

The complaint

Mr K complains that Premium Credit Limited (PCL) charged him £27.50 when his direct debit was returned unpaid.

What happened

Mr K has an insurance policy with a company I'll refer to as C. Mr K financed his insurance premiums through a credit agreement with PCL. In March 2021, a direct debit was returned unpaid and PCL charged him a default fee of £27.50. Mr K feels the amount charged is disproportionate and he wanted PCL to provide a breakdown of their costs.

In March 2021, PCL wrote to Mr K. In this correspondence they said that Mr K's payments were to be debited on the second day of each month and when they attempted to take the March 2021 payment they were unsuccessful, so they charged him £27.50 in accordance with the terms and conditions of his credit agreement. They said that as a business they incur additional costs from managing the process as a result of an unpaid direct debits, including the rescheduling of payments, complying with their legal obligations, and associated administration costs of these. They said that some of those costs include; stationery, postage and telephony systems, staffing and maintaining their contact centre, which allows them to provide information and take repayments by alternative methods.

Mr K was unhappy with PCL response, so he brought his complaint to this service.

Our investigator thought the complaint shouldn't be upheld.

Mr K disagreed with the investigator. So, the complaint has been passed to me to decide.

What I've decided – and why

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

Where evidence is unclear or in dispute, I reach my findings on the balance of probabilities – which is to say, what I consider most likely to have happened based on the evidence available and the surrounding circumstances.

I also want to acknowledge that I've summarised the events of the complaint. But I want to assure Mr K and PCL that I've reviewed everything on file. And if I don't comment on something, it's not because I haven't considered it. It's because I've concentrated on what I think are the key issues. Our powers allow me to do this.

In considering what is fair and reasonable, I need to take into account the relevant rules, guidance, good industry practice, the law and, where appropriate, what would be considered to have been good industry practice at the relevant time.

Under the terms and conditions of the credit agreement Mr K entered into, he was required to make his payments on time. PCL attempted to collect a direct debit in March 2021, and it

was returned unpaid. So, they charged him £27.50 in accordance with the terms and conditions of his agreement. Mr K's credit agreement says '*You must pay a Default Charge of £27.50 each time you miss a payment or a Direct Debit from your bank account is returned unpaid for any reason (payable at the same time as you pay the missed payment or with your next Monthly Payment, whichever occurs earlier)*'. I can also see that the renewal correspondence dated 23 November 2020, also says that: '*If you miss a repayment, in line with your Credit Agreement we will apply a £27.50 Default Charge to your account.*'.

Mr K doesn't dispute that a direct debit was unpaid, but I understand that he feels that the amount that is being charged is disproportionate to the amount of work that is required to deal with an unpaid direct debit. So, I've considered this to see if PCL treated him fairly in charging the £27.50 default fee.

The Consumer Rights Act 2015 says that a term may be unfair if it requires a customer '*who fails to fulfil his obligations under the contract to pay a disproportionately high sum in Compensation*'. PCL say that as a business they incur additional costs from managing the process as a result of unpaid direct debits, including rescheduling of payments, complying with their legal obligations, and associated administration costs of these. They say that some of those costs include; stationery, postage and telephony systems, staffing and maintaining their contact centre, which allows them to provide information and take repayments by alternative methods. Considering this explanation, I don't think the default fee which PCL charged was disproportionate taking into account their legitimate interest in wanting to ensure their customers make their contractual payments on time. So, I think PCL treated Mr K fairly in charging the default fee as per their terms and conditions.

All things considered, while I sympathise with Mr K, I'm not going to direct PCL to take any further action.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 21 October 2021.

Mike Kozbial
Ombudsman