



making business sense

At the wrong end of the political cycle

The future of financial services in London

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20th November 2009

Key challenges and opportunities for the City over the next decade

- Post credit crunch re-regulation of the sector
- Fiscal policy in fast reverse, and monetary policy in fast forward
- Structural change in domestic savings
- The rise and rise of China and India

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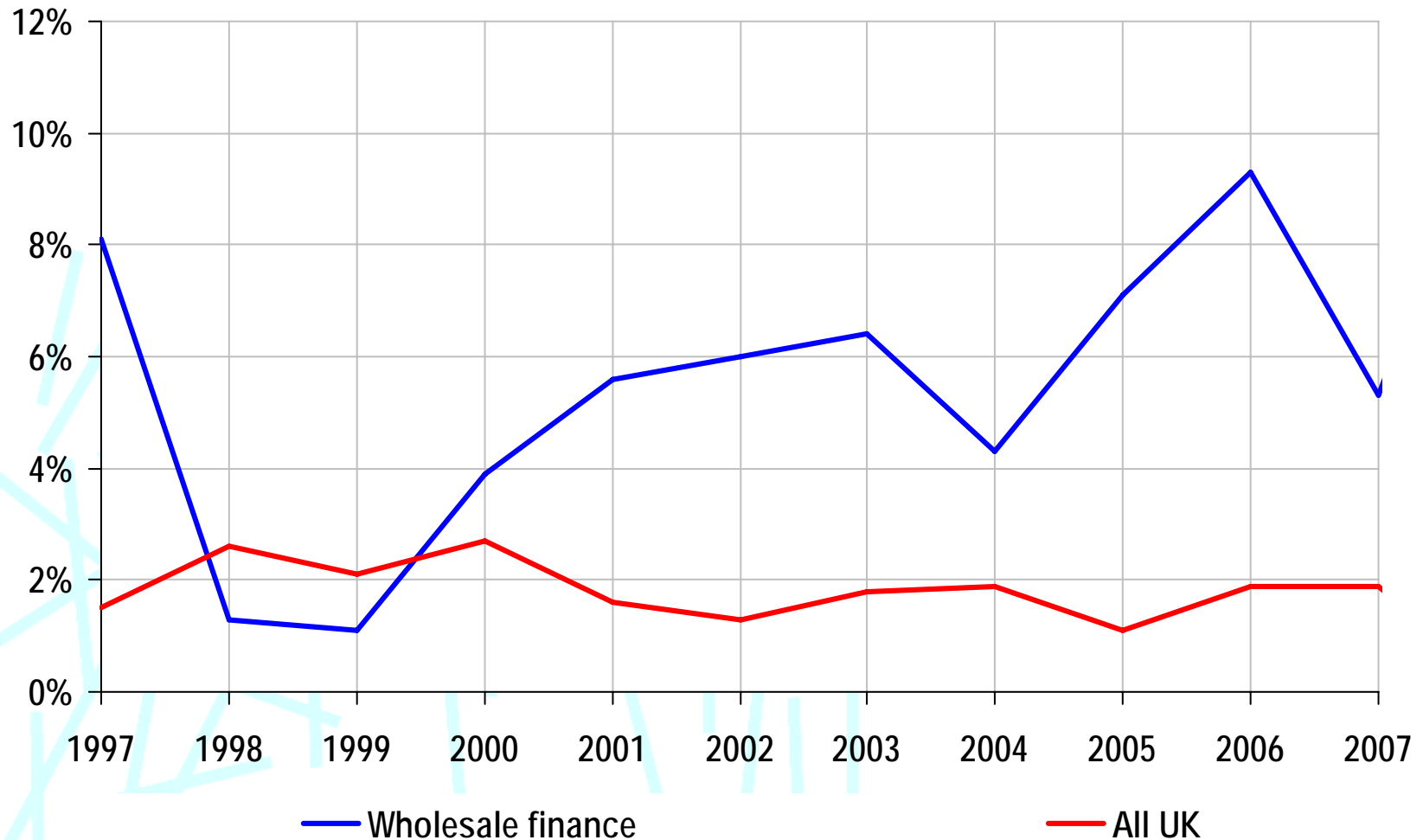
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Minimum capital requirement likely to lead to some structural change

- There will certainly be an increased requirement for prudential capital holdings and possibly cashflow on institutions deemed too big to fail
- Turner report rejects division of the financial system into utilities and a casino, but minimum capital requirement could lead to 'Glass-Steagall' type outcome in some cases, as more profitable but risky activities seek to separate from more heavily regulated banking operations
- Higher capital requirements result in lower leverage. Leverage helped to multiply profits during the period preceded the crunch – but it also multiplied losses during the downturn

Productivity growth was unsustainable – and will be kept in check by tougher regulation

Labour productivity growth, wholesale financial intermediation and economy wide



Bank of England to take control of FSA functions?

