

## The complaint

Mrs L is complaining that National Westminster Bank Plc (“NatWest”) has offset some of the compensation it offered her for its mis-sale of payment protection insurance (“PPI”) against debts which it says still remained outstanding after completion of Mrs L’s individual voluntary arrangement (IVA) in March 2017.

## What happened

In June 2018, NatWest offered Mrs L compensation totalling £4,032.87 for its mis-sale of PPI to her. In its offer letter NatWest included the following statement:

*“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”.*

Following Mrs L’s acceptance of the offer, NatWest wrote to Mrs L in August 2018 enclosing a cheque for £1,961.90. It said that the balance of the offer made to her of £2,070.97 had been credited to its Debt Management Operations (DMO) in relation to outstanding arrears on her accounts with the bank.

NatWest says that these arrears were the subject of an individual voluntary arrangement (IVA) which Mrs L entered into in 2012. And at the conclusion of the IVA, in 2017, it says there remained an outstanding debt owed to it by Mrs L of £2,070.97. So it “set-off” the compensation it had offered Mrs L against this outstanding debt before sending her the net payment of £1,961.90.

In September 2018, NatWest’s DMO issued a cheque to Mrs L for the £2,070.97 in error. But it sent this to an old address which it had for Mrs L where she was no longer living. As a result, Mrs L didn’t receive the cheque. Mrs L subsequently chased NatWest for this payment. But once NatWest realised it had issued the cheque in error, it cancelled the cheque and made no further payment to Mrs L.

Mrs L complained to NatWest about not receiving the amount which she considered was still due to her. NatWest responded to this further complaint in July 2019. It apologised for the administrative error it made in issuing a cheque for £2,070.97 made out to Mrs L, rather than retaining this part of the original PPI offer it made to offset against debts which remained outstanding following completion of her IVA. It offered Mrs L £100 for any distress and inconvenience which it had caused Mrs L as a result of the way it had handled her complaint.

Mrs L still didn’t think NatWest had treated her fairly. She says she didn’t have any outstanding debts with NatWest following the successful completion of her IVA in 2017 so she doesn’t think that NatWest should withhold any of its original offer to her. She thinks that NatWest should honour the payment it sent to her in 2018 which she never received and which it now says was sent out in error. So she complained to this service about what NatWest had done.

Our adjudicator looked at the complaint and thought that what NatWest had done was fair.

As Mrs L doesn't agree with the adjudicator's view, the case has been passed to me for a final 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.

NatWest has agreed it mis-sold the PPI to Mrs L, so I don't need to look at how this was sold. And Mrs L hasn't complained about the total amount NatWest has offered to her in compensation, so I haven't looked at this either.

In this decision, I've only looked at whether it was fair for NatWest to use some of the compensation it's offered to Miss L to reduce the outstanding debt it says remained following the conclusion of her IVA and only pay her the residual amount it says was due to her of £1,961.90.

Having done so, I think NatWest has acted fairly, so I'm not upholding Mrs L's complaint. I know this will come as a disappointment for Mrs L, so I would like to take this opportunity to explain why.

When Mrs L entered into her IVA in 2012, the debts she owed weren't legally cancelled or written off, they were effectively frozen. So the debts didn't cease to exist when the IVA was successfully completed in 2017.

NatWest has provided evidence to show that when the IVA came to an end their remained outstanding debts owed to it by Mrs L of £2,070.97. Mrs L entering an IVA and then successfully completing it meant, by law, she couldn't subsequently be chased for this debt. But the debt Miss L has with NatWest does still exist – because it hasn't been paid back in full.

NatWest is still out of pocket for this money. And it isn't pursuing Mrs L for the debt. It has accepted it owes Mrs L money for the PPI compensation, so it owes her a debt. And it is 'setting off' part of this debt for the PPI compensation against the debt Mrs L owed for the outstanding balances which remain on her loan accounts which still exist.

There is in law what is called the equitable right to set off which allows people to "set-off" closely connected debts. This means one person (A) can deduct from a debt they owe another person (B), money which that person (B) owes to them.

I appreciate Mrs L completed her IVA some years ago - and can understand why she might think that completing her IVA meant the outstanding debt she had with NatWest was effectively extinguished. And Mrs L would be correct in as much as an IVA is a formal process which she did successfully complete. So Mrs L had the protection of the IVA which meant she didn't have to fully pay back all her creditors and then, subsequently, couldn't be legally pursued for any amounts still outstanding following completion of the IVA.

In this case, NatWest can't pursue Mrs L for her outstanding loan debts. But I think it would be unfair to tell NatWest to pay Mrs L all the PPI compensation when Mrs L no longer has to pay NatWest the monies she borrowed and never fully repaid. If NatWest paid all the compensation directly to Mrs L, she'd be receiving compensation for PPI premiums that

were added to loans and which she never, effectively, paid for in the first place. And I don't think that would be fair.

I've also thought about the error NatWest made in sending Mrs L a cheque for the amount it required to offset her residual debts. But I don't think it would be fair for me to now direct NatWest to reinstate this payment to Mrs L. I'm satisfied that NatWest were entitled to deduct outstanding debts from the compensation offer it made Mrs L. And I can see that it advised Mrs L that it was entitled to do this in the original offer letter it sent her. So I don't think that Mrs L has lost out because she wasn't able to cash a cheque that NatWest sent to her in error.

I have, however, noted that NatWest offered £100 in compensation - paid directly to Mrs L - for the way it has handled her complaint. This includes the fact that she wasn't properly informed about what NatWest had done when she chased it for payment. And I think this is fair in the circumstances.

### **My final decision**

For the reasons set out above, I don't uphold Mrs L's complaint because I consider it to have been fair for NatWest to use some of the compensation it owed Mrs L to reduce her outstanding debt.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs L to accept or reject my decision before 11 November 2020.

Simon Furse  
**Ombudsman**