

The complaint

Ms R complains that Sainsbury's Bank Plc said it would charge her a late payment fee for a missed direct debit, and that this led to her contents insurance policy being cancelled.

What happened

Ms R held contents insurance cover that was taken out through Sainsbury's.

Sainsbury's attempted to collect Ms R's monthly premium by direct debit on 1 April, but couldn't do so because she had insufficient funds in her account. Sainsbury's wrote to Ms R about this, and said it would try and take the premium again. It also said it would apply a £20 late payment fee which would be taken in May.

Ms R called Sainsbury's on 11 April to see if the late payment fee could be waived because she was in financial difficulties. She says she understood that someone from the finance team would call her back to confirm if the fee could be spread across her remaining payments.

Sainsbury's didn't call Mrs R back, so she wrote a letter of complaint on 14 April and said she was concerned that no one had been in touch with her about the late payment fee. She said if the £20 fee were added to her May payment, then there may not be enough funds in her bank account for this, and she could end up with a second late payment fee.

Ms R didn't receive a response from Sainsbury's, and she was worried about not having sufficient funds in her account for the May payment. She therefore cancelled her direct debit with her bank, but paid her May premium via the online portal.

Sainsbury's wrote to Ms R to explain it had been notified by her bank that there was an issue with her direct debit instruction. It said if it didn't hear from her within seven days to arrange a new direct debit instruction, it may cancel her policy. When Sainsbury's didn't hear from Ms R, it wrote to her again on 10 May about the matter, and then finally on 22 May to confirm her policy had been cancelled. It also said she had an outstanding balance of £36.83 to pay.

Sainsbury's responded to Ms R's complaint after this Service got involved, and issued its final response letter. It said Ms R's missed premium from April had been spread across her remaining payments. However, it said its agent should have advised Ms R that her £20 late payment fee would be removed automatically as a result, and it apologised for not making this clear. Sainsbury's agreed to waive the final balance that Ms R owed due to her financial difficulties, and also offered her £50 compensation for any inconvenience caused. Unhappy with this, Ms R brought a complaint to this Service.

Our investigator didn't recommend the complaint be upheld. He thought Sainsbury's had taken appropriate steps to put matters right, and didn't recommend that it do anything further. He thought Sainsbury's had been entitled to cancel the policy.

I issued a provisional decision on 24 November 2023. Here's what I said:

I've read Ms R's credit agreement with Sainsbury's. This says that if the monthly payment isn't made in full by the payment due date, then a late payment fee of £20 would be added to the amount owed, to cover additional administration costs. So I'm satisfied that Ms R agreed to pay £20 for any late payments.

Having said that, if a consumer is having financial difficulties, I would expect a business to be sympathetic to this and consider reasonable alternatives. I've therefore listened to the call of 11 April to find out what was discussed.

Initially, Sainsbury's refused to waive the £20 fee. However, Ms R then explained that she was in financial difficulties because she couldn't work following an accident. The agent therefore looked into alternative options for her. He said Ms R could defer her outstanding April premium, with this amount being spread across her remaining payments. Ms R didn't actually want this, and instead wanted to pay her April premium that day to bring her premiums up to date. The agent said she couldn't do this without the £20 late payment fee being charged in May. The agent told Ms R that someone from the finance team would call her by the end of that day, or the following day, to confirm the details of her future payments.

However, Sainsbury's didn't call Ms R back. And Ms R says the April premium was then collected by direct debit on 13 April. So she didn't know what was happening with her future premiums or the late payment fee.

When Sainsbury issued its final response, it said that Ms R's April premium had been deferred and spread across her remaining payments. And that because of this, the £20 late payment fee would be automatically removed. Unfortunately, its agent didn't tell Ms R this. I think he made it seem as though both her April payment and the £20 fee would be spread across her remaining payments. Ms R was understandably concerned that her monthly payments would then become unaffordable, given she was already experiencing financial difficulties.

Though it appears that the information in Sainsbury's final response (relating to the April premium) was wrong, given that it did collect Ms R's April premium. I've looked at Sainsbury's breakdown of Ms R's premiums. I see the total amount owed was £21.05 higher than the amount set out in the original credit agreement. Given that the April premium is shown as being paid, I assume that Sainsbury's added on the £20 late payment fee plus interest, and then spread this amount across Ms R's remaining payments. Whilst I don't think this action was unreasonable (and Ms R would have likely accepted it), this wasn't made clear to Ms R and ought to have been.

Ms R cancelled her direct debit because she didn't know if the £20 late payment fee would be charged in May, or if this had been spread across her remaining payments. However, Ms R says she paid her May premium through Sainsbury's online portal, to make sure her premiums were up to date. She says her premium had increased by £3.50, so she thought the £20 late payment fee may have been spread across her remaining premiums, but she couldn't be sure as no one had confirmed this to her.

Overall, I think Sainsbury's handled things badly. It was aware that Ms R was a vulnerable customer given her circumstances, yet it didn't make it clear what her future premiums would be, or what was happening with the £20 late payment fee. I can understand why Ms R cancelled her direct debit, given the lack of clarity provided to her by Sainsbury's.

Ms R's policy was cancelled by Sainsbury's on 22 May. Given that Ms R's premiums were apparently up to date at this point, I think this action was unfair. Ms R says the cancellation has had an impact on her, as she's struggled to obtain contents insurance elsewhere as she

has to disclose that she's had a policy cancelled.

Sainsbury's said Ms R owed £36.83 as her final balance. I don't know if this factored in that her premiums were apparently paid up to 1 June. But I don't think it matters as Sainsbury's waived the final balance given Ms R's financial difficulties. I think that was fair in the circumstances, and this would offset any premium refund she may have been due between 22 May (when the policy was cancelled) and 1 June (when her premiums were apparently paid up to). In the end, Ms R only paid £3.50 of the £20 late payment fee.

Sainsbury's offered Ms R £50 compensation. This was to recognise that its agent hadn't told her that her £20 late payment fee would be waived if her April premium were deferred. I intend to require Sainsbury's to pay Ms R an additional £100 compensation (bringing the total to £150). This is for the unnecessary confusion it caused as well as the inconvenience Ms R experienced, for all the reasons I've set out above.

As I've found that Sainsbury's cancellation of the policy was unfair, I intend to direct it to remove any record of this. And to write Ms R a letter apologising for cancelling her policy, and confirming that it has removed any record of this from any external databases. Ms R can then show this letter to any current or future insurer.'

I asked both parties for any further comments they wished to make before I made a final decision.

Ms R responded but didn't have any further comments.

Sainsbury's didn't respond to us by the deadline we gave.

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.

As neither party has provided any new comments or submissions, I see no reason to depart from the findings I made in my provisional decision. So I've reached the same conclusions, and for the same reasons.

My final decision

My final decision is that I uphold this complaint. I require Sainsbury's Bank Plc to pay Ms R total compensation of £150 (less the £50 previously offered if this has already been paid)*.

I also direct Sainsbury's to remove any record of the policy cancellation, and write a letter to Ms R apologising for cancelling her policy and confirming that it has removed any record of this from any external databases.

*Sainsbury's must pay the compensation within 28 days of the date on which we tell it that Ms R accepts my final decision. If it pays later than this, it must also pay interest on the compensation from the deadline date for settlement to the date of payment at 8% a year simple.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms R to accept or reject my decision before 5 January 2024.

Chantelle Hurn-Ryan

Ombudsman