

## Glossary

<b>ABC</b>	Activity-based costing. A method of allocating costs to products and services.
<b>ABI</b>	Association of British Insurers.
<b>A</b>	Accident cover.
<b>Act</b>	Enterprise Act 2002.
<b>2006 Act</b>	<b>CCA</b> (as amended by the Consumer Credit Act 2006).
<b>Adverse selection</b>	Sometimes referred to as anti-selection, adverse selection occurs as a result of information asymmetries between the insurer and the customer. Customers who know that they face a large risk of needing to make a claim on an insurance policy are more likely to take out insurance than those who face small risks; however, the insurer does not know which customers fall into which category and so cannot price its insurance premium accordingly.
<b>Advertising Association</b>	A federation of 30 trade bodies and organizations representing the advertising and promotional marketing industries including advertisers, agencies, media and support services.
<b>Advised sale</b>	Sale by an adviser or intermediary who makes a personal recommendation to the customer.
<b>AEC</b>	Adverse effect on competition.
<b>AIFA</b>	Association of Independent Financial Advisers.
<b>AMI</b>	Association of Mortgage Intermediaries.
<b>APR</b>	Annual percentage rate.
<b>AR</b>	Appointed Representative. An Appointed Representative sells <b>PPI</b> on behalf of its <b>network</b> .
<b>Asymmetric demand relationship</b>	Where the effect of prices of product A on sales of product B is different from the effect of prices of product B on sales of product A. For example, if prices of A affect demand for B, but prices of B have no effect on demand for A, we would call this an asymmetric demand relationship.
<b>ASU</b>	Insurance cover limited to accident, sickness and unemployment.
<b>BBA</b>	British Bankers' Association.
<b>BERR</b>	Department for Business, Enterprise and Regulatory Reform.
<b>BMRB</b>	BMRB, a market research company. Conducted the <b>PPI</b> customer survey on behalf of the <b>CC</b> in October and November 2007.
<b>Broker</b>	A party that mediates between a buyer and a seller.

<b>CBT</b>	Contribution before tax.
<b>CC</b>	Competition Commission.
<b>CCA</b>	Consumer Credit Act 1974.
<b>CCPPI</b>	Credit card <b>PPI</b> .
<b>CI</b>	Critical Illness Insurance. A contract where an insurer makes a lump-sum cash payment if the policyholder is diagnosed with one of the critical illnesses listed on the insurance policy and survives a minimum number of days (the 'survival period') from the date the illness was first diagnosed.
<b>Citizens Advice</b>	The body responsible for the <b>supercomplaint</b> to the <b>OFT</b> .
<b>Claims ratio</b>	Claims payable as a percentage of premium income, specifically calculated as: the sum of claims paid, net of reinsurance, and the change in provision for claims, net of reinsurance, divided by net premiums earned.
<b>Claims reserve</b>	An amount set aside as a reserve for future claims. The amount may be specified in the contract between the <b>underwriter</b> and the <b>distributor</b> .
<b>CML</b>	Council of Mortgage Lenders.
<b>Concentration ratio</b>	A measure of the share of supply of the larger firms in the market. For example, CR <sub>4</sub> measures the share of supply accounted for by the four largest firms in the market.
<b>CPC</b>	Consumer Protection Cooperation Regulation.
<b>CPRs</b>	Consumer Protection from Unfair Trading Regulations.
<b>Credit score</b>	Each lender has its own credit-scoring system which is used to assess creditworthiness. Points are awarded to information provided on the application form (including time spent in current job, other loans or outstanding debts) and recorded on the applicant's credit report (which the lender purchases from a credit reference agency). This process helps the lender decide whether to give credit, what credit limit to set and what interest rate to charge. If the total score does not reach the lender's pass mark, the lender may turn down the credit application, offer to lend a smaller amount, or charge a higher rate of interest. People with a high credit score usually gain easy access to credit on good terms. Lenders sometimes refer to them as ' <b>prime</b> ' customers. People with a low credit score tend not have access to mainstream credit facilities. This is usually because of damaged credit histories (which may include adverse County Court judgments, bankruptcy or poor credit repayment histories). Lenders sometimes refer to customers with low credit scores as ' <b>sub-prime</b> ' or 'non-standard'.
<b>Datamonitor</b>	A Business Information company.
<b>Defaqto</b>	A provider of financial services research.

