

# **Annexe D**

**Summary report of business  
surveys**

**October 2006**

OFT869d

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## Introduction

As part of the information gathering process for the market study OFT undertook a survey of PPI insurers, distributors and intermediaries.<sup>1</sup> This annex summarises the results of the responses to the insurers and distributors questionnaires. A very small number of intermediaries responded and many of those were only partially completed. In view of this we have not produced a statistical summary of these results due to concerns about data quality.

## 1 SUMMARY

Key results are as follow:

### Distributors

- 1.1 In 2005, 95 per cent of the 2.0 million single premium (paid upfront for the term of the loan) PPI policies sold were for unsecured loan; 61 per cent of the 4.3 million regular policies (monthly premiums) sold supported credit cards and 19 per cent insured unsecured personal loans. These policies earned some £3.9 billion in Gross Written Premium (GWP<sup>2</sup>).
- 1.2 Most types of PPI were sold mainly in-house but PPI for second charge mortgages, retail credit and motor finance was sold largely by downstream intermediaries.
- 1.3 The average commission earned by distributors on all PPI policies was 59 per cent for single premium policies and 42 per cent for regular policies.
- 1.4 Three quarters of respondents used a single insurer to underwrite their policies.

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<sup>1</sup> See chapter 2 for a description of these terms.

<sup>2</sup> Premium received gross of commission and reinsurance but excluding insurance premium tax.

- 1.5 On average, 91 per cent of all PPI sales occurred at the point of sale (PoS) of the supported credit product.
- 1.6 Average PPI take-up rates were highest for those policies sold in-branch face-to-face at 39 per cent. The average for all policies was 23 per cent.
- 1.7 Just over half of respondents answering the question on the change in premium prices over the five year period 2001-2005 said there had been no change.
- 1.8 Nine out of ten distributors said that their PPI provider was responsible for claims processing and just over half said their provider was responsible for policy administration. One in ten distributors were responsible for sales and marketing and the same number claimed responsibility for staff training.
- 1.9 The rate of claims received by distributors' PPI providers varied between 20 per cent for first time mortgage policies and two per cent for retail credit. The value of claims paid out totalled approximately £410m for 0.36 million claims received in 2005. On average, 16 per cent of claims were rejected.

## **Insurers**

- 1.10 In 2005, respondents provided 2.5 million single premium PPI policies, of which 87 per cent supported unsecured loans. They also provided 4.8 million regular premium policies, of which 59 per cent were for credit cards, 13 per cent first charge mortgages and 12 per cent retail credit. These policies raised £4.5 million GWP.
- 1.11 Forty-seven per cent of GWP was raised by products sold through vertically integrated distributors, 45 per cent through unconnected distributors and just eight per cent through non-lending intermediaries as a standalone product.
- 1.12 The average commission rate paid to downstream distributors and non-lending intermediaries for all single premium PPI policies was 59 per cent of annual GWP. This ranged between 50 per cent for first charge mortgage PPI to 67 per cent for motor finance policies. Commission

rates were typically lower for regular premium policies averaging 53 per cent for all policies ranging from 35 per cent for first charge mortgages to 70 per cent for retail credit.

- 1.13 Respondents had received 0.5 million claims in 2005, resulting in £393 million paid out to claimants. The rate of claims per policies sold highest and the value of claims as a proportion of GWP earned was highest for first charge mortgages and lowest for retail credit.
- 1.14 Average claims ratios ranged from nine per cent for store cards to 33 per cent for first charge mortgages. On average, 16 per cent of all PPI claims were declined.

### **Comparison of the two surveys**

- 1.15 On the whole, results where asked of both parties were either very similar or if quantifying higher for insurers than for distributors (as one should expect given that a small share of their policies are sold through non-lending intermediaries).

### **Coverage**

- 1.16 Depending on which measure is used, comparison (the 2005 GWP estimates from Mintel<sup>3</sup> or the number of policies sold from CiTA<sup>4</sup>) indicates that the survey of distributors covered 72-84 per cent of the market and the survey of insurers covered 83-99 per cent of the market. So whilst the number of respondents is quite low (particularly on the insurers survey) this is indicative of the number of participants in the market and not low response rates.

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<sup>3</sup> *Creditor Insurance - UK - November 2005.*

<sup>4</sup> *Protection racket, 2005.*

<i>Source</i>	<i>Gross Written Premium</i>	<i>Policies sold</i>
OFT distributors survey	£3.9bn	6.3m
OFT insurers survey	£4.5bn	7.4m
Datamonitor <sup>5</sup>	£5.4bn	-
Mintel	£5.5bn	-
CiTA	-	6.5-7.5m

1.17 Both surveys indicate that the average commission earned by distributors for single premium policies is 59 per cent and slightly lower (42-53 per cent) for regular premium policies.

1.18 Both surveys also indicate a similar proportion of claims are rejected: 14-16 per cent.

## Notes

Where information relates to a year it refers to the calendar year January to December.

'**Payment Protection Insurance**' is regarded to be any insurance policy which provides benefits to a customer in respect of accident, sickness, dismissal, redundancy, death or other risk likely to affect a customer's income. It is irrelevant whether benefit is paid to the customer or to lender.

Any results marked \* are based on less than three observations and should be used with extreme caution

- Indicates nil returns

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<sup>5</sup> UK Creditor Insurance 2004, A Comprehensive analysis of the PPI market in the UK

## 2 METHODOLOGY

2.1 There are three types of business that needed to be surveyed:

- Distributors (mainly banks, building societies and mortgage lenders);
- Intermediaries (those who do not lend directly but arrange credit/PPI for their customers: e.g. brokers, catalogue companies, car sales companies, electrical goods shops etc) and
- Insurers/underwriters who actually supply the PPI.

2.2 It was necessary to tailor three questionnaires for these business groups with a core section collecting information on the number of policies sold/supplied, GWP, claim ratios, commissions etc plus additional questions focusing on aspects of the business only application to that group.

2.3 Three sample frames were drawn together using several sources. As some of these groups were quite small (less than 200) we felt it was appropriate to send questionnaires to all companies listed rather than sample.

2.4 The FSA provided us with their Retail Mediation Activities Returns (RMAR)<sup>6</sup> list which identifies all UK companies who sell PPI but do not have lending permissions (essentially all intermediaries bar a few exceptional cases). The Chief Executive Officers of these 1,085 companies were then emailed an electronic copy of the intermediary questionnaire on 26 April and asked to return it by 2 June either electronically or by post. A remainder email was sent on 13 June with an extended deadline of 23 June.

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<sup>6</sup> This is a set of data that forms the basis of regulatory reporting to the FSA. For more information see <http://www.fsa.gov.uk/pages/Doing/Regulated/Returns/index.shtml>

- 2.5 The FSA also provided a copy of their public register<sup>7</sup>; from this we selected those companies which had deposit taking permissions and permission to arrange general insurance policies. These 173 companies were possibly brokers (intermediaries) or distributors so paper copies of both questionnaires were posted to the CEO on 26 April with a deadline of 2 June and asked to identify themselves appropriately. They were also advised that electronic copies of the questionnaires could be found on the OFT website and downloaded for electronic completion/return. Not all of these companies sell PPI but PPI is a form of general insurance and this the only way we could hope to contact those distributors selling/supplying PPI. A reminder letter and questionnaire was posted to those who had not responded on 13 June with a revised deadline of 23 June.
- 2.6 Finally the ABI provided us with a list of their members who possibly sold PPI. These 170 companies were posted a version of the insurer questionnaire on 12 April and asked to return it by post or email by 19 May. Non respondents were also sent a reminder on 13 June with a revised deadline of 23 June. ABI members provide around 94 per cent of insurance services sold in the UK. Whilst using this membership as a base for our sample list risks excluding a small number of companies who may provide PPI, we were advised that it was very unlikely that any of these would sell PPI and the resources required to identify any such insurers were considered to be prohibitive.
- 2.7 A pilot was not undertaken for this survey however an internal team Survey Review Team met to assess the methodology and content of the questionnaires which were developed from questions that had been used to collect information whilst the OFT was preparing its response to the CiTA Supercomplaint in late 2005.

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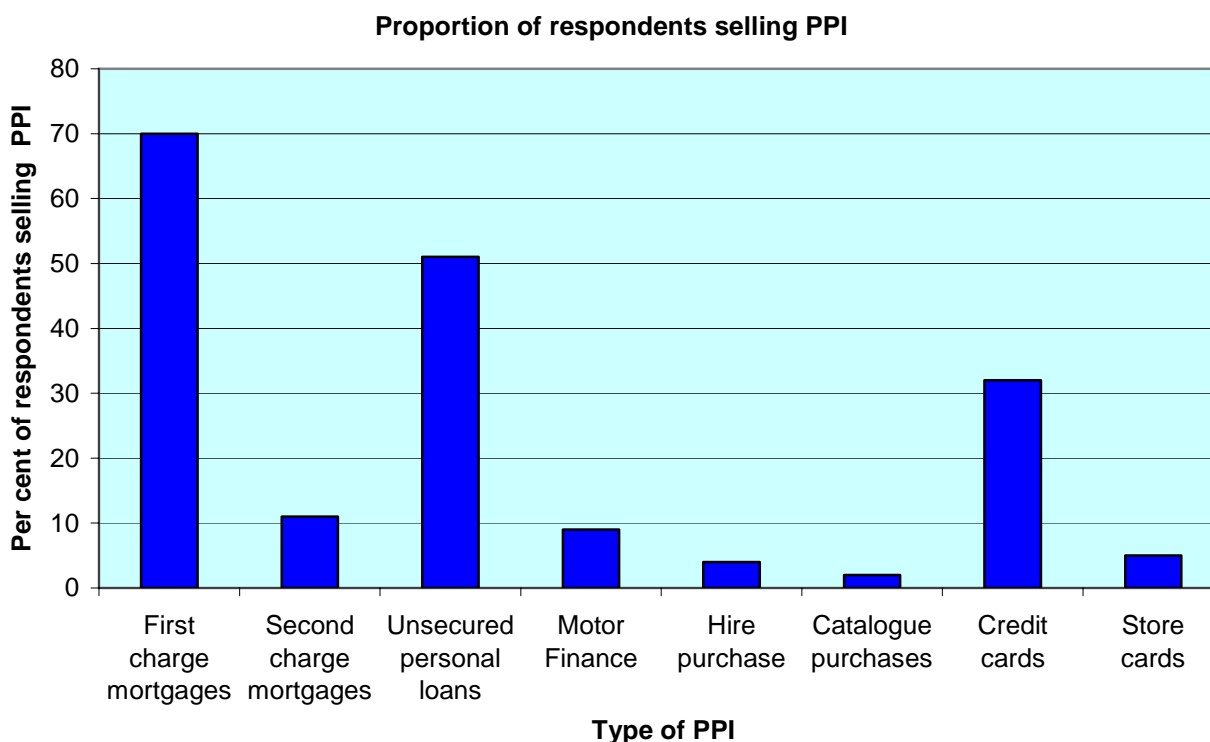
<sup>7</sup> The FSA Register is a public record of financial services firms, individuals and other bodies which fall or have come under its regulatory jurisdiction as defined in the Financial Services & Markets Act 2000 see <http://www.fsa.gov.uk/Pages/register>

### 3 RESULTS FOR THE SURVEY OF DISTRIBUTORS

3.1 Of the 173<sup>8</sup> distributors who were sent questionnaires, 83 responded (48 per cent). Just over two-thirds of these (69 per cent; some 58 businesses) make PPI available to their loan customers either directly or through intermediaries. A similar number (68 per cent) said that their business was best described as a credit company or lender whilst the remainder (32 per cent) identified themselves as retailers.

3.2 The majority of distributors sold PPI for first charge mortgages (70 per cent), half (51 per cent) sold unsecured personal loan policies and around one third (32 per cent) sold credit card PPI.

**Chart 3-1 Type of insurance sold**



Base: 58

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<sup>8</sup> A small number of these may have been non-lending intermediaries or brokers.

- 3.3 Some 95 per cent of 2.0 million single premium PPI policies sold by the respondents in 2005 supported unsecured personal loans.

**Table 3-2 Single premium policies sold in 2005**

	<i>Sum</i> <i>(000s)</i>	<i>Share ( per</i> <i>n</i> <i>cent)</i>	
First charge mortgage*	8	2	0
Second charge mortgage*	30	2	2
Unsecured personal loan	1,900	24	95
Retail credit	-	-	-
Motor Finance*	7	2	0
All PPI <sup>9</sup>	2,002	28	100

Base: 58

- 3.4 In 2005, nearly two thirds (61 per cent) of a total 4.3 million regular premium PPI policies sold by respondents were credit card policies and a further fifth (19 per cent) of those sold insured unsecured personal loans. Only six per cent of these regular policies supported first charge mortgages, yet many companies said they sold these policies (34) compared to only 19 distributors selling credit card PPI and 15 selling unsecured personal loan PPI. Three distributors sold store card PPI accounting for eight per cent of all PPI sales in 2005.

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<sup>9</sup> Note that some companies were unable to separate all the PPI they sell into categories: hence why the sub categories do not always sum exactly to the total. Also, some respondents had included small amounts of what they described as 'other' PPI in their total PPI figure; the previous question indicates that this was often not PPI but life insurance, income protection, purchase protection etc. This has been excluded wherever possible but small amounts may remain where it was not possible to identify the value of this 'other' PPI.

