PPI: Behind the story

September 10 2019, 12:01am, The Times

PPI scandal: The cash cow that turned sour

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Payment protection insurance used to be a huge cash cow for banks, making up about half their profits in retail banking, yet over the past decade fortunes have changed and claims management companies have become among the largest beneficiaries of the mis-selling.

Claims companies — ambulance chasers to their critics — have been successful in large part because banks opposed attempts to make them deal with PPI and then dragged their feet.

In response to a series of measures by the Financial Services Authority and the Competition Commission in the early 2000s, banks took the regulators to court. They abandoned the action in 2011, but continued to resist attempts by watchdogs and consumer groups to bring in sweeping changes to their handling of historic PPI sales and complaints. That opened the door for the claims management industry.

For such companies, PPI is a near-perfect product. It was sold in such large numbers that it created huge rewards for the claims managers, which take a slice of customers' compensation. It was also sufficiently formulaic that firms could learn the system of how to complain and then be hugely successful.

The Financial Conduct Authority, the successor to the FSA, took on oversight of the claims management industry, thought to number about a thousand companies in Britain, in April after the government decided that they required tougher supervision. The FCA promised to crack down on poor practice and set a limit of 20 per cent plus VAT that companies could take from a customer's PPI payout.