NEW CITY AGENDA

Payment Protection Insurance

PPI scandal will cost over £50 billion, but billions will remain unclaimed

The PPI scandal is the biggest in the history of UK financial services with over £48.5 bn set aside so far to pay redress to consumers and cover administrative costs. Consumers have until the end of 29th August to complain to their bank about PPI.[1] If their bank rejects their complaint then the consumer would then have 6 months from the date of the response to take their complaint to the Financial Ombudsman.

£48.5 bn is more than five times the cost of the London 2012 Olympics and over £700 for each person in the UK. Major banks have only made contact or received complaints from around half of the consumers they sold PPI to since 2000. Banks are paying redress to around 80%-90% of the complaints they receive about PPI policies.[2]

PPI mis-selling started with a poor quality and poor value products and was fuelled by inappropriate staff incentive schemes and toxic sales cultures. Bank staff were put under heavy pressure to sell PPI – given bonuses if they did and threatened with disciplinary action and performance management if they failed to hit targets. Advisers at Alliance and Leicester got six times as much bonus for selling a loan with PPI than they did for selling a loan without PPI. The RBS staff incentive scheme gave staff double bonus points for selling PPI with a loan. The former chief executive of RBS retail said that he did not sign off this part of the RBS staff incentive scheme and was not aware that there were double points for PPI sales.

How much has the PPI scandal cost individual banks and were senior executives held accountable?

Lloyds tops the league table for setting aside the most amount of money at £20.2 bn, despite former Chief Executive Eric Daniels telling the Parliamentary Commission on Banking Standards that when it came to PPI Lloyds was "on the side of the angels". At the peak of the scandal Lloyds employed over 7,000 people to handle PPI complaints.[3] Lloyds was fined £117 million by the FCA in 2015 for failing to deal with PPI complaints fairly. The Lloyds CEO at the time, Antonio Horta-Osorio had just £234,000 of bonuses clawed back equivalent to less than 0.7% of his £33 million in pay over a five year period.[4]

New City Agenda found that the only senior executive of a major firm fined by the regulator for presiding over the mis-selling of PPI was the Chief Executive of Land of Leather - a sofa shop.

---

[1] Consumers with live PPI policies will still be able to complain to their bank if the bank rejects a claim on the policy after 29th August 2019.
[2] Where the consumer is found to have had a PPI policy.
[3] https://www.lloydsbankinggroup.com/Media/Press-Releases/2015/lloyds-banking-group/lloyds-banking-group-reaches-settlement-on-ppi-complaint-handling/
[4] Lord McFall, Real Bonuses for Fake Profits Still Abound in Banking

New City Agenda Ltd, 20-22 Wenlock Road, London N1 7GU
T: +44 (0)20 3397 7875 www.newcityagenda.co.uk

NEW CITY AGENDA

Cost of PPI scandal – Top 10 banks

Bank	Cost of PPI scandal
Lloyds banking group	£20.2 billion
Barclays	£9.7 billion
RBS	£5.3 billion
HSBC	£3.8 billion
Yorkshire bank / Clydesdale	£2.7 billion
Bank of America (MBNA)	£1.8 billion
Santander	£1.6 billion
Citibank (Egg)	£0.8 billion
Northern Rock / UKAR	£0.6 billion
Co-operative bank	£0.5 billion
Other	£1.5 billion
Total	£48.5 billion

Key facts about PPI

How much PPI was sold?

The FSA estimated that £44 billion of PPI in premiums was sold by the banks (1996-2012) with profits of at least £21 billion. This is an underestimate as it doesn't take into account the additional money banks made on charging people interest on the PPI - remember that when they gave a consumer a loan of say £60,000 and then charged £10,200 for PPI, the consumer actually paid interest on the full £70,200 so the banks made extra money there as well.

In 2003, PPI was sold alongside 58% of personal loans, 20% of first-charge mortgages, 39% of credit cards, 83% of second-charge mortgages, 19% of motor finance agreements and 7% of overdrafts.[5]

Why was PPI so profitable?

