

The complaint

Mrs M complains that Shop Direct Finance Company Limited (Shop Direct) mishandled her requests for payment holidays.

What happened

Mrs M had a Buy Now Pay Later (BNPL) account with Shop Direct. In October 2020, the limit was £6,700 and the balance was £5,712. On 3 November 2020, she called to say she wanted to reschedule her next payment as her partner was on furlough. Shop Direct agreed a 'payment break' for two months. To be clear, this normally meant that no payments were needed, charges and interest were zero, and credit reference agencies (CRAs) were advised of the arrangement. Shop Direct debited interest of £252.44. CRAs were advised.

In February 2021, she asked for a 'payment holiday' under the Financial Conduct Authority's (FCA) pandemic support scheme and this was agreed for three months. This meant that no payments were required; interest was charged, but there was no notification to credit reference agencies (CRAs). But it wasn't set up by Shop Direct. I've referred to the scheme as a payment holiday but Shop Direct called it a 'payment freeze'.

Mrs M complained. She was confused about what Shop Direct had done. She couldn't see why interest was being charged under the payment break and payment holiday; nor could she see why payments were required under the payment holiday after it ended. And she said that CRAs were notified of both the payment break and payment holiday. She said Shop Direct didn't honour call backs or respond to emails. The whole episode had caused her a lot of worry, confusion, and stress.

On the payment break (November 2020): Shop Direct said that when Mrs M called in November 2020, the payment holiday scheme wasn't available, and so couldn't be offered. So, they offered Mrs M a 'payment break' for two months instead. They apologised for the lack of clarity given to Mrs M when she called in November 2020 and refunded interest of £252.44.

On the payment holiday, (February 2021), Shop Direct apologised and said that it had been agreed when Mrs M called in February 2021, but hadn't been set up properly. So, they set it up later, in April 2021. But payments that were suspended because of the payment holiday still had to be made up; and debit interest was payable as that was part of the scheme. Because the payment holiday hadn't been set up when it should've been, Shop Direct paid compensation of £55. They also ensured that no markers were added to Mrs M's credit file.

Mrs M brought her complaint to us. Our investigator focused on the payment holiday in February 2021; and said that overall, because of the confusion, Shop Direct should pay a further £120 compensation.

Mrs M didn't agree and asked that an ombudsman look at her complaint.

I then reached a provisional decision where I said Shop Direct should pay more compensation:

It's important here to understand the difference between a 'payment break' – as put in place by Shop Direct in November 2020 and a 'payment holiday' (called 'payment freeze' by Shop Direct) – that they should have put in place in February 2021.

A 'payment break' is used by firms where customers are in financial difficulty and are finding it hard to make payments. In line with FCA guidance, these schemes:

- Charge zero interest and fees
- Suspend monthly payments
- Are notified to credit reference agencies

'Payment holidays' started in April 2020. They were announced by the Financial Conduct Authority (FCA) in response to the effects on customers of the COVID-19 pandemic. All lenders, including Shop Direct, had to put in place 'payment holidays' on many credit agreements, including BNPLs – to help customers who were affected. Customers could ask for a total of two payment holidays, each of three months. Payment holidays:

- Charged interest and fees. Where there was an interest free period, this was extended to run out at the end of the three-month period.
- Monthly payments were suspended – but these started again after the end of the holiday.
- Credit reference agencies were not notified.

In November 2020, the FCA announced that the support scheme for BNPLs would start again from 19 November 2020. From then, firms could continue to support customers in difficulty – but it was down to their discretion and customers' circumstances.

And so – I've looked at Mrs M's complaint in the light of this.

