

The complaint

N, a sole trader, has complained that Starling Bank Limited did not reimburse the £13,000 it says it lost to a scam.

What happened

N entered into a drop shipping agreement with a company I'll refer to as 'X' for the purposes of this decision. It agreed to pay X £13,000 as an investment in an online store and made the transfer on 21 July 2021. Part of the agreement stated that if N's store was not profitable within the first six months, X would purchase the store from the customer.

After around two months of the store operating, it was not proving to be profitable and N expressed it was losing money instead. N wrote to X and asked to trigger the clause in the agreement that stated X would purchase the store. However, N says it never received a response from X and it never received any returns from the agreement. X later entered liquidation in July 2024.

In August 2024, N raised a scam claim with Starling via a representative. The representative set out that they felt X was running a scam operation and raised a number of points. These included that X's listings were not fit for purpose with a high percentage of damaged or poor-quality orders with no tracking, and that the existence of any products at all was a cover for an elaborate Ponzi scheme, amongst other things.

Starling issued a final response in September 2024 explaining they felt this was a buyer/seller dispute and therefore was a civil dispute and not a scam under the Lending Standards Board's Contingent Reimbursement Model ("CRM") Code.

The case was referred to our service and our Investigator looked into it. They felt it was more likely X was operating as a genuine business and that N's funds had been used for the intended purpose. So, they felt it was reasonable for Starling to treat the complaint as a civil dispute.

N's representative decided to no longer represent them, and N asked for an ombudsman to review the complaint, as it highlighted other claims made against X had been treated as fraudulent.

As an informal agreement could not be reached the complaint has been passed to me for a final decision.

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 have come to the same outcome as the Investigator for largely the same reasons. I therefore agree that Starling acted reasonably when it treated N's claim as a civil dispute. I will explain my reasoning.

It isn't in dispute that N authorised the payment of £13,000. Because of this the starting position – in line with the Payment Services Regulations 2017 – is that N is liable for the transaction. But it says that it has been the victim of an authorised push payment (APP) scam.

Starling has signed up to the voluntary CRM Code, which provides additional protection to scam victims. Under the CRM Code, the starting principle is that a firm should reimburse a customer who is the victim of an APP scam (except in limited circumstances). But the CRM Code only applies if the definition of an APP scam, as set out in it, is met. I have set this definition out below:

...a transfer of funds executed across Faster Payments...where:

- (i) The Customer intended to transfer funds to another person, but was instead deceived into transferring the funds to a different person; or*
- (ii) The Customer transferred funds to another person for what they believed were legitimate purposes but which were in fact fraudulent.*

The CRM Code is also explicit that it doesn't apply to private civil disputes. The wording in the code is as follows:

"This Code does not apply to:

- b) private civil disputes, such as where a Customer has paid a legitimate supplier for goods, services, or digital content but has not received them, they are defective in some way, or the Customer is otherwise dissatisfied with the supplier."*

I've therefore considered whether the payment N made to X falls under the scope of an APP scam as set out above. In order to determine if N has been the victim of a scam, I have to consider if its intended purpose for the payments was legitimate, whether the intended purposes it and the company it paid were broadly aligned and, if not, whether this was the result of dishonest deception on the part of the company, in this case X.

N has provided an agreement between itself and X which sets out that X would provide drop shipping services to N at a cost of £13,000. This entailed N purchasing certain products connected to the product listing provided by X, and X would then provide certain services after the sale, such as training. When N made a sale, the details of that sale would be forwarded to X who would contact their wholesalers and arrange delivery of the items. I therefore think that N's intended purpose for the payment was legitimate.

I've gone on to consider if X's intended purpose for the payment of £13,000 aligned with N's. In doing so, I've considered the information available about X, including the receiving bank information. While I cannot go into detail about what they entail, the activity indicates X was operating as a genuine business. I say this because there were regular payments for staff wages as well as private healthcare, for pensions and to recruitment agencies. I therefore think it is more likely X was a genuine organisation that ran into financial difficulty and ultimately failed, rather than a scam operation.

N's previous representative raised concerns about X entering liquidation, and a police investigation that is ongoing against it. I can understand these concerns, however I do not agree these issues are enough to be persuaded X was operating as a scam or that it did not intend to use N's funds for the intended purpose set out above. I am not currently aware of any criminal charges being brought against any individual involved in X.

I appreciate N has said X did not honour the section of the agreement that stated it would buy back the store within the first six months if it was not profitable. However, I don't think this means N's funds were not used for the intended purpose. From what N has said, it appears that it did receive access to X's resale platform and the product listings as set out in the agreement. I therefore think that the funds were used for the intended purpose as set out

above. It should be noted that Mr N's previous representative sent us a significant amount of evidence, however the majority of this was not related to N's specific situation.

Having carefully considered everything available to me, I think Starling acted reasonably when it treated this case as a civil dispute rather than a scam.

It is possible that further evidence may come to light at a later date, which may indicate X was operating a scam. If new material evidence comes to light, then N can complain to Starling again, and refer the matter to this service, should it be unhappy with the outcome.

My final decision

I do not uphold N's complaint against Starling Bank Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask N to accept or reject my decision before 3 October 2025.

Rebecca Norris

Ombudsman