Letters

Central to banks’ interests to help economies recover

From Mr Simon Lewis.

Sir, Robert Jenkins’ remarks about the banking industry’s alleged “campaign against banking reform” (“Bankers accused of ‘dishonest’ lobbying”, November 23) make for an entertaining read, but they are wide of the mark in a number of respects.

Contrary to Mr Jenkins’ claim, the leading European banks that are members of the Association for Financial Markets in Europe are neither campaigning against regulation nor dragging their feet on implementation. We fully accept the need for banks to hold a much higher quantity and quality of capital. Indeed, many banks are already meeting the required standards ahead of the regulatory timetable.

Mr Jenkins also betrays a fundamental misunderstanding of banks’ funding and risk management strategies, and on their relationship with the wider economy. In warning about reduced returns and constrained capacity to lend, bank managers are not crying wolf; they are stating the obvious: that where banks have to hold higher risk-weighted assets and more equity per RWA, the cost of credit will go up, impacting credit demand and growth in the real economy.

Banks’ health is inextricably linked to the health of the economies in which they operate. It is therefore central to banks’ self-interest to help economies recover provided they can do so in a way compatible with their own shareholders’ interest.

But shareholders will only supply capital to banks if they are convinced that this capital can be deployed to earn a higher return than its cost over the economic cycle. In current circumstances, that is a tough sell.

The other palliatives that Mr Jenkins proposes, such as further change to remuneration policies, are at best a distraction. Even the complete elimination of all bonuses and dividends paid by banks in Europe – which I don’t believe anyone is calling for – would have only a marginal impact on lending capacity.

So the question to Mr Jenkins is this. Given low returns and economic and regulatory uncertainty, who is prepared to offer banks more equity and long-term debt financing and at what price?

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