

The complaint

A company, which I'll refer to as "G", complains that HSBC UK Bank Plc acted unfairly when closing its bank accounts and recalling its Bounce Back Loan and overdraft facility.

G's director, Mr D, brings the complaint on the company's behalf.

What happened

G banked with HSBC, holding two bank accounts. It also had an overdraft facility with a limit of £80,000 and obtained a Bounce Back Loan of £50,000 from the bank in May 2020.

In early June 2020, HSBC began a review of G's accounts. The bank applied a restriction to while it did so, limiting Mr D's access to the funds held therein.

While the review was ongoing, HSBC contacted Mr D about four credits made to one of G's accounts between 28 May and 4 June. The bank asked for evidence of the nature of these funds and Mr D provided a set of invoices. HSBC wrote to Mr D on 2 July to advise that its enquiry into the credits was complete and that the account restrictions had been removed.

On 3 July, HSBC wrote to G to advise that it was closing the company's accounts with immediate effect and that they would be suspended pending the bank's finalising arrangements for closure. It also said that formal demand for full repayment of all debt owed to the bank would be made shortly, and G's overdraft and Bounce Back Loan were subsequently called in.

When Mr D complained to HSBC, the bank said it was reviewing G's accounts to comply with its legal requirements and had restricted them while doing so in line with the terms and conditions. As he remained unhappy, Mr D asked us to look into things. In summary, he says:

- The bank's decision to suspend and close the company's accounts without warning or explanation left it without access to meet day-to-day expenses and severely impacted its operations and ultimately its turnover.
- He called HSBC daily while the accounts were suspended and was caused further inconvenience when being told that the restrictions had been lifted on 2 July, only to discover that they hadn't been. He also had to provide the set of invoices twice, as the bank misplaced them.
- HSBC shouldn't have used the money that G held in its accounts to repay the overdraft or pay down the Bounce Back Loan and he wants the bank to return it.
- A payment of around £40,000 was made to one of G's accounts by a supplier on 3 July 2020, which had the effect of reducing the overdraft balance. But this payment was made to the account in error, and – as HSBC won't return it – G is having to repay the supplier under a separate arrangement.

- G received an HMRC grant of around £10,000 for the furlough of its employees into one of the accounts in December 2020. HSBC didn't allow Mr D to access this money in order to pay his staff and instead the funds were used to reduce – and clear – the overdraft balance, which he doesn't think was fair.

One of our investigators reviewed the complaint and recommended that it be upheld in part. She said:

- Banks were entitled to block accounts to review them in keeping with their legal and regulatory obligations and that's what HSBC had done here. While understanding the urgency for Mr D and his company and therefore the number of calls he'd made, she didn't think there had been any undue delay in completing the review or think that HSBC ought to have shared any more information with him than it did.
- HSBC had incorrectly told G that the restriction had been lifted on 2 July. It had only completed its review of the four payments that day, rather than the account review. But this was clarified swiftly, as HSBC had then written to G on 3 July to advise that the accounts would be closed.
- While there was limited evidence to confirm the position either way, she thought HSBC had most likely misplaced the invoices that Mr D had provided during the review and therefore required him to resubmit them. She thought the bank should pay £50 compensation for the inconvenience this had caused the company.
- HSBC was entitled to close G's accounts immediately in line with the terms and conditions and she didn't think it had done anything wrong in doing so given the circumstances here.
- The bank was also entitled to call in the company's borrowing in the manner it had, once it had chosen to end its relationship with G. The terms and conditions allowed the bank to use money held in its accounts to reduce or repay any money it owed. And she didn't think the bank had done anything wrong in using the £40,000 credited to the account in July in this way.
- She didn't think HSBC had acted fairly in depriving G of access to the furlough grant received into its account in December, given that it was for the sole purpose of paying employees. She also noted that the bank had allowed the company to access a previous grant in July and so could've done the same again in December. She couldn't see this had caused G a financial loss, given that the funds had been used to repay money that G owed and as Mr D said he'd paid the employees out of his own pocket instead. But she thought it would've caused the company some inconvenience and recommended that HSBC pay £500 to compensate it for this.

HSBC accepted our investigator's view but Mr D didn't. He wanted the bank to pay compensation of £50,000, taking into account the impact of these matters on G's operations and reputation. So with no resolution, the matter was 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.

The review and restriction of G's accounts

HSBC has a number of legal and regulatory obligations to meet in providing banking services to its customers. Banks are required to keep accounts and their use under review, and may need to suspend access or services in order to do so.

The terms and conditions of G's accounts allowed HSBC to suspend its services. HSBC has explained that it did so in order to comply with its legal obligations. From the information I've seen, I'm satisfied that this was the case. So I don't think HSBC did anything wrong in restricting G's accounts while it conducted its review.

There's no set timeframe within which a bank must complete reviews or remove restrictions. G's accounts were inhibited for around a month while HSBC completed its review. I don't think that was too long, in view of the circumstances. Mr D was understandably concerned as to the reason for the restriction and to understand when it would be complete, which led him to contact HSBC on a number of occasions. But HSBC wasn't required to share any more information than it did about its review or provide a timeframe.

I appreciate that the restriction will inevitably have affected G's operations and caused Mr D some concern. But as I don't think HSBC did anything wrong in applying it, it follows that I don't think the bank needs to pay any compensation for the impact it had on G.

