



News Release

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PPI — FINAL REPORT

The Competition Commission (CC) has today published its final report into the Payment Protection Insurance (PPI) market, setting out the measures it has decided are needed to introduce competition between suppliers.

In its final report published today at www.competition-commission.org.uk, the CC has concluded that businesses that offer PPI alongside credit face little or no competition when selling PPI to their credit customers. To address the lack of competition, the CC will be introducing a package of measures to introduce competition in the market including: a ban on the sale of PPI during the sale of the credit product and for seven days afterwards, a prohibition on single-premium policies, personal PPI quotes, annual statements and measures to make sure that improved information is available to consumers to make it easier for them to compare and search for products and switch policies at a later point.

The vast majority of the UK's more than 12 million PPI policies are sold at the same time as a consumer takes out a loan, credit card or other type of credit. The CC found that many consumers: are unaware that they can buy PPI from other providers, rarely shop around to compare prices and terms and conditions of PPI policies, and rarely switch PPI providers. The resulting 'point-of-sale' advantage makes it difficult for other PPI providers to reach credit providers' customers and in the absence of such competitive pressure, consumers are charged high prices.

Peter Davis, Inquiry Chairman and CC Deputy Chairman, said:

These are significant measures carefully designed to address the serious competition problems that currently exist in this market. The 'point-of-sale' advantage has meant that leading providers have faced little competition for PPI and, as a result, have charged persistently high prices.

Consumers' interests are not best served when the only choice the vast majority have is whether or not to purchase their credit provider's PPI product. The resulting lack of competition means that the only offer consumers get is simply worse value than they are entitled to expect. Allowing the current shortcomings to continue unchecked would be damaging not just to consumers but also ultimately to the PPI industry itself.

We are introducing a range of measures to get competition working in this market, giving consumers the time and ability to make a considered and informed choice and other providers the chance to compete far more effectively with the initial credit provider. Competition will provide consumers with lower prices and better choice.

We are tackling the single biggest barrier to competition in this market, the credit providers' point-of-sale advantage, by stopping distributors of credit products from completing sales of PPI until seven days after the sale of the underlying credit product. This will open up the market, giving consumers time to search the market once they have secured their credit, and giving competing providers, who at the moment struggle to get a look in, the opportunity to offer their PPI products to these consumers. Consumers who decide that they want the PPI offered by their credit provider can contact that provider to purchase it after 24 hours.

Along with this we will be ensuring that consumers are fully equipped with the information they need to take advantage of this opportunity to search the market. Parties must provide binding personal quotes, provide certain information in marketing materials and provide information for use in price comparison websites.

In addition, we will also make it easier for consumers to switch their PPI policy at a later point if a better deal becomes available. This is why we are banning single-premium policies, which lock-in customers to their current provider to a significant extent. Annual statements will also help remind consumers how much their policy is costing and of their ability to switch, while other elements of our remedies package will help them to find whether there are better-value policies available to them.

In the current economic climate there may well be a greater need for consumers to obtain the cover that PPI—and other protection products—can provide. The increased economic uncertainty makes it even more important that consumers have choices, that they have the opportunity to make the right choice and they can get value for money.

We recognize that prohibiting firms from completing PPI sales during this time interval and prohibiting single-premium policies are significant interventions in this market. However, these actions are necessary to enable consumers to benefit from lower prices and better choice.

Since publishing its provisional findings reports and notices of possible remedies last year, the CC has been collecting evidence regarding the possible remedies from PPI providers, consumer groups, the Financial Services Authority (FSA), the Office of Fair Trading (OFT), and other interested parties. Following a series of hearings and a considerable amount of analysis, and the publication of its proposed remedies in November 2008, the CC has finalized a package of measures which it considers will be practical and effective in increasing competition in the market to the benefit of consumers. The proposed package of remedies comprises:

- A prohibition on the sale of PPI by a distributor or intermediary to a customer within seven days of selling credit to that customer. This will address the point-of-sale advantage, and give the customer more opportunity to compare products and providers, in turn encouraging greater competition between providers. Whilst the distributor or intermediary cannot re-contact the customer for seven days, customers *will* be able to

contact the distributor or intermediary and purchase a PPI policy on their own initiative from 24 hours after the credit sale.

