Changes to the Banking Sector since the Financial Crisis
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Sweeping changes in top banking executives

- There has been wholesale change at the top of the banking sector in recent years.
- Since 2007, 90% of senior executives at the major British banking groups have changed.

A much safer financial system

- Banks have rebuilt their balance sheets in the wake of the global financial crisis and are now much safer. Banks are already holding three times more of the safest form of capital than they did at the beginning of the financial crisis. By 2019, when Basel III is fully implemented, they will be even more robust. The UK’s implementation is significantly ahead of schedule, and accordingly the UK and its banks are among the best placed in the world.
- The banks operating in the UK are much better prepared for a future financial crisis. They now have to hold sufficient liquidity to be able to operate during a period where funding dries up, as happened for some of them in 2007.
- The banks have restructured their balance sheets to reduce exposures to riskier trading assets.
- The industry is determined that taxpayers’ money is never used again to bail out banks.

Huge changes to remuneration

- Total bonuses for investment banks were down 55% between 2007 and 2011, according to pay consultants McLagan. Immediate cash bonuses were down 77% in the same period. [McLagan, 2012]
- The annual average bonus per employee in the financial services sector fell in 2012/2013, whereas sectors such as the manufacturing of chemicals and man-made fibres saw an increase [ONS, Average Weekly Earning: Bonus payments, 2012-13]
- From 2015 bonuses will be capped at no more than fixed salary, rising to twice the salary if shareholders give their approval.
- Bankers classed as Code Staff have a significant proportion of their bonus deferred for three years; higher-paid bankers have the majority of their bonus deferred for five years.
- There has been a huge shift away from cash bonuses to rewarding staff with shares – a minimum of 50% of bonuses must now be paid in shares. Giving employees shares means that their interests are better aligned with the bank’s longer term financial health, making them less likely to take unreasonable risks. Whenever employees are given shares – whether immediately or a few years later – they then have to hold onto them for at least six months
- And, if it transpires they took reckless risks or behaved badly, then the deferred bonus can be clawed back.

Additional banking taxes

- Banks paid £3.4 billion through a one off bank payroll tax.
- The banks now pay an annual bank levy, aimed at raising approximately £2.9 billion per annum from 2015/16
Raising standards; protecting customers

- Under the Financial Services Compensation Scheme up to £85,000 of each customer's deposits are now 100% protected – up from £2,000 in 2007. This scheme, which is funded by the banks, covers 98% of customers.
- Financial advisors are now banned from receiving commission for the retail investment products they recommend to customers. This means that advisors will recommend what is best for their customers rather than the product that gives them the most commission. They also have to attain minimum professional standards of qualification.
- Under the Mortgage Market Review, lenders will be fully responsible for assessing whether the customer can afford the loan, and they will have to verify the customer's income. Lenders will still be allowed to grant interest-only loans, but only where there is a credible strategy for repaying the capital. These reforms aim to ensure that the mortgage market is sustainable and works better for customers.

Stronger banking supervision

The UK now has a more intensive supervisory regime. The Financial Services Authority has been split and its responsibilities divided between new authorities:

- The Prudential Regulation Authority (PRA) supervises the largest banks and the Bank of England's Financial Policy Committee (FPC) monitors risk to the entire financial system. This means macro-economic supervision is better aligned with micro prudential supervision, increasing the stability of the financial system.
- The Financial Conduct Authority (FCA) has responsibility for regulating the conduct of banks and bankers. The FCA requires firms to put the well-being of their customers at the heart of how they run their business, promotes effective competition and ensures that markets operate with integrity.
- New European supervisory authorities, including the European Banking Authority (EBA), and the European Securities and Markets Authority (ESMA) enhance the supervision of banks operating in Europe.
- The creation Sir Richard Lambert's body on professional banking standards, sitting alongside the new senior persons and certification regimes, will promote high standards of competence and behaviour across the UK banking industry. This will be a further step in restoring public trust in the banking industry.

Wide reaching regulatory reforms

Since 2007, the banking sector has experienced one of the most intensive periods of regulatory change in modern history, with more than 80 substantial rules and pieces of legislation passed so far. These reforms include:

- Banking: Conduct of Business Sourcebook (BCOBS) – Insists that banks are fair, clear and not misleading in their communication with customers; the FSA can fine banks or even strike them off if they infringe these rules.
- Extension of the FCA's Approved Person Regime – Extended a regime ensuring bankers are "fit and proper" – competency, honesty and integrity are all taken into account in their assessment.
- FCA’s Remuneration Code – makes pay more transparent, discourages short term risk taking, and allows for claw back of bonuses.
- Banking Act 2009 – allows the Bank of England to wind down a bank before it is balance sheet insolvent in order to keep the financial system stable.
- EMIR – introduces new requirements to improve transparency and reduce the risks associated with the derivatives market.
- CRD II & CRD III – made the banks safer by making them hold more capital against trading book and securitisation exposures.
- CRD IV – implements internationally-agreed standards on "more capital, more liquidity" across the EU whilst making it easier for banks to facilitate international trade, and introduces a cap on remuneration.
- Banking Reform Act - implements a framework for ring-fencing the banks to better protect consumers’ deposits; legislates for bail-in measures to ensure that taxpayers’ money will not be used to save failed banks; introduced a senior persons regime to hold key decision-makers to account; and made severe misconduct a criminal act.
- Banking recovery and resolution directive – requires banks to prepare recovery plans and authorities to be ready to resolve failed banks without recourse to the tax payer, whilst requiring creditors to be 'bailed-in'.
- MAR / CSMAD - The two pieces of legislation together extend the scope of the current market abuse regime to cover financial instruments traded on new categories of platform and OTC; more closely align the way in which market abuse rules apply to commodity derivative and underlying spot markets; include improper activities relating to benchmarks within the scope of market manipulation; introduce offences of attempted insider dealing and market manipulation; ensure national competent authorities have a minimum set of investigative and enforcement powers; establish a harmonised regime of minimum criminal and administrative sanctions across the EU Member States.

The BBA can provide further details on any of these points on request.
Upcoming regulatory reforms


In the pipeline, there are a number of pieces of legislation and rules, both UK and European, which will have a direct impact on banks operating in the UK. These include:

- MiFID II/MiFIR – aims to improve investor protection, increase transparency, and continue the harmonisation of regulation across the EU.
- EC Bank Accounts Legislative Package – increases access to basic banks accounts, improves transparency, and legislates to make account switching easier.

A full technical briefing on any of these points is available on request.

For more information on SME borrowing please contact: info@bba.org.uk