



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

T +353 1 224 6000 F +353 1 671 6561

Bosca OP 559, Sráid an Dáma, Baile Átha Cliath 2, Éire.
PO Box No. 559 Dame Street, Dublin 2, Ireland.

www.centralbank.ie

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Re: Payment Protection Insurance Review

I refer to previous correspondence and communications with regard to the issue of Payment Protection Insurance (“PPI”).

The purpose of this letter is to provide credit institutions with some general feedback in relation to the findings of the Financial Regulator’s review of PPI for personal loans under three key areas, namely, sales practices, refund procedures and staff training. We have included our comments (in italics) on the findings and you should consider the issues raised when reviewing and developing your sales and refund procedures, training models and the scope of your compliance and internal audit processes. In addition, the new Consumer Protection Code contains a number of important provisions relevant to the PPI product, which must be complied with to ensure such issues do not arise in the future.

The findings from the review are as follows:

A. Sales Practices

- 1) Eligibility as opposed to suitability appeared to have been considered in the sales process.
- 2) Terms and Conditions/Evidence of Insurance/Policy Document of a PPI product are not always provided to customers prior to the sale of the product.
- 3) Customers are not always made aware of the eligibility and exclusion clauses before they purchase the product. The exclusions/limitations of the policy are not given as equal prominence as the potential benefits, nor is equal attention drawn to them.
- 4) Customers are not always made aware that PPI is optional and in certain cases loan repayment amounts are only quoted inclusive of PPI. It would appear that customers are not being made adequately aware that a decision on whether or not to purchase PPI does not influence the decision to approve an application for credit.



- 5) If the term of a PPI policy is less than the term of the loan, customers are not always advised that they are not protected for the full term of the loan.
- 6) Customers are not always fully aware of what they are signing and, in some cases, that they have actually purchased PPI.
- 6) Where a customer borrows to pay the premium, the credit agreement does not always indicate clearly the amount of interest being charged on the PPI premium separately to the amount of interest that will be charged on the loan amount.
- 7) The amount of the PPI premium is not always shown in a prominent position in the credit agreement.

The requirements of the new Consumer Protection Code cover the issues identified above. You should consider them when developing your processes and procedures to comply with relevant aspects of the Code.

- 8) When indications (such as “x”) are used to highlight to a customer where they should sign, the customer may mistakenly believe that they have to sign in certain places and may as a result sign up to take out PPI or to waive the cooling off period.

We recognise that this is an industry practice and may be useful for indicating where customers are to sign. Care needs to be taken with its use, particularly when documents are pre-printed with these marks and when such documents are being sent to the customer.

- 9) A central monitoring of the sales process for PPI is not in place in all institutions.

Central monitoring of sales will ensure that sales practices are complied with and any difficulties, problems or systemic issues are managed centrally. It will also facilitate internal audit and compliance oversight.



- 10) The scope of compliance and internal audit functions would not appear to have included a particular focus on PPI in the past. Therefore, PPI is not specifically addressed during branch audits and the PPI process is not audited from point of sale through to policy expiration or cancellation.

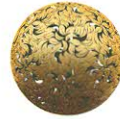
Credit institutions need to consider the risk attaching to all products and processes in assessing where to devote their compliance and internal audit resources.

- 11) In the case of top-up loans, where a customer had PPI on the original loan and takes out PPI on the top-up loan, it would appear that, in some institutions, a customer may have to re-qualify or wait the specified exclusion period before qualifying to make a claim on the new policy.

Credit institutions need to ensure that customers are aware of such terms, particularly if an exclusion period applies, when they top up a loan.

- 12) Refunds of premiums are not made in all cases where it emerges that PPI has been sold to an ineligible customer, e.g. if the customer is over 65 years of age before the expiration of the term of the loan.

As required by the Code, firms must have adequate procedures and controls to properly manage their business. Where policies are inadvertently sold to customers who are ineligible, we expect that firms have procedures in place to ensure that full refunds are made promptly to customers.



B. Refund Process

- 13) We have noted that manual intervention is sometimes required in order for PPI refunds to be issued to customers.

Manual intervention in processes has led to many instances of charging errors and it is preferable that such interventions are minimised. Where manual intervention is required, adequate controls with central monitoring must be in place to mitigate the risks posed.

- 14) The Policies/Evidence of Insurance/Terms and Conditions relating to PPI policies do not always include a term that states a refund (the refund would only apply to the unexpired portion of the premium) **will** be made if the policy is cancelled prior to expiry and no claim has been paid. In some cases, the policy has stated that a refund “**may**” be made.

We believe that where a policy is cancelled, any unexpired premium should be refunded to the consumer, as a matter of course.

- 15) Adequate controls are not always in place to ensure that payments e.g. direct debits for monthly PPI premiums or mortgage repayment protection insurance premiums, are cancelled when loans are paid off early or the policy is cancelled. In such cases, premiums continue to be taken after the policy has been cancelled.

Credit institutions need to ensure that controls are in place to ensure that when PPI premiums are cancelled that standing orders/direct debits do not continue to be collected.



C. Training

- 16) Adequate training is not always provided to staff to ensure that they are fully aware of the product features and procedures and to ensure that they comply with procedures in the sales process.

Credit Institutions need to ensure that their training programmes provide staff with the information and knowledge to understand and explain the PPI product to customers and to ensure that it is only sold to suitable customers.

On a separate but related issue, the Financial Regulator has noted that credit institutions do not, in all cases, advise consumers who redeem their mortgages and who had mortgage protection policies arranged through that credit institution that they may need to review their need for the mortgage protection policy and cancel it if it is no longer required. We would ask you to give this matter your consideration and to include a point in the redemption of mortgages procedures for staff, to discuss the issue with customers who are redeeming mortgages.

We appreciate that not all of the issues discussed in this letter are applicable to your institution. Nonetheless, we hope that you find the information useful as you review your institution's compliance.