

## Framework for the assessment of remedies and relevant customer benefits

1. Having identified a set of features of the markets for the supply of retail PPI in the UK that give rise to an AEC, the CC has a duty to consider what, if any, action should be taken to remedy the adverse effect and resulting customer detriment. As well as taking action itself, the CC may recommend that action be taken by others.
2. The CC is required by the Act<sup>1</sup> 'in particular to have regard to the need to achieve as comprehensive a solution as is reasonable and practicable to the adverse effect on competition and any detrimental effects on customers so far as resulting from the adverse effect on competition'. Such detrimental effects may affect existing or future customers and must be in the form of higher prices, lower quality, less choice or less innovation in relation to goods or services in any UK market (whether or not in the market to which the feature or features concerned relate).<sup>2</sup> As noted in its guidance *Market Investigation References: Competition Commission Guidelines, CC3* (paragraph 4.9): 'when deciding what is an appropriate remedy, the Commission will consider the effectiveness of different remedies and their associated costs and will have regard to the principle of proportionality'.
3. CC3 makes several general observations about factors relevant to its consideration of effectiveness (CC3, paragraph 4.13 et seq):
  - (a) first, the CC will 'consider whether it is possible to devise a remedy that is both clear and not overly intrusive in its regulation of a firm's behaviour';
  - (b) second, in considering its effectiveness, the CC will consider the prospects of a particular remedy being implemented and complied with; and

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<sup>1</sup>Section 134(6).

<sup>2</sup>Section 134(5).

(c) a third relevant consideration is the timescale within which the effects of any remedial action will occur.<sup>3</sup>

The CC will take full account of the OFT's functions in terms of monitoring remedies and regulating the consumer credit market (CC3, paragraph 4.15). Other factors may also be relevant to the CC's consideration of effectiveness, depending on the facts of the case.

4. The guidance also makes the following points regarding proportionality. In considering whether a remedy is reasonable and practicable, the CC will consider the cost associated with implementing the remedy (CC3, paragraph 4.10). The CC will endeavour to minimize any ongoing compliance costs to the parties, subject to the effectiveness of the remedy not being reduced (CC3, paragraph 4.12). However, the CC will balance those costs against the benefit to the UK economy and to customers in particular. In 'choosing between two remedies which it considers would be equally effective, it will choose the remedy that imposes the least cost or that is the least restrictive' (CC3, paragraph 4.10).
5. Other relevant points in the guidance outline what remedies can address, and the likelihood of remedial action in a market in which the CC finds an AEC. The CC 'will seek to implement (or recommend) remedies that address the cause of the problem, it may also choose to address the detrimental effect on customers in addition or as an alternative' (CC3, paragraph 4.6). However, the CC is prevented from taking action to address future (rather than existing) detrimental effects on customers if it is not also remedying the AEC (section 138(6) of the Act). Although it remains an option, 'it is unlikely that the Commission, having decided that there is an AEC, will

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<sup>3</sup>The guidance says (CC3, paragraph 4.23) that 'if the remedy is not likely to have speedy results, the Commission may choose an alternative remedy or implement additional remedies such as those to remedy the detrimental effects on customers during the interim period. Otherwise, not only might there be uncertainty as to whether the effects would ever materialise, but in the meantime customers would continue to suffer from the consequences of the adverse effects on competition'.

decide that there is no case for remedial action, at least before it has given attention to any relevant customer benefits that may accrue from the market features’.

6. The guidance also sets out that we may have regard to relevant customer benefits.

## Cost of remedy package

1. The estimated costs to the two main retail PPI providers of the remedies we have selected for the retail PPI remedy package are shown in Table 1. In total the estimated annual cost of the remedy for these two providers is in the region of £0.8 million, with implementation costs of around £1.0 million. The rationale for these figures by remedy, as well as information about the costs of alternative specifications of these measures, is shown in the paragraphs below.

