

Features of PPI for different credit products

1. Payment protection insurance (PPI) generally covers the repayments on a credit product should the borrower be unable to do so due to a loss of earnings as a result of accident (A), sickness (S), unemployment (U) or life (L) (and in some circumstances, critical illness (CI)).
2. Benefits are usually paid for a period of up to 12 months (though there are some policies which offer benefits for up to 24 months).
3. The inquiry is concerned with PPI for each of the following credit products: first charge mortgages, second charge mortgages, personal loans, credit cards, motor finance, overdrafts and retail. The features of the PPI policies across credit products differ. A summary of those features is set out below.

First charge mortgage PPI (MPPI)

What it is

4. Mortgage payment protection insurance (MPPI) refers to PPI on first-charge mortgages.

What it covers

5. The primary risks covered by MPPI are A, S and U. Depending on the provider, the customer can sometimes select a combination of those elements, such that only AS is covered or only U is covered. MPPI does not usually offer L cover.

How is it paid for?

6. MPPI policies are paid for by way of a monthly premium. The cost is generally expressed as a percentage of the monthly benefit (for example £x per £100 of benefit).

Exclusion/waiting periods

7. An MPPI policy will commonly be subject to an exclusion period after the policy is purchased, and an excess period, after a claim has been made and accepted. The former is usually between 14 and 30 days and the latter is usually between 0 and 30 days.

Refunds

8. Premiums are usually paid on a monthly basis, therefore if a policy is cancelled the monthly payments cease. There is no refund applicable.

Second charge mortgage PPI (SMPPI)

What it is

9. A second-charge mortgage (also known as a secured loan) is a loan which is guaranteed or 'charged' on a person's home and constitutes the 'second-charge' on that home.

What it covers

10. The principal risks covered are L, A, S and U; or, in the case of some providers, a combination of those. The cover for L generally pays off the outstanding balance on the loan in the event of a claim. The ASU cover provides a monthly benefit equal to the loan repayment outstanding. The AS benefit may be paid to the term of policy or it may be limited to a maximum number of months. Payment of the U benefit is generally limited for 12 months per claim.

How is it paid for?

11. The majority of SMPPI policies involve a single premium paid up front for the term of the policy. It is common for the premium to be added to the amount of the loan, and

repaid over the term of the loan. This means that interest is charged on the SMPPI premium.

Exclusion/waiting periods

12. SMPPI will commonly be subject to an exclusion period after the policy is purchased, and an excess period, after a claim has been made and accepted. The former is between 14 and 30 days and the latter between 0 and 30 days, dependent on the terms of the policy.

Refunds

13. If the underlying loan is settled during the term of the policy, a refund of premium will usually be given. The basis of calculation will vary but it will reflect the fact that the insurer considers that its liability reduces as the term of the loan progresses. Depending on the distribution channel, it may not be possible to recover commission paid to the seller/distributor of the policy. In these cases, the refund may be calculated net of commission.

Personal loan PPI (PLPPI)

What it is

14. Personal loans (sometimes called unsecured loans) are typically arranged on a fixed interest rate basis with monthly repayments over the term of the loan.

What it covers

15. The principal risks covered in the case of personal loans are L, A, S and U. Some PLPPI policies also offer cover for CI. Typically one product covers all such risks although there are also modular products that enable the customer to choose the sections of cover they require.

16. An ASU combination of cover usually provides a monthly benefit equal to the loan repayment. The AS combination usually offers payment to the term of policy or it may be limited to a maximum number of months. Payment of the U only benefit is generally limited for 12 months per claim.
17. Where L and/or CI cover is offered, the amount of cover will be equal to the total amount repayable at the start of the loan, but will reduce by the amount repaid and any arrears. Accordingly, L cover generally pays off the outstanding balance on the loan in the event of a claim.
18. Where an unsecured loan is agreed in two or more names, the PLPPI generally provides cover only to the first named person on the credit agreement.

How is it paid for?

19. PLPPI is usually paid for by way of a single premium paid up front for the term of the policy, which is usually the same as the term of the loan.
20. It is common for the premium to be added to the amount of the loan and repaid over the term of the loan. This means that interest is charged on the PLPPI premium.
21. Since May 2005, consumer credit agreements (such as that for a personal loan) require the customer to sign the document twice, once to indicate agreement to the original amount of the loan and once to indicate agreement to the additional cost of the PLPPI associated with the loan.

