

The complaint

J complain Lloyds Bank PLC (“Lloyds”) closed their account and loaded a fraud marker against its director.

What happened

In August 2023, J made an application for invoice factoring finance to Lloyds. This was declined. Shortly after, in September 2023, and following an internal review, Lloyds sent J notice that it was closing their account in two months’ time.

Unhappy with this J complained. Lloyds then sent J several responses to the complaint. In summary, the key points it made were:

- It has followed the correct process during the review of J’s account, and it’s not obliged to give a reason for its actions
- Lloyds gave J two months’ notice of its intention to close J’s account which is in line with the terms of the account
- J should go to a Lloyds branch to pay in funds if they feel payments will be missed due to having an insufficient balance to cover them
- Lloyds is sorry J was incorrectly told by its call handler that by putting sufficient funds in the account their direct debits would be paid. A block on the account will stop such payments being made. Because of this poor service Lloyds arranged to pay J £50 compensation. Lloyds later said it would pay a further £50 for this poor service and credit it to J’s director’s personal account
- Lloyds made an error in placing a block on J’s account after it had provided notice of closure

J’s director then approached CIFAS (Credit Industry Fraud Avoidance System) about the records it held for them. J’s director then learnt that Lloyds had loaded a ‘False Application’ marker against them. J say they had provided all the information Lloyds asked of it for the invoice financing application and had not acted fraudulently in any way.

Unhappy with Lloyds’ responses, J referred their complaint to this service. One of our Investigator’s then looked into J’s complaint. They found that Lloyds had not provided enough information to show it acted fairly in declining J’s application for finance and closing their account. To put things right, they said Lloyds should pay J £100 for the inconvenience they suffered and 8% simple interest on any funds that were withheld.

They also said that as the CIFAS marker was loaded against the director, Miss O, this service didn’t have the power to consider this part of the complaint. They added that Miss O as director of J doesn’t have a direct relationship with Lloyds.

J didn’t agree with any of the findings and reiterated that they haven’t acted fraudulently – so neither the account should have been closed nor a CIFAS marker applied against Miss O.

Lloyds then sent this service further information explaining why it took the actions it did.

Another of our Investigator's then looked into J's complaint and considered what J had said and reviewed the new information Lloyds had sent. In short, they found:

- The Dispute Resolution (DISP) rules which form part of the Financial Conduct Authority's (FCA) handbook, sets out the rules this service must follow. This includes who is eligible to bring a complaint
- One of the applicable tests says a complaint must arise from a list of possible relationships with the business – in this case, Lloyds. J's CIFAS complaint does not arise from any of the items on the list. As J is a separate legal entity to Miss O – against whom the marker was applied - J as a limited company cannot bring a complaint in its own name about an issue affecting one of its director's personally
- The definition of a consumer in DISP is a person *acting for purposes outside his trade, business or profession*. As the CIFAS marker was recorded due to Miss O's actions as a director, they can't be said to be acting outside their trade, business, or profession. The customer relationship arises out of J's relationship with Lloyds – so Miss O doesn't have a direct relationship with Lloyds
- After reviewing the information Lloyds sent, it acted fairly, and in line with its obligations, when closing J's account. An explanation cannot be provided to J as the information is commercially sensitive
- No compensation was awarded as Lloyds had acted fairly

J didn't agree with what our Investigator said. As there is no agreement this complaint has now been passed to me to decide.

What I've decided – and why

CIFAS marker

The application of the fraud marker is J's main complaint point, so I'll turn to it first.

The rules that set-out what this service can consider are set-out in DISP. This includes what constitutes an eligible complaint. The fraud marker J complains about has been loaded against its director, Miss O. That means it is against the individual and not against the eligible complaint, J.

As a limited company J is a separate legal entity. That means J cannot bring a complaint themselves about an issue affecting one of its directors personally. Our Investigator has already explained this in detail, so I don't need to repeat anything more here.

I do of course understand the impact Miss O says this has had on her, but for the reasons above, we don't have the power to consider this element of the complaint.

I can now turn to complaint points we do have the power to consider.

Account review, blocks, and closure

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, I've decided not to uphold this complaint. I'll explain why.

I'm very aware that I've summarised the events in this complaint in far less detail than the parties and I've done so using my own words. No discourtesy is intended by me in taking this approach. Instead, I've focussed on what I think are the key issues here. Our rules allow me to do this. This simply reflects the informal nature of our service as a free alternative to the courts.

If there's something I've not mentioned, it isn't because I've ignored it. I'm satisfied I don't need to comment on every individual argument to be able to reach what I think is the right outcome. I do stress however that I've considered everything J and Lloyds have said before reaching my decision. It's important to note, my decision focuses on Lloyds' actions in regard to J's accounts.

So, to be clear this decision doesn't deal with complaints that relate to J's director in their personal capacity.

Banks in the UK, like Lloyds, are strictly regulated and must take certain actions in order to meet their legal and regulatory obligations. They are also required to carry out ongoing monitoring of an existing business relationship. That sometimes means banks need to restrict, or in some cases go as far as closing, customers' accounts.

Lloyds has provided me with information to show why it reviewed J's account. Having carefully considered this, I'm satisfied that it acted in line with the obligations it must follow.

Lloyds is entitled to close an account just as a customer may close an account with it. But before Lloyds closes an account, it must do so in a way, which complies with the terms and conditions of the account.

The terms and conditions of the account, which Lloyds and J had to comply with, say that it could close the account by giving them at least two months' notice. And in certain circumstances it can close an account immediately or with less notice.

Lloyds gave J at least two months' notice that it was closing their account. From the information I've been provided I'm satisfied Lloyds has acted fairly, and in line with the terms of the account in doing so.

I do note however that for a short period J's ability to pay direct debits was blocked – and I'd expect J to have had access to this type of service before closure. Lloyds acknowledged this error and removed the restriction. For the inconvenience this caused J and as Lloyds had misinformed them about this, it has paid £100 compensation.

Given J had another account, and as the issue was rectified in a timely manner, I'm satisfied Lloyds doesn't need to do anymore in relation to this.

I note J would like a detailed explanation of why Lloyds acted in the way it did. J is aware that a CIFAS marker was loaded against its director under the heading of making a false application. J has also sent in substantive information to show it hasn't acted fraudulently by sending in the documents it sent to Lloyds as part of its invoice financing application.

Lloyds is under no obligation to explain why it took the actions it did. I would add too that our rules allow us to receive evidence in confidence. We may treat evidence from banks as confidential for a number of reasons – for example, if it contains security information, or commercially sensitive information. Some of the information Lloyds has provided is information we consider should be kept confidential.

So, as I don't think Lloyds has done anything wrong in closing the account in the way it has, I won't be asking it to compensate J for any inconvenience this has caused them. Nor do I think J has been deprived access to their funds.

My final decision

For the reasons above, I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask J to accept or reject my decision before 30 May 2024.

Ketan Nagla
Ombudsman