



**COMPETITION COMMISSION
PPI MARKET INVESTIGATION**

**Response to
Formal Consultation on Draft Order 2009**

7 AUGUST 2009

Introduction

Nationwide Building Society (“Nationwide”) welcomes the opportunity to provide comment on the Competition Commission’s (“CC”) Payment Protection Insurance (“PPI”) Market Investigation Formal Draft Order 2009 published on 8 July 2009.

Nationwide previously provided feedback on 18 May 2009 in relation to the CC’s informal version of the draft Order and also attended the CC’s Briefing Seminar on 31 July 2009 to obtain greater clarity in respect of the Order and remedies implementation process. However Nationwide believes that a number of observations and issues remain and these are outlined below.

This response is divided into two parts as follows:

Part 1 – summarises Nationwide’s high level comments in respect of the CC’s Formal Draft Order.

Part 2 – sets out Nationwide’s specific observations and issues in relation to certain Parts of the CC’s Formal Draft Order and associated Schedules.

Note: Where Nationwide has not made specific comment, this does not imply or infer Nationwide’s agreement to all that is contained within the CC’s Draft Order.

1 Nationwide's high level comments on the CC's Formal Draft Order

- 1.1 Nationwide continues to believe that many providers/distributors will disappear from the PPI market as a result of the CC's PPI Market Investigation and resultant remedies package with a reduced PPI availability causing detrimental effect on consumers. This result would be in direct conflict with addressing adverse effects on competition that the CC found.
- 1.2 Nationwide is gravely concerned that the CC's remedy prohibiting PPI for 7 days following conclusion of the credit sale period, will undoubtedly lead to disastrous consequences for the considerable consumer benefits that PPI provides and ultimately the protection of consumer's homes. Crucially, given that the current period of economic uncertainty is likely to continue into 2011, many consumers will be left vulnerable and exposed to extreme financial difficulties and lack of help when they need it most.
- 1.3 Nationwide continues to challenge the CC's decision that following the 24 hour prohibition period, the consumer may only initiate contact with the Credit Arranger via the internet or by telephone. If a customer returns to the Branch where their application for credit was initiated and which is their preferred choice it seems totally unreasonable to turn them away. At the briefing seminar on 31 July, the CC said that removing the face to face option for return after the 24 hour prohibition period was 'deliberate' but no supporting rationale has been provided.

Nationwide would also suggest that this conflicts with the spirit of treating customers fairly, a message that the FSA has been at pains to emphasise and which consumers rightly have come to expect.

- 1.4 Although the CC is pressing ahead with its detailed work to implement the Order, a key consideration will be the outcome of various challenges that have been lodged with the Competition Appeal Tribunal, the outcome of which may result in the need mid-stream, to undertake a rapid change in direction. This will undoubtedly impact the already challenging timescales and add to the significant systems and logistical issues surrounding implementation of the CC's remedies requirements, which cannot be underestimated.
- 1.5 Nationwide lists its specific issues in Part 2 below, however a main focus of concern is the format and content of the Personal PPI Quotes and PPI Annual Review templates which Nationwide believes still require a great deal more work. Moreover, the CC has failed to understand key differences between the PPI products themselves, thus rendering the CC's standard approach to these templates as inappropriate and misguided.
- 1.6 The prescribed messages within both the Personal PPI Quote and PPI Annual Review reminding consumers that they can cancel their PPI at any time and find cheaper more appropriate cover from other providers are unbalanced. For example they make no reference to the danger in having no cover at all, which is particularly significant in the current economic climate.

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- 1.7 The Personal MPPI Quote stipulates a total cost of PPI ‘for the duration of the credit agreement’. This requirement for annually renewable MPPI is in direct conflict with the FSA’s ICOBS total price disclosure, whereby the disclosure of both the monthly and annual total MPPI premium at inception and at renewal in a way consistent with the standards set out in the ICOBS, is sufficient in meeting the informed decision standards for these types of contracts. While the conflict remains, Nationwide will work to the FSA view.
- 1.8 Nationwide would question the requirement within the mortgage, personal loan, credit card Personal PPI Quotations to state a combined APR, when the CC’s remedy to prohibit PPI at the credit point of sale is to effect a **delinking** of the PPI sale from that of the credit product. This additional information provided by the lender whilst of interest to the consumer does not increase competition, encourage customers to shop around or compare prices as only the lender will provide this information. It is therefore not only a disproportionate remedy; it also does not contribute to the aims of the CC.
- Of further concern is that it could mislead consumers into believing that it will be more expensive to purchase PPI from their credit provider.
- 1.9 Nationwide continues to question the validity of an Annual Review for annually renewable MPPI contracts, which in addition to the annual renewal documentation seems an unnecessary duplication of similar information at the same time of year and will be unduly onerous to the consumer.