TABLE 1 Cost of remedies

	<i>Remedy cost £'000</i>					
	<i>Annual cost SDGFS</i>	<i>Annual cost JDW</i>	<i>Total annual cost</i>	<i>Implementation cost SDGFS</i>	<i>Implementation cost JDW</i>	<i>Total implementation cost</i>
Unbundling retail PPI from merchandise cover	[X]	[X]	[X]	[X]	[X]	[X]
Information provision in marketing materials	[X]	[X]	[X]	[X]	[X]	[X]
Information provision to third parties	[X]	[X]	[X]	[X]	[X]	[X]
Personal PPI quote	[X]	[X]	[X]	[X]	[X]	[X]
Annual review	[X]	[X]	[X]	[X]	[X]	[X]
Annual reminder	[X]	[X]	[X]	[X]	[X]	[X]
Single-premium prohibition	[X]	[X]	[X]	[X]	[X]	[X]
<b>Total</b>	[X]	[X]	<b>827</b>	[X]	[X]	<b>1,003</b>

Source: Submissions from SDGFS and JD Williams.

N/A = not available.

### ***Unbundling retail PPI from merchandise cover***

2. SDGFS said that, if the CC required the bundled and unbundled products to be offered to all customers over the telephone at the point of sale, the remedy would cost £[X] annually (comprising additional call handling costs of £[X] and an additional £[X] cost of storing the recording of calls). However, it made an alternative proposal that would require retail PPI providers to market both the bundled and unbundled options in their catalogues and on their website but which would only require retail PPI providers to offer a customer an unbundled product over the

telephone if it was requested by the customer. It said that this proposal would not entail additional costs over those it already incurred in promoting its unbundled product—providing there was flexibility in the detail of how an unbundled product was promoted.

3. JD Williams estimated that the annual cost of the remedy would be £[redacted] (of which £[redacted] represented additional call handling costs) with set-up costs of £[redacted] if the unbundled product was offered to all customers over the telephone at the point of sale. This would reduce to an annual cost of £[redacted] and set-up costs of £[redacted] for the alternative proposal only to require retail PPI providers to offer a customer an unbundled product over the telephone if it was requested by the customer.
4. We have decided to implement the SDGFS alternative proposal, so have included the lower costs in Table 1.

### ***Information provision in marketing materials***

5. In Table 1 we are using the previously submitted costs from the parties for this element of the remedy package (detailed in Appendix K of the [Remittal Provisional Decision report](#) of May 2010). SDGFS estimated that the annual cost would be £[redacted]<sup>1</sup> and JD Williams estimated an annual cost of £[redacted] with £[redacted] of set-up costs.<sup>2</sup>

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<sup>1</sup>Appendix K of May 2010 provisional decision, paragraph 25. Note SDGFS provided a total estimate of the implementation cost of its remedies for the 2009 report of £[redacted] but did not break the figure down further. It has provided some estimates of implementation costs for the separate remedies in response to the supplementary statement of possible remedies but this was not comprehensive.

<sup>2</sup>Appendix K of May 2010 provisional decision, paragraph 23.

## **Information provision to third parties**

6. SDGFS and JDW both suggested that the costs of the remedy would be small. SDGFS said £[redacted]. JDW said the annual costs would be £[redacted] with minimal implementation costs.<sup>3</sup>

## **Personal PPI quote**

7. We collected information from retail PPI providers about the costs of alternative specifications of this remedy option. These alternative specifications included:
- (a) providing all new customers with a personal PPI quote as a separate mailing towards the end of the cooling-off period;
  - (b) providing all new customers with a personal PPI quote as a statement insert with their first credit statement, providing that this was during the cooling-off period; and
  - (c) providing all new customers with a personal PPI quote with other policy documentation sent to customers after the PPI sale.

8. The responses of SDGFS and JD Williams are shown in Table 2.

TABLE 2 **Cost of alternative ways of delivering the personal PPI quote**

			£	
	<i>SDGFS annual cost</i>	<i>JDW annual cost</i>	<i>SDGFS implementation cost</i>	<i>JDW implementation cost</i>
Solus mailing to all new PPI customers	[redacted]*	[redacted]	[redacted]	[redacted]
Statement insert	[redacted]†	[redacted]	[redacted]	[redacted]
Include with policy documents	[redacted]	[redacted]	[redacted]	[redacted]

Source: Submissions from SDGFS and JD Williams.

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\*Reduces to £[redacted] if Internet sales customers receive the information by email.

†Reduces to £[redacted] if Internet sales customers receive the information by email.

