

The complaint

Mr C and Mrs C complain that Lloyds Bank Plc have caused a financial loss and embarrassment when failing to honour a cheque.

Mrs C has brought the complaint to the Financial Ombudsman, so I'll refer to her throughout.

What happened

In March 2020 Mrs C drew two cheques, each for £1,500 to the same recipient. The total amount represented Mrs C's full inheritance tax free gift allowance for that tax year. One of the cheques was drawn from a joint account and the other was drawn from Mrs C's sole account. In April 2020 Mrs C was told by the recipient that one of the cheques that should've been drawn from the joint account was dishonoured.

Mrs C wrote to her branch, but after not receiving a response, she visited the branch to seek an explanation into what happened. Mrs C said she gave a copy of her earlier letter to the branch and was told the signature looked good on the cheque. Lloyds then sent two letters in May 2020 which gave conflicting reasons for the cheque not being accepted due to the way it had been written. Mrs C remained unhappy, so a formal complaint was raised.

Lloyds considered the complaint and offered Mrs C £50 for the inconvenience the issue had caused her and paid this into her account. It said the automated scanner had highlighted an error with the cheque. And its process is to contact Mrs C to verify the cheque. But as contact was unsuccessful, the cheque was returned unpaid. Lloyds sent a further letter explaining that cheques are sometimes checked for security reasons and that this is what had happened in this instance.

Mrs C remained unhappy, so she brought her complaint to the Financial Ombudsman. She said she should receive £1,000 in total for this issue because it had caused her estate to suffer a net loss of £600 and that Lloyds should pay her £400 in compensation for the distress and inconvenience she's suffered.

Our investigator felt the complaint should be upheld in part. He said Lloyds should increase its offer of £50 compensation to £150 to recognise the distress and inconvenience caused to Mrs C in having to make several trips to the branch and incorrect information being supplied by branch staff. But he didn't think Lloyds needed to make up for the inheritance tax loss because it wasn't foreseeable for it to know the cheque needed to be cashed by a certain time for inheritance tax purposes.

Mrs C disagreed and asked for an Ombudsman's review. She said Lloyds has failed to explain why one of her cheques wasn't accepted but the other was. And if they had both been dishonoured it wouldn't have caused any issues with her inheritance tax as it could've been carried over to the following tax year.

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've reached the same conclusion as our investigator which is to uphold the complaint in part. And for largely the same reasons. But I don't agree that Lloyds should pay Mrs C a total of £1,000 for what's happened here. I'll explain why below.

I've read and considered the whole file. But I'll concentrate my comments on what I think is relevant. If I don't mention any specific point, it's not because I've failed to take it on board and think about it, but because I don't think I need to comment on it to reach what I think is a fair and reasonable outcome.

Lloyds has said it has a new automated system which will occasionally flag some cheques to be additionally reviewed. And that's what happened here. It's important for banks to have fraud prevention systems in place to protect consumers. Reducing fraud is a priority for the Financial Conduct Authority so, in order to meet any legal and regulatory requirements, it's necessary for banks to have appropriate controls and systems in place to protect themselves and consumers from fraud. I don't therefore think it's unreasonable for Lloyds to have fraud prevention systems in place.

Mrs C said that Lloyds should cover the financial loss she has incurred due to not being able to make the inheritance tax planning payment. I can understand Mrs C's frustration here and why she wants a more detailed answer explaining why the cheque wasn't honoured. She's been provided with different explanations as to why the cheque was unpaid which hasn't helped the situation. Lloyds accepts that its explanations weren't clear enough and that Mrs C has experienced distress and inconvenience.

So, the issue for me to decide is whether the £150 Lloyds has now agreed to is fair or if Mrs C is entitled to the £1,000 she has asked for.

Lloyds has said its automated system flagged an issue with one of the cheques and it didn't contact Mrs C to discuss the cheque because it didn't have a contact number. That meant Mrs C found out about the cheque not being honoured from the recipient which she said caused her embarrassment.

And although Lloyds checked for a phone number for Mrs C on the day, it doesn't then seem to have followed this up promptly by writing to make Mrs C aware of the issue, which I think would've been the fair thing to do. It wasn't until Mrs C contacted the branch that Lloyds acknowledged that there had been a problem with the cheque. But I don't think this means Lloyds should pay Mrs C what she lost from her inheritance tax planning.

The cheque was dated 27 March 2020 and was processed on 1 April 2020 but, in the circumstances, I'm not satisfied there would've been enough time for Lloyds to write to Mrs C during the Covid-19 pandemic and then for a new cheque to be drawn and sent back to Lloyds so the money could be paid to the recipient before 6 April 2020. And I've also noted the 4 and 5 April 2020 fell on the weekend leaving less time to get the cheque honoured.

I understand it has caused inconvenience to Mrs C and to the intended payee in having the cheque returned. It's also understandable she's been caused embarrassment, particularly as she says the cheque payment was a genuine and legitimate transaction. Having an automated fraud prevention system in place is important and necessary for Lloyds to protect their consumers. While unfortunately this may lead to occasions where legitimate transactions are declined, it doesn't mean Lloyds has done something wrong in dishonouring the cheque for further checks.

Putting things right

Lloyds has admitted it didn't then deal with Mrs C's queries sufficiently and has now agreed to pay £150 for the distress and inconvenience it caused her, I am satisfied that this is fair and reasonable compensation in the circumstances of this case.

My final decision

My decision is that I uphold this complaint in part, and in full and final settlement of it, order Lloyds Bank PLC to pay Mrs C and Mr C £150.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C and Mrs C to accept or reject my decision before 8 April 2022.

Mark Dobson
Ombudsman