

MARKET INVESTIGATION INTO PAYMENT PROTECTION INSURANCE

Supplementary Notice of Possible Remedies under Rule 11 of the Competition Commission Rules of Procedure

Retail PPI

Introduction

1. On 7 February 2007, the Office of Fair Trading (OFT) referred the supply of all payment protection insurance services (except store card payment protection insurance services) to non-business customers in the UK ('the supply of PPI') to the Competition Commission (CC) for investigation. The reference was made under sections 131 and 133 of the Enterprise Act 2002 (the Act).
2. In its Notice of provisional findings on the reference published on 5 June 2008, the CC found provisionally that there are features of the market either alone or in combination which prevent, restrict or distort competition within the relevant markets, such that there is an adverse effect on competition (AEC) within the meaning of section 134(2) of the Act. The CC also published a Notice of Possible Remedies (the Notice) on 5 June 2008 (see Annex 1) relating to short-term income protection (short-term IP), the provision of credit card PPI (CCPPI), personal loan PPI (PLPPI), second-mortgage PPI (SMPPI) and mortgage PPI (MPPI). This Notice also included retail PPI, while work continued to determine the CC's provisional view on it.
3. In its Notice of retail PPI provisional findings on the reference published on 10 October 2008, the CC found provisionally that there are features of retail PPI markets which, either alone or in combination, prevent, restrict or distort competition, such that there is an AEC within the meaning of section 134(2) of the Act.
4. This Supplementary Remedies Notice invites comments on the actions that might be taken with regard to retail PPI by the CC or that the CC might recommend for implementation by others, for the purpose of remedying, mitigating or preventing the AEC concerned or any resulting detrimental effect on customers in the light of the CC's retail PPI provisional findings published on 10 October 2008.

Provisional findings

5. The CC has provisionally concluded that there are features in the supply of retail PPI which, alone or in combination, give rise to an AEC which may be expected to result in detrimental effects on consumers in the form of higher prices:
 - (a) Distributors fail actively to seek to win customers by using the price or quality of their retail PPI policies as a competitive variable.
 - (b) Consumers who want to compare retail PPI policies, stand-alone PPI or short-term IP policies are hindered in doing so. Product complexity (the variations in terms and conditions, the way information on PPI is presented to customers); the

bundling of retail PPI with credit accounts and with merchandise cover,¹ and the limited scale of stand-alone provision act as barriers to search retail PPI policies. In addition, the time taken to obtain accurate information on benefits is a barrier in relation to the provision of retail PPI. These barriers to search impede the ability of consumers to make comparisons, and therefore effective choices, between retail PPI policies. They also, therefore, act as barriers to expansion for other retail PPI providers, in particular providers of stand-alone PPI.

- (c) Consumers who want to switch retail PPI policies to alternative providers or to alternative types of insurance policies are hindered in doing so. Terms which risk leaving consumers uninsured (for a short period of time or in case they suffer a recurrence of a problem) and the bundling of retail PPI with merchandise cover act as barriers to switching. In addition, the lack of access to consumers' balance information acts as a barrier for switching for retail PPI as it renders stand-alone providers unable to offer equivalent retail PPI policies. These barriers to switching limit consumer choice. They also therefore act as barriers to expansion for other retail PPI providers, in particular providers of stand-alone PPI.
- (d) The sale of retail PPI at the initial point of sale, subsequent points of sale and the continued access to credit accounts by distributors further restricts the extent to which other PPI providers can compete effectively.

