

Bank of England governor Mervyn King says bank reforms must not fail

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Failure to push through reforms of the banking sector could lead to another financial crisis, Bank of England governor Mervyn King has warned.

[Mr King told the Daily Telegraph](#) ^[1] banks were focusing on short-term profits at the expense of their customers.

He also questioned their insistence on paying bonuses to staff.

BBC chief economics correspondent Hugh Pym said his comments were significant because the Bank of England was about to take over banking regulation.

'Gullible customers'

Mr King's remarks come weeks after Chancellor George Osborne signed Project Merlin.

Our correspondent said that under Project Merlin it was agreed that in return for lending more money and showing restraint on bonuses, the government would not take any more action on pay and profits.

Mr King said over the past two decades too many people in financial services had thought "if it's possible to make money out of gullible or unsuspecting customers, that's perfectly acceptable".

He said: "Why do banks in general want to pay bonuses? It's because they live in a 'too big to fail' world in which the state will bail them out on the downside."

Mr King said: "We've not yet solved the 'too big to fail' or, as I prefer to call it, the 'too important to fail' problem.

"The concept of being too important to fail should have no place in a market economy."

A former economics professor at Cambridge, Harvard and the London School of Economics, Mr King joined the Bank of England in 1991.

He also said there was "too much weight put on the importance and value of takeovers" and that "it doesn't make sense to destroy a company with reputation" in the hunt for short-term profits.

He also drew a contrast between manufacturing companies, which largely care about their workforces, customers and products, and the banks.

"There's a different attitude towards customers. Small and medium firms really notice this: they miss the people they know," he said.

In the interview he also reflected on the 2008 banking crisis.

He said the Northern Rock crisis could have been avoided if Britain had had a "statutory resolution process".

He said: "We had been war-gaming one but the legislation wasn't ready.

"If we had not stepped in for RBS and HBOS, all the British banks would have suffered runs. They didn't understand the nature of the risks they were taking."

He admits to feeling some guilt about the crisis, saying: "I wish I'd spoken out more forcefully about the build-up of leverage."

Source [BBC](#) [2]

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