complaint

Mr R's complaint is about the compensation offered by Barclays Bank UK PLC (Barclays) for a mis-sold payment protection insurance (PPI) policy that was taken out alongside a credit card.

background

Mr R took out a credit card with Barclays in May 2004. At the same time he took out a PPI policy associated with the credit card. The PPI was cancelled in March 2005.

In 2019 Mr R complained the PPI had been mis-sold. Initially Barclays said that wasn't the case but it offered and paid to him a refund of some excess commission that he had paid related to the PPI. Mr R wasn't happy with that and brought his complaint to this service.

Barclays then offered to fully uphold the complaint that the PPI was mis-sold and pay full compensation, less the amount that had been refunded for the excess commission. Mr R wasn't happy with the amount of the offer that Barclays then made as he said Barclays hadn't worked out the compensatory interest correctly.

Our adjudicator looked at the offer Barclays had made and how it had worked out the compensation and said the offer was fair. Mr R didn't agree and asked for an ombudsman to review the complaint.

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 R first complained to Barclays it didn't uphold his complaint that the PPI had been mis-sold. But it did say he had paid excess commission as part of the PPI premiums. It offered and paid compensation to refund the excess commission and interest this caused plus some compensatory interest.

Mr R wasn't happy with this offer as he wanted all the premiums and interest plus compensatory interest as he maintained the PPI was mis-sold. Barclays then agreed to uphold the complaint and pay a full refund of all PPI premiums, interest on those premiums at card rate, any fees caused by the PPI costs being in the balance, plus 8% simple interest for any period Mr R had been out of pocket. Barclays calculated this and deducted the amount already paid for the excess commission.

However Mr R was still unhappy as he said Barclays had not fairly calculated the compensatory interest. Mr R wants compound interest at the card rate or interest based on any loan or credit card he used to pay his Barclays credit card balance. He submits that when he fully cleared his Barclays credit card in 2010 he paid the balance from other borrowings which were at a higher rate than the 8% simple interest that has been calculated for the compensatory interest.

I have looked at all the facts and calculations, both from Barclays and Mr R, that have been submitted in this case. Overall Mr R isn't complaining about the calculations prior to 2010 when he cleared in full his credit card balance. It is the compensatory interest after he repaid the balance that he is unhappy with.

The credit card and the PPI started in May 2004. The PPI ended in March 2005 but Mr R still used the credit card and had a balance on it continually until 2010.

In working out compensation the approach has been taken by Barclays is that the PPI costs remained in the balance as the last thing to be paid off. This service thinks that is a fair approach as it means card rate interest is paid to a consumer on any amount of the PPI costs that could be deemed to be still part of the balance.

There may be other ways of calculating how the PPI costs were paid which could be considered fair but this approach by Barclays means the consumer gets card rate interest on any amount of the PPI costs that could be in the balance. So it is a generous and fair approach.

Until Mr R had fully cleared his balance, which happened in September 2010, he was not deemed to have paid for the PPI costs so was not out of pocket for any amount. Once he did clear his balance he had fully paid to Barclays all the PPI costs so from that point was deemed out of pocket for the PPI. Barclays has calculated 8% simple interest per year on the total amount he was out of pocket until the date he was fully repaid all the costs in April 2019.

It is the period from September 2010 to April 2019 that Mr R is disputing as he is unhappy with the 8% simple interest rate applied. He says when he spent on his credit card again after clearing the balance the PPI costs should be "re-drawn" on the account, that is they should be added back into the account balance. He argues this would be fair as he borrowed money to repay his credit card balance and paid a rate of interest higher than 8% simple.

I don't agree this would be a fair approach to take. From October 2010 Mr R spent on his credit card and the balance that accumulated after this date going forward was totally unrelated to the PPI costs. All PPI had been removed from the balance and repaid to Barclays.

Mr R did not borrow more money from Barclays to pay his credit card balance. He paid the balance with funds he had obtained from elsewhere which he chose to use to repay his credit card balance which included the PPI costs. So looking at Barclays' position in this situation, it seems fair that it should take the approach it had been repaid all the PPI costs by Mr R, so he was out of pocket for this amount and it should pay him 8% simple interest on the amount he was out of pocket.

I have noted all Mr R's comments about Trust Law and that he may have been paying a higher rate of interest on further borrowings for the costs of the PPI with a third party. But I do not agree there is clear evidence to show Barclays should take a different approach than it has and use a different interest rate.

Yes as Mr R says, Barclays held the money that he paid for the PPI costs for a number of years. Just as it would if he had paid the money into a deposit account. And Barclays is paying him interest on the amount at a rate that is deemed fair and has been applied by the courts.

I note the limited information provided from Mr R's credit file relating to a loan from a third party taken out at the end of October 2010. The Barclays' credit card seems to have been cleared after the September 2010 statement and the October 2010 statement has a credit balance showing. As Mr R's loan appears not to have been taken until the end of October 2010, this seems to be after the credit card balance was paid, so there is no clear, direct link to show this loan was directly related to the repayment of the PPI costs in the credit card balance.

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. But Mr R's loan was for substantially more than the credit card balance and it is unclear from the information provided that it was actually taken out before Mr R cleared his balance so actually used the loan money to directly pay the credit card.

When considering compensation in this type of case we expect that the business will put the consumer as far as possible in the position they would've been in if the PPI had never been taken out. Taking account of all the facts and information I have seen I think Barclays has taken a reasonable approach to do this.

It has refunded the full PPI premiums charged, the interest caused by those premiums, any fees caused by the PPI costs being in the balance until 2010 and also worked out compensatory interest for the times Mr R had repaid to Barclays the full costs of the PPI. And I think this is fair in all the circumstances presented.

my final decision

I am not upholding the complaint that Barclays Bank UK PLC needs to recalculate the compensation 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 R to accept or reject my decision before 13 February 2020.

Christine Fraser
ombudsman