

Payment Protection Insurance

A response from Citizens Advice Scotland



Based on the evidence of
Citizens Advice Bureaux
clients across Scotland

by Lindsay Isaacs
Policy and Public Affairs Co-ordinator

February 2007

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Payment Protection Insurance

Evidence for the Competition Commission based on the experiences of CAB clients across Scotland

By Lindsay Isaacs, Policy & Public Affairs Co-ordinator

Citizens Advice Scotland and its 76 CAB offices form Scotland's largest independent advice network. CAB advice services are delivered through 208 service points throughout Scotland, from the islands to city centres.

The CAB service aims:

to ensure that individuals do not suffer through lack of knowledge of their rights and responsibilities, or of the services available to them, or through an inability to express their need effectively

and equally

to exercise a responsible influence on the development of social policies and services, both locally and nationally.

The CAB service is independent and provides free, confidential and impartial advice to everybody regardless of race, sex, disability or sexuality.

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Payment Protection Insurance

Introduction

1. Citizens Advice Scotland (CAS) is the umbrella organisation for Scotland's network of 76 CAB offices. These bureaux deliver frontline advice services throughout the country – at over 200 service points - from the city centres of Glasgow and Edinburgh to the Highlands, Islands and rural Borders communities.
2. Problems relating to payment protection insurance (PPI) are a major concern for the Scottish CAB service, and we therefore welcome this opportunity to respond to the Competition Commission's call for evidence on this topic. In 2005/06, the CAB service in Scotland dealt with a total of 442,550 new enquiries of which 61,597 related to consumer debt. This makes consumer debt our biggest single issue, accounting for 14% - or approximately one in seven – of all enquiries. In addition, last year CAB clients raised 4,677 issues relating specifically to consumer insurance.
3. Our response to the Competition Commission's call for evidence in relation to PPI is based on the actual experiences of CAB clients, anonymised and presented as client case evidence. This is made possible by the CAB service's social policy feedback mechanism by which bureaux throughout Scotland highlight the problems in their area by sending in specific case examples that are indicative of wider issues.

Problems with Payment Protection Insurance

4. In October 2006 – following a super complaint from Citizens Advice England and Wales - the OFT published its analysis of the PPI market for consultation. The OFT's report highlighted problems with how consumers purchase PPI, their understanding of the product and the quality of information available to them. These sorts of problems are reflected in our case evidence, which demonstrates that clients are raising concerns about PPI in relation to the following areas:

- Excessively high prices
- Aggressive selling
- Mis-selling
- Lack of transparency
- Low rate of successful claims

Excessively high prices

5. PPI can be very expensive, frequently adding large premiums onto the client's total loan amount. Additionally, it is standard practice for interest to be charged on PPI premiums in credit agreements, and this can significantly increase a client's overall indebtedness.
6. We also note recent research conducted by London Economics on behalf of the OFT which found that prices for equivalent PPI policies can vary greatly. In fact, they found that in relation to equivalent policies in the personal loan market, the most expensive policy cost four times as much as the cheapest. Significantly, they concluded that price differences do not reflect differences in quality, meaning that those consumers who pay more for their policies are often receiving poor value for money.

A North of Scotland CAB reports of a client who bought a car with a £7,000 loan. He was told he had to take out PPI with a specific company, and this added over £3,000 to the loan amount. Including interest on both the loan and insurance, the total amount owed by the client came to £13,000.

An East of Scotland CAB reports of a client who took out a £5,000 loan with a high street bank. She agreed to take out a PPI policy which added over £3,000 to the total amount she owed.

Aggressive selling

7. A number of CAB clients report that they have been pressurised into taking out PPI through heavy-handed sales techniques. Other clients comment that they were given the impression that it was compulsory to take out some sort of insurance policy, or that doing so would significantly increase their chances of securing the original credit product they were applying for. In some extreme cases, clients later find they are paying for policies they have actually refused. In many cases, it is already vulnerable client groups that are pressured into taking out policies that they do not want or which are not suitable.

A South of Scotland CAB reports of a client who had taken out a loan two years previously when she was 67 and retired. The principal sum was £7,300, in addition to which she was lent £2,600 for a PPI policy that included protection in case of loss of job. The CAB contacted the bank to establish why they sold the client employment protection when she was retired. The bank said they do not ask for a source of income, only for the amount. They did concede that her date of birth might have prompted further enquiry as to her insurance requirements, but also commented that the person dealing with her application would have been under pressure to sell insurance and therefore might have chosen not to pursue the matter.

A North of Scotland CAB reports of a client who was taking out a loan and informed that, if he did not take out a PPI policy, his family would be held liable for his debts if he died.

A West of Scotland CAB reports of a client who took out a loan of £3,000 with a high street bank over the phone. She was asked about taking out a PPI policy, but declined. When the paperwork arrived, she noticed that insurance had been added on top of the loan, but assumed this was some standard form of insurance that all loans had to have, and not the PPI she had declined. Several months later the client had to leave her job, and examined the insurance policy. She realised it was PPI and decided to make a claim – this was turned down as she had ended her employment and so, on the advice of her insurers, she cancelled the insurance as it was of no use to her. The client then received an up to date statement of her account which showed that the insurance payments were not evenly spread but front-loaded at the beginning of the loan. Consequently, very little had been paid towards the outstanding balance of her loan, and most of her payments had gone on PPI that she had turned down and which was then of no use to her.

An East of Scotland CAB reports of a client who agreed to take out PPI in relation to a loan from a high street bank. This was arranged over the phone, and the client reports that the PPI policy was 'strongly recommended' even though no detail was provided about the cover offered. Last year she left her job due to depression and, when she tried to claim on her PPI, was told that her condition was excluded. The client felt that she was improperly advised in the first place and not given the chance to study the policy. As a result of sales pressure, she is left with a much larger debt.

