

The complaint and what happened

In January 2002 Next approved a catalogue shopping account for Mrs M. Over the years, the credit limit on the account has fluctuated, some of the detail of which I will set out in the following section of this decision. It would appear that the account is currently up-to-date.

When Mrs M complained to Next in January 2023, it informed her that it would only consider her complaint about its actions from January 2017 onwards, as she had brought her complaint about anything earlier too late. It also didn't accept it had done anything wrong in the relevant time period. Whilst accepting that the account opening and pre-January 2017 events wouldn't be looked into, Mrs M brought her complaint about the credit limit increases from January 2017 onwards to this service.

One of our investigators looked at the evidence and thought that Next hadn't done anything significantly wrong. Mrs M didn't accept that and asked that the case be passed to an Ombudsman for review. This decision will consider credit limit increases applied to Mrs M's account since January 2017.

I've included relevant sections of my provisional decision from November 2023, which form part of this final decision. In my provisional decision I set out the reasons why I was planning to uphold this complaint. In brief that was because I thought the evidence ought to have led Next to conclude that the credit limit increases it actioned after January 2017 were not affordable for Mrs M.

I asked both parties to let me have any more information they wanted me to consider. Both parties accepted my provisional findings.

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.

Having done so, I'm upholding it, for the key reason set out above, but I've also included here the relevant sections of my provisional decision:

“What I've provisionally 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.

Having done so, I'm planning to uphold this complaint and I'll explain why.

Next is aware of its obligations under the rules and regulations in place at the time of these credit limit increases, including the Consumer Credit Sourcebook (“CONC”), so I won't repeat them here. But, briefly, it was required to carry out sufficient checks to ensure that Mrs M would be able to repay the borrowing it was making available to her in a sustainable way. As set out in CONC 5.3.1G(2) that means that she could manage the repayments,

“...without...incurring financial difficulties or experiencing significant adverse consequences”

Essentially, Mrs M needed to be able to meet all her financial commitments and not have to borrow elsewhere to repay Next for the credit limit to be considered affordable and sustainable.

Did Next carry out proportionate checks?

In January 2017, the credit limit on this account was £5,000, which Next has told us is the maximum it allows its customers. In April of that year, Next began decreasing Mrs M's credit limit until it reached £3,750 only six months later, although it hasn't explained why. It then increased the limit very slightly and temporarily in February and June 2018, before returning it to £5,000 in July 2018. (It would appear that those slight and temporary increases were likely in response to Mrs M struggling to stay within her credit limit.)

In the years following, a repeat pattern of Next substantially increasing the limit to £5,000, before immediately beginning to decrease it the next month, is clear. I am not going to set out all the changes to date as they ultimately aren't relevant to the outcome of this complaint. My first consideration is whether the July 2018 credit limit increase was affordable and sustainable for Mrs M.

Next carried out a high-level credit check, essentially apparently its standard monthly monitoring activity, before increasing Mrs M's credit limit by about a third in July 2018. The investigator thought that Next's checks were proportionate and there was no indication of concerns which could have meant that they ought to have done anything more in-depth.

I disagree, noting the substantial credit limit increase being provided, and Next's own supervision and management of this account. Quite simply, the fact that Next had taken the significant step of substantially and consistently reducing Mrs M's credit limit between April and September 2017 is a clear sign that its systems had identified something of concern. There would be no logical reason for Next to take that step without it having identified an affordability risk for Mrs M. Consequently, I am satisfied that it ought to have asked more about Mrs M's finances before re-increasing her credit limit to such an extent.

What would Next have found had it done proportionate checks?

When considering this second question, our service has had the benefit of several months of bank statements to review. I accept that there was and is no requirement on a lender to obtain any particular type of information: they are permitted to source and rely on a range of evidence when assessing affordability, and so Next could have opted to gather more information about Mrs M's financial position in a range of ways. However, it didn't, and, in the absence of anything else provided, I'm happy to rely on the statements to demonstrate what Next would most likely have discovered if it had completed proportionate checks.

The relevant statements contain a lot of transactions, debits and credits, but ultimately show several key facts when thinking about financial health, and whether she could afford to take on additional borrowing. Those are that:

- The standard household bills shown being paid by direct debit accounted for nearly her entire monthly income of around £1,800.*
- In addition, she was spending about another £550 to service debt.*
- Even if she was only accountable for half the household bills, reflecting that her husband was also earning at the time, that would still mean that nearly £1,500 of her £1,800 monthly income was taken up by bills and credit commitments. (This expenditure does not take into account necessities such as food and travel costs.)*
- Despite her husband's salary also being paid into Mrs M's account at the time, she was still significantly overdrawn every month, with an overdraft limit that was 166% of her monthly income.*

In the round, the provisional conclusion I reach on the basis of the evidence available to me at present is that Mrs M was dependent on a large overdraft (which she had no real prospect of repaying, given its size in relation to her income) and carried a fairly large monthly burden in terms of meeting unsecured debt repayments. There is no evidence to suggest she had any disposable income.

It therefore follows that I don't currently think Next should have increased Mrs M's credit limit in July 2018, and I plan to uphold this complaint from that point."

As both parties have accepted my findings, I have no reason to alter them as set out in my provisional decision. And so it follows that I uphold this complaint.

Putting things right

In order to put things right for Mrs M, I direct Next to do the following:

- a) Rework the account to remove all interest and charges (including any BNPL interest) incurred on the account since 1 July 2018 on balances exceeding £3,750.
- b) If that calculation means the adjusted balance would have been cleared, Studio must refund any remaining sums to Mrs M with 8% simple interest*, calculated from the date of overpayment to the date of settlement.
- c) If not, Next should work with Mrs M to agree a plan for her to repay what is owed.

*HM Revenue and Customs requires Next to deduct tax from any award of interest. It must give Mrs M a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

For the reasons I've explained, I uphold this complaint and direct Next Retail Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 25 December 2023.

Siobhan McBride

Ombudsman