

## Competition Commission Market Investigation into Payment Protection Insurance

### Response to the Competition Commission's Emerging Thinking paper dated 6 November 2007

#### 1 Introduction

- 1.1 This submission of the HSBC Group ("HSBC") is in response to the Emerging Thinking paper issued by the Competition Commission (the "CC") on 6 November 2007 in respect of its market investigation into payment protection insurance ("PPI") under the Enterprise Act 2002 (the "Emerging Thinking paper"). We note that the CC has acknowledged that it has a lot more work to do. HSBC agrees with the CC, particularly given that HSBC believes that the market is on the verge of some important changes. [redacted]
- 1.2 HSBC's response comments on three significant issues raised in the Emerging Thinking paper - market definition, price variation and profitability - but reserves its position in respect of matters raised in the Emerging Thinking paper which are not addressed in this response (or matters on which further thinking from the CC is to emerge). HSBC's response deals primarily with the operation of the market to date, rather than its likely future development. It is clear, nevertheless, that the CC will need to consider the likely future development of PPI, [redacted] potential changes instigated by other providers, and the response by customers, as well as changes to the way PPI is sold as a result of FSA initiatives. Accordingly, HSBC reserves the right to supplement its response with further submissions to the CC in due course.
- 1.3 HSBC's PPI business is conducted through a number of business units and under the principal brands of HSBC, HFC, first direct and M&S Money. Unless otherwise specified, all submissions are made on behalf of all entities within the HSBC Group involved in the supply of PPI.
- 1.4 The submission contains commercial information the disclosure of which would significantly harm the legitimate business interests of HSBC. HSBC will provide the CC with a non-confidential version of the submission.

#### 2 Executive Summary

- 2.1 HSBC welcomes the CC's recognition that the remaining issues are far from simple, and that whether there are separate markets for PPI and credit is an important and challenging question, but not one to which the CC need devote disproportionate resources or on which the CC necessarily needs to reach a firm conclusion for the purposes of this investigation.<sup>1</sup> Furthermore, the historical analysis of PPI may largely be rendered academic by actual and anticipated changes to the market [redacted].
- 2.2 HSBC has serious doubts regarding the CC's preliminary conclusion that the relevant economic market is a series of brand-specific PPI distribution markets. HSBC considers that the evidence presented by the CC, as well as HSBC's own experiences from selling PPI, suggests that the relevant downstream product markets are the markets for unprotected credit products and protected credit products respectively. HSBC further considers that these markets will evolve as a result of the changes that the PPI industry is currently undergoing, so that consumers will have a greater choice as to the type of protection they can take out.
- 2.3 HSBC believes that customers can and do shop around for PPI. Firstly, as evidenced in this response, it is easy for customers to compare the price of unprotected and protected personal loans, credit cards and mortgages. Second, as revealed by surveys commissioned not just by HSBC and other providers but also by those commissioned by the CC and OFT, customers do look at the price of protected credit before making their purchase decision.
- 2.4 HSBC believes that the profitability of the PPI market is consistent with competitive markets for protected and unprotected products and that the evidence submitted by HSBC demonstrates that the variation in PPI prices between credit products is the result of substantial differences in product characteristics. Furthermore, the variation in PPI prices for the same policy type is explained by the difference in cover, exclusions and several other factors.

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<sup>1</sup> Downstream Market Definition working paper, paragraph 8

2.5 Therefore, HSBC believes that the evidence on customer behaviour, PPI/credit product profitability and on price variations between PPI products (among other things) is consistent with there being separate markets for unprotected and protected credit products. Moreover, this evidence does not support an adverse effect on competition.

2.6 The remainder of this submission briefly sets out [redacted] HSBC's more detailed observations on the Emerging Thinking paper. Unless otherwise stated, references made relate to paragraph numbers of the Emerging Thinking paper.

**3 [redacted]**

3.1 [redacted]

3.2 Increasingly, consumers have more than one loan, own several credit cards and have higher levels of unsecured borrowing (alongside their mortgage commitments). The way in which customers conduct their finances is also evolving rapidly, with customers determining the level of interaction with their financial services providers and the channel of interaction which best meets their needs. [redacted]

3.3 HSBC currently offers an income protection product, LifeChoices, which is a flexible protection policy made up of four elements of cover: Life (L), Sickness (S), Trauma (T) (close to critical illness) and Unemployment (U). A variable level of cover is offered to suit a customer's lifestyle, allowing the customer to choose the level of cover, for example, to protect a specific risk or to protect their entire lifestyle. LifeChoices is a regular monthly premium product and can be cancelled at anytime.

3.4 [redacted]

3.5 [redacted]

3.6 [redacted]

3.7 HSBC contends that there are no adverse effects on competition or detrimental effects on customers in the PPI market, and that the way in which the PPI market has developed represents the most effective method available to providers at the time to allow customers to protect their credit obligations, the benefits of which have been acknowledged by FSA, OFT and the former DTI, which concluded that PPI provides "valuable protection against changes in a consumer's financial circumstances".<sup>2</sup> [redacted]

3.8 Customers have historically been interested in purchasing all of the LASU elements of PPI cover, in a bundle. [redacted]

3.9 HSBC further considers that, as customers become more sophisticated purchasers of financial products, and providers reach a better understanding of the risk profile of a PPI customer over time, there may be greater interest in customers being able to purchase, and suppliers may be better placed to offer, regular premium products, which may facilitate even greater competition and switching in the PPI market. In this respect, the CC must also take into account in its analysis the impact of recent FSA initiatives on the payment and calculation of rebates on single premium policies offered by providers.<sup>3</sup>

3.10 HSBC would also invite the CC to take account of the impact on future sales of PPI of the proposals by the Ministry of Justice to introduce enforcement restriction orders, which would allow borrowers who fall into financial difficulties through a change of circumstances, such as unemployment or divorce, to take a "repayment holiday" (via enforcement relief) on personal loans, credit cards and other debts (although not mortgage repayments).<sup>4</sup>

<sup>2</sup> DTI: Review of Consumer Credit Act: progress report, August 2002, as cited at page 1 of the CAB supercomplaint report

<sup>3</sup> For example, the undertakings detailed in *FSA: The Sale of Payment Protection Insurance - results of follow-up thematic work*, October 2006, page 4

<sup>4</sup> See Ministry of Justice Consultation Paper CP01/08, 16 January 2008, and press coverage, in particular, *Government's court order plan will allow people in debt to keep their creditors at bay*, The Times, 17 January 2008: "Some experts predict that EROs could have devastating effect on the payment protection insurance (PPI) market. PPI insurance, sold alongside personal loans and credit cards by banks and lenders, covers policyholders' payments if they have an accident, fall ill or lose their job."

#### 4 The relevant markets are protected and unprotected credit (but this may change in the future)

4.1 The Emerging Thinking paper suggests that:

- initial indications are that consumers buying a provider's credit product are relatively price insensitive when they consider buying PPI (CC News Release);
- none of the evidence received so far indicates that customers' choices in the primary market for credit products are affected by prices in the secondary market for PPI (24);
- the point of sale is an important feature of selling PPI (111) and it is difficult to sell PPI away from the point of sale (113);
- different brands of PPI do not constrain each other (26);
- hence, providers may face little substantive competition when supplying PPI to their own credit product customers (CC News Release); and
- therefore, the relevant product market may be a series of brand-specific product markets (183), such that each PPI provider has a monopoly over its own credit customers at the point of sale (175).

##### Two relevant markets for each credit product

4.2 HSBC disagrees with the CC's preliminary conclusions above. In particular, HSBC considers that for personal loans and credit cards it is more likely that there are two relevant markets for each credit product<sup>5</sup>:

- unprotected credit (i.e. without PPI); and
- protected credit (i.e. with PPI).<sup>6</sup>

4.3 This is because:

- consumers can compare the overall price of or charges for credit products with or without PPI, either online, in branch, or by phone;
- customers do look at the overall price of or charges for the combination of credit product plus PPI before choosing from which provider to purchase their credit product; and
- as a result of this customer behaviour, it would not be profitable for any individual provider to offer protected credit significantly above the competitive level.

4.4 Furthermore, evidence on switching and entry is consistent with the existence of markets for protected and unprotected credit, as:

- Switching tends to take place on either the protected or unprotected credit (rather than the PPI element separately). Customers frequently switch their protected or unprotected credit provider, either during the term of, or upon the expiry of, the contractual period. The average duration for which a personal loan is held is now approximately [§<]. HSBC considers that, given this short period of time after which customers on average seek to reconsider their loan provider, it is not unreasonable for customers only to reconsider their PPI provider at the same time. By

<sup>5</sup> [§<] HSBC recognises that there are differences between PLPPI/CCPPI and MPPI, in particular, the role of intermediaries in the distribution of MPPI. This suggests that the relevant downstream market for mortgages may involve a market for all MPPI and a separate market for mortgages. In the alternative, it is possible that the analysis of an unprotected/protected market definition may also hold for mortgages.

<sup>6</sup> It should be emphasised that these are economic market concepts reflecting how customers behave. HSBC is not suggesting that banks market protected and unprotected credit as separate products. Indeed, PPI is a separate product offered only in combination with a credit product, but the sum total of customer choices mean that credit purchased with PPI can be considered as a separate market to credit purchased without PPI.

comparison, whilst motor insurance policies generally are of a fixed duration of 12 months, on average, a customer will stay with HSBC for approximately [ $\geq$ ]; and

- significant entry has occurred into the protected and unprotected credit markets in the UK in recent years, thereby illustrating the absence of appreciable barriers to entry to these markets.

4.5 There are a number of further grounds (some of which have been raised by other providers of PPI in their responses to the Emerging Thinking paper) on which to object to the CC's proposed approach on market definition of looking at branded PPI markets for each distributor:

- the CC's proposed approach does not enable it to conduct a meaningful analysis of the competitive dynamics of the PPI industry - looking at PPI in isolation from the underlying credit product is not the most appropriate lens through which to view the PPI sector;
- the CC's proposed approach is consistent neither with the approach taken by the CC in recent cases, such as Store Cards and Extended Warranties,<sup>7</sup> nor with the need for judgement in adopting the methodology most appropriate in the context of the investigation acknowledged in the CC's guidelines;<sup>8</sup>
- there are inconsistencies between the CC's product and geographic market definitions as, in acknowledging that prices are uniform across the UK, the CC implicitly accepts that the prices offered by larger, national providers constrain those offered by smaller, local providers;
- the CC considers that only two discrete conclusions can be drawn on the relationship between PPI and the credit product: either (i) there is perfect two-way complementarity, with PPI and the underlying credit product in the same market, or (ii) if not, there is one-way complementarity, with PPI and the underlying credit product in separate markets. The CC fails to consider whether there is some degree of two-way complementarity in between these extremes;
- the CC prematurely concludes, on the basis of limited, documentary evidence, on an artificially narrow market definition, which does not take sufficient account of provider and customer behaviour, but has not yet properly applied the SSNIP test to support its conclusions;<sup>9</sup>
- in terms of customer switching, the CC has drawn an artificial distinction between switching PPI with or without the credit product. When a customer switches PPI, irrespective of whether they simultaneously switch credit provider, this still has the outcome that a customer has switched between, and imposes a competitive constraint on, providers of PPI, which the CC has failed to acknowledge;
- the CC in its own analysis in the Emerging Thinking paper considers factors affecting the overall distribution of MPPI, CCPPI and PLPPI respectively, implying that different distributors of PPI in respect of the same type of credit product face similar competitive conditions; and
- the CC has not taken sufficient account of the considerable impact of recent market and new product developments (the impact of standalone entry and the increased role of aggregators) and regulatory initiatives (the introduction of ICOB and the subsequent thematic reviews by FSA, which has regulated, and reviewed the conduct of, PPI sales, as described in HSBC's response to the Statement of Issues) which have occurred in the PPI sector since the circumstances considered by Citizens Advice in its supercomplaint of September 2005.

