

MARKET INVESTIGATION INTO PAYMENT PROTECTION INSURANCE

Application to intermediaries of the 13 November provisional decision on remedies

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The Competition Commission has excluded from this published version of the provisional findings report information which the inquiry group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by ✂. Some numbers may have been replaced by a range. These are shown in square brackets. Non-sensitive alternative wording is also indicated in square brackets.

Summary

1. On 7 February 2007 the Office of Fair Trading (OFT) referred to the Competition Commission (CC) the supply of all payment protection insurance (PPI) (except store card PPI) to non-business customers in the UK. On 5 June 2008 we issued a Notice of Possible Remedies (the Notice), which invited comments on the actions we might take, or recommend for implementation by others, to remedy, mitigate or prevent the adverse effect on competition (AEC), or resulting detrimental effects on customers, identified in our provisional findings of the same date.
2. On 13 November 2008 we published our provisional decision on the package of remedies required to remedy the AEC and related customer detriment provisionally identified. We received a significant number of responses to that document and in reviewing these responses it became clear that there was some confusion among respondents regarding the extent to which the proposed remedies package was intended to apply to intermediaries. Although some respondents had provided comments on the basis that the full remedies package would apply to intermediaries, some respondents assumed that certain aspects of the remedies package would not apply to intermediaries. In order to ensure that we have a complete picture of the implications of our proposed remedies package for the different participants in the PPI supply chain, we concluded that it was necessary to clarify this issue. Accordingly, this document sets out the scope of the proposed remedies package as it is intended to apply to intermediaries.
3. In our 13 November provisional decision on remedies, we considered the remedies separately for each type of PPI policy for which an AEC was found in our provisional findings report of 5 June 2008: personal loan PPI (PLPPI), credit card PPI (CCPPI), mortgage PPI (MPPI) and second-charge mortgage (also known as secured loan) PPI (SMPPI). We concluded that the remedies package for each type of PPI policy

should be the same, though the detail of some of the remedies varies according to the type of PPI policy.

4. As stated in our 13 November provisional decision on remedies, we concluded that the package of remedies proposed will deal with the AEC that we have provisionally identified in a timely manner. Because the package will do this, and in doing so will address the resultant customer detriment, we do not propose to deal separately with the customer detriment of higher prices arising from the AEC that we have provisionally found, and as a result are not proposing to impose price caps.¹ As indicated in our 13 November provisional decision on remedies, these proposals should all be regarded as provisional and will be reviewed following further representations.
5. In our 13 November provisional decision on remedies, we considered other remedy options, including minimum standards for PPI policies and the provision of customer credit card balances data.² We concluded that these alternative options would not add to the effectiveness of the proposed remedies either on their own or as part of a package. As a result, in this document we focus only on those remedy options that we are proposing to take forward.
6. We considered relevant customer benefits. We concluded that there are no relevant customer benefits arising from the sale of single-premium policies or the sale of PPI at the credit point of sale.³ We further concluded that we should not modify our remedies to preserve the relevant customer benefit of lower credit prices or credit

¹Provisional decision on remedies, 13 November 2008, paragraph 363.

²Ibid, paragraphs 347–363.

³Ibid, paragraphs 45–67.

cut-off scores, noting that we expected our intervention would have a significant positive effect both for PPI customers and for overall consumer welfare.⁴

7. As well as being effective, we consider that this package of remedies is proportionate to the AEC that we have provisionally found.⁵ We considered several other possible remedies and concluded, in each case, that they would not be effective to address the AEC and the resulting consumer detriment. Each of the remedies options that we are taking forward makes a significant contribution to addressing the AEC and the elements of the remedy package interact with each other to enhance the overall effectiveness of the package.⁶ The remedy package will increase overall consumer welfare, taking into account the set-up and ongoing costs of implementing the remedies as well as the loss of any benefits that customers are currently enjoying through lower credit prices. We concluded that the cost of implementing our remedies is justified by the increased competition and reduced consumer detriment that they would give rise to.
8. We expect that our remedies will include a transition period of no more than 12 months. We consider that 12 months would allow affected parties enough time to implement all the proposed remedies, though we would expect that some elements of the package, such as annual statements, could be implemented in six months.
9. The CC invites further views in writing on the application of the proposed remedies package to intermediaries by 5pm on 7 January 2009. Interested persons should also note that we have specifically invited further representations about implementation costs and other factors regarding the detailed implementation of the remedies in paragraphs 22, 64, 66 and 68.

⁴Ibid, paragraphs 82–112.

