

## **PPI industry faces reimbursement cost of up to £3bn**

The Financial Services Authority (FSA) consultation document on Payment Protection Insurance (PPI) mis-selling has extremely costly and serious ramifications for the PPI industry according to financial research company Defaqto.

The regulator envisages that compensation for customers who have complained may cost the PPI industry between £700m and £1.2bn. Worryingly, the potential cost of reimbursing customers who have not complained could mean a further bill of between £1bn and £3bn.

Ben Heffer, Insight Analyst at Defaqto and author of Defaqto's PPI report said: "Given the scale of potential compensation amounts there is certain to be a lot of legal argument. The banks and lenders are not going to want to give up this much revenue without a fight and some respondents to the FSA have already challenged their authority to do what they are proposing.

"The FSA document is written in a tone which makes it clear that it has had enough and is really serious about shaking up the industry and making them sort themselves out once and for all. It is also clear that there is significant disagreement between the FSA and the industry.

"The calculation of how to compensate customers has been adjusted downwards by the FSA, so the amount that any one customer might receive will be lower than in their initial proposals.

Mr Heffer added "If lenders are forced to pay compensation on the scale envisaged they will have to recover it from other sources and these could include a further widening of interest rate margins on loans and provide further impetus towards the end of free banking.

"Most of the problems are with single premium PPI which were sold alongside unsecured and secured second charge loans, and, to a slightly less extent, credit cards. Those customers who have been sold regular premium mortgage PPI are least likely to have been mis-sold.

"As long ago as 2005, Defaqto warned that there were problems with some PPI products and selling. Most unsecured loan providers have already exited the PPI market and we could be about to see the end of the PPI market for all products other than mortgages."

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### **Notes to Editors:**

**Ben Heffer** is an Insight Analyst for Life and Protection

Ben graduated from Leeds University in 1984 and, after a spell in the civil service, entered the financial services industry working first for Bradford & Bingley Building Society and then at Countrywide Independent Advisers as a pensions researcher. In April 1994, Ben helped to establish the new company and the launch of the very first release of Aequos. Initially a pension specialist, in the course of his career with Defaqto, Ben has at various times been involved with annuities, investments, statistics, general database management and, latterly, the Defaqto Service Project. He now works in the Insight team with special responsibility for the life and protection brief.

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