

The complaint

A company which I'll call 'L' complains that Starling Bank Limited won't reimburse the money it lost as a result of fraudulent transactions from its account.

The complaint is brought on L's behalf by its director, who I'll call 'Mr S'.

What happened

Both parties are aware of the circumstances of the complaint, so I won't repeat them all here. But briefly, L holds an account with Starling. Mr W is a signatory on L's account and accesses the account through a mobile banking app on a company phone. On 11 May 2024, one of L's other staff attended a social engagement with a former member of staff who I'll call Ms C who had left the company less than two months before. Mr W says at the event, Ms C stole the phone and accessed L's account via Starling's mobile banking app. He also says that on 12 May 2024, Ms C made ten payments to herself, nine payments for £1,000 and one payment for £300, which was all L's available money and working capital at that time.

Mr W told us that once the theft was identified, both the police and Starling were contacted. He told us that Starling declined to refund the payments as it said L had failed to keep its payment tools safe and it felt L's staff had shared security or app information which was a breach of the account terms and conditions. Unhappy with the bank's decision, Mr W made a complaint as he said L hadn't authorised and the phone had been secured but stolen.

Starling didn't uphold L's complaint. The bank said that the payments could only have been made with L's knowledge or failure to keep the payment tools safe. It remained of the opinion this was a breach of the account terms and conditions and therefore it wasn't liable for L's loss. It also said it had contacted the receiving bank once the misappropriation had been reported to it, but no funds remained. Mr W remained unhappy and asked our service to look into L's complaint.

Our investigator recommended L's complaint be upheld. She noted that Mr W was the only authorised user on L's account, however despite this one of L's other staff was responsible for making payments. This means it was likely the member of staff used Mr W's log in details, meaning the user information had been shared. The account terms and conditions make it clear that log in details shouldn't be shared, so she thought it was reasonable that Starling thought Mr W's security information hadn't been kept safe. The investigator also thought it was likely that the user information had been shared with Ms C at some point when she was working with L as a senior staff member. She also noted that there had been a historical incident with L's account and Ms C, but this hadn't been investigated by L in detail at that time.

The investigator said that in line with the Payment Service Regulations 2017 (PSRs) L would be held liable for the payments. However, Starling also had obligations that it needed to meet as a payment service provider. The investigator thought that by the time the fourth payment had been made from L's account, the account activity was sufficiently out of character that Starling ought to have realised there was an issue and intervened. So, she

thought that L should be held liable for the first three disputed transactions, but the loss from the remaining seven transactions of £6,300 should be equally split between L and Starling. She also thought Starling should pay statutory interest on the award from the date of loss to the date of settlement.

L accepted the investigators opinion to draw the matter to a close. Starling didn't agree and asked that an ombudsman review the complaint. The bank said that the payments from L's account weren't suspicious and that L had been grossly negligent, particularly given that there had been an issue previously and Mr W's log in details hadn't been changed. As an agreement couldn't be reached, the case 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, there's not much more that I can add to what our investigator has already said. I think Starling should refund 50% of L's loss from the fourth payment of £1,000 onwards as a result of the misappropriation of funds by Ms C, plus annual interest at 8% simple on the refunded amount from the date of the loss to the date of settlement.

Should Starling be liable for the transactions?

There are various requirements that Starling must meet in relation to its accounts, and its due diligence checks don't end once an account is opened. Starling must conduct its business with due skill, care and diligence and ensure that it has effective systems and controls in place to meet its regulatory obligations. This includes the ongoing monitoring of accounts and payments to prevent the risk of money-laundering, fraud, and scams. Ultimately, it is a matter for Starling on how it chooses to configure its fraud detection systems and strike a balance between allowing its customers to transact business and questioning transactions to confirm they are legitimate. But I need to decide based on what I have seen whether Starling could have and should have fairly and reasonably done more here to prevent L's loss.