- Likelihood that FSA will be 'bolted on' to Bank of England
- This would enable the benefits of the expertise built up in the past decade in the FSA to be used, rather than in effect creating another new institution with all the disruption and start-up costs.
- The Bank of England has prestige, relevant expertise and a reasonable track record of banking supervision pre-1997
- FSA has been heavily criticised, but it is the only body capable of picking up some of the detailed micro-prudential regulation and consumer protection issues
- Within this new functional arrangement, the Bank of England would clearly take charge of macro-prudential regulation

Electioneering leaves City in a policy vacuum

George Osborne attacks 'unacceptable' City bonuses

City fury at George Osborne's bonus war on bankers

George Osborne calls for cash bonuses to be banned at Britain's big four banks

Alastair Darling: bonuses crackdown for high-street banks

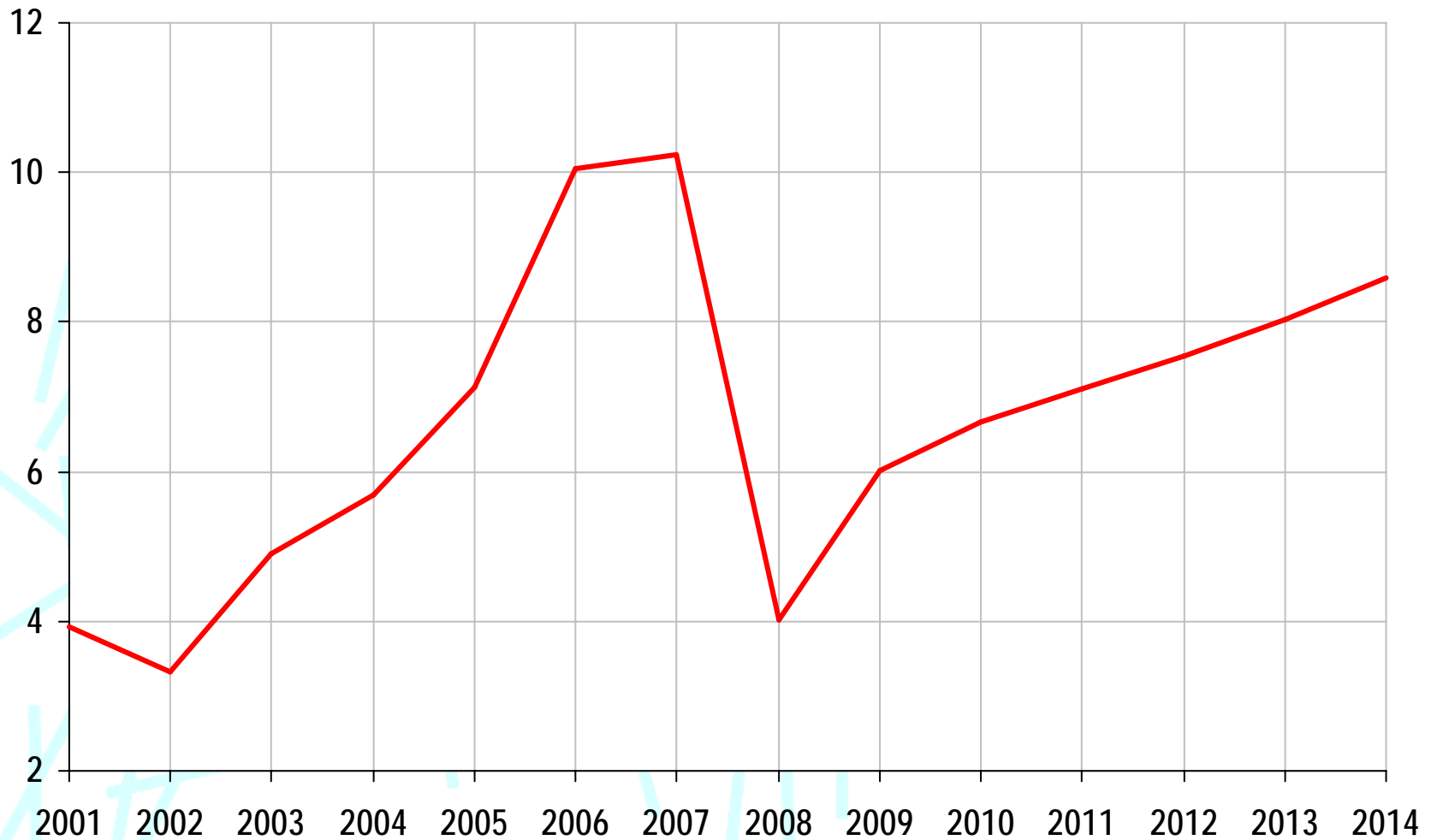
FSA to get powers to 'tear up' bankers' bonus contracts

Bonuses threat 'will damage City'

City's fury at Darling plans to curb banks' bonus culture

An end to the bonus culture?

