

The complaint

Mr M complains that Tesco Personal Finance PLC trading as Tesco Bank incorrectly charged him a Cash Transaction Fee and interest.

What happened

Mr M holds a credit card account with Tesco. On 1 June 2024 Mr M made a transaction to Mortgages First Ltd for £99.00 in relation to a service which checked the interest rates of Mr M's chosen mortgage provider to ensure that when his fixed rate mortgage expired, he was able to secure the best rate.

When the transaction posted on Mr M's account, Tesco applied a Cash Transaction Fee (CTF) of £3.95 plus interest.

Mr M contacted Tesco. An agent explained that the CTF had been charged because Mr M had paid a financial institution. The agent said there hadn't been an error but agreed to refund the CTF and the interest.

The following month Mr M noticed that there were additional interest charges on his statement. He contacted Tesco again, who agreed to refund the interest but said that because Mr M had completed a cash transaction on 1 June 2024 the CTF and interest had been correctly applied.

Mr M disagreed and raised a formal complaint with Tesco. He said he wanted Tesco to update its terms and conditions to accurately reflect CTF charges, acknowledge that it had made an error and ensure that this wouldn't happen to any other customers going forwards.

Tesco didn't uphold the complaint. In its final response it said the CTF was charged correctly and in line with the terms and conditions of the account.

Mr M remained unhappy and brought his complaint to this service.

Following the referral of the complaint to this service, Tesco acknowledged that it had made an error in the way it applied the waiver of interest to the account which had resulted in the waiver not taking effect for the July statement as intended, resulting in a further interest charge of £1.06 being applied and necessitating a further call by Mr M. Tesco apologised for this error and offered compensation of £50 for the poor service.

Mr M said he didn't want to accept the offer. He said his complaint wasn't about compensation, but about Tesco's failure to charge customers correctly and in accordance with the terms and conditions. Mr M said that if he made the same transaction again today, he would be charged a CTF again, which he felt was wrong. He said there was nothing in the terms and conditions which stated that a payment made to a financial institution would incur a CTF.

Our investigator didn't uphold the complaint. He said Tesco had shown that the CTF had been correctly applied and that any concerns with how the merchant processed the

transaction need to be taken up with the merchant.

Mr M didn't agree. He said he didn't believe that the type of transaction he made was a cash transaction pursuant to the terms and conditions. Mr M said he'd been charged the CTF incorrectly and he wanted Tesco to accept that it made an error.

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 set out the types of transactions which are classed as cash transactions. The transaction which is relevant to the circumstances of Mr M's case is as follows:

“Finance payments such as repaying borrowing (e.g., loans, mortgages and credit cards) – this includes student loans, store cards, car finance repayments, Klarna etc”

The terms and conditions state that cash transactions will attract a CTF of 3.99% and will accrue interest from the date the transaction is made until the date it is repaid in full.

Mr M has said that he doesn't agree that the transaction he made was a cash transaction as defined in the terms and conditions. He says he asked Tesco how the transaction could be considered a cash transaction when he initially called and says he was told that the transaction was to a financial institution. Mr M has said that he doesn't agree that Mortgages First Ltd are a financial institution but says that even if they are, there's nothing in Tesco's terms and conditions which states that payments to a financial institution would incur a CTF.

I agree with Mr M that the terms and conditions don't specifically refer to a financial institution. The terms and conditions refer to finance payments. Finance payments would generally be made to a financial institution, so it may well be the case that the communication from the call handler when Mr M called Tesco could've been clearer. I haven't been able to listen to the call so I can't be certain of exactly what was said.

Tesco has explained why the transaction attracted a CTF in its final response. It explained that Mortgages First Ltd categorises itself as a financial institution. It's up to a merchant as to how it categorises itself. Generally, a merchant will pick the category which is most closely associated with its line of business. In Mortgages First's case, its primary business is that of mortgage lending. It chose to categorise itself as a financial institution.

Tesco doesn't have any control over how a merchant categorises itself. So, when Mr M made his payment to Mortgages First Ltd, as they had categorised themselves as a financial institution, this fell within the category code which allows Tesco to charge a CTF.

I understand Mr M's frustration here. There's no dispute that he was paying for a service (as opposed to making a repayment towards a mortgage or loan). However, it's the merchant who is responsible for making sure that transactions are appropriately coded in order to avoid any confusion. Tesco wouldn't have been aware at the point of posting the transaction that Mr M's payment was for a service and not a mortgage or loan repayment.

What should have happened is that the merchant should have processed the transaction using a separate merchant category code to differentiate between service and finance payments.

Tesco has said that where a merchant doesn't separate its merchant category codes for

different types of transactions, it has to apply the CTF, but it will look to refund the CTF if this has been applied due to a merchant processing error.

Taking everything into consideration, I'm not persuaded that Tesco has made an error here. Nor do I think that Tesco treated Mr M unfairly. Based on what I've seen, Tesco acted in line with its terms and conditions. I can't fairly hold Tesco responsible for the merchant's error. In this case, Tesco refunded the CTF and the interest. I think this was fair and reasonable in the circumstances.

Where Tesco has acknowledged that it made an error was in the way that it applied the waiver of interest to Mr M's account. This meant that additional interest was applied to his account in July when it shouldn't have been. This error resulted in Mr M having to call Tesco a second time, which caused him inconvenience. I think that Tesco are right to recognise this, and I think the offer of compensation is fair and in line with what this service would award. I won't be asking Tesco to do anything further.

My final decision

My final decision is that I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 17 December 2024.

Emma Davy
Ombudsman