The Summer of our Discontent: The Banking Scandals of 2012

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Abstract

In the summer of 2012, a series of scandals broke out around the largest, systemically most important banks of the world. In most cases, the roots and practice of misdeeds (Libor rigging, violations of sanctions, money laundering, mis-selling of fake products, tax fraud, insider trading, etc.) go back several years. Regulators imposed record fines on the banks, in a few cases started criminal procedures against the most incriminated players, and a deluge of lawsuits was launched. The regulators raised questions also about the responsibility of consultants, but in some cases the scandals shed a dubious light on the regulators themselves, as well as on the British and US governments and legislations.

The talk reviews some of the elements of this series of scandals, and tries to draw some conclusions for regulation.
About the title

Now is the winter of our discontent
Made glorious summer by this son of York

Shakespeare: The Tragedy of King Richard the Third (1592)

The Winter of Our Discontent (1961), John Steinbeck’s last novel, a bitterly critical picture of a society populated by the homo economicus.

Winter of Discontent: during the exceptionally cold winter of 1978–79 in the UK, the public sector trade unions brought down the Labour government of James Callaghan, because of its planned anti-inflationary wage regulation. (Inflation in the UK peaked at 27% in 1974-75.)

Historical twists, unintended consequences: In 1969 the British PM Harold Wilson wanted to introduce legislation that would have made impossible the strikes of 78-79, but he was prevented by a cabinet revolt organized by Callaghan.
To general surprise, the 1970 elections were won by the Tory Edward Heath, who campaigned with the slogan: Who rules Britain? Heath was beaten by Thatcher in the fight for the Conservative leadership in 1975.
The chaos due to the 1978-79 strikes led to the victory of Thatcher at the 1979 elections and to the introduction of her trademark neoliberal economic policy. (Her soulmate, Ronald Reagan became president in 1990, but as California governor he had started to cut back on social expenditure already back in 1966.)
In the 1983 campaign, after the 1982 Falkland War, Thatcher launched a decisive attack against the trade unions with the battle cry borrowed from her Tory adversary: Who rules Britain.

This talk is based on media accounts and regulatory reports on the 2012 scandals.
1. Orders of magnitude

... so that we know what we are talking about.
The biggest banks of the world

(http://www.relbanks.com/)

The list on the next page shows the biggest banks of the world, ranked according to the size of their asset portfolios. At this time (2012), Deutsche Bank (DB) is the biggest at USD 2.810 Tn. (1 Tn = 1 American trillion = \(10^{12}\)). The second largest is the Mitsubishi UFJ Financial Group (MUFG) at USD 2.803 Tn. The Industrial and Commercial Bank of China (ICBC) climbed to third place in September 2012 (in December 2011 it was only the sixth). The balance sheet total of the 10 biggest banks is USD 25.6 Tn, c.f. the roughly USD 70Tn total product of the world. Note that, due to differences in accounting rules, the American banks appear smaller than their peers.

**SIFI (Systemically Important Financial Institutions), G-SIB (Global Systemically Important Banks)**

The Financial Stability Board (FSB), created by the 2009 London meeting of the G-20, has recently reviewed the list of the globally most systemically important banks. In the following list the 28 banks highlighted in yellow belong to this group.
<table>
<thead>
<tr>
<th>Rank</th>
<th>Bank</th>
<th>Country</th>
<th>Total Assets, USD Bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Deutsche Bank</td>
<td>Germany</td>
<td>2,809.89</td>
</tr>
<tr>
<td>2</td>
<td>Mitsubishi UFJ Financial Group</td>
<td>Japan</td>
<td>2,803.42</td>
</tr>
<tr>
<td>3</td>
<td>Industrial &amp; Commercial Bank of China</td>
<td>China</td>
<td>2,763.59</td>
</tr>
<tr>
<td>4</td>
<td>HSBC Holdings</td>
<td>UK</td>
<td>2,721.06</td>
</tr>
<tr>
<td>5</td>
<td>Barclays PLC</td>
<td>UK</td>
<td>2,584.30</td>
</tr>
<tr>
<td>6</td>
<td>BNP Paribas</td>
<td>France</td>
<td>2,562.99</td>
</tr>
<tr>
<td>7</td>
<td>Japan Post Bank</td>
<td>Japan</td>
<td>2,513.21</td>
</tr>
<tr>
<td>8</td>
<td>JPMorgan Chase &amp; Co.</td>
<td>USA</td>
<td>2,321.28</td>
</tr>
<tr>
<td>9</td>
<td>Credit Agricole SA</td>
<td>France</td>
<td>2,317.12</td>
</tr>
<tr>
<td>10</td>
<td>Royal Bank of Scotland Group</td>
<td>UK</td>
<td>2,225.34</td>
</tr>
<tr>
<td>11</td>
<td>Bank of America</td>
<td>USA</td>
<td>2,168.02</td>
</tr>
<tr>
<td>12</td>
<td>Mizuho Financial Group</td>
<td>Japan</td>
<td>2,123.32</td>
</tr>
<tr>
<td>13</td>
<td>China Construction Bank Corporation</td>
<td>China</td>
<td>2,115.35</td>
</tr>
<tr>
<td>14</td>
<td>Agricultural Bank of China</td>
<td>China</td>
<td>2,078.03</td>
</tr>
<tr>
<td>15</td>
<td>Bank of China</td>
<td>China</td>
<td>2,027.41</td>
</tr>
<tr>
<td>16</td>
<td>Citigroup Inc</td>
<td>USA</td>
<td>1,931.35</td>
</tr>
<tr>
<td>17</td>
<td>Sumitomo Mitsui Financial Group</td>
<td>Japan</td>
<td>1,788.23</td>
</tr>
<tr>
<td>18</td>
<td>Banco Santander</td>
<td>Spain</td>
<td>1,672.11</td>
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<tr>
<td>19</td>
<td>Societe Generale</td>
<td>France</td>
<td>1,647.51</td>
</tr>
<tr>
<td>20</td>
<td>ING Group</td>
<td>Netherlands</td>
<td>1,604.57</td>
</tr>
<tr>
<td>21</td>
<td>Groupe BPCE (Banques Populaires,Caisses d’Epargnes)</td>
<td>France</td>
<td>1,531.08</td>
</tr>
<tr>
<td>22</td>
<td>Lloyds Banking Group</td>
<td>UK</td>
<td>1,529.12</td>
</tr>
<tr>
<td>23</td>
<td>UBS</td>
<td>Switzerland</td>
<td>1,456.45</td>
</tr>
<tr>
<td>24</td>
<td>Wells Fargo</td>
<td>USA</td>
<td>1,374.72</td>
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<tr>
<td>25</td>
<td>UniCredit S.p.A.</td>
<td>Italy</td>
<td>1,245.95</td>
</tr>
<tr>
<td>26</td>
<td>Credit Suisse Group</td>
<td>Switzerland</td>
<td>1,088.60</td>
</tr>
</tbody>
</table>

The Bank of New York Mellon (US, $325 Bn) and State Street (US, $217 Bn) were deemed systemically important, but they do not belong to the group of the largest 50 banks. Dexia (which is under resolution), Commerzbank and Lloyds (that, according to the FSB, had lost their global significance) were removed from the earlier, 2011 list.

