

HBoS fraud convictions: lessons learned?

The HBoS fraud case ended on 2 February with convictions and lengthy sentences being passed on at Southwark Crown Court



Caption: Two former HBoS employees and four others were recently convicted of fraud. But how will the ruling affect the banking community?

In short, two former HBoS employees and four others [were convicted of participating in a fraudulent scheme including convictions for bribery and hiding the proceeds of crime.](#)

Described by some as “highly unusual fraud”, the case related to offences committed between 2003 and 2007, which saw the bank incur losses of around £250m, according to the Crown Prosecution Service (CPS). The fraud also left hundreds of individuals in financial ruin. There are further victims – the taxpayers and the HBoS shareholders who were also significantly affected.

Lynden Scourfield, the former head of the bank’s impaired assets division based at Reading, said that he required business owners to appoint a particular firm of consultants, Quayside Corporate Services (QCS) run by co-defendants, Michael Bancroft and David Mills. He accepted his role in the fraud.

False and misleading business cases were presented for these companies, requiring additional finance, leading to inaccurate funds being made available to these organisations, although the sums were not actually utilised for their benefit. QCS charged exorbitant fees which were then distributed amongst the defendants.

The court passed an array of custodial sentences totalling more than 47 years following these convictions.

The future – the fall out?

The real concern of this prosecution arises out of the systemic and sustained scheme of abuse which operated within the banking system, allowing corruption and bribery to continue, and which was arguably ignored. In 2007, an internal review took place at HBoS which focused on 38 struggling businesses, which revealed irregular loans to companies which collectively owed £375m. Despite this, immediate action was not taken and it took a decade for the criminal proceedings to conclude. The question is, why did the prosecution take 10 years?

Whilst this was a unique time of irresponsible lending ahead of the 2008 crash, the weaknesses in the system should have been identified and replaced with a robust regime to eradicate the risk of such abuse without things escalating to the level they did. Instead nothing was done and complaints were downplayed.

What remains a real concern is the lack of action by those aware of these allegations in 2007: the board of HBoS, Lloyds Banking Group when they took over, the FSA, the Serious Fraud Office (SFO) and the Treasury. Lloyds consistently played down the level of the abuse which had occurred within HBoS, denying that the bank was to blame for the demise of the struggling businesses.

Arguably many of the issues identified in this case should have been remedied, not least following the Parliamentary Commission on Banking Standards report. While clearly a significant case for Thames Valley Police and the Special Fraud Division, the issue of delay should require greater explanation from all parties involved.

Lloyds Banking Group (the successors of HBoS) remain adamant that these convictions do not demonstrate an endemic problem within the bank but there are still calls for them to be held accountable. It will be welcome news that, following calls from many MPs, they intend to review all relevant customer matters to consider compensation payments.

Given these offences occurred a decade ago, how much of an impact will this important case have on the banking community?

Since 2007, we have seen a number of prosecutions of a similar nature involving banks and other financial organisations relating to fraud, corruption or impropriety. This prosecution should mean a significant and real change in culture, resulting in all banks (and other related organisations) taking action when notified of similar complaints, rather than failing to investigate or ignoring the issues when they arise. Will the financial institutions be more readily willing to investigate such serious allegations and act rather than leaving businesses and customers crippled with no recourse? And will they now be more alive to abuse and ensure it is monitored and addressed?

MPs on the All-Party Parliamentary Group on Fair Business Banking are launching an inquiry into the dispute resolution processes covering small firms and lenders and Lloyds Banking Group have been invited to give evidence and take part in the pilot scheme for alternative dispute resolution (ADR).

It will remain to be seen whether lessons have been learnt. This particular fraud was committed prior to the 2008 crash, at a time when there was a tendency to loan large amounts irresponsibly. We are now in a time when the level of borrowing in the UK has hit levels similar to those before the market crash and when banks are demanding preferential treatment following the decision to leave Europe. Only time will tell if the new measures now in place will prevent similar mistakes being made.

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