

## **complaint**

Miss M's complaint is about how The Royal Bank of Scotland Plc (RBS) used compensation for a mis-sold payment protection insurance (PPI) policy to reduce a debt it says Miss M owes.

## **background**

Miss M took out a series of three loans with RBS and with each loan took out a PPI policy. The PPI in each case was paid for with single premiums which were added to the loans and would've attracted interest.

In April 2005 Miss M had some financial problems and entered into an Individual Voluntary Arrangement (IVA). The IVA was discharged in July 2007.

Miss M later complained that the PPI sold with each loan was mis-sold. RBS has agreed the PPI on all three loans was mis-sold and has worked out the compensation.

It offered £7,618.63 in total compensation for the PPI sold with all the loans. But RBS said Miss M still had an outstanding debt with it for the loans and it used the PPI compensation to set against and reduce the balance of the debt Miss M owed RBS. The debt Miss M owed to RBS was more than the compensation it was offering for the mis-sold PPI so RBS didn't pay any compensation directly to Miss M.

Miss M is unhappy with what RBS has done. She has provided evidence from her insolvency practitioner (IP) to say they have no interest in any compensation for the PPI. She says as the debt for the loans formed part of that IVA, and that has ended, the compensation should be paid to her and not used to reduce anything that wasn't cleared under the IVA, as those debts no longer exist.

Our adjudicator said that RBS could use the compensation to reduce the unpaid debt and didn't need to pay it to Miss M. Miss M wasn't happy with this and asked for an ombudsman to consider her case.

## **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 upheld Miss M's complaint that the PPI policies were mis-sold I'm not looking at how this came about. In this decision I'm only looking at whether what RBS has offered as compensation and done with this compensation amount is fair.

RBS sent three offer letters to Miss M, one for the PPI sold with each loan. In each letter it set out how much it was offering to pay in compensation for each PPI policy. The amounts for each covered the premiums paid, and interest caused by those premiums and also some compensatory interest for any times Miss M may have been out of pocket for the costs of the PPI.

The approach taken by RBS is in line with what I would expect and Miss M hasn't disputed the amount RBS has offered in compensation. So I'm satisfied that what RBS worked out as the compensation for each mis-sold PPI policy was fair.

In 2005 Miss M had some financial difficulties and stopped making payments to the last loan whilst still owing over £20,000. In April 2005 Miss M entered into an IVA. This meant that all Miss M's debts were brought into the IVA and any money Miss M paid into that arrangement was shared between all the creditors to settle Miss M's debts. The creditors, including RBS, didn't receive full payment of their debts, only a proportionate amount of them. But as a result of the IVA the creditors agreed Miss M would not be chased for amounts still outstanding from the debts.

So when Miss M's IVA ended it didn't mean her debt to RBS no longer existed. It meant that RBS couldn't ask for payment or chase her to pay back the outstanding debt amount, but the debt still existed.

When RBS calculated the PPI compensation it owed Miss M it meant that both parties owed each other a debt. Miss M owed RBS a larger amount for the debts from the money she hadn't repaid for her loans than RBS owed her in total compensation. So I think it's fair that RBS can use the amount it owes her to reduce her debt with RBS.

When RBS offered the compensation to Miss M in June 2017, it sent an offer letter for each loan and with each of the offer letters was a declaration and acceptance that Miss M had to sign if she accepted the offer. This acceptance forms all stated that if Miss M was or had been subject to an IVA that any compensation payments would be made to the relevant account Miss M had with RBS. So the letters did indicate that the IVA that had existed would affect where the payment of the compensation would be made. And I have seen that Miss M signed the three acceptance forms, one for each loan account which had the PPI attached.

If the compensation due for the mis-sold PPI had cleared everything that Miss M had owed to RBS, then anything extra would have been paid to her directly, as her IP has indicated they have no interest in any compensation. But there wasn't any excess of compensation and some of Miss M's debts with RBS still remain after the compensation has been taken off those debts.

So I think what RBS has done is fair. Although it cannot chase Miss M for any of the debts she owes it, those debts still exist and it's right that RBS can set against those debts the money it owes Miss M in compensation. So I'm not telling RBS to do anything further.

### **my final decision**

My final decision is that I don't uphold Miss M's complaint. I think it's fair for The Royal Bank of Scotland Plc to use the compensation from the mis-sold PPI to reduce Miss M's outstanding debt with the bank

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 13 December 2018.

Christine Fraser  
**ombudsman**