

Payment Protection Insurance

What is Payment Protection Insurance

When you take out a loan, credit or store card, you're often asked to take out an insurance policy at the same time. The policy is meant to cover the loan or card repayments if you become unable to afford them yourself because of illness, unemployment or because you have an accident or become disabled. Most policies also include a life benefit which will pay off the outstanding balance on a loan or card if you die.

This type of insurance is called 'Payment Protection Insurance' (PPI).

PPI can cover repayment of car finance, personal loans, credit and store cards, catalogue debts and mortgages.

Very often, payment of PPI is included with the loan repayments. However, although they're taken out at the same time, it's important to remember that the loan and PPI are two different things. When a lender sells you PPI, they must make this clear. You must be told the price of PPI separately to the cost of the loan or card and you should be asked to sign for it separately. If this doesn't happen, you may be able to make a claim for **mis-selling** (see below).

Your contract for the insurance policy will be with an insurance company, not with the company you take out the loan with. If you need to make a claim on the policy, you will need to do this through the insurance company.

You don't have to take out PPI when you take out a loan. However, some companies won't agree to give you a loan unless you take out PPI. There's nothing to stop them from doing this, but if you don't want PPI, it might be better to go to a different lender.

Companies should also not be selling single premium PPI policies for unsecured loans.

Things to think about before you buy PPI

You should think very carefully before you agree to buy PPI. Some questions to think about are:

The cost of the insurance – the cost of PPI can be high. You should always shop around to get the best deal. When you're comparing the costs of loans, make sure you compare loans of the same amount over the same period of time. If the cost of PPI is an additional amount on top of the loan and not included with it, you should allow for this.

Whether you really need to take out the insurance – you might already have insurance which will cover the loan or credit repayments if your circumstances change. For example, you might have life insurance, other insurance which covers illness, or be covered by your employer's sick pay or redundancy payment scheme.

Can you get insurance to cover the loan elsewhere – you may be able to buy a stand-alone policy, sometimes called accident, sickness and unemployment (ASU) cover. You can usually buy this type of policy through an insurance broker or a company selling on the internet or over the phone.

Does the insurance policy really meet your needs - many PPI policies won't cover you in certain circumstances, for example if you're self-employed, over retirement age or have a particular medical condition.

Before you take out PPI, you should always make sure you **get a copy of the policy** or a policy summary and that you check this carefully to make sure it's going to cover your circumstances if you ever need to make a claim. If you have any doubts at all about this, contact the insurance company and ask them to make things clear. If there are circumstances in which you won't be covered, the insurance company must tell you about them.

Below is a list of things to look out for when trying to decide whether PPI is right for you.

How long does the policy pay out for?

PPI usually only covers the loan or credit repayments for a limited period of time, typically twelve months. Many policies pay out in blocks of 30 days. This means that if you returned to work after 28 days, you wouldn't get a payment. There is usually a 30-day delay before you can make a claim.

Are there any age restrictions?

PPI policies don't normally cover you once you reach retirement age.

Will you be covered for unemployment?

PPI will only cover you for unemployment under certain, very specific circumstances.

You must normally be in permanent, full-time employment. This usually means you have to work at least 16 hours or more a week. If you're on a **temporary contract**, the policy may not cover you.

If you work full-time, but for a number of different employers, you may not be covered. You may not be covered if you work for the same employer, but on a contract basis. Make sure the insurance company knows the exact details of your working arrangements before you take out PPI.

Many PPI policies don't cover you if you're **self-employed**. Policies which do cover self-employed people often have lots of restrictions. For example, they might only cover you if you have to stop work because of ill-health or if you die or have an accident, not if you've run out of work. If you're self-employed, you should check the details of a PPI policy very carefully before taking it out.

Some policies won't cover you if you're **dismissed** from your job for misconduct or some other reason. Also, you may not be covered if you take **voluntary redundancy**, or leave your job simply because you don't like it there.

Will you be covered for sickness?

Many PPI policies won't cover you for certain illness. For example, policies don't usually cover conditions which have anything to do with pregnancy, drugs or alcohol. A policy might not cover mental illness or back problems. A policy shouldn't discriminate against you if you're disabled. If you think a policy discriminates against disabled people, you should get advice.

Most PPI policies won't cover you for any illness which you've already had when you take out the policy. This is called a '**pre-existing condition**'. Also, a policy may not pay out if you didn't tell the insurance company about a medical condition you've had in the past.

You should always give the insurance company as much information as possible about any medical conditions you have, or have had in the past. You should do this even if you can't see a need for it, or if you're not asked to do so when you take out the insurance. This could prevent you paying out insurance premiums for a policy which you will never be able to make a claim on because you didn't give the insurance company the right information.

Cancelling a PPI policy

You have the right to cancel a PPI policy within 30 days. Some policies will give you longer than this to cancel. If this is the case, the person selling you the policy must tell you what the cancellation period is. You should get a refund of your premium, if you've paid it. Sometimes, an amount can be deducted for costs, or because you've been covered by the policy for a period of time. However, an insurance company isn't allowed to charge you a penalty for cancelling.

If you pay monthly premiums for your PPI, you can usually cancel at any time, although you may need to give a period of notice.

You may also be able to cancel a PPI policy due to **mis-selling** (see below).

Making a complaint about PPI

If you have problems claiming on a PPI policy, you may want to make a complaint. You should complain first to the **insurance company**. You may need the help of an experienced adviser to make the complaint.

If you aren't satisfied with the response of the insurance company, you can take your complaint to the **Financial Ombudsman Service**. For more information, see the Financial Ombudsman's website at: www.financial-ombudsman.org.uk, or phone them on: 0300 123 9123.

Mis-selling

If you're unable to make a claim on your policy, this could be because you were sold a policy which was wrong for your circumstances. For example, the policy doesn't cover self-employed people and you're self-employed. If the company who sold it to you knew it was wrong for you, or didn't check on your circumstances properly before selling it to you, you may be able to make a claim for **mis-selling**. This means that the company has sold you a policy when they shouldn't have done, and you may be able to cancel the policy and get a refund.

If you think you've been mis-sold PPI for any reason, you can make a complaint. You should complain to the company which sold you the policy. But you don't need to use a claims management company to claim a refund - you can claim back the money you're owed yourself. It's free to claim, you don't have to pay a fee to anyone and it's just as quick if you do it yourself.

You may want to use our [sample PPI complaints letter](#) to help you complain about mis-selling (this document opens in Word). There is also a very easy to use step-by-step guide on how to claim on the MoneySavingExpert.com website at www.moneysavingexpert.com.

If you don't get anywhere with the company which sold you the policy, you may need to refer your complaint to the Financial Ombudsman Service. You should use the complaint form on their website at: www.financial-ombudsman.org.uk.

Further help

Citizens Advice Bureau

Citizens Advice Bureaux give free, confidential, impartial and independent advice to help you solve problems. To find your nearest CAB, including those that give advice by e-mail, click on [nearest CAB](#), or look under C in your phone book.

The Money Advice Service

The Money Advice Service is a free, independent service. Their website has more information about PPI and how to complain about mis-selling at: www.moneyadviceservice.org.uk.

Other information on Adviceguide which might help

- Sample PPI complaints letter
- Credit
- Insurance
- Contracts of employment
- Help with debt
- Buying services – your rights

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