

## Cabinet News and Views

Informed analysis for the financial services industry



### Cadwalader Corner Q&A: Pete Hahn, Emeritus Professor, The London Institute of Banking and Finance



## Pete Hahn

Emeritus Professor,  
The London Institute of Banking and Finance

*Pete Hahn is Emeritus Professor of Banking and Finance at The London Institute of Banking and Finance.*

*Prof. Hahn holds non-executive director roles on the boards of the Isle of Man Financial Services Authority, the Association of Corporate Treasurers, and Kalgera Limited – a fintech business working to protect the vulnerable. He retired as Dean and Henry Grunfeld Professor at The London Institute of Banking & Finance in early 2020.*

*Over a long career in banking and finance, Prof. Hahn has served as Senior Adviser to the Bank of England Prudential Regulatory Authority – and its predecessor, the UK Financial Services Authority – and worked in banking roles in New York and London for more than two decades.*

#### **What do you envision will be the toughest challenge facing bank regulators in the next five years?**

Throughout the world, bank consolidation has often resulted in 3-5 dominant national providers. Some may think resolution is the answer to both market failures and the ultimate regulatory tool if supervision or the market has not worked out. Yet I see the toughest challenge for regulators is that these large dominant banks have become public-private partnerships. That may sound simple or you might say “so what?”. But the public (politicians and regulators) and private sectors can have very different priorities at different times in the economic cycle –

indeed, no more so than politicians and regulators. Imagine entering a recession where regulators would traditionally encourage prudence while their political masters want to encourage risk augmentation to support weakening businesses and consumers? Would UK banks be able to act prudently on mortgage arrears in the current political climate?

***Can the UK financial services sector succeed in the long term without equivalence to EU regulations?***

The UK has parallel banking systems, domestic clearing that is overwhelmingly mortgage-focused, and the true City of London, a vast wholesale market. Wouldn't the City love the deal that Northern Ireland has (*i.e.*, inside the UK but also inside the EU for economics)? Hard to see in the current political climate, but perhaps more realistic governments on both sides of the Channel could see the advantages in a short time. The City needs to identify the correct counterparts. Despite the public image, I think the Commission can be practical. No EU "City" has emerged since Brexit, fragmentation has resulted in higher costs, some businesses have evolved to stay in London, and, while the UK instigated the process, business has been lost to New York. A solution is required for stronger business support in the UK and the EU. I'm a long-term optimist.

***What do you make of the UK Government's plans to make the UK the "very best place in the world to start and scale crypto-companies"?***

Perhaps we should stick to SPACs – only joking. But the point is being careful about getting caught up in trends. The UK was pushing SPACs after their weaknesses had already been exposed and the market for SPACs had peaked across the Atlantic.

So, let's separate the obvious from the big unknowns. Fintech is great. It is modernizing the finance business everywhere, and the UK should want to be the most welcoming place to establish and grow fintechs – but not all parts of the digital financial sphere have the same prospects or add the same value. I think we're currently at a good point to review the value added by many digital businesses that have appeared over the past decade. Up to now it has been more about excitement than financial success. I've long been amused at the term "unicorns" for super valuations. The market seems to think that unicorns are rare beasts – but unicorns are imaginary. The UK government, like any other, doesn't know the future or shouldn't think it's in the same risk/reward position in the marketplace – especially with taxpayer money. The UK should avoid picking winners here. Fintech, yes. Crypto, good luck to them.

***What books are on your nightstand these days?***

I'm an active pre-bed reader and am partially through *Around the World in 80 Plants* (by Jonathan Drori) and *Six Days in September: Black Wednesday, Brexit and the Making of Europe* (by William Keegan, David Marsh and Richard Roberts) – the latter on the exit from ERM in 1992. I also have a French detective mystery on my Kindle for reading on the Tube once I've finished my five daily newspaper subscriptions. I've just finished *Carpet Ride to Khiva: Seven Years on the Silk Road* (by Christopher Aslan Alexander), a non-fiction travel book, and *A Brief History of Motion* (by Tom Standage), which looks at the development and likely disappearance of the automobile and provided some neat perspective on financial

services, too. A great plus of being largely retired is that I get to read so much more that isn't related to keeping up day-to-day with work.

Over my working career, the great digital information explosion has required us to commit more time to focus, but at the expense of perspective. This is a great loss to society ... we see it everywhere.

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