

The complaint

Mr Z has complained that PayrNet Limited ('PayrNet') blocked and closed his account without notice. He also says it shouldn't have returned a payment he'd received from his employer back to sender.

All references to PayrNet also include its agents.

What happened

Mr Z arranged for his July 2022 salary to be paid into his PayrNet account. When his employer sent it, PayrNet held it back saying this was in order to carry out due diligence checks.

On 1 July 2022 PayrNet told Mr Z that he would be unable to make any payments from his account and suspended the account three days later. It asked Mr Z to provide documentation and information as part of its investigation. Mr Z responded promptly and said the £2,645.86 payment he had received was his salary and provided evidence in support; as well as responding to PayrNet's other questions.

Mr Z continuously chased PayrNet for an update but was told the matter was being looked into.

Around the fifth or sixth day PayrNet told Mr Z that his usage of the account was not in line with its terms so it decided to close it. It said that any remaining funds would be returned to sender and that the funds which were being held up would probably also be rejected and returned. PayrNet said the process could take two to three months.

Mr Z was unhappy about this and complained. He said he wanted his money to be returned to him and didn't want to wait two to three months.

On 9 July 2022 it was confirmed that the payment was declined, and Mr Z was made aware on 13 July 2022 that it was returned to his employer.

Mr Z complained to us. He said he had to borrow money to pay his rent and bills and that he suffered a lot of distress and inconvenience for which he'd like to be compensated. Mr Z said once the money was returned to his employer they arranged to pay him using a different method and that he received the money on 20 July 2022. The outstanding balance of £26.86 and £0.41 was returned to him around 16 August 2022.

PayrNet responded to the complaint at the end of October 2022 and apologised for the inconvenience caused by the due diligence checks and the delay in issuing its final response. It didn't uphold Mr Z's complaint and said that the payment was held back to carry out a standard due diligence check. It said that over the days that followed the due diligence check and up to the payment being declined Mr Z sent a number of messages to it and to members of its staff and that due to the quantity and hostile nature of those messages it decided to close Mr Z's account.

One of our investigators reviewed the complaint and thought it should be upheld. He thought that the evidence Mr Z had provided to PayrNet was enough to show that he was entitled to the £2,645.86 payment so he didn't think it was fair that this was returned to source. He also didn't consider that PayrNet was acting fairly and reasonably when it closed Mr Z's account with immediate effect and that two months' notice should have been given instead. He thought PayrNet should pay Mr Z £100 compensation for the distress and inconvenience he was caused and that it should also pay 8% simple interest on £2,645.86 between 4 to 20 July 2022 which was the period over which Mr Z was deprived of his funds.

Mr Z agreed with our investigator but PayrNet didn't. It said it was acting in line with its terms and conditions and also in compliance with its regulatory obligations.

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.

It might be helpful if I start off by explaining that our service doesn't punish or fine businesses, and it's also not our place to say that a procedure the business follows is incorrect. Only the industry regulator, the Financial Conduct Authority (FCA), can do this. Businesses have legal and regulatory obligations they have to meet and they have processes in place in order to meet these obligations. They can broadly be summarised as a responsibility to protect persons from financial harm, and to prevent and detect financial crime. To comply with its obligations PayrNet may need to review an account and/or restrict its customers' access to accounts and funds held within them. So, our role in cases like this one, is to look at whether the business has followed its own internal procedures correctly, while also meeting its legal and regulatory obligations.

PayrNet said that the £2,645.86 payment was held back to carry out due diligence checks. It asked Mr Z what it was for and also for some other information which he provided. Mr Z provided a copy of an invoice to his employer for the same amount on 4 July 2022 which PayrNet was able to access on 5 July 2022. He also provided a bank statement for the account that his salary normally goes into which showed other payments from this particular payee. I don't think it was necessarily unreasonable or that PayrNet was going against its internal processes or its legal and regulatory obligations when it held the payment back in order to carry out further checks. From what I have seen this was the first time a payment was being received from this payee. Nevertheless, I do think that the proof of entitlement Mr Z provided was enough for the payment to be released to him without delay. Despite this, PayrNet decided not to release the payment and to return it to Mr Z's employer. I don't think this was fair and reasonable.

PayrNet said it has legal and regulatory obligations that it needs to comply with and that it was acting in line with those when it returned the payment. I appreciate that as a financial institution it has various regulatory obligations but I don't think it has provided good enough reasons as to why the specific payment shouldn't reach Mr Z. And Mr Z has confirmed that his employer arranged for this money to be paid to him in another account. So, on balance, I think he was legitimately entitled to it. I think PayrNet should pay interest on this amount for the period Mr Z was without these funds starting from the date he provided sufficient proof of entitlement i.e. 4 July 2022 to the date his employer paid him which was 20 July 2022. I believe this represents fair compensation for the loss Mr Z suffered.

PayrNet decided to close Mr Z's account with immediate effect on 5 July 2022. In its final response it said this was a decision it reached for reasons which included the volume and hostile nature of Mr Z's communication with it. It also said it was acting within its terms and conditions which enable it to close an account with immediate effect.

The terms say that it **may** (my emphasis) close an account with immediate effect under certain circumstances. Though this is in the terms I still need to consider whether PayrNet was acting fairly and reasonably when it applied this term. Mr Z hasn't denied that he messaged PayrNet and its agents on various forums over the relevant period. From the information I have been provided with, I thought that Mr Z was being persistent but I didn't think his communication was necessarily hostile. Or at least not to such an extent to warrant the immediate closure of the account. I appreciate PayrNet felt that this was counter-productive and led to delays but this was done via written communication and PayrNet didn't necessarily have to engage with every single message if it felt that it had done enough to explain to Mr Z what the next steps were.

PayrNet has also provided some other information which was provided to us in confidence and which I can't share with Mr Z, in support of its decision to close the account immediately. I have considered this information but, on balance, I don't think it warranted the immediate closure of the account. Or at least it didn't, in my view, support why PayrNet decided to close the account at that particular time.

I think the immediate closure caused Mr Z some distress and inconvenience. Though I appreciate he also had another account he still had to make other banking arrangements, including arranging for the payment in question to be paid to his other account. And he also said that over that period he had to borrow money in order to pay his bills. I think PayrNet should pay Mr Z £100 compensation for this. And this amount also includes the small amount of interest that may have been due as a result of the outstanding balance of £26.86 and £0.41 not being refunded to Mr Z until 16 August 2022.

My final decision

For the reasons above, I have decided to uphold this complaint. PayrNet Limited should pay Mr Z £100 for the distress and inconvenience it caused him. And it should also pay 8% simple interest per year on £2,645.86 for the period between 4 and 20 July 2022.

PayrNet Limited must pay the compensation within 28 days of the date on which we tell it Mr Z accepts my final decision. If it pays later than this it must also pay interest on the compensation from the deadline date for settlement to the date of payment at 8% a year simple.

If PayrNet Limited considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr Z how much it's taken off. It should also give Mr Z a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr Z to accept or reject my decision before 3 April 2024.

Anastasia Serdari
Ombudsman