

**ASSOCIATION OF BRITISH INSURERS
WRITTEN REPRESENTATION TO THE COMPETITION COMMISSION IN
RESPONSE TO THE EMERGING THINKING REPORT, 6 NOVEMBER 2007
REGARDING THE MARKET INVESTIGATION INTO THE SUPPLY OF
PAYMENT PROTECTION INSURANCE SERVICES IN THE UK**

The Association of British Insurers (ABI) is the trade association for Britain's insurance industry. Our 400 member companies provide over 94% of insurance business in the UK. We represent insurance companies to Government, regulatory and other institutions and are an influential voice on public policy and financial service issues.

Executive Summary

- The ABI strongly supports the Competition Commission's findings in its market investigation of Payment Protection Insurance (PPI) that there is competition in the underwriting market and that vertically integrated firms do not distort competition.
- PPI is a valuable product to many people and, with the current record debt levels, it is more important than ever that people protect their finances.
- The PPI industry, as well as the Financial Services Authority (FSA) are delivering a range of initiatives to improve customer understanding of the product, and their awareness and ability to shop around. However, it takes time for the positive effect of these initiatives to show.
- The Competition Commission should carefully consider the unintended consequences of any possible remedies. For example, de-linking of the sale of PPI from the sale of the credit product would have devastating effects on consumers by leaving far higher numbers of people unprotected.

1. The ABI welcomes the report from the Competition Commission and we are pleased to see that the Commission is investigating thoroughly and taking on board a wide range of views.

Competition in the underwriting market

2. We strongly support the findings that there is healthy competition in the PPI underwriting market. The ABI has been highlighting the point to both the Competition Commission and to the Office of Fair Trading (OFT) that insurers compete against each other for contracts with distributors, often through competitive tenders.

Vertically integrated firms

3. We also agree with the Competition Commission's conclusion that vertical integration of the underwriting and distribution of PPI within the same firm does not cause distortion of competition at the detriment of consumers. As the Commission notes, vertically integrated firms are, in the same way as other insurers, conscious of their reputation on a broader scale and of the impact any deterioration of their reputation might have on other product lines.

PPI is a valuable product

4. When the Competition Commission now concentrates its investigation on competition between distributors in the retail market, we hope it will continue to consider that PPI is a valuable product for many people. This is a fact that the FSA has repeatedly emphasised. PPI protects people's homes, possessions and credit status, and with total borrowing in the UK reaching £1.4 trillion and increasing by £373 million a day, consumers need financial protection more than ever¹.

Industry initiatives

5. The PPI industry has delivered a range of initiatives over the past 18 months to make improvements in the market.
6. In June 2006, the Creditor Committee completed its review of the Consistent Interpretations Guidance. This document sets out the principles which insurers have agreed to follow when handling claims. This ensures that customers can feel confident that their claims will be dealt with on a consistent basis, regardless of who their insurer is.
7. In March 2006, the ABI made a commitment to the FSA that members would not apply nil refund terms if the loan was being repaid. This was followed up in October 2006 with a commitment not to apply nil refund terms regardless of whether the loan was being settled or not. In March

¹ Bank of England, October 2007.

2007, the ABI published a model wording for refunds which members had signed up to and would reflect in their policy wordings. The FSA participated in developing the refund wording. At the same time, we published a paper which was drafted together with the FSA, setting out FSA expectations around how firms deal with refunds. Together, these initiatives ensure that customers receive an appropriate refund and that they understand their refund entitlements when taking out a PPI policy.

8. In June 2007, the ABI launched a consumer guide to PPI, which members can either use on their websites or print and give as a leaflet to customers. This guide is now widely available on the websites of trade associations, member firms, and on the FSA's consumer website. A second, more in-depth leaflet was published in October 2007, together with the Finance and Leasing Association (FLA). These leaflets ensure that more information is available to customers about PPI. They set out what PPI does and does not cover and make it clear to customers that PPI is optional and that they should shop around for cover. Both leaflets have obtained a Crystal Mark from the Plain English Campaign to ensure consumer friendly language.
9. In September this year, the ABI also published a guide to protection products (PPI, Critical Illness, Income Protection, Private Medical Insurance and Life Insurance) which members are free to use on their websites if they wish. This guide aims to help customers understand the difference between the types of protection products in the market so they can start assessing which products might best suit their needs.
10. In June 2007, the ABI published learning objectives for PPI. These were agreed with the Financial Sector Skills Council. The learning objectives function as guidelines members can look to when they are producing training for their sales staff or members can benchmark their current training against the objectives. These learning objectives have been shared with distributor trade bodies.
11. The ABI Creditor Committee has drafted a model for sharing of management information between insurers and distributors of PPI. Whilst the Committee has not explored the practical aspects of implementing the model fully and not all firms will be able to follow all parts of this model, the model highlights the areas of management information sharing it could be helpful for firms in the PPI market to think about.
12. All of these initiatives need time to embed and there will be a delay before the positive effects can be seen. This is particularly true for initiatives that aim to educate consumers, but also those that involve reprinting of policy documentation. However, the FSA reported clear improvements in making it clear whether PPI is optional and in offering refunds in its thematic update in September. There are also developments in the market, including the new stand alone policies that the Emerging Thinking report noted. We ask that the Competition Commission takes this into account for the remainder of its investigation.