**Table 3-3 Regular premium policies sold in 2005**

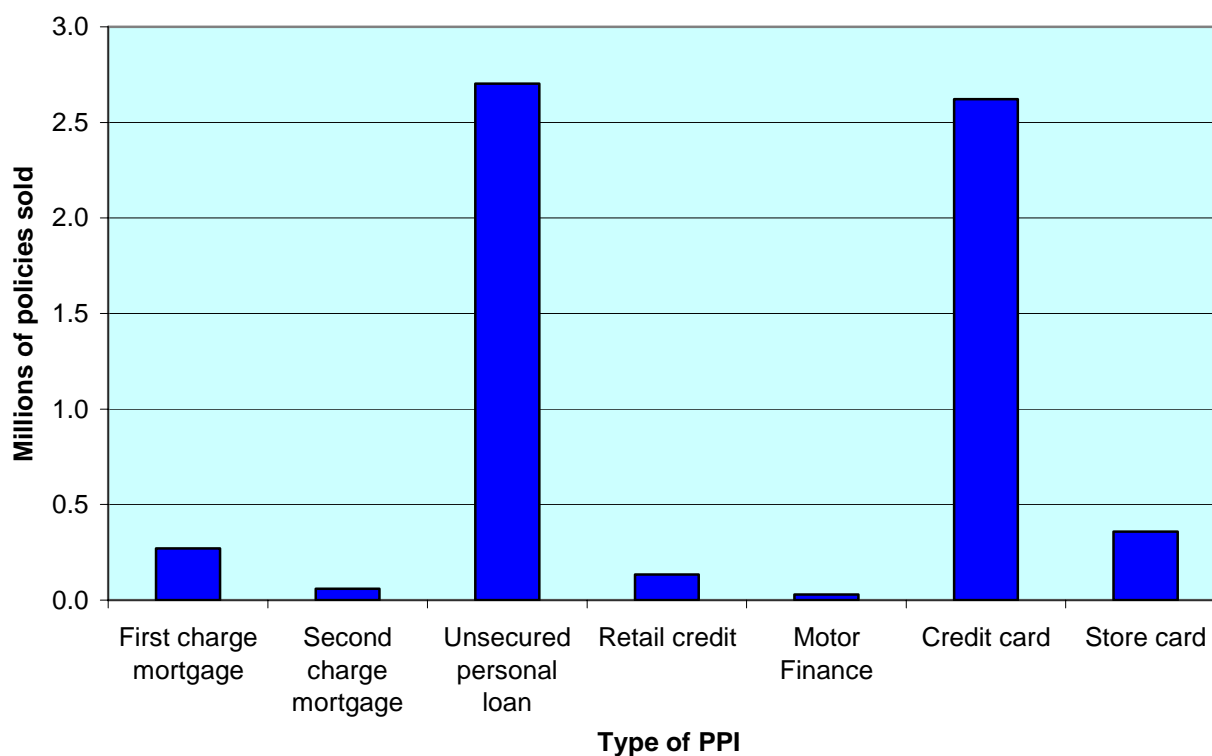
	<i>Sum (000s)</i>	<i>n</i>	<i>Share (per cent)</i>
First charge mortgage	263	34	6
Second charge mortgage	28	6	1
Unsecured personal loan	803	15	19
Retail credit*	134	1	3
Motor Finance	23	4	1
Credit card	2,621	19	61
Store card	359	3	8
All PPI	4,290	52	100

Base: 58

3.5 Of the total number of unsecured loan policies (approximately 2.7 million) 70 per cent were single premium policies and 30 per cent were regular premium policies.

3.6 In total respondents sold 6.3 million PPI policies in 2005. Just under half of all policies sold were for unsecured personal loans (43 per cent) or credit cards (42 per cent).

**Chart 3-4 PPI policies sold in 2005**



**Table 3-5 PPI policies sold in 2005**

	<i>Sum (000s)</i>	<i>n</i>	<i>Share (per cent)</i>
First charge mortgage	271	35	4
Second charge mortgage	59	6	1
Unsecured personal loan	2,703	27	43
Retail credit*	134	1	2
Motor Finance	30	5	0
Credit card	2,621	19	42
Store card	359	3	6
All PPI	6,292	54	100

**Gross Written Premium**

3.7 The main source of respondents' single policy GWP in 2005 – worth £2.3 billion - was unsecured personal loan PPI (91 per cent), a further eight per cent of single policy GWP came from second charge mortgage PPI sales.

**Table 3-6 Single policy Gross Written Premium, 2005**

	<i>Sum £m</i>	<i>n</i>	<i>Share (per cent)</i>
First charge mortgage*	2	2	0
Second charge mortgage*	174	2	8
Unsecured personal loan	2,096	23	91
Retail credit	-	-	-
Motor Finance*	7	2	0
All PPI	2,291	27	100

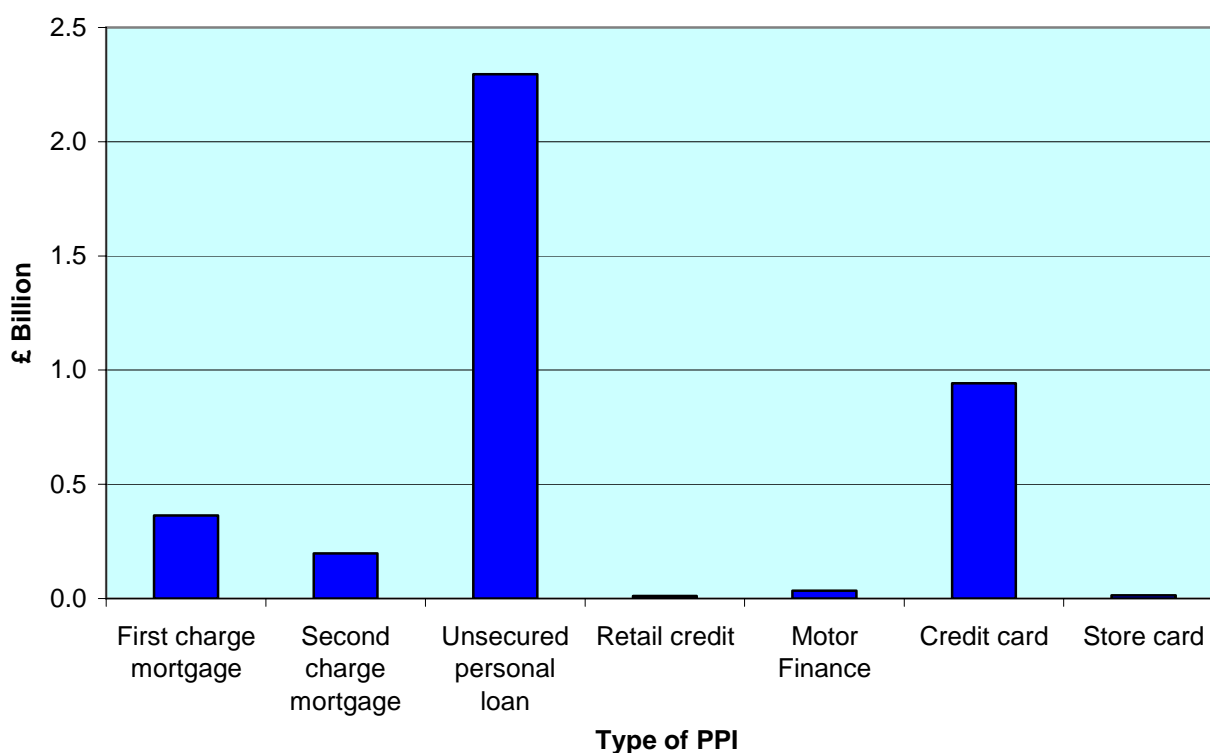
3.8 Respondents earned £1.6 billion of regular policy PPI GWP in 2005. More than half of this was attributed to credit card PPI (58 per cent), nearly a quarter was first charge mortgage PPI (22 per cent) and 12 per cent was from unsecured loan PPI.

**Table 3-7 Regular policy Gross Written Premium, 2005**

	<i>Sum £m</i>	<i>n</i>	<i>Share ( per cent)</i>
First charge mortgage	362	36	22
Second charge mortgage	23	5	1
Unsecured personal loan	201	14	12
Retail credit*	11	2	1
Motor Finance	28	4	2
Credit card	943	18	58
Store card	13	3	1
All PPI	1,614	53	100

3.9 Approximately 90 per cent of the total £2.3 billion GWP earned on unsecured loan policies was from single premium policies. GWP for unsecured loan PPI formed 59 per cent of all PPI sales with credit card PPI sales taking another 24 per cent of GWP and first charges mortgage policies another 10 per cent.

**Chart 3-8 Gross Written Premium earned in 2005**



**Table 3-9 Gross Written Premium, 2005 (all PPI policies)**

	<i>Sum £m</i>	<i>n</i>	<i>Share ( per cent)</i>
First charge mortgage	364	37	9
Second charge mortgage	197	6	5
Unsecured personal loan	2,296	26	59
Retail credit*	11	2	0
Motor Finance	34	5	1
Credit card	943	18	24
Store card	13	3	0
All PPI	3,905	55	100

3.10 For the businesses who responded to our survey of distributors, nearly half of all single premium second charge mortgage policies were sold via downstream intermediaries, as were seven per cent of single premium motor finance policies. Nearly all single premium first charge mortgage PPI and unsecured loan policies were sold in-house. In total, around five per cent of single premium PPI policies were sold via downstream intermediaries.

**Table 3-10 Proportion of GWP sold via company/downstream external intermediaries (single premium policies)**

<i>(Per cent)</i>	<i>In-house</i>	<i>Downstream intermediary</i>
First Charge Mortgage	100	0
Second Charge Mortgage	52	48
Unsecured personal loans	100	0
Retail credit	-	-
Motor Finance	93	7
All PPI	96	5 <sup>1</sup>

Base 58 (1) Does not sum to 100 per cent due to rounding errors

3.11 The proportion of motor finance policies sold via downstream intermediaries is much higher for regular premium policies (85 per cent) compared to single premium policies (seven per cent). Nearly nine in ten (88 per cent) retail credit PPI policies were sold by downstream intermediaries yet only 1-2 per cent of regular mortgage PPI policies, credit card and store cards were sold via intermediaries.

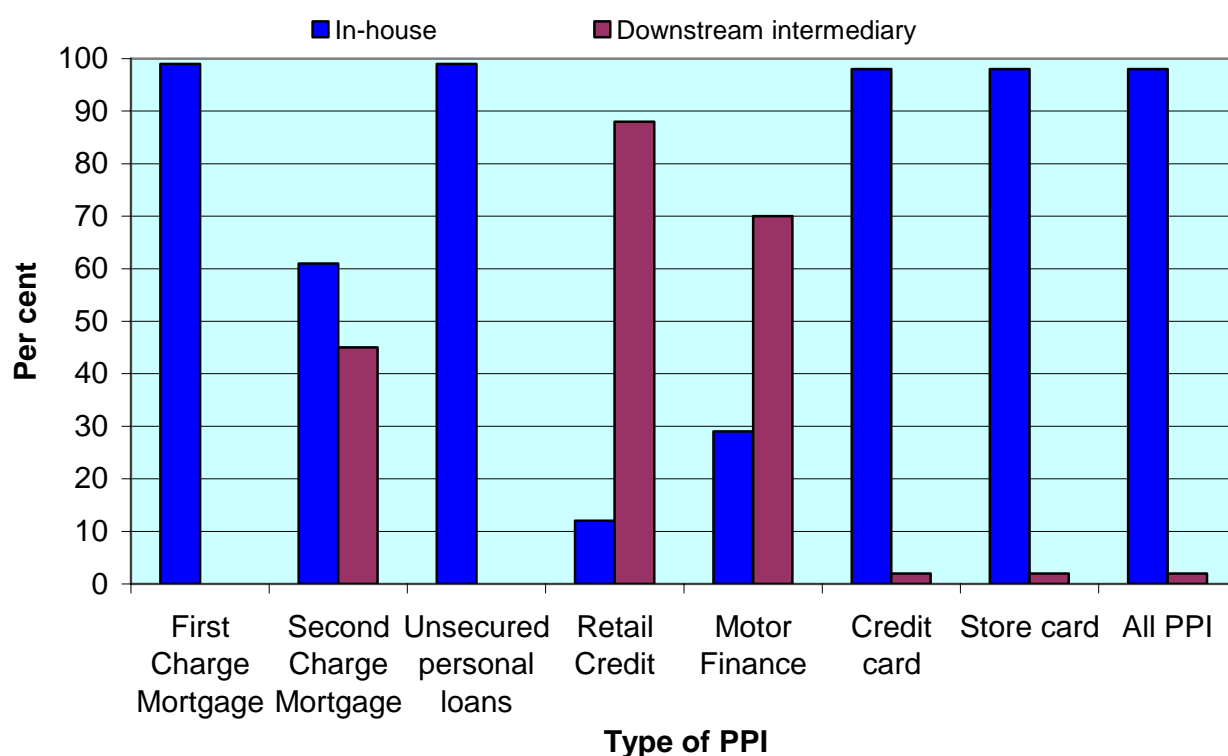
**Table 3-11 Proportion of GWP sold via company/downstream external intermediaries (regular premium policies)**

<i>(Per cent)</i>	<i>In-house</i>	<i>Downstream intermediary</i>
First Charge Mortgage	99	1
Second Charge Mortgage	99	1
Unsecured personal loans	100	0
Retail Credit	12	88
Motor Finance	14	85 <sup>1</sup>
Credit card	98	2
Store card	98	2
All PPI	98	2

Base 58 (1) Does not sum to 100 per cent due to rounding errors

- 3.12 Overall, just two per cent of PPI policies were sold via downstream intermediaries, however, 88 per cent of retail credit PPI policies, 70 per cent of motor finance policies and nearly half (45 per cent) of all second charge mortgage policies were sold via downstream intermediaries.

**Chart 3-12 Proportion of GWP sold via company/downstream external intermediaries**



Base 58 (1) Does not sum to 100 per cent due to rounding errors

3.13 Commissions earned by distributors on the sale of single premium PPI policies ranged between 25-77 per cent. The average commission rate earned on all PPI single premium policies was 59 per cent.

