

Redress for payment protection insurance (PPI) mis-sales

Update on progress and looking ahead

August 2014



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1.

Foreword by Clive Adamson – Director of Supervision

Payment protection insurance (PPI) has developed into the biggest issue of financial mis-selling in recent years and has significantly damaged public trust in financial institutions. Ensuring that firms put things right by handling PPI complaints fairly is vital to resolving the issue and rebuilding public confidence, and is a priority for the Financial Conduct Authority (FCA).

Much progress has already been made. Firms have now handled over 13m PPI complaints and customers have received over £16bn in redress so far – making it already the largest financial services redress exercise ever undertaken in the UK.

The FCA has remained closely involved in this process, to try to ensure that firms are arriving at the right outcome when considering PPI complaints, and that customers understand any redress offer made or the reasons why their complaint was rejected.

Firms are also proactively sending over 5m letters to customers they have identified as being at high risk of having suffered a past mis-sale but who have not complained. These mailings will have a particularly significant role in addressing remaining areas of detriment, restoring consumer trust and achieving eventual closure of this issue.

Given the scale of the issue, it is unsurprising that there has been a high degree of public interest in, and some critical scrutiny of, our PPI work and its progress. So this report provides our first comprehensive summary of the key statistics concerning PPI complaint volumes and redress.

This report also describes our assurance work with the six larger firms that receive around 80% of PPI complaints. Some of these firms have given us assurance that they have approaches, processes and controls in place which are likely to reliably and consistently deliver fair outcomes to PPI complainants. But some of these firms, while providing fair outcomes to complainants in many cases, have still not assured us on this, and so we are continuing to work closely with them concerning specific aspects of their PPI complaint-handling processes and controls.

We also continue to work closely with the medium-sized firms we reported on in September 2013, to ensure that they too can provide us with sufficient assurance that their PPI complaint handling is delivering fair and consistent outcomes to consumers.

Nearly all of the firms in our project have committed to reassess various sets of PPI complaints which they rejected in past periods when their approach to PPI complaint handling was not necessarily as robust and well controlled as it is now.

We are reviewing the scope and conduct of firms' proactive mailings to high-risk non-complainants.

By setting out clearly what has been achieved and what remains to be done, we hope this report will reassure stakeholders that the process for consumers to claim PPI redress is working well, and that the PPI issue is now entering what we believe to be its final stages.

2. Summary

Who is this report aimed at?

This report is for anyone with an interest in PPI (including consumers, consumer organisations, advocates who take forward PPI complaints on behalf of consumers, and firms that sold PPI) and anyone interested in the FCA's performance and accountability.

Key points

- The process for consumers to claim PPI redress is working well.
- Over 13m PPI complaints have been made to firms since 2007. Firms have upheld around 70% of these complaints and paid over £16bn back into consumers' pockets.
- But there have been shortcomings in the way some firms handled some PPI complaints in certain periods, and this was reflected in too many complaints being rejected in later 2012 and early 2013.
- We have looked very closely at these shortcomings and taken action to ensure they were corrected and that relevant approaches, processes and controls were improved. We used robust supervisory discussion with firms to achieve this but also formal methods to seek assurance where necessary (such as commissioning independent reviews of some firms' PPI complaint handling).
- Our intensive work with firms has led them to improve their assessments of PPI complaints, and this was reflected in higher uphold rates in later 2013 and to date.
- As a result of our work, firms have agreed to reassess 2.5m PPI complaints which they rejected (or potentially paid too little redress to) in earlier periods.
- We continue our intensive work with some firms to seek further assurance about the robustness and consistency of their approach in specific areas where this is still required, including ensuring that their complaint-handling policies and procedures are consistent with learnings from previous Financial Ombudsman Service decisions.
- We continue to be vigilant for any new issues that arise and will act quickly to fully understand them and, where necessary, intervene to make sure consumers get a fair deal.
- Firms have also now sent 3.2m contact letters to high-risk customers who may have been mis-sold PPI but haven't complained, warning them they may have lost out. Customer responses to these contact letters form a significant proportion of current PPI complaints. And firms plan to send nearly 2m more of these contact letters in the coming months.

- Assessing the fairness and scope of firms' mailings to these high-risk non-complainants is a main focus of our PPI supervisory work in the remainder of 2014, because such mailings are key to redressing remaining areas of consumer detriment from mis-sold PPI.
- If i) the long term falling trend in PPI complaint volumes persists, ii) firms continue to improve their PPI complaint handling, and iii) firms complete their proactive mailings satisfactorily, then we hope to be able to scale down our current intensive PPI redress project work to a more 'business as usual' level of supervision during 2015.

3. Background

The PPI product

PPI was sold to borrowers alongside credit products. It was meant to help repay some or all of their borrowing if they lost their income for a period (if, for example, they had an accident, became unemployed or sick, or died). The most commonly sold types of PPI were single premium policies on unsecured loans (around 48% of all PPI policies sold), credit card PPI (around 36%), and regular premium policies on loans or mortgages (around 15%).¹

PPI was not a simple product. It had complex pricing (premiums) and benefits, and detailed policy conditions (including eligibility criteria, exclusions from cover and limitations to benefits). Such details meant that PPI was suitable for some consumers but not suitable for all. So firms should have exercised particular care when trying to sell it.²

PPI mis-selling and the FSA's actions

For reasons that were eventually set out in detail by the Competition Commission³, PPI proved highly profitable to the firms who sold it (particularly in its single premium form). Too many firms too often failed to give a balanced presentation of the product's pros and cons or ensure that a policy was suitable for the consumer's needs. As a result, PPI sales grew rapidly through the 1990s, peaking in 2004. Around 45m policies were sold between 1990 and 2010, worth £44bn in premiums.

Around two thirds of these PPI sales were made before the Financial Services Authority (FSA) – our predecessor regulator – took on the regulation of general insurance selling (on 14 January 2005⁴). The FSA was aware from the outset of potential issues with PPI, but believed its new regime for general insurance sales would address the concerns that had been raised. The FSA assessed firms' compliance with the new requirements in a thematic review of PPI selling practices in 2005. This identified and set out significant shortcomings in many firms.

