DRN-5962607

The complaint

Mr and Mrs R complain that Starling Bank Limited won't reimburse money they lost to an alleged scam.

What happened

On 16 September 2025 I issued my provisional decision on this complaint. I wanted to give both parties a chance to provide any further evidence and arguments before I issued my final decision. That provisional decision forms part of this final decision and is copied below.

What happened

In September 2019 Mr R became aware of an investment in 'Company A' through is father-in-law, who Mr R says is a successful businessman and also invested in Company A.

Company A claimed to be a specialist in lighting technology that could significantly increase the yield and growth speed of medical cannabis grown under artificial light.

Company A was supposed to produce lighting systems and invest in building factories in another country in order to produce the crop. It was claimed that a large site for this purpose had already been acquired.

Given the legal status of the crop in the UK, Mr R says that he contacted a family friend, a retired Crown Court judge, to investigate whether any investment would breach money laundering laws in the UK. He was assured that it wouldn't.

Following this, Mr R received sample loan agreements, intercompany contracts and a business plan with revenue projections. He also attended a shareholder conference call with Mr X – Company A's director.

He says he carried out a range of checks on Company A and Mr X including looking at and cross-referencing the details he found on Companies House, establishing that Mr X had previously been associated with another lighting company, that he held a number of patents in that field and that he was a fairly well-known public figure.

In November 2019, after speaking to Mr X, Mr and Mrs R decided to invest £200,000 – £100,000 each from their Starling joint account. Those investments were described as interest free loans and were provided in exchange for shares in Company A. Mr R received a certificate for his own investment but, despite several follow-ups, did not receive one for his wife's. He could, however, see that the shares they had purchased (33,333 each) had been registered on Companies House.

Mr R said that he expected the investments to be returned to him by the final repayment dates set out in the contracts (which were less than two months after the contract date). He questioned how the investment could be repaid so quickly and was informed that the timing of his investment had been fortuitous as it coincided with the sale of a separate business which meant cash was available to repay shareholders.

After the repayment date passed, Mr R received excuses as to why the funds couldn't be repaid and he, along with others who had invested, began to uncover evidence which they said pointed to Company A operating as a scam. Mr R reported the matter to Starling and asked it to consider reimbursing him and his wife.

Starling reviewed his complaint but said that it could not reach a decision due to the complex nature of the scam. It did, however, pay Mr and Mrs R £100 to recognise the inconvenience associated with not having been given an answer.

Mr R referred the matter to our service, he explained that the absence of the funds were having a significant impact on the well-being of him and his wife.

Our investigator considered the complaint and concluded that Mr and Mrs R should be reimbursed in full under the provisions of the Lending Standards Board's Contingent Reimbursement Model Code ("CRM Code") which required signatories like Starling to reimburse victims of APP scams in all but a limited number of circumstances.

Starling didn't agree. It said that the matter was under investigation by the police and that it was premature to reach a finding that Mr and Mrs R had fallen victim to an APP scam. It said that the director of Company A had previously been found to be ineffective rather than criminal in the way he ran his company.

As no agreement could be reached, the case was passed to me for a final decision.

What I've provisionally decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

When considering what is fair and reasonable, I'm required to take into account: relevant law and regulations; regulatory rules, guidance and standards; codes of practice; and, where appropriate, what I consider to have been good industry practice at the relevant time.

In broad terms, the starting position in law is that a firm is expected to process payments and withdrawals that a customer authorises, in accordance with the Payment Services Regulations 2017 (PSRs) and the terms and conditions of the customer's account. However, where the customer made the payment as a consequence of the actions of a fraudster, it may sometimes be fair and reasonable for the provider to reimburse the customer even though they authorised the payment.

The CRM Code was a voluntary code that required signatories like Starling to reimburse victims of APP scams in all but a limited number of circumstances. The CRM Code was in force in November 2019 when these payments took place.

The CRM Code only covers payments made as a result of an APP scam, which it defines as:

"a transfer of funds executed across Faster Payments, CHAPS or an internal book transfer, authorised by a Customer in accordance with regulation 67 of the PSRs, where:

(i) The Customer intended to transfer funds to another person, but was instead deceived into transferring the funds to a different person; or
(ii) The Customer transferred funds to another person for what they believed were legitimate purposes but which were in fact fraudulent."

The CRM Code specifically excludes 'private civil disputes' – "such as where the Customer has paid a legitimate supplier for goods, services, or digital content but has not received them, they are defective in some way, or the customer is otherwise dissatisfied with the supplier;"

In order for the CRM Code to apply, therefore, there must have been a fraudulent purpose – the payment must have been fraudulently obtained for a purpose other than the legitimate purpose for which the payment was made.

