The Collapse of Barings

Barings, the oldest bank in Britain, collapsed in 1995 after one of the bank's employees, Nick Leeson, lost $1.3 billion due to speculative investing, primarily in futures contracts, at the bank's Singapore office.

At the time Barings went under, the bank held assets for Queen Elizabeth – some $100 million, according to *Time* magazine.

In late 1994, the chief trader at Barings' Singapore office began betting big on Japan's Nikkei Stock Average market. Then disaster struck. An earthquake hit Kobe, Japan, and on Jan. 23, 1995, the Nikkei plunged more than 1,000 points.

Barings lost big money. But instead of cutting his losses, Barings' Singapore trader doubled his investment, apparently hoping that the Nikkei would rebound. It didn't. As the Nikkei continued to plummet, Barings' London office put up nearly $900 million to support its falling position on the Singapore investments. Finally, Barings ran out of capital and declared bankruptcy.

How could one 28-year-old trader in Singapore lose that much money and ruin a 233-year-old British bank? *Time* magazine said the problem was lack of supervision. "London allowed the Singapore trader to take control of both the trading desk and the backroom settlement operation in Singapore. It is a mix that can be – and in this case was – toxic … For a trader to keep his own books is like a schoolboy getting to grade his own tests; the temptation to cheat can be overwhelming, particularly if the stakes are high enough."

The lesson for us? Without accountability, temptation becomes all the more tempting. Accountability protects us from ourselves.

The wisdom of the prudent is to understand his way, but the folly of fools is deceit (Proverbs 14:8).

– Beecher Hunter