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Bank of England claims lenders no longer 'too big to fail' but warns of needed improvements

Article

The news: The Bank of England considers the days of lenders being "too big to fail" over but warned that **HSBC**, **Lloyds Banking Group**, and **Standard Chartered** had "shortcomings" in resolution plans they would adopt in times of crisis.

Crisis planning: The UK regulator said that if a major UK bank failed, it "could do so safely"—remaining open and providing banking services at the expense of shareholders and investors.

- Banks were forced to draw up crisis management plans after the British government pumped billions of pounds into the banking sector to protect lenders from collapsing during the 2007–2008 financial crisis.
- HSBC and Standard Chartered were singled out for flaws in their restructuring planning, while Lloyds faced criticism regarding its liquidity analysis.
- **Barclays**, **Nationwide**, **NatWest**, and **Virgin Money UK** would need to make "enhancements" to contingency plans, the Bank of England said—leaving Santander as the only lender with no recommendations for improvement.

What this means: The Bank of England does not want to bail banks out again and is determinedly presenting that to the public.

- Its recent report is a gentle warning to banks that if they overstretch themselves and get into financial difficulties, they must get themselves out of it unaided while still serving their customers.
- And its demands for banks to plan more effectively for crises show it still takes the possibility of banks collapsing very seriously.
- The timing of the report coincides with fears of a looming recession and record inflation in the UK. The central bank may want to quell the public's fears by highlighting that the banking sector has a plan for the worst.
- Trust in banks is low, particularly among younger generations: Almost **one-third (28%) of adults don't trust their high street banks.** That figure rises to 38% of 25- to 34-year-olds, according to an Opinium survey. Banks like HSBC and Lloyds need to act on contingency planning criticism or risk financial and reputational damage.

Expectations of Banking Customers Worldwide vs. Priorities of Banking Executives Worldwide, Dec 2020

% of respondents and percentage point difference

	Customer expectations	Bank priorities	Percentage point difference
Omnichannel experience	76%	58%	18
Focus on transparency, ethics, and social responsibility	65%	25%	40
On-demand, anywhere, anytime customer service	59%	66%	7
Reduce cost/charges of products and services	48%	24%	24
Provide value-added financial services	47%	41%	6
Improve customer support services	31%	12%	19

Note: banking customers n=8,559; banking executives n=122
Source: Capgemini, "World Retail Banking Report 2021" in collaboration with Efma, March 25, 2021

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The big takeaway: After the controversial state bailout of major lenders following the financial crash, the Bank of England wants to cast itself as being on the side of consumers. Its warning for major banks to tighten contingency plans shows it's prepared for the worst, but not everyone will believe that it's succeeded in "overcoming the too big to fail problem."