Payment Protection Insurance

Payment Protection Insurance policies do not provide consumers with adequate protection – they are expensive, inaccessible and have a very low rate of successful claims

What is Payment Protection Insurance?

Payment Protection Insurance (PPI) is a financial product frequently sold alongside personal loans, credit cards, mortgages and store cards. It is designed to cover debt repayments for a limited period in the event that a borrower faces reduced income due to, for example, ill health or job loss.

According to the Office of Fair Trading (OFT), between 6.5 and 7.5 million PPI policies are taken out annually. However, there are growing concerns that, while PPI policies offer a good source of profit for financial industries, they fail to provide consumers with adequate protection.

Problems with Payment Protection Insurance

In October 2006 – following a super complaint from Citizens Advice England and Wales - the OFT published an analysis of the PPI market for consultation. In February 2007, the OFT confirmed that it has referred the UK PPI market to the Competition Commission for a fuller investigation. 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, with clients raising concerns about: excessively high prices; aggressive selling; mis-selling; lack of transparency; and low rates of successful claims.

Problems relating to PPI are a major concern for the Scottish CAB service, given that consumer debt is the single biggest issue brought to bureaux. In 2005/06, Scottish bureaux dealt with a total of 61,597 enquiries relating to consumer debt, representing nearly one in seven of all enquiries. The amount of debt they dealt with rose to nearly £212 million – an increase of 25% on the previous year. In addition, clients raised 4,677 issues relating specifically to consumer insurance last year.

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Current concerns

Based on client evidence, CAS has the following concerns in relation to PPI:

- **Excessively high prices**: PPI can be very expensive, frequently adding large premiums onto the client's total loan amount. Furthermore, 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.
- **Aggressive selling**: 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. In some cases, clients later find they are paying for policies they have actually refused.
- **Mis-selling**: evidence shows that PPI is often mis-sold to clients who cannot possibly claim on the policies they have taken out – such as people employed in agency work, or those who are self-employed. Other clients find that they are not covered because of their age.
- **Lack of transparency**: information about exclusions is often hidden in small print and not made clear to consumers at the time they are considering taking out PPI.
- **Low rate of successful claims** – CAS's 2004 research showed that, of those debt clients who had taken action in relation to their PPI, fewer than 10% had been successful in their claims. Case evidence shows numerous instances in which insurance companies are not paying out. Most frequently, this occurs on the grounds that the exact nature of the illness invalidates the policy, when clients claim due to ill health.

CAS proposals for change

CAS welcomes the ongoing Competition Commission investigation into the UK PPI market. In order to address current problems with PPI, CAS calls for the following:

- Lenders to make a real commitment to lending responsibly, demonstrated through:
    - improved training for staff selling PPI
    - ensuring that their policies are clear and accessible
    - clearly stating all exclusions from cover
    - emphasising verbal explanations rather than a reliance on policy documentation
    - re-assessing their systems of targets and bonuses for PPI policy sales
    - introducing comprehensive systems of monitoring and evaluation
- The Finance and Leasing Association (FLA), the main trade body for the consumer finance sector, 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), the main regulatory body, 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 way.

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.

Case evidence

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 South of Scotland CAB reports of a client who had taken out a loan two years previously when she was 67 and retired. It included £2,600 for a PPI policy that provided protection in case of job loss. The CAB contacted the bank to establish why it sold the client employment protection when she was retired. The bank said it does not ask for a source of income, only the amount. It did concede that her date of birth might have prompted further enquiry as to her insurance requirements, but also commented that the sales representative would have been under pressure to sell insurance.