N/A = not available.

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<sup>3</sup>Appendix K of May 2010 provisional decision, Tables 1 & 2.

9. In Table 1 we have used the cost for the two largest parties to include the information with policy documents, which appears to be the cheapest option and also the approach that these parties are most likely to pursue.
10. We also obtained some information about the cost of providing a personal PPI quote from FGH and Express Gifts:
- (a) FGH told us that the set-up cost for a solus mailing for 8,000 new customers would be £[REDACTED], with annual ongoing costs of £[REDACTED]. For a combined mailing, which was its preferred option, the set-up cost would be £[REDACTED] with an annual ongoing cost of £[REDACTED].
- (b) Express Gifts does not currently offer a PPI product, but told us that the cost of a solus mailing worked out at [REDACTED]p per mailing, whereas if the personal PPI quote was included with the other policy documentation it would only add approximately [REDACTED]p to its existing costs.

### ***Annual review***

11. We asked SDGFS and JD Williams to provide estimates of the cost of providing an annual review under various assumptions, relating both to the number of customers the annual review is sent to and whether we require the annual review to be sent as a solus mailing or whether we relax the requirement in the 2009 report and allow the annual review to be sent alongside information about the credit, such as the monthly credit statement. These are detailed in the table below.

TABLE 3 Cost of alternative specification of obligation to provide an annual review

	£	
	SDGFS	JDW
<i>Solus mailing</i>		
Cost of solus mailing to all customers	[£]	[£]
Cost of solus mailing to customers who have paid PPI premiums over £50 in 2009	[£]	[£]
As above, to customers who have paid over £100	[£]	[£]
In addition, set-up costs for the three options above of	[£]	[£]
<i>Insert to monthly statement*</i>		
Sent to all customers	[£]†‡	[£]
Sent to customers paying over £50 a year	[£]	[£]
Sent to customers paying over £100 a year	[£]	[£]
In addition, set-up costs for the three options above of	[£]	[£]

Source: Submissions from SDGFS and JD Williams.

\*SDGFS told us it would not be possible to include the annual statement with the monthly statement. This option would therefore only be suitable where the annual review mailing was generic (ie did not contain personal information) and could simply be inserted into the same envelope as the customer's monthly statement.

†The costs for SDGFS are based on the cost of providing a generic statement on the assumption that personalized information could be included elsewhere (eg as an additional statement page or in the body of the credit statement).

‡SDGFS said that an insert would have to replace existing marketing material (as there was a limit on the weight of the envelopes it could mail) and there would be an opportunity cost for this.

12. For the option of including the annual review as an insert in the monthly credit statement SDGFS said that there were systems constraints that meant it was not operationally possible to match up a separate personalized insert with a customer's monthly statement and to include these in the same mailing to the customer. SDGFS said that generic information could be sent in the insert and additional personalized information could be sent as a solus mailing and/or added to the monthly credit statement. The figures presented above are based on the cost of providing a generic statement as a statement insert, including the opportunity cost. JD Williams said that there were issues around the Consumer Credit Directive that meant that it was unlikely to be possible to add other personalized information to the customer's monthly statement, but said it would be possible to send the information as a statement insert and provided the costs on this basis in Table 3.

13. For SDGFS, while the set-up costs of £[£] are the same irrespective of the number of customers to whom an annual review is sent, the ongoing costs of sending the annual review as a solus mailing are in direct proportion to the number of customers in the mailing.