Upcoming changes

13. In addition, new initiatives are being delivered in the next six months.
14. Firstly, the new Insurance Conduct of Business (ICOB) rules are being implemented in January, after the FSA has finished its review. Although the final version of the rules will only be published on 7 December, the consultations over the past year strongly indicate that the new rules will focus on increasing transparency and enabling customers to shop around. The new rules include requirements around price disclosure to ensure that customers are able to compare the price of different policies. The rules are also similar to the remedies the Competition Commission imposed on the Extended Warranties market a few years ago in that the PPI seller must tell the customer how long the quoted price is valid for and when it will be reviewed. In addition, the new rules look set to include requirements of a 30-day cooling off period during which customers will receive a full refund if they cancel. The rules require that customers are made aware of their cancellations right during the sale. All of these requirements will contribute to customers' ability and ease of shopping around for PPI.
15. Secondly, the FSA is currently working together with the industry to develop comparative tables on PPI which will be launched in March 2008. The ABI fully supports this initiative as a means of helping customers to make informed choices and shop around for PPI. We share the aim of improving customer access to information and encouraging shopping around. The comparative tables will no doubt contribute to increased competition in the retail market.
16. These initiatives will deliver significant changes to the PPI market. However, this will not happen overnight and we urge the Competition Commission to think carefully about the improvements that are already in train before it considers any remedies that may later prove to have negative effects on the market.

Unintended consequences of remedies

17. The PPI market is already showing some signs of vulnerability due to the ongoing investigations of the FSA, the OFT and the Competition Commission, and the related media coverage. One example of this is that a number of firms have stopped selling PPI, and this will have an adverse effect on competition if it continues. It is, therefore, important that the Competition Commission acts sensitively in order to avoid further damage.
18. We would ask that the Commission also bears in mind the unintended consequences any remedies might have. If, for example, the sale of PPI were de-linked from the sale of the credit product, this would have serious consequences for the PPI market. Customers are much more likely to consider their need for PPI at the point of sale of the credit

product than would occur at any prior or subsequent point in time. Many customers who could benefit from PPI would not take it out if it was not readily available at the point of sale. As a result, a lack of availability of PPI at the point of sale would lead to a sharp decline in take up of PPI and many more people would be left without any protection in place.

19. Customers value the convenience of being able to purchase PPI at the point of sale. The cooling off period allows customers to change their minds and, as previously mentioned, these rights will be further strengthened and highlighted through the new ICOB rules.
20. There are no barriers to prevent customers from transferring their PPI to a new provider. There is a wide range of distribution channels for customers to purchase loans and PPI, including branches, telephone, the internet and through intermediaries. Customers can also readily compare loan and PPI packages online, using either websites such as www.moneysupermarket.com or the FSA's new comparative tables from the spring.

Alternative products

21. The Competition Commission noted in its report that it had found limited competition from alternative products such as Critical Illness and Income Protection. The ABI believes these products do overlap with PPI to some extent. However, it could be that customers do not understand the range of products available and need more information and education to enable them to consider the overall protection needs for their specific situation. We believe the protection products guide we referred to earlier is a starting point in that it provides an overview and can help customers to understand the alternatives.
22. It should be noted that some PPI products may already include elements of Life, Critical Illness and/or Income Protection in their cover. Customer holding this kind of product might not find it necessary to consider other types of cover.
23. A further consideration is that, because of the sales environment, e.g. when arranging a credit agreement to finance the purchase of a car, PPI might be a more appropriate product than fully underwritten products due to the detailed medical disclosures that are required for these.
24. The ABI will continue to work with the Competition Commission in the remaining part of the investigation and will be happy to provide any further evidence should this emerge.