

In order to sustain its reputation as a major global powerhouse of banking and finance, the City must look towards optimism and hope, argues PROFESSOR TED GARDNER.

London's *new dawn*

London is the world's major international banking centre and this is a business in which the UK clearly excels. The City employs over 400,000 people and is a global leader in several important financial markets. Its contribution to the UK economy is impressive. Overall, the export surplus (foreign earnings) from the City and related services (like legal and accountancy) comprise over 3 per cent of GDP. The City is one of the UK's major export earners and one of its most successful industries. But London's global position is being tested on many fronts.

The City's reputation (in common with much of Western banking) for fair dealing and integrity has been tarnished by the financial crisis and its aftermath. The latest revelations on LIBOR (and EURIBOR) rate-fixing are yet another blow to the City's reputation and standing. They serve as a stark reminder that the pre-crisis banking culture and the way that finance appears to work in some key areas must change.

The good news is that a great deal of work has already been undertaken to restore and sustain the high standards of integrity and professional practice that the City has historically enjoyed. Excellent examples of this work include the formation of the Chartered Banker Professional Standards Board, the City

Values Forum and the Chartered Insurance Institute's Aldermanbury Declaration. Although "rules and regulations" are important, these kinds of initiative seek to recognise that the City and its global reputation are ultimately shaped by the quality and professional standards of the people who run the business. These initiatives have to be top priorities and they must be fully owned by all in the City.

This is not the first time that the City has faced severe challenges. But the continuing Eurozone crisis, the global downturn in many important financial markets, apparently hostile

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political attitudes, more revelations about bad practices, new regulations and the continued threat of further punitive moves conspire to produce a challenging and unusually negative scenario. Tougher blanket rules on immigration also impact heavily on the City where high-quality staff are an essential resource for the UK

to compete effectively in the global "knowledge economy".

We are presently living through a period of exceptionally severe and complex economic threats and opportunities. The UK and the rest of the world need the City's proven ability to turn threats into opportunities, and in so doing make an important contribution to economic recovery. The world is changing and new forces are developing in global finance with, for example, the BRIC countries starting to assume an increasing international role and influence.

Rise of the East

There are now effectively two global economic blocs in the world – the West (which is still struggling with economic recovery) and the East (which continues to grow and which will increasingly position itself as a key driver of the world's financial services industry). These blocs are not disconnected – they are part of the wider global economy and linked to each other in many ways. Nevertheless, the rise of the East heralds a new dawn for global finance and great opportunities for those that are ready and able to seize them.

At the same time, it is worth remembering that the City's global dominance in finance has been fuelled in part by UK membership of the EU. The ability to move staff and transact business anywhere within the EU under the Single Market system has added to the City's global appeal as a base to locate and do business. UK membership of the EU has generally been good for the City and it would

take a major 'sea change' to reverse the economic logic of that position. EU politicians also need to appreciate the economic and political attractions of harbouring the world's major banking and financial centre.

There are many realities that the City has to accept in common with other jurisdictions across the globe. These include a sluggish economic recovery in the West, the continuing Eurozone problems, muted bank lending, weakened fee prospects, a poor outlook globally for trading, and tighter banking and other important kinds of financial services regulation. Compared with just a year ago, there has been a drop of 7 per cent in the number of people working in the UK financial industry. That's a sobering statistic. Continuing concerns with banking culture and apparent bad practices have reached a new intensity with the latest rate-fixing scandal.

Get back on track

Nevertheless, the world will move on and there will be a Western economic recovery. The City must be a key part and contributory "engine" of this resurgence. In this respect we have seen historically what London can do – one need only recall it was the drive and expertise of London that made it a global centre for dollar trading. Why shouldn't this capacity for innovation and the City's proven track record be exploited in the same way as China, India and Brazil emerge as major global players in finance? London is already well on track in positioning itself to become the Western trading centre for the renminbi. Other key areas that the City might continue to

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develop profitably include the new global industry of international asset management (already centred on London) as countries across the world reorganise their pension arrangements to cope with an ageing population and the inevitable decline of old-style pensions. Mutual funds, retail and private banking are other areas where the City's expertise may be harnessed for use in comparatively new directions.

The UK is still a world leader in the key industry of banking and financial services, and the City is the most tangible expression of that dominance. At the same time, the City and the global finance industry have to accept the harsh and often damning lessons of the last crisis. Having learned from them, we must sustain these lessons within a new "good practice" culture and move on. Professionalism and integrity must be restored as the required canons of sound banking and finance.

There has to be a renewed optimism in the City and in what it can do for the economy during the challenging times ahead. Sustaining London's position as a major global powerhouse of banking and finance has to be good economics. 

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