

New City Agenda

Banks, Frauds and Accomplices

10 July 2018

Opening Remarks

Lord Hollick

New City Agenda

Ladies and gentlemen, good morning. Welcome to this New City Agenda event: Banks, Frauds and Accomplices, with Anthony Stansfeld, Thames Valley Police (TVP) and Crime Commissioner.

On 2 February 2017, six people, including two former employees of HBOS, were jailed for a total of 47 years. This was the culmination of *Operation Hornet*, a six-year investigation by TVP and the Crown Prosecution Service into fraud at the Reading of HBOS. These individuals had embarked on a spending spree at the expense of the shareholders of the bank and many small and medium-sized companies which were bankrupted and ruined. Hundreds of millions of pounds were lost and livelihoods were destroyed. It was through the determination of the victims of that fraud that it was exposed, investigated by the authorities and successfully prosecuted.

In recent weeks Project Lord Turnbull, a report prepared in 2013 by Sally Masterton, a senior risk manager at Lloyds Bank, has been released into the public domain. This report contains extensive details about who at HBOS and Lloyds knew what and when about the fraudulent behaviour, and what actions they took. The report raises a number of important questions. Why did the fraud take so long to come to light and be acknowledged by the banks? How effective were the regulatory bodies and professionals who were supposed to be overseeing the banks? How should we ensure that small businesses can have access to justice? What should the Government do to ensure that sufficient resources are allocated to detecting, investigating and prosecuting fraud?

To address these issues, we are delighted to welcome Anthony Stansfeld, the Thames Valley Police and Crime Commissioner, who was elected in November 2012. He is currently a member of West Berkshire Council and was a member of the Thames Valley Police Authority for several years, taking over as Chairman of the Performance Committee in 2011. He has had a career in both the military and in industry.

After Anthony's speech, there will be a short response from Kevin Hollinrake, MP for Thirsk and Malton, before we open it up to questions. I must make it clear that all speakers and those asking questions will be expressing their own views, rather than the views of New City Agenda. You are free to raise any issue which you think is relevant but please bear in mind that, although these proceedings are taking place in Parliament, they are not covered by parliamentary privilege, so please consider the legal implications of any points you want to make if you are thinking about identifying individuals.

To discuss Banks, Frauds and Accomplices, please welcome Anthony Stansfeld.

Banks, Frauds and Accomplices

Anthony Stansfeld

Thames Valley Police and Crime Commissioner

I. Background

Thank you very much, Lord Hollick, Lord McFall and Lord Sharkey. Over the last 20 years or so banks have become accustomed to practices that have been, frankly, corrupt and they have not been held to account in any way. The number of victims has grown steadily. The winning of the major case against the employees of the above bank last year, however, has changed things fundamentally. For years, nothing has been done to either stop the frauds or recompense the victims. I think more has been achieved to right this wrong over the last year and a half than over the past 20; however, we still have a very long way to go on this.

II. Mechanism of Fraud

The frauds, which, in my view, have been replicated by other offices of both HBOS and other banks, are fairly simple, although there are many variations on the theme. A profitable company with tangible assets, with personal guarantees from the directors, and with an overdraft, has the overdraft called in without any notice by the bank. Very few companies have assets which they can realise instantly. The bank then puts in advisors onto the board of the company at very considerable cost. New accounts are opened with the bank, usually without the company even knowing about them, and at very high interest rates. Huge amounts are then borrowed without the owner's permission. The company is then run down and liquidated. The bank recovers its loans from the sale of the assets at knockdown prices. It makes a great deal of money from exorbitant and punitive interest-rate hikes.

The bank managers get very large bonuses and their friends get the assets at a fraction of their real value. Business advisors, solicitors, estate agents and insolvency practitioners all make a great deal of money, and all are complicit in this. The bank then goes for the personal assets of the company owners who have personal guarantees. Houses are repossessed and anything variable is, in effect, stolen. The amount recovered by the bank and its associates far exceeds the original loan.

III. HBOS Reading Case

1. Background

The HBOS Reading case was somewhat different to what went on in the other banks in that the bank was itself so incompetent that the main fraudsters were able to defraud the bank as well as the customers. The HBOS fraud using this basic technique was probably near £1 billion. We quite simply do not know. We only prosecuted on £245 million. It is pretty irrelevant whether you prosecute on £245 million, £10 million or £1 billion, as the maximum sentence for fraud is 15 years. The main defendant in this case got 15 years, and the main banker involved who pleaded guilty got 13 years.

However, I believe only a part of the fraud was revealed by the bank, and there are reasons for that. To stay beneath various rules on disclosing losses, they have to keep it below a certain figure, and internal emails quite clearly show that they were desperately trying to keep the fraud to which were prepared to admit to below £250 million.

2. Trial

The trial lasted nearly four months. I went on the odd day and there were 13 or 14 people wearing wigs. You can understand how expensive it was. The police investigation had gone on for nearly seven years. I believe that if the bank had cooperated fully it would have taken far less time and far less money. The concerns over the bank's less-than-helpful view on this have been lodged with the Financial Conduct Authority (FCA) by TVP.

At no time until the jury returned its verdict would the bank admit it was itself a victim. We do not know how much, but it appears to be into the hundreds of millions. The bank had known about the fraud for at least nine years: there were internal emails discussing it in 2008. For the next nine years, the bank, which was taken over by Lloyds in 2008, went for the businesses, houses, assets and everything that they could of those that they quite knowingly had defrauded. Unlike LIBOR and payment protection insurance (PPI), this fraud against companies was not skimming off the top; it ruined companies, livelihoods and jobs; it took away farms and property assets, and; it destroyed families. One family had 22 attempts made against them by their bank to take their house away. This was replicated a great number of other times, though in no other cases was it as many as 22 times, because the vast majority of people had given up their houses at a much earlier stage.

Did the board know about this? Yes, absolutely. Large numbers of letters were written to the chairmen of HBOS and Lloyds. I have seen these letters and I have copies of them. Sir Victor Blank, Sir Win Bischoff and Lord Blackwell were all written to in great detail about this, but nothing was done. Even when the bankers' own banker pleaded guilty, they were still going for the personal assets of those they have defrauded, and I believe that, in some cases, that is still happening.

