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The pendulum effect of regulation: How the policy swing between the over and under regulation of financial institutions will be ineffective and detrimental to business.

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Regulation, the one constant of the financial system, since the beginnings of the industry in coffee houses with gentleman's agreements, to the harshly regulated times we have seen since the financial crash of 2008. Whichever pole the pendulum swings to, it is clear that it has little impact on the behaviour of those who work within our most valued financial institutions. Before we can discuss the merits to regulation and the success of either a harsh or lax approach, we must understand how the greatest financial collapse in living memory happened.

The cause of the financial crash has been put down, by many, to the collapse of the American bank Lehman Brothers on 15th September 2008. This is seen as the tipping point of the crash as the United States Government chose not to save the bank and allowed one of its oldest and most respected institutions to declare bankruptcy. For the public this became car crash viewing as they could not believe this institution had fallen out of seemingly nowhere. However for those within the industry the collapse of the global financial system had begun well over a year before as both Bear Sterns and German bank IKB revealed the detriment that subprime mortgages had become. In the summer of 2007 IKB had collapsed and Bear Sterns had to bail out one of its hedge funds due to a funding crisis caused by investment in subprime mortgages. For those in the industry it became clear that these products, which had been marketed as AAA rated investments by all three top ratings agencies, were not the safe bet that they had seemed. It is clear that the crash had not been brought on by a single event, but by the collapse of the subprime mortgage lending market. The fall of Lehman Brothers was just the event which caused the bubble to burst.

Bubbles are incredibly common in the financial markets, they come and go without being noticed by anyone outside of the markets concerned. These can be relatively minor or have a much larger impact such as the South Sea bubble. The anatomy of a bubble is the same no matter what part of the financial industry is involved. The beginning of a bubble has been referred to by Hyman Minsky as displacement[1], this relates to a change in circumstances within the economy, creating a new opportunity, which the financial industry considers to be profitable. The second stage of a bubble occurs through expansion, as the price begins to rise, the opportunity becomes more visible meaning that more individuals become involved. This leads on to the third stage, which is euphoria, this occurs when the asset becomes overtraded, meaning that the price rises rapidly and becomes so large that the creator of the asset cannot justify its rise in value. The exceptional rise in price leads industry outsiders becoming involved as they see an opportunity to create large scale wealth quickly. The bubbles feed into human nature, as they seem to suggest that anyone can ‘get rich quick’, an investor doesn't need any substantial knowledge in the area, they can purely follow the decisions of others and get out before it is to late. The penultimate phase of a bubble is the

[1] H. Minsky, ‘*Financial Instability Revisited: the Economics of Disaster*’, Washington: Board of Governors of the Federal Reserve System, January 1970

distress phase, in which insiders to the industry begin to see that the rise in the price is against the fundamentals of the financial system and therefore cannot be maintained. At this stage it is not yet the case that the tide begins to turn. Those with an interest in seeing the asset flourish will continue to entice others into the market with the idea that they can make money quickly. The final stage of Minsky's bubble anatomy is the revulsion phase as insiders leave the market with their profits, leaving those outsiders who have been enticed into the market to try and minimise their loses. As these investors start to see the risk which they had previously been blind to, the asset loses it's value drastically, especially as there are now no new buyers entering the market, leading to a crash. These bubbles are nothing new, as industries take off and fail regularly, which was the case with the subprime mortgage bubble. Like all bubbles as long as people continued to pay off their mortgages there was nothing to be concerned about, however this did not happen as the rate of default on these subprime loans reached 21.9 percent for loans in 2007[2]. Meaning that the industry could not maintain itself, with assets losing value and the institutions who had invested in them suffering a funding crisis, leading to the bursting of this particular bubble in 2007.

They have come to see these new products as their main source of creating profit, with the industry manufacturing an image of complex products which only they can understand, meaning that their services in trading them is required, as no ordinary retail investor, could adequately assess their value. Since the financial crash we can see that in reality these institutions had no advanced knowledge on these subjects and trusted the computer calculations which they had come to rely upon at the time. Even the ratings agencies used the same calculations as the banks, so there were no adequate checks on the value of these assets and could be valued at will, creating even more value for the bubble to grow. Many within the industry had no concern for such things as there was a shared belief between all institutions, that no matter what the financial system would survive. Since 2007, this has now proved to be false with many not knowing how to react to the core beliefs being shattered.

Whilst bubbles are considered to be a mainstay of the finical system it is hard to see why this is the case and why they haven't been regulated against. To look at the anatomy of a bubble is to see numerous similarities to a Ponzi scheme, as 'a Ponzi scheme is an investment fraud that uses funds raised from new investors to create returns for earlier investors. Investors are often lured by the prospect of high rates of return with little or no risk… The scheme collapses when no new investors can be found or when earlier investors try to withdraw their principal investment. Most investors lose their money'[3]. Quite rightly Ponzi schemes are illegal and heavily punished, this can be seen in the handling of Merrill Lynch's involvement in the Enron scandal, by the United States Securities and Exchange Commission[4]. Yet bubbles go unregulated and are allowed to flourish and collapse without regulatory intervention, it seems that this is the case due to the lack of impact the

[2] G. Amromin and A. Paulson, '*Comparing Patterns of Default Among Prime and Subprime Mortgages*', Economic Perspectives, Chicago Reserve Bank, QII 2009

[3] Fraud Advisory Panel, '*Fraud Facts*', Issue 7, December 2010

[4] U.S Securities and Exchange Commission, 'SEC Charges Merrill Lynch, Four Merrill Lynch Executives with Aiding and Abetting Enron Accounting Fraud',, 19th March 2003, <https://www.sec.gov/news/press/2003-32.htm>

majority of bubbles have. Any losses that are suffered are not seen as a fraudulent activity but as a poor investment decision with the loss seen as collateral damage. However it could be said that there may be an added element of intent to defraud, as there is little difference between a person luring another into a particular scheme and a person luring another into investing in a particular asset, especially if they are to gain financially from that investment. This should especially be considered the case when it comes to a debt bubble, as with a debt bubble it is not just those involved that stand to lose, but society as a whole.

It is very much the case that these bubbles should be regulated although it is clear that they cannot be, as their very origin is based on those involved in the financial system seeking out new opportunities to create wealth and growth within the economy. To regulate such profit seeking activities would be to stifle the growth of business and therefore the economy. However it is clear that these bubbles do need to be monitored by regulatory bodies as they are becoming more and more frequent[5]. Although which ever form this regulation takes, it is unlikely to stop bankers creating new profitable products and therefore creating bubbles.

