

Undertaking

Introduction

As a qualifying body, we (the FSA) can challenge firms using terms which we view as unfair under the Unfair Terms in Consumer Contracts Regulations 1999 (the Regulations). So we have been reviewing contract terms which have been referred to us by consumers, enforcement bodies and consumer organisations. This has led to the following firm undertaking not to use terms which may be considered unfair.

We have a duty under the Regulations to notify the Office of Fair Trading (OFT) of the undertakings we receive. The OFT has a duty to publish details of these undertakings. The OFT does so on its Consumer Regulation Website. Our policy is to publish details of the undertakings and the undertakings on our website. Both publications will name the firms and identify the specific term and the part of the Regulations which relate to the term's fairness.

In general, firms should regularly assess whether their terms and conditions in consumer contracts meet the standards of fairness set out in the Regulations and consider what steps they need to take to comply with the Regulations.

Please be aware that publishing the undertakings may attract more consumer complaints both to the FSA and direct to firms, which will need to be addressed. We encourage firms to consider the undertakings we publish when reviewing their terms and conditions.

Norwich Union Insurance undertaking

Name of business	Norwich Union Insurance	Lead organisations	FSA
Trading sector	Insurance – payment protection insurance (PPI)	Contract identifier	Open + Direct Creditcover (Life, Accident, Sickness and Unemployment; and Life, Hospitalisation and Personal Accident) – PPI June 2004 to January 2005
Original term	Application of the Regulations (Schedule 2 paragraph or as indicated)	How changed	New term
Paragraph under 'Cancelling cover'	The original cancellation term stated: 'If you settle your credit agreement before you are legally obliged to, you will not be entitled to any refund of premium for this insurance policy.'	Norwich Union became the insurer for this business in June 2004 and inherited the previous insurer's policy terms and conditions. On reviewing the terms, Norwich Union identified the relevant clause as failing to meet its internal	Paragraph under 'Cancelling cover'

	<p>In our view, failing to allow consumers the possibility of any refund if they repay their loan early (or in the absence of a refund for policyholders to take the benefit of the unused single premium in another way), where a claim has not been submitted, may be unfair because it means the insurer has retained the whole of the single premium, some of which relates to a period for which it is no longer on risk.</p> <p>The term may not have met the requirements of Regulation 5 (1) which states that a term is unfair if, contrary to the requirement of good faith, it causes a significant imbalance in the rights and obligations of the parties, to the detriment of the consumer.</p>	<p>compliance standards. The original clause was removed for new policies from January 2005, by which time some customers were insured under the original contract terms.</p> <p>From January 2005 the updated policies state that consumers will be given a partial refund of the single premium paid if consumers repay their loan early or wish to cancel their insurance but retain their loan.</p> <p>For cancellations that occur from 1st May 2006 Norwich Union has decided not to rely on the original cancellation term in these pre-January 2005 policies and will, in practice, apply the more favourable post January 2005 term.</p> <p>The new term states: ‘If you decide to repay your credit agreement before the final repayment date or if you wish to cancel your insurance, your cover under this policy will end. You will be entitled to receive a refund of premium but it will not be a proportionate amount of the premium originally paid.’ Norwich Union will ensure that customers affected by this changed stance are informed in writing, together with receiving worked examples of refund amounts.</p>	
<p>Other information</p>	<p>Norwich Union had already identified this issue and amended the practice and so was fully cooperative in agreeing this undertaking.</p>		
<p>Undertaking published</p>	<p>June 2006</p>		