

The Fall of Barings Bank

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In late February of 1995 the world was blindsided by the news that a single man had defrauded Great Britain's oldest acting merchant bank to the tune of £827 million in losses. This man was Nick Leeson, a young trader in his mid-twenties from Watford that had been sent to Singapore to run Barings Bank's derivatives trading desk. Starting in 1992, Leeson gambled on future market fluctuations, and eventually started losing more than he was winning. Hiding these losses in a secret trading account, Leeson's debts began to quickly snowball. When the Kobe Earthquake hit Japan on 17 January, 1995 the Asian stock market plummeted, taking Leeson's remaining investments with it. Twenty years later, the tale of this worldwide financial superpower being reduced to nothing as a result of one man's faults acts as a benchmark for all other large-scale financial scandals.

Barings Bank was founded in 1762 and quickly rose to fame as one of the most powerful merchant banks in the United Kingdom, let alone the world. Nowadays, it is rare to come across a news story about the bank's collapse without being quickly reminded of their past successes. At one time the bank managed accounts for the Queen of England herself. In fact, at the turn of the 17th century, Barings Bank was so powerful that the United States enlisted them to help facilitate the largest land purchase in history, the Louisiana Purchase. Ironically, this historic deal came about at the same time as Napoleon's tear across Europe. This means that in a way, one of Britain's most powerful banks helped fund Napoleon's famous war efforts. In hindsight, it is baffling to think that a bank of this stature could be taken down by a single man after centuries of profitable business. Especially when that man has been described recently by journalists as "not a master criminal" (Wallop, 2015).

That man, Nick Leeson, is believed by many to be solely responsible for the bank's £827 million in losses and eventual bankruptcy. However, the reality is that Leeson's superiors are somewhat just as much at fault as he is. When Leeson was sent to Singapore he was in fact given two different job titles. Not only was he Barings Bank's acting floor manager on the Singapore International Monetary Exchange, but also the Singapore unit's Head of Settlement Operations. By holding both of these positions, it is easy to see that Leeson only had to answer to himself. This meant that there was no supervision from the bank's head offices in London, and the fundamental idea of a company implementing checks and balances within itself had been compromised. With no supervision and the freedom to invest company funds wherever and whenever he wanted, Leeson began recklessly gambling on future investments. To this day, he maintains that everything started to unravel when one of his colleagues bought a stock when she was instead instructed to sell it. This ended up being a £20,000 mistake. Leeson hid this initial loss in an investment account labeled 88888. "The five-8's account" as it is now referred to ended up being Leeson's way of hiding future investment losses. Because this was not a real investment account, the account's profits and losses were totally overlooked and disregarded at the bank's headquarters in London.

This fake investment account's losses piled up until 17 January, 1995 when a massive earthquake hit the coast of Japan, sending all of Asia's financial markets into a whirlwind. If Leeson had come forward about the losses he had been hiding at an earlier date, the company's assets on hand could have covered the losses easily. Unfortunately his own pride got in the way and he refused to ask for help. He had planned on using the Asian markets, specifically the Nikkei 225 index, to slowly earn back the losses in the five-8's account, but had to begin using other accounts' funds to attempt to rectify the situation. Leeson has been quoted saying "I was 25-years-old when I was working in Singapore and I should have turned around and asked for help and advice. And I didn't. It was my biggest regret," (Leeson). Just more than a month after the earthquake, Leeson realized he would not be able to dig himself out of this massive financial hole and fled Singapore. Three days later Barings Bank was declared insolvent and liquidated. After a manhunt across Europe and Asia, Leeson was apprehended in Russia and sentenced to a six and a half year prison stay back in Singapore. His sentence was cut short when he was diagnosed with colon cancer. Leeson was released in 1999.

Today, Nick Leeson makes a living partly from giving talks about corporate fraud and the mistakes he made. Since being released from the Singapore prison, he has beaten cancer, has gotten remarried, and has held several different legitimate jobs in the finance world. A movie was made in 1999 entitled *Rogue Trader* that depicted his rise to being one of the most profitable traders at Barings Bank, and then quickly becoming one of the most infamous fraudulent bankers in modern history. Leeson published an autobiography in 1996, also entitled *Rogue Trader*, in which he goes into detail describing his experiences in Singapore. "We were all driven to make profits, profits, and more profits... I was the rising star," he says (Rodrigues). In a competitive environment like the dog-eat-dog setting that is the international finance world it is not hard to imagine the immense pressure Leeson was under to deliver profits for the bank. In 1993 Leeson generated £10 million in profits, 10% of the company's profits for the year. Promise like this early in his career is part of the reason he was granted so much responsibility.

I think the story of Barings Bank's sudden collapse is important for the finance community to study and learn from. In order to make sure a disaster like this does not happen again, financial executives must learn from Barings' mistakes and make sure they implement appropriate checks and balances within their company. What Nick Leeson did was not only a product of careless, negligent leadership, however; but also a young inexperienced trader with too much pride and too little supervision.

Bibliography

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