Transforming Finance – priorities for the next Parliament

The 2015 election will be nearly 7 years after the financial crisis of 2008, yet the root causes of that crisis have barely been addressed by any mainstream political party. We believe there are five major change that the next government should put in place to create a finance system that serves the needs of society, environment and wider economy.

- **more DIVERSITY** in banking, using the Competition & Markets Authority investigation in retail banking to accelerate growth in mutuals, P2P lending, community and stakeholder banks.

- **more REPONSIBILITY** in financial markets, encouraged by joining the EU Financial Transaction Tax designed to curb unnecessary speculation.

- **more TRANSPARENCY** in savings & investment, backed by a new Responsible Investment Bill.

- **more SUSTAINABILITY**, through the expansion of the Green Investment Bank into a broader state investment bank akin to those in other developed countries like Germany, France and Japan

- **more DEMOCRACY**, by asking the Bank of England to carry out a review of all monetary policy options available to government and central banks to influence the allocation of credit in the interests of the whole of society and the economy, then debate the options in Parliament.

DIVERSITY

Ensure the new Competition and Markets Authority investigation into retail banking is tasked to specifically promote greater diversity in the finance sector including more mutuals, local banks, credit unions, peer to peer finance, community finance institutions and opening up the payment system.

This investigation should be completed before allowing any government stakes in RBS to be sold back to the private sector, allowing consideration of the use of those assets to accelerate diversity in the banking sector, as well as the removal of policy barriers for new entrants and business models other than the multinational High Street banks. It should consider options for reconfiguring the nation's branch network to adapt to online banking while leaving universal physical access to all sections of society.

Unlike many other major economies, the UK currently has no local banks to speak of and a very small community finance sector. There are also large numbers of people who do not have access to basic banking services. The government should help capitalise and create the central infrastructure that start-up local banks could plug into to gain economies of scale (e.g. access to the payment systems). Public authorities should not be restricted from placing deposits in financial institutions that do not hold AAA credit rating, if other local economic benefits can be demonstrated. A general moratorium on branch closures should be imposed until the review is concluded.

RESPONSIBILITY

The UK should immediately sign up to the European Financial Transaction Tax, in order to help reduce some of the unnecessary speculative trading of financial assets.

The dominant culture of short termism in financial markets is one of the root causes behind the misallocation of capital, whether it is overvaluation of fossil fuel stocks, periodic asset and property price bubbles or instability caused by high frequency trading. Given the City of London's dominant position in European markets, participation of the UK in the FTT would make it a more effective global policy and give confidence to other markets such as the US to introduce similar measures. The FTT would also be in the interests of pension investors, as it would mean more attention paid by asset managers to long term prospects of their holdings and reduce costly, often hidden, fees for excessive trading.

TRANSPARENCY

Bring forward a Responsible Investment Bill to impose clear duties on professional investors to act responsibly in savers' long-term interests, and to guarantee savers basic rights to scrutinise decisions made on their behalf. The FCA should work with industry and consumer groups to develop a simple method of showing savers with banks and other deposit-taking institutions how their money is being used.

The introduction of automatic enrolment will see up to 10 million more workers joining the UK's private pensions system. With the retirement incomes of the UK's working population at stake, it is crucial that capital market are equipped to deliver sustainable returns over many decades.

The challenges of environmental sustainability and social inequality have profound implications for savers' quality of life and financial security. But currently, the absence of sufficient incentives to act in savers' long term interests means that these long-term consideration are frequently overlooked. In advance of the financial crisis in 2008, fund managers were complicit in encouraging banks to take excessive risks to push up returns. And the market value of fossil fuel companies takes no account of the potential implications of climate change.

Two key factors are driving this market dysfunction. Funds regularly misinterpret their fiduciary duties as requiring an exclusive focus on profit each quarter. And the opportunities for savers to hold them account for their decisions are limited.

The Bill proposed would impose clear legal duties on all those managing savers' money to act responsibly in their long term interests. It would give savers guaranteed rights to scrutinise decisions made on their behalf, with rights to information and participation in the development and application of fund policies. (It should also provide governance structures to ensure there are no conflicts of interest between the saver and the different agents investing, or advising on the management of their money.)

SUSTAINABILITY

Establish a state-backed British Investment Bank, with full borrowing powers from the outset, along the lines of Germany's KfW. This could be created by expanding the remit and powers of the Green Investment Bank.

In 2010, all parties entered the election supporting the creation of a Green Investment Bank. However, the institution that has been created lacks important features of the sorts of a state backed investment banks that most other developed countries have in their financial system. The GIB needs to become a fully-fledged state bank, with the ability to make long term investment decisions and lend to infrastructure projects which have social value, but short term returns lower than private banks will accept. To do this the remit needs to be expanded, the powers should include ability to borrow from capital markets, and the scale of the institution needs to be placed on a trajectory that is comparable to KfW, which is the second largest bank in Germany. Finally, the UK needs to review the rules governing public accounts so they are in line with other countries in the OECD when handling the balance sheets of state backed banks.

DEMOCRACY

Mandate the Bank of England to produce a full review of options to use monetary policy in order to influence the allocation of credit in the economy.

Since the use of quantitative easing in the immediate aftermath of the financial crisis, there has been an expansion of political discussion over the use of monetary policy tools for economic and social purposes. The choice of unconventional monetary policy tools since 2008 – QE, Funding for Lending and Help to Buy – have all had significant consequences for the distribution of income and wealth and should therefore be subject to democratic scrutiny and debate. Alternative options exist, from using QE to invest in the real economy rather than government bonds, through the creation of Sovereign Money, and central bank credit guidance to reduce the use of private bank credit for speculative purposes, creating asset bubbles, including in the property market. We can no longer regard monetary policy as a neutral, technical exercise, alongside the more political and democratic use of fiscal policy. Both have social and economic implications which should be properly accountable to the electorate. This debate needs to be harnessed and formalised by the next government. Once the options are on the table, then structures need to be put in place that ensure political accountability for monetary policy.