WHY THE MEDIA IS WRONG. THE BANKS ARE NOT LEAVING SCOTLAND

By Rachel Holmes

896 words

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From recent media reporting one would think that banks are moving out of Scotland if there is a yes vote in the independence referendum. Yet, from a cursory glance at what the banks actually say it is clear that they are not. The Royal Bank of Scotland and Lloyds TSB have been the focus of these reports which, once analysed pose little, if any, threat to employees, operations or customers. The BBC reported yesterday that Lloyds TSB will move its HQ to London - an odd statement since Lloyds has had its HQ in London for over 100 years. What Lloyds said was that Lloyds said moving its legal entity status to London was merely a legal procedure and "there would be no immediate changes or issues". The same media claims were perpetuated throughout yesterday, and were also made for the Royal Bank of Scotland, forcing CEO Ross McEwan to issue a letter to staff saying while it would ‘re-domicile the bank’s holding company’ there was ‘no intention to move operations or jobs’.

Clydesdale Bank, which is part of National Australia Bank has also confirmed its commitment to Scotland regardless of the outcome of the vote. Chief executive David Thorburn stated there is no threat to jobs, operations or customers: "We have strong roots in Scotland and we remain fully committed to our customers, staff and the communities in which we operate’. For the Clydesdale Bank, a change to legal structures has no impact on the ‘vast majority’ of the bank’s staff. Glasgow will continue to the main operational centre.

Other financial giants have also stated there is no issue. The chief executive of Scotland’s biggest asset manager, Aberdeen Asset Manager, this year the new owner of Scottish Widows Partnership, said Scotland would be prosperous regardless of the outcome of the referendum vote.

We have been here before. In 1997, in the run up to the referendum on Scottish devolution, the Scotsman newspaper published the views of the then head of Scottish Widows. He said Widow’s business would be damaged by devolution for Scotland and selling financial products to markets elsewhere would become difficult. No such thing happened. Widows successfully continued its operations in Scotland employing some 3,000 people while enjoying, it says, ‘being one of the most seriously considered brands for life, pensions and investment products’.

The move of a legal domicile involves completing some paperwork and putting up a name plate. Companies are cheap to create and register so it’s not as if banks have gone to any massive expense and put any serious money behind these changes which are, probably, most likely related to tax planning or making sure the Bank of England remains the lender of last resort until a deal on currency is done. Legal residence is not an indicator of where or to which jurisdiction corporation tax is paid. The location of economic activity is just as important driver of where corporations pay their tax.

The financial sector is an important sector in the Scottish economy. The idea that this is a handicap, as has been stated by some advocating a no vote, is laughable when we see what other countries have achieved. These countries even managed to avoid a banking crisis, unlike the UK. The Global Financial Centres Index, a ranking of the [competitiveness](http://en.wikipedia.org/wiki/Competitiveness) of [financial centres](http://en.wikipedia.org/wiki/Financial_centre) round the world, places Edinburgh 64th and Glasgow at 74th place. But Luxembourg is in 12th place, while Oslo, Norway is 33rd and Wellington, New Zealand is in 39th place. Country size does not impact the success of the financial services industries in these small countries. They are are smaller than Scotland yet have capitalised on their financial services capabilities in a way that Scotland cannot while long term fiscal and other policy is set in and largely for the giant that is London. Flexibility to adapt to change is an advantage of smaller countries who have, like Luxembourg, exploited this extensively taking the positive impact on jobs, tax take, revenue and the economy: Luxembourg has the highest GDP wealth per capita in the world. Norway is second, followed by other small countries: Switzerland, Austria, Sweden, and Denmark. We have to ask why financial services companies are happy to operate in successful countries like Luxembourg and Norway yet would, as it is claimed, be ‘leaving’ an independent Scotland.

In terms of currency it’s reasonably clear to most that sterling will be the currency in an independent Scotland. After all, why would it not be? As a tradable currency on international markets it can be used regardless of a currency union. But the proposed currency union is most likely as sterling jitters in the currency markets last week proved. When the polls showed a surge for a yes vote markets re-priced, negatively, the prospect of Scottish oil revenues no longer forming part of the UK’s balance of trade. The UK, I would suggest, needs Scotland’s contribution included in an already large trade deficit. The UK, I would suggest, as always relied on Scotland’s contribution to maintain its currency.

There’s a lot of noise surrounding these issues. The media thrive, financially from advertising, from fearful stories. They sell better than positive stories. Hence the onslaught of negative spin and drama. A look beyond this shows a different view, not least from what the banks say themselves, but also from what other small countries manage to achieve in terms of their financial services. Despite Scotland’s successes, there is the possibility now of doing even better.