

### Short-term income protection—is it a form of PPI?

1. The purpose of this appendix is to provide details as to the basis upon which we reached the conclusion that short-term IP is a form of PPI.
2. Short-term IP typically offers cover for accident, sickness and unemployment for up to 12 months. Some policies offer the option of additional benefits such as life, critical illness and carer insurance cover. The consumer nominates the amount which they wish to have the benefit of (for example, the amount of a monthly credit repayment or total regular monthly outgoings). In the event of a successful claim, the benefit is paid directly to the consumer who is able to choose how that money is utilized.

### Review of some relevant policies

#### *HSBC LifeChoices*

3. During the course of the inquiry, in June 2007, HSBC launched a product called LifeChoices, which provides protection not linked to a credit product; the amount insured is nominated by the consumer. In the event of a claim the benefit payment is deposited into the consumer's nominated account.
4. LifeChoices offers cover similar to that offered by HSBC's MPPI product and its Flexible Life product, and HSBC removed those products from sale at the time LifeChoices was launched.<sup>1</sup> In fact, LifeChoices was originally developed to replace HSBC's MPPI policy (and its Flexible Life product) with a view to increasing HSBC's sales of mortgage insurance.
5. LifeChoices was made available to both mortgage and non-mortgage consumers, and was referred to by HSBC as a menu-based protection plan which offered:
  - a lump sum payable on death or earlier terminal illness (LifeChoice);
  - a lump sum on diagnosis of one of a range of specified illnesses (TraumaChoice);
  - a monthly income to protect mortgage repayments in the event of accident or sickness (SicknessChoice);
  - a monthly income to protect mortgage repayments in the event of unemployment (UnemploymentChoice); and
  - a lump sum payable on total and permanent disability.
6. A consumer could choose to combine the cover offered by the LifeChoices product in 12 ways,<sup>2</sup> namely:
  - (a) accident and sickness only;
  - (b) accident, sickness and trauma;

---

<sup>1</sup>From June 2007, life insurance customers taking out less than £[redacted] of cover were offered LifeChoices.

<sup>2</sup>There are now 14 different permutations.

- (c) accident, sickness and unemployment;
  - (d) accident, sickness, unemployment and trauma;
  - (e) life, accident and sickness;
  - (f) life and trauma;
  - (g) life, trauma, accident and sickness;
  - (h) life, trauma and unemployment;
  - (i) life, trauma, unemployment, accident and sickness;
  - (j) life and unemployment;
  - (k) life, unemployment, accident and sickness; and
  - (l) life only.
7. On 4 December 2007 HSBC withdrew advised sales in branches of its PLPPI and CCPPI products. From that date consumers were offered the opportunity to discuss their protection needs (not just those relating to the credit product acquired) with a Financial Planning Manager. LifeChoices became one of the products offered by the Financial Planning Manager to those consumers who would previously have been offered PLPPI and CCPPI. HSBC stopped selling PLPPI and CCPPI on the Internet on 13 March 2008. Other HSBC brands also withdrew or began the process of withdrawing PPI from sale.<sup>3</sup>

### ***HSBC Income Protection Plan***

8. HSBC also offers an income protection plan which provides cover in the event that a consumer is unable to work due to accident or sickness. The consumer is able to choose their level of income protection up to a maximum of 50 per cent of their taxable earnings, or 50 per cent of net profit if they are self-employed.

### ***Post Office Lifestyle Protection***

9. The Post Office offers a product called Lifestyle Protection which offers insurance for accident, sickness, unemployment or death. The consumer nominates the amount of cover and type of cover. In the event that the consumer is unable to work due to accident, sickness or involuntary unemployment, the insurance pays directly to the consumer the nominated amount per month for a maximum of 12 months. In the event of death, a lump sum of up to 12 times the nominated monthly amount is paid directly to the consumer's nominated beneficiary.
10. The Post Office referred to the product as 'flexible all-in-one cover', and consumers are encouraged to select a level of cover which would be sufficient to meet their monthly outgoings plus an additional amount for day-to-day living expenses in the event of a claim. Consumers are able to choose a minimum of £100 per month of cover, and a maximum of £2,500 of cover per month.

---

<sup>3</sup>M&S and First Direct. HFC did not initially withdraw PPI from sale, but in July 2008 it did withdraw its single-premium PPI policies from sale.

### ***HBOS Bill Protector***

11. HBOS offers a protection insurance product called Bill Protector. It offers accident, sickness, unemployment and carer cover. Consumers receive a fixed amount of £200 per month in the event of a claim. The insurance pays benefits for up to 12 months. The benefit payments are deposited into the consumer's bank account.
12. Bill Protector is advertised by HBOS as being designed to assist consumers with their household bills or other financial commitments, but in fact consumers are able to use the benefits in whichever way they choose.