City bonuses, annual payments, £ billion

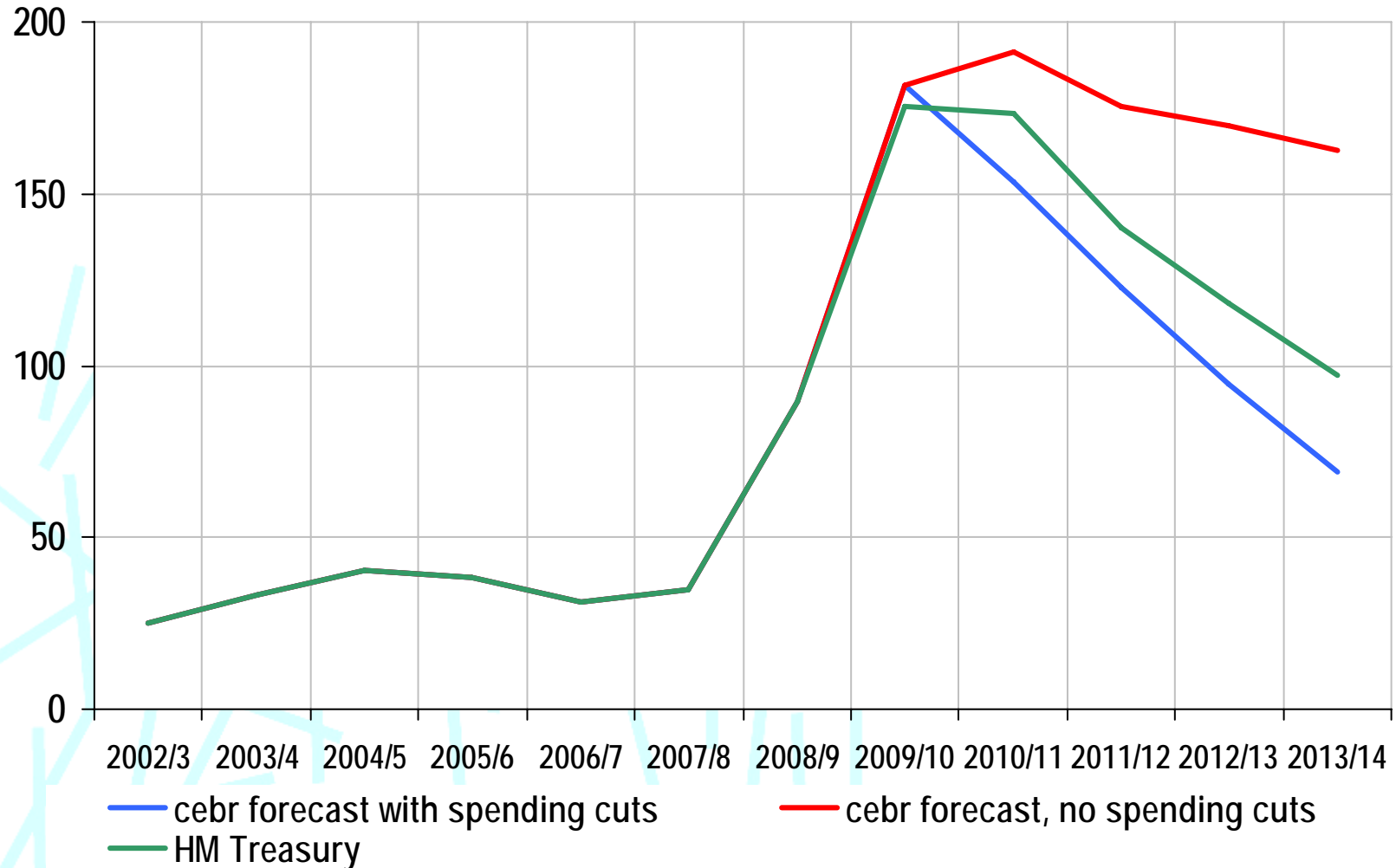


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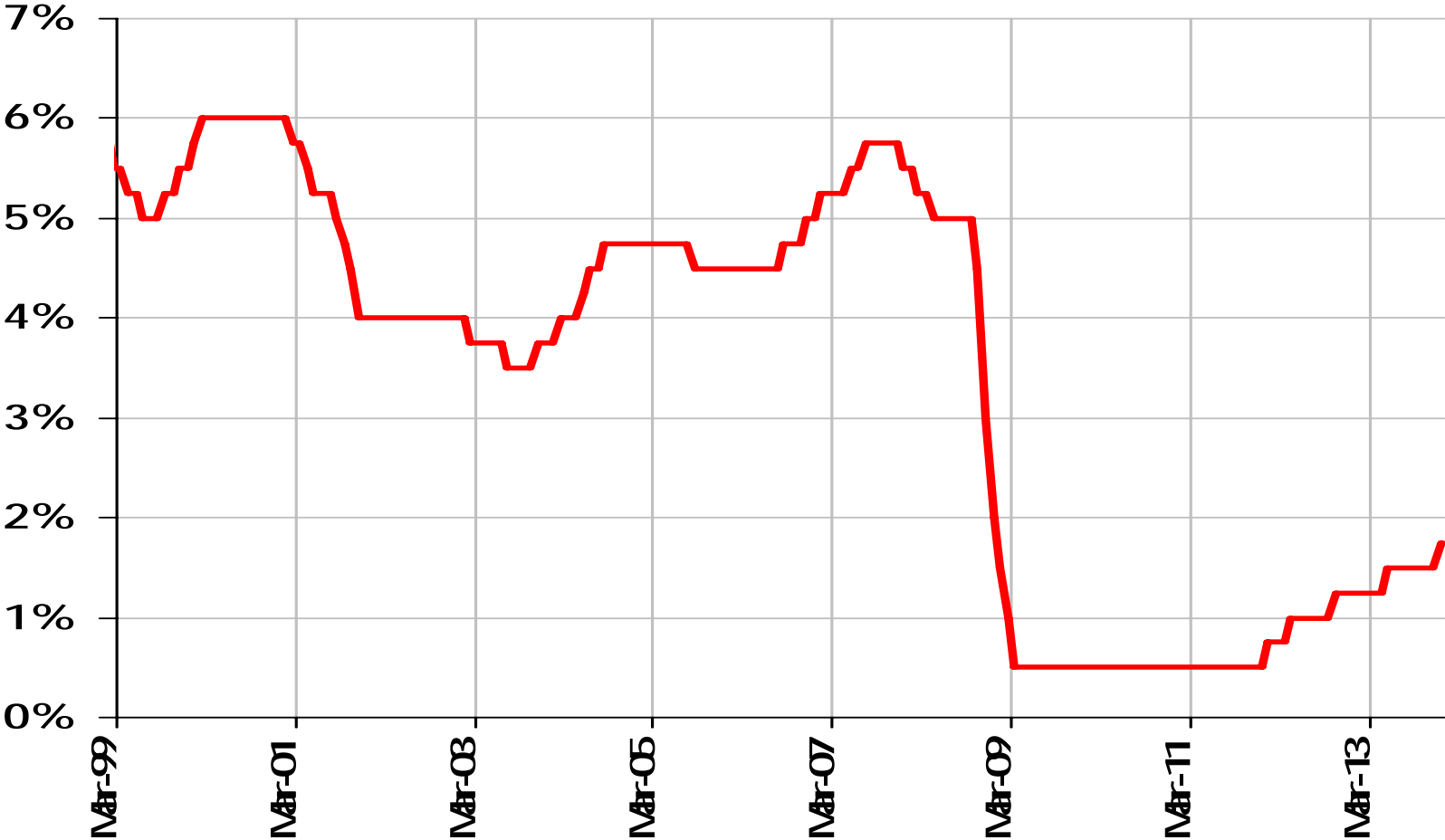
£80-£100bn of fiscal action on the cards