4.6 By contrast, the alternative protected and unprotected credit market definitions advocated by HSBC hold a number of advantages:

- these reflect the approach taken both by the providers and customers, and offer a realistic commercial viewpoint from which to consider the PPI sector; and

<sup>7</sup> Competition Commission, Store cards market investigation, 7 March 2006; Competition Commission, Extended Warranties investigation, December 2003

<sup>8</sup> Competition Commission, *Market Investigation References: Competition Commission Guidelines*, CC3, June 2003, paragraph 2.2

<sup>9</sup> "The Commission will adopt this approach [applying the SSNIP test] wherever it is feasible to do so", Competition Commission, *Market Investigation References: Competition Commission Guidelines*, CC3, June 2003, paragraph 2.2

- these reflect the differences in the characteristics of the various underlying credit products (as PPI policies are designed to fit the underlying credit product) and the way in which MPPI, CCPPI and PLPPI are sold and purchased (for example, HSBC notes that other providers have highlighted, in the case of mortgages and MPPI, the role of aggregators and intermediary brokers in sales, and the significance of the purchase decision for consumers).

Point of sale

- 4.7 HSBC agrees that point of sale is an important feature of selling PPI (especially PLPPI and CCPPI). Indeed, the point of sale benefits both customers and suppliers. For all customers, whether or not they have shopped around for protected credit prior to the point of sale, the point of sale provides ease of purchase, such that the effect of the point of sale is not limited to customers who have not previously considered whether to purchase PPI. Nevertheless, the point of sale advantage is not an insurmountable obstacle nor does it impede competition for protected or unprotected credit.
- 4.8 The CC suggests that the power of the point of sale is the opportunity to “advertise” to the customer. This suggests that, as the information available to customers develops with, for example, the FSA price comparator charts scheduled for launch in March 2008, and as customers become more knowledgeable about PPI, and as alternative suppliers develop standalone offerings, this should allow customers even more effectively to shop around for protected credit, diminishing the power of this “advertising” at the point of sale.
- 4.9 As noted in the introduction, HSBC considers that, whatever market definition may be adopted for the period under review, this will be rendered academic by current and anticipated changes in the industry, which are likely to generate an increased range of standalone products from which the customer can choose and increase the competitive pressure exerted on those providing the combination of the PPI and credit elements of the customer demand for protected credit. In this respect, it is noteworthy that recent launches of standalone products have been by large financial institutions, HSBC, Barclays and RBSG, which enjoy strong relationships with their customers and are significant providers of mortgages, credit cards and loans, and which may, therefore, be better placed to overcome the low penetration and increased adverse selection endured by some pure play standalone providers, further reducing the point of sale advantage.

It is easy for customers to compare the price of unprotected and protected personal loans

- 4.10 It is easy for customers to obtain comparative quotes for loans with and without PPI (i.e. protected or unprotected) direct from providers and from third party aggregators/price comparison websites.
- 4.11 Table 1 below shows the monthly repayment for unprotected and protected personal loans offered by the main providers, representing approximately 75% of PLPPI GWP. This is based on a £9,000, 5-year loan, which represents a typical loan size and term.
- 4.12 These quotes are readily available from providers’ websites, in branches, and by phone. Annex 1 shows examples of the quotes obtained.

**Table 1: Main provider protected and unprotected loan price comparisons**

Provider <sup>10</sup>	Unprotected loan monthly repayment	Protected loan monthly repayment	Typical or quoted APR	Quote with and without PPI on same screen	Choose PPI before getting quote
[redacted]	£180.89	£225.81	7.9%	✓	
[redacted]	£179.05	£228.67	7.4%		✓
[redacted]	£176.70	£210.50	6.8%	✓	
[redacted]	£181.05	£218.49	7.9%	✓	

<sup>10</sup> [redacted]

[X]	£181.24	£209.79	7.4%		✓
[X]	£181.24	£224.17	7.4%		✓
[X]	£181.24	£226.53	7.4%		✓
[X]	£184.91	£225.80	8.9%		✓
[X]	£179.08	£224.91	7.4%		
[X]	£187.53	£229.75	8.9%		✓
[X]	£184.73	£233.66	8.9%		
[X]	£185.10	£224.58	8.9%		
[X]	£185.10	£229.62	8.9%		
[X]	£185.10	£237.48	8.9%		
[X]	£184.72	£233.55	8.9%		✓

Source: Provider websites (November 2007)

As the table above shows:

- some providers show the loan quote both with and without PPI on the same screen;
- some providers ask the customer to choose whether they want PPI before providing a quote; and
- the remaining providers quote including PPI, but offer a clear option for customers to receive a quote without PPI.

4.13 In each case, it is straightforward to obtain quotes for the monthly loan repayments – with and without PPI – for any loan amount and term, in a format that prospective customers can easily compare across providers.

4.14 It is also relatively straightforward to obtain comparative quotes from the main aggregator/price comparison providers:

- moneysupermarket.com
- uswitch.com
- confused.com
- moneyfacts.co.uk

4.15 Table 2 below summarises the features of each of these websites. Annex 2 shows examples of comparative price quotes obtained from these sites.

**Table 2: Price comparison websites**

Price comparison site	Features
Moneysupermarket.com	<ul style="list-style-type: none"> <li>• first search without PPI</li> <li>• can then search again for protected loans</li> </ul>

Uswitch.com	<ul style="list-style-type: none"> <li>asks for PPI choice, amount, and term together before searching</li> </ul>
Confused.com	<ul style="list-style-type: none"> <li>basic search does not mention PPI</li> <li>advanced search requests preferences, including PPI, then ranks by preferences</li> <li>however, only shows price of unprotected credit</li> </ul>
Moneyfacts.co.uk	<ul style="list-style-type: none"> <li>once loan has been selected from list, quoted total and monthly payments are shown with and without PPI</li> </ul>

Source: Websites (November 2007)

4.16 As the above evidence indicates, most of the main providers make their protected and unprotected loan offerings equally prominent. While quoted APRs do not include the cost of PPI, customers make their purchase decision based on a range of factors, the most important of which is the total monthly repayment. The total monthly payment is easy for customers to understand, is readily available (as the above evidence demonstrates) and, accordingly, it makes it easier for customers to compare the prices of different providers. HSBC's advertising concentrates on [redacted]

It is also easy for customers to compare the price of unprotected and protected credit cards

4.17 Table 3 below shows the pricing and availability of information on the main credit card providers' APRs and PPI prices. This illustrates that it is straightforward to obtain and compare the price of CCPPI from different providers.

4.18 Annex 1 contains screenshots of the websites of the main providers highlighting the features that help in shopping around for CCPPI.

**Table 3: Protected credit card providers and price information strategies**

Provider	Quoted APRs	Monthly PPI price per £100 outstanding card balance	PPI price and terms only given during application process	PPI price available on main cards page	PPI price also highlighted with specific cards
[redacted]	13.9%-17.9%	£0.78		✓	✓
[redacted]	6.8%-27.9%	£0.79		✓	
[redacted]	9.9%-34.9%	£0.79	✓		
[redacted]	16.9%-17.9%	£0.78		✓	
[redacted]	8.9%-17.9%	£0.78		✓	✓
[redacted]	15.9%	£0.79		✓	✓
[redacted]	11.9%-19.9%	£0.79		✓	✓
[redacted]	18.9%	£0.75		✓	

[redacted]	13.9%- 18.9%	£0.79		✓	
[redacted]	12.9% - 21.9%	£0.79	✓		
[redacted]	13.9%- 18.9%	£0.79		✓	

Source: Provider websites (November 2007)

Customers look at the price of protected credit before making their purchase decision

- 4.19 Prospective customers do look at the price of protected credit before deciding from which provider to make their purchase. While some customers may consider the price and benefits of PPI only after deciding on the underlying credit product, a substantial proportion of customers are aware of PPI before choosing their credit provider, and shop around on this basis, in particular:
- repeat purchasers of PPI – [redacted] % of current and past protected personal loan customers and [redacted] % of protected credit card customers at HSBC and first direct are repeat purchasers and are, therefore, evidently aware of the existence of PPI before making their purchase decision;
  - other “non-reactive” purchasers of PPI (as highlighted in the CC’s customer survey<sup>11</sup>) – these include customers experiencing a recent change in circumstances, “worriers”, and “insurance addicts”, all of whom research their purchase decision;
  - internet users – these include both customers who buy their protected credit product online (a large and increasing share) and customers who use the internet to research their purchase decision (even if they ultimately purchase by phone or in branch); and
  - any other customers who obtain a quote (either by phone, in branch, or online) and use it as a comparison with other providers’ offerings.
- 4.20 A consumer survey commissioned by HSBC [redacted] in April 2007 suggested that between [redacted] % and [redacted] % of both HSBC and non-HSBC customers took into account how much PPI added to the cost of the monthly loan repayment and total repayment amount (i.e. considering the total cost of protected credit) when evaluating whether the loan was the best value loan they could get.<sup>12</sup>
- 4.21 The OFT report included, at Annex B, a survey by GFK that found that 75 per cent of mortgage customers, 69 per cent of secured loan customers, 61 per cent of unsecured loan customers, and 51 per cent of credit card customers, as well as 61 per cent of those customers who ended up taking out PPI, had thought about whether to take out PPI before they went to take out the credit product, of whom between 6 and 15 per cent had decided not to take out PPI.<sup>13</sup> These figures are consistent with a pattern of customers having access to the relevant information and conducting searches to enable them to make an informed decision, not just at but also prior to the point of sale, as to whether or not to take out PPI. HSBC also notes a submission by Northern Rock of research that found that, of its online customers for an unsecured protected loan, 83 per cent had shopped around to see what was available from other lenders, before choosing Northern Rock and, for branches and call centre customers, the corresponding figure was around 50 per cent.<sup>14</sup>
- 4.22 Contrary to this evidence, the qualitative survey commission by the CC suggests, and the OFT considered, that not all customers are aware that PPI is optional and that customers think taking PPI is a condition of being accepted for the loan (48, 112). In fact, for providers to do so would be a breach of the ICOB Rules. Nor is this supported by the FSA mystery shopping work, which is carried out on a regular and more robust basis, and which found that 92 per cent of businesses made it clear that the purchase of PPI was optional. The CC further claims that “the monthly repayment quoted often has the

<sup>11</sup> “Payment Protection Insurance Market Investigation – Qualitative research into customer experience”, BMRB, October 2007

<sup>12</sup> [redacted]

<sup>13</sup> PPI: Report on the market study and proposed decision to make a market investigation reference, October 2006 (OFT869) Annex B, p.30.