⁵Ibid, paragraphs 372–400.

⁶Ibid, paragraphs 373–384.

Introduction

10. This paper sets out how the proposed package of remedies described in our 13 November provisional decision on remedies is intended to apply to intermediaries.

The provisional findings

11. In our provisional findings, published on 5 June 2008, we concluded that features of the market, either alone or in combination with each other, prevented, restricted or distorted competition in the supply of PPI in the UK,⁷ and that these gave rise to an AEC within the meaning of section 134(2) of the Enterprise Act 2002 (the Act). These features were set out in Section 5 of the provisional findings and are summarized in Section 8 of that document.

Framework for the assessment of remedies and relevant customer benefits

12. The framework for the assessment of remedies and relevant customer benefits was set out at paragraphs 16 to 21 and paragraphs 23 to 30 of our 13 November provisional decision on remedies and the same considerations apply to the application of the proposed remedies package to intermediaries.

Potential customer benefits of the point-of-sale advantage

13. In our 13 November provisional decision on remedies we considered whether the point-of-sale advantage that we identified in our provisional findings gave rise to any relevant customer benefits. We concluded that this was not the case. We also concluded that the single-premium charging structure did not give rise to relevant

⁷The reference from the OFT specifies 'the supply of all payment protection insurance services except store card payment protection insurance services'. In its provisional findings published on 5 June 2008, the CC considered that the supply of payment protection insurance includes a range of products, including the provision of short-term income protection (short-term IP), the provision of CCPPI, PLPPI, SMPPI and MPPI. Retail PPI was included in the scope of that Remedies Notice, while work continued to determine the CC's provisional view on it. Following publication of the CC's provisional findings in relation to retail PPI on 10 October 2008, a Supplementary Remedies Notice relating to retail PPI was published for consultation on the same day. Overdraft PPI is excluded from the scope of this Remedies Notice as the CC has not provisionally found an AEC in relation to this type of PPI.

customer benefits⁸ and that knowledge by credit providers that a customer will take out PPI did not give rise to relevant customer benefits.⁹ We considered whether prices for credit were lower than they would otherwise be because profits made on PPI were competed away in the form of lower credit prices. Our analysis on this is set out at paragraphs 82 to 110 of our provisional decision on remedies. We concluded that credit prices and credit cut-off scores are lower than they otherwise would be because of PPI income generated at the credit point of sale, although we noted that for mortgages, the effect was very small.¹⁰ We considered whether we should exercise our discretion to modify our proposed remedy package to preserve this benefit and for the reasons set out in paragraphs 113 to 121 of our 13 November provisional decision on remedies we concluded that we should not do so.

14. We note that intermediaries primarily supply MPPI (the CML estimated that intermediaries supplied 37 per cent of new MPPI policies sold in 2007¹¹), which is supplied on a regular premium basis. However intermediaries also supply SMPPI and motor PPI both of which are primarily single premium policies.

Other potential relevant customer benefits

15. In considering the impact of our proposed remedies package we also considered: the impact of ICOBS regulation; the impact of the economic downturn; the impact of the protection gap; suggestions that the remedies package would lead to an increased risk of adverse selection; the comparison of our proposed remedies with the remedies implemented in extended warranties and store cards and recent competitive developments in the PPI market. Our analysis of these issues is set out in paragraphs 122 to 141 of our 13 November provisional decision on remedies.

⁸Provisional decision on remedies, 13 November 2008, paragraphs 45–67.

⁹Ibid, paragraphs 68–81.

¹⁰Ibid, paragraph 110.

¹¹www.cml.org.uk/cml/statistics, spreadsheet PPI2.

An assessment of the options in the Notice

16. This section of the paper discusses the different remedy options set out in the Notice published on 5 June 2008 and those that have subsequently been put to us. For each option that we are proposing to take forward, options 1, 3, 4, 6 and 7(a) (pre-sale marketing, additional information for comparison, a point-of-sale ban, annual statements and a ban on single-premium policies), we set out how the remedy should be implemented in relation to intermediaries. A summary of the responses to the Notice in relation to each option is set out in our 13 November provisional decision on remedies and is not repeated in this document.
17. The options that we are not proposing to take forward, and the reasons for this, are set out in paragraphs 347 to 363 of our 13 November provisional decision on remedies and are not repeated in this document.
18. In our 13 November provisional decision on remedies we considered the remedies separately for each type of PPI policy for which an AEC was found in our provisional findings. We concluded that the remedies packages for each type of PPI policy should be the same though the individual options do reflect different characteristics of the different types of PPI and the underlying credit. The nature of the role of the intermediary means that some aspects of the remedies package will have a greater impact on intermediaries than others and we have sought to identify those in this document.

