COMPETITION COMMISSION

News Release

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PPI—CC CONFIRMS POINT-OF-SALE PROHIBITION

The Competition Commission (CC) has confirmed that it will introduce a remedies package based around a point-of-sale prohibition for all forms of payment protection insurance (PPI) (with the exception of retail PPI[1]) after detailing how it will benefit customers. This follows the CC's provisional decision on this issue, which was published in May this year.

The point-of-sale prohibition would stop the completion of sales of PPI during the sale of the associated credit product such as a personal loan. It was one of a package of measures the CC planned to introduce following its investigation into PPI, which concluded that businesses that offer PPI alongside credit face little or no competition when selling PPI to their credit customers.

The report and in particular the proposed point-of-sale prohibition were the subject of a legal challenge last year to the Competition Appeal Tribunal (CAT) by Barclays, supported by Lloyds Banking Group and Shop Direct Group Financial Services Ltd. Whilst upholding the CC's conclusions as to the competition problems in this market, the CAT ruled that it must in particular consider further the role and importance of a potential drawback to the prohibition, namely that it might inconvenience customers.

Peter Davis, Inquiry Chairman and CC Deputy Chairman, said:

> In this review we were tasked by the CAT to reconsider the potential advantages and disadvantages of the remedies package that we proposed in our report in 2009. Having reviewed the evidence, we have come to a clear view that, overall, customers will benefit significantly from the market reforms we propose introducing for PPI products. In particular, these reforms will mean that PPI providers will, in future, face real competition where there is currently little. And, in consequence, the prices consumers currently pay for PPI will fall significantly.
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> In essence, there are clear benefits of putting our remedy package in place. First, we found that some consumers would actually value an opportunity to reflect on their options away from the credit point of sale. Second, the package of remedies—including the point-of-sale prohibition—will introduce competition which is likely to bring substantial benefits to customers in terms of lower

[1] Retail PPI is a small part of the overall PPI market relating to protection taken out on repayments for shopping through home catalogues, typically accounting for about 2.5 per cent of PPI gross written premium paid by customers.

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> prices, better products and more choice. While the evidence does suggest that there is a potential downside to the prohibition, that some consumers will indeed suffer an inconvenience from not being able to purchase PPI at the credit point of sale, we are unanimous in our view that overall, consumers will be better off .
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> There have been developments in the market since we started investigating. While it is clear that credit markets—and therefore insurance on credit products—have suffered significant falls in demand in difficult economic times, we were far from persuaded that the competition problems around PPI have gone away since our initial report was published in 2009. Rather, the fundamental problems remain and can only be tackled by addressing the root of the problem—the advantage that those selling PPI alongside credit products have over potential competitors. We know that the major providers have been planning for a time when the prohibition is in force and in our judgement they will look to continue selling PPI in the future—but thanks to our measures it will generally be as providers of stand-alone products, rather than ones tacked on to the credit product, which will contribute to greater competition.
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> We have been told that in the current climate, it is more important than ever for customers to take out protection of this nature. If so, then it is surely very important for customers to have access to a competitively-priced quality product which meets their needs and to have the chance to make a considered and informed choice.

Since the CAT's judgment, the CC has carried out a detailed analysis of the likely effects of such a prohibition including undertaking customer surveys, and an assessment of parties' internal documents and of various experiments looking at the possible impact of splitting the sales processes of credit and PPI. In its final decision published today, the CC has concluded that the benefits of a package of remedies including the prohibition, by introducing greater competition and choice and lower prices to the market, will outweigh the disadvantages, in particular the potential inconvenience to some customers. The CC has also assessed changes in PPI markets since it published its report in January 2009 and concluded that despite the effects of the economic climate and regulatory action, the underlying problems identified remain firmly in place.

It will now move to introduce the full package of measures, which also include a prohibition on single-premium policies, a requirement to supply personal PPI quotes, annual reviews and other measures to make sure that improved information is available to consumers to make it easier for them to compare and search for products and switch policies at a later point.

The exception is retail PPI where, although like other forms of PPI distributors of retail PPI face little or no competition when selling the product, the CC has not been convinced that the advantages for retail PPI customers of introducing a remedy package based around the point-of-sale prohibition would outweigh the costs—because research suggests that many retail PPI customers are unlikely to search for alternatives given the relatively small sums typically involved. Following a provisional decision on this in July, the CC will instead introduce changes that will see clearer information provided to customers on the cost of retail PPI cover and their rights; 'unbundling' PPI from merchandise cover and a requirement for providers to supply information to the new Consumer Financial Education Body for its price comparison tables.

PPI covers repayments on credit products if the borrower is unable to make repayments due to accident, sickness, unemployment or (in many cases) death. PPI is sold to cover a variety of financial products, but over 90 per cent of PPI sold in the UK is either unsecured personal loan PPI, credit card PPI, mortgage PPI or secured loan PPI.

In its 2009 report, the CC found that the vast majority of the UK's more than 12 million PPI policies were sold at the same time as a consumer takes out a loan, credit card or other type of credit. The CC found that many consumers are unaware that they can buy PPI from other providers, rarely shop around to compare prices and terms and conditions of PPI policies, and rarely switch PPI providers. The resulting 'point-of-sale' advantage makes it difficult for other PPI providers to reach credit providers' customers and in the absence of such competitive pressure, consumers are charged high prices.

During the inquiry, the CC liaised closely with the industry regulator, the Financial Services Authority, which takes the lead on regulating sales practices and tackling mis-selling, as well as the Financial Ombudsman Service, which deals with consumer disputes. The CC's focus has been on examining whether there is effective competition in the market as a whole.

Notes for editors

1. The CC is an independent public body, which carries out investigations into mergers, markets and the regulated industries.

2. The members of the PPI remittal group are Peter Davis (Group Chairman and CC Deputy Chairman), Professor John Baillie, Professor John Cubbin and Malcolm Nicholson. Christopher Bright and Richard Farrant sat on the original inquiry group but have since stood down. Malcolm Nicholson was appointed to the group at the beginning of the remittal.

3. For more details on the PPI investigation please visit: www.competition-commission.org.uk/inquiries/ref2007/ppi/index.htm.

4. Enquiries should be directed to Rory Taylor or Siobhan Allen by telephoning 020 7271 0242 or by email.