

Payment Protection Insurance (PPI) – what is it?

Payment protection insurance, also called loan protection and commonly known by the initials PPI covers debt repayment on loans, mortgages and credit cards in specific circumstances such as redundancy or sickness.

The Financial Ombudsman Service has identified three main causes of complaint about these insurance products:

1. When the consumer tries to invoke the policy the claim is rejected by the insurance company.
2. The consumer is unaware of the existence of a policy on their loan, mortgage or credit card; at the time of the sale, the policy was not properly described; it was unsuitable for the needs of the consumer or the policy was not properly understood.
3. Where the consumer pays off a loan early, often only a small refund of premiums paid is offered.

Using a claims management business to make a claim

A number of claims management businesses are set up to make claims on behalf of consumers for the mis-selling of these policies. They are required to be authorised by the Ministry of Justice and are obliged

to comply with strict conduct rules. Always check that a claims management business is authorised by the Claims Management Regulator before agreeing to them handling your claim. The Authorised Business Search on our website at: <http://www.justice.gov.uk/about/cmr.htm> tells you which businesses are currently authorised and which businesses have had their authorisation suspended or cancelled, and are no longer able to handle claims.

This work is also carried out by some solicitors who are regulated by the Solicitors Regulation Authority.

Understanding the fees

Many businesses offer what is known as a “No Win No Fee” service and typically charge a fee of 25% + VAT of the total compensation obtained. This is sometimes also charged on not only what you receive as “cash in hand” but also on any reduction in further repayments on your loan or any set off against any arrears you might have on your credit card. You need to read and understand the charges carefully as, if you have not paid off the loan or you are in debt, this can result in you receiving little or no “cash in hand” and you may have to find the fee from a source other than the compensation received. The examples below illustrate how this can work. Your situation could be even worse if you are currently in a debt management plan.

Example 1: All compensation is “cash in hand”

- Mr A is awarded £3,000 compensation. From this compensation payment Mr A will be charged a fee of 25% (£750) by the claims management company (CMC). He will also pay VAT at 20% (£150), making the total bill Mr A will pay to the CMC, £900.
- In this example Mr A will receive a compensation payment of £2,100.

Example 2: Compensation includes “cash in hand” award with loan and future instalment reduction

- Ms B is awarded £3,000 compensation. £2000 of this award will be deducted from the outstanding balance on her loan. Ms B will be charged a fee of 25% (£750) by the claims management company (CMC). She will also pay VAT at 20% (£150), making the total bill Ms B will pay to the CMC, £900.
- In this example Ms B will receive a compensation payment of £100 and a reduction of £2,000 off future loan repayments.

Example 3: Compensation is used to offset arrears consumer has on credit card or loan

- Mr & Mrs C are awarded £3,000 compensation. The whole sum of this award (£3,000) will be deducted from the outstanding balance on their loan. Mr & Mrs C will be charged a fee of 25% (£750) by the claims management company (CMC). They will also pay VAT at 20% (£150), making the total bill Mr & Mrs C will pay to the CMC, £900.
- In this example Mr & Mrs C will receive no cash payment. They will however, reduce their future loan repayments by £3,000. Mr & Mrs C will pay a fee of £900 to the CMC.

Some businesses charge their fee upfront and you should shop around to make an informed choice before purchasing this service. When using a claims management business you have a cooling-off period and the Rules require that you receive written information about the service you are buying that includes examples of fees and charges.

Can you claim yourself?

The Financial Ombudsman Service has produced a comprehensive leaflet which can be found at: <http://www.financial-ombudsman.org.uk/publications/factsheets/payment-protection-insurance.pdf> on how to complain about these policies yourself, without using a claims management business. Once you have gone through the complaints procedure of the business which sold you the policy and have received a final response to your complaint you can then approach the Ombudsman.

There are a number of online resources you may wish to visit to assist you in making the complaint yourself:

Which?

<http://www.which.co.uk/money/insurance/guides/claims-management-companies/financial-claims---do-it-yourself/>

Money Saving Expert

<http://www.moneysavingexpert.com/reclaim/ppi-loan-insurance>

How do I contact you?

If you are unhappy with the conduct of a business, or have come across an unauthorised business, you can contact us in variety of ways:

Website: www.claimsregulation.gov.uk/contact.aspx

By email: consumer@claimsregulation.gov.uk

By telephone: 0845 4506 858 / 01283 233309

In writing: Claims Management Regulation, 57-60 High Street, Burton on Trent, Staffordshire, DE14 1JS.

Call us on 0845 4506 858 / 01283 233309
or email consumer@claimsregulation.gov.uk

www.justice.gov.uk