complaint

Mr W complains about a payment protection insurance ("PPI") policy that was added to a loan he took out to buy a motorbike. The insurance was sold by Philip Youles Motorcycles ("PYM").

background

Mr W took out his loan in 2006. The loan was due to be paid back over five years. The insurance was sold to him at the same time. The policy was paid for using a "single premium". This means the cost of the insurance was added to the amount Mr P was borrowing and paid back alongside it. This means that – like the rest of the loan – Mr P paid interest on it. The initial cost of the insurance was just over £1,000. And if Mr P repaid the loan over the full term, he would pay interest of over £300. So he'd pay just over £1,300 overall. The insurance would cover Mr W's loan repayments if he wasn't working because of accident, sickness or redundancy.

One of our adjudicators looked into the complaint and thought it should be upheld. PYM disagrees and so the complaint has been passed to me.

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 Mr W's case.

There's no dispute that PYM advised Mr W to take out the insurance. So it had to take reasonable steps to make sure its advice was suitable. The adjudicator didn't think this was a suitable recommendation. That's because of the limits placed on any claim that Mr W made. Accident and sickness claims could be paid for up to two years at a time. Once Mr W went back to work, any claim he made within three months would be treated as part of the old claim and so subject to the same maximum time limit. He'd have to go back to work for six months before he could make a new claim. Over the course of the loan, he could claim for a maximum of three years in total.

The rules regarding redundancy claims were more restrictive. The policy would pay out for a maximum of 12 months over the entire life of the policy. And the monthly claim amount was just under £130. This means Mr W could claim – at most – just over the amount he paid for the insurance.

PYM says that its adviser asked Mr W a number of questions to decide whether to recommend the policy or not. It asked him whether he'd like his repayments covered if he wasn't working because of accident and sickness and/or unemployment and he answered "yes". It also says he only had limited sickness and redundancy pay and so the policy was useful to him.

I've carefully considered everything that both sides have said. And having done that, I've decided to uphold this complaint for the same reasons as the adjudicator. While I agree with PYM that Mr W expressed an interest in having his repayments covered, I can see that PYM didn't consider the maximum claim periods nor did it tell Mr W about these in a clear way. The restrictions on how long Mr W could claim for over the life of the policy – especially for the unemployment cover – mean that it would be unlikely that Mr W could claim back the total cost of the insurance. Overall, I don't think the potential benefits really outweighed the costs. And so I don't think the insurance should've been recommended to Mr W. I think if Mr W had been advised that the insurance wasn't suitable, he wouldn't have bought it. So I think PYM should compensate Mr W.

compensation

Mr W borrowed extra to pay for the PPI, so his loan was bigger than it should've been and he paid more than he should've each month. So Mr W needs to get back the extra he's paid.

So, PYM should:

- Work out and pay Mr W the difference between what he paid each month on the loan and what he would've paid each month without PPI.

- Add simple interest to the extra amount Mr W paid each month from when he paid it until he gets it back. The rate of interest is 8% a year [†].

- If Mr W made a successful claim under the PPI policy, PYM can take off what he got for the claim from the amount it owes him.

[†] HM Revenue & Customs requires PYM to take off tax from this interest. PYM must give Mr W a certificate showing how much tax it's taken off if he asks for one.

my final decision

For the above reasons I uphold this complaint. I direct Philip Youles Motorcycles to pay Mr W compensation in accordance with the above calculation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 26 May 2017.

Ross Crawley
ombudsman