### ***RBSG Churchill Income Protection***

13. RBSG offers a short-term IP through its Churchill brand. It offers cover in the event of accident, sickness or unemployment, and pays benefits for a maximum of 12 months. The consumer is able to choose the amount of benefit they are insured for, with a minimum monthly benefit of £100 and a maximum monthly benefit of £2,500 or no more than 60 per cent of gross monthly salary, whichever is less. Any benefit paid is deposited into the consumers' bank account.

### **The views of parties**

14. The parties to the inquiry had mixed views as to whether short-term IP was the same as PPI. The views of HSBC, in relation to its own short-term IP policy, LifeChoices, are set out in paragraphs 44 to 46; and the views of Aviva on LifeChoices are referred to in paragraph 56.
15. AXA told us that there was no real difference between short-term IP policies and PPI. It said that in terms of events covered the two products were genuine substitutes.
16. However, Lloyds TSB said that short-term IP and PPI were separate types of policies and it questioned the extent to which they could be viewed as substitutes. Millennium Insurance said that substitutable products for PPI did not exist yet. Legal and General said that there were a number of alternative products available that went some way towards providing the cover offered by PPI, but none were direct substitutes for PPI. Genworth said that alternatives which were cited in our Emerging Thinking should be viewed as complementary products to PPI, but not potential substitutes, because, among other things, the alternatives did not protect the same risks as PPI, and because PPI was sold at the same time as the credit (see Appendix 3.6). Northern Rock said that there was very little demand-side substitutability between PPI and alternative financial products.
17. The FLA told us that stand-alone PPI products were not strictly payment protection products but, in practice, income insurance. It was of the view that stand-alone PPI could affect the state benefits available to consumers, which was not the case with linked PPI products. The FLA cited CCPPI as an example—it was paid directly to the credit card account and therefore did not affect eligibility for state benefits.
18. Further, MBNA considered that stand-alone PPI products should properly be regarded as IP products, rather than PPI products, since:
  - they were not tied to the underlying credit product;
  - any claim was paid to the consumer rather than to the credit provider; and

- in the case of credit cards, the insurance did not track the varying monthly credit balance.

## **Comparison of PPI and short-term IP**

### ***Summary of the characteristics of the policies***

19. Table 1 provides a summary of the policy characteristics of PPI and short-term IP.

TABLE 1 Characteristics of PPI and short-term IP

|   | <i>PPI</i>  | <i>Short-term IP</i>   |
|---|---|--|
| <b>Cash flow insured</b>                            | <p>Repayments of:</p> <ul style="list-style-type: none"> <li>• Personal loan debt.</li> <li>• Mortgage debt (first and second charge).</li> <li>• Credit card debt.</li> <li>• Overdraft debt.</li> <li>• Retail credit debt.</li> </ul>  | <p>Gross income (normally a selected amount subject to a maximum percentage of gross income (eg 50 per cent)) or monthly outgoings (up to a percentage of gross income), for a year.*</p>  |
| <b>Risks insured</b>                                | <ul style="list-style-type: none"> <li>• accident, sickness and unemployment;</li> <li>• accident and sickness; or</li> <li>• unemployment.</li> </ul> <p>Most loan, credit cards and overdraft PPI policies also include life insurance and some policies include critical illness insurance.</p> <p>Some policies also include hospitalization, permanent disability cover and carer cover.†</p>  | <ul style="list-style-type: none"> <li>• accident, sickness and unemployment;</li> <li>• accident and sickness; or</li> <li>• unemployment.</li> </ul> <p>Some policies also offer the option of additional benefits, such as life cover, critical illness cover or carer cover.</p>   |
| <b>Type of underwriting</b>                         | <p>Community rated pricing (ie all consumers are charged the same premium).</p> <p>Some underwriters and lenders (for example, [X]) told us that they offered or were considering offering risk-based products, the price of which varied according to a set of variables such as age or type of employment.</p>  | <p>Community rated pricing; although pricing can be risk-based (ie price varies according to a set of variables such as age or type of employment).</p>  |
| <b>Payment of premium</b>                           | <p>PPI for personal loans and second-charge mortgages:</p> <ul style="list-style-type: none"> <li>• Monthly or single premium with premium rate linked to term of the loan.</li> </ul> <p>PPI for credit cards:</p> <ul style="list-style-type: none"> <li>• Fixed amount per £100 of monthly outstanding balance (eg 79p per £100 of outstanding balance); premium is not paid if there is no outstanding balance on the card.</li> </ul> <p>PPI for mortgages:</p> <ul style="list-style-type: none"> <li>• Monthly premium (normally as a fixed amount per £100 benefit).</li> </ul>   | <p>Consumers typically pay monthly premiums.</p>   |
| <b>Benefits paid to consumers or to dependants‡</b> | <p>Amount of monthly debt repayment (or in the case of credit cards and overdraft a specified percentage of the outstanding balance, eg 10 per cent) or repayment of the whole debt in the case of life insurance or critical illness insurance.§</p>   | <ul style="list-style-type: none"> <li>• Fixed monthly amount up to the limit insured.</li> <li>• Benefits can be used for any purpose.</li> </ul>   |
| <b>Typical exclusions</b>                           | <p>Deliberate self-injury, or any injury or pre-existing medical condition of which the applicant had knowledge prior to the application for cover,¶</p> <p>AIDS-related conditions and conditions due to drug and alcohol abuse or criminal activities.</p> <p>Many policies apply restrictions to payment of claims for conditions related to pregnancy, stress, and backache. These restrictions might include limits to the length of period benefits are paid for and/or a requirement for the applicants to be referred to and under the care of an appropriate specialist.</p> <p>If unemployment cover was selected, consumers would not be covered if: at the time of their application, they knew or had reason to believe they might become unemployed; their work is seasonal or temporary; they accept voluntary unemployment.</p> | <p>Deliberate self-injury, or any injury or condition of which the applicant had knowledge prior to the application for cover, AIDS-related conditions and conditions due to drug and alcohol abuse or criminal activities.</p> <p>Depending on the policy, restrictions might apply to the payment of claims for conditions related to pregnancy, stress, and backache. These restrictions include limits to the length of period benefits are paid for and/or a requirement for the applicants to be referred to and be under the care of an appropriate specialist.</p> <p>If unemployment cover was selected, consumers would not be covered if: at the time of their application, they knew or had reason to believe they might become unemployed; their work is seasonal or temporary; they accept voluntary unemployment.</p> |

