

## **complaint**

This complaint concerns the sale of single premium payment protection insurance (PPI) policy taken out in conjunction with a loan in 2003. Mr H says that The Royal Bank of Scotland Plc (RBS) mis-sold the policy.

## **background**

In January 2003, Mr H applied for a loan for the purpose of purchasing a car. At the same time he also purchased a single premium PPI policy. The loan and the PPI were both for a term of two years. The policy included cover for Mr H for loan repayments in the event of accident, sickness and unemployment. The policy also included life cover. The single premium was added to the principal loan and would potentially attract interest over the full term.

Mr H complained to RBS about the sale of the policy in 2012. Unhappy with its response, he brought his complaint to this service.

Our adjudicator has considered Mr H's complaint and is of the view that it should be upheld because RBS did not set out the cost of the policy clearly. RBS disagrees with this view and has asked that the complaint be referred to an ombudsman for a final decision.

## **my findings**

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

In doing so I have taken into account the law 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 section of our website explaining how we deal with PPI complaints.

The key questions I need to consider, therefore, are:

- whether RBS gave Mr H information that was clear, fair and not misleading in order to put him in a position where he could make an informed choice about the insurance he was buying; and
- whether, in giving any advice or recommendation, RBS took adequate steps to ensure that the PPI policy was suitable for Mr H's needs.

If there were any shortcomings in the way the policy was sold, I need to decide if Mr H is worse off as a result. That is, would he be in a different position to the position he finds himself in now if there had not been any shortcomings?

After careful consideration, I have decided to uphold this complaint. I set out my reasons below.

Both parties are in agreement that the PPI policy was sold to Mr H at a meeting. Mr H has also told us that he was advised by RBS to take out the PPI policy. However, RBS has told us that, in line with all their PPI sales at the time, no recommendation or advice was given.

As the sale of the policy took place at a meeting, I cannot be certain as to what was said. I have seen a copy of the document headed '*Personal Loan Loanguard Checklist*' which RBS provided to Mr H at the meeting and which I note has been signed and dated by him. From my review of this document, I am satisfied that its purpose was to establish whether Mr H was eligible for the policy and to inform him of the policy's main exclusions. Whether or not he wanted to take the cover, Mr H was required to confirm that the benefits of the product had been explained to him by signing this document. I see that Mr H has signed and dated the document beside the following statement:

*"I have had all the benefits of Loanguard cover explained to me together with the relevant terms and conditions.*

*I confirm that I am eligible for the cover and I wish to apply for Loanguard cover."*

Taking this into account and also the available information about the circumstances of the sale, I am satisfied that RBS did not give Mr H any advice or make a recommendation that he should take out the PPI cover. Therefore, the PPI policy was sold to Mr H on an information-only basis which means that, rather than having to consider whether the policy was suitable for Mr H, RBS had to ensure that he was in a position to make a properly informed choice. However, I am not persuaded that I can safely conclude that it did this and I will explain why in further detail below.

I am concerned that RBS did not provide Mr H with information that was clear, fair and not misleading to enable him to make an informed choice about whether to take out the cover, in particular in relation to cost disclosure. RBS says that the loan agreement clearly separates out the cost of the main loan and the insurance element and that it also breaks down the monthly repayment elements in respect of the PPI loan and the main loan. From my review of the loan agreement, I can see that the following cost information is set out:

- the total cost of the loan;
- the initial amount of the single premium PPI loan;
- the combined total interest charged on the loan and the policy, and
- the monthly repayments of the loan broken down to show the monthly repayments of the loan and the PPI loan separately.

However, I have not seen or been provided with evidence to show that Mr H was told about the interest that would be charged on the PPI policy and also what the total cost of the interest would be. I therefore cannot be certain that Mr H was made fully aware of the total cost of the PPI cover at the time that he decided to purchase it. This is a significant failing that leads me to conclude that Mr H was not provided with sufficient information for him to be able to understand the true cost of the policy and so to make an informed choice as to whether he wanted to take it out.

I consider that because of this failing, Mr H would not have properly understood the total cost of the policy. I am also not persuaded that he would necessarily have realised that the information provided to him was deficient such that he would have been prompted to make further enquiry of RBS about it. It therefore seems to me that there were significant shortcomings in the way RBS set out the cost of policy for Mr H.

It follows from my finding that I have to consider whether RBS' shortcomings caused Mr H to purchase the PPI that he would otherwise have chosen to decline. Mr H has told us that he was entitled to 12 months sick pay from his employer and that he also had equivalent to three to six months' worth of insurance or savings. RBS has pointed out that the PPI would have paid out in addition to Mr H's existing benefits. However, I am not satisfied, given what I know about Mr H's circumstances, that he would have gone ahead and taken the PPI cover had the costs of the single premium PPI been made clear to him. I say this because I consider that the interest applicable to the PPI alone would have caused Mr H some disadvantage because it would have represented a significant part of the PPI loan.

Overall, I conclude that RBS failed to inform Mr H properly. Had he been properly informed about the true cost of the policy I find it unlikely that Mr H would have gone ahead with the policy. It follows that I find that Mr H was disadvantaged as a result of RBS' failings in this case.

### **redress**

It is my understanding that both the loan and the PPI are no longer active. In accordance with our standard approach to compensating customers in mis-sale cases such as this, Mr H should be put back in the position he would have been in now if he had taken out the loan without the PPI policy. Therefore, RBS should:

- A. Work out and repay the extra monthly payments paid by Mr H because PPI was added to the loan by:
  - calculating how much the loan payments would have been if Mr H had taken out the loan without PPI.
  - subtracting those amounts from what Mr H actually paid and pay him the difference.
  - paying Mr H interest (simple, not compound) on each of these amounts at the rate of 8% a year from the date each payment was made to the date the redress is paid†.
- B. Write to Mr H to set out the details of the calculations and amounts under (A).

† I understand RBS is required to deduct basic rate tax from this part of the compensation. Whether Mr H needs to take any further action will depend on his financial circumstances. More information about the tax position can be found on our website.

Mr H should refer back to RBS if he 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 uphold Mr H's complaint and I require The Royal Bank of Scotland Plc to pay compensation as set out above.

Michael Goldberg  
**ombudsman**