

A Guide to Payment Protection Insurance

A recent survey undertaken by independent Payment Protection Insurance provider, British Insurance, reveals four out of five people do not have this cover, suggesting they are either wary of the product or have little or no idea what it does.



To enable you to understand how this insurance works and how it can help you, British Insurance, in conjunction with personal finance comparison site, Moneynet, has put together this simple consumer Guide.



What is Payment Protection Insurance (PPI)?

PPI, also known as Unemployment Insurance or Accident, Sickness and Unemployment (ASU) cover, is an insurance policy which pays out if you lose your income - due to redundancy or an inability to work because of an accident or sickness - and replaces it with tax-free monthly cash payments for up to 12 months.

This cover has traditionally been sold by credit providers alongside mortgage, loan or credit-card products. However, the Competition Commission intends to ban lenders from selling PPI at the point you take out your borrowing. This gives you the opportunity to shop around for cover from intermediaries and direct providers via the internet, to ensure you get the best deal you can.

Many people aren't aware that PPI isn't restricted to covering just your finance commitments; it can also be used to safeguard your rent payments, utility and council tax bills or even your monthly food costs.

How does it work?

Providers generally price cover per £100 of monthly benefit – allowing you to clearly see what you're paying each month and know what the return will be should you need to claim. Simply work out how much you need and the provider will calculate the premium. If the provider doesn't give you a monthly figure, either ask for one, or find someone that does.

Policies offer a choice of waiting periods (the length of time you've chosen to wait until money starts being paid directly to your mortgage provider or into your bank account) - these range from 'back to day one' to 180 days. The longer the waiting period, the lower the monthly premium.

Who is the cover for?

Anyone in employment who runs a home. Whether you're buying your property, renting or in a shared ownership agreement, the financial consequences of a lost salary are equally severe.

I'm wary of buying PPI due to stories I've heard in the media

We understand this and it's one of the main reasons we've put together this guide to try and make PPI clear to people, and so that they don't pay for something that's not suitable.

In the past there have been instances where high street finance providers have sold PPI without explaining what is and isn't covered. Also the PPI cost used to be added to your loan (known as single premium PPI) and you were charged interest on your premiums which made it an expensive form of insurance.

Now you just pay your premium on a monthly basis totally separate from your borrowing and are free to cancel at any time. It's important that people don't disregard PPI as it can really help you manage your finances if you find yourself unable to work.

What isn't covered?

We are not saying that PPI is right for everyone and there are some important conditions you should be aware of before deciding to take out this cover.

- If you're a contract worker or self-employed certain conditions apply so check the policy exclusion before you buy. For instance: www.britishinsurance.com/eligibility.html
- You will be unable to claim for unemployment until your policy has been up and running for an initial period – typically 120 days
- You will not be able to make a claim for a medical condition that you have suffered from prior to taking out your PPI policy (Pre-existing condition).
- You will be unable to claim for unemployment or sickness cover until you have been off work for a minimum period – this will vary between providers but is usually from 30 days. It also depends on the waiting period you have chosen.
- Claims resulting from back-ache and stress (the two most common reasons for workplace absence) will usually only be paid if radiological evidence or a psychiatrist's diagnosis is received and that it's not a pre-existing condition.
- Maximum age for cover is usually 65 years.
- Maximum monthly payout is usually restricted, either to a percentage of your monthly income or a maximum monthly limit.
- You have a 30 day cooling off period when you take out your PPI policy and have the right to cancel and receive a full refund during this time.

Why it's important to you?

PPI is an effective way stop bills spiralling out of control at a time when money is tight. It can prevent you having to use up your savings or getting into debt, so why leave things to chance?

Whilst state support is available, for many, it is unlikely to be sufficient. The weekly Jobseeker's Allowance of £65.45 is barely enough to cover a food bill and it's been found that less than 2% of households qualify for the Government's £40 a week Income Support for Mortgage Interest scheme (recipients are means-tested). PPI on the other hand cover allows you to take control of your finances.

When should I buy PPI?

Give it some careful thought now, just think how you'd manage to meet your monthly repayments if you were unable to work – don't leave it until it's too late. For example, if your company announces a programme of job losses, restructures or mergers with another firm within four months of your policy start date you won't be eligible to claim. In other words, don't wait for your employment situation to change before you think about buying a policy.

What's the cost?

Prices vary so it's worth shopping around. For example, a 40 year-old looking to receive £500 a month from an accident, sickness and unemployment policy, opting for back to day one cover, will pay £20 a month with British Insurance, £22.95 with Columbus and £34.60 with More Than*. www.britishinsurance.com

What happens if I need to make a claim?

You will find a contact number on your policy and advisers will explain the next steps. If you're making an unemployment claim, you'll need to register with Jobcentre Plus – the date you register is the date your claim starts. For accident or sickness claims, a doctor will need to provide details, and again, the start of the claim will be the date the doctor has certified you're unfit for work.

If you have any questions on perhaps need some further clarification on anything in this guide, please telephone us on 08450 175 178 or email at mail@britishinsurance.com

**Internet research undertaken by British Insurance on 24 May 2010 – obtaining quotes from major PPI providers.*

This guide is provided by British Insurance and Money.net and is intended to provide a high level overview. When buying payment protection insurance, always read the insurer documentation to ensure the cover is appropriate for your needs.