

Finalised guidance

Payment protection products

FSA/OFT joint guidance

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OFFICE OF FAIR TRADING



Summary

The FSA and the OFT have jointly produced this guidance to firms in relation to payment protection products.

This follows a consultation which closed in January 2012, resulting from joint work by both organisations in the light of emerging concerns about new products and practices. A summary of feedback received is published alongside this document.

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Key messages

The key messages for FSA-regulated providers and distributors are:

- New payment protection products may offer benefits to customers but may also pose similar risks as PPI.
- When designing new payment protection products (or reviewing the design and distribution of existing products) firms should (i) identify the target market for the protection, (ii) ensure that the cover offered meets the needs of that target market, and (iii) ensure that the product does not create barriers to comparing, exiting or switching cover.
- Firms should be able to demonstrate that they have sound product governance arrangements in place.
- This guidance will inform the FSA's supervision of firms that provide or distribute payment protection products. The FSA will consider taking action against firms where breaches of the FSA's Principles or other rules are identified.
- The expected transfer of consumer credit regulation to the FCA in 2014 will give the FCA the power to create a more uniform regulatory regime across all payment protection products (including those not currently subject to the Competition Commission's point-of-sale prohibition).

The key messages for consumer credit licensees and applicants are:

- Firms should be aware of the relevant statutory provisions and how these may apply in relation to credit agreements with debt freeze/waiver or similar products or product features.
- In particular, there should be adequate transparency to consumers regarding the nature, price and implications of such products.
- Firms should ensure that they treat actual and potential customers fairly and do not engage in unfair or improper business practices.
- Failure to do so, or to comply with relevant statutory provisions, may cast doubt on fitness to hold a consumer credit licence and may lead to enforcement action by the OFT.

Introduction

- 1 This document is issued jointly by the Financial Services Authority (FSA) and the Office of Fair Trading (OFT) as guidance to firms in relation to payment protection products.
- 2 We are aware that some firms have developed, or are seeking to develop, new forms of protection that aim to meet similar consumer needs to payment protection insurance (PPI). Such products may offer benefits to customers but may also pose similar risks as PPI. It is important that firms mitigate these risks to help achieve good outcomes for consumers and avoid significant detriment arising. The previous failings in relation to PPI must not be repeated.
- 3 This guidance is the result of joint work in the light of the Competition Commission's (CC) market investigation into PPI and emerging concerns about new products and practices.
- 4 For the FSA, the guidance in this document builds on existing high-level guidance, in particular the regulatory guide 'The Responsibilities of Providers and Distributors for the Fair Treatment of Customers' (RPPD) which is grounded in the FSA's Principles for Businesses.¹ For the OFT it reaffirms previous guidance in relation to fitness to hold a consumer credit licence.
- 5 We expect firms to have regard to this guidance and to meet in full their obligations under the relevant regulatory framework.

Scope of the document

- 6 By 'payment protection products' we mean products or product features which are designed to offer individual consumers short-term protection against potential loss of income, by providing the means for them to meet (or temporarily suspend) their financial obligations including repayments under a credit agreement or regulated mortgage contract (RMC).²
- 7 The protection will typically be triggered by life events such as accident, sickness and/or unemployment, although other events may be covered where they affect the consumer's ability to meet certain financial commitments. The triggering events will usually be specified in the agreement but may be subject to some discretion (by the firm) at the time of claim.
- 8 Payment protection products include short-term income protection (STIP) and debt freeze/debt waiver, as defined in Annex 3. However, the guidance will **also** apply to other products and product features that may be developed to meet a similar consumer need or which have a similar object or effect. References in the guidance should be read across as appropriate.

¹ The FSA may make new product governance rules to support its new supervisory focus on product risks, see Annex 1.

² See Glossary of terms at Annex 3 to this document.

- 9 The guidance applies to payment protection products irrespective of whether they are sold on a ‘stand alone’ basis, linked to a credit agreement or RMC, or ‘bundled’ with other products. It also applies irrespective of whether the product is mandatory or optional and whether it is offered as an integral element (with or without a separate or specific charge).
- 10 In the case of debt freeze/waiver, the guidance applies irrespective of whether the product provides for interest and/or charges to be suspended or waived, or for capital repayments to be suspended but with interest and charges continuing to accrue (payment holidays). It also applies irrespective of whether the product is offered by the creditor at or after the point of sale of the linked credit agreement or RMC, or by a third party (whether or not related to the creditor).
- 11 However, the guidance does not apply to situations where under-payments are limited to drawing down on previous over-payments, or where the contract provides for a specified payment to be suspended or waived automatically (for example, every January) rather than on the occurrence of an uncertain event. It also does not apply to forbearance where this constitutes a unilateral concession by the creditor and is not contractually binding or otherwise enforceable by the consumer.³
- 12 The guidance does not apply to long-term insurance products (such as non-cancellable long-term income protection or permanent health insurance). It also does not apply to personal accident insurance. However, the FSA guidance builds on previous guidance that does apply to such products and practices, such as the FSA’s RPPD and responsible lending guidance. Given this, where products outside scope share features with STIP or debt freeze/waiver, firms should consider whether aspects of this document may be applicable to such products and practices.
- 13 Although the focus of the guidance is on new forms of payment protection, firms which provide and/or distribute PPI products may want to consider this document as part of any ongoing review of product design or distribution strategies.
- 14 References to ‘payment protection products’ in this document cover both insurance and non-insurance products, unless the context otherwise makes clear.

The regulatory regimes

- 15 This joint guidance reflects the fact that different credit products and linked payment protection products are subject to different regulatory regimes – the Financial Services and Markets Act 2000 (FSMA) and/or the Consumer Credit Act 1974 (CCA). This is summarised in broad terms in Table 1.

³ We discuss the interaction between debt freeze/waiver and forbearance later in the document.

16 Insurance products are regulated under FSMA even if the linked credit agreement is regulated under the CCA or is unregulated. Some insurance products, such as STIP, may also be subject to the CC’s PPI Order.⁴

17 Where debt freeze/waiver is part of an RMC it will be subject to regulation under FSMA. However, where it is part of a second charge mortgage or an unsecured credit agreement such as a loan, credit/store card or hire-purchase agreement or a consumer hire agreement, the applicable legislation will be the CCA unless the agreement is unregulated.⁵

18 Based on what the FSA has seen to date, its understanding of how the market is likely to develop, and its interpretation of the relevant case law, the FSA considers it unlikely that debt freeze/waiver will involve insurance. This guidance document has been drafted on that basis.

Table 1: Primary applicable legislation

Linked credit product	Insurance product (e.g. STIP)	Non-insurance (e.g. debt freeze)
None (standalone cover)	FSMA	n/a
First charge mortgage	FSMA	FSMA
Second charge mortgage	FSMA*	CCA
Unsecured loan	FSMA*	CCA
Credit card	FSMA*	CCA

*The CCA may also be relevant

19 The reasons for the FSA’s view are set out below. Ultimately, however, it is for a court to decide on whether a particular form of payment protection involves insurance, in the light of the relevant facts and circumstances, and a court might take a different view on the facts of a particular product. So firms must decide for themselves, taking advice as necessary, on the legal risks involved.⁶

20 Debt freeze/waiver for the purpose of this guidance is defined in the Glossary at Annex 3. It is a contractual term of a credit agreement or RMC under which the creditor agrees that (i) some or all of the capital and/or interest or other charges will be cancelled, (ii) the debtor will be allowed to defer payment of capital and/or interest or other charges, or (iii) the term for repayment will be extended, in each case on the occurrence of specified future uncertain events such as accident, sickness or unemployment. As noted above, the product feature may be an optional or mandatory/integral element of the credit agreement or RMC, with or without a separate or specific charge, and may be arranged at the point of sale or subsequently.

21 The FSA considers that such products would not typically be considered by a court to be a contract for insurance. In reaching this view, the FSA has taken into account in particular the judgment in *Anthony*

⁴ Article 8.10 of the CC’s Order applies to insurance arrangements which have the same effect as PPI and are designed to avoid the operation of the Order or can be expected to have that effect.

⁵ In considering fitness under the CCA, the OFT can have regard to matters relating to products which are regulated under FSMA or are unregulated, see Annex 2 below.

⁶ The FSA’s Decision Procedure and Penalties Manual (DEPP) indicates that regulatory action against firms will depend on firms’ behaviour compared to rules and guidance which were current at the time. However, it is always open to consumers to take action against firms through the courts.

Griffiths v Welcome Financial Services.⁷ This case involved a secured loan agreement under which, in return for a fee, the creditor agreed that, if it was necessary to enforce the security and the value of the secured property upon sale did not cover all sums then due, the creditor would not pursue the debtor for the shortfall.

- 22 The court held that the fee was not a premium under a contract of insurance, as the benefit was not to be acquired on the happening of a future contingency. Instead, the waiver was acquired when the contract was entered into, in form and in substance, and payment was made in consideration of an immediate surrender or waiver of rights that the creditor would otherwise have had. What was being bought was essentially the same as a collision damage waiver which the court said was not a contract of insurance.
- 23 In the FSA's view, a debt freeze/waiver term inserted into a credit agreement or RMC after it has been made also does not involve insurance. This is because the rights and obligations of the debtor and the creditor are the same as when debt freeze/waiver is an original term of the contract.
- 24 Payment protection products are likely to fall within the jurisdiction of the Financial Ombudsman Service (FOS) which deals with eligible complaints about financial services products.⁸ When considering whether a particular product is likely to have been a suitable or appropriate recommendation for a consumer, or whether a firm is likely to have met its obligations in providing the necessary information to enable a consumer to make an informed choice, the FOS is likely to consider relevant aspects of the product, including the level or scope of cover, benefits provided compared to the cost, and the extent of material exclusions or limiting criteria.