UK public sector net borrowing financial year, £ billion nominal prices



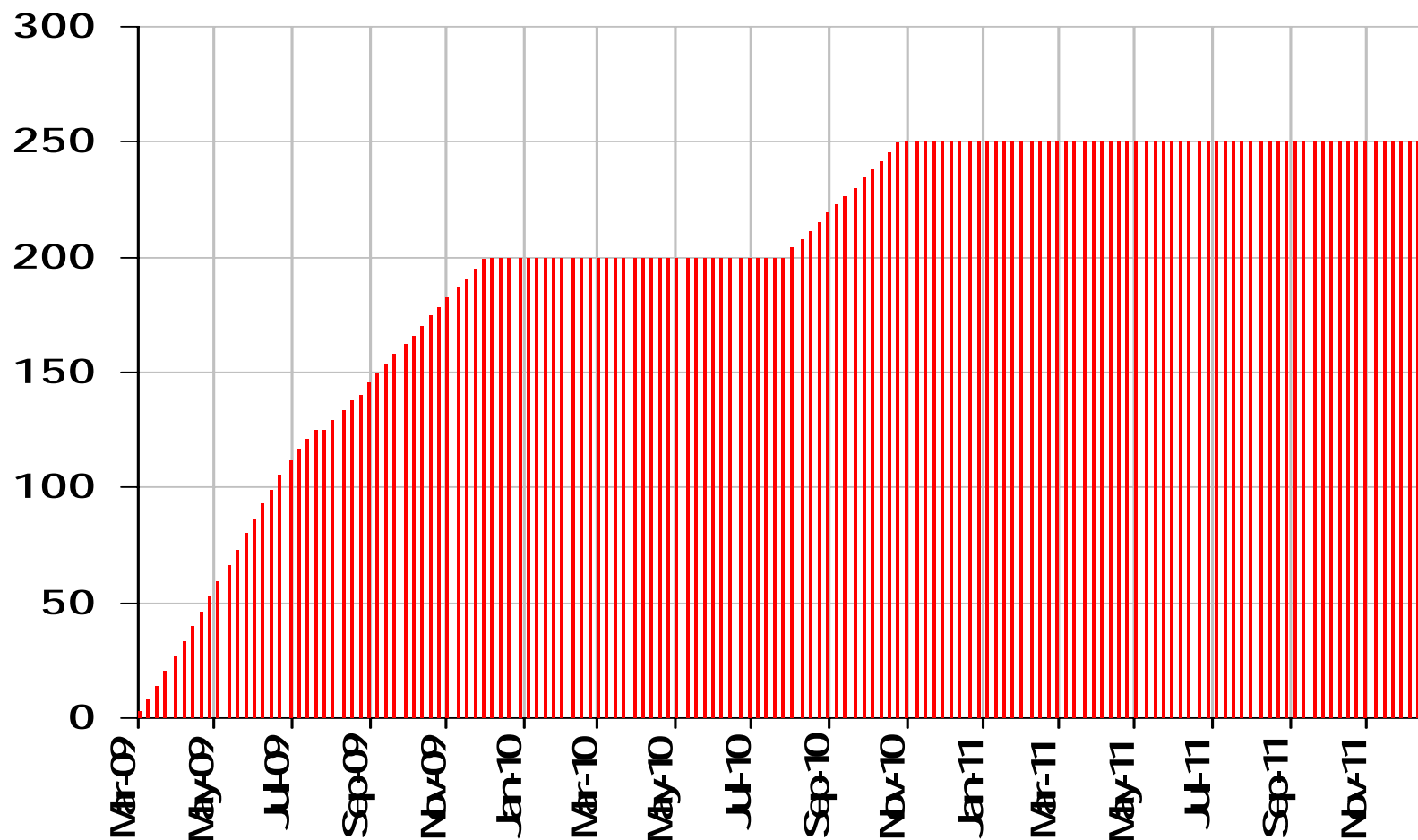
Monetary policy looser for longer as fiscal contraction takes hold

