

The complaint

Mr S complains about the service he received from Klarna Bank AB (publ) ("Klarna") when he purchased a television. He says it failed to make clear its repayment process, and as a result it's unfairly charged him late payment fees and affected his credit rating.

What happened

Mr S bought a television in August 2021, and he used finance provided by Klarna to complete the purchase. He says he agreed to repay the finance on a monthly basis over a term of 18 months, and he gave Klarna his bank details to facilitate this. Mr S says that although it successfully used these bank details to collect his deposit, it failed to explain the steps he needed to complete in order to make his monthly payments and, as a result his credit file now shows missed payments, and this has adversely affected his credit score. Mr S told us:

- he provided Klarna with his bank details at the point of purchase and it successfully collected a deposit equal to 10% of the purchase price, and he believed that it would then use these same details to collect his ongoing monthly payments;
- Klarna did not provide him with a copy of the credit agreement, and he received no other correspondence in the post, even though it had said that a copy of the credit agreement would be provided;
- he received an email when he first opened his account, but it contained no information informing him that there were steps he needed to take to ensure his monthly payments could be collected – he later learned that he needed to set up Klarna's "Autopay" feature;
- although he received regular monthly account statement and text messages, they appeared to be quite generic, and did not highlight sufficiently that he was behind with his payments and that there was some action he needed to take;
- it wasn't until December, when he decided to download Klarna's app, that he realised he owed money and had missed some payments;
- the app wouldn't allow him to pay the outstanding payments – even though he had the money and was keen to bring his account up to date – he could only choose between paying that month's payment or the full outstanding balance;
- he contacted Klarna and it partially upheld his complaint, acknowledging the confusion around the setting up of the Autopay feature, and it agreed to remove September's missed payment from his credit file.

Unhappy with its response, Mr S brought his complaint to this Service. He says Klarna should remove all reference to all the missed payments from his credit file; it should refund any late payment fees and reimburse him for additional interest accrued and paid. He also wants Klarna to review its communications and processes and for its processes and adherence to FCA requirements to be reviewed.

Klarna apologised for Mr S' negative experience and it partially upheld his complaint. Klarna said it had informed Mr S of his monthly payments together with information about how to enable Autopay. But it did acknowledge there had been some confusion over whether or not "*Autopay had been enabled*" on his order. It said it had sent monthly emails explaining how

to enable Autopay, and that these emails were successfully delivered to the address it held on file.

It said it had removed the missing payment marker in respect of September's payment as a gesture of goodwill, but that it wouldn't amend the information about the remaining missing monthly payments. But it did *"sincerely apologise for any frustration or inconvenience this situation has caused"* and it said it *"completely understand [sic] that a lack of communication invokes a feeling of frustration for you as a customer when managing your payments"*.

Klarna told us that it would be happy to pay Mr S £50 compensation, taking into account *"the misinformation at checkout, the distress caused by the application of the credit marks, as well as the formal communication..."*

Our investigator looked at this complaint and explained to Mr S that this Service isn't the Regulator, so we don't have powers to compel financial businesses to change their processes or procedures. But she also said she didn't think Klarna had acted fairly and said she thought this complaint should be upheld and she asked Klarna to pay Mr S some compensation.

She said that although she understood Klarna's processes, she was persuaded that having set up a Direct Debit, it was entirely plausible that Mr S would believe his monthly repayments would be collected automatically and that there was no need for him to do anything further. And she agreed that the correspondence Klarna had sent to Mr S wasn't clear enough to draw his attention to the fact that payments hadn't been received. She concluded by saying that given Klarna itself accepts the Autopay requirements could've been clearer, and that Klarna should also remove the missed payments for October 2021, November 2021, and December 2021 from Mr S' credit file. And it should refund any late fees or interest charged in connection with these missed payments.

In view of the stress and confusion caused to Mr S and the fact that Klarna could've done more to draw his attention to the missed payments, together with the impact this has had on Mr S' credit score and his ability to take out new finance, she asked Klarna to pay Mr S £150 in compensation.

