

Citizens Advice response to the Competition Commission PPI market investigation notice of possible remedies.

July 2008

Summary of main points

- Citizens Advice would like to see two key outcomes of the Competition Commission PPI market inquiry *and* more consumers taking out insurance to protect themselves against credit risk confident in the knowledge that they will get a good quality product at a reasonable price.
- Citizens Advice supports the proposals in the Competition Commission possible remedies statement to improve the information available to consumers on PPI options. However we are not convinced that these remedies will deal with consumer detriment in PPI markets either quickly or effectively.
- CAB evidence suggests that problems in PPI markets are so ingrained and consumer detriment of such a scale that indirect measures to stimulate competition are unlikely to be wholly effective. Therefore we believe that a more direct approach is likely to be needed.
- Citizens Advice believes that the Competition Commission should consider introducing a price cap on PPI products. However we believe that this should be targeted at the commissions that PPI distributors are currently paying themselves.
- We believe that the Competition Commission should also require distributors to offer a *baseline product* that sets minimum standards of content and quality in PPI products. This includes setting minimum standards in the areas set out in the proposed remedies statement but going beyond this to set a baseline for all key product features. This would simplify consumer purchasing decisions and make price comparisons more transparent.
- We believe that minimum product standards and a price cap can be sensibly brought together in the form of a *stakeholder baseline product* that all distributors should be required to offer.
- Citizens Advice is concerned that the proposal to prohibit distributors from selling PPI at the credit point of sale will result in fewer consumers taking out credit protection while doing little to improve the cost and quality of PPI products offered to consumers.

Citizens Advice welcomes this opportunity to respond to the Competition Commission PPI market investigation notice of possible remedies. The CAB service is a network of 432 independent advice centres providing free, confidential and impartial information, advice and advocacy from over 3,000 locations in England, Wales and Northern Ireland. It provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination.

The service aims:

- To provide the advice people need for the problems they face; and
- To improve the policies and practices that affect people's lives.

In 2007/08 the CAB service dealt with 5.5 million enquiries and this included 1.7 million enquiries relating to debt. Of these around 750,000 related to mortgages, secured loans, unsecured personal loans and credit, store and charge cards; in other words the sort of consumer credit agreements that payment protection insurance policies are associated with. Enquiries that are explicitly about PPI policies are less common with around 5,600 recorded by advisers in 2007/08. Instead Citizens Advice Bureaux tend to find problems with PPI policies as a consequence of helping people deal with consumer debt problems. This is highlighted in cases reported by CABx over the last few months. A small selection of these is shown below by way of example.

A CAB in Kent saw a 36 year old woman who had taken out a secured loan for £85,000 following a phone call from the lender. However when they received the final loan documentation they found that a PPI policy had been added to the loan even though this had not been mentioned at any time in the conversation the woman had with the salesperson. The PPI policy added an extra £21,000 to the loan, increasing the total debt to £106,000.

A CAB in Worcestershire saw an 18 year old woman who was working 26 hours per week with take home pay of £160. The woman had taken out an unsecured loan for £2,000 with an additional £1,285 added to the loan for payment protection insurance. The interest rate on the loan was a shocking 60%. The client told the CAB that the tick boxes in the loan agreement asking the borrower to confirm that they wanted PPI had pre-completed ticks.

Another CAB in Kent saw a 49 year old woman about her debt problems. She had taken out a secured loan of £100,000 and did not realise that PPI insurance had been added. The PPI premium added an additional £25,000 to the loan balance. The increase in the monthly loan repayment due to the £25,000 PPI was contributing to the woman's financial hardship.

A CAB in Lancashire saw a woman who had been working at the minimum wage for 30-33 hours per week. Last year she had two jobs but one of them had stopped. She was having difficulty making repayment to her bank for credit card and other debts, so the bank suggested a consolidation loan of £19,800 to which they added £6,000 for PPI without explaining the details. The monthly repayments on this loan were £400. Then the bank gave her another credit card which she used to borrow money each month to repay the loan.

