

The complaint

Mr E is unhappy that Klarna Bank AB (publ) 'Klarna' has defaulted his fixed sum loan account.

What happened

The background to this complaint and my initial conclusions were set out in my provisional decision. I said:

Mr E took out a 24-month fixed sum loan with Klarna on 10 December 2021. The loan was for £695.76, and Mr E was required to make 24 monthly payments of £28.99 to repay the loan.

The first payment was due on 5 January 2022. However, Mr E didn't have a connected bank account for Klarna to take payment from. Therefore, no payment was received. Klarna sent correspondence on 11 January 2022 advising the payment had been missed and that the payment due on 5 February 2022 would be double.

Again, as no connected bank account had been provided the direct debit payment for 5 February 2022 was also missed. Klarna issued further correspondence that said the account was two payments in arrears and that the next payment due date would be 5 March 2022.

On 19 February 2022, Klarna issued a default notice. This explained that Mr E needed to repay the arrears of £57.98 before 5 March 2022. The notice went on to say that if this didn't happen, Klarna would terminate the agreement effective 5 March 2022 and demand repayment of the full outstanding £695.76 balance.

Mr E didn't make payment before 5 March 2022 and the account was terminated. Notice was issued via email to confirm this. Mr E did call to make payment to Klarna on 5 March 2022. He has explained that he wasn't able to use the app due to an IT issue. Klarna therefore advised Mr E to make payment via bank transfer and he paid £86.97 (the March 2022 payment plus the £57.98 of arrears). Klarna explained it didn't receive the funds until 8 March 2022, but that in any event, the account had already been terminated and Mr E made aware he needed to pay the full £695.76.

As the full balance wasn't repaid by the 19 March 2022 deadline given in the termination notice, Klarna passed the debt to a debt collection agency. Unhappy with what had happened, Mr E complained. Klarna issued its final response in April 2022 and said the account had been defaulted and passed to a debt collection agency correctly as payments hadn't been made in line with the credit agreement.

Mr E referred his complaint to our service. An investigator considered the complaint and didn't uphold it. The investigator said Klarna had issued the default notice and as the arrears weren't cleared before 5 March 2022 as directed, the default had been applied correctly. Then as the full balance wasn't repaid in line with the termination notice, the account wasn't passed to a debt collection agency unfairly.

Mr E didn't agree. He said his personal circumstances weren't taken into consideration and due to these circumstances, he didn't have access to the property where the default notice was issued. Additionally, he was misled by Klarna's app into believing the outstanding payment of £86.97 was due on 5 March 2022 and not before.

As Mr E disagreed, the complaint has been passed to me to decide.

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 the complaint.

Firstly, I would like to say that I'm very sorry to hear about Mr E's personal circumstances leading up to this complaint. I appreciate this must have been an extremely difficult time for him.

I do understand why these personal circumstances would've impacted Mr E's ability to set up a connected bank account to repay his loan with Klarna. However, Klarna wasn't made aware, and it is entitled to request repayment in line with the terms of the agreement that Mr E made with it. Therefore, the missed payments recorded for January and February 2022 are correct.

As payments weren't made in January and February 2022, Klarna issued a default notice. I've considered whether Klarna has acted reasonably in issuing the default notice when it did. Having done so I don't believe Klarna did, and I'll explain why.

The Information Commissioner's Office (ICO) guidance states a default normally occurs when a credit agreement is three to six months in arrears. In this case a default notice was issued by Klarna when Mr E was only two months in arrears. I acknowledge Klarna have said that when the account was terminated, Mr E was three months in arrears. I'm not persuaded that is the case, as it does seem he made payment on 5 March 2022 as requested.

But in any event, Klarna didn't wait for Mr E to be three months in arrears before issuing a default notice, as per the ICO's guidance. I therefore feel the default notice in this case was issued prematurely and the termination shouldn't have occurred when it did on 5 March 2022, as Mr E's account was terminated before the account was ever in three months of arrears.

As mentioned above, I feel that it's unfair to say that Mr E didn't make the full required payment of £86.97 on 5 March 2022. Mr E followed advice given to him by Klarna to make a bank transfer when there was what appeared to be IT issues with the app and connecting a bank account. I can't see that Mr E was made aware the payment wouldn't go through that same day and so it's not unreasonable to say he had made payment correctly. In this situation the account would never have been three months in arrears and therefore no default would've been issued. Also, no late payment would've occurred for March 2022.

However, even if I was to say the payment wasn't made until 8 March 2022 (when Klarna says it received it), then the earliest a default notice would normally have been issued would've been 6 March 2022. This would be the day after the payment due date and when Mr E was in three months of arrears. Had that been the case, then the arrears would've been cleared inside 14 days when Klarna received the £86.97 on 8 March 2022. No default would've then been recorded.

Given this, I'm satisfied that Klarna should remove the default it recorded onto Mr E's credit file. It should take Mr E's account back from the debt collection agency and reinstate the agreement. Mr E can then repay the loan under the terms detailed in the original agreement.

Klarna should also pay Mr E £75 for the distress and inconvenience caused by having a default recorded on his credit file and the account incorrectly being passed to a debt collection agency.

I invited both parties to respond with new information they wanted me to consider before I made my final decision.

Both Klarna and Mr E confirmed they were willing to accept the provisional 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.

As both Mr E and Klarna have accepted my provisional decision, and neither party has provided any new information for me to consider, I see no reason to depart from the conclusions set out in my provisional decision.

Putting things right

To settle this complaint, Klarna should do the following:

- Remove the default recorded onto Mr E's credit file.
- Take the account back from the debt collection agency and reinstate the agreement under the original terms.
- Pay Mr E £75 compensation.

My final decision

I uphold Mr E's complaint and require Klarna Bank AB (publ) to put things right for Mr E as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 17 March 2023.

Paul Blower
Ombudsman