Financial Ombudsman Service

complaint

Mr and Mrs H complained that Tesco Personal Finance PLC ("Tesco") mis-sold them a payment protection insurance (PPI) policy when they took out a credit card with Tesco.

background

In 2003, Mr H applied for a credit card by post and added Mrs H as an additional cardholder. At the same time he applied for the credit card he also took out a PPI policy. The policy cost 70p per £100 of the monthly outstanding balance. If Mr H was off work sick or became unemployed it would've paid 10% of the monthly outstanding balance for up to 12 months. The policy also provided life cover for Mr H.

Our adjudicator who looked at this complaint thought that it should be upheld. He thought that Tesco hadn't clearly explained to Mr H (1) the costs and benefits of the policy and (2) that existing medical conditions weren't covered by the policy. He thought that if Tesco had made these things clear, he wouldn't have agreed to take the PPI.
Tesco disagreed with our adjudicator and asked for an ombudsman's 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. We've set out our general approach to complaints about the sale of PPI on our website and I've taken this into account in deciding this complaint.

Having considered all the information, I've decided to uphold Mr and Mrs H's complaint.

Both parties have said that the PPI was sold when Mr H applied for the credit card by post. Tesco has also given us a copy of Mr H's application. So, I'm satisfied that Tesco didn't provide a recommendation to Mr H to take the PPI. But Tesco still had to give them clear enough information to allow them to decide whether or not to take it.

There was no information about the cost of the PPI on the application form which Mr H completed. And the information on the benefit it provided was poor-it simply said that cover was to protect death, accident, sickness or involuntary unemployment.

Tesco said that information on the cost and benefits provided by the policy was set out clearly on documents provided with the application form. But the application form doesn't say anything about reading these documents before deciding to take the PPI. So, I don't think that Tesco did enough to draw Mr H's attention to the cost and benefit of the PPI.

Mr H said that, in 2003, he had good employee benefits and savings and if he'd had better information about the cost and benefits of the policy he wouldn't have taken it. Mr H said that he would have received six months full pay and six months half pay from his employer if he'd been off work. And he also said that he had savings worth around six months of his salary.
Tesco disagreed with our adjudicator. It said that it thought Mr H would still have taken the policy even if he'd had better information about the costs and benefits. It said that Mr H was a homeowner and so he would have had other financial commitments. It also pointed out that the policy provided life cover and it said that notwithstanding Mr H's other means (ie his employee benefits and savings) it thought the policy would still have been useful and attractive to him.

I find what Mr H has told us about the benefits and savings he had at the time he took the PPI plausible. I note that Tesco hasn't challenged what Mr H has said and having considered all the information I've been given, I'm persuaded by what he's told us. He said that he'd been working for his employer for 6 years. And given his age at the time, I think that he would have been able to build up a pot of savings. Mr H said he'd had six months' worth of savings. I think it is also worth noting that given his employee benefits, he would have only needed three months' worth of savings for him to continue to meet his financial commitments if he'd been unable to work for a year. So I think that if Mr H had clearer information about the costs and benefits he wouldn't have taken out the policy

I've also looked at the policy terms and what Mr H told us about his health at the time of sale. Mr H said that he suffered from a pre-existing medical condition which sometimes resulted in him taking short periods of time off work. I don't think that Tesco clearly explained that pre-existing medical conditions weren't covered under the policy. And I think that if Mr H had clearer information about this exclusion it would have put him off taking out the policy.

So, I've decided to uphold this complaint.

putting things right

Tesco should put Mr and Mrs H in the financial position they'd be in now if they hadn't taken out PPI. I understand that the policy has been cancelled:

A. Tesco should find out how much Mr and Mrs H would owe on their credit card if the policy hadn't been added to it.

   So, it should remove the PPI premiums added, as well as any interest charged on those premiums. It should also remove any charges that were caused by the mis-sale of the PPI – as well as any interest added to those charges.

   Tesco should then refund the difference between what Mr and Mrs H owes and what they would have owed.

   If Mr H made a successful claim under the PPI policy, Tesco can take off what he got for the claim from the amount it owes them.

B. If – when Tesco works out what Mr and Mrs H would have owed each month without PPI – Mr and Mrs H paid more than enough to clear their balance, Tesco should also pay simple interest on the extra Mr and Mrs H paid. And it should carry on paying interest until the point when Mr and Mrs H would've owed Tesco something on their credit card. The interest rate should be 8% a year.†

C. Tesco should tell Mr and Mrs H what it's done to work out A and B.

† HM Revenue & Customs requires Tesco to take off tax from this interest. Tesco must give Mr and Mrs H a certificate showing how much tax it's taken off if they ask for one.

my final decision

I uphold this complaint against Tesco Personal Finance PLC and require it to put things right for Mr and Mrs H, as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs H to accept or reject my decision before 5 February 2016.

Avril O’Meara
ombudsman