

## **Klarna Bank AB – Written evidence (FDF0049)**

### **Overview.**

Following an invitation to submit evidence, this short paper is intended to introduce Klarna to the Committee, explain how we fit into the issues raised by this inquiry and demonstrate how innovative providers, such as Klarna, are tackling fraud.

Klarna takes its approach to the mitigation and prevention of fraud extremely seriously. While the nature of our business model means we do not have the same exposure to fraud in the UK as a deposit taking bank or a payment service provider, the direct relationships we have with both consumers and retailers, means we see fraud from a number of perspectives.

### **Who is Klarna?**

Klarna is a global bank, payments and shopping service provider. The business was founded in 2005 in Stockholm, Sweden, with the aim of creating trust online between consumers and retailers. With over 147 million global active users and 2 million transactions per day, Klarna is meeting the changing demands of consumers by saving them time and money while helping them be informed and in control.

Over 400,000 global retail partners have integrated Klarna's innovative technology to deliver our seamless shopping experience online and in-store. With over 5,000 employees, Klarna is active in 45 markets and is one of the most highly-valued private fintechs globally. We are more than just shopping and payments, having secured our banking licence in Sweden in 2017. We currently offer current and savings accounts to consumers in Sweden and Germany and hold the largest Open Banking network in Europe, covering 15,000 banks in 20 countries including the UK.

Klarna launched in the UK in 2015. We have since become one of the largest and most loved providers of Buy Now Pay Later (BNPL) payment products in the UK. Today, Klarna has over 16 million UK consumers and 5 million app downloads, and partners with more than 20,000 UK retailers.

Our products provide choice for both consumers and retailers, depending on their needs. From immediate payment with Pay Now, up to 30 days later, or split the cost into manageable interest free monthly instalments with pay in three/four or Fair Financing over longer terms. This gives consumers the opportunity to return or change an item, or query an unreceived item, before any money leaves their account. Meanwhile, Klarna pays the merchant the full amount for the purchase up front. This means that Klarna takes on much of the fraud risk in the payment process.

In this way, our products create tangible value for our retail partners beyond just facilitating payments. Klarna drives lower fraud costs and improves dispute resolution between retailers and consumers. Through our merchant dispute app, Klarna offers retailers a quick and seamless means of handling any dispute, supported by Klarna's buyers' protection. In 2021 alone, our products saved retailers more than 162 million hours in dispute resolution.

### **Klarna takes fraud seriously.**

At Klarna, we are acutely aware of the importance of tackling fraud. We act as a provider of payment services, as a shopping service, and in certain jurisdictions as a bank, so we understand how fraud must be prevented from a range of perspectives. Fraud is a serious crime with profound effects on victims, regardless of the scale or monetary value of the fraud itself. It harms our society and our economy, and seriously undermines trust in business and payments. However, it is worth highlighting that Klarna's services are provided at the small scale end of the payment market based on average transaction size of £75, so our focus is on relatively low value fraud.

According to UK Finance's "Fraud – The Facts 2021" [report](#), roughly 45% of financial fraud losses were from payment card fraud (the main type of consumer fraud which is relevant for Klarna). The bulk of this type of fraud (79%) is from Remote Purchase fraud.

Rather than providing any payments infrastructure in the UK ourselves, we act as a facilitator of payments. From a fraud perspective, this means that we are a user of existing payment rails (such as Visa and Mastercard), which have significant fraud protection embedded. We then overlay with our own additional fraud protection. This is covered in greater detail below.

### **Klarna protects small retailers and merchants from fraudulent losses.**

In terms of the different types of fraud, we distinguish between 1st party fraud (where the fraudster has no intention to pay for the goods purchased) and 3rd party fraud (where a fraudster impersonates a victim of fraud in order to secure a refund).

For 1st party fraud, Klarna's model means we bear the brunt of any loss. This is because we take on the credit risk, which helps merchants manage their risk. For 3rd party fraud, Klarna has a series of sophisticated fraud controls to detect and prevent fraud and we work collaboratively with merchants to disrupt fraudulent activity. This allows us in many cases to disrupt the delivery of the fraudulently purchased goods, rendering the fraud unsuccessful.

### **Klarna makes fraud on consumers harder and less damaging.**

As mentioned above, when it comes to protecting consumers from fraud, we have established policies to protect victims. In almost all cases, consumers who are the victim of impersonation fraud (where the fraud is committed by someone impersonating them) don't lose any money. Instead, the order is cancelled in our systems, meaning no payment liability exists for the individual who was the victim of fraud. Our formal policy on fraud, the [Klarna Fraud Protection Promise](#), guarantees that "Klarna shall not expect you to pay for [a] fraudulent purchase." For Remote Purchase fraud (where the consumer is the victim of someone else using their card to pay Klarna), there are established mechanisms to tackle this, such as disputing the charge with the card issuer, who in turn raises a chargeback.

BNPL as a product brings with it an inherent level of additional protection for consumers. With BNPL, there are more data points we can check than in a traditional card transaction, and because of the relationship between Klarna and retailers we have the ability to liaise directly with the merchants to resolve disputes.

Klarna's model also means there is more time to cancel payments (and even with Pay in 3, consumers only pay a third of the cost up front). This means that

consumers are more protected from fraud by merchants. Moreover, we are proud to support consumers through our [Buyer Protection Policy](#), which permits buyers to freeze payments if they need to enter into a dispute with merchants. This policy goes further than fraud to protect consumers from payments where they are unhappy with the goods delivery etc.

Klarna performs rigorous merchant due diligence checks as part of the onboarding process. This reduces the risk of genuine customers purchasing goods from fake retailers via Klarna, our thorough and thoughtful process of onboarding makes sure that we only onboard genuine merchants.

**Other types of operators have key roles to play in tackling fraud.**

One key method of protection for consumers is the Contingent Reimbursement Model (CRM) Code, which acts to protect consumers against authorised push payment (APP) scams. Klarna understands that the purpose of the CRM is twofold: to ensure consumers are compensated when they are defrauded through no fault or negligence of their own, and to provide an incentive for banks to step up their efforts to combat fraud.

As described above, Klarna already offers strong protections for both customers and merchants in relation to certain types of fraud but given our very different business model from other PSPs the proposed extension of the CRM would be disproportionate and inappropriate without complete revision. We would not therefore support the extension of the CRM. The measures we have designed and implemented have been highly effective. We believe that these measures are an example of how individual service providers can go beyond what is expected of them in order to combat fraud and provide better protections for consumers and businesses. We hope this short submission is helpful to the Committee in understanding how different providers are committed to tackling fraud.

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