Lloyds Trade Union
NEWS

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The New PPI Scandal?

It seems that little is ever new in the design and marketing of risky financial products. The gullibility of customers and so-called asymmetry of information (where sellers know much more about the products than customers) will always be exploited in order to create profit opportunities. And so it was with structured financial products.

From 2000 onwards, Lloyds TSB Bank (which became Lloyds Banking Group following the HBOS merger) started selling structured financial products to customers. These were known to customers as:

Market Linked Deposit (MLD)

Offshore Limited Deposit (OLED)

Inflation Rate Bond (IRB)

Capital Protected Fund (CPF)

Protected Capital Solutions Fund (PCSF)

Guaranteed Investment Bond (GIB)

FCA Review

Lloyds customers invested some £9bn in these structured products. Many of the Bank's competitors will have also sold similar products to their customers. Whilst it's difficult to put a number on it, we estimate that up to £20bn of customers' savings will have been invested in these fiendishly complicated products over the years. In fact, Lloyds is still selling some of these products. These remaining products may well be sound but some have not been.

The FCA started a review of these structured products in Lloyds following a public outcry about their complexity and the lack of returns. In respect of one Market Linked Product, called 'Acorn', which was sold by Lloyds TSB between 2008 and 2010, the FCA concluded the information provided to customers:

"was in breach of the principle of providing fair, clear and not misleading promotions, because it provides the consumer with a misleading impression of the likely return".

Furthermore, it says of the Acorn Market Linked Deposit that:

".....we believe a typical customer expected the product to provide a return of up to 42% if the market rose. We have had a customer complain that the market did rise during this period, but they received a return of 0%, contrary to their understanding from the marketing literature".

In a series of newspaper reports, these structured products were criticised by customers. Reports quoted Lloyds TSB customers who: "were lured by dream-ticket promises of giant potential returns coupled with savings safety. But a number who invested as much as £40,000 five years ago are now getting back returns of just £300 - more than £13,000 less than if they had put their cash in an ordinary High Street savings account instead". Martin Wheatley, the ex Chief Executive of the FCA, described "the more exotic structured products" as "spread bets on steroids".

Project Limestone

It's been a long time coming but the Bank has now agreed to compensate customers saying: "We have identified that we did not give you sufficient information to make an informed decision before you made your deposit."

The Bank sent out thousands of letters to customers last week. **We estimate that the total amount of compensation will be £66 million. In addition, Scottish Widows is also paying out £18 million to 3,500 customers who were mis-sold Protected Capital Solution Funds. We expect that further product reviews will see more customers receiving compensation.**

The FCA's review only goes back to 2012 and not to 2000 when these products started to be sold to customers. We will be making this point to the FCA directly. Equally, whilst many customers complained about the pressures they were put under to move their savings into these products, we will be making it clear to the FCA that individual members of staff should not be subjected to any disciplinary sanctions as a result of selling these products.

We will be making it clear to the FCA that the blame for the design, marketing and selling of these products rests squarely with Senior Managers in the Bank and ultimately the Chief Executive. In our letter to the FCA we will be asking what sanctions, if any, it is planning to take against these individuals.

A few years ago a number of staff in Commercial Banking were disciplined for selling similar products and many lost bonuses in spite of the fact the allegations against them were eventually thrown out. Will the Bank/FCA seek to clawback bonuses from the senior individuals responsible for these 'dodgy' products? We will return to this issue in future Newsletters.

Mark V Brown
General Secretary