

**Financial Services Club**  
Reportage by Michael F Newman

For the evening meeting of May 8<sup>th</sup> 2006 the talk was entitled “ **A Bank Chairman spends as much time on regulation as on clients – Discuss**”

The talk was given by Ian Mullen , Chief Executive of the British Bankers Association (BBA), whereby we heard a thoughtful and penetrative analysis on the subject matter, which was also wide ranging.

Ian has been Chief Executive of the BBA since 2001. This association represents some 250 organisations. In addition to his primary role as Chief Executive of the British Bankers' Association, Ian Mullen is the Chairman of the International Banking Federation (IBFed) and past Chairman of the European Banking Industry Committee (EBIC) and the European Banking Federation's Executive Committee. He is also Chairman of the UK Joint Money Laundering Steering Group, the financial industry's body responsible for the drafting and production of the industry's anti-money laundering guidance notes.

Over the last 18 years Ian held top management positions with four multinationals in London, Hong Kong and Zurich: at Midland Bank (now HSBC Bank) as Director, responsible for UK Corporate Banking; then Managing Director, P&O Asia; thence Chief Executive of Jardine's security interests in Asia and, before taking up his role at the BBA in May 2001, he was the Chief Credit Officer at UBS Private Banking based in Zurich where he sat on the UBS Group Risk Committee and the UBS Private Banking Management Board.

### **Introduction**

Ian began by illustrating the fact that a bank chairman deals with priorities, balancing a range of activities, and needs to have a helicopter view with a longer term vision. However, they are necessarily drawn to the quarterly and annual results and the need to perform.

In particular, Ian felt that times have changed where a bank is no longer as respected as it was twenty years ago. Twenty years ago, before the UK financial services reforms and the emergence of building societies into banking organisations, banks had a simplistic product approach to services. For retail there were basically current and deposit accounts with associated cheque books and cheque processing and emerging credit and debit cards..

Now we have banks trying to be your complete financial services organisation for life and beyond, offering securities trading , insurance, mortgages ,wills and of course copious advice on how to invest for your future. Thus with no great surprise, in this consumer or client driven world , clients are bound to resent what they perceive as poor service or obfuscation.

Nevertheless, banking is a major part of the performance of the UK economy. The UK accounts for 25% of Europe's banking assets and London accounts for 22% of the world's international banking transactions. Since 1992 The Financial services sector

has significantly outperformed the growth in the UK's GDP, and should continue to do so as long as regulations don't harm the growth and expansion of services. The opportunity and projection is that financial services will overtake manufacturing as the UK's export contributor to Asia in the next five years. The nation is now hugely dependent on the performance of this sector.

### **The Regulatory Soup**

Ian explained the new complexities of banking operations, with a 3-dimensional matrix of retail/wholesale banking, prudential laws and regulations versus conduct of business laws and regulations, and statutory versus self regulation; with the underlying basic business still being the time value of money.

He then commented on the different nature of wholesale and retail banking.

The core of retail banking is to attract deposits, and then lend them and make payments, - this is intermediation. Whereas for wholesale banking the core is raising debt or equity then trading these resulting instruments, plus merger and acquisitions activity - this is dis-intermediation. This structure was not primarily reflected in the FSA organisation under Howard Davies where the main division was between Conduct of Business, COB and prudential regulation. This in turn threatened the London market which has thrived on its pre-eminence to innovate and this naturally front runs the law. The London market has fashioned the glue i.e "self regulation" to span the period between innovation and the late arrival of the law.

Europe in contrast looks to policy and regulation as prime whereas London tends towards self regulation; an example of this par excellence was the takeover panel before it became statutory.

The FSA then changed under Callum McCarthy, to reflect the wholesale/retail split, which mirrored the natural business split. In wholesale markets "caveat emptor" is the watchword, whereas in retail markets, client protection must prevail. This allows the FSA to apply principles based regulation to the wholesale markets, with the industry supplying the standards through self-regulation.

### **So what exactly does the BBA do?**

Financial Services exists in a rapidly changing world, the BBA strives to provide thought leadership, it operates in conjunction with and through discussions with the Treasury and is co-joined with the IBFed, which has Canada, The USA, Australia, Japan and the European Banking Federation.. Thus structured it should mean that never again should the IBFed members be caught, for example, by the American's concerned over Basel proposals.

The organisation meets regularly on anti-money laundering and fraud issues and issues of International accounting standards.

It is also involved in conduct of business issues and has recently considered the setting up of a committee on value transfer networks where agreed global standards and oversight are needed.

### **What is the relationship between regulation and the markets?**

If an economy is to maximise its returns it needs to move its resources to areas of competitive advantage. In the UK, Financial Services are undoubtedly in this category and have shown consistent above average growth. The threat to this, is the damage to or loss of attraction of the City of London which could come about by overzealous or inappropriate regulation. There is a symbiotic relationship – the government needs the contribution of the City and the City needs a sympathetic government.

Some seventy percent of the law and regulation comes by way of directive from Brussels, which can be interpreted. If this were to move more to regulation there would be a big concern. The importance of working with and understanding the various factions should not be under-estimated. It is also important for industry to be coherent in order to make self regulation work in a principles based framework. MiFID-Connect is the most recent illustration of producing a vehicle for industry to debate and agree on issues.

### **Questions from the audience?**

How we might continue to compete successfully? Ian likened the City of London to Wimbledon; we provide the venue and invite all the best players to take part.

Is there a threat to us not producing the right skills and what is happening with outsourcing? Ian felt that on the whole we outsource the routine stuff and in-source the complex where the higher value is to be found. We also attract the skills to London from all over the world.

Was technology a threat, help or irrelevance? Without technology we could not be doing some of the dynamics ratings we now undertake.

Can Banks be trusted to perform self-regulation? Here a member of the floor mooted that the banks' bad press and reports of unreasonable charges meant they could not. The speaker strongly disagreed.

### **What was the key point of summary?**

In summary it was reassuring to hear from Ian that the FSA has two key roles of which they are fully aware, the most obvious is to apply directives and regulation and to protect the consumer, the other is to support the industry and enable it to thrive and grow and keep competitive.

### **Left unasked or murmured?**

One was tempted to ask “is this symbiotic relationship between Financial Services Industry and the present government at risk of any impending regime change”, but there just wasn't time.

One attendee was later heard to comment over his wine sipping that he felt London was more like Las Vegas than Wimbledon, that what we are creating is a big attractive casino.

Thus a diverse range of views and comments came to a close!