

[Criticisms of Vickers](#) [1]

Written by [Blog Editor](#) [2] | Thursday 15 September 2011



A new Adam Smith Institute [briefing paper](#) [3], out today, argues that:

- The Vickers report is a botched opportunity. It will not solve the errors of the past.
- The Independent Commission on Banking's (ICB) proposals will pile new levels of regulation when the problem was that former regulations were either poorly conceived, imperfectly enforced or went unheeded.
- The ICB proposals run the risk of institutionalising moral hazard by entrenching the expectation of bailouts.
- The ICB proposals also fail to get to grips with the systemic risk inherent in the deficiencies in international capital regulation.
- Ring-fencing should not have been the ICB's priority. Instead the report should have concentrated on competition, transparency, and resolution regimes.
- Ring-fencing fails to address the problems in the banking system. In fact, the systemic risk in 2007 and 2008 stemmed from banks which would have complied with most of the report's ring-fencing criteria.
- Ring-fencing bank operations won't achieve the separation of risk the ICB claims. Difficulties in a non ring-fenced subsidiary would depress the stock price of the parent company and thus the scope to recapitalise the tier-one capital of the ring-fenced bank.
- The ICB's presentation of the history of why the banks failed is self-serving. It does not take into account the role policymakers had in encouraging regional banks to take on aggressive funding policies. It also includes irrelevant examples such as Lehman Brothers. Vickers' narrative ought to be robustly challenged (see p4 of the report).
- The UK banking system is oligopolistic. The implicit protection mandated by ring-fencing would be a further force against competition. The retail banking monopoly would be best addressed with a firm 'no bailout' policy and, where necessary, anti-cartel regulation.
- We also need to introduce a culture of transparency on top of the macro-prudential reporting proposed by Vickers with principles-based disclosure and regulation replacing the former regime of compliance by process-oriented box ticking.
- The report should have gone further in designing a resolution regime for the orderly winding-up of failed banks

Miles Saltiel, the author of the report and a fellow of the Adam Smith Institute, said:

'The Independent Commission on Banking's final report has its priorities all wrong. Vickers' central proposal 'ring-fencing' addresses a problem the UK banks did not have during the crisis, and largely

fails to deal with the real problems now and then. A stronger focus on competition and transparency would make many of the proposed reforms unnecessary.?

Tom Clougherty, executive director of the Adam Smith Institute, added:

?Vickers should have focused on getting rid of the government guarantees that encourage reckless behaviour, while also coming up with a credible plan for winding up failed banks. Only a clear ?no bailout? policy will encourage more responsible banking and increase competition in the sector.?

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