Criteria for consideration of remedies

- 6. In choosing appropriate remedial action, the CC has a duty to achieve as comprehensive a solution as is reasonable and practicable to the AEC and any detrimental effects on customers resulting from it as set out in section 134(6) of the Act.
- 7. The CC will consider the effectiveness of different possible remedies and their associated costs and will have regard to the principle of proportionality. Between two remedies that the CC considers equally effective, it will choose that which imposes the least cost or restriction.
- 8. The CC will also have regard to the effects of any remedial action on any relevant customer benefits within the meaning of section 134(8) of the Act arising from the feature or features of the market concerned. Such benefits comprise lower prices, higher quality, greater innovation or greater choice of goods or services. In this case relevant customer benefits may arise within PPI markets or in relation to other goods and services, such as credit products. The CC invites well-evidenced submissions on the nature, scale and likelihood of any such benefits and the potential impact of any possible remedies on any such benefits.
- 9. Some of the remedy options put forward in this Supplementary Remedies Notice would clearly be for the CC to implement. Other remedy options may be capable of implementation by the CC making recommendation to others, for example to the Financial Services Authority (FSA) or the OFT. The CC will seek to achieve a coherent approach, as between the implementation of remedies following this investigation and the existing regulatory framework. However, the CC also notes that where it falls to others to make a decision on a recommendation, there may be uncertainty over whether and to what timescale any recommendation will be accepted and implemented. It will be necessary to take this inherent uncertainty into account when deciding whether to make such a recommendation.

¹This is insurance that covers the merchandise purchased for accidental damage and theft. It is also known as purchase protection insurance.

Possible remedies on which views are sought

10. Having provisionally found an AEC in retail PPI, the CC is considering whether remedial action is necessary and if so what action should be taken. The possible remedies to address the AEC and customer detriment that the CC is considering with relation to retail PPI, either alone or in combination, are set out in the Remedies Notice published on 5 June 2008, subject to the changes set out in paragraphs 11 and 12.
11. The CC is considering an additional remedy to allow retail PPI customers better to compare retail PPI and stand-alone PPI or short-term IP and to switch more easily.

(a) Where distributors of retail PPI offer an insurance package containing PPI and merchandise cover (sometimes referred to as purchase protection), they must also offer, as separate items, (i) PPI cover alone and (ii) merchandise cover.
12. The CC does not consider that option 7 in the Remedies Notice is relevant for retail PPI as the CC did not provisionally find any single-premium retail PPI products.
13. The CC invites comments on both the remedies in the Remedies Notice and the two modifications to it detailed above.

The scope of remedial action

14. The CC currently considers that any remedies it chooses should apply to all retail PPI providers for which we have provisionally found an AEC.

Next steps

15. A copy of this Notice will be posted on the CC's website. The parties to this inquiry and any other interested persons are requested to provide any views in writing, including any additional or alternative remedies they wish the CC to consider, by **31 October 2008**.

(signed) PETER DAVIS
Group Chairman
10 October 2008

MARKET INVESTIGATION INTO PAYMENT PROTECTION INSURANCE

Notice of Possible Remedies under Rule 11 of the Competition Commission Rules of Procedure

Introduction

1. On 7 February 2007, the Office of Fair Trading (OFT) referred the supply of all payment protection insurance services (except store card payment protection insurance services) to non-business customers in the UK ('the supply of PPI') to the Competition Commission (CC) for investigation. The reference was made under sections 131 and 133 of the Enterprise Act 2002 (the Act).
2. In its Notice of provisional findings on the reference published on 5 June 2008, the CC found provisionally that there are features of the market either alone or in combination which prevent, restrict or distort competition within the relevant markets, such that there is an adverse effect on competition (AEC) within the meaning of section 134(2) of the Act.
3. This notice invites comments on the actions that might be taken by the CC, or that the CC might recommend for implementation by others, for the purpose of remedying, mitigating or preventing the AEC concerned or any resulting detrimental effect on customers.

Provisional findings

4. The CC provisionally found a number of features in the supply of PPI that give rise to an AEC and result or may be expected to result in detrimental effects on consumers in the form of higher prices and less choice.¹ These features, which are summarized in Section 8 of the provisional findings, are that:
 - (a) Distributors and intermediaries² fail actively to seek to win customers by using the price or quality of their PPI policies as a competitive variable.

