Summary of feedback received

January 2013

OFFICE OF FAIR TRADING

FSA
Financial Services Authority

Consultation title	Payment protection products
Date of consultation	1 November 2011 to 13 January 2012
Summary of feedback received	*Introduction* On 1 November 2011 the FSA and the OFT jointly consulted on proposed guidance on payment protection products. This was the result of joint work by both organisations in the light of our emerging concerns about new products and practices. The consultation closed in January 2012. The draft guidance highlighted that some firms had developed, or were seeking to develop, new forms of protection that aimed to meet a similar consumer need to payment protection insurance (PPI). Such products may offer benefits to customers but may also pose similar risks to consumers as PPI. We set out the risks that we saw in this area and stressed that it was important that firms mitigate these risks to help achieve good outcomes for consumers. Different credit products and linked payment protection products are subject to different regulatory regimes – the Financial Services and Markets Act 2000 (FSMA) and/or the Consumer Credit Act 1974 (CCA). Some payment protection products involving insurance may also be subject to the Competition Commission (CC)'s PPI Order. *Summary of feedback* We received 26 responses to the consultation from a range of interested parties comprising 15 firms, five trade associations, three consumer groups and three others. We thank respondents for sharing their views with us, and were pleased by the overall constructive nature of the responses. Overall, the responses were broadly supportive of our proposals. A number acknowledged the poor outcomes for consumers that had arisen with PPI and welcomed early intervention to help prevent such issues recurring. One trade association said that 'appropriate early intervention is advantageous for both consumers and the industry by reducing large scale product failures which

damage consumer confidence in the financial services industry'. A number of respondents also supported the FSA and OFT working jointly on this issue.

Responses from consumer organisations strongly supported our approach and the proposed guidance.

Responses from industry, while also broadly supportive in the main, were more nuanced:

- most agreed that the draft guidance correctly identified the key risks for consumers and put forward sensible and measured proposals for addressing these; however, some respondents disagreed on specific points, and some argued that the draft guidance was unduly prescriptive and did not allow sufficient flexibility;
- many asked us to be clearer about the scope of the guidance and the products which it was intended to cover;
- some questioned whether debt freeze/debt waiver involved insurance;
- a small number criticised the FSA's focus on product design and argued that the FSA's approach to product intervention would limit innovation and adversely impact on firms' ability to manage claims costs.

Our response

Having carefully considered the responses, we have decided to publish finalised guidance.

We have not made significant changes to the substance of the guidance on which we consulted. However, we have revised and expanded the guidance to reflect the comments received – we discuss the changes made later in this document.

The remainder of this document comprises three sections:

- summary of responses on joint issues;
- summary of responses to the FSA's draft product risk report;
- summary of responses to the OFT's draft guidance.

Next steps

We expect firms to have regard to this guidance and to meet in full their obligations under the relevant regulatory framework.

Both the FSA and the OFT remain committed to helping ensure that

	consumers are adequately protected in relation to payment protection products. We will continue to monitor developments in the market, and will consider taking action under our respective powers where we identify that products or practices risk causing detriment to consumers. We may also engage proactively with firms to mitigate emerging risks. It is envisaged that consumer credit regulation will transfer to the successor to the FSA, the Financial Conduct Authority (FCA), in 2014. This will give the FCA the power to create a more uniform regulatory regime. In September of this year, as part of the transfer process, the FCA intends to consult on incorporating existing OFT guidance into rules and guidance. Where appropriate, OFT guidance may be given the status of FCA rules. If, after the transfer, the FCA sees evidence of detriment, such as mis-selling or poor product design, it will consider whether additional rules are necessary, for example a point-of-sale prohibition for products falling outside the CC's PPI Order.
Who should read this guidance?	This guidance is primarily aimed at firms which provide and/or distribute short-term payment protection products, or may be considering doing so. It will also be of interest to trade bodies and consumer organisations. Payment protection products include (but are not limited to) short-term income protection (STIP) and debt freeze/debt waiver, as defined in Annex 3 to the guidance. We discuss the scope of the guidance further at section 1.3 below. Although the focus of the guidance is on new forms of payment protection, firms which provide and/or distribute PPI products may also want to consider this guidance as part of any ongoing review of product design or distribution strategies.

You can access the full text of the guidance consulted on here

The final version of the guidance can be accessed here

1 Summary of responses on joint issues

ISSUES RAISED	OUR RESPONSE
1.1 Rationale for action	
Some industry responses: • asked for more detail on our 'emerging concerns about new products and practices'; • claimed that current market conditions are different to those which gave rise to mis-selling of PPI, specifically that the industry has moved away from the subsidy of loans by linked insurance and firms have made positive developments in this market; • claimed that it is a dangerous environment in which to consult on further intervention in payment protection products, given that past regulatory action and rhetoric have damaged the market, and given the increasing 'protection gap' for UK consumers.	Our concern is that products are being developed, or under consideration, which may pose similar risks to consumers as PPI. The previous failings with PPI must not be repeated. In particular, it may be difficult for consumers to assess relative benefits and risks (including the level of cover) and whether the product meets their needs and offers value for money. It may also be difficult to compare products. There is a risk of mis-selling and inappropriate consumer choices. These risks could be exacerbated by differences in the relevant regulatory regimes which may confuse consumers and/or be exploited by some firms to the detriment of consumers. We recognise that the market for payment protection products continues to develop, and that some of the issues which previously contributed to poor outcomes for PPI may be less evident in the current market. Some innovations in the market, such as firms developing more flexible/modular products, may help consumers to buy protection which better aligns with their needs. However, we have concerns that payment protection products may still pose risks to consumers. We believe it remains appropriate to highlight these risks now to help ensure that firms mitigate the risks appropriately, and that they design and sell products that are not only commercially viable but also deliver good consumer outcomes. This is particularly important if sales are likely to increase to meet a perceived 'protection gap'. By setting out our views at an early stage, firms can be aware of relevant regulatory requirements and expectations and can factor these into their business planning and processes. We are not seeking to inhibit product development but want to ensure that innovation is focussed on benefitting the customer.

