"Banking for the Public Good"

by

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ABSTRACT

Bank shareholders cannot be expected to provide good stewardship to banks because there is a conflict of interests between the shareholder owners and a non-mutually owned bank's depositors; who provide the bulk of the funds in traditional retail banking and are willing to accept a lower return on their savings than shareholders, in return for lower risk exposure. Regulation is required to protect depositors in the presence of partially funded deposit insurance schemes and taxpayers need to be protected from the resulting moral hazard under which insured banks have an incentive to take on more risk in pursuit of profit. Once some banks become 'too big (to be allowed) to fail' (TBTF), they enjoy additional implicit public (taxpayer) insurance that enables them to fund themselves more cheaply than smaller banks. This gives them a competitive advantage. The political influence of big banks in the US and the UK is such that they can be regarded as financial oligarchies that have successfully blocked far reaching structural reform in the wake of the 2007-09 Global Financial Crisis. The TBTF problem and associated moral hazard has been made worse by mergers of weaker banks with stronger ones during the crisis. Alternative solutions to making the banks small enough to be allowed to fail are considered in this paper, but it is difficult to see how they will deliver banks that promote the public good.

Key Words: too big to fail banks, corporate governance, public good, oligarchy, Global Financial Crisis.

Introduction

The Global Financial Crisis (GFC) of 2007-09 can be regarded as an example of the failure of bank management to impose effective internal controls and more widely of the corporate governance of banks (Walker, 2009). There were many factors contributing to the GFC, such as 'global imbalances' and the 'mis-pricing' of risks by the credit rating agencies (Greenspan, 2007; FSA, 2009; Rajan; 2010), which made the management banking risks more difficult following a period of progressive financial sector liberalisation and rapid financial innovation; culminating in the development of collateralised debt obligations (CDOs), initially designed to facilitate the management of credit risk exposures (Tett, 2009). Green (1989, Abstract p.63), a senior banker,

warned that the liberalisation and innovation, which was linked to wider technological innovation, were "sharpening ethical conflicts". He went on to argue that: the "Bankers' role is one of stewardship based on trust" by their depositors and they have a duty to lend responsibly. The conflicts arise because: "Banking is about rewards reflecting real risks and ethical considerations form an important part of our risk taking activities. The welfare of our borrowing customers in good times and bad is of major concern". He goes on to say that: "We depend on people to run our businesses and to reflect our ethical standards". He concludes: "A bank's responsibility extends to Government, customers, shareholders, staff and the community" and that the increasingly complex banking environment would "test our resolve and commitment to ethical behaviour". In the period leading up to the GFC the bankers failed to exercise good stewardship and lost public trust in the wake of it. Another senior banker, Green (2009) expresses similar sentiments. Walker (2009) goes on to criticise institutional shareholders for failing in their own stewardship role.

Carcello (2009) postulated that well governed firms are more likely to serve the 'common good', as defined by John Rawls (see Andre and Valasquez, 1992) in the sense that general conditions are achieved that are to everyone's advantage and thus they benefit society as a whole, or 'the public good'. This is because, as owners, shareholders seek a return on their equity investments that is commensurate with their riskiness. Mullineux (2006) reviews literature on the corporate governance of banking firms, including and O'Hara (2003); which concludes that institutional shareholders are unlikely to deliver good corporate governance, or 'stewardship' (FRC, 2010) of big banks in the interest of the public good. This is because they will seek a return on equity, and thus an exposure to risk, that exceeds the levels that retail depositors, traditionally the main funders of retail banks, desire. Retail depositors thus need to be protected, and bank regulation is required. Depositor protection is commonly partial, and underwritten by taxpayers (Macey and O'Hara, 2007), and so the risk that shareholders face is in fact 'socialised' (Admati et al, 2010). This in turn creates 'moral hazard' problems **(**Mishkin, 2009**)** that encourage shareholders to urge bank management to take even more risk since it will be borne by others. To combat this, regulatory 'taxes', such as deposit

insurance premiums, capital adequacy and liquidity ratio requirements, need to be risk-related (Merton, 1977). Most taxes are, however, dostortionary (Mirrlees, 2010) and risks are difficult to assess in a world of innovation and uncertainty, in the sense of Knight (1921). Excessive regulation and mis-priced regulatory taxes are likely to discourage 'good' (transaction cost reducing) financial innovation (Mullineux, 2010) and encourage the migration of banking business from the regulated sector to the non, or more lightly, regulated 'shadow', 'parallel' or 'secondary', banking sector, as it has been variously called over the years (Pozsar et al, 2010).

