

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

(20)

The banking industry is known for its banking culture and moral hazard. Profit increasingly became the most important objective for them and their ways of obtaining this became much more risky as they thought the consequences of their actions fell on someone else by which point they already had achieved their profit. Also prior to the financial crisis in 2008, banks were becoming more risky as they believed the government would never let them fail as the banks played such an important role in the whole of the UK economy and its collapse would be catastrophic and so they ~~just carried on~~ did not think or care about what they were doing. For example the sub-prime ~~mortgages~~^{lending} became increasingly ~~the~~ popular where banks would give out loans to very risky customers who weren't likely to pay it all back, but this didn't matter as ~~they~~ the banks could make great profit by charging very high interest rates. However all this led to the financial crisis in 2008 ~~which~~ in which it had an unprecedented impact on the financial system. Therefore the ~~likely~~ impact of increased regulation of the UK banking industry would likely be positive for the UK. By charging fines for misconduct such as the £42m the Royal Bank of Scotland plc, Northern Westminster Bank plc and Ulster Bank plc may act as a



deterrent for other banks to act in any misleading way but also make sure their service is up to scratch.

Greater regulation may also prevent something like the financial crisis of 2008 from happening again which would be positive for the UK who is still seeing the affects of it today.

However increased regulation may not necessarily have that great of a positive impact. This is because it will come at a cost to the UK government. Money spent here won't be able to be spent on other public services which could help boost the economy such as the NHS and education so increased regulation comes at an opportunity cost.



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