

Financial Services in the UK before and after the Global Financial Crisis (in an EU context)

1. Background – the UK's long history of finance
2. Post-GFC re-regulation – drawing back from light-touch regulation
3. Post-GFC reforms: the EU context

1. The Rise of the City

- Lloyd's of London 1686
- Bank of England 1694
- HMG has never defaulted (except during 1970s inflation)
- Financial revolution before the Industrial Revolution
- Massive overseas investments before 1914 – at the expense to domestic industry?



British imperialism and “Gentlemanly capitalism”



The Rhodes Colossus: Caricature of [Cecil John Rhodes](#), after he announced plans for a telegraph line and railroad from [Cape Town](#) to Cairo.

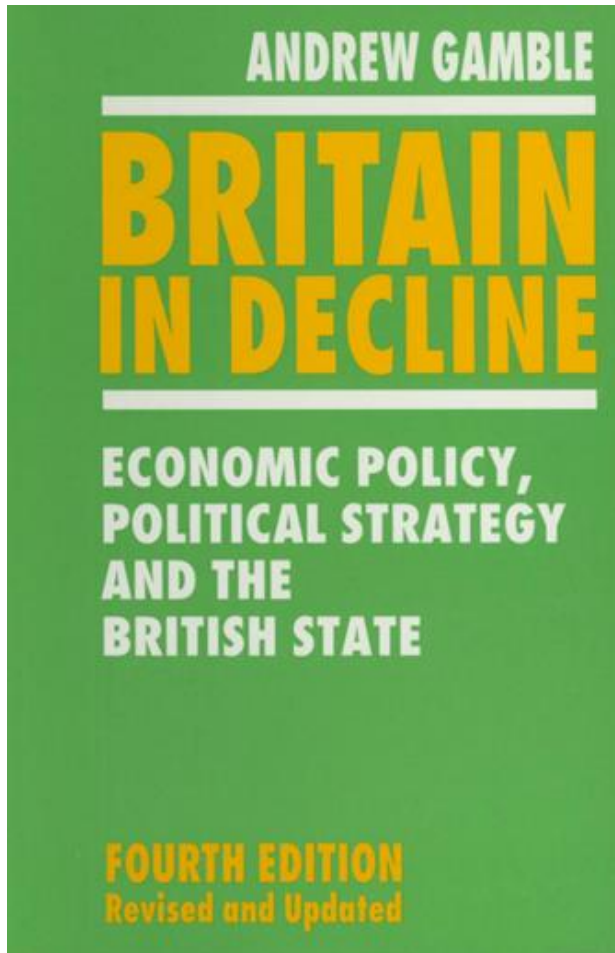
[Edward Linley Sambourne](#) (1844–1910), [Punch](#) and *Exploring History 1400-1900: An anthology of primary sources*, p. 401 by Rachel C. Gibbons

As the City developed to finance Empire and overseas investments...

...so-called “gentlemanly capitalism” emerged: finance, imperial government and the military

NOT industry

Why Did Britain Fight Germany in 20th Century?



- Britain a sea power
- Germany a land power

- But Britain more allied to free markets and free finance, like the United States

The Genius of the Anglo-Americans?

‘A clash of civilizations has dominated the history of the modern world: the clash between the English-speaking powers of the United Kingdom and the United States, and the various enemy nations since the seventeenth century that have fought against them to shape the world.’

GOD & GOLD
Britain, America
and the **Making** of the
Modern World
WALTER RUSSELL MEAD

Walter Russell Mead, “God and Gold”, 2007

The UK and US – “the maritime order”

