"CULTURE AND BANKING STANDARDS"

Inaugural lecture by

SIR RICHARD LAMBERT

WEDNESDAY 14 MAY 2014

COMMITTEE ROOM 10. HOUSE OF COMMONS, LONDON SW1A 0AA

Chaired by: LORD McFALL OF ALCLUITH

THE CHAIRMAN:

Colleagues and friends, welcome to this inaugural meeting of the New City Agenda Think-Tank. New City Agenda was established by David Davis MP, Lord Sharkey and myself following the recommendations of the Parliamentary Commission on Banking Standards upon which I sat. It is here to take forward its work and its recommendations, but it will also embrace the whole of financial services and, quite simply, the aim will be to produce a stable, prosperous financial services sector serving the needs of customers, industry and society.

What has impressed us is the need to bring politicians and practitioners and civic society together to ensure the best outcome for society. We need to ensure a common understanding of the issues and provide legislation which is appropriate, measured and has enduring applicability. Some of the legislation that we have passed in the recent past has not had those particular characteristics.

As I mentioned, David Davis, John Sharkey and myself were the founding members but we also have an Advisory Board. I see Father Christopher Jamison, who is a member of the Advisory Board, and Philip Augar and Dianne Hayter. I do not think I see any of the others here at the moment. We have representatives from the political environment and the civic environment on that Board.

I have mentioned David Davis. When I was chairing the Treasury Committee, I decided to establish a civic body to look at banking and David Davis kindly agreed to chair it. That was the Future of Banking Commission upon which Father Christopher and others sat. That civic engagement led to the Government in June 2010 establishing the Vickers Commission. The Vickers Commission led to the Parliamentary Commission on Banking Standards and the Parliamentary Commission on Banking Standards' recommendations led directly to Sir Richard being commissioned to look at the future of culture and standards in banking.

Quite frankly, as a Commission, our conclusion was quite simple: we found a culture which was rotten and standards which are intolerably low. Therefore, it is very important and I think appropriate that the first theme of New City Agenda will be looking at culture and standards, but it will be looking at culture in a wider sense, not just the culture in banking. Already we have a

number of speakers lined up to look at culture in their industries. Gus O'Donnell, for example, former Head of the Civil Service, is coming along to give us his views on government, and Ian Blair, the former Commissioner of the Metropolitan Police, has agreed to come along, and Tony Hall from the BBC is coming along to speak to that issue.

As I mentioned, the recommendations of the Parliamentary Commission on Banking Standards have led to Sir Richard and his report. He has had an arduous time over the past few months and my successor as Chairman of the Treasury Select Committee, I would say, maybe is not as kind as me when, Sir Richard was given the task, he said to him, "You're too old. You'll be dead by the time there's any change. You're like Moses: you will never get to the Promised Land!" Sir Richard, you are here today not to take us to the Promised Land, but to set out the way forward. Thank you. (Applause)

SIR RICHARD LAMBERT:

Of course you are right, Moses did not make it, but they built a church for him!

I would like to address two questions in my talk today. The first is: why are the culture and standards of banks the way they are? I think only when you have thought about that a bit can you get on to the second question which is: what, if anything, do we need to do about it?

I will start with a bit of history, nervously as well because I see Philip Augar over there who has written a book on this, and, if you have not read it, you should. I will start with a bit of history all the same. Back in the 1970s, when I was starting off as financial reporter, there were essentially two types of people working in banks. There were chaps - they were mainly chaps - who had left school at 16 and started life behind the counter or in the clerical department of the regional or national office, and there were toffs, who populated the board rooms of the clearing banks and City firms. If they wanted to progress in their career, the chaps took banking exams to secure their promotion, steadily building their CVs over the long haul, usually working for the same institutions. The toffs, by and large, relied more on their networks of connections. Some of them were brainy - firms like Warburg's were notorious in that respect - but the City was absolutely not a magnet for the nation's most brilliant graduates.

MBAs were beginning to make a mark in Wall Street. From the Harvard class of 1980, 9% of the MBAs went to Wall Street. By 2008, that figure had gone up to 45%, but there were very few, and they were very rare birds indeed in the City. People were well paid but not astonishingly so. In 1980, an investment banker got roughly the same as a similarly skilled professional in any other industry, and it was a cosy world of clubs, cartels, networks and restrictive practices, in which risk-taking was minimal and so was the amount of risk capital employed. Clearing banks were allowed to keep hidden reserves so we did not quite know how strong or weak they were. Elsewhere the City was built on a network of partnerships, putting real constraints on risk-taking because this was the partners' money, not other people's money so they were going to take good care of it and they did not take risks. Philip wrote in his book that "movements of staff were rare and even frowned upon … and the Bank of England had enormous power".

