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Nerves are rising among Britain's big banks over the cost of a wave of fresh claims for product mis-selling. The numbers being whispered are astronomical. Some say that lenders may have to find £50 billion — on top of the near-£30 billion so far for payment protection insurance. Others suggest an Armageddon scenario that propels the tally to £100 billion.

One consequence could be a derailing of a possible sale of Lloyds shares to ordinary investors this year. The sale is intended to mark the finale in the government's selling down of shares acquired during the financial crisis, but the chancellor's victory lap may be halted if a black cloud hangs over Lloyds, Britain's biggest retail bank, which has already paid out £13.4 billion for PPI. The source of the banks' concern is that in the next few weeks the Financial Conduct Authority will give guidance on how banks should interpret a landmark Supreme Court judgment from November, which signalled that PPI compensation should be taken into new areas, potentially adding tens of billions to banks' bills.

The FCA has been grappling with the judgment over a widowed lecturer named Susan Plevin who successfully sued over a PPI policy. The Supreme Court stunned the financial world by saying that Ms Plevin was due compensation over her loan because she did not know how much commission was paid on the policy, or to whom it went. That breached the Consumer Credit Act 1974 governing the relationship between a buyer and a seller by making it unfair, the court ruled.

What is causing panic among the banks is that the judgment could be interpreted broadly. It could mean that many more loans with one-off — or “single premium” — PPI policies sold through brokers, such as the one sold to Ms Plevin, would require compensation. That would not be too bad for banks, with analysts estimating the collective cost at about £2 billion.

More alarmingly for the industry, the Plevin case could be interpreted to mean that any type of financial product involving a commission — such as store cards or car loans to consumers and also bringing in sales to small business customers — may have to be looked at and potentially compensated for, a scenario that doom-mongers warn could lead to that bill of £50 billion or more. That, in turn, could lead to big holes in the balance sheets of banks, brokers and other advisory firms.

Banks also may be required in future to disclose all commission they pay to brokers on any product.

The situation is a tough call for the FCA, made all the harder as it comes with the body effectively leaderless as the Treasury searches for a new chief executive to replace Martin Wheatley. One option would be for the regulator to pass the buck, saying that the courts should decide how to interpret Plevin, as it is, after all, about the finer points of law and not about whether the FCA’s own regulations were breached.

But bankers at the coalface of the Plevin wrangles believe that the FCA is most likely to come up with a plan that, they hope, will not

bankrupt the industry. In anticipation of that, possible schemes are being tested by individual banks, which would see them stick to PPI, going through past cases that were viewed as robust but may now attract compensation because of the presence of a significant commission payment.

Plevin and several other smaller emerging areas of mis-selling compensation are part of the wider story of the past few years that has been about banks repaying the excess profits they made in the run-up to the financial crisis.

As was shown when Mr Wheatley paid the price with his job partly for being too much of a consumers' champion in his approach to regulation, ministers want to ease off on the punishment to make way for growth. Expect the FCA's pronouncement on Plevin to reflect that.

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