ISSUES RAISED	OUR RESPONSE
1.2 Current regulatory framework	
Some industry responses said there is not a level playing field between FSA- and CCA-regulated payment protection products, as: • debt freeze/debt waiver is not subject to the CC's remedies including the point-of-sale prohibition; • the CCA requirements are less onerous than under FSMA – this may lead to regulatory arbitrage and/or market distortion, and consumer detriment.	The FSA and OFT operate within different legislative frameworks and have different regulatory tools. The FSA's regulatory framework includes Principles and detailed rules, most relevantly in ICOBS and MCOB. The OFT does not have power to make rules but can issue guidance on how it proposes to exercise its regulatory functions and what factors it will take into account in deciding on fitness to hold a consumer credit licence. It also enforces the requirements on firms set out in the CCA and regulations and in other consumer protection legislation. The OFT has powers to investigate markets to determine whether they are working well for consumers, and can refer issues to the CC for investigation. The OFT is also responsible for monitoring the CC's PPI Order and assessing whether it is working well or may need amending within the vires available to the CC. The Order does not apply to non-insurance products as these were outside the CC's remit. We recognise that the two regimes differ at a detailed level, but both seek to ensure good outcomes for consumers. Both the FSA and OFT have powers to act where products or practices risk causing detriment to consumers or to the operation of the market. Any differences between the current regulatory regimes should not therefore be overstated. All payment protection products are likely to fall within the jurisdiction of the Financial Ombudsman Service (FOS) which deals with eligible complaints about financial services products. When considering whether a particular product is likely to have been a suitable or appropriate recommendation for a consumer, or whether a firm is likely to have met its obligations in providing the necessary information to enable a consumer to make an informed choice, the FOS is likely to consider relevant aspects of the product, including the level or scope of cover, benefits provided compared to the cost, and the extent of material exclusions or limiting criteria. In due course, the expected transfer of consumer credit regulation to the FCA will give the FCA the power to create a

ISSUES RAISED	OUR RESPONSE
	more uniform regulatory regime.
Two responses said that FSA and OFT should remain closely aligned in monitoring market developments.	The FSA and OFT will remain aligned as far as possible in monitoring developments in the market, and will consider whether to conduct further joint work in the light of how the market develops. We will share information as appropriate, subject to statutory gateways, to support each other's supervisory activities. For example, if an FSA-authorised firm breaches CCA rules, this may highlight issues with (among other things) the firm's product governance process, which the FSA can take into account in deciding its supervisory priorities. Similarly, the OFT can have regard to practices relating to unregulated credit business, or any other business activity, in deciding whether a person is fit to hold a consumer credit licence.
Some industry responses expressed concern that the consultation did not explicitly reference the Treasury's Simple Financial Products (SFP) initiative.	We reviewed the SFP consultation and summary of responses in preparing our guidance consultation, and we are satisfied that our work will not negatively impact the Treasury's initiative. The FSA is represented on the SFP Steering Group.
1.3 Products within the scope of our guidance	
A number of industry responses asked whether specific products or product features were included in the scope of the guidance. Some responses asked whether the guidance extends to lender forbearance. This is discussed at section 1.5 below.	By 'payment protection products' we mean products or product features which are designed to offer individual consumers short-term protection against potential loss of income, by providing the means for them to meet (or temporarily suspend) their financial obligations including repayments under a credit agreement or a regulated mortgage contract (RMC). The protection will typically be triggered by life events such as accident, sickness and/or unemployment, although other events may be covered where they impact on the consumer's ability to meet certain financial commitments. The triggering events will usually be specified in the agreement but may be subject to some discretion (by the firm) at the time of claim. Payment protection products include in particular STIP and debt freeze/debt waiver, as defined in Annex 3 to the guidance. However, the guidance will also apply to other products and

ISSUES RAISED	OUR RESPONSE
	product features that may be developed to meet a similar consumer need or which have a similar object or effect. References in the guidance should be read across as appropriate. *Short-term income protection products* The guidance applies to STIP products, but not longer-term insurance products such as long-term income protection and permanent health insurance. One response asked whether the guidance applies to STIP cover which is included as an element of a broader product (for example, professional indemnity insurance or travel insurance). Our guidance will apply in this case to the STIP element. The risks posed by STIP when bundled with other (insurance) products do not appear to be materially lower than those which it poses as a standalone product. In relation to other insurance products, responses specifically referred to personal accident cover. While there is some overlap of the events covered by personal accident insurance and PPI, we do not believe that the product is designed to be sold in a similar way or to meet specific ongoing financial commitments. So it is not within the scope of this guidance. However, firms should note that personal accident insurance and other insurance products fall within the scope of the FSA's regulatory guide 'The Responsibilities of Providers and Distributors for the Fair Treatment of Customers' (RPPD) and the FSA's Principles for Businesses (PRIN) which raise similar considerations to those covered in this guidance. *Debt freeze/debt waiver* The guidance applies to all debt freeze/waiver products, as defined in Annex 3 to the guidance. The guidance applies irrespective of whether the product provides for interest and/or charges to be suspended or waived, or for capital repayments to be suspended but with interest and charges continuing to accrue. It also applies irrespective of whether the product is offered by the creditor at or after the point of sale of the linked credit agreement or RMC, or on a 'standalone' basis by a third party who is undertaking to procure a modification in the agreement

ISSUES RAISED	OUR RESPONSE
	or in the creditor's behaviour in certain circumstances. The third party may be linked to the creditor or may be an independent person (possibly acting as a 'debt adjuster' for CCA purposes). Some responses asked whether the guidance extends to situations where debt freeze/waiver is a mandatory feature of the credit agreement or RMC, or is offered as an integral element without an additional fee or charge. The answer is that debt freeze/waiver is covered irrespective of the way in which the cost of offering the feature is recovered and whether a specific or separate charge is payable by the consumer. Some responses asked whether the guidance extends to payment holidays. This will depend upon how the agreement operates. On the one hand, the guidance does not apply to situations where under-payments are limited to drawing down on previous over-payments. In such cases the consumer is effectively saving out of his own funds rather than relying on a concession from the creditor at the time. The guidance also does not apply to situations where the contract provides for a specified payment to be suspended or waived automatically (for example, every January) rather than on the occurrence of an uncertain event. However, other types of payment holiday, where payments may be suspended or waived upon the occurrence of relevant events (not limited to any surplus already overpaid), are within the scope of the guidance, as a form of debt freeze/waiver. We have amended the guidance to reflect the above and to clarify the scope of application.
1.4 Legal status of debt freeze/debt waiver	
A number of responses considered whether the draft guidance is correct to say that debt freeze/waiver does not involve insurance. Some responses disagreed with the FSA view, and said that such products are likely	The question of whether debt freeze/waiver, or similar products or product features, may involve 'insurance' is ultimately a matter for a court to decide, in the light of the relevant facts and circumstances, and a court might take a different view on the facts of a particular product. It is for firms to decide for themselves, taking advice as necessary, on the legal risks involved – including the risk that, if insurance is involved, a product may be subject to the CC's PPI Order including the

