

complaint

Mr B is complaining that Lloyds Bank PLC mis-sold him a payment protection insurance (PPI) policy. He's unhappy with the amount that it's offering him in compensation.

background

Mr B was sold PPI with a loan he took out with Lloyds in 2007. The PPI was a 'single premium' policy, which means the cost was paid upfront and added to Mr B's loan.

In 2013 Mr B complained to Lloyds that it had mis-sold him PPI. Lloyds didn't think PPI was unsuitable for him. But it thought the 'single premium' PPI policy wasn't right for him as it didn't give him the flexibility to settle the loan early if he'd wanted to do so. It said it should've sold him a 'regular premium' PPI policy, which was more flexible as Mr B would've paid the premiums monthly.

Mr B doesn't think Lloyds should've sold him a PPI policy at all. So he doesn't agree that a 'regular premium' policy was suitable for him.

Our adjudicator thought Lloyds' offer was fair. Mr B didn't agree and asked for an ombudsman to review the complaint.

my findings

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

I think Lloyds' offer is fair and I'd like to explain why.

Where a bank has agreed that it had mis-sold PPI, it needs to put the consumer in the position they would've been in if they hadn't taken out that PPI policy. The Financial Conduct Authority has set out how banks should look at complaints about mis-sold PPI. And it's said that a bank can think about whether the consumer would've bought a policy paid for by a 'regular premium' instead of a single upfront premium added to their loan. If it thinks the consumer would've done, it can refund the difference between the two types of policy. This type of refund is called "alternative redress".

Lloyds thinks Mr B would've bought a monthly policy, so it's offering him alternative redress. Mr B doesn't think Lloyds can do so in this complaint. So, in deciding this complaint I need to think whether Mr B would've bought a regular premium policy.

Mr B says that Lloyds didn't give him a choice about taking out PPI. He says he wasn't told it was optional. But, based on what we know of how Lloyds sold these types of policies at that time, I think it's likely that Lloyds would've explained PPI was optional. And it would've given Mr B a choice. So, while I've taken into account Mr B's comments, I think that it's likely he knew PPI was optional and he wanted the protection PPI gave.

PPI could've covered his loan repayments if he was off work sick or became unemployed. And, given what Mr B's told us about his circumstance at the time, I think he could've found it useful. It's possible Lloyds didn't point out the main things the PPI didn't cover. But it's unlikely that Mr B would've been affected by any of these when he bought the PPI. So I think Mr B could've still used the policy and made a successful claim.

Mr B had taken out a number of loans before this loan. And he'd settled them early. So I think it's likely he would've wanted the flexibility to settle this loan early too. The terms of the policy didn't give Mr B a proportionate refund if he cancelled the loan early. So I don't think the policy would've been good value for Mr B if he intended to repay the loan early.

But Mr B wouldn't lose out in the same way if he'd taken out a regular premium policy. He pays for it in monthly instalments. So there's no need to refund anything if the PPI is cancelled during the loan term. Mr B would've just stopped making monthly payments once the policy's was cancelled.

Mr B says that Lloyds didn't explain the cost of the policy to him. And he says Lloyds can't offer alternative redress in this situation. I think it's possible that Lloyds could've explained the costs better. But the FCA has said that banks can offer alternative redress if it didn't explain that the PPI premiums could attract interest.

From what I know of Lloyds' sales practice, I think it would've explained what the PPI premium was. But it may not have told Mr B he may have to pay interest on the premium. And the amount of interest Mr B would've had to pay increased the overall cost of PPI quite a bit. So I think that this would've made a difference to Mr B. But he wouldn't have to pay interest on the premiums if he'd taken out a regular premium policy. And the FCA has said that Lloyds can offer alternative redress in this situation.

So I agree with Mr B that the PPI was mis-sold. But, as I said, I think Mr B wanted the protection PPI gave. I don't think he would've lost out in the same way had Lloyds sold him a regular premium policy. And I think he would've taken out a regular premium PPI policy had Lloyds offered it to him.

So I think Lloyds' offer of alternative redress is fair in the circumstances.

my final decision

For the reasons I've set out above, I think Lloyds Bank PLC's offer is fair. Lloyds Bank PLC should update the offer if it hasn't already paid it to Mr B. I make no further award.

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

Guy Mitchell
ombudsman