

complaint

Mrs S says Bank of Scotland Plc mis-sold her a payment protection insurance ("PPI") policy.

background and summary to complaint

Mrs S bought the policy in 2001 at the same time as taking out a credit card. She applied for the credit card and PPI policy through the post.

At the time, Mrs S was employed as a health and safety officer. She has told us she was entitled to full pay for at least six months if she was off work sick. She'd also receive redundancy pay and had death in service benefit. Mrs S has said she was in good health at the time of the sale.

The policy provided cover for death, disability and unemployment – subject to its exclusions and limitations. It offered to repay 10% of Mrs S's credit card balance in the event of a successful claim. At the time, it cost 78p per £100 of the monthly outstanding balance. The premium would continue to have to be paid during a successful claim and it did attract interest.

Bank of Scotland has sent us statements to show that the credit card account closed in 2003.

Mrs S's representative has made lengthy and substantial representations on her behalf.

I will not restate them all here, but I have read and considered them all carefully. In summary, Mrs S's representative says:

- Bank of Scotland failed to meet the sales standards which applied at the time. In those circumstances, applying the regulator's rules and guidance for businesses on handling PPI complaints under DISP App 3, it should be presumed Mrs S wouldn't have taken out the policy and the complaint should be upheld. Mrs S's representatives believe there to be no evidence to rebut that presumption;
- The policy excluded or limited claims for back pain and stress, which are some of the most common reasons people are off work. This significantly reduced the value of cover;
- The true costs including interest and the fact it was unlikely you could make a successful claim meant the policy was of inherently poor value as shown by the low claims ratio. The common law duty of utmost good faith means Bank of Scotland should have told Mrs S about the poor value;
- The common law duty of utmost good faith also means Bank of Scotland should have explained the significance of the exclusions and limitations of cover to Mrs S and the impact they would have had on her chances of making a claim; and
- The information Mrs S received was misleading. These policies were promoted as providing peace of mind, but the number of exclusions and limitations on the scope of the cover meant this was untrue.

Our adjudicator didn't uphold the complaint – both parties have seen and provided their responses to the adjudicator's opinion. Mrs S disagreed with the adjudicator's opinion. 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.

relevant considerations

When considering what is fair and reasonable, I am required to take into account: relevant law and regulations; relevant regulators' rules, guidance and standards; relevant codes of practice; and, where appropriate, what I consider to have been good industry practice at the time. The Financial Ombudsman Service has set out its general approach to PPI 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 Mrs S's. I don't intend to set that out in much detail here but I've taken this into account in deciding Mrs S's complaint.

This sale took place in 2001 before the sale of general insurance products like this became regulated by the FSA in January 2005. So the FSA's and the FCA's overarching principles for businesses and insurance conduct rules (ICOB and ICOBS) are not applicable to this complaint; nor is the FCA's Perimeter Guidance (PERG).

The credit agreement itself concluded in 2003. That means the unfair relationship provisions set out in s.140A of the Consumer Credit Act, the Supreme Court judgement in *Plevin* about s.140 of that Act and the rules and guidance made by the FCA about the handling of complaints about the non-disclosure of commission in light of the *Plevin* judgement, aren't applicable.

There were a number of industry codes in existence at that time, which I am satisfied are applicable to my consideration of what is fair and reasonable in the circumstances of this complaint. In particular, *The General Insurance Standards Council's General Insurance Code for private customers – the 'GISC Code'*.

This sale was made during a period of industry 'self-regulation' by the General Insurance Standards Council (GISC). It published the GISC Code, which set out minimum standards of good practice for its members to follow when selling insurance, including PPI.

The Association of British Insurers (ABI) also published a number of codes, which I consider to be indicative of the standards of good industry practice expected from intermediaries, like Bank of Scotland, selling insurance at this time:

- The Association of British Insurers' General Insurance Business Code of Practice for all intermediaries (Including Employees of Insurance Companies) other than Registered Insurance Brokers – 'The ABI Code'.

The ABI Code was supplemented by:

- Guidance on the application of the ABI Code
- The ABI Statement of Practice for Payment Protection Insurance

- The ABI General Business Code of Practice for Telephone Sales, Direct Marketing/Direct Mail and the Internet
- The Resume for Intermediaries

While not all intermediaries who sold PPI at the time were a member of the ABI or GISC, I consider these publications to be indicative of the standards of good practice expected of intermediaries like Bank of Scotland at the time. So I'm satisfied I should take these codes into account when deciding, what is in my opinion fair and reasonable in the circumstances of Mrs S's case.

