

The complaint

Mrs H complains that National Westminster Bank Plc used compensation from mis-sold payment protection insurance (PPI) to reduce a debt it says Mrs H owes. Mrs H wants the compensation paid directly to her.

What happened

Mrs H complained about PPI she was sold with three loans. NatWest agreed the PPI on the loans was mis-sold and calculated compensation.

It sent Mrs H three letters offering compensation totalling £1,247.01. Mrs M signed and returned the acceptance forms.

But NatWest then contacted Mrs H and said that because she had previously been bankrupt it would use the compensation to reduce the outstanding debt she had with the bank.

Mrs H is unhappy with what NatWest has done. She said as the bankruptcy had ended the compensation should be paid to her and not used to reduce anything that wasn't cleared under the bankruptcy.

Our adjudicator said that NatWest could use the compensation to reduce the unpaid debt and didn't need to pay it to Mrs H. Mrs H wasn't happy with this and asked for an ombudsman to consider her case.

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.

I've decided not to uphold Mrs H's complaint and I'll explain why.

In 2005 Mrs H entered bankruptcy and she was discharged in 2006. This meant that all Mrs H's debts were brought into the bankruptcy and any assets were used to pay something towards those debts if possible. NatWest has told us that its total claim in the bankruptcy was over £8,000.

When Mrs H was discharged from her bankruptcy it didn't mean her debt to NatWest no longer existed. It meant that NatWest couldn't ask or chase her to pay back the outstanding debt. But the debt still existed and remained over £8,000.

So, when NatWest calculated the PPI compensation it owed Mrs H it meant that both parties owed each other an amount. Mrs H owed NatWest a larger amount, so I think it's fair that NatWest can use the amount it owes her to reduce her debt with NatWest.

Mrs H has told us she has had other PPI claims with other businesses paid directly to her. But I think that is a matter for individual businesses to decide and in this case I don't think it would be fair for me to direct NatWest to pay compensation to Mrs H when she owes NatWest a larger amount.

I've also thought about whether NatWest should have told Mrs H at the point it made the offers how it intended to use the compensation.

I agree it would have been useful if NatWest had mentioned in the offer letters that it would be using the compensation to reduce the outstanding debt. But I do note the letters all stated that:

"If you are, or have been, subject to an Individual Voluntary Arrangement (IVA), Protected Trust Deed, Bankruptcy or Sequestration, any payment we make will be made to the relevant account. Any disbursements due to you under the terms of the arrangement will then be managed by the Group's Insolvency Team."

And NatWest has also told us it sent three text messages to Mrs H on receipt of the acceptance forms restating the above.

My final decision

My final decision is that I don't uphold Mrs H's complaint. I think it's fair for National Westminster Bank Plc to use the compensation from the mis-sold PPI to reduce Mrs H's outstanding debt with the bank.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 30 July 2020.

Steve Thomas
Ombudsman