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## FINAL NOTICE

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To: **Liverpool Victoria Banking Services Limited**

Of: County Gates  
Bournemouth  
Dorset  
BH1 2NF

Date: 29 July 2008

**TAKE NOTICE: The Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS (the FSA) gives you final notice about a requirement to pay a financial penalty.**

### 1. THE PENALTY

- 1.1 The FSA gave Liverpool Victoria Banking Services Limited (LVBS or the firm) a Decision Notice on 28 July 2008 which notified the firm that pursuant to section 206 of the Financial Services and Markets Act 2000 (the Act), the FSA had decided to impose a financial penalty of £840,000 on the firm. This penalty is in respect of breaches of Principles 3, 6 and 7 of the FSA's Principles for Businesses (the Principles) and associated rules between 14 January 2005 and 8 August 2007 (the relevant period) in relation to sales of payment protection insurance (PPI) offered in connection with unsecured personal loans.
- 1.2 LVBS agreed that it will not be referring the matter to the Financial Services and Markets Tribunal.
- 1.3 Accordingly, for the reasons set out below and having agreed with LVBS the facts and matters relied on, the FSA imposes a financial penalty on LVBS in the amount of £840,000.

1.4 LVBS agreed to settle at an early stage of the FSA's investigation. It therefore qualified for a 30% (stage 1) reduction in penalty, pursuant to the FSA's executive settlement procedures. Were it not for this discount, the FSA would have sought to impose a financial penalty of £1.2 million on LVBS.

## **2. REASONS FOR THE ACTION**

2.1. The FSA has imposed a financial penalty on LVBS for breaches of the FSA's Principles and rules in relation to the firm's sales of single premium PPI offered in connection with unsecured personal loans via its telephone sales channel. These breaches, which are described in more detail at section 4 below, relate to LVBS's failure to:

- (1) take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems (Principle 3);
- (2) pay due regard to the interests of its customers and treat them fairly (Principle 6);  
and
- (3) pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading (Principle 7).

2.2. The firm's telephone sales process for PPI was flawed in its design; additional operational failures were then not detected and remedied through effective monitoring, management information and remedial action. The problems stemmed from an 'assumptive' selling technique, in which PPI was automatically included when customers asked for quotations for personal loans.<sup>1</sup> Overall, this resulted in unacceptable levels of non-compliant sales being carried on over a considerable period of time. In particular, the FSA has identified the following failings (which continued throughout the relevant period unless otherwise stated):

- (1) When customers rang LVBS to apply for a personal loan, LVBS added the cost of single premium PPI plus interest to the quotation without the customer asking for it. This approach was adopted when giving quotations to customers and was reflected in the paperwork subsequently sent for customers to sign to complete their loan applications. LVBS's sales process assumed that all eligible customers would want PPI. This failing continued from January 2005 until July 2006.
- (2) LVBS did not tell customers on the telephone that PPI was optional, that there was an additional cost for PPI, that it was single premium, that the premium was added to the loan and that it attracted additional interest on top of the interest charged for the loan. The subsequent paperwork provided to customers also failed to make it sufficiently clear that this was an optional product which the customer could choose not to buy. This failing continued from January 2005 until April 2006.
- (3) When customers realised that they did not have to buy PPI and objected to it, LVBS put pressure on customers to take the PPI by using 'objection handling'

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<sup>1</sup> During the relevant period 50% of LVBS unsecured personal loan customers were sold PPI.

techniques. This risk was further increased by the financial incentive schemes LVBS operated for PPI sales staff.

- (4) LVBS provided customers with inadequate information about the benefits, exclusions, limitations and cost of PPI on the telephone.
- (5) LVBS regularly provided information to customers on the telephone which was unclear, unfair or misleading. In 97 sales calls reviewed, the FSA found over 60% to be non-compliant on this basis.
- (6) LVBS's processes for monitoring sales were inadequate. This was not only because they required sales staff to follow the flawed sales process identified above but also because the level of monitoring was insufficient and the checks performed were in any event inadequate to ensure that staff followed the firm's procedure.

