

# The greater good

**Antony Elliott** makes the case for a 'Financial Health Service': it is not sufficient merely to increase regulation

The rescue of the UK banking system highlighted the idea that retail banks are a "common good". It is unlikely that during the next parliament depositors in a retail bank of any significance will lose money as a result of its failure, even if they have more than the amount covered by deposit protection. There is broad agreement that people should know that their savings are protected and no government would run the political risk of having it any other way.

The notion of common good in bank rescues is not new: the Bank of England used to ensure that banks in difficulty were quietly supported. The recent crisis was too large for the support to be quiet. There is a notion derived from utilitarianism that "the greatest good" is derived from such support. Indeed the problems that result from a loss of confidence are long-lasting and unmanageable.

Given that retail banks are a common good, what should the public expect from them?

It has proved easier to identify the socially useless than the socially useful in banking. It is challenging to argue that the market needs institutions with implicit state support available when their proprietary trading desks get into difficulties. This is an example of a banking activity without a clear social purpose – there are others.

The focus of the policy debate has concerned charging for the implicit state guarantee, setting higher capital standards, curbing bonuses and codifying "living wills" to be used after a bank is bust. These are all worthy defensive actions, but surely it is possible to have positive action.

The banking system was seriously flawed before current crisis set in – so what does the public want?

In short, for banks to be like water companies – or any other utility or service – and deliver a clean, reliable product. The minimum expectation from a retail bank is that the product being sold is good for you – we want not only a safe bank but also a bank dispensing financial health.

If you dream of a "National Financial Service" it conjures up positive images for a brave new banking world. The art of modern retail banking has been to make money from money, with the customer on the back foot. Examples include current accounts that charge large penalties for going above an

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overdraft limit, credit card penalties for missing a payment and savings product providers not telling customers when an account is available that gives more interest. Retail banks have used aspects of behavioural economics, such as inertia and optimism, to make profits.

The common good demands that bank services have been tested to ensure they improve the financial well-being of the customer. The service is not just a form of money transmission mechanism or a type of safety deposit box, but it helps people keep on top of their money and to have a greater level of financial satisfaction.

It may give a sense that it is all right to spend, or that others are putting aside similar amounts, or that certain borrowing is not reckless. We do not want to go

back to the old-style bank manager, but we do want to be offered a service where customers are helped to take decisions that are in their best interest.

Individuals achieve greater financial well-being if they have greater control over their finances. This is one of many areas where banks should be helping customers. The recent *FairBanking Ratings* report shows that it is possible to identify product features that are helping customers with money management. Banks can be encouraged along this path.

The person who is disabled financially, either due to a lack of resources or financial ineptitude, deserves good treatment from a "Financial Health Service".

We should insist that good products are provided at all levels of society – which should not be confused with lending to people who cannot afford to pay it back. Bank accounts, debit cards, telephone banking, text messaging and other services may not be as profitable when provided to all income groups but, as retail banks are a social good, these services should be core, not peripheral items.

Restoring a culture in which banks serve the community is crucial. It is not sufficient to increase regulation. The Building Research Establishment, for example, sets safety and environmental standards for the building industry and it has flourished due to its charitable status and its independence. When it uses research-based evidence in areas such as safety or the environment, it has the respect of the industry it is trying to encourage towards better practice.

The banking industry needs similar initiatives that are aimed unequivocally at an agenda justified by the common good.

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