



SOCIETY OF ACTUARIES

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Business Classics: Dickens and Business Fraud

By Mary Pat Campbell

If I say “Dickens,” you may think of grand social drama—“*It was the best of times, it was the worst of times*”—along with some comic characters with silly names. If I say “Dickens and business,” you probably will think of Ebenezer Scrooge, the cold-hearted businessman who changes when he gets visited by four ghosts and learns the True Meaning of Christmas (thus spawning a whole genre of TV specials).

However, Dickens went beyond the psychology of a miser in portraying business and businessmen (and businesswomen, though there are fewer of those in his novels). This is hardly surprising given how much Dickens was a London boy, through and through. The business of the City of London was Business writ large, and as Dickens became a prominent man himself, and even before, when he was a parliamentary recorder, he became more familiar with the lifeblood of the city. One issue Dickens knew well was fraud of all types—while he mainly covered social frauds of various sorts, given the more rigid class-based society of Victorian England, he also covered the matter of business fraud, both large and small.

Scrooge himself was no fraud—just a man who valued the world only in pounds, shillings and pence. Dickens even wrote of beneficent businessmen other than the post-ghost Scrooge, such as the Cheeryble brothers of *Nicholas Nickleby*. He wrote of smaller, personal frauds, such as Uriah Heep of *David Copperfield*, who had been embezzling from his master. In this article, I will look at the two largest business frauds portrayed by Dickens in the novels *Martin Chuzzlewit* and *Little Dorrit*, frauds that ring true with events that occurred in Victorian times ... and frauds that still occur today.

SMALL CON MAN HITS THE BIG TIME

In *Martin Chuzzlewit*, we follow the fates and fortunes surrounding the very extensive Chuzzlewit family as many jockey to grasp the riches of the older Mr. Chuzzlewit. This ramshackle novel takes

characters far afield, to exotic locales like Eden, which is somewhere in a swamp in America. But the most raucous events occur within London itself, especially when we happen upon Mr. Tigg Montague (or was that Montague Tigg?) and his fabulous creation, The Anglo-Bengalee Disinterested Loan and Life Assurance Company:

The secretary smiled again; laughed, indeed, this time; and said, rubbing his nose slyly with one end of the portfolio:

*“It was a capital thought, wasn’t it?”
“What was a capital thought, David?” Mr. Montague inquired.
“The Anglo-Bengalee,” tittered the secretary.
“The Anglo-Bengalee Disinterested Loan and Life Assurance Company is rather a capital concern, I hope, David,” said Montague.
“Capital indeed!” cried the secretary, with another laugh —“in one sense.”
“In the only important one,” observed the chairman; “which is number one, David.”
“What,” asked the secretary, bursting into another laugh, “what will be the paid up capital, according to the next prospectus?”
“A figure of two, and as many oughts after it as the printer can get into the same line,” replied his friend. “Ha, ha!”*

The reason for my name confusion above is that when we first meet this character, he is going by the name Montague Tigg, a small-time conman who has latched himself onto one of the more disreputable Chuzzlewit outgrowths. When we meet him again, he has switched his names, smartened up his clothing, and now runs an insurance company.

An entirely fraudulent insurance company.

Tigg or Montague, whichever he is, shows up again when a different disreputable Chuzzlewit, Jonas, comes to the offices of the Anglo-Bengalee, seeking to get a life insurance policy on his new wife, without going to the bother of actually letting her know that he is doing it. It seems that



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actual, reputable insurance companies had hassled him over the death of his old father (what is so suspicious about an old man dying, hmmm?) and were making a fuss about having her sign the new policies. A disreputable customer for a fraudulent company, Tigg/Montague realizes he has a victim on a larger scale at hand.

To hook his fish, Montague lets Jonas in on the secret of the Anglo-Bengalee later in Chapter 27:

