

complaint

This complaint concerns a monthly premium payment protection insurance (“PPI”) policy, sold in conjunction with a credit card in 2006. Miss G says that Lloyds Bank plc (“Lloyds Bank”) mis-sold the policy.

background to complaint

The adjudicator’s view was that there was sufficient evidence to show that the PPI policy had been mis-sold. Lloyds Bank was advised of this and has requested that the matter is referred to an ombudsman for final decision.

my findings

I have included only a brief summary of the complaint above, but I have considered all of the available evidence and arguments from the outset in order to decide what is fair and reasonable in the circumstances. In doing so, I have also taken into account the law, relevant regulatory rules and guidance and good industry practice at the time the policy was sold.

It seems to me that the relevant considerations in this case are materially the same as those set out in the PPI section on our website.

The key questions I need to consider in this case are as follows:

- whether Lloyds Bank gave Miss G information that was clear, fair and not misleading in order to put her in a position where she could make an informed choice about the insurance she was buying; and
- whether, in giving any advice or recommendation, Lloyds Bank took adequate steps to ensure that the product it recommended was suitable for Miss G’s needs.

If there were shortcomings in the way in which Lloyds Bank sold the PPI policy, I then need to consider whether Miss G is worse off as a result; that is, would she have done something differently – ie not taken out the policy – if there had been no shortcomings.

I have decided to uphold Miss G’s complaint for the reasons set out below.

It appears that Miss G purchased the policy during a branch meeting. Lloyds Bank says that it advised Miss G to purchase the policy – it therefore had a duty to ensure the policy was suitable for her needs. Lloyds Bank was also required to provide Miss G with information that was sufficient to enable her to make an informed decision about the insurance she was buying.

I have reviewed the credit card application form completed by Miss G when she applied for the credit card and PPI policy. It seems from this that the only information given about the PPI was as follows: *“Payment Protection Cover. For your 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. Lloyds TSB could cover your payments. To select Payment Protection Cover please cross the box.”*

There is no reference to the key features of the policy (such as the cost or level of benefits), so I am not satisfied that these were drawn to Miss G's attention. I therefore consider that there was most likely an information failing in this case and that Miss G would not have taken out the PPI policy if she had been properly informed and advised about it.

In the event of a successful claim, the PPI policy would have paid a monthly benefit of 5% of Miss G's outstanding balance for up to 11 months in the event of her being unable to work due to accident, sickness or unemployment. If Miss G remained unable to work for 12 months, the policy would have paid off the balance of the credit card.

Lloyds Bank has not been able to confirm the cost of the policy at the time of sale, but has said that it would not have been any more than 79p per £100 of the outstanding statement balance. As stated above, I am not satisfied that Lloyds Bank adequately explained the on-going cost of the policy and potential monthly benefit that would be paid in return for Miss G's premiums. Specifically, I am not persuaded that it was made clear 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. I think this is something that Lloyds Bank should have made clear to Miss G so she fully understood how the policy operated.

Miss G says that if she had been unable to work due to sickness she would have received between three and six months' full sick pay from her employer. She had worked for the same employer for a good number of years so appears to have been in secure employment. She also says that she had other means with which to meet her credit card repayments.

In light of all of this, I find it unlikely that the policy would have provided benefits that Miss G would have considered, at the time of sale, as being something that she needed. And taking into account Miss G's circumstances, I find it unlikely she would have agreed to purchase the policy had the monthly cost and benefits been made clear to her. I say this because I find it unlikely that she would have thought the policy provided value for money.

As this was an advised sale, Lloyds Bank was required to take adequate steps to ensure that the product it recommended was suitable for Miss G's needs. For the same reasons as set out above, I also find the policy was unsuitable to Miss G's needs.

summary

I am satisfied that Miss G would not have taken out the PPI policy if Lloyds Bank had clearly explained the costs and benefits to her and taken adequate steps to ensure the policy was suitable for her needs. It follows that I have decided to uphold Miss G's complaint and I direct Lloyds Bank to pay Miss G fair compensation.

fair compensation

Miss G should be put back in the position she would have been in now if she had taken out the credit card without the PPI policy. So the PPI policy should be cancelled if it has not been cancelled already and Lloyds Bank 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 be if Miss G had paid the same monthly payments, but the PPI policy had *not* been added to it.

This will involve Lloyds Bank 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 Bank should then pay Miss G the difference between the current balance and what the current balance would have been without PPI. Lloyds Bank may wish to take into account the value of any successful claim.

- B. Pay Miss G 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 G how it has calculated the compensation in A and B.

[†] I understand Lloyds Bank is required to deduct basic rate tax from this part of the compensation. Whether Miss G needs to take any further action will depend on her financial circumstances. More information about the tax position can be found on our website.

Miss G should refer back to Lloyds Bank if she is unsure of the approach it has taken and both parties should contact HM Revenue & Customs if they want to know more about the tax treatment of this portion of the compensation.

my final decision

For the reasons set out above, I determine this complaint in favour of Miss G. I require Lloyds Bank plc to pay Miss G fair compensation in accordance with the calculation I have set out above.

Jagdeep Tiwana
ombudsman