

## The complaint

A charity which I'll call 'P' complains that Lloyds Bank Plc won't reimburse the money it lost as a result of fraudulent transactions from its account.

## What happened

Both parties are aware of the circumstances of the complaint, so I won't repeat them all here. But briefly, P holds an account with Lloyds with various signatories of the charity having authority on the account. The account was opened in December 2022. In August 2023, the bank sent a message to the chair of the charity, Mr T asking him to contact the bank about unusual activity on P's account. Upon reviewing the activity, Mr T identified that P's treasurer, Mr R, had been making payments to himself from the charity's account, so he was removed as a signatory.

It was then identified that Mr R had sent himself £135,867 from P's account as follows:

24/01/2023	£5,000
24/01/2023	£8,000
07/02/2023	£3,500
29/03/2023	£3,775
15/04/2023	£225
28/05/2023	£5,000
18/06/2023	£2,000
21/06/2023	£11,000
21/06/2023	20,000
21/06/2023	£9,500
26/06/2023	£4,500
27/06/2023	£12,000
28/06/2023	£13,750
04/07/2023	£4,500
04/07/2023	£1,000
05/07/2023	£4,500
05/07/2023	£500
17/07/2023	£925
18/07/2023	£1,892
31/07/2023	£4,200
31/07/2023	£4,200
02/08/2023	£1,000
03/08/2023	£100
03/08/2023	£100
03/08/2023	£4,100
03/08/2023	£2,500

14/08/2023	£3,100
17/08/2023	£5,000

Upon identifying the loss from the charity's account, Mr T complained to Lloyds and asked that the bank refund P. He said that the bank had failed in its duty of care to P as it should have identified the transactions to Mr R were suspicious much sooner than the £5,000 in August 2023. Mr T noted that the transactions were not typical of the charity's account activity and were always in round amounts. He also said that P didn't dispute that Mr R had authority from the charity to access the P's funds, but he'd falsified the information he was providing to P's trustees, so they weren't aware of the account activity.

Lloyds didn't uphold P's complaint. The bank said that this was a civil matter between P and Mr R as the signatory on the charity's account, and the police. It was satisfied that it had undertaken the relevant due diligence on P's account and made the payments submitted by Mr R in accordance with the mandate held for the charity. P didn't agree and asked our service to look into its complaint.

Our investigator recommended P's complaint be upheld. He noted that Mr R's activity started the month after the account had been opened, and that initially the account activity wouldn't have appeared suspicious. He also thought that even if Lloyds had contacted P about the payments initially, it likely would have contacted Mr R as he'd made the payments. However, he thought that when Mr R had made the payment for £11,000, this ought reasonably to have raised concerns with Lloyds – given that Mr R had now transferred £38,500 to his personal account. The investigator thought that had Lloyds intervened at this point, it would have contacted Mr T (as it did about the payment in August 2023) and the losses from P's account would have been discovered.

Lloyds didn't agree and asked that an ombudsman review the complaint. The bank said that P should have done more to prevent its losses and had more oversight of Mr R's actions, as it appeared his authority was based simply on trust. It also said the message that had been sent to Mr T in August 2023 had simply been a random security check, and not because there was any suspicious activity on P's account.

### **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's not much more that I can add to what our investigator has already said. I think Lloyds should refund the payments made from P's account from 21 June 2023 onwards as a result of the misappropriation of funds by Mr R, less the £2,100 which was credited to the charity's account by Mr R.

### ***Could Lloyds have done more to prevent the transactions?***

There are various requirements that Lloyds must meet in relation to its accounts, and its due diligence checks don't end once an account is opened. Lloyds must conduct its business with due skill, care and diligence and ensure that it has effective systems and controls in place to meet its regulatory obligations. This includes the ongoing monitoring of accounts and payments to prevent the risk of money-laundering, fraud, and scams. Ultimately, it is a matter for Lloyds on how it chooses to configure its fraud detection systems and strike a balance between allowing its customers to transact business and questioning transactions to confirm they are legitimate. But I need to decide based on what I have seen whether Lloyds could have and should have fairly and reasonably done more here to prevent P's loss.

The Payment Services Regulations (the PSRs) explain, generally speaking, that account holders will be liable for payments they've authorised, and banks will be liable for unauthorised payments. I've taken this into account when considering what's fair and reasonable in the circumstances of this complaint. I recognise that Lloyds says that this complaint should be considered a civil matter between, P, Mr R, and the police, but I'm not persuaded that's the case. It's not in dispute that the payment was authorised by one of P's signatories, or that the starting position here is that the bank isn't liable for the transactions. But this isn't the end of the story. Lloyds has a duty to exercise reasonable skill and care, pay due regard to the interest of its customers and to follow good industry practice to keep customer's accounts safe. This includes looking out for payments which might indicate the consumer is at risk of financial harm - regardless of who is making those payments. And in this case, it's clear that Mr R had been misappropriating the funds in P's accounts.

