

complaint

Mrs L complained that Creation Financial Services Limited (“Creation”) mis-sold her loan payment protection insurance (PPI) policy.

background

Mrs L took out the PPI policy with a loan when she bought some furniture in August 2005. The sale took place in the store, and Mrs L said she was advised to take the cover. Creation said that it didn’t offer advice to Mrs L. She borrowed £999 for the furniture, and the PPI cost an additional £390.97. This was a single premium PPI policy, so the cost was added to the loan.

The loan had a 12-month ‘buy now pay later’ feature. So if Mrs L repaid the loan within that time she wouldn’t pay interest. Otherwise the loan was set to be repaid over 36 months, with the payments including the PPI premium and a further £348.55 in interest on the premium.

Our adjudicator upheld Mrs L’s complaint. She didn’t think Creation had properly explained how much the policy would cost. And she didn’t think Mrs L would have bought the policy if it had.

Creation disagreed. It said the loan agreement and other paperwork Mrs L was given would have made her aware of what the policy cost.

my findings

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

I think the relevant issues to take into account are the same as those set out in the information on our website about our approach to PPI complaints.

I’ve decided to uphold Mrs L’s complaint. This is because I agree with the adjudicator that Creation didn’t properly tell Mrs L how much the policy cost. I say this because:

- The credit agreement set out the PPI premium and the total cost. But it didn’t show the PPI interest as a separate figure. And it wasn’t reasonable to expect Mrs L to work it out for herself. She was entitled to expect all the important information about the cost of the policy to be in the loan agreement.
- There was a ‘statement of price’ which did set out the interest. But it was on page two of the policy summary. It wasn’t easy to find, or where I think Mrs L would expect it to be. And I can’t be sure it was drawn to her attention, particularly when she was in a store and her attention was on buying furniture – not insurance.
- None of the paperwork set out the monthly cost of the policy. This would have been good practice and might have helped Mrs L better understand what the policy was costing her.
- The information in the credit agreement wasn’t enough to make Mrs L aware of the effect the ‘buy now pay later’ period would have on the interest charged. If she didn’t repay the loan within the first 12 months the whole amount, including the PPI, attracted interest at 29.8%. This meant Mrs L would pay a substantial extra amount of interest on the PPI cost for the first year; the only benefit she gained was ‘free’ life cover.

- The PPI interest was high compared to the cost of the policy. And the total policy cost was high compared to the amount Mrs L was borrowing. This was unusual and I think Mrs L would have seen it as important information when deciding whether to buy the policy - especially as she was borrowing a fairly modest amount for non-essential items.
- I don't think Mrs L would have bought the policy if she'd been made properly aware of how much it was going to cost her.

For these reasons, I uphold Mrs L's complaint.

fair compensation

Mrs L should be put back in the position she would now be in if she'd taken out the loan without the PPI policy. I understand the loan and the policy ran for their full term. So Creation should:

- A. Work out and repay the extra monthly payments paid by Mrs L because PPI was added to the loan by:
 - calculating how much the loan payments would have been if Mrs L had taken out the loan without PPI;
 - subtracting those amounts from what Mrs L actually paid, and paying her the difference; and
 - paying Mrs L simple interest on each of these amounts at 8% a year from the date each payment was made to the date the compensation is paid[†].

B. Write to Mrs L setting out the details of the calculations and amounts under (A).

[†] I understand Creation is required to deduct basic rate tax from this part of the compensation. Whether Mrs L needs to take any further action will depend on her financial circumstances. More information about the tax position can be found on our website.

Mrs L should refer back to Creation if she's unsure of the approach it has taken. And Mrs L and Creation should contact HM Revenue & Customs if they want to know more about the tax treatment of this part of the compensation.

my final decision

For the reasons I've explained, I've decided to uphold Mrs L's complaint. Creation Financial Services Limited must pay her the compensation I've described above.

Under the rules of the Financial Ombudsman Service, I am required to ask Mrs L to accept or reject my decision before 18 December 2014.

Jan Ferrari
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