

CPPGROUP PLC

15 NOVEMBER 2012

Conclusion of FSA investigation

### **CPPGroup announces conclusion of FSA investigation**

CPPGroup Plc ("CPP" or the "Group") announces that it has entered into agreements with the FSA to conclude the FSA's investigation in respect of significant historic failings at CPP in the UK. CPP also confirms that it has formalised the terms of its voluntary agreement with the FSA as described in the Group's recent Interim Management Statement, published on 26 October 2012.

The Board believes that these agreements provide a greater degree of certainty for the business and our stakeholders and will enable the Group to move forward.

#### **Conclusion of FSA Investigation**

In March 2011, the FSA commenced its investigation into Card Protection Plan Limited ("CPPL"), one of the Group's regulated UK entities. The Group's on-going engagement with the FSA regarding its investigation has now resulted in an agreed position, with CPPL agreeing to the publication today of a Final Notice which details significant historic failings and to the phased payment of a penalty of £10.5 million.

The penalty will be paid in instalments, commencing with an initial payment of £2 million within the next 14 days, followed by a payment of £2 million by 1 June 2013 and four further instalments of £1.625 million, one to be paid in each quarter of 2014. The financial impact of the settlement agreed with the FSA will increase the redress and the associated costs of the FSA investigation from £24.9 million, already provided in the Group's financial statements, to £33.4 million. The impact of these additional costs on the business in 2013 and 2014 will be material.

CPP acknowledges that there were significant historic failings which occurred in the period from January 2005 to March 2011, as set out in the Final Notice, and that the FSA's investigation and identification of practices below the required standard are deeply regrettable. The Group welcomes the opportunity to conclude its discussions with the FSA on these issues and to resolve the uncertainty that has surrounded the business regarding the duration and outcome of the investigation.

The Group, under the leadership of a new Chief Executive Officer, Paul Stobart, has developed and is implementing an entirely different and improved approach to customer experience, a more robust governance framework and enhanced risk management structures and controls. The Group is well advanced in implementing an extensive business transformation programme and has a revised, customer-led strategy supported by significant organisational changes within its Internal Audit, Risk and Compliance functions. The UK business has a new operational structure, led by an experienced new Managing Director for UK & Ireland, Shaun Astley-Stone.

Based on independent customer research and feedback, the Group is confident that customers place value on the products and services offered, which for Card Protection includes the rapid replacement of bank cards, keys, cash and travel documents with one call from anywhere in the world. The Group is encouraged by the progress it has made since March 2011 and believes that once the period of significant adjustment in the UK has been completed, the new strategy for the UK business focused on providing innovative, compelling, affordable and compliant products, backed by a market leading approach to customer service will provide a platform for future growth.

## **Voluntary Variation of Permissions**

As described in the Group's recent Interim Management Statement, published on 26 October 2012, CPP has separately agreed with the FSA a framework for the operation of the regulated UK entities which will be in place whilst it completes its change initiatives. This agreement has been formalised in the form of a Voluntary Variation of Permissions ("VVOP") which prescribes restrictions on the Group's regulated UK entities, Card Protection Plan Limited ("CPPL") and Homecare Insurance Limited ("HIL"). Once CPP believes that it has completed the change initiatives and enhancements to its governance and risk management systems and controls, it will apply to the FSA for the restrictions on sales and asset movements/borrowing arrangements to be lifted. The precise time at which this will happen cannot be identified with certainty at this stage, but the Group is committed to working closely and co-operatively with the FSA to complete the process of addressing historic issues and move towards the position of recommencing regulated sales to retail customers.

Under the VVOP, the restrictions on new retail sales of our regulated Card Protection and Identity Protection products will continue, and will be extended to encompass sales through CPPL and HIL in other EEA jurisdictions where the Group trades through UK permissions, being Ireland, Italy and Portugal in the case of CPPL and Spain and Ireland in the case of HIL. The immediate impact of restrictions in EEA jurisdictions is not material and the Group is taking action to mitigate any adverse impact.

As previously announced, the restrictions will also be extended to encompass new retail sales of Mobile Phone Insurance as well as Card Protection and Identity Protection. Renewals of existing retail policies, however, continue to be unaffected. Similarly, the Group's Packaged Account business, including all Mobile Phone Insurance sold through Packaged Accounts, and all non-insured service activities are unaffected by the VVOP and will continue as normal. As previously outlined, the restrictions on asset dispositions will be extended to cover both CPPL and in addition HIL, which is the Group's UK insurance subsidiary and which mainly provides Mobile Phone Insurance and Identity Protection Insurance.

