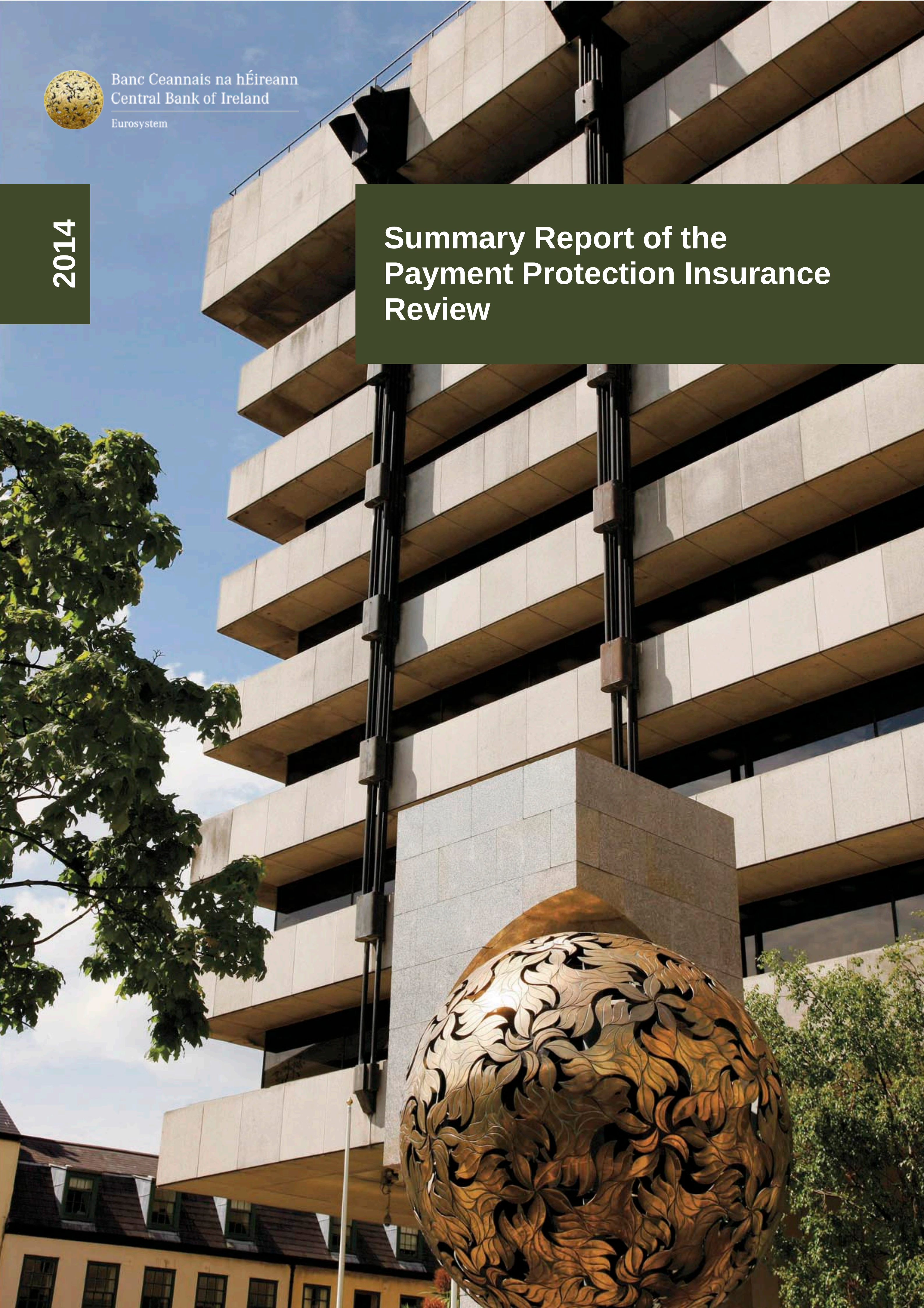
Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

2014

Summary Report of the Payment Protection Insurance Review



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1. Introduction

The Central Bank of Ireland ("Central Bank") has an important role in ensuring that the best interests of consumers of financial services are protected. A key part of the consumer protection framework is the Consumer Protection Code 2006 ("the Code") which came into full effect in July 2007. The Code includes requirements in relation to knowing the customer, suitability and acting in consumers' best interest. The Central Bank views compliance with the Code as being fundamental to consumer protection. A revised Consumer Protection Code was introduced in 2012.

