Financial Ombudsman Service

complaint

Mrs R's complaint is about the sale of payment protection insurance (PPI) policies in connection with a series of accounts she had with The Co-operative Bank PLC (The Co-op). The Co-op has agreed to uphold her complaint but she's unhappy with the way it's used the compensation it offered her.

background

In 2012 The Co-op agreed that Mrs R had been mis-sold PPI and offered a settlement of £3,087.77. But Mrs R had been declared bankrupt. At the time of her bankruptcy she still owed The Co-op a significant amount. So The Co-op decided to reduce the outstanding amount of debt owed, rather than pay the compensation directly to Mrs R or her Official Receiver.

Mrs R, via her representatives, has told us she doesn't think this is fair. She says that when she was discharged from the bankruptcy all of her debts were written off. She says it's no longer possible for The Co-op to deduct the compensation from a balance which no longer exists.

Our adjudicator looked at what The Co-op had done and thought it was fair. Mrs R disagreed and so the complaint has been passed to me to make 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.

The Co-op has agreed it mis-sold PPI so I don't need to consider how Mrs R came to take it out. And she's not made any comments about the way in which The Co-op has calculated how much compensation it owes. So the only issue I need to consider is whether it's fair for The Co-op to use that compensation to reduce her outstanding debt.

I think it is and I'll explain why.

At the time Mrs R became bankrupt, she owed The Co-op £6,842.54. Part of that amount was caused by the fact that she was mis-sold PPI. If The Co-op hadn't mis-sold her PPI (and she'd still become bankrupt) her debts would be smaller. And this is what The Co-op has offered to do – to reduce her debts to remove the effect of the PPI. Mrs R has said that she doesn't see how The Co-op can reduce the balance of a debt that has been written off. But after a bankruptcy has been successfully completed, the debts aren't written off. They still exist – but those businesses that she owed money to can't chase her for them anymore.

The Co-op charged her for PPI by adding the monthly premiums to her credit card balance – or the outstanding debt she owed the business. And at the time of bankruptcy, she still owed £6,842.54. She hasn't actually paid towards the PPI that's in that outstanding balance. So if I asked the Co-op to pay that compensation to her directly then it would effectively be compensating her for payments that she hasn't made. And I don't think that would be fair.

Mrs R has also said that she thinks she wouldn't have become bankrupt if the Co-op hadn't sold her PPI. But she's also told us that she owed money to seven different businesses so I don't think it's likely that this is the case. And so I don't think the Co-op needs to do anything more to compensate her.

my final decision

For the reasons I've set out above, I think it's fair for The Co-operative Bank Plc's to use Mrs R's PPI compensation to reduce her outstanding debts.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs R's Official Receiver to accept or reject my decision before 26 October 2016.

Helen Liburd
ombudsman