

Payment Protection Insurance Market Investigation

Response by the Council of Mortgage Lenders to the Competition Commission's "Emerging Thinking" published on 6 November 2007

1. The CML is the representative trade body for the residential mortgage lending industry. Our 163 members hold over 98% of the assets in the UK residential mortgage market. We welcome this opportunity to comment on the Competition Commission's "Emerging Thinking" as part of its Inquiry into Payment Protection Insurance.
2. We have a number of specific observations to make about points raised in the Emerging Thinking document: these are set out below, referenced to the relevant paragraph in the Commission's document. We have no specific comments on any of the accompanying papers.
3. **Paragraph 36:** following our hearing on 3 July we sent the Commission a note on "PPI product structure and differences". This illustrated the difference between the "policy deferred" period, which only allows a claim after x days whenever the claim event occurs, and the initial exclusion period (normally 60 days from the start of the policy) which only affects unemployment claims. It would be helpful to describe this more clearly, if not in the actual Emerging Thinking paper, then in the accompanying paper on "Features of PPI for different credit products".
4. **Paragraph 88:** a reminder of the scope of the FSA visits and mystery shopping exercise would be useful here: the 3rd phase of the thematic review focussed only on CCPPI and PLPPI. MPPI was deliberately excluded because the FSA had found, in the 2nd phase, that sales and documentation standards were much better in relation to MPPI.
5. **Paragraph 105:** we assume that this comment about large price variations between what appear to be very similar PPI policies is not directed at MPPI, because there is in fact relatively little variation in MPPI pricing. Where there is variation, this reflects the level of cover provided by the particular policy and the degree to which the provider is operating above the level of the industry baseline.
6. **Paragraph 149:** we do not deny the point-of-sale advantage to mortgage providers. However, we do not believe that consumers are completely price-insensitive. The adviser/salesman will have explained any limitations on the products which will be discussed during the course of a sales interview, so the consumer will be aware that there may be other alternatives available in the market, although the adviser/salesman may not be able to provide information about their cost or scope. Some consumers may be inhibited from extending the process by making further enquiries of other providers because of the length of time involved (or perceived to be involved) in doing so. But that is a matter for individual choice – the option is open to consumers.
7. **Paragraph 155:** members' experience is that consumers who actively shop around tend to be those who either have their own direct experience of a fall in income or know of someone who has had such an experience. Many additional consumers will appreciate the benefits of MPPI when invited to consider the risks

which it covers. However, the process of buying a mortgage can be – with good reason – quite time-consuming and some consumers may be deterred from prolonging what may already have been quite a lengthy process by adding further discussion on MPPI.

8. **Paragraph 165:** the average level of MPPI is low when compared with other types of PPI and variation in price tends to reflect variation in provision of cover. MPPI products are priced according to a number of values and we do not accept that price is purely set relative to the prices of other providers.

9. **Paragraph 172:** as we explained in our response (May 07) to the Commission's Statement of Issues, consumers may be deterred from switching MPPI products because to do so might leave them exposed without cover for a 60-day period and without cover for pre-existing conditions. Where a consumer buys a mortgage and associated MPPI direct from a lender, it will be less likely that the consumer will switch the MPPI product during the time the mortgage is held with that lender. However, competitive pressures are such that consumers may switch mortgage provider several times over a period of years, and each time they do so they will have an opportunity to switch the MPPI product. Consumers who buy their mortgages through mortgage intermediaries may be more likely to buy a MPPI product from another provider, according to the information and advice available from the intermediary.

10. **Paragraph 175:** an estimated 60% of mortgages are introduced to lenders by mortgage intermediaries – and it is the intermediaries who therefore enjoy the point of sale advantage with the consumer. The lenders therefore do not have a monopoly over their credit customers – in introduced cases they will never have direct face-to-face contact with those customers.

11. **Paragraph 178:** the extent to which PPI, or the combination of PPI and credit, is constrained by insurance policies not available at the point of sale of the credit may be affected by the extent to which the PPI is geared to the particular credit. In the mortgage context, some MPPI products are specifically designed to cover actual monthly repayments, and will fluctuate in line with changes to the prevailing interest rate. Some will include cover which protects other outgoings such as utility bills and essential expenditure in addition to the mortgage repayments. Other products may be more generic and therefore more substitutable by alternatives which are not available at the point of sale of the mortgage.

12. **Paragraph 185:** it is virtually impossible for lenders to provide evidence that consumers switch MPPI products. They will be aware that consumers may have ceased taking their MPPI through the lender, but will have no information as to whether those consumers have taken out alternative MPPI with another provider.

13. **Paragraph 187:** the amount of information given to consumers will be the same whether the sale is advised or non-advised. The difference is that in an advised sale, the adviser would specifically recommend a particular type of MPPI product, and this advice might mean opting for a selection of component elements rather than a “bundled” product. The appropriateness of such advice would be a matter for the adviser's professional judgement, according to the consumer's individual

circumstances. In some cases the total benefits provided by a “bundled” product may exceed the sum of the constituent parts, making it a more appropriate choice.

14. The other point we would make here is that it should not be assumed that it will automatically be cheaper for a consumer to opt for a choice of different elements as opposed to a “bundled” product. Providers will have to price individual elements separately and such pricing will reflect demand for each element and its profitability. It may be more cost-effective to provide the bundled cover, even if not all the elements will be directly relevant to every consumer.

15. **Paragraph 192:** one of the reasons why prices of stand-alone products are not higher than those sold alongside credit products is that “all other things” are not equal. Firstly, stand-alone providers are frequently centralised and do not bear the heavy costs of operating branch networks. Face-to-face selling and offering advice are always going to be expensive to provide. Secondly, not all stand-alone providers offer the full range of additional services such as premium collection, policy administration, renewal processing and assistance on claims.

16. It would perhaps be tempting to conclude that if more MPPI policies were sold, prices would automatically be reduced. There may be factors which would militate against this, however: for example, the price will be affected by the number of claims. In some cases there may be an element of “adverse selection” whereby if the product is very cheap it is more likely to be taken out by those who – arguably - need it more, but who are also more likely to make a claim.

17. **Paragraphs 194 - 196:** we believe that there is little evidence of this in relation to mortgages. There is no doubt that the mortgage market is highly competitive, but we do not accept that profitability has fallen as a result of deterioration in credit quality. Given the relatively low levels of take-up of MPPI and the fact that purchase of the associated mortgage is not conditional on taking out MPPI, the likely and actual sales volumes are far too small to make a significant impact on compensating for reduced profitability on the mortgage product. Lenders’ pricing of their mortgage products will not therefore take account of any anticipated income from MPPI since such income is too unreliable.

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