

The complaint

W, a limited company, complains that Lloyds Bank PLC (Lloyds) unreasonably refused to process its direct debit indemnity (DDI) claim.

What happened

W has a business bank account with Lloyds. In early 2023, W noticed that there were two direct debits being taken by a third party I will refer to as S. W told Lloyds that it had already cancelled one of the direct debits and didn't recognise the other. W says that S told it to raise a DDI claim with Lloyds.

After raising the claim, W says Lloyds said it had contacted S which had verified that the direct debit mandate was correct. After W complained, Mrs O says Lloyds promised to follow up but failed to do so.

In its final response, Lloyds told W that it didn't think there had been an error with the direct debits. Lloyds said that it had not progressed W's DDI claim as it had made several similar claims in recent months. Lloyds invited W to share a copy of a letter or email from S advising W to raise the DDI claim.

Our investigator didn't recommend that W's complaint be upheld. In summary he said, banks need to validate DDI claims and that Lloyds had shown the direct debit was correctly set up and authorised via AUDDIS. Our investigator explained that even if banks make the DDI claim and refund the money, the originator may try and claw it back.

Our investigator told W that most genuine mistakes come to light fairly quickly so it was fair for Lloyds to ask for further evidence before proceeding with the DDI claim.

Mrs O is unhappy with the investigation outcome. She says there is no limit to the number of DDI claims that can be made. Mrs O says that after she made the DDI claim on W's behalf, Lloyds said it had been in contact with S which confirmed the details were correct but that Lloyds hasn't provided evidence of this.

Mrs O says that W held an account with S which was covered under one of the direct debit references. So, this means the other direct debit reference - also associated with S - is a mistake.

Mrs O says that Lloyds should have refunded the amounts claimed on notification of W's DDI claim. Mrs O says that at no time does the direct debit guarantee say that the bank will investigate and not make an immediate refund.

Mrs O says that W had authorised one of the direct debits which had then been withdrawn after cancelling the contract with S. Mrs O says she is less concerned about this direct debit as she was in direct contact with S. It is the other direct debit for the monthly sum of £8.40 which concerns her. Mrs O says that after S could not find a second account in W's name, it could do nothing further and as the direct debit was unauthorised, W raised the DDI claim.

Mrs O remains of the view that there has been an error with the direct debit and that W is entitled to an immediate refund. She says that W doesn't have an account set up with S with the direct debit reference complained about. So, there is no written correspondence from S as it can't discuss an account other than with the account holder.

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 direct debit guarantee allows account holders to receive an immediate refund from their bank in some, but not all circumstances. The wording of the direct debit guarantee wasn't quite the same as Mrs O has interpreted it. The scheme operator, Bacs, says that a customer is entitled to a full and immediate refund of the amount paid by direct debit "**where an error is made in the payment of your direct debit**". The right to a refund is not absolute or automatic. And I don't consider the direct debit guarantee is intended as a means of recovering historic payments or where there is a contractual dispute.

I appreciate what Mrs O says about Lloyds wanting to investigate W's DDI claim but I don't consider this was unreasonable. The evidence provided by Lloyds shows that W had been making direct debit payments to S since 2020 and 2021. Lloyds has provided bank statements for W going back to 2022. I can see two sets of regular direct debits to S.

It is usually the case, that payment mistakes come to light fairly quickly. Where some time has gone by, as here, I think it calls into question whether the claim is genuine. In those circumstances, I don't consider Lloyds is obliged to refund the money immediately and without question.

The direct debit instruction was received by Lloyds from S, through the AUDDIS system which allows businesses to notify a bank that it has received authority to collect payments from a customer's account. This system doesn't require the bank to see a signed direct debit mandate – it's the responsibility of the business requesting the payment to ensure everything is set up correctly. In W's case – Lloyds has shown that both direct debits were correctly set up as far as it is concerned.

As I have said above, for there to be an immediate refund, there must have been an error in the payment of the direct debit. Lloyds has asked W to provide further evidence of this – such as a letter or email from S. W hasn't provided this further information and without it, I don't consider it fair to simply require Lloyds to refund the money to W.

I understand Mrs O's point that S hasn't put anything in writing as W is not the account holder for the account to which the payments have been made. But I would have reasonably expected S to be able to provide something to this effect. If, as Mrs O seems to be saying, S received payments from W's bank account which were intended for another account holder, I don't see why S cannot confirm this to Lloyds. Given the number of years that W has been making the now disputed direct debit payments, without raising concerns, I remain of the view that it is reasonable for Lloyds to decline to make the DDI claim without further evidence that a mistake has been made.

Finally, I can see Mrs O is unhappy that Lloyds initially told that it had checked with S about the direct debits and hasn't provided further evidence of this. I can't see evidence of this in Lloyds' business file but I don't think it changes my decision that Lloyds acted fairly when it declined W's DDI claim for all the reasons I've set out above.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask W to accept or reject my decision before 7 December 2023.

Gemma Bowen
Ombudsman