

summary of complaint

Miss T complains that Lloyds TSB Bank Plc mis-sold her a payment protection insurance ('PPI') in conjunction with a credit card in 2003.

my findings

Our general approach to considering complaints about the mis-sale of PPI is well-documented and is set out in our online PPI Technical Resource. In deciding what is fair and reasonable in the individual circumstances of a case, I am required to consider the issues in accordance with this general approach. This includes taking into account the law and good industry practice at the time the policy was sold.

The key issues I need to consider in this complaint are:

- whether Lloyds TSB gave Miss T information that was clear, fair, not misleading and sufficient to put her in a position to make an informed choice about whether to purchase the PPI Policy; and
- whether in giving any advice or recommendation, Lloyds TSB took adequate steps to ensure that the PPI policy was suitable for Miss T's needs.

If there were shortcomings in the way in which Lloyds TSB sold the policy, I then need to consider whether Miss T is worse off as a result. That is, would Miss T be in a different position now if there had not been any shortcomings?

Miss T has advised that the policy was sold during a meeting at her local branch. Lloyds TSB has confirmed that this was an advised sale. This means that Lloyds TSB had a duty to recommend a policy suitable to Miss T and her specific financial circumstances.

While I would usually consider whether Miss T was made aware that the policy was optional, on this occasion I am persuaded that the policy was not suitable for Miss T's situation and that it should not have been sold to her. My reasons for saying this are below.

At the time of the sale, Miss T was working less than 16 hours per week as a school meals assistant. Because of this, she would have been unable to make an unemployment claim under the terms of the policy.

Upon reviewing the information that would have been provided to Miss T after the sale, I note that it is very specific:

"If you work part time for less than 16 hours a week, and you are 18 or over but under 65 we will pay 5% of your outstanding balance if you are away from work for 15 consecutive days or more due to sickness or accident...."

It seems to me that Miss T could therefore not benefit from the unemployment protection that she believed that she had purchased. Miss T had ticked and signed on the application document that she wished to purchase the PPI which said:

"For the additional peace of mind of knowing that you can continue to meet your minimum credit card payments even if you can't work due to accident, sickness or unemployment, you can take out Payment Protection Cover."

The condition limiting the unemployment cover of part time workers is a significant feature of the policy. There are no records available of how the features of the policy were presented to Miss T, and in particular how this issue was described. While it is possible that the adviser described it to her and that Miss T still chose to purchase the policy, I am not persuaded that the available evidence is strong enough for me to conclude that this is what happened. I have not seen any evidence to suggest that unemployment cover would not have been at least as important to Miss T as accident and sickness cover.

From the information provided, I consider that Miss T would have also found it hard to calculate the cost of the policy in real terms because the calculation would be based on possible future expenditure. I am also not persuaded that Miss T would have understood that she would have to continue paying her PPI premiums during a successful claim – which would have reduced the real value of the policy's 5% benefit. Although the up-front cost of the policy at 77p per £100 of outstanding balance was made clear, I am persuaded that, had the information about cost, interest and ongoing payments been clearly disclosed, Miss T would not have purchased the policy. It is my view that, had she understood the limited circumstances in which she could claim benefit, Miss T would not have found the other potential benefits provided by the policy sufficiently attractive to justify the monthly cost of the insurance.

The evidence before me has led me to conclude that Miss T was probably not given sufficient information by Lloyds TSB to make a properly informed choice about whether to take out the PPI. I have also concluded that she was disadvantaged as a result of shortcomings in the care with which Lloyds TSB assessed the policy's suitability for her personal situation.

Based on my findings above, I am not persuaded that Lloyds TSB treated Miss T fairly. I am satisfied that if Lloyds TSB had properly advised and informed her at the time she was taking the credit card, she would not have gone ahead with the PPI policy.

I therefore uphold this complaint and make an award against Lloyds TSB.

redress

I consider that the appropriate approach to fair compensation in this case is to require Lloyds TSB to compensate Miss T by putting her (so far as is now practicable) in the position she would have been in, had she *not* taken out the policy. I understand that both the PPI and credit card are still in force.

In this case Lloyds TSB should:

- A. Carry out a hypothetical reconstruction of the credit card account to find out what the current balance of the credit card account would have been if Miss T had paid the same monthly payments, but the PPI policy had *not* been added to it.

This will involve Lloyds TSB removing the PPI premiums, any interest that was charged on the premiums and any charges (and interest on those charges) that would not have applied if the PPI had not been added to the account.

Lloyds TSB should then pay Miss T the difference between the current balance and what the current balance would have been without PPI.

B. Pay Miss T interest at 8% per year simple* on any credit balance for any periods when the reconstructed account would have been in credit for the period it would have been in credit.

C. Set out in writing to Miss T how it has calculated the compensation in A and B.

* – This part of the compensation is subject to income tax. The treatment of this part of the compensation in Miss T's hands will depend on whether Lloyds TSB has deducted basic rate tax from the compensation and Miss T's financial circumstances. More information about the tax position can be found on our website. Lloyds TSB and Miss T should contact HM Revenue and Customs if they want to know more about the tax treatment of this portion of the compensation.

Further, I consider that Lloyds TSB should have recognised its failing in this case at an earlier stage in the complaints process. I therefore intend to award an additional £150 to Miss T for inconvenience.

my decision

For the reasons set out above, I have decided that the complaint should be upheld and that Lloyds TSB Bank Plc should compensate Miss T as detailed above. This includes an award of £150 for inconvenience to Miss T.

Roxy Boyce
ombudsman