

thinkpiece

Promoting debate and fresh thinking in the financial services industry

Election 2010 Special: What the parties say

Rt Hon Stephen Timms MP, Mark Hoban MP & Dr Vince Cable MP

Summary

- We have compiled an election special as part of our regular **CII Thinkpiece** series. The three main parties – represented by the **Rt Hon Stephen Timms MP** for Labour, **Mark Hoban MP** for the Conservatives and **Dr Vince Cable MP** for the Liberal Democrats – set out their respective visions for financial services.
- This will be a landmark election for the UK, following on closely from the credit crunch and some really difficult times, both for many parts of the industry and consumers. The key challenges for all parties are: fixing the economy without dropping back into recession; delivering effective regulatory reform; and creating the impetus to restore public trust and confidence so that consumers feel safe in protecting their families, saving for the long term and financing their hopes and dreams.
- As you will see from the contributions, all three politicians take different tacks – and so it is for you to debate and decide who you believe to be on the right path. From the CII's perspective, the key issue is to ensure that the public, and the industry as a whole, can engage in a proper debate over the future of financial services and insurance.

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If you have any questions or comments about this publication, and/or would like to be added to a mailing list to receive new Thinkpieces by email, please contact Daniel Pedley by email: thinkpiece@cii.co.uk or by telephone: 020 7417 4450.

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Rt. Hon. Stephen Timms is the Financial Secretary to the Treasury and Labour MP for East Ham. His ministerial responsibilities include the strategic oversight of the UK tax system as a whole including direct, indirect, business and personal taxation. He became an MP in 1994 and since then has held a number of ministerial posts across Whitehall including education, environment, trade and work and pensions.

CII Introduction: Financial Secretary Stephen Timms considers Labour's response to the financial crisis and looks forward to what his party is doing to secure the recovery.

In the last two years, the world experienced the most severe economic crisis in recent history. It posed a massive threat to the economy, businesses and families.

The UK's response prevented disaster in the UK, and led the response worldwide. Gordon Brown's leadership of the G20 recognised the global nature of the crisis and the need for global solutions.

Financial services were in the eye of this storm. Banks and institutions were threatened. Government action was critical. We could have let the crisis run its course, but instead we acted.

This action saved individual institutions, for example Northern Rock; it addressed instability through the G20; and got credit flowing again through agreements with banks. The system has now stabilised with credit conditions easing and recovering. The number of job losses, repossessions and insolvencies has been much lower than feared just 12 months ago. And no depositor in a UK bank has lost a penny of their retail deposits.

Most economists now agree that these actions saved our financial system from collapse, and averted a severe recession turning into a depression.

Our priority now is to secure the recovery, learn lessons from the crisis and build a more resilient financial system for the future. Properly supervised and regulated, an effective financial system remains the best mechanism for generating and sustaining wealth, jobs and prosperity.

So Labour's Banking Act will enable authorities to deal with failing banks and protect consumers in the future. It will also implement G20 proposals

on governance. By breaking-up the rescued banks we will also create three new banks. This will increase competition, delivering better rates and services.

The Financial Services Act will protect consumers and help rebuild trust. It will strengthen regulation, create a new body to manage risk and give the FSA powers on banking remuneration.

While it was right to support the banks and protect the public, the insurance sector fared better than most. The Insurance Industry Working Group's joint vision of July 09 must now build on this record to secure Britain's place as the world's leading insurance centre.

This vision for greater consumer confidence, customer engagement and financial education is one that Labour supports. It reflects a strong industry – and strengthens the resilience of the economy – if every citizen can access insurance services that suit their needs.

The insurance industry is vital to the UK economy, employing around a third of all people in financial services and managing almost £1.5 trillion in assets. But it does much more than this. It also provides the security that businesses and individuals will need as the economy returns to growth.

