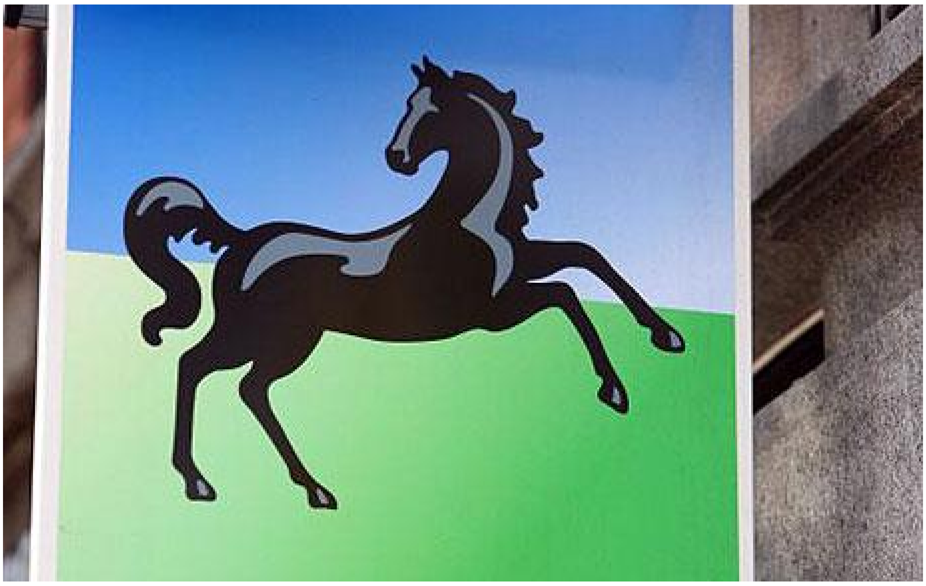
Lloyds abandons PPI court action

Bank customers who were mis-sold payment protection insurance (PPI) have seen their chances of receiving compensation boosted by Lloyds Banking Group's decision to withdraw from a legal battle against tighter mis-selling rules.



Lloyds said wanted to draw a line under the PPI episode

By Kara Gammell   12:15PM BST 05 May 2011   Daily Telegraph

Lloyds has made a £3.2bn provision against PPI complaints after British banks lost a court case on how policies were sold to millions of customers.

PPI covers debt repayments if the holder is unable to work due to an accident or illness or if they lose their job. But it has been criticised after research found it had been mis-sold to many consumers who would never be able to claim, while others felt pressured into taking it out alongside a loan or credit card. There are about 12 million outstanding policies.

Last month, British banks lost an appeal at the High Court over new rules which require insurers to review past sales of PPI, even when customers had not complained. The banks, represented by the British Bankers' Association (BBA), challenged the Financial Services Authority's new rules, saying they were being applied to previous sales.

The BBA has been considering whether to appeal against the PPI ruling but Lloyds said it would not take part as it wanted to draw a line under the episode.

The bank said there were "certain circumstances where customer contact and/or redress will be appropriate". It did not give more details about the scale of the possible compensation.

Antonio Horta-Osorio, the chief executive of Lloyds Banking Group, said: "We will no longer be participating in the BBA's judicial review. We do not want to continue a long-standing debate of this with the regulator."

Since the FSA took over the regulation of PPI in 2005, there have been more than 1.5m complaints made against providers. While an average of 60pc of complaints made directly to providers are dismissed, the vast majority that have been referred to the ombudsman have been upheld, costing banks millions of pounds in compensation payouts.

Background - Daily Telegraph coverage

PPI reaction: 'Banks must make amends by reimbursing the millions of people they ripped off'

A round-up of reaction to the end of banks' attempts to avoid paying compensation for PPI mis-selling.

Daily Telegraph 09 May 2011 12:03PM BST

Peter Vicary-Smith, chief executive of Which?

We're delighted that the BBA [British Bankers' Association] has at last seen sense. Hopefully this will be a watershed moment in how banks treat their customers.

It was a colossal error of judgment by the BBA to have brought this case in the first place, which has even further diminished the banking industry's reputation in the eyes of consumers.

PPI was mis-sold and complaints about it mishandled on an industrial scale for well over a decade. Now the industry must make amends by quickly reimbursing the millions of people it has ripped off.

There could still be huge numbers of people out there who were duped into buying PPI and unaware they can make a claim. We urge these people to contact their bank immediately to ask for their money back.

Adam Scorer, head of external affairs at Consumer Focus

Finally the banks have agreed to face the music on the issue of PPI. The entire episode is an embarrassment for our high street banks – it is now time to wipe the slate clean, pay up and look to learn lessons for the future.

PPI highlights that people find it difficult to understand everyday financial products. Banks need to offer more consumer-friendly accounts and services which do what they say on the tin.

Refunding billions of pounds to millions of people will be a mammoth undertaking and to get it wrong would add insult to injury. We are calling on the banks to put aside the resources that are going to be needed to ensure people get their money back quickly and efficiently.