2.3. LVBS's breaches are viewed as particularly serious because:

- (1) The unfair treatment of customers arose primarily from the design of the telephone sales process itself.
- (2) During the relevant period, LVBS sold approximately 14,500 PPI policies at an estimated average cost of £1,600 (including interest) generating a gross PPI income of approximately £23 million.
- (3) The failings arose against a background of high profile communications by the FSA highlighting the need for firms to ensure their PPI sales processes were meeting FSA requirements.

2.4. LVBS's failings therefore merit the imposition of a substantial financial penalty. In deciding upon the level of disciplinary sanction, the FSA recognises the following factors which mitigate the seriousness of its failings:

- (1) Once the FSA identified concerns, LVBS suspended, and then ceased, all PPI sales.
- (2) LVBS made a decision to exit the unsecured personal loan market at the end of 2007.
- (3) LVBS has worked in an open and entirely co-operative way with the FSA throughout the investigation.
- (4) The firm has put forward proposals for a substantial and comprehensive customer contact and redress package, including a proposal to refund all interest charged on the single premium for the PPI. The refund of interest will be paid automatically to all customers who paid interest on their PPI, without the customers having to write to the firm and make a claim. The firm will be writing to all active customers reminding them of their cancellation rights, asking them to review the terms of their policy and will pay redress where appropriate. The firm will also review any complaints or rejected claims.

(5) The FSA considers these to be significant steps towards demonstrating that the firm is treating customers fairly. In particular, the fact that the firm has recognised that some of the defects in its processes are likely to have impacted on customers and therefore are not requiring the customer to apply for a refund of the interest paid. The remedial action proposed by the firm has been taken into account by the FSA and has significantly reduced the level of penalty which would otherwise have been imposed.

### **3. RELEVANT STATUTORY AND REGULATORY PROVISIONS**

#### **Statutory provisions**

3.1. Section 206 of the Act provides:

*"If the Authority considers that an authorised person has contravened a requirement imposed on him by or under this Act, ... it may impose on him a penalty, in respect of the contravention, of such an amount as it considers appropriate."*

#### **FSA Principles**

3.2. The FSA's Principles are a general statement of the fundamental obligations of firms under the regulatory system. They derive their authority from the FSA's rule-making powers as set out in the Act and reflect the FSA's regulatory objectives.

3.3. The Principles which are relevant to this matter are:

Principle 3 (Management and control):

"A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems."

Principle 6 (Customers' interests):

"A firm must pay due regard to the interests of its customers and treat them fairly."

Principle 7 (Communications with clients):

"A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading."

#### **FSA rules**

3.4. The FSA's rule-making powers are set out in Chapter I of Part X of the Act (Rules and Guidance). In accordance with the powers and provisions under this part of the Act, the FSA has made rules, in particular, the Chapter of the FSA's Handbook entitled Insurance: Conduct of Business (ICOB). This Chapter was in force throughout the relevant period. It has subsequently been replaced by a new Chapter entitled Insurance: New Conduct of Business Sourcebook.

3.5. The FSA has considered the specific requirements set out in ICOB.

#### **4. FACTS AND MATTERS RELIED ON**

- 4.1. LVBS is a private limited company which has been authorised by the FSA to perform a number of regulated activities since 1 December 2001. In addition, it has been authorised to arrange, assist in the administration of and deal as agent in non-investment insurance contracts since 14 January 2005.
- 4.2. LVBS offered loans, credit cards and savings accounts to customers. PPI was sold in conjunction with unsecured loans on a non-advised basis through a number of channels. The single premium PPI product offered some protection against a customer's inability to meet the repayments in certain circumstances.
- 4.3. The FSA's investigation has focused on the sale of PPI offered in connection with unsecured personal loans via telephone sales. During the relevant period, LVBS sold approximately 14,500 PPI policies - representing approximately 50% of customers who took an unsecured personal loan with LVBS - at an estimated average cost of £1,600 (including interest) generating a gross PPI income to LVBS of approximately £23 million. LVBS's PPI sales, in terms of gross written premium, account for less than 0.5% of the UK personal loan PPI premium market.