1Bn = 1 American billion = 1000 million
## The biggest economies of the world (GDP > 1T)

**IMF (2012 estimate)**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country/Region</th>
<th>GDP (Millions of $US)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United States</td>
<td>14,991,300</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>7,203,784</td>
</tr>
<tr>
<td>3</td>
<td>Japan</td>
<td>5,870,357</td>
</tr>
<tr>
<td>4</td>
<td>Germany</td>
<td>3,604,061</td>
</tr>
<tr>
<td>5</td>
<td>France</td>
<td>2,775,518</td>
</tr>
<tr>
<td>6</td>
<td>Brazil</td>
<td>2,476,651</td>
</tr>
<tr>
<td>7</td>
<td>United Kingdom</td>
<td>2,429,184</td>
</tr>
<tr>
<td>8</td>
<td>Italy</td>
<td>2,195,937</td>
</tr>
<tr>
<td>9</td>
<td>India</td>
<td>1,897,608</td>
</tr>
<tr>
<td>10</td>
<td>Russia</td>
<td>1,857,770</td>
</tr>
<tr>
<td>11</td>
<td>Canada</td>
<td>1,736,869</td>
</tr>
<tr>
<td>12</td>
<td>Australia</td>
<td>1,515,468</td>
</tr>
<tr>
<td>13</td>
<td>Spain</td>
<td>1,478,206</td>
</tr>
<tr>
<td>14</td>
<td>Mexico</td>
<td>1,155,206</td>
</tr>
<tr>
<td>15</td>
<td>South Korea</td>
<td>1,116,247</td>
</tr>
</tbody>
</table>
The balance sheet total of the largest banks in a few countries

<table>
<thead>
<tr>
<th>Bank</th>
<th>Balance Sheet Total</th>
<th>Country’s GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deutsche Bank</td>
<td>2,810 Bn</td>
<td>3,604 Bn</td>
</tr>
<tr>
<td>Mitsubishi UFJ Financial Group</td>
<td>2,803 Bn</td>
<td>5,870 Bn</td>
</tr>
<tr>
<td>Industrial &amp; Commercial Bank of China</td>
<td>2,764 Bn</td>
<td>7,204 Bn</td>
</tr>
<tr>
<td>HSBC Holdings</td>
<td>2,721 Bn</td>
<td>2,429 Bn</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>2,563 Bn</td>
<td>2,776 Bn</td>
</tr>
<tr>
<td>JPMorgan Chase &amp; Co.</td>
<td>2,321 Bn</td>
<td>14,991 Bn</td>
</tr>
</tbody>
</table>

The total balance sheet of all the banks in a country as a percentage of the GDP of the host country:

100% in the USA, 500% in the UK (source: Mervyn King, governor of the BoE). The same for Cyprus was 800%, for Iceland 1000%.

From time to time, politicians threaten to cut up the biggest banks; recently Chancellor of the Exchequer George Osborne raised this option, in case the British megabanks failed to introduce the „ringfencing”. 
2. The Libor scandal
The derivation of Libor: (source: BBA website)

The British Bankers' Association (BBA) is running panels composed of 6-18 banks for the determination of the London Interbank Offer Rate (Libor) in 10 currencies, for 15 short maturities, ranging from overnight to 12 months. Each day, the members of the panel submit an estimate of the interest rate at which they believe they could get an unsecured loan on the London interbank market. Thus Libor is not based on actual transactions.

Libor is the average (calculated after discarding the upper and lower quartiles) of these annualized interest rate estimates. Libor is the most widely used reference rate that is used to price several hundred trillions worth of floating rate loans, mortgages, interest rate swaps, student loans, etc.

Presently, LIBOR is determined for the following currencies: AUD, CAD, CHF, DKK, EUR, GBP, JPY, NZD, SEK, USD. Banks are selected for membership in the panels on the basis of their market activity, reputation and experience in the market of the given currency. For example, the 18 members of the USD panel after the May 2012 revision are: Bank of America, Bank of Tokyo-Mitsubishi, Barclays, BNP Paribas, Citibank NA, Credit Agricole, Credit Suisse, Deutsche Bank, HSBC, JP Morgan Chase, Lloyds, Rabobank, Royal Bank of Canada, Société Générale, Sumitomo Mitsui Banking Corporation, The Norinchukin Bank, The Royal Bank of Scotland, UBS.

From the estimates arriving between 11:00 and 11:10 o'clock each day, the estimate is calculated by Thomson Reuters, who tell the result to the BBA, who then announce it at 12. Libor exists since 1986, without it the pricing of countless derivative products and floating rate loans would become nearly impossible.

The rules of Libor are based on the unrealistic assumption that the market players will submit fundamentally honest estimates. The panel banks are, however, conducting huge volume proprietary trading, which creates feedback and conflict of interest, conducive to the manipulation of the reference rate. Because of the gigantic positions (a couple of 100Tn), a small (a few basis points) shift in Libor can generate a large gain.
**The Libor scandal**

Rumors about the manipulation of Libor were spreading since 2005. At the beginning the goal was to exploit own positions via a conspiracy or bribery of traders and submitters inside a given bank, or between friendly trader groups working at different banks. With the crisis unfolding, from 2007-08 on, the main goal became to influence the market perception of banks and to mislead regulators. American and British regulators took notice around 2008 and started probing into the matter around that time, but the scandal became public knowledge only in June 2012, with the announcement of the GBP 290 million penalty on Barclays.

The scandal has since engulfed a number of globally important institutions, and extensive investigations have been conducted in the US, UK, Japan, Singapore, Switzerland, Germany, etc.

A number of banks received large penalties, some top executives lost their jobs, dozens of lesser officials were fired or taken to court.

Clients, municipalities, pension funds and investment funds have launched a series of lawsuits, claiming several hundred millions worth of compensation. The Libor fixing is regarded as the largest ever banking fraud. Several details will probably never be known, but the consequences will hang over the banks for a long time to come.
Libor timeline

According to subpoenaed e-mails and other documents the manipulation of Libor and Euribor at Barclays started at least as early as 2005. The conspiracy was widespread, extending over the New York, London and Tokyo offices and involving scores of internal and external participants. According to the report of the Financial Services Authority (FSA), between January 2005 and June 2009 the Barclays derivative traders requested the rigging of Libor 257 times.