I have also taken account of relevant law in reaching my decision, including: the law relating to negligence, misrepresentation and contract (including the express and implied duty on professional advisers to give advice with reasonable skill, care and diligence); the law relating to the duty of utmost good faith; and the law relating to causation and remoteness.

Under the transitional provisions which continue to apply to complaints like this about acts or omissions before 1 December 2001, I'm also required to take into account what determination the relevant former scheme – in this case the Office of the Banking Ombudsman – might have been expected to reach in relation to an equivalent complaint. I note that under the Banking Ombudsman's terms of reference the Ombudsman was required to decide complaints by reference to what was, in his opinion, fair and reasonable in all the circumstances – and that the Ombudsman was required to observe any applicable rule of law or relevant judicial authority.

I am also mindful of the evidential provisions and guidance set out at DISP App 3, first issued by the FSA in 2010, which sets out how firms should handle complaints relating to the sale of PPI. This sale took place before insurance mediation became a regulated activity, so Bank of Scotland was required to take into account the provisions in DISP App 3 as if they were guidance when considering Mrs S's complaint.

key questions

Taking the relevant considerations into account, it seems to me that the key questions I need to consider in deciding what is in my opinion fair and reasonable in all circumstances of this complaint, are:

- If Bank of Scotland gave advice, whether it advised Mrs S with reasonable care and skill – in particular, whether the policy was appropriate or 'suitable' for her, given her needs and circumstances.
- Whether Bank of Scotland gave Mrs S sufficient, appropriate and timely information to enable her to make an informed choice about whether to take out the policy, including drawing to her attention and highlighting – in a clear, fair and not misleading way – the main provisions of the policy and significant limitations and exclusions.
- If, having considered these questions, I determine the complaint in favour of Mrs S, I must then go on to consider whether and to what extent Mrs S suffered loss or damage and what I consider would amount to fair compensation for that loss or damage.

Having carefully considered the above and the information provided by both Mrs S and Bank of Scotland, I've decided not to uphold Mrs S's complaint. I've set out my reasoning below.

did Mrs S know she had a choice?

Bank of Scotland had to make it clear that the PPI policy was optional.

Bank of Scotland has sent us a copy of the application form for the card. It says Mrs S completed this and returned it to them by post. I see that to buy the PPI, Mrs S needed to complete the section headed "Payment Protection". There is a box labelled "YES I want you to arrange Credit Card Insurance to protect my repayments". Mrs S has signed this section of the form. I also note that there are other sections of the form – including one relating to a product called "card care registration" – which Mrs S has crossed out.

Taking everything into account, I think it's more likely that Mrs S knew the policy was optional and she agreed to take it out without undue pressure.

did Bank of Scotland provide advice?

Both Bank of Scotland and Mrs S agree that advice wasn't provided during this sale.

This means Bank of Scotland didn't have to check if the PPI was suitable for Mrs S. Instead, it had to give her sufficient, appropriate and timely information to enable Mrs S to make an informed choice about whether to take out the policy, including drawing to her attention and highlighting – in a clear, fair and not misleading way – the main provisions of the policy and significant limitations and exclusions.

the information

Bank of Scotland has provided us with Mrs S's application form – showing that PPI had been selected. It has also referred us to a copy of the paperwork it says she would've received - including the policy terms and conditions – which I accept on a balance of probabilities – applied to policies like Mrs S's.

Looking at the information provided to Mrs S at the time, I don't think Bank of Scotland gave Mrs S the information she fairly and reasonably needed to make an informed decision about whether or not to take out the policy.

This sale took place by post. I can see the application form described the PPI policy as providing cover if Mrs S were unable to work for 14 days in a row because of an accident, illness or unemployment, as well as repaying the balance if she died or suffer from a critical illness. It also informed Mrs S that the policy would pay 10% of the balance on the account for up to 12 months if she claimed. And I think it's unlikely Mrs S would have thought it was free.

The information provided would have given Mrs S a broad sense of what the policy covered. But it was Bank of Scotland's responsibility to draw to Mrs S's attention the important information – i.e. the key information about the nature of the cover and any significant exclusions and limitations which might be relevant to her decision.

