

The complaint

Mr W has complained that Klarna Bank AB (publ) is holding him liable for a fixed sum loan agreement he'd taken out to buy a service he later wanted to cancel.

What happened

On 30 June 2023 Mr W bought a ticket for an event from a company I'll call "T" using a fixed sum loan agreement with Klarna. The ticket cost £310.75, and it was due to be paid back with an initial payment of £25.90 payable the month after shipment of the services, followed by 10 more payments of £25.90 and a final payment of £25.85.

Mr W tried to cancel the purchase on 5 July 2023. He thought there was a 21-day policy where he could change his mind. Klarna recommended he speak to T, but T said refunds were only available if the event itself was cancelled.

Mr W continued speaking to T and Klarna. He was unhappy Klarna continued to process the loan after he'd tried to cancel. He thought he'd cancelled within time with both parties and said he'd bought insurance to cover the purchase. He said at no point during the purchase was he given T's terms and conditions, and he said he was in financial difficulties. Klarna recommended Mr W speak to the third-party insurance company, but said he was liable for the repayment.

Because Mr W hadn't made his repayments Klarna sent a default and termination notice to him in October 2023. I can see Mr W continued to speak to Klarna in October and November 2023 and he asked if he could come to a payment arrangement to stop the debt going to debt collectors. Klarna said he sent in a financial hardship form, but it wasn't through the expected channel, so it wasn't picked up.

Mr W complained and Klarna sent a final response in January 2024 to say it wasn't upholding the complaint. It said it had reached out to Mr W to assist with his issue, and that T hadn't cancelled the order, so the payment to Klarna was still due. It said it had passed the debt to a debt recovery company. Mr W decided to refer his complaint to the Financial Ombudsman.

Klarna explained when Mr W first spoke to it, it paused the payment plan and opened a dispute for him to allow him more time to resolve things with T. It said Mr W had misunderstood the 21-day policy. It said its buyer protection policy said if a cancellation was necessary and couldn't be arranged through the retailer, after 21 days it would engage with the parties to seek resolution. But it also said certain purchases like event tickets weren't covered by the policy. Moreover, it showed T's terms and conditions that said it could only offer a refund or exchange if the event was cancelled or rescheduled. And that its fan guarantee policy only came with a 24-hour cooling off period.

Klarna went on to explain that payments are made to merchants as soon as the order is confirmed. It said it doesn't act as the retailer; it only facilitates payments. It highlighted it had sent Mr W a financial hardship notification form, but it didn't receive a response through email. Klarna did, however, note it received a response through its online chat system. When

it came to review the situation in January 2024 it noticed the error and so brought the debt back in house.

I issued a provisional decision that said:

I want to acknowledge that whilst I've summarised the events of the complaint, I've reviewed everything on file. If I don't comment on something, it's not because I haven't thought about it. I'm focussing on what I consider are the key issues. I'm required to resolve the complaint quickly and with minimum formality. I'll need to consider how Klarna has acted, and take into account the law and regulations; rules, guidance and standards (including the Consumer Duty); codes of practice; and what is considered good industry practice

Mr W paid for the tickets using a fixed sum loan agreement with Klarna. This is a regulated consumer credit agreement, and our service is able to consider complaints relating to these sorts of agreements.

Mr W is unhappy he was unable to cancel the purchase, so I've thought about whether there were any grounds for him to do so. I've looked at the loan agreement, and I've also considered the 21-day policy he mentioned.

Mr W had the right to withdraw from the credit agreement within two weeks. But this wasn't the option Mr W wanted because he'd have been required to repay the amount of credit if he'd withdrawn.

There's some conflicting information on when Klarna actually paid T. Klarna said it paid T straight away, but Mr W said it took a few weeks to pay. The important thing here is that Mr W entered into the agreement with Klarna, and it was executed. So even if it didn't send the funds straight away, Mr W was still liable for the credit agreement.

T's terms and conditions said customers could only be offered a refund or exchange if the event was cancelled or rescheduled. The event hadn't been cancelled or rescheduled when Mr W sought to cancel. So I don't think there was a breach of contract that Klarna might've been jointly liable for at that time. And the law doesn't say T had to allow a right to cancel for services like this.

