

The complaint

Ms K complains that Klarna Bank AB (publ) terminated her account and sold it to a debt collection agency. She also complains that Klarna charged her over £3,600 in payments which had nothing to do with her account.

What happened

Ms K had an account with Klarna, with a balance of approximately £2,000. In September 2019 her account was defaulted, because she had not been making her monthly payments. A few days later, Ms K contacted Klarna and asked to pay off the outstanding balance. She was given a payment reference for her to provide when she made the payment, but she didn't use it, and so her payment was not allocated to her account. A few days later, her credit agreement was terminated, in October 2019.

Two years later, in September 2021, the debt was sold to a third party. Both parties wrote to Ms K to tell her in October. This caused her some anxiety, as she had thought that the whole debt had been paid off two years earlier. And at around that time, Ms K was applying for a mortgage with another bank. Her mortgage application was declined, and the reason given was because there was "unsatisfactory information" in her credit file. Ms K concluded that this must have been her outstanding debt with Klarna.

Ms K complained about the sale of the debt, the failure to discharge it, and the effect on her mortgage application. And around this time she discovered that in December 2019 and January 2020 18 payments to Klarna had been made from her bank account, which she had known nothing about and which appeared to have nothing to do with her Klarna account. These payments added up to over £3,600. She complained about that too.

Klarna's final response letter did not deal with the unexplained payments. It upheld Ms K's complaint about selling the debt, but on the mistaken ground that the debt had already been sold before she had tried to pay off the balance, instead of two years later; and Klarna did not offer her any compensation for that. Being dissatisfied with that response, Ms K brought this complaint to our service.

In response to this complaint, Klarna disowned its final response letter, and put forward a new defence. Firstly, it said that because Ms K had failed to provide the payment reference, her payment in 2019 had not been credited to her account, and so the debt had continued to be reported to credit reference agencies with the full outstanding balance. Secondly, Ms K had not actually paid the full balance, but had been about £77 short, so even if the payment reference had been given, there would still have been an outstanding balance anyway, and her agreement would still have been terminated. For both of these reasons, Klarna had been entitled to sell the debt. And thirdly, the unexplained payments were card payments which had been made by a fraudster, and these had been promptly charged back, so Ms K had not been out of pocket for long. But Klarna later offered to buy back the debt and clear the remaining balance as a gesture of good will.

Our investigator upheld this complaint in part. He thought that Klarna should not have waited two years to sell the debt. This had meant that when Ms K was told about the outstanding

balance of £2,000 after two years, it had come as a great shock to her. He recommended that Klarna pay her £350 for that. But he did not think that Klarna was responsible for Ms K's mortgage application being declined. He said there was not enough evidence about the other bank's reasons for its decision. It had only said there was unsatisfactory information in Ms K's credit file, not that her Klarna account was the sole reason.

Neither party accepted that decision. Ms K maintained that Klarna should have to pay her the difference between the cost of the mortgage which had been declined and the cost of the mortgage she had got instead, which is £103 a month; over a fixed rate for five years this comes to £6,180. And Klarna stood by its defence, and argued that this complaint should not be upheld at all. But it said its offer remained open.

As no agreement could be reached, this case was referred for an ombudsman's decision. I wrote a provisional decision which read as follows.

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.

Having done so, I think that three things went wrong which led to a default balance of over £2,000 being reported on Ms K's credit file for two years.

Firstly, I have seen evidence that when Ms K contacted Klarna in September 2019 and asked about how to pay off the balance, Klarna gave her a payment reference and told her she would need to give it when she made the payment. Her failure to do that meant that when Klarna received her payment, it did not know whose account to credit it to. Klarna had not received any payments from Ms K before, so it couldn't just search its records and match her bank details to a previous monthly payment. It was unable to credit her account until she complained two years later.

Secondly, Ms K did not pay the full outstanding balance. I have seen the default notice of August 2019, and it clearly said that the total balance was £2,026.20 (although Ms K only needed to pay arrears of £31.91 to avoid a default). But in September Ms K only paid £2,019.47, which was not quite enough to close the account, and so her agreement was terminated in October 2019. By then, the outstanding balance had increased to £2,056.03, due to interest and late payment fees, and so this is the amount which was reported as the default balance. Even if Ms K had provided the payment reference, there would still have been a default balance of £77.58 reported on her credit file.

However, this could all have been resolved in 2019 if Klarna had not waited another two years before acting. During that interval, Klarna appears to have done nothing with Ms K's account. It could – and in my view, should – have sold the debt earlier than that. When the debt was finally sold in September 2021, Ms K was told about it in writing by both Klarna and the debt collection agency, and that is what prompted this complaint and the discovery by Klarna that most of the default balance had already been paid. If that had happened in or around (let us say) November 2019, then the matter would have been quietly resolved before Ms K ever applied for a mortgage. This delay by Klarna has not been explained; it wasn't chasing Ms K for payment in the meantime.

For that reason, I propose to uphold this complaint on that ground. But although our investigator was aware of the matters Klarna has raised in its defence, I do not think that the recommended award of £350 takes sufficient account of them. I propose to reduce that award to £100. But I also think that Klarna should arrange to change the way Ms K's account has been reported to the credit reference agencies, because I am satisfied that Ms K would

have paid off the default balance in full if Klarna had sold the account sooner than it did, or had contacted her about the account after September 2019. Subject to any further representations I receive from either party about that, I am minded to say that any adverse information about the account after March 2020 should be removed from Ms K's credit file.

I do not think that the reason given by the other bank for declining the mortgage application is sufficient evidence that the Klarna default balance was the only or principal reason for that decision. So I do not intend to hold Klarna responsible for that.

The fraudulent card payments were charged back, meaning that the money was returned to Ms K's account. So I am not persuaded that Klarna did anything wrong. (I will reconsider this if any of the 18 payments were not refunded.)

So my provisional decision is that I intend to uphold this complaint. Subject to any further representations I receive from the parties by the date below, I intend to order Klarna Bank AB (publ) to pay Ms K £100, and to arrange to remove any adverse data about the account after March 2020 from her credit file.

Responses to my provisional decision

Ms K was very disappointed with my provisional decision. She said £100 did not reflect the massive financial impact on her of missing out on the mortgage deal she had wanted, and the further hardship she will endure when she re-mortgages soon.

She added that the credit reference agency had already removed the adverse data in 2022.

Klarna accepted my provisional decision.

My findings

The £100 compensation I proposed in my provisional decision was not for Mrs K missing out on the mortgage deal she wanted, because I did not think that Klarna Bank was responsible for that. So there is no reason for me to depart from my provisional findings, and I confirm them here.

My final decision

My decision is that I uphold this complaint in part. I order Klarna Bank AB (publ) to pay Ms K £100.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms K to accept or reject my decision before 25 July 2023.

Richard Wood
Ombudsman