

complaint

Miss F has complained that she was mis-sold a payment protection insurance ("PPI") policy by Santander UK Plc ("Santander"), trading as Alliance and Leicester.

background

Miss F took out a loan through Alliance and Leicester in 2001 and at the same time took out a PPI policy to protect her repayments. She borrowed extra to pay for PPI. Miss F wasn't able to keep up the payments on her loan and it fell into arrears.

Santander later bought Alliance and Leicester so, although it didn't actually sell Miss F PPI, it is responsible for this complaint.

Miss F complained to Santander that she'd been mis-sold PPI and it made her an offer to settle the complaint. It offered Miss F £787.42, which it says was worked out in the same way we'd tell it to if we'd found PPI had been mis-sold.

Miss F accepted this offer in February 2013, but Santander used all of the compensation to reduce what it said Miss F still owed. Miss F thought she should get paid directly, so she brought her complaint to this service.

One of our adjudicators thought what Santander had done was fair. But Miss F disagrees, so the case has been passed to me for a final decision.

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 Santander has made Miss F an offer to work out compensation as if we'd found PPI was mis-sold, I don't need to consider how PPI came to be sold to her. I do have to decide whether the offer Santander made to Miss F is fair.

I think the offer is fair and I'd like to explain why.

We expect that when a business has mis-sold PPI, it puts things right by putting the consumer in the position they would've been in now if they hadn't taken out PPI. Santander has worked out the extra Miss F borrowed for PPI and the extra interest she was charged because of it. It's also added 8% per year simple interest on the extra Miss F paid from when she paid it until when it worked out the offer. Miss F hasn't complained that these amounts are wrong and I think Santander has worked these amounts out in the way I'd expect it to.

We usually say a business can use a consumer's refund to reduce their arrears if the PPI policy was sold alongside the account in arrears. Miss F has said that Santander can't use her compensation to reduce her arrears as it is a different company from Alliance and Leicester. She says, as she never had a loan agreement with Santander, it should've paid her all of the compensation directly. But when Santander bought Alliance and Leicester it bought all of the assets and debts Alliance and Leicester had, including Miss F's loan account.

And at that time Miss F's loan had fallen into arrears – Santander stopped charging her interest and she was paying it off with a small monthly payment. When Miss F was made the offer to settle she signed a form saying that the compensation would be used to "*repay any outstanding arrears account before the balance, if any, is paid to you.*" So I think Santander made it clear that it would use the compensation to reduce the outstanding balance.

Miss F has said that Santander sold the debt on to a third party. But Santander has told us it used a third party to collect the debt, but it didn't sell the debt on. I've looked at Santander's internal records and I can see has paid the compensation to the same account number that Miss F gave us when she first complained. I've also seen a letter that shows the third party was collecting the debt on behalf of Santander, not for itself, so I don't think the debt was sold on to the third party.

I think it's fair for Santander to use the compensation to reduce the debt in the way it wants to. In short Miss F owes Santander something and Santander owes Miss F something and both debts are related to the same account. And part of the arrears relates to the PPI premium that Miss F borrowed, but never paid back. If she was paid compensation directly she'd be getting a refund of PPI premiums she didn't actually pay.

Miss F has said that she should get paid directly as she is in poor health and would like the money to pay for private medical treatment.

I appreciate that Miss F is going through a difficult period and I understand why she would like the compensation to be paid directly. But I also have to take into account that a debt is still owed to Santander and Miss F hasn't told us about any other debts. On balance I think it was fair for Santander to use the compensation in the way it did in February 2013 and I don't think it needs to pay Miss F directly.

my final decision

For the reasons set out above I think Santander UK Plc's offer is fair and I don't direct it to do anything further.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss F to accept or reject my decision before 11 January 2016.

Mark Hutchings
ombudsman