One Barclays trader to another bank’s submitter about the 3 months Libor: "duuuude... what's up with ur guys 34.5 3m fix... tell him to get it up!".

An internal e-mail from a Barclays submitter: "My worry is that we (both Barclays and the contributor bank panel) are being seen to be contributing patently false rates. We are therefore being dishonest by definition and are at risk of damaging our reputation in the market and with the regulators. Can we discuss urgently please?"

One of the top executives of Barclays (probably Bob Diamond) in a phone call to the FSA on April 17, 2008: „We did stick our head above the parapet last year, got it shot off, and put it back down again. So, to the extent that, um, the Libors have been understated, are we guilty of being part of the pack? You could say we are... Um, so I would, I would sort of express us maybe as not clean clean, but clean in principle."

There are dozens of similar quotes in the 2012 report of the FSA.

With my collaborators, we have looked into the time series of Libor. Some outliers and correlations are well visible, but the manipulations would be hard to pinpoint by purely statistical means (i.e. without the subpoenaed documents). This is in agreement with the findings of the FED. The FSA claims, however, that on the basis of the documents and the time series they were able to identify the manipulations day by day.
Alerted by signals coming from the banks themselves, but also from the press (WSJ April 16, 2008) and international experts (March 2008 BIS report), the BoE (Mervyn King, Paul Tucker), the FSA (Adair Turner) and the NY FED (Tim Geithner) became concerned about Libor already back in 2007-08. The BoE and the FSA tried to deflect the obligation to intervene by citing the competence of the BBA, basically a lobbying group! Geithner put together a set of recommendations for the modification of the Libor procedure already in the spring of 2008. He sent it to Mervyn King, who passed it on to the BBA, which, after consulting the panel banks, decided that Libor was good as it was. The regulators acquiesced, only requested that their names be removed from the document. The official procedure was finally launched by the US Commodity Futures Trading Commission, after their having read the article in the WSJ.

The scandal breaks out

On June 27, 2012 the FSA meted out a penalty of £59.5m, the US Department of Justice and the Commodity Futures Trading Commission (CFTC) £102m, resp. £128m on Barclays. With this, the scandal broke out.
June 29: Sir Mervyn King demands „cultural changes“, adding that: "The idea that one can base the future calculation of Libor on the idea that 'my word is my Libor' is now dead." In his opinion the introduction of the Vickers bank reforms would be an important step, but he excludes an independent, Leveson style committee. (The Leveson committee had investigated the phone hacking scandal around the Murdoch newspapers, and arrived at seriously compromising conclusions for the government.) King’s position is quickly embraced by Chancellor George Osborne and Prime Minister David Cameron.

July 2: The chairman of the Barclays board, Marcus Agius resings. CEO Bob Diamond claims he has no reason to resign, and promises to get to the bottom of this scandal. David Cameron announces the setting up of a parliamentary committee (where Tories have a majority by definition) headed by the chairman of the Treasury Select Committee, Andrew Tyrie, to investigate the integrity of the banking sector. He adds that this will ensure that in the UK "the toughest and most transparent rules prevail among all the important financial markets". Labour protests and demands the delegation of an independent lord justice.

July 3: Contrary to his statement the previous day, Bob Diamond (Barclays CEO) steps down. In this the decisive role is played by Mervyn King who lets him know that „the regulators lost their trust in him“. Jerry del Missier, Barclays’ COO submits his resignation the same day. (Note: the BoE has no right to remove the heads of private companies.)
**July 4:** Diamond is interrogated for three hours by MP’s at the Treasury Committee. He says the behaviour of people responsible for the Libor fixing was „reprehensible” and that reading the transcripts of e-mails „made him physically sick”. Later the Committee criticises his testimony as „highly selective”

**July 5:** Moody’s lowers its rating outlook on Barclays from stable to negative.

**July 6:** The Serious Fraud Office launches a criminal investigation into Libor manipulation.

**July 9:** Deputy governor of the BoE Paul Tucker gives evidence to the Treasury Committee, insisting that in October 2008 he did not lean on Barclays to lower its submissions, nor had he been asked to do so by the (then Labour) government.

**July 16:** Barclays chief operating officer Jerry del Missier tells MPs he was instructed by Diamond to lower the bank’s Libor submissions. He also tells them he believed the Bank of England alone instructed Barclays to lower them.

Diamond denies both statements and claims that del Missier (his close friend and protegée) misunderstood one of his notes in which he described a conversation with Tucker and in which he mentioned the concerns of the government who were afraid that (after Lloyds, RBS and HBOS) Barclays would be the fourth big British bank to be bailed out. (Note: The Qatar connection)
The evidence by Diamond, del Missier and Tucker was pounced on by the Tories immediately: George Osborne accused Gordon Brown’s collaborators with the organization of the Libor conspiracy. The accusations collapsed in a few days.

**July 17:** US Federal Reserve chairman tells a Senate committee that the Libor systems was structurally flawed and he still does not have full confidence in it. Earlier, Sir Mervyn King told the Treasury Committee that UK authorities had been worried about senior management at Barclays, even before the recent Libor scandal broke, and Barclays had sailed "close to the wind" too often.  

**July 31:** Deutsche Bank confirms that a limited number of staff were involved in the Libor-rigging scandal. However, it says an internal inquiry have cleared senior management of taking part.

**August 10:** the FSA publishes its initial findings on what needs to be done to reform the Libor rate-setting system. The FSA's managing director, Martin Wheatley, says trust in Libor needs to be repaired and that the current system is no longer "viable".

**August 16:** it is announced that seven banks including Barclays, HSBC and RBS are to face legal questioning in the US. The other banks to receive the subpoenas from the attorney generals of New York and Connecticut are Citigroup, Deutsche Bank, JPMorgan and UBS.

**August 18:** the Treasury Committee publishes its report into the Libor rate-fixing scandal. The MPs blame bank bosses for disgraceful behavior. They demand changes including higher fines for firms that failed to co-operate with regulators, examination of gaps in criminal law, and a much stronger governance framework at the Bank of England.

**25 September:** the British Bankers' Association (BBA), the organisation that sets the Libor rate, says it will accept losing the role. Its statement comes ahead of the FSA's final report on how to reform Libor, due to be published on 28 September.
28 September: the FSA confirms that the BBA will no longer administer Libor, and will be replaced by a data provider (an organisation such as Bloomberg or Reuters) or a regulated exchange. The report also says that the Libor system is broken and suggests its complete overhaul, including criminal prosecutions for those who try to manipulate it. The regulator also suggests basing Libor calculations on actual rates being used, rather than estimates currently provided by banks.

