

Response to consultation on ‘Financial stability and depositor protection: strengthening the framework’

Scottish Financial Enterprise is the independent organisation that supports and represents the interests of Scotland’s financial services industry. Our membership encompasses all sectors of the industry including banks and building societies, general insurance, life assurance and pensions, investment managers, asset servicing, corporate finance and broking services, professional advisors and support services.

Our response to this consultation focuses on the specific proposals relating to the issuing of Scottish banknotes. Our banking members are all members of the BBA and I do not seek here to repeat the detail of the BBA’s comprehensive response to the consultation.

Scotland has been issuing its own banknotes for over 300 years. This long-held right is of considerable importance in reinforcing Scotland’s position as a distinct banking market within the UK and, in international markets, a distinct financial centre with a unique identity and heritage. This identity, separable from but integral to the UK brand, enhances the overall UK proposition for investors. It illustrates the diversity and strength in depth of the UK financial services industry. Anything that undermines it, such as imposing a regime that would change the economics of note issue to such an extent that an unintended consequence might be for (some) banks to reconsider their position on issuing notes, is therefore detrimental to the UK as a whole.

Moreover, such an outcome could reduce competition between providers of banknotes, to the detriment of large scale customers, like the non-note issuing banks. This is a matter of some concern to our non-note issuing members.

SFE has received no complaints about the existing arrangements from our members. In addition, we are not aware of any lack of confidence among consumers in the solvency of the issuing banks in Scotland.

The consultation paper resurrects the proposals contained in a 2005 consultation process, the results of which have never been formally published. We note that the current consultation paper does not provide any update on current Treasury thinking regarding a new regulatory framework, and the Industry had a number of concerns about the original 2005 proposals, some of which could have significant unintended consequences. These concerns were set out in our response to the 2005 consultation, dated 14 October 2005

However, we naturally support the principle of consumer protection and specifically that adequate cover should be provided for note holders, in the unlikely event of failure by a note-issuing bank. The industry, including the Scottish note-issuing banks, is therefore still in discussions with the Treasury and the Bank of England, and hopes to be able to develop a suitable and sustainable revised framework. This is on the basis that such a new framework remains proportionate, and that any changes are in pursuit of the principle of improving consumer protection, as set out in the consultation paper, rather than for any other unrelated, purposes.

We look forward to a satisfactory conclusion of these discussions.