The options we are proposing to take forward

Option 1: Standard disclosure of cost to the customer of PPI and credit and requirement to provide a statement of 'key messages' in marketing materials

19. We have provisionally found that a customer's ability to compare products is reduced by an absence of information provided in a way that would help them compare PPI policies. We also found that few distributors and intermediaries actively seek to win

credit and/or PPI business, by using the price (or non-price characteristics) of their PPI policies. In particular, we found that the time taken to obtain accurate price information is a barrier in relation to the provision of PLPPI, MPPI and SMPPI. This option would make it easier for customers to compare PPI products offered by different PPI providers and to search for alternative PPI offers, including stand-alone PPI and short-term IP policies. By increasing the prominence of PPI prices within the information provided to customers, it would also help address the failure to compete actively on the price of PPI.

20. The responses received in relation to this option and our views on the issues raised are set out in paragraphs 147 to 188 of our 13 November provisional decision on remedies. We recognized that requiring additional content in PPI marketing materials¹² might have a limited effect, by itself, given the current low degree of PPI-specific marketing. However, we considered that having additional information on the PPI price available in a comparable form would be effective as a supporting measure to other options (notably the provision of personal quotes in option 4 and annual statements in option 6) which would reduce the point-of-sale advantage and make it easier and cheaper for customers to switch suppliers. In a more competitive PPI market, we would expect more marketing of suppliers' PPI offerings than we currently observe. We note that many providers have Internet sites which currently highlight their PPI offerings and that customers using these sites would benefit from this option.
21. We proposed in our 13 November provisional decision on remedies that the key messages and disclosure of price (in a standardized metric) be provided in all PPI marketing materials, including both direct marketing materials (such as statement inserts, emails and direct mail) and non-direct marketing material (such as

¹²For the purposes of this document, marketing materials includes advertising and direct mail.

newspaper advertisements, telephone directories and radio advertisements). We invited views as to whether there are any specific forms of PPI marketing material that should not be required to contain this information. Our expectation is that this remedy would impact primarily on the distributor of the PPI product or on stand-alone providers, rather than on intermediaries. Where intermediaries supply PPI products which are only available from one or more intermediary or intermediary networks, then the responsibility for ensuring that marketing materials relating to that product comply with these requirements would lie with the intermediary or intermediary network. In all other cases, we consider it likely that intermediaries would rely on marketing materials provided by the supplier of the PPI product.

22. We noted the concerns that the parties have raised in relation to including PPI content in credit advertisements (in paragraphs 154 to 156 of our 13 November provisional decision on remedies). However, for the reasons set out at paragraphs 160 to 163 of our 13 November provisional decision on remedies we concluded that a requirement to provide PPI advertisements in close proximity to credit advertisements should apply to all suppliers of PLPPI and SMPPI for all forms of advertisements (and we invited views on any implementation issues that might arise for different advertising media). We consider that this aspect of the remedy package would not generally be likely to apply to intermediaries as intermediaries do not supply their own credit products. However, we would welcome views on whether there are circumstances in which this aspect of the remedies package would apply to intermediaries and, if so, we would also welcome views on any implementation issues that would arise for intermediaries in relation to it.

FIGURE 1

Remedy proposal for information provision in marketing materials

All PPI providers must provide the following information in all PPI marketing material:

1. The monthly cost of PPI per £100 of monthly benefit.*†
2. That PPI is optional‡ and available from other firms (without specifying those other firms).
3. That information on PPI, alternative providers and other forms of protection products can be found on the FSA's moneymadeclear website.

All PLPPI and SMPPI providers must advertise their PPI products in close proximity to their personal loan advertisements.

*If the benefit pays out for less than 12 months, notice of this fact must also be clearly disclosed to customers alongside the cost of the policy.

†CCPPI providers must also show the cost of PPI per £100 of outstanding balance.

‡If the PPI provider is a stand-alone provider, they do not have to include the information that the PPI is optional in their marketing material.

