



Briefing seminar on Draft PPI Order

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Plan for the day

- 2.30** Introduction and welcome
- 2.35** Setting the scene (Part 1)
- 2.45** Obligations to provide information (Part 2)
- 3.15** Q & A on Parts 1 & 2
- 3.30** Tea / Coffee
- 3.45** Prohibitions and retail PPI remedy (Parts 3 & 4)
- 4.25** Q & A on Parts 3 & 4
- 4.40** Compliance and enforcement (Parts 5 & 6)
- 5.00** Q&A on Parts 5&6
- 5.15** Close



Administrative timetable for implementation **2009**

30th January

Final report published

27th April

Publication of consumer testing of
annual review and quote

April – May

Informal Consultation

8th July to

Public consultation on draft Order

7th August

Sept – Oct

Finalising Order

2010

April

First tranche of remedies into force

October

Remaining remedies into force



Setting the scene (Part 1)



Application and Commencement (Article 1)

Order applies to any **PPI Provider** who in the United Kingdom provides **PPI** to a Consumer.

Order comes into force on date of signature,
except:

After 6 months	Articles 3, 5 and 6
After 12 months	Articles 4, 7, 8, 9, 10 and 11



Definition of **PPI** (Article 2.1)

“means **insurance which enables a Policyholder** who has taken out Credit **to continue to make repayments in the event** that the Policyholder becomes unable to maintain the repayments by reason **of accident, sickness and/or unemployment [...]** and for the purposes of this Order **includes Short-Term Income Protection Insurance.**” (Article 2.1)



Definition of **PPI Provider** (Article 2.1)

“**a person who** in the course of any trade, business or profession **sells**, or promises to sell **PPI to a Consumer** and for the purposes of this Order **includes** a **Distributor**, an **Intermediary**, a **Stand-Alone Provider** or **Short-Term IP Provider**.”



Obligations to provide information (Part 2)



Obligations to provide information

- **In Marketing Materials (Article 3)**
- **In Annual Reviews (Article 4)**
- **To the FSA for use in its tables (Article 5)**
- **About Claims Ratios (Article 6)**
- **In Personal PPI Quotes (Article 7)**



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Information to be provided when a PPI provider makes a **Marketing Statement**

1. Cost of PPI expressed as a **monthly cost for every £100 Monthly Benefit***
2. A **Prescribed Statement** of key messages.

* CCPPI and Retail PPI to also disclose monthly cost of PPI for every £100 outstanding balance.



Marketing Statement

Marketing Material containing information about any of the following:

- Price of PPI
- Significant benefits of PPI
- Significant exclusions or limitations
- Duration of policy



Monthly cost of PPI for every £100 **Monthly Benefit**

- **Monthly Benefit** means “the benefit that is payable to a Policyholder on a monthly basis in the event of an accident, sickness or unemployment claim on a PPI Policy.”
- No restrictions on disclosing non-monthly benefits (eg life cover) in Marketing Material but not included in this pricing metric.



Issue: Offering PPI at a range of prices

- Order does not prescribe a specific method for disclosing cost of PPI in this situation.
- PPI providers can choose a suitable way to disclose variation in cost (eg table, range, 'typical' cost).
- But other requirements (eg FSA Financial Promotions) continue to apply



Prescribed Statement for Distributors and Intermediaries

“Payment Protection Insurance is optional. There are other providers of Payment Protection Insurance, which is not the only product designed to protect you against loss of your income. For unbiased information about insurance please visit the website at www.moneymadeclear.fsa.gov.uk”.



