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## Avalanche of insurance scandal claims

The problem of mis-sold payment protection policies is still growing, says Neasa MacErlean

NEASA MACERLEAN | SATURDAY 07 JANUARY 2012

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Record numbers of consumers are predicted this year to have problems claiming on payment protection policies (PPI), with the result that many will make a formal complaint and even take their case to the Financial Ombudsman Service.

Despite a widespread belief that the problem has peaked, the Ombudsman has just warned that it is still growing to avalanche dimensions.

Some 20 million of these policies have been sold. They were usually designed to cover loan or credit cards repayments if the policyholder became unwell or unemployed, but they were widely mis-sold to individuals who either did not need them or would be unable to claim.

In its annual budget plan, published yesterday, the Ombudsman predicted that PPI cases will absorb half its resources, amounting to the resolution of 130,000 cases, during the 2012/13 financial year. This represents a 55 per cent increase on the projections it made 12 months ago when it predicted the resolution of a maximum of 84,000 PPI cases for the current financial year.

Advice agencies are also on the alert regarding both the volume of complaints about these policies and the way that the product providers – mainly the banks – are dealing with them.

Citizens Advice Scotland (CAS) is "keeping a very close eye" on how banks are resolving complaints. Susan McPhee, head of policy at CAS, says: "We have certainly seen some clients who have reported difficulties, but it's not yet clear whether these are isolated examples or a more definite, widespread trend."

The Citizens Advice service in England and Wales is braced this month for an increase in queries on PPI, following the holiday period when claims management companies are likely to have found more people at home responding to their cold calls. These companies are the source of over a quarter of PPI claims, although the process of claiming through the Ombudsman is simple and can easily be done without a (fee-charging) adviser.

A couple of years back, the Ombudsman was expecting "a significant reduction in the volume of PPI complaints" coming before it. But that prospect has been derailed by the declining economic climate (which means more policyholders examine their insurance policies to see if they have a potential mis-selling claim) and the unsatisfactory complaints-handling of numerous banks.

Publicity about the potential to claim has been provided by complaints-handling organisations, and consumers have become more aware of their rights in this area.

Another turning point was last spring's judicial review of the Ombudsman by the banks. The banks had sought to reduce

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the ambit and influence of the Ombudsman, but found its role upheld in the High Court.

After the decision, the banks were given a few months to get their systems straight. Although they say they are working hard on stopping future mis-selling and compensating people swiftly, the Ombudsman is seeing delays and a deterioration in complaints-handling by some providers.

On yesterday's budget plan, the chief Ombudsman, Tony Boorman, said: "It's disappointing that there's little finality for significant numbers of consumers who are still waiting for their bank or insurer to deal with their complaint."

Putting the issue more positively, Brian Capon, spokesman for the British Bankers' Association, says: "There are a few delays at present, but the banks are working hard to deal with the complaints as quickly as they can. The process is taking longer than we or the banks would like, but this is getting serious attention from senior management and the banks are keen to move things on more quickly."

The main banks were given an extra four weeks by the regulator to reply to complaints from PPI policyholders. That extra leeway was removed on 1 January, so they now have the standard eight weeks in which to reply to a complaint. After that stage, policyholders can take the issue to the Ombudsman. Since the Ombudsman is upholding about half the PPI claims it receives, this step is often well worth the effort.

People who are unhappy with their policies – typically because they have grounds to believe they cannot successfully claim – can follow this procedure themselves, without using lawyers or complaints management companies. These advisers charge a fee, usually of several hundred pounds. (See case study.)

CAS is finding two particular problems now among its clientele: "... that banks are not communicating with clients on when they will receive the refund, and they are also not advising that any refund made will be used to repay any outstanding loans arrears the client may have."

At the moment, banks have largely stopped selling these policies. "They have effectively been stopped by the Competition Commission from selling this and similar products when they arrange loans or credit cards for consumers," says the financial services compliance consultant Adam Samuel. However, he adds: "There are rumours of PPI mark two policies being created."

