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THE BIG BANG

The City is bracing itself for the big bang. The Government has issued its first set of earmuffs in its White Paper, "Financial Services in the United Kingdom: a New Framework for Investor Protection". Broking firms are poised to exploit the changing shape of the market, or are busily selling out part of their equity to other financial institutions. Banks and licensed dealers are thinking about becoming market-makers themselves. The City is expectantly awaiting the day when there is no longer a rigid distinction between the stockbroker, who acts as an agent for his client, and the stockjobber, who deals in the market on behalf of the broker.

The big bang began as a result of the Government's decision in 1983 to withdraw the OFT inquiry into the alleged restrictive practices of the Stock Exchange. People expected limited change. Instead, a revolution in the way in which City businesses carry out share transactions for their clients was sparked off. Nicholas Terry spelt out the arguments about the changes in dealing systems in the LBR in April last year.

But the big bang itself is but a small part of a much broader battlefront. The noise and the reverberations spread far. If a business no longer has to be a member of the Stock Exchange in order to make a market in shares, many different businesses and people can get involved in market-making. If I can act both as a broker and as a jobber acting as an agent for my client, and as a principal making my own book in shares, new conflicts of interest and new opportunities leap forward. But the decision to abandon single-capacity and go for dual-capacity on the Stock Exchange is taking place at the same time that many other

powerful forces are at work refashioning the financial industry.

Convergence

The strongest pressure of all is what we could call "convergence". In the relatively secure world of the 1960s and 1970s, specialism was the order of the day and most financial businesses were small in scale and in their capital backing. Stockbrokers rarely went beyond their basic function of acting as agents on behalf of those wishing to buy and sell shares. Stockjobbers had a guaranteed monopoly over making markets in all the quoted equities and gilts in the United Kingdom; and only through them could an individual hope, via a stockbroker, to buy and sell. They were both regulated under the self-policing mechanisms of the Stock Exchange Rule Book. Buyers and sellers, it is argued, knew where they stood because every man's word was his bond; and the Stock Exchange disciplinary system was designed to weed out any corrupt players.

Building societies grew up as the main intermediaries between savers and borrowers wishing to buy houses. The mortgage market grew rapidly in the 1960s and 1970s, but there was little overlap with the banks until the end of the 1970s, when the deposit taking powers of the building societies became considerable and when the range of accounts they offered became more flexible. The banks, through their monopoly over cheque clearing, and through their strong physical presence in the high street, were the primary deposit takers and current account holders carrying out the myriads of transactions that make up a nation's economy. Until recently they did not get involved in the mortgage market and did not compete head-on with the building societies. The building societies were controlled and regulated under the 1962 Building Society Legislation, and

the banks under the Banking Act of 1979 which set up the licensed deposit taker system.

Insurance brokers largely confined their activities to placing risks on behalf of individuals and companies, with the large composite insurance companies, or into the Lloyds market. They had a rôle in the savings market, routing life insurance monies through to the life and composite companies for investment by those companies in Stock Exchange securities. Governed by the Insurance Brokers' Regulations Act of 1977, they served the insurance companies governed by the most recent Insurance Company Act of 1982. The Department of Trade and Industry keeps a watchful eye on the solvency and probity of insurance companies.

Retail activities in the high street were confined to the branches of the leading clearing banks and of the building societies. Shops kept out of financial services, and insurance brokers offered only a limited number of savings-linked insurance contracts. Estate agency was a separate activity growing out of the chartered surveyors profession, which had some links with the building society movement but was never integrated with the wider financial and investment scene.

The Unit Trust movement, which grew rapidly in the 1960s and 1970s, was largely undertaken by mail order, through newspaper advertisements, or through stockbrokers as intermediaries. It had links with the insurance industry through the development of unit-linked life policies, and these were marketed via direct sales forces and the insurance brokers.

As this survey reveals, although throughout the 1960s and 1970s most people thought they knew where they stood, and the activities of each individual type of business was fairly clearly delineated in people's minds, the barriers

between them were beginning to break down. In the 1980s, the demolition job has become rapid and dramatic.

