The Gold Bead Game

by peptide *Friday, Apr 15 2005, 9:01pm*
editorial / injustice/law / article

> Judgement was recently passed on a perpetrator of one of the largest corporate fraud/failures in Australian history. Minimum time to be served, approximately two and a half years! When we consider the negative impact this individual had on numerous shareholders, employees and the average 'Joe' in the street, one could wonder at the 'severity' of a sentence usually reserved for marijuana offences. Perhaps publishing the defendant's legal costs may have helped a lay public better understand how justice is dispensed in Australia. But that's another story (which should be written). This story will examine one factor contributing to the demise of a huge financial 'institution'.

In order to gain higher share prices this company required meaningful (positive) 'facts and figures' to bandy about local financial and investor 'galleries'. Various divisions were not performing to the board's satisfaction. Insurance sales required boosting; this was achieved by underwriting smaller (insurance) companies selling specific products, in this case, liability cover for IT service industries. This proved to be a wonderful earner for everyone involved – notwithstanding that this was not the intention. IT service companies would take out insurance against client losses resulting from computer related failures. Client companies focused more on the amount of coverage the service provider offered than their ability to perform – quality control took a backseat. This is the world of corporate paper shuffling, why concern yourself with production and contribution when an easier income presents itself?

The average small to medium level business in Australia turns over approximately fifty million per annum. Consider a client incurring losses as a result of computer related problems. A number of these 'failures' over a twelve month period results in losses of say, six million, a relatively small percentage of fifty million. A claim for this amount would usually result in a payment not exceeding half of the asked amount, two (plus) million being a rough average. It would seem that the business client received the 'short straw', as would normally be the case in these insurance matters – but not so!

Due to the manic need to maintain a viable appearance on the stock market, large companies forfeited quality control in favour of cosmetic appearances. Brokers began to exploit obvious weaknesses; packages were soon being offered to capitalise on insurance payouts. These packages included shelf companies that required IT support with appropriate cover from a small insurer underwritten by a blind elephant (large insurer). Some of these packages were even tailored for business immigration needs – very imaginative! The businesses incorporated in these packages were designed to fail after a period of viability. All paper records or 'trails' would satisfy any auditor or financial analyst – the conclusion reached would usually be failure due to the usual reasons – nothing extraordinary or unusual – insurance payments were always forthcoming until the "blind elephant" finally fell.

Consider for a moment the negligible cost of a few hundred thousand to set up these companies and the two (plus) million (lump sum) per annum returns from insurance payouts. The temptation was too great for certain mentalities. A brilliant strategy developed by one who holds a profound contempt for money but a love of sport – a true blue Aussie, who is often seen sailing the harbour on various crafts.

Footnote:
The writer has been advised to state emphatically that the above story is pure fiction – any similarity with actual events or persons living or dead is purely coincidental. This story was written for the sole purpose of entertainment.