3. Griggs Investigation

Even now, the Professor Griggs investigation put in place by Lloyds to recompense victims is basically a travesty. Lloyds claim that 50 of the 72 victims have been recompensed. There are far more victims than that and, as far as I am aware, none of the major claims have been accepted, let alone looked at. Professor Griggs is not independent of the bank; he is a long-time consultant to the bank. The bank offers to victims do not compensate them properly for the damage that has been done to their lives over many years. There is no cumulative interest for the losses over the past 10 years or more and there is no consequential loss accepted.

Most of the victims are now very elderly. They are made a take-it-or-leave-it offer. Most have been trying to get compensation for years. They believe – rightly, in my view – that, if they do not accept the offer, they will get nothing. The offer is accompanied by a frightening gagging order. They have no choice but to accept. There is no system of independent appeal against the sometimes derisory compensation.

4. Dobbs Inquiry

The bank's internal inquiry by Dame Linda Dobbs is, I believe, being done properly. However, it was hugely under-resourced to start with and, of course, it has opened up a complete can of worms.

It will take a minimum of another year to complete and, I suspect, longer. She has not even got round yet to interviewing the police who were involved in this case. I very much hope it will be made public, when it does come out, under parliamentary pressure. However, by the time it has been published, most of the main board directors of Lloyds will have retired to Portugal and other localities with colossal bonuses and huge payoffs. I think Dame Linda Dobbs should provide an interim report by October this year. I will be asking for that and I think it is possible.

One thing that has come to my attention – and I do not really have the detail of it yet and I have not been able to get a bank to talk about it – is the new software programme that banks have introduced, called Symphony Interbank. This allows emails between banks to be instantly deleted, and deleted permanently off their hard drives. If we are trying to stop vast money-laundering, this has to be stopped and looked into fairly quickly.

5. Turnbull Report

The Turnbull report of 2013 was written, as you have heard from Lord Hollick, by a senior manager and forensic accountant, and it was disclosed by the bank to the police, although the police were already aware of its contents. It was not used at the HBOS trial – it was not directly relevant to the HBOS case. What the report lays out in devastating detail is the cover-up of the massive HBOS fraud and a hole that appears to have approached £40 billion in the HBOS accounts. Major rights issues were then done on what I would have thought was a somewhat dishonest and possibly fraudulent prospectus – and we are talking again of probably over £20 billion. Neither the hole in the accounts nor the nearly £1 billion fraud was reported, as far as I am aware, in any prospectus.

I will not go into details about the report; it has become public and you can read it on the All Party Parliamentary Group (APPG) website. One thing that I would emphasise is that the report was written in draft and not completed, for reasons that will come out in a moment. It does, however, name names and the audit companies involved. I have no reason to suppose that the report is not accurate and I cannot see how those named should continue in public life in the prominent positions many of them still hold. I think the behaviour of the three audit companies involved is unacceptable.

6. Whistleblower

A word about the whistleblower – and I hesitate to call her a whistleblower: a whistleblower writes something unofficially. This report was clearly asked for by the Lloyds Banking Group Head of Audit, and there is ample evidence for that in emails discussing it between the two of them. Lloyds repeatedly said the Turnbull report was unauthorised and not substantiated. They have consistently discredited the report and the author. They have denied the report was asked for at the most senior level and continued to say it was unsubstantiated. It is clearly substantiated in its main premise that there was a major cover-up of both the fraud and the hole in the HBOS accounts. Lloyds Bank continued to deny that there was a fraud for a further three years after the report was written and was seen at board level. They would not admit that a fraud had taken place until the jury returned its verdict at the end of January last year. This was even after their own banker had pleaded guilty some months before.

The author of the report was constructively dismissed against her wishes, and the full might of the London lawyers Freshfields was thrown against her – and I gather that cost into the millions – to stop her winning at an employment tribunal. She was eventually totally outspent and was forced to settle at, I believe, a minimal recompense and with a comprehensive gagging order. She is now unemployable.

I have met with Lord Blackwell subsequent to this and I think, at the last, the bank has realised what a huge injustice was done, and I hope something is going to be done about that over the next month; but this whole episode, I have to say, is disgraceful, from the chairman right down through the board. The head of audit who discussed this with her also left at the same time, or very shortly afterward. I presume she was fairly well paid off, if not very well paid off, and was immediately given other City employment.

IV. Other Banks

1. Lloyds

Now, looking at other banks, I believe that similar frauds have been carried out by a number of other banks. The recent House of Commons debate has shown that this went on nationwide. The sums involved are huge. I do not know what they are but they probably exceed £100 billion; if proper restitution is taken into account, probably rather more. Many of the frauds were seen to be connected across banks, and the same names crop up in cases mentioned by MPs right across the board.

I believe the Lloyds Bristol business and the number of MPs who have reported it in the House of Commons may be much larger than the HBOS fraud and is yet to be investigated properly, in my view. I brought it to the attention of the Chief Constable of Avon and Somerset, and the claim is that it has been investigated. I do not believe it has been looked into any depth by police officers who understand fraud in any detail. Very few of the victims have even been contacted by Avon and Somerset police. TVP, which is a much bigger police force than Avon and Somerset, has twice offered to go and assist with the inquiry, but that offer has not been taken up.

Similar frauds also appear to have taken place from a number of other offices of Lloyds, and I am repeating what was said in the House of Commons by MPs from all six parliamentary parties. I attended one of the debates and I must say it must be about the first time that all six parliamentary parties and the MPs involved all agreed with each other. They all had constituents who had been done over by a similar system of fraud.

One of the victims who appeared in front of the Treasury Select Committee was taken down by the Business Support Unit (BSU) office of Leeds, and that was a very large motor-auction company. I believe that that is still to be sorted out, though the bank made it absolutely impossible for him to win a civil case against them.

2. RBS

I think it is quite clear that RBS was carrying on very similar frauds against business customers. The total number of companies destroyed by RBS has never been determined, but it would appear that the Global Restructuring Group (GRG) division of Lloyds brought down something like 16,000 companies. Some of them probably were bankrupt – we do not know how many – but one gets the impression that the vast majority were viable companies. It was not meant to be a profit centre; it was meant to be a centre to help companies, but it seemed to destroy. Very few companies ever got out of the GRG division, which made a great deal of money.