14. JD Williams provided us with a more detailed breakdown of how it had arrived at its estimates. This was as follows:
- (a) The basic mailing cost is £[redacted] per customer.
  - (b) JDW then assumed that some 20 per cent of the customers mailed would enquire about the information that had been sent. We note that this response rate is higher than JDW's usual response rate to a mailing of around 10 to 15 per cent. JDW said that it assumed a higher response rate because the annual review would be unexpected. The cost of responding to each inquiry was estimated by JDW to be £[redacted].
  - (c) JDW also assumes that 6 per cent of customers will require their details to be amended, at a further cost of £[redacted] for each amendment. JDW explained that the amendments would be required where the information held on the customer was wrong. JDW suggested that examples would be where the customer's date of birth, the statement start date, or the employment status of the customer were wrong. Where an amendment was made, JDW assumed that the cost of a confirmation letter mailed to the customer would be £[redacted] each.
15. The level of responses assumed in paragraph 14(b) appeared to us to be somewhat high, although we recognize that there is an element of judgement in evaluating the likely volume of calls that will be prompted by receipt of an annual review. We do not consider the costs in paragraph 14(c) above, which again appeared to us to be somewhat high, to be a relevant cost of the remedy, since the costs are primarily caused by JDW holding incorrect or out-of-date information about its retail PPI customers. We thought that that keeping accurate customer records was a normal cost of doing business for a PPI provider. If these costs are excluded, the estimated costs for solus mailings would fall by 56 per cent and the estimated costs for statement inserts would fall by 72 per cent.

16. Taking both providers together, requiring an annual review to be sent only to customers who had spent £50 on retail PPI in the past year (around one-third of active customers) would reduce ongoing costs by around two-thirds compared with sending the annual review to all customers. If the annual review were only sent to customers who had spent £100 on retail PPI in the past year (around one-fifth of active customers), this would reduce ongoing costs by around four-fifths. SDGFS also said that it might be able to reduce the annual costs of this and other informational remedies if it was able to use its secure electronic 'My Account' facility to deliver messages to consumers.
17. In the provisional decision we decided that the annual review should only be sent to customers who had spent more than £50 on retail PPI in the preceding year and that the annual statement should not be included alongside credit statements or other credit information. Therefore we have assumed in Table 1 that SDGFS costs would be £[REDACTED]. We have adjusted the cost JDW specified of £[REDACTED] by removal of the customer amendments items (detailed in paragraph 14(c)), to give an updated annual cost for JD Williams of £[REDACTED].

### ***Annual reminder***

18. SDGFS said that the implementation costs for this remedy would be £[REDACTED]. The cost if the messages were printed on the statement would be small. However, SDGFS said that if an additional page were required for the reminder the cost would increase because of opportunity costs of not being able to include other information in the mailing. We have adopted a conservative approach, and assumed that an additional page would be required. SDGFS has told us that the cost of mailing an annual review as a statement insert to all customers would be £[REDACTED] and the cost of mailing customers with a PPI spend of over £50 would be £[REDACTED] (see Table 3). Therefore, we have conservatively assumed the cost of sending an annual reminder only to

customers who have spent less than £50 on retail PPI would be £[REDACTED] a year (ie £[REDACTED] minus £[REDACTED]).

19. JD Williams said that the annual cost of providing an annual reminder of key messages with customers' credit statements would be £[REDACTED], with implementation costs of £[REDACTED].

***Prohibition on selling of single-premium PPI policies***

20. Both parties have said that this remedy would not have any practical implementations for retail PPI, therefore we have assumed zero cost for the remedy.

### Application of monthly cost for every £100 monthly benefit metric to retail PPI

1. In this appendix, we set out how we propose the monthly cost for every £100 monthly benefit price metric should be applied to retail PPI. The application of this metric to retail PPI would depend on the type of credit account that was offered.
2. Where a retail credit provider offers a running credit account facility that operates in a similar way to a credit card account, the calculation of this metric is a relatively straightforward matter.
3. This is because both the monthly cost of PPI and the monthly ASU benefit are both typically calculated as a fixed percentage of the outstanding balance. This means that the monthly cost for every £100 monthly benefit (which is the basis on which the price of CCPPI is displayed on the moneymadeclear website (see paragraph 10.217 of the 2009 report)) is also a constant amount.
4. In this situation, the calculation of price as a monthly cost for every £100 monthly benefit is illustrated in the following example. The PPI policy in this case pays out up to 12 monthly payments.

#### Example of calculation of monthly cost for every £100 monthly benefit for a 'credit card' type of account

		<i>Notes</i>
<i>Details of PPI policy</i>		
A	% of balance repaid monthly in event of valid ASU claim	8.33%     1/12 of outstanding balance
B	Maximum number of months covered by ASU claim	12     Balance paid off in 1 year
C	Retail PPI price as cost for every £100 outstanding balance	£1.98
<i>Illustrative example</i>		
D	Outstanding balance	£100.00
E	Monthly cost of PPI	£1.98     Equals C * D
F	Monthly benefit if customer makes valid ASU claim	£8.33     Equals A * D
G	Monthly cost for every £100 monthly benefit	£23.76     Equals E * 100/F

5. Where the cost of credit is embedded in the price of the goods and customers pay for the goods and the credit over a fixed period (eg 52 weeks), we propose that the metric be calculated using the following approach.

