

The complaint

Mrs M complains that Klarna Bank AB (publ) repeatedly reduced her credit limit and would not explain why.

What happened

Mrs M has a Klarna store card account, which has a flexible credit limit known as Purchase Power. Her Purchase Power was initially more than £600, but it was reduced on a number of occasions until it was less than £100. She says she has never received a satisfactory explanation of why that is, and she resents the implication that she has a poor credit score or is a bad customer. She asked Klarna for the reasons several times, but did not accept the answer she was given each time. She then complained to Klarna.

Klarna did not uphold Mrs M's complaint. It told her that its staff had given her the correct answer each time she had asked her questions. It reiterated that Purchase Power is automatically assessed on a daily basis, taking into account her purchases and payments, as well as creditworthiness. It said it had tightened its lending criteria in August 2022, and this could have been a reason why Mrs M's Purchase Power had been affected (and it confirmed this was the case after she brought this complaint to our service).

Mrs M complained to our service, but our investigator did not uphold her complaint. He accepted Klarna's explanation, and said that Klarna's lending criteria were a matter for its commercial discretion. He did not think that Klarna had treated Mrs M unfairly.

Mrs M did not accept that decision. She said that she had always made her payments when they were due, she had a good credit score, and yet Klarna had treated her like a bad debtor. She denied that she had been treated the same as Klarna's other customers, and she wanted to know why. She asked for an ombudsman to review her case.

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.

Klarna's website says:

"There is no predefined spending limit when using Klarna. Instead, a new automated approval decision about how much you can spend with us is made each time you pay with Klarna. ... Your Purchase Power is an estimated amount based on factors *such as* your payment history with Klarna and your outstanding balance. The amount is not a guarantee and *may change based on the store and payment option you choose.*" [Emphasis added.]

Purchase Power is not solely a measure of creditworthiness. The store and payment options

are additional factors, as indicated above. And the account terms and conditions say that *“The Purchase Power may vary from time to time to reflect purchases and repayments you have made.”*

I have read transcripts of four online text conversations between Mrs M and Klarna’s staff, in each of which Mrs M asked why her Purchase Power had recently decreased. In the first one, dated 31 May 2022, Klarna told her that Purchase Power is calculated automatically, but the staff member was unable to elaborate further. But in the others, the staff were more forthcoming. For example, in the second one, dated 7 September 2022, Klarna asked Mrs M if she had made any recent payments, and she confirmed that she had. Klarna then told her:

“The purchase power is reduced because the system calculates the purchase power, after every following transaction- *New purchase*, missed payment, payment on any order, declined purchase.” [Emphasis added.]

I think that was a reasonable explanation for the change, in light of Mrs M’s recent purchase. Mrs M replied to say *“I never had that before,”* but I think that can be explained by the changes Klarna had introduced in the previous month. She went on to say *“I’m with Klarna several years and never had that so sorry to say but I don’t believe that.”* I realise that nobody had told her yet about the changes that were made in August, but whether she believed what she was being told or not, I am satisfied that Klarna did give her the correct information on that occasion.

Being dissatisfied with that answer, Mrs M contacted Klarna again the following day. In response to a question, she told Klarna that she had made a recent purchase. Klarna told her *“When you make a purchase, whether on your Klarna Card or via one of our other products, your Purchase Power will reduce.”* Mrs M replied to say that she always pays by the due date, which I accept is true, but that is not the only factor which Klarna’s algorithms take into account when calculating Purchase Power, so I think this was an accurate answer given by Klarna. (Mrs M went on to say that she did not believe what Klarna had told her. In those circumstances, I don’t know what Klarna’s staff could do about that.)

The fourth online chat was very similar to the previous two. Mrs M told Klarna that it seemed to see her as *“a bad customer”* even though she had never missed a payment. In response, Klarna said:

“this is not your fault and you are not punished or considered as a bad customer I am so sorry you felt that way. While you may have been able to make purchases in the past, Klarna sometimes changes its lending policies which may result in a denied purchase or changes to Purchase power. The approval process is system generated and cannot be overridden.”

Moments later, Klarna added:

“To help our users shop responsibly, we have to lend responsibly. Sometimes this means lowering the estimated amount you can spend with us. *Nothing you’ve done has caused this change*, and this won’t affect your credit score or any ongoing payment plans. *This is not decided because you had a bad history payment.*” [Emphasis added.]

So I think that Klarna acknowledged Mrs M’s concerns and addressed them directly. I don’t see what else it could have told her to put her mind at rest about her being viewed as a bad customer or about her own payment history contributing somehow to the decrease in her Purchase Power. She ended the conversation by saying that lending responsibly was nothing more than Klarna’s way of saying that she was a bad customer, but I do not agree

with that. Lending responsibly is a regulatory obligation which Klarna and other lenders have to follow; it is not personal, or a criticism of how a lender's customers have managed their accounts. I have seen nothing to suggest that Mrs M was being singled out. Indeed, later on that day Klarna told her *"I see your payment records are excellent and there is no negative remark on your profile."*

So for the above reasons, I do not think that Klarna treated Mrs K unfairly, or that it failed to explain to her what was going on, or that it failed to answer her questions. I would not expect Klarna to go into further detail than it did, because its lending criteria are commercially sensitive and Klarna is not obliged to share them.

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 Mrs M to accept or reject my decision before 21 December 2023. But apart from that, this final decision brings our involvement in this case to an end.

Richard Wood
Ombudsman