Obligation to provide information to the FSA and the OFT

- 5.1 Nationwide provides data to the FSA with which to populate their PPI Comparison Tables as currently, however seeks clarity on the requirement to provide ‘such data, in such format as the FSA may need from time to time’. Are additional data items

proposed, how will data be reported on risk rated Stand-Alone PPI products and what will be the timing for provision of these?

6. Obligation to provide Claims Ratios

- 6.1 Nationwide continues to question the need to disclose claims ratios for single premium PPI which is no longer sold and therefore consumers are unable to purchase.

Part 5 – Compliance

12. Obligation to submit Compliance Reports

- 12.1 Nationwide makes the assumption that if the PPI Provider is a distributor selling PPI on an ‘Introducer’ basis, the obligation to provide a Compliance Report rests with the PPI supplier. Nationwide seeks the CC’s confirmation that this assumption is correct.

Nationwide also seeks clarification of whether the GWP threshold for Compliance Reporting is at Group or individual Brand level.

In addition, who in the supply chain takes lead for the Compliance Report where information is provided by both the distributor and supplier?

13. Obligation to conduct a mystery shopping exercise

- 13.1 Nationwide makes the assumption that the GWP criterion (£60 million or more in the preceding year) is based on both new and back-book PPI business. A firm may have sold little PPI during the last financial year, however may have substantial PPI back-book business. Nationwide seeks the CC’s confirmation that this assumption is correct.

It would also be helpful if the CC could clarify whether the GWP criterion is applicable to firms with sub-brands who sell PPI and whether the GWP threshold is at Group or individual Brand level.

Nationwide is concerned that only one verified non-compliant mystery shop will constitute non-compliance with the Order, which may be disproportionate to the volumes of PPI sales.