Cases like these formed the basis of our evidence report *Protection racket* and our super-complaint to the Office of Fair Trading in September 2005. Here we raised concerns about the poor value we believed consumers were getting from PPI products. But we were and remain equally concerned about the way that failures in the PPI market may also contribute to many of the debt problems seen by CABx. These cases highlight how payment protection insurance can be a significant part of the debt problems experienced by some CAB clients. Far from giving these borrowers 'peace of mind', problems with the cost and quality of products and the way that they were sold seem to have made their debt problems worse rather than better.

Our concerns about PPI are therefore very firmly rooted in the experience of the CAB service in dealing with the problems faced by severely indebted consumers. But this experience also suggests that consumers should perhaps be doing more to protect themselves against the risk of defaulting on their credit agreements by taking out protection products. Concerns about the failures of PPI are matched by concern as to the low level of take up for protection products in key areas such as mortgage and secured loan products. Indeed statistics from the Council of Mortgage Lenders suggest that take up of MPPI policies has fallen to 18 per cent of new mortgages, a worrying statistic given current uncertainty in the housing market and wider economy. It seems a particularly joyless irony that the full failure of PPI is exposed at exactly the time consumers should be thinking hardest about their protection needs with regard to key credit commitments.

We believe that this point is very relevant to consideration by the Competition Commission of any remedies to address the adverse effect of competition and associated consumer detriment stated in the provisional findings report. Citizens Advice has previously stated our belief that this investigation into the PPI market touches on issues of wider public interest such as how to tackle levels of consumer over-indebtedness and the role of the lending industry in doing this. Indeed from our perspective getting lenders to properly regard PPI as a kind of 'merit good' protecting both their customers and themselves against problem debt rather than as a cash cow to boost income streams and subsidise headline loans rates would be perhaps the most significant outcome of this investigation.

While we understand that these issues fall outside the direct remit of the Competition Commission, it is possible that different remedies flowing from the

market investigation could affect these wider public policy concerns in different ways. Therefore Citizens Advice would ask the Competition Commission to favour a package of remedies that seem most likely to achieve *both* of the following outcomes.

- Significantly reducing the cost of PPI for borrowers while improving the quality of products.
- Improving the take up of insurance products offering protection against credit risk, particularly for mortgages and secured loans.

Citizens Advice warmly welcomes the provisional findings report of the Competition Commission's PPI market investigation. We believe that the analysis in the report opens the way for a once and for all clean up of the PPI market. However and perhaps more importantly the remedies flowing from this investigation should force the lending industry to think hard about what they could be doing to reduce the customers' exposure to credit risks in future. The cases cited above highlight how a 'bad deal' from PPI is often linked to poor lending practices in CAB evidence. This supports the point with have raised with the Competition Commission previously, that lasting improvements in PPI are likely to depend as much (if not more) on changing the conduct and attitudes of lenders to PPI products as on changing the shopping habits of consumers. We would ask the Competition Commission to take this point into account in the design of any final remedy package.

Our comments on the proposals in the possible remedies statement are set out below.

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

Citizens Advice broadly supports the proposal to provide consumers with better information on the cost of PPI and options for purchasing PPI in product advertising and marketing material. CAB evidence highlights numerous cases where consumers have entered into PPI agreements with very little understanding of the product they were offered, what it will cost them or of the existence of alternative suppliers.

A CAB in Kent saw a 35 year old woman who had taken out two loans for £1,000 and £4,000 respectively. Both loans had PPI policies attached to them that together with interest charged on the insurance premium made up over 22% of the total amount to be repaid by client. The woman had not been told about the interest charge for the insurance and she was not told that she could look for an alternative policy. She did not know what was covered or whether the policy was appropriate for her circumstances. The woman said she was told she had to have the PPI in order for the loan to be granted.

A CAB in Oxfordshire saw a 26 year old woman who went to see her bank because she was overdrawn. The bank offered her a loan of £3,000 which she said was pressed on her. She was not told an interest rate but she had a vague feeling they said something about payment protection but she was not sure. She had the paperwork and on the front cover it said that she had borrowed £3,000 and, in extremely small print, another £1,400 to cover the payment protection. With interest at 22% she had agreed to repay a total of £6,480. She did not work this out.

