

Subject: Regulation

Note of key matters and actions agreed:

Attendees:

FSA	APPG	Others
Clive Briault, MD, Retail Markets Business Unit David Strachan, Director, Retail Firms Division Adam Gray, Parliamentary Affairs Officer	Jim Cousins Lord Hunt Lord Davies Lord Brookman	David Worsfold (plus an Incisive Media rep) David Morey (PwC) Ian Reynolds

Clive Briault presented and responded to questions. Initially, Clive referred to the attached summary slides to remind the Group of the FSA's strategic objectives and current retail agenda.

a) Payment protection insurance

- FSA believe PPI is an appropriate product where properly structured, properly explained and properly sold.
- However, it has concerns, particularly where sold to customers that are ineligible to claim.
- Industry average PPI penetration rates are 26% for mortgages (source CML), 45% for credit cards and 60% for unsecured loans (both sourced from Datamonitor 2004).
- FSA's 2005 findings indicated that generally PPI sold on prime mortgages was satisfactory, although that sold with loans gave rise to more concern. Concerns revolve around poor disclosures and product explanations. In addition, FSA is concerned at some staff remuneration arrangements that unduly incentivise staff to persuade take up as well as training and competence arrangements for sales staff.
- FSA issued a Press Release and Dear Chief Executive letter in November 2005 regarding its findings – a link to the Dear Chief Executive letter is:
<http://www.fsa.gov.uk/pubs/ceo/ppi.pdf>
- Additional visits are planned over the period mid April to May for about 40 firms, focussing on single premium and regular premium PPI sales other than regular premium PPI linked to prime mortgages (where the earlier review found that sales were generally compliant). If improvements are not seen, the FSA will consider taking action against firms.
- In response to a question regarding non advised sales, the FSA indicated that the key was clarity of information such as exclusions, terms and conditions and pricing; in addition, a firm still needs to check eligibility.
- Again in response to a question, the FSA indicated that it had found cases of mis-selling. It confirmed that if customers felt they had been mis-sold PPI, they should complain to the firm, and then had recourse to the Financial Ombudsman Service. It noted that in some cases, it had been advised that cover would be honoured even where the policy had been sold to an ineligible customer; in other cases, firms that continued to collect premiums after the loan had been repaid had agreed to repay the excess premiums.
- The FSA indicated that it believed that the general level of understanding of insurance products by consumers varied according to product type – motor insurance, for example,

would be significantly higher than PPI. This was perhaps as a consequence of the customer seeking to buy the primary product (i.e. the underlying loan for example) rather than the insurance per se.

- FSA referred to the possibility of moving to a differentiated regime – less regulation for motor and home insurances, for example, and more for more complex products, which would be consistent with its risk based and proportionate approach.
- FSA indicated that whilst some firms claimed to provide a non advised sales service, the FSA felt that in reality they were straying over into advice. FSA felt this was not a deliberate tactic, more a lack of precision and could be dealt with through better scripts and processes.
- FSA was also finding that customer disclosure documents varied – in some cases, required documents were not being issued and in others there was scope to improve the quality.
- On remuneration arrangements, the FSA feels that remuneration should be structured to include fairness and suitability criteria, being effected through improved systems and controls.

b) Endowment mis-selling

- FSA feels that complaint handling has improved since its July 2005 paper and following a number of Enforcement cases.
- FSA believe consumers have generally responded well to shortfall letters and the FSA endowment shortfall fact-sheets. A high proportion have responded to address the shortfall or complain to the FOS. 52 major endowment companies are monitored monthly – numbers of complaints, numbers upheld, cases referred to FOS, etc and 'outliers' were being followed up as necessary.
- The extent to which borrowers had moved to repayment mortgages (from interest only) whilst leaving their endowment intact was discussed. The FSA indicated that of 8 million endowments in force, some 3 million to 4 million were no longer linked to the mortgage.

c) Claims Management Companies (CMCs)

- The Group was interested to understand who should regulate CMCs, some of whom were taking up to 25% of compensation awards. It was understood that the FSA was not enthusiastic and the Claims Standards Council was not favoured by the Government.
- The FSA indicated that the large majority of CMCs deal with personal injury claims. As far as endowments were concerned, it believes that some 40% of claims are being undertaken by CMCs (which are not regulated by the FSA).
- The FSA does not believe that it is best placed to regulate CMCs, it would need to secure specific expertise if required to regulate them.
- Lord Hunt noted that CMCs were turning to PPI.

The FSA agreed to provide the Group with figures on the annual amount of settlement by firms in relation to claims on endowment policies, and information on the proportion of PPI products sold on an advised versus non-advised basis.

DL Morey
17 March 2006