

complaint

This complaint is about a mortgage payment protection insurance ('PPI') policy taken out in 2002. Mr W and Mrs W say Yorkshire Building Society, trading as Chelsea Building Society ('YBS'), mis-sold them PPI.

background

The background and circumstances leading up to this complaint, which includes Mr W and Mrs W's circumstances at the time of the sale as well as the PPI policy benefits, limitations and exclusions of cover, aren't disputed. So, I haven't repeated all of this information here.

Our adjudicator did not uphold the mis-sale complaint, but they thought YBS's offer to pay back some of the cost of the PPI because of the non-disclosure of high commission and profit share Mr W and Mrs W paid, was fair in the circumstances.

Mr W and Mrs W's representative disagreed with the adjudicator's opinion – they didn't raise any new or additional points but repeated the same complaint points and arguments they'd previously made.

As the complaint couldn't be resolved informally, it has been passed to me for a final decision.

my findings

Although I have only included a summary of the complaint, I have read and considered all the evidence and arguments available to me from the outset, in order to decide what is, in my opinion, fair and reasonable in all the circumstances of this complaint.

When considering what is fair and reasonable, I am required to take into account relevant: law and regulations; regulators' rules, guidance and standards; codes of practice; and, where appropriate, what I consider to have been good industry practice at the time.

We've set out our general approach to PPI mis-sale complaints on our website and published some example final decisions that set out in detail how these relevant considerations may apply to PPI sales like Mr W and Mrs W's. I haven't set out that detailed information here, but I've taken into account all relevant considerations in deciding Mr W and Mrs W's complaint.

Having done so, I've decided not to uphold the mis-sale complaint. I've also considered the issue of non-disclosure of commission. And I've decided YBS should have disclosed the commission it received - but that YBS's offer to refund some of the cost of PPI to compensate for the unfairness caused is fair in the circumstances. I've summarised my reasons for each of these conclusions below.

In summary, my reasons for not upholding the mis-sale part of this complaint are:

- Mr W and Mrs W have said the PPI was included as part of the mortgage package. But I think YBS made it clear that Mr W and Mrs W didn't have to take out the PPI and they chose to take it out. I say this because YBS has been able to give us copies of the documentation completed at the time of the sale. I note that the mortgage application

form itself has a separate section entitled '*PROTECT YOUR MORTGAGE PAYMENTS*' and a box has been ticked to say '*I/We would like to take Chelsea Payment Protection to protect our mortgage payments*'. There was an equally prominent box that could have been ticked if they hadn't wanted the PPI.

And I've also seen a copy of the '*Chelsea Payment Protection APPLICATION FORM*' which like the mortgage application has been signed and dated by Mr W and Mrs W. The type of cover had to be chosen – Mr W and Mrs W chose cover for accident, sickness and unemployment, with the benefit starting after 30 days and 100% for the benefit of Mr W. So, I think Mr W and Mrs W were aware they had a choice about taking policy, went on to complete the policy application and decided what type of cover would be of most benefit to them.

- YBS didn't recommend the PPI to Mr W and Mrs W – so it didn't have to check that the PPI was right or suitable for them. But it did have to give Mr W and Mrs W enough clear and timely information so they could decide for themselves if it was right for them.
- It's possible the information YBS gave Mr W and Mrs W about the PPI wasn't as clear as it should've been. But I've found that they chose to take it out – so it looks like they wanted this type of cover. The cover wasn't fundamentally wrong for Mr W and Mrs W. Although Mr W says he had a medical condition sometime before the policy was taken out, I don't think better information about the existing medical exclusion would've caused them to change their minds about taking out the policy. I say this because Mr W said he had only taken an odd day off from work because of it and took over the counter medication so I think it likely that it was controlled. And I also note that at the point of sale Mr W was confident enough to have ticked '*No*' to the question about whether he had undergone or was anticipating any medical treatment. So, I think it unlikely he would have thought he would have had to make a claim for that condition over and above any other medical condition. It also looks like it was affordable – so it seems like it would have been useful for them if something went wrong. Because of this I don't think Mr W and Mrs W would have declined the cover had YBS done anything more.
- While the policy contained limitations on claims relating to back and mental health conditions, in light of Mr W and Mrs W's circumstances at the time of sale and despite its limitations, the policy wasn't fundamentally wrong or unsuitable for Mr W and Mrs W. So, I think they would have still thought they had some good reasons to take the policy out.

Overall, I consider that Mr W and Mrs W would have still taken out PPI. The policy was sufficiently close to what it's likely they thought they were getting, and I think the policy could provide a useful benefit in a difficult time, given their circumstances at the time. And in those circumstances, I think that they would have taken out the policy in any event.

Mr W and Mrs W's representative has raised a number of what I consider to be general complaint points, which it says apply to all PPI complaints. These general points include: a claim that the Financial Ombudsman Service is not correctly applying the regulator's rules and guidance for handling PPI complaints; these policies represented poor value because of the number of significant exclusions and limitations of cover coupled with the low claims ratio; and the duty of utmost good faith meant YBS should have disclosed the poor value and explained the significance of the limitations and exclusions and the impact it had on the chances of making a claim.

But Mr W and Mrs W's representative has not said how these points apply to the specific facts and circumstances of Mr W and Mrs W's individual complaint – just that they apply to all PPI complaints.

