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in home-grown energy

# Requirements for Appropriate Financial Protection

# Introduction

By setting the requirements for financial protection to be associated with the installation of small-scale renewable technologies, MCS wishes to ensure that consumers can get things put right with their installations if their original Installer is either no longer trading or refuses to remedy an issue within a reasonable timescale.

MCS research has established that the presence of effective financial protection is a key driver of consumer confidence, encouraging consumers to invest in small-scale renewable technologies for their homes, and if structured correctly, as a platform for renewable lending at scale.

MCS approved financial protection products need to offer consumers the cost of remediation. Protections that secure MCS approval will be easy for consumers to understand, offering clear routes to make claims for remediation, providing the protection they can reasonably expect from a warranty or guarantee.

The structure of the financial protection product can take several forms, including but not limited to, use of protected funds, insurance captives or backed by an insurer. In all cases, protection products need to ensure sufficient funds are secured to address potential claims and allow consumers access to the protection if the provider of the financial protection product is no longer available. Independent audited evidence to support these requirements will be required to secure MCS approval.

## Scope

This document is intended for reference by financial protection providers who wish to secure MCS approval for their products. Purchased on their behalf by their chosen Installer, these products are to offer financial protection to consumers of small-scale renewable technologies that are certified under the Microgeneration Certification Scheme (MCS).

Once approved, financial protection products will be listed on the MCS website for selection by Installers. MCS Installer Operating Requirements state that an Installer must provide an approved financial protection product to their domestic customers (consumers).

## Disclaimer

*Appropriate disclaimers regarding reliance on the requirements and other exclusions to be included.*

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# Definitions

ADR	Alternative Dispute Resolution.
Cease to trade	Circumstance where the Legal Entity or Sole Trader that originally completed the Installation cannot engage under the Financial Protection i.e. due to insolvency, bankruptcy, receivership, retirement, striking off, sale of assets, etc.
Compensation	Any payment made via a financial protection product as an alternative to completing remedial work.
Consumer	An Installer's domestic customer.
Design / Design Performance	The design of an MCS installation, in line with MCS design requirements, as promised to the consumer via the Installer's contract for the installation. MCS design requirements are detailed in the relevant MCS Installation Standard (MIS) for the technology being installed. It should be noted that the design and installation of Heat Pump systems is covered by two distinct standards – MIS 3005-D for design and MIS 3005-I for installation.
Installer	An MCS certified installer business or Sole Trader (legal entity), maintaining MCS certification for the technologies they are installing, and operating under the MCS Installer Agreement to allow the business or Sole Trader to trade as "MCS Certified".
MCS Requirements	Includes an Installer's compliance with the MCS Installer Operating Requirements, which for the avoidance of doubt, require compliance with the relevant MIS for the technology to be installed, MCS Customer Commitment and MCS Installer Agreement.
MIS	MCS Installation Standard.
Protection Provider	Providers of financial protection products wishing to secure and/or maintain MCS approval for their product in line with the requirements in this document, to be offered to consumers of installations of small-scale renewable technologies via their MCS certified Installer.
Refusal	Written refusal from an Installer to complete the remediation deemed necessary as a conclusion of the MCS complaints management process and ADR, or the failure of the Installer to undertake the necessary works within 45 days of being notified.
Remediate	The physical work undertaken at a Property to rectify a defect covered by the Financial Protection.
Workmanship	An acceptable high standard of quality and skill in delivery of the Installation in line with the appropriate MCS Installation Standard for a technology, where failure to attain the standard causes a defect.

# Requirements

## As a minimum, MCS approved financial protection shall:

- 1.1. Be purchased as a financial protection product by the Installer on behalf of their customer.
- 1.2. Fund remedial works that ensure an installation's compliance with MCS Requirements, if the original MCS certified Installer ceases to trade, or refuses (refusal) to deliver the remediation determined necessary as an outcome of the MCS complaints management process and if applicable, subsequent ADR. MCS certified Installers are obligated to engage with and be bound by the MCS complaints management process and with ADR. Failure to deliver remediation shall be determined by an Installer not completing the prescribed remediation work within 45 days of any ruling.
- 1.3. Fund remedial works that ensure an installation's compliance with MCS standards and/or MCS Scheme requirements - howsoever they occur including Design and Workmanship but excluding wear and tear.
- 1.4. Support for remediation and not compensation. Protection shall offer to cover the full cost of remediation and not offer compensation in settlement of a claim.
- 1.5. Not place restrictions as to when a consumer is able to lodge a successful claim within the period of cover, while recognising that a consumer should try to act to raise an issue as soon as practicable, having failed to secure remediation via their Installer. Protection shall cover faults and defects that have occurred, irrespective of when they were identified (notified).
- 1.6. The period of cover shall not be less than 6 years from completion (certification) of an installation for any relevant/qualifying UK installation undertaken by the Installer; being a requirement at least in line with the financial protection associated with Building Regulations and a consumer's legal rights for up to 6 years (5 years in Scotland) if there's a fault with their installation.
- 1.7. Shall clearly document within the Protection documentation that the beneficiary of the Protection is the property owner.
- 1.8. Allow for the transfer of the remainder of protection if the original consumer were to sell their property, this applies whether the original installer is still trading or not. In this regard, the protection provider shall operate clear transfer processes, without restriction.
- 1.9. Protection shall provide for the reasonable cost of completion of installations that are later found to be incomplete, having been presented to the consumer as complete if the installer has ceased to trade.
- 1.10. Only reasonably restrict the limit of remediation costs in line with original contract and not be limited to less than £20,000.
- 1.11. Not restrict claims on the basis of how the installation was financed, including a consumer's use of a Credit Card / Debit card or any support financially (such as for example retail or bank loan) for all or part of the cost of their installation. For the avoidance of doubt, a successful claim against an MCS approved financial product shall not be restricted by a consumer's ability to claim under the Consumer Credit Act (Sections 56 and 75).
- 1.12. Not require any excess payment to make or receive a claim.