Who should read this document?

- 25 This guidance is primarily aimed at firms which provide and/or distribute short-term payment protection products, or may be considering doing so. The document will also be of interest to trade bodies and consumer organisations.

Structure of the document

- 26 The rest of this document is structured as follows:
- Annex 1 is FSA guidance on payment protection products within the FSA's jurisdiction.

⁷ [2006] EWHC 3769 (QB).

⁸ www.financial-ombudsman.org.uk

- Annex 2 is OFT guidance on the application of the CCA regime where debt freeze/waiver (or a similar product or product feature) is linked to a credit agreement.
- Annex 3 is a glossary of terms.

Status of the document

- 27 Paragraphs 18 to 23 of this document and Annex 1 constitute FSA guidance under section 157 of FSMA. Paragraphs 18 to 23 include guidance on the FSMA 2000 (Regulated Activities) Order 2001. Annex 1 includes guidance on the application to payment protection products of the FSA's Principles for Businesses and certain rules in SYSC, MCOB and ICOBS (see Glossary at Annex 3). The material builds on existing high-level guidance, specifically the RPPD. It is not, and does not seek to be, a complete exposition of all of a firm's responsibilities, nor does it alter, replace or substitute applicable Principles, rules, guidance or law.⁹
- 28 Annex 2 comprises OFT guidance to licensees and applicants under section 25A CCA in relation to fitness to hold a consumer credit licence. It also constitutes information pursuant to section 4 on how the OFT interprets CCA provisions in relation to relevant products.

Next steps

- 29 Both the FSA and the OFT remain committed to helping ensure that consumers are adequately protected in relation to payment protection products.
- 30 We will continue to monitor developments in the market, and will consider taking action under our respective powers where we identify that firms' products or practices risk causing detriment to consumers. We may also engage proactively with firms to mitigate emerging risks. In addition, we will seek to identify further areas where joint working may be beneficial.
- 31 It is envisaged that consumer credit regulation will transfer to the successor to the FSA, the Financial Conduct Authority (FCA), in 2014. This will give the FCA the power to create a more uniform regulatory regime. In September of this year, as part of the transfer process, the FCA intends to consult on incorporating existing OFT guidance (including this document) into rules and guidance. Where appropriate, OFT guidance may be given the status of FCA rules. If, after the transfer, the FCA sees evidence of detriment, such as mis-selling or poor product design, it will consider whether additional rules are necessary, for example a point-of-sale prohibition for products falling outside the CC's PPI Order.

⁹ Further information on the status of FSA guidance can be found in the FSA's Enforcement Guide at EG 2.22G-2.27G.

Annex 1: FSA guidance

Introduction

- 1.1 This Annex sets out the FSA's position on payment protection products we consider fall within our jurisdiction – broadly speaking, insurance products and those non-insurance products linked to an RMC. We discuss the risks to consumers which may arise from the design of specific products or product features, and which may lead to poor consumer outcomes. We also discuss how firms should manage these product risks through the product life-cycle to deliver good consumer outcomes.¹⁰
- 1.2 We believe that issuing this report on payment protection products is a sensible approach, given that the market is in the early stages of development. The guidance will inform our supervision of firms that provide or distribute payment protection products, and we will consider taking action against firms where we identify breaches of the Principles or our other rules. We provide a mapping of the guidance in this report to relevant Handbook provisions in Table 2 at the end of this Annex.

Terminology used in this report

- 1.3 There may be several ways for firms to effectively manage the risks discussed in this report, and meet their obligations under the Principles and our other rules. We have reflected this in the terminology used in this report – in particular, we use the words 'may' and 'should' in line with the terminology used in RPPD (see RPPD 1.10G).

Roles of providers and distributors

- 1.4 When designing or distributing payment protection products, individual firms' responsibilities flow from their roles or functions as providers or distributors.¹¹
- An insurer may design a product and distribute it through its own channels.
 - A product may be developed by a vertically-integrated group containing: (i) an insurance company, which would underwrite the protection, and (ii) a retail banking company, which would sell the product and would carry the credit risk on any RMC which the payment protection product may protect. Either part of the group may lead the design of the product.

¹⁰ The FSA published its Discussion Paper (DP11/1) on Product Intervention in January 2011 and a Feedback Statement (FS11/3) in June 2011. The approach discussed in these papers reflects our consumer protection strategy, launched in March 2010 – in particular, the papers make clear our intention to do more to anticipate consumer detriment from poorly designed products or distribution strategies, and to take action to prevent detriment occurring. This product risk report is an example of intervention earlier in the product life-cycle.

¹¹ See RPPD 1.14G and 1.15G.

- An insurer may design a new product (for example, STIP) and seek third-party distributors through which to sell it.
- A distributor (such as a bank) may specify the design of the protection. Depending on the nature of the protection, the distributor may tender among insurers for either the supply of the product (for example in the case of a STIP product) or a commercial insurance arrangement (to which the consumer is not a party).

- 1.5 We refer to the ‘provider’ as the firm which develops the specifications of the payment protection product. In practice, this may refer to an insurer or to a commissioning distributor. For a vertically integrated firm or group, all aspects of this report will be relevant.
- 1.6 Providers and distributors should consider the impact of their action (or inaction) on the customer in various stages of the product life-cycle, or the various stages of provision of the service. The FSA’s RPPD sets out more detail on how firms’ responsibilities flow from their actual roles and functions.
- 1.7 Where several firms are jointly developing a payment protection product, we would expect that, as part of effective systems and controls, the firms agree a clear and formal allocation of responsibilities among themselves for the various stages of the product development, including the definition of the target market. But we would also expect sensible post-launch cooperation and mutual feedback between the different firms in the value chain, so as to maximise their mutual understanding of how the product is being distributed and is performing in practice and whether this remains aligned with the target market. This will help the provider make any changes needed to the product target market or the product itself.

Product risks for payment protection products

- 1.8 Good product design is central to delivering good outcomes for consumers. Firms should be able to demonstrate that they are consistently delivering fair outcomes to consumers and that senior management are taking responsibility for that.
- 1.9 In particular, product risks for payment protection products are most likely to arise where:
- the firm does not identify the target market for the protection, including the needs of likely consumers;
 - the events covered by the protection are misaligned with the needs of the target market or the firm identifies too broad a target market for the product;
 - the benefit following a successful claim is unlikely to meet the needs of consumers in the target market;

- the product features or pricing structures create undue barriers to comparing, exiting or switching cover;
- the distribution strategy involves selling the payment protection as a secondary product (or product feature); or
- the product features (and their fit with the target market) are not reviewed on a regular basis, in the light of customer feedback, claims and complaints.

1.10 Risks may also arise where detailed terms and conditions of the product are inherently unfair. For further information please refer to our [information pages](#) on unfair contract terms.

Risk 1. The firm does not identify the target market for the protection (or the needs of likely consumers)

Nature of the target market

- 1.11 We have stated previously, in RPPD,¹² that firms should identify the target market, namely the *types* of consumer for which the product is likely to be suitable (and also those consumers for which the product would not be suitable).¹³ Our TCF Outcome 2 also sets out our expectation that ‘products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly’.¹⁴ Past problems (including with the sale of PPI) have arisen where firms have not acted in this way.
- 1.12 In the case of any particular protection product, therefore, the definition of the target market for the product should reflect the types of consumer who are likely to both:
- have a potential need for the protection provided by the product (its cover and benefits); and
 - be eligible for that protection.
- 1.13 Provider firms should take active steps to identify a target market reflecting the above and to ensure alignment of the types of consumer in the target market with the product features. To do this, firms may need to use sources such as consumer research, data from similar insurance products (such as data on complaints and/or declined claims), official statistics and direct engagement with consumer bodies.

¹² See RPPD 1.17G (1).

¹³ We note that firms may identify ‘target’ segments using other criteria – for example, customer segments who may be easiest to acquire or most profitable. However, for the purposes of this report, we focus on those criteria for identifying and defining the target market which support the management of the product risks.

¹⁴ See our information pages on TCF at www.fsa.gov.uk/pages/doing/regulated/tcf/

- 1.14 The potential consumer needs which current and emerging payment protection products may potentially help to meet include:
- sustaining the consumer's ability to meet their financial obligations (including repayments on an RMC, to reduce the risk of the customer accumulating significant arrears and potential repossession of the property and to minimise the risk of the customer incurring significant damage to their credit rating); and
 - sustaining the consumer's income to help them support other credit commitments or household expenses and to prevent or limit a fall in their household consumption.
- 1.15 The target market should therefore consist of types of consumers who potentially have the needs that would be met by the protection product, such as, for example, those outlined in paragraph 1.14. The target market should not include types of consumers who are likely **not** to have such a need. For example, PPI was sold to many young people borrowing modest sums, but it is not obvious that providers gave sufficient thought to whether, given the level of borrowing and the likely consequences of arrears or default, such consumers had a real need for PPI, or would get value from it.
- 1.16 In defining a target market for the protection product (and when selling it to individuals), firms should not equate eligibility for the product's protection with the consumer having a need for that protection – these should be quite separate considerations. Some consumers who do not have an income to protect or those who would have sufficient alternative sources of income if they were unable to work (for example, through existing insurance cover, pension, or available savings they were willing to use¹⁵) are inherently unlikely to have a need for payment protection, even if they are likely to be eligible for it. So they should not be included in the target market.
- 1.17 The provider firm should think especially carefully about target market customers' likely needs where it bundles together several different types of protection, or bundles core protection with other products or services, as there may be a risk of a limited overlap of the target markets for each element. For example, much PPI included life cover, but was sold to many young people who had no dependents, and who were thus unlikely to have need for this particular protection.
- 1.18 Conversely, the firm should also identify types of customer who, despite their potential need for the product's protection, are not likely to be eligible for it, and so should be excluded from the target market. For example, there may be consumers who have an income to protect and no savings available for this purpose, but whom the policy excludes as they are self-employed or over 65.

