Pandemic profiteers: the loan fraud epidemic

One of the United Kingdom's hastily pulled-together schemes to assist businesses during the Covid-19 crisis is believed to have been abused to the extent of £1.88bn, flagged by lenders as suspected fraud. ***Paul Johnson*** *and* ***Stephanie Williams*** *of Peters & Peters discuss legal tools and sample cases in a colossal enforcement exercise.*

Payback time

The worrying early days of the Covid-19 pandemic, the ensuing shock to the global economy and the emergency measures introduced by the British Government to assist businesses and employees seem a distant memory. However, over five years later, the Insolvency Service remains occupied with investigations relating to abuse of Covid-19 financial assistance schemes, and it seems that they will continue to be so occupied in the years to come as they also take over the National Investigation Service's ongoing fraud investigations.

In 2020, the British Government introduced three schemes aimed at assisting businesses to weather the pandemic:

1. Bounce Bank Loans (BBLs) of between UK£2,000 and UK£50,000 were made available to companies, as long as the loan did not exceed 25 per cent of their previous annual turnover. BBLs were provided by a network of accredited lenders but were backed by a full government guarantee covering 100 per cent of the loan and interest;
2. The Coronavirus Business Interruption Loan Scheme (CBILS) made up to £5 million available by accredited lenders and partners to companies with an annual turnover of up to £45m on a three to six-year term. The Government guaranteed 80 per cent of the finance to the lender; and
3. The Coronavirus Larger Business Interruption Loan Scheme (CLBILS) allowed businesses with an annual turnover of over £45m to apply for a loan of up to £200m. Finance was available from three months to three years, and the Government guaranteed 80 per cent of the finance to the lender.

The BBLs were intended to make finance available to smaller businesses on a rapid basis. When introduced, the scheme did not require lenders to verify information on an application form, or to perform credit checks. Businesses self-certified that they would not use the loan for personal purposes. In light of this, it is not difficult to see why BBLs raised fraud concerns, and the latest figures show that businesses have drawn a total of £46.52 billion [1] as part of the scheme, £1.88bn of which has been flagged by lenders as suspected fraud.

By contrast, businesses have drawn a total of £25.83bn worth of CBILS loans, £0.06bn of which has been flagged by lenders as suspected fraud. Businesses have drawn a total of £4.54bn under CLBILS. However, there are no CLBILS loans subject to the government guarantee that have been flagged as suspected fraud by lenders.

The three schemes were open to applications until 31 March 2021, and were soon after replaced by the Recovery Loan Scheme. Nonetheless, the earliest BBLs will last until 2026, and the latest until 2031. It is therefore no surprise that such loans and the recovery of fraudulent losses have been and will remain a real concern for regulators for years ahead.

Action taken by the Insolvency Service

The Insolvency Service, in particular, is taking steps to address instances of fraud committed by directors, businesses and individuals alike who repugnantly took advantage and exploited the pandemic support packages.

Disqualification

The most common remedy sought by the Insolvency Service in recent times to punish Covid-era fraud has been to ban directors through director disqualification. In 2024/2025, over 75 per cent of disqualifications under section 6 of the Company Directors Disqualification Act 1986 (CDDA 1986) related to alleged Covid-19 loan abuse. This is an increase from 69 per cent in 2023/2024.

Under section 6 of the CDDA 1986, the court shall make a disqualification order against a person where the court is satisfied that:

1. The person is subject to a disqualification order; and
2. The conduct for which the person is subject to the order has caused loss to one or more creditors of an insolvent company (or a company which has been dissolved without becoming insolvent) of which the person was at any time a director.

The minimum period of disqualification under section 6 CDDA 1986 is two years, and the maximum period is 15 years. Applications under section 6 CDDA 1986 are brought by the Secretary of State, or by the official receiver in the case of a director of a company that is being or has been wound up. Section 1(1) of the CDDA 1986 explains that the disqualified person shall not be the director of a company and shall also not take part in any way in the promotion, formation, or management of a company without leave of the court.

To give a recent example, the respondent in *The Secretary of State for Business and Trade v Mr Mohammad Ahmedivand* [2025] EWHC 98 (Ch) was the director of a company named UK Dream House Ltd ('the Company'). The Company was incorporated on 3 May 2018 and provided bathroom renovation services. In May 2020, Mr Ahmedivand successfully applied for a BBL of £20,000 from Barclays Bank. His application form confirmed that the Company's turnover for the 2019 calendar year was £80,000. Upon receiving the £20,000 into a previously empty bank account, the Company made a £20,000 payment to 'Mohammad'.

The Company's accounts for the year to 31 May 2020 ultimately revealed a turnover of nil in the period from incorporation to 31 May 2019, and £19,352 for the year ended 31 May 2020. It was thus clear that the turnover declared in the BBL application form was materially overstated. ICC Judge Barber was satisfied that while Mr Ahmedivand had not *dishonestly* mispresented the Company's turnover, he had *knowingly* done so. In the result, Mr Ahmedivand was disqualified for a period of nine years.