The underlying conflict between banks and building societies became more obvious as the building societies grew and represented more formidable competition for the limited pool of public deposits available. Their high interest accounts, their flexibility on their share account over withdrawals and payments, coupled with their freedom from the overheads on the clearing system, made them formidable competitors of the banks for the extra pound of retail deposits. So the banks counter-attacked by offering a mortgage system, and they turned out to be good at arranging larger and more flexible mortgage packages for many borrowers - already, of course, having access to the retail market through their strong branch network.

It was Lloyds Bank who saw the opportunity for entering estate agency in order to produce a fuller package of services to the home buyer and seller. The Black Horse agencies rapidly became the largest chain of other estate agencies in the country, and may well have led the way to further integration and wider geographical coverage of other estate agency chains. In the house market there is a natural tendency for people to want to offer a complete service comprising estate agency to buy and sell the house; lending powers to offer mortgages; insurance activities to both insure the property itself and to offer savings-linked insurance contracts for endowment mortgages.

In the insurance business, the clear divisions between investment, the buying and selling of securities, and insurance itself, was being eroded throughout the previous two decades. The advent of unit-linked assurance showed how far this process could go. Contracts were devised where the insurance part was a very small part of the total, in order to take advantage of the favourable tax treatment of

insurance contracts as a savings mechanism. The abolition of premium income relief in the 1984 Budget has done much less damage to this business development than many at the time expected, for insurance funds still offer a substantial tax shelter to the higher taxpayer, and still represent a common route of regular savings for the standard rate taxpayer.

It will be a natural development for those involved in the marketing of unit-linked insurance policies to consider expansion into the retail end of the business, to attract the savings in the first place; and to consider developing their own capacity for buying and selling the underlying investments in which the premiums are placed. The development of strong businesses like Hambro Life and Abbey Life showed just how powerful a mechanism for accumulating savings unit-linked assurance can be.

In the Stock Exchange itself, the large institutional investors were in the position of having all the clients' money at their disposal, but no direct powers to buy and sell shares themselves. Conversely, the broking and jobbing firms had relatively little capital resources, even after the process of amalgamation of jobbing businesses throughout the 1960s and 1970s had reduced the numbers and increased the size considerably.

Some halting attempts were made to break the Stock Exchange monopoly by the establishment of the Ariel dealing system. This succeeded in its first aim of reducing commission rates for larger deals undertaken by the institutions through the regulat stock market, but never succeeded in its wider aim of providing a high volume, cheap competitor successfully trading large blocks of shares on a regular basis. Institutional dealers never really trusted each other through the Ariel system, and it was unable to demonstrate the attractions and flexibility of the regular stock market.

However, in recent years there has been some development of an informal block trading market between institutions, cutting out the intermediaries of broker and jobber; and more recently, Robert Fleming has decided to make its own noise ahead of the big bang by setting up a trading desk in electrical shares in the UK market.

Meanwhile, the large investment institutions and banks had developed skills in markets parallel to the UK Stock Exchange. The Eurobond market, which grew explosively over the last ten years - primarily as a mechanism for routing the large oil surplus monies after the Middle East explosions - taught the banks and institutions a great deal about primary market-making. Specialist houses similarly learnt about market-making through the informal over-the-counter market in smaller companies; whilst a larger number joined in the formation of LIFFE, the London International Financial Futures Exchange. This market has a different and more modern and raucous flavour to it than the old Stock Exchange. On the Futures Exchange, the open shout principle of the commodities markets was adopted; market-making was opened up to banks and brokers as well as to the jobbers from the equity exchange; and a wider range of institutional professionals was brought in to make and service the market.

