

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

# Outline

1. Background – the UK's long history of finance
2. The off-shore empire – tax havens; mafia links, Londongrad and the threat to democracy
3. Post-GFC re-regulation – drawing back from light-touch regulation
4. 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: £4bn / 35% of national wealth – at the expense to domestic industry?

# British imperialism and “Gentlemanly capitalism”



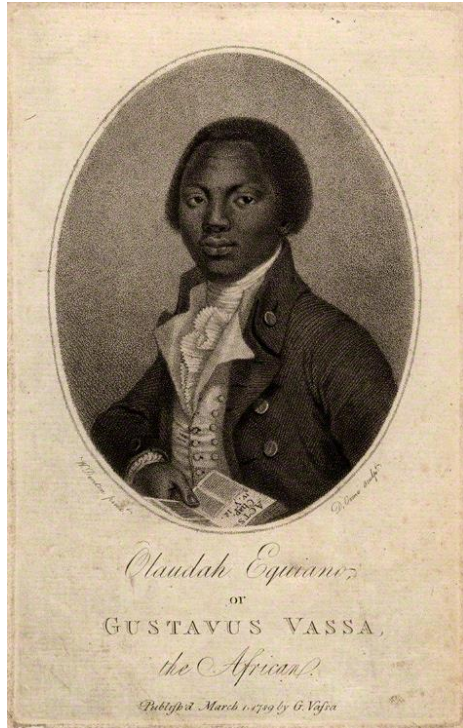
*The Rhodes Colossus*: Caricature of [Cecil John Rhodes](#), after he announced plans for a telegraph line and railroad from [Cape Town](#) to Cairo.

[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

# Dark side: slavery, imperial exploitation

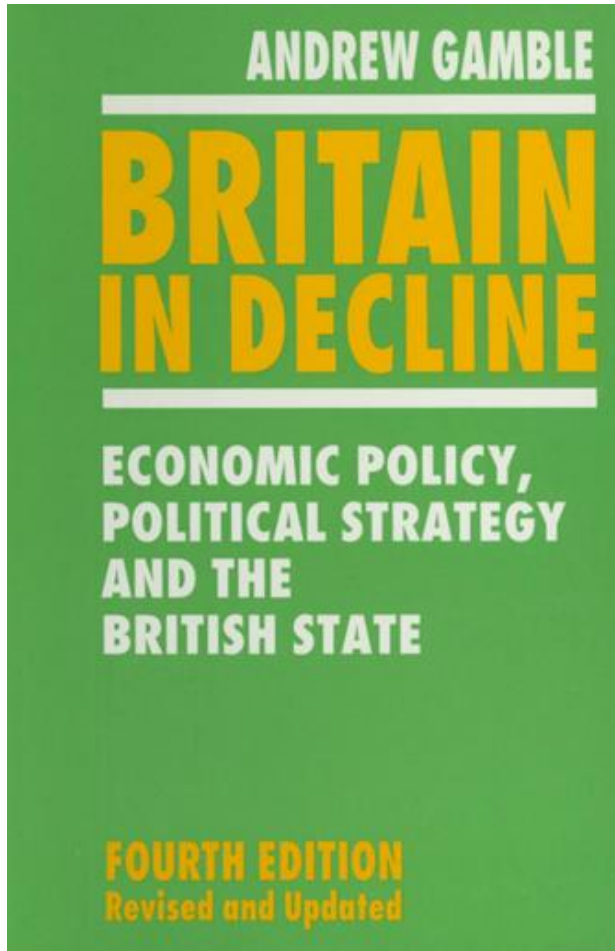


**“The abolition of slavery would be in reality an universal good. Tortures, murder, and every other imaginable barbarity and iniquity, are practiced upon the poor slaves with impunity”**

***Olaudah Equiano***

- Britain “transported” over 3 million slaves from Africa to the Americas
- The Bank of England owned 600 slaves
- London financed the trade...
- ... and the Empire