11 December: the UK’s Serious Fraud Office says three men have been arrested in connection with its continuing investigations into Libor.

19 December: Swiss bank UBS is fined a total of $1.5bn (£940m) by US, UK and Swiss regulators for attempting to manipulate Libor. It agrees to pay $1.2bn in combined fines to the US Department of Justice and the Commodities Futures Trading Commission, £160m to the UK’s Financial Services Authority, and 59m Swiss Francs to the Swiss Financial Market Supervisory Authority. (Between 2006-09 UBS traders requested the rigging of Libor about 2000 times.)

January 10, 2013: BBC Business editor Robert Peston reveals that the RBS is in negotiations with UK and US regulators in connection with the Libor fixing, and that the resignation of a senior executive is possible as part of a settlement.

17 January: The new chief of Barclays, Antony Jenkins, tells staff to sign up to a new code of conduct - or leave the firm - as part of an attempt to ensure that scandals such as Libor-fixing never happen again.

31 January: Deutsche Bank tells investors that it may face lawsuits related to the manipulation of Libor, as well as other recent scandals. Therefore, it is setting aside 1bn euros to cover potential litigation.

Amid speculation that RBS was close to a Libor settlement, on 2 February the Chancellor of the Exchequer George Osborne says that any fines imposed on the bank should be met by bankers themselves, not taxpayers – hollow propaganda, c.f. his position on bonus caps.
3. Sanctions violations, money laundering
The case of HSBC

In July 2012, a 300-page report compiled for the Senate Permanent Subcommittee on Investigations found that a series of failures at HSBC led to the London-based bank being used as a conduit for "drug kingpins and rogue nations". Some of the main findings of the report will be summarized below.

Mexican drug barons

Despite HSBC Mexico (HSMX) operating in a country "under siege from drug crime, violence and money laundering" it had inadequate money laundering controls. Between 2007-8, for example, HBMX shipped $7bn to HSBC's US operation, more than any other HSBC affiliate. Mexican and US authorities expressed concern that drug traffickers were able to circumvent the anti-money laundering controls at US banks by transporting US dollars to Mexico, and then using HBMX to transfer it to the US.

The report said HBMX had:
- high-profile clients involved in drug trafficking
- millions of dollars of suspicious bulk travellers cheques
- a resistance to closing accounts linked to suspicious activity.

HSBC US (HBUS) nevertheless classed Mexico as a low-risk country and as a result, failed to properly monitor its transfers and other dealings with it.

Dealings with Iran

US laws prevent banks doing business with what it regards as the most dangerous individuals and countries. HSBC frequently circumvented the rules designed to prevent dealings with Iran, Burma, North Korea and Iran. Actions taken to get around these safeguards in the system "may have facilitated transactions on behalf of terrorists, drug traffickers or other wrongdoers", the Sen. Carl Levin, chairman of the Subcommittee said.
For example, HBUS carried out 28,000 undisclosed sensitive transactions between 2001 and 2007, an internal audit commissioned by the bank found. The vast majority of those transactions - worth $19.7bn - involved Iran. Two affiliates, HSBC Europe and HSBC Middle East repeatedly altered transaction information to take out any reference to Iran, the report said. This may have been to prevent red flags in the system triggering an individual review of an accepted transaction, slowing it down, the committee said. But more work would need to be done to established which of these thousands of cases, if any, had broken US law.

**Terrorist financing links**

HSBC did business with Saudi Arabia's biggest financial institution, Al Rajhi Bank. The report claims that after the terrorist attacks in the US on 11 September 2001, evidence emerged that Al Rajhi and some of its owners had links to financial organisations associated with terrorism. HSBC Middle East was one of a number of affiliates which continued to work with the bank. HBUS closed the accounts it provided to Al Rajhi, before resuming some ties with them in 2006. The report claimed it had done this after pressure from HSBC, after Al Rajhi threatened to withdraw all of its business from HSBC globally.

**Suspicious travellers' cheques**

The committee is concerned that HSBC cleared large amounts of travellers' checks over a number of years, without proper anti-money laundering controls, despite evidence of suspicious activity. Between 2005 and 2008, HBUS cleared $290m worth of travellers' cheques which were being presented at a Japanese bank. The daily transactions were worth up to half a million dollars, with large blocks of sequentially numbered cheques being handed over. After prompting from US regulators, HBUS found out that the travellers' cheques were being bought in Russia - a country at high-risk of money laundering.

The conduct of HSBC reminds me of Lenin’s remark: „The bourgeois will always be happy to sell us the rope on which we will hang him.”
By December 2012 the matter reached a stage where HSBC was slapped with a record $1.9bn (£1.2bn) fine by US regulators for money laundering and sanctions busting. The US Department of Justice (DoJ) detailed how HSBC, Britain's biggest bank, allowed drug traffickers to launder billions of dollars in the US and billions more to be moved across borders to countries facing sanctions, such as Burma, Cuba and Libya.

In addition to the fine, HSBC is also under a five-year deferred prosecution agreement which will keep the bank under intense scrutiny and restrict top executive bonuses. HSBC's chief executive, Stuart Gulliver, apologised for the events. He was at pains to insist that the bank was "a fundamentally different organisation" now to the one which allowed the breaches of US rules to take place. With this the focus turned on his predecessors, including the former chairman Stephen Green who was awarded a peerage and a role as UK trade minister two years ago. "Lord Green is not only a senior minister in the government, but an adviser to George Osborne on banking and a member of the cabinet committee on banking reform. He cannot continue to duck detailed questions about his time in charge of HSBC," said Chris Leslie, shadow financial secretary to the Treasury.

A spokesman for the Department for Business Innovation and Skills, said that Lord Green had already said that he shares the bank's regret for the events.

But Move Your Money campaigners urged HSBC customers to change bank. "Sorry is not good enough. The size of this fine shows just how flawed our financial system is and how morally bankrupt many UK banks are. Ultimately it is bank customers that will pay the price for HSBC's criminal activity," said Laura Willoughby, chief executive of the campaign.

And indeed: The money-laundering fine represents a mere four weeks' earnings of the bank and this can easily be recovered from raised fees.

For a comparison: in Finland, traffic fines are defined in a given percentage of the annual income.
A most alarming feature: The department (DoJ) spared HSBC a criminal prosecution only because it considered the bank „too big to prosecute“. Listing a catalogue of mistakes by HSBC over almost a decade, the DoJ admitted that "collateral consequences" were a factor in its decision not to pursue criminal charges. Those consequences, it said, could have included a ban on doing business in the US, resulting in huge job losses.

