

complaint

Mr F is unhappy with the amount of compensation Lloyds Bank PLC trading as TSB ('Lloyds') has offered to resolve his PPI mis-sale complaint.

background

Mr F complained to Lloyds about the mis-sale of a single premium PPI policy he had attached to a personal loan he'd taken out in 1996.

Lloyds had no data about the loan and PPI to show what it had cost. In 2013 Lloyds made Mr F an average offer of £1,766 to resolve his PPI mis-sale complaint and sent him a cheque for this amount. An average offer is what Lloyds has worked out similar PPI policies have cost other customers and this is used when a business has no actual data about the cost of the PPI. Mr F paid this amount into his account but still thought he was owed more and so he brought his complaint to this service.

Mr F was able to give this service and Lloyds a copy of his loan agreement from 1996. This showed Mr F had taken out a loan for £6,000 and borrowed an extra £1,182.44 to pay for the PPI. When interest was added to this the total cost of the PPI was £1,666.80.

So in 2015 Lloyds offered Mr F an additional £2,530.24. Lloyds also offered Mr F a payment of £250 for the length of time it's taken to resolve his issue. After tax deductions Mr F received two cheques – one for £2,190.92 and one for £250. Mr F paid these cheques into his account but he still thinks he is owed more compensation.

Our adjudicator looked at Mr F's complaint and thought what Lloyds had offered him was fair. Mr F disagreed so the complaint has been passed to me.

my findings

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

Mr F thinks he is owed more in 8% simple interest. Mr F has given us his own calculations of what he thinks he is owed. Mr F also wants more compensation for the affect he thinks the PPI had on his financial situation.

I understand Mr F will be disappointed but I do think the offer Lloyds has made him for his PPI mis-sale complaint is fair. But I do think Lloyds should pay an extra £150 for the trouble and upset it has caused Mr F.

Because Mr F's complaint is broadly about two issues I'll cover them off separately.

The 8% simple interest

When a business agrees to settle a PPI complaint it should, as far as possible, put the consumer back in the position they would've been had they not taken out the PPI policy.

This generally means refunding all of the PPI premiums, any interest charged on those premiums and 8% simple interest, to compensate the consumer for the time they were out of pocket. The 8% simple interest is a taxable income, so the business has a duty to deduct the tax before paying the consumer.

Lloyds doesn't have full records about the loan. This isn't surprising as the loan was taken out over 20 years ago. When it made its first offer to settle the complaint Lloyds offered what is called an average offer. This is an amount based on what other customers paid for PPI for similar loans at a similar time. When there is no data at all we accept this may be a fair approach to working out the compensation due. But in this case Mr F provided a copy of his loan agreement which shows the exact cost of the PPI, if the loan ran to term. And when working this out it is clear that the cost of the PPI for Mr F was more than the average offer Lloyds paid him in 2013.

Mr F told us his loan finished early. Lloyds don't have any records of how or why it finished early because of the time that has passed. It could tell us it finished in 2000 and if it had run the full 60 months it should not have finished until June 2001. Looking at the offer it's made Lloyds has worked out the compensation as if Mr F's loan ran the full 60 months – which is a more generous position to put Mr F in. I say this because when a loan is settled early and a single premium PPI has been added at the start a partial rebate of the premium is normally deducted before the loan is settled. Also as the loan, including the PPI, is settled early the interest would not be as much as interest would not be charged on the months after the settlement date.

Mr F's loan agreement shows that the amount added for the PPI single premium was £1,182.44. The total "charge for credit" is the interest charged on those premiums. This is quoted as £484.36. So Mr F had to pay a total of £1,666.80 for the PPI policy if it ran for the full 60 month term.

In Mr F's case, Lloyds – in their letter of March 2015 – has offered him:

- £1,846.62 as a refund for all of the PPI premiums paid *and* the interest charged on those premiums. This is more than what was quoted on his loan agreement – I think this is because Lloyds, when calculating Mr F's compensation, used a higher rate of interest charged on the PPI premiums than what was quoted on his loan agreement.
- £2,176.26 for 8% simple interest.

This gives a total of £4,022.88. Lloyds then deducted the compensation it had already paid him in 2013 and the tax on the 8% simple interest. This gave total of £2,190.92.