PPI

Short-term IP

**Eligibility**

Applicants:

- must be over 18 and under 60 (depending on the cover the maximum age can be higher (eg 65 or 70);
- must be employed (typically for at least 16 hours per week);# and
- must be resident in the UK.

Most policies are available to applicants who are self-employed and have been so continuously for a period prior to the application, although the benefits for the self-employed may differ to those with an employed status.

Applicants:

- must be over 18 and under 60 (depending on the cover the maximum age can be higher (65 or 70)).

Must be employed or self-employed and have been so continuously for at least the previous six months.

**Benefits period~**

It depends on the policy.  
 Unemployment benefits: typically 12 months.  
 Accident and sickness: 12–24 months or, with some policies, until the consumer returns to work, or in the case of PPI for loans, for the term of the loan.  
 Death and permanent invalidity benefits: some policies would repay the whole of the outstanding debt in case of death or permanent invalidity. Other policies would repay up to a maximum amount or length of time for permanent invalidity benefits (for example, Lloyds TSB PaymentCare Gold).

Typically 12 months.

Source: CC.

\*Bill protector policies, a variation of short-term IP, are offered by some providers. Bill protector policies are designed to cover outgoings for household bills up to a certain amount (eg £300) in case of accident, sickness or unemployment.

†The cover applies when the policyholder leaves work to look after a member of their immediate family.

‡Payments can also be made directly to the provider of the credit product sold alongside PPI.

§Capital One told us in its response to the issues statements that benefits of PPI include the following:

- PPI protects a consumer credit history (negative information on credit record is reversed once a claim has been accepted).
- PPI refunds any fees incurred by consumers during the claim process (eg default fees).
- PPI ensures that the consumer is never over- or under-insured.

¶Exclusions for pre-existing conditions will be waived if the insured is able to demonstrate a period in which they have not suffered the condition or any of its symptoms.

#Employment is not an eligibility criterion for some products or in cases where restricted cover such as hospitalization, disability or life is provided for. For example, Barclays offers life and disability cover to consumers who are not in employment.

~Length of time benefits will be paid for.

**What is covered**

20. Both short-term IP and PPI generally provide cover in the event of accident, sickness and unemployment. Some offer the option of additional types of cover (for example, for life and critical illness). In the event of a claim they both make monthly payments for the benefit of the consumer, rather than a lump sum (except in the case of a life claim, which is paid by way of a lump sum).
21. PPI is normally part of a combination which includes a credit product, so, for example, the level of cover is tailored to the payments on a loan or the outstanding balance on a credit card. Short-term IP is not usually linked to payments for a specific credit product, although for certain types of credit where repayments are stable or predictable (for example, mortgages, second-charges mortgages, personal loans) this feature could be replicated by taking out short-term IP cover for the same amount as the repayment. Short-term IP is similar to stand-alone PPI in this respect.

