

complaint

Mrs N's complaint is about the payment of compensation by Bank of Scotland plc for the sale of a payment protection insurance (PPI) policy.

background

Mrs N complained to Bank of Scotland about the PPI policy she was sold with a loan in December 2002. In September 2011, Bank of Scotland offered to pay Mrs N compensation for the PPI.

Bank of Scotland offered to pay Mrs N total compensation of £3,511.80. It said that Mrs N had fallen behind on her loan repayments, and the debt had been sold on to a third party. So Bank of Scotland said it was paying £2,867.37 to the third party to settle the outstanding debt. And it was paying the remainder (£644.43) directly to Mrs N.

Mrs N is happy for some of the compensation to be used to settle her outstanding debt. But her complaint is that the third party has been overpaid. She said the debt she owed was £2,538.99, and that's what should have been paid to the third party with the rest being paid directly to her.

An adjudicator looked at Mrs N's complaint. She thought Mrs N was right about the debt she owed. So she said Bank of Scotland should pay Mrs N the difference between what she owed to the third party and what was paid to them, plus interest.

The adjudicator has also said Bank of Scotland should pay £150 to Mrs N for the trouble that its handling of the complaint has caused her.

Bank of Scotland disagrees with the adjudicator's view and has asked for an ombudsman to look at the complaint.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. We've set out our general approach to complaints about the sale of PPI on our website and I've taken this into account in deciding Mrs N's case.

The main question I need to look at is how much was outstanding on Mrs N's debt at the time the PPI compensation was paid.

Bank of Scotland has provided a screenshot from its system to show that Mrs N's loan was written off in 2007 for the amount of £2,842.37. When Bank of Scotland offered PPI compensation to Mrs N in September 2011 it said it wanted to pay the third party to settle the outstanding debt.

The actual amount it said it was paying to the third party was £2,867.37 - £25 more than the debt at the time it was written off. The reason for this difference isn't entirely clear, but it doesn't affect the outcome of this case. The key point is that Bank of Scotland said that £2,867.37 of Mrs N's compensation was being used to settle her debt.

Mrs N gave us a copy of a letter she received from the third party about her outstanding debt. The letter was dated 25 August 2011, and said the amount due on her account at that time was £2,538.99.

The third party that Mrs N's debt was sold to has provided a statement of her account since 2007. This shows that by 26 August 2011, the balance had been reduced to £2,529.64. And that on 31 August 2011 a credit for that amount was received to leave a balance of zero.

So Bank of Scotland said £2,867.37 of Mrs N's compensation was being used to settle her debt. But it appears that only £2,529.64 was needed for that purpose.

Bank of Scotland has said it would have had to pay fees to the third party. But I've not seen any evidence of this.

Based on the evidence I've seen, I think Mrs N has lost out because of the way in which Bank of Scotland has paid her compensation. I think Bank of Scotland should only have deducted the amount needed to settle Mrs N's debt - £2,529.64. And it should have paid the rest of the compensation directly to her.

So I've decided to uphold Mrs N's complaint. Bank of Scotland should pay Mrs N the difference between what she was paid and what she should have been paid (based on the figures I've seen, this is £337.73), plus interest.

And I agree with our adjudicator that Bank of Scotland should give Mrs N an additional £150 because it has put her to more trouble than necessary by its handling of her complaint.

fair compensation

Bank of Scotland should pay Mrs N the difference between the amount it deducted from her compensation in September 2011 to settle her outstanding debt, and the amount that was necessary to settle that debt (£2,529.64). It should add simple interest from when the amount should have been paid to Mrs N (in September 2011) until it's paid to her. The rate of interest is 8% a year[†].

Bank of Scotland should also make an award of £150 to Mrs N for the trouble caused by its handling of this complaint.

[†] HM Revenue & Customs requires Bank of Scotland to take off tax from this interest. Bank of Scotland must give Mrs N a certificate showing how much tax it's taken off if she asks for one.

my final decision

For the reasons given, my final decision is that I uphold Mrs N's complaint and make an award against Bank of Scotland plc as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs N to accept or reject my decision before 24 March 2016.

Matthew Young
ombudsman