¹⁵ We consider that it is likely to be the case that savings are a rational source of funds for consumers. Firms who target or sell to consumers with savings will face a higher challenge to demonstrate such a target market or sale is fair. We recognise that not all consumers will wish to rely on savings in this way, or have savings which are sufficiently accessible to use in this way, but this can be established and considered in individual cases by the distributor.

- 1.19 In assessing customers' needs and the target market, the provider should also take into account:
- the pricing and affordability of the product; and
 - the ancillary features of the product and whether they undermine it meeting customers' needs.
- 1.20 The provider firm should also consider carefully the relationship between the target market and its business model and strategy for the product. We would be very concerned if there was evidence or suggestion that a firm's business plan for a product was predicated on exploiting unfairly a target market consisting of consumers whose lack of knowledge or difficult circumstances may make them vulnerable to poor purchasing decisions or sales pressure. These potentially vulnerable consumers could be those with relatively lower financial capability or who have already sustained a damaged credit rating. If the provider considers these customers a legitimate target market for a particular and thoughtfully tailored protection product, it must think especially carefully about the implications for its other responsibilities through the life cycle, such as selecting an appropriate distribution strategy.
- 1.21 In summary, provider firms should take active steps to ensure that, as far as possible, the target market (and associated business model and strategy) is tailored to exclude customers who would be unlikely to experience positive outcomes if they bought the product.
- 1.22 However, firms should note that the fact that a particular individual customer is of a type that falls within the product's target market does not alleviate the distributor of its responsibilities. Distributors must still identify whether that individual in fact has demands and needs which the product meets and to advise and/or disclose to the consumer accordingly.
- 1.23 An appropriate target market for a particular protection product may reasonably be quite broad. However, it is important that this breadth is the provider's reasoned conclusion from a thorough consideration and analysis of the product features and the consumers' needs. We would expect a firm to be able to demonstrate its grounds and evidence for having such a broad target market, as well as a robust internal challenge process concerning it, and consideration of how to control effectively the risks associated with such breadth (for example, through the choice of distribution channel and the information provided to distributors and consumers). We would not consider that simply 'all customers in possession of a particular type of credit product', for example, would be an appropriate definition for a target market.
- 1.24 It may be that, despite its best efforts, the provider mis-assessed the characteristics and needs of the original target market in good faith. Or it may be that, over time, the characteristics or needs of the consumers in that target market had changed. Either way, our primary concern would be that the provider firm picks up swiftly on any such post-launch misalignment between product and target market, and acts swiftly and conscientiously to correct it. Monitoring of the fit between the product's intended and actual target market should be undertaken actively and at regular intervals. A good governance process should actively allow for challenge of the firm's target market and strategy, driven by consideration of good consumer outcomes.

Risk 2. The events covered by the protection are misaligned with the needs of the target market.

- 1.25 As firms develop products, and balance issues such as the price of the product against the scope of the protection, this can have a bearing on the types of customer for which the product is suitable and therefore the alignment between product design and the target market.

Impact of product exclusions

- 1.26 While firms may use exclusions as a means of ensuring that the product is priced competitively, our view is that firms' discretion to limit the scope of the cover is constrained by the need to align the events covered by the protection with the needs of the target market. Examples of where Risk 2 may arise in this context include:
- a product excludes self-employed or fixed-term contract workers or temporary workers, even though the provider has identified a target market which includes such consumers as having potential need for the protection provided by the product; or
 - in the case of accident or sickness cover, the provider significantly restricts the definitions of certain illnesses or severities of illness or incapacity, or excludes some of the most common conditions.
- 1.27 In general, where core aspects of the product's cover are to be further restricted in this way, we would expect the firm to redefine the target market if such exclusions mean that the product will not meet the needs of a significant segment of consumers originally identified as falling within the target market.
- 1.28 Excluding some of the most common illnesses, for example, from a policy purporting to include sickness cover would make the product likely to fail to meet the needs of a significant segment of consumers originally identified as falling within the target market. It would imply the need for a significant narrowing to include only consumers who do not have a potential need for protection from the excluded health events.
- 1.29 An aligned narrowing of both cover and target market is quite compatible with niche underwriting. For example, where cover is tailored to complement existing cover that a group of consumers (the target market) may already typically hold.
- 1.30 Firms should think in much the same way about Initial Exclusion Periods (IEPs), which in essence exclude events from cover by virtue of their timing rather than their nature (by delaying the consumer from coming 'on risk' after purchasing the policy or debt freeze/waiver). We recognise that firms may use IEPs to manage anti-selection risk from new customers concerning, for example, unemployment cover. However, as consumers typically wish to be covered from the time they take out the policy, IEPs will generally be adverse to their immediate protection needs. So the firm should be able to demonstrate that the product's IEP is as short as is reasonably required to manage genuine

unemployment anti-selection risk *in the specific target market for the product*. If the IEP is longer than this, the firm should then amend the target market, narrowing it to customers whose needs for the protection will not fail to be met if the IEP is so long.

Affordability

- 1.31 We recognise that provider firms face particular and genuine challenges in designing and pricing protection for lower-income groups, whose exposure to adverse events and weak financial resources create a potential need for protection but may also leave them unwilling or unable to pay for it, either at all or at the level they ideally need.
- 1.32 A provider may reasonably consider restricting areas of cover from a product in order to ensure that the product is affordable for the target market. However, the target market should be appropriately narrowed to include only types of consumer for whom this limited cover is still likely to meet genuine needs. And considerations of affordability should not be pushed too far as, beyond a point, the potential cover may be so limited in coverage, and/or the benefits so limited, that the product would fail to meet the needs of many of the customers in even a very narrowly defined target market. To then still release the product on the market could give these consumers poor outcomes and a false sense of security.
- 1.33 In designing products for a target market containing mainly lower-income consumers, firms should also consider those consumers' needs for protection in the context of the social security protections (such as income support or, going forward, universal tax credit) which may be available to them anyway if they become sick or unemployed. Such social security protection may mean they are better off not spending scarce money on premiums for payment protection which would provide cover that is anyway very limited.

Stress testing

- 1.34 Providers should, as part of their product development, stress test the product to identify how it might perform in a range of market environments and how the consumer could be affected.¹⁶ This should include, for example, considering the effects of a range of potential economic and social circumstances on the features and performance of the protection product, and on the lives and needs of the consumers whom it is intended to protect.

Events covered by the protection

- 1.35 During the product design process, a provider might seek to widen the target market from that originally identified by *increasing* the events covered by the protection. For example, a product may be initially designed to include cover for accident, sickness and unemployment but during the design

¹⁶ See RPPD 1.17G (2).

process, the provider also chooses to include one or more other types of event. These are secondary in that they are likely to represent only a small proportion of the value of claims expected to be paid out. Poor consumer outcomes are likely to arise if the provider includes in its target market consumers who could only be persuaded to buy the product on the basis of protection from such secondary events.

- 1.36 Providers may reduce this risk by designing products which offer flexibility around the events covered – for example, where the consumer can choose separately whether to include cover for accident/sickness, unemployment and any secondary feature(s). This approach may enable a better fit with consumers' demands and needs. Moreover, where the product design is flexible and so the consumer makes active decisions about which elements of cover they want, this may also improve consumer engagement with the product features and so improve consumer outcomes.
- 1.37 Protection products which do not offer such flexibility will need to find other ways to mitigate the risk of non-alignment of some parts of the product design with the needs of the target market. This includes, for example, through very clear descriptions in product literature to distributors and consumers of the various bundled elements of cover or other benefits and also, for example, describing clearly the respective shares of the total premium cost they cause.
- 1.38 Extending the scope of the cover some time after the product's launch, or otherwise improving the product then, does not necessarily indicate the original cover and design were flawed. Relevant considerations would include whether, at the time, the original product design was appropriate for and distributed to the originally specified target market customers and resulted in good outcomes for them. However, some enhancements may lead us to consider whether they imply deficiencies in the outcomes that the original product was delivering for consumers in the target market. For example, where the provider decides to extend the duration of benefit following a successful claim, this may lead us to consider what the provider's MI shows about the proportion of claims under the original terms where the benefit period ended before the consumer had returned to work. In turn, this may inform (along with many other potential factors) our view of the firms' governance and systems and controls around the design of the original product and definition of the original target market.

Risk 3. The benefit following a successful claim is unlikely to meet the needs of consumers in the target market.

- 1.39 Firms should use relevant data (including consumer research as well as other sources discussed in paragraph 1.13) when defining the level of benefits offered, to ensure that the product design appropriately reflects consumers' likely needs and so supports positive consumer outcomes.
- 1.40 Examples of where Risk 3 may arise are where caps on maximum benefits mean that the level of protection risks being insufficient to meet target consumers' likely needs. This risk may arise for a debt freeze/waiver feature of an RMC if the consumer is required to continue making monthly repayments of some amount (that is, it does not enable the consumer to avoid monthly repayments in entirety). This may then not meet the needs of a target market which includes consumers with low savings and who do not have other means of continuing repayments in the event their income stops.

