Britain: Bankers Treasury Select Committee "grilling" fails to materialise

Julie Hyland
12 February 2009

The pretence, that four of Britain's leading bankers would be held accountable for the near collapse of their institutions by the parliamentary Treasury Select Committee, was an insult to the intelligence of millions of working people.

Before the 14-member cross-party body were Sir Fred Goodwin and Sir Tom McKillop, former chief executive and chairman of Royal Bank of Scotland (RBS) respectively, Andy Hornby, former chief executive of HBOS, and Lord Stevenson of Coddenham, its former chairman. RBS, HBOS and its merger partner Lloyds received more than £37 billion emergency state aid last autumn. RBS is now 68 percent state-owned and Lloyds Banking Group, formed after Lloyds TSB took-over HBOS, 43 percent state-owned.

Despite an exercise aimed, in large part at assuaging public anger and restoring the image of the City of London following state interventions into Britain's leading banks, the committee failed to deliver the public "grilling" the media and others had promised.

The four had received extensive coaching from public relations and communications experts over how to show a suitable amount of contrition before the television cameras. All began by making their "sincere" and "unreserved" apologies for "what went wrong". It was soon apparent, however, that they didn't believe anything "wrong" had been done at all. Rather, in the manner of a mugger who trips and injures himself running from the scene of his crime, the bankers said they were just as much victims, having personally "lost a great deal of money" as a result of the collapse in their banks' share prices.

Goodwin's share values had fallen by 90 percent—this for a man who is estimated to have received some £15 million over the four years to 2008. Hornby's shares have fallen in value from £10 million to £500,000. Hardly skid row, especially when his continued employment as an advisor to HBOS on £60,000 a month is taken into account.

Their claims to be equally "victims" are indicative of the arrogance and self-denial that characterises Britain's ruling layers.

Tens of millions of people are threatened with unemployment, financial insecurity, house repossession and more—as a result of the global economic recession—triggered by the sub-prime mortgage crisis in the United States. Billions in savings and pensions have been lost. Thousands of businesses face ruin—almost 2,500 companies went into insolvency in the last three months of 2008—and entire economies are threatened with collapse. Just hours after the Treasury Committee finished its session, RBS itself announced the loss of 2,500 jobs.

Doctors, nurses, teachers—indeed any employee—would face instant dismissal and even criminal charges had such a catastrophic failure occurred on their watch. In contrast, not a single representative of the banks, the City of London or the Financial Services Authority, has been held to account for events that triggered what Bank of England governor Mervyn King described as a "deep recession" on Wednesday, with the economy expected to contract by at least four percent over the next months.

Writing on the eve of the Select Committee hearing, Rachel Sylvester in the *Times* said, "In the 18th century, there was a parliamentary resolution calling for bankers to be tied up in a sack of snakes and thrown into the Thames as punishment for the South Sea Bubble."

There was never any fear of that on Tuesday. "We didn't bring you here, contrary to what the press think, to have a public humiliation," MP George Mudie told the bankers. "We came here to find out what the hell happened."

According to the bankers, everything was just dandy until the collapse of Lehman Brothers in September 2008—an event they insisted no one could have foreseen.

Goodwin said that he had "led the bank in a responsible fashion," even while admitting that his role in the £50 billion acquisition of Dutch bank ABN Amro by RBS, concluded despite the onset of the credit crunch, was a "bad decision"

In hindsight it shouldn't have been done, he said, although at the time it seemed a "good thing to do". The *Wall Street Journal* reported that, last month, RBS had to "report a goodwill impairment charge of at least £15 billion ($33.4 billion) and up to £20 billion on the loss of ABN's value."

Stevenson, who as former chairman of HBOS was responsible for Britain's biggest mortgage lender, did not figure on the possibility of a collapse in property prices. "It is quite clear, with the wisdom of hindsight, that we were overexposed that we lent too much at the wrong part of the cycle," he said.

Speaking of the practice of securitisation—the rolling up and parcelling on of debt—McKillop said, "We had no idea of how quickly it could all turn down."

A written submission to the Committee by Paul Moore, former HBOS head of group risks, told a different story. Moore stated, "Anyone whose eyes were not blinded by money, power and pride (hubris) who really looked carefully knew there was something wrong and that economic growth based almost solely on excessive consumer spending, based on excessive consumer credit, based on massively increasing property prices which were caused by the very same excessively easy credit could only ultimately lead to disaster."

As "head of group risk I certainly knew that the bank was going too fast (and told them), had a cultural indisposition to challenge (and told them) and was a serious risk to financial stability and consumer protection (and told them)."

"But", he said, "no one wanted or felt able to speak up for fear of stepping out of line with the rest of the lemmings who were busy organising themselves to run over the edge of the cliff behind the pied piper CEOs and executive teams that were being paid so much to play that tune and take them in that direction."

Rather, he wrote, members of his team were subject to "threatening behaviour" by executives and he was sacked in 2005.

More damaging still, he revealed that he was personally dismissed by his then boss, Sir James Crosby.

"One final observation I would make about the HBOS disaster is this: wasn't it actually Sir James Crosby rather than Andy Hornby who was the original architect of the HBOS retailing strategy?" he asked.

Crosby is one of Prime Minister Gordon Brown's closest advisors. In what the *Times* described as a "hospital pass", Crosby stood down from HBOS in July 2006 in favour of Hornby, having accrued a pension pot worth some £9 million. One month later he was named chairman of a government task-force charged with selling its plans for an identity card scheme to the public.

Moore noted, "Sir James is still the deputy chairman of the FSA and advises the government on how to solve the mortgage crisis." In April 2007, having been charged with making proposals on how to "unfreeze" the housing market, he called for the government to make £100 billion worth of guarantees available for mortgage-backed securities.

"Some might now also question what his ‘contribution to financial services' has in fact been, when this will have led to millions of people in excessive debt, ten of thousands who will lose their jobs and many more whose balance sheets have been impacted by precipitous fall of the HBOS share price," Moore told the Committee.

On Wednesday Crosby resigned from the FSA. His decision was said to be "voluntary," but there can be no doubt its main objective is to shield the Brown government.

In the last months, the government has feigned indignation at the actions of leading bankers and financial institutions, whose "bad decisions" it has blamed for the economic crisis. What it wants to avoid at all costs, is a probing of how these "decisions" was deliberately facilitated by the big business agenda of Labour and the entire political establishment. It was, after all, Business Secretary Peter Mandelson, a key architect of New Labour, who famously declared that the government was "intensely relaxed about people getting filthy rich."