

Consumer  
Research

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Financial Services Authority

*The sale of payment  
protection insurance –  
mystery shopping results*

Prepared for the  
Financial Services Authority  
by GfK NOP

November 2005



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# Acknowledgments

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Copies of the report can be downloaded from the publications section of the FSA website -  
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# 1. Executive summary

The Financial Services Authority (FSA) has been responsible for the regulation of non-investment insurance sales and administration, including payment protection insurance (PPI), since 14 January 2005. Given the number of concerns expressed by the media, consumer bodies and other organisations, the FSA identified PPI as an early thematic priority in its 2005-06 Business Plan. As part of this thematic work, GfK NOP was commissioned by the FSA to conduct a mystery-shopping survey of firms selling PPI policies linked to credit/store cards, remortgages and personal loans<sup>1</sup>.

Mystery shoppers<sup>2</sup> completed a total of 78 shops which covered a diverse range of firms (split broadly between direct lenders and intermediaries). Of these 78 shops, 26 have been excluded from the analysis in this report for various reasons<sup>3</sup>. In order to ensure that firms had adequate opportunity to comply with of the FSA's point-of-sale rules relating to PPI, this report is based on the remaining 52 shops across 19 firms that were all taken to a stage where a PPI quote was given and the PPI contract could be concluded. In the case of the credit and store card shops the mystery shopper actually took out the credit or store card, but in the other shops they did not proceed with the sale but asked for all the paperwork. The mystery shoppers carried out a mixture of telephone and face-to-face shops<sup>4</sup> with firms.

The shoppers posed as customers looking for a new card, personal loan or remortgage with a mixture of scenarios i.e. with a pre-existing medical condition; with a critical illness or income protection policy; in temporary employment; or none of these scenarios. The assessors were also categorised as having typical 'prime' or 'sub-prime' characteristics<sup>5</sup>. The mystery shoppers were briefed to only express interest in PPI if it was not spontaneously mentioned by the salesperson. They were given detailed instructions and were essentially to behave naturally, using their real personal and financial details to answer questions that they were asked. The mystery shoppers were instructed not to lead the salesperson; thus, the assessments were of salesperson-led and not assessor-led discussions.

This report sets out the findings from the research.

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<sup>1</sup> Personal loans includes secured and unsecured loans.

<sup>2</sup> The terms 'mystery shoppers', 'shoppers' and 'assessors' are used interchangeably throughout this report.

<sup>3</sup> See page 9 for further details.

<sup>4</sup> Face-to-face shops are referred to as 'visits' in this report.

<sup>5</sup> See page 7 for further details.

The key findings were as follows.

### **Eligibility conditions**

Out of the 52 shops:

- 49 checked the shopper's age;
- 45 checked whether the shopper was employed or not;
- only 38 checked on whether the customer worked full time or part time; and
- only 33 checked the shopper's employment status (e.g. temporary worker, contract worker, length of time with current employer).

### **Exclusions relating to employment**

Of the eight shops conducted by a shopper with a temporary employment contract:

- only five were told, without prompting, whether or not they would be covered;
- a further two were told whether or not they would be covered only after prompting the salesperson; and
- in the remaining one shop, the shopper was not told the position even when the salesperson was prompted.

### **Exclusion for pre-existing medical conditions**

In only 11 of the 52 shops was the shopper asked whether they had a pre-existing medical condition.

Of the 24 shops conducted by a shopper with a pre-existing medical condition:

- in only ten shops was the shopper told by the salesperson, without prompting, whether or not the condition would be covered by the policy;
- in a further ten shops the shopper was told about this when they prompted the salesperson;
- in three shops the shopper was not told whether or not the condition would be covered, even when they prompted the salesperson; and
- one shopper was not told and did not prompt the salesperson, as further details were to be posted.

### **Suitability checks**

In only 17 out of 31 advised shops was the shopper asked if they had any existing insurance in place. Also in 17 out of 31 advised shops, the shopper was asked how they would cover their monthly repayments on the loan, card or remortgage if they were off work due to accident, sickness or unemployment. Six shoppers were not asked either of these two questions.

Of the 14 shoppers using the existing insurance scenario that were advised sales:

- only four were told, without prompting, whether or not they would still need the PPI policy;
- a further six were told whether or not they would still need the PPI policy only after prompting the salesperson; and
- in the remaining four shops, the shopper was not told the position even after mentioning their existing insurance.

### **Cost of the policy**

Of the 38 shops involving a remortgage or a loan:

- 20 shoppers were initially given a monthly repayment figure for the loan or remortgage which included the cost of PPI;
- 15 were given a quote without PPI initially; and
- three were given both quotes together.

It was noticeable that in 15 out of 20 secured and unsecured loan shops, the PPI was included in the initial monthly repayment figure given to the shopper. By contrast, only five out of 18 remortgage shops included PPI in the initial monthly repayment quote.

Of the 24 shops involving single premium policies:

- only one shopper was clear that it was a single premium policy that would be added to their loan;
- 19 shoppers thought it was a regular premium; and
- the remaining four shoppers were unclear.

