

complaint

Mr T complains that NewDay Ltd mis-sold him a payment protection insurance (PPI) policy.

background

Mr T took out PPI when he applied by post for a credit card in 2000. He now thinks the policy's been mis-sold to him and he complained to NewDay.

Our adjudicator thought Mr T's complaint should be upheld. He didn't think NewDay had made the costs and benefits of the policy clear enough to Mr T at the point of sale. Mr T said he had other ways of making his payments if he'd become sick or lost his job. So the adjudicator didn't think Mr T would've wanted the PPI if he'd understood the costs and benefits of it.

NewDay disagreed. It said the application form had made it clear the PPI was optional. It also said because it didn't recommend that Mr T should buy the policy, it couldn't check it was in his best interests. But Mr T had been sent policy documents and he'd been free to cancel the policy within the cooling-off period if he felt it didn't meet his needs. And it also said the policy included life cover, which wouldn't have been covered by any employer sick pay.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

We've explained our general approach to complaints about the sale of PPI on our website. And I've taken this into account in deciding Mr T's case.

I've thought carefully about everything Mr T and NewDay have sent us. And I've decided to uphold Mr T's complaint. I'll explain why.

I can see from the card application form that a box has been ticked to say Mr T wanted to take out PPI. There was an equally clear option to turn it down. So I think NewDay did enough to let Mr T know he had a real choice about taking out PPI. And I think it's most likely he agreed to take it out.

And I also accept that as Mr T applied for the card and PPI by post, NewDay didn't give him any advice about whether or not to take it. So it didn't need to check whether or not it was right for him. But it did need to give him enough clear, fair and not misleading information about the PPI so he could make an informed decision about whether or not to go ahead. And based on what I've seen, I don't think it did. I don't think it made the costs and benefits of the policy clear enough.

I can see from the copy of the application form that NewDay sent us that it mentioned the basic cost of the policy – 75p for every £100 of the balance. But I can't see the monthly benefit of the policy is explained at all upfront (10% of the outstanding balance on the card for up to 12 months). The form simply mentions the PPI protects purchases and payments. But there was nothing to explain what the policy actually did and how it worked.

Based on the limited information available on the application form, I think Mr T might've found it difficult to work out the actual cost of the policy based on his potential future card balance. I don't think it was made clear that the PPI premium might attract interest, which in real terms would've reduced the value of the monthly benefit. And there was nothing to make it clear that Mr T would need to keep on paying his monthly premiums if he made a claim.

I think this information would've been important to Mr T. He's told us he would've got 12 months of full pay from his employer if he'd become ill. And he's also said he had savings he could've relied on. He's explained he went on to use these to buy a holiday home a couple of years later, so I think he probably had a reasonably substantial amount when he took the policy. I find what he's said about these other means entirely plausible and persuasive, particularly given his detailed explanation and the nature of his employment. So it doesn't look like he had a strong need for the PPI. I think he probably could've made his monthly payments for a while without PPI if he'd become sick or unemployed.

I think if Mr T had properly understood the costs and benefits of the PPI, he wouldn't have wanted it and wouldn't have agreed to take it out. NewDay says it sent him information about the policy after the sale and it was open to Mr T to cancel it. But I don't think it's reasonable for NewDay to rely on information it sent Mr T *after* he'd already agreed to take PPI, to put right any failings at the point of sale. And I also don't know if Mr T got the policy documents or even if he did, that he read or understood them.

All in all, while it's possible Mr T could've found some of the benefits useful, I don't think he'd have wanted PPI if he'd properly understood the costs and benefits of it. So I think he's lost out because of what NewDay did wrong.

what NewDay must do to put things right

If Mr T's credit card account is still open:

NewDay should put Mr T in the financial position he'd be in now if he hadn't taken out PPI. The policy should be cancelled if it hasn't been cancelled already and:

- A. NewDay should find out how much Mr T would owe on his credit card if the policy hadn't been added to it.

So, it should remove the PPI premiums added, as well as any interest charged on those premiums. It should also remove any charges that were caused by the mis-sale of the PPI – as well as any interest added to those charges.

NewDay should then refund the difference between what Mr T owes and what he would've owed.

If Mr T made a successful claim under the PPI policy, NewDay can take off what he got for the claim from the amount it owes him.

- B. If – when NewDay works out what Mr T would've owed each month without PPI – Mr T paid more than enough to clear his balance, NewDay should also pay simple interest on the extra Mr T paid. And it should carry on paying interest until the point when Mr T would've owed NewDay something on his credit card. The interest rate should be 8% a year.[†]

C. NewDay should tell Mr T what it's done to work out A and B.

If Mr T's card account is closed:

NewDay should put Mr T in the financial position he'd be in now if he hadn't taken out PPI.

A. NewDay should find out how much Mr T would've owed when he closed his credit card account if the policy hadn't been added.

So, it should remove the PPI premiums added, as well as any interest charged on those premiums. It should also remove any charges that were caused by the mis-sale of the PPI – as well as any interest added to those charges.

NewDay should then refund the difference between what Mr T owed when he closed his account and what he would've owed if he hadn't had PPI.

If Mr T made a successful claim under the PPI policy, NewDay can take off what he got for the claim from the amount it owes him.

B. NewDay should add simple interest on the difference between what Mr T would've owed when he closed his account from when he closed it until he gets the refund. The interest rate should be 8% a year.[†]

C. If – when NewDay works out what Mr T would've owed each month without PPI – Mr T paid more than enough to clear his balance, NewDay should also pay simple interest on the extra Mr T paid. And it should carry on paying interest until the point when Mr T would've owed NewDay something on his credit card. The interest rate should be 8% a year.[†]

D. NewDay should tell Mr T what it's done to work out A, B and C.

In either case:

[†] HM Revenue & Customs requires NewDay to take off tax from this interest. NewDay must give Mr T a certificate showing how much tax it's taken off if he asks for one.

my final decision

For the reasons I've given above, my final decision is that I uphold Mr T's complaint.

I direct NewDay Ltd to pay Mr T the compensation I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 13 January 2017.

Lisa Barham
ombudsman