Too big to fail!

Big (or interconnected) banks, such as Lehman Brothers prior to its demise in September 2008, are 'too big (to be allowed) to fail' (TBTF) because their failure is likely to cause substantial damage to the banking system as a whole and would be large enough to spark a panic, or full blown crisis. Recently, such financial institutions, mainly banks, have been dubbed strategically important financial institutions (SIFIs) by the Financial Stability Board **(**2011)**,** and a distinction is drawn between domestic SIFIs and international or global SIFIs; which could threaten not just the domestic banking or wider financial, systems, but those of other countries too.

The GFC stimulated mergers between weaker and stronger banks in a number of countries, including the UK and the US, leading to an aggravation of the TBTF problem. Further, the widespread government intervention to 'bail out', or rescue, banks has potentially aggravated the moral hazard problem by making it evident that a number of banks are indeed TBTF. Some big banks, such as WestLB in Germany, have in fact been bailed out more than once!

The TBTF problem is hard to resolve and is perhaps the major challenge facing bank regulators (Mullineux, 2011). The most direct solution is to break up the big banks into smaller units that can be allowed to fail and to reduce complexity by separating different types of banking activities, such as investment banking from commercial banking, for example, as the US Glass-Steagall Act (1933),

did following the major US banking crisis in the early 1930s. This Act was replaced by the Gramm-Leach-Bliley Act (1999) in the US, which allowed the development of more complex 'universal' banking. Alternatively, retail banking could be ring fenced in separately capitalised subsidiaries, as proposed by the UK's Independent Commission on Banking in its interim report (ICB, 2011).

Prospects for Restructuring

It seems unlikely that a fundamental restructuring of the banking systems in the UK and US, or elsewhere, will be instituted by governments in the wake of the GFC. Indeed a recent IMF Staff Discussion Note (Claessens et al, 2011) has argued that governments have moved too slowly to restructure their banking systems compared to previous crisis and may have missed the window of opportunity to reduce substantially the probability of another damaging crisis. In this paper, we take the banking system to include retail, wholesale, investment banking activities (Casu, et al, 2006; Matthews and Thompson, 2008), and 'universal banks' combine these activities.

In the UK and the US, financial 'oligarchs' have particularly powerful connections with government (Johnson and Kwok, 2010; Cohen, 2011) and are willing and financially able to engage in extensive lobbying. Both countries believe they have a 'comparative advantage' **(**Ricardo, 1817**)** in the provision of international financial services through their 'City' (London) and 'Wall Street' (New York) financial centres. In recent years, particularly since the 2001 'Enron crisis' (McClean and Elkind, 2003) enactment of the Sarbanes-Oxley Act (2002**)** in the US, the two centres have engaged directly in competition for international financial business encouraged by efforts on the part of their city and financial authorities to promote them.

During the GFC, and as it abated from March 2009, the UK government expressed concern that the UK had perhaps suffered from the 'Dutch Disease'; in the sense that the success of the City had pushed up the value of sterling to the disadvantage of other industries, particularly in the manufacturing sector. There was talk of the need to 're-balance' the economy to reduce reliance on

the financial sector (Financial Times, 01/08/2011, P3). Directly, through corporation tax, and indirectly through house purchases, share trading and other financial transactions on which stamp duty or capital gains tax is paid, the financial sector had delivered a proportion of tax revenue well in excess of its share of GDP. Further, its share of Gross Domestic Product (GDP) and its productivity in the boom times may well also have overestimated, since a significant proportion of transactions and 'deals' in the end lost money; hence the financial crisis. The City was thus a 'golden goose', and the financial oligarchs have increasingly successfully argued that the proposed post GFC restructuring and re-regulation will kill it to the detriment of the British public. Instead, bankers should be allowed to get back to 'business as usual' as soon as possible, and the government should take actions to restore the competitiveness of the City.

In the US, restructuring proposals and tougher consumer product regulation and other regulation involving financial derivates were contained in the Dodd-Frank Act (2010), but this has been progressively weakened in response to the lobbying by the financial oligarchy of senators and the regulators tasked with operationalising the Act.

