

# A year of hurt

**ANGELA KNIGHT**, CEO OF THE BRITISH BANKERS' ASSOCIATION, LOOKED AT HOW THE BANKS AND AUTHORITIES DEALT WITH THE ECONOMICALLY TURBULENT LAST YEAR AND HOW WE CAN STILL REMAIN OPTIMISTIC.



Angela Knight: an interesting year

## Executive summary

■ Widespread panic, in fact, almost virtual hysteria was seen across the UK in September 2007 when it was officially announced that Northern Rock was in serious trouble. For months, the FSA despite its regulatory powers, sat back and watched, according to some commentators. In sharp contrast, the plight of Bear Stearns in the US was dealt with swiftly by the regulators. Jennifer Carruth reports from the ACT Annual Conference.

It has been an interesting year for the banking industry, to say the least, and who better to sum it up than Angela Knight CBE, CEO of the British Bankers' Association (BBA). After joining the BBA on 1 April 2007, Knight said that the following 12 months could be regarded as a long practical joke, as far as banks and the banking industry were concerned, having become front page news virtually every day.

**THE BRITISH VALUE** British banking has come to be regarded internationally as one of the biggest and best sectors to emerge from the UK and is one of the few great industries left in Britain. Holding a quarter of Europe's banking assets, the UK has the largest international banking centre in the world, and this, says Knight, is because: "We do things rather well."

All this underlines the importance of the financial services sector to the UK economy. But, many may think the reputation of the industry has suffered after the turbulent times surrounding the credit crunch, the sub-prime mortgage debacle, which spread from the US, and the disaster of Northern Rock. While management within the banking sector must take responsibility for these events, other bodies – including regulators – must share some of the responsibility as well.

**RULES AND REGULATIONS** Knight told the ACT's Annual Conference delegates that the Financial Services Authority (FSA) could be accused of having failed in its regulatory duty, by standing to one side while Northern Rock's problems were allowed to escalate over a period of time. Knight went on to suggest that part of the reason for having rules and regulations is so the relevant authorities can intervene at an early stage.

However, Knight did applaud the publication of the FSA's report into Northern Rock which showed there had been insufficient supervision.

The average number of visits by the FSA to banks between 2004 and 2007 was 74, while smaller banks had an average of 54 visits. Northern Rock, on the other hand, had only received eight supervisory visits.

While responsibility cannot be taken away from Northern Rock's management, Knight says that it is quite clear that: "Our authorities let us down."

**THE OPENNESS OF UK AUTHORITIES** However, when problems such as these arise, the key question is how the authorities react. Knight said it was enormously important that the Bank of England had begun working with the Federal Reserve and the European Central Bank (ECB). Global money markets are "one", so it is important that the reactions of the regulators are co-ordinated accordingly.

**DEALING WITH THE CONSEQUENCES** The answer, according to Knight, is not a knee jerk reaction comprising of yet more supervision, rather, what should be implemented is the right sort of supervision.

She contrasted the UK response to Northern Rock with the way the US authorities dealt with Bear Stearns. The matter was swiftly dealt with over one weekend, compared to the dithering (over several months) that took place in the UK over the fate of Northern Rock. The quick response in the US ensured relative calm returned and panic was averted.

Authorities need to try and avoid panic. She said: "The Bear Stearns episode tells us a lot about moving quickly and putting solutions in place."

In the case of Northern Rock, a leak resulted in customers trying to use the internet to move their money out of the bank. By the time the formal statement was made on 14 September 2007 by the FSA and the Bank of England, panic was already widespread and queues outside Northern Rock branches across the UK became a daily news item.

Knight continued: "I do not remove responsibility from the Northern Rock management but I do think that our authorities let us down."

**PROTECTING THE FUTURE** Knight warned against making significant changes too quickly, however, because that could result in inadequate or inappropriate solutions being implemented. It remains to be seen whether any country, or region, can take steps on its own to solve the present crisis. The solution to a global problem may be for all authorities across the globe to act together.