“Done!” cried Montague. “Wait a bit. Take these papers with you and look ‘em over. See,” he said, snatching some printed forms from the table. “B is a little tradesman, clerk, parson, artist, author, any common thing you like.” “Yes,” said Jonas, looking greedily over his shoulder. “Well!” “B wants a loan. Say fifty or a hundred pound; perhaps more; no matter. B proposes self and two securities. B is accepted. Two securities give a bond. B assures his own life for double the amount, and brings two friends’ lives also—just to patronize the office. Ha ha, ha! Is that a good notion?” “Ecod, that’s a capital notion!” cried Jonas. “But does he really do it?” “Do it!” repeated the chairman. “B’s hard up, my good fellow, and will do anything. Don’t you see? It’s my idea.” “It does you honour. I’m blest if it don’t,” said Jonas. “I think it does,” replied the chairman, “and I’m proud to hear you say so. B pays the highest lawful interest—” “That an’t much,” interrupted Jonas. “Right! quite right!” retorted Tigg. “And hard it is upon the part of the law that it should be so confoundedly down upon us unfortunate victims; when it takes such amazing good interest for itself from all its clients. But charity begins at home, and justice begins next door. Well! The law being hard upon us, we’re not exactly soft upon B; for besides charging B the regular interest, we get B’s premium, and B’s friends’ premiums, and we charge B for the bond, and, whether we accept him or not, we charge B for

“inquiries” (we keep a man, at a pound a week, to make ‘em), and we charge B a trifle for the secretary; and in short, my good fellow, we stick it into B, up hill and down dale, and make a devilish comfortable little property out of him. Ha, ha, ha! I drive B, in point of fact,” said Tigg, pointing to the cabriolet, “and a thoroughbred horse he is. Ha, ha, ha!”

Indeed, the Anglo-Bengalee is just a fancy Ponzi, with Mr. Montague and his partners skimming a percentage for themselves. However, the fraud runs deeper, as these small tradesmen and their policies bring only dribs and drabs in at a time. Montague wants larger catches, and gets Jonas to “invest” with him—after all, it takes some capital to keep the show running. As Montague notes, early on the Anglo-Bengalee had some claims, reducing the company to a grand piano, but turned around and built the pyramid up again to the grand edifice Jonas sees.

It turns out later that Montague gets some very useful blackmail material on Jonas after Jonas has been hooked as an “investor” in the company (this relates to that aged father with the life insurance coverage from the reputable companies). Tigg uses this blackmail to leverage Jonas to get another relative hooked in the scheme. Alas, the richest old man of the bunch, old Martin Chuzzlewit, will not be hooked; he is an honest man, and cannot be caught the way Jonas was.

From Montague’s success we learn some aspects of successful fraud: the need for capital to perpetrate the fraud to begin with, the need for shiny appearances to bolster reputations, the hooking in of other unethical and questionable people ... and ultimately the danger of doing business with such questionable people. In this case, instead of being ratted out to regulators, Montague is murdered by Jonas.

These were the days before regulation of insurance. Fraud was perpetrated on both the insurer and insured side. Killing people for insurance proceeds was known then as now. Reputation of the company through

surface looks has helped now as then, but more than as there was no oversight. Dickens died in 1870—the same year the Life Assurance Companies Act was passed in the U.K., the first substantive regulation of life insurance in the U.K. So certain aspects of Montague’s fraud, such as how thinly capitalized it was (and how it essentially had no reserves), would be more difficult to pass off now in specifics. The Anglo-Bengalee was mainly an indictment of the questionableness of insurance companies at his time.

RESPECTABLE BUSINESSMAN INFECTS SOCIETY

The Anglo-Bengalee fraud, as large as it was compared to some of the personal monetary shenanigans in other novels, pales in comparison in the next Dickensian fraud: Mr. Merdle of *Little Dorrit*. The fraud here is not a single company, but a fraud surrounding a specific man and his pursuits.

Merdle has married a relatively impoverished widow from a family that has salted itself throughout government posts. This provides Merdle with the social cachet to move in high circles, mixing with members of parliament, aristocrats, and other great men of business and society. His success only continues up and up and up. Merdle is the man of the hour, and everyone wants a piece of the success. Unlike the Anglo-Bengalee setup, those entering into investing in Merdle think he’s the real deal.

Dickens devotes an entire chapter to the Merdle craze, with one of the characters explaining the deal to another in Chapter 13:

“How so, Mr Clennam?” Pancks asked quickly, and with an odd effect of having been from the commencement of the conversation loaded with the heavy charge he now fired off. “They’re right, you know. They don’t mean to be, but they’re right.”

“Right in sharing Cavalletto’s inclination to speculate with Mr Merdle?”

“Per-fectly, sir,” said Pancks. “I’ve gone into

it. I’ve made the calculations. I’ve worked it. They’re safe and genuine.” Relieved by having got to this, Mr Pancks took as long a pull as his lungs would permit at his Eastern pipe, and looked sagaciously and steadily at Clennam while inhaling and exhaling too.