- 1.41 Similar risk may arise for a STIP product that includes a cap on benefits that is a percentage of the policyholder's income and that percentage is set too low to genuinely meet the protection needs of customers in the target market (for example, to provide an income that can cover expected expenditure over the period of the cover).
- 1.42 The fundamental consideration about the level of any cap on benefits is that it should reflect the needs of consumers in the target market. The further the cap below the target market's typical *net* (post-tax) income, the greater the risk that it will not sustain their key financial commitments. This will be a greater risk the lower the target market consumers' typical incomes, because of the smaller proportion of discretionary elements in their typical expenditure. So providers will need to reflect on this and align their target market's net income levels and benefit cap appropriately.
- 1.43 Firms may however *express* a benefits cap in terms of gross or net income. The firm should consider whether the expression of the cap in terms of net or gross income is likely to be the more comprehensible and meaningful to consumers in the target market (and this may, for example, depend on whether they are monthly salaried or weekly waged).
- 1.44 Risk 3 may also arise where there are:
- limits on the *duration* of a debt freeze/waiver which mean the benefits are insufficient to meet target consumers' likely needs. For example, if a debt waiver on the monthly repayments of an RMC for unemployment cover does not reflect the time likely to be required either for consumers to return to work or to reasonably make lifestyle changes to reflect loss of income; or
 - waiting periods (that is, the period before a consumer receives a benefit after making a claim) which are out of line with target consumers' likely needs – for example, if a STIP or debt freeze/waiver has a long waiting period, but the target market includes consumers who have low savings and limited employment benefits, the protection may not meet the needs of the target market. Also, a significant proportion of consumers in the target market may find new employment and replace the lost income before the product's benefits become payable. This would limit the potential risk transfer from customer to protection provider and make it more likely that the product would not meet target market customers' protection needs. It also raises questions about the fairness of the pricing and value of the product.
- 1.45 Firms should consider carefully the cumulative impact on the extent of risk transfer provided by the product if it contains a cap on the level of payments **and** a waiting period **and** a limit on the duration of benefits, and thus the extent to which such a product would in fact meet the protection needs of consumers in the target market.
- 1.46 A firm may reasonably wish to include some non-financial benefits within the product (for example, back-to-work services, counselling and job training). These may well add value. However, such services are likely to be ancillary to the main purpose of the protection product. Therefore, it is important that the provider does not give these ancillary services excessive weight when assessing the

needs of the product's target market, or setting the pricing of the product, or communicating about the product to consumers or intermediaries.

- 1.47 If debt freeze/waiver is offered, this should provide 'added value' over and above the creditor's normal forbearance arrangements, and they should complement each other. Opting for debt/freeze waiver should not impact on the creditor's usual forbearance arrangements – for example, once the period of the benefits from debt freeze/waiver has expired.

Risk 4. The product features or pricing structures create undue barriers to comparing, exiting or switching cover.

- 1.48 Good consumer outcomes are more likely to be achieved where consumers can compare products effectively. Also, as set out in our TCF Outcome 6, consumers should not face unreasonable post-sale barriers to change product or switch provider. These factors reduce the risk that consumers pay for protection where this does not meet their needs, or has ceased to meet their needs.
- 1.49 We note that the CC's remedies, in particular the point-of-sale prohibition and the prohibition on single-premium policies, are designed to support this outcome for PPI and STIP. So we do not discuss here barriers to comparing, exiting or switching cover for these products. However, it is important that the markets for non-insurance payment protection products also deliver good consumer outcomes, and do not feature excessive barriers to comparing, exiting or switching cover – as such, the discussion in this section focuses on non-insurance payment protection products within the FSA's jurisdiction (namely, those linked to an RMC).

Product features

- 1.50 For non-insurance payment protection products, barriers to exit or switching are most likely to arise where the consumer is unable to cancel a debt freeze/waiver after taking out the RMC unless they cancel the RMC at the same time (even if the protection feature was optional at point of sale). In this case the effective cost to the consumer of cancelling the debt freeze/waiver could be an early repayment charge on the RMC plus any new mortgage product fee. This creates a risk that consumers are deterred from exiting the protection where it no longer meets their needs, for example where their circumstances change, and so consumers pay for protection that does not meet their needs.
- 1.51 Firms should address this risk by either (i) structuring debt freeze/waiver features such that the consumer can exit the protection feature during the life of the RMC without exiting the underlying RMC, or (ii) ensuring that the cost to the customer of exiting the RMC, to which the debt freeze/waiver is attached, is not excessive.
- 1.52 Barriers to switching may also arise where debt freeze/waiver features contain long initial exclusion periods (during which a claim cannot be made) or extensive exclusions for pre-existing medical

conditions (as discussed in the CC's final report on PPI¹⁷). These features may deter consumers from switching and so lead to consumers continuing to pay for cover where this no longer meets their needs.

Pricing structures

- 1.53 Pricing structures for non-insurance payment protection products may also create barriers to comparing, exiting or switching cover.
- 1.54 In particular, poor consumer outcomes may arise if the pricing structure for new non-insurance payment protection products for RMCs mirrors that of single-premium PPI – which is prohibited by the CC. An example might be a debt freeze/waiver term within an RMC where the consumer pays for the protection as a lump sum which is added to the mortgage at the point of sale. The CC found that single-premium PPI resulted in high barriers to switching (where the refund terms offered on cancellation were insufficient for the consumer to purchase alternative cover) and also contributed to barriers to comparison. A pricing structure for debt freeze/waiver that is similar to single-premium PPI is therefore also likely to create an undue barrier to switching or comparison between debt freeze/waivers (and with other types of protection). In particular, it may create an undue barrier to switching, and be likely to lead to poor outcomes, where the refund if the customer cancels is not calculated pro rata to the period of cover already enjoyed.
- 1.55 In addition to constituting a barrier to switching, the use of a single-premium payment that is added to the RMC loan to pay for a debt freeze/waiver means that the customer will pay many years of interest on the premium. This will significantly increase the overall price of the cover, and the firm should assure itself that this overall actual price for the cover does not undermine the purpose of the product and its ability to meet the target market's needs. For example, firms should assess the risk that the total cost of the policy, including interest paid on the premium, would exceed the benefits payable under the policy.
- 1.56 A single-premium debt freeze/waiver product is therefore likely to lead to poor outcomes and so, as the CC has prescribed for PPI, in our view premiums for debt freeze/waiver RMC products should preferably be structured monthly, and in any case no longer than annually, with clear annual reminders of the premium to be provided to the consumer.
- 1.57 If an annual premium is paid by a consumer, there should be a pro-rata refund if the consumer terminates the policy during the year.
- 1.58 Risks to consumers may also arise where there are charges for exiting the debt freeze/waiver feature of an RMC which are likely to deter consumers from doing so. In such cases consumers may continue to pay for cover when this no longer meets their needs, and may be deterred from switching to alternative cover which would meet their needs.

¹⁷ See www.competition-commission.org.uk/rep_pub/reports/2009/fulltext/542.pdf, paragraphs 5.61-5.62.

Managing product risks during the product life-cycle

1.59 Product risks should be managed in other stages of the product life-cycle, including:

- defining the distribution and marketing strategy for the product;
- planning for post-launch activities; and
- governance around product design and distribution and marketing strategies.

Distribution and marketing

1.60 Firms' distribution and marketing strategies play an important role in ensuring that consumers purchase protection products which meet their needs, and that consumers understand the product appropriately. We discuss below the main areas of firms' distribution and marketing strategies which are relevant to managing product risks.

Distribution chain and channels

1.61 Where the provider chooses to distribute the payment protection product through a third party, its selected distributor should be aligned with the target market – that is, the distributor should have access to the types of consumers in the relevant target market. For example, there is an increased risk of poor outcomes if a provider (such as an insurer or a bank) provides a STIP product which assumes a certain level of savings (for example, where the product has a long waiting period before a customer begins to receive a benefit) but distributes this through distributors whose customer base is unlikely to have this level of savings (such as subprime mortgage lenders).

1.62 Contractual arrangements between firms may also be relevant to managing the product risks. For example, a provider may prescribe minimum sales volumes or penetration rates for a distributor. Where the product has a restricted target market (for example, where it has extensive exclusions around pre-existing medical conditions or for self-employed or contract workers) firms should not prescribe minimum sales volumes or penetration rates which are unrealistic in comparison to the size of the target market. The provider should also consider the risks to potential consumer outcomes, and the implications for the target market, of the context in which the protection product is to be distributed. For example, firms should consider carefully the risks and implications of planning to sell:

- debt freeze/waiver at the same time as an RMC, when the customer is likely to be focused on the mortgage; or
- STIP at the same time as substantial insurance products not captured by the CC's point-of-sale prohibition (for example, life assurance or family or other pure protection products) when, again, the consumer may not be fully focused on the potential STIP purchase.

Provision of information to distributors

- 1.63 Where the provider and distributor are different firms (for example, an insurer selling a STIP product through a bank's branch network or a product designed by a bank which is sold through an intermediary), the information supplied by the provider to the distributor is an important element of managing product risks and ensuring that products deliver appropriate consumer outcomes.¹⁸ In particular, the provider should inform the distributor about the relevant target market for the product, to enable the distributor to align its marketing and sales/advice accordingly.¹⁹

Advised or non-advised distribution

- 1.64 We have said previously that, when defining the distribution strategy for payment protection products, providers should decide whether the product is one where customers would be wise to seek advice.²⁰ Distributing the product on an advised basis may be most appropriate where the risks in the product may not be obvious to consumers, in particular where the product has a narrow target market or where increased product flexibility brings with it greater complexity. For example, where debt freeze/waivers on an RMC, or a STIP, contain extensive exclusions and limitations, or a high or complex price structure, consumers are likely to have more difficulty understanding whether the product is likely to meet their needs, and the presence of a qualified adviser may help to mitigate the risks to consumers arising from the product design.