The business was almost entirely domestic. Some of the big clearing banks still had a bit of a footprint in the Commonwealth and the Eurodollar market was growing in London, but it was completely fenced off from British banking by exchange controls. It was an absolutely separate body.

Banks were dull and did not do much. According to Bank of England data, the growth in finance fell short of that of the economy as a whole all the way from World War I until the start of the 1970s. Between 1948 and 1978, financial intermediation accounted on average for around 1.5% of whole

economy profits, a ratio which was to rise ten-fold to about 15% by 2008.

Then of course everything changed. In 1979 exchange controls were lifted. The "Big Bang" of 1986 blasted away the restrictive practices, took out most of the partnerships and opened the door to the big international investment banks who came to town.

The banking system just exploded both in terms of size and in its willingness to take risks. Bank assets had flat-lined for 100 years up until the 1970s. For that 100-year period they had represented about 50% of GDP. By 2008, they had risen ten-fold in relation to GDP to 500% and the nature of the business was completely transformed, with a rapid acceleration in trading activities.

By the year 2000, the trading book assets of the big banks had already jumped to 20% of the total assets, and that figure was to double again to nearly 40% by the time the wheels started to fall off in 2007. This was accompanied by the huge rise in balance sheet leverage that we all know about, and with it a startling jump in reported profits. Put quite simply, higher risk led to much higher rewards. In the 50 years following the First World War, on average, the return on equity in UK finance was about 10%. That figure doubled to 20% and more in the last decade of the last century and the first few years of this one. Tens of thousands of new people from completely different backgrounds joined the business, made possible in part of course by the development of Canary Wharf. By 2007, investment bankers were not being paid the same as everybody else with similar qualifications; they were being paid four times as much as skilled professionals in other sectors.

I always remember a friend telling me that everything changed the very day his firm changed from being a partnership to a limited company. He told me that now his colleagues were using other people's money, their willingness to take risks changed overnight.

It was a period of frenetic innovation in financial services and a huge expansion in areas like securitisation, derivatives and so on. There were benefits to the real economy from more efficient financial intermediation. For instance, if you are a large company now there are many more sources of finance than there were 30 or 40 years ago. I think it is also true to say that a large slice of the benefits went to the financial intermediaries themselves and much of this expansion only had a limited impact on the real economy.

Here is a question to try out at a dinner party conversation when you are bored with talking about house prices. What proportion of the major UK banks' combined balance sheet total in 2010 (can you hear yourself asking this?) was represented by loans to UK companies? The answer according to the Vickers Independent Commission on Banking was 5%. That is a figure to hang on to when people tell you that if you are going to cut the balance sheet size of banks, industry is going to suffer. As a share of bank assets, loans to manufacturing during this explosive period have of course been declining significantly as a share, and indeed at times over the last few months manufacturing has been a net depositor with the banking system, meaning of course they have been financing the banks rather than the other way round, which is odd.

I think it is very important to understand that all this was taking place during a freak period in the world's economic history. This was a time when a combination of globalisation and much improved communications powered a long, long period of non-inflationary growth, during which huge savings had been built up in the emerging markets and oil-rich nations, and these savings were looking for a home in the developed markets of the West. This was also a period, for the same reasons, of much, much easier credit when it seemed the more you borrowed the richer you became. Greece could borrow money at roughly the same rate as Germany. I could borrow money at a rate not all that much more than the US Treasury, which is the safest borrower on the planet. Risk was seriously mispriced.

It was also of course a unique period in the political history of the world. The Cold War was over, the West had won and free markets ruled. The world's most powerful regulators, and, most of all, Mr Alan Greenspan at the Federal Reserve took the view that we could rely on bankers' sense of self-interest to protect us against market failures. It became that more or less any regulatory intervention by government was likely to make matters worse rather than better. It was not until 2008 that the errors of this judgment became apparent and there was a famous moment when Mr Greenspan, being grilled in the Congress, said he just had not imagined this could have been possible.

The point I am making here is it is not right just to point to the bankers and say they are to blame for everything that went wrong. Indeed, I often think that some of the worst victims of what happened were those scores of thousands of people who worked for the likes of the Royal Bank of Scotland in the run-up to all this. They were not driven by individual greed. They were pillars of their community. Huge piles of their savings were tied up in bank assets and they were not making large salaries either. I think we all have to keep that in mind. We have to keep it in mind that this is a drama that is the responsibility of policy-makers, regulators, the media and wider civil society as well as some of the individual players.

