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Dear Marjorie

## **CONSULTATION ON DRAFT PPI ORDER**

Thank you for inviting us to submit our views as part of the consultation on the draft Order which will implement your remedies for the PPI market.

Our key concerns are set out below.

### **Scope of the Order and the Definition of Short-Term Income Protection**

We strongly believe it is essential that Short-Term Income Protection, in line with the Competition Commission objectives, remains an important competitor to PPI products for the benefit of consumers. While we understand the risks and the reasons why Short-Term Income Protection was initially included in the scope of the draft Order, to support competition in the market it is essential that it is only included where there is a specific need to protect the interests of consumers and not, for example, where it is taken out on a stand-alone basis by consumers who are shopping around.

We therefore propose that Short-Term Income Protection should not be included in the scope of the Order where the product has all of the following three characteristics:

- The policy terms and conditions contain no standard pre-existing medical condition exclusion clause; and
- The policy benefits are not directly linked to any credit terms; and
- Any policy benefits are paid directly to the individual policyholder, and not to a third party such as the loan provider.

Additionally, the current definition of Short-Term Income Protection in the draft Order is ambiguous as to whether it means either:

- A. Policies that include cover for any one or more of accident, sickness and unemployment as insured events; or
- B. Policies that include cover for all of accident, sickness and unemployment as insured events.

We believe the correct interpretation is 'B' above and this should be made clear.

Given the importance of these points we would be happy to discuss this with you directly.

### **Clarification around information requirements**

#### *Annual Review*

We strongly believe that an annual review should include a warning to customers about the risks associated with switching or cancelling cover. Unemployment figures rose dramatically to 2.22 million at the end of March (the highest level since 1996) and the first quarter of 2009 saw the largest increase in unemployment since 1981. With many people still repaying record high debts, it is more important than ever that people have the appropriate protection in place. PPI claims for unemployment increased by over 200% year-on-year from January 2008 to January 2009.

These figures show that, for many people, this is a very risky time to cancel PPI cover. There are also a number of dangers associated with switching between policies that people should be aware of:

- New medical conditions developed since the original policy was taken out will not be covered;
- There may be a gap in unemployment cover from a new waiting period; and
- Those in jobs that have become 'at risk' may find themselves excluded from new cover.

Whilst we understand the purpose of introducing annual statements, it would be entirely inappropriate for them to cause unintended and potentially very serious consumer detriment.

In the template for the Annual Review, the draft Order is proposing that a policy summary has to be provided to customers each year. This goes beyond FSA's existing rule requirements and does little to enhance the competitive nature of the market. Additionally, this requirement will be very difficult for insurers to administer as it applies to all PPI policies including those that were written before January 2005 but are still in force.

Another important consideration for the annual statements is that they should not only highlight price but also the extent of the cover. If customers are encouraged to look mainly at price, they may not be comparing like for like. For products such as MPP, where customers generally select the level of

monthly benefit, it may also be appropriate to invite the customer to consider whether the current level of benefit is still adequate.

In article 4.7 the draft Order allows annual reviews to be provided as an electronic communication if specifically requested by the policyholder. We imagine that such a request could be made either as part of the application process or at a later date. We would suggest the Commission considers clarifying this point.

### *Personal PPI quotes*

It should be made clear that the point of sale prohibition only applies to the first quotation as set out in the Final Remedies.

Firms should be free to do as much of the demands and needs analysis as they feel is appropriate to give the customer a relevant quotation. This will help customers to compare quotes when shopping around.

There should be no obligation to provide a PPI quote where the customer is ineligible for the cover or makes it clear that they do not wish to receive a quote.

When quoting for individual components, the risk cost of each component could potentially vary depending on which other components are selected. This means that it could be difficult to quote for individual components before a selection has been made.

We believe a requirement to give multiple or combined APRs (i.e. including the cost of PPI as though it was an interest charge) will be very confusing to customers and deliver little benefit;

- Few customers will understand what these figures mean.
- It would be unfortunate if presenting the information this way made customers think that they have to buy the insurance in order to get the credit.
- It would be a real challenge for firms to supply these figures due to the existence of the many different types of rates in existence, e.g. promotional rates (often 0% for 6 months), regular rates and different rates for different types of credit (e.g. retail purchases, balance transfers and cash).