When the industry was founded in the coffee houses, there was more credibility given to gentleman's agreements, there was trust that these individuals would be honourable to each other and to the people they were doing business with. This was where the first forms of regulation were instilled, not through any official forms of legislation or rules but through a concept known as 'club governance'. This was considered a form of self-governance amongst the lenders of the time, it relied heavily on the belief that they all belonged to a form of 'club'. This is especially the case as the only form of supervision came from the Bank of England, who held the capacity of lender of last resort, as it still does to this day. Within this 'club' there was an expectation that they would all conform to a series of norms and adherence to a particular culture otherwise they would be excluded. This fear of exclusion was enough to ensure that all members acted in a way that was deemed acceptable by the whole. The culture within this club even extended to crises, the most notable example of this is the Barings crisis of 1890, when it was decided that 'a four-year syndicate of banks, led by the Bank of England, would ratably share any loss from Baring's liquidation'[6]. This culture of reputation and trust in each other meant that all banks were prepared to shoulder some responsibility, in the event of the failure of one. This is because they knew the others would do the same for them, if the situation were reversed. The added exclusivity seems to give weight to this 'carrot and stick' approach which appears to have been adopted. The fear of being removed is supplemented by the rewards of being involved, becoming a very effective form of regulation. As it was very much a case of looking after each other to ensure the survival of the industry. It could be said that this attitude is still a part of the industry today, although many would believe that the banks do not hold the same honourable intentions as they once did. Considering the last bail out came through tax payer's money rather than that of each other. The perception previously, was one of highly educated men doing deals which would advance a fledgling economy.

[5] A. Haldane, '*Capital Discipline*', American Economic Association, 9th January 2011

[6] E. White, '*How to Prevent a Banking Panic: The Barings Crisis of 1890*', Economic History Association, September 2016

However this opinion seems to have gone, as since the financial crisis the public views bankers and other financial professionals as little more than criminals, meaning that the honour the profession was founded on has been destroyed by the actions of those within the industry. As an industry which was founded on gentleman's agreements, trust should be important to the industry, but as they grew it became clear they lost the principles on which they were founded. There has been a massive shift in the way that London Stock Exchange is perceived, even it's motto 'dictum meum pactum', 'my word is my bond'[7] seems to no longer be the case. The public seems to have this attitude that rather than honour amongst gentleman, there is now honour amongst thieves as they do all they can to protect each other from harm.

This crash had caused what everyone had thought was impossible, a systemic collapse throughout the industry. Which has led to the first run on a UK bank in 150 years, as Northern Rock was forced to approach the Bank of England as lender of last resort, causing panic amongst the public that their deposits would be frozen. It was only during the beginnings of the financial crisis that it became clear that many banks had debt on their books far exceeding the amount of capital that held as security. The prevailing regulation at the time was set out by the Basel committee, which aimed to set out a more advanced approach to how banks handled risk[8]. The three main pillars of this international regulatory standard are; minimum capital requirements, a new supervisory process and the concept of market discipline. However this proved ineffective as even they 'failed to foresee the need that arose in August 2007 for large capital buffers'[9]. As this was the prevailing international guide to financial regulation it is difficult to see how domestic regulatory bodies could implement this themselves.

This has led to further attempts by the Government to regulate the industry through Acts of Parliament, codes of conduct and various rules. The first such domestic supervision came with the Banking Act of 1979, which had the aim 'to regulate the acceptance of deposits in the course of a business; to confer functions on the Bank of England with respect to the control of institutions carrying on deposit-taking businesses; to give further protection to persons who are depositors with such institutions'[10]. It seems that there was the belief that the Bank of England was best placed to regulate the industry, this being because they had the most experience and expertise in the industry. Although there could be a conflict in this, as the Bank of England is the lender of last resort, this is regardless of how a bank has conducted itself. Therefore there could have been conflict between providing assistance to banks who have not acted in ways the Bank of England

[7] London Stock Exchange Group, '*Our Word is Our Bond*', <https://www.lseg.com/resources/perspectives-global-markets/our-word-our-bond>

[8] Basel Committee on Banking Supervision, *'Consultative Document: Operational Risk',* January 2001 <https://www.bis.org/publ/bcbsca07.pdf>

[9] A. Greenspan, '*We Need a Better Cushion Against Risk*', Financial Times, 26th March 2009, <https://www.ft.com/content/9c158a92-1a3c-11de-9f91-0000779fd2ac>

[10] Preamble, Banking Act 1979

had advised. This proved not to be the case as the Bank of England was criticised for it's lack of action over the collapse of the Bank of Credit and Commerce International in the Bingham report[11].

The most notable change in the regulatory landscape came with the creation of the Financial Services Authority[12] (henceforth known as the FSA). In 1997 with the incoming of a new Government, financial policy and regulation was to be turned on its head with the creation of this new regulatory body. At the time the new Government devised a set of fiscal rules by which they would also abide, the 'Golden Rule' for Government budgets, being one of them. That 'over the economic cycle, the Government will borrow only to invest and not to fund current spending'[13]. This became the beginning of enhanced regulation in the financial system as all three areas, the Bank of England, the newly created FSA and the Government itself, had become bound by these overly prescriptive, precise rules, to which they must adhere. This was the beginning of the new tripartite system which came to regulate the financial industry up to and through the financial crisis. the creation of this new body removed the power of the Bank of England to implement and regulate financial policy, as it had previously been considered inadequate. The Bank of England now had the power to set interest rates and had become responsible for monetary policy. It was believed that it was important to split all three of these areas, as the assumption was that each could regulate based in their specific area of expertise. Although this seems to be a contradiction as the area of expertise held by the Bank of England was moved to the FSA, meaning that this was only implemented on principle to appear as if they were correcting the failures of the Bank of England which had come to light after the collapse of the Bank of Credit and Commerce International. Also as it came to be seen during the financial crisis these areas need to be regulated as one, this is due to their links throughout the financial system. Having a lax attitude regarding the regulation of monetary policy encourages borrowing due to the interest rate falling and reducing the price of debt. As debt becomes cheaper many people choose to use it to buy assets which it comes to light they cannot afford, as the interest rate rises again. Which is the fundamentals of how the subprime mortgage market collapsed. This targeted heavy regulation being implemented by the Government seemed to suggest that there was no longer any trust that the Bank of England was able to fulfil its previous role as the regulator of debt levels within the economy and became solely focused on targeting inflation. Even though this was still very much its expertise as before the financial crisis, Marvin King noted that 'a potentially large social problem, with many households getting into difficulty with their debts, [was] materialising'[14].

