

Payment Protection Insurance (PPI) mis-selling payouts could top GBP15bn

Submitted by: Economic Perspectives

Monday, 26 November 2012

A welcome boost for household consumption, but a nagging headache for the banks

Three-quarters of those insured plan to claim, or have already done so.

Almost GBP8bn has already been paid out to PPI claimants. About GBP4bn is awaiting payment, with a probable GBP2bn yet to be claimed. These amounts exclude payments to intermediaries.

Total PPI payments to individuals are likely to top GBP14bn, with payments to claims management companies adding a possible GBP1bn to GBP2bn on plausible assumptions.

2 in 9 adults have taken out a PPI policy, according to the survey* responses.

Northern Ireland (38%) and North East (35%) contain the highest densities of insured adults; London (17%), South East (18%) and West Midlands (18%), the lowest.

27% of those working full-time took out PPI policies; 24% of those working part-time and 16% of those currently not working.

The average payment already received is around GBP2,900, excluding any payment to claims management companies, with no observable difference between payments to men and to women.

Half of all insured adults in the Midlands have received or are awaiting a payment; 42% in the North and 38% in the South.

The average payment that is awaited is around GBP2,450, excluding any payment to intermediaries.

Taking average payments received and awaited, the typical amount is GBP3,200 in the Midlands, GBP2,750 in the South and GBP2,150 in the North. Single adult payments are approximately half those for people who are married or living as married. There was no significant difference in average payments received by working or non-working adults.

Approximately 60% to 65% of the PPI proceeds that have been received or are awaited will be spent. Everyday household expenses accounts for about a third of the spent portion, holiday spending accounts for a quarter and about a fifth is, or will be, used for major household electrical items.

Roughly half of the saved proportion is used to pay down debt and most of the remainder is saved in a deposit account.

The overall boost to consumer spending since the beginning 2011 to date, is almost GBP5bn, with a further GBP4bn in the pipeline. PPI payouts will continue to provide a welcome boost to consumer spending for many months to come.

“PPI payments are reminiscent of the privatisation proceeds of the 1980s and 1990s and are sufficiently large and widespread to influence the seasonal mood. While spending on consumer durables, holidays and cars could account for about a third of the payouts, another third is simply being used to meet everyday expenses. Is this a bank windfall tax in disguise?”

Peter Warburton, director of Economic Perspectives

For more information, please contact Peter Warburton peter@economicperspectives.co.uk on 01582 696999

*The PPI survey was conducted among a sample of 1,000 adults aged 16+ by GfK between 9-11 November on behalf of John Gilbert Financial Research / Economic Perspectives. Quotas are imposed on age, sex, region and social class to ensure the final sample is representative of the overall population.