

complaint

Mr H's complaint is about the amount of compensation Santander UK Plc (Santander) offered to settle his complaint about a mis-sold PPI policy taken out alongside his credit card. He is also unhappy with the process followed in dealing with his complaint and how the payment was made to him.

background

Mr H opened a credit card account in August 2002 and at the same time took out a PPI policy associated with the account. The PPI was cancelled in November 2005 and also the interest on the account was suspended as Mr H was in financial difficulties.

Mr H made some payments to the debt owing on the account until May 2008. No further payments were then made and there was still a debt owing on the account.

In 2018 Mr H complained the PPI had been mis-sold. Santander upheld his complaint and offered to pay him £1,646.10 in compensation. It paid this amount to Mr H's nominated bank account.

Mr H is unhappy that Santander didn't pay him any compensatory interest at 8% simple as part of his compensation. And also that Santander didn't make the offer to him and wait for his response before making the payment to his bank account which he believes should be the standard process. He says if it wasn't for the mis-sold PPI he may have not got into debt.

Mr H brought his complaint to this service and our adjudicator said Santander had done nothing wrong. Mr H didn't agree and asked for an ombudsman to look at his 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.

Santander has agreed to uphold Mr H's complaint that the PPI was mis-sold. So in this decision I'm not considering how the PPI came to be sold. I'm only looking at whether the compensation Santander has offered to settle the complaint is fair.

Mr H took out his credit card with the PPI in August 2002. He did a balance transfer to the account at the start, to the maximum credit limit, and then made the minimum payments on the account. PPI and interest was added each month.

After opening the account with the balance transfers which took the card to the credit limit. Mr H did not spend on the account again, so adding to the balance, until September 2004 when he made some small spends in that month. After that he didn't spend again until February 2005 and he then used the card for small amounts of spending, most months, to November 2005, bringing the balance on the account up again to just over the credit limit of £5,000.00.

In November 2005 Mr H defaulted on the payments to the card. The PPI was cancelled, the last charge for PPI being added to the card being on 1 November 2005. Interest charged for the borrowings was frozen and the last interest added to the balance on the account was also in November 2005.

From January 2006 Mr H started to make some small regular payments to the account as part of an agreement he entered with Santander. These continued most months until May 2008. At this date the balance still owing on the account was £4,395.57. And I have not been provided with any information to show this debt was ever further repaid. So it seems this amount was still owed to Santander.

When Mr H complained he had been mis-sold the PPI Santander upheld his complaint and worked out what the costs of the PPI were from when it first started being added to the account until May 2008 when Mr H defaulted on all payments.

Its calculations show a total of £1,301.05 was added for PPI premiums. £295.05 interest at the account rate was caused by these premiums being in the balance and Santander has also said that two over limit charges were caused by the PPI being in the balance and so has refunded these as part of the compensation. So the total cost for the PPI being on the account comes to £1,646.10.

This is actually the amount that was added to the credit card account balance for the PPI. And I don't think Mr H has ever paid any of this back to Santander. He effectively borrowed this money to pay for the PPI, as it was added to the account balance, and so it is part of the debt Mr H owed on the account when he defaulted.

In circumstances such as that, it would've been fair for Santander to say it would remove this amount from the balance that Mr H owed to it. If this was done it would come off the amount that Mr H owed which was stated to be £4,395.57 in 2008 when he made his last payment. So after the PPI was removed Mr H would still owe £2,749.47 for the total amount he had borrowed from Santander for his own use whilst his credit card account was active.

But Santander hasn't used the compensation to remove it from any debt on the account. When Mr H complained it wrote to him whilst investigating his complaint and said if it upheld his complaint it would make a payment for the compensation to his nominated bank account.

Mr H completed a form on 31 August 2018 providing his bank account details and agreeing that he accepted if his complaint was upheld, and a payment due, this payment would be made to the account he had specified.

When Santander sent out its offer letter to Mr H it also made the payment to Mr H's bank account. So Mr H has received the offer amount calculated into his bank.

As I have indicated, I think it would've been fair for Santander to use the compensation to reduce any amount that Mr H had owed for the debt on his credit card, as all the costs of the PPI were still in that debt. But Santander has paid Mr H the compensation, and that is also very fair.

Mr H has argued he should get 8% compensatory interest on the costs of the PPI. This type of interest is to compensate consumers for not having the use of the money that they have paid for PPI. However in this case, as I have set out above, the costs of the PPI were added to Mr H's credit card. He borrowed the money to pay for the PPI premiums and that borrowing formed part of the debt he owed to Santander. So he wasn't ever out of pocket for the PPI, as he never repaid any of this cost as it remained part of the debt, and he isn't due any compensatory interest.

I also note Mr H is unhappy that Santander didn't make its offer of compensation and allow him to accept or reject its offer before making the payment. In view of the form signed providing his bank details I cannot see the Santander did anything wrong in making the payment when and how it did. It hasn't caused Mr H any financial loss and he has still been able to question the compensation by bringing his complaint to this service.

I know Mr H feels all businesses should use a standard process, but that isn't essential to make things fair. The process Santander used is fair and meant Mr H had the compensation paid directly to him and so he had the use of it. And it didn't prevent him still raising any issues he had about the compensation. So I cannot see there was anything wrong with this process used by Santander.

Mr H also made a point about making payments through his repayment arrangement to 2008 and feels he was, as part of these payments, paying for the PPI. As I've said he was making payments to the total debt he owed to Santander, part of which was for the PPI. With credit cards the PPI is deemed to be the last item paid off in the balance. This means where credit card interest is being added the consumer benefits from getting that rate of interest on the PPI in the balance. So in Mr H's situation he paid towards the debt for the borrowings for his own use first, when making his arrangement repayments.

As Mr H wasn't being charged any credit card interest after November 2005 he effectively had an interest free loan from this date. But the PPI was still part of the loan debt and as I've also shown above, if all the PPI is removed from the debt Mr H would still owe Santander over £2,500.00.

In summary I think Santander has worked out the compensation due to Mr H fairly and has been very fair in paying this amount directly to Mr H when it seems he still owed money for his credit card debt, part of which was for the PPI costs.

my final decision

I think Santander UK Plc has made and paid a fair offer to Mr H for the costs of the PPI associated with his credit card 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 H to accept or reject my decision before 3 May 2019.

Christine Fraser
ombudsman