

The complaint

Mr W has complained that a cheque he wrote from his account with Lloyds Bank PLC was not paid. He is also unhappy with the service he received from the bank relating to this.

What happened

I have previously issued a provisional decision regarding this complaint. The following represents excerpts from my provisional decision, outlining the background to this complaint and my provisional findings, and forms part of this final decision:

"In August 2023 Mr W wrote a cheque from his Lloyds account to pay part of his credit card bill with another bank. A few days later he received a letter from Lloyds that stated the cheque had been returned unpaid. The 'reason for failure' was listed as: "Payee, courtesy or legal amount not legible".

When Mr W initially rang Lloyds to query this, it told him that it had no issue with the cheque, and so the problem must be with the receiving bank. Mr W was sent a scan of the cheque, and he rang the receiving bank to question why it had not cleared. He has said that during the call, he was critical to the receiving bank about its actions.

However some days later Mr W contacted Lloyds again, and it confirmed that it had in fact been the bank that had blocked payment of the cheque, not the receiving bank. Lloyds said this was because Mr W had written the words "not negotiable" across the A/C Payee section. Mr W explained that he always writes these words on cheques, as he considers it provides a safeguard in the event that a cheque is lost in the post and a third party tries to use it.

Mr W complained to Lloyds about its actions. He was unhappy that initially Lloyds had told him that it was the receiving bank that had caused the cheque to fail. He stated that this had led him to call the receiving bank and blame it for the cheque not being honoured, and he was embarrassed about the way in which he had spoken to that bank. Mr W also said that he had written 'not negotiable' on cheques since 1992 and these had always been paid. He felt that the cheque failing affected his financial standing, and that his credit file might also be impacted.

Lloyds responded that since 1992 its cheques had had the words 'account payee' printed on them, meaning that the cheque could only be paid into an account in the payee's name. As a result, it was not necessary to write 'not negotiable' on a cheque too. Lloyds stated that for the cheque in question, because Mr W had written 'not negotiable' across it, it was deemed to have been defaced, and was rejected. It recommended that going forward, Mr W should not write these words on cheques. Lloyds did accept that it had misinformed Mr W initially when it said that the receiving bank had rejected the cheque, and it paid him £100 to reflect the inconvenience caused.

Unhappy with Lloyds' response, Mr W brought a complaint to this service.

Our investigator did not uphold this complaint. Whilst acknowledging that Mr W said all previous cheques he'd written with 'not negotiable' on them had been honoured, her view

was that Lloyds had acted reasonably when not paying the cheque in question, on the basis that it was defaced/illegible. The investigator considered the £100 compensation paid to reflect the misinformation Lloyds had provided Mr W about why the cheque had failed was fair.

Mr W disagreed with the investigator's findings. He explained that when paying off his credit card bill in August he had written two cheques to cover it, one from Lloyds and a larger one from another bank. Mr W said that on both cheques he had ensured the words 'not negotiable' were written within the tramlines of the cheque, so that they did not cover any other print. The cheque for the larger amount was paid, but the Lloyds cheque was bounced.

Mr W commented that he had been writing cheques for at least 25 years with the words 'not negotiable' on them, and had never previously had them refused, including cheques for Lloyds. He referred to the Bills of Exchange Act 1882, stating that this allows the wording 'not negotiable' on cheques to counter fraud, and he highlighted that this remains statute law. Mr W stated that since the cheque in question was rejected, he has continued to write 'not negotiable' on Lloyds cheques, and these have all been paid. He also said that Lloyds' cheque clearing department could not understand why the cheque had been declined when he first contacted the bank.

As a result of the cheque failing, Mr W said that he had an outstanding balance on his credit card which was incurring interest. He explained that he normally pays his credit card balance in full. Mr W said that he felt his "good name, credit worthiness and financial standing has been tarnished" by Lloyds' actions with the cheque, which he described as being illogical and inconsistent. He requested compensation of £400. Mr W said that when he had spoken to Lloyds, it had been unsympathetic to the problems caused.

The investigator maintained her view that Lloyds had not acted unreasonably when deciding that it would not honour Mr W's cheque written in August 2023, on the basis that it deemed that cheque was not acceptable.

Mr W asked that his complaint be reviewed by an ombudsman. He reiterated that he considered the cheque had complied fully with the Bills of Exchange Act 1882, that Lloyds had accepted his cheques written in this way for around 25 years, and that it continued to do so. Mr W suggested that Lloyds had decided that the cheque was not acceptable "on a whim", despite it being legible and legally correct.

Mr W referred to Lloyds' letter to him, in which it had stated that the bank deemed the August cheque had been defaced due to the additional wording he had put on it. In its treatment of the cheque, he questioned whether Lloyds was setting aside the established law in this matter.

The case was passed to me for review. I noted that Lloyds' response to Mr W's complaint had said the cheque had been rejected because it had been defaced. In contrast the initial notification that the cheque had been returned unpaid that was sent to Mr W gave the 'reason for failure' as "Payee, courtesy or legal amount not legible". I asked Lloyds to clarify whether the cheque was rejected because it was illegible, or defaced.

Lloyds spoke to its cheque clearing team. It said there were a few issues with the cheque, described as follows: "There is a line through the word [of the recipient bank/payee], not negotiable is written on it, large gap between two and hundred and the handwriting is not clear."