Bank of England base interest rate, percentage



Quantitative easing: more loosening likely to balance fiscal tightening

Bank of England asset purchases, £bn

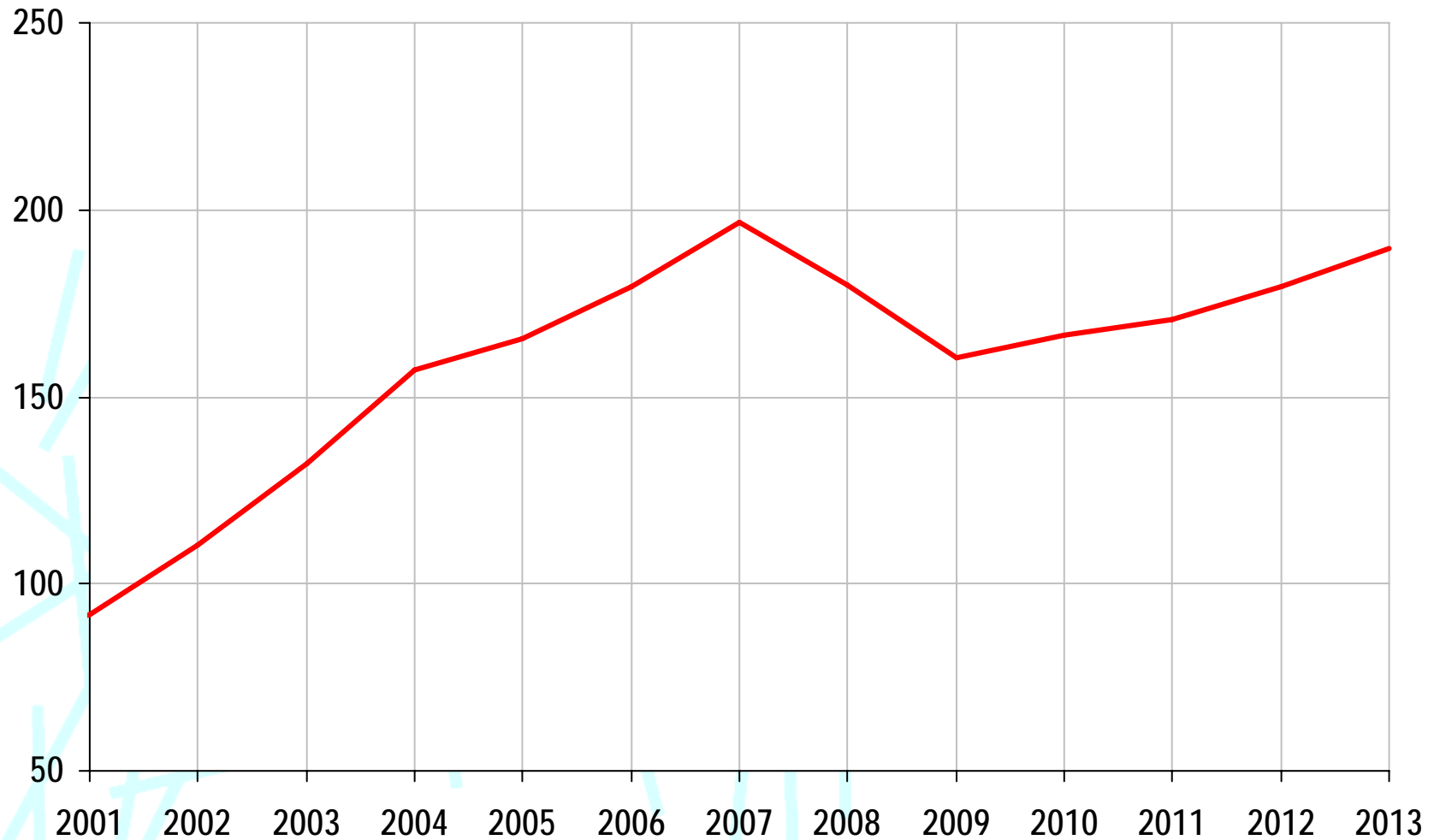


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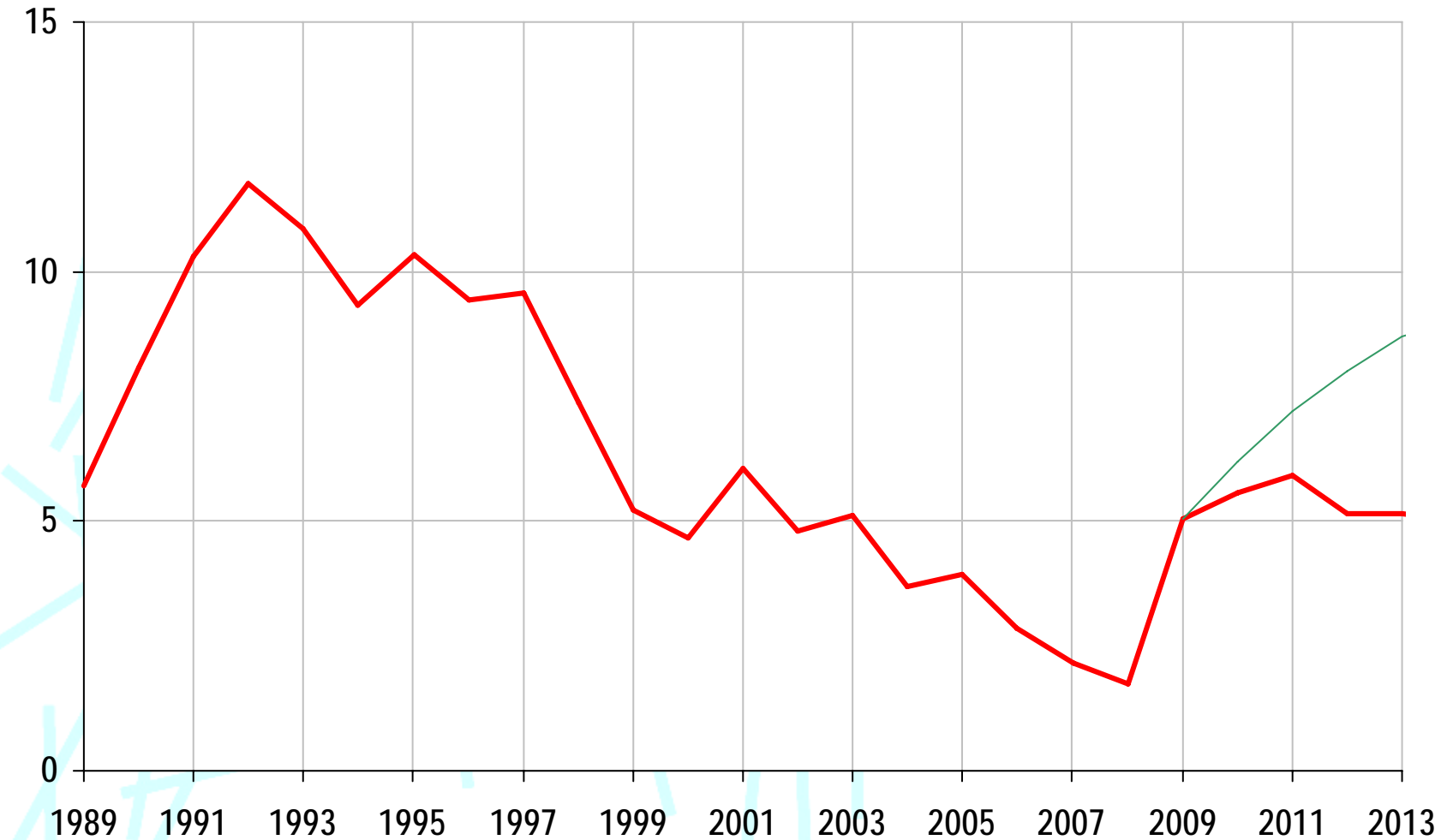
House prices cannot be relied on for retirement funds