23. An obligation to advertise PPI prices would have the greatest impact and be most effective if:
 - (a) PPI providers increase advertising and marketing for PPI and distributors do not decrease advertising for SMPPI and PLPPI;
 - (b) pricing structures become more standardized and hence easier to compare across the market; and
 - (c) customers use the opportunity to shop for alternative protection products.
24. We consider that the option above would work best in conjunction with other options aimed at increasing customers' understanding of prices and making it easier for customers to compare PPI products.
25. We consider that if we took this remedy forward, it could be implemented within six months of any CC Order and could be monitored by the OFT (supported by suitably comprehensive compliance reporting requirements on the parties). We also note that by requiring all PPI marketing materials to contain information on price, we are, in effect, making all PPI marketing materials financial promotions under ICOBS rules.

Option 3: Obligation to provide information about PPI and credit products to third party providers of comparative information for publication

26. We have provisionally found that a customer's ability to compare products is reduced by an absence of information provided in a way that would help them, and that few distributors and intermediaries actively seek to win credit and/or PPI business by using the price (or non-price characteristics) of their PPI policies as a competitive variable. This option would make information available which would better enable customers to compare the cost of PPI and credit with PPI.
27. The responses received in relation to this option and our views on the issues raised are set out in paragraphs 189 to 208 of our 13 November provisional decision on remedies. We concluded that, given that the FSA tables are available, it would be more effective and proportionate to add to them rather than create an additional table. We consider that, for these tables to be most effective, they need to provide a comprehensive view of the market, and as such need to include data about all PPI policies, including stand-alone policies and short-term IP policies. We consider that this aspect of the remedy package would not generally be likely to apply to intermediaries. However, where intermediaries supply PPI products which are only available from one or more intermediary or intermediary networks, we consider that this remedy should apply to intermediaries and intermediary networks in the same way as it is intended to apply to stand-alone PPI providers.¹³
28. As part of the consultation on this remedy option, we asked whether claims ratios should also be provided. We concluded that claims ratios should be available to anyone or any organization that wants them, though we did not consider that it was appropriate to require claims ratios to be published on a consumer website. We consider that this aspect of the remedy package would not generally be likely to

¹³Provisional decision on remedies, 13 November 2008, paragraph 340.

apply to intermediaries. However, where intermediaries supply PPI products which are only available from one or more intermediary or intermediary networks, we consider that this remedy should apply to intermediaries and intermediary networks in the same way as it would apply for stand-alone PPI providers.¹⁴

29. In our 13 November provisional decision on remedies¹⁵ we also concluded that the provision of GWP, penetration rates, price data and claims data to the OFT would assist it in monitoring the ongoing success of the remedies package. We consider that this aspect of the remedy package would not generally be likely to apply to intermediaries. However, where intermediaries supply PPI products which are only available from one or more intermediary or intermediary networks, we consider that this remedy should apply to intermediaries and intermediary networks in the same way as it would apply for stand-alone PPI providers.¹⁶ The remedies package would also include standard wording requiring parties to provide to the OFT any information and documents that it reasonably requires to enable it to monitor and review the operation of the remedies package and this aspect of the remedies package would apply to intermediaries.

FIGURE 2

Remedy proposal for information provision to third parties

All PPI providers must provide comparative data to the FSA, as specified by, and in the format requested by, the FSA.

In addition to the information that the OFT may request from time to time for the purposes of monitoring and reviewing the operation of the remedies package, all PPI providers must provide the following information to the OFT on an annual basis— where indicated below, this information should also be available from the provider to any person on request:

1. Annual GWP, split by product type.
2. Distributor penetration rates, split by product type.
3. Aggregate claims ratios for each provider, split by product type, for one year, three years and five years (this should be available to any person on request).

¹⁴Ibid, paragraph 342.

¹⁵Ibid, paragraph 205.

¹⁶Ibid, paragraph 342.

30. We consider that if we took this remedy forward it could be implemented within six months of any CC Order.

Option 4: Prohibition on selling PPI at the credit point of sale and within a fixed time period of the credit sale (the 'point-of-sale ban')

31. We provisionally found that distributors and intermediaries enjoy significant advantages over other PPI providers, when selling credit and then PPI to customers at the credit point of sale. We provisionally concluded that the sale of PPI at the credit point of sale is a feature of PPI markets, which prevents, restricts and distorts competition.¹⁷
32. The responses received in relation to this option and our views on the issues raised are set out in paragraphs 209 to 261 of our 13 November provisional decision on remedies.
33. We concluded that a prohibition on selling PPI at the point of sale of credit, and for 14 days afterwards, would mitigate the effect on competition of the point-of-sale advantage by prompting customers to shop around and thereby addressing the distributors and intermediaries' market power at source. Allowing consumers to receive information about the distributors and intermediaries' PPI product during the credit sale, alongside the obligation to provide a personal quote if the provider intends subsequently to offer PPI to that customer, would provide consumers with information that would help them search between PPI policies as well as an incentive and opportunity to search. We consider that, given the margins currently earned on PPI and the size of the market, it would be in the interest of most distributors and intermediaries to continue to sell PPI and to compete for customers by increasing marketing spend and reducing prices. The ability of customers to purchase PPI