- 1 For PPI on unsecured and secured loans, the consumer typically had to pay a 'single premium' upfront, which was added to the sum the consumer wanted to borrow. The single premium therefore increased the capital repayments and interest which the borrower had to pay each month during the life of the loan. For rotating credit (credit cards and store cards), premiums were paid monthly and calculated as a percentage of the outstanding balance on the card. For mortgages, the PPI premiums were mostly a 'regular premium' paid monthly.
- 2 PPI was sold either directly by the lender or credit card provider, or indirectly via an intermediary (eg a loan or mortgage broker, or finance broker in, for example, a car salesroom or other store). Sales were mainly conducted face to face (including in bank branches) or by telephone, though some sales were made by direct mail or internet.
- 3 In its final report on its market investigation into PPI, published on 29th January 2009.
- 4 Before this, insurance selling was bound only by a voluntary industry code and the general law. However, our view is that firms' responsibilities in that period had much in common with the FSA's subsequent rules. Also, pre-regulation PPI sales by most firms are covered by FSA and FCA rules concerning fair complaint handling.

During 2006-08, the FSA conducted further extensive reviews (including major mystery shopping exercises) across all sectors of the PPI market. The FSA issued three further updates, explaining the continuing, mainly disappointing, findings from its reviews. The FSA also took enforcement action against 28 firms and seven individuals, with each Final Notice detailing the firms' sales failings and imposing fines.

The extensive selling of PPI finally contracted in early 2009, when the FSA secured an agreement from the industry that it would immediately stop selling single premium PPI. This came ahead of the Competition Commission's proposed prohibitions on selling single premium policies and on selling any PPI at the same time as a credit product. More targeted selling of regular premium protection policies has continued since 2009. Such policies can still meet some consumers' genuine credit protection needs.⁵

The FSA's PPI work then focused on ensuring that firms gave fair assessment, and where appropriate fair redress, to consumers who complained they had been mis-sold PPI. In August 2010, the FSA introduced additional measures to improve significantly firms' handling of PPI complaints.⁶ The banking industry challenged these measures in the High Court, but this was unsuccessful and from April 2011 the FSA's supervisory work was able to move forward.⁷ The FSA began reviewing whether firms had successfully embedded the new measures and were generating fair outcomes for consumers' PPI complaints.

Lessons learned by the FCA

In hindsight, the profits generated for PPI sellers were so large that the FSA's warnings and fines were not enough to change firms' behaviour. We factored this conclusion, and other important lessons from the PPI story, into the design and approach of the new Financial Conduct Authority (launched in April 2013).⁸ We have discussed these changes at length in previous publications⁹, but, to summarise, we learned that we needed to:

- conduct more market analysis, so we can reach a better understanding of whether they are operating well and of how best to resolve any market problems we identify
- seek out the root causes of problems and deal with them at an early stage, because prevention is better than cure
- make more use of our regulatory judgement

5 In January 2013, the FSA and Office of Fair Trading published joint guidance setting out risks and factors for firms to take into account when designing a new generation of payment protection products. <http://www.fsa.gov.uk/static/pubs/guidance/fg13-02.pdf>

6 Policy Statement 10/12 set out once more the common failings in the sale of PPI that the FSA had observed and also how firms should assess fairly the merits of PPI complaints and calculate fair redress for upheld complaints.

7 In October 2010, the British Bankers' Association (BBA) and Nemo Personal Finance Ltd applied for a judicial review of the FSA's measures, which they claimed rested on certain errors of law. The case was heard in January 2011. Mr Justice Ouseley handed down judgment on 20 April 2011 and rejected the BBA's and Nemo's claims. His decision was not appealed by them.

8 During 2013, Sub-committee J of the Parliamentary Commission on Banking Standards (PCBS) took extensive evidence concerning banks' selling practices concerning PPI and other products, including testimony from chief executives. The PCBS's final report (in June 2013) stressed the need for improvement in selling standards and other conduct and made a number of recommendations about how to achieve this. The FCA responded to the PCB's report and recommendations in October 2013 <http://www.fca.org.uk/static/documents/pcbs-response.pdf>

9 <http://www.fca.org.uk/your-fca/documents/approach-to-advancing-its-objectives>

- promote competition in the interests of consumers, which will enable us to take a wider range of more effective actions to address complex issues like PPI in future
- look more closely at the risks to consumers from products' features and design, including restricting their availability where this is necessary to protect consumers
- pursue a more intrusive supervisory framework which closely examines the largest firms' business models (to see where they are making profits or seeking growth), culture (to ensure this puts consumers at the heart of the business model), and financial incentives to staff (an important potential driver of mis-selling)¹⁰ and
- engage more directly with consumers and their representatives, so we can understand their concerns, and be more informed about consumers' actual behaviour.

¹⁰ In 2012, the FSA reported the findings of an industry-wide review of sales incentives. This work led to guidance for firms and, in November 2013, to the FCA fining Lloyds Bank £28m for serious failings in its controls over its incentive schemes for advised sales of investment and protection products. At the time this was the largest fine imposed for retail conduct failings and reflected the fact that there had been numerous previous warnings to the industry (including in respect of PPI) about the importance of managing incentives schemes. In March 2014 we published a follow-up report, noting significant progress by firms but also the need for more to be done: <http://www.fca.org.uk/news/tr14-4-risks-to-customers-from-financial-incentives>.

