A Guide to Payment Protection Insurance
2018-2019
Introduction

Falling behind on mortgage, loan, or credit card payments can have serious repercussions such as penalty charges, damage to one’s credit score, and even loss of property. Payment Protection Insurance (PPI) is designed to help avoid these repercussions by paying the insured’s mortgage, loan, and credit card repayments if the insured is unable to pay, due to unemployment or illness. However, it is essential to note that the terms and conditions of this class of insurance are often complex, strict, and riddled with exclusions. Banks and insurers have also been criticized for mis-selling policies to individuals who weren’t aware of the optional coverage or that they would never be able to file a claim. Over the recent years, a number of lenders have been levied penalties for poor PPI sales practices, including the payment of compensation to all mis-sold policies. This article will primarily focus on loan PPI policies.

Meaning

Payment Protection Insurance (PPI), also known as credit insurance, credit protection insurance, or loan repayment insurance can be defined as an insurance that will provide a sum of money to assist the insured in repayments on mortgages, credit/store cards, loans, or catalogues payment, in the event the insured is unable to work, as a result of accident, illness, unemployment or death. In simple terms, depending upon the type of protections selected, PPI pays or contributes to loan repayments in the event of involuntarily unemployed. In the event of death, life cover will repay an individual’s loan balance. Payment Protection Policies are usually sold as part of the deal when consumers obtain a loan, mortgage, or credit card. However, it is also possible to receive a ‘stand-alone’ PPI policy. PPI policies that covers mortgage payments are termed as Mortgage Payment Protection Insurance (MPPI), which is taken out solely for ensuring the timely repayment of the mortgages. MPPI helps ease the minds of homeowners who fears missing mortgage payments due to unemployment, sickness or accident; which can ultimately lead to the repossession of their homes. Like other PPI policies, MPPI policies are of three types: unemployment only; accident and sickness only; unemployment, accident, and sickness. The exclusions applicable to MPPI are similar to that applicable to other PPI policies.

Need for PPI

PPI payouts could be a financial lifeline for those who are unable to keep up with their debt repayments. Whether an individual requires this sort of protection depends upon one’s financial circumstances and the amount of debt owed. For instance, if an individual has a sufficient amount of savings that could be utilized for repayments in the event of a drop-in income, he would not find it necessary to obtain PPI coverage. Having a PPI policy can assist in paying-off debt, provided the insured conducts thorough research into the available policies and selects a policy that is inexpensive while providing suitable coverage. With regard to credit score, a loan PPI policy can assist in maintaining the
insured’s current credit score since the policy enables the insured to be up-to-date in loan payments. PPI is especially beneficial during periods of financial crisis since it will enable the insured to continue paying off loans.

With regard to loan interest rates, obtaining a PPI policy doesn’t necessarily lower these rates. In many cases, when taking out a policy, the loan provider may try to make it seem like the loan interest will decrease if the insured also buys a payment protection insurance policy from the provider. However, in reality, the loan interest rate difference from the new ‘lower’ rate is latched onto the loan protection policy, which gives off the illusion that the loan interest rate has decreased; rather, the costs were merely transferred to the loan protection policy.

**Products Sold with PPI**

An individual may have had PPI, if he/she has taken out or used loan or credit product, such as:

I. Credit card
II. Loan – including personal loans, student loans, and business loans
III. Store- usually from a high-street store
IV. Mortgage (including second charge mortgages)
V. Loan secured on residences (in addition to mortgage)
VI. Car finance or anything bought on credit, including a sofa - could have been termed as 'finance agreement' or ‘hire purchase’
VII. Overdraft
VIII. Home improvement loan
IX. Home shopping account

**Types of PPI Coverages**

There three primary levels of PPI coverages:

I. Unemployment-only,
II. Accident and Sickness-only (AS), and
III. Accident, sickness, and unemployment (ASU).

**Unemployment-only** - covers the insured if they are made redundant.

**Accident and sickness** - protects the insured against accident and long-term illness (provided it is certified by a doctor).