¹⁷Provisional findings report, 5 June 2008, paragraphs 5.116–5.119.

during the period of the ban, provided that 24 hours has elapsed since the purchase of credit, will prevent distributors and intermediaries from being placed at a competitive disadvantage. Hence we consider that this option will lead to more competition, increased advertising, and lower prices for customers. We conclude that a point-of-sale ban is the only option that will effectively address the point-of-sale advantage outlined in the provisional findings, and as such is essential to achieving a comprehensive solution to the AEC and resulting consumer detriment.

34. We have developed the point-of-sale ban remedy option into a set of measures (see Figure 3). These measures aim to ensure the remedy's effectiveness in addressing the point-of-sale advantage enjoyed by distributors and intermediaries, in providing a greater incentive and opportunity for customers to search for PPI after the credit sale, and in making it easier for stand-alone providers to access customers around the time of the credit sale. The measures also address some of the parties' concerns regarding the option, in particular the concern about not being able to discuss PPI at the initial credit sale and allowing customers who want the distributor's or intermediaries' PPI to purchase it quickly and conveniently.

35. The remedy proposal builds on option 4 in the Notice to separate the sales process for PPI and credit. The proposal allows distributors and intermediaries to talk to customers about PPI at the credit sale and requires them to provide a personalized PPI quote if they intend subsequently to offer them PPI (see Appendix 8 of our 13 November provisional decision on remedies) but not actively to sell PPI to or contact the customer regarding PPI for a short period (14 days) after the credit sale. In addition, the proposal allows a customer who wants to purchase PPI from the distributor or intermediary that supplied credit to the customer to do so through the Internet or by telephone 24 hours after the credit sale, if they confirm that they have received a personalized quote. We will work with the FSA to ensure that the

obligation to provide the personalized PPI quote is fully compatible with the ICOBS requirement to provide a policy summary or key features document and to provide a document that outlines prices in a durable medium so that no additional documents need to be sent or given to the customer.¹⁸ We consider that, given our findings regarding the point-of-sale advantage enjoyed by intermediaries, this remedy should apply to intermediaries.

¹⁸The Policy Summary informs the customer about the product: <http://fsahandbook.info/FSA/html/handbook/ICOBS/6/Annex2>. This document has no standard format, except that it must be in a durable medium. Firms can choose to give customers the key features document instead (only the general requirements are need for PPI): <http://fsahandbook.info/FSA/handbook/COBS/13/3.pdf>. A document that outlines prices in a durable medium—before the conclusion of a contract in a non-distance sale or immediately after the conclusion in a distance sale: <http://fsahandbook.info/FSA/handbook/ICOBS/6/4.pdf>.

FIGURE 3

Remedy proposal for all PPI sales by distributors and intermediaries

Before the credit sale

PPI advertising is allowed; sales personnel can discuss PPI in general terms with customers.*

At the credit sale†

The distributor or intermediary cannot sell PPI at any point in this interview.

The distributor or intermediary cannot include PPI in the 'primary credit agreement' (the credit agreement which relates to the credit that the PPI is primarily sold to insure).

Generic information‡ regarding PPI can be provided to the customer.

A standard form personal PPI quote (the 'personal PPI quote') must be provided to the customer in a durable medium (see Appendix 8 for details) if the distributor or intermediary provides information about PPI to the customer at the credit sale. For Internet, direct mail and telesales, this personal PPI quote must be emailed or otherwise sent to the customer within 3 days of the credit sale.

If a distributor or intermediary does not provide a personal PPI quote at the credit sale, but subsequently contacts the customer to offer PPI, a personal PPI quote must be provided at that time and the prohibition period starts from the date on which the personal PPI quote is provided to the customer.

No distributor or intermediary can charge more for PPI than the cost of the regular or annual premium. For example, there can be no administration fees, set-up fees or early termination fees.

If the sales person or intermediary mentions PPI orally, then they must also orally disclose the key messages (see paragraphs 1 to 3 of Figure 1).

Directly after the credit sale

The customer can buy a PPI policy from any company other than: (a) the distributor or intermediary with whom the customer arranged credit, (b) any company recommended by the distributor or intermediary at the point of sale, or (c) any company to which information regarding the customer which was obtained in the credit sale has been passed.

