

## **The complaint**

S, a business, complains that Lloyds Bank Plc won't reimburse them for transactions that a staff member misappropriated from them. They would like the funds returned to them.

S is represented by a Mr L, a director.

## **What happened**

S is a small business, who banks with Lloyds. In 2023 they discovered that a former employee, who I shall refer to as X, had been transferring funds to themselves. They had done so by marking the payments as to legitimate suppliers. They reported this to Lloyds. In total they identified £15,386.50 was transferred to X between 7 June 2018 and 31 August 2023 in thirty transactions.

Lloyds declined to refund S, saying that the payments had been processed in line with the account mandate.

Dissatisfied with this Mr L referred S' complaint to our service, saying that Lloyds should have known that X was employed by S, and picked up on the suspicious pattern of transactions.

One of our investigators looked into what happened. He said that S was considered a "small business" under the rules of our service, and so we could only consider complaints about acts or omissions after 1 April 2019. So, he couldn't make any findings for payments before this date.

He felt that Lloyds hadn't done anything wrong by processing the payments, as X was on the account mandate with the ability to make payments from S' account. He didn't feel that the transactions themselves stood out enough that Lloyds ought reasonably to have concluded that X was misappropriating funds. He also didn't think Lloyds weren't required to monitor who is employed at S, and to monitor any funds paid to them.

This outcome was rejected by Mr L. He argued that the payments into X's account would have been in different names, which should have prompted some concern from Lloyds. But this didn't change the investigator's mind.

As no agreement could be reached the complaint has 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.

The above outline of the complaint is a brief summary of what happened here, and the points each party has raised. No disrespect is intended by this. I would like to assure both parties that I have considered all their points carefully. If in this decision I've not mentioned something in particular, it's not because I've failed to take it on board or give it appropriate

consideration. It's rather that I don't see that I need to, to reach a fair and reasonable outcome. This is to reflect our service's nature as an informal alternative to the courts.

### What I can consider

Our service has long been able to consider complaints from micro-enterprises, which are enterprises that employ fewer than ten people, and have assets or turnover less than €2million.

Looking through the accounts available for S, they have employed more than ten people throughout the period of the disputed transactions, so wouldn't be considered a micro-enterprise.

Under the rules of our service S would be considered a "small business" – an enterprise that isn't a micro-enterprise; has an annual turnover of less than £6.5m; and either employs fewer than 50 people or has a balance sheet of less than £5m.

I'm satisfied that S meets this definition, so I can consider their complaint. But crucially here our rules only expanded to cover small businesses on 1 April 2019. And this expansion wasn't retrospective – so I can only consider a complaint about any acts or omissions by Lloyds after this date.

There are several transactions made by X before 1 April 2019, as well as changes to the account mandate. So, I will take these on board as relevant background information. But I cannot make any specific findings on these transactions.

I am also only considering payments made by X, from S' accounts to their own accounts. I'm aware that Mr L believes X may have arranged to receive payments from third parties, thinking they were paying S directly. These will fall outside the scope of what our service can consider.

### Were the payments correctly authorised?

It's not disputed that X was given the authority to make payments from S' account. I've reviewed the available account mandates, and I'm satisfied that they had the relevant authority to make payments.

The regulations relevant to payments made in the UK are the Payment Services Regulations 2017. In summary these say that a bank's obligation is process payment instructions promptly, so long as they are correctly authorised. This is also mirrored in the terms of S' account with Lloyds.

As I'm satisfied that this is what happened with X's payments from S' account, there is no specific obligations in the regulations on Lloyds to refund for any losses due to fraud or misappropriation. As such, it's not unreasonable that they've declined to do so.

But, in line with our remit I've also gone on to consider what's fair and reasonable in all the circumstances of the complaint.

### Should Lloyds reasonably be responsible for refunding S?

Like all regulated financial businesses in the UK, Lloyds have ongoing obligations to monitor accounts and transactions for signs of financial harm – such as fraud, money laundering and financial difficulty. These obligations mean that if the activity on an account prompts concern, then I may expect the bank to intervene further. This may involve asking more questions, to

understand the activity on the account. This would need to be proportionate to the perceived risk.

This type of monitoring is generally done centrally across the bank's systems, rather than as a specific branch level. It's also important to note that it wouldn't be unreasonable for Lloyds to expect a business a size of S to have systems and controls in place themselves, to verify and account for payments to and from the account. As all the payments were made by an authorised party, and authenticated using valid details, then I'm satisfied this would mitigate many concerns.

I wouldn't expect Lloyds to monitor who was employed by the business, or who they held accounts with. X paying themselves, or which branch their sort code is associated with, from S account isn't something I would reasonably expect Lloyds to pick up on.

But I've considered the activity on S account, and the inbound payments to X's account with Lloyds.

From the history of S' account I'm not persuaded that the account activity was significantly unusual that it ought reasonably to have intervened or declined to process them. Only one transaction, in August 2019, was above £1000. These amounts aren't out of line with the regular activity on S' account, and below what I would reasonably expect to give Lloyds any concern.

The disputed payments are irregular, and not a significant value compared to the overall turnover of the account. X clearly didn't attempt to drain the balance of the account, which likely would have been detected very quickly. There are very few indicators of fraud. I don't see that Lloyds have done anything unreasonable by not intervening.

In terms of X's account with Lloyds, I am limited in what I can say here as it refers to personal data of X. But I'm not persuaded that there were obvious signs that the funds had misappropriated, such that I would reasonably expect Lloyds to have acted to block the account. As Mr L has pointed out the name of the expected payee would not have matched the destination account – but I wouldn't agree this would have been enough for them to reasonably block any further transactions. Given that the values were reasonably low and irregular, I don't see that there would be obvious concerns of financial crime.

There is a system for confirming the names of an account match those entered into a payment instruction – the Confirmation of Payee (CoP) system introduced in 2020. However during the period, it would have displayed confirmation that the account name entered didn't match to the person making the payment, which X would have been aware of anyway. Once they confirmed that they still wished to continue, I don't see it's unreasonable that Lloyds go on to process the payment.

Ultimately, I'm not persuaded here that it would have been clear to Lloyds that S' funds were being misappropriated by X. I've no doubt this will be disappointing to Mr L and S, but I don't see that Lloyds should be reasonably responsible for refunding them.

### **My final decision**

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask S to accept or reject my decision before 16 September 2025.

Thom Bennett  
**Ombudsman**