Average annual house prices, 1999-2013, £thousands



'Savings' to come back into fashion?

UK Savings ratio, per cent of total household resources

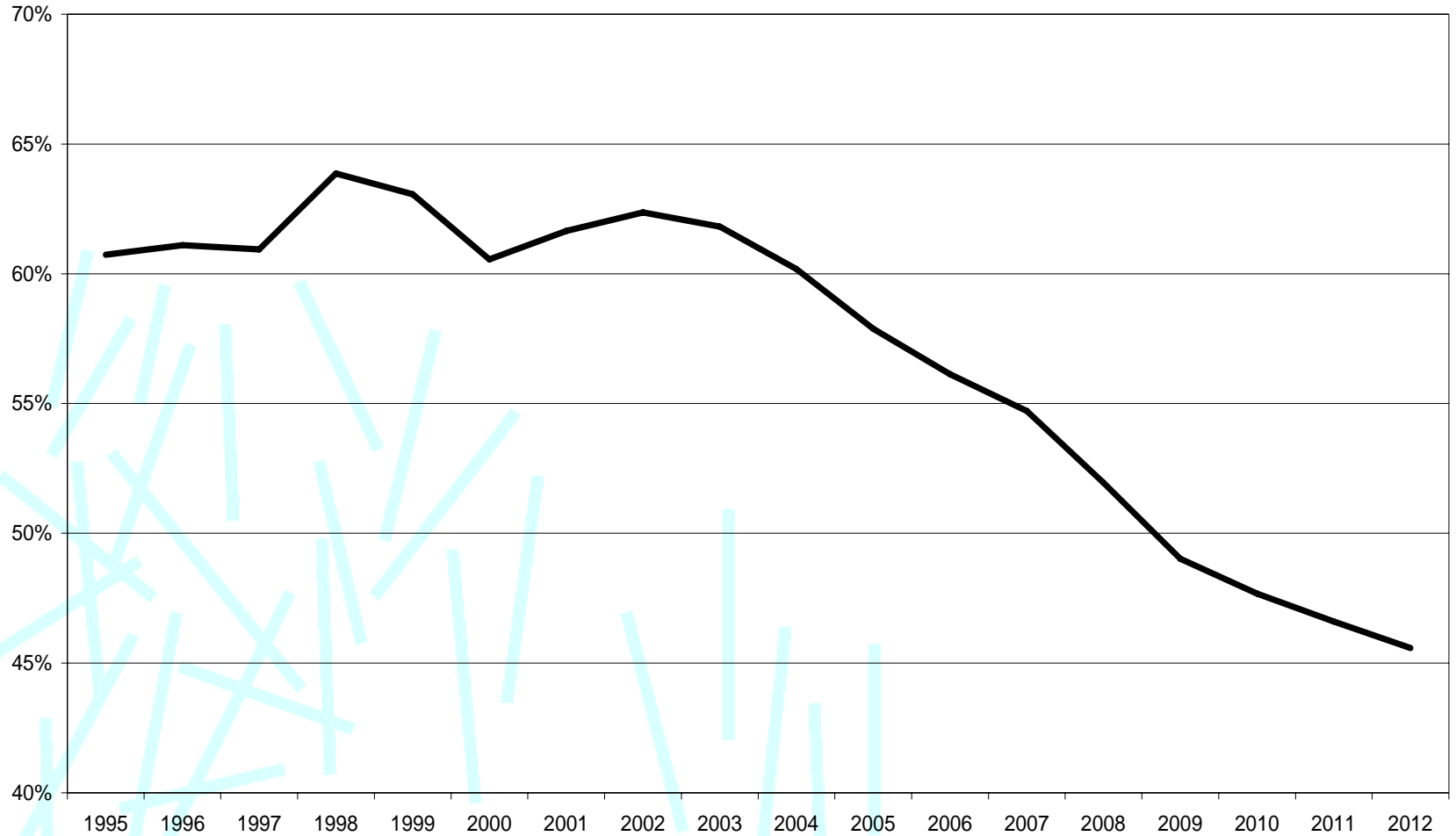


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Credit crunch has hastened shift from West-East

