



# Protection or rejection

Insurance is designed to protect us when the unexpected happens. But, sadly, not all policies are as reliable as you would think

**W**e often take it for granted that insurance companies will pay out when we make a claim. However, the reality can be very different. Many insurers try to avoid paying claims, using a number of ways to make things difficult. A number of claimants have been caught out by complicated policy definitions, unfair exclusions and small print that's so tiny you can hardly read it. We focus on three particularly problematic types – critical illness insurance (CII), payment protection insurance (PPI) and travel insurance and examine how your valid claim has the best chance of success.

## Payment protection

Payment protection insurance (PPI) is designed to help borrowers meet repayments on credit cards, loans and store cards, if they're unable to work through accident, illness or redundancy.

### What to watch out for

For several years, Which? has expressed concerns about PPI – in particular, the way it is sold and its poor value for money. In addition, your chances of a successful claim are quite small. In 2005, the Office of Fair Trading (OFT) found PPI claims ratios (claims as a percentage of premiums paid by consumers) at about 20 per cent. By comparison, claims ratios for motor insurance were 82 per cent. And a recent OFT study showed an industry riddled with problems. One of the key findings was the lack of information available. The cost and the cover on policies was poorly explained, both in marketing/advertising literature and from providers themselves.

It's no surprise then that the OFT also revealed that consumers had a poor understanding of PPI. Over half of those paying for PPI monthly did not know the amount they were paying and 34 per cent thought there were no exclusions on the policy.

Potentially, the most worrying finding was the ease with which consumers could be misled when buying PPI. The OFT found that nearly a third of consumers assumed or were told that taking out PPI would help the application, and 87 per cent of unsecured loan providers they contacted automatically included PPI in the quote.

We did our own research in March this year to check how often lenders try to add PPI on to loan quotes automatically. We made 50 calls to ten well-known lenders and on 24 occasions, the quote included PPI, even though it wasn't asked for. On the internet, three major lenders gave initial quotes with PPI. Our researchers had to click through to see what repayments would be without insurance.

### What you need to know

While any insurance may feel reassuring, don't be persuaded to buy PPI. It's usually optional and you should not be refused credit if you decide against it. It's often expensive and typically pays out for only 12 months (but can be 24). The average cost of card PPI is 80p per £100 of the outstanding balance on the card each

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## PPI MAY NOT BE IN YOUR INTEREST

**Jayne Parker, 45, personal advisor**

When Jayne took out a 25-year loan for £32,356, PPI costing £3,525 was added at the outset.

However, the insurance was for five years only which meant, had she kept the loan for the full 25 years, she would have had to pay interest on the insurance long after it had expired. Total interest on the insurance would have totalled an astounding £6,387.

Jayne has since redeemed the loan but is angry because she believes that the loan

company, Swiftadvances, didn't make it clear to her that cover would end after five years, but that she'd be liable to pay interest on the premium for the full term of the loan.

Swiftadvances told us: 'We speak to every customer just before the loan completes to check they are happy with everything – we would only proceed if the customer said they wanted to take out PPI.'

She is now pursuing a complaint for mis-selling with Swiftadvances.

month, but it can be as much as £1.50 to insure £100. Also, policies often cover only the minimum repayment on the credit card or loan. If you make a claim, you may be subject to a qualification period, which requires you to be unable to work for a period of between 14 and 30 days before a claim can be made.

Most PPI policies do not cover pre-existing medical conditions and few cover back pain and stress-related illnesses. Often policies won't cover those who are self-employed, people under 18 and over 65 or temporary and contract workers. Check elsewhere – many employers offer cover if you are off work.

For many people, income protection insurance is more suitable than PPI. It replaces a proportion of lost earnings if you are off work due to sickness or accident and pays out until retirement age (see 'Protecting your income', *Which?*, March 2005, p28).

But if you have bought PPI, under new Financial Services Authority guidelines, you can now cancel single premium PPI and get a proportionate part of the refund. PPI which you pay monthly is cancellable at any time.

## TO DISCLOSE OR NOT TO DISCLOSE

### Reveal all or you risk having your claim turned down

A large number of claims are rejected due to non-disclosure. This means insurers refuse to pay out because the policyholder fails to mention something on

the application, even if it has nothing to do with the claim. The Financial Ombudsman Service said that last year about a third of health-related insurance disputes

concerned non-disclosure. Complex applications can be part of the problem. Disclose all relevant information or risk rejection when you claim.



