

The complaint

A company, which I'll refer to as N, complains that Lloyds Bank PLC wouldn't reimburse a loss it suffered after losing money to fraud.

Mr N, who is a director of N, brings the complaint on N's behalf with the assistance of a professional representative.

What happened

As the circumstances of this complaint are well-known to both parties, I have summarised them briefly below.

In or around March 2020, Mr N came across a business, which I will refer to as L, seeking investment by way of raising capital from investors.

After conducting relevant due diligence on the business and investment, Mr N entered into an agreement with L that N would loan it the sum of £110,000 in return for a 20% annual interest payment. The director of L, Mr B, acted as guarantor to the loan agreement.

Once agreement had been reached, Mr N authorised a payment to L of £110,000 on 9 July 2020 from N's account, held with Lloyds.

Approximately a year after the loan had been paid, Mr N enquired as to the progress of the investment and with regard to the initial interest payment due. However, Mr N was presented with a number of excuses by Mr B as to why progress had not been made for a number of months.

Eventually, Mr N discovered that Mr B had been made bankrupt and initiated legal proceedings against him. A County Court Judgement was issued for the repayment of the loan, but after the initial payment was made, no further repayments were honoured.

After exhausting all avenues in recouping his losses, Mr N reported the matter to Lloyds on behalf of N: as he believed Mr B had committed fraud. However, after considering his claim Lloyds concluded that it wasn't liable to reimburse N's loss. It found that the matter was a civil dispute between N, Mr B and L, rather than a fraud.

Mr N remained unhappy, so he referred N's complaint to our service for an independent review. An Investigator considered the evidence and testimony provided by all parties, but concluded that the matter was more likely a civil dispute. They therefore agreed that Lloyds wasn't liable for N's loss.

Mr N disagreed, so the matter 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.

In deciding what's fair and reasonable in all the circumstances of a complaint, I'm required to take into account relevant: law and regulations; regulators' rules, guidance and standards; codes of practice; and, where appropriate, what I consider to have been good industry practice at the time.

There is no dispute here that Mr N, on behalf of N, authorised the transaction in question. And the starting position in law is that N will be held liable for the transaction authorised in the first instance. That is due to Lloyds' primary obligation to process payments in line with its customer's instructions, as set out in the Payment Services Regulations 2017.

However, Lloyds is a signatory to the Lending Standards Board's Contingent Reimbursement Model (the CRM Code). Under that Code, firms are expected to reimburse customers that fall victim to fraud, subject to a number of exceptions.

However, the CRM Code is only relevant if I'm persuaded N lost its funds as a result of fraud. The Code specifically doesn't cover certain types of disputes. It says:

"This Code does not apply to...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".

From the information provided so far, I'm not persuaded N has lost the funds as a result of fraud. I'll explain why.

There is no dispute here that both Mr B and L were legitimate entities. Mr B's appears to be who he says he was and L was a registered business on Companies House. The question here is whether Mr B likely set out with the intention to defraud N when asking for the provision of the loan.

Firstly, I think it's important to set out that the function of this service is to informally resolve disputes against regulated financial businesses as an alternative to the courts. Our service does not have the legal power or capability of tracing payments to their end point, nor the ability to interview the accused with the aim of hearing their defence: or lack of. I therefore rely upon limited information when trying to determine—on the balance of probabilities—the intent of the individual accused of committing this offence against N.

There are two possible scenarios here:

1. Mr B set out with the intention to defraud N.
2. Mr B set out with the intention to honour the agreement but, for various possible reasons, couldn't.

Having considered the evidence carefully in this case, neither of these scenarios can be ruled out. But I must make a finding on the balance of probabilities which of the two scenarios is more likely than the other.

Much of the evidence that Mr N's representative relies upon, in asserting Mr B did set out with the intention to defraud, I find to be circumstantial. It has referred to matters unrelated to this complaint regarding Mr B's dishonesty. It has also referred to a separate claim whereby the financial business involved in that dispute reimbursed the customer their loss in similar circumstances. However, neither of these points persuade me that Mr B set out with an intention to defraud in these specific circumstances.

I am only able to consider the individual circumstances of this complaint. And even were I to see evidence that Mr B had been dishonest in his business practices in separate matters, it

doesn't automatically follow that he was dishonest here. Nor does a business' choice to offer a reimbursement in a separate case prove Mr B set out with the intention to defraud: that is a commercial decision it made that I am not privy to the reasons behind.

There is no evidence here that Mr B deceived Mr N in any way. He provided his genuine information and company details as part of the loan agreement, remained in communication with Mr N when contacted about the progress of his project and interest payment due, and complied with legal proceedings that were initiated against him.

I understand that Mr N agreed to lend on the basis of information Mr B told him regarding a project he was undertaking. But I have seen no substantive evidence that Mr B didn't intend, or at least attempt, to complete that project. It is equally possible that Mr B did try to get this off the ground but failed.

Our service, for completeness, has also made enquiries with the bank to which N's loan was received. This account was in the name of the business that was party to the loan agreement, and no concerning activity—to the extent I can be satisfied it was being used as a vehicle for the laundering of the proceeds of crime—was reported on that account. Further, while funds were immediately moved from the account to another, our service is unable to trace the funds beyond that point, so I am unable to confirm or deny if they were spent as intended. But I have seen no evidence to suggest that Mr B personally gained from the loan provided.

I do understand the points Mr N and his representatives have made regarding some of the questionable practices of Mr B and his business dealings. But that isn't enough to say in the circumstances of *this* complaint that he set out with the intention to defraud. However, should any information come to light in the future that supports that assertion, Mr N will have the option to present that new information to Lloyds for further review.

In summary, I'm satisfied that this complaint doesn't fall within the remit of the CRM Code. And as I find it more likely than not to be a civil dispute, rather than a fraud, Lloyds has no liability to reimburse N its loss.

My final decision

For the reasons I have set out above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask N to accept or reject my decision before 1 October 2025.

Stephen Westlake
Ombudsman