

Can less ever be more?

Most people are aware of how strong the banking and financial sector is within the UK economy as it has a global reputation throughout the world.

What is concerning to me as a corporate finance lawyer is the proposal currently being discussed in the US regarding a move away from international banking regulations and treaties which could have ripples wider than the US.

One thing everybody has learnt since the financial crisis caused by Lehman Brothers is that there is a risk of financial contagion when large financial institutions get into trouble given their global reach. Currently, there are issues with Italian banks which has resulted in Germany continuing to throw money at a legacy problem still not fixed.

The requirement for banks to have stronger balance sheets to avoid such contagion and large scale catastrophes is something everybody is now familiar with. As part of the new order banks have also started ring fencing riskier aspects of their banking business such as investment banking. These aspects are kept away from their traditional banking so consumers are better protected in theory.

I do see that there is an argument when people say that all this regulation has made it harder for consumers and businesses to borrow. Surely, is not a bad thing as implementing stronger procedures / checks in respect of lending criteria can help avoid bad debts and reckless borrowing by weeding out irresponsible borrowers.

As for businesses so many business clients I deal with borrow when they need to for investment purposes but even then they like to ensure they have a comfort blanket of sufficient cash reserves to avoid the unforeseen.

It is important to learn from historical lessons and recognise that these international banking regulations have helped create a level playing field globally when it comes to international banking so in my view this is something we should not move away from lightly.

I hope the UK does not go down the route of the light touch approach to encourage banks to stay in the UK. There is talk even of making the UK, Europe's new tax haven post Brexit. When looking back even further in history one can see how in the 1980s Japanese banks did not carry sufficient capital to protect against their riskier investments which caused a crisis at that time and this is history we do not want repeated in UK banks.

On most things I am a firm believer that less is more when it comes to regulation but what the last few years have taught me since the financial crisis is that when it comes to capital for any business owner the opposite is true therefore this principle should extend to our banking system.