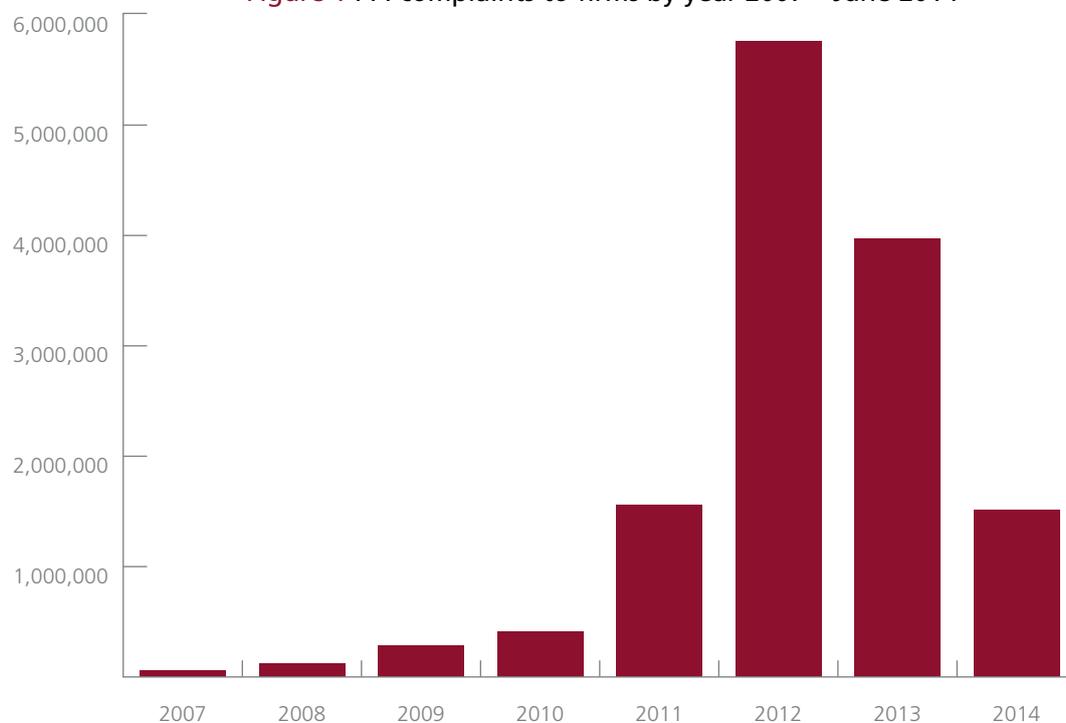
4. Seeking fair redress for mis-sold PPI consumers

The PPI redress project has focused on 24 firms that together receive around 96% of PPI complaints and from whom the FSA and FCA have gathered PPI complaint statistics since 2011. These firms include six larger firms that receive around 80% of PPI complaints, and 18 medium firms that receive around 16%.

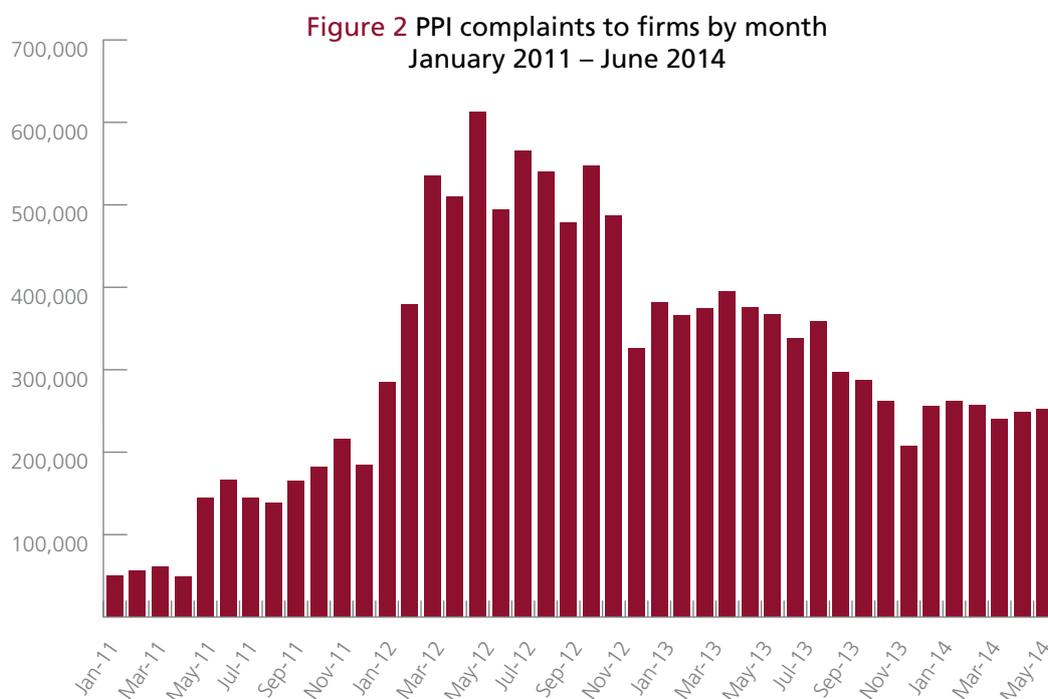
PPI complaint volumes

PPI complaints grew rapidly during and after the High Court case (in January 2011), influenced by the growing activity of claims management companies and their advertising encouraging consumers to complain. In all, over 13m PPI complaints have been made to firms since 2007.

Figure 1 PPI complaints to firms by year 2007 – June 2014



The trend in monthly PPI complaint volumes to firms since 2011 can be seen in Figure 2.



