

Here's what you didn't know about PPI and what happens next

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With the PPI deadline now upon us, here at KIS Finance (<https://www.kisbridgingloans.co.uk/>) we've been looking into how the whole mis-selling scandal started and found some interesting facts.

Whilst everyone knows about the banks making huge profits from mis-selling payment protection policies, few people are aware how the existence of APRs (average percentage rates) played such a large part in why the PPI market took off in the way it did.

Our main findings are;

- Before APRs were introduced as a legal requirement finance adverts could be very mis-leading. E.g. Car finance could be advertised simply as 8%, but customers wouldn't have known if this was an annual rate, flat rate or even a monthly rate of interest.
- APRs created a level playing field as lenders had to calculate the average rate taking account of any charges or fees. However, insurance cover was not included in the APR calculation.
- Lenders used this loophole to enable them to manipulate the market by charging lower interest rates but making huge profits on selling PPI policies which they made a requirement of the loan.
- Other lenders followed suit in order to compete with lower APRs and soon the majority were mis-selling PPI as a matter of course.

Did PPI compensation boost recession recovery?

Every cloud has a silver lining and the huge sums of compensation paid out over the last decade may have helped stimulate the economy into a quicker post-recession recovery. Acting in the same way as tax cuts, with average refunds of around £2000, this cash injection has noticeably boosted spending across the country.

We've looked at both the car industry and housing markets and found some interesting links between the timing of PPI refunds and growth in both sectors.

New car sales

Following a steady decline in new car sales from 2003 to 2011, there was a significant upturn in the market from 2011 to 2016. This is interesting as the banks lost a Judicial Review in 2011, meaning that it became harder for them to defend PPI mis-selling complaints. As a result, a higher proportion of complaints were upheld, leading to more refunds, which in turn encouraged more customers to complain and generate further refunds.

According to data from SMMT, the UK's primary source of data on the motor industry, new car sales in the UK sat at 1,941,453 in 2011 but rose by over 38% to 2,692,786 by 2016.

Impact on the housing market

With many PPI refunds paid out for much larger sums than the average £2000, this may have been a factor in supporting housing market growth during a time of recession. For some an unexpected lump sum will have helped contribute to a deposit to enable them to get started on the housing ladder. The fact that having stagnated since 2008, the housing market started a period of steady growth in 2011, growing by over 39% between then and 2016, suggests that this could have been supported by PPI refunds.

So what happens next

With the deadline at the end of August signalling the end of the PPI refund bonanza, what's next on the horizon? We're already seeing an increase in the number of adverts targeting those who have lost out on investments or pensions, promising compensation following receipt of poor advice from banks and financial institutions.

Whilst this may seem like good news to those who have lost out, lenders have already tightened their criteria over recent years in an effort to reduce their exposure to risk. This means that many customers will continue to lose out if it becomes increasingly difficult to get credit or be accepted for a mortgage.

Are consumers now more at risk because of the PPI scandal?

Ironically, it's now really difficult to get payment protection cover on policies, potentially leaving vast numbers of customers at risk.

We approached two of the large banks, Barclays and RBS, to see how easy it was to purchase cover from them. In both cases, staff tried to refer us to the PPI claims team despite our explaining that we were looking to take out cover on a loan and were not trying to make a complaint. Staff at both banks were initially unable to clarify if they still offered cover, before confirming that they actually no longer did.

In the wake of the PPI scandal customers are now borrowing money without any discussion as to how they will meet their monthly payments if they are suddenly unable to work.

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Notes to Editors

Full Article - <https://www.kisbridgingloans.co.uk/finance-news/here-is-what-you-did-not-know-about-PPI/>

Data Sources

<https://www.am-online.com/data/manufacturer-insight>

<https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/numberofresidentialpropertysalesforationalandsub>

About KIS Finance

KIS Finance are experienced professional finance brokers who have a wide range of guides to help consumers take care of their finances.

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