## ***Payment of benefits***

22. When a claim is made on a short-term IP policy, the benefits are paid to the policyholder. This means that the insured person can use the payments received for whatever purposes they choose at that time.
23. In contrast, most PPI policies pay the benefit to the creditor directly. However, we are aware of the following exceptions: Abbey, HSBC (before it withdrew its PPI offer) and HBOS which said that benefits paid under their MPPI policies were credited to consumers' current accounts (from which the loan repayments are debited). This means that consumers are able to utilize the benefit as they see fit, in the same way as they can with a short-term IP policy. HSBC said that the fact that suppliers of a small number of PPI policies had chosen to pay claims to consumers rather than paying down the credit product directly did not make PPI comparable with short-term IP products, the providers of which had no such choice as to how to pay out benefits.
24. We are aware of three MPPI policies which, while linked to a mortgage product (though not necessarily the PPI provider's mortgage product), pay a benefit in excess of 100 per cent of the mortgage repayment in the event of a claim. Abbey's Paymentcare MPPI allows the consumer to nominate the level of cover,<sup>4</sup> such that they receive an amount which covers their mortgage repayment and other essential bills in the event they are unable to work due to accident, sickness and/or unemployment. The MPPI offered by HBOS allows the consumer to adjust the level of cover<sup>5</sup> such that payments meet their mortgage repayments and related bills. Lloyds TSB offers MPPI which covers the mortgage payment and the property insurance payment each month, and, if the total cost of the mortgage payment and the property insurance payment each month is less than £1,300, Lloyds TSB pays the consumer an additional cash benefit.<sup>6</sup> HSBC said that finding three MPPI policies across the entire PPI sector which could be used to take cover in excess of the mortgage balance did not make PPI comparable with short-term IP.

## ***Comparison of price and quality of short-term IP and stand-alone PPI***

25. We also compared the cost to the consumer of a selection of short-term IP and stand-alone PPI policies. We compared two stand-alone PPI policies with two short-term IP policies. As Table 2 shows, there was no clear difference in terms of pricing or quality between the short-term IP and stand-alone PPI products we looked at.

---

<sup>4</sup>The minimum benefit a customer can choose is £100 per month; and the maximum benefit is £2,000 per month or 50 per cent of the customer's monthly gross salary, whichever is lower.

<sup>5</sup>To a level not exceeding 133 per cent (for new business since November 2006) or 125 per cent (for existing business before November 2006) of the mortgage.

<sup>6</sup>The additional cash benefit is worked out at £3 for every £1,000 of the original mortgage balance. If a customer qualifies for the additional cash benefit, the most they can receive is £1,300 per month. If the total cost of the mortgage payment and the property insurance payment each month is greater than £1,300, then the policy will cover this (eg if the total cost of the mortgage payment and the property insurance payment each month is £1,800, then the policy will pay £1,800), but no additional cash benefit will be available.

TABLE 2 Illustrative comparison of the price of short-term IP and stand-alone PPI

| PPI provider      | Product name         | Type of product | Default score | Cost per £100 cover for a 35-year-old male non-smoker<br>£ |
|-------------------|----------------------|-----------------|---------------|--|
| Churchill         | Income protection    | Short-term IP   | 60            | 4.00   |
| British Insurance | LASU                 | Stand-alone PPI | 56            | 3.50   |
| Paymentcare       | LASU—30              | Stand-alone PPI | 56            | 5.50   |
| Post Office       | Lifestyle protection | Short-term IP   | 49            | 4.50   |

Source: CC.