If the average company was worth £5 million, and 1,200 viable companies were destroyed – and some were much larger and some were smaller – we are looking at a loss of £60 billion without consequential losses from RBS alone. Other banks would seem to have been involved in similar frauds. That was Clydesdale and Dunbar, and maybe others. I am sure it is a coincidence that

Scottish banking was always a byword for integrity and honesty, and most of the banks seem to have derived from there. I believe the damage to the UK economy has been massive. Small and medium-sized enterprises (SMEs) account for 80% of UK employment outside Government services. Huge numbers of people within SMEs lost their jobs.

V. Treasury Ignorance

I believe the Treasury ignores this, though it has been aware of it for several years. The destruction of viable companies by banks started under the chancellorship of Gordon Brown and was continued under Alistair Darling, George Osborne and Philip Hammond. Even when their own constituents who had been ruined brought it to their attention, I have to say they have been ignored. I was walking down Doughty Street to the Linda Dobbs inquiry and I was phoned by a lady who was having her mother's house dispossessed and the bailiffs were in it. I do not know the details of the case but I have every reason to believe that it followed similar scams elsewhere.

I think what all seem to fail to understand is that SMEs account for far more of the economy than the large multinationals. Without proper bank support, how will these companies expand in the future? Lloyds are currently carrying an advertisement for small-business loans. Its catchphrase is 'We are at your side.' I would have thought that 'at your throat' would have been rather more appropriate, having seen some of the companies. It is interesting that German banks lend vastly more to SMEs, and how successful their small and medium-sized companies are compared to ours.

I think the interests of the banks have always taken priority for the Treasury, and that is not surprising. How many civil servants from the Treasury go into banks when they leave their Treasury jobs? How many Treasury ministers, when they leave Parliament, go into very well-paid, cosy banking-related directorships? 'Most of them' is the answer; their nests are well feathered.

VI. Scale of Fraud

In 2016, the University of Portsmouth did a study into the size of fraud in the UK. It estimated it then – three years ago – at £193 billion. Funnily enough, that is the figure I now hear quoted by the National Crime Agency (NCA). Six years ago, I heard the Home Secretary say it was running at over £60 billion. We do not really know but I should think it is around £200 billion today. It is a serious organised crime and some of it is committed at the most senior levels of banks, in my view. HBOS is the only case prosecuted and that was middle-rank, not senior-rank, bankers.

Less than 1% of fraud is investigated. That is a staggering amount of money that is stolen and laundered. If £100k is stolen from a bank through the front door, there is a massive police response. If £100 million is stolen from a company through fraud, it is usually ignored. The police have neither the capability, capacity nor the money to take on major fraud. The HBOS case cost TVP £7 million, and only £2 million of that could be reclaimed from the Home Office. Two other police forces had already turned down the HBOS case, and I still do not know why the Serious Fraud Office (SFO) did not investigate it. There may have been a good reason but, if TVP had not investigated, I can assure you that nobody else would have and it would have gone totally unpunished.

VII. Low Priority of Fraud

1. Police

It is no wonder that fraud is not investigated by the police: they simply do not have the money to take it on. It is not even a priority at the moment for the NCA. It was, in great part, because of two individuals – Paul and Nikki Turner, who have been defrauded by HBOS and correlated the case, which was complicated – that TVP took it on, and I think they both deserve a medal for that. There was absolutely no desire by Lloyds to investigate internally, even though it was well known about.

Police Scotland has never investigated properly the RBS GRG massive frauds, and Avon and Somerset Police are conflicted over the frauds that came out of Lloyds recoveries in Bristol, which, again, I believe is probably bigger than HBOS, though I do not have any detail. The NCA has also refused to investigate and has taken the word of the FCA, and Avon and Somerset Police, who have said there is nothing to investigate. I personally find that extraordinary. I am not aware of a single company that was a victim that has even had any of its directors questioned about it. I am seeing the director of the NCA later today and I would like to see that decision reversed and to see them investigate it properly.

2. Government

I brought the whole affair to the notice of Number 10 last year, when I wrote a detailed letter for the Prime Minister, who is an MP in my area. I also gave the Turnbull report – the report that was written by the lady in 2013 – to a senior political advisor at Number 10. It was all passed to the Cabinet Secretary, Sir Jeremy Heywood. We then had a short correspondence, and I had a letter saying, ‘These are very serious allegations. We will look into them. Would you like to come and discuss them with me?’ I said I thought that would be a good idea, and our offices organised it. I wrote to say I would be delighted to come and see him. I then got a letter back saying, ‘I have taken advice on this and I have been advised not to talk to you.’ I find that quite extraordinary. I wrote a letter back to him saying, ‘This is fascinating. I would like to know what the advice was, who advised you and why they advised you.’ I did not get a reply to that letter and I subsequently wrote another letter, which I also did not get a reply to. As I am elected over one of the biggest areas in the country, I find that behaviour extraordinary. I also ensured that the report was seen by the NCA and the SFO some time ago.

3. Lack of Finance

I think one of the standard practices I have found is to close down inquiries or investigations by saying ‘Someone else is investigating it.’ The parcel can then be passed between the SFO, the Crown Prosecution Service, the NCA, the FCA, the City of London Police and other police officers, and that can take years to come to a head. It is a great way to do nothing and to kick it into the long grass indefinitely. Less than £60 million is spent on the SFO and Action Fraud in the City of London. That is less than 0.03% of the losses through fraud. Why is the Treasury not financing this properly?

4. Conflicts of Interest

I find it a conflict of interest – and I am assured that it is not – that until April this year the Chairman of the FCA, in his previous job, was a senior partner of KPMG when KPMG audited the HBOS accounts in 2007 and 2008, and failed to notice a vast hole in the accounts and a very large

fraud which I believe they were told about. If they were not told about it, it was a huge dereliction of duty by the HBOS board, who certainly were aware of it. The Chairman of the Financial Reporting Council (FRC), which gave KPMG audits a clean bill of health last year, was, in his previous job, Chairman of Lloyds when the cover-ups, in my view, were going on, and I find that extraordinary.

The FCA, the FRC and the SFO are controlled by the Treasury. I think the extent of the Treasury's desire to cover up banking frauds is well illustrated by its correspondence last February, after the HBOS trial verdicts between the Chairman of the Treasury Select Committee, Andrew, now Lord, Tyrie and the Chancellor, Philip Hammond. Lord Tyrie said, 'Why do you have the capability to close down our inquiries?' and he got a very short response, basically saying it was in an act of Placement – I think it was in 2012 – and I am sure that their ability to do that is buried in an annex or an appendix to an annex, and very few parliamentarians understood the significance of it.

