

## **The complaint**

Mr K complains that HSBC UK Bank Plc irresponsibly increased the credit limit on his credit card.

## **What happened**

In July 2014, Mr K had a credit card and a current account with HSBC. The credit card had a credit limit of £8,500, and in that month HSBC offered to increase the limit to £9,500, to take effect a month later. Mr K accepted that increase, but later that year he entered a repayment plan arranged by a debt advice charity. HSBC froze his interest and charges. The account was closed in 2015 (without being defaulted), and in January 2019 HSBC accepted a partial settlement. Meanwhile, in December 2018, Mr K complained to HSBC about the limit increase. He said he'd had a gambling addiction, and that he couldn't afford the limit increase and should not have been offered it. In June 2019, he brought this complaint to our Service.

HSBC said it hadn't known about Mr K's gambling addiction, and it hadn't known he was in financial difficulties until it was contacted by the debt charity about the repayment plan in December 2014. It said it had carried out internal credit scoring checks, but the details of how this is done are commercially sensitive and could not be disclosed.

Our investigator did not uphold this complaint. He said that as Mr K had been making more than his minimum payments, and had made his payments on time, HSBC would not have realised that he was in financial difficulty. Once HSBC had been made aware of the problem, it had taken appropriate action.

Mr K said that he had been paying his credit card from his HSBC current account, which had been overdrawn. He said HSBC should have realised this. The investigator did not change his mind, as he didn't think it would be reasonable to expect HSBC to check the origin of every repayment. So Mr K asked for an ombudsman's decision.

## **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.

When a bank's customer is in financial difficulties, it is his responsibility to tell his bank. Once aware of the problem, the bank's duty is to treat the customer positively and sympathetically, and also to take this information into account when considering whether to lend to him or to increase an existing credit limit. If the customer does not tell the bank – and it's not in dispute that Mr K didn't tell HSBC about his gambling addiction until the end of 2014 – then the bank won't necessarily pick up on the problem anyway. It will depend on what evidence is available to it.

I have had regard to the UK Card Association's 2011 guidelines, *Credit Card Limit Increases*. It says that before offering a credit limit increase, a lender should check its customer's credit file and at least one of the three following matters: the customer's income and expenditure, how he has managed his finances in the past, and internal credit scoring

techniques. I accept that HSBC carried out internal credit scoring techniques and checked his credit file.

The guidelines go on to set out four situations where a credit limit should not be increased. Three of these are self-evidently not relevant to Mr K's case. The other one is "Where the balance currently exceeds the credit limit." Between 30 May and 3 July 2014, Mr K's account was over its limit by about £86, and HSBC's letter offering him a credit limit increase was dated 1 July. So technically this should not have happened, but I think that was a harmless mistake, because on 3 July Mr K made a payment of £150, which brought his balance below the limit again, where it remained until August, when the limit increase took effect. That was the first time in 2014 that Mr K's balance was above the limit.

In every month from January to August that year, Mr K made more than the minimum payments. In fact, he had a direct debit set up to pay his minimum payments, and then he made additional payments on top – usually hundreds of pounds, and sometimes thousands. So apart from the four days when he exceeded his limit by a small amount, he was maintaining this account well. If HSBC had offered him a limit increase on 29 May, or 4 July, or any other day in 2014 except on the days between those dates, then it would have been complying with the guidelines. So the fact that its letter happened to be sent on 1 July is unfortunate, but is not so serious that it would be fair to uphold this complaint on that basis.

The guidelines also list eight "risk indicators" which might show signs that a customer is in financial difficulties, and one of these is "Problems in respect of other accounts held across a group relationship, such as a current account." Mr K has argued that his HSBC current account was overdrawn, and that he was paying his credit card from this account. He says HSBC should have realised that, because it administered both accounts. (The overdraft would also have been reported on his credit file, so HSBC should have seen it, even if the account had been with another bank.)

I have seen Mr K's bank statements, and he was continually overdrawn, usually by over £3,000. That could indicate financial problems, but not necessarily, because he was also maintaining that account too. The guidelines go on to say "It is important to note that, in isolation, these [risk indicators] may not in fact be indicators that a customer is showing signs of financial difficulties." (Exceeding a credit limit is another indicator, but for the reasons I have already explained, that was very brief and out of character, so I think the overdraft can reasonably be treated as an isolated risk indicator.)

I have had regard to the *Lending Code*, issued by the UK Cards Association and other bodies in 2011. It says that once a lender realises that its customer is in financial difficulties, it should pro-actively contact the customer, and the Code sets out some examples of signs that this may be the case. These include regular unarranged overdrafts, regularly exceeding an arranged overdraft limit, regularly asking for increased limits, and dependence on unauthorised overdrafts. But having an arranged overdraft and staying within the limit wasn't on that list. So I don't think that this is the sort of "problem" which was envisaged by the UK Cards Association when it wrote the guidelines I referred to earlier.

Taking the guidelines and the Code into account, I don't think HSBC should have realised from the information available to it that Mr K was in financial difficulty, or that he had a gambling addiction, until he told it. That was after it increased the credit limit on his card, and I don't think it was entirely unreasonable of HSBC to do that. HSBC's breach of the guidelines was a minor one, and not one which would have happened if HSBC had offered the increase two days later, or two days earlier.

**My final decision**

So my decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 6 August 2020.

Richard Wood

**Ombudsman**