But that doesn't mean that Mr and Mrs R need to demonstrate beyond reasonable doubt that they have been defrauded. In line with the general approach taken by our service, if I'm satisfied, on the balance of probabilities, that did happen, then Starling can only decline full reimbursement if it can show that one of the exceptions to reimbursement set out in the CRM Code applies.

Is it appropriate to determine Mr and Mrs R's complaint now?

Starling argues that as an investigation into this matter is ongoing it is premature for our service to reach a finding on whether the disputed amounts should be reimbursed.

I understand that the police investigation is still on-going although its progress is unknown. I also understand that the liquidator's enquiries are continuing.

There may be circumstances and cases where it's appropriate to wait for the outcome of external investigations and/or related court cases. But that isn't necessarily so in every case, as it may be possible to reach conclusions on the main issues based on evidence already available. And it may be that investigations or proceedings aren't looking at quite the same issues or doing so in the most helpful way. I'm conscious, for example, that any criminal proceedings that may ultimately take place might concern charges that don't have much bearing on the issues in this complaint; and, even if the prosecution were relevant, any outcome other than a conviction might be of little help in resolving this complaint because the Crown would have to satisfy a higher standard of proof (beyond reasonable doubt) than I'm required to apply (which – as explained above – is the balance of probabilities).

As for investigations by liquidators, these are normally made for the purpose of maximizing recoveries for creditors. Sometimes they lead to civil proceedings against alleged wrongdoers, or against allegedly implicated third parties. But the claims may not be relevant to the issues on the complaint. And, even if they are potentially relevant, such claims are quite often compromised without a trial and on confidential terms, so the outcome is of little benefit to our service.

In order to determine Mr and Mrs R's complaint, I must ask myself whether, on the balance of probabilities, the available evidence indicates that it's more likely than not that they were the victim of a scam rather than a failed investment opportunity. But I wouldn't proceed to that determination if I consider fairness to the parties demands that I delay doing so.

I'm aware that Mr and Mrs R first raised their claim with Starling in January 2023, and I need to bear in mind that this service is required to determine complaints quickly and with minimum formality. With that in mind, I don't think delaying giving Mr and Mrs R an answer for an unspecified length of time would be appropriate unless the delay is truly required for the sake of fairness to both parties. So, unless a postponement is likely to help significantly when it comes to deciding the issues, bearing in mind the evidence already available to me, I'd not be inclined to think it fair to put off the resolution of the complaint.

I'm also aware that Company A is under liquidation. This might result in some recoveries for

Company A's creditors, or even theoretically its shareholders. It's unlikely that victims of this scheme (as unsecured creditors) would get anything substantive if there are secured creditors. That said, in order to avoid the risk of double recovery, I think Starling would be entitled to take, if it wishes, an assignment of the rights to all future distributions to Mr and Mrs R under the liquidation process in respect of this £200,000 investment before paying anything I might award to them on this complaint.

For the reasons I discuss further below, I don't think it's necessary to wait until the outcome of a statutory body investigation for me fairly to reach a decision on whether Starling should reimburse Mr and Mrs R under the provisions of the CRM Code.

Did Mr and Mrs R fall victim to an APP scam as defined in the CRM Code?

The CRM Code only applies if the definition of an APP scam is met, as set out above. As I've also set out above, the CRM Code doesn't apply to private civil disputes. So, it wouldn't apply to a payment made for a genuine investment that subsequently failed. There's no dispute that Mr and Mrs R transferred funds to the recipient they intended. So the question I need to consider is whether Mr and Mrs R transferred funds to Company A for what they believed were legitimate purposes, but which were in fact fraudulent.

I've therefore considered:

- *whether or not Mr and Mrs R's intended purpose for the payment was legitimate; and*
- *whether or not the intended purposes of Mr and Mrs R and Company A were substantially aligned; and, if not*
- *whether or not this was the result of dishonest deception on the part of Company A.*

Mr and Mrs R lent Company A £200,000 in November 2019 in exchange for shares in it. They understood that the loans would be repaid in full by a set date. They also understood that their shareholding would pay dividends if certain conditions were met. It's clear to me that Mr and Mrs R's intended purpose for the payments was legitimate.

So I've considered whether there's convincing evidence that Company A's purpose for the payment was fraudulent.

Our service contacted the police force investigating the matter as well as the liquidator overseeing Company A's and associated companies' liquidation. Although attempts to obtain further information from the police were unsuccessful, the liquidator shared their preliminary findings from investigations to date. We've also had confirmation from the liquidator that their findings can be disclosed in my decision as far as they are relevant to the complaint.

