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Part C: Cautious Lending and Service to Customers

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Finance at the Service of the People

Putting the Human Person at the Center of the Financial World

1. The Context

The economic and financial crisis, the emergence of new basic needs (on top of the old ones) new risks new opportunities (related for instance to technology and globalization), and other fundamental changes have drawn an unprecedented level of attention to the users of financial services, be they savers or investors, i.e. the customers, their role aspirations and concerns. In the U.S. for instance, mandated by the Dodd-Frank Wall Street Reform Act, the Consumer Financial Protection Bureau was launched in 2011 as the first federal government agency solely dedicated to consumer financial protection. In the UK the Financial Services Authority was replaced in 2012 by a "twin peaks" structure with the Bank of England taking responsibility for financial stability, and a new institution, the Financial Conduct Authority, focusing on the protection of consumers and the transparent functioning of the financial market. Having considered that lack of consumer protection was one of the causes of the crisis, the EU adopted several legislative instruments aimed at strengthening regulation and supervision with a view to giving consumers more information and power to uphold their interests (e.g. MIFID, IMD, UCITS, PRIPS, etc.). More examples could be provided of this renewed focus on the financial consumer. In sum, it has become topical, and fashionable, to recognize the importance of protecting consumers in order for the financial market to work fairly and efficiently.

2. The Challenges

Neverthless, the gap between consumers and the world of finance remain for the most part unabated. Suffice to think of the bad reputation and image of the industry and the financial market, as expressed by the popular press or the movies: attacking banks and complaining of financial misconduct has become an easy way for politicians to gain popular support, and votes. The mission of bridging this gap is still by-and-large unaccomplished. The shortcomings and the challenges appear daunting:

- There are still loopholes and inefficiencies in rules, regulation and control systems, which leave the user exposed and vulnerable;

- Implementation of the legislative and institutional protection frameworks is often formalistic, bureaucratic, it stirs long and costly legal and judicial controversies, and remain largely ineffective in practise;
- The growing complexity of financial products processes and instruments makes it hard for ordinary people to understand, get the right information, be oriented and remain in control of their financial decisions;
- Globalisation and new technologies add to the complexity and obscurity of the financial market mode of operation;
- The most vulnerable people, the poor, the underprivileged, the unemployed, the small and micro firms, feel, and indeed are, at the margin of the financial world, as if this world had nothing, or – better- nothing positive, for them;
- The much publicized, and infamous, cases of fraud, corruption and abuses, that have filled the press, and inspired rage and discomfort, are often considered as the tip of the iceberg: users feel sometimes at the mercy of a wide-spread and deeply rooted mechanism of possible negligence, malpractise and conflicts of interest.

3. The Way Forward

While reform efforts are continuing, and should be maintained and reinforced, we believe that something important is missing or largely neglected: i.e. the focus on the ethics of finance. The ethical foundations of financial activities are a basic infrastructure of the financial world. They inform and structure the well functioning of the market and its institutions, and give shape to the correct behavior of its players. They are a part, and an essential one, of the financial capital of an economy and society. This lack of focus should be corrected. This amounts to reviewing strengthening and rebuilding –to the extent necessary- the ethical foundations of finance and promoting an ethical recapitalization of the industry, the institutional environment and the players and stakeholders of finance.

In relation to the specific aspect we are considering, i.e. the place of the users in the world of finance, there are **10 critical dimensions**, along which the rebuilding of ethical capital should take place.

1. **Know the basic financial needs of the people**. Old needs like safeguarding the value of savings, access to credit and financing, spreading and sharing risk and diversifying portfolios, assuring protection against the accidents of life and property, etc.. But also – which is much more difficult- new and emerging needs, unexpressed or implicit demands, the new risk scenarios, particularly as they relate to aging, climate change, the quality of life, mobility and migration, globalization, change in family structures and social networks.
2. **Promote financial inclusion and equal opportunities**. The financial world should cater for the financial needs of the excluded and the most vulnerable individuals, families, small business, communities, minorities, social and ethnic groups, etc. Finance should be put at the service of the poor! The financial divide between the haves and the have-nots has been growing considerably. It should be bridged by providing more opportunities and promoting greater equality in access to financial services. Gender balance should also be enhanced, by making use of the fundamental role that women have as providers and users of credit and sustainable finance. Finance for the poor should be put at the top of the priorities of social and economic policies.

