

Glossary

ABC	Activity-based costing. A method of allocating costs to products and services.
ABI	Association of British Insurers.
Act	Enterprise Act 2002.
Advised sale	Sale by an adviser or intermediary who makes a personal recommendation to the customer.
AFB	Association of Finance Brokers.
AIFA	Association of Independent Financial Advisers.
AMI	Association of Mortgage Intermediaries.
APACS	The UK trade association for payments and for those institutions that deliver payment services to customers.
APR	Annual Percentage Rate.
Asymmetric demand relationship	Where the effect of prices of product A on sales of product B is different to the effect of prices of product B on sales of product A. For example, if prices of A affect demand for B, but prices of B have no effect on demand for A, we would call this an asymmetric demand relationship.
ASU	Insurance cover limited to accident, sickness and unemployment.
BBA	British Bankers Association.
BIBA	British Insurance Bankers Association.
Broker	A party that mediates between a buyer and a seller.
BSA	Building Societies Association.
Citizens Advice	The body responsible for the supercomplaint to the OFT .
CAS	Citizens Advice Scotland.
CC	Competition Commission.
CCPPI	Credit Card PPI .
CCTA	Consumer Credit Trade Association.
CI	Critical Illness Insurance. A contract where an insurer makes a lump-sum cash payment if the policyholder is diagnosed with one of the critical illnesses listed on the insurance policy and survives a minimum number of days (the 'survival period') from the date the illness was first diagnosed.

Claims ratio	Claims payable as a percentage of premium income, specifically calculated as: the sum of claims paid, net of reinsurance and the change in provision for claims, net of reinsurance, divided by net premiums earned.
Claims reserve	An amount set aside as a reserve for future claims. The amount may be specified in the contract between the underwriter and the distributor .
Combined ratio	The sum of the claims and expense ratio. Claims and operating expenses as a percentage of premium income, specifically calculated as: the sum of claims paid, net of reinsurance and the change in provision for claims, net of reinsurance, and the sum of all expenses, including commissions and profit share, divided by net premiums earned.
CML	Council of Mortgage Lenders.
Credit score	Each lender has its own credit-scoring system which is used to assess creditworthiness. Points are awarded to information provided on the application form (including time spent in current job, other loans or outstanding debts) and recorded on the applicant's credit report (which the lender purchases from a credit reference agency). This process helps the lender decide whether to give credit, what credit limit to set and what interest rate to charge. If the total score does not reach the lender's pass mark, the lender may turn down the credit application, offer to lend a smaller amount, or charge a higher rate of interest. People with a high credit score usually gain easy access to credit on good terms. Lenders sometimes refer to them as 'prime' customers. People with a low credit score tend not have access to mainstream credit facilities. This is usually because of damaged credit histories (which may include adverse County Court judgments, bankruptcy or poor credit repayment histories). Lenders sometimes refer to customers with low credit scores as 'sub-prime' or 'non-standard'.
Distributor	A company which sells PPI alongside its own credit product.
Expense ratio	Operating expenses as a percentage of premium income, specifically calculated as: the sum of all expenses, including commissions and profit share, and excluding claims, divided by net premiums earned.
FISA	Finance Industry Standards Association.
FLA	Finance and Leasing Association.
FSA	Financial Services Authority. Independent non-governmental body which regulates the financial services industry in the UK.

GWP	Gross written premium. The total amount of premium a customer is required to pay for an insurance policy written during the year; the total amount of premiums expected to be received by an underwriter over the life of the policy. This amount may not be required to be paid up front. This figure is expressed before deductions (ie gross) of reinsurance. This contrasts with premium earned (see below).
Intermediary	A person or organization which acts as an interface between consumers and providers of credit and PPI . Examples of intermediaries are brokers and IFAs .
ICOB	Insurance Conduct of Business. A set of rules produced by the FSA .
IFA	Independent financial adviser. A professional who offers unbiased advice on financial matters to their clients and recommends suitable financial products from the whole of the market.
IP	Income protection insurance. Provides protection in the event that one has to provide care for a spouse, partner, parent or child fulltime; hospitalization; accident; sickness (disability); and involuntary unemployment.
IPT	Insurance premium tax.
LA	Life assurance. Insurance paid to named beneficiaries when the insured person dies.
L	Life cover. Insurance cover which pays out if the insured person dies.
Money Supermarket	MoneySupermarket.com. A UK finance price comparison website.
MOTA	The Mail Order Trader's Association.
Motor PPI	Motor finance PPI .
MPPI	First-charge mortgage PPI .
Near-prime	Near-prime customers have some access to mainstream lending facilities but possibly not sufficient choice to get the very prime rates from mainstream finance.
Non-advised sale	A sale where no personal recommendation as to the suitability of the product is made to the customer.
Overdraft PPI	Personal current account overdraft PPI .
OFT	Office of Fair Trading.
Penetration rate	The proportion of customers taking out the underlying credit product who also take out PPI .
PLPPI	Unsecured personal loan PPI .

PPI	Payment protection insurance. Insurance services supplied for the purpose of protecting a borrower's ability to maintain credit repayments in the event that the borrower becomes unable to maintain the repayments due to accident and/or sickness and/or unemployment and, under some policies, death.
Premium	The amount paid or payable, often in instalments, for an insurance policy. Can be paid as a single premium or regular premium .
Premium earned	The amount of premium that a company has earned by providing insurance against various risks during the year.
Prime	Prime customers have access to mainstream lending facilities.
Protect—ACA	Protect—Association of Creditor Assurers.
Regular premium	A series of payments made on a continuing basis, usually monthly, over the term of the PPI policy.
Retail credit	Includes non-car hire purchase and catalogue purchases. Excludes store cards.
Retail PPI	Retail finance account or loan PPI .
'Rule of 78'	In the context of refunds of PPI , a method of calculating the amount repayable to the customer in the event that the customer terminates the PPI policy early. More generally, also known as the 'sum of the digits' method (the numbers 1 to 12 add up to 78), the rule of 78 is one method in which lenders calculate how much interest a customer should have paid at any stage during the repayment period of a fixed rate instalment loan. The method takes into consideration the fact that a customer pays more interest at the beginning of a loan when they have the use of more of the money and less interest as the debt is reduced.
Single premium	A single payment, made up front, whereby the insurer is paid the full price for taking out a PPI policy in one lump sum (as opposed to receiving a regular premium each month).
SMPPPI	Second-charge mortgage or secured loan PPI .
Stand-alone	PPI that is not sold alongside an underlying credit product.
Supercomplaint	Citizens Advice is a designated consumer body for the purposes of section 11 of the Enterprise Act 2002. In this capacity, Citizens Advice made a supercomplaint about PPI to the OFT which led to this investigation into the PPI market.
Underwriter	A company which provides insurance, agreeing to take responsibility for paying certain costs in specified circumstances.
uSwitch	uSwitch Ltd operates a phone-based and online comparison (uSwitch.com) and switching service which enables customers to compare prices on a range of services and personal finance products, sometimes using price calculators. The service is funded by commissions from some suppliers.

Vertical integration

A business which operates at two (or more) levels of the supply chain is vertically integrated. In relation to **PPI**, a vertically-integrated business is one which both underwrites and distributes its own **PPI** products.

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