

Appendix 3

Handling Payment Protection Insurance complaints

3.7 Approach to redress at step 1

App3.7.-1 **E** This section applies to step 1.

General approach to redress: all contract types

- App3.7.1** **E** Where the *firm* concludes in accordance with ■ DISP App 3.6 that the complainant would still have bought the *payment protection contract* he bought, no redress will be due to the complainant in respect of the identified breach or failing, subject to ■ DISP App 3.7.6 E.
- App3.7.2** **E** Where the *firm* concludes that the complainant would not have bought the *payment protection contract* he bought, and the *firm* is not using the alternative approach to redress (set out in ■ DISP App 3.7.7 E to ■ 3.7.15 E) or other appropriate redress (see ■ DISP App 3.8), the *firm* should, as far as practicable, put the complainant in the position he would have been if he had not bought any *payment protection contract*.
- App3.7.3** **E** In such cases the *firm* should pay to the complainant a sum equal to the total amount paid by the complainant in respect of the *payment protection contract* including historic interest where relevant (plus simple interest on that amount). If the complainant has received any rebate, for example if the *customer* cancelled a single premium *payment protection contract* before it ran full term and received a refund, the *firm* may deduct the value of this rebate from the amount otherwise payable to the complainant.
- App3.7.4** **E** Additionally, where a single premium was added to a loan:
- (1) for live *policies*:
 - (a) subject to ■ DISP App 3.7.5 E, where there remains an outstanding loan balance, the *firm* should, where possible, arrange for the loan to be

restructured (without charge to the complainant but using any applicable cancellation value) with the effect of:

- (i) removing amounts relating to the *payment protection contract* (including any interest and charges); and
 - (ii) ensuring the number and amounts of any future repayments (including any interest and charges) are the same as would have applied if the complainant had taken the loan without the *payment protection contract*; or
- (b) where the *firm* is not able to arrange for the loan to be restructured (e.g. because the loan is provided by a separate *firm*), it should pay the complainant an amount equal to the difference between the actual loan balance and what the loan balance would have been if the *payment protection contract* (including any interest and charges) had not been added, deducting the current cancellation value. The *firm* should offer to pay any charges incurred if the complainant uses this amount to reduce his loan balance; and
- (2) for cancelled *policies*, the *firm* should pay the complainant the difference between the actual loan balance at the point of cancellation and what the loan balance would have been if no premium had been added (plus simple interest) minus any applicable cancellation value.

App3.7.5 [E] Where a claim was previously paid on the *policy*, the *firm* may deduct this from redress paid in accordance with ■ DISP App 3.7.3 E. If the claim is higher than the amount to be paid under ■ DISP App 3.7.3 E then the *firm* may also deduct the excess from the amount to be paid under ■ DISP App 3.7.4 E.

App3.7.6 [E] Where the *firm* concludes that the complainant may have reasonably expected that a rejected claim would have been paid (see ■ DISP App 3.5) then:

- (1) if the value of the claim exceeds the amount of the redress otherwise payable to the complainant for a breach or failing identified in accordance with this appendix, the *firm* should pay to the complainant only the value of the claim (and simple interest on it as appropriate); and
- (2) if the value of the claim is less than the amount of the redress otherwise payable to the complainant for a breach or failing identified in accordance with this appendix, the *firm* should pay to the complainant the value of that redress.

Alternative approach to redress: single premium policies

App3.7.7 [E] Where the only breach or failing was within ■ DISP App 3.6.2 E (9) and/or ■ DISP App 3.6.2 E (12), and in the absence of evidence to the contrary, the *firm* may presume that instead of buying the single premium *payment protection contract* he bought, the complainant would have bought a regular premium *payment protection contract*.

App3.7.8 [E] If a *firm* chooses to make this presumption, then it should do so fairly and for all relevant complainants in a relevant category of sale. It should not, for example, only use the approach for those complainants it views as being a lower underwriting risk or those complainants who have cancelled their *policies*.

- App3.7.9** **E** Where the *firm* presumes that the complainant would have purchased a regular premium *payment protection contract*, the *firm* should offer redress that puts the complainant in the position he would have been if he had bought an alternative regular premium *payment protection contract*.
- App3.7.10** **E** The *firm* should pay to the complainant a sum equal to the amount in **■ DISP App 3.7.3 E** less the amount the complainant would have paid for the alternative regular premium *payment protection contract*.
- App3.7.11** **E** The *firm* should consider whether it is appropriate to deduct the value of any paid claims from the redress.
- App3.7.12** **E** Additionally, where a single premium was added to a loan, **■ DISP App 3.7.4 E** applies except that in respect of **■ DISP App 3.7.4 E (1)(a)** the cancellation value should only be used if the complainant expressly wishes to cancel the *policy*.
- App3.7.13** **E** The *firm* should, for the purposes of redressing the *complaint*, use the value of £9 per £100 of benefits payable as the monthly price of the alternative regular premium *payment protection contract*. For example, if the monthly repayment amount in relation to the loan only is to be £200, the price of the alternative regular premium *payment protection contract* will be £18.
- App3.7.14** **E** Where the *firm* presumes that the complainant would have purchased a regular premium *payment protection contract* and if the complainant expressly wishes it, the existing cover should continue until the end of the existing *policy* term. The complainant should pay the price of the alternative regular premium *payment protection contract* (at **■ DISP App 3.7.13 E**) and should be able to cancel at any time. This pricing does not apply where **■ DISP App 3.7.4 E (1)(b)** applies.
- App3.7.15** **E** So that the complainant can make the decision on the continuation of cover from an informed position, the *firm* should:
- (1) offer to provide details of the existing *payment protection contract*;
 - (2) inform the complainant that he may be able to find similar cover more cheaply from another provider in the event that he chooses to cancel the *policy* and take an alternative but remind the complainant that if his circumstances (for example, his health or employment prospects) have changed since the original sale, he may not be eligible for cover under any new *policy* he buys;
 - (3) make the complainant aware of the changes to the cancellation arrangements if cover continues;
 - (4) explain how the future premium will be collected and the cost of the future cover; and

- (5) refer the complainant to www.moneyadvice.service.org.uk as a source of information about a range of alternative *payment protection contracts*.

Interaction with step 2

- App3.7.16** E Where the *firm* is aware that another *firm* has previously paid redress at step 2, the *firm* may deduct this from the redress due under step 1.