

The demise of Greensill: Another expression of financial rot and decay

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The demise of the financial firm Greensill Capital, which is set to be taken into administration, is further evidence of the fact that, notwithstanding all talk of the need for greater prudential regulation, rampant speculation within the global financial system continues unabated.

Two years ago Greensill, which began operations in 2011 by financing global supply chains, was estimated to have a value of \$4 billion. Currently in discussions over its winding up with Apollo Global Management, its value is estimated to be around \$100 million, according to the *Wall Street Journal*.

The story of Greensill's rise and fall is a combination of all the ingredients that have been the hallmark of the continuing shocks delivered to the global financial system: hype on the part of the founder, support from high levels of the political establishment, complex financial practices that seemingly promise large returns and dubious accounting procedures.

The company was set up by a former London-based Morgan Stanley financier Lex Greensill who decided to set up his own firm to engage in supply chain financing.

Hailing from the Queensland, Australia, city of Bundaberg, where his parents had a sugar cane and melon farm, Lex Greensill said his company had begun from "humble beginnings to revolutionary thinking" in overcoming inefficiencies in the payment of small companies for the goods and services they supplied.

The company claimed it was "making finance fairer" and "democratising capital."

Greensill's business model was based on a long-established system under which small companies receive faster payment for the goods they have supplied to larger entities. Instead of waiting for 30, or sometimes 60 days to be paid, they could receive cash

more rapidly by obtaining money from Greensill, at a discount. Greensill would receive the full amount when it became due.

The advantage for the company using supply chain finance is that the money it owes to the finance institution does not appear as a debt on its books but is recorded along other bills in the accounts payable section.

For its part, Greensill packaged the money it was owed into a security which was then sold off. Its main financial backer was Credit Suisse, which bought these securities and then sold them off to insurance companies and investors classifying them as low-risk.

Greensill received assistance on its way up. In 2017 its founder received a CBE from Prince Charles for "services to the economy" and the following year former British prime minister David Cameron signed on as adviser to the company.

Greensill was closely associated with the rise of Sanjeev Gupta from a relatively unknown commodities trader into the owner of Europe's fourth biggest steelmaking firm with significant interests in the UK. Greensill enabled Gupta's firm to buy up distressed aluminium and steel firms from Whyalla in South Australia to Newport in Wales as well as in Scotland.

One of Greensill's biggest operations has been the financing of Gupta's company Liberty Steel which purchased Arcelor Steel. According to a report in the London *Sunday Times* Greensill's "exposure to Gupta is huge." It lent him about \$3.4 billion using what it termed "a particularly exotic form of finance, extending cash to Liberty based on 'future receivables' up to three years ahead—so the sale of steel that was still iron ore and coal in the ground."

Greensill has maintained that it works with a range of customers, numbering millions, and had partnerships

with dozens of banks, insurers and companies.

However, according to a report in the *Wall Street Journal*, a “handful of companies had become crucial to Greensill in recent years.” During most of 2019 some 90 percent of its revenue came from just five clients and last year the figure was 70 percent.

The *Financial Times* reported on what it called the secret behind Greensill’s sudden rise in 2017 when its profits nearly tripled. Some \$70 million of the company’s net revenue for that year was derived from Gupta’s companies.

The Greensill operation began to unravel last week when the German financial regulatory authority, BaFin, filed a complaint against Greensill Bank’s management for suspected balance sheet manipulation. BaFin said an audit was unable to provide evidence of receivables purchased from Gupta’s GFG Alliance.

The company’s collapse was triggered when an insurer, Tokio Marine, withdrew cover for it. Greensill responded by seeking an injunction in an Australian court to prevent the removal; but this was denied.

The company’s lawyers said if insurance policies covering loans to companies were not renewed, Greensill Bank would be “unable to provide further funding for working capital of Greensill’s clients.” Some of them were “likely to become insolvent, defaulting on their existing facilities” and there would be up to 50,000 jobs lost.

The action by Tokio Marine set off a chain reaction. Credit Suisse suspended \$10 billion of investment funds setting off the move to place the company in administration. The British Business Bank ended the guarantee it had given on loans to Gupta and the Bank of England’s Prudential Regulation Authority forced Wyeland, Gupta’s bank, to hand back deposits to savers.

So far the prevailing view in financial and media circles is that while the demise of Greensill is serious it will not precipitate a broader financial crisis. But its collapse does have significant implications.

The *Financial Times* reported that the insurance industry, which was a “key cog in Greensill’s machine,” was watching events with a “nervous eye” with one observer noting: “This is similar to what blew up AIG in 2008.”

The impending collapse of the US insurance Group, AIG, following the bankruptcy of Lehman Brothers,

prompted the intervention by the Fed to bail out the Wall Street banks.

Long-time *Financial Times* commentator John Plender wrote that while Greensill’s demise appeared to pose no “systemic threat” or the need for a central bank bailout, its “rapid passage from hubris to nemesis raises disquieting questions about the evolution of the global financial system” and “the capacity of shadow banking to spring more dangerous systemic shocks should not be underestimated.”

The whole affair has decisive implications for the working class. The collapse of Greensill is not an isolated incident or an aberration. It is yet another expression of the rot and decay at the very heart of the global financial system, which threatens the jobs and livelihoods of millions of workers around the world.

That threat will not be removed by empty promises of increased regulation or other so-called reforms—the ruling classes and their vast fortunes derive from the very same financial alchemy that characterised Greensill. It can only be ended by the political struggle for a socialist economic program, starting with bringing the entire financial system into public ownership under democratic control.



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