The PSRs explain, generally speaking, that account holders will be liable for payments they've authorised, and banks will be liable for unauthorised payments. I've taken this into account when considering what's fair and reasonable in the circumstances of this complaint. I recognise that Starling says that it shouldn't be liable for L's loss as it breached the terms of its account by sharing user log in information and was grossly negligent by not taking action again Ms C when previous concerns were raised. However, it's not in dispute that Mr W shared his user information, and that by doing so he had intentionally failed to keep his security information safe. So, under the PSRs there's no specific obligation on Starling to refund L.

But this isn't the end of the story. Starling has a duty to exercise reasonable skill and care, pay due regard to the interest of its customers and to follow good industry practice to keep customer's accounts safe. This includes looking out for payments which might indicate the consumer is at risk of financial harm - regardless of who is making those payments. And in this case, I think it's clear that Ms C had stolen the funds in L's account.

Based on what I've seen, I don't think the first three payments made by Ms C from L's account would have aroused any suspicions for Starling. I say that because I can see that the account had previous transactions of up to £4,000 at any one time and there had been previous payments made to Ms C as an existing payee for the same or similar amounts. So, I'm not satisfied these payments were so unusual or out of character that Starling should

have identified a potential issue. Mr W was the authorised user for L and as far as the bank would have been aware, he'd logged in to L's account and was responsible for making these payments from a recognised device. However, I think when Ms C made the fourth payment for £1,000 this should have triggered Starling to intervene.

L's account history shows that usually, if L made a payment of £1,000 or more there was usually only one per day, with smaller transactions. Here, this was the fourth payment of the same amount in relatively short space of time with a consistent timeframe in between each payment, and the payee was the same each time which out of character. Furthermore, by the time the fourth payment had been made, this had reduced the account balance significantly to a level which was unusual for the account, and it was then followed by further transfers almost fully draining the account. Looking at the account activity, I think this behaviour was significantly unusual and out of character for L's account that the bank's systems should have identified there was a risk of financial harm to L and that the company's funds may have been at risk.

I recognise that Starling has to strike a balance between identifying payments that could be fraudulent (amongst other things) and responding appropriately based on its concerns, whilst also ensuring there is minimal disruption to any legitimate payments. However, in this case, I'm satisfied that Starling should've been so concerned about the fourth consecutive £1,000 payment to the same payee in a short space of time that it ought to reasonably have taken additional steps to verify the transactions were legitimate before processing them, by directly contacting Mr W. Had they done so, the bank would have found that he hadn't agreed to any of the transactions. So, I see that Starling could reasonably have prevented the transactions after the fourth.

Could L have done more to prevent the transactions?

I've gone on to consider where L should accept some liability for the losses it suffered. I recognise that Starling says L has breached the terms of its agreement and behaved negligently in sharing user information and not taking action previously when concerns were raised about Ms C.

Although I can't be sure how Ms C gained access to Mr W's user information, I'm satisfied that this was the only way Ms C could have accessed L's account and made the payments to herself - given that Mr W had the sole user log-in information for L's account. So, I'm satisfied that this loss could only come about because of this action. So, while I think Starling could have done more to prevent the losses, I'm satisfied Mr W contributed to L's losses by negligently allowing the log-in details to be shared.

Therefore, based on the evidence I've seen, I think it's reasonable for me to make a reduction in award to L. I see that both parties are at fault, so I see that it would be fairest for the losses to be split equally.

Putting things right

As I've mentioned above, I don't think Starling can fairly be held responsible for the first three payments made by Ms C on 12 May 2024. However, I think Starling should refund L 50% of the remaining payments totalling £6,300. Starling should also add annual interest at 8% simple from the date of the transactions to the date the funds are returned, to reflect the time that L has been deprived of the use of those funds.

My final decision

My final decision is that I uphold this complaint. I direct Starling Bank Limited to resolve the

complaint in the way I have set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask L to accept or reject my decision before 19 January 2026.

Jenny Lomax
Ombudsman