

complaint

Miss C has complained that she was mis-sold a payment protection insurance ("PPI") policy by The Royal Bank of Scotland Plc ("RBS").

background

Miss C took out a series of seven loans with RBS between 2004 and 2007. Each loan was used to pay off the previous one and to borrow more. All of the loans had PPI policies sold alongside them and Miss C borrowed extra to pay for PPI on each loan. And when Miss C refinanced the first six loans she got a partial refund for the PPI policies, which were used to reduce the outstanding balances before they were refinanced.

Miss C complained that PPI had been mis-sold and in letters dated 18 October 2012, RBS offered her compensation to settle her complaint. Although RBS had looked at the total cost of all of the loans, it made Miss C separate offers of compensation – one for each loan. Miss C signed the acceptance forms RBS had sent her and returned them.

On 29 October Miss C called RBS as it had processed some of her acceptance forms, but not all. RBS said there was a mistake with the offer on the sixth loan in the chain and the calculation was wrong. In the letter of 18 October, for the sixth loan, Miss C was offered £3,828.08 compensation. But RBS then sent her a different offer for the sixth loan for £653.16.

Miss C has said that RBS should be held to the higher offer it made and she signed for. But RBS say it was an honest mistake and it shouldn't have to pay the higher amount.

One of our adjudicators looked at the complaint and thought that RBS' lower offer was fair. They thought RBS had offered the higher amount in error and that it wasn't fair to make RBS pay it. But they did think RBS needed to pay some extra compensation because of the upset that had been caused by their mistake and recommended an amount of £150. RBS hasn't agreed to pay the £150 and Miss C still says she should get paid the higher offer – so the complaint 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.

RBS has offered to work out and pay Miss C compensation in the same way I'd expect it to if I'd found PPI had been mis-sold, so I don't need to consider how the policies came to be sold to Miss C. But I do need to consider whether RBS' offer is fair.

Miss C has only complained about the sixth loan in the chain and has told us she's happy with the compensation already offered and paid for the other loans. But I've had to take the other loans into account in deciding what I think it's fair to tell RBS to pay in compensation for the sixth loan.

I think that it's fair to tell RBS to pay Miss C the lower of its two offers, but I'd like to explain why.

If I find that a business has mis-sold PPI, I'd expect it to put the consumer in the position they'd be in now if they hadn't taken out PPI along with their loans.

I'd expect a business to pay a consumer the difference between what they actually paid on their loans and what they would've paid if they hadn't taken out PPI with any of their loans. And it should pay 8% annual simple interest on the extra they paid from when they paid it to when they get it back.

When Miss C paid off her loans, she got back some of the unused PPI premium. This was used to reduce the amount she still owed before taking out the new loan. But the amounts Miss C got back wasn't enough to cover what she still owed for PPI premiums paid upfront with each loan. This meant some of the cost of the PPI was carried over to the next loan in the chain – so Miss C was still paying for the PPI taken out with loans that had been repaid.

Miss C took out seven loans over 41 months and she didn't keep any of her first six loans for very long. That meant that she didn't pay back much of the extra she borrowed for PPI with each of the first six loans. But it meant she paid much more than she needed to on the seventh loan. RBS has sent me a breakdown that shows she paid £5,592.30 for PPI (with interest) over all seven loans.

Miss C borrowed an extra £4,741 for PPI with her sixth loan, but she settled it early after five months. She'd only paid £481.90 toward the PPI and interest before it was refinanced. RBS has worked out that Miss C paid an extra £3,707.34 on her seventh loan – and this was because of all of the PPI she had on the first six loans as well as the PPI on her seventh loan.

When RBS added 8% simple interest for the time Miss C has been out of pocket, it worked out the total compensation was £6,888.36. And for the sixth loan it was £653.16 – not the £3,282.08 which it offered by mistake. I think RBS has worked out these figures in the same way I'd expect it to.

But Miss C has said that RBS should be held to the higher offer it made of £3,828.08. Having looked at the figures, I think it wrongly assumed that the series of loans ran to the sixth loan, not onto the seventh. So it thought that Miss C paid off the sixth loan in full when it finished early, not that it was refinanced into the seventh loan. This resulted in a much larger amount of compensation. I think that this was an honest mistake as RBS ended up offering compensation on the seventh loan as well. So I'm not going to tell it to pay Miss C more than she should've been offered. I think it's fair to tell RBS to pay the second, lower offer.

I've considered whether RBS should offer Miss C any more compensation for the trouble and upset that she's been caused by its mistake. I can see that RBS told her there was a mistake with the calculation on the sixth loan eleven days after it sent out the original offer. Even though RBS corrected its mistake fairly quickly, I don't think it explained why the offer went down as well as it could have. I accept that Miss C was upset by this mistake and I think £150 is enough to compensate her for this.

my final decision

For the reasons set out above, I think The Royal Bank of Scotland Plc's lower offer is fair. But before Miss C gets paid compensation it needs to update the 8% simple interest to the

date it actually pays Miss C. I direct it updates its offer and pays the new amount to Miss C plus a further £150.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 30 October 2015.

Mark Hutchings
ombudsman