POLITEIA
22 Charing Cross Road, WC2H 0QP
Email: info@politeia.co.uk Telephone: 0207 240 5070
www.politeia.co.uk

PRESS RELEASE PRESS RELEASE PRESS RELEASE

Split Up State Supported Banks Before Sale, says new Politeia Study. New rules must limit moral hazard, restore liquid asset ratio requirements and give the Bank of England charge of banks and building societies.

After the UK's unusually severe banking crisis, both Government and Opposition must learn from the mistakes of 1997, says Professor David B Smith. In a new study for Politeia, *Crisis Management? How British Banks Should Face the Future*, he warns that they should now avoid the rushed introduction of the kind of measures that caused so many problems originally.

The author explains how the 1997 changes were responsible for the structural flaws that led to the failures a decade later. In particular the Bank of England and the Financial Services Authority were left ill-equipped to deal with the crisis that followed Northern Rock's collapse. The move to the apparently easy-to-control system favoured by regulators, one that only superficially appears orderly and neat, rather than more competitive, less tidy structures, has been dangerous in three ways:

It leads to cartelisation, crony capitalism and the too-big to fail syndrome
It encourages people to manipulate the system, leading to the opaque securitisation that has exacerbated the current crisis.
It leads to a vicious global credit cycle as internationally-agreed interventions bring the credit cycles in all the leading economies into phase

The study suggests that the opportunities that arise from the powerful role of UK Financial Investments (UKFI) should now be seized. Competition would be enhanced, if the large banking groups supported by UKFI were brought to market piecemeal as well as in tranches. These groups are the result of mergers and so could be split into their original constituents with the market deciding which parts are viable. The study concludes with a series of recommendations designed to limit moral hazard, restore liquid asset ratio requirements, and ensure the Bank of England alone has responsibility for high street banks and building societies. In particular:

- Deposit insurance should not be 100 percent and the proportion covered should be lower for those putting money in tertiary or offshore institutions.
- Liquid asset ratio requirements should be restored
- The Bank of England should be given responsibility for banks and building societies, but not for other financial institutions, in order to avoid being overstretched.

* David B Smith is Visiting Professor in Business and Economic Forecasting at the University of Derby and Visiting Lecturer at the Cardiff University Business School. His earlier career was as an economist in the City with the Bank of England, a number of other banks, and .in the securities industry.

* ***Crisis Management? How British banks should face the future,*** **is published by Politeia.**

*Enquiries to:
Politeia Press Officer 0207 240 5070
Politeia by email to press@politeia.co.uk
Hard copies are available to journalists on request from press@politeia.co.uk