<sup>14</sup> Paragraphs 3.3 to 3.4 of the response by Northern Rock to the CC’s Statement of Issues

price of PPI included in it automatically” (87) but this claim is not substantiated, and such practice would fall foul of the prohibition on assumptive selling set out in the ICOB Rules. In particular, ICOB 5.5.14, which has been in force since January 2005, requires the premium for the insurance contract to be shown separately from the price of the credit product, and for it to be made clear whether or not purchasing the insurance contract is a requirement of purchasing the credit product. FSA provided further clarification, in force from December 2005, that active consent is required for the sale of the insurance contract, under ICOB 4.7. It is necessary, in this respect, for the CC to consider the changes to the industry that have occurred as a result of, and in response to, the recent thematic review work by the FSA since the ICOB Rules came into force, which as the CC itself acknowledges must be taken into account (11). Of 106 shoppers recently surveyed by the FSA, 97 were told spontaneously that PPI was optional.<sup>15</sup> HSBC therefore urges the CC to focus on the state of the PPI industry now and not on historical conditions which no longer exist and which, as a result of legal obligations imposed under the ICOB regime, could not lawfully recur.

Different PPI providers constrain each other's pricing so it would not be profitable for any individual provider to offer protected credit significantly above the competitive level

- 4.23 The Emerging Thinking paper states that, in looking at the relevant product market, the CC has followed the approach set out in its market investigations guidelines, namely – looking at the extent to which there would be demand- or supply-side substitution in response to a small but significant non-transitory increase in price (SSNIP), which would make such a price increase unprofitable (116).
- 4.24 In order to assess whether a SSNIP in the price of PPI would be rendered unprofitable, the Emerging Thinking paper considers three main sources of evidence:
- whether providers operate their PPI businesses as part of a combined package with their credit businesses, in particular, the extent to which PPI is priced as part of a combined competitive offer with the underlying credit product;
  - whether customers look principally at the price of credit or at the price of PPI and credit combined; and
  - data from providers on the prices and sales of credit products and PPI.
- 4.25 HSBC agrees that these are relevant sources of evidence. HSBC also considers that, contrary to the CC's conclusions, the evidence shows that different providers do constrain each other's prices:
- all the main providers operate their PPI businesses as part of combined package with their credit businesses. HSBC and other providers have told the CC that they have “benchmarked their products to the products offered by their competitors... to offer products whose quality and pricing was competitive relative to its mainstream competitors,” and by reference to the position of products in best-buy tables or lists on price-comparison websites;<sup>16</sup>
  - protected and unprotected credit are priced as part of separate competitive offerings – [redacted];
  - while some customers may look only at the price of the credit product (especially those customers who are only interested in unprotected credit), it is easy for customers to compare the price of protected credit from different providers, as demonstrated above; and
  - data on the prices and sales of credit products and PPI is likely to be ambiguous, given the relatively small changes in the price of the PPI element relative to large changes in the price of credit and other factors driving the demand for protected and unprotected credit.
- 4.26 Accordingly, HSBC does not accept that the balance of evidence suggests that a SSNIP for any individual PPI provider above competitive levels would be profitable. Furthermore, the Emerging Thinking paper provides no explanation of, nor calculations on, how the CC has reached this conclusion.

<sup>15</sup> FSA Thematic Update, September 2007, p.7, as cited at paragraph 112 of the Emerging Thinking paper, footnote 51.

<sup>16</sup> Paragraph 24 of The Value Chain working paper [redacted]

4.27 Moreover, simple illustrative calculations (which the Emerging Thinking paper does not contain) show that it is far from conclusive that a SSNIP for any individual provider above competitive levels would be profitable. Indeed, it suggests that it is likely to be unprofitable.

4.28 In order to test whether a SSNIP for any individual provider would be profitable it is necessary to look at:

- the likely reduction in demand for protected loans from that provider, i.e. customers purchasing a protected loan from another provider or not purchasing at all; and
- the potential reduction in demand for the PPI element, i.e. customers switching from a protected loan to an unprotected loan from the same provider.

4.29 Table 4 below calculates the SSNIP for HSBC at current prices, i.e. a 5% increase in the price of a typical HSBC protected loan. This shows that a 5% increase in the price of a protected loan (i.e. PPI plus interest) would be [redacted] per month.<sup>17</sup>

**Table 4: Illustrative price increase on HSBC personal loan**

[redacted]

4.30 The relevant question is – would a 5% price increase be profitable? This depends on the margin on the loan and the change in customer behaviour. For example, it is easy to show that a 5% increase in the price of the protected loan would only be unprofitable if:

- more than [redacted] % of HSBC protected loan customers stopped purchasing from HSBC; or
- more than [redacted] % of HSBC protected loan customers switched to HSBC unprotected loans.<sup>18</sup>

4.31 HSBC believes that in this scenario – i.e. an increase in the monthly PPI element from £[redacted] to £[redacted] – would result in a loss of at least [redacted]% of customers [redacted]. These calculations are shown in [redacted].

4.32 While the above estimate of the impact of a 5% price increase is at current PPI prices, the same conclusion is also likely to hold at lower prices. For example, if the purported “competitive level” of PPI prices were [redacted] % of their current level, then a 5% rise in the price of a protected loan – e.g. increase in the monthly PPI element from £[redacted] to £[redacted] – would be unprofitable if more than [redacted]% of customers stopped purchasing protected loans. [redacted] This calculation, and the basis on which profitability is assessed by contribution, is shown in [redacted].

4.33 In support of these conclusions, Table 5 shows the change in price ranking for protected personal loans supplied by the main providers following a 5% price increase. It shows that, for HSBC, the price ranking would drop by [redacted] places [redacted] following a 5% price increase. For other providers, the change would result in a ranking drop of up to five places. [redacted]

**Table 5: Change in protected personal loan price ranking following 5% individual price increase for a £9,000 protected loan over five years**

Personal loan provider	Initial price ranking	Change in ranking after 5% price increase
[redacted]	8	-2
[redacted]	10	-3
[redacted]	2	0

<sup>17</sup> It would not be appropriate to look only at a 5% increase in the PPI element, as prospective customers look at the overall price (i.e. monthly repayment) in deciding whether to take a protected or unprotected loan and which provider to purchase from.

<sup>18</sup> This assumes that the margin on the PPI element is [redacted] % and margin on the interest element is [redacted] %.

[X]	3	0
[X]	9	-4
[X]	4	-5
[X]	1	-1
[X]	7	-3
[X]	6	-3
[X]	13	-2
[X]	15	-1
[X]	16	0
[X]	11	-3
[X]	11	-3
[X]	5	-4
[X]	14	-2

Source: Provider websites (November 2007)

4.34 A similar relationship can be seen with other loan amounts and terms. For example, Tables 6 and 7 below show the initial rankings and the change in rankings for two further loan amounts and terms:

- £5,000 over four years; and
- £13,000 over five years.

**Table 6: Change in protected personal loan price ranking following 5% individual price increase for a £5,000 protected loan over four years**

Provider	Initial ranking	Change in ranking after a 5% price increase
[X]	5	0
[X]	8	-2
[X]	1	-1
[X]	3	0
[X]	10	-2
[X]	9	-1
[X]	2	-1
[X]	16	0

[X]	15	0
[X]	14	0
[X]	12	-1
[X]	11	-2
[X]	6	-3
[X]	6	-3
[X]	4	-1
[X]	13	0

Source: Provider websites (November 2007)

**Table 7: Change in protected personal loan price ranking following a 5% individual price increase for a £13,000 protected loan over five years**

Provider	Initial ranking	Change in ranking after a 5% price increase
[X]	4	-4
[X]	7	-4
[X]	1	-1
[X]	3	0
[X]	8	-3
[X]	5	-6
[X]	2	0
[X]	15	-1
[X]	6	-5
[X]	9	-2
[X]	11	0
[X]	16	0
[X]	13	-1
[X]	13	-1
[X]	12	0
[X]	10	-1

---

Source: Provider websites (January 2008)

4.35 Similar conclusions are also likely to apply to CCPPI.

**5 PPI price variations are consistent with separate markets for protected/unprotected credit**

5.1 The Emerging Thinking paper notes that there are large price variations between apparently similar PPI policies and little variation over time, in particular:

- the price of PPI varies between credit products – for example, Defaqto estimated that the average price per £100 of benefit for MPPI was £4.76, for CCPPI was £11.70, and for PLPPI was £18.23 (102);
- the price of PPI can vary significantly with policy type – for example, Which? data showed that price of PPI on a £7,500 five-year personal loan varied between £18 and £55 per month (103); and
- the price of standalone PPI was significantly less than the price of PPI bought at the point of sale (104).

5.2 The Emerging Thinking paper invites evidence on the reasons for this. HSBC sets out its views below.

5.3 First, the variation in PPI price between credit products is due to substantial differences in product characteristics. MPPI is cheaper than CCPPI and PLPPI, and CCPPI cheaper than PLPPI (per £100 benefit) because:

- the average protected mortgage balance is much higher than the average loan or credit card balance, therefore the fixed costs of distributing MPPI (per £100 benefit) are much lower [redacted];
- the term of cover is much longer on PLPPI than CCPPI – accident and sickness cover (the main source of claims) is normally for 60 months on PLPPI, compared to 12 months on CCPPI and MPPI;<sup>19</sup> and
- claims rates for PLPPI tend to be higher than for CCPPI - in 2006, claims paid as a percentage of net earned premium were [redacted]% for PLPPI and [redacted]% for CCPPI.

5.4 Second, variations in PPI prices for the same policy type can be explained by differences in cover, exclusions, term, deferment periods, and expected customer demographics. We show evidence for this below.

5.5 Third, standalone PPI is cheaper than PPI bought at the point of sale because of the substantially lower overhead costs, as standalone PPI is typically sold remotely to customers, whereas point of sale PPI is normally sold through a multi-channel infrastructure (i.e. branch, phone, and online). It is also understood that, on average, standalone PPI provides lesser coverage and greater exclusions than point of sale PPI.