24 hours after the credit sale§

The customer can buy a PPI policy from the distributor or intermediary on the Internet or by calling a telephone number which is provided in the personal PPI quote. However, the customer must confirm that they have seen the personal PPI quote (and the PPI provider has to be reasonably satisfied that the customer has seen the personal PPI quote) before any PPI sale can be made.

Fourteen days or more after the credit sale§

The distributor or intermediary can contact the customer with regard to PPI. However, the customer must confirm that they have seen the personal PPI quote (and the distributor or intermediary has to be reasonably satisfied that the customer has seen the personal PPI quote) before any PPI sale can be made. This contact can be made in the activation process of a credit card, provided this is 14 days after this credit sale.

*To avoid circumvention of this remedy, the distributor or intermediary cannot 'pre-sell' PPI to insure a credit agreement it has discussed with a consumer and has reasonable grounds to expect it will agree with that consumer within the following 14 days.

†Defined as the interview to arrange credit with the distributor or intermediary or an interview in which credit is sold to the consumer. For telesales, the credit sale is the telephone call in which the credit is arranged or orally confirmed, whereas with an Internet or direct mail sale, the credit sale is only complete once a confirmation email or letter is sent to the customer confirming that the credit is arranged or has been transferred.

‡Generic (i.e. not personalized for the customer). The FSA describes this information as information that could reflect the terms of a contract which is representative of the PPI normally undertaken by the firm rather than the terms of a particular contract with, or that will be offered to, a particular customer.

§Or after the provision of a personalized PPI quote if one were not provided at the credit sale.

36. We consider that all costs should be included in the price of the premium. If there were other fees included, then it would become harder for customers to compare price and to shop around using the personal price quote.
37. Given the importance of the personal PPI quote to the effectiveness of this remedy, we propose that distributors and intermediaries should have to confirm with customers that they have seen it and that they have to be reasonably sure that the customer could have seen it.¹⁹ To enable customers to shop around for PPI in situations in which the distributor or intermediary does not normally mention PPI at the initial credit sale but contacts the customer at a later date to offer PPI, we propose that, in these circumstances, the prohibition period should apply from the date on which the personal PPI quote was provided, rather than date of the credit sale.
38. We propose that customers should be able proactively to buy PPI from their distributor or intermediary 24 hours after the credit sale (or provision of a personal PPI quote) by Internet or over the phone. This enables customers to consider their options and also reduces the risk that customers are in any way encouraged to buy PPI after the credit sale but before they either leave the credit provider's premises or put down the telephone—for example, by being given access to the Internet in-branch or given assistance to complete a PPI application. We also consider that the clear break will be easier for sales staff to understand and will make the remedy easier to monitor.
39. We consider that the proposal above will give distributors and intermediaries sufficient scope to contact and follow up with customers who are interested in PPI, and to achieve sales from those consumers who actively want to contract with them.

¹⁹For example, if a distributor or intermediary sent a personal price quote on a Monday evening by second class post and the customer called on the Tuesday morning, it would be unlikely that they customer would have seen it.

We noted that in other insurance markets, notably travel and household insurance, advertising is not restricted to direct marketing to individual customers; television and press advertising are also used effectively to obtain sales. Even if distributors and intermediaries could not follow up with all their customers individually, they would still be able to attract sales through other forms of marketing.

40. A point-of-sale ban would have the greatest impact and be most effective if:
 - (a) distributors and intermediaries continue to promote PPI at the point of sale: this would prompt customers to consider PPI and to shop around;
 - (b) standardized information is provided, to ease comparison with information from other PPI providers;
 - (c) stand-alone providers (including credit providers selling PPI to other credit providers' customers) take advantage of the point-of-sale ban to expand the marketing of their PPI policies: this would increase customers' awareness of PPI and the price of PPI; and
 - (d) customers use the opportunity to shop for alternative protection products.

41. We consider that the option above would work best in conjunction with other options aimed facilitating consumer search, in particular options 1 (requirement to provide information in advertisements), 3 (requirement to provide information to the FSA for use on its website) and 7(a) (ban on single premiums).

42. We consider that if we took this remedy forward it could be implemented within 9 to 12 months of any CC Order and could be monitored by the OFT, supported by suitably comprehensive compliance reporting requirements on the parties (see paragraph 67).

