

## **The complaint**

A company, which I'll refer to as J complains that Lloyds Bank PLC trading as Lloyds Bank Cardnet (Cardnet) unfairly declined to process a number of its card transactions.

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

## **What happened**

In 2016, J and Cardnet entered into an agreement (the Agreement) for the provision of merchant acquiring services, which enabled J to take card payments from its customers.

Mr S has told us that:

- In October 2023, things began to go wrong. In particular, from 11 October credit card transactions started being declined. So, he got in touch with Cardnet who told him there were no issues at their end.
- Believing the fault was therefore with J, an investigation into J's systems was conducted by external IT experts. But they found nothing untoward.
- Later, Cardnet acknowledged that they were responsible for the declined transactions.
- This impacted J financially, as demonstrated by figures showing that in the 18 months prior to these events, J experienced monthly gains of around 26% when compared to sales achieved in previous years. Whereas in October 2023, sales dropped to 2%.
- The declined transaction meant J lost revenue of over £196,000. It also incurred the wasted cost of the IT investigation.

In December 2023, Mr S complained to Cardnet about these events. But Cardnet didn't think they'd done anything wrong. They said – in summary:

- Historically, J had been processing transactions on a pre-authorization basis, then reversing them with the difference being submitted to Cardnet for settlement.
- J's card terminal had the facility to enable J to do so. But in line with the terms and conditions of the Agreement, J needed their permission to be able to operate in that way, at which point it would have been accorded "exceptional status" designation.
- But permission to pre-authorise transactions hadn't been given to J. Therefore, it was operating contrary to the terms and conditions of the Agreement.
- Even though J's terminal allowed certain types of transaction (pre-authorisation in this instance), did not mean Cardnet agreed to the use by J of the facility without authorisation

- In October 2023, Cardnet updated their internal systems to deny this type of processing for merchants who were not given the appropriate permission. The change was a business decision and made to protect Cardnet from possible fraud.
- Whereas Cardnet undertook to give 60 days' notice to customers of any changes to their merchant account, in the circumstances of this case, they didn't change J's merchant account. Rather, Cardnet merely carried out an update to their internal processing systems to address concerns about their exposure as acquirer, and compliance by merchants of the terms and conditions of their agreement with Cardnet.
- The action taken by Cardnet did negatively impact J's processing. But any financial loss incurred by J in the circumstances, did not result from errors committed by Cardnet.

Mr S wasn't happy with Cardnet's response and referred J's complaint to this service.

Our investigator looked into the complaint and – in summary, agreed with Cardnet that the Agreement explained that pre-authorisation processing by merchants had to be granted 'exceptional' status for them to be able to do so. But J was not. So, although J had been able to process transactions in that way, it was outside the terms of the Agreement. Cardnet did nothing wrong in taking steps to stop this.

However, the investigator also concluded that Cardnet could have communicated this better to J, explaining for example why because of the action they'd taken it was experiencing processing problems. Whereas, it wasn't until a complaint was raised that the true reason for the declined payments was revealed. For that Cardnet should pay £250 compensation for the inconvenience caused to J by Cardnet's poor communication.

Cardnet accepted the investigator's conclusions. But J didn't.

On its behalf Mr S reiterated the IT costs that J incurred in its attempt to discover the issue behind the declined transactions. He said J was charged additional fees too because a lot of manual and development work was also necessary while the card transactions were being declined.

Our investigator asked Mr S to provide evidence of J's IT costs. But he hasn't done so. Therefore, J's case has been passed to me for review

### **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 broadly for the same reasons.

I start by saying I have a lot of sympathy for J in the circumstances of this case. Like Cardnet, I appreciate that the action they took did have a material impact on J's transaction processing. In other words, the way it had been conducting such transactions came to an end. And neither do I doubt J was impacted financially as a result.

But for me to require Cardnet to compensate J for this, I'd need to find that in the circumstances of this case they had made an error or acted unreasonably – and I don't think they did. I'll explain why.

My starting point has been to look at the terms and conditions of the Agreement as it is the relevant document which governs the relationship between J and Cardnet. The following term is relevant to this dispute:

5.4 *“You must not offer or undertake Pre-Authorisation and/or Final Authorisation unless we have agreed this in writing. Where we have agreed for you to offer or undertake Pre-Authorisation and/or Final Authorisation, you must comply with the process set out in the Merchant Operating Manual”*

Mr S does not dispute J's card transactions operated along the lines Cardnet have told us they did. And clause 5.4 meant J, acting as it did was in breach of that clause.

Cardnet on the other hand have explained that they took a business decision to update their internal systems to deny this type of processing for merchants who were not given the appropriate permission. The unfortunate effect was that transactions could no longer be processed in the way J had done up to that point.

But I've thought about Mr S' argument that this was unfair because J operated under the assumption that the functionalities of its terminal were in line with the permissions it had been granted during the approval process.

I've also considered Mr J's argument that the contract that was signed with Cardnet at the outset made no mention of the requirement for written permission for the use of pre-authorizations.

I did look at the contract that Mr S signed in March 2016. In it he agreed to be bound by and to comply with the terms of the Agreement a copy of which he confirmed he'd received. And in my opinion clause 5.4 is clear and unambiguous. If Mr S did not read the terms of the Agreement, I cannot fairly blame Cardnet for that.

Whilst I agree with Cardnet that this action did not amount to a change in J's account as opposed to putting an end to a process that shouldn't have been taking place, I agree with the Investigator that this could have been better communicated to J.

Mr S has argued he had to engage IT experts in an attempt to uncover what had been taking place regarding J's transactions because Cardnet denied they were to blame for their rejection. But I've seen no evidence of the costs Mr S says were incurred. And more to the point that they related to this issue.

### **Putting this right**

For the reasons the investigator gave, I too am satisfied that J was inconvenienced by the lack of clarity from Cardnet regarding the reasons for the declined transactions. Similarly, for the same reasons the investigator gave, as well as applying my own judgement I'm satisfied that an award of £250 is fair and reasonable in all the circumstances of the complaint.

### **My final decision**

My final decision is I uphold this complaint in part. In full and final settlement of it, I require Lloyds Bank PLC trading as Lloyds Bank Cardnet to pay J, £250.

Under the rules of the Financial Ombudsman Service, I'm required to ask J to accept or reject my decision before 28 March 2025.

Asher Gordon  
**Ombudsman**