

## **The complaint**

R, a company, complains that Lloyds Bank PLC acted unfairly when it changed its account to a different type.

R has been represented in this complaint by its director, Mr D.

## **What happened**

R had an undesignated client account with Lloyds. In March 2022 Lloyds wrote to R to say that regulatory changes meant that, going forward, R would need to meet certain criteria under anti-money laundering rules to use the account. It said that R might need to move to a different type of account. It wrote to R again in April and then in August 2022, asking for detailed information about R's business arrangements and regulatory permissions to establish whether R still met the criteria for an undesignated current account.

Having received R's response to the questions, Lloyds emailed R in October 2022 to say it had completed its review, and would be able to offer R an insurer trust account ("ITA"). It said it could either change R's existing account to an ITA by issuing a notice of variation giving R two months' notice of the change, or R could close its account and open an ITA with a new sort code and account number. Mr D replied promptly, asking Lloyds to go ahead with the first option and issue a notice of variation.

In late September 2023 Lloyds wrote to R, confirming that its account would be changing to an ITA in early December 2023. It said this was because R wasn't holding client money, and R had agreed to change its account to an ITA to meet anti-money laundering rules.

Lloyds said that R's account number and sort code would stay the same and any standing orders and direct debits would continue as usual. It said that interest would no longer be earned on credit balances, and a monthly fee and charges for certain payments and services would be payable. It summarised those charges and enclosed a copy of the terms and conditions for the ITA.

Lloyds said R should check that the account was still right for it. If it wished to close the account, it could do so without charge. It also clarified that insurance premium money held in the ITA would be separate from money held in R's current account, so it would continue to waive rights of set-off for the ITA, and wouldn't use money in it to repay any amount that R owed to Lloyds. R contacted Lloyds after receiving the letter to say that the proposal was totally unacceptable.

R's account was eventually converted to an ITA in late January 2024.

Mr D says that the fact that Lloyds stopped paying interest on the account has resulted in a significant loss of income to R. He believes Lloyds has treated R very poorly, after decades of loyal custom. He'd like Lloyds to reinstate credit interest on the account, and compensate R for the lost interest.

One of our investigators considered the complaint, but didn't think it should be upheld. He

said, in summary, that Lloyds was entitled to change its products to meet regulatory requirements, and it had given R enough time to seek an alternative if it wasn't happy with the new terms.

R disagreed with the investigator's view. Mr D acknowledges that the issue might have arisen because of Lloyds' systems and policies. But he's questioned whether those systems and policies are fair and reasonable in the outcomes they produce for Lloyds' customers. He says that regardless of whether Lloyds gave notice of the change, it hasn't delivered a good outcome for R, and has increased Lloyds' earnings at the expense of its customers. He's also commented that the type of account that R previously held was a type of trust account, and he considers it unfair that Lloyds still pays interest on those accounts, but not on the ITA.

R asked for an ombudsman to consider the complaint, so it's been passed to me.

### **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.

In deciding what's fair and reasonable, I'm required to take into account relevant law and regulations, regulators' rules, guidance, standards and codes of practice and, where appropriate, what I consider to have been good industry practice at the time. And I've borne in mind that R has brought the complaint as a small business and not as a consumer.

Having considered the information that R provided about its regulatory permissions and business arrangements, Lloyds decided that it needed to change R's account type to comply with regulatory requirements. The ITA is designed to hold money on behalf of insurance company clients of the account holder with which the account holder has a formal risk transfer arrangement in place under Financial Conduct Authority rules governing client assets.

Mr D has commented that Lloyds considered its position on an individual basis, even though all insurance brokers abide by the same regulations. But I'm satisfied that Lloyds needed to establish, on a case-by-case basis, whether it could continue to offer an undesignated client account to its customers. It sent out a questionnaire asking for detailed information to establish the position. I've seen nothing to make me think that it treated R unfairly, or differently from other customers in a similar situation.

Mr D considers it unfair that Lloyds is charging fees for the account but not paying interest. He understands that Lloyds takes the view that because the new type of account is a trust account, the account holder isn't entitled to interest earned on credit balances. But the decision not to pay interest on the account is ultimately a commercial one, which Lloyds is entitled to take. It gave R more than two months' notice of the change and R had the option to move its account elsewhere if it wasn't happy with the terms and conditions of the ITA.

I've noted that Mr D says that moving R's banking elsewhere wouldn't have been straightforward, as he understands that many banks aren't willing to open trust accounts, or they make them subject to restrictive conditions. But I can't fairly hold Lloyds responsible if more attractive options aren't available elsewhere.

Taking everything into account, I'm satisfied that Lloyds changed R's account to comply with its regulatory responsibilities. It gave R reasonable notice of the change.

I know that Mr D will be disappointed with my decision, and I realise that he feels strongly about the position. But taking everything into account, I don't find that Lloyds did anything wrong. So I can't fairly uphold this complaint.

### **My final decision**

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask R to accept or reject my decision before 4 January 2025.

Juliet Collins  
**Ombudsman**