

## **complaint**

P, a limited company, complains that Lloyds Bank PLC wrongly declined a cheque payable to its supplier. It says this resulted in immediate lost profit of about £4,500 and on-going losses due to the damage to its relationship with its supplier. P is represented by its director, who I'll refer to as Mr A.

## **background**

In November 2018 Lloyds declined a cheque payable to P's supplier because there were insufficient funds in P's account. Mr A says he paid money into P's account before 3.30pm that day to cover the payment. He said Lloyds hadn't told him that it had changed its cut off time to 2.30pm. Mr A said he had an arrangement with Lloyds that it would allow payments to go through provided P's account was in credit by 5pm.

Lloyds apologised for not telling Mr A its process had changed. It paid compensation of £500 for the inconvenience, £5 for call costs and provided a reputational letter and six months of statements. It also waived £215 of charges. Lloyds said the cut off time wasn't a guarantee that funds deposited that day would allow a payment to be made – this was on a best endeavours basis. The cut off time meant that unauthorised overdraft charges wouldn't be applied.

Our investigator didn't recommend that the complaint should be upheld. He said Lloyds had explained its cheque processing procedure to Mr A. This wasn't a guarantee that payments would go through. There was no evidence Lloyds had said it would process payments despite there being insufficient funds so long as a deposit was made later that day. P chose to operate its account in a way that risked payments being declined. The investigator said what Lloyds had done to put matters right was fair in the circumstances.

P didn't agree. Mr A said P had a long standing agreement with Lloyds that it would honour payments so long as funds were paid in before the end of the day. He said this was essential given the nature of P's business and this was the basis on which the account was opened in 2008. Mr A said while Lloyds claimed it had changed the cut off time to 2.30pm in May 2018 it continued to honour payments for six months after that.

Mr A said as a result of the cheque being declined P's main supplier suspended P's account. P was unable to buy goods which it had pre-sold, resulting in lost profit of £4,500. Mr A says while the account has since been re-instated the declined payment harmed P's relationship with its main supplier, which no longer offers it credit. This lost P countless opportunities to profit which can't be quantified but likely run into many thousands.

## **my findings**

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. Where the evidence is incomplete, inconclusive or contradictory, I reach my decision on the balance of probabilities – in other words, what I consider is most likely to have happened in light of the available evidence and the wider circumstances.

*did Lloyds make an error when it declined the payment?*

The terms and conditions of P's account say that Lloyds can decline a payment if there are insufficient funds in P's account. If Lloyds had allowed the cheque payment in November 2018 P's account would have been overdrawn by about £13,000 more than its agreed overdraft.

Lloyds says honouring payments when there are cleared funds by the cut-off time is on a best endeavours basis and not guaranteed. It says customers should ensure there are cleared funds available before cheques are presented for payment.

Mr P says he had an agreement with Lloyds that payments would be honoured provided the account was in credit before the end of the day. When Mr A first contacted Lloyds about the declined payment he said his previous manager would call if the account was over its limit.

P's account was moved to Lloyds' central business relationship team in June 2018. Lloyds' business relationship team reviewed the account with Mr A in August 2018. There was a discussion about P's business and renewal of the overdraft facility. There's no record of a discussion about payments being honoured outside the overdraft limit.

I think it's likely Mr A had a relationship with his previous manager which meant payments had been allowed in circumstances where they might otherwise be declined. But I haven't seen evidence of an agreement that payments would always be honoured. This would be a change from the account terms and the way Lloyds usually operates accounts. I'd need more evidence about what was agreed – in particular the basis on which Lloyds said it would honour payments – to find that Lloyds acted incorrectly when it declined the payment. As I haven't seen evidence of this, I don't think I can't reasonably find that Lloyds made an error when it declined the payment due to there being insufficient funds in the account.

*did Lloyds make an error with the information it gave P?*

Lloyds says its processes are continually under review. Lloyds apologised if Mr A wasn't told that as P's account is no longer managed by a one-on-one relationship manager any bespoke banking arrangements are no longer in place. It says it should have told Mr A that the cut-off time to credit an account for a payment due that day had changed.

Lloyds' accepts it might not have given Mr A up to date information about the cut off time to credit P's account. But it says this relates to whether a charge will be applied for an unauthorised overdraft: it doesn't guarantee that the payment will be made.

*would P have acted differently if it had known about the earlier cut off time?*

Mr A says if he'd known Lloyds had changed the cut off time he'd have put other facilities in place. He says since the end of 2018 he's been transferring in money from other accounts with Lloyds each morning, which supports what he's said.

*is the compensation offered by Lloyds fair and reasonable?*

Lloyds paid £505 compensation to P for its inconvenience and call costs and refunded charges for the unpaid cheque. It provided (without charge) a reputational letter and copy bank statements that Mr A said he needed to show P's supplier. Mr A says Lloyds should also compensate P for financial loss. I've thought about what Mr A has said and he provided

more information about how P's business was affected. I'd consider it reasonable to require Lloyds to pay compensation for P's actual losses caused by Lloyds' error and the loss was reasonably foreseeable. I'm not persuaded P's losses meet this test.

I'm not persuaded that Lloyds is wholly responsible for P's loss. Customers are responsible for managing their accounts. P's directors knew the way P's account was managed meant that payments would take it over its agreed overdraft limit. I appreciate P's account had been operated like this for some time. But I think P's directors should have been reasonably aware of the risk that a payment would be declined.

I'm also not persuaded that P's loss was reasonably foreseeable. The declined payment was for goods P had agreed to buy the previous week. Because of the declined payment P's account with a supplier was temporarily suspended. This meant it couldn't buy goods from the supplier which it had already agreed to sell on. I don't think I can reasonably find that Lloyds would reasonably have foreseen the losses arising from this chain of events.

Mr A says P has ongoing losses due to its main supplier no longer providing credit. Lloyds wouldn't know the basis on which P receives credit from third parties. Even if I found that Lloyds could have foreseen the supplier withdrawing credit and the effect on P's business – and I'm not sure I do – Mr A has said the losses can't be quantified. So I don't think I can require Lloyds to pay compensation for his.

I know Mr A will be disappointed. But I don't think it's reasonable to require Lloyds to pay further compensation.

### **my final decision**

My decision is that I don't uphold this complaint as I find the redress offered by Lloyds Bank PLC is fair and reasonable in the circumstances.

Under the rules of the Financial Ombudsman Service, I'm required to ask P to accept or reject my decision before 7 November 2019.

Ruth Stevenson  
**ombudsman**