

complaint

The late Mr S complained that Bank of Scotland plc (trading as Halifax) mis-sold him a payment protection insurance (PPI) policy on his loan. He was unhappy with the amount it offered him in compensation.

background

Mr S took out a PPI policy in 2004 at the same time as taking out a loan. He paid for the PPI with a single upfront premium which was added to the cost of the loan.

Halifax said it shouldn't have sold Mr S the type of policy it sold him. But it still thought Mr S would've bought PPI with his loan, but paid for it every month. So it made him an offer which gave him back the extra he paid by having a policy with a single upfront payment, instead of a regular monthly payment. This offer was for £663.55.

Mr S was unhappy with this offer as he thought he should get a refund of all the money he paid. So he asked us to step in. Our adjudicator looked at the offer, but thought what Halifax had done was fair. Mr S sadly passed away whilst we were looking into this complaint.

The administrator for Mr S's estate disagreed with this, so the case has been passed to me for a final decision.

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 can see that Halifax upheld Mr S's complaint that the policy was mis-sold but its offer takes off the cost of a regular premium policy. This approach is sometimes called "*alternative redress*".

The Financial Conduct Authority (FCA) regulates businesses on how they should look at complaints about mis-sold PPI. They've set out how businesses can use this approach to when working out compensation.

The FCA say that businesses – if they think that the consumer would've bought a regular premium policy (where a premium is charged every month) instead of a single premium policy (where one premium is charged upfront by borrowing more) – can pay the consumer what's needed to put them in the position they would've been in, if a regular premium policy had been sold. But a business can only do this in certain circumstances. These include where the business recommended a single premium policy without taking into account the consumers need for flexibility, such as a need to cancel the policy early without losing out.

I've carefully thought about the circumstances of the sale to see if Halifax approached the compensation fairly.

The PPI policy Halifax sold Mr S didn't give him a proportionate refund if he cancelled the policy early, for example by repaying the loan part way through its term. This meant that the policy was potentially unsuitable for Mr S's needs because, if it was cancelled early, less of the premium would be refunded. So he'd still end up paying for some of the PPI premium he didn't use.

I've also looked at what Halifax said about the sale of the policy. It said the PPI policy wasn't suitable for Mr S because he wouldn't get a proportionate refund if he cancelled early and also because the policy incurred interest throughout the life of the loan. I agree that the reasons Halifax has upheld the complaint fall into the circumstances where a business can offer alternative redress.

To see if the offer is fair I also need to check that there are no other reasons to uphold this complaint. Looking at the information available to me:

- I think Mr S was aware the PPI was optional and that he chose to take it out. Mr S's loan application has a 'yes' box and a 'no' box for PPI. Mr S has signed in the 'yes' box. I've taken into account Mr S's comments about being told that taking the PPI would increase his chances of getting the loan. But considering all the information available, I think he was aware he had a real choice about PPI and he chose to take it.
- Mr S said that he received statutory sick pay from his employer. But statutory sick pay was likely to mean Mr S's salary would've been reduced if he was off sick. So I think Mr S could've found the PPI useful, because it could've helped him make his payments if he was out of work. And while he's said he could've relied on his wife, this wasn't a guaranteed income. So I don't think this made the policy unsuitable.
- The policy didn't cover certain things and it wasn't suitable for everyone, for example if Mr S had an existing medical condition or if he was unemployed at the time. If these things applied to Mr S they should've been pointed out to him. But I don't think they did apply to him and so it's unlikely Mr S would've been affected by any of them.
- I didn't see any evidence to suggest the policy wasn't affordable to him or that costs were an issue.

For the reasons I've set out above, I think that the policy was likely to have been suitable for Mr S (excluding the inflexible cancellation terms that Halifax has upheld the case for).

As I've said above, I found the only reason to uphold this complaint is because Halifax didn't take into account Mr S's need for flexibility when recommending the PPI. I've not found any other reason why the recommendation for PPI was unsuitable. I think the FCA's guidelines allow Halifax to make an offer of alternative redress. And for this reason, I think the offer Halifax has made is fair to resolve Mr S's complaint.

I say this because I think Mr S still had a need to protect his monthly payments. A monthly premium policy could've been cancelled at any time and meant Mr S could pay off the loan early without losing out. So I agree that a monthly premium policy would've been suitable for Mr S if it was offered to him. And I think it's fair for Halifax to offer the difference in cost between the policy he bought and a policy paid for monthly.

my final decision

For the reasons set out above, I think the offer Bank of Scotland plc made the late Mr S is fair.

Bank of Scotland plc should update its offer and pay the administrator for Mr S's estate as soon as possible.

Under the rules of the Financial Ombudsman Service, I'm required to ask the administrator for the late Mr S's estate to accept or reject my decision before 8 April 2016.

Amy Osborne
ombudsman