[11] The Right Honourable Lord Justice Bingham, *'Inquiry into the Supervision of the Bank of Credit and Commerce International'*, Her Majesty's Stationary Office, 22nd October 1992

[12] Part 1, S1, Financial Services and Markets Act 2000

[13] C. Emmerson, C. Frayne & S. Love, '*The Governments Fiscal Rules*', Institute for Fiscal Studies, April 2001

[14] E. Conway & R. Murray West, '*Bankruptcy is Becoming a Social Problem, warns Bank Chief*', The Telegraph, 11th May 2006 <http://www.telegraph.co.uk/news/uknews/1518027/Bankruptcy-is-becoming-a-social-problem-warns-Bank-chief.html>

It is only with hindsight that we have come to see the importance of these areas being regulated together in an interlinking fashion. Fiscal and financial policy cannot be regulated without a view towards monetary policy. To have these areas regulated independently, by bodies who did not interact with each other, created a piecemeal regulatory framework in which loopholes were taken advantage of and the banks were allowed to conduct business how they saw fit. There were those who foresaw the issues this new regulatory system was creating, it was believed that if a crisis were to happen, there would not be one body who was able take charge and navigate the industry through the tough times a crisis entails. The main aim of this new system was to create 'close and regular contact between the FSA and the Bank, who maintain a programme of secondments between the two institutions, to strengthen the links and foster a culture of co-operation'[15], however with hindsight we can see that this is not to case. In order for this close co-operation to happen there would need to be the desire to share information that would help with the regulatory process. Given that this new system was predominately focused on rules, there was no need to advance practical knowledge within the FSA.

After the financial crash in 2008 criticism of this tripartite system started to surface, most notably from Sir James Sassoon, who published a report in 2009[16] citing these issues. This report highlighted the four main failings of this new system; inadequate prudential regulation, a lack of expertise and preparation for a possible crisis, a lack of appropriate tools to mitigate emerging risks, and finally the poor evaluation of and response to possible threats to the stability of the financial sector. Fundamentally this has shown that despite a heavy approach to regulation, there was still massive failures when it came to regulating the industry. Though it should be noted that this report, may have adopted such strong wording as it was published by the Conservative Party who were the official opposition at the time. They would have had an obvious political benefit from this report as it focused mainly on the failures of the tripartite system.

One of the biggest failings made by regulatory bodies was their unwillingness to use discretion. It would appear that there is such a desire to rigidly stick to the rules which have been laid out that they are no longer able to fully exercise the powers which they do have. The ways in which a regularity body can be successful is by forging relationships with the institutions which they preside over, however this has not been the case. There is an argument against such a close bond, that these bodies could become subject to regulatory capture, but it is trust which is needed when it comes to sharing information, especially when this concerns any activities which can have a detrimental effect on the economy as a whole. Discretion and the belief that banks and regulators could work together soon became an outdated idea. It was believed that this could not have worked, given that there were several collapses since the creation of the sector and the days of 'club governance'. Complex rules and codes of conduct became the norm within the industry as

[15] Her Majesty's Treasury, '*Memorandum of Understanding between HM Treasury, the Bank of England and the Financial Services Authority'*, The National Archives, 22nd March 2006, Archived on 13th October 2008 <http://webarchive.nationalarchives.gov.uk/20081013114121/http:/www.hm-treasury.gov.uk/6210.htm>

[16] J. Sassoon, '*The Tripartite Review Preliminary Report*', House of Commons, 2009

previously seen with the rapid expansion of regulation is in the latter half of the 20th Century and the beginning of the 21st.

The attitude of the industry, can be seen in the response to audits, the option of those carried out by the Bank of England, is clear to see in an interview given by former banker Sajid Javid;

> 'With the Bank [of England] you knew that the regulators were reporting to people somewhere who have relationships with banks, with clients, and know the markets. With emerging markets, sovereign borrowers for instance the Bank of England could be on the phone to the central bank of that country the next day, to check up on you. They might well know them, and have a relationship with them. So when you open up your books to show the risks, you knew they knew what they were looking for'[17].

This sense that there was always somebody who could check what you were doing, meant that people were less likely to engage in any underhand or risky behaviour. It seems that this was lost when these powers were transferred over to the FSA, as they were a newer and more inexperienced body, it would seem that the industry knew they could take advantage of this. The purpose of an audit became more of a 'box ticking' exercise as the officials from the FSA did not seek context of examples of the answers which were given by the banks. This new method of regulation had become very black and white, which did not consider any of the numerous shades of grey within the industry. In the eyes of the FSA, a bank was either complaint or they weren't. Regulators became more focused with what the rule book prescribed that when it came to the collapse of the financial system, nobody knew what to do, as the FSA rule book did not give specific instructions on how to handle a crisis. When times were good in the financial system nobody seemed to mind that the FSA did not have the ability to think of a course of action based on unfolding events, as their judgment had been eroded through prescriptive regulation. In this new system of heavy regulation it was impossible for the newest regulator to gain the practical knowledge needed, as they did not have the opportunity to gain any. This only came to light, and therefore became a problem when the crisis hit, by which time it was too late to gain the knowledge required to successfully navigate the financial industry through this time. A system which had been created to give a very clear formula for the working of the economy and be unambiguous, seemed to provide the opposite during the financial crisis. This rule book became useless and as the regulator was unable to act, panic ensued within the public, leading to the much publicised run on Northern Rock as depositors did not want their savings to be put at risk in this unchartered territory.

While this newly formed body had no expertise, outside any of it's predetermined rules, it was still able to see that problems were beginning to surface in the economy. The FSA saw that 'while volatility remain[ed] at recent historic lows, the factors that have contributed to it (such as widely available, cheap funding and high risk appetite) could quickly reverse, potentially resulting in a deterioration of global financial market conditions'[18]. With the FSA foreseeing this problem it raises

[17] Interview conducted with Sajid Javid for: M. Hancock & N. Zahawi, '*Masters of Nothing*', Biteback Publishing, September 2011

[18] Financial Services Authority, '*Financial Risk Outlook*', 2007

the question of why they were unable to put a stop to this before the financial crisis took hold. Perhaps this would be because they saw it as outside of their remit, due to it not being in breach of any of the prescribed rules. The main problem with this form of heavily prescriptive regulation is that it allows no room for discussion or debate within the industry. It does not allow for regulators to decide the best course of action, or to correct any failures which may have occurred in the regulatory framework. It is very difficult to have a more principle based system of regulation when the regulator is purely focused on the rules which have been set out before it by the Government. The contradiction is that this heavy regulation, implemented before the crisis began, was criticised. Yet post the financial crisis the system seems to have only become regulated further, the answer to failures in over regulation surely could not be more regulation.