This is the world in which most of the people working in banking today have spent most of their working life, and for most of that period they have been doing pretty well at it, and changing the behaviours, the drivers, the engines that have shaped pretty well everybody who has been working in banking all their lives of course is going to be difficult.

The character of the banks and of the people who have worked in them have changed beyond recognition over the decades that I have been talking about.

Anthony Salz, in his review of Barclays, tells a story that I think applies to many other big banks. He explains how Barclays' sense of purpose shifted as time passed and it became focused on achieving a high rate of return on equity, a return that could really only be achieved by taking high risks. He reports how the rapid journey from being primarily a domestic bank to a global universal bank in the space of only about 20 years led to a much increased complexity in the management and to the development of different silos of activity within the bank, each with its own set of values and its own culture.

Over the same period of time, it became increasingly difficult, if not impossible, to think of banking as a profession in anything like the conventional sense, by which I mean an activity in which practitioners have achieved a base-load of common qualifications, and undertaken continuous professional development, which has a shared sense of ethical values and integrity in which a professional body or bodies set out the expected codes of conduct and behaviour of the people working in it. Banking qualifications were no longer a necessary route to securing promotion and the number of employees achieving them fell significantly.

In its submission to this Banking Standards Review, which Lord McFall mentioned, the Chartered Banker Institute set out a whole list of reasons why the numbers taking qualifications had declined. It was a very helpful comment and it is worth just running through them so you can understand the challenges ahead.

The submission talks about a general change in banking culture from stewardship to sales, in which cultural banking norms of thrift, prudence and professionalism have become less valued. It says there has been a lack of encouragement from employers, regulators and policy-makers to taking exams and there has been a shift away from banking as a structured career. It says increased specialism has reduced the demand for bankers with all-round experience and the greater use of technology has cut the demand for qualified professionals exercising judgment. In other words, the

machines have taken over. If you add into that the increasing search for cost-efficiencies and a box-ticking approach to compliance, you end up with a pretty potent brew.

A clue to what has been happening on the retail side came to me recently during the course of this exercise when one of the so-called challenger banks told me that the biggest single constraint on the expansion of its network in this county was the difficulty in finding any branch manager under the age of 50 who knew anything about credit. If you are any younger than that, he told me, you had been trained to be a salesman.

The wholesale side of course has also focused on transactions as opposed to relationships and bad stuff still seems to be going on. Post the crash bad stuff is still happening.

How far have things changed since 2008? Well, there is evidence that all the big banks have addressed some of the problems of perverse incentives on the retail side. There is still a long way to go and surveys suggest that some bankers still have to get their heads around the scale of the challenge.

For example, a global survey of financial service executives by the *Economist*'s Intelligence Unit last autumn found that 91% of the respondents agreed that ethical conduct was just as important as financial success to their business, but 71% of the investment bankers responding to this survey said that their career progress would be tricky without being flexible on ethical standards.

Another study by Deloitte's at roughly the same time found that two-thirds of senior bankers - again this was global - believed there were significant cultural problems across the industry, but only a third believed that there were any problems in their firm. Most of them thought that the culture and behaviourial changes that needed to be driven in their firm would take about 18 months to two years drive through, which seems to me to be pie-in-the-sky.

Last week the Centre for the Study of Financial Innovation published its latest survey of Banking Banana Skins, which is something it does every couple of years, and it describes the risks currently being perceived in the banking system by banks, bankers, regulators and close observers of the scene all around the world. This one came out last week and right at the top of the list, the thing that bankers, observers and regulators were most worried about was excessive regulation. Number two on the list was - you will be distressed to hear this, John - political interference, seen as excessive and maybe even ill-motivated. What about reputational risk? That was 25th out of 28 on the list. It is described as social sustainability, covering ethics, reputation, environment and other value-driven risks that might affect a banking business. The survey says this rating was a bit odd given everything that has been going on, but it seems that it is suggested that although bankers are worried about reputation, they wonder whether it is going to have a material impact on their business because everybody is in the same boat. They quote a respondent from the UK who said this was the least risk he worried about, who says: "The banks will continue to suffer hits but their reputation is already very low and they continue to have customers." Not exactly a ringing endorsement for change.

