Financial Ombudsman Service

complaint

Mrs H says Lloyds Bank PLC ('Lloyds') mis-sold her a payment protection insurance (PPI) policy.

background

In May 2001, Mrs H took out a loan. At the same time, she bought a single premium PPI policy. In November 2013, Mrs H complained to Lloyds about the sale of the PPI policy. Lloyds said it hadn't mis-sold her the PPI policy. Mrs H wasn't happy with what Lloyds said, so she brought her complaint to us.

Lloyds then said that the type of policy Mrs H bought – paid for by adding the cost of a single upfront premium to the loan – wasn't right for her. Lloyds said it didn't know whether what it had said to Mrs H about how the policy was paid for was clear enough. But it thought she needed some cover. So it offered to refund the difference in price between the policy she bought and a policy where the premiums are paid monthly.

Mrs H wasn't happy with what Lloyds offered. She said she didn't want or need PPI and wouldn't have bought it if she'd known she didn't have to have it.

Our adjudicator looked into the complaint and thought what Lloyds had offered was fair in the circumstances. They thought Mrs H had a need for some cover when she took out the loan. Mrs H didn't agree – she said she was a student when she took out the loan and didn't need PPI, so the complaint has been passed to me to decide.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

The Financial Conduct Authority ('FCA') sets out how businesses should look at complaints about mis-sold PPI. The FCA has said that if a business thinks someone would've bought a policy paid for by monthly premiums instead of a single upfront premium added to their loan, it can put that person in the position they would been in now if they'd bought a monthly premium policy. This involves refunding the difference in cost between the two types of policy, and this type of refund is called 'alternative redress'.

A business might think someone would've bought a policy paid for by monthly premiums instead where PPI in itself isn't unsuitable for them, but paying for PPI by a single upfront premium added to the loan is unsuitable – for example, because they didn't know they were paying for PPI with a single upfront premium that would be added to their loan, so they'd pay more interest. There's no interest payable on a monthly premium policy.

Lloyds says it advised Mrs H to buy the policy, so it needed to make sure it was right for her, as well as giving her clear information about it. Lloyds has given me a copy of Mrs H's loan agreement from May 2001. Having looked at it, I don't think the cost of policy was clear enough. The agreement sets out the amount of the PPI premium Mrs H would need to pay upfront and the monthly cost of it. But it doesn't set out the cost of the interest payable on the premium. So I don't think Mrs H would've had clear enough information about the PPI policy to understand how much it would cost if she kept it for the full term of the loan. And I think this would've made a difference to Mrs H.

So, from what I've seen I think Lloyds can fairly offer alternative redress to Mrs H as long as there aren't any other issues with the sale and the PPI policy in itself isn't unsuitable for her.

Mrs H says she was a student when she took out the loan, and before that she was working. She says she was studying for a professional qualification at university for two years. If Mrs H was a student when she took out the policy, she wouldn't have been eligible for the PPI policy and Lloyds shouldn't have sold it to her.

Mrs H has given me a copy of her certificate of registration (enclosed) which shows she was first registered with her professional body in January 2004 and qualified in 2003. Mrs H says her course started in January and finished in December, and I think it's likely it finished in December 2003. As the course was for two years, I think it's likely it started in January 2002. In January 2002, Mrs H refinanced the loan she took out in May 2001 and she didn't buy PPI – she said the loan was for course fees. This seems to support her starting her course in January 2002. So, I think it's likely Mrs H was employed when she took out the loan (and PPI) in May 2001. So I think she would've been eligible for the policy.

Lloyds says Mrs H bought the policy during a meeting in one of its branches. Mrs H says she wouldn't have taken out the PPI if Lloyds had told her about it. But from what I've seen in this case and what I know of Lloyds' sale processes at that time, I think it's more likely than not Lloyds made Mrs H aware of the PPI policy and that she had a choice about taking it out, and she chose to buy it.

On the loan agreement Mrs H signed, I can see the PPI is dealt with in a separate section from the loan. It's described as optional and there are 'yes' and 'no' boxes for the applicant to tick, which have equal prominence. So although I can't know for certain what happened when Mrs H bought the PPI policy, I think it's likely she understood she had a choice about buying it.

I also think the policy wasn't unsuitable for Mrs H when she bought it, given her circumstances and needs at that time. Mrs H says she didn't have any other way of meeting the loan repayments if she wasn't able to work because of an accident, sickness or unemployment. So I think the policy could've been useful to her.

It's possible Lloyds didn't point out to Mrs H the main things the policy didn't cover. But it's not likely Mrs H would've been affected by any of these. She's told us she was in good health and I think she was employed when she bought the policy.

Looking at everything, I don't think Mrs H was given clear enough information about the total cost of the PPI policy. But I haven't seen any other problems with the sale. And I haven't seen anything that makes me think the policy in itself wasn't suitable for Mrs H. So I think it's fair for Lloyds to pay Mrs H alternative redress in these circumstances. And I don't think it needs to offer a full refund of the total cost of the policy Mrs H bought.

my final decision

For the reasons set out above, my final decision is that it's fair for Lloyds Bank PLC to pay Mrs H alternative redress to compensate her for the mis-sale of the PPI policy. If it hasn't done so already, I now direct Lloyds Bank PLC to update the compensation and pay Mrs H.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs H to accept or reject my decision before 25 November 2016.

Chloe Wooles
ombudsman