At the retail end, modest changes are also beginning. When Quilters paired up with Debenhams, at the time of British Telecom's flotation, to offer British Telecom shares through Debenhams stores, a novel departure was under way in British investment and financial business. The subsequent announcement that Quilters were going to establish, on a regular basis, share shops in some Debenhams stores, is confirmation that the stock market is now turning its mind to retail service. Many of the larger stockbrokers are contemplating how best to service this growing retail market, and see that the trend towards more private client business is likely to grow as a result of rising affluence

and the clear thrust of Government policy towards wider wealth-ownership.

The banks and the buildings societies have a lead in the development of retail business. But the Post Office, too, has the largest UK counter network used to handling clerical and financial transactions, and could become involved; whilst the larger retail chain stores, who are turning to the idea of sub-letting space, could also develop quickly into financial retailers by sub-letting space to professionals.

The Government White Paper

The background to the Government's White Paper was the imminence of the big bang changes in the Stock Exchange, and a growing realisation that more was afoot than simple changes in the way of executing Stock Exchange bargains. The history of British regulation to date has been one of separate legislation and Orders in Council, regulating different types of institution but keeping them isolated one from another. This was feasible in a world where insurance companies largely did insurance, where Stock Exchange businesses largely transacted Stock Exchange transactions, and where there was a clear distinction between all of them, a building society and a bank.

But in a world of convergence - facilitated by new technologies which enable instantaneous computation and transmission of data - something more comprehensive is required. To do this, the Government wisely went back to first principles. The Government needed a new definition of investment to include the wide range of new instruments. Financial and commodity futures, options contracts, life assurance and Stock Exchange securities all had to come under the remit of the new regulators.

Those carrying out investment businesses - which could include the provision of advice and/or the management of investments themselves - under the White Paper proposals are to be regulated under an authorisation procedure.

Any business wishing to undertake the wide range of activities included under the definition of investments - which includes the publication of tip sheets (but not publication of a regular newspaper with financial comment) - will have to satisfy the regulators that it is fit and proper. "Fit and proper" covers probity, competence, and adequacy of financial resources. Probity and competence will be assessed by looking at the range of the Directors and their support staff, and their qualifications and experience. The adequacy of financial resources is likely to be related to the type of business being conducted. You obviously need far more capital to run a gilt trading book than you do to publish a tip sheet from a back room in Croydon.

These powers, which lie with the Secretary of State to authorise businesses, will be delegated to the two new bodies being set up, under the legislation, to carry out the regulation and supervision. The Securities and Investment Board, and the Marketing of Investments Board, will overlook the whole panoply of different types of business; and it is quite possible that the two will in due course merge into one as the distinctions between those involved in marketing investment plans, and those executing transactions, is already very blurred. They have a common secretariat to facilitate any such move.

The rules for the conduct of business are also set out in the White Paper. There is to be a principle of fair dealing, a duty of skill care and diligence, and a duty of disclosure. These are widely drawn requirements, but their thrust is that an individual should know what he's talking

about; he should reveal his own interests; he should endeavour to ensure that his client is treated fairly; and that the marketplace is tested to get the client a good deal. When acting as an agent, there is a specific "best execution" principle and a "subordination of interest" principle, which means that he is charged with getting the best price he can, given the market circumstances; and ensuring that his client's interest is looked after before his own. The investment business has to protect its client's assets (ie safe keeping of monies and documents of title) and there has to be compensation for investors who lose out through fraud, negligence or a failure to look after their physical assets properly.

Investment and dealing recommendations have to be "adequate and reasonable", given the nature of the investment and the circumstances of the client. The terms of business have to be disclosed, proper records have to be kept, and the business has to be conducted in an orderly manner.

Whilst the activities and regulations of the two Boards will be specifically exempted from the competition and fair trading legislation, the Secretary of State will retain powers to order the Board to change its rules if, in his view, it is detrimental to the workings of the competitive market.

In the Unit Trust sector, the Government proposes authorised Unit Trusts which can be promoted to the public generally, and restricted Unit Trusts for professionals only. The insurance industry, under the Marketing of Investments Board, will be under a duty to disclose its commission structure to its clients, whilst it will retain the rule that it is a criminal offence to make misleading, false or reckless statements or forecasts about investments when advertising or promoting them. Insider dealing will continue to be a criminal offence.

