
Economic Perspective 3

THE TRUSTEE SAVINGS BANK - THE OWNERSHIP QUESTION

W J Stewart

Department of Economics, University of Strathclyde

In the recent parliamentary debate on the Trustee Savings Bank Bill the main concern was with the issue of ownership. As Mr Iain Stewart, Economic Secretary to the Treasury, put it in the debate "There is not just uncertain ownership, there is lack of ownership of the TSB". They are not mutual organisations like the Building Societies which have a class of depositors who are also shareholders with clear ownership. The purpose here is to consider why the present TSB management and the government have chosen the limited company form of organisation rather than opting for a mutual form of organisation and to consider the consequences for depositors and potential investors.

The central issues which the legislation is expected to clear up and which determine the choice of the limited company organisation and private shareholder ownership are: first, the question of accountability. At present, since there are no **owners**, no one can be held accountable for the conduct of the organisation - certainly not the trustees; and secondly, provision of access to capital. Under the present system the TSBs have to rely on retained profits as their source of additional capital. This would be an unsatisfactory state of affairs should a rapid input of capital be necessary.

The adoption of a company ownership structure neatly solves both these problems and at the same time allows the TSB to claim full banking status under the Banking Act. This would also end the special arrangements for the supervision of the TSB by the Treasury whereby new developments at the TSB require Treasury approval. These constraints have certainly not stopped the TSB from growing

and developing into a highly competitive bank over the last ten years, capable of responding to the changing demands of the financial system. However, the Treasury may have been keen to hand over responsibility for all supervision to the Bank of England and the prospect of full banking status may have proved irresistible to the TSB management. As the White Paper (Cmnd 9415) states "The TSB would therefore achieve proper accountability to shareholders and the new Group would obtain access to further capital as necessary to meet the future needs of the organisation."

The wishes of the present management and the government have been met in the proposed legislation. But what of the depositors? Depositors wishes in the matter have not been canvassed. A cautionary note was struck in the parliamentary debate when one member, Mr Gerald Bermingham, suggested "that if anyone tests the right to sell or to float the Trustee Savings Banks as a public company, I shall not guarantee what the result of the test will be"; and again "This badly drafted Bill is based upon a false premise - that one can sell what one does not own". If such doubts exists, it may be desirable that the proposed sale of shares in the TSB should be tested in the courts before the issue takes place so that potential owners have no doubts regarding their ownership status. So far there has been no public announcement of such a challenge.

Another issue arose which also stems from the unique status of the TSBs. New shareholders in the TSBs, as well as providing their own capital, will have access to the reserves accumulated by the TSB to date, likely to be at least £700m

by the time the issue takes place. The present TSB Group Chairman Sir John Read has given written assurances, noted during the committee stages of the Bill, that it is not the intention of the TSB to distribute accumulated reserves.

The only concession the TSB is prepared to make to existing customers (including depositors) and employees who have supported the TSB over the years is that they will have preferential access to the shares when issued, but not on concessional terms. Such a concession presumably would have suggested ownership rights which the TSB management and the government were not prepared to concede.

What is not established in the White Paper and cannot be established at present is how many shares will be issued, how they will be distributed and at what price. This is a matter for the TSB and its financial advisers. We know that customers and employees will have preferred access, but whether this will be limited to a certain proportion of the total issue is not known. If no restriction is placed then it is possible that the whole issue might be taken up by these groups. With six million account holders a relatively modest investment by most of them would take up all the shares, even to the value of £1 billion which appears to be the maximum issue price placed on the TSB by commentators. Such an outcome would have the desired effect of securing the widespread ownership which the TSB and government seeks, and would also go some way towards matching the regional distribution of the present TSB system. In such an outcome Scottish ownership and Scottish interests would be well represented.

In the course of the committee stage of the Bill an amendment was introduced which would have required the TSB to offer to employees and depositors 55% of the shares of the Group. This was withdrawn when it was argued that this would represent an unnecessary restriction on employees and depositors when it was clear that the Government was encouraging the TSB to ensure that depositors and employees "have a really substantial holding in the TSBS for a long time to come and not only at issue". (Mr Ian Stewart) The size of "really substantial" and the means to

ensure a continuing depositor and employee shareholding remain to be established.

An alternative approach which has been suggested is that the solution adopted for the Channel Islands whereby there will be 49% local ownership in the Channel Island TSB should be extended to other regional subsidiaries of the new TSB Group. This would ensure a strong Scottish interest in the new TSB Scotland Ltd supported by the Regional Boards which it is intended to retain.

Whatever final value is placed on the TSB it is likely that there will be a substantial interest in the shares from the wider investing public. By most measures of bank efficiency and stability the TSB compares favourably with other UK retail banks. It has the added advantage of a substantial and stable retail deposit base, although the effects of the introduction of a composite tax on deposit interest may adversely affect the TSB more than other banks; it has considerable room for expansion in the area of lending to business customers; and it is free from holdings of doubtful sovereign debt presently burdening other banks.

After the share issue it will have a more than adequate capital base from which to improve its present operation, and extend into other activities and other areas. The original concern was to protect the TSB from takeover, and the memorandum of association of the new TSB Group plc will include restrictions on maximum shareholding by one owner, but the interest has now changed to the prospective takeover candidates attractive to the TSB. It is to be hoped that the mere availability of funds will not prompt a hasty decision by the TSB to move into some untested area of activity. The expansion of existing activities into essentially higher risk business will represent a significantly increased burden for the management.

Assuming the ownership question can be satisfactorily resolved the TSB can look forward to a large injection of capital and the prospect of continuing growth. The TSB may "at present have a unique and anomalous - in today's world - form of constitution" (Mr Ian Stewart) but unlike other endangered species it is apparently not to be subject to a preservation order.