3. **Encourage financial education**. It should be part of basic education and life-long learning, initial and adult education. The world of finance should invest more in the younger generations. But also make better use of the wisdom and resources of the older generations.
4. **Invest in human capital and training**. This is a 360 degrees task. It involves employees and employers, managers and intermediaries, advisors and promoters, risk officers and accountants, research innovation and technology experts. In sum, all and everyone in the world of finance and its stakeholders.
5. **Exploit new technologies**. The digital agenda and digital progress are affecting deeply the world of finance, and also the consumers, that have become increasingly "digital" consumers. Advances in technology enhance competitiveness, accountability, the possibility of customisation, tailor-made financial products and services, more effective customer relations management. ICT facilitates access to credit and the use of financial service by consumers. More simple and effective data collection, data brokerage and processing, interoperability and automation. Big data and open data can be a source of transparency and cost-efficiency for consumers. The world of finance should invest in Research and Development and innovation, having consumers and their requirements in mind.
6. **Improve and diversify distribution channels**. Financial distribution is at the forefront of the current shifts in market operation and improvement. Multiple financial distribution channels, based on transparency, qualification, interoperability, trustworthiness, sustainability, cost-effectiveness, professionalism and honest remuneration.
7. **Make consumers' protection legislation and all relevant institutions more effective**. A lot has been done and is underway in this field. The challenge is to make it work! In practice! Few, simple, well understood and supported by the people: these are the essential characteristics of rules in a functioning regulatory framework. But equal emphasis should be put on improving compliance, control and risk management systems. Both at the level of individual firms and at the level of the market as a whole. Implementation systems should be forward looking, well-coordinated and understood by the people involved, transparent, cost-effective and sustainable.
8. **Eradicate fraud, corruption, abuses and malpractise**. The shortcomings of the legal, judicial and police frameworks for dealing with financial crime are well known. Not only formal, legally binding codes, but also voluntary, self-regulation and informal codes are necessary. Dissemination of information on good and best practice is useful, also in order to reconstruct the trust of the public towards the world of finance.
9. **Develop independent, objective and responsible financial institutions**. The challenge here is in being close to communities and the people (at local, national and regional level) and, at the same time, staying away from politics, the constraints and the moods of the electorate, the pressure of public opinion. Independence is not only an attribute of good central banking. It should apply to all banks and all financial intermediaries! Subsidiarity should be an essential characteristic of sound and sustainable finance. It implies giving importance to local communities and relationship finance, establishing strong links with "the territory", social groupings and networks. The experience of India in this context is quite interesting: there has been there a strong commitment to establish bank connectivity in all major villages (74000, for villages of more than 2000 inhabitants), and employing "barefoot bankers" (97000 of them, as of recently); in 2014 the Government has launched a campaign for "a bank account for all". In Europe (and elsewhere) it is noteworthy the experience of cooperative banks, rural savings institutions, mutuals, pension funds, micro-credit and micro-insurance. There are significant lessons to be learned from the recent thrust towards banking union in the European Union: providing equal opportunities for all savers and investors,

irrespective of national politics and government budgets, and sparing taxpayers from the burden of financial stabilization and recovery. This is an interesting application of the subsidiarity approach to the world of finance.

10. **Enhance universal ethical standards for global finance**. The role of international cooperation is paramount. The initiatives of the UN, OECD, G-20, G-8, EU, etc. have to be strongly supported. Also inter-religious dialogue on finance and financial ecumenism should be promoted. In this the universal Catholic Church has a unique and fundamental role to play.

4. Recommendations

In all the critical dimensions we have singled out, there are considerable efforts being deployed at the national and international level. We are not starting therefore from scratch, nor should we reinvent the wheel. Rather than duplicate and overlap, it is necessary to support good practice and guidelines, wherever they come from. It is also necessary to avoid detailed and pedantic prescriptions.

Above all the focus should be on the basic link that is missing: i.e. the need to place the human person and her spiritual dimension at the heart of the financial world.

This entails:

- Reviewing existing rules, recommendations and best practice on all the 10 critical dimensions with the aim of identifying what is missing, particularly form the spiritual and human perspective, drawing on the Catholic Church social and economic thinking.
- Experiment benchmarking for sustainable finance. Promote recognition and visibility for practical experience that is capable of shifting the ethical standards frontier, and correspondingly stimulate emulation, virtuous contagion and good examples (through for instance social networks, conventions, prizes, events, etc.).