



FACTSHEET

Payment Protection Insurance

What is payment protection insurance?

A Payment Protection Insurance (PPI) is an insurance product that pays out a sum of money to help a consumer cover their monthly repayments on mortgages, loans, or credit card debt if he or she is unable to repay their loan. The policy kicks in for scenarios like when you have an accident, become sick or unemployed. PPI is widely sold by credit providers as an add-on to a loan.

PPI products, when properly designed and sold, can serve important consumer needs. However, in the past twenty years, there have been many instances of mis-selling scandals involving PPI policies.

What are the concerns?

BUNDLING AND TYING: in the past, loan providers could require consumers to take out specific PPI insurance policies (tying). As a result, consumers often ended up with a product that was unsuitable, or that was more expensive than necessary. Bundling is where a consumer may purchase the insurance separately. Tying and bundling practices limit consumer choice and contribute to product complexity and opaque pricing practices.

LACK OF SUITABILITY: PPI products are often unsuitable for the consumers they are sold to. For instance, in the UK, policies were often sold to individuals who were unemployed and would never have been able to claim the insurance. In other cases, consumers may have been sold PPI for very small loans, who are generally expected to have no issues with repayment.

SALES PRESSURE: there are many cases where consumers are erroneously led to believe that taking out a PPI is compulsory by law in order to take out the credit. High sales commission rates associated with PPI policies, encouraged insurance distributors to sell insurance policies that consumers either did not need or want. In several markets, the commissions associated with PPI products remain high.

In 2008, our UK member Which? reported that one in three PPI consumers (about 2 million) had been sold a 'worthless' insurance through which they would never be able to make a claim.¹ Many consumers did not even know that they had been sold a PPI policy. In the UK, £34.9bn has been paid out by banks since 2011 to consumers who complained about the way they were sold a PPI policy.²

Evidence continues to emerge detailing the problematic practices associated with PPI.



Belgium

In 2017, Belgian financial supervisor FSMA study found that between 2011 and 2015, companies collected an average of €65m in PPI premiums per year but paid out on a claim in only 0.24% of the contracts in force, which is very poor compared to other insurance products. More than half the premiums were used to pay charges and sales commissions.³



Germany

The German financial supervisor BaFin carried out a market investigation in 2017 which revealed that contract features of PPI policies are very difficult to understand for consumers.⁴ The commissions that insurance undertakings pay to credit institutions is sometimes excessively high: in certain cases, banks could receive **up to 70% of the premium paid in commission.**

¹ Which?, 'One in three with PPI may find it worthless', <https://www.which.co.uk/news/2008/05/one-in-three-with-ppi-may-find-it-worthless-144107/>.

² FCA, 'Monthly PPI refunds and compensation', <https://www.fca.org.uk/data/monthly-ppi-refunds-and-compensation>.

³ FSMA, 'Study of Payment Protection Insurance offered in conjunction with consumer loans', <https://www.fsma.be/en/news/study-payment-protection-insurance-offered-conjunction-consumer-loans>.

⁴ BaFin, 'Market investigations', https://www.bafin.de/EN/PublikationenDaten/Jahresbericht/Jahresbericht2017/Kapitel2/Kapitel2_2/Kapitel2_2_2/kapitel2_2_2_artikel_en.html.



Has payment protection insurance been regulated?

- In the **United Kingdom**, regulators banned the sale of PPI alongside personal loans, mortgages and credit cards at the point of sale, and PPI cannot be sold to a consumer until at least seven days after the loan was agreed.⁵
- In **Germany**, legislators added legal requirements for more advice, information and transparency for PPI policies.⁶
- **Portuguese regulators** issued recommendations to insurers, focusing on product design and pre-contractual information.⁷
- In **France**, when offering PPI with a consumer loan, the lender or credit intermediary must assess whether the insurance contract meets the consumer's needs.⁸

However, **in the majority of EU countries**, there has not been any action related to PPI.

What does BEUC recommend?

We recommend that the EU takes action through a revision of the Consumer Credit Directive⁹ and any future review of the Mortgage Credit Directive:

- **CHECK SUITABILITY:** when selling PPI policies, credit distributors should be required to assess the suitability of the PPI to the consumer's needs and expectations.
- **CROSS-SELLING:** PPI policies should not be sold at the point of sale by credit distributors when selling a consumer loan. Stricter cross-selling rules will allow consumers to take the time to reflect and take an informed decision on whether they need a PPI policy and to consider alternative offers.
- **TRANSPARENCY AND COMPARABILITY OF COSTS:** if the consumer considers taking an optional insurance together with the credit, the credit providers should include the cost of the insurance premium in the total cost of the credit to allow for effective comparison.
- **EARLY REPAYMENT OF THE CREDIT:** ensure that in case of early repayment of credit, creditors return a proportional part of the PPI premium paid upfront for the entire credit period.
- **BAN ON COMMISSIONS:** we call for a ban on commissions for sales of investment and complex financial products, as set out in our campaign on The Price of Bad Advice.¹⁰

⁵ Competition Commission, 'PPI – Final Report', <https://assets.publishing.service.gov.uk/media/5519488fe5274a142b00016e/04-09.pdf>.

⁶ BaFin, 'Market investigations', https://www.bafin.de/EN/PublikationenDaten/Jahresbericht/Jahresbericht2017/Kapitel2/Kapitel2_2/Kapitel2_2_2/kapitel2_2_2_node_en.html.

⁷ ASF, 'Circular No 2/2012', <https://www.asf.com.pt/NR/exeres/ADFC7610-7E26-4A52-9548-AS135436B53D.htm>.

⁸ Legifrance, 'Loi portant réforme du crédit à la consommation', <https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000022419094>

⁹ For our full recommendations, please consult our position paper: https://www.beuc.eu/publications/beuc-x-2019-019_review_of_the_consumer_credit_directive.pdf

¹⁰ See www.ThePriceofBadAdvice.eu