

The complaint

Mrs L is a sole trader. She complains that Barclays Bank Plc (Barclays) wrongly closed her business account.

What happened

- In November 2023, Mrs L and Barclays entered into an agreement (the Agreement) for the provision by Barclays of merchant acquiring services to Mrs L's business – which I'll refer to as L. Under the Agreement, Mrs L was able to take payments from L's card paying customers.
- According to Mrs L, on advice from her accountants that it would be more tax efficient to trade as a limited company, she'd already set up L in August 2023. But she continued to operate on a sole trader basis with the intention of transferring operations to the limited company at the start of the new financial year in April 2024.
- So, Mrs L notified Barclays of this and requested the transfer of the payment processing services to L.
- According to Barclays, in light of the change in L's status in becoming a limited company, Mrs L's request was treated as a new application for their payment processing services. And in line with their policy Mrs L needed to agree to L becoming a 'non-standard settled merchant'. What that meant was that payments to L would be subject to a 'Reserved Period' of 90 days.
- On 2 May 2024, Barclays wrote to Mrs L to offer the new terms - including letting her know that accepting them is the only basis upon which the bank would be willing to proceed. Their letter said:

*This offer is open for 21 days from the date of this letter. If you'd like to accept our offer with the '**non-standard settled merchant**' terms, please sign below where indicated and post it back to the address in our letterhead.*

- But in error, on 13 May 2024, the bank closed L's account ie before the 21 days Barclays had given it for the deadline to expire.
- On 16 May, the bank re-opened L's account. And as a gesture of goodwill credited L's account with £250 in compensation.
- However, as Mrs L didn't reply to Barclays agreeing to their new terms. L's account was closed again on 17 June 2024.

Mrs L was unhappy about the initial closure of L's account on 13 May. She said although the bank did put right its initial error when it reopened L's account on 16 May 2024, she lost sales during the closure period. And in any case, the new terms Barclays proposed were unacceptable to her. In particular because it meant that whereas before, settlements in

favour of L's were on a 24 hour turnaround basis, under the new terms, she was being asked to agree to a far longer timeframe of 90 days.

Also, she said she found a new, and better merchant acquirer but had to pay to vacate the card terminal agreement that was scheduled to end in May 2025.

Apart from their acknowledgement that they shouldn't have closed L's account on 13 May for which they'd already paid compensation, Barclays didn't think they'd done anything wrong. And as the complaint remained unresolved, Mrs L referred it to this service to look into.

Our investigator didn't think Barclays did anything wrong when they proposed changing L's account to a non-settled merchant account given Mrs L proposed operating the business differently – as a limited company. And to that end therefore the bank was entitled to offer Mrs L new terms.

But he noted Barclay's acknowledgement they'd made an error in closing L's account before the deadline they'd given Mrs L to accept the new terms. And he also noted the account remained closed for three days. However, he felt the response Barclays had issued to Mrs L's complaint – including the payment of £250 compensation already represented a fair outcome.

Mrs L didn't accept the investigator's conclusions – saying in summary that:

- She's aware of Barclays' ability to change the terms of the Agreement.
- But the change in the way L operated ie as a limited company, was done on advice that from a tax perspective it was in her best interest to do so. She couldn't accept the new terms that were being offered by Barclays because in spite of the incorporation the business remained small with only a small turnover. So, she could not operate L on terms where settlements were deferred for 90 days.
- Because she couldn't accept the new terms, the knock-on effect was that she had to pay the card terminal company a fee of £200, to exit the contract early. Barclays should reimburse the amount.

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, there is very little I can add to what our investigator has already said.

At the heart of this case is that Barclays offered Mrs L different payment terms to those she had previously, when L operated on a sole trader basis.

But for me to require Barclays to compensate Mrs L for this, I'd need to find they had made an error or acted unreasonably – and I don't think they did. I'll explain why.

Barclays say it was a commercial decision by the bank to offer different settlement terms to limited companies. I think they were entitled to make that decision and as ombudsman it is not my role to interfere with the legitimate exercise of such decisions.

Given the bank's offer to change the terms was as a result of L becoming a different legal entity – in other words changing from a sole trader business to a limited company - I don't think Barclays' decision lacked legitimacy, was unfair or unreasonable.

However, even though that is my finding, I understand and sympathise with Mrs L's carefully explained reasons for feeling unable to accept Barclays' offer of new terms.

That being said everyone agrees that Barclays made a mistake in this case. They shouldn't have closed L's account before the time period given to Mrs L to confirm if the new terms were acceptable. I am satisfied the three days the account remained closed caused Mrs L inconvenience and Barclays were right to pay her compensation.

So, next I considered whether the £250 Barclays paid was fair and reasonable or alternatively, whether they need to do anything more to put right their error.

Mrs L explained she had to pay a £200 early exit fee to the card terminal company as Barclays were the merchant acquirer with whom they are linked. And because she concluded she could no longer continue doing business with Barclays in light of their revised terms, she also could no longer continue using the existing terminal.

But I don't think it would be fair to require Barclays to assume responsibility for those costs. I've already set out my reasons for concluding Barclays had the right to propose new terms to Mrs L. Mrs L in turn elected not to proceed with the new terms as was her right.

I could only fairly require Barclays to pay compensation for the consequences that may have flowed from their decision if my conclusion was that they had no right to do so. However, that is not my finding in the circumstances of this case.

I next consider Mrs L's argument that the closure of the account meant she lost sales.

Mrs L explained that although she asked customers to do a bank transfer if they were purchasing an item, in view of the nature of the product she was selling (wedding dresses) a few customers wouldn't risk that method of payment as they wanted the security afforded by a credit card payment.

I accept that in the three days the account was closed that card machine payments were not possible. And I understand for the reasons given, that some customers would have felt more comfortable paying for their wedding dresses using a credit card.

But given that Mrs L suggested reasonable alternative forms of payment, I'd need to be sure it was the inability to pay by card that certain sales did not go ahead. But I can't be sure of that. And I say that because of the personal nature of the product Mrs L was selling. It seems on balance unlikely that if a customer had found a wedding dress that was appropriate for them, they'd have elected not to buy it because in spite of other payment methods being available their preferred payment method was not.

That being said, I don't doubt the closure did inconvenience Mrs L.

Determining an appropriate award for inconvenience can be difficult. But here, I've had regard to the length of time the account was closed – 3 days. And I've taken into account our guidance on inconvenience awards, details of which can be found on our website as well as applying my own judgement. Having done so, I consider that the payment of £250 is fair for the inconvenience Mrs L suffered. And I do not require Barclays to make any further payment.

My final decision

My final decision is I don't uphold this complaint in the sense that I'm satisfied that the £250 Barclays Bank Plc paid to Mrs L is fair and reasonable for the inconvenience she suffered as a result of the bank's error.

Under the rules of the Financial Ombudsman Service, I'm required to ask L to accept or reject my decision before 14 March 2025.

Asher Gordon
Ombudsman