Even if we are cynical enough to shrug it off by saying „this has always been like this“, it is somewhat unusual for a high official of the Department of Justice to tell this straight into the TV cameras.

This is Lanny Breuer, head of DoJ Criminal Division, as he is explaining the HSBC decision.

On January 23, 2013, he resigned in the wake of the broadcast of a Frontline program *The Untouchables* where he gave a miserable presentation of his departments reasons not to prosecute big banks.
The case of Standard Chartered

August 8, 2012 the US Treasury notified the UK that it is conducting an investigation against Standard Chartered.

Reuters raised the question: Cowboy local regulator or the exposer of lax federal bureaucrats?

The question was asked about recently installed New York banking regulator Benjamin Lawsky after his explosive charge that London's Standard Chartered bank abetted $250 billion of money-laundering transactions with Iran.

Standard Chartered won help the same day from Britain's central bank governor, who portrayed Lawsky as marching to his own tune, and marching out of step with federal regulators in Washington. "One regulator, but not the others, has gone public while the investigation is still going on," the Bank of England's Mervyn King said at a news conference in London. The U.S. Treasury Department, in a letter responding to a request for clarification from British authorities, said it takes sanctions violations seriously.

The British bank lost over a quarter of its market value in 24 hours after Lawsky, the head of New York State's Department of Financial Services, threatened Monday to cancel Standard Chartered's state banking license, which is critical for dealing in dollars. Lawsky called Standard Chartered a "rogue institution" for breaking U.S. sanctions against Iran.

Standard Chartered shares bounced 7.1 percent the next day to close in London at 13.15 pounds, up from a three-year low of 10.92 hit on August 7. They were still down 18 percent since the regulator's threat, which Chief Executive Peters Sands said was "disproportionate" and came as a "complete surprise."

Meanwhile, Reuters Breakingviews reported that the U.S. Federal Reserve asked Standard Chartered's New York office to report in every few hours on its liquidity position, according to people familiar with the situation. The concern was that the possibility of Standard Chartered losing its New York license could spook trading counterparties or depositors, although there was no suggestion that this was happening, Breakingviews said.
The bank's top executives, scrambling back from summer vacations, worked on a defense strategy. The executives contested the regulator's figures and his interpretation of the law, but they gave little further detail. The bank said only a tiny proportion of its Iran-related deals - less than $14 million - was questionable under U.S. sanctions rules.

Federal banking regulators in Washington, who had been probing Standard Chartered's Iran-related deals for more than two years, were surprised by the timing of Lawsky's charges and the stridency of his language. On the other hand, Lawsky's Department of Financial Services had come to the conclusion the case was getting old and that it wanted to move forward and had told other agencies so at a meeting in April.

"This is a case about Iran, money laundering, and national security," Lawsky said in a statement on August 8. "We will continue to work closely with our law enforcement partners, both federal and state, in this effort. No bank, big or small, foreign or domestic, is above the law."

In Washington, Adam Szubin, director of the Treasury Department's Office of Foreign Assets Control, said in a letter to British authorities that his office is investigating Standard Chartered for "potential Iran-related violations as well as a broader set of potential sanctions violations." The letter, which was dated August 8, came in response to a British request for clarification of U.S. sanctions laws. Although much of the letter focused on so-called U-turn transactions, which are at the center of New York's allegations, the letter said it was not a comment on Lawsky's action.

The alleged U-turn transactions refer to money moved for Iranian clients among banks in the United Kingdom and Middle East and cleared through Standard Chartered's New York branch, but which neither started nor ended in Iran.
In London, King drew unfavorable comparisons between the handling of this case and other U.S. actions against British banks, such as the investigation of interest rate manipulation at Barclays PLC. In the Barclays case, he said, all regulators in Britain and the United States produced coordinated reports after the investigation was complete.

"I think all the UK authorities would ask is that the various regulatory bodies that are investigating the particular case try to work together and refrain from making too many public statements until the investigation is completed," King said.

Standard Chartered's CEO Sands, in his first public comments since the crisis arose, offered no major new information on the allegations, which the bank had been reviewing with authorities for the past two years. "(We) fundamentally reject the overall picture and believe there are no grounds for them to take this action," he told reporters. "The threat to cancel the bank's license to operate in New York would be "wholly disproportionate".

Although Standard Chartered's business is concentrated in emerging markets, which has helped insulate it from the global financial crisis, it needs to be able to operate in New York so it can offer dealings around the world in U.S. dollars.

Deloitte LLP, which was accused in Lawsky's order of wrongdoing in its role as an outside consultant to Standard Chartered, denied any misconduct. Deloitte was hired by Standard Chartered after U.S. authorities reprimanded the bank for similar lapses on transactions in 2004.

"Deloitte had no knowledge of any alleged misconduct by any Standard Chartered Bank employees and categorically denies that it aided in any way any violation of law by the bank," the firm said in a statement. Specifically, Deloitte said it "absolutely did not delete" references to transactions from a report, contrary to an allegation in Lawsky's order.
Cursing the Americans

On August 13, Lawsky had reproduced what he said were quotes from an unidentified Standard Chartered executive director in a conversation in 2006 that demonstrated the bank's "obvious contempt" for U.S. banking regulations.

"You f---ing Americans. Who are you to tell us, the rest of the world, that we're not going to deal with Iranians?" the quote was rendered in documents released by the regulators.

People familiar with the situation said the bank's group finance director, Richard Meddings, one of five executive directors at the time, was the unnamed man. Ray Ferguson, a bank executive who attended that meeting, told Reuters that while Meddings had used the expletive in a heated exchange, he did not, to his recollection, say the second part of the quote attributed to him about U.S. sanctions. Meddings did not respond to repeated requests for comment.

Asked for the bank's view on the quote, Sands said: "We don't believe it's accurate." He defended the ethics of the bank, which he had run for six years: "I don't think there is anything wrong with the culture at Standard Chartered." Calling the allegations "very damaging", he said he would address "mistakes" that had been "clearly wrong", but said: "There were no systematic attempts to circumvent sanctions."

In the meantime, paranoia broke out in London. The BoE's King said he did not share the view held by some that the move in New York was part of a concerted U.S. effort to undermine London as a financial center, following the Barclays probe and a U.S. Senate panel report that criticized HSBC Holding's efforts to police suspect transactions.

One British lawmaker, however, said the affair was part of a "political onslaught" in the United States against British banks. "I think it's a concerted effort that's been organized at the top of the U.S. government. I think this is Washington trying to win a commercial battle to have trading from London shifted to New York," said John Mann (Labour), a member of parliament's finance committee, who also called for a parliamentary inquiry.

