# Statement from the Police and Crime Commissioner - Fraud

19 January 2018

Yesterday's (18/1) debate in the House of Commons has further opened up the morass of fraud that has taken place at the senior levels of some of our most important banks. The fraud of nearly £1Bn that was perpetrated by bankers within HBOS, with considerable collusion from other financial organisations and allied firms, resulted in the longest prison sentences ever given in the UK for fraud.

The fraud was denied by Lloyds Bank for 10 years, in spite of it being apparent that senior members of the bank were aware of it at least as far back as 2008. It resulted in a great number of companies being ruined, and the lives and livelihoods of their owners and those that worked with them being destroyed. They were pursued for their personal guarantees, and lost their houses and possessions as the bank and its lawyers pursued them for all they owned. Families were split up, marriages ruined, and suicides resulted. Throughout this period it seems extraordinary that the bank could deny a fraud had taken place.

The victims had written in to three Chairmen of Lloyds laying out clearly what had happened, but were ignored. It was not until the jury found the defendants guilty in January 2017 that Lloyds would admit to the fraud, a fraud in which the bank itself had lost many hundreds of millions. The admission came many months after their own banker had pleaded guilty. Throughout the 3-year police investigation the bank through its lawyers was less than helpful to the extent of being obstructive. This resulted in the case lasting far longer and costing far more than necessary. It is unlikely that even a small percentage of the money stolen will be recovered, it has been well laundered abroad.

Lloyds has now set up arrangements for an assessor to estimate what the victims of the fraud should be compensated, and has laid aside an estimated £100m for this. However, as far back as 2008 the bank estimated the fraud to have cost at least £250m. The victims clearly have no faith in the Lloyds appointed adjudicator who was a previous consultant to the bank. This is maybe coincidental, but has shaken the faith of the victims. The victims are being made a take it or leave it offer by the bank, with a refusal to admit liability and a gagging clause. Many understandably find this unacceptable. Most have yet to be fully compensated nearly a year after the bank's employees were found guilty.

What the HBOS case and the Tomlinson Report have established is that the defrauding, and taking over of companies was widespread, not just in HBOS, but in Lloyds itself, in RBS, and probably in other banks. The bank's shareholders rarely benefited, but corrupt bankers and their cronies most certainly did. Only the HBOS case has been brought to justice. If Thames Valley Police had not taken on the HBOS fraud it would not have been prosecuted. Two other police forces had already turned the case down. Other major frauds have become apparent but have yet to be prosecuted. The problem is that the police are overstretched, and have neither the capacity nor capability to take on these major fraud investigations that can last for years. Even when they do it is at the expense of investigating other crimes. It cost Thames Valley Police nearly £7m and over 3 years work to prosecute this case, only £2m of this will be recovered from the Home Office. Neither the Serious Fraud Office nor Financial Conduct Authority (FCA) has the capacity to take on major banking fraud. The FCA has recently stated that its priority is to prevent destabilising the economy by protecting the reputation of the banking system. That should be the responsibility of the Bank of England, the FCA should be ensuring the integrity of the UK's financial markets and protecting consumers.

The KPMG audits of HBOS in 2007 and 2008 failed to notice the hole in the accounts of nearly £40Bn and the fraud in the Reading office of nearly £1Bn. The former must have been known about by the HBOS Directors and the latter clearly was. No lessons seem to have been learnt from this, as the audits of the Co-op and Carillion have so amply demonstrated. Astonishingly the Financial Reporting Council (FRC) gave a clean bill of health to the HBOS audit last year. The conflicts of interest over this within both the FRC and FCA need to be looked into.

The FCA has the internal report written in 2013 by an employee of Lloyds that lays out in detail what went wrong in both HBOS and Lloyds. It names the companies and organisations involved. The report was internally ordered by the Lloyds' Group Audit Director. Lloyds now denies the reports validity, despite there being clear evidence of its commissioning. The whistle blower was made redundant, was not properly compensated, and the FCA has done nothing to support or protect her. She was not the first whistle-blower on major banking fraud to be let down by the FCA.

The Turnbull guidance on corporate governance set out the obligations of company directors to maintain a sound system of internal controls, and to ensure their effectiveness for reporting to shareholders. While the main boards of banks should do everything within the laws and guidelines to make profits for both the country and their shareholders, it is up the Chairman of the banks to ensure their boards do this honestly. This has clearly failed in many areas such as PPI and LIBOR. While these may not have hurt customers to the extent of ruining them, the banks action against small and medium size companies clearly has. A number of bank Chairman have failed to rein in their boards who in turn have encouraged a culture of ignoring the most basic ethics of banking in a welter of massive bonuses and disproportionately high wages. Bonuses in effect have often become bribes to maximise profit at any cost. This is done to the detriment of their customers, as has been shown by the HBOS case and similar frauds carried out through other prominent banks.

The University of Portsmouth, in partnership with Experian and other companies, did a report in 2016 that estimated the annual amount lost to fraud nationally is £193Bn, much of it being laundered abroad. In 2013 the Home Secretary estimated the loss at over £60Bn. That the estimates are so wide illustrates the fact that most is concealed or not reported. This is hardly surprising as less than 2% is ever investigated. However the loss must be between £100Bn and £200Bn a year, an amount that would transform the UK balance of payments if even only a portion of it could be stopped. That will not happen until some effort is made to prevent it.

By far the best way to reduce this huge cost to the UK economy is to make it clear that cases will be followed up and prosecuted. It is a serious organised crime that in financial terms dwarfs drugs, burglary, and any other crime. Currently, the Serious Fraud Office receives less than £40m, the City of London Police £15m. That is less than 0.05% of the amount lost. No wonder it is the crime of choice for the more intelligent criminal. Many of the senior management of the most critical regulatory authorities have major conflicts of interest having worked within the banks and organisations that should have prevented these major frauds.

To counter fraud the Treasury should fund the police directly with at least £300m annually to set up regional level Serious Fraud Units as a part of the Serious Organised Crime Units that already exist at regional level. These could be largely civilian manned with only a small number of police officers. Both the SFO and Action Fraud, run by the City of London Police, should have their budgets doubled. All this should be coordinated by the recently formed National Economic Crime Centre. These measures should be able to reduce fraud by several billion over two years. It only requires a few of the major fraudsters, embedded within banks, audit companies, and solicitors, to be brought to justice to stop this culture within banks. At the moment it is a huge moneymaker for the unscrupulous within professions, who have little risk of being prosecuted. However until the Treasury makes an effort to fund this little will be achieved. The cynic might think that the senior civil servants within the Treasury are too interested in their future employment within the banking system to want to disrupt the cosy relationship with the banking system they currently have.

The Government should now set up an Independent Inquiry into the wide-scale defrauding of small and medium size companies by banks, and their associates, and the conduct of the audit companies involved.

Anthony Stansfeld,

Police and Crime Commissioner for Thames Valley.

https://www.thamesvalley-pcc.gov.uk/news-and-events/thamesvalley-pcc-news/2018/01/statement-from-the-police-and-crime-commissioner-fraud/