**Accident, sickness, and unemployment** - provides an all-inclusive protection.

**How are the PPI Payments made?**

The cost of PPI policies depends upon where the insured lives, the type of policy selected, whether it is standard or age-related, and the amount of desired coverage. For loan PPIs, the premiums can be expensive, especially for individuals with poor credit history who may end up paying a substantial premium for coverage. For some loans, the entire cost of the PPI premium is added upfront to the borrowed amount. The borrower would then pay it off over the term of the loan, by paying interest on the premium; this is similar to the rest of the loan. However, this type of coverage is highly unpopular and is not permitted in many countries. On other loans (including mortgages), borrowers mostly pay for PPI policies by a monthly premium.

The PPI policies sold with credit cards are also paid for by a monthly premium, however, these are added to what is owed on the card at the end of every month. The cost of the premium is calculated at a certain percentage of the total balance that is owed for a particular month. Once the claim is paid out, the monthly benefit is most often somewhere between three to ten percent of the amount owed.

**When does the Policy Pay Out?**

PPI policies generally come in with what is termed as ‘an excess period’ or sometimes also referred to as a ‘deferred period’. This period is the interval before the insured receives payment for a claim. It is usually a
“Payments banks can also act as business correspondents of other banks.”
– Chanda Kochhar

period of 30 days but, depending upon the policy, can extend up to 180 days. The implication of the deferred period is that where the policy has a deferred period of 30 days, the insured will only start getting monthly payments after the expiry of 30 days of unemployment. However, it is possible to obtain back-to-day-one policies which essentially are policies that backdate payments from the point of claim.

**General Exclusions**
Most PPI policies do not cover the first 90 days of unemployment; therefore, making it necessary for the insured to maintain sufficient finances that can be utilized for this period. Additionally, PPI policies covering sickness may have policy-specific exclusions with regard to certain illness. Apart from the aforementioned two exclusions, the following are a number of general exclusions that applies to loan PPI policies:

*i. Foreseeable Redundancy*
An insured's claim can be denied if he had been informed or was aware of his job being under consultation at the time of purchasing the policy. This could also be the case where the insured had knowledge of employment-cuts or financial issues within one's company. Therefore, it is important to be prudent before choosing a policy, especially when it comes to interpreting the fine lines of the policy terms and conditions.

*ii. Voluntary Redundancy*
If the insured prefers voluntary redundancy, he will not be able to claim a loan PPI policy. An exception to this is where the insured leaves a full-time career to care for a seriously ill loved one. However, this exclusion's applicability depends upon the terms and conditions of the concerned policy.

*iii. Self-employment*
Many PPI policies excludes self-employed individuals, or place strict restrictions. For instance, the insured may be covered for accident and sickness, but won’t be covered if the individual becomes unemployed.

*iv. Pre-existing Conditions*
An insured’s claim will be rejected if he had to stop working due to a condition pre-existing before taking out the policy. Therefore, it is important to disclose all pre-existing medical conditions before the purchase of the policy. Additionally, the insured must keep the insurer informed of any condition development during the life of the policy. There are also exclusions if the insured deliberately injures oneself or loses employment due to drug and alcohol-related issues.

*v. Age and Employment Restrictions*
Like most insurance products, loan PPIs comes with certain age and employment restrictions. These vary between providers; however, most policies only cover people between the ages of 18 and 65. Additionally, the insured must also work for at least 16 hours a week. In the case of employment under a temporary contract, the insured is unlikely to be covered; this is especially the case if the insured has not completed six months of employment.

Most PPI policies can cover an individual who is self-employed, but the insured may only claim if the insured goes out of business due to no fault of his, for instance, due to involuntary liquidation. In the case of a contracted worker, there may be requirements surrounding the duration of employment (such as working hours or time-span).

**PPI Controversy**
As observed before, PPI policies have the potential of being advantageous especially in periods of financial crisis. However, it has been widely mis-sold by incentivized sales staff. There are instances where people have purchased policies unsuitable to their needs. For instance, for the self-employed, the unemployment
"Credit card interest payments are the dumbest money of all."
- Arnold Schwarzenegger

element is often useless, as the benefits were either low or the self-employed were excluded altogether. Additionally, policy-specific exclusions can also affect the insured, especially where the insured was not informed of such exclusions before the purchase of the policy.

**Mis-selling of PPI Policies**

Mis-selling of PPI involves instances where people were sold policies:

1. For which they would never be eligible to claim;
2. To those who were covered by other means; and
3. Often without the full knowledge of the person purchasing the product.