Italy had Leonardo, Michelangelo and the Renaissance

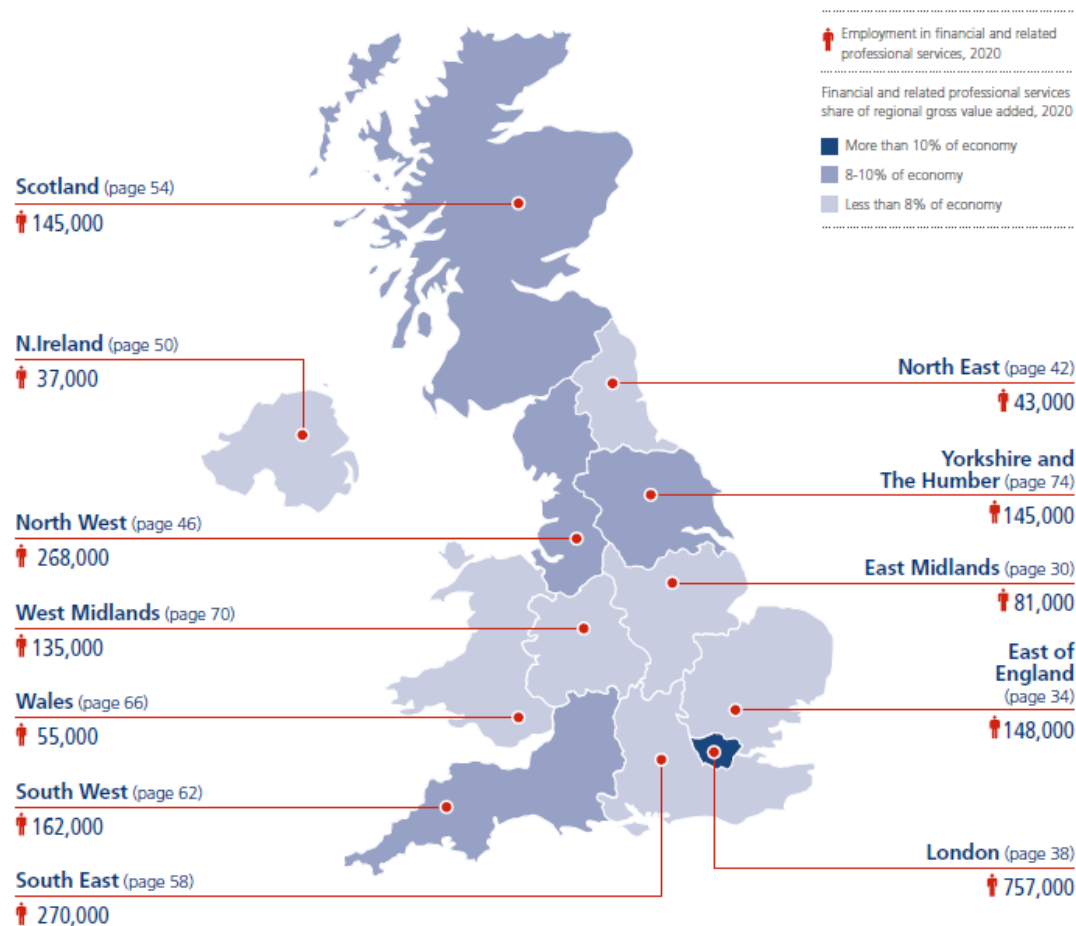
The UK and US have finance

<https://www.youtube.com/watch?v=irqwQk3KE98>

The Spread of The Industry Across the Country

Figure 1: Employment and gross value added in financial and related professional services, 2020

Source: Office for National Statistics, Nomis and TheCityUK estimates



2.2 million jobs in the UK

Two-thirds outside London

Source: TheCityUK, 2022.

The City's Revival after World War II



**CANARY WHARF
(now in
post-Covid crisis)**

1960s Eurodollar and
Eurobond markets

1970s US banks and
petrodollars

1979 Thatcherism &
deregulation: end to
exchange controls

1986: Big Bang – deregulation
and internationalisation
Docklands become financial
centre etc.

New Labour 1997 > GFC 2007/8

- Bank of England – operational independence – 1997: Monetary Policy Committee (MPC)
- A consolidated macroeconomic regime – along lines of “Jackson Hole consensus”
- Stay out of the euro

“Light-touch” regulation



“Light-touch” regulation –
macroeconomics and
finance disconnected –

Financial Services
Authority

(as a company! outside
the Bank of England)

After the Global Financial Crisis

- Development of prudential regulation:
 - Financial Policy Committee at BoE (2010)
- Financial Services Act 2012
 - Prudential Regulation Authority (at BoE)
 - Financial Conduct Authority (a limited company selling regulatory services to members of financial services industry)

