Royal Bank of Our Own

The economy & financial stability

Under our proposals for NatWest & RBS to be broken up into a network of local banks, the macroeconomy and financial stability would benefit in the following ways:

→ Financial crises would be less likely to happen ←

Real economy assets held by local banks are inherently less risky, reducing the chances of another financial crisis and rebalancing the economy away from financial services.

→ Greatly reduced risk of more bail outs ←

Restructuring RBS into a network of local banks means one less too-big-to-fail bank for the taxpayer to be on the hook for – meaning less chance of another £45 billion bail out.

→ The UK would recover more quickly from financial crises when they do happen ←

Instead of withdrawing credit from the real economy like the big banks did after the financial crises, local banks invest more – stabilising the crisis and kickstarting recovery.

The financial crisis was caused by huge, universal banks extending themselves too far, buying too many toxic derivative products that were used as speculative financial investments. By contrast, local banks invest in the real and productive economies. Not only are these investments less risky in the first place, but they're also more simple and transparent, making it easier to measure and manage their risk. And given that local banks invest in their local regions rather than other banks, the financial system becomes more diversified and less interdependent, reducing the chances of "contagion" during a financial shock, thus reducing the chances of a full-blown crisis.

Another benefit of this diversity is that the economy would become more balanced, with greater amounts of investment going to productive sectors and away from the financial bubble in London. This means local banks not only help rebalance the economy geographically, but in terms of sector investment too – which in turn can help manufacturing, exports, and the UK's woeful current account deficit. This would enable other sectors to grow relative to the size of GDP, whilst shrinking the size of the financial sector and thus reducing the UK's vulnerability to the next financial crisis. Incidentally, our disproportionately large financial system was one of the reasons why Britain was one of the hardest-hit by the crisis – and one of the slowest to recover.

Meanwhile, breaking up RBS into a network of local banks means one less too-big-to-fail bank for the taxpayer to bail out in the next financial crisis. For as long as RBS is headquartered in the UK, the Bank of England is liable to save it. By contrast, local banks would be able to fail without causing financial meltdown, while depositors would still be protected by government. This removes the moral hazard of the too-big-to-fail problem, and ultimately protects the public from paying for the mistakes of a bank that they did nothing to cause.

Finally, local banks help economies recover more quickly from financial crisis because they act countercyclically by extending rather than withdrawing investment in times of financial shock – as seen in Germany after 2008. This helps mitigate the worst impacts of the crisis in the short term, while helping the country and the economy to recover more quickly in the medium and long term.