

PAYMENT PROTECTION INSURANCE

Competition Commission – Emerging Thinking

EFS RESPONSE

1 Introduction

1.1 This letter comprises the response of Everyday Financial Solutions to the report issued by the Competition Commission (CC) in November 2007 entitled “Emerging Thinking”.

1.2 Everyday Financial Solutions (“EFS”) is part of the Littlewoods Shop Direct Group (“LSDG”) of companies. LSDG is the largest home shopping company within the UK and provides a wide range of goods and services to its customers through both catalogues¹ and e-commerce. EFS is the parent company of the financial services division within the Group, providing a range of retail credit, general insurance and warranty products to these home shopping customers.

1.3 EFS is the parent company of 3 FSA authorised firms :-

- Littlewoods Finance Company Limited (FRN 312190)
- Shop Direct Financial Services Limited (FRN 312194)
- Solution Personal Finance Limited (FRN 312197). This is a joint venture company between Littlewoods Finance Company and Barclaycard, offering a Visa branded credit card to LSDG customers

EFS is also a participant in a joint venture company with HBOS, providing personal loans to LSDG customers.

1.4 EFS met with representatives from the OFT in May 2006² to provide an overview of the home shopping market, its sales and claims operation and PPI products. EFS also responded to the OFT report issued in November 2006 [OFT 869] and the CC Statement of Issues document in May 2007 (copies available on request).

2 CC Emerging Thinking

2.1 EFS both recognise and welcome that the CC has published this Emerging Thinking document on the basis of evidence it has analysed to date. EFS also supports the CC view that it must be mindful of the work being conducted by the FSA, in relation to the PPI sector, for the purposes of the CC investigation³. This will avoid duplication of effort for all parties (regulators and businesses) at the same time as providing consistency.

2.2 The CC is required to determine whether any feature, or combination of features, of the PPI market or markets prevents, restricts or distorts competition. If so, the adverse impact on competition could lead to a detrimental effect on customers.

¹ Catalogue titles include Littlewoods, Great Universal, Choice, Kays, Abound, Additions and Marshall Ward

² Meeting held on 17th May at OFT Offices in London

³ Para 11 of CC Emerging Thinking

2.3 The CC Emerging Thinking key findings⁴ from the review of documentary and oral evidence includes, but is not limited to;

- some evidence that firms analyse the price of credit and PPI together and the majority of the distributors say that they do not run PPI as a separate business
- very few firms advertise their PPI offerings on a stand-alone basis, and where PPI is advertised, the emphasis of this advertising is on the credit product
- some evidence of firms changing their PPI products but the majority of distributors told us that they had not introduced any entirely new products
- in terms of reacting to competitor behaviour, little evidence has been found that demonstrates competition or distributors reacting to product changes and innovation

3 **EFS Response**

3.1 Whilst EFS recognises that the CC key findings may be relevant in some areas of the market, EFS considers that this is not the case in relation to home shopping.

3.1.1 When considering any feature of the PPI market which could represent an “Adverse Effect on Competition” (AEC), the CC should consider;

- a) if any barriers do exist versus whether the market chooses to avail itself to the opportunities that exist
- b) the innovation element that exists within the insurance industry

As such, EFS would suggest that the PPI market does have similar options to those in other areas of the insurance industry e.g. travel insurance (see ref 3.4.4 – 3.4.6).

3.2 **Business Process**

3.2.1 Within EFS the PPI and credit products are operated by separate business areas and as such have Directors who are responsible for strategy, financial performance, budgeting, reporting, advertising, and product development within their own areas. This separation removes a conflict of interest that may exist if the setting of PPI and credit pricing was consolidated.

3.3 **Sales Process**

3.3.1 The sales process within Home Shopping affords a much greater opportunity, than other providers, for customers to make an informed decision regarding whether or not to purchase PPI in advance of the offer. Customers receive four seasonal catalogues per year which include separate advertisements of PPI and credit; these advertisements are also contained on home shopping websites. The content of the PPI adverts include details of benefits, exclusions and the basis for calculating the premium. With this information readily available before-hand customers are offered the PPI during their first order but are also able to take out PPI at any time during their trading relationship with their catalogue company. Likewise, home shopping customers are able to

⁴ CC Emerging Thinking Appendix A Para 3 (a), (h), (j) & (l)

cancel their PPI cover at any time without penalty (thereby reducing one of the barriers to entry for other providers).

