

PRESENTATION TO INTERNATIONAL SYMPOSIUM ON ECONOMIC CRIME 8 SEPTEMBER 2018

JESUS COLLEGE CAMBRIDGE

The only major banking fraud that has been brought to justice in recent years was the HBOS Reading case in which 6 people were sentenced to nearly 50 years imprisonment in Feb 2017. Throughout the case Lloyds Bank, which had taken over HBOS in 2008, denied a fraud had taken place or that it was itself a victim of the fraud. The fraud approached £1Bn, though only £245m was exposed in court. It is quite clear that the fraud was known about at board level in 2008, and concealed for 8 years by senior executive directors of both HBOS and Lloyds.

Throughout that 8 years the bank had bankrupted companies they had knowingly defrauded. Personal guarantees have been plundered, huge numbers of jobs were lost, viable companies stripped of their assets, and people were ruined on a wide scale. People ended up living in cheap hotels, families were broken up, and suicides resulted. No one at senior board level has been brought to justice. The system to recompense those defrauded through HBOS Reading is run by Lloyds and is called the Professor Griggs Review. It is not independent, it does not recompense properly, it imposes gagging orders, there has no right of appeal, a take it or leave it offer is made, and is a travesty of justice. Many defrauded through Reading are not even considered as they did not deal directly with those imprisoned, but dealt with their staff. It is a disgrace.

LIBOR and PPI skimmed billions off the top. These Asset Theft Frauds (ATF), ruined people, and the sums of money involved are as large. The main reason they have not been brought to justice is that they were confined to the UK. LIBOR was perpetrated in the USA, where they have far tighter rules, and people go to gaol for breaking them.

HBOS Reading was symptomatic of what was happening on a far wider scale in other banks, notably Lloyds itself and RBS. The techniques were similar, and the individuals involved often did this through more than one branch or bank. Companies, or farming enterprises which had valuable assets, were targeted. Loans were called in at no notice, in spite of the companies never having defaulted on loan payments. The company would then be bankrupted, its assets undervalued, and sold on, sometimes to personal friends of the bankers involved. The bank, through its lawyers, would then attack the personal guarantees of the company owners and directors. The bank recovered its loans, often twice over as they had been securitised. The personal guarantees that were plundered often far exceeded the amounts owing to the bank. Reading was just one branch of one bank where this was happening. I am aware of cases all over the country that have simply not been investigated, in spite of there being discussed in parliament on numerous occasions. The establishment has looked the other way. Thousands of companies have been destroyed and considerable damage has been done to the UK economy. It was well laid out in a Westminster Hall debate by Elfyn Llywd QC MP in 2014. He describes in some detail what went on in a branch of Lloyds Recoveries in Bristol. The debate can be looked up on Hansard. It is extraordinary that this has not been properly investigated.

In cases all over the country there have been no proper investigations. It is worth noting that the HBOS Bristol case had already been turned down by 2 other police forces, and by the SFO. All had said there was nothing to investigate.

In 2013 an internal report was written by a senior commercial risk Manager of Lloyds. It is called the Turnbull Report. If you have not read it I suggest you do. Its author was sacked or constructively dismissed, and then savaged by a massive legal exercise against her. Her report was one of the many papers handed over by Lloyds to Thames Valley Police, but was not relevant to the HBOS court case, and not disclosed. It has now been disclosed through the All Party Parliamentary Banking Group. The report, which was, if not actually commissioned by the Head of Audit of Lloyds, was certainly discussed at some length with her. It is well substantiated, and lays out in detail that the bank concealed a hole in the accounts of HBOS of nearly £40Bn, and a £1Bn fraud. By doing so it was able to go ahead with Rights Issues of several billion on the back of false accounting. It was known about at executive board level. That is criminal fraud. The report was not disclosed to the non-executive board by the executive directors of Lloyds for four years. The Chairman of Lloyds only got to see it when I sent him a copy in March last year. In any normal company this should result in either the resignation of the non-executive directors or the sacking of the executive directors. Neither has happened. What is the point of a company chairman or non-executives if they do nothing, and allow this type of behaviour to continue? I call today for either the resignation of the Lloyds non-executive directors or the sacking of the executive directors. It should not be the PCC of TVP asking for this, it should be Government Ministers, who presided over the sale of Lloyds shares to the public, or the Governor of the Bank of England who is well aware of the Turnbull Report.

All this is being looked into by The Dame Linda Dobbs Review. However it will not be completed until at least three years after the guilty verdicts on HBOS and five years after the main board appeared to conceal it from their own Chairman and non-executives. I asked for Dame Linda to produce an interim report covering this issue. She has declined to do so. By the time it comes out the executive board members will have retired, and received their massive pays offs, as will the Chairman and most of the non-executives. As usual no one will be held to account.

There does not seem to be any system in the UK to effectively take on large frauds. I am aware of four frauds that involve sums of money well into nine figures. Only one has been investigated in spite of my bringing the other three to the attention of the regulatory authorities. The one that was investigated by Thames Valley Police, who brought the HBOS case to court, has sat with the Crown Prosecution Service for 7 months. I have little expectation of them taking the case to court. The case involves names that were also involved in the HBOS case, but it also involves some nationally known business leaders. I am expecting to be told, after a further few months it is either not in the national interest to take further or that it is now historic, or there is not enough evidence. Tell that to those defrauded of millions. I will be delighted to be wrong on this, and I hope the CPS will prosecute.

