

Lloyds forced to reopen HBOS Reading fraud compensation scheme

Humiliation as review attacks scheme's failings

[James Hurley](#), Enterprise Editor

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António Horta-Osório said he accepted the findings of an independent review of its redress process

Lloyds Banking Group has agreed to restart a compensation scheme it set up for victims of fraud after “serious shortcomings” were found.

An independent review of recompense provided to small business owners who were damaged by the £1 billion HBOS scandal found that the scheme failed to deliver “fair and reasonable offers of compensation”.

Sir Ross Cranston, a retired High Court judge, said that “claims to direct and consequential loss must be reassessed” as he accused Lloyds of an “unacceptable denial of responsibility”.

The Financial Conduct Authority said that the bank’s failings needed to be addressed quickly. The City watchdog added that senior management must explain how and why the issues identified by Sir Ross occurred and that “further action may be required in light of those answers”.

Owners of small businesses lost out when consultants linked with an HBOS turnaround unit in Reading exploited defective business lending processes to steal from the bank, damaging people's livelihoods in the process.

The scam led to the convictions of six people in 2017, including two former employees of HBOS, the high street bank that Lloyds acquired in 2009.

A bank-led redress process overseen by Russel Griggs, 71, a banking adviser, concluded in May after paying about £80 million compensation, but it has been dogged by allegations of flawed methodology and inconsistent payouts.

Sir Ross's review began in May after an intervention by the City regulator. He found a number of commendable features in the scheme, noting that "early communications to customers were sympathetic and clear" and that generous initial relief payments were made for stress and inconvenience.

However, he concluded that various failures had fatally undermined the credibility of the process, with its structure and implementation "neither fair nor reasonable", particularly in relation to how the direct and consequential losses of the scandal were calculated.



Sir Ross Cranston accused Lloyds of an "unacceptable denial of responsibility"

The bank took an "overly adversarial approach in its assessment of claims", refused to disclose documents to victims and overlooked evidence supplied by customers, the review found. The methodology and reasoning behind offers were "opaque".

Sir Ross, 71, found that Lloyds "communicated that none of the customers' financial suffering had anything to do with the actions of the criminals. By default, the message . . . was that all of those failures and all of that suffering were of the customers' own making.

"This is an unacceptable denial of responsibility. It undermined the sincerity of the bank's apologies for the fraud, and portrayed the bank as the only victim to suffer financial loss."

An independent panel must be set up to re-examine claims and victims should be given a voice, Sir Ross said.

Lloyds said it “deeply regrets that customer concerns have not been adequately addressed”. António Horta-Osório, chief executive of Lloyds, said he was very sorry that victims may not have received fair outcomes.

“The group is committed to act on the recommendations made by Sir Ross and will fully support giving customers the option of a voluntary re-review of direct and consequential losses,” he added.

Kevin Hollinrake, former chairman of the all-party parliamentary group on fair business banking, said that the episode must spell the end of banks being allowed to run internal redress schemes to compensate victims of their own wrongdoing.

Paul Pascoe, 59, whose Unique Group was caught up in the scandal, said he suspected that the scheme had been a cynical public relations exercise that had “served only to delay fair redress and extend victims’ agony by almost three further years”.

Sir Ross said Professor Griggs acted independently but was put in an impossible position as he was undermined by the way the review was structured: “It was sometimes called the Griggs review, but it was a bank review.” Professor Griggs declined to comment.

Lloyds chief António Horta-Osório’s pledge to HBOS Reading fraud victims

[James Hurley](#), Enterprise Editor

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António Horta-Osório has apologised to the victims of the HBOS Reading scam

[António Horta-Osório](#) has promised that Lloyds Banking Group will “reflect, listen to our customers and change” after a critical review of how the lender treated fraud victims.

The chief executive of Lloyds apologised “unreservedly” for the bank’s failings in a letter to [Kevin Hollinrake](#), the former MP who has campaigned on behalf of small business owners whose livelihoods were damaged or destroyed by the [HBOS Reading scam](#).

Mr Horta-Osório promised to work with victims, their representatives and the City regulator after an independent review of the bank’s compensation scheme for those who lost out to the £1 billion crime found that it had not led to fair or reasonable outcomes.

The fraud, which took place before Lloyds rescued HBOS in 2009, involved bankers and business consultants, who exploited reckless credit policies to steal from the bank, harming small and medium-sized businesses in the process. Six people were jailed in January 2017.

Lloyds has agreed to reassess damages claims after Sir Ross Cranston, 71, a retired High Court judge, concluded that the bank’s redress scheme had “serious shortcomings”.

Sir Ross found that Lloyds had blamed victims rather than the fraudsters for the damage to their companies. He recommended that an independent panel should be set up to reassess compensation claims.

Mr Hollinrake, former chairman of the all-party parliamentary group on fair business banking, has been a longstanding critic of Lloyds’ treatment of affected business owners.

Mr Horta-Osório, 55, told Mr Hollinrake that it was the bank’s “intention from the outset to deliver fair and reasonable compensation” but he said that Lloyds “got some things wrong”. He added that he would be “guided by the victims” to deliver Sir Ross’s recommendations. “Our task must be to deliver the recommendations in full, and to that end I hope we might enlist your support,” he wrote to Mr Hollinrake.

“I want to emphasise my personal commitment to ensuring that those customers affected by the actions of individuals who have since been jailed for their crimes will get their claims properly addressed in an open and transparent manner,” Mr Horta-Osório said.

Mr Hollinrake, 56, a parliamentary candidate for Thirsk & Malton, said that the report should be a “watershed moment” for the regulation of banks. “The findings call into question the fairness and reasonableness of all past redress schemes,” he added.

“Those whose cases have been adjudicated by such schemes must now be offered the opportunity to have access to a new truly independent review.”