There is another problem when thinking about change, which is that banking profits are under pressure and the next few years may well be very difficult. Rising capital requirements will bear down on return on equity. Regulatory change is already making parts of businesses uneconomic. There is growing competition from the shadow banking sector, as set out in an excellent survey in last week's *Economist*, but the announcement from Barclays the other day is unlikely to mark the end of industry lay-offs. We could be in for a long period of lower returns from the banking industry, much as happened in the decades after the crash of 1929 and the regulatory reforms that followed. These are circumstances under which there may be a temptation to cut corners in order to preserve profitability, when decisions that are good for long-term sustainability but have short-

term costs may be particularly hard to drive through.

Then I think there is another way of thinking about the need for change, and that is the one I take, which is if not now, when? The banking industry has to be built on trust. It is what makes contracts, long-term business plans and everyday transactions possible. It is necessary for financial stability. No modern market-based economy can function properly without it. Trust is a vital component of business and consumer confidence on which the economy ultimately depends and a loss of trust inevitably leads to disruption to the market-place and to an ever-growing list of rules and regulations. It seems to me that after everything that has happened in the past decade or two a new approach to the banking sector is not just desirable; it is essential to the well-being of our society, which is effectively what New City Agenda is saying and it is the argument that Philip is taking forward.

Back in 2010, the Future of Banking Commission chaired by David Davis, supported by a number of other people here in this room and behind New City Agenda, set out what it saw as the pathway to a banking system that was secure, profitable and capable of fulfilling a crucial role in society. It proposed changes in the structure and regulation of the industry, a good bit of which have actually been incorporated in subsequent legislation, which I am not going to talk about today.

It also insisted that such changes - structural and regulatory - though necessary would not be enough to create a banking system that served the needs of society as a whole. Such a shift would require, they said, wholesale cultural change. The Commission came up with a number of ideas about how to get there. Amongst other things, it called for an explicit acceptance by bankers and others in financial services of the duties they owe to society. The argument was that bankers should be just like doctors, lawyers and accountants, engaging in the same sort of professional training and facing the same sanctions when individuals fall short of their duty of care. It proposed that a new, professional standards body should be established along the lines of the General Medical Council, which should be independent of government and of industry and which would have the power to discipline members *in extremis* to say, “You can’t do business, you’re out, you’re finished”.

The Parliamentary Commission on Banking Standards, which John referred to and which reported last year, also talked about a new professional body for banking, but it took a different line. It said:

“Providing statutory powers to a professional body would mean either stripping away many powers from the regulators, including the new powers that we propose, or risking double jeopardy for individuals. No proponents of a professional body have come forward with a plan which the Commission believes is credible for how to address this problem.”

The point being made here of course is that the General Medical Council, like the other professional bodies, is not just a standard setter; it is the regulator as well. It sets out the qualifications you need to have to practise in different areas and it has the power to tell erring doctors that they will never practise again. In banking, by contrast, that power of discipline lies with the statutory regulatory - the Financial Conduct Authority or the Prudential Regulatory Authority. In the Parliamentary Commission’s view, the case for any new professional standards body taking on formal responsibility for enforcement of that kind could only be established over time. You would have to build up credibility over time and it should not be countenanced now as an alternative to necessary regulatory interventions. I share that view. I think that that is right.

So the question then if like me you think that is the way forward is: does the lack of strong disciplinary powers akin to those of the GMC or other professional regulators mean that a new professional body is doomed to failure? Look, I do not understate the difficulties for one minute; it

is difficult. However, I think it is not doomed to failure for the reasons I will try to explain.

As John mentioned, last autumn, the Chairman of the six biggest British banks and the biggest building societies asked me come up with plans for a new professional standards body for banks and building societies, and they gave me a completely free hand to do it. They said, "Just get on with it". I have consulted widely with bankers, trade associations, consumer groups, Government, academics, trade unions, professional bodies in any other industry I could think of. I put out a consultation paper a couple of months ago and was amazed to get a huge response of nearly 200 chunky views. I had hoped to have published my report by this meeting today but I have been absolutely snowed under by all this and so I am actually going to publish it next Monday, I hope.

I started off my thinking about how to go about this task with the framework that had been suggested by the Parliamentary Banking Commission, which seemed to me to make a deal of sense. They said that the new body should be independent of the banks but funded by the banks. No-one else is going to pay for it, certainly not the taxpayer. Somebody suggested you should make the customers pay for it and I thought: "That's a good idea! My bank is going to come to me and say, 'Pay me more and I will behave properly'." I do not think that is going to work! So the banks are going to have to pay for it. It must not be a lobbyist for the banks; it must be an advocate for the banks. It should not get in the way of the regulators or risk double jeopardy. Membership should be voluntary. Is should seek to engage, the Commission said, with banks and building societies of every shape and size, covering every form of the banking business in the United Kingdom.

