

## **The complaint**

Miss B complains that Klarna Bank AB (publ) failed to collect her direct debit payments and then defaulted and sold her account without notice.

## **What happened**

Miss B had a running credit account with Klarna. In December 2020 she purchased something for £180, and was to make monthly payments of £8.94. She had other accounts with Klarna where payments were being made automatically, but in this instance she chose to make card payments manually instead. However, she fell behind with her payments in August, September and October 2021.

Klarna says it sent Miss B a default notice on 4 November 2021. Miss B says she didn't receive it. But ten days later, on 14 November, she set up a direct debit mandate for the account.

However, no direct debit payment was ever taken. On 5 December Klarna terminated her account, and subsequently sold it to a third party, a debt collection agency. Klarna says it sent a letter about this ("the termination letter"), but Miss B says she didn't receive this either. She says that the next time she viewed the account on Klarna's website, her balance was showing as zero and so she thought she had paid it off. In fact, it was zero because her debt was no longer with Klarna but with someone else. Miss B did not realise that her account had been sold until July 2022, when the debt collection agency wrote to her. She complained to Klarna, saying that it should have taken her payments by direct debit, and it should have sent her a default notice before defaulting the account.

Klarna said that Miss B had failed to complete setting up her direct debit via its website. Its complaint handler told her that she could not confirm that a default notice had been sent, and so she upheld Miss B's complaint on that ground and apologised (but offered her no compensation and did not agree to remove the default from Miss B's credit file). Being dissatisfied with that response, Miss B brought this complaint to our service.

After we had received this complaint, Klarna sent us a copy of the default notice, and said that its original complaint handler had simply failed to look for it in the right place. Our investigator accepted that explanation, but Miss B did not. She was sceptical about it, and suggested that the default notice had never been sent and that the copy now produced was a recent fabrication. And she had previously told Klarna that her local Royal Mail delivery office had experienced delays in delivering mail around December 2021 due to the covid pandemic, including at her own branch and she had provided a link to an online news article about this. She had therefore not received the termination letter.

Our investigator did not uphold this complaint. He accepted that Klarna's online process for setting up a direct debit was unclear, and that it was not Miss B's fault if she had failed to complete the process, or if she had not realised that she had failed to do so. But he also accepted Klarna's explanation about why it hadn't found the default notice earlier and why it had found it now, and he decided that the notice had been sent to Miss B's address. He said if it had not been delivered by the post office, then that was not Klarna's fault. He thought the

same thing about the termination letter. He found that Klarna had also sent Miss B emails and text messages telling her that her account was in arrears. He concluded that she should have checked that her payments were going through, instead of just assuming that they were, as it was her responsibility to make the payments.

Miss B did not accept that opinion. She pointed out that she had been receiving regular messages from Klarna about her other accounts, but not about this one, and in particular she had not received messages saying that she had been missing payments. She emphasised that when she had set up the direct debit, she had received written confirmation about it; because of that, she had not checked that the payment had gone through. It had therefore been unfair of Klarna to default her account, even if it really had sent her a default notice. But she reiterated that she did not trust Klarna's explanation about the default notice.

The investigator referred this case for an ombudsman's 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.

Having done so, I do not uphold it. I will explain why.

I will begin with the direct debit. I agree with the investigator that the process on Klarna's website for setting up a direct debit is unclear, and that it is possible for its customers to fail to complete it without realising. It appears to be a two-stage process. The first stage is to set up a direct debit mandate, which Miss B completed, and she received confirmation of this from her bank. I have seen this message, and I have also a screenshot from her online banking which shows that the direct debit mandate is still in place, although no payment has ever been taken.

The second stage does not concern Miss B's bank, but is purely a matter between Klarna and its customer. Having set up the direct debit mandate, the customer is then supposed to select an option on Klarna's website to indicate that she wishes Klarna to take payments via that method. This selection can be toggled on and off at will, although it is not clear to me why a customer would wish to do that, or why a customer would even expect to have to do that, or why the default setting is off even when the customer has just set up a direct debit mandate. (I recommend that Klarna considers changing the default setting to on, but I cannot require it to do that in this decision.) This is the stage which Miss B failed (quite understandably, in my view) to complete. It isn't clear that she knew that she had to do that, and given that her bank told her that same day that her direct debit had been set up – which it had been – I can quite understand why she thought she had done enough. For that reason, I don't think she needed to check whether her direct debit had gone through, and on that point I disagree with the investigator.

I considered whether I should uphold this complaint based on that point. However, I think that is actually a bit of a red herring in this case. That is because even if the second stage had been completed, it would not have made a difference to what happened next.

The default notice (I will come back later to whether it was served) says that unless arrears of £39.60 were paid by 30 November, then the account would be defaulted. As I've said, Miss B set up the direct debit on 14 November, and she received written confirmation of this from her bank. But that message said that the first direct debit payment would be taken on 13 December, which would have been too late. The account was terminated on 5 December, and so Klarna would not have taken a direct debit payment anyway.

For that reason, I think that the business about how Klarna's website operates when its customers set up direct debits does not affect the outcome of this complaint.

Turning to the default notice, I accept Klarna's explanation about how that came to light after Klarna had given its final response to Miss B. I accept that the copy provided is genuine. It has been correctly addressed, and on the balance of probabilities I think it is more likely than not that it was sent. If it was not delivered in the post, then that is not Klarna's fault. The same goes for the termination letter, which means that the account was not sold without notice.

I also don't think that those two letters were the only correspondence Klarna sent to Miss B about her account. Monthly statements were sent to her by email, and other reminders about outstanding payments were emailed to her regularly. (I've also seen a notice of default sums dated 4 October 2021, addressed to her home.)

For the above reasons, I do not think that Klarna did anything wrong, and so I do not uphold this complaint. But for completeness, I will deal with a point which Miss B has made (although I do not really need to do that to arrive at this decision).

If somehow Miss B never received any of these reminders and statements – although I'm afraid that if that was the case then I have not seen evidence to show that this would have been Klarna's fault – then she ought to have asked Klarna why, because at the same time she was receiving similar reminders and updates about her other Klarna accounts. So if there was one account which she was not receiving any updates about, then that ought to have prompted a concern that something was amiss. Nevertheless, she certainly still knew about that account, because she had been making card payments herself each month. I don't think there is anything in this point; a total absence of messages is a message in itself.

### **My final decision**

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 13 September 2023.

Richard Wood  
**Ombudsman**