

COMPETITION COMMISSION MARKET INVESTIGATION INTO PPI
SANTANDER RESPONSE TO PPI REMITTAL OF POINT-OF-SALE PROHIBITION
AND THE PROVISIONAL DECISION REPORT

1. INTRODUCTION

- 1.1 Santander welcomes the opportunity to comment on the Competition Commission's Provisional Decision report following further consideration of the Point-of-Sale Prohibition due to PPI Remittal.
- 1.2 The Commission concludes that the evidence it has gathered regarding the imposition of a Point-of-Sale Prohibition is sufficient to prove the case and therefore retain its inclusion as part of the package of remedies deemed necessary to address the issues within the PPI market.
- 1.3 Santander wishes to comment on three principal areas together with some other general comments:
- (a) the loss of convenience;
 - (b) the Commission's new evidence used in the report
 - (c) use of Santander data on penetration rates; and
 - (d) general comments.

2. LOSS OF CONVENIENCE

- 2.1 The Commission has concluded that the Accent customer research considered two groups. The first group of customers who like buying PPI at the same time as the credit ("Group 1"), and a second group of customers who either like the option of being able to take PPI out later (and many prefer to take PPI out later) or who are more comfortable taking PPI out later ("Group 2").
- 2.2 According to the Accent report, customers who prefer to buy after credit POS are prepared to pay a significant increase in monthly premiums for the benefit of purchasing PPI separately from the credit product for both 24 hours and 7 days later (para 7.99). For example MPPI preferences are £18.70 pcm and £30 pcm respectively, and PLPPI are £19.00 pcm and £25.20 pcm respectively. This is suggesting that the customer is willing to pay almost double the premium for the privilege of delaying purchase of PPI.
- 2.3 We find this result of the research hard to believe because the main reason for buying PPI separately from the credit product would be to search the market for a cheaper product, not a more expensive one. It is unclear what benefit customers would obtain from a POSP that would justify such additional costs and, obviously, an increase in costs would be contrary to the objectives of the POSP anyway.

For this reason we strongly doubt that either the questionnaire section on 'Stated Preference' in particular, and probably not the relevant issues generally, was understood by the participants or that the results have been interpreted incorrectly (or both).

This is an important point as the Commission have used the size of this cost to highlight the greater strength of opinion amongst customers in “Group 2” compared to “Group 1” and it also calls into question the value of the research.

- 2.4 The acknowledgement that these 2 groups exist and that “Group 1” is bigger than “Group 2” means that imposition of a POSP affects a larger number of customers than would be the case without this remedy. The Commission seems to dismiss this (in para 7.101) on the basis of the greater value attached to buying PPI away from the credit point of sale by customers.
- 2.5 It is noted that in para 7.104 the Commission have concluded that “...we could not impose a POSP with an exception for consumers who know that they want to buy PPI straight away. This would be impossible to monitor or enforce effectively and we believed that there would be a significant risk of circumvention of the remedy package”. So if there was a robust way of satisfying both parties then the Commission could be open to further consideration. Santander still believes that the cooling-off period offers the customer both protection from the distributor and peace of mind for being covered from day 1 (see also para 2.6 below).

Temporarily uninsured

- 2.6 In para 2.2 (c) the Commission states “we concluded that...Terms which risk leaving consumers uninsured (for a short period of time or in case they suffer a recurrence of a condition) acts as a barrier to switching for all types of PPI policies. However a similar argument can be made for the imposition of a POSP where the consumer is unable to purchase PPI and so there is a barrier to obtaining cover for a period of time at the commencement of credit purchase.

Cooling-off period

- 2.7 Santander still considers that the cooling-off period provides the customer sufficient time to consider their options after purchase and if the customer wishes they can cancel their insurance and search for an alternative provider. The cooling off period for most of our products is 30 days which is ample time for customers to review their situation and, importantly addresses the concerns many customers have over not being insured from day 1. If the cooling off period was highlighted more prominently at point-of-sale (e.g. by making this a standard requirement to be signed by the customer that they have been given and understood how the cooling off period works) then this would be a more preferable solution to the point-of-sale prohibition for the consumer.
- 2.8 Santander note that despite HSBC arguing the case for a cooling-off period that this was dismissed by the Commission (para 6.17) on the grounds that it does not have a sufficient effect on the consumer’s searching behaviour.
- 2.9 A cooling-off period is a standard feature of many financial products (as well as similar concepts used by other products in the retail market). The average consumer should understand what a cooling-off period is and how it works, and so we are surprised that the Commission have not sought to investigate ways in which this could be highlighted to the customer more effectively (if this is thought to be required).