It is interesting that whilst the regulation took a distinctively prescribed approach, the FSA's rule book set out the principles that a bank should act with 'integrity' and 'conduct business with due skill, care and diligence'[19]. It appeared as though these principles are founded loosely on morals, they try to set out how a bank should act but not are not necessarily reflective of how they do act. It is difficult to impose these on banks as, to conduct their business in a moral way, is not their main focus, it is one in which they maximise profits for investors and shareholders. Rather than regulating the actual behaviour of banks it seems that they are trying to impose a standard on banks. It is unlikely that this is ever going to work, as you cannot prescribe new codes and expect an institution to change it's internal culture over night. With the culture of an institution being ingrained at its founding this cannot be altered through policy change alone. Especially as employees are expected to act in a way which supports and fosters this culture. It would also be detrimental to business if they were to change their views and culture with every change in the regulatory framework. With the banks having this view imposing a moral standard would have no effect on how they conduct themselves, in order for these principles to be effective they need to be believed and adhered to by the banks, which is not the case. Whilst the very nature of regulation is to prescribe rules as to how an institution acts, it seems that much more progress could be made if the regulator tried to align regulation with the already ingrained principles of the industry.

This discourse can be seen by the way that banks continually look to exploit the loopholes in the regulatory framework. Regulation has become so heavily prescribed that they are actively seeing to unbind themselves. This cannot be an effective system. For regulation to be effective it must control illegal behaviours but still allow businesses to flourish and create value as this is essential for the whole of the economy. The best response to these banks seeking to exploit gaps in regulation is to have adaptable solutions at the time these gaps are found, however, again this would require a regulator who is knowledgeable in the area and able to use the discretion they have picked up to adapt to these situations. Once again it was this form of heavily prescribed regulation that stopped the regulator having the ability to do this in these areas, as they simply did not have the knowledge outside of the rules they had been given. This even came down the schedules which

[19] Financial Conduct Authority, '*FCA Handbook*', 1st April 2013

banks were due to be assessed on, Northern Rock was assessed in January 2006 and not due to be assessed again until January 2009[20], this was stuck to by the regulator despite the signs of failure showing before this time. They were not willing to act on their own intuition in any way, even if it would have meant possibly spotting the signs of an impending crisis.

This strict adherence to the rules meant that when it came to the 2007 financial crash the system as a whole failed, but yet none of the banks involved broke any rules. This could not have been further away from the true purpose the FSA was created for. Whilst the FSA was the regulator at the time of the financial crash, it could be said that it was the Bank of England who guided the industry through the most turbulent times. The history and weight this institution held was considered far more important than anything else. Even through this new regulatory system had been imposed the industry still sought comfort in its roots at the time of crisis. This would make it seem that regulations are unimportant to the industry, more of a hindrance, as they return to their historic institutions in these times, even if the Government believes them to be inadequate. During the financial crisis the industry did not need rules, they needed guidance, after all this was a situation nobody had envisioned happening. This was a time when history and expertise mattered more than being correct or compliant. As we can see from the financial crisis this level of heavy regulation does not necessarily stop banks from behaving in ways that they shouldn't. What it does is remove any common sense aspect from the regulators decision making process, it encourages a culture of looking over flaws, because as long as the boxes are ticked and the numbers add up nothing else matters, the actions which cause crises go unchecked.

The rules which had been set out became so narrow that the focus of the regulator had shifted from that of overseeing the entire system to only being concerned with the internal operations of the banks themselves. Key clues to the impending financial crisis had been missed all because of this narrow prescriptive approach. The belief that the market can regulate and look after itself seems to have been lost as it is slowly being suffocated by regulations which could hamper business and growth throughout the industry. Many in the industry would believe that it is enough for them to learn from their mistakes and allow them to forge a path to a more secure future. It appears that this is not likely to happen as the Government needs to appear as though it is correcting these mistakes and not ignoring the failures of the banks. Clearly, the Government has over regulated in order to appear as though it is acting in the wake of this disaster. The importance of appearing to not allow this kind of crisis to happen again is incredibly important to the Government as their perception by the public is everything, after all their employment relies upon it. However it could be said that this over regulation has not had an effect on the financial industry as there are still claims of irresponsible lending by businesses, it may not be the banks specifically but in other areas[21]. This is concerning as it once again raises the problems of allowing debt to grow, possibly forming another bubble, which could have the same effects as the subprime

[20] The House of Commons Treasury Select Committee, '*The Run on the Rock*', Firth Report of Session 2007-2008, Volume 1, 24th January 2008

[21] K. Peachey, 'Debt-Laden targeted by Credit Card Firms', 30th August 2017, <http://www.bbc.co.uk/news/business-41082034>

mortgage bible as people are unable to pay off these debts. Whether the system chooses to under or over regulate it seems to suggest that the financial industry will continue to seek ways to create profit for themselves. Such revelations also have a negative impact on the way the industry is seen by the public.

It has become clear that with each collapse of a banking institution more regulation has been introduced, the regulatory system is acting retrospectively, trying to correct the poor behaviour which led to the failure of the institution. Whilst you cannot regulate for the future and problems of which you are not yet aware, it is difficult to understand how we can expect change when we are now disapproving of behaviour which was acceptable at the time. The implementation of this heavy regulation could lead to resentment within the industry, it would appear as though they are being punished despite not breaking any laws and doing exactly as the rules required them to do. It is therefore understandable that there are so many clashes between the industry and the public. The financial crisis caused the public to start taking note of the financial industry's behaviour. Many in the public find it difficult to understand that these crashes continually happen within the financial industry. The crisis is nothing new, however it is new that these collapses have such an effect on the public.

Whilst there was the imposition of a new regulatory structure before the financial crisis it seems that the majority of the regulation has come after. It would appear that this is mainly to appease the public, further cementing the opinion that the Government are doing something about the malpractice which was the cause of so many issues with the financial system. The flurry of legislation began with the Banking Act 2009 and the Financial Services Act 2010. The dates these Acts were published, one and two years after the financial crash took hold, would suggest that these were knee jerk reactions. It would lead many to believe that these were not thoroughly thought through and weren't necessarily in the best interests of the industry, who were struggling to navigate the issues of the time and stay afloat.

