

The complaint

Miss S has complained about the way Telefonica UK Limited trading as O2 ("O2") administered a fixed sum loan agreement she had with it for a device.

What happened

The circumstances of the complaint are well known to the parties, so I won't go over everything again in detail. But, to summarise, Miss S entered into a credit agreement with O2 to pay for a device that cost around £1,700 in October 2023. The agreement was to be paid back over three years. Miss S reached out to O2 in 2024 to set up payment plans when she was in financial difficulties. She said she was unhappy with the way O2 dealt with the support; she was given misinformation; O2 failed to respond to her when it promised; and this led to the agreement falling further into arrears, being terminated/disconnected, and passed onto a debt recovery team. She complained and referred that complaint to the Financial Ombudsman.

O2 acknowledged the payment plans weren't set up properly in terms of making Miss S aware she needed to pay a portion of the arrears as well as the contractual payments. It said it provided feedback. It said it disconnected the account incorrectly when Miss S was making partial payments and this led to her being asked to pay the full balance. It considered asking Miss S to return the device and it would clear the balance, but it noted she didn't have the device. It said it wasn't possible to reconnect the account because it was now in collections. But it suspended collections activity while the complaint was ongoing. It said Miss S could contact the debt collection team to come to a sustainable arrangement. It said the credit file reporting was accurate but it offered £175 to be paid directly or used to reduce the balance.

One of our investigators looked into things and said Miss S paid what was agreed with O2 and so her account should reflect that. She said she didn't think it was fair for O2 to terminate the agreement due to what happened or to pass it to a debt recovery company. She thought O2 should work with Miss S to come to a fair and affordable arrangement. She agreed O2 needed to accurately report Miss S's payment history to the credit reference agencies and given she'd paid what was agreed she thought O2 shouldn't record missed payments for the period she was making payment. She thought it should show as an arrangement to pay. Our investigator also recommended O2 increase the compensation to £300.

O2 agreed to pay £300 for the distress and inconvenience caused. And it said Miss S could contact it to make her repayments. Miss S said the compensation should be increased to £500 or that O2 should clear the charges for what she'd been through.

As things weren't resolved, the complaint 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.

I want to acknowledge I've summarised the events of the complaint. I don't intend any discourtesy by this – it just reflects the informal nature of our service. I'm required to decide matters quickly and with minimum formality. But I want to assure Miss S and O2 that I've reviewed everything on file. And if I don't comment on something, it's not because I haven't considered it. It's because I've concentrated on what I think are the key issues. Our powers allow me to do this.

Miss S bought the device using a regulated fixed sum loan agreement, and our service is able to consider complaints relating to these sorts of agreements. But our service isn't able to deal with issues that solely relate to any airtime agreement Miss S has with O2.

It's not in dispute mistakes were made by O2 that led to Miss S's account being unfairly terminated. I don't need to go over that again in detail. What's left to decide is what needs to be done to put things right.

Credit file reporting

In simple terms if O2 didn't receive a payment for a particular month (prior to her referring her complaint to us) I don't have the grounds to direct it to remove the corresponding entry on Miss S's credit file that shows that. For the months Miss S did make a payment, this should either be recorded as up to date or in an arrangement to pay. It wouldn't be fair for the month to show as being missed if O2 failed to adequately inform Miss S what she needed to pay (and she did make a repayment). O2 and Miss S didn't object to what our investigator said. If applicable, the agreement also shouldn't be showing as terminated on her credit file. She shouldn't be penalised for the account being on hold either while the complaint was considered.

Compensation

Our investigator recommended O2 pay £300 compensation. O2 agreed with this. Miss S requested either £500 or the clearing of the debt. On the one hand, O2 was trying to support Miss S by offering her payment plans. I think that was fair of it. But on the other hand, it failed to adequately inform her what needed to be paid. And the result of that was that the account terminated, it was passed to a debt recovery team, and Miss S was left owing the full sum. I appreciate this must have caused a level of distress. No amount of money can change what happened. But I think the increased compensation recommended by our investigator is fair. It's in line with what's recommended where the mistake has caused distress and inconvenience that needed Miss S to put notable effort in to sort out.

I should point out that I primarily need to consider what happened up to when we took on the complaint because the events preceding that relate to what O2 had the chance to consider when submitting its file to us. If Miss S is unhappy with something O2 does going forward, it may be something we can consider for her separately if she's unhappy with how it deals with things.

Going forward

I don't have the grounds to direct O2 to clear the debt. Miss S accepted the agreement, and so it's not unfair O2 is asking for her to repay the sum she borrowed. Compensation for distress as a result of what went wrong is a separate issue, which I've set out above.

O2 has said Miss S can contact it to come to an arrangement for what is owed. I think this is fair. I appreciate Miss S has said she had issues doing that previously, but I hope the situation works going forward. To be clear it's not practical for me to be too prescriptive on how this needs to be done. As long as it doesn't cause Miss S any detriment it may be

easier for her to pay the debt by making repayments towards the debt recovery team. Or she may be able to set up a standing order to pay O2. There are several different options available. I think what's important is that O2 reach out to her to discuss things going forward (if she wishes to accept this decision) and come to an arrangement. And like I said above, if something goes wrong in the future, it might be something we can look at for Miss S if she's unhappy with how O2 deals with things. But I hope that won't be necessary.

Overall, while I'm sorry to hear about what happened, I think it was down to a mistake from O2 while it was trying to support Miss S with a payment plan. Miss S hasn't been caused financial detriment as a result of an error by O2. Her credit file should fairly reflect what happened. She has an option for repaying the debt going forward. And I think the compensation it's agreed to is fair given what happened.

Putting things right

Telefonica UK Limited trading as O2 needs to:

- Record payments as either being up to date or in an arrangement to pay for the months Miss S made repayments under the plan towards the credit agreement. Any adverse information as a result of the termination of the agreement should be removed, and the agreement reinstated if required.
- Pay Miss S £300 compensation.

O2 should also agree with Miss S a sustainable arrangement and way for her to repay the debt. O2 should reach out to Miss S to do so or provide her with contact details for who she can speak to.

My final decision

My final decision is that I uphold this complaint, and direct Telefonica UK Limited trading as O2 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 Miss S to accept or reject my decision before 23 October 2025.

Simon Wingfield

Ombudsman