Variation in PLPPI explained by product differences

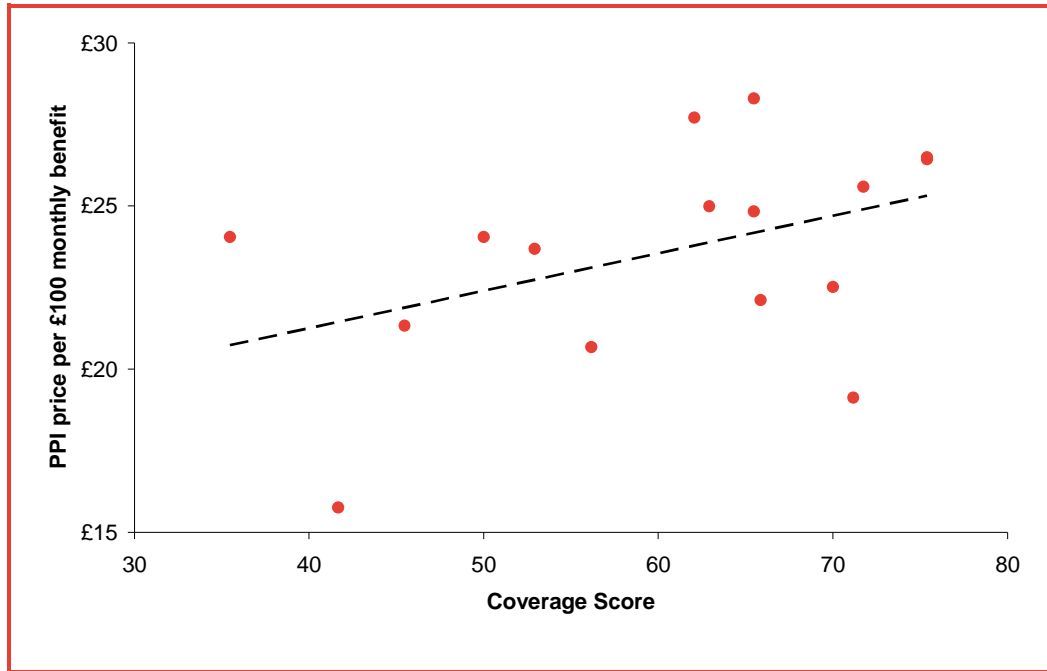
5.6 In response to the observation in the Emerging Thinking paper, the apparent variation in PLPPI can be explained by product differences.

5.7 For personal loans, differences in cover explain a large proportion of the differences in price. Figure 1 below shows the relationship between PLPPI cover and PLPPI price.<sup>20</sup>

---

<sup>19</sup> [redacted]  
<sup>20</sup> [redacted]

Figure 1: Relationship between PLPPI cover and price



Source: Provider websites (November 2007)

5.8 This relationship is based on the following weightings of PLPPI coverage, which reflect the relative value of each feature in the CC's own survey:<sup>21</sup>

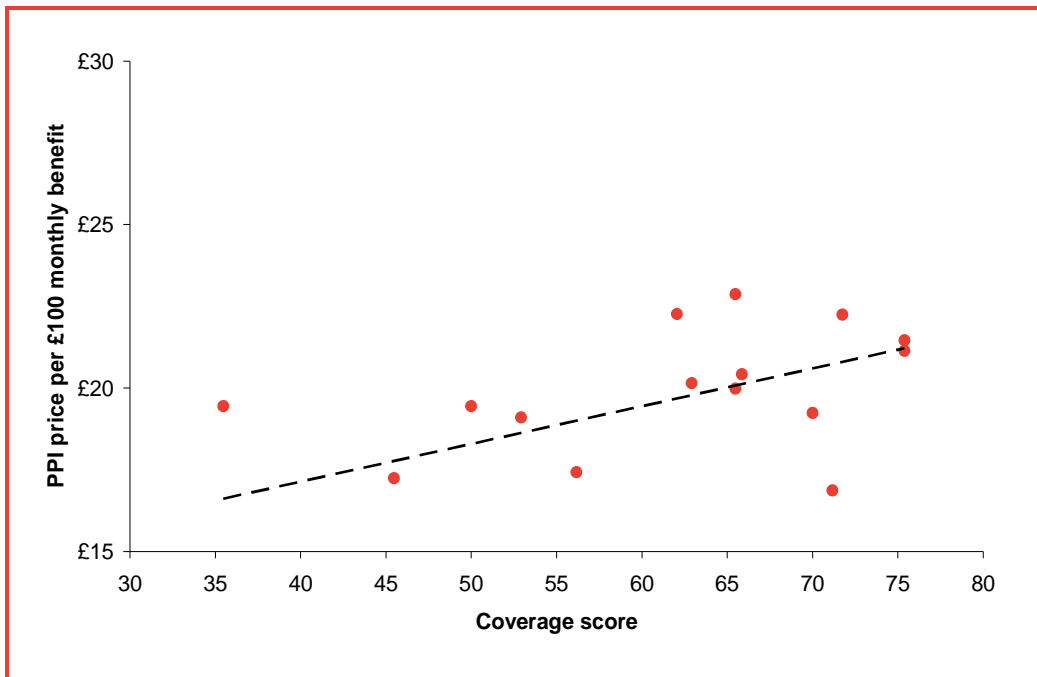
- unemployment (U) 25% (also weighted according to the minimum wait period before a successful employment claim can be made, which varies between 29 and 90 days across policies);
- accident (A) 20%;
- sickness (S) 20% (also weighted according to the exclusion of pre-existing conditions and minimum symptom-free period applying to pre-existing conditions, which varies between 0 and 24 months);
- life (L) 15%;
- hospitalisation (H) 5%;
- critical illness (CI) 5%;
- permanent total disability (D) 5%; and
- carer (C) 5%.

5.9 The same relationship can be seen when considering other loan amounts and terms. For example, the graphs in Figures 2 and 3 below show the relationship between coverage scores and the price of PPI for two further loan amounts and terms:

- £5,000 over four years; and
- £13,000 over five years.

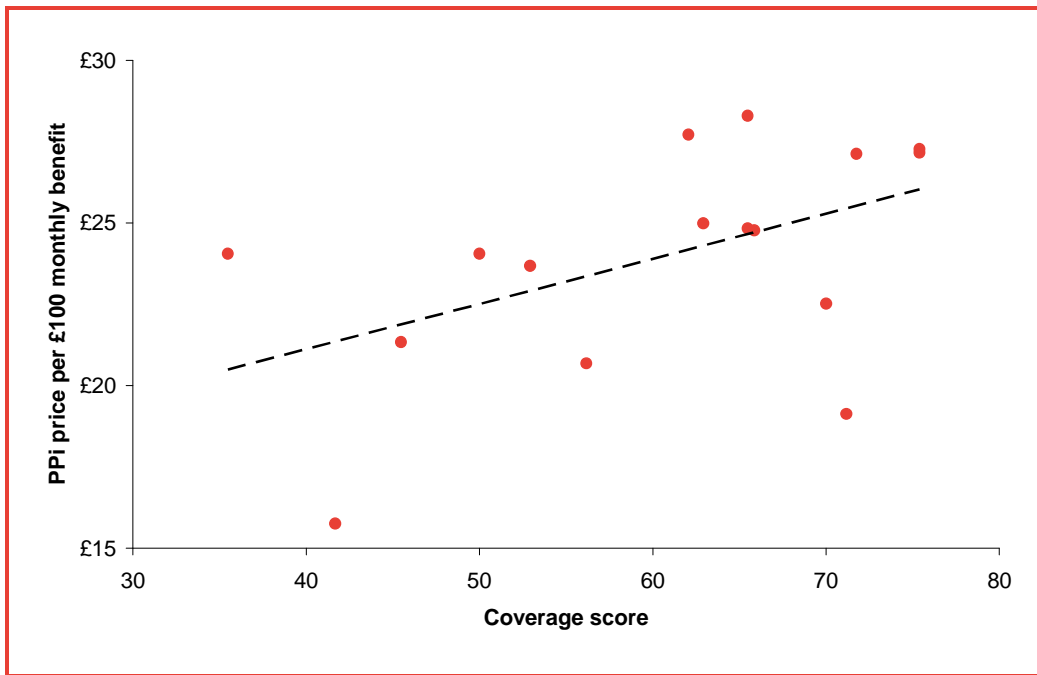
Figure 2: Relationship between PLPPI cover and price for a £5,000 loan over four years

<sup>21</sup> Emerging Thinking – Characteristics of consumers of PPI working paper, paragraph 13



Source: Provider websites (November 2007)

Figure 3: Relationship between PLPPI cover and price for a £13,000 loan over five years



Source: Provider websites (January 2008)

5.10 [X]

5.11 Table 8 below shows the underlying differences in PLPPI cover offered by the main providers. This illustrates that the monthly PPI price tends to vary with overall coverage, namely:

- *the number of features covered in the policy* – the price tends to increase with increasing number of features;
- *the term of cover* – the price tends to increase with increasing term;

- *the minimum wait period before successful unemployment claims can be made* – the price tends to decrease with increasing wait period;
- *whether pre-existing conditions are excluded* – policies where pre-existing conditions are not excluded tend to be more expensive; and
- *the minimum symptom-free period on pre-existing conditions* – the price tends to decrease with increasing minimum symptom-free period.

**Table 8: PLPPI cover offered by main providers**

Provider	Monthly PPI premium per £100 monthly benefit	Cover	Term	Minimum wait period before successful unemployment claim (days)	Pre-existing conditions excluded	Minimum symptom-free period on pre-existing conditions	Coverage score
[X]	£28.30	ASULH	U – 12; AS – 12	60	Y	12	65
[X]	£27.71	ASUL	U – 18; AS – 60	44	Y	24	62
[X]	£26.49	ASUL	U – 12; AS – 60	44	N	0	75
[X]	£26.43	ASUL	U – 12; AS – 60	44	N	0	75
[X]	£25.59	ASULHCI	U – 12; AS – indefinite	45	Y	24	72
[X]	£24.99	ULCD	U – 12; AS – 60	90	Y	n/a	63
[X]	£24.83	ASULC	U – 12; AS – indefinite	60	Y	12	65
[X]	£24.05	ASLH	AS – 12	n/a	Y	12	50
[X]	£24.05	ULH	U – 12	60	Y	n/a	35
[X]	£23.69	ASULC	U – 12; AS – 60	90	Y	n/a	53
[X]	£22.51	ASUL	U – 12; AS – indefinite	29	Y	12	70
[X]	£22.11	ASULHC	U – 12; AS – indefinite	75	Y	12	66

[X]	£21.33	A S U	U – 12; A S – 12	60	Y	12	45
[X]	£20.68	A S U L	U – 12; A S – indefinite	74	Y	12	56
[X]	£19.13	A S U L H C I D	U – 12; A S indefinite	74	Y	12	71
[X]	£15.75	A S L	A S – 60	n/a	Y	n/a	42

Source: Provider websites

Variation in CCPPI also explained by product differences

5.12 Table 9 below shows CCPPI prices and the cover offered by the main providers. The price differences are explained by variations in cover, for example, in respect of the most expensive providers:

- MBNA offers indefinite A and S cover (until the credit card balance is fully repaid); and
- Lloyds TSB would also clear the full credit card balance after 12 months.

