

## Store card insurance

1. In this appendix, we describe in more detail how store card credit providers arrange and price store card insurance; the premium levels and benefits offered to customers, and the penetration rate (insured balances as a percentage of total balances).

### The store card credit provider's choice of insurance provider

2. Competition for store card contracts in the upstream market does not tend to feature as a separate negotiation between providers and retailers regarding card-related insurance arrangements, but is usually part of the negotiations between provider and retailer for store card credit provision as a whole.
3. The exclusivity provisions attaching to the store card contract usually also apply to the ancillary insurance arrangements, so retailers are precluded by the terms of the contract from seeking to obtain PPI on their store card from another provider or direct from an underwriter. Retailers appear generally content that providers should have exclusive rights over store card insurance. As one retailer [X] put it, the insurance element of the negotiations between itself and its store card credit provider was not a major area of concern; its interests lay in having a product that was low maintenance from its point of view and, to the extent that the additional revenue flowing to its credit provider better enabled the provider to offer the package of benefits and support which it was looking for, it was content.
4. For PPI, store card credit providers use underwriters selected after a competitive tender. Some underwriters and providers are part of the same group of companies. Card providers and their current PPI underwriters are shown in Table 1. GECF stressed that its underwriting contract with Genworth Financial was negotiated on an arm's length commercial base and was benchmarked against other offers in the market.

TABLE 1 Store card providers and insurance underwriters

Card provider	Insurance underwriter	Ownership by card provider %
GECF	Genworth Financial	[X]
Creation	St Andrews Group	0
Style	Pinnacle Insurance	0
Argos	St Andrews Group	0
IKANO	Sterling Insurance Group	0
HSBC	Hamilton Insurance	100
HSBC (Marks & Spencer)	Allianz Cornhill Insurance	0

Source: CC based on information from store card providers.

Note: Genworth Financial, Inc was formed by GE to encompass most of its life and mortgage insurance operations. It was listed on the New York Stock Exchange on 24 May 2004. At that time GE retained approximately 66 per cent of the common stock but announced its intention, subject to market conditions, to reduce its interest in Genworth Financial over the next three years.

5. CPI is available through two underwriters, CPP Group Plc and CIMS Limited (Sentinel). This form of insurance can be obtained directly by consumers, for example through CPP's website.

6. Under the contracts between providers and insurers the former acts as the agent for the latter. In this capacity, the provider typically collects gross premiums from store cardholders, retains a percentage of those premiums and pays the remainder over to the insurer. The length of an initial contract can vary from one month to three years for PPI and from three to five years for CPI.

### **The pricing of insurance**

7. Underwriters assess the risk on each element of the PPI insurance package; taking these into account, plus their costs and their profit requirements, they establish a wholesale price for the insurance which they offer to the store card credit provider. The provider adds a margin (and insurance premium tax (IPT)) to arrive at the retail price (that is, the premium). The underwriter typically draws up a profit share statement on a quarterly basis, taking account of claims, provisions, other expenses and its own retainer. The store card credit provider is then entitled to a share, or in some cases all, of this net profit. The premium charged to store cardholders on PPI products is typically three to four times the wholesale price charged by the underwriter to the provider. [§]. The store card provider and/or retailer will themselves incur costs in providing insurance (see paragraph 15).
8. In negotiations between the underwriter and the store card credit provider, the provider generally sets the retail price and does so with a view to ensuring that it is not out of line with prevailing retail prices on the store cards of other retailers. Retailers mostly told us that they had no role in the setting of PPI retail prices and no discretion over the level of such prices, which they typically accepted, since their primary concern was that their retail prices should not be out of line with those of their retail competitors. They might also be unaware of the profit margin earned by the provider. One retailer [§] told us that it was not greatly concerned about the pricing of PPI because its customers had not raised it as a concern; if they did, then pricing would become a matter of concern to it. However, another retailer [§] said that it had been offered a limited choice of products with different pricing levels. But even those retailers who had considered the price of their insurance and expressed a desire to charge lower rates generally sought only to price towards the bottom of the range of store cards of other retailers rather than to undercut prevailing rates.
9. So far as CPI is concerned, at least one store card provider [§]. As with PPI, retailers have little discretion over the level of these premiums. Different store card providers often levy the same price for this product.

