

The complaint

Mr V complains about a fixed sum loan agreement with Telefonica UK Limited trading as O2.

What happened

In January 2023, Mr V took out a fixed sum loan agreement with Telefonica to buy a mobile telephone handset. The handset cost around £860 and under the agreement, Mr V was scheduled to make monthly payments of about £24 over a three year term.

Mr V says that to make the monthly payments, he used Telefonica's mobile application ('app') instead of a Direct Debit. However, Mr V says the app changed in 2024 without him noticing. He says while he continued to make payments to his airtime services contract, the app didn't include the amount he needed to make towards his fixed sum loan. This meant the loan entered into arrears in May 2024 and Telefonica placed a bar on any further usage of the device.

Once Mr V had realised what had happened, he complained to Telefonica and asked them to remove the bar on his device. In their response, Telefonica apologised and offered to reduce the balance of Mr V's loan by £200. Mr V didn't accept Telefonica's offer and brought his complaint to this service.

After we started our investigation into Mr V's complaint, Telefonica contacted us to make a further offer to settle things. And after speaking to one of our investigators, they said they would clear the balance of Mr V's loan and remove any adverse information about the borrowing from Mr V's credit file. Telefonica also said they had removed the bar, so Mr V could use his device again.

The investigator explained to Mr V why she thought Telefonica's offer was fair. But, Mr V didn't agree. He said he experienced distress and inconvenience from being left without a mobile telephone handset, as the device from Telefonica still didn't work. So, Mr V said in addition to Telefonica's offer, they should also provide him with a replacement handset.

The investigator didn't change her conclusions and Mr V's complaint has now been passed to me to make a final decision.

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.

This case is about a fixed sum loan agreement taken out with Telefonica, to pay for a mobile telephone device. This type of loan is a regulated financial product, so we are able to consider complaints about it.

The crux of Mr V's complaint is that Telefonica removed his method of making repayments towards the loan from their app without telling him. He says this was unfair and has caused him distress and inconvenience.

Telefonica have apologised for the worry the change in the app has caused Mr V and have made an offer that they feel is a fair way to put things right. So, I have thought carefully about Telefonica's offer and how Mr V says his complaint should be settled.

The starting point here is that Mr V was supplied with a brand new mobile telephone handset by Telefonica in January 2023. So, I think it's fair that Mr V repays the loan he took out to pay for the handset. Furthermore, I think there is an onus on Mr V to know how much he owes under the loan agreement and whether or not the payments are up to date.

That said, I acknowledge where Mr V relied on the app to help him manage the loan. And when Telefonica made the changes to the app, they didn't bring to Mr V's attention what he needed to do differently to service the loan. I also acknowledge the difficult personal and financial circumstances that Mr V has described, where he says he couldn't use the handset and had to rely on family members for support.

Telefonica have said that to help Mr V, they are prepared to settle the remaining balance of the loan with nothing further for Mr V to repay. After looking at a statement for the loan, from earlier this year, I can see that the outstanding balance of the loan is around £350. This is just under half of the cost of the handset when Mr V first acquired it.

I need to keep in mind my finding that it's fair for Mr V to pay for the cost of the handset. Overall, I think Telefonica's offer to settle the balance of the loan reflects the distress and inconvenience Mr V says he's been caused and allows him to do with the device as he wishes. I say this as Mr V will be able to continue to use the handset, or sell it. So, I think this part of Telefonica's offer is fair.

Throughout his complaint with us, Mr V has suggested the device cannot be used because Telefonica have placed restrictions on his airtime services contract. Telefonica say they have since removed any bar on the usage of the handset and have provided their records to support what they say.

I'm aware that Mr V's loan account with Telefonica may be in arrears. And it may be the case that until those arrears are repaid, the bar will continue on the usage of the handset. So, I think the offer proposed by Telefonica will help Mr V to be able to use the device fully again. Based on the evidence available, on balance, I think Telefonica have taken the appropriate and fair steps here.

While Mr V has made comments on the restrictions Telefonica placed on his handset, he hasn't complained about its general quality. Indeed, it seems Mr V used the handset without fault, from January 2023 until August 2024 and it was only recently that Mr V has told us the device may be broken. If after this complaint is settled Mr V has concerns about the quality of the handset, then he should raise them with Telefonica in the first instance. To be clear, I make no finding on the quality of Mr V's device in this decision.

I turn now to the payments Mr V has missed to his loan. Initially, Mr V says this was because of the changes made to Telefonica's app. Subsequent to that, Mr V says it was because he doesn't want to pay for a handset he is restricted from using.

Telefonica have explained that alongside settling the loan account, they will remove any adverse information recorded on Mr V's credit file. I think this part of Telefonica's proposal is fair as it recognises the initial issues Mr V experienced with the loan repayments and allows him to move forward without any negative information from Telefonica impacting future borrowing.

Finally, I understand Mr V's reasons for asking Telefonica to provide him with a replacement

handset in addition to the other parts of the offer they have made. However, I think Telefonica's proposed settlement allows Mr V to keep his handset without paying the full cash price he was expecting to. So, I think it would be unfair to require Telefonica to provide a second brand new handset at their own cost. In other words, I think in doing so, it would compensate Mr V more than he would fairly be entitled to.

Putting things right

For these reasons, Telefonica UK Limited trading as O2 should:

- Allow Mr V to exit the fixed sum loan agreement and cancel it, at no additional cost to him;
- Remove any adverse information about Mr V's fixed sum loan, from the details held with credit reference agencies; and
- Remove any bar on the usage of Mr V's device that may still be in place.

My final decision

My final decision is that I uphold this complaint and Telefonica UK Limited trading as O2 should put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr V to accept or reject my decision before 29 September 2025.

Sam Wedderburn
Ombudsman