

The complaint

Mr F has complained about the way in which The Royal Bank of Scotland Plc (RBS) resolved the mis-sale of some payment protection insurance (PPI) policies.

What happened

Mr F complained to RBS about the sale of PPI on a series of loans.

RBS agreed the PPI policies had been mis-sold. But they offset the redress, using it to clear the arrears on a separate, unrelated loan account.

Our adjudicator looked into things independently and upheld the complaint. They explained that RBS were only able to set off the PPI redress against the associated accounts. RBS disagreed, so the complaint's been passed to me to decide.

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 to uphold Mr F's complaint, and I'll explain why.

The most relevant rules here come from DISP App 3. Among other things, this explains how RBS should put right the mis-sale of a PPI policy.

Under DISP App 3.9, RBS were allowed to use the PPI redress to reduce the balance on the *associated* loan – and only where they had a contractual right to do so. So RBS could offset Mr F's compensation against the loan each PPI policy related to. But it does not allow them to use the PPI redress to offset other, unrelated debts.

Here, the loan that RBS offset the PPI redress against was *not* an associated account. It was a separate loan, unrelated to the ones which the PPI policies related to. So under the relevant rules, RBS were not entitled to set off the redress against that loan. And I've not seen any good reason to depart from those rules in this particular case.

I've also thought more broadly about the bank's right to set off – which generally applies to owed amounts which are closely connected. There does not appear to be any close connection between the PPI policies and the loan RBS offset their redress against – other than them being in Mr F's name and having been sold by HSBC. The redress from the PPI policies arose from regulatory failings. Whereas the arrears on the loan are *not* the result of regulatory failings and flow from entirely different circumstances. So the PPI redress and the arrears on the loan appear to be broadly unconnected. Certainly, I'm not persuaded that they are so closely connected that it would be fair or reasonable to offset one against the other.

It follows that I think RBS should pay Mr F the PPI redress directly.

Putting things right

I direct The Royal Bank of Scotland Plc to pay the PPI redress to Mr F directly, updating the 8% simple interest portion to reflect the extra time he's been out of pocket.

My final decision

For the reasons I've explained, I uphold Mr F's complaint, and direct The Royal Bank of Scotland Plc to put things right by doing what I've said above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 31 January 2023.

Adam Charles
Ombudsman