Western world share of world GDP

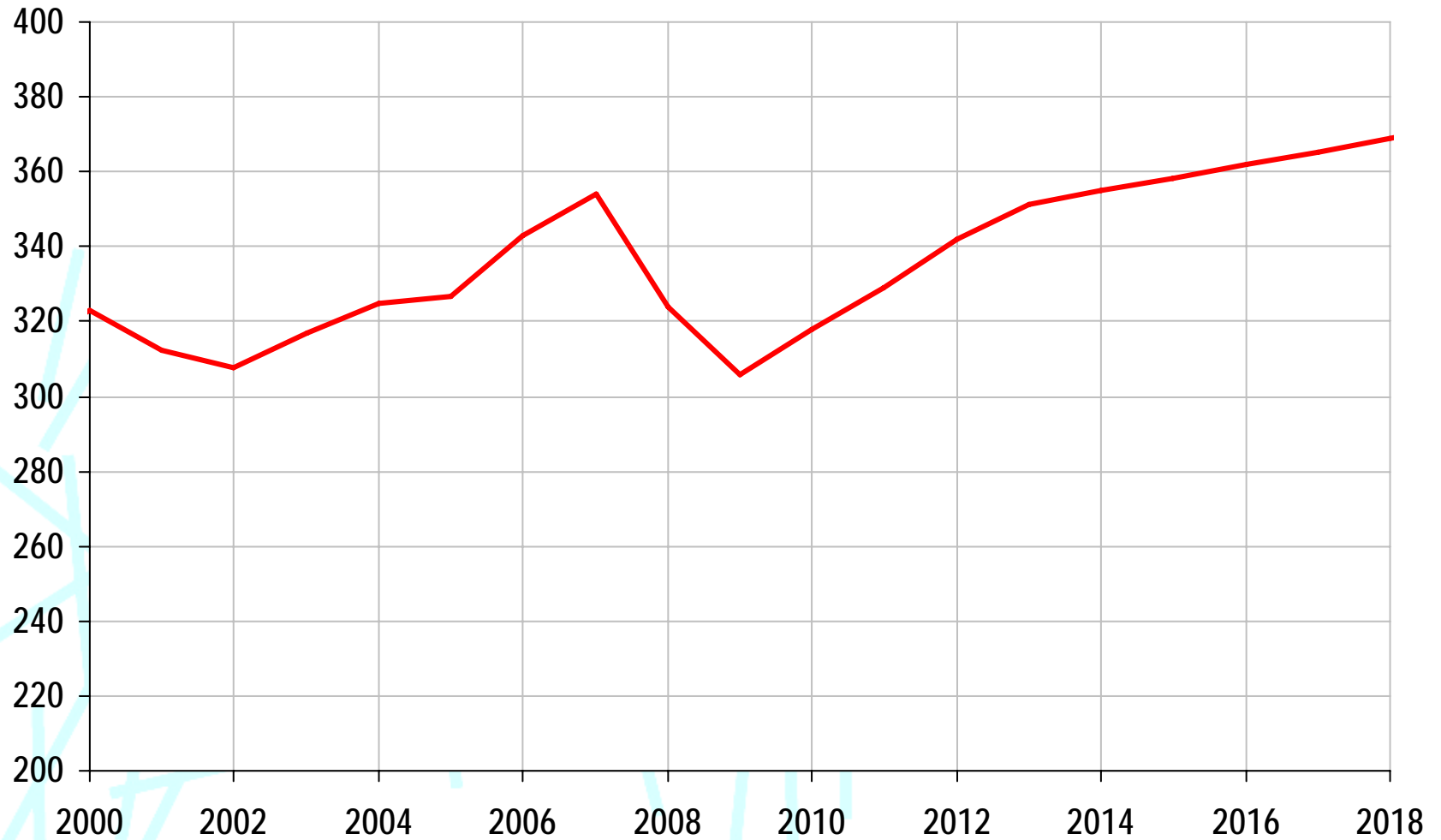


Some activity likely to move East, but big opportunities remain

- Increasing financial expertise within China and India may mean some activities now done in London move to Shanghai and Mumbai
- Western economies shrinking share of World GDP may also push some activities East
- BUT London has significant advantages in timezone, expertise and infrastructure which make it well placed to take advantage
- Huge investment funds require London-type expertise
- Large proportion of commodities / primaries companies are London quoted
- Metals exchange / Baltic exchange
- Likelihood that there will be a massively increased Chinese bank presence based in London within next ten years

City job losses come to an end in 2010 but almost a decade before return to peak

City-type jobs in London, annual average, thousands



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