

The complaint

Mr S is complaining about Klarna Bank AB (publ) because it didn't correctly apply a payment and this led to the account defaulting. Klarna reported this to the credit reference agencies (CRAs) and Mr S says his mortgage application was declined as a result.

What happened

Mr S had an account with Klarna. He made regular payments but the final payment due in October 2020 wasn't credited to the account. Mr S complained but Klarna didn't identify the problem at the time and continued to believe no payment was made. When Mr S understandably declined to pay again, a missed payment was reported to the CRAs and the account ultimately defaulted.

After Mr S made a further complaint, Klarna realised the payment hadn't been identified because it had changed banks and he hadn't been told about this. It confirmed no more money was owed on the account and agreed to amend Mr S's credit file to remove negative reporting associated with the account. When the complaint was referred to us, Klarna also offered £200 compensation for the distress and inconvenience caused. This offer was later increased to £250.

Our investigator concluded the complaint should be upheld and felt Klarna's offer to put things right was fair in the circumstances. He noted Mr S had a mortgage application declined in February 2023 but didn't agree it would have been accepted if Klarna hadn't defaulted his account and reported this to the CRAs.

Mr S didn't accept the investigator's assessment and feels further compensation is due. He made the following key points:

- He was wrongly pursued for a debt.
- His credit file was incorrectly amended and this affected his mortgage application.
- He set up a standing order to make all monthly payments, including the last one.
- Klarna didn't tell him it had changed banks.
- Klarna hasn't written off the final payment as he paid it.
- He didn't know his credit file had been affected until the mortgage application was declined due to a low credit score.
- Klarna's actions impacted his credit score and his mortgage application would have been accepted if this hadn't happened.
- A similar situation happened to his wife and she paid twice to settle her account.

Mr S also said there was no further evidence for him to provide.

The complaint has now been referred to me for review.

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've reached the same overall conclusions as the investigator, and for broadly the same reasons. If I haven't commented on any specific point, it's because I don't believe it's affected what I think is the right outcome. In considering this complaint I've had regard to the relevant law and regulations; any regulator's rules, guidance and standards, codes of practice, and what I consider was good industry practice at the time.

I think it's also relevant to explain that the Financial Ombudsman Service is not the industry regulator and we don't write the rules for financial businesses or have powers to fine or punish businesses where these aren't followed. This is the role of the Financial Conduct Authority (FCA). Our role is instead to consider individual disputes and reach what we believe is a fair and reasonable conclusion in the specific circumstances of each case.

There's no dispute Mr S made all payments and that Klarna made mistakes in not telling him it had changed banks or identifying what had happened much sooner so it didn't have to default the account or report this to the CRAs. The issue I need to consider is how Mr S should be compensated for this.

The principal aim of any award I make is to return Mr S to the position he'd be in but for Klarna's errors. If Mr S had been told about Klarna changing banks, I'm satisfied it would have received payment, his account would have been closed without issue, and there'd have been no need to report any issues to the CRAs. By confirming no money is due on the account and agreeing to amend his credit file, I'm satisfied Klarna has already taken the first actions I'd suggest to put things right.

In considering what represents fair compensation, I've also considered the impact of this situation on Mr S.

I've seen no evidence Mr S was adversely affected until his mortgage application was declined in February 2023 and I note he says he was unaware his credit file had been affected up to this point.

In terms of the mortgage application, I share the investigator's view that there's insufficient evidence to show this situation was the reason it was declined. The bank's letter said there wasn't a single reason for the decision, and it was taken because Mr S's total credit score was below the required level. As the investigator explained, a person's credit score is based on many different factors and, with the information available to me, I can't reasonably conclude the outcome would most likely have been different but for negative reporting on the Klarna account. We have asked Mr S for a full copy of his credit file so we can see what other information it contained and consider this point further, but he's declined to provide this.

Whether or not Klarna's actions were a decisive factor in his mortgage application being rejected, I've no doubt this situation would have caused Mr S unnecessary distress and inconvenience and he should be compensated for this. The amount to award for distress and inconvenience can be difficult to assess as the same circumstances can affect different people in different ways. Taking everything into account, I'm satisfied the amount of £250 offered by Klarna is fair and reasonable in the circumstances of this case.

My final decision

For the reasons I've explained, I'm upholding Mr S's complaint. Klarna Bank AB (publ) should now amend his credit file to remove negative reporting associated with the account and, subject to his acceptance, pay compensation of £250.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 29 March 2024.

James Biles
Ombudsman