



## Sir Jonathan Hill

Member of the House of Lords & Member, Financial Services Regulation Committee

### Speech

#### David Wright

I present Lord Jonathan Hill, who is going to talk to us and give his views on where we are on financial issues in Europe and the UK and wider. You will all know him as the former European commissioner from 2014 to 2016. He is now, and has been, a member of the House of Lords for many years. He is a member of the Financial Services Regulatory Committee and has been on that committee since 2024. He has been working a lot with the UK and with the UK government on looking at scaling up and so forth in the UK listing. He has made a big report on that. He was Leader of the House of Lords from 2013 to 2014 and Chancellor of the Duchy of Lancaster, among many other functions.

Jonathan, it is very great to have you with us. We look forward to not only listening to you now but also inviting you to Dublin in our next event. Thank you again for being with us.

#### Jonathan Hill

David, thank you for that introduction. Good morning, everybody. The last time I was here at Eurofi, and it is very nice to be back, I was talking about the Capital Markets Union (CMU) before I was rudely interrupted by the UK referendum. Today, I want to talk about growth, risk and regulation. I am going to give you, for free, a practical suggestion that I believe would help the EU have a more mature and intelligent debate about risk and thus open up a bigger opportunity for growth.

Many of those taking part in this conference have spent years talking about financial stability risk. After 2008, we deliberately set about reducing risk in the financial system and in the banking sector in particular. There is no doubt that the politicians and the regulators succeeded in the goal they set themselves and ought to be congratulated for the job they did cleaning up after the great financial crash.

Today, 18 years on, we should surely ask ourselves whether the risks we face now are the same as the risks we faced then. Perhaps the greatest financial stability risk we face today is not too much lending and risk in our banking sector, but not enough. Is it not in fact the case that the greatest financial stability risk, and certainly the biggest political stability risk, we face today in Europe is a lack of growth?

We also have to recognise that the world has changed out of all recognition since the great financial crash. The trend towards convergence around one system of financial regulation has clearly gone into reverse. The ability of governments to keep on increasing borrowing to fund ever-increasing public spending is fast running out of road. The fragmentation of global trade is plain to see.

The trend of an apparently unstoppable rise of a rules-based order that the EU believed provided a competitive economic advantage, which it would seek to exploit through setting global regulatory standards, has come to a dead stop. The hard fact is that, as China and

the US have grown economically stronger, we in Europe have become relatively weaker. We are seeing all too brutally that countries that are economically weak are becoming increasingly irrelevant in today's world. Everywhere, the demand for more spending, not least on defence, is rising, but governments' freedom of manoeuvre to borrow is falling. Many governments, and certainly the one in my own country, are already up at record levels of debt and record levels of taxation. After massive amounts of public spending during Covid and the multi-billion Euro bailouts of the energy crisis triggered by the war in Ukraine, governments across Europe are pretty much maxed out on their ability to borrow more.

Where are they going to find the capital that we need to try to get the engine of growth fired up? In the longer term, unlocking the potential of Europe's capital markets obviously has to be part of the answer, but even if you are an optimist and believe we can do much better to develop a CMU or a Savings and Investments Union (SIU) in the future than we have managed over the last 12 years, the problem we face is today and now. The longer we do not have growth, the weaker economically and politically we become. Even if the geopolitical situation is sparking member states into wanting to make faster progress, the SIU was always intended as a long-term project. It was never a quick fix. The question remains what we can do today and now.

Those of us who want to see Europe thrive also have to be honest that

the competitive landscape we face in regulation has changed and is continuing to change very fast. The US is clearly moving towards full-blooded deregulation and in a much more pro-risk direction. Whenever I am there, I am struck not just by how fast they are moving, but how closely politicians and regulators seem to be aligned on the direction of travel. In the UK, we are – surprise, surprise – stuck somewhere in the middle between the US and the EU. Although we are not going as fast or as far as the US, we do talk about deregulation, and the government, which is a Labour government, has been calling on our regulators to take more risks.

In the EU, by contrast, the very word ‘deregulation’ seems to have been banned from polite society. Now, I am all in favour of simplifying rules and supervision, but we should not kid ourselves that it is the same as making sure that we have the right regulations in place to meet the economic challenges we face today. Take the obvious example of capital charges. Yes, you can simplify them, but if they are at a higher level than competitor jurisdictions or set at a level that ties up lots of capital that could otherwise be put to productive use, then they might be simple, but they could definitely be too high. We are not being honest with ourselves if we imagine that simplification and deregulation are in fact the same thing. I am not claiming here that setting the right level of capital charges is easy, or indeed that I know what the right level is, but I certainly argue that it would be better to have an honest and open discussion about it instead of self-censoring and pretending that a programme of simplification is enough to rise to the scale of challenges that we in Europe face.

If I may, just let me labour this point on capital and capital requirements for a moment. Most governments in western Europe cannot get into more debt or tax more. They cannot print more money. The capital markets are not going to ride to the rescue anytime soon. What does that leave? Bank capital. The banks claim that billions more euros could be put to work in the service of growth straight away. Is that not

a contention that we ought to test rather than saying that, in the EU, we do not talk about deregulation?

I promised you a practical suggestion. I offer this with some hesitation, since the last thing Europe needs is a Brit telling you how to do things. You had quite enough of that when we were in the EU. I think we have done one useful thing in recent years that I wanted to share with you, and that is the introduction of a secondary growth and competitiveness objective for our financial regulators and supervisors. What have been the main benefits of that? First, it is important to say that it is still a work in progress, and it is not a silver bullet. However, it has already led to an increase in accountability to ministers and to Parliament; a better informed, more mature discussion about risk; a more open regulatory and supervisory culture; more efficient processes with shorter timescales; greater attention being paid to our relative competitive position vis-à-vis other financial jurisdictions; some reductions in regulatory burden; and recognition by the regulators that their political masters want them to take more risk.

One of the most interesting things is what the regulators themselves are saying. Although they were initially resistant to the idea, as I know European regulators and supervisors are, they now say that it is helping them to do a better job as regulator and supervisor and to drive culture change through their organisations. They do not say that it has led to an increased risk to financial stability, which of course remains their primary objective. I am not arguing that the EU should automatically import the whole structure lock, stock and barrel, but I do think that the underlying principles are worth a look. These are clearer direction from elected politicians; more accountability to Parliament; and more reporting of performance through metrics, which are publicly available and refined over time. All of these are leading to a better informed and more balanced discussion about risk and regulation instead of the kind of polarised standoff between regulators and regulated that

became the norm in recent years.

The world is not standing still. The economic and political challenges Europe faces are not standing still. The way our competitors are regulating financial services is not standing still. If we want growth, the way we think about risk and regulation cannot stand still either. The challenge confronting Europe is urgent. Our response cannot be business as usual, so how we think about regulation cannot be business as usual either. Thank you.

### David Wright

Thank you very much, Jonathan. Those were very pertinent and topical remarks that were very persuasively put. I know that the European banking industry is very keen on what you have been saying. Let us see if it permeates the regulatory and supervisory thinking in Europe, but it was very elegantly put. Thank you again. We look forward to part 2 in Dublin.