VIII. Remedies

What is to be done about it? I do not believe you can dismantle and destroy systems that are absolutely critical to our prosperity and our national security; however, I believe they have to be brought under control and there are a number of things that can be done. I do not think any of them are that difficult.

We must have a Chapter 11 system in this country. Practically every other major country does. It should not be possible to take down viable companies by recalling loans over a weekend and giving them no chance to pay back the loan, even when they are capable of doing so. We need companies to be able to borrow to expand their companies. They will not do so if the loans can be recalled overnight and their personal guarantees attacked. It is seriously damaging the UK economy, I believe.

We must ensure that chairmen of banks are not placemen but people who demand ethical standards and enforcement of banking rules of their boards, and who understand the rules. I think the late chairman of the Co-op Bank is an absolutely classic example of this. The Co-op, like HBOS, was audited by KPMG – as was Carillion, I note. Vast holes in the accounts of all these companies were found too late. I have to say, having seen that, I would not have thought KPMG were capable of auditing a whelk stall, quite honestly.

We should make it a rule that a significant part of a bank's board must be qualified bankers. I believe there is only one qualified banker on the board of any of our major banks at the moment. They are all accountants or businessmen.

Where clear fraud or concealment has taken place at board level, we should arrest the offenders and prosecute them. If they are found guilty, they should be jailed. They do this in the US, and their system is much cleaner than ours in this area. I think a belief has grown up within banking boards that they are above the law, and that attitude has to change.

We should make the regulatory authorities – the SFO, the FCA and the FRC – properly independent of the Treasury.

We should stop the assumption that civil servants can move effortlessly on to higher-paid jobs in banks that they have assisted in their roles in the Treasury; likewise, the FCA and the FRC.

We must see that outside regulatory authorities are held to account; notably, the Solicitors Regulation Authority (SRA) and the Royal Institute of Chartered Surveyors – I think some very odd things have gone on there – and insolvency practitioners as well.

We have to finance the fight against fraud properly. The money raised through FCA fines is more than enough to do this. It has averaged about £1 billion over the past five years – it goes straight to the Treasury. Around £300 million should go to the police and Action Fraud in the City of London, which should be greatly expanded, as should the SFO. The police should use the money to form regional fraud units, in the same way as we have regional Serious Organised Crime and Counterterrorism. At the moment, most police forces have virtually nothing with which to deal with fraud. They certainly do not have the expertise.

We have to institute a system of recompense for the victims of banking fraud that is independent of the banks. I believe there are a number of ways to do this.

We have to remove the six-year statute of limitations that allow the banks' lawyers to push cases over the time limit.

We have to restrict the use of personal guarantees and make it impossible for a bank to recover more than the amount of the original and agreed loan from a personal guarantee. That is critical.

I do not know how you do it but we should stop the banks using vast amounts of shareholders' money on lawyers defending their own suspect – and sometimes downright corrupt – practices. I know that one bank last year spent very nearly £1 billion on lawyers. The problem with this is that the legal profession in London is hugely dependent on banks for their main income. There is a huge reluctance by London lawyers to take on banking fraud, which I think needs to be looked at.

IX. Conclusion

I believe that, if these measures were taken – and I do not believe it is either expensive or difficult to do – then it should be possible to reduce fraud by at least a modest 10% in the first year. That would be about £20 billion and, if we did this properly over a number of years, we should bring it down by probably 30-40%. That is a difference to the economy of £80 billion a year. It would make a huge difference to the UK. We should get on with it and stop prevaricating. If we carry on looking the other way, however, and fail to finance the fight against fraud properly, it will continue to be a massive drag on the UK economy. Thank you very much.

Response

Kevin Hollinrake MP

Member of Parliament for Thirsk and Malton

I. Preamble

Before entering Parliament in 2015, I ran a business for 25 years, so I have, I suppose, perhaps a conflict of interest in terms of this particular issue, but it was something I was aware of in terms of the APPG for Fair Business Banking, which I have now co-chaired for the last three years. I had heard about the abuses and I was determined to get involved and try to help. I came across a very persuasive person called Heather Buchanan, who persuaded me to be co-chair, and I have been for the last few months. Our business has banked with RBS and Yorkshire Bank, and now with HSBC. We switched away from RBS around 2006-2007, quite fortunately.

II. Mistreatment by Banks

From a business perspective, Stalin once said that one death is a tragedy and a million deaths are a statistic. I guess it could be almost the same in terms of this particular issue. I have heard a number of times from various sources – from the banks and other places – that most businesses are treated fairly by our banks. That is absolutely the case. I could not have built our business over the last 25 years without the support of banks. However, the fact is that some businesses and businesspeople have been so terribly mistreated by their banks. As a businessperson, your business is not an adjunct to your life. It is not something about the money or your financial sustenance. It is so inextricably linked with the rest of your life. For me, the thought of having my business torn away from me by this kind of mistreatment or fraud is absolutely inconceivable, so I absolutely pay tribute to the people who have uncovered these injustices.

III. Justice

This is about justice, as Anthony quite rightly said, but it is also about the effect on UK plc. We know that the confidence between small businesses and banks is deteriorating to such an extent that new business lending from banks has been dropping for the last five years, so there is an economic imperative here as well as a position of justice.

IV. The Power of the Big 4 Banks

We should not be too surprised that banks are guilty of mistreatment or even instances of fraud. Bankers are human beings and are as affected by the seven deadly sins as the rest of us. I think the difference here is the power of UK banks – the oligarchy – and the fact that 90% of our lending is with those big four banks that hold this hugely powerful position. Therefore, as a businessperson borrowing from a bank, you probably borrow from the bank thinking that you have some recourse if things go wrong, yet too many people have been confronted with the fact that you have very little ability to find redress, if things go wrong.

V. Regulatory Failure

You might reasonably believe that, in a situation where things go wrong, the regulators would step in to help you, but the reality is that not only are banks too big to fail but they are too big to sue and probably too big to regulate. In terms of the power invested in those big four banks, we have seen that power totally misused in cases of fraud, as Anthony relates to, and mistreatment at RBS, as well as potentially serious allegations of a cover-up of the fraud. There is no question that there have been complete denials of their wrongdoing for a decade or more, and there is still ongoing denial, I must say. You would think that the FCA would have stepped in, seen what is going on and held these banks to account, but it has taken individuals to bring the banks to account and to get to this point – people like Anthony, the Turners, journalists Ian Fraser, Jonathan Ford, James Hurley and Siobhan Kennedy, and my predecessors in the APPG, George Kerevan and Guto Bebb.