Mr S accepted our investigator's opinion, but Klarna did not, so the complaint comes to me to decide. It said that although Mr S *"could have assumed that a mandate was set up, the lack of any written confirmation should have been indicative that this was not completed correctly."* And it said that although it may not have been clear on the statements that there were missed payments on the account, Mr S had other sources of information that would've provided this confirmation.

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.

First of all, it's important that I explain that this Service doesn't supervise, regulate or discipline the businesses we cover, so I'm not able to direct Klarna to change its processes or procedures. And my role isn't to punish or penalise businesses for their performance or behaviour – that's the role of the regulator, in this case the Financial Conduct Authority.

My role is to look at problems that a consumer may have experienced and see if the business - in this case, Klarna – has acted fairly and reasonably. If it hasn't, I seek to put the consumer – Mr S – back in the position he would've been in if the business had acted like I think it should've done. And I may award compensation if I think it's appropriate.

Having considered everything very carefully, I've reached the same conclusion as our investigator, and I'll explain why.

There's no dispute that Mr S set up a direct debit when he first purchased the television and that the bank account details he provided as part of this process were successfully used to take the deposit. So, like our investigator, I'm also persuaded that having set up his direct debit, and had the deposit correctly taken, it wasn't unreasonable for Mr S to have safely concluded that his monthly payments would be collected when they became due, and there wasn't, obviously, anything further that he needed to do.

Klarna appears to accept that the process for setting up Autopay and the need to do this could've been made clearer to Mr S – and I agree. It agreed to remove the marker for the missed September payment from Mr S' credit file. But I don't think this goes far enough.

Mr S has provided fairly detailed testimony about what happened; what he did; why he did it and how he finally resolved the matter with Klarna, and he's been consistent in what he's said. I find it plausible that, believing his direct debit had been correctly set up, a cursory glance at his monthly statements would've given him no cause for concern; this is because it's not immediately clear when opening the statement that a payment has been missed.

Moreover, Mr S says his credit record was excellent prior to the events that have unfolded, and he's told us about the effect the missed payments have had on his credit score and what this has meant in practical terms. I simply do not believe that missing a few monthly payments at the start of the finance agreement was something that Mr S did intentionally or carelessly. The fact that Klarna admits its own processes could've been clearer; together with the transcripts of the conversation between Mr S and Klarna when he first realised he'd missed a few payments; and the actions he's subsequently taken, suggest to me that Klarna's admissions on the clarity of its Autopay process is the likely cause of not just September's missed payment, but also the missed payments for October, November and December.

As Klarna has already agreed to remove reference to September's missed payment from Mr S' credit file, I'm going to ask it – for exactly the same reason – to remove reference to the other missed payments in October November and December 2021 from his credit file, and to refund any fees or interest charged in respect of these missed payments.

I'm also going to ask Klarna to pay Mr S £150 in compensation in recognition of the poor service it's provided. It's clear that Klarna could've done more to let Mr S know he'd missed his monthly payments and that he'd not done what he needed to do in order to activate Autopay. And Klarna's actions have affected Mr S' credit record – he's provided this Service with copies of his credit file, and he's explained how he was declined for other finance at this time because of the missed payment markers and the opportunity he had to forgo to restructure his finances.

Putting things right

I'm going to ask Klarna Bank AB (publ) to:

- Remove the missed payment markers and any other negative information applied against Mr S's credit file for October, November and December 2021;
- Refund any late fees and/or interest charged in respect of the missed payments between September and December 2021.

- Pay Mr S £150 compensation in recognition of the distress and inconvenience it's caused and the poor service it's provided. I think this is fair and reasonable in all the circumstances of this complaint and I don't think Klarna Bank AB (publ) needs to do anything more.

My final decision

My final decision is that I uphold this complaint and direct Klarna Bank AB (publ) to pay redress to Mr S as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 3 March 2023.

Andrew Macnamara
Ombudsman