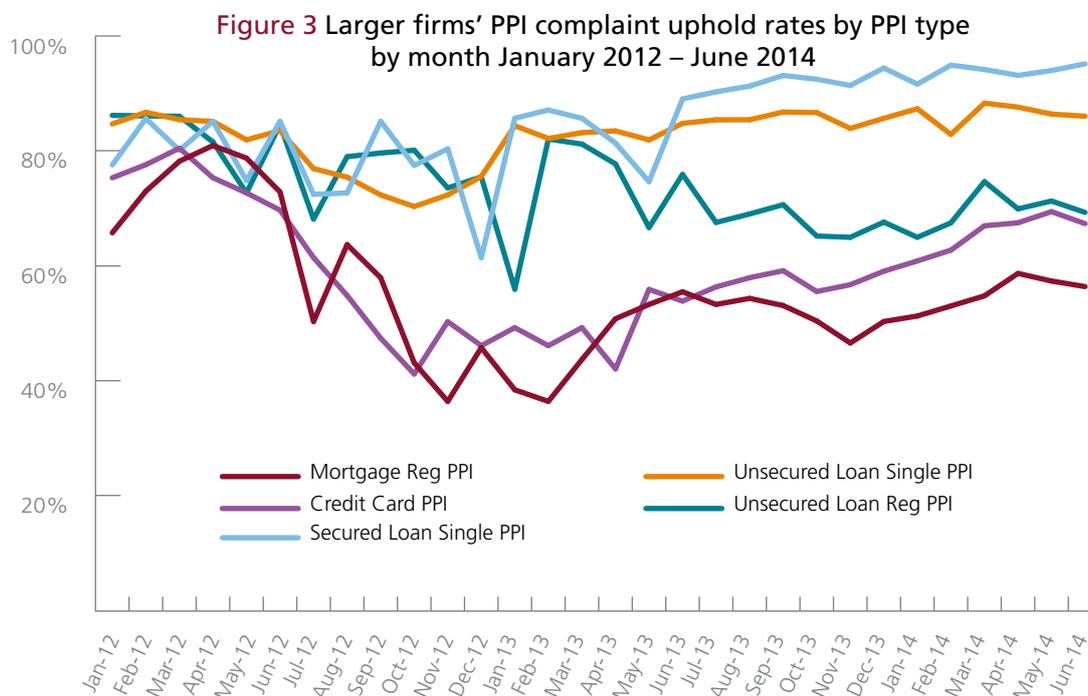
Firms' PPI complaint uphold rates

The outcome of firms' decisions about PPI complaints – in particular the proportion of complaints which the firm upholds in favour of the consumer – is an important factor in our risk assessment of firms' PPI complaint handling. We do not have 'targets' for firms' uphold rates. However, where a firm has generated significantly lower uphold rates than its peers for example, or there has been a significant fall over time in its uphold rate, we have been prompted to look closely at its underlying approach to assessing PPI complaints and to see whether this approach is consistent and fair.

Overall, around 70% of PPI complaints have been upheld by firms to date. But uphold rates have fluctuated significantly over time. In the months following the High Court decision (in April 2011), the larger firms mainly made 'goodwill' payments to most PPI complaints – ie paid redress without assessing their merits – so as to deal quickly with the large volumes (including the many cases that firms chose to put on hold during the court proceedings). This led to over 90% of cases being redressed at that time.

Then in 2012, having rolled out extensive PPI complaint-handling operations and detailed procedures, the larger firms mostly began assessing the merits of individual PPI complaints. This change of approach led to a significant fall in upholds, with the average uphold rate declining to 60% by late 2012 but with some firms' rates falling lower. These trends informed the intensive supervisory work we were undertaking to seek assurance concerning the fairness of firms' PPI complaint handling and consumer outcomes (see Chapter 5).

This intensive assurance work remains ongoing, but as a result of it, uphold rates increased significantly in later 2013.



These trends through 2012-2013 and to date can be seen from Figure 3, which shows the larger firms' uphold rates for complaints about different types of PPI product.

Looking at the detailed data behind this graph, and in the context of our wider assurance work with the larger firms, we note that:

- The uphold rate for the single premium PPI products (the type we previously assessed as most prone to poor selling practices) is now around 85%, and consistent across the larger firms. We are comfortable with most aspects of their approaches to these complaints.
- The uphold rate for credit card PPI is now over 60%, but there is a range of rates across firms. While comfortable with some firms' approaches to these complaints, we are working intensively with others to seek further assurance about their approach.
- The uphold rate for the regular premium mortgage PPI product (the type we previously assessed as least prone to poor selling practices) is now around 50%, and we are comfortable with most firms' approaches to these complaints.

PPI complaint outcomes at the Financial Ombudsman Service

The Financial Ombudsman Service (the ombudsman service) has now received over 1m PPI cases from consumers who were dissatisfied with the responses they received from firms to their complaints. This equates to around one quarter of the PPI cases rejected by firms.¹¹ The outcome of firms' PPI cases at the ombudsman service – in particular the proportion of a firm's decisions overturned by the ombudsman service in favour of the consumer – is another

¹¹ In practice not all PPI cases at the ombudsman service concern rejected complaints: a growing proportion concern the redress sum offered by firms for upheld complaints. We are working closely with firms to correct any shortcomings in calculating redress. We note that several banks now enclose a pamphlet (developed by Which? and MoneySavingExpert) in redress offer letters to consumers, to help them understand the offers and identify any errors.

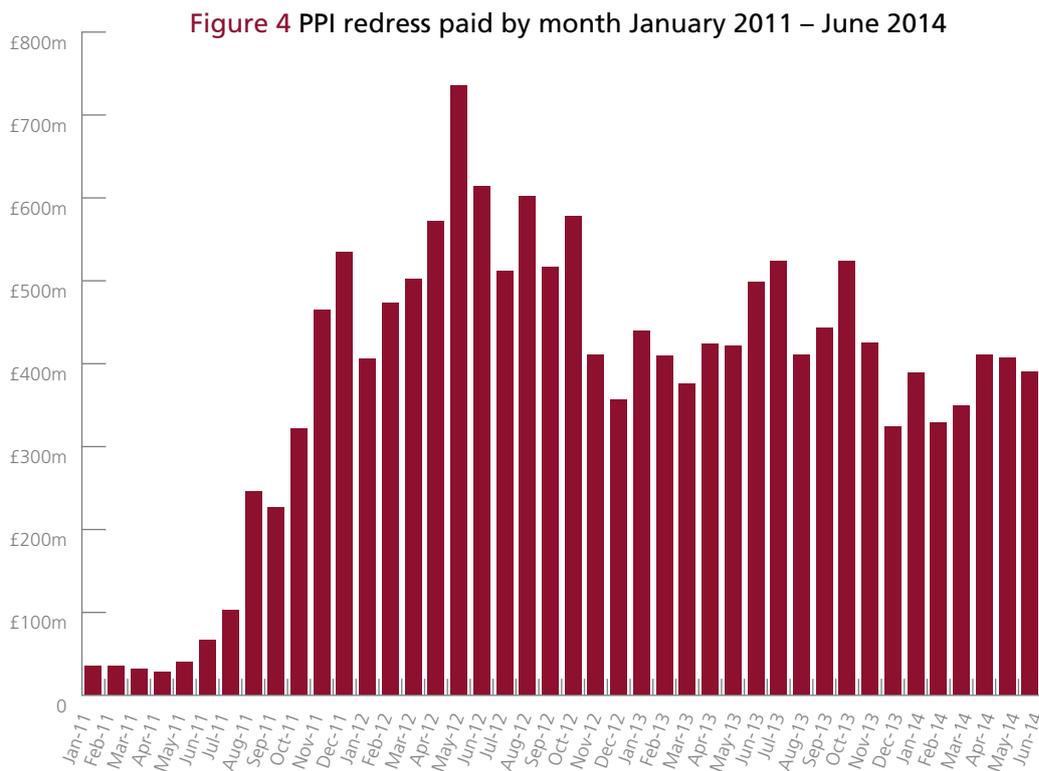
important factor in our risk assessment of firms’ PPI complaint handling.¹² It serves as an independent cross-check on the fairness of firms’ decisions about PPI complaints.