So Labour will continue to support this industry and all UK business. That's why we've cut regulatory burdens by 25% by May 2010 (worth £3.3bn) and extend this through 2010-2015 (a further £6.5bn of savings). I also reaffirm our commitment to maintain the most competitive Corporation Tax rate among the G7 economies.

We have established impressive momentum. Let's continue to work together to build on the progress so far.

Rt. Hon. Stephen Timms MP



Mark Hoban is Shadow Financial Secretary and is the Shadow Treasury team's spokesman on insurance. This is a position he has held since 2005. He is also MP for Fareham, being elected to Parliament at the 2001 election. Prior to becoming an MP Mr Hoban worked for PWC and is a chartered accountant.

Mr Hoban's comments are drawn from previously published interviews and approved by the Conservative Party Press Office.

CII Introduction: In his contribution to the CII Election 2010 Thinkpiece, Mark Hoban, the Conservative Shadow Financial Secretary to the Treasury, provides details on his party's plans for regulatory reform, the insurance industry and consumers.

On plans for regulatory reform...

We've looked very carefully at the causes of the financial crisis we are in the process of going through and the regulatory structure that Gordon Brown introduced in 1997 appears to be deeply flawed.

Back then you had the Bank of England, which used to have responsibility for monitoring levels of credit in the economy but lost that as a consequence of the banking reforms. Then the FSA had responsibility for supervision of the banking sector, and did not really look to see what the risks were that were emerging. Additionally the FSA has a dual mandate; it has a mandate around prudential supervision but also conduct of business. In the run up to the financial crisis, the FSA focused more on conduct of business than prudential supervision.

We need to make sure there is very clear responsibility and that the right people have the right power to tackle issues as they emerge and ensure there is a focus on that issue. It seems right, on that basis, to give the Bank of England responsibility for macro and micro prudential supervision so it can focus on those prudential risks. Then we are creating a new consumer protection body, the Consumer Protection Agency (CPA), which will deal with conduct risks. So, we won't go back to this same situation again.

We need quite a nimble regulator and principles can work well but a proper detailed rule book risks becoming very much a tick-box approach. We want regulators to exercise more judgement and more discretion rather than simply putting out a check list

On the insurance industry...

Insurers went through their own solvency issues in the early part of the last decade so we know there are important risks that we need to address. We

need to make sure there are dedicated resources to the supervision of insurers and that those resources are not just for day-to-day supervision but also policy, so that we continue the debates around Solvency II.

Insurers shouldn't feel overlooked but obviously the main problems in the financial crisis did stem from the banking sector rather than them. Insurers are a hugely important part of the economy, as is the strength of London's global financial sector, so I don't think anyone can ever afford to overlook them. There should be a proper partnership between the insurance sector and government and, as part of that partnership, there needs to be proper dialogue. We would welcome ideas from the insurance sector about what reforms should be put in place — whether it is about tax systems, regulatory issues or around products.

On consumers...

The irony about the FSA's focus on conduct of business is that, if you talk to consumers or consumer bodies, there is a sense the FSA could have done better when it came to conduct issues. One evident example is payment protection insurance. This is a problem that has been on the FSA's agenda for some time and yet it has reached the point where half a million pounds of compensation payments have been paid.

The role of the CPA is to be much more proactive and deal with issues for consumers, in the same way that the Bank of England will be more proactive when it comes to prudential issues. This is why our reforms aren't just about structure; they are also about the approach to regulation as well.

We need to rebuild consumers' confidence in the sector and I think a proactive consumer champion as regulator will help do that. There is a win-win here. If consumers feel happy doing business with insurers in a well-regulated market, consumers will feel they are better protected and insurers win because there is more business for them.

Mark Hoban MP



Dr Vince Cable MP is the Liberal Democrat Deputy Leader and Shadow Chancellor. He is also the MP for Twickenham and has been since the 1997 election. Following the resignation of Sir Menzies Campbell, Dr Cable was the interim leader of the party. He has a PhD in economics and was Chief Economist of Shell between 1995 and 1997.