Based on what I've seen, I don't think the first seven payments made by Mr R from P's account would have aroused any suspicions for Lloyds. I say that because I can see that the account was recently opened, so there was no account history for the bank to compare the payments to, and the payments made by Mr R would likely have been seen to be setting a precedent for how the account would be used. Furthermore, between January and May 2023, Mr R generally only made one payment a month to himself for similar amounts to the transfers he was making between P's different accounts. So, I'm not satisfied these payments were so unusual or out of character that Lloyds should have identified a potential issue. Mr R was a signatory for P and was responsible for making these payments, I think it's likely that even if Lloyds had wanted more information about the payments, it would have contacted Mr R, and he would have confirmed the payments should be released.

However, I think when Mr R made the payment for £11,000 this should have triggered Lloyds to intervene. I say that because the payment was larger than P had made previously, and was the second payment made within the same month. The payment reduced the account balance significantly, and it was then followed by further transfers and another withdrawal for £20,000. And looking at the account activity, I think this behaviour was significantly unusual and out of character for P's account that the bank's systems should have identified there was a risk of financial harm to P and that the charity's funds may have been misappropriated by Mr R.

I recognise that Lloyds has to strike a balance between identifying payments that could be fraudulent (amongst other things) and responding appropriately based on its concerns, whilst also ensuring there is minimal disruption to any legitimate payments. However, in this case, I'm satisfied that Lloyds should've been so concerned about the £11,000 payment that it ought to reasonably have taken additional steps, or made additional checks before it processed the payment.

I can see that in August 2023, when Lloyds decided that P's account activity was suspicious, it contacted Mr T to query the payments that were being made by Mr R, rather than Mr R himself. So, I think on balance, it's likely that had the bank intervened when the £11,000 payment was made, it would have contacted Mr T at that time too. Had Lloyds intervened at this point, I'm satisfied that it's likely Mr R's actions would have come to light and P wouldn't have suffered the subsequent losses. Lloyds hasn't provided an explanation for why it flagged the £5,000 transaction in August 2023 and blocked Mr R's online banking access, only that it was a 'random security check', so I don't want to speculate on the reason for this. However, I'm satisfied that this means the transactions made by Mr R from P's account did trigger some concern on Lloyds' systems.

*Could P have done more to prevent the transactions?*

I've gone on to consider where P should accept some liability for the losses it suffered. I recognise that Lloyds says that the charity was responsible for its own management controls and oversight, and that these were clearly inadequate given that Mr R was able to make these payments. However, I don't think that's a fair assessment.

Mr R's role for P was as the treasurer and therefore he was tasked with managing P's finances. P does have controls in place, in that Mr R was required to provide information about the charity's finances on a monthly basis. However, in this case Mr R was able to manipulate the information he provided to rest of P's committee, given that he was appointed as treasurer for the charity, and therefore in charge of P's accounts. P is a charity not a professional organisation, and it is run on a voluntary basis, therefore I think it's reasonable that the rest of the committee accepted the information they were being told and had no reason to access P's accounts to check this. And Lloyds hasn't provided any evidence to show that P's account was accessed by any other signatory during the period that Mr R made these withdrawals.

Therefore, based on the evidence I've seen, I don't think it's reasonable to hold P or the rest of the charity's board responsible for the losses caused by the misappropriation of funds by Mr R.

### **Putting things right**

As I've mentioned above, I don't think Lloyds can fairly be held responsible for the payments made by Mr R between 24 January 2023 and 18 June 2023. However, I think Lloyds should refund P for the payments made by Mr R to from 21 June 2023 to 17 August 2023 – less any credits received into P's account from Mr R between 24 January and 17 August 2023, in addition to the credits of £4,200 of 31 July 2023, and £100 on 3 August 2023. Lloyds should also add annual interest at 8% simple from the date of the transactions to the date the funds are returned, to reflect the time that P has been deprived of the use of those funds.

I recognise that Lloyds says it's unclear whether funds remained in Mr R's accounts as a result of these payments and that should be taken into consideration by our service. However, it is not the role of our service to liaise with the third-party banks, it is to review the actions taken by Lloyds and resolve P's complaint quickly and informally. The onus would be on Lloyds to approach any third parties to seek recovery of any funds that may be available.

### **My final decision**

My final decision is that I uphold this complaint. I direct Lloyds Bank Plc to resolve the complaint in the way I have set out above.

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

Jenny Lomax  
**Ombudsman**