

The complaint

Ms M complains that Klarna Bank AB (publ) continued to take monthly direct debit payments for a mobile phone she had bought on finance after she returned it.

What happened

In January 2018 Ms M entered into a regulated fixed sum loan agreement with Close Brothers Limited to finance her purchase of a mobile phone. Later that year, Close Brothers was acquired by Klarna. From this point on I will just refer to both firms as Klarna (but I will be considering the conduct of Close Brothers too, because Klarna has taken over responsibility for that).

Under the loan agreement, Ms M was to make 24 monthly payments, for which she set up a direct debit. She says that in April 2018 she returned the phone to the retailer because it was faulty, but Klarna still continued to take monthly payments. In 2020 she complained about that, and asked for the payments to be refunded. But Klarna refused, saying that Ms M had failed to provide any evidence that she had returned the phone. And as the account had been in arrears for seven months, Klarna terminated the agreement and sold the debt.

In August 2020 Ms M brought this complaint to our service. (Meanwhile, she continued to complain to Klarna, who sent her at least four final response letters. Klarna kept telling her that she had not provided any new information or evidence.)

Our investigator did not uphold this complaint. He said that he had seen no evidence that the phone had been returned. He had reviewed Klarna's contact notes, and had found nothing about the phone being returned until July 2020, when Ms M had complained – two years after the date she says she returned the phone. He thought that if Ms M had really returned the phone in April 2018 and Klarna had continued to take monthly payments from her, then she would have raised that at the time. And he decided that Klarna had been entitled to terminate the agreement and sell the debt, because Ms M had made a direct debit indemnity claim with her bank, which had resulted in her account with Klarna going into arrears; she had ignored Klarna's default notice.

Ms M did not accept that decision. She pointed out that in May 2018 she had received a refund of £65:16 (the sum of two monthly payments), and argued that this supported her case. She provided a witness statement from her husband confirming that she had returned her phone. She provided evidence that her husband had bought two new phones in October 2019 and November 2020, and she argued that this would not have been necessary if she still had her 2018 phone. She pointed out that Klarna had not challenged the direct debit indemnity. She asked for an ombudsman to review her complaint.

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.

Klarna has now agreed to reduce Ms M's outstanding balance to zero. I think that is a fair resolution to this complaint. I will explain why.

There is no contemporaneous evidence of what the £65:16 refund was for. I have considered whether this could have been a refund of two of the four months for which Ms M had the phone, in case she'd returned the phone but had not received a full refund because she had still been able to use the phone for some of the time she'd had it. However, there is nothing to corroborate Ms M's and her husband's testimony that the phone was returned. And the statement of account for 2018 shows that the refund was added to the outstanding balance of the loan, suggesting that she would have known that she still had an outstanding debt. So while this evidence is capable of supporting her case, it is not conclusive.

I also think that if the phone was returned in 2018, then Ms M would have needed a new phone in 2018. So her husband's purchases of new phones in 2019 and 2020 do not prove that the original phone was returned in 2018.

The contact notes mention that an early payment of £97:74 (equivalent to three monthly payments of £32:58) was made on 17 July 2018, which had the effect of reducing the monthly payments to £27:15. There is no explanation of this, and the early payment does not appear on the account statement and is not reflected in the outstanding balance. After that, the contact notes mention nothing else until Ms M cancelled her direct debit in December 2019. They don't mention the direct debit indemnity, which occurred in the same month. (Klarna didn't have to challenge the indemnity, and so I don't think that its failure to do so proves anything.)

However, the contact notes go on to mention (in an entry dated 13 February 2020) that either Ms M or her husband made some additional payments by electronic bank transfer, which add up to £325:80, in addition to the direct debit payments. Those are not reflected on the annual statements, and Klarna's customer service department appears to have been unaware of them until it was informed by another department on 13 February 2020. It's not clear why that is, but one possible explanation is that the payments were received from a different bank account to the others.

I asked Klarna about all these payments. I pointed out that if all of these payments had been credited to Ms M's loan balance, then the outstanding balance (which is recorded as £475:87) should actually be only £52:33 – of which £25 was an arrears fee charged in July 2020. I asked if Klarna would be prepared to forego the £52:33 as a gesture of good will.

Klarna investigated this, and confirmed that all of those payments had indeed been made, but they had not been recorded on Ms M's account as they should have. So it agreed to reduce her outstanding balance to zero.

Putting things right

I have considered whether any additional compensation should be paid for Ms M's inconvenience, but in light of all of the findings I've made above, I think that Klarna's offer is fair. But I think Klarna should also amend Ms M's credit file in light of the known payment history. It should reflect the true state of the account balance from time to time.

I also think that if Ms M had known that the true account balance was much lower than it appeared to be in 2020, then she would have paid the remaining £27:33 before she incurred the arrears fee in July 2020. So I think that from July 2020 her credit file should record the debt as being fully satisfied.

My final decision

My decision is that I uphold this complaint in part. I order Klarna Bank AB (publ) to:

- Reduce Ms M's loan balance to nil, and
- Report Ms M's loan agreement to the credit reference agencies with the correct balances up to June 2020, and then as fully satisfied from July 2020.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 25 October 2024.

Richard Wood
Ombudsman