### **Policy limitations and exclusions**

Of the 52 shops:

- 18 shoppers were told about limitations to the policy;
- 12 shoppers were told what the policy did not cover;
- 26 shoppers were not told about any limitations or exclusions to the policy; and
- 21 shoppers were told how long they would have to be off work before the unemployment benefit in the PPI policy would start paying out.

By contrast, in 47 of the shops the shopper was given information on what the policy covered.

### **Cancellation rights**

Only 12 out of 52 shoppers were told about the statutory cancellation period. For the 28 shops involving regular premium policies, only one shopper was told that the policy could be cancelled at any time by the insurer.

### **Documentation**

Under FSA rules, customers are required to receive certain information relating to the PPI policy before they sign up to the contract or immediately afterwards. Because most shops were not taken to contract conclusion, we have only included findings relevant to the 13 shops carried out involving face-to-face visits, of which:

- eight received status disclosure information;
- only four received a Statement of Demands and Needs;
- eight received a Price Statement; and
- only six received a Policy Summary;

Only 28 out of the 52 shoppers were encouraged to read the policy document before signing the contract. Out of the 13 shops involving visits, in only five did the salesperson draw the shopper's attention to the importance of reading the Policy Summary.

### **Overall impressions of shoppers**

Based on the information shoppers received orally during the shop, 32 of the 52 shoppers felt that they had received only 'limited information' about the PPI policy, 18 shoppers felt that they received 'sufficient information' and two shoppers felt that they received 'too much information'. Only two out of 52 shoppers felt pressurised to take out the PPI policy.

## 2. Background and introduction

Payment protection insurance (PPI) is insurance sold with linked credit products such as credit or store cards, personal loans and mortgages. Typically, such insurance provides benefits covering the monthly repayments on the card, loan or mortgage if the policyholder is unable to work due to accident or sickness, or becomes unemployed. Most policies also include a life benefit, whereby the outstanding balance on the loan or card is paid off if the policyholder dies. Other policies may also include critical illness cover, where the outstanding balance is paid off if the customer contracts a specified illness, or hospitalisation benefit if the customer has a hospital stay.

### 2.1. FSA regulation

Since 14 January 2005 the FSA has regulated the sale and administration of non-investment insurance policies, including PPI policies. Under the new regime, customers buying PPI receive protection in the following key areas:

- **Suitable advice**

If it is an advised sale, the firm will need to ensure that the PPI policy is suitable for the customer. This will require the firm to assess the customer's personal circumstances and existing insurance cover. The firm will have to explain the reasons for its personal recommendation in a Statement of Demands and Needs given to the customer. The firm can recommend a policy that does not meet all the customer's demands and needs if it does not have a suitable policy in its range of products, but it must tell the customer which demands and needs are not met.

- **Non-advised sales**

For non-advised sales, firms should take reasonable steps to ensure that customers do not buy policies under which they are ineligible to claim benefits. The simplest way to do this is for the firm to carry out an eligibility check before they sell a PPI policy. This check depends on the eligibility conditions of the policy and would cover basic areas such as the customer's age, country of residence and employment details (e.g. full or part-time employment, temporary or permanent contract). If parts of the cover apply but others do not, this should be made clear to the customer so they can make an informed decision on whether or not to buy the cover. If an eligibility check cannot reasonably be performed, the customer can nonetheless expect to be provided with clear and balanced information that they can use to make their decision.

- **Improved information**

Customers should be given information about the PPI policy, including its key features and significant exclusions, in a Policy Summary. They should be informed whether the sale is on an advised or non-advised basis, and whether the PPI policy is an optional or compulsory requirement for taking out the linked loan or mortgage. Customers should also be given information on the total price of the policy. If the policy is funded by a loan, the information must show both the premium and interest payable, as well as the total price.

- **Cancellation rights**

Customers have a statutory cancellation period (14 or 30 days, depending on the contract), which will give them time to cancel if they change their mind about the policy.

## **2.2. Research objectives**

Given that the media, consumer bodies and other organisations have expressed a number of concerns about the way in which PPI is sold, the FSA's 2005-06 Business Plan identified linked sales of PPI as an early priority for thematic work following the start of regulation.

GfK NOP was commissioned by the FSA to carry out a mystery-shopping exercise. The research was intended to assess the extent to which firms were complying with the FSA rules when selling PPI policies. More specifically, the research was intended to evaluate whether or not the following areas were covered in PPI sales.:

- In both advised and non-advised sales, did the firm cover basic eligibility criteria for the PPI policy?
- If advice was given, did the firm ask the right questions of the customer in order to assess the suitability of the policy for the customer?
- Was the customer told the total price of the policy?
- Was the customer made aware of the significant exclusions in the policy?
- Was the customer made aware of their cancellation rights?
- Did the customer receive the relevant documentation?
- Was it made clear to the customer whether the PPI was compulsory or optional?
- Were there any significant differences in terms of product disclosure and advice between the different products (remortgages, loans, credit cards and store cards)?

## 2.3. Methodology

In order to achieve the above objectives, GfK NOP was commissioned to conduct a qualitative mystery-shopping exercise, using trained mystery shoppers, to assess PPI sales practices at a small sample of firms. It is important to appreciate that qualitative research of this kind cannot produce statistically significant results. Rather, findings are indicative of market behaviour and approach to PPI sales. The sample was chosen to reflect the diversity and mix of firms active in the PPI market, and therefore a range of activity and behaviour was expected to be reflected in the research results.