ISSUES RAISED	OUR RESPONSE
to be contracts of insurance. Others said it was important that we provide clarity on the status of these features. Responses disagreeing with the FSA's view made a number of specific points, including: • These products meet the primary description of a contract of insurance in the case of *Prudential v Commissioners of Inland Revenue [1904] 2 KB 658*. The FSA had taken this case, and a number of later cases, into account in its guidance in chapter 6 of the Perimeter Guidance Manual (PERG). • In economic terms a debt freeze/debt waiver product can act in much the same way as PPI, and with many of the key characteristics of insurance. Treatment of these products should be as robust as that for insurance products otherwise customers may suffer detriment and the payment protection market be distorted. There should not be different treatment of products that expose the consumer to similar risks. • The FSA, in PERG 6.5.3G, says that if the common law is unclear as to whether or not a particular	point-of-sale prohibition. The FSA can only express a view, based on its understanding of the law and relevant product features, and supervise firms on that basis. Based on what it has seen to date, its understanding of how the market is likely to develop, and its interpretation of the relevant case law, the FSA considers it unlikely that a debt freeze/waiver will involve insurance. Debt freeze/waiver for the purpose of the guidance is defined in Annex 3. It is a contractual term of a credit agreement or RMC under which the creditor agrees that (i) some or all of the capital and/or interest or other charges will be cancelled, (ii) the debtor will be allowed to defer payment of capital and/or interest or other charges, or (iii) the term for repayment will be extended, in each case on the occurrence of certain future uncertain events such as accident, sickness or unemployment. The product feature may be an optional or mandatory/integral element of the agreement, and may be sold by the creditor at or after the point of sale of the credit agreement or RMC of which it forms part, or be arranged by a third party. If it is arranged by a third party there may be some ongoing revenue-sharing arrangement between the creditor and the third party. The FSA accepts that in economic terms, and from the customer's perspective, debt freeze/waiver operates very much like PPI (although, unlike an insurance product provided by a third party, the consumer is not at risk that the protection will not be provided if the insurer becomes insolvent). The FSA considers that such products would not typically be considered by a court to be a contract for insurance. In reaching this view, the FSA has taken into account in particular the judgment in *Anthony Griffiths v Welcome Financial Services [2006] EWHC 3769 (QB).* This case involved a secured loan agreement under which, in return for a fee, the creditor agreed that, if it was necessary to enforce the security and the value of the secured property upon sale was insufficient to cover all sums then due, the creditor would not pursue the debtor for the shortfall. The court held that the fee was not a premium under a contract

ISSUES RAISED	OUR RESPONSE
contract is a contract of insurance, the FSA will interpret and apply the common law in the context of and in a way that is consistent with the purpose of the FSMA as expressed in the FSA's statutory objectives. PERG 6.5.4G says that in determining whether a contract is a contract of insurance, more weight attaches to the substance of the contract than to the form of the contract. • PERG 6.5.4G says that a contract must be characterised as a whole and not according to its 'dominant purpose' or the relative weight of its 'insurance content'. • The 1996 Court of Appeal case of *Humberclyde Finance Ltd v Thompson (t/a AG Thompson) ([1997] C.C.L.R. 23)* held that a term under a conditional sale agreement for a car under which, if certain events occurred, the repayment of the balance remaining due would be waived was not a contract of insurance. That product was similar to a debt waiver product, but the issue of whether it was insurance was never actually argued in the case. • The FSA should not, by	of insurance. The court specifically considered the *Prudential* case and endorsed the view that a contract which meets the tests in the *Prudential* case is likely to be a contract of insurance but that it will not necessarily be so. In any case the court held that the contract did not meet the tests in the *Prudential* case. What was being bought was a financial package. The benefit was not something that was to be acquired on the happening of a future contingency. Instead, the waiver was acquired when the contract was entered into, in form and in substance, and payment was made in consideration of an immediate surrender or waiver of rights that the creditor would otherwise have had. This was essentially the same as a collision damage waiver which the court said was not a contract of insurance. While it is true that the contract in the *Welcome* case was not a debt freeze/waiver, the reasons why the court decided that the *Welcome* product was not a contract of insurance apply equally in the FSA's view to debt freeze/waiver. In any event, the *Humberclyde* case involved a payment waiver option in a conditional sale agreement. The effect of that provision was that, provided the nominated person died within five years of the making of the agreement, the surviving debtor would not be liable to pay any balance under the agreement other than instalments in arrears at the date of the death. It is also true that the *Welcome* case was decided on the basis that the waiver was an original term of the contract. The court did not decide that a waiver inserted into the contract after it is made is not insurance. However, in the FSA's view such a waiver also does not involve insurance. This is because the rights and obligations of the debtor and the creditor are the same as when the waiver is an original term of the contract. Also, it is still the case that the debtor does not get a benefit but instead the creditor foregoes a right it would otherwise have had and the debtor's payment is essentially made to alter the relationship between the debtor and creditor.

ISSUES RAISED	OUR RESPONSE
providing wide and potentially inaccurate definitions of these products, provide a 'safe harbour' for products which are contracts of insurance.	
1.5 Forbearance	
Some responses asked whether the guidance extends to lender forbearance.	The guidance does not apply to situations where forbearance (in circumstances where a customer is in financial difficulty) amounts to a unilateral concession by the creditor – which is not contractually binding or otherwise enforceable by the consumer. In such cases the creditor is exercising discretion on a voluntary basis or in line with industry codes and/or regulatory guidance on responsible lending and arrears handling. However, if debt freeze/waiver is offered, this should provide 'added value' over and above the creditor's normal forbearance arranges, and they should complement each other. Opting for debt/freeze waiver should not impact on the creditor's usual forbearance arrangements – for example, once the period of the benefits from debt freeze/waiver has expired. We have expanded the guidance to make clear our view on this.
1.6 Next steps	
Some respondents felt that the FSA and OFT should be more proactive in taking enforcement action where firms' products and/or practices risk causing detriment to consumers. One consumer organisation asked that we conduct a review of the guidance after a period or in the light of developments.	We expect firms to have regard to this guidance and to meet in full their obligations under the relevant regulatory framework. The FSA and OFT will continue to monitor developments in the market, and will consider taking action where we identify that products or practices risk causing detriment to consumers. In doing so we will act in accordance with our usual procedures and prioritisation principles, having regard to the risk of consumer detriment and issues of proportionality. We agree that a future review of the guidance is appropriate, when further evidence of market developments is available, and this is discussed further in section 2.1 below.

