

complaint

Mr B's complaint is about how The Royal Bank of Scotland Plc (RBS) has used the compensation due for a mis-sold payment protection insurance (PPI) policy which was attached to his credit card.

background

In February 2004 Mr B took out a credit card with RBS and at the same time also took out a PPI policy attached to the card. Mr B has now complained he was mis-sold the PPI and RBS agreed to uphold his complaint.

RBS worked out how much Mr B had been charged for the PPI, the premiums being added to the credit card and some interest then being caused by the premiums. In total RBS said Mr B had been charged £400.90 for the PPI. RBS refunded this amount to Mr B's credit card account. But as Mr B had defaulted on his credit card repayments and owed a debt on the card of £772.06, there was nothing paid directly to him.

Mr B wasn't happy with what RBS had done and said he should be paid back the costs of the PPI directly and RBS couldn't set it against the debt on the card. He said the money for the PPI was compensation and RBS couldn't use any right of set-off for compensation to be set against old debts.

RBS didn't agree so Mr B brought his complaint to this service. Our adjudicator said what RBS had done was fair. But Mr B didn't agree and asked for an ombudsman to look at his complaint.

He also said he thought the credit card debt had formed part of a debt management plan he had entered and if anything had still been owed for the credit card it had been written off when that plan ended.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

As RBS has offered to settle the complaint that the PPI was mis-sold I haven't considered how the policy came to be sold to Mr B. I've only looked at the compensation related to the PPI and what RBS has done with this.

Mr B took out a credit card in early 2004, the first statement being in March 2004. Looking at the card statement history it seems Mr B opened the account with a balance of £3,600 and had a period of 0% rate interest for 9 months. PPI was added each month to the balance on the card from March 2004 to March 2005.

By March 2005 Mr B had failed to make three consecutive repayments to the card and the PPI was cancelled. RBS has told us the card was defaulted on at the end of 2005. By February 2006 the interest charged on the card balance was stopped and no further interest was ever charged. At this time the account had a balance of £3,424.62.

A total of £348.87 was added to Mr B's credit card for PPI premiums. Interest at the card rate, caused by this PPI being in the balance, was £52.03. So in total the PPI cost was

£400.90 and this formed part of the balance on Mr B's credit card when he defaulted on payments to the card in 2005/2006.

RBS offered to settle Mr B's complaint the PPI was mis-sold and pay him compensation. When a business pays compensation of this sort we expect the full costs of the PPI to form part of the amount and where a consumer is out of pocket for the costs of the PPI some compensatory interest is added.

In this case Mr B has never paid the costs of the PPI as it remained part of the credit card debt and as he had never cleared the balance he was never out of pocket. So RBS' offer, made in February 2018, was for the actual costs of the PPI only.

When working out compensation for PPI sold with credit cards, the cost of the PPI can be deemed the last amount to be paid off the balance. This is because it is beneficial to the customer to receive card rate interest when the PPI forms part of the balance.

Mr B signed an acceptance of the offer made by RBS on 13 March 2018. But he never received the payment of the £400.90 compensation offered. He says he wrote to RBS in April and May 2018 to chase the payment and was very unhappy when RBS responded in June 2018 to say the compensation had been paid against the credit card debt. He believes the compensation should all be paid directly to him.

RBS has told us it cannot trace a letter from Mr B in April 2018, but did respond to his letter of May 2018 within four weeks. But it also felt Mr B should have been aware his compensation would be used against the credit card debt as this had been indicated in the offer letter and on the acceptance he signed.

Mr B is very unhappy as he says he is entitled to have the PPI compensation paid to him and RBS cannot use any right of set-off with compensation. Banks do have a right of set-off, to set a debt it owes a customer against a debt the customer owes the bank. These rights do have some restrictions, the main one being that they must be closely connected debts. In the circumstances of this particular case the PPI was directly associated with the credit card which Mr B has a debt on. And the compensation is a debt RBS owes to Mr B. So there would be nothing wrong in RBS setting off one debt against the other in this way.

But also looking at the account statements, it seems Mr B never actually paid for the PPI that was added to his credit card balance. The premiums and interest for the PPI were charged to the card account, so in effect Mr B borrowed the costs of the PPI and they became part of the account balance.

As Mr B never cleared the balance he never repaid the costs of the PPI, so part of what he owes to RBS on his credit card debt was for the PPI costs. So paying the compensation to the credit card account effectively removes from the credit card balance everything ever charged for the PPI.

In any event, if RBS did pay the compensation directly to Mr B, he'd be receiving compensation for PPI premiums which he never actually paid. And I don't think that would be fair.

I also think Mr B was made aware of what RBS was going to do with the compensation when it made its offer to him. Mr B signed an acceptance form for the PPI compensation. This clearly stated both in the covering offer letter and in the section immediately above the

signature line of the acceptance, that the offer would take into account any arrears on the credit card balance.

Mr B has said at some point he entered a debt management plan and he thought this credit card debt had formed part of that arrangement and been cleared or written off. However he has not provided anything to support this. RBS has checked its records and says the debt was never part of a debt management plan. It retained the debt on the account and has never put it out to a third part collection agency or written it off.

Taking all these factors into account I think what RBS has done with the compensation for the PPI is fair. It wouldn't be fair for Mr B to be paid the costs of the PPI by RBS when he has never actually paid for it. In any event RBS has to right to set off closely connected debts and as the PPI was directly connected to the credit card the compensation debt can be set-off against the credit card debt Mr B owes.

So I don't think RBS has done anything wrong.

my final decision

For the reasons I've set I think what The Royal Bank of Scotland Plc has done with the compensation for the mis-sold PPI is fair. And I'm not going to tell it to do anything more.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 17 February 2019.

Christine Fraser
ombudsman