Firms’ average PPI overturn rate at the ombudsman service has improved, from 88% in the second half of 2011, to 60% in the second half of 2012, to 56% in the second half of 2013. We anticipate a further year on year improvement in the second half of 2014.

We have worked closely with the ombudsman service throughout, sharing our respective experience and understanding of PPI issues as appropriate to advance our respective statutory objectives and provide coherent and consistent feedback to firms and consumers.

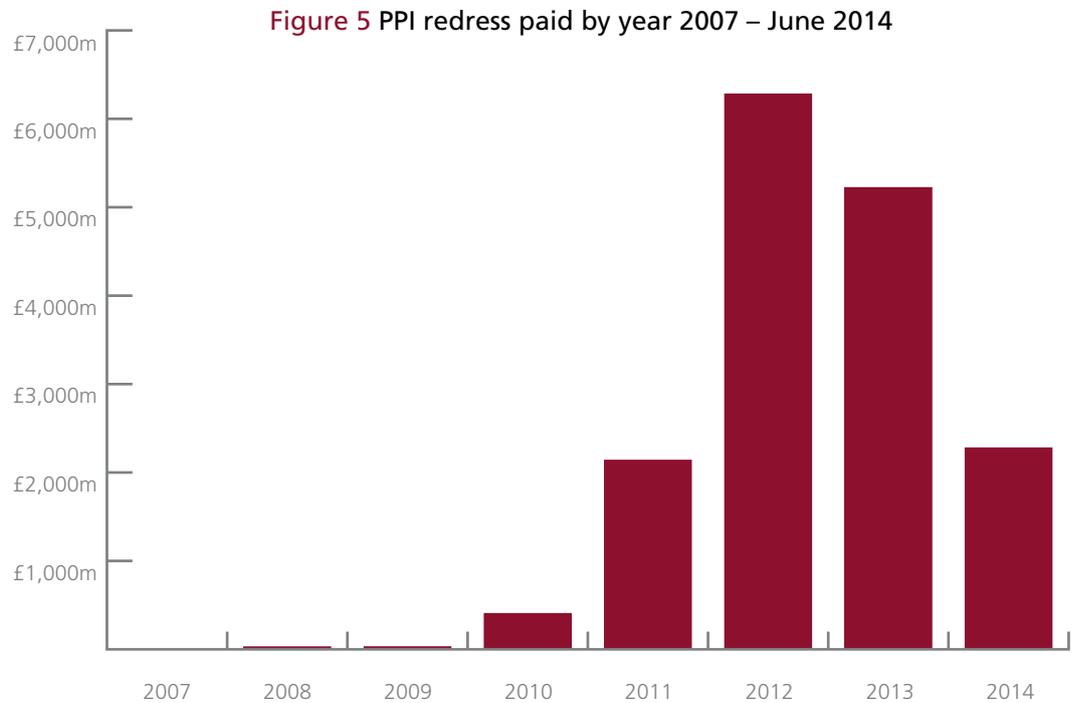
PPI redress paid

The trend in monthly redress paid reflects (at a roughly two month lag) the interaction of the trend in complaint volumes and the trend in uphold rates.



12 It is important to note that a firm’s overall PPI overturn rate at the ombudsman service is also influenced by: i) The mix of its PPI sales and complaints: for example, during 2012 and first half of 2013, the ombudsman service overturned in favour of the consumer around 60% of firms’ decisions about mortgage PPI complaints, 70% for credit card PPI, 80% for secured loan PPI, and nearly 90% for unsecured loan PPI; this reflects the different risks of poor selling and outcomes which the various types of PPI presented; and ii) the fact that, from time to time at the invitation of the ombudsman service, large firms agree to reassess large sets of similar PPI complaints, to ensure their decisions on these cases are in line with the ombudsman’s approach. This can lead to large volumes of cases being settled with the payment of redress, bringing positive outcomes (of reducing the ombudsman service’s workload and giving quicker redress to the consumer) but still counting as ‘overturns’.

In total, firms have so far paid PPI complainants over £16bn of redress, most of it since 2011.



5. Our supervisory work with larger firms

We expect firms' senior management and Boards to ensure they have clear ownership and effective oversight and control of PPI complaints, so that fair and timely outcomes are delivered for consumers who complain.

Since 2012, we have worked intensively with six larger firms who receive around 80% of PPI complaints, seeking assurance about the consistency and fairness of their PPI complaint handling approaches and processes.

We viewed the information they provided in the context of the firms' uphold rates for different types of PPI complaints, their record at the ombudsman service, and the wider intelligence we receive from various sources, including claims management companies. We also held regular meetings with the executives in each firm accountable for PPI complaint handling. In some cases, we conducted our own review of samples of their PPI complaint decisions.

Some of these larger firms have now assured us of the overall fairness and consistency of their PPI complaint handling approach and controls. They gave us this assurance by providing extensive evidence of their PPI complaint handling processes and procedures, their quality assurance frameworks, their compliance and internal audit reports, the extent and effectiveness of the review work commissioned from external consultants, and the corrective measures they had taken in light of the findings from those reports and reviews. But we have asked these firms to make certain specific further improvements, for example to:

- their decision-making concerning particular specific scenarios that feature in some types of PPI complaint, and to their redress calculations in certain scenarios and
- the quality and clarity of the final decision letters they send to complainants (to ensure these are clear, fair and not misleading).

We have also asked these firms to provide us with formal attestations (from their responsible senior executives) that they have completed the specific necessary corrective changes and are now in full compliance with our rules on the fair handling of PPI complaints.

The remaining larger firms, while providing fair outcomes to complaints in many cases, have not yet given us this level of assurance. Having reviewed all the material and data they provided to us, we are still working with these firms to confirm that they have, for example:

- designed adequate corrective work in light of the results from the internal and external reviews they have carried out, and overseen this work robustly to ensure that corrections are effectively delivered and implemented

- given their complaint handlers guidance on how to make fair decisions in various types of scenario that is sufficiently balanced and clear, including about how to appropriately incorporate results from root cause analysis of recurrent past sales failings into decisions on individual PPI complaints and
- exerted sufficiently robust quality control over PPI complaints decisions.

