

The complaint

Miss M complains about how Lloyds Bank PLC (Lloyds) handled a chargeback she raised and its decision to close her account.

What happened

In July 2020, Miss M asked Lloyds to help her with a dispute she was having with a merchant. She had purchased some gym equipment online, but when she received it the items were damaged and rusty, with some parts unusable and others missing. She contacted the seller but didn't receive any response.

Miss M contacted Lloyds and it raised a chargeback dispute and provisionally credited her account with the amount of the goods in question. Miss M used this to purchase gym equipment from another seller. Lloyds then received a response to the chargeback dispute from the merchant saying they were willing to refund the payment if Miss M returned the equipment.

Lloyds said this resolved the chargeback dispute, so told Miss M it would be debiting the payment within 10 working days. Before the payment was taken, Miss M contacted Lloyds on 7 September 2020 to explain she no longer had the gym equipment. However, Lloyds explained it couldn't assist any further, as the last day it was able to assist Miss M through the chargeback scheme was 6 September 2020 because of the timescales involved. Lloyds then took the payment, putting Miss M's account into an unarranged overdraft. Miss M wasn't happy about this and complained to Lloyds.

Lloyds thought that the outcome of the chargeback was correct, as that had been dealt with in line with the relevant rules and timeframes. But, it accepted it hadn't provided Miss M with enough information during the process. It also said that it had failed to let Miss M know what the deadline for the chargeback claim was or to explain what the possibilities were in relation to the outcome of the claim. So it paid Miss M £200 for this.

Miss M was unhappy with this, so brought her complaint to our service. In addition to the complaint about the chargeback, Miss M wanted to complain about Lloyds closing her account because of not being able to repay the unarranged overdraft balance which had been created as a result of the chargeback. Lloyds agreed for our service to consider both complaint points. One of our investigators then provided their opinion on both issues.

Our investigator was satisfied Lloyds had followed the chargeback process correctly and so couldn't ask it to refund the £2,000 payment. However, they agreed that Lloyds should've done a better job communicating with Miss M about this. Our investigator highlighted that there was nothing to indicate that Miss M was ever told there was a possibility the £2,000 could be re-debited in the future. They said this likely contributed to why Miss M proceeded to make further payments and then later on went into her unarranged overdraft. Lloyds agreed more could've been done and so increased its offer from the £200 it had already paid, to a total of £500. Our investigator felt this was fair.

Addressing the account closure, our investigator noted Miss M's account fell into an unarranged overdraft because of the £2,000 payment being re-debited. But they were satisfied that Lloyds had tried to help Miss M in the following months. They highlighted Lloyds had placed a 30 day hold on the account shortly after the re-debit, as well as an expenditure form which was sent to Miss M in October 2020. Multiple letters were then sent to Miss M in the following months asking her to get in touch. However, as no payments or offers of repayment were made, our investigator was satisfied Lloyds had acted reasonably by closing the account.

Lloyds accepted our investigator's view, but Miss M disagreed. She explained that Lloyds' failure to correctly explain what was happening with the chargeback process had a significant knock-on effect. The original failings (including not explaining the chargeback process correctly) made it seem like the £2,000 credit was permanent and so could be used for other things. She's also explained that the account being closed and all the letters she's since received have caused her significant amounts of stress. As a result, she feels the offer made by Lloyds isn't enough.

As Miss M disagreed with our investigator's view, the complaint has now been passed to me for a final decision.

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.

There are two complaint points here – so I'll address them separately below.

Chargeback

Chargebacks are subject to rules and timescales which are set by the relevant card scheme provider. The process is that a bank will generally raise a chargeback for a customer when it's appropriate. This means that a merchant or seller can also make representations and explain its side of the situation. If the merchant's representations look to resolve the dispute, or suggest that the chargeback doesn't meet the relevant grounds for a refund under the rules, then it won't usually be successful.

On this occasion, Lloyds raised a chargeback on 30 July 2020 and the merchant then responded to the claim to say that it'd be willing to refund the payment if the goods were returned. Lloyds considered that this resolved the dispute and told Miss M this on 3 September 2020. That's a decision that Lloyds was entitled to make and it's one I think it made fairly, given that it's in line with the rules.