The wide-ranging scope of the Government's White Paper shows just how complicated the problems are, and underlines the rapidity of change. The decision to keep the rules and discussion at a fairly high level of generality is a wise precaution, in view of the rapid changes of activity and style of contract in the wide-ranging financial markets. The strength or weakness of the system will lie in the practitioners on the Regulatory Boards. Can they produce regulations which have teeth, but which only bite when investment businesses or marketing businesses go beyond the line of reasonable commercial practice? Will they succeed in preventing fraudsters and consters marketing and dealing in shares for the public, whilst not preventing any new business starting up that is bona fide but may not have much resource to begin with?

There are three forces that underline the White Paper that are timeless, benign and powerful. These are caveat emptor; the power of competition; and the importance of disclosure.

Caveat Emptor

Anyone looking at the complexity of financial products must recognise that, in the end, the person who has most interest in checking out the investment, and ensuring that he has not been twisted, is the ultimate customer himself. Whilst the financial world can be intimidating and worrying to many, people are, on the whole, pretty canny about their own money. As the White Paper remarks, the best way to foil cold calling for bogus investment products is for the person being cold called to hang up the telephone, or to politely refuse. The most likely way in which the pedlars of risky investents will be thwarted, is by the basic common sense of the British public, who will continue to hold their life assurance contract and their British Telecom shares, and will not be tempted into Get-Rich-Quick Limited.

But the caveat emptor principle alone is not sufficient, as in this complex world, crooks and consters could still flourish. This is where disclosure and competition are important.

Competition

The best check on whether one business is being run reputably, and offering a fair deal or not, is the ability for the person to go down the road to another business offering the same competing service. When the fixed commission structure was abolished in the United States, commissions for larger bargains fell dramatically. It demonstrated that the market under a fixed commission system had been overcharging for all but the smallest bargains. When the informal commission agreement amongst estate agents broke down in the United Kingdom, the average percentage fee came down quite quickly from something like 2.5% to 1.25% in London.

If there becomes a general fear of a number of flimsy investment businesses being set up, where the intentions of their proprietors are less than honourable, it will become a strong marketing card in the hands of the reputable businesses that they are well-established, reliable and trustworthy. The presence of a competitor always tightens up the quality of service and keeps prices under careful scrutiny. As soon as profits become too large, with the pickings too easy, new providers will enter the market and bid them down again.

Disclosure

Disclosure is every bit as important as the caveat emptor rule and the competitive pressures. Without full disclosure - as with the case of commissions on some unit-linked policies - it is difficult to guarantee that competitive

forces would be benign from the customer's point of view. With disclosure, competitive forces can be entirely benign.

More disclosure is needed in many areas of investment business. In the case of insurance brokers placing insurance business, life business, and unit-linked contracts, the level of commission or the nature of the commission agreement will have to be revealed.

In the Stock Exchange itself, even more rigorous disclosure is required so that the client can satisfy himself, in the complex world after the big bang, that his broker, agent, principal or whatever, carrying out the transaction for him, has done him the best deal possible.

The disclosure has to take several forms. Firstly, the client needs to be satisfied that he is not the tail end Charlie of a whole string of transactions largely designed for the profit of the investment business itself. It would be one of the easiest tricks in the book, once an investment business can act as a principal in the Stock Exchange marketplace, for a corrupt business to buy some shares for its own account, and then to drive the price higher in the marketplace by buying large numbers of the same share for its own clients, only then to sell out to make a good trading profit within the account.

To combat this possible conflict, the client needs to be informed of the market position in those shares of the investment business itself. This is common practice in the United States where, for example, brokers sending out recommendation circulars have to put on the circular how many shares they hold, and whether they are active in that share or not.

