

The complaint

Mr G complains about lending given to him by Monzo Bank Ltd, and its handling of his relationship with it.

What happened

On 8 October 2022, Mr G applied for a Flex account with Monzo. It was agreed and he was given a £500 credit limit. On 28 October 2022, he asked Monzo to apply a gambling block on his account to prevent him from making gambling payments. On 10 January 2023, he applied for a £300 overdraft which was agreed. On the same day, he requested an increase in that limit to £750 which was also agreed

Mr G contacted Monzo on 16 January 2023 to ask for help as he couldn't afford the repayments towards his Flex and overdraft. He asked to raise a complaint about the gambling block as he had still been able to make gambling transactions. He felt the overdraft ought to have been refused and it was used entirely for gambling. He said the Flex account had been used for non-gambling transactions but was unaffordable for him.

Mr G also complains about the time it took Monzo to respond to his enquiries initially and to deal with his concerns overall.

Monzo has looked into his complaint and upheld it in part. It issued a final response letter explaining:

- the gambling block is designed to prevent card transactions for gambling, not faster payments to bookmakers.
- it felt the lending decisions reached for Mr G's Flex and overdraft were responsible
- and affordable for him based on what it knew at the time of the applications. it agreed it had taken too long to respond to a number of Mr G's contacts (including his complaint) and hadn't provided the level of service it expected. It offered a total of £235.36 compensation.

Mr G didn't accept what Monzo said, so he referred his complaint to our service. One of our investigators looked into it. He agreed with Monzo's view of the complaint and felt the compensation offered was a fair way to resolve it.

Monzo agreed with our investigator, but Mr G didn't. As there was no agreement, the complaint has been passed to me for 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.

Having done so I didn't agree with the findings of our investigator, so I issued a provisional decision saying:

“Gambling block

There is no dispute that Mr G activated a gambling block on his account with Monzo in October 2022. He’s complained that, despite that, he was still able to make some payments for gambling purposes.

Monzo has explained that the gambling block is only able to prevent card payments to gambling sites. How the block works is clearly set out on its website. When card payment authorisations are requested, Monzo receives a code which identifies the nature of the merchant. If the merchant is associated with gambling, the transaction is refused. Monzo has told us that several transactions have been blocked in this way for Mr G.

But Mr G was able to make some payments to a well-known bookmaker through his account by using the faster payment system. In essence he made the payments direct to the bookmaker from his account, rather than making them using his card. This meant that Monzo had no way of identifying the transactions as gambling in advance of the money leaving his account. So I don’t think it can reasonably be held responsible for that.

Following his complaint, Monzo quickly took steps to help Mr G by preventing him from making faster payments to this particular business.

On the day the overdraft was agreed, Mr G made four transfers totalling £750 to an account in his name with another provider. He says the money was subsequently used for gambling. I can’t see any way that Monzo could have known these transfers were for gambling and prevented them from going through.

Lending decisions

We’ve set out our approach to complaints about irresponsible and unaffordable lending on our website – including the key relevant rules, guidance, good industry practice and law. I’ve considered this approach when deciding this element of Mr G’s complaint.

Monzo needed to carry out reasonable and proportionate checks to ensure that it didn’t lend to Mr G irresponsibly. It had to satisfy itself that he would be able to repay the credit sustainably. That is, he should be able to repay it without undue difficulty, while being able to meet other commitments and without having to borrow further.

Flex limit

Following his application for the Flex limit, Monzo reviewed Mr G’s credit file, his income, fixed expenditure and personal details. Mr G declared an income of £32,000 a year and said he was in rented accommodation. Using statistics and what Mr G had told it, Monzo calculated he had a monthly disposable income of around £780.

Mr G’s credit file showed he’d missed a payment to another credit provider around six months prior to this application and had defaulted on another debt more than two years ago.

Given the level of borrowing and the information Monzo gathered, I don’t think it needed to carry out any further checks. My view is that Monzo conducted reasonable and proportionate checks and there was nothing uncovered as a result of those checks that suggested Mr G couldn’t afford to sustainably repay a Flex limit of £500. It follows that I think it reached a fair decision to offer Mr G the Flex limit.

Overdraft of £300

I can see the information obtained from Mr G and gathered from his credit file was largely the same as it was when he applied for the Flex limit. By then, Mr G had applied the gambling block to his account, and some gambling transactions had been refused. I don't think the presence of the gambling block alone would have been sufficient for Monzo to refuse further credit to Mr G. After all the block was in place to prevent gambling transactions it could identify (it had successfully stopped several), and there are many reasons why someone may wish to borrow.

Monzo did similar checks to those it had done three months earlier and received similar results. I think the checks carried out were reasonable and proportionate in view of the amount of credit applied for and it made a fair decision to lend to Mr G on this occasion.

