

Niche Article for October 2007

Not the credit crunch?

As the world appears to be crunching credit faster than Madonna in a weight loss work-out, I thought I would turn to that other hot potato in the world of secured loans – Payment Protection Insurance.

As the Competition Commission move to complete their first phase work, by the time you read this the FSA will have issued its findings on their phase three thematic work on PPI. Based on their findings the FSA is extending this phase of work, by continuing their mystery shopping activity and monitoring key MI from the largest sellers of PPI to identify issues and trends. In addition to this we also have the NEWICOB provisions that are currently being consulted on and due to be effective before the end of the year.

If this was not enough, complaint management companies are looking at PPI as their next target and brokers will have to be prepared to deal with what could be a very expensive battle. The use of “standard letters” available both on web-sites and via the “ambulance chasers” needs to be challenged. Customers need to be asked to set out the precise nature of their complaint.

To be operating compliantly today, in addition to the more standard disclosures, firms need to be

- Explaining how a single premium policy is funded, including the details of adding the premium to the loan and that interest is paid on that amount.
- Explaining that the insurance might not match the period of the loan and the impact.
- Explaining the refund policy and the potential impact of early repayment of the loan.
- Ensuring that the customer is eligible to claim under the various elements of the policy.
- Explaining all the significant exclusions and limitations.
- When advising, recording adequately why the recommended policy meets the customer’s needs.

Those advising on or selling PPI need to be considering carefully how much of this must be done both verbally and in writing and how adequately they can demonstrate that they have done all of this. Where only single premium is offered, can the firm demonstrate why they have made that decision?

This is the time when broker firms need a strong, inclusive and well funded trade body. Join or you will not be well briefed on what will be a crucial area in the next 6 months.

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