

The banks should pay for the risk they impose

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The [FT notes](#):

Britain's "too-big-to-fail" banking groups could be forced to hoard billions of pounds of extra capital as an insurance against future financial crises, after Alistair Darling decided against splitting them up.

The chancellor is expected to announce next month that banks such as HSBC, Royal Bank of Scotland, Lloyds Banking Group and Barclays could be forced to hold more capital than the sector average.

The move would be an acknowledgement that some banks are too big to fail and that higher capital ratios are the penalty they pay for their implicit reliance on the taxpayer to bail them out if they run into trouble.

This apparently follows a decision not to introduce a Glass-Steagall approach to separate retail and investment banking. This is a straightforward mistake.

So too is the increased capital requirement. If the price of failure will always be paid by the state then it makes no sense to require additional private capital to support it. The risk should be covered by a significant risk premium — let's call it a tax, if you like, on such institutions. After all, even the tax havens such as the Crown Dependencies charge a 10% tax premium on financial services institutions. And let's reflect the risk by requiring direct state involvement in their management in perpetuity to ensure risk is managed appropriately.

That's not too high a price to pay. That's fair payment for risk imposed.