Another case highlights how borrowers may have little understanding about PPI at the point of sale even where they have some knowledge of credit pricing.

A CAB in Greater Manchester saw a 56 year old man who had visited a bank to apply for a personal loan for £5,000. He had researched the bank's rates on the internet and established that they offered a typical rate of 7.4% APR. He also found some literature regarding a 'loan sale' where the APR rate quoted for a loan of £7,500 was 8.4%. He was interviewed by a customer adviser who persuaded him to take out a loan for £7,500. He was then given a personal loan agreement which he signed. Then he noticed the actual APR was 15.9%. When the client raised the issue of the differing APR's, he was told 'You signed the documents'. He was also advised to take out payment protection insurance, which he did, even though he was retired so the policy would have provided little or no benefit for him.

This case highlights both the benefits and limitations of the proposals set out in option one. There are undoubtedly some consumers that do engage in product research and shopping around for credit products, but do not currently do so for PPI. The information requirements proposed in option one should raise transparency with these consumers and make them more likely to question the value of the product the lender is offering.

On the other hand, in the case cited above, the consumer did not get the product he wanted despite his prior research! This highlights the way that consumer information strategies can be very easily undermined by poor sales practices. Indeed the PPI market is perhaps a celebrated example of this problem. Sales of payment protection insurance have been regulated by the Financial Services Authority since 2005 and the FSA has development both conduct of business standards and consumer information standards for PPI. Yet despite this, thematic work by the FSA has repeatedly found evidence of widespread mis-selling. Indeed following the third round of thematic reviews, the FSA concluded in September 2007 that 'we are extremely disappointed that some firms have still made little progress in improving their sales practices'. This is reflected in recent CAB evidence showing how lenders have continued to mis-sell PPI policies.

A CAB in Berkshire saw a 46 year old woman who lived with her partner. She had been unwell with depression since 1999 and was unable to

work and in receipt of income support of £131.80 per week. She had a bank account that was £1,100 overdrawn and on a visit to her bank last year she was offered a £3,000 loan which she accepted. The loan paid off her overdraft, but by January she was into overdraft again. The bank then topped up the loan to £5,000 with the addition of a PPI policy with a premium of £1,480. With interest, the total amount to be paid back was £8,491.80. The woman was unable to pay the £141.53 repayment from her means tested benefit. The bank responded by putting her overdraft limit up to £1,250 so that they could take the next loan payment of £141.

A CAB in Hampshire saw a 53 year old woman who with her husband had been sold a £15,000 loan that had PPI added to it. Her husband was 70 and she had long term health problems and was unemployed. She said that they had not been about any health issues when the policy was sold.

A CAB in Worcestershire saw a 68 year old man in receipt of a pension and disability living allowance. He took out a loan from a bank in September 2007 for £21,400 with an additional £8,146 for payment protection insurance. The total repayable including interest was £47,000 repayable over 10 years. The loan was used to partly to pay off other debts with the remaining balance used to make repayments to the loan itself. When the money ran out the man was no longer able to afford the repayments.

So while we are broadly supportive of the various remedies that focus on consumer information, the recent history of problems with PPI sales lead us to a profound pessimism that such a strategy will not be by itself successful. Nevertheless, we have the following brief comments on the nature and content of consumer information.

Firstly, the information remedies set out in options one, two and three all seem to suggest disclosure through some sort of notice. Here it is noticeable that in the new insurance conduct of business rules the FSA seem to place more emphasis on real time exchanges between consumers and PPI sales staff in recognition that paper based (or equivalent) information requirements have done little to prevent consumers being sold inappropriate products. So rather than simply providing paper based information, there is a requirement to actually explain the main features of the policy in certain circumstances. We would urge the Competition Commission to consider the dynamic of the sales processes in the cases cited above and to consider the extent to which the information requirements set out in these remedies needs to include explicit reference to oral explanations in real time sales.