**Illustrative calculation of monthly cost for every £100 monthly benefit: embedded credit**

<i>Details of credit</i>			<i>Notes</i>
A	Total amount payable	£100.00	
B	Number of monthly repayments	12	
C	Amount of monthly repayments	£8.33	per month
<i>Details of PPI</i>			
D	Retail PPI price as cost for every £100 outstanding balance	£1.98	
E	Monthly cost of PPI	£1.98	in first month
F	Monthly benefit if customer makes valid ASU claim	£8.33	Equals C
G	Maximum number of months covered by ASU claim	12	in first month
H	Monthly cost for every £100 monthly benefit	£23.76	Equals E* 100/F

6. This approach produces the same estimate of monthly cost for every £100 monthly benefit as for an equivalent PPI policy on a ‘credit card’ style account, which therefore provides an appropriate basis for comparison. It is worth noting that the monthly cost of the PPI will decline during the term of an embedded credit purchase, as the number of months for which the customer would be covered, in the event of a claim, also reduces.
7. The price of PPI measured in this way will vary according to the timescale over which the goods are bought. This is because the monthly repayment—and hence the monthly benefit—will be higher if the goods are bought over a shorter period. SDGFS noted that some customers would purchase goods on a range of terms (eg some goods might be purchased over 50 weeks, while others might be purchased over 20 weeks).
8. Where it is not possible to use a single price to communicate the cost of PPI to every customer who sees an advertisement, we propose that retail PPI providers can fulfil their obligations under this element of the remedy package by quoting this price in relation to a typical situation (eg the most frequently offered credit terms or an average based on the relative weighting of different credit terms), providing they

comply with ICOBS and other rules governing financial promotions (see paragraph 10.214 of the 2009 report).

**Templates for personal PPI quotes and annual reviews**

[Name]  
[Address Line 1]  
[Address Line 2]  
[Address Line 3]  
[Address Line 4]  
[Postcode]

Reference [x]  
Date [x]



## Quote for Optional Payment Protection Insurance on your Home Shopping Account

This form gives you information about how much this insurance will cost

### Things you should know about Optional Payment Protection Insurance

Taking out this Insurance is optional and does not increase your chances of obtaining credit.  
Cheaper or more appropriate cover may be available from other providers. There is more information about Payment Protection Insurance on the website at: [www.fsa.gov.uk/tables/bespoke/PPI](http://www.fsa.gov.uk/tables/bespoke/PPI).  
Payment Protection Insurance is not the only product designed to protect you against loss of your income. For unbiased information about insurance, please visit the website at: [www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk).

Further details of cover, including any significant exclusions and limitations, are in the attached policy summary.

### Payment Protection Insurance quote

#### Type of cover included

Life	[Repays outstanding balance up to a maximum of £10,000]
Accident & Sickness	[Repays 10% of your outstanding balance for up to 6 months in any claim]
Unemployment	[Repays 10% of your outstanding balance for up to 6 months in any claim]
[Other]	[Not included]

#### Cost of Payment Protection Insurance cover

Illustrative annual cost of Payment Protection Insurance (based on a typical outstanding balance of £300)	£[xxx]
Illustrative monthly cost of Payment Protection Insurance (based on a typical outstanding balance of £300)	£[xxx]
Monthly cost of Payment Protection Insurance for every £100 outstanding balance covered	£[xxx]

We have calculated a **combined APR** to illustrate the cost of taking the credit and Payment Protection Insurance together. Comparing this measure with the APR of the credit alone gives an indication of the additional cost of Payment Protection Insurance over a period.

