Association of Independent Financial Advisers response to the Competition Commission's Notice of Possible Remedies in its Market Investigation into Payment Protection Insurance

The Association of Independent Financial Advisers (AIFA) is the trade association representing IFAs in the UK. The large majority of our members advise on insurance products, and some 58% of IFAs are active in the mortgage market. IFAs advise on a holistic basis offering products from a suite of protection products. This suite will include MPPI. AIFA represents IFAs who are responsible for approximately 75% by value of the IFA market.

AIFA responded to the Competition Commission Emerging Thinking in November 2007, and to relevant working papers in early 2008. AIFA also made representations to the Enquiry. AIFA has maintained that MPPI should be excluded from the investigation, due to the robust and principally advised sales process from which consumers benefit. AIFA also believes much of the existing unbundling of products is as a result of the involvement of the intermediary channel.

We are responding to the Possible Remedies document from the perspective of the consumer, and our members as intermediaries active in MPPI. We have not offered comment on the remedies and their appropriateness for other parties, such as underwriters or distributors. For this reason we have not commented on all eleven potential remedies.

AIFA strongly believe that remedies need to consider consumer outcomes, and must be careful not to elicit unintended consequences. The compound effect of the Competition Commission enquiry, three rounds of FSA thematic work and negative consumerist attention has left those that advise on PPI in a difficult position. We would not welcome reducing consumer access to protection products.

AIFA are also acutely aware of the vulnerability of a number of consumers as a result of the wider economic uncertainty. With property prices falling, inflation and interest rates increasing and the catastrophic effect of the 'credit crunch' slowly being felt by borrowers – in particular those within the sub-prime and non-conforming sectors – we would not wish to see significant additional barriers to those that wish to seek protection arrangements.

We caution the Competition Commission further regarding the advances already made by the market. During the first six months of 2008 the market has adopted significantly revised Insurance Conduct of Business rules (ICOBS) from FSA. This has led to changes within the sales processes of a number of our member firms, and will continue to improve such processes for the benefits of the consumer. It should be noted that PPI already has increased regulation within the revised rules. Indeed, we feel that some aspects of the remedies could represent duplication of rules already in place as a result of the ICOBS rule changes. We also hold concerns that remedies considered and adopted without knowledge of the existing implications of rule changes could either duplicate or unintentionally surpass rules which cannot be judged due to their relative youth.

With regard to the specific remedies, AIFA has limited its response to those which we feel could impact on intermediaries and have limited our comments to MPPI. We do not feel it is appropriate for us to make judgements on other parties, such as distributors or underwriters.

We also reiterate that MPPI is very different to other forms of PPI under investigation, such as credit cards or unsecured personal loans. We are acutely aware that one size does not fit all, and believe that to avoid unintended consequences which are counter-productive and produce worse consumer outcomes, the Competition Commission must carefully select appropriate remedies for each market, rather than adopting any 'one size fits all approach'. Again, we call for acknowledgement and understanding of the benefits afforded to consumers by using intermediaries who act as agents of the client and reaffirm that we believe intermediaries add significant value to the provision of advice, and ultimately the sale of MPPI.

Option 1

AIFA believes that disclosure is a key aspect of any open and transparent market, and that well informed consumers are more likely to engage with shopping around. That said, we do not believe that 'shopping around' in itself will produce the best consumer outcomes, as the Competition Commission's own evidence shows the variety and complexity of PPI on offer. We believe the real value lies in advice.

Specifically considering the remedies, requirements relating to the annual cost within marketing material pose concerns. Whilst details of such costs are covered in Key Facts Illustrations at point of personal recommendation, inclusion in marketing and advertising material could be prohibitively complex. We would, however, think that highlighting the non-compulsory nature of PPI when purchasing credit to be a fair requirement.

AIFA is concerned by ‘information overload’ for consumers if whole-life cost or annual cost of credit should be included. ICOBS provides for total cost and ‘cost in relations to a regular budget’. To include further requirements could result in consumers simply ending up confused.

Option 2

PPI disclosure is heavily prescribed in ICOBS and IMD. Further standardisation will only take effect if individuals are suitably empowered to actually shop around and make comparisons.

