News Release

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PPI PROVISIONAL FINDINGS

Companies face little or no competition when selling Payment Protection Insurance (PPI) to their credit customers and as a result customers appear to be overcharged by over £1.4 billion a year, the Competition Commission (CC) has said in its provisional findings report into the sale of PPI in the UK.

The report, which is published today at www.competition-commission.org.uk, finds that the vast majority of the UK's more than 14 million PPI policies are sold at the same time as a consumer takes out a loan or other type of credit. Many consumers are unaware that they can buy PPI from other providers and rarely shop around to compare prices and policies. This makes it difficult for other providers to reach these customers and in the absence of such competitive pressure, the distributors—such as banks, mortgage providers and credit card providers—are able to charge higher prices.

The CC has also today published a wide-ranging list of potential measures to increase competition in the PPI market. The measures under consideration would provide better information to customers about what they are buying and the price of the PPI relative to the price of loans, improve their ability to compare products, and make it easier for them to switch between providers—including a possible prohibition on selling single-premium policies.

The CC is considering tackling the 'point-of-sale' advantage enjoyed by sellers of credit and is consulting on whether it is necessary and appropriate to ban the sale of PPI at the same time as the associated credit product, in order to improve competition. Other measures include the possible introduction of a price cap as a temporary measure to reduce prices, and additional proposals to enhance the ability of suppliers to compete more effectively with the company selling PPI with a loan or other credit product.

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

> We've found serious problems with the PPI market and customers are paying for the lack of competition. The way PPI is sold as an 'add-on' to a loan or other credit product means distributors escape the pressure they should face from competing suppliers. Distributors don't appear to compete much with each other on either price or quality of PPI; neither do they appear to do much direct advertising of PPI to win customers from each other.

Most consumers understandably focus on the loan or credit and its APR and tend to make a snap decision when the PPI product is then offered to them, rather than looking at the true cost of the credit and PPI together, or at the range of PPI products available. In fact, many customers simply aren't aware that they can get PPI elsewhere, potentially for less and equally others believe that buying PPI from the provider increases their chance of getting a loan.

The actual cost of PPI relative to credit is not easy for consumers to work out. There would clearly be benefits to searching around for many customers, in terms of lower prices, but the difficulty of comparing products makes it very hard work. As a result, few consumers do actually shop around for PPI or subsequently switch between providers. In turn, that means credit providers aren't under much competitive pressure and so consumers are getting a raw deal.

We're now consulting on a range of possible measures to ensure PPI customers get a better deal by emphasizing their right to choose, by improving their ability to compare prices and products and by making sure that they're making a considered and informed decision when they take out the cover. We're also looking at measures which will improve competition between providers, so that consumers who do compare products, or seek to switch, find better offers to choose from. We want to see which measures will be most effective and practical in addressing these problems.

Whilst we did not see strong evidence of cross-subsidies between PPI and mortgages or credit cards, the evidence does suggest that, in the case of personal loans, high prices for PPI are subsidizing the interest rates being offered by some, but not necessarily all, providers. When considering what action to take, we'll have to consider to what extent cross-subsidy is an important customer benefit and weigh that against the obvious disadvantages of high PPI prices and lack of choice that the evidence strongly suggests consumers are suffering from at the moment.

We've obviously been aware of the issue of mis-selling during this inquiry. The industry regulator, the Financial Services Authority (FSA), takes the lead on regulating sales practices, and the Financial Services Ombudsman (FOS) deals with consumer disputes. Our focus has been on examining whether there is effective competition in the market as a whole. In taking action to improve competition between companies selling PPI we shall be enhancing the incentives for companies not only to compete on price but to compete on non-price factors such as quality and service.

PPI covers repayments on credit products if the borrower is unable to do so due to loss of earnings as a result of 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 2006 was either: personal loan PPI, credit card PPI, mortgage PPI or second-charge mortgage PPI.

The CC's main findings are:

- Distributors and intermediaries fail actively to seek to win customers by using the price or quality of their PPI policies as a competitive variable.