¹The reference from the OFT specifies 'the supply of all payment protection insurance services except store card payment protection insurance services'. In its provisional findings the CC considered that the supply of payment protection insurance includes a range of products, including the provision of short-term income protection (short-term IP), the provision of credit card PPI (CCPPI), personal loan PPI (PLPPI), second mortgage PPI (SMPPI) and mortgage PPI (MPPI). Retail PPI is included in the scope of this Remedies Notice, while work continues to determine the CC's provisional view on it. Overdraft PPI is excluded from the scope of this remedies notice as the CC has not provisionally found an AEC in relation to this type of PPI.

²For the purposes of this investigation, distributors are lenders (for example, banks, mortgage providers, credit card providers, motor finance companies) which offer PPI combined with their underlying credit products, either at the point of sale or subsequently (mostly in the case of CCPPI and retail PPI). CCPPI is predominantly sold either when the credit card is sold or when it is activated. We consider both of these times to be a point of sale for the purposes of this investigation. Lenders can also offer PPI on a stand-alone basis. An intermediary is a third party that offers services between PPI suppliers and consumers. Intermediaries means agents through whom consumers identify a suitable type of PPI policy, whether with or without an associated credit product. In this context intermediaries are only used to purchase MPPI, to a lesser extent, SMPPI, and some motor PPI. Intermediaries can distribute both credit products and PPI (and other insurance policies) or PPI alone. However, they neither underwrite the PPI policies nor finance the credit. Intermediaries make available to customers the credit products and PPI of one or more credit providers and/or underwriters. These types of insurance policies can be distributed under the brand name of the credit provider or of the underwriter. The evidence we have received indicates that intermediaries sell significant numbers of only one form of PPI, namely MPPI.

- (b) Consumers who want to compare PPI policies (including PPI combined with credit), stand-alone PPI or short-term IP 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 PLPPI, MPPI and SMPPI. 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.
- (c) Consumers who want to switch PPI policies to alternative PPI providers or to alternative insurance products are hindered in doing so. Terms which make switching expensive (in the case of single-premium policies) act as barriers to switching for PLPPI and SMPPI 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 CCPPI and retail PPI. 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.
- (d) The sale of PPI at the point of sale by credit providers further restricts the extent to which other PPI providers can compete effectively.

Criteria for consideration of remedies

5. In choosing appropriate remedial action, the CC has a duty to achieve as comprehensive a solution as is reasonable and practicable to the AEC and any detrimental effects on customers resulting from it as set out in section 134(6) of the Act.
6. The CC will consider the effectiveness of different possible remedies and their associated costs and will have regard to the principle of proportionality. Between two remedies that the CC considers equally effective, it will choose that which imposes the least cost or restriction.
7. The CC will also have regard to the effects of any remedial action on any relevant customer benefits within the meaning of section 134(8) of the Act arising from the feature or features of the market concerned. Such benefits comprise lower prices, higher quality, greater innovation or greater choice of goods or services. In this case relevant customer benefits may arise within PPI markets or in relation to other goods and services, such as credit products. The CC invites well-evidenced submissions on the nature, scale and likelihood of any such benefits and the potential impact of any possible remedies on any such benefits.
8. Some of the remedy options put forward in this notice would clearly be for the CC to implement. Other remedy options may be capable of implementation by the CC making recommendation to others, for example to the Financial Services Authority (FSA) or the OFT. The CC will seek to achieve a coherent approach, as between the implementation of remedies following this investigation and the existing regulatory framework. However, the CC also notes that where it falls to others to make a decision on a recommendation, there may be uncertainty over whether and to what timescale any recommendation will be accepted and implemented. It will be neces-

sary to take this inherent uncertainty into account when deciding whether to make such a recommendation.

