THE MOST SERIOUS FINANCIAL SCANDAL OF MODERN TIMES

8. RBS & LLOYDS – GLOBAL LEADERS IN BANKING MISCONDUCT

Royal Bank of Scotland (RBS) and Lloyds Banking Group (LBG) ranked highest and third highest respectively among twenty leading international banks in terms of global misconduct costs incurred between 2014 and 2018, according to a recent study by the Centre for Banking Research (CBR), Business School, University of London. [1]

While the figures are shocking, they are not as shocking as they might have been since those for RBS are unlikely to have included penalties for wrongdoing at its restructuring unit, the Global Restructuring Group (GRG) and those for Lloyds will not have reflected sanctions for the serious professional misconduct and criminal fraud undertaken by its Business Support Units (BSU). Both have been protected from investigation and prosecution by the banks and their lawyers, as well as Government, regulators and prosecutors.

If such charges had been included, the two banks would have exceeded all other major international banks, perhaps by a significant margin.

(£ bn)	2012-2016	2013-2017	2014-2018
RBS	21.53	26.79	26.56
Bank of America	45.62	37.57	26.54
Lloyds Banking Group	20.47	20.14	18.79

Source: The CBR Conduct Costs Project, August 2020

- **Misconduct costs and why they matter**

Composition: Misconduct costs arise for a wide variety of reasons ranging from mis-selling of a given financial product such as payment protection insurance (PPI), market abuse as in the case of LIBOR, other major regulatory infringements, as well as money laundering and the violation of sanctions. They may result from the actions of an individual rogue trader but more often, they have been the product of poor corporate governance and weak organisational procedures. At Lloyds, they have been under-stated due to the determination from board level downwards to cover up serious professional wrongdoing and criminal fraud.

[1] The CBR Conduct Costs Project, Business School (formerly CASS), University of London – August 2020
https://www.city.ac.uk/news/2020/september/centre-for-banking-research-launches-conduct-costs-project

Their breakdown at Lloyds: Misconduct costs for LBG have largely reflected what the CBR terms behavioural failure in corporate conduct but have comprised virtually nothing for straight-forward criminality, investigation into which has been actively suppressed.

Why they matter: Misconduct costs provide an invaluable measure of the culture and ethical health of a bank, something which their opaque annual reports never adequately reflect. Banks such as Lloyds have suggested to shareholders and prospective investors that misconduct matters mainly involve legacy issues, which are largely behind them. However, such assurances are now revealed to have been intentionally misleading.

- **Misconduct by UK banks – needs to be addressed**

In the decade since the 2008 banking crisis, the group of twenty major international banks covered by the CBR study incurred misconduct charges totalling more than £377bn. Following the crisis, US banks accounted for by far the largest portion of charges but since 2012, the proportion represented by UK and European banks has increased strongly and the US percentage has fallen to only 20%.

In cumulative terms, misconduct costs for UK banks have amounted to £86bn over the decade and reached 0.88% of GDP in 2017. This compares with £205bn for US banks, the charges for which peaked at a lesser 0.35% of GDP in 2014 and underlines the degree of regulatory neglect, which has taken place in the UK.

- **The importance of trust**

It is essential for UK banks to re-build trust. However, moves to frustrate transparency and conceal wrongdoing and criminality from investigation provide an additional reason why the shares of leading banks are currently trading at multi-year lows.

If the Government and regulators consider that the current position is somehow sustainable, let alone acceptable, then it will be up to the markets themselves to inject the necessary discipline and force the authorities to confront these issues. Until such time, their deliberate oversight is adding to systemic risk by eroding trust in the City of London and UK financial markets.

Website: www.lloydsbankassetfrauds.com
Press contact: info@lloydsbankassetfrauds.com