

## **Characteristics of PPI for different credit products**

1. The purpose of this appendix is to set out details of the characteristics of each of the main types of PPI policy, associated with a specific credit product, which we identified during the course of the investigation.
2. The characteristics of PPI policies differ between credit products. A summary of the features is set out below.

### **PLPPI**

#### ***What it is***

3. PLPPI protects personal loans (sometimes called unsecured loans).

#### ***What it covers***

4. 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.
5. 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 to 12 months per claim.
6. 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 over time by the amount repaid and any arrears. Accordingly, L cover generally pays off the outstanding balance on the loan at the time of a claim.
7. 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?***

8. Nearly all PLPPI policies are paid for by a single premium (see paragraphs 2.74 to 2.78).
9. Since May 2005, consumer credit agreements (such as that applicable to a personal loan) have required the customer to sign the loan documentation 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***

10. 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, depending on the terms of the policy.

## **Refunds**

11. If the underlying loan is settled during the term of the policy, or the PPI policy cancelled, a refund of premium will be given. The basis of calculation of the refund will vary but will reflect the fact that the insurer considers that its liability reduces as the term of the loan progresses.<sup>1</sup>

## **MPPI**

### ***What it is***

12. MPPI refers to PPI on first-charge mortgages.

### ***What it covers***

13. 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.<sup>2</sup>

### ***How is it paid for?***

14. 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***

15. 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**

16. Premiums are usually paid on a monthly basis. If a customer wishes to cancel the policy, the monthly payments will simply cease at the end of a notice period (which will have been specified in the insurance contract). There is no refund applicable.

## **CCPPI**

### ***What it is***

17. CCPPI covers a percentage of the outstanding balance on a customer's credit card, either at the time of claim or in accordance with the last statement issued prior to the time of claim.

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<sup>1</sup>See Appendix 5.2 for details of calculations of single-premium refunds.

<sup>2</sup>During the course of the investigation, HSBC introduced a product called LifeChoices to replace its MPPI policy (and another life insurance policy) (see Appendix 2.3 for details). LifeChoices offers the option of life cover.

### ***What it covers***

18. The principal risks covered are L, A, S and U, or, with some providers, a combination of these risks. Some providers also offer the option of CI cover.
19. In the event of a claim, ASU cover pays a specified percentage of the outstanding balance on the customer's credit card each month, usually for a maximum period of 12 months. 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.
20. The insured person is the primary cardholder only.

### ***How is it paid for?***

21. CCPPI is a monthly-premium insurance policy. The premium is calculated as a percentage of the outstanding balance on the monthly statement and is usually expressed as x pence per £100 of benefit.

### ***Exclusion/waiting periods***

22. 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, depending on the terms of the policy.

### ***Refunds***

23. As the premium is paid on a monthly basis with reference to the sum outstanding on the credit card, if a policy is cancelled, after the expiry of a specified notice period the monthly payments cease. There is no refund applicable.

## **SMPPI**

### ***What it is***

24. SMPPI protects a second-charge mortgage (also known as a secured loan) which is usually guaranteed on a customer's home and as such constitutes a 'second charge' on that home.

### ***What it covers***

25. The principal risks covered are L, A, S and U; or, in the case of some providers, a combination of these risks. 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 (usually either 12 or 24). Payment of the U benefit is generally limited for 12 months per claim.

### ***How is it paid for?***

26. The majority of SMPPI policies are single premium.<sup>3</sup>

### ***Exclusion/waiting periods***

27. 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, depending on the terms of the policy.

### ***Refunds***

28. If the underlying loan is settled during the term of the policy, a refund of premium will be given (if the SMPPI is paid for by a single premium). The basis of calculation of the refund will vary between policies but 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.

## **Motor PPI**

### ***What it is***

29. Motor PPI is a form of PLPPI and covers a personal loan taken for the purpose of buying a car.

### ***What it covers***

30. The principal risks covered are L, A, S, U and CI, or, with some providers, a combination of these risks. 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?***

31. Motor PPI is usually a single-premium policy, though there are some providers<sup>4</sup> who charge a monthly premium for motor PPI.

### ***Waiting/exclusion periods***

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

### ***Refunds***

33. If the underlying loan is settled during the term of the policy, a refund of premium will usually be given (if the PLPPI is paid for through a single premium). The basis of

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<sup>3</sup>Approximately 72 per cent of SMPPI policies sold in 2007 were single-premium policies; the balance were regular-premium.

<sup>4</sup>11 per cent of the motor PPI policies sold in 2007 were regular-premium policies.

calculation of the refund will vary between providers but will reflect the fact that the insurer considers that its liability reduces as the term of the loan progresses.

## **Retail PPI**

### ***What it is***

34. Retail PPI covers a percentage of the outstanding balance owing on a customer's retail finance account/loan. The type of retail finance sold in conjunction with the PPI defines the type of PPI policy. We found two types of retail finance:<sup>5</sup>
- 'Personal loan' retail finance, which is a personal loan provided by or on behalf of the retailer granting credit to the consumer to purchase a specific good (or goods, usually of high value) sold by the retailer of that good.
  - 'Credit account' retail finance, which is a running account credit facility provided by the retailer to the consumer to purchase goods from the retailer. The consumer typically buys goods at different times, such that their credit balance rises and falls over time.
35. We concluded that PPI sold alongside 'personal loan' retail finance was a form of PLPPI. PPI sold alongside 'credit account' retail finance is retail PPI for the purposes of this report.

### ***What it covers***

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

### ***How is it paid for?***

37. Retail PPI is a monthly-premium insurance (either on a calendar or a four-weekly basis). The premium is calculated as a percentage of the outstanding monthly balance.

### ***Waiting/exclusion periods***

38. 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 depend upon the terms of the PPI policy.

### ***Refunds***

39. As the premium is paid on a monthly basis with reference to the sum, if a policy is cancelled, the monthly payments cease after the expiry of a notice period which will have been specified in the policy. There is no refund applicable.

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<sup>5</sup>A third type of retail finance may be provided by store cards, but these and store card PPI are outside the scope of this investigation.

## **Overdraft PPI**

### ***What it is***

40. Overdraft PPI protects the repayments a customer is required to make on an overdraft facility.

### ***What it covers***

41. 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 H also.

### ***How is it paid for?***

42. Overdraft PPI is a monthly-premium insurance. 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***

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

### ***Refunds***

44. Premiums are paid on a monthly basis, therefore if a policy is cancelled the monthly payments cease, after the expiry of a notice period which will have been specified in the policy. There is no refund applicable.