Possible remedies on which views are sought

9. Having provisionally found an AEC, the CC is considering whether remedial action is necessary and if so what action should be taken. The various measures alone or in combination that are currently being considered by the CC as possible remedies to the AEC and customer detriment that have been identified in the provisional findings, and on which comments are invited, are set out below.
10. It is not clear at this stage that any single remedy would comprehensively remedy the AEC and the resulting customer detriment. So it may be necessary to adopt more than one of the remedies set out below. The remedies chosen by the CC would then be taken together and would create a remedy package. Furthermore, not all of the remedies may be adopted as some of the remedies within this notice are to the exclusion of other remedies under the same heading. The CC is considering 11 possible remedies, which are grouped under the following headings:
 - (a) measures to increase customer search and address the failure of distributors to compete on price;
 - (b) measures to directly address the point-of-sale advantage;
 - (c) measures to reduce switching costs; and
 - (d) measures to address the consumer detriment resulting from high prices.

No significance should be attached to the ordering of the measures set out in this notice.

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

11. The CC has provisionally found that customers' ability to compare products is reduced by an absence of information provided in a way that would help consumers. The CC has also provisionally found that few distributors actively seek to win credit and/or PPI business, by using the price (or non-price characteristics) of their PPI product as a competitive variable.
12. Options 1 to 3 are primarily aimed at reducing search costs, thereby increasing competitive pressure on PPI distributors.

Option 1 Standard disclosure of cost to the customer of PPI and credit and requirement to provide a statement of 'key messages' on advertising and marketing material

13. The CC is considering requiring distributors who offer PPI and credit products to disclose, in advertising and marketing material:
 - (a) the annual cost to the customer of the interest and charges payable on the credit product;
 - (b) the annual cost to the customer of taking the PPI product;

- (c) the annual cost to the customer of the combination of the credit product with the PPI product; and
- (d) a short statement of key messages alerting customers:
 - (i) to the existence of alternative PPI products (including stand-alone PPI);
 - (ii) to the existence of the FSA comparative tables and possibly other sources of information about the cost of PPI and of insured credit (eg other price comparison sites); and
 - (iii) that purchasing PPI is optional and does not increase the likelihood of obtaining credit.

14. This remedy would make it easier for customers to compare PPI products offered by different providers and to search for alternative PPI offers, including stand-alone PPI. By increasing the prominence of PPI prices within the information provided to customers, it would also help address credit providers' failure to compete actively on the price of their PPI products. The CC invites views on the following questions:

- (a) Which advertising and marketing material should carry this information? For example, should this information be required for all credit advertisements and marketing material issued by PPI distributors, or should the obligation be triggered by, for example, the inclusion of a typical APR for the credit?
- (b) How should costs to the customer be expressed? For example, the CC is considering:
 - (i) whether the annual cost of credit plus PPI should be expressed as both an annual rate (equivalent to the APR used to disclose the price of credit) and as a cash amount (eg £200 a year); and
 - (ii) whether the whole-life cost to the customer of taking out a PPI policy should also be disclosed to the customer.
- (c) Whether the key messages (in paragraph 13(d)) are relevant for all PPI products and whether there are other key statements which should be communicated in all PPI advertising and marketing materials.
- (d) Should credit intermediaries also be required to disclose this information in their advertising and marketing material?
- (e) How this remedy could best be implemented, particularly given its interaction with the FSA financial promotion regime and the Consumer Credit Act 2006 (CCA 2006) regulations.

Option 2 Further standardization of PPI information given to the customer at the point of sale

15. The CC is considering requiring distributors to use a standard format for the disclosure of price and other information given to the customer at the point of sale. The CC is also considering whether customers should be provided with a written offer if requested for PPI specific to them and valid for a fixed period of time (a 'firm quote'). This would increase the ability of customers to compare the price and benefits of competing PPI products, reducing search costs and increasing competitive pressure on distributors.