I'm not persuaded Bank of Scotland did enough to do this. For example, I don't think the cost of the policy was made clear to Mrs S, including the need to maintain premiums during a claim or that the payments would attract interest. In addition, I can't see that Bank of

Scotland adequately drew to her attention the main provisions of the policy and significant limitations and exclusions.

So I don't think Bank of Scotland gave Mrs S sufficient, appropriate and timely information to enable her to make an informed choice about whether to take out the policy, including drawing her attention to and highlighting – in a clear, fair and not misleading way – the main provisions of the policy and significant limitations and exclusions.

I have considered how my findings interact with the FCA's list of significant failings in its guidance for firms handling PPI complaints set out at DISP App 3. And for the reasons set out above, I'm persuaded that there were significant failings in this case.

In addition to the failings I've highlighted above, Mrs S's representative has raised a number of general points in regards to the requirements on a business when providing information in PPI sales. It suggests these points apply to all PPI complaints, like Mrs S's. I've considered these carefully and summarised them as:

- The common law duty of utmost good faith means the business should have explained the low claims ratio – what Mrs S's representative considers to be 'poor value' – and the fact that much of the premium went to the business rather than the insurer.
- the common law duty of utmost good faith means the business shouldn't have just told Mrs S about the limitations and exclusions, it should have gone further and explained the significance of them to her.

I'm not persuaded by Mrs S's representative's views on this. The duty of utmost good faith in insurance law imposed a duty on both parties to the contract to disclose material facts and not to make material misrepresentations. While I can't be certain what a court would say – I think it's unlikely a court would find that this extended to the insurer having to disclose the claims ratio information or explaining the significance of the limitations and exclusions in the way Mrs S has suggested. And taking into account the law, industry codes and standards of good industry practice applicable to this complaint, I don't think it's fair and reasonable to conclude that Bank of Scotland ought to have done either.

what effect did Bank of Scotland's shortcomings have on Mrs S? To what extent did Mrs S suffer loss or damage as a result?

I've found that Bank of Scotland didn't do all it should have done when it sold this policy to Mrs S. So I've gone on to consider whether it would be fair and reasonable to conclude Mrs S suffered loss and damage as a result. To answer this, I must decide whether or not Mrs S would have still taken out the policy, had Bank of Scotland done things properly.

Mrs S says she wouldn't have taken it out and believes that I should presume this to be the case given the significant failings identified above.

As this was a non-advised sale, Mrs S had to weigh up in her own mind the cost of the policy against the benefits offered and the potential consequences if she didn't insure against the risk of being unable to work.

As I've found above, Mrs S chose to take this policy out. So I consider that it's reasonable to conclude she had some interest in the benefits offered by this type of insurance. But she

made this decision based on incomplete information. So what Mrs S thought she was getting is not *exactly* what she got. The extent to which this differed is a relevant consideration when determining if Mrs S has suffered any loss or detriment.

In relation to the costs, I'm satisfied Mrs S ought reasonably to have known she would have to pay something for the PPI and it would cover 10% of her outstanding balance – this was set out on the application form. But, I accept that Bank of Scotland didn't make clear the on-going cost information. So while Mrs S didn't know some things, the ultimate position in the event of a successful claim was not dissimilar to what she would reasonably have thought from the information she based her decision to take out the policy on and found acceptable.

Possibly the most significant differences between what Mrs S thought she had bought and what she actually bought were the following:

- The policy excluded claims relating to medical conditions for which treatment or advice had been suggested by a registered medical practitioner during the 12 month period before the policy started
- The policy limited, and in some situations, excluded unemployment cover if Mrs S wasn't a permanent employee.
- The requirement that in order to be eligible for a disability claim – Mrs S be unable to do her own job or other work which her experience or training would allow her to do.

I do accept that there is a possibility the limitations and exclusions above might well have caused Mrs S pause for thought – and may well have caused her to conclude that the policy was not as good as she thought and she might have decided not to proceed. The limitations on the cover, when coupled with the other shortcomings in this sale, might have dissuaded some consumers in slightly different circumstances from Mrs S from taking out the policy.