2. Re-Regulation



Independent Commission on Banking
The Vickers Commission – final report 2012

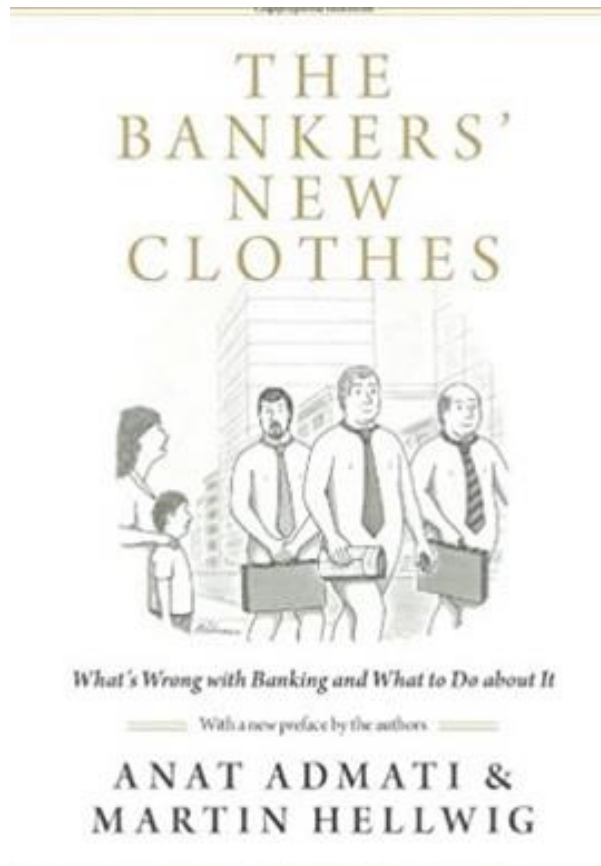
- Higher capital requirements: primary loss absorbing capital equal to at least 17% of assets
- “Ring-fencing” by 2019 of commercial and investment banking activities

Some controversy:

Sir John Vickers, “The Bank of England must think again on systemic risk”, *The Financial Times*, February 14, 2016

- The Commission recommended an extra equity buffer of 3% of RWAs (on top of Basel 3 baseline capital of 8.5%)
- The Bank of England proposed 0.5%
- BoE justified this by new resolution arrangements, better supervision and a counter-cyclical buffer

Admati & Hellwig argue for far higher equity (2013)



- 20 - 30 % equity ratio, which in financial theory bankers apply to other businesses
- Banks not only TBTF
- But under-capitalized and too complex
- (It took [14 years](#) to end Lehman Brother's liquidation)

Individualised Responsibility

Also after GFC and Libor manipulation scandal

- Senior Managers and Certification Regime (SM&CR)
 - banking sector since March 2016
 - dual-regulated insurers since December 2018.

3. A short history of EU Financial Policy

- The Treaty of Rome 1957 sets out principle of free movement of persons, services, capital and goods.
- 1973-1983 – harmonization policies: 1973 First Non-Life Insurance Directive; 1977 First Banking Directive; and 1979 First Life Insurance Directive
- June 1985 White Paper on internal market – proposed harmonisation via a single bank licence (1987 Single European Act)

GFC and post-crisis reform

- Increasing integration and interdependence of financial markets halted by GFC
- Between October 2008 and Oct 2011, the European Commission approved €4.5 trillion of State measures
- Flagship initiatives: Banking Union and Capital Markets Union (which remain to be achieved)
- Widespread agreement internationally on reform (G20, Basel, FSB, etc.)
- Stronger prudential requirements for banks; enhanced supervision and resolution; managing failing banks; improved protection for depositors => the “single rule book”

Key EU financial services legislation

- Banking: Capital Requirements Directive (CRDIV) access to activity, and the Capital Requirements Regulation (CCR) – minimum standards
- Single Supervisory Mechanism (SSM) Regulation > the ECB is central prudential supervisor. Supplemented by Single Resolution Mechanism Regulation (2014)
- Bank Recovery and Resolution Directive (2014)
- Deposit Guarantee Schemes Directive (2014)
- Markets in Financial Instruments (MiFID II, 2014) – consumer protection and market transparency
- Solvency II Directive (2009) harmonized rules on insurance