16. The CC is aware that the FSA requires distributors to give customers a number of documents at the point of sale or immediately after regarding the nature of the product and services the firm is offering.³ The content in these documents is outlined in the Insurance Conduct of Business Sourcebook (ICOBS) and in one case an optional standard template is provided. The CC is considering whether certain standard documents or additional material given to customers at the point of sale should follow a standard template and what information should be in them, in particular, in relation to the presentation of price⁴ and the key messages set out in Option 1. The CC is also considering whether customers should be provided with information about claims ratios⁵ in these documents.
17. The CC invites views on the following questions:
- (a) What are the costs and benefits of further standardization in this area?
 - (b) What changes, if any, are required to the FSA standard disclosure templates, to assist product comparison? Are there other appropriate templates which should be considered?
 - (c) Should details of the full-life costs of PPI policies, of the annual or monthly costs or of all of these price measures be provided to customers?
 - (d) What information should be provided in the firm quote? For example, should the firm quote contain information on both the credit and the PPI and for how long should the quote be valid?
 - (e) If firm quotes were provided for credit as well as PPI by the distributor, how should they be recorded by credit reference agencies?
 - (f) Should credit intermediaries, such as mortgage brokers, also be required to disclose this information at the point of sale and to offer firm quotes?
 - (g) To maximize comparability, should stand-alone PPI providers be required to provide information on the same basis as distributors?
 - (h) How might any such remedy best be implemented?

³These documents include:

(a) The insurance key fact sheet (about insurance services, also known as an initial disclosure document) informs the customer of the firms' insurance services. Using an initial disclosure document or combined initial disclosure document, where a firm sells more than one class of financial services product, satisfies the FSA status disclosure, scope of service and fee disclosure requirements if it is used in accordance with the specified notes and provided to the customer at the correct time:

www.fsa.gov.uk/pubs/other/icob_forms/icob4_annex1.pdf www.fsa.gov.uk/pubs/other/cob_forms/COBS_6_Annex2.pdf.

(b) The Policy Summary informs the customer about the product:

<http://fsahandbook.info/FSA/html/handbook/ICOBS/6/Annex2>.

This document has no standard format, except that it must be in a durable medium. Firms can choose to give customers the key features document instead (only the general requirements are need for PPI):

<http://fsahandbook.info/FSA/handbook/COBS/13/3.pdf>

(c) A document that outlines prices in a durable medium—before the conclusion of a contract in a non-distance sale or immediately after the conclusion in a distance sale: <http://fsahandbook.info/FSA/handbook/ICOBS/6/4.pdf>.

⁴Under ICOBS rules firms are required to give price information to customers in a way calculated to enable the customer to relate it to a regular budget and total premium payable.

⁵The CC defined the claims ratio as the ratio of claims expense to earned premiums.

Option 3 Obligation to provide information about PPI and credit products to third party providers of comparative information for publication

18. The CC is considering requiring distributors to provide information in an appropriate format about their PPI and credit products to third parties (including operators of comparative websites, market research companies and publishers of 'best buy' tables), for its use by those third parties in published comparative information. This would enable third parties to publish information which would better enable customers to compare the cost of PPI and credit with PPI.
19. The CC invites views on the following questions:
 - (a) What information about prices and terms should distributors be required to provide to third parties?
 - (b) Should distributors be required to provide information on credit products and bundles of credit with PPI as well as information about PPI products?
 - (c) Should information about the claims ratios for any PPI product which distributors make available to customers be provided to third parties and what would be the best way to calculate the claims ratio for this purpose?
 - (d) To maximize comparability, should stand-alone PPI providers be required to provide the same information on PPI to third parties as distributors?
 - (e) In what format should information be provided?
 - (f) How might any such remedy best be implemented?

Measures to address the point-of-sale advantage

20. The CC has provisionally found that a credit provider enjoys significant advantages over other PPI providers, when selling credit and then PPI to their credit customers at the credit point of sale. The CC has provisionally concluded that the sale of PPI at the credit point of sale is a feature of PPI markets, which prevents, restricts and distorts competition. Option 4 is aimed at addressing this feature directly.