We would urge the Competition Commission to exclude this kind of combined APRs from the Order.

### *Premiums*

A separate definition of Consumer Premium should be introduced into the Order for the purpose of consumer-facing materials (such as the Annual Review or the Personal PPI Quote) along the lines of:

*“Consumer Premium means the amount paid or payable by the Policyholder inclusive of Insurance Premium Tax”.*

Towards the end of the loan or mortgage term the value in a PPI policy declines. The monthly benefit remains constant throughout the term of the insurance but as the policy nears the end the maximum duration for the benefit reduces. This reduction arises in the final year because a claim cannot be sustained for longer than the duration of the loan or mortgage. Were the consumer to claim, instead of receiving a potential maximum of 12 months benefit, they would receive only the benefit for the remaining duration of the loan term.

The price for the insurance remains constant even though the consumer's maximum potential benefit is reducing. As currently drafted in the Order, the cost for providing £100 monthly benefit and declaring this in the Annual Review does not consider the reducing value of the insurance, which could be misleading to consumers.

From an insurer's perspective the only way to avoid this dilemma would be to offer a reducing price for the final year of the term, which has proven to be very difficult to administer due to the burden of frequently changing the monthly direct debit amount. Additionally, the monthly benefit makes no allowance for capital benefits such as Life cover.

We therefore consider the proposal to create a "common currency" to compare the price of products to be flawed. We believe that customers would gain more benefit from a product comparison that demonstrated the true value in the product, rather than simply focussing upon the cost

#### *Claims ratios*

We are concerned that customers will not understand what 'claims ratios' are, that they are imprecise and there is a real danger of not comparing like for like. If firms are required to publish their claims ratios, they should at the very least be allowed to include information to provide some context or provide these figures just to the FSA or OFT.

#### *Cost of PPI expressed as monthly cost for every £100 of Monthly Benefit*

Many loan providers use variable factors, such as the term and amount of loan or age and gender of the customer to price their loans. Firms should be able to represent the cost in a variety of ways, for example in table format or by providing a quote for a typical customer.

#### **The sales process and timing of the different components of the sale**

It will be necessary to define when the sale of different types of credit has been concluded, and the clock can therefore start ticking for the sale of PPI. This is, for example, an issue for mortgages, where the sale is a longer

process, and for car finance, where the car cannot always be delivered as soon as the paperwork is finalised.

The term '*bound unconditionally*' may in some circumstances unintentionally extend the prohibition period. For example, a Credit Provider might approve a credit application subject to retrospective planning consent being obtained or other similar constraint. In such circumstances the Credit Sale is not complete as the provision of credit remains conditional.

The Memorandum should therefore be amended to reflect the clarity that was provided in the Final Report.

Paragraph 7.2 (page 12) appears to contradict other statements regarding the application of the prohibition period to existing back-book customers. This clause suggests that any contact (even after six months of an account being opened) would be subject to a prohibition period. It does not appear possible from the draft Order for a Credit Arranger to offer Stand-Alone PPI (compliance with the required six-month time lag may be practically difficult). We believe this has the effect of extending the remedies far beyond what is intended, with a likely detrimental effect on innovation in the market, reduction in choice and the availability of PPI products, leading to significant consumer detriment. We would suggest the Commission considers clarifying this point.

### **Compliance and reporting requirements**

We would like the Commission to clarify the definition of '*independent*' with regard to a compliance report prepared by an independent party. We believe that a legally separate firm should not be precluded from being considered independent simply because it has previously carried out work for the PPI provider. It would be helpful if this could be clarified.

Reporting requirements to different regulatory bodies should be synchronised and follow the same template to avoid unnecessary cost. The current monthly returns to the FSA could be a good starting point, although there are some problems with the definitions and categories in the current form that would need addressing before implementation. We would be happy to come back to you with more detailed feedback on this at a later stage.

Please do not hesitate to contact us again if any clarification is needed or we can be of any further assistance.

Yours sincerely,

Nick Kirwan  
Head of Health and Protection