In addition and as previously outlined, the VVOP stipulates that CPPL and HIL will not participate in future Group borrowing arrangements or offer their assets as security for Group borrowing. This will be effective from 1 April 2013 in the case of CPPL. In the case of HIL the restriction will have immediate effect, although HIL is not currently participating in any such arrangements or providing security for Group borrowing. This has a material impact on the Group's ability to raise debt finance.

Finally, as noted in the Interim Management Statement, CPP has agreed to appoint an external professional services firm (approved by the FSA as a skilled person) to review and monitor the UK businesses' current claims management and complaints handling processes over a three month period. This review provides an opportunity for the Group and the FSA to ensure that these processes are operating effectively and in accordance with our regulatory obligations.

## **Customer Redress**

We continue to have constructive discussions with the FSA and certain of the Group's larger Business Partners, regarding the form, structure, details and timing of customer redress. These discussions continue to include consideration of the use of a Solvent Scheme of Arrangement as a vehicle for providing redress.

Certain smaller groups of customers, who may have been affected as a result of other aspects of our historic practices, will also be offered redress. This redress will be effected by CPPL separately from the wider redress exercise referred to above.

## **Business Partner update**

RBS has recently indicated that it is unlikely to renew the Group's contract from March 2013 for the provision of Mobile Phone Insurance in the UK. This will impact the Group's Packaged Account business and will result in significantly lower revenue and profit for the Group in 2013 and beyond.

## **Financial position**

The Board continues to assess and actively pursue a range of financing options. We are in discussions with our lending banks about the Group's debt facilities which mature in March 2013 as well as considering a number of alternative financing and strategic options.

As announced on 31 October, the Board has received a preliminary approach from Affinion Group Inc. The approach is at a very early stage and there can be no certainty that an offer will be made or as to the terms of any such offer, should one be forthcoming. Affinion must, in accordance with Rule 2.6(a) of the Takeover Code, clarify its intentions by no later than 5pm on 28 November (or such later date as the Takeover Panel may consent to in relation to Affinion, at the request of the Board of CPP), by either announcing a firm intention to make an offer or that it does not intend to make an offer.

The combination of the expected increase in FSA-associated costs, the anticipated decline of the UK business as a result of the restrictions imposed by the FSA, and lost business due to the likely decision by RBS not to renew our contract will have a substantial adverse impact on the business in 2013 and beyond. It is inevitable that the Group will have to reduce its cost base in line with the new operating environment and it is considering the most appropriate approach to this.

### **Charles Gregson, Non-Executive Chairman, commented:**

"The Board clearly recognises the seriousness of past failings identified by the FSA in its investigation of historic practices in the UK business, and is deeply sorry for any customer detriment that may have occurred.

A great deal has been done to improve governance, compliance and risk management capabilities throughout the Group. The Board is pleased with the progress being made by the new executive leadership team on deploying the new, customer-led, strategy as we rebuild the business for the future."

### **Paul Stobart, Chief Executive Officer, commented:**

"Today marks the end of the long running investigation into historic practices at CPP in the UK. The FSA Final Notice makes clear that, in the period to March 2011, there were significant failings in the systems and controls environment within CPP in the UK. We are deeply sorry for the errors and wrongdoings of the past and are paying a heavy penalty through what is a large fine.

The investigation is however now closed and we must look to the future.

Many things have changed and are changing at CPP. I joined the Group in October 2011 with a remit to develop and deploy a customer-led strategy for the Group. The transformation programme covering people, customers, products and governance is well advanced. We have new people in positions of influence throughout the business including the MD of the UK, and the Heads of Compliance, Risk Management and Internal Audit.

The next steps for the team are to complete the transformation programme and to rebuild our business and our reputation in the market.

Today, the closure of the investigation marks an important milestone. I am confident that our creativity in product marketing and our passion for providing the customer with an outstanding experience, will, when combined with the strong governance across the Group, provide us with a platform for future success."

A conference call for investors and analysts will be held on 15 November 2012 at 8:00 a.m. (GMT). For dial in details please contact Rebecca Hougham at Tulchan Communications: [rrougham@tulchangroup.com](mailto:rrougham@tulchangroup.com).

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**Notes to Editors**

CPPGroup Plc (CPP) is an International Assistance business operating across 16 geographical markets with more than 200 Business Partners worldwide. Via its Business Partners, CPP provides Life Assistance products to consumers, which includes annually renewed and packaged products that provide assistance and insurance across a wide range of market sectors helping our customers to live life and worry less.

For more information on CPP visit [www.cppgroupplc.com](http://www.cppgroupplc.com)

**Cautionary Statement**

This announcement contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of approval of the announcement but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. Subject to the requirements of the UK Listing Authority's Disclosure and Transparency Rules and Listing Rules, CPP undertakes no obligation to update these forward-looking statements and it will not publicly release any revisions it may make to these forward-looking statements that may result from events or circumstances arising after the date of this announcement.