The client next needs to know that the deal was transacted at a fair price in relation to the range of other

transactions going on in the market. At the moment, it is difficult for a client to be sure how well or badly his broker has dealt. He receives a contract, which states the date of the deal and the price. His only usual point of reference is to compare it with the stated closing price in one of the leading national newspapers. He will often be dismayed to find that he has succeeded in buying a share well above the closing price, or in selling it well below. If he is of a sceptical turn of mind, this will worry him; but his worries may be entirely unfounded. He may have sold at a lower price merely because the closing price in the newspaper is a middle market price, and he of course would receive the bid price. The shares may have fallen during the day, only to rise again near the close, and his broker carried out the transaction in the middle of the day when the shares were lower.

To deal with this problem, the contract note sent to the client needs to contain not only the date of the transaction, but also the exact time at which the transaction was undertaken. For ease of comparison, the electronic running tape of the new marketplaces should contain an average or guide price, or a most recent deal price, which could be put on the contract as well; and this could include, if the investment business chose, the spread between bid and offer price, as well as the simple middle market price.

The client also needs to be sure that the commission, or other remuneration charged by the investment house for the transaction, is reasonable. At the moment, the client either receives a contract specifying the standard broker's commission, which is fixed by the market; or he receives a net price contract rendered by a principal. In this case, he will not be aware how much the investment business is making out of the contract notes they have delivered. Under the régime outlined in the White Paper, it will be incumbent

upon the investment business to deal in such a way that the client is no worse off, having dealt with the investment business acting as a principal, than he would have been had he dealt through some other dealer in the market.

This seems a generally acceptable rule, and it is fair both ways. The client can then be sure that the commission charged on him is not out of all proportion, because he knows that he could not have dealt better elsewhere; whilst the investment business also benefits because, if it does have a relative advantage in dealing in one share or another for a perfectly good business reason, then it can make money out of so doing.

Regulation

The enthusiasm for regulation and the need for it are obvious to all politicians and many practitioners looking at the problem. But we should be careful lest we lay too great a stress on the powers of regulation. For in the end, the only people who know whether a business is being well run or badly run, whether it is corrupt or fair, whether it is exploiting or performing a good service, are the people running the business itself. It is difficult for regulators to ask enough questions to satisfy themselves they have enough information and to be sure that it is accurate, so that they can guarantee that all those businesses practising in the financial markets are indeed fit and proper, and conducting their business in an orderly fashion.

The Bank of England would be the first to admit that the task of regulation is a difficult one. They have a strong system of regular returns from banks, and a highly qualified staff who do nothing but examine the banking returns and try and foresee difficulties in the rather limited sector of the financial market covered by authorised banks. Yet the tragedy of JMB still occurred, and it was discovered that

one of the banks under their supervision had the most extraordinary portfolio of bad loans, with a high concentration of lending to one or two borrowers. The results have been only too clear. Imagine then the complexity and difficulty of the task for the two fledgling Regulatory Boards to be sure that all the businesses under their ambit are indeed performing a sensible function in a workmanlike way, and to be sure that there is no crookedness going on.

This is why the regulators will need the support and the assistance of the ordinary criminal law. It will still be illegal to insider trade, to make fraudulent statements, to run off with other people's money, or to use their assets for purposes other than those that have been authorised in your original contract of appointment. And these legal powers will have to be used to the full to remind the Directors of businesses that they are not merely meddling with the regulations of some intermediary body, but that if they go too far they are undertaking criminal practices for which the sanction may not be reprimand or a fine, but may be internment.

Likely Regulatory Problems

The regulators themselves will face many conflicts, just as the new enlarged financial conglomerates face conflicts of interest between their different activities.

The first problem is to strike some balance between the desirable aim of making the markets as competitive as possible, and the regulators' duty to deny businesses unsuited to be practitioners access to the markets. If the regulators become too cautious, they will ban those very new businesses which could provide new life and innovation in the marketplace because they lack experience or cash. Yet it may be the single-man business, or the small group of individuals who wish to break away from an existing larger

business, who are most likely to have drive and imagination.