The mystery shoppers were selected from the panel of GfK NOP assessors who had volunteered for this project, having been given a detailed outline of the project and the work involved. The assessors were not aware that it was the FSA who had commissioned the project. Behaving as real customers and not following a prepared script in any way the mystery shoppers contacted firms either by telephone or on a face-to-face basis. Depending on their scenario, shoppers were instructed to seek a new credit or store card, personal loan or a remortgage from the firms. Twenty three shoppers had some attribute that would categorise them as 'sub-prime' customers (i.e. having been rejected for credit in the last three months, having a County Court Judgement (CCJ) or credit default, or having a history of poor debt management), and 29 shoppers had standard 'prime' credit characteristics.

The shoppers were required to proceed as far as they could in the sales process for the credit product and linked PPI product, up to the point of signing the credit agreement, but not actually complete the transaction. The only exception was credit and store cards, where it was agreed that the shoppers would take out the cards and cancel them in due course, should they not wish to keep them. In relation to the PPI product, the shoppers were required not to initiate discussion on PPI, unless it appeared that the subject would not be mentioned. Overall the shoppers were instructed to behave reactively, in that they would leave it to the firm to initiate and guide the sales discussion.

The shoppers were required to use one of the following scenarios in their shops.

- **Pre-existing medical condition (24 shops)**

The shopper had a long-term illness, injury or a serious health problem, such as chronic backache, stress, heart condition or diabetes. The shoppers used their real situational details.

- **Existing insurance (23 shops)**

The shopper already had existing insurance cover such as life insurance, other payment protection, income protection or critical illness insurance. The shoppers used their real situational details.

- **Temporary employment (8 shops)**

The shopper was employed either full time or part time on a temporary contract. They had to be working at least 16 hours a week and earning at least £10,000 per annum. The shoppers used their real situational details.

- **No scenarios (8 shops)**

The shopper had none of the above-mentioned scenarios, i.e. they were in good health, had no existing insurance and were in full-time employment.

In reality, 11 shoppers had more than one characteristic, e.g. they were in temporary employment with a pre-existing medical condition.

The scenarios were intended to test the extent to which firms assess the eligibility or suitability of their PPI product for the customer, and how far they obtain information on the customer's personal circumstances, given that PPI policies will often fully or partly exclude pre-existing medical conditions and temporary employment from cover. For example, a customer with a pre-existing medical condition will usually still be eligible for sickness cover for illnesses unrelated to their pre-existing medical condition. A temporary worker, on the other hand, may be excluded from unemployment cover, depending on the terms of the policy. As for the existing insurance scenario, firms giving advice should ascertain the extent to which the customer would still need their PPI product, given their existing insurance policies.

The sample mix of the 52 assessments upon which this report is based comprises 19 firms, split between ten direct lenders and nine intermediaries, with up to five shops per firm. Table 1 shows the sample mix and composition. Fieldwork was carried out between August and October 2005.

**Table 1: Composition of the sample**

	All	Telephone	Visits	Credit/store cards	Remortgages	Unsecured loans	Secured loans
<b>Lenders</b>	<b>30</b>	21	9	14	6	10	0
<b>Intermediaries</b>	<b>22</b>	18	4	0	12	7	3
<b>Total</b>	<b>52</b>	<b>39</b>	<b>13</b>	<b>14</b>	<b>18</b>	<b>17</b>	<b>3</b>

Twenty-six assessments were excluded from this report. Twenty shops were excluded because the shopper was not offered a quote for the credit product they were enquiring about. There were various reasons for this such as a loan application being refused, firms failing to return calls or arrange interviews with the shopper, quotes not being produced due to computers being broken down, or tiered sales processes where the intermediary gathered information about the customer at a first interview and promised to send a quote for a selected product through the post but no documentation arrived.

A further six shoppers did obtain a quote for the primary product they were enquiring about, but did not obtain a PPI quote. This mostly occurred because of a tiered sales process where PPI would not be discussed until after the sale of the credit product had taken place.

The tables in this report are based mainly on the individual shop assessments completed by the shoppers. However, there are three items of analysis that come from the documentation obtained by the shoppers during (or after) the PPI sale. These are:

- whether or not the firm is selling PPI on an advised or non-advised basis;
- whether the PPI policy is a single or regular premium policy; and
- whether all of the required documentation was received during the sale.

Where this information was not available, because the shopper did not receive the PPI documentation in time for the analysis or because the documentation did not contain the relevant information, the information needed for the first two points came from the FSA's understanding of the firm's business. Information from documentation for the first two points was available in 37 of the 52 shops.

Verbatim comments on the shops provided by shoppers in their written assessments have been included to illustrate the findings.

### 3. Risk of inappropriate sales

This chapter focuses on the eligibility and suitability questions asked by the firms in the sample.