Dr Cable's comments are drawn from previously published article and approved by the Liberal Democrat Press Office.

CII Introduction: Vince Cable talks about how he would reform the banking system and touches on the big issues of too big to fail, bonuses and a modern Glass-Steagall.

Over the past decade, I have said some harsh things about the banks. Some lent irresponsibly fuelling the property bubble. Demutualisation of building societies was a bad move. But the Liberal Democrats are not anti bank or anti banker – we recognise that some have emerged with credit from this crisis and that banks have a key role to play in the economy. In a recent speech, I set out our plan for the banking sector and where I, as Chancellor of the Exchequer, would go from here.

Evidence from the Bank of England and the Institute of Directors shows that banks are not lending to good, solvent British small and medium sized companies and that there has been a sharp rise in the cost of lending. Banks have lurched from recklessness to extreme conservatism and as a result business is being starved of capital.

What is needed is a fresh mandate for the nationalised and semi nationalised banks which are failing to fulfil their legally binding lending obligations at present. This would be my day one, hour one objective as Chancellor. I would insist that the banks support the economic recovery by ensuring that viable businesses are not starved of capital. The lending agreements have to be more concrete, long term and better policed. Put simply: RBS and Lloyds are key to supporting the British economy.

Then there is the issue of banks that are too big to fail. The Governor of the Bank of England has repeatedly warned that banks that are too big to fail are too big. The Liberal Democrats are committed to splitting up the banks. But we have an open mind on the mechanisms involved. For existing publicly owned institutions, RBS especially and Lloyds, they should be broken up before they are returned to private ownership.

Breaking up the existing big banks removes large scale systemic risk; banks become small enough to fail; and more competition is restored. One version of this argument is that investment banks should be split off from what is called 'utility' banking: a modern version of Glass-Steagall. President Obama is pressing ahead in the US. It is time to do the same here in the UK. The priority must and should be to make the UK safe. And if necessary that means proceeding unilaterally. The essential point is that,

within a realistic time frame, the British taxpayer has to be totally disengaged from the risks involved in global investment banking. Until the process of reaking up the banks is complete, the Liberal Democrats believe that banks should pay an insurance premium – in the form of a 10% levy on profits for registered banks in the UK (excluding mutuals).

Just as politicians were very slow to grasp the public reaction to duck islands, moats and house 'flipping', the financial community has been extraordinarily obtuse in failing to appreciate why the public is so angry about bankers' bonuses. Many seem to have forgotten that they were bailed out by the taxpayer and would be without a job were it not for the outlay of this public money.

The basic point is that there should be no cash bonuses. If there are bonuses – and we should work towards an environment where there is less of a bonus culture – they should be paid in shares redeemable after several years so as to avoid reckless risk taking. The Liberal Democrats believe that the FSA should make publicly available the outcome of assessments made of banks' remuneration policies. Increasing capital requirements could be one tool to enforce this but a fine would send a more powerful message and would provide greater transparency. It should start with the big institutions, which incubate systemic risk, not the small fry.

It is impossible to see how large bonuses can be justified for senior executives in the public sector banks, when their banks are losing money, depend on the taxpayer and are failing to meet their legally binding lending agreements. We should follow the Swedish example and attempt to eliminate them altogether. All highly paid staff in regulated institutions with a compensation package in excess of the Prime Minister's £200,000 should also publish details of their remuneration. They would also have to declare whether they are normally resident and domiciled in the UK for tax purposes.

The financial services industry is an important feature of the UK economy. The City is at the heart of it. But the financial crisis must make us look critically at its contribution. There are considerable benefits, but, as we have now discovered, major systemic risks which can spill over into the rest of the economy. It is the job of policy makers, and specifically regulation, to cut the risks relative to the benefits. And the Liberal Democrats are committed to doing so.

Dr Vince Cable MP