<b>DETI</b>	Department of Enterprise, Trade and Investment in Northern Ireland.
<b>DfT</b>	Department for Transport.
<b>Distributor</b>	A company which sells <b>PPI</b> alongside its own credit product.
<b>DWP</b>	Department for Work and Pensions.
<b>Exclusion period</b>	The specified number of days between when a policy was purchased and when the customer can make a claim.
<b>Excess period</b>	The time between the occurrence of a claimable event (for example, sickness) and the policyholder's entitlement to begin receiving benefits.
<b>FOS</b>	Financial Ombudsman Service.
<b>FLA</b>	Finance and Leasing Association.
<b>FSA</b>	Financial Services Authority. Independent non-governmental body which regulates the financial services industry in the UK.
<b>FSMA</b>	Financial Services and Markets Act 2000.
<b>GfK NOP</b>	GfK NOP, a market research company. Conducted the <b>PPI</b> customer survey on behalf of the <b>CC</b> in February and March 2008.
<b>GWP</b>	Gross written premium. The total amount of premium a customer is required to pay for an insurance policy written during the year; the total amount of premiums expected to be received by an <b>underwriter</b> over the life of the policy. This amount may not be required to be paid up front. This figure is expressed before deductions (ie gross) of reinsurance. This contrasts with <b>premium earned</b> (see below).
<b>H</b>	Hospitalization cover.
<b>HHI</b>	Herfindahl-Hirschman Index. A measure of market concentration derived from the sum of the squares of the percentage market shares of each firm.
<b>HMT</b>	Her Majesty's Treasury.
<b>Impairment</b>	In relation to outstanding loans (including mortgages and balances outstanding on credit cards) to customers, a charge to a lender's profit and loss account. The charge forms part of bad debt expense. As defined in 'IFRS 9—Impairment of Assets', it is calculated as the amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.
<b>Intermediary</b>	A person or organization which acts as an interface between consumers and providers of credit and <b>PPI</b> . Examples of intermediaries are <b>brokers</b> and <b>IFAs</b> .

<b>ICOB</b>	Insurance Conduct of Business. A set of rules produced by the <b>FSA</b> .
<b>IFA</b>	Independent financial adviser. A professional who offers unbiased advice on financial matters to their clients and recommends suitable financial products from the whole of the market.
<b>IP</b>	Income protection insurance. Provides protection in the event that one has to provide care for a spouse, partner, parent or child fulltime; hospitalization; accident; sickness (disability); and involuntary unemployment.
<b>IPT</b>	Insurance <b>premium</b> tax.
<b>IRR</b>	Internal rate of return.
<b>ISMI</b>	Income Support for Mortgage Interest.
<b>IVAs</b>	Individual voluntary arrangements.
<b>LA</b>	Life assurance. Insurance paid to named beneficiaries when the insured person dies.
<b>L</b>	Life cover. Insurance cover which pays out if the insured person dies.
<b>Mintel</b>	Mintel International Group Ltd, a supplier of consumer, media and market research.
<b>MOJ</b>	Ministry of Justice.
<b>Moneyfacts</b>	Moneyfacts Group plc operates a UK finance price comparison website (moneyfacts.co.uk).
<b>MoneySavingExpert</b>	Moneysavingexpert.com. A UK financial advice website.
<b>Moneysupermarket</b>	MoneySupermarket.com Group plc. A UK finance price comparison website.
<b>Mortgage clubs</b>	Non-exclusive clubs which negotiate on behalf of their members for improved levels of service or product exclusives.
<b>Motor PPI</b>	Motor finance <b>PPI</b> .
<b>MPPI</b>	First-charge mortgage <b>PPI</b> .
<b>Networks</b>	Umbrella organizations that small <b>intermediaries</b> commonly join. They are regulated by the <b>FSA</b> and take regulatory responsibility for all the firms in them.
<b>Nielsen</b>	Nielsen Media Research. A provider of advertising information services.
<b>Non-advised sale</b>	A sale where no personal recommendation as to the suitability of the product is made to the customer.