**Table 3-13 Commission earned on sale of single premium policies**

	<i>n</i>	<i>Range</i>	<i>Mean</i>
First charge mortgages*	2	25-52 per cent	38 per cent
Second charge mortgages*	2	55-70 per cent	62 per cent
Unsecured personal loan	22	25-77 per cent	58 per cent
Retail credit	-	-	-
Motor Finance	3	65-69 per cent	67 per cent

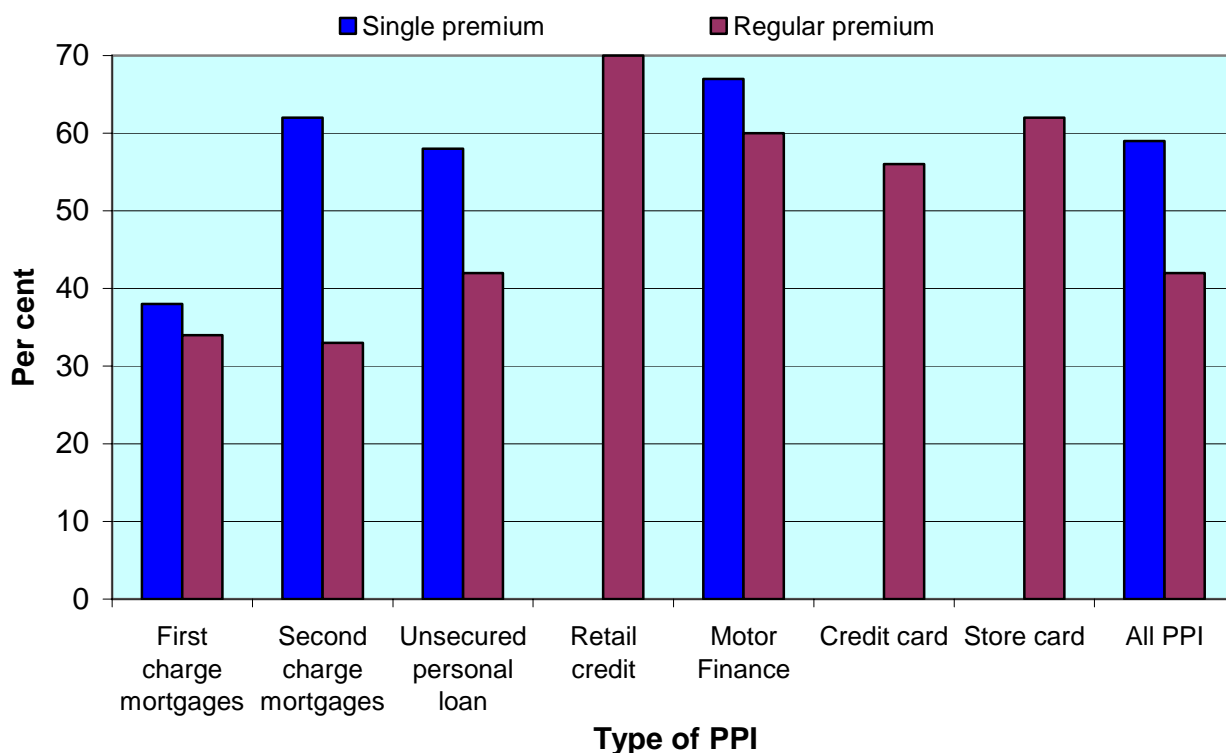
All PPI	26	25-77 per cent	59 per cent
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- 3.14 Commissions earned on the sale of regular premium policies were typically lower than those for single premium policies (although due to the small number of respondents we can only really base this comparison on unsecured loan PPI policies which averaged 58 per cent for single premium policies and 42 per cent for regular payment policies).
- 3.15 Commissions earned on regular premium policies for mortgage PPI were lower than for other types of PPI; an average of 33-34 per cent compared to unsecured personal loan PPI (42 per cent) and credit card PPI (56 per cent).

**Table 3-14 Commission earned on sale of regular premium policies**

	<i>n</i>	<i>Range</i>	<i>Mean</i>
First charge mortgages	36	10-57 per cent	34 per cent
Second charge mortgages*	2	25-40 per cent	33 per cent
Unsecured personal loan	14	0-67 per cent	42 per cent
Retail credit*	1	70 per cent	-
Motor Finance	4	39-74 per cent	60 per cent
Credit cards	18	25-86 per cent	56 per cent
Store cards	3	35-75 per cent	62 per cent
All PPI	44	0-86 per cent	42 per cent

**Chart 3-15 Average commission earned on PPI policies**



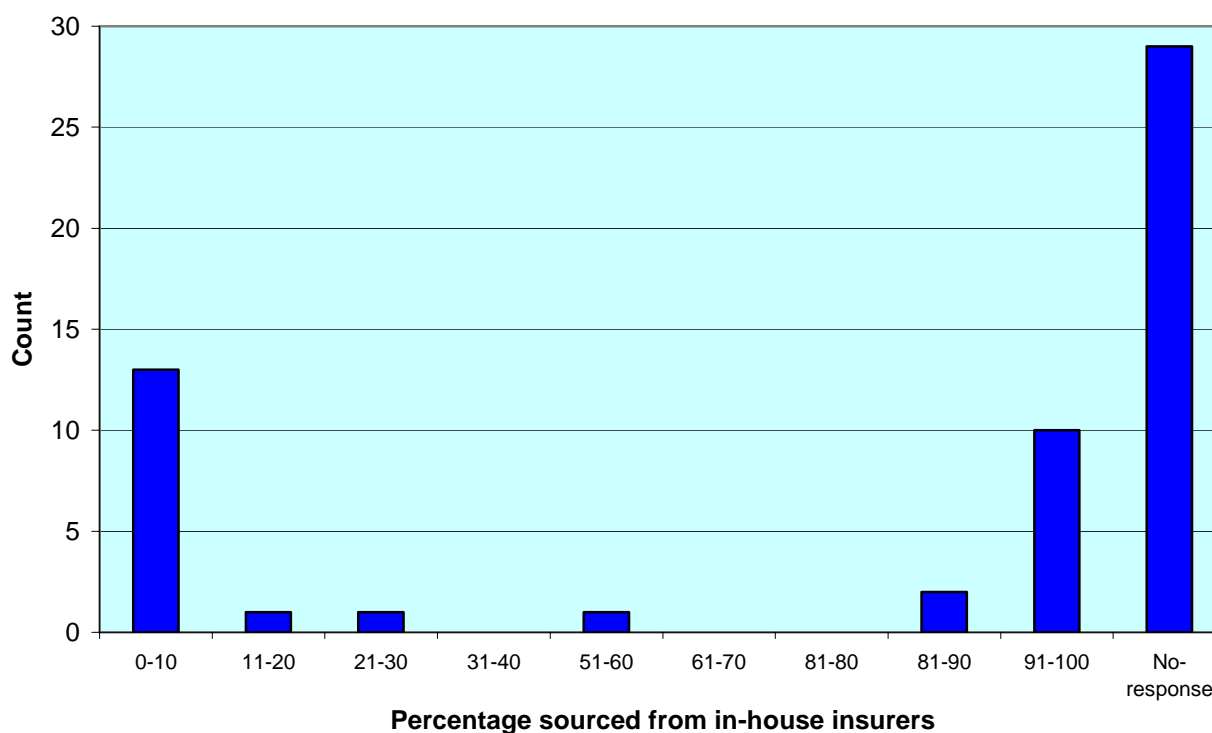
3.16 Commissions paid to downstream intermediaries selling regular premium policies were much lower than those earned, ranged between 0-30 per cent and averaged 16 per cent.

**Table 3-16 Commission paid by distributors to downstream intermediaries (regular premium policies)**

	<i>n</i>	<i>Range</i>	<i>Mean</i>
First charge mortgages	4	0-25 per cent	7 per cent
Second charge mortgages*	1	25 per cent	25 per cent
Unsecured personal loan			
Retail credit			
Motor Finance	4	12-25 per cent	18 per cent
Credit cards			
Store cards			
All PPI	10	0-30 per cent	16 per cent

- 3.17 Three quarters (75 per cent) of respondents use a single insurer/underwriter to underwrite all their PPI policies and 14 per cent use separate insurers/underwriters to underwrite each type of PPI policy. Five per cent of respondents use multiple insurers/underwriters to underwrite each type of PPI policy.
- 3.18 The majority of distributors, who answered the question on the percentage of PPI sourced from in-house insurers<sup>10</sup>, sourced either nearly all or hardly any of their PPI in-house. This is likely to depend on whether the business has in-house resources.

**Chart 3-17 Percentage of PPI sourced from in-house insurers**



Base: 58

- 3.19 Mortgages and personal loan PPI was generally sold at the credit product PoS; on average 94-99 per cent of sales were PoS. In contrast, on average only 64 per cent of credit card PPI policies were sold at PoS,

<sup>10</sup> 50 per cent of respondents did not respond to the question.

however, stakeholders have indicated that a substantial share of PPI sales for credit cards take place when the customer calls the company to activate the card.

**Table 3-18 Proportion of policies<sup>11</sup> sold at credit product point of sale 2005**

	<i>n</i>	<i>Range</i>	<i>Mean</i>	<i>Median</i>
First charge mortgages	32	11-100	94 per cent	100 per cent
Second charge mortgages*	5	95-100 per cent	98 per cent	100 per cent
Unsecured personal loan	24	86-100 per cent	99 per cent	100 per cent
Retail credit*	1	93 per cent	93 per cent	93 per cent
Motor Finance	5	53-100 per cent	85 per cent	98 per cent
Credit cards	18	0-100 per cent	64 per cent	64 per cent
Store cards*	1	100 per cent	100 per cent	100 per cent
All PPI	54	11-100 per cent	91 per cent	98 per cent

3.20 In 2005, 39 per cent of respondents used follow up phone calls after the main credit product sale to target PPI customers. Similarly, one quarter (27 per cent) of businesses employ follow up sales techniques when consumers call to activate their credit card. Thirty-nine per cent follow-up credit sales with a postal or emailed PPI mail shot whilst 39 per cent do not undertake follow-up activities.

3.21 When asked whether their business offers customers PPI products that cover multiple credit products (for example; a PPI policy covering the total value of two loans/ the sum of two credit cards) nine per cent of 58 respondents said that they do.

3.22 When asked what they would do if an existing PPI customer were to purchase a new credit product from their business; 64 per cent said they would offer them another separate PPI policy to cover just this new product; 34 per cent said they would offer to extend their existing PPI

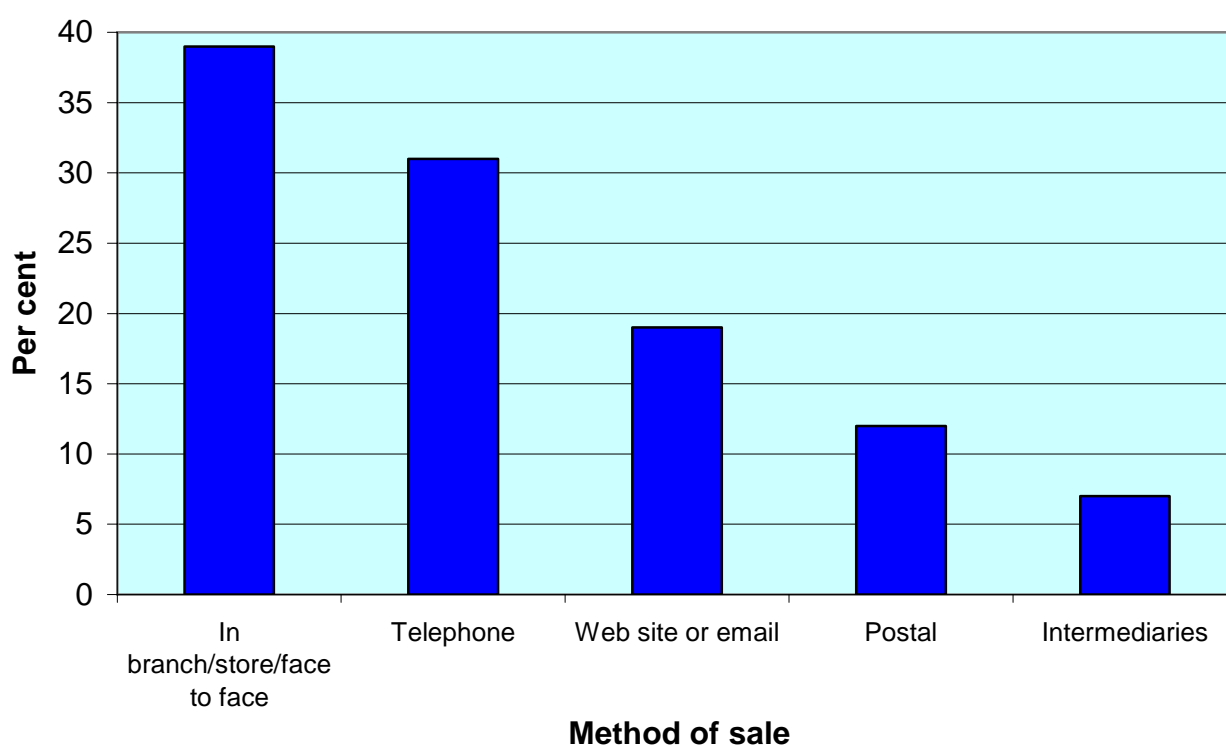
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<sup>11</sup> Value.

policy to also protect their additional product and nine per cent said that they would offer a new PPI policy to cover both/all of their credit products.

3.23 Average PPI take-up rates were highest for those policies sold in-branch or in-store using face to face methods (39 per cent). Telephone follow-up calls have a mean take-up rate of 31 per cent (many of these are likely to be credit card activation calls), followed by 19 per cent of web/email based follow-ups.

