

agenda

# A new financial system



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**Performance-based remuneration breeds short-termism and a race to achieve higher returns on investment without looking at the consequences of decisions.**

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Around 20 economists from all over the world held two days of sober and reflective debate at the offices of CITI in the Docklands in Dublin to contribute with their research and ideas to the design of ethical finance and a financial reform oriented towards the common good. The meeting was organised by the Dublin Group, the think-tank of *Fondazione Centesimus Annus Pro Pontifice*.

The landscape of the financial services system has changed since the beginning of the crisis, with a long period of low or no interest rates, increased regulation, nationalisations, numerous out-of-court settlements by the global banks on serious infringements, particularly related to foreign exchange, and the emergence of shadow banking. None of these developments are encouraging *per se* as they are mostly corrective actions being taken by States or authorities to remedy destructive decisions taken in the past.

What comes out of this is that the financial system has been dehumanised and detached from the client, employee and other stakeholders. In other words it has been alienated from the human person. The dehumanisation epitomised by credit-scoring models, internet banking and other systems based on algorithms have created a wide abyss between business decision makers and their clients and society at large.

The economists at the meeting questioned where society is going. What are the aspirations of the young? What do youths seek when joining investment management companies, asset management companies and banks? The pointers are on the culture changes we expect in the society of the future.

What is needed is a financial system for tomorrow and not for the present. A financial system that reflects these new aspirations of a more inclusive system that considers the human person in a dynamic society.

In essence, this is intergenerational thinking – long-term thinking. How sustainable is growth in profits of banks? How sustainable are the opaque and non-understandable designs of financial products? How sustainable is the work-life imbalance experienced by people working in financial institutions?

The discussion seemed to be converging on a few suggestions, even if not perfect answers to the various questions being asked.

**“The underlying principle of accountability and transparency is fundamental to the new way of running finance”**

First, business education is only part of the solution and not the only solution to a better financial system. Business schools need to prepare executives for complex decision-making that takes into consideration value judgements that go beyond scientific and rational processes.

Education goes beyond business schools. Formation and development of these decision-makers starts from the early years of family upbringing and primary education. It is also a holistic education process which covers appreciation of humanities, history of civilisation and sciences.

The underlying principle of accountability and transparency is fundamental to the new way of running finance. Quarterly reporting of listed financial institutions

and performance-based remuneration breed short-termism and a race to achieve higher returns on investment without looking at the consequences of such decisions.

Inefficiency and waste is a major form of corruption. Any new financial system needs to respect the value of genuine effort to achieve a purpose with efficiency and effectiveness.

Any reforms in finance need also to take into consideration the problems of inequality, youth unemployment and development. Fighting poverty and unemployment is about enabling people to regain dignity as human beings. Solidarity is not about doing things for others, but about empowering them to take their destiny into their own hands.

The financial system can support these initiatives by providing credit and finance vocational education that enables young and marginalised people to seek ways to think with their own mind and walk with their own feet. Micro finance, assistance in start-ups through capital and seed money in various sectors such as IT, crafts and services could contribute to social and economic development while restoring dignity to people who feel abandoned by the present system.

There are dangers in over-regulation. I believe regulators have reached levels of central authority that socialist governments were never able to reach in the past. The key here is returning to self-regulation, but to do this, much work needs to be done, including creating a value-driven personal and corporate conscience.

The search for a better financial institution sensitive to the person, society and the environment continues, and it depends on governance structures that mitigate against injustice and unfairness.