The concept of a fixed quote could add an additional layer of cost to the product. We would not wish to see costs passed to consumers, but invariably they could be.

The concept of extending ‘firm quotes’ to credit in the current market is also impractical. As Competition Commission will be aware credit markets are incredibly vulnerable at present. Prices – and products – can be changed with little or no notice, and on a very frequent basis. Compulsion to offer firm quotes for credit would result in firms simply withdrawing from either the credit or PPI markets, due to their simple inability to comply. AIFA, and we would expect consumer groups, would have serious reservations relating to the increased number of ‘footprints’ on a credit file that firm quotes for credit would achieve. In extremes, individuals could actually damage their credit rating by ‘shopping around’ and incurring multiple footprints, which is clearly undesirable.

It would also seem disproportionate to insist that credit intermediaries offer firm quotes. FSA’s Responsibilities of Providers and Distributors clearly articulates roles of parties. Whilst a credit intermediary would be able to provide information, binding firms with firm quotes would extended considerably beyond their current remit.

Option 3

No comments.

Option 4

AIFA has reservations about prohibition of access at point of sale. Whilst we note – and welcome – the absence of intermediaries in the remedies as proposed, we hold significant concerns over consumer access more widely.

Insurance products often require a degree of sale, and persuasion. The imposition of a 90 day period could be devastating for the uptake of MPPI. The subsequent uptake for individuals after 90 days would be low. We also believe that many individuals would not actively seek cover elsewhere in the meantime.

The industry – and thus cost of risk borne by the end consumer – could also increase as elements of these products (typically unemployment cover) suffer from adverse selection. This, over a 90 day period could cost genuine consumers more by cross subsidising those who purchase as adverse selection.

It would also leave consumers at their most vulnerable and potentially unprotected. At the start of the loan term the debt is greatest, and statistically we believe policies are most likely to be claimed against in the first year of a loan.

AIFA are concerned that this move would be unprecedented in the financial services market; the consequences could be most alarming when protection levels are at their lowest and increasingly the economic outlook appears poor, in particular for the most vulnerable consumers.

Consumers already benefit from significant cooling-off periods – both for the underlying credit by way of the non-contact period, and within the revised ICOBS rules which stipulate a 30 day refund and consideration period. We believe this provides ample opportunity for consumers to shop around, if they were better educated and empowered now. Indeed, for all intents and purpose the industry does now have a thirty day period where a consumer can shop around and receive a full refund if they wish to purchase from elsewhere.

Option 5

AIFA believes that an automatic annual opt-in would not work in the best interests of consumers. Our concerns relate to apathy – even car insurance paid for by credit card automatically renews to avoid this very situation.

Option 6

AIFA believes that an annual invitation to cancel will result in similar consumer detriment to Option 5. Consumers facing the most pressing situations are most likely to claim, yet those who find their situations most difficult will surely cancel? This could have the unintended consequence of actually reducing claims paid as those in greatest need cancel their policies as they approach point of claim.

Option 7

AIFA does not believe in product regulation. We believe that commercial pressures should influence design.

We understand that the Unfair Contract Terms Directive is in place to allow firms to be challenged over the legitimacy of areas such as refund terms. If this is so, we encourage the Competition Commission to rely on such laws to facilitate the appropriate changes to product development.

Option 8

AIFA has no specific comments on the remedies outlined in Option 8. However, we do not believe that a legislative approach to contract terms will benefit consumers as we believe that firms may leave the market.

Historically, product regulation, including Stakeholder and CAT standard, has not appealed to the market. We feel that a similar situation could occur if Competition Commission attempt to legislate the terms and conditions of a specific product. The tighter any definition, the easier it is to find work-rounds. For instance we believe a major high-street bank has developed a short-term income protection product to circumvent the PPI definition as laid down in ICOBS. A similar consequence could unintentionally be achieved here.

Option 9

No comment

Option 10

No comment

Option 11

AIFA believes that every market should be able to appropriately price for risk. With such a complex market the advent of a price cap could actually reduce competition, with all underwriters offering a similar product at a similar price. This could damage innovation and we believe the negative ramifications of this move to be such that damage to consumer perception could render MPPI un-marketable, even post expiry of the price caps.

AIFA
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