- 3.3.2 It should be noted that although the CC states about 80% of PPI policies are taken out at the same time as credit, EFS can confirm that approximately X% of its PPI policies are taken out at this point.

3.4 Product

- 3.4.1 Most Home Shopping PPI products are designed to cover both the customer's catalogue payments and purchases⁵. Generally Home Shopping customers have a lower demographic profile, therefore are less likely to have home contents, other insurance or savings. As such, Home Shopping PPI complements other forms of PPI and home contents insurance. Home Shopping customers typically have a long term relationship with their catalogue company and their balances are in general much lower than other forms of unsecured lending, and repayments are over shorter periods (averaging X months and ranging from 20 weeks to 3 years). Home Shopping PPI is charged as a % of the customer's outstanding monthly balance, making this important type of cover affordable for customers. The CC Emerging Thinking document states⁶ "taking out PPI can entail a significant financial outlay" – this is not the case for Home Shopping PPI. The Home Shopping PPI product is needed and valued.
- 3.4.2 EFS has recently developed and launched a new PPI product (Shopping Insurance), in conjunction with Norwich Union, for home shopping customers. Bearing in mind the long term relationship that typical home shopping customers have with their catalogue company, this new product has been designed to take account of the UK's ageing population and an increase in the number of people that continue to ⁷work after retirement age. Also, Shopping Insurance does not have the ⁸pre-existing medical conditions exclusion as is the case with other insurance policies.
- 3.4.3 As far as EFS is aware no other PPI product offers these innovative benefits, and in a wish to review its PPI product against its customer base, this type of change can stimulate the market into providing its own response to your investigation.
- 3.4.4 The PPI market may be able to draw some parallel from other areas within the insurance industry. Initially the sale of travel insurance was linked to a single package holiday, however over the years through financial services becoming more transparent and customers becoming more aware of what's on offer, the travel industry introduced new products e.g. annual cover.
- 3.4.5 There is currently no reason for preventing PPI distributors from entering into their competitors market on a similar basis. For example; A distributor could offer PPI cover for their own credit product and offer further cover on any other credit products and outgoings which the customer may have with different lenders.

⁵ Catalogue payments are covered against accident & sickness, hospitalisation, death and unemployment - Purchases are covered against loss, theft and accidental damage.

⁶ Para 13

⁷ Unemployment cover up to the age of 75

⁸ Valid claimants must have been at work immediately prior to their accident or sickness

3.4.6 EFS believes that new products can be brought to the market during the natural evolution of the PPI product. This will be realised through the ongoing improvement in the transparency of PPI sales resulting in greater customer awareness which will stimulate businesses to compete to meet customers demands and needs.

3.4.7 EFS agrees that the CC's review of the extent of competition between suppliers should include consideration of both the price of the product and the benefits provided.

3.5 Commission

3.5.1 The amount of commission received by a distributor can paint a mis-leading picture. Therefore, whilst considering the level of commission payments and profitability of supplying PPI, the CC should take account of;

- the activities by other parties assumed by the distributor or underwriter
- any profit share distribution between the underwriter and other parties
- the customer indifference to commission amounts over the importance of the PPI price

4 Conclusions

4.1 There are a number of similarities between the CC PPI investigation and those identified by the CC's investigation into extended warranties on Domestic Electrical Goods. The outcomes (and remedies) from the extended warranty investigation were designed to address these competitive issues through increased transparency and improved customer rights. The objective of these remedies is very similar to the six customer outcomes highlighted in the FSA's Treating Customers Fairly (TCF) initiative. EFS therefore considers that the implementation of TCF will in itself significantly address most, if not all, of the features that are considered to have an AEC.

4.2 EFS does have concerns that the number of sales in the PPI market is falling which will ultimately have an impact on those customers who are most vulnerable and at risk of not being covered should the unforeseen occur. Point of sale is the ideal time for most customers to consider and purchase PPI. It allows customers to make an informed decision on the total cost of purchasing and protecting their goods, as well as providing cover from the inception. Lenders typically know more about their customers than stand-alone providers and should therefore be able to work with insurers to design and develop products to meet specific customer needs.

4.3 EFS looks forward to receiving the CC's Provisional Findings document in May 2008 and hopes that the above points can be reflected in this report. However, as the statutory deadline is February 2009, we would request that the CC considers the timescales for the industry to implement any remedies that may be introduced. In the interim, if you require any further information, please do not hesitate to contact me.

*Ian Murphy
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