Widespread criminal practices by UK banks

Jean Shaoul
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Scandals emerging from the financial services industry on an almost daily basis point to the ongoing criminal practices of British banks. They expose the complicity of the regulators—the Financial Services Authority (FSA) and the Bank of England (BoE), who famously practice "light touch" regulation—and successive governments that function as the advocates and protectors of these financial gangsters.

The Royal Bank of Scotland (RBS) has announced half-year losses of £1.5 billion—double that of the same period last year. It cited the cost of charges for the "mis-selling of financial products." This loss is before any charge for RBS's role in rigging the interbank lending rate, Libor.

RBS and other high street banks mis-sold expensive and useless payment protection insurance to more than 3 million people who did not need it. Now RBS is setting aside £850 million to compensate people who bought the payment protection insurance, taking the total charge over the last 18 months to £1.3 billion. Even this pales into insignificance besides Lloyds Banking Group, which has set aside another £700 million, bringing its total to £4.3 billion over the last 18 months. The total compensation across the banks could top £10 billion.

RBS is making a provision of £50 million for compensation to small businesses to which it mis-sold interest rate insurance. It is also setting aside £125 million to compensate its 13 million customers who were locked out of their accounts for at least 10 days when its computer crashed in June—a cost that could rise further.

RBS is one of 18 giant banks at the heart of the rigging of the Libor rate, the interbank lending rate linked to $800 trillion in financial transactions. Barclays has already been fined £290 million and RBS expects to be fined hundreds of millions of pounds and has sacked four people involved in the manipulation.

Between 2005 and 2009, the banks manipulated the rate upwards, robbing millions of people of billions of pounds in inflated loan costs, and downwards, depriving states, cities, pension funds and pensioners with fixed investments of billions in lost income from bond holdings. Documents that have been released implicate the Bank of England and show that neither the bank nor the government did anything to stop it. In its latter stages this was because reducing Libor after 2007 helped to conceal the depth and scale of the banking crisis and thus facilitated the bailout of the kleptocracy.

Stephen Hester, the chief executive of RBS, made it clear that this was not all, saying that there could be further problems as it turned over the "rocks" left by the previous CEO Fred Goodwin. It means that RBS will post its fifth year of losses since the bank's bailout in 2008. It made losses of £2 billion in 2011, up from a loss of £1.1 billion in 2010.

When RBS, along with Lloyds Bank and HBOS, faced bankruptcy in October 2008, Alistair Darling, then Labour chancellor, organised a massive rescue. It came after secret talks over a weekend, with no strings attached, no discussion in Parliament, much less any public consultation, and was announced to the stock markets early on the Monday morning.

Despite this, there has been no proper examination of the banks' activities in Britain. The one "report" into the collapse of RBS, which at first the FSA refused to publish, turned out to be just a series of memos and statements, concluding that no rules or statutes had been breached. This was despite cables released by WikiLeaks revealing that Lord Turner, the FSA chair, had been concerned about the directors' mistakes. According to the cables, Turner had said, "Negligent boards of directors bore much of the responsibility for the crisis," by "failing to provide oversight or check risky activity," something that publicly he denied in the context of RBS. The cables show that no less a person than RBS's new chairman, Sir Philip Hampton, flatly contradicted the FSA's line, telling visiting congressmen that the former directors were in breach of their fiduciary responsibilities.

Later Mervyn King, the governor of the Bank of England, revealed that the BoE had provided £36.6 billion in secret loans to RBS and the government had agreed to underwrite RBS's debts should it default on its loans. This was in addition to the £45 billion the government paid the shareholders to acquire an 82 percent stake in the failed bank. As well as providing the ultimate backstop for the banks, the government is currently providing £512 billion of explicit public support, and hundreds of billions in guarantees.

Furthermore, with its "quantitative easing" (QE) programme—essentially printing money—the BoE has provided the banks with a further £375 billion of cash by buying up the banks' assets—typically financial assets such as government and corporate bonds. While the declared aim was that the banks would to lend to businesses and thus boost the economy, business lending has fallen sharply.

A BoE report claims that the first round of QE had helped to increase gross domestic product by between 1.5 and 2 percent, which if true means that without it, GDP would have fallen by a catastrophic 6 percent since the financial crash.

Less has been said about the losers. RBS laid off 5,700 workers in the past year, bring the total since 2008 to 36,000. HBOS, another government-owned bank, has shed 45,000 jobs in the same period.

QE has led to a massive increase in company pension scheme deficits—to a record £312 billion. This is because the cost of paying pensions on final-salary schemes is based on the yield from government bonds, which have fallen, necessitating an increase in assets to generate the same level of pension income. At the same time, the fall in bond yields has driven down the annual income from any annuity bought with savings in the last two years, leading to a loss in income that will never be recouped.

The ongoing saga over accusations that Standard Chartered hid illegal Iran-linked transactions is beyond the scope of this article. But it should be noted that last month, HSBC, the world's second largest banking group, was found by a senior US Senate Committee to have laundered billions of dollars in Mexican drug cartel money. This and other legal claims against HSBC could lead to fines of $1 billion.

HSBC is not alone. Six years ago, Barclays Private Bank, a subsidiary of Barclays, laundered drug money from Colombia through five accounts linked to the infamous Medellin cartel.

In March, Coutts, part of RBS, was issued with a final notice from the FSA to pay a penalty of £8.75 million for breach of its money-laundering code. This followed a review of 103 "high-risk customer files" and "deficiencies in 73 files" that showed a "failure to conduct appropriate ongoing monitoring" over three years.

Despite this record of illegality, recklessness and mismanagement, not a single top executive of a major UK bank has been charged with criminal wrongdoing. Neither has there been any substantive change in the regulation of the banking and financial services sector. The fines, so much loose change for the banks, have become part of the cost of the banking business and are simply passed on to customers in innumerable charges while the top executives walk away with massive bonuses.

Successive governments are linked by countless connections to the financial elite, from whom they recruit their advisors, regulators and even ministers. The present minister of state for trade and investment is Lord Green, a former HSBC chairman. Their record confirms that they are merely the puppets of criminals in London's Square Mile.