The piece of legislation which had the most profound effect on the regulatory system was the Financial Services Act 2012, as this removed the FSA and created two new regulatory bodies who would take over from it, the Financial Conduct Authority[22] (henceforth known as the FCA) and the Prudential Regulation Authority[23] (henceforth known as the PRA). The failures of the FSA had been deemed too large to justify its continued existence, once again meaning uncertainty for the financial sector as regulation was being turned on its head. Whilst there is a significant change in powers for these new institutions it seems rather important to notice the change in name, from security to conduct. It could be the case that security no longer became plausible due to the security of the whole economy being put at risk under the FSA's watch. Not just in the United Kingdom but across the globe as these supposedly 'secure' products were traded worldwide, with the regulator

[22] Part 1A, Chapter 1, Financial Services Act 2012
[23] Part 1A, Chapter 2, Financial Services Act 2012

ensuring their 'security', considering security is 'the state of being free from danger or threat'[24]. This in contrast to conduct, which relates more to 'the manner in which a person behaves, especially in a particular place or situation'[25]. This relates directly to what many people saw as the greatest failure of the financial crisis. That many of these bankers were allowed to act how they wished without any adequate thought of the consequences as they had, on paper, done everything by the rules. This was an obvious shift as the focus was to try and correct the malpractice within the industry. However it could be said that this change is not all that it seems as the Act states 'the body corporate previously known as the Financial Services Authority is renamed as the Financial Conduct Authority'[26]. This would imply that in reality there is no change in the body only its name. It would not inspire confidence that the failings of the FSA would not be repeated by the FCA, which can hamper public confidence in the system.

The creation of these many Acts of Parliament and the new regulatory bodies have undoubtedly caused confusion within the industry. The economy and banks thrive in climates of certainty, whilst a heavily regulated system could do this through the intuitions knowing which obligations they are bound to. It is likely to defeat the object, as constant changes or additions do not give the banks enough time to adequately implement the changes in regulation. It is difficult to equate the failures of the tripartite system of regulation, due to there being too many bodies who concentrate on their own specific areas, to the regulatory landscape in which we now find ourselves with significantly more regulation and more regulatory bodies. Therefore it is rather confusing that the heavily prescriptive regulation was used before the financial crisis and seen to be inadequate due to its nature of being too rigid. Yet since the financial crisis the Governments of the world have become more and more rigid and prescriptive in their regulation.

Whilst there is a regulatory framework laid out for banks, there is much to be said for the internal systems of regulation within banks, this effective internal regulation comes from corporate governance. This is mainly focused towards the internal 'checks and balances' of the banks as 'corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders, and should facilitate effective monitoring"[27]. This definition leaves little room for the opinions of the public, but as they have effectively become shareholders since the financial crisis, as the bail out should be considered an 'investment' in the stability of the economy', therefore it could now apply to them. It could be said that corporate governance is the system which the banks consider to be most important, as this is aligning the regulatory framework with the objections of the institution in a suitable way. This allows a bank the freedom to conduct their

[24] Oxford English Dictionary, Oxford University Press, 2017

[25] Ibid

[26] Part 1A, Chapter 1, s1A (1), Financial Services Act 2012

[27] Organisation for Economic Co-operation and Development, '*Principles of Corporate Governance'*, Paris: OECD, 2004

business how they see fit and maximise profits, whist still acting in a way the regulator deems acceptable.

Corporate governance becomes more important when you consider that banks now have offices all over the globe. Therefore they are subject to the regulatory structure of the host nation, The Organisation of Economic Co-operation and Development and any emerging countries who are establishing their systems. This can create many regulatory problems for banks as they are required to establish their corporate governance policies in a way which suits all of these requirements. The complication of meeting these host nations requirements, then adding on the international standards, ensures that these institutions are held to the highest possible standard. Whist this may be considered good, as the regulatory bar is set higher, it can lead to difficulty and confusion within these banks. The confusion could lead to less effective implementation of corporate governance as there is no clear criteria the banks would need to meet in order to be compliant.

This system of internal regulation ensures a constant, that the principles of the bank are used as a standard across the business, only minor changes need to be made in order to comply with each host nations regulatory framework. One way to end this confusion would be to apply a global standard of regulation, although this would be incredibly difficult as getting all countries to agree would be near impossible. There may also be an opinion that larger countries may try to impose their regulatory systems on less developed nations. This would mean that there was no longer a discussion leading to a global standard, more an enforcement of one system over another, based on political power rather than merit. A more lax approach to regulation would work in this instance as banks would have more freedom to implement a system of corporate governance which suited their operations. However banks may exploit this lax system in order to increase profits, leading to an increase in risky behaviour, for example the actions of Nick Leeson whilst trading on the Singapore International Monetary Exchange[28]. As there is little trust in the financial sector's ability to regulate itself since the financial crisis it is unlikely that they would be allowed the freedom to do so.

A lot can be said for the role that shareholders play in the decision making processes of banks, after all it is them that the bank works for and their decisions at the annual general meetings which shape the course of action for the bank. The role of shareholders could be exaggerated as they rarely take such an interest in the institutions they hold shares in, predominantly they trust the decisions made by the board members and as long as they receive their dividends they do not concern themselves with the day to day running of the bank. Therefore, fundamentally, it is the board who shapes the governance of the institution as no matter how much the regulator chooses to intervene, 'ultimately, it is the responsibility of the leaders of the financial institutions - not their regulators, shareholders or other stake holders - to create, oversee, and imbue their organisations

[28] A. Beattie, '*How Did Derivatives Trader Nick Leeson Contribute to the Fall of Barings Bank?*', Investopedia, Published on Date Unknown, <http://www.investopedia.com/ask/answers/08/nick-leeson-barings-bank.asp>

with an enlightened culture based on professionalism and integrity'[29]. Whilst this is a noble aim it appears that the industry is yet to act with the integrity. This system of checks and balances seems rather redundant as the shareholders are ineffective, due to their inability to carry out this duty to the full extent that they should.

One area in which corporate governance can help regulation is when institutions have a systemic risk. This refers to 'the risk of an adverse change in the financial system as a whole, which would affect all markets and asset classes'[30], in the event of an institutions failure. One of the main regulatory changes to come out of the financial crisis is that it has now become the case that we require financial institutions to plan for their failure. The internal corporate governance is responsible for these living wills, which are 'detailed plans that would enable these lenders to stipulate in advance how they would raise funds in a crisis and how their operations could be dismantled after a collapse'[31]. The hope behind the creation of these living wills, it that a repeat of the panic at the collapse of Lehman Brothers would not occur, as banks would no longer leave mass uncertainty in the event of their failure. As institutions are now global in their nature it is important that there would be a distinct plan at how to wind down a failing institution, which would mean certainty across these boarders. This may sound rather morbid to plan for the failure of the institution you manage, but this is the way institutions stop themselves from having a major systemic impact, which can cause the whole economy to suffer, in the event of their failure.