Martin Lewis of MoneySavingExpert.com

This is a wonderful day for consumers. For once the banks have done the right thing and backed down. As much as £9 billion that was wrongly taken from consumers could now be paid back – an economic boost as money from banks' coffers will move into the pockets of real people.

Everyone who has got or had a loan or credit card in the last six years should check their documents now to see if they have this insurance. If you do, and were told it was compulsory, if you were given employment cover but you were self-employed, or if you were not asked about pre-existing medical conditions, you are likely to be a mis-selling victim.

Reclaiming should now be even easier. Hopefully people will stop unnecessarily using claims handling firms that take 25pc of their cash and instead use the simple process of complaining to the bank, then going to the free ombudsman if that doesn't work.

Kevin Mountford, head of banking at Moneysupermarket.com

This is a welcome move from the banking industry and is a major victory for the thousands of potential claimants who were mis-sold PPI on loans or cards. With the banks now prepared to deal with this issue, customers can now move forward, get in touch with their providers and start to recoup some of the money they unfairly lost.

The mis-selling of PPI has been a huge problem for the industry over the past few years and its reputation has suffered massively as a result. The way some providers sold PPI to their customers has resulted in thousands of cases where consumers have been sold unsuitable products. However, it's worth remembering that, when sold properly, payment protection insurance is an important product that protects those consumers unable to cover their loan or credit card repayments.

PPI policies have been an important revenue stream for the banks in the past and while it's great to see the industry held accountable for its mistakes, the fear is that British consumers will end up picking up the bill, and we may see the end of "free banking" as providers seek to recover their losses through other channels.

Andrew Hagger of Moneynet.co.uk

Following the announcement from Lloyds TSB last week, it was inevitable that the other banks and the BBA would be left with little choice but to follow suit.

Let's hope the banks provide sufficient manpower to ensure the repayment of premiums is made promptly and without fuss.

The PPI debacle has tarnished the reputation of our high street banks and has been a major contributor to the growing anti-bank feeling over the last few years.

It's time to draw a line under this sorry saga and for the banks to win back customer trust by concentrating on delivering consistently high levels of service and moving away from the pushy sales culture.

Stefan Maryniak of uSwitch.com

Following Barclays' move to join Lloyds in withdrawing from the appeal process, it was only a matter of time before the banking industry as a whole backed down and admitted defeat.

By retreating from the battle, the banks have admitted they were wrong in this mis-selling scandal. They are now going to have to suffer the consequences of their actions, with compensation costs rising to the billions.

There is still a huge amount of trust to be rebuilt between banks and consumers, so even though today's move is a step in the right direction, it could be too little too late. With all compensation cases now being looked at, we finally have a victory for consumers and common sense.

PPI: a rotten product that made the banks billions

In a rare outbreak of common sense the banking industry has finally run up the white flag and said it won't be pursuing further legal action on the issue of payment protection insurance (PPI).

By Emma Simon   9:37AM BST 09 May 2011

This statement follows the decision first by Lloyds, then by Barclays, not to appeal an earlier court ruling that banks were obliged to review all sales of this controversial insurance - whether or not a customer had complained. Banks are now setting aside billions of pounds to pay compensation to customers who were mis-sold this duff insurance, which was designed to cover loan or credit card repayments if you were made redundant or were too ill to work.

The British Bankers' Association has decided not to appeal against the High Court ruling in favour of tougher rules on PPI mis-selling

The Financial Services Authority has ruled that banks should use current sales' guidelines to determine whether a policy has been mis-sold. So banks will have to check, among other things, whether they had pointed out that the policy was optional and explained key terms and conditions.

Lloyds Banking Group alone now estimates its compensation bill could be £3.2 billion - showing just how large this scandal is. These policies have been mis-sold for years. It's now 10 years since I wrote about a case where Lloyds had sold this insurance alongside a postgraduate studies loan, despite the fact that those not in full-time employment – i.e. students – were specifically excluded from claiming.

Amazingly, the bank refused to pay out or refund premiums when one of its customers was forced to quit her course after being diagnosed with cancer.

Only after this newspaper wrote about the case did it offer redress – but even then it didn't have the courage to talk directly, or apologise, to the family. The first they knew about it was when some cub reporter (me) rang up for a reaction.

What they didn't have to do at the time was check whether other policies were sold alongside these study loans. Now they will, and hopefully those who unwittingly bought this insurance should be able to get their money back.

Given the length of time this scandal has dragged on, the millions affected and the cavalier way in which banks have dismissed complaints, I hope this proves to be the final chapter in a very sorry tale. There is one postscript worth noting though.

Lloyds's decision will open the floodgates to a wave of cold calls from claims management firms offering to "win" compensation for anyone who has ever had a loan or credit card. Many will demand upfront, unrefundable fees, and all will take a substantial slice of any redress.

Be wary about using such firms – they won't increase your chances of getting compensation. Consumers need to ensure they don't jump from one raw deal to another.

Don't wait for your bank to call you. Although Lloyds and Santander are now carrying out a systematic review they won't check every single case - only those that are similar to cases where mis-selling has already been identified. Check old credit card and loan statements yourself.