Reward

- 1.65 Distributors' remuneration strategies for rewarding salespeople are also important in managing product risks for payment protection products. Firms should take note of the lessons learned from PPI where a significant proportion of the premium paid by the consumer was used to pay commission, and should ensure that the business model is appropriate to mitigate the risks of inappropriate sales being made.
- 1.66 Firms should ensure that salespeople do not have inappropriate incentives to sell the product, for example to individuals outside of the target market, and that effective controls are in place to ensure that issues are identified where they arise, and appropriate action is taken. The FSA has published guidance in relation to rewards and incentives, which firms should carefully consider.²¹

¹⁸ We have previously given guidance in relation to the provision of information by providers to distributors; see RPPD 1.18G.

¹⁹ RPPD1.17G (1) sets out that the provider should identify the target market for the product; this information is likely to be relevant under 1.18G (2). RPPD also includes further guidance to distributors on handling information received from the provider and providing information to other distributors – see in particular 1.23G.

²⁰ See RPPD 1.20G (1).

²¹ http://www.fsa.gov.uk/library/policy/final_guides/2013/fq1301

Financial promotions

- 1.67 Aligning financial promotions with the needs of the target market can also support effective management of the product risks. In particular, the content of financial promotions should reflect the needs of consumers in the target market. So firms should align the technical vocabulary in the promotion with the level of financial literacy of the likely audience for the promotion, taking into account the channel through which the financial promotion is distributed. For further information on our requirements for financial promotions, see our [information pages](#) on financial promotions.

Planning for post-launch activities

- 1.68 Our TCF Outcome 5 recognises the importance of consumers being provided with products that perform as firms have led them to expect, and the associated service being of an acceptable standard (and as consumers have been led to expect). Insufficient planning during product development for post-launch activities can lead to poor outcomes for consumers. Poor consumer outcomes can arise where firms do not have appropriate infrastructure (for example, for setting up the cover, handling claims and dealing with complaints) and/or where firms do not have sufficient numbers of appropriately skilled staff in place. (We note that where the product design and distribution strategy support positive consumer outcomes, this is likely to reduce the number of complaints received and so is likely to reduce the resource required in handling complaints.) Firms may reduce this risk by planning for post-launch activities at an appropriate stage during the product development, and by considering contingency plans (for example, in the context of stress-testing) in case the volumes of sales, cancellations, claims or complaints are higher than expected.

Governance

- 1.69 Effective governance is key to ensuring that products which firms design and distribute meet consumers' needs and lead to positive consumer outcomes. We have previously stated that firms 'should have in place systems and controls to manage adequately the risks posed by product or service design'.²²
- 1.70 In this report, we use the term 'governance' to refer to a firm's internal arrangements (including relevant policies, practices, risk controls and oversight arrangements) for identifying, monitoring and mitigating the risks which the product may pose to consumers. This includes processes from the initial product design to ongoing product management after launch and, where applicable, the removal of the product from the market. This is applicable whether the product provider is an insurer or a commissioning distributor.

²² RPPD 1.17G (3). See also SYSC 3.1.1R and 4.1.1R.

- 1.71 Before the launch of the product, firms are unlikely to manage the risks in the product design effectively unless they have appropriate governance around:
- the design of the product, and how the product features are reflected in the drafting of the detailed terms and conditions;
 - the assessment of product risks, including through stress-testing how the products might perform in a range of market environments; and
 - the distribution and marketing of the product.
- 1.72 A firm's control functions (for example, risk management and compliance functions) should be involved in the firm's product design and oversight arrangements. Firms' governance arrangements should also ensure appropriate consideration of consumers' interests. Firms should also ensure they have adequate processes for escalating and acting on risks identified during product development, and that they have effective gateways for senior management sign-off and challenge.
- 1.73 Firms' governance arrangements should extend to the performance of the product after it has been launched. This includes a periodic review of the product features and target market as well as providing regular management information (MI) to senior management which tracks the key product risks and appropriately escalates any issues which arise. For example, types of information likely to be relevant include:
- MI relating to declined claims (the proportion of claims declined and the reasons for declined claims), cancellations and complaints;
 - MI capturing claim/loss ratios, for example to identify situations where consumers (or specific types of consumer) may be purchasing protection that does not meet their needs; and
 - feedback from distributors, or MI based on sales figures and, where relevant, MI designed to identify issues with specific distributors or distribution channels.
- 1.74 Firms' governance arrangements should facilitate taking timely action to address any issues arising, such as changes to the design of the protection (and potentially the firm's product development process) and/or review of the firm's distribution strategy.

Risks at the point of renewal / auto-renewal

- 1.75 Provider firms should seek to ensure that the product continues to be aligned with the target market and to meet the needs of consumers in that market. Monitoring the post-launch distribution and performance of the product will help a provider to identify any misalignment in a timely way, and take action as appropriate, including for example amending the product and/or the target market. Considerations of fairness may mean that the provider should bring the nature of the misalignment and/or of any change to the product to the attention not only of distributors, but of existing customers, at renewal time (if applicable) if not before. Similarly, where the provider intends to make a change to the product which means it would no longer align with the original target market, the provider should communicate this to existing customers at renewal time, as well as to distributors.
- 1.76 Where there are material changes, providers should consider whether auto-renewal is appropriate.

Equality and diversity

- 1.77 We have considered the impact of our guidance on protected groups. We believe that the guidance will lead to improved outcomes for all types of consumer, including the most vulnerable groups. We recognise that the guidance may have some (though limited) disadvantages for certain protected groups – in particular, it may lead some firms to increase the price of these products, and so may lead some lower-income consumers not to take out payment protection products. This may indirectly impact some of the protected groups. However, we believe that the benefits of our proposals outweigh the potential disadvantages for all consumer segments.
- 1.78 When designing new protection products and defining target markets for them, firms will also need to consider their obligations under UK equality and diversity legislation, notably the Equality Act 2010 (including as amended by the Government following the *Test Achats* judgement, so that insurers cannot use gender as a rating factor when pricing risk or paying benefits for contracts entered into from 21 December 2012).

Mapping to Handbook provisions

- 1.79 Table 2 sets out the Handbook provisions to which the guidance contained in our report relates for payment protection products.

Table 2: Mapping to Handbook provisions

Section	Provides guidance on application of:	...and also builds on:
<i>Regulatory regime</i>	RAO ²³	PERG 6.5.3G, 6.5.4G
<i>Product risks</i>		
1. Identification of the target market	Principles 2, 3, 6	RPPD 1.17G(1)
2. Events covered by the protection	Principles 2, 3, 6	RPPD 1.17G(2)
3. Benefits following a successful claim	Principles 2, 3, 6	n/a
4. Barriers to comparing, exiting or switching cover	Principles 2, 3, 6	n/a
<i>Distribution and marketing</i>		
Distribution chains and channels	Principles 2, 3, 6, 7	RPPD 1.20G
Provision of information to distributors	Principles 2, 3	RPPD 1.18G
Advised or non-advised distribution	Principles 2, 3, 6, 7	RPPD 1.20G(1)
Reward	Principles 2, 3, 6	n/a
Financial promotions	Principles 2, 3, 6, 7 MCOB 2.2.6R ICOBS 2.2.2R	RPPD 1.18G, 1.19G, 1.22G
<i>Planning for post-launch activities</i>	Principles 2, 3, 6 SYSC 3.1.1R & 4.1.1R	RPPD 1.21G(4) & (5) RPPD 1.25G(3) & (4)
<i>Governance</i>	Principles 2, 3, 6 SYSC 3.1.1R & 4.1.1R	RPPD 1.17G(3)

²³ FSMA 2000 (Regulated Activities) Order 2001.

Annex 2: OFT guidance

Introduction

- 2.1 This Annex sets out the OFT's views on the application of the Consumer Credit Act (CCA) regime, including the licensing regime and the fitness test in section 25 CCA, in relation to credit agreements which are regulated under the CCA and which have linked debt freeze/waiver.²⁴ It has been drafted on the basis that such products do not involve insurance.
- 2.2 Credit agreements for this purpose include second charge mortgages, unsecured loans, credit cards, store cards, hire-purchase and consumer hire agreements.²⁵
- 2.3 The principles set out below may also apply where non-insurance products or product features similar to debt freeze/waiver are linked to credit agreements. Firms providing or considering providing such products should therefore have regard to the principles where relevant.
- 2.4 Some of the principles may also apply where a third party offers to procure that the creditor will accept (for a period) no or reduced payments, or will waive interest and/or charges, following the occurrence of relevant events. This may involve debt adjusting or other licensable activities under the CCA.²⁶

The legislation

- 2.5 The CCA and its subordinate legislation provide a framework to protect consumers when dealing with those engaged in consumer credit business and/or ancillary credit business. Such businesses are generally required to hold an appropriate consumer credit licence issued by the OFT. We aim to ensure that licences are only given to, and retained by, those who are fit to hold them.
- 2.6 Section 25 CCA provides that, in considering fitness to hold a consumer credit licence, the OFT must have regard to any matters which appear to it to be relevant, including any evidence tending to show that an applicant or licensee, or any of its employees, agents or associates,²⁷ whether past or present, has:
- committed offences involving fraud or other dishonesty or violence;
 - failed to comply with the CCA or any other enactment regulating the provision of credit to individuals or other consumer protection legislation;
 - failed to comply with requirements relating to the consumer credit jurisdiction operated by the Financial Ombudsman Service;
 - practised discrimination in connection with the carrying on of a business; or

²⁴ As defined in Annex 3 to this guidance.