The details I will come out with next week, but I will run through some of the background and the obvious challenges. First of all, how do you create a body that is independent of the banks and the building societies yet funded by them? The answer has to lie in a credible and robust form of governance in which the interests of the banks are separated from those of the governing body and in which different groups of stakeholders have a strong voice - non-bank stakeholders. It also has to rely on a funding structure that is not subject to the whims of the banks that are providing the cash. When the chairs of the banks asked me to do this, I told them I would be delighted to have a shot. I did not know how to do it but I had a perfect working model of how not to do it, and that was the Press Complaints Commission, which in my former life as a journalist I always regarded with total contempt. I have tried to go about the job with that in mind.

Another big challenge is with whom or what should the new body seek to engage? Accountants, lawyers and doctors are individual members of their professional associations and for very, very good reason. They need to feel a sense of personal responsibility and obligation to their profession over and above their obligation to their employer and they need to wake up in the middle of the night worrying that something they are thinking of doing might betray their professional ethos. That is the ideal.

How would you corral over 400,000 bankers doing all kinds of different jobs with all kinds of qualifications (or none) into a new body with no track record? What would be the offer? How would you set up a disciplinary process for when things went wrong when there is already a statutory regulator in place? Then again, how are you going to create a body that seeks to cover every sector of the industry, from the smallest challenger in the retail market to great big global investment banks? People whose judgment I respect - and Philip is one of them - suggested that seeking such a wide remit would lead to the lowest common denominator. The suggestion was that this body should just focus on the retail banking side. That, by the way, is what a number of the foreign banks have also suggested, you will not be astonished to hear.

It would be the easiest option just to look at retail banking, but it is absolutely not what the Parliamentary Commission had in mind. It said:

"An important milestone on the road to the successful development of a professional standards body would be that it could claim comprehensive coverage of all banks with operations in the United Kingdom."

I think it is really hard to see how a professional banking body could hope to achieve public credibility if it decided to exclude large parts of the industry where some of the worst stuff has been going on.

So I am going to recommend that the new body engages with the whole of the banking and building societies sector in the UK.

The next challenge is how does it get any traction with the banks and the building societies if it does not have the strong disciplinary powers proposed originally by the Future of Banking Commission?

There are three answers to that question. One is it has to have been a really credible governing body. It has to have people at the top of it who have been appointed by a credible process and through their own standards of personal integrity you would look at them and say, "They mean business; they are serious". It has to have that. Second, it has to be clear about its mission, which is to identify and champion good practice. It will be in the business of nudging banks to do better rather than bashing them over the back of the head with a sand-filled sock.

Third, it has to be transparent and open in everything it does. If it feels that the banks as a whole or an individual bank is not fulfilling its commitments or promises, it has to be willing to say so.

Finally, the challenge is how does it align itself with the work of the regulators? Again, I will go into that a bit more next week. All I will say for the moment is that I think that the Future of Banking Commission provided a really valuable insight on this subject when it stressed that you cannot encapsulate everything that needs to be done in rules and regulations. Everything that you want in an honest, open banking system you cannot have rules and regulations for everything. Banks will not win back public trust just by following the rule books. They have to have a moral compass and develop value sets and behaviours accordingly.

The good news is that the regulators agree with that; the FSA thinks that is appropriate; the PRA thinks that is appropriate; and the leadership of the banks who asked me to do this job think that is appropriate, too.

I am not for a second downplaying the importance of sound regulation, but by itself it is not enough. The responses to the consultation paper, which are nearly all up on the Banking Standards Review website, if you are interested, have helped to identify three broad areas of activity for this new body. It will identify activities where voluntary standards would serve the public interest. It will work with practitioners and relevant stakeholders to draw them up. We can talk about, if you are interested, the sorts of areas that I have in mind. It will work with the banks and the professional bodies that are already active in the banking sector, in an effort to increase the value placed by banks on professional qualifications. If you look across training in all sectors, you can see that there are some qualifications that have an economic value and some which do not. We need more with economic value to the individuals who take them.

