

complaint

Mr H is complaining that Shop Direct Finance Company Limited ('Shop Direct') mis-sold him a payment protection insurance ('PPI') policy. He's unhappy with the amount it's paid him in compensation.

background

Mr H took out a store card in February 2005. PPI was added to Mr H's account at the same time. Mr H cancelled the PPI policy in January 2008.

In 2013 Mr H complained that Shop Direct had mis-sold him the PPI policy. Shop Direct agreed and offered him £843.85 in compensation. It said Mr H had been charged £758.83 in premiums for PPI. And it had charged £85.47 in interest on the premiums. But it said that Mr H still owed £1,788.09 on the account. It said that, while it had sold the debt to a third party, it had bought £843.85 of the debt back. And it used the compensation it owed Mr H for mis-selling PPI to reduce the debt.

Mr H was unhappy with Shop Direct's offer. He doesn't think it's calculated the amount of interest correctly. He wants Shop Direct to pay a further 8% simple interest per year on each charge. He's also unhappy that it's used the money to reduce the debt. He says that it had sold the debt to a third party. So it no longer had the right to use the compensation it's offered for mis-selling PPI to reduce the debt. He told us that the third party had offered him a discount on the outstanding debt to pay it off. And Mr H says that, had Shop Direct paid him the compensation directly, he could've accepted the third party's offer and cleared the debt. And he's unhappy that he wasn't given this option and feels he's lost out as a result.

Mr H asked this Service to step in. Shop Direct then recalculated Mr H's offer. And it agreed that it hadn't worked out the amount it had charged Mr H in interest correctly. It said that it owed him a further £673.21. It initially wanted to use this money to reduce the debt Mr H owed as it did before. But it later agreed to pay the money to him directly. And it sent him this amount as an interim payment.

Mr H still doesn't think Shop Direct has worked out the interest correctly. And he wants it to pay the full amount of compensation to him directly. Our adjudicator reviewed the complaint and she thought Shop Direct's offer was fair. She also didn't think Shop Direct had acted unfairly in buying part of the debt back initially and then using the compensation to reduce the amount Mr H owed. Mr H didn't agree and asked for an ombudsman to review 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.

Shop Direct has accepted that it mis-sold the PPI. So I haven't looked at how the policy was sold to Mr H. In this decision, I've looked at whether I think Shop Direct's compensation offer is fair. I think it is and I'd like to explain why.

In a situation like this, I'd expect the bank to put someone in the position they would've been in if they hadn't taken out PPI. Shop Direct needed to refund all the premiums it charged

Mr H and the interest he was charged for PPI on his store card. Shop Direct then needed to pay 8% simple interest per year for the time he was out of pocket.

Shop Direct has worked out that Mr H was charged £758.83 in premiums for PPI. It says it charged him £758.68 in interest on these premiums. And this is what it's refunded. I think this is fair.

I note Mr H thinks that Shop Direct needed to pay him interest at 8% simple per year from the date Shop Direct added the PPI to his credit card. But I don't think that's fair. Shop Direct needs to pay 8% simple interest per year on any payment where PPI caused him to be out of pocket – i.e. when he makes a payment for PPI. Given the amount Shop Direct charged Mr H in interest, I think the PPI premium has been on his account since he took out the card. So I don't think he has ever actually made a payment that was caused by PPI.

I understand that Mr H did make payments on this card. But the payments that he'd made up to this point effectively paid off what he'd spent on the store card. And he would've had to make them whether PPI was on the account or not. So I don't think he was out of pocket because of PPI.

So I think Shop Direct has put Mr H in the position he would be in if he hadn't taken out PPI. And I think its offer is fair.

Mr H doesn't think Shop Direct was allowed to use the compensation it had offered to reduce his debt because it had sold the debt to a third party. I agree with Mr H that Shop Direct can only use compensation to reduce a debt if it's connected to PPI and it still owns the debt. But, while it had sold the debt on, it had the right to buy the debt back. And it chose to do so. Shop Direct has shown that it bought £843.85 back from the third party. So it owned this debt again and was allowed to use the compensation for mis-selling PPI to pay this off.

I note Shop Direct later realised that it owed Mr H more compensation. And, because of Mr H's financial situation, it paid this to him directly rather than reduce the amount he still owed on his store card. As Shop Direct has already paid this, in this decision I've not thought about whether I think this was fair or not.

In summary, if Mr H had not been sold the PPI I think he still would've got into arrears on the credit card and Shop Direct would still have sold the debt to the third party. And Mr H would still have debt with the third party, albeit a smaller one. This is the position that Shop Direct has now put Mr H in. He owes the third party what he would've done if he hadn't been sold the PPI.

my final decision

For the reasons I've set out above, I think the amount that Shop Direct Finance Company Limited has paid in compensation for mis-selling PPI is fair. I also think it was fair for it to use the compensation to reduce the amount he still owed on his store card. I make no further award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 9 May 2016.

Guy Mitchell
ombudsman