ISSUES RAISED	OUR RESPONSE
One response emphasised the importance of ensuring that all firms are aware of how the relevant rules and guidance apply to their business.	We are publishing the final guidance and this summary of feedback on the FSA and OFT websites, and are also emailing key stakeholders and all respondents to the consultation with a link to the documents. We would encourage trade associations to further disseminate the guidance to their members.
Some responses argued that any rules or guidance should not be retrospective as this may encourage unwarranted claims by consumers or claims management companies.	The guidance sets out how the current regulatory regimes operate, with examples of unfair business practices. In a number of areas it should have been obvious to firms, even without the present detailed guidance, that such practices concerning protection products would be liable to challenge. In others, the position may have been less obvious, and the present guidance should be helpful to firms in indicating how they may develop their products and practices going forward to minimise the need for regulatory intervention.
Some responses argued for measures to enhance consumer awareness and understanding of payment protection products.	The FSA intends to provide information to consumers to help improve awareness and understanding of the different payment protection products available.

2 Summary of responses to the FSA's product risk report

ISSUES RAISED	FSA RESPONSE
2.1 Rationale for our approach	
Rationale for issuing a product risk report A small number of industry responses said that the FSA's approach (and/or its broader product intervention agenda) is flawed. These responses argued in particular that the poor outcomes from PPI did not arise from flawed product design, but rather from a flawed sales process, driven by high commission levels, cross-subsidies between PPI and the underlying loan, and sales incentives.	We recognise that point-of-sale practices were a major contributing cause of the poor consumer outcomes which arose from PPI. High standards and fair conduct at the point of sale in all areas of the retail market remain a key element in the FSA's approach (and is also likely to underpin the FCA's approach). We will continue to monitor firms' point-of-sale practices concerning payment protection products (and retail products in general) as part of our supervision. We will take appropriate action where we identify risks or failings at the point of sale. However, in our 2011 Discussion Paper on product intervention, we note that '[it is] increasingly obvious that there are problems in retail financial services which were not going to be solved simply by demanding fair disclosure in the sales processes – that there are deep reasons why retail financial services markets do not work smoothly and can produce adverse effects for consumers.' The business model used to sell PPI, which produced risks around product design such as single-premium PPI, is an example of this. Experience from PPI highlights risks in design and distribution strategies around, for example, the frequent lack of any defined target market (beyond anyone wanting credit), the bundling of different types of events covered by the product which was used to justify a very wide target market, very high commission levels for distributors built into the pricing strategy, and the exclusions which helped keep claims ratios low and thus made the high commission payments possible. The experience of the PPI issue and its root causes influence our view that 'a product intervention approach is an essential means of achieving an appropriate level of consumer protection… product design and decisions made by product designers about how – and to whom – products will be distributed play a significant role in determining consumer outcomes'. We have added guidance to draw out more explicitly these

ISSUES RAISED	FSA RESPONSE
	relevant points from the PPI product and experience.
Protection gap and consumer responsibilities Some industry responses said that: • it is important to balance guidance to firms with a recognition of consumers' own responsibilities, and that consumers do not consider their protection needs adequately and should be more strongly encouraged to plan proactively and take responsibility for their borrowing and other financial commitments; • our comments on risks in product design contradict the Government's position which (the responses claimed) focuses on providing consumers with the tools they need to make informed decisions; • our guidance naively implies that protection products should be 'bought not sold' (that is, left to pro-active consumer purchasing) which, given the realities of consumer behaviour, will mean low take up and an increased 'protection gap'.	The provision by firms of clear, fair and not misleading information to consumers, in order to help them make informed choices, remains an important element in the regulatory regime. We see no contradiction between this and the FSA's increased focus on products and product intervention. The Government has reiterated the importance of clear consumer information in relation to borrowing and consumer credit.[1] But this in way no means that it does not support the FSA's approach to product intervention. On the contrary, throughout the Parliamentary debates and reviews, the Government has continued to affirm the importance of the FCA increasing its focus on products and having the powers to do so effectively. We recognise that in general, consumers' understanding of their potential protection needs and the available protection products may be limited, and a matter which many give too little thought to. We therefore intend to provide information to consumers on payment protection products, which will help them in considering their protection needs. However, in our view, consumer capability and responsibility (and potentially also demand) will be enhanced by a market in which products are more fairly and clearly designed and 'do what they say on the tin'. The present guidance will help this and help consumers better grasp the essentials and potential value of the protection products that are offered. In such a clearer and fairer protection product market, it will be more reasonable to expect consumers to engage closely with these products and to make choices for which they will be responsible.
Rationale for issuing	We believe that issuing guidance is the best approach at this

[1] *A new approach to financial regulation: building a stronger system*, HM Treasury (Feb 2011).

ISSUES RAISED	FSA RESPONSE
guidance (rather than rules) One consumer organisation said that rules may be necessary in future if there are early indicators that problems may be emerging.	stage. The guidance is grounded in the Principles for Businesses, the importance of which was reaffirmed by the High Court's decision (April 2011) in the judicial review of our PPI measures.[2] We would treat very seriously any conduct by a protection product provider which in our view breached the Principles. While guidance only provides one way in which a firm can comply with the Principles, this guidance sets out the FSA's view of how the Principles are relevant to these relatively new protection products. Guidance gives firms information about how to meet our requirements, while allowing flexibility for them to do so in a way that is most appropriate for their circumstances. Given the different types and sizes of firms and business models, guidance is a more flexible option compared to making new rules. We consider guidance should be effective in changing firms' behaviour rather than requiring a more prescriptive approach. It is one of the key advantages of more principles-based regulation that it involves broad but fundamental standards which apply to a wide range of scenarios, including those that subsequently present themselves. This seems an appropriate approach for a post-PPI payment protection market which is at a relatively early stage in its development, in particular for non-insurance payment protection products. The present guidance will help firms understand the implications of the Principles in the payment protection context, and thus provide firms with confidence to develop and innovate effectively to meet consumers' evolving protection needs. We will continue to monitor the appropriateness and effectiveness of the present guidance. A revised approach may be merited if there is evidence of detriment, for example through mis-selling or poor product design. It is envisaged that consumer credit regulation will transfer to the FCA in 2014. This will give the FCA the power to create a more uniform regulatory regime. In September of this year, as part of the transfer process, the FCA intends to consult on incorporating existing OFT guidance into rules and guidance. Where appropriate, OFT guidance may be given the status of

[2] 20 April 2011; [2011] EWHC 999 (Admin).