A similar process is underway in the UK. In its interim report in April 2011, the government appointed ICB made a number of recommendations; including increasing the forced sale of branches by the Lloyds Banking Group (LBG), the largest UK banking group, beyond the 650 or so required by the European Commission (EC) Directorate General of Competition following the LBG's 'bail out', and thus government assistance, at the expense of UK taxpayers. The ICB also recommended the ring fencing in separately capitalised subsidiaries of the retail, 'utility', banking (Mullineux, 2009) operations of UK banking conglomerates. Universal banks, such as Barclays, regard the combination of investment and perhaps commercial banking, perhaps also insurance, as providing economies of scale and scope, which is efficiency enhancing. This is strongly contested (Haldane, 2010), and the increased scale and complexity is in fact problematic from both managerial efficiency and regulatory perspectives; but the banks' argument is consistent in that it warns that fundamental restructuring will reduce the UK's comparative advantage in finance.

Barclays and other UK based international banks (Standard Chartered and HSBC) have warned that they might have to move their head offices to other financial centres if they are 'over-regulated' 'or 'overtaxed'. In addition, the shares that the EC has required LBG to sell are likely to be bought by a relatively small existing UK bank and the potential buyers have warned that they cannot absorb substantially more branches. Consequently they oppose the ICB proposal for additional divesture of branches by LBG. They have thus sided with the big banks, presumably because they want to join the financial oligarchy alone, rather than alongside another small to medium sized new entrant and competitor!

In sum, the financial oligarchies in the UK and the US, and elsewhere, seem to have successfully persuaded government not to enforce substantial restructuring and banks that are TBTF will continue to exist, and so will a few other SIFIs. The problem is less acute in the US, where no bank has much more than 10% of banking deposits and big banks are subsequently smaller, relative to GDP, than in the UK; where the banking sector is also much more concentrated. LBG has more than 30% of British deposits, for example, and the banking sector in the UK makes up a much larger proportion of GDP than in the US. The Bank of England, which is to resume responsibility for bank regulation after a period following the Financial Services and Markets Act (2000), which transferred bank regulatory responsibility from the Bank of England to the Financial Services Authority (FSA), is acutely aware of the threat posed by such a large and concentrated banking system (Haldane, 2010). The Bank of England also doubts that increases in regulatory capital requirements will substantially reduce bank lending to households and small and medium enterprises (SMEs) and raise bank lending rates of interest excessively. These doubts are shared by (Miles et al, 2011) - see also Admati et al, (2010). Nevertheless, the UK government seems increasingly swayed by the banks' arguments espoused most forcefully by the Institute for International Finance), the global association of financial institutions (IIF, 2011).

Corporate Governance of Banks

The TBTF problem (Mullineux**,** 2011**)** is essentially that SIFIs, mainly banks, enjoy insurance from the taxpayer above and beyond that paid for through the deposit insurance schemes to which they contribute, along with normal levels of access to liquidity from their central banks. This gives them a competitive advantage over smaller banks that can be allowed to fail, because the implicit government guarantee (at the ultimate expense of the taxpayer) reduces the big banks' cost of raising equity and bond financing. It also allows them to raise deposits more cheaply if deposits are only partially insured by the national funded deposit insurance scheme, to which they contribute. Knowing that they will be 'bailed out', there is a moral hazard problem, and the shareholders of big banks have an incentive to encourage their management to take more risk in pursuit of a higher return on equity. Unless the management resists this pressure, as Green (1989) argued they should, by focusing on the interests of all stakeholders, not just shareholders, and putting in place internal risk controls in pursuit of a higher cost efficient return on (risk weighted) assets, rather than equity, the next crisis will eventually transpire. Good, shareholder led, corporate governance, or 'stewardship', of banks cannot be relied upon to deliver an outcome that benefits all stakeholders, or the public good. Instead, banking must be regulated to protect depositors, the major funders of retail banking, and taxpayers against abuse and to assure that all customers, including borrowers, are 'treated fairly' FSA (2010).

Financial Stability as a Public Good

Financial exclusion notwithstanding, a substantial majority of taxpayers are both voters and bank depositors. The 'bail outs' of SIFIs are required to assure financial stability, which is an archetypical 'Public Good' in the economic sense (Samuelson, 1954) that consumption by one person does not reduce the amount to be consumed by another and that there is a 'collective action problem' (Olsen, 1965) in its provision. It is not costless to produce financial stability because it requires regulation and supervision to achieve it, and once produced, all will benefit from it (except perhaps hedge