We have asked independent external consultants to probe these remaining firms' approaches and practices through large scale reviews.¹³ Such a review tests these aspects in detail and sets out the nature of any significant shortcomings in the firm's approach to, or controls over, its PPI complaint handling. Corrective actions are then agreed with the firm in light of those shortcomings and we also ask the independent reviewers to sample and test the changes then made by the firm. This is to assess whether the firm has properly implemented the changes and is delivering improved consumer outcomes in practice.

These firms are currently at different points of this cycle of assessment, correction and follow-up. We are likely in due course to ask these firms to provide us with formal attestations (from their responsible senior executives) that they have completed all necessary corrective changes and are now in full compliance with our rules on the fair handling of PPI complaints.

Despite firms' commitment to making improvements, where we have identified very serious past failings in firms' PPI complaint handling we will consider taking more formal regulatory actions. We would also expect firms to significantly reduce deferred awards and/or future bonuses to the senior executives accountable for those failings.¹⁴

The larger firms have committed to reassess, under their current process, over 2m PPI complaints which they had rejected (or potentially paid too little redress to) in earlier periods, and pay those complainants (more) redress where appropriate.

¹³ Such external consultant reviews are an important supervisory tool we can use where an independent assessment of a particular issue in a regulated firm is appropriate. We control the scope of the review and the regulated firm pays the costs. When deciding whether we need to require such an external review, we will consider factors such as the scale of the issue, whether we feel we have enough information to be sure we understand the risks concerning the issue, and whether the firm has the skills and willingness to do any investigative or remedial work itself.

¹⁴ Technically speaking, such reduction of future bonuses or deferred awards is called 'applying *malus*'.

6. Update on work with medium-sized firms

In September 2013, we reported on our work among 18 medium-sized PPI firms.¹⁵ This involved assessing samples of the firms' PPI complaint files, to test whether their decision making and redress calculations were delivering fair outcomes to consumers. From our outcome testing, we identified six of these firms as mainly delivering fair outcomes to PPI complainants, but 12 firms as posing a high risk of consumer detriment. Since then, we have followed up with all 18 firms, providing them with individual feedback on our findings.

We asked each of the 12 high-risk firms to tell us why the complaint-handling failings had occurred and how they intended to correct those failings. We also asked them to reassess customers whose complaints had potentially been rejected unfairly, or who had been paid too little redress, and pay them (more) redress where appropriate:

- The responses from some of the 12 firms have provided us with significant assurance concerning their senior management teams' understanding of the issues and commitment to correcting these and providing improved consumer outcomes. We have asked these firms to provide us with: formal undertakings (from their responsible senior executives) that they will carry out the specific necessary corrective and remedial actions; and formal attestations in due course that they have completed those changes and are now in full compliance with our rules concerning the fair handling of PPI complaints.
- The responses from some others among the 12 firms did not assure us sufficiently concerning their senior managements' understanding of the issues or commitment to correcting them. So we instructed these firms to commission external consultant reviews of their PPI complaint-handling process, to ensure that shortcomings are fully identified and that a detailed programme of correction and redress is designed and implemented. The external consultants will also, in due course, check a sample of the PPI complaints being assessed through the revised complaint-handling process, to ensure that it is now giving fair and consistent outcomes.
- For the remainder of the 12 firms we are currently still assessing their responses and obtaining further information from them where necessary. If, upon the conclusion of this assessment, we feel that we still lack assurance about their approach, we will use appropriate regulatory tools in each case to ensure improved consumer outcomes.

Among the six firms that we originally identified as mainly delivering fair outcomes, we nonetheless fed back to some who were not always calculating redress fairly because they were not taking fully into account the cumulative impact of multiple single premium PPI policies in a chain of refinanced loans. We are satisfied that the corrective and remedial plans proposed by these firms concerning this narrow but important redress issue are fair and robust. We will not assess or follow up further on these firms' action plans.

¹⁵ <http://www.fca.org.uk/your-fca/documents/thematic-reviews/tr13-7>

Despite firms' commitments to making improvements, where we have identified very serious past failings in their PPI complaint handling we will consider taking more formal regulatory actions.

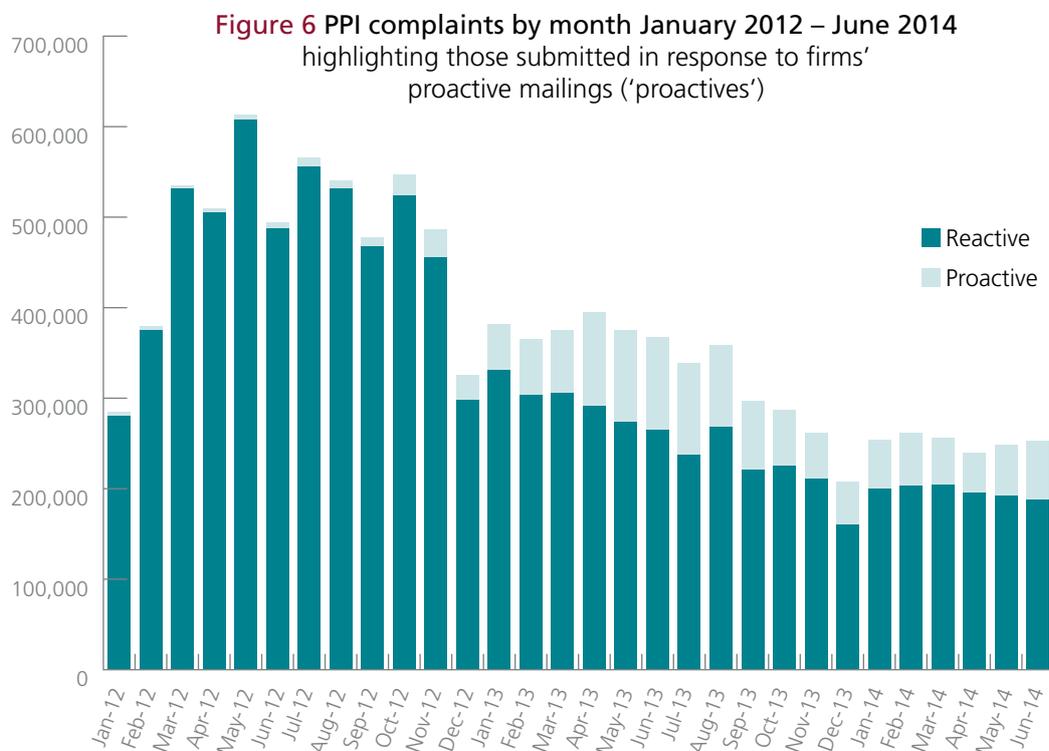
Most of these 18 firms have committed to reassess various sets of PPI complaints which they had rejected (or potentially paid too little redress to) in earlier periods, and pay those complainants (more) redress where appropriate. We continue to discuss this with those who have not yet committed to it.