In those moments, Mr Pancks began to give out the dangerous infection with which he was laden. It is the manner of communicating these diseases; it is the subtle way in which they go about.

“Do you mean, my good Pancks,” asked Clennam emphatically, “that you would put that thousand pounds of yours, let us say, for instance, out at this kind of interest?”

“Certainly,” said Pancks. “Already done it, sir.”

Mr Pancks took another long inhalation, another long exhalation, another long sagacious look at Clennam.

“I tell you, Mr Clennam, I’ve gone into it,” said Pancks. “He’s a man of immense resources—enormous capital—government influence. They’re the best schemes afloat. They’re safe. They’re certain.”

This is Dickens, and you know this means what Pancks said is completely incorrect. Those high and low caught Merdle fever, saying to each other it was a sure thing. Pancks is dismissive of the broke people who talk Merdle all the time (though they are unable to invest), but he puts some of his money with Merdle and convinces Clennam to do the same. That act sends Clennam to a debtor’s prison, when Merdle’s schemes fail with the man.

There is plenty of foreshadowing of the coming Merdle disaster. Merdle himself has a vague “complaint” as he always feels ill and has little appetite. Merdle may be a complete fraud, but he’s not really enjoying it much (unlike the gusto of Montague, who most assuredly enjoyed his cons).

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Ultimately, when all of Merdle's schemes fall apart, the man also does. He borrows a pen knife from his daughter-in-law, and kills himself in a local Turkish bath house.

Merdle's fraudulent disaster is no work of fictional imagination on Dickens' part, though he had plenty of imagination. In 1855, while Dickens was working on the earliest chapters of *Little Dorrit*, several banks failed and those in charge were put on trial. In the novel, Dickens reflected the speculation mania that ultimately drove the failure. He also reflected the desire on those burned to find human sacrifices (figuratively), which is how Clennam finds himself on the receiving end of hostility as he goes to debtor's prison. He was an innocent victim of the fraud, believing, like Pancks, that this was a sure thing. He made an easy target once Merdle was gone, as Clennam had his own creditors who were collateral victims. An example must be made, even if of dupes, to satisfy public opinion.

HOW QUIANT—SO WHAT?

This might seem a cute exercise, looking at the historical frauds and failures related to literature. But who cares? That's almost 200 years ago! We've come so far!

But have we? Think of Bernie Madoff—a man who worked his social connections, who hooked in people who believed that he was doing something legitimate (like Merdle) or those who figured he was corrupt and thought they could also profit (as with Jonas Chuzzlewit hoping to profit from the Anglo-Bengalee). Madoff perpetrated his fraud longer than Montague managed, mainly because he didn't get murdered by a blackmailed partner.

Think of Enron, where clever people figured that they knew a surefire way to mint money ... but then ran into trouble. Think of subprime mortgages, WorldCom, asset bubbles of one sort or another—the essentials of current frauds may differ in the specific details, but many of the human behaviors behind them remain the same.

I have read some very good books that talk explicitly about recent financial disasters: *The Big Short* by Michael Lewis on the credit meltdown of 2008 (a book I reviewed for *The Stepping Stone*²) and *No One Would Listen* by Harry Markopolos, which

covers his attempts to get the SEC to investigate Madoff. Both of these books are good dissections of those particular disasters, and even include some proposals to prevent the same disaster from happening again. However, the specificity of these books, with their particular fact patterns, may make one look at the issues too narrowly.

How do we prevent new frauds and asset bubbles? One may take a technical approach, but at the heart is human nature—how people behave, how people have particular goals, and how some will try to get what they want fraudulently. Many of these frauds are successful due to the perpetrator's own knowledge of human nature. It's hilarious how often we hear "*This time it's different!*".... and it turns out people's greed, envy, pride, and pretty much all the mortal sins, come into the mix in the same old way.

Fiction takes us away from particular concrete facts and asks us to look and think more broadly. If you want to catch the next fraud, don't look at the particular tools necessarily, but how people and societies behave. These two novels of Dickens help give a little piece of that puzzle, and reading more broadly may provide you with more such pieces.

Are there any novels that you've read that have given you insight into business dynamics—whether fraudulent or otherwise? Let me know at marypat.campbell@gmail.com. ●

ENDNOTES

¹ Excerpt from Chapter 27.

² Published in the November 2011 issue.

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