The objective of the 2012/2013 Payment Protection Insurance ("PPI") Review ("the Review") was to identify if there were instances where the Code was not complied with in respect of the sale of PPI by credit institutions and where appropriate to remediate consumers. The Review has resulted in refunds of €67.4 million, including interest of €4.9 million being made to consumers.

2. What is Payment Protection Insurance?

PPI is an insurance policy that covers the monthly debt repayment, for a limited period, on a lending product in the event that the borrower loses his / her income. PPI policies vary depending on the seller, the insured and the related borrowing. Therefore benefits differ across PPI policies.

The most common benefits of these policies for consumers include:

- Repayment of the debt in the event of death life cover (not included on mortgage PPI);
- Payment of a specified number of debt repayments or minimum monthly credit card payments in the event of loss of income due to redundancy or sickness (available to private sector employees), and
- Payment of a specified number of debt repayments or minimum monthly credit card payments in the event of loss of income due to sickness or accident (available to state-employees or the self-employed).

3. Why the Central Bank initiated the Review

In 2012 the Central Bank reported on its 2011 themed inspection of PPI sales where claims for unemployment / redundancy were declined due to claimants' employment status. The Central Bank's main concerns arising from the inspection included:

- Firms not gathering sufficient information to enable them to determine whether the product sold was suitable for the consumer;
- Firms treating certain sales as 'execution only' without complying with the relevant requirements of the Code;
- The timing of the provision of key information to consumers by firms;
- Failure to bring key information on policies explicitly to the attention of individual consumers, and
- Poor record keeping and incomplete files.

On foot of the findings of this inspection, and concerns that firms had not acted in the best interests of their consumers, the Central Bank instructed credit institutions to conduct a compliance review of PPI sales.

4. The Scope, Methodology and Controls of the Review

The aim of the Review was to identify any instances where the Code was not complied with in respect of the sale of PPI by credit institutions and, where identified, to provide a straightforward mechanism for premiums, plus interest, to be refunded to customers where compliance with the Code could not be demonstrated. In the case of policies still open at the time of the Review, consumers were given the option of keeping the policy rather than getting a refund, reflecting that while the sale may not have been conducted correctly at the time, the product may now be suitable for the consumer.

Six credit institutions were initially included in the Review in 2012 – Allied Irish Banks plc, EBS Limited, GE Capital Woodchester Limited, permanent tsb plc, The Governor and Company of the Bank of Ireland and Ulster Bank Ireland Limited. An additional five credit institutions were instructed during 2013 to commence a review of their PPI sales. These firms were Bank of Scotland Ireland Limited, Danske Bank, KBC Bank Ireland plc, MBNA Europe Bank Limited and RaboDirect Ireland.

The Review focused on the sale of PPI from 1 July 2007, the date when the Code came into full effect. From that date the requirements in relation to knowing the customer and suitability applied to credit institutions when selling PPI.[1]

Credit institutions included in the Review were required to demonstrate that their PPI sales were in compliance with the Code. This included requirements to assess and evidence suitability and eligibility and to check that claims were not declined for reasons which the seller should have identified during the sales process. Sales were also failed and refunds required where there were deficiencies in systems indicating potential Code failures.

The Central Bank required each credit institution to engage an independent third party acceptable to the Central Bank to oversee each review. In advance of commencing their reviews, firms were required to submit detailed plans for how they would conduct their review, including contacting affected consumers and making refunds where appropriate. Each credit institution's review was closely monitored by the Central Bank on an on-going basis to ensure it was conducted in an orderly, co-ordinated and consistent manner. The Central Bank engaged with and challenged the appointed overseers throughout the Review and as each segment of the PPI population was reviewed. A detailed description of the concerns and expectations regarding compliance with the Code was given by the Central Bank to both the firms and their overseers including the expectation that where compliance could not be demonstrated firms would issue refunds to all relevant customers.