7. Contacting high-risk consumers who haven't complained

As well as expecting firms to handle PPI complaints fairly, we expect firms to:

- identify from PPI complaints when the same problems in past sales kept occurring and caused subsequent mis-selling complaints (this is called 'root cause analysis') and
- consider what action they may need to take (for example, a proactive customer contact exercise) to ensure the fair treatment of those consumers who may have been affected by such recurrent sales failings but who have not complained.¹⁶

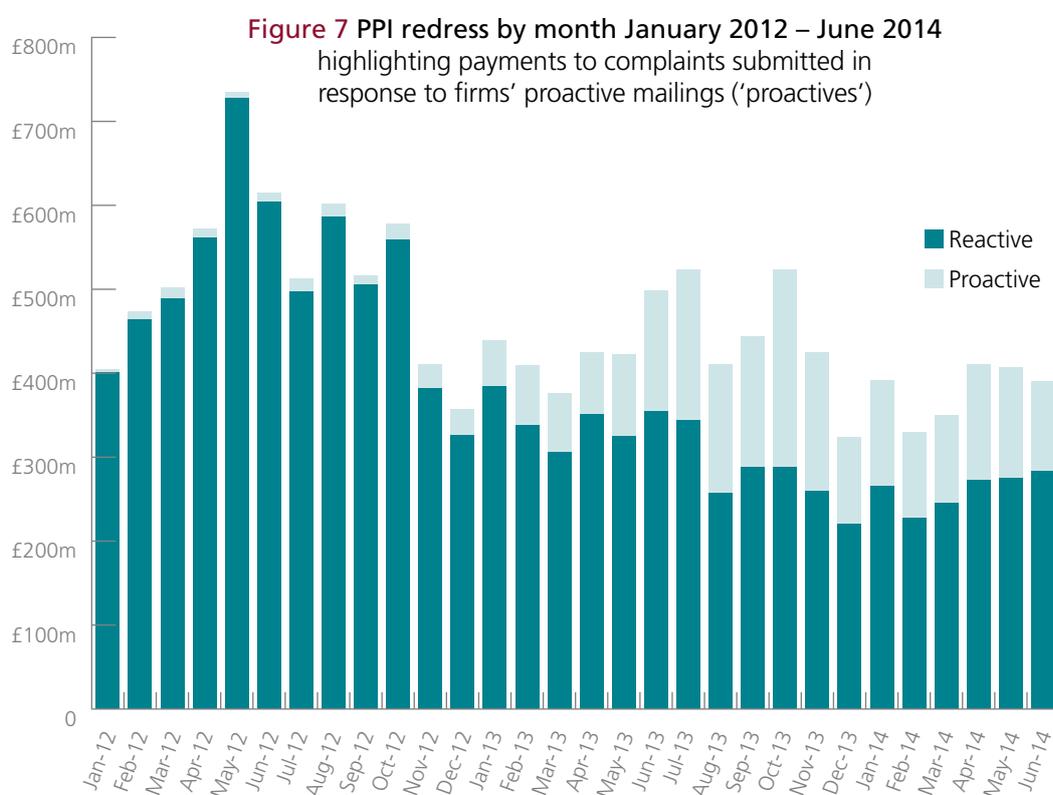
Firms' proactive mailings to these identified high-risk non-complainants are now gaining momentum. Firms have so far committed to mailing over 5m PPI consumers, split between single premium unsecured personal loan PPI (58%), credit card PPI (33%), single premium secured loan PPI (4%), and other PPI (5%). Firms have sent around 3.2m of these letters to date.



¹⁶ These expectations derive from principle for businesses 6 (treating customers fairly and having regard to their interests), as explained in DISP 1.3.3G and 1.3.6G and DISP Appendix 2, 3.4.1G-3.4.3G; see also paras 2.13-2.20 of PS 10/12 (August 2010).

The rate of PPI consumer complaints made in response to these letters, at around 35%, is quite high by the standards of previous large-scale consumer contact mailings on other issues. As a result, a significant proportion of all PPI complaints in 2013 and to date were made in response to firms' targeted contact letters to high-risk customers, as Figure 6 shows.

Firms are upholding around 90% of the PPI complaints that are made in response to these mailings, compared to around 65% for other PPI complaints. This indicates that the letters are effectively targeting high-risk customers. As a result, an even more significant proportion of monthly redress was paid in 2013 and to date to consumers who had responded to firms' contact letters, as Figure 7 shows.



By reaching out to high-risk consumers who have not complained, these proactive targeted mailings play a particularly significant role in addressing remaining areas of detriment, restoring consumer trust and achieving eventual closure of the PPI issue. So, assessing and challenging the adequacy of firms' root cause analysis, and the fairness and scope of their follow-up actions, will be a particular supervisory focus for us in the remainder of 2014. In essence, we will be assessing whether firms have:

- used adequate relevant information about, and drawn reasonable conclusions concerning, the mis-selling risks in different parts of their PPI back books and
- taken fair decisions about whether or not to contact customers in those parts of the back book (or take other fair remedial actions toward them).