We recommend that information about PPI costs under option one should also include a requirement for lenders and intermediaries to disclose both the proportion of the premium that is paid to them as commission and the amount of commission they will receive from the sale of the PPI product.

Given the unconscionable level of commissions reported in the provisional findings, greater transparency on commission levels would perhaps encourage consumers to question the product offered by the lender or intermediary and take interest in the information on alternative providers. Put simply, consumers may take more interest in price where they have reason think that the price they are being offered is unfair.

We strongly support the Competition Commission's proposal to develop a standard comparable cost measure for PPI, but we have no specific preference as to what the measure should be at this time. However any such measure might be most easily understood by the widest range of consumers if it is expressed in clear cash terms rather than through a more technical rate measure such as an APR. **Where payment of the PPI premium requires further borrowing (such as is usually the case with single premium policies) the additional costs of this interest should be included in the measure (although perhaps set out separately from the premium price).**

Finally we would point out the content of credit advertising will be governed by the European Consumer Credit Directive from 2010. Article Four of this directive sets out information that must be included in advertisements for credit agreements within scope of the agreement. Article Five sets out standard pre-contractual agreement that must be provided to consumers in respect of agreements covered by the directive. As the Directive has been made on a maximum harmonisation basis, the ability to impose additional requirements in credit advertisements might be constrained. This would not seem to affect specific PPI advertising but remedy option one would lose much of its force if the requirements cannot be carried over into credit agreements covered by the Directive.

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

Citizens Advice broadly supports the proposal to require a standardized format for PPI information. However we have no further comment on this remedy except to refer to our general concerns about paper based information set out above.

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

Citizens Advice would support the proposal to require PPI distributors to provide information about their products to third party providers of comparative information. Again, anything that makes information available in a way that is readily understandable should lead more consumers to make more informed purchase decisions. However, we are concerned that such a remedy might not alter the behaviour of enough consumers quickly enough to have a significant effect on their choice of PPI. Here we would point out some possible reasons why the effectiveness of this remedy might be limited.

The GfK NOP research into PPI search behaviour found that only one in five consumers buying MPPI compared products and this drops to about one in ten consumers for second mortgage and personal loan PPI. Given that comparative product information is currently available (albeit with some effort), it is possible that providing better comparative information will see only a small increase above this fairly low base line. Here it is notable that the GfK NOP survey question on reasons for not comparing products found that 'Didn't have enough information about alternative products' was only cited as a reason by two per cent of those buying MPPI, three per cent of those buying second mortgage PPI and five per cent of those buying personal loan PPI. In contrast nearly 40 per cent of respondents cited the convenience of buying at the same time as credit and between a quarter and a third cited the importance of an existing relationship with their provider. This suggests that the quality and accessibility of information (important though this is in principle) is not a key factor in current PPI consumers' behaviour

Citizens Advice would support the proposal to get better PPI information onto comparative websites. However we note the Competition Commission findings that PPI consumers are more likely to come from socio-economic groups C and D. Figures published by OFCOM in 2007 suggest that around one third of adults classed as C1 do not have access to broadband internet at home. This rises to around a half with access among adults classed as C2 and two thirds without access in D and E categories¹. However, the number of adults with home internet access has been rising strongly in recent years. But the effectiveness of this aspect of this remedy might also be limited by home broadband take up levels among consumers in key social economic groups.

Finally, we would also question how easy it is in practice for consumers to compare products that, while superficially similar, might have significant differences across a number of features. It is notable that the GfK NOP survey found around 50 per cent of consumers (when prompted) saying they found it difficult to compare exclusion clauses of different policies. This would seem to be consistent with the experience of many CAB clients who seem to have little comprehension of exclusion clauses. Yet exclusion clauses are highlighted in policy summaries required by FSA rules. This also suggests that consumer behaviour is not dictated solely or mainly by a *lack* of information. CAB evidence suggests that the way information is conveyed (or not) by sales staff in face to face settings may be important in this respect.