For instance, if one went to the bank to take out a loan, credit card, or car finance deal, PPI was often bundled into the loan. When it was included, it was often poorly explained by sales staff. Additionally, PPI was included in the loans of the self-employed or for those with a pre-existing medical condition, knowing that they would never be able to claim. In worst case scenarios, banks have fraudulently represented that such coverage was a compulsory element of a loan or simply added it without the borrower’s consent.

**THE 2011 British Scandal**

Critics stated that the banking industry, realizing the profitability in PPI policies, began aggressively selling these policies to customers. In 2004, the Guardian stated that only 15% of PPI income was returned to the claimants by banks, making PPI more lucrative than house or car insurance.

Following this, Citizens Advice intensified the pressure by conducting an investigation which labelled PPI a ‘protection racket’. The charge-sheet against PPI stated that these policies were:

- **Expensive**– with premiums often adding 20% to the cost of a loan, and in worst scenarios, over 50%.
- **Mis-sold**– the policies were taken out without the customers knowledge, sold as ‘essential’, or sold to people who are unable to make a claim.
- **Ineffective**– policies were structured to limit the chances of a payout to someone who was genuinely ill.
- **Inefficient**– since it was riddled with complicated and lengthy procedures, unnecessarily delaying claimants’ claims.

The FSA, who took up the matter in their hands, brought a new regime for PPI which stipulated the following:

1. PPI Could not be sold until seven days after the expiry of the loan agreement;
2. Borrowers must be provided with a personalized quote detailing the costs and cover;
3. The Customers had to be told in writing that the PPI policy was optional; and
4. PPI sellers were obligated to disclose the number of customers who were successful in claiming their policies.

The aforementioned provisions required providers to walk customers through the critical features of a policy rather than speculating that the customers will read the relevant documentation. Additionally, the banks also argued that it was unfair to provide retrospective imposition of these standards. Following this, banks represented by a trade body called ‘British Bankers’ Association’ (BBA) complained that these rules were unfair since it would be applied retrospectively. In British Bankers Association, Regina (On the Application of) V The Financial Services Authority and Another, the BBA challenged the FSA and the Financial Ombudsman; however, the high court ruled against BBA, thereby, endorsing the approach by the FSA and the Ombudsman. This meant that banks in Britain will be forced to re-open thousands of claims over the mis-selling of PPI policies, which will require the banks to pay large amounts in compensation.
Following this, the Lloyds Banking Group, decided to pull out its support against the regulation, and announced its decision to allocate £3.2 billion provision to cover claims by millions of customers. It can be said that this decision fully exposed the scandal of mis-selling PPI policies which dated back to more than a decade. Though initially it was contemplated that the high court ruling would allow around 3 million people to make claims amounting to an estimated £4.5bn, however, Lloyds’ announcement implied that the actual amount of compensation could be twice as much as the estimated amount.

**How to Know if PPI has been Mis-sold?**

The primary and best option to ascertain PPI coverage is to look into the original paperwork provided at the time of taking out the loan. Additionally, it is also possible to see a coverage itemized on past statements; although it is not necessary that it is referred to as PPI. The following are some alternate terms that may be used instead:

1. Credit repayment protector
2. Credit card repayments cover
3. Mortgage care
4. Mortgage repayment protection
5. Loan-guard
6. Credit-care
7. Credit-guard
8. Payment protection cover

**Reclaiming Mis-Sold PPI**

Whether or not the insured can reclaim mis-sold PPI and the process for the same depends upon the jurisdiction and the laws of the jurisdiction the loan was taken out in. However, generally, with regard to reclaiming PPI, the first step is to collect all the relevant documentation. It is necessary to include copies of the loan agreement, any statements, and any correspondence between the insured and the financial services provider about PPI. The second step is to contact the financial service company which sold the relevant PPI policy and formally initiate the compensation request. The primary matters to include in this request are:

1. Any reference number or the name of a complaints manager assigned to the insured’s case,
2. The insured’s credit reference number and PPI number,
3. When the PPI policy was taken out,
4. What the financial product was tied to,
5. Reasons for believing that the PPI was mis-sold, and
6. Full contact details of the client and of anyone else involved in the claim.