Option 6: Annual statement of cost and a reminder of the customer's right to cancel and early settlement terms

43. We provisionally found that there are barriers to switching, which prevent, restrict and distort competition. We considered that an annual statement could raise awareness of customers' ability to switch PPI provider, enhancing the effectiveness of other measures aimed at directly reducing switching costs.
44. The responses received in relation to this option and our views on the issues raised are set out in paragraphs 262 to 286 of our 13 November provisional decision on remedies. We concluded that an annual statement would be helpful to customers and would increase switching.²⁰ We consider that an annual statement would increase transparency and would help customers compare prices of PPI policies against other PPI policies and other insurance products such as critical illness or income protection. We also consider that the option would increase marketing spend on PPI which we currently consider to be low, given the size and profitability of the market (see paragraph 1 of our provisional findings). The annual statement would also increase customers' awareness of PPI, the cost they are paying and their ability to switch products. We consider that these benefits apply equally to all types of PPI.
45. We concluded that the statement should be sent out every 12 months (or in the two weeks leading up to the anniversary) after the PPI policy is taken out.
46. In terms of the financial information to be included in a statement, we concluded that annual and monthly costs ought to be provided as part of the statement.²¹ This will entail providing the same information as is provided in a personal quote (see option 4). This information will make it easier for consumers to compare their current policy with alternatives, to understand the cost of their policy. We also consider that the

²⁰Provisional decision on remedies, 13 November 2008, paragraph 265.

²¹Ibid, paragraph 274.

statement should set out payments made in the preceding 12 months, allowing customers to see the amount that they have spent on PPI.

47. We concluded that providing a summary of the customer's claims history would be useful, both in terms of reminding the consumer as to the actual benefits received during the year (in addition to peace of mind) and in terms of providing information which stand-alone providers might find useful in determining the best price to offer someone interested in switching PPI provider, or whether to offer PPI.²² Similarly, we concluded that the provision of the average balance information for credit cards is likely to assist the development of stand-alone provision of CCPPI as it would give customers and stand-alone providers a better indication than the credit limit as to the amount of cover that the customer will actually need.²³
48. We also concluded that it would be helpful to include in the statement a telephone number which consumers can use in order to raise any queries about their policy, or to cancel the policy if they so wish.²⁴
49. We concluded that the statement should provide information on what the PPI policy covers (such as the elements it covers, and, for CCPPI, the percentage of balance it pays out each month of a claim).²⁵
50. We concluded that the format of the annual statement should be similar to that of the personal PPI quote (see option 4), to aid comparability. At a minimum, the statement

²²Ibid, paragraph 275.

²³Ibid, paragraph 276.

²⁴Ibid, paragraph 277.

²⁵Ibid, paragraph 278.

should have to contain prescribed information (outlined in Appendix 9 of our 13 November provisional decision on remedies), with rules on format and prominence.²⁶

51. The proposed remedy is set out below (see Figure 4). These measures aim to ensure the remedy's effectiveness in addressing barriers to switching (which prevent, restrict and distort competition) by providing an additional impetus for customers to search for the best-value PPI and increasing the opportunity for stand-alone provision of PPI. Intermediaries supply credit and PPI products of other suppliers, and potentially from different suppliers. We consider that it would impose an unreasonable burden on intermediaries to require them to seek the information from each of the credit and PPI provider to complete this statement. In such cases, we would expect intermediaries to supply an annual statement in the same format as that proposed for stand-alone providers.

FIGURE 4

Remedy proposal for an annual statement

On, or in the two weeks leading up to, each anniversary of the customer's purchase of PPI, the customer will be sent an annual statement (see Appendix 9 for details). Provision of this statement will be the responsibility of the company which sold the PPI policy to the customer (usually the distributor, intermediary or the stand-alone provider). The statement must be provided in a separate mailing from any information on a credit product held by the customer.

52. An annual statement would have the greatest impact and be most effective if:
- (a) stand-alone providers (including credit providers selling PPI to other credit providers' customers) take advantage of the annual statement to expand the marketing of their PPI policies; this would in turn increase customers' awareness of PPI and the price of PPI; and
 - (b) customers are prompted to compare alternative PPI products annually and switch if they find better deals.

²⁶Ibid, paragraph 281.

53. We consider that the annual statement would work best in conjunction with other remedies aimed at increasing the ability for customers to compare PPI products and which remove barriers to switching, in particular options 1 (requirement to provide information in advertisements), 3 (requirement to provide information to the FSA for use on its website) and 7(a) (ban on single premiums).
54. We consider that if we took this remedy forward, it could be implemented within six months of any CC Order and could be monitored by the OFT (supported by standard compliance reporting requirements on the parties). We also agree with the FSA that its design should be consumer tested before implementation to make sure that it has the greatest impact possible.