##### FSA publications on PPI

- 4.4. During the relevant period, the FSA highlighted to firms the importance of having in place robust systems and controls and treating customers fairly when selling PPI and has highlighted various areas where firms are not complying with the FSA's requirements. These concerns have been expressed, for example, in reports published by the FSA, a Dear CEO letter and through published disciplinary notices.
- 4.5. In November 2005, the FSA published the results of the first phase of its thematic work on PPI and wrote a Dear CEO letter to firms who sold PPI, outlining its findings. A second phase of PPI thematic work was reported on in October 2006. During the relevant period, a significant number of disciplinary final notices were issued by the FSA in relation to PPI. Taken as a whole, these publications highlighted as risks all of the issues which the FSA has now found to have been present within the LVBS sales process.

##### **Adding PPI to customers' loan applications when they had not requested it**

- 4.6. By reason of the facts and matters detailed below, the FSA considers that LVBS has breached Principle 6 by adding PPI onto customers' loans without the customer having asked for it. LVBS's sales process was designed to assume that all customers would want PPI. This practice continued during the period 14 January 2005 to 11 July 2006.
- 4.7. LVBS trained its telephone sales staff to sell PPI 'assumptively', i.e. to assume that the customer would want to buy PPI and so automatically include it in quotations given to customers. Subject to the customer meeting certain eligibility requirements, telephone sales staff quoted the amount of customers' monthly repayments with PPI included (but without the cost of PPI separately identified to the customer).

- 4.8. PPI would then be included in the paperwork sent to the customer, even though he had not been asked on the telephone to confirm whether he wanted PPI. The paperwork made it clear that PPI had been included and did quote the cost of PPI separately, however no mention was made of the fact that the customer could de-select PPI if he decided that he no longer wanted it upon receiving the application pack.

**Failing to tell the customer that PPI was optional**

- 4.9. By reason of the facts and matters detailed below, the FSA considers that LVBS has breached Principle 6 by selling PPI to 50% of its customers applying for personal loans without making it clear to them that they could choose not to buy PPI. This failing continued during the period 14 January 2005 to 27 April 2006.
- 4.10. LVBS failed to tell customers on the telephone that they were buying and paying for an additional product which they could choose not to have. LVBS required its sales staff to explain to customers that their loan repayments would be protected against particular risks. Customers would therefore have been aware that their loan repayments were protected, but customers were not told that this was optional or that there was an additional cost involved. If a customer confirmed that he wished to proceed with a loan application after receiving the quotation, PPI would be sold to the customer unless he expressly indicated that he did not want it.
- 4.11. The subsequent application packs LVBS sent to customers whose loan applications had been provisionally approved did not make it sufficiently clear that PPI was optional:
- (1) Until June 2005, the wording of the cover letter did not make it sufficiently clear that PPI was optional, nor was this clear on the face of the credit agreement, which was the only document signed by the customer. Whilst the statement of price in the policy summary did state that it was not a condition of the loan that the customer take out LVBS's PPI, this was not prominently disclosed in the application pack.
  - (2) From June 2005, the cover letter referred to the customer having 'chosen' PPI during the telephone stage of the application process. This was misleading because the customer had not 'chosen' PPI. The telephone sales process assumed customers wanted PPI and therefore customers were not asked on the telephone to confirm that they wanted it. No further information was provided to make the customer aware that PPI was optional. As set out above, no mention was made of the fact that the customer could de-select PPI if he decided that he no longer wanted it upon receiving the application pack.
- 4.12. LVBS offered its more expensive PPI cover to customers, without mentioning that it also offered a cheaper basic cover option unless the customer declined to buy the more expensive cover. In most cases, the option of 'no PPI' was not offered or explained to the customer.
- 4.13. Even if the customer specifically asked the sales person whether the product was optional during the telephone stage of the application, the sales person did not always confirm that this was the case. In 18 calls reviewed by the FSA for this period from

January 2005 to April 2006 the customer specifically asked whether the PPI was optional and the sales person confirmed that it was (or it otherwise became clear that it was not compulsory from the way the call progressed even if this was not expressly confirmed by the sales person). In five other cases, however, the sales person did not tell the customer that the product was optional even when expressly asked by the customer. Instead, sales staff used the 'objection handling' techniques discussed below.