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## **2. Approved financial protection products can exclude or limit claims in relation to the following:**

- 2.1. Installations that have been altered, modified or added to, unless with the approval of the Installer and/or financial protection provider. Installations that have been subject to a modification, unless undertaken by, or agreed with the original Installer; or agreed with a financial protection provider; and which lead directly to a defect occurring. This should not allow a financial protection provider to exclude cover for a defect which has not been directly affected by such a modification, nor should it allow a financial protection provider to exclude cover where a consumer has undertaken reasonable emergency repair works, in order to protect their property/mitigate any loss.
- 2.2. Claims for compensation associated with expected returns on a consumer's investment, savings in energy bills or disruption. Protections need not offer a system "performance guarantee" but shall support the remediation of an installed system in line with its design performance as per the contract between Installer and consumer.
- 2.3. Damage caused to the system by movement of the building or landslip or storm/weather damage.
- 2.4. Any defect which does not result in a failure of the system to perform as it was intended to i.e. failing to comply with its Design.
- 2.5. Claims relating to a device within a manufacturers' guarantee period.
- 2.6. Malicious or accidental damage to the system.
- 2.7. Discolouration of the materials used or fading.
- 2.8. Flood, storm, theft, attempted theft, malicious acts or accidental damage.
- 2.9. Costs outside those included in the original contract for the installation, including residual damage to a property.

### **3. The financial protection shall be configured such that:**

- 3.1. The consumer does not need to “activate” the protection. Consumers can be asked to confirm their contact and installation contract details, but if confirmation of these details is not received, this shall not negate the protection.
- 3.2. The Installer shall not profit from the provision of the financial protection.
- 3.3. The financial protection shall not affect the consumer’s statutory rights under the Consumer Rights Act 2015 or any relevant consumer protection in law.

### **4. Structure and governance of financial protection:**

- 4.1. A financial protection product can take many forms including, but not limited to, insurance-backed guarantees, protected funds or captive insurance/fund. However, to secure and maintain MCS approval, a protection shall demonstrate with independently audited evidence that:
  - i. It meets the requirements described in this document, protecting all identifiable risks, at standard market rates.
  - ii. The protection attracts sufficient funds that are protected, based on a robust estimation of the adequacy of the scheme’s reserves to meet the entirety of its liabilities, having been independently assessed by a member of the Institute and Faculty of Actuaries (or, if the scheme is established elsewhere in the EEA, a member of an equivalent body of actuaries) every three years. Please note, in addition, the protection provider should internally conduct thorough risk assessment annually to ensure effective risk management.
  - iii. It allows consumers to have direct access to the protection (and its fund), or otherwise retain the benefits of the financial protection, if the Protection Provider is no longer available. In the case of captive insurance/funds and protected funds further evidence will be required to confirm that the fund is fully protected in the event the Protection Provider is no longer available.
- 4.2. Shall support a clear route for making claims and offer regular updates to claimants as to the progress of their claim.
- 4.3. Offer consumers a mechanism through which they can appeal claim decisions, ideally heard by an independent body / expert such as an arbitration provider or ombudsman, (which may include MCS representation). In the case of insurance based financial protection, consumers shall be made aware that they may appeal an insurer’s claim decision via the Financial Ombudsman.
- 4.4. For the maintenance of MCS approval the Protection Provider shall on request (including on application to secure MCS approval), share with MCS the following information, which MCS shall treat as confidential:
  - i. Details of how the financial protection product complies with this Section 4.
  - ii. Details of the volume, type (technologies installed), duration (period of cover) and average premiums / payments for protection supplied over a specified period.

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- iii. Volumes by purchaser of the protection
- iv. Details of Protections issued
- v. Details of claims received, rejected and satisfied within a specified period, including details of the value of claims satisfied, the recipients (as allowed under GDPR), and any restrictions or reductions that were applied to claims during the specified period.

4.5. For the maintenance of MCS Approval, MCS shall provide details of the installations completed by the Installers registered with the Protection Provider, allowing for checks to ensure registered Installers are compliant with MCS financial protection requirements as specified in the MCS Installer Operating Requirements and in line with GDPR.

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