

Subject: Payment protection insurance

Note of key matters:

Attendees:

Presenters	APPG	Others
Steve Devine, Director Corporate Communications, Cardif Pinnacle and Chairman of Protect Tom Baigrie, Managing Director of LifeSearch (IFA)	John Greenway Baroness Turner Baroness Gibson Lord Brookman	David Worsfold David Morey (PwC)

1. Steve Devine

Steve briefed the Group on the nature of PPI (Creditor) insurance and its role / strengths.
Key points were:

- PPI is one of a range of options to protect debt repayments against unforeseen circumstances, providing a life-jacket to insureds
- Typically, it includes a range of covers including Accident, Sickness & Unemployment; it may also include elements of life and critical illness cover
- There are some 20 million policies in existence, with a Gross Written Premium of some £5.5bn p.a.; there are some 0.5 million claims p.a. (1 in 40)
- Cover periods are normally 12 to 24 months; the average claim duration (disability or unemployment) is 5 to 6 months, which is within the normal cover period; insureds can requalify for protection after return to work
- Many products include additional claims assist services such as counselling or CV writing
- PPI is available from a wide range of distributors – banks, other lenders, car finance companies, etc
- It is sold either as a single premium or as a monthly premium product, normally on the back of the underlying credit product
- A stand alone PPI market exists (internet and through some intermediaries), although this is relatively small
- PPI is typically sold to socio-economic groups C / D (c.f. income protection typically sold to A / B)
- PPI is a good fit with lending in that less than 2% of borrowers are ineligible for attaching PPI
- Whilst levels of unemployment are currently relatively low, Unemployment cover is still a valued protection (e.g. globalisation / off shoring)
- Generally, claims services act to encourage people back to work; an ABI survey indicated a good level of claimant satisfaction (about 87 - 88%)

- Whilst media coverage tends to demonize PPI, complaints taken to FOS are low (less than 1,000 p.a.); so far, there has been no consumer advertising to counter the media's negative image
- From a consumer perspective, there has been both product and information congestion; generally, the industry recognises the need for improved PPI literature and customer documentation and this is receiving significant attention at present
- In summary, there continues to be a need for improved consumer education and awareness (partly being addressed by the FSA's financial capability work); as FSA has indicated, PPI is a worthwhile protection where properly structured and sold. It provides a valuable cover for people choosing to have and manage higher levels of personal debt

2. Tom Baigrie

Tom's comments are summarised in the attached written briefing note prepared by him. Key points noted included:

- There has been a significant increase in the number of consumers buying PPI without advice; PPI is a complex product and general consumer financial capability is poor/low; accordingly, non advised selling of PPI is inappropriate
- The purchase of PPI on a non advised basis removes a strand of consumer protection (through the FOS) [given lower 'suitability' test on non advised sales]
- Key concerns (many articulated in CAB's Super-complaint) include:
 - low claims levels (e.g. 7% vs 77% for motor)
 - linked / ancillary sale leads to lack of product choice, poor market behaviours and lower levels of transparency
 - levels of non advised sales (leading to narrow protection rather than considered protection appropriate to wider circumstances available, for example, through Income Protection insurance
 - significant profits for distributors means no incentive to offer better value protection
- Consumer detriment from non advised selling means reform is needed

Tom also handed out a copy of a Paper that he presented to the FSA in November 2005; this Paper is also attached for reference.

3. APPG's view

- Value for money protection is appropriate (where properly sold); PPI can be expensive
- Need for more stand alone products (but recognise low take up, and need for improved consumer financial capability)
- Biggest abuse likely to be single premium (capitalised with the loan); especially if part of cover period is lost on further debt consolidation at a later stage with new PPI cover effected at that time
- Clearer rules are needed for non advised sales – to ensure consumer knows what he has bought, what alternatives are available, and how redress may be effected
- The Group to consider need for dialogue with the OFT (re OFT Market Study in 2006)

DL Morey
3 May 2006