**Table 9: CCPPI price and cover offered by main providers**

Provider	Monthly PPI premium per £100 monthly benefit	Cover	Term
[X]	£15.80	A S U H C L	A,S Indefinite. U 12 months.
[X]	£15.80	A S U H C L	A,S,U 12 months, but 12th payment clears balance
[X]	£7.90	A S U L	A,S,U 12 months
[X]	£7.90	A S U L	A,S,U 12 months
[X]	£7.90	A S U L	A,S,U 12 months
[X]	£7.90	A S U L	A,S,U 12 months
[X]	£7.90	A S U L	A,S,U 12 months
[X]	£7.80	A S U L	A,S,U 12 months
[X]	£7.80	A S U H C C I L	A,S,U 12 months
[X]	£7.80	A S U H C C I L	A,S,U 12 months
[X]	£5.00	A S U L	A,S,U 12 months, but 12th payment clears balance

Source: Provider websites

## 6 PPI and credit product profitability also consistent with separate markets for protected and unprotected credit

- 6.1 The Emerging Thinking paper states that, during a market investigation, it is helpful to consider the outcome of the competitive process, which might include the level of prices charged to consumers and the level of profitability earned by firms from the distribution of PPI (189).
- 6.2 The Emerging Thinking paper also states that there is evidence suggesting that, for the market as a whole, high profits earned on PPI alone have in recent years been partially offset by lower profits or even losses at the credit product level, and that the CC is seeking to understand the reasons for this (194).
- 6.3 The CC therefore intends to consider the combined profitability of PPI and the associated credit product, including:
- whether or not profits earned from PPI are “competed away” in the credit market, and if so what this means;
  - whether prices are interdependent, e.g. APRs are lower as a result of high margins on PPI; and
  - the extent to which providers gain from their customers having PPI in the form of reduced bad debts (195).
- 6.4 Furthermore, the Emerging Thinking paper states that, if prices were interdependent, the CC would need to consider whether the profitability of PPI markets, if high, is distorting the credit market, pushing APRs for credit to abnormally low levels (196).
- 6.5 In response, HSBC agrees that evidence on profitability is relevant to considering the outcome of the competitive process. [§<]
- 6.6 In particular, HSBC’s profitability evidence shows that [§<].
- 6.7 The CC states in the Emerging Thinking paper (195) that it wants to look at the combined profitability of PPI to the extent that it is relevant to its inquiry in light of the following three examples:
- whether PPI profit is competed away in the credit market;
  - whether there is interdependence between prices of credit and PPI; and
  - the extent to which banks gain through reduced bad debt among those customers taking PPI.
- 6.8 Therefore, while HSBC agrees that it is more appropriate to consider the combined profitability of PPI and associated credit product, rather than the profitability of PPI alone, it would also be appropriate separately to consider the profitability of protected and unprotected loans respectively.
- 6.9 First, whether or not profits earned from PPI are “competed away” in the credit market is not really a meaningful question. It would be more meaningful to consider whether the overall profits from protected and unprotected loans have been competed to a competitive level [§<].
- 6.10 Second, whether prices are interdependent, e.g. APRs are lower as a result of high margins on PPI, would be difficult to determine. [§<]
- 6.11 Third, the extent to which providers gain from their customers having PPI in the form of reduced bad debts is questionable. [§<]

HSBC personal loan profitability consistent with competitive markets

6.12 [REDACTED]<sup>22</sup>

6.13 Tables 10 and 11 below show [REDACTED].

**Table 10:** [REDACTED]

**Table 11:** [REDACTED]

6.14 These results are explained by the following underlying drivers [REDACTED].

HSBC credit card profitability also consistent with competitive markets

6.15 Tables 12 and 13 below show [REDACTED].

6.16 [REDACTED]

**Table 12:** [REDACTED]

**Table 13:** [REDACTED]

---


<sup>22</sup> [REDACTED]

## 7 Annex 1 – Availability of personal loan price comparisons direct from providers

### Protected and unprotected loan prices on same screen

- 7.1 Only HSBC customers can obtain quotes for personal loans. The diagrams below are therefore screenshots obtained by an individual HSBC customer.
- 7.2 The screenshot in Figure 4 below shows that an HSBC customer must choose whether they want PPI before they can get a quote. The website also contains a link to an information page to inform customers as to the nature of the product and to help them decide whether it is something they want.

**Figure 4 - The HSBC online loan quote form**

**HSBC**  **The world's local bank** Close

---

**Step 1: Tell us what you need**

I would be interested in borrowing: £  (min £1000 - max £25000) OR I can afford monthly repayments of £

---

Over how many months would you like to repay your loan?  months (min 12 - max 96 months)

---

**Step 2: Choose a repayment holiday option**

No repayments for the first 3 months [what's this?](#)

Pay nothing in January for the life of your loan [what's this?](#)

No repayment holiday

---

**Step 3: Add Personal Loan Protection Plan**

I want Personal Loan Protection Plan [what's this?](#)

I do not want Personal Loan Protection Plan [what's this?](#)

---

**Step 4: Just a few details**

Are you a UK resident?  Yes  No

Do you work more than 16 hours a week?  Yes  No

Reason for this loan

**Calculate**

Source: HSBC

- 7.3 The screenshot in Figure 5 below shows that the loan quote obtained clearly states how much of the total monthly repayment is for insurance payments. There is also a clearly stated option to go back and change any element of the loan. Customers are clearly told that the Personal Loan Protection Plan is optional and it is simple to recalculate the loan without it, as shown in the screenshot in Figure 6 below.

**Figure 5** [✂]

**Figure 6** [✂]

- 7.4 The screenshot in Figure 7 below shows the results of a query of the Barclaycard personal loan calculator are shown in, showing monthly and total payments with and without PPI. Abbey and First Direct also show equivalent information.

Figure 7: Barclaycard personal loan calculator - results of a query

### Loan Calculator

Please enter an amount between £1,000 and £25000 (in £100's)

Repayment Term

[Calculate](#)

---

### Repayments

**Without Payment Protection**

Monthly	Total
£ 176.70	£ 10,602.00

---

**With Payment Protection**

Monthly	Total
£210.50	£12,630.00

Representative APR: **6.8%**

Repayments may vary according to each application

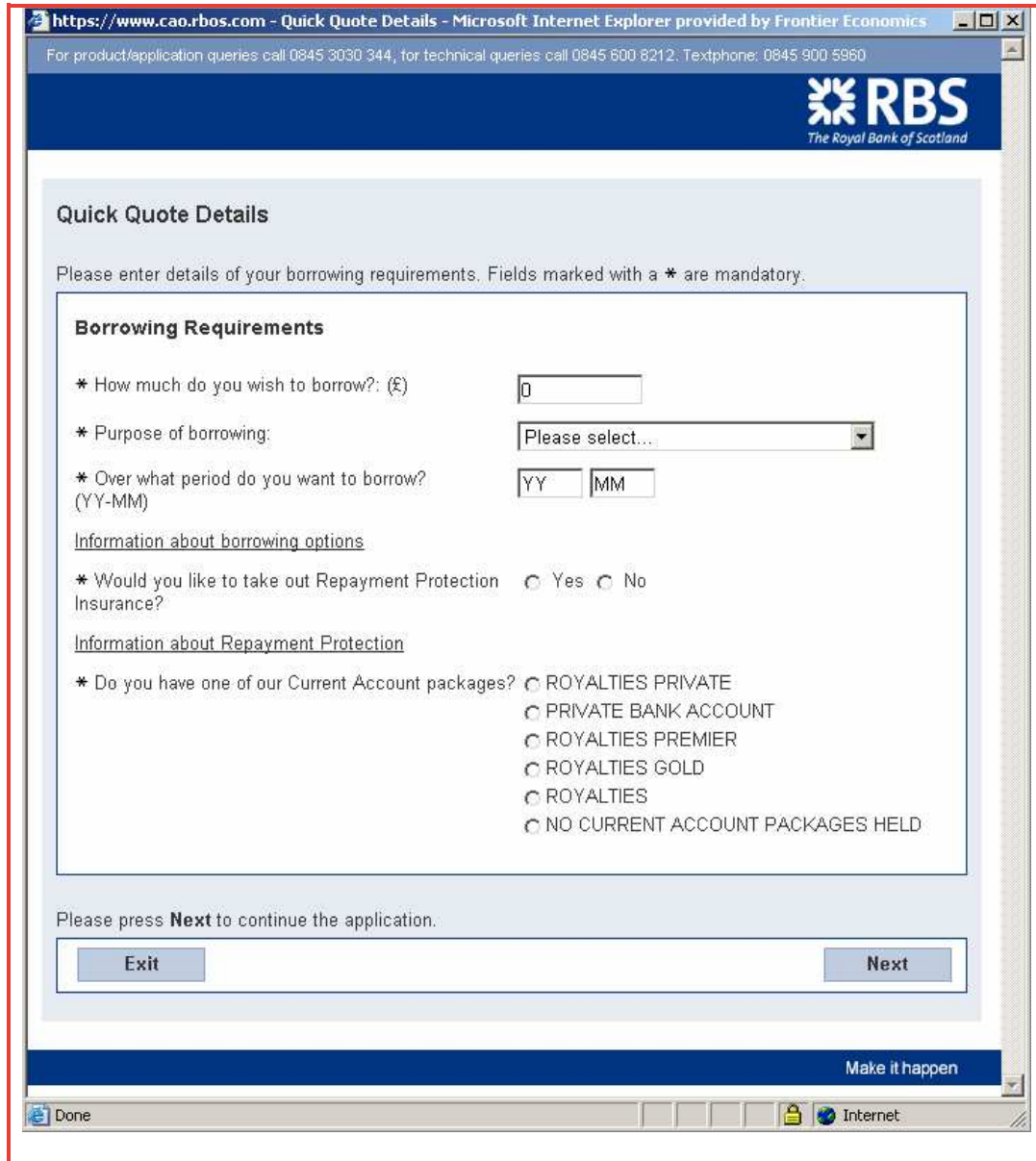
[Apply now](#)

Source: <http://www.barclaycard.co.uk/personal-home/loans/personal-loans/index.html>

Requiring a PPI decision before giving a loan quote

- 7.5 As a customer fills in an online loan calculator to obtain a loan quote, they will be asked to state the amount they wish to borrow and the term over which they wish to repay the debt. At the same time as they are providing this information, most of the websites of the main providers will ask the customer whether they want to take PPI.
- 7.6 For example, the screenshot in Figure 8 below shows the initial page of RBSG’s loan calculator. It is clear that a decision over PPI is a mandatory field; furthermore, the link to find out more about PPI is prominent.