There are two underlying problems in tackling fraud in the UK. Firstly the police do not have the capability or capacity today to take on major fraud within banks. This is especially relevant today with large cuts in policing that has greatly reduced the number of officers available to deal with fraud cases. Secondly the establishment in the form of the Treasury and regulatory authorities do not want to.

The HBOS case cost TVP £7M, only £2M was recovered from the Home Office. The entire case should have been paid direct from the Treasury, not the Home Office. TVP is a large police force, most police forces simply could not take on a case of this size, so it is sent to Action Fraud in the City of London, where it is carefully correlated, and nothing is done. Less than 10% sent by Action Fraud to police forces is taken further. I suspect that less than 2% of known about fraud is ever prosecuted. Three years ago Portsmouth University published a report that stated fraud was running at £193Bn a year in the UK. It is probably now well over £200Bn. If only 20% of that could be prevented it would make a huge difference to the country's finances. I do not believe that is difficult to do.

The Treasury has done all it can to protect the banks, not only RBS and Lloyds, but other smaller banks as well. There appear to be two reasons for this, firstly to sell off the government held shares as quickly as possible, secondly that the civil servants and Ministers, including Chancellors, have been keeping an over keen eye on their future highly lucrative employment within the banking sector. Industry has taken second place to banking, and thousands of viable companies and jobs have been destroyed as a result.

Lord Andrew Tyrie, who was Chairman of the Treasury select Committee until last year, was onto this. In January last year he wrote to the Chancellor Philip Hammond. He said the Treasury Select Committee found it inappropriate that the Treasury should have such extensive powers of direction over financial reviews. The ability of the Treasury to block reviews by the regulators under the Financial Services Act 2012 should be amended as it was seen as a way for the Treasury to cover up its own mistakes. Philip Hammond replied saying he had no intention of amending the Act, and came up with reasons for not doing so. A cynic would say the reason for not amending the Act had far more to do with protecting the Treasury than with protecting the government or public.

The Treasury makes the appointments to the Bank of England, the Financial Conduct Authority, the Financial Reporting Council, and finances the SFO. It is little wonder that nobody is held to account. Andrew Bailey, the Chief Executive of the Financial Conduct Authority said in an interview with the Sunday Mail a fortnight ago that 'No one has been properly punished. Why?' If the FCA, SFO, and the Bank of England do not hold bankers to account, then who will? He also said that the mistreatment of small firms by Lloyds and RBS should have been subject to public inquiries though 'it is a bit late for that now'. Well it should not be. Thousands are living in penury as result of the actions of Lloyds and RBS, while the perpetrators live in luxury, and on enormous pensions. They should be held to account and their victims properly compensated. That is not happening.

Conflicts of interest abound in this whole sorry saga. The Chairman of the FCA, until Apr this year, was in his previous job, senior partner of KPMG, the auditors of HBOS in 2008, which failed to notice a hole in the HBOS accounts approaching £40Bn, and a fraud, which was known about, to the tune of nearly £1Bn. KPMG also audited the Co-Op Bank, and Carillion. The Chairman of the Financial Reporting Council, which monitors audits, gave the HBOS audits a clean bill of health last year. That is extraordinary. The Chairman of the FRC was, in his previous job, Chairman of Lloyds Bank shortly after they took over HBOS. If that is not a conflict of interest I do not know what is.

A senior Metropolitan Police Officer fraud officer put in a long and detailed report to the Treasury Select Committee in 2012. He said, and I quote him, 'The British banking sector has become an organised criminal enterprise, which has resulted from the absence of any meaningful regulation which those who control and manage the banks would fear'. I do not believe this to be true across all our banking sector, but it does appear to be the case in too much of it.

I brought this all to the attention of the Prime Minister early last year. She is an MP in my area. It was passed to the Cabinet Secretary, Sir Jeremy Heywood. He invited me to go and discuss this with him. When my office took up that invitation I received a curt short letter back saying 'he had taken advice and had been advised not to talk to me'. I politely asked twice who had advised him and what they had advised him as that seemed to go to the heart of the problem. I did not receive a reply to either of those two letters.

A number of actions, that should have been taken years ago, now need to be taken.

1. There should be a proper public inquiry into what went on in Lloyds and RBS in the Asset Theft Frauds (ATF) and action should be taken against those involved in the banks, legal practices, insolvency practitioners and valuers.
2. A tribunal system should be put in place out to compensate those defrauded.
3. A 'Chapter 11' system should be introduced to stop banks bankrupting viable and profitable companies overnight.
4. Police forces should be properly funded at regional level by direct Treasury grant to set up specialised Fraud Units. This can be funded through the fines levied by the FCA, which have averaged nearly £1Bn over the past 5 years.
5. There should be a minimum of 50% qualified bankers on the boards of banks.
6. A personal guarantee should never be used to recover more than the original guarantee.
7. The Treasury should not have direct control over the appointments to the Regulatory Authorities.
8. Ministers and civil servants should be barred from working with banks or allied business for 5 years from the date of their retirement.

We need a serious clean-up of our banking system. We need honest profitable banks that support industry and the financial and service sector. Honesty, integrity, ethics and profit should not be incompatible. There also needs to be a far wider distance kept between the Treasury Ministers and officials and the banks themselves. The banks and allied industries should not be seen within the Treasury as their next career move. The Treasury should relinquish its control over the Regulatory Authorities, and they should have true independence.

Anthony Stansfeld,

Police and Crime Commissioner Thames Valley.