

The complaint

Mrs B complains that NewDay Ltd trading as AO Finance allocated a payment to her 12-month 0% instalment plan rather than her Buy Now Pay Later (BNPL) plan.

What happened

Mrs B holds two accounts with NewDay Ltd. She holds a BNPL account which started on 15 September 2024. The BNPL account had an interest rate of 0% until 12 April 2025. Mrs B also holds a 12-month interest free instalment plan which started on 31 January 2025 which she was paying by monthly direct debit.

In February 2025 Mrs B made an overpayment to cover her BNPL balance. When she checked her statement, she discovered that NewDay had allocated her payment to her 12-month interest free instalment plan rather than the BNPL plan.

Mrs B contacted NewDay and asked them to reallocate her payment to the BNPL balance, but NewDay refused.

Mrs B complained to NewDay. She said she wanted to pay the BNPL balance before 12 April 2025, so she didn't incur interest on the balance.

NewDay issued a final response on 11 April 2025. It said it hadn't made an error in the administration of the account. It explained that it had used Mrs B's payment to pay off balances charged at higher interest rates before those charged at lower interest rates in accordance with the terms and conditions of the agreement. It said that where interest was charged at the same rate it would use the payment to pay off balance in the following order: cash transactions, money transfers, balance transfers, other promotional offer balances and then purchases. NewDay said it had allocated Miss B's payment to the instalment plan that had the highest interest rate first. It said that whilst the BNPL plan was still active, it wouldn't allocate payments to this balance.

Mrs B remained unhappy and brought her complaint to this service.

Our investigator upheld the complaint. He said he didn't think NewDay had acted fairly by not allowing Mrs B to allocate the payment to the account she wanted. The investigator said that this had caused Mrs B to make another payment to clear the BNPL balance. He said NewDay should pay Mrs B compensation of £60 for the inconvenience caused.

NewDay didn't agree. It said it hadn't made an error in the way that the payment had been allocated, and it didn't think it was reasonable that a customer should be able to decide which product a payment was allocated to.

Because NewDay didn't agree I've been asked to review the complaint.

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.

I've reviewed the terms and conditions of the account. These state that payments will be allocated to the plan with the highest interest rates first.

Based on what I've seen, both accounts had an interest rate of 0% at the time when Mrs B made her overpayment. So although NewDay says it has acted in line with the terms and conditions of the account by allocating the payment to the plan with the highest rate of interest, I don't agree that this is what has happened.

I've reviewed the BNPL plan, and I can see that once the BNPL plan expired in April 2025 the rate of interest was going to be higher than the rate applicable to the instalment plan. So, it seems reasonable that the payment should have been applied to the BNPL plan in these circumstances.

NewDay has said that it won't allocate payments to the BNPL balance all the time the plan is active. I haven't found anything in the terms and conditions which states that payments can't be allocated to a BNPL plan whilst it is active. I note that NewDay has said that if Mrs B didn't have another plan or balance on the account, it would allocate a payment to the BNPL plan. So I don't accept that it isn't possible to allocate a payment to the BNPL plan whilst it is active.

Based on what I've seen, I don't think NewDay acted fairly when it allocated the payment to the instalment plan rather than the BNPL plan.

I understand that Mrs B has since settled the BNPL plan without incurring interest charges so she hasn't suffered any financial loss. However, she's been caused distress and inconvenience because of NewDay's refusal to allocate the payment to the plan of her choice, for which I think compensation should be paid.

Putting things right

To put things right NewDay Ltd trading as AO Finance must pay compensation of £60 to Mrs B.

My final decision

My final decision is that I uphold the complaint. NewDay Ltd trading as AO Finance must pay compensation of £60 to Mrs B.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 27 August 2025.

Emma Davy
Ombudsman