Barings Bank Disaster

A young rogue trader brings down a 232-year-old bank. “I’m sorry,” he says.

BY GLENN RIFKIN

It was a story so astounding that even a Hollywood producer might find it too far-fetched. A venerable 200-year-old merchant bank in England, which counts the Queen of England among its clients, is forced into bankruptcy due to the illegal activities of a lone 28-year-old rogue trader operating out of its Singapore office. This seemingly could never happen, and an audience would scoff at the plausibility of it all. Except that it did. And, yes, it even became a big-budget movie.

In March 1995, Barings Bank, at 232 years old, the world’s second-oldest merchant bank, went belly up due to massive losses triggered by a former golden-boy trader named Nick Leeson. The scandal played out on an international stage and included bankruptcy due to the illegal activities of a lone 28-year-old rogue trader operating out of its Singapore office. This seemingly could never happen, and an audience would scoff at the plausibility of it all. Except that it did. And, yes, it even became a big-budget movie.

Barings Bank was founded in 1762 by Francis Baring, a British-born member of the famed German family of merchants and bankers. Barings was England’s oldest merchant bank; it financed the Napoleonic Wars and the Louisiana Purchase, and helped finance the United States government during the War of 1812. At its peak, it was a global financial institution with a powerful influence on the world’s economy.

Leeson, who grew up in the middle-class London suburb of Watford, began his career in the mid-1980s as a clerk with Coutts, the royal bank, followed by a succession of jobs at other banks, before landing at Barings. Ambitious and aggressive, he was quickly promoted to the trading floor, and in 1992 he was appointed manager of a new operation in futures markets on the Singapore Monetary Exchange (SIMEX). He was placed in charge of both the trading floor and transaction settlement operations, which allowed unusual autonomy and an ability to hide troubling news from the home office.

Early on, he made millions for Barings with bets on the Nikkei Index in Japan, and his profits delighted his bosses back in London. He was earning a salary of £50,000 with a £150,000 bonus, bought a yacht, and lived in an expensive apartment with his young wife, Lisa, a colleague at Barings.

But there was trouble in paradise as Leeson began to incur losses, which he passed off as an “88888” error account, hidden from his bosses. Rather than owning up to his growing failures, Leeson continued to double down, trying to extricate himself from his mess with bigger bets. In 1994,裱 he said he was pushed by internal pressure at the bank. “We were all driven to make profits, profits, and more profits….

In a 2015 remembrance for the Irish news website TheJournal.ie, Leeson wrote: “It is impossible to distance myself from the embarrassment that still is the overriding memory of that period. I wanted to be successful but will always be remembered for my biggest failure.” Accordingly to Professor Mike Power, who teaches corporate governance and risk management at the London School of Economics, Leeson was an “archetype for all that was wrong in the financial services arena in the 1980s.” In fact, he adds, despite the perception that Leeson’s motivation was “unfettered greed,” Leeson’s travails were less about greed than about making some terrible calls and trying to cover up his failures. “This is a classic case of hubris, both of Leeson himself, who was a superstar until he wasn’t, and of a typical UK board like the one at Barings, which was a creature of the time,” Power says. “The lesson is that organizational leaders need to pay attention to what is going on at the periphery of the organization.”

January 17, 1995, the devastating earthquake in Kobe sent the Nikkei tumbling, and Leeson’s losses reached $827 million, more than the entire capital and reserve funds of the bank.

Leeson and his wife fled Singapore, trying to get back to London, and made it as far as Frankfurt airport, where he was arrested. He fought extradition back to Singapore for nine months but was eventually returned, tried, and found guilty. He was sentenced to six years in prison and served more than four years. His wife divorced him, and he was diagnosed with colon cancer while in prison, which got him released early. He survived treatment and settled in Galway, Ireland. In the past 24 years, Leeson remarried and had two sons. Rogue Trader, a best seller in the United Kingdom, was made into a major motion picture starring Ewan McGregor as Leeson. He made money from the movie rights and from serializing the book in a newspaper, and these days he earns a moderate living as a dinner speaker.

1931

The Creditanstalt

Founded by the Rothschild family in 1855, the collapse of this austere Austrian bank sparked bank failures across Eastern Europe.

1997

Hokkaido Takushoku

The bank, which started nearly 100 years earlier to develop real estate on the Japanese island of Hokkaido, went under from making bad real estate loans.

2008

Washington Mutual “WaMu”

made its first home mortgage in 1890 but couldn’t survive the 2000s housing bust.