Corporate theft and fraud: business as usual

Steve Tombs discusses the latest chapter in a long history of financial services frauds

Since 2007, when the credit crisis began to reveal itself, ‘The Banks’ have hardly been out of the headlines. Bailouts, bonuses, LIBOR, sanctions-busting, money laundering, cartelisation, and insider trading are among the seemingly endless litany of scandals which have come to light in the sector. At the same time, political rhetoric has sought to portray the retail businesses of financial services companies as the ‘clean’ or ‘safe’ (‘good’) sector of ‘clean’ or ‘safe’ (‘good’) sector of ‘good’ sector of the ‘bad’ risk-hungry, profit-maximising ‘bad’ risk-hungry, profit-maximising investment banking divisions which are now synonymous with the worst excesses of casino capitalism. Thus in the UK (and the US), the key regulatory response to the financial crisis has revolved around efforts to separate these two parts of financial services – albeit that Andrew Tyrie, the Conservative Chairman of the Treasury Select Committee, has recently said of the proposed UK fencing that it is ‘so weak as to be virtually useless’ (Armistead, 2013).

In any case, the retail parts of these businesses are far from clean: consumers of financial services firms have been victims of three recent waves of offences in the UK, involving many of the same (well-known) financial services companies, since the deregulation of the sector marked (notably, by the Financial Services Act 1986). Each referred to euphemistically by the anaesthetising term ‘mis-selling’, these are best viewed as systematic theft and fraud though – with the opportunity structures for these crimes created by governments.

Pensions mis-selling
Even the briefest overview of each of these waves of ‘mis-selling’ – which this article attempts to provide – reveals their similarities. The first of these – widespread pensions mis-selling – had its origins in the gradual withdrawal of government support for state pension provision, coupled with deregulation of the retail financial services sector in the UK in the latter half of the 1980s. Pensions providers launched into a hard sell, targeting public sector workers in well-developed pensions provision, advising many to transfer their contributions to private schemes about which they provided false and misleading information.

Less than one in ten pensions providers consistently missed deadlines, ignored regulatory cajoling, and proved relatively impervious to government threats. Pensions providers consistently missed deadlines, ignored regulatory cajoling, and proved relatively impervious to government threats. Pensions providers consistently missed deadlines, ignored regulatory cajoling, and proved relatively impervious to government threats. Pensions providers consistently missed deadlines, ignored regulatory cajoling, and proved relatively impervious to government threats. Pensions providers consistently missed deadlines, ignored regulatory cajoling, and proved relatively impervious to government threats. Pensions providers consistently missed deadlines, ignored regulatory cajoling, and proved relatively impervious to government threats. Pensions providers consistently missed deadlines, ignored regulatory cajoling, and proved relatively impervious to government threats. 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customers claiming against them. In 2005, the Citizens Advice Bureau (CAB) filed a ‘super-complaint’ to the Office of Fair Trading, by which time the FSA had ‘already fined several smaller firms for mis-selling’ (Neville, 2012); yet some 16 million PPI policies have been sold since 2005 (Pollock, 2012). Meanwhile, only in 2011 did the trade-body – the British Bankers Association – abandon a legal challenge to an FSA ruling on compensating victims. The companies embroiled in the mis-selling of PPI included many of the, by now, ‘usual suspects’ (ibid).

Again, the Financial Ombudsman Service has dealt with hundreds of thousands of complaints from consumers whose claims for compensation have been turned down by companies. By the end of 2012, £12.96 billion had been set aside by companies to deal with compensation claims, with an estimate of 4 to 4.75 million people having been, or due to be, compensated. Yet even in January 2013, the Financial Ombudsman expected an annual tripling of complaints to be dealt with as companies, in the words of the deputy Ombudsman, ‘continue to frustrate their customers with delays and inconvenience’ (Bachelor, 2013).

Costs

These are not victimless crime waves. Even where victims are (eventually) compensated, such frauds have significant economic and social costs. They generate costs of ‘regulation’, as well as general legal and political scrutiny. There are costs to complainants and victims, both through the creaming-off of percentages of compensation by a new, ravenous area of the financial services sector itself in the form of claims management firms. Further, the discovery of the inability to pay a mortgage, for example, generates emotional and psychological costs. The companies themselves are likely to pass on the costs of compensation to those most likely to be charged for general banking services – which, itself, may entail a class based element, since bank charges are more likely to be incurred by those maintaining the smallest deposits. Moreover, as banks hoard cash to meet future compensation claims, they represent a dysfunctional sector in a context where politicians of all stripes urge greater lending. Perhaps worst of all, the litany of systematic theft briefly reviewed here may generate the perhaps rational public response that ‘they are all at it’, generating political apathy and resignation.

And we will see further categories of mis-selling which will only serve to underscore the fact of long-term, systematic, widespread, routine fraud on the part of the industry. Amongst the contemporary candidates for the next major mis-selling scandal are those which bear a remarkable similarity to the waves of mis-selling reviewed above – for they will include further mis-selling of pensions, mortgage and credit card identity-theft protection. All of those potential scandals already share the same characteristics of the cases we have described here, and all involve the same rogues’ gallery of household name companies. ■

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References

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