The following observations the liquidator has made about Company A and its main director – Mr X – are of particular relevance to this complaint:

- *Following Company A's incorporation in September 2017, while an undischarged bankrupt, Mr X acted as a de facto director of Company A and promoted the company as a successor to another company he used to be a director of before it went into liquidation. Mr X was appointed a director of Company A in June 2018, prior to his discharge from bankruptcy. As an undischarged bankrupt, Mr X was prevented from being involved in the formation or management of any company.*
- *Between September 2017 and July 2018, when Mr X was an undischarged bankrupt, nearly 34% of the investor's money was drawn out by him via another company he was a director of, or to his personal account, or otherwise applied towards lifestyle spend.*

- *Between March 2018 and July 2019, Mr X made rental payments every month in respect of the property he and his family were living in. And between September 2018 and September 2019, nearly 32% of investments into Company A were applied towards purchasing that property.*
- *Between January 2020 and April 2020, repayments to investors were made which were drawn from new investor funds. The pattern of using new investor funds to repay historic investors continued subsequently.*

I consider the above to be powerful evidence that Company A's true role was to dishonestly raise money from investors to fund Mr X's lifestyle and make repayments to earlier investors.

Our service has seen an email sent by one of the former directors of the company which was contracted to grow the medical cannabis in the overseas jurisdiction. I note that the director has said his company had significant funding problems with Company A, from as early as November 2019. The email goes on to say that by that point, his company had used all its capital and had committed $2.5 million. It no longer controlled the land and had difficulties raising additional funds.

Although Company A promised to lend it $1 million, that funding never arrived. The site was left in a state of disrepair, and the director's company in ruins. The director concludes the email by saying he believes that Company A was set up as an investment fraud, given the initial contract signed by both parties for the project was never funded.

A review of bank statements of Company A's account from the relevant time supports the director's claim that the promised sum wasn't sent. From what has been seen, it appears around £83,000 was sent to the company during the relevant period. This leads me to conclude that Company A had no intention – by the time of Mr and Mrs R's payment – to fulfil its obligations in relation to the project, and therefore it also had no intention to use Mr and Mrs R's funds as it had led them to believe it would. Instead, based on what the liquidator has noted, it appears that Mr and Mrs R's funds were used largely for Mr X's personal benefit and for repayments to earlier investors.

Our service has also seen an email from the general manager of the company that Company A engaged with in 2018 to carry out construction at the overseas site. The email states that the said company experienced multiple delays in receiving payments, and in early 2021 it was asked to stop all work immediately and leave the site. At the time, construction hadn't finished, and the site didn't have electricity or water. The general manager also states that to his knowledge, the site has never had any grow lights installed, nor grown the crop. The email from the former director of the company which was contracted to grow the crop corroborates that evidence, stating that lighting was never provided nor the crop grown on the site.

The information provided by the third parties which I've mentioned above is completely at odds with the letter Company A sent to shareholders in November 2021 which included 'sensitive' images of the 'up and running' facility, one of which purported to show the cannabis flower cultivation grow room. One of the investors has alleged that these images were taken from third-party websites. And a review of the website links the investor claims the images were taken from does support this allegation.

I also understand that in November 2021, Company A agreed to make a payment of £2.5 million to another company for the deal it had entered into – to supply Company A's proprietary lighting in return for a percentage of that company's revenue. When the funds didn't arrive, Mr X claimed to have sent the payment and provided a screen shot of the payment confirmation to evidence this. Our service has seen evidence to suggest that this was not true, no payment was sent from the claimed account.

We have also been provided with an email from the police to one of the investors where they have confirmed that none of the accounts held by Company A, connected companies, or Mr X, had a balance that could have cleared that payment.

While I recognise that some of these events took place after Mr and Mrs R made their payments, I consider that this evidence supports a conclusion that Mr X and Company A were more than capable of the level of dishonesty required for an APP scam such as the one Mr and Mrs R allege they fell victim to.

Overall, after having carefully considered the information available, and given the findings I've made above, I'm persuaded that Company A's purpose was not aligned with what Mr and Mrs R believed when they made the payments in November 2019. Mr and Mrs R made the payment believing the purpose was to fund the cannabis cultivation project, whereas, in truth, Company A had the dishonest intention of diverting a substantial part of the money to support Mr X's lifestyle, repay earlier investors, and, as and when necessary, deceiving investors that Company A was establishing and conducting viable business operations.

So, I think the circumstances here meet the definition of an APP scam as set out under the CRM Code.

