

Baroness Jo Valentine's speech in the Lords financial services debate

23 February 2010

My Lords, I declare an interest as the chief executive of London First, a not-for-profit business membership organisation whose mission is to make London the best city in the world in which to do business. My perspective today is not that of the financial services sector alone, but that of business in general. This is the third piece of legislation introduced by the Government in response to the credit crunch, but it is right that this ground should be thoroughly tilled.

As other noble Lords have noted, the financial services sector is vital to the UK economy. At around 8 per cent of GDP, according to PricewaterhouseCoopers it contributed over £24 billion in corporation and payroll taxes to the Exchequer in 2008. The sector supports 300,000 jobs in the capital and underpins 700,000 sought-after jobs elsewhere in the UK. The City is the most international of the world's leading financial centres. Many globally mobile businesses and individuals choose London. Their taxes help to fund our public services. Those businesses do not need to be here but they choose to be, partly because of London's wider attractions but also because of our historic strengths in the sector.

In his 2009 report for the London mayor, Bob Wigley listed our strengths: a deep talent pool, world-class support services underpinned by a stable legal framework and, at least until recently, a predictable and competitive tax and regulatory regime. To surrender or dilute these strengths would be an act of self-harm that would embolden our rivals and undermine our economic prospects. Therefore, as I see it, the criterion against which this Bill should be judged is whether it will nurture a sustainable financial services community in an increasingly competitive world and, as a prerequisite to that, whether we can rebuild a valued and trusted financial community.

The G20 communiqué last April noted:

"Major failures in the financial sector and in financial regulation and supervision were fundamental causes of the crisis. Confidence will not be restored until we rebuild trust in our financial system".

Trust is fragile; it is much easier to lose than to acquire. The City's reputation clearly has suffered both globally within the industry and locally among the British public. There is little that we can do by legislative decree to restore trust. The banks must acknowledge that their public image has been damaged by aspects of the behaviour of some and they must be seen to put their own houses in order. What we can do is address shortcomings in Britain's regulatory framework so as to underpin both trust and competitiveness.

When reviewing the Bill's specific provisions, I start with the perhaps counterintuitive thought that tough regulation can be a source of competitive advantage. Rules that are effective and consistently enforced make Britain a safe and attractive destination for global business. I welcome in Clause 1 the creation of the Council for Financial Stability to deal with cracks in the tripartite structure and I can see the arguments for more radical change that noble Lords on the opposition Benches have set out. However, in this debate on the structure of regulation, I would also emphasise the importance of calibre and conduct. As the fallout from the credit crunch made all too clear, we need more experienced and, dare I say, possibly better-paid regulators who have the wisdom and discretion to enforce the legislation that we enact and the codes and rules that flow from it.

I also welcome the duty in Clause 8 for the FSA to promote international regulation and supervision in support of financial stability. It is important that our agencies contribute to the search for international common ground. As a key player, we can provide insight and leadership, but in pursuing more effective regulation we should be like a pacesetter, not a runaway leader. We must not get too far ahead of the pack. We need to find the balance between leadership and imposing too many costs, especially unforeseen costs, on our financial sector versus others.

I understand the Government's concerns over pay. There has been public outrage at the bonus policy of some banks whose survival has been the result of public support. However, progress has been made. Banks will adhere to the FSA's code of practice on remuneration and, I understand, have agreed to meet the Pittsburgh principles and to support in principle the Walker review's recommendations both on corporate governance and on pay disclosure. However, I fear that the proposals in Clause 9 go too far. Giving the FSA powers to override freely negotiated contractual arrangements fundamentally undermines transparency, certainty and predictability, which are the gold standard of good regulation.

Similarly, I understand the ambitions for recovery and resolution plans, the so-called "living wills", in Clause 12. However, what is appealing theory is often poor practice and I fear that we are moving too far, too fast. There is no international agreement on how these plans should work or any clarity as to what a British model would look like, yet the FSA will be subject to statutory obligations. I ask the Minister whether it would be better if we waited for a workable template that could be promoted by the FSA under Clause 8 before we move forward.

Surely we should be wary of saddling ourselves for all time with overengineered solutions to an extraordinary shock, the fallout from which remains unclear. Ten years from now, in a post-credit crunch era, when trust is restored and international conditions more certain, hindsight will probably tell us that we overegged here or inappropriately egged there. Sir Hugh Casson once said:

"The British love permanence more than they love beauty".

Let us seek the beauty of efficacy rather than the ugliness of permanence. Will the Minister consider adding a sunset clause to those provisions that radically increase the powers of the regulator so that Government and Parliament can actively reconsider their salience in a few years' time?

Sir Win Bischoff, in his report to the Chancellor last year, argued that for Britain the future is about partnership between the financial services sector and the wider economy, as well as the partnership between the UK and the financial centres of the emerging economies. The other partnership required is between Parliament, Government and the sector. We need to move on from bashing the banks and start focusing on how they can continue to be a strong source of competitive advantage for Britain.