# Why Did Britain Fight Germany in 20<sup>th</sup> 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

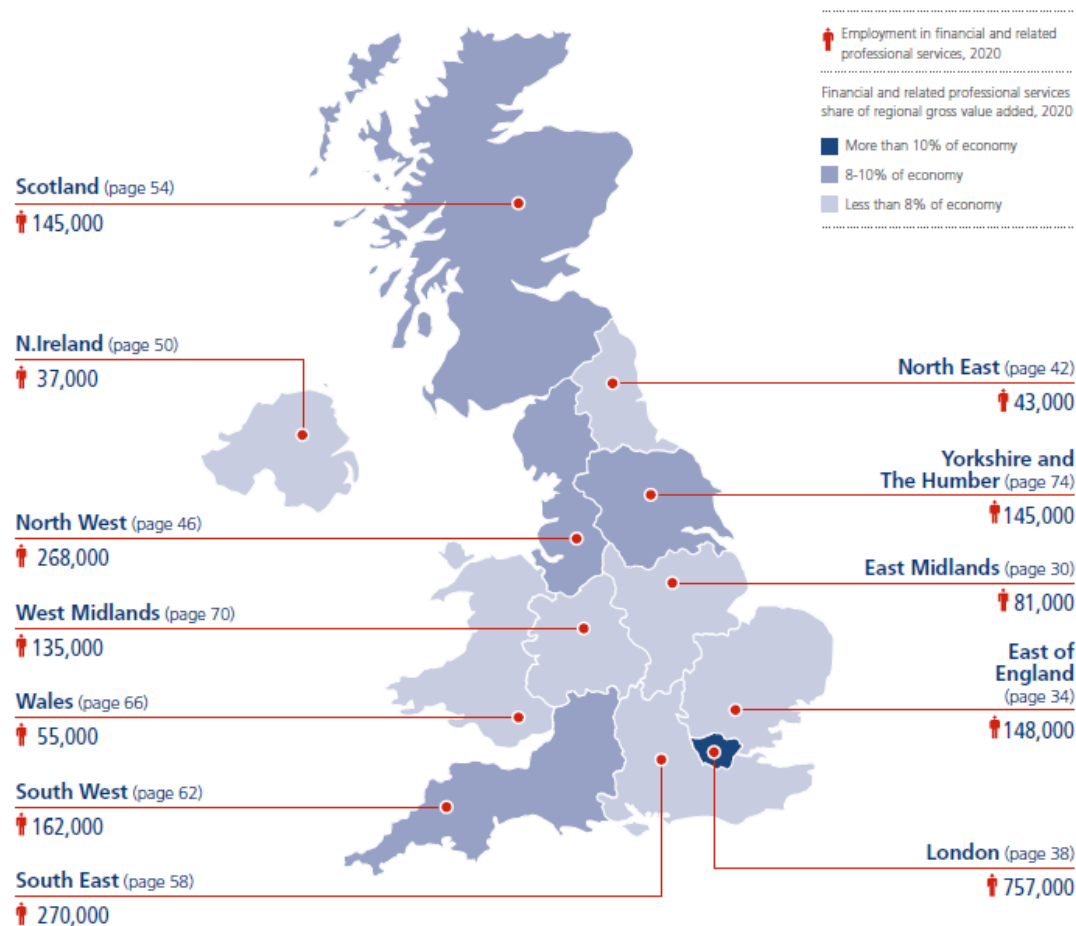
The UK and US have finance

<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



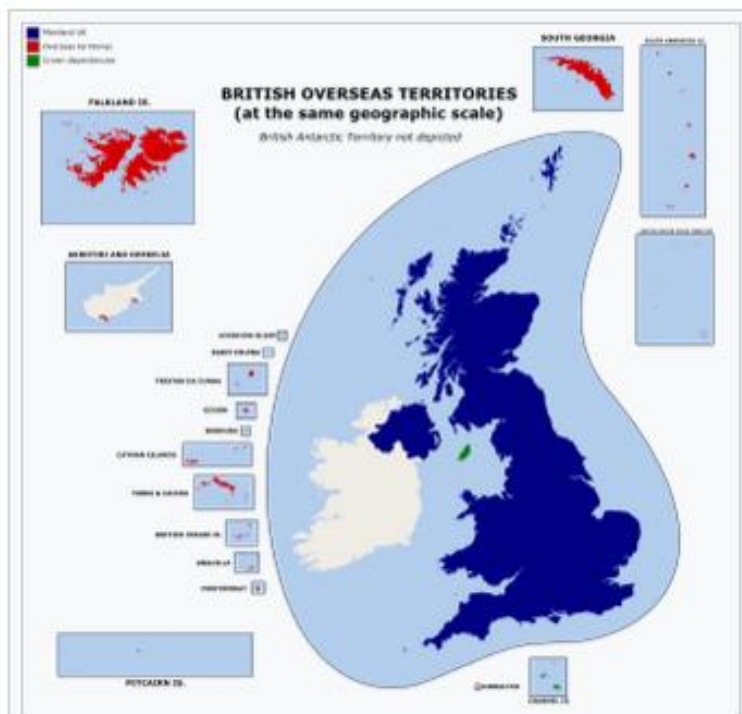
“Light-touch” regulation –  
macroeconomics and  
finance disconnected –