### **The difference between PPI and short-term IP**

26. Prior to the launch of the Lifestyle Protection product by the Post Office, the underwriter of the product, AXA, conducted research into consumer perceptions of the PPI market and consumer thoughts about Lifestyle Protection as a credible alternative to PPI. That research indicated that the consumers who participated in the research had difficulty understanding the product differentiation between PPI and its Lifestyle Protection product.
27. We found that the primary difference between PPI and short-term IP is the consumer focus—with PPI the consumer uses the policy to insure a specific credit repayment, whilst short-term IP is advertised as being cover for either credit repayments and/or more general outgoings. In every other material respect the policies are the same. We noted HSBC's comments (see paragraphs 23 and 24). However, we were content that we could conclude on the evidence that both point-of-sale PPI and short-term IP can make repayments directly to consumers, and both can insure more than the credit product sold at the point of sale if there is consumer demand for it.
28. Our terms of reference from the OFT were to conduct an investigation into the *'supply of all payment protection insurance services'*. *'Payment protection insurance services'* is defined in the terms of reference as *'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'*. The terms of reference do not mention the point at which the insurance services are sold (ie the point of sale of a credit product or any other time) or who they are sold by (ie the credit provider or another entity). Nor do they state that the insurance services must relate to or be linked to specific credit products. If the insurance is supplied for the purpose of protecting a borrower's ability to maintain credit repayments in circumstances where a claimable event occurs then it is caught by the terms of reference.
29. In our judgement the definition of PPI allows for any benefit paid under the insurance contract to be paid either to the credit provider or the consumer, and for a policy to be sold at the point of sale of the credit product or at any other time, so long as its purpose is to protect repayments of one or more credit products.
30. We concluded that, while PPI and short-term IP are sold with a different (overlapping but not identical) consumer focus, they are effectively the same type of insurance, covering the same events in the same way for a similar price. Therefore, we

concluded that short-term IP is a form of PPI and as such we are satisfied that it falls within our terms of reference.<sup>7</sup>

31. We considered whether, if a short-term IP policy was sold after a consumer was referred to a salesperson during the sale of a credit product, this amounted to sale at the point of sale of the credit product (see paragraph 2.61).
32. Whilst there is often a time lag between the point at which a referral to the salesperson is made and the discussion about short-term IP with that salesperson, the contact is triggered by the sale of credit, and the discussion with the salesperson is focused on protection needs which have been brought to the consumer's attention during the sale of the credit (though the discussion need not restrict itself to insuring only the credit just taken out).
33. We concluded that short-term IP policies which were sold as a result of a referral during the point of sale of a credit product are PPI products sold at the point of sale. We reached that conclusion on the basis that short-term IP is a form of PPI (paragraph 30) and the sale of these policies is triggered by the credit sale. As a result, we regard such sales of short-term IP as enjoying the same advantages and giving rise to the same concerns as PPI sold at the point of sale.

### ***Whether LifeChoices is a PPI product***

34. We looked in detail at the development of one short-term IP product, HSBC's LifeChoices product, in order to understand the drivers behind its development and how the business viewed it.
35. We chose the LifeChoices product as a focus for two primary reasons. First, during the inquiry HSBC stopped selling MPPI and introduced LifeChoices; it then also stopped selling PLPPI and CCPPI and instead began to offer its personal loan and credit card consumers the chance to discuss their protection needs (not just those relating to the credit product acquired), with LifeChoices as one of the possible solutions. Secondly, HSBC told us that LifeChoices was not PPI because, inter alia, it is not linked to a credit product and the consumers can select the level of cover they require. The LifeChoices product is described in paragraphs 3 to 7.

### ***The LifeChoices product***

36. We received information and data from HSBC with regard to its decision to begin offering its LifeChoices products to consumers, some of whom would previously have been offered its PPI products. As noted in paragraph 4, we found that LifeChoices was designed to be sold to HSBC's mortgage customers with the aim of increasing the penetration rate of mortgage insurance. When introduced it replaced two products: HSBC's existing MPPI product and a life insurance product.
37. LifeChoices offers life and terminal illness cover, accident and sickness cover, serious illness cover and unemployment cover, some of which were previously offered by HSBC's PPI products.

---

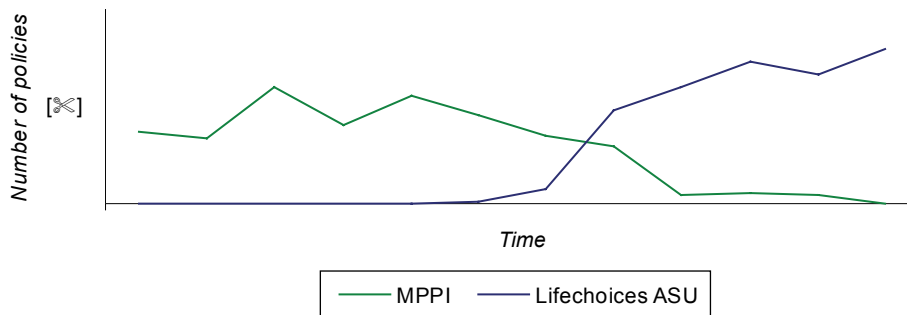
<sup>7</sup>Our terms of reference include 'payment protection insurance services'.

## Sales of LifeChoices

38. We looked at sales of its LifeChoices products and its PPI products. Figure 1 shows HSBC's sales<sup>8</sup> of MPPI [✂] and sales of any LifeChoices policy which contains an element of accident, sickness and/or unemployment.

