

# FSA's latest findings on Payment Protection Insurance

November 2007

As part of its Treating Customers Fairly (TCF) campaign, the Financial Services Authority (FSA) has recently completed a further review of Payment Protection Insurance (PPI) selling standards.

The market for PPI, which provides cover against unforeseen events that cause repayment difficulties, is large, with over 6.5 million policies purchased every year. In 2005, the product was estimated to be worth over £5.5bn.

In its recent review, the FSA looked at 150 companies, including mystery shopping of personal loan providers, assessing whether companies had made improvements in five key areas. It is pleased with the improvements in two areas; the vast majority of companies are now making it clear to customers that PPI is optional, and they are now offering cancellation refunds on virtually all single-premium PPI policies.

However, the mystery shopping identified serious failures in the sales processes of a number of companies selling single-premium PPI alongside unsecured personal loans. These companies were found to be still not giving customers clear information about the product and what it would cost, not telling them the extent to which they were eligible for PPI cover, and what they were covered for. Also, they were not telling them why, where advice was given, the recommended PPI policy met their demands and needs.

Clive Briault, FSA managing director of retail markets, said: "We have, on a number of occasions, set out clearly our requirements for the selling of PPI. While some progress has been made by the industry, we are extremely disappointed that some firms have still made little progress in improving their sales practices.

"The right PPI can provide valuable protection for consumers, but they are entitled to expect that they will be treated fairly by firms when they buy it. They must be told how this product works, what it covers, and how much it costs. At the moment, too many firms are not meeting these requirements."

The OFT acknowledges the work that the FSA is doing to remedy the problems relating to selling standards and to ensure customers are treated fairly, as well as the various industry initiatives that are underway in response to the FSA's work. However the OFT and FSA agree that FSA action targeted at selling practices alone cannot remedy the lack of competition the OFT has identified in the PPI sector.

Earlier this year, the OFT referred the UK PPI market to the Competition Commission for further investigation following a super-complaint from Citizens Advice. Having examined the evidence

presented, the OFT considered it had reasonable grounds to suspect that there were features of the market that restricted competition to the detriment of consumers.

John Fingleton, chief executive of the Office of Fair Trading (OFT), says: "Despite some evidence of a degree of consumer satisfaction with aspects of the product, the evidence as a whole suggests consumers get a poor deal." He felt that the referral would "enable the Competition Commission to undertake a thorough investigation of the market and, if necessary, ensure that appropriate remedies are put in place".

To date, the FSA has fined five companies over poor PPI selling practices. The recent review has resulted in four companies being subject to further investigation and the possibility of a further 20 cases also being investigated.

In addition, 11 companies have stopped selling PPI either permanently or temporarily, three companies have cancelled their FSA authorisation to sell PPI, and a further four large companies are reviewing past PPI sales to ensure they were appropriate.

The FSA consider it has given due warning to companies of their obligations to treat their customers fairly, both generally and on PPI in particular. "We will now strengthen our action against firms who fail to treat customers fairly when selling PPI," said Mr Briault. In line with this approach, the FSA is seeking to increase the level of fines where this is warranted by the nature, seriousness and impact of the breach in question, and by the likely impact on deterrence.

The FSA intends to continue its work with further company visits and mystery shopping, and focussed work on issues that cut across the PPI market. It is consulting on introducing additional rules in its *Insurance Conduct of Business Rulebook* designed to improve PPI selling practices including the provision of more information in face-to-face meetings between a company's staff and its customers, and extending the PPI cancellation period.

In spring 2008, the FSA is planning to introduce a comparative information timetable for PPI on its consumer website. It has also announced a deadline of December 2008 for companies to complete their work on TCF and to demonstrate they are consistently treating their customers fairly in all aspects of their business, including PPI.

This is a print-friendly version of the article: "FSA's latest findings on Payment Protection Insurance " from the November 2007 edition of *Financial World* online.