It was at this point that the chargeback process had been completed from Lloyds' side. I realise that the matter was far from concluded for Miss M. But, Lloyds had raised a chargeback, received a response from the merchant and considered that this resolved the dispute. That's a reasonable response to the dispute here and in line with the chargeback rules for the relevant card scheme.

I know that Miss M says that she never received responses from the merchant herself, but where Lloyds exhausted the chargeback process, that means its involvement in any ongoing dispute Miss M has with the merchant had reached an end.

I also don't think it's unreasonable that Lloyds decided to re-debit the £2,000 upon receiving a response from the merchant. Banks will often temporarily credit a customer's account while it looks into a chargeback claim. But this isn't a permanent payment. In this case, the merchant had confirmed it would be willing to refund Miss M in full (if the goods were

returned) and so there appeared to be a resolution to matters. So that meant that the chargeback was resolved and that Lloyds debited the payment again.

But, while I think the outcome of the chargeback is fair, that's not to say that Lloyds handled the process around it well. There were a number of opportunities where it could've communicated with her much more clearly. In particular, Miss M wasn't told that Lloyds would debit the money it credited her with if the chargeback wasn't successful.

Lloyds also didn't fully explain the timeframes involved – in particular the fact that 6 September was a key date, as it was at this point that a key chargeback time limit expired and meant Lloyds couldn't help her further. Lloyds has now offered a further £300 on top of £200 already paid for the impact this had. In my view that's a fair amount that reflects the significant stress and frustration that Miss M was caused by these shortcomings.

The fact that Lloyds didn't tell Miss M that it might take the money back doesn't mean that it wasn't entitled to do that here – it's something it could always have done. And in terms of the dates - by 6 September, Lloyds had completed the chargeback process. Even if Miss M were to have provided further information before then, I don't see that would have been likely to have changed that outcome. I say this where she told Lloyds that she didn't have all the goods anymore and so couldn't comply with the seller's instruction to return them for a refund.

Account closure

As I've explained above, I think Lloyds was entitled to have debited the amount it initially credited Miss M's account with. It was unfortunate that Miss M had spent the money from the credit and by the time that the amount was debited, it meant that her account was put into an overdraft.

Given that Lloyds could have been much clearer that it was going to take the payment again here, I'd expect to have seen that Lloyds responded sympathetically to Miss M's situation did what it could to help her before closing her account. I think it did that. I've seen that Lloyds spoke to her around the time of the debit and allowed her temporary access to her account for benefits payments. It also asked her for income and expenditure information so it could see what help it could offer, based on her situation. Lloyds sent a number of letters, over several months, explaining that Miss M had been in her unarranged o/d and should contact it to see if it could help.

But Lloyds received no response to any of these letters and after several months of being in her unarranged overdraft and incurring the associated charges, Lloyds made a decision to close the account. That's a decision it was entitled to make and one I think was in Miss M's best interests, even if I realise that she won't see it that way. By closing the account, it means that no further interest or charges will be applied and it'll enable Miss M to make payments that she can afford to reduce the debt.

This will likely have quite seriously impacted her credit record – but that is a consequence of an action like this and would be an accurate reflection of what happened with the account. So I can't fairly expect Lloyds to remove this.

Putting things right

Overall here, I think Lloyds decided the chargeback fairly and was entitled to close Miss M's account. I realise what a difficult time this will have been for her, given what she's told us about her circumstances. But I can't say it reached these decisions wrongly or unfairly.

It didn't deal with the situation, or communication around the chargeback process well though – and that clearly caused Miss M some confusion and frustration. Lloyds has now offered a further £300 to compensate her for the impact this had. In my view this brings the total compensation here to a fair amount that reflects the distress and inconvenience caused.

My final decision

My final decision is that Lloyds Bank PLC should pay Miss M £300 compensation, bringing the total paid to £500 overall.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 18 August 2022.

James Staples
Ombudsman