## Critical illness

Critical illness insurance (CII) is designed to provide cover if you're diagnosed with a serious illness. It pays a lump sum, as long as the illness is covered by the policy definitions. CII generally covers seven core conditions – cancer, heart attack, multiple sclerosis, coronary bypass surgery, kidney failure, major organ transplant and stroke.

### What to watch out for

One of the most worrying aspects of CII is that one in five claims in 2005 was turned down. This was due to the policyholder not telling the insurer about a past health problem, or because the illness being claimed for wasn't covered by policy definitions.

It sounds extreme, yet failing to tell your insurer about a visit to the doctor about a headache a few years earlier could invalidate a claim if the insurer decides it's relevant. This situation is called 'non-disclosure' (see 'To disclose or not to disclose', opposite).

Medical advances also make CII problematic. Diseases are being diagnosed earlier and a customer's condition might not be critical enough at the point of diagnosis to trigger a payout from a policy.

Complex medical definitions in policies also cause confusion. The Association of British Insurers has produced standard wordings that companies must use in their policies. These are updated every few years. This has resulted in changes to the definitions, intended to make policies easier to understand. Although this has gone some way to aiding understanding, we still found policies with tricky definitions and exclusions. For example, we found this very technical exclusion relating to cancers, in one policy: 'All tumours of the prostate, unless historically classified as having a Gleason score greater than 6 or having progressed to at least TSM classification T2NOMO'

In another, the definition of blindness came with the following exclusion: 'It is possible to be termed "blind" with severely impaired vision and partial sight. This would not satisfy the requirements for a valid claim under this benefit.'

With this in mind, it is vital that you read the policy summary or 'keyfacts' document thoroughly and don't be afraid to ask questions if you don't understand anything.



## Checklist

### What to consider before buying insurance

■ **What you already have** Many workplaces have packages which offer cover if you're unable to work – check with your employer.

■ **Get advice** If you need help finding the best type of protection insurance, talk to a financial adviser. Contact IFA Promotions or the Personal Finance Society (see 'Contacts', p32).

■ **Advice or information** You can buy insurance on an information-only basis or with advice. For information only, you choose the product to buy. With advice, you receive a recommendation on the product and provider. Always take the advice route for protection insurance as this gives you the right to complain if you are sold the wrong policy.

■ **Read the notes** When you buy insurance, you are provided with a 'keyfacts' document which contains the essential policy details – you must read it carefully.

■ **Cancellation rights** These depend on the type of insurance you take out. Typically, 'cooling-off' periods are from 14 to 30 days. Check terms and conditions to see whether you're entitled to a refund if you cancel.

### What to do if you have a complaint

■ **Refer to your documents** There should be clear instructions telling you how to make a complaint.

■ **Get writing** You must first give the insurer the chance to put things right. Put your complaint in writing as soon as possible. Send copies of supporting documents and keep copies of any letters you send.

■ **Further measures** If you're unhappy with the company's response, you can generally take your complaint to the Financial Ombudsman Service as long as the company is regulated by the FSA (see 'Travel insurance', p28, for exclusions for travel agents).

### What you need to know

First, you may not need to take out a critical illness policy – check what cover you have already. Many employers offer a package if you're unable to work due to ill health.

When you fill out the application, declare everything, even if it seems minor or you've recovered. State any family-related illnesses, such as heart disease, when asked. If you think you may have forgotten something about a previous condition, tell your insurer and ask the company to contact your doctor for confirmation.

However, we believe that CII is a luxury product and, for most people, it's more important you have adequate life insurance if you have dependants, and income protection, before thinking about taking out CII.

**Exclusions on travel insurance are a big issue, particularly over pre-existing medical conditions**

## Travel insurance

Travel insurance is designed to cover you in the event of various problems when you're abroad (for more information, see 'Break cover', p28). However, merely taking out a policy doesn't mean that every claim you make will be successful.

As with PPI and CII, exclusions on travel insurance are a big issue – particularly over pre-existing medical conditions. If you or a member of your family has a pre-existing medical condition, you must tell your insurer, otherwise if you need medical treatment or need to cut short the trip because of the condition, then you may find you're not covered.