ISSUES RAISED	FSA RESPONSE
	FCA rules. If, after the transfer, the FCA sees evidence of detriment, such as mis-selling or poor product design, it will consider whether additional rules are necessary, for example a point-of-sale prohibition for products falling outside the CC's PPI Order. In recent publications[3] we have indicated that we will take forward a single set of rules and guidance on product governance more broadly, including, for example, turning some or all of the TCF material (including RPPD) into rules. We are still developing our new approach to product governance. Where we do make any changes to the existing product governance regime, we will clarify to firms how they should understand their obligations concerning payment protection products. However, we expect that there will be no significant changes to the substance of the guidance.
2.2 Product risks – overarching comments	
Impact of guidance Several industry responses said that consumer protection should be balanced against other factors, in particular the need for product innovation, the needs of the provider to manage claims costs, and affordability (especially for lower-income consumers). Some responses suggested that our guidance would have a negative impact on innovation, or would prevent firms from tailoring products to specific target markets. One trade association urged the FSA to avoid price intervention for payment	Our guidance aims to ensure that firms develop products which meet the needs of a target market, and that firms manage the risks in the product design appropriately, in line with the Principles for Businesses and our existing guidance in RPPD. We do not expect that the guidance will limit any innovation which would benefit consumers. Responses did not provide evidence to demonstrate that this would happen. The issue of affordability for lower-income consumers links to the product's exclusions and limitations and how these relate to the needs of the target market. We discuss this further below. The comment that our guidance will prevent firms from tailoring products to specific target markets reflects a misunderstanding of the guidance. The guidance discusses identifying the target market and aligning product design, distribution and marketing with the needs of the target market. Where a firm provides tailored products to a niche target market based on an adequate understanding of its needs, this is entirely consistent with the intention of our guidance. The guidance does not prescribe any particular level of pricing for payment protection products. It does, however, refer to

[3] For example: http://www.fsa.gov.uk/pubs/discussion/fs11_03.pdf (see page 54).

ISSUES RAISED	FSA RESPONSE
protection products.	provider responsibilities and considerations around exclusions from cover, limits to benefits, and the structure of premiums, all of which impact on the pricing of the product and the value and utility of it to the customer. These are appropriate matters for the guidance to discuss, since they are key to the design of the product and to whether it delivers good consumer outcomes. The FCA may choose to make stronger interventions in aspects of price and value in any type of retail product where this seems necessary to minimise consumer detriment in markets where there are weaknesses in competition.
Consistency of guidance across STIP and RMC debt freeze/waiver Some responses said that we had included several examples of risks for STIP products but had not set out equivalent risks for debt freeze/waiver terms.	The draft guidance set out a number of examples about both types of product, to illustrate relevant points about risks and mitigants. Most apply to both, and therefore, unless otherwise stated, those points should be read as applying to both types of product, regardless of the nature of the example.
Terminology We received a small number of comments on terminology, specifically: • our definition of 'provider' differs from that used by the CC; • stress is not a recognised medical condition.	Our definitions of 'provider' and 'distributor' are consistent with those used in RPPD and other relevant FSA literature (such as TCF Reports and other product reports), so we have not changed the terminology used in our guidance. We had given 'stress' as an example of a potentially problematic exclusion for a protection product with an anticipated wide target market. Despite our imprecise terminology, the example and point are quite clear. But in any case we have amended the example in the final guidance.
2.3 Product risks – Identifying the target market and the needs of likely consumers	
Definition of 'target market' Some responses agreed with the importance we attached to the target market, but said that the concept was broadly drawn in the guidance and	We welcome the significant level of industry support for the importance we attach to providers understanding and identifying the needs of the proposed target markets for their protection products. The guidance refers to the target market as the types of customer whom are likely to both have a potential need for the protection

ISSUES RAISED	FSA RESPONSE
requested more detail on how to meet providers' obligations in this area. Some responses said that for a holistic picture of the risks from the product one must also consider issues beyond the identification of the target market, such as the distribution channel or method.	provided by the product (its cover and benefits) and be eligible for that protection. The definition of target market in this guidance may be different from a target market from a marketing perspective, which may indicate a group of customers for whom product penetration may be expected to be higher than average. The onus is on each firm, not the FSA, to determine appropriate ways to identify the target market for its product. However, in the light of responses, we have expanded this section of the guidance to say more about relevant considerations for identifying a target market for protection products. We agree that the target market is not the only thing of importance in the effective management of product risk, and this is shown by what our draft guidance said about other aspects of the product providers' responsibilities, such as choosing a distribution strategy that is appropriate to the target market and providing suitable information about the product to distributors and consumers. However, those other responsibilities will be hard to discharge effectively if a target market has not been carefully defined in the first place.
Breadth of target market Some industry responses said the guidance was quite right to focus on the 'target market' and the integral role of this in product design, but asked us to recognise that it is reasonable for some protection products to be quite generic offerings and their associated target markets to be quite wide.	We accept that an appropriate target market for a particular protection product may, in some circumstances, be quite broad. We have expanded the guidance to give our views on this.
Iterative refinement of target market Some industry responses said the relationship between product design and target market specification is often iterative (for example in the	We accept that there is some scope for reasonable iteration between product design and target market specification. This is consistent with what the guidance says about the importance of provider firms monitoring the product's actual distribution pattern and actual performance post-launch and, where necessary, acting to improve the alignment and consumer outcomes (for example, by altering the target market definition

ISSUES RAISED	FSA RESPONSE
light of pricing and take up experience) and this should not imply that the original product design or target market was flawed.	and/or product features and/or the information given to distributors). The need for alterations to product and/or target market in the light of experience may or may not suggest that the original assessment of the product and definition of the target market was flawed. We have expanded the guidance to give our views on these matters.
Responsibility for defining the target market One response asked for more clarity on the respective responsibilities of the provider and distributor in defining the target market.	In the guidance, we have defined the product provider as the firm which develops the specifications of the payment protection product. This may be either an insurer, lender or third party product designer that is designing a product on its own initiative, or a commissioning distributor (for example, a lender) who has commissioned design work from another firm. In general, we would anticipate that the payment protection product provider (in either of these senses) would define the appropriate target market, based on its knowledge of the intended product features. We have expanded the guidance to give our views on this. However, the onus remains on each firm to interpret the guidance (and the provider and distributor responsibilities in RPPD), in a way that makes sense for its particular role in the value chain and its particular circumstances and market conditions, in order to achieve the desired outcomes for consumers that we have set out.
Costs of consumer research One industry response said that, for smaller firms who provide tailored cover for niche target markets, the cost of conducting focus groups would make the products commercially non-viable.	Our guidance stresses that, before launching a product, a firm should adequately understand the needs of the target market for that product. We would generally expect that firms would need to gather and analyse relevant information to develop and test this understanding. However, firms have flexibility in how they do this – firms may be able to meet their obligations without, for example, conducting direct consumer research of their own, if they can demonstrate that they adequately understand the needs of the target market by other means.
Savings A number of industry responses disagreed with our	We believe that consumers' savings are generally likely to be relevant in considering consumer needs, including when defining the target market for a payment protection product.

