Key recommendations for reform

- The Office of Fair Trading (OFT) should undertake a market investigation into the sale of PPI with credit products.
- The Financial Services Authority (FSA) and the OFT should work together on a joint strategy to ensure that the content of PPI policies are fair, including developing guidance on standards for promoting and selling PPI.
- The Treasury Select Committee should undertake an inquiry into payment protection insurance, particularly into costs and incentives.
- The FSA should set out acceptable standards for the content for payment protection insurance agreements. Policies should cover claims from self-employed people and claims resulting from mental illness, bad backs and relationship breakdown. These standards should be included in FSA insurance rules.
- The OFT should develop guidance for consumer credit licence holders on the minimum standards for the sale and content of PPI products.
- Relevant credit industry codes of practice, including the Banking and Finance and Leasing codes, should commit their members to stop making any additional default charges or taking recovery action whilst a PPI claim is either pending or in payment.
- Guidance supplementing the Disability Discrimination Acts should clarify that people with mental health problems should not have to provide unreasonable levels of medical evidence when claiming on PPI policies.

The full report, Protection racket, is available for £6.00 (including postage). To order a copy, please send your name and address, and a cheque made payable to Citizens Advice, to Citizens Advice, Myddelton House, 115-123 Pentonville Road, London, N1 9LZ.

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Protection racket

CAB evidence on problems with payment protection insurance

Payment protection insurance (PPI) is sold to borrowers with the promise of peace of mind and reassurance that credit or mortgage repayments will be covered if their personal and financial circumstances change for the worse. However, many CAB clients find that they cannot make a successful claim on their policy because of exclusion clauses and administrative barriers to making a claim. Premiums for PPI policies can add 20 per cent or more to the total amount to be repaid on a loan agreement, thus increasing people's indebtedness rather than preventing it.

This report, based on evidence from 270 Citizens Advice Bureaux in England, Wales and Northern Ireland, calls on the insurers, lenders and market regulators to take urgent action to improve payment protection insurance.

Background

Payment protection insurance is commonly sold linked to credit. The PPI policy will protect the borrower against the risk that they will be unable to make repayments under the loan for reasons such as unemployment or incapacity to work through illness or disability. Selling PPI is big business, with an estimated 20 million policies in force and annual gross premiums in excess of £5 billion.[1]

Although PPI clearly plays an important role in protecting many borrowers against indebtedness, CAB evidence suggests that it fails a significant number of our clients. CAB enquiries about PPI include a disproportionately high number of complaints about claims being turned down. A survey of CAB debt clients in 2001 found that 85 per cent of those that had claimed on PPI had been unsuccessful.[2] In contrast industry figures show around 85 per cent of claims are successful. As CAB clients are often subject to financial and social exclusion, this suggests that PPI is a particular problem for the most vulnerable borrowers who are also the people at the greatest risk of facing financial difficulties.

Main findings

CAB clients experience problems with PPI for four reasons:

1. The price that people have to pay for cover

PPI does not come cheap. As the table over shows, PPI premiums paid by CAB clients represent anything from 13 per cent to a staggering 56 per cent of the amount loaned. It is common for PPI on loan agreements to be paid for by a one-off premium included in the loan itself and for interest to be charged on PPI premiums.

[1] Statistics from the Association of British Insurers
[2] *In too deep – CAB clients' experience of debt,* Citizens Advice 2003

PPI premiums as proportion of loan: cases reported by bureaux

Loan Type	Loan amount	PPI premium	Premium as a percentage of total loan
Unsecured personal loan	£8,933	£2,217	25%
Unsecured personal loan	£11,000	£5,133	47%
Hire purchase for car	£5,059	£2,157	43%
Hire purchase for car	£6,895	£2,317	34%
Unsecured loan	£5,600	£744	13%
Secured loan	£25,000	£12,127	49%
Secured loan	£35,000	£10,150	29%
Conditional sale for car	£4,300	£2,394	56%
Unsecured personal loan	£13,000	£3,367	26%

Credit card PPI payments are generally added to the monthly balance, but this is not necessarily any cheaper in the long term. On some policies the cost of PPI premiums would increase the cost of borrowing by about nine per cent per year.

Despite their cost, many PPI policies do not actually guarantee to pay off debts. For example, some insurers will only cover payments for no more than a year, and only cover the minimum payment in some cases.