Combined APR (credit and Payment Protection Insurance)	[xx]%
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We have calculated the cost of our Payment Protection Insurance as a **monthly cost for every £100 of monthly benefit below**. This number explains how much this insurance costs you each month for every £100 in benefit that you would receive each month if you made a successful claim for accident, sickness or unemployment. For example, if the number is £5 this means that for every £5 that you pay as a monthly premium, you will get £100 for each [full] month that the claim lasts [less the excess period on the policy]. This number can be used to make comparisons with the cost of insurance from other providers. You should also compare the cover offered and the way in which benefits are paid out.

Monthly cost of Payment Protection Insurance for every £100 of monthly benefit	£[xxx]
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### The credit on which this quote is based

Credit limit	£[xxx]
Annual Percentage Rate of Charge (APR)	[xx]%

#### Cancellation rights

You can cancel your Payment Protection Insurance at any time [by providing [X] days' notice]. To cancel, call [xxx xxxx xxxx] or write to [Customer Services at [X]]. There is no charge for cancellation.

For general enquiries, please call: [xxx xxxx xxxx].

[Name]  
[Address Line 1]  
[Address Line 2]  
[Address Line 3]  
[Address Line 4]  
[Postcode]

Reference [x]  
Date [x]



## Annual Review of Optional Payment Protection Insurance on your Home Shopping Account

This form gives you information about how much this insurance has cost for the past year

### Things you should know about your Optional Payment Protection Insurance

You can cancel your policy at any time and it will not affect your credit.

Cheaper or more appropriate cover may be available from other providers. There is more information about Payment Protection Insurance on the website at: [www.fsa.gov.uk/tables/bespoke/PPI](http://www.fsa.gov.uk/tables/bespoke/PPI).

Payment Protection Insurance is not the only product designed to protect you against loss of your income. For unbiased information about insurance, please visit the website at: [www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk).

Further details of cover, including any exclusions and limitations, are in the attached policy summary. You should check this form to make sure that all the recorded details are correct, otherwise your insurance cover may be affected.

### Payment Protection Insurance cover

#### Type of cover included

Life	[Repays outstanding balance up to a maximum of £10,000]
Accident & Sickness	[Repays 10% of your outstanding balance for up to 6 months in any claim]
Unemployment	[Repays 10% of your outstanding balance for up to 6 months in any claim]
[Other]	[Not included]

We have recorded your current employment status as [Employed 16+ hours a week]

We have recorded your current age as [Age]

#### Cost of Payment Protection Insurance cover

Annual cost of Payment Protection Insurance in past year £[xxx]

Average monthly cost of Payment Protection Insurance in past year £[xxx]

Average monthly cost of Payment Protection Insurance for every £100 outstanding balance covered £[xxx]

We have calculated the cost of our Payment Protection Insurance as a **monthly cost for every £100 of monthly benefit below**. This number explains how much this insurance costs you each month for every £100 in benefit that you would receive each month if you made a successful claim for accident, sickness or unemployment. For example, if the number is £5 this means that for every £5 that you pay as a monthly premium, you will get £100 for each [full] month that the claim lasts [less the excess period on the policy]. This number can be used to make comparisons with the cost of insurance from other providers. You should also compare the cover offered and the way in which benefits are paid out.

Monthly cost of Payment Protection Insurance for every £100 of monthly benefit £[xxx]

### The credit protected by this cover

Credit limit, as at the date of this annual review £[xxx]

Average outstanding balance in past year £[xxx]

#### Cancellation rights

You can cancel your Payment Protection Insurance at any time [by providing [X] days' notice]. To cancel, call [xxx xxxx xxxx] or write to [Customer Services at [X]]. There is no charge for cancellation.

For general enquiries, please call: [xxx xxxx xxxx].

## Implementation of remedies

### How the remedies should be implemented

1. The CC can take remedial action in a number of ways. These are:
  - (a) making an Order;<sup>1</sup>
  - (b) accepting undertakings to stop or to take particular action ‘from such persons as the CC considers appropriate’;<sup>2</sup> or
  - (c) recommending the taking of action by others.<sup>3</sup>
  
2. The CC’s guidance notes that a market investigation remedy will often be most effective if it is imposed by an Order rather than sought through undertakings, due to the likely number of parties involved.<sup>4</sup> There are only a small number of retail PPI distributors actively selling retail PPI. However, it is possible that other retail credit providers will choose to enter or re-enter PPI markets in the future.<sup>5</sup> In light of this possibility, the large number of other PPI distributors active in the UK and the many common elements in the remedy package for different forms of PPI, we have provisionally decided that an Order is likely to be the most suitable means of addressing the AEC in this case. We envisage producing a single PPI Order relating to all relevant parties, incorporating variations in relation to retail PPI as appropriate.
  
