DRN-4940944

The complaint

Mrs W has complained that Lloyds Bank General Insurance Limited mis-informed her that her mortgage payment protection insurance (PPI) policy would remain valid if she changed mortgage provider, which had a negative impact when she was later made redundant.

What happened

Mrs W took out PPI with her Lloyds mortgage. It was an interest-only mortgage with monthly payments of around £538 per month. The policy cost £59 per month.

In May 2021 Mrs W was switching away from Lloyds to a different mortgage provider. She was changing to a repayment mortgage with monthly payments of around £1,189.

She rang Lloyds on 26 May 2021 to ask if it was ok to keep the policy even though she was switching away from Lloyds and was incorrectly told that she would still be covered as long as she continued to reside in the property.

In December 2023 Mrs W rang Lloyds to raise a claim as she had been made redundant. This is when it became apparent that the policy didn't provide cover.

Lloyds accepted that Mrs W had been given incorrect information in 2021. It apologised and refunded the premiums she'd made from the time that the Lloyds mortgage had been redeemed on 28 May 2021, together with 8% simple interest (totalling £2,139.04). It also paid her £350 for distress and inconvenience.

It also offered, outside of the policy terms, to assess the claim as if Mrs W had been covered. In which case, the refund of premiums already made would need to be offset against any settlement amount. And any settlement amount would be based on the original level of cover for the interest-only mortgage. Mrs W had a couple of concerns about this. Firstly that she was now paying a higher monthly mortgage repayment, which wasn't going to be taken into account. Secondly, that she might end up out of pocket if the settlement amount ended up being less than the refund of premiums she'd received.

Mrs W thinks that a fair outcome would be for her to keep the amount she received for the refunded premiums, but instead of the £350 compensation, she would like £2,000.

Our investigator thought that Lloyds had acted fairly and reasonably in its response to Mrs W's dissatisfaction. Mrs W disagrees and so the complaint has been passed to me for a decision.

What I've decided – and why

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

As our investigator has explained, when something goes wrong, we would expect a business to put a consumer back in the position they would have been in if that error hadn't occurred.

In this case, if things had happened as they should, Mrs W would have been told during the phone call in May 2021 that the policy wasn't portable. The policy would then have been cancelled and she would have bought a new policy to cover the new mortgage.

She had been paying £59 per month to cover mortgage repayments of around £538. As her repayments were more than doubling, the cost of any new PPI policy would likely also have more than doubled.

At the time of making the complaint Mrs W was still out of work. We now know that she was fortunately able to get another job after a few months. This makes it easier to work out what would have happened. After paying an increased PPI premium for 30 months, Mrs W would then have made a claim on any new policy for unemployment starting on 31 December 2023. However, she received 12 weeks' pay in lieu of notice (PILON). I don't know of any PPI policies that would pay out during a period of PILON. There would also likely have been a waiting period of at least 30 days. As Mrs W then started work again in April 2024, I therefore find it unlikely that she'd have received any payout on the claim. So, after paying a higher premium for 30 months, she likely wouldn't have received anything for her unemployment claim.

I take Mrs W's point that she ended up taking a job with less pay, rather than having the time to wait for one that was commensurate with her experience. But I can only look at what actually happened rather than what might have happened, when considering if there was any financial detriment.

The situation now is that Lloyds has refunded all the premiums she paid from May 2021, plus interest. So, based on what actually happened, she is no worse off now than she would have been if she'd been given the correct information over the phone in 2021.

I do appreciate what a worrying time it must have been for Mrs W to discover that she didn't have cover for her mortgage, especially as she wouldn't have known how long it would take her to get another job.

I've thought very carefully about what she's said about £350 being insufficient to compensate her for that. However, as an alternative dispute resolution service, our awards are more modest than she might expect and likely lower than a court might award. On balance, I'm satisfied that £350 is a reasonable amount for the distress and inconvenience caused.

My final decision

For the reasons set out above, I do not uphold the complaint.

I understand that the refund of premiums with interest, and the £350 compensation for distress and inconvenience, has already been paid. Therefore, I do not require Lloyds Bank General Insurance Limited to do anything more.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs W to accept or reject my decision before 2 October 2024.

Carole Clark
Ombudsman