Just 16% of PPI premiums was paid out in claims during 2002-2006. Banks received very high levels of commission for selling PPI, with average commission rates between 50% and 80% of the premium. Lloyds Banking Group sold PPI which paid the bank 87% commission - when charging a borrower £10,200 in PPI premiums the bank got £8,887.49 in commission.[6]

[5] Competition Commission, PPI Final Report, Table 2.5
[6] http://www.bailii.org/ew/cases/EWCA/Civ/2011/1128.htm

These factors meant that PPI represented a significant percentage of retail banking profits in the years in which it was sold. For Lloyds TSB, PPI net income (after claims and expenses) accounted for an average of more than a third of retail banking and general insurance pre-tax profits in 2004, 2005 and 2006. At Barclays, PPI "comprised between 32% and 42% of Barclays' UK retail and business bank pre-tax profit between 2001 and 2005."[7]

What percentage of complaints are being upheld by the banks?

Since 2014, banks have been upholding 71% of complaints made about PPI mis-selling.[8] Even if a consumer has their complaint about mis-selling rejected, 68% of consumers complaining about the bank failing to disclose excessive commissions for selling PPI - "Plevin Complaints" – are having their complaint upheld. This means that overall, around 80%-90% of people who complain about PPI and actually hold a policy receive some compensation.

What proportion of consumers who were sold PPI have complained?

Most banks don't publish data on what proportion of people have made a complaint - but Lloyds and HSBC bank include some numbers in their annual reports. Given this it is fair to say that around half of PPI sales since 2000, consumers have either made a complaint or been sent a letter - but the other half, people have either not made a complaint or not been sent a letter. There will also be some sales in the 1990s, but there are no good sources of data about what percentage of those have complained.

Lloyds bank "estimates that it has sold approximately 16 million PPI policies since 2000. These include policies that were not mis-sold and those that have been successfully claimed upon. Since the commencement of the PPI redress programme in 2011 the Group estimates that it has contacted, settled or provided for approximately 53 per cent of the policies sold since 2000."

HSBC: "At 31 December 2018, the estimated total complaints expected to be received were 2.3 million, representing 42% of total policies sold. It is estimated that contact will be made with regard to 2.6 million policies, representing 49% of total policies sold. This estimate includes inbound complaints as well as the Group's proactive contact exercise on certain policies ('outbound contact')."

How does the cost of the PPI scandal compare to the cost of other financial scandals?

PPI is the largest scandal in the history of the financial services industry. New City Agenda calculate that including PPI, the UK's retail banks have had to pay out over £67 billion in

[7] The Salz Review, An Independent Review of Barclays' Business Practices, April 2013 para 6.18
[8] https://www.fca.org.uk/publication/corporate/ppi-complaints-deadline-progress-report.pdf

NEW CITY AGENDA

fines, redress payments and administrative costs since 2000.[9] PPI is the largest cost, followed by mis-selling of Interest-Rate Hedging Products (£4.8 bn), endowment mortgages (£1.9 bn), mortgage misconduct (£1.6 bn) and packaged bank accounts (£1.5 bn).

Widening it out to include scandals in other sections of the financial services industry such as the insurance and financial advice sector the two largest scandals away from PPI were pensions mis-selling in the 1990s which cost £11.8 bn and endowment mortgages which cost over £2.7 bn.

Were banks warned that they were mis-selling PPI?

Banks ignored the warning signs of mis-selling. Banks failed to heed the warnings of mis-selling from consumer groups and politicians. Which? conducted research and warned of PPI mis-selling in 2002, 2004, 2005 and 2007. Banks continued to automatically include PPI when a consumer asked for a quote for a personal loan. Mystery shopping found that banks failed to check whether the policies they offered were suitable for consumers and staff failed to highlight key exclusions and limitations of the insurance. Banks also failed to learn from customer complaints and feedback. If banks had acted on these warnings, then mis-selling could have been prevented at a far earlier stage. Even when the FSA got involved after 2005, the financial penalties imposed on banks for mis-selling PPI were a tiny proportion of the revenue gained from selling the products

Contact

For any questions regarding PPI or interview requests please contact:

Dominic Lindley, Director of Policy, New City Agenda,
dominic.lindley@newcityagenda.co.uk

[9] https://newcityagenda.co.uk/the-top-10-retail-banking-scandals-50-billion-reasons-why-shareholders-must-play-a-greater-role-in-changing-bank-culture/