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Will Paige

Starling named among lenders with highest proportion of money lost to fraudulent Covid loans

Article

The news: Lenders in the UK identified £1.1 billion ($1.5 billion) of suspected fraud from a coronavirus loan scheme, bringing increased scrutiny of **Starling's** and other banks' ineffective customer checks and their plans for recovering loans.

The background: The government's Bounce Back Loan Scheme, created to help firms struggling during the pandemic, allowed them to **borrow up to 25% of their annual turnover up to £50,000 ($68,800)**. Loans were guaranteed with taxpayer money and borrowers always remained liable for debts.

- But lenders reduced their usual fraud checks to issue cash as fast as possible. Many major banks then restricted loans to existing customers to reduce risk, leaving challenger banks to lend to smaller businesses.
- Starling **CEO Ann Boden** engaged in a war of words with former government counter-fraud minister Lord Agnew after he singled out the bank as **"one of the worst"** lenders for preventing fraud during the pandemic.
- New **business secretary Jacob Rees-Mogg** has reportedly written to Starling asking how it plans to recover fraudulently claimed loans, according to the Financial Times.

Fraud figures: Lenders have claimed back £409 million ($562 million) from the taxpayer of the total £1.1 billion of fraud identified, per government figures.

- **Starling identified 5.8%, or £93 million ($128 million), of its loans as suspected fraud**, more than double the 2.3% average rate among lenders.
- Other lenders with a high rate of fraudulent loans include **TSB**, which identified 5.7%; **Bank of Ireland**, with 6.7%; and **New Wave Capital**, with 28% but from a far smaller lending pool.

What it means: The data makes for unpleasant reading for several banks including Starling.

- Critics are likely to say that it's proof the neobank exploited the scheme to grow its lending while risking taxpayers' money, rather than its own. And it's not helped by recent news that Starling has generated its maiden profit partly through revenues boosted by government-backed lending schemes. But neobanks' higher rate of fraudulent loans may just be due to their client base including a higher proportion of younger, riskier businesses that are more likely to default on loans, compared to the client bases of major banks like **Barclays**.
- The government needs to take some blame for the more than £1 billion already identified as fraud. It rightly reduced red tape on checks for borrowers to issue cash quickly at the pandemic's outbreak and should have correspondingly factored in fraud losses. Rees-Mogg's

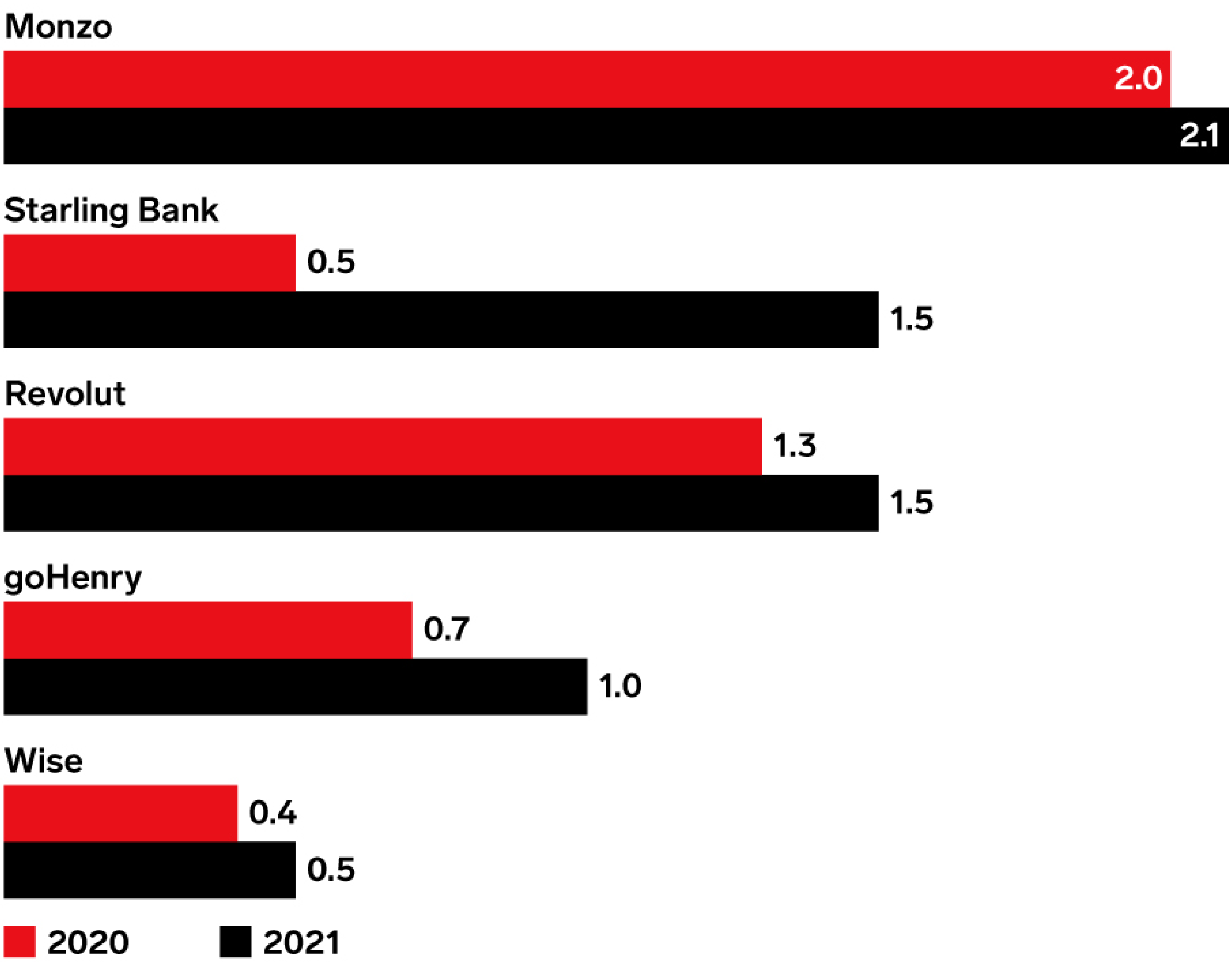
letter to Starling appears unfair, as the neobank seems to have followed deliberately relaxed government rules meant to prop up failing businesses.

The bottom line: Huge sums were always likely to be lost to fraud as part of the hastily implemented pandemic loan schemes. The US faces similar problems, with as much as $80 billion stolen from the country's $800 billion Covid support scheme, the Paycheck Protection Program.

The debate over where the fault lies for this will continue. The British government needed less-established lenders like Starling to serve smaller businesses. Now they've become easy scapegoats. We expect politicians will keep blaming banks for not stopping fraud, lenders will claim they followed rules, and the taxpayer will foot the bill for losses.

Top 5 UK Neobanks, by Average Monthly Active Users, 2020-2021

millions



Source: App Annie, "State of Mobile 2022," Jan 12, 2022

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