**Global Purview of PPI Regulations**

**Canada**

Within Canada there aren’t any PPI specific legislations and, like other insurance policies, PPI is regulated by the Insurance Companies Act (S.C. 1991, c. 47). This Act sets out the regulations, restrictions, structure, authority and other matters pertaining to the insurance industry and to be abided by the insurance companies and providers.

The Financial Consumer Agency of Canada, authorized under the said Act, is the regulatory authority of insurance policies offered in Canada. Financial institutions can offer credit or loan insurance when taking out mortgage, line of credit or other loan. It is also termed as credit insurance or debt insurance.

The following are the PPI policy products available in Canada to protect the insured’s debt repayments in case of illness, accident, or death:
“The only way you will ever permanently take control of your financial life is to dig deep and fix the root problem.”
- Suze Orman

<table>
<thead>
<tr>
<th>Type of Insurance</th>
<th>Quantity</th>
</tr>
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<tbody>
<tr>
<td>Mortgage Disability Insurance</td>
<td>Assists in mortgage repayments to the lender(s) for a specified time, when the insured is unable to work due to severe illness or injury.</td>
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<tr>
<td>Mortgage Default Insurance</td>
<td>Protects the interest of the mortgage lender, if the insured is unable to make repayments. This type of insurance is mandatory where the down payments for a property is less than 20% its purchase price.</td>
</tr>
<tr>
<td>Mortgage Life Insurance</td>
<td>The policy pays out the remaining balance on mortgage to a lender in the event of the insured’s death.</td>
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<tr>
<td>Credit Protection Insurance</td>
<td>Under this policy, minimum monthly payments are made on a credit card, line of credit, loan, or other debt for a specified time if the insured is unable to work due to severe injury or illness. Upon the insured’s recovery or on expiry of the coverage period, the insured is responsible for making the remainder of payments.</td>
</tr>
<tr>
<td>Credit Balance Insurance</td>
<td>The policy pays out the remaining credit card balance, line or credit, bank, or other debt in full, to the lender at the time of your death.</td>
</tr>
<tr>
<td>MDMA</td>
<td>This policy helps the insured recover lost wages, restore credit and reclaim your identity in the event of an identity theft. However, the policy does not reimburse the amount stolen from the insured.</td>
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In most cases, credit and loan insurance applies to a particular loan; this means that if a PPI policy is required for multiple loans, the insured will have to obtain insurance on each specific loan. Additionally, it is important to note that apart from the aforementioned exclusion, all PPI policies are optional and the insured must explicitly agree to them. A valid consent can be given in the following ways:

1. Verbally,
2. In writing on paper, and
3. In writing using an electronic format.

**United Kingdom**

Within the UK, the Financial Services Authority (FSA) has concentrated on four main areas of continuing concern: suitability of advice and product, eligibility to make a claim, inadequate disclosure of policy details, and price. In order to address these issues, the Insurance Conduct of Business Sourcebook (ICOBS) sets out a differentiated regulatory regime imposing stricter selling standards on ‘protection products’ in comparison to general insurance. This term covers ‘pure protection contracts’ and ‘payment protection contracts’. Also, there are special rules that applies to PPI alone. It is important to note that the ICOBS provisions must be read in context of the Competition Commission’s measures for improving competition within the PPI market.

**Primary Provisions enumerated under the ICOBS**

**Eligibility**

It is mandatory for any firms offering PPI within the UK to take reasonable steps to ensure the customer’s eligibility to claim, which includes checking that the customer meets any qualifying requirements for different parts of the policy. Under S 5.1.2, a firm arranging the payment protection contract must:

1. Take reasonable steps to ensure that the customer only purchases a policy under which the purchaser is eligible to claim benefits, and
2. If at any time during the arrangement of the policy,
A small debt produces a debtor; a large one, an enemy.
– Publilius Syrus

Right to Cancel
A consumer, under Section 7.1.1 of the code, has the right to cancel a policy, without penalty or reason:

i. Within 30 days of the contract of insurance, which is or has elements of, a pure protection contract or payment protection contract, and

ii. Within 14 days for any other contract of insurance or distance contract.