ISSUES RAISED	FSA RESPONSE
comments on savings.[4] These responses argued that consumers with significant savings may wish to take out protection in order to protect those savings.	However, we recognise that not all consumers will wish to rely on savings in this way, or have savings which are sufficiently accessible to use in this way. We have expanded the guidance to give our views on this.
2.4 Product risks – Aligning the events covered by the protection with the needs of the target market	
Impact on firms' discretion to design exclusions Some industry responses criticised our comments on exclusions as overly prescriptive. These responses said our guidance would prevent firms from managing claims costs, or limit firms' ability to tailor products to specific target markets, and so deter providers from offering affordable payment protection products at all, or to niche markets. Another response gave the example of lower-income customer groups who, given the prospect of a firm potentially increasing premiums on a product because of its increased claims experience, might prefer the firm to maintain the current price by reducing the scope of cover through additional relevant	We do not consider our guidance to be prescriptive. It typically sets out one way provider firms can meet their obligations when designing payment protection products. We recognise that shaping limits to cover through exclusion terms is a key element in the design and pricing of any general insurance product or debt waiver equivalent. We also accept that it is in the nature of such protection products that many consumers will pay premiums/fees but not experience benefit-triggering events, and that the product provider will design and price such products in a way that aggregate premiums exceed aggregate benefits paid. None of this, however, appears to us to imply any tension with the view set out in our guidance that providers' discretion to limit the scope of the cover is constrained by their responsibility to align the events covered by the protection with the needs of the target market they have identified for the product. Nonetheless, to avoid potential misconceptions about the meaning or implications of our guidance on alignment with the target market, we have added further guidance on our views concerning: • the design of exclusions and of initial exclusion periods in protection products; and • the design of affordable protection products for lower-income customers.

[4] In GC11/26 we said that 'a STIP product is inherently unlikely to meet the needs of consumers who… would have sufficient alternative sources of income if they were unable to work (for example… savings)' (GC11/26, paragraph 1.9).

ISSUES RAISED	FSA RESPONSE
exclusions. One response stated that we wrongly link consumer 'need' to 'ability to benefit', failing to recognise that individual consumers vary in their perception of risk, need for protection and what they are willing to pay for it, and that we failed to grasp the fundamental nature of general insurance, that product premium must be calculated on the basis that it will ultimately exceed claims. Some industry responses asked what length of initial exclusion period may be unfair.	
Stress testing Some responses said that the example of stress testing we gave was misconceived because it is not open to insurers to 'tighten' their approach to claims handling after a policy has been sold and thereby reject claims for events already covered (since this would be unlawful). One industry response said that, for smaller firms who provide tailored cover for niche target markets, the cost of conducting stress testing would make the products commercially non-viable.	We have amended the guidance concerning stress testing to make our point clearer. We expect providers in general to stress test their products to identify how these might perform in a range of market environments and stressed scenarios, and how the consumer could then be affected. In the payment protection context (unlike, for example, many types of investment products), such consideration and assessment of the product's performance in stressed scenarios may not need to involve intense statistical modelling, and may be able to be conducted adequately through a more qualitative exercise. So we do not believe it is disproportionate to expect even smaller or niche protection product providers to consider stressed scenarios and customer outcomes as part of their product development.

ISSUES RAISED	FSA RESPONSE
Flexible cover offerings One firm was concerned that our guidance implied protection products must follow a 'menu approach' that allows customers to choose elements of cover, which could confuse customers and lead to a complex and potentially uneconomic sales process. Another asked for our view on potential scenarios where: • a customer chooses to take some elements of the protection but not others, despite his appearing to have a need for them; or • the customer chooses to take cover at a level which will pay out a lesser amount than their likely needs.	We are not prescribing a flexible (or menu-based) approach for protection products. We consider they have some potential positive aspects, in helping to reduce the risk of mis-aligned consumer needs and protections, particularly where the policy can potentially cover (bundle together) many different types of events. But we also accept they may bring some risks of their own, including for the customers' decision making about cover. Protection products which do not offer such flexibility will need to find other ways to mitigate the risk of non-alignment of some parts of the products cover or other benefits with target market consumers' needs. We have expanded the guidance to give our views on these matters.
2.5 Product risks – Aligning the benefit following a successful claim with the needs of consumers in the target market	
Use of caps on benefits In response to our comment in the draft guidance that for a STIP product, a cap on benefits expressed as a percentage of gross income may create specific risks for consumers with lower incomes, some industry responses said that: • this risk can be mitigated by expressing caps as a	We accept that including a cap on benefits, for example as a percentage of income, can be a reasonable part of the design and pricing of a protection product. We have amended our guidance to make clearer our views on consideration of income levels of the target market in the provider's *setting* of a fair cap on benefits, and how such a cap can be fairly and clearly *expressed*.

ISSUES RAISED	FSA RESPONSE
proportion of net salary rather than gross salary; • there is a potential moral hazard if consumers receive a benefit from a STIP product which is greater than their net salary.	
Waiting period Some industry responses asked what may constitute an unfair waiting period for benefits to commence following a successful claim.	We accept that waiting periods are another way to limit the potential benefits from a claim and thereby influence its pricing and potential affordability. It is not for us to specify maximum waiting periods. However, we have revised the guidance to amplify our view on them.
Non-financial benefits One response commented that our guidance should not undermine the value provided by non-financial support offered (such as back-to-work services, counselling and job training).	The draft guidance did not speak directly to these kinds of additional product benefits and it does not proscribe them. We recognise that some such ancillary services may be useful for some consumers. But firms need to think carefully about their approach to such secondary product features. We have added guidance setting out this view.
2.6 Product risks – Barriers to comparing, exiting or switching cover	
Mandatory or integral debt freeze/debt waiver Some industry responses asked for our view on whether debt freeze/waiver could be mandatory with (or an integral part of) an RMC. These responses argued that structuring the protection in this way would not cause barriers to switching, or other consumer detriment, because:	We do not accept these comments. We believe that increasing consumers' ability and opportunity to assess the secondary protection product (that is, its features and pricing) separately from the primary credit, and to shop around for protection elsewhere if they so choose, is important. It is also in line with the CC's findings and remedies. Firstly, aligning eligibility criteria for the RMC with those of the protection product does not automatically avoid potential consumer detriment. As we have emphasised in the final guidance, the would-be borrower may not need protection, for example because they have savings or other insurance cover. We doubt that, in practice, especially in a future more buoyant market, a firm would not offer the mortgage to a consumer