3. NEW EVIDENCE PRESENTED IN THE REPORT

- 3.1 One of the key parts of the evidence used by the Commission to support the introduction of the POSP was the research consumer questionnaire conducted by Accent.
- 3.2 Santander submitted feedback on the report on 17/02/10. We argued that “Our overall impression is that the questionnaire does not fully explore or explain the benefits and limitations of not being able to purchase PPI at the point of sale. The issues that may occur such as the customer would not be protected for any event up to the point at which

the PPI is purchased. We also think that the proposed sales processes are not explored in detail. It would be better to take a sample of consumers through examples of proposed sales processes, including the re-solicitation process. What Accent have drawn up is a much more simplistic approach of 'Do you want to purchase today, or have a think about it and purchase later?'. We are not convinced this will give robust results which can be related to the real situation that would exist in a point of sale prohibition environment."

- 3.3 Santander feel that our concerns over the line of questioning were not addressed and so the results of the research do not give a fully realistic view of the future should a POSP be in place.

4. **PENETRATION RATES**

- 4.1 Santander research conducted by [redacted] was submitted as evidence to the Commission and the contents have been used in this report. The Commission were using the graphs for each of PLPPI, MPPI and CCPPI to determine our penetration rate (or strike rate) expectations for a post-POSP situation in 2009. These are shown in the first 2 columns (for Abbey and A&L) of the following table, along with the penetration rates for 2008 determined from MI submitted in the annual sales workbook.

	Abbey	A&L	2008	[April 2010] **
MPPI *	a%	b%	c%	d%
PLPPI	e%	f%	g%	h%
CCPPI	i%	-	j%	k%

[MPPI : d < a < c < b ; PLPPI : h = g < f < e ; CCPPI : k < j < i]

Notes

* referenced in para 7.14

** Santander submitted further evidence during the excision process giving our latest expectations of penetration rates in April 2010 which showed that Santander expected MPPI take-up rates to "fall with a remedy package in place".

- 4.2 The Commission concluded that, by comparing the 2009 report and the 2008 workbook MI, Santander expected penetration rates for MPPI to be the same in a post-POSP situation, but for PLPPI and CCPPI penetration rates reduced. Santander contest this interpretation on the basis that the two sources of data are not directly comparable as the penetration rates used in the report were based upon discussions within the industry and on insight provide by our Direct marketing teams. They were also based on the assumption of the impact on penetration rates from what we were seeing at the time.
- 4.3 The Commission comment that the distributors have over-stated the reduction in take-up rates following a POSP. It is not clear if this is based on the assumption that all other things remain equal. If we are in a POSP situation then one strategy being considered is to contact the customer at the first available opportunity to follow-up the sale, and then, if required, make further chasing calls up to a certain period after the credit sale. This chasing activity would probably be carried out by a third party which then involves increased acquisition costs, some or all of which might be passed on to the consumer.
- 4.4 The Commission also reference (para 7.11) that "the detail of how distributors choose to set up their sales processes – including staffing (volume/motivation) – can have a material impact on the penetration rates that can be achieved." Santander agree that this

will be important and the costs associated with this additional effort will have to be evaluated to understand how worthwhile it is to make a significant attempt to actively acquire business after any prohibition period in order to remain cost-effective.

5. GENERAL COMMENTS

- 5.1 The Commission is expecting the remedies to lead to a reduction in price as the PPI industry competes to maximise the take-up rates (para 7.11). Santander expects that this will only happen if several of the key competitors start to reduce prices. Historically Santander has tended to improve the quality of cover on the product instead of reducing prices. The Commission's models suggest that prices will need to reduce by 52% for PLPPI, 38% for MPPI and 54% for CCPPI (para 9.85). These are all significant reductions.
- 5.2 The Commission has commented that there has been little impact on commission percentages (except for MPPI due to claims). Whilst GWP has been negative in 2009 for PLPPI (due to refunds on Single Premium PPI business), the GWP for refunds is based on the same commission percentage as for new business. We would expect the commission for regular premium PLPPI to be lower in the industry.
- 5.3 The Commission has stated that it has not seen any new product innovations (para 7.75). This is probably because Santander (as well as the PPI industry) is waiting for the final outcome of the PPI inquiry before committing resources to make any significant changes to PPI strategy, even though we are considering our options.
- 5.4 The reduction in stand-alone provision (para 5.12) observed in the latest evidence is probably due to expectations of increased risk of claims by insurers, particularly (but not exclusively) for unemployment, and the risk of anti-selection leading to eligibility criteria for MPPI being tightened by underwriters. It is telling that in the interim period there have been no new entrants to the stand-alone market.

4 June 2010