

Historic bank that shows us how things should be done

NOW Project Merlin has been and gone, all eyes turn to Sir John Vickers and his Independent Commission on Banking. He may recommend the break-up of the banks into investment and retail arms, although the banking lobby has gone into overdrive to try to persuade him otherwise.

It's always been obvious to me that when people put their own money into something, their behaviour becomes more cautious. For that reason, I've thought that a director of a listed company should be required to buy shares in that company, and they should not be granted free share options.

Knowing it's their cash, they stand to lose – and not someone else's – is guaranteed to focus the mind and to discourage them from expanding madly or doing anything that might threaten the company's value.

This was the problem with the banks: it was not their funds that would be lost if they failed. Not all banks. In a letter to Vickers, the head of the venerable C Hoare & Co makes a convincing case for a different type of banking model, one it has been following since the late 17th century from its head office in Fleet

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Street with great success. Lord Wilson of Dinton, the bank's chairman, writes: "The bank remains a company, privately owned by the descendants of the founder, whose partners are all directors with unlimited liability and are the only shareholders.

"We would argue that this is a powerful disincentive to reckless trading or irresponsible banking... It is a major reason why the Bank has survived for so long through so many national financial crises."

C Hoare has been taking more in deposits since the collapse than at any time during its three centuries. The bank must compensate customers with the return of their deposits if it fails. As a result, the partners apply conservative practices.

For a long time, Hoares had a 2:1 savings ratio, meaning that for every £2 saved with the bank, it lent £1. Since the crash, that proportion has become



Test of time: Fleet Street-based Hoares has been in business since the 17th century

even tighter. In his submission to Vickers, Lord Wilson argues passionately for a small bank such as Hoares to be treated differently from the giants. For instance, his bank is still required to submit "well over 250 reports each year" to the regulators, as if it was a

much larger bank. Wilson concludes: "We do of course realise that realistically the model of unlimited liability which we have adopted will not be extended to other banks.

"But we hope that your Commission will acknowledge the benefits which it

...AND LAW FIRM THAT GOT IT ALL WRONG

SOLICITORS are still absorbing the fallout from last year's demise of Halliwells, once the fastest-growing law firm in Britain.

Halliwells started to unravel when it moved to a grand headquarters. It was paid a share of the profits if the freehold of the site was sold. When that occurred in 2007, £20.4 million was paid over to the firm. Instead of investing the money in its future, Halliwells secretly divided it between the equity partners.

Once the non-equity partners found out, the organisation irrevocably split in two. It's a shocking tale. But, says Cass Business School's Professor Laura Empson, author of the book *Managing the Modern Law Firm*, it is fortunately extremely rare.

What alarms Empson is that the Legal Services Act will soon come in force, allowing firms to float, and take in non-lawyers as partners and outside investors. It's to be hoped the Act does not encourage more Halliwells.

brings." He is right: there is no prospect of Vickers forcing existing banks to become partnerships with unlimited personal liability.

But he should make it easier for people to establish banking operations. We need more banks like C Hoare & Co.