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To: Marjorie Davies
Competition Commission Inquiry Manager
By email

**MARKET INVESTIGATION: THE SUPPLY OF PAYMENT PROTECTION
INSURANCESERVICES IN THE UNITED KINGDOM: Publication of the revised
Draft Order for Public Consultation – National Australia Group (Europe)
Response**

Dear Marjorie

Following your email of the 8th July and publication of the Draft Order for Public consultation, NAGE have taken the opportunity to provide further feedback on the content.

NAGE feel that a number of points, originally raised in our correspondence of 18th May 2009, still require some clarification or further consideration. These are outlined below and set in the same sequence as per the draft order.

PART 1 – General

2: Interpretation

- While the definition of “**Claims Ratio**” is now clearer, it is still unclear as to how Consumers would benefit from knowing this information. What evidence is there that they will understand the information presented? Claims Ratios are a matter of fact based on individual portfolio performance and will not impact upon an individual’s policy terms or conditions.
- Given that the Single Premium book of business is now purely historic, including claims ratios for this book of business may serve only to confuse. Going forward, it is also important to recognise that it will take time for an accurate claims ratio to be established on any new book of business (see section 6).
- Although the Draft Order now includes clearer definition of ‘Incurred Claims,’ it remains unclear as to whether IBNR (Incurred But Not Reported) would be included (the term “adjusted for changes to the undiscounted claims reserves” is used).
- Indeed, the requirement around claims ratios seems to have been extended. The Explanatory Notes [paragraphs 46 – 47] assert that any explanation in plain English needs to be certified by an independent organisation specializing in plain English. This is an additional cost, beyond the already significant cost of change, unless a market standard wording is developed by an industry body.
- “**Stand-Alone**” PPI. Means PPI that is not offered or sold in conjunction with a specific Primary Credit Agreement and includes PPI sold by a Credit Arranger six

months or more after the conclusion of the Primary Credit Agreement. Within the latest Explanatory Note Paragraph 23 it indicates that linked to the definition of Stand-Alone the period of 6 months allows a Credit Arranger to market PPI to the Credit Consumer, who may have declined an earlier offer, without triggering the Prohibition Period. However, clarification is still needed on the need to capture information in the preceding 6 months of any transaction.

- For example, should a customer wish to come in to purchase short-term IP 5 months after taking out a credit card, our interpretation suggests we would need to reference the original credit and any other potential credit they had taken in the meantime to decide on our process. Tracking the dates of primary and subsequent credit agreements, if selling stand-alone, in order to comply with the remedy would prove challenging and expensive.

PART 2 – Information Requirements

4: Annual Reviews

- **Point 4.6 (c) – Schedule 3c – Credit Card.** The provision of the information pertaining to ‘average outstanding balance last year’, ‘credit limit’ and ‘average monthly cost of PPI last year,’ will clearly require substantial amounts of information to be calculated and shared. For distributors like ourselves, whose products are provided by third party insurers, it means that our respective systems must be joined up in some way to provide live data just for credit cards (The information pertaining to loans and mortgages is essentially ‘static,’ and can be provided at the outset). This imposes a large degree of complexity on the provision of such information relative to customer benefit. Their, credit limit and current month outstanding balance will be on their credit card statement.

5: Obligation to provide information to the FSA and the OFT

- **Point 5.2** enables the OFT to monitor profitability under (c). See interpretation of “Claims Ratio” in section 2 – can this perceived intent be clarified?
- **Schedule 5b (d)** “...percentage of PPI Consumers of a PPI Provider whose credit agreement is with another Distributor and identify each such Distributor” This would require all providers of stand-alone PPI to capture and record ‘other’ credit provider details, posing significant challenges. Assume that this would not apply to short-term IP policies (where a benefit level is set and not specifically linked to any one credit agreement in particular). It is unclear what this is trying to achieve.

6: Obligation to Disclose Claims Ratios

- See comments under interpretation of “Claims Ratio.” There is no apparent evidence to show Single Premium business is excluded from the Claims Ratio – indeed, the earned Premium includes prior year exposure. Consequently it will take a number of years for historical written business to work its way out of the experience performance. It will therefore be difficult to understand from corporate Claim Ratios [even split down by product] the effect of any new pricing. We are unclear how this relates to the purpose of the OFT, FSA and CC monitoring “future performance?”