Option 4 Prohibition on selling PPI at the credit point of sale and within a fixed time period of the credit sale

21. The CC is considering mandating that PPI may not be sold at the same time as the credit product, nor within a fixed time period of the credit sale (or in the case of CCPPI, also at the point that the credit is activated). This would directly address the point-of-sale advantage enjoyed by distributors, providing a greater incentive and opportunity for customers to search for PPI after the credit sale and for stand-alone providers to enter PPI markets. The CC invites views on the following questions:
 - (a) What should be the length of any fixed period within which distributors would be prohibited from contacting their credit customers to offer PPI (eg 90 days or some other period)?
 - (b) As a supporting measure, should all distributors inform customers of the existence of alternative PPI products, including stand-alone PPI, when selling the credit product (for example, by disclosing the 'key messages' set out in Option 1 at the credit point of sale)?

- (c) Should this prohibition also apply to sales of PPI by credit intermediaries, such as mortgage brokers?
- (d) What would be the impact of this measure on the availability of PPI?
- (e) How might such a remedy best be implemented?

Measures to address barriers to switching

22. The CC has provisionally found that there are barriers to switching, which prevent, restrict and distort competition. Some of these barriers are common across all PPI types, while others currently apply only to particular forms of PPI, for example single premium policy issues are only relevant to PLPPI and SMPPI. Options 5 to 10 are remedies being considered by the CC to reduce barriers to switching.

Option 5 All policies to be renewed annually

23. The CC is considering whether to require that all PPI policies be renewed every 12 months from the date they are taken out by a customer. Customers who wished the policy to continue for a further 12 months would need to confirm that to the provider, by 'opting in' to the policy on an annual basis. For single premium policies, customers who did not 'opt in' would be rebated the early settlement amount in cash.
24. This remedy would increase the competitive pressure on distributors, by creating an annual break in all PPI policies and giving customers more and better defined opportunities to switch. The CC notes that many insurance policies (eg motor and home insurance) must be renewed on an annual basis.
25. The CC invites views on the following questions:
- (a) What is the likely impact on customers of this remedy?
 - (b) At the point of renewal of the policy, would a customer need to enter into a new PPI contract with the underwriter?
 - (c) What implications (if any) would an annual renewal have on waiting periods, and pre-existing conditions qualification periods?
 - (d) Should single premium policies be treated differently to regular premium policies?
 - (e) Should any discretion be allowed as to how any rebate of the single premium should be paid (ie in cash or otherwise)?
 - (f) What would be the costs of this remedy?
 - (g) How might such a remedy best be implemented?

Option 6 Annual statement of cost and a reminder of the customer's right to cancel and early settlement terms

26. The CC is considering whether distributors should be required to provide a statement every 12 months from the date of purchase detailing the annual and lifetime cost to the consumer of the PPI policy and containing a reminder of the customer's right to cancel the policy and to switch PPI provider, the existence of alternatives and, in the case of single premium policies, a reminder of the early settlement terms. This state-

ment could be provided along with the CCA 2006 statement.⁶ This could raise awareness of customers' ability to switch PPI provider, enhancing the effectiveness of other measures aimed at directly reducing switching costs.

27. The CC invites views on the following questions:

- (a) Would supplying the PPI statement alongside a CCA 2006 statement be appropriate?
- (b) How should information be presented to ensure that it is prominent and in easy-to-understand language?
- (c) How should the reminder of the right to cancel be worded to maximize its effectiveness?
- (d) How might such a remedy best be implemented?

Option 7 Remedies to address problems with single premium policies

28. The CC found that the rebate structure and other fees for early termination of single premium policies create switching costs. As a result, the CC is considering the following three options:

- (a) Prohibiting distributors from offering single premium policies. Regular premium policies could be developed to insure those credit products, such as personal loans, which are currently insured using single premium PPI. This remedy would reduce switching costs associated with single premium PPI, and would increase comparability between PPI products, including with the products offered on a stand-alone basis, which are normally regular premium policies.
- (b) Introducing an additional choice at the point of sale of single premium policies. Under this remedy, distributors of single premium policies would be required to offer a regular premium policy with an identical level of cover as the single premium policy they offered. The only difference between the policies would be the way the customer pays for the policy (ie in regular instalments in the case of the regular premium policy and in a single upfront payment financed by the provider and on which interest is charged, in the case of the single premium PPI policies).
- (c) Requiring that single premium products offered by distributors at least meet minimum terms for early settlement rebates and any additional charges. This remedy could reduce the financial costs to customers of switching PPI providers.

