

The complaint

Miss M complains that HSBC UK Bank Plc did not fairly compensate her after it mis-sold payment protection insurance ('PPI').

To be clear, this decision is about the borrowing taken out by Miss M only in 2006.

What happened

Miss M applied for an HSBC loan for £8,500 in July 2006 over a term of 62 months. At the same time, HSBC sold Miss M a single premium PPI policy. As this was a single premium policy, Miss M had to borrow extra on top of her loan to pay for the cover. She also had to pay interest on the cost of the premium. The upfront cost of the PPI policy was £2,010.

Miss M complained to HSBC about the sale of PPI because she thought the cover had been mis-sold. After she complained to this service, HSBC agreed it had mis-sold PPI and it offered to pay £4,903.72 after tax to compensate Miss M for that mis-sale.

Miss M did not think that offer was fair. She said she thought HSBC should pay additional compensation for overdraft fees and charges she incurred. It was submitted on behalf of Miss M that she wouldn't have gone overdrawn as often or by as much if the PPI policy had not been added to the loan.

Our adjudicator thought HSBC's offer was fair. But as Miss M didn't agree, the matter was passed to me for an ombudsman's 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.

My decision is that HSBC's offer was fair. But it will need to update its offer of 8% simple interest per year to be paid up to the date Miss M gets that money back. I'll explain why.

The parties agree that PPI was mis-sold. That means I don't have to look at what happened at the point of sale. I have to consider whether Miss M has been fairly compensated for that mis-sale.

As I said above, HSBC sold Miss M a single premium PPI policy. With that in mind, I'd expect HSBC to work out and pay back the extra Miss M paid each month because of the PPI policy. I'd then expect HSBC to pay 8% simple interest a year on each payment from the date Miss M paid it until the date she gets that money back.

In this case, HSBC has worked out that Miss M paid £2,640.28 because of the PPI. And it offered to refund that amount to her. HSBC also worked out simple interest of £2,829.30 before tax up to 4 April 2022. However, I understand Miss M has not been paid compensation yet. So, HSBC will need to recalculate the simple interest to be paid up to the date Miss M gets that money back.

I've thought about whether HSBC should pay further compensation for the overdraft charges and interest Miss M says she incurred because of the PPI policy. I've seen some limited information about Miss M's current account, and in considering that information, I can't say that PPI was the only reason Miss M went into or exceeded her overdraft limit.

Miss M argued that if the PPI wasn't the only reason she went into her overdraft, I should apportion an additional compensation amount in that regard. I don't think it is fair for me to tell HSBC to pay an additional amount along those lines.

I say this because the 8% simple interest that HSBC has already offered to pay Miss M is to compensate her for being kept out of the money she paid for her PPI premiums. So, even if I agreed with Miss M and said that HSBC should apportion some of the charges from her current account, this would be instead of, and not in addition to, 8% simple interest.

It seems to me that in order to work out compensation as Miss M suggested, I would need to embark upon a speculative and open-ended inquiry as to how Miss M could or would have used the PPI funds each month. In my view, such an inquiry is unlikely to lead to a definitive answer. It may also leave Miss M worse off than the 8% simple interest HSBC has offered to pay each year.

With all of this in mind, I'm satisfied that HSBC's offer is fair. But it will need to recalculate and pay 8% simple interest per year up to the date Miss M gets that money back.

Putting things right

HSBC's offer to Miss M is fair. But it must recalculate 8% simple interest* per year to be paid up to the date Miss M gets that money back.

*HM Revenue and Customs may require HSBC to deduct tax from this interest. If requested, HSBC will need to give Miss M a certificate showing how much tax has been deducted.

My final decision

HSBC UK Bank Plc must put things right for Miss M as I have set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 28 June 2023.

Nicola Bowes
Ombudsman