

# King on banks: reform has to happen

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The [Telegraph](#) has done a rather useful summary of highlights from last night's speech by Mervyn King, Bank of England governor. he said:

### **On support given to the banking system:**

In the UK, in the form of direct or guaranteed loans and equity investment, it is not far short of a trillion (that is, one thousand billion) pounds, close to two-thirds of the annual output of the entire economy.

To paraphrase a great wartime leader, never in the field of financial endeavour has so much money been owed by so few to so many. And, one might add, so far with little real reform.

### **On the creation of moral hazard:**

The massive support extended to the banking sector around the world, while necessary to avert economic disaster, has created possibly the biggest moral hazard in history. The "too important to fail" problem is too important to ignore.

### **On separating utility and risky banking:**

In other industries we separate those functions that are utility in nature - and are regulated - from those that can safely be left to the discipline of the market. There are those who claim that such proposals are impractical. It is hard to see why.

### **On the current state of banks:**

It is important that banks in receipt of public support are not encouraged to try to earn their way out of that support by resuming the very activities that got them into trouble.

### **On regulating the banks:**

Although there are no simple answers, it is our collective interest to reduce the

dependence of so many households and businesses on so few institutions that engage in so many risky activities.

To summarise:

- \* Banks are in our debt. We should call the shots
- \* Banks need to be broken up
- \* We must separate investment banking from High Street banking
- \* there must be much stronger control of Lloyds and RBS
- \* More regulation is needed.

He's a bit late on the block — some of us have been here for some time — but he's welcome nonetheless.

This is the time for massive banking reform.

Will Alastair Darling do it before May? I hope so.