FCA to hold Lloyds' senior managers to account over unfair HBOS Reading redress scheme

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The Financial Conduct Authority (FCA) has ordered senior managers at Lloyds Bank to "explain themselves" after a retired judge found the bank's redress scheme for victims of fraud at its HBOS Reading branch had "serious shortcomings".

The regulator has also ordered the bank to "quickly address" the failings identified in Sir Ross Cranston's report. The former high court judge concluded that Lloyds' independent redress scheme, conducted by Professor Russel Griggs, did "not achieve the purpose of delivering fair and reasonable offers of compensation".

"Sir Ross has found serious flaws in important aspects of the approach taken by LBG, including failures to adequately assess claims for direct and consequential losses, the exclusion of some customers from the review and inconsistency in the way some customers were treated in respect of claims for distress and inconvenience," the FCA said in a statement on December 10.

The FCA declined to say how long it had given Lloyds to "quickly address" Cranston's recommendations.

Flaws

Cranston recommended that an independent review panel should be established to re-examine claims.

The key criticisms of the Griggs review, which paid out £80 million to affected business owners, were:

- Lloyds refused to disclose its methodology for determining consequential loss to customers which meant they could not work out what evidence should be provided to demonstrate loss. Cranston also criticised the design of the customer questionnaire which allowed only a small box to provide details, which he said might have led customers to conclude that only limited detail was needed.

- Lloyds withheld documents from customers' going through the review. This had led to customers being concerned that the bank was deciding their cases based on documentation placed into their files by Lynden Scourfield and Mark Dobson, the corrupt HBOS employees, who were jailed in 2017 for their part in the £245 million fraud.

Cranston said Griggs declined to hand over correspondence between himself and his advisers, the law firm Taylor Wessing, claiming the correspondence was privileged.

Taylor Wessing reviewed the vast majority of cases documentation for Griggs, Cranston said on page 50 of his report. The law firm also directed the work of accountancy firms RSM and Mercer & Hole, which provided support to Griggs. Taylor Wessing did not respond to a request for comment. Griggs could not be reached for comment.

Vindicated

SME Alliance, a victims' support group, and the All-Party Parliamentary Group for Fair Business Banking provided evidence to the review. The report echoed concerns previously expressed in a SME Alliance-commissioned review of Griggs carried out by Jonathan Laidlaw QC.

"We are grateful to Sir Ross and his team for their hard work, thoroughness and fairness. We also thank the FCA for pressurising Lloyds to finally appoint an independent arbiter," said Nikki Turner, director of SME Alliance in an emailed statement.

The APPGFBB is disbanded because of the UK parliamentary election on December 12.

Kevin Hollinrake, former chair of the APPGFBB, said it had been obvious for years that the Griggs review had been serious flawed.

"We welcome Sir Ross Cranston's findings and his confirmation of these serious shortcomings and his recommendation that the victims of the fraud must, for the first time, have the opportunity to have their direct and consequential loss claims heard by a truly independent process," Hollinrake said in an emailed statement.

Lloyds has accepted Cranston's findings that the methodology and process of Griggs failed to deliver fair and reasonable offers of compensation.

António Horta-Osório, chief executive of Lloyds, gave a personal commitment claims would be addressed properly.

"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. We will be guided by the victims, the APPG, the SME Alliance, Sir Ross and our regulators on the best way to achieve that. 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," Horta-Osorio said in an emailed statement.

Wider implications

The report should herald a "watershed moment for the regulation of UK banks", Hollinrake said.

Thomson Reuters Regulatory Intelligence revealed in March the FCA had permitted numerous financial services firms to run redress schemes that were refunding hundreds of thousands of pounds to customers. The FCA does not maintain a list of these redress schemes, so the exact number of such schemes is publicly unavailable.

"All those whose cases have been adjudicated by such schemes must now be offered the opportunity to have access to a new truly independent review," Hollinrake said.

An FCA spokeswoman said it had no plans to review any other redress scheme at this time.

The Griggs review was initiated in March 2017. The Senior Managers and Certification Regime has mandated that clear lines of accountability be assigned to senior managers at banks since March 2016.

Lloyds declined to name the senior managers involved with the Griggs review. The bank also declined to say it the board had signed off the terms of reference for the Griggs review, including the decision not to disclose documentation or loss methodology. Lloyds further declined to name the individual who was the bank's single point of contact with Griggs, (as identified at 5.9 on page 46 of the report).

Complaints Procedure

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