ISSUES RAISED	FSA RESPONSE
• choosing an RMC with or without a debt freeze/debt waiver option is a choice consumers make at point of sale, similar to, for example, the choice between a fixed or variable rate mortgage product; • mandatory debt freeze/debt waiver will not lead to consumer detriment as long as the consumer is aware at point of sale that they cannot cancel the protection feature without also cancelling the RMC; • mandatory debt freeze/debt waiver will not lead to consumer detriment as customers will not be eligible for the underlying RMC where the protection does not meet their needs; • in some cases there may be no additional charge to the consumer since the cost of providing the waiver can be met from sales and marketing budgets, reduced costs from collection activities and reduced arrears/bad debt; • the debt freeze/waiver is an enhanced version of the lender's forbearance regime. Where no specific fee is charged for the debt freeze/waiver, consumers should be unable to opt out of mandatory debt freeze/waiver in the same	simply because he did not need the protection element. Moreover, the customer's need for protection, and their eligibility for it, may well change over the lifetime of the mortgage, even though their need and eligibility for the mortgage remains – for example, if the customer acquires new savings (such as through inheritance) or becomes self-employed (and the protection does not cover this status). Second, firms have not evidenced that it is feasible to include a contractually specified debt freeze/waiver feature within an RMC without incurring any additional costs, which would then be passed on to consumers, however indirectly. Third, the customers' position under the firm's wider non-contractual forbearance approach does not seem a comparable situation to their position under a (mandatory) protection product, for the same reasons as cited when excluding firms' wider forbearance from the scope of this guidance. Fourth, we are not persuaded that disclosure at the point of sale could adequately mitigate the risks we identified in mandatory protection, and nor do we see the borrower's choice between a fixed and variable rate mortgage as a relevant parallel, as: • consumers typically significantly underestimate the likelihood of their needs or status changing in due course; • the choice between a fixed and variable rate is clearly a choice between two methods of repaying a mortgage, and so each option will have equal significance for the consumer's decision – whereas mandatory debt freeze/waiver is very much a secondary feature of one mortgage product, as against a different mortgage which lacks it, and so in practice it is unlikely to feature heavily in the consumer's decision making and choice; and • where a consumer chooses a fixed-rate mortgage, they are unlikely to be tied in for more than five years, and more often two to three years, whereas they would be tied into the mandatory protection for the life of the RMC, which could well be 25 years or more. For these various reasons, we have not changed our view that mandatory debt freeze/waiver can create significant barriers to switching or exit, and have set out ways in which firms can

ISSUES RAISED	FSA RESPONSE
way that they are unable to opt out of the lender's forbearance.	mitigate this risk in the guidance.
Pricing structure for debt freeze/waiver One consumer organisation said we should state more strongly that we do not expect firms to use a single-premium pricing structure for debt freeze/waiver. One industry response said that where firms structure debt freeze/waiver features as single-premium, it is reasonable for firms to offer non-pro rata refund terms	As described above, we have decided not to write specific rules about the design and distribution of PPI replacements. However, we agree that there are significant risks to consumers from such premiums (and refund structures) which were found by the CC to cause significant consumer detriment. Pricing structures such as single-premium are likely to be a potential cause of consumer detriment, including by inflating the total price of the cover and disguising terms mismatches, and by being a significant barrier to switching. In our view, firms should not typically use such pricing structures or non-pro rata refunds, and the guidance states this.
Barriers to switching from product exclusions One response noted that while our draft guidance cited initial exclusion periods and pre-existing medical conditions as potential barriers to switching, the CC had decided that no additional remedies were necessary relating to PPI initial exclusion periods and pre-existing conditions.	The CC did not consider that these features contributed sufficiently to the market failures in PPI as to warrant specific additional remedies. However, we remain of the view that these features could come to act as future significant barriers to switching as the protection market evolves, for example if firms introduce longer exclusion periods. So we have retained the wording in our guidance.
2.7 Managing product risks during the product life-cycle	
Advised or non-advised sales One response from a firm suggested that telephone and face-to-face sales should	We said in the draft guidance that distributing the product on an advised basis may be most appropriate where the risks may not be obvious to consumers. We do not currently see sufficient risk or evidence of detriment

ISSUES RAISED	FSA RESPONSE
always be conducted on an advised basis, with only the simplest protection products sold online on a non-advised basis. One response from a consumer organisation suggested that payment protection products linked to mortgages should always be conducted on an advised basis.	to *proscribe* sales on a non-advised basis through certain specific channels. However, we have expanded the guidance to make our views clearer concerning advised and non-advised distribution. Also, for non-insurance payment protection products linked to an RMC, we will soon require that all interactive mortgage sales be advised and that all mortgage sales to customers in vulnerable groups be advised. So the firm will have to assess the suitability of a debt freeze/waiver term as part of the overall recommendation regarding the mortgage.
Reward One consumer organisation suggested that we provide specific examples of strategies which may increase risks to consumers.	We recognise that reward is an important area which, for example, contributed significantly to the failings identified in the sale of PPI. Firms will wish to have regard to the FSA's report and guidance on financial incentives for in-house sales staff. That guidance is applicable to payment protection products, and we will expect distributors to have regard to it when distributing these products.
Changes to product design post-launch Two industry responses sought clarity that, if firms *improve* the scope of cover post-launch, we will not automatically assume that the product design was previously flawed. One response noted that, without such clarity, firms may not make changes which would be in the interests of consumers.	We agree that extending the scope of the cover some time after the product's launch, or otherwise improving the product then, does not necessarily indicate the original cover and design were flawed. We have expanded the guidance to give our views on this.
Governance In GC11/26 we discussed 'TCF champions' as one means of ensuring that firms	As set out in the consultation, our focus is to ensure that firms consider consumers' interests appropriately during the product development – firms have ultimate responsibility for deciding how to achieve this.

ISSUES RAISED	FSA RESPONSE
consider consumers' interests appropriately through their product development. One consumer organisation commented that this reference may encourage a 'tick-box' methodology within firms' governance arrangements.	To avoid undue emphasis on this one potential approach to ensuring consideration of consumers' interests in the product design process, we have deleted this specific example from the guidance.
Risks at point of renewal One consumer organisation highlighted the risks to consumers if firms reduce the scope of the cover at the point of renewal. One firm asked whether, where a product is renewable annually, the provider will need to demonstrate that the product still meets the customer's needs.	Provider firms should seek to ensure that the product continues to be aligned with the target market and to meet the needs of consumers in that market. Monitoring the post-launch distribution and performance of the product will help a provider to identify any misalignment in a timely way, and take action as appropriate, including for example amending the product and/or the target market. Considerations of fairness may mean that the provider should bring the nature of the misalignment and/or any change to the product to the attention not only of distributors, but of existing customers, at renewal time, if not before. Similarly, where the provider intends to make a change to the product which means it would no longer align with the original target market, the provider should communicate this to existing customers at renewal time, as well as to distributors. We have added guidance to make these considerations more explicit.
2.8 Equality and diversity considerations and cost-benefit analysis	
We received a very limited number of comments on our equality and diversity assessment. These followed from comments made on other aspects of our guidance – we have discussed the most relevant points above. We believe that the equality and diversity assessment in GC11/26 remains appropriate and have not made changes to it in this finalised guidance. We did not receive any comments on our CBA. Some of the comments on our rationale are relevant to our assessment of the benefits and indirect costs of our guidance. For the reasons discussed above we are satisfied that our rationale, and the benefits we expect to accrue from our guidance, remain appropriate, including those resulting from potential changes in the competitive environment. We are not publishing an updated CBA to accompany this final guidance.	

