Accuracy versus truth

[Mark Morze (MM)]: It was a crazy time. Making over USD3 million a year. Ferraris, Porsches, Rolex watches. And it was all based on complete lies. We defrauded investors and bankers out of hundreds of millions of dollars.

[Noel Quinn (NQ)]: I have come to the west coast of America to meet Mark Morze, one of this country's biggest fraudsters. I want to understand how we can stop people like him using our bank.

I am the Global Head of Commercial Banking at HSBC, so I am aware that 'Know Your Customer' has become part of the language of the bank. The biggest fear I have on 'Know Your Customer' is that it could be just a tick-box exercise. But the real issue is, do we understand the answers? Do we probe deeply enough? So I am interested in meeting a criminal who has conducted a very large crime, and learning about how it actually happened.

Back in the 1980s, Mark and his business partner were all over the TV with their apparently successful carpet cleaning company ZZZZ Best. But behind the flash, this was one of the biggest frauds in US history. Mark and his partner fooled accountants, lawyers, investors and banks. Thankfully, HSBC wasn't one of them, but I think we can learn from this story.

Can I just ask you one question to start with: what was the nature of this fraud?

[MM]: We were a carpet cleaning company in southern California with two divisions. The carpet cleaning was very real. And the other division did supposed restoration jobs on water-, fire- and earthquake-damaged buildings. And that business was based totally, 100 per cent on completely fabricated documents to convince private investors, Wall Street and bankers to loan us money and that we were more creditworthy.

[NQ]: So no employees, no real jobs, no contracts?

[MM]: No real jobs, no employees, no real contracts. Just pieces of paper that I just sat and cranked out every day. It wasn't just that I had an invoice, there would be a confirmation. There would be a whole process that I knew was going to be gone through, and I could falsify each section of that by everything being done by me. As long as the numbers came out right, that is all that anyone cared about.

[NQ]: So the whole books of accounts – the records, invoices, your expenses – were fabricated?

[MM]: Every single expense was fabricated.

[NQ]: And then you used documents like this – 20,000 of them – to float a company on the stock market?

[MM]: Absolutely. And not one document was true. One of the most egregious examples of falsification I did is claiming we did a USD2.8 million restoration job to restore an eight-storey building in this small beach community town of Arroyo Grande, California. The biggest building in this whole town is that building there.

[NQ]: That's the 'eight-storey' building?

[MM]: That's it. Even if you didn't know the town well, there should still have been questions.

[NQ]: Bankers, accountants can't all come and visit towns like this for every transaction. How could they have spotted a problem on that invoice?

[MM]: Well, right here is says that there is almost USD900,000 worth of carpet. You don't have to be a carpet expert to pick up a telephone, call a carpet company and say 'If you have got a standard eight-storey building, how...
much carpet could fit in there?” You would find that this number has got to be at least four times too big, even if you bought some of the most expensive carpet in the world. Bankers don’t have time to go and look at everything, but they certainly can analyse the numbers and just say, “Does this make sense?”

[NQ]: Did anyone from the banks, these investors, really every push hard against you and say “Tell me a bit more about this story”?

[MM]: No. They accepted at face value. In fact, I was always shocked. People would ask a probing question. I would immediately give an answer and they would never ask a follow-up question. In fact, the response I got from almost everyone was “Oh, thank you.”

[NQ]: And do you think, because of that, that you became untouchable – that the banks, the auditors – people that should have been asking hard questions – weren’t willing to push against you because you had that status?

[MM]: No doubt there was a question where people would go: “I am not really going to push on something. I don’t want to do anything to make Mark mad.” Nobody was willing to tip the apple cart. And there is also a level of confidence people have that is very dangerous – bankers have to worry about this, especially – and that is there is a false sense where you think to yourself, “Since this has been going on for a little while, if there had been anything untoward going on, somebody would have found it a long time ago.”

[NQ]: Do you think they wanted to keep believing? They wanted to be part of the good-news story?

[MM]: I think that is the case, and I think fraudsters really count on that. They get caught up in what I call our slipstream, and they are part of our success.

[NQ]: Where did you think this was all leading to? Did you think this would carry on and that would never get caught?

[MM]: We were in more than conversation, getting commitments from Wall Street, to do junk bonds in aggregate of USD2.6 billion.

[NQ]: So you went to potentially a fraud of USD2.6 billion in 26 months?

[MM]: Absolutely.

[NQ]: In the end, the ZZZZ Best fraud was uncovered by an investigative journalist and Mark served five years in prison for his part in it. Nowadays, he works with law enforcement to prevent fraud.

There must be huge lessons for banks, for the financial services sector. What would you say the lessons are?

[MM]: The key lesson is, after you have looked at the accuracy of the documents, and whether they tie in together, ask yourself not only “Are the documents accurate?” but also “Are they true?” All fraudulent documents are accurate. It is just you have to ask those other probing questions that have nothing to do, really, with the numbers, but have to do with the essence of what you are being asked to believe.

[NQ]: I think Mark’s story is a powerful reminder of why we should always be inquisitive, of why we should be prepared to ask the difficult questions, to probe that much deeper to go beyond simple accuracy and establish the truth.

[ENDS]