

The complaint

Mr R is unhappy that Klarna Bank AB (publ) 'Klarna' declined his application for a running credit account and hasn't told him the main reason why.

What happened

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

In January 2021, Mr R was trying to make a purchase from a retailer I shall call 'P'. Mr R has explained that due to Klarna's marketing, he applied for a running credit account that offered 0% interest. Upon applying however, his application was declined.

Unhappy with this, Mr R contacted Klarna to enquire why he had been declined. Klarna's initial final response from April 2021 advised it couldn't locate a rejected application on its system. It went on to explain that its running credit account is a unique service that isn't universally available, and applications are assessed on a number of factors. This included things like previous order history, amount of the order and external credit rating.

After some further email correspondence, Klarna was able to locate Mr R's application and issued a second final response in May 2021. In this, Klarna advised it couldn't give Mr R a specific reason for his unsuccessful application. It did confirm that the application wasn't declined due to a technical error, but due to not passing Klarna's eligibility assessment.

Mr R remained unhappy and referred his complaint to our service. One of our investigators considered the complaint and recommended Klarna pay Mr R £50 for the inconvenience caused by its conflicting information. This was mainly in relation to Klarna's initial inability to locate Mr R's declined application.

Mr R replied and said the principal issue is that despite his excellent credit rating, Klarna has still failed to provide the reason for its rejection. After some further investigation, the investigator explained that the decline was due to Mr R not meeting Klarna's internal lending criteria. Mr R still didn't agree and maintained that Klarna should give him the main reason. He said that without this, the basis of the rejection might be inaccurate, and he has a right to ensure this isn't the case. The complaint was therefore passed to me to decide.

I requested further information from Klarna regarding its reasons for declining Mr R, as the information provided prior had been conflicting. Klarna responded to my additional requests for more clarification and each time it provided more inconsistent explanations.

Given this, I asked if Klarna would be willing to remove the declined application from Mr R's credit file. Klarna agreed. Mr R however didn't accept this and again reiterated that he wanted to know why he had been declined and wanted a comprehensive investigation into Klarna's questionable conduct.

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.

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.

I appreciate that Mr R wants a comprehensive investigation into Klarna's conduct. I am however not a regulator. I don't have the power to investigate the way Klarna operates on a day-to-day basis. I can look at the individual circumstances of Mr R's complaint and whether Klarna has acted fairly when dealing with Mr R's declined application.

Klarna is entitled to set its lending criteria, as this is a commercial process and Mr R doesn't dispute this. But, where Klarna decide not to lend, the Standards of Lending Practice explain that it should provide the primary reason why.

Based on the information provided before my involvement, I wasn't persuaded that Klarna had given Mr R the main reason for declining his application. I felt its reasoning was initially more generic rather than the primary reason and it had provided conflicting information.

More conflicting information regarding the primary reason then continued following my requests for clarification. Finally, Klarna explained that the application had been declined as Klarna's automatic anti-fraud logic had highlighted the application as being potentially fraudulent. What algorithms go into Klarna's anti-fraud logic is commercially sensitive and not something I would expect it to share. But, for Mr R's application Klarna has said the logic to reject his application was based on the transaction being for a new customer, the item being purchased was of a high value and at a store selling goods often at high risk of fraud attacks.

Due to the conflicting information and the primary reason provided changing several times, I remain unpersuaded with the rationale Klarna has provided.

I appreciate Mr R will likely be very frustrated by this, but I can't force Klarna to give me information that would fully satisfy me of the primary reason his application was declined. It's also not within my remit to fine or punish Klarna. So, to fairly resolve this complaint I believe Klarna should remove the declined application from Mr R's credit file.

The investigator previously recommended Klarna pay Mr R £50 for the inconvenience caused. She said Klarna's handling of things had led to Mr R having to contacting Klarna more than should have been necessary. Given the additional distress Mr R has been caused by the failure to be made aware why he was declined, I'm satisfied Klarna should pay an additional £75. This would take the total amount for the distress and inconvenience caused to Mr R to £125, which I believe is fair in the circumstances of this complaint.

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

Mr R responded and in summary said Klarna should be able to provide what additional criteria it relies upon, on top of the information provided by credit reference agencies, when assessing an application for credit. Mr R explained that he isn't able to say what impact the declined application has had on his credit rating. But he said he has been rejected by another lender, for a similar form of credit. Mr R feels this is clearly a result of Klarna's actions.

Mr R didn't feel the £125 was sufficient and believed £300 would be a fairer amount given the energy he has used on this complaint over the last two years and the stress he has been caused. Mr R also wanted an assurance that the declined application would be removed from his credit file by all credit reference agencies.

Klarna also responded and didn't agree with the £125 total compensation. It said the Standards of Lending Practice is a voluntary code that a business can choose to follow. Therefore, the amount of information Klarna provided shouldn't be measured against it. Klarna agreed there was additional confusion that delayed the resolution of the case and for that a total of £75 would be appropriate

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.

While clearly important, there is more that goes into assessing a decision to provide credit than just the information provided by a credit reference agency. Things such as affordability, the amount of lending being requested and previous history with the lender in question. I understand why Mr R would like more information regarding the additional criteria Klarna uses in its application process. However, as I've said in the provisional decision, this is commercially sensitive and not something I would expect Klarna to share.

I appreciate Klarna's point that the Standards of Lending Practice is a voluntary code. However, given it's used by several lenders I don't believe it's unreasonable to use what it explains as a guide for what is fair in situations such as this one. Klarna has now provided what it believes is the main reason for its decision to decline Mr R's application, which I understand Mr R doesn't believe.

In this case, the initial conflicting reasons for the decline meant that I wasn't persuaded with what Klarna had said. It's for this reason I recommended that Klarna completely remove any trace of the declined application from Mr R's credit file. Both parties agreed to this in response to the provisional decision.

I acknowledge both parties don't agree with the total £125 compensation recommended in the provisional decision. Mr R has explained that he has put a lot of time and energy into making this complaint. While I fully appreciate that, we wouldn't look to compensate for time and energy spent in bringing a complaint.

It's clear the situation has been distressing for Mr R and he rightly wanted to know why he had been declined when he says he had a very good credit rating. There was also the confusion and delays caused by Klarna's initial incorrect response advising it couldn't locate any application Mr R had made. Given this, I still find that it would be fair and reasonable for Klarna to pay a total £125 for the distress and inconvenience that has been caused.

Putting things right

To settle this complaint, Klarna should do the following:

- Remove any trace of the declined application from Mr R's credit file.
- Pay Mr R £125 compensation.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 27 April 2023.

Paul Blower
Ombudsman