

HIGH LEVEL FRAUD

Fraud is now costing the UK economy nearly as much as the entire NHS. The annual figure for fraud given by the National Crime Agency is over £190Bn based on figures from three years ago. Part of the underlying problem is that there is no realistic figure available. The NCA figure is based on a Portsmouth University study that did not look into High Level Fraud, so may well be an underestimate. The NHS in the same year cost £197Bn a year. Another NCA presentation claimed fraud was running at £3Bn a year. I queried where the missing £187Bn had gone. I did not get an answer. Until the scale of the problem is even roughly estimated it will be difficult to counter.

Little is done to combat major fraud. Less than 0.03% of the amount lost is spent on countering fraud. The Serious Fraud Office receives around £50m a year, Action Fraud, receives £16m, neither has the necessary staffing to deal with the problem. Police Forces have neither the time, capacity, nor capability to take on fraud. When fraud cases are brought to their attention they are either sent to Action Fraud, where mostly they disappear into an administrative hole never to be heard of again, or are classed as a civil matter. The few that are distributed back down to police forces are rarely investigated. Less than 2% of fraud is investigated properly, and only a fraction of that brought to justice.

PPI, LIBOR, and the extensive money laundering of the assets of major criminal enterprises, have resulted in banks being fined heavily. However this penalty falls on the totally innocent shareholders of the banks. No senior bank executives are ever held responsible for these massive criminal frauds, and they continue to receive not only large pay packets, but also massive bonuses.

Even more serious has been the deliberate destruction of individuals and companies by banks to pillage their assets. There has been little effort or enthusiasm by the many regulatory authorities, notably the Bank of England's Prudential Regulatory Committee (PRC), the Serious Fraud Office (SFO) and the Financial Conduct Agency (FCA), to either stop these frauds or bring the perpetrators to justice. These major frauds, unlike Libor and PPI, were not skimming off the top. They have ruined thousands of companies, small businesses, and families. A great number of jobs have been destroyed, and many have been bankrupted on forged documentation. The damage to the UK economy has been massive.

In June last year the Treasury Select Committee asked the National Crime Agency (NCA) to look into the industrial scale forging of signatures by banks and the alteration of documentation. Twelve large files of evidence were given to the NCA. In spite of having a responsibility for Serious Organised Crime, the files were immediately given to the FCA which has been aware of the problem for years. It was then passed to the SFO, who have been in possession of similar documentation for several months. It is now back with the NCA with no apparent investigation having been started. The ability of the Regulatory Authorities to pass the parcel between each other without anyone taking responsibility is a neat way to avoid action being taken. There are now 21 files of evidence covering over 500 cases with the NCA. As yet no investigation has moved forward further than an 'assessment' of the evidence. The TSC has gone back to the NCA and asked why there has been no progress on this.

The underlying problem is that senior white collar crime is not seen by the establishment to be a real crime. A senior Metropolitan police fraud officer wrote to the Treasury Select Committee in 2017 stating that the executive boards of some of our most prominent banks were Serious Organised Crime (SOC) syndicates. His report was hastily buried. From everything I have seen, and which has become apparent over the last three years, he may well have a point. Stealing a million pounds

through the front door of a bank will result in police response. Steal a billion through the back door and nothing is done.

The HBOS Reading case involved a fraud approaching £1Bn. It cost Thames Valley Police £7m to bring to court. Those charged were found guilty, and 6 individuals received combined sentences of 48 years. Many of the guilty were not charged. The FCA fined Lloyds Bank £45m for concealing the fraud, but held no one responsible at board level. The fine was passed direct to the Treasury. In spite of the then Chancellor, Philip Hammond, being asked to reimburse TVP the cost of the case, he refused to do so. It is little wonder that Police forces, which rarely have either the capacity or capability to investigate high level fraud, are reluctant to take on fraud perpetrated through banks. It is costly to do so, and even if they recover massive sums of money, none reverts to the police force that has born the cost.

An internal review into what had gone on in Lloyds, called the Turnbull Report, was written by in 2013. It laid out in detail the consequences of the inaccurate, and possibly fraudulent, KPMG audits carried out on the HBOS accounts. These had overlooked massive holes in the bank balance sheet approaching £40Bn, and the concealment of the £1Bn fraud carried out in Reading. On the back of these audits, both HBOS and Lloyds had raised billions in Rights Issues on knowingly false accounts. KPMG were also the auditors of the Co-Op Bank and Carillion. The senior partner of KPMG became Chairman of the FCA 4 months after the Turnbull Report was given to the Executive Board of Lloyds. It is interesting to note that the Chairman of the Financial Reporting Council (FRC), which is meant to monitor auditors, gave the KPMG audits of HBOS a clean bill of health. The Chairman of the FRC was in his previous job Chairman of Lloyds.

The Turnbull Report was written by a senior Lloyd's accountant, Sally Masterton. It named both the companies and individuals involved in the frauds and the cover up. She was promptly made redundant with minimal compensation. The bank denied the report was authorised and did its best to denigrate its author. Both the Bank of England and the FCA received the report in early 2014. In spite of the evidence neither took action. Three years after Sally Masterton was sacked the bank had to admit her report was authorised and she was paid compensation. The failure of the FCA to protect Sally Masterton is regrettable, it took others to ensure the bank apologised to her and paid her compensation. Needless to say, it was accompanied by a draconian Non-Disclosure Agreement.

In 2017 it became apparent that the Turnbull Report had been concealed by the 3 man Executive Board of Lloyds from their own Chairman and non-executive directors for three years. The Chairman, Lord Blackwell, was sent a copy of the report in March 2017. He took no action in spite of it being clear that a number of fundamental company rules had been broken by his executive board. As far as can be ascertained he failed to pass on the report to the other non-executive directors for a further year. Anita Frew, the senior non-executive Director of Lloyds, was asked when the Chairman shared the report with the other non-executive Directors. It is a simple question she would not answer, and neither would the Company Secretary. It was not until the report was published through parliament that she and most of the other non-executive directors were made aware of the report.