<b>Overdraft PPI</b>	Personal current account overdraft <b>PPI</b> .
<b>OFT</b>	Office of Fair Trading.
<b>PA</b>	Personal accident insurance.
<b>PBT</b>	Profit before tax.
<b>Penetration rate</b>	The proportion of customers taking out the underlying credit product who also take out <b>PPI</b> .
<b>Personal accident insurance</b>	Provides a lump sum in the event of an accident which results in permanent loss of limbs or permanent disability within the term of the policy. Some policies also include <b>life insurance</b> and hospitalization cover.
<b>Pseudo-networks</b>	Operate in the same way as <b>networks</b> except that each firm is responsible for its own regulatory conduct.
<b>PLPPI</b>	Unsecured personal loan <b>PPI</b> .
<b>PPI</b>	Payment protection insurance. Insurance services supplied for the purpose of protecting a borrower's ability to maintain credit repayments in the event that the borrower becomes unable to maintain the repayments due to accident and/or sickness and/or unemployment and, under some policies, death.
<b>PPI providers</b>	Distributors, intermediaries and stand-alone providers which distribute PPI policies.
<b>Pre-existing condition</b>	An illness the customer had and was aware of at the time of purchasing the policy
<b>Premium</b>	The amount paid or payable, often in instalments, for an insurance policy. Can be paid as a <b>single premium</b> or <b>regular premium</b> .
<b>Price dispersion</b>	The spread of prices.
<b>Prime</b>	Prime customers have access to mainstream lending facilities.
<b>Protect—ACA</b>	Protect—Association of Creditor Assurers.
<b>RAR</b>	Risk adjusted revenue.
<b>Regular premium</b>	A series of payments made on a continuing basis, usually monthly, over the term of the <b>PPI</b> policy.
<b>Retail credit</b>	Includes non-car hire purchase and catalogue purchases. Excludes store cards.
<b>Retail PPI</b>	Retail finance account or loan <b>PPI</b> .
<b>'Rule of 78'</b>	In the context of refunds of <b>PPI</b> , a method of calculating the amount repayable to the customer in the event that the customer terminates the <b>PPI</b> policy early. More generally, also known as the 'sum of the digits' method (the numbers 1 to 12 add up to 78), the rule of 78 is one method in which lenders calculate how much interest a

customer should have paid at any stage during the repayment period of a fixed rate instalment loan. The method takes into consideration the fact that a customer pays more interest at the beginning of a loan when they have the use of more of the money and less interest as the debt is reduced.

<b>S</b>	Sickness cover.
<b>Short-term IP</b>	Short-term <b>income protection</b> .
<b>Single premium</b>	A single payment, made up front, whereby the insurer is paid the full price for taking out a <b>PPI</b> policy in one lump sum (as opposed to receiving a <b>regular premium</b> each month).
<b>SMPPI</b>	Second-charge mortgage or secured loan <b>PPI</b> .
<b>SSNIP test</b>	Small but significant non-transitory increase in price test (also known as the hypothetical monopolist test).
<b>Stand-alone</b>	<b>PPI</b> that is not sold alongside an underlying credit product.
<b>Sub-prime</b>	Sub-prime lending is lending at a higher rate than the <b>prime</b> rate. Sub-prime customers do not have access to mainstream lending facilities.
<b>Super-complaint</b>	<b>Citizens Advice</b> is a designated consumer body for the purposes of section 11 of the Enterprise Act 2002. In this capacity, <b>Citizens Advice</b> made a super-complaint about <b>PPI</b> to the <b>OFT</b> which led to this investigation into the <b>PPI</b> market.
<b>TA</b>	Term life insurance.
<b>TAP</b>	Total amount payable.
<b>TCF</b>	Treating Customers Fairly.
<b>This is money</b>	Thisismoney.co.uk. A UK financial advice website.
<b>TSOs</b>	Trading Standards Officers.
<b>U</b>	Unemployment cover.
<b>UCPD</b>	European Unfair Commercial Practices Directive 2005.
<b>Underwriter</b>	A company which provides insurance, agreeing to take responsibility for paying certain costs in specified circumstances.
<b>uSwitch</b>	uSwitch Ltd operates a phone-based and online comparison (uSwitch.com) and switching service which enables customers to compare prices on a range of services and personal finance products, sometimes using price calculators. The service is funded by commissions from some suppliers.
<b>UTCCRs</b>	Unfair Terms in Consumer Contracts Regulations.
<b>Vertical integration</b>	A business which operates at two (or more) levels of the supply chain is vertically integrated. In relation to <b>PPI</b> , a vertically-

integrated business is one which both underwrites and distributes its own **PPI** products.

**Which?**

The Consumers' Association, which trades as 'Which?', is a registered charity. It has a wholly-owned trading subsidiary called Which? Ltd, which is registered as a company in England and Wales. Which? conducts independent and extensive tests of hundreds of products and services every month, and publishes the test results in its commercial magazine and on its website.