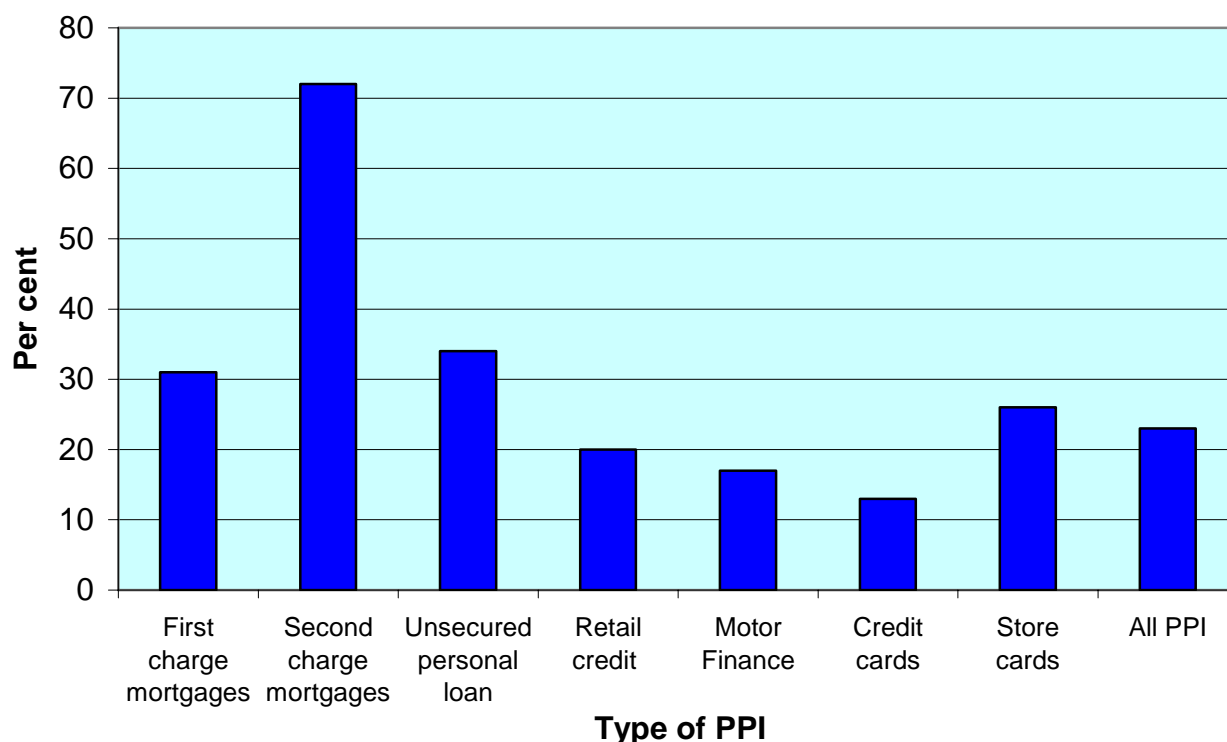
**Chart 3-19 Average PPI take up rates by sales method**



Base: 58

3.24 The average take-up rate for all PPI policies sold with credit products was 23 per cent. Around one in three first charge mortgage and unsecured personal loan customers took-up PPI policies (31 per cent and 34 per cent respectively), though rates were much closer to one in ten for credit card customers (13 per cent). Although second charge mortgage PPI averaged a take-up rate of 72 per cent, this should be used cautiously as only two respondents answered this question.

**Chart 3-20 Average take-up rates by product 2005**



**Table 3-21 Take-up rates by product 2005**

	<i>Mean</i>	<i>n</i>	<i>Range</i>
First charge mortgages	31	10	7-84
Second charge mortgages*	72	2	69-75
Unsecured personal loan	34	24	9-69
Retail credit	20	1	20
Motor Finance	17	5	7-46
Credit cards	13	16	2-36
Store cards	26	2	26
All PPI	23	43	30-100

3.25 Only three respondents said that their PPI customers had purchased their credit product elsewhere and all of these related to first charge mortgage PPI policies.

3.26 Overall, 18 of 31 respondents said that their PPI premiums had not changed in price in the five year period 2001-2005. This supports our

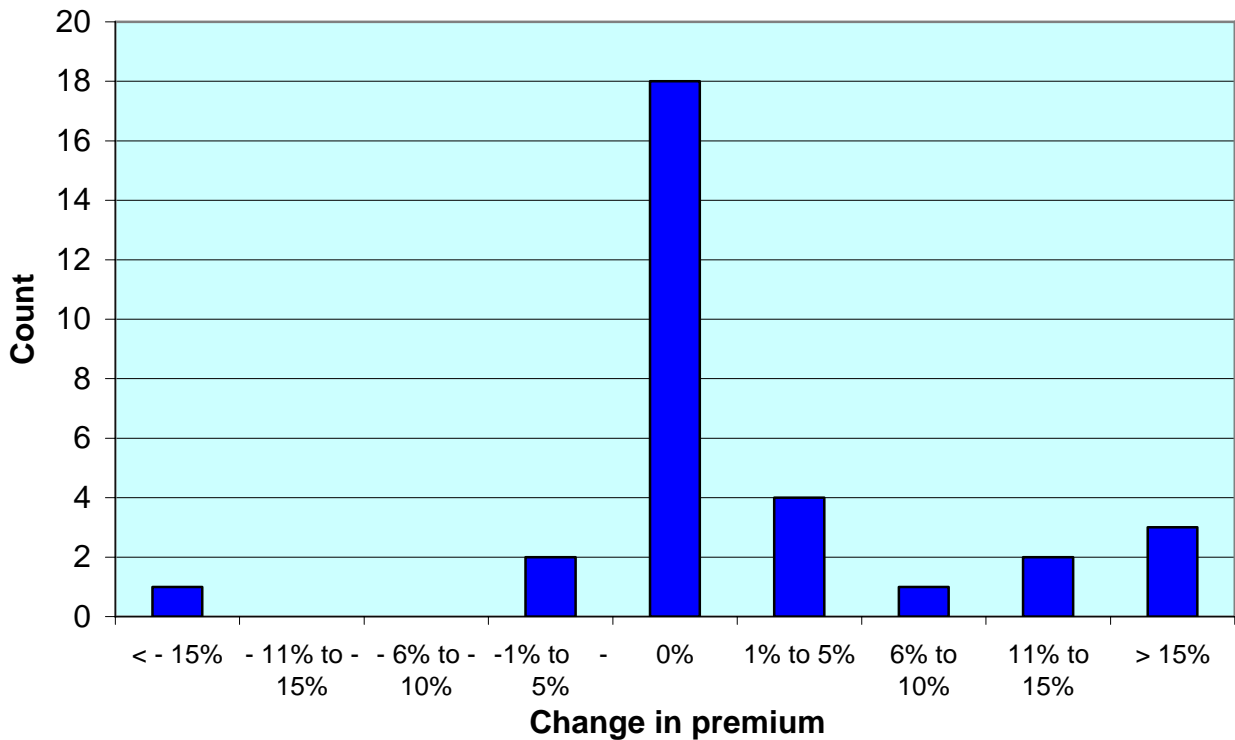
knowledge that there have been no major new entrants to the market and indicates that there is either little volatility in the market or that insurers are correctly assessing the (unchanged) level of risk.

3.27 The majority of respondents (58 per cent) selling first charge mortgage PPI indicated that prices had mostly remained unchanged during the years 2002-2005, although around one in five indicated price increases greater than 15 per cent. Nearly all respondents selling unsecured personal loan PPI said that prices had increased during this period with 57 per cent saying that they had increased by more than ten per cent. Similarly 88 per cent of respondents answering this question indicated that prices had increased for credit card PPI, though the majority of these increases were less than ten per cent.

**Table 3-22 Change in PPI premium prices (as charged to final customers) over the last five years (2001-2005)**

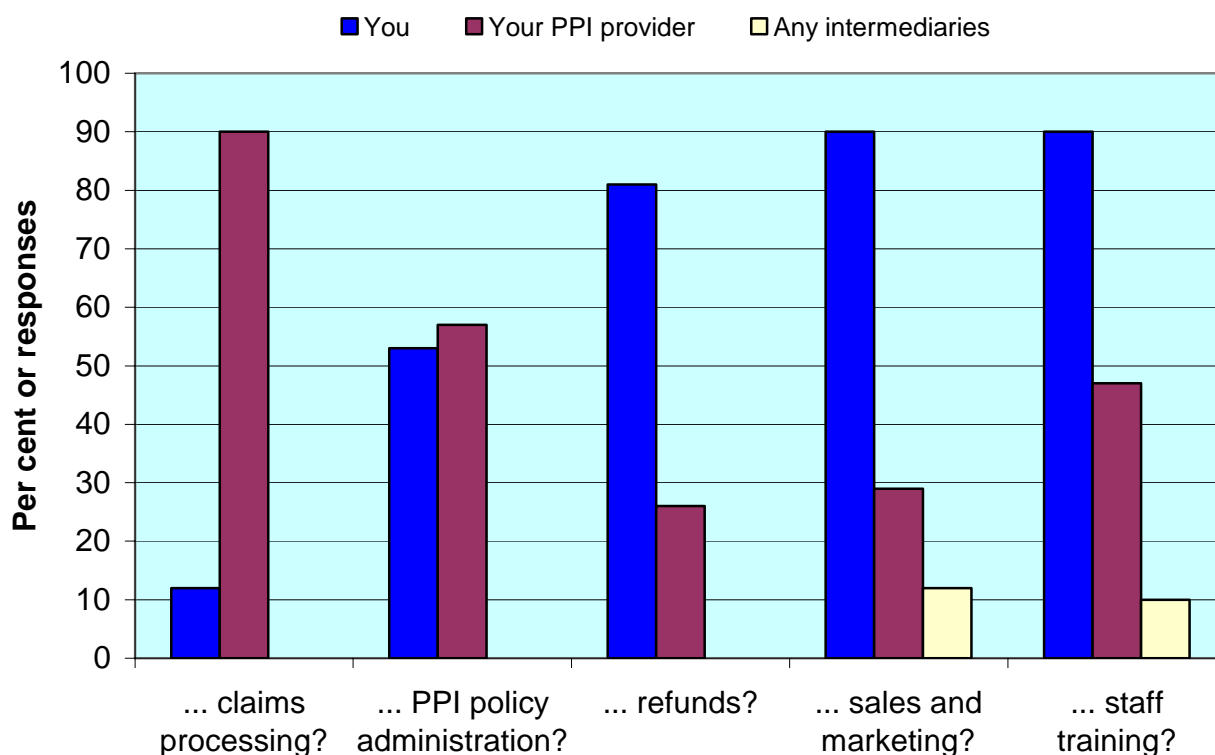
<i>n</i>	< -15 per cent	-11 per cent to -15 per cent	-6 per cent to -10 per cent	-1 per cent to -5 per cent	0 per cent	1 per cent to 5 per cent	6 per cent to 10 per cent	11 per cent to 15 per cent	> 15 per cent
First charge mortgage				2	22	1*	1*		5
Second charge mortgage					7				
Unsecured personal loans		1*			4	2*	2*	5	7
Retail credit					2*				
Motor Finance	1*				4			1*	
Credit cards					2*	4	6	3	1*
Store cards					1*			1*	
Total (all PPI)	1*		2	18	4	1*	2*	3	

**Chart 3-23 Change in all PPI premiums (2001-2005)**



3.28 The majority of respondents (90 per cent) said that their PPI provider was responsible for claims processing for their PPI business. Approximately half (53 per cent) of all respondents said that they were responsible for PPI policy administration whilst 57 per cent said that their provider handled the PPI policy administration. Four in five (81 per cent) respondents said that they were responsible for refunds, whilst a quarter (26 per cent) said that their PPI provider was responsible for refunds. The majority (90 per cent) said that they were responsible for sales and marketing, yet 29 per cent claimed that their PPI provider was responsible for this too. Nine in ten (90 per cent) distributors were responsible for staff training but in nearly half of those cases (47 per cent) it appears that the PPI providers were also responsible for some staff training.

