

27th November 2007

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

Dear Sir/Madam,

Ref: Response to the PPI Market Investigation - Emerging Thinking

Paymentshield fully support the CC investigation into the PPI market. As a significant provider of MPPI in the intermediary channel and a provider for British Insurance MPPI products, Paymentshield's strategy is to provide products that offer good value for customers and as such we support any initiative that will raise consumers' knowledge of PPI and how to source the best products to meet their needs.

Below documents our comments on the 'Payment Protection Insurance Market Investigation – Emerging Thinking' paper. The thoughts cover three distinct areas. We would like to see further recognition of the clear difference that exists between MPPI and PLPPI and CCPPI. We provide a view on pricing as per the request in the paper, and we offer some views on future market structure.

1. Requirement to clearly differentiate MPPI

Although the commission has made particular reference to some differences that are apparent with MPPI, namely predominantly sold by intermediaries, and lower commission rates as shown on page 29, we feel that the significant differences are not brought out sufficiently in the paper. The combination of predominantly independent insurance, with advice provided by independent intermediaries and lower margins on a regular premium basis, have produced a market which has a completely different proposition to one where lender, insurer and adviser are common and product structure is lump sum based and margins and resultant price are higher.

Paragraphs 68 to 74 (Intermediaries) illustrates the behaviour of intermediaries who sell MPPI and the impact this has on the credit providers' PPI penetration rates. However, we believe the 'The Retail Market' analysis section for of the paper is heavily focused on PPI sales for unsecured or second charge mortgage PPI and the PoS advantages / disadvantages to the lender and does not clearly differentiate MPPI.

It is requested that the competitive dynamics of the MPPI market are highlighted separately from other PPI products, especially taking into account the characteristics of the intermediary channel and the extended protection insurance suite that intermediaries can select from. Additionally consideration must be given to the limited financial support provided in relation to mortgage payments (Income Support Mortgage Interest (ISMI), which in the majority of cases does not provide any support for the first 9 months to mortgage holders) and the findings of the FSA thematic investigation¹ into PPI which clearly states that the brokers selected the PPI providers themselves rather than selling PPI provided by a particular lender and most stated that they selected their chosen provider on the basis of value for money for the customer and the quality of administration the provider offered.

¹ FSA paper - The sale of payment protection insurance – results of thematic work (Nov 2005)

2. Pricing

The paper highlights that there is a large price variations between what appears to be often very similar PPI policies (paragraph 105). The fact that there appears to be large price variations on what appear to be similar PPI policies would suggest that there is not active competition at the point of sale, otherwise the market would drive out price variance. The paper evidences the stark difference between MPPI and PLPPI and CCPPI and that further supports the benefits of a competitive market that has been built in the mortgage intermediary sector and we would encourage similar structures in other PPI sectors.

3. Views on Structures

We would support the sale of PLPPI and CCPPI at the point of sale or activation of the associated product. It is crucial that the customer has the ability to take protection when liability and therefore risk is contracted. However, the single premium structure of PLPPI limits competitiveness as in the customer's mind moving provider will require refinancing of the underlying loan, although changes have been introduced in 2007 to combat that. Whilst some views will emerge stating that single premium provides fixed price coverage, the MPPI market tends to operate on a fixed price regular premium contract and effectively on a renewable basis.

We would encourage the Commission to seriously consider the creation of a secondary market and thereby increase the competitive nature of the market. The creation of a secondary market could be achieved by PLPPI being provided through regular premium contracts with no penalty for the customer who cancels and rearranges cover with a different provider at a certain renewal point. This would facilitate the provision at the point of sale, but provide future freedom to the customer to change provider and allow market forces to evolve. There is evidence to suggest this practice has been very successful in the household insurance market whereby home insurance became decoupled from mortgages and a vibrant secondary market evolved.

We hope that you find our comments helpful. If any aspect of our response requires clarification, or you would like to discuss the operation of MPPI in the mortgage intermediary sector further please contact me.

Yours Sincerely

Graham Johnston
Risk & Compliance Director