FIGURE 1

### HSBC sales of MPPI and LifeChoices (policies containing A, S or U cover only), [✂]



Source: CC based on data provided by HSBC.

39. The data indicates that MPPI sales were effectively 'replaced' by LifeChoices sales when it was launched in June 2007.
40. Figure 2 shows a comparison of HSBC's sales of protection products.

FIGURE 2

### HSBC sales of protection products

[✂]

Source: CC based on data provided by HSBC.

41. Whilst sales of LifeChoices have not risen to levels of sales of PLPPI and CCPPI prior to December 2007 (see Figure 2), sales of LifeChoices have risen significantly since a referral to discuss protection needs was factored into the credit sales process. There was a large spike in LifeChoices sales when PLPPI and CCPPI were initially discontinued (sales of LifeChoices increased by [more than 200] per cent). HSBC said that it thought this was mainly due to a promotion of LifeChoices which it ran from late December 2007 until late February 2008.
42. We also undertook a further analysis of LifeChoices sales data by looking at the proportion of LifeChoices policies opened within 120 days of a credit sale. This data is summarized in Table 3.

---

<sup>8</sup>HSBC branded policies only.

TABLE 3 Breakdown of HSBC sales of LifeChoices products purchased by a consumer within 120 days of the purchase of a credit product

|  | <i>LifeChoices sales Jan–July 2008</i> | <i>Monthly average</i> | <i>Proportion of sales %</i> |
|--|--|------------------------|------------------------------|
| All policies with A,S or U cover, of which:            | [§]                                    | [§]                    | 100.0                        |
| Stand-alone LifeChoice policies                        | [§]                                    | [§]                    | [20–40]                      |
| LifeChoices policies following purchase of loan        | [§]                                    | [§]                    | [§]                          |
| LifeChoices policies following purchase of mortgage    | [§]                                    | [§]                    | [§]                          |
| LifeChoices policies following purchase of credit card | [§]                                    | [§]                    | [§]                          |

Source: CC analysis of HSBC data.

\*This total may contain some double counting where a LifeChoices sale follows the purchase of more than one credit product.

43. The table shows that [60–80 per cent] of LifeChoices policies with accident, sickness or unemployment cover were purchased by a consumer within 120 days of the purchase of a credit product. The monthly average sales of LifeChoices policies purchased by a consumer within 120 days of the purchase of a mortgage is broadly equivalent to HSBC sales of MPPI in the first half of 2007. There are also significant sales of LifeChoices purchased by a consumer within 120 days of the purchase of a personal loan or a credit card. However, the level of sales is [§] lower than the levels of PLPPI and CCPPI prior to November 2007, indicating that the switch to LifeChoices has resulted in a reduced PPI penetration rate for personal loans and credit cards.<sup>9</sup>

#### *HSBC's view on whether LifeChoices is a PPI product*

44. HSBC told us that LifeChoices was PPI in a general wide sense, but that it was rather different from conventional PPI (for instance, because it offered trauma cover, which was similar to critical illness insurance). It said that it was unbundled and the level of cover was determined by the consumer; and while it could be sold on a stand-alone basis, it was designed to be sold to HSBC's mortgage consumers. However, HSBC subsequently told us that LifeChoices was not PPI; it was not linked to a credit product and consumers were able to select their cover from the combinations referred to in paragraph 6. The premium was paid monthly quite separately from any repayments on a credit product. Consumers also bought LifeChoices for reasons other than to protect repayments on a credit product.
45. In responding to our provisional findings, HSBC set out four<sup>10</sup> main reasons why it said LifeChoices was not a form of PPI:
- First, it said that there was a fundamental distinction between PPI, a product whose essence is to protect repayments under a credit product, with which it is sold at the credit point of sale, and LifeChoices, which provides protection in no way linked to the sale of a credit product and is sold through an entirely separate sales process.
  - Secondly, HSBC said that, whilst we had concluded in our provisional findings that in every material respect other than the focus of its advertising (see paragraph

<sup>9</sup>The CC defined penetration rate for LifeChoices as the number of sales of LifeChoices with an AS and/or U element made within 120 days of the sale of a particular credit product, divided by the number of those credit products sold in the same time period, multiplied by 100. HSBC disagreed that it was appropriate to define a penetration rate at all for what it considered to be a short-term IP product.

<sup>10</sup>See also HSBC's comments set out in paragraphs 23&24.

30), PPI and short-term IP were the same, this was not the case for LifeChoices, which can be used to take cover, and is obtained through a sales process, materially different from that of PPI.

