A consumer guide to payment protection insurance

Introduction

We have produced this leaflet to help you understand:

- what payment protection insurance (PPI) is and where you can buy it;
- how you pay for your policy;
- what the PPI provider is responsible for and what you are responsible for;
- the main differences between PPI policies that credit companies may offer you;
- what evidence you will need to provide when you make a claim; and
- your right to cancel your policy.

What is payment protection insurance (PPI)?

PPI is designed to help you pay your debts if you have an accident, become ill or unemployed, or if you die. You can buy PPI with most types of credit, such as hire purchase, a personal loan, a mortgage, a secured loan (this is a second mortgage on your home), a credit card or a store card.

PPI will pay part (or all) of your repayments on your loan or credit agreement if you cannot work because you are ill, have an accident or lose your job. It can also pay a lump sum to your credit provider if you die before you have paid the amount you owe on your credit agreement.

Where can I buy payment protection insurance (PPI)?

You do not have to buy PPI from the company your credit agreement is with. In fact, it may pay to shop around to compare prices and what you will be insured against. You can also buy PPI direct from other providers, including providers you can find on the internet. The level of cover and cost of the insurance will depend on the provider.

PPI is not the only way to protect your credit-agreement payments. Other types of cover, such as income protection (IP) and term assurance (also known as life cover), are available from a range of providers. You can discuss with them the different types of cover, so that you make the right choice to suit your needs and circumstances.

The provider should tell you the cost of the loan and the separate cost of the PPI.

How do I pay for my policy?

The way you pay for your policy depends on the type of credit and where you buy payment protection insurance from.

Credit-card cover is usually paid for monthly, so each payment buys cover for a single month. Mortgage protection cover is usually paid in the same way and is known as a **regular premium** product.

For fixed-term personal loans, hire purchase and some mortgages, many providers charge a **single premium** which is added to the amount you borrow. A single premium normally pays for payment protection insurance (PPI) over the term (length) of the loan or mortgage (for more details, see 'How long does the PPI last?') and you may have to pay interest at the same rate as your loan. This has the following advantages.

- The level of cover and the price stays the same throughout the policy.
- The provider cannot cancel your policy if you miss a loan or premium payment.

If you have a credit agreement and you buy PPI at a later date (perhaps through an insurance broker), you will only be offered monthly cover, that is, a regular premium product. Make sure you ask your insurance provider if the premium and cover are guaranteed to stay the same throughout the term of the credit agreement.

If you pay a monthly premium, you should ask if you still have to pay the premiums if you make a claim. For example, if you lose your job, you may be able to have the premium taken from your claim payment, but some policies continue to collect the premium each month.

When you have the choice between a single premium product and a regular premium product, consider the advantages and disadvantages of each. For example, one policy may have different cancellation terms from another. For more information on cancellation terms see the section 'Your right to cancel your policy'.

What are the payment protection insurance provider's responsibilities?

If the PPI provider recommends the PPI to you (this is known as an 'advised sale'), they must make sure that the policy suits your needs. For example, if you do not work, you do not need cover for being off work or losing your job. In this case, the provider should not offer you a PPI policy that **only or mainly applies to unemployment cover**. They must explain why they are recommending PPI and explain the main areas the policy covers and the main areas it does not cover.

If the PPI provider just gives you information about PPI (this is known as a 'non-advised sale') it is up to you to decide whether the policy is suitable for your needs. The provider should give you enough information for you to make this decision.

For **most** PPI policies you must be employed for 16 hours or more each week. If you do not work, you may not be able to get payment protection insurance. It is the provider's responsibility to make you aware of all the main conditions in the policy.

What are my responsibilities?

To help you choose the most suitable policy, the salesperson must understand your circumstances, so you must give honest answers to their questions.

The salesperson will give you key information about the PPI cover they are offering you. Please **read it.** The salesperson should also discuss this information with you to make sure that you know the main areas the insurance policy covers and the main areas it does not cover.

Your credit agreement may last for a number of years and in that time your circumstances may change. You may need help if, for example, your job is not secure. And bear in mind that you may have more or less savings in future than you have now. You should regularly check that you can manage your debts.

Only you can decide what level of cover you need. You do not have to have PPI. The provider should give you any other information you need about PPI and should also be able to tell you the risks of not taking it out. You need to think how you will repay your debts if your circumstances change in the future, for example, if you cannot work because you have had an accident. PPI is one way to protect your mortgage, credit debts or other borrowing commitments.

What are the differences between the types of policies?

There are several differences between PPI policies. To help you understand what you are being offered, the following sections show some of the main points to look out for.

How long does the PPI last?

If you want to protect the full term (length) of your credit agreement or loan, check that the PPI covers the full term. PPI for secured loans may only cover the first few years of the loan.

If the policy does not cover the full term of your credit agreement or loan and you have not paid back what you owe by the time the PPI runs out, you may need to arrange more cover.

What risks does the policy cover?

It is important that you know which risks are covered. For example, does the policy provide life cover? It is unusual for a mortgage payment protection insurance (MPPI) policy to provide life cover, unless it is for a second mortgage (a secured loan).