- 4.14. This failing was particularly serious because LVBS had noted that the FSA had stated in its thematic report published in November 2005 that firms should make it clear that PPI was optional, and had identified a need to amend its sales procedures by February 2006. Despite this, LVBS failed to implement any changes until April 2006, and it was not until May 2007 that the sales process was amended to require sales staff to quote three different monthly repayment amounts (i.e. no PPI, with basic PPI and with full PPI). Out of the 90 calls reviewed by the FSA for this period before May 2007, only 33% of customers were informed at any point on the call of the cheaper cover option.

### **'Objection Handling'**

- 4.15. By reason of the facts and matters detailed below, the FSA considers that LVBS has breached Principle 6 of the FSA's Principles for Businesses by putting pressure on customers to buy PPI.
- 4.16. Throughout the relevant period, LVBS trained its sales staff to 'handle' customers' objections if customers initially declined PPI. In the period up to April 2006, PPI was added automatically to the quotation and customers were not adequately informed that the PPI has been added or that it was optional. In this period, little 'objection handling' took place. As the firm began to take steps to inform customers that the PPI was an optional extra, more customers raised objections to PPI, and the level of objection handling by the firm increased.
- 4.17. The decision to offer or refuse a loan was made according to a credit scoring system. Taking or refusing PPI was not a factor which affected whether LVBS would approve the customer's loan application. Further, LVBS chose to sell PPI on a non-advised basis, meaning its sales staff should not have been recommending PPI to customers but only providing them with information for them to make their own decision. The overall message from LVBS's training was that sales staff should not provide advice, but rather should ask the customers questions (for example, about how they would meet loan repayments in particular circumstances) and then provide them with information about the policy which would encourage them to buy PPI.
- 4.18. This approach carried a risk that sales staff would provide advice or give the customer the impression that taking PPI would improve the chances of their loan application being successful. It also carried the risk that sales staff would not focus on the information the customers wanted, but rather would focus on selling PPI. These risks were particularly acute because training materials provided to sales staff from May 2005 suggested that an appropriate comment during the sales conversation was for the sales person to say that PPI provided "peace of mind for little cost". This incorporates a value judgement and constitutes the giving of advice which LVBS should not have

been doing given that it had chosen to sell on a non-advised basis and its sales staff were not trained to assess customers' demands and needs.

- 4.19. This risk of inappropriate 'objection handling' by sales staff was heightened by the fact that LVBS's programme of monitoring of sales calls required call monitors to check whether the sales person 'handled' the customer's objections and marked them down if they failed to do this.
- 4.20. The risk of pressure selling was further increased by the financial incentive schemes LVBS operated. Until 31 March 2007, LVBS's telephone sales staff received bonus incentives based only in respect of their PPI sales, not in respect of their loan sales (for the period up to 30 September 2006, the amount of bonus the sales person received per PPI sale varied depending on their penetration rate for PPI). Even from 31 March 2007, the incentives to sell PPI still outweighed those for loans (on average a sales person could expect to earn four times as much from PPI incentives as from loan incentives). The amount a sales person could make from incentives was substantial – up to two thirds of their base salary. Telephone sales team leaders were also incentivised throughout the relevant period on the basis of the PPI sales of their teams, which created a potential conflict of interest with the supervision of their sales staff, especially as for a short period up until 1 June 2005 they were directly responsible for conducting a programme of sales monitoring.
- 4.21. These risks translated in practice into a situation where customers were not treated fairly by LVBS when being sold PPI. Of the 97 calls reviewed by the FSA, in 13, (i.e. 13%) objection handling techniques were improperly deployed in that in nine calls, the sales person failed to answer the customer's questions but rather instead responded with questions of his own about the customer's ability to make loan repayments in the absence of PPI (and did not subsequently answer the customer's queries). In a further four calls, advice was provided. However, these failings are more serious than these figures might suggest because in the early part of the period, for example before LVBS made it clear that PPI was optional, objection-handling techniques were unnecessary - most customers would not decline PPI if they did not realise that it was an optional extra and that they had a choice whether to buy it.

