

complaint

Mrs L complains that Creation Consumer Finance Limited mis-sold her a payment protection insurance (PPI) policy.

background

In March 2005 Mrs L bought some furniture in a shop and she took out a £1,199 loan to pay for it. At the same time Creation sold her a PPI policy. The policy cost £391.06, which was added to the loan.

The loan had a 12-month 'buy now pay later' feature. Mrs L wouldn't pay interest if she paid off the credit before that date. Otherwise she'd pay interest (including £348.74 of interest on the policy) over the remaining 36 months of the loan.

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 done so.

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 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 the credit agreement didn't show the PPI interest as a separate figure. It wasn't reasonable to expect Mrs L to work out the interest herself. She was entitled to expect all the important information about the cost of the policy to be in the loan agreement.
- The statement of price did set out the interest. But it was on page two of the policy summary. It wasn't easy to find, or where 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 shop and her attention was on buying furniture – not on buying 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 to 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 pay the loan off during 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 in the first year; when 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 quite a modest amount over a fairly short term.
- 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.

Creation should now therefore:

- 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

I 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 9 December 2014.

Clair Bantin
ombudsman