Overdraft of £750

A very short time after applying for the £300 limit, Mr G applied for an increase to £750. While the checks understandably revealed the same information, I think Monzo ought to have given the application a bit more thought. In any circumstances, applying for an increase so quickly after an initial application might indicate that the borrower isn't fully in control of their finances and so it may not be responsible to agree further credit.

In this case, we've seen that Mr G had declared an issue with gambling – he'd had a block put on his account to help him control his spending. He'd applied for a small overdraft limit which had been agreed and, it seems likely, he'd used that money straight away by transferring it to another account. He then came back to ask for a 150% increase in his overdraft limit to £750.

Given the timing of the application to increase his limit in relation to the first approval and knowing Mr G had an issue with gambling, I'd have expected Monzo to look more closely at this application and at least slow things down for Mr G. If it had looked at his account activity, it will have seen the faster payments being made to the bookmaker I've mentioned earlier. That, along with the gambling block and unsuccessful gambling transactions, ought to have raised concerns for Monzo about why Mr G was seeking to increase his limit so quickly. I think it ought to have contacted him to ask further questions.

I can't know for sure what Mr G might have told Monzo had it asked more questions. But Mr G had been proactive enough to ask it to block gambling transactions just a couple of months earlier, so it seems clear he knew he had a problem and was trying to deal with it. For that reason, I suspect that if Monzo had asked him some direct questions about his application, Mr G would have been aware enough of the impact of his behaviour to be open about his gambling.

Had Monzo asked more questions about the second application, I think it's more likely than not it would have led to the application being refused. I don't think that Monzo reached a fair decision to increase Mr G's overdraft limit to £750, so I'm planning to uphold this aspect of his complaint. I'll return to this later on.

Customer service issues, delays etc.

Within a week of obtaining his overdraft, Mr G contacted Monzo for help as he'd found himself in financial difficulties. He said it took Monzo too long to respond to his requests for help with his debt and his subsequent complaint. When it did reply, Mr G felt its responses were unhelpful.

Monzo has provided transcripts of the 'chats' Mr G had with it as well as details of conversations it had with him. It has agreed the service he received wasn't of a standard he

is entitled to or that it expects to provide. As a result, it has offered him compensation and a refund of interest amounting to £235.36. It has provided him with a breakdown of how it reached that figure.

Having considered the evidence from both Mr G and Monzo, I think the sum offered is in line with what I'd expect in the circumstances.

Putting things right

For the reasons explained above, I don't think Monzo should have agreed the £450 increase to Mr G's overdraft limit. Ordinarily, where we find a business has lent irresponsibly, we direct it to remove interest and charges from the debt; we generally think it is fair for the consumer to repay the money they borrowed as they have had the benefit of using it.

But in these circumstances, I don't think that is fair. I can't see that Mr G has received any benefit from the increase in the limit – rather it may have done more harm by allowing him to continue gambling. And given what Monzo knew about Mr G, I think it was reasonably foreseeable that he would spend any further funds he borrowed on gambling. So in the circumstances I think Monzo should:

- *write off £450 of his overdraft along with any associated interest and charges.*
 - *If doing so results in a credit balance, Monzo should return any over payments to Mr G along with interest of 8% simple per year from the date of the overpayments to the date of settlement.**
 - *If doing so leaves Mr G owing money to Monzo, it should contact him to arrange an affordable repayment plan. I remind it of its obligation to treat customers in financial difficulty fairly.*
- *If it hasn't done so already, Monzo should pay Mr G the £235.36 it offered for the problems he experienced as outlined above.*

**If Monzo considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr G how much it's taken off. It should also give him a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate."*

Monzo hasn't responded to my provisional decision, but Mr G did. He said (in summary) that as a vulnerable customer Monzo should be acting more responsibly in its communication with him. He outlined a model he uses in his work to communicate with vulnerable customers. He says that Monzo should have refused to lend to him as it could see gambling on his account. He said the whole balance should be written off.

The model Mr G has referred to is well known and used by lots of organisations. But it's not for me to tell Monzo what it needs to do in this regard. Monzo has agreed that it didn't communicate with Mr G very well and has offered compensation for that. I've outlined that offer in my provisional decision and believe it to be fair and reasonable in the circumstances.

I've thought carefully about what he's said regarding the lending decisions taken by Monzo, but I don't agree with him. I've acknowledged that Monzo was aware of his gambling issues as he had a gambling block on his account. But it's my view that that alone doesn't mean Monzo should refuse to lend to him at all as I've outlined above. So I still think it was reasonable for Monzo to agree the first overdraft limit. I do think though, that the pattern of behaviour around the increase in the overdraft limit, ought to have prompted Monzo to look further, and refuse the increase.

Having considered Mr G's comments, I see no reason to depart from my provisional

decision.

My final decision

My final decision is that I uphold Mr G's complaint. Monzo Bank Ltd should put things right for Mr G as I've outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 29 March 2024.

Richard Hale
Ombudsman