- Thirdly, HSBC disagreed with our characterization of how LifeChoices is sold. It said that the contact with the consumer is not necessarily triggered by the sale of credit; the discussion with the salesperson (which can take place days or even weeks after the credit sale) is not just focused on payment, income or even wider protection needs, but also on a consumer's savings and investment needs; and it is generally only after a further meeting that a recommendation may be made to the consumers. It also noted that [20–40] per cent of sales of LifeChoices were not purchased by a consumer who had purchased an HSBC credit product within the previous 120 days.
  - Finally, HSBC said that, given sales of LifeChoices following personal loan and credit card sales had not matched sales of PPI before PLPPI and CCPPI policies were withdrawn in December 2007, we could not conclude LifeChoices was a form of PLPPI and CCPPI, because we had used, as part of our logic for deciding LifeChoices was a form of MPPI, that sales of LifeChoices after mortgage sales had risen to the level of sales of MPPI before the withdrawal of its previous MPPI product.
46. HSBC said that LifeChoices should not be regarded as the same as, nor connected to the sale of the credit product in the same way as, PPI, particularly where only life insurance cover was taken out by the consumer. Further, it said that sales of LifeChoices through financial planning managers involved, at most, marketing at the point of sale, which was very different from the sale of PPI at the point of sale.

### *Our analysis of LifeChoices*

47. We considered whether LifeChoices was a PPI product, having regard to our definition of PPI<sup>11</sup> and the OFT's terms of reference.<sup>12</sup> In doing so we also considered carefully the points raised by HSBC.
48. First, we noted some similarities between PPI and LifeChoices. As with most PPI policies, LifeChoices offers protection for accident, sickness, unemployment and life, as well as trauma and critical illness. It has a waiting period and an exclusion period. It is pool underwritten. Any benefits which are payable under a LifeChoices policy are paid on a monthly basis. As with stand-alone PPI, if consumers wish to buy insurance to protect their credit repayments, they do not have to hold the credit product with HSBC to be eligible to purchase LifeChoices from it.
49. The evidence supplied to us by HSBC on why LifeChoices was developed indicated that it was specifically designed to be cross-sold as protection insurance alongside mortgages in the first instance. We therefore concluded that it was originally developed to be an MPPI policy (we also noted that it could be, and is, sold to meet other protection needs) and continues to be treated as such when cross-sold with HSBC mortgages.
50. Our assessment of the sales data provided by HSBC shows that LifeChoices was an effective replacement for MPPI, in that MPPI sales were effectively 'replaced' by LifeChoices sales when it was launched in June 2007 (see paragraph 39). This was

---

<sup>11</sup>See paragraph 2.1.

<sup>12</sup>See Appendix 1.1.

not the case with PLPPI and CCPPI, where the data shows that LifeChoices was a less successful replacement for the PLPPI and CCPPI policies previously sold by HSBC. We observed a spike in sales of LifeChoices in January and February 2008. As noted in paragraph 41, HSBC told us that this was mainly due to a promotion of LifeChoices from late December 2007 to February 2008. We observed a drop off in LifeChoices sales after February 2008, which is consistent with HSBC's view that some of the sales increase was due to the promotion. However, we note that the level of sales after February 2008 was still more than 200 per cent higher than the sales that prevailed in the latter part of 2007 when LifeChoices was primarily offered to mortgage consumers and PLPPI and CCPPI were still being offered to HSBC consumers. In addition the further analysis we conducted (see paragraphs 41 to 43) showed that there were significant sales of LifeChoices policies, covering accident sickness and unemployment, which were linked to the sale of a personal loan or a credit card.

51. The evidence we saw on sales of LifeChoices since HSBC's PLPPI and CCPPI policies were withdrawn and replaced with the offer of a referral to discuss protection needs (referred to in paragraph 39) likewise led us to conclude that LifeChoices is a PLPPI or CCPPI product when cross-sold.
52. We noted the points raised by HSBC, which are summarized in paragraph 45, as well as HSBC's initial view that LifeChoices was PPI in a general wide sense, but that it was rather different from conventional PPI (paragraph 44). We noted also HSBC's comments about the LifeChoices sales process, and that LifeChoices was not linked to a credit product.
53. We accepted that the LifeChoices sales process can involve several meetings, but we did not consider this to be evidence that LifeChoices was not PPI. LifeChoices was originally designed to be sold with mortgages (at the point of sale) and by financial planning managers; it was introduced in place of PLPPI and CCPPI [REDACTED].<sup>13</sup> The different sales process was, in our view, a function of the way in which LifeChoices was designed for use as PPI with a different credit product.
54. We noted HSBC's comments about our characterization of its sales process. We did not accept that we had wrongly represented its sales process. Further, as set out in paragraph 53 we did not think that the sales process was indicative of LifeChoices not being PPI.
55. We noted HSBC's comment that sales of LifeChoices through financial planning managers involved, at most, marketing at the point of sale, which was very different from the sale of PPI at the point of sale. However, we disagreed. As discussed in paragraphs 31 to 33, in our judgement the offer of an appointment with a financial planning manager to discuss protection needs is a key link between the credit sale and the subsequent sale of insurance products.
56. Aviva believed that the viability of LifeChoices was unproven and open to question. Therefore it said that, among other things, even if sales of the LifeChoices product to mortgage consumers were equivalent to sales of MPPI before it was replaced, we needed to understand why this might be the case for one credit product (mortgage)

