The Cause and Effect of the Vickers Report

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- Caused by a number of popular misconceptions.
- The effect will be greater inefficiency/cost with little, or no, gain in safety.

Misconceptions

Bail-out was a misuse of taxpayer funds to benefit of rich bankers. → Limit as far as possible.
(NB: Bankers' renumeration indefensible).

Simple banking (Capt Mainwaring) became corrupted by self-seeking immoral investment bankers (Gordon Gekko) → separate and protect retail banks, and leave investment banks to fend for themselves, (NB: But London).

Great Financial Crash caused by investment banker punting on toxic derivatives.

Problems of Vickers

GFC, like most other post WWII financial crises, caused by interaction of housing boom and bank credit expansion.

This, i.e. housing finance, now will be concentrated in retail banks.

Investment banks will be stripped of backing of sticky retail deposits. Net stable funding ratio. Lloyds, HSBC, Santander, unaffected. RBS, Barclays? Will UK have any investment banks left? What will happen to investment banking? Capital markets and liquidity?

Costs and Inefficiencies

Universal banking, and limited liability in banking, adopted in late 19th Century to provide combined banking and capital-market-related services to large clients, often with cross-border activities, both public and private. Started in Continental Europe and Japan, (least in UK/USA).

Formal separation will *not* happen elsewhere. Will raise both transactions complexity and capital market costs, in both primary and secondary markets, in UK, and, though to a lesser degree in cross-border activities.

Cannot now be stopped since adopted by Government. But if it should prove too expensive, and/or not helpful in crises, may get repealed, but not for a decade, or more. (NB: Popular misconceptions can remain adhesive.)