Lenders are squeezing extra loan business out of borrowers who are paying over the odds to protect themselves and the creditor if their circumstances change. Two different estimates suggest that PPI premiums are about three times the cost of providing cover. This implies that borrowers could be overcharged by as much as £3 billion per year for PPI cover.

2. The design of payment protection insurance policies

Many PPI products contain clauses designed to exclude people from cover. CAB clients have found that claims arising from bad backs and mental health problems are completely excluded from policies sold by some high street

Case 1

A Northern Ireland CAB reported that a man off work due to ill health sought advice about £21,000 debt, which included three credit cards. The CAB was shocked to discover the cost of payment protection insurance premiums on the credit cards:

- **£15.50 per month on a debt of £2,152,**
- **£24.52 per month on a debt of £3,168 and**
- **£14.36 per month on a debt of £1,340.**

This totalled nearly £50 per month on debts of £6,600 which is equivalent to an extra monthly interest charge of 0.75 per cent.

Case 2

A CAB in Cornwall was visited by a woman who had taken out a secured personal loan with her partner. They had since separated and she was now struggling with the repayments. Although the client had signed the application and received a copy, she was unaware that the cost of the PPI premium increased the loan from £17,800 to £22,962, and attracted interest at the same rate.

Case 3

A CAB in Worcestershire advised a couple in receipt of income support who were sent pre approved applications for a credit card with a credit limit of £600. They accepted the card but were then pestered to take out insurance despite repeatedly saying that neither of them were in work. The credit card provider said that it would provide cover in the event that the client did get work.

lenders. People who are self employed or who are employed on fixed term contracts also face exclusion from cover.

3. How PPI products are sold

CAB evidence shows that borrowers are often sold policies that are completely inappropriate. High-pressure selling or unfair practices such as inertia selling can force people to take out insurance that they cannot afford, do not want or need. These practices are widespread throughout the credit industry.

Bad practice in the sale of PPI products is also linked to irresponsible lending. Citizens Advice Bureaux often report that people in financial difficulties are offered consolidation loans that they clearly will not be able to pay. In some cases these loans are rolled over with a new PPI policy sold each time.

4. How PPI claims are administered

CAB clients find that the administration of PPI claims is often bureaucratic, insensitive to their financial difficulties and sometimes even responsible for increased indebtedness. This has resulted in lenders adding administration charges to borrowers' debts and threatening court action.

Some borrowers cannot successfully claim on their PPI policy due to unreasonable requirements to provide medical evidence. For other CAB clients the costs of obtaining medical evidence represent a considerable barrier to claiming.

Regulation of PPI

The issues we raise in this report are not new. A Citizens Advice report published in 1995 highlighted similar problems. This suggests that not enough has been done to address failures in the PPI market in the last ten years.

Although the Financial Services Authority (FSA) now has responsibility for general insurance, they do not regulate issues of competition or price. Their rules on sales of insurance provide a poor safeguard against mis-selling of PPI, whilst rules on the content of policies are too vague to set an effective standard. The Office of Fair Trading also has a dual role in identifying competition issues and regulating consumer credit, but has not investigated all the problems relating to PPI. We believe it is time for regulators to take joined up action to tackle these problems.

Case 4

A client of a CAB in South-West Wales had two loans with PPI from the same lender. She was made redundant and made a claim on the PPI. But the repayments were debited from her current account on the second day of each month whereas the PPI payments were not paid into the account over two weeks later. In the meantime, she inadvertently exceeded her overdraft limit and the bank charged an excess overdraft fee of £80 per month. It was only after an intervention by the CAB that the lender said they would organise for the payments to co-ordinate.

Case 5

A CAB in Cambridgeshire advised a woman who had been paying a PPI agreement in respect of a credit agreement for some years. She had to go into hospital and attempted to make a claim. However, the client was told that as she was 93, she was too old to be covered by the PPI. The bureau was told that the woman had made payment to the PPI of £1,200 over the years.

Case 6

A CAB in Surrey reported that a client had been sold a loan protection plan although he had long-term mental health problems. An additional £2,200 was added to his £8,900 loan for the PPI. At the time of signing the agreement the client was very unwell and was not aware of what he was signing. The bank was aware of the client's situation and that the client might not be eligible for the insurance protection policy.