

The Inquiry Secretary (PPI investigation)
Competition Commission
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4th June 2010

Dear Marjorie,

Competition Commission Payment Protection Insurance Market Investigation: Remittal of the Point-of-sale Prohibition Remedy By The Competition Appeal Tribunal, Provisional Decision, 14th May 2010

We appreciate the opportunity to review and comment on the latest Competition Commission paper following the Competition Appeal Tribunal's decision for the Competition Commission to reconsider the point-of-sale prohibition (POSP).

Paymentsshield fully support the Competition Commission (CC) investigation into the Payment Protection Insurance (PPI) market and welcome remedies that will address the adverse effect on competition and encourage consumers to search for the most suitable cover for them. However, as per our previous responses we do not support the POSP as we do not believe it achieves the CC's aim of creating a more competitive market. Additionally we do not believe it is beneficial to customers as there is a high risk they will go unprotected and the research commissioned by the CC confirms the majority of customers prefer to purchase PPI alongside a new credit agreement.

We have outlined the reasons we do not support the POSP and our concerns below:

- **Customer preference is to purchase alongside their new credit agreement**

The customer survey commissioned by the CC shows that the majority of customers do not want a POSP, therefore our expectation is that the final CC Order will not impose a change that goes against customer preference. The Accent survey results showed that the majority of customers expressed a preference for buying PPI at the same time as the credit sale (60 per cent of PLPPI and 50 per cent of MPPI customers) and the minority of customers surveyed actually want a delay (31 per cent of PLPPI and 36 per cent of MPPI customers). The survey showed customers who wanted to buy PPI at the same time as the credit would look to be compensated through a lower price for the loss in convenience if PPI was not available at the same time as the credit. In reality these customers are highly unlikely to be compensated through a lower price for the loss of convenience as PPI purchased directly by customers on a stand-alone basis (e.g. online) are typically more expensive and have more exclusions (e.g. a longer initial exclusion period applies before they can claim, etc) to reflect the selection risk associated with customers purchasing PPI in this way. When PPI is purchased alongside a new credit agreement the underwriters can provide cover at lower prices due to the fact that the customer has completed the credit underwriting assessment. Therefore purchasing PPI at the time of taking new credit typically provides benefits to the customer in terms of lower cost and a higher quality cover.



- **Customer inertia will result in customers not being protected**

The results of Accent survey do not support the assumption that customers will actively search for alternative cover and indicate that many customers who would have bought PPI would go without cover if the POSP is applied. We strongly believe this would be to the detriment of many customers and could lead to them losing their homes or impact their ability to gain credit in the future (i.e. failure to repay loans will adversely impact their credit record).

- **POSP should not be applied to PPI sales alongside a new mortgage agreement**

It is crucial customers have the ability to purchase PPI at the time they are liable for the debt. During the mortgage (or credit) sales process a responsible customer and lender / seller should consider the customer's protection needs and ability to repay the debt if they lost their income. Evidence shows many customers do not consider how to repay their debt if they lost their income, therefore the seller of the mortgage (or credit) must be allowed to actively discuss the customer's protection needs, including PPI, and sell cover the customer has a need for. Typically customers consider their budget on a monthly basis and they must be able to consider the cost of PPI cover when assessing the overall costs of the loan repayments and to ensure they are not committing to a liability before they have the facility to put protection in place.

Introducing a compulsory no sale period will leave customers financially exposed, which is to their detriment as it may impact their ability to repay their debt and there is a risk they may not be able to purchase a stand-alone PPI product (e.g. they do not meet the underwriting criteria, etc).

If the POSP is to be applied for PPI sold alongside a new mortgage agreement then we strongly recommend the POSP prohibition starts at the earliest possible point in the sales process. As per our discussions on the 28th September 2009 we believe the PPI quote should be provided at the point a customer receives an agreement in principal (AIP) from one or more lenders, albeit this is conditional on the credit check, a survey, evidence of earnings, etc. Each mortgage AIP will have different monthly costs depending on the interest rate and term, therefore the MPPI monthly costs would vary for each mortgage AIP and the seller should provide a MPPI quote for each of these. It would therefore be from this point that the POSP should be applied, thereby allowing the customer to make an informed decision based on total monthly cost of the mortgage and any insurance products they need.

If the POSP is to be applied the final CC Order must make it clear the point the POSP applies from for each credit product (i.e. mortgage, secured personal loan, unsecured personal loan, credit card, etc).

- **High penetration of PPI will drive competition & deliver more competitive PPI products**

We believe competition is created by a largely penetrated market as economies of scales are critical in ensuring that insurers can underwrite policies at competitive premium rates. We believe that a compulsory ban of PPI at point of sale of the credit product would not effectively address the AEC and is in fact detrimental to the customer as it may reduce the market size.

Additionally underwriters use the credit underwriting assessment of the primary credit product as a risk factor, therefore allowing them to offer customers better quality and more competitively priced products at point of sale of the credit product.

Selling PPI at the credit point of sale optimizes the population of customers, thereby providing a greater opportunity to promote the product and key messages, including customer choice at point of sale and at the time of the annual statement.

I hope you find our comments helpful and consider them fully when finalizing the Order. We would be happy to discuss any of the above points should you require further clarification.

Yours faithfully

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