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UK Individual Shareholders Society

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To: Independent Commission on Banking

Via email: feedback@bankingcommission.gsi.gov.uk

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Response to Consultation on Reform Options (ICB Interim Report)

Dear Sirs,

On behalf of the Society, I wish to make the following comments in relation to the above – the specific consultation questions have been answered in turn:

Question 2.1 Do you agree with the analysis set out in this chapter?

Yes we wholeheartedly agree with the analysis.

Question 2.2 Do you agree with the analytical framework?

We suggest that the framework should also include the need to consider the impact of any proposed reforms on the banks themselves and the stakeholders therein – particularly for example the shareholders who are the owners of these companies, but there are of course other stakeholders also (customers, suppliers, employees, etc).

Question 3.1 Are there other reform initiatives… which you consider essential?

One of the matters that has been ignored is the issue of the prudence of the directors of banks. It is generally acknowledged that one of the reasons for the near collapse of banks such as Northern Rock, RBS, Bradford & Bingley and HBOS was simply the lack of prudence of the directors. For example RBS in risking a takeover of ABN-AMRO which geared up the risk profile of the company and HBOS in their commercial lending activity which seemed to be well known to many property sector operators as being high risk. One of the difficulties is that dominant personalities in some of these companies could brush off concerns expressed by shareholders, and effectively pay little attention to other people's views. There has been a shortage of "shareholder engagement" due to the structure and nature of corporate governance in UK public companies. Unless this is rectified, more regulation and stronger capital structures are unlikely to prevent past events from recurring.

The culture of banks and bankers needs to changed and only by reforming how bank directors are appointed, how they are paid and how they are made accountable to their shareholders will this be resolved. Shareholder nomination committees are one possible solution to this problem.

Question 4.1 Should systemically important banks be required to hold more equity than Basel III requirements?

In summary, yes. Indeed the proposals contained in the report seem to be the minimum that should be considered bearing in mind the level of leverage that banks normally operate under.

Question 4.2 Should UK retail banks be required to hold more equity than Basel III requirements?

There seems no great reason why retail banks should be differentiated from others on the basis that the asset requirement is risk weighted, and hence should reflect the differing nature of assets and liabilities anyway.

Question 4.3 Do you agree that bank debt should be made more loss-absorbing…

It would certainly seem wise to introduce such mechanisms as increasing capital alone would not appear to be sufficient to cope with extreme circumstances (at least not unless it is increased to a level that would be expensive to support). We have no comment on the exact methods to be used as it is beyond our level of expertise in regard to banking.

Question 4.4 In relation to structural reforms, do you agree that the Commission should focus its work on a UK retail ring-fence?

No. We do not in essence support the retail ring-fence proposal. The Commission gives strong arguments in its report for the benefits of a total separation of retail and investment banking, and then chooses to propose a watered down version, presumably so as to overcome the objections of some of the major banks. However, we do not believe that such a separation by ring-fencing would be practical or be capable of enforcement.

Question 4.5 What are the costs/benefits of a UK retail ring-fence…?

We do not feel able to comment on this question except that the benefits seem nebulous.

Question 4.6 How should a UK retail ring-fence be designed?

We have no comment on this question as we do not believe it is possible to design an effective ring-fence. Neither, do we accept that the reputational contagion from one part of a bank that gets into difficulties, to the other part, could be prevented.

Question 4.7 Should the Commission pursue any other structure reforms…?

We have no suggestions here except as we commented in response to question 3.1 – namely that the corporate governance, shareholder engagement and the way directors of banks are appointed and paid needs substantial reform. Only by so doing can risky behaviour be prevented.

Question 4.8 …Impact on competitiveness….?

No comments except that we believe any such impact is likely to be exaggerated by banks opposed to significant reform.

Question 4.9 Do you agree with the Commission's intention to consider a package of measures, and do you think that some elements could be relaxed if others were strengthened?

A package of measures seems to be a suitable approach.

Question 4.10 Over what timeframe should any reforms be implemented?

We have no particular views on this but clearly there should be some urgency on this matter – at least more than has been shown to date in reforming the banking sector where it is now some years since the problems which these proposals are aimed to tackle first became evident.

Question 5.1 Do you agree with the three broad measures in this chapter (...switching, barriers to entry and pro-competitive financial regulation)?

In general terms, yes we agree. We particularly support the proposal to force Lloyds Banking Group to divest itself of some personal accounts. The merger of Lloyds and HBOS should never have been permitted on competition grounds alone.

Question 5.2 Should the Commission pursue any other measures to promote competition?

Clearer pricing structures and hence more comparability of banking services should be imposed by regulation.

Question 5.3 What factors make smaller banks more likely to exert competitive pressures on larger incumbents?

More encouragement of the differentiation of services.

Question 5.4 What are the limitations on customer's abilities to understand banking costs, compare different accounts and switch between them?

The limitations arise from the opaque pricing structures, lack of published pricing, unclear explanation of services being provided and how they are charged, etc.

Question 5.5 What costs might an improved switching process impose on banks...?

No comments as we are not qualified to comment on this.

Question 5.6, 5.7 and 5.8 Re small banks regulation, cash handling and the Financial Conduct Authority

We are not qualified to comment on these questions.

If you require further explanation of any of the answers we have provided, we would be happy to supply.

Yours sincerely

Roger W. Lawson
Chairman

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