**Providing limited product and price disclosure on the telephone and not telling customers they could de-select PPI upon receipt of written documentation**

- 4.22. By reason of the facts and matters detailed below, the FSA considers that LVBS has breached Principle 7 by providing limited product and price disclosure on the telephone without specifically telling customers that they could still choose not to buy PPI upon receipt of more detailed application packs.
- 4.23. On the telephone stage of the application process, customers were provided with very limited information about the PPI being offered to them by LVBS. In particular:
  - (1) Price: LVBS did not require its sales staff to disclose how much PPI cost on the telephone until July 2006. From that time LVBS required its sales staff to tell the customer how much the more expensive full cover cost until it changed its procedures in May 2007 to require sales staff to also tell the customer about the difference in cost between the full and basic cover options. The FSA has reviewed 75 calls relating to this initial period up to July 2006. Out of these 75



calls, in 51 (i.e. 68%) the sales person did not tell the customer at any point during the call how much the PPI would cost per month, although this detail was provided in the documentation subsequently sent to the customer.

- (2) Nature of single premium: The firm did not explain the nature of the single premium PPI policy which was being added to the quotation. It did not explain that with single premium PPI, the cost of the policy (the premium) is added to loan, and that this incurs additional interest over the life of the policy (interest on the premium). The PPI offered by LVBS was paid for by way of a single premium added to the cost of the customer's borrowing (rather than a regular premium policy paid for by way of regular payments). The firm did not explain that if the customer cancelled the policy early, for example by taking out a further loan to extend or refinance the existing lending, that the customer would receive significantly less than a pro-rata refund of the PPI premium and interest.<sup>2</sup> Despite this, until April 2007, neither the fact that the PPI policy was payable by way of single premium, nor the cancellation terms were communicated to the customer on the telephone.
- (3) Policy benefits: LVBS instructed its sales staff in training to explain the main benefits of PPI on the telephone. This was interpreted by sales staff in practice to mean that they simply needed to tell the customer the names of the different parts of the PPI cover (for example, that it covered life, critical illness, accident, sickness and involuntary unemployment). In 73 of the 97 calls reviewed by the FSA (75%), the sales person only provided a brief description in these terms.
- (4) Policy exclusions: LVBS did not require sales staff to identify all potentially relevant exclusions to the customer on the telephone. Sales staff were instructed to refer to only two exclusions until March 2006, when this was increased to three exclusions (although only if the sales person was offering LVBS's full cover option). The exclusions could be chosen at random by the sales staff and therefore would not necessarily include all of the significant exclusions or limitations.

4.24. LVBS provided customers with more detailed information in relation to these four issues during the second postal stage of the application process. The written application packs enclosing the additional product information assumed, however, that the customer had already made a decision to buy PPI. They referred to the customer already having 'chosen' PPI and did not explain what the customer should do if he had changed his mind.

4.25. The failing in respect of price disclosure is particularly serious because LVBS had identified a need to amend its sales procedures by February 2006. Despite this, LVBS failed to implement any changes until July 2006. The failing in respect of disclosure of the single premium and related cancellation terms was particularly serious because a large number of LVBS's customers refinanced by taking additional borrowing before the expiry of their original loan periods. 1,646 of the 14,432 policies sold

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<sup>2</sup> As with many single premium PPI policies, if the customer wanted to cancel his PPI at any time after the initial 30 day cancellation period (for example, because he was repaying his borrowing earlier than the original term of the loan) he received a substantially less than pro-rata refund. For example, from May 2005, if he cancelled half way through a one year term, he would receive a 13% refund (23% if half way through a six or seven year term) and only 1% if he cancelled three-quarters through a one year term (or 5% if the term was longer than four years).

during the relevant period were sales where existing LVBS customers were taking out further borrowing. LVBS's standard approach was to cancel the existing loan and PPI of the customer in these circumstances and sell the customer a new loan and PPI, with the customer only getting a relatively small refund on his original PPI single premium and incurring liability for another full single premium on the new loan.