While conducting the review, there appears to have been some unfortunate confusion caused by the bank's letter of 2 July 2020 in which it advised Mr D that the account restrictions would be lifted. This was an error, as the bank had only concluded its enquiries in relation to the four payments made into one of G's accounts rather than its wider review of the accounts, which hadn't yet been completed. This would've been frustrating for Mr D but it was cleared up swiftly and ultimately had no impact on G's position.

It does, though, seem that an error on HSBC's part meant that G was put to the inconvenience of having to resubmit the invoices provided in response to the bank's questions about the four payments. The bank accepted our investigator's findings on that and has agreed to pay £50 to put this right. I think that is fair compensation for the trouble that the company was put to in having to follow up with these documents a second time.

The closure of G's accounts and overdraft facility

Following the review, HSBC decided to withdraw its services from G. That was a decision it was entitled to make. The terms and conditions allowed the bank to close the company's accounts immediately and without giving notice in certain circumstances. In light of the findings of the bank's review, I think it was reasonable for HSBC to do so here.

G's overdraft facility was repayable on demand, meaning that HSBC wasn't required to give G advance notice. Given its decision to end its relationship with G and its reasons for this, I don't think it did anything wrong in requiring that this be repaid immediately. I don't think the fact that the overdraft was secured ought to have led the bank to do anything differently, as Mr D has suggested.

In the event, G's accounts remained open for a further five months but remained restricted. I understand that this is because HSBC was reviewing what course of action to take in respect of G's Bounce Back Loan liability. Even taking that into account, I think it took HSBC longer than I'd expect to resolve matters one way or the other. But I don't think this left G in any worse a position than it would've been in if the bank closed the accounts any sooner. I'll explain why in more detail below.

The use of funds held in G's account to repay the overdraft

One of G's accounts had an overdrawn balance of around £32,000 when HSBC decided to close the accounts. So when HSBC called in the overdraft, that amount was repayable immediately.

A payment of around £40,000 was made to the account by a third party on 3 July 2020 (which happened to be the day HSBC confirmed its decision to withdraw its services from G). This had the effect of repaying the overdraft and taking the account back into credit (albeit that HSBC subsequently allowed G to withdraw around £9,800, which put it back in an overdrawn position).

Mr D says the £40,000 payment was made in error by a supplier and doesn't think it was fair for HSBC to retain the funds. But I don't think it was unreasonable for HSBC to have processed the payment in the usual way, which happened to have the consequence of reducing G's overdraft liability. I don't think the bank ought to have returned the payment on Mr D's assertion alone that the payment had been made in error, which hasn't been substantiated by any documentary evidence.

Mr D is also unhappy with how HSBC handled the receipt of a furlough grant. A payment of around £10,000 was received into the account on 31 December 2020. At that time, the account had an overdrawn balance of around £5,000, which this payment cleared. HSBC declined Mr D's request to access these funds, meaning that they were effectively used to repay the overdraft and pay down the Bounce Back Loan when the account was later closed.

I don't think this situation was handled as well as it could've been. The furlough grant was to be used only for the payment of employees, which isn't how it was used here. That could've been avoided if HSBC had released the grant to G as Mr D requested and as it had done on a previous occasion. At the same time, G had been told some months earlier that HSBC was closing its accounts and it would've known about the restrictions in place while this was pending – so it would've been prudent to arrange for the grant to be paid to an alternative account, which would've also have prevented this situation arising.

G was left having to find another way to pay its employees as it couldn't access the grant funds. But I can't see that the company suffered a financial loss as a result. Mr D says that he arranged the payment himself and hasn't shown that this cost the company – which is the only party to whom I can award compensation – any more than it otherwise would've done. Ultimately, G always had to pay its staff and settle its overdraft with HSBC – which is what happened. So I don't think it was left any worse off as a result of the bank's shortcomings in how it treated the furlough grant. The company was, though, put to some inconvenience in having to make alternative arrangements. For this, I think the £500 that HSBC has already offered to pay is fair compensation.

The termination of the Bounce Back Loan

HSBC's review also led it to terminate G's Bounce Back Loan facility. The terms and conditions of the loan allowed the bank to cancel the facility and demand immediate repayment of the loan in certain circumstances. I'm satisfied that it was reasonable for the bank to do so here, in light of the findings of its review.

Mr D is also unhappy that HSBC applied the funds held in G's accounts to pay down the balance owing on the Bounce Back Loan account. But the terms and conditions of the loan gave HSBC the right of "set-off" – that is, it could use money held in any of G's accounts to repay any amounts that the company owed the bank. So I don't think HSBC did anything wrong in taking this action either.

In summary, then, I've not found that HSBC did anything wrong in how it handled the review, restriction or closure of G's accounts, or in how it recalled the debt owed by the company. It follows that there is no basis on which I could fairly require HSBC to compensate G for the impact that these actions had. The bank did, though, cause G some avoidable inconvenience in requiring the set of invoices to be provided a second time and in declining Mr D's reasonable request to access the furlough grant – for which I think £550 is fair compensation.

My final decision

For the reasons set out above, I uphold this complaint in part and require HSBC UK Bank Plc to pay G compensation of £550.

Under the rules of the Financial Ombudsman Service, I'm required to ask G to accept or reject my decision before 14 July 2022.

Ben Jennings
Ombudsman