**Chart 3-24 Who is responsible for<sup>12</sup>...**

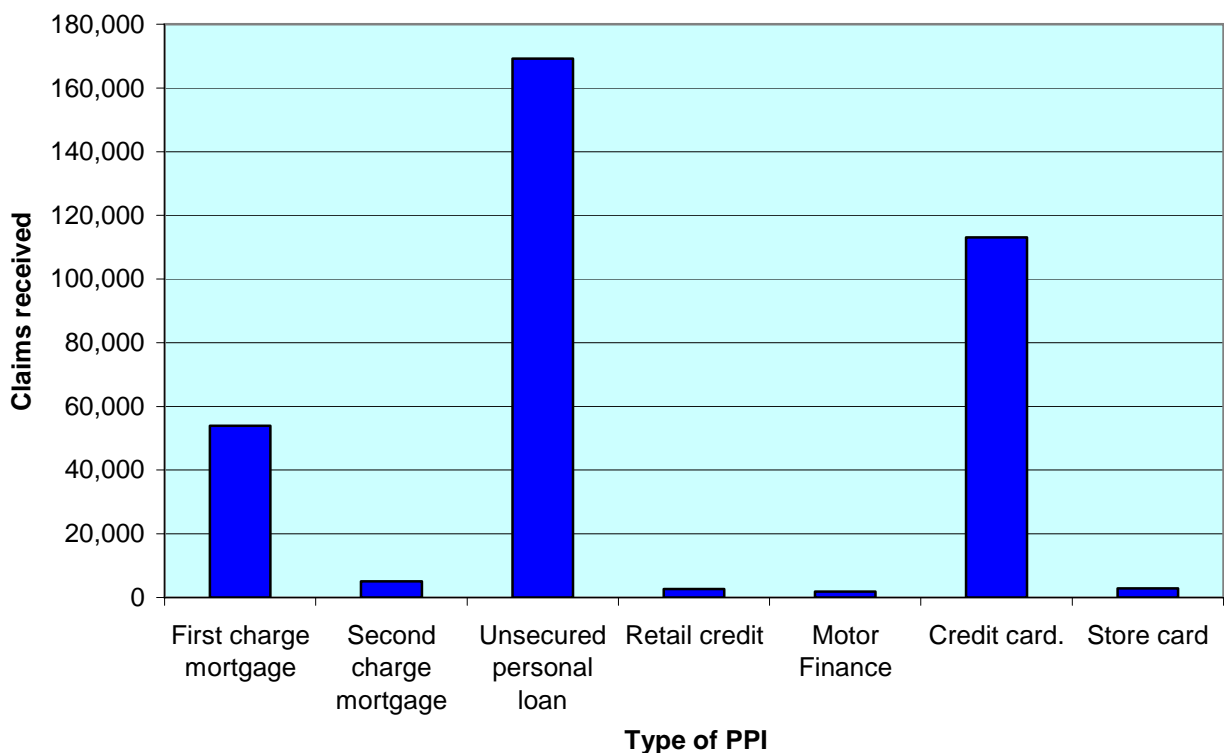


Base: 57

3.29 The rate of PPI claims received by insurers on behalf of policies sold by distributors responding to our survey varies from between 20 per cent of first charge mortgage policies sold in 2005 and just two per cent of retail credit policies. It is possible though that not all respondents answered both the earlier question on the number of policies they sold in 2005 and the number of claims received, so this figure should be considered alongside other sources. In total our respondents said that their insurers had received some 0.36 million claims relating to the policies they had sold in 2005.

<sup>12</sup> Note: in some circumstances the sum of responses for 'You' 'Your PPI provider' and 'Any intermediaries' is not always 100 per cent. This is because a small number of respondents indicated that they and their PPI provider/intermediaries were both responsible. It may be that they have misunderstood the question, that they each undertake parts of that particular process or that this 'sharing' may occur where distributors source their PPI 'in-house'.

**Chart 3-25 PPI claims received by insurer on behalf of policies sold by distributor 2005**



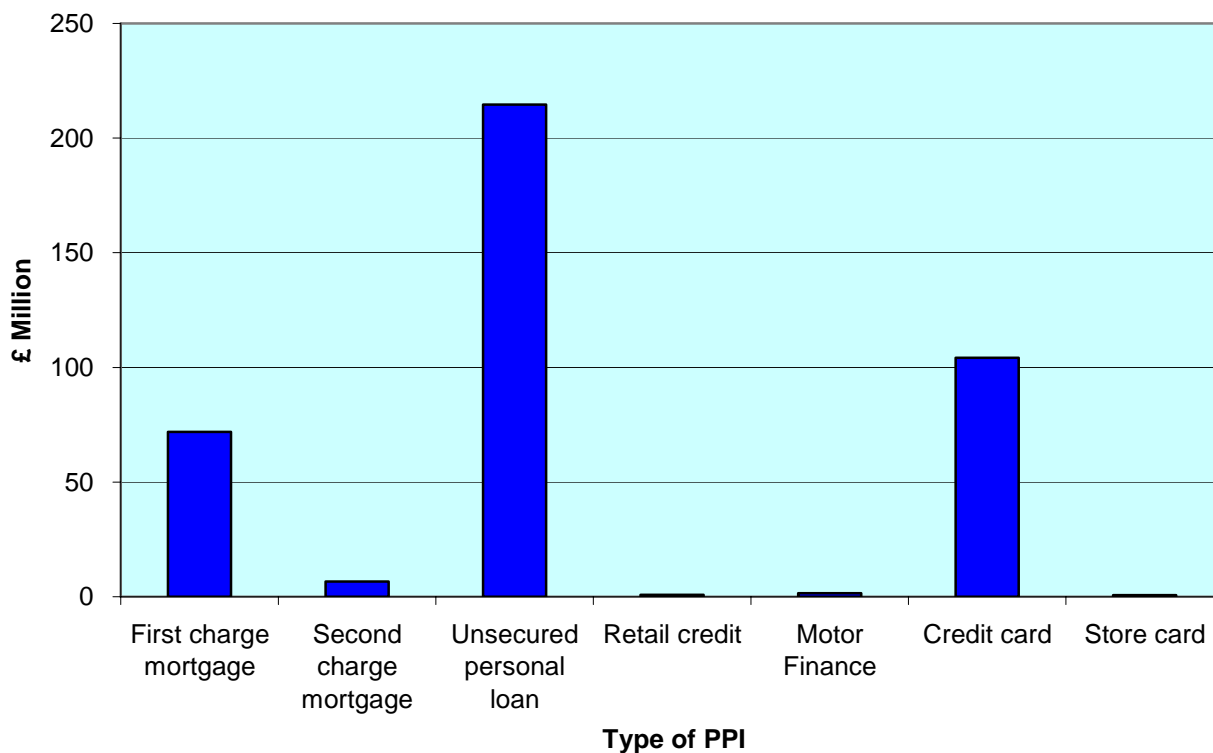
**Table 3-26 PPI claims received by the insurer providing your policies, relating to policies sold by your company 2005**

2005	Sum (000s)	n	Rate <sup>13</sup>
First charge mortgage	54	35	20
Second charge mortgage	5	7	9
Unsecured personal loan.	169	24	6
Retail credit*	3	1	2
Motor Finance	2	5	6
Credit card.	113	19	4
Store card	3	3	1
All PPI	355	52	6

<sup>13</sup> As a percentage of the number of policies sold in Table 3-5.

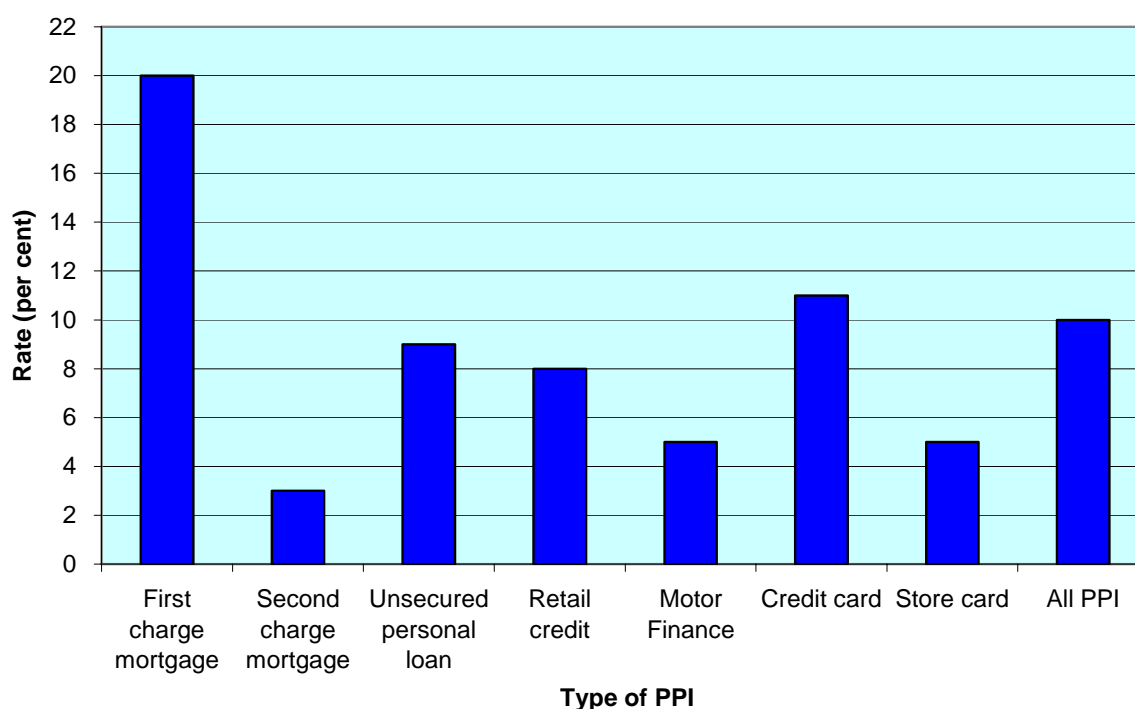
3.30 The value of these claims which insurers paid out totalled approximately £410 million. Just over half of this (52 per cent) paid for unsecured personal loan PPI claims, a quarter (25 per cent) credit card claims and just under a fifth paid for claims on first charge mortgage PPI.

**Chart 3-27 Value of claims paid out by insurers on policies sold by distributors in 2005**



3.31 As a proportion of GWP earned on policies in 2005 this varied between 20 per cent for first charge mortgage policies and three per cent for second charge mortgages.

**Chart 3-28 Rate of PPI claims paid out by PPI provider as proportion of GWP (2005)**



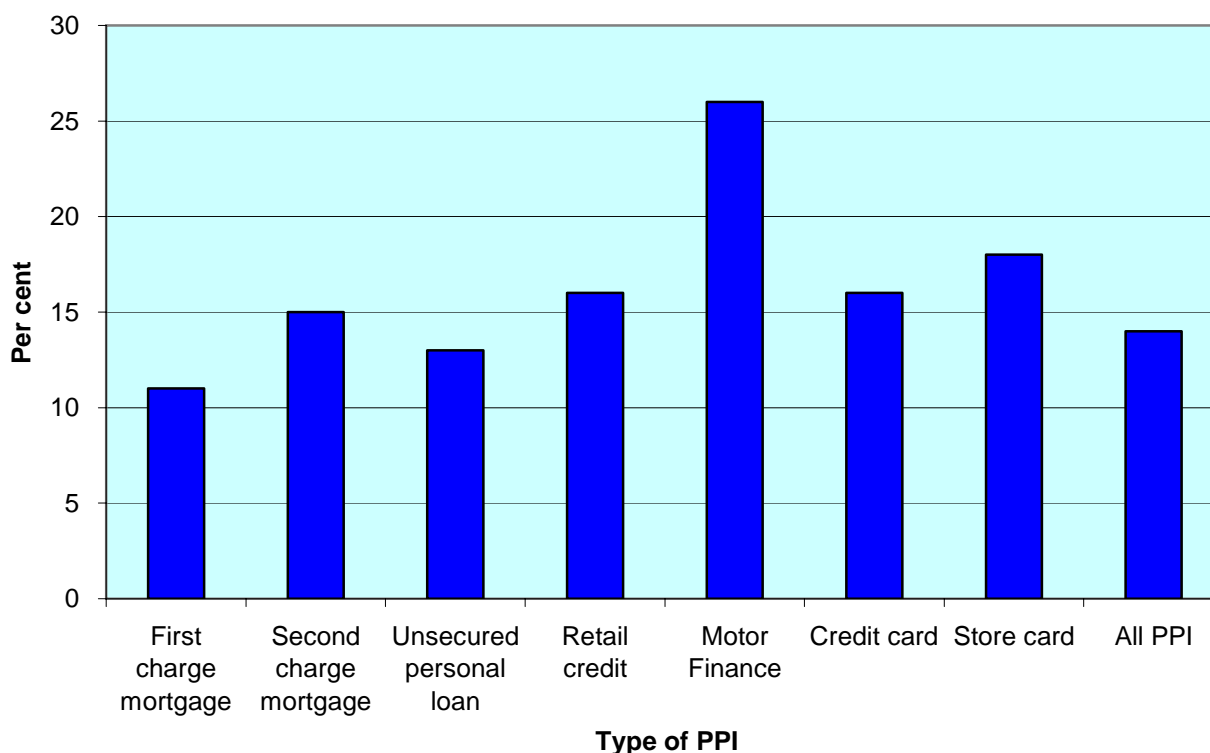
**Table 3-29 Value of PPI claims paid out by the insurer providing your policies (for policies sold by your company)**

2005	Sum £m	n	Rate <sup>14</sup>
First charge mortgage	71.8	35	20
Second charge mortgage	6.6	7	3
Unsecured personal loan.	214.7	23	9
Retail credit*	0.8	1	8
Motor Finance	1.6	5	5
Credit card.	104.2	18	11
Store card*	0.7	2	5
All PPI	409.2	51	10

<sup>14</sup> As a percentage of the value of policies sold in Table 7.

3.32 The average proportion of claims received by insurers supplying our respondents with policies which were rejected ranged between 12 per cent (first charge mortgages) and 26 per cent (motor finance). Fourteen per cent of all PPI policy claims were rejected.

