

The complaint

Mr M complains that Shop Direct Finance Company Limited (trading as Very) applied interest to certain purchases on his catalogue account when it shouldn't have done.

I'll refer to the respondent business as SDFC in this decision. I also note that Mr M's original complaint to SDFC covered other issues, however the complaint he has referred to the Financial Ombudsman Service has focused on the charging of interest on specific purchases, so this is what my decision is about.

What happened

Mr M has had a catalogue account with SDFC, which is a type of running account credit agreement regulated by the Consumer Credit Act 1974, for many years. With this sort of account, a consumer has a credit limit and they can purchase goods on credit from the catalogue of a specific linked retailer, up to that limit. They are sent monthly statements and must pay at least the minimum repayment on each statement. SDFC charges interest on the balance of the account.

Mr M's account allows purchases to be made on what's known as a "Buy Now Pay Later" ("BNPL") basis. When purchases are made on this basis, they are put to one side and don't contribute towards the main balance on the account (what SDFC calls the "Flex Balance"), for a specified period of time. If the purchases are paid off in full in that specified period, then no interest is charged on them. However, if any part of the purchase remains outstanding at the end of the period, then the remaining amount is added to the Flex Balance and interest is charged, backdated to the date of purchase.

When a customer makes payments to their account, these can be chosen to go towards whatever is outstanding on the Flex Balance, or go towards outstanding BNPL purchases.

Mr M often purchases items on his account on an BNPL basis. He says he always pays these off before interest is charged on them. From his December 2022 statement to his June 2023 statement however, interest was charged on several BNPL purchases. Mr M felt this was incorrect and complained.

SDFC said that the reason Mr M had been charged interest on these specific purchases was because the BNPL periods had expired and he'd not yet paid them off. Mr M didn't think this could be right, as he said he had made numerous payments towards the account in previous months and had opted to pay off his BNPL purchases. He was dissatisfied with SDFC's response to his complaint so he referred things to the Financial Ombudsman Service for an independent assessment.

One of our investigators looked into the complaint. He didn't think it should be upheld and I could summarise his findings as follows:

- Mr M had provided evidence of making payments from his bank account to his SDFC account, but there wasn't evidence of whether he had allocated these payments to his BNPL purchases or his Flex Balance.

- Mr M had been made aware of when the various BNPL periods ended for his purchases, as this information, along with the balances, was outlined on his statements from SDFC. The statements also showed which payments had been allocated towards the Flex Balance and which had been allocated towards the BNPL purchases.
- The BNPL purchases where interest had been charged, had expired before being paid off in full, so it wasn't unfair that SDFC had charged interest on them.

Mr M asked to appeal our investigator's assessment, so the case has been passed to me to decide.

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.

There doesn't appear to be any dispute between Mr M and SDFC about how the account is meant to work (i.e. BNPL purchases which are not paid off in time are charged interest, and customers need to specify whether they want their payments to go towards BNPL purchases), which means the questions I need to determine in this case are relatively simple.

The first question is whether or not, according to the available records, Mr M paid off the disputed BNPL purchases before their BNPL periods expired. If the answer to that question is no, a second question arises, which is whether or not the reason the purchases were not paid off in time was because SDFC did something wrong.

Having examined Mr M's statements for his SDFC account, I think it's clear that a number of BNPL purchases which expired between December 2022 and June 2023 were not paid off by the time of expiry. *Some* of the purchases which expired in that period were paid off in time, such as a vacuum cleaner, boxer shorts and a hoodie. But the fact that others were not paid off means I need to consider the second question.

I think it's worth at this point making a couple of general observations about how Mr M used his SDFC account, and what information SDFC gave him on his statements. Mr M tended to make large numbers of orders, some on a BNPL basis and some not, and he also returned a significant proportion of those orders. He would sometimes return *parts* of a BNPL order, meaning the balance of that order would be reduced but would not go to zero. I found that this somewhat complicated the picture when going through his statements.

In terms of the information SDFC provided on its statements – it informed Mr M about which BNPL orders were coming up to expiry, and what the remaining balance was on each. This information was, in my view, prominently displayed. So I think Mr M should have been aware, prior to each BNPL order expiring, of the balance he needed to pay in the coming month in order to avoid paying interest.

Mr M made various payments from October 2022 onwards. I've scrutinised his statements and I can see that, in many months, he was making either only the minimum payment required to maintain his Flex Balance, or slightly more than this but not enough to pay off any BNPL orders which were due to expire. Given Mr M had been provided with enough information on his statement in the preceding month to *know* what he needed to pay in order to avoid being charged interest on his expiring BNPL orders, I don't think I can say that the fact he ended up being charged interest on some of these orders is because of something SDFC did wrong. Given the complicated pattern of orders and returns on Mr M's account, I

think it's more likely that some confusion arose, and he mistakenly didn't pay the amounts he needed to in some months to avoid being charged interest. While this is unfortunate, it is something that could happen to anyone and I don't think it's down to errors on the part of SDFC.

I'm aware Mr M has pointed to some specific transactions, such as a payment of £200.99 he made in January 2022, which he says was meant to pay off an order which expired in December 2022. He doesn't think this payment was allocated properly to that order by SDFC, and that this is evidence they were making mistakes. The statements for the relevant period don't say whether or not this payment was allocated to a specific order, or if Mr M requested that it be so allocated. But whether or not it's the case that Mr M asked SDFC to allocate this payment specifically to the BNPL order expiring in December 2022, he received multiple statements after January 2022 which showed the payment had *not* been allocated to this purchase. If the payment had not been allocated in accordance with his instructions, I would have expected him to have queried this at some point between January and December 2022.

Overall, I don't think it's likely that the fact some of Mr M's BNPL orders were not completely paid off by the time of their expiry, and therefore attracted interest, was due to an error or some other unfairness on the part of SDFC.

My final decision

For the reasons explained above, I do not uphold Mr M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 11 October 2024.

Will Culley
Ombudsman