The firm (under section 7.1.2) may provide longer or additional cancellation rights so long as it is as favorable to the consumer as those enumerated under Section 7.1.1. Additionally, section 7.1.3 enumerates the exceptions to the provisions under section 7.1.1.

United States
With the United States, PPI policies are referred to as ‘Credit Insurance’ or ‘Debt Cancellation Coverage’ and is sold by lenders, including banks, auto dealers, credit unions, and finance companies, when one takes out a loan or opens a credit account. The following are the four primary types of PPI policies that are available in the US:

i. Credit involuntary unemployment- pays a specified number of monthly loan payments if the insured is laid-off.

ii. Credit life insurance- pays off all or some parts of the loan in case of the death of the insured.

iii. Credit property- protects the insured’s personal property used to secure a loan if it is destroyed during the term of the coverage.

iv. Credit disability- pays for a limited number of monthly payments.

While states generally have the authority to enact their own insurance laws and regulations, the Federal Deposit Insurance Corporation (FDIC), formed by Congress, ensures the stability and legitimacy of the United States Financial System. In this article, we will focus on the laws and regulations surrounding PPI policies within the State of Washington:
PPI Regulations in the State of Washington

Within Washington, Chapter 48.34 of the Revised Code of Washington (RCW) lays out the regulations for PPI policies. The following are the primary provisions for the same:

**Authorized Forms - RCW 48.34.040**

The following are the considered authorized forms of Credit life insurance, and Credit accident and health insurance:

i. Individual policies of life insurance issued to debtors on the term plan;

ii. Individual policies of accident and health insurance issued to debtors on a term plan, or disability benefit provisions in individual policies of credit life insurance;

iii. Group policies of life insurance issued to creditors providing insurance upon the lives of debtors on the term plan;

iv. Group policies of accident and health insurance issued to creditors on a term plan insuring debtors, or disability benefit provisions in group credit life insurance policies to provide such coverage.

**Limitations**

i. **Credit Life Insurance**

   Individual Policy (RCW 48.34.050) – the initial amount of credit life insurance under individual policy shall not exceed the total amount repayable under the contract of indebtedness. Where the indebtedness is repayable in substantially equal installments, the amount of insurance at no time shall exceed the scheduled of actual amount of unpaid indebtedness.

   Group Policy (RCW 48.34.060) – the initial amount under a group policy for credit life insurance shall at no time exceed the amount owed by the debtor which is repayable in installments to the creditor.

ii. **Commencement and Termination Date Of Term (RCW 48.34.080)**

   The term of any PPI (life, health, or accident) shall, subject to the acceptance by insurer, commence on the date when the debtor becomes obligated to the creditor. However, in case of a group policy which provides coverages in respect of existing obligations, the insurance on a debtor with respect to such indebtedness shall commence on the effective date of the policy.

   Where evidence of insurability is required and is furnished more than thirty days after the dates of debtor obligation to the creditor, the term of the insurance may commence on the date which the insurance company deems evidence as satisfactory. In such event, there shall be a refund or adjustment of any charge to the debtor for insurance. Insurance term in this matter shall not extend more than fifteen days beyond the scheduled maturity date of the indebtedness, except when it is extended without any additional cost to the debtor.

   If the indebtedness is discharged due to renewal or refinancing prior to the scheduled maturity date, the insurance in force shall be terminated before the issuance of a new insurance in connection with the renewed or refinanced indebtedness. In all cases of termination before the scheduled maturity, a refund shall be credited or paid in accordance to RCW 48.34.110.

iii. **Refunds, Credits, and Charges to Debtor (RCW 48.34.110)**

   Every individual or group policy certificate shall provide that in the event of insurance termination prior to the scheduled maturity date of indebtedness, the amount paid by the debtor for insurance shall be promptly refunded to the entitled person. The formula used in computing such amount shall be filed with and approved by the commissioner.

   If the creditor requires a debtor to make payments for any credit life or accident and health insurance, and an individual policy or group certificate of insurance has not been issued, the creditor shall immediately give a written notice to the debtor and shall promptly make a credit to that account.
If the creditor requires a debtor to make payments for
The amount charged to a debtor shall not exceed the
premiums charged by the insurer, as computed at the
time the charge to the debtor is determined.