#### 3.1. Eligibility questions

Different PPI policies have different eligibility conditions and it was not possible to match the eligibility checks carried out in each of the shops to the full terms and conditions applying to each policy. Table 2 looks at the extent to which the mystery shoppers were asked about certain eligibility criteria or other issues (such as forthcoming redundancy) that would affect their ability to claim under the policy. These are criteria that are common across most (but not all) PPI policies. Table 2 shows that only 13 out of 52 shoppers were asked about their knowledge of any forthcoming redundancy; just 38 shoppers were asked whether they worked full or part time; 33 were asked about their employment status (i.e. permanent or temporary worker, length of time with employer etc); and 18 were asked if they worked 16 hours or more per week. Some caution needs to be exercised in interpreting the latter result because it may be that this question was not relevant in certain sales - for example, if the shopper had already indicated to the salesperson that they were working full time or if the policy provides cover regardless of the number of hours worked per week.

**Table 2: Basic eligibility questions**

	All	Credit/store cards	Remortgages	Secured loans	Unsecured loans
<i>Base</i>	52	14	18	3	17
Number asked for age	49	14	17	3	15
Number asked if were employed or not	45	9	17	3	16
Number asked if worked full time or part time	38	6	16	2	14
Number asked about employment status	33	7	12	2	12
Number asked if worked 16 hours or more per week	18	3	5	2	8
Number asked about any forthcoming redundancy	13	1	5	2	5

*Base group: 52 shops*

*“I was asked about my employment status, employer details and hours worked, and whether I was expecting any changes to occur within the next 5 years.”*

**Direct/Telephone/Remortgage/Prime/With existing insurance**

*“I told the adviser that I worked for 32 hours a week. The adviser said, ‘Right, that’s full time’.”*

**Intermediary/Visit/Remortgage/Sub-prime/With medical condition**

*“She advised me that I will not be able to make a claim on the payment protection insurance policy if I or my partner were only on a temporary contract. We need to be permanent and not on a probationary period.”*

**Intermediary/Telephone/Remortgage/Sub-prime/With existing insurance/Temporary worker**

### **3.2. Exclusion for temporary workers**

Because PPI contracts often exclude those on temporary contracts from unemployment cover, the FSA was interested in seeing whether this was picked up in the shops and pointed out to the shopper. Table 3 shows that of the eight shops conducted by shoppers who were on a temporary contract:

- five were told without prompting whether or not they would be covered;
- a further two were told whether or not they would be covered when they prompted the salesperson; and
- one shopper was not told the position even when the salesperson was prompted.

**Table 3: Temporary employment scenario**

Whether the PPI policy would cover a shopper on a temporary contract	Yes - it would cover me	No - it would not cover me	Not given a conclusive answer
Prompted	1	1	1
Unprompted	4	1	0

*Base group: eight shops using the temporary employment scenario*

### 3.3. Exclusion for pre-existing medical conditions

Typically, the accident and sickness cover will not pay out if the disability results from an existing medical condition. Table 4 looks at the extent to which firms asked customers about any pre-existing medical conditions. The table shows that only 11 out of 52 assessors were asked if they had a pre-existing medical condition. None of the credit or store card shoppers were asked this.

**Table 4: Pre-existing medical conditions**

	All	Credit/ store cards	Remortgages	Secured loans	Unsecured loans
<i>Base</i>	52	14	18	3	17
Number asked if they had a pre-existing medical condition	11	0	6	2	3

*Base group: 52 shops*

Table 5 looks at the results for shoppers following the pre-existing medical conditions scenario. As Table 5 shows, of the 24 shops conducted by shoppers with pre-existing medical conditions:

- only ten were told by the salesperson, without prompting, whether or not the condition would be covered by the policy;
- a further ten were told about this when they prompted the salesperson; and
- in four shops, the shopper was not told whether or not the condition would be covered, even when they mentioned their medical condition to the salesperson.

**Table 5: Pre-existing medical condition scenario**

Whether the PPI policy would cover the shopper for their pre-existing medical condition	Yes - it would cover me	No - it would not cover me	Not given a conclusive answer
Prompted	3	7	3
Unprompted	4	6	1

*Base group: 24 shops using the medical condition scenario*

*“It would not cover me for the pre-existing condition and we established that the policy also would not cover me for any conditions that arose from the original diagnosis.”*

**Direct/Visit/Unsecured personal loan/Sub-prime/With medical condition**

*“I asked if a medical condition would affect the PPI but she was not interested in finding out more.”*

**Direct/Telephone/Card/Prime/With medical condition**

*“The member of staff lacked training. They appeared to know the benefits of PPI, but when I asked what was not covered they were unsure and directed me to the small print. I was told that when I received the full details, if I was unhappy with the cover I could cancel within thirty days.”*

**Direct/Visit/Card/Prime/With medical condition**

*“I had to prompt for an answer and I still did not get a proper answer [about] whether I would be covered for this problem with my back.”*

**Intermediary/Visit/Remortgage/Sub-prime/With medical condition**

*“I would not have known about the exclusions in the policy relating to chronic health problems if I had not asked. This meant that, had I been forced to go off work due to a recurrence of my illness, the cover would have been totally useless.”*

**Direct/Telephone/Card/Sub-prime/With medical condition**

### **3.4. Suitability checks**

Although the mystery-shopping exercise did not cover suitability in detail, it is important that firms (in the case of advised sales) establish whether or not the customer needs PPI, and whether the customer has existing insurance to cover their credit repayments in the eventuality of unemployment, accident or sickness.