3. We propose to make one recommendation to CFEB, that it use the information provided to it to populate its PPI price comparison tables.

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<sup>1</sup>Section 161 of the Act.

<sup>2</sup>Section 159 of the Act.

<sup>3</sup>Section 134(4)(b) of the Act.

<sup>4</sup>CC3, paragraph 4.44.

<sup>5</sup>In this respect we noted that during the Remittal FGH restarted selling a bundled PPI product.

## **The timescale for implementation**

4. In the 2009 report, we decided that the following remedies should come into force within six months of the implementing Order:
  - (a) information provision in marketing materials; and
  - (b) information provision to third parties.
  
5. In the 2009 report, we decided that the following remedies should come into force within 12 months of the implementing Order:
  - (a) unbundling retail PPI from merchandise cover;
  - (b) personal PPI quote;
  - (c) annual review; and
  - (d) single-premium prohibition.
  
6. We see no reason to change our decision in relation to the timing of the introduction of any of the above measures. This would enable consistency with the approach taken in other PPI markets.
  
7. We have introduced the following new measure, specifically in relation to those customers who spend less than £50 in retail PPI premiums in the past 12 months:
  - (a) an obligation to provide an annual reminder.
  
8. In light of the interaction between this measure and the annual review, we propose that this obligation be introduced to the same timescale as the annual review—ie within 12 months of the implementing Order.
  
9. In the 2009 report, we said that we would aim, so far as possible, to make use of the two common commencement dates each year for new regulation and regulations of 6 April and 1 October. We will aim to make use of these dates, so far as possible.

## **Monitoring compliance**

10. Once the remedy package is implemented, it will need to be monitored under the Act by the OFT.<sup>6</sup>
  
11. In paragraphs 10.523 and 10.566 of the 2009 report, we set out our decisions about the appropriate compliance reporting regime for all PPI markets, including retail PPI. These were summarized in paragraph 10.566 of the 2009 report, the substance of which is reproduced in paragraph 12 below.
  
12. We concluded that the OFT's monitoring should be supported by suitably comprehensive reporting requirements. As is standard practice in our remedies orders, this shall include the OFT having an ability to obtain from any relevant person and, from time to time, any information and documents reasonably required for the purposes of enabling the OFT to monitor and review the operation of the remedies Order or any provision of the Order. In addition, we conclude that the package of compliance reporting requirements should include:
  - (a) A requirement on all PPI providers with GWP above the relevant specified thresholds in paragraph 10.538 of the 2009 report<sup>7</sup> to provide the OFT with six-monthly compliance reports in the first two years following commencement of our remedies Order, with annual reporting thereafter. These compliance reports are to be in the format specified by the OFT and are either to be produced by an independent party or prepared by the PPI provider and subject to verification by an independent third party. In either case, each compliance report must be signed by a company director and a non-executive director.

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<sup>6</sup>Section 162 of the Act.

<sup>7</sup>In paragraph 10.538 of the 2009 report, we concluded that the largest distributors of PPI overall and of each type of PPI should report to the OFT. On this basis, we decided that, for the first year of implementation of the remedies, this obligation should apply to distributors which in 2007 achieved a total GWP of more than £30 million and/or a GWP of more than £10 million in relation to any individual type of PPI (ie PLPPI, CCPPI, MPPI, SMPPI or retail PPI). After the first year of implementation, those distributors whose GWP exceeded the above thresholds during the previous year will be obliged to provide compliance reports to the OFT.