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When an Annual Review must be sent (1)

New PPI Policy with an annual renewal date or that is paid by Annual Premium

the Annual Review shall be sent **not less than two weeks and not more than four weeks before the renewal date or payment due date**



When an Annual Review must be sent (2)

New PPI Policy paid by Monthly Premium

the **first Annual Review shall be sent at any time during the thirteen months** following the commencement of the PPI Policy and **each subsequent Annual Review shall be sent within two weeks of the anniversary of that date.**



When an Annual Review must be sent (3)

Existing Regular Premium SMPPI, CCPPI,
Retail PPI and MPPI Policies

the **first Annual Review shall be sent at any time during the twelve months** following the commencement of this Article and **each subsequent Annual Review shall be sent within two weeks of the anniversary of that date.**



When an Annual Review need not be sent

1. Existing PLPPI and single premium SMPPI policies
2. Where a Policyholder has in the past year:
 - (a) Not paid or been required to pay any Premium
 - (b) Cancelled the PPI policy
 - (c) Permitted the PPI policy to lapse.



Form and content of Annual Reviews

- Must use relevant form in Schedule 3:
 - PLPPI
 - SMPPI or MPPI
 - CCPPI
 - Retail PPI
 - Stand-Alone PPI, Intermediaries, or Short-Term IP
- Instructions at start of Schedule 3 set out which parts of the form may be varied.



Obligations to provide information

- **In marketing materials (Article 3)**
- **In Annual Reviews (Article 4)**
- **To the FSA for use in its tables (Article 5)**
- **About claims ratios (Article 6)**
- **In Personal PPI Quotes (Article 7)**



Obligation to provide information to the FSA (Article 5.1)

“A PPI Provider shall provide to the FSA such data, in such format, as the FSA may need from time to time in connection with the preparation of and publication by the FSA of the PPI Comparison Tables.”



Anna Nicolaou, FSA
PPI Comparison Tables



FSA PPI Comparison Tables

- FSA currently assessing feasibility of providing a table on retail credit (catalogue) PPI
- Initial thinking is that, if this is feasible, it would be similar in format to the existing credit card PPI comparison table
- This would mean it would include details of the cost, waiting period, exclusions, pre-existing conditions and other features
- Other changes as a result of CC remedies including adding current non-participating firms to the tables



Obligations to provide information

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Definition of **Claims Ratio**

$$\text{Claims Ratio} = \frac{\text{Incurred Claims}}{\text{Earned Premiums}} * 100 \%$$

Definition consistent with approach taken in Form 31 of insurers' FSA Annual Returns.

But some difference in scope of disclosure (eg calendar year, split by PPI Product Type).



Obligation to disclose Claims Ratios

(6.1) A PPI Provider shall within three months of the end of each year produce aggregate **Claims Ratios** for the year ending 31 December for each PPI Product Type and provide these to any person on request.

(6.2) Disclosed in 10 percentile increments

[0%-10%], [10%–20%][over 80%]



Ways in which providers can fulfil this obligation (Article 6.3)

- a) By oral communication within **24 hours** of receiving the request
- b) In writing within **7 days**
- c) By directing the enquirer to the Claims Ratios published on the PPI Provider's website



Claims ratios for [Distributor A] for year to 31 December 2010

PPI Product Type	Mortgage PPI	Personal Loan PPI	Credit Card PPI
Claims Ratio	[20% to 30%]	[30% to 40%]	[20% to 30%]

[Plain English description of how the claims ratio was calculated]



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Obligation to provide Personal PPI Quote

(7.1) Where a PPI Provider makes a Marketing Statement to a Consumer during a Credit Sale or when offering to sell PPI, the PPI Provider shall on the same occasion provide the Consumer with a Personal PPI Quote.

(7.3) Valid for at least **14 days from receipt** unless Consumer's eligibility has changed.



Form and content of Quotes

- Must use relevant form in Schedule 5:
 - PLPPI
 - SMPPI or MPPI
 - CCPPI
 - Retail PPI
 - Stand-Alone PPI, Intermediaries, or Short-Term IP
- Instructions at start of Schedule 5 set out which parts of the form may be varied.



Combined APR

“means the **combined cost of the Credit with PPI over the duration of the Credit expressed as a percentage rate** and **calculated by applying the formula used to calculate the APR** on the Credit with unaltered assumptions **to the cash flows associated with a customer taking out Credit with PPI** for the duration of the Credit.”