Table 6 shows whether firms asked the assessors whether they would need a PPI policy, and whether they asked about any existing insurance the assessor had in place. It shows that out of the 31 advised shops, only 17 assessors were asked how they would meet monthly repayments should their circumstances change. In addition, only 17 were asked about their existing insurance cover.

**Table 6: Suitability checks**

	All	Credit/ store cards	Remortgages	Secured loans	Unsecured loans
Base	31	2	11	3	15
Number asked about existing insurance	17	1	8	2	6
Number asked how they would cover monthly repayments on their card, remortgage or loan if off work due to accident, sickness or unemployment	17	2	5	2	8
Number where not asked either question	6	0	2	0	4

*Base group: 31 shops that were advised sales*

Table 7 looks at what the assessors who were following the existing insurance scenario were told in advised sales about whether or not they needed PPI. In most cases, the shoppers were told that they still needed PPI, as Table 7 and the comments below it illustrate. Again in most sales, the assessor had to prompt the firm to get information on whether they needed PPI cover. Even when they prompted the salesperson and/or mentioned their existing policy, shoppers were not told conclusively whether or not they would need PPI in four sales.

**Table 7: Existing insurance scenario**

Whether a shopper with existing insurance still needed PPI	Yes - I would still need it	No - I would not need it	Not given a conclusive answer
Prompted	5	1	2
Unprompted	4	0	2

*Base group: 14 shops using the existing insurance scenario that were advised sales*

*“The adviser said it was advisable to have PPI even though I have one already [as] it might not be enough cover.”*

**Direct/Telephone/Remortgage/Sub-prime/With existing insurance**

*“The adviser explained that although I had cover elsewhere it would be a good idea to protect this balance separately so as not to use up my income protection payments.”*

**Direct/Telephone/Card/Sub-prime/With existing insurance**

# 4. Price information

This chapter looks at the information provided to the assessor about the price of the policy. It should be noted that this focuses on what the assessor was told about the price, if anything, during the shop; it does not consider the documentation.

## 4.1. The price of PPI

Table 8 shows whether or not the price of PPI was made clear to the assessor in the shop. It shows all the assessors except one were clear by the end of their shop what the PPI policy would cost them. To a large extent this reflects the fact that we have based the analysis in this report on shops where a PPI quote was obtained, and so this result may not be indicative of PPI sales generally.

**Table 8: Price disclosure**

Number who were told what the PPI would cost	All	Telephone	Visit
<i>Base</i>	52	39	13
Remortgages (base: 18)	18	12	6
Secured loans (base: 3)	3	3	0
Unsecured loans (base: 17)	16	14	2
Cards (base: 14)	14	9	5

*Base group: 52 shops*

*“The member of staff said she could not break it down.”*

**Direct/Telephone/Unsecured loan/Prime/No scenario**

Table 9 looks at whether the initial quote for monthly repayments on the remortgage or loan included the cost of PPI. It shows that in 20 of the 38 shops (that included remortgages and personal loans), the monthly repayment figure was initially quoted with PPI included. It is noticeable that in most remortgage shops the initial monthly quote did not include PPI, whereas in most unsecured loan shops it did.

**Table 9: Whether initial quote for credit included PPI**

Remortgages and loans only	All	Remortgages	Secured loans	Unsecured loans
<i>Base</i>	38	18	3	17
Number where monthly repayment figure quoted with PPI first	20	5	1	14
Number where monthly repayment figure quoted without PPI first	15	12	2	1
Number where both figures were quoted together	3	1	0	2

*Base group: 38 shops involving remortgages and personal loans*

*“The remortgage quotes were without payment protection. The payment protection premium was quoted as a separate figure after the quotes were provided.”*

**Direct/Telephone/Remortgage/Prime/With existing insurance**

*“The figure was quoted with PPI. The member of staff then broke that down to detail what part of the figure was made up by the monthly premium.”*

**Intermediary/Telephone/Unsecured personal loan/Sub-prime/No scenario**

**4.2. Information on single premium policies**

The FSA was also interested in the extent to which firms made it clear to the assessor whether the policy was a single or regular premium. This is only relevant to personal loans and remortgages. The assessors were asked whether or not the firm explained that the policy was a single premium, and that the premium would be added to the loan or remortgage.

Table 10 only includes data relating to the 24 shops that were identified as involving the sale of single premium PPI from the document review or from the FSA’s understanding of the firm’s business. The table records the shoppers’ understanding of whether the policy was a single or regular premium based on what they were told during the sale. It shows that 19 assessors mistakenly believed they were being sold a regular premium policy. However, it must be noted that many assessors were not clear about the true meaning or implication of a regular or single premium. It is evident from some of the comments made by the assessors that the fact that they were quoted monthly repayment figure on single premium policies may have led them to believe that they were being sold a regular premium policy.

