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## Editorial

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### BCCI Scandal

The closure of BCCI on 5 July, amid stories of massive corruption and mismanagement, has aptly been described as signalling one of the biggest international financial scandals of all time. The fifth largest bank in the world, with more than 400 branches in 69 countries, is reckoned to have held some £750m in deposits from UK clients alone. The closure was foreshadowed by the conviction last year, in the USA, of senior BCCI executives for laundering the proceeds of drug trafficking. Much media attention has focussed, on the one hand, on the plight of the many local authorities who apparently, and perhaps imprudently, deposited very large sums of public money with the bank and, on the other hand, on the prospective ruination of the many Asian-run small businesses that constituted a large proportion of BCCI's clientel.

The political and legal ramifications are enormously complex. The regulatory competence of the Bank of England, the

role of the auditors and the vigilance of the Treasury have come under sharp media and parliamentary scrutiny. Even when the independent inquiry – announced by the Government at the end of July – has gone through the daunting task of sifting through the mountain of evidence, it is unlikely that the whole sorry story will be unravelled.

Meanwhile, what of the 120,000 or so hapless UK depositors – eligible for reimbursement of three-quarters of their deposits, up to a parsimonious maximum of £15,000, under the Bank of England's Deposit Protection Fund? The Fund was set up twelve years ago, and the limits have not been revised to take account of inflation.

Minds have inevitably been cast back to the Barlow Clowes affair in which the Government, prompted by the Parliamentary Commissioner, but refuting his findings of maladministration against the DTI in its capacity as a financial regulator, was shamed into paying £150m compensation, *ex gratia* but somewhat

ungraciously, to the victims of financial malpractice. The scale of the BCCI scandal is very much larger than Barlow Clowes; the regulatory context is quite different; but in the end the morality of the situation – in which a great many unsophisticated small investors may not unreasonably have assumed that a financial institution trading as a bank must surely be doing so with at least the tacit approval of the central banking authorities, is broadly the same.

Yes, of course, the prudent investor should always be wary of the risk element implicit in any enterprise offering a particularly attractive rate of return. But the City rumours of corruption that may have frightened away the big fish may not have reached the small fry who have ended up in the net. The Government will have to review the present compensation limits and the provisions of the Banking Act. And it will also find itself under very strong political and moral pressure to pay at least partial compensation to the BCCI victims.

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