One of the most drastic but also conclusive ways to correct the malpractice of bankers is through the use of fear. Fear can be incredibly useful in regulating the behaviour of people and does not need to be in an overly threatening way. This is something that regulators could being to implement. If bankers believe that there will be a harsh punishment for any malpractice, then they are less likely to conduct those practices. There will always be exceptions to the rule, but in the majority of cases, it will stem the kind of behaviour which leads to economic crises. However this would be considered one of the harshest forms of regulations, to control someone's behaviour through fear of extreme punishment. In the eyes of the general public this may seem to be justified if it were to stop the malpractice which had come to be so common. If this form of regulation were to be implemented then it would be a considerable jump for the industry, as in reality, those actions which we now consider to be malpractice within the financial industry, were not actually wrong at the time. In the case of the behaviour which led to the financial crisis wrong does not always mean illegal, immoral certainly, but there were no regulations to ensure a company acted in a moral way. Therefore to criminalise what is considered acceptable behaviour within the financial industry would be incredibly harsh. Most likely it would lead to swift changes in how the banks operate, it would not necessarily have an impact on the culture of banks themselves. Rather it may create a culture of resentment within the industry that they are now being villainised. It is clear that the reputation of bankers has been brought down in the eyes of

[29] Numerous Signatories, '*Financial Leaders Pledge Excellence and Integrity*', Financial Times, 28th September 2008 <https://www.ft.com/content/eb26484e-cb2d-11df-95c0-00144feab49a>

[30] The Financial Times, '*Lexicon*', Published on Date Unknown, <http://lexicon.ft.com/Term?term=systemic-risk>

[31] The Financial Times, '*Lexicon*', Published on Date Unknown, <http://lexicon.ft.com/term?term=living-will>

the public, meaning that bankers do not value themselves in the way that they once did. This can have a detrimental outcome on our economy as there is no incentive for them to produce wealth for a country they do not believe values their ability to make wealth. It is also important to note that the regulatory climate is not in the position that it once was to facilitate this ability.

This can also be the case with the 'pain of remembered loss, a term coined by J.K. Galbraith, who wrote about the financial stability of the post war United States, 'as a protection against financial illusions or insanity, memory is far better than law. When the memory of the 1929 disaster failed, law and regulation no longer sufficed'[32]. This would give the impression that regulation is very much unimportant to the actions of those within the financial industry, as it is remembering the fear and the public backlash at times of crisis that forces people to change their ways and act in a more moral way, which would lead to the stability of the economy and not one which only serves self. This is something that no amount of regulation can create, it cannot keep banks and their workers in a perpetual state of fear of these memories. It can create a fear of consequence but not force institutions into remembering the previous crisis, even public memory does not span so far. These memories and the fear of the panic which ensued will slowly be forgotten, this may even speed up as people who have no recollection of these events enter the industry. Whilst the banks are still not trusted institutions it has not stopped anyone from depositing money with them or investing in the economy.

It is clear that there needs to be a form of fear in the regulatory framework, perhaps this should be related to those concepts that are most related to their business, negative value. This is a situation where the average loss is greater than the average gain, when all probable outcomes have been taken into account, it is clear that 'insufficient fear can produce non maximising behaviour when risky options have negative value'[33]. Once again confirming that it is individual perception to their own actions which is most likely to sway their decisions, not that of enforced regulation. A person needs to believe that there will be a consequence to their action, one strong enough to dissuade them from continuing, regulation is yet to come up with such a concept.

The financial industry has been the centre of a culture of bravado, with many only focusing on who can make the most money, with bonuses becoming the measure of status and success in the workplace. Before the financial crisis there was a perception of bankers, as fearless and above all others. Sir Fred Goodwin, CEO of Royal Bank of Scotland Group (henceforth known as RBS), seemed to be the epitome of the archetypal banker, as it was said 'he treated anyone who had a different view from his own with contempt'[34]. Status and pay are therefore intrinsically linked, giving anyone who worked within the industry their sense of self-worth. This link can become toxic for the industry as many will seek out those ways in which they can make the most money, in order to

[32] J.K. Galbraith, '*The Great Crash 1929*', London: Hamish Hamilton, 1955

[33] C. Camerer, G. Lowenstein & D. Pralec, '*Neuroeconomics: How Neuroscience can Inform Economics*', Journal of Economic Literature, Volume XLIII, March 2005

[34] I. Fraser, '*Fred's Downfall: Hubris Followed by Nemesis*', 20th October 2008 <https://www.ianfraser.org/freds-downfall-hubris-followed-by-nemesis/>

improve their status in the bank. Therefore it is unlikely that they would have any concern for those whose money they are handling, this is purely an exercise in self-promotion. Once again this shows that the vast sums of money they dealt with were only numbers and therefore valueless.

This belief in money having little or no value is supposed by the concept of moral hazard, as this concept suggests that people will act more recklessly is they are not fully exposed to the risks. The concept was first used in the insurance industry as it is believed that more people would act recklessly if their possessions were insured, for example, if a person's car is insured they are more likely to leave it parked on the street rather than locked in a garage, as they will not lose out if it is stolen. This is very much the case in the financial industry as they are trading with others' money and not their own. Bankers would be more likely to assess risk adequately and thoroughly if it were their own money they were using to trade. There is no connection between the banker to the end investor and therefore this moral connection or sense of duty towards them, is removed. This was reinforced through previous regulators actions towards the banks, in the United States for example, Alan Greenspan intervened numerous times when he was the Chairman of the Federal Reserve. On several occasions he cut interest rates in order to stabilise the American economy and stimulate growth after crises, such as the Asian crash and the bursting of the dot-com bubble. There then became an over reliance on the Federal Reserve, as not only those in the United States but around the world as they believed that the Reserve would protect them in the event of a possible failure but also stand back and allow growth to flourish. This belief is mostly founded on the principle that the market can regulate itself and that all those in the industry acting in the best interests in the preservation and growth of the financial system, which we have seen is not always the case. Whilst this attitude of a financial safety net allowed those working in the markets to believe they were always protected several economists began to see that this was 'not so much "irrational exuberance" as exaggerated faith in the stabilising power of Mr. Greenspan and the Fed'[35]. This over reliance on the Federal Reserve was to make the collapse of Lehman Brothers all the more shocking for the industry, when the decision not to bail out the bank was made. Perhaps this was the regulators way of trying to combat moral hazard which had so obviously built up in the industry, as the US Treasury Secretary, Hank Paulson, said at the time that letting Lehman Brothers fail was a 'badge of honour'[36], however with the aftermath that ensued this could not be further from the truth.

