

The complaint

Mr H complains about a chargeback dispute he made to Lloyds Bank PLC (Lloyds) in respect of a deposit not having been returned to him from a merchant.

What happened

On 1 June 2024, Mr H contacted a merchant, who I'll call M, regarding the purchase of a vehicle. Contact was made via telephone, and during this call Mr H says he was informed he was required to pay a refundable deposit of £1,000 to secure his purchase. Mr H provided his payment details, and payment was taken from his debit card. Mr H says that no terms and conditions of sale were provided during this telephone call, and he received an invoice by email later the same day.

On 21 June 2024 Mr H says he went to visit the garage and was informed the vehicle was not ready for collection. He said he would like his money back and was informed by M that there was a 15% charge of the total invoice cost for cancellation – which for Mr H equated to just over the £1,000 he had already paid. So, he would not receive a refund of his deposit.

On the same day, Mr H raised a dispute with Lloyds regarding this matter. Lloyds raised the dispute, and this was defended by the merchant who said the cancellation charge information was visible on the invoice sent to Mr H on the date he paid the deposit. Mr H contested this and so Lloyds took the dispute to pre-arbitration. M continued to defend the dispute at this stage and Lloyds made the decision to decline the claim as it didn't feel there were reasonable prospects of success.

Mr H raised a complaint, and Lloyds didn't think it had done anything wrong with the way in which it had handled the claim. So, Mr H brought his complaint to our service. He said as he had agreed the purchase and paid the deposit over the telephone, this was distance selling. Mr H said that during the call he had been told the deposit was fully refundable but when he cancelled the purchase, he was informed about the cancellation fee which effectively meant M would retain his deposit. Mr H said this sort of sales practice and adding terms after the purchase has been made is unlawful and Lloyds should have pursued M accordingly.

Our investigator reviewed the complaint and said she thought Lloyds could have used a more appropriate reason code when raising the dispute with M, but even if it had she didn't think the claim was likely to have been successful. Our investigator explained that there is no evidence to support what conversation was had over the telephone, and the invoice does set out the cancellation fee applicable. Regarding the distance selling matter, she said Lloyds could not be held responsible for whether there was a failing by M in relation to this.

Mr H asked for an ombudsman to consider his complaint. He said the invoice did not contain information concerning cancellation as it ought to, and in failing to pursue this appropriately he feels Lloyds missed an opportunity to gather information and raise a successful dispute on his behalf. So, the complaint has now been passed to me to decide.

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.

I would like to start by saying that I have provided a brief summary of the events that occurred above. I intend no discourtesy by this and can assure both parties that I have taken all the information provided into consideration when reaching a decision on this complaint.

In this decision, I'll concentrate my comments on what I think is relevant. If I don't comment on a specific point, it's not because I've failed to consider it, but because I don't think I need to comment in order to reach a fair and reasonable outcome. Our rules allow me to do this, and this reflects the nature of our service as a free and informal alternative to the courts.

I also think it's worth clarifying that I'm deciding whether Lloyds acted fairly in assisting Mr H with his dispute against M. I'm not making a finding on the underlying dispute Mr H has with M. Lloyds did not retain the deposit Mr H is attempting to recover, so when considering what's fair and reasonable, I'm only considering whether Lloyds acted in line with its obligations as a provider of financial services.

Chargeback is a voluntary scheme under which settlement disputes are resolved between card issuers and merchants, under the relevant card scheme. A card issuer will review the claim against the possible reasons for a chargeback and look at whether it would be able to make a successful claim for the customer. Card issuers do not have to submit claims and usually will only do so, if it is likely to be successful. We don't expect them to raise a claim if there is little prospect of success.

In this particular case, the relevant card scheme is Visa. Lloyds raised a dispute under the reason code Goods/Service Not Received. The merchant defended the dispute stating that the goods were available to Mr H, and he chose to cancel the purchase. M also supplied a copy of the invoice where directly under the total purchase amount of £5,999 it said, *"IN THE EVENT OF A CANCELLATION A 15% HANDLING CHARGE WILL BE APPLIED."*

I have considered the actions Lloyds took and in light of the information provided by Mr H, I don't find that the reason code it pursued the dispute under was the most appropriate one available to it. The visa rules describe instances where goods/services are not received as the cardholder not having received the goods or services because the merchant was unwilling or unable to provide them.

It seems to me that as Mr H had described the unavailability of the vehicle as the reason for cancellation, Lloyds might have found this to be the most appropriate reason code to use. However, as he was mainly contesting the deposit having been retained and the inappropriateness of cancellation terms being provided after the sale, I find a more appropriate reason would have been Cancelled Goods/Services. This is described by Visa as:

- *"The Cardholder cancelled or returned merchandise, cancelled services, cancelled a timeshare Transaction, or cancelled a Guaranteed Reservation.*
- *The Merchant did not process a credit or voided Transaction Receipt.*
- *Either:*
 - *The Merchant did not properly disclose or did disclose, but did not apply, a limited return or cancellation policy at the time of the Transaction.*

- *In the Europe Region: The merchandise or services relate to an off-premises, distance selling contract (as set out in the EU Directive and amended from time to time) which is always subject to a 14-day cancellation period.”*

Having said that, even if Lloyds had pursued this avenue of dispute, I find it unlikely that the dispute had reasonable prospects of success. I say this because the rules about chargeback requests are set by the card scheme operator – in this case, Visa. Banks don't have any scope to change those rules, they have to follow them. And the ultimate decision on whether a chargeback is successful is made by the scheme operator, not by the seller's bank. However, in this case, the request didn't go that far as it went to pre-arbitration only.

For a chargeback request to succeed, it has to fit within one of the categories that the card scheme operator has set out. The Visa guidance sets out the requirements of disputes raised under this reason code and with the merchant having supplied an invoice outlining the cancellation terms which were issued to Mr H on the same day that he paid the deposit stating it would retain 15% of the cost of purchase on cancellation, the dispute, if taken to arbitration, would not likely have been successful.

Mr H is essentially telling us that in adding terms after the sale, M has breached the Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 (CCRs). Although I understand why he raises this argument, within the chargeback rules there isn't a category which covers a seller refusing a refund under the CCRs. So, the bank can't process the chargeback request on that basis. It is also not for me to explore whether there is any merit to the argument that Mr H is making under the limited scope of the chargeback rules so I will not comment on it any further.

I understand Mr H's position and I empathise with the situation he finds himself in. The issue here is that the reasons for how a successful chargeback can be raised are finite rather than infinite. And ultimately, chargeback reason codes don't cover the sort of situation and distance selling regulations that Mr H is arguing. The road he has gone down is more relevant to a dispute about the contract and there is no room within the chargeback rules for arguments like that to be brought forward.

Overall, I am required to comment on whether Lloyds treated Mr H fairly when handling his dispute. Although I think it could have chosen another reason code, I don't think this would have made a difference here. Lloyds took the dispute to pre-arbitration and M defended the dispute. Based on the information Lloyds had, it was reasonable for it to decide not to proceed to arbitration as its chances of success were low. And so, I do not find that Lloyds has treated Mr H unfairly when handling his dispute.

My final decision

My final decision is that I do not uphold this complaint against Lloyds Bank PLC.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 22 July 2025.

Vanisha Patel
Ombudsman