²⁵ See also paragraph 2.10 below in relation to unregulated agreements.

²⁶ Debt adjusting' is defined in section 145 CCA as including (subject to exceptions) negotiating with the creditor, on the debtor's behalf, terms for the discharge of a debt or any similar activity concerned with liquidation of a debt.

²⁷ Including business associates as referred to in section 25(3) CCA.

- engaged in business practices appearing to the OFT to be deceitful or oppressive, or otherwise unfair or improper, whether unlawful or not.
- 2.7 Section 25(2B) provides that the business practices which the OFT may consider to be deceitful or oppressive, or otherwise unfair or improper, include practices in the carrying on of a consumer credit business that appear to involve irresponsible lending. We have issued guidance on irresponsible lending, aspects of which are relevant to payment protection products.²⁸
- 2.8 Section 25(2) provides that, in determining whether a person is fit to hold a licence, we must also have regard to the skills, knowledge and experience in relation to consumer credit business and/or ancillary credit business of that person and other persons who will participate in any business carried on by him under a licence, and practices and procedures to be implemented in connection with any such business.
- 2.9 This therefore covers the person's competence in relation to credit activities, including the way in which he runs his business, governance arrangements, the design of products or services, and measures intended to ensure compliance.
- 2.10 When considering fitness, we are not restricted to considering practices which relate to consumer credit business which is regulated under the CCA. We can also have regard to practices relating to unregulated credit business, or any other business activity, where carried out by a person who is licensed under the CCA or by an associate or business associate. In doing so, we would consult other regulators as appropriate. For instance, we may decide to revoke a consumer credit licence where the licensee has engaged in unfair business practices involving first charge mortgages and/or insurance payment protection products even though such products are also regulated by the FSA.

The OFT's role

- 2.11 Section 25A requires us to prepare and publish guidance in relation to how we determine, or propose to determine, whether persons are fit to hold a consumer credit licence. In addition, section 4 requires us, where appropriate or expedient, to disseminate information and advice about the operation of the CCA, the credit facilities available to consumers and other matters within the scope of our functions.
- 2.12 The OFT, together with local authority Trading Standards Services (LATSS), has powers to take enforcement action in respect of breaches of the CCA and other consumer protection legislation such as the CPRs and UTCCRs.²⁹ Action may, for example, be taken under Part 8 of the Enterprise Act 2002 where there is harm to the collective interest of consumers.
- 2.13 We can impose requirements under section 33A CCA where we are dissatisfied with any matter in connection with a licensed business. Failure to comply with such requirements can lead to the imposition of a financial penalty of up to £50,000 per instance. We can also revoke or compulsorily vary a licence. We will shortly also have the power to suspend a licence with immediate effect, or from a specified date, where urgently necessary for the protection of consumers.³⁰

²⁸ The OFT's Irresponsible Lending Guidance – see Glossary of terms at Annex 3.

²⁹ See Glossary at Annex 3, and www.oft.gov.uk/business-advice/

³⁰ See www.oft.gov.uk/news-and-updates/press/2012/95-12

Structure of guidance

- 2.14 This guidance is concerned primarily with debt freeze and debt waiver as defined in Annex 3, where offered in relation to a credit agreement.
- 2.15 The following sections of the guidance start by considering how the annual percentage rate of charge (APR) should be calculated for credit agreements involving debt freeze/waiver. This is followed by a consideration of different CCA provisions as they relate to progressive stages of a credit transaction.
- 2.16 The application of the CCA regime differs as between unsecured and secured lending. This is because the changes in 2010 arising from implementation of the Consumer Credit Directive (CCD) do not generally apply to loans secured on land.
- 2.17 It should however be noted that if the creditor under a secured loan agreement elects to provide pre-contractual information in accordance with the Consumer Credit (Disclosure of Information) Regulations 2010 (see below), the agreement must comply with the corresponding requirements as to the form and content of agreements (in the 2010 Agreements Regulations) and calculation of the APR. References to ‘unsecured credit’ should therefore be taken to include secured credit where the creditor has elected to comply with the 2010 Disclosure Regulations.³¹
- 2.18 The concluding sections of the guidance set out illustrative examples of business practices relating to payment protection products which the OFT is likely to regard as unfair or improper, whether unlawful or not, for the purposes of the fitness test under the CCA licensing regime. Some of the principles may also, for example, apply where a third party offers debt adjusting services.³²

APR calculation

- 2.19 For **secured** credit, the APR is determined in accordance with the Consumer Credit (Total Charge for Credit) Regulations 1980. These provide that the total charge for credit (TCC) includes any charge at any time payable under the transaction by or on behalf of the debtor, subject to some limited exceptions. Accordingly, any fee payable for mandatory debt freeze/waiver must be included in the TCC (and hence the APR) for secured credit.
- 2.20 The application of the 1980 regulations was considered by the Court of Appeal in *Humberclyde Finance Ltd v Thompson*.³³ This concerned a payment waiver option covering payments in the event of the consumer’s death. The court concluded that the fee for the option was ‘payable under the transaction’ for the purposes of the 1980 regulations even though the facility was optional rather than mandatory.
- 2.21 The 1980 regulations continue to apply to most secured credit and have not been amended in this regard. On the basis of the *Humberclyde* judgement, it appears to us that any fee for optional debt freeze/waiver must be included in the TCC (and hence APR) for a secured loan agreement even if the consumer does not exercise the option.

³¹ BIS has published guidance on the CCD implementing regulations – see Glossary of terms.

³² See also the OFT’s Debt Management Guidance – see Glossary of terms.

³³ [1997] CCLR 23.

- 2.22 For **unsecured** credit, the APR is determined in accordance with the Consumer Credit (Total Charge for Credit) Regulations 2010.³⁴ These provide that the TCC comprises all costs (other than notarial costs) which are known to the creditor and are required to be paid by or on behalf of the debtor or a relative in connection with the credit agreement, whether payable to the creditor or to any other person. This is a different approach than under the 1980 regulations and may lead to a different APR.
- 2.23 Where debt freeze/waiver is mandatory, any fee payable would be a cost in connection with the credit agreement and so must be included in the TCC (and hence APR) for the product.
- 2.24 In our view, where debt freeze/waiver is offered as an option, the creditor is in effect offering two separate agreements – one with debt freeze/waiver terms and the other without. Any fee or other financial consideration payable in order for the consumer to obtain the debt freeze/waiver terms is, in our view, compulsory and therefore required to be paid, as unless the fee is paid the terms will not be available. As a result, the fee should be included in the TCC and APR for that agreement.
- 2.25 A parallel may be drawn with the OFT's 2000 guidance on *Discounted APRs and PPI*. This related to situations where loans were offered with or without PPI but where a reduced interest rate applied if the consumer opted for PPI. The guidance stated:

'Where a lender offers loans with or without PPI, and with an interest rate discount where PPI is taken out, there are in the Office's view two separate agreements or classes of agreement, each of which falls to be considered separately for the purposes of the Regulations. The borrower remains free to decide whether or not to take out a loan with PPI – but the interest rate discount is available only if he does so. There is a clear link between the offer of PPI and the offer of credit on alternative terms and conditions (namely a lower rate of interest), and the fact that the terms and conditions of the credit offered are different in each case means that there are two different credit agreements. Under the agreement with the lower rate of interest, the PPI is in effect mandatory, and its cost therefore falls to be included in the total charge for credit.'

Advertising

- 2.26 For **secured** credit, the Consumer Credit (Advertisements) Regulations 2004 require an indication of the typical APR where triggered.³⁵ This must be an APR at or below which the advertiser reasonably expects that credit will be provided under at least 66% of agreements resulting from the advertisement.
- 2.27 Where debt freeze/waiver is mandatory, any fee payable must be included in the APR in the credit agreement, and so must be factored into the typical APR in advertising.
- 2.28 As above, the *Humberclyde* judgment suggests that the cost of debt freeze/waiver must be included in the TCC and APR for a secured loan agreement even if it is optional. As such, it must also be factored into the typical APR where triggered.
- 2.29 For **unsecured** credit, the Consumer Credit (Advertisements) Regulations 2010 require a representative example where triggered, including a representative APR. This must be an APR at or below which the advertiser reasonably expects that credit will be provided under at least 51% of agreements resulting from the advertisement.

³⁴ As amended by the Consumer Credit (Total Charge for Credit) (Amendment) Regulations 2012.

³⁵ A typical APR (or representative APR) is triggered if the advertisement includes specified information.

