Smaller Businesses Practitioner Panel
Financial Services Authority

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RESPONSE TO HM TREASURY CONSULTATION

'THE FUTURE OF BUILDING SOCIETIES' JULY 2012

06 SEPTEMBER 2012

Introduction

The Smaller Businesses Practitioner Panel welcomes the publication of the Government's approach to building societies, building on the Independent Commission on Banking's report on how to reform the UK financial services system. This Panel especially welcomes recognition of the important role that can be played by smaller firms in this sector.

Overall, the Smaller Businesses Practitioner Panel has been supportive of attempts to reform the banking system to ensure greater stability, by enhancing the loss-absorbency and lowering the risk and impact of failure of systemically important financial institutions.

The Panel supports the Government's acknowledgement that a flourishing building societies' sector includes firms of differing sizes, allowing a variety of offerings as well as healthy competition in the sector.

Our key points in relation to this consultation are outlined below.

1. *Welcomes recognition of diversity in this sector, including the importance of smaller building societies*

The Smaller Businesses Panel strongly believes that diversity in the financial services sector is beneficial for consumers, providing them with greater choice and access to products. There are a significant number of smaller businesses in the building societies sector, combating the dominance of the large banks. Many of these provide additional choice through a particular specialism (e.g. a focus on a particular customer group, such as teachers) or a regional focus.

2. *Supports the 'carve-out' of building societies from ring-fencing, but believe it is key to ensure that building societies can compete fairly against ring-fenced banks*

The 'future of building societies' paper rightly recognises that there are significant differences between the banking and building society model, and that the Building Societies Act already provides a number of restrictions on the risks that building societies are permitted to take on.

The paper suggests that while there should be a *de minimis* exemption for smaller banks from ring-fencing, no such exemption would exist for building societies. We recognise that this means that small building societies will be subject to ring-fence type restrictions while similar-sized banks will not. In our view this remains mostly appropriate for the building societies sector, and is unlikely to adversely affect smaller firms as in many instances building society legislation is more narrow than ring-fence legislation.

However, we also welcome the Government's recognition of the building society 'apex' problem. Building societies are required to be at the top of its corporate group, meaning it could not own a subsidiary that conducted activities outside the ring-fence. This could mean it is potentially challenging for building societies to continue their involvement in low-risk personal services such as estate agency and financial advice/investment business. In our view, these remain low-risk activities and services consumers would benefit from being able to access through their local building society.

3. *Supports the decision not to apply additional requirements above CRD 4 for capital or loss-absorbency for non-systemic institutions*

The Panel supports the Government's proposal not to raise capital or loss-absorbency requirements for non-systemic institutions. Recognising the greater risk that systemic firms pose to the industry, customers as well as taxpayers, it is right to ensure that this risk is suitably mitigated through higher capital requirements. Such requirements would also go some way towards addressing the advantages larger firms have in the market.