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# World dynamics

**JAMES WOLFENSOHN** FORMER PRESIDENT, WORLD BANK, AND SENIOR ADVISER TO CITI, PAINTED A PICTURE OF HOW THE WORLD COULD BE BY THE MIDDLE OF THE 21ST CENTURY. PETER WILLIAMS REPORTS.

Countries are going to have to prepare for a new world order. James Wolfensohn pointed out that sometime between 2030 and 2040 five of the seven current G7 countries would not be members of the club for the world's biggest economies.

The only existing members to be invited would be the US and Japan. Bye, bye Germany, the UK, France, Italy and Canada. At some point in the early decades of the 21st century China will rank as the world's largest economy, US number two, India number three, Japan number four and behind them countries like Brazil. Wolfensohn said that it was projected that Vietnam would be number 10 in the world economic rankings. He said: "These are not whimsical numbers. They represent a huge change in the way that people of my generation thinks of the world."

**A NEED FOR GLOBAL ACTION** Wolfensohn was suggesting that countries, such as the UK, need to think and act more globally. He cited, as an example, the number of students from China who are currently studying in the UK; 80,000 of them and 25,000 from India. In contrast UK and US students show little enthusiasm to study in Asia. Those who study abroad are more likely to look to Europe.

He described as "tectonic" the shifts that are going to take place in India and China over the next decades, shifts which Europe and the US are struggling to appreciate.

He said: "We should think a little bit more, but not in the short term. We need to think of the fundamental shifts in the way in which our planet is developing and prepare ourselves for that change in case our lunch is eaten some decades from now."

**THE STARK REALITY** He predicted that by 2050 the world will still be beset by problems of poverty: more than two billion poor people will be living in Africa, where economic growth will still be miniscule at around 1% a year. In contrast leader countries such as the US will see GDP grow from around \$40,000 per capita today to around \$100,000.

China and India will also see their per capita growth rise sharply although not to the extent of Europe or the US – perhaps to around \$30,000 and \$23,000. Those figures stand in sharp contrast to Africa where per capita income is predicted to be \$2,600.

The question for Wolfensohn which emerges from these figures is this: Can we have a situation of nine billion people on the planet and two billion or so living on so little?

In this world those poorest people will not be devoid of information. Even today across the world there are people in Africa with every sort of communication device. Mass communication is bound to grow. It is no longer an ignorant world, it will be a world where the poor will be informed about the huge differences.

Wolfensohn said: "It will be a world of difference which, I dare say, people of malice will seek to take advantage of by stirring things up." The poverty crisis is already upon us with the World Bank, in April, calling for an immediate \$500m of food aid to help an estimated 100 million people who are being pushed deeper into poverty by spiralling food prices. As Wolfensohn noted: "Not a trivial number."



Wolfensohn: the global view

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- By 2050 the world will still be beset by problems of poverty; more than two billion poor people will be living in Africa. However, in contrast, leader countries will see GDP grow. There are people in Africa today with every sort of communication device and mass communication is bound to grow. It is no longer an ignorant world, and it will be a world where the poor will be informed about the huge differences.

**IMMEDIATE ISSUES** In the past 12 months the prices of rice and wheat have doubled as a result of a number of factors including increased demand for food per se, and the high price of energy which is encouraging the use of foodstuffs for the production of energy. The world has seen a decrease in the productivity of agriculture partly as a result of climate change. Wolfensohn pointed to his homeland of Australia where in the Northern Territories years ago rice was at one time grown over huge areas and was highly productive. The industry has gone due to a lack of rain for five years. Climate change is now showing a colossal impact on the growing of food and our economics.

Wolfensohn acknowledged the ACT Annual Conference was much concerned with more immediate issues. He said: "The truth is these underlying issues are not issues that are just of interest for people who are interested in development. They affect hugely the stability of the planet which we share."

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