At the end the bank settled with a GBP 415m fine, but it refused to claw back the 100m worth of bonuses paid to its top executives.
4. Mis-selling scams
The PPI (Payment Protection Insurance) and the CCP scandal

The banks sold insurance policies to their clients against default on e.g. their mortgage loans, in case they lost their job, say. The scam consisted in these policies being often sold even to clients who obviously did not need it, in other cases the banks did not pay even if there was a real case of loss of income, in some further instances they stipulated the policy as a condition for a loan, or they simply deducted the fee without the client being aware of this.

The clients revolt broke out in 2012, and targeted the whole British banking system.

The little brother of the PPI scheme is the CPP scandal: This card insurance company sold protection against bank card abuse, despite the clients being automatically insured by their banks against such losses. Nevertheless, the banks enthusiastically supported the deal, for example they automatically redirected the calls of clients who wanted to activate their new cards by phone to the CCP marketing, where the customers were talked into buying the insurance while they were under the impression that they were talking to the bank.

CPP sold insurance policies also against identity theft, with the risk grossly overestimated. Dealers were trained to mislead clients, and to recruite and retain them by all means.
The PPI (Payment Protection Insurance) case

BBC News Business, 31 August 2012

A big jump in the number of complaints made to UK banks by their customers

Banks are required by regulators to publish their complaints figures twice a year. Complaints at embattled Barclays in the first half of this year were up 76% on the same period in 2011. Royal Bank of Scotland had 128% more complaints. The complaints include those for the mis-selling of payment protection insurance (PPI). Aggressive claims management firms may have skewed the figures.

Total complaints to banks

Santander: 240,597, up 43%
Barclays: 442,266, up 76%
HSBC: 170,064, up 73%
RBS: 491,735, up 128%
Lloyds: 860,026, up 146%

PPI effect
Santander had a 42% increase in total complaints in the same period, while Lloyds had a jump of 146%. But if PPI-related complaints were stripped out, Lloyds had a decrease of 18% and Barclays had a drop of 9%.

PPI was sold along with loans and credit cards, wrongly in many cases, to cover repayments if people became ill or lost their jobs. Banks are in the process of paying out £9 Bn in compensation to borrowers who were mis-sold PPI. Last August, it was revealed that the financial ombudsman service is taking 1,500 new claims for PPI compensation every day, figures show. The Building Societies Association claims its members are being "bombarded" with bogus claims for PPI compensation. It said the eight largest mutuals received 22,441 unfounded claims in the six months to the end of April.
The UK’s banking industry faces a monumental bill for the past mis-selling of payment protection insurance (PPI).

As of 2 November 2012, the amount set aside by 14 banks, building societies and credit card firms stood at £12.7Bn. The biggest bill is being shouldered by the Lloyds banking group, at just under £5.3bn so far. The sum for all of them is likely to rise further as millions of past customers continue to lodge claims for mis-selling, in the hope of receiving a payment, currently running at an average of £2,750 per claim. It seems as if the bill for the banking industry will far outweigh the cost of previous scandals, such as the mis-selling of private pensions and endowment policies.

How much have they paid out?

The consumers' association Which? has added up the figures from the bank's own publications and puts the cost so far at £12.7 Bn. This includes the cost to the banks of administering the repayment process. Lloyds Bank, for instance, employs 1,000 people just on this, so the overhead costs are considerable. The figures are likely to rise as more complaints come in.

How many people have been affected?

About 16 million PPI policies have been sold since 2005. Some people would have had more than one policy. And of course, some of the policies would have been sold validly, with the borrowers subsequently making valid claims too. But it is obvious that millions of people have decided that they have scope for making a complaint and demanding some compensation.
How much more money is at stake?

Back in 2010, the Financial Services Authority (FSA) calculated that if 20% of PPI purchasers were compensated, than about 2.75 million people would be paid about £2.7 Bn - in other words, just under £1,000 a head. With £12.3 Bn now being set aside (including bank overhead costs) and claim payouts averaging more at £2,750, that suggests about four million to 4.5 million people have, or soon will be, compensated. And if more people make valid complaints, the industry's bill will expand even further.

PPI provisions as of 2 November 2012

Lloyds: £5.275 Bn
RBS: £1.73 Bbn
Barclays: £2.176 Bn
HSBC: £1.110 Bn
Santander: £821 m
MBNA: £506 m
NRAM (Northern Rock and Bradford & Bingley): £293 m
Yorkshire and Clydesdale banks: £275 m
Co-op bank: £120 m
Nationwide BS: £128 m
Capital One: £66 m
Tesco: £92 m
Welcome Financial: £113 m
Principality BS: £27 m

Source: Which?
But the Financial Ombudsman Service (FOS), which deals with complaints that banks have turned down, has now received half a million PPI complaints, at a rate of 400 every hour. These are ones that the banks and other lenders have rejected. About 70% of the PPI complaints the FOS has ruled on have been upheld in favour of the customer. So the banks are still incorrectly turning down many valid ones.

**How did the industry get into this huge and costly mess?**

More than a decade ago, banks and credit card firms worked out that they could make lots of money selling insurance to borrowers, typically people taking out mortgages or credit cards. The supposed aim of the insurance was to repay any outstanding loans if the borrowers fell ill or lost their jobs. But the lenders also calculated, accurately, that they could charge a lot for the cover and that people would not really notice the cost either.

At one stage in the middle of the last decade, sales of PPI policies were the single biggest source of profit for the UK's High Street banks.

**What went wrong?**

Firstly, consumer groups like Citizens' Advice and Which? started campaigning against PPI sales. Official bodies such as the Office of Fair Trading (OFT), the Competition Commission, and the FSA slowly took up the issue. It all came to a head in 2010, when the FSA announced new rules on future PPI sales and demanded that lenders go back through old rejected complaints, and also old sales where there had been no complaint at all, to see if past sales met new standards. If not, the borrowers had to be told that they might have grounds for complaint and compensation.

A legal challenge to all this by the banks failed in the High Court in April 2011. The dam burst and a deluge of claims for compensation has now swamped the industry.
The case of CPP

BBC, 15 November 2012

CPP Group plc (est. 1980) is a British-based company selling life assistance products. It is primarily based in York.

It has been announced that card protection company CPP faces a fine of £10.5m and paying compensation of £14.5m to customers after being censured by the FSA for mis-selling insurance products.

CPP sold a card protection product, which cost about £35 a year, that was designed to cover losses if a card was lost or stolen. It said customers would benefit from up to £100,000 of insurance cover, but customers were already covered by their banks. Generally, cardholders are not liable for unauthorised card payments on lost or stolen credit and debit cards.

