



News Release

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PPI—CC CONFIRMS CASE FOR POINT-OF-SALE PROHIBITION

The Competition Commission (CC) has provisionally decided that consumers will benefit from the introduction of a point-of-sale prohibition for all forms of payment protection insurance (PPI), with the exception of retail PPI.¹

The point-of-sale prohibition would stop the completion of sales of PPI during the sale of the associated credit product such as a personal loan. It was one of a package of measures the CC planned to introduce following its [investigation](#) into PPI, which concluded that businesses that offer PPI alongside credit face little or no competition when selling PPI to their credit customers.

The report and in particular the proposed point-of-sale prohibition were the subject of a legal challenge last year to the Competition Appeal Tribunal (CAT) by Barclays, supported by Lloyds Banking Group and Shop Direct Group Financial Services Ltd. Whilst upholding the CC's conclusions as to the competition problems in this market, the CAT [ruled](#) that it must in particular consider further the role and importance of a potential drawback to the prohibition, namely that it might inconvenience customers.

Since then, the CC has carried out a detailed analysis of the likely effects of such a prohibition including undertaking customer surveys, and an assessment of parties' internal documents and of various experiments looking at the possible impact of splitting the sales processes of credit and PPI. In its provisional decision [published today](#), the CC has concluded that the benefits of a package of remedies including the prohibition, by introducing greater competition and choice and lower prices to the market, will outweigh the disadvantages, in particular the potential inconvenience to some customers.

The exception is retail PPI, where it is not clear to the CC, from the evidence presented so far and from a new survey of retail PPI customers, whether the advantages of introducing the prohibition alongside other measures would outweigh the disadvantages. It is inviting comments on whether alternative remedies would be more effective or would deliver equivalent benefits at less cost.

The CC has also assessed changes in PPI markets since it published its report in January 2009 and provisionally concluded that despite the effects of the economic climate and regulatory action, the underlying problems identified remain firmly in place.

¹Retail PPI is a small part of the overall PPI market relating to protection taken out on repayments for shopping through home catalogues, typically accounting for about 2.5 per cent of PPI gross written premium paid by customers.

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

Following the legal challenge at the CAT, we've done an enormous amount of additional work to examine in further detail whether the package of remedies we're proposing including the point-of-sale prohibition will provide an effective and proportionate way of tackling the serious problems that still exist with PPI.

We found that many customers would place very significant value on being given the time and space to choose the right PPI product—or indeed to decide that PPI is not right for them. We also found that a significant number of customers appreciate the convenience of buying PPI instantly at the point of sale of credit. Overall we concluded that PPI providers are overstating the loss of convenience that would result from the introduction of a prohibition on selling PPI during the credit sale.

All customers of course will appreciate the lower prices for PPI and the greater choice we expect to result from more competitive PPI markets.

Obviously the financial services sector has experienced some significant changes since our initial report. We looked at the effect of the relevant aspects of those changes on the PPI market and came to the view that, whilst the financial crisis and recession have certainly had an effect on providers' sales, they haven't altered fundamental competition problems. PPI customers currently have little choice and prices are high because competition is very limited. It is notable that even in the depths of the recession following the financial crisis we found that the economic profits of PPI distributors remained significant.

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 is either unsecured personal loan PPI, credit card PPI, mortgage PPI or secured loan PPI.

In its 2009 report, the CC stated that 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.

During the investigation, the CC 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, which deals with consumer disputes. The CC's focus has been on examining whether there is effective competition in the market as a whole.

The CC will now invite comments on its provisional decision before publishing its final verdict in July. If it upholds its provisional decision, it will move to introduce the full package of measures as swiftly as possible.

Comments on the draft decision are now invited by 4 June 2010. They should be made in writing to: ppi@cc.gsi.gov.uk or:

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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 remittal group are Peter Davis (Group Chairman and CC Deputy Chairman), Professor John Baillie, Professor John Cubbin and Malcolm Nicholson. Christopher Bright and Richard Farrant sat on the original inquiry group but have since stood down. Malcolm Nicholson was appointed in their place.
3. For more details on the PPI investigation please visit:
www.competition-commission.org.uk/inquiries/ref2007/ppi/index.htm
4. Enquiries should be directed to [Rory Taylor](#) or [John Park](#) by telephoning 020 7271 0242 or by email.