FOCUS

• RED FACES AT LLOYD'S

With the 'Big Bang', foreign takeovers, new regulatory agencies and other reforms dropping on most of the City of London, the refusal of Lloyd's of London to submit to the City's new order is looking increasingly anomalous. Senior City figures, and some senior backbench Tory MPs, are getting very annoyed at Lloyd's adamant refusal to accept any outside interference in its centuries-old system of 'self-regulation'.

Lloyd's latest round of troubles began last November, when its chief executive Ian Hay Davison announced his resignation. Davison, an accountant, was installed in 1983 by the Bank of England, specifically to clean up the mess created by the notorious Howden and PCW scandals. Early in 1985 he was estimating it might take him five more years to complete his task. His resignation was a tacit admission that he had lost his power struggle with Lloyd's chairman Peter Miller.

Soon after, Brian Sedgemore MP, fresh from his successful campaign on the Johnson Matthey fraud began a campaign against the Lloyd's establishment. The gist of Sedgemore's charges, made under parliamentary privilege, is that numerous violations by Lloyd's insiders have not been prosecuted. Sedgemore's allegations were made harder to ignore by an announcement in December by the Department of Trade that it had found evidence of fraud at a Lloyd's company called Unimar. Unimar was investigated twice by Lloyd's own adminstration, and cleared both times.

Meanwhile, in Lime Street, Lloyd's chairman Peter Miller seems to want to pretend that Lloyd's is still a Georgian coffeehouse where gentlemen turn up to read shipping dispatches in between snifters of brandy. Miller's last major speech began by quoting the Magna Carta in defence of Lloyd's system of self-regulation.

The essence of Miller's case is that Lloyd's system of self-regulation was completely revamped by the Lloyd's Act in 1982, and all the frauds currently under discussion occurred prior to that under the old less stringent regime. He claims the new rules on discipline, disclosure, accounting, audits, and so on give Lloyd's investors (the so-called 'Names') as much protection against abuse by insiders as can be found anywhere in the City.

Lloyd's disciplinary procedure is a good case in point. In the last three years, eight Lloyd's insiders have been expelled from the market, and more have been fined and suspended. This, Miller argues, is a record for vigilance which compares favourably with any other sheriff in town.

The problem with this is that to an outsider, Lloyd's discipline still seems gentlemanly, even indulgent. For example, David McAdams was recently found guilty of 'concealing documents' and 'breach of good faith'. Lloyd's cleared him of fraud, although a high court judge referred to the offence as a fraud in a case in which McAdams appeared as witness.

Another problem with Lloyd's self-discipline is that it does not have the same status as law. So for example Peter Dixon, who was involved in the PCW frauds, has received the heaviest penalty so far, a £1m fine and expulsion from the market. But there is little likelihood he will ever pay up - he is abroad, probably in the Western hemisphere, and as he is guilty of no crime there is no way he can be required to come back.

Murray Lawrence, deputy chairman of Lloyd's, recently said: 'Expulsion from the

Society is the maximum sentence Lloyd's can impose. Under self-regulation it is our duty to see that anyone who transgresses our rules in an unacceptable way can never transact business in our marketplace again.'

What Lloyd's management seem to ignore is that, in the modern era of international financial crime, for sums like £38m (the total allegedly stolen by the miscreants in the PCW affair), many people, even British gentlemen, might be willing to suffer permanent exclusion from the luxurious precincts of Lime Street.

In January the government set up a special independent investigation of Lloyd's, mainly to deflect mounting parliamentary pressure to put Lloyd's within the Financial Services Bill (which is not the most draconian regulation in the world.)

In a way, you might have thought that Lloyd's was just the sort of old-fashioned, uncompetitive, clubbish organisation that Mrs Thatcher would have enjoyed thwacking with her handbag. But she doesn't. And the reason is surely that Lloyd's is made up of rich Tories. One need look no further indeed than Michael Howard, a hard-working upwardly mobile young man and an investor in Lloyd's.

What is Howard busy doing? Why, as Minister of State for the City, he is piloting the Financial Services Bill through the Commons!

Jeff Ferry