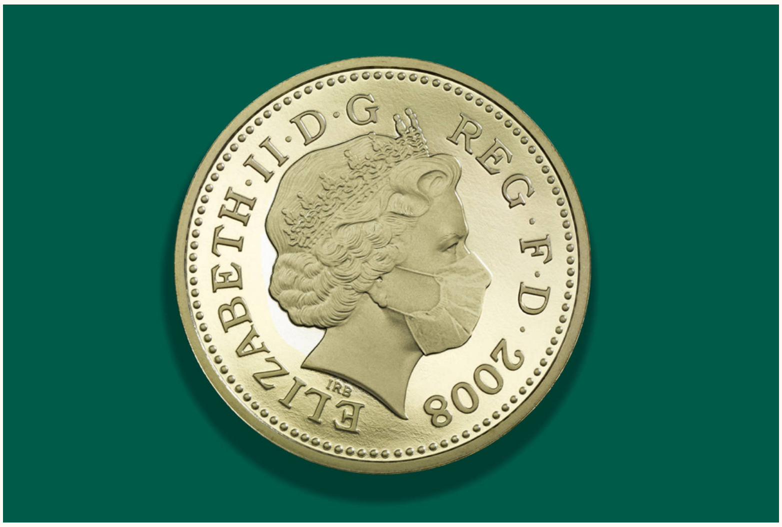
ECONOMICS

Revealed: Ten ways the finance sector can fight the coronavirus recession

As the UK officially enters recession for the first time since 2008, we ask top commentators: how much will this hurt and what should the City do to get through it?



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By Shruti Tripathi Chopra, Paul Clarke, Bérengère Sim and Tom Teodorczuk
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The UK economy has been hit by a recession for the first time in 11 years as a result of the coronavirus crisis – which froze the country into lockdown during the second quarter.

New figures from the Office for National Statistics have laid bare the effect of the pandemic on Britain's gross domestic product, which shrank by 20.4% compared with the first three months of the year.

For the finance sector, the pain could be felt down the road as the biggest US and European investment banks have put aside a collective $72.3bn in provisions for bad loans, according to public disclosures.

Mohamed El-Erian, chief economic adviser to Allianz, told Financial News earlier this week that the world's biggest economies are at risk of repeating the mistakes of the global financial crisis as they battle the fallout from the virus.

How can London's finance sector, which together employs nearly half a million people, survive this recession? Senior financial and professional services executives give their views.

1. Xavier Rolet, former chief executive of the London Stock Exchange: 'Back innovation to power ahead like the US stock market'

"London's ability to take advantage of the accelerating pace of change induced by Covid-19 will depend not only on the efforts and strategic farsightedness of the management teams running its business organisations, but also of the willingness of boards, investors and regulators to focus on innovation and develop a more strategic, longer-term approach to return and performance.

"With a global pension fund deficit estimated by the World Bank to reach $400tn in the next 30 years, your retirement income isn't going to be funded by government bonds anymore… only the real economy backed by innovation can do that. Why else do you think the US stock market is powering ahead?"

2. David Miles, former member of the Bank of England's Monetary Policy Committee: "Cut salaries of those at the top"

"Cut costs - largely through cutting remuneration to those at the top - and boost capital ratios either by limiting dividend payouts or (more quickly) by raising new equity."

3. Vicky Pryce, board member at the Centre for Economics and Business Research: 'Setting up bad banks is one way out'

“My view is that it is going to be difficult and the crisis will hit the banks badly. The prospect of interest rates staying low for sometime to come will eat on future profits. Their capital ratios are already under pressure. There is talk of setting up 'bad banks', in which to park non-performing loans or loans that are unlikely to be ever repaid or extending period for loan repayments and offering longer interest payment holidays backed by further government support, as one way out.

“Insurance companies will also be under pressure as claims from coronavirus business interruption will soar, although they will be resisted by the sector - and that will be in addition to the problems in their investments and those of pension funds more generally given the problems experience by many sectors they invest in.”