I have thought about these things and how they might apply in Mr W and Mrs W's particular case. But these points don't persuade me to alter my conclusions about what is fair and reasonable in all the circumstances of the complaint – for the reasons I've set out above I don't uphold the mis-sale element of this complaint.

This means YBS doesn't have to pay back all of the cost of the PPI to Mr W and Mrs W.

non-disclosure of commission

As I said above, I've also considered the issue of non-disclosure of commission, including whether the non-disclosure resulted in an unfair relationship under section 140A of the Consumer Credit Act – and if so, what fair compensation would be to remedy that unfairness.

Having done so I've decided YBS should have disclosed the commission it received and that YBS's offer to refund some of the cost of PPI to compensate for the unfairness caused is fair. My reasons are set out below.

was there an unfair relationship?

YBS didn't tell Mr W and Mrs W about the high levels of commission and profit share paid in this case. So, taking into account:

- The Supreme Court judgment in *Plevin*¹ and the conclusion in that case that the non-disclosure of commission could lead to an unfair relationship;
- The FCA's rules and guidance for handling complaints about the non-disclosure of commission and profit share – introduced in light of the Supreme Court judgment in *Plevin* – which requires a business to presume that the failure to disclose commission gave rise to an unfair relationship where the business expected commission and profit share to be more than 50% of the cost of the policy; and
- the likelihood, in my view, that a court would determine that the relationship between YBS and Mr W and Mrs W was unfair under section 140A of the Consumer Credit Act because YBS didn't tell them about the high levels of commission and profit share in this case

I don't think YBS acted fairly and reasonably in its dealings with Mr W and Mrs W because it failed to disclose the high commission and profit share.

redress to remedy that unfair relationship

I'm now required to consider what is fair compensation in all the circumstances to remedy the unfairness I have identified.

¹ *Plevin v Paragon Personal Finance Limited* [2014] UKSC 61 in which the Supreme Court concluded that the non-disclosure of commission could lead to an unfair relationship

Mr W and Mrs W's representative has made a number of representations about this part of the complaint including the impact of the *Plevin* judgment and sections 140A and 140B of the Consumer Credit Act on their complaint.

In summary they have said Mr W and Mrs W should get back all the money they paid for the policy because: YBS failed to tell Mr W and Mrs W about the high commission and profit-share rates paid, the low claims ratio and the restrictions and exclusions on cover. Because they say that meant the policy was poor value, I should find that Mr W and Mrs W wouldn't have taken out the policy had they known about the level of commission and they should receive a refund of all the premiums they paid.

But I don't agree. I'm mindful of the following:

- The Supreme Court judgment in *Plevin* made no specific finding about whether the consumer in that case would or would not have bought the PPI policy had the commission been disclosed;
- A court would have a range of powers available under section 140B to remedy the unfairness caused by the non-disclosure of commission – it does not follow that a court would automatically order a return of all the premiums paid or conclude that a consumer would not have purchased the policy had the commission been disclosed; and
- The FCA considered the matter and decided that it wouldn't be appropriate to merge the considerations about undisclosed commission in the existing rules and guidance about mis-selling (hence the two-step approach for firms handling PPI complaints) and that the impact of any undisclosed commission and any remedy caused by it should be considered at step 2.

Taking into account relevant law and the FCA's rules and guidance, my role as an ombudsman is to determine what redress, if any, would represent fair compensation for Mr W and Mrs W in order to remedy the unfairness caused by YBS not disclosing the high level of commission to them before they purchased the policy.

So, taking into account:

- The FCA's guidance usually requires a business to refund the amounts paid by the consumer in commission and profit share *above* 50% of the policy's cost, plus interest in order to remedy the unfairness caused by the failure to disclose the level of commission;
- refunding some of the money paid for the PPI policy in this way is an order which, in my view a court could, in the exercise of its discretion, make under section 140B of the Consumer Credit Act in order to remedy any unfairness; and
- I am not, as Mr W and Mrs W's representative suggests, driven to conclude that they wouldn't have purchased the policy but for YBS's failure to disclose the level of commission for the reasons I've given above.

I think it was fair for YBS to calculate compensation in line with the FCA's guidance and return *some* of the money Mr W and Mrs W paid for their PPI policy.

I consider this fairly removes the source of the unfairness. This is because it leaves

Mr W and Mrs W with the policy which I've concluded above they would still have taken out if YBS had done everything it should have done – but with lower commission and profit share levels.

So, I consider that YBS's payment of an amount equivalent to the commission and profit share paid in excess of 50% of the policy costs (plus associated interest where applicable) in line with the FCA's guidance to firms is fair in all the circumstances.

As YBS has already paid Mr W and Mrs W compensation on this basis, I don't consider it should do anything further.

my decision

Overall, having considered all the evidence and arguments to decide what is, in my opinion, fair and reasonable in all the circumstances of this complaint and for the reasons I have set out above, I don't uphold the mis-sale element of Mr W and Mrs W's complaint or make any award in favour of them for this part of the complaint.

But because of the non-disclosure of commission and profit share, I've decided that Yorkshire Building Society should pay Mr W and Mrs W an amount equivalent to the commission and profit share paid in excess of 50% of the policy cost (plus associated interest where applicable). As Yorkshire Building Society has already paid compensation on this basis, I do not consider that Yorkshire Building Society should do anything more.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr W and Mrs W to accept or reject my decision before 2 October 2021.

Catherine Langley
ombudsman