### What to watch out for

The meaning of various words and phrases differs between policies. A common cause for confusion is the difference between insurers' definitions and consumers' perceptions of a 'close relative'. If you had to return home because a close relative was ill, many insurers would not class nieces, nephews, aunts or uncles in this category. Make sure you ask how these are defined, if unclear in the terms and conditions of policy documents.

There are also problems in the way that some travel insurance policies are sold. The Financial Services Authority regulates the sale of most insurance products. However, this does not cover travel insurance purchased from a travel agent – although, this

### READ THE SMALL PRINT – QUICKLY



**David Maddison, 45**  
technical manager

When returning from a special holiday in Hong Kong, David treated his partner to a limousine home from the airport.

Sadly, the driver left £250 worth of cosmetics on the trolley when loading the car and, despite returning to the airport immediately, the cosmetics were gone.

Having no luck with the car company, David went to his travel insurer to make a claim. It refused on the grounds that he had not reported the crime and obtained a crime number within 24 hours.

David told us: 'I wouldn't think to report it immediately because I knew what had happened to the items and that no crime had been committed; by the time I read the small print, the 24 hours was up.'

## RISKY BUSINESS

### Also be wary of these three types of insurance

**1 Extended warranty**  
Be careful when you consider buying extended warranties. We believe many don't offer value for money. For example, in our June 2006 product reliability survey, we found that if you pick a Best Buy kitchen appliance, you needn't pick up an extended warranty. With reliability rates of around 80 per cent for most quality brands, chances are you'll never make a claim (for more details, see *Which?*, December 2005, p16).

**2 Overdraft cover**  
This covers a percentage of your overdraft limit, equivalent to the interest payments, if you can't work. Smile was among the first to launch this insurance, costing 50p per £100 of your agreed overdraft limit each month.

If you need to claim, the policy will pay off a tenth of the value of the overdraft for 12 months. But it's unlikely you'd ever need to claim – very few people claim on similar PPI offered on credit cards.

**3 Identity theft**  
Sold by several banks and credit card companies, this insurance can cost up to £84 a year and will give you access to your credit file and pay back legal costs if you are a victim of card fraud. But you can obtain your credit file for a cost of £2 from the three credit reference agencies – CallCredit, Equifax and Experian – and it's unlikely that you'll need to take legal action. As a victim of card fraud, the most you'll usually be liable for is £50.

is currently under review by the Treasury. If you have a problem with a policy sold to you by a travel agent, you have no right for recourse from the Financial Ombudsman Service if the policy turns out to be unsuitable.

The issue of lost and stolen items on holiday can also be tricky, as *Which?* member David Maddison found out (see 'Read the small print – quickly', above).

Like David, we found some insurers who applied exclusions for stolen goods 'which you do not report to the police within 24 hours of discovering and which you do not get a written police report for'. So make sure you read the small print and report any stolen goods as soon as possible.

### What you need to know

Although we believe that travel insurance is vital when heading off on your holidays, there are some points you must consider if you want any claim to be successful. First, you must be completely open when completing the application form, especially when it relates to pre-existing medical conditions.

Read terms and conditions, especially exclusions, thoroughly. And if anything doesn't make sense, ask. Taking a few more minutes over the application can save a lot of potential heartache.

## KNOW YOUR RIGHTS

While insurance can bring peace of mind, if you feel you've been mis-sold a policy or received misleading advice, *Which?* Legal Service can provide advice to resolve disputes swiftly. We are currently offering new members to *Which?* Legal Service an offer of a six-month subscription for the price of three months – £9.75. Visit [www.whichlegalservice.co.uk](http://www.whichlegalservice.co.uk) or call 0800 252100.



## Contacts

**Callcredit** [www.callcredit.co.uk](http://www.callcredit.co.uk)  
**Equifax** [www.equifax.co.uk](http://www.equifax.co.uk)  
**Experian** [www.experian.co.uk](http://www.experian.co.uk)

**Financial Ombudsman Service** 0845 080 1800; [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

**Financial Services Authority** 0845 606 1234  
[www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)  
**IFA promotions** 0800 085 3250  
[www.unbiased.co.uk](http://www.unbiased.co.uk)  
**Personal Finance Society** 020 8530 0852  
[www.thepfs.org](http://www.thepfs.org)