[35] M. Miller, P. Weller, and L. Zhang, "*Moral Hazard and the US Stock Market: Analysing the "Greenspan Put"*", The Economic Journal, Volume 112, Issue 478, March 2002
[36] A. Seldon, G. Lodge, '*Brown at 10*', Biteback Publishing, November 2011

This view of moral hazard meant that regulation really has no power, this is due to the belief that whether banks abide by the rules which have been laid out or not, they will still be rescued by the regulator through taxpayers money. This is even more the case than before, despite the Federal Reserve's belief in letting Lehman Brothers fall being in best interests of the financial industry, it has led to many more institutions across the globe being bailed out by their respective Governments. In this backwards result of their original intention they have reaffirmed this moral hazard and the belief that they will be saved as they are 'too big to fail'. As 'the financial sector that is emerging from the crisis is even more riddled with moral hazard than the one that went into it'[37], meaning that the decision to let Lehman Brothers fall did not have the desired effect on the industry. Once again proving that regulation is a small determining factor in the views and actions of the financial industry. Which can be seen most predominantly in the slow build up to the financial crisis.

This belief of money being valueless or not seemingly real is seen in a 2010 study by Rüdiger Fahlenbrach and René Stulz, which found that CEOs with the largest shares in their banks were the worst hit during the crisis, for example Dick Fuld held Lehman Brothers stock worth $1 billion[38]. Many would believe that share ownership would have a restraining factor on risky behaviour within banks, although this has not been the case. Due to the nature of this money being intangible there is no need act safely with it. Further illustrating the belief that this money holds no value, unlike the bonuses we have come to expect within the financial sector. Once this money is translated into a bonus and deposited into a bank account, it becomes real, perhaps this is the way to best instil a belief that there are repercussions to failed actions. This can be seen once again by looking to Sir Fred Goodwin, who became one of the most notable figures in the 2008 financial crisis, as he presided over the failure of RBS, which had to be rescued by the tax payer. Whilst this has led to the financial suffering of many, it appears that he has not suffered any personal loss for his actions, considering the pension he was due to receive totalled £703,000 per year, only to be gradually reduced due to a series of public revelations[39]. This shows that for those working in the financial industry, even when they preside over the most notable collapse of a bank, they are still able to leave without any consequence. To many in the public it seems that the bonus and pay structure will still reward employees within banks even if they fail. It could be said that this links into the belief that some banks are 'too big to fail' as the individuals at these banks know that they will always be rescued, due to the systemic risk of their failure. This would further reinstate the belief that they are invincible and may have helped to develop this sense of fearlessness.

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[37] M. Wolf, '*After the Storm Comes a Hard Climb*', Financial Times, 14th July 2009<https://www.ft.com/content/1f7ab9d4-70aa-11de-9717-00144feabdc0>

[38] R. Fahnenbrach & R. Stulz, '*Bank CEO Incentives and the Credit Crisis*', Journal of Financial Economics, Volume 99, Issue 1, January 2011

[39] P. Inman & C. Tryhorn, '*Sir Fred Goodwin Sheds his Pension by £200,000 - But Will Still get £342,500 a Year*', The Guardian, 18th June 2009, <https://www.theguardian.com/business/2009/jun/18/rbs-sir-fred-goodwin-pension>

Even after the financial crisis it was said that the bonus structures would be reformed and this attitude to rewards regardless of performance would be removed. However this was not the case, as late as 2010 pay was not being linked to any form of performance indicator such as share price and continued as it did before the crisis. There has been much speculation about the possibility of a bonus claw back scheme[40], which would see the bonuses of banker retracted if they made ‘a material failure of risk management or misconduct’. This could prove to be an effective course of regulation as it would instil a sense of fear, that the money could be retrieved for a period up to six years. Therefore it would mean losing something for malpractice and creating a consequence. This would show that the banker at fault has also suffered personally for the loss they have caused. However it could be seen that is this a particularly harsh method and could potentially lead to some individuals being used as scape goats for a whole institution. It has become clear that there is a need for these individuals to have suffered some personal loss for their actions, after all ‘not only must justice be done; it must also be seen to be done’[41]. This can easily be seen in the political sphere, if a politician acts in a way contrary to how society expects, or implements a policy which is unfavourable then they are not voted back in during the next election, this then becomes a form of constant accountability. However it would be difficult to say there should be constant accountability to the public in the financial industry as they are not voted into their positions or paid by the public. It would be no way for the industry to operate, but the common consensus is that there needs to be a form of accountability with the regulatory framework.

This change should be implemented within the financial system because the way bonuses are currently structured seems opposite to how the financial system operates. Currently bonuses are focused on short term targets such as sales, this would mean that bankers during the financial crisis would have previously received their remuneration based on how many of the subprime mortgage bonds they sold to investors, rather than how well they performed overall. Meaning that their bonuses are linked to the number of products they sell rather than the return on investment, it is clear that the financial industry is not purely focused on sales. There should be a more long term view to remuneration which links the sales of their products to their overall performance. It seems counter intuitive to reward a banker for selling a product which causes a loss to the investor, as the investor is losing money and therefore unlikely to invest more in the future. Although some would argue that a banker does not work for an investor but for the bank, and therefore should be rewarded for the profits he brings into the institution. However given current mis-selling this can no longer be seen as acceptable, as not only have the sales of these products brought losses to the investors but they have also brought about the collapse of the financial industry. Remuneration schemes of many banks also focus very much on individual performance, rather than the performance of the institution as a whole. Remuneration may be an effective constraint if the packages are linked to the performance of the products they sell rather than how many they sell. A lack of connection between bonuses and performance can cause great anger

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[40] The Bank of England, ‘News Release - Bank of England Consults on Bonus Clawback’, Published on Date Unknown, <http://www.bankofengland.co.uk/publications/Pages/news/2014/053.aspx>

[41] R v Sussex Justices, ex parte McCarthy, [1924] 1 KB 256

amongst shareholders as they see their dividends fall, whilst senior members of the banks staff continue to take home large bonuses and pension packages at the end of their tenure, despite posting continuous losses. In order for trust to be brought back into the financial industry it must be seen that there is no longer a reward for management failures.

