complaint

Mr M is unhappy with how Royal Bank of Scotland Plc (RBS) has used the compensation it offered to settle his complaint about the mis-sale of a number of payment protection insurance (PPI) policies.

background

Mr M complained about PPI sold to him with a number of loans he took out with RBS. When he took out the last loan he didn't buy a PPI policy. RBS agreed to settle his complaint but said it had used the compensation to set off against a debt Mr M owed to the bank. Mr M wasn't happy with how the compensation was used and wanted it to be paid back to him directly.

RBS said, because Mr M had entered a trust deed for his debts, any money owed for the PPI could be used against the debt still unpaid to RBS after the trust deed had ended.

I issued a provisional decision on this case in September 2016. In that I said that I thought it was fair for RBS to set the money it owed Mr M in compensation against what he owed them after the trust deed had ended.

Both parties have confirmed they received my provisional decision. Mr M has sent in some further comments which he wanted taking into account before I reached my final decision.

my findings

I've considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

In response to my provisional decision Mr M has said no mention has been made of the information he gave about an insurance policy and his work benefits. If RBS had said it didn't uphold Mr M's complaint then I would've needed to consider all these issues to decide if the PPI was mis-sold. But RBS has agreed it mis-sold the policy and offered to settle Mr M's complaint so I don't need to look at why or how the PPI was sold to him.

So in this decision I'm only looking at the whether what RBS has done to put things right is fair.

In my provisional decision I explained why a small amount of the PPI from each loan would carry forward into the next loan, as this was a chain of five loans, with each new loan refinancing an earlier loan.

Mr M has said in response to my provisional decision that he repaid all of his loans early. And, as the premium for the PPI was added at the start, he would've paid for the whole of the premium when he paid each loan in full and nothing was carried forward to the next loan. Mr M had made a number of monthly repayments for each loan before he settled early. Each of these repayments would've included a small repayment of the part of the loan he'd borrowed to buy the PPI. But at the time of the early settlement he wouldn't have paid the full cost of the premium that was added to his loan at the start.

When early settlement happens, and PPI has been added to the original loan as a single premium, the policy is cancelled when the loan is settled. As the policy is cancelled it isn't providing cover for the full period it was bought for. So Mr M would've received a partial refund for the cost of the PPI which is no longer active. But this refund, together with what Mr M paid in his monthly repayments, doesn't cover the full cost of the PPI added at the start of the loan.

So a little bit of each premium added to a loan is still left in the amount Mr M borrowed and is then paid by the new loan he took out. So Mr M would've borrowed slightly more than he needed to with each loan he used for refinancing. And although he didn't take out a PPI policy with the fifth loan there would've been a little bit of PPI carried forward from the previous loans.

RBS has worked out what compensation it needed to pay Mr M to put him in the position he would've been in if he hadn't bought the policies. So it's paying back everything Mr M paid for the PPI including any interest he was charged on the premiums. This also includes interest charged on the bits of the premium carried into each new loan.

Mr M made three claims over the years on two of the policies. RBS has worked out separately from the rest of the chain the costs of the two policies where claims were made. For one of these policies the claim paid out was more than what the PPI policy actually cost.

If Mr M hadn't had the policies he wouldn't have been paid the claims. So it's fair for RBS to take off the amount Mr M was paid for the claims. The way RBS has worked out the compensation and deducted the claims means it hasn't put together the entire claim amounts paid and taken the total claims off the total compensation. So on the one loan where Mr M got paid more in the claims than he paid for the PPI with that loan, he doesn't have to pay back this full claim amount.

Overall I think the way RBS has worked out the cost of the PPI and the compensation due to Mr M is fair. In total RBS said it owed Mr M £1,447.43 in compensation. This included an amount of interest to compensate him for being out of pocket.

When Mr M got into financial difficulties in 2010 he entered a trust deed. This meant all his debts were put together and also all his assets. The assets were used to pay part of the debt owed to each creditor. But it still meant that some of the debt wasn't paid. The trust deed ended in 2012. And the trustee has said it has no interest in any compensation Mr M gets back for the mis-sold PPI.

Under the trust deed only part of the total debt RBS was owed by Mr M was paid. Because a trust deed was entered into RBS can't later take action against Mr M for any debts that were part of the trust deed. So Mr M was given protection from being chased for the debt.

Mr M complained about the mis-sold PPI after the trust deed was discharged. And I understand Mr M wasn't aware earlier that he was aware the PPI was mis-sold otherwise he would've claimed against RBS earlier.

The debt RBS owes to Mr M in compensation was an asset that existed before the trust deed. And the PPI was also all sold before the trust deed was entered into. I've also explained earlier why a small amount of the debt was made up of PPI costs that Mr M hadn't paid.

So Mr M can't be chased to repay any outstanding debt he owed to RBS for the last loan, as it was part of the trust deed. And RBS owes Mr M the compensation for the mis-sold PPI. It seems fair that RBS can use the compensation to set against the debt Mr M still owes the bank. His debt still exists even though RBS can't take action to recover it.

In response to my provisional decision Mr M has said that if he'd been aware in 2009 he'd been mis-sold the PPI he would've claimed back then and not taken out his 2009 loan but paid off his fourth loan to RBS with the PPI compensation. He says this means he wouldn't have had his fifth loan and it wouldn't have been part of his trust deed.

The compensation in 2009 would've been slightly less as less compensatory interest would've been paid as Mr M wasn't out of pocket for as long. And the total compensation due to Mr M, including the statutory interest to 2014, was £1,447.43.

I can see from the information provided that Mr M paid £4,990.94 to settle his fourth loan in January 2009. And he borrowed an additional £6,909.06, making his total loan £11,900. So I don't think the PPI caused him to take out the fifth loan as he is suggesting.

Having reviewed all the information I've seen nothing to make me change my mind about what I found in my provisional decision.

Taking everything into account I think what RBS has done in working out the compensation and how it has used it is fair.

my final decision

For the reasons set out I'm not upholding Mr M's complaint as I think the amount of compensation and what The Royal Bank of Scotland Plc has done with it is fair.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 19 December 2016.

Christine Fraser
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