2. Nationwide's specific observations and issues on the CC's Formal Draft Order

2. Interpretation

Claims Ratio

Despite further representation following the Informal Draft Order, that the CC's Claims Ratio interpretation requires more work, specifically that it would require a standardised industry approach to reserving and premium earning, no adjustment to the requirements have been proposed by the CC.

Currently the proposals will not produce information that will make loss ratios comparable, thus defeating the CC's objective.

Credit Sale

Nationwide would challenge the CC's definition of 'credit sale' in which it states 'conclusion when the Consumer receives confirmation in a Durable Medium that the Credit Provider is bound unconditionally to provide the Credit'. The point at which the mortgage lender is bound unconditionally to provide the credit is at completion of the property purchase. The lender is able to withdraw the provision of credit at any time prior to this. The CC should therefore amend its definition and remove reference to 'unconditionally'.

Stand-Alone PPI

Nationwide questions the CC's definition classifying 'Stand-Alone PPI' as 'PPI sold by a Credit Arranger **six months** or more after conclusion of the Credit Agreement'. In the event a Credit Arranger uses the credit point of sale as an opportunity to sell a portable PPI product (following the prohibition period) with benefits that are (a) not paid directly to the credit product itself but instead are paid direct to the consumer and (b) can include other outgoings, this surely constitutes a Stand-Alone PPI product and as such, a combined APR is inappropriate.

Part 2 – Information Requirements

4. Obligation to provide an Annual Review

- 4.1 Nationwide makes the assumption that the CC's Annual Review (a) requirements apply to an annually renewable policy that is paid by monthly premium.

Nationwide's MPPI is an annually renewable contract with monthly paid premiums. Consumers receive annual renewal documentation detailing cover, total monthly and annual premiums for the next 12 months of cover, satisfying the FSA's MPPI total price disclosure requirement as confirmed in Ed Harley's letter of 17 November 2008.

Provision of an MPPI Annual Review in addition to the MPPI renewal documentation seems an unnecessary duplication of much of the above information which will confuse the consumer at a time when they are receiving similar information in their annual renewal documentation.

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- 4.2 Nationwide believes that the requirement for each subsequent Annual Review to be sent within two weeks of the anniversary of the first Annual Review is ambitious and suggests a period of one month as being a more workable solution.
- 4.4 It would be helpful if the CC could clarify their interpretation of ‘separately’ in relation to provision of an Annual Review separately from any other information on or about or relating to the credit product. Is this to be provided via an entirely separate written communication?
- 4.7 Nationwide makes the assumption that provision of an electronic Annual Review to a consumer will be subject to the firm already having the capacity to do this, as will add to implementation costs if not. Nationwide seeks the CC’s confirmation that this assumption is correct.

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

- 5.1 Nationwide provides data to the FSA with which to populate their PPI Comparison Tables as currently, however would seek clarity on the requirement to provide ‘such data, in such format as the FSA may need from time to time’. Are additional data items proposed and what will be the timing for provision of these?

6. Obligation to provide Claims Ratios

- 6.1 Nationwide questions the need to disclose claims ratios for single premium PPI which is no longer sold and therefore consumers are unable to purchase.

7. Obligation to provide a Personal PPI Quote

- 7.2 Where the consumer(s) amends their credit and/or their PPI requirements (as can often be the case) resulting in a new Personal PPI Quote, Nationwide seeks clarity on whether a 2nd prohibition period applies.

Part 3 – The Prohibitions

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

- 10.3 Nationwide seeks clarity on whether in the event of an annual PPI contract with the option of monthly or annually charged premiums, the CC’s requirement that a PPI Provider shall not make any charges, excludes the ability to apply interest if the customer chooses to pay monthly. This is particularly common in motor insurance where the percentage of interest applied to the premium is often disclosed as an APR in brackets.

Part 4 – Requirement as to Separate Supply

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

- 11.1 Nationwide makes the assumption that the requirement to offer PPI separately does not apply where Purchase Protection insurance is offered to all credit card consumers, irrespective of whether they purchase PPI. Nationwide seeks the CC’s confirmation that this assumption is correct.

