

**COMPETITION COMMISSION MARKET INVESTIGATION UNDER PART 4 OF THE  
ENTERPRISE ACT 2002 INTO THE MARKET FOR PAYMENT PROTECTION INSURANCE**

**EMERGING THINKING REPORT**

**WRITTEN REPRESENTATIONS BY AXA UK PLC**

**1. Introduction**

1.1 AXA UK plc ("AXA") is pleased to provide the Competition Commission ("the Commission") with its views on the Commission's Emerging Thinking Report and to assist the Commission in its investigation of the payment protection insurance ("PPI") market in the UK.

1.2 AXA is grateful to the Commission for granting it an extension of time to submit these comments on the Emerging Thinking.

1.3 AXA does not intend to respond to every issue raised in the Emerging Thinking, but confines its comments to matters of which it has direct experience, or which are of particular concern to AXA.

1.4 As AXA has underlined in its previous submissions, PPI is a valuable product for consumers and has an important role to play in protecting customers and ensuring that they are able to repay loans, mortgages and other debt commitments in the event of illness or unemployment. AXA therefore hopes that the Commission would bear this overarching premise in mind as it focuses its investigation on competition between the distributors of PPI in the retail market.

1.5 AXA would also draw the Commission's attention to the fact that the protracted nature of the Commission's investigation and related investigation by the FSA, the uncertainty arising therefrom, and the sometimes negative reporting by the media of the issues surrounding the investigation and PPI generally, risks potentially counter-productive effects on competition in the PPI market as a result of misconceptions by consumers as to the value of PPI and therefore a generally reduced take-up of PPI. The withdrawal of some PPI distributors from the retail market potentially resulting in reduced competition at the retail level has also been observed. AXA would therefore encourage the Commission to consider carefully these effects as it progresses with the remaining stages of the investigation and makes its further announcements about the issues in the investigation.

**2. Specific issues**

**2.1 *The underwriting market***

2.1.1 AXA welcomes and endorses fully the Commission's findings that there is little or no evidence to support any assertion that there are features of the UK PPI underwriting market that prevent, restrict or distort competition to any significant extent. AXA agrees that the tender process leads to vigorous competition between underwriters at this level of the market.

**2.2 *Design of PPI policies***

2.2.1 The Commission recognises<sup>1</sup> in its Emerging Thinking that distributors have a significant level of input into the design of PPI policies.

---

<sup>1</sup> At paragraph 80 of its Emerging Thinking

2.2.2 However, underwriters, including AXA, are always heavily involved in the design of PPI policies. AXA's input helps to ensure that AXA is complying with the principle of 'Treating Customers Fairly' ("TCF"), as required by the Financial Services Authority ("FSA"). Indeed, AXA believes that the amount of information given to customers, the time it is supplied and the format in which it is given is regulated already to a significant extent by the FSA and the ICOB (Insurance Conduct of Business) Rules. In this regard, as the party to the contract of insurance, it is the insurer rather than the distributor that has the responsibility to comply with the TCF obligation. Moreover, under the proposed requirements of the new Insurance Conduct of Business ("NEWICOB"), there will be further regulation in this regard in 2008. It is anticipated that the new rules will increase transparency and enable consumers to shop around. The new rules are expected to include requirements in relation to price disclosure to ensure that customers are able to compare the price of different policies such as:

- (a) Informing the consumer how long the quoted price is valid for and when it will be reviewed;
- (b) Requirements for a 30-day cooling off period during which customers will receive a full refund if they cancel; and
- (c) Requiring that customers are made aware of their cancellations right during the sale process.

2.2.3 Any measures to alter customer information requirements in the light of the eventual findings in this investigation should, in AXA's view, be judged very carefully in terms of the impact on underwriters and distributors. In particular, AXA believes that a real customer benefit should be demonstrable with any suggested changes and that these changes should not impose any disproportionate burden on underwriters or distributors. The measures should also take account of the imminent changes expected to arise as a result of the introduction of NEWICOB during 2008.

2.2.4 AXA also believes that a necessary corollary to any new customer information requirements is effective consumer education in relation to the PPI product and insurance/financial products more generally. In this regard, we would refer the Commission to the National Strategy for Financial Capability being led by the FSA. The main findings of its survey of financial capability in the UK published in its report "*Financial Capability in the UK: Establishing a Baseline*"<sup>2</sup> in March 2006 were that:

- (a) Large numbers of people, from all sections of society, are not taking basic steps to plan ahead, such as saving sufficiently for their retirement or putting money aside for a rainy day;
- (b) The problem of over-indebtedness is not that it affects a large proportion of the population, but that when it strikes it is often severe, and that many more people may find themselves in trouble in an economic downturn;
- (c) Many people are taking on financial risks without realising it, because they struggle to choose products that truly meet their needs; and
- (d) The under-40s, on whom some of the greatest demands are now placed, are typically much less financially capable than their elders,

---

<sup>2</sup> [http://www.fsa.gov.uk/pubs/other/fincap\\_baseline.pdf](http://www.fsa.gov.uk/pubs/other/fincap_baseline.pdf)

even allowing for their generally lower levels of income and experience in dealing with financial institutions.