[1] Prior to the Code coming into effect, the Code of Conduct for the Investment Business Services of Credit Institutions set out the rules that applied to credit institutions when acting as insurance intermediaries. This Code of Conduct included requirements on credit institutions to gather information from consumers and having regard to that information to ensure that the advice given was suitable to the consumer. However, these information gathering and suitability requirements did not apply to credit institutions when acting as non-life insurance intermediaries, for example, when selling PPI.

5. Results of the Review

The credit institutions could not demonstrate compliance with the Code in 22% of the sales subject to the Review and therefore these sales failed the Review. This resulted in refunds of €67.4 million, including interest of €4.9 million, on approximately 77,000 policies sold since 1 July 2007.

	In-scope sales[2]	Sales that complied with the Code[3]	Sales that failed to comply with the Code[4]	Fails as a % of in-scope sales	Refunds (Inc. interest)
Total	353,806	276,767	77,039	22%	€67,372,525

Reasons why sales failed:

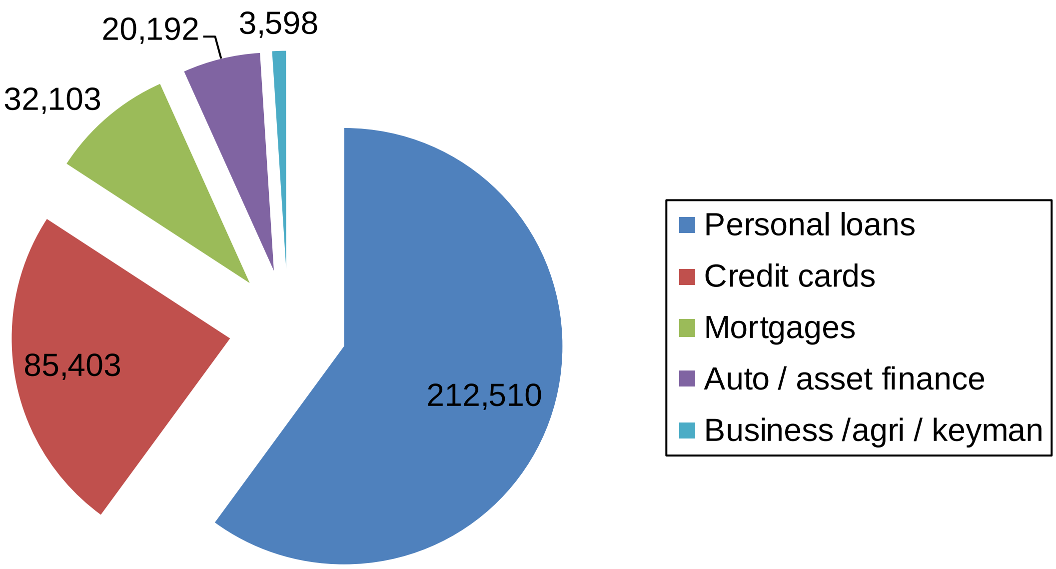
The most common reasons for the failure of PPI sales included:

- Eligibility
- Suitability
- Inability to demonstrate compliance with the Code, e.g. poor record keeping

[2] Sales of policies that consumers successfully complained about in the past, were refunded for previously or made successful claims on were not included in the Review.
[3] Sales that passed the Review are sales that complied with the Code.
[4] Sales that failed the Review are sales that did not comply with the Code or sales where the firm could not demonstrate compliance with the Code.

