complaint

Mrs D complains that she and her late husband Mr D were mis-sold payment protection insurance ("PPI") by Mansion Park Limited with a loan. Mrs D is the executor of the estate of her late husband, Mr D. Mr D2 is Mr D's son and is also an executor.

background

Mr and Mrs D took out a secured loan in 2006. At the same time they were sold a PPI policy which would've covered the loan repayments for up to five years if Mr D couldn't work due to an accident or sickness. It also would've covered the repayments for up to 12 months at a time if Mr D was made redundant, up to a maximum of 24 months over the term of the policy. It also provided life cover as well as some other minor benefits.

Essentially Mrs D says they were told the policy wasn't optional – Mr D had to have cover to get the loan.

The adjudicator thought that this complaint should be upheld. Mansion Park disagrees, so the case has been passed to me to make a 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 PPI on our website and I've taken this into account when deciding this case.

I'm upholding this complaint. I'll explain why.

The PPI was sold to Mr and Mrs D during a phone call at the same time as they applied for the loan. From what I know about the sale Mansion Park advised Mr and Mrs D to buy PPI. So Mansion Park had a duty to take reasonable steps to make sure the policy was suitable for them.

Mr and Mrs D were borrowing a large amount of money over a long period of time so that they could consolidate their debts. Mansion Park were aware of this as they've provided details of all the debts that were to be paid off with this loan. Mrs D explains that they were in financial difficulty and had 'maxed out' their borrowing elsewhere.

The PPI was paid as a single premium the cost of which was added to their loan and Mr and Mrs D paid interest on it. Given the length of the term of the loan and the reason why Mr and Mrs D were borrowing I think it's likely that they would've needed some flexibility with the policy in case they wanted to pay the loan off early or transfer their lending elsewhere.

I've looked at the policy terms and I can see that if they cancelled the policy early or paid off their loan before the end of the term Mr and Mrs D wouldn't have got *any* refund of their premium. So they'd be paying for insurance that they could no longer benefit from. And I think this would've been important to them.

In their response to our initial assessment Mansion Park say that the policy made provisions for a refund of premiums on a pro rata basis if the policy was in place for 3, 4 or 5 years without a claim being made. But this effective ‘no claims bonus’ isn’t the same as a pro-rata refund on early settlement of the loan or cancelling the policy.

Given Mr and Mrs D’s financial history I think it should’ve been clear to Mansion Park that Mr and Mrs D would’ve needed the flexibility to settle their loan early and that therefore a single premium policy with no pro-rata rebate was not appropriate.

I have a number of other serious concerns about the policy and the way it was sold, but as I’m upholding this complaint for the reason I’ve just given I don’t intend to explore these further.

putting things right

Mr and Mrs D borrowed extra to pay for the PPI, so their loan was bigger than it should’ve been. They paid more than they should’ve each month and it cost them more to repay the loan than it would’ve. So Mrs D and her late husband’s estate need to get back the extra they’ve paid.

So, Mansion Park should:

- Work out and pay Mrs D and her late husband’s estate the difference between what they paid each month on the loan and what they would’ve paid without PPI.
- Work out and pay them the difference between what it cost to pay off the loan and what it would have cost to pay off the loan without PPI.
- Add simple interest to the extra amount they paid from when they paid it until they get it back. The rate of interest is 8% a year†.
- If Mr D made a successful claim under the PPI policy, Mansion Park can take off what he got for the claim from the amount it owes Mrs D and her late husband’s estate.

† HM Revenue & Customs requires Mansion Park to take off tax from this interest. Mansion Park must give Mrs D and the executors of Mr D’s estate a certificate showing how much tax it’s taken off if they ask for one.

my final decision

For the reasons I’ve explained I uphold this complaint and direct Mansion Park Limited to pay Mrs D and Mr D’s estate the compensation as described above.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs D and Mr D2 to accept or reject my decision before 11 April 2016.

Sally Allbeury
ombudsman