Collateral damaging for Bailey’s hopes

Simon Duke - the TIMES 17 September 2019

For Andrew Bailey, the decision on who will succeed Mark Carney cannot come quickly enough. London Capital & Finance, Woodford, Lendy — with each passing week the list of scandals erupting on the Financial Conduct Authority’s patch lengthens and with it the odds on Mr Bailey seizing the Bank of England governor’s crown.

The latest imbroglio involves Collateral, a peer-to-peer lender that went bust in February last year. It may not be the largest debacle of recent times — the firm had attracted only £14.8 million of investment — but its demise raises serious questions for the FCA, which Mr Bailey has run since 2016.

Founded five years ago by Peter Currie, Collateral linked investors with borrowers through an online platform. The company touted itself as an FCA-approved entity, giving investors the reassurance that Collateral would perform checks on its borrowers. However, the reality was quite different. It had received no such clearance.

So how was Collateral able to hoodwink investors? The company seems to have spotted a flaw in the FCA’s public register of approved firms. In late 2015, the entry for Regal Pawn, which had “interim permission” from the FCA, was altered. Collateral’s name was put in the pawnbroker’s place, making it appear it had approval. Mr Currie is a former director of Regal Pawn.

The FCA failed to spot the change until November 2017. More damning still was its response when it became aware that its register had been doctored. Instead of forcing Collateral to cease all activities forthwith, it waited until January to demand that it come clean with customers. While the FCA procrastinated, investors pumped a further £3.8 million into Collateral, as *The Times* has revealed .

The failure will pile more pressure on the FCA, whose oversight of the peer-to-peer lending has been called into question after the collapse of larger rival Lendy in May.

The peer-to-peer industry has been championed by successive governments. Lord Myners, the former City minister, has accused the regulator of “bending over backwards” to help this cossetted sector. The FCA declined to respond to Lord Myners’ suggestion that it has, in effect, been swayed by its political overlords. It’s an incendiary allegation, albeit one that may not prevent Mr Bailey from achieving his ambition. Dancing to the Treasury’s tune could ease his path to the governor’s job.

Alfa should end

Alfa Financial did not want for hype when it was floated two years ago. Andrew Denton, chief executive, said he was “really, really excited” about the software maker’s prospects after the shares leapt by 30 per cent on their debut, lifting its valuation above £1 billion.

Who could blame Mr Denton for his exuberance? As a maker of software used in the leasing industry, it looked a good bet to profit from the trend for renting, rather than owning, stuff.

Alfa Financial, however, has failed live up to its billing. Spectacularly. Yesterday, it blamed economic uncertainties and the shortage of talented techies for a ferocious profit warning — the second since going public. The shares tumbled by as much as a quarter and are trading at a 75 per cent discount to their offer price.

It has been a bloodbath for top shareholders such as Standard Life, Invesco and L&G. Mr Denton and founder Andrew Page, however, have plenty in the bank to ease the pain. The pair pocketed £254 million from the float; the lion's share went to Mr Page, who set up the company in 1990 and remains executive chairman.

Investors really should have known better. Even a cursory flick through Alfa Financial's prospectus would have made one thing abundantly clear: the offering was designed with the sole purpose of enriching Mr Page and Mr Denton. The company did not raise a single penny in fresh capital on its debut. It even contributed £3.4 million to the £8.4 million of listing fees.

Another warning sign was weak governance. Prior to going public, the company hired three independent directors, including Richard Longdon, a well-respected software executive. There was little doubt, though, who would control the board. With 60 per cent of the shares, Mr Page has Alfa's destiny in his hands. In April, Mr Longdon quit, along with the finance director who took Alfa Financial to market. Two more independent directors leave this month. Alfa Financial is as unpopular with senior staff as it is with investors.

Mr Page should draw a line under this fiasco. Alfa Financial has a market value of just £250 million; its founder has the means to take the company back into private hands, where it belongs.

Cryan out loud

You have to wonder how John Cryan will cope when he succeeds Lord Livingston as chairman of hedge fund Man Group in January. During his three years running Deutsche Bank, he rarely missed a chance to take a swipe at his army of bonus-hungry investment bankers. He decried the incessant demands for "entrepreneurial wages" from staff who "play with other people's money". His calls for restrain were refreshing in an industry where greed has become institutionalised.

Manning up

But won't Man's hedgies prove even more ravenous? Last year pay for its top 34 staff fell from $70.7 million to $49.5 million — equivalent to a mere $1.46 million each. Hardly enough for a studio flat in Mayfair.