Combined APR – example of calculation (1)

Details of personal loan

Duration of agreement	12 months
Amount borrowed	£3,000
Total charge for credit	£300
Total amount payable (without PP)	£3,300
Instalments	£275 per month

Cost of PPI

Monthly cost of PPI	£10
Total cost of PPI	£120 over lifetime of loan

Combined cost of credit with PPI

Total amount payable (with PPI)	£3,420
Monthly instalments (with PPI)	£285 per month



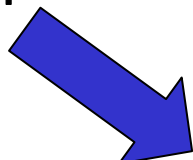
Combined APR – example of calculation (2)

Month	Cashflows <u>excluding</u> PPI	Cashflows <u>including</u> PPI
0	-£3,000	-£3,000
1	£275	£285
2	£275	£285
3	£275	£285
4	£275	£285
5	£275	£285
6	£275	£285
7	£275	£285
8	£275	£285
9	£275	£285
10	£275	£285
11	£275	£285
12	£275	£285

Credit APR
calculated as
annualised
internal rate of
return on loan



Combined APR
calculated as
annualised
internal rate of
return on loan
with PPI



APR / Combined APR

19.5%

28.0%



Any Questions?



The Prohibitions and the retail PPI remedy (Parts 3 & 4)



The prohibitions

- **Prohibition on pre-sale of PPI (Article 8)**
- **Point-of-sale prohibition (Articles 9)**
- **Single premium prohibition (Article 10)**



Prohibition on pre-sale of PPI (Article 8)

(8.1) “Where a Credit Arranger has discussed Credit with a Consumer and has **reasonable grounds to believe** that the Consumer will make an application for Credit within **7 days** of the discussion, the Credit Arranger shall not conclude the sale of a PPI Policy for the Credit discussed with the Consumer before the commencement of the Credit Sale [...]”



Reasonable grounds to believe (Article 8.2)

(8.2) A Credit Arranger will have **reasonable grounds to believe** that the Consumer will make an application for Credit if the Credit Arranger has discussed **any of the following** with the Consumer:

- a) the amount of Credit that may be provided;
- b) the terms of repayment of the Credit; or
- c) the interest rate payable on the Credit.



The point-of-sale prohibition (Article 9)

- The **Credit Arranger** or an **Associate** cannot sell PPI to a consumer until **7 days** after:
 - a) The end of the **Credit Sale** or (if later)
 - b) The provision of a **Personal PPI Quote**
- Exemption for **consumer-initiated transactions** by phone or online **24 hours** after the end of the Credit Sale.