- Consumers who want to compare PPI policies (including PPI combined with credit), stand-alone PPI or short-term income protection insurance policies are hindered in doing so. Product complexity (the variations in terms and conditions, the way information on PPI is presented to customers); the perception that taking PPI would increase their chances of being given credit; the bundling of PPI with credit; and the limited scale of stand-alone provision act as barriers to search for all types of PPI policies. In addition, the time taken to obtain accurate price information is a barrier in relation to the provision of personal loan PPI, mortgage PPI and second-charge mortgage PPI. These barriers to search impede the ability of consumers to make comparisons, and therefore effective choices, between PPI policies. They also, therefore, act as barriers to expansion for other PPI providers, in particular providers of stand-alone PPI.

- Consumers who want to switch PPI policies to alternative providers or to alternative types of insurance policies are hindered in doing so. Terms which make switching expensive (in the case of single-premium policies) act as barriers to switching for personal loan PPI and second-charge mortgage PPI policies. Terms which risk leaving consumers uninsured (for a short period of time or in case they suffer a recurrence of a condition) act as barriers to switching for all types of PPI policies. In addition, the lack of access to consumers' balance information acts as a barrier for switching for credit card PPI and for retail PPI as it renders stand-alone providers unable to offer equivalent credit card PPI or retail PPI policies. These barriers to switching limit consumer choice. They also therefore act as barriers to expansion for other PPI providers, in particular providers of stand-alone PPI.

- The sale of PPI at the point of sale by credit providers further restricts the extent to which other providers can compete effectively.

The CC has provisionally not found problems with the upstream PPI market—ie the companies which underwrite the insurance—but instead focused on the 'distributors' which sell PPI when they sell their credit products. There are some stand-alone providers of PPI which offer PPI to other companies' credit customers, but they have struggled to get a foothold.

The list of potential measures being considered to address the competition problems provisionally found is:

Measures to increase customer search and address the failure of distributors to compete on price

- Standard disclosure on advertising and marketing material of the cost to the customer of taking PPI along with a requirement to provide a statement of 'key messages', which alert customers to the existence of other PPI products, sources of comparative information and that PPI is optional and does not increase the likelihood of obtaining credit.

- Further standardization of PPI information given to the customer at the point of sale, using a standard format for the disclosure of price and other information to allow easier comparison of products across the market and also require firms to prove 'firm quotes' on PPI in writing.

- Obligation to provide information about PPI and credit products to third party providers of comparative information for publication.

Measures to address the point-of-sale advantage

- Prohibition on selling PPI at the credit point of sale and within a fixed time period of the credit sale.

Measures to address barriers to switching

- A requirement for all policies to be renewed annually.

- A requirement to provide an annual statement of the cost of PPI and a reminder of the customer's right to cancel and early settlement terms.

- Remedies to address problems with single premium policies—either prohibiting these, or ensuring a choice of regular premiums alongside single premiums and/or requiring that single-premium products meet minimum terms for early settlement rebates and additional charges.

- Minimum standards for elements of PPI policies that act as a barrier to switching (initial exclusion periods and pre-existing conditions qualification periods).

- Obligation to share information about customer claims, which could enable the possible introduction of 'no claims' discounts.

- Obligation to share information about the customer's credit card balance with an underwriter nominated by the customer.

Measures directly to address consumer detriment associated with high PPI prices

- Imposition of price caps for a limited period in parallel with some of the remedies outlined above to enable prices to be brought closer to competitive levels more rapidly while the other proposed measures take effect.

The CC would like to hear views on the provisional findings report and notice of remedies from all interested parties, in writing, by 30 June 2008. To submit evidence, please write to:

The Inquiry Secretary (PPI market inquiry)
Competition Commission
Victoria House
Southampton Row
LONDON
WC1B 4AD

Or email: PPI@cc.gsi.gov.uk.

Notes for editors

1. The CC is an independent public body, which carries out investigations into mergers, markets and the regulated industries.

2. Enquiries should be directed to Rory Taylor on 020 7271 0242 or rory.taylor@cc.gsi.gov.uk.

3. 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.

4. The Office of Fair Trading (OFT) referred the PPI market for investigation by the CC in February, 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 investi-

gation reference to the CC if it has reasonable grounds for suspecting that competition is not working effectively in that market.

5. 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 might be taken to remedy these.

6. 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.