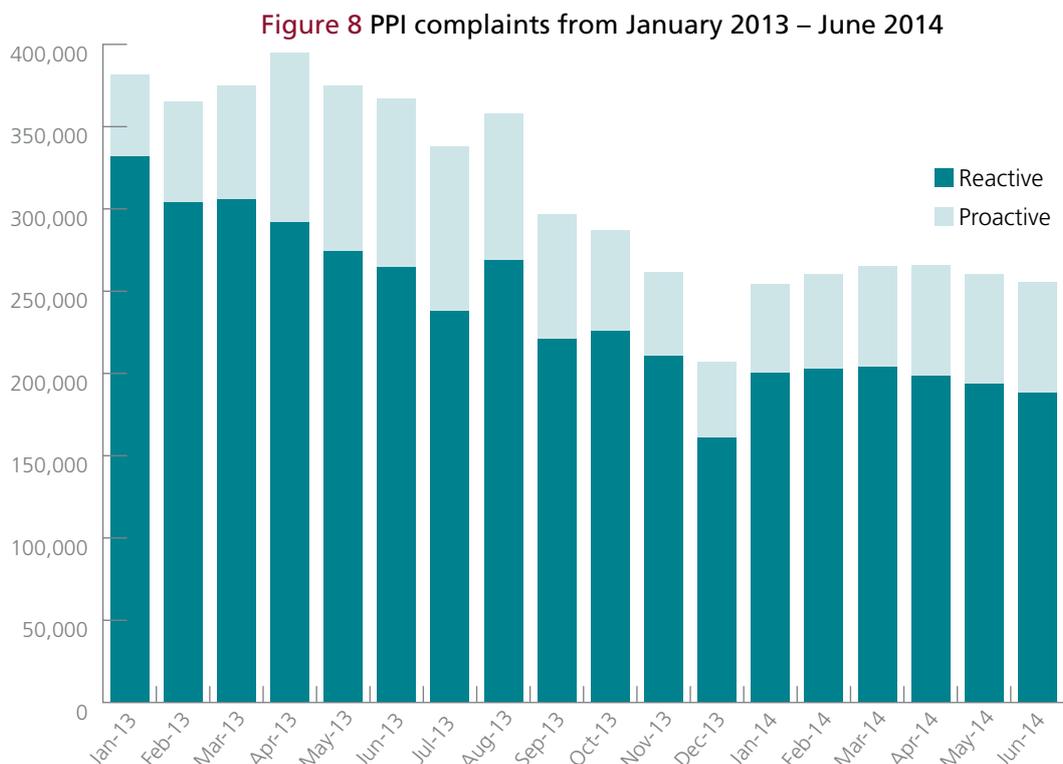
8. Looking ahead

PPI complaints peaked in May 2012 and have been falling gradually but steadily since then (see figure 2 on page 12).

Given what we know of firms’ plans, we anticipate that:

- the proactive mailings currently planned by firms will be mostly completed by the end of 2014 and
- complaints made in response to those mailings will mostly be submitted to firms by the end of 2014 or shortly after.

Predicting future complaint volumes is very difficult. But if we make the mechanical assumption that other PPI complaints (ie those not made by consumers in response to a letter from a firm) simply continue their long term gradually falling trend, then the total number of new PPI complaints to firms would potentially fall to a lower level than now by the end of 2015 (though they will probably still form a significant proportion of total complaints to firms and the ombudsman service).



However, we also note that, as a potential result of our review of firms' root cause risk identification and customer mailings, some firms may need to make some supplementary proactive mailings in 2015 to some other subsets of consumers in their PPI back book, and that this would have some impact on complaint volumes during 2015.

If the long term falling trend in PPI complaint volumes does persist, and is combined with sustained fair decision making by firms and consistent good outcomes for complainants, including satisfactory completion by firms of their proactive mailings, then we would hope to be able to scale down our current intensive PPI redress project work to a more 'business as usual' level during 2015.

9. Alternative strategy for redressing PPI mis-selling?

Parliamentary Committee's recommendation

The Parliamentary Committee on Banking Standards (PCBS) recommended in June 2013 that the FCA should urgently consider again the case for requiring firms to send contact letters to all customers they can identify as ever having been sold PPI¹⁷ to explain potential mis-selling issues and potential detriment. The PCBS felt this approach would help reach as many consumers who may have been mis-sold PPI as possible and give them chance to seek redress, but also serve to help bring the PPI issue to a close (by triggering in recipients 'constructive knowledge' of potential issues with their PPI purchase and thus the start of the three-year time limit for complaining that is set out in our rules).

As noted in Chapter 7, firms are already mailing a large number of high-risk customers in a similar but more targeted way. Our current view is that, at this advanced stage in the PPI redress exercise, making rules to *require* firms to send out untargeted communications to *all* identifiable PPI customers (other than those excepted by the PCBS) may be disproportionate and could involve disruptions for consumers and practical difficulties for firms.

However, we continue to consider the PCBS's recommendation in light of firms' ongoing progress with their mailings and the wider trends in complaint volumes, and we will respond to the PCBS with our definitive view later in 2014.

Alternative approach suggested by some in industry

Some in industry have suggested a different alternative approach whereby:

- the regulator would impose a new single 'final date' by which any further PPI complaints would need to be made and
- firms would warn consumers of this final date, perhaps by media adverts or letters.

We have stated that we are open to discussion of such ideas if they can be shown to be likely to benefit the interests of consumers – for example, by delivering redress to more consumers than our current approach and/or doing so sooner and more efficiently.

So far, however, we have not seen enough detail about how such approaches might work in practice to enable us to assess their potential benefits.

¹⁷ Except those who have already made a PPI complaint or already been contacted as part of any discrete FSA or FCA-led PPI process.

Lessons learned about redress exercises

The PPI redress exercise which the FSA began, and which is described in this report, has led the FCA to learn lessons about the delivery of consumer redress.

We now aim to take forward redress exercises which are more robust and outcome-focused from the outset, and which deliver redress to consumers more swiftly and to a clear deadline, and also more easily and directly. These positive characteristics should also help to reduce the perceived need for consumers to pay for third party assistance in making their claims or complaints.

This improved kind of approach to delivering redress can be seen starting to operate in the recent Interest Rate Hedging products redress exercise (which has already delivered £1.2b of redress since May 2013) and the Card Protection and Identity Theft Insurance redress exercise.

10. Conclusion and next steps

We are satisfied that our current approach to PPI redress, as set out in this report, is working well. It is providing ready opportunity to PPI consumers to complain and, for the most part, is providing them with fair decisions and, where appropriate, fair redress.

We will continue our intensive supervision of firms' PPI complaint handling to ensure they are delivering fair and consistent outcomes. We will also continue to be vigilant for any new issues that arise; we will act quickly to fully understand them and – where necessary – intervene to make sure consumers get a fair deal.

We will ensure that firms take fair proactive measures towards groups of customers they have identified as at high risk of mis-sale but who have not complained.

We anticipate publishing another, potentially final, update on the PPI issue in 2015, setting out the further progress that firms have made and what work if any remains still to do.

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PUB REF: 004931

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