Financial Ombudsman Service

complaint

Mr T’s complaint is about how NewDay Ltd (NewDay) has calculated the compensation for a mis-sold payment protection insurance (PPI) policy that was taken out alongside a credit card.

background

Mr T took out a credit card with NewDay in April 2008 and alongside this he took out a PPI policy. The first PPI premium was added to the account in October 2008 and the policy was cancelled in October 2012.

In 2019 Mr T complained to NewDay that the PPI had been mis-sold. NewDay upheld his complaint and offered £1,821.71 in compensation. Mr T wasn’t happy with the amount of the offer as he thought NewDay hadn’t calculated the compensatory interest correctly.

Our adjudicator said they thought the offer NewDay had made was fair. Mr T didn’t agree so the complaint has been passed to me for a decision.

my findings

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

When Mr T complained about the PPI, NewDay agreed that the policy had been mis-sold. Where PPI is mis-sold a business is expected to refund all the costs actually paid by the consumer for the policy plus compensatory interest for anytime the consumer may have been out of pocket.

NewDay has provided statements for the account and its calculations which show that Mr T was charged £468.88 in premiums for the PPI. These premiums were added to his credit card account and interest at card rate was therefore charged on them whilst they formed part of the balance. The PPI costs are deemed the last thing paid from the balance and so card rate interest is calculated on the PPI costs until the balance is cleared. Once the balance was cleared Mr T was out of pocket for the cost of the PPI and NewDay has calculated 8% simple interest on the costs to compensate Mr T.

However Mr T doesn’t agree that the approach taken by NewDay is fair. He says that up to the point he cleared his balance what NewDay has done is fair but when he spent again on his card he should get card rate interest on his PPI costs that were already paid off. In effect recharging the costs of the PPI to the card.

I cannot see that would be fair as clearly any spending on the card after Mr T cleared his balance was for new purchases and unrelated to the PPI costs that had already been repaid. As Mr T spent on his card, increasing his balance from zero again, he is borrowing new amount from NewDay and interest is payable on the borrowings.

Mr T says by taking an approach of looking at the transactions up to the date the balance was first cleared and then looking at the balance going forward is artificially creating two separate accounting ledgers. But in fact this is reflecting what happened on the account when calculating the PPI costs. When the PPI actually formed part of the account balance it directly caused card rate interest on the amount. Once Mr T fully repaid his balance NewDay were holding the PPI costs and so are paying compensatory interest on this amount because Mr T was out of pocket.

Mr T cleared his balance in October 2010 and up to this date NewDay has calculated card rate interest on the PPI costs in the balance. Mr T didn't spend again on his account until October 2011. From this date going forward card rate interest has been calculated on the new PPI costs added which formed part of the balance. For the PPI already repaid in full NewDay worked out 8% simple interest.

In March 2016 Mr T again cleared his balance. Up to this date NewDay has calculated card rate interest on the PPI costs that were in the balance. The PPI was cancelled in October 2012 so no new PPI costs were charged after this date. But some costs from October 2011 to October 2012 were in the balance and so card rate interest was incurred on them. After 2016 no PPI costs were in the balance and on all the PPI costs 8% simple interest was paid to Mr T for being out of pocket. I think this is fair to calculate the compensation due to Mr T.

Mr T says if card rate interest isn't paid then NewDay should pay whatever the interest rate was on his new borrowings, as he would have cleared his credit card balance from other loans/credit cards as he did not have surplus funds at the time. So he says if NewDay is not paying credit card interest on the PPI costs in his cleared balance it should pay interest at the rate of his new borrowings.

He had provided limited evidence from this credit file that he took out a loan in October 2010 and says it is "very likely" the credit card balance in November 2010 was paid from that loan. But the loan was for a substantially different amount than the credit card balance repaid. So there is no direct and clear link between the credit card balance and the loan. Nothing has been shown related to the way he may have cleared his balance in 2016.

Consumers often transfer balances onto other credit cards, sometimes for a period of zero rate interest, or may take out a loan to clear a card at a loan rate that is less than the credit card rate, so less interest is paid. So it's possible that Mr T paid no interest for a time on his cleared credit card balance amount and could have paid less than the total of the 8% interest that NewDay has calculated.

Mr T cleared his balance twice during the time PPI was included in it. How he did this on both occasions is not totally clear and how much he may have paid in interest, if anything, on any borrowings for the part of the balance which was for the PPI costs isn't known. Consumers may refinance several times, here Mr T cleared his balance twice when it included PPI. It would be unreasonable and may be impossible to expect any business to trace small amounts of borrowings for PPI through a chain of external borrowings, ascertaining the interest caused by the PPI.

Looking at NewDay' position in this situation, it had twice been repaid all the PPI costs by Mr T, so it knew when he was out of pocket for the PPI amounts, and it's paid 8% simple interest. I think in all the circumstances this is a reasonable and fair approach to take and provides fair compensation to Mr T for being out of pocket for costs of PPI that were repaid at different times.

my final decision

I am not upholding the complaint that NewDay Ltd needs to recalculate the compensation for the mis-sold PPI due to Mr T in a different way. I think the compensation calculated and offered is fair and I'm not telling the business to do anything more.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 17 February 2020.

Christine Fraser
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