



27 November 2007

NON-CONFIDENTIAL VERSION

Lanze Gardiner
Inquiry Secretary
Competition Commission
Victoria House
Southampton Row
London
WC1B 4AD

Barclays Legal & Compliance
Corporate
Level 29
One Churchill Place
London
E14 5HP

Tel +44 (0)20 7116 2677
Fax 01452638350

www.barclays.com

BY EMAIL

Dear Lanze

Competition Commission (the "Commission") market investigation into Payment Protection Insurance ("PPI") – Emerging Thinking

This letter sets out Barclays Bank plc's ("Barclays") response to the Commission's Emerging Thinking of 6 November 2007. Barclays has not commented on all the issues raised by the Commission at this stage in the investigation. In this context, the lack of any express statement does not therefore indicate agreement or disagreement by Barclays with the existence, or importance of, any issues contained within the Emerging Thinking. Barclays looks forward to other opportunities to discuss the issues relevant to the PPI sector, during the course of the Commission's investigation.

In addition to this letter, Barclays has asked economic consultants LECC to respond to a number of issues in relation to the Emerging Thinking document. These are: (i) whether the Emerging Thinking takes all relevant economic evidence, including recent market developments, into account; (ii) whether the analysis in the Emerging Thinking allegedly indicating a lack of competition and consumer detriment reflects sound economic principles; and (iii) what the impact of these issues is on the conclusions in the Emerging Thinking. Barclays agrees with the conclusions set out in LECC's paper *Payment protection insurance: The Competition Commission's emerging thinking*.

As a full-service financial services provider, which offers an extensive range of consumer finance products and services to a wide group of customers, Barclays recognises the importance of its products and services to the customer in ensuring customer loyalty. The maintenance of Barclays good reputation across the entire range (including PPI) is, therefore, key to its competitiveness and success.

I. Market developments not taken into account

In its Emerging Thinking document, the Commission appears to be describing the PPI sector as it was before 2005 not taking into account the significant recent developments in the PPI sector. Barclays believes that this may lead to an inaccurate and outdated analysis and an inappropriate foundation for potential remedies.

As mentioned in Barclays previous submissions, Barclays has, in the past few years, been reviewing its PPI sales practices and processes, as well as its suite of PPI products. As a result, Barclays is at the forefront of innovation, developing new initiatives to complement its current PPI offering, as part of its range of customer choices. These changes have been due to a

number of factors, including regulatory changes and competitive pressure, as well as business opportunity.

The Commission refers to HSBC and RBSG introducing standalone products in 2007. We understand that additional PPI providers are introducing new products in the market, highlighting that innovation is taking place. For example, Assurant Solutions, an intermediary, is providing tailored solutions to brokers and small operators. HBOS offers a menu option of Gold, Silver, or Bronze. Other providers, including Direct Line, Lombard Direct, Sainsbury's and Tesco offer customers a choice of one or two alternative PPI products. As a result, the Commission's static view of the market is not likely to be reflective of current conditions.

We note that the Commission states in its Emerging Thinking (paragraph 187) that it will consider the effect of several companies offering more tailored products.

2. **Barclays product innovation**

Barclays believes that the development of most products is an iterative process, which usually follows three phases: (i) development of the features of the product; (ii) development of the product in accordance with customer needs; and (iii) innovation and differentiation of the product.

[TEXT REDACTED]

2.1 **Product-centric developments**

As part of its first stage of development of the PPI product, Barclaycard has recently launched a standalone PPI product entitled "Plan B". Plan B is able to cover either a customer's Barclaycard payments or balances across all the customer's credit and store cards by choosing a fixed amount in case of the customer being unable to work due to accident, sickness or involuntary unemployment.¹

[TEXT REDACTED]

As mentioned above, Barclays has also continued to review its sales practices and processes.² Barclays has been working towards addressing the FSA's concerns in its three thematic review updates. In addition, [TEXT REDACTED].

