

The complaint

Ms H complains that Shop Direct Finance Company Limited, trading as very gave her incorrect information about payments on her catalogue shopping account.

What happened

Ms H had made a purchase of £399.99 on her catalogue shopping account under a buy now pay later arrangement ("BNPL"). This arrangement meant that if Ms H paid off the full cash price within the BNPL period, no interest would be applied. In November 2019, Ms H got in contact with Shop Direct to ask it about what payments were required towards her account and the BNPL purchase in particular. She wanted to know in what circumstances interest would be charged.

Shop Direct told her that interest would be backdated for the BNPL period if she didn't pay off the BNPL on time. However, it said that if Ms H made partial payments towards the BNPL balance then deferred interest would only be applied for the amount that was left outstanding. After receiving that advice Ms H made a payment of £300 towards her BNPL purchase. On her next account statement Shop Direct added all of the deferred interest for the entire £399.99 purchase, even though only £99.99 remained unpaid.

Ms H complained to Shop Direct and said had she known this would happen she would have paid it off in full rather than making a partial payment. She was prepared to pay a small amount of interest on the balance of £99.99 to help with cash flow, but not the entire purchase. She says she could have paid it all off if required, but simply preferred not to because of what Shop Direct had told her about how interest would be charged.

Shop Direct accepted it gave Ms H incorrect information about how much interest would be charged and how the BNPL arrangement operated. It offered to pay her £30 compensation for the distress and inconvenience caused.

Our adjudicator recommended the complaint be upheld. He was satisfied that Ms H would have paid off the balance in full had she been given the correct information by Shop Direct. He said Shop Direct should rework the account removing all BNPL interest from this purchase and any subsequent interest that had been charged on top of that interest. He also recommended Shop Direct pay Ms H £100 compensation for the upset that had been caused.

Ms H accepted that recommendation but Shop Direct didn't. In summary, it said it was prepared to agree to the increased compensation payment of £100 to resolve the complaint. However, it didn't agree to refund any interest. This was because it said that Ms H had made many BNPL purchases in the past and had always paid the balance off in full before the due date. It said this indicated she was fully aware of how the BNPL arrangement worked and how to avoid interest.

The complaint has been passed to me for a 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.

It isn't disputed that Shop Direct gave Ms H incorrect information about how interest would be calculated on any partial payments she made. However, I don't think Shop Direct has fairly put things right because of that error. I'll explain why.

Shop Direct has sought to argue that Ms H was fully aware of how the BNPL arrangement worked because she'd used it previously and always paid the entire purchase price before interest fell due. But I don't think this supports Shop Direct's argument at all. Ms H clearly did understand that no interest would be applied if she paid it off in full by the required date. That isn't what is in dispute and Shop Direct appears to have missed the point entirely.

Instead, Ms H was looking to establish what would be the most financially advantageous step to take in relation to her BNPL purchase given it was in the run up to Christmas. She's said she ideally wanted to have some spare cash available for Christmas spending so wanted to see what impact making partial payments on her BNPL purchase would have. As Shop Direct told her that interest would only apply on the part of the BNPL that was left outstanding, she chose to leave £99.99 unpaid so that she could then clear it after Christmas and only incur a small amount of interest compared to what would be added on the full purchase price.

However, the information she was given wasn't accurate and Ms H says had she known the true position she would have paid it off in full as she didn't want to incur the full amount of interest. Shop Direct has said that it doesn't believe Ms H would have done this as it says it appears she didn't have the funds available at the time. It says if she did, she would have paid it in full. But as I've set out above, that isn't the circumstances that Ms H has described and I'm persuaded by what she has told us, particularly because as Shop Direct has highlighted, Ms H had paid all previous BNPL purchases in full. Further, in the conversation she had with Shop Direct at the time, she initially said her plan was to pay it off in full before Shop Direct gave her the wrong information.

It seems the only reason she didn't then pay it off in full was to leave spending money available for Christmas and she thought only a small amount of interest would be added on the leftover balance. Clearly it has cost her significantly more in interest than had she paid the additional £99.99 (over £200 of interest was added). I'm therefore satisfied that she's only incurred the interest charge because of Shop Direct's error.

To place Ms H back in the position she would have been in but for the error, Shop Direct should therefore re-work the account as if no interest had been applied to the purchase price, including any subsequent interest that may have been applied onto that interest.

The interest charge has had a further knock on effect for Ms H because not only was the interest significantly more than she was anticipating, but interest has continued to accrue on that interest when she wasn't able to clear it in full. This has understandably been upsetting for Ms H and I consider the £100 compensation suggested by the adjudicator and agreed to by Shop Direct is fair to reflect the upset and inconvenience that was caused.

My final decision

For the reasons given above, I uphold this complaint and direct Shop Direct Finance Company Limited, trading as very to:

- Rework the account as if no interest was applied to the BNPL purchase of £399.99 including any subsequent interest applied on that interest charge.
- Pay Ms H £100 for the distress and inconvenience caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms H to accept or reject my decision before 7 April 2022.

Tero Hiltunen
Ombudsman