VI. RBS

What we saw at RBS was, first of all, the internal review carried out by Clifford Chance, which gave RBS a clean bill of health. A Section 166 report was then finally commissioned, which would not then be released for public consumption. We know that part of the reason for that, because this is a minute within the FCA's board minutes, is that they were afraid they may get sued if they released the full report. It is an incredible situation where our regulators are effectively being regulated by our banks. This would not have properly come to light without another individual, Lawrence Tomlinson, a Yorkshire businessman who uncovered what was going on at RBS in his role as advisor to the Business Secretary. He published a damning report on RBS as an agent of Government and then RBS went in to close that businessperson down. He banked with RBS and they tried to take his business accounts and his mortgage off him. This is an illustration of the power of the banks – a power that we must hold to account.

When we saw the outcome of the Section 166, we did not see it in full but in a summary form initially from the FCA. I am surprised that the media, who have generally done a fantastic job on banking standards, have not made more of the fact that the full report's central conclusions were of 'widespread, inappropriate treatment in a significant proportion of cases, which caused material financial distress as a direct result of the priorities GRG pursued.' That was the central conclusion of the Section 166 report. The FCA summary of that report said, 'We set out below the FCA's high-level summary of the main findings and some key conclusions in the Report. Whilst some isolated examples of poor practice were identified, the report concluded that: RBS did not –' It was a reversal of the emphasis of that report. The summary does go on later to talk about other things that RBS had done wrong, but in no way, in my view, does that reflect the outcome of the full report.

VII. Lloyds/HBOS

It is similar in terms of Lloyds/HBOS, which Anthony talked about predominantly. There is ongoing evidence from the Turners and others that there was a problem here and a fraud happening. There is a litany of different occasions when Lloyds had evidence that that fraud was happening within their own organisation, yet they still claimed as recently as 2017 – in fact, as recently as only two weeks ago, when we met with Lloyds senior executives, including Lord Blackwell, and they said there was no evidence of criminality before the conclusion of the trial in 2017. How is that a consistent approach? How is that an ethical way for a bank to operate?

Still we countenance a situation where the investigations, the Linda Dobbs review of Lloyds, and the internal-redress mechanisms – Professor Griggs at Lloyds and Sir William Blackburn at RBS – are internal reviews where those who were guilty of the fraud and mistreatment are the judge and jury over the compensation for those who have been wronged. How can that be right? How can we countenance that?

VIII. Checks, Balances and Audits

I want to say one thing about the checks and balances, and the auditing which Anthony referred to. I met with Stephen Hadrill from the FRC and talked about how KPMG had signed off that audit of HBOS's 2007 accounts in early 2008. We asked, 'How could KPMG sign those accounts off and you refuse to relook at that audit? How is that a case?' He said, 'They changed between 2007 and 2008.' It was two months, between February and April 2008, when the financial distress occurred at HBOS. I said, 'Northern Rock had gone under in 2007 and had pretty much the same business model in terms of lending long and borrowing short. Surely, the auditors should have looked at this', and he just said, 'You have to understand: for an auditor to say that a bank is insolvent is a pretty big call.'

IX. Conclusion

We definitely need a beefing-up of agencies like the NCA and SFO. Hopefully, Lisa Osofsky, the new head of the SFO, will be able to beef their inquiries up. We need our law-enforcement agencies to step up to the plate. What TVP did is tremendous and Anthony had a huge influence on that. We do need to look at things like Chapter 11, which is part of Government policy. It has not been brought forward yet. We wrote to the Minister recently and they said that those measures are in train at least.

We need the FCA to show that they are willing and able to regulate the banks in a much more effective way. The Financial Ombudsman Service (FOS) needs to expand so that it can deal other cases, but we know that there will still be a gap. FOS cannot compel disclosure of evidence or witnesses to give evidence. We believe that the APPG also needs a tribunal system to allow businesses to go to court, where banks are not too big to sue and where you do not stand the cost of the defendant, so that the small business can get justice on a much more level playing field. We need to extend the rights of action within the Financial Services and Markets Act Section 138D from private persons to cover SMEs, and also to look at the statute of limitations.

Our report is launched tomorrow night at 7.00. It does clash with quite an important football match, so I am sorry about the timing, but it is such an important report that we hope to have a good attendance and we hope that this will be well-received by the sector and the Treasury, and that its recommendations and conclusions will be accepted.

Questions and Answers

Lord Hamilton of Epsom

Anthony, you have done a great job with TVP because you have secured convictions. However, surely one of the reasons why police forces are very reluctant to press charges is because very rarely

do they get a result and send anybody to prison. So often the defendants have all the money and legal expertise to get them off and it is very difficult to get a conviction.

Kevin, you went on about banks being too big to manage, too big to regulate and too big to fail, but the examples of trying to break up banks and create smaller ones, like Williams & Glyn, have not been very successful. I gather that the integration of computer systems made it very difficult to break them up. Can you comment on that?

Anthony Stansfeld

On the first one, police forces all over the country looked at the HBOS case, and the thing that they really looked at was how much it had cost us. The fact is that we got back only £2 million out of the £7 million that it cost us. For a small police force that is a third of our size, it would be really impossible to take on a case like this. If the SFO or anybody else does not take it on, who does? It just slides between the floorboards, I am afraid, and it is simply not investigated. That goes back to the fact that less than 1% of fraud is investigated. The police reaction to fraud is, firstly, a glazing of the eyes, send it off to Action Fraud, which is a very small department of the City of London Police, who correlate it but cannot investigate it any depth, or say it is a civil matter, where the banks have totally unlimited money to fight any claim, however watertight that claim might be.

Kevin Hollinrake MP

We also have an event on Thursday in terms of the launch of the report. The debate is at 1.30 and the launch is at 4.00.

It is a very good point about breaking up the banks. Anthony referred to the power of those big four banks. In Germany, the Mittelstand is supported by 1,500 regional and local banks which have a much better relationship with their customers. We would like to move to that kind of banking structure. That is what we absolutely need: £800 million coming out of RBS instead of the breakout of Williams & Glyn to help to fund challenger banks. Lord Cromwell was here, and he is one of the people in charge of trying to distribute that to challenger banks to try to create that wider proliferation of banking. It is absolutely what we need to do. I think we need to do a lot more in terms of perhaps looking at a regional bank structure with regional banks that support SMEs particularly.