In addition we note that the GfK NOP survey questions do not drill down into the subtle but important differences between features of policies or indeed to the interaction between different features. For instance, some policies may pay in respect of disability claims for a specified limited period, while other policies may pay throughout a period of disability. Likewise some policies will exclude certain types of risk entirely (such as mental health, mechanical back pain),

¹ *The consumer experience: Research report.* Office of Communications (2007)

others will pay benefits in respect of these circumstances but on a limited basis while other policies will have no limits or exclusions. Not only do these differences make it very difficult for consumers to choose between policies, but it could also be the case that a consumer finds that a certain aspect of one policy makes it their favoured choice while another aspect of that same policy does not meet their needs as well as another policy. For instance policy A might pay disability benefits for a significantly longer period than policy B (which the consumer wants) but also have a limiting exclusion clause (say mental health) that policy B does not have. If a consumer wished to protect their loan repayments against the risk of a prolonged period of mental illness which policy would they choose?

In summary, we would argue that the complexity and subtle variation between PPI products make it difficult for consumers to make comparisons between products. Moreover it is possible to imagine situations where consumers cannot choose between products precisely because they cannot be certain what their future circumstances will be. Where consumers do manage to get through this there is still the question as to how differences in policy content are reflected in the relative prices of different products.

As a result we would argue that a focus on better comparative information may be less important than focusing on the content of products. **We believe that there is a case for a degree of standardisation of PPI products to ensure that all the products that distributors offer meet at least minimum standards of cover, benefits and lack of blanket exclusions.** This is not a new idea as at least two credit industry trade associations have produced *product baselines* that set out minimum standards for policies sold by their members. **While not endorsing the particular standard set in either of these baselines, Citizens Advice believes that this is an idea that should be considered as a possible remedy by the Competition Commission.** A reliable baseline product providing effective and inclusive cover for each of the main types of PPI would remove much of the complexity consumer face in comparing products and would also allow easier comparison of the prices offered by different distributors. Of course this would not stop distributors from offering products with content above this basic standard, but the existence of a good quality baseline standard would set a benchmark for the industry.

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

Citizens Advice has concerns about the possible consequences of this remedy. As we have pointed out above, we would hope that the outcome of action by regulators on PPI markets would be cheaper, better products that would encourage more consumers to take out protection against credit risks. De-linking PPI sales from credit sales might open space for competition between suppliers but the cost of this might be very much reduced take up of PPI by consumers. Given that the research on shopping behaviour cited in the report suggests that consumers are strongly motivated by the proximity of credit and

PPI sales, the success of this remedy would seem to rest on the assumption that consumers will change their shopping behaviour as a result. However we are not clear whether there is evidence to support this view.

In contrast the position of MPPI might lead one to the opposite conclusion. The consumer research cited in the report suggests consumers are most likely to compare both credit and protection products in the mortgage / MPPI sector. This sector is currently also the most 'de-linked' in the sense that a large proportion of sales are conducted through third party intermediaries that might offer at least some product choice. But, according to the provisional findings, MPPI has very low levels of penetration compared to personal loans or second charge mortgage PPI, even though the detriment resulting from mortgage default is arguably more obvious for mortgages than unsecured personal loans.

Furthermore, we question how the Competition Commission would determine the period of de-linking. If the period were relatively short (say two weeks or so) would a credit provider still have a significant advantage in marketing to the consumer immediately after the prohibited period expired? Could this result in fewer consumers taking out protection *and* no discernable reduction in point of sale advantage for loan distributors?

Citizens Advice notes that the Competition Commission has described this remedy as addressing the market directly. Citizens Advice would support an approach that addresses the long-standing problems in PPI markets directly rather than remedies that focus on the seemingly more difficult task of radically changing consumer behaviour. However we are not convinced that de-linking credit and PPI sales is the right direct measure.

Option 5 All policies should be renewed annually

We are not sure what the impact of this remedy would be. Requiring annual renewal could increase competitive pressure on distributors leading to changes in the price and structure of products. However the converse could be true, with inertia leading consumers to fail to 'opt in' in their existing policy or taking out a new policy with the same or a different provider. This could lead to a reduction in cover with little additional competitive pressure.

