

The complaint

A company which I'll refer to as S, complains about Lloyds Bank PLC's (Lloyds) conduct of their Anti Money Laundering (AML) procedure.

In bringing this complaint, S is represented by its director, who I'll refer to as Mr M.

What happened

The background to this complaint is well known to the parties, so I won't repeat it in detail.

Briefly:

- S operated two accounts with Lloyds which it used for receiving payments from its clients.
- On 25 March 2022, Lloyds wrote to S to say that due to changes to AML regulations, S needed to meet certain criteria in order to continue using the two accounts.
- The bank's letter outlined the various steps that needed to be followed in the process - including, that on 8 April 2022, the bank would send a questionnaire to S which had to be returned to the bank by 9 May 2022.
- On 14 April 2022, Lloyds' questionnaire was received by S and Mr M completed and returned it to the bank.
- Mr M has told us that, concerned about the contents of Lloyds' letter, he attempted to contact the bank. When eventually, he spoke to a bank employee Mr M says he was told S couldn't operate the accounts in the same way as S had done historically. He says he was also told that what needed to happen was for individual client accounts to be opened.
- Mr M says without having any assurance that Lloyds would continue to provide a client account facility for S's clients, and fearful Lloyds would close them in a climate where other banks were less receptive to taking on new business clients, he decided to outsource to a third party the administration of the payments by S's clients. That in turn meant S's clients would no longer make deposits to the S's accounts with Lloyds but to the third-party administrator.
- But S's accounts weren't closed on 9 May 2022 as Mr M believed they would be. And so, on S's behalf Mr M complained to Lloyds. In summary, he said;
 - The bank didn't understand the nature of S's business and imposed a policy that wasn't relevant to that business.

- Lloyds' suggestion that to enable them to comply with AML requirements, an account for each of its many clients had to be opened was both unattainable and impractical. And despite being assured S would receive guidance and help, that did not happen which caused worry and stress.
- The third party charges a fee of £1000 per month for its service. Lloyds should not only apologise but pay compensation equivalent to at least one years' worth of the cost of using the services of the third party.

Lloyds didn't think they'd done anything wrong. They said the 9 May 2022 date that was mentioned in the bank's 25 March 2022 letter wasn't a date S's accounts were being closed. Rather, it was the date by which the bank needed a response to the documentation proposed sending to S.

As S's complaint remained unresolved, on its behalf, Mr M referred it to this service.

Our investigator didn't uphold the complaint. She said Lloyds were within their rights to require customers to meet AML regulations in order for them to hold certain accounts. She didn't think it was possible to conclude that Lloyds had done anything wrong. Therefore, she felt unable to recommend the bank compensates S for the costs arising from having to make third party arrangements for the collection of payments from S's clients.

S didn't agree with the investigator's conclusions and on its behalf Mr M has asked for an ombudsman's review of the complaint. Mr M said – in summary:

- Lloyds' AML requirements did not take into account S's membership of an industry accreditation scheme for businesses operating within its sector. Especially, given that the accreditation is operated by a nationally recognised organisation which scrutinises compliance by its members. It is unclear why membership of the organisation isn't good enough for Lloyds.
- The bank left S hanging in a no-man's land, with the threat of closing its accounts at any time. He could not simply wait for the bank to close the accounts. So, there was no option but to find alternative banking arrangements.

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 agree with the investigator's conclusions and for broadly the same reasons. I'll explain why.

To begin with, I would add that in the same way as other banks, Lloyds have certain legal and regulatory obligations that they must carry out including, as the bank indicated, those relating to AML.

However, the way in which Lloyds chose to discharge those obligations is a matter for their discretion. It is not for me as ombudsman to tell them how that should be done. That means it is not a matter for me whether S's accredited membership of any industry organisations is something Lloyds properly ought to have taken into account in the AML process they were conducting for S.

What seems to me to be the crux of S's complaint, however, is that Mr M interpreted Lloyds' 25 March 2022 letter effectively as notification that the bank intended to close S's accounts by 9 May 2022. And fearful of what he believed was the bank's intention, Mr M therefore, took the decision in April 2022 to engage a third-party provider to administer S's clients' accounts.

Whilst I can understand Mr M's desire to protect S from the inconvenience that would likely be caused if its accounts were closed by Lloyds, I do not think the letter could reasonably be interpreted as notice by the bank of an intention to do so.

Lloyds told S in its 25 March 2022 letter that they would require information from it and to that end the bank would send a questionnaire by 8 April 2022. The bank did so.

The bank's letter said:

"It's important that you send this back to us by 09 May 2022. If we haven't heard from you by then, we'll need to close your account(s)".

It's also worth noting Lloyds' letter also said:

"There's nothing else for you to do at the moment but it's important that you provide us with information when we ask for it as we'll need to close your account(s) if we don't hear from you".

The reference to the 9 May was within the context of the date by which S needed to return the information – as Mr M duly did in April 2022.

Mr M said he acted on S's behalf because he felt Lloyds had left S hanging in a state of some uncertainty, facing the threat of closure of its accounts.

I appreciate Mr M might have considered that was a reasonable way to mitigate the risk to S. But since the bank gave no notice to S that they were proposing to close its accounts as I would expect to happen with an appropriate notice period, it is difficult to conclude it has done anything wrong in this case. So, I don't think I can fairly require the bank to cover any of the costs S has incurred by having a third party administer the payments received from its clients.

My final decision

For the reasons given above and at the risk of disappointing S once more, I do not uphold the complaint

Under the rules of the Financial Ombudsman Service, I'm required to ask S to accept or reject my decision before 28 July 2023.

Asher Gordon
Ombudsman