There will also be a conflict between the wish to trade with less capital, to cut prices to offer a better service, to be aggressive in seeking market share on the one hand; and on the other the understandable prudence of regulators wanting businesses to have reasonable profit levels, high asset backing, good solvency, and not to be too aggressive in going out after new business for fear of transgressing rules on fraud and the representation of their products.

The conflict is enshrined in the Secretary of State's suggested powers. Whilst taking the Boards out of the normal framework of competition law - recognising that their very rules themselves would tend towards the cartelisation of the activity - he retains the right to order them to cease certain kinds of regulatory practice because it has become anti-competitive.

Fears about cartelisation will obviously be magnified because the bulk of the regulators themselves will have to be practitioners. It is difficult for an outside group of people to understand all of the activities and to be able to ask all the right questions. But if there were no outsiders the public might be forgiven for thinking that a new cosy club has sprung up. It is a short step from regulation to the endorsement of a cartel; and once there is a cartel, it is natural for the customer to have to pay more in order to pay for the cartel and its superstructure. The regulators will have to be on their guard lest they become the new carteliers of the financial world.

The second conflict is one all regulators face. Do they have a duty to keep a business going because it is providing a service for its clients, and if it were to cease trading many of those clients would be let down; or do they have a

duty to stop the business trading because its capital is no longer adequate for its purposes?

It is the same conflict that the Civil Aviation Authority faces every day when it looks at the balance sheets and financial statements of the air travel industry. Should Laker have been bankrupted earlier by the CAA removing its permits, on the grounds that it was likely to become insolvent? Was the CAA too slow in pulling the plug on Courtline, when it was apparent to many financial analysts for months beforehand that the airline was likely to go bust and leave its creditors with insufficient cover? Should the Bank of England close a bank like JMB much earlier, to prevent the losses building up, knowing that if it does so it ruins that bank for a long time, as the removal of Bank of England support will remove all confidence from the institution?

The new City regulators will face a challenge every bit as tough as that faced by the CAA and the Bank. Should they let it be known in the marketplace that they are investigating more precisely the solvency of a given gilt trading business? If they do so, very few people will then want to trade with that business, and they may precipitate the very solvency crisis that they are worried about, even when their initial inclination to investigate it may have been ill-founded and the business may have been sound.

On the other hand, if they fail to investigate and the business does indeed go bust, won't its creditors feel aggrieved that the Board offered them no comfort? Is it possible to carry out these investigations without arousing City fears? The City is a small village; the news is likely to travel very quickly. Is it possible to devise a regular reporting system for all the businesses so that it is obvious from such a reporting system that a business is in trouble, without having to undertake any special

investigation? Is it realistic to suppose that the Board will feel confident enough, on the basis of what must be fairly sketchy regular reports from each business, that a given business is in trouble, without making a special investigation?

These are not easy questions to resolve, because they lie at the heart of the difficulties of regulation.

The third conflict the Board will face concerns the pace of change. It is a natural temptation for a regulator to be wary of change, because novelty may breed new problems. Yet if the Board becomes too conservative, it will either breed wholesale evasion of its regulatory practices within the UK market; or, worse still, will encourage a large amount of business to move offshore outside its clutches. The regulators will need skill in accepting that investment transactions and investment products will change rapidly.

Perhaps the worst problem of all facing the regulators is how they should brace themselves for scandal. In a fast-moving and wide-ranging set of marketplaces - like those growing up in London - there are bound to be scandals from time to time. No-one can guarantee that the combined forces of competition, disclosure, criminal law, and regulatory mechanisms will ensure that no crook ever flourishes, that no customer is ever conned. The purpose of the legal and regulatory framework must be to limit the scope and size of scandal, and to make the conditions as hostile as possible to criminal activity. The regulators will need considerable wisdom and skill in riding out the first scandal to break under their period of office; they have to avoid either clamping down too much, in the usual "bolting the stable door after the horse has gone" method of regulation; and avoid treating it so cavalierly that people do not believe they are serious about stamping out corruption in the marketplace.