Ensuring that rebates of cancelled (or discontinued) single premium policies actually provide consumers with good value for money would seem to be a necessary condition for the success of this remedy. A brief desktop search of internet marketing materials for single premium policies suggests that current rebates for cancellation after 12 months are not particularly generous; a rebate of around 60-65 per cent seemed common. Those consumers that overcome inertia may well decide that moving to a new policy would be poor value for money unless the cost of the premium was very much lower than the policy they would be giving up.

It is also possible that consumers will be deterred from switching by the existence of excess waiting periods on any alternative new policy. Pre existing condition clauses could also prevent some consumers from switching.

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

Citizens Advice believes that an annual statement reminding consumers that they have a PPI product, what this costs them and that they are able to cancel it would be a useful aid for consumers and might encourage switching behaviour. As the remedy statement points out, lenders will be required to provide annual statements in respect of certain fixed term loans from later this year, so adding information on PPI to this statement may not impose considerable additional expense (although individualised information on PPI charges would be likely to increase lenders' costs). We have no particular comment on prominence or wording at this time, other to point out that the way that any such statement is worded and presented will likely be an important factor in helping consumers to read and understand the content.

Option 7 Remedies to address problems with single premium policies

Citizens Advice welcomes the Competition Commission's focus on single premium policies. The CAB evidence presented above shows how consumers generally need to borrow more to fund these policies, often at the same rate of interest as the underlying credit agreement. This means that single premium policies can significantly increase consumers' exposure to debt and the income to lenders from such policies is likely to be very much higher than even the large commission mark ups reported in the provisional findings.

Our comments on three options for single premium policies set out in the remedy statement are set out (in reverse order as follows).

Citizens Advice would support a remedy that sets minimum standards for early settlement rebates of single premium policies. Until recently many of these policies allowed for no cancellation or rebate beyond the 30 day period set out in FSA rules. However the FSA has received undertakings from firms to provide rebates in single premium policies on the basis that terms not allowing rebates were likely to be unfair under the Unfair Terms in Consumer Contracts Regulations 1999. However, in taking this action the FSA left it to firms to set the terms of any rebate within an undefined constraint of 'fairness'. However, as stated above, the rebates currently being offered are not proportional to the period of the insurance policy remaining. As a result cancelling early appears to be poor value for consumers.

An important additional point flows from the relationship between the level of the rebate on a single premium where a policy is cancelled early and settling any discrete loan or additional borrowing taken out to finance that single premium. Where single premiums are funded by fixed sum loans, the liability to

pay interest over the full term of the loan will generally crystallise when the loan is signed with a discount on interest charged if the loan is settled early in accordance with regulations made under the Consumer Credit Act. Firstly the early settlement regulations may allow creditors to defer the settlement date in a way that reduces the rebate of interest in some circumstances. If this is applied to loans taken out to fund single premium PPI, then the additional interest charge may act as a disincentive for consumers to switch PPI providers. Perhaps more importantly, if the rebate on the single premium produces insufficient funds to meet the settlement figure on the loan (worked out in accordance with the early settlement regulations) then the consumer will either have to borrow more money to settle the loan or will not be able settle early. Therefore any consideration of what constitutes a fair rebate on a single premium PPI must take account and be in step with the early settlement rebates available on consumer credit agreements.

A further problem might arise if the loan to fund the single premium and the associated credit were not held to form a multiple agreement. Here the rebate of the single premium would not clear the outstanding loan and the consumer would not be able to settle early. In which case the costs of switching PPI provider would likely be impossible to manage.