Financial Services  
Authority

(as a company! outside  
the Bank of England)

# Britain's overseas tax havens

- Bermuda
- The British Virgin Islands
- Cayman Islands
- Channel Islands
- Isle of Man
- Gibraltar



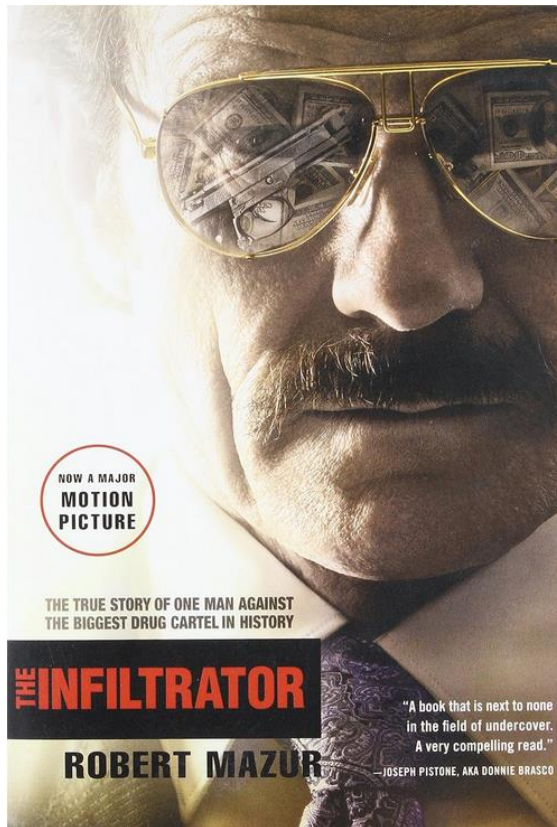
British Overseas Territories (same geographic scale) includes leading traditional and corporate tax global tax havens, including the U.K. itself.

[Michael Foot \(2009\)](#): Crown Dependencies provided “net financing to UK banks of \$332.5 billion” in Q2 2009. p6

# Mafia links with finance

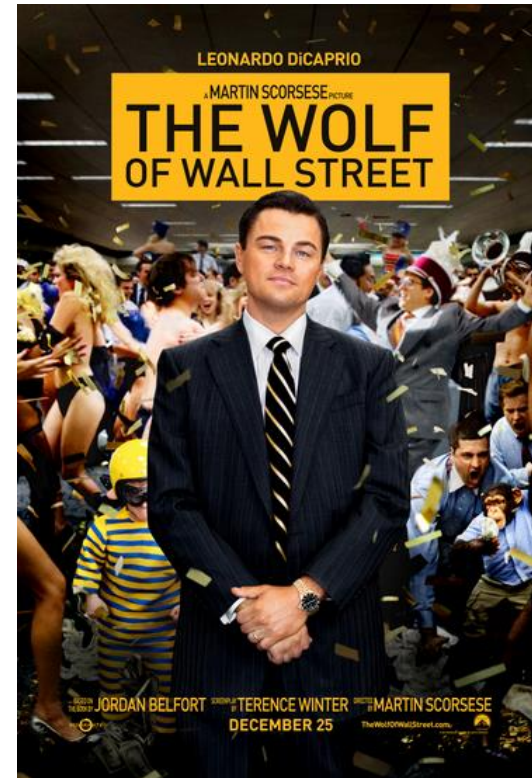
**A supplier of services**

Money laundering



**Consumer of products**

Drugs and prostitution





# The London Laundromat



The UK welcomed Russian money... in a big way  
*Financial Times*, "[How London became the dirty money capital of the world](#)", April 22, 2022.



Anne Applebaum, 2024.  
[London as a hub and investment centre for autocrats.](#)

# 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)

# Over time more was done – 10 years after GFC

## Banks

- capital did rise: RWA 4.5% to 14.3%
- \$1.5 trillion in capital raised
- Borrowing in whole sale markets down from 25% in 2006 to 10% in 2017

## Financial system

- less toxic shadow banking (down 40%)
- funding sources more varied
- Complexity of derivatives reduced: 60% OTC derivatives cleared centrally – dependencies between banks reduced

Bank of England Fact Sheet: [\*The financial crisis 10 years on: what's been done to make the system safer\*](#), September 2017.

# 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