

The complaint

Mr M complains that The Royal Bank of Scotland Plc (RBS) wrongly reversed a direct debit indemnity refund and recorded a default on his credit file.

What happened

Mr M had a car finance agreement with another business. The repayments under the finance agreement were being paid by direct debit from Mr M's RBS current account. In April 2022, Mr M asked RBS to raise a direct debit indemnity (DDI) claim for a refund of three direct debit payments debited from his account since January 2022. The refund of £707.10 was applied to account ending *441 on 19 April 2022.

RBS emailed Mr M on 26 April 2022 to say the DDI claim had been unsuccessful and that it intended to reverse the refund on 3 May 2022. Mr M called RBS to ask it to stop the refund being reversed. He said the finance agreement was unenforceable and that the car had been returned to the finance company, so he didn't think the payments had been due. RBS didn't agree to stop the refund being reversed and account *441 was debited on 3 May 2022. But by this time there were insufficient funds in account *441, so it went overdrawn.

In response to a complaint Mr M raised, RBS acknowledged that some wrong information had been given to Mr M about his outstanding balance and it credited account ending *441 with £75 compensation. But RBS – in error, then transferred £707.10 plus the £75 from *441 to a savings account ending *347, increasing the overdrawn balance.

The error was compounded when rather than reversing the money transferred in error back to account *441, RBS transferred the money to another savings account ending *355. But before this error could be rectified, Mr M transferred the £707.10 plus the £75 to an account he held elsewhere. As Mr M didn't return the funds his outstanding balance on *441 stood at £1,324.49.

RBS contacted Mr M about repayment of the outstanding balance. Income and expenditure breakdowns were completed and an arrangement to pay was agreed. However, RBS says payment wasn't received. Subsequently Mr M's account was defaulted, and the default was recorded on his credit file.

Mr M raised a further complaint with RBS about the default as he felt he didn't owe the money. He also said that RBS hadn't fully addressed his original complaint. RBS responded but it didn't uphold the complaint. Unhappy with what had happened and RBS' response, Mr M referred his complaint to this service.

One of our investigators looked into it. They were satisfied that Mr M had an outstanding debt with RBS which hadn't been repaid. So, they didn't think RBS had acted wrongly or unfairly when it applied the default on Mr M's credit file. But they did think further compensation was due and they recommend that RBS should increase the compensation payment to £150.

RBS didn't respond to the investigator's findings. Mr M did respond but he didn't agree with the findings. He said RBS had sided with the finance company when it reversed the direct

debit indemnity refund and had acted negligently towards a vulnerable to consumer. Mr M asked for his complaint to be reviewed by an ombudsman. So, the complaint was passed to me to decide.

What I said in my provisional decision dated 15 January 2024

Direct Debit Guarantee

This complaint stems from a DDI claim made under the Direct Debit Guarantee (the guarantee). So, I think it would be helpful to set out the terms and conditions of the guarantee.

The guarantee applies to all direct debits. It protects you in the rare event that there is an error in the payment of your direct debit, for instance if a payment is taken on the incorrect date, or the wrong amount is collected. It cannot be used to address contractual disputes between you and the billing organisation.

I've listened to a recording of the call between Mr M and RBS when he contacted it to raise the DDI claim in April 2022. Having done so, I've found that Mr M initially told RBS that the direct debit had been taken from his personal account rather than his business account in error. In light of this information and the guarantee terms and conditions, I find it RBS was required to refund Mr M – which it did.

I also note that during the call Mr M was told that if the billing company (the finance provider) rejects the claim RBS had the right to re-debit the refund. So, I'm satisfied that RBS acted correctly at this point and provided the correct information.

It's not in dispute that RBS wrote to Mr M to say the refund was going to be reversed. So, I've gone on to listen to the calls Mr M had with RBS at this point. And I've found that Mr M told RBS that he was claiming the money back because the finance agreement had been mis-sold to him and the agreement was unenforceable. Amongst other things, Mr M said the finance provider had not done sufficient checks before lending to him.

Balance of Mr M's accounts

*I've reviewed Mr M's current and saving accounts statements. And by the time the DDI refund was reversed, I've found that Mr M had spent most of the refund. So, the balance of the account ending *441 after the refund reversal was £570. 26 overdrawn.*

I've seen that RBS has accepted that at this point it gave Mr M some incorrect information and it credited his current account with compensation of £75 in recognition of this. So, I'm satisfied that Mr M owed RBS £542.39 after the compensation payment was made and a few unrelated transactions Mr M had authorised were debited to the account.

*After this, RBS has not disputed it made some further mistakes. Mr M's saving accounts statements (accounts ending *347 and *355) show RBS transferred the amount of the refund and the compensation payment from account ending *441 to account *347 and then subsequently from *347 to *355. This left account *441 £1,324.49 overdrawn. And account *355 in credit by over £700.*

*What should have happened here is the credit balance in *355 should have been transferred back to *441. But before the funds in *355 could be transferred back, the statements show that Mr M transferred the funds out to an account he held elsewhere. So, the current account ending *441 couldn't be rectified. So, I'm satisfied Mr M has had the benefit of the DDI claim refund and the money he transferred from the savings account.*

I understand that Mr M thinks RBS debited him twice for the DDI refund reversal. But while I can see why the mistakes RBS made have caused some confusion for Mr M, I'm satisfied that the refund was only reversed once. The balance Mr M owes is a combination of the refund being reversed (as Mr M had already spent the refund) and the funds Mr M transferred out of the savings account after RBS' mistake transferring the funds to the savings account.

But having looked at everything I've been provided with – and taking into account the mis-information provided to Mr M and the mistakes made transferring funds to the savings account, I agree with the investigator that a compensation payment of £150 more accurately reflects the inconvenience Mr M has been caused.

Default

Mr M says RBS didn't consider his vulnerabilities when it defaulted his account. And from the call recordings I've listened to, I'm persuaded that RBS was made aware that Mr M was vulnerable. And that RBS recommended that a 'customer protection manager' should be assigned to him.

I think it would be helpful to explain that if a customer finds it difficult to repay an outstanding debt to their bank, the bank is required to treat the customer positively and sympathetically. But this doesn't mean that a debt should be written off. A bank can – amongst other things, agree to suspend interest or agree to a repayment plan. And if the debt is not repaid, the bank can default the account and pass it to a debt collection agency.

Here, I've seen evidence that Mr M was asked to complete an income and expenditure breakdown so that RBS could determine how best to help him. And it seems a repayment plan was put in place. I find this is appropriate action and what I would expect RBS to do in the circumstances. So, I'm persuaded RBS considered Mr M's vulnerabilities. But I've not seen anything to suggest Mr M kept to the repayment plan. So, I don't find that RBS treated Mr M unfairly when it defaulted his account and passed the outstanding balance to a debt collection agency. As such, I won't be telling RBS to take any further action in respect of this part of Mr M's complaint.

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 invited both parties to provide any further comments or evidence they wanted me to consider before reaching a final decision. RBS confirmed it accepted my provisional decision. Mr M didn't accept it, but he said he had nothing further to add.

As RBS accepted my provisional decision and Mr M hasn't provided further comments or evidence for me to consider, I see no reason to depart from my provisional decision as set out above.

My final decision

For the reason given above, I uphold this complaint.

The Royal Bank of Scotland Plc should now pay Mr M an additional £75 (making £150 compensation in total) in recognition of the distress and inconvenience caused to him.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or

reject my decision before 27 February 2024.

Sandra Greene
Ombudsman