In our evidence report *Set up to fail* (don't you mean Protection Racket?) we said that we believed distributors should be required to offer a choice of both regular premium policies and single premium policies at the point of sale rather than just offering single premium policies. Since then the FSA have highlighted offering such a choice as a good practice point but not as a requirement. Recognition of this point by the regulator is a step forward, but we do not think that the FSA has yet stepped far enough. Rather than suggesting that distributors offer a choice, we believe that the regulator should require this. **Therefore Citizens Advice supports the Competition Commission proposed remedy-requiring distributors selling single premium policies to also offer regular premium policies.**

Citizens Advice has not formed a final opinion on option 7 (a), prohibition of single premium policies. We have heard arguments that consumers can benefit from single premium policies through the way that the cost of cover is fixed for the period of the insurance and also because the cover is 'paid for' and in place removing the temptation to stop paying in the future. We cannot say that we are convinced by these arguments but we do not have evidence that would categorically disprove them. Therefore we cannot unreservedly support a prohibition on single premium policies. However the CAB evidence shown previously highlights the consumer detriment that single premium policies can produce. Therefore we would urge the Competition Commission to strongly consider implementing option 7 (a) if options 7 (b) and (c) do not reduce consumer detriment sufficiently.

Option 8 Minimum standards for elements of PPI policies that act as a barrier to switching ...

Citizens Advice supports the proposal to set minimum standards for PPI policies in the areas of exclusion periods and pre existing conditions. However the Competition Commission may wish to ensure that this does not have any detrimental effect on those policies that allow consumers to choose 'excess' periods for aspects of cover in a way that would fit their circumstances (for instance tying in with the end of any contractual sick pay period). This should not be difficult to work into the remedy, as allowing consumer a genuine choice that meets their needs would be an example of exceeding a standard.

More generally we have argued above that the Competition Commission should consider establishing a binding *baseline product* that would set minimum standards across a range of key product features, including exclusion periods and pre existing condition clauses. This could make product comparison easier for consumers, increase price transparency (and a 'baseline cost' comparator could be developed that would also apply to policies that exceeded the baseline) and improve many of the products currently on offer. Therefore we believe that the Competition Commission should take the option eight proposal further and ensure that a standard for a *baseline product* is established.

Option 9 Obligation to share information about customer claims

We are not sure that this proposed remedy really targets the problem at issue. While a 'no claims discount' would no doubt reduce the price paid by some consumers to some extent, the provisional findings make it clear that the commission charges made by distributors make up the great bulk of the premium cost. Therefore this proposed remedy would seem to be very much at the margins of the problem.

If the market for stand alone PPI develops to accommodate consumers wishing to switch then this remedy might produce consumer benefits, but we have no comments on the possible costs that would offset this. Of course consumers are less likely to want to switch if the initial product they purchase is both of good quality and a reasonable price.

Option 10 Obligation to share information about credit card balances

Citizens Advice has no specific comment in response to this remedy.

Option 11 Price caps (and other options)

Citizens Advice strongly believes that the scale of excess profits from sales of PPI highlighted in the provisional findings report justifies the imposition of a price cap on PPI products. Furthermore, we believe that PPI products have something of the character of a 'merit good' in that they may reduce exposure to credit risk to both borrowers and lenders alike. Therefore we believe there is a case for encouraging consumers to purchase more protection for their credit payments. Equally we believe that there is a case for encouraging lenders to see PPI less in terms of its role as an income stream

and more as a way of reducing incidents of over-indebtedness given the external costs some commentators associate with this.

Therefore we support the proposal to introduce some caps on the cost of PPI products. However, given that the provisional findings suggest that the upstream market is broadly competitive, any price cap would arguably have to be targeted to deal primarily with the large mark ups that distributors are currently paying themselves. **Therefore we believe that the Competition Commission might consider capping the commission that type taken of 'stakeholder' approach to pensions and other financial products where certain specified charges were capped.** It is noteworthy that the stakeholder approach was not to set out a temporary cap, but instead to ensure that reasonably priced policies were available. On the other hand it seems that such an approach could well have the effect of reducing charges across the market.

We argued previously that we believed that the Competition Commission should facilitate the development of a *baseline product* to set standards on content and quality of products. We also believe that this stakeholder product could be made available on a *stakeholder* basis with commission charges capped at a prescribed rate. Price transparency on the underlying insurance costs and the ability of providers to offer products above the baseline standard would ensure that competition and product innovation would still be possible. We believe that requiring distributors to offer such a stakeholder PPI product would be the best way to achieve both of the outcomes we believe this inquiry needs to deliver: removing the current consumer detriment and expanding uptake of insurance products offering protection against debt.