Baroness Kramer

I am one of the many people here who have been trying to snap at the heels of this. I have two questions in terms of what we can do going forward. You have talked about Sally Masterton and the experiences that she has had. I know that you said, Anthony, that she is not a whistleblower, but I think that she falls into that same category of needing that kind of protection and structure. Surely, we can now form something like the 'officer whistleblower', because there needs to be a proper structure so that people can come forward with confidence. I do not think that this ad hoc way of trying to deal with each individual, separate case is going to give people that confidence. I do not know your thoughts. I am slightly concerned that her name got out into the public arena, and I don't know if she authorised that. I think that we have to give people confidence that they can, if they wish, be kept anonymous. Your support around that issue would be great.

The second area is this: as I understand it, the FCA does not regulate institutions; it regulates activities. That is very different from the US. There is constantly the opportunity to say, 'This falls outside of a regulated activity', and the pursuit of that contamination that runs through an

organisation becomes exceedingly difficult. To me, it is often an excuse used. Should we be fundamentally changing the way we focus our regulator, so that people can be confident that the whole institution is regulated and not just certain activities within that institution?

Anthony Stansfeld

Certainly, I believe that the whole business of whistleblowers needs to be tightened up and they should be much better protected. It was unfortunate that her name was released. I think her telephone number was also released, but it was done very unofficially. It was officially released through the APPG. Do not forget that the reason that this came out, although I was aware that I could not release it as such, was one of the people residing at Her Majesty's pleasure, who was sent down last year, who has given it to her defence. He sent it to his MP, who sent it to the APPG. I think it is very unfortunate that her name was released in that way. She has had an absolutely miserable time since this case came out in the first place and I think her treatment by Lloyds was absolutely unacceptable. Proper protection should be given.

Kevin Hollinrake MP

As the APPG, we certainly spoke to Sally, and everything we have done has had her authorisation to it. On the whistleblowing point, I am sorry if this is an advert, Lord Hollick, but there is an APPG whistleblowing inaugural meeting today.

Baroness Kramer

I am a co-chair.

Kevin Hollinrake MP

Excellent; you know all about it. I also agree with you entirely.

Anthony Stansfeld

I also agree with you about giving the FCA a much wider remit.

Question

What do you think about private criminal prosecutions where there is evidence against individuals of crime?

Anthony Stansfeld

If there is clear evidence of criminal crime, I do not think it should be the individual doing. If a clear crime has been done, it should be the regulatory authorities or the police. It is remiss that that has not happened in several cases already.

Question

I am Noel Edmonds' solicitor. Because of this work, I have picked up about 15 fraud-victim clients. I wanted to make two supportive points, one concerning the compensation scheme. As far

as I know – and there is quite a close-knit community of professionals acting for victim clients – apart from Brian, who is here and has said this publicly, not one single fraud victim has been given financial compensation by the bank.

My second point is to do with solicitors. I have seen the most appalling behaviour undertaken by solicitors on behalf of banks – absolutely appalling. In the Noel Edmonds case XXX approached XXX, because his evidence was extensive and advised the bank that, in that case, it would have been better taken out and settled with XXX in a personal-injury action on the basis of a non-disclosure agreement, which I have, and on the basis that XXX would be let off his million-pound claim, as long as he did not support Noel Edmonds in the defence of his claim. That is XXX.

I will make a quick point about the SRA. I spent literally years trying to persuade the SRA to bring a criminal prosecution against a corrupt solicitor. It took an enormous amount of time and energy to eventually make them do it. That solicitor was struck off about a month ago. During that process, I went to try to find out what there is, over the SRA, which regulates it. There is nothing that sits over the SRA regulating it. It is entirely accountable to itself.

Steve Baker MP

Anthony, congratulations on the courage with which you made this speech today. I hope you will not mind me asking this question, but I think you said that some people ought not to continue in the industry. Are you saying that certain people should either be sacked or ought to resign?

Anthony Stansfeld

Until about three days ago nobody ever seemed to resign over anything at all. Having read the Turnbull report, which is quite extraordinary – and it does name names and I have every reason to believe that what it says is true – I do not see how the people who are named in that can continue in public life. I really do not. I think that when you look at the boards of our banks, some of the behaviour has been totally unacceptable. Certainly in the past, those people would not be allowed to go on being on the main board of banks, and I think that that still should be the case today. Should some people resign? Yes, I believe they should.

Question

The Turnbull report was commissioned by Lloyds Banking Group. This they deny. We are to accept that the Turnbull report was made by Sally Masterton totally of her own volition. We must therefore conclude that the Turnbull report has no value. This, therefore, concludes all matters, and no further discussion is necessary. However, the aforementioned is, of course, a complete work of fiction. Today, we have been presented with facts, not fiction. This is not a matter of selecting a genre for its entertainment value. Society has a right to disclosure of wrongdoings and to hold these accountable to the full force of the law. Let this not be an occasion of mere intellectual debate but a platform for justice.

Anthony Stansfeld

I totally agree.

Question

Mr Stansfeld, most of the points you raised point to the failure of regulation and, in particular, the failure of enforcement. I want to go back to some findings of the Banking Commission back in 2013 in the wake of the LIBOR scandal. They looked at the Enforcement division of the FCA and found the following: ‘The body responsible for making enforcement decisions arising from the work of the Enforcement and Financial Crime division of the FCA, namely the Regulatory Decisions Committee, was not best suited to the specific enforcement needs of the banking sector. At the moment, the committee’s composition seems to offer the worst of all worlds. It appears to contain neither a depth of banking expertise nor a clear lay element separate from banking and allied financial-services sectors.’

Therefore, in 2013, we knew that the newly configured FCA was not fit for purpose and the body making enforcement decisions was set up to fail. How is it that, when Parliament knew this after the biggest financial collapse in 100 years, the FCA was allowed to stay on in its current form?

We also know that, in terms of the City of London Police – the enforcement authority on fraud – the constituent members on their Police Committee come from a background of banking, legal services and offshore tax. The people making these decisions about what is and is not prosecuted are, it would appear, entirely unfit for purpose. What can be done about it?