3 Summary of responses to the OFT's guidance

ISSUES RAISED	OFT RESPONSE
3.1 General	
The OFT's powers Some responses argued that CCA requirements for payment protection are less onerous than under FSMA and do not cover the full product life-cycle.	The CCA applies to all relevant stages of the process, including advertising and marketing, pre-contractual information and explanations, the credit agreement, post-contractual information, and arrears and default. The OFT also issues guidance setting out how the CCA applies in the various areas and the kinds of practices which may impact on fitness – for example, the Irresponsible Lending Guidance and Debt Collection Guidance. The OFT, together with local authority trading standards services (LATSS), has powers to take enforcement action in respect of breaches of the CCA and other consumer protection legislation. In some cases breach may render the credit agreement unenforceable without a court order. In addition, in considering fitness to hold a consumer credit licence, the OFT can have regard to **any** matter which it considers relevant, including evidence of business practices which appear to us to be deceitful or oppressive, or otherwise unfair or improper, whether unlawful or not. We can impose requirements under s33A CCA in cases where we are dissatisfied with any matter in connection with a licensed business. We can also revoke or compulsorily vary a licence. We will shortly also have the power to suspend a licence with immediate effect, or from a specified date, where urgently necessary for the protection of consumers.
3.2 CCA issues	
APR calculation One response disagreed with the OFT's analysis that on a secured loan the cost of payment protection must be included in the APR even if the borrower does not take	For secured credit, the APR is determined in accordance with the 1980 Total Charge for Credit Regulations. These provide that the total charge for credit (TCC) includes any charge at any time 'payable under the transaction'. The Court of Appeal found in *Humberclyde* that this includes a fee for an optional payment waiver facility. In contrast, for unsecured credit the APR is determined in

ISSUES RAISED	OFT RESPONSE
out the protection option.	accordance with the 2010 Total Charge for Credit Regulations which implement Article 19 of the Consumer Credit Directive (CCD). These provide that the TCC includes any charge which is 'required to be paid' in connection with the credit agreement. This is a different test than under the 1980 Regulations and so may lead to a different APR. The 2010 Regulations have recently been amended in the light of the new APR Directive, and BIS has published updated guidance taking account of the new rules. A link to this is included in the Glossary at Annex 3 to the guidance.
One response argued that the cost of payment protection should always be included in the APR in advertising.	As above, the position under the CCA differs as between secured and unsecured lending. For unsecured credit, the cost must be included in the representative APR only if the advertiser reasonably expects at least 51% of consumers entering into agreements as a result of the advertising to opt for debt freeze/waiver. It is open to the advertiser to include additional information in the advertisement, subject to the CPRs and the rules on prominence in the Advertisements Regulations.
Pre-contractual information One response disagreed with the OFT's analysis that two PCI sheets may be required, and felt this will confuse consumers and add to costs.	In our view, where debt freeze/waiver is offered as an option under an unsecured credit agreement, the creditor is in effect offering two separate agreements, one with debt freeze/waiver and one without. It follows in our view that two separate pre-contract credit information (PCI) forms must be provided, unless the consumer has indicated that he is only interested in one of the agreements. This is necessary in our view in order to comply with the 2010 Disclosure Regulations, and to enable the consumer to compare the different offers in order to take an informed decision (in line with Article 5.1 of the CCD).
Adequate explanations Some responses noted that debt freeze/waiver may impact adversely on the consumer so should be	We agree that a pre-contractual explanation under s55A CCA should include the nature, cost and implications of optional debt freeze/waiver, any restrictions or limitations on the cover, and any other features which may operate in a way that the average consumer might not reasonably expect.

ISSUES RAISED	OFT RESPONSE
included in a s55A explanation.	This is important to enable the consumer to understand the key rights and obligations under the agreement (including any optional features), and the key risks, so they can decide whether it meets their needs and circumstances. The explanation should be clear, balanced and not misleading, and should not give undue prominence to the benefits of the facility as compared to the costs and risks to the consumer. It should use plain intelligible language so that it is readily comprehensible to the average consumer.
Affordability assessment Some responses noted that opting to take payment protection reduces the risk to the consumer and creditor and so may enhance creditworthiness and affordability.	We accept that opting for payment protection may reduce the risks to both the consumer and the creditor, and that it may be reasonable to take this into account in an assessment of affordability, depending upon the circumstances and the nature and extent of the proposed cover. We have amended paragraph 2.53 of the guidance accordingly.
Modifying agreements One response queried whether a modifying agreement is needed if a payment protection option is 'switched on' subsequently.	In our view, this will depend upon how the credit agreement is structured. In particular, whether it grants an option to the consumer which can be exercised unilaterally, or whether the parties have to agree to something new or different at the time. We have amended paragraphs 2.58-2.59 of the guidance to make clear the circumstances in which a modifying agreement may or may not be triggered. If triggered, the modifying agreement must comply with relevant CCA requirements including on pre-contractual information and explanations.
Forbearance Some responses stressed the importance of avoiding confusion with existing forbearance requirements, and that standards of good business practice around arrears management should not be diluted.	See also section 1.5 above. We agree that firms should not mislead regarding the extent to which debt freeze/waiver provides 'added value' over and above the creditor's normal forbearance arrangements. It is important that the consumer understands what he is paying for and whether it offers value for money, so that he can make an informed decision on whether to opt for payment protection. We support the view taken by the Lending Standards Board (LSB) in its February 2012 bulletin to subscribers – *'If [debt freeze/debt waiver] products are to be offered by*

ISSUES RAISED	OFT RESPONSE
	subscribers, the additional benefits to consumers, over and above the protections already available under the Lending Code – in particular the breathing space provisions and other forbearance requirements – should be clearly explained, together with any restrictions, to allow the customer to make an informed choice on the value to them of purchasing such products. These products should not be offered to customers in financial difficulties as an alternative to the breathing space requirements of the Code'.
Codes of practice One response argued for establishment of a code of practice for non-insurance products, along similar lines to codes in the USA.	We would support industry initiatives to enhance self-regulation in this area, and to develop minimum standards of good business practice. Industry codes or guidance can also help to clarify firms' regulatory responsibilities and consumer rights, and highlight what is expected of firms in terms of treating customers fairly and minimising risk of detriment.