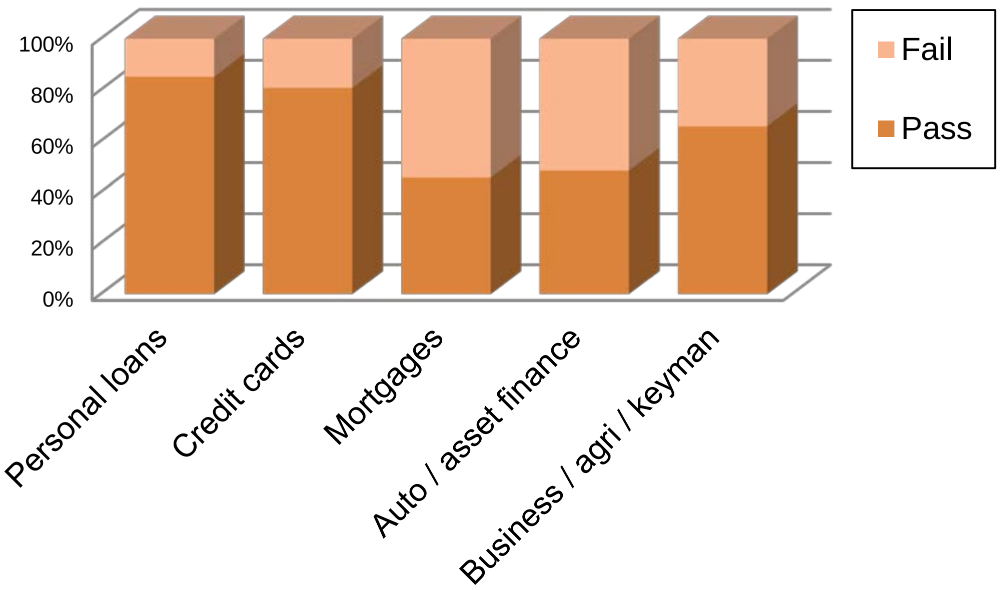
Breakdown of Results by Lending Product:

The chart below details the breakdown of in-scope PPI policies by lending product:



Personal loan PPI sales account for 212,510 (60%) of the in-scope sales; approximately 15% of which resulted in refunds. Mortgage PPI sales account for 32,103 (9%) of the in-scope sales; approximately 54% of which resulted in refunds.

The chart below details the breakdown of results of the Review by lending product:



6. Consumer Communications

Throughout the Review the Central Bank sought to keep consumers up to date on the progress of the Review by issuing periodic information releases and by instructing credit institutions to contact their PPI consumers directly.

Early in the Review all of the participating credit institutions were instructed to contact, by letter, each of their consumers who were sold PPI during the review period. This included consumers who were sold PPI during the period but had since cancelled the policy or whose policy had reached the end of its term, i.e. policies that were no longer open or active. At the end of the Review each consumer was also notified by letter of the outcome of the Review, as it related to their PPI policy. As well as notifying consumers about the Review these letters acted as reminders to consumers with open or active policies that they had these policies and depending on their current circumstances could make claims on these policies.

As at the end of February 2014, approximately 6,000 consumers had not responded to letters sent to them by their credit institution notifying them that they are due a refund of PPI premiums. In some cases consumers have been asked to provide up to date account details so that payments can be made and in other cases consumers with open policies have been asked to confirm if they wish to retain the existing policy and refuse the refund or cancel the policy and accept the refund.

The Review placed the onus on credit institutions to review their sales and communicate with consumers, therefore consumers were not required to take any action or incur any cost as part of the Review. However, the outcome of the Review does not preclude an individual consumer from making a complaint to their credit institution about PPI or referring such a complaint to the Financial Services Ombudsman (FSO) where eligible to do so. The legislation underpinning the FSO's complaints procedure prescribes that a consumer cannot make a complaint to the FSO about conduct that occurred more than 6 years before the complaint is made. Mindful of this statutory restriction, the Central Bank instructed credit institutions subject to the Review process to prioritise contact with consumers who were sold PPI in 2007, with a view to avoiding where possible being outside the statutory time limit to make a complaint to the FSO.

Consumers who purchased their PPI policy prior to 1 July 2007 are not covered by this review. If these consumers have a concern they should contact their credit institution directly.

7. Next Steps

The Central Bank is writing to each of the eleven credit institutions with feedback specific to the issues identified during the Review and reiterating the importance of compliance with the Code. In particular, the outcome of this Review is a reminder that the Code applies equally to add-on or linked products such as PPI, and firms must ensure that these products are suitable for the consumer and that the consumer is fully informed. The Central Bank will also continue to monitor the progress of those 6,000 cases where consumers have yet to claim their refund.

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