**Chart 3-30 Proportion of claims received by insurer providing distributors' PPI policies which were declined**



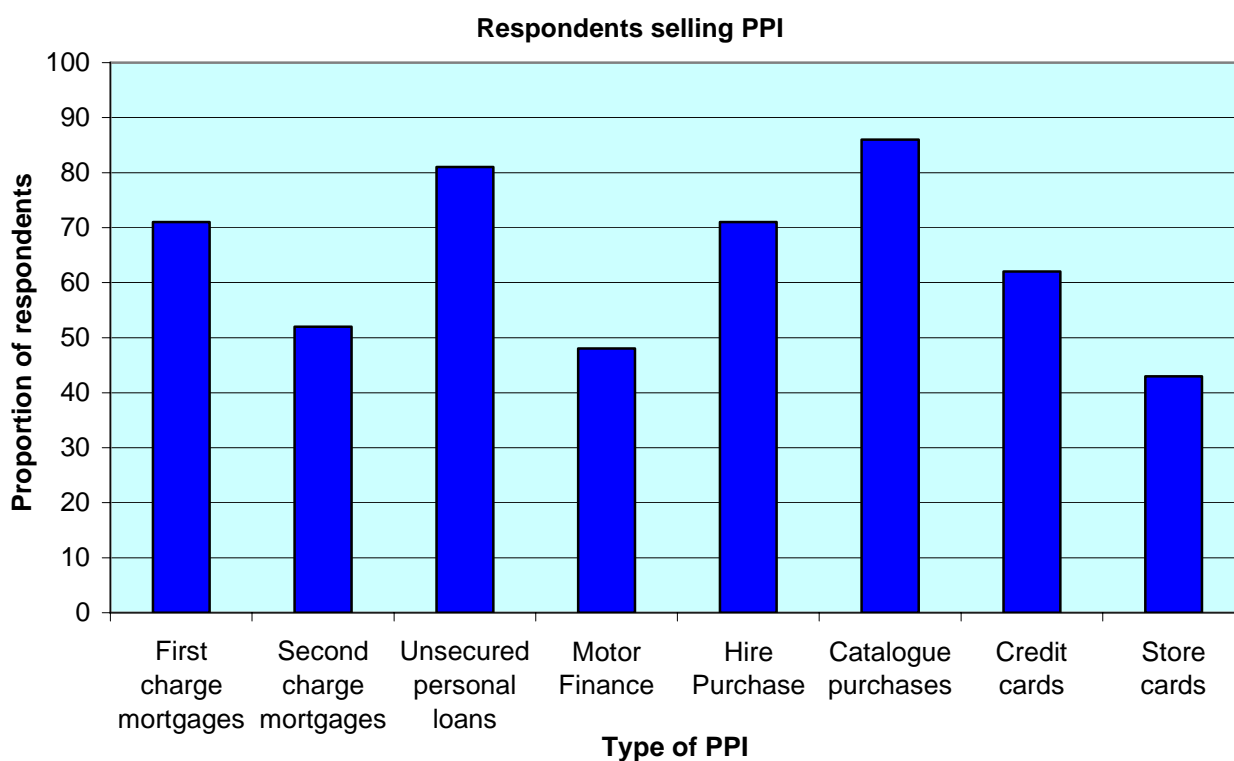
3.33 Although we did not ask why these claims were rejected in our recent survey of distributors this was asked of both insurers and distributors during our consultation in preparation for the Supercomplaint response. The main reasons stated were:

- pre existing conditions;
- unemployment was not involuntary;
- the claimant was not at work when became ill/disabled or other reasons of ineligibility, and
- the qualifying period had not been met.

## 4 RESULTS FOR THE SURVEY OF INSURERS

4.1 Of the 170 insurers that we sent questionnaires to, 86 responded (a response rate of 51 per cent); a quarter (24 per cent – some 21 insurers) said that they made PPI available to loan customers either directly or through intermediaries.

**Chart 4-31 Type of insurance sold**



Base: 21

4.2 In 2005 respondents to our survey provided some 2.5 million single premium policies. Nearly nine in ten of these (87 per cent) were unsecured loan policies.

**Table 4-32<sup>15</sup>: Single premium policies underwritten in 2005**

	<i>Sum</i> <i>(000s)</i>	<i>n</i>	<i>Share (</i> <i>per cent)</i>
First charge mortgage	2	3	-
Second charge mortgage	107	7	4
Unsecured personal loan	2,199	16	87
Retail credit	136	4	5
Motor Finance	77	7	3
All PPI	2,529	17	100

Base: 21

- 4.3 Of the 4.8 million regular PPI policies underwritten in 2005, 59 per cent insured credit cards, 13 per cent first charge mortgages and 12 per cent retail credit products. Only six per cent of regular policies supported unsecured personal loan policies.

**Table 4-33 Regular premium policies underwritten in 2005**

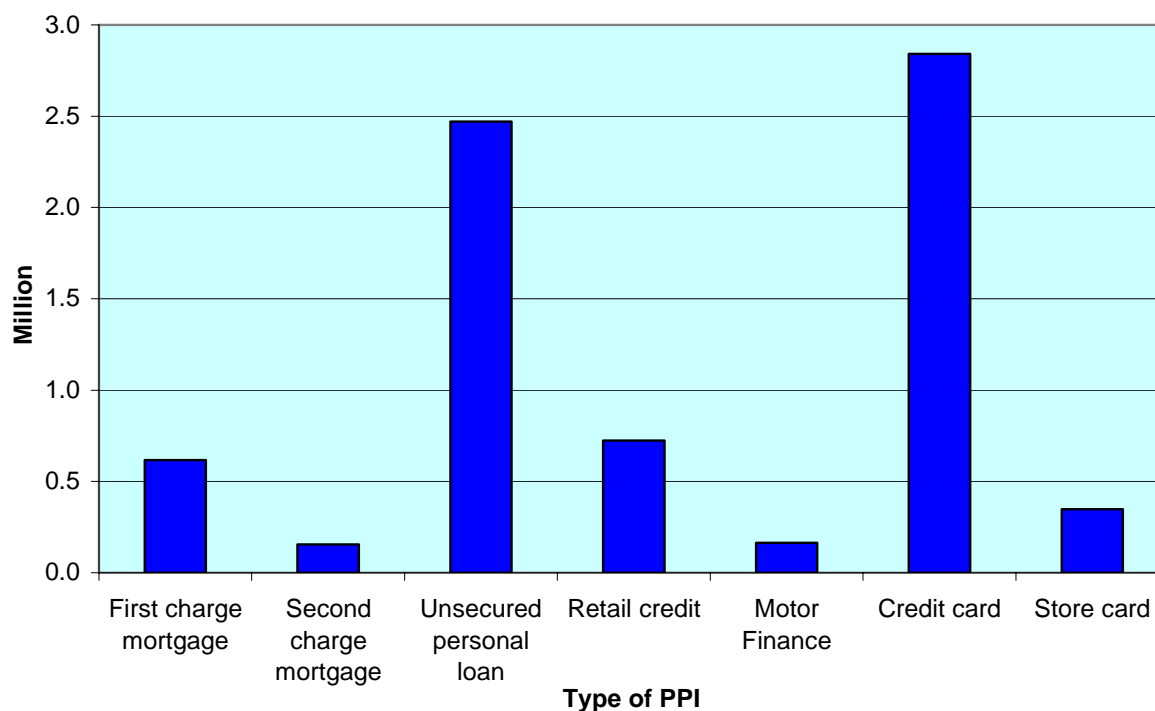
	<i>Sum</i> <i>(000s)</i>	<i>n</i>	<i>Share (</i> <i>per cent)</i>
First charge mortgage	615	13	13
Second charge mortgage	49	5	1
Unsecured personal loan	271	14	6
Retail credit	589	7	12
Motor Finance	87	6	2
Credit card	2,842	12	59
Store card	348	4	7
All PPI	4,828	19	100

- 4.4 Insurers responding to our survey claimed to have underwritten 7.4 million policies in 2005. Just over one third of these policies insured

<sup>15</sup> Please note Table 4-32TPFFPT: Single premium policies underwritten in 2005 and Table 4-33 exclude one of the large insurers who were able to provide information for Table 4-36 and Table 4-37.

credit card (39 per cent) or supported unsecured personal (34 per cent), loans; ten per cent insured retail credit and eight per cent first charge mortgages. The majority (89 per cent) of some 2.5 million unsecured personal loan policies were single premium policies.

**Chart 4-34 All premium policies underwritten in 2005**



**Table 4-35 All premium policies underwritten in 2005**

	<i>Sum (000s)</i>	<i>n</i>	<i>Share (per cent)</i>
First charge mortgage	617	13	8
Second charge mortgage	156	9	2
Unsecured personal loan	2,471	17	34
Retail credit	724	8	10
Motor Finance	164	7	2
Credit card	2,842	12	39
Store card	348	4	5
All PPI	7,358	20	100

## Gross Written Premium

4.5 Respondents had under written £2.4 billion of single premium GWP in 2005, of which 82 per cent was raised through unsecured loan PPI and 16 per cent via second charge mortgage PPI.

**Table 4-36 Single policy Gross Written Premium, 2005**

	<i>Sum £m</i>	<i>Share (n per cent)</i>	
First charge mortgage*	3	3	0
Second charge mortgage*	394	8	16
Unsecured personal loan	1,971	17	82
Retail credit <sup>16</sup>	-3	3	0
Motor Finance*	30	8	1
All PPI	2,398	18	100

4.6 Respondents had under written £2.1 billion of regular premium GWP in 2005, of which half (51 per cent) was raised through credit card PPI and just over a quarter (28 per cent) from first charge mortgage PPI.

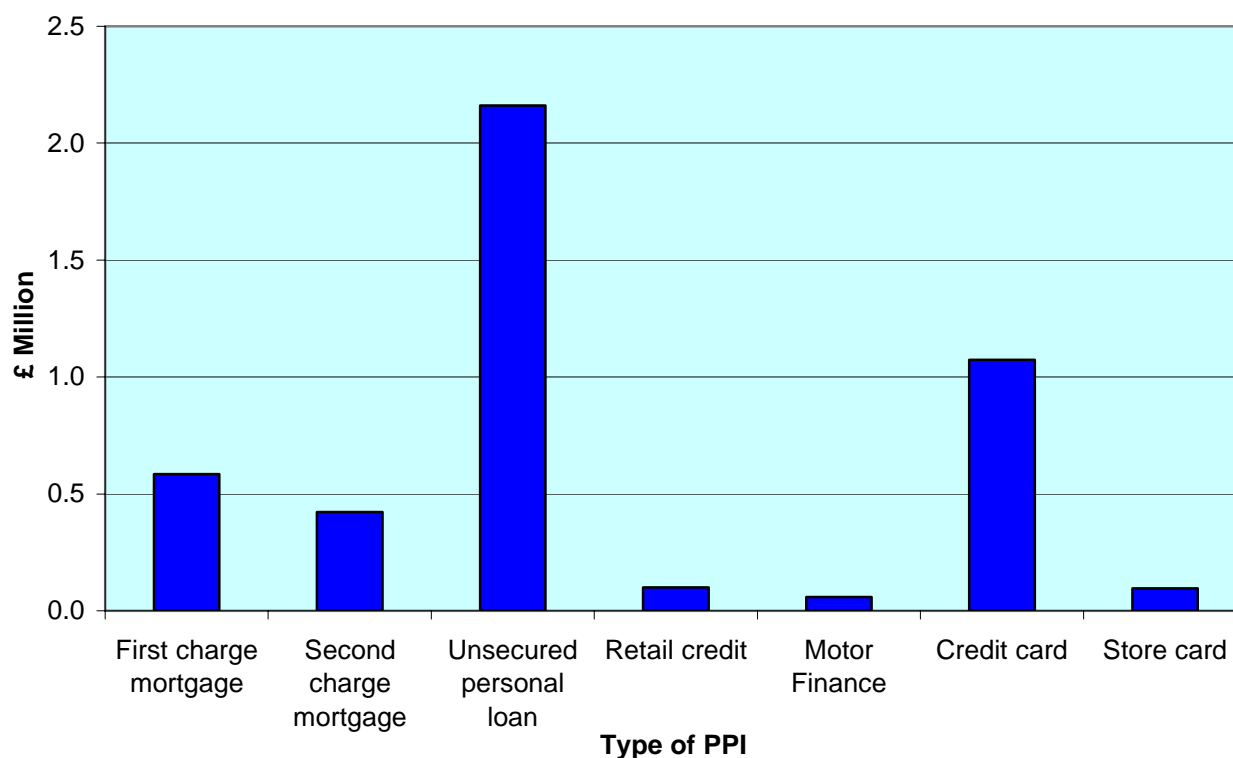
**Table 4-37 Regular policy Gross Written Premium, 2005**

	<i>Sum £m</i>	<i>Share (per cent)</i>	
First charge mortgage	582	14	28
Second charge mortgage	28	5	1
Unsecured personal loan	190	12	9
Retail credit*	99	7	5
Motor Finance	30	5	1
Credit card	1,073	14	51
Store card	96	6	5
All PPI	2,104	20	100

<sup>16</sup> A small number of respondents stated that they had negative GWP for this sector.

4.7 In total, the insurers responding to our survey had raised £4.5 billion in GWP in 2005. Of this half (48 per cent) was from unsecured personal loan PPI, a quarter was from credit card PPI (24 per cent) and 13 per cent from first charge mortgage PPI. Of the £2.1 billion GWP from unsecured personal loan PPI, 91 per cent was from single policy premiums.

**Chart 4-38 Gross Written Premium 2005**



**Table 4-39 Gross Written Premium (all PPI policies) 2005**

	<i>Sum £m</i>	<i>n</i>	<i>Share ( per cent)</i>
First charge mortgage	585	14	13
Second charge mortgage	422	8	9
Unsecured personal loan	2,161	17	48
Retail credit*	100	8	2
Motor Finance	60	9	1
Credit card	1,073	14	24
Store card	96	6	2
All PPI	4,502	21	100

4.8 The majority (57 per cent) of single premium PPI policies are sold with a credit product through vertically integrated distributors with approximately one third of these (29 per cent) being sold with credit products through unconnected distributors. The exception to this is first charge mortgage PPI of which 92 per cent of single premium policies were sold through non-lending intermediaries as a standalone product.

**Table 4-40 Percentage of single premium Gross Written Premium by downstream supply channel, 2005**

<i>Per cent</i>	<i>Sold with credit product</i>		<i>Sold standalone</i>	
	<i>Via a distributor within your own consolidated group of companies</i>	<i>Via an unconnected distributor [s]</i>	<i>Via non-lending intermediaries (e.g. brokers, IFA's)</i>	<i>Direct to consumers</i>
First charge mortgage	0	8	92	0
Second charge mortgage	65	31	4	0
Unsecured personal loan	53	31	16	0
Retail credit*	-	-	-	-
Motor Finance	64	37	0	0
All PPI	57	29	14	0

Base: 16

4.9 The majority (84 per cent) of regular premium second charge mortgage PPI policies were with the credit product through vertically integrated distributors with the remainder also sold in support of a credit product via unconnected distributors. Approximately half of regular premium PPI for unsecured personal loans and credit cards (48 per cent and 46 per cent respectively) was sold with a credit product through vertically integrated distributors and the rest was sold with supported credit product via unconnected distributors.