Returning to the question of whether in fairness I should delay reaching a decision pending developments in the liquidation or police enquiries, I've explained why I should only postpone a decision if I take the view that fairness to the parties demands that I should do so. In view of the evidence already available to me, however, I don't consider it likely that postponing my decision would help significantly in deciding the issues. The liquidators have already expressed their views. And as regards the police's investigations, there's no certainty as to what, if any, prosecutions may be brought in future, nor what, if any, new light they would shed on evidence and issues I've discussed.

So, as I'm satisfied Mr and Mrs R have most likely been the victim of an APP scam, I've considered whether they should be reimbursed or not under the CRM Code.

There are two potentially relevant exceptions to reimbursement here:

- *Mr and Mrs R ignored an 'Effective Warning'*
- *Mr and Mrs R made the payment without a reasonable basis for believing that it was for genuine goods or services; and/or Company A was legitimate.*

When assessing whether it can establish these exceptions, Starling must consider whether they would have had a 'material effect on preventing the APP scam'.

I'm satisfied no 'Effective Warning' was given to Mr and Mrs R. Starling says that it gave a single warning when Company A was set up as a payee. That warning was generic – referring only to broad scam risks at a high level. The CRM Code requires a warning to be, among other things, specific to the APP scam risk.

Neither can Starling rely on warnings that were available on its website and accessed through a hyperlink in the warning Mr and Mrs R were given. Even if there were much more specific warnings on that page, I don't think Starling can be said to have provided those warnings to Mr and Mrs R, there's no evidence they viewed them and it's hard to see how any warnings would have had a material effect on preventing the scam, given its complexity.

Starling hasn't made any substantive arguments about Mr and Mrs R lacking a reasonable

basis for believing the investment was genuine. As I've set out, Mr and Mrs R carried out due diligence on the investment prior to going ahead, including quizzing Mr X on the nature of his business. I think they also reasonably trusted the advice of family members and friends who had already invested in the scheme.

While I note, as Mr R did, the time period by which they would be repaid their investments was remarkably short, I think that he was given a plausible explanation for this and in light of the other features of the scam, I don't think he should have been particularly concerned by it.

Ultimately, the scam had all the hallmarks of a legitimate investment – so much so that debate continues over its legitimacy today and I've seen little to suggest that Mr and Mrs R ought to have had significant concerns about the scheme before investing.

Overall, I don't think that Starling can rely on either exception to reimbursement set out above and it follows that Mr and Mrs R should be reimbursed in full under the CRM Code. I'm also satisfied that Mr and Mrs R have been deprived of these funds and interest should be paid at 8% simple per year.

Given what I've said above I'm satisfied that Starling could not have prevented the loss, even if it had provided better warnings about the risks of investment scams. It follows that interest should be paid from 15 days after the date Mr and Mrs R reported the scam to Starling (the point at which Starling should have decided Mr and Mrs R's CRM Code claim), rather than from the date of the payments.

Putting things right

I've provisionally found that Starling Bank Limited should resolve this complaint by:

- *Reimbursing the disputed payments totalling £200,000*
- *Paying 8% simple interest per year on that amount from 15 days following the date Mr and Mrs R reported the matter to Starling to the date of settlement, less any tax lawfully deductible.*

As Company A is now in liquidation, it's possible Mr and Mrs R may recover some further funds in the future. In order to avoid the risk of double recovery, Starling Bank Limited is entitled to take, if it wishes, an assignment of the rights to all future distributions under the liquidation process in respect of this £200,000 investment before paying the award.

If Starling elects to take an assignment of rights before paying compensation, it must first provide a draft of the assignment to Mr and Mrs R for their consideration and agreement.

My provisional decision.

For the reasons I've explained, I intend to uphold this complaint about Starling Bank Limited and instruct it to settle the complaint in the way that I've outlined above.

Both parties accepted my provisional decision.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

As all parties accepted my provisional decision, my final decision is unchanged from the provisional decision set out above.

Putting things right

I've decided that Starling Bank Limited should resolve this complaint by:

- Reimbursing the disputed payments totalling £200,000
- Paying 8% simple interest per year on that amount from 15 days following the date Mr and Mrs R reported the matter to Starling to the date of settlement, less any tax lawfully deductible.

As Company A is now in liquidation, it's possible Mr and Mrs R may recover some further funds in the future. In order to avoid the risk of double recovery, Starling Bank Limited is entitled to take, if it wishes, an assignment of the rights to all future distributions under the liquidation process in respect of this £200,000 investment before paying the award.

If Starling elects to take an assignment of rights before paying compensation, it must first provide a draft of the assignment to Mr and Mrs R for their consideration and agreement.

My final decision

For the reasons I've explained, I uphold this complaint about Starling Bank Limited and instruct it to settle the complaint in the way that I've outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R and Mrs R to accept or reject my decision before 17 December 2025.

Rich Drury
Ombudsman