Mis-selling

8. Our case evidence shows that clients are often being mis-sold PPI insurance policies that are totally inappropriate to their needs and lifestyles and who can therefore not possibly claim on the policies they have taken out,. For instance, we have evidence of PPI being mis-sold to clients employed in agency work, or those who are self-employed, whilst other clients have later found that they are not covered because of their age.

A West of Scotland CAB reports of a client who had been in receipt of income support and carer's allowance for six years. His carer's allowance was stopped when his father was admitted to hospital, resulting in problems paying a bank loan taken out to assist with his father's mobility needs. The CAB discovered that, despite not having been employed for six years, the client had been sold PPI. The bank eventually agreed to refund the insurance – a sum of £1,700.

A West of Scotland CAB reports of a client who got finance for a car, including PPI. She worked eight month fixed term contracts and informed the insurance company of this. However, when her contract ended and she tried to make a claim on her insurance policy, she was informed that she was not covered as her contract was fixed term. The CAB adviser wrote to the company to advise that this was a case of mis-selling as the policy was not appropriate.

A West of Scotland CAB reports of a client who had a PPI policy that covered her for unemployment and redundancy. However, she was not in employment when she took out the policy and has not been ever since. This policy was inappropriate for her needs, but was costing her a significant amount each month.

Lack of transparency

9. PPI is complex and confusing, with significant variations from product to product in terms of exclusions, how the benefits are accrued and waiting days before payment. Furthermore, this sort of detail is often hidden in small print and not made clear to consumers at the time they are considering taking out PPI, with sellers tending to rely heavily on policy documentation rather than verbal explanations. All of these factors can lead to a lack of transparency and make comparisons between different policies difficult.

A South of Scotland CAB reports of a client who took out a loan of nearly £18,000 from a high street bank. He was led to understand that one of the terms of securing a loan was taking out PPI, at a cost of £62.79 per month. After seeing a TV programme on the PPI industry, he re-read all the paperwork and realised the insurance was optional. The client was outwith the 30 day cooling off period, and the bank insisted he could not withdraw as the policy had been fully explained at the time he took it out.

A West of Scotland CAB reports of a client who was behind with credit payments as her husband was off work with depression. The client thought that her payments would be covered by the PPI she had as she was not aware that mental illnesses were excluded from the policy. Although she acknowledged that it was stated in the terms and conditions, she felt that she should have had this explained to her more clearly at the time she was taking out the loan and insurance.

Low rate of successful claims

10. Case evidence shows numerous instances in which insurance companies are not paying out. Most frequently, this occurs when clients claim due to ill health, on the grounds that the exact nature of the illness invalidates the policy.
11. Additionally, in 2003, CAS conducted research into our Scottish debt clients in order to explore the extent and types of debt as well as the reasons behind it. In February 2004 we published our report on this research, 'On the Cards - the debt crisis facing Scottish CAB clients'¹. This research found that 28% of respondents with consumer debts had payment protection insurance for at least one of their debts. Of those that had some form of payment protection insurance, at the point of seeking advice at the CAB, two thirds had not taken any action in relation to claiming. However, of those that had taken some form of action, fewer than 10% had been successful in their claims at the point of inquiry. Where reasons were known, the most frequent explanations for unsuccessful claims seemed to be ineligibility for general reasons, the nature of illness or the lapse of time between the event and the claim.

¹ On the Cards: The Debt Crisis Facing Scottish CAB Clients, Citizens Advice Scotland, February 2004

A North of Scotland CAB reports of a client who had taken out a consolidation loan and PPI when she was working part time. The client had subsequently had to leave her employment due to angina, but was told by the insurance company that her claim was not valid as it was not a life threatening condition.

A West of Scotland CAB reports of a client who had been off work with stress for a considerable length of time. She had a number of financial worries, including multiple debts. These were being exacerbated by the fact that her PPI for her visa card excluded mental health conditions.

A North of Scotland CAB reports of a client who had PPI in relation to a car loan. She developed an umbilical hernia which required surgery and made a claim on her insurance. This was denied on the grounds that her condition was pre-existing. The client had had an operation for an ovarian cyst the previous year. The second operation was carried out on the same ward, but was not linked to the first problem.

A North of Scotland CAB reports of a client who had been off work due to back pain. The loan company refused to pay out on her PPI as they claimed this was a pre-existing condition that she should have mentioned when taking out the policy. The client was advised to ask her doctor to write to the insurance company to confirm that her current condition is completely unrelated to any previous conditions.

Conclusions and recommendations

12. Our case evidence indicates that not only does PPI currently have limited scope in resolving clients' debt problems when they arise, but can actually exacerbate their financial difficulties.
13. In order to address current problems with PPI, CAS calls for the following:
 - Lenders to make a real commitment to lending responsibly, demonstrating this through:
 - a. improved training for staff selling PPI
 - b. ensuring that their policies are clear and accessible
 - c. clearly stating all exclusions from cover
 - d. emphasising verbal explanations rather than a reliance on policy documentation
 - e. re-assessing their systems of targets and bonuses for PPI policy sales
 - f. introducing comprehensive systems of monitoring and evaluation
 - The Finance and Leasing Association (FLA) to expand the requirements in its lending code that relate to PPI in order to better protect consumers. Additionally, the FLA must monitor compliance effectively and respond to non-compliance in a timely and effective manner.
 - The Financial Services Authority (FSA) to develop a PPI policy which stipulates the minimum acceptable standards with which all lenders must comply. Compliance with the code must be effectively monitored and the FSA must have real powers to respond to breaches in an effective and proportionate manner.

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