- 2.30 Where debt freeze/waiver is mandatory, any fee payable must be included in the APR in the credit agreement, and so must be factored into the representative APR in advertising.
- 2.31 Where debt freeze/waiver is offered as an option, we take the view (as above) that the creditor is in effect offering two separate agreements, one with and one without debt freeze/waiver. In the former case, the cost will be included in the TCC and APR for that agreement. In determining the representative APR, therefore, the advertiser should take into account the proportion of agreements resulting from the advertisement which are reasonably expected to include debt freeze/waiver.
- 2.32 For example, if the advertiser expects 60% of consumers to opt for debt waiver, the cost must be included in the representative APR. On the other hand, if only 30% of consumers are expected to do so, the representative APR can be based on agreements without debt waiver.
- 2.33 If the representative APR includes the cost of debt freeze/waiver, this should also be factored into the remainder of the representative example where triggered, including the nature and amount of TCC charges, the amounts of repayments and the total amount payable. The information must be clear and concise, using plain and intelligible language.
- 2.34 In addition to complying with the Advertisements Regulations, firms need to ensure that their advertising is not misleading contrary to the CPRs.³⁶ This may require that additional information is included, to avoid misleading by omission.
- 2.35 Breach of the Advertisements Regulations or the CPRs is a criminal offence and may lead to enforcement action by the OFT or LATSS. It may also reflect on fitness to hold a consumer credit licence.

Pre-contract information

- 2.36 For **secured** credit, the applicable regime depends upon whether the agreement is subject to section 58 CCA (opportunity for withdrawal from prospective land mortgage). If not, the agreement will be subject to the Financial Services (Distance Marketing) Regulations 2004 (for distance sales) or the Consumer Credit (Disclosure of Information) Regulations 2004 (for non-distance sales), unless the creditor chooses to operate under the regime applicable to unsecured credit.³⁷
- 2.37 Where section 58 applies, the creditor must give the consumer a copy of the prospective regulated agreement prior to providing an execution copy. Where the Disclosure Regulations apply, the prescribed information that must be provided includes the APR, the TCC with a list of its constituent parts, the total amount payable and the amounts of repayments. As above, these should include any fee for debt freeze/waiver even where this is optional, given the *Humberclyde* judgment. Where the Distance Marketing Regulations apply, the prescribed information similarly includes the main characteristics of the credit and the total price to be paid by the consumer.
- 2.38 For **unsecured** credit, pre-contract disclosure is required under the Consumer Credit (Disclosure of Information) Regulations 2010. In most cases this involves provision of a Pre-contract Credit Information (PCI) form. This must be provided 'in good time' before the consumer enters into a

³⁶ See also the CPRs guidance referred to in Annex 3.

³⁷ See paragraph 2.17 above.

relevant agreement, and the information must be clear and easily legible. The consumer must be able to take the form away so that he can consider the information and shop around if he wishes.

- 2.39 As above, where debt freeze/waiver is offered as an option under an unsecured credit agreement, the creditor is in effect offering two separate agreements, one with debt freeze/waiver and one without. It follows in our view that two separate PCI forms must be provided, unless the consumer has indicated clearly that he does (or does not) intend to opt for debt freeze/waiver. This is necessary in our view in order to comply with the 2010 Regulations and thereby enable the consumer to compare the different offers in order to take an informed decision. The fact that the PCI form is in a standard format, as prescribed by the Regulations, facilitates such comparisons.
- 2.40 If the consumer has already made clear that he intends to opt (or not) for debt freeze/waiver, it may be sufficient to provide only one PCI form, covering the proposed agreement into which he wishes to enter. However, if he changes his mind subsequently, before entry into the agreement, the relevant PCI form should be provided in good time before the agreement is entered into.
- 2.41 The cost of debt freeze/waiver must be included in the TCC and APR, and in the total amount payable and periodic repayments, in the PCI form relating to an agreement with debt freeze/waiver terms. In our view, where debt freeze/waiver is optional, the creditor should make clear that exercise of the option is necessary to obtain the credit terms in question (as failure to do so may mislead the consumer contrary to the CPRs). It may be necessary to elaborate on this in a separate document.
- 2.42 Breach of the Disclosure Regulations renders an agreement unenforceable without a court order. When considering whether to make such an order, the court is required by section 127 CCA to have regard to any prejudice caused to consumers by the contravention and the degree of culpability for it.
- 2.43 In addition, breach may lead to enforcement action by the OFT or LATSS, and may reflect on fitness to hold a consumer credit licence.

Adequate explanations

- 2.44 For **unsecured** credit, section 55A CCA requires the provision of a pre-contractual explanation before a credit agreement is entered into. This must be adequate to enable the consumer to assess whether the proposed agreement is adapted to his needs and his financial situation. There is no equivalent requirement in relation to credit agreements secured on land, but we would expect **all** creditors to highlight key risks and other key information to the consumer before a credit agreement is made.³⁸
- 2.45 An explanation under section 55A must cover:
- the features of the agreement which may make the credit unsuitable for particular types of use;
 - how much the consumer will have to pay periodically and, where the amount can be determined, in total under the agreement;
 - the effect of the exercise of any right of withdrawal and how and when this may be exercised;

³⁸ See the text box at the beginning of chapter 3 of the Irresponsible Lending Guidance.

- the features of the agreement that may operate in a manner which would have a significant adverse effect on the consumer in a way which he is unlikely to foresee; and
- the principal consequences for the consumer arising from a failure to make payments under the agreement at the times required by the agreement.

- 2.46 In addition, the consumer must be advised to consider the PCI and, where this is disclosed in person, that he can take it away, and how to ask the creditor for further information or explanation. The consumer should be given an opportunity to ask questions (and be given adequate answers) before entering into the agreement.
- 2.47 Generally, the creditor is free to decide whether to give the explanation orally and/or in writing. However, where the creditor provides an explanation orally or in person in respect of any of the matters in the first three bullets above, the matters in the fourth and fifth bullets must also be explained orally, and the consumer must be advised orally to consider the PCI and that he can take it away.³⁹
- 2.48 Where debt freeze/waiver is an option, we would expect this feature of the agreement to be stated clearly as part of a pre-contractual explanation – including in particular the associated costs and how exercise of the option may impact on the operation of the agreement and the periodic repayments.
- 2.49 If debt freeze/waiver may operate in a way that the consumer might not reasonably expect, and to his disadvantage, this should be made clear. For example, if there are restrictive provisions regarding the scope of coverage or the triggering events, or the extent of evidence required in support of a claim.
- 2.50 Failure to comply with section 55A, or to have appropriate regard to the Irresponsible Lending Guidance, may be taken into account in considering fitness to hold a consumer credit licence.

Creditworthiness and affordability

- 2.51 For **unsecured** credit, section 55B requires the creditor to undertake an assessment of creditworthiness before entering into a credit agreement or before increasing significantly the amount of credit.
- 2.52 In addition, the Irresponsible Lending Guidance sets out what we would expect from creditors with regard to assessing affordability – that is, the consumer’s ability to undertake a specific credit commitment in a sustainable manner and without incurring (further) financial difficulties and/or experiencing adverse consequences.⁴⁰
- 2.53 In our view, the cost of debt freeze/waiver should be taken into account in an affordability assessment under the CCA. However, we recognise that opting for payment protection may also reduce the risks to both the consumer and the creditor, and that it may be reasonable to take this into account in the assessment, depending upon the circumstances and the nature and extent of the proposed cover.
- 2.54 As noted in the Irresponsible Lending Guidance, we expect creditors to be able to demonstrate that they have suitable policies and procedures in place to assess affordability and that these are implemented in practice and are effective. A creditor should not offer products if these are clearly unsuitable for the individual consumer, having regard to his needs and circumstances.

³⁹ See chapter 8 of the BIS Guidance and chapter 3 of the Irresponsible Lending Guidance.

⁴⁰ See chapter 4 of the Irresponsible Lending Guidance.

- 2.55 Failure to undertake a proper assessment of affordability may be taken into account in considering fitness to hold a consumer credit licence.

Credit agreement

- 2.56 For **secured** credit, the agreement must comply with the Consumer Credit (Agreements) Regulations 1983. As above, the cost of debt freeze/waiver must be included in the APR whether it is mandatory or optional, and in the latter case even if the consumer does not exercise the option.
- 2.57 For **unsecured** credit, the agreement must comply with the Consumer Credit (Agreements) Regulations 2010. These require certain information to be included in the credit agreement, and the information must be clear and concise and easily legible. If the consumer has indicated before entering into the agreement that he intends to opt for debt freeze/waiver (or this is mandatory), the cost must be included in the TCC and APR and in the total amount payable and other financial details.
- 2.58 If the consumer opts for debt freeze/waiver *after* having entered into the credit agreement, this may or may not trigger a modifying agreement under section 82(2) CCA, depending upon how the agreement is structured. For example, one way of drafting an agreement might be for it to grant an option to the consumer which, if exercised, will trigger certain payment protection terms. Since the exercise of such an option would not amend the terms of the credit agreement, and would not require consent at the time, there would be no modifying agreement.
- 2.59 However, section 82(2) is likely to be triggered if the parties agree to something new (or different) at the time and so the inclusion or activation of debt freeze/waiver terms is not merely the unilateral exercise of a contractual option by the consumer. Any modifying agreement would need to comply with CCA rules including on pre-contractual information and explanations.
- 2.60 Breach of the Agreements Regulations renders an agreement unenforceable without a court order, and may lead to enforcement or licensing action.