Anthony Stansfeld

One of the things that I said is that we have to beef up the SFO. It has a tiny budget. What will really do it, however, is to, at a regional level of police forces, as we have with Counterterrorism and Serious Organised Crime, properly finance Serious Fraud units with experts. You cannot expect a policeman to suddenly become an expert on fraud; you have to put civilian experts in. If that was done at a regional level, you would bring things to justice much more quickly. I am not an expert on the FCA but it does certainly seem that an awful lot has not been possible for the FCA to deal with. I quite understand that, although they had the Turnbull report, it was being investigated, although it was not used in the prosecution of the HBOS case. It was about a cover-up, and the HBOS case was about frauds committed by HBOS itself, not by Lloyds. What went on afterwards was not part of the case, but I think that that should have been dealt with elsewhere, which probably should have been the City of London or the FCA.

Question

I would like, respectfully, to disagree with something that Susan Kramer said about regulation of banks. The FCA does, in fact, regulate institutions, because it operates a register of institutions and grants them permissions to trade. Without those permissions, it cannot trade; indeed, it would be a criminal offence to attempt to trade without the necessary permissions, both as an organisation and as an individual. If the FCA were so minded, I believe it could use this power to great advantage to society. It could haul in the bosses of a number of institutions and say to them, ‘We are minded to remove your permission because both you as individuals and the organisations you lead are clearly not fit for purpose. You are not fit and proper to conduct these activities. We are not going to do it straightaway, though; we are going to suspend this for two years and, during that time, we would like you to serve up the following information about alleged criminality within your organisations.’

Therefore, you would get all the evidence that you need to prosecute individuals. You would also be able to deal with the extent of redress. Doing so satisfactorily would be the minimum requirement for those firms to obtain their permissions. Of course, this is not going to happen

because one of the big problems already identified by Anthony Stansfeld is that John Griffith-Jones was highly conflicted because of his KPMG role. Charles Randell is a lot more conflicted than John Griffith-Jones, because he was the lawyer brought in by the Treasury to stitch together the bank rescues. Of course, during that same time, at the Bank of England, Andrew Bailey was also very involved in said bank rescues. However, those individuals, for that reason, if handled correctly, also have reasons why they might want to cooperate.

What we should be aiming for is what they have in Australia: something like a Royal Commission or what Paul and Nikki Turner have called a Truth and Reconciliation Commission, in which the banks fess up and pay up in return for some level of leniency. I think that that is the only way that you are going to resolve this matter. I also think that, if the right person went to Bailey and Randell, who have enough reason why they do not want this to turn into a conflict situation, and said to them, 'You guys go along with this or else', I think they might go along with it.

Question

I am an HBOS victim. If, as we believe or understand, the establishment is frustrating this process – the Treasury and various bodies such as the FCA – what hope do we have, over the next few months and in the short term, of justice being done?

Anthony Stansfeld

I would like to see the very restrictive rules around the Professor Griggs investigation greatly expanded, so that they could not rule out a huge number of victims that happened at the same time. I would like to see an independent review of that inquiry and of the decisions by that inquiry. I do think that probably the bank has woken up to the fact that it has a very serious problem that it can no longer push under the carpet. There is more of a view that people will be recompensed, and I am sending a great list of people who have not been recompensed to the Chairman of Lloyds. I hope it will be expanded.

Question

I am a compliance officer and have been listening with interest to what everybody has said here. My question is a statement. Liam Fox asked me to write a document which I sent to him, which went to HM Treasury. It is about changing the rules. The FSA Act does not work. People in the industry know that. There are things that are happening within the FCA that are not public yet and, unfortunately, I cannot talk about it, but what I will say is that I am involved in a case of money-laundering. It is outside of this country but the opportunity is that the money is in Germany. It is covered by BaFin, which is the same as the FCA and the Prudential Regulation Authority (PRA). They wanted to transfer the money into London, and that was £500 million. They wanted to transfer it to HSBC, Citibank and Deutsche Bank. The problem is that all three are under different investigations for different things, so I had advised them to move it somewhere else and I advised the FCA. I am working with the FCA to change the structure, so there are lots of things that are going on and that does not just apply to banking but to buy-to-let mortgages, which are just as bad.

On that particular, I steered those people who have been affected by that fraud to go to their MPs. What has happened is that those MPs have spoken to the Finance Select Committee, and I believe what you should be doing is exactly the same thing, because your MPs are responsible for your good nature. You voted for them, and the system needs to be changed. I agree with Anthony about having regional people doing it, and I agree that the police do not have the right expertise, but if you do not ask the right questions, you will not get the right answers.

Question

I have been in banking for nigh on 47 years and I have to say that I have had meetings with Andrew Bailey at the FCA, who advised me that they do not think it is right and appropriate for bankers to be qualified. Needless to say, I have remonstrated with them over a great time, and I have emails to prove that. I am a professionally qualified banker. I train bankers and have done so for most of my career. What I want to see is mandatory qualifications for bankers, full stop. There can be no ifs or buts. They have to know their trade. You would not dare go to a surgeon for an operation if you did not think he was going to pull you through it.

This is no different to the banker who holds the lives of families in their hands. This is the lesson I was taught when I joined Lloyds in 1971: you are a doctor to your customer. You are there to look after them. You are not there to asset-strip them or rape and pillage them; you are there to help them.

This has gone wrong because in about 1985 we replaced qualified bankers with salesmen. I remember a double-glazing salesman joining Lloyds, and I thought, 'What do you know about banking? Nothing.' He was, however, very good at selling, and what he sold was the wrong stuff to the wrong people. This is wrong. It has to be re-professionalised and you have to make it mandatory.

Question

Five years on and I am still being affected by RBS GRG, even though I never banked with them. Will you lobby in Parliament to put a stop to all cases that are now going through court against victims of bank fraud?

Anthony Stansfeld

I have certainly been speaking enough about it. I would very much like to be able to stop these cases. I think some of them are quite extraordinary in terms of how they have pursued people, and pursued people for considerably more than the original loan. I think it is up to Parliament and MPs to make sure that this is done, but I cannot stop individual cases, I am afraid.

Question

I beg to differ with the gentleman who said that bankers should be qualified. Unfortunately, we are now in a system where there are solicitors who are fully qualified and who know their trade. We have barristers who are fully qualified and know their trade. They are using that trade and all the tactics for the benefit of the banks and for the benefit of the insurance companies. They are doing whatever they feel they should do in order to protect the interests of those banks and insurance companies, by hook or by crook. That is why we have all these victims at the moment, with cases going through the courts. Banks and insurance companies are paying a lot of money to these lawyers to make sure that, by hook or by crook, all these cases keep on going, feeding the bankers and the lawyers. I am afraid that we have toothless regulators that are not fit for purpose and are not doing their job in terms of regulating the professions. That really is the crux of the unfortunate system we are in today.