## Glossary of company names

<b>Abbey*</b>	Abbey National plc.
<b>Alliance &amp; Leicester*</b>	Alliance & Leicester plc.
<b>Allianz</b>	Allianz Insurance plc.
<b>American Express</b>	American Express Insurance Services Europe Ltd.
<b>Ant</b>	Ant Insurance.
<b>Assurant</b>	Assurant Group Ltd.
<b>Aviva*</b>	Aviva plc.
<b>AXA*</b>	AXA UK plc.
<b>Barclays*</b>	Barclays Bank PLC.
<b>Black and White</b>	Black and White Group Ltd.
<b>BMW</b>	BMW Group Financial Services.
<b>British Insurance</b>	British Insurance Ltd.
<b>Burns-Anderson</b>	Burns-Anderson plc.
<b>Capital One*</b>	Capital One Bank Europe plc.
<b>Cardif Pinnacle*</b>	Pinnacle Insurance plc.
<b>Cassidy Davis</b>	Cassidy Davis. Brand name for a Lloyds underwriting operation.
<b>Cattles*</b>	Cattles plc.
<b>Churchill</b>	Churchill Insurance Company Ltd.
<b>Connells</b>	Connells Group.
<b>Co-operative Bank</b>	Subsidiary of Co-operative Financial Services (CFS).
<b>Countrywide</b>	Countrywide Principal Services Ltd.
<b>D&amp;D Homecare</b>	D&D Homecare Ltd.
<b>EFS</b>	Everyday Financial Solutions (part of the Littlewoods Shop Direct Group).
<b>Egg</b>	Egg Banking plc.
<b>Freedom Finance</b>	Freedom Finance plc.

<b>Funding Corporation</b>	The Funding Corporation.
<b>Genesis</b>	Genesis Home Loans plc.
<b>Genworth*</b>	Genworth Financial Inc.
<b>HBOS*</b>	HBOS plc.
<b>Home of Choice</b>	Home of Choice Ltd.
<b>HSBC*</b>	HSBC Bank plc.
<b>ING Direct</b>	Part of ING (International Netherlands Group).
<b>Legal &amp; General</b>	Legal & General Group plc; includes Legal & General Mortgages and Legal & General Partnership Services Ltd.
<b>Lighthouse Group</b>	Lighthouse Group plc.
<b>LIME</b>	Lifetime Insurance Mortgage Experts.
<b>Lloyds TSB*</b>	Lloyds TSB Group plc.
<b>London and Country</b>	London and Country Mortgages Ltd.
<b>London General Insurance*</b>	London General.
<b>MBNA*</b>	MBNA Europe Bank Ltd.
<b>Millennium Insurance</b>	Millennium Insurance Brokers Ltd.
<b>MGM</b>	MGM Home Finance plc.
<b>Money Partners</b>	Money Partners Ltd.
<b>Mortgage Broking Services</b>	Mortgage Broking Services Ltd.
<b>Mortgage Intelligence</b>	Mortgage Intelligence Ltd.
<b>Mortgage Times Group</b>	Mortgage Times Group Ltd.
<b>Mortgages Direct</b>	Mortgages Direct Ltd.
<b>Nationwide*</b>	Nationwide Building Society.
<b>Nemo</b>	Nemo Personal Finance Ltd (Principality Building Society).
<b>NHI Services Ltd</b>	NHI Services Ltd.
<b>Northern Rock*</b>	Northern Rock plc.

<b>Ocean Finance</b>	Ocean Finance and Mortgages Ltd.
<b>Only Group</b>	The Only Group.
<b>Openwork</b>	Openwork Ltd.
<b>Park Row</b>	Park Row Associates Ltd.
<b>Paymentcare</b>	Paymentcare Ltd.
<b>Paymentshield</b>	Paymentshield Ltd.
<b>Personal Touch</b>	Personal Touch Financial Services Ltd.
<b>Picture Finance</b>	Picture Financial Services plc.
<b>Pink Home Loans</b>	Trading name of Advance Mortgage Funding Limited.
<b>Post Office</b>	Post Office Financial Services.
<b>Prudential*</b>	Prudential plc.
<b>RBSG*</b>	The Royal Bank of Scotland Group.
<b>Sainsbury's Bank</b>	Sainsbury's Bank plc.
<b>Select &amp; Protect</b>	Select & Protect Ltd. Subsidiary of The Hood Group.
<b>Sesame</b>	Sesame Ltd.
<b>St James's Place</b>	St James's Place Wealth Management.
<b>TPF</b>	Tesco Personal Finance.
<b>Your Move</b>	Part of LSL Property Services plc.
<b>Zopa</b>	Zopa Ltd.

\*More information on 12 large distributors and 6 large underwriters is provided in Appendix 2.7.