- (b) A requirement that, subject to any additional or different requirements that the OFT may impose pursuant to its monitoring duties, the compliance report should include the information set out in Figure 10.4 of the 2009 report (ie annual GWP, split by product type; distributor penetration rates, split by product type; aggregate claims ratios, split by product type); the percentage of their PPI consumers whose credit agreement is with another distributor; the percentage of consumers who receive a firm quote who ultimately take PPI from their credit provider; and the percentage of consumers who reject PPI notwithstanding a firm quote and follow-up by the credit provider at or after the end of the seven-day prohibition; any steps taken to ensure compliance; representative samples of advertising materials, sales scripts etc; details of any incidences of non-compliance and steps taken to rectify this; details of training of staff regarding compliance; and details of their internal monitoring systems.
- (c) A requirement on all PPI providers to appoint a compliance officer who has responsibility for monitoring compliance, facilitating provision of information to the OFT and acting as a point of contact at the firm if the OFT has any questions. Firms would have to notify the OFT of the identity of the compliance officer.
- (d) A requirement on distributors with a total GWP of more than £10 million, but who do not meet the thresholds specified in paragraph 10.538 of the 2009 report to provide the OFT with a breakdown of GWP by product type annually.
- (e) A requirement on all PPI providers with GWP above the relevant specified thresholds (see paragraph 10.538 of the 2009 report) either to provide to the OFT an annual report from an independent research agency establishing that wording used in its sales and marketing materials for PPI is easy to understand or to satisfy this verification requirement through use of customer focus groups, provided that such consumer testing is carried out by an independent and expert market research organization.

(f) A requirement that all PPI providers with total GWP above £60 million in the preceding year commission an annual, independent mystery shopping exercise and report results to the OFT within a compliance report.

13. We see no reason to change the application of this monitoring regime for retail PPI, with the exception that those reporting requirements in paragraph 12(b) that related specifically to the POSP<sup>8</sup> need not apply to retail PPI, as this remedy is not being taken forward in this sector.

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<sup>8</sup>The percentage of consumers who receive a firm quote who ultimately take PPI from their credit provider; and the percentage of consumers who reject PPI notwithstanding a firm quote and follow-up by the credit provider at or after the end of the seven-day prohibition.

**Mechanism and timescale by which we expect our remedies to deliver benefits**

1. We expect our remedies to deliver increased competition and thereby benefits to retail PPI consumers through the following mechanisms.
2. First, the application of our remedies across all PPI markets will generate new opportunities for stand-alone providers, including credit arrangers offering PPI on a stand-alone basis. While we do not consider that retail PPI customers are likely to be a particular priority for stand-alone providers, this development will increase the visibility of the stand-alone market to all PPI customers, including retail PPI customers. We expect that our remedies will have an immediate impact on the constraint posed by the stand-alone sector, once all elements of the remedy package have been introduced, though this impact is likely to evolve and develop as the stand-alone sector grows and matures (see Appendix L of the Remittal Provisional Decision).
3. Second, the remedy package includes measures aimed at facilitating consumer search when customers first take out PPI—these are the obligations to include material in marketing materials, to provide data for CFEB to use in its comparative tables, to provide a personal PPI quote, and to unbundle retail PPI from merchandise cover. These measures will assist those customers who are motivated to search to compare the products offered by retail PPI providers against alternatives. We expect these measures to start to take effect as soon as they are introduced and, in combination with the development of the stand-alone sector, to have an appreciable impact on competition within one to two years of all elements of the remedy package coming into force.

4. Third, the remedy package includes measures aimed at prompting customers to compare existing PPI policies against alternatives on a periodic basis. These are the obligation to provide an annual review to heavier users of retail PPI and to remind all customers of their cancellation rights. We would expect these measures, in combination with the development of the stand-alone sector, to have an appreciable impact on competition within two to three years of all elements of the remedy package coming into force, by which time all customers will have received either an annual review or an annual reminder.
5. Fourth, we expect the increased competitive pressure on retail PPI providers that results from the development of a stronger stand-alone market, combined with the impact of the specific remedies that we are introducing in retail PPI, to deliver some dynamic benefits—for example, increased selection pressure—within a period of two to three years. We recognize that other dynamic benefits—for example, reputational benefits—may take longer to be realized depending, in part, on the extent to which retail PPI providers engage positively with our remedies and the extent to which the results of increased competition are manifested in outcomes such as lower prices, increased cover and higher claims ratios.
6. We concluded that we would expect our remedies to deliver appreciable benefits to consumers within a period of around two to three years.