If you have paid for this insurance, log a complaint and force them to pay proper compensation for a rotten product that was badly sold, but has helped the banks make billions.

PPI: timeline of the mis-selling scandal

As Lloyds Banking Group throws in the towel in the fight to avoid paying compensation, our timeline traces the history of the PPI scandal.

By Richard Evans 2:15PM BST 05 May 2011

1998: Issue of PPI being a poor-value product because of expense and exclusions first raised in Which? magazine.

1998-2005: PPI problems highlighted in The Daily Telegraph and The Sunday Telegraph.

January 2005: FSA takes on the regulation of the sale of general insurance. It says PPI review one of its priorities that year.

September 2005: Citizens Advice publishes Protection Racket report identifying problems in PPI market. It issues “Super Complaint” to the Office of Fair Trading over PPI sales.

November 2005: FSA issues its first report on PPI. Identifies poor selling practices and lack of compliance controls in PPI market following company visits and mystery shopping exercises. Writes to all chief executives highlighting key findings.

September/October 2006: FSA fines smaller firms for mis-selling.

October 2006: FSA issues report finding more evidence of poor compliance, 24 companies enter “enforcement procedures” for PPI failings.

October 2006: OFT issues a report on PPI, says it intends to refers issue to Competition Commission.

January/February 2007: FSA imposes fines on major PPI providers for not treating customers fairly.

February 2007: OFT makes formal referral of PPI to the Competition Commission.

September 2007: FSA fines Egg, Liverpool Victoria and Land of Leather over PPI failings.

January 2008: Competition Commission publishes paper on profitability of PPI.

January 2008: FSA imposes more fines on PPI providers.

March 2008: FSA introduces comparative tables for PPI.

April 2008: Competition Commission publishes two papers highlighting further problems in PPI market.

May 2008: Which? publishes research into PPI sold alongside loans. It shows up to 2m people have been sold a policy they will never be able to claim on.

July 2008: Financial Ombudsman Service ask FSA to investigate how firms are handling PPI complaints.

September 2008: Which? publishes research into PPI sold with credit cards, showing that 1.3m people mistakenly believed they would be approved for credit if they took PPI.

October 2008: Alliance & Leicester fined £7m for mis-selling PPI.

January 2009: Competition Commission recommends those selling a loan should not sell PPI at same time. Barclays lodges objection.

February 2009: FSA writes second letter to chief executives, asking them to stop selling single-premium PPI with loans.

May 2009: FSA bans sales of single-premium PPI.

September 2009: FSA launches consultation paper outlining how complaints handling can be improved.

October 2010: Banks seek judicial review of new measures, arguing they impose standards retrospectively.

October 2010: Competition Commission confirms PPI cannot be sold at point of sale.

January 2011: High Court case begins.

April 2011: High Court judge rules against banks.

May 5 2011: Lloyds Banking Group withdraws from legal challenge, saying it want to "draw a line" under the affair.

May 9 2011: British Bankers' Association decides not to appeal against High Court ruling.

BBA's Angela Knight faces calls to quit after PPI cave in

Angela Knight, chief executive of the British Bankers' Association, should stand down following the collapse of the group's payment protection insurance appeal, leading members said.

Calls for BBA's Angela Knight to resign as banks cave in on PPI

By Harry Wilson, and Richard Fletcher 6:00AM BST 10 May 2011

They have called on Ms Knight to resign after the trade association was forced to make a humiliating about turn on Monday and announce that it was dropping plans for a judicial review.

The BBA lost a High Court verdict last month and had until today [Tuesday] to make an appeal against the decision.

"The BBA's handling of the PPI case has made us uncomfortable," said a senior executive at one BBA member. "While we think it is an interesting legal and intellectual argument, it does the banking industry no good to be seen to be dragging its feet on the issue."

The executive added: "Angela has been great for the industry, but I think we need someone less stringent now. There is a need for a diplomat who can begin healing the industry's relations with the Government and the wider public."

An executive at another BBA member said: "She has done a great job – but its time for a different voice. The landscape has changed. We no longer need to be so combative.

A spokesman for the BBA said: "PPI has been a member issue throughout on which we have been in close and constant contact at the highest level. There is absolutely no basis for your suggestion that the handling has been questioned or that anyone has chosen to personalise the issue in this way," she added.

Royal Bank of Scotland on Monday night became the last of the UK's major banks to announce its provision against PPI claims, saying it would set aside £850m to meet compensation pay-out costs. RBS had already made a £100m provision and paid out £100m in claims.

Earlier in the day, Barclays said it had made a £1bn provision for PPI claims, while HSBC announced it provided $440m (£267m).

Bob Diamond, chief executive of Barclays, said the bank had dropped its appeal against the PPI ruling and apologised to customers.

The banks' decisions followed that of Lloyds Banking Group last week, which became the first of the UK's big banks to withdraw its support for the BBA appeal as it said it had agreed a £3.2bn provision to meet PPI claims.