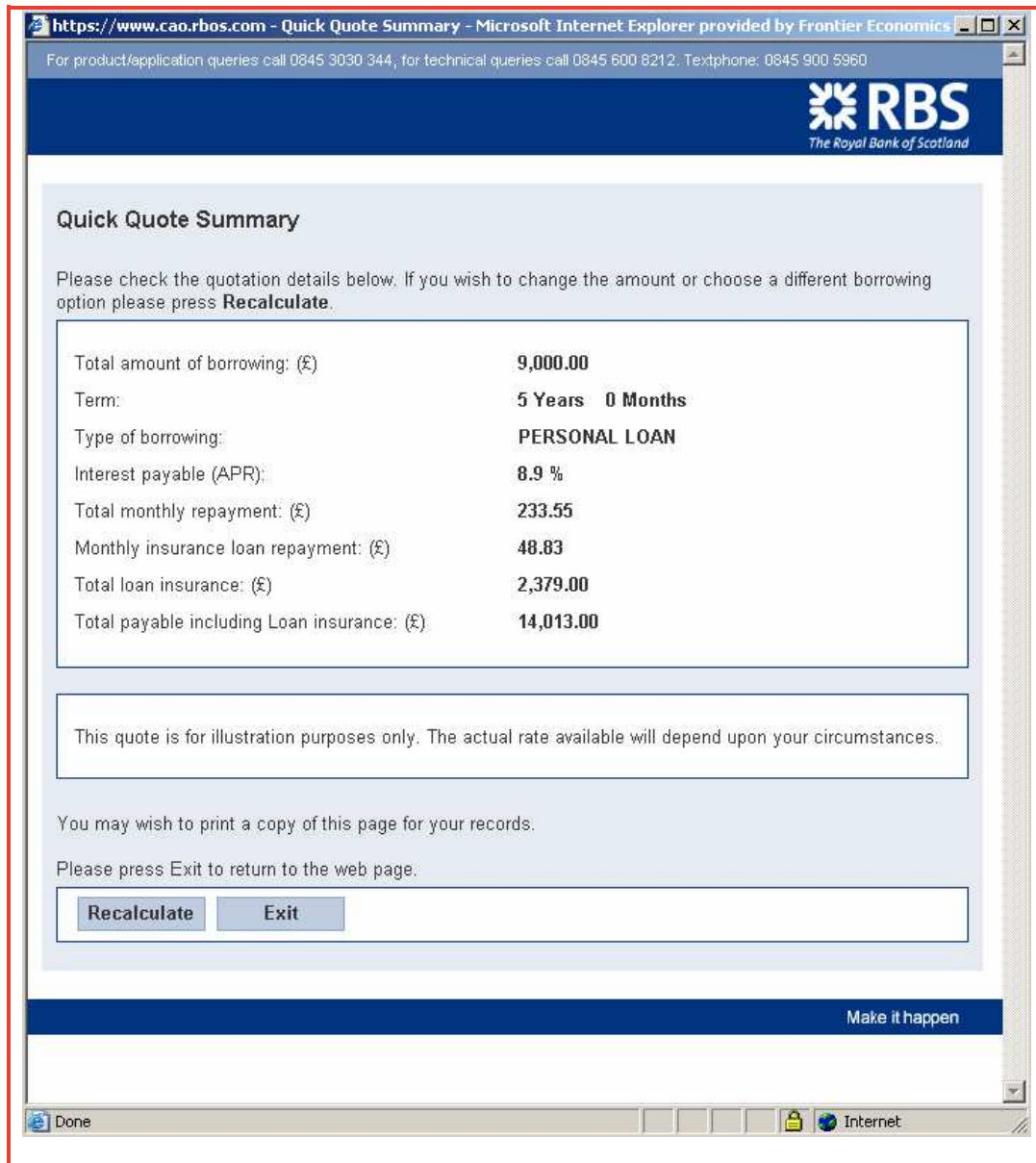
Figure 8: RBSG online loan calculator front page



Source: <http://www.rbs.co.uk/personal/loans/g1/personal-loan-online.ashx>

- 7.7 Once a user has selected a loan and repayment term, and made a decision on PPI, the loan calculator will display a quote with the total repayment and the monthly repayment as shown in the screenshot in Figure 9 below. One can clearly see the total monthly repayment, the amount of that monthly repayment that is for the insurance, and the total repayment. Furthermore, the customer has the option of returning to the front page of the loan calculator to change their options and recalculate the loan repayments accordingly by pressing the “recalculate” button.

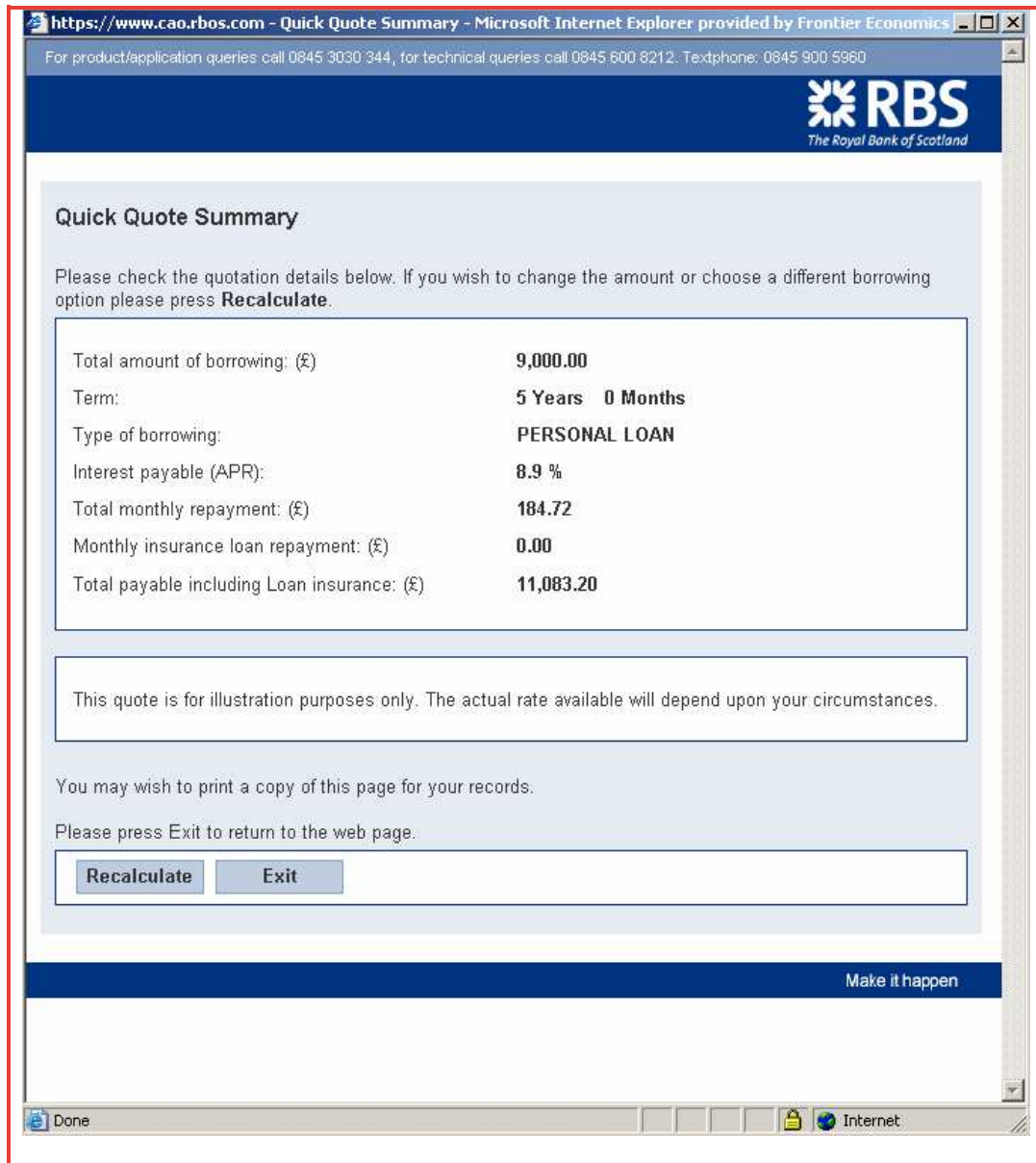
Figure 9: RBSG online loan calculator displaying terms for £9,000 protected loan over five years



Source: <http://www.rbs.co.uk/personal/loans/g1/personal-loan-online.ashx>

- 7.8 Clicking the “recalculate” button will allow the potential customer quickly to obtain a second quote without PPI, which is shown in the screenshot in Figure 10 below for the same loan amount and term.

Figure 10: RBSG online loan calculator displaying terms for £9,000 unprotected loan over five years



Source: <http://www.rbs.co.uk/personal/loans/g1/personal-loan-online.ashx>

## 8 Annex 2 – Availability of personal loan price comparisons from aggregator/ price comparison sites

[Moneysupermarket.com](http://Moneysupermarket.com)

- 8.1 The screenshot in Figure 11 below shows the initial search screen for personal loans on moneysupermarket.com.

Figure 11: Initial search screen for loans on moneysupermarket.com

**Loans**

**Compare Over 400 Loans**

**1. Find the cheapest loan for you from amongst 400 products:**

Amount: £  Period:  Residential status?

**2. Select your required search:**

**Smart search with EQUIFAX**  
Find the cheapest loan based on your individual credit score! (No record or 'footprint' will be left on your credit history).

**Quick search**  
All products displayed and sorted by APR.

**Compare Over 150 Secured Loans (Homeowners only)**

Secured loans are ideal for debt consolidation and/or large loans. Includes the lowest secured loan rate available in the UK - exclusive to moneysupermarket.com users.

**Debt**  
Debt solutions to help rediscover financial stability. [Proceed](#)

**Application declined?**  
You need to consider your options before applying again! [Proceed](#)

**Car Loans**  
Compare specialist car loans. [Proceed](#)

Source: <http://www.moneysupermarket.com/loans/>

- 8.2 The first three loans returned by this search are shown in the screenshot in Figure 12 below.

Figure 12: First three search results for the above loan on moneysupermarket.com

**Your Credit Profile** Good Fair Poor  Include payment protection

The overall cost for comparison ▶ Repayment terms for a loan of £9,000 over 60 months.