A second product was sold for £84 a year, that was designed to cover costs if the customer's identity was stolen, a risk grossly overstated in the marketing campaign.

Many customers were put in contact with CPP when they rang a number on their new bank card in order to activate it. Many thought they were talking to their bank, but they were in fact being put in touch with a salesperson from CPP. CPP then used the opportunity of the call to offer card protection insurance. If the customer bought the product, the bank got a commission.

During the period of mis-selling between January 2005 and March 2011, CPP sold 4.4 million policies and generated £354m in gross profit, the FSA said. Some 18.7 million policies were renewed during the same period, generating an income of £656m.

CPP’s shares dropped 75% in 2012.
Some card providers put a sticker on new credit or debit cards sent to customers. It encouraged them to call a number, which was CPP's, in order to confirm receipt of the card. CPP then used the opportunity of the call to offer card protection insurance. However, the fine from the FSA does not include this and only relates to the hundreds of thousands of direct sales by CPP.

The FSA investigation also found that:
Sales agents were encouraged to be "overly persistent" even after customers said they did not want to buy the cover. Agents were given targets to talk customers out of cancelling their policy. CPP unfairly took payment from the card that was earmarked for protection, with insufficient consent of the customer. The company failed to stop agents from telling customers to buy cover on the basis they had two weeks to cancel the policy, a nonsense in the context of insurance.

• Applying the results and methods of psychology and neurobiology and abusing the tremendous information asymmetry and the limited attention capacity of customers, agressive marketing totally distorts the normal operation of markets.
• Marketing is not about discovering demand anymore, it is about creating demand.
• Predatory marketing played a huge role already in the period leading up to the subprime crisis and also in foreclosure procedures.
• Its political version may influence the fate of entire countries, including the US or Italy – or Hungary for that matter.
5. Too big to know, too big to control, too big to regulate
The rogue trader of UBS

Coming from a rich Ghanian family Kweku Adoboli graduated with honours in computer science and management from Nottingham University, and joined UBS as an intern in 2003. He made fast progress, becoming trader in December 2005, deputy director in 2008, and director in March 2010. (These titles do not mean much in a bank!) As a trader, he had the chance of earning millions in bonuses. He worked at the London investment division of UBS, at the Exchange Traded Funds desk. His trading limit was GBP 100m, with an allowed overnight value of 50m. In the period 2008-11 he continuously and hugely exceeded this limit: in August 2011 his naked exposure was 12 Bn. He hid these large positions from his superiors and created a secret account (umbrella or slush account), where he kept also part of his gains as a cover for his losses. It became clear during his trial that many of his coworkers had been aware of this account. In an e-mail on September 14, 2011, he revealed to his boss that he suffered huge losses on his unhedged deals. At that moment he had a GBP 8.75 Bn hidden short position in Eurostoxx and Dax futures. After closing off these positions in a firesale, the bank was left with a loss of 2.3 Bn. Adoboli was arrested the next morning at his working place. His case is the largest fraud in the history of British banking. His criminal trial started in the fall of 2012 and ended with a 7 years prison term at the end of the year.

As a consequence of the Adoboli scandal, the FSA punished the bank with a 29.7 million fine, because of the shortcomings of control and oversight. A number of the bank’s top officials resigned, and large scale reorganization was carried out, with the investment banking branch cut back and 10 000 (!) people laid out. The bank claimed all this had nothing to do with the scandal.
Rogue or scapegoat?

As Adoboli pointed out, such „heroes“ of banking as Jamie Dimon, CEO of JP Morgan, or Bob Diamond, the (by then fallen) head of Barclays produced tremendous losses as beginners, yet they did not get punished.

Adoboli insisted that he was not motivated by bonus considerations, but by the „glory“, acceptance and tribal ethos. During the trial, he kept repeating that he regarded UBS as his family, and wanted to increase its profit by all his power.

He also told the court that his superiors had explicitly encouraged him to handle the rules in a lax manner: „You will not know you have gone too far until they slap you on the wrist.‟ „This 7 years prison term is the slap on my wrist”, he said after the announcement of the sentence. During the trial he often fell crying, including the occasion when his lawyer showed the promotion video of UBS. One may wonder whether he would have been dragged before the court if he had produced, by the same methods, a 2.3 Bn profit, instead of loss.

Adoboli’s case raises intriguing questions:

• How was it possible that his immediate superior or peers did not notice what was happening? (It transpired at the trial that they did, moreover, they were collaborating: for example, one trader allowed Adoboli to record one of his positions under his name.)
• How is it possible that one can exceed one’s limits by two orders of magnitude at a sophisticated bank like UBS?
• How is it possible to keep up a slush account inside a bank? What does this say about the company culture, about the back office, or about the relative strength of the back office compared to the front office? The accounts department started to raise questions about the counterparties of Adoboli’s fictitious deals only in August 2011, and he was cornered only on September 14, whereupon he sent his fateful mail to his boss.
The London Whale

Before the London Whale episode, investors considered JP Morgan one of the safest and best-managed corporations in America. Jamie Dimon, the firm’s charismatic CEO, had kept his institution upright throughout the financial crisis, and by early 2012, it appeared as stable and healthy as ever. One reason was that the firm’s huge commercial bank—the unit responsible for the old-style business of lending—looked safe, sound, and solidly profitable. Dimon is a staunch enemy of the new banking regulations, and vehemently denied before the Senate that he would not be able to govern his empire.

But then, in May 2012, JPMorgan announced a stunning loss initially estimated at $2 billion and later revised to over $6.2 billion.

The loss emanated from a little-known corner of the bank called the Chief Investment Office. This unit had been considered boring and unremarkable; it was designed to reduce the bank’s risks and manage its spare cash. According to JPMorgan, the division invested in conservative, low-risk securities, such as U.S. government bonds, but also in corporate credit derivatives (CDS). And the bank reported that the Chief Investment Office’s 95% VaR was just $67 million. When analysts questioned Dimon in the spring of 2012 about reports that the group had lost much more than that—before the size of the loss became publicly known—he dismissed the issue as a “tempest in a teapot.”

Six billion dollars can’t take down JP Morgan, but it’s a lot to lose. The bank’s stock lost a third of its value in two months, as investors processed reports of the trading debacle. On May 11, 2012, alone, the day after JPMorgan first confirmed the losses, its stock plunged roughly 9 percent. (It’s going strong again now.)
The incident was about much more than money, however. Here was a bank generally considered to have the best risk-management operation in the business, and it had badly managed its risk. As the bank was coming clean, it revealed that it had fiddled with the way it measured its value at risk, without providing a clear reason. In addition, the CIO marked to market its positions by deliberately neglecting the fact that a large portfolio cannot be liquidated without making a large impact on the price. (Note that back in the 90’s JP Morgan was the pioneer of VaR, the author of the widespread risk management standard RiskMetrics, and the inventor of credit derivatives.) In acknowledging the losses, JP Morgan had to admit that its reported numbers were false and had to rewrite its quarterly report. A major source of its supposedly reliable profits had in fact come from high-risk, poorly disclosed speculation.