#### **Providing information to customers which was unclear, unfair or misleading**

- 4.26. By reason of the facts and matters detailed below, the FSA considers that LVBS has breached Principle 7 by providing information to customers which was unclear, unfair or misleading.
- 4.27. LVBS's sales staff regularly provided information to customers on the telephone about PPI which was factually incorrect. Out of the 97 calls reviewed by the FSA, on 27 calls (i.e. 28%) the sales person gave information to the customer which was incorrect. The misinformation could be significant in affecting a customer's decision whether to buy PPI. For example, on twelve calls inaccurate information was provided in relation to the exclusions under the PPI policy and on a further eleven calls inaccurate information was provided about the benefits of the policy or extent of the cover.
- 4.28. In 36 other cases, LVBS failed to communicate information to customers in a way which was clear, fair and not misleading. For example, in 11 cases misleading information was provided about the cost of cover and whether the customer was paying for PPI.
- 4.29. A further example was that LVBS referred to one part of its PPI cover as 'critical illness' cover. This is a commonly-used term in the industry with a generally-understood definition. For example, the Association of British Insurers' Statement of Best Practice for Critical Illness cover dated April 2006 defines critical illness cover as "insurance which pays out on meeting the policy definition of a specified critical illness" where cancer, heart attack and stroke are included. This is not what LVBS offered. LVBS's 'critical illness' cover was in fact a form of permanent total disability cover because it required the customer to be permanently and totally incapacitated from work before any benefits were paid. This continued on telephone sales and in written documentation until July 2007 (although the position was improved from October 2006, because the wording of the policy summary changed, although the credit agreement produced by LVBS continued to refer to 'critical illness' cover).
- 4.30. Taken together, over 60% of calls reviewed by the FSA contained information which was unclear, unfair or misleading.

#### **Failing to monitor sales staff effectively**

- 4.31. By reason of the facts and matters detailed below, the FSA considers that LVBS has breached Principle 3 of the FSA's Principles for Businesses by failing to monitor its sales staff responsibly and effectively.
- 4.32. As set out above, the FSA considers that LVBS's sales process was flawed. This was reflected in the checks that LVBS required its sales team leaders and, from June 2005, its independent sales monitoring function to perform. There were also additional

failings in that the checks LVBS required its monitors to perform were incomplete and inadequate. In particular, it was (quite rightly) a requirement of LVBS's sales process that all sales staff should check whether the customer was eligible for PPI before proceeding with an application. However, this was not part of the monitoring assessment performed by LVBS's sales monitors until a year after the firm became authorised. Further, whilst sales monitors checked whether sales staff were providing advice, and marked them down accordingly, it was not until May 2006 that this necessarily resulted in a sales person failing his assessment.

- 4.33. The failure to monitor whether sales staff were checking eligibility was significant. Out of the 47 calls the FSA reviewed for the period from January 2005 to the end of December 2005, in 17 calls (i.e. 36%) the sales person failed to perform a proper check of eligibility. The adequacy of LVBS's monitoring function is in any event called into question, however, by the fact that even once the sales monitoring forms were amended to require sales monitors to consider whether the sales person had checked eligibility properly, a similar number of calls (36%) continued to be non-compliant.
- 4.34. The level of PPI sales monitoring was also inadequate. LVBS monitored a minimum of one call per month for each of its staff selling personal loans. However, there was no check to ensure that the call selected involved a sale of PPI and LVBS's monitors did not record any observations about the discussion of PPI with the customer unless a sale of PPI took place. There was no control, therefore, on the level of monitoring on PPI of LVBS's sales staff. A sales person could sell PPI for months without being monitored.
- 4.35. There was no other form of regular sales monitoring during the relevant period.

## **5. RELEVANT GUIDANCE ON PENALTY**

### **Determining the level of the financial penalty**

- 5.1. The FSA's policy in relation to the imposition of financial penalties is set out in Chapter 6 of the Decision Procedure and Penalties Manual (DEPP) which forms part of the FSA Handbook. It was previously set out in Chapter 13 of the Enforcement Manual (ENF). These Manuals set out the factors that may be of particular relevance in determining the appropriate level of financial penalty for a firm. The criteria are not exhaustive and all relevant circumstances of the case will be taken into consideration.

