Financial Ombudsman Service

complaint

Mrs B complains that she was mis-sold payment protection insurance ('PPI').

It's been agreed in this case that Financial Insurance Company Limited ('FICL') as the insurer should accept responsibility for the complaint. To keep things simple I'll refer to FICL in my decision.

background

This complaint is about a monthly premium policy bought in 2004 when Mrs B applied for a store card.

The policy cost £1.50 for each £100 Mrs B owed on her store card. If she'd made a claim on the policy, it would've paid a monthly benefit equal to 15% of the outstanding balance on her card or £10 the outstanding monthly balance (whichever was greater).

Our adjudicator upheld Mrs B's complaint. She thought that FICL hadn't made the cost and benefit of the policy clear enough to Mrs B. And if FICL had done, given her circumstances, she didn't think Mrs B would've taken out the policy.

FICL disagreed. It said the cost of the policy was shown on the credit agreement Mrs B signed. FICL also argued that it's likely Mrs B would've thought the policy was good value because the policy would've paid out for longer than Mrs B's sick pay.

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 Mrs B's case.

I've decided to uphold Mrs B's complaint because I don't think FICL made the cost and benefit of the policy clear enough. And I don't think Mrs B would've bought the policy if it had.

I don't think FICL advised Mrs B to take out the insurance. This means FICL didn't have to make sure the policy was right for Mrs B. But it did need to give Mrs B enough clear information about the policy so that she could make an informed decision about whether she wanted to take it out.

FICL has told us that Mrs B would've been aware of the policy cost from the information contained in the application form she filled in to take out the store card. And it says it would've sent Mrs B more information about the policy after she'd decided to take it out.

I've looked at Mrs B's signed store card application form. I can see that the cost of the policy is set out as '*costs just 1.5p for every £1 on your monthly outstanding balance'.* And it refers the customer to the '*customer copy'* for more information on the benefits and terms of the policy. The application form is silent on what benefit Mrs B would've got in return for paying 1.5p per £1.

I don’t think the information FICL gave Mrs B about the cost and benefit was as clear as it should’ve been. I say this because I don’t think she would’ve understood the cost of the policy in real terms was based on her future spending. And it might not have been clear to her that she would need to keep paying the premiums during a claim, which would’ve reduced the real value of the policy benefit below the level that FICL explained in its policy summary.

There’s also no reference to anything on the store card application form which would draw a consumer’s attention to the importance of any explanation about interest being payable on the insurance or clear information about the importance of reading information about the policy benefit.

Overall, I’ve not seen enough to make me think that Mrs B had the information she needed about the policy when deciding to take it out. So I don’t think she was in a position to work out if the policy was going to be good value for her. And when I take into account Mrs B’s circumstances at the time, I don’t think she would’ve taken out the policy if she had really understood these policy details.

Mrs B doesn’t appear to have had a strong need for the policy. At the time of the sale, Mrs B was in full-time employment and she received a good level of sick pay from her employer if she was too ill to work – 6 months but less than 12 months full pay. So given her work benefits, I don’t think this financial commitment was something that was likely to worry Mrs B if she couldn’t work for a while.

I know the policy would’ve also covered Mrs B’s repayments if she lost her job. But I’ve not seen anything to suggest that accident and sickness benefit wasn’t as of equal importance to her as unemployment cover. I’ve also considered the additional benefit the policy provided. But I’ve not seen anything in Mrs B’s circumstances to make me think that her need for purchase protection and price protection was such that this would have motivated her to take out this policy.

When I weigh up her workplace benefits against the limited benefit the policy would pay each month, I think clearer cost and benefit information would’ve put Mrs B off taking out the policy because she’s unlikely to have seen the policy as offering good value in her circumstances.

FICL has pointed out that the policy would’ve paid out in addition to any sick pay Mrs B got. But FICL still had a responsibility to give Mrs B enough information about the policy so she could make an informed choice and for the reasons I’ve explained I don’t think it did that.

what FICL needs to do to put things right

FICL should put Mrs B in the financial position she’d be in now if she hadn’t taken out PPI. If possible

A. FICL should find out how much Mrs B would have owed when she closed her store card account if the policy hadn’t been added.

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.

FICL should then refund the difference between what Mrs B owed when she closed her account and what she would have owed if she hadn't had PPI.

If Mrs B made a successful claim under the PPI policy, FICL can take off what she got for the claim from the amount it owes her.

B. FICL should add simple interest on the difference between what Mrs B would have owed when she closed her account from when she closed it until she gets the refund. The interest rate should be 15% a year until April 1993 and 8% a year from then on.†

C. If – when FICL works out what Mrs B would have owed each month without PPI – Mrs B paid more than enough to clear her balance, FICL should also pay simple interest on the extra Mrs B paid. And it should carry on paying interest until the point when Mrs B would've owed FICL something on her store card. The interest rate should be 15% a year until April 1993 and 8% a year from then on.†

FICL may not be able to work out A, B and C if it doesn't know when the PPI premiums were added, how much the PPI premiums were and/or how much interest was charged on those premiums. So if FICL can't do A, B and C, it should:

D. use what it knows about Mrs B – and, if necessary, consumers who took out the same type of PPI policy for the same length of time – to estimate how much she paid for PPI (including interest) – and pay this to Mrs B instead of A, B and C.

   If Mrs B made a successful claim under the PPI policy, FICL can take off what she got for the claim from the amount it owes her.

E. FICL should add simple interest on this amount (D) from the date the account was closed until the date Mrs B get her refund. The interest rate should be 15% a year until April 1993 and 8% a year from then on.†

F. FICL should tell Mrs B what it's done to work out her compensation – and if it has to estimate how much she paid for PPI, it should explain why and give Mrs B the chance to provide any missing information.

† HM Revenue & Customs requires FICL to take off tax from this interest. FICL must give Mrs B a certificate showing how much tax it's taken off if she asks for one.

my final decision

For the reasons I've explained, I've decided to uphold Mrs B's complaint and direct Financial Insurance Company Limited to pay Mrs B compensation as set out in this decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 5 November 2015.

Sharon Kerrison
ombudsman