Exclusion/waiting periods

22. PLPPI will commonly be subject to an exclusion period after the policy is purchased, and an excess period, after a claim has been made and accepted. The former is

between 14 and 30 days and the latter between 0 and 30 days, dependent on the terms of the policy.

Refunds

23. If the underlying loan is settled during the term of the policy, or the PPI policy cancelled, a refund of premium will usually be given. The basis of calculation will vary but it will reflect the fact that the insurer considers that its liability reduces as the term of the loan progresses.

Credit card PPI

What it is

24. The purpose of credit card PPI (CCPPI) is to cover a percentage of the outstanding balance on a customer's credit card, either at the time of claim or the last statement issued prior to the time of claim. This percentage of outstanding balance covered varies between providers from 3 to 10 per cent.

What it covers

25. The principal risks covered are L, A, S and U, or, with some providers, a combination of those. Some providers also offer the option of CI cover.
26. The L cover generally pays off the outstanding balance on the card (at the time of the insured event), as does CI cover, in the event of a claim.
27. The insured person is the primary cardholder only.

How is it paid for?

28. The premium is charged monthly and is calculated as a percentage of the outstanding balance on the monthly statement.

Exclusion/waiting periods

29. CCPPI will commonly be subject to an exclusion period after the policy is purchased, and an excess period, after a claim has been made. The former is between 14 and 30 days and the latter between 0 and 30 days, dependent on the terms of the policy.

Refunds

30. As the premium is paid on a monthly basis with reference to the sum outstanding on the credit card, if a policy is cancelled, the monthly payments cease. There is no refund applicable.

Motor finance PPI

What it is

31. Motor finance PPI (Motor PPI) covers repayments on the loan for a motor vehicle.

What it covers

32. The principal risks covered are L, A, S U and CI, or, with some providers, a combination of those. The benefit period is typically up to 12 months for unemployment and can be as long as the term of the loan for accident and sickness. Where L is provided, the amount of cover will be up to a specific maximum amount.

How is it paid for?

33. Motor PPI is usually paid for by way of a single premium paid up front for the term of the policy, which is usually the same as the term of the loan. There are some providers who charge a monthly premium for motor PPI.
34. It is common for the premium to be added to the amount of the loan and repaid over the term of the loan. This means that interest is charged on the PPI premium.

Waiting/exclusion periods

35. The waiting period is usually between 14 and 30 days. The exclusion period is typically between 30 and 90 days.

Refunds

36. If the underlying loan is settled during the term of the policy, a refund of premium will usually be given. The basis of calculation will vary between providers but it will reflect the fact that the insurer considers that its liability reduces as the term of the loan progresses.

Personal current account overdraft PPI

What it is

37. Personal current account overdraft PPI (overdraft PPI) protects the repayments a customer is required to make on an overdraft facility.

What it covers

38. Overdraft PPI usually offers cover against the risks of A, S, U, L and CI, or a combination of those. Some policies offer cover against disability and hospitalization also.

How is it paid for?

39. A monthly premium per person covered is usually charged for overdraft PPI. It is expressed as a percentage per £100 of protection. The premium (and related benefit) is based on the overdraft limit and is charged irrespective of whether the customer has used the overdraft facility.

Waiting/exclusion periods

40. The waiting period is usually between 14 and 60 days. The exclusion period is typically between 30 and 90 days.

Refunds

41. Premiums are paid on a monthly basis, therefore if a policy is cancelled the monthly payments cease and there is no refund applicable.

Retail PPI

What it is

42. Retail PPI covers a percentage of the outstanding balance owing on a customer's retail finance account/loan.

What it covers

43. Retail PPI covers against the risks of A, S, U, L and CI. The policy will typically cover repayments for a specified period of time in the event of ASU. It will usually pay the total balance outstanding in the event of death or CI.

How is it paid for?

44. Typically, the premium is charged monthly and is calculated as a percentage of the outstanding balance on the monthly statement. There are some providers who charge a single premium for retail PPI.

Waiting/exclusion periods

45. This type of PPI will commonly be subject to an exclusion period after the policy is purchased, of between 14 and 30 days; and an excess period, after a claim has been made and accepted, of between 0 and 30 days. These periods are dependent upon the terms of the PPI policy.

Refunds

46. As the premium is typically paid on a monthly basis with reference to the sum, if a policy is cancelled, the monthly payments cease. There is no refund applicable. Those providers who charge a single premium will provide a refund if the PPI policy is cancelled. The basis of calculation of the refund will vary between providers.