Unfair/improper business practices

- 2.61 The following is a **non-exhaustive** list of business practices that we would be likely to regard as unfair or improper (whether unlawful or not) in relation to debt freeze/waiver and other protection products or product features, and so may impact on fitness to be licensed under the CCA.
- 2.62 The practices in question include:
- Misrepresenting the nature and extent of the payment protection product, or the associated terms and costs, or failing to explain these adequately. For example, giving undue prominence to the benefits of the product as compared to the costs and any restrictions or limitations.
 - Pressurising the consumer to opt for the product or offering undue incentives to do so. For example, implying that payment protection is mandatory (where this is not the case) or that opting for it will impact on the creditor's decision to offer credit or the terms of the credit.
 - Misrepresenting the position if the consumer does not opt for payment protection. For example, suggesting that debt recovery procedures will be initiated when this is unlikely to be

the case because the creditor has a policy of not pursuing debts in certain circumstances or has undertaken under an industry code to show forbearance in the event of payment difficulties.⁴¹

- Misleading the consumer regarding the extent to which a product provides ‘added value’ over and above the creditor’s normal forbearance policies, or applying more restrictive policies on forbearance (once the period of protection has ended) than would otherwise be the case.
- Failing to make clear upfront how the product will operate and the associated procedures and implications, for example in relation to the nature and extent of the triggering events or the claims process.
- Failing to make clear upfront any significant exclusions or limitations on eligibility or any restrictions on the benefits available to the consumer.
- Failing to enable the consumer to ask questions or to obtain further information or explanation before entering into the credit agreement.
- Failing to have proper regard to the consumer’s needs and circumstances, particularly where advice is offered.
- Imposing excessive or disproportionate requirements on the consumer, for example in relation to the evidence required in support of a claim.
- Unduly restricting the consumer’s ability to draw down credit in the event of a claim (for example, by suspending the right to use a credit card without good reason).
- Unduly restricting the consumer’s ability to opt out of or cancel the product, or to switch to an alternative product, or imposing charges for doing so which are excessive or disproportionate.
- Inadequate procedures in relation to complaints handling.
- In cases where a third party is involved, failing to make clear any relationship between the parties which may impact on the service provided and any advice offered by the third party .

2.63 In some cases such practices may also be actionable under other legislation, such as the CPRs or UTCCRs, or may give rise to or contribute to an unfair relationship within section 140A CCA.

Regulatory compliance

2.64 We expect all licensees to have regard to this guidance, and all other relevant guidance, in any activities involving debt freeze/waiver or other payment protection products, and to comply fully with all relevant legislative requirements.

2.65 We also expect licensees to be able to demonstrate, if challenged, that they have incorporated the guidance into their policies and procedures and are keeping these under review to ensure good outcomes for consumers.

⁴¹ See also chapter 7 of the Irresponsible Lending Guidance and the OFT’s Debt Collection Guidance.

Annex 3: Glossary of terms

3.1 This Annex sets out the definitions of certain terms used in this document, and clarifies the scope of other terms where appropriate.

Term	Definition/Notes
Advertisements Regulations	The Consumer Credit (Advertisements) Regulations 2004 or the Consumer Credit (Advertisements) Regulations 2010, as applicable.
Agreements Regulations	The Consumer Credit (Agreements) Regulations 1983 or the Consumer Credit (Agreements) Regulations 2010, as applicable.
APR	The annual percentage rate of charge for credit.
BIS	The Department for Business Innovation & Skills.
BIS Guidance	<i>Consumer Credit Regulations – Guidance on the regulations implementing the Consumer Credit Directive updated for EU Commission Directive 2011/90/EU (effective 1 January 2013)</i> (August 2010, revised November 2012) – www.bis.gov.uk/assets/biscore/consumer-issues/docs/c/12-1264-consumer-credit-directive-guidance
CC	The Competition Commission.
CC's Order	<i>The Payment Protection Insurance Market Investigation Order 2011</i> – www.competition-commission.org.uk/inquiries/ref2010/ppi_remittal/pdf/PPI_Market_Investigation_Order_(2011).pdf See also the <i>Explanatory Note to accompany the Payment Protection Insurance Market Investigation Order 2011</i> .
CCA	The Consumer Credit Act 1974 and associated regulations.
CCD	The Consumer Credit Directive – <i>Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC</i> .
Consumer	In the case of a credit agreement, this includes an actual or prospective debtor (or the hirer under a hire-purchase or consumer hire agreement where applicable).
Cover	The risks against which the consumer is protected and/or the benefit offered by a payment protection product (whether insurance or non-insurance).
CPRs	The Consumer Protection from Unfair Trading Regulations 2008. See also <i>Consumer Protection from Unfair Trading Regulations 2008</i> (March 2008) – www.offt.gov.uk/shared_offt/business_leaflets/cpregs/oft1008.pdf

Credit agreement	A consumer credit agreement or consumer hire agreement which is regulated under the CCA (including a second charge mortgage).
Creditor	The person providing credit under a credit agreement or RMC or the person to whom the original creditor's rights or obligations have transferred. It includes the owner under a hire-purchase or consumer hire agreement where applicable.
Debt freeze	<p>A payment protection product under which a creditor agrees to temporarily suspend all or part of the debtor's obligation to make payments under a credit agreement or RMC on the occurrence of relevant events, typically in return for some form of payment such as a fee or an increased interest rate.</p> <p>This may be limited to suspension of interest and/or charges or may extend to capital repayments. Interest may or may not continue to accrue, and no part of the existing debt is cancelled. The debtor's obligation to make payments resumes upon expiry of the period, and the duration of the agreement is typically extended.</p> <p>Debt freeze is also sometimes referred to as 'debt suspension'.</p>
Debt Collection Guidance	The OFT's guidance <i>Debt collection: OFT guidance for businesses engaged in the recovery of consumer credit debts</i> (OFT664Rev2), November 2012 – www.of.gov.uk/about-the-oft/legal-powers/legal/cca/debt-collection
Debt Management Guidance	The OFT's guidance <i>Debt management (and credit repair services) guidance</i> (OFT366rev), March 2012 – www.of.gov.uk/about-the-oft/legal-powers/legal/cca/debt-management http://www.of.gov.uk/shared_of/business_leaflets/credit_licences/of366.pdf
Debt waiver	<p>A payment protection product under which a creditor agrees to waive interest and/or charges for a period on the occurrence of relevant events, typically in return for some form of payment such as a fee or an increased interest rate.</p> <p>In effect, the interest and/or charges are cancelled and do not become payable subsequently. Part of the existing debt may also be cancelled.</p> <p>Debt waiver is also sometimes referred to as 'debt cancellation'.</p>
Debtor	The person receiving credit under a credit agreement or RMC or the person to whom his rights and duties have passed by assignment or operation of law.
Disclosure Regulations	The Consumer Credit (Disclosure of Information) Regulations 2004 or the Consumer Credit (Disclosure of Information) Regulations 2010, as applicable.
Distance Marketing Regulations	The Financial Services (Distance Marketing) Regulations 2004.

Firm	In respect of licensees or applicants for licences under the CCA, references to ‘firms’ include sole traders, partnerships and other unincorporated bodies.
FSA	The Financial Services Authority.
FSMA	The Financial Services and Markets Act 2000.
Handbook	The FSA’s Handbook of rules and guidance.
ICOBS	The <i>Insurance: Conduct of Business sourcebook</i> module of the Handbook.
Insurer	A firm with permission to effect or carry out contracts of insurance.
Irresponsible Lending Guidance	The OFT’s guidance <i>Irresponsible lending – OFT guidance for creditors</i> (OFT1107), March 2010 (updated February 2011) – www.of.gov.uk/about-the-oft/legal-powers/legal/cca/irresponsible
LATSS	Local Authority Trading Standards Services.
MCOB	The <i>Mortgages and Home Finance: Conduct of Business sourcebook</i> module of the Handbook.
MI	Management information.
OFT	The Office of Fair Trading.
Payment protection products	<p>Products or product features which are designed to offer individual consumers short-term protection against potential loss of income, by providing the means for them to meet (or temporarily suspend) their financial obligations including repayments under a credit agreement or RMC.</p> <p>The protection will typically be triggered by life events such as accident, sickness and/or unemployment, although other events may be covered where they impact on the consumer’s ability to meet certain financial commitments. The triggering events will usually be specified in the agreement but may be subject to some discretion (by the firm) at the time of claim.</p> <p>Payment protection products include in particular STIP and debt freeze/debt waiver.</p>
PCI	Pre-contract credit information.
Policyholder	The person who for the time being is the legal holder of an insurance policy, including any person to whom, under the policy, a sum is due, a periodic payment is payable or any other benefit is to be provided or to whom such a sum, payment or benefit is contingently due, payable or to be provided.
PPI	Payment protection insurance.

Principles	The 11 Principles for Businesses set out in PRIN 2.1.1R.
RMC	Regulated mortgage contract – a first charge mortgage which is regulated by the FSA under FSMA.
Regulatory framework	Either the Financial Services and Markets Act 2000 (FSMA) regime or the Consumer Credit Act 1974 (CCA) regime.
RPPD	The FSA’s regulatory guide <i>The Responsibilities of Providers and Distributors for the Fair Treatment of Customers</i> .
STIP	<p>Short-term income protection – A contract of insurance which provides a pre-agreed amount paid directly to the Policyholder or the Policyholder's nominee in the event the Policyholder experiences involuntary unemployment or incapacity as a result of accident or sickness and may be combined with other forms of insurance cover or include other benefits and which:</p> <ul style="list-style-type: none"> (a) has a maximum time-limited benefit duration; (b) is written for a term which is less than 5 years and not predetermined by the term of any credit agreement or RMC; and (c) can be terminated by the Insurer. <p>(This mirrors the CC’s definition of STIP).</p>
SYSC	The <i>Senior Management Arrangements, Systems and Controls</i> module of the Handbook.
TCC	Total charge for credit.
TCC Regulations	The Consumer Credit (Total Charge for Credit) Regulations 1980 or the Consumer Credit (Total Charge for Credit) Regulations 2010, as applicable.
TCF	The FSA’s <i>Treating Customers Fairly</i> initiative.
UTCCRs	The Unfair Terms in Consumer Contracts Regulations 1999.