Revise quote ▶ I would like to borrow £  over

Lender	APR	Amount Per Month	Total Credit Charge	Total Repaid	Details & Apply
<b>Tesco Loan</b>	<b>6.6%</b> Good Credit Profile	£175.65	£1,539	£10,539	<a href="#">Details</a> Key benefits: --- Info: ⚠ Fixed rate. The early redemption charge is up to 2 months' interest. No arrangement or administration fees. <b>Typical APR 6.6%</b> .
<b>Your Personal Loan.co.uk</b> <a href="http://www.yourpersonalloan.co.uk">www.yourpersonalloan.co.uk</a>	<b>6.7%</b> Good Credit Profile	£176.11	£1,566	£10,566	<a href="#">Details</a> <input type="button" value="Proceed"/> Key benefits: Unsecured loans for homeowners only. The rate you see is the rate you get, no 'price-for-risk' policy. Quick and easy to apply. Info: ✓ Fixed rate. The early redemption charge is 1 month's interest. No arrangement or administration fees. <b>Typical APR 6.7%</b> .
<b>Moneyback Bank Loan</b> <a href="http://www.moneybackbank.co.uk">www.moneybackbank.co.uk</a>	<b>6.7%</b> Good Credit Profile	£176.11	£1,566	£10,566	<a href="#">Details</a> <input type="button" value="Proceed"/> Key benefits: Earn moneyback if you take out personal loan protection. Info: ⚠ Fixed rate. The early redemption charge is 1 month's interest if the loan term is greater than 12 months. No arrangement or administration fees. <b>Typical APR 6.7%</b> . Avg. acceptance rate: <a href="#">See all user feedback</a>

Source: <http://www.moneysupermarket.com/loans>






- 8.3 There is now a tick-box option to include payment protection. If this box is highlighted, the website will search again, this time including the price of payment protection. It will then display the available protected personal loans in ascending order of price, as shown in the screenshot in Figure 13 below.
- 8.4 It is easy to search for either the cheapest loan or the cheapest protected loan using moneysupermarket.com.

Figure 13: First three search results for protected loans on moneysupermarket.com

Your Credit Profile Good Fair Poor  Include payment protection

The overall cost for comparison ▶ Repayment terms for a loan of £9,000 over 60 months.

Revise quote ▶ I would like to borrow £  over

Lender	APR	Amount Per Month	Total Credit Charge	Total Repaid	Details & Apply
<b>Halifax Personal Loan</b>  Always giving you extra <a href="http://www.halifax.co.uk">www.halifax.co.uk</a>	<b>6.8%</b> <span>Good</span> Credit Profile	£203.84	£3,231	£12,231	<a href="#">Details</a> <input type="button" value="Proceed"/>
Key benefits: A current account or mortgage with Halifax will help your chances of being accepted. Info:  Fixed rate. The early redemption charge is usually equal to 2 months' interest. No arrangement or administration fees. <b>Typical APR 6.8%.</b> Avg. acceptance rate: <input type="text" value="       "/> <a href="#">See all user feedback</a>					
<b>Bank of Scotland Personal Loan</b>  <a href="http://www.bankofscotland.co.uk">www.bankofscotland.co.uk</a>	<b>6.8%</b> <span>Good</span> Credit Profile	£203.84	£3,231	£12,231	<a href="#">Details</a> <input type="button" value="Proceed"/>
Key benefits: No repayment for 3 months. Info:  Fixed rate. The early redemption charge is 2 months' interest. No arrangement or administration fees. <b>Typical APR 6.8%.</b> Avg. acceptance rate: <input type="text" value="       "/> <a href="#">See all user feedback</a>					
<b>Tesco Loan</b>	<b>6.6%</b> <span>Good</span> Credit Profile	£207.68	£3,461	£12,461	<a href="#">Details</a>
Key benefits: --- Info:  Fixed rate. The early redemption charge is up to 2 months' interest. No arrangement or administration fees. <b>Typical APR 6.6%.</b>					

Source: <http://www.moneysupermarket.com/loans>

Uswitch.com

- 8.5 The screenshot in Figure 14 below shows the initial search screen for personal loans on uswitch.com. Among the questions asking how much money the consumer would like to borrow and over what length of time, there is a question asking if the consumer would like to include payment protection insurance. This is alongside a link to some text briefly explaining what PPI is.

Figure 14: Initial search screen for personal loans on uswitch.com

## Loan requirements

1 of 3: Your requirements 1 2 3

---

**WHICH PERSONAL LOAN IS RIGHT FOR YOU?**

Please answer these questions so we can find your best loan

How much do you need to borrow? £

How long do you need to repay the loan? Please select

Would you like to include Payment Protection Insurance (PPI)?  Yes  No ? [What is Payment Protection Insurance?](#)

**YOUR PERSONAL CREDIT**

Your credit history affects which loans are available. Please answer honestly.

Do you have any history of adverse credit or County Court Judgements?  Yes  No

Do you own a property?  Yes  No

**YOUR RESULTS**

Choose the loans you would like to compare in your results

Loans you can apply for online with uSwitch.com  Yes  No

**WHY DID YOU VISIT US TODAY?**

Help us give you the best service we can

Please tell us what prompted you to visit us today (optional) Please select

? [Can I apply for a loan if I have an adverse credit history?](#)

Source: <http://www.uswitch.com/Loans>

- 8.6 Once the user has answered these questions, the search results will be displayed, starting with the cheapest product. The screenshot in Figure 15 below shows a sample of these results.

Figure 15: Sample of uswitch.com search results for a protected 5 year £9,000 loan

**Results** 2 of 3: Your results

Change my requirements Start again Print this page Save this search

**YOUR LOAN DETAILS**

You would like to borrow:

Amount: £ 9000 Repaying over: 5 years (60 months) PPI included?  Yes  No Prices were last updated on 21 November 2007 [Change](#)

**PERSONAL LOAN**

Sort by: Monthly repayments [Sort](#)

Provider	Loan details	Monthly repayments	Typical APR	Total repayable	Early settlement charge	Apply
<a href="#">Black Horse Personal Finance</a>	<b>Goloan</b> <input type="checkbox"/> <a href="#">Compare</a>	£203.64	12.9%	£12,218.45	1 Months Interest	<a href="#">Enquire</a>
<a href="#">Bradford &amp; Bingley</a>	<b>Bradford &amp; Bingley Personal Loan</b> <input type="checkbox"/> <a href="#">Compare</a>	£205.09	7.9%	£12,305.43	1 Months Interest	<a href="#">Enquire</a>
<a href="#">Bank of Ireland Direct</a>	<b>Direct Personal Loan</b> <input type="checkbox"/> <a href="#">Compare</a>	£208.41	8.6%	£12,569.74	None	<a href="#">Enquire</a>
<a href="#">Barclaycard</a>	<b>Personal Loan from Barclaycard</b> <input type="checkbox"/> <a href="#">Compare</a>	£210.22	6.8%	£12,613.17	1 Months Interest	<a href="#">Enquire</a>
<b>TESCO</b>	<b>Fixed Personal Loan On-Line</b> <input type="checkbox"/> <a href="#">Compare</a>	£210.83	6.6%	£12,649.65	1 Months Interest	<a href="#">Apply</a>
<a href="#">Your Personal Loan.co.uk</a>	<b>Your Personal Loan (Home Owners Only)</b> <input type="checkbox"/> <a href="#">Compare</a>	£211.73	6.7%	£12,703.97	1 Months Interest	<a href="#">Enquire</a>

Source: <http://www.uswitch.com/Loans>

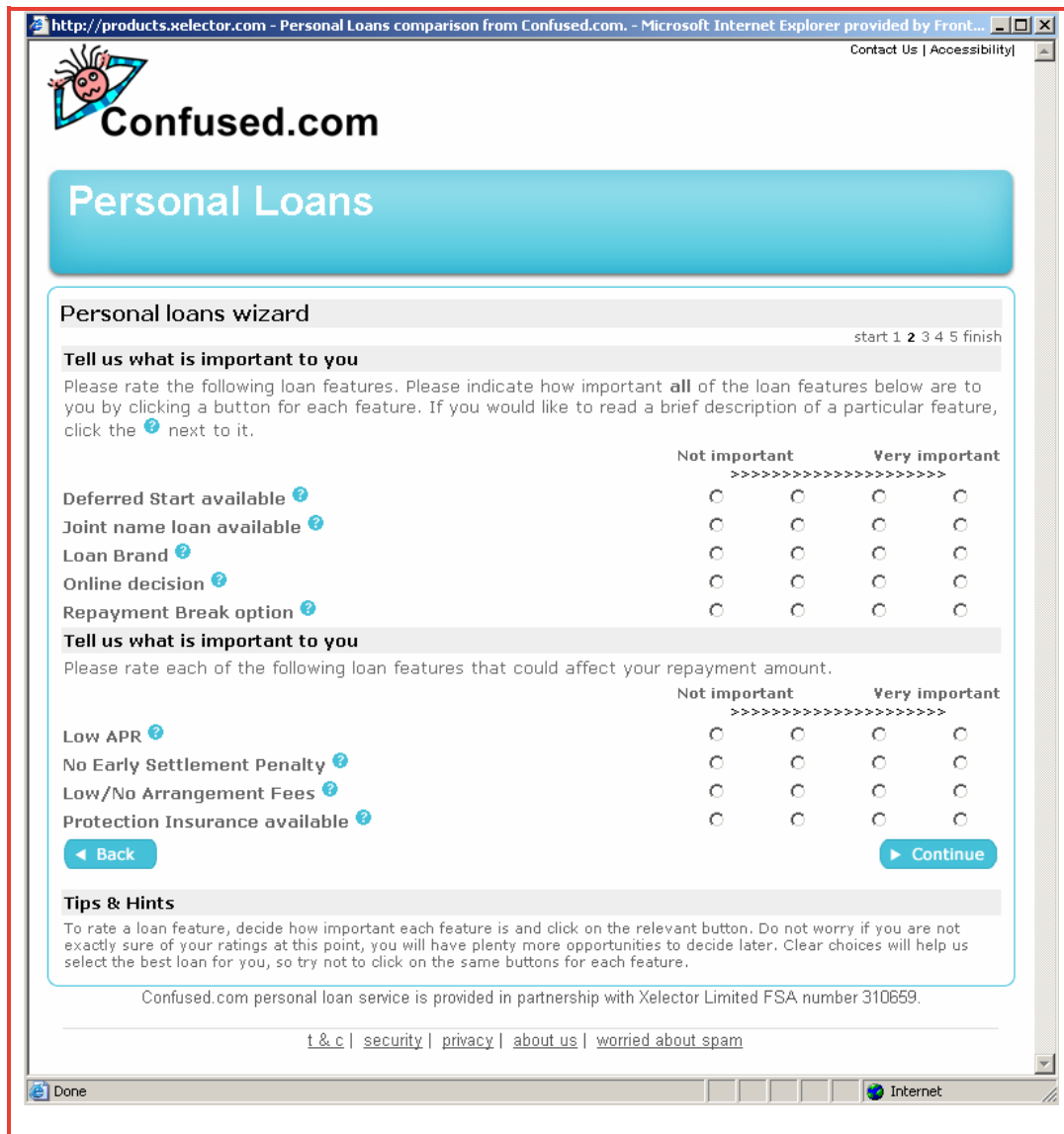
8.7 Even once the customer has searched for a loan, the top of the search results screen allows the customer to change the amount of the loan, the term of the loan, and whether they would like to include PPI. Uswitch.com makes shopping around for either a protected or unprotected personal loan easy.