[TEXT REDACTED]

2.2 **Customer-centric developments**

The next stage in the development of the PPI product set is driven by customer needs, feedback and behaviours making the products more aligned to customer demand.

As part of this, and as further described in Barclays letter to the Commission of 9 November 2007, [TEXT REDACTED].

2.3 **Innovation and differentiation - the next stage**

[TEXT REDACTED]

¹ See <http://www.barclaycard.co.uk/personal-home/insurance/payment-protection/index.html>.

² For further details, please see paragraph 4.6 of Barclays response to the Issues Statement and Barclays response to Questions 2 and 10 of the Market and Financial Questionnaire.

2.4 *Complementary products*

[TEXT REDACTED]

3. **FSA activity**

Barclays notes the Commission's concerns in relation to single premium, in particular, in relation to switching costs.³ However, the Emerging Thinking seems to ignore the FSA's proposals regarding single premium PPI policy rebates upon cancellation of the policies.

As the Commission is aware, the FSA is continuing to review the sales processes and systems and controls around the sale of PPI policies and part of its focus has been on single premium PPI policies. In its thematic update in September 2007,⁴ the FSA has given firms a deadline of December 2008 "to complete their work on TCF [Treating Customers Fairly] and to demonstrate they are consistently treating their customers fairly in all aspects of their business, including PPI."⁵

The FSA's work on refunds means that firms should calculate refunds fairly, taking into account reasonably incurred costs, which may or may not result in a pro-rata refund; however, the FSA does not currently plan to introduce a single refund method.⁶

Barclays believes that the FSA's work in this respect will go some way towards addressing the Commission's concerns and should, therefore, be taken into consideration when analysing single premium PPI policies.

[TEXT REDACTED]

Barclays also believes that the FSA's initiatives in, for example, the ongoing reform to ICOB and a more principles-based regulation and its effects on PPI, should be taken into account by the Commission. The FSA is currently proposing to replace detailed rules specific to ICOB with a high-level standard together with a limited number of detailed rules and guidance for *protection products and PPI*. The FSA has identified *suitability, product disclosure and claims handling* as areas where this approach will be adopted. As implementation of NEWICOB is currently intended over a six-month transition period from 6 January 2008, this change in regulation will clearly have an impact on the way in which PPI distributors offer PPI.

4. **Consumer behaviour**

We note the Commission's comments on consumer behaviour and, in particular, that the issues the Commission is seeking to clarify are: (i) whether consumers seek and use information prior to POS; and (ii) extent of customer search and reasons for it. Barclays looks forward to responding to the results of the telephone customer survey in due course. As mentioned previously, Barclays has continued to work towards providing customers with the information necessary to make informed choices at the time of considering whether to purchase PPI.⁷

³ Downstream market definition working paper, paragraph 46-48.

⁴ See FSA Thematic update - September 2007, http://www.fsa.gov.uk/pubs/other/ppi_thematic_update.pdf.

⁵ The six TCF consumer outcomes identified by the FSA include: "Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly" and "Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint".

⁶ Single payment protection insurance refunds, <http://www.fsa.gov.uk/pages/Doing/Regulated/consumer/tackle/ppi.shtml>.

⁷ For further details of these initiatives, please see paragraphs 4.2 to 4.8 of Barclays response to the Issues Statement.

5. **Conclus on**

Barclays believes that there is no need for the Commission to impose remedies in its investigation into the supply of PPI into the UK. The Commission's main areas of concern are already being addressed by the recent and current developments occurring in this sector: any issues surrounding sales processes and practice are being addressed by the FSA; regulatory and competitive developments are likely to accelerate a move from single premium to regular premium in the short to medium term; and other features identified by the Commission can be remedied by increased transparency measures, which are also being introduced by the FSA.

The information contained in this letter and accompanying paper is highly confidential and contains business secrets within the scope of Part 9 of the Enterprise Act 2002. It should therefore remain confidential to Barclays and should not be disclosed to any other party without Barclays express consent.

Please do not hesitate to contact me if you have any queries.

Yours sincerely



Nicola Northway

Head of Group Competition Law