---

<sup>13</sup>The decision to withdraw its PLPPI and CCPPI products was made following [REDACTED]. At that time, HSBC decided to offer to customers to whom HSBC had previously offered its PLPPI and CCPPI products the opportunity to discuss their broader protection needs with a financial planning manager, with one option being to take LifeChoices (if it was the most suitable product).

and not for others (personal loans, credit cards, or second-charge mortgages).<sup>14</sup> Aviva did not make any suggestions as to why this might be the case, and we note that it is not possible for us to know definitively why sales of LifeChoices to cover repayments for personal loans, credit cards or second-charge mortgages have not been equivalent to sales of PLPPI, CCPPI or SMPPI.

57. However, we note the following points in relation to this issue:
- (a) when the sale of the insurance is separated from the sale of credit consumers have time to consider their protection needs more carefully; we do not think it should be assumed that the same people (or the same number of people) who would have bought PPI at the point of sale would buy PPI having reflected upon their needs. Depending on the product, we thought this effect could result in more sales or fewer sales;
  - (b) the sales process for LifeChoices which involves referral to a meeting with a financial planning manager before a recommendation for cover is made may not be attractive to consumers who have taken on a debt which is small in comparison to a mortgage; and
  - (c) LifeChoices does not offer cover that tracks a consumer's credit card balance, unlike other CCPPI policies sold at the point of sale, and, at least for smaller outstanding balances, the product costs significantly more than the CCPPI policy it replaced.<sup>15</sup>
58. We recognized that LifeChoices can be used to purchase cover which does not include A, S or U cover, and in such cases we do not regard the product sold as being PPI. However, if one or more of these elements are included in the LifeChoices product, we consider it to be the sale of a PPI product, even if the cover does not match exactly the debt taken on.

### *Conclusion on LifeChoices*

59. The evidence led us to conclude that the initiation of the LifeChoices sales process at the credit point of sale, through arranging an interview for the consumer with a financial planning manager, was a strong link between the credit point of sale and the subsequent sale of LifeChoices. We concluded that any sale of LifeChoices which included the sale of A, S and/or U cover following an appointment with a financial planning manager, which was made or initiated at the credit point of sale, was the sale of PPI at the point of sale. If the LifeChoices product sold only covered life and/or trauma cover, we did not consider it to be a sale of PPI.
60. For sales of LifeChoices which are not linked to the sale of an HSBC credit product (which, as noted in paragraph 45, accounts for [20–40] per cent of sales of LifeChoices), we concluded that, if such sales included A, S and/or U cover, they

---

<sup>14</sup>Aviva also said that we should consider whether the volume of LifeChoices sales would be sufficient for a sustainable insurance product, citing the experience of Nationwide when it temporarily suspended sales of PLPPI and CCPPI (see paragraph 2.37). We had no reason to doubt LifeChoices' viability as an insurance product; as noted in the footnote to paragraph 53, LifeChoices was not originally designed for use as HSBC's main point-of-sale PLPPI and CCPPI. It has been an effective replacement for HSBC's MPPI product (see paragraph 39), and we do not think that the viability of LifeChoices as a product is reliant on its performance as a PLPPI or CCPPI product.

<sup>15</sup>HSBC told us that the minimum monthly premium for the LifeChoice and AccidentChoice elements of LifeChoices was £6, which gave customers more cover than the CCPPI policy it replaced; however, it also means that the product is more expensive—for an outstanding balance of £300 the monthly premium under HSBC's old CCPPI policy was £2.37; the LifeChoices monthly premium for the same outstanding balance would be £12.72.

were sales of stand-alone PPI. Our reasoning for this is set out in paragraphs 32 and 33.

### ***Conclusions***

61. We concluded that:

- short-term IP is a form of PPI (see paragraph 30);
- short-term IP policies sold as a result of a referral during a credit sale are effectively sales of PPI at the point of sale (see paragraph 33); and
- these conclusions apply to LifeChoices (see paragraphs 59 and 60).