The regulator, the Financial Services Authority, is consulting about how mis-selling can be prevented here. Meanwhile, Citizens Advice "has always been very supportive of PPI as a concept", says its director of policy, Teresa Perchard. Citizens Advice will be urging the creation of "a simple, fair deal PPI going forward" when the Treasury researches the issue this year.

However, some experts are unconvinced that the banks can sell in a simple way. When asked if mis-selling would stop as a result of the bad publicity on PPI, Mr Samuel says: "No. This is endemic in most banks who cannot focus on the idea that the margins they make from their core businesses of deposit-taking and lending are actually quite respectable. The business model is all too often one of thinking of things to flog to the consumer, not meeting consumers' needs."

John Gould, senior partner of Russell Cooke, the firm which represented the Ombudsman in last year's judicial review, is not misty-eyed about the prospect of change. Interviewed by the legal website Butterworths LawLeader, he says: "They will play it commercially. The great problem is that banks made a huge amount of money out of PPI. It remains to be seen whether the amount of money they give back will equal what they made. It's unlikely."

In other words, if mis-selling still translates into profits then it could well continue.

For their part, the banks say that they have changed their ways. Barclays, for instance, uses mystery shopping, customer callbacks and other methods to tackle mis-selling. If a member of Barclays' staff is found to have mis-sold, rules

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introduced since the PPI scandal emerged mean he or she can lose their bonus incentives for the year.

On their handling of compensation claims, the banks have not covered themselves in glory. Lloyds TSB is the only one of the big four to accept complaints online, according to research by Which? And, in cases where premium repayments are agreed, HSBC is unusual in getting repayments out to customers in under a week. Some bank customers have been waiting months.

As the Ombudsman gears up for 2012, it is also braced for an increase in cases of "entrenched disputes" which take longer to solve. An Ombudsman spokeswoman suggests some banks are having difficulties dealing with the simpler complaints. She says: "In discussions we've had recently with some of the larger businesses, it seems some are not fully geared up to deal with PPI complaints."

Compensation on PPI has been averaging £2,750, although, as the Ombudsman says: "This can vary considerably, depending on the individual complaints".

### Case studies: Blundering banks and the problem of claim managers' fees

Citizens Advice Bureaux in Scotland have recently dealt with these cases:

Miss X, aided by a claims management company, won a repayment of £3,290, which was set off directly by the bank against her loan. However, she was expecting that an £800 fee to the claims manager would be paid first. She now has a debt of £800 to the claim company.

A bureau helped a newly unemployed client make a claim on her PPI policy. But the bank told her she must agree to having the payment set off against the two loans she has with the bank. The bureau says: "Nowhere in this letter was there any mention of how much of a refund was being paid." Meanwhile a debt collection agency has been pursuing her for full repayment of the loans.

Mr Y was told by his bank that a payment would be made to him "as soon as possible". Ringing up to find out when, he was told that the previous information given to him on timing was wrong and that there was no guideline timescale.

Mr Z was told he would be getting a PPI compensation payout into his account of £2,300. He then withdrew £1,000 from his account. The day after, that same account was debited by the bank, leaving him with an overdraft of £800. He has no idea why this has happened and has been told the matter is under investigation.

British Bankers' Association: [www.bba.org.uk/customer](http://www.bba.org.uk/customer)

Citizens Advice (England and Wales):  
[www.citizensadvice.org.uk](http://www.citizensadvice.org.uk) and [www.adviceguide.org.uk](http://www.adviceguide.org.uk)

Citizens Advice Northern Ireland: [www.citizensadvice.co.uk](http://www.citizensadvice.co.uk)

Citizens Advice Scotland: [www.cas.org.uk](http://www.cas.org.uk)

Financial Ombudsman Service: [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk) and 0800 023 4567

Which? guide to reclaiming PPI:  
<http://www.which.co.uk/news/2011/05/60-second-guide-to-reclaiming-ppi-252928/>

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