**Table 10: Whether shoppers understood the policy was single premium**

	Believed it was a single premium that would be added to the loan	Believed it was a regular premium	Salesperson did not say
Remortgages (base: 5)	1	3	1
Secured personal loan (base: 3)	0	3	0
Unsecured personal loan (base: 16)	0	13	3
Total	1	19	4

*Base group: 24 shops identified as single premium*

*“It was implied that this would be a regular payment, and I think that anyone looking at the paperwork she printed for me would assume that this was the case.”*

**Direct/Visit/Unsecured personal loan/Sub-prime/With medical condition**

*“I was told that a separate amount would be added on per month to cover payment protection. This was verified in the paperwork.”*

**Direct/Visit/Unsecured personal loan/Sub-prime/With medical condition**

The FSA was interested in finding out whether assessors were told whether or not refunds would be available on single premium PPI contracts if they were terminated early. As Table 11 shows, 13 assessors of the 24 single premium shops were told that a premium refund was available should they repay the loan or mortgage early.

**Table 11: Information on refunds if PPI is cancelled**

	Yes	Other <sup>6</sup>
Is a premium refund available if the loan or mortgage is repaid early?	13	12

*Base group: 24 shops identified as single premium from the document review*

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<sup>6</sup> Note that ‘not mentioned’ is not the same as ‘no’. Therefore ‘other’ has been used to differentiate from the affirmative responses.

*“The member of staff said that there would be no penalty charge for an early repayment. The lender would look at an early settlement rebate formula to cover off some of the set up costs.”*

**Intermediary/Telephone/Unsecured personal loan/Sub-prime/No scenario**

*“The adviser said, ‘No refund on the insurance premium, just on the outstanding interest on the loan’.”*

**Intermediary/Telephone/Unsecured personal loan/Sub-prime/With medical condition**

## 5. Product disclosure and documentation

This chapter considers various aspects of product disclosure and the documentation provided during or after the shops.

### 5.1. Policy limitations and exclusions

Table 12 shows in how many shops the assessors were told about policy limitations and exclusions. It shows 26 shoppers were not told of any exclusion or limitation to cover. This can be contrasted with Table 13, which shows that in 47 shops the type of cover provided by PPI was explained. This shows that more shoppers were told during the sale on what the policy covered than on the exclusions or limitations.

**Table 12: Information on policy limitations and exclusions**

	Yes	Telephone	Visits	Credit/store cards	Remortgages	Secured loans	Unsecured loans
<i>Base</i>	52	39	13	14	18	3	17
Number where told of the limitations to the policy	18	13	5	3	11	1	3
Number where told what the policy did not cover	12	11	1	5	2	2	3
Number where not given any information on limitations or exclusions	26	19	7	8	6	1	11
Number where told how long they would have to be off work for unemployment benefit to kick in	21	19	2	4	9	1	7

*Base group: 52 shops*

*“I was told it does not cover pre-existing illness, or where I caused the unemployment.”*

**Direct/Telephone/Card/Prime/No scenario**

*“I was not told of anything that was not covered, even after prompting. She did not really seem very clued up on this side of the mortgage enquiry at all.”*

**Intermediary/Telephone/Remortgage/Sub-prime/Temporary worker**

Table 13 shows in how many shops the assessor was told what the policy would cover. Where it was possible to compare the shoppers' answers with the relevant product documentation, it became clear that some shoppers were confused about what their policy did cover, with some shoppers mistakenly believing the cover included critical illness insurance, and others not aware that life cover was included in the package. Table 13 records the shoppers' understanding of what the policies covered based on what they were told in the sale.

**Table 13: What shoppers were told the policy covers**

What cover did the policy provide?	All	Credit/store cards	Remortgages	Secured loans	Unsecured loans
<i>Base</i>	52	14	18	3	17
Accident and sickness	46	13	16	2	15
Unemployment	40	12	14	2	12
Critical illness	32	7	13	1	11
Life	32	6	11	2	13
Other	11	1	2	0	8
Number where one of the above cover types was discussed	47	13	17	2	15
Number where there was no discussion of cover	5	1	1	1	2

*Base group: 52 shops*

*“I was told that it would cover accident and sickness, and critical illness, and that it would all be explained in the literature to be sent to me.”*

**Intermediary/Telephone/Remortgage/Sub-prime/With existing insurance**

*“The policy covered critical illness. If I was diagnosed after taking out the policy, I would be paid out in a lump sum to pay off the mortgage. The policy also covered accident, sickness and unemployment. I would be paid out monthly to cover the cost of the mortgage and a few essential bills.”*

**Intermediary/Visit/Remortgage/Sub-prime/With medical condition**

*“The policy clearly covered accident and sickness. Hospitalisation benefit was payable at £25 per day in hospital after the first three days. Benefit was payable for conditions for which treatment had not been sought for 12 months prior to the start of the policy.”*

**Direct/Visit/Unsecured personal loan/Sub-prime/With medical condition**

## 5.2. Statutory cancellation period

Table 14 shows whether the statutory cancellation period was mentioned to the assessors. Only 12 of the 52 shoppers were told about a cancellation period. The statutory cancellation period was mentioned in more of the credit and store card shops compared to the shops conducted in the other sectors. It is interesting to note that the statutory cancellation period was only mentioned in ten of the 39 telephone shops, despite such disclosure being required under the FSA’s rules.