Payment Break – November 2020. Mrs M called Shop Direct on 3 November 2020. I've listened to the call and Mrs M said she wanted to reschedule the next monthly payment as her partner was on furlough. She said she could make the payment but needed to change its date. She was offered a payment break for two months – which may have been appropriate. Mrs M didn't ask for a 'payment holiday' – and given that it wasn't reintroduced until 19 November 2020 – much later – I don't think we could've expected Shop Direct to have suggested it. But normally in considering a payment break, we would expect a firm to undertake an assessment of income and expenditure – to ensure this was the right thing for Mrs M. But that didn't happen. And – unfortunately, the call was very unclear as to the terms of the payment break. In the conversation, the call handler mentioned once 'no payments' and 'show on credit file' – but we would expect the terms to be clearly read out and understanding checked on the call – and this didn't happen. The call handler also said there would be no charges (which Mrs M said she didn't want to pay) but also said once 'it won't stop interest' – and this was wrong, as a payment break would normally be interest free – in line with FCA guidance. Also, I can see that Mrs M's credit file was marked in November 2020 and December 2020 with the payment break.

The call handler went onto say that the payment break's terms would be sent to Mrs M – but unfortunately, there wasn't an email or letter sent to her. If there had have been, her confusion may well have not arisen. Mrs M had spelt out to us the stress and worry that the confusion caused her – and it caused a knock-on effect to what later happened, in February 2021.

To be fair to Shop Direct, they acknowledged the poor communication here and refunded the interest of £252.44. But I don't see that as sufficient as compensation – because it would've been reasonable to expect that Shop Direct would not charge interest anyway under the FCA's guidance on the terms of a payment break. And Mrs M's credit file was marked. In view of the poor communications I think it's reasonable that Shop Direct should pay a further £100 in compensation and remove the markers from Mrs M's credit file.

Payment Holiday – February 2021. Mrs M asked for a payment holiday – but due to an error, it wasn't set up properly by Shop Direct. They acknowledged their error and set it up again in April 2021. And told us that the missed payment markers had been removed from Mrs M's credit file – they also showed us the evidence that this was done. Mrs M had complained that she was charged interest and that her payments had increased after the end of the payment holiday. But as I've explained, as part of the scheme, interest was still payable and any deferred payments had to be made up. The email from Shop Direct dated 14 April 2021 set this out as it said that delayed payment periods made under a BNPL deal were extended by three months – so Mrs M had an additional three months to pay and avoid the interest that would otherwise have been charged when the payments became due. In other words - interest was still payable, but at a later date.

I did note that in their email to Mrs M on 3 February 2021 they said “your payment freeze has now ended” – which was confusing as actually, Mrs M had a ‘payment break’ – as Shop Direct called it, and not a payment freeze/payment holiday. But on balance, Shop Direct acted reasonably here by apologising for their error. They paid compensation of £55 – which our investigator said should be increased to £175 – which I think is fair for what happened.

And so – my provisional decision is to uphold Mrs M's complaint and ask Shop Direct to remove the markers from Mrs M's credit file for November 2020 and December 2020 and pay an additional £100 in compensation – in addition to the further £120 as proposed by our investigator.

Responses to the provisional decision:

Shop Direct had no comments to make, but Mrs M did. She said:

- The compensation should be higher for the stress and upset caused. She said she had suffered hair loss as a result.
- She said she didn't receive statements during the payment holiday and if she had, she could've made payments towards the interest. She said it was all down to her to contact Shop Direct to sort things out.

I now need to make a final 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.

I've considered Mrs M's further comments. On the matter of statements, I looked at Shop Direct's records again. They show Mrs M was sent statements, either in paper format or online – each month from January 2021 to May 2021. So, she must have been aware of the balance and transactions on her account.

I've considered her point about compensation again. Our service says that an award between £100 and £300 might be suitable where there have been repeated small errors, or a larger single mistake, requiring a reasonable effort to sort out. And it may have resulted in some acute stress, possibly lasting weeks. And I think that's where I would put Mrs M's complaint – the award is a total of £275 (including what Shop Direct have paid) – so it is in line with the criteria we have set down.

And so – my final decision is unchanged from the provisional decision..

My final decision

My final decision is to uphold this complaint. Shop Direct Finance Company Limited must:

- Pay compensation for distress and inconvenience of £100 (for the payment break in November 2020) and compensation of £120 (for the February 2021 payment holiday). This is in addition to the £55 already paid.
- Remove the markers at credit reference agencies for November 2020 and December 2020.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 14 July 2022.

Martin Lord
Ombudsman