complaint

Mrs B says Lloyds Bank PLC mis-sold her a payment protection insurance (PPI) policy.

background

Mrs B bought the policy in 1998 at the same time as taking out a loan (ending *2902). The loan included an amount to pay for the policy.

Mrs B complained to Lloyds that she was mis-sold the policy. In 2013 it agreed that the type of policy sold to Mrs B – paid for by adding the cost of a single upfront premium to her loan – wasn't right for her. Lloyds said if the policy was cancelled early, the refund Mrs B would get wouldn't have covered what she had left to pay for PPI – it would've been less. And Mrs B had a history of settling loans early.

But Lloyds has said there's nothing to suggest that PPI in itself was unsuitable for Mrs B. So it's offered to refund the difference in price between the policy she bought and a policy where premiums are paid monthly.

Mrs B is unhappy with Lloyds' offer. She wants a full refund of the total cost of the policy she bought.

Our adjudicator looked into the complaint and thought that Lloyds' offer was fair in the circumstances. Mrs B disagreed with the adjudicator's opinion so the complaint has been passed to me for a final decision.

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 set out our general approach to complaints about the sale of PPI on our website and I've taken this into account in deciding Mrs B's case.

The Financial Conduct Authority (FCA) sets out how businesses should look at complaints about mis-sold PPI. The FCA has said that if businesses think someone would've bought a policy paid for by a monthly premium instead of a single upfront premium added to their loan, the business can put that person in the position they would've been in if they'd bought a monthly premium policy. This involves refunding the difference between the two types of policy. This type of refund is sometimes called "alternative redress".

A business might think someone would've bought a policy paid for by a monthly premium where PPI in itself isn't unsuitable for them, but paying for PPI by a single upfront premium added to the loan is unsuitable. For example, because they need the protection PPI gave them, but they might repay their loan early. Or because they didn't know they were paying for PPI with a single upfront premium that would be added to their loan, so they'd pay more interest.

Repaying a loan early doesn't cause a problem with a PPI policy paid for by monthly premiums because the cost of the policy isn't added to the loan, it's paid for monthly. So there's no need to refund anything if the policy is cancelled early. The policyholder will just stop making monthly payments once the policy's been cancelled. There's no interest payable on a monthly premium policy either.

Lloyds recommended the policy to Mrs B so it had to make sure it was suitable for her, as well as giving her enough information about it.

Lloyds has said that Mrs B had a history of settling loans early when the policy was sold to her. And because the policy was paid for with a single premium and provided a limited refund if it was cancelled early, I think this means the policy wasn't flexible enough for her. So I don't think the policy Mrs B was sold was suitable for her.

From what I've seen, I think Lloyds can fairly offer alternative redress as long as there are no other issues with the sale, and PPI in itself isn't unsuitable for Mrs B. So I think a monthly premium policy most likely would've been suitable.

Mrs B has said it wasn't made clear that PPI was optional. Because of the amount of time that's passed since the policy was sold the paperwork isn't available. And I can't be certain what was said at the meeting. But, based on what I know about Lloyds' sales process at the time, I think Mrs B probably was told the policy was optional and that she chose to take it.

It doesn't look as though PPI in itself was unsuitable for Mrs B based on what I've seen of her circumstances at the time. Mrs B has told us she would have received generous employee benefits. And she's said she had a separate insurance policy which would she could claim on if she was ill for more than three months. But the PPI would've paid out as well. This would leave Mrs B free to use any employee benefits she received and separate insurance to cover other living expenses. So I think the policy could've been useful in Mrs B's circumstances.

It's possible Lloyds didn't point out the main things the policy didn't cover. But it's unlikely Mrs B would've been affected by any of these. She's told us she was in good health when she took the policy out. And there's nothing about her employment situation then that makes me think it would have been difficult for her to make an unemployment claim.

Looking at everything, I don't think there are issues with the sale of the policy other than Mrs B's need for a flexible policy which could be cancelled early without her losing out. So I don't think a single premium policy was suitable for her. But I haven't seen anything which makes me think PPI in itself was unsuitable for her. So I think Lloyds' offer of alternative redress is fair in the circumstances. And I don't think it needs to offer a full refund of the cost of the policy Mrs B bought.

It's not clear whether Lloyds has already paid Mrs B the compensation it offered in 2013. If it hasn't, I think Lloyds should recalculate its offer to bring it up to date and pay that amount to Mrs B.

my final decision

For the reasons set out above, my final decision is that Lloyds Bank PLC's offer is fair. If the compensation hasn't already been paid directly to Mrs B, I direct Lloyds Bank PLC to update its offer and pay Mrs B the compensation due.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 19 February 2016.

Helen Liburd
ombudsman