

The Inquiry Secretary (PPI market inquiry)  
Competition Commission  
Victoria House  
Southampton Row  
London  
WC1B 4AD

27<sup>th</sup> November 2007

Dear Sir or Madam,

I am writing with reference to your "Emerging Thinking" document published on 6<sup>th</sup> November as part of your PPI market investigation, and further to my letter of 10<sup>th</sup> May.

The Mail Order Traders Association (MOTA) members continue to view themselves as lenders of last resort in relation to many customers, despite the increased availability of high street credit. Members' core business remains, therefore, with those within our society who are less well off. It must be remembered that home shopping balances are much lower than other forms of unsecured lending, and repayment periods are far shorter. Typical repayment periods are in the order of 20 to 50 weeks, though some members do, particularly for higher value goods, permit payments over 156 weeks. PPI charges are calculated at the end of each payment period on the customer's outstanding balance.

In addition to MOTA members, it is understood that Littlewoods Shop Direct will also be responding to the "Emerging Thinking" paper.

It should be remembered that the overwhelming majority of customers conduct their business with MOTA members on interest-free terms, and that a substantial number of customers continue to do business with one or more catalogues for many years. It is not uncommon for a customer to have maintained a catalogue account for upwards of twenty years, and it is equally not uncommon for a customer to maintain simultaneous accounts with other catalogues. This is an important feature of the discrete market in which MOTA members operate, and it is important this is fully appreciated.

MOTA members increasingly focus on offering PPI to existing customers, rather than to new customers, or a mixture of the two. This is advantageous to customers as it exposes them to details of the PPI products in catalogues and via websites, before being offered the product by telephone. Customers can, therefore, and do, take out PPI at any time during their trading relationship with member companies and, equally, can cancel at any time of their choosing without notice and without penalty. Indeed, and specifically in terms of existing customers who do not currently benefit from the protection afforded by PPI, the future offering of that product to that category of customers diminishes any perceived POS advantage, as customers will be aware of the product and will, consequently, have had the opportunity at least to have considered buying it elsewhere.

I note the Competition Commission has found no documentary evidence to support the hypothesis that firms consider an increase in the price of PPI will have a material impact on credit sales and that, when planning price rises, firms do not consider there will be significant effect on their sales of PPI. In terms of the Mail Order market, the credit offer is the primary offer. It is difficult to see how any increase in the cost of PPI can ever have an impact on credit sales, but the nature of our business and consideration of the fact that many customers operate accounts with rival firms mean that high PPI charges would simply encourage customers to cancel their policies and, in all probability, switch their allegiance to another catalogue, particularly as many customers already operate accounts with rival catalogues. Similarly, an increase in the cost of credit is likely either to drive customers elsewhere, or to add to their potential for indebtedness, thus impacting our ability to offer PPI at all. This is, perhaps, a significant difference in the way my members' market works compared to that which operates in more mainstream markets.

This distinction goes further, however. In relation to switching, there is no barrier as customers can cancel at any time, without penalty. This is independent of the provision of credit to the customer, so the switching from a member's PPI policy to that of a different provider has no effect whatsoever on the credit extended to that customer.

I am concerned to note the Commission's contention that prices are higher than competitive levels when PPI is sold alongside a credit product. I do not believe there exists any cross-subsidy or, indeed, any other relationship between the charges for PPI and the cost of credit. As the offer of PPI is made independently of the credit offer, rather than at the point of application for credit, as happens in some markets, it is difficult to understand how such a relationship can function in my members' environment.

As you are aware, members who offer PPI are regulated by the FSA, which continues to scrutinise PPI from a regulatory perspective. As a consequence, sales of PPI will be subject to a yet more stringent regulatory regime. MOTA members welcome this as it provides additional protection to our customers, and, having regard to the ease with which customers can cancel their policies, creates the circumstances which leads to sales that stick, thus cementing our relationship with a largely loyal customer base.

Should you wish to clarify any of the matters raised, please do not hesitate to contact me.

Yours faithfully

Mark Hogarth  
**Chief Executive**