

3 Evaluate the likely impact on the UK of increased regulation of the UK banking industry.

(20)

Regulation describes the rules put in place to prevent any anti-competitive practices, to protect employers and consumers, and ensure all business activity is fair.

Methods of regulation involve indirect taxes imposed, employee protection, promoting competition, provision of information etc. Increased levels of these factors ensure events like the financial crisis (2008) don't occur.

Ensuring employee protection involves imposing a minimum wage, a Working Time Directive (min 48hrs a week) and suitable working conditions. This leads to more motivated staff, ~~no~~ more employed and less likely to complain. Higher levels of employment mean workers are more able to repay loans and mortgage payments, reducing the risk of banks losing out. This links to the 2006 sub-prime mortgages event in the housing industry, where banks lent money and packaged financial products to those who wouldn't have been able to repay their loans / payments if they weren't employed. Banks were harmed as they assumed all ~~of these~~ ~~customers~~ housing prices would fall. This was as a result of speculation and therefore the housing



bubble, developed. This resulted in a loss of confidence in banks.

Another impact is the banks/businesses reaction to regulation. If compliance costs or raised taxes were imposed on firms, a lot of firms would go against regulation, as they deem it cheaper to pay a fine whenever they receive penalties. This links to moral hazard of the banks; when firms don't act prudently or honestly and so because they have no incentive to do so.



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