**Table 14: Whether shoppers were told about statutory cancellation**

Number where a cancellation period was mentioned	All	Credit/store cards	Remortgages	Secured loans	Unsecured loans
<i>Base</i>	52	14	18	3	17
Telephone (base: 39)	10	6	1	1	2
Visit (base: 13)	2	2	0	0	0

*Base group: 52 shops*

*“[The cancellation period was] thirty days and no charges [were] mentioned.”*

**Direct/Visit/Card/Sub-prime/With medical condition**

*“I was told I could cancel. There was no time limit given.”*

**Direct/Telephone/Card/Sub-prime/With medical condition**

*“I was told 30 days to cancel policy if I changed my mind. No charge was mentioned; the implication [was that] it was free.”*

**Direct/Telephone/Card/Sub-prime/Temporary worker**

### 5.3. Cancellation of regular premium policies by the insurer

Table 15 shows whether the assessors were told that regular premium PPI could be cancelled by the insurer at any time. It shows this was only mentioned in one of the 28 shops that were identified as involving regular premium policies.

**Table 15: Information on possible cancellation by the insurer**

	All	Credit/store cards	Remortgages	Unsecured loans	Secured loans
<i>Base</i>	28	14	13	1	0
Number where told that a policy could be cancelled at any time by the insurer	1	0	1	0	0

*Base group: 28 shops identified as regular premium from the document review*

### 5.4. Encouraging shoppers to read the documentation

Given the lack of oral disclosure about the limitations and exclusions in the shops (see Table 12) firms seemed to be placing heavy reliance on the shoppers reading the documentation in order to understand the limitations of PPI. However, as shown in Table 16, in only 28 of the 52 shops were the assessors encouraged to read the policy document.

**Table 16: Reading the policy document**

	All	Credit/store cards	Remortgages	Secured loans	Unsecured loans
<i>Base</i>	52	14	18	3	17
Number where assessor was encouraged to read the policy document before signing it	28	7	9	3	9

*Base group: 52 shops*

As can be seen in Table 17, the assessors only had their attention drawn to the importance of reading the Policy Summary in five out of the 13 shops involving visits, despite this being required by the FSA's rules.

**Table 17: Reading the Policy Summary**

	All	Credit/store cards	Remortgages	Secured loans	Unsecured loans
<i>Base</i>	13	5	6	0	2
Number were the assessor's attention was drawn to the importance of reading the Policy Summary	5	2	3	0	0

*Base group: 13 shops involving face-to-face visits only*

*"The member of staff actually went through the key points with us and advised us to read the full document at our leisure."*

**Intermediary/Visit/Remortgage/Sub-prime/With medical condition**

*"I was given a Policy Summary but the adviser did not draw my attention to the exclusions specifically until I brought up the subject of payment protection. The importance of reading the policy certainly was not mentioned verbally; it was more implicit in that she gave me the documentation."*

**Direct/Visit/Unsecured personal loan/Sub-prime/With medical condition**

*"The adviser said that it would be best to read the policy completely when I received it, and not to sign it until I was completely and utterly satisfied with everything."*

**Intermediary/Telephone/Secured personal loan/Sub-prime/No scenario**

## **5.5. Documentation received by the shoppers**

The documentation sent back from the assessors to GfK NOP was checked by the FSA. Tables 18 and 19 are based on all documents received and checked by the FSA by 19 October 2005. Some of the documents received by assessors arrived after this reporting cut-off date and so are not recorded in these tables. It should be noted that all assessors were asked to chase firms for documents following their enquiry. The shoppers were asked to follow up promises of information on a minimum of two occasions and a maximum of three occasions. Chasing more than this was deemed to not be typical customer behaviour.

The FSA's rules require that for face-to-face sales, customers are provided with a range of information before the contract conclusion. These include status disclosure, a Demands and Needs Statement, a Statement of Price and a Policy Summary document. Table 18 shows that in eight out of the 13 visits were the shoppers provided with status disclosure or a Statement of Price, only six shoppers received a Policy Summary document, and only four received a Demands and Needs Statement.

**Table 18: Provision of documentation by firm type and sales method**

	All	Direct	Intermediary	Telephone	Visit
<i>Base</i>	52	30	22	39	13
Status disclosure	31	16	15	23	8
Demands and Needs Statement	21	12	9	17	4
Statement of Price	32	21	11	24	8
Policy Summary	28	17	11	22	6
Policy document	15	7	8	13	2
All five documents above	12	4	8	11	1

*Base group: 52 shops*

Credit and store card shoppers were instructed to take out the cards, thereby taking these shops to contract conclusion. According to the FSA's rules, all these shoppers (both telephone and visits) should have received all of the information and documentation mentioned above immediately after conclusion of the contract at the latest. Yet, as Table 19 shows, out of the 14 credit or store card shops, only two shoppers received the complete range of information and documentation.

**Table 19: Provision of documentation by product type**

	All	Credit/store cards	Remortgage	Secured loans	Unsecured loans
<i>Base</i>	52	14	18	3	17
Status disclosure	31	8	9	3	11
Demands and Needs Statement	21	8	3	2	8
Statement of Price	32	10	10	2	10
Policy Summary	28	11	5	3	9
Policy document	15	3	1	2	9
All five documents above	12	2	1	2	7

*Base group: 52 shops*

## 5.6. Amount of information on PPI

Table 20 shows the shoppers' perception of the amount of oral information they received on the PPI during the shop. Shoppers in 32 of the 52 shops thought they only received limited information.