funds, which thrive on instability) even if they might not all be willing to pay for it, and would prefer others to do so instead. Efficient regulation is, however, difficult to design, let alone institute, and risks introducing distortions; favouring the growth of relatively less regulated, non-traditional, or 'shadow', banking systems (Pozsar et al, 2010). Further, it is difficult to provide insurance to depositors and other investors without creating moral hazard. In principle, in order to discourage risk taking, all deposit insurance schemes, should be pre-funded and charge risk related premiums (Merton, 1977), but the risks are difficult to measure in a world of uncertainty and continuous change, including financial innovation, as Green (1989) noted. Pre-funding using risk related premia collected from banks is required to 'tax' bank risk taking and build a fund to protect depositors. Deposit insurance schemes that 'pass the hat around' asking for contributions from the surviving banks after one or more bank failures, are less fair and more likely to be met with a response that the remaining 'sound' banks response from the surviving banks that they cannot afford to contribute; leaving the taxpayer to pick up the bill. Too much regulation chokes off good (transactions cost reducing) financial innovation, as well as potentially damaging risk increasing innovation. In the phase of widespread 'adoption' of an innovation (Sinkey 1992), however, financial innovation commonly under prices risks (Mullineux, 2010), as appears to have been the case in the 2007-8 subprime mortgage crisis (FSA, 2009).

The 'Dutch-dyke' problem

Who should pay for the production of the Public Good called financial stability; which is in fact hard to conceptualise except in the negative, absence of financial instability! There is a 'Dutch-dyke' problem (van Dantzig, 1956) to be resolved. How high should the defences (e.g. capital adequacy and liquid reserve requirements on banks, or dykes in the Dutch Polderlands, or levees along the Mississippi river) be built, given that there are costs of doing so? In banking, these costs include reduced lending, and thus possibly slower economic growth, in the face of high capital and liquid reserve requirements; and perhaps also less financial product innovation of the beneficial kind. Is the

aim to reduce the risk of a flood, or a financial crisis, to zero, or is it too costly to do so; so that some non-zero probability of a flood or crisis is acceptable to the public?

It seems that we have to accept a non-zero risk of another financial crisis occurring, or else banks would eventually have to stop lending retail deposits (Kay, 2009; Kotlikoff, 2010), but we want to reduce the probability of the next crisis being as damaging as the GFC. In which case, the taxpayer/voters must accept that they must co-insure, with the bank shareholders, and probably also bank bondholders, against the risks of a major crisis. The balance to be struck is essentially a political or social one, but post crisis tightening of regulation has historically given way to progressive deregulation, as the time since the last major crisis increases, and the financial oligarchy persuades the politicians and regulators that 'IT, a major crisis (Minsky, 1982) , will never happen again (Kane, 1987). With an increasingly global financial system, the decision cannot be taken by one country and its electorate alone. International coordination is required. Greater defences against crises, in the form of higher capital and liquidity requirements on banks, with supplementary requirements on SIFIs, as proposed by the Basel III (Bank for International Settlements, 2011) are likely to reduce the scale and increase the cost of bank lending somewhat. There will be additional costs if the higher the defences result in significantly slower growth, on average, and over successive business cycles. That there is some trade-off between higher capital requirements and economic growth, is not in doubt, the argument is about the scale of these costs (Miles et al, 2011; IIF, 2011). The US 'growth imperative' and associated US housing policy may anyway have been a major cause of the 'debt and housing price bubbles' that contributed to the crisis (Rajan, 2010; Archarya et al, 2011).

Should bond-holders take a 'haircut?'

Institutional shareholders (insurance companies and pension funds etc) are expected to underpin the good corporate governance, or 'stewardship', of banking (FRC, 2010**);** but what about bank bondholders? A debate erupted in 2010/11 in connection with the debt crises in Ireland and Greece, over the extent to which bondholders, particularly the 'senior' ones, should be forced to absorb losses, or take a 'haircut', in the case of a bank, or government, default. It should be noted that

banks, pension funds and insurance companies are commonly large holders of senior, in the sense of having priority as creditors in cases of bankruptcy, bonds issued by banks and governments. Less senior, bondholders face higher default risk, but they can 'insure' against it using financial derivatives such as 'credit default swaps' (CDS) – see Tett (2009).

To satisfy the Basel I and II capital adequacy requirement (see www.bis.org/bcbs/basel3.htm **),** banks issued large quantities of 'hybrid' bonds. These are supposed to have some of the qualities of common equity in that, in the case of default, losses will be incurred, and they are lower down the pecking order of creditors than senior bond holders, but ahead of 'ordinary' shareholders; who are last in the line. Basel III, the post GFC revised bank capital requirements, concentrates on reducing reliance on 'non-core', or hybrid, capital and raising the risk related and minimum 'core' (common equity, or 'ordinary shares') capital ratios (BCBS, 2011) .

