

payment protection insurance

This factsheet looks at the issues that come up most frequently when consumers bring disputes to the Financial Ombudsman Service about payment protection insurance (PPI).

what is payment protection insurance?

Payment protection insurance (usually just called “PPI” – or sometimes “loan protection”) 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 usually sold as part of the deal when consumers take out a loan, mortgage or credit card. But it’s also possible to buy a “stand alone” PPI policy.

what sorts of complaints about PPI come to the ombudsman?

Over the past few years, we’ve received hundreds of thousands of complaints about PPI. There are three main types of problem that consumers ask us to look into.

The first 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 has refused to pay out, perhaps because of an exclusion clause in the smallprint of the policy.

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

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

The third type of problem involves disputes about refunds of premiums. This can happen where the consumer has paid for a payment protection policy with an up-front single premium (usually added to the loan). If the consumer pays off the loan early, they may only receive a small refund – which they may be unhappy about.

what should I do if I’m unhappy about my PPI?

First of all, get in touch with the company you think is responsible – explaining why you’re unhappy. It’s important to give them a chance to look into the problem.

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 sort out disputes between financial businesses 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 business is responsible?

It depends on what your complaint is about.

If you think you may have been “mis-sold” your policy – or are unhappy about a refund of premiums – you should normally get in touch first with the business who *sold* you the policy. This might be 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. Their name and details will be 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 forward your complaint to the right person at the company, so that they can look into it first of all.

I’ve heard that PPI has been investigated by the watchdogs – does this affect complaints?

The previous financial services regulator, the Financial Services Authority (FSA) and the Office of Fair Trading have both looked into payment protection insurance. And both these official watchdogs (or “regulators”) said they had general concerns about the way some companies have handled PPI.

The ombudsman is separate from the regulators. Our job is to help sort out *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 hangs on the small print of the policy?

Many complaints we see hang on what the small print of the PPI policy says and means.

It doesn’t matter if you’re not sure about what the smallprint means. We can help cut through the jargon – to decide whether the business acted fairly and lawfully.

what if I didn’t even know I’d been sold PPI – or didn’t really understand it?

Some businesses added PPI automatically, unless the consumer “opted out”. And other businesses made it difficult for consumers to see exactly what they were signing up to.

But the person who sold you PPI should have made it clear that you were agreeing to buy the policy.

When consumers ask us to look into their complaints, we listen carefully to what both they and the company have to say about the way the policy was sold. We’ll also look at the original sales documents and any other records from the time, where relevant.

If it seems to us that the business didn’t make it clear that the consumer was taking out PPI – or didn’t give the consumer basic information about the policy and how it worked – we can tell the business to refund premiums the consumer has paid.

what happens about refunding premiums if the loan is paid off early or re-arranged?

In many cases, the PPI premium is often charged up-front 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 aren’t actually insurance premiums – they’re additional loan repayments (and interest).

This means that consumers can’t just stop paying for the PPI. 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 restructure (or consolidate) debts when they are in financial hardship.

In these circumstances, we look at the individual facts of the case – particularly what the consumer was told when they bought the PPI.

If we decide that the business explained clearly how the policy works, we will probably only look at whether the refund has been calculated fairly.

But if we decide that the company *did not* explain clearly how the policy works, we will need to consider whether they should have sold this type of policy in the particular circumstances.

This could mean that we will tell the business to repay any premiums and interest that they shouldn’t have collected from the consumer.

what if someone’s debt problems have been made worse by PPI?

We regularly see complaints involving financial hardship – where a consumer’s personal circumstances mean they can’t repay loans and overdrafts. We take account of the consumer’s situation when we look into the complaint.

But we can’t give personal advice to consumers. If you’re having difficulty repaying debts, you should think about getting in touch with a free specialist debt-advice service like:

- the National Debtline
www.nationaldebtline.co.uk
phone 0808 808 4000
- Stepchange Debt Charity
www.stepchange.org
phone 0800 138 1111

phone **0300 123 6222** or **0800 121 6222**
(Monday to Friday – 8am to 8pm, Saturday – 9am to 1pm)

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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