It would have been unlikely that the bankers, who worked at these large institutions, would have believed they had a duty to the public. There is no obvious connection to them because bankers had come to see themselves as more than the stereotypical high street bank manager, which the public associates with the industry. They had now moved beyond this as they were selling complex financial products, in order to create mass amounts of wealth for their respective institutions. They began to see themselves as more important and adding greater value to the business. They were no longer solely the custodians of people’s money, or looking to invest in the next small business. They began to see themselves as grander than this, becoming the masters of the economy, all because of the vast amounts of money they were handling and the rewards systems which promoted this attitude. Most fundamentally, the link between the banks and the members of the public can be boiled down to a trust. Whilst there is not the official steps in order to make a trust it could be said that one still exists because the bank is holding an asset, in this case the intangible asset of money, in safety for another. Through this, it can be argued that a bank has a duty to the depositor and therefore has a responsibility towards them.

Bankers have never had the opinion that they work for the public, they see themselves as working for their investors, although it could be said that this isn't really the case, as they use investor money to create vast revenue for the investment arm of banks. Before the financial crisis there was a valid argument for bankers only working for their institutions and investors, however this has since changed as several banks were bailed out using taxpayers money. Meaning that the taxpayer is now the majority shareholder of the institution, and therefore should be treated as such. Alas many bankers still do not see themselves as truly accountable to their shareholders, as their only role is to create wealth, not act in the best interests of everyone who holds shares in the banks. It is clear that the financial industry has a lot of work to do when it comes to winning back the trust of the public and this is not just the role of the institutions themselves but also the regulators who are supposed to oversee their behaviour. A free market can only be successful if there is trust and it is clear that this is no longer the case. There needs to be a drastic change in the financial system, which cannot be done through regulation alone. The public has shifted their view on capitalism and its overall benefits since the financial crisis of 2008, the attitudes are fickle at best, when the system works and people are making money then they trust the system and wilfully ignore the risks. Yet when the system collapses they seek a scape goat or want to change the fundamentals of the economy. This financial crisis was not one that just had an effect on the United States and the United Kingdom, but countries and economies across the globe. The trust which the public had in the financial industry has been lost through this desire for the financial system to exploit the use of complex terminology and confusing nature of the products they were selling. This tactic of creating money through complex and confusing means has been found out and therefore public confidence in the system has been shattered. The public can no longer trust that their bank is looking after their best interests or their money effectively, as it has come to light that they have been lured into purchasing mis-sold products, for example the recent Payment Protection Insurance scandal. This is far after the initial shock of the 2008 financial crash, yet more of this behaviour is still being found out. Further denting public confidence in the financial system, it seems that just when attitudes are finally beginning to change and confidence to slowly come back another scandal emerges, akin to taking one step forward and two steps back.

This is no way for the financial industry to operate, in order for workers to be at their most productive, they need to feel that what they are doing is valuable and have a societal benefit. Bankers no longer believe this and therefore their productivity and profitability suffers. This again has an impact on the economy as a whole as it stifles growth. The public lack of confidence in the banks and the financial industry is having a detrimental effect on their own pockets as the economy cannot perform as it should. This becomes a vicious circle as the economy stays repressed, for which the public blames financial professionals, leading to an even more stagnant economy.

It could be said that there may already be an opinion held by the public that the banks have a responsibility towards them. A responsibility to not have allowed them to borrow so much whist debt was so cheap knowing that they would not be able to pay it back in the event of interest rate rises. However this argument seems rather flawed, as a bank is not in the position to ensure that every customer is making a sound financial decision, after all this is what accountants and other financial advisors are for. Since the tax payer bail out of collapsing banks, there is still the view that they do not need to repay any of this debt. If this has not been seen since the financial crisis where taxpayer money was used to save their institutions it is unclear what would have to happen for them to believe this. There seems to be a culture clash between that of the financial industry and that of the public. The public appears to want to be respected and pandered to as they see themselves as the 'saviours' of the financial system. Whereas the banks do not, as seen previously they already have a belief that without them the economy would not have grown to such enormous heights, and created such wealth which led to the good times which happened before the crisis. There will always be a clash as each expects to be respected for what they have put into the industry, yet they are both unwilling to. No amount of regulation can regain this trust in the financial system, whether this is harsh or lax. There needs to be a shift within the sector where bankers believe they have a social responsibility and therefore act as such, and for the public to not become too involved in the financial system.

One regulatory change which must take place is based on institutions which have a systemic risk. Any bank, whose collapse could be considered a risk to the entire economic system, must view its risk in this way. The board on that institution cannot purely see itself as one entity, this must consider the risk they would have throughout the whole system and implement a system of corporate governance which would account for this. The idea of implementing a governance policy with the view of looking after others, may not appeal to many within the industry but it is necessary to ensure that a global collapse does not happen again. It would also take the financial institutions back to the days of coffee houses, with the belief that they were all looking out for one another, and help each other if there was the dire need. Restoring confidence in each other and giving the public a sense that they were prepared for any eventuality, and able to call on each other in the event of a crisis and not the Government or the taxpayer.

The change within the regulatory system of the FSA being removed and the FCA being created could ease the problems. Yet it is difficult to say how this could be achieved when in reality the same people and departments are being incorporated into the new institution. Is it really the case that there can be a new culture within an institution which houses the same individuals who oversaw the previous crisis? Culture is not changed through rebranding and moving offices, it is done through introducing and implementing new ideas and core values. It is yet to be seen if this change in regulatory body has any effect, and unfortunately can only be judged by another financial crisis, by which time if the change is not effective then it is too late.

It is clear now that financial institutions, most predominately the banks have a responsibility to the public and the economy as a whole. Even though this is commonly dismissed, not just by those within the financial industry but also those teaching it. In institutions today there are lecturers who challenge the idea that the financial industry has any role in public responsibility and protecting society for their own behaviour. This is understandable as, like all people, those individuals don't like to have their thoughts and beliefs challenged. Fundamentally the only way we can change the culture within the financial industry, banks in particular, is through education. To change the industry and it's attitude to recent behaviour, through educating the next generation of bankers and financial professionals. As much as governments wish the alter the actions of the industry through regulation, change cannot come swiftly using this method. Mainly because peoples' actions are not changed through the use of rules or the law. This can be seen in any other area of human nature, just because we have a law forbidding murder, does not mean that people do not commit it. We need to establish a cultural shift within the financial industry, that this reckless behaviour founded upon an individual's own greed is wrong. That these beliefs should be removed before the reputation of the industry is tarnished to a point where it cannot be redeemed and the economy of the world is once again put in jeopardy.

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