

payment protection insurance

This factsheet looks at the issues that most frequently crop up, when consumers bring disputes to the Financial Ombudsman Service about payment protection insurance (sometimes called “PPI” or loan protection).

what is payment protection insurance?

Payment protection insurance (sometimes called “loan protection” or abbreviated as “PPI”) covers your loan or debt repayments in the event of certain problems – for example, if you are unable to work because of illness, or if you are made redundant.

How these insurance policies actually work – and the range of benefits they offer – can vary significantly from policy to policy.

Payment protection policies are often sold as part of the deal when consumers take out a loan, mortgage or credit card.

But it is also possible to buy a “stand-alone” payment protection policy from an insurance company – which has no direct involvement with the loan, mortgage or credit card covered by the policy.

does the ombudsman service look at complaints about payment protection insurance?

Yes. We have experience of dealing with thousands of complaints about payment protection insurance. Three main types of problem arise that can lead to complaints to the ombudsman.

The first type of problem is where a claim on a payment protection policy is turned down. In other words, the consumer has bought a policy and made a claim on it – but the insurance company refuses to pay out, perhaps because of an exclusion clause in the so-called “small print” of the policy.

The second type of problem involves payment protection policies that may have been “mis-sold”. This might be the case if, for example:

- a consumer did not realise they were taking out a policy that they did not actually want; *or*
- the policy was not properly described to them – and they bought it not understanding it wasn’t suitable or how it worked.

The third type of problem involves disputes about refunds of premiums –where the consumer has paid for a payment protection policy with an up-front single premium (which is frequently added to the loan). If the consumer pays off the loan early, only a small refund may be available – which can give rise to complaints.

what should I do if I am unhappy about my payment protection insurance?

If you think you may have grounds for a complaint, get in touch first of all with the company you think is responsible. Give them a chance to look into your concerns.

You might want to look at our website for more information on making a complaint:

www.financial-ombudsman.org.uk/consumer/complaints.htm

If this doesn't sort things out, get in touch with us to see if we can help. Our contact details are at the end of this factsheet.

Our job is to help settle disputes between financial companies and their customers. We were set up by law to do this – as independent experts – and our service is free to consumers.

how do I know which company is responsible?

This largely depends on what your complaint is about.

If your complaint involves a policy that you think may have been “mis-sold” – or involves a dispute about the refund of premiums – then you should normally get in touch first with the person who *sold* you the policy (for example, at the bank or building society where you took out the loan, mortgage or credit card that the policy covered).

If your complaint involves a claim you have made that has been turned down, then this will usually be the responsibility of the insurance company whose name and details are set out in your insurance policy.

If you're not sure who you think is responsible – get in touch with us. We should be able to sort out which company is involved. And we can send on your complaint to the right person at the company – for them to look into first of all.

I've heard that payment protection insurance has been investigated by the watchdogs – does this affect complaints?

The Financial Services Authority (FSA) and the Office of Fair Trading (OFT) have both been looking into payment protection insurance. Both these official watchdogs (or “regulators”) have said they have general concerns about the way some companies handle these insurance policies.

The ombudsman is separate from the FSA and the OFT. Our job is to help settle *individual* disputes – not to investigate general concerns. Our findings depend on the particular circumstances of each individual case – not on any general findings by the regulators.

what happens if the complaint turns on the small print of the policy?

Many disputes turn on what the so-called “small print” of an insurance policy says and means.

We can help cut through the jargon of “small print” in a dispute like this – to decide whether the insurance company is acting fairly and lawfully.

what if I wasn't aware I'd been sold payment protection insurance – or didn't understand it?

Some companies relied on customers actively “opting out” of payment protection insurance, when they took out a loan – otherwise the insurance was added automatically. And other companies appear to have made it difficult for customers to see what exactly they were signing up to.

But the person who sold you payment protection insurance should have made it clear that you were *agreeing* to buy the policy.

In individual disputes that are referred to the ombudsman service, we listen carefully to what the consumer and the company both have to say about the way the policy was sold. And we look at the original sales documents and any other records from the time – where these are relevant.

If it seems to us that the consumer was *not* made aware that they were taking out a payment protection policy – or was not given basic information about the policy and how it worked – then we can tell the company involved to refund premiums the consumer has paid.

what's the position on the refund of premiums, where the loan is paid off early (or re-arranged)?

The premium for payment protection insurance is often charged upfront in one lump sum (called a single premium) that is added to the loan. So the monthly payments the consumer makes towards the costs of the insurance are not actually insurance premiums at all – they are additional loan repayments (and interest).

This means that consumers cannot simply stop paying for the insurance. Instead, they have to get a refund – which may be refused, or be for an amount the consumer thinks is too low.

Many consumers argue that these arrangements are unfair – especially if the loan is paid off early as part of a plan to re-structure (or consolidate) debts where a consumer is in financial hardship.

In these circumstances, we look at the individual facts of the case – particularly what the consumer was told when the payment protection policy was sold to them.

If we decide that the way the policy works was clearly explained, we will probably only look at whether the refund has been calculated fairly. But if we decide that the

way the policy works was *not* explained clearly, we will need to consider whether this type of policy should have been sold in the particular circumstances.

This could mean that we will tell the company to repay any premiums and interest that it should not have collected from the consumer.

what about debts problems made worse by payment protection insurance?

We regularly deal with disputes that involve financial hardship – where a consumer's personal circumstances mean they cannot repay loans and overdrafts. We take account of circumstances like these when we handle complaints.

But we cannot give personal advice on debt matters. If you are having difficulty repaying debts, you should think about getting in touch with a free specialist debt-advice service such as:

- the National Debtline
www.nationaldebtline.co.uk
phone 0808 808 4000
- the Consumer Credit Counselling Service
www.cccs.co.uk
phone 0800 138 1111

phone **0300 123 9 123** (8am to 6pm, Monday to Friday)
www.financial-ombudsman.org.uk

This factsheet for consumers is only a general guide. It is not legal advice. The rules we have to follow can be complex. We look at each case on its own individual facts and merits. We will always give you the chance to query anything you don't understand or agree with.

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