Protection money – stake your claim

This month Which? launches a new campaign to help people who have been mis-sold payment protection insurance get their money back

IN BRIEF

In this report we help you to:

- work out whether you have been mis-sold PPI
- make a complaint if you feel that you have been mis-sold PPI
- find out more about the Which? campaign to help others who have been mis-sold PPI.

Think back to the last time you took out a mortgage, loan, credit card or store card – or the last time you bought something on credit. The chances are that you were offered payment protection insurance (PPI) at the same time.

PPI is designed to cover your debt repayments if you can't work because of an accident, illness or redundancy, but all too often it is mis-sold, costing consumers thousands of pounds for insurance they may never be able to claim on. Which? has been speaking out about the problem for many years; now other organisations such as the Office of Fair Trading (OFT) and the Financial Services Authority (FSA) are voicing their concerns, too.

We believe that thousands, even millions, of consumers may have been mis-sold PPI, which is why we are launching our new campaign to help victims of PPI mis-selling to fight back.

HOW SHOULD PPI WORK?

PPI is an insurance policy often sold alongside mortgages, personal loans, credit cards or finance agreements. The idea is that should you be unable to work because of sickness or accident, or if you are made redundant, the policy pays out an amount to cover the monthly payment on your loan, mortgage, credit card or credit agreement.

WHAT'S WRONG WITH IT?

PPI has several drawbacks. For a start, it pays out for only a limited amount of time – usually 12 months, although some policies offer a 24-month pay-out period.

On credit cards, PPI often covers only the minimum amount that must be paid each month, so your balance never falls. Policies also have many exclusions, so it's by no means certain that you'll get any money even if you do make a claim.

To make matters worse, when it is sold alongside a personal loan or a finance agreement, PPI tends to be sold as a 'single premium' policy. This means a lump sum covering the cost of the insurance is added to the amount you have borrowed, so you end up paying interest on both the insurance premium and your loan. Our table, opposite, shows how much this can add to your borrowing.

To top it all, most PPI policies last for only five years, so if your loan or finance agreement is for longer than this, you'll still be paying interest on insurance that has long since expired. See 'Frank gets good result', right, for more on this.

WHAT DOES IT COST?

PPI can considerably increase the cost of borrowing – see table, opposite. It often costs around the same as much better insurance (known as income protection), but gives far less protection.

THE PROTECTION RACKET

PPI is big business. In October 2006 the OFT estimated there were approximately 20 million policies in force, with between 6.5 and 7.5 million new policies being sold each year.

It's also hugely expensive. Adding PPI to a £7,500 five-year loan could cost an additional £3,000 (see table, opposite).

Worryingly, the OFT found that only 20 per cent of the money collected in PPI premiums is ever paid out in claims. That's a shockingly low figure compared with other general insurance products such as car insurance, where 82 per cent is paid out, and house insurance, where 54 per cent is paid out.

PHOTOGRAPHY CORBIS

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FRANK GETS GOOD RESULT

Frank Brimson took out a ten-year, £8,000 loan in 1994 with Assured Funding Corporation. The loan was later taken over by Ocwen UK. PPI costing £1,316 was added to the loan at an interest rate of 23.9 per cent. In 2004 the loan was extended by eight years.

However, the PPI had a term of only five years, which meant Frank was being asked to pay interest on the insurance premium for 13 years after the policy had expired, wasting hundreds of pounds in the process.

We put in a complaint on Frank's behalf requesting that he be given a refund of his PPI premium and the interest paid on it. The complaint was upheld and, to Frank's surprise, the lenders also agreed to write off the £6,800 still outstanding on the loan.

WHICH? MONEY SAVER

There was enough evidence to convince the OFT that the market was not working for consumers. In February 2007, it referred the issue of PPI to the Competition Commission.

The FSA has also carried out extensive research into the sale of PPI, resulting in several providers being fined. It has published its findings in three reports.