The senior bondholders should rank behind retail depositors in terms of the seniority of their credit repayment rights, but, with a few exceptions during the crisis, they have hitherto been protected against post crisis 'haircuts'. Pressure, however, mounted during the Ireland Debt Crisis in 2010/11 to force junior Irish bank bondholders to accept a reduction in the value of their bondholdings, or a lengthening of bond maturities. The European Central Bank (ECB) has counselled strongly against actions that would undermine the creditor rights of both the junior and senior bondholders of banks. The ECB (and the French governments) was also concerned that defaults by Greece and other countries would damage their bondholders, particularly the large French and German banks. In cases such as Greece and Ireland, the value of the senior bank bonds and the bonds issued by their host country governments, are closely related; given government support for the banks and the requirement for banks to hold government securities as liquid assets. It should be noted, however, that in providing liquidity support to banks, and also the governments of Greece and Portugal, the ECB has built up a large portfolio of increasingly risky bonds, which have been posted as collateral against its short term loans. Defaults would impact negatively on the credit standing of the ECB and

its constituent national central banks, including the Bank of England; at the ultimate expense of taxpayers.

In June 2011, however, it became clear that the German government was pushing for an agreement which would involve all bondholders, including the senior ones, taking losses in the case of a 'default' by Greece by 'volunteering' to reschedule payments by exchanging maturing bonds with bonds of longer maturities (Financial Times, 9/11/2011, P12) and 10/11/2011, P6). An interesting twist, given their alleged culpability (FSA, 2009) for the GFC as a result of their over-rating of the credit quality of mortgage backed securities (MBS), and the derivative financial products created using MBS, namely CDOs, is that the credit rating agencies will be the ultimate arbiters of whether or not Greece 'defaults'; and thus whether a 'credit event' has occurred, and CDS holders can claim compensation – see Tett (2009) on CDS and CDOs. The rescue package agreed by the Eurozone governments for Greece on July 2, 2011 (Financial Times, 22 July, 2011, P1) in the end involved a contribution by the bankers, negotiated by the IIF, of 21% to the package; a 'haircut', but not as substantial as the bankers had feared and roughly half of what the 'markets' thought necessary to resolve Greece's debt problem. Nevertheless, this creates an important precedent for the debt of a developed country.

'CoCo' Bonds and 'Bail-ins'

Short of the potentially dangerous step of forcing senior bank bondholders to take substantial 'hair-cuts' or losses, banks could be required by regulators to reduce their funding from the issuance of such bonds, and to issue more contingent-convertible ('Co-Co') bonds instead. These bonds convert automatically to equity when core-capital falls below same 'trigger' level. This is the approach adopted in Switzerland, where the biggest banks are very large in relation to GDP, even compared to the UK. The Basel Committee of Banking Supervision (BCBS) has agreed to recognise Co-Cos with low trigger levels as bank capital. There is, however, substantial doubt that Co-Cos would help avert a crisis and some concern that they might actually trigger sell offs of troubled banks' shares by

shareholders fearing dilution of their proportional shareholdings following any conversion of Co-Cos into shares (Goodhart, 2011).

The solution seemingly preferred by the European Commission, the BCBS and the Financial Stability Board is to use 'bail-ins' (FSB, 2011), which would allow government backed regulators to force bondholders to share losses in the cost of a government 'bail-out' of bankers. In contrast to Co-Cos, there would be no clear trigger for intervention by the regulatory authorities, which would thus be more discretionary so that the conditions imposed on the bank bondholders would be more uncertain. Because of the increased risk faced by bondholders, both the Co-Co and bail-in proposals, or some combination of the two, will raise the cost of bond finance to banks; and potentially lead to restricted lending and higher costs of borrowing, but again the extent of the effect is moot, (Miles et al, 2011; IIF, 2011).

Living Wills

Short of breaking banks up into units small enough to be allowed fail, regulators in the UK and elsewhere (FSB, 2011) have been exploring the possibility of establishing 'special resolution regimes' for big banks. These would allow them to continue to operate their core retail banking and payments system related functions whilst closing down or divesting, peripheral investment banking, trading and wealth and asset management activities at short notice. As the Lehman Brothers debacle in September 2008 demonstrated, this seems a tall order for large complex banks. The resolution problem is even more complicated for banks with international operations based in other countries; again as the Lehman Brothers case demonstrated when the money held in its London operation was quickly brought home to New York ahead of the denouement! In 2011, Lehman's liquidators were still busy trying to untangle the complex web of domestic and international financial transactions to establish who owes what, to whom. The international resolution process is complicated by working

in different legal jurisdictions with differing accounting practices and the Financial Stability Board, which is attempting to coordinate the international regulatory institutions relating to global SIFIs, is working on this too (FSB, 2011).

