

The complaint

M, a limited company, complains that Lloyds Bank Plc unreasonable withheld funds from their merchant acquiring account.

What happened

M is represented by Ms S, a director of the business. The facts of this case are well known to both parties, so I will mention them only briefly here.

M had a merchant acquiring agreement with Lloyds Cardnet, which allowed them to accept payments from customers by card. In February 2023 Lloyds noticed funds they'd sent to M had been returned as the bank account had been closed. They asked M to provide new banking details.

Ms S contacted Lloyds in May 2023 to supply new banking details. But Lloyds declined these, as the information wasn't sufficient. Ms S sent in further information, but Lloyds still declined to accept the new bank details. They weren't satisfied the account was held by M.

Not happy with this, Ms S complained on behalf of M, saying the money was needed. Lloyds responded to say that they require proof that the new account holder is the same legal entity as M, and they weren't satisfied of this by the evidence provided. Ms S tried to convert the Lloyds Cardnet account to a sole trader account, but this was again declined by Lloyds.

In July 2023 Lloyds wrote to M to say they would be closing their Cardnet account in September 2023. They also provided an indemnity form, that would allow them to send the funds to a third party. In September 2023 the Cardnet account closed and the funds were sent to M by cheque. But Ms S says this wasn't received. A second cheque was issued that also didn't arrive.

Ms S referred M's complaint to our service. One of our investigators looked into it but didn't think Lloyds had done anything wrong. They thought it was reasonable for Lloyds to ask for the bank details to be in the name of M. Ms S disagreed with this outcome, saying it wasn't fair that the funds needed to be paid into an account in the same name as M. But the investigator didn't change their mind. As no agreement could be reached the complaint has been passed to me to decide.

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.

As I understand it, Lloyds have now released M's funds after Ms S returned the indemnity form, so I'm happy that part has been resolved.

It's important to note here that the entity that held the Cardnet account was M – which as an incorporated company is a separate and legally distinct entity from Ms S. The crux of the complaint is that Lloyds wanted to know that the linked bank account also belonged to M.

I've reviewed M's agreement with Lloyds, and there isn't a specific requirement in the agreement that the linked account must belong to the same legal entity. Lloyds have said though that ultimately their contract is with M, not any other entity. So, they would want to ensure that any funds they were paying out were to the entity they were contracted with.

On balance, I'm persuaded this was a reasonable position to take, although this is something they could have been upfront with M about when they entered the agreement. But when Ms S was trying to change the linked bank account details, I'm satisfied that Lloyds explained this clearly. From that point M ought reasonably to be aware that Lloyds would only accept account details for an account held by M.

I've considered the information Ms S sent to Lloyds, and what she's later told our service. I'm satisfied that at the time there was no account in M's name. So, I don't think Lloyds have been unreasonable in holding on to the funds paid into the Cardnet account. The money ultimately belongs to M, and they are ensuring the funds go to the correct entity.

The terms of the account allow Lloyds to close it by providing at least two months' written notice. I'm satisfied that when they decided to close M's account, they provided the required notice. I can also see they sent M an indemnity form to allow them to pay away the remaining balance to a third-party account. I've seen nothing to suggest this form was returned to Lloyds, so it's not unreasonable they issued a cheque for the closing balance.

Ms S has said the cheque wasn't received – although I'm satisfied from the evidence presented by Lloyds that the cheque was likely sent. I'm also mindful it would have been issued in M's name, so it's likely without an account it would have been difficult to deposit.

Considering everything here, I'm not persuaded Lloyds have been unfair or unreasonable in how they handled M's account.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask M to accept or reject my decision before 7 August 2024.

Thom Bennett
Ombudsman