The latest, in September, shows that, despite previous warnings, many firms are still failing to treat their customers fairly. In particular, the FSA found that firms are not giving clear information about the product and what it costs; are still not telling customers what the policy exclusions are; and are still not giving people the basic information they need to make an informed decision about whether to take out the policy or not. In other words, consumers are being sold PPI without understanding whether the insurance is right for them.

WERE YOU MIS-SOLD PPI?

Since January 2005, the sale of PPI policies has been regulated by the FSA. Visit www.which.co.uk/campaigns for more on the regulator's rules.

However, most providers selling PPI before January 2005 still had rules to follow, as most belonged to the Association of British Insurers, the General Insurance Services Council or the Finance & Leasing Association.

All these trade bodies had codes of practice that gave clear rules on what information advisers were supposed to give to customers about PPI.

Which? Money is concerned that many people may have been mis-sold PPI. You may, for example, not have been told about exclusions that would make it impossible for you to make a successful claim. See our 'Checklist' (right) for more examples of potential mis-selling.

WHICH? MONEY CAMPAIGN

HOW TO COMPLAIN

If advisers didn't follow the rules when selling you PPI, you may be able to claim compensation. To do this, you will need to make a formal complaint to the company that sold you the insurance, stating why you think you've been mis-sold insurance.

■ Our website has a template letter you can use that will help you to do this. Go to www.which.co.uk/campaigns to download it.

CHECKLIST

If you can answer 'no' to one or more of these questions, then you may have been mis-sold PPI:

1. **Exclusions** Did the adviser mention any exclusions under the policy – for example, that you won't be covered for any pre-existing medical condition?
2. **Paying for insurance upfront** If you took out a loan or finance agreement, did the adviser make it clear that you would have to pay for the insurance upfront in one single payment?
3. **Borrowing to pay for insurance** If you had to pay for the insurance as a single premium, did the adviser make it clear that the insurance cost would be added to the loan and you would be paying interest on it?
4. **Insurance expires before loan** If your loan or finance agreement runs for more than five years, the PPI will probably expire before you finish paying for the loan or credit. Did the adviser make this clear?

■ If you don't have access to the internet, get a copy of our factsheet. Call 01992 822800 and ask for factsheet MONPPI.

If your complaint is turned down by the company that sold you the policy, take it to the Financial Ombudsman Service – www.financial-ombudsman.org.uk – and ask it to investigate for you.

WE'D LIKE TO HEAR FROM YOU

If you decide to make a complaint about your PPI policy, let us know how you get on. Go to www.which.co.uk/campaigns

Contacts

For more information on PPI and the rules about the way it is sold, go to www.moneymadeclear.fsa.gov.uk
For more information on how to make a complaint, go to www.financial-ombudsman.org.uk
To download our template letter to use in your complaint, go to www.which.co.uk/campaigns

HOW MUCH PAYMENT PROTECTION INSURANCE CAN ADD TO A £7,500 LOAN OVER FIVE YEARS

LENDER	MONTHLY REPAYMENT WITHOUT PPI (£)	MONTHLY REPAYMENT WITH PPI (£)	MONTHLY COST OF PPI (£)	TOTAL COSTS WITHOUT PPI (£)	TOTAL COST WITH PPI (£)
HIGHEST PRICES IN SURVEY[a]					
LV= (LIVERPOOL VICTORIA)	167.74	222.90	55.16	10,064	13,374
BRITANNIA BUILDING SOCIETY	149.24	201.61	52.37	8,954	12,097
SAINSBURY'S BANK	146.26	194.43	48.17	8,776	11,666
LOWEST PRICES IN SURVEY[a]					
LEEDS BUILDING SOCIETY	153.41	171.82	18.41	9,205	10,309
BANK OF IRELAND	151.88	172.2	20.32	9,113	10,332
MASTERLOAN	146.26	174.01	27.75	8,776	10,441

a We compared the cost of a five-year £7,500 loan from 48 major lenders with and without PPI. The three most expensive and least expensive lenders are shown. See www.which.co.uk/campaigns for full details

Source: Moneyfacts. Figures correct at 1 October 2007