

The complaint

Mr R has complained about the way that Lloyds Bank PLC handled a direct debit claim.

What happened

In late 2022, Mr R reported a series of direct debit payments to a merchant as unauthorised. They were for home insurance, and had been running since mid-2018. Mr R says he didn't have this insurance policy.

Lloyds turned down the claim, as the direct debits had been set up with a genuine insurance company in Mr R's name, using the correct details, and he'd been paying it for a long time without dispute. They offered Mr R £100 compensation for some customer service issues.

Our service looked into things independently. We suggested that Lloyds re-submit the claim in order to follow the proper process. Lloyds did so and got a refund, but initially only for some of the payments and not others. On our investigator's advice, Lloyds claimed for all the payments, and have now secured a refund. Lloyds have asked for Mr R's account details to pay him the refund. Our investigator also recommended that Lloyds pay 8% simple interest on the refund and £200 additional compensation, which Lloyds agreed to.

Mr R didn't agree with our investigator and requested further compensation. So the complaint's 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.

From what I can see, it's not clear whether these payments were unauthorised. But the crux of the issue – the disputed direct debit payments – has now broadly been resolved, as Lloyds agreed to resubmit a claim for all the payments involved, and they say that that claim was successful. It seems all that needs to be done on that front now is for Mr R to provide the details of the account for Lloyds to pay the refunds to. He can provide those details to our investigator to pass on.

Mr R has also explained that he faced some real difficulties during the period where he didn't have these refunds. I'm grateful to him for being open and candid with us about that.

When a customer is left without the use of some money for a time, we can't usually know for certain what they would have done if they'd had the money. They might have spent it on one bill, or another, or used it to cover one or more debts, or spent it on other things entirely. So it would be difficult to say for certain that Lloyds in particular prevented Mr R from e.g. taking out a particular loan. I also need to bear in mind that it was the merchant, rather than Lloyds, who actually took the payments, so they will have their share of the responsibility. Further, Mr R also had a responsibility to monitor his account, to report any unauthorised payments without delay, and to mitigate his losses, which I also need to keep in mind. These direct debit payments went on for a very long time indeed before being reported.

So in this case, I think the most reasonable thing is for Lloyds to add simple interest onto the refunded amounts at the rate of 8% simple a year. This is the rate we usually award to compensate a customer for the time they were out of pocket, and it's the same rate the courts use in situations like this. So it seems the most appropriate way to compensate Mr R.

I also understand that Mr R was caused some real frustration by a number of relatively small errors from Lloyds, such as not calling him back and not initially processing his claim correctly. We have guidelines about what levels of compensation to award, and I need to be consistent with those. Taking into account the nature of the errors and the direct impact they likely had on Mr R, I agree with our investigator that Lloyds should also pay Mr R £200 compensation to put things right.

Putting things right

Lloyds Bank PLC should:

- reimburse all the direct debit payments to the merchant in dispute, subject to Mr R providing his account details for payment;
- pay simple interest to Mr R on those transactions, at the rate of 8% simple a year, payable from the date they were last debited until the date they're returned[†]. This is to compensate Mr R for the time he didn't have this money.
- pay Mr R £200 compensation for the trouble and upset they caused.

[†] If Lloyds considers that they're required by HM Revenue & Customs (HMRC) to deduct tax from that simple interest, they should tell Mr R how much tax they've taken off. They should also give Mr R a tax deduction certificate if he asks for one. Mr R may be able to reclaim the tax from HMRC if he doesn't normally pay tax.

My final decision

For the reasons I've explained, I uphold Mr R's complaint, and direct Lloyds Bank PLC to put things right by doing what I've said above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 19 February 2024.

Adam Charles
Ombudsman