29. Option 7(a) is an alternative to Options 7(b) and 7(c), in that if Option 7(a) were taken, then Options 7(b) and 7(c) would be redundant. Options 7(b) and 7(c) are not mutually exclusive and we are considering them individually and as a combination.

30. The CC invites views on the following questions:

- (a) Which option or options would be the most effective at addressing the market features and resulting consumer detriment associated with single premium policies?

⁶Credit suppliers are required to comply with section 77 of the Consumer Credit Act 1974 (under which customers can request a statement for the price of £1) and will be required to comply with the annual statement requirements of the Consumer Credit Act 2006 when they come into force this September.

- (b) What costs would be associated with each option?
- (c) Are there consumer benefits associated with single premium policies which the CC should take into account?
- (d) Would prohibiting single premium policies or restricting their sales cause any harm to consumers moving to regular premium policies?
- (e) How could the equivalence between single and regular premium policies under Option 7(b) be defined and monitored, and would customers value having this choice at the point of sale?
- (f) What principles should be applied when determining a minimum standard for early settlement terms and the levels at which minimum standards should be set? For example, should minimum early settlement rebates be set on a pro-rata basis or is there some other approach which would adequately address switching costs?
- (g) How might such a remedy best be implemented?

Option 8 Minimum standards for elements of PPI policies that act as a barrier to switching (initial exclusion periods and pre-existing conditions qualification periods)

- 31. The CC is considering whether PPI distributors should be required only to offer PPI products which meet or exceed minimum standards for the following characteristics:
 - (a) initial exclusion periods (ie the period of time after inception during which customers are not allowed to make any claims); and
 - (b) pre-existing conditions qualification periods (ie the period of time after inception during which customers are not allowed to make claims in relation to conditions existing at the time the policy was taken out.
- 32. The CC invites views on the following questions:
 - (a) What would be an appropriate minimum standard (ie maximum allowable exclusion or qualification period) for each characteristic?
 - (b) Should the same minimum standards apply to all PPI products, including stand-alone PPI and short-term IP?
 - (c) How might any such remedy best be implemented?

Option 9 Obligation to share information about customer claims

- 33. The CC is considering a remedy whereby information about a PPI customer's claims history could be transferable between PPI providers, when a customer switched to another PPI provider. This remedy would enable providers to offer a discount to customers who have made few or no claims, encouraging customers to switch providers.
- 34. The CC notes that the no-claim bonuses found in other type of insurance, such as motor insurance, are dependent on claim transparency between providers. This remedy would reduce switching costs for customers and would also lower the barriers to customer acquisition for new PPI providers.
- 35. The CC invites views on the following questions:

- (a) How could a system for sharing information be designed and operated in order to be effective?⁷
- (b) How would this remedy work for single premium customers?
- (c) Would the interests of customers be improved or harmed if their claims history were shared with other providers?
- (d) Should this obligation apply to stand-alone PPI, as well as other PPI policies?
- (e) How might such a remedy best be implemented?

