

The complaint

Mr D complains that Klarna Bank AB (publ) ("Klarna Bank") changed the repayment options on his Klarna Bank card in 2022, so that he could not use a credit card to make repayments.

What happened

Mr D applied and was accepted for a Klarna Bank card to use for his purchases. Under the terms of this card a customer can either pay off the whole debt within 30 days or can pay in three instalments. Mr D became accustomed to paying off his total debt within 30 days by using his credit card.

Most recently, Mr D tried to pay an outstanding amount using the Klarna Bank online app but found he couldn't do so, as the option to pay by credit card had been removed. The only option remaining was to pay by debit card. Mr D said he could not repay the debt in this way, and he was concerned that the debt would be reported to a debt management company which would affect his credit record. He complains he wasn't given any notice of this change and says the debt is causing him financial hardship.

Mr D asked for the repayments to be paused and said he could pay the debt in instalments over the next six to twelve months. Mr D complained to Klarna Bank.

Klarna Bank accepted it did not provide advance notice of the change, so it apologised to Mr D for that lack of notice. It explained that it had made the change to standardise payment practices across different countries - so now, only debit cards are accepted as payment. It added that the terms and conditions had not actually been changed but it accepted that Mr D and other consumers affected by its decision should have been given some notice of the change in practice. Klarna Bank said any failure to pay would not have had any impact on Mr D's credit file, so it apologised to Mr D and agreed the following:

- To pause all his active orders for two months.
- The settlement pause would not be reported to the credit reference agencies.
- Pay Mr D £50.00 for his distress and inconvenience.

Our investigator also upheld Mr D's complaint and said:

- Klarna Bank and Mr D should arrange a payment plan to clear the debt as quickly as possible without causing any further financial hardship to Mr D.
- The repayment plan should not be reported to the credit reference agencies due to Mr D's good previous history of payments with Klarna Bank.

Klarna Bank agreed with our investigator as follows:

- It will pause all Mr D's active orders for two months as Mr D requested.
- The settlement pause will not be reported to the credit reference agencies.

- At the end of the two month period, Mr D is to contact Klarna Bank to complete an income and expenditure form.
- Mr D can then have a further four months' settlement pause, and Mr D is to make payments that he can afford during this time via the Klarna app. This gives him a total of six months to settle the debt.
- If he needs more time to pay, he can contact Klarna Bank to be reassessed.

Mr D did not accept Klarna Bank's offer and asked for the matter to be looked at again.

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 don't need to decide here whether Klarna Bank did anything wrong because it has accepted that, on reflection, it should have given notice to Mr D, and to other consumers like him, that it was changing its practices and would no longer allow debts to be settled with a credit card.

Mr D says this was a change of the terms and conditions he had agreed to. I have looked carefully at the terms and conditions, but they do not refer to *how* payments can be made, only *when* they should be made. So, although the terms and conditions themselves have not been changed, I do agree with Klarna Bank that it was poor customer service not to have told Mr D earlier that he could no longer use his credit card to settle his debt.

So the key issue I have to decide is whether Klarna Bank has done enough to address the complaint. Over the journey of Mr D's complaint, I noted Klarna Bank has done the following:

- It apologised and accepted Mr D should be given more time to settle his debt.
- It set out a timetable over a total six month period for the debt to be settled.
- After two months into the six month period, Mr D should submit an income and expenditure form for Klarna Bank to assess if Mr D needs more time to pay.
- It said the settlement pauses will not be reported to the credit reference agencies and
- it has offered to pay Mr D £50 for his distress and inconvenience.

I do appreciate that this problem has taken some time for Mr D to sort out and I am aware he asked for time to settle the debt and was concerned about the impact of these events on his credit file. The steps Klarna Bank has now proposed mean that Mr D is being given extra time to settle what's outstanding and that the actions associated with the help being provided to resolve this issue aren't being reported to the credit reference agencies. That is a fair and reasonable way of resolving this complaint. I understand that Mr D and Klarna Bank have been discussing how a payment plan will take effect and how Mr D can get more time to pay if he needs it.

Mr D is also aware of the methods Klarna Bank will now accept to repay what's outstanding here – so he can continue to work with it to find a mutually agreeable way forward here as it has suggested.

Putting things right

All of the above means I am going to uphold this complaint and Klarna Bank needs to put things right for Mr D.

My final decision

My final decision is that I uphold this complaint. Klarna Bank AB (publ) should do the following:

- Pause all Mr D's active orders for a period of two months from the date when Mr D confirms to us that he accepts this final decision.
- After the two month period has expired, Mr D should be given the opportunity to complete an income and expenditure form.
- Offer a further four months' settlement pause for Mr D to make payments which he can afford without causing him further financial hardship.
- None of the settlement pauses mentioned above are to be reported to the credit reference agencies.
- Pay Mr D the sum of £50 for his distress and inconvenience.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 22 March 2023.

Amrit Mangra
Ombudsman