4.10 Motor finance was the only regular premium that appeared to be sold to any great extent as a standalone product direct to consumers. However, around three quarters of motor finance policies (73 per cent), along with

all store card PPI and nearly all (98 per cent) retail credit PPI sold with the credit by unconnected distributors.

4.11 Overall nearly all (99 per cent) regular PPI policies were sold with credit products with one third (33 per cent) sold by vertically integrated distributors.

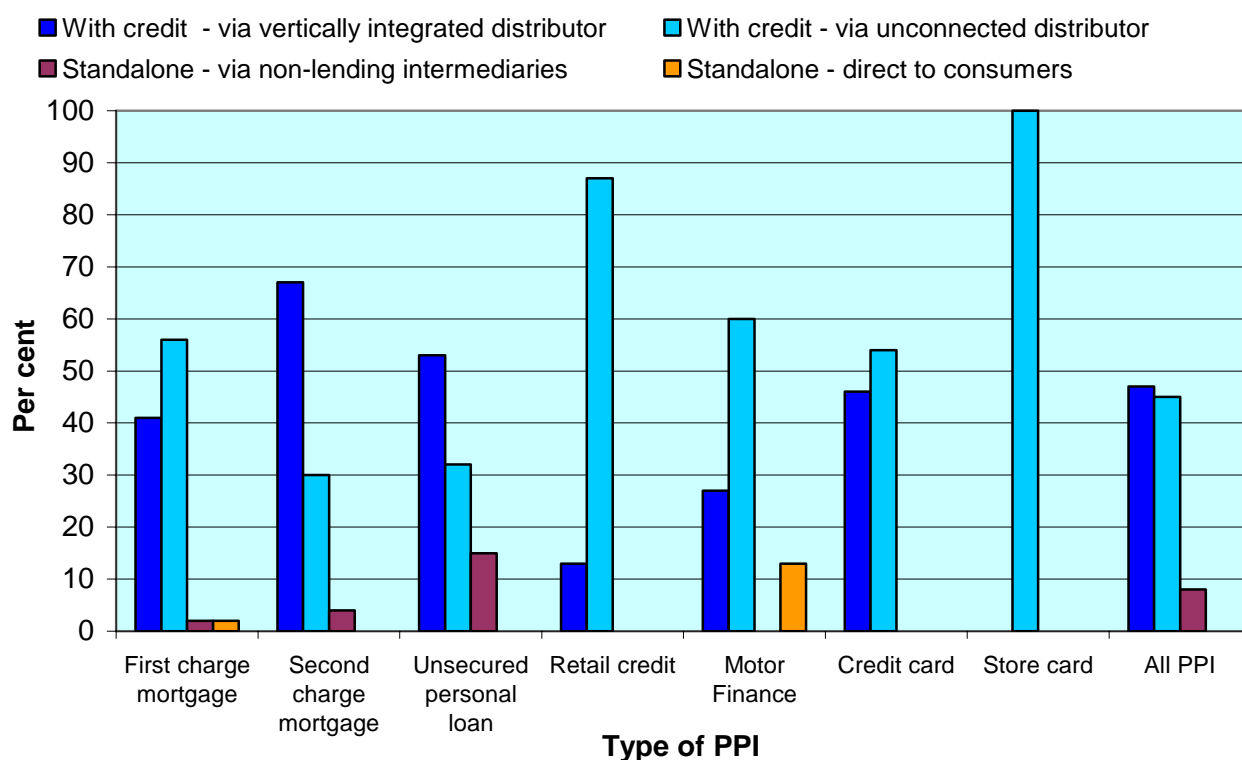
**Table 4-41 Regular premium Gross Written Premium by downstream supply channel, 2005**

<i>Per cent</i>	<i>Sold with credit product</i>		<i>Sold standalone</i>	
	<i>Via a distributor within your own consolidated group of companies</i>	<i>Via an unconnected distributor [s]</i>	<i>Via non-lending intermediaries (e.g. brokers, IFA's)</i>	<i>Direct to consumers</i>
First charge mortgage	41	56	1	2
Second charge mortgage	84	15	0	0
Unsecured personal loan	48	52	0	0
Retail credit*	2	98	0	0
Motor Finance	7	73	0	20
Credit card	46	54	0	0
Store card	0	100	0	0
All PPI	33	66	0	0

Base: 16

4.12 A small proportion of PPI policies were sold via non-lending intermediaries as standalone products; 8 per cent of all policies comprised of first and second charge mortgage PPI and unsecured loan PPI. However, the majority of policies were sold with the credit product either through a vertically integrated distributor (47 per cent) or through a non-lending intermediary (45 per cent).

**Chart 4-42 Gross Written Premium by downstream supply channel**



**Table 4-43 Gross Written Premium by downstream supply channel (all policies) 2005**

Per cent	<i>Sold with credit product</i>		<i>Sold standalone</i>	
	<i>Via a distributor within your own consolidated group of companies</i>	<i>Via an unconnected distributor [s]</i>	<i>Via non-lending intermediaries (e.g. brokers, IFA's)</i>	<i>Direct to consumers</i>
First charge mortgage	41	56	2	2
Second charge mortgage	67	30	4	0
Unsecured personal loan	53	32	15	0
Retail credit*	13	87	0	0
Motor Finance	27	60	0	13
Credit card	46	54	0	0
Store card	0	100	0	0
All PPI	47	45	8	0

4.13 Average commission rates for single premium policies vary from 50 per cent of GWP for first charge mortgage PPI to 67 per cent of GWP for those selling motor finance PPI. The average commission rate for all single premium PPI policies was 59 per cent. Rates for single premium second charge mortgage, unsecured loan and retail credit PPI were 66 per cent, 59 per cent and 61 per cent respectively.

**Table 4-44 Commission<sup>17</sup> paid to or retained by downstream distributors/intermediaries (as a proportion of the total Gross Written Premium for single premiums)**

<i>Per cent</i>	<i>Distributor</i>		<i>Non-lending intermediaries</i>		<i>All</i>	
	<i>n</i>	<i>Mean</i>	<i>n</i>	<i>Mean</i>	<i>n</i>	<i>Mean</i>
First charge mortgages	0	-	2	62	2	50
Second charge mortgages	5	69	2	63	5	66
Unsecured personal loan	12	56	3	52	10	59
Retail credit *	2	55	0	-	2	61
Motor Finance	7	63	1	70	5	67
All PPI	12	58	2	53	10	59

<i>Range (per cent)</i>	<i>Distributor</i>	<i>Non-lending intermediaries</i>	<i>All</i>
First charge mortgages	-	52-73	28-73
Second charge mortgages	64-74	55-72	55-74
Unsecured personal loan	25-84	32-73	25-84
Retail credit	40-70	-	52-70
Motor Finance	44-75	70	64-70
All PPI	42-84	33-73	42-84

4.14 Average commission rates for regular premium PPI policies varied from 35 per cent for first charge mortgages to 70 per cent for retail credit.

<sup>17</sup> Please provide an estimate based on all commissions earned. In this context, 'commission' should be read as including both traditional commission and any margin retained as a result of the premium paid to an insurer being exceeded by the premium payable by the customer.

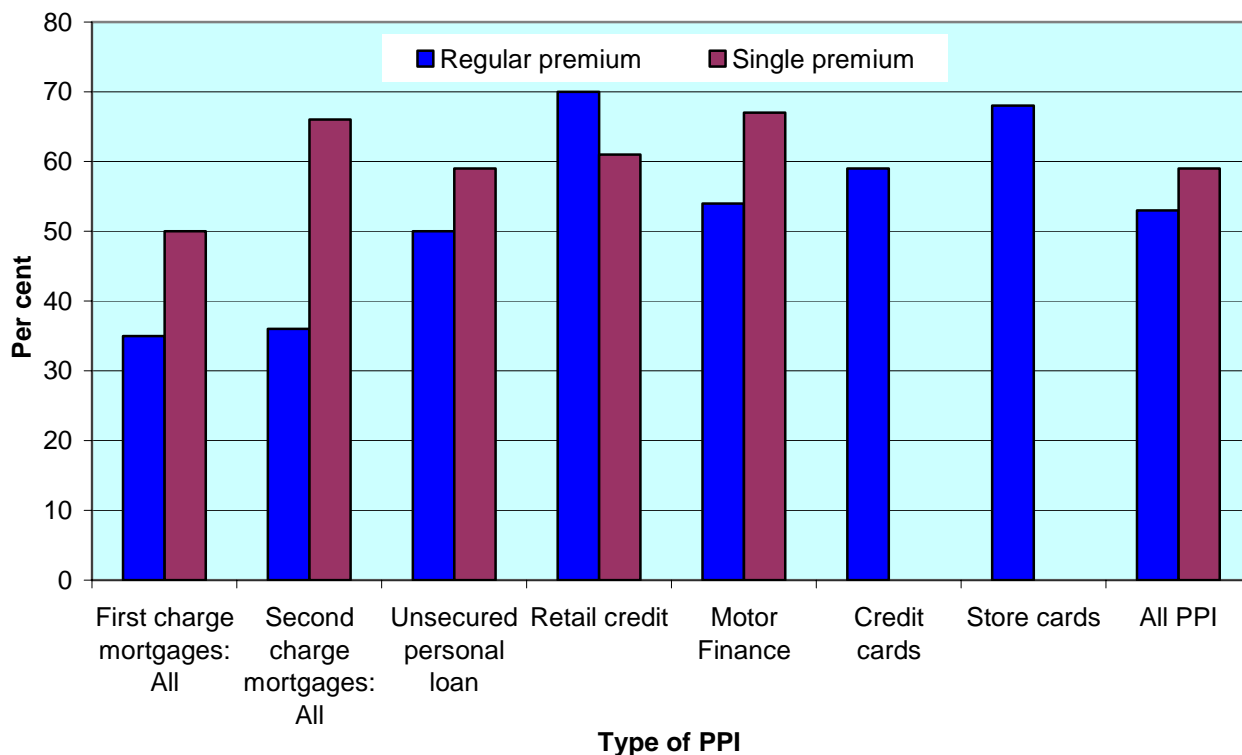
The average commission rates were typically lower for regular premiums than single premiums, excepting retail credit PPI; with the average rate for all regular PPI policies being 53 per cent.

**Table 4-45 commission paid to or retained by downstream intermediaries (as a proportion of the total Gross Written Premium for regular premium policies)**

<i>Per cent</i>	<i>Distributor</i>		<i>Non-lending intermediaries</i>		<i>All</i>	
	<i>n</i>	<i>Mean</i>	<i>n</i>	<i>Mean</i>	<i>n</i>	<i>Mean</i>
First charge mortgages	10	35	9	34	11	35
Second charge mortgages	1	43	0	-	10	36
Unsecured personal loan	9	52	0	-	7	50
Retail credit *	4	56	0	-	3	70
Motor Finance	6	55	1	57	5	54
Credit cards	11	60	1	55	7	59
Store cards	5	62	0	-	4	68
All PPI	14	51	6	34	10	53

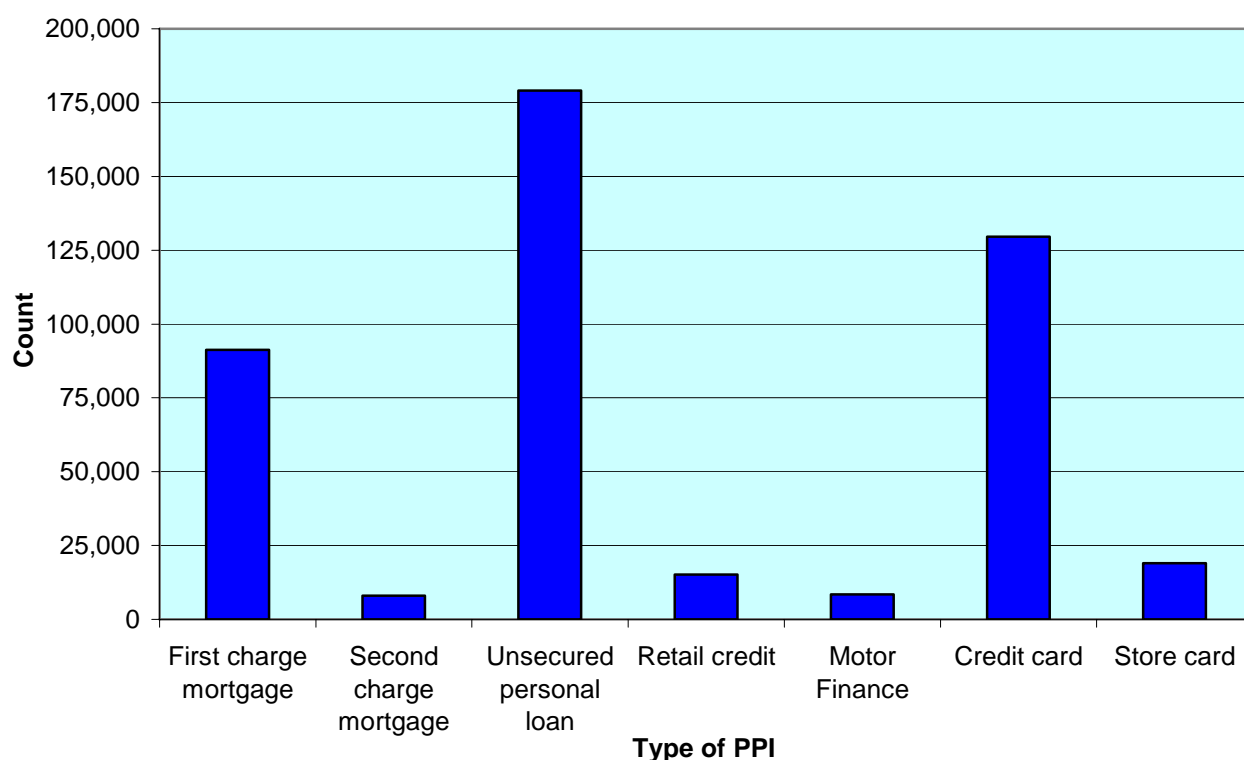
<i>Range (per cent)</i>	<i>Distributor</i>	<i>Non-lending intermediaries</i>	<i>All</i>
First charge mortgages	7-69	18-50	12-49
Second charge mortgages	43	-	12-49
Unsecured personal loan	25-74	-	25-74
Retail credit	38-70	-	64-75
Motor Finance	21-73	57	21-73
Credit cards	25-81	55	25-81
Store cards	54-77	-	58-77
All PPI	7-77	22-50	25-77

**Chart 4-46 Commission paid to or retained by downstream intermediaries (as a proportion of GWP)**



4.15 Insurers responding to our survey said that they had received nearly half a million (0.459 million) claims in 2005. A proxy rate calculated by taking these claims as a proportion of the total claims sold for the same year indicates that the highest claim rates were for first charge mortgage PPI.