7: Obligation to provide a personal PPI Quote

- **Schedule 4a (PPI Quote):** The calculation of a combined APR figure could serve to confuse the customer and potentially indicate a 'link' between the PPI and Loan repayments? What is the benefit of providing this information? The total cost of PPI is in no way linked to the cost of credit. The original remedies indicated that further research was to be undertaken on the PPI quote and we would be grateful if that could be shared.
- **Schedule 4e (Short-term IP Quote):** The wording on the quote (and Annual Review) again may serve only to confuse. "Amount of monthly income (or repayment) protected." If the policy is a short-term IP policy, then references need to reflect this. As it stands, 'Payment Protection Insurance' is referenced throughout the document.
- **Point 7.4:** If the quote is given verbally over the telephone before conclusion of the credit sale period, the prohibition period clearly does not start until the customer receives confirmation in a 'durable Medium' that the Credit Provider is bound unconditionally to provide the Credit OR PPI quote in a 'durable medium.' In the case of posting, this adds an additional 2 days, meaning that the customer has 3 days in which they may want the cover from the credit arranger, but are prevented from having it. How does such a situation benefit the customer? In the case of call centre operations can the prohibition period not commence from the point of a call recorded verbal quote. This will allow systems and process to be aligned across channels.

PART 3 – The Prohibitions

8: Prohibition on pre-sale of PPI

- While it is clear that the Credit Arranger cannot conclude the sale of a PPI Policy until after the prohibition period, the customer could legitimately initiate the transaction by asking the credit arranger, at point of credit sale, to call them back after a period of 24hrs to progress the application. This would still provide the customer with the opportunity to shop-around, if they so wish. Can the Competition Commission clarify if such an arrangement is acceptable?

9: Prohibition on sale of PPI after the start of the Credit Period

- **Point 9.2b:** This infers that the customer may only initiate the transaction (after 24 hrs) by using either the internet or telephone. However, a proportion of our customers may choose to voluntarily return to the branch to speak to the credit arranger personally, with the sole purpose of activating the PPI cover. Such a condition should be included. To remove the opportunity for a customer to transact in this way through their preferred channel, after 24hrs, would be unfair.¹ Customer choice is clearly inhibited and customers who choose to transact via a particular channel should not be excluded from doing so.
- What is required as part of the 'conclusion' of a PPI sale? The provision of a *personal* PPI quote will require us to cover off exclusions and limitations, key features and significant benefits. We will also provide customers with a Policy Summary at this point. To what extent would the above need to be re-iterated to the customer should they choose to purchase the policy? Neither the final report

¹ See Final Report paragraph 10.121-10.125



nor draft order provide enough clarity.² Providing the customer potentially with 3 copies of the Policy Summary at different points in the process is excessive.

10: Prohibition of payment by Single Premium and Requirement to pay a Rebate

- No Comments

PART 4 – Requirement as to separate supply

11: Obligation to offer PPI separately when sold in a package of insurance

- No Comments

PART 5 – Compliance

12: Compliance Obligations

- No Comments

13: Obligation to conduct a Mystery shopping exercise

- No Comments

14: Report on Clarity of Marketing Material

- **Point 14.2:** Have indicative costs been sought with regards to the use of an Independent Market Research Agency to compile such a report?

15: Obligation to appoint a Compliance Officer

- No Comments

PART 6 – The CC

Section 16: Directions by the CC as to Compliance

No Comments

Given that there are clearly areas where we would benefit from further clarification and others where we could provide more explanation of the rationale behind our comments, we would welcome the opportunity to discuss these points directly with the Competition Commission. As such, we would appreciate a meeting to gain further clarity on the above points, and look forward to your response on this matter.

Yours sincerely

Jeff Mendzil
Head of Insurance & Protection Products
National Australia Group Ltd

² See Final Report paragraph 10.121 (b) “businesses must... demonstrate... that the consumer’s decision to purchase PPI... was more than a passive commitment or confirmation of a pre-agreed sale”