Mr F has given us his own calculations with what he thinks he's owed in 8% simple interest. I can see the approach he has taken and it isn't quite the approach we'd ask the business to take. So I think this is in the main where there is a difference between what Lloyds has offered and what Mr F thinks he's owed.

Looking at his calculations, I think Mr F, from the time the loan finished, has taken the amount he thinks he was out of pocket and multiplied that by 8%. For the next year he's then taken that total figure and multiplied that by 8% and continued that approach every year up until he was made the offer.

This isn't quite the approach I'd expect the business to take. The 8% interest is intended as compensation for the time a consumer was out of pocket. Mr F seems to be applying 8% interest on the previous year's amount he was out of pocket plus the 8% interest. So he is compensating himself more interest each year than he should be – in effect paying himself interest on the interest he is being given each year for the 8% figure. This has resulted in a higher amount. And Mr F wasn't out of pocket for the 8% interest, only the amount he actually paid for the PPI.

When a business calculates compensation for a single premium PPI complaint we would generally expect it to pay the difference between the loan monthly payments paid (in this case £140.95) and what they would've been without the PPI policy (in this case £113.17), which is £27.78 a month (or £1,666.80 in total). We would then expect the business to add 8% simple interest to each overpayment from the date it was paid until the date of settlement.

I've had a look at the amount Lloyds has offered in 8% simple interest and I think the amount it has offered is fair.

The offer of £250 for the trouble and upset caused to Mr F.

Lloyds also offered £250 for the length of time it took between its first offer to settle and producing its second offer using the information about the actual loan. Mr F isn't happy with this and thinks he should get more because he feels the PPI had a significant impact on his financial situation around the time his loan finished in 2000.

I don't agree that the PPI was the direct cause of his financial situation. I accept it's difficult to know what Mr F's financial situation would've been with or without the PPI, but based on what I've seen I think it's more likely than not the PPI wasn't the main cause of his financial troubles. I'll explain why.

Mr F told us he unfortunately stopped working which he says put him in financial difficulty. He was under the impression that he could claim on his PPI policy to pay this loan back at this time. Lloyds then told him he couldn't claim.

Lloyds has accepted that it shouldn't have sold him PPI. So it has offered to pay all of the PPI back plus 8% simple interest – which is intended to compensate him for the time he was out of pocket. And even if Mr F had made a successful claim on the policy I think it's likely he would've got less overall than he is getting now. The PPI claim would've been likely to have only paid the monthly loan payments for up to 12 months for unemployment.

The PPI only covered this loan – which at the time the loan finished was in its final year of repayments. The PPI was intended to give Mr F financial support for these loan repayments. I accept the PPI would've helped with his loan repayments (if he could've claimed on the policy) but I don't think this would've prevented him having his financial difficulty – as he had no income at the time.

I have sympathy for what Mr F has gone through but I don't think the PPI was the sole reason for his financial difficulties. For example, in correspondence Mr F has provided he also lost income from a rental property. So it seems Mr F did have other financial issues going on.

But, I do agree that Mr F has been put through some trouble and upset to get to this point in having the PPI premiums refunded.

Mr F has had to go to the trouble find and provide all the information about his loan and situation from around the time – including the loan agreement. And Lloyds hasn't been clear in how it worked out the compensation for both the offers it made, nor has it used the accurate information in the loan agreement in its final calculation. I accept by not using the interest rate in the loan agreement it has actually paid back to Mr F more for the loan interest than it most likely cost him. However the fact its figures are different to the loan agreement have led to confusion for Mr F. And he has been put to trouble in working out the figures and producing his own calculations, in part possibly because of the errors of Lloyds.

Lloyds has offered Mr F £250 for the time it took them to resolve his complaint from the offer it made in 2013 to the offer made in 2015. But I think Lloyds should pay him another £150 for the errors and the way it has handled Mr F's complaint about the mis-sale of his PPI policy. This makes a total of £400.

my final decision

My final decision is that I think the offer Lloyds Bank PLC has made to resolve Mr F's PPI mis-sale complaint is fair. My understanding is the offer has been paid to Mr F – so I won't be asking Lloyds Bank PLC to pay any more.

But I direct Lloyds Bank PLC to pay an extra £150 – on top of the £250 it has already paid - for the trouble and upset it has caused Mr F throughout the complaint. Lloyds Bank PLC is to arrange payment to Mr F.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 24 April 2017.

Martin Purcell
ombudsman