### **Availability of other insurance**

10. We were made aware of a small number of examples where the retailer, rather than the store card provider, contracts directly with an insurance provider for PPI. But these are exceptions. Retailers do not generally wish to become involved in arranging insurance for their store cardholders.
11. Other forms of creditor insurance are available directly through brokers, but these are generally not specific to particular types of credit and typically have fixed premiums covering a certain level of income rather than a variable financial exposure. They do not include products such as purchase or price protection insurance.

## Premiums levels and benefits

12. Premiums on PPI packages are typically charged monthly as a fixed percentage of the outstanding balance on a cardholder's monthly statement. There is one premium for the entire package.
13. Some store card providers have increased both the content and the price of the PPI packages they offer over the last five years: some have added purchase or price protection elements, or both, to the basic payment protection insurance during this period. Others have enhanced various cover provided by the insurance policy, for example to extend eligibility, or increase upper limits for compensation. Table 2 summarizes the types of insurance offered by each of the store card credit providers and the retail price (premium) charged. It should be noted that terms and conditions, including the level of cover under each element of the insurance policy, differ somewhat between these providers (see Appendix 3.4). Higher premiums tend to be related to higher levels of benefits. However, each store card credit provider tends to offer the same products across most or all of its retailers' portfolios.
14. CPI premiums are not related to the balance on the card and are levied at a flat annual rate (or sometimes a three-year premium is paid upfront). As with premiums for PPI, CPI premiums have tended to increase in recent years and the specific benefits offered vary to some extent between providers.

TABLE 2 Premiums for store card insurance, 2005

Card provider	PPI % of balance per month	Payment, purchase and price protection % of balance per month	CPI (single policy) £ per year
GECF	0.7*	1.0 or 1.5†	20
Creation		1.5	15
Style		1.5	16
Argos	0.99		15
IKANO	0.72	0.99	15
HSBC (Marks & Spencer)	0.75		15

Source: CC based on information from store card providers.

Note: Terms and conditions not necessarily comparable.

\*Asda.

†GECF's Account Cover 2 product has a premium of 1.0 per cent and its Account Cover 3 product has a premium of 1.5 per cent.

15. There appear to be few incremental costs to the store card provider associated with the provision of card-related insurance, since the premiums are calculated and collected using the providers' store card billing and payment processing systems. Where policies are offered direct to the consumer (for example, through telephone sales), the provider will incur marketing costs; where the policies are offered in-store, the retailer will incur costs, but may be compensated by the provider, which may also incur costs in training retail staff. One provider (HSBC) told us the cost of customer acquisition had significantly increased following changes to the general insurance regulations in January 2005 and to consumer credit regulations at the end of May 2005. Claims handling costs are not thought to be significant for providers, as claims are handled largely by the underwriter, although the provider might perform preliminary tasks such as sending out claims forms. Some providers have profit-sharing or commission-payment arrangements with retailers in respect of income from card-related insurance. The terms of these arrangements and the amounts paid to retailers vary widely.

## PPI insured debt penetration rate

16. Table 3 shows that about one-third of store card balances had PPI over the period 1999 to 2004.

TABLE 3 Proportion of store card balances with PPI

	<i>per cent</i>					
	1999	2000	2001	2002	2003	2004
GECF	(					
Creation						
Marks & Spencer*						
Argos†				✂		
Ikano						
Style						
Weighted average of above‡	N/A	N/A	[	✂		]
Weighted average (including JLP)‡§	N/A	N/A	31	31	34	32
Total insured balances (£ million)	N/A	N/A	820	839	846	776

Source: information from store card providers.

\*1999 to 2003 figures are for year beginning 1 April. 2004 figures are for nine months beginning 1 April.

†Year beginning 1 April.

‡Includes also HSBC's insurance on its Harvey Nichols store card.

§Insurance is not offered on the JLP store card.

Note: N/A = not applicable.