**Table 20: Shoppers' overall assessment of the amount of information received**

	All	Credit/store cards	Remortgages	Secured loans	Unsecured loans
<i>Base</i>	52	14	18	3	17
Number who felt that they received too much information	2	2	0	0	0
Number who felt that they received sufficient information	18	4	6	1	7
Number who felt that they received limited information	32	8	12	2	10
Number who felt that they did not received enough information	0	0	0	0	0

*Base group: 52 shops*

*"I do not believe I was fully informed, particularly as [to] which areas might be excluded."*

**Intermediary/Telephone/Unsecured personal loan/Sub-prime/With medical condition**

*“There was little or hardly any information on PPI given.”*

**Intermediary/Telephone/Unsecured personal loan/Prime/No scenario**

*“I was given sufficient information to make me want to purchase the insurance.”*

**Intermediary/Telephone/Unsecured personal loan/Prime/With existing insurance**

*“The member of staff only seemed trained to repeat the benefits of PPI and lacked knowledge elsewhere.”*

**Direct/Visit/Card/Sub-prime/With medical condition**

## **5.7. Telephone sales**

For telephone sales, the FSA's rules require that specific information is given to customers orally. Table 21 shows to what extent this information was provided to the assessors of the 39 shops carried out over the telephone. Thirty-five assessors were told about what the policy would cover, however only 20 assessors were told what the PPI policy would not cover. Seventeen assessors were told the name of the insurer and only 10 were informed of their cancellation rights.

**Table 21: Oral information given to shoppers during telephone sales**

Information provided	Yes
<i>Base</i>	39
Name of the insurer	17
Any information on the policy's limitations and what it does not cover	20
Any information on what cover the policy provides	35
Cancellation period	10

*Base: 39 shops that were telephone sales*

## 6. Selling practices

This chapter focuses on two aspects of the sales process - whether it was made clear that the PPI was compulsory or optional and whether there was any evidence of pressure selling.

### 6.1. Disclosure that PPI is optional

As Table 22 shows, in most shops assessors were under the impression that PPI was optional even if they were not explicitly told this.

**Table 22: Whether PPI was optional or compulsory**

	Compulsory	Optional	Did not say	Other
What the shopper was told by the salesperson	0	31	21	N/A
Shopper's perception	1	46	N/A	5

*Base group: 52 shops*

*“It was mentioned so much that it appeared to be compulsory.”*

**Intermediary/Telephone/Unsecured personal loans/Sub-prime/Temporary worker**

*“It was quite clear to me that the insurance was optional. I was never under the impression that it was anything other than optional.”*

**Direct/Telephone/Card/Sub-prime/With medical condition**

### 6.2. Pressure selling

As Table 23 shows, there was little evidence of pressure selling; in only two out of the 52 shops did the assessor feel pressurised into taking out PPI.

**Table 23: Whether the shopper felt pressurised into taking out PPI**

	All	Credit/store cards	Remortgages	Secured loans	Unsecured loans
<i>Base</i>	52	14	18	3	17
Number who did not feel pressurised	50	14	18	3	15
Number who felt fairly pressurised	1	0	0	0	1
Number who felt extremely pressurised	1	0	0	0	1
Number who felt aggressively pressurised	0	0	0	0	0

*Base group: 52 shops*

*“There were eight or nine reminders throughout the conversation why PPI was good, and that it will cover me against unforeseen circumstances.”*

**Intermediary/Telephone/Unsecured personal loan/Sub-prime/With existing insurance**

*“The member of staff was doing their best to get me to agree to take out the insurance.”*

**Direct/Telephone/Unsecured personal loan/Sub-prime/With medical condition**

## 7. Conclusion

### **Risk of inappropriate sales**

The findings show that some firms do not actively ensure that their customers will be able to claim on the policies they sell them. For example, in 19 shops, the shoppers were not asked about their employment status, and in 14 they were not asked if they were in full or part-time employment. In 13 out of the 24 shops where the shoppers had a pre-existing medical condition, they had to prompt the salesperson to find out whether their medical condition would be covered, and in three shops they were not given a conclusive answer in the shop.

### **Price information**

The majority of shoppers taking out a personal loan were initially given a quote for the loan that included PPI. The implication of single premium PPI being added to the loan was not fully explained to most shoppers in a way they could understand.

### **Product disclosure**

In 47 shops, the shoppers were given some explanation of what the policy would cover. However, in 26 shops, the shoppers were not told of any exclusion or limitation to the policy. In 32 shops, the shoppers felt that they were given limited oral information about the PPI policy, and in only 28 shops were the assessors actively encouraged to read the policy document before signing. In only 12 were the shoppers told about the statutory cancellation period.

### **Sales practices**

In 46 shops the shoppers were aware that PPI was optional. From these 52 assessments, there is little evidence of pressure selling of PPI; only two shoppers felt this was the case.

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