

Lloyds' compensation scheme 'defective'

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António Horta-Osório, the Lloyds chief executive, is facing pressure from MPs to be investigated over an “alleged cover-up”

A compensation scheme set up by Lloyds Banking Group for small business owners ruined by a banking fraud has been labelled “defective”, based on a “flawed” methodology and “partial” to the bank’s interests.

A barrister’s opinion commissioned by representatives of some of the victims outlines alleged failings with the redress process established for business owners who suffered after a fraud at the Reading branch of HBOS.

Scores of small companies were damaged or destroyed when consultants linked with an HBOS “turnaround” unit asset-stripped their businesses and stole from the bank. Six men, including two former employees of the lender, were jailed for the £245 million scam last year. HBOS merged with Lloyds in September 2008.

Legal advice prepared by Jonathan Laidlaw, QC, and seen by *The Times* says that the compensation scheme is “unlikely to provide just redress” and that the level of compensation being paid out “gives rise to a real sense of injustice”.

Mr Laidlaw was commissioned by SME Alliance, a group which represents businesses damaged by banking scandals. The group has also made an official complaint to the Financial Conduct Authority which accuses António Horta-Osório, the Lloyds chief executive, of failing to immediately alert his board to a critical internal bank report.

The Project Lord Turnbull report alleges a conspiracy to “conceal the Reading incident” . Lloyds said that the report was provided to regulators and the police in 2014. However, it has been alleged that the board was not alerted until at least three years later.

It is understood that the FCA has received more than one complaint under the senior managers regime — legislation introduced after the financial crisis to ensure that executives are held directly responsible for their actions — alleging that Mr Horta-Osório failed in his corporate governance duties. A spokesman for the regulator declined to comment on the complaint but said that an investigation into the bank’s handling of HBOS Reading was “ongoing”.

Mr Laidlaw said that issues with the compensation scheme, which is independently overseen by Russel Griggs, a banking adviser, include victims not being properly consulted on its design; victims not being allowed to see the documents that decisions are based upon; and outcomes not being based upon detailed or sound reasoning. He wrote: “The Griggs review is flawed because it fails to adhere to well-established principles of natural justice.”

A parliamentary debate on the redress scheme is scheduled to take place tomorrow. The debate was secured by Kevin Hollinrake, co-chairman of the all-party parliamentary group on fair business banking.

Mr Hollinrake said that Lloyds had “sought to minimise payments to those who have suffered” and described the compensations scheme as a “sham” and a “national disgrace”. He said that Mr Horta-Osório “must be subject to a rigorous investigation under the senior managers regime for both the failures of the [compensation] process and the alleged cover-up”.

A spokeswoman for Lloyds said that the Griggs review was the “right approach” for delivering “fair and reasonable compensation for customers in a way which was quicker and less expensive than through a court process. We believe this objective has been fulfilled”.

Lloyds said that 71 customers in the review had received offers, 64 of which have been accepted, and that the compensation scheme was “reaching its conclusion”.

The bank has appointed Dame Linda Dobbs, a retired judge, to consider whether it properly investigated and reported the fraud after the HBOS acquisition. It said that this was the “appropriate forum for considering matters in relation to the Turnbull report”. Professor Griggs declined to comment.