

Ms Marjorie Davies
Inquiry Manager – PPI remittal
Competition Commission
Victoria House
Southampton Row
London
WC1B 4AD

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|------|--------------|-----------------|-------------------------------|
| | Direct line | (020) 7211 8532 | |
| | Fax | (020) 7211 8757 | |
| Date | 07 June 2010 | Email | grahame.horgan@oft.gsi.gov.uk |

Dear Ms Davies,

Payment Protection Insurance remittal: Remedies Notice on Retail PPI

1. Thank you for the opportunity to comment on the Competition Commission's supplementary notice of possible remedies for Retail PPI.

General points

2. The OFT appreciates the need to implement a remedies package that is both effective and proportionate. The evidence from the consumer survey casts some doubt upon whether the more costly of the remedies, in particular, the POSP (and the associated personal PPI quote) would meet either criterion. It seems right therefore to consider the potential for effectiveness of a more proportionate alternative.
3. In assessing proportionality, it may be important to consider the potential for economies of scope, either from the consumer perspective because of increased familiarity with search and switch in relation to other PPI products, or from the supplier perspective, where/if providers of retail PPI also provide PPI in other areas and may benefit from familiarity with a single package.
4. This may be relevant to assessing the additional remedies at Options 7 and 8, to the extent that individually or in combination these may be considered as alternatives to the POSP or to an annual statement. Where providers of PPI are operating across different types of PPI, including retail, a differentiated remedies package for retail PPI may carry additional costs. Equally, extending to retail PPI customers the same



remedy in use elsewhere may save costs. It will be useful to evaluate this aspect of the overall cost of the package in order to fully assess proportionality.

5. A differentiated remedies package will also have implications for monitoring and enforcement. While potentially significant, these are necessarily secondary to the need to ensure an effective intervention.

Specific comments on the remedies options

Please see below for an outline of the OFT's provisional views on Options 1 to 9.

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

6. Subject of course to the concerns about proportionality, the OFT continues to consider that a remedies package designed to stimulate competition is most likely to offer a durable solution.
7. The OFT agrees that the POSP would not make an effective remedy, should it be implemented on its own, in relation to retail PPI (i.e. absent the provision of a personal quote and the provision of information in marketing materials at Option 2).
8. Should the Competition Commission conclude that the POSP remedy cannot be justified on grounds of effectiveness or proportionality, it may be worth considering whether the availability of enhanced information provisions can strengthen benefits for consumers at the point of sale. For example, more user friendly information on eligibility and other "warnings" might be covered by expanding the information provision envisaged at option 2 below.

Option 2: Information provision in marketing materials

9. Information provision should allow retail PPI customers to make more informed decisions on whether to take out PPI and should allow those who are interested in searching for alternatives to be able to acquire an awareness of these. As retail PPI customers tend to have low motivation to search for alternative policies (particularly where the sum insured is small) this might be seen as evidence to suggest that clear, strong and targeted messages are likely to be necessary at the point of sale. For example, customers might be made aware of eligibility considerations that may be of particular relevance to retail PPI customers (e.g if a greater proportion is economically inactive) or the estimated annual cost of the policy may resonate more powerfully than a monthly payment.

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

10. The OFT considers this remedy likely to be relevant for retail PPI products as it is for other PPI products.

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

11. Similarly, the OFT considers this remedy likely to be relevant for retail PPI products as it is for other PPI products.

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

12. This remedy is required to enable customer switching and for customers to search and choose alternative retail PPI policies from other retail PPI providers.

Option 6: Obligation to provide an annual review

13. Annual reviews would appear to have the potential to motivate and encourage customers to switch to alternative PPI providers or cancel their existing policies when they can see how much they have paid annually. Customers who may not necessarily take action to switch at the prospect of, for example, £4 a month may be more motivated by the reality of £48 spent in the last year and the prospect of a similar outlay in the coming year.
14. If consideration is to be given to annual reviews being sent out only to PPI customers paying above a certain threshold, this should take account of both the capacity that an annual (as opposed to a monthly) figure may have to stimulate the customer and to the possibility that those whose balances are smallest are of more limited means and may therefore be more responsive to an annual figure even if it is relatively low.
15. Concerns about proportionality of the cost to business of providing annual reviews for all PPI policies may be alleviated if providers of other PPI products happen to be the same providers of retail PPI. This is because there may be significant efficiency savings in rolling out annual reviews and the POSP to all PPI products. We are unclear, however, as to the extent of the overlap between retail PPI providers and other providers.
16. The appropriate specification of any annual review should encompass the key messages to remind customers to shop around for better value alternatives and other switching or cancellation messages already provided at the point of sale.

Additional remedies

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

17. Paragraph 29 of the Notice suggests that for customers who do not receive an annual review, retail PPI providers should be required to remind customers of their cancellation rights and of key messages on an annual basis. The absence of annual reviews is likely to be a barrier to retail PPI customers being able or motivated to take action to make comparisons, search for alternatives, switch or cancel policies (as mentioned above in paragraph 13 above). We question therefore whether, on its own, this option would offer a sufficiently effective intervention.

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

18. The opt-in basis appears to be a good mechanism for retail PPI customers who are not proactive in seeking PPI and unlikely to shop around for it. A requirement for an opt-in basis will have impact on the level of customers holding retail PPI policies and should help limit renewal to customers who actually believe they require PPI. This should also create pressure on the existing distributor and provider to promote PPI products and an opportunity for stand alone providers to propose an alternative.
19. The effect of this remedy in stimulating customers is likely to depend on the extent of information provided to enable them to make informed decisions on whether to opt-in for renewal. A clear basis for comparing the existing policy with alternatives available on the comparative website is likely to be a pre-condition for effective search/switch. We question whether information that does not include an annual review would be sufficient to achieve this.
20. The OFT sees no reason why a PPI policy should not be constructed as an open-ended agreement (i.e. with no fixed duration) subject to annual renewal. The contract could stipulate that it lapses automatically on each anniversary unless, within a period of two months prior to the anniversary, the consumer confirms (whether in writing or orally) that he wishes the contract to continue. The insurer could contact the consumer two months prior to the anniversary date to invite renewal and to confirm the premium payable (whether by direct debit or as a lump sum). The renewal invitation could also invite the consumer to confirm that there have been no material changes to information previously notified, for example, as regards employment status, health etc. If there have been changes, this may require a new contract, on new terms (and with a price adjustment), which could incorporate a waiting period in respect of the relevant changes. Otherwise, the contract simply continues year-by-year.

Option 9: Price caps

21. The adoption of price caps, although it will have an immediate impact on price, is unlikely to contribute to a lasting solution through increased competition or to make the market work better.

Yours sincerely

Grahame Horgan
Assistant Director

Markets Policy and Remedies