The new body will also require participating banks to commit to a programme of continuous improvement under the headings culture, competence and customer outcomes, and to report back on their progress to the public each year. We now have highly paid lawyers working on how that will be structured. I will expand on this a bit since it touches on today's important news that New City Agenda is working alongside the LSE Conduct Cost Project to explore the metrics and

benchmarks that could be used to assess the success or otherwise of banks' attempts to improve their conduct and culture. I think this is a welcome initiative that was announced in the papers this morning, the more so because, as I understand it, the idea is also to look for metrics of positive cultural change as well as measurement indicators of poor conduct, which is of course what conduct costs are.

The new body that I am designing will certainly be interested in robust and independent measures of bank performance to test off and check up against what the banks are talking about themselves, both individually and collectively.

As well as external measures like this, this new body will require participating banks to provide it with regular evidence of things like how their stated values and codes are understood by their staff and incorporated in the operations of their business, how easy it is (or not) for staff to report problems upwards up the value chain. One of the things that really strikes you if you look at the survey in this area is when people are asked, "What do you do if you see your colleague is doing something unwarranted?" the answer is invariably nothing. There are no drivers for that. It will look at areas like that. It will want to know about the competence and training of the workforce and are there being efforts being made to achieve professional qualifications. It will pay particular attention, especially in the case of retail banks, to the third set of metrics which will be customer outcomes.

Conduct costs, which you were reporting on this morning, are a lagging indicator in that they reflect stuff which took place years ago, but if properly measured they should be of real interest, not least to the investor community since reputational damage and heavy fines are a real threat to shareholder value. The figure that was reported this morning for 2013 was £21.5 billion of conduct costs. What are investors for if they are not looking for that? Just as investors have started to press for more information about the environmental impact of companies and asking big companies, which is now happening, do they disclose their greenhouse gas emissions and, if not, why not, just as they are doing that, so it will be very good to encourage investors to ask questions about these costs that New City Agenda and the LSE are reporting on today. It will be important for this project, for your project and for my idea to work with the investor community to observe these things and to work out how such measures could be best made consistent over time and across different institutions.

Quantitative measures are useful but I think the body that I am designing is also going to have to place real weight on qualitative measures and on judgment, taking into account the different histories, business and starting points of individual banks and of the sector as a whole. Professor Sir Andrew Likierman, who is the Director of the London Business School, told our review that it is important to have quantifiable measures but watch out, he said, you can have quantifiable measures and if a bank can claim it, they will claim it. You need judgment as well. This will place an onus on the banking standards body to provide a judgment framework and investment framework which is seen to be fair and practical by all parties. I think that will be the biggest challenge of them all and will be the one where success will have the biggest impact.

So what would success for this new outfit look like? Everyone says that it takes years - everyone apart from bankers - to change the culture of a major organisation, and of course that is right, so you can either treat this as a counsel of despair or you can say, like I do, that this gives us all the more reason to get on with it now and to get some sense of urgency and to get a momentum going.

In the very short-term success will look like a strong governing body that means business and widespread industry participation, not just the magnificent seven, the big six banks and Nationwide, the building society. Much wider participation than that will be necessary for it to be credible.

Two or three years out, success would be a body that was publishing serious, credible assessments of the strength and weakness of a banking business in the UK and the banks measured in terms of behaviour and competence, as opposed to balance street structures, which is somebody else's responsibility. It would also take the form of a number of voluntary standards of practice which had been agreed by practitioners as a valuable step forward.

In five to ten years' time, success would perhaps be a world in which public trust in the banking system had begun to shift in a more hopeful way. And beyond that, who knows? With luck and lots of hard work, we might be seeing the development of a strong professional body along the lines of the idea two or three years ago in the Future of Banking Commission, but I think that is some way down the road. You have to have credibility before you can start exercising discipline.

I started this talk by describing the radical changes that have taken place in the character and shape of the banking industry in this country and other developed economies over the past 30 or 40 years. I think that changes in the next 30 or 40 years are going to be equally fundamental, for better or for worse, but with strong leadership from the banks, wise decision by policy-makers, appropriate action from the regulators, I think we can hope that the country will indeed move to, in the words that John used in his introduction, "a banking system that is secure, profitable and capable of fulfilling its crucial role in society", and it is my hope that the new organisation which I have been working on will play a useful part in that mission. Thank you very much. (Applause)

CHAIRMAN: Thank you very much for that historical and deep analysis. I know your report is not out until next week but you have given us a good feel for what is happening.

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New City Agenda, 145-157 St John Street, London EC1V 4PW. T: +44 (0)20 3397 7875 info@newcityagenda.co.uk