But, the evidence about Mrs S's circumstances at the time of sale shows that the policy wasn't fundamentally wrong for her. She was eligible for its benefits and it provided cover that, despite its limitations and exclusions, could've proved valuable to her should the insured risks have become a reality. I also haven't seen any evidence to suggest she would've been caught by any of the significant exclusions – Mrs S didn't have any pre-existing medical conditions and was in permanent employment. So, I still think she had some good reasons to take the policy out.

The policy didn't exclude back or mental health conditions or place any additional restrictions or more onerous evidential requirements in the event of a claim on those grounds than would have applied to any other disability claim. And I think it's unlikely Mrs S would have expected to make a disability claim on the policy without first providing some evidence to support that claim.

If Mrs S had known she could only claim for disability if she was unable to do both her job and other work her experience or training qualified her to do, it might have played into her thinking about what she would have done. And I accept it may have given her pause for thought – although given Mrs S's circumstances, on balance, I still think she would have been interested in taking out the cover.

Having considered all of the evidence and arguments in this case, I consider it more likely than not that Mrs S would still have taken out the PPI. The policy was sufficiently close to what she thought she was getting and I think the policy could provide a useful benefit in a

difficult time, notwithstanding her employment benefits. And in those circumstances I consider it more likely than not that she would have taken out the policy in any event.

Mrs S's representatives say the rules about how to handle PPI complaints (DISP App 3) make it clear that, where a significant failing is identified, it should be presumed the consumer wouldn't have taken out PPI, unless there is evidence to outweigh the presumption. They say we should follow this other than in exceptional circumstances.

That guidance is for firms, but it is a relevant consideration so I take it into account along with many other things when I decide what is in my opinion fair and reasonable. Considering the purpose of the guidance, I don't think it was ever intended to be at odds with the approach I have taken.

I have thought about what outcome applying the FCA's guidance to this complaint might lead to. In the language of DISP App 3, I have found it would be reasonable to conclude there were substantial flaws in the sales process. In those circumstances, DISP App 3 says it should be presumed Mrs S would not have bought the PPI she bought *unless*, in the particular circumstances of the complaint, there is evidence to rebut the presumption.

I am satisfied, applying DISP App 3, it is reasonable to conclude the presumption is rebutted in the particular facts and circumstances of this complaint. Taking into account Mrs S's circumstances as detailed above, I consider it reasonable to conclude the position Mrs S found herself in as a result of the sale was the same position she would have been in had the 'breach' or 'significant' failings not occurred.

Mrs S believes the presumption may only be rebutted when the flaws in the sales process were immaterial, that the flaws in this case were highly material and we have failed to give proper weight to the evidence – including her own comments that she would not have taken out the policy. I am not persuaded by these arguments.

Even if I am ultimately departing from the guidance for firms set out at DISP App 3 (which I don't consider I am), I am only doing so because I don't consider, in this case, that it would represent fair compensation to put Mrs S in the position she would have been in if she had not bought the policy.

That is because, while I accept it is possible that she would not have taken out the policy, I am satisfied that of the two possibilities, it's more likely than not that she would still have taken out the PPI had she been given clear, fair and not misleading information about the policy she was buying. So I'm not persuaded it would be fair and reasonable in those circumstances, to conclude Bank of Scotland should pay Mrs S compensation, as that would put her in a better position than she would have been in if everything had happened as it should have done.

I'm also aware that Mrs S thinks Bank of Scotland misrepresented the terms of the policy in how it described the PPI. While I accept there is a possibility a court might conclude some of Bank of Scotland's statements misrepresented the contract, in my opinion the reason why Bank of Scotland failed to act fairly and reasonably was not because of what it did or didn't say in the information it provided – but because the overall information Bank of Scotland gave Mrs S, in the way it did, was insufficient to meet the standards I consider it fair and reasonable to expect it to have met in 2001 when providing information about an insurance policy.

I've also thought about the approach Mrs S's representative says a court might take if it were to find Bank of Scotland negligently misrepresented the contract to Mrs S and about the remedy a court might award if it were to find that Bank of Scotland had been in breach of its duty of utmost good faith. But this doesn't persuade me to alter my conclusions about what is fair and reasonable in all the circumstances of the complaint – including what I think is fair compensation in the circumstances of this case. For the reasons I've already set out I don't think it would be fair and reasonable to put Mrs S in a better position than if everything had happened as it should have done.

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 this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 3 April 2021.

Rebecca Hardman
ombudsman