Associate

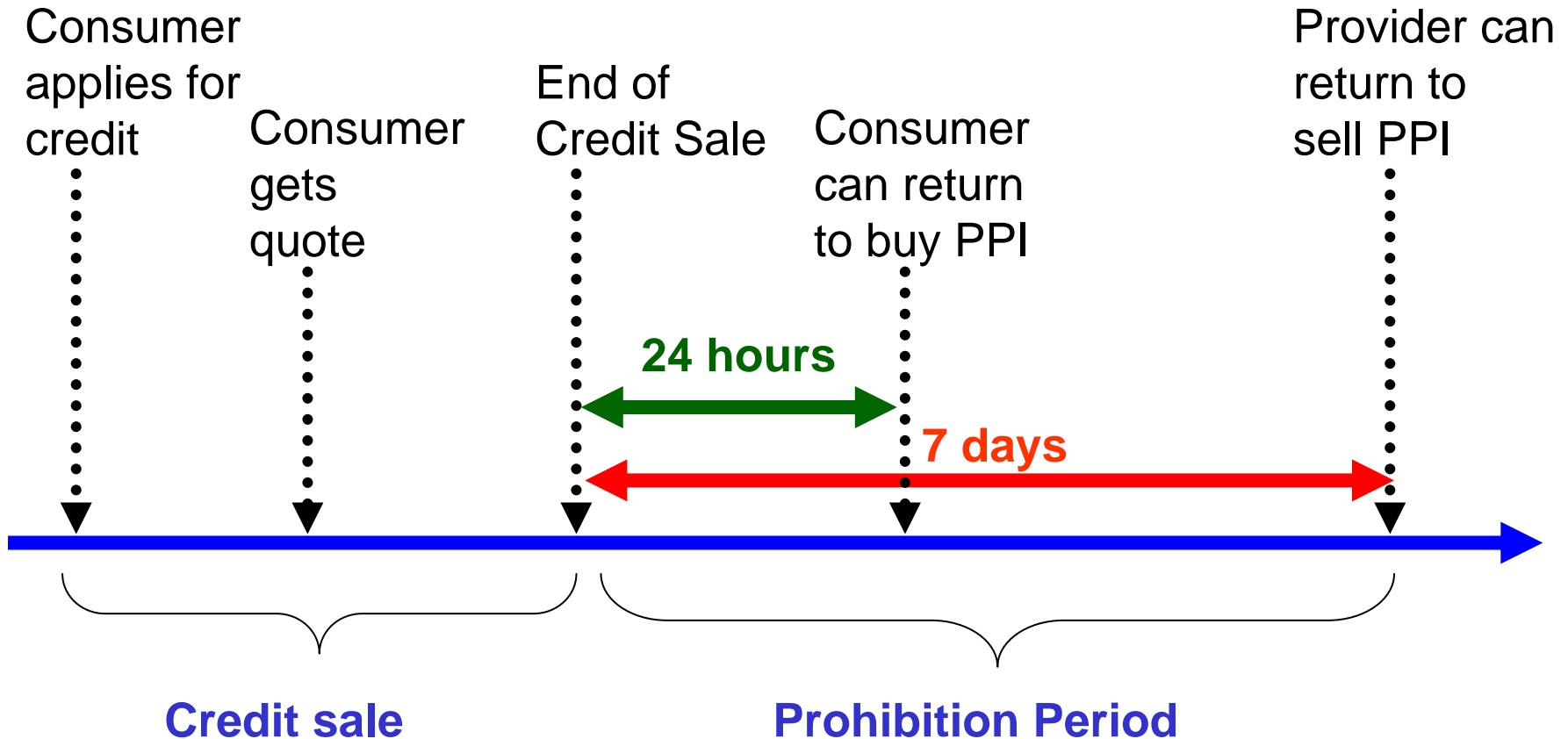
A PPI Provider with whom the Credit Arranger has a Commercial Referral Relationship for the sale of PPI and:

- a) Either is mentioned by the Credit Arranger to the Consumer during the Credit Sale;
- b) Or Has been given or allowed access to information about a specific Credit agreement by the Credit Arranger for the purpose of selling PPI



Operation of point-of-sale prohibition (1)