- Distributors and intermediaries will be required to provide a 'personal PPI quote', which will clearly state the cost of the PPI policy individually and when added to the credit product. If this is not given at the point of sale, the credit provider must provide it if they subsequently contact the customer to offer PPI. The seven-day prohibition period starts from the later of the conclusion of the credit sale or the date on which the personal PPI quote is provided to the customer.
- A prohibition on the selling of single-premium PPI policies, whose rebate terms act as a barrier to consumers switching while the prices of these policies are unduly difficult to compare with other PPI policies. Premiums can be charged monthly or annually—if an annual premium is charged and the customer decides to terminate the policy, then a pro-rata rebate must be reimbursed. No separate charges can be levied on a customer for administration or other costs arising from the set-up or early termination of a PPI policy.
- A requirement on all PPI providers to provide certain information and messages in PPI marketing material (including the price of their PPI, expressed in a common format of monthly cost per £100 of monthly benefit, and that PPI is optional and available from other providers).
- A requirement on all PPI providers to provide certain information on PPI policies to the FSA and a recommendation to the FSA that it uses this information for its PPI price comparison tables. Providers will also be required to supply information to the OFT for the purpose of monitoring the remedies package and to provide information about their claims ratios to any person on request.
- A requirement on all PPI providers to provide an annual statement for PPI customers, including information similar to that provided in the personal quote, to encourage customers to review their policy annually and make it easier for customers to decide whether to switch.
- Where distributors of retail PPI offer an insurance package containing PPI and merchandise cover, they must also offer, as a separate item, PPI cover alone.

The CC expects that the measures will come into force during 2010, with the information remedies in place by April 2010 and other measures by October 2010, each to coincide with Government common commencement dates for new legislation and regulation.

The CC has liaised closely with the industry regulator, the FSA, which takes the lead on regulating sales practices and tackling mis-selling, as well as the Financial Ombudsman Service (FOS), which deals with consumer disputes. The CC's focus has been on examining whether there is effective competition in the market as a whole.

Notes for editors

1. The CC is an independent public body, which carries out investigations into mergers, markets and the regulated industries.
2. The members of the PPI inquiry group are Peter Davis (Group Chairman and CC Deputy Chairman), John Baillie, Christopher Bright, Professor John Cubbin and Richard Farrant.

3. PPI covers repayments on credit products if the borrower is unable to make repayments due to accident, sickness, unemployment or (in many cases) death. PPI is sold to cover a variety of financial products, but over 90 per cent of PPI sold in the UK in 2007 was either: unsecured personal loan PPI, credit card PPI, mortgage PPI or secured loan PPI.
4. Retail PPI is a small part (in 2007, the gross written premium (GWP) paid by consumers for retail PPI was £73 million. In 2007, the GWP for all other forms of PPI was £3.8 billion) of the overall PPI market relating to protection taken out on repayments for shopping through home catalogues. Although part of the ongoing investigation into the whole PPI market, the CC has published certain documents relating to Retail PPI separately during earlier stages of the inquiry. The final report published today covers all of personal loan, mortgage, credit card and retail PPI. Store-card PPI was not part of our terms of reference.
5. The OFT referred the PPI market for investigation by the CC in February 2007, following its initial study into the sector in response to a 'super-complaint' from Citizens Advice. Under the Enterprise Act 2002, the OFT can make a market investigation reference to the CC if it has reasonable grounds for suspecting that competition is not working effectively in that market.
6. Following such a reference, the CC carries out a comprehensive investigation, so that it can ultimately come to a final decision about whether any features of the market prevent, restrict or distort competition and, if so, what action should be taken to remedy these and any resultant adverse effects on consumers.
7. Market investigation references are intended to focus upon the function of a market as a whole rather than the conduct of a single firm in a market. If the OFT has concerns about the conduct of a single firm or firms that have engaged in anti-competitive agreements, it will first consider whether those actions infringe the Competition Act 1998.
8. Enquiries should be directed to Rory Taylor on 020 7271 0242 or rory.taylor@cc.gsi.gov.uk.