

The complaint and what happened

Miss I complains that Shop Direct Finance Company Limited, trading as very (“very”) provided her with a catalogue shopping account that she could not afford, and then increased the limit on it.

In December 2018 very approved a catalogue shopping account with an initial limit of £2,000 for Miss I. It then increased that limit in June 2019 to £2,500, before beginning to decrease it in September 2020. very then began again to increase the limit from September 2021. It would appear that her account is currently up-to-date.

very accepted that it should not have increased Miss I’s credit limit in September 2021, and so upheld her complaint from that point. However, it did not accept that any of its actions before then were wrong, so Miss I brought the case to our service. One of our investigators looked at the evidence and thought that very hadn’t done anything significantly wrong. Miss I didn’t accept that and asked that the case be passed to an Ombudsman for review. I’ve included relevant sections of my provisional decision from October 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 very to conclude that this account was unaffordable for Miss I from the outset.

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 in full and I’ll explain why.

very 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 Miss I 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, Miss I needed to be able to meet all her financial commitments and not have to

borrow elsewhere to repay very for the credit limit to be considered affordable and sustainable.

Did very carry out proportionate checks?

very carried out a high-level credit check before approving the lending.

The adjudicator thought that very ought to have carried out more in-depth checks, both at the time of the account opening in December 2018 and before granting a credit limit increase in June 2019.

I agree, noting the substantial credit limits being provided. The fact that the high-level credit check didn't reveal anything of serious concern does not mean that the checks were proportionate – the extent of the borrowing means very ought to have asked more.

What would very 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 very could have opted to gather more information about Miss I'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 very would most likely have discovered if it had completed proportionate checks.

The relevant statements show that Miss I had a comparatively small income, almost two thirds of which appears to have likely been required to service debt. I say that because of direct debits to mainstream lenders that are leaving Miss I's account at the same times each month for the same amounts. There is no indication that any of them is a mortgage repayment, and given the lenders and the amounts, that seems unlikely.

After those direct debits were accounted for, Miss I had just over £500 per month to live on, in an expensive region of the United Kingdom. In some circumstances, that could be sufficient. But those circumstances would be unusual, and I would expect a lender to ask about them before considering £500 a reasonable amount to pay housing costs, bills and general living expenses, and still leave disposable income from which to make repayments to this account.

Miss I was frequently overdrawn, albeit her agreed limit does not appear to be substantial in absolute terms. However, there is an instance of one of the aforementioned direct debits being returned as she struggled to stay within that limit. Additionally, as Miss I clearly had a fairly modest income at that time, the overdraft limit was relatively consequential.

In the round, the provisional conclusion I reach on the basis of the evidence available to me at present is that Miss I was dependent on her overdraft; at times struggled to stay within it; and carried a 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 very should ever have approved this account for Miss I, and I plan to uphold this complaint."

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 Miss I, I direct very to do the following:

- Rework the account to remove all interest and charges (including any BNPL interest)

incurred on the account since opening.

- If after the rework the balance would have been cleared, very must refund any overpayments to Miss I with 8% simple interest per year*, calculated from the date of overpayment to the date of settlement.
- If after the adjustment an outstanding balance remains, very must try to arrange an affordable repayment plan with Miss I. Once the balance has been fully cleared, whilst I'm not aware of any, should there be adverse information about the account on Miss I's credit file, that should be removed.

*HM Revenue and Customs requires very to deduct tax from any award of interest. It must give Miss I 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 Shop Direct Finance Company Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss I to accept or reject my decision before 28 November 2023.

Siobhan McBride
Ombudsman