Compensation

A director may also find themselves subject to a compensation order, which seeks to make directors financially accountable for the quantifiable losses arising from their unfit conduct. Section 15A of the CDDA 1986 provides that the court may make a compensation order against a person if:

1. The person is subject to a disqualification order; and
2. The conduct for which the person is subject to the order has caused loss to one or more creditors of an insolvent company (or a company which has been dissolved without becoming insolvent) of which the person was at any time a director.

In effect, this means that a director disqualified for Covid-19-related loan abuse (or other serious unfit conduct) can be ordered to repay the outstanding balance of the loan so it is returned to the public purse.

Criminal prosecution for fraud

Depending on the nature of the conduct, more severe consequences may follow. Section 2 of the Fraud Act 2006 deals with fraud by false representation:

"(1) A person is in breach of this section if he –

(a) Dishonestly makes a false representation, and

(b) Intends, by making the representation –

(i) To make a gain for himself or another, or

(ii) To cause loss to another or to expose another to a risk of loss.

(2) A representation is false if –

(a) it is untrue or misleading, and

(b) the person making it knows that it is, or might be untrue or misleading.

(3) 'Representation' means any representation as to fact or law, including a representation as to the state of mind of –

(a) the person making the representation, or

(b) any other person.

(4) A representation may be express or implied."

A person is in breach of section 2 if he dishonestly makes a representation that he knows to be untrue, and by which he intends to make a gain for himself, cause a loss to another or expose another to a risk of loss. It is not difficult to see how various individuals' actions in respect of BBLs fall foul of section 2 of the Fraud Act 2006. Being found guilty of section 2 of the Fraud Act 2006 has very serious consequences. Pursuant to section 1 of the Fraud Act 2006, a person who is found guilty of fraud is liable for up to a ten-year prison sentence, or a fine, or to both.

In a recent investigation concluded by the Insolvency Service, it was found that Mr Charles Ling received a £20,000 BBL which was both valid and used legitimately to support Bradcon (Bespoke) Joinery Ltd. However, Mr Ling then applied for a second Covid-19 loan of £30,000 in June 2020, falsely claiming that it was his first application. He proceeded to withdraw £9,000 in cash and transfer a £2,500 mortgage payment from the loan proceeds.

None of the £11,500 was used for business purposes. Mr Ling was charged with fraud by false representation contrary to the Fraud Act 2006 and was sentenced to 15 months in custody, suspended for 18 months. He was also ordered to carry out 100 hours of unpaid work.

However, directors cannot and should not assume that they will receive a suspended sentence for Covid-19 abuse. For example, in *R v Dagistan & Dag* [2023] EWCA Crim 636, a takeaway business incorporated by the appellants obtained a £50,000 BBL. Ms Dag was registered as the sole shareholder and director of the business but Mr Dagistan said that he ran the business.

On her application for the BBL, Ms Dag falsely represented the business' turnover so as to obtain a higher loan. The whole sum was transferred to a personal account of Mr Dagistan, who over the course of five days transferred the £50,000 into various other accounts controlled by him. Ms Dag's actions amounted to making a false representation contrary to the Fraud Act 2006. Mr Dag, in turn, pleaded guilty to money laundering contrary to section 329 of the Proceeds of Crime Act 2002 by the acquisition and possession of criminal property.

The court considered that immediate custody was appropriate for Ms Dag and Mr Dagistan. Ms Dag was disqualified from acting as a director for three years, and both she and Mr Dagistan were sentenced to 18 months in custody.

Future trends

It seems highly likely that the suspected fraud cases and subsequent action taken by the Insolvency Service in relation to Covid-19 loan abuse will only increase over the next few years. The data published by the Government as of 31 December 2024 already reflects a colossal volume of suspected fraud. The earliest BBLs will expire in 2026 and the latest in 2031. As these loans come to an end, more suspected fraud will materialise.

The government data does not provide a breakdown by industry; however, it seems likely to us that various sectors, such as the construction industry will pose more of a focus for the Insolvency Service. It has recently been reported that 8,356 BBLs [2] for the construction industry have been flagged as suspected fraud.

Given the public anger over Covid-19 loan abuse and the exposure to HM Treasury's coffers, the Insolvency Service will have no option but to prosecute and to be seen to be doing everything in its power not only to recoup the monies, but to hold those responsible accountable.

Notes

1. www.gov.uk/government/publications/covid-19-loan-guarantee-schemes-repayment-data-december-2024/covid-19-loan-guarantee-schemes-performance-data-as-at-31-december-2024--2
2. www.constructionnews.co.uk/financial/insolvency-service-to-take-over-covid-loan-fraud-investigations-15-05-2025/

Paul Johnson (+44 (0)20 7822 7738, pjohnson@petersandpeters.com) is of counsel and **Stephanie Williams** (+44 (0)20 7822 7732, swilliams@petersandpeters.com) an associate at business crime boutique law firm Peters & Peters: www.petersandpeters.com.

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