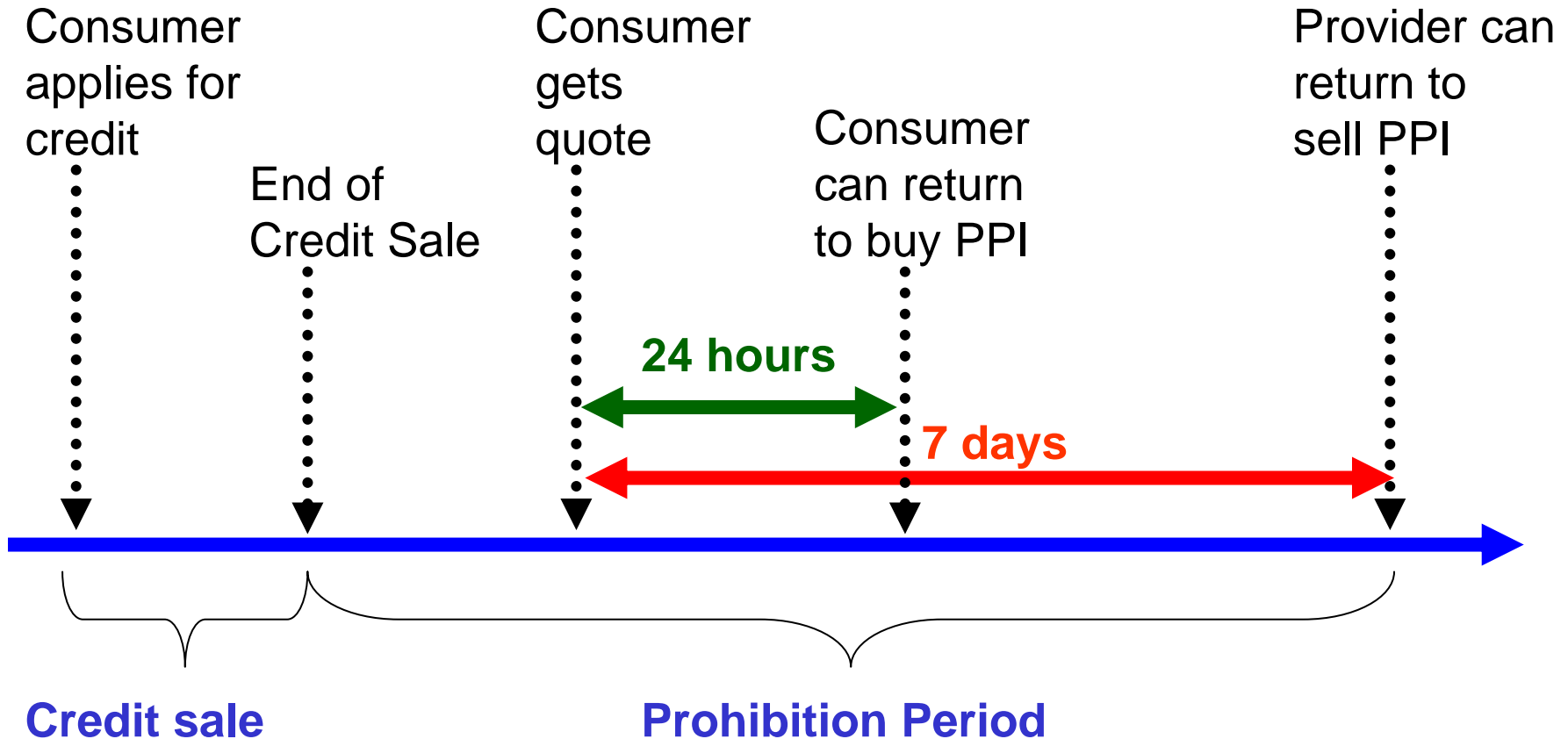
Personal PPI Quote given during credit sale





Operation of point-of-sale prohibition (2)

Personal PPI Quote given after credit sale





Twewah Marfo, FSA
ICOBBS and the point-of-sale prohibition



Single premium prohibition (Article 10)

(10.1) Prohibition on entering into agreements requiring payment by a Single Premium.

(10.2) Only Monthly Premiums or Annual Premiums are permitted

(10.3) Other charges (eg administration, set-up or early termination fees) are not permitted.



Obligation to provide a rebate

(10.4) “Where a Policyholder terminates a PPI Policy paid by an Annual Premium during the term, the PPI Provider shall pay a rebate to the Policyholder in direct proportion to the remaining period of cover.”



Unbundling retail PPI from merchandise cover (Article 11)

“Where a Retail PPI Provider offers a package of insurance which contains PPI and Merchandise Cover, the PPI Provider shall also offer at the same time PPI alone as a separate insurance.”



Any Questions?



Compliance and enforcement (Parts 5 & 6)



Compliance obligations

- To submit Compliance Reports (Article 12)
- To conduct a mystery shopping exercise (Article 13)
- To report on clarity of Marketing Material (Article 14)
- To appoint a Compliance Officer (Article 15)



Compliance thresholds

Obligation	Threshold
Compliance report (Article 12) & Clarity of materials (Article 14)	Total GWP > £30m or GWP in any PPI Product Type > £10m
Provide breakdown of GWP to OFT (Article 12.3)	Total GWP > £10m, but above thresholds not met
Mystery shopping (Article 13)	Total GWP > £60m
Compliance officer (Article 15)	All PPI providers



Bob MacDowall, OFT
OFT role in monitoring and enforcement



Any Questions?