4. Koray Yesildag, asset allocation specialist at finance firm Aon: 'Lower operating costs and outsource'

“The recession has brought to the surface the urgent need for cost control and lean operations. These were necessary before the pandemic too, of course.

“However, current events have also offered new opportunities. Increased working from home will likely mean smaller offices and lower operating costs. It could also mean greater outsourcing. Banks and other financial institutions will likely need to streamline in many other ways too.

“Finally, for UK firms, there is Brexit to contend with and the indications are that the financial sector will not be part of a trade deal, if one is agreed. Lower cost bases make sense from this perspective too.”

5. Oliver Fochler, CEO and managing partner of hedge fund adviser Stone Mountain Capital: ‘UK must strike trade deals with other countries’

“The UK can minimise the impact of the recession by striking a trade deal with the EU, which includes financial services and also agree trade deals with English-speaking countries such as the US, Canada, Australia and New Zealand as well as with China and Japan in Asia.

“The Treasury will need to carefully evaluate future tax receipts in order to keep businesses and individuals in the UK. Lighter regulation than in the EU, regarding the bonus payment cap, Mifid II and the Alternative Investment Fund Managers Directive, will also help.”

6. Savvas Savouri, chief economist at Toscafund Asset Management: ‘Focus on a jobs-led recovery’

“Whilst elements of the private sector will indeed suffer permanent job losses, far from all of it will… sectors delivering to us goods and services we once travelled to collect, have created jobs, and will continue to do so. Yes, office work will never be quite the same again. This is, however, not to say that levels of employment across the UK's vastly-expanded professional service sectors will not recover, and indeed rise upwards. Just consider those unconventional but still desk-bound coders whose programing has become even more keenly demanded as we have increased our usage of e-commerce and e-financial services.

"What of the office and retail space made redundant by this crisis? For one, whilst there will be permanent voids, the square footage loss must not be exaggerated. For another, space will be repurposed… creating work in the process of doing so; all the more so with the more liberated planning regime which has come about. My point is that with all such considerations a V [shaped] remains the valid jobs recovery for the UK."

7. Russ Mould, investment director at stockbrokers AJ Bell: 'Keep calm and carry on helping worried clients'

"Continue to provide the best possible service to customers and clients. They will be worried about what the future holds and what the recession and pandemic could do to their heard-earned savings and all of their plans, so the best thing that the financial services industry can do is help them keep a cool head, outline their options, and provide the best possible context for making the decisions that meet their particular needs."

8. David Buik, consultant to Aquis Exchange: 'The City should raise capital'

"I would be hopeful that the financial sector will be there… to support so many companies who have had their balance sheets trashed by the pandemic, which has triggered a deep recession. The City will help raise the necessary fresh capital these companies require to head off in the direction of a swift recovery."

9. Ros Altmann, former pensions minister: 'Bank of England's policies will help the finance sector'

"I believe the UK finance sector has had a massive boost from the Bank of England's QE [quantitative easing] policies, which have supported asset prices – including housing. If markets had not been underpinned by more QE, the finance sector would have been in meltdown, but the firms have had a tremendous injection of liquidity which other sectors, such as hospitality, retail or travel, have not been given."

10. Dan Cooper, UK head of banking and capital markets at EY and Richard Hammell, UK financial services leader at Deloitte: Draw on your rainy day funds, and get ready for testing times ahead

Dan Cooper: "No sector has been immune to the economic impact of Covid-19, and we are now starting to see some financial firms reporting pressure on their bottom line. However, it is important to note that since the financial crisis, banks, asset managers and insurers have all built up stronger reserves and largely entered this period of economic challenge in a position of capital strength."

Richard Hammell: "We expect economic activity to return to pre-pandemic levels only in the second half of 2022. The challenge for financial services firms in this environment is not just down to the inevitable strain on balance sheets and profitability. More than ever, banks and insurers are seeking to strike a delicate balance between meeting their wider socioeconomic responsibilities to underpin economic recovery, while ensuring they remain competitive, demonstrate growth and deliver returns for shareholders. As the cushion of the government's emergency funding measures is removed, this balance will be tested."

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