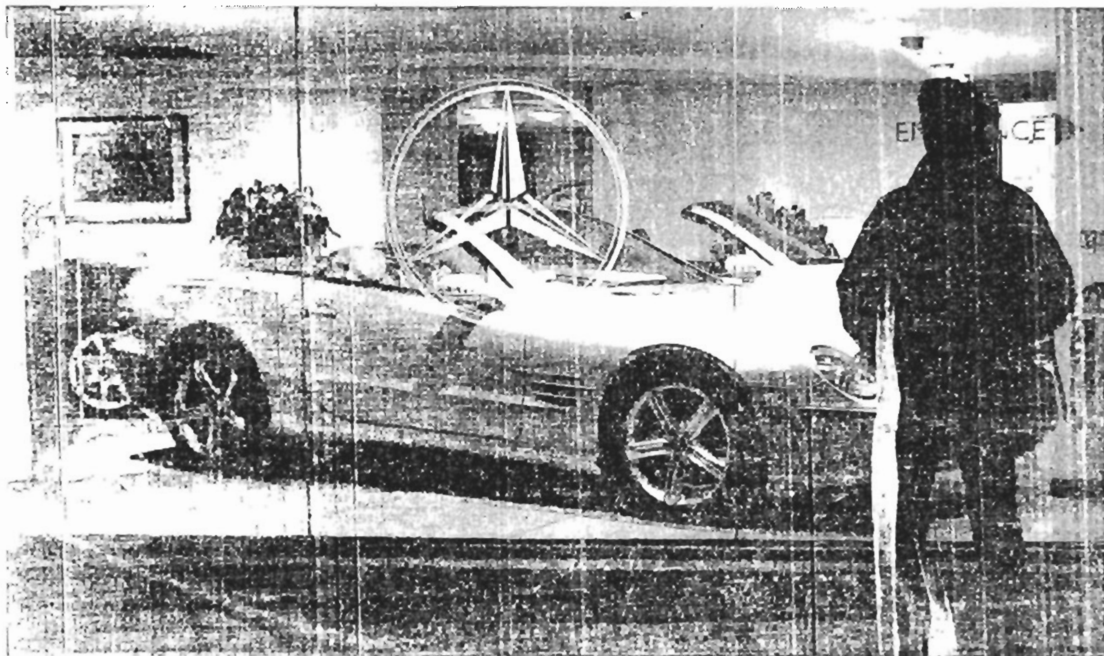
The credit crunch will ease, making mortgages cheaper

STEVE HAGGERTY, managing director of Skipton building society, on better times ahead for borrowers



Shopping for your dream car? No matter which lender you borrow from, say 'no' to PPI DAVID SANDISON

WITH-PROFIT FUNDS FSA in compensation payments shake-up

The Financial Services Authority (FSA) has proposed that insurance firms should no longer be permitted to subtract compensation for mis-selling from the inherited estates of with-profit funds. This will apply to firms with shareholders, but not mutuals.

Inherited estates, or orphan assets, are the part of the with-profit fund that is left over after the fund's liabilities are covered. Money is set aside to meet costs – discretionary benefits, say, or terminal bonuses – but often there is cash left over at the end of the year. Money also accumulates from premiums from past policyholders and capital injections from shareholders.

Currently, companies are allowed to pay the costs of compensation from the surplus cash that makes up the inherited estates. This money comes exclusively from policyholders. After vigorous campaigning by Policyholder Advocate Clare Spottiswoode, the FSA has been reassessing whether it is fair that policyholders alone should meet the cost of compensation.

At present, inherited estates are retained as working capital by firms. Legally, the whole fund (including the inherited estate) is an asset of insurers. The FSA has acknowledged that the current policy does not help them act in the best interests of the policyholder.

Ms Spottiswoode said the new proposal was "a step in the right direction," adding: "I hope the consultation will confirm the need to do away with this provision, which allows erosion of the inherited estate to the detriment of policyholders. [But] it is regrettable that the FSA has not seen fit to consult on other uses of the estate ... such as paying shareholders' tax."

One in the eye for PPI: the cover that is out of credit

PROTECTION As payment protection insurance is slammed by the competition watchdog, **Kate Hughes** asks if anyone should be buying these policies

Payment protection insurance (PPI), condemned by consumer groups as a "rip-off", is set for a shake-up.

Customers are being overcharged by a massive £1.4bn for PPI, according to a damning report from the Competition Commission last week, its investigation prompted by a "supercomplaint" from charity Citizens Advice.

PPI, sold as a safeguard against being unable to make repayments on a loan due to accident, sickness or unemployment, is where banks make a big chunk of their profits. The commission's findings raise questions about pushy sales techniques, suitability and, whether PPI should be allowed in its current guise at all.

It is available for almost any type of borrowing – mortgages, cars, personal loans, credit and store cards – and purchase plans on items like three-piece suites and kitchens.

The cover only lasts a year or two and will usually not kick in until any company health-insurance scheme finishes. You may not get your money for months or even years after your claim. And PPI will only cover the repayments on that particular loan, not other pressing costs like food and utility bills.

> PPI is pushed on people when they take out a loan

> It only runs for a year or two and is full of exclusions

Despite all this, more people have PPI than any other sort of protection policy, some of which are more likely to be more appropriate for the customer's needs.

"If consumers knew the full details, very few would opt for PPI," says Matt Morris, a financial adviser at broker LifeSearch. "The real problem is that people have these policies pushed on them when taking out loans, without any real idea of the alternatives out there. PPI policies usually only run for 12 to 24 months and are laced with exclusions. They rarely offer value."

Likewise, Peter Chadborn at independent financial adviser CBK, says the paying of commission by banks and other PPI providers to their sales staff is not in the consumer's best interests. "Sales people will often befuddle customers about what they are or are not covered for and what their options are. They will usually fail to discuss any insurance policies or work-based health plans the customer already has, and fail to raise the importance of any pre-existing medical conditions including back pain and stress – which often delay or void the policy payout if something happens.

"A salesperson often implies that the loan or finance will not be granted if the customer does not buy the policy, which is also wrong."

The Competition Commission says the future of PPI will depend on providers clearly informing customers that they have a choice when buying cover, and that shopping around may save them money. The commission also plans to promote competition between providers to help drive down the cost of PPI.

But banks worried about their profit margins, as well as the insurance providers themselves have hit back. "There have been problems with PPI in the past and the industry has worked very hard to make changes," says Nick Starling at the Association of British Insurers, "But we need time for those changes to take effect. It is essential that the commission's remedies do not damage the PPI market."

But financial experts advise that one of the simplest short-term ways to protect yourself financially is building up a reserve equivalent to three to six months' income. This should be kept in a high-interest but easy access savings account.

For comprehensive cover, income protection is usually considered far more suitable than PPI. If you claim, the policy will, if necessary give you an income until your retirement date.

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