

The complaint

Mrs and Mr G complain that a direct debit was set up on their Lloyds Bank PLC (Lloyds) account without their authorisation and Lloyds did not notify them.

What happened

Mrs and Mr G raised concerns with Lloyds when it came to their attention that a direct debit was taken from their account that they did not recognise or set up. It was for a payment of £24 and was made to a service provider (who I will call company S).

On investigating, Lloyds confirmed the direct debit instruction as cancelled, and a refund for the full amount debited was arranged. But Mrs and Mr G were concerned as to the possibility of it happening again. They questioned why Lloyds had no process in place to let them know that a new direct debit instruction had been set up on their account.

Mrs and Mr G said Lloyds hadn't been proactive in taking steps to protect them from possible fraud. And they felt that a notification should have been sent to their phones to alert them to the direct debit instruction being set up.

Lloyds said that if an unauthorised Direct Debit is set up, once they are informed by the customer, the direct debit guarantee allows them to arrange a refund for the amount debited in error, but it had no process in place to identify direct debits that were set up in error. Lloyds made an award of £25 in recognition of the distress and inconvenience caused.

On picking up the complaint, our investigator could see that Lloyds had presented a further offer to Mrs and Mr G in a bid to resolve things when it was made aware of our services involvement. This offer was for a further £100 in addition to the £25 that had already been awarded.

As Mrs and Mr G said they did not accept the offer, our investigator proceeded to consider the merits of the complaint in full. On doing so she agreed that a further award was warranted for the inconvenience caused to Mrs and Mr G on raising concerns, but she was unable to conclude that Lloyds had been unreasonable in its response about the direct debit set up process.

As Mrs and Mr G remained unhappy, the complaint was 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.

Having done so, I too agree with the investigator for broadly the same reasons. I can see Mrs and Mr G feel strongly about this matter and will therefore be disappointed with my decision. So, I'll explain why.

It's clear, from what I've seen, Mrs and Mr G are concerned how it was possible for someone to set up a direct debit instruction on their account without their authorisation. And they have bought this complaint to us in the hope that this service can change the way in which Lloyds, informs their customers when a direct debit instruction is set up. But I must make it clear that we are not the regulator – that's the role of the Financial Conduct Authority (FCA). We can look into whether a business has done something wrong and, if so, we take steps to tell the business how to put things right, but we don't have the power to tell a business to change its processes or policies. And our website further outlines our role.

I can see that Lloyds acknowledges it provided conflicting information to Mrs and Mr G, which resulted in them having to spend an unnecessary amount of time following up with Lloyds on this matter, which could have been otherwise avoided. And in recognition of this it made a further offer of £100. But Mrs and Mr G declined this offer, so the investigator proceeded to make her opinion after considering the complaint in its entirety.

I can appreciate that Mrs and Mr G remained unhappy with the investigator's findings, so what remains for me to decide is whether Lloyds needs to do anything more than it has already proposed to put things right, given the circumstances presented here.

To determine this, I have given great thought to Mrs and Mr G's position, particularly the impact this matter had on them. I don't doubt this was a troubling time for Mrs and Mr G, especially considering the direct debit that was set up on their account wasn't authorised or requested by them. And I can fully appreciate that the possibility of the same thing happening again in the future was concerning to them. But on considering this, I have reflected on how Lloyds responded to the situation and whether it can fairly be asked to do anything further.

As I understand it, on raising concerns with Lloyds, the direct debit was cancelled before any further payments left their account, and the £24 that had been debited was refunded, so no financial loss was incurred by Mrs and Mr G.

I can also see Lloyds explained that for a direct debit instruction to be set up, all that is required, is an account number and sort code, but that customers have protection under the Direct Debit Guarantee in instances such as those presented here. The guarantee enables account holders to challenge direct debits taken from their account in certain circumstances, via the direct debit indemnity process and offer an immediate refund where it is fair to do so. Here Mrs and Mr G were quick to realise that the direct debit instruction was set up without their consent or permission and they took steps to notify Lloyds immediately. But I can see that Mrs and Mr G have said that if it hadn't been for them picking it up when they did, company S would have proceeded to take a payment each month for the term of the contract, and that they would have been held liable for it.

Mrs and Mr G felt that Lloyds should have a process which advises people when direct debits are set up on accounts to stop this happening again. But Lloyds stated that this was not currently something they were able to do. But it reassured Mrs and Mr G that should it happen again they would investigate and refund if it was found to be unauthorised. So, I am satisfied that Lloyds acted reasonably.

I agree that it can be concerning for customers to find out that their details have been compromised. However, as much of today's everyday banking – like direct debits, is undertaken electronically it wouldn't be fair or reasonable to ask Lloyds to provide an explanation as to how it was possible for an unauthorised party to set up a direct debit instruction on Mrs and Mr G's account.

In the past, a signed direct debit mandate was held by the customer's bank/building society when a direct debit was set up on an account. But these days, there is a well-established industry approach for most direct debits to be set up electronically by the company which is due to receive the payment (sometimes known as the direct debit originator) - in this case that is company S.

So here, it was for company S to obtain authority. And once this was obtained, it was for company S to set up the direct debit via a system known as the Automated Direct Debit Instruction Service (AUDDIS). More information can be found here: <https://www.bacs.co.uk/bacsschemes/direct-debit/services/auddis/>.

What this means is that when Lloyds received direct debit instructions electronically from company S, I wouldn't expect it to have obtained a signed mandate. It is not clear who provided authority to company S or how it was obtained, but as the payment was wrongly claimed from Mrs and Mr G's account, they were able to claim a refund from Lloyds under the Direct Debit Guarantee.

Overall, while I appreciate Mrs and Mr G want Lloyds to put something in place which lets them know when a direct debit is set up on their account, I haven't found that Lloyds has been unreasonable in its response to them. And I can't agree that this is something that this service can fairly ask Lloyds to do. It's not the role of this service to ask businesses to change their processes.

But with that being said, I can see that Lloyds has mentioned that it will be looking at the implementing a process which sends a text message to customers when a new payment instruction is set up. Although Lloyds states it cannot guarantee it will be possible to do so, I think it shows it has listened to Mrs and Mr G's concerns and has attempted to support where it is reasonable to do so.

Finally, having listened to the calls that took place, I can also see that Mrs and Mr G were given the option to cancel their account and open a new one, as they were concerned about the same thing happening again due to their account details being compromised.

I sympathise with Mrs and Mr G and appreciate their frustrations. But I am not here to punish the bank, and nor is it within our remit to ask it to change its operations and I can see it has tried to assist where possible.

Putting things right

Having reviewed everything, I appreciate that Lloyds could have dealt with things better, and I think £100, on top of the £25 previously awarded by Lloyds is fair.

My final decision

For the reasons I've given above, I uphold this complaint and request Lloyds Bank PLC make a further payment of £100 to Mrs and Mr G.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs G and Mr G to accept or reject my decision before 24 July 2025.

Sukhdeep Judge
Ombudsman