complaint

Mr A is unhappy with how National Westminster Bank Plc ('NatWest') has resolved his complaint about a payment protection insurance ('PPI') policy attached to a loan.

background

In February 2007 Mr A took out a loan with NatWest. As well as that loan Mr A borrowed an extra amount for a PPI policy. The PPI policy, like the loan, attracted interest. This is called a 'single premium' PPI policy.

At some point, Mr A got into trouble in making his loan repayments. A county court judgement (CCJ) was made on his loan account debt and Mr A made an agreement on what repayments he would make going forward.

In 2014 Mr A complained that this PPI policy had been mis-sold. NatWest agreed and made an offer of £917.56 (before tax) to compensate Mr A. This was broken down into a refund of £583.43 for the PPI premium and the interest charged on that premium and £334.13 (before tax) for 8% simple interest.

Mr A then signed and returned the acceptance form. On the acceptance form Mr A noted that his loan debt was being managed by a third party so the cheque for the full amount should be sent to him directly.

NatWest sent Mr A a cheque for £269.97 – this accounted for the 8% simple interest part of the refund, after tax had been deducted. NatWest used the remaining £583.43 of Mr A's refund to reduce the debt he had outstanding on this loan account.

Our adjudicator looked at the complaint and thought the approach NatWest had taken was fair. Mr A disagreed. Because his complaint hasn't been resolved it 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.

NatWest has already agreed to settle Mr A's mis-sale complaint. So I won't be commenting on how the policy came to be sold – as this is not in dispute.

I understand that Mr A has raised some other concerns about NatWest and his loan account debt throughout his complaint. It's important to note that this decision is only looking at whether the approach NatWest has taken to resolve his PPI complaint is fair. If Mr A is still unhappy about these extra points then they'll need to be considered separately and at first raised with NatWest – if they haven't been already.

When a business agrees to settle a PPI complaint we expect it to, as far as possible, put the consumer in the position they would've been had they not taken out the PPI policy.

With a single premium PPI policy this *generally* means a refund of the extra amount the consumer borrowed, any interest charged on that extra borrowing and 8% simple interest, to compensate the consumer for the time they've been without this money.

why is the offer £917.59 (before tax)

In Mr A's case, the internal records I've seen from NatWest show that he took out a loan for £25,000 to be repaid over seven years in 2007. On top of that borrowing Mr A also borrowed an extra £6,677 for the PPI policy. So in total he'd have borrowed around £31,677.

A month after taking out the loan Mr A cancelled the PPI policy.

When a consumer cancels a single premium PPI policy early then they would typically get a rebate. A business generally would do this in one of two ways, either it would give the consumer a lump sum and it would then be up to them to apply it to the loan. Or, the business would restructure the borrowing to take off that amount from what is owed in total.

Because Mr A cancelled the PPI policy so soon after taking out the loan he got a rebate which came to most of what he had borrowed for the PPI – because he probably hadn't started paying it off or if he had he would've only made one payment.

With single premium PPI rebates it's typical that the rebate isn't proportionate to the amount left to pay back. I think this is the reason that NatWest has calculated an offer of £850.74 (after tax). I'll explain why.

NatWest's internal records show that Mr A borrowed an extra £6,677 for the PPI policy. It also shows that when he cancelled the PPI policy he received a rebate of £6,211.29. I'm not sure how NatWest applied this rebate at the time – whether it gave it straight to Mr A or whether it restructured his loan to remove this amount from the total borrowing. But I don't think how NatWest applied the rebate is relevant.

NatWest has said, in its offer, that it is refunding £583.43 for the PPI premium and the interest charged on that premium. This amount is the difference between what Mr A borrowed for the PPI policy and the rebate he received. This amount stayed on his loan and then attracted some interest. So NatWest says this is what Mr A is owed.

NatWest then have calculated that Mr A is owed a further amount of £334.13 (before tax) in simple interest because it says he has been out of pocket for that £583.43.

Mr A believes NatWest is offering him £917.56 (before tax) because the PPI stayed on his loan account for years after he cancelled it. I hope this puts his mind at rest that this isn't the case.

is the approach NatWest is taking fair?

NatWest has used the amount offered for the PPI premium and the interest charged on that premium to reduce Mr A's outstanding debt. NatWest has paid the simple interest amount directly to Mr A by cheque.

Mr A disputes this and thinks NatWest should pay him all of the money. NatWest has said it is using its 'right of set off'. I understand Mr A will be disappointed – but I agree that the approach NatWest has taken is fair. I'll explain why.

NatWest took Mr A to court over an unpaid debt on his loan account. NatWest were represented. NatWest were successful and a CCJ was issued against Mr A and payment arrangements were made between Mr A, the court and NatWest's representatives.

My understanding is that Mr A is dealing directly with and making payments to NatWest's representatives. Mr A hasn't disputed that a debt still exists. So I'm satisfied that a debt still exists and that Mr A is still making repayments and NatWest own the debt – it is just being managed on its behalf by its representative.

As I've mentioned above, when a business settles a PPI complaint we expect it to put the customer back in the position they would've been in had they not had the policy. Had Mr A not taken out this policy then I think it's likely he still would've got into financial trouble – because he cancelled the PPI a month after taking out the loan and the amount that was left on his loan worked out to be a small percentage of his overall borrowing.

So had Mr A not had this PPI policy then he still would've had this debt, but it would be likely to be £583.43 less than it is now.

NatWest has treated the circumstances as if Mr A has been out of pocket for this £583.43 and so awarded 8% simple interest on that amount. NatWest has paid this directly to Mr A. I don't know how much of the debt is left to pay back – but it's possible that Mr A has never been out of pocket for this £583.43, if he hasn't paid it back yet. So it's possible the approach NatWest has taken - in giving Mr A some compensation - is generous.

So, in summary, I think the approach NatWest has taken is fair. My understanding is that NatWest has already used the £583.43 to reduce the outstanding debt and also paid Mr A £269.97 (after tax) via a cheque. So I don't think it needs to do anything further.

my final decision

As discussed above, my final decision is that the approach National Westminster Bank Plc has taken to resolve Mr A's PPI complaint is fair. So it doesn't need to do anything further.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 15 February 2018.

Martin Purcell
ombudsman