Part 5 – Compliance

12. Obligation to submit Compliance Reports

- 12.1 Nationwide makes the assumption that if the PPI Provider is a distributor selling PPI on an ‘Introducer’ basis, the obligation to provide a Compliance Report rests with the PPI supplier. Nationwide seeks the CC’s confirmation that this assumption is correct.

Nationwide also seeks clarification of whether the GWP threshold for Compliance Reporting is at Group or individual Brand level.

In addition, who in the supply chain takes lead for the Compliance Report where information is provided by both the distributor and supplier?

13. Obligation to conduct a mystery shopping exercise

- 13.1 Nationwide makes the assumption that the GWP criterion (£60 million or more in the preceding year) is based on both new and back-book PPI business. A firm may have sold little PPI during the last financial year, however may have substantial PPI back-book business. Nationwide seeks the CC’s confirmation that this assumption is correct.

It would also be helpful if the CC could clarify whether the GWP criterion is applicable to firms with sub-brands who sell PPI and whether the GWP threshold is at Group or individual Brand level.

Nationwide is concerned that only one verified non-compliant mystery shop will constitute non-compliance with the Order, which may be disproportionate to the volumes of PPI sales.

Schedules 3a – 3c

Nationwide is concerned that the ability to populate ‘employment status’ within the PPI Annual Statement is restricted in that this data although captured initially at the point a consumer purchases PPI, is likely to be historic in that its accuracy is wholly reliant on the consumer making contact with Nationwide to update it.

Nationwide therefore suggests that the CC reconsiders inclusion of this requirement which will serve no useful purpose.

Nationwide questions the CC’s requirement to include a policy summary with the Annual Review, a document which under ICOBS is provided in good time before conclusion of a PPI contract.

Schedule 3b – Annual Review of Optional PPI on your Mortgage

Cost of Payment Protection Insurance cover

The comment under Schedule 4b below also applies to the Annual Review of Optional PPI on your Mortgage which must allow for annually renewable MPPI contracts.

Schedule 3c – Annual Review of Optional PPI on your Credit Card

Cost of Payment Protection Insurance cover

Nationwide believes that the consumer will not fully understand the average monthly cost of CCPPI in the past year and for every £100 outstanding balance covered, without a supporting explanation, due to variations in the consumer's monthly credit card balance outstanding, which for some months could be 'zero' and hence there would be no PPI premium applied.

The example used by the CC in the text below the boxes is not appropriate to CCPPI. The CCPPI premium calculation is based on a monthly cost per £100 of the credit card balance outstanding, with the monthly benefit in the event of a claim being generally 10% of the outstanding balance for accident, sickness and unemployment cover and for life cover, the outstanding balance.

The Credit protected by this cover

As the CC has not stipulated, Nationwide makes the assumption that the 'credit limit' will be the credit limit on the date the Annual Statement is issued.

Schedule 4b – Quote for Optional PPI on your Mortgage

Cost of Payment Protection Insurance cover

The requirement to provide total cost of PPI for the duration of the credit agreement directly conflicts with the FSA's MPPI total price disclosure for annually renewable contracts which Ed Harley confirmed to the CML in his letter of 17 November 2008:

Annually renewable MPPI contract

The other types of MPPI contracts we are aware of are those described as annually renewable. This type of contract can accurately be described as annually renewable if, at inception, the customer is provided with the monthly premium and the total annual premium and then at renewal the customer is sent a renewal schedule with the monthly premium and the total annual premium and given the opportunity to opt out. The disclosure of a monthly and the annual total premium at inception and at renewal in a way consistent with the standards set out in the ICOBS is capable of meeting the informed decision standards for these types of contracts.

We consider that if a contract is offered on annual basis and the customer is offered the opportunity actively to renew or opt out at the appropriate intervals the disclosure of the annual total premium is sufficient.

The quote for mortgage PPI must therefore allow for annually renewable contracts, where the monthly and total annual cost of PPI will be quoted for the term of the insurance contract.

Schedule 4c – Quote for Optional PPI on your Credit Card

Cost of Payment Protection Insurance cover

See comment for Schedule 3c above.

The Credit on which this quote is based

As the CC has not stipulated, Nationwide proposes that the ‘credit limit’ and ‘annual percentage rate of charge (APR)’ will be the values as at the date the Annual Statement is issued.