It gets worse. Federal prosecutors started investigating whether traders lied about the value of the Chief Investment Office’s trading positions as they were deteriorating. Shareholders have filed numerous lawsuits alleging that the bank misled them in its financial statements; the bank itself is suing the supervisor of one of its former traders, Bruno Iksil, aka the London Whale for his humongous positions, over the losses.

It appears that Jamie Dimon, once among the most trusted leaders on Wall Street, didn’t understand and couldn’t adequately manage his behemoth. Investors are now left to doubt whether the bank is as stable as it seemed and whether any of its other disclosures are inaccurate. In 2012 and again this year, a group of the largest shareholders launched a campaign to split the functions of chairman and CEO. Dimon and the board hotly debated the motion, and they won a convincing victory on May 21 this year.
After the discovery of the loss, a number of regulators and investigators descended upon the bank: besides the FBI and the SEC, the UK Financial Services Authority, the U.S. Federal Deposit Insurance Corp, the U.S. Commodity Futures Trading Commission, the U.S. Treasury's Office for the Comptroller of the Currency, and the Federal Reserve Bank of New York.

These two episodes (among a thousand others) reinforce the impression that in the big banks it is impossible to obtain reliable, up to date data about the actual positions. In principle, banks have to report their capital ratio and VaR each afternoon. In reality this is completely impossible to do in a reliable manner. According to an ex-student of mine who works for a London mega bank: “It is only a wishful phantasy that we know our exposures and risks each day, whatever reports we have to submit to the regulators. We do not know our precise positions even quarterly.”

The reaction to this from a FED officer: “Indeed? I am not surprised.”

Is it possible to regulate complexity?

There is nothing extraordinary in the fact that the leadership of a large bank is unable to know the details of the bank’s positions and the various processes in the countless departments and subsidiaries. Above a certain level of complexity no system can be known in detail. This is especially true of the banking system. With a large part of trading disappearing from the open exchanges, the shadow banking system, dark pools, millisecond trading, algorithmic trading, the constant danger of flash crashes, the sanctity of business secrets, and the fast and turbulent changes in the banking industry would make regulation an illusion even if political interests didn’t build barriers in its way all the time.
6. Conclusions
The banks are too large, they may get governments, but also whole countries down, can take policy and society hostage. The EU policy of Britain is determined by the City. The outcome of the American presidential campaigns is influenced by the support of the big banks, in the constitution of the government an important part is played by the revolving door. Governments would, from time to time, threaten to split up the big banks, but they are unable to achieve this, although not only the separation of the commercial and investment functions, but also the reduction of sizes would be important.

The financial sector has an unreasonably large proportion in some economies, it distorts the labour market, diverts a lot of talent from the real economy. The exaggerated size of the service sector, especially the financial services pushes the economy towards a dangerous monoculture.

The large banks are untouchable, too big to prosecute. In addition, the law is not even a suitable tool to regulate such a strongly interacting, collective system, where one of the players can default as a result of the actions of a hundred others.
The fines levied upon the banks seem large by everyday standards, but are deliberately kept below the threshold where they would really have an impact on the performance of the bank, plus the banks are passing the bill on to the customers. Personal punishment (confiscation of personal wealth, prison) never reached the top managers.

The sector is too complex and opaque (OTC deals, dark pools, shadow banking), and uncontrollably fast (microsecond trading). This not only prevents regulation, but bars public access to the market and the discovery of the correct prices (if there are such things).

The giant banks are not only opaque for the regulators, but also for themselves. They are oversized dinosaurs, the danger signals take too long to reach the brain – as we have seen on the example of the London Whale and Adoboli. It is quite understandable that the chief is unaware of the misconduct of his subordinates, but he is responsible for the incentive system and internal atmosphere, the „culture” that rewards criminality. A psychological investigation of the internal dynamics of large corporations have shown that the selection mechanism operating in the company ecology often pushes megalomaniacs and psychopats into the top positions.
The largest companies and banks form a densely interwoven conglomerate. The stability of such a system cannot be secured via the stability of the constituents. Stability is a property pertaining to the whole network, not to its constituents, systemic risk is a functional over the network, just as the stability of a biosystem is not a property of the individual living beings or species that make it up, but can be understood only in the context of the whole biosystem.

The ethos of the industry is rotten. Such communities cannot cleanse themselves overnight, only at the price of cruel internal and external battles, over a long period of time. Bankers are totally delusional concerning their excellence and indispensability, and apparently do not sense the degree of bitterness and outrage building up in the society. The behaviour of banks and large multinationals (rent seeking, tax evasion, massive fraud, monopolistic aspirations, unaccountability, stellar compensations, political entanglement, state capture) undermines the credibility of democracy and market competition, and creates wide opportunities for all kinds of lunatic right- or left-wing populisms.

The role of economic and finance education is tremendously important – and negative. It is high time for a thorough soul searching.
It is not only the political system where there is a need for checks and balances. Any complex system that wants to avoid both total paralysis and cancerous growth must strive for some kind of homeostasis, where a certain degree of flexible stability prevails, allowing adaptation and also evolution. Society and economy must possess these checks and balances, a system of positive and negative feedbacks permeating the whole and appearing on all levels, a harmony of competition and collaboration.

The collectivist social systems fetishize collaboration, the neoliberal ideology deifies deregulated competition. Neither is viable. Equality and liberty are evidently contradictory values. Livable life and harmonious economy can exist only by creating and continuously recreating a balance between the two. The economic homeostasis excludes a continuous exponential growth, but is necessary for sustainability. Today all the political forces scramble to return to high growth – the crisis has been wasted.
Unchecked growth is cancer or explosion. Most living beings are parasites, preying on the lower levels of the food web. However, only those parasites can survive for long that do not destroy the prey or the host organism, but create a kind of equilibrium with it that on the long run leads to mutually advantageous symbiosis. The banking system is evidently a parasite on the rest of the economy, at the same time it is indispensable. Its cancerous growth may kill the host economy. A society producing only banana is dangerously exposed to pests, market volatility, etc. Likewise, an economy that wants to survive exclusively on services, especially on financial services becomes extremely vulnerable, not only to outside forces, but also to the endogeneous catastrophes created by the financial system itself.
THANK YOU!