

The complaint

Mrs S is unhappy that Klarna Bank AB (publ) 'Klarna' defaulted her fixed sum loan account and passed the outstanding balance to a debt collector.

What happened

Mrs S took out a 39-month fixed sum loan with Klarna on 10 October 2020. The loan was for £2,745. Mrs S was required to make 38 monthly payments of £70.39, followed by a final payment of £70.18 to repay the loan.

Payments were made monthly until July 2021, when that payment failed. The following month Mrs S paid a double payment to clear any arrears and bring the account up to date. Following this Mrs S current account was closed. As a result, there was no connected bank account for Klarna to take payment from. The payments for September and October 2021 were therefore missed. Klarna sent correspondence to Mrs S to confirm the payments had been missed and that she was now in arrears.

On 19 October 2021, Klarna issued a default notice. This advised Mrs S that she needed to repay £140.78 before 5 November 2021. If payment wasn't received before 5 November 2021, then Klarna would terminate the agreement and demand immediate repayment of the full £2,181.88 that remained outstanding.

Mrs S didn't make payment before 5 November 2021 and the account was terminated. Mrs S did contact Klarna on 5 November 2021. However, at this stage the account had already been terminated and Klarna was requesting full repayment and not just the £140.78 figure given in the default notice. Given this, Mrs S asked if it would be possible for the original repayment terms to be reinstated.

The Klarna advisor Mrs S was speaking with couldn't authorise this and therefore escalated the matter. Mrs S provided an email address for Klarna to use that differed from the one she provided when originally taking out her loan.

Given the different email address, Klarna has explained that its team that dealt with the escalation wasn't able to identify Mrs S. Therefore, in line with its process, Klarna proceeded by asking Mrs S to first verify her details. Mrs S has advised that she didn't hear from Klarna and that's why she didn't respond. As there was no response and the outstanding balance remained, Klarna passed the loan account to a debt collection agency.

Mrs S says she received notification of this from the third-party debt collector and set up an arrangement to clear the debt with it on 25 November 2021. Mrs S says she took this action as both Klarna and the debt collector has advised her the debt couldn't be sent back to Klarna. Mrs S has provided a screenshot to show that on 30 November 2021, she made her first repayment of £545.47 to the debt collector.

However, following this payment the account was passed back to Klarna with an outstanding balance remaining of £1,636.41. Mrs S says she was never made aware this was going to happen. When the next payment to the debt collection didn't take place at the end of

December 2021, she contacted the debt collector and Klarna. Mrs S has explained that both advised her ownership of the debt was with the other party.

Mrs S therefore complained to Klarna in February 2022. She was unhappy with the default that had been recorded onto her credit file and how Klarna had passed and then taken back the debt to a debt collector without telling her. Klarna issued its final response on 30 March 2022. In this it explained that it was satisfied it had sent Mrs S notification via email and text message to advise she had missed payments. Therefore, the default and account termination were correct.

It went on to say that Mrs S had been given contradicting information regarding the debt collection process and it confirmed that it had taken back the debt from the debt collection agency. Finally, it offered Mrs S £70 for the distress and inconvenience she had been caused. Mrs S repaid the outstanding balance of £1,636.41 in June 2022.

Unhappy with Klarna's response, Mrs S also referred her complaint to our service. One of our investigators looked at the complaint and initially said that Klarna had acted fairly when recording the default and didn't make any errors with the subsequent passing and taking back of the debt from the debt collector.

Mrs S was unhappy with this and provided further comments for the investigator to consider. Upon further review the investigator concluded that Klarna had issued the default notice earlier than it should've. Therefore, he recommended Klarna remove the default and mark the agreement as settled from when the debt was fully repaid. In addition, he said Klarna could record the missed payments for September and October 2021, but no further missed payments should be recorded. Lastly, he concluded that Klarna should pay Mrs S £100 compensation.

Klarna didn't agree and said the default had been applied to Mrs S's credit file correctly. Klarna also disagreed with the £100 compensation and offered £75. This offer was put to Mrs S, but she declined it.

Therefore, as Klarna didn't agree with the investigator's findings, the case has been passed to me to decide.

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, I would like to point out 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.

In this case Mrs S had missed payments in September and October 2021, prior to the default notice being issued. Klarna has mentioned a missed payment in July 2021, but I can see Mrs S paid that missed payment alongside August 2021's payment. As a result, her loan account was no longer in arrears at that point.

Given this, when Klarna issued the default notice to Mrs S on 19 October 2021, she was two months in arrears at that time. I've therefore 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. Here Klarna didn't wait for the account to be at least three months in arrears before issuing the default notice. The default notice also advises that payment of the arrears needed to be made before the deadline of 5 November 2021. Mrs S' payment date as given in the Notice of Sums in Arrears dated 5 October 2021, is 5 November 2021. Therefore, by saying payment needed to be made before then, Klarna effectively defaulted the account at a point when it's still only two months in arrears.

In this case I don't feel that Klarna has acted in line with the ICO's guidance on defaults. Had Klarna done so, the account wouldn't have been terminated on 5 November 2021. Consequently, when Mrs S called up to make payment on 5 November 2021, she wouldn't have been met with demands for full repayment. But would instead have been required to make November 2021's payment, alongside the previous two months of arrears. Given that later in November 2021 Mrs S repaid £545.47, I feel it reasonable to say she would've been in a position to do this.

I can see that Mrs S didn't make monthly repayments between December 2021 and the full repayment in June 2022, I don't believe this to be unreasonable given the account had been terminated and the confusion caused after the outstanding balance passed to a debt collector and back again. Mrs S did pay the debt collector in November 2021, and I'm satisfied she had an arrangement in place to repay the outstanding amount monthly if the account hadn't been taken back by Klarna. Therefore, whilst no payments were made, I don't feel it would be fair to mark late payments for this period.

Given the distress and inconvenience caused by the default being applied incorrectly. I agree with the investigator that Klarna should pay Mrs S £100. I believe this fairly reflects the distress she has been caused by the default being on her credit file and the inconvenience that's been caused in trying to rectify the situation with Klarna.

Putting things right

- Klarna should remove the default from Mrs S's credit file.
- Missed payments for July, September and October 2021 can be recorded, but no further missed payments should be recorded after October 2021.
- The account should show as being settled from the date Mrs S made full repayment.
- Klarna should pay Mrs S £100 for the distress and inconvenience caused

My final decision

I'm upholding Mrs D's complaint. Klarna Bank AB (publ) should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 7 April 2023.

Paul Blower
Ombudsman