Will the Public be Better Served?

Some cynical observers looking at all the changes wonder whether any good will come of it. They suggest that transaction fees on Stock Exchange investments may go up for the small purchaser; that the larger financial institutions will simply grow bigger and will become large financial conglomerates; and that, at the same time as single-capacity is being broken down on the Stock Exchange, different changes are taking place in response to scandal at Lloyds to split up functions more clearly and to get away from the conflicts of interest that can lie in being both broker and underwriter.

But the trouble with the cynics is that they can offer no way of holding back the floodgates of change or of servicing all the different market requirements that are growing up. Financial services worldwide is an exploding, fast-growing industry. Those practitioners and marketplaces that have been most ready to adapt to change, and to be open to new ideas, have - as always in economic life - been the most successful at winning business and activity.

The United Kingdom economy is going through a revolution in the way it is financed and the way it is owned. The vast growth in home-ownership has itself fuelled the major expansion of the building societies and led to the inevitable conflict between building societies and banks. House finance cannot be split off from the rest of financial activity, especially now that a large amount of mortgage money is effectively withdrawn from the housing market and recycled into consumer spending or other types of investment activity.

You cannot stop the lenders of money to house-buyers getting involved in estate agency; nor can the tide be reversed where a new generation of people who inherit houses they do

not need for themselves will sell them and have investment funds available for stock market and other investments.

We live in a world where insurance companies have perceived the links between insurance contracts, savings and investment. And in a world where the combined forces of the movement for employee shareholdings, privatisation and the development of new small businesses points in the direction of more and more share-ownership and trading.

In one sense, the economy and the people are already better served by the changes so far. Starting from a position where Britain had one of the worst formation rates for new business in the Western world, we have already reached a record number of new companies, and have over a million incorporated businesses. We are developing, from a very poor start, a venture capital industry which can finance these small businesses and, in due course, bring them to market. Through launching the Unlisted Securities Market, we have provided a halfway house for the medium-sized company not ready for the costs and pressures of full quotation, but needing more outside shareholders and access to a market that can supply more equity capital.

Through the over-the-counter market and the Business Expansion Scheme, we have found mechanisms for channelling money and new shareholders into the smaller businesses which have outgrown the banks as a method of providing them with all their investment capital.

For the small shareholder, we should begin to offer a wider range of choice, a clearer statement of costs, benefits and transactions, and direct retail access. Too many of the British public have been put off owning and holding their own shares through the complexities of the transaction system, and the reputation of existing practitioners of the stock market as being unapproachable to all but the rich.

Our banks and buildings societies are beginning to see their rôle in wider financial planning for a typical family. A family doesn't just need a current account, a life insurance policy and a pension plan. A family may well need saving schemes tailored to mature at different points in its life cycle. The pressures of house buying in the early years, of school fees or other family outgoings in the middle years, of health plans, and then of retirement, all provide different periods of high saving and high cash consumption in a family's budget.

The credit revolution, which has opened up many new ways for individuals to borrow money through credit cards, mortgages, bank loans, overdrafts, loanbacks against pension insurance contracts, as well as the traditional hire purchase, is also part of this greater flexibility for the customer. It brings its own dangers of over-expansion of credit risk assessment problems.

We must always remember that the only reason for this whole complex financial superstructure is to see that individuals, families and businesses are well served. The mirror image of the needs of the individual and the family are the needs of business. The markets are there to channel the savings of the individuals into the new businesses, or to expand or renovate the older ones. We are at last in this country building more flexible and powerful methods of taking people's savings and investing them in risk capital activities.

It is important that this process continues, and that these new markets are seen to be fair, easily accessible, well policed, and continue the broad tradition of honourable dealing which characterised the old Stock Exchange. But it is also important that these markets are regulated and supervised by wise regulators who do not panic when

something goes wrong, but who do not appear to be an easy pushover in the hands of experienced wide boys.