Taxing Banks Fairly

If TBTF banks are not to be broken up, the proposal by the UK's ICB to 'ring fence' retail banking is at least a half-way house that facilitates the operation of retail or 'utility' banking (Mullineux, 2009) in a separately capitalised subsidiary and might help in the implementation of special bank resolution arrangements. However, this solution makes taxpayer support of retail banking operations explicit and implies that the rest of the universal or conglomerate banking operation is, at best, implicitly insured. This has led the credit rating agencies to declare that the affected banks could have their credit ratings downgraded because their implicit government, or taxpayer, underpinning was being reduced.

To achieve a 'level playing field' as regards competition in banking and reduce taxpayers as underwriting risks, TBTF banks, or SIFIs, should contribute towards paying for the insurance, explicit or implicit, they enjoy above and beyond that paid for through the national deposit protection scheme; which is essentially for the depositors of smaller banks. Whether they should pay in full for the production of the Public Good, finance stability, or share the cost with taxpayers, and in what proportions, is moot. The TBTF banks, and thus their shareholders (and hitherto senior bondholders), who benefit from the taxpayer insurance, should be treated on a par with those of smaller banks so as to assure a competitive equality otherwise the big banks will enjoy cheaper funding and continue to attract the bulk of deposits because they are better insured. A special levy on TBTF banks

aimed at extracting a risk related premia for the supplementary, explicit and implicit, insurance they enjoy should thus be levied. The levy should reflect their risk exposures and relate to the size of banks relative to the GDP of a country; which reflects the ability of governments, and their taxpayers, to bail them out. The size of the subsidy can be gauged using credit rating agency data, which builds in a credit rating bonus for banks supported by credit worthy governments. This approach is, however, potentially problematic, since countries with banks that are large relative to their GDPs would need to levy proportionately more tax than countries, such as the US, where big banks are relatively smaller. The higher the levy, the more the domestic banks are likely to be handicapped in international competition. Taxpayers should thus share the costs of the regulation and supervision of banks and the wider financial sector.

It has been noted above that higher capital and liquidity, requirements are (non-revenue raising) 'taxes' on banking activity that should ideally be risk-related in order to discourage excessive risk taking and to curb moral hazard. Under the Basel III proposals, the SIFIs will have supplementary capital requirements reflecting their degree of riskiness in order to make them safer (BIS, 2011). In order to avoid 'over-taxing' banks, such supplementary regulatory taxes, which effectively provide insurance funds held within banks against financial instability, held within banks, must be carefully co-ordinated with special levy contributions designed to assure that the shareholders, and bank bondholders of big banks, do not 'socialise risk' at the expense of taxpayers. Lack of international co-operation between competing financial centres may well prevent optimal co-ordination, but the Financial Stability Board is trying to find a solution (FSB, 2011) .

Conclusions

The continued existence of TBTF banks, and other SIFIs, creates moral hazards and powerful vested interests. This makes it difficult to see how banks can be governed by shareholders and regulators, and other stakeholders, in such a way that they pursue the public or common good. Perhaps 'living wills' involving increasingly international banks, and thus the necessary international bank 'bail-out' burden sharing and bail-ins, will work; but this seems doubtful. The too big (or complex) to fail banks are in all likelihood simply too big or complex and politically influential and powerful, to serve the public good. An alternative route to the ring fencing of retail banking proposed by the UK's Independent Commission Banking (ICB, 2011), is to enhance consumer protection regulation by to establishing a dedicated retail banking (and insurance) utility regulator ('BankInCo', perhaps?). Instead, the UK government is to establish a Consumer Protection Authority (CPA), which mixes consumer protection with wholesale and securities market regulation and supervision. This is in contrast to the US, where there is a dedicated security market regulator, the Securities and Exchange Commission (SEC). Mullineux **(**2009**)** argues that US approach is preferable. Alongside consumer protection, the utility regulator would naturally take on the financial inclusion (Mayo et al, 1998) and the consumer financial education mandates. By raising compliance costs and eliminating cross-subsidisation, it would reduce the profitability of providing retail banking products and services. This might encourage universal banks to divest their retail banking business, leaving it to specialists who might have an incentive to engage in old fashioned 'relationship banking' (Mullineux and Terberger, 2006).

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