Anthony Stansfeld

I have to say I totally agree with you. It would be very interesting to know when somebody has won a major civil case against a bank. I can think of no particular cases, because they will put unlimited money. Even when somebody does win a case, the bank still does not pay up. I find it absolutely extraordinary that, when they are told to pay, they can still manage to get away without paying up.

Question

May I suggest that everybody is missing something? In the early pages of the Turnbull report, there is a list of people who Sally Masterton names as culpable. They seem to represent a whole tier of senior management at the bank who controlled risk and credit across the entire bank. I do not think one should just be looking at SMEs; one should be looking at SMEs and consumers, and the total business of the banks.

Question

Our biggest concern at the moment is not just with the HBOS cases but also with lots of the RBS cases. We have identified that these reviews that are set up to compensate people are a total failure, but there is nothing that we can do about it. Even when we go to the FCA and point out the various remits that are completely flawed, it does not seem that anything happens about it. Who does the panel think we should go to when we have something that is demonstrably wrong and people are suffering because of it, when we cannot get it changed? Any ideas would be gratefully received.

Question

In the lead up to Section 58, a new law introduced in 2003, you take [inaudible] and you put them on a register that then gets abused by people who are cleverer than me. 14 years and £4.6 million, [inaudible] unqualified, but 49 years in business properly. Unlimited, just with Her Majesty the Queen, and I am frightened because all these documents which are obligatory are being made legal by judges in high places, because the people who created these fraudulent documents are the same people – the solicitors. In my case, the bridging banker who ran away with £125 million, there is one document here that I will let anybody look at. It is a fake document. He used my land as security, illegally. I took over the land and broke the locks off. I have been in Manchester court under a possession charge. The Level 9 judge did not listen to any law at all.

I am 14 years in and made bankrupt for £48,000, where my book says I am owed £4.4 million. On the Land Registry document, it shows me receiving £15 million for a piece of land. No documents were produced. They got it on an Order 24 application. There are only 17 documents in the whole case, and we now have 198,000 and 87 court cases later. The only people who get rich are the barristers.

Lord Hollick

Excuse me – do you have a question?

Question

Yes.

Lord Hollick

I wonder if you could come to it, because we are getting to the end of the session.

Question

It always comes to the end of the session when I get up. The taxman came to make me bankrupt for £48,000. I citizen's arrested him and asked him, 'Who wrote the other £4,052,000 off?' The police came down and said I had kidnapped him. I had not kidnapped him. I wanted to know who wrote off the £4,052,000 that I owed. I bought the land for £5 million and sold it for £15 million. That is what it says on the Land Registry. I did not sell it, though; it was all done by fraudulent documents. The judges are making fraudulent documents legal. If I bring some £20 notes that are fraudulent and a judge makes them legal, how is that possible? There is no discretion over those documents – they are obligatory – so what is the point or value?

Anthony Stansfeld

I have to say that a number of people who have come to me who have had fraudulent documents put together by solicitors in case after case, and money is transferred without permission. The most extraordinary thing is that I do not think the judges often understand it and they always seem to take the word of the solicitors rather than the person who is being persecuted and who is having to defend themselves because they cannot pay for it. They cannot afford it. People are just being outspent in courts and I do not think the judges have woken up to this. I think that they are far too compliant with what has gone on.

Question

£13 million was spent by the SFO on the wrong man. The dates are all wrong. The whole document is a fake. You say that you cannot teach a conman how to be a police officer, but I will tell you what: a 10-year-old boy could tell this is wrong.

Anthony Stansfeld

I have a great deal of sympathy and I think what has happened to you has been replicated elsewhere.

Question

Thank you very much for inviting me, Kevin. It is miserable to see that so many people's misery could have been prevented by things like the Sally Masterton report being properly exposed at the right time, and those responsible taking the relevant action. I very much hope that, with the work that you are putting in on this, which is to be absolutely applauded, those responsible will go to jail. It is about time they did.

What I want to say to you is that whistleblowers do win, and we have just won not one but two whistleblowing cases in the courts. It is not easy and, in each case, there are many victims who we still do not know about, who are people like you – customers. Yes, the banks do fight back and they do try to challenge it, but we want to share with anybody who is listening – and, hopefully, will be listening – the system that we have put in place in order to win. Whistleblowers UK won in the Banerjee v Royal Bank of Canada case, which is now in the public domain. There were myself, the whistleblower and one barrister against 37 lawyers and barristers from the other side. It was not

easy, and the personal toll on that individual has been very difficult, as it has with Sally Masterton. I am here this morning to say thank you from her for all the support you have given her, and we hope that this will all come to an end for everybody soon.

My question to the panel is: the threat of criminal action is being used to suppress the exposure of information by whistleblowers. What are you going to do to address this?

Anthony Stansfeld

I am afraid I cannot stop banks threatening people. They do it and they have very powerful lawyers. I would like to see, when this is done, them being held to account. When this happens, I would like to see, ideally, prosecutions result and I would like to see resignations. However, I have to say that the banks protect themselves exceedingly well with an unlimited amount of money, which is, as far as I can see, largely to defend the board of the bank rather than bank itself. Something needs to be done about it, but I am probably not the person to do it. It needs to be done at a national level. It comes back time and time again to the fact that the Treasury is starving us of money for the capability to take on the banks. They seem to do it quite deliberately, in my view.

Closing Remarks

Lord Hollick

Can I thank everybody for their contributions, questions and observations? I would particularly like to thank Anthony and Kevin for their contributions.

The New City Agenda project is looking into reform efforts that have taken place since the financial crisis. If you would like to participate in that and to give us a contribution towards that project, please get in touch with Dominic at dominic.lindley@newcityagenda.co.uk This is our last event before the summer and we will send details of our autumn programme to everybody who is registered with us as soon as that has been confirmed.

Thank you all very much for attending, and please show your appreciation for the speakers.

About this transcript

The views expressed in this transcript represent the views of the speakers and do not represent the views of New City Agenda.

This transcript has been edited in places to remove the names of individuals mentioned.