

## **The complaint**

Mrs W has complained that Shop Direct Finance Company Limited acted irresponsibly when it allowed her to open a 'Very' account in November 2012.

## **What happened**

Mrs W opened a Shop Direct account in November 2012, it eventually closed in July 2018. The opening limit on the account was £1,500 but this increased incrementally over the years and the closing limit on the account in July 2018 was £8,000.

Mrs W has said that she couldn't genuinely afford the account when it was opened in 2012. She has provided evidence to support this and has explained she was only able to clear the balance on the account and close it in 2018 after re-mortgaging her home to release funds and clear some of her debts. She says Shop Direct was wrong to provide her with the account, and subsequent limit increases and that she's still effectively repaying the debt now as it was consolidated into her mortgage term.

Shop Direct says that at the time of application Mrs W showed no indication of financial vulnerability and that the account was affordable. It believes it completed all of the checks required by the regulator and that there was nothing to indicate that Mrs W wouldn't be able to manage the account. It has said that throughout the six years the account was open Mrs W only missed a single monthly payment, and that the account was brought back into good order within a very short period of time. It has also pointed to the fact that Mrs W closed the account in June 2018, paying off the substantial balance in a single payment. So, it feels the evidence indicates that the lending decision never caused Mrs W any problems and therefore the complaint shouldn't be upheld.

Unhappy with the response from Shop Direct Mrs W brought her complaint to our service. One of our investigators looked into it already. She found that the checks Shop Direct did weren't sufficient given Mrs W's existing credit commitments at the time of application. So, she felt that the business should've asked for more information before agreeing to open the account. If it had done that, our investigator didn't think it would've agreed to giving Mrs W an account as she felt the evidence showed Mrs W was already financially overextended at the time of application. So, she upheld the complaint and asked the business to refund all interest and charges added to the account since its inception.

Mrs W accepted the investigators findings but Shop Direct didn't. It said that the checks it completed at the time the account was opened were sufficient and there was no evidence to indicate that Mrs W ever struggled to manage her account or that it caused her problems. It asked for an ombudsman to review the complaint and so it's been passed to me for consideration.

## **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 agree with the findings reached by our investigator and am upholding Mrs W's complaint against Shop Direct.

Looking at the information gathered by Shop Direct at the time of application, it appears that Mrs W already had existing active credits of just under £30,000 as well as approximately £100,500 of fixed term debt. Her declared monthly income was only between £1,000 and £1,500 so I think Shop Direct should've queried why Mrs W had such a large amount of existing debt and whether or not she was effectively managing her finances before providing her with more credit. It should've considered whether or not the additional lending would be sustainable.

There are a number of different things the business could've asked for to further consider Mrs W's circumstances before providing her with additional credit, but the easiest and most common way of doing this is to review her bank statements. Had Shop Direct asked to see Mrs W's bank statements it would've realised that she had been consistently overdrawn by approximately £3,000 for the months prior to opening her account with it. In fact, her wages weren't high enough to clear the overdrawn balance every month and so arguably despite the fact that her credit file didn't show any missed payments Mrs W had no real disposable income each month and was relying on credit via her overdraft to cover a lot of her existing monthly repayments.

So, I think Shop Direct was wrong to provide Mrs W with the account in November 2012 and the subsequent credit limit increases were also inappropriate.

I appreciate Shop Direct has said that Mrs W never missed a payment and that the account was in good order. But this was because she was using credit to repay credit and not because it was genuinely affordable. Mrs W has explained that she had to re-mortgage her home in order to consolidate her existing debts. Had Shop Direct done thorough checks at the time of application I think it would've realised the position Mrs W was already in. By giving her access to an account with it, it only made an already difficult financial position worse.

For that reason, I'm upholding Mrs W's complaint.

### **Putting things right**

While I don't think Mrs W should've been given the account she does need to pay for the products she purchased through it. However, Shop Direct shouldn't add any interest or charges onto the account and Mrs W should only have to repay the capital amount owed.

With that in mind Shop Direct Finance Company Limited should:

- Refund all interest (including any Buy Now Pay Later ("BNPL") interest) and charges added to the account since its inception
- Work out how much Mrs W would have owed after the above adjustments. Any repayment Mrs W made since November 2012 should be used to reduce the adjusted balance.
- If this clears the adjusted balance any funds remaining should be refunded to Mrs W along with 8% simple interest\* - calculated from the date of overpayment to the date of settlement.

\*HM Revenue & Customs requires Shop Direct to deduct tax from any award of interest.

It must give Mrs W 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 set out above I uphold Mrs W's complaint against Shop Direct Finance Company Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs W to accept or reject my decision before 31 January 2024.

Karen Hanlon  
**Ombudsman**