If the PPI covers you if you are involved in an **accident**, suffer from **sickness** or become **unemployed**, it is important that you find out exactly what this does and does not cover. For example, if you lose your job, the policy may only cover redundancy and you will have to have a formal redundancy notice from your employer.

How do my circumstances affect the cover I can get?

If you are **self-employed, work part-time** or **limited hours,** are on a **fixed-term contract** or are a **temporary worker,** always find out what is and what isn't covered in your policy.

Make sure that you know what cover is provided. **If a specific risk is not mentioned, do not expect it to be covered**. For example, it would be unusual for a PPI policy to cover payments you cannot make because your marriage has broken down or you resign from your job.

What else does the policy cover?

It is important that you ask what the **benefits are (what the policy pays out)**. Some PPI policies provide life cover and make a single payment to pay what you owe on the account. Other types of cover make regular payments which can be equal to your monthly repayment. Or, payments may be a percentage of the amount you owe, for example credit-card PPI cover. The provider should make the benefits clear to you.

Ask the provider what the most they will pay is for each risk covered by your policy. This may be different for each type of cover. For example, the provider may make 12 monthly repayments if you lose your job, but more monthly repayments for accident or sickness, depending on the type of policy you have.

There are sometimes **differences** between policies. You need to know the following.

- How long you must be sick or unemployed for before your policy will pay out. This is also known as a 'waiting period'.
- When benefits start being paid to you – if this will be immediately after the waiting period or at a later date.
- Whether benefits are worked out based on whole days or whole months, as this would affect whether you are paid out at the end of the claim for the last whole month or any part of that month. For example, if the benefit is based on whole months and the claim is for 3½ months, you would only get three months' pay out.
- Who the benefits are paid to (direct to your lender or to your account).

What doesn't the policy cover (what are the exclusions)?

Insurance is for unexpected events. Payment protection insurance (PPI) does not cover events that you are aware of, have some control over, or which are illegal. Cover is not usually provided for:

- **a pre-existing condition –** this could be a medical condition you have had in the past and which you start to suffer from again (check the terms and conditions about pre-existing conditions);
- an accident, sickness, unemployment or even death due to you injuring yourself on purpose;
- medical conditions associated with a normal pregnancy;
- unemployment which you know is going to happen when you take out the policy (for example, if you have a short-term contract); or
- claims you make during the first few months of the policy (you should ask how long you must have had the policy before you can claim on it).

Other exclusions to watch out for

- Back conditions – in some policies all back conditions are excluded. Some policies ask for evidence of the condition (such as an X-ray) to support a claim. Some injuries, such as muscle strains, are very difficult to prove and may be excluded from policies.

- Mental-health conditions – mental-health conditions are excluded in some policies. Other policies ask for evidence from a psychologist or psychiatrist to support your claim.
- Chronic conditions – these are conditions (such as angina) which are long-lasting or which may happen again in the future. If the condition is likely to cause you to take time off work it may be excluded in some policies.

How do I claim?

Insurance companies will ask you for evidence to support your claim for benefits. They will ask you for:

- a medical certificate showing that you have been signed off work by your doctor; or
- evidence that you are looking for work throughout the term of your claim (usually a jobseeker's agreement).

They may ask for other evidence too, for example, specific medical reports (such as CAT scans).

If the policy asks you to provide a medical certificate, ask your insurance provider if you will have to pay for it.

If you are self-employed, ask your insurance provider what evidence they will need to see if you become unemployed.

Can I cancel my policy?

You always have the right to cancel the policy within the first 14 days, or 30 days if there is any life cover included, and you will usually get a full refund. This is known as a 'cooling-off period'.

Sometimes, the insurance provider may make a charge to cover their costs. You should usually get a full refund if your insurer has not paid you any benefits within the cooling-off period.

The 14-day cooling-off period is from the start of the policy or from the date you renew a policy you already have.

If payment protection insurance has been added to your credit agreement, your credit agreement may have to be rewritten if you cancel your PPI policy.

Cancelling your policy after the cooling-off period

You may decide to pay off your loan early or that you no longer need PPI. In either case you can cancel your policy. The amount you will get back depends on:

- the provider;
- how long you have had the policy; and
- what you are insured against.

The policy should give examples of the refund you can expect to receive. It will not tell you the exact amount you will get.

If you have taken out a policy that you pay for every month, you usually need to give the provider notice if you decide you no longer need the policy. The insurer would have to give you notice if they want to cancel the policy.

For single premium policies (where you pay the whole premium at the start of the policy), you should get back some of what you paid for the policy, but the amount will depend on the terms of the policy. This is because:

- claims are more expensive in the early part of the loan term because you owe a larger amount of money (that is, the risk for the insurer is greater); and
- it costs more to set up a policy than to maintain it (your policy should show what you can expect to receive depending on when you cancel the policy).

If you cancel your policy after the cooling-off period, and you have already made a claim, you may not get a refund (depending on the policy). You can get more information about this from the policy itself.

Where can I get more help and advice?

You can get more information, help and advice on Payment Protection Insurance (PPI) from the Financial Service Authorities (FSA) website at:

www.moneymadeclear.fsa.gov.uk

FLA also has a basic guide to PPI on their website. You can visit their website at:
www.fla.org.uk