Similar frauds to HBOS were also going on in Lloyds itself, RBS and Clydesdale. It is estimated that RBS alone took down around 16,000 companies. A proportion of these were not viable, a great number were, and had never defaulted on loans. The companies were pushed into the RBS Global Restructuring Group. This was meant to assist companies, not destroy them. Its Chief Executive told the Treasury Select Committee it was not a profit centre. It made billions pillaging companies. No one has been held to account for this. The head of RBS GRG became Chief Executive of Santander UK Bank. The FCA and the Bank of England stood back and did nothing.

The SFO is now in possession of both the Turnbull Report and detailed files on the use of forged documents and signatures that have been used to convince courts to bankrupt a vast number of

individuals and repossess their homes. The Turnbull report has sat with the SFO for a year, and with the FCA and Bank of England for five years. Action by them is well overdue. The evidence is clear. The files that cover the forged documents have been with the SFO for six months. Again the evidence is clear. I trust it will not be covered up like so much else has been.

Similar frauds were perpetrated in both the US and Australia. In the US, the banks were fined £25Bn for the forging of documents and bankers gaoled. In Australia the government set up a Royal Commission. Its report is devastating and the police are now taking action against the bankers and associates involved. In the UK nothing has been done. There would appear to have been a systematic cover up. The Bank of England, the FCA, the FRC and a number of other bodies have failed to hold the banks and accountancy companies to account. There is a revolving door between employment in these agencies and the major banks. It has been at the expense of thousands of small and medium size companies. The bail out of Lloyds and RBS by the Treasury merely compounded the loss to the UK economy.

Two major inquiries into Lloyds Bank have been commissioned. Sir Ross Cranston, a retired High Court Judge, has now reported on Lloyd's Bank treatment and compensation paid to victims of the HBOS Reading frauds. His conclusions are that Lloyd's treatment of those defrauded was 'neither fair nor reasonable'. However much of the fraud was not looked into. The internal Lloyds scheme under a Professor Griggs is widely believed to have failed to properly compensate even those small number of victims whose names came up in the court case. The others defrauded, whose cases were not brought up during the court case, have largely been ignored. It is worth mentioning that only a small part of the Reading fraud was prosecuted, probably less than a third of the overall fraud. This gave the bank the opportunity not to compensate the many others who had been defrauded. All those who have been compensated were made take it or leave it offers, accompanied by Non-Disclosure Agreements (NDAs). Of the £850m taken in the HBOS fraud Lloyds has only paid back just over £100m.

The other inquiry is an internal Lloyd's inquiry headed by another senior Judge, Dame Linda Dobbs. This started in 2017 as a small inquiry into what had gone on within Lloyds over the HBOS case. It has now expanded into a major inquiry that will not report until 2021. It will have taken nearly 5 years and a large team of lawyers supporting Dame Linda, with two lead QCs, to get to the bottom of this. Every stone that is turned over expands the inquiry. The concern about this report is that most of those responsible will have departed the bank with large bonuses and pay offs before the report is released. Only part of the problem is being looked at, what went on in other branches of Lloyds is being ignored.

In the current economic climate it is clearly necessary to support the banking system, but that does not mean that corrupt senior bankers should be supported. Ideally the Government should set up a full Public Judicial Inquiry into what went on in our banks. It should examine how it can be prevented ever happening again, why the regulatory authorities covered it up, how the victims should be compensated, and who should be prosecuted.

However in the current circumstances the better option maybe is to have a number of smaller low key inquiries that interlink. Those bankers clearly implicated should be asked to resign quietly, without bonuses and titles. Those that have the most senior positions should be told that unless they cooperate with the inquiries they are liable to have a full criminal investigation launched into their activities. There should be a clear direction that non-executive boards are there to hold the bank executives to account, not only for profitability, but also integrity. The current non-executive boards have knowingly failed in their duties, and should, in some banks, notably Lloyds, be replaced in their entirety. It should become widely known in the City of London that fraud will be investigated, and prosecution will follow. At the moment fraud is seen as a safe way to make money. In both the US

and Australia they have tackled this problem, and they now have a far less corrupt system than we do in the UK.

There should also be a look into how the bankruptcy courts are being manipulated, and why the Land Registry and Insolvency Services have failed to guard the rights of property owners. The behaviour of some of the most prominent legal companies who have acted on behalf of the banks should also be examined. Finally the failure by some of the major trade bodies that are meant to regulate the behaviour of their members should be looked into. They would seem to have become more concerned about protecting their members rather than seeing they operate within the law.

The sorting out of flagrant frauds within the UK banking system, without damaging it yet further, will be a difficult balancing act. However it cannot be allowed to continue. The present economic situation has given banks the opportunities to go on behaving in the same way that they did after the crash in 2008. At least £500m should be used to set up regional police fraud units with the majority employed within them being forensic accountants. The money required should be taken from the annual fines levied by the FCA and ring fenced for this. The SFO should either be made fully independent of the Treasury, or be subsumed by the NCA. The NCA should deal with the wide scale bank money laundering, and the international aspects of the frauds. This will need a proper fraud division to be set up within the NCA. The current small team has no capability to take on international banking fraud. The governance of the NCA needs a radical rethink. It has clearly been complicit, with the City of London Police, in its failure to take on major fraud.

The UK needs a profitable banking system and it needs an honest one. The two are not incompatible. The UK cannot afford to gain a reputation for corrupt banking.

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