Option 7(a): A prohibition on single-premium policies

55. We have provisionally found that consumers who want to switch PPI policies to alternative PPI providers or to alternative insurance products are hindered in doing so. In the case of single-premium policies, we found that terms which make switching expensive (such as rebates for early termination) act as barriers to switching for PLPPI and SMPPI policies. We consider that a prohibition on single-premium policies could reduce the financial costs to customers of switching PPI providers.
56. The responses received in relation to this option and our views on the issues raised are set out in paragraphs 287 to 338 of our 13 November provisional decision on remedies.
57. We concluded that a ban on single-premium policies would address the barriers to switching associated with single-premium policies, and was the only option which would do so effectively. We also found that such a ban would reduce barriers to

search associated with product complexity and variations in pricing structure.²⁷ We concluded that we should implement this option as part of our remedy package.²⁸

58. We propose to implement the remedy proposal as set out below. These measures aim to ensure the remedy's effectiveness in addressing barriers to switching and search, which prevent, restrict and distort competition.
59. We consider that this aspect of the remedy package would have only limited impact on intermediaries. They would be prevented from selling a single-premium policy offered by any PPI provider; however, those PPI providers would in any event be prohibited from offering such policies under our remedies proposals. However, where intermediaries supply PPI products which are only available from one or more intermediary or intermediary networks, we consider that this remedy should apply to intermediaries in the same way as it would apply for stand-alone PPI providers to prevent them from introducing a single-premium policy (or stop them selling a single-premium policy if they currently sell one).²⁹

FIGURE 5

Remedy proposal for a prohibition on single premiums

No distributor or intermediary can charge for PPI on a single-premium basis. The only charge that can be levied on a PPI policy is a regular premium charged at a constant rate, paid monthly or annually. If an annual premium is charged, then a rebate must be paid to customers on a pro-rata basis, if the customer terminates the policy during the year.

60. A ban on single-premium PPI would have the greatest impact and be most effective if customers take account of the greater opportunities to switch PLPPI and SMPPI and of the reduced barriers to search both before and after the credit point of sale. This

²⁷Ibid, paragraphs 315–324.

²⁸Ibid, paragraph 332.

²⁹Ibid, paragraphs 345 & 346.

measure therefore complements all the other options in our proposed package of remedies.

61. We consider that if we took this remedy forward, it could be implemented within a year of any CC Order and could be monitored by the OFT (supported by suitably comprehensive compliance reporting requirements on the parties).

Implementation of remedies

How the remedies should be implemented

62. As set out in paragraphs 364 to 366 of our 13 November provisional decision on remedies, we consider that a CC Order relating to all relevant parties would be the most effective means of implementing those parts of our remedies package relating to businesses.
63. We also propose to make one recommendation to the FSA, that it use the information provided to it under option 3 to populate its PPI price comparison tables. The FSA has told us that it does not object to this proposal.

The timescale for implementation

64. Table 6 and paragraph 367 of our 13 November provisional decision on remedies summarized the responses from the parties regarding implementation timescales. The table suggests that all the remedies in the package could be implemented in between 6 and 12 months. We would welcome further representations regarding the time to implement this package of remedies from the perspective of intermediaries and any impact that implementation time is likely to have on overall cost, in the light of the further detail set out in this document.

65. We consider that options 1, 3 and 6 could be implemented by nearly all the parties within six months of any CC Order, while options 4 and 7 could be implemented within 12 months of a CC Order.³⁰ In addition, we note that the Government has indicated that it will aim to have two common commencement dates each year for new legislation and regulations. The dates are 6 April and 1 October.

Cost of implementation

66. Table 7 and paragraph 387 of our 13 November provisional decision on remedies explained our assessment of the cost of implementation of the proposed remedies package. We would welcome further representations regarding costs of implementation of this remedies package from the perspective of intermediaries.

Monitoring and enforcement

67. Once the remedies package is implemented, it will need to be monitored and enforced under the Act by the OFT.

68. We believe that the OFT's monitoring should be supported by suitably comprehensive reporting requirements. Paragraph 371 of our 13 November provisional decision on remedies set out the elements of the proposed monitoring and enforcement package. We would welcome further representations on the costs and practicality of the proposed measure from the perspective of intermediaries.

³⁰Ibid, paragraph 368.