

To: Simon Laesser  
Senior Manager, PPI Live Book, Consumer Finance  
Lloyds Banking Group

From: Alistair Thompson  
Director of Remedies, Business  
and Financial Analysis

Date: 24 January 2017

Dear Mr Laesser,

**Payment Protection Insurance Market Investigation Order 2011**

We have been in discussion with Lloyds Banking Group ('LBG') regarding several substantive breaches of the Payment Protection Insurance Market Investigation Order 2011 ('the Order'), and the steps LBG has taken to remedy these.

LBG reported a number of non-compliance issues in its 2016 Compliance Report to the CMA, of which we consider three issues to be substantive breaches. LBG also reported non-compliance issues in advance of inclusion in the next Compliance Report due in April 2017.

We consider that the breaches listed below constitute serious breaches of Article 4 – and in one instance below of Article 7 - of the Order which could potentially harm customers' interests. LBG has agreed to take the necessary action to ensure that in future it complies fully with the Order. The issues relate to LBG's failure to issue Annual Reviews to some PPI customers and also relate to some Annual Reviews containing incorrect data. Some of the issues also involve LBG's third party data supplier, Aviva.

The purpose of Annual Reviews is to remind customers that they continue to have PPI which they are entitled to cancel, raise consumer awareness of their ability to switch PPI provider and to help customers to compare the premium they pay at any point in time with policies offered by other providers.

*The three substantive breaches reported in LBG's Annual Compliance Report 2016 are as follows:*

- **Supplementary mortgage details incorrect**

In 2015, about 4,700 customers received Annual Reviews with incorrect figures for the fields 'Estimated total remaining charge for loan' and 'The total remaining amount you must pay back'. This was due to a coding error.

LBG reported that a coding upgrade was completed in September 2016 which will ensure that for all automatically generated Annual Reviews, the figure is now being calculated correctly. For customers who receive manually generated Annual Reviews, LBG will populate the field with 'Not Known' as permitted by the Order.

LBG has confirmed it will send apology letters to affected customers by 27 January 2017.

- **Increased PPI Premium when customer opted out of increase**

As mentioned above, this breach relates to Article 7 of the Order.

LBG offered all customers an increase in PPI cover when they increased their mortgage borrowing. However, some customers preferred to freeze their level of PPI cover. The migration of records to one mortgage IT platform did not provide the functionality necessary to enable premiums to be frozen. As a result, 207 customers had been overcharged premiums since March 2013.

LBG confirmed that:

- (i) affected customers have been refunded overcharged premium amounts plus 8% interest; and
- (ii) it has implemented a manual solution to correct the premium before the customer is charged, and that controls have been put in place to check the manual solution and ensure further breaches do not occur.

- **Mortgages Annual Review Statement not issued**

One non-automated mortgage repayment insurance (NAMRI) customer reported to LBG in 2014 that LBG had failed to send that customer an Annual Review. LBG undertook a review of the total population of 1,900 NAMRI customers and determined that 875 customers had an active policy and should have received an Annual Review prior to 2015/16, but had not.

LBG has told us that it had now designed and tested a manual solution to ensure that Annual Reviews were issued to all of these customers by 31 March 2016 and would be issued in subsequent years on the anniversary date. LBG confirmed it had

implemented controls to ensure that Annual Reviews are issued accurately and in compliance with the timescales set out in the Order. An apology was included within the 2015/16 Annual Review covering letter.

*Three breaches notified in advance of inclusion in Compliance Report 2017:*

- **Historical technical issue with impact on ‘gone away’ customers**

LBG identified that its ‘gone away’ indicator on accounts was not always up to date. This issue affected a number of products across the bank and a fix was implemented in March 2014 to ensure that the indicator was removed when the bank was notified of a change of address. In September 2014, the impact of this issue on Annual Review Statements was raised within the bank and a review of the root cause was conducted. 7,700 PPI customers were identified as potentially affected. The fix implemented in March 2014 automatically filtered down to the ancillary PPI products. As a result, Annual Review Statements have been produced and sent correctly since August 2015.

- **Failure to issue Annual Reviews to mortgage customers**

Aviva (a third party data provider) identified during an audit in June 2016 that 53 customers had not received an Annual Review. The issue was caused by a data coding error when providing data to LBG which resulted in LBG failing to send Annual Reviews to 53 Lloyds (historically Cheltenham and Gloucester (‘C&G’)) mortgage customers in 2012/2013 and 2013/2014.

LBG confirmed that those customers were notified in April 2015 in relation to Annual Reviews not sent in 2012/2013 and 2013/2014. Furthermore, it has put in place additional verification checks with Aviva.

- **Incorrect data in Annual Reviews**

Aviva & LBG each reported incorrect data relating to the amount shown for mid-term adjustments. Five C&G customers were affected.

As mentioned above, Aviva provides the data to LBG to send Annual Reviews to its (historic) C&G customers.

Aviva reported that on 13 November 2016 it fixed the IT issue giving rise to the incorrect data and that affected customers have received an apology letter from Aviva. The letters were sent to customers between 21 November 2016 and 11 January 2017. The apology letter explained the error, and either enclosed a copy of the Annual Review or offered a corrected historical Annual Review on request. We have also written to Aviva and its other distributor partners about this issue.

### ***Other breaches reported in 2016***

We note that LBG also reported other minor breaches in its 2016 Compliance Report. We have considered the remaining breaches reported by LBG in its 2016 Compliance Report and the CMA is satisfied that these issues are less substantial and have now been fixed.

### ***Additional compliance reporting***

LBG will confirm to the CMA that it has sent customer apology letters relating to Supplementary Mortgage details by 27 January 2017.

We expect LBG to inform the CMA of any future compliance issues that may arise and to do so as soon as any such issue is identified.

### ***Publishing this letter from CMA to LBG on GOV.UK***

This letter will be published by the CMA on GOV.UK. The date of publication will be Wednesday 25 January 2017.

Yours sincerely,

Alistair Thompson

*Director*

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