

The complaint

Mr H is unhappy that Klarna Bank AB (publ) 'Klarna' terminated his fixed sum loan agreement ("loan") and registered it with credit reference agencies as defaulted.

What happened

On 12 September 2021 Mr H made a purchase costing £503.76.

Mr H financed his purchase with a loan with Klarna repayable at £20.99 a month for 24 months – making a total repayable of £503.76 at an APR of 0%.

On 11 November 2022 Klarna sent Mr H a notice advising him that it had been unable to collect his 5 November 2022 payment.

On 5 December 2022 Klarna sent Mr H a notice of arrears.

On 19 December 2022 Klarna sent Mr H a default notice advising that £41.98 (£20.99 x 2) needed to be paid by him before 5 January 2023 to avoid further action being taken by it.

On 5 January 2023 Klarna sent Mr H a termination notice advising him that his loan had been terminated and the outstanding balance needed to be paid by 19 January 2023 to avoid further action being taken by it. Further action included the appointment of a debt collector and recording of the loan with credit reference agencies as being defaulted.

Unhappy with having his loan terminated, the appointment of a debt collector and with his loan being recorded with credit reference agencies as being defaulted Mr H complained to Klarna.

Klarna considered Mr H's complaint but didn't uphold it.

Unhappy with Klarna's decision not to uphold his complaint Mr H referred it to our service.

Mr H's complaint was considered by one of our investigators who came to the view that it should be upheld. He also explained to both parties what he thought Klarna should have to do to fairly and reasonably compensate Mr H.

Mr H accepted the investigator's view but Klarna didn't. And because of the latter Mr H's complaint has been passed to me for review and 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.

First, I wanted to point out that I've summarised this complaint in far less detail than the parties and I've done so using my own words. I'm not going to respond to every single point made by all the parties involved. No discourtesy is intended by this. Instead, I've focussed on what I think are the key issues here.

Our rules allow me to do this. This simply reflects the informal nature of our service as a free alternative to the courts. If there's something I've not mentioned, it isn't because I've ignored it. I'm satisfied I don't need to comment on every individual argument to be able to reach what I think is the right outcome.

Where the evidence is incomplete, inconclusive, or contradictory, I reach my decision on the balance of probabilities – in other words, what I consider is most likely to have happened in the light of the available evidence and the wider circumstances.

In considering what is fair and reasonable, I need to have regard to the relevant law and regulations, regulators' rules, guidance and standards, codes of practice and, where appropriate, what I consider to have been good industry practice at the relevant time. And in this respect my consideration isn't just restricted to rules and guidance issued by the Financial Conduct Authority but guidance issued by the Information Commissioner's Office ("ICO"), something that I'm satisfied Klarna is aware of and should appreciate.

In this case Mr H had missed payments in November and December 2022, prior to the default notice being issued. Klarna has mentioned missed payments in June and July 2022, but I can see Mr H paid these two missed payments alongside his August 2022 payment. As a result, his loan wasn't in arrears immediately prior to November 2022.

Given this, when Klarna issued the default notice to Mr H on 19 December 2022, he was two months in arrears. I've therefore considered whether Klarna acted reasonably in issuing this default notice. But having done so I don't believe Klarna did, and I'll explain why.

The ICO guidance states a default normally occurs when a credit agreement is three to six months in arrears. Here Klarna didn't wait for the loan to be at least three months in arrears before issuing the default notice. The default notice also advises that payment of the arrears needed to be made before the deadline of 5 January 2023. Mr H's payment date as given in the notice of arrears dated 5 December 2022, is 5 January 2023. Therefore, by saying payment needed to be made before then, Klarna effectively terminated the loan and registered it with credit reference agencies as being defaulted at a point in time when it was still only two months in arrears.

In this case I don't feel that Klarna has acted in line with the ICO's guidance on defaults. Had Klarna done so, the loan wouldn't have been terminated on 5 January 2023.

Now I accept I can't say for certain that had Klarna delayed issuing Mr H with a default notice by say a month or so (when the loan was three months in arrears rather than two) that Mr H would have taken steps to clear those arrears and avoid termination. But based on what Mr H has said and submitted I'm satisfied that more likely than not he would have done so.

So with the above in mind I'm satisfied that the loan shouldn't have been terminated by Klarna. I'm also satisfied that the loan shouldn't have been recorded with credit reference agencies as being defaulted, but instead should have been recorded with payments for November and December 2022 having not been made by Mr H.

I can see that Mr H didn't make the monthly payment due on 5 January 2023 and those due thereafter. But as the loan had been terminated on 5 January 2023 I can understand why these payments were never made. And because of my understanding in this respect I don't think it be fair or reasonable for Klarna to record these payments, with credit reference agencies, as being missed by Mr H.

Given the distress and inconvenience caused by the loan being incorrectly terminated and recorded with credit reference agencies as being defaulted I can confirm I agree with the investigator that Klarna should pay Mr H £150 in compensation.

My final decision

My final decision is that I uphold this complaint and find that Klarna Bank AB (publ) must:

- remove the default registered with credit reference agencies in respect of the loan taken out by Mr H in September 2021, although it's free to register the payments for November and December 2022 in respect of this loan as being missed by Mr H
- enter into a payment arrangement with Mr H for him to pay £20.99 a month (for 11 months) commencing one month after it receives (from our service) acceptance of this decision (by Mr H)
- ensure any failure to adhere to the above payment arrangement is recorded with credit reference agencies accurately and fairly
- cancel the debt collector appointment made by it following termination of the loan and registering of it with credit reference agencies as being defaulted
- pay Mr H £150.00 for the distress and inconvenience this whole matter has caused him*

** for the avoidance of doubt this sum should be paid to Mr H and not offset against the outstanding loan balance*

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 17 September 2024.

Peter Cook
Ombudsman