### **Deterrence**

- 5.2. A financial penalty is required to strengthen the message to the industry that it is vital to take proper steps to ensure that, in non-advised sales, firms give customers the appropriate and accurate information in good time to enable them to make an informed decision as to whether or not to buy PPI.
- 5.3. As communicated to the market in the FSA's thematic update on the sale of PPI published on 26 September 2007, in line with its general approach, the FSA is seeking to increase the level of fines in PPI cases where this is warranted by the nature, seriousness and impact of the breach in question, and by the likely impact on

deterrence. Firms have been given due warning of their obligations to treat customers fairly, both generally and on PPI in particular. Consequently, the FSA will now seek to impose higher fines for firms in the PPI market where standards fall below required levels.

#### **The seriousness of the breaches**

- 5.4. The FSA has had regard to the seriousness of the breaches, including the nature of the requirements breached, the number and duration of the breaches, the extent to which the breaches revealed serious or systemic weakness of the management systems or internal controls, the number of customers who were exposed to loss or the risk of loss and the number of customers likely actually to suffer financial detriment.

#### **The extent to which the breach was deliberate or reckless**

- 5.5. The FSA does not consider that the conduct of LVBS was deliberate or reckless.

#### **The amount of profits accrued or the loss avoided**

- 5.6. The FSA has taken into account the profits LVBS made from sales of PPI during the relevant period. LVBS derived considerable income through sales of PPI during the relevant period.

#### **The size, financial resources and other circumstances of the firm**

- 5.7. There is no evidence to suggest that LVBS is unable to pay the penalty.

#### **Conduct following the breach**

- 5.8. LVBS was informed on 8 August 2007 that it was being considered for referral to Enforcement in relation to its PPI sales. LVBS suspended its sales of PPI the following day and then ceased sales of PPI. LVBS made a decision to exit the unsecured personal loan market at the end of 2007.
- 5.9. The firm and its senior management have co-operated fully with the Enforcement action.
- 5.10. The firm has been given full credit for putting forward proposals for a substantial customer contact and redress package detailed at paragraph 2.4 above.

#### **Previous action taken in relation to similar failings**

- 5.11. In determining the level of financial penalty, the FSA has taken into account penalties imposed by the FSA on other authorised persons for similar behaviour. However, the FSA also had regard to the principal purpose for which it imposes sanctions, namely to promote high standards of regulatory conduct by deterring persons who have committed breaches from committing further breaches and helping to deter other persons from committing similar breaches, as well as demonstrating generally the benefits of compliant business.

## **FSA guidance and other published materials**

- 5.12. LVBS's failings arose against a background of a series of high profile communications by the FSA highlighting the need for firms to ensure their PPI sales processes were meeting FSA requirements as set out above. Despite this, the problems in LVBS's sales process were identified by the FSA, and not by LVBS's own systems and procedures.

## **Conclusion**

- 5.13. Having regard to the seriousness of the breaches and the risk they posed to the FSA's statutory objectives of maintaining confidence in the financial system and securing the appropriate degree of protection for consumers, the FSA has imposed a financial penalty of £840,000 on LVBS.

## **6. DECISION MAKER**

- 6.1. The decision which gave rise to the obligation to give this Final Notice was made by the Settlement Decision Makers on behalf of the FSA.

## **7. IMPORTANT**

- 7.1. This Final Notice is given to LVBS in accordance with section 390 of the Act.

## **Manner of and time for Payment**

- 7.2. The financial penalty must be paid in full by LVBS to the FSA by no later than 12 August 2008, 14 days from the date of the Final Notice.

## **If the financial penalty is not paid**

- 7.3. If all or any of the financial penalty is outstanding on 13 August 2008, the FSA may recover the outstanding amount as a debt owed by LVBS and due to the FSA.

## **Publicity**

- 7.4. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the FSA must publish such information about the matter to which this notice relates as the FSA considers appropriate. The information may be published in such manner as the FSA considers appropriate. However, the FSA may not publish information if such publication would, in the opinion of the FSA, be unfair to you or prejudicial to the interests of consumers.
- 7.5. The FSA intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

**FSA contacts**

- 7.6. For more information concerning this matter generally, you should contact Dermot Lynch at the FSA (direct line: 020 7066 1206 /fax: 020 7066 1207).

**William Amos**

**Head of Retail 1  
FSA Enforcement Division**