Option 10 Obligation to share information about customer's credit card balance with a nominated underwriter

- 36. The CC is considering imposing obligations on CCPPI distributors to facilitate the provision of CCPPI on a stand-alone basis. Distributors would be required either:
 - (a) where the customer expressly informs the distributor that (s)he chooses to have stand-alone PPI on a particular credit card, to then share information on the customer's credit card balances with stand-alone providers in certain circumstances; or
 - (b) to calculate the monthly premium based on the customer's balance (and the stand-alone provider's fee) and then pay it to the stand-alone PPI provider from the customer's credit card balance.
- 37. In its provisional findings, the CC found that access to consumers' credit information creates switching costs for customers of CCPPI. It also creates barriers to customer acquisition for stand-alone providers and hence barriers to entry. We consider that this remedy would allow any PPI provider to offer a CCPPI product whose level of cover is linked to the balance outstanding on the card at each point in time, in contrast with the current situation where only the incumbent credit card provider can offer a CCPPI product with a level of cover linked to the outstanding balance.
- 38. The CC invites views on the following questions:
 - (a) What information should be shared between credit card and PPI providers and with what frequency?
 - (b) What would be the most effective approach to support timely and safe sharing of information?
 - (c) Should information be shared between the credit card and the PPI providers direct or through an independent third party?
 - (d) What would be the costs of providing such information to a stand-alone PPI provider?
 - (e) How might such a remedy best be implemented?

⁷For example, would it be necessary to establish an independent body like the Claims and Underwriting Exchange (see www.cueuk.org/default.aspx) to oversee the process or would a simpler mechanism be effective (eg publishing a customer's claims information as part of an annual statement or requiring insurers to provide a statement of claims at the request of the customer, which would be treated as proof to a new insurer of a customer's claim status)?

Measures directly to address consumer detriment associated with high PPI prices

Option 11 Price caps

39. The CC is considering the imposition of price caps on PPI. Such a cap would be imposed for a limited period in parallel with some of the remedies outlined above.
40. The CC found that, as a result of the features it identified, PPI prices are higher than they would be in a competitive market.
41. The CC's preference in developing remedies is to adopt measures which directly address competition problems at source,⁸ rather than remedies which control outcomes, such as price caps. However, there is a risk that the measures set out above, whether alone or in combination, may not act sufficiently quickly on their own in addressing the identified AEC and resulting detrimental effects. A price cap may be able to bring prices closer to competitive levels more rapidly, directly reducing consumer detriment, while other measures took effect.
42. The CC invites views on the following questions:
 - (a) Which forms of PPI, sold by which distributors and/or intermediaries should be covered by any cap?
 - (b) How should any price cap be designed? For example:
 - (i) should a cap be applied to individual products; or
 - (ii) should a cap be set on the price of PPI relative to the benefits received by customers across a range of the PPI products offered by a particular supplier?⁹
 - (c) At what level(s) should any cap should be set, and on what basis should a cap be based (eg by reference to the claims ratio)?
 - (d) How long should a price cap remain in force (eg three years)?
 - (e) Should new products also be subject to any cap? If not, for what length of time should distributors be required to continue to provide existing capped products?
 - (f) What measures would be needed to reduce the risk that any price cap could be circumvented by product redesign or other means?
 - (g) Whether, and to what extent, such a cap would enhance or impede the effectiveness of other remedy options.
 - (h) Should there be a staged reduction in price, a step change, or both? If both, what should the balance be between the step change and the year-on-year reduction?
 - (i) How could such a remedy best be implemented?

⁸See CC3, paragraph 4.6.

⁹In essence, there would be a 'floor' to the claims ratio that was permitted, bringing the claims ratios for PPI more closely into line with other insurance products.

Other possible remedies

43. The CC will consider any practical alternatives to the possible remedies outlined above that the parties to the inquiry or other persons would like to propose which they consider would appropriately address the AEC identified or the resulting detrimental effects.

The scope of remedial action

44. The CC currently considers that any remedies it chooses should apply to all providers of the types of PPI for which we have provisionally found an AEC,¹⁰ unless specified in the individual remedy option.

Next steps

45. A copy of this notice will be posted on the CC's website. The parties to this inquiry and any other interested persons are requested to provide any views in writing, including any additional or alternative remedies they wish the CC to consider, by 30 June 2008.

PETER DAVIS
Group Chairman
5 June 2008

¹⁰See footnote 1 to paragraph 4. Retail PPI is also included in the scope of this notice, although work is still under way to determine the CC's provisional view on it.