

The complaint

In summary, Miss A complains about how American Express Services Europe Limited (AESEL), calculated interest on her September 2022 statement. She is unhappy with the explanation given by it.

What happened

In October 2022, Miss A contacted AESEL about the interest that had been calculated on her September statement. She explained that she was concerned as to how the interest had been calculated, considering that she had paid £1,800 off the outstanding balance that month.

Miss A's September statement set out that her previous month's balance had been £1,952.08, new payments had been £1,801.60 and new debits in the month had been £2,153.53.

AESEL replied to Miss A's enquiry. In its letter of 6 October 2022, it explained how the interest figure on her statement was calculated. In summary it said interest was charged:

- On the unpaid balance from the previous month's statement
- On new purchases from the date incurred until the statement date
- On cash advances from the day the cash is withdrawn
- On balance transfers from the day the account was debited, until payment was received in full.

It then went on to explain by way of calculations how the interest had been applied in respect of the September statement. There were two elements to the calculation. One in respect of the September statement for Goods and Services and the second in respect of deferred interest on/ from the August statement.

It also explained that if less than the full amount of the statement balance was paid off interest from the previous months statement was deferred to the current month.

Miss A wasn't happy with AESEL's explanation and raised a complaint. In its response to her concerns, it explained again how interest was charged. And it also said it didn't think there were any errors with the interest calculation on the statement.

Unhappy with AESEL's response, Miss A's complaint was looked into by one of our investigators. They explained why they didn't think AESEL had done anything wrong.

In response Miss A said she wanted evidence of how the complaint had been investigated and the calculations the investigator had carried out. In his reply the investigator reiterated that he didn't think AESEL had made any errors. There wasn't any evidence it had calculated interest incorrectly and if Miss A could provide evidence of that he would consider it. He provided Miss A with of the relevant terms and conditions regarding how interest was applied.

Miss A said in essence that she thought the terms were unclear. She didn't accept his opinion. She wanted to see evidence of the investigation that had been carried out. The investigator explained he didn't have anything he could share or any specific case notes. He had provided a copy of the relevant term he had considered. As a result, the case has been passed to me for review.

I asked the investigator to ask AESEL specific questions about the calculation it had provided to Miss A, on a number of occasions. AESEL responded with answers that it considered addressed the questions that had been posed. In relation to the daily rate of interest it did explain that the statement showed simple monthly interest rate of 1.92%. That needed to be multiplied by 12 months for the yearly simple interest rate, which was 23.04%. That was then divided that by 365 days to get the daily simple interest rate which was 0.063.

In relation to payments that had been made, it said interest was charged on the full balance not just the remaining balance.

I issued a provisional decision on 18 May 2023 explaining why I intended to up the complaint in part as I didn't think AESEL had provided Miss A with clear information.

No response was received from Miss A. AESEL replied. In summary, it expressed disappointment with my provisional decision. It said I was suggesting it change the way interest related terms and conditions had been written down for every single card; just because Miss A thought they were wrong. And it said it hadn't received calculations from Miss A as to what basis the interest charge had been calculated incorrectly. And it said the remediation suggested was something it might not be able to do. It believed it had provided a breakdown for the interest charge.

I contacted AESEL and offered to discuss what I had said in my provisional decision. In my chaser of 16 June 2023, I said that if I would be available at 10.00 am on 20 June 2023. If I didn't receive a call, I would immediately proceed to issue my final decision. AESEL contacted me on the afternoon of 20 June 2023 and left a message inviting me to call back that afternoon. I returned the call but the case handler at AESEL said in a message that was passed on to me, they couldn't speak to me that day. They could speak to me the next day.

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.

Having done so, I remain of the opinion that Miss A's complaint should be upheld in part. I've set out my reasoning below.

In reaching my findings and conclusions, I have focussed on the issues and evidence that I think are key for me to decide this case. However, I want to reassure Miss A and AESEL that I have carefully thought about everything they have said and provided me with. And I'm satisfied that I have provided AESEL with sufficient time and opportunity to discuss what I said in my provisional decision.

I do understand Miss A has been frustrated and concerned about the amount of interest she was charged after having made a significant payment to her account. But I'm still not persuaded AESEL has done anything wrong in respect of the principles it applied in calculating interest in for her September 2022 statement.

I understand the methodology of how AESEL has calculated interest for Miss A's account. In essence, if she doesn't pay the full amount on the statement balance each month, she is charged interest on the previous months balance as well as on new purchases for the current month. And the T&Cs supplied by AESEL explain that.

Miss A's September statement shows that she had a previous balance of £1,952 carried over from her August statement. The payment due date for the August balance was 20 September 2022. By that date Miss A had made payments of £1,800 to her account to clear the outstanding balance. But this didn't pay off the full amount of the balance from the previous month. So, I think this explains why she has incurred more interest than she was expecting.

However, I don't believe the explanation and calculation provided by AESEL in its letter to Miss A of 6 October 2022, is clear when considered against the relevant term it is relying on in the credit agreement. I say this because in the calculation, AESEL has referred to an average daily balance against which interest is calculated. That isn't referred to in the T&Cs, it just says that if the full amount owed in a month isn't paid in full, it will charge interest to the account in that month and the following month even if the full amount is then paid in the second month. There is no mention of an average daily balance.

Also, there is no explanation given as to how the average daily balance figure has been calculated. The relevant term could be interpreted as meaning that interest on all of the previous month's balance would be charged even if partial payment was made by the due date. But that doesn't appear to be the case from what AESEL has said. And unfortunately, despite several requests from the investigator to AESEL asking it to explain what it means when it refers to the average daily balance, it hasn't done so.

Contrary to what AESEL thinks I said in my provisional decision, I'm not suggesting that it change its terms and conditions. But I do think in a situation like this where AESEL has provided a calculation, it is important that it provides a clear explanation, with regards to how it has reached the figures in the assumptions it has used in respect of that calculation.

I've noted that from the internal guidance that it has provided, that AESEL considers that it is "*required*" to provide an explanation detailing interest rates and average daily balance. This suggests to me that AESEL accepts that on occasion, customers such as Miss A will need further information other than that provided in its terms and conditions, and information that might be available on its website. So, for the reasons I've explained I don't think in this particular case, AESEL has provided Miss A with clear information. And as a result, although I think it's unlikely Miss A has lost out financially, I can't safely say that she hasn't.

Putting things right

I direct AESEL to:

- Provide Miss A with an explanation as what is meant by the average daily balance, and how it is calculated in respect of the calculation it provided to Miss A; and how that impacts on the calculation of interest. For completeness, it needs to set out in its explanation, how it has calculated the other assumptions it has used in the calculation of interest it has provided to Miss A.
- If that explanation and calculation shows that it has calculated the interest incorrectly then it should pay Miss A any overpaid interest. If as I anticipate, the calculation shows the interest has been calculated correctly, then AESEL doesn't need to do anything else.

My final decision

My decision is to uphold Miss A's complaint in part. If Miss A accepts my decision, American Express Services Europe Limited, needs to do what I've set out in the "*Putting things right*" section above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss A to accept or reject my decision before 18 July 2023.

Simon Dibble
Ombudsman