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## Ownership and control of UK banks

*The Governor outlines<sup>(1)</sup> the Bank's approach, under the extended powers provided by the new Banking Act, to the ownership and control of banks in the United Kingdom. In particular, he says:*

- *In interpreting the 'fit and proper' criterion under the Act, the Bank 'should not hesitate to use its discretion, commonsense and experience in judging when the prospective controller of a bank may be outside the bounds of acceptability: anything in the character or business of a prospective controller that may threaten confidence must concern us.'*
- *'We do not look favourably on acquisitions of stakes designed to put banks 'into play'. Neither do we welcome bids whose purpose is . . . that a bank may be sold or broken up in ways that may be detrimental to depositors' interests.'*
- *'I would need some persuading before an industrial or commercial company is allowed to take control of a bank: the closer the bank to the heart of the financial system, the greater my doubts are likely to be.'*
- *'As a general rule we would not wish to stand in the way . . . of overseas participation in a British bank or financial institution. But it runs counter to commonsense to argue that the openness of the London market must be carried to the point where control of the core of our financial system may pass into the hands of institutions whose business aims and national interests lie elsewhere.'*

On my last visit to Northern Ireland, in 1985, I spoke to the Province's bankers about the rapid changes in the financial sector and the challenges that then appeared to face them: these included the removal of artificial barriers to institutional change, the pace of technological development, and the resulting intensification of competition for business.

Since my visit, these pressures have been very evident, particularly in the institutional and structural changes related to last year's Big Bang and its aftermath. But competition and adjustment, while often painful for the firms concerned, have generated increased business for the financial sector.

The Big Bang has involved changes in the ownership of many securities firms, and has also raised questions about the ownership and control of the banking sector. In Northern Ireland, attention was recently focused on this question by the acquisition of Northern Bank by National Australia Bank; and more recently there has been speculation about the Bank of England's attitude to changes of ownership of other banks.

### Ownership of banks

The coming into force of the Banking Act on 1 October provides an opportunity to clarify the Bank's approach to the ownership and control of banks in the United Kingdom. The new Act has extended our powers, and we

may, in the interest of depositors, now determine who may or may not control any bank registered in the United Kingdom. A prospective controller must be acceptable to the Bank—'fit and proper', as the Act says, to be entrusted with a controlling interest in a bank. The Act itself gives guidance as to how that criterion is to be interpreted and applied, and mentions considerations such as probity; evidence of a reckless or irresponsible attitude to the conduct of business; and the findings of other regulatory authorities.

But the Bank may also take into account considerations which, in any other way, may affect the interests of depositors. That provision was included in the statute for good reason, and I take it to mean that the Bank should not hesitate to use its discretion, commonsense and experience in judging when the prospective controller of a bank may be outside the bounds of acceptability. I do not mean by this that we can be capricious or arbitrary in exercising our powers; if we were, we would fairly promptly and quite rightly be called to account for our judgement. But neither should we be faint-hearted. Confidence remains the central and indispensable requirement of a bank, and anything in the character or business of a prospective controller that may threaten confidence must concern us. Of course, there can be no absolutes, and in what is essentially a question of judgement we will, as always, look at each case on its merits and in its particular context.

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(1) In an extract from a speech at the President's Banquet of the Northern Ireland Chamber of Commerce, on 13 October.

The liberalisation and restructuring of financial services, both here and abroad, has raised many more immediate questions. For example, how should we take into account the motives of prospective acquirers? Frankly, we do not look favourably on acquisitions of stakes designed to put banks 'into play', solely with a view to making a quick investment gain. Neither do we welcome bids whose purpose is to gain control so that the bank or the group of which it is a part may be sold or broken up in ways that may be detrimental to depositors' interests. Uncertainty poses a particular threat. Management may leave, recruitment of vital staff may be blocked and the underlying business may be seriously affected. Some might construe our attitude as interference with the market process, and I agree that banks should not be insulated from developments in the market place. But I repeat my view that banks, with their fiduciary responsibilities to depositors and their vulnerability to a reversal of confidence, are different. There can be sound prudential grounds for our intervening in such cases, and the new Act gives us the necessary powers to do so when we judge that the interests of depositors are at risk.

We will also take a close interest in the nature of the prospective controller, and in this connection I have to say that I would need some persuading before an industrial or commercial company is allowed to take control of a bank; and the closer the bank to the heart of the financial system, the greater my doubts are likely to be. Too close an association with a non-financial company could raise, in a particularly sharp form, questions about conflict of interest in the conduct of a bank's business. Such questions are present even in associations between different types of financial company, and much work has gone into the supervisory problems that may arise; but industrial connections raise problems of a different order. There is also the question of contagion. This runs in two directions. It is undesirable that banks should be exposed to a loss of confidence as a result of difficulties in a non-financial parent or associate. And, looking beyond that prudential concern, it would seem to me wrong for developments of that kind to give rise to any pressure on the central monetary authorities to extend in any way their role as lenders of last resort. Industrial and commercial companies are not part of the banking system, nor should they enter surreptitiously and adventitiously by this means.

Of course, it is difficult to make a hard and fast rule. There are already examples of banks which, although within non-financial groups, have been able to preserve independence. The structure of the group; the lines of control; the introduction of safeguards to insulate the bank from excessive influence by other parts of the group: these are all means of allaying our concerns. However, our predisposition is to oppose close association between banks and industrial and commercial companies.

Some of you may feel that I have interpreted the provisions of the new Act as they bear on the ownership of

British banks in a fairly broad way. But I believe that the discretion given to the Bank under the Act fully justifies my interpretation, and we propose to exercise that discretion when we consider it right to do so.

I also believe that the Bank's interest and locus does not end with the Banking Act. Banks operate, in many senses, in the public domain and, as a central bank, we have a broader duty to protect our financial system as a whole, either acting on our own initiative or sometimes as adviser to the government, which has significant powers available to it with respect to the ownership of financial companies. We are now seeing London emerge as a focal point of the world's financial markets; and this is due, in no small part, to our willingness to see foreign companies come to the United Kingdom to do banking business and, on occasion, to take control of British institutions. In my view that policy invigorates the London markets and their participants. Overseas participation in a British bank or financial institution may increase the opportunities available to it, just as foreign participation in a manufacturing company may serve to introduce new capital and technology or to open up overseas markets. As a general rule we would certainly not wish to stand in the way of a bank that sought to make such an alliance; and for this reason we did not raise objections to the acquisition of Northern Bank—which was, I believe, generally welcomed here.

But I also believe that it is of the highest importance that there should be a strong and continuing British presence in the banking system of the United Kingdom. It runs counter to commonsense to argue that the openness of the London market must be carried to the point where control of the core of our financial system—the payments mechanism, the supply of credit—may pass into the hands of institutions whose business aims and national interest lie elsewhere.

Of course, there may be argument as to what constitutes the core of the system. The re-emergence of the capital markets, the securitisation of credit and the formation of financial services groups to meet the changing needs of companies and of individuals may change our perceptions of which institutions are vital to the national interest. But we should, I believe, be ready to accept that the public interest requires continuation of a strong British presence in our key domestic money, credit and capital markets.

Mr President, I have attempted to describe some of the main features of our thinking in what is admittedly a difficult and sensitive area. As supervisors of the banking system, we operate within statute; and yet we have always sought to preserve a degree of flexibility in our approach to banking problems, and above all to apply the laws of commonsense. As financial markets become more inter-linked and international, and the supervisory requirements increasingly complex, we should seek to give guidance so far as possible in clear and simple terms. I hope that I have assisted that process tonight.