**United Arab Emirates**
PPI policy in the UAE is referred to as a ‘Credit Shield,’ and
is an insurance cover for credit card bills. Instead of
paying insurance premiums, the insured pays an
additional amount on his or her credit card monthly bills.

**Laws and Authority**
Though there is no specific regulation for Credit Shield
policies, the same falls under the regulatory authority of
the Insurance Authority and is regulated under the
following laws which apply to general insurance policies:

1. Federal Law No.6 of 2007- concerning the establish-
   ment of the Insurance Authority and organization of its
   operations (with the 2018 amendment by Federal Law
   No.3 of 2018)
2. Federal Law No.5 of 2012
3. The Executive Regulations

**Coverage**
Most banks, rely on other types of insurance policies,
offer different coverage policies for Credit Shield. How-
ever, the following are the most common situations
where the credit shield insurance can be claimed for
making outstanding credit card bill payments:

1. Natural death
2. Permanent total disablement
3. Death caused by accident
4. Temporary total disability
5. Critical illness
6. Involuntary loss of employment
7. Terminal illness and male or female cancer

**Eligibility Criteria**
An individual must:

1. Be a primary or secondary credit-card holder,
2. Regularly pay at least the minimum amount payable
   on the outstanding balance, and
3. Should be within the coverage range of age, which
   is generally from late teens up to 60 years of age.

**Credit Shield Claim and Documentation**
The claim process and documentation requirements
for Credit Shield Insurance is similar to any other insur-
ance product. The following are general documenta-
tion requirements for a claim:

**For death claims:**
1. Death certificate
2. Post Mortem Report
3. Medical report with detailed diagnosis and cause of
death (if the actual cause of death is not clearly stated in
the Death Certificate)
4. Proof of ID

**Loss of employment claims:**
1. ID proof
2. Termination letter
3. Proof of prior employment

**Permanent total disability claims**
1. Disability Certificate from an authorized medical
   practitioner to assess disability,
2. Police report (if disability is due to an accident), and
3. Medical report with detailed diagnosis, cause of
disability, and details of treatment provided.

**Exclusions**
The following are some of the general exclusions,
whereby, the card holder will not be able to claim the
benefits of a Credit Shield:

1. Death by suicide within 12 months from the date of
   commencement,
2. Illness occurring within 30 days from the date of com-
   mencement,

“If banks anticipate government will come to the rescue should
the credit market go badly awry, they may make loans that
would otherwise be imprudent, e.g. subprime loans with
little prospect of repayment.”

- Eric Maskin
iii. Any deliberate self-inflicted injury and/or self-medication (without proper prescription from the legally recognized medical practitioner),

iv. Effects and complications arising from pregnancy,

v. Accident occurring on or in or about any aircraft other than a licensed commercial or chartered aircraft in which the cardholder was travelling as a bona fide passenger,

vi. Riot, strikes, civil commotion, war, rebellion and such, and

vii. Nuclear radiation, fission, fusion or contamination.

General exceptions to cover for Involuntary unemployment:

viii. Employment was for a fixed term contract of less than two years, part-time, or temporary employment,

ix. Mutual agreement or voluntary resignation, redundancy from employment due to excess of normal holiday entitlement,

x. Involuntary loss of employment within 90 days of the commencement date,

xi. Where employment is seasonal or unemployment is due to non-renewal of employment contract by authorities,

xii. Voluntary retirement,

xiii. Misconduct or refusal to abide by directions from superiors,

xiv. Conviction of a crime, and

xv. Dishonesty or fraudulent actions.

General Exceptions to Hospital Cash Benefit:

i. Pre-existing illnesses or conditions,

ii. Home medical care, and


Conclusion

Payment Protection Plans can prove to be valuable in situations where an individual is unable to cope with his or her financial obligations due to unforeseen circumstances such as loss of job, illness, or accident. However, is it pertinent that before one obtains a PPI policy, they conduct a thorough reading into the laws, regulations, eligibility, and contract terms. Additionally, even with a PPI policy, it is always advised to maintain certain amount of financial services that can be utilized in the gap period between the accident/redundancy and the policy kicking in.

"The payment for sins can be delayed. But they can't be avoided."

—Shawn Ryan