2.2.5 The results of this survey, together with the fact that the FSA is charged with improving financial capability in the UK and is undertaking an extensive programme to achieve this aim, demonstrate strongly the general problematic levels of financial capability amongst the UK population, and may be an underlying cause of the observed features of consumer behaviour in relation to the lack of shopping around for standalone PPI or alternative protection products.

2.2.6 AXA is very much aware of these issues and, in addition to its own initiative in developing new standalone policies in the market, it is working with and supporting the ABI Creditor Committee's work in making improvements to the way in which actual and potential PPI customers may benefit from improved awareness and information and therefore be encouraged to shop around for standalone PPI or other protection products, including:

- (a) A review of the Consistent Interpretations Guidance setting out principles which insurers have agreed to follow when handling claims to ensure that customers can feel confident that their claims will be dealt with on a consistent basis, regardless of who their insurer is;
- (b) The ABI's consumer guide to PPI, which members can either use on their websites or print and give as a leaflet to customers, and which are designed to 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;
- (c) The ABI's guide to protection products (PPI, Critical Illness, Income Protection, Private Medical Insurance and Life Insurance) which members may use on their websites if they wish and which aim 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; and
- (d) The ABI's learning objectives for PPI which function as guidelines that members can look to when they are producing training for their sales staff, or as objectives against which members can benchmark their current training.

## 2.3 ***Point of Sale Advantage***

2.3.1 The Commission has acknowledged<sup>3</sup> that the role of the point of sale is an important feature of PPI provision. Most PPI is sold at the credit point of sale and AXA believes that this is the most efficient way in which to sell PPI. As AXA has stated in previous submissions in relation to retail customer behaviour, although PPI is generally offered to customers in conjunction with the sale of a credit product, AXA believes that customers are generally aware that PPI is a separate product to the credit product and that they have the option not to buy it at the point of sale of the credit product. The take-up rates experienced by our distributor partners demonstrate this. AXA also believes that it is unlikely that the customer will have considered purchasing PPI before reaching the point of sale of the credit product, borne out also by

---

<sup>3</sup> At paragraph 111 of its Emerging Thinking

AXA's experience of trying to sell standalone PPI independently of the credit product.

- 2.3.2 Insofar as the point of sale advantage is perceived to create a potential barrier to switching, AXA believes it may be feasible to retain the option (and therefore efficiencies) of PPI being sold at the credit point of sale, but simply to make the customer aware of other options open to him/her (such as the fact that there are alternative PPI products in existence, or even other products similar to PPI, such as short-term income protection).
- 2.3.3 AXA believes however that it would be necessary in this situation to facilitate finding information on alternative products and providers for consumers and in this regard, AXA would support a standardisation of terms used in PPI policies in order to enable consumers to shop around and compare products more easily. In this regard, AXA is supporting the various initiatives being undertaken by the ABI Creditor Committee.
- 2.3.4 However, it should be noted that AXA would not support any standardisation either of cover or of price, since AXA believes these to be important differentiators in the range of PPI policies available in the market. Moreover, a comparison of policies based merely on price would be undesirable in AXA's view, since it would place too much emphasis on price whilst disregarding the important non-price elements of competition, such as the extent of cover available and the quality of after-sales service.
- 2.3.5 AXA notes further that it may be the case that possible low levels of switching by consumers are due also in part to normal observed customer behaviour across a range of financial services products, namely that consumers tend to be apathetic and to stay with their current provider unless sufficiently dissatisfied to move. For example, this can be seen from the low rates of switching between current bank accounts. It is also consistent with the above mentioned findings of the FSA's survey of financial capability in the UK published in its report "*Financial Capability in the UK: Establishing a Baseline*".

## 2.4 **Price of PPI**

- 2.4.1 In respect of the price of PPI, one of the Commission's initial findings<sup>4</sup> is that the price of PPI does not appear to have changed a great deal between 2002 and 2006.
- 2.4.2 Whilst this is true at the customer premium level, AXA's experience is that net rates charged by insurers have decreased over the same period due to the favourable economic conditions experienced over the period and the vigorous competition between underwriters in tendering for new business acknowledged by the Commission.

## 2.5 **Retail market definition: possible alternatives to PPI:**

- 2.5.1 The Commission has noted that there are possible alternatives to PPI (income protection, short-term income protection, personal accident insurance, critical illness insurance, and life insurance), but does not think currently that these are in the same market as PPI.<sup>5</sup> However, AXA notes that the Commission has stated its intention to carry out further research into the differences between short-term income protection and PPI.

---

<sup>4</sup> At paragraph 101 of its Emerging Thinking

<sup>5</sup> At paragraphs 180 & 181 of its Emerging Thinking

- 2.5.2 AXA submits in this regard that there are no real differences between short-term income protection policies (such as its own Lifestyle Protection product sold through the Post Office) and PPI. In terms of the events covered, they are genuine substitutes. The monthly benefit will not directly substitute what would be provided by a PPI product unless the insured purposely sets it to be so and keeps it under constant review to keep it current with credit commitments. However, AXA believes that these two products are genuine substitutes and that [redacted]. AXA also wishes to highlight the problem that a lack of financial capability on the part of consumers presents. In other words, no matter how extensive an awareness campaign may be undertaken in relation to an individual product, if there is no change of approach on the part of consumers as a result because they still do not think of this type of protection until the point of sale of a credit product, then the take-up rates of standalone products are likely to continue to be low.

**AXA UK PLC**

**14 December 2007**