Klarna has a buyer protection policy that said it would pause payment for 21 days and review unresolved disputes in certain scenarios. But it doesn't cover purchases of services or events, like the tickets Mr W bought. So I don't think Klarna treated Mr W unfairly by failing to refund him under the buyer protection policy. Mr W has said Klarna's website may have changed. But I've looked at an archived copy of it from June 2023 and I can't see it said events tickets were covered – they are specifically excluded. If he has anything to show otherwise, he can send it in response to this provisional decision.

Therefore, while I'm very sorry to hear Mr W changed his mind, and that he's been through a lot, I don't find there are grounds to say that Klarna acted unfairly by not allowing him to cancel the credit agreement. He'd need to contact the separate insurance company to see if he'd be covered by the policy.

Klarna has, however, acknowledged things went wrong in November 2023. It said while it tried to help, the way it sought to help was inefficient. While Mr W didn't agree with the overall reasons for him not being able to cancel, I can see he was making attempts to agree a payment plan around November 2023. Klarna said he submitted a financial hardship form on the online chat, whereas he was requested to send it by email. But I don't think Mr W should be caused detriment as a result of the communication channel he was trying to use.

I'll never know what would have happened had Klarna properly acknowledged Mr W's request for help in arranging a payment plan in November 2023. It looked like he was willing to pay slightly more than the contractual payments to help clear the arrears that had built up. Things might've been resolved sooner for Mr W if Klarna had dealt with matters fairly. There's no straight-forward way to resolve this, and things have now moved on, but I'm thinking of intending to direct Klarna to, if possible, come to an arrangement with Mr W to clear the debt within a reasonable period. I think Mr W should broadly be put in the position he would have been in in November 2023 had things gone as they should have done. So if Mr W can come to an arrangement to pay at least the contractual monthly repayments, when the debt is cleared, I think all adverse information from November 2023 should be removed from his credit file.

I think the key issue here is that Mr W was incorrect in thinking he could cancel the agreement. But I also think the way Klarna handled things in relation to his attempts to set up a payment plan in November 2023 has also caused him some frustration and inconvenience. It must have been quite worrying that the debt was passed to a debt recovery company. And, from what I've seen, I don't think it was until Klarna responded to our service in March 2024 that it acknowledged the mistake and explained what happened. It said in its January 2024 final response that the debt was with a debt recovery company. I therefore think Klarna should also pay Mr W £100 compensation, and he can decide whether to put that towards the outstanding debt.

Putting things right

To resolve matters, I'm going to propose Klarna remove the adverse information from November 2023 on Mr W's credit file once he's cleared the debt. Mr W should be allowed four weeks from the date of accepting a final decision to come to an arrangement with Klarna to pay at least the contractual monthly payment. If that arrangement can't be made, or if Mr W doesn't keep to it, Klarna doesn't need to make any amendments to the credit file, but I'll remind it of its obligations to treat Mr W with forbearance and due consideration if he's still in financial difficulties. Any fees or charges applied from November 2023 should be removed. Klarna should also pay Mr W £100 compensation.

Mr W responded to say he still thought he had 21 days to cancel, and that he only received the terms and conditions after he made the purchase. He also said the situation wasn't covered by insurance. He said he'd not asked for a refund, he wanted to cancel and that it should have been possible. He also wanted to make sure I'd reviewed everything, including his conversations with all the parties. He said if I'd considered everything, he'd have to accept the outcome and that the £100 could be taken off the balance.

Klarna responded to say it accepted the outcome and that it would arrange for the debt to be recalled.

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'd like to thank the parties for their responses. And, again, I'm sorry to hear what Mr W has been through. I'd like to reassure him I've reviewed everything on file. He's not shown me he had 21 days to cancel the purchase, and there wasn't a requirement for there to be a cooling off period for event tickets. And even if T had misled Mr W in some way when he tried to cancel, I've not seen enough to conclude Klarna has acted unfairly by not allowing him to cancel. Seeing as though I've not received anything materially new to consider, I see no reason to depart from the conclusions I reached in my provisional decision.

Putting things right

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My final decision

My final decision is that I uphold this complaint and direct Klarna Bank AB (publ) to put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 20 November 2024.

Simon Wingfield
Ombudsman