Confused.com

8.8 Confused.com has two search functions. One is a basic search function which asks for the loan amount, the loan term and a few other details, and then displays the available loans sorted so that the cheapest appear first. This sorts loans exclusive of PPI and does not offer any option to include PPI.

8.9 However, confused.com also has an advanced search option. The advanced search asks for the loan amount and the loan term, and then asks a few questions to see if the consumer has any preferences regarding the sort of institution that provides the loan. It then asks questions about the importance of various loan features. These questions are shown in the screenshot in Figure 16 below. One of the questions asks how important the availability of protection insurance is. There is also a help icon which, when clicked, will produce a window explaining what protection insurance is.

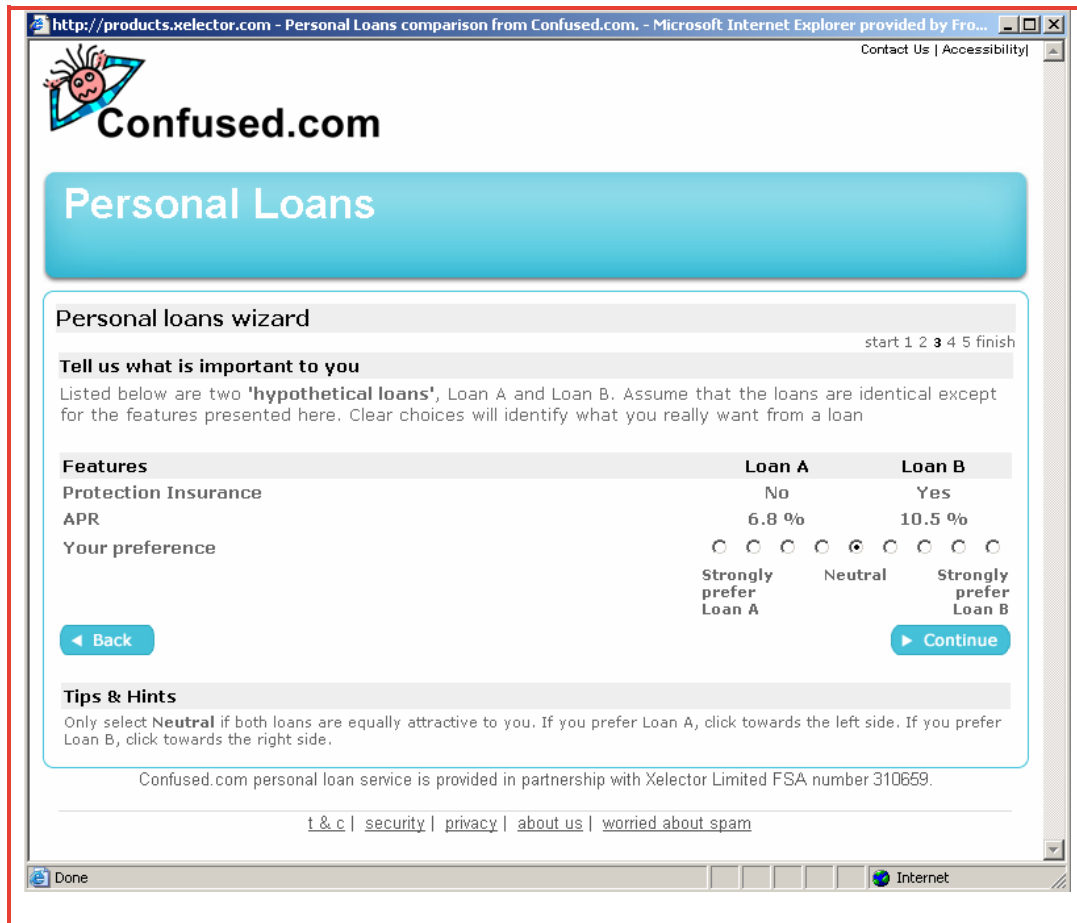
Figure 16: Questions about preferences over loan features asked by confused.com



Source: [www.confused.com](http://www.confused.com)

- 8.10 Once those preferences have been stated, confused.com asks a series of further questions, all of which take the form of asking the customer to state their preference for two hypothetical loans. An example of these questions is shown in the screenshot in Figure 17 below.

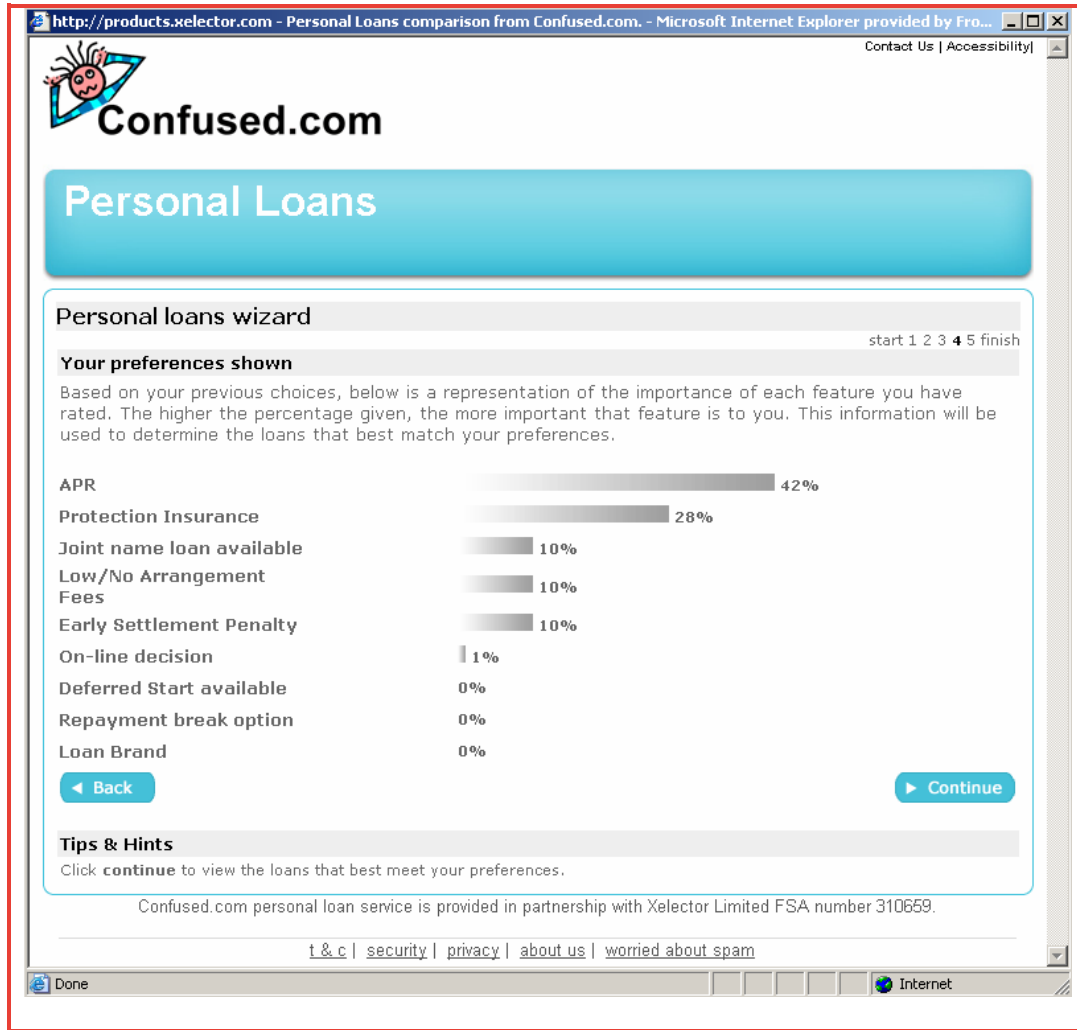
Figure 17: Example of question asking the consumer to describe preference over two hypothetical loans



Source: [www.confused.com](http://www.confused.com)

8.11 Once the consumer has answered these questions, confused.com presents the customer's preferences regarding loan features in a graph as shown in the screenshot in Figure 18 below.

Figure 18: graph of consumer preferences as shown by confused.com



Source: [www.confused.com](http://www.confused.com)

8.12 The customer may then continue to view the loans that confused.com believes would best suit them given their stated preferences. They are shown the monthly repayment, the APR and the features of the loans that confused.com believes are most suited to them. However, they will not be shown the price of PPI until confused.com transfers them to the website of their chosen provider.

[moneyfacts.co.uk](http://moneyfacts.co.uk)

8.13 The moneyfacts.co.uk initial search page for personal loans is shown in the screenshot in Figure 19 below.

Figure 19: Moneyfacts.co.uk initial personal loan search page

**Loans Search**

Answer the simple questions below to search through **75 personal loan products** for the best deals available.

**Moneyfacts** is completely **independent** and searches its entire loans product database to find you the best deal.

The information entered is for the sole purpose of providing you with the best results possible and will **not** be used for any marketing purposes.

This facility is intended as a **consumer search** and is therefore **not** intended for use by professional advisers.

How much would you like to borrow?

Over what period?

What is your age?

Have you ever had any CCJs  Yes  No

**next >**

**YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR ANY OTHER DEBT SECURED ON IT**

Your search for a loan will be carried out across 75 products.

Source: [www.moneyfacts.co.uk](http://www.moneyfacts.co.uk)

- 8.14 When a customer has answered these questions, the website returns the available loans and allows the user to sort them by, for example, monthly payment. The displayed monthly payments do not include PPI.
- 8.15 Once a customer chooses to look at the details of any particular loan, they are shown the APR from that selected loan and the monthly repayments with and without PPI for several example loan amounts and loan terms. An example is shown in the screenshot in Figure 20 below.

Figure 20: Moneyfacts.co.uk displayed information once a customer asks for details of a particular loan

Black Horse - Personal Loan

**Black Horse - Personal Loan**

With Effect From: 12/08/2004

Loan Type: Unsecured

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**Rates**

Min Advance	Max Advance	APR	Term
£1000	£2999	16.9%	12 months to 5 years
£3000	£4999	14.9%	12 months to 5 years
£5000	£14999	7.9%	12 months to 5 years
£15000	£15000	6.9%	12 months to 5 years

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**Repayment Examples**

Advance and term	With Insurance		Without Insurance	
	APR	Monthly	APR	Monthly
£1K over 12 months	16.9%	£100.53	16.9%	£90.66
£2K over 2 years	16.9%	£111.58	16.9%	£97.77
£3K over 3 years	14.9%	£119.70	14.9%	£102.59
£5K over 3 years	7.9%	£179.27	7.9%	£155.94
£7.5K over 5 years	7.9%	£181.03	7.9%	£150.93
£10K over 5 years	7.9%	£241.36	7.9%	£201.24
£15K over 5 years	7.9%	£352.24	7.9%	£295.04

Source: [www.moneyfacts.co.uk](http://www.moneyfacts.co.uk)

8.16 So, although moneyfacts.co.uk provides no facility to search for the cheapest protected loan, its users do have the facility to observe the cost of protected and unprotected personal loans.

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