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# Firms run a £4bn 'protection racket' on loan insurance

By Sean Poulter  
Consumer Affairs Editor

SHOPS, banks and finance companies are running a multi-billion-pound loans 'protection racket' by deceiving customers, a City watchdog said yesterday.

It warned that the mass mis-selling of Payment Protection Insurance could trigger huge fines - likely to be more than £1million per company.

PPI is sold with loans, credit cards, store cards, car finance and mortgages. It should offer peace of mind that repayments will be covered in times of crisis, such as illness or unemployment.

But the Financial Services Authority has found that more than two-thirds of banks, finance companies and stores are failing to explain what it covers, how it works and what it costs.

As a result, customers are paying a rip-off price for insurance that may not pay out when they really need it.

The guilty firms are thought to include many household names and the FSA angered many yesterday by refusing to name them while investigations continue.

Critics believe that financial institutions are raking in £4billion a year in profit from PPI.

The FSA has now put 24 companies on notice that they face further scrutiny.

It follows investigators visiting 150 firms, banks and High Street stores. More than two thirds of the businesses either failed to treat customers fairly or did not explain the cover and costs involved.

In a damning assessment, the FSA added: 'Many PPI products do not appear to be designed to meet the needs of the customers to whom they were sold.'

Selling can involve scare tactics, such as playing up the threat to families from sickness and unemployment.

At the same time, common ailments that might mean loss of income, such as mental health or back problems, are not routinely covered.

Expensive PPI is sometimes wrapped into the cost of the loan, with interest added on top, without this being spelt out to a customer. Customers are not told

**MORE** than two-thirds of financial advisers employed by banks and building societies are failing to give good advice, consumer watchdog Which? warns today.

It said only 32 per cent of 'tied' advisers passed all its tests on assessing a customer's finances and finding the best options for their money.

Researchers visited 40 advisers at High Street banks and building societies, claiming they had received an inheritance of £30,000 and asking how to make the money work for them.

Which? said it was disappointed that half of the advisers did not recommend repaying mortgage and loan debts before investing the money. They found

that 14 advisers failed to properly carry out a fact-finding exercise on their circumstances and financial needs, despite this being a key part of the advice process.

More than a quarter of advisers also failed to assess people's attitude to risk properly.

Independent advisers, who can recommend products from across the whole market, fared better than those tied to a particular company. Some 48 per cent passed all of the tests.

Editor of Which? magazine, Neil Fowler, said: 'With a shocking number of advisers failing our test, it's clear that you need to choose your adviser very carefully.'

that they can shop around to get a cheaper PPI policy from another company, which can offer savings of 75 per cent or more.

Commission-hungry salesmen sell PPI to people who should not qualify, perhaps because they are in part-time work, in seasonal jobs or semi-retired.

At the same time, common ailments that might mean people lose their income, such as mental health or back problems, are not routinely covered.

FSA spokesman Clive Briault said too

## 20million

loan protection policies are held by UK customers

many firms are failing to honour the public's right to clear information on PPI. He said he is 'extremely disappointed some firms have still made little progress in improving their sales practices'.

Complaints to the Financial Ombudsman Service about misinformation around the sale of PPI are running 50 per cent higher this year compared to 2006.

Citizens Advice has been campaigning for many years for a crackdown on the racket. Its social policy officer, Peter Tut-

ton, said: 'People are still paying over the odds for policies or having problems when they try to make a claim.'

'PPI is supposed to protect people against debt, but lenders still seem to be content to sell excessively expensive products that do little to help people at their time of need.'

'It is profoundly disappointing that firms are still failing to treat people properly. Although the FSA has recently taken enforcement action against some firms for mis-selling PPI, this has not resulted in lenders sharpening up their act.'

'We believe it is time for the FSA to take stronger action to ensure that the PPI selling rules are adequate and that firms actually follow them.' He suggested some firms should effectively be put out of business with the removal of their license.

'We believe that the Office of Fair Trading must now work with the FSA to take firm action against lenders that don't follow the rules to stamp out PPI mis-selling for good,' he said.

Teresa Fritz, of Which? Money, said: 'We want the FSA to name and shame so that people are aware of which companies are breaching the rules.'

The Finance & Leasing Association, representing consumer and motor credit providers, said PPI offered valuable protection to the public.

Comment - Page 14

# General takes a shot at Brown

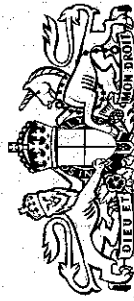
By Ian Drury  
Political Reporter

day, Lord Guthrie said he was surprised by the Prime Minis-

'really worried' about military cutbacks.

**Daily**

THURSDAY, SEPTEMBER 27, 2007



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# PROTECTION RACKET

How those policies to protect your mortgage  
and credit card payments are a £4bn rip-off

FULL STORY: PAGE TWO

Daily tablet that could revolutionise  
women's lives - available in months

# NOW THERE

