

The complaint

Mr F complains that Monzo Bank Ltd (“Monzo”) acted irresponsibly by providing him with a flex running credit account.

What happened

In May 2023 Monzo granted Mr F an increased credit limit of £5,500. Mr F says that Monzo shouldn’t have granted him the increased limit and allow him to use it on transactions through an online competition site.

Monzo said it granted Mr F the increase as he was eligible for it and the checks it carried out before agreeing to the increase showed it to be affordable. It also said that the gambling block it had put in place for Mr F would not have blocked the particular transactions he was complaining about.

One of our investigators looked into the overdraft and didn’t recommend that Mr F’s complaint be upheld. He said that Monzo didn’t act unfairly when agreeing the credit limit increase. He also thought Monzo had acted reasonably in relation to the transactions he’d been allowed to make because they weren’t categorised as being gambling.

But Monzo did agree to pay Mr F some compensation for the delay in looking into his complaint.

As Mr F is unhappy with our investigator’s findings his 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.

I’ve read and considered the whole file, but I’ll concentrate my comments on what I think is relevant. If I don’t comment on any specific point it’s not because I’ve failed to take it on board and think about it, but because I don’t think I need to comment on it in order to reach what I think is the right outcome.

Monzo will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don’t consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

Monzo needed to make sure that it didn’t lend irresponsibly. In practice, what this means is Monzo needed to carry out proportionate checks to be able to understand whether Mr F could afford to repay before agreeing to any credit. Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much

information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

Mr F complains that Monzo ought not to have provided him with an increased credit limit on his flex running credit account. The flex account works a bit differently to most credit cards, with customers having the option to move items across to it from their spending on their Monzo current account if they wish, or to pay for items or services by way of an instalment plan option of up to 12 months.

Monzo agreed to the credit limit increase after carrying out credit checks to ensure the increased limit was likely to be affordable. The credit checks and searches relied in part on what Mr F had told Monzo in his limit increase application about his monthly income and mortgage costs. This was alongside the data it had obtained about how much he already owed on credit. The affordability check showed Mr F was receiving a net monthly income of around £2,800. The credit checks showed there had been no recent issues that suggested he might have had difficulties with managing his available credit. In particular, there were no recent adverse markings on his credit file, such as a default or county court judgment. The check results showed Mr F's existing credit was costing him around £200 each month.

Monzo also used statistical information alongside its credit checks to establish what Mr F's monthly household costs were likely to be. After allowing for his housing and estimated living costs, Monzo calculated that Mr F had around £1,000 available in disposable income each month. This suggested that the limit increase was likely to be affordable.

Having thought about all this, I agree with our investigator that Monzo's checks were reasonable and proportionate. However, just because I think it carried out proportionate checks, it doesn't automatically mean it made a fair lending decision. So, I've also thought about what the evidence and information showed.

I think the checks that were completed showed that the account limit was likely to be affordable. It seemed likely that were Mr F to use the full extent of the credit increase he would still be able to meet his existing credit costs plus other essential spending whilst still being left with sufficient disposable income. I've kept in mind the way the flex account operates, so that Mr F would need to be in a position to clear any flex balance he owed within 12 months and be able to do so sustainably. I've seen he was making regular use of his Monzo personal account overdraft. Relying on an overdraft is always an issue of potential concern. But I've not seen enough evidence to suggest that Mr F's financial situation was at immediate risk of deteriorating.

I've thought about Mr F's comments about the extra financial stress that was being put on his domestic situation at the time, given that his wife was on maternity leave. I understand that Mr F's overall credit commitments may have been higher in real terms because he was taking on a greater share of the household costs at that time. But Monzo was entitled to rely on the information it obtained from the credit reference agency which would be focused on what Mr F owed. Based on what I've seen I don't think Monzo ought to have been prompted to carry out additional checks to establish the increased credit limit as being affordable.

Gambling block issue

Monzo had put a gambling block in place on Mr F's Monzo accounts. It has explained that whilst the block worked in such a way that it would block most gambling sites, it wouldn't be able to block transactions made through sites that didn't have the relevant code designating them as being a gambling business. In the case of the specific site Mr F had used, the code for that site corresponded to the code used to identify video game arcades and establishments.

From what I can see, the gambling block was in place and operating in line with its functionality and purpose. And so it's not something I could expect Monzo to have done more about. Whilst I'm very sorry to learn of the worry and frustration this has caused Mr F, I am not able to make a finding that the gambling block didn't function as it should have done or that Monzo acted wrongly in some other way.

To summarise, and whilst I realise Mr F is likely to be disappointed with my decision, I won't be requiring Monzo to do any more. I recognise that Mr F has encountered financial difficulties as a result of the additional transactions and that this in turn has placed a strain on his domestic circumstances. But in considering the question of irresponsible lending, I am looking chiefly at the question of whether B acted fairly in granting Mr F the limit increase at the point it looked into his financial circumstances. Having done so, I am not able to make a finding that Monzo acted unfairly.

Finally, I've considered whether the relationship between Mr F and Monzo might have been unfair under Section 140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Monzo lent irresponsibly to Mr F or otherwise treated him unfairly. I haven't seen anything to suggest that Section 140A or anything else would, given the facts of this complaint, lead to a different outcome here.

My final decision

For the reasons I've given above, I don't uphold Mr F's complaint and so Monzo Bank Ltd doesn't need to do anything more.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 30 August 2024.

Michael Goldberg
Ombudsman