I asked what the process is for reviewing disputed cheques, and Lloyds confirmed that the cheque would have been rejected by its systems, and then looked at by a third party on behalf of Lloyds.

I questioned whether writing 'not negotiable' on a cheque would invalidate it. Lloyds responded that in light of other issues highlighted above with the cheque, it might have been rejected regardless of 'not negotiable' being written on it.

What I've provisionally 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.

Mr W has referenced the Bills of Exchange Act 1882 to explain why he writes 'not negotiable' on all his cheques in the 'tramline' section. That section includes wording pre-printed by Lloyds that says 'A/C Payee'.

In its response to Mr W's complaint, Lloyds highlighted the provisions of the Cheques Act 1992, stating that if a cheque is crossed and marked 'account payee', the account holder does not need to add other words such as 'not negotiable'. My understanding of the 1992 Act is that it is not necessary for an account holder to write 'not negotiable' on a cheque where it is already crossed and marked A/C Payee in order to reduce the risk of cheque fraud.

However I also understand that writing 'not negotiable' on a cheque, as Mr W did here (and says that he always does), would not invalidate a cheque. That would explain why cheques written in this way by Mr W continue to be honoured, as he has explained. It's for this reason that I asked Lloyds to explain in more detail why this particular cheque had failed. In response Lloyds has mentioned four possible issues with the cheque.

The first is that there is a line through the title of the recipient bank/payee. Looking at the image of the cheque, it's not clear to me where the line is that Lloyds is referring to. Where Mr W has written the name of the receiving bank, there is a very short line from the first letter of the bank to the third, but that would appear to be stylistic, rather than an attempt to strike through the name of the bank by Mr W. The receiving bank has UK in its name, and the pre-printed tramlines enclosing the A/C payee wording run through the word 'UK'. But on balance, I would not agree that the name of the recipient bank has a line through it. And in my view, the recipient bank is clearly legible.

The third issue raised by Lloyds is that where the amount of the cheque is written out in words, there's a gap between the words 'two' and 'hundred'. But that gap would appear to be because Mr W was avoiding writing over the A/C payee wording. The fourth issue raised by Lloyds is that Mr W's handwriting is not clear. Having looked at all the handwritten content of the cheque, I do not agree that that is the case.

Overall my view is that the writing on the cheque is both legible and clear. I also don't consider the cheque can be described as having been defaced, as Lloyds has also previously suggested. That leaves the issue Lloyds has raised that Mr W has written 'not negotiable' on it. But as I explained above, it does not seem that writing 'not negotiable' on a cheque invalidates it. And based on Mr W's testimony in this matter, writing 'not negotiable' on cheques has not prevented them being honoured, either before or since this August 2023 cheque.

Lloyds has explained that its systems would have initially rejected the cheque, and it would then have been reviewed by a third party working on behalf of the bank. My understanding of

Lloyds' comments is that this review would have entailed human intervention, whereby someone would have looked at the cheque more closely to see if it should be paid or not. Whether or not my description of the exact process is correct, my view is that when the cheque was reviewed, there was insufficient reason for it to have been rejected. Instead, I consider the cheque should have been paid. My current view therefore is that it was not reasonable for the August 2023 cheque to be rejected by Lloyds.

In terms of the consequences of the cheque being rejected, I asked Mr W if he could confirm whether he ended up paying interest on his credit card for the month in question. He has responded that once he explained to the credit card provider the problem he had encountered with the cheque being rejected, it agreed to cancel the interest charged. As a consequence, my view is that the failed cheque did not cause Mr W a financial loss.

In terms of other possible consequences of the cheque being rejected, Mr W says that he is embarrassed about the way that he spoke to the receiving bank when he rang it, and the way he was critical about its actions, believing it was the party which had rejected the cheque. He considers the cheque failing affected his financial standing and his good name, and he has questioned whether his credit file might have been impacted by this.

In relation to Mr W's credit file, there is no evidence that suggests the failed cheque may have affected this. However, in my view Mr W has clearly been caused concern by the events that occurred with the cheque, and feels that his financial reputation has been impacted by this. Lloyds has already paid Mr W £100 to reflect the difficulties it caused him. Mr W has asked that Lloyds be required to pay him additional compensation of £400.

Although I appreciate the level of concern Mr W has felt as a result of the cheque failing, taking into account awards made by this service on cases with similar circumstances, I do not intend to require Lloyds to pay the sum that Mr W has suggested. But I do consider it would be fair for Lloyds to pay Mr W a further £100, in addition to the £100 already paid, to reflect the distress and inconvenience that Lloyds' rejection of the cheque has caused him."

Responses to my provisional decision

Lloyds stated it agreed with the provisional decision, and said it was willing to pay the additional £100 compensation to Mr W.

Mr W also accepted my provisional 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.

Having done so, and taking into account the replies to my provisional decision, I do not consider that I have reason to alter the conclusions reached in that provisional decision.

My final decision

My final decision is that I uphold this complaint and require Lloyds Bank PLC to pay Mr W £100 compensation to reflect distress and inconvenience caused to him. This is in addition to the £100 compensation that Lloyds Bank PLC has already paid Mr W in relation to this matter.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 14 May 2024.

John Swain
Ombudsman