**Chart 4-47 PPI claims received 2005**



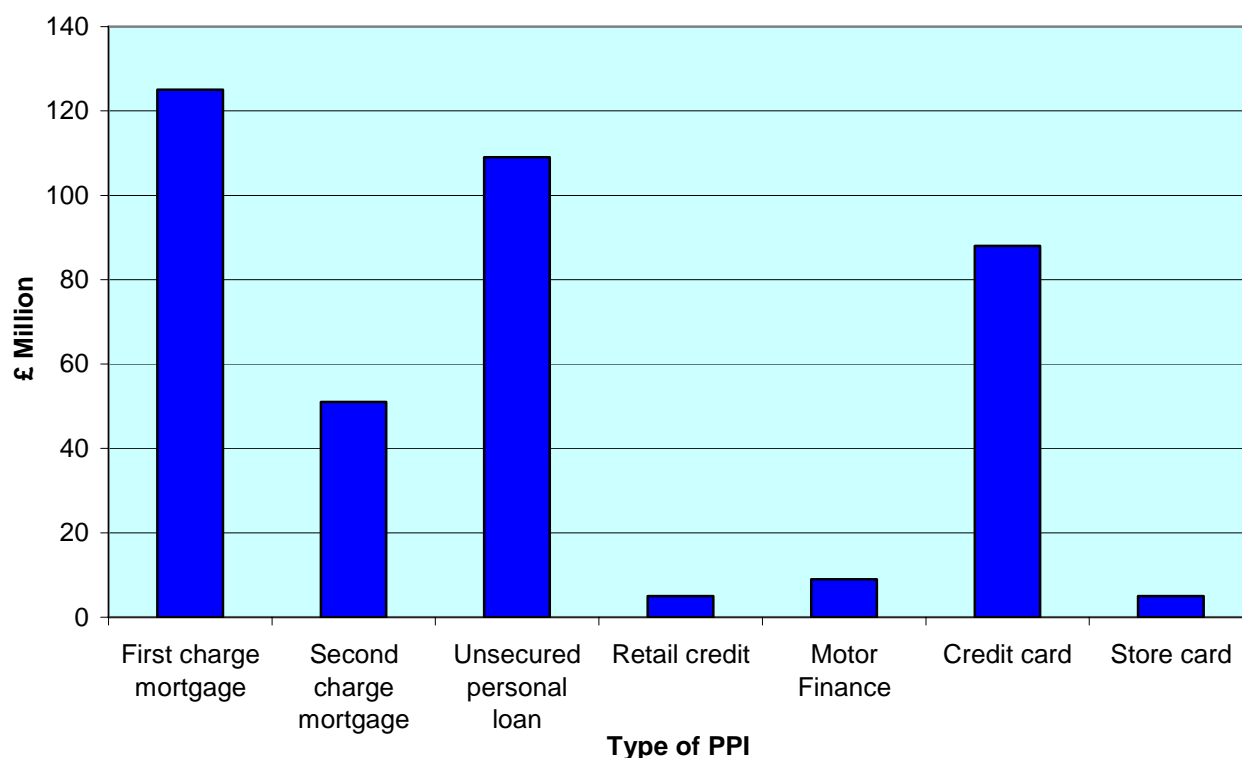
**Table 4-48 PPI claims received 2005**

	<i>Sum (000s)</i>	<i>n</i>	<i>Rate**</i>	<i>Share</i>
First charge mortgage	910	14	15	20
Second charge mortgage	8	10	5	2
Unsecured personal loan	179	17	7	39
Retail credit	15	8	2	3
Motor Finance	8	8	5	2
Credit card	130	14	5	28
Store card*	19	6	5	4
All PPI	459	20	6	100

\* As a proportion of the number of policies sold in 2005

4.16 The value of claims paid out by respondents totalled £393 million. This varies from 21 per cent of GWP earned for first charge mortgage PPI, 14 per cent for motor finance policies, 12 per cent for first charge mortgages, eight per cent for credit card PPI and just five per cent for unsecured personal loan, retail credit and store cards.

**Chart 4-49 Value of claims paid out in 2005**



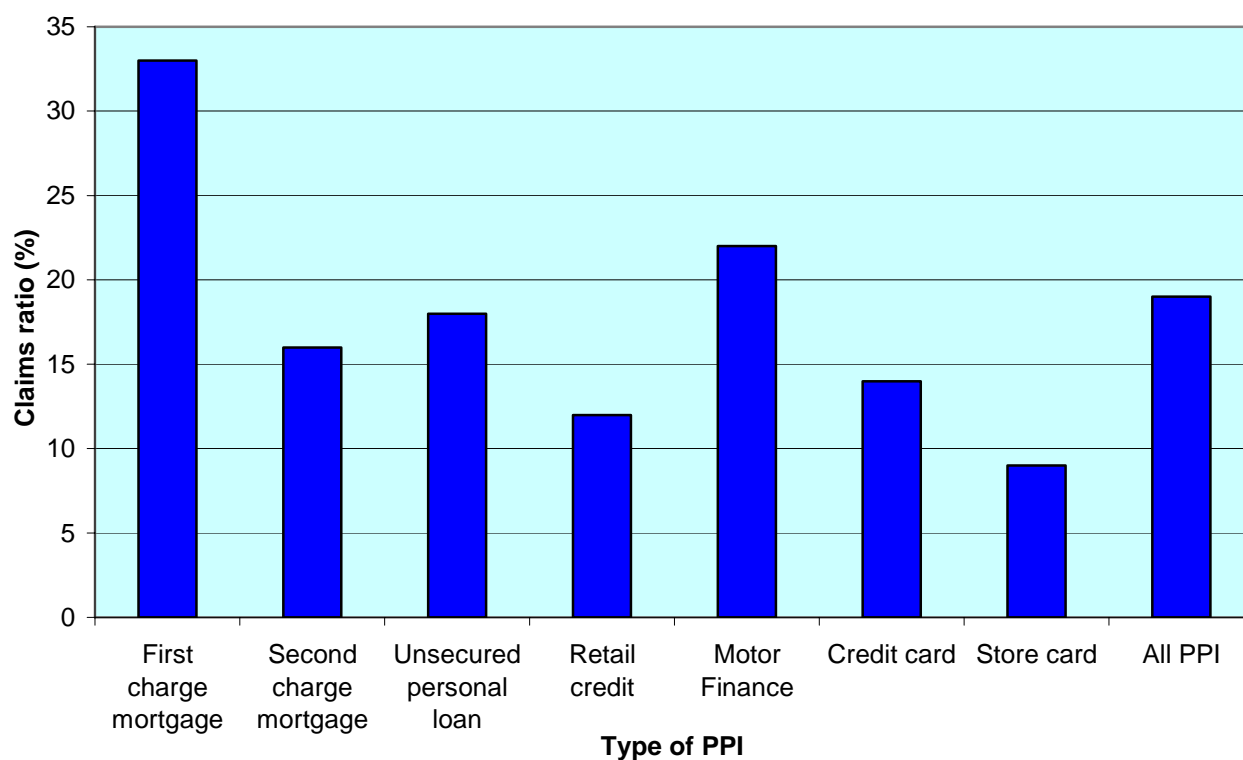
**Table 4-50 Value of PPI claims paid 2005**

	<i>Sum (£m)</i>	<i>n</i>	<i>Rate**</i>	<i>Share</i>
First charge mortgage	125	14	21	32
Second charge mortgage	51	10	12	13
Unsecured personal loan	109	16	5	28
Retail credit	5	8	5	1
Motor Finance	9	8	14	2
Credit card	88	15	8	22
Store card*	5	6	5	1
All PPI	393	20	9	100

\*\* As a proportion of the GWP in Table 4-35

4.17 Insurers stated that their claims ratios ranged between 9 and 54 per cent. The average claims ratio for all PPI policies was 20 per cent ranging between nine per cent for store cards and 33 per cent for first time mortgage PPI.

**Chart 4-51 Average claims ratios 2005**



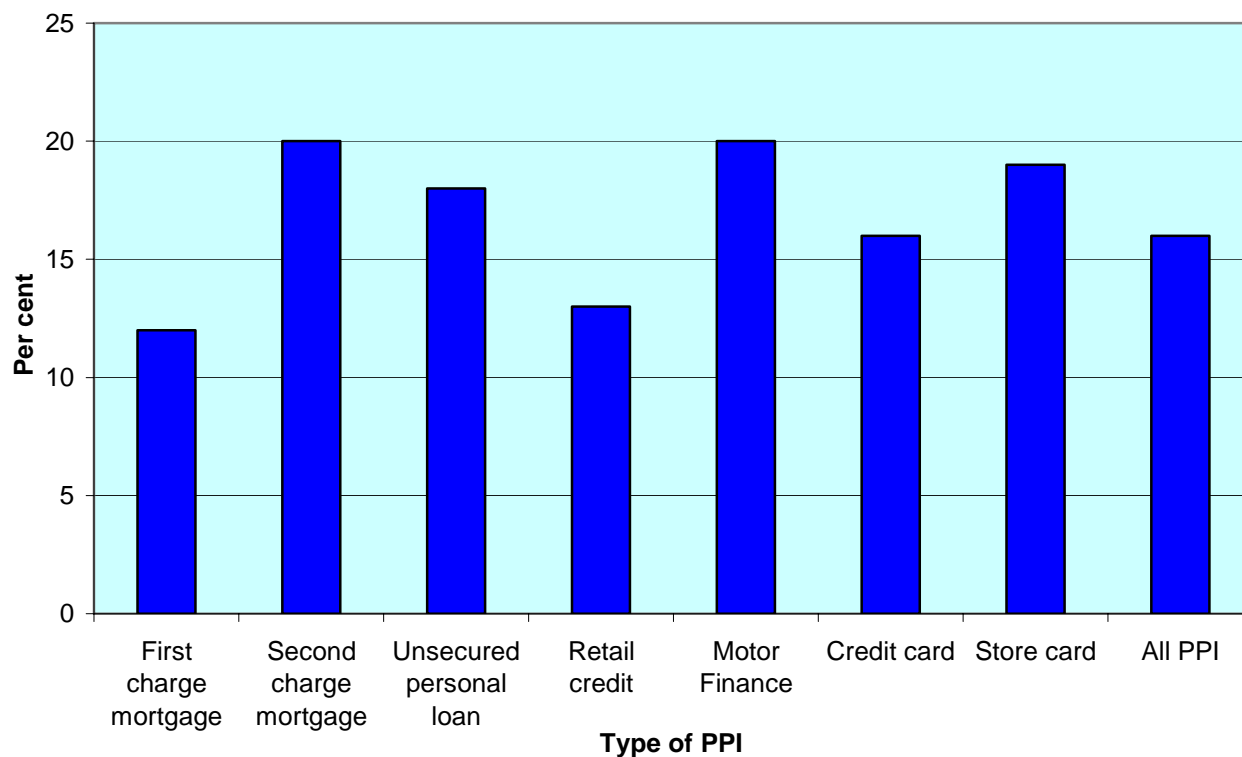
**Table 4-52 Claims ratios<sup>18</sup> 2005**

<i>Per cent</i>	<i>n</i>	<i>Min</i>	<i>Max</i>	<i>Mean</i>
First charge mortgage	13	12	57	33
Second charge mortgage	9	2	52	16
Unsecured personal loan	15	5	54	18
Retail credit	8	5	22	12
Motor Finance	8	2	68	22
Credit card	12	6	28	14
Store card*	6	4	21	9
All PPI	13	9	54	20

<sup>18</sup> Claims paid expressed as a percentage of earned premiums.

4.18 On average 16 per cent of all PPI claims received were rejected. This ranged from 12 per cent for first charge mortgages to 20 per cent for second charge mortgages and motor finance.

**Chart 4-53 Average proportion of claims declined 2005**



**Table 4-54 Percentage of claims received that were declined 2005**

<i>Per cent</i>	<i>n</i>	<i>Min</i>	<i>Max</i>	<i>Mean</i>
First charge mortgage	14	5	26	12
Second charge mortgage	10	14	31	20
Unsecured personal loan	15	3	33	18
Retail credit	8	0	25	13
Motor Finance	7	8	34	20
Credit card	13	2	33	16
Store card*	5	13	26	19
All